

China Politics Weekly

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Dear friends and colleagues,

Apologies for our recent absence- got a bit overwhelmed with post-holiday catch up. 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.

Everybody loves a parade

You've probably seen footage of China's massive military parade to commemorate the 70th anniversary of the end of World War II. It was an impressive sight that reminded us that there is little the Chinese authorities cannot accomplish when they put their energies into something. Creating a blue sky to building missiles to flawlessly coordinating tens of thousands of people all came off without a hitch. It sent a very strong and clear message that the Party is powerful, and the Party is in control.

It's worth noting that there did not have to be a parade last Thursday. Traditionally, China has not celebrated the war's anniversary with military parades, instead having them instead only on the ten-year anniversaries of the PRC's founding. If Xi were to follow tradition, he would have had to have waited until 2019 to oversee his first parade. But Xi, ever the politician, wanted a parade now for two reasons. First, he sent a signal to the Party and the military that he is in charge. Second, he showed the Chinese people that, under his leadership, China is a strong country.

These messages came through, not least because they are true. Xi is China's most powerful leader since Mao. And China as a state is more powerful than it has been in over 150 years.

Ironically, Xi's strength could be his greatest liability. Having done such a good job of demonstrating that he is in charge, it is only natural that he become more liable to criticism when things go wrong. Xi cannot claim to be in charge and then blame the economic slowdown on others. Likewise the explosion at the Tianjin port. It bears watching to see if further incidents of government incompetence redound upon him.

Rhetoric...

Xi's speech at the parade was mercifully short, less than a fifth as long as Hu Jintao's speech ten years ago in which Hu basically recounted the entire war. Xi's message was also in large part an encouraging one, emphasizing peace and development. A few thoughts on Xi's speech:

- Xi said that China's victory in the war "put an end to China's national humiliation of suffering successive defeats at the hands of foreign aggressors in modern times." There is nothing new in this formulation,

but it is still useful for remembering how China sees itself. On a fundamental level, most Chinese—including those running the country—see their country as weak, vulnerable and a victim of foreign aggression. This sense of vulnerability engenders a need for a strong military; China will continue its military build-up. At the same time, Chinese leaders find it inconceivable that others could see them as a threat, and do not understand how their military build-up causes anxiety in the region (or the United States).

- Xi said that “the Chinese people received extensive support from the international community,” but he failed to mention who China’s allies were. China’s biggest ally during the war was the United States, but Xi seems unwilling to play up this cooperation. This is a shame as it would behoove both countries and the world more generally to create a stronger bond between the two countries and peoples. Unfortunately, the US side is no better. In both President Obama and Secretary of State Kerry’s respective remarks to remember the end of fighting in the Pacific, they did not mention cooperation with China. In fact, the only country Obama and Kerry mentioned was Japan, and what a remarkable ally it has become.
- The only country that Xi mentioned in his speech was the Soviet Union. While Xi refuses to play up cooperation with the US, he is happy to describe an experience of shared suffering with his northerly neighbor saying, “China suffered over 35 million casualties and the Soviet Union lost more than 27 million lives.”
- Xi’s speech makes clear that China does not seek to overturn the current global order, saying “All countries should jointly uphold the international order and system underpinned by the purposes and principles of the UN Charter.” But he also makes clear that China believes the current order should be improved. He says that the world needs to “build a new type of international relations featuring win-win cooperation”. This is diplo-speak for “we don’t like the American alliance system”. China is neither happy with the *status quo* nor seeking to remake the world in its image. Instead, it wants to preserve the broad outlines of global order, as represented by the UN and other post-WWII multilateral institutions, while also increasing its influence within this order.
- China has been noticeably more assertive under Xi, but he was at pains in his speech to emphasize the peaceful nature of China’s rise. He said, “China will remain committed to peaceful development. We Chinese love peace. No matter how much stronger it may become, China will never seek hegemony or expansion. It will never inflict its past suffering on any other nation.”
- In apparent evidence of his commitment to peace, Xi announced a reduction in the size of China’s military. It was a savvy political move that helps to underline his message of peace, while aiding Xi in his quest to create a more effective army (*more on that below*).
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...versus reality

As comforting as Xi’s message of peace is, marching tanks and missiles through Tiananmen Square is hardly the best way to demonstrate one’s peaceful intentions, and doubtless stoked anxieties in neighboring countries.

