Short Term Policy Brief 2

The National People’s Congress March 2011 Meeting in China: The Penultimate NPC Session Before Hu Jingtao’s Succession

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**Background brief:** The National People’s Congress March 2011 Meeting: The Penultimate NPC Session before Hu Jintao’s Succession

**Executive summary**

The March 2011 National People’s Congress (NPC) session had two main objectives: adopting a 12th Five-Year Plan (2011-2015) and a state budget that would ease China’s transition from an export-oriented and investment-driven economy to a domestic market-oriented and consumption-driven economy, and contribute to “buying” rigid political stability with additional social benefits. In this sense, this meeting has underscored the Chinese Communist Party (CCP) leadership’s growing nervousness in the wake of the Jasmine Revolution in the Middle East and its firm intention to nip in the bud any form of organised protest as it braces itself for the well-prepared handing of the baton from Hu Jintao to Xi Jinping in autumn 2012.

**Main points**

- The 2011 National People’s Congress and the Chinese People’s Political Consultative Conference represent Premier Wen Jiabao’s penultimate State Council Work Report and budget proposal before he steps down in 2013;
- Adoption of the 12th Five-Year Plan (2011-2015) should ease the Chinese economy’s transition to a domestic market and consumption driven model. It has set a 7% economic average growth objective (8% in 2011) with a focus on qualitative rather than quantitative growth;
- There is a greater focus on people’s livelihood and the promise of many social benefits aimed at easing this transition and alleviating growing power/society tensions;
- The plan has adopted a hefty internal security budget, which is now larger than the military budget;
- Nevertheless, the military budget returns to a double digit increase, after a one year hiatus;
- In spite of renewed comments by Wen regarding the need to introduce political reform, the CCP leadership has decided to consolidate its “management” of society;
- There has been no indication that the succession pattern approved at the 17th CCP Congress in 2007 would be altered but, through the voice of chairman Wu Bangguo and others, the most recent NPC session has confirmed the domination of the conservative line.
**Background Information**

Every year in March, the National People’s Congress (NPC) and the Chinese People’s Political Consultative Conference (CPPCC) hold their plenary session. These two (large) meetings (commonly known as “lianghui”) are aimed at demonstrating the “democratic” and consultative nature of the political system. However, while the role of these two assemblies differ, both operate under the tight leadership of the Chinese Communist Party (CCP)—they are both chaired by a CCP Politburo Standing Committee (PBSC) member, Wu Bangguo and Jia Qinglin respectively. Endowed with formal legislative and appointment powers of state leaders, the NPC is clearly the most important of the two. Although its 2,987 delegates are officially elected by the provincial people’s congress and the People’s Liberation Army (268 delegates), 67% of them are CCP members and represent *ex officio* the major bureaucracies, state-owned enterprises (SOEs) and institutions (as universities or hospitals) of the country. The NPC annual meeting has become a useful occasion for local officials to make public their views and concerns. But, as such, this assembly is rather weak. While the NPC Standing Committee (175 members), which meets every two months, occasionally participates in the drafting process of new bills and, more rarely, opposes their adoption, in most cases, the NPC obediently passes laws or decisions prepared by the State Council or the CCP Central Committee departments that are endorsed by the Party PBSC. For instance, only one candidate, recommended by the Party, can run for election to all state jobs.

At the time of the March 2011 NPC meeting, China’s domestic situation was somewhat paradoxical. On the one hand, China’s economic and financial situation has remained strong, while many other countries are still badly affected by the aftermath of the global financial crisis. After having registered a 10.3% growth rate in 2010 (2.3 percentage points above target), the Chinese government’s target is set at 8% for 2011. As its tax incomes - collected mainly from various VATs (55%) and to a lesser extent from enterprises (18%) at the central level - has continued to grow steadily, its fiscal deficit is geared to remain low (2% of GDP in 2011 against 2.5% in 2010). After having injected 4 trillion yuan (nearly US$600 billion) into the economy as a stimulus package in 2008-2010, the CCP leadership is planning to inject another 10 trillion yuan (US$1.5 trillion) in the next five years (2011-2015). China’s trade surplus (US$183 billion in 2010 against US$196 billion in 2009) is still huge and hard currency reserves (US$2.9 trillion) have never been higher. Moreover, the political system has remained highly stable; its institutions (CCP, NPC, etc) operate in a very predictable manner and its leaders appear to be united on most issues.

