



## **The Second Term of the Xi Jinping Leadership: New Economic Team to Start its Full-fledged Activities Next March**

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### **1. The 19<sup>th</sup> National Congress of the Communist Party of China**

#### **(1) Birth of new Xi Jinping leadership**

The 19<sup>th</sup> National Congress of the Communist Party of China (hereinafter “CPC”) (the 19<sup>th</sup> CPC congress) was held for seven days from October 18<sup>th</sup> to 24<sup>th</sup>. It was the first congress since the 18<sup>th</sup> congress held in November 2012 and the next one (the 20<sup>th</sup> CPC congress) is to be convened after five years in the autumn of 2022.

In the morning of the opening day (18<sup>th</sup>) General Secretary Xi Jinping delivered his political work report<sup>1</sup> which lasted for three and a half hours. The state television broadcasted nationwide the entire process of his address. He stressed that the five years starting with the 19<sup>th</sup> congress would be an important period to enter a “New Era” by securing a decisive victory in building a moderately prosperous society in all respects and striving for the great success of socialism with Chinese characteristics.

Although the key player was General Secretary Xi Jinping who was going to take a second term, much attention was also given to the two former General Secretaries, Mr. Jiang Zemin and Mr. Hu Jintao, who sat on both sides of General Secretary Xi. The attitude of Mr. Xi to each of the former secretaries apparently differed, as far as it was seen on the TV.<sup>2</sup> According to the

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<sup>1</sup> Please refer to the following for a full text of the report Mr. Xi Jinping made in the morning on October 18<sup>th</sup>.  
[http://www.xinhuanet.com/english/download/Xi\\_Jinping's\\_report\\_at\\_19th\\_CPC\\_National\\_Congress.pdf](http://www.xinhuanet.com/english/download/Xi_Jinping's_report_at_19th_CPC_National_Congress.pdf)

<sup>2</sup> Mr. Xi Jinping looked like having an intimate, mutually assessable good relationship with Mr. Hu Jintao, but the relationship with Mr. Jiang Zemin looked like a cool and more formal one. Mr. Xi is a direct successor of Mr. Hu Jintao, and if recalling the last change of the administrations that occurred five years ago, it may seem only the

China watchers in Hong Kong, Taiwan and the US, the broadcasting is interpreted to have revealed nationwide the complicated power relationships in the Communist Party, conflicts of their interest, and the existence of covert struggles surrounding them.

The recent CPC congress was participated by more than 23 hundreds of national delegates and special invitees<sup>3</sup>. Before it closed on 24<sup>th</sup>, the congress elected 204 members and 172 candidate members for the central committee of the party, and 133 members for the Central Commission for Discipline Inspection, thus it formally established the reshuffled Central Committee and the Central Commission for Discipline Inspection for the tenure of the coming five years (the 19<sup>th</sup> session). At the same time, it adopted a resolution on the revised “Constitution of the CPC”. On the following day of the congress (25<sup>th</sup>), the first Plenary Session of the 19<sup>th</sup> CPC Central Committee (hereinafter “the first Plenary Session”) was held with the participation of 500+ members elected earlier, and the first Plenary Session elected from Central Committee 25 members of the Political Bureau (hereinafter “Central Politburo”) of CPC, and seven members of the Standing Committee of Central Politburo (hereinafter “Politburo Standing Committee”) and the General Secretary to the Central Committee<sup>4</sup>. In this way, the new leadership was launched for the second Xi Jinping administration.

## **(2) Top echelon of the CPC Central Committee**

The organizational chart of the CPC Central Committee and the ranks of the top members of the Central Politburo of CPC were listed on the website of the Party after the closing of the congress<sup>5</sup>. The General Secretary of the Central Committee of CPC is Mr. Xi Jinping (64), and the remaining Politburo Standing Committee members are Mr. Li Keqiang (62, reelected for the second term), M. Li Zhanshu (67), Mr. Wang Yang (62), Mr. Wang Huning (62), Mr. Zhao Leji (60) and Mr. Han Zheng (63)<sup>6</sup>. All the members of the Central Committee are in their 60s (also

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reflection of the close affiliation between the two. But it will be more appropriate to interpret it that this is rather a projection of images carefully staged by the authorities to reflect the intention and message of the current administration.

<sup>3</sup> Among 2,354 representatives combined of 2,280 national delegates and 74 special invitees, 2,338 attended the session.

<sup>4</sup> Separately nominated and endorsed were seven members of CPC Central Committee Secretariat; members of CPC Central Military Commission, including one Chairman and two Vice-chairman; and 19 Standing Committee members of CPC Central Commission for Discipline Inspection consisted of one Secretary, eight Deputy-secretaries, and ten Standing Committee members.

