

2013 NPC/CPPCC “TWO MEETINGS” Change & Continuity: Setting Expectations

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Introduction

On the last day of the first meeting of the 12th National People’s Congress, China’s new top leaders Xi Jinping and Li Keqiang addressed the challenges faced by the country in remarks that made it clear that they have bold ambitions for change and are not afraid of being judged against high expectations. China’s new president opened his remarks with the customary praise of his predecessor and humble statement about his determination to work hard to fulfill the heavy responsibilities of his job. The bulk of his discourse was devoted to fleshing out the content of his concept of the “Chinese Dream”. The tone of his discourse was serious, measured, and perhaps even a bit somber. In his press

conference a confident and engaging new Premier spoke of transforming government, expanding the role of the market and society, narrowing the urban-rural gap, and fairness. Both leaders spoke about improving livelihoods and fighting corruption.

In calling for clean government and improving livelihoods, Xi and Li were not breaking new ground. On the closing day of the 2008 NPC, then President Hu Jintao said, “We’ll strictly exercise self-discipline, devote ourselves to the public, and serve the country and the people in a cautious, conscientious and clean-fingered way.” What seems to distinguish this new leadership is their willingness to announce a number of specific, ambitious goals for government reform; the vigor of their push to deepen market reforms; and the clarity of their calls for government power to be limited by the Constitution and law.

How successful Xi and Li and their allies will be over the coming years is impossible to say. They face an array of daunting challenges, but they come into their jobs with more political capital than their predecessors: Xi holds the top positions in the Party, military and state, and is in a position to arbitrate the influence of Jiang Zemin and Hu Jintao. And Li has very solid support from Hu Jintao. There is no doubt that Xi and Li will encounter institutional inertia as well as active opposition, but they have so far appeared to be politically adept. In any case, they have shown that they are confident, and are moving faster than most pundits expected.

The “Chinese Dream”

In his closing speech to the NPC, Xi’s main theme was his “Chinese Dream”, the mantra that apparently succeeds – and probably replaces - Hu Jintao’s “Harmonious Society”. Earlier remarks by Xi about the “Chinese Dream” (for more see H+K Strategies’ NPC/CPPCC preview report) had led to widespread debate about its content and meaning; in this address China’s top leader provided a comprehensive explanation.

The “Chinese Dream” is not merely about a Chinese “renaissance” or a future when the Chinese nation will be stronger than it is today, but is one where individuals from all sectors of Chinese society have opportunities to realize their individual aspirations. Xi called for the Chinese people to “love the country”, but at the same time set goals for the performance of the state that the “people” can expect to be met. He summarized: “At bottom the Chinese Dream means the dreams of the people; to be realized it must closely depend on the people and must unceasingly create better lives for them.”

Premier Li Meets the Press

The newly installed premier Li Keqiang responded to vetted questions from Chinese and foreign journalists in a press conference that lasted nearly two hours. He spoke of his experience as a “sent down youth” during the Cultural Revolution, drawing a line between his generation of leaders, the People’s Republic’s fifth, and that of his predecessors. He said that his generation has a heavy responsibility to proceed with reform so that the benefits accrue to the whole of society. Li appeared confident and determined, while making it clear that his government has a range of difficult problems to overcome.

Chinese Economy 3.0

On Premier Li Keqiang's remarks about the "upgrading of the Chinese economy" during his press conference, CCTV commentator Bai Yansong referred to it as the "Chinese Economy 3.0", following the reform and opening up from 1978 to 1992, and the establishment of a market-oriented economy in the wake of Deng Xiaoping's southern tour in 1992. Bai classified the upgrades into nine areas:

1. Economy
2. Government
3. Society
4. Anti-corruption
5. Pollution control and food safety
6. Clean and frugal administration
7. Equality and justice
8. Reform
9. Overall upgrading of the nation

equal opportunities for people; this he linked to driving innovation. He indicated rural students need more opportunities to attend universities. Tipping his hat to China's growing civil society, Li said that "we must mobilize social forces within society to ensure people's rights and dignity".

