

# China Politics Weekly

Issue No. 62 – July 20, 2015



Dear friends and colleagues,

Your comments and feedback are always welcome. Old issues are always available at [www.chinapoliticsweekly.com](http://www.chinapoliticsweekly.com). Sign up or unsubscribe by sending an email to [info@chinapoliticsweekly.com](mailto:info@chinapoliticsweekly.com).

## Still not grown up

In a speech at the OECD on July 1, Premier Li Keqiang said, “We have both the confidence and the capabilities to meet the [GDP growth] target set for this year”. So it should have come as little surprise that China’s Q2 growth- announced Wednesday- came in right on target at 7%.

It should also have come as no surprise that the latest GDP print has reignited the debate over the reliability of China’s GDP statistics. The figure came in above consensus, and many economists worry that the numbers may have been massaged to meet the target. Official Chinese media has even gotten defensive about the doubts.

Regardless of what, exactly, GDP growth is, it is safe to say that China is in the midst of a structural shift that will see the economy further slow for many years. The government’s stability bias means that we are unlikely to have a hard landing. The recent stock market interventions show that the government is very sensitive to any disruption in the economy and is not afraid to take active measures to support growth if it thinks them necessary.

Many will argue that the government’s interventionist tendencies preclude the implementation of structural reforms that will create a healthier, more sustainable economy. But this assumption bears scrutiny. It’s possible to be pro-stability *and* pro-reform. What the government is trying to do is to strike a balance. The government understands the risks of moral hazard; what it wants to do is gradually introduce accountability into the economy. Even with their interventions in the stock market, plenty of investors lost a lot of money and now understand the risks of margin trading in a way that they did not two months ago. It reminds one of some of the “managed” corporate defaults that we have seen over the past 18 months. Instead of having everybody go broke, the government comes in pays off part of the debt but everybody still loses money and learns that they shouldn’t just assume that everything will be okay. Beijing is paternalistic, but they don’t spoil their children. They want to help their children learn to be responsible, while also letting them know that, ultimately, their parents love them.

Regardless, it’s still disappointing to see the Premier constantly assuring everybody that China will hit its growth target. If- as the Premier also says- we are now focusing on the “quality” of growth instead of the quantity, then why is he always promising to hit quantitative targets? It sends contradictory signals.

The best thing that China could do would be to jettison its GDP growth targets. With planning for the 13<sup>th</sup> Five Year Plan now entering its most important phase, this is the perfect time to do just that. Discussions at the upcoming leaders' retreat in Beidaihe will focus on the plan, the outline of which will then be unveiled at the Fifth Plenum in October. Fingers crossed that the central government follows Shanghai's lead and gets rid of specific growth targets.

### Like a good neighbor

Tensions with Japan and Vietnam have risen markedly under the Xi administration, but Beijing now appears to be trying to improve relations with both countries. The head of Japan's National Security Council was in Beijing this week, which looks to be a preparation for a possible Xi-Abe summit later this year. Meanwhile, Executive Vice Premier Zhang Gaoli made a three-day trip to Hanoi where he met with top leaders of the Vietnamese Communist Party and promoted bilateral relations.

### Better, faster, stronger

Xi made a three-day inspection tour to Jilin this week. As part of his tour he visited two state-owned enterprises (SOE), Jilin Aodong Medicine and Changchun Railway Vehicles Company. Xi praised SOEs as playing an important role in China's economic development and encouraged reforms to make SOEs more competitive. It's an important reminder that SOE reform is not about relinquishing state-control, but rather using market mechanisms to make SOEs stronger and more efficient.

## PBSC Week in Review

Xi Jinping	July 19	Xi and Mauritanian President Mohamed Ould Abdel Aziz exchanged congratulatory messages celebrating 50 years of diplomatic ties.
	July 18	Xi visited the 16 <sup>th</sup> Army Group in Changchun, Jilin.
	July 17	Xi did an inspection tour to Changchun, Jilin.
	July 16	Xi made an inspection tour to Yanbian, Jilin.
	July 15	Xi met with Fijian Prime Minister Voreqe Bainimarama.
		Xi met with German Social Democratic Party (SDP) chairman Sigmar Gabriel.
	July 14	Xi and Bolivian President Evo Morales Exchanged Congratulatory Messages on 30th Anniversary of Diplomatic Ties
Li Keqiang	July 17	Li met with Shotaro Yachi, head of Japan's National Security Council.
	July 16	Li held talks with Fijian Prime Minister Voreqe Bainimarama
		Li met with World Bank President Jim Yong Kim.
	July 15	Li chaired an executive meeting of the State Council.

	July 14	Li met with South African Vice President Cyril Ramaphosa.
<b>Zhang Dejiang</b>		
<b>Yu Zhengsheng</b>	July 17	Yu chaired a CPPCC chairpersons meeting. <i>Decided that next CPPCC Standing Committee meeting will be at the end of August and will discuss Socialist Core Values.</i>
		Yu met with a delegation of representatives of youth associations from Hong Kong and Macao.
	July 16	Yu chaired a seminar for local CPPCC member to exchange work experience.
	July 13	Yu met with a delegation of ethnic minorities from Taiwan.
<b>Liu Yunshan</b>	July 15	Liu attended the graduation ceremony for the Central Party Schools spring term.
<b>Wang Qishan</b>		
<b>Zhang Gaoli</b>	July 18	Zhang attended a luncheon with Vietnamese government officials and businessmen.  Zhang visited the grave of Ho Chi Minh.
	July 17	Zhang met with Nguyen Phu Trong, general secretary of the Communist Party of Vietnam.
	July 16	Zhang held talks with Deputy Prime Minister of Vietnam Nguyen Xuan Phuc.  Zhang met with Vietnamese Prime Minister Nguyen Tan Dung.
	July 13	Zhang met with Deputy Prime Minister of New Zealand Bill English.

**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](mailto: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.