

China Politics Weekly

Issue No. 24 – August 5, 2014



Dear friends and colleagues,

I am taking my cue from the Chinese leaders and heading to the beach. The newsletter will resume when I get back at the end of the month.

We've got exciting things planned for autumn, including CPW EXTRA reports done in collaboration with some of the sharpest minds in the business. These reports will take a closer look at key issues facing China these days, including military reform, productivity growth, shadow banking, environmental policy and others. It's going to be exciting.

CPW is also looking for interns. The only requirements are the ability to read Chinese and an interest in Chinese politics. Time commitment would only be a few hours a week and can be done from anywhere. If you are interested, or know a good candidate, please get in touch.

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.

The slow path to citizenship

Last week's State Council meeting focused on migrant workers. Specifically, the government said that it would: 1) support employment opportunities through training and financing for entrepreneurs; 2) protect the rights of migrant workers, particularly in disputes with employers; 3) make it easier for migrant workers to move to urban areas; and 4) improve access to culture.

It will be easier for migrant workers to obtain urban *hukou* in small and medium cities, but migration to larger cities will be strictly controlled. This does not mark a change in policy and is unlikely to drastically alter current patterns of migration and labor supply.

The measured pace of *hukou* reform is the effect of a policymaking system that is biased towards incrementalism. Last week's policies were formulated by the State Council Migrant Workers Leading Small Group. The group was founded in June 2013, shortly after the new administration came to power and in the midst of a strong push to streamline government and get rid of unnecessary bureaucracy. The fact that a new group was formed in such a climate was testament to the importance that the new leaders- and particularly Premier Li- placed on tackling issues of urbanization and *hukou* reform.

Despite this, the new group has not drastically changed policy. For the most part it has continued reforms that have been in place for almost two decades.

One look at the composition of the leading small group tells us why we haven't seen major changes. This "small" group includes representatives from over 30 ministries and government organizations. With that many competing interests trying to design policy, sticking with the *status quo* is usually the easiest option. This does not mean that change does not happen, but it does mean that we should not expect drastic changes in policy, particularly in such fundamental areas as *hukou* reform and land reform.

Get 'em while they're hot

One area where we might see some clear movement in the near term is SOE reform. Although SOE reform also cuts across a broad range of stakeholders, change is being driven by a simple requisite: the need for cash. SOE defaults have been on the rise as loans made during the go-go stimulus of 2009 come due. Repayment pressures are likely to increase after [the recent creation of local asset management companies \(AMCs\) in five provinces: Shanghai, Guangdong, Anhui, Zhejiang and Jiangsu](#).

The local AMCs have been created to deal with bad debt in the provinces. As the AMCs attempt to put the screws to offending SOEs, many of these will be looking to raise cash. It could be a buyer's market for companies and PE firms looking to buy assets on the cheap.

Tread carefully

Given the [new antitrust investigation into Microsoft](#), firms may think twice before acquiring Chinese assets, no matter how good the price. The question that the new investigation poses is: is China out to get MNCs?

The answer is yes. And no.

The Chinese government seeks to promote domestic companies and protect the rights of Chinese consumers. In this it is not so different from other governments. But it must also be said that Chinese officials view foreign investment in particularly instrumentalist terms. FDI is evaluated based on how it fits into overall development goals; it is encouraged, and sometimes permitted, only insofar as it is seen to serve a useful purpose. MNCs would do well to keep this in mind, and make sure that they are effectively conveying their value propositions to relevant government stakeholders.

On the other hand, the Microsoft case is rather particular. China has had a long suspicion of Microsoft, particularly after the company blackened computer screens across China in 2008 in an effort to combat piracy. The move showed Chinese officials that important government and military systems running Windows could be sensitive to outside manipulation. That the company happened to be from China's biggest geopolitical rival- the United States- did not help.

Chinese fears of vulnerability to American technology have only increased since the Snowden revelations last year. Though there is no evidence at this point, it could very well be that the current investigation is the latest salvo in the ongoing rivalry/dispute between the US and Chinese governments over issues of cybersecurity.

It should also not be discounted that the case is exactly what the authorities say it is- an investigation into monopolistic practices. It is difficult to argue that Microsoft is not a monopoly, as previous antitrust investigations into the company in the US and Europe attest.

Regardless of the motivations behind the Microsoft investigation, what is certain is that antitrust enforcement is on the rise, and we will continue to see even more investigations. All three enforcement agencies (SAIC, NDRC and MOFCOM) have beefed up capabilities by adding budget and staff. After six years, regulators are also becoming more confident and adept at pursuing cases.

Furthermore, NDRC and SAIC have a competitive dynamic when it comes to AML enforcement. Both agencies would like to subsume the responsibilities of the other and are consequently driven to pursue high-profile cases that burnish their reputations. Unfortunately for MNCs, nothing looks better than taking down a foreign firm that is gouging Chinese consumers. MNCs may therefore want to review operations and make sure that they are in compliance.

PBSC Week in Review

Xi Jinping	Aug 3	Xi sent instructions regarding the rescue efforts for the earthquake in Ludian County, Yunnan.
	Aug 2	Xi directed officials to spare no effort in rescuing and treating victims of the explosion in Kunshan, Jiangsu.
	Aug 1	Xi sent his condolences to victims of the gas explosion in Kaohsiung Taiwan.
	July 30	Xi visited military headquarters in Fujian.

Li Keqiang	Aug 5	
	Aug 4	Li went to Ludian County, Yunnan to aid in the earthquake rescue efforts. Li sent condolences to the Prime Minister of Nepal regarding the landslide there.
	July 31	Li chaired a meeting on revitalizing Northeast China.
	July 30	Li chaired an executive meeting of the State Council.

**Zhang
Dejiang**

**Yu
Zhengsheng**

Liu Yunshan	July 31	Liu attended and spoke at a meeting on implementation of the Mass Line Education Campaign. <i>Listened to reports from 14 teams that have gone out to inspect implementation at the local level.</i>
	July 30	Liu chaired a meeting of the Mass Line Education Campaign Leading Small Group.

**Wang
Qishan**

Zhang Gaoli July 31 **Attended meeting on revitalization of Northeast China.**

About CPW

CPW is produced by Trey McArver, a London-based consultant providing counsel and strategic intelligence to firms and investors engaged in China and the region.

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.