CPC Central Committee Secretariat is an organization to deal with the works for Politburo Standing Committee and its Standing Committee. Seven secretaries now consist of one of members of Politburo Standing Committee (Mr. Wang Huning), five from Central Politburo members, and one from Central Committee members.

<sup>5</sup> The organizational chart of the Party’s main organizations is shown (together with the profile of members on a click) on <http://www.xinhuanet.com/english/special/19cpcnc/leadership.htm>

<sup>6</sup> In the 10 year period under General Secretary Hu Jintao (the 16<sup>th</sup> and 17<sup>th</sup> sessions), there were nine Politburo Standing Committee members and relatively balanced policy management was made. For this reason, the management was referred to as “China Nine” by Prof. Homare Endo (Head of International Exchange Center, Tokyo University of Social Welfare, and Honorary professor of Tsukuba University, Doctorate of Science, who writes many books and comments on China). Likewise, the first term of Mr. Xi Jinping administration was often referred to as “China Seven”, but since Mr. Xi Jinping rose in prominence as a “Core” of Central Committee of CPC at the sixth

under 67) with no members in the 50s of age. This means that there is a high likelihood that at the 20<sup>th</sup> CPC congress after five years since 2017, no one can be elected as a new General Secretary of new generation who will lead the Party the following 10 years. This is regarded to have increased a possibility that Mr. Xi Jinping continues to occupy the supreme power as a strongest single leader even after 2022.

Focusing on the 25 members of the Central Politburo of CPC, more than half of the committee members (i.e.15 members) are seen to be close or loyal to Mr. Xi (Xi faction)<sup>7</sup>. In other words, Mr. Xi has succeeded in making an ally of more than half of the Central Politburo members, and if the decision should be taken by majority vote, he will be easily able to suppress the opponents. In this sense, it can be said that the second-term Xi Jinping Leadership has already acquired a high level of stability. If this concentration of power continues, however, there is a risk that the intra-party balance will be disrupted by an ever increased power of only Xi faction, and the diversity of opinions within the party will be lost. Whether an appropriate balance will be maintained or not will be determined in the time ahead by the skills of the members of Politburo Standing Committee including General Secretary Xi Jinping.

### **(3) Amendment of CPC Constitution**

At the 19<sup>th</sup> CPC congress the revision of Constitution of CPC drew much more attention than ever. Although it is a normal thing for CPC to revise the constitution at the CPC national congress held every five years<sup>8</sup>, this year consultations had continued until just before the opening day on how to revise it. On the wish of Mr. Xi, it seemed to have been discussed to insert into the “General Program” of the constitution short phrases like “Xi Jinping Thought” or “Xi’s Idea of Government Management”, but in the end it was settled by writing in it a rather long phrase<sup>9</sup> of “Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era”<sup>10</sup>. This was only a product of compromise.

In the previous version of the constitution, there had been incorporated guiding principles and ideals of Mao Zedong, Deng Xiaoping, Jiang Zemin (Theory of Three Represents), and Hu

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Plenary Session of 18<sup>th</sup> Central Committee of CPC held in the autumn 2016, there has been a subtle cognitive discrepancy in that naming.

<sup>7</sup> The Yomiuri Shimbun reported on October 26<sup>th</sup> that 15 members out of 25 Central Politburo members are loyal to Mr. Xi, and the Nikkei also demonstrated later the same recognition. In other words, about 60% of the members of the Central Politburo are loyal to Mr. Xi, although there are only three for Xi faction among seven in the Politburo Standing Committee.

<sup>8</sup> Please refer to the historical record of revising of the constitution of CPC.  
<http://dangshi.people.com.cn/n/2012/1115/c85037-19587296.html> (in Chinese)

<sup>9</sup> In Chinese, it is represented by 16 letters of “习近平新时代中国特色社会主义思想” and it is unclear whether the noun of Xi Jinping modifies “a new era” or “the thought”. If the former is the case, the phrase will give an image of “a new era that Xi Jinping will unlock” and in the latter case it will mean “new thought advocated by Xi Jinping”. Interpretation among the Chinese people is also unknown or ambiguous.

<sup>10</sup> For the full text of revised party constitution, refer to the following URL.  
<http://cpc.people.com.cn/n1/2017/1029/c64094-29614515.html> (in Chinese)

Jintao (Scientific Outlook on Development), but only “Mao Zedong Thought” and “Deng Xiaoping Theory” had borne personal names other than Marxism-Leninism. Although this time General Secretary Xi Jinping succeeded in inserting his name into the constitution at an early stage of completing his first five-year term, it was not with a short phrase like “Xi Jinping Thought” that he could realize it. This suggests that Mr. Xi Jinping has not been recognized yet by everyone as a person who has achieved such historic performance as Mao Zedong and Deng Xiaoping did.

