



Ogilvy Public Relations Worldwide

3rd Plenary Session of 11th National People's Congress

Outcomes and Implications

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OVERVIEW

China's much anticipated Chinese People's Political Consultative Conference (CPPCC) and National People's Congress (NPC) came to a close yesterday, with clear guidelines that will direct the country's next phase of development.

As Premier Wen Jiabao presided over the heavily populated press conference, the messages communicated throughout the two meetings were clear. Naturally, economic growth, the budget, the environment and broader social stability initiatives were discussed. At these meetings what is communicated and not communicated are often equally important.

Ogilvy Public Affairs team in China has followed the news and discussion coming out of the two meetings and is pleased to provide you with highlights in the following paper. This report is a compilation of what has been written in the English and Chinese press, as well as a collection of comments from people in the know who watched the sessions closely. We are more than happy to discuss these issues and more for those who are interested.

GOVERNMENT WORK REPORT

1. "8% GDP growth": One Repeated Phrase With Different Meanings

Chinese Premier Wen chose the lucky number "8" as the target for China's economic growth during the opening of the National People's Congress. This was not a surprise, and the fifth year in a row the government has picked the number, which means "Get Rich" in Chinese. While he warned that China faces a "crucial year", the double challenge of holding off inflation while boosting consumer demand, we believe the number's significance extends well beyond its scope as a growth target.

In his Government Work Report, Wen stated that this year will be challenging. Although China's massive stimulus plan reversed a deep growth slump last year, the recovery has not yet stabilized. Millions of university graduates still do not have jobs and millions more will hit the job market soon. Above all else China wants to keep the urban unemployment rate under 4.6% in 2010. China has learned that its growth model – largely backed up by state investment – is not enough.

Setting the growth target at 8% - slightly lower than last year's actual growth rate and 1% lower than the IMF's 2010 forecast – demonstrates that China is serious about building an economy that is driven by quality development rather than state-backed stimulus alone. Accordingly, we have seen the government shift its priorities by curbing overheated sectors such as property, managing financial risks, tightening bank lending, and intensifying sustainable development.

Premier Wen's 8% target represents the government's best calculations – it is theoretically the minimum to create enough jobs to maintain social stability without risking inflation or a huge government spending program that does not truly contribute to economic health.

To parallel the 8% target, the government has also set 2010's CPI (consumer price index) at 3%, a full percentage point lower than that of last year. This could be interpreted as optimism that inflation will remain under control, or it could simply indicate that the government intends to do whatever is necessary to prevent the economy from overheating.



2. What Does the Budget Say?

The government report indicates that China plans to run a fiscal deficit of RMB 1.05 trillion in 2010, or 2.8% of GDP – that is 0.6% increase from 2009, the highest in six decades. The increase is an extension of China's proactive fiscal policy, which was proposed last year during China's Central Economic Work Conference. This clearly indicates that China will not step away from its stimulus plan in the near future.

Premier Wen stated that the government will continue to invest in the economy as it is the "most active, direct and efficient way" to expand domestic demand. He also highlighted "projects now under construction", "economic reforms", "people's well-being" and "social stability".

A breakdown of the budget shows that China will spend more on the following areas in 2010: land, resources and meteorology (RMB 33.625 billion, an increase of 37.6%), environmental protection (RMB 141.288 billion, an increase of 22.7%), commerce and services (RMB 85.258 billion, an increase of 38%), education (RMB 215.99 billion, an increase of 9% from 2009), social security and employment (RMB 358.225 billion, an increase of 8.7%), and medical and health care (RMB 11.204 billion, an increase of 8.8%).

We see the surge in spending focused on the service industry as significant – it is an indication that China will concentrate on expanding domestic demand and boosting consumption. In addition, employment will be a key priority.

3. An Emerging Trend: Low Carbon Economy

This year's sessions reflected a real effort to reduce the carbon footprint of China's lawmakers. For the first time delegates arrived at the People's Great Hall on Tiananmen Square in buses instead of their private cars. Some local delegates were even more environmentally conscious, and biked to the venue – a first in China where lawmakers often flaunt their fancy cars. There were other "green touches." The NPC used degradable calcium carbon paper, also known as "stone paper".

On March 3rd, the CPPCC National Committee, China's top advisory body, formally proposed a "low-carbon economy" agenda for the country, by promoting low-carbon technology and supporting emerging industries while reinventing the model of China's economic development.



Several days later Premier Wen mentioned the phrase "low-carbon" economy repeatedly in his work report. He said that China will build an "industrial system" and "consumption pattern" with low carbon emissions and the 12th Five Year Plan will include concrete low-carbon targets. We see this as a clear indication that the government considers the low-carbon approach as the key engine of China's economic development.



On March 11th, the powerful National Development and Reform Commission disclosed that “advisory opinions on developing low-carbon economy” will soon be published with priorities placed on two areas: small-scale pilot programs on carbon trading and the development of emerging industries and the transformation of traditional industries. According to Bloomberg News, China may establish its first carbon trading system in Tianjin as early as June.

As China quickly moves towards a “low-carbon economy” agenda, companies in industries ranging from environmental protection, energy conservation, emission reduction and clean energy should take note. Those who can align themselves with this focus will be well-positioned to do well.



4. Social Issues – beyond the rhetoric

As predicted, lawmakers reviewed a myriad of social issues during the two sessions. But to what extent will the talk translate into real policies that affect people’s lives and the complex business landscape in China?

