Transformative year sees China's Xi Jinping score well

Dilemma
The government has shrugged off China's problems to post astonishingly steady growth. But the country must deal with the tensions between one-party state and market economy

Geoff Raby

China's President Xi Jinping is coming to the end of his second year in the job. While his first year was inevitably one of consolidation, we can begin to evaluate his singular contribution and compile a report card on the leader of the second-biggest economy in the world.

Domestic politics has been the arena of most activity and surprise. Xi has had to consolidate his succession. He has done so with dramatic effect. He has lived up to his promise to catch both "tigers" and swat "flies" with his anti-corruption campaign. This has been highly effective in dispatching political opponents and garnering widespread popular support.

The avuncular, sometimes cuddly, man of the people has shown he has the claws of the dragon. No one knows exactly how many Communist Party officials have been caught, but some well placed in the system speak of 80,000 or more. The latest being the party secretary of Nanjing. Aside from the spectacular downfall of former standing committee member Zhou Yongkang, Xi has – against the odds – taken on the PLA, including a deputy chairman of the Central Military Commission.

Politically, Xi is both unchallenged and unchallengeable. The question is, having consolidated his power so comprehensively and cowed potential opponents, what has he done to address China's manifest economic challenges and prosecute China's international and security interests?

China's economic challenges are well-known and understood: high levels of local government debt, declining marginal efficiency of investment, over-reliance on investment-led growth, a weak and inefficient financial system, declining external competitiveness and gross misallocation of resources into construction. Combined with protracted weakness of the global economy, it is not surprising that China's economy is weaker than many anticipated, including the Chinese government.

However, on another view, China's economy is showing remarkable resilience.

Gross domestic product for 2014 is likely to be above 7 per cent. This is still an impressive result given where the rest of world is, and considering the absolute size of the Chinese economy.

If growth comes in as expected, this will be the fourth consecutive year China has

Xi Jinping has caught tigers in his anti-corruption campaign. PHOTO: BLOOMBERG

The avuncular, sometimes cuddly, man of the people has shown he has the claws of the dragon.

had 7 per cent-plus growth. Rather than a slowdown, as most headlines and analysts proclaim, this looks more like a steady, high rate of growth. Xi and his team can rightly claim credit for this.

They have again managed to achieve relatively high GDP growth, together with low inflation and unemployment. Most governments around the world would be delighted with such a result.

However, beyond competent macro-economic management is the perennial question of economic reform as China continues its three decade-long transition from a centrally planned economy to one where the markets are allowed to allocate resources more efficiently, competently and more fairly than Communist Party officials.

Here, 2014 may be seen in retrospect as a transformative year for the Chinese economy. In October 2013, the third plenum of the party set out an ambitious economic reform agenda. For the first time, the party said that the market was playing the decisive role in driving the economy and that the private sector was to be on an equal footing with the state sector.

As with catching tigers and swatting flies in the anti-corruption campaign, Xi has been true to his word.

In everything – from approving investments domestically and overseas, easing controls on capital flows and internationalising the use of the yuan – the direction of change is clear, whether it is: the abolition of the 3000-year-old state monopoly of the salt trade; authorising and legitimising private banks; opening the Shanghai-Hong Kong stock exchange corridor; forcing state-owned enterprises to begin to divest themselves of business to the private sector or to accept greater private involvement in their business; or curtailing the powers of the National Development and Reform Commission.

It has been a busy year. So much so, that many foreign analysts have had trouble keeping abreast of the broad moving frontier. For sure, there are contradictory trends and inconsistencies that make it incredibly challenging to track the changes.

One study, by the Washington-based Rhodium Group, which was given its global launch by the Asia Society in Sydney, found that "China's leadership is moving ahead across all economic dimensions of reform with purpose and urgency".

The tasks ahead for Xi are enormous but the past year has been a better than credible effort to address the deep-seated structural reforms that will be necessary for China to continue to sustain its growth.

After a lacklustre start on foreign policy, Xi has finished the year strongly. He has demonstrated China's determination to find its own place in the region.

After moving closer to Russia, and strengthening Eurasian security arrangements such as the Shanghai Co-operation Organisation, China then hosted a successful APEC meeting and at that meeting announced that the US and China had reached an agreement on climate change. At the end of the year, tensions with Japan and – more importantly, from a Chinese geopolitical perspective – with its south-east Asian neighbours have been eased.

So for the final report, notwithstanding all of the above achievements, and there are many more, Xi's 2014 is marked as a B minus. This might seem hard but the year has also seen a further tightening of controls over freedom of expression and the internet, and limited progress on the rule of law. While the fourth plenum in November sought to improve the legal system – and many of these technical changes are welcomed – it did not address the fundamental issues of the one-party state and the law.

