

The New Xi Jinping-Li Keqiang Government: Is the Hype Deserved?



Scott Kennedy, Director
Research Center for Chinese Politics & Business
Indiana University

My Original Question:

The New Xi Jinping-Li Keqiang Government:
Why all the Hype?



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- They look good on paper
- The status-quo hasn't been static
- They had a good transition period
- They have the confidence of business

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- They look good on paper
- The status-quo hasn't been static
- They had a good transition period
- **They have the confidence of business**

Our survey of 60 companies and taxi drivers (January 2013)

Low marks for the Hu-Wen government

Average survey response, by location and type of respondent

	Overall	Private firms	Foreign firms	SOEs	Taxi drivers
Beijing	53	52	53	65	56
Hangzhou	56	54	60	n/a	74
Wuhan	76	76	78	70	61

Question: "On a scale of 1 to 100, what grade do you give the outgoing Hu-Wen government?"

GK Dragonomics research

High hopes for the Xi-Li government

Average survey response, by location and type of respondent

	Overall	Private firms	Foreign firms	SOEs	Taxi drivers
Beijing	69	70	63	80	72
Hangzhou	67	62	74	n/a	77
Wuhan	87	86	90	90	65

Question: "On a scale of 1 to 100, how much hope do you place in the new Xi-Li

GK Dragonomics research

The Right Question Now:

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The 12th National People's Congress (NPC) March 5-March 17, 2013



If China were a boat, what kind of boat
would China be?











Pick a boat

Top Leadership Judgment:
“Does China face a systemic crisis requiring
fundamental reform?”

Yes

No

Can the leadership
push
through
policies
without
opposition?

Yes



No



My view: China is a tacking sailboat



Government Reform Challenges

- Right-size government
- Shift from being a planner to a regulator
- Separating government and industry
- Separating government and the Party

Shrinking Central Government

	<u>Ministries</u>	<u>Total Agencies</u>
1981	52	100
1982	44	72
1988	42	83
1993	41	74
1998	30	71
2003	29	62
2008	27	62
2013	25	62

Key Bureaucratic Reforms

- Eliminated the Ministry of Railways, regulatory components subsumed under Ministry of Transportation.
 - > reduce corruption, continue full rollout of high-speed rail
- Created National Health and Family Planning Commission
 - > beginning of the end of the one-child policy
- Created State Food and Drug Supervision Administration
 - > improved health and food safety, drug price reforms
- Merged media, print, and broadcasting regulators
 - > Streamline regulation of the media, broadcasting
- Created new National Bureau of Energy
 - > Preparation for energy price reform

Reforming the Role of Government

- Announce they will rely more on market mechanisms, give power to society, reduce micro-intervention, improve macro-regulation.
- Reduce scope of government's project approval process, led by the National Development and Reform Commission (NDRC)

State Council's Reform Plan

72-point plan issued March 28, with 29 targets in 2013, 28 in 2014, 11 in 2015, and 4 in 2017.

Key targets:

- Reducing red tape for companies and decentralizing the approval process for business activities.
- Reducing inter-regional barriers to trade and investment.
- Creating real-name systems for individuals and for financial accounts, developing a comprehensive personal credit rating system.
- Making Chinese industry associations fully autonomous