- **Reform:** In explaining what he means by "reform pays the biggest dividends", Li said that there is a "great deal of room" in which to unleash market forces, mentioning interest rates and exchange rates as candidates for liberalization, and even stating that private capital will be encouraged in the energy, railway and financial sectors. Li spoke about protecting the rights of small and medium enterprises, and said that reforms in key areas need to be "comprehensive and coordinated". China will build up the service sector and continue to push for high growth in trade, which will "benefit the world at large and also help Chinese enterprises upgrade themselves through fair competition". Openness, transparency, and supervision by the media and society are essential to ensure that government performs properly and vested interests are overcome. But "dealing with vested interests will be even more difficult than touching people's souls".
- **Corruption:** Asked about corruption Li replied that officials must themselves be upright before they can ask others to be honest, and said that those serving in government should not be thinking of making money for themselves. But he added that China needs sound mechanisms to ensure that officials are not corrupt and that those who are will be punished. Li reiterated that power should be exercised openly, and the government should allow supervision from the media and society. To gain the people's trust, Li's government will practice austerity: no new government buildings or guest houses; staff reductions; and smaller budgets for hospitality, overseas travel, and vehicles. He said that the administrative costs of government rose only 1.6% in January and February 2013.
- **Taiwan, Hong Kong and International Relations:** On relations with Taiwan and Hong Kong, Li did not break any new ground. On US-China relations, he hinted that China's calls for a "new type of big country relations" would entail the balancing of American and Chinese interests and new regional "interactions" in Asia against the goals of "stability and prosperity". He sounded optimistic about the relationship, and indicated that, despite ups and downs, it had developed positively over the past decades. On Sino-Russian relations, Li noted that the two countries had agreed to double their trade volume and "step up communication and coordination in regional and international affairs".

- **The Constitution and Law:** In his opening remarks, Li said he would be "loyal to the Constitution". The law figured prominently throughout the press conference; he said it must occupy a "sacred" place. Xi Jinping's remark that state power should be limited by the "cage" of laws and regulations seems to fit perfectly with Li's views. Li added that the purpose of reform is to optimize the distribution of power, leaving more to the market and society, and having government perform those functions that government alone can do. He underscored that the functions of government must be changed, and noted that projects have routinely required several dozens of government approvals, providing fertile ground for corruption. He said that the State Council currently reviews some 1,700 applications, and that at least a third of those reviews must be eliminated.

- **Serving the People:** Li also said that he would be "loyal to the people", spoke determinedly of the importance of improving people's livelihoods, and promised to do more to improve education and the social safety net. He said that China must help the neediest, something he claimed is a moral issue for the nation.

- **Government Priorities:** When asked about his government's top priorities, the premier said that they were laid out by the 18th Party Congress, and are threefold. The first is to ensure sustainable economic growth, which he said is dependent on economic transformation, i.e. giving more power to the market and limiting government. He spoke of the threat of inflation and said China must manage "latent risks", which he did not specify, but may refer to weakness in local government finances and shadow banking, and a frothy real estate market. The second is to improve the social safety net, education and people's incomes. The third is to increase fairness in society and provide

A Few Grey Hairs

Those viewers with good eyes may have noticed that China's President Xi Jinping's impressively full head of hair has begun to show a bit of gray (where he parts it). It is impossible to imagine a job as complicated and stressful as his not leading to some gray hair. The hair of American presidents Clinton and Obama added a lot of gray shortly after they assumed office, and we can presume Xi's predecessors all had some gray hair, too. But they used technical means to hide it. Xi is differentiating himself from them by allowing his gray to show, sending a message that fits with his calls for government austerity and plain living, and may start a new trend in coiffure.

Li ended the session by commenting on international opinion about China. He said he had read a lot of foreign media, and found two main concerns. The first is that China's growth may be unsustainable; the second that a stronger China will be more assertive and seek hegemony. On the first matter, he said that China has a long road to achieve modernization for its 1.3 billion people and the Chinese people believe in the "golden rule". On the second, he said that China is absolutely committed to peaceful development, will not seek hegemony, and will shoulder its obligations as a big developing country.

