



WHAT TO WATCH THIS WEEK: CHINA'S 19TH COMMUNIST PARTY CONGRESS

OCTOBER 16, 2017

OVERVIEW

- On Wednesday, October 18, the Chinese Communist Party opens its 19th Party Congress in Beijing. Held every five years, this is the largest and most consequential political event regularly held in China. The gathering will focus more on leadership dynamics and succession than policy changes.
- As Party General Secretary, Xi Jinping is expected to open the Party Congress by delivering a lengthy report on largely familiar policy priorities.
- Xi Jinping will be re-appointed as Party General Secretary for a second five-year term; a new slate of party officials who will shape China's political and economic landscape for the next five years will be announced, including new members of the Politburo Standing Committee (PSC)—the Party's highest governing body.
- We will closely watch this five- to seven-day event to gauge how completely Xi has solidified his grip on power. Figures loyal to Xi are expected to dominate new appointments in the wake of an ongoing anti-corruption drive and several rounds of leadership shuffles that have pushed aside once powerful Xi rivals and potential successors. The full implications of what takes place during the Party Congress will become clear only in the coming months.

ABOUT ASG

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LEADERSHIP DYNAMICS: SOLIDIFICATION OF XI'S HOLD ON POWER

In contrast to his two immediate predecessors, Xi Jinping has been unusually effective in hand-picking the Party's top leaders. Officials loyal to Xi will be named this week to the Party's Central Committee, Politburo, Central Military Commission (CMC), and—most importantly—the Politburo Standing Committee (PSC). About 70 percent of these top Party positions are expected to turnover during the 19th Party Congress. Leadership dynamics we will be watching most closely at the Party Congress include:

Will Xi's anti-corruption "czar" retire in accordance with party norms for age of retirement? At the last three party congresses, those appointed or reappointed to the PSC or the Politburo were all age 67 or younger. At 69, Wang Qishan, a top Xi ally, is expected to retire; however, there is some speculation that he could stay on as a PSC member. Some observers boldly speculate Wang not only may remain on the PSC but may replace Li Keqiang as Premier. We see that as unlikely. Others have suggested that Xi could take the bold—but unlikely—move to use the title of Chairman of the Party for himself and possibly name Wang as Vice Chairman. Used by Mao Zedong, the title of Chairman was abolished in 1982.

Will Xi Jinping's name be written directly into the Party's constitution? The party constitution mentions by name Mao ("Mao Zedong Thought") and Deng ("Deng Xiaoping Theory"), as well as Marx and Lenin. It also refers to political concepts introduced by Xi's two immediate predecessors, Hu Jintao ("scientific development") and Jiang Zemin ("Three Represents"), but does not refer to them by name. Last week, the Central Committee approved a proposal to add a reference to Xi's political theories to the Party's constitution, but it is not clear whether his name itself will appear alongside his theories. Such an "ideological canonization" could greatly enhance Xi's ability to drive policies in his next five-year term and help him to retain control, formally or informally, even after the term ends.

Will Xi shrink the PSC? If PSC membership, currently at seven, were reduced, the General Secretary would hold more power. This would potentially make the PSC more of an advisory body to Xi instead of a factionally-balanced deliberative body for "collective leadership." At the last Party Congress, in 2012, the PSC was reduced from nine to seven members.

To what extent will close Xi allies and loyalists be elevated to the PSC? If party retirement norms are followed, five of the seven current PSC members are due to retire, leaving Premier Li Keqiang and Xi as the only two continuing members. Figures to watch as possible new PSC members include (in alphabetical order by surname):

- **Chen Min'er**, Party Secretary of Chongqing—a Xi protégé and possible successor in 2022
- **Han Zheng**, Party Secretary of Shanghai
- **Hu Chunhua**, Party Secretary of Guangdong Province—he is considered a protégé of former President Hu Jintao and another possible successor in 2022
- **Li Zhanshu**, Director of the Party's General Office
- **Liu Qibao**, Head of the Party's Propaganda Department
- **Wang Huning**, Director of the Party's Central Policy Research Office
- **Wang Yang**, Vice Premier, State Council with responsibility for the Belt and Road Initiative
- **Zhao Leji**, Head of the Party's Organization Department

ECONOMIC POLICY: CONTINUITY FOR THE IMMEDIATE FUTURE

The report delivered by the General Secretary on the first day of the Party Congress traditionally has been directed at China's Communist Party members (today totaling almost 90 million) and has reiterated general guidelines for major policies. A detailed articulation of specific economic policy objectives for 2018, however, is not likely to come until the Central Economic Work Conference in December, and will not be formalized until the National People's Congress (China's national legislature) convenes next March.

