

China Politics Weekly

Issue No. 17 – May 27, 2014



Dear friends and colleagues,

This week's newsletter below. Old issues are always available at www.chinapoliticsweekly.com. Sign up or unsubscribe by sending an email to info@chinapoliticsweekly.com. Your comments and suggestions are always welcome. Thanks for reading.

A lot going on this week. This week's newsletter is already too long but in addition to the topics discussed below it is worth noting that: Xi Jinping gave a major speech about the economy at Monday's Politburo meeting; the anti-corruption campaign appears to still be gaining momentum a year and a half on; there is marked deterioration in the business environment for foreign firms in the IT, consulting and pharmaceutical sectors. We might discuss some or all of these in next week's newsletter.

Multilateralism with Chinese characteristics

Last week was supposed to be dominated by the summit meeting of the Conference on Interaction and Confidence Building Measures in Asia (CICA), which brought eleven heads of state and representatives from 47 countries and international organizations to Shanghai on Tuesday and Wednesday. China, which assumed the presidency of the CICA this year, is seeking to expand the scope and influence of the organization. At this year's summit Xi advocated enhancing the capacity of CICA institutions, improving the CICA Secretariat and establishing a mechanism for defense consultations among member states.

Notably, The CICA's members do not include the United States, Japan, Indonesia or Australia; one of China's motivations in promoting the CICA is the desire to counter American influence in Asia. Promotion of the CICA can thus be seen as a compliment to China's other initiatives to strengthen inter-Asian ties and promote China's relative influence such as the Shanghai Cooperation Organization (SCO), Silk Road Economic Belt, Maritime Silk Road, Asian Infrastructure Development Bank, Regional Comprehensive Economic Partnership (RCEP) and others.

American leaders may bristle at China's attempts to assert itself as the region's dominant power, but China's aggressive foreign policy arguably does a lot of good. It has been relatively successful in increasing development and economic efficiency in the region by promoting inter-Asian trade and lowering or removing trade barriers, as a whole. As the US retreats from Afghanistan, moreover, it is in the world's interest to have

multilateral mechanisms such as the SCO (and potentially the CICA) to coordinate the efforts of neighboring states to stabilize the region. In sum, an engaged China is much better for the region than an isolated one.

At the CICA, Xi called for a “comprehensive view of security” that addresses terrorism, transnational crimes, environmental security, cyber security, energy and resource security and major natural disasters as well as more traditional concerns. The Pentagon’s most recent [Quadrennial Defense Review](#) says that climate change is a “threat multiplier” that will increase resource competition amongst countries. This is particularly the case in Asia, where a massive, rapidly developing population will exacerbate resource strain in the coming years and decades. The fact that China seems aware of this and is seeking ways to manage the issues is a welcome sign.

Divide and try not to be conquered

Xi’s calls to address terrorism at the CICA were made more poignant by the bombing in Urumqi the following day that left over 30 people dead. This was just the latest in a spate of terrorist attacks perpetrated by Uyghur minorities in the past year.

Xi pledged “‘zero tolerance’ for terrorism, separatism and extremism” at the CICA and the [PSB announced a “strike hard” campaign](#) against terrorism a few days later. Chinese leaders have been [vigorously debating ethnic policy for the past five years](#), but for now a continuation of the current hard line policy looks to be the order of the day. We will see an increased security presence, repression of religion and detention of anybody remotely suspected of being a “splittist”. These policies have not succeeded in stopping the violence so far; it is unlikely that they will be successful going forward.

There is hope for innovation regarding policy in Xinjiang in the near future. On Monday, the Politburo met to discuss the issue in preparation for next month’s meeting on Xinjiang Work Conference. Some top officials have realized the limits of current policies. Unfortunately, recognizing a problem is relatively easy; devising a solution is not.

Good things come to those who wait (and pursue aggressive energy security policies)

Gazprom and CNPC have at long last signed a deal that will see Gazprom supply 38 billion bcm of natural gas over 30 years. Details of the deal were not disclosed, but it stands to reason that China got a good deal. Our guess is that the final price was not disclosed as a face-saving measure to the Russians. Many estimate that the final price was around USD 350 per 1,000 cubic meters; this is above what CNPC was asking, but still represents a good deal for China, especially when one considers that there are likely other sweeteners in the deal as well.

China was in a strong negotiating position because of its successful efforts to diversify its sources of oil and gas, most notably through its imports of gas from Central Asia. These efforts continue. Last week China and Kazakhstan agreed to deepen cooperation in a number of areas, including oil and gas. Earlier this month China also announced a new gas deal with Turkmenistan, and [is in the process of building a new gas pipeline through Central Asia](#).

Efforts to develop domestic shale resources also seem to finally be taking off after years of stagnation. Earlier this year Sinopec announced a breakthrough at its well in Fuling, Chongqing; [it now expects to produce 10](#)

billion bcm by 2017. This looks increasingly credible after the announcement last week that [Sinopec will form a joint venture with Swiss oil services firm Weatherford](#). Sinopec's advances have also spurred [CNPC to triple expenditures on its own shale development efforts](#).

These efforts to ensure supply, along with reforms to the energy and oil and gas sector are a welcome sign for business; they should contribute to a stability and affordability of energy supply.

