

# Decisions from China's National People's Congress: Significance for Israel

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Beginning March 5, 2018, China's National People's Congress (NPC) convened for two weeks and approved a series of new laws and important changes in the Chinese constitution, as well as structural reforms in governmental institutions, thereby shaping China's policy for the coming years. The NPC, along with the National Committee of the Chinese People's Political Consultative Conference, which convened two days earlier, are the most broadly based entities in China holding political discussions on diverse issues to review the government's activity over the past year and hear about new policy objectives.<sup>1</sup> The NPC, which convenes once every five years, is the most important legislative body of the Chinese Communist Party, and is attended by Party representatives from all provinces in China. The Congress has the power to enact laws, supervise the government's actions, and select new government officials, including the president and prime minister. The recent Congress will have a decisive effect on the activity of the Chinese government and its international relations in the coming years, particularly in view of the structural changes in the government and the Party, and the approval of the extension of Chinese President Xi Jinping's term in office beyond two terms. The results of these conferences, especially the changes in the Chinese government and the Communist Party, should therefore be evaluated in the context of China-Israel relations.

## **The Slowdown in Economic Growth and Foreign Investments**

The Congress began with a speech by Prime Minister Li Keqiang, who presented the government's policy report. Li named China's targeted growth in 2018 of "around 6.5 percent," the same target as for 2017, although

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actual growth was higher – 6.9 percent.<sup>2</sup> This conservative growth target indicates that the Chinese government feels comfortable with the slowdown in economic growth, given its goal of combating financial risks, led by the rising internal debt in China, which certain estimates have placed at 268 percent of China's GDP.<sup>3</sup> This slowdown signals the direction in which China is headed – from an economy based on production and exports of various consumer goods to an economy based on services and hi-tech. The slowdown in Chinese growth is also extremely significant for the global economy and can impact negatively on countries that depend on exports of goods, such as Australia, Brazil, Canada, and Indonesia, if there is lower demand from China. On the other hand, countries such as the United States and the European Union are expected to benefit from a drop in commodity prices.<sup>4</sup>

Later in his speech Li Keqiang stated that China would continue opening its market to foreign investors in order to achieve a high level of development, despite the protectionist trends among various countries – a direct hint at Trump's trade policy. Parts of the industrial sector that were previously closed to foreign investments will now be opened completely, and concessions will also be made to foreign investors in the financial sector.<sup>5</sup> Opening the Chinese market to foreign companies has been a bone of contention between China and the developed Western countries for some time, especially Europe and the United States. An OECD report rating the openness of markets to foreign investors ranked China 59 among the 62 countries reviewed. The European Union Chamber of Commerce in China, for example, frequently criticizes China's policy pertaining to the difficult regulatory and business environment that China presents to foreign investors and companies, which the European Union Chamber of Commerce asserts are unable to compete with local companies; the European Union Chamber of Commerce also alleges that the local companies receive preferential treatment from the Chinese authorities.<sup>6</sup>

### **Defense Budget Increases, Military Reforms, and Upgrades**

Regarding defense and the military, it was announced that the Chinese defense budget would be increased by 8.1 percent over the 2017 budget, which currently stands at \$174.5 billion. The Chinese defense budget is second only to the US defense budget, though trailing far behind it (the proposed budget submitted to the US Congress for 2019 was approximately \$716 billion).<sup>7</sup> Given the substantial changes in its security environment,

China will work on upgrading its military training and war preparations to maintain its national sovereignty, security, and interests.<sup>8</sup> The increase in its defense budget may indicate China's strategic goals in the near future. Indeed, following these declarations, some Western analysts claimed that China is set to embark on an arms race against the United States due to the tension between them, especially in the framework of the dispute in the South China Sea and the increased presence of the US fleet in the region.<sup>9</sup>

At the same time, China defended its decision to increase defense spending by claiming that its defense budget was a very small fraction of its GDP in comparison with other countries. China declared that the increase was designed to compensate for its small past investment and would affect mainly the upgrading of military equipment and improvement in living conditions for its soldiers.<sup>10</sup> Furthermore, an editorial appearing in the *Global Times*, which frequently serves as a mouthpiece for the Chinese Communist Party, argued that were China interested in an arms race against the United States, it would have increased its defense budget by more than 10 percent; the current increase is a necessary measure in view of the growing tension in the Taiwan Strait and the formation of the strategic alliances between the United States, Australia, Japan, and India.<sup>11</sup> In addition, China already announced in the framework of its 13<sup>th</sup> five-year plan (2016-2020) that its goal was to make the Chinese military a modern mechanized army that would meet global standards by means of investment in equipment and advanced technology systems, thereby improving its quality at the expense of the number of its soldiers, which was reduced by 300,000 and now stands at two million.

