AMERICAN FOREIGN POLICY COUNCIL

China Reform Monitor No. 1348

October 19, 2018 **Joshua Eisenman**

Related Categories: Democracy and Governance; International Economics and Trade; China; Latin America

September 17:

Vice-premier Liu He, President Xi Jinping's top economic adviser, and two of his top aides (central bank governor Yi Gang and finance vice-minister Liao Min) have attended the 20th anniversary conference of the Chinese Economists 50 Forum. Liu did not make comments at the pro-market meeting, and his attendance was not reported by any official outlet, but it is noteworthy “at a time when Beijing's commitment to market-based policies is facing rising scrutiny at home and abroad," the *South China Morning Post* (*SCMP*) reports. At the meeting, the economist Wu Jinglian said: “What we learned from the past 40 years is that we must insist on a market-oriented and law-based direction of reform." Yang Weimin, Liu's former lieutenant, agreed that: “[We] must reduce government intervention in resource [allocation] significantly." Li Yang, former deputy chief of the Chinese Academy of Social Sciences, said private firms are facing “de facto discrimination," and Ma Jiantang, deputy director of the Research and Development Centre of the State Council, said they “worry about fair competition, an unsound legal system, ownership protections, high financial burdens and financing difficulties."

September 19:

Venezuela will increase oil exports to China to a million barrels a day, the country's president, Nicolas Maduro, announced after returning home from Beijing. To nearly double the country's oil exports to China, China National Petroleum Corp. (CNPC) agreed to invest an additional $5 billion in Venezuela's petroleum industry. CNPC president Zhang Jianhua will visit Venezuela to finalize the investment. "We are taking the first steps into a new economic era. We are on track to have a new economy, and the agreements with China will strengthen it," Maduro said. The two countries signed a total of 28 agreements, adding to the more than 700 joint development projects, Al Jazeera reports.

September 21:

There is a heated debate in China over whether authorities are targeting private companies, which account for 60 percent of China's GDP and 80 percent of urban jobs, the *SCMP* reports. During the first seven months of 2018, profits at private industrial companies with annual revenues of more than 200 million yuan were down 27.9 percent from 2017 levels, while SOEs profits increased 8.5 percent. Beijing's nationwide campaign to reduce debt levels is also benefiting SOEs at the expense of private companies: the debt-to-asset ratio at SOEs fell to 65 percent at the end of June from 65.7 percent the year before, while the debt ratio at private companies rose from 51.6 to 55.8 percent. Private firms are also struggling to get credit while the average SOE's financing has grown exponentially. This year SOEs have taken corporate control over 23 private companies. “The current problem facing the Chinese economy is not deleveraging, but rather more funds flowing into SOEs, leaving less money for private enterprises," Jiang Chao, chief economist at Haitong Securities, recently wrote.

September 25:

China has cancelled a scheduled port call in Hong Kong for the U.S. Navy ship USS Wasp, and recalled Vice Admiral Shen Jinlong from a meeting with his U.S. counterpart, UPI reports. The decisions come after 10 percent retaliatory tariffs went into effect on $200 billion worth of Chinese products entering the U.S. Vice Minister of Commerce Wang Shouwen, who led the Chinese delegation at last month's trade talks in Washington, said the U.S. must remove the "knife at its neck," before China will agree to further talks, UPI reports.

September 29:

Due to trade frictions and U.S. tariffs, growth in China's manufacturing sector stalled in September, with export orders falling at the fastest pace since February 2016. Meanwhile, input prices rose sharply due to higher raw materials costs and enhanced environmental protection policies. Facing deteriorating profitability and a poor outlook for new investment, this month Chinese manufacturers trimmed their workforce at the fastest rate in more than a year, Reuters reports.