

# China Politics Weekly

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Dear friends and colleagues,

This week's newsletter below. Comments and feedback always welcome. I will be on vacation this coming week, so next week's issue may be abbreviated and/or delayed. 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).

It was a busy week for the top leadership. The State Council held an executive meeting where they decided reform priorities for the year, the National People's Congress (NPC) confirmed its legislative agenda for the year, the recently formed National Security Commission (NSC) convened its first meeting, and the Mass Line Education and anti-corruption campaigns continued with more study sessions and discipline inspections, respectively. To top things off, on Thursday, [the NDRC officially began the 13<sup>th</sup> Five-Year Plan drafting process](#). Just another week in the People's Republic.

## The enemy within

At the NSC's inaugural meeting, Xi called for "national security with Chinese characteristics," which apparently is a way of saying that everything falls within the ambit of national security. The NSC has designated 11 key areas of focus: politics, territory, military, economy, culture, society, science and technology, information, ecology, nuclear, and natural resources. The bias towards internal issues in this list makes it clear that leaders are much more worried about domestic terrorism and civil unrest than any external threat.

It's an open question whether Xi's focus on internal security lowers the country's risk profile or, alternatively, is proof that risk has been underestimated and should be revised upwards. Either way, businesses in China should carry out an assessment of potential risks to operations arising from both terrorism and civil unrest, and develop solid crisis management and contingency plans.

## Growing to safety

Missing in most coverage of the NSC meeting is the emphasis that Xi put on economic development as the key to ensuring national security. This has been China's philosophy since Deng, and should comfort those that see Xi's focus on security as a potential threat to further opening of the economy. We are likely to see a continued tightening over media and education, but Xi and his administration have also been very clear in their desire to move the economy to a more rules-based, market-driven system. Chinese leaders do not see these goals as

contradictory, and foreign businessmen and investors should not misinterpret a stronger Party as necessarily leading to more state control of the economy.

Echoing Xi's statements at the NSC, Li Keqiang reiterated at Wednesday's State Council meeting that "development is still China's primary task." He was also quick to point out that the key to ensuring development is further market-oriented reforms, and that simplifying administrative approvals and improving transparency will be the government's priorities for the coming year.

Li stated that Q1's 7.4% growth was in the acceptable range, and that despite continued downward pressure on the economy the government will not resort to large-scale stimulus measures. Li was very firm that there would be no monetary easing, though we are likely to see targeted fiscal measures, such as the extension of tax breaks for SMEs announced last week, and the tax breaks for employers announced this week. All this means that growth is likely to slow further in Q2; however, the government's acceptance of lower growth and apparent commitment to carry out structural reforms should be welcomed as they should help to ensure sustainable growth in the medium term.

### Playing catch up

In addition to internal security, China will also continue to upgrade its military. Despite a more assertive stance in the East and South China Seas, Chinese leaders are deeply insecure about the country's military. It has no combat experience since 1979 and, in most cases, uses imported, outdated equipment and technologies. Such insecurities were doubtless stoked this week when the commander of the US's 18,000 troops in Okinawa [said that the US could easily secure the Senkaku / Diaoyu islands if needs be](#).

Xi signaled further modernization when he visited People's Liberation Air Force headquarters Monday and called for integrating air and space capabilities. Four days later, the China Academy of Launch Vehicle Technology [released China's first Space Situational Assessment Report](#). The report details how far behind China's space capabilities are when compared to the West, and particularly the US. This is hardly a surprising analysis from an organization that stands to receive a lot of money from increased investment in space-related technology. Nevertheless, the report and Xi's visit to the PLAF signal more government spending on aerospace. For a host of reasons, aerospace MNCs are unlikely to directly benefit, but are likely to indirectly benefit through spillover effects into the commercial and general aviation sector.

### Law and order

The NPC confirmed its legislative agenda for the year. The budget, environmental protection, air pollution prevention, administrative procedure, production safety and food safety laws will all be amended. The legislature will also create a cyber security law and publish legal interpretations for the criminal and criminal procedure laws. All laws go through a multi-stage drafting process and should be open to public consultation. Businesses should track the laws pertinent to their business and seek to contribute where possible and/or appropriate.

When trying to assess the impact of new laws and regulations, it is also important to remember that China is still very much a "rule by law" as opposed to "rule of law" society; as such, enforcement is key. Tougher environmental laws will not mean much if the MEP and other organizations continue to function as second-tier regulators when compared to stronger organizations such as NDRC, MIIT and local governments.