Towards year end, Xi felt it necessary to opine on culture and the need for culture to serve the interests of the party. Ultimately, China's future will be shaped by the power of its creative people in business, the arts and science. The fundamental tensions between a more market-led economy and the party state remain, and, if anything, have been deepened.

Geoff Raby is a former Australian ambassador to China and is the managing director of Geoff Raby Associates.

The G20's Sydney infrastructure hub is up to the challenge

Infrastructure
The new Sydney hub has just four years to show that it can help streamline the world's vital infrastructure investment ambitions.

David McElveney

One of the genuinely tangible outcomes for Australia from last year's Group of 20 summit in Brisbane was the Global Infrastructure Hub (GIH), a four-year programme based in Sydney with a mission "to support public and private investment in quality infrastructure".

It's sorely needed. According to the Organisation for Economic Co-operation and Development, the world is facing a $US70 trillion ($86 trillion) infrastructure gap by 2030.

Business group the B20 estimates that improving project penetration, structuring and delivery could increase infrastructure capacity by $US20 trillion by 2030, indicative of how vital infrastructure development is for economic growth.

This raises the question, what will the GIH bring to the table to support this? Will the proposed functions of the GIH – more efficient information gathering and sharing, improved visibility of projects and increased standardisation and streamlining of processes – overcome the complexities involved in building a global framework for diverse sovereign markets? Will it be a genuine global hub or some nicely packaged public relations spin?

Eight nations, including the United States, Britain and Australia, have committed to the $US15 million Sydney hub, home to Australia's financial centre and a base to the world's leading infrastructure-related service firms, including contractors, financiers, consultants and managers.

Australia has considerable expertise and experience in foreign infrastructure markets, and has the comparative advantage to lead best practice on a global stage, but in the main the domestic market has been quite inward-looking. Just how different the global market is can be hard to appreciate unless you have experienced it. The Australian market is generally sophisticated and insular, while much of the global infrastructure market is unsophisticated and anything but insular.

During the almost year-long consultation process which led to the GIH, there were detractors who believed this to be another costly institution far away from Europe and the US with an agenda arguably more suited to existing bodies like the World Bank or the OECD. There was also a concern that the GIH would chiefly be a "legacy monument" for the G20 host nation, Australia.

With only a four-year mandate, the pressure is on to make the GIH work and the challenge for the Sydney-based GIH will be to embrace a truly global perspective.

Here and around the globe, there are a plethora of bodies, governments and otherwise, each gathering their own information, developing their own "best practices", and their own standardised procedures and documentation.

Australia currently has infrastructure bodies operating at national and state levels, reflective of our expertise but also the historic tendency to tackle infrastructure needs from a more grassroots perspective.

The construction industry is dominated by a couple of construction contractors and there is relatively modest foreign penetration into the domestic market. Australia generally uses its own "Australian Standard" construction contracts, and there is no great familiarity with FIDIC forms of contract and procedures, which are the World Bank's preferred standard documents and those most commonly used in emerging markets.

So the goal of developing a standardised model documentation for project identification, preparation and procurement within just four years is one that is right, ambitious, but frankly hard to achieve unless the GIH embraces the work already done by bodies such as the World Bank, FIDIC and others.

The GIH will need to draw on this and other expertise from around the world, and the G20 has made it clear that the GIH should engage and work collaboratively with G20 and non-G20 governments, the private sector and all stakeholders.

The GIH should consider the degree to which risks vary between markets and the contractual allocation of risk, capital and legal frameworks need to be deeply understood. Means of minimising and resolving claims and disputes within a predictable framework will be key to facilitating growth in emerging markets, which are set to see the bulk of infrastructure spending over coming years.

Importantly, the GIH needs to be open and transparent in its operations. It should provide the international community with reliable information about the pipeline of infrastructure work globally, creating certainty and increasing opportunities and competition. Increased efficiencies and best practice in procurement should serve in reducing cost and risk and in ensuring the flow of infrastructure funding.

Although the GIH will be chaired in Sydney, with a seven-member board and a chief executive, meetings will take place where stakeholders and experts are located, as well as through a virtual network. Gleaning global intelligence will be critical in the GIH's ability to deliver effective initiatives for infrastructure markets – both sovereign and private, developed and frontier – throughout the world.

The opportunities, and the challenges, are huge. The GIH has four years to prove its worth. Implemented with a truly global view, Australia can achieve its vision to be a global infrastructure hub.

David McElveney is a partner at Clyde & Co and head of the firm's construction practice in Australia.