On the other hand, the CCP leadership is increasingly nervous about the preservation of social and political stability, particularly as the number of registered “mass incidents” keeps growing (180,000 in 2010 - four times larger than in 2006, according to sociologist Sun Liping). The pro-democracy campaigner and main drafter of Charter 08, Liu Xiaobo, who was awarded the Nobel Peace Prize in November 2010, was arrested in January 2009 and sentenced to 11 years in prison. This triggered renewed discussions among Chinese netizens about freedom of opinion. Aware of society’s growing demands and tensions, the Party has taken no chance regarding the possible impact on China of the Jasmine revolutions that broke out in the Middle East in January 2011. Obviously, its main target has
been to prevent any form of coalescence between Chinese citizens and their Middle Eastern counterparts, no matter how remote the risks might be. To that aim, the Party has clearly opted for a strengthening of what it calls the “management of the society” (shehui guanli); what critics, such as sociologist Yu Jianrong, refer to as “rigid stability”. Not only have the authorities nipped in the bud any attempt by pro-democracy activists to organise “Jasmine” strolls in a dozen city centres since 20 February 2011, but they have also tightened their control of the internet (e.g. information and debates about the Arab Spring), human rights lawyers, NGOs - especially those that receive foreign financial support - as well as any kind of political dissidence. It has also intensified its criticism of “Western-type democracy”, which, if adopted by China, has been presented by NPC chairman Wu Bangguo as “plunging the country into the abyss of internal chaos”. For the first time since the Beijing Olympics (2008), Public Security has also targeted foreign journalists, accusing them of “causing trouble”. While the quasi concomitant meetings of the NPC and the CPPCC that are held annually in March usually decrease official tolerance of political dissent, petitioners’ complaints and petitioners’ access to the capital, the level of anxiety among the Chinese leadership in 2011 appears unprecedented. This year, after the closure of the two meetings, repression of legal and political activists has deepened. More than a hundred activist have so far been arrested or kept incommunicado.

To a large extent, the 2011 NPC (5-14 March) and CPPCC sessions (3-13 March) have given a sense of continuity and stability. These sessions included Premier Wen Jiabao’s penultimate State Council work report before he steps down in March 2013. The major decision taken at the NPC meeting has been the adoption of an ambitious 12th five-year plan (2011-2015) that will partly be implemented by the next Party leadership. The new plan’s main objectives include: reducing growth from the 11.2% set in the previous five years to 7%, in order to rebalance the economy; introducing a more qualitative, sustainable and environment-friendly development model; and decreasing China’s dependence upon foreign trade and stimulate consumption. Many consider these objectives, and 2011’s 8% growth rate, hard to respect as growth remains much more dependent upon investments that do not appear to decrease, rather than a level of consumption that inflation prevents from expanding (see separate brief on the 12th five year plan).

However, the 12th five-year plan also highlights the CCP leadership’s core political strategy: buying “rigid stability” with additional social benefits and toying with superficial “political structure reform” ideas.

**Buying “rigid stability” with social benefits**

The Chinese government now spends more on its domestic security than the People’s Liberation Army (PLA): 624.4 billion yuan (US$95 billion) against 601.1 billion yuan (US$91.5 billion) in 2011. Revealed for the first time last year, and including funding for courts, jails, police, paramilitary (armed police) and internet monitoring, China’s weiwên (upholding stability) budget has increased faster than its defence expenditures: 8.9% against 7.5% in 2010 and 13.8% against 12.7% in 2011, respectively.