### **Extension of Xi Jinping's Term and Changes in the Chinese Constitution**

The most important act by the People's Congress is approval of the changes in the Chinese constitution, above all regarding the limitations on the president's and vice president's tenure to two terms. This amendment will enable Xi Jinping to continue serving after 2023, apparently without any limit. In addition, "Xi Jinping Thought" – Xi's guiding ideology about China's future – was officially inserted into the constitution with his name cited, thereby giving Xi a status similar to that of Mao Zedong and Deng Xiaoping, whose ideologies were previously inserted by name into the constitution.<sup>12</sup> This measure is the most recent in a series of steps taken during Xi's term aimed at consolidating his power in the Chinese Communist Party, while concentrating authority that has traditionally been decentralized

in different power centers in the government. Indeed, the amendments to the constitution clearly indicated changes in the power structure within the Party and are an expression of Xi's growing power as a leader, the strengthening of his associates, and the way that these changes affect the various governmental institutions and those leading them.

As a follow-up to this dramatic development, a number of key offices in the government were assigned to Xi's associates and some structural changes were made in various governmental bodies for the purpose of reducing bureaucracy and improving efficiency.<sup>13</sup> Wang Qishan, Xi's right-hand man, who managed the campaign against Party and governmental corruption, was appointed Vice President, with no restrictions on the length of his term in office. Wang is likely to receive extensive authority in managing China's foreign policy, and in particular, policy toward the United States in view of the currently emerging trade war and the growing political tension between the two sides.<sup>14</sup> Second, Xi's senior economic advisor, Liu He,<sup>15</sup> was promoted to Vice Premier responsible for China's economic policy. Already in May 2018, senior US officials met with Liu in Washington and Beijing for a number of rounds of trade talks aimed at preventing a trade war between the United States and China.<sup>16</sup> Third, a National Supervisory Commission was established to supervise and coordinate the struggle against corruption and disciplinary offenses. This commission was given the authority to oversee and punish both Party members and government officials.

The establishment of this commission, the most important measure in the campaign against corruption that Xi initiated at the beginning of his term, was aimed at creating effective deterrence among Party members and government officials, lest they adopt an ideological line different from the one formulated by Xi. Indeed, these changes place substantial power in Xi's hands, as he can make decisions on matters of foreign, economic, and commercial policy and military matters by himself. From an economic standpoint, some have asserted that in the short term, Xi's increasing power is likely to benefit the Chinese economy because he has acquired enough influence to implement difficult reforms. Another argument is that the likelihood that Xi will continue as China's leader for at least another decade will give senior officials and defense companies confidence that will facilitate long term planning. On the other hand, others argue that the strengthening of Xi's status will make China's management less efficient and in time will increase the risks. As long as Xi cannot be deposed, a

bureaucrat will have to be especially courageous to take issue with his policy, particularly with the Chinese economy becoming more complex.<sup>17</sup>

These changes also show the increased importance of Chinese foreign policy under Xi's rule and his vision of making China a global power by 2049 while taking advantage of the retreat of the United States from its various commitments in the global arena. There are now at least five senior officials responsible for Chinese foreign policy, headed by Chinese Minister for Foreign Affairs Wang Yi, who retained his position and was also promoted to State Councilor responsible for foreign policy. Furthermore, the budget allocated for diplomacy was increased and a new agency was founded to assume responsibility for China's international aid policy, which was hitherto not conducted clearly or transparently and was divided between the Ministry of Foreign Affairs and the Ministry of Commerce. The agency, entitled the China International Development Cooperation Agency, will be responsible for planning aid policy in the form of loans and grants for developing countries, primarily in the framework of the Belt and Road Initiative (BRI), through which China invests in infrastructure construction projects in Asia, Africa, and Eastern Europe.<sup>18</sup> According to a study by the Aid Data research laboratory, China gave \$350 billion in aid to 140 countries in 2000-2014, thereby becoming the world's second largest donor after the United States.<sup>19</sup> Although China claims that it does not make its loans contingent on political demands, the lack of transparency in Chinese policy has led many to believe that China uses aid as a tool for gaining political influence.<sup>20</sup> Even before this agency was established, China announced that it was willing to aid in the reconstruction of Syria after the end of the civil war. For their part, Western countries are unwilling to invest in reconstruction in Syria because they oppose the Assad regime. While Iran and Russia lack the economic resources needed for reconstruction on such a scale, China is capable of filling the vacuum. China has now declared that it is willing to invest an initial sum of \$2 billion in reconstruction in Syria, in the framework of the BRI.<sup>21</sup>

