



Implementing a Harmonious Society:
China's 11th National People's Congress
and its Impact on
Foreign Business

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INTRODUCTION TO APCO

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KEY POINTS

- The 11th NPC confirmed a new grouping of senior leaders in China's State Council and ministries. Internal Party politics shaped the environment in which these selections were made.
- The new State Council brings with it changes in policy focus and governing style. Through the new appointments, Hu and Wen have bolstered their capacity to implement their "harmonious society" agenda.
- Premier Wen will continue to take the lead on all major economic issues in the State Council, with support from Executive Vice Premier Li Keqiang. It will be the first time in recent memory that both senior economic positions have been filled by genuine reformists, committed to further reform.
- The NPC was slated to implement a major restructuring of government agencies. The final outcome was more modest and bore all the hallmarks of political compromise and incomplete reform.
- This "big ministries" restructuring exercise was the government's response to criticism that it has been ineffective in pushing through difficult measures like tackling corruption and cooling down the overheated economy. It is an element of the Party's wider claim that its "party-and-state" approach to governing is capable of delivering economic growth and clean government without Western-style institutions.
- From a historical perspective, the "big ministries" reform is an ongoing and incremental process that has seen the number of ministries whittled down from 100 in 1982 to 27 today.
- During Premier Wen's "work report," he pledged to forge ahead with the "scientific theory of development," code for pursuing economic growth but taking environmental concerns into greater consideration, during his second five-year term. The government will target GDP growth of 8% for 2008, and taming inflation is now a top priority, with a target of 4.8% for 2008.

THE 11TH NATIONAL PEOPLE'S CONGRESS: CONTEXT

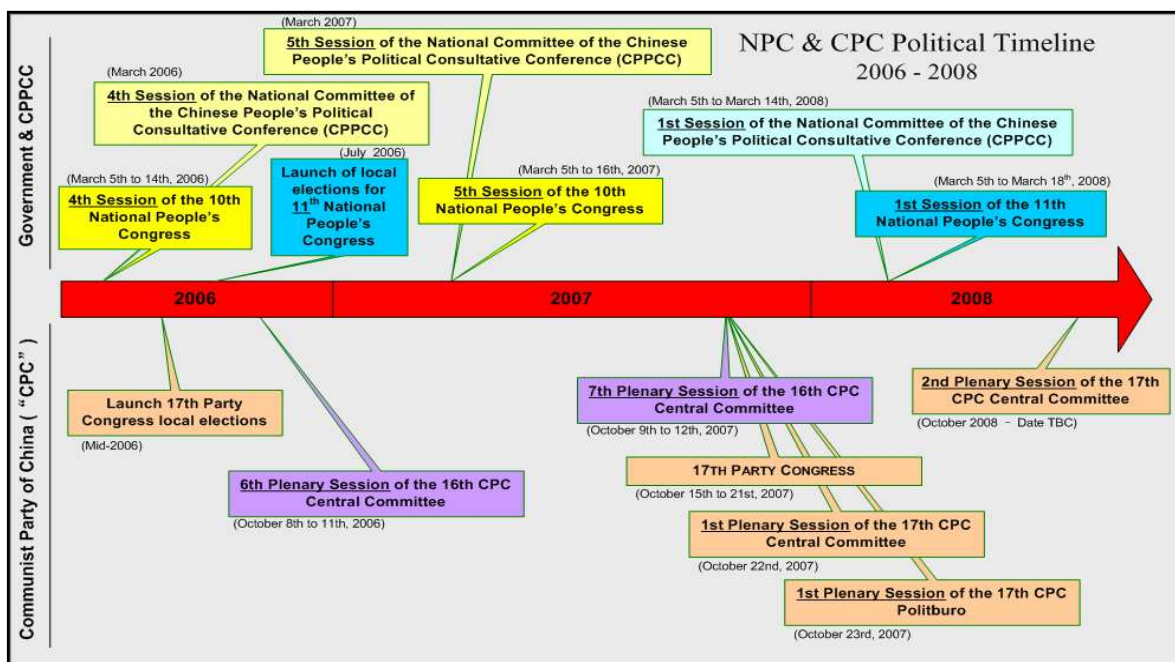
With ritual regularity, the National People's Congress (NPC) convenes each March in Beijing for a two-week session, drawing together nearly 3000 delegates from around the country. In theory, the NPC is China's highest organ of state power and this gathering marks one of the most important events in the Chinese political calendar.

In practice, however, the NPC's yearly gathering is largely an exercise in legislative acquiescence, with delegates approving appointments, laws, and ministerial work reports predetermined by the Communist Party of China (CPC). Most are approved by wide margins and dissent is rare. While the NPC has gained greater legitimacy in recent years through more robust debate, the March meetings still act primarily as an opportunity for Party decisions to be formally communicated, endorsed and institutionalized.