During the Party Congress, we expect to hear familiar policy themes, including calls for tighter financial regulation and deleveraging, reduction of overcapacity, and reaffirmation of a strong role for the state in key parts of the economy. Additional themes will include references to economic reform and opening, and implementation of the Belt and Road Initiative. It will take months, however, to determine whether these themes will result in significant changes in economic policy.

Other economic topics we will closely watch include:

Will growth targets be expressed as hard targets or as target ranges? Hard targets usually favor industries that benefit from infrastructure spending and property development needed to reach and maintain them.



Target ranges leave more room for flexibility to mitigate financial and economic risks, and could signal greater openness to developing a policy mix geared toward more sustainable, if lower, overall growth.

How will Party Congress reports and statements describe the role of the market? If markets are described as having a “decisive role” in resource allocation, that would echo language the Party used at its 2013 Plenum. After that, however, Xi tightened the state’s grip on the economy. We do not expect that grip to be loosened. Strong rhetorical reaffirmation this week of a “decisive role” for markets in resource allocation, however, could signal that Xi may empower economic technocrats in his inner circle during his second term. Two to watch are Shanghai Party Secretary, Han Zheng, and Director of the Party’s Central Economic Leading Group Office, Liu He.

How will Party Congress reports and statements address overcapacity issues? We will be watching closely for explicit indications of whether capacity limits in the steel and coal industries will be extended to other industries and sectors.

Will a successor to Zhou Xiaochuan, Governor of the People’s Bank of China (PBoC), be named? Zhou has led PBoC for an unprecedented 15 years, and, at 69, is expected to retire. Known as a strong advocate for reform, Zhou is widely respected internationally among his peers at other major central banks. Possible successors include Jiang Chaoliang, Party Secretary of Hubei province; Guo Shuqing, Chairman of the China Banking Regulatory Commission; Liu Shiyu, Chairman of the China Securities Regulatory Commission; and Yi Gang, PBoC Deputy Governor.

Who will be the next Minister of Industry and Information Technology? Occupants of several key leadership positions in the State Council and ministries will step down after the Party Congress. The Ministry of Industry and Information Technology (MIIT) is one we will be watching closely. It is not clear at this time who may be named as the eventual successor to current MIIT Minister Miao Wei.

OUTCOMES: Following the Party Congress, ASG will provide an analysis of the meeting’s key outcomes and resulting business implications.

PARTY BASICS: A QUICK PRIMER AND KEY TERMS

China is the only nation in the G-20 grouping of major economies ruled by a communist party. It is the Party that controls the general direction of policy in China, more so than the market, military, or even government organs. At roughly 90 million, the number of party members is greater than the entire population of Germany, but represents just under seven percent of China’s total population. These nearly 90 million members form the base of the party’s pyramid structure. Individuals join the party through a highly selective application process involving rigorous review of credentials, background investigations, reference checks, interviews, and other assessments. Party members are embedded in government organs at every level—in village, township, county, city, provincial, and central government offices—and in social and economic institutions. Schools, universities, companies, housing developments, and other organizations have party committees. Party members provide “supervision and leadership” in organizations’ decision-making to ensure compliance with party directives.



In the months preceding the Party Congress, through a process managed by the Party's Central Organization Department, roughly 2,300 party members, mostly from the ruling elite across the country, are chosen to serve as Party Congress delegates.

Delegates ratify the roster of roughly 350 full and alternate members of the Party's Central Committee. The Central Committee meets at least annually and is composed mainly of China's most powerful officials, military officers, and SOE executives. The Central Committee in turn appoints the Political Bureau or "Politburo," which currently has 25 members and meets roughly monthly, and the Politburo Standing Committee (PSC), which currently has seven members, and meets about weekly. The PSC is the cap of the party's pyramid power structure, and the presentation of its new members at the close of the Party Congress is closely watched.

The Central Committee also is expected to ratify the membership rosters of the Central Military Commission (CMC), the party organ that oversees the military, and the Central Commission for Discipline and Inspection, the party organ responsible for carrying out the anti-corruption campaign.

The Party has developed norms regarding age of retirement and term limits that help determine the number of positions that will turn over and constrain the pool of possible candidates. For the last three party congresses, those appointed or reappointed to the PSC or the Politburo were all age 67 or younger. This norm also was applied to the CMC in 2012. Other top posts (e.g. provincial Party Secretaries) have a retirement age of 65, and their occupants usually are 62 or younger at their time of appointment to new terms. Norms also limit top officials to two five-year terms in the same posts. Membership turnover in the Central Committee, Politburo, PSC, and CMC is expected to be about 70 percent. As a result, **the primary focus during the week-long event will be on leadership dynamics and succession more than policy change.** It will take months for the full implications of what takes place during the Party Congress to become clear.

ASG's China Practice has extensive experience helping clients navigate the China market. For questions or to arrange a follow-up conversation on this topic please contact [Douglas Grob](#).