At the same time, the government is aware of the limits of its heavy financial investment in society’s policing and micro-management. In order to guarantee long-term stability, it has recently tried hard to...
better address the population’s grievances - some of them, at least. Side-effects of the stimulus package have included accelerated inflation of everyday commodities and, most strikingly, skyrocketing housing prices. The increasing difficulty to find a decent job, especially for university graduates (7 million every year) from second and third tier colleges (between 30% and 40% of the 2010 graduates are unemployed), as well as the high cost of education and healthcare are also deeply felt by many Chinese. Wen’s report to the NPC was directly aimed at providing some answers for these growing concerns.

While job creation (9 million in 2011 and the following years), the fight against urban unemployment (kept under 5%), the control of inflation (consumer price index around 4% in 2011), the increase of minimum salaries (by 80% in 2015) and the rise of domestic consumption have become key objectives, the extension of social benefits (e. g. medical insurance) and pension schemes (to cover all urban residents and 50% of rural residents by 2015), as well as the doubling of construction of government-built subsidized apartments (10 million in 2011 against less than 5.8 million in 2010; in 36 million in 2011-2015), now occupy prominent positions. Moreover, in order to stimulate consumption, the government has decided to ease tax burdens for lower and middle classes by raising the tax-free threshold from 2,000 to 3,000 yuan. As a result, 60% of employed people should be exempted from paying any income tax.

Whether the subsidized apartment objective can be met remains uncertain. In 2010 only 3.7 million of the 5.8 million low-cost homes targeted were complete. While Wen Jiabao has now decided to force local authorities to put at least 10% of their land sale incomes into this programme, many experts have expressed doubts about his ability to challenge the cosy relationship that many city governments have established with developers and the strong vested interests that both share. Besides, local governments are in deep debt and are too dependent upon sales of state-owned land-use rights (around 3 trillion yuan in 2010 or 89% of their revenues and 35% of the consolidated state budget revenues), a resource which will gradually decrease; as a result, they cannot contribute much to improving the population's livelihood, in particular, education and health. Similarly, inflation will probably be hard to keep under full control. In other words, (young) urban dwellers will remain badly paid in view of the higher cost of living, and will continue to have difficulties buying or renting accommodation. At the very least, this will feed dissatisfaction and a sense of alienation among the underprivileged of an increasingly unequal, and to some unfair, society; some Chinese activists have even suggested that it may lead to “class struggle”. The fact that the richest 70 of the 2987 NPC delegates have a combined wealth of US$75 billion (while the US Congress wealthiest 70 people can only claim US$4.8 billion) has been vividly discussed among Chinese netizens.

Toying with political reform and fighting corruption

For these reasons, the CCP leadership needs to keep afloat its ambition to reform; not so much the polity (in other words, the one-party system), but what it calls the country’s “political structures” (zhengzhi tizhi), in order to make them more efficient, transparent and reactive to people’s demands. At the end of summer 2010, in a few statements made in Southern China and overseas, Premier Wen
arguably went further and gave the impression that he wished to deliver a more robust political reform plan. Again, at the end of the NPC meeting, he evocated this ambition, underlining the time needed to expand election processes to higher levels of government (since the 1980s they have been restricted to villages) but this time warning the public against any hasty comparison with the Middle East situation. Wen is clearly more sensitive than other leaders (for example, Wu Bangguo) to the risks of growing frustration if the government does not improve its relationship with society and rather rests on the laurels of its economic successes. However, it is perhaps an overstatement to call him, as house church activist Yu Jie has done, “China’s best actor”. After all, he worked closely with Zhao Ziyang before Tiananmen and his statements have obviously contrasted with those of his PBSC colleagues. Nevertheless, Wen’s comments have remained rather cryptic and have never jeopardised the current political order. Moreover, he has not really attempted to revive Hu Jintao’s intention to deepen “intra-party democracy” (dangnei minzhu), a plan that was approved at the 17th Party Congress in 2007 but later quietly sidelined, both because of its lack of appeal among party members and its lack of relevance for laypeople. In other words, Wen may have obliquely highlighted the existence of a genuine debate in the Party leadership about the best methods to achieve long-term stability. But, in any event, this is a minority view: Wen has not been supported, let alone followed, by President Hu Jintao in an initiative which has remained on the whole very isolated.

