

# China Politics Weekly

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The core message of China's official media is always: "The leaders are working hard." This week, that appeared to be true and then some. We saw the first meeting of the Leading Small Group on Deepening Reform, a Politburo meeting at which Xi was named chairman of the National Security Commission, a nationwide Mass Line Campaign meeting (followed by more meetings to talk about the meeting), executive and full meetings of the State Council, and a meeting of NPC delegates.

With so much going on, the newsletter is a bit long this week. My apologies.

## Rectify...

Phase two of the Mass Line Campaign kicked off on Monday with a nationwide meeting (attended by videoconference by provincial Party members) at which Xi reviewed the first phase and laid out priorities for the coming year. The next phase of the campaign will focus more on improving working styles at the local level.

Unlike the party rectification campaigns undertaken by Hu Jintao and Jiang Zemin, Xi's campaign appears to be about more than just consolidating power; it also seems to be a sincere attempt to promote better governance and improve the Party's legitimacy.

Legitimacy might be harder to come by if (when?) it becomes more widely known that [Xi and other top leaders' families are stashing billions of dollars in offshore tax havens](#). Unsurprisingly, the story has received no media coverage within China to date.

## ...and reform.

Xi will need dedicated and competent officials if he hopes to realize the ambitious reform agenda laid out at the Third Plenum. The newly-formed Leading Small Group on Deepening Reform- which met for the first time on Tuesday- is staffed with political heavyweights. The 23-member group is composed of four PBSC members (Xi, Li, Liu Yunshan and Zhang Gaoli) and every Beijing-based Politburo member save two (one of whom is Vice President Li Yuanchao, who increasingly appears to be the big loser of 2012's leadership transition). Having such high-ranking officials on the group should help to speed the decision making process and avoid the bureaucratic deadlocks that are the hallmark of [China's hierarchical system of official ranks](#).

Party/government reform is at the top of the agenda, with three of six subgroups focusing on political matters (Party construction; democracy and legal; discipline and inspection). Judging from the composition of the group, we can expect reforms will continue to make the Party (and society at large) more rule-based, while also tightly controlling the ideological sphere and taking a hard line against dissent.

It is encouraging to see that Li Keqiang is a member of the group, after he was noticeably absent from the drafting of the Third Plenum Decision. His inclusion, as well as that of central banker Zhou Xiaochuan, bodes well for economic reform.

As of now there are few details on priorities or sequencing of reforms, but these should become clearer in the coming months, especially after the *lianghui* in early March. Overall, however, it looks like we will see a stronger Party, more efficient economy and increased control over internet and media.

### **Three cheers for slower growth!**

The National Bureau of Statistics announced that GDP growth in 2013 was 7.7%, marking the slowest rate of expansion since 1999. While markets took this as bad news, what's important for business is not headline growth, but prospects for their particular sectors.

China's economy is moving away from investment-driven, export-led growth, and will be driven increasingly more by domestic consumption and high-value-added industries. Disposable income is [rising fast](#) (7% for urban residents; 9.3% for rural), and the [tertiary sector made up the bulk of GDP](#) for the first time in 2013. Efforts to expand the social safety net and liberalize the financial sector will accelerate these trends, and will benefit a range of sectors, including FMCG, healthcare, IT, finance, tourism and others.

But just because your sector is growing quickly does not necessarily insure higher profits. Despite strong growth in retail sales in recent years, many foreign B2C businesses have been losing market share to Chinese companies with a keener understanding of their customers and a greater ability to adapt to fast-changing market conditions (particularly the explosion in e-commerce). Localization will become more important than ever.

High tech industries will also benefit from rebalancing. As it was in the early 1980s, Shenzhen is at the forefront of the new economy, and (hopefully) provides a glimpse of what's to come. The city [posted growth of 10.5% last year](#) driven by average growth of 19.8% in its six strategic industries - biotechnology, information technology, new energy, new materials, telecommunications and the cultural and creative industry.

Overall, slower growth should be welcomed, as it should ultimately be more sustainable. But in a market as large and complex as China, understanding prospects in your particular sector(s) and priority regions is much more important than headline growth.

### **Not performing.**

While service and high-value added sectors charge ahead, there are tough times ahead for traditional industries. China's four main financial regulatory authorities [released their 2014 reform priorities](#) on Saturday. The CBRC lists "keep[ing] a close eye on major housing developers, and reduc[ing] the risk of default through weak links in the construction industry's money chain," and "restructuring and technological upgrades in overcapacity industries, liquidating their assets and reducing the risk of default." Sounds like the authorities are expecting a lot of defaults this year....

### **Time to clean up.**

Beijing's new [air pollution regulations](#) and the NDRC's [industrial overcapacity early warning system](#), both announced this week, will put further pressure on inefficient traditional industries. China has marked a

number of industries for [consolidation](#) and/or [tighter environmental standards](#), including steel, cement, heavy metals and batteries. If they can expand on recent success in [shutting down excess steel capacity in Hebei](#), we could eventually see a rise in global steel prices.

