

China: On Li Keqiang's Government Work Report 2014

Submitted by asiaadmin2 on Mon, 03/10/2014 - 05:51

Paper No. 5662

Dated 10-Mar-2014

Guest Column by Prof. B. R. Deepak

Premier Li's government work report at Wednesday's opening session of China's annual session of the National People's Congress comes three days after the Kunming railway station carnage allegedly carried out by the militants from the restive region of Xinjiang.

The meeting attended by about 3,000 deputies observed a moment of silence for the victims of the attack, and Li reiterated President Xi Jinping's remarks that China would 'crack down hard on violent crimes of terrorism' and safeguard China's national security.

Premier Li's report is divided into three parts: 2013 in retrospect; major targets for 2014; and major tasks for 2014. As regards the economic performance in 2013, Li's said that 'over the past year, we faced more difficulties than expected, however, the results were better than we expected.' China had set a target of 7.5% growth rate but achieved 7.7% growth rate catapulting the GDP to 56.9 trillion yuan (\$9.1 trillion). The per capita disposable income of urban residents also rose by around 7 percent. In contrast the per capita income of rural residents rose by 9.3 percent.

For the first time in Chinese economic history the service sector surpassed the industrial sector, contributing 46.1 percent to the GDP. In the urbanization drive, China undertook to build 6.6 million units of subsidized houses of which 5.4 million were completed; 7 million more would be built in 2014. The austerity drive in terms of government spending on transport, banquets and foreign tours that was initiated by President Xi after assuming office, Li reported that the central government spending was cut by 35% and that of provincial governments' by 26%. It is another story that the drive have shut down many businesses catering to such services, as was revealed to this author by some friends while in China.

Austerity drive apart, China has contributed to the stabilization of world economy, especially when many countries across the world are reeling under the wrath of global economic meltdown.

As far as the year 2014 is concerned, GDP growth has been projected at about 7.5%. Li has intended to create 10 million urban jobs in this year and restrict the urban unemployment rate at a maximum 4.6%. The budget deficit is projected to be \$218 billion accounting for 2.1% of the GDP. Nine major tasks outlined for the year 2014, are in sync with the general debate on development in China.

These include breakthroughs in reform in important areas, fostering domestic demand as the main engine of growth, agricultural modernization, people-centered urbanization, accelerating the development of education, health, culture etc. Li has also promised to cancel or delegate to lower-level governments another 200 administrative approvals in addition to last year's 400 and more approvals.

In order to bring in more transparency, the central and provincial governments would be required to make their budgets and accounts open to the public. Some of the state sectors such as banking, oil, power, railway and telecommunications would be opened for private investment. In order to facilitate e-governance and e-commerce, Li promised to speed up 4G mobile networks and further build 100M fiber optic networks in cities and extend broadband connectivity to villages.

It could be discerned that the present government is in sync with the policies of the previous governments. We may recollect that former Premier Wen Jiabao had regarded the 12th Five Year Plan (2011-2015) as a crucial period for building a modest well off society, deepening the reforms, and accelerating transformation of the economic development in China. China, he said would move away from the labor intensive industries to the high end manufacturing and service industries.

China would like to shed the image of being viewed as the 'world factory' and venture in becoming the R&D hub of the world. To this end, 2.2% of the GDP has been earmarked for R&D since 2011 and has shown a steady increase since then. Wen had also pledged to build 36 million affordable apartments for low-income people, and the creation of 9 million jobs in the year after year starting from 2011. Wen had projected a growth rate of 7% during the 12th Five Year Plan. He had projected that by 2015 China's GDP at 2010 prices should reach over 55 trillion yuan (over 8 trillion USD). If one glance over the statistics, it is clear that objectives have been realized two years in advance.

According to a study conducted by Price Waterhouse Cooper, China will be the largest economy in the world by 2020 and will replace the US by 2030. Therefore, there will be major shifts in the world economic order by 2020 in which emerging economies will become more important thus further enhancing their economic as well as political clout at the world stage.