The control exercised by the Party over NPC proceedings is owed mostly to the political allegiance of the delegates themselves - more than two-thirds of the NPC's deputies are CPC members, and all are tacitly approved by the Party. The Party ensures this majority representation through a series of elections conducted to select five levels of People's Congresses (township, county, city, province, and national) held on the same five-year cycle as CPC leadership changes.

Number games play a major role in promoting the election of Party members to the Provincial and National People's Congresses, as the total number of candidates permitted on the election ballot is capped at 120-150% of available spots. Pre-elections are held to narrow down the pool of nominees to the numerical candidate limit, a process that effectively weeds out nominees not favored by the Party. Taken as a whole, this electoral hierarchy permits the Party to guarantee its dominance at the NPC by progressively reducing the number of non-Party members as the People's Congress elections progress upwards to the national level.

The 11th National People's Congress held 5-18 March 2008 was more significant than usual because it followed the October 2007 17th Party Congress, a meeting at which the CPC's inner circle of leaders and broad policy framework for the next five years were unveiled. The 11th NPC resolved speculation about which of the newly selected senior Party leaders would be appointed to take over key government roles by appointing a new State Council for a five-year term. On this occasion the NPC was also used to introduce plans for a major administrative restructuring. These personnel and administrative announcements have implications for China's future policy developments and for the character of government, making this Congress one of the most closely watched in recent years.



LEADERSHIP CHANGES

State Council Appointments

One of the major functions performed by the NPC was to confirm the new leaders of China's State Council (equivalent to a Western-style Cabinet) and ministries. State Council appointments are the highest non-Party posts in the political hierarchy. In practice, all State Council officials also hold high-level positions within the Party; consequently their mandate extends to ensuring that the will of the Party is effectively carried out by government agencies.

The State Council is composed of ten individuals and chaired by the premier. Under him are four vice premiers, each of whom has responsibility for a section of government policy. The State Council also includes a number of state councilors, with ranking below that of vice premier, who are assigned a smaller portfolio of issues or industry sectors to manage. Members are normally appointed for five-year terms.

Eight of the 10 State Council members from Wen Jiabao's first administration (2003-08) stepped down at the NPC, paving the way for an almost entirely new group of appointees. Among the departures were highly visible personalities such as Wu Yi, a vice-premier who earned a reputation as China's most adept crisis manager, as well as several notable stalwarts from the Shanghai faction, such as Zeng Peiyan. The new crop of leaders will inherit policy positions that have been well-defined for several years by a competent group of senior officials.

How the Leaders Were Chosen

As ever, internal Party politics shaped the environment for State Council appointments. Most key decisions about which new leaders would be admitted to the State Council were effectively made during the 17th Party Congress in October last year, and reflect two key concerns:

- The balance of power within the Party among Hu's Tuanpai faction (most of whom have links to China's Communist Youth League apparatus), the Shanghai faction, and Princelings (a more disparate grouping of officials whose parents were also high-level officials or revolutionary heroes). While the NPC has officially confirmed these placements, its delegates had no real say in this new power distribution.
- The Party's experiment in intra-party democracy during the 17th Party Congress in October

last year, in which CPC Central Committee members held internal elections to nominate politburo members (the 25-member politburo is the Party's key decision-making body, whose edicts are then fed into government). Many provincial representatives in the 204-member central committee voted for senior members that had experience in governing China's provinces, at the expense of several senior members whose experience came from working only in central government.

Rise of the politicians...

China's senior officials with provincial experience leadership fall predominantly within Hu's Tuanpai faction, meaning the politburo selection process during the 17th Party Congress in October last year favored this grouping. Commentators have described this grouping not just in terms of their factional allegiance, but also in the context of their "political" provincial administrative background.

Because the pool of candidates for senior State Council positions is normally drawn from politburo members, this has meant the new group of State Council leaders consists mainly of former provincial Party bosses, a notable change from the previous State Council in which policy-making was concentrated in the hands of a few highly experienced bureaucrats with central government experience (the "technocrats"). For example, all of the newly appointed vice premiers have served previously as Party secretaries or governors/mayors of at least one of China's 31 provinces.

...And decline of the technocrats

Consequently, a number of these senior "technocrats" (many of whom had ties with the Shanghai faction, and whose careers have developed within the central government bureaucracy), missed out in selection to the Politburo. Their omission was due primarily to their reputation for expanding central government powers at the expense of provincial government autonomy during the last five years. Because so many "technocrats" failed to rise to the ranks of the CPC's Politburo, this undermined the chances for this grouping to secure State Council appointments.

Assessment of the New Leaders

The new balance between "politicians" and "technocrats" on the State Council is likely to bring with it changes in policy focus and governing style. A greater number of "politicians" with allegiance to

the Tuanpai faction will likely give Hu and Wen greater policy space to implement their “harmonious society” policy agenda, which focuses on balanced economic growth, rather than prioritizing growth alone. The new team should also be more effective in pushing through central government policies in the provinces, given that they will have maintained residual relationships with the regions they governed. Local government intransigence was a key stumbling block for Hu and Wen during their first term.

