



# Asia Briefing

## NPC review: can conflicting goals be reconciled?

The message from China's leaders of the necessity of achieving Gross Domestic Product (GDP) growth at 8 percent this year that emerged from the recent National People's congress (NPC) session has been transformed in the Chinese media into a new slogan: "maintain eight" (*baoba*).

This, as even the Chinese government explicitly recognized in Premier Wen Jiabao's Government Work Report to the NPC, is not just as economic priority. Growth, everyone in China believes, needs to be maintained at the 8% level in order to sustain employment and avoid dangerous social instability. In fact, the GDP growth target has been the same over the past several years. The difference now is that, while in the past the target has been considered cautious and has been easily exceeded, this year it will be much more difficult to achieve. Most outside observers are predicting growth significantly below this target.

The Chinese government proposes to achieve the target through a number of means. Most attention has focused on the stimulus package announced last year which totals RMB 4 trillion, and includes central government spending of RMB1.18 trillion. At first sight it seems that in announcing this package and the GDP target China is reverting to type: throwing huge amounts of money into fixed assets in order to boost growth with little regard for the consequences.

### Policy response

The policy response to the economic crisis that emerged from the NPC is much more complex. Investment will be an important part of the efforts to achieve the 8 percent target, but China is trying to do more than just turn money into steel and concrete in order to avoid social instability. The stimulus is about more than just physical assets.

One of the central themes of the NPC was the need to boost domestic consumption. This has been the government's stated aim for a long time, but the share of domestic consumption in GDP has actually been falling in recent years. Now, the weakness of foreign demand for Chinese exports has forced the hand of the government.

Economic plans presented to the NPC in past years have included the goal of boosting domestic demand, but there has been little of substance to the proposals beyond a few rather disparate and ineffective measures. This year, the Government Work Report and Economic and Social Development Plan treat the question with greater urgency, and for the first time provide a coherent set of principles to guide policy in this area.



It has become an article of faith in China that improvement of the welfare system is essential to shifting the economy to domestic consumption. The plans for 2009 detail how this will be done over the coming years as investment in welfare and the system will be expanded. Another key target is the rural economy which will see a significant rise in spending from the government. Without question this has a short-term aim of countering the effects of the economic crisis which have seen many migrant workers return to their villages without jobs. But raising rural living standards is also seen as vital to increasing domestic consumption.

### Danger of failure

The danger is that, reasonable as all these measures may be, they will fail to have the desired effect as quickly as the government hopes. It is very unlikely they will rebalance the economy in the short term, and may not even achieve the immediate growth target. For the moment, there is little chance that Chinese consumers faced with great economic uncertainty will spend more today because the

government says that the welfare system will be significantly better three years from now.

The government has already said that it is willing, and has the resources, to add to the stimulus package announced in November. There is a risk that despite the efforts to avoid it, China will fall into the trap of going for growth through investment, rather than achieving the longer term goal of rebalancing the economy. Past experience shows that when slogans like *baoba* are proclaimed in China, they are attained by any means possible. This will mean either a headlong drive for growth by the central government in Beijing, or more likely by local governments eager to demonstrate their adherence to the centre's policy and looking out for their own interests. When the original stimulus plan was announced by Beijing, local governments quickly announced their own investment packages that were worth many times the central government figure. Local governments were clearly bidding for the maximum possible in terms of approval for their own project wish lists. Beijing is aware of the dangers. The Economic and Social Development Plan presented to the NPC insists control on investments will be tightened to ensure that money is not wasted, but past experience is not encouraging in this area.

Another possibility, since expansion of domestic consumption has now been raised to a national priority, is that local authorities will use all means possible to ensure that this takes place. There are already signs of this happening with some city governments issuing coupons to subsidize consumers to buy goods. This will have a double benefit, stimulating output and allowing authorities

to claim that the growth target has been achieved, and at the same time that consumption has been raised. The long term sustainability of such policies is doubtful. Debate in China on their benefits is sharply divided, but it is notable that there is no mention of the coupons in either the Government Work Report or Economic and Social Development Plan. Beijing, it seems, is willing to tolerate such measures, but not encourage them.

Despite doubts expressed even in China, there is almost no question that 8 percent growth will be maintained as the slogan demands. Government money will be found to support growth, and if nothing else works then local officials will fabricate statistics to demonstrate their success. The focus on the 8% target, however, does disservice to the broader economic programme set out before the NPC, and risks having counterproductive policy outcomes. The aims of central government policy are reasonable, but the short term focus on *baoba* may undermine the longer term goals. Beijing will need to exercise careful control over how government money is spent, and how the 8% target is achieved. Even then, there is no guarantee that the desired outcomes will happen.

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