

# An Overview of the China's Two Meetings in 2013 and the Views of the Chinese Economic Policy

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## 1. Two Meetings, 2013: Overview

The Two Meetings,<sup>1</sup> by far the most significant political event in China, was held from March 3 through March 17, 2013, at the Great Hall of the People in Beijing. The 2013 Two Meetings sought to publicize the aims and objectives of the new economic policy under the new Xi Jinping administration. It also gave way to deliberations on organizational matters that involve the national chairmanship, the ap-

pointments to the State Council, and the overhaul of the government organization. At the National People's Congress, in particular, the Chinese government outlined a series of major policy objectives and drafts, including: the Report on the Work of Government<sup>2</sup>, the Report on the Implementation of the 2012 Plan, the 2013 Draft Plan for National Economic and Social Development<sup>3</sup>, along with the Report on the Implementation of Central and Local Budgets in 2012 and on the Draft Central and Local Budgets for 2013.<sup>4</sup>

<sup>1</sup> "Two Meetings" is the term that refers to the meetings organized by the National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC).

<sup>2</sup> State Council.

<sup>3</sup> National Development and Reform Commission (NDRC).

<sup>4</sup> Ministry of Finance.

In the Report on the Work of Government<sup>5</sup> he presented on March 5, Premier Wen Jiabao rendered an assessment of the core tasks the Chinese government performed over the last five years, and articulated the tasks facing the new leadership, including the targets and goals of economic and social development waiting to be achieved in 2013. Chairman Zhang Ping of the NRDC also presented the 2013 Draft Plan for National Economic and Social Development, going further than Premier Wen in listing economic and social policy goals to be achieved with greater specificity. Minister Xie Xuren of Finance briefed the audience on the implementation of the 2012 budgets and the draft budgets for 2013 in his Report on the 2013 Draft Central and Local Budgets.

## 2. Summary of the Report on the Work of Government

### A. Assessment of the Government's Record over the Last Five Years (2008–2012)

Premier Wen made a favorable assessment of the Chinese economy overall, arguing that it managed to grow despite the worldwide economic recession over the last five years. The dramatic growth of the gross domestic product (from CNY 26.6 trillion to CNY 51.9 trillion) has made China the second-largest economy in the world. The government revenue increased concomitantly (from CNY 5.1

trillion to CNY 11.7 trillion), with 58.7 million new jobs created and the income levels for city dwellers and rural villagers raised by 8.8% and 9.9%, respectively. The smooth transition from the 11<sup>th</sup> Five-Year Plan (2006–2010) to the 12<sup>th</sup> (2011–2015) was also praised for consolidating a Chinese variety of socialism. Premier Wen concluded his presentation by pointing to stable and fast economic growth as the highest priority task of the new leadership, and to the successful transition to a new mode of economic development as an equally important task.

### B. Economic Issues of 2013

Premier Wen, in fact, listed four major tasks to be achieved by the new leadership in 2013: namely, (1) accelerating the change of the growth model and promoting sustained and sound economic development; (2) strengthening the foundation for agriculture and rural development and promoting integrated urban and rural development; (3) giving high priority to ensuring and improving people's wellbeing and comprehensively improving their material and cultural lives; and (4) Deepening reform and opening up with greater political courage and vision. Whereas the primary emphasis was on continuing stable and fast economic growth in 2012, the focus shifted in 2013 to the transition to a new mode of economic development and to ensuring sustainable growth.

The National Development and Reform Commission further specified the ten tasks to be served by the new leadership for economic and social development in 2013. The Report on the Draft Plan for National Economic and Social Development particularly emphasized the need to secure and improve the minimum conditions of living, and the importance of advancing the industrial structure.

<sup>5</sup> The premier of the State Council presents this report at the commencement of the National People's Congress each year, providing an assessment of the government's work over the preceding year and briefing the audience on the tasks to be achieved by the government in the current year. The 2013 report drew attention, however, with its evaluation of the government's performance over the last five years, as well as its overview of the goals to be achieved in the future.

## C. Major Macroeconomic Policy Goals of 2013

### 1) Major Economic Goals

The Two Meetings stressed the need to maintain the annual economic growth rate of 7.5% from 2012 to 2013, indicating that the new leadership's priority should be on ensuring the stability of the Chinese economy notwithstanding the continuing worldwide economic recession and the growing uncertainties re-

garding the future. High on the priority list for China's new macroeconomic policy is thus stabilizing the prices of consumer goods, with the inflation rate to be lowered to 3.5%, which is even lower than the target of 4% set in 2012. Other important goals also included creating over nine million new jobs in urban areas and keeping the official urban unemployment rate at 4.6% or below, the same as the targets set last year.