2008 State Council Members	
Premier	
Wen Jiabao	head of CN govt.
Vice-Premiers	
Li Keqiang (Exec.)	economic policy and health
Hui Liangyu	agriculture and rural affairs
Zhang Dejiang	industry and energy policy
Wang Qishan	finance and foreign trade
State Councilors	
Liu Yandong	culture, education, and sports
Liang Guanglie	military affairs
Ma Kai	sec. general and econ. affairs
Meng Jianzhu	public security
Dai Bingguo	foreign affairs

Hu and Wen should benefit from the placement of so many politicians beholden to them into senior positions, but they also seem to acknowledge that the new State Council may now lack experienced “technocrats”, and have ensured some remain in the wider team:

- Zhou Xiaochuan has remained as head of China’s central bank. He was originally slated to retire at this meeting, but in the absence of a credible replacement he has been pressed back into service.
- Ma Kai, the former head of the NDRC and well-known “technocrat”, has also been retained in a senior coordinating role.

Domestic economic team

Premier Wen will continue to take the lead on all major economic issues in the State Council. He is seen as a popular and humane administrator, but possibly too “soft” to be truly effective. Although Wen’s new economic team takes over with less economic policy-making experience under its belt than the first, the group has a wealth of practical experience from governing the provinces. Li Keqiang, as executive vice premier, is both intelligent and capable, and will bring high-powered as-

sistance to Wen. For the first time in recent memory, both senior economic positions have been filled by genuine reformists who are committed to further reform. Ma Kai, as head of the State Council’s secretariat, will also play an important coordinating role in formulating economic policy. During his time as head of NDRC he developed an effective working relationship with Wen, and is also known as a canny bureaucratic infighter.

Foreign economic relations team

With the retirement of prominent technocrats such as Zeng Peiyan and China’s “iron-lady” Wu Yi, few in the new State Council appear particularly well versed in foreign economic issues. Although several new leaders have experience working in affluent provinces where foreign investment is high, this does not mean they have experience with the cut and thrust of international trade issues. Regardless of experience, however, the team is expected to maintain a similar positive bias towards the development of a free and open economy. The cautious approach to foreign investment into China displayed by Hu and Wen is also likely to continue, as officials seek to direct money into industries and sectors of most relevance to China’s changing economic needs – meaning fewer investments in heavy or polluting industry and more into high-tech and services.

Financial policy team

The financial policy team will continue to be led by Zhou Xiaochuan, the central bank governor, assisted by his three long-time colleagues - Liu Mingkang from China’s banking watchdog CBRC, Shang Fulin from the securities watchdog CSRC and Wu Dingfu from the insurance watchdog CIRC.

Financial policy is expected to continue to focus on ensuring that monetary policy creates a stable platform for strong economic growth. Zhou Xiaochuan has been a well-known proponent of tighter macroeconomic policies since he took over the central bank in 2002. He raised the benchmark interest rate six times and the reserve ratio for commercial banks 10 times in 2007 to curb inflation.

Policy alignment

For the first time in several years there is a genuine alignment of policy focus and administrative capacity amongst China’s senior leadership. Hu and Wen have surrounded themselves with a number of like-minded reformists in the senior levels of government, all of whom are committed to deepening reform and to implementing Hu’s vision of a “harmonious society.”

New Regional Leadership Teams

Beijing

Despite a number of changes in Beijing's senior municipal leadership, no major policy adjustments are foreseen under the new administration, and the city's pro-business environment is expected to be maintained. Guo Jinlong, a close Hu ally, was appointed the new mayor, taking over the role from new State Council Vice Premier Wang Qishan. Guo's selection came as a surprise given his weak administrative background - he brings little pertinent experience to the position, having spent more than 25 years as a Party Secretary in the poorer, less-developed provinces of Anhui, Sichuan and Tibet. His appointment was almost purely political, reflecting Hu's concerted efforts to build a Tuanpai power base in China's capital.

Guo has already signaled that he intends to support the commercial incentive policies laid out by his predecessor Wang Qishan. Promoting foreign investment in the service, knowledge-based, and high-end manufacturing industries will remain a priority, and Guo is keen to encourage more multinational corporations to set up their headquarters in Beijing.

Shanghai

Mayor Han Zheng was appointed to a second five-year term in the position. Many had speculated that Han would be replaced due to his close ties with Jiang Zemin's Shanghai faction, which had been implicated in a major corruption scandal last year. Han's re-appointment is interpreted as the central leadership's desire to maintain continuity and stability in Shanghai in the run-up to the Olympics and the 2010 Shanghai World Expo. After his re-appointment, Han vowed to build a cleaner government and address issues such as migrant population, welfare, traffic congestion and using limited land resources for urban construction. His re-appointment will likely be beneficial for

the business community, as Han still wields clout and has good ties with industry and business.