Baby bonds

The Ministry of Finance announced that it will allow ten local governments to undertake direct bond issuances. [Reuters described the announcement as a "watershed"](#), but we're a little less impressed here at CPW. The proposed scheme is more or less just a continuation of a pilot program started in 2011. The new rules expand the number of governments allowed to issue bonds from six to 10, and allow only a paltry RMB 50 billion increase in the total size of all bonds issued in a year. It's definitely a step in the right direction, but it is hardly a game changer. One still gets the sense that the MOF would stand behind the bonds if repayment issues arose; consequently, expect yields to be more or less in line with central government bonds.

More important than any new MOF programs will be the new version of the Budget Law, currently undergoing its 4th draft. The law will almost certainly legalize local government bond issuances, and should be a key driver in creating a deeper government bond market; however, it is still likely that local governments will need central level approval to issue bonds. The new Budget Law is likely to be approved some time this year.

It is not surprising that progress on local government bonds is slow. The government has been very clear that its main focuses with regards to improving local government fiscal management are: 1) to improve the central-local transfer system and 2) increase the tax base. The latter is of particular importance for businesses in China. Increased real estate, resource and environmental taxes are all in the offing, and will raise the tax burden for businesses operating in China.

Quick notes

- Xi Jinping visited the Shanghai Free Trade Zone during his trip to Shanghai. He is the first senior leader (Shanghai Party Secretary Han Zheng excluded) to visit the zone since its inauguration last fall.
- The NDRC has released the [list of organizations researching topics for the 13th Five Year Plan](#).
- The State Council has released the [list of 80 infrastructure open to private investment](#).
- [The NDRC and Standardization Administration of China \(SAC\) are developing standards related to urbanization](#). The standards will address strategic emerging industries, infrastructure, construction, smart cities and other topics and will likely impact businesses in all related sectors.

PBSC Week in Review

Xi Jinping

May 26

[Xi chaired a Politburo meeting on promoting peace and stability in Xinjiang.](#)

[Also discussed economic reform, giving the market greater say in resource allocation.](#)

- May 24** Xi continued his inspection tour of Shanghai, visited medical equipment manufacturer United Imaging, Shanghai Automotive Industry Corporation and held a meeting with Shanghai officials.
- May 23** Xi visited the Shanghai Aircraft Design and Research Institute, looked a prototype of the C919 passenger plane.
- Xi visited the Shanghai Pilot Free Trade Zone.
- May 22** Xi urged harsh punishments for the perpetrators of the bombing in Urumqi.
- Xi held talks with President of Iran Hassan Rouhani.
- Xi met with President of Pakistan Mamnoon Hussein.
- Xi met with President of Sri Lanka Mahinda Rajapaksa.
- Xi met with foreign experts.
Met with Patrick Power (Rockwell Automation) and Gregory Gibb (Lufax.com, formerly of Ping An) among others.
- Xi sent congratulations to South African President Jacob Zuma on his reelection.
- May 21** Xi chaired the CICA meeting and delivered a speech.
The speech (in Chinese).
- Xi held a press conference with President of Kazakhstan Nursultan Nazarbayev and Foreign Minister of Turkey Ahmet Davutoglu.
- May 20** Xi held talks with Russian President Vladimir Putin.
- Xi and Putin attend the opening of joint naval exercises.
- Xi met with President of Uzbekistan Islam Karimov.
- Xi met with President of Azerbaijan Ilham Aliyev.
- Xi welcomed guests to the CICA summit.
Putin gets pride of place.

- Li Keqiang** **May 27** Li spoke at the Global Research Council's annual conference, held this year in Beijing.
- Li met with Solvita Aboltina, chairperson of the Parliament of Latvia.
- May 26** Li sent congratulations to Narendra Modi on his election as Prime Minister of India.

		Attended Politburo Meeting.
	May 22-23	Li went on an inspection tour to Chifeng, Inner Mongolia.
	May 22	Li called for efforts to ensure stability in Xinjiang after the bombings in Urumqi.
	May 21	Li chaired an executive meeting of the State Council.
Zhang Dejiang	May 27	Zhang met with Solvita Aboltina, chairperson of the Parliament of Latvia.
	May 26	Attended Politburo Meeting.
	May 20-22	Zhang went on an inspection tour to Shanghang County, Fujian.
Yu Zhengsheng	May 27	Yu met with Lucas Chomera, the first deputy chairperson of the Permanent Commission of the Assembly of the Republic, or the Mozambican parliament.
	May 26	Attended Politburo Meeting.
	May 23	Yu met with a delegation from Taiwan's Want Want China Times Media Group. Want Want Group and Xinhua signed an MOU for greater cooperation.
	May 22	Yu met with a delegation of CPPCC members from Hong Kong.
	May 20	Yu chaired a CPPCC chairmen's meeting.
Liu Yunshan	May 26	Attended Politburo Meeting.
Wang Qishan	May 26	Attended Politburo Meeting.
Zhang Gaoli	May 26	Attended Politburo Meeting.
	May 21	Attended State Council Executive Meeting.
	May 19-20	Zhang was on inspection tour to Nong'an County, Jilin.

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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