

China Politics Weekly

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Dear friends and colleagues,

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This upcoming week looks to be dominated by foreign policy concerns. Heads of states and delegations from nearly 40 countries have descended on Shanghai for the fourth summit meeting of the Conference on Interaction and Confidence Building Measures in Asia (CICA), which is being held Tuesday and Wednesday. In addition, four state visits will take place, by the leaders of Russia, Iran, Kazakhstan and Kyrgyzstan. Expect to hear a lot of talk about the New Silk Road.

Get em' while they're hot

SASAC vice chairman [Li Xiaonan is reported to have said](#) that the overall framework for SOE reform will be formulated in three documents (the Guiding Opinions on Deepening SOE Reform, the Plan for Reorganizing the Structure of the State-owned Economy and the Plan Reforming the State-owned Assets Management System), but no timeline was given. Li said that the process is slow because so many different ministries are inputting into the process. Another SASAC official said it is unlikely that the reforms would be formulated until the end of 2015.

The fact that the reforms will take time to formulate comes as no surprise; the Chinese system is inherently cautious, and SOE reform is one of the most sensitive issues within the Party. The slow pace might even be a good sign as it implies that the reforms will be far-reaching- superficial reforms would be much easier to formulate and propagate quickly.

Though we won't see a comprehensive reform plan any time soon, we should see continued promotion of "mixed ownership" in SOEs. These efforts got another shot in the arm last week when [CNPC announced that it would sell off its First and Second West-East Gas Pipelines](#). CNPC is the latest of several central-level SOEs to announce big changes; state-owned titans Sinopec, China Resources, CITIC, Baosteel, China Telecom and State Grid among others have all announced restructurings, sell-offs, or other reforms in the past few months.

Apparently, [SOEs have been told to get rid of assets with internal rates of return of less than 12%](#). SOEs have an incentive to sell in order to demonstrate that they are complying with the new directives; many are also under

pressure to reduce debt levels. It looks like a buyer's market, and firms and investors in traditionally state-owned sectors such as energy, oil and gas, utilities and telecoms should be on the lookout for attractive deals. A fair number of these assets are likely to have strong underlying values that were previously not realized because of poor management and operation.

Let's make a deal

Putin arrived in Shanghai Tuesday for the CICA. Everyone expects the long-awaited CNPC-Gazprom gas deal to finally be signed, especially seeing as the two companies' executives met in Beijing again this weekend, ostensibly to hammer out pricing issues (long the main sticking point in concluding a deal).

[RT reports](#) that CNPC will pay USD 350-400 per 1,000 cubic meters, but this seems too high to me. CNPC has long asked for a price around USD 250. Considering Russia's need to diversify away from European customers, as well as China's recent successful efforts to increase gas imports from Central Asia, it would seem that CNPC holds all the cards in the negotiations.

There is probably too much pressure to finalize the deal for the two parties not to reach an agreement this time. The final price should be a good barometer of Sino-Russian relations, with a higher price indicating that China is willing to do a favor for a friend in need, and that recent rhetoric on both sides about improving relations is real. Conversely, a low price would seem to put paid to talk of a new era of Sino-Russian friendship, and would be evidence that the mistrust and tensions that have characterized bilateral relations for decades are still the order of the day.

Indecent exposure

[Guangzhou's Deputy Party Secretary Fang Xuan has "retired early"](#), apparently a result of Party efforts to crack down on "naked officials" who have spouses and/or children living abroad. The move follows the publication in January of new guidelines for promoting officials that explicitly stated that naked officials would be weeded out.

When meeting foreigners, Chinese officials often bring up relatives overseas- it's an easy way to break the ice and establish a connection. In the past, this was a positive sign that one's official counterpart would have an international perspective, or at least the desire to appear as if he did. Now, such an admission would have to be seen as a warning sign that investing in a relationship with said official might not be an effective long-term strategy.

The anti-corruption campaign shows no signs of slowing down. In the past week Wang Qishan chaired several meetings on improving anti-corruption efforts, PBSC members went to the provinces to promote the Mass Line Campaign and numerous new investigations were announced. All this upheaval within the Party increases uncertainty for companies operating in China; it's never been more important to understand who one's government stakeholders are, what risks they might face and what potential changes could mean for business.

