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## China orchestrates its political transition

### *Stability first as Xi Jinping expands his game*

China's most important political event of the first half of 2011 – the annual session of the National People's Congress (NPC) – has shown the current and future leadership intent on maintaining political, social and economic stability as the transition in October 2012 approaches. Minimizing risks to the system whether political or economic is the key aim of Hu Jintao and his colleagues, including the two men who will take on the reins of power in 2012-13. The current clampdown on dissidents fits into this pattern even if it risks arousing critical reactions from foreign governments at a time when China is showing some diplomatic uncertainty. Though the leadership, present and future, will maintain a united front in public, the 18-month run-up to the next Party Congress will see jockeying at the very top as the Fifth-Generation leadership takes charge.

### Key judgments

- ❑ The promotion of Xi Jinping to be Communist Party leader and State President is now certain: he will assume the first, and more important, post at the next Party Congress in October 2012, and the second by the full session of the NPC in March 2013.
- ❑ Li Keqiang's claim to succeed Wen Jiabao as Prime Minister is being bolstered by the higher profile he is being given.
- ❑ Although the top two appointments are now decided, considerable internal politicking continues for seats on the Standing Committee of the Politburo.
- ❑ Political reform will be put off, as will changes in the system of land ownership, labour and capital markets. The clampdown on dissent is being strengthened by a leadership that appears more worried about opposition than we believe it needs to be and whose security arm is using the excuse to impose itself even more forcefully.

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# The new leader

Though Xi Jinping remains shrouded in the usual leadership secrecy, it is possible to reach some preliminary conclusions about how he is likely to exercise power. Sources who have spent time with him concur that he is a consensus figure who will avoid rocking the boat. The main reason why he has been promoted ahead of Li Keqiang, who was Hu Jintao's preferred candidate, is that the Central Committee and other decision-makers feel comfortable with him. As Secretary of the Communist Party Secretariat, he holds a key administrative position from which he can track the flow of information and commands at the top of the power structure. As head of the Party School, he presides over the training of the cadres whose role is to run the country. He has travelled to Europe, Australia and Latin America, is in charge of Hong Kong affairs and was responsible on the Chinese side for the Beijing Olympic Games.

## Man of the market

As he prepares to take over from Hu, Xi is exhibiting an ideologically split personality – which may appear puzzling but reflects his desire to appeal to as many of China's power brokers as possible and to buttress his membership of the regime's aristocracy. He is one of the so-called Princelings, whose fathers were first-generation Communist leaders, and who are generally associated with market-led growth. His father, Xi Zhongxun, spearheaded economic reform in Guangdong for Deng Xiaoping after being purged in the Cultural Revolution, during which Xi Jinping was sent to a pig farm in northern China. He has been groomed for the top by members of the Shanghai Faction, which went all out for growth during the Jiang Zemin years and retains considerable political clout. In line with that backing, he has a track record for encouraging enterprise, gained in particular during his period in charge of east coast manufacturing hub Zhejiang province. (See our [report](#) "The men who will rule China" for more details)

For instance, it was his decision which set the province's city of Yiwu free in the early part of this century to develop as both the world's biggest trading market and a major home of light manufacturing. From Zhejiang he went to Shanghai before being promoted to Beijing and the Politburo Standing Committee. Earlier, he held senior posts in Fujian province after it was hit by a huge smuggling scandal: the Party boss in Fujian survived and is the fourth-ranked member of the Standing Committee; the extent to which Xi protected officials in Fujian implicated in the scandal is yet another of China's high-level secrets, but in our view it would be surprising if he had not collected some political debts during this period.

## But also nostalgic for Mao

But Xi is also loyal to the state-dominated economic model and has been able to build some bridges with the socially minded Communist Party Youth League, which is Hu's power base. In speeches as President of the Communist Party School, he has insisted on the importance of "Marxist rectitude" as well as professional competence, a throwback to Mao's insistence that officials should be both "Red and expert". He tells officials that they must "boost the resoluteness of their political beliefs, the principled nature of their political stance ... as well as the reliability of their political loyalty".

He appears to be building an alliance with China's most high-profile politician, Bo Xilai, who runs the metropolis of Chongqing with its 31 million inhabitants above the Yangtze Gorges. (Bo reports directly to Beijing – not through the surrounding province of Sichuan.) Bo, who is also a Princeling, is a strong contender for promotion to the Politburo Standing Committee next year and, as described below, has taken to trumpeting the virtues of Maoist ideology. Hu Jintao and Wen Jiabao have ignored this but, on a recent visit to Chongqing, Xi praised the city's development and Bo's encouragement of "singing Red songs", "telling Mao-era stories" and studying Maoist teachings.

"These activities have gone deeply into the hearts of the people and are worthy of praise," he added, describing them as "a good vehicle for educating the broad masses of party members and cadres". There was much more in this vein as he exhorted that reviving the country's "Red past" was "essential to propagate lofty ideals and establish core socialist values in society".