Having Russian President Vladimir Putin as the guest of honor did not lend much credibility to Xi’s promise to uphold order. No leader in the world is a more destabilizing force than Putin. Xinhua’s claim that “Putin’s attendance at Thursday’s commemorations aimed to promote regional and world peace and boost the cause of human peace and progress,” is risible.

Likewise, the PLA's troop reductions are far from any indication of a more pacifist stance. In fact, it is just the opposite. It is part of China's overall efforts to revamp its military to make it a more advanced army capable of winning modern wars.

I believe Xi and other Chinese leaders claims to be committed to peace to be sincere. But the truth is that China's increasing military power and influence stoke anxieties in the region and increase the risk of conflict- no matter what Xi says.

The not so bad news

Anxiety over China's economy has reached a fevered pitch over the past few weeks in response to the ongoing downturn in the stock market, the unexpected devaluation of the RMB and the central bank's decision to cut interest rates and reserve requirements at banks. These fears, however, are misplaced and overblown.

As we have argued before, China's stock markets do not reflect economic or corporate fundamentals, and thus should not be viewed as indicators of the economy's state of health. Furthermore, there is little chance of trouble in the stock market spilling into the real economy. Only a small (and relatively wealthy) percentage of China's households own stocks, so a market downturn will not affect consumption. Similarly, firms still depend preponderantly on bank financing, so trouble in the equity markets has little impact on corporate finance. Finally, banks are not heavily exposed to the equity markets, so there is little prospect for the downturn to cause a wider crisis in the financial system.

The decision to devalue the currency was not an effort to prop up exporters. It certainly was not the opening salvo in a currency war. It was, instead, a move to bring an overvalued RMB closer to its true market value in an attempt to move the currency closer to convertibility. The aim is to meet the IMF's criteria for special drawing rights (SDR) inclusion, not to prop up the economy.

Long story short, China's economy is slowing down, but it is not on the verge of catastrophic collapse. As it slows it is also going through a structural transition away from export- and investment-led growth, meaning that many traditional industries will be hit hard. But the economy is not monolithic, and trouble in one region or sector will not necessarily translate to other regions or sectors. Corporates and investors will have to spend a bit more time (and money) to identify growth opportunities, but they are still there to those who put in the effort to find them.

The bad news

The economy is not about to collapse, but recent events have given lie to the myth that China's technocratic leaders can control the economy. The moves to prop the stock market were foolish. Ultimately they failed. Likewise, the RMB devaluation did not go far enough to convince traders that the currency is now fairly valued. Capital outflows continue to gather steam while the government has been forced to spend billions of dollars a day to prop up the currency. So in the end, the devaluation failed to stop currency outflows, failed to bring the RMB in line with market expectations and caused everybody to lose faith in the authorities. It was a policy blunder of the highest order.

The government's lack of credibility is compounded by the opacity of the Chinese system. This problem has become worse under Xi Jinping as he has moved the locus of policymaking from the government to the Party while also cracking down on the media and creating an environment that discourages discussion and the flow of information. The lack of transparency and lack of trust will translate to increased risk and volatility in the markets going forward.

Blue sky thinking

Nobody failed to notice the brilliant blue skies at the military parade. In the future hopefully such clean air will not be reserved only for visiting foreign dignitaries. Last week, the NPC took an important step towards cleaning up China's air by passing amendments to the Air Pollution Control Law.

The amendments do two important things: they make some forms of pollution illegal, and they increase monitoring and transparency. These measures alone will not solve China's air pollution problems (not least because there are bound to be enforcement issues), but it's an important reminder that cleaning the environment remains high on the government's agenda, and they are taking measures to address the issue.

Busy days

This edition of the newsletter is already long enough, but I'd be remiss if I didn't point out that even though the parade and the economic news has received all the attention, a lot of other things have been going on over the past few weeks. In the calendar below you can find links and information regarding the three most recent State Council executive meetings, the meeting of the Leading Small Group for Comprehensively Deepening Reform, the NPC Standing Committee's bimonthly session, a central work conference on Tibet and much more.

