

China Politics Weekly

Issue No. 54 – May 18, 2015



Dear friends and colleagues,

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.

Growing pains

April economic data released last week was not pretty. Of particular concern is the fact that nominal GDP growth appears to have dropped below the average lending rate, meaning that servicing existing debt will become more difficult, increasing the risk of instability in the financial sector.

Premier Li acknowledged the weakness in the economy and promised more robust government actions to combat the slowdown, saying, “we must take more forceful actions to stabilize growth and combat difficulties”.

Targeted monetary easing will continue, but will have little success in increasing credit or stimulating the economy (though it may help sustain the bull run in the stock markets). More aggressive spending may help to give the economy a boost at the end of Q2 and into Q3, but will not stop the economy’s overall downward trajectory. Instead of looking for the economy to bottom out before bouncing back to 7% growth, companies and investors should prepare for a continued slowdown and focus their energies on how to succeed under conditions of slower growth.

I spy

The slowing economy makes structural reforms more urgent than ever. As Li said this week, “Our country is in a crucial period with challenges that need to be overcome and problems that need to be resolved”.

At the heart of the government’s reform agenda is reducing state intervention in the economy. On Tuesday, the government held a dedicated nationwide videoconference on administrative reform. Wednesday’s State Council meeting also focused on the issue, and Thursday saw promulgation of a [State Council circular setting out government reform objectives](#).

The plan lists 65 tasks, complete with timelines and responsible bodies for implementation. It is a thoroughly pro-market, pro-business plan that seeks to:

- cancel over 200 items of government approvals and cancel all non-administrative reviews;
- reduce the number of investment projects that require review;

- further cancel verifications and approvals of vocational qualifications;
- eliminate charges on business that violate the law or are excessive;
- simplify the process for capital registration;
- integrate the business license, the certificate of organization codes, and the certificate of taxation registration into one certificate; and
- overhaul and regulate intermediary services.

The plan looks good on paper, and there is every reason to believe that central government technocrats believe in cutting red tape. The problem, as always, will be in implementation at the local level. As I [argue in a recent editorial](#), “imposing discipline upon local party officials is arguably the most important -- and most challenging -- task facing Beijing's leaders. Many of the key problems facing the country, from corruption to pollution, overcapacity to unsustainable debt levels, have been caused in large part by local leaders acting in contradiction to the wants of Beijing. China's future, and the party's legitimacy, rest on being able to impose discipline on wayward officials.”

There is reason for (guarded) optimism here. Li has ordered the government to set up a “comprehensive platform for supervision” that will use big data, cloud computing and “Internet plus” technologies. As the government becomes more sophisticated in employing these technologies, there is every reason to believe that they should aid the center in its efforts to rein in local governments.

Indian optics

Indian Prime Minister Narendra Modi was in China this week, making good on his pledge to visit the country during his first year in office. The optics looked good, with Xi's offer to meet Modi in his home province of Shaanxi (mirroring Modi's reception of Xi in Gujarat last year) showing that both sides are trying to put the best foot forward. Talks between the two leaders ran long by over an hour- another good sign.

The friendly tone, however, is not backed up by much practical cooperation. The reported USD 10 billion in deals signed during Modi's visit pales in comparison with the USD 46 billion in deals reported during Xi's recent visit to Pakistan. The gap looks even larger when you factor in that India's economy is nine times the size of Pakistan's. It's good to see that China and India are working towards better relations, but there is no question as to who is China's preferred partner in South Asia.

PBSC Week in Review

Xi Jinping	May 17	Xi met with United States Secretary of State John Kerry.
	May 14	Xi met with Indian Prime Minister Narendra Modi in Xi'an, Shaanxi.
		Xi and Indian Prime Minister Narendra Modi toured Xi'an.
	May 12	Xi flew to Beijing from Belarus.
	May 11	Xi met with Prime Minister Andrei Kobyakov of Belarus.

Xi attended and addressed the opening ceremony of a China-Belarus economic and trade forum for local governments.

Xi visited the China-Belarus Industrial Park.
Largest foreign investment project in Belarus.

Xi met with Chairman of the Council of the Republic of the National Assembly of Belarus Mikhail Myasnikovich and Chairman of the House of Representatives of the National Assembly of Belarus Vladimir Andreichenko.

Xi met with Belarusian veterans of the Second World War.

May 10 Xi held talks with Belarusian President Alexander Lukashenko.
Signed bilateral treaty of friendship and cooperation.

Xi planted a spruce tree together with Belarusian President Alexander Lukashenko.

Li Keqiang	May 17	Li left Beijing for South America. <i>Will visit Brazil, Chile, Peru and Columbia.</i>
		Li stopped in Ireland and held talks with Irish Prime Minister Enda Kenny.
		Li visited a farm with Irish Prime Minister Enda Kenny.
		Li held a joint press conference with Irish Prime Minister Enda Kenny.
	May 16	Li met with United States Secretary of State John Kerry.
		Li sent instructions to National Science and Technology Week.
	May 15	Li held talks with Prime Minister Narendra Modi.
		Li held a joint press conference with Indian Prime Minister Narendra Modi.
		Li attended the China-India Forum for Provincial and State Leaders.
		Li attended an event celebrating yoga and tai-chi with Indian Prime Minister Narendra Modi.
		Li held a welcome ceremony for Indian Prime Minister Narendra Modi.
		Li met with French Foreign Minister Laurent Fabius.
	May 14	Li spoke to British Prime Minister David Cameron by telephone.

	May 13	Li chaired an executive meeting of the State Council. <i>Meeting focused on promoting public-private partnerships (PPP), improving internet speeds, promoting securitization of assets and creating a system to supervise the government.</i>
	May 12	Li attended and spoke at a work conference on administrative reform. <i>Full text of his speech is here (in Chinese).</i>
	May 10	Li sent instructions to the opening ceremony of Vocational Education Week.
Zhang Dejiang	May 15	Zhang met with Indian Prime Minister Narendra Modi.
Yu Zhengsheng	May 16	Yu attended a symposium for ministerial and provincial level authorities on ethnic minorities work.
	May 14	Yu chaired a CPPCC chairperson's meeting.
	May 12	Yu chaired a CPPCC seminar on judicial system reform.
Liu Yunshan	May 13	Liu attended and spoke at the opening ceremony for the second Spring term advanced studies class at the Central Party School. <i>A text of Liu's speech (in Chinese).</i>
	May 8-11	Liu went on inspection tour to Hunan.
Wang Qishan	May 8-10	Wang made an inspection tour to Zhejiang.
Zhang Gaoli	May 12	Zhang chaired a work conference on administrative reform.

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.

Want more? We offer tailored briefings and research reports for senior management who need to know more about China. Our network of analysts and associates have experience across a range of sectors. Please email us to discuss your needs and get a quote.

