China's Wen warns of slower growth

By Jamil Anderlini in Beijing

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China's premier has warned that growth will slow this year in the world's second-largest economy as the government seeks to overhaul the country's "unbalanced, uncoordinated and unsustainable" development model.

Wen Jiabao, who is scheduled to step down as premier during this year's Chinese leadership transition, said the government had set a target for gross domestic product growth this year of 7.5 per cent, the first time since 2004 that the annual target has dropped below 8 per cent.

"China's economy is encountering new problems; there is downward pressure on economic growth and prices remain high," Mr Wen said in a speech to the annual opening ceremony of China's rubber-stamp parliament on Monday. "Internationally, the road to global economic recovery will be tortuous, the global financial crisis is still evolving and some countries will find it hard to ease the sovereign debt crisis any time soon."

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Concern over the continuing economic woes in Europe and the US, China's two largest export markets, were reflected in the government's target to increase total trade by just 10 per cent this year, compared with last year's increase of 22.5 per cent.

The targets set by the government each year are usually very conservative, allowing them to be exceeded comfortably, but they are regarded as a useful indicator of Beijing's economic intentions.

As China gears up for a once-in-a-decade leadership transition later this year, when most of the ruling Communist party's top officials will be replaced, the government has made structural reforms its top priority.

"Expanding domestic demand, particularly consumer demand, which is essential to ensuring China's long-term, steady and robust economic development, is the focus of our economic work this year," Mr Wen said.

That marked a distinct shift in emphasis from last year, when Mr Wen said curbing persistently high inflation was the key economic policy for 2011.

After peaking at an annual rate of 6.5 per cent in July last year, inflation has since moderated and is no longer the main worry for Chinese policymakers.

Instead, reducing the country's reliance on exports and high levels of investment is seen as the key to maintaining the very high growth rates China become accustomed to over the past three decades.