Guangdong

There was limited turnover amongst Guangdong's senior leadership, with seven of eight vice-governors retaining their positions. However the key appointments of Huang Huahua as the provincial governor and Wang Yang as the new Party Secretary significantly changed the political environment in Guangdong. Wang Yang and Huang Huahua's selections honored the long-standing leadership structure in Guangdong of pairing a native governor (Huang) with a "waishengren" (non-local) Party Secretary (Wang), a system meant to preserve Guangdong's fiercely autonomous political culture while meeting Beijing's need to maintain a close eye on the region. Rumors had circulated that Beijing would block Huang from securing a second-term in an effort to curtail the powerful Hakka leader, but Huang is now set to consolidate his control, leading a team of subordinates that blend both the Hakka and Hu's Tuanpai factions.

Beijing hopes that Wang will work to weaken local interest groups in Guangdong, aggressively tackle corruption, and promote more sustainable economic growth. To this end, Wang has already developed a reputation as being tough on his senior colleagues, pushing the Guangzhou Mayor on his failed handling of water management problems in the Pearl River Delta.

Wang's proactive approach also extends to his attitude towards foreign business. He has repeatedly requested that government officials refrain from lobbying Beijing for preferential policies or the authorization of new special development zones. This continues a trend of de-emphasizing local incentives for foreign direct investment and regularizing the business environment.

ADMINISTRATIVE RESTRUCTURING

Another major outcome of this NPC was agreement on a plan to streamline parts of the government's administrative structure by consolidating a number of its regulatory functions. Chinese media has labeled this the "big ministries" reform. China has 27 ministries that directly report to the State Council and over 40 other government organizations with lower ranking (which do not report to the State Council). The most significant developments include:

- The **Ministry of Industry and Information** will incorporate the Ministry of Information Industry, all industry project approval functions of NDRC, the State Council Informatization Office, and the State Tobacco Monopoly Bureau. The Commission of Science, Technology and Industry for National Defense (COSTIND) will lose its ministerial status, becoming subordinate to this new agency. The new ministry will play a significant role in regulating major in-

dustries and in examining and approving new industrial investments and projects.

- The **National Energy Commission**, under NDRC, will incorporate the functions of the NDRC Energy Bureau, the State Council Leading Group on Energy, and the China Atomic Energy Administration - the nuclear power regulator that was formerly under COSTIND - and will be the nation's key coordinator of energy policy.
- The **Ministry of Environmental Protection** will become a more powerful, ministerial-level version of the State Environmental Protection Administration. Its enhanced status should improve the ministry's standing in discussions or disputes with other central government ministries, particularly during examinations of the environmental impact of new projects or policies. But whether this higher political status will bring with it more financial resources or enforcement power remains unclear.
- The **Ministry of Health** will assume control of the State Food and Drug Administration (SFDA), a regulator that came under significant criticism in the past two years. This change may improve the efficiency of implementing health care policies and reforms, including approval processes for new drugs, but the ministry will likely focus on major reforms of China's health care system. Only five years after it was created, the status of SFDA has been downgraded. This reflects the deep dissatisfaction with the way it handled its functions, which led to its head being executed in 2007 for accepting bribes to approve substandard medicines. However, such a move does not substantially change China's food safety regime as SFDA only played a (weak) coordinating role in food safety issues.
- The **Ministry of Transportation** will combine the functions of the Ministry of Communications with those of the General Administration of Civil Aviation of China (renamed the State Bureau of Civil Aviation). The ministry will also assume control of the State Postal Bureau and absorb the Ministry of Construction's function of overseeing urban passenger transport systems. The Ministry of Railways apparently fought very hard to remain an independent ministry, and will continue to separately manage rail transport and construction.
- The **Ministry of Human Resources and Social Security** will become the new Ministry of Labor and Social Security and absorb the Ministry of Personnel, which oversees government employees. It will likely focus on improving

social welfare provisions, promoting employment, and developing a qualified civil servant talent pool to support further government restructuring.

- The **Ministry of Housing and Urban-Rural Construction** will be the new Ministry of Construction, a change that reflects the current leadership's emphasis on developing policies to promote affordable housing for low-income families (one of the three "mountains" on the Chinese people's back, the other two being education and health care costs).

Also notable are the expected structural changes that did not occur.

- Officials were unable to agree on consolidating oversight of China's **financial services regulators** into one body. This proved to be technically too difficult, while several commentators had also questioned the rationale of bringing banking, securities and insurance regulators under a single roof.
- Nor could officials agree on creating a **Ministry of Energy**, probably because of the strong opposition from vested interests within NDRC (which currently plays a leading role in energy policy). The sector also contains several corporations like PetroChina and China's National Grid, that are more powerful than the agencies to which they theoretically report and which saw no benefit in helping establish an energy agency that might place greater restrictions on their activities.
- The **NDRC** (often dubbed a "mini-State Council") was not weakened as many commentators expected. Rather it has been somewhat strengthened as its Energy Bureau was upgraded into the National Energy Commission (as a possible precursor to a future Energy Ministry). Its bureaucratic clout can be seen by the positioning of the new Commission under NDRC, and the exclusion of other relevant agencies suggests that policy formulation in the energy sector will continue to be overseen by NDRC, and remain fraught with bureaucratic infighting. Other NDRC portfolios, including its key macroeconomic planning role, remained largely untouched.

