

China Politics Weekly

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Dear friends and colleagues,

China goes on holiday Thursday for International Labor Day. Given that nothing is likely to happen in the following days and that this week's newsletter is coming out a few days late, the next issue of CPW will come out at the end of next week.

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

Dirty money

China's legislature has passed a new Environmental Protection Law that takes effect on Jan 1, 2015. The new law looks good on paper, laying out much stricter fines and punishments for polluters and complicit officials and allowing environmental NGOs to take legal action against offending companies. However, as [MEP Vice Minister Pan Yue stated in an interview after the legislation was passed](#), "Good environmental law only gets you halfway there. It needs to be implemented."

In the mid-2000s Pan was an outspoken champion of stronger environmental regulations, but was sidelined after the 17th National Party Congress in 2007. Though he stayed on as Vice Minister of Environment, his portfolio was scaled back and his influence waned. If Pan's statement is evidence of his reemergence, it should bode well for enforcement of the new law.

Cash-strapped local governments may also find the new law a convenient way of increasing revenue. The past few years have seen local governments being much more aggressive in imposing fines and fees on business as they look to limit budget shortfalls. MNCs tend to be the preferred targets of such actions; companies should make sure they are in compliance with the new law before it comes into effect next year.

Helping hand

China's growing government debt is also spurring the government to promote public private partnerships (PPP) in an effort to get companies to contribute more to providing infrastructure and public services. At last week's State Council meeting, the government said that it will allow private investment into major infrastructure projects in railways and ports, and eventually into other state-controlled sectors such as airports, utilities and oil and gas.

The new policy provides opportunities for private companies to win kudos with government officials while also making a handsome profit. China abounds with underserved areas that could provide steady, long term returns for investors capable of making large upfront investments; for example, a new freight line to transport Inner Mongolia's abundant, but trapped, coal seems certain to be a sound investment given China's ever-increasing energy demand.

Many of these opportunities will come in China's less-developed central and western regions where investment-led growth is still the order of the day. Li Keqiang promoted the Develop the West policy in his trip to Chongqing this week; operations in coastal provinces that have seen incentives from local governments dry up in recent years should find a more friendly investment environment inland.

What do you think

Infrastructure isn't the only thing the government is seeking to outsource- it also wants some help with policymaking. Last Wednesday, [the NDRC released the 25 areas of study for the 13th Five Year Plan](#). The NDRC has [asked for outside organizations](#)- including large companies and international organizations- to research these topics. Interested companies should send an email to 13-5plan@ndrc.gov.cn before May 5. All research must be completed by August.

As China's policymaking process becomes more open and systematized, companies should refine their government relations strategies accordingly. China's "big government" market means that business success is often predicated on being in line with policy trends. As channels for engagement multiply, companies need effective systems for mapping stakeholders, tracking issues and prioritizing outreach.

Risky business

The Politburo held its latest study session last Friday, at which fighting terrorism was one of the key focuses. As if to reinforce the point, Xi then headed to Xinjiang, the "frontline on terrorism", where he visited military and armed police units and once again vowed to fight terrorism.

Pouring more money into counterterrorism efforts may help to prevent large-scale attacks. But Xi's calls for increased vigilance are also likely to have unwanted consequences at the local level. In the past week local officials outside Turpan [detained 100 people for growing beards or wearing veils](#). Earlier this month, [officials in Xayar County encouraged people to report those growing beards to the police](#). Such moves are likely to increase the ethnic tensions that are at the heart of China's domestic terrorism problem.

We seem to say this every week, but China looks like an increasingly risky place to do business. Something to think about before you make that investment in China's infrastructure that only pays off after 20 years...

Trading places

The main focus of this week's State Council meeting was trade. The government renewed promises to further reduce tariffs in several areas where advanced economies have a comparative advantage, including services, advanced technological equipment and critical components. The government will also further simplify customs procedures. Good news for everybody.

Serve the people (who own the means of production)

Xi wished the workers of China and the world a happy International Worker's Day, and Wednesday's State Council meeting discussed "ensuring the basic rights and benefits of workers". However, neither Xi nor Li mentioned giving labor unions and other organizations stronger legal protections. This is a poignant omission given the recent massive strike in Dongguan. Just so there was no confusion, the government also [arrested the labor rights advocate who was advising the strikers](#).

