

# China Politics Weekly

Issue No. 12 – April 14, 2014



Dear friends and colleagues,

This week's newsletter below. Send me an email if you have feedback or would like to discuss these or other topics further. Old issues are always available at [www.chinapoliticsweekly.com](http://www.chinapoliticsweekly.com). Sign up or unsubscribe by sending an email to [info@chinapoliticsweekly.com](mailto:info@chinapoliticsweekly.com).

## Eastern promises

Li Keqiang gave the keynote address at the annual Boao Forum for Asia conference held in Hainan this past Tuesday through Friday. The speech focused on regional integration, and called for using “oriental wisdom” to create “an Asian community of common destiny”. China’s goal is to place itself at the center of Asian economic relations, thereby weakening the role and influence of the US in the region.

To this end, China continues to push forward the Regional Comprehensive Economic Partnership (RCEP) free trade agreement. The RCEP excludes the US and is meant to counter the US-led Trans Pacific Partnership (TPP). China is also seeking to enhance regional integration through a number of other initiatives including the Bangladesh-China-India-Myanmar Economic Corridor (BCIMEC), China-Pakistan Economic Corridor (PCEC), an upgraded ASEAN-China FTA, the Silk Road Economic Belt, the 21<sup>st</sup> Century Maritime Silk Road and the creation of a China-funded Asian Infrastructure Investment Bank. China is also pursuing a host of FTAs, including with Korea, Korea and Japan, Australia and the EU.

China’s proactive trade policy has a number of implications for multinationals. To the extent that the initiatives listed above reduce tariffs and non-tariff barriers to trade, it should increase competition in the region and lower costs for transnational production chains. These developments would benefit MNCs. MNCs should take a proactive stance towards government relations to make sure that domestic lobbies do not succeed in carving out exceptions that would mitigate the benefits of new trade agreements.

On the downside, the RCEP and other China-led initiatives are relatively lax when it comes to provisions related to IP protection, state-owned enterprises and government procurement. This is bad news for multinationals, as it could practically shut them out of fast-growing Asian domestic markets. Some may argue that a weak regulatory regime could hurt the international competitiveness of Chinese firms, but this is unlikely to be the case; export-oriented Chinese firms are adept at meeting higher international standards when they must

## Choppy waters

Despite the friendly tone, Li's speech reminded us that tensions and territorial disputes abound in the region. Li staked out a strong stance on the South China Sea, saying "we are firm in our resolve to uphold China's territorial sovereignty." This statement affirms a more assertive posture in the South China Sea in recent months, with the result being that tensions are rising with many of China's neighbors, [most notably Indonesia and the Philippines](#). If China continues its recent aggressive posture, it could undermine its efforts to enhance regional economic ties.

## Teddy bear

One neighbor eager to increase economic links is Russia. Vice Premier Zhang Gaoli met with Russian Vice Premier Arkady Dvorkovich in Bo'ao on Wednesday. Zhang and Dvorkovich, co-chairs of the China-Russia Energy Cooperation Committee, discussed energy cooperation. At the same time, [Gazprom Chairman Alexei Miller and CNPC Chairman Zhou Jiping met in Beijing](#) to hammer out details of Russian gas supplies to China. They will meet again in Moscow later this month.

With the prospect of weakened demand from Europe, Russia is desperate to sign a long term gas deal with China. The Chinese will try to leverage their position to get a cheap deal, but the Russians are tough negotiators who don't respond well to being pushed into a corner. We should expect a good deal for CNPC, but likely not as low as CNPC's asking price of USD 250 per 1,000 cubic meters. The deal should be finalized when Putin visits Beijing on May 20.

## Clean up time

While CNPC looks to benefit from the deal with Gazprom, the company still looks to be in a precarious position. It was [announced this weekend](#) that the general manager of the company's international department and a former employee now at the Sichuan Organization Department are both under investigation for "grave discipline violations."

CNPC was also in the news this weekend when [a leak from one of its pipelines contaminated the drinking water of 3 million people in Lanzhou, Gansu](#). This is the second large-scale disaster stemming from a SOE-run pipeline in the past six months; in November a [Sinopec pipeline exploded near Qingdao](#), killing 62 people.

The corruption probes and pipeline issues give leverage to those seeking to reform the oil and gas SOEs, and could eventually lead to further opening in the sector.

## Lucky number 13

The NDRC released the [full text of its 12<sup>th</sup> Five-Year Plan Implementation Mid-Term Assessment Report](#), originally [delivered to the State Council on December 25, 2013](#) (best Christmas present ever). The 67,000+ character report isn't light reading, but it does shed light on the limits of China's central planners. One section of the report deals with areas where targets are not being met; unsurprisingly, these are the four targets related to optimizing energy usage and reducing polluting emissions.

The release of the 12<sup>th</sup> FYP assessment report is a reminder that policymakers have already begun the drafting process for the 13<sup>th</sup> Five Year Plan that will be approved by the Central Committee in fall 2015 and finalized for release at the NPC in March 2016. Companies should be reaching out to relevant government agencies,

industry associations, think tanks and academics to make sure that their interests are represented in the 13<sup>th</sup> FYP.

