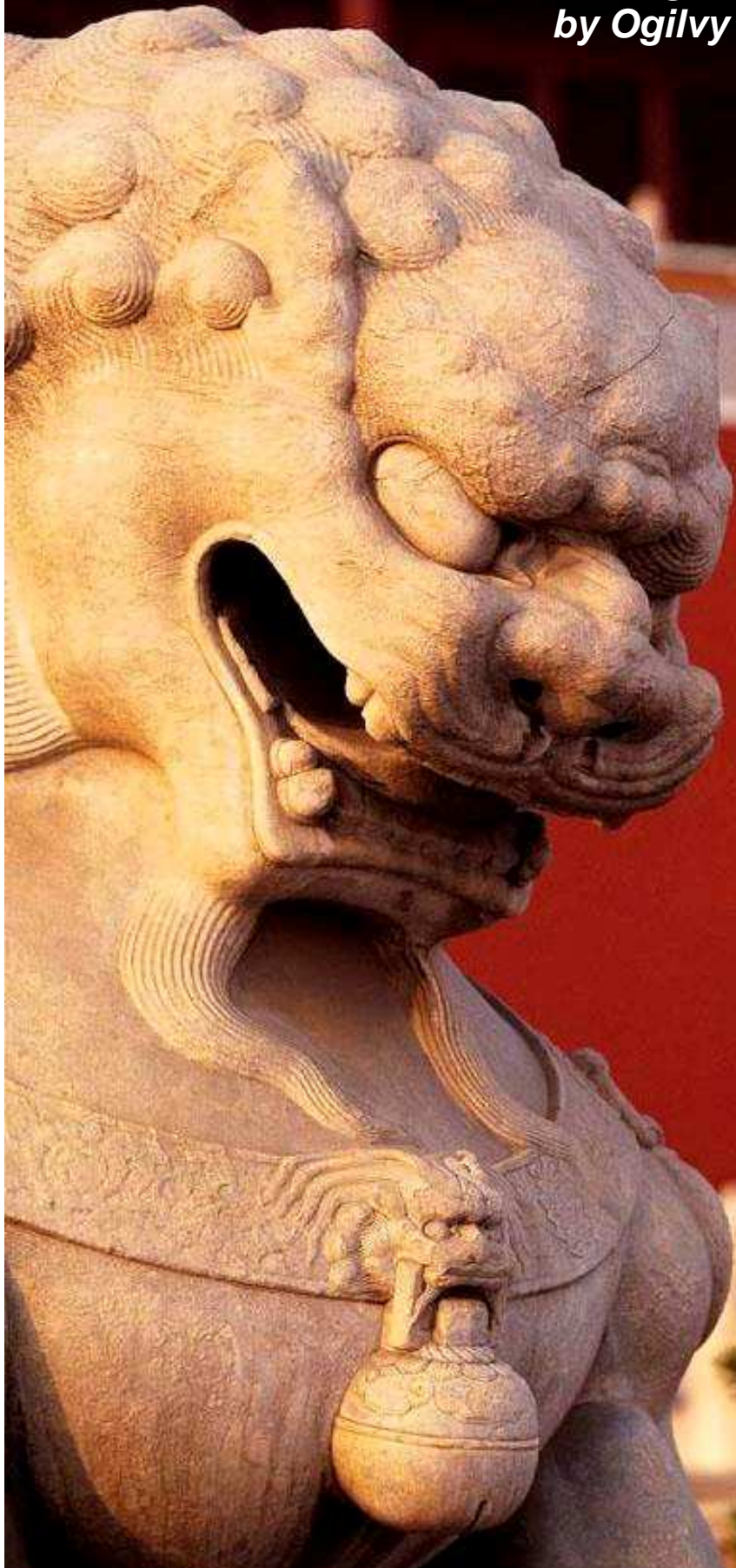


# Preview of 11<sup>th</sup> National People's Congress (NPC)

*Prognostications and Expectations  
by Ogilvy Public Relations Worldwide*

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## OVERVIEW

The National People's Congress begins its annual meeting this week, and interest in this year's session is extremely high. The 2987 lawmakers have arrived in Beijing along with a record number of foreign journalists. All are anticipating Premier

Government Working Report, which will focus on the economy and how the government can stimulate domestic investment. This report and the NPC's actions (this week and next) will map out China's economic course and prioritize social and political objectives. In addition, the previously announced RMB4 trillion stimulus plan will have profound implications for the international business community.

