

**Scott Kennedy**

kennedys@indiana.edu

**The Communist Party's increasingly strict age and term limits will force a turnover in the top leadership this fall**

**China's system stresses continuity, and the odds of a dramatic change in policy are not high**

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## **China Policy Watch: Leadership Transition The Chance For Change**

Sometime this fall, a meeting of the elite of the Chinese Communist Party will briefly allow the outside world a glimpse of its inner workings, as it names the small group of people who will run this country for the next several years. At the Party Congress a combination of term limits and age limits will force the retirement of most of the current leadership, including President and Party General Secretary Hu Jintao, and Premier Wen Jiabao. The new group of career Party officials that will take their place are unfamiliar to most outside of China, and at least have the potential to take the country in a different direction.

Party Congresses do often mark significant turning points in the broad direction of Chinese economic policies. Following the 14th Party Congress in 1992, Jiang Zemin and Zhu Rongji pushed forward a wave of liberalization that culminated in entry into the World Trade Organization in 2001. Following the 16th Party Congress in 2002, the new team of Hu Jintao and Wen Jiabao set a different trajectory of giving greater support for state-owned enterprises, reducing the burdens of farmers, and expanding social welfare programs. So will the 18th Party Congress of 2012 also see China adopt a major shift in economic philosophy?

As we will detail below, the backgrounds, experiences and priorities of the likely next leadership are noticeably different from the current one. So it is possible they will show a greater commitment to free-market principles, oversee a retrenchment of the state sector, and encourage institutions that foster innovation and technological upgrading. Such a policy shift would certainly help China sustain its rapid economic growth.

However, realism compels us to admit that the most likely trajectory is only a modest adjustment from current policy priorities, and a continued focus on political stability. The Chinese political system increasingly values caution and policy continuity, so this must be the base case for any leaders working in that system. This need not mean complete stasis: the last year of the current administration has so far been a surprisingly productive one, with a string of helpful if modest liberalizing policy adjustments in the financial sector. As the full process of China's political transition will take at least a year to unfold, we offer a guide to assessing the odds it will result in a more dramatic shift in economic policy.

### **A new crop of faceless bureaucrats**

The mechanics of the Party Congress are fairly simple. The 2,270 deputies to the Congress will listen to Hu's report on his tenure as General Secretary, and then select the roughly 350 members of the Party's Central Committee. At its First Plenum, held a day later, that body will approve the Party's leadership: the approximately 25-member Political Bureau and its Standing Committee, the ultimate leadership body now comprised of the nine men who for all intents and purposes run China. Seven of these men are due to retire. The two who are not, current Vice President Xi Jinping

## The Chance For Change

The next top leadership will be career officials who have been implementing the policies of current leaders

China's top leaders are not split into clear reformist or conservative factions

## They could be the contenders

Most likely candidates for the next Politburo Standing Committee

<u>Name</u>	<u>Birth Year</u>	<u>Current job</u>	<u>Factional ties</u>
<b>Current Politburo Standing Committee members</b>			
Xi Jinping	1953	Vice President	Jiang Zemin
Li Keqiang	1955	Executive Vice Premier	Hu Jintao
<b>Current Politburo members</b>			
Liu Yandong (f)	1945	State Councilor	Hu Jintao
Yu Zhengsheng	1945	Shanghai Party Secretary	Deng Xiaoping
Zhang Dejiang	1946	Chongqing Party Secretary	Jiang Zemin
Zhang Gaoli	1946	Tianjin Party Secretary	Jiang Zemin
Liu Yunshan	1947	Propaganda Department head	Hu Jintao
Wang Qishan	1948	Vice Premier	Zhu Rongji
Li Yuanchao	1950	Organization Department head	Hu Jintao
Wang Yang	1955	Guangdong Party Secretary	Hu Jintao
<b>Other potential candidates</b>			
Meng Jianzhu	1947	Minister of Public Security	Jiang Zemin
Ling Jihua	1956	CCP General Office Director	Hu Jintao
Zhou Qiang	1960	Hunan Party Secretary	Hu Jintao
Hu Chunhua	1963	Inner Mongolia Party Secretary	Hu Jintao
Sun Zhengcai	1963	Jilin Party Secretary	Wen Jiabao

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and current Vice Premier Li Keqiang, have been groomed to take over for Hu Jintao and Wen Jiabao as heads of the Party and the government, respectively. The remaining slots on the Politburo Standing Committee (PBSC) will be filled from a fairly short list of senior officials of the right age, experience and political profile (see table).