### **Positive signs for foreign investment**

It has been reported that the government [considering applications for 12 more free trade zones](#), including one in Tianjin and one in Guangdong. Shanghai's already existing free trade zone [will publish a revised negative list](#) in 2014 H1, which should expand the scope for foreign investment in the zone. For investment in the rest of China, the NDRC looks likely to [raise the threshold at which foreign-invested projects need to get central-level approval](#) to USD 300 million, up from the current USD 100 million. The new leadership has vowed to create a level-playing field for foreign investment; this revision, if passed, would mark progress towards that goal.

### **This land is your land, (this land is my land)**

The Central Committee's [Document No. 1](#), released on Jan. 19, focuses on agriculture for the 11<sup>th</sup> consecutive year. It repeats familiar themes of ensuring grain security, improving productivity, and maintaining a minimum of 120 million hectares of agricultural land.

China's rural land represents a huge stock of latent value; if land reform allowed farmers to turn land into assets it would create a wealth injection similar to what was seen in the late 1990s when China opened up the urban real estate market. Such wealth would be a nice cushion against the economy's considerable downside risks. It would also likely boost China's famously low agricultural productivity.

There are [promising pilots](#) happening in Anhui, but Doc. No. 1 reminds us that progress will be slow. The document talks of land reform, but also states that the Constitution, Land Administration Law and Guarantee Law will all have to be amended. And, while a MLR [survey of rural land is mostly complete](#), the survey on land use rights will take more time.

Privatizing land also poses ideological problems for a political party that came to power through land redistribution. Many officials fear that if liberalization of rural land happens too quickly it could lead to the reemergence of rapacious landlords and dispossessed peasants. In contemporary China's man-eat-man, it's not an unreasonable concern.

Of much more direct benefit to farmers is likely to be an agreement by Russian firm Uralkali [to supply potash to China at a 24% discount](#). Though details of the deal have not been disclosed, one would assume that the Uralkali deal gave the Chinese bargaining power when negotiating the price with Canadian producer Canpotex for [another potash deal signed this week](#). Considering the friendly feel of Sino-Belarusian relations (*see below*), perhaps we can anticipate another favorable potash deal with the Belarusian Potash Company?

### **It will still be chilly in Sochi.**

After making Moscow his first stop as head of state, Xi Jinping will also make Russia his first trip abroad in 2014. The People's Daily is trumpeting Xi's attendance at Sochi as evidence of strong Sino-Russian ties, and Foreign Minister Wang Yi [stated](#) that Russia is "the most high-level and most enriched strategic partnership in China's foreign relations".

Xi is smart to keep Russia close, and such diplomacy will likely lead to more cooperation in the international arena on areas like Syria and Iran. More importantly for China, it looks likely to lead to more Russian gas

imports as well. But don't be fooled by the optics- China and Russia are still deeply suspicious of each other; they will work together where it suits them, but will increasingly be in conflict with regards to Central Asia, where China is making a hard push to pull the former Soviet republics (i.e. the "Stans") into its sphere of influence, much to Russia's chagrin.

## Top Leaders Week in Review

<b>Xi Jinping</b>	<b>Jan 24</b>	<b>Xi chaired Politiburo meeting.</b> <i>Meeting appoints Xi as chairman of National Security Commission; Li Keqiang and Zhang Dejiang are named vice-chairmen.</i> <i>Meeting also focused on continuing to implement the Party's "eight rules" that seek to improve official work styles.</i>
		<b>Xi met civilian-military model representatives.</b>
	<b>Jan 23</b>	<b>Xi met with President of the French National Assembly Claude Bartolone</b> <i>Marking 50 years of bilateral relations.</i>
	<b>Jan 22</b>	<b>Xi chaired first meeting of Leading Small Group on Deepening Reform</b>  <b>Xi met with eight democratic parties and All-China Federation of Industry and Commerce.</b>  <b>Xi phoned Vietnamese Communist Party General Secretary Nguyen Phu Trong</b> <i>According to <a href="#">official Vietnamese media</a>, the two "agreed to work closely together to maintain peace and stability in the East Sea in line with common perceptions and agreements between the two countries' top leaders."</i> <i>But actions speak louder than words, and both sides have been stoking tensions: Vietnam through <a href="#">memorializing Chinese aggression</a>, and China with its <a href="#">new demands</a> that all fishing boats identify themselves and <a href="#">naval patrols</a>.</i>
	<b>Jan 21</b>	<b>Xi met with Premier of Belarus Mikhail Myasnikovich</b>
	<b>Jan 20</b>	<b>Xi attended and speaks at meeting to discuss implementation of second phase of mass line campaign.</b>  <b>Xi and members of the Central Military Commission attended Spring Festival concert for soldiers in Beijing.</b>  <b>MFA announced that Xi will attend the opening ceremony of the Sochi Olympics in February</b> <i>Latest effort by Xi to foster healthy Sino-Russian relations. Xi's first visit as head of state was to Russia, and the two countries have <a href="#">just agreed to hold joint tactical exercises in the Mediterranean</a>- a move that must make NATO leaders both angry and apprehensive.</i>