4.1 Income Distribution

Income inequality in China is at its worst since the 1970s: per-capita income in cities last year was RMB 17,175 (US\$ 2,500) – more than triple the rural level; in urban areas there is also a growing income disparity between white and blue-collar workers. The growing income gap is a key concern in China and has been a major focus of this year’s meetings; the word “income” appeared a record 28 times during Wen Jiabao’s opening “state of the nation” address.

Behind this posturing are some concrete measures: one step involves raising farmers’ income by increasing the state’s minimum-purchase price of farm produce; another will force greater scrutiny of China’s monopolies, such as state-owned utilities, whose employee benefits end up supporting middle-income residents but providing nothing for low-income Chinese.

The challenges and opportunities that will emerge as increasing incomes create new consumer groups are factors we have stressed in the past. However, companies operating in China must also now be aware of new government policies that will affect how they manage their employees. New labor laws this year, for example, may strengthen inspection of minimum wages and require companies to set up salary negotiation mechanisms.

4.2 Hukou Reform

Reforming China’s onerous hukou, or home registration system, has been in discussion for some time but remains a highly-sensitive subject. Zhang Hong, editor of the Economic Observer, was fired two weeks ago, just days after his newspaper, along with 12 others, published an editorial calling for hukou reform. The system requires that Chinese residents receive social benefits in the town in which they were born, even if they have relocated to another city.

While adding some color to the sidelines of this year's meetings, this incident should not be seen as official reluctance to move ahead with hukou reform. On the contrary, the government has promised to ease restrictions, as expected, in medium and small cities and towns, allowing residents to register – and therefore receive public services – in the places that they live and work. This is good news for China's 200 million migrants and, in turn, China's economy, as these workers will save less and spend more.



4.3 Employment

While millions of university graduates remain unemployed, newspaper headlines announce labor shortages in the south. This labor quandary was a key focus last week. "We need further analysis on the reported 'labor shortage'," said Vice Minister of Agriculture Wei Chao'an during a press conference. "On one hand, it is difficult for enterprises in coastal areas to recruit enough workers this year. And on the other, it is difficult for the countryside to transfer its redundant laborers to cities for employment."

This may be one reason why no drastic new measures have been promised this year. Despite the lack of measures, however, the government will follow through on its promise to support the job market. On March 5th, the government announced RMB 43.3 billion (US\$6.34 billion) in employment measures that will focus on training rural workers and creating new job opportunities.

4.4 Housing

Real estate prices in China are skyrocketing and the issue is becoming heated. In February, prices increased at the fastest pace in almost two years, with prices in 70 major cities increasing by almost 11%, according to the National Bureau of Statistics.

Delegates this year discussed the property market, but did not make any major announcements on government measures to address the issue. China is in a difficult position: it knows that the property investments responsible for putting house ownership beyond the reach of many are also a major part of the economy, contributing to about 10% of China's GDP.

At the same time, Housing Minister Jiang Weixin insisted that affordable housing will be a big focus this year and that the government will spend RMB 63.2 billion for low-income housing, an increase of RMB 8.1 billion from last year.





4.5 Medical Care

Healthcare reform continues in China as the government's ambitious plan enters its second year. The goals are massive – providing health insurance for all, improving access in rural areas and reforming inefficient public hospitals. Lawmakers know that a better healthcare system will mean China's consumers have more money to spend on other things, creating disposable income that would otherwise be saved for medical bills. As part of this year's government pledge to spend RMB 11.204 billion on healthcare, for example, annual government subsidies for basic medical insurance will rise to RMB 120 per person, up 50% from last year.

Most interesting, perhaps, is a single sentence in the government work report which indicates that the government will allow public health insurance to be used at private hospitals. While concrete policies are yet to be enacted, this could be a huge boost for private healthcare in China, one which will provide excellent opportunities for companies in the healthcare sector.

4.6 Education

Spending on education will increase to 4% of the country's GDP by 2012, according to government leaders. China will focus on five areas: advancing education reform, promoting the balanced development of compulsory education, strengthening vocational education, reforming the management and admissions systems of institutions of higher learning, and improving the quality of teachers.

There is nothing new here, as many observers have noted, yet closer inspection of the first point's explanation reveals a potential policy shift. "The government," reads a single sentence, "will encourage social forces to contribute to education." Again, just like in healthcare, this may indicate greater opportunities for private sector involvement in China's education, a sector which has traditionally been among the most rigorously controlled by government.

SUMMARY

In summary, expect ongoing discussion about China's environmental reform. The mere fact that the first question asked of Premier Wen was related to his 60 hours in Copenhagen is testament to this. Many of our clients have begun to conduct environmental audits and they are working on their own operational and communications plans related to their environmental policies and activities. Education is another area in which many of our clients are engaged. Finding a differentiated way to participate in China's education reform is sure to win favor. Engagement with the right parties, however, is essential. Finally, watch the healthcare sector.

There will be evolving opportunities in healthcare for companies that directly and indirectly are involved. Providing benefits for the masses is the issue that appears to provide the greatest risk and opportunities. There are issues more political in nature that will define this year's plan: policies related to currency, trade relations beyond the currency, Tibet, Xinjiang and Taiwan. News of these issues and more, as China accelerates its global outreach and branding focus are certain to keep China at the forefront of global economic and political discussion. This year is guaranteed to be as exciting as any of the previous years. We hope to be your partner as we work together with you to make China make sense.

