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China to pass first private property law

By Richard McGregor and Andrew Yeh in Beijing

The Chinese parliament is expected to pass China's first law to protect property rights after a contentious, year-long debate marked by traditional ideological divisions about the role of the private economy under communist rule.

The annual session of the National People's Congress opens on Sunday with the delivery of the so-called "work report" by Wen Jiabao, the premier, outlining this year's budget and legislative programme.

Although it does not function like a fractious parliament in a western democracy, the NPC can act as a forum for delegates to publicise their views, mainly on economic and environmental issues.

The property law was delayed last year by a dispute between academics and officials over its balancing of state and private rights. Critics of the law, including hundreds of retired officials, have continued to press their opposition, circulating a new petition recently saying the law "overturned the basic system of socialism".

"The property law has revoked the rule that public property is sovereign and ... castrated the spirit of the constitution that distinguishes legal from illegal private assets," the petition said.

Yin Tian, a professor at Peking University who helped draft the law, said there was "no doubt" it would be approved in this year's session. "The critics are actually opposing China's overall reform and opening up. They don't belong to the mainstream," he said. "The establishment of property law is aimed at solving the problem of protecting the private assets of ordinary citizens."

The second major piece of legislation, a law to equalise the corporate tax rates of local and foreign companies, is less contentious, but an important symbol of the declining importance of foreign investment in China.

The government focus otherwise at the NPC will be on measures aimed at giving practical effect to the centrepiece of its political programme – to reduce the rising rich-poor gap by lifting rural incomes and increasing social spending, especially on health and education.

"The general trend is for more spending on social issues," said He Fan, an economist with the Chinese Academy of Social Sciences in Beijing. The results of some of the key programmes – launched under the previous administration but given greater emphasis by President Hu Jintao – have so far been patchy.

A senior government official said on Thursday that China's seven-year effort to develop its impoverished west has been hindered most by a shortage of investment capital and skilled workers.

Despite central government incentives to spur growth under the "Go West" plan, utilised foreign direct investment in western China had fallen from 4.5 per cent of the total in 2000 to 3 per cent this year.

Beijing's admission of persistent problems in the west, in stark contrast to transformation of the coastal region, is evidence that little progress has been made there to develop key industries or lift residents out of poverty.

"Even though we are all working hard at this, at present it seems we still have not accomplished these tasks," said Cao Yushu, a key policymaker for western China.

Wang Jinxiang, vice minister of the National Development and Reform Commission, said the government was trying to spur investment in a few sectors: energy and chemicals, mining, agricultural products, equipment manufacturing, high-technology, and tourism and culture.

The ideal scenario, he said, would be for foreign and domestic companies to consider improving conditions for locals while making large–scale investments, as Sinopec, the state-owned energy giant, had done in the north-west region of Xinjiang by repairing roads.

China's west is roughly defined as the vast expanse of territory that includes a dozen or so provinces, autonomous regions and major cities. Only a few large cities, such as Chongqing and Chengdu, have been quick to modernise.

Beijing's decision to invest public funds to combat the rich-poor gap has also divided officials and academics along lines similar to the ideological split over the property law. "Spending money alone does not solve the problem," said one Beijing-based economist, who declined to be named. "We need to spend more money, but we also need to liberalise these sectors, like health and education, because they are all dominated by the state, and the barriers to entry are too high."

The NPC is due to conclude on March 16 with a press conference with Mr Wen, the only occasion of the year when a senior Chinese leader opens himself, in a tightly managed forum, to the local and foreign media on live television.