PBSC Week in Review

Xi Jinping

Sep 4

[Xi met with President of South Africa Jacob Zuma.](#)

[Xi met with President of Myanmar U Thein Sein.](#)

[Xi met with Czech President Milos Zeman.](#)

[Xi met with Ethiopian Prime Minister Hailemariam Desalegn.](#)

[Xi met with Chairman of the Presidency of Bosnia and Herzegovina Dragan Covic.](#)

[Xi met with Joseph Kabila, president of the Democratic Republic of Congo.](#)

Sep 3

[Xi delivered a speech at China's World War II Victory Day parade.](#)
[Full text of the speech \(in Chinese\).](#)

[Xi inspected the troops at the V-Day parade.](#)

[Xi met with Russian President Vladimir Putin.](#)

[Xi met with United Nations Secretary-General Ban Ki-moon.](#)

[Xi met with Vietnamese President Truong Tan Sang.](#)

- Xi met with Mongolian President Tsakhia Elbegdorj.**
- Sep 2** **Xi hosted a dinner for foreign dignitaries in town to attend China's V-Day parade.**
- Xi attended a ceremony rewarding veterans who fought for China in World War II.**
- Xi met with South Korean President Park Geun-hye.**
- Xi met with Pakistani President Mamnoon Hussain.**
"China will continue to enrich the China-Pakistan community of shared destiny in a bid to make play an exemplary role for other neighboring countries," said Xi.
- Xi met with President of Belarus Alexander Lukashenko.**
- Xi met with Egyptian President Abdel Fattah al-Sisi.**
- Xi met with President of East Timor Taur Matan Ruak.**
- Sep 1** **Xi met with former Kuomintang chairman Lien Chan.**
- Xi met with Venezuelan President Nicolas Maduro.**
- Xi met with Sudanese President Omar al-Bashir.**
- Xi met with Papua New Guinea Governor-General Michael Ogio.**
- Xi met with Prime Minister of Vanuatu Sato Kilman.**
- August 31** **Xi held talks with Kazakh President Nursultan Nazarbayev.**
- Xi held talks with Lao President Choummaly Sayasone.**
- Xi met with Serbian President Tomislav Nikolic.**
- Xi met with Cambodian King Norodom Sihamoni.**
- August 28** **Xi met with head of the United States National Security Adviser Susan Rice.**
From the MFA official release: "China and the US should pursue development by cooperation, quicken negotiations on a bilateral investment agreement, intensify military-to-military exchanges and cooperation, strive for more progress in such sectors as energy and infrastructure, and boost dialogue and cooperation on global issues such as Asia-Pacific affairs and climate change and regional hot-spot issues. China and the US should manage issues of difference through communication, sincerely respect and take care of each other's core interests, and make efforts to expand common ground while reducing differences to maintain

the big picture of stable development of the bilateral relationship.”

August 25 Xi sent instructions to a meeting to commemorate the 25th anniversary of the founding of the China Youth Concern Committee.

August 24 Xi attended and spoke at the 6th Central Work Conference on Tibet.

August 23 Xi sent a congratulatory letter to the opening of the 22nd International Congress of Historical Sciences being held in Jinan, Shandong.

August 22 Xi received the International Association of Athletics Federations (IAAF) Golden Order of Merit from IAAF President Lamine Diack.

Xi met with President of the Association of National Olympic Committees and president of the Olympic Council of Asia, Sheikh Ahmad Al-Fahad Al-Sabah.

Xi met with President of the International Olympic Committee Thomas Bach.

Xi attended the opening of the World Athletic Championships.

August 20 Xi chaired a Politburo Standing Committee meeting.
Meeting listened to a report from the State Council on the Tianjin explosion.

Xi extended condolences to President President Joko Widodo of Indonesia over the crash of an Indonesian passenger plane.

August 19 Xi received credentials from eight new ambassadors to China.
Italy, DRC, Mauritius, Fiji, Zambia, Denmark, Poland and the Seychelles.

August 18 Xi chaired the 15th meeting of the Central Leading Group for Deepening Overall Reform.
Meeting approved six documents on improving reporting of audits to the NPC; improving judicial accountability; strengthening oversight of prosecutors; developing world-class universities; promoting compulsory education in under-developed regions; loosening rules for replacing identity cards.

Li Keqiang	Sep 4	Li met with President of Myanmar U Thein Sein.
		Li met with Prawit Wongsuwan, first deputy prime minister and defense minister of Thailand.
		Li met with Ethiopian Prime Minister Hailemariam Desalegn.
		Li met with Algerian National Assembly speaker Abdul Qadir bin Saleh.
		Li sent a letter of congratulations to a forum gathering presidents of Chinese and Russian universities majoring in the sciences of transportation.