What the current CCP leadership agreed upon at the March 2011 NPC meeting is, therefore, on the whole, a very conservative and defensive political agenda. True, its key objective now is to make the people “happy” and it will put together supposedly accurate instruments to measure the degree of Chinese people’s “happiness”. However, it has decided to simultaneously focus on the introduction of better governance and, specifically, the establishment of more coordinated and powerful organs able to “manage” rather than address social discontent. This is totally in line with the conclusions of the meetings held by the Party’s top leadership, the PBSC, and security chief Zhou Yongkang the previous month, when activists were trying to organise “jasmine strolls” in a dozen large Chinese cities. In that respect, the 12th five-year plan blueprint includes for the first time a section devoted to the building of a nation-wide “rapid response system (yingji xitong) for tackling emergency incidents”. And in order to boost stability and “social harmony”, it also plans to rely on a large pool of “community volunteers” (one out of ten urban residents) to keep order in the cities. As China’s urbanisation accelerates (the rate will officially reach 51.1% by 2015 against 47.5% in 2010), cities are increasingly perceived by the authorities as breeding grounds of discontent, dissent and disorder. These moves are not prone to favour the establishment of a rule of law in China but, on the contrary, may push the country backwards in terms of legal modernisation.

To improve governance, fighting against corruption remains vital. In February 2011, Railways Minister Liu Zhijun was suddenly sacked and placed under investigation “for serious disciplinary violations”. Appointed in 2003 by Hu and Wen, and father of the ambitious Chinese high-speed train network and projects (worth US$400 billion), Liu’s troubles seem to have been caused by his close association with several railways suppliers, including Shanxi businesswoman Ding Shumiao, who is also under investigation. What is both surprising about Liu and telling about China’s administrative control
institutions is the long impunity he enjoyed before falling from grace. Was he protected by Hu himself? Was Hu forced by the majority of the PBSC to sacrifice his minister? We don’t know. In any case, the leader in charge of this case is CCP Central Discipline Inspection Secretary and BPSC member He Guoqiang, a close associate of Hu who was head of the CCP Organisation Department until 2007. Finally, this scandal underlines the lack of independence and the inefficiency of the CCP discipline inspection commissions (DICs), China’s main anti-graft organs. While this weakness is often criticised, especially among netizens, there is no indication that the Party leadership is ready to genuinely empower the DICs, for example, on the model of Hong Kong’s independent Commission Against Corruption (ICAC). As the transfer of the baton from Hu Jintao to Xi Jinping looms on the horizon, this is no time in the People’s Republic for daring political initiatives. Any decision related to CCP leaders’ corruption remains highly political.

The certainties and uncertainties of a well-planed succession

Likely to convene between September and November 2012, the 18th Party Congress will promote a new leadership (and especially Politburo Standing Committee, PBSC). The names of CCP leaders in charge of state organs will be confirmed in March 2013 when the NPC and the CPPCC convene. For the moment, only two top leaders are almost certain to be appointed: Xi Jinping as Party chief, Central Military Commission Chairman and PRC president, and Li Keqiang as Premier. However, it is not possible to entirely guarantee these future appointments; while there is no doubt about princeling Xi’s ascent to power (he is veteran reformist leader Xu Zhongxun’s son), there have been speculations regarding Li’s lack of competence or charisma (or both). It is true that his track record is not without weaknesses. For example, when he was Henan party secretary, he did not react swiftly enough to the spread of AIDS due to unsafe blood transfusions. Besides, Vice-Premier and princeling Wang Qishan, in charge of foreign economic and trade relations (and former vice-premier and PBSC member Yao Yilin’s son-in-law), has been perceived as a strong challenger in view of his ability to tackle complex economic and financial issues. However, Li has been Hu Jintao’s protégé for a long time: Hu had been unable to appoint him as his successor owing to Jiang Zemin’s opposition and will probably not allow him to be outmanoeuvred on the Premiership’s finishing line. Wang Qishan is likely to be promoted to the BPSC but in Li Keqiang’s current shoes (Vice-Premier).

