



American Cotton Shippers Association P (901)525-2272
88 Union Avenue, Suite 1204 F (901)527-8303
Memphis, T N 38103 www.acsa-cotton.org

**Analysis of the 2022 China National People’s Congress
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Provided by:



From March 5th to 11th, China held its annual National People’s Congress (NPC), deliberated and approved the Report on the Work submitted by the Chinese government, determined the goals for 2022, analyzed the challenges facing China under the current domestic and international situation, and proposed corresponding tasks to tackle those challenges.

Meanwhile, the National Committee of the Chinese People’s Political Consultative Conference (CPPCC), China’s top political advisory body held concurrently meetings, put forward their opinions and suggestions from the perspectives of experts in various fields on the goals, tasks, challenges and policy trends determined by the NPC.

This report describes in detail the goals, tasks, challenges, and policy trends determined by the NPC.

1. The goals set by the 2022 NPC

GDP growth target 5.5%
Employment over 11 million new jobs and city unemployment rate under 5.5%
CPI around 3%
Grains output above 650 million metric tons
Foreign trade to stabilize volume and enhance quality
Ecological and environmental protection and decrease major pollutants.

** The above economic indicators, especially the GDP growth target, have been put forward considering both current and long-term development factors including the potential impact of the Russian-Ukrainian conflict on China’s expected economic growth.*

2. The tasks set by the NPC in 2022

Tasks	Interpretation
1. Achieving stable macroeconomic performance and keeping major economic indicators within the reasonable range	China has both macro-policy tools and space available and will use them to intensify cross- and counter-cyclical adjustments and to provide strong support for a stable economic performance. It is necessary to improve the effectiveness of proactive fiscal policy; make good use of government investment funds to stimulate and expand effective

	investment; insist on the government to keep its belt tightened and keep spending low to benefit the people; step up implementation of the prudent monetary policy; strengthen the employment-first policy; ensure food and energy security; prevent and defuse major risks.
2. Keeping the operations of market entities stable and maintaining job security by strengthening macro policies	The key to strengthen employment-first policy is to stabilize market entities. China will implement a new package of tax-and-fee policies to support enterprises, encourage the financial sector to provide more effective support to the real economy and help lower business costs. Tax refunds and cuts are expected to total RMB 2.5 trillion (about USD 395.4 billion) this year. VAT credit refunds will account for RMB 1.5 trillion (about USD 237.3 billion), and all of this sum go straight to enterprises.
3. Steadfastly deepening reform to strengthen market vitality and internal momentum for development	China will give play to the roles of both the government and the market, seeing that the market plays the decisive role in the allocation of resources and the government better fulfills its role.
4. Further implementing the innovation-driven development strategy and strengthening the foundation of the real economy	China will promote scientific and technological innovation, so as to upgrade industries, eliminate the bottlenecks in supply, and realize high-quality development through innovation. In particular, it will raise capacity for scientific and technological innovation, provide stronger incentives to promote innovation among enterprises, boost the core competitiveness of manufacturing and encourage development of the digital economy.
5. Expanding domestic demand and promoting coordinated regional development and new urbanization	China will promote unimpeded flows in the economy, remove all impediments to smooth production, distribution, circulation, and consumption and see that domestic demand plays a bigger role in driving economic growth.
6. Boosting agricultural production and promoting all-around rural revitalization	China will refine and strengthen policies in support of agriculture, continue promoting development in areas lifted out of poverty, ensure good harvests, and promote growth in rural incomes.
7. Pursuing higher standard opening up and promoting stable growth of foreign trade and investment	China will make full use of international and domestic markets and resources, continue to expand international economic cooperation and trade, and push for in-depth reform and high-quality development by promoting higher standard opening up. China will promote high-quality cooperation under the Belt and Road Initiative; deepen multilateral and bilateral economic and trade cooperation such as the

	Regional Comprehensive Economic Partnership (RCEP). China will work to negotiate and conclude high-standard free trade agreements with more countries and regions.
8. Continuing to Improve the Environment and Promoting Green and Low-Carbon Development	China will work harder to address pollution and protect and restore ecosystems, promote development while also reducing emissions, and ensure greater harmony between human and nature.
9. Ensuring and improving the people's wellbeing and promoting better and new ways to improve social governance	China will do everything within its capacity to keep enhancing public services and resolve issues that are of common concern to the people.

