

China Politics Weekly

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Dear friends and colleagues,

I am trying to dash this one off in a hurry, so apologies in advance for any typos. I'm still on the road for a few weeks, and issues will continue to be delayed and/or abbreviated during that time.

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.

Beijing is busy this week now that Li and Liu are back from Europe and Yu is back from Fujian. With Li back in town the State Council held an executive meeting and the NPC and CPPCC are both holding standing committee meetings.

The sky is not falling...

Contrary to many of my bearish friends in Beijing, the investors, officials, analysts and economists that I have met with in the past two weeks while traveling in New York and DC are for the most part more sanguine on China's economy. Every one agrees that the economy is slowing, but few think that anything disastrous is on the horizon.

The dropoff in the property sector is leading the slowdown, but underlying housing demand looks to remain strong. Local governments have been easing restrictions on purchases recently, and these should help to stabilize demand. The recent drop in prices has potential buyers holding off on purchases in the hopes that prices will fall even more; once prices stabilize we should see purchases pick back up.

Problems in the financial sector are real (see below), but the government appears to have the tools to keep things from getting out of hand, at least for now. Top officials have made it exceedingly clear in recent weeks that they intend to hit the GDP growth target for this year; bet against them at your own risk.

...probably...

Another observation from my trip is that nobody, no matter what their access or acumen, can confidently say that they know what is going on. Even Chinese government officials or businessmen often do not know what is going on in their policy area or industry. This is not because of incompetence. It is the result of poor data and an opaque system.

These problems are now exacerbated by the rapid pace of change with regards to policies, politics, laws and regulations. This has been the case for decades, but is even more so the case now as the economy increases in complexity and the government attempts to undertake large-scale economic restructuring.

This uncertainty hurts the business environment and increases risk. It's more important than ever for China-focused businesses and investors to invest in intelligence and analysis that they can trust. Traditional channels for information should be assessed, as well as augmented by other sources and points of view. As growth slows, the margin for error will as well, and those who can read the tea leaves correctly are the most likely to succeed.

Law time

The NPC's bi-monthly standing committee meeting is convening from Monday to Friday this week. Reviewing a revision to the Food Safety Law tops the agenda, an unusual move considering that the original law was passed only five years ago.

The review is evidence of an administration that is trying to respond to a public that is increasingly upset, and increasingly vocal, regarding quality of life issues. Food safety, pollution, a social safety net and affordable housing top the list of public concerns in China- expect further government action in these areas.

The Food Safety Law amendment includes penalties for officials who violate or fail to enforce the regulations. This government is making a lot of noise about the need for more and better enforcement while also looking to tighten regulations across a broad spectrum of areas. Companies used to operating in a comfortable grey zone need to make sure that they don't get caught off guard by the new regulatory environment.

It's under control, but we've got a problem

Also on the NPC's agenda for this week is reviewing reports on government finances and the financial system presented by the Ministry of Finance (MOF), National Audit Office (NAO) and the People's Bank of China (PBOC). Finance minister Lou Jiwei said that the central government is unlikely to meet its revenue targets, while PBOC vice governor Liu Shiyu reported that the financial system is looking shakier as risks from rising corporate debts, increases in NPLs and liquidity shortages all grow. The NAO reported all types of budgetary malfeasance.

The collection of these reports is like a Rorschach Test for China watchers. The bears will tell you that the problems are so bad they can't hide them. The bulls will tell you that admitting the problems is the first step to solving them. The reasonable people can see that they're both right.

This isn't funny

At a recent press conference in London, Premier Li called on a female reporter "in the name of human rights". It was awkward and weird. It also wasn't the first time that a Chinese official traveling abroad has made awkward remarks when trying to go off-script. In Washington, DC last year for the US-China Strategic and Economic Dialogue (S&ED), Vice Premier Wang Yang blessed us all with this pearl: "In China when we say a pair of new people, we mean a newlywed couple. Although US law does permit marriage between two men, I don't think this is what [US Treasury Secretary] Jacob [Lew] or I actually want."

Amazingly (or perhaps predictably), the Chinese press has reported on both of these gaffes as evidence of the new leaders' gift for witty repartee. For those of us not in the official Chinese media, these "new-style" Chinese politicians almost make us yearn for Hu Jintao.

Be careful

Don't turn your back on the anti-corruption campaign. It's still in full swing, as the recent detention of Su Rong shows. We still don't know what the endgame here is.

PBSC Week in Review

Xi Jinping	June 25	Xi sent instructions to officials to crack down on illegal drugs.
	June 24	Xi met with Malaysian Speaker of the House of Representatives Pandikar Amin Mulia.
		Xi met with a delegation of teachers and students from the Nazarbayev University of Kazakhstan.
	June 23	Xi sent instructions to a national work conference on vocational education.
	June 22	Xi attended the funeral for Wang Wenyan, former head of the Jiusan Society.
	June 20	Xi sent a congratulatory message to the president of Trinidad and Tobago on the 40 th anniversary of the establishment of diplomatic relations.
	June 19	Xi sent congratulations to King Felipe VI of Spain on his ascension to the throne.
	June 17	Xi attended the 12th Air Force Party Congress.
	June 13	Xi chaired a meeting of the Central Finance and Economics Leading Small Group. <i>Focus was on energy.</i>
	June 12	Xi held talks with President of the Republic of Congo Denis Sassou Nguesso.
	June 11	Xi met with Italian Prime Minister Matteo Renzi.

