

Chinese New Leadership and Beijing's Reform Puzzle

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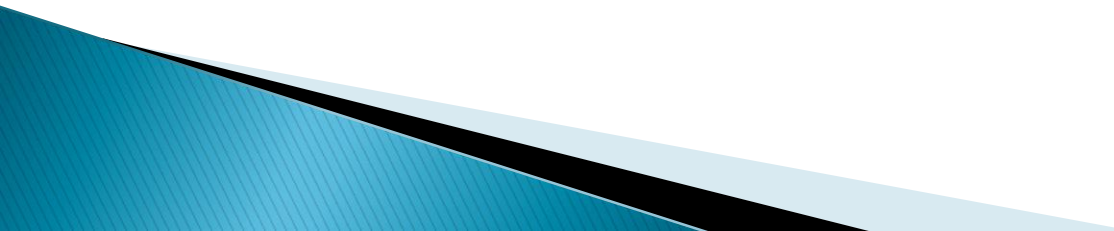
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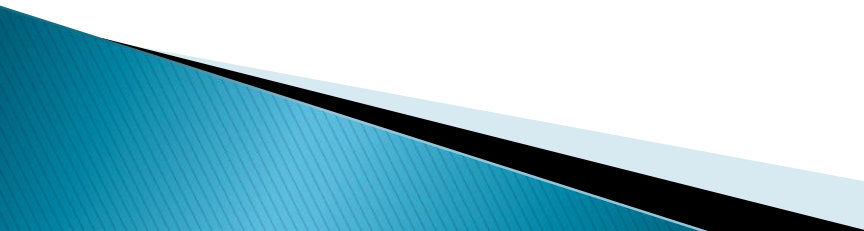
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China's Leadership Transition

- ▶ The National People's Congress of last March has eventually heightened with China's leadership transition, following the 18th Party Congress. The 50s generation overtakes China's power system, and a new economic and financial team has launched off.
 - ▶ China's economic prospects seem not as bright and rosy as it used to be as the NPC Report lowered annual growth rate up to "around 7.5%".
 - ▶ Financial sector has been a big controversy. The appeal for "financial reform" has never been more urgent and compelling.
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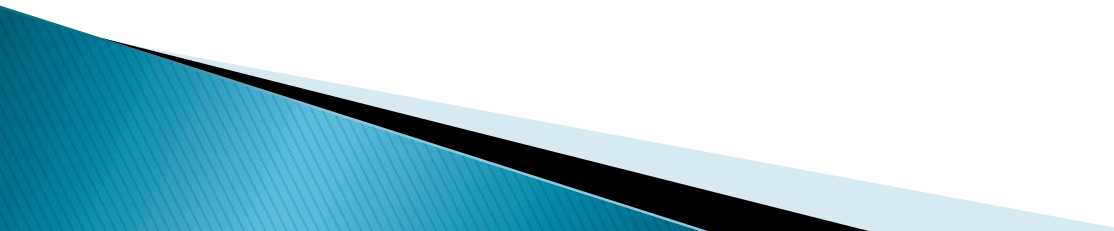
Leadership Transition not Suggesting Policy shift

- ▶ Beijing's financial leadership team hasn't tremendously changed.
 - ▶ New leadership remains quite hesitant to expedite policy redirection as the few would like to risk too much to exchange for new economic and financial governance in short run.
 - ▶ But the challenges seem more swelling and disruptive.
 - ▶ 1. Real Estate Bubble
 - ▶ 2. discredited stock market
 - ▶ 3. Limited capital market for private sector
 - ▶ 4. Surging Debt burdens for local governments
 - ▶ 5. Pile-up of bank bad debt ratio
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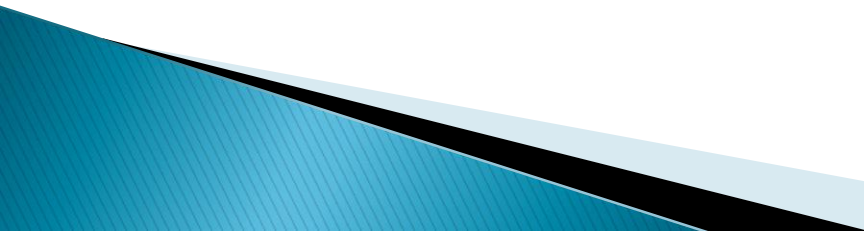
Chinese new leaders are strong, but unearned for praise