Officials had several aims in mind with this restructuring:

- "Big ministries" reform is the government's response to criticism that it has been ineffective in pushing through difficult measures like tackling corruption and cooling down the overheated economy. It is an important element of the Party's wider claim that its "party-

and-state” approach to governing is capable of delivering economic growth, administrative efficiency and clean government in the absence of Western-style institutions like multi-party politics, universal suffrage and an independent legislature and judiciary.

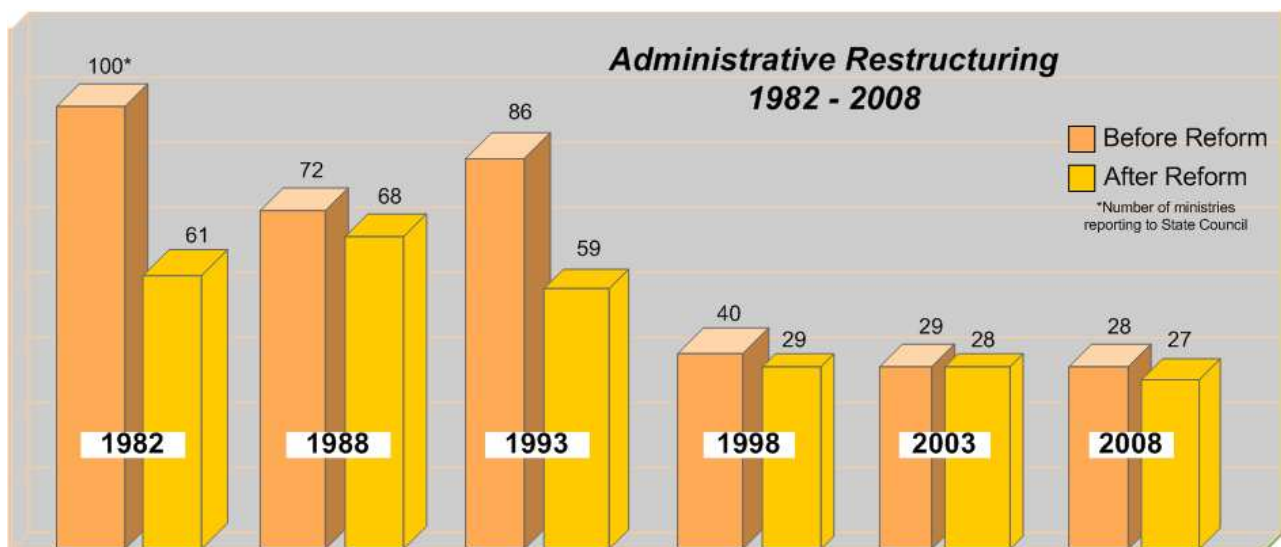
- Merging overlapping and related ministries is intended to boost efficiency by reducing bureaucratic infighting and overlapping functions. Leaders hope that that this will lead to a reduction in the cost of government, but more importantly also allow government to provide its services in a more coordinated and efficient way. A key concern within the State Council had been that it is continually called upon to arbitrate between competing ministerial factions and micromanage decision-making, rather than being free to set a high-level policy agenda that ministries then implement.
- Many Chinese commentators have argued the “big ministries” reorganization is another step in the Chinese government’s ongoing and long-term wider shift from direct intervention in and micromanagement of the economy to providing government services that focuses only on setting policy frameworks and supervising economic activity.
- Ministries have long complained of their inability to promote certain policies in the face of an intransigent - and too-powerful - NDRC.

- An ancillary aim of the restructuring may have been to establish alternative ministries with sufficient power to develop as a balance to NDRC. However, if that was an aim, it did not meet with notable success.

Restructuring in Context

In terms of the number of government ministries and institutions China has one of the world’s largest government structures. After this restructuring, the number of ministries that report directly to the State Council will be reduced to 27, compared with 15 in the United States, 12 in Japan, 15 in Singapore and a similar number for most of the larger EU countries.

The concept of “big ministries” has a long pedigree in China, and this latest round has drawn heavily on Singaporean and U.S. experiences in coordinating government services. From a historical perspective, this is an ongoing and incremental process that has seen the number of ministries whittled down from 100 in 1982 to 27 today. It has been led by Li Keqiang, the incoming executive vice premier and Hu’s protégé, and has been seen as a test of his administrative abilities. While he did not achieve all he was initially mandated to do (notable misses being the single financial regulator and Ministry of Energy), from an “incrementalist” standpoint Li made some headway, and more can be expected in the future.



