

cp. observer: 24 february 2017

february roundup: central doc no 1



view from Beijing - analysis from our portfolio managers

Central doc no 1, the key rural affairs policy statement, omitted the standard nod toward self-sufficiency, reaffirming the state's intention to globalise the food production sector. Now keen to narrow the gap with developed countries, a new green product system is also forming. In what some hailed as a major breakthrough for rural land reform, the document also announced that non-rural capital can now invest in rural tourism and aged care projects via PPPs, and peasants can sell contracted farmland or homestead land use rights to private firms in these sectors.

Supreme People's Court has been especially active, most notably with a sweeping ban on using court staff for non-judicial duties, further burnishing president and chief justice Zhou Qiang's 周强 reform credentials. Supreme People's Procuratorate is trying to keep up, announcing new public interest litigation pilots in several provinces.

Steel de-capacity efforts in 2017 will focus on eliminating substandard steel and zombie enterprises, and stricter enforcement for illegal capacity, as debate swirls about how much capacity has really been cut. State Council looks to level the playing field for domestic and foreign-invested enterprises, presaging lower barriers across multiple sectors. To encourage capital inflows, PBoC allowed onshore firms to obtain foreign loans worth up to twice their net assets and NDRC made issuing offshore bonds easier for eleven institutions and companies in a pilot program. But opening in some areas is paired with closing in others, with Cyberspace

Administration (CAC) announcing it has begun setting up a new security review regime for cyber products and services, barely denying a protectionist agenda.

Pan Gongsheng 潘功胜 State Administration of Foreign Exchange director announced China will not return to a closed capital account, saying controls are primarily aimed at reining in 'irrational' overseas spending. Liu Shiyu 刘士余 CSRC chair vowed to crack down on stock market manipulation by well-connected investors, as academics and analysts called for stronger protections of small players' asset rights.

The Trump administration's first month brought a sense of tectonic shift, but of what exactly was unclear. The US reaffirmed the 'One China' policy, Trump's cabinet held warm-looking talks with Beijing, and a freeze of coal imports from North Korea perhaps signalled China's acceptance of co-dependency with the US. But, after former National Security Advisor Flynn's intrigues, concerns over the administration's links with Russia, perhaps against China, run deeper than ever. The month finished with another Trump bomb, this time accusing China of being 'grand champions' of currency manipulation. An international Belt and Road summit planned for 14-15 May offers a much-needed high point in the run-up to the 19th National Party Congress, despite the initiative's Budapest-Belgrade rail project creating friction in the EU.

february policy movers - policy professionals in and out of the establishment

Wen Tiejun 温铁军 | Renmin University Institute of Advanced Studies for Sustainability dean

A strong critic of China's entry into the WTO, Wen was fired from the Ministry of Agriculture in the 1990s for outspokenness. He survived in lowly publishing posts before rising again to direct a series of institutes on the rural economy and sustainable development at Renmin University. Now a leading figure in the 'three rurals' policy and top advisor to MofCOM on international trade, Wen argues urban areas have transferred costs to rural areas to avoid the worst effects of financial crises in China. This phenomenon, which he calls the 'soft landing', also occurs between developed and developing countries, says Wen, where the use of the USD in trade is leading developing countries into a trap. Another of his ideas, 'agriculture 4.0', calls for an active government to force respect for ecological limits through the use of internet. A strong supporter of SOEs to increase China's global competitiveness, Wen holds a seat as an independent non-executive director of the Agricultural Bank of China.



Zhou Qiang 周强 | Supreme People's Court (SPC) president and chief justice

A senior member of the Youth League faction, Zhou, seen by liberal scholars and lawyers as 'one of us', was appointed to the SPC in 2013. His approach to judicial reform seeks to elevate the judiciary's standing without invoking Western concepts the Party finds subversive. While repeatedly denouncing 'judicial independence' as anti-CCP, most recently on 14 January 2017, at the same time he champions a professional court system under the Party but independent from non-judicial individuals and institutions. His strategy has yielded a long list of reforms, most recently the ban on imposing non-judicial duties on court personnel. Yet, given his background, there is no guarantee his SPC record will be rewarded at the 19th Party Congress.