On the other hand, there is one notable point other than mentioned above. It is that almost all (a 100%) of the policy slogans that the Xi Jinping leadership has come up with in the last five years have been adopted in the constitution. Specifically, they include “Fight against corruption”, “Construction of ‘One Belt One Road’”, “Five-sphere integrated plan”, “Four-pronged comprehensive strategy”, “Four aspects of consciousness”, “Four types of confidence”, “Five Great Development Plan (the strategy on developing a quality work force, the innovation-driven development strategy, the rural vitalization strategy, the coordinated regional development strategy, the sustainable development strategy, and the military-civilian integration strategy)”, “innovation-driven development strategy”, and “Supply-side structural reform”. The latest revision of the CPC Constitution thoroughly revealed the successful achievements of the first term Xi Jinping Leadership and marked a milestone to mark an end to the past achievements.

It is in this way that the Xi Jinping Leadership started its second term, or taking the first step to a “New Era”. If it can continue to make efforts and practices based on the “Thought”, a short phrase of “Xi Jinping Thought” might be incorporated in the party constitution at the next party congress five years later.

#### **(4) Profiles of important local personnel after the first Plenary Session**

On October 28<sup>th</sup>, three days after the close of the first Plenary Session, personnel reshuffles were announced for party secretaries to four provinces (Guangdong, Liaoning, Fujian, and Hebei). In Guangdong Province, a transfer of party committee secretary Hu Chunhua (54, a Central Politburo member close to Mr. Hu Jintao, former Secretary General) was announced. He is expected to assume a key post in the State Council at the Peoples National Congress to be held next March. Mr. Li Xi (64), a Central Politburo member loyal to Mr. Xi Jinping, was appointed to the successor of Mr. Hu Chunhua. Further, on the following day (29<sup>th</sup>), another reshuffle of party committee secretaries to other Provinces (Shanghai City, and Jiangsu and Shaanxi provinces) was published. Special attention was given to the personnel in Shanghai City, where Mr. Li Qiang (58) was appointed to succeed Mr. Han Zheng (63) the former secretary to the City, who was promoted to a member of Politburo Standing Committee. Mr. Li Qiang is

regarded as very close to Mr. Xi Jinping and is believed to have a high political capability. However, it is quite noteworthy how Mr. Li Qiang will display his competent ability also in Shanghai City where it is said that Jiang Zemin group still has kept main posts and so-called Shanghai faction has been deeply rooted in the local groups of vested interests.<sup>11</sup>

Negotiations on the party personnel based on the results of 19<sup>th</sup> CPC congress and the first Plenary Session are expected to continue in the time ahead, and final settlement will be made at the National Peoples' Congress in March 2018 where the personnel affairs for senior officials of the State Council will be decided.

### **(5) Treatment of Mr. Wang Qishan and meaning of non-appointment of next-generation leadership**

What drew attention just before the CPC congress was on the following two points regarding the lineup of Politburo Standing Committee. One is the treatment of Mr. Wang Qishan, who was a member of the Standing Committee and Secretary to the Central Commission for Discipline Inspection in the 18<sup>th</sup> Session. After Mr. Deng Xiaoping retired in the 1990s, an internal regulation<sup>12</sup> set for a retirement of senior officials above 68 years old and attention was given to the possibility whether Mr. Wang Qishan who had remarkable achievements on the fight against corruption would retire or not according to this internal regulation. Mr. Wang was believed to be one of the old allies among the “Second Generations of Founders<sup>13</sup>” and strongly supported Mr. Xi in his efforts for an early power grab through the fight against corruption. Although Mr. Xi Jinping seemed to have tried to retain Mr. Wang Qishan in the leadership, he was not re-elected to a member of Politburo Standing Committee after all at the first Plenary Session. There is a whispering of a possibility that Mr. Wang will be appointed to some sort of a post at the National Peoples' Congress next March, but his treatment is not determined yet.

Another focus of attention was whether or not Mr. Hu Chunhua, Party Secretary to Guangdong Province, and Mr. Chen Miner (57), who succeeded last July Mr. Sun Zhengcai (54) as Secretary to Chongqing City, are to be promoted to members of Politburo Standing Committee. Since the time Mr. Deng Xiaoping sought for his way of retirement, an unwritten

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<sup>11</sup> Almost at the same time as announcement of these important local personnel affairs, it became apparent that Mr. Chen Xi (64), a member of the Central Politburo of CPC, was appointed on October 28<sup>th</sup> to succeed Mr. Zhao Leji as director of Central Personnel Department. On October 30<sup>th</sup> it was revealed that Mr. Huang Kunmin (61), a member of Central Politburo, took the office of director of Central Publicity Department after Mr. Liu Qibao. Both are regarded to be associated with Mr. Xi Jinping.

<sup>12</sup> It is reported that the party and the government established this internal regulation “Leading Cadres retirement provision” that set out for the top officials above 68 to retire from their positions without taking the same position for more than 2 terms. It was in the 1990s when Mr. Deng Xiaoping, who was said then to be a five clawed dragon, slowly walked away from the post.

