

China Politics Weekly

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Dear friends and colleagues,

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It was an incredibly busy week among the top leadership in Beijing. The Politburo held a meeting on Party-building and SOE management, as well as a study session on military modernization. The NPC Standing Committee met Monday through Sunday and discussed a raft of amendments and revisions to the National Security Law, Legislation Law, Budget Law, Administrative Procedure Law and others. The State Council held an executive meeting and the CPPCC Standing Committee also met.

Efficient Authoritarianism

A year and a half into the Xi administration, the governing strategy of the new leadership is apparent. Party and government meetings this week clearly exhibited some of the key features of efficient authoritarianism:

- 1. The primacy of the Party.** This administration is not interested in political liberalization; if anything, it seeks to strengthen the role of the Party in the political system. The Politburo meeting Friday called for "improving democratic centralism" and making Party organizations at every level forts flying the flag of the Party. To further emphasize that the Party will not accept challenges to its authority, the NPC decided on Sunday that Beijing will continue to control selection of the Hong Kong chief executive despite promises of universal suffrage in 2017.
- 2. A stronger, more assertive and more patriotic China.** Friday's Politburo study session looked for ways to further modernize China's military and called for a "new military revolution." Meanwhile, the NPC decided to officially create an annual Martyr's Day on September 30; the day will commemorate Chinese who have died in wars with foreigners since the Opium War in 1839. It is the third new national day created by this administration, which has also commemorated September 3 as War Against Japanese Aggression Victory Day and December 13 as Nanjing Massacre Memorial Day.
- 3. A more market-oriented economy.** Wednesday's State Council meeting called for more private investment in various sectors, including healthcare, insurance, new energy and environmental protection.

4. **More efficient administration.** The State Council called for further streamlining and simplification of government processes and approvals, while several of the laws debated at the NPC (in particular the Administrative Procedure and Budget Laws) aim to achieve similar outcomes.
5. **An increasingly rules-based system.** In general, the revisions and amendments proposed at this week's NPC's meeting should reduce ambiguity, increase transparency and close loopholes in China's legal system. The establishment of IPR courts is also a step forward for professionalization of the judiciary. Improving the rule of law is not in contradiction with strengthening the role of the Party. The current leadership realizes that having a rules-based system makes it easier to govern, bolsters legitimacy and increases economic efficiency.
6. **A less corrupt Party.** The CPPCC Standing Committee meeting this week focused on anti-corruption efforts. CDIC chief Wang Qishan was invited to address the delegates and made it clear that the anti-corruption campaign is far from over and investigations will continue. The Politburo meeting called for improving the cadre promotion system and increasing oversight over SOE executive expenditures; both measures are designed to further reduce corruption within the Party.

Efficient authoritarianism is clearly what Xi has in mind. Liberalizing measures such as reducing approvals or improving the rule of law are technocratic means to improve the Party's governing capacity and increase China's comprehensive national strength.

The good news for foreign companies is that the rules of the game are becoming clearer. The bad news is that those who do not contribute to the Party's overall goals will find the going more difficult than in years past. It's not that the government is out to get foreigners so much as bolster China. Companies that can understand the operating environment and communicate their value to relevant stakeholders will still succeed.

That's rich

Beijing will not allow candidates for Hong Kong's chief executive to be directly elected by the people, despite the promise of universal suffrage by 2017. While Hong Kong citizens will be allowed to vote for the chief executive, candidates will be nominated by a committee controlled by Beijing.

The decision announced by China's legislature on Sunday is the latest evidence that the Xi administration is ardently conservative when it comes to political liberalization.

One reason given for not allowing direct nomination of candidates is that it would damage Hong Kong's economy. This is ironic, given that Beijing's decision is likely to cause a spate of protests in Hong Kong that will almost certainly affect business.

More importantly, the decision has the potential to have long-term negative effects on the economy that would go far beyond any disruptions caused by protests. If businesses and investors believe that the rule of law is being eroded, it will undermine Hong Kong's position as a financial center and regional headquarters for multinationals. This is not a foregone conclusion, as the absence of democracy does not necessarily undermine the rule of law (see Singapore). However, it is a risk.