- Sep 3** **Attended Victory Day parade.**
- Li met with United Nations Secretary-General Ban Ki-moon.
- Li met with President of Uzbekistan Islam Karimov.
- Li met with French Foreign Minister Laurent Fabius.
- Sep 2** **Attended awards ceremony for WW II veterans.**
- Li met with Egyptian President Abdel Fattah al-Sisi.
- Sep 1** **Li chaired an executive meeting of the State Council.**
Meeting set up a national fund worth up to RMB 60 billion to promote the growth of small and medium-sized enterprises (SME); agreed to measures lowering the initial capital requirement for fixed-asset investment projects; set up a classification system for medical diagnoses; and passed a draft plan to promote China's film industry.
- Li met with President of Kazakhstan Nursultan Nazarbayev.
- Li met with Lao President Choummaly Sayasone.
- August 28** **Li held a special meeting of the State Council to discuss the economy.**
- August 26** **Li chaired and executive meeting of the State Council.**
Meeting approved support measures for the growth of financial leasing; reduced fees for foreign trade; promoted third-party assessments of policy implementation; urged reform of professional titles for school teachers.
- August 25** **Li met with First Deputy Prime Minister of Kazakhstan Bakytzhan Sagintayev.**
- August 24** **Attended and spoke at the 6th Central Work Conference on Tibet.**
- August 21** **Li chaired a State Council special lecture on promoting advanced manufacturing and 3-D printing.**
Lecture was given by Lu Bingheng from Xi'an Jiaotong University.
- Li met with President of the International Olympic Committee Thomas Bach.
- Li sent a message of congratulations to Ranil Wickremesinghe on his inauguration as Prime Minister of Sri Lanka.

Zhang Dejiang	August 19	Li chaired an executive meeting of the State Council. <i>Policies announced included: developing the modern circulation industry and big data industry and providing tax breaks to small and micro enterprises.</i>
	Sep 7	Zhang attended and spoke at a national seminar on local legislation in Guangzhou, Guangdong.
	Sep 6	Zhang went on inspection tour to Foshan, Guangdong.
	Sep 3	Attended Victory Day parade. Zhang met with Mongolian President Tsakhia Elbegdorj. Zhang met with Argentine Vice President Amado Boudou. Zhang met with Parliament Speaker Malgorzata Kidawa-Blonska of Poland.
	Sep 2	Presided over awards ceremony for WW II veterans.
	August 31	Zhang spoke at the Fourth World Conference of Speakers of Parliament at the United Nations headquarters in New York, United States. Zhang met with United Nations Secretary-General Ban Ki-moon. <i>Zhang also met with Speaker of the Finnish Parliament Maria Lohela, Speaker of the House of Representatives in Nigeria Yakubu Dogara, National Assembly Chairman of Vietnam Nguyen Sinh Hung and Israeli Parliament Speaker Yuli Edelstein during his trip to New York.</i>
	August 29	Zhang chaired the closing meeting of the NPC Standing Committee session. <i>Major outcomes of the session include: 1) granted amnesty to war veterans and very old, young or infirm prisoners; 2) approved amendments to the Criminal Law that will stiffen punishments for sex with underage prostitutes; 3) adopted amendments to the Air Pollution Control Law that will restrict various sources of air pollution and boost environmental transparency; 4) adopted amendments to three laws governing local legislatures; 5) adopted the Law on Promoting the Transformation of Scientific and Technological Achievements; 6) adopted an amendment to the Law on Commercial Banks, removing a 75 percent loan-to-deposit ratio stipulation; and 7) adopted a decision on imposing a ceiling of RMB 16 trillion for local government debt in 2015.</i> Zhang chaired an NPC Standing Committee chairmen's meeting.
	August 27	Zhang attended a full meeting of the NPC Standing Committee. Zhang chaired an NPC Standing Committee chairmen's meeting.
	August 26	Zhang attended NPC Standing Committee small group sessions to discuss

various laws and proposals.

Included discussions on local government election laws, the Commercial Banking Law and a proposal on local government debt.

August 25 Zhang met with Speaker of the National Assembly of Togo Dama Dramani.

August 24 Zhang chaired the opening of the NPC Standing Committee's weeklong session.

August 24 Attended the 6th Central Work Conference on Tibet.

**Yu
Zhengsheng**

Sep 8 Yu attended and spoke at a ceremony to commemorate the 50th anniversary of the establishment of the Tibet Autonomous Region.
Full text of the speech (in Chinese).

Yu listened to reports by Party and government officials in Tibet.

Sep 7 Yu met with military personnel stationed in Lhasa, Tibet.

Yu met with religious leaders in Lhasa, Tibet.

Yu met with groups from all walks of Tibetan life in Lhasa, Tibet.