What's New?

This year's NPC announced a major government restructuring and the appointment of officials to many senior leadership positions. The restructuring aims to change and limit the functions of government; the new appointments complete the leadership transition – the Xi /Li team is now in place.

Review of China's Major Government Restructuring (1978 onwards)

- 1982 **Improving government efficiency:** cabinet agencies reduced from 100 to 61; staff members cut from 51,000 to 30,000; lifetime tenure program for cadres eliminated.
- 1988 **Transforming government functions:** cabinet agencies reduced from 67 to 60; staff members reduced by 9,700.
- 1993 **Adapting to socialist market economy:** cabinet agencies reduced from 86 to 59; staff members reduced by 20%.
- 1998 **Further clarifying government functions:** cabinet agencies reduced from 59 to 48.
- 2003 **Improving macro-control capabilities:** five new cabinet agencies created, including SASAC and MOFCOM.
- 2008 **Exploring super-ministry system:** six ministries dissolved and five new ones created, including MIIT, MOHURD and MEP.

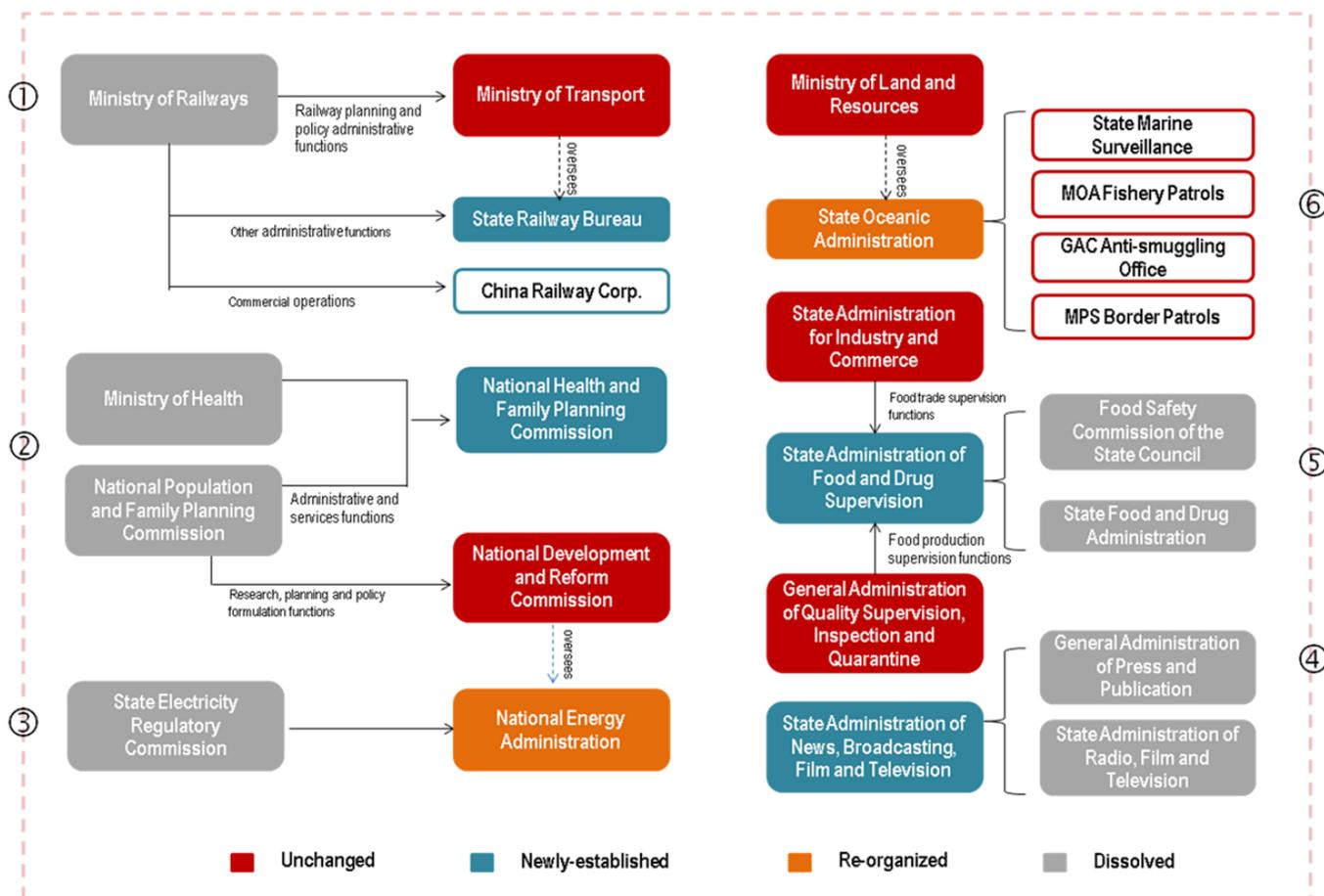
Government Restructuring

The government has carried out major restructuring to its ministries six times in the past 30 years (see box on left) with mixed results. Prior to this year's meetings there had been much speculation that another wide-ranging government restructuring would be announced. Predictions included the establishment of a new body tasked with overseeing reform, a reduction of the National Development and Reform Commission's (NDRC) remit and a restructuring of the agencies responsible for supervising financial services.

In the end none of these predictions came to pass. Instead, on March 9th the government announced a restructuring plan that will reduce the number of ministries under the State Council, China's cabinet, from 27 to 25. The details of the "Institutional Reform and Functional Transformation Plan" (机构改革, 职能转变) are as follows.

- The Ministry of Railways (MOR) will be disbanded and replaced by the China Railways Corporation (CRC). CRC will become part of the **Ministry of Transport**. By disbanding the MOR, the government has moved to deal with a ministry whose overwhelming power and financial clout (it had become the nation's largest issuer of corporate notes - RMB 2.66 trillion – making it, as one media outlet reported, larger than Denmark's economy) led to a series of high-profile scandals.