Early this week, the Chinese People's Political Consultative Conference will meet – this is the highest-level political advisory body. The NPC and CPPCC are referred to as the *Lianghui*, or the “Two Meetings.” During NPC meetings, Chinese leaders hold press conferences with foreign media, providing a rare opportunity for journalists to question key government leaders.

## GOVERNMENT WORKING REPORT

In January, Premier Wen visited Tianjin in the north and then met with party leaders on the east coast, including the Yangtze Delta, and in the south, in the Pearl River Delta – all areas hard-hit by the economic downturn. Other senior leaders visited Guangdong and Shenzhen, where they met with foreign companies heavily-invested in China.

Based on these regional visits, the Chinese Communist Party Political Bureau – the ultimate decision-making organ within the party – outlined its priorities for the Congress:

- Strengthen and improve macroeconomic control;
- Expand domestic demand, especially consumer demand;
- Consolidate and strengthen agricultural positions;
- Introduce the RMB4 trillion economic stimulus plan, and put forward industry rejuvenation strategies to boost ten key industries;
- Accelerate restructuring and innovation;
- Create social harmony and stability, and enhance social security.

We expect the following goals to be included in Premier Wen's report:

### I. “Securing 8” as 2009 economic target

In this upcoming session, Premier Wen will again announce China's primary economic goal for 2009 – securing 8% growth – and will outline the

government's plans for reaching this target. According to government data, GDP growth in 2008 was 2.02% lower than in 2007, and it is expected to slow another 2% in 2009. Last year, some experts believed that the economic slowdown was confined to eastern China and that central and western areas were relatively unaffected. But recent data indicates that the economic slowdown is a national issue.

Before the council's Economic Work Meeting, economists argued fiercely over predictions for China's economy: some said that growth would be V-shaped, in which the economy would recover quickly from the downturn; some predicted an L-shaped recovery, which would involve a long stretch of slow growth; and some predicted a W-shaped recovery with much more volatility. The general consensus overall, however, was fairly optimistic, and most researchers say that 8% growth is a reasonable target.

### II. Emphasis on “Maintaining Stability”

“Maintaining stability” will be a key phrase in Premier Wen's Working Report and a top priority for Chinese leadership. This year was a dramatic and tumultuous one, featuring the Beijing Olympics and the devastating earthquake in Sichuan. The impact of the financial turmoil and rising unemployment rates began creeping into the headlines towards the end of 2008, and this remains a major issue.

There are four major reasons for this:



1. The government urgently needs to curb rising unemployment. The contracting export industry has hurt China's foreign trade enterprises, resulting in millions of job losses. Employment stabilization is China's top economic priority. High unemployment rates may lead to social instability and that is not acceptable to government leaders.
2. There are a number of key anniversaries this year that the government would like to commemorate in a positive way. The concern is that unrest about the employment situation would disrupt celebrations surrounding the 60th anniversary of the birth of the People's Republic of China. The government has worked hard to create a favorable political atmosphere, and will not take kindly to unrest or negativity this year.
3. This year is also the 30th anniversary of China's reform and opening-up policy. Some academic critics believe that 2009 will mark the beginning of a downward spiral in China's economy and reflect badly on this special anniversary. The central authorities certainly do not want this kind of negative speculation to grow and intend to prove the strength and quality of their governance despite the economic situation.
4. There is a superstition in China that years with the number "nine" usually bring unrest and misfortune. In history, many significant events have happened in years ending in nine. This year marks the 20th anniversary of the Tiananmen Square incident, the 50th anniversary of the rebellion in Tibet, and the 90th anniversary of Youth Movement. Government leaders are hoping to make it through this sensitive year without any major incidents. With the theme of "maintaining stability," we expect that the government will pay closer attention to the treatment of minority groups and the improvement social security system for the masses.