## Discipline and punish

One organization that can not be faulted for a lack of enforcement is the Central Discipline and Inspection Committee (CDIC). The anti-corruption campaign continued apace this week as the CDIC announced that it [punished 4,599 officials for breaking the “eight rules” in March](#) and has [increased its capacity since the 18<sup>th</sup> Party Congress](#) by adding four investigative divisions and 100 investigators. The campaign only seems to be gaining steam with [Ministry of Justice](#) and [Supreme People’s Court](#) both making prominent announcements about their own anti-corruption efforts.

The campaign continues to go after “vested interests” by investigating senior officials at major central-level SOEs. [China Resources \(Huarun\) chairman Song Lin](#), a [Bank of China vice president](#) and [top CNPC officials](#) have all come under investigation of late. The case of Song sends a particularly strong message, as he is rumored to be very close to former CDIC head and PBCS member He Guoqiang.

While the focus of the campaign is on Party officials, MNCs are not immune from investigation. Recent reports that [GlaxoSmithKline is cutting China staff after its corruption scandal last year](#) should serve as a reminder of how lax compliance and turning a blind eye to dubious behavior can have major consequences for businesses operating in the market.

## PBSC Week in Review

Xi Jinping	Apr 20	<a href="#">Xi sent a telegram to President of Gabon Ali Bongo Ondimba celebrating 40 years of China-Gabon relations.</a>
	Apr 19	<a href="#">Xi sent congratulations to Abdelaziz Bouteflika on his re-election as Algerian president.</a>
	Apr 17	<a href="#">Xi sent his condolences to South Korean President Park Geun-hye regarding the passenger ferry accident.</a>
	Apr 16	<a href="#">Xi sent his condolences to Nigerian President Jonathan Goodluck regarding the bomb attack in Abuja.</a>
	Apr 15	<a href="#">Xi chaired the first meeting of the National Security Commission.</a>
		<a href="#">Xi met with Russian Foreign Minister Sergei Lavrov.</a>
		<a href="#">Xi met with President of the Brazilian Chamber of Deputies Henrique Eduardo Alves.</a>
	Apr 14	<a href="#">Xi inspected Air Force headquarters in Beijing.</a> <a href="#">Called on air force to integrate space and air capabilities.</a>
Li Keqiang	Apr 19	<a href="#">Li encouraged better compilation and preservation of local historical records.</a>

	Apr 18	Li presided over a meeting of the State Energy Commission.
	Apr 17	Li sent his condolences to South Korean Prime Minister Jung Hong-won regarding the passenger ferry accident.  Li met with CEO of News Corp Richard Thomson.
	Apr 16	Li chaired and executive meeting of the State Council.  Li talked by telephone with Prime Minister Viktor Orbán of Hungary.
	Apr 15	Attended first meeting of the National Security Commission.
	Apr 14	Li met with German Foreign Minister Frank-Walter Steinmeier.
Zhang Dejiang	Apr 15	Attended first meeting of the National Security Commission.
	Apr 14	Zhang chaired an NPC Standing Committee Chairmen's Meeting. <i>In preparation for bi-monthly NPC Standing Committee Meeting to be held next Monday through Thursday. Among various items on agenda are revisions to the Environmental Protection Law and the Budget Law.</i>  Zhang held talks with Henrique Eduardo Alves, President of the Brazilian Chamber of Deputies.
Yu Zhengsheng	Apr 17	Yu chaired a CPPCC symposium on the development of Chinese language education overseas.
	Apr 16	Yu met with Taiwanese trade union leaders. <i>Trying to gain support for further economic integration. On same day, Taiwan Affairs Office said that it would encourage more Taiwanese students to study on the mainland.</i>
Liu Yunshan	Apr 18	Liu spoke at a symposium for government, SOE and educational institution leaders on improving work styles.
	Apr 16	Liu chaired the seventh study session of Xi Jinping's statements for ministerial and provincial level officials.
	Apr 15	Liu met with Volker Kauder, leader of Germany's Christian Democratic Union party.
Wang Qishan	Apr 14	Wang inspected Party work and central Party and government bodies. <i>Wang said, "Discipline should be tightened in politics, organizations, finance, work and daily life." On the same day the CDIC announced 220 recent violations of Party frugality rules.</i>

## Zhang Gaoli

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

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