<https://baike.baidu.com/item/%E5%85%9A%E6%94%BF%E9%A2%86%E5%AF%BC%E5%B9%B2%E9%83%A8%E9%80%80%E4%BC%91%E5%B9%B4%E9%BE%84%E8%A7%84%E5%AE%9A/16587018?fr=aladdin>

<sup>13</sup> It refers to high ranking officials in the generation of sons of the cadres who had achieved a notable performance in building the People's Republic of China.

rule called “Designation from Alternate Generation” was formulated in the communist party so as to promote smooth generation shift of the leadership. If the Central Politburo members in their 50s like Mr. Hu and Mr. Chen were to be promoted to the Politburo Standing Committee, it would have meant that they have been almost certainly determined as a next generation leader who will be a candidate for General Secretary for the 20<sup>th</sup> and 21<sup>st</sup> CPC congress (2022-2032). However, they were not promoted after all and remained among the 25 members of the Central Politburo. This will mean that the present leadership did not or could not nominate the leader of next generation. At the same time, it would mean that the Xi Jinping leadership broke the custom that Mr. Deng Xiaoping had made. It attracts much attention how the second term Xi Jinping Leadership is going to choose new leadership and what kind of rules for generation shift they are going to make toward the 20<sup>th</sup> CPC Congress to be held in 2022, five years after now.

**(6) Will the governance by Mr. Xi Jinping turn into a personal dictatorship?**

This is a very important theme. There is a view that the second-term Xi Jinping administration has virtually abandoned the collective leadership which had been taken ever since the Deng Xiaoping administration and instead is heading for a nationalistic system of governance led by an authoritarian leadership. Some say that Mr. Xi seeks to become a figure like President Vladimir Putin in Russia, and others say he has visions to become a great influence comparable to “Chairman Mao Zedong, Great Leader of People’s.”

If he tries to eliminate by the fight against corruption the class of vested interests who set their roots in the major state owned enterprises (SEOs) and take their interests in his own hands, and if he tries to bring the major economic entities in the nation under his control to further consolidate his power by squeezing the whole society with gag, he will become more like President Putin. If he tries to purge and remove reformists on every count and reduce the factors of market economy towards more factors of planned economy, he will come closer to the days of Mr. Mao Zedong. It should be carefully watched whether China is heading for a new era of personal dictatorship or not.

In the past five years, the power grab of Mr. Xi Jinping had a rapid progress. This reflected his success of elimination of political opponents in the cause of fight against corruption. Without the anti-corruption movement, he could not have achieved such an early power grab. Mr. Xi Jinping by himself did not achieve a great performance in revolution nor in nation-building. Although he has been achieving satisfactory results in international and diplomatic policies, he still has faced with many thorny problems including that on North Korea. Even the incorporation in the CPC constitution of “Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era” may not have been realized without Mr. Wang Huning, a member of the Politburo Standing Committee who has supported as a brain the three Secretary

Generals since Jiang Zemin.

On the other hand, it is arguable whether the reinforcement of control by single strongest power of Mr. Xi Jinping was based on his personal appetite for power or not. Chinese Communist Party started as a party dedicated to the Marxism-Leninism, and then it restarted as a party advocating “Socialism with Chinese characteristics” after Mr. Deng Xiaoping incorporated into it reform and opening policies. It triggered a rapid economic growth but at the same time it proved to involve internally a risk that its legitimacy of governance would be questioned. It is true that the Deng Xiaoping Theory that advocates that those who can get rich should become rich first will pose no problem if the fruits of economic development are enjoyed ultimately by wide range of the general public. However, in actuality the economic disparity enormously widened. Even if the government tried under the ideal of “harmonious society” to tackle the problems like environmental destruction and health hazards, the first enriched people tended to be increasingly corrupt, and in recent years they even started to take abroad the large amounts of money they got through corrupt practices. A severe critical view against such circumstances rose to the highest level ever experienced at the 18<sup>th</sup> CPC Congress in November 2012<sup>14</sup>. It reflected a sense of crisis of the party that unless they change themselves the whole CPC governance would be destroyed. The sincere efforts to address this problem constituted the essence of “fight against corruption” in the first term of the Xi Jinping administration. However, the bottom line was that the fight was not so easy. So it can be pointed out that the resistance was so strong that the Xi Jinping Leadership had to suppress the resistance through a strengthened control by the single strong power.