Reformist Personnel Appointments



Zhou Xiaochuan



Guo Shuqing



Xiao Gang



Lou Jiwei



Gao Hucheng

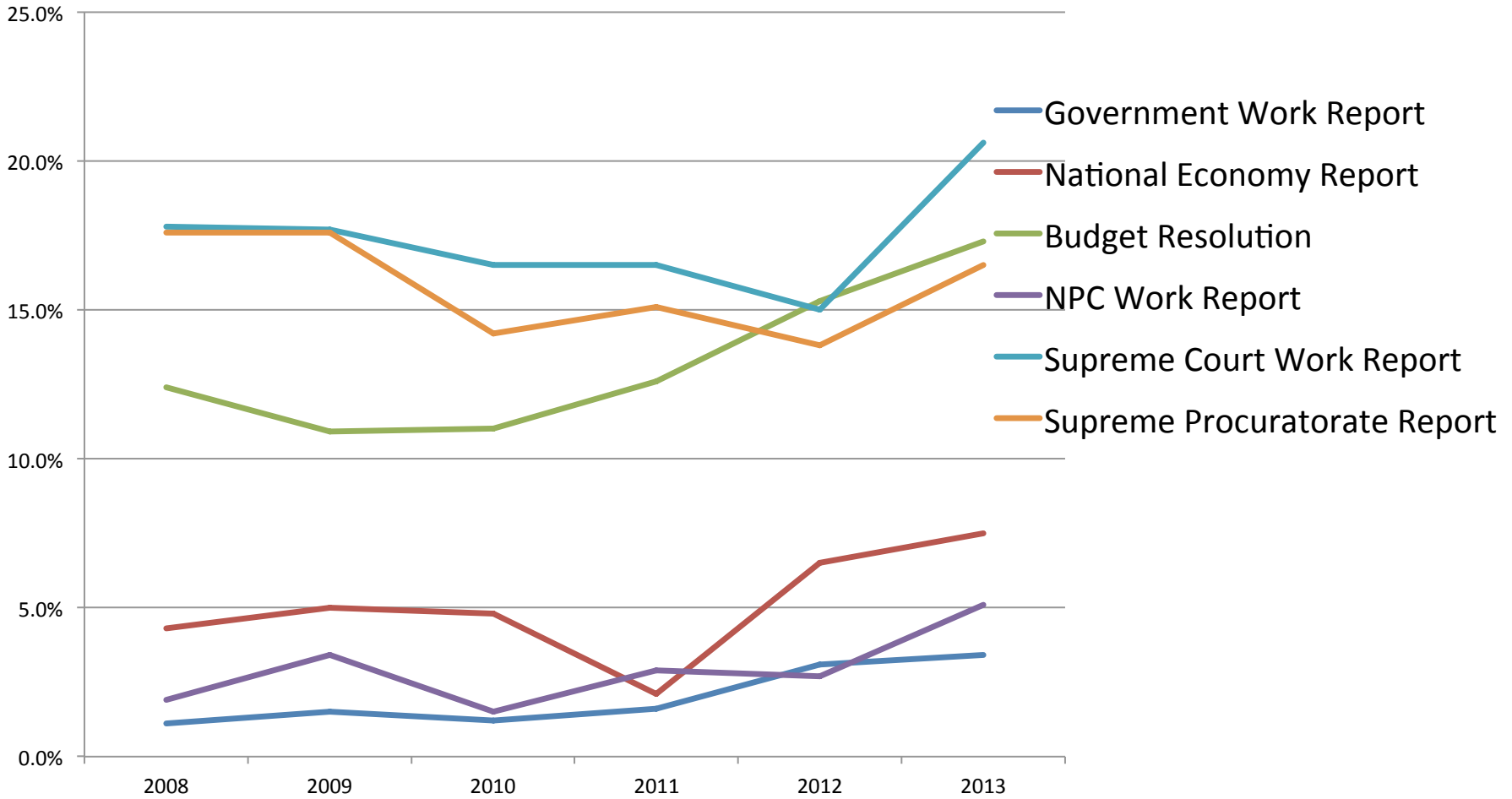


Liu He

Signs of Continuity

- Bureaucratic cut from 27 to 18 ministries did not occur.
- 16 of 25 ministries kept their ministers.
- Securities, banking, and insurance regulators were not merged.
- NDRC still has project approval powers.
- Jiang Jiemin (CNPIC) appointed to head SASAC.
- NPC still played “rubber stamp” role.

'No' Votes by NPC Deputies, 2008-2013 (%)



Looking Forward: Policies to Watch

- Price liberalization policies for energy and electricity, drugs and health care, bank deposit rates.
- Comprehensive plan linking urbanization, industry upgrading, and expanding consumption.
- Expanded competition in sectors dominated by SOEs.
- Fall 2013 Party Plenum.

Looking Forward: Unofficial Measures

- Chinese leaders' children returning from overseas: how many and what happens to the parents of those who do not return.
- IPO's: Are they allowed regardless of the macro environment?
- Ease with which foreign companies can meet senior officials.





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