- ▶ Mr. Li Keqiang, Chinese Premier, and his team turn out to be a promising ones. Premier Li holds Ph.D. degree from Peking University, and his deputy, Mr. Wang Yang, who headed Guangdong for years, one of the most booming areas in China. But it is unclear how well they will administer China's economic dragon.
 - ▶ Both of them feel as if they will be heralding new policy course of economic and financial policy.
 - ▶ Mr. Li and Mr. Wang literally and spiritedly champion ideas of China's market-driven revamping of micro/macro economic policies.
 - ▶ Mr. Li repeatedly and adequately asks for dominance of “invisible hand” of market, and significantly streamlining of governmental departments.
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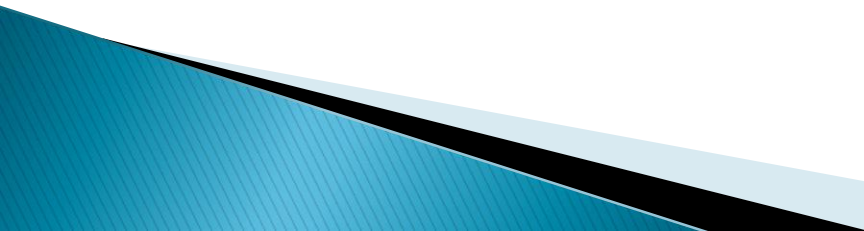
China requires a thorough overhaul of its economic and financial governance

- ▶ There is no doubt that China needs, if its economic growth rate remains vigorous, a revolutionary retooling of its administrative technology and methodology. Rejuvenating its capital market is a central piece.
 - ▶ That suggests that Beijing should break the manipulation of state capitalism pattern – allowing diversity and privatization of financial institutions and opening capital market on sternly legalized base.
 - ▶ To fulfill this, Beijing should clamp down on massive financial crimes – corruptions, graft, and outlawed deals.
 - ▶ It is all political, not financial.
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The extent of China's Financial reform is explicitly up to its Political reform

- ▶ Xi Jinping, Chinese top leader, strongly advocates Chinese Dream which means, by definition, combination of Chinese road, Chinese spirit and Chinese strength.
 - ▶ How Chinese Dream could materialize? So far the “action plan” seems quite ambiguous.
 - ▶ The past few months witness the mixed story of Xi's political color, vision and preference.
 - ▶ Xi does a great job to undercut lavish style of Chinese administration, undertake a campaign to crack down on corruption, and tighten up the auditing of budget spending.
 - ▶ Ideological control simultaneously tightens up.
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China's political reform: not assured

- ▶ Over political reform impulse, it's quite unclear how far Xi and his colleagues would go.
 - ▶ The good news is that Chinese new leader is a strong man, but the bad news is that Chinese new leader has to be a new leader.
 - ▶ What is the concept of “Chinese dream”, a new political slogan even full of nationalistic components, or a new contemplate aiming at consensus building between elites and masses? No one knows yet.
 - ▶ Xi will certainly bite in traditional system and attempt to patch up in short run. In medium and long run, what is in mind?
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China's political Reform: a key to its future

- ▶ Obviously there is no way at all to dismiss China's financial entanglement without political and administrative innovation. China's economy has slowed down, and expansion of official spending to boost economic growth will likely cover its domestic stresses and create more daunting problems.
 - ▶ Political reform, if stalled forever, will bode for destabilizing and even dire prospects on horizon.
 - ▶ Xi and Li should show enough guts to bring "change" to Beijing.
 - ▶ Change is no doubt emerging, but the question concerns when, in what path and more importantly, at what cost.
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