At the recent CPC Congress the decision to nominate a next leader was avoided. It may be the conclusion taken after a deep deliberation on how the Communist Party of China can survive as a ruler of China since they have witnessed the collapse of the Communist Party of the Soviet Union that occurred in 1991. There is no guarantee on the capacity of a next leader whether he can command a control of the party, government and the military at an early timing as Mr. Xi Jinping did even if the government administration should be transferred to the next leadership in 2022. Both Mr. Hu Chunhua and Mr. Chen Miner have no military record, and the possibility cannot be denied that the people persecuted for corruption might come back asking for restoration of their rights and challenge the incumbent administration. If the Central Leadership of the party is undermined by that, the system of the party leadership might actually be threatened. From this standpoint, the continuing governance by the strengthened control of Xi Jinping’s single strong power may prove to be a kind of necessary evil with no realistic alternative available both for the CPC and the general public.

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<sup>14</sup> At its 18<sup>th</sup> CPC congress, Former General Secretary Hu Jintao and General Secretary Xi Jinping criticized in their speech the proliferation of corruption would destroy the Party and cause the downfall of the State.

The enhanced control by a single strong power of Mr. Xi Jinping accompanied by a continued fight against corruption will, coupled with the revision of the party constitution, help to strengthen and stabilize the government of the Central Politburo with General Secretary Xi Jinping at the “core” of Central Committee. If this happens to further evolve to an excessive personality cult or strengthened dictatorship, control of free speech and suppression of human rights or reversal of efforts toward market economy, there will bear another big problem in the Chinese society. Although the second term Xi Jinping administration looks like rock solid, it has a basic vulnerability at its core.

**(7) Major events in the coming five years**

During the five years of the 19<sup>th</sup> Congress, many important events which mark milestones for the party are scheduled as shown in Table 1 below. Through these events, General Secretary Xi Jinping is expected to seek to realize the “Restoration of Great China” (Chinese Dream).

Table 1 Important Events scheduled during the CPC 19<sup>th</sup> Congress

November, 2017	The 19th CPC National Congress/ Addition to the party constitution of "Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era"
December, 2018	40th Anniversary of implementation of Reform and Opening -up policies (40 years from the Third Plenary Session of the 11th Congress)
October, 2019	70th Anniversary of Building the People's Republic of China
Autumn, 2020	Achievement of building a "Moderately Prosperous Society" in all aspects (10 years from 2010)
July, 2021	Centenary anniversary of CPC
Autumn, 2022	the 20th Party Congress/ Next Leadership to Xi Jinping to be decided?

(Source: Various reports)

**2. Directionality of economic management suggested by the 19<sup>th</sup> Party Congress**

The 19<sup>th</sup> Party Congress was a stage for a political event of the CPC, and therefore economic reforms were only the supporting parts for it. Since around 2015, there have been almost no economic policies that were made without being aware of the congress. The Xi Jinping Leadership, especially Mr. Xi himself, seems to have thought that in order to convene the congress without any incident; it is enough if the economy has kept its stability. In other words, even if there were delays in the economic structural reforms with an increase of debts of the society in general, they thought it was acceptable as long as the financial systemic risk has not come to surface while an economic growth staying around the middle of the 6% level and inflation controlled. After all, it suggests that it is only after the fixation of personnel for the State Council March in 2018 that they would start to make sincere efforts to make reforms.

The People’s Daily, a party paper, created a homepage titled “Key Points you need to know”,



on the 19<sup>th</sup> CPC Congress and carried about 40 important topics<sup>15</sup>. Referring to the homepage, I will introduce in the following some of the most notable points at this conjunction among the thoughts of the CPC on the economic management.

### **(1) Ensuring Party leadership over all work**

The homepage presents the “Basic Policy to uphold and develop socialism with Chinese characteristics for the new era” as one of the important policies items<sup>16</sup>. It includes 14 guiding policies, the first of which sets that “the Party will lead all work”<sup>17</sup>.

If we understand the expression literally, it comes to that the Chinese Communist party will ultimately control the market and enterprises in the future. This may threaten to stall the market-oriented reform efforts.

China once implemented reforms on State- owned enterprises (SOEs) in the 1980s and 1990s. Until that time it was natural in China that the party leadership and the administration often intervened in the management of SOEs. However, in a series of reforms from Mr. Deng Xiaoping to Mr. Zhu Ronji and Mr. Li Keqiang, they tried to reduce such intervention in management by the party and the administration while expanding the autonomous rights of SOEs, or if possible eliminating such intervention. In spite of these efforts, the Party advocated this time that it will lead the whole activities in the future. It was equal to a declaration that when you do business in China, you should be ready for getting any intervention in the management by the Chinese communist party and the government. When the balance between the market and the party/government changes toward the strengthened control by the party/administration and reduced market functions, it is concerned whether the Chinese economy can be successfully sustained or not. If the prices were artificially jeopardized too much, it is feared that a sudden economic adjustment might happen in the time ahead.

It will have to be carefully watched to what extent the party will try to intervene in the corporate management in the economic society they are going to pursue.