- The National Population and Family Planning Commission (NPFPC) will be dissolved and its functions absorbed by the **National Health and Family Planning Commission**. The NPFPC's strategy development function will be absorbed by the NDRC. It is not yet clear what impact this will have on China's one-child policy. The policy has led to much abuse at the local level and, given new demographic challenges (China's demographic dividend is coming to an end), policymakers may now be considering alternatives. However, recent comments from Wang Feng, deputy head of the State Commission Office for Public Sector Reform, stating that the policy will not be abolished, suggest that in the short-term change is unlikely.
- The functions of the old **State Electricity Regulator Commission** will be absorbed by an expanded National Energy Administration. This may pave the way for pricing reform.
- A new **State Food and Drug Supervision Administration** will be established. The new agency will take on the responsibilities of the now defunct State Food and Drug Administration and the State Commission on Food Safety. It will also take over food production supervision from the General Administration of Quality, Supervision, Inspection and Quarantine (AQSIQ) and supervision of food sales from the State Administration for Industry and Commerce (SAIC). By consolidating the regulation of the food and drug industries the government is attempting to strengthen oversight of two industries which have been plagued by numerous national crises. As a result public confidence in both industries and the government's ability to regulate them has been at rock bottom.

- The **State Administration of News, Broadcasting, Film and Television** will replace the General Administration of Press and Publication and the State Administration of Radio, Film and Television.
- The **State Oceanic Administration's** functions will be expanded to include oversight of the coast guard, fisheries, border controls and anti-smuggling operations, all of which were under the supervision of a number of related agencies. The ongoing dispute with Japan over the Diaoyu/Senkaku Islands and tensions in the South China Sea has brought into focus the large number of agencies with maritime responsibilities, and the risk that lack of coordination among them might result in an unintended incident. This consolidation is intended to help the government manage these important interests.



