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China sets out its future

By Wu Zhong, China Editor

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HONG KONG - Dull as the 18th National Congress of the Chinese Communist Party (CCP) may be, with its pre-fixed agenda, the party meeting that continues this week could still be said to be of epoch-making significance, both politically and economically.

On the political side, the 18th party congress symbolizes that the CCP and China have eventually walked out of the shadow of Deng Xiaoping. It is well known that outgoing President Hu Jintao, like his predecessor Jiang Zemin, was handpicked and pre-appointed by Deng Xiaoping. As such, it could be said Hu has ruled China under Deng's shadow for years even though the paramount leader passed away several years before he came to power.

Incoming Chinese leader Xi Jinping has no direct personal connection to Deng whatsoever and hence is not personally indebted to him. This may make it easier for him and CCP officials of his generation to review Deng's ideas and policies more objectively.

From this point of view, it may not be coincidental that before the 18th party congress, criticism of Deng began to surface in China. For example, Deng's policy of allowing some people to "become rich first" is now blamed for causing and ever-growing wealth gap. There are also calls to abandon Deng's pragmatic trial-and-error approach toward reform and opening up ("Crossing the river by touching rocks on the riverbed").

Some Chinese economists now argue that economic and financial reforms have already entered the "deep water zone" so it is no longer possible to touch any stepping stones. Therefore,

economic reform and opening up must be reoriented; they require new theories and cannot be deepened without accompanying political and social reforms.

Likewise, as tensions caused by territorial disputes in the East China Sea and South China Sea between China and Japan and some Southeast Asian countries intensify, Deng's diplomatic policy principles of *tao guang yang hui*" ("not to show off one's capability but to keep a low profile") and "shelving disputes and seeking joint development" are increasingly being questioned in China.

The farewell to Deng also marks a formal goodbye to the "communist revolution". Both Mao Zedong and Deng were leaders of the Chinese revolution in the last century. Once Hu Jintao is gone, the CCP's direct link to Deng is also ended. In this sense, Xi's coming to power truly marks the beginning of the post-Deng Era. Xi's declaration that the CCP is no longer a party of revolution but has become the ruling party of China shows he wants to draw a demarcation line. [1]

Xi is not handpicked by any single party heavyweight. He was chosen as a compromise of factional struggles. He does not need to remain loyal to any single person or single faction, making it easier for him to make changes, provided he wants to.

Economically, the 18th party congress also marks the end of the era in which China has had to rely for its economic growth primarily on foreign investment and trade. From now on, China will have to boost domestic consumption as the major stimulus for economic growth.

At the opening session of the congress, Hu delivered a keynote policy address - said to have been drafted by a group led by Xi Jinping. The report sets policy principles for the party and the government's works over the next five years.

The address sets the goals of doubling both China's gross domestic product (GDP) and people's incomes by 2020 compared with 2010. This is the first time the CCP has explicitly set a long-term growth goal for people's incomes and is apparently aimed at easing public discontent over the fact that personal income growth has fallen behind economic growth in most of the past three decades. Putting such political consideration aside, an increase of people's incomes is a must if economic growth is to double the country's GDP by 2020.

To achieve the GDP growth target, China must maintain an annual growth rate of about 7.5% over the next eight years. Given dramatic changes in the business environments both at home and abroad, it is impossible for China to rely on foreign trade to stimulate growth to the extent required by this 2020 target. Continued reliance for growth on a high rate of investment is equally problematic without an accumulation of an unsustainable debt burden. Hence, China will have to rely increasingly on domestic consumption to keep its economy growing.

Growth of exports will remain sluggish. At a press conference on the sidelines of the congress, Minister of Commerce Chen Deming admitted export growth this year would be less than 10%. Chinese economists generally expect consumption's contribution to GDP will exceed 55%, becoming the leading horse of the "troika" pulling the Chinese economy.

But to boost domestic consumption, people must have more money to spend. This explains, from an economic point of view, why the CCP for the first time sets a growth target for people's incomes. This is a direct and effective way to boost consumption.

According to the National Bureau of Statistics, China's GDP totaled 39.8 trillion yuan (US\$6.74 trillion) in 2010, up 10.3% from the previous year. Average per capita income for rural residents was 5,919 yuan, up 10.9% year on year; average per capita disposable income of urban residents was 19,109 yuan, up 7.8%.

If the ambitious GDP growth goal the CCP sets can be attained, then by 2020 China's GDP is expected to reach nearly 80 trillion yuan while rural and urban residents' per capita incomes will be 12,000 yuan and 40,000 yuan respectively.

China's population now is 1.35 billion, with about half being urban residents, as the so-called urbanization rate is expected to exceed 50% this year. Thus, disposable incomes of Chinese people totaled about 16.90 trillion yuan in 2010. Suppose the urbanization rate remains unchanged by 2020, though unlikely given the rapid moves to the cities, disposable incomes will already reach 33 trillion yuan, a sure signal of stronger consumption.

Other measures unveiled in the party policy address, such as wealth redistribution reforms including, establishment of a universal social security network and improvement to the medical insurance system, are designed to help boost domestic consumption.

The policy address stresses "achieving common prosperity" (instead of allowing some people to become rich first) so that "the fruits of development will be shared by the people". To do this, no effort will be spared to boost people's incomes by "deepening the [wealth] distribution system."

It is thus expected that the long awaited reform of the distribution system is to start after the congress. Outlines of the reform were unveiled last month, based on the principles of "increasing the incomes of low-income people, curbing excessively high incomes and to outlaw illegal incomes, so as to expand the middle income population."

The document sets a goal of building a universal social security network to cover the whole population and improving medical insurance system - another measure in favor of domestic consumption.

By setting the goal to double people's incomes, the CCP leadership is well aware that this means labor cost will rise rapidly. Hence industries dependent on cheap labor will be gradually eliminated. Beijing is aware that the country can no longer rely on labor-intensive production and trade to sustain high-speed growth.

But how to create new jobs when labor-intensive manufacturing industries are fading away becomes the principal new challenge. All this means a dramatic economic restructuring is under way.

Note:

1. Xi to guide CCP from revolution to rule, Asia Times Online, October 17, 2012.