### **(2) Shift of the greatest challenge from “lagged production” to “inadequate and unbalanced development”**

When Mr. Deng Xiaoping came up with the reform and opening policies and together with Mr. Zhao Ziyang proposed the “Theory of Primary Stage of Socialism”, they marshalled that the major contradiction of the society was caused by the gap between the ever-increasing desire for

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<sup>15</sup> In Chinese 你必须知道的“关键词” <http://cpc.people.com.cn/19th/n1/2017/1018/c414305-29595155.html>

<sup>16</sup> In Chinese “新时代坚持和发展中国特色社会主义的基本方略”

<sup>17</sup> Please also refer to the Xi’s report at 19<sup>th</sup> CPC congress: III. The Thought on Socialism with Chinese Characteristics for a New Era and the Basic Policy [http://www.xinhuanet.com/english/download/Xi\\_Jinping's\\_report\\_at\\_19th\\_CPC\\_National\\_Congress.pdf](http://www.xinhuanet.com/english/download/Xi_Jinping's_report_at_19th_CPC_National_Congress.pdf)

material civilization and the lag of social productivity. At the recent Congress, Mr. Xi Jinping shifted away from the recognition for the first time in almost 30 years and marshaled that the principal contradiction facing the Chinese society is the contradiction between unbalanced and inadequate development and the people's ever-growing needs for a better life. This means that he recognizes the lag of production capacity of China which had long constrained the development of China has been basically overcome, and the next great challenge is to address development's imbalances and inadequacies, and push hard to improve the quality and effect of development. This can be said as a staging to show that the Deng Xiaoping era has ended and the new era of Xi Jinping has started.

Actually, the construction of "moderately prosperous society" in all aspects is to be completed by 2020. This will enable all the People to sustain their lives, giving a kind of an end to the national poverty problem. After that, the enhancement of the People's living standard as well as correction of gaps, the gap between urban and rural, between coastal area and inland, between the rich and the poor, will become the greatest challenge to the Communist Party of China.

However, budgetary measures will be required to enhance the social safety and raise the living standard of the people. Based on the premise of the current political regime, it is not easy to increase tax in order to do that. It is further unclear whether the communist party can come up with the policies that give dreams to the people who have already gotten rich and live in the coastal areas. It is fairly hard for the party to achieve at the same time two goals of improving the lives of poorer ordinary people on the one hand while pleasing the wealthy and middle class on the other. If China is to continue to rise on a path to advanced economies, it is indispensable for the party to make a highly balanced policy adjustment between these two goals. In this sense, the coming 5 to 10 years are likely to be a very crucial period.

### **(3) Setting of medium-to-long-term goals for national development**

In the policy report of Mr. Xi Jinping, the party presented goals for the national development plan in two stages. This is a new and epoch-making attempt.

In the first stage of 15 years from 2020 to 2035, building on the foundation to be created by the completion of the "moderately prosperous society", the party aimed "basically to realize socialist modernization" and set out the goals to be achieved with hard work which included increased economic and technological strength, among others (Table 2). In the second stage from 2035 to the middle of the 21<sup>st</sup> century, the party aims to, building on having basically achieved modernization, work hard for a further 15 years and develop China into a great modern socialist country that is prosperous, strong, democratic, culturally advanced, harmonious, and beautiful. (Table 3)

Table 2 Goals by 2035 (on the premise of achieving the construction of moderately prosperous society by 2020)

	Goals
1	China's economic and technological strength has increased significantly. China has become a global leader in innovation.
2	The rights of the people to participate and to develop as equals are adequately protected. The rule of law for the country, the government, and society is basically in place. Institutions in all fields are further improved; the modernization of China's system and capacity for governance is basically achieved.
3	Social etiquette and civility are significantly enhanced. China's cultural soft power has grown much stronger; Chinese culture has greater appeal.
4	People are leading more comfortable lives, and the size of the middle-income group has grown considerably. Disparities in urban-rural development, in development between regions, and in living standards are significantly reduced; equitable access to basic public services is basically ensured; and solid progress has been made toward prosperity for everyone.
5	A modern social governance system has basically taken shape, and society is full of vitality, harmonious, and orderly.
6	There is a fundamental improvement in the environment; the goal of building a Beautiful China is basically attained.

(Source: Text of Xi Jinping's Report to the CPC National Congress, IV. Securing a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Embarking on a Journey to Fully Build a Modern Socialist China.

[http://www.xinhuanet.com/english/download/Xi\\_Jinping's\\_report\\_at\\_19th\\_CPC\\_National\\_Congress.pdf](http://www.xinhuanet.com/english/download/Xi_Jinping's_report_at_19th_CPC_National_Congress.pdf))

Table 3 Goals by the Middle of the Century (on the premise of achieving the goals by 2035)

	Goals
Overall	In a further 15 years China has developed into a great modern socialist country that is prosperous, strong, democratic, culturally advanced, harmonious, and beautiful. By the end of this stage, the following goals will have been met:
1	New heights are reached in every dimension of material, political, cultural and ethical, social, and ecological advancement.
2	Modernization of China's system and capacity for governance is achieved.
3	China has become a global leader in terms of composite national strength and international influence.
4	Common prosperity for everyone is basically achieved and the Chinese people enjoy happier, safer, and healthier lives.