Li Peilin 李培林 | CASS vice dean

A professor of sociology, Li writes on entrepreneurial organisation, social structure change and social stratification. Counterurbanisation complements urbanisation, says Li, with both narrowing the urban-rural gap. Those arguing it is irrelevant to a rapidly urbanising China, he says, underestimate the connections migrants maintain with their home countries, the rise of non-agricultural jobs in the countryside, and the growing interest in villages among urbanites. Rural tourism generated C¥440 bn in turnover in 2015, creating 6.3 million jobs, says Li, while villages and towns are setting up aged care facilities for migrant pensioners. Relocating urbanites have brought new life to villages in Yunnan, Guizhou, Sichuan, Hainan and Guangxi, he adds. To further encourage these trends, Li recommends cleaning up hollowed-out villages, providing equal services and infrastructure in rural and urban areas, preserving villages' natural and cultural landscapes as they modernise, and doing more to encourage innovation and promote primary, secondary and tertiary sector integration



policy ticker highlights - gems from our feed of policy releases and debate

society - hukou reform removes restrictions for key groups

China Reform | 11 february

Ministry of Public Security (MPS) recently released a series of stipulations on hukou reform. Main points include

- urban districts with under 3 million permanent residents should not implement a points-based hukou system
- large cities should not require more than five years of social security contributions in exchange for hukou, and medium-sized cities should not require more than three years
- except for megacities, all cities should eliminate hukou restrictions for college graduates, technical workers, vocational school graduates and overseas returnees

hukou policies should encourage the settling of migrant students, retired military personnel, newly urbanised rural residents, and new generation migrant workers and their family members

trade and industry - last batch of BeiDou navigation satellites to be launched July

21st Century Business Herald | 13 february

China will start launching the third generation of BeiDou navigation satellites in July 2017, reports 21st Century Business Herald. By 2020, the company aims to have 35 satellites in orbit, providing global coverage to consumers, while simultaneously boosting their market to C¥240-320 bn, notes the paper. Global navigation systems are currently led by the US's GPS, with BeiDou, Russia's GLONASS and Europe's Galileo following close behind, it adds.

Around 30 percent of mobile phones in China are compatible with BeiDou and more manufacturers have started to produce chips compatible with multiple navigation systems, potentially increasing accuracy and avoiding problems caused by one system malfunctioning, note industry insiders.

BeiDou has had continuous government support, adds 21st Century Business Herald, highlighting

- 'Beidou satellite navigation system' white paper

- 'BeiDou+': encouraging integrated use with internet+, big data, cloud computing, telecommunications, wi-fi, ultrawideband internet of things and mobile internet
- '2016 China aerospace' white paper
- 'Guiding opinions on speeding up Belt and Road information corridor construction and utilisation'
 - BeiDou will begin its internationalisation in Southeast Asia by supporting collaboration with Thailand, Laos, Indonesia and Cambodia on foundation reinforcement systems and providing indoor/outdoor location services
- 'National informatisation 13th 5-year plan'
- 'Strategic emerging industries 13th 5-year plan'

Beijing, Shanghai, Guangdong, Hunan, Hubei, Shenzhen and Changsha have published plans for the BeiDou industry, viewed as a strategic industry to upgrade their economies. Beidou aims to be the 'third national business card', following on from high speed rail and nuclear, adds 21st Century Business Herald.

agriculture - central doc no 1 outlines agricultural structural reform

People's Daily Online | 6 february

The 2017 central doc no 1, says Tang Renjian 唐仁建 Central Rural Work Leading Group office director, adheres to the same conclusions reached by the Central Rural Work Conference. Primarily, he says, agricultural supply-side structural reform must adhere to the three bottom lines of

- maintaining grain production capacity
- supporting increases to farmers' income
- rural stability

The document, says Tang, identifies

- the main objective as increasing farmers' income and ensuring efficient supply
- the main direction as improving quality of agricultural supply
- the fundamental requirement as institutional reform

Agricultural supply-side structural reform will be promoted through platforms, he says, noting

- 'three areas'
 - grain production functional area
 - important agricultural production protected area
 - characteristic agricultural product advantage area
- 'three parks'
 - modern agricultural industrial parks

- science and technology parks
- entrepreneurial parks
- 'one unit'
 - integration of farming, land, and leisure agriculture

Measures for agricultural supply-side structural reform are divided into two parts, Tang says, noting

- agricultural supply-side structural adjustment
 - includes product structure, production method, industry system, science and technology support, basic support
- agricultural supply-side structural reform, focusing on the relationship between government and market, and realisation of the 'three activations'
 - activate market by implementing 'market dictated prices and subsidies'
 - activate essential factors via innovation in resource allocation, and employment of under-utilised rural resources
 - activate entities by promoting agricultural management system reform, and promoting talent and entrepreneurship in rural and agricultural areas

finance - *forex reserves above US\$2.6 tn no threat to balance of payments*

Sina Finance | 9 february

Foreign exchange reserves above US\$2.6 tn do not pose a threat to China's balance of payments, says Liang Hong 梁红, citing calculations made by her team at China International Capital Corporation. The fact that forex reserves have fallen below the psychological threshold of US\$3 tn does not mean that they are not fundamentally sufficient, she says.