A significant step in practical implementation of Israel's relations with China and the positioning of the respective professional echelons on a proper footing is the material weakening of the National Development and Reform Committee (NDRC) and the distribution of its functions among a number of government agencies, some of them new.<sup>22</sup> The NDRC operated as China's economic development agency, accumulated great power during the period of rapid economic growth in the country, and was known by its

nickname, the “little cabinet,” in which decisions were taken about various economic projects within China and economic cooperation with countries all over the world. At the same time, following the changes approved at the Congress, it was decided to greatly reduce the NDRC’s power and distribute most of its authority among various government agencies. For example, the NDRC will no longer authorize projects for agricultural investment, and responsibility will be given to a new ministry dealing with agriculture and rural matters. Responsibility for pricing drugs and medical services will be transferred to a newly established National Health Commission, and “supervision of important national projects” will be transferred to the National Audit Office. Senior Chinese officials claim that these changes address criticism that the NDRC dealt too much with development and too little with reform, was fertile ground for corruption, and concentrated too much power and authority in its hands. The main criticism of the NDRC was that despite its responsibility for the country’s industrial policy, it allowed key industries in the Chinese economy, such as the steel industry, to reach a state of overproduction.<sup>23</sup>

### Significance for Israel

The results of the National People’s Congress and the National Committee of the Chinese People’s Political Consultative Conference invite a conceptual and practical change in approach among decision makers and professionals in Israel. From an economic standpoint, the professional echelons from the Israeli ministries involved should jointly examine the significance of the structural reforms that China has launched in its economy and consider how these will affect bilateral commercial relations and the nature of competition between the two countries. At the same time, the situation whereby the Chinese and Israel economies complement each other is likely to change. Promotion of the Made in China 2025 program, which was assigned greater importance at the NPC, is liable to make China a strategic competitor of Israel as a knowledge-intensive economy in spheres in which Israel currently enjoys a relative advantage. In 2016, China was ranked 25 on the global innovation index (Israel was ranked 21) and rose to 22 place in 2017 (Israel rose to 17).<sup>24</sup> Israel should therefore consider how it can maintain its competitive edge over China (and other large developing countries, such as India) in the hi-tech sectors and continue to lead in global innovation, preferably by stepping up state investments in various developing innovative spheres. In this framework, Israel should consider

a more careful examination of acquisitions of local hi-tech companies by private or government Chinese companies through the development of a special balanced regulatory mechanism for overseeing foreign investments in order to retain the know-how amassed in Israel. Such a mechanism will facilitate benefits from commercial relations between Israel and the countries that invest in it, while managing possible risks.

At the same time, Israel should carefully monitor trade relations between the United States and China and establish clear boundaries in the development of triangular relations. In the first half of 2018, tension mounted between the United States and China due to what appeared to be the development of a trade war. As part of that tension, the two countries have imposed quotas on imported goods and restricted foreign investments in their markets. One of the main fears of the United States is China's rapid technological progress, especially in the production of chips – concerns that led the Trump administration to block a number of transactions for investment in American chip companies by Chinese technology companies and venture capital funds. This followed the demand by the acquiring groups *inter alia* for the transfer of the American know-how and technology to the Chinese investors.<sup>25</sup> Following the emergence of the US policy and the toughening of regulations governing Chinese investments in American technology companies, China is turning to investment opportunities in other countries, including Israel, which China regards as a leader in global innovation. China has shown growing interest in Israel as a potential trade partner in chip technologies, especially for use in smartphones, mega-computers, and cloud computing services. Israel must therefore be sure that the tightening of commercial ties with China in areas regarded by the United States as strategic assets of critical national security importance does not harm relations between the United States and Israel.

