

# China Politics Weekly

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Dear friends and colleagues,

I will be in DC Feb 14-21. Let me know if any of you there would be interested in meeting up while I am there. This week's newsletter below. Your comments and feedback are always welcome. 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).

## The Premier's speech

Li Keqiang's keynote address at the World Economic Forum in Davos laid out the Chinese leadership's approach to economic management. There was nothing particularly new, but it is always good to review Beijing's position. Some key takeaways are as follows:

- **Growth is slowing, but it's not a big deal.** The reason is that, even as China's growth rate slows, overall growth is still impressive because of the larger base effect ([a point I've been making for a while](#)).
- **Market liberalization remains at the heart of reforms.** Li was quite explicit on this point, and I think I'll just let his words speak for themselves: "Excessive regulation discourages innovation, and healthy competition is the way to prosperity. We will deepen reform of the administrative system. This means we will continue to abolish or delegate to lower-level governments items previously subject to State Council review and approval. We will comprehensively sort out items requiring non-governmental review and approval, and put in place a negative-list approach for market access."
- **The government will continue to invest in public goods.** The government will maintain a "proactive fiscal policy", funneling investment into railways, water conservation, shantytown redevelopment and pollution control.

Skeptics argue that investing in public goods runs counter to efforts to liberalize markets and undertake structural reforms. These skeptics are, simply, wrong. What Li and the Chinese leadership realize is that China is not *overinvested*, but *malinvested*. Financial repression, overregulation, government intervention and corruption have combined over the decades foster misallocation of capital on a grand scale. But China is still relatively impoverished from a capital stock point of view. The government recognizes this and so is seeking to make sure that investment remains robust, and is channeled into productive uses.

## Negative is a positive

In Davos, Li also promised to “provide easier market access for inbound foreign investment”. This talk of opening the economy is not just empty rhetoric, as shown this week by MOFCOM’s release for public comment of a draft version of the new Foreign Investment Law.

The law seeks to introduce a negative list system of foreign investment nationwide. This means that foreign companies will be given national treatment and will no longer have to seek approvals to invest in China (with the exception of industries important to national security).

The magnitude of this change cannot be overstated. This marks a major step forward for market-oriented reforms in China, and brings the economy in line with major developed economies such as the US and EU. (It will also help to move forward negotiations with both economies on respective bilateral investment treaties.) Officials within in China often compare its potential effects to those of WTO accession.

There is, however, reason for caution. Namely, the effect of a negative list approach will ultimately depend on the size of the negative list. There has been definite movement in opening up more sectors to foreign investment, but there is still a long way to go.

### Three cheers for dialectical materialism

At Friday’s Politburo meeting, Xi stressed that ideology is at the heart of the Party and encouraged officials to enhance their understanding of dialectical materialism. He’s not kidding. Many observers (and quite a few officials) dismiss the use of Marxist concepts as *pro forma*. This misunderstands the very important role that ideology stills play in shaping CCP policy and actions. All China hands would do well to brush up on their Marxism- particularly the Chinese version represented in Mao Zedong Thought, Deng Xiaoping Theory, the Three Represents and Scientific Development. As Xi said Friday, China will remain at the primary stage of socialism for a long time; it’s important to know what that means.

### Xi’s here now

Xi paid a visit to the 14<sup>th</sup> Army group on last week’s inspection tour to Yunnan. The group was founded by Bo Xilai’s father Bo Yibo, and was seen to have strong ties to the younger Bo. In fact, when Wang Lijun went to the American consulate in February 2012, Bo visited the 14<sup>th</sup> Army group museum in Yunnan in an attempt to remind Party and military leaders of his strong connection to the PLA. Xi’s visit last week was a not so subtle signal that he is now the man in charge.

## PBSC Week in Review

**Xi Jinping**

Jan 23

**Xi chaired a Politburo meeting.**

*Approved the National Security Strategy Guidelines.*

**Xi sent congratulations to new Saudi king Salman bin Abdulaziz Al Saud on his accession to the throne.**

**Xi sent condolences to the new King of Saudi Arabia Salman bin Abdulaziz Al Saud, on the passing of King Abdullah bin Abdulaziz.**

**Jan 22** Xi attended the funeral of former PLA general and Politburo member Zhang Wannian.

Xi received the credentials of eight new foreign ambassadors to China.

**Jan 19-21** Xi went on an inspection tour to Yunnan.

**Jan 20** Xi sent instructions to the Central Political and Legal Work Conference.

Xi exchanged congratulatory messages with Afghan President Ashraf Ghani on the 60 years of bilateral relations.

## Li Keqiang

**Jan 23** Attended Politburo meeting.

Returned to Beijing.

**Jan 22** Li met with Zhao Houlin, Secretary-General of International Telecommunication Union.

Li met with World Health Organization (WHO) Director-General Margaret Chan.

**Jan 21** Li delivered a keynote address at the World Economic Forum in Davos, Switzerland.

*Full text of the speech (in Chinese). And in English.*

Li met with Ukrainian President Petro Poroshenko.

Li met with representatives of the International Business Council of the World Economic Forum.

Li met with President Simonetta Sommaruga of the Swiss Confederation.

*Swiss institutions to get USD 8 billion QFII quota.*

Li met with Kazakh Prime Minister Karim Masimov.

Li sent instructions to the National Patriotic Sanitation Work Conference.

**Jan 20** Li sent instructions to a meeting of the China Consumers' Association (CCA).

Li met with Executive Chairman of the World Economic Forum Klaus Schwab.

Li exchanged congratulatory messages with chief executive of the Afghan government Abdullah Abdullah on 60 years of bilateral relations.

Li arrived in Zurich, Switzerland.

		<b>Li left for Switzerland.</b>
	Jan 19	<b>Li chaired an executive meeting of the State Council.</b>
<b>Zhang Dejiang</b>	Jan 23	Attended Politburo meeting.
	Jan 22	Attended funeral of Zhang Wannian.
<b>Yu Zhengsheng</b>	Jan 23	Attended Politburo meeting.
	Jan 22	<b>Yu chaired a biweekly CPPCC symposium.</b> <i>Focused on protecting rights of the disabled.</i>
		Attended funeral of Zhang Wannian.
	Jan 20	<b>Yu attended and spoke at the National United Front Ministerial Conference.</b> <b>Yu chaired a meeting of CPPCC chairmen.</b>
<b>Liu Yunshan</b>	Jan 23	Attended Politburo meeting.
	Jan 22	Attended funeral of Zhang Wannian.
		<b>Liu met with a group of exemplary citizens.</b>
<b>Wang Qishan</b>	Jan 23	Attended Politburo meeting.
	Jan 22	Attended funeral of Zhang Wannian.
<b>Zhang Gaoli</b>	Jan 23	Attended Politburo meeting.
	Jan 22	Attended funeral of Zhang Wannian.
	Jan 19	Attended executive meeting of the State Council.

**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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