

China Politics Weekly

Issue No. 5 – February 25, 2014



Dear friends and colleagues,

We're back, sort of. As I continue to deal with some health problems, it will likely be several weeks (or longer) before CPW is back to full strength. In the meantime, the newsletter will come out in abbreviated form. As always, questions and comments are always welcome. Old issues are available at www.chinapoliticsweekly.com.

Didn't we talk about this last week?

The big news this past week was a weeklong (!) workshop for provincial and ministerial level officials on deepening reform held at the Central Party School. All seven PBSC members attended on the opening day, and Xi, Li, Liu Yunshan and Zhang Gaoli also gave lectures at different points throughout the week. The workshop focused on implementation, and is the latest in a string of clear signs that Xi is serious about structural reforms. Business leaders and investors should make sure they understand the implications of the Third Plenum decisions for their respective sectors.

Tax time

One area of reform that will affect all businesses is changes to the tax system. Executive Vice Premier Zhang Gaoli's speech at the workshop was on fiscal reform, and we are certain to see some big changes over the next two years. Press coverage of the speech offered few details, but did say that reforms will focus on "[matching administrative power of government with financial resources](#)" and improving transparency. It is likely that local governments could introduce new property, environmental and consumption taxes.

As far as transparency goes, it will be telling to see if the central government budget is more detailed than in years past when it is unveiled by the Ministry of Finance next week.

If you are trying to understand where fiscal reform may be headed, a good place to look is [this paper](#) (in Chinese) presented by [recently appointed](#) PBOC chief economist Ma Jun at the China Financial 40 Forum last June.

Whoa there...slow down!

Speaking of Ma Jun, he was a little bit of a joke around CPW headquarters after he forecast 2014 GDP growth

to be 8.6% while still at Deutsche Bank last month. Considering all the deleveraging that needs to happen, 5% is a more likely scenario than 8.6%, especially when Xi Jinping himself has [characterized the economy as transitioning to a slower rate of growth](#). That said, the most likely scenario is growth around 7-7.5% as the government tries to find a balance between maintaining social stability and enforcing market discipline. Li Keqiang should unveil the government's growth target next Wednesday when he delivers the government's work report at the NPC.

Safety first

[People's Daily has a site](#) (run in cooperation with Tencent) that asks readers which issues they most want to see addressed at the NPC's annual meeting. The top three are 1) social security; 2) corruption; and 3) food and drug safety.

Bank notes

The PBOC is [urging banks to step up loan support to agricultural development, consumer technologies, solar energy producers and makers of motor vehicles powered by alternative energy sources](#).

The central bank also published [aggregate financing to the real economy in 2013](#), broken down by province for the first time.

Tiger fishing

[Results of the CDIC's second round of inspection tours](#) are beginning to come in. It will be interesting to see if they netted any "tigers", as well as see if the Party attempts to use the anti-corruption campaign to clean up the rot in the financial sector.

Top Leaders Week in Review

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| Xi Jinping | Feb 24 | Xi chaired a meeting of the Politburo to discuss the Government Work Report for 2014. |
| | Feb 21 | Xi met with French foreign minister Laurent Fabius. <i>Fabius flew to Beijing from Kiev. The Chinese government has not publically taken sides on the protests in Ukraine; however, the government-run Global Times has said that the protests are evidence of Western meddling in the internal affairs of other nations, and that China should beware of similar efforts by foreign powers to create unrest in China. Did Xi and Fabius discuss Ukraine?</i> |
| | | Xi met with a delegation from South Korea's National Assembly. <i>PRC-ROK relations looking strong recently, as both bristle against increasing nationalism in Japan. Leader of Korean delegation Chung Mong-joon stated, "The biggest threats to Northeast Asia are North Korea's nuclear armament and the erroneous perception of history by Japanese politicians."</i> |
| | | People's Daily announced that all military and security personnel are encouraged to read and study Xi's recently published Selected Important Discourse on National Defense and Military Construction. |

Feb 19 **Xi met with Pakistani president Mamnoon Hussain.**
The two sides signed four MOUs on 1) China Pakistan Economic Corridor; 2) Gwadar Airport; 3) Karakoram Highway; and 4) hydropower research.

Feb 18 **Following approval by Xi and the Central Military Commission, the PLA Political Department published opinions on improving the evaluation system for cadres in the military.**

Xi met with Kuomintang Honorary Chairman Lien Chan at the Diaoyutai State Guesthouse.