This round of restructuring has received both praise and criticism. The lack of announcements regarding much anticipated changes to the NDRC has been greeted with disappointment by some. The failure to address the NDRC's pervasive role in managing the economy is seen by some as a sign that deep reforms may not be forthcoming (but see above on Premier Li's comments about reform). There are similar concerns with regards to financial services, which some had hoped would be reformed by the creation of a more streamlined regulatory body (but see below on the reappointment of Zhou Xiaochuan).

The government has positioned the changes as reconfiguring the state's relationship with the market and delivering what it believes the public wants – better regulation in the food and drug industries most notably. According to the People's Daily, the new clarion call is "respect the market, rediscover society".

Personnel

In addition to the structural changes described above, significant personnel changes were approved by the NPC. The President; Vice President; Premier; Vice Premiers; State Councilors and other key leadership positions within the NPC and the CPPCC were filled. As in the past, the final decisions are the result of bargaining between China's top leaders, with the NPC merely proving a rubber stamp to the appointments.

While the appointments of Xi Jinping and Li Keqiang were never in doubt, the appointment of **Li Yuanchao** as Vice President came as something of a surprise. Li will be the first Vice President since 1998 who is not a member of the Politburo Standing Committee (PSC). Li, formerly the head of the CCP's Organization Department, and well known as a strong reformer, missed out on a position in the PSC during last November's CCP Congress, disappointing some hoping for more rapid reform. The "resurrection" of Li may indicate that Xi has a significant amount of independence from former CCP Secretary General Jiang Zemin, who was reportedly lobbying for the appointment of **Liu Yunshan**. Li is expected to take on responsibilities for foreign affairs and public engagement. Li's education at Fudan University and Harvard and his experience in the CCP's external communications function has strengthened his ability to deal with foreigners. During his spell as Jiangsu Party Secretary, Li attracted investment from MNCs such as Ford, Samsung and Caterpillar.

Government Leadership



Wang Yang was another reformist leader who narrowly missed out on a place in the PSC. The former Guangdong Party Secretary is expected to take an important role in leading the government transformation (given his experience overseeing similar restructuring in pilot programs in Guangdong) and upgrading of the economy. Before his transfer back to the central government, Wang accompanied Xi on his first provincial trip (to Guangdong), recognition of the pioneering role Guangdong has played in China's reform and opening. In any case, the configuration of party and state positions that obtained by the end of the NPC shows balance between different factions and networks.

Of the now 25 ministries and commissions under the State Council, nine new Ministers and Directors were appointed. In all ministries and commissions,

only **Wan Gang**, Minister of Science and Technology, is a non-party member. Below is a list all the major ministry level changes.

- **Supreme People's Court:** the impressive, 52 year old (sixth generation) former Hunan party secretary Zhou Qiang, will take this role. Kown for his extensive legal training and outspoken comments about the "rule of law", Zhou will play a major role in the new government's push for limiting power via the legal system and fighting corruption;
- **National Development and Reform Committee:** Xu Shaoshi, former Minister of State Land and Resource appointed Director;
- **Ministry of Commerce:** Gao Hucheng, Vice Minister and MOFCOM Chief Negotiator on international trade promoted to Minister;
- **Ministry of Finance:** Lou Jiwei, former President and CEO of China Investment Corporation, appointed Minister;
- **Ministry of Foreign Affairs:** Wang Yi appointed Minister. Wang was Director of the Taiwan Affairs Office under the State Council, and is regarded as a Japan hand. Wang's appointment signals an adjustment of China's foreign affairs focus back to Asia;
- **National Health and Family Planning Commission:** Li Bin, one of the two female members in the cabinet and former Governor of Anhui Province, appointed Minister. Li was previously Director of the now defunct National Population and Family Planning Commission (NPFPC) from 2008 to 2011. Her experience in implementing the pilot medicare system in Anhui is expected to guide the national healthcare reform plan;
- **Ministry of Land and Resources:** Jiang Daming, former Governor of Shandong, will lead the consolidation of the State Oceanic Administration;
- **Ministry of State Security:** Chang Wanquan appointed Minister and State Councilor overseeing defense and national security affairs;
- **Ministry of Supervision:** Huang Shuxian appointed Minister. Huang was previously the Vice Secretary of the CCP Committee of Discipline Investigation.
- **State Ethnic Affairs Commission:** Wang Zhengwei was appointed Director of the Commission.

