

China Politics Weekly

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Dear friends and colleagues,

Your comments and feedback are always welcome. Old issues are always available at www.chinapoliticsweekly.com. Sign up or unsubscribe by sending an email to info@chinapoliticsweekly.com.

Obligatory note on the stock market

Plenty of ink has already been spilled on this (and I'm sure we haven't heard the last of it), but since everybody is asking me about it, here are a few short thoughts:

- The government overreacted, but they had to once they started doing stabilizing measures in late June. Their credibility was at stake.
- No matter what they did, they couldn't immediately halt the slide because of all the margin traders unwinding their positions. This took time (and is perhaps ongoing?) because so many stocks are suspended.
- Just because they intervened so heavily does *not* mean that they have jettisoned their reform agenda. It does, however, mean that stability bias is strong.
- You should buy Chinese equities. We may not have reached the bottom of this correction, but regardless it's a safe bet that the SCI will reflate in the short to medium term. There are a lot of reasons, but the most important are the fact that the government clearly wants to encourage a strong market, and there will be a lot more money flowing into Chinese markets both from domestic and foreign investors.

I've got plenty more to say, so if you want a more detailed analysis, get in touch.

National Insecurity

An excerpt from a recent [piece in the Nikkei Asian Review on China's National Security Law](#):

The new law is a disappointing development from an administration that, at times, has espoused insightful and ambitious solutions to China's problems. The anti-corruption campaign was a much-needed attempt to cleanse a party whose venality had spun out of control. Liberalizing economic reforms spearheaded by Premier Li Keqiang and other economic technocrats have offered a clear path towards structural reforms that would put the economy on a firm footing. But the security law suggests that liberal-minded technocratic policymakers have been overtaken by much more conservative elements in Beijing.

On the upside, however, the vagueness of the law leaves much room for interpretation, and subsequent laws and regulations could serve to ameliorate its conservative tendencies. Perhaps more than any other, China's political system is constantly in a process of change, so the security law should not be taken as the final word on any of the governance issues it addresses.

But in a system that is constantly evolving, it is important to identify guideposts that indicate the direction of change. While not the final word, the security law shows us that China is heading in a more conservative, closed and statist direction. This is not good for China's security, or that of any other country.

More Party...

Speaking of growing conservatism, the Party Central Committee for the first time held a conference this week on improving mass organizations. Xi attended the conference, saying, "Under new circumstances, the work of mass organizations should be improved, not weakened or allowed to stagnate... Mass organizations must maintain a high degree of unity with the CPC Central Committee in thoughts, politics and deeds, and strictly observe political discipline and rules".

What are mass organizations you ask? The four biggest are the All-China Federation of Trade Unions, Communist Youth League, All-China Women's Federation and All-China Federation of Industry and Commerce.

Party efforts to promote mass organizations are closely tied to United Front work, which has also received heavy emphasis under Xi. The result is a steady extension of Party influence and control into ever more aspects of Chinese society.

...less State?

An ever-expanding Party is in sharp contrast to the small government initiatives at the heart of Premier Li Keqiang's policy agenda. On Wednesday the Central Committee and State Council released the Overall Plan for Separation of Industry and Commercial Associations from Administrative Bodies. The plan says that:

- state funding for industry associations will be phased out by 2018;
- associations currently housed within government departments will be required to find new headquarters by 2017;
- government departments will no longer have control over personnel decisions in industry associations; and
- government employees will be prohibited from working in such associations. Senior officials will not be allowed to work in associations in the first three years following retirement.

Industry associations play an important role in China's policymaking, often drafting standards and industry-specific Five-Year Plans. Separating them the government should give broader scope for outside voices to contribute to policymaking.

New world order...

There is an increasingly popular (if highly contested) narrative that the current US-led global order is in the midst of disintegration. Those who ascribe to this view would no doubt find further evidence for their position from events this week in Ufa, Russia. Ufa hosted leaders from the BRICS and Shanghai Cooperation Organization (SCO) member and observer countries for summits of both organizations. The two organizations are growing in prominence; as they do, so does China's influence in the region and the world.

...strengthens old world order.