Xi smartly showing a soft touch on Taiwan issues, letting mentions of the ROC slide without comment, and saying that "the mainland respects the social system and lifestyle that Taiwan compatriots have chosen." Xi's complete remarks (in Chinese) are here.

Feb 17 **Xi spoke at a workshop on deepening reform held at the Central Party School for ministerial-level officials.**

Beijing Youth Daily published a summary of Xi's activities since becoming general secretary in November 2012.

According to official sources, in his first 15 months Xi spent 39 days on domestic inspection tours and 39 days travelling abroad. He also chaired 12 Politburo study sessions, which focused on governance and theory (methodology and principals of historical materialism; socialism with Chinese characteristics; corruption; rule of law; 18th Party Congress spirit; deepening reform) as well as more concrete policy areas (soft power; guaranteed housing; innovation; maritime power; environmental sustainability; foreign policy).

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| Li Keqiang | Feb 24 | Li met with chairman of the Vietnam Fatherland Front Nguyen Thien Nhan. |
| | Feb 21 | Li met with Senegalese president Macky Sall. |
| | Feb 20 | Li met with President of Pakistan Mamnoon Hussain. <i>Focus is on developing China-Pakistan economic corridor. Goal for the Chinese is to connect Kashgar with Pakistani port of Gwadar; this would greatly reduce the distance that Middle East oil and gas has to travel to reach China, and also avoids Straits of Malacca, which is a major security vulnerability for China.</i> |
| | Feb 18 | Li spoke on deepening economic reforms at workshop for provincial and ministerial level officials held at Central Party School. |
| | Feb 17 | Attended workshop at Central Party School on deepening reform. |
| Zhang Dejiang | Feb 21 | Zhang met with Senegalese president Macky Sall. |

Feb 20 **Zhang met delegation from South Korea's National Assembly.**
Zhang, who studied in North Korea, is apparently a conduit for information between the DPRK and ROK. On Thursday, he told the Korean delegation that North Korea is open to reinstituting tours for South Koreans. Perhaps part of the reason that Zhang was named vice chairman of the National Security Commission is because of his North Korea ties?

Feb 19 **Zhang met with President of Pakistan Mamnoon Hussain.**

Feb 17 **Zhang chaired a meeting of NPC chairmen, announced that NPC Standing Committee will meet from Feb. 25-27 to finalize work report to be delivered at NPC annual meeting starting March 5.**

Attended workshop at Central Party School on deepening reform.

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| Yu Zhengsheng | Feb 23 | Yu met with chairman of the Vietnam Fatherland Front Nguyen Thien Nhan. <i>CPPCC and VFF signed MOU of cooperation through 2019.</i> |
| | Feb 21 | Yu met with members of the Western Returned Scholars Association. |
| | Feb 20 | Yu chaired meeting of CPPCC presidium; preparations were made for annual CPPCC meeting to begin on March 3. |
| | Feb 19 | Yu met with KMT honorary chairman Lien Chan. |
| | Feb 17 | Yu met with a delegation from the Spanish Senate. |

Attended workshop at Central Party School on deepening reform.

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| Liu Yunshan | Feb 23 | Liu urged further implementation of the Mass Line Education Campaign. |
| | Feb 21 | Liu gave the closing speech at the end of the weeklong workshop for provincial and ministerial level officials at the Central Party School. |
| | Feb 19 | Liu gave a speech on party-building at workshop for ministerial and provincial level officials at Central Party School. |
| | Feb 17 | Chaired workshop at Central Party School on deepening reform. |

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| Wang Qishan | Feb 17 | Attended workshop at Central Party School on deepening reform. |
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| Zhang Gaoli | Feb 19 | Zhang spoke on need for fiscal system reform at the provincial and ministerial level officials workshop at the Central Party school; stressed the need to coordinate revenues and expenditures and increase transparency of government budgets. |
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- Feb 18** **Zhang chaired meeting on economic reform at workshop for provincial and ministerial level officials at Central Party School.**
- Feb 17** **Attended workshop at Central Party School on deepening reform.**

China Politics Weekly aims to keep business leaders, investors, diplomats, scholars and other China hands up to date on important trends in China.

Want to help? Please tell us how we can make this newsletter more useful to you. Feedback on both form and content are always welcome, as are suggestions for topics to be covered. Please contact us at info@chinapoliticsweekly.com. We look forward to hearing from you.