In the financial sector, **Zhou Xiaochuan** will remain in his position as Governor of the People's Bank of China. Zhou was also appointed a Vice Chairman of the CPPCC. The appointment confirmed the Xi/Li administration's support for financial reform, which Zhou has previously outlined. **Xiao Gang** was appointed Secretary and Chairman of the Securities Regulatory Commission. During his term as President of the Bank of China Xiao supported the construction of a market-oriented financial system, and oversaw the bank's domestic expansion. It remains to be seen whether Xiao will prove as zealous a reformer as his predecessor, Guo Shuqing, however.

Dissent in the Ranks

The election of officials at the NPC reflects preordained decisions made by China's most senior leaders. Despite a formal voting procedure, the outcomes are never in doubt. However at this year's meeting a significant number of delegates abstained or voted against the appointment of the Environmental Protection, Housing and Urban-Rural Development, and Education Ministers, as well as the Governor of the People's Bank of China. While the degree of opposition should not be exaggerated (for example of the 2,952 delegates, only 47 abstained and 171 opposed the appointment of Zhou Shengxian as Environment Minister), these "protest votes" reflect increasing public concern about the environment, housing, education and the financial system. How the new administration deals with the challenges each area presents will be a key measure of its success.

Budgets

Outgoing Premier Wen Jiabao delivered the annual government work report on the opening day of the NPC. Beijing set 7.5% as this year's GDP growth target, the same as 2012 when China's economic growth hit a 13-year low of 7.8%, slower than the 9.2% and 10.3% in 2011 and 2010 respectively. The target is in line with the 12th FYP's goal of 7% annual GDP growth rate, which Wen said is intended to allow some leeway for restructuring the economy, improving qualitative growth and sustaining development.

The central government raised its fiscal deficit target from 1.5% in 2012 to 2.0% in 2013, but lowered CPI inflation (from 4.0% to 3.5%) and M2 growth targets (from 14.0% to 13.0%). Though the fiscal deficit target of US\$ 192 billion is roughly 50% higher than last year's actual deficit, economists don't consider the increased target to be a major risk to financial stability. The contribution of consumption to the economy is expected to grow and people's livelihoods will receive stronger support from the central level. To achieve these targets, the report noted that the government will need to continue a "proactive fiscal policy and a prudent monetary policy", and curb investment demand to control inflation.

Looking closely at China's 2013 budget, we can see how Beijing plans to spend more to improve people's lives. In the past five years, central expenses on livelihood took up 2/3 of the total budget, with an annual growth rate of 21.1%. It is noteworthy that the medical and health budget for 2013 will increase by 27.1%, a greater increase than for any other budget item. The education budget will increase by 9.3% - the government will concentrate on creating equal access to education and there will be more investment in improving education in rural areas. The government will also boost the culture budget by 9.3%, underscoring its increasingly important strategic position.

The 2013 budget has, for the first time, included social security funds. This indicates that the government's intention to establish a comprehensive budgetary system - all government revenues and expenditures incorporated - has now entered the implementation phase. This will not be easy. As Jia Kang, a financial expert at the Ministry of Finance pointed out, "the budget report should be further specified and problems in budget enforcement must be solved."