Smoother sailing

The South China Sea is boiling after CNOOC's placement of an oilrig in contested waters, resulting in protests and violence in Vietnam. But there were positive signs last week that the East China Sea might be becoming a bit calmer. Ministers from APEC countries met in Qingdao, Shandong Saturday as part of preparations for this year's summit to be held in Beijing in October. [China's Minister of Commerce Gao Hucheng met with Japan's](#)

Minister of Economy, Trade and Industry Toshimitsu Motegi on the sidelines of the meeting, the first ministerial-level meeting between China and Japan on Chinese soil since tensions began rising in autumn 2012.

On the same day a trilateral investment treaty between China, Japan and South Korea took effect. The treaty, agreed in 2012, is seen as a precursor to a trilateral FTA.

As a result of tensions arising from disputes over the Diaoyu/Senkaku islands, bilateral trade growth has been negative for the past two years, and Japanese investment in China is down 47% in the first four months of this year. Leaders in both countries are under considerable pressure to deliver economic growth, and improving bilateral trade and investment would do just that. Let's hope that the logic of economics forces a more accommodative posture on both sides.

PBSC Week in Review

Xi Jinping	May 19	Xi held talks with President of Kazakhstan Nursultan Nazarbayev.
		Xi met with President of Tajikistan Emomalii Rahmon.
		Xi met UN Secretary General Ban Ki-moon.
		Xi met with Afghan President Hamid Karzai.
	May 18	Xi sent condolences to Choummaly Sayasone, General Secretary of the Lao People's Revolutionary Party (LPRP).
		Xi met Cambodian Prime Minister Hun Sen.
		Xi met Mongolian president Tsakhiagiin Elbegdorj.
	May 16	Xi spoke to Turkish President Abdullah Gul by phone.
		Xi attended a ceremony honoring disabled national role models of self-reliance.
	May 15	Xi addressed a conference marking the 60th anniversary of the Chinese People's Association for Friendship with Foreign Countries (CPAFFC).
		Xi held talks with President Aníbal Cavaco Silva of Portugal.
	May 14	Xi met with Pakistan's Senate Chairman Syed Nayyar Hussain Bukhari.
	May 13	Xi and President Hollande of France write the preface for a special exhibit at the China National Museum commemorating 50 years of Sino-French relations.
	May 12	Xi held talks with President of Turkmenistan Gurbanguly Berdimuhamedow. <i>Signed strategic cooperation plan for 2014-2018. The two also attended the 2014 International Akhal-Teke Horse Association Special Conference, where Xi was</i>

presented with a horse.

Li Keqiang	May 19	Li met with UN General Secretary Ban Ki-moon.
		Li met with French Foreign Minister Laurent Fabius.
	May 16	Li met with President of Portugal Anibal Cavaco Silva.
		Li attended a ceremony honoring disabled national role models of self-reliance.
	May 15	Li met with International Chamber of Commerce chairman Terry McGraw III.
	May 14	Li chaired an executive meeting of the State Council.
	May 13	Li met with US Treasury Secretary Jacob Lew.
		Li met with President of Turkmenistan Gurbanguly Berdimuhamedow.
	Li met with Nigerian Senate President David Mark.	
Zhang Dejiang	May 19	Zhang met with Speaker of the Samoan Legislative Assembly Laauli Fosi Schmidt.
	May 16	Zhang met with President of Portugal Anibal Cavaco Silva.
	May 13	Zhang met with President of Turkmenistan Gurbanguly Berdimuhamedow.
	May 12	Zhang met with Nigerian Senate President David Mark.
Yu Zhengsheng	May 16-17	Yu went on inspection tour to Yunnan.
	May 15	Yu chaired a CPPCC symposium on expanding China's ultra-high voltage (UHV) electricity transmission system.
	May 14	Yu met with Pakistan's Senate Chairman Syed Nayyar Hussain Bukhari.
Liu Yunshan	May 16	Liu attended a ceremony honoring disabled national role models of self-reliance.
	May 15	Liu attended the orientation session for the Central Party School's second round of spring classes. <i>Full text of the speech (in Chinese).</i>
Wang Qishan	May 19	Wang spoke at a symposium on the work of discipline inspection departments.

May 14 [Wang went on an inspection tour to Shandong.](#)

May 6-12 [Wang chaired a series of meetings with central level officials to improve anti-corruption work and promote clean government.](#)

Zhang Gaoli May 16 Zhang attended a ceremony honoring disabled national role models of self-reliance.

May 15 [Zhang spoke at a meeting on curbing air pollution in the Beijing-Hebei-Tianjin area.](#)

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