

China Politics Weekly

Issue No. 26 – September 9, 2014



Dear friends and colleagues,

Happy Mid-Autumn Festival!

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World shaker

As China's power and influence grow, the burning question is how it will affect the global order. Will China act as a "responsible stakeholder" that bolsters the existing system? Or will it play a destabilizing role? Developments this week seem to point to the latter.

Xi continued to raise high the banner of nationalism and encourage an "us versus them" mentality. This does not bode well for stability in the Asia-Pacific region, where China is involved in a host of border disputes and tensions are already running high.

In a meeting with Russian President Vladimir Putin, Zhang Gaoli made what appear to be the most overt statements to date that China sides with Russia in its efforts to battle Western liberal values. The increasingly anti-Western stance of these two permanent members of the Security Council does not bode well for multilateral cooperation on global security issues such as Syria, Iraq, Iran and North Korea.

It was also announced this week that Xi will not attend the UN Summit on Climate Change later this month. Neither will Indian Prime Minister Narendra Modi. It is no coincidence that, at the same time, the Like Minded Developing Countries (LMDC) group on climate change, of which China and India are the main players, looks stronger than ever after a meeting in Beijing. This does not bode well for coordinated global efforts to stop climate change.

China's actions and positions are not irrational. Across the East China Sea Japanese Prime Minister Shinzo Abe is waving his own nationalist flag just as high as he attempts to revise the Constitution and remilitarize the country. Xi and Putin are not completely mistaken when they accuse the West (and particularly the United States) of supporting "color revolutions" and "peaceful evolution". And the LMDC are justified in complaining of hypocrisy when already developed countries call for them to limit pollution after having already polluted the earth for 150 years.

The problem is that China increasingly appears unwilling to work through traditional multilateral institutions to solve these and other complex issues. Instead, it has been vigorously promoting new institutions (such as the BRICS Development Bank, CICA, SCO, etc.) in which China has predominant influence.

China often takes firm stands on issues in an effort to put it in an advantageous bargaining position. Unfortunately, on some of the most pressing global issues it seems more and more that China is unwilling to talk with those with whom it disagrees. That will make it impossible to bargain, much less find solutions.

Efficient authoritarianism (again)

On Friday Xi gave an important speech on governance at a meeting to commemorate the 60th anniversary of the National People's Congress. The speech (linked below) is worth reading in its entirety, but it had three salient points:

1. China's national condition is unique among all the countries in the world. Its particular history and cultures sets China apart; consequently, it must devise its own solutions to the problems of governance.
2. The current, Communist Party-led political system is the only governance model that will work in China. Therefore, the Party must maintain its preeminent position, and the government must remain a tool for carrying out the Party's directives.
3. The Party-led system should be rules-based and "scientific".

The speech is another clear manifestation of the "efficient authoritarian" approach that Xi has employed since coming to power. Xi's approach is a mixed blessing for companies in China. In the long run, it should increase transparency and level the playing field among companies as the law is applied in a more uniform fashion. In the short term, however, it could increase compliance risk as regulators and law enforcement seek to more strictly enforce the letter of the law.

Black, white and red

On Wednesday, at an event to commemorate victory in 1945, Xi castigated the Japanese for denying history and refusing to admit the truth of their aggression in WWII. He said that Japan's efforts to distort the historical record are futile, and that "no matter how many times you call black white, it's still black."

Xi has a point. Japanese Prime Minister Shinzo Abe has consistently glorified Japan's militaristic past while denying the horrors Japanese soldiers visited on Chinese civilians. His rhetoric and actions are deplorable. They are also irresponsible insofar as they increase tensions in East Asia, spur Chinese nationalism and complicate the relationships between the United States, Japan and Korea.

Yet the irony of Xi's sudden concern with Truth will escape few. He has overseen a crackdown on thought and expression in China unseen since Mao. This has included increased censorship and tightening control over the internet and journalists combined with an increase in Party propaganda and ideology work that has sought to instill the Party's "socialist values" while discrediting "universal" ones.