3. China will be facing more risks and challenges in 2022

In the context of the current Russian-Ukrainian conflict, the challenges in front of China are intensified, mainly in following aspects:

- a) **The downward pressure on China's economy continues to increase.** The challenge facing China's economy is mainly slow economic growth due to weak demand, supply shocks, and low expectations.
- b) **The international environment deteriorates, and geopolitical risks increase.** As the U.S.-China relations continue to deteriorate, China's relations with the entire Western society have deteriorated. Geopolitical issues become prominent, especially issues such as Taiwan, Hong Kong, Xinjiang and the South China Sea. Geopolitical issues will further contribute to the deterioration of international relations. In addition, the recent outbreak of the Russian-Ukrainian crisis once again poses a serious challenge to China's economic recovery. China's huge demand and high dependence on global energy markets makes it extremely sensitive to geopolitical risks.
- c) **COVID-19 pandemic disrupts supply and industrial chains.** The price of bulk commodity remains high, and the operating costs of enterprises have increased, which squeezes the profit margins of enterprises. Manufactories are in a dilemma that they have no bargaining power for purchasing raw materials or selling finished products. With the lowering of pandemic controls and return to normal life overseas, production in those market will resume and so demand for Chinese products could decrease. Coupled with the rising international shipping costs the demand for Chinese exports continues to fall.
- d) **The problems and risks in the current manufacturing operations are still prominent.** In addition to the above-mentioned impact on the supply chain and industrial chain, administrative practices such as power cuts and production restrictions affected the production capacity of enterprises. China's power cuts in 2021 were one-size-fits-all or campaign-style approaches in policy implementation. On the one hand, it highlights the concerns over China's energy supply, and on the other hand, it shows the disorderly behavior of local governance in response to the carbon goals.

4. Policy trends in 2022

To cope with above challenges and accomplish the tasks set for 2022, achieve the goals of economic development and social stability, the NPC has determined that China's policies in 2022 will focus on **people's livelihood-oriented domestic circulation, industry-oriented sustainable development, and high-standard opening-up.**

- a) **China puts people's livelihood-oriented domestic circulation as the core of the government's work in 2022.** China will continue the people-centered development path, take a series of measures to protect market entities to strengthen employment-first policy. China will implement measures such as emphasize the development of manufacturing and small and medium-sized Enterprises (SMEs), attach importance to energy, food and industrial chain security, enhance the vitality of enterprises through the key policy of tax refunds and cuts, emphasize domestic circulation and regional circulation, improve the market operation environment and government governance level, adhere to reform, and practice higher levels of opening up and adhere to the existing epidemic prevention policies. All of the above are aimed at improving people's livelihood.
- b) **China places industry-oriented sustainable development in a higher position.** The concept of sustainable development should not only focus on the sustainable development of the environment but should properly handle the relationship between development and emissions reduction to ensure the healthy development of the real economy and manufacturing industry. Pressures such as 'carbon dioxide peaking and carbon neutrality' and 'dual control of energy consumption and intensity' have added major challenges to China's manufacturing industry, including cotton textile enterprises. It is worth to note that there is no specific target set for energy consumption intensity this year instead the "overall assessment during the 14th Five-Year Plan period", and emphasizing that "appropriate flexibility should be reserved, and new renewable energy and raw material energy consumption will not be included in the total energy consumption control." Leaving "appropriate flexibility" is to prevent behaviors such as one-size-fits-all or campaign-style approaches that are not conducive to stable economic growth, and to exclude new renewable energy and raw material energy consumption from the total energy consumption control is to support the development of new energy industry and consumption, taking into account the requirements of stable growth and the needs of high-quality development. China seeks the balance to achieve economic development, social stability, and carbon goals to be achieved simultaneously.
- c) **China emphasizes higher levels of opening to activate development momentum.** China believes that the more difficult the economy is, the more important it is to open up to the outside world. Premier Li Keqiang clearly emphasized at the press conference after the NPC meeting that no matter how the international situation changes, China will unswervingly expand its opening up, using the analogy with the fact that Yangtze River and the Yellow River will never flow backwards, which reflects China's determination. Facing the triple pressure of demand side restrictions, supply side shocks and expectations have been lowered, it is even more necessary to promote deep-level reforms and high-quality development with high-level opening up. From the demand side, expanding

