

# China Politics Weekly

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## New rules

It's official. The rules of the game have changed. The Party has announced the investigation into former PBSC member Zhou Yongkang. Though the investigation has been an open secret for almost a year, the announcement marks a watershed. It changes the unwritten, but well understood, rule that former leaders will not be investigated. It also shows that those at the very top can be subject to sanction.

Zhou's investigation does not signal an end to Xi and Wang's anti-corruption efforts; instead it should be seen as a further sign that the Party is serious about imposing discipline and improving governance. Xi and company have been explicit that the current campaign is about more than purging rivals and consolidating power (*à la* the purges of Chen Xitong and Chen Liangyu carried out by Jiang Zemin and Hu Jintao, respectively). What Xi is aiming at is systemic institutional reform, as ongoing efforts since the 18<sup>th</sup> Party Congress to improve the CDIC, judiciary and military all make clear.

We will get more details about Xi's plans at the Fourth Plenum, which traditionally focuses on Party-building and other political issues. Expect further measures to improve transparency, increase citizen participation and create a more rules-based system. Do not expect any move to pluralize the political system. The aim is to create a more efficient one-party state that more firmly ensconces the CCP in power.

Western pundits will bemoan the lack of movement towards a democratic system, but this will overlook the fact that important changes are happening, and that the Party is becoming more responsive. In the long run this is good news for business; it should create a more level playing field and a more efficient economy where outcomes are determined by market forces. In the short term, however, risk increases, particularly from a government relations perspective. The *guanxi*-based strategies that have been successful in the past will not necessarily equate to success going forward. Companies will need to take a more systematic approach to analyzing and managing regulatory and political risk.

## **Risky business**

GSK provides a good example of what can go wrong in the new environment. I have been talking to a lot of people about the case in recent weeks and, while much of what has happened is due to very particular circumstances, there are also implications for the wider business community.

Most important is that companies need to ensure that they are compliant with all relevant laws and regulations. Where there are grey areas, companies should err on the side of caution; just because a lot of companies are breaking the rules does not mean that there is no risk involved in doing so.

The issue of compliance is a particularly difficult one in China. A combination of fast growth and high turnover mean that many companies in China- even large multinationals- have failed to implement robust internal systems and processes. The ever-increasing need to localize management also makes it difficult to integrate best practices from other markets.

Companies in politically sensitive sectors need to be particularly careful. GSK's case would not have been prosecuted so vigorously if it had not coincided with a political push to reduce healthcare costs.

Some of the government's biggest priorities right now are ensuring the quality and safety of food, water, air and healthcare. Companies operating in sectors that touch on these issues need to be particularly careful. The recent scandal involving expired meat at Shanghai Hushi will likely bear this out; the detention of five executives is likely only the beginning.

Many companies in China have experienced double-digit revenue growth for the past two decades. For most those days are over as the economy transitions to a slower rate of growth. As companies miss revenue targets, the temptation to cut corners will only increase. Firms need to make it clear that such abuses will not be tolerated; those that do not implement and enforce tough internal compliance systems do so at their own risk.

## **A balanced approach**

Companies and investors can take heart from the Politburo's annual mid-year review meeting held on Tuesday. The leaders stated that they will seek to strike a balance between development and reform, and made very clear that they will not let economic growth slow dramatically. This is consistent with the approach that the government has taken so far this year, where it has introduced targeted stimulus measures at times when growth seemed to be slowing beyond acceptable levels.

Some argue that such stimulative measures evince a lack of commitment to reform. Such a view is too simplistic. Chinese leaders see no contradiction between being pro-growth and pro-reform. It is not an either/or choice, but rather finding a balance between the two.

It's important to remember that economic reform is not monolithic. Many analysts will imply that just because the PBOC injected liquidity into the interbank market the entire reform agenda is off. But monetary stimulus does not counteract efforts to simplify administrative approvals, remove local government subsidies, liberalize trade and enact other reforms. Instead, it is a clear sign that the government wants to ensure a soft landing while carrying out reforms. Such efforts should be welcomed by governments, businesses and investors.

