

China Politics Weekly

Issue No. 8 – March 17, 2014



Dear friends and colleagues,

I'm still on the road, so another abbreviated version this week. Old issues are always available at www.chinapoliticsweekly.com. Sign up or unsubscribe by sending an email to info@chinapoliticsweekly.com.

The view from Beijing

Over the past week, I have been running around Beijing meeting with a clutch of intelligent folks in the public and private sector. Much like the air in the capital, the outlook is murky; some see an imminent slowdown while others argue that the fundamentals for sustained growth are firmly in place.

Ultimately, where one falls on the bear-bull spectrum depends on how much faith one has in leaders' ability to implement the ambitious reform agenda laid out at the Third Plenum. I remain cautiously optimistic as, from my perspective, the new administration has a clear grasp of the problems they face and an energetic determination to tackle them.

While the ultimate success of China's reforms is up for debate, there does seem to be consensus on several trends. Briefly, these are:

- **Credit is becoming more scarce.** The authorities' efforts to rein in the shadow banking sector seem to be working. It will likely depress growth in the short term, but is an indicator that the financial system is moving towards a more sustainable model that does a better job of pricing risk. The government seems determined to control lending, so even if February's weak economic data is a harbinger of a slowdown, I would expect any stimulus to be weighted towards targeted fiscal measures, as opposed to large-scale monetary easing.
- **Chinese companies are becoming more competitive.** Several friends and colleagues at MNCs said that they are increasingly under pressure from domestic competitors. Chinese companies are becoming more professionally managed, and often possess an agility and decisiveness that large global corporations lack. They are also more attuned to local consumer preferences- an increasingly important attribute as China's domestic consumption grows.
- **The anti-corruption campaign shows no sign of decelerating.** There are no longer doubts about the seriousness of the campaign, or the determination of Xi Jinping and Wang Qishan to rein in the excesses of the past decade(s). Officials are nervous, and many are looking to leave government.

On Saturday, the CDIC announced its next round of inspection tours; they will focus on officials in Beijing, Tianjin, Liaoning, Shandong, Henan, Hainan, Gansu, Ningxia, Xinjiang, as well as the Xinjiang Production and Construction Corp (otherwise known as the *bingtuan*), the Ministry of Science and Technology, Fudan University and state-owned agricultural giant COFCO.

Companies need to redouble efforts to ensure compliance. Government relations strategies also need to be rethought, as certain *guanxi* could suddenly turn from asset to liability.

- **The nature of government is changing.** Several people mentioned that government is becoming both less intrusive (with the major exception of in the media/culture sphere) and more receptive to consultation. Businesses should look to leverage these expanding channels of influence.
- **The challenges China, and the Party, face are enormous.** Despite progress in most areas the change management that the Party is undertaking is immense. The problem is less one of will, and more one of capability. For example, officials know they need to clean up the environment, but they currently don't know how to monitor, or even define, pollution, much less control it. Laws and regulations are improving with regards to IPR, bankruptcy, competition and other areas that foster a healthy business environment, but there is still a lack of sufficient legal and judicial expertise to make the laws "work".

Building these capabilities is a long-term process. China is attempting large-scale change that requires a high degree of sophistication and coordination while still being at a relatively low level of development. Success will not be defined by where we are at the end of Q2, but rather where we are in 2020.

Big man

In case you didn't notice, Xi is now head of *another* leading small group, this one focused on reform of national defense and the military. Arguably the biggest of China's many vested interests, it's a positive sign that Xi is directly targeting the military for reform.

Xi's success at consolidating power is impressive, and beyond what anyone foresaw. He has quickly become China's strongest (and most ambitious) leader since Deng.

PBSC Week in Review

Xi Jinping	Mar 15	Xi chaired the first meeting of the newly-formed leading small group on deepening reform of national defense and the military.
	Mar 13	Met with Saudi Crown Prince Salman Bin Abdulaziz Al Saud. Attended the NPC closing ceremony.
	Mar 12	Attended the CPPCC closing ceremony.
	Mar 11	Xi met with the PLA delegation.