Is the campaign working to create a more cohesive society? Or do efforts to control expression create a backlash? Neither outcome is good. If the Party's efforts are successful, it likely creates a more unified but more belligerent, aggressive and xenophobic populace that is more likely to push China towards conflict with its neighbors. If the Party's efforts are unsuccessful, it's also bad because it could undermine the legitimacy of the Party, potentially creating instability at home.

A worrying outcome is one in which the Party's efforts succeed in galvanizing some while alienating others, creating a polarized society of ultra-nationalists and Party-skeptics. Such an outcome increases the risk of military conflict *and* instability at home.

Not too colorful

Zhang Gaoli was in Siberia with Russian President Vladimir Putin to open construction on the new gas pipeline to China. According to [the Kremlin's official website](#), Zhang is reported to have said "I want to make it clear that China categorically opposes the sanctions the United States and Western countries have taken against Russia. China categorically opposes colour revolutions and attempts to hold back Russia's development."

The statement is the most overt support for Russia given yet by any of China's leaders. It marks a decisive shift in tone from earlier statements by Xi and others.

The statement has received no mention in either the official Chinese media or the foreign language press, and has only barely been covered in non-official Chinese language media.

It is unlikely that Zhang would have been authorized to make such a statement, which makes one question whether or not the quote is correct and, if so, in what context Zhang would have said it. It is unlikely (though not impossible) that the Kremlin would have simply made the statement up. It is also unlikely that the disciplined Zhang would have gone rogue and made such a strong statement in public.

The most plausible explanation would seem to be that this was a private comment that the Kremlin decided to publicize in its ongoing efforts to prove to the West that China backs Russia.

Danger zones

On Thursday [Vice Premier Wang Yang hosted a National Level Economic Science and Development Zone Work Meeting](#). The meeting was the first of its kind since early 2013, when its highest-level attendee was only a vice minister.

Thursday's meeting was full of the usual platitudes about spurring innovation and economic development. But hidden amongst the rhetoric were also admonitions to improve supervision and evaluation of the development zones; zones that are not sufficiently contributing to innovation and economic restructuring will be demoted or eliminated.

This marks a major shift in policy. Development zones have proliferated in the past decades, resulting in a race to the bottom among local governments to offer tax breaks, cheap land, lax environmental standards and other incentives to attract investment. The result has been inefficient investment, environmental pollution and urban sprawl.

It is encouraging to see the government tackling this problem, and marks another important step in the government's plan to battle local protectionism, create a unified tax system and protect the environment. The new policy, if followed, should lead to more sustainable development.

Unfortunately, what's good for the macroeconomy is not always good for individual firms. As China's government closes tax loopholes and steps up enforcement of environmental, labor and other regulations, costs for businesses will rise.

PBSC Week in Review

Xi Jinping	Sep 6	Xi sent congratulations to the China-EU High Level People-to-People Dialogue held in Beijing.
	Sep 5	Xi gave a speech on China's system of governance at a meeting to commemorate the 60th anniversary of the National People's Congress. The <i>speech</i> (in Chinese). Xi sent congratulations to Donald Tusk on his selection as President as the European Council.
	Sep 4	Xi met Malaysian Supreme Head of State Abdul Halim Mu'adzam Shah.
	Sep 3	Xi spoke at a forum held by the Central Committee, State Council and Central Military Commission to mark the 69th anniversary of Victory Day in the War of Resistance Against Japanese Aggression and World Fascism. Xi attended a ceremony commemorating the Chinese People's Victory in the War of Resistance against Japan and World Fascism Day.
	Sep 2	Xi met with Romanian Prime Minister Victor-Viorel Ponta.
	Li Keqiang	Sep 5
Sep 4		Li met with Deputy Prime Minister of Belarus Anatoliy Tozik. <i>Tozik here for first meeting of the intergovernmental committee of cooperation between the two countries.</i> <i>Li said China was ready to promote Chinese equipment for Belarus' infrastructure construction, especially railway, and to support Chinese companies operating in Belarus' industrial parks.</i>
Sep 3		Attended forum held by the Central Committee, State Council and Central Military Commission to mark the 69th anniversary of Victory Day in the War of Resistance Against Japanese Aggression and World Fascism. Attended ceremony commemorating the Chinese People's Victory in the War of Resistance against Japan and World Fascism Day.
Sep 2		Li chaired an executive meeting of the State Council.