## **PBSC Week in Review**

- Xi Jinping**
- July 29** Xi chaired a Politburo meeting.
- July 28** Xi held talks with Secretary General of Laos People's Revolutionary Party Choummaly Saygnasone.
- July 25** Xi arrived back in Beijing.
- Xi sent his condolences to the heads of state of Algeria and France regarding the plane crash in Mali.
- July 24** Xi met with Representative to the President and Deputy Prime Minister Paulo Portas of Portugal on Terceira Island, Portugal.  
*Stopover on way back to China.*
- Xi visited the Moncada Barracks with Raul Castro.
- Xi visited Santiago, Cuba with Cuban Presided Raul Castro.
- Xi sent comments to the All China Federation of Supply and Marketing Cooperatives 60<sup>th</sup> anniversary ceremony.
- July 23** Xi held talks with Cuban President Raul Castro.
- Xi congratulated Joko Widodo on his election as President of Indonesia.
- Xi attended a ballet performance with Cuban President Raul Castro.
- Xi visited Fidel Castro.
- Xi was awarded Jose Marti Medal by the Cuban government.
- Xi conveyed his condolences over the Taiwan plane crash.
- July 21** Xi visited the tomb of Hugo Chavez.
- Xi met with with President of the National Assembly of Venezuela Diosdado Cabello.
- Xi attended the closing ceremony of the 13th Meeting of the China-Venezuela High-level Mixed Committee with President of Venezuela Nicolas Maduro.
- Xi visited the Tiuna Social Housing Project in Caracas, Venezuela.  
*Being built in part by CITIC.*
- Xi arrived in Havana, Cuba.
- July 20** Xi held talks with President of Venezuela Nicolas Maduro.

*Upgraded relationship to comprehensive strategic partnership.*

**Xi was awarded the Venezuelan Liberator Medal by Venezuelan President Nicolas Maduro.**

**Xi paid tribute to Simon Bolivar at the National Pantheon of Venezuela.**

**Xi arrived in Caracas, Venezuela.**

**July 19** **Xi received the keys to the city of Buenos Aires, Argentina.**

<b>Li Keqiang</b>	<b>July 29</b>	<b>Attended Politburo meeting.</b>
	<b>July 25</b>	<b>Li went on inspection tour to Shandong.</b> <b>Li sent his condolences to the prime ministers of Algeria and France regarding the plane crash in Mali.</b>
	<b>July 24</b>	<b>Li went on inspection tour to Shandong.</b> <b>Li sent comments to the All China Federation of Supply and Marketing Cooperatives 60th anniversary ceremony.</b>
	<b>July 23</b>	<b>Li chaired an executive meeting of the State Council.</b> <i>Announced ten measures to optimize the credit system and improve financing for enterprises.</i>
	<b>July 22</b>	<b>Li met with US representatives attending the sixth China-US CEO and Former Senior Officials' Dialogue.</b>
	<b>Zhang Dejiang</b>	<b>July 29</b>
<b>Yu Zhengsheng</b>	<b>July 29</b>	<b>Attended Politburo meeting.</b>
	<b>July 24</b>	<b>Yu chaired a biweekly CPPCC symposium on social governance and the role of social organizations.</b>
	<b>July 22</b>	<b>Yu chaired a CPPCC meeting on improving public cultural services.</b>
	<b>July 18-21</b>	<b>Yu went on inspection tour to Inner Mongolia.</b>
<b>Liu Yunshan</b>	<b>July 29</b>	<b>Attended Politburo meeting.</b>
	<b>July 24</b>	<b>Liu met with a delegation of ROK parliament members led by Lee Seok-hyun, vice speaker of the ROK National Assembly.</b>

**July 23**      **Liu spoke attended and spoke at a symposium on the Mass Line Education Campaign in Shanghai.**

**Wang Qishan**      **July 28**      **Wang met with Secretary General of Lao People's Revolutionary Party Choummaly Saygnasone.**

**Zhang Gaoli**      **July 29**      **Attended Politiburo meeting.**

**July 28**      **Zhang met with Deputy Prime Minister Teo Chee Hean of Singapore.**

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