**Table 1. China's Economic Performance and Plan, 2012–2013: Main Indicators**

Indicator	2012		2013
	Target	Outcome	Target
GDP growth rate (%)	7.5	7.8	7.5
Consumer price inflation rate (%)	4	2.6	3.5
M2 increase rate (%)	14	13.8	13
Financial deficit (in CNY 100M)	8,000	8,000	12,000
New urban jobs (in millions)	9	12.66	9
Official urban unemployment rate (%)	4.6	4.1	4.6
Fixed asset investment increase rate (%)	16	20.3	18
Retail sale increase rate (%)	14.0	14.3	14.5
Trade growth rate (%)	10	6.2	8
Urbanization rate (%)	52.0	52.57	53.7

Source: The Report on the Work of Government and the Report on the Draft Plan for National Economic and Social Development, 2013.

### 2) Macroeconomic Policy Aims

At the recent NPC, the Chinese government put forward a proactive fiscal policy and a prudent monetary policy as the two main pillars of its macroeconomic framework, indicating that it would make use of these two pillars in a selective and flexible manner. At the core of a proactive fiscal policy is increasing the deficit spending on improving the living conditions for the public and reforming the economic structure. The Report on the 2013 Draft Central and Local Budgets from the Ministry of Finance stipulates the overall

revenue and expenditure of China in 2013 to amount to CNY 12.763 trillion and CNY 13.963 trillion, respectively. The deficit, projected to be CNY 1.2 trillion in 2013, has increased by 50% from the CNY 800 billion of 2012. The Chinese government will also actively seek to promote the readjustment of the economic structure, the improvement of living conditions for the public, and the transition to a new mode of economic development by reforming its tax system and lowering taxes.

A prudent monetary policy aims to ensure

the stability and consistency of China's economic growth by keeping inflation in control and managing financial risks. Accordingly, the target M2 increase rate has been lowered from 14% in 2012 to 13% in 2013, with the rational distribution of financial resources and the effective management of financial risks emerging as new central objectives. Measures will thus be implemented to restrain financial institutions from providing indiscriminate and excessive credit loans, while also strengthening the regulation and supervision of those institutions.

### 3. Reorganizing the Government

The latest Two Meetings also paved the way to the release of a major plan for government reorganization, and completed the list of appointments to the State Council to lead the Fifth Generation Leadership.

#### A. Government Reorganization

The NPC passed the Draft Decision on the Organizational and Functional Reforms of the State Council,<sup>6</sup> responding to the call for the reorganization of the government departments so as to improve the efficiency and system of governance. Accordingly, the Ministry of Railways, the Ministry of Health, and the National Population and Family Planning Commission (NPFPC) were abolished, while the new National Health and Family Planning Commission was created, thus bringing down the number of government departments from 27 to 25. The Ministry of Railways was closed down in order to bring an end to the problems of monopoly that were wielded under the ministry. The authority over the railway policy has thus been transferred to the

Ministry of Transportation, while the authority over railway development was transferred to the China Railway Corporation that has been newly created. The Ministry of Health and the Family Planning Commission were combined and reborn as a single National Health and Family Planning Commission as part of the attempts to reorganize the national population policy. In the meantime, the China Food and Drug Administration has come into being, integrating the functions that have been so far divided among the Ministries of Health, Agriculture, and Commerce, as well as the General Administration of Quality Supervision, Inspection, and Quarantine, to ensure a more efficient administration and supervision of food and drugs.

While the original aim was to downsize the government radically by abolishing nine of the 27 departments and shrinking the scope of authority of the NRDC over economic policy, the resulting resolution did not live up to the rigorous ideal, defeated by the turf war among the departments.

#### B. New Appointments

The Two Meetings officiated the dawn of the Xi-Li era, led by President Xi Jinping and Premier Li Keqiang, with all the key figures of the Fifth Generation Leadership appointed to the State Council. On March 14, Xi was elected as the National Chairman and the Chairman of the Central Military Commission, thereby consolidating his position as the country's top decision-maker with authorities encompassing the Party, the government, and the military. The next day, Li was appointed as premier of the State Council. The Two Meetings also saw the appointments of four vice-premiers and five members to the State Council. At the same time, 16 of 25 cabinet ministers were also re-appointed, signifying

<sup>6</sup> 国务院机构改革和职能转变方案的决定(草案).

the new leadership's greater emphasis on stability than change.

