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China's new global presence

How the Xi Jinping leadership is changing the world balance

China crafts a new global policy

- China is evolving a major new global policy as part of Xi Jinping's nation-strengthening approach to leadership.
- This stretches from China's neighbours to Brazil and other Latin American countries.
- It is an important development backed by the resources of the People's Republic, including its foreign exchange reserves.
- The United States was blind sided over the new Asian bank launched by Beijing and is caught between Washington's traditional hedging approach to China and the desire for a higher profile policy to reassure Asian allies and deliver on the "Pacific Pivot".
- Beijing is steadily moving into this vacuum, raising the political risk and uncertainty as India tries to avoid committing and Europe seeks economic advantage with the People's Republic.

China's Janus approach

- China is pursuing a carrot and stick approach to regional issues.
- It is offering major aid programmes to fund Asian infrastructure development and launching an Asian infrastructure bank (AIIB).
- It is also broadening its geographical reach – to Latin America and Russia – and increasing ODI.
- Xi will push his Silk Road plans, combining geo-political and geo-economic aims, with the hope of exporting excess capacity and reducing domestic deflation.
- But, at the same time, Beijing is pursuing development of regional claims, building on South China Sea reefs and increasing flights on the edge of Japan's air space.
- Tokyo, Washington and Manila are all reacting, raising the regional risk.
- So the risk factor is rising in East Asia - and with potential for Taiwan tensions in 2016.
- China wants to increase its presence in international financial bodies, for instance through admission to SDR club.
- Xi will take a high-profile line in his autumn summit with Obama.

The domestic economic context

- Though growth is slowing there is no reason for panic - data should be seen in the context of mini-cycles; now it is moving out of the trough.
- The Xi-Li administration sees the need for economic reform.
- Short-term implementation will depend on the impact on growth as this year's 7.0% target proves hard to achieve and with potential for policy misjudgements.
- The recent surge in Shanghai stocks is a retail phenomenon driven by liquidity, margin trading, the Hong Kong Connect, government encouragement and "feel good" sentiment.
- Currency policy will to keep the Rmb stable with widening of band at end of year.
- The leadership also faces major challenges on quality of life issues.
- Long-term outcome of reform-growth equation will involve potential clash between Communist Party power and economic modernization and liberalization.

Key reform initiatives in 2015

- Deposit insurance scheme
- Land reform pilot scheme
- Implementation of municipal bond issuance scheme
- New SOE reform framework at State Council level
- Property registration
- Interest rates liberalization
- Civil servant pension reform

The political front

- The anti-corruption campaign is proving a major politico-economic initiative and will continue even if it starts to have negative effects through the fear factor.
- As well as its central political uses, the campaign is being applied to SOEs and provincial administrations and is affecting some big joint venture partners of firms.
- Xi faces opposition both from vested economic interests and from his predecessors.
- But he is consolidating central and ideological power to shake up the Party State in his image and to clear the decks for the appointment in 2017 of the next generation of leaders who will take over in 2020.
- Prime Minister Li Keqiang is committed to reform but is COO in the China Inc hierarchy while Wang Qishan, head of the Communist Party Discipline Commission, adopts a high-profile role.

Xi Jinping, a reformer out to strengthen the system

- Xi Jinping has introduced a personal dynamic into Chinese politics and economic policy that was absent under his two predecessors; we believe it will be vital to the reform process and thus to medium- to long-term economic performance.
- It is also behind the new foreign policy of which he has taken very evident command.
- The toppling of former Minister of Public Security Zhou Yongkang is far from signalling the end of the anti-corruption drive; rather, that campaign is widening to include associates of former leaders Hu Jintao and Jiang Zemin as well as targeting major companies.
- Despite the campaign against factional “gangs”, the important divide is not between elite factions, as was the case two years ago, but between Xi’s central leadership and vested interests as he seeks to bring semi-autonomous elements of the Party State under centralized control.
- Xi’s stress on the rhetoric of central control and ideology does not sit well with evolving Chinese society, which the Party State finds hard to manage. If his policies run into trouble at home or abroad, the result could be a brake on economic reform as political preservation takes precedence.