Li Keqiang	June 25	Li chaired an executive meeting of the State Council. <i>Focus was on agriculture. China will increase grain reserves, boost storage capacity and maintain price stability for core agricultural products through farmer and consumer subsidies.</i> <i>Sinograin has been pushing for a "red line" for grain reserves. No red line mentioned, but definitely a step in that direction.</i>
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- June 23** Li gave a speech to attendees at the national work conference on vocational education.
- June 22** Li left Greece for Beijing.
- June 21** Li met with Governor of Crete Stavros Arnaoutakis.
- Li visited the Iraklion Archaeological Museum.
- June 20**
- Li met with President of Greece Karolos Papoulias.
- Li visited the COSCO-run Piraeus Port with Prime Minister of Greece Antonis Samaris.
- Li addressed the China-Greece Maritime Cooperation Forum.
- Li sent a congratulatory message to the prime minister of Trinidad and Tobago on the 40th anniversary of the establishment of diplomatic relations.
- June 19** Li arrived in Athens, Greece.
- Li held talks with Prime Minister of Greece Antonis Samaris.
- Li held a press conference with Prime Minister of Greece Antonis Samaris.
- Li met with Speaker of the Greek Parliament Evangelos Meimarakis.
- June 18** Li addressed the first meeting of the China-UK Financial Forum.
- Li gave a speech on inclusive development at an event hosted by Chatham House and IISS.
- Li met with Labour Party leader Ed Miliband.
- Li met with Lord Speaker of British House of Lords Baroness D'Souza.
- Li met with the 48 Group Club.
- June 17**
- Li attended China-UK Global Economic Round-table along with British Prime Minister David Cameron, IMF Managing Director Christine Lagarde and World Bank President Jim Yong Kim.

		Li held a press conference with British Prime Minister David Cameron.
		Li spoke at a welcome banquet hosted by business delegates.
		Li and his wife had tea with Cameron and his wife at 10 Downing Street.
		Li met Queen Elizabeth II of England.
	June 16	Li arrived in London.
	June 13	Li met with President of the Republic of Congo Denis Sassou Nguesso.
		Attended meeting of Central Finance and Economics Leading Small Group.
	June 11	Li chaired an executive meeting of the State Council. <i>Discussed developing Yangtze River Economic Belt, approved Logistics Industry Development Plan and harmonized tax rate for small-scale water supply companies.</i>
		Li held talks with Italian Prime Minister Matteo Renzi.
Zhang Dejiang	June 25	Zhang chaired an NPC Standing Committee meeting.
		Zhang participated in group reviews of audit work and central government finances at an NPC Standing Committee meeting.
	June 24	Zhang attended a full session of the NPC Standing Committee. Zhang met with Malaysian Speaker of the House of Representatives Pandikar Amin Mulia
	June 23	Zhang chaired NPC Standing Committee meeting.
	June 22	Attended Wang Wenyan funeral.
	June 16	Zhang chaired an NPC chairmen's meeting. <i>NPC Standing Committee meeting will be next week.</i>
	June 13	Zhang met with Denis Sassou Nguesso, president of the Republic of Congo.
	June 11	Zhang met with Italian Prime Minister Matteo Renzi.
Yu Zhengsheng	June 25	Yu spoke at the closing of the CPPCC Standing Committee's three-day meeting focused on the "decisive" role of the market in resource allocation. <i>Approved a slew of leadership changes necessitated by expulsion of Su Rong.</i>

	June 24	Yu attended a CPPCC Standing Committee meeting. <i>Discussed market's "decisive" role in allocating resources.</i>
		Yu met with a delegation from Japan's opposition Social Democratic Party.
	June 23	Yu chaired a CPPCC Standing Committee meeting on market's "decisive" role in resource allocation. <i>Vice Premier Wang Yang gave report.</i>
	June 22	Attended Wang Wenyan funeral.
	June 20	Yu chaired a symposium for non-Party experts to discuss social development issues.
	June 17	Yu attended and spoke at the first session of the fourth China Economic and Social Council (CESC) congress. Yu spoke at a conference commemorating the 90 th anniversary of the founding of the Whampoa Military Academy.
	June 15	Yu attended the sixth Straits Forum in Xiamen, Fujian.
	June 14	Yu went on an inspection tour to Fujian.
Liu Yunshan	June 24	Liu chaired a meeting of the Mass Line Education Campaign Leading Small Group.
	June 22	Attended Wang Wenyan funeral.
	June 17-19	Liu made an official visit to Portugal.
	June 15-17	Liu made an official visit to Ireland.
	June 12-15	Liu paid an official visit to Finland.
Wang Qishan	June 10-12	Liu paid an official visit to Denmark.
	June 24	Wang met with a delegation from Denmark's parliament supervisory board.
	June 22	Attended Wang Wenyan funeral.
Zhang Gaoli	June 24	Zhang met with Australia's Treasurer Joe Hockey and Trade and Investment Minister Andrew Robb. <i>Economic track of new China –Australia three-pillared strategic dialogue. Possible</i>

FTA will be top of the agenda.

- June 23** **Zhang met with former French Prime Minister Dominique de Villepin.**
- June 22** **Attended Wang Wenyan funeral.**
- June 13** **Attended meeting of Central Finance and Economics Leading Small Group.**

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