What does the composition of the next PBSC tell us? The Chinese Communist Party is still a secret society, and this opacity allows a wide variety of theories about elite politics to take root. It is common for instance for Westerners to view Chinese politics as a struggle between “reformers” who support free markets and electoral democracy, and “conservatives” enamored of Maoist central planning and repression. In reality China's political class is committed to the compromise program of the past 30 years that combines market mechanisms with authoritarian politics; they disagree about which adjustments to make to that model, not whether it should be replaced with a different model.

Another common approach is to view elite Chinese politics as a cynical game for the distribution of spoils among factions, variously identified as the “Shanghai gang” associated with former leader Jiang Zemin, the Communist Youth League faction associated with current leader Hu Jintao, and a “princeling” party composed of the privileged offspring of previous generations of leaders. While personal loyalties are clearly important in China, leaders usually do not fit neatly into clear factions or groups. Those leaders who have worked with Jiang do not actually share the same views

**The Chance For Change**

**There is a wide range of views in the next leadership, but it is easy to exaggerate their internal struggles**

**The next leadership could get more aggressive on tackling economic reforms**

**Leaders are now less likely to come from a military or engineering background**

on policy, nor do those who have worked with Hu. The class of princelings is even more diverse: Bo Xilai, Wang Qishan, and Xi Jinping are all related to an older generation of leaders, but have noticeably different views, and are hardly a unified force.

So we think talk of vicious power struggles and factional battles is often overdone. The headline-grabbing fall of former Chongqing Party boss Bo Xilai and his wife Gu Kailai has obscured much of the real functioning of Chinese politics. It is clear that the Bo affair comes nowhere close to being a threat to the system in the way that the mass protests in 1989 were. The leadership has not been split but unified: the fact that Bo's henchman flirted with treason by spilling secrets to the US made it easy for other leaders to agree on his ouster (see [A Very Messy Bunch Of Tea Leaves](#)).

Unfortunately, Chinese elite politics is difficult to explain with simple models. While leaders' positions on particular issues are shaped by their family background, education, factional ties, and work experience, what they actually do is constrained by Party rules and norms, the bureaucracy, the views of stakeholders and economic realities. So the degree of potential change from this political transition should not be exaggerated. The next PBSC will be composed entirely of career officials who have advocated and defended the past decade's policies.

**The liberal opportunity**

Yet it is true that the likely incoming leadership on balance looks to be somewhat more open in outlook than the current leadership. In a shift from the past two decades, we should see a growing diversity of educational backgrounds in the broader Politburo, with more leaders trained in economics, law, and a variety of social sciences. The contrast between China's leadership at the start of the reform era and now is startling (see table below). Looking over the horizon, the cohort currently just below the Politburo who will be eligible for top spots in future transitions has many people who have been educated in the US and Europe.

**Getting younger, and smarter?**

Characteristics of Politburo members

	<b>12th (1982)</b>	<b>15th (1997)</b>	<b>16th (2002)</b>	<b>17th (2007)</b>
Average age at start of term	72	63	60	61
College educated	—	71%	88%	92%
Engineers among college-educated	—	82%	77%	48%
Military experience	80%	13%	16%	12%
Regional slant	Interior	Coast	Coast	Coast

Xinhua, Chinavivae.com

So we do think there is a chance—say 30-40%—that the next Party Congress will usher in economic reforms that are much more extensive than the current agenda. This is because the problems in China's current economic model are now widely understood, potential policy solutions have already been researched and clearly identified, and the new leadership seems likely to have a balance of figures that would support such policies.

## The Chance For Change

**Both Xi Jinping and Li Keqiang seem to support a stronger role for the private sector**

**By contrast, Hu Jintao and Wen Jiabao have overseen a slowdown in reforms of state-owned enterprises**

**Some other potential top leaders also have reasonably reformist credentials**

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In fact, the 12th Five-Year Plan adopted last year is already full of goals that would be consistent with a more assertive policy trajectory. The main problem is that many of its laudable objectives have yet to be translated into concrete policies. So a more aggressive reform agenda would not require the next leadership to publicly turn their back on the priorities favored by Hu and Wen, just to do more. And the two top leaders-in-waiting have shown a willingness to support more liberal policies.