A third princeling waiting in the offing is Bo Xilai, current Chongqing city Party secretary, former hardliner Politburo member and “Immortal” Bo Yibo’s son. Known for his success in bringing to toe (rather than dismantling) the local mafia and his promotion of old Maoist revolutionary songs, Bo has also tried to acquire additional popularity by turning to the fight against social inequalities—he has set targets to lower the Gini coefficient (a measurement of income disparity) in his city from 0.42 to 0.35 by 2015—and the building of subsidised housing into key political objectives before Beijing endorsed and adopted them. It is speculated that his ambition is to replace PBSC member and propaganda czar Li Changchun. Guangdong Party secretary Wang Yang (and Bo’s predecessor in Chongqing) is also demonstrating a political activism underscoring his expectation to be included in the PBSC. On the one hand, he has been the first provincial leader to gradually introduce collective labour negotiation mechanisms in enterprises; on the other hand, he is testing a more comprehensive
approach to social stability, for instance providing more social services to migrant workers and their families - a section of the population commonly perceived as prone to temptation from petty crime, violence and rebellion. However, it remains unclear whether he will succeed to Wu Bangguo as NPC chairman or get a more powerful portfolio (as CCP organisation or security chief).

Having said that, behind these personal ambitions, lie some genuine political differences. Of course, no potential Gorbachev can be identified among the likely future members of the PBSC. However, some leaders, such as arch-conservative but retiring Wu Bangguo, have shown a strong willingness to expand and consolidate the state sector to the detriment of private enterprises (guojin mintui) while others, such as Wang Qishan, have been open defenders of the latter, because of their vital contribution to employment. In 2010, 8.4 million jobs, or 74% of the total, were created by the private sector. But this sector is badly represented in the CCP Central Committee still dominated by ministers, provincial officials and SOE managers who all share similar vested interests. Other leaders, for instance Bo Xilai, privilege a highly political approach to law and order and are inclined to a certain degree of populism while others, for instance Wang Yang are more critical of the current prominence given to “rigid stability” as opposed to long term stability. Put in a different way, behind Wu’s attacks against multiparty democracy and “privatisation” that, in his eyes, has never taken place (!), there is a willingness on the part of many CCP leaders and cadres to defend their privileged economic and political status. Wen and perhaps Wang Qishan and Wang Yang have, on the contrary, shown a concern about the risks of political “immobilism” and a stronger determination to adapt, rather than just control. Having said that, under Hu the CCP leadership has been keener than ever to mask its divergences and appear united, in order to pre-empt any possible instrumentalisation of these divergences by the most active segments of society. It has forged a strong consensus on both maintaining strict social order and distributing larger benefits to segments of society which have not been able to benefit much from the reforms. It remains to be seen whether the next leadership will act otherwise.

**Policy Implications**

There are many reasons for both the current and future CCP leadership to focus on the domestic, economic and social situation. This does not mean that China will stop projecting its interests around the world and consolidating its great power status. It is likely to keep modernising its military at a fast pace – an ambition that PLA delegates at the NPC meeting have reiterated. However, the growing expectations and demands of Chinese society that have resulted from a global context that has seen political change occur in several developing countries will keep the Chinese government busier than in past years. Its willingness to rebalance the economy and stimulate consumption should be welcomed by the European Union since it may contribute to narrowing its trade deficit with China. Having said that, its intention to cool down the economy and clean up local governments’ financial deficit (and financial dependence on land sales) may slow down the flow of foreign direct investments. Similarly, the leadership’s willingness to maintain strong control over the major pillars of the economy and especially industry, as well as the slow progress of the rule of law, will probably continue to complicate European enterprises’ development in China. In any case, in the circumstances that are
taking shape in the country today, China is likely to be less assertive and nationalistic than in the past year, confirming the more cooperative diplomacy put forward by Hu Jintao when he visited the United States in January 2011. Finally, the March 2011 meeting of the NPC has confirmed that the Chinese parliament remains, if not a rubber stamp, at least an obedient loudspeaker, of the priorities and preoccupations of the CCP Nomenklatura.