### **III. Boosting Domestic Demand**

The Chinese Ministry of Commerce just announced that foreign direct investment (FDI) fell for the fourth consecutive month in January to US\$7.54 billion, a 32.6% drop compared to last year. Under these circumstances, the State Council decided to focus on growing the domestic market. In January, the State Council identified 10 key national industries and introduced investment

and stimulus policies to boost growth in those sectors. They include iron and steel, automobiles, shipbuilding, oil and petrochemicals, textile, light industrial products, non-ferrous metals, machinery and equipment manufacturing, electronics and information, and the logistics industry. One specific initiative includes consumer subsidies for rural families who buy electrical appliances or IT products, with dual goals of spurring demand and reducing the rural/urban wealth divide. There was some speculation that real estate would be included in the final industry plan, but sources say that logistics services were selected instead.

Though the government plans to support ailing companies by funding major projects, the State Council has made it clear that it would encourage mergers and acquisitions among domestic enterprises to create more competitive "national champions." Foreign-invested enterprises in major manufacturing industries should not be surprised if domestic players receive preferential treatment in 2009.

### **IV. "Unprecedented" Fiscal Deficit**

The Ministry of Finance (MOF) will submit a fiscal plan for 2009 with an RMB950 billion fiscal deficit, an amount far exceeding everyone's expectations. The MOF initially proposed a deficit of RMB280 billion, but this figure has changed given the situation and the government's commitment to aggressive fiscal policies "to the very end." The budget deficit would be the largest in China's modern history. In contrast, the fiscal deficit was below RMB300 billion during the 1998 Asian financial crisis. The 2009 budget will be debated as it is ultimately subject to NPC approval.





**V. Health Reform:**

The government has advanced new legislation designed to "accelerate the proliferation of basic medical insurance" that may lead to huge reforms in the commercial health insurance industry. The new plan will focus on extending basic medical care access to all citizens, while the commercial medical insurance industry will serve only as a market supplement. Under the new framework, the business environment for health insurance industry should remain unchanged. Mr. Li Kemu, Vice Chairman of China Insurance Regulatory Commission (CIRC), however, has emphasized that the development of commercial health insurance in China would be one of CIRC's priorities in 2009. "China welcomes influential foreign insurance companies entering the Chinese market, especially more specialized insurance companies," said Li.

**PERSONNEL CHANGES**

Another highlight of this NPC will be the administrative appointments. Although only minor changes are expected, these appointments will set the framework for major leadership changes in 2012, which marks the beginning of the next five-year political term in China.

Some senior appointments were announced just before the NPC. In January, Mr. Zhang Mao, Vice Minister of National Development & Reform Commission, was appointed as Party Secretary of Ministry of Health. Zhang, 55, an expert in macro control policy, will steer reform in China's healthcare sector. Another major move is the appointment of Mr. Xiao Yaqing, General Manager of Chinalco, for Vice Secretary General of the State Council. Xiao is distinguished for his international experience and his recent \$19.5 billion investment in Rio Tinto Ltd. His rocket-like promotion reflects China's global ambitions for outbound investment.

Other senior moves were the result of the volatile economic climate. Mr. Yu Guangzhou, Vice Minister of Commerce, was just appointed as Vice Party Secretary of Fujian Province. Mr. Gong Zheng, Vice Administrator of Chinese Customs, was appointed as the Vice Governor of Zhejiang Province. These two provinces have both suffered from slumping exports.

During the NPC session, we expect there will be some new appointments. According to insiders, Mr. Guo Shuqing, the Chairman of China Construction Bank Corporation, will replace Shang Fulin as the Chairman of China Securities Regulatory Commission. In addition, Mr. Tang Shuangling, the President of China Everbright Bank, will be appointed as the chairman of China Construction Bank Corporation. However, there will not be any major personnel change among middle- and high-level officials in either the China Banking Regulatory Commission or the China Insurance Regulatory Commission.

**NEW SEATING ARRANGEMENTS**

One interesting change at this NPC session will be the seating arrangements. In the past, deputies were seated by province and then by the number of Chinese calligraphy strokes in last names. As a result, some representatives always sat in the rear while others were seated up front. Those rules will be changed for this NPC. All of the representatives will be divided into five groups and each delegate will have the chance to sit in the front row for one year out of his or her five year term. This new seating arrangement is considered symbolic of an increased era of democracy and equality.

