



CHINA OUTLOOK

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China Leadership Transition:

Disagreements inevitable, but top priority is ensuring the primacy of the Communist Party

- Continuity, caution, conservative (and for now, consensus-driven) approach to decision-making
- New Chinese leadership to follow current policies, as it has played instrumental role in formulating/implementing them
- No expectation of major stimulus/changes to fiscal and monetary policies
- Structural economic reforms likely wait until March 2013 (new government installed)
- New leadership to focus on Washington's approach to economic relations
- PBSC composition – only one of seven closely aligned with former Party Chairman Hu Jintao (Li Keqiang)

China Leadership:

Specific Leaders & Positions of Note

Name & Position	Comments
Li Keqiang, Premier	Li's career has focused on economic upside of social safety net reforms – affordable housing, health care, and pensions
Wang Qishan, Vice Premier	Wang to be responsible for Central Discipline Inspection Commission; key figure for addressing corruption in the party
Zhang Dejiang, Vice Premier	Zhang has done little to promote privatization, instead favored SOE protection. Currently unclear if he'll support moderating the role of SOEs and reforming the banking sector
Zhang Gaoli, Tianjin Party Secretary Yu Zhengsheng, Shanghai Party Secretary	Both Zhang and Yu are economically literate and have proven capable stewards of the megacities they oversee
Zhou Xiaochuan, People's Bank of China Governor	<p>Exiting Governor is Zhou Xiaochuan; incoming successor may have limited mandate as credit/banking policy rarely attuned to market forces</p> <p>Potential successor is Guo Shuqing, Chairman of the China Security Regulatory Commission & Overseer of China's Renminbi Qualified Foreign Institutional Investor scheme</p>

China Economic Outlook:

Continuity and caution are the watchwords for the next few months, perhaps through end-2013

Near-term

- Maintain 7.5% growth
- Additional ad hoc action on interest rate, reserve rate requirement, reverse repo purchases
- Advance infrastructure projects previously agreed on
- Fight inflation
- Pump up exports, extend full export tax rebate of 17%
- Next opportunity to evaluate policies in December (Economic Work Conference)
- New ministerial line-up finishes at March People's Congress

Long-term

- 12th Five Year Plan (2011-2015) to focus on consumption & market reforms
 - Encourage strategic emerging industries (high tech, biotech, energy saving, advanced materials)

Additional factors that will influence policy

- China eager to avoid “middle-income trap”
- Policymakers wary of ceding control to ‘unpredictable markets’
- Social stability often trumps economic policy and creative ideas

China Economic Policy:

Will it take a crisis to inspire fundamental changes?

To Do:

- Shift the share of the economic pie from SOEs to private business
- Match tax revenues to budget allocations
- Increase wage rates to promote consumption
- Transform the banking sector
- Internationalize the Yuan (RMB)
- Provide for a graying population; adjust to a decline in the available labor force
- Provide health services
- Deal with environmental issues: pollution and energy
- Reform the legal structure

US-China Outlook:

In the short term, the direction of US policy toward China and the Asia-Pacific is unlikely to significantly change

Timeline of Recent US-China Events

Date	Event	Obama Key Takeaway
Jul. 2009	US-China Strategic & Economic Dialogue	"It is in both nations' interest to advance a positive, constructive, and comprehensive relationship between our countries. I'm pleased that President Hu shares my commitment to a sustained dialogue to enhance our shared interests."
Nov. 2009	Obama's trip to China	"China's partnership has proved critical in our effort to pull ourselves out of the worst recession in generations. Given that interconnection, I do not believe that one country's success must come at the expense of another."
Nov. 2010	APEC Summit	"We think China being prosperous and secure is a positive, and we're not interested in containing that process. We want China to continue to achieve its development goals."
Jan. 2011	President Hu's visit to Washington	"History shows that societies are more harmonious, nations are more successful and the world is more just when the rights and responsibilities of all nations and all people are upheld, including the universal rights of every human being"
Oct. 2012	Third Presidential Debate	"China is both an adversary but also a potential partner in the international community if it's following the rules. So my attitude coming into office was that we're going to insist that China plays by the same rules as everybody else."
Nov. 2012	Tom Donilon on China	The administration wants a constructive dialogue in order to encourage China to become a responsible international stakeholder; U.S.-China economic links "inextricable" for both economies.

US Trade Policy:

On three fronts – export, market opening and the handling of trade disputes – Obama II will look very much like Obama I

- US overall trade goal to double exports; China plays key role
- Push for opening financial services market (banking, insurance, PE)
- China prime focus of new US Trade & Enforcement Unit
- US concerted effort to complete TPP negotiations
 - Includes decisions on SOEs, domestic subsidies and regulatory standards; will affect China's future TPP engagement
- China watching US-EU FTA negotiations
- US highly unlikely to designate China a “currency manipulator”

US “Pivot” to Asia:

A harder edge to Obama’s China policy, the “pivot” comes with danger points

- America will continue to deepen its engagement in Asia
- US focus on strengthening alliance structure; Chinese will view as encirclement and containment
- Ensure freedom of navigation, especially in the South China Sea
- Danger point: China’s insistence on its sovereign rights vs. US effort to build coalitions in Southeast Asia (primarily Vietnam and the Philippines)

China-US Outlook:

Positive progress in the past four years, but Chinese concern over “pivot” to increase

- Xi Jinping in Jan. 2012: A “new style” bilateral relationship necessary; implicit criticism of Obama policies in aftermath of the “pivot”
- Key insecurities
 - Non-interference
 - Does the Obama Administration “respect” China?
- “Pivot” perceived by Beijing as US containment of China
- Deng Xiaoping “Hide and Bide” Strategy: Is it Dead?
- 18th Party Congress
 - More assertive diplomacy, emphasis on military protecting China’s national interests
- South China Sea/East China Sea debate over sovereignty and resource control to continue
- China use of economic leverage as foreign policy tool (e.g., pressure Japan)
- Xi may adopt Taiwan as new initiative

Robert Goldberg, Principal

During his thirty year career as a diplomat, Robert Goldberg worked closely with American business, advising on U.S. foreign and economic policy, negotiating the resolution of trade policy disputes and helping expand market and investment opportunities. With the Scowcroft Group, Mr. Goldberg provides strategic advice on the Asia Pacific area, with a focus on China and Northeast Asia as well as on Asia-Pacific-wide regional security and economic institutions.

Mr. Goldberg retired from the State Department in January 2011 following an 18 month assignment as Deputy Chief of Mission at the U.S. Embassy in Beijing. Previously, he had been U.S. Consul General in Guangzhou, China (2006-2009), Director of the State Department's Office of Chinese and Mongolian Affairs (2005-2006), the Deputy Special Representative for Commercial and Business Affairs in the State Department's Bureau of Economic and Business Affairs (2001-2003), Deputy Economic Counselor at the U.S. Embassy in Beijing (1996-1999) and a staff member in the East Asia and Pacific Bureau of the State Department responsible for U.S. policies in the ASEAN Regional Forum and the Asia-Pacific Economic Forum (1994-1996). Mr. Goldberg's other assignments in the State Department included tours in India, Hong Kong, and Taiwan.

Mr. Goldberg was born and raised in Baltimore, Maryland. He received a Bachelor's Degree from Gettysburg College and a Master's Degree from the University of Chicago, where he did additional post graduate work.



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