
The Changing of the Guard: China's New Leadership



By Daniel Galvez, Contributing Writer

At the conclusion of the 18th National Congress of the Chinese Communist Party (CCP), China unveiled its fifth generation of leaders under Communist rule. This once-in-a-decade event will have momentous repercussions for the world's second-largest economy as well as the global community. How will the incoming administration headed by Xi Jinping and Li Keqiang build upon the legacy of previous leaderships?

The New Leaders

The Politburo Standing Committee, the de facto highest and most powerful decision-making body in China, shrank from nine to seven members in an anticipated move aimed at consolidating and enhancing decision-making capacity. Over the last ten years, the nine-member committee headed by President Hu Jintao often encountered difficulties when attempting to launch new, necessary reforms. The challenges facing the domestic economy provide the most compelling rationale for some concentration of policymaking powers.

The five new members of the Standing Committee – Zhang Dejiang, Yu Zhengsheng, Liu Yunshan, Wang Qishan and Zhang Gaoli – are all regarded as senior party cadres and expected to retire in five years given the targeted retirement age of 68 (the youngest of the five new members, Wang Qishan, is 64). This presents both a blessing and a curse for Xi as he will likely meet resistance during his first five years in office but yield more influence when it is time to pick new leaders in 2017, with younger, more reform-minded figures like Wang Yang and Li Yuanchao waiting in the wings. In terms of persona, Xi is already drawing sharp contrasts with his predecessor Hu Jintao by inspiring greater confidence in his public interactions. Xi has already received some praise from China's notoriously cynical netizens, who welcomed Xi's unpretentious demeanour during his inaugural speech as general secretary of the CCP.

Party followers are quick to point out that Xi's experiences in Fujian and Zhejiang, arguably China's most entrepreneurial provinces with dynamic private-sector economies and high exposure to foreign investment, mark him as sympathetic to those advocating fresh market reforms. In Zhejiang, Xi extended support to two of China's best-known private firms - local carmaker Geely and Internet group Alibaba.com. Moreover, Xi's father was an economic liberal, responsible for establishing the landmark Shenzhen special economic zone while serving as party secretary of Guangdong province in the early 1980s. With Xi lacking formal economic expertise, he will leave the day-to-day running of the economy to China's future premier, Li Keqiang.

Li, set to become chief steward of the world's second-largest economy next March, has adopted urbanisation as a central theme throughout his political career, emphasising that China must support growth while avoiding the economic stagnation associated with middle-income countries. According to the World Bank, out of the 101 middle-income economies in 1960, only 13 became high-income societies by 2008. Li previously governed Henan, one of China's most populous provinces, and Liaoning, one of its most industrialised. In a recent article on China's economic development published in the People's Daily, the Communist Party's mouthpiece, Li stated, "Urbanisation is not about simply increasing the number of urban residents or expanding the area of cities...it is about a complete change from rural to urban style in terms of industry structure, employment, living environment and social security." Li's public endorsement of a report titled "China 2030", which advocated breaking apart powerful state monopolies and was prepared by the World Bank and China's state-backed Development

Research Center, may be the strongest sign that he is ready to at least attempt to roll back state-owned enterprises (SOEs).

The Road to Reform

Xi and Li will inherit an economy that will likely record its slowest rate of annual economic growth (around 7.8 percent) since the late 1990s. However, a more subdued pace of economic expansion is not necessarily problematic as today's China is already socially transformed to the point where it can remain stable and continue its long-term trajectory even if the growth rate dips to around 6 percent. In the context of declining export competitiveness and years of excessive investment, China will need to find new drivers of growth in the coming decade. There remains enormous latent productivity in the economy, but unleashing it would require a reform push across numerous areas not dissimilar to that of the late 1990s.

The incoming administration will have to position itself within frameworks laid down under their predecessors, namely the five-year plans that guide economic development, limiting the potential for dramatic and disruptive policy shifts. Even if Xi is an economic reformer by association, there is no guarantee that he will be able to implement bold restructuring policies as he will need to assemble formidable political resources to overcome powerful groups that are likely to oppose elements of reform, not least of which are the SOEs themselves. While Hu Jintao chose not to confront the vested interests of SOEs, Xi may determine that the needs of the economy will offer him little choice. According to Li Jiange, chairman of China International Capital Corporation, the country's biggest investment bank, China's new leadership will probably unveil new market-oriented changes in late 2013, with a focus on reducing government intervention in the economy and breaking up state monopolies.

The Decade Ahead - No. 1 Economy?

While China is still on track to become the world's largest economy sometime during the new leadership's 10-year tenure, a host of challenges loom. China's hand-picked next generation of leaders are tasked with solving deep-rooted problems formed during China's 30 years of socio-economic development. A growing (and increasingly visible) disconnect between top wage earners and the working class, frustrated factory owners,

environmental degradation and a rapidly-aging population are just some of the key issues facing modern China. If China's policymakers fail to push much-needed reforms, foreign investors may look to other markets and marginalised sections of the population may grow even more restless. However, if China can stay on course, it will herald yet another chapter in China's unrivalled growth story.

Beijing needs to rebalance its economy away from excessive reliance on investment towards a more domestic consumption driven growth model, which can only be accomplished through targeted market-oriented reforms in the land, labour and financial markets. The vested interests of China's powerful SOEs, who have long enjoyed preferential government policies in an effort to breed global champions, will remain a major hurdle in pushing long-awaited reforms. Reform advocates are pressing Xi to cut back the privileges of state-owned firms to cut inefficiencies, make it easier for rural migrants to settle in cities, give equal treatment to private companies, and fix a fiscal system that encourages local governments to live off land expropriations. In the meantime, China will continue to transform, urbanise, modernise and reinvent itself. Society is transforming in a profound way and despite facing key challenges, China's relentless ascent is not in question.

Daniel Galvez is a Consultant at [The Beijing Axis](#), a China-focused international advisory and procurement firm operating in four principal areas: Commodities Capital, Procurement and Strategy. He can be reached at danielgalvez@thebeijingaxis.com. The Beijing Axis was founded in 2002 by Kobus van der Wath (MBA '00J).

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