China may be loathe to allow workers to organize outside official channels, but this will do nothing to stop the general trend of rising demands from workers and a consequent rise in labor costs. China's workers, both skilled and unskilled, are increasingly savvy, and quick to demand more when they feel they are undercompensated. As labor supply continues to shrink, labor's position will only become stronger. Companies in China need to factor in significant increases in labor costs into their long term planning.

PBSC Week in Review

Xi Jinping	Apr 30	Xi watched the PLA perform combat exercises in Xinjiang.
		Xi sent expressed his respect for workers worldwide in advance of International Worker's Day.
	Apr 29	Xi exchanged congratulatory messages with Mongolian President Tsakhiagiin Elbegdorj celebrating the 20 th anniversary of the Treaty on Friendly Relations and Cooperation between Mongolia and China.
		Xi appointed new ambassadors to Nigeria, Syria and Iran.
	Apr 28	Xi continued his inspection tour in Xinjiang.
	Apr 27	Xi went on an inspection tour to Xinjiang.
	Apr 25	Xi chaired a meeting of the Politburo on national security, social stability and economic work.
	Apr 24	Xi held talks with Queen Margrethe II of Denmark.
	Apr 23	Xi spoke with South Korean president Park Geun-hye by telephone.
Li Keqiang	Apr 30	Li chaired an executive meeting of the State Council.
		Li spoke with Australian Prime Minister Tony Abbot by telephone about the search for flight MH370.
	Apr 29	Li finished his inspection tour to Chongqing.

Li met with former US Treasury Secretary Tim Geithner.

Geithner now at PE firm Warburg Pincus, which is bidding for a stake in Huarong, China's largest asset management company.

Li exchanged congratulatory messages with Mongolian Prime Minister Noroviin Altanhuyag celebrating the 20th anniversary of the Treaty on Friendly Relations and Cooperation between Mongolia and China.

Apr 28 **Li chaired a meeting on developing the Yangtze River in Chongqing.**

Apr 27 **Li went on an inspection tour to Chongqing.**

Apr 25 **Li met with Queen Margrethe II of Denmark.**

Apr 24 **Li met with Eric Cantor and other American congressmen.**

Apr 23 **Li chaired an executive meeting of the State Council.**

Li met with British Health Secretary Jeremy Hunt.

Apr 22 **Li sent written instructions to a national conference on promoting rural finance.**

Li sent written instructions to a national meeting on the implementation of the new social assistance regulations.

Li met with Vice Chancellor and Minister for Economic Affairs and Energy Sigmar Gabriel of Germany.

**Zhang
Dejiang**

Apr 25 **Zhang met with Queen Margrethe II of Denmark.**

Apr 24 **Zhang presided over the closing of the NPC Standing Committee meeting.**

Zhang chaired a meeting of the NPC Standing Committee chairmen.

Zhang met with American House Majority Leader Eric Cantor.

Apr 23 **Zhang chaired an NPC Standing Committee Chairmen's Meeting.**

Apr 22 **Zhang participated in deliberations of the new Environmental Protection Law at the NPC Standing Committee meeting.**

Apr 21 **Zhang presided over an NPC Standing Committee meeting.**

**Yu
Zhengsheng**

Apr 29 **Yu accompanied Xi on his inspection tour to Xinjiang.**

	Apr 28	Yu accompanied Xi on his inspection tour to Xinjiang.
	Apr 27	Yu accompanied Xi on his inspection tour to Xinjiang.
	Apr 24	Yu met with top Taiwan and Hong Kong business leaders.
Liu Yunshan	Apr 29	Liu attended the spring graduation ceremony for the Central Party School.
	Apr 27	Liu chaired a meeting of the Mass Line Education Campaign Leading Small Group.
	Apr 26	Liu spoke at a symposium commemorating revolutionary leader Reb Bishi.
	Apr 22	Liu went on an inspection tour to Liaoning.
	Apr 21	Liu went on an inspection tour to Liaoning.

Wang Qishan

Zhang Gaoli	Apr 28	Zhang attended the meeting on Yangtze River development in Chongqing.
	Apr 24	Zhang met with researchers from China's 30 th Antarctic expedition.
	Apr 23	Zhang met with Connie Hedegaard, the European Commission's Commissioner for Climate Action.
	Apr 22	Zhang met with Iranian Finance and Economic Affairs Minister Ali Tayyebnia.

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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