### Calling the shots

He's not as cool as [Vladimir Putin walking around shirtless with a gun](#), but here are [46 photos of Xi hanging out with the military](#), published by official media this week. Just in case you had any doubts about who is in charge...

## PBSC Week in Review

|                   |               |   |
|-------------------|---------------|---|
| <b>Xi Jinping</b> | <b>Apr 11</b> | <b>Official media publish selected excerpts from Xi's statements on national defense.</b><br><i>"This [Chinese] dream is the dream for a strong country. For the military, it is also the dream of a strong army."</i><br><br><b>Xi Jinping met with Australian Prime Minister Tony Abbott.</b><br><br><b>Xi met with Thura USwe Mann, speaker of Myanmar's Union Parliament and the House of Representatives.</b><br><br><b>Xi met with Prime Minister of Laos Thongsing Thammavong.</b> |
|                   | <b>Apr 9</b>  | <b>Xi met with American Secretary of Defense Chuck Hagel.</b><br><br><b>Xi inspected the Special Police Academy of the Chinese People's Armed Police Force and presented a flag to the Falcon Commando Unit.</b><br><i>Lead story on Wednesday's Xinwen Lianbo. Leaders trying to reassure public that they have terrorist threats under control.</i>   |
|                   | <b>Apr 8</b>  | <b>Xi met with East Timor's Prime Minister Xanana Gusmao.</b><br><br><b>Xi met with Israeli President Shimon Peres.</b><br><br><b>Xi met with Namibian Prime Minister Hage Geingob.</b>   |
| <b>Li Keqiang</b> | <b>Apr 10</b> | <b>Li delivered the keynote address at the Bo'ao Forum.</b><br><br><b>Li met with Chinese and foreign business leaders.</b><br><i>Toyota, Tencent and Kweichow Moutai in attendance, among others.</i><br><br><b>Li met with former Vice President of Taiwan Vincent Siew.</b>  |

|                      |               |  |
|----------------------|---------------|--|
|                      |               | <p><b>Li met with Korean Prime Minister Chung Hong-won.</b><br/><i>Urged speeding of bilateral FTA negotiations.</i></p> <p><b>Li met with Prime Minister of Pakistan Nawaz Sharif.</b><br/><i>Aiming for concrete progress on China Pakistan Economic Corridor by end of the year.</i></p> <p><b>Li met with members of the Boao Forum Council.</b></p>   |
|                      | <b>Apr 9</b>  | <p><b>Li met with Australian Prime Minister Tony Abbot.</b><br/><i>Signed cooperation agreements on finance, farming and animal husbandry.</i></p> <p><b>Li held talks with Prime Minister of East Timor Xanana Gusmao.</b></p> <p><b>Li held talks with Namibian Prime Minister Hage Geingob.</b><br/><i>Signed cooperation agreement on technology, infrastructure, mining and human resources. Guangdong Nuclear Power Company already invested in USD 2 billion uranium mine project in Namibia.</i></p> |
|                      | <b>Apr 8</b>  | <p><b>Li held talks with Prime Minister of Laos Thongsing Thammavong.</b><br/><i>Announced they were willing to launch negotiations on a railway cooperation agreement. China trying to build high-speed rail link to Singapore, but problems are numerous- Laos has no money and Thai politicians divided on project.</i></p>   |
|                      | <b>Apr 7</b>  | <p><b>Li sent congratulatory messages to the opening ceremony of the China-ASEAN Cultural Exchange Year 2014.</b></p>  |
| <b>Zhang Dejiang</b> | <b>Apr 10</b> | <p><b>Zhang met with Thura U Shwe Mann, speaker of Myanmar's Union Parliament and the House of Representatives.</b><br/><i>Signed MOU on boosting cooperation between China's National People's Congress and Myanmar's Union Parliament.</i></p> <p><b>Zhang issued comments on the enforcement of the Protection of Minors Law.</b></p>   |
|                      | <b>Apr 9</b>  | <p><b>Zhang met with Israeli President Shimon Peres.</b></p>   |
|                      | <b>Apr 8</b>  | <p><b>Zhang met with Prime Minister of East Timor Xanana Gusmao.</b></p>   |
| <b>Yu Zhengsheng</b> | <b>Apr 11</b> | <p><b>Yu met with Prime Minister of Laos Thongsing Thammavong.</b></p>   |
|                      | <b>Apr 10</b> | <p><b>Yu met with Thai Princess Maha Chakri Sirindhorn.</b></p>  |
|                      | <b>Apr 8</b>  | <p><b>Yu met with Namibian Prime Minister Hage Geingob.</b></p>  |
| <b>Liu Yunshan</b>   | <b>Apr 8</b>  | <p><b>Liu spoke at a meeting of provincial Organization Department heads.</b></p>  |

**Wang  
Qishan**

**Zhang Gaoli** Apr 11 [Zhang urged officials to investigate the source of the contaminated water in Lanzhou.](#)

**Apr 9** [Zhang met with Russian Deputy Prime Minister Arkady Dvorkovich.](#)

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

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