Current levels fulfil the majority of traditional indicators used to evaluate reserve adequacy, says Liang, including three months' imports, short-term loans and the IMF's comprehensive adequacy indicator. It does not provide sufficient cover for broad money or M2, says Liang, but neither would reserves of US\$4 tn.

Forex reserves dropped for the **seventh consecutive month to US\$2.998 tn** in January 2017, falling by US\$12.3 bn from December 2016. The rate of decrease slowed, partially the result of a weakening US dollar, which dropped 2.6 percent against a basket of currencies in January 2017.

Transactions by individuals accounted for the majority of outflows in January, says Liang, as the US\$50,000 foreign exchange limit was renewed and citizens acquired foreign currencies to travel abroad during Chinese New Year. In comparison, transactions by institutions contributed to a small portion of capital outflows as **restrictions on overseas M&A and FDI** appeared to take effect.

If the economy expands steadily, monetary easing will slow and RMB depreciation will recover, says Liang, adding that, when this happens, export enterprises that have not remitted or settled funds in foreign currency will do so. The RMB may experience some pressure in the short term, says Liang, however current reserve levels are more than sufficient and there is limited room for further decline.

governance - *judges freed from non-judicial duties*

Supreme People's Court (1), Supreme People's Court (2) | 8 february

A new Supreme People's Court (SPC) document has unequivocally banned drafting court personnel for assignments beyond their legal responsibilities, in line with a [July 2016 central document](#) on deterring interference in the judiciary, the latest sign of progress SPC has made in deterring undue interference in judicial operations.

In addition to reaffirming the ban on interfering in ongoing cases, the 24-point document goes further to outlaw local authorities drafting court personnel for street cleaning, community patrol, traffic control, investor engagement, administrative law enforcement, and, most importantly, housing demolition and land expropriation. SPC specifically listed these activities one by one, with extra emphasis on the last, making clear that judges should only perform judicial duties and courts must reject such assignments henceforth. State media hails this as yet another step towards ensuring that the court's function independently and professionally.

geopolitics - *baselines for Belt and Road think tanks*

People's Daily Online | 7 february

Library research fails to meet the needs of Belt and Road, argues Zhao Lei 赵磊 Central Party School Institute of Strategic Studies professor in a People's Daily op-ed. Think tanks gain a right to be heard only through survey research. A baseline requirement, reducing the plethora of 'thoughtless think tanks' that have sprung up since their inclusion in Belt and Road policies three years ago, is that they rely equally on government and business, he says. Zhao calls for think tanks to

- concentrate academic expertise, creating a Belt and Road academic community offering a sustainable supply of experts
- guide public opinion to raise awareness and acceptance of Belt and Road
- contribute scientifically sound reports, risk assessments and prognoses to the policy process
- set up platforms for knowledge exchange with government

The value of think tanks is, Zhao suggests, displayed in three milestones

- November 2013: CCCPC's 'Decision on comprehensively deepening reform' first mentions think tanks in a central policy document

- January 2015: 'Opinions on strengthening construction of new-style think tanks with Chinese characteristics' is released by State Council
 - 20 June 2016: Xi Jinping's speech in Poland refers to think tanks as one of five areas for Belt and Road development
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lexicon - short, graphic explanations of trending technical terms and jargon

substandard steel 地条钢 dì tiáo gāng

Originally named after a form of low-quality steel cooled in long moulds directly on the ground without continuous casting and direct rolling, the term now refers to poorly manufactured steel product in general. It is often made in small workshop-style factories from melted scrap iron and steel, making chemical composition and quality difficult to control. Though no official figures exist, industry insiders estimate production capacity to be around 100 million tonnes. Posing a threat to construction quality and the environment, the government targeted eliminating substandard steel capacity by end June 2017 as part of de-capacity efforts.



china policy in the media - mentions of our work elsewhere

China's latest farm policy shifts focus from output to demand

Reuters | 6 february

Now Beijing needs to soak up the crop glut and offset stagnating demand as growth in world's second-largest economy slows. 'No one thought China would maintain self-sufficiency the way they have. They did it by price support and that has been extremely costly', said Erlend Ek, agriculture research manager at China Policy, a Beijing-based advisory firm.

the 'China Solution': Beijing responds to Trump

Lowy Institute | 17 february

A draft Trump Administration executive order threatening cuts to America's UN funding, not least for peacekeeping, has been circulating since late January. Days before it emerged, People's Daily carried yet another op-ed on the 'China Solution', hailing 'the glory it sheds on the cause of peace, development and civilisation' and renewing Xi Jinping's pledges to become a major UN funder.