Major Budget Items	2013 Budget (billion yuan)	Percentage of total budget	Growth Rate (compare to 2012 budgets)
Medical and health	260.253	3.8%	27.1%
Energy saving and environment	210.127	3.0%	18.8%
Social security and employment	655.081	9.4%	13.9%
Agriculture, forestry and water	619.588	8.7%	12.8%
National defense	720.168	10.4%	10.7%
Education	413.245	5.9%	9.3%
Culture and communications	54.054	0.8%	9.3%
Public security	202.937	2.9%	7.9%
Housing security	222.991	3.2%	5.3%
General social services	135.058	1.9%	1.5%
Transportation	397.386	5.7%	0.1%

There will be another double-digit rise (10.7%) in China's defense budget. According to Wen, the government "should accelerate the modernization of national defense and the armed forces ... (and) should resolutely uphold China's sovereignty, security and territorial integrity and ensure its peaceful development."

Hot Topics

Urbanization

Urbanization will be a driving force for China's economic development and is without question one of the top priorities for China's new Premier Li Keqiang. Li referred to it as "China's biggest potential for development in the coming decades". It is seen as key to boosting domestic demand and replacing the traditional investment and export-driven development pattern. The urban population is expected to rise by 400 million in the next 10 years, which is likely to drive RMB 40 trillion worth of investment in infrastructure and public services, according to a recent paper by the Chinese Academy of Social Sciences.

Nevertheless, a variety of issues have emerged with China's fast urbanization. Some local governments have used the urbanization drive to create a Chinese real estate "enclosure movement", driving rural residents from their hometowns to look for work in the cities and, at the same time, creating "ghost towns" in the countryside. As a result major cities have become overpopulated, lacking sufficient resources and space. During the two sessions, the topic of how to create a sustainable, people-oriented new urbanization model was a hot issue.

In order for urbanization to be successful it is likely that the government will need to change its *hukou* (household registration) policy. The *hukou* system, which divides China's population into urban and rural residents, determines access to education, housing, medical care and other benefits. According to the government work report, China's urbanization rate is over 52%. However, it has been pointed out that 260 million migrant workers are not really urbanized: they do not have an urban *hukou* and the subsequent access to benefits. There has been an ongoing debate about whether and how further reforms in *hukou* and social welfare can be achieved. Some cities shared their experiences and lessons learned during the sessions. Clearly, given the opposition of many already in possession of an urban *hukou*, any reforms in this area will be difficult.

Zhang Ping, outgoing head of the NDRC, said at a news conference that national guidelines for urbanization will be issued in the first half of this year. The guidelines are intended to lead the country's urbanization drive in an "orderly and healthy" way. Zhang remarked that the current urban layout was imbalanced. Moving forward, expansion of megacities and large cities should be controlled, and small and medium-sized cities and towns should be developed, in order to address resource and environment problems. Li also touched on this issue, noting it is "important for the development of both China and the world", but that it is a "big, complex project" that requires "system engineering". On the one hand, it must ensure that China maintains a minimum of 120 million hectares of arable land (he alluded to the opportunities to produce more food when farms are bigger); on the other it must not lead to megacities that have "shantytowns". Premier Li made it clear that China will strive for balance, bringing rural people into large, medium and small cities in the east as well as in the central and western parts of the country. He said that the CPPCC and NPC had put forth over 500 proposals about urbanization that his government would study carefully.

One-Child Policy and the Economic Growth Dilemma

Although the central government has not announced any changes to its family planning and one-child policy, the decision to dissolve the National Population and Family Planning Commission is considered by some to be a signal that changes may be forthcoming. Tremendous pressure from China's aging population, in terms of health and social care costs, and a shrinking labor force (China's working age population fell for the first time in 2012), may provide stimulus for a policy shift. However any policy transition will be politically sensitive; around half a million family planning officials, mostly at the local level, would need to be reallocated.

Environment

China's breakneck development has come at a huge cost to the nation's environment. According to the World Bank, in 2011 the cost of environmental degradation in China was equivalent to 8.9% of the country's Gross National Income. In recent months serious air pollution in China's major cities has become a hotly discussed topic. The public has begun to question the government's ability and willingness to tackle the problem. In his press conference, Premier Li noted that he was "quite upset" about the issue. He vowed to create no new problems, find cures for the old ones, and enforce the law with an iron fist.