KEY POLICY ISSUES

During the NPC Premier Wen and other senior leaders presented their “work reports” discussing the main policy issues and challenges facing China in 2008.

Work reports are a feature of each NPC. Heads of all of the key government agencies nominally supervised by the NPC are brought before the assembly to summarize their organization’s accomplishments from the previous year and detail their work plan for the year ahead. The reports are presented as an annual evaluation tool for NPC members to assess and comment on the performance of the government offices that they constitutionally oversee. NPC members vote to approve the report at the conclusion of each presentation. No work report has ever been rejected and it is not clear what would happen if one were. The largest number of negative votes at this meeting was against the work report of the Minister of Education, approved with 384 of the 2942 members voting no. As in other areas, the NPC is relatively powerless to express disapproval in any meaningful way - the legislature lacks the budgetary power to discipline poorly performing offices by reducing their budgets or headcount. Nevertheless, this process remains an important opportunity for China’s ruling elite to hear and discuss government policy and the Minister of Education was embarrassed by the number of votes against his work report.

The highlight of each work report session is the opening remarks delivered by the State Council Premier. Often compared to a “state of the union” address, the Premier’s speech is one of the few times each year that a top leader provides an overview of the government’s political, social and economic priorities, and as such is analyzed carefully as a rare window into Party thinking.

Major issues discussed during this year’s NPC include:

Economic and Fiscal Policy

Too fast economic growth and inflation pressure
China’s GDP grew at a rate of 11.4% in 2007, which is the fifth consecutive year of double-digit growth, while in February 2008 the rate of inflation reached a 12-year high of 8.7%. During Wen’s work report, he pledged to forge ahead with the “scientific theory of development” – code for pursuing economic growth but taking social and environmental concerns into consideration – during his second five-year term. He noted that the government will target GDP growth of 8% for 2008.

However, he stressed that taming inflation had now become one of his top priorities, with a target of 4.8% for 2008.

In previous months, Wen had been very clear that monetary policy had shifted to “tight” in response to the threat of inflation and an overheating economy. This sort of language normally heralds the introduction of cooling mechanisms such as curbing money supply and bank loans, slashing fixed asset investment and imposing price caps on some consumer items. However, during his work report, Wen stressed that while officials would remain vigilant, they would also be flexible in implementing any contractionary policies. The injection of the word flexibility is key, and reflects officials’ fears that too hawkish an approach is no longer appropriate given the effects on exports of a possible recession in the United States, and the impact of a major winter snow storm that inflicted economic losses in excess of US\$10 billion across Southern China.

The extent to which the government can meet its GDP growth and inflation targets will be dictated by just how “flexible” a stance it takes in implementing any contractionary policies - listening too much to vested interests may result in inflation becoming entrenched and the economy overheating, while being too hawkish may lead to a significant drop in growth given the weakening external environment. Wen certainly has a delicate balancing act to perform in 2008.

Fiscal policy

Wen recognized that the Chinese government is in an extremely strong fiscal position, which may help counter any external demand or internal supply shocks. Overall, government expenditure will rise by 15.4% in 2008, but this figure masks some large increases in specific portfolios.

- Spending on rural development will increase 31% to US\$80 billion
- Spending in science and technology will increase 26% to US\$16 billion
- Spending on education will increase 45% to US\$22 billion
- Spending on health care will increase 25% to US\$12 billion
- Spending on social security will increase 24% to US\$39 billion.

Other Issues*NPC's Legislative Agenda*

Legislative items occupied an unusually small proportion of this year's NPC session. Normally, a number of major legislative items are tabled for NPC approval. As this NPC meeting marked the end of a five-year legislative cycle, however, emphasis was placed on reviewing the previous term's legislative successes (in which 100 laws were passed) rather than introducing new proposals. As a result, legislation took a backseat to administrative restructuring and confirmation of new State Council leaders.

What little discussion did occur centered on new laws and regulations pertaining to the upcoming year's legislative agenda. Wu Bangguo, NPC Chair, reported that 20 pieces of major legislation would be presented for review, including the much anticipated Food Safety Law and controversial carry-

overs from 2007 such as the State-Owned Assets and Social Security Laws.

"Thought Liberation"

"Thought liberation" was a concept that gained a lot of coverage during the NPC. It has been interpreted to mean the advocacy of some sort of – as yet undefined – political and institutional reform. Discussions outside formal NPC settings have gone so far as to suggest China's legislature and judiciary should evolve into genuine power-balancing mechanisms. Thus far, such calls have remained the preserve of academics and CPPCC members, however, Wang Gang, the new Party Secretary of Guangdong, has also been quite vocal on this issue. This indicates a willingness to tolerate discussion of some previously taboo topics, but should not be taken as a forewarning of any fundamental or imminent change in policy or in the Party's monopoly on power.

