

# BULLETIN

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## Main Tasks for the Last Year of China's Fourth Generation Leaders

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*A government work report presented by the Chinese prime minister at the fifth session of the 11<sup>th</sup> China National People's Congress could be perceived as a testament to the outgoing fourth generation of Chinese leaders and their contribution to China's modernisation. The main tasks for the last year of the incumbent leaders are to further transform the economy into a more internal demand-oriented model, adjust income distribution to redress social inequalities, and establishing a social insurance mechanism. Also, China would like to be more engaged in international affairs in order to preserve its economic interests.*

During the fifth session of the 11<sup>th</sup> China National People's Congress (CNPC, or parliament) held in Beijing, 5–14 March, Prime Minister Wen Jiabao delivered a progress report assessing the first year of the 12<sup>th</sup> Five-Year Guideline (2011–2015) and presenting the government's main tasks for 2012. After receiving remarks from CNPC delegates, the State Council (government) introduced 19 amendments to the report. At the concluding session, the document was adopted—2,725 votes for, 90 against, 49 abstentions.

The report, especially the tasks for 2012, can be assumed to be a testament to the outgoing so-called "fourth generation" of Chinese leaders. During the 18<sup>th</sup> National Congress of the Communist Party of China in October, most of the incumbent Chinese leaders, including Wen and President Hu Jintao, will retire from their Party positions. Moreover, after indirect elections to parliament, which will start later this year, the 12<sup>th</sup> CNPC in its first session in March 2013 will elect the PRC's new head of state and prime minister.

**An Assessment of the Government's Work in 2011.** The prime minister's progress report concentrated on internal affairs and predominantly on economic issues. The essential part of the document was devoted to income distribution and social security, including the insurance system—key words in the speech. Before the CNPC session, *Renmin Ribao* conducted an opinion poll about the most urgent issues that should be addressed in the document. The respondents raised problems with social security and income gaps.

The prime minister depicted the main achievements of the government's work in 2011—the first year of implementing provisions from the 12<sup>th</sup> Five Year Guideline. He highlighted that in 2011, China's GDP reached RMB 47.2 trillion, economic growth was 9.2% (11.2% in 2010), public revenue was RMB 10.37 trillion, which represents an increase of 24.8%. Furthermore, 12.21 million jobs in urban areas were created, the annual average growth of disposable income per capita in urban areas was 8.4%, while net income in rural areas rose 11.4%. Prime Minister Wen stressed that the government took measures to address the most pressing short-term challenges, including controlling inflation, reducing taxes, regulating the real estate market, and, especially, curbing speculation. He also emphasized the state had increased expenditures on social programs, such as the implementation of low-income housing projects through subsidies to provide affordable housing for poor people, and made improvements in the social security system.

The issues presented in the report have been on the agenda since 2005, when Chinese leaders announced the concept of a "socialist harmonious society", which generally refers to a people-oriented approach. Although this policy has been in force for a few years, its main idea still remains unachieved, presumably because of resistance within the Chinese Communist Party (CCP) to further economic transformation. The chief sources of investment and exports—the main drivers of China's

huge economic growth—are large state-owned companies, very often controlled by party members. Certain preferences, such as the higher availability of credit for these companies, create barriers for further private sector development and contribute to the widening of income gaps. Another challenge is the improvement of social security, a prerequisite for boosting internal demand and consumption by reducing saving tendency. But the establishment of a coherent and effective social security system in the country with a population of 1.3 billion people still seems a long-term process.

**Challenges for 2012.** The main tasks for 2012 are, in general, a continuation of the efforts undertaken in 2011 along with a stronger focus on social well-being, which is essential to preserving stability in the PRC. The recent economic crisis and especially the situation in the European Union, which undermines Chinese exports to its primary trading partner, as well as the expectations by Chinese society that the government work to reduce social gaps are the main incentives for the outgoing leaders to accelerate the process of rebalancing the economy.

The report states that predicted average GDP growth should be 7.5%, lower than in previous years, but convergent with the 12<sup>th</sup> Five Year Guideline provision. The government will concentrate on the transformation of the economy from an export-oriented model to one that's oriented on internal demand and includes an increase in social security spending. Under the government's plan, more than 9 million new jobs are expected to be created in urban areas, the registered urban unemployment rate will be maintained below 4.6%, inflation will be stabilised at 4%, trade volume increased by about 10%, and 4% of GDP spent on education.

Generally, the document emphasises two main goals: increase internal demand and establish social insurance. To achieve these aims, the government proposes to create mechanisms to expand internal demand through better distribution of income, raising the wages of the poorest to enhance purchasing power in the economy. More attention will be paid to supporting small and medium-size enterprises. By the end of this year, the old-age pension system should cover all residents and allowances and social aid will have been increased, according to a previous government announcement. Simultaneously, low-income housing projects will be expanded.

Despite the report concentrating predominantly on internal affairs, foreign policy was also tackled during a press conference with China's minister of foreign affairs, Yang Jiechi. In 2012, the PRC plans to be more engaged in international affairs, e.g., to cooperate with other countries and international organizations by initiating dialogue and consultation mechanisms to resolve international problems and challenges.

**Conclusions and Recommendations.** The government's report and statements by Chinese leaders during the recent CNPC session could be recognised as an attempt to summarize the last decade under the rule of the outgoing leaders and to set political directions for the next authorities. For the fourth generation, rebalancing the economy and solving social security issues are crucial to proving that their policy of a "harmonious society" was effective. It could also be assumed that China would like to be more engaged in international affairs in order to preserve its economic interests and to demonstrate its ability to influence the global agenda and its strength as an emerging power.

However, it is likely that in foreign economic policy the government will pay more attention to some concerns held by society. China's recent hesitation to purchase European bonds could be an example of it paying greater attention to the expectations of society and an attempt to show that the PRC is an influential power. Furthermore, China's economy still depends on exports and investments and the country is reluctant to change its export policy, which is based on the undervalued *yuan*—a dispute especially between it and the U.S. Moreover, the prime minister's statement that the RMB has probably reached an "equilibrium exchange rate" can be interpreted that further changes in the *yuan*'s value are unlikely. What is more, China may be willing to introduce measures that might raise concerns abroad, as demonstrated by its latest export restrictions on rare-earth minerals, which affects the production of high-tech goods in other countries. In that matter, the EU, U.S. and Japan have requested consultations with China at the WTO. It seems that the EU should proceed as a united entity and even seek an alliance with other states in order to launch consultation platforms with China and amicably settle the disputes.

In the next few months China will likely focus on internal affairs as it prepares for the changes of power. Nevertheless, Poland should continue its recent policy of strengthening relations with the PRC through dialogue with both the outgoing and incoming Chinese leaders. It seems that the policy tasks for 2012 presented in Prime Minister Wen's report, especially the intent to increase internal demand and consumption, will give rise to the emergence of a middle class, not only in metropolises but also in smaller urban centres, and that will create opportunities to expand Polish exports and investments in China.