(Source: The same as above)

Mr. Xi Jinping upheld the words of a “strong country” in presenting the goals toward the

middle of the 21<sup>st</sup> century and he is likely to maintain the course of military expansion just as China has done before, but the goals cited above as a whole also look like showing his intention that he is trying to take a harmonious appearance.

On the other hand, viewed from the current situation of China, the goals up to 2035 are, albeit abstract, significantly high and therefore achievement of them will prove to be considerably challenging. In terms of political schedules, the Xi Jinping administration has to formulate a draft of the next party leadership with necessary political maneuvering behind the scenes prior to the next Party Congress to be held in the autumn 2022, which marks the end of the second Xi Jinping administration, and is required to lead and support a smooth start of the new leadership in 2027. Further, during the period of 2032-2037, or during the second term of the new leadership, the end of the first stage will come in 2035. The achievement of the goals set for the first stage seems to be fairly difficult. To this end, the Xi Jinping leadership will have to first implement specific measures to enact anti-corruption legislation and promote modernization of the system of national governance. Building on them, he has to realize the measures to address the goals for the first stage targeted at 2035. He doesn't seem to have ample time to maneuver.

#### **(4) Inclusion of construction of “One Belt One Road” into the party constitution**

“One Belt and One Road” is a new strategy initiated by the first Xi Jinping administration to expand the development of China to the west and the south<sup>18</sup>. The idea is superb but there are some parts that are not fully boiled down yet. For example, it is unclear to what extent and how the Chinese government is involved in an infrastructure project of a country, what kind of role the Chinese state-owned-enterprises would play in that project, and how the private sector can be involved in it. Of course, it may differ depending on individual projects and their terms of contracts, yet the basic idea and stance of the Chinese government are not clear. Since they have included the initiative in the party constitution this time, however, the government may reinforce the “One Belt and One Road” initiative as a national policy. Much attention should be given to its policy orientation in the future.

### **3. Challenges in the future economic management**

The GDP growth rate of China has remained quite stable at the moment. The growth rate of the real GDP recorded 6.8% in the third quarter of 2017 over the corresponding period of previous year. The year-round growth is also expected to reach around 6.8%.

However, in 2018, the economy is likely to show a tendency to decelerate, albeit gradually. It is because although thus far, all of the party, the government, and SOEs have worked together to

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<sup>18</sup> Please refer to the IIMA Newsletter, China's “Belt and Road” Initiative: its Features and Future, No 8, 2017 (March 14, 2017)

support the economy taking the Party congress into account, their efforts will be reduced after the end of the Party Congress. If the growth rate will slow down, the funding of the zombie enterprises that has been hidden behind would be worsened or the contradictions of the monetary easing maintained under the risks of debts of household sector that increased rapidly in the past year or so and the bubble of real estates would come up to the surface or may become more visible. If these risks and contradictions should come up to the surface, the steering of economic management would become much harder and it will be a very trying time for the policymakers.

In the real-estate market, which the government tried to activate while playing a role of backstage promoter since around 2015, prices are now rising in the inland rural cities, with some time lag from the coastal areas. If the management over the heating of local real-estate markets is not conducted properly, it might adversely influence the whole Chinese economy. It will not be easy either for the People's Bank of China to further tighten its monetary policy. That is why substantially sensitive policy management based on reality is required to be implemented. The steering of economic management is becoming increasingly difficult.

In addition, a flexible adjustment should also be made, while following appropriate procedures and giving due consideration to the speed of other reforms, such as the reform of the mechanism for setting exchange rate of the Renminbi (RMB), liberalization of capital control which was tightened in October 2016 and internationalization policy of the RMB. These will be the agendas to be assigned to the economic team that will newly start soon (see the next section).

#### **4. Conclusion--- Coming economic team to be noted**

The members of the economic team for the second Xi Jinping administration will be finally revealed at the People's National Congress slated for next March. When the first Xi Jinping administration started, Premier Li Keqiang attracted much hope as an overall manager of economic policies. But he had to face with a narrowed leeway for policy implementation, through various directions and interventions by the Party Central Committee or failure-to-act resistance by local governments. Nonetheless, he showed his capability to flag the banner of innovation and made efforts to achieve a certain level of fiscal consolidation of the local governments, reform of value added tax, administrative reform and simplification, and supply-side structural reform and implemented economic stimulus measures to support the growth rate. Although he has made such vigorous activities while often being hidden behind Mr. XI Jinping, it cannot be said that he will be able to continue to take the premier's position. Neither is known whether Mr. Han Zheng, who has led the transformation of Chinese economy to market economy since in the 2000s and has just been promoted from Shanghai to the central

committee, will be included in the members of the economic team. It is difficult to forecast what the positioning of the Central Leading Group on Finance and Economic Affairs<sup>19</sup> and the Central Leading Group for Deepening Overall Reform<sup>20</sup> will be, or what kind of roles are played by Mr. Wang Qishan, Mr. Hu Chunhua, Mr. Wang Yang, and Mr. Liu He in the economic team.

