China: National People's Congress reflects regime's fears of social instability

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At two major conferences that began last week, the Chinese ruling elite was preoccupied with the political dangers posed by the country's acute social tensions: the widening gap between rich and poor, growing unemployment due to the crisis in the export sector and housing distress associated with sharply rising property prices.

The annual Chinese People's Political Consultative Conference (CPPCC), an advisory body mainly representing China's business elite, including from Hong Kong and Taiwan, opened last Wednesday. The more powerful National People's Congress (NPC), which is the country's formal legislative body, started proceedings on Friday.

Premier Wen Jiabao's report to the NPC last Friday reflected nervousness over economic and social instability. While the economy expanded by 8.7 percent in 2009, the growth was dependent on a huge stimulus package, including a vast expansion of credit that has led to speculative property and share bubbles. None of the underlying social and economic contradictions has been resolved.

Wen acknowledged that China was still facing "a very complex situation" in the global economy. Warning that unexpected crises could strike again, Wen said: "We must not interpret the economic turnaround as a fundamental improvement in the economic situation." He pointed to the dangers of further financial turmoil as well as the impact of trade tensions and protectionism on China's export-dependent economy.

For 2010, Wen set a growth figure of 8 percent and a limit on bank loans of 7.5 trillion yuan ($US1.09 trillion). The targets are an attempt to maintain stimulus spending to offset weak demand for Chinese exports, while reining in frenzied property speculation that threatens to trigger a crisis in the financial system. According to the State Statistics Bureau, total real estate sales were 36.769 trillion yuan in 2009, an increase by 80 percent from 2008. An NPC delegate from Chongqing, Chen Wanzhi, estimated that real estate developers reaped profits of more than 1 trillion yuan last year.

CPPCC member Pan Qingling told *China Securities* last week that housing affordability in Beijing is now worse than in Tokyo. "One million yuan ($147,000) could buy a three-bedroom apartment in a rural area about a 20-minute drive from downtown Tokyo, but a similar apartment in suburban Beijing cannot be bought for the same amount of money," he said. China might face a similar collapse in asset values to the one in Japan during the early 1990s that triggered two decades of economic stagnation, Pan warned.

Recognising that housing has become a contentious social issue, Wen promised "to resolutely curb the precipitous rise of housing prices in some cities and satisfy people's basic need for housing". However, the government is proposing little in the way of concrete action. Wen promised to build 3 million low-cost apartments and to reconstruct 2.8 million shanty houses this year.

Curbing the property boom is incompatible with the current tax system, which forces local governments to rely on land sales for revenue. Local governments earned 1.59 trillion yuan from land sales in 2009, and

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half the land was sold to developers. Local authorities actively fuelled the property boom by providing credit to developers, accounting for 40 percent of all loans in 2009. As a result, local government debt rose to 5 trillion yuan last May, equivalent to one sixth of GDP in 2008.

The official report to the NPC proposes a budget deficit of 1.05 trillion yuan, including 200 billion yuan to assist local governments. As a proportion of GDP, the deficit for 2010 will be 2.8 percent, up from 2.1 percent in 2009 and just 0.4 percent in 2008. The relatively low debt level is the result of rapid economic growth. Any slowdown would soon force the government to wind back public spending.

Wen declared in his report: "Everything we do, we do to ensure that the people live a happier life with more dignity and to make our society fairer and more harmonious." He outlined increased spending on rural subsidies, education and a healthcare reform, supposedly to make it more accessible to working people. He also promised new measures to "resolutely reverse" the gap between rich and poor, and to restrict the lavish privileges of officials. Wen even hinted that Beijing might allow ordinary people to criticise the government for the first time.

In reality, growth in public spending will be cut this year, due to rising government budget deficit. Public-works investment is budgeted to increase just 7.3 percent in 2010, after more than doubled last year under the stimulus package. Growth in social security spending will slow to 10 percent this year, down from 12 percent in 2009. Education spending will increase 14 percent, lower than the 16 percent last year.

Shortly before the NPC, Wen highlighted the regime's concerns about social instability in an online dialogue with Internet users. He promised to distribute social wealth "in an adequate manner", because "if wealth in a society is concentrated in a minority of people, this society will be neither just nor stable." Wen's proposals to the NPC are an attempt to blunt rising discontent over the vast social gulf between the majority of people and the wealthy elite of top officials and big businessmen.

As a series of articles in the state-run media last week make clear, however, social inequality has risen sharply as the Chinese Communist Party (CCP) has implemented its pro-market restructuring. The income gap between the richest top 10 percent and the poorest 10 percent in China is now 23 times, compared to just 7.3 times in 1988.

One study cited by *Guangzhou Daily* shows that workers' wages as a proportion of GDP declined from 51.4 percent in 1995 to just 39.7 percent in 2007. The same study found that wages in China constitute less than 10 percent of corporate operating costs, compared to around 50 percent in developed countries.

According to the *China Youth Daily*, online surveys conducted prior to the NPC showed that 65.3 percent of respondents wanted to increase wages and narrow the gap between rich and poor; 67.1 percent sought legal measures to curb official corruption and 63 percent wanted a full social security system. Some 58.4 percent wanted to elect and control the CCP and government leaders. Affordable housing, health care and education were also high on the list of preferences.

The CCP regime, however, is incapable of lifting the living standards of working people because that would undermine the cheap labour regime that is the source of China's economic growth. Any expectations raised by Wen's report to the NPC will be dashed as the realities of Chinese capitalism continue to exacerbate social inequality. An economic downturn or financial crash will quickly translate into open social struggles.

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