IMPLICATIONS FOR FOREIGN BUSINESS IN CHINA
The New Leadership: Economic Policy and FDI

With the departure of Jiang Zemin allies and the appointment of key Tuanpai supporters to the State Council, Hu Jintao has positioned himself to push ahead more vigorously with his "harmonious society" strategy. With Wen Jiabao and Li Keqiang at the helm of the new economic policy-making team, there is now possibly greater consensus among senior Party and government leaders about the desired course of China's economic development than there has been for some time.

While China's business and investment environment without question remains open and encouraging of foreign investment, Hu's administration is increasingly keen to ensure that investment is in line with domestic growth objectives. Improving environmental and energy efficiency, moving up the economic value chain and away from low-technology manufacturing, and promoting domestic innovation will all figure prominently in economic planning over the next five years, and Hu now enjoys the necessary political backing to make sure that these aims are carried out effectively.

Foreign companies that demonstrate an ability to assist China in achieving these economic objectives stand to gain from this set of priorities, so it is important that companies consider these national goals when pursuing new business expansion and investment plans in China. Monitoring changes in China's regulatory environment will also assume

increased significance, as new laws and business codes are anticipated to provide for higher scrutiny of investments that are perceived to be highly-polluting or energy-inefficient. Foreign expansion in heavy industry and more traditional manufacturing sectors such as textiles may in particular be negatively impacted.

Institutional restructuring

In the immediate term, the implications of China's administrative restructuring will vary from industry to industry. Some sectors may experience short-term delays in regulatory approvals as the process of integration beds down. More broadly, China's continued efforts to improve the efficiency of its administrative system and reduce the size of its bureaucracy reflect the Party's wider commitment to shift away from direct intervention in and micromanagement of the economy over the long-term. This should be positive for foreign business.

Economic Conditions

The policy settings applied to China's economy by Wen and Li will have a profound impact on foreign business this year. China's economic leadership will need to balance fears of an overheating economy and high inflation with the possibility of a US recession and consequent reduced demand for Chinese exports. The path they negotiate between these twin threats will likely dictate the economic conditions most foreign businesses face in China this year. Too tight a monetary setting, combined with an external shock, may result in markedly

reduced economic growth, and a reduction in domestic consumption. Alternatively, too loose (“flexible”) a monetary setting may result in an overheating economy and double-digit inflation, which may lead to even harsher times after tougher medicine is required to set the economy back on course.

China’s healthy fiscal position will also have an impact on foreign business. The education, health and rural sectors will all see a major influx of funding that provides opportunities for foreign business operating in those sectors to take advantage of relevant government spending initiatives.

BIOGRAPHIES OF KEY APPOINTMENTS AT THE NPC

Wen Jiabao is Premier of the State Council. While officially third in the Party hierarchy, Wen enjoys wide-ranging powers on the basis of heading China's government (the State Council) and his close working relationship with Hu that effectively make him China's number two leader. He is a key shaper of the Chinese government's position in both domestic affairs and international relations, and is not perceived as having any strong factional allegiance. Wen is aged 65 and was born in Tianjin. He graduated from the Beijing Institute of Geology.

Li Keqiang is State Council Executive Vice Premier with overall responsibility for economic affairs and health. Li is a close political ally of Hu, and is the leading contender for the position of State Council Premier in 2012. He was formerly Party Secretary for Liaoning province (in the northeast – a former center of heavy industry now undergoing an export-based revival), and held leadership roles in the Communist Youth League (from 1993 to 1998) and Henan Province (from 1998 to 2003). Li is aged 52 and was born in Anhui Province. He has an advanced degree in economics from Peking University.

Hui Liangyu was re-appointed as Vice Premier in charge of agriculture and rural issues, a position he has held since 2003. He is a member of the Hui (Chinese Muslim) ethnic group. Hui previously worked in a number of positions in his home province, Jilin, rising to provincial leadership roles in Hubei, Anhui, and Jiangsu. Hui is aged 64 and was born in Jilin Province.

Zhang Dejiang is the State Council Vice Premier in charge of industry and energy policies. Zhang has had provincial leadership roles in key provinces, including Jilin, Zhejiang, and Guangdong, and has long been slated for a central government post. He is the largest question mark among the newly appointed State Council leaders, particularly concerning his attitudes towards foreign business. Zhang was Jiang Zemin's protégé, but is also close to Hu. Zhang is aged 61 and was born in Liaoning Province. He graduated from the Economics Department of the Kim Il Sung Comprehensive University.

Wang Qishan is State Council Vice Premier in charge of the finance sector and foreign economic relations; he will potentially inherit Madame Wu Yi's role as lead trade negotiator. Formerly the mayor of Beijing, Wang is well-known as an effective problem solver, having played a lead role in

containing the 2003 SARS epidemic in Beijing. One of few senior leaders with a strong background in finance and banking, Wang served as the governor of the Construction Bank of China, where he helped establish China's first foreign-invested investment bank. He also handled the biggest debt restructuring in China's history in Guangdong. Wang is known for having a good rapport with foreign diplomats and businessmen, and will likely be one of the most internationally visible State Councilors. He is aged 59 and was born in Shanxi Province. He graduated from the Department of History of Northwest University.