Xi Jinping headed Fujian and Zhejiang provinces before coming to work in Beijing five years ago. In both jobs he supported policies that reduced discrimination against private companies. While Xi's future portfolio as President and General Secretary will be more on politics and foreign relations, economic policy also looks to be in good hands. Premier-designate Li Keqiang, according to those who have met him, is trained in economics and has a good understanding of the issues. He played a central role in the development and promotion of *China 2030*, a report issued in February by the World Bank and the State Council's Development Research Center. Although the report has not been embraced by the official bureaucracy, Li is reportedly supportive of its recommendations. The report argues that for China to continue strong economic growth, it needs to reduce state enterprises' dominance, lower barriers to the private sector, free up markets for land, labor and capital, and strengthen the fiscal system. Along with other scholarly efforts, the report provides a ready-made list of reforms that could be taken up by the next leadership.

### Change at the top

The PBSC is not a one-person, one-vote democracy, so the change in the top two leaders is quite significant. China's current top two leaders Hu Jintao and Wen Jiabao have repeatedly shown that they favor state-owned enterprises and have little faith in market mechanisms to generate their desired economic goals. Their retirement offers a chance for other leaders, even those who have worked with them and implemented some of their policies, to take a different approach. Xi Jinping and Li Keqiang are far from opponents of the current approach, but there is some evidence that they may be more open to reduced preferences for SOEs, a financial system that better serves the private sector, and a less nationalistic approach to encouraging innovation. And they are likely to be joined by others who would reinforce that tendency.

Current Vice Premier Wang Qishan is widely expected to be elevated to the PBSC and serve another term in government, probably as executive vice premier. An effective technocrat and troubleshooter, he was sent by Zhu Rongji to clean up Guangdong in the late 1990's after a variety of scandals there. He returned to Beijing as mayor in 2003 and was put in charge of handling the SARS problem after others had botched the initial response. In his current job overseeing finance and trade policies, he has supported central bank governor Zhou Xiaochuan and other officials trying to promote more pro-market economic policies.

There is also a good chance that this group will be joined by Wang Yang, currently the Party Secretary of Guangdong, who over the years has displayed support for the private sector and political openness. His first patron was Wan Li, a very liberal Party elder who led Anhui to be one of the first provinces to de-collectivize farming in the late 1970s, and in 1989

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**One potential new leader also has a reputation for supporting more political openness**

**Personnel moves over coming months will help indicate the future path of reforms**

**If the next leadership does want a new economic reform agenda, they are likely to present it in the fall of 2013**

advocated resolving the protests peacefully. In 1991, when Wang Yang was mayor of a small Anhui city, he publicly advocated for liberalization before doing so was made more politically safe by Deng Xiaoping's call to reforms a year later. Though Wang will probably not get an economic policy job, he has supported economic reforms in Guangdong that the rest of the country could also benefit from. He used a variety of policies to push local exporters to move into higher-value products, including permitting labor unrest and enforcing environmental standards, in the face of substantial opposition from manufacturers wedded to the low-wage model. Guangdong's political environment is also more open than anywhere else in mainland China, as Wang allowed local media to report on corruption and loosened restrictions on non-government organizations.

### **Ready, set, go**

If the new leadership does decide to embark on a more aggressive reform approach, we will not need to wait long to find out. The first check will be to see whether all of these more or less pro-reform leaders actually make it into the new lineup of the PBSC, and whether economic policy experts Li Keqiang and Wang Qishan are given substantive economic portfolios or sidelined into less influential jobs. If the PBSC is reduced in size to seven from nine members, as some now advocate, that would also enable the next leadership to reach major decisions more easily, and facilitate change.

Xi Jinping will also have a chance to signal his new priorities in his statement to the First Plenum of the 18th Central Committee held immediately following the Party Congress, as will the new premier at the annual legislative session in March 2013. And the continued reshuffling of ministerial-level officials, underway since last fall, also gives the new leaders a chance to put more of their supporters in positions of power. So far, more central government ministers and provincial leaders have been shifted than in the comparable period before the last major leadership transition in 2002, so the new team may have greater influence.

But past precedents suggest that if there is to be a fully fleshed-out reform agenda, it will not be issued until the fall of 2013, at the Third Plenum of the 18th Central Committee. The Third Plenum has historically been a common launching point for major initiatives, and the reform era itself dates to the Third Plenum of the 11th Central Committee, held in December 1978. The pro-market reforms of the late 1990s were also launched in the fall of 1993, at the Third Plenum of the 14th Central Committee under the stewardship of Jiang Zemin and Zhu Rongji. If Xi Jinping and Li Keqiang do not announce a substantially new plan at their own Third Plenum, economic reforms will continue to be incremental.