		<p>Li chaired a State Council meeting on compiling the 13th Five Year Plan (2016-2020).</p>
	Sep 1	<p>Li held talks with Romanian Prime Minister Victor-Viorel Ponta. <i>Signed nuclear power cooperation agreement. China General Nuclear Power Group to build two new nuclear reactors in Romania. China wins again from the Ukraine crisis as Romania and everybody else in central and eastern Europe desperate to diversify away from Russian gas.</i></p> <p>Li held a press conference with Romanian Prime Minister Victor-Viorel Ponta.</p>
Zhang Dejiang	Sep 5	<p>Chaired meeting to commemorate the 60th anniversary of the National People's Congress.</p>
	Sep 3	<p>Attended ceremony commemorating the Chinese People's Victory in the War of Resistance against Japan and World Fascism Day.</p>
	Sep 2	<p>Zhang met with Romanian Prime Minister Victor-Viorel Ponta.</p>
Yu Zhengsheng	Sep 5	<p>Attended meeting to commemorate the 60th anniversary of the National People's Congress.</p>
	Sep 3	<p>Attended ceremony commemorating the Chinese People's Victory in the War of Resistance against Japan and World Fascism Day.</p>
Liu Yunshan	Sep 5	<p>Attended meeting to commemorate the 60th anniversary of the National People's Congress.</p>
	Sep 3	<p>Chaired forum held by the Central Committee, State Council and Central Military Commission to mark the 69th anniversary of Victory Day in the War of Resistance Against Japanese Aggression and World Fascism.</p> <p>Attended ceremony commemorating the Chinese People's Victory in the War of Resistance against Japan and World Fascism Day.</p>
	Sep 2	<p>Liu met with with a delegation of the Party of European Socialists.</p>
	Sep 1	<p>Liu spoke at a meeting of Party officials in Shanxi to discuss the Central Committee's decision to remove several officials from their posts in the province. At the meeting Liu said, "Shanxi is facing a severe challenge in its anti-corruption campaign and in building a clean government."</p> <p>Liu spoke at the opening of the fall term at the Central Party School.</p>

	Aug 31	Liu attended the Beijing International Book Fair.
Wang Qishan	Sep 5	Attended meeting to commemorate the 60th anniversary of the National People's Congress.
	Sep 3	Attended ceremony commemorating the Chinese People's Victory in the War of Resistance against Japan and World Fascism Day.
Zhang Gaoli	Sep 5	Attended meeting to commemorate the 60th anniversary of the National People's Congress.
	Sep 4	Zhang chaired a meeting of the leading group of the Beijing-Tianjin-Hebei coordinated development program. <i>Lot of high-level support for the program, particularly from Xi Jinping. Wang Huning and Wang Yong also in attendance.</i>
	Sep 3	Attended ceremony commemorating the Chinese People's Victory in the War of Resistance against Japan and World Fascism Day. Zhang met with participants for the meeting of Like Minded Developing Countries (LMDC) group on climate change. <i>A total of 44 participants from 20 countries and two international organizations attended the meeting held in Beijing from Monday to Thursday.</i>
	Sep 2	Zhang spoke at the 11th APEC Energy Ministerial Meeting.
	Sep 1	Zhang attended a ceremony with Russian president Vladimir Putin in Yakutsk, Russia to mark the start of construction on the China-Russia East Route natural gas pipeline. <i>Will supply 38 billion cubic meters of natural gas to China every year starting from 2018.</i>

About CPW

China Politics Weekly aims to keep business leaders, investors, diplomats, scholars and other China hands up to date on important trends in China. It is produced by Trey McArver, a London-based consultant providing advice and intelligence to firms and investors engaged in China and the region.

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