Mar 10 **Attended the third full session of the NPC and heard the Supreme People's Court and Supreme People's Procuratorate work reports.**

Xi spoke with American president Barack Obama by telephone.

Mar 9 **Xi spoke with German chancellor Angela Merkel by telephone.**

Xi met with the Anhui delegation.

Attended the second full session of the NPC.

Li Keqiang

Mar 14 **Li met with Saudi Crown Prince Salman Bin Abdulaziz Al Saud.**

Mar 13 **Attended the NPC closing ceremony.**

Li gave the premier's annual press conference.

Li spoke with Polish prime minister Donald Tusk by telephone.

Mar 12 **Attended the CPPCC closing ceremony.**

Li spoke with China's search and rescue team from the State Council Emergency Command Center.

Looking for missing Malaysian Airlines flight.

Mar 10 **Attended the third full session of the NPC and heard the Supreme People's Court and Supreme People's Procuratorate work reports.**

Mar 9 **Li met with the Jiangxi delegation.**

Attended the second full session of the NPC.

**Zhang
Dejiang**

Mar 13 **Zhang presided over the NPC's closing ceremony.**

Mar 12 **Zhang presided over a meeting of the NPC Presidium.**

Attended the CPPCC closing ceremony.

Zhang met with reporters from central media organizations.

Mar 11 **Zhang met with the Hebei delegation.**

Mar 10 **Attended the third full session of the NPC and heard the Supreme People's Court and Supreme People's Procuratorate work reports.**

Mar 9 **Zhang delivered the NPC's annual work report at the second full session of the**

NPC.

Zhang met with the Guangxi delegation.

Yu Zhengsheng	Mar 13	Attended the NPC closing ceremony.
	Mar 12	Yu presided over the closing of the CPPCC's annual meeting. Yu met with central media organizations.
	Mar 11	Yu presided over a meeting of the CPPCC Standing Committee.
	Mar 10	Yu met with the Tibet delegation. Attended the third full session of the NPC and heard the Supreme People's Court and Supreme People's Procuratorate work reports.
	Mar 9	Yu presided over the fourth full session of the CPPCC. Attended the second full session of the NPC.
	Liu Yunshan	Mar 13
Mar 12		Attended the CPPCC closing ceremony.
Mar 11		Liu met with the Gansu delegation.
Mar 10		Liu met with the Liaoning delegation. Attended the third full session of the NPC and heard the Supreme People's Court and Supreme People's Procuratorate work reports.
Mar 9		Liu met with the Chongqing delegation. Attended the second full session of the NPC.
Wang Qishan		Mar 15
	Mar 13	Attended the NPC closing ceremony.
	Mar 12	Attended the CPPCC closing ceremony.
	Mar 11	Wang met with the Sichuan delegation.
	Mar 10	Wang met with the Jilin delegation. <i>And apparently upbraided Jilin Party Secretary Wang Rulin.</i>

		Attended the third full session of the NPC and heard the Supreme People's Court and Supreme People's Procuratorate work reports.
	Mar 9	Wang met with the Shaanxi delegation.
		Attended the second full session of the NPC.
Zhang Gaoli	Mar 13	Attended the NPC closing ceremony.
	Mar 12	Attended the CPPCC closing ceremony.
		Zhang attended the meeting where Li Keqiang spoke with China's search and rescue team.
	Mar 11	Zhang met with the Hunan delegation.
	Mar 10	Zhang met with the Heilongjiang delegation.
		Attended the third full session of the NPC and heard the Supreme People's Court and Supreme People's Procuratorate work reports.
	Mar 9	Zhang met with the Hainan delegation.
		Attended the second full session of the NPC.

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

Want to help? Please tell us how we can make this newsletter more useful to you. Feedback on both form and content are always welcome, as are suggestions for topics to be covered. Please contact us at info@chinapoliticsweekly.com. We look forward to hearing from you.

Want more? We offer tailored briefings and research reports for senior management who need to know more about China. Our analysts and associates have experience across a range of sectors. Please email us to discuss your needs and get a quote.