Yu attended a cultural performance to commemorate the 50th anniversary of the establishment of the Tibet Autonomous Region.

Sep 6 Yu led a delegation of senior officials on a trip to Lhasa, Tibet to celebrate the 50th anniversary of the Tibet Autonomous Region.

Yu's visit coincides with a new government white paper on Tibet that says that GDP has increased 281-fold in the past 50 years and "Tibet is now in its golden age".

It also says, "The 14th Dalai group's separatist activities violate the Constitution of China and its state system, and greatly damage the fundamental interests of all ethnic groups in Tibet, which is why they have met strong opposition from all Chinese people, including those of all ethnic groups in Tibet, and hence why they are doomed to fail".

Yu met with senior Tibetan officials in Lhasa.

Sep 3 Attended Victory Day parade.

Sep 2 Attended awards ceremony for WW II veterans.

Yu attended a forum for representatives from Hong Kong, Macao, Taiwan and other overseas regions to mark the 70th anniversary of the end of World War II and the victory of the Chinese People's War of Resistance against Japanese Aggression.

		Yu met with a delegation of ethnic minorities.
Sep 1		Yu chaired a biweekly CPPCC symposium. <i>Focused on increasing economic cooperation in border areas.</i>
		Yu met with Abdelkader Bensalah, chairman of the Council of Nation of Algeria.
August 31		Yu met with former KMT Chairman Lien Chan.
August 28		Yu chaired and spoke at the closing of the CPPCC Standing Committee's three-day session. <i>Session focused on Socialist Core Values.</i>
August 27		Yu attended a full meeting of the CPPCC Standing Committee.
August 26		Yu chaired the opening of a CPPCC Standing Committee session. Yu attended group discussions at the CPPCC Standing Committee meeting.
August 24		Attended and spoke at the 6 th Central Work Conference on Tibet.
August 21		Yu chaired a symposium on drainage basin economic development and water resources development and protection.
August 20		Yu met with a delegation from South Korea led by Won Yoochul, a lawmaker with the ruling Saenuri Party. Yu met with a Taiwanese delegation led by Yao Eng-chi.
August 18		Yu met with representatives attending a national meeting on ethnic minority education. Yu sent a letter of congratulations to the opening of the 2015 Xinjiang Development Forum.

Liu Yunshan	Sep 7	Liu attended and spoke at the opening of the autumn term of the Central Party School.
	Sep 3	Attended Victory Day parade.
	Sep 2	Attended awards ceremony for WW II veterans.
	Sep 1	Liu met with Lao President Choummaly Sayasone.
	August 26	Liu delivered a report at the CPPCC Standing Committee meeting. <i>Report was on Socialist Core Values.</i>
	August 24	Attended the 6 th Central Work Conference on Tibet.

	August 21	Liu sent a letter of congratulations to the opening of the Eighth Forum on the Global Chinese Language Media held in Guiyang, Guizhou.
Wang Qishan	Sep 3	Attended Victory Day parade.
	Sep 2	Attended awards ceremony for WW II veterans.
	August 24	Attended the 6 th Central Work Conference on Tibet.
	August 17	Wang spoke at a televised conference on learning and implementing revised discipline inspection regulations.
Zhang Gaoli	Sep 3	Attended Victory Day parade. Zhang met with Pakistani President Mamnoon Hussain.
	Sep 2	Attended awards ceremony for WW II veterans. Zhang met with Belarusian President Alexander Lukashenko. Zhang spoke at the closing ceremony of the 14th meeting of the China-Venezuela High-Level Joint Commission.
	Sep 1	Zhang met with Sudanese President Omar al-Bashir.
	August 31	Zhang visited the Beijing Municipal Environmental Protection Bureau and the China Meteorological Administration.
	August 26	Zhang met with Gazprom CEO Alexei Miller.
	August 25	Zhang met with First Deputy Prime Minister of Kazakhstan Bakytzhan Sagintayev. <i>The two co-hosted the seventh meeting of the China-Kazakhstan Cooperation Committee. Discussed forming a working group to coordinate China's Silk Road Economic Belt and Kazakhstan's Path to the Future policies.</i>
	August 24	Attended the 6 th Central Work Conference on Tibet.
	August 20	Zhang met with Igor Sechin, chief of Russian oil company Rosneft.
	August 18	Zhang met with UN Secretary-General Ban Ki-moon's special envoy for cities and climate change Michael Bloomberg.

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](#).

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