As regards the finance, a key blood vessel of the Chinese economy, in addition to the appointment of central bank governor, fixation of functions of newly established the Financial Stability and Development Committee under State Council (“FSDC”)<sup>21</sup>, coordination of roles among China Banking Regulatory Council, China Securities Regulatory Council, and China Insurance Regulatory Council, are to be made from now on<sup>22</sup>. The establishment of the FSDC was formally announced on November 8<sup>th</sup> and it was decided that Mr. Ma Kai (71) be assigned to the top of the committee. The immediate function of this committee is seen to be coordinating the monetary policy set by the People’s Bank of China (Central Bank) with the macroeconomic management conducted by the FSDC. Also it will be necessary to pay attention to the influence that the separately-to-be-established National Inspection Committee will have on the financial industry.

At the National Financial Work Conference held in July 2017, it was reported that there were again seen the cases where the local governments raised funds by giving an implicit guarantee to debts of closely linked enterprises and letting them issue bonds<sup>23</sup>. In the second Xi Jinping

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<sup>19</sup> In Chinese 中央财经领导小组. This is an intraparty group where the Central Politburo of CPC coordinates and decides policies to lead the economy. In the first Xi Jinping administration, it worked as a decision making body that practically decided the skeleton of the Chinese economic policy. As Mr. Xi Jinping assumed the top position (Chairman) with Mr. Li Keqiang as his deputy, Mr. Xi also exerted a great power over the economic management. Its members consist of about 30 persons including the Central Politburo member in charge of economic affairs, top persons of each related department of the State Council, and top persons of various economic institutions including Peoples Bank of China (central bank). Although the personnel of its secretariat was not disclosed, according to a leaked information, it was known the head was Mr. Liu He (a member of Central Committee at that time, and promoted to a member of the Central Politburo and has prominent ability in economic affairs), with six deputies of Mr. Yang Weimin (have specialty in economic development and planning), Mr. Yi Gang (central banker, specialty for currency policy, banking regulation, and financial market), Mr. Chen Xiwen and Mr. Han Jun (both are prominent for agriculture and rural policy), Mr. Shu Guozeng (from Zhenjiang Province and good at theoretical field), and Mr. Zhu Guangyao (Vice Minister of Finance).

<sup>20</sup> In Chinese 中央全面深化改革领导小组. Its establishment was decided at the third Plenary Session of the 18<sup>th</sup> CPC congress held in November 2013. The leader was Mr. Xi Jinping, and deputy leaders were assumed by Mr. Li Keqiang, Mr. Liu Yunshan, Mr. Zhang Gaoli, and Mr. Wang Huning assumed General Secretary and Chief of the Office of Deepening Reform. 6 Groups were set as specialized groups; i.e., Group for Economic system and biological culture reform, Group for Democracy and legal Affairs Reform, Group for Cultural Reform, Group for Social System Reform, Group for Construction of Party and Institutional Reform and Group for Discipline Inspection System Reform.

<sup>21</sup> This committee was introduced at the National Financial Work Conference held on July 14-15.

<sup>22</sup> The financial administration in China was conducted by the central bank plus three commissions regime (One Bank and Three Commissions) which are composed of the People’s Bank of China (PBOC), the China Banking Regulatory Commission (CBRC), the China Securities Regulatory Commission (CSRC), and the China Insurance Regulatory Commission (CIRC). However, in the proliferation of shadow banking, financial products have been diversified and internet finance has also increased rapidly. Large companies have increasingly grown to become financial conglomerates. In such an environment the vertically segmented administrative system by industry has reached a limitation, it has been pointed out.

<sup>23</sup> For more details, refer to Newsletter No 29, 2017 (September 22, 2017), titled “Overview of the 5<sup>th</sup> National

administration, the enhanced supervision over the local autonomy will be included in its agendas.

As noted above, whether or not the Xi Jinping administration can respond properly and successfully to the economic slowdown expected in and after 2018 will become an important touchstone for the mid-to long term policy management. General Secretary Xi Jinping and his economic brain, Premier, and responsible persons of monetary authority including the central bank and of local governments will see it increasingly difficult for them to conduct appropriate economic management unless they promote close cooperation and policy coordination. In the midst of increasing challenges and complexity, the quality of teamwork at the economic team will be tested more severely than ever.

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