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China's National Peoples Congress haunted by the spectre of social unrest

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The annual National Peoples Congress (NPC), which began in Beijing on March 5, focussed on the most explosive issues of the day—social discontent, inflation and world economic instability. In front of more than 2,900 hand-picked delegates, Premier Wen Jiabao's annual "state of nation" report was an attempt to placate growing anger among working people by promising to control rising prices and increase social spending.

Wen admitted that the "biggest concern" of ordinary people in China was the rising cost of everything from food items to utilities and housing. "Government at all levels must give high priority to keeping prices stable because price stability has a direct bearing on the quality of people's lives," he declared. Inflation hit a new high of 8.7 percent in February on a year-on-year basis—the highest in 12 years. The food prices were up 23.3 percent—with the price of pork up 63.4 percent.

Wen set an inflation target of 4.8 percent—the same level as last year. However, he acknowledged: "Factors driving prices up are still at work." Speculative investment in basic commodities and the growing volatility of global energy supplies, in addition to a fall in agricultural production, are generating inflation around the world. Other factors in China include wage demands fuelled by rising living costs and the disruption of farming by last month's severe snowstorms.

The NPC delegates and Chinese Communist Party (CCP) leaders in the Great Hall of the People were well aware that inflation propelled workers throughout China to join mass protests in May-June 1989. The economic contradictions today are far more explosive and complex than in 1989. Wen warned of other serious problems, including the US economic downturn and trade friction with Europe, that could wreck China's key export industries. "All this could adversely affect China's economic development," Wen declared. "China is now in a critical period in its reform and development."

The Chinese government has described the price increases as "structural" because China's economic growth has shifted from low-value added industries, like shoes and toys in the 1990s, to more technically complex sectors such as auto, electronics and chemical. However, Beijing is well aware that the skyrocketing prices are not simply the product of structural changes to the economy.

The government has implemented a series of "macroeconomic" measures to try to curb inflation over the past year. Six interest rate hikes have pushed the rates for one-year deposits and loans to 4.14 and 7.47 percent respectively—the highest in 9 years. The Chinese central bank's reserve ratio requirement for commercial banks has been lifted to 15 percent—the highest in 20 years. These measures, however, have had limited effect, as Beijing has no control over key international factors.

The US Federal Reserve Board has cut interest rates in recent months to ease tightening credit markets and avert a recession. This is at odds with Beijing's efforts to control excessive investment in fixed assets and rampant bank lending that are "overheating" the economy. The interest rate rises in China have further widened the gap between dollar and yuan-based assets, produced by the yuan's revaluation against the dollar. As a result, dollar-based short-term speculative funds continue to pour into China's share and property markets.

According to official statistics, property prices in 70 major Chinese cities jumped 11.3 percent in January from a year earlier—the highest rise since 2005. New home prices in Urumqi rose 25 percent and in Nanning 20 percent. Wang Tao, chief China strategist for Bank of America in Beijing, told Bloomberg: "When property prices continue to rise, it pushes people out of the market and also increases financial risks as real estate lending and investment increase too rapidly, fuelling overheating." The high costs of housing forced Wen to promise to build more cheap, subsidised apartments for the urban poor.

Wen announced that the government would continue its tight monetary policy. As in the past few years, he set the growth target at 8 percent for this year. Most economists believe the target will be exceeded. China's gross domestic product (GDP) grew 11.4 percent in 2007. Economic forecasts by global institutions like Morgan Stanley, estimate that China's growth rate will fall to 10.5 percent, mainly because of declining global demand for its exports.

The rising costs of production and the slowdown in the US have put enormous pressure on China's manufacturing sector, especially on small and medium export firms. Hundreds, if not thousands, of factories in the export hub of Guangdong province have shut down or relocated over the past year. Many migrant workers returned from the lunar New Year holiday to find themselves unemployed.

Social spending

China's NPC and the associated Chinese Peoples Political Consultative Conference (CPPCC) have come under increasing public scrutiny. The issues raised were widely debated on the Internet, which now has tens of millions of users in China. Conscious of this audience, CCP leaders were compelled to put on an elaborate show of concern for the hardships facing working people. Wen spent a quarter of his report on the issues of education, healthcare, employment, social inequality and housing.

The premier promised a 25 percent increase in health spending this year and 45 percent more for education. Compulsory free education will be extended to the first nine years of school throughout China. He also pledged significant increases in social welfare programs and a tougher stance against industrial pollution. The increased spending was made possible by an unexpectedly large rise in government revenue last year—by 32.4 percent to 5.1 trillion yuan.

These measures are not only aimed at quelling popular anger, but at meeting the needs of investors. As China moves into more complex manufacturing, shortages of skilled labour are becoming an increasing obstacle. Pollution as well as damaging China's image, is a source of social unrest. According to the ministry of public security, there were 60,000 “mass incidents”—protests and demonstrations—related to environmental issues in 2006, compared to 51,000 in 2005.

Social spending is still relatively small. Last year, Beijing spent just 66.4 billion yuan on health and 107.6 billion yuan on education—compared to military spending of 348.3 billion yuan. This year the military budget has been increased by 17.6 percent to 418 billion yuan or $US58 billion—on top of a 17.8 percent rise last year. Wen declared China needed to spend more on its “long-neglected” armed forces. He did not say the same of neglected services like public healthcare, which were virtually destroyed during the “market reforms” of the 1990s.

Commenting on a rural medical insurance scheme set up in 2003, the *Economist* noted on February 21: “The scheme is only a slight relief, if at all for the poor. It often does not cover routine outpatient treatment. The average reimbursement rate is only 30-40 percent, and bills have to be paid in full first. So hospital stays are beyond the means of many. There is also a big loophole: those insured can get benefits only in their own localities. Many younger people from the countryside are working in the cities where they have to pay all of their treatment costs. A new labour-contract law introduced this year requires employers to pay medical insurance for such workers. But migrants are often hired informally, making it easy for employers to evade such requirements.”

Similar processes operate in other spheres, including superannuation, which employers often refuse to pay. Only 15 percent of migrant workers have superannuation and more and more are withdrawing because of the lack of job security and low pay. Last year, 830,000 workers in Shenzhen and 600,000 workers in Dongguan pulled out of super funds. Few of these highly mobile workers stay in the same city for 15 years—the legally required period to be eligible for a pension on retirement.

Wen’s report lavished praise on the “achievements” of the past five years—his first term as Chinese premier. He boasted that China is now the world’s fourth largest economy and has sent astronauts into space. “There was a great increase in the number of family-owned cars and a rapid spread in the use of cell phones, computers and Internet services. The number of people going on vacations increased several fold,” he said. Wen’s comments were a direct appeal to the relatively small layer that has grown affluent through the vast expansion of Chinese capitalism.

Figures released at a CPPCC press conference revealed that the “new social layers” of private business owners and “self-employed” professionals and their families have reached 75 million people, or about 6 percent of China’s population of 1.3 billion. They control capital of more than 10 trillion yuan ($1.4 trillion) and contribute one third of government tax income. They account for 40 percent of import-export trade, 69 percent of publications and one third of GDP.

Increasingly this wealthy strata is making its voice felt in the political arena. One of China’s richest billionaires, Zhang Yin, was a CPPCC delegate and used the forum to air her grievances. She called for the axing of a key measure in the country’s new labour laws and demanded a cut in the tax rate for the top income group from 45 percent to 30 percent. Nervous about public reaction, officials brushed aside her proposals.

However, Zhang Yin’s presence at the CPPCC underscores the fact that, for all Wen’s expressions of concern for the poor, the CCP rests on and represents the class interests of the emerging Chinese bourgeoisie.

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