Liu Yandong is the State Councilor in charge of culture, education and sports. Liu is the only female on the Council and the top-ranking woman in Chinese politics overall. Liu has spent most of her career as a politician in two political organizations, holding a leadership role in the United Front Work Department of CCP since 1991 and the Communist Youth League since 1982, and is not perceived as a skilled administrator. As the former Vice Chairman of CPPCC, Liu has considerable ties with the private businesses community and a solid foundation in economics. A princeling, whose father was one of the revolutionary generation, Liu also has long been an ally of Hu due to her CYL connections. Liu is aged 63, and was a native of Jiangsu. Liu graduated from Department of Chemistry of Tsinghua University.

Liang Guanglie is the State Councilor and Minister of Defense, with responsibility for defense issues. Liang was the Chief of the General Staff of the PLA, where he oversaw headquarter operations for the ground forces. Previously, Liang was the commander of the Nanjing Military Region, where he helped develop military strategies for handling Taiwan. Liang's appointment broke the long-time tradition of appointing a CPC Politburo Member and Central Military Commission Vice-Chairman to the post. Liang is aged 68, and joined the PLA in 1958.

Ma Kai is the State Councilor and State Council Secretary General, and will be the key liaison for the NDRC on the State Council. A career economic technocrat, Ma is an important addition to Wen's administrative team, bringing a depth of economic knowledge and state planning experience. As the former head of NDRC, Ma is likely to share some responsibility for overall economic affairs with Li and Wen. Prior to the NDRC, Ma was deputy secretary general of the State Council as well as the

deputy chief of the National Planning Commission. Ma is aged 62 and was born in Shanghai. Ma graduated from the Department of Politics and Economy of the Chinese People's University.

Meng Jianzhu is the State Councilor in charge of Public Security. Meng is a close Hu ally, and is viewed as a political appointee that will bolster Hu's support on the State Council. Meng previously served for six months as Minister of Public Security and before then as Party Secretary in Jiangxi province (one of China's least developed). Meng maintains good ties with the Shanghai faction based on his time spent there as deputy party secretary and vice mayor, but his allegiances are with Hu's Tuanpai faction. Meng is aged 61 and was born in Jiangsu Province.

Dai Bingguo is the State Councilor in charge of foreign affairs. A career diplomat since 1965, Dai spent most of his career on Soviet Union and East European affairs. He has little previous exposure to developed markets, and has not exhibited clear policy stances towards the West and foreign business. Previously, he also served as the Minister of the CPC's Department of External Liaison Office, as well as the Party head of the Foreign Ministry. Dai is aged 67 and was born in Guizhou. He graduated from the Foreign Affairs College.

Xi Jinping is Executive Vice President of China, and is projected to succeed Hu Jintao to become general secretary and leader of the CPC in 2012. As the first major test of his leadership capabilities, Xi has been placed in charge of overseeing final preparations for the 2008 Beijing Olympic Games. Xi served first as a Party leader in Fujian and Zhejiang (both of which are wealthy eastern provinces), and then as Party Secretary in Shanghai. Xi maintains some ties to the Shanghai faction, however, he is most identified as a princeling (as the youngest son of late Party elder Xi Zhongxun), and is a candidate acceptable to both the Tuanpai and Shanghai factions. Xi is aged 54 and was born in

Shaanxi Province. He graduated from the Chemical Engineering Department of Tsinghua University.

Chen Deming is Minister of Commerce. Chen is known as a formidable negotiator with excellent English skills, and is a highly respected problem solver with strong experience and capabilities in handling foreign economic and commercial relations. Initially tapped to become NDRC Chairman, Chen was likely passed over due to his failure to become a full member of the CPC Central Committee. Chen has served as Minister of Commerce since late 2007, prior to which he was Executive Vice Chairman of NDRC (2006-07), where he developed close working relations with State Councilor Ma Kai. Chen is aged 59, and received a PhD in Management Science from Nanjing University.

Zhang Ping is Chairman of the National Development and Reform Commission (NDRC). Zhang spent most of his career in finance, although his most recent appoint was as deputy secretary general of the State Council. His appointment to lead the NDRC was unexpected, although he has leadership experience at the super ministry through serving as a Vice Chairman in 2005-06, covering areas such as energy sector development and pricing. From 1999-2005, Zhang was Governor of Anhui Province. He is aged 62, and did not receive a formal college degree.

Zhou Xiaochuan is Governor of the People's Bank of China, a position he has held since 2002. Highly respected for his finance and economic policy experience, Zhou is a career economic technocrat, and was Chairman of the China Securities Regulation Commission (2000-02) before joining the PBOC. Zhou holds liberal views on macro-economic policies, and was likely kept in his position to help address the current inflationary environment and economic growth issues. Zhou graduated from Tsinghua University, and is aged 60.