*Could Xi's attendance help to speed conclusion of the long-awaited Gazprom-China gas deal?*

Li Keqiang	Jan 26	<b>Li visited poor areas of southern Shaanxi to promote new poverty alleviation guidelines.</b>	
	Jan 24	<b>Li attended Politburo meeting.</b>  <b>Li met civilian-military model representatives.</b>	
	Jan 23	<b>Li chaired full meeting of State Council to go over draft version of 2014 Government Work Report</b> <i>Li stated that the primary task in 2014 would be to adequately analyze the economy trends, understand the risks and respond appropriately, which sounds positive. But he also stated that one of the main tasks is to ensure stable prices for coal, electricity, oil and gas. Doesn't sound particularly reform-oriented...</i>	
	Jan 22	<b>Li chaired State Council executive meeting.</b> Meeting focused on 1) central funding for technology and R&D; 2) supporting policies for creative and cultural industries; and 3) regulations regarding the South-North Water Diversion Project.  <b>Li attended first meeting of Leading Small Group on Deepening Reform</b>  <b>Li sent remarks to Davos.</b> <i>China not fussed with Davos this year- delegation led by (relatively low-ranking) Foreign Minister Wang Yi. Everybody's too busy with domestic issues.</i>	
	Jan 21	<b>Li met with 70 foreign experts to discuss China's development.</b> <i>Brookings Institution's John Thornton gets pride of place at the discussion. On the same day, the State Administration of Foreign Experts Affairs <a href="#">announced on Tuesday</a> that it will hire three foreign experts - Alistair Michie, deputy chairman of the 48 Group Club; Tatsuhito Tokuchi, managing director at CITIC Securities Co, and Jeffrey Lehman, the founding deputy chancellor of New York University Shanghai - as consultants for its program to solicit advice from foreign experts (ongoing since 2012).</i>	
	Jan 20	<b>Li met with Premier of Belarus Mikhail Myasnikovich.</b> <i>According to the <a href="#">Belarusian Telegraph Agency</a>, Belarus is one of only nine countries to have an "all-around strategic partnership" with China.</i>  <b>Attended Mass Line Campaign meeting</b>	
	Zhang Dejiang	Jan 24	<b>Zhang chaired symposium with NPC delegates to discuss 2014 work report</b> <i>Xinhua <a href="#">implies</a> that pollution and education will top the 2014 legislative</i>

*agenda. Will 2014 finally see an amended Air Pollution Law?*

**Zhang attended Politburo meeting.**

**Jan 23 Zhang met with President of French National Assembly Claude Bartalone**

**Jan 20 Attended Mass Line Campaign meeting.**

**Yu  
Zhengsheng**

**Jan 24 Yu chaired annual Taiwan Work Conference**  
*Taiwan local elections in December 2014*

**Yu attended Politburo meeting.**

**Jan 22 Yu met with eight democratic parties and All-China Federation of Industry and Commerce.**

**Jan 21 The CPPCC held a New Year's gathering for widows of influential non-Party members.**

**Jan 20 Attended Mass Line Campaign meeting.**

**Liu Yunshan**

**Jan 25 Liu visited famous scientists.**

**Jan 24 Liu attended Politburo meeting.**

**Liu met civilian-military model representatives.**

**Jan 22 Liu attended first meeting of Leading Small Group on Deepening Reform**

**Jan 21 Liu chaired meeting of Mass Line Education Campaign Implementation Leading Small Group.**

**Liu attended meeting of local Party Organization Department Chiefs, states that officials who break rules governing appointment and promotion of officials will be punished.**

**Jan 20 Chaired Mass Line Campaign meeting**

**Wang  
Qishan**

**Jan 24 Wang attended Politburo meeting.**

**Jan 21 Wang chaired meeting of CDIC Standing Committee to study Xi's speech from Mass Line Campaign meeting.**

**Jan 20 Attended Mass Line Campaign meeting.**

**Zhang Gaoli**

**Jan 26 Zhang attended symposium on polar regions at State Oceanic Administration, calls for increased marine power.**

*Arctic in particular will become more economically and strategically important as global temperatures increase. China wants to make sure it has access. Granted observer status at Arctic Council in 2013. Set up [China-Nordic Arctic Research Center in Shanghai in December 2013](#).*

**Jan 25      [Zhang attended symposium on boosting civilian-military-government unity.](#)**

**Jan 24      Zhang attended Politburo meeting**

**Zhang spoke at New Year's tea party for civilian-military model representatives.**

**Jan 22      Zhang attended first meeting of Leading Small Group on Deepening Reform**

**Zhang met with eight democratic parties and All-China Federation of Industry and Commerce.**

**Jan 20      Attended Mass Line Campaign meeting**

China Politics Weekly aims to keep business leaders, diplomats, scholars and other China hands up to date on important trends affecting China.

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