

China Politics Weekly

Issue No. 42 – February 23, 2015



Dear friends and colleagues,

Thanks to all the readers in DC who made time meet this past week. Impressions from the trip coming in next week's issue [Spoiler alert: Things don't look good...].

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.

Looking ahead at the Year of the Goat

Because of the Spring Festival holidays, it was a quiet week in Beijing (constant din of fireworks excepted). We are taking advantage of the break to look at some of the key questions that will shape the economic and political landscapes in the coming year. Here are a few of the issues that we will be watching:

- **Environmental protection.** A new Environmental Protection Law, a new Minister of Environmental Protection and a recently concluded corruption investigation within the MEP have laid the groundwork for accelerating the pace of reform with regards to building an “ecological civilization”. Could this be the year that Beijing’s lofty rhetoric is backed up by concrete action?
- **Local government finances.** The central government has done a lot to curb the ability of local governments to borrow from LGFVs, but new sources of funds (bond markets, PPPs and local taxes) have yet to come online and the central-local transfer system has not been fully rationalized. Many local governments look likely to face serious budget shortfalls- will the central government step in to clean up the mess? Could bankrupt local governments pose a systemic risk to the wider economy?
- **Foreign Investment.** China looks likely to make good on its promise to establish a nationwide negative list approach to foreign investment. The big question remains: how big will the negative list be? Also key will be how the government applies the national security review proposed in the draft Foreign Investment Law once the law is finally adopted.
- **Neighborhood policy.** China has spent considerable efforts in the past two years to position itself as the dominant power in Asia. The strategy has been to push forward with initiatives and institutions (including the Silk Road Economic Belt, 21st Century Maritime Silk Road, Silk Road Infrastructure Fund, Asian Infrastructure Investment Bank, New Development Bank, Bangladesh–China–India–Myanmar Forum for Regional Cooperation, Shanghai Cooperation Organization, China-Pakistan Economic

Corridor and the Conference on Interaction and Confidence Building Measures in Asia, just to name a few) that tie neighboring countries more closely to China, while limiting the participation and influence of the United States. At the same time, increasingly assertive actions in the East and South China Seas and the Indian border threaten to alienate China's neighbors and push them into the arms of the Americans. Can China find the right balance between pursuing its interests and reassuring its neighbors?

- **Terrorism.** Hundreds have died in terrorist attacks in China over the past few years. China's tight media controls make it difficult to assess the magnitude of the problem, but there are indications of increasing sophistication in some of the attacks. There are also reports of hundreds of Chinese citizens fighting with ISIS in the Middle East. Will this year see a large-scale attack somewhere in China?
- **Ideology.** Minister of Education Yuan Guiren's recent comments that he would not allow "Western values" into China's schools is just the most recent manifestation of the Xi leadership's conservative approach to ideology. The past two years have seen an increase in censorship and the reemergence of reactionary ideas such as class struggle. Are we witnessing a reactionary China turning back into itself? Or are these just the outward symptoms of an unseen political struggle?
- **The Internet.** Recently China has been plugging holes in the Great Firewall while pushing "Internet sovereignty" in the global arena. Will China succeed in transforming the World Wide Web into something contained and controlled within national boundaries?

We would love to hear your thoughts on any of the above issues, as well as any other issues that you are watching in the coming year. Please don't hesitate to get in touch!

PBSC Week in Review

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| Xi Jinping | Feb 17 | Xi attended and spoke at a national Spring Festival Celebration held in the Great Hall of the People. <i>Full text of Xi's speech (in Chinese).</i> |
| | Feb 16 | Xi visited troops in Xi'an, Shaanxi. |
| | Feb 15 | Xi continued his inspection tour of Shaanxi, visiting Xi'an. |
| Li Keqiang | Feb 17 | Presided over national Spring Festival Celebration held in the Great Hall of the People. |
| Zhang Dejiang | Feb 17 | Attended national Spring Festival Celebration held in the Great Hall of the People. |
| Yu Zhengsheng | Feb 17 | Attended national Spring Festival Celebration held in the Great Hall of the People. |
| | Feb 15 | Yu met with religious leaders from around the country to celebrate Spring Festival. |

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| Liu Yunshan | Feb 17 | Attended national Spring Festival Celebration held in the Great Hall of the People. |
| Wang Qishan | Feb 17 | Attended national Spring Festival Celebration held in the Great Hall of the People. |
| Zhang Gaoli | Feb 17 | Attended national Spring Festival Celebration held in the Great Hall of the People. |

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. You can find out more about Trey and CPW in [this interview](#).

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.

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