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China Targets Economic Stimulus

Social-Services Spending Seen Bolstering Consumers Strained by Global Downturn

By [ANDREW BATSON](#)

BEIJING -- The annual meeting of China's parliament, which begins Thursday, will reveal how far Beijing will go to support families hit by the economic downturn and to boost the nation's consumer spending.

The policies rolled out at the National People's Congress session will be watched by the U.S. and other countries that want China to help the global economy by awakening the spending power of its vast population. To do that, economists say, Beijing needs to invest more in health care, education and social welfare, so people have the confidence to spend, instead of adding to savings.

China, the world's third-largest economy after the U.S. and Japan, has seen its growth slow sharply in the past year, but its trade surplus remains high. China's trading partners hope the country will import more.

Despite the limited power of the legislature, its annual session is China's political event of the year, where major policies are discussed and announced. Expectations are high that Premier Wen Jiabao and other officials will make substantial new commitments to social programs.

"China has the resources to reinvigorate and reorient its economy," said Eswar Prasad, a professor at Cornell University and former head of the International Monetary Fund's China division. Announcing an "ambitious agenda" of higher social spending would reassure Chinese consumers, offsetting some uncertainty the crisis has brought, he said.

"This could also have a broader payoff for China in the international arena by providing support to global demand, rather than just relying on demand in the rest of the world to help the recovery of Chinese growth," Mr. Prasad said.

The government has already announced a major stimulus package aimed mainly at boosting

spending on infrastructure and construction. Currently, 1% of the stimulus is allocated to health care and education spending and 7% to public housing, with the rest going to corporate subsidies and infrastructure.

"The original stimulus plan was heavily focused on investment and infrastructure. There needs to be some adjustment in the structure," said Zhuang Jian, an economist with the Asian Development Bank. "Excess investment, particularly in heavy industry and manufacturing, could cause problems if there isn't strong consumption to match it."

Greater spending on social services would not only cushion the blow to Chinese families who have lost jobs and income, some economists say, but also lay a foundation for growth. Chinese households save more than a quarter of their income -- one of the highest rates of any major economy -- but could spend more if assured of government support for old age as well as lower education and medical costs.

"Consumption is not based on slogans, but on whether consumers really have money in their pockets," Mr. Wen, the premier, said Saturday in a rare online exchange with Chinese citizens, promising that "peoples' livelihoods will definitely be the top priority for government spending." He conceded the government has not yet done enough to improve health care -- the target for an 850 billion yuan (\$124 billion) overhaul announced in January. The government should also encourage workers who have lost their jobs to start their own businesses by offering tax incentives and training opportunities, Mr. Wen said.

How the government follows through on those promises is the question. Although social spending remains low, under the current administration it has risen to 5.8% of gross domestic product in 2007 from 5% in 2004. But with tens of millions already jobless, and the economy likely to get worse this year before it gets better, many observers say China has reached a turning point that requires a big move.

"We are now facing a choice: Do we increase public spending on security and the police, or on social benefits?" asked Lu Mai, secretary-general of the China Development Research Foundation.

Mr. Lu's organization published a report last week estimating that the government needs to spend 2.6 trillion yuan by 2012 to roll out the first phase of a social safety net that would cover all Chinese citizens. A further 5.74 trillion yuan is required by 2020 to complete the improvement of health care, education, pensions for the elderly, low-income housing, disability benefits, unemployment protections and welfare for the poorest.

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