imports is conducive to enriching the domestic market supply and meeting consumers' needs for personalized, diversified, and high-quality consumption upgrades. From the perspective of supply, opening up is conducive to the entry of global high-quality resource elements into China, exerting the "catfish effect" to drive full competition in the market, and helping industrial transformation and upgrading. Judging from expectations, no matter how the international situation changes, China's unswerving determination to take the initiative to expand opening up has given foreign-funded enterprises a reassurance to operate in China. In 2021, China's actual use of foreign capital exceeded RMB 1 trillion (about USD 160.75 billion) for the first time, reaching RMB 1.1 trillion (about USD 173.99 billion), a year-on-year increase of 14.9%. There were 48,000 newly established foreign-funded enterprises in China in 2021, an increase of 23.5%. The trade between the U.S. and China keeps increasing and reached USD 750 billion in 2021, an increase of 30% year-on-year.

5. Impact of the NPC's tasks and policies on U.S. cotton industry

- a) China's general policy trend supports to pursue steady growth in 2022, meaning to stop the downward trend of China's economy. Against this background, certain impacts are expected at the following perspectives along the industry chain:
 - I. **Production:** With the increasing importance of food security in China, the Yangtze River and Yellow River basins are unlikely to increase the cotton planting area or output as expected. Even cotton planting areas in Xinjiang may be affected by local governments' goal of stabilizing grain production. This may have certain impact on the reduction in expected domestic cotton acreage. According to China Cotton Association's survey in February, the intended plantation area in 2022 is expected to be 2.87 million ha (43.10 million mu), representing a decrease of 0.4% y/y. Therefore, China's total cotton output will not exceed 6 MMT.
 - II. **Supply:** Xinjiang cotton can largely be used in and for the domestic market, therefore, imported cotton is in demand mainly for foreign trade textile enterprises. For U.S. cotton industry, the development of China's domestic circulation has less relevance for us, the foreign trade textile enterprises on the contrary are worthy of our attention. The cotton available for foreign trade textiles is reduced, that's why China faces with tighter cotton supply.
 - III. **Sales:** There are both favorable situation and unfavorable situation for the exports and trade environment of China's textile products. On the bright side, the NPC meeting specifically proposed "continuous improvement of the business environment, stable and improved import and export". While due to the war in Ukraine, China's trade environment has worsened, such as the Belt and Road, China Railway Express will be affected. On top of that, weakening buying power of the citizens directly contribute to weak consumption, forcing China to strengthen exports.
- b) **The impact of China's zero-tolerance epidemic control policy on the supply and industrial chains will continue.** China is probably the last country still implement zero-tolerance policy for COVID-19. It was hoped that zero tolerance would bring the outbreak under control soon so that international exchanges could resume. However, the COVID-19 situation is more severe and complex recently.

In line with current practice, once a single COVID-19 case is identified, the industrial chain will be disrupted. According to the NPC meetings, there is no consideration to shift away from the current zero-tolerance policy. China may face two problems in this way: 1) The industry chain can be easily disrupted, and the safety of the industry chain is at risk. 2) If only China insists zero-tolerance policy for COVID-19, the multilevel exchanges between China and the world will be cut off. Zero-tolerance policy will have a great impact on China's economy as it recovers, which is also a big challenge for ACSA as the flow of capital and goods will be affected.

- c) **The biggest challenge and uncertainty for all U.S. firms and industries, cotton industry included, is still U.S.-China relations.** For the third year in a row, the AmCham survey pointed out that the U.S.-China relations are the biggest uncertainty for U.S. firms in China. It is necessary to prepare even worse situation for the long term. There is a silver lining on Russia that the U.S. and the Europe want China to play a role as a mediator. At present, it seems that China does not have a plan and sticks to neutral position. If this situation continues, U.S.-China relations will become tenser.