Chinese analysts have summarized the characteristics of the Government Work Report in three Chinese characters as ruthlessness (?), stabilization (?), and pragmatism (?). Ruthlessness, have been used to get rid of any hurdle in the way of deepening reforms. Decentralization of government responsibilities and opening some of the state owned monoliths for private investment is an indication to this fact. Ruthlessness is also demonstrative of defusing the popular discontent in the face unequal income distribution, air pollution and other

environmental hazards.

Premier Li used the words 'declaration of war', implying 'war' on poverty, and environmental issues; his government's resolve to shut down 50,000 small coal-fueled furnaces, and installation of desulphurization facilities in thermal power plants with the capacity of 15 million kw, denitrification facilities in plants with 130 million kw of production capacity, and installing dust control device on those with the 180-million-kw capacity are some of the tasks outlined for this year. Also, around 6 million old vehicles will be banned from the road. Transparency in spending 'public funds' could be said another measure linked to 'ruthlessness'. The 'strike hard' campaigns against separatism, terrorism and prostitution could also be put in this category.

As far as 'stabilization' is concerned, it is primarily used in the context of macro-control measures and policy continuity. In Li's words China will not take short-term stimulus measures, will not broaden deficit, will restrict excess supply of money, and will save the economy from sliding off the track.' Consumer Price Index would be stabilized at 3.5% and unemployment at 4.6%. As import and export growth is expected around 7.5% it has been stressed to stabilize and improve the export policies; as far as investment is concerned, Premier Li has earmarked 457.6 billion yuan of government budget for investment. Besides, domestic consumption would be enhanced by increasing the income levels of the people thus bringing even larger sections of the people under the folds of middle class.

As regards 'pragmatism', it is the same euphemism described by 'seeking truth from the facts' phrase often used by Deng Xiaoping. Premier Li reiterated that the foundations of Chinese economy were not solid, there were potential risks in the financial sector, and that there are issues related to overcapacity in some sectors. Issues related to water and soil pollution, housing, food and drug safety, health care, pension, education, income distribution, land acquisition, resettlement, and social security required new measures and solutions, for these are the issues that are very crucial for overall social stability in China.

It has been seen that China is extremely nervous about any public protest, and most of the protests have been rooted in expanding social imbalances, especially the rural urban divide, official highhandedness, corruption, violation of laws, land fragmentation, land acquisition leading to forced evictions, unemployment, unnecessary cadre strength in the countryside, environmental hazards etc. issues.

As regards national defense, Premier Li has increased military budget for 2014 to \$132 billion, a 12.2% rise over 2013. In 2013 it increased by 10.7% over 2012. China is the second largest spender on military after the US albeit the US spends over \$500 billion on defense. Some analysts speculate that the real defense budget of China should be around \$200 billion and believe that more transparency is required from China. This year's rise is particularly watched with great interest in the wake of China –Japan hostilities flare over Senkaku/Diaoyu Islands. The region as well as the US has expressed concern over Chinese assertiveness and growing tension in the region.

In his report Li said that 'China will comprehensively enhance the revolutionary nature of the Chinese armed forces, further modernize them and upgrade their performance, and continue to raise their deterrence and combat capabilities under the conditions of informatization.'

Finally, the Chinese premier promises to be the standard bearer of peace, development and harmony. He also invoked 2014 being the 60th anniversary of the Five Principles of Peaceful Co-existence. He pledged to hold high the banner of peace but also vowed to resolutely

safeguard its sovereignty and the postwar international order, a veiled warning to Japan that it should not try to change the status quo in the region. The report said that China will resolutely safeguard its sovereignty, security and development interests, and fully protect the legitimate rights and interests of Chinese citizens and business overseas, and that China will play a constructive role in resolving global and hotspot issues and work to make the international order more just and equitable.

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