The decision is also likely to affect politics on Taiwan. At first glance, it would seem to benefit the DPP, who has longed warned of the CCP's illiberal tendencies. However- because most Taiwanese prefer the *status quo*- if the decision pushes the DPP away from Tsai Ing-wen's recent moderate position towards a more extreme pro-independence stance, it could end up alienating voters and pushing swing votes to the KMT. Municipal elections (though admittedly more focused on local issues) in November will be the first chance to gauge the effects.

PBSC Week in Review

Xi Jinping	Aug 29	Xi chaired a meeting of the Politburo.
		Xi chaired a Politburo study session focused on military modernization.
	Aug 28	Xi met with the chiefs of the general staffs from Shanghai Cooperation Organization member countries.
	Aug 27	Xi met with officials from Henan to discuss the Mass Line Education Campaign.
		Xi met with Communist Party of Vietnam special envoy Le Hong Anh.
		Xi met with Prime Minister of Antigua and Barbuda Gaston Browne.
		Xi signed an order commending the crew of the aircraft carrier Liaoning.
		Xi appointed new ambassadors to Zambia, Serbia and Malawi.
	Aug 25	Xi held talks with President of Zimbabwe Robert Mugabe.
Li Keqiang	Aug 28	Li sent congratulations to the second China and Central and Eastern European (CEE) countries local leaders meeting in Prague.
		Li met with Prime Minister of Madagascar Kolo Roger.
		Li met with Prime Minister of Djibouti Abdoukader Kamil Mohamed.
		Li met with speaker of the Croatian Parliament Josip Leko.
		Li attended the closing ceremony of the 2014 Youth Olympics in Nanjing.
		Li met with volunteers for the Youth Olympics.
	Aug 27	Li chaired an executive meeting of the State Council.
		Li met with Bilawal Bhutto Zardari, former Pakistani president and chairman of Pakistan People's Party.
	Aug 26	Li met with President of Zimbabwe Robert Mugabe.
		Li held talks with the Premier of Antigua and Barbuda Gaston Browne.
Zhang	Aug 31	Zhang spoke at the closing of the NPC Standing Committee's weeklong session.

Dejiang

- Zhang chaired a meeting of the NPC Standing Committee chairmen.
- Aug 30** Zhang chaired a meeting of the NPC Standing Committee chairmen.
- Zhang held talks with the head of the Croatian parliament Josip Leko.
- Aug 27** Zhang attended a full meeting of the NPC Standing Committee.
- Zhang chaired a meeting of the NPC Standing Committee chairmen.
- Aug 26** Zhang attended group discussions on the Budget Law and Hong Kong electoral reform.
- Zhang met with President of Zimbabwe Robert Mugabe.
- Aug 25** Zhang chaired a meeting of the NPC Standing Committee.

- Yu Zhengsheng** **Aug 27** Yu spoke at the closing ceremony for the CPPCC Standing Committee meeting.
- Yu attended a full meeting of the CPPCC Standing Committee.
- Aug 25** Yu chaired the opening of a CPPCC Standing Committee meeting.
- Yu spoke at a videoconference commemorating the 20th anniversary of a development program for Tibet.

- Liu Yunshan** **Aug 27** Liu met with Vietnam Communist Party special envoy Le Hong Anh.

- Wang Qishan** **Aug 25** Wang delivered a report to a CPPCC Standing Committee meeting.

- Zhang Gaoli** **Aug 30** Zhang co-chaired the 11th meeting of the China-Russia Energy Cooperation Committee with Russian Deputy Prime Minister Arkady Dvorkovich in Moscow.
- Aug 28** Zhang attended the the second local leaders meeting between China and Central and Eastern European Countries (CEEC) held in Prague, Czech Republic.
Over 1,000 businessmen and officials in attendance.
- Zhang met with Czech Prime Minister Bohuslav Sobotka.
- Zhang met with Czech President Miloš Zeman.
- Aug 27** Zhang co-chaired the third meeting of the China-Turkmenistan Cooperation Committee with Turkmen Deputy Prime Minister Baymyrat Hojамammedov.

Aug 25 **Zhang attended the videoconference commemorating the 20th anniversary of the development program for Tibet.**

About CPW

China Politics Weekly aims to keep business leaders, investors, diplomats, scholars and other China hands up to date on important trends in China. It is produced by Trey McArver, a London-based consultant providing advice and intelligence to firms and investors engaged in China and the region.

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