But China's aggressive diplomacy has provoked a backlash from some neighboring states, particularly in Northeast and Southeast Asia. Vietnamese Communist Party (VCP) General Secretary Nguyen Phu Trong visited the United States this week, the first VCP to ever do so. Nguyen was feted in Washington, in large part because both countries wanted to send a message to China that its ambitions in the region will not go unchecked.

Similar signals came out of Indonesia this week where reports said that the Indonesian military is planning to build a new base in the South China Sea.

Asia is a dynamic region where traditional powers the United States and Japan are in relative decline. As China (and other countries in the region) continue to grow and become more assertive we should expect to see a lot of active diplomatic and military maneuvering as all actors in the region seek to optimally position themselves in a changing environment.

PBSC Week in Review

Xi Jinping	July 11	Xi returned to Beijing.
	July 10	Xi attended the Shanghai Cooperation Organization (SCO) Summit. <i>Full text of Xi's remarks (in Chinese).</i> Xi met with Prime Minister of Pakistan Nawaz Sharif. Xi met with Afghan President Ashraf Ghani. Xi met with President of Uzbekistan Islam Karimov.
	July 9	Xi attended the BRICS Summit. <i>Full text of his remarks (in Chinese).</i> Xi attended a dialogue with leaders from the BRICS, Eurasian Economic Union and Shanghai Cooperation Organization member and observer countries. Xi met with representatives of the BRICS Business Council. Xi held a trilateral summit with Russian President Vladimir Putin and Mongolian President Tsakhiagiin Elbegdorj. Xi met with Brazilian President Dilma Rousseff. Xi met with South African President Jacob Zuma.
July 8	Xi met with Russian President Vladimir Putin. Xi met with Indian Prime Minister Narendra Modi. Xi flew from Beijing to Ufa, Russia.	

July 7 Xi visited an exhibition at the Museum of the War of Chinese People's Resistance against Japanese Aggression.

July 6 Xi attended and spoke at a Central Committee meeting devoted to improving mass organizations.

Li Keqiang July 11 Li sent a note to the Fifth National Professional Skill Competition for Disabled People.

July 9 Li chaired a meeting with selected provincial leaders to discuss the economic situation.
Heads of governments in Hebei, Liaoning, Jiangsu, Henan, Guangdong, Sichuan, Shaanxi and Inner Mongolia in attendance.

July 8 Li chaired an executive meeting of the State Council.

July 7 Visited exhibition at the Museum of the War of Chinese People's Resistance against Japanese Aggression.

July 6 Attended Central Committee meeting devoted to improving mass organizations.

Li met with representatives of the First Global Overseas Chinese Industry and Commerce Convention.

Zhang Dejiang July 7 Zhang met with Vice Speaker of the South Korean National Assembly Jeong Kabyoon.

July 7 Visited exhibition at the Museum of the War of Chinese People's Resistance against Japanese Aggression.

July 6 Attended Central Committee meeting devoted to improving mass organizations.

Zhang held talks with Mexican President of Senate Miguel Barbosa Huerta.

Yu Zhengsheng July 10 Yu chaired a CPPCC symposium to discuss reform of the administrative approval system.

July 8 Yu met with President of the Mexican Senate Miguel Barbosa Huerta.

Yu met with Zimbabwean Vice President Emmerson Mnangagwa.

July 7 Visited exhibition at the Museum of the War of Chinese People's Resistance against Japanese Aggression.

July 6 Attended Central Committee meeting devoted to improving mass organizations.

Liu Yunshan	July 9-11	Liu went on inspection tour to Ningxia.
	July 7	Visited exhibition at the Museum of the War of Chinese People's Resistance against Japanese Aggression.
	July 6	Attended and spoke Central Committee meeting devoted to improving mass organizations.
Wang Qishan	July 8-10	Wang went on inspection tour to Shaanxi.
	July 7	Visited exhibition at the Museum of the War of Chinese People's Resistance against Japanese Aggression.
	July 6	Attended Central Committee meeting devoted to improving mass organizations.
Zhang Gaoli	July 8	Zhang met with Belarusian Vice-Prime Minister Anatoly Kalinin.
	July 7	Visited exhibition at the Museum of the War of Chinese People's Resistance against Japanese Aggression.
	July 6	Attended Central Committee meeting devoted to improving mass organizations.

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. You can find out more about Trey and CPW in [this interview](#).

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