Similarly, in view of the free trade agreement now taking shape between Israel and China and in view of China's declarations during the National People's Congress about the opening of new sectors in the Chinese market to foreign companies, Israel should consider how to assist Israeli companies to successfully penetrate the Chinese market and compete there on fair terms, while cutting down on the transfer of know-how and technology to their Chinese partners. In this context, Israel should expand its accelerator activity for Israeli startups interested in doing business in China. The purpose of this accelerator is to lower various trade and business barriers – unique barriers in the Chinese market, such as cultural and language

barriers, customs in doing business, and legal and regulatory barriers facing Israeli companies, especially new technology companies, trying to succeed in China.<sup>26</sup> Israel should also take action through diplomatic channels and in cooperation with the relevant bodies in the Chinese government to consolidate a framework for cooperation between the two governments (G2G) and businesses (B2B) that will provide an anchor for Israeli companies seeking to invest or operate in China in selected sectors. This can be done by providing Israeli government backing and support while conducting an ongoing dialogue with the corresponding ministries in the Chinese government.

Second, from a security standpoint, while Israel is not directly affected by the increase in the Chinese defense budget and the structural reforms in the Chinese army, China's technological and qualitative military progress nevertheless enables it to adopt a more assertive policy in a range of global theaters with major potential for clashes with foreign military forces. Furthermore, this progress enables China to expand its exports of weapons and diverse military equipment to its allies in the Middle East, such as Iran and Syria. Indeed, in recent years, China has become a prominent actor in the world in defense exports. From an exporter of cheap and simple weapons, China has become a country that develops, manufactures, and exports advanced weapon systems such as tanks, warplanes, unmanned aerial vehicles, and submarines. In 2000-2015, Chinese weapons exports to the rest of the world increased by a factor of 6.5. As of 2017, China became the world's third largest weapons exporter, after the United States and Russia.<sup>27</sup> Israel must therefore closely follow the volume and types of Chinese weapons sold to countries considered to be enemies of Israel. Similarly, as another exporter of advanced weapon systems, Israel must consider the possibility that China will emerge as a significant strategic competitor in this sphere, because China has proved its effectiveness in taking over market shares from its competitors. What is more, the purposes of Chinese exports are not confined to monetary profits; the ultimate goal is regional and even global geopolitical influence, while strengthening China's allies. Chinese defense exports are part of the economic toolbox used by China to attain political influence and accumulate soft power, together with international aid and economic investments in various countries.<sup>28</sup>

Regarding China's investment policy in the Middle East, particularly in Syria, potential infrastructure investments can even further restrict Israel's freedom of military action in the region. China believes that the



Assad regime will be responsible for stability in the country and prevent it from becoming a pariah state in which Chinese Uyghurs are trained in warfare and then return to China as opponents of the regime fighting for the secession of Xinjiang autonomous region from China. Israeli intervention and military attacks will therefore be regarded as actions liable to destabilize Syria and increase the risk in economic investments. If China decides to invest in Syrian reconstruction as part of its policy of investment in development countries in the Middle East, Israel will have to try to reach understandings with Beijing about the investments in order to preserve Israel's freedom of action in the country.

Third, following the decision to extend Xi Jinping's term, it is important for Israel to keep close track of Xi's statements and activity in the economic and political theater and attribute greater importance to them than in the past, because Chinese ministries will be more precise in implementing his policy. Furthermore, the extension of Xi's term indicates that Chinese planning, which already extends considerably into the future, will become even more extended, thereby requiring long term and continuous policy planning by Israel, including comprehensive implementation of government decisions over time, despite the differences in the political systems.

Finally, the various government ministries in Israel that deal regularly with China, including the Ministries of Foreign Affairs and Economy and Industry, do so mainly with the NDRC, and the weakening of the NDRC and the redistribution of some of its authority requires a reexamination of inter-ministerial relations. Ministries in Israel must establish (or renew, if necessary) ties with the relevant Chinese government ministries and remap the focuses of power and authority in the Chinese government, due to the structural changes that were made following the National People's Congress. To this end, it is desirable for the relevant departments in the Ministries of Foreign Affairs and Economy and Industry to grow, while acquiring more useful knowledge in Israel about China for purposes of policy and effective supporting and promoting of relations.

In conclusion, Israel should reassess the balance of power in the Chinese Communist Party and create personal diplomatic connections with key personnel in the Party, such as Liu He, and working ties with the relevant ministries dealing with spheres pertaining to various areas of cooperation between Israel and China.

## Notes

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