## 4. Implications for Korea

The NPC Report on the Work of Government overall emphasizes the need to promote reforms within the boundaries imposed by the goal of stability. In other words, the chief objective of the new Chinese leadership is to achieve stable growth. The Chinese government will continue to pursue economic growth, while also attempting to shift to a new mode of economic development. With the new leadership thus poised to embrace a moderate change in the development model, stress structural readjustment, and pursue the given plan of reforms, China will enter a middle-growth period with its economy growing at a rate of 7 to 8 % annually. The Korean government and businesses need to develop strategies in response to the anticipated changes in China.

### A. Responding to the Growing Domestic Demand in China

The Chinese government is expected to induce greater consumption by increasing the income levels for the poor, the working class, and the peasant class, while also expanding the range of social security benefits it provides. The consumption-oriented policy presents both opportunities and threats for Korean companies, which need to respond to the situation with careful tactics. The growing consumption in China buttressed by rising wage levels and increasing social benefits may exert a pressure on Korean companies by increasing their costs of production in China and also by intensifying the level of competition between Korean companies and their Chinese rivals. Nevertheless, despite the government's efforts to stimulate the domestic

market growth, the Chinese economy will continue to grow significantly over the next couple of years. Korean businesses thus need to take advantage of the greater incentives provided by the 12<sup>th</sup> Five-Year Plan.

### B. Seizing New Opportunities amid the Expansion of Local and Industrial Projects

The new balanced-growth strategy of China is shifting the center of attention from the coastal regions to the central-western region. The Chinese government is also expected to announce its Urbanization and Development Plan<sup>7</sup> early in 2013. In light of the growing emphasis on the development of regions outside the traditionally urban areas, Korean companies need to enhance their ties to local governments. Furthermore, the Guiding Opinion on Promoting the Fast Implementation of the Structural Readjustment of Central Industries<sup>8</sup> is anticipated to reform the structures of the nine major industries in favor of large conglomerates. While the Opinion is likely to intensify the competition between Chinese companies and their Korean rivals over information technology, automobile manufacturing, shipbuilding, and steel production, Korean companies can still make a wise use of the new policy and increase their exports to China in turn.

### C. Finding Opportunities in the Changing Policy

The Korean government needs to fine-tune economic cooperation with China in the following ways based on the expected changes in the Chinese economic policy. First, Korean companies need to consider increasing cooperation with resource-saving and eco-friendly industries in China and increase their shares of the respective service markets. Second,

<sup>7</sup> 中国城镇化发展规划

<sup>8</sup> 关于加快推进重点行业企业兼并重组的指导意见

Korean companies may also enter the burgeoning markets for the development of social overhead capital, public housing, and other related products and services supported by China's pursuit of urbanization. Third, Korean companies need to develop plans to manage the contraction of the processing trade and the concomitant expansion of the Chinese domestic consumer market likely to follow from the advancement of China's industrial structure, the improvement of the quality of its exports, the greater focus on trade balancing, and the new policy seeking to stimulate domestic consumption.

#### **D. Expanding Korea-China Economic Cooperation with the New Chinese Leadership**

Greater efforts are called for to improve Korean businesses' access to the Chinese consumer market and to expedite the conclusion of the FTA negotiations with China. China plans to open up an ever-widening range of its

service industries to the international economy in order to improve the quality of services in finance, logistics, outsourcing, education, and so forth. This, in turn, requires Korean businesses investing in China to shift their focus from products and manufacturing to services and service industries. Accordingly, the Korean government needs to investigate the successes and failures of Korean service providers already operating in China, and identify obstacles to other Korean service providers' access to the Chinese service sector, thus providing the support that Korean businesses will need in the future.

GDP for the last 20 years, which is 30%, then the value to consumers of the increased variety is in the range of 8.3% and 21.7% of GDP in 2011, or roughly USD 93–243 billion, depending on the estimates of elasticities of substitution. This sum represents what Korean consumers are willing to pay for the access to the expanded set of varieties available in 2011. **KIEP**