Speaking during the sessions, Wu Xiaoqing, Ministry of Environmental Protection (MEP) Vice Minister, noted that the government will take action to address heavily polluting regions, such as the Beijing/Tianjin/Hebei nexus, the Yangtze River Delta and the Pearl River Delta. Wu remarked that the offending regions will need to take "strong medicine" and that the government will need a "combination of punches". According to Wu, PM2.5 reduction will be incorporated into the government (Beijing/Tianjin/Hebei nexus, the Yangtze River Delta and the Pearl River Delta) performance review by 2015. Outlining government plans, Wu stressed the need to deal with the problem under the rule of law. However, during the sessions, no national clear air act was passed. Pessimists also point out that Zhou Shengxian, MEP Minister, remains in his job. Zhou has widely been perceived as a failure in dealing with China's environmental challenges.

State-owned Enterprises

Deepening the reform of SOEs was one of the key government initiatives proposed by Wen in his work report. However, little substantial progress has been made over the years. Mr. Huang Shuhe, Deputy Chief of the State-owned Assets Supervision and Administration Commission (SASAC), noted during the NPC session that the incomplete government restructuring and the current SOE employment system are two major obstacles. It was reported that the Guiding Opinions on Deepening the SOE reform are being formulated by SASAC and will be issued by the first half of this year. According to insiders, one of the main reform directions is to strategically reposition SOEs. Some will concentrate on public welfare (公益性国企), while others will focus on market competition (竞争性国企). However, how to supervise these two types of SOEs remains unclear at the moment. Some observers are pessimistic about this upcoming policy document, arguing that SASAC, whose interests are inextricably linked with SOE development, should not be responsible for formulating the reform plan.

Implications for MNCs

While there is a great deal of continuity and predictability built into the Chinese party-state system, one should not underestimate the importance of a decennial change of leadership at the top that puts a new generation in power and promotes the leaders of the subsequent generation. It behooves companies operating in China to study carefully the signals from this new leadership about its agendas, and to analyze the implications for their businesses. Companies should also inventory their relationships to see if they are keeping pace with personnel changes.

- **Personnel changes** at all levels call for increased efforts to build relationships with newly appointed officials. It is worthwhile finding out from your business partners in China about the extent of their relationships with new leaders.
- **Urbanization** and the continued growth of tier 2, 3 and 4 cities will present increasing opportunities for MNCs. Taking advantage will require successful GR approaches and well thought-out expansion strategies. Companies in the service industries, in particular, will find greater opportunities as urbanization picks up steam and the government needs them to create jobs. Companies in **agriculture**

may begin to seek opportunities that will arise when urbanization leads to the creation of larger farming units.

- There is likely to be **tighter control** from the center over funds earmarked for livelihood-related projects at the local level (more power will be given to local governments on other projects). China will establish a more comprehensive budget system that will incorporate all government revenues and expenditures. How this plays out is still unclear; expect delays while change is underway.
- A **streamlining of government functions** will lead to less red-tape in related industries. The number of areas requiring government approvals will be cut and the process sped up.
- A big **anti-corruption campaign** is rumored to be planned. Foreign businesses in China should be especially vigilant to ensure that their own operations are innocent of corruption, since anti-corruption drives in the past have often first targeted business dealings involving foreigners.
- Companies in **energy and finance** should be alert for opportunities to partner with Chinese private enterprises seeking entry in these sectors.
- All firms should carefully monitor the progress of liberalization of **exchange and interest rates**.
- In the **food and pharmaceutical industries** there will be increasingly stringent supervision of products, based on a strengthened legal system. Crises will increase as traditional and social media are encouraged to “out” firms that make shoddy products. This will undoubtedly lead to “collateral damage” when innocent firms are targeted either mistakenly or maliciously. Companies should be prepared to respond quickly and intelligently if/when this happens. There will also be an upgrading of industry standards.

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