## **Wake-up calls to officials**

In realistic mode, Xi stressed that "the key lies in implementation" in a speech in March at the Party School which was then published in the internal Party magazine, *Qishi* ("Seeking Truth"). He attacked bureaucrats for pursuing superficial achievements and "ostentatious and flashy vanity projects which waste energy and money". He also criticized officials for getting lost in "mountains of documents and a sea of meetings". He warned that this damaged the credibility of the Party and government, and that the arrogance and complacency of officials would make reform impossible. This sounds like the first clarion call by the future leader in Beijing to exert control over regions and assert long-term planning targets. The prospects of success must be weighed against the strength of provincial growth targets, which fly in the face of Beijing's more modest aims – as we will explain in a coming report.

But the core political issue after Xi takes over in 2012 will be the extent to which he is able to assert himself against the continuing presence of Hu Jintao and his supporters. His apparent alliance with Bo Xilai points to an ongoing power struggle at the top, with Li Keqiang risking isolation amid the Princelings. That would not be good for the kind of decisive policymaking the future Chinese government will need to make.

# The other rising stars

Three figures stand out among the contenders to join the Standing Committee in 2012 alongside Xi and the next prime Minister, Li Keqiang whose [economic outlook](#) we analyzed last year. They are Bo Xilai, Wang Qishan (the Vice Premier in charge of financial policy) and Wang Yang, Party Secretary in Guangdong. Like Xi, Bo and Wang Qishan are both Princelings. Their elevation to the Committee would mean that this group would have one more member at the top than Hu's Youth League group, to which Li Keqiang and Wang Yang belong. Another candidate for the Committee, Yu Zhengsheng, who succeeded Xi as Party Secretary of Shanghai in 2007, lacks political weight but would perpetuate the presence of the Shanghai Faction at the top.

**Bo Xilai**, son of Bo Yibo, Mao Zedong's Finance Minister, is the rock star of Chinese politics. Suave and an expert at handling the media, he basks in public attention. At the National People's Congress session in March 2010, he took the attention of delegates away from the speaker on the platform when he entered the hall. He held a two-hour press conference in March 2011, an unusual event since the only major media briefing at the Congress is normally reserved for the Prime Minister. He said nothing new in outlining his plans to develop Chongqing, and in recounting his big crackdown on the city's underworld and its corrupt police force.

In his current incarnation (after serving as Commerce Minister from 2004 to 2007 and running Liaoning province for the previous two years), he has staked his career on inland development in Chongqing and dwelt during his press conference on his programme to build cheap housing as well as a new technology park capable of producing 100 million laptops annually. The municipal administration wants to make Chongqing a centre for micro-finance, handling millions of small transactions electronically from across China. Bo also grabbed national headlines last year by staging a trial of more than 100 underworld figures and corrupt policemen to establish his anti-corruption credentials. He exercises tight control over the local media. According to a reliable foreign press report, the campaign against the underworld is not quite what it seems since rivals to those sentenced at the mass trial are flourishing, drawing on official and military contacts.

He has also struck out recently on a retro political course, erecting an eight-storey-high bronze statue of Mao Zedong in the city's university district, encouraging people to sing songs from the early years of the People's Republic, having leftist ideological texts read on prime-time television, distributing recordings of revolutionary speeches to schools and having his secretaries text 1960s messages to students. Last year, he invited members of Mao's family to a celebration of the Cultural Revolution in Chongqing. He is praised by members of China's New Left movement who look back to the pre-Deng era with affection. Cui Zhiyuan, a professor at Tsinghua University in Beijing who works for the Chongqing government, says the city's mixture of new and old "represents an economic pattern that transcends left and right,".

But, as a veteran of the closed world of elite politics, Bo was careful at his press conference in March to insist that what he is doing in Chongqing is "all planned by the central government". The media should stop hailing his achievements, he added, or else people might conclude that he was not implementing directives from Beijing.

**Wang Qishan**, whose father-in-law served in government under Mao, is a protégé of Zhu Rongji, the tough Prime Minister under Jiang. He has an impressive track record: he was Chairman of the China Construction Bank

from 1994 to 1997, cleaned up after the collapse of the GITIC investment group at the end of the 1990s, and did a good job as Mayor of Beijing from 2004 to 2007 in helping to deal with the SARS epidemic. He has more international economic experience than any of China's other leaders (and was praised by former US Treasury Secretary Henry Paulson for his "wicked sense of humour") but is known for self-confidence that can border on arrogance. He has played a central role in steering Beijing's currency policy which, as we [forecast](#) last June, has withstood external pressure and limited appreciation of the yuan to what China considers acceptable. He accompanied Hu on his state visit to the United States earlier this year and has responded robustly to complaints about discrimination lodged by big European manufacturers operating in China by observing that they "are always going to need to be in China".

At the NPC Wang also demonstrated a sudden concern for small businesses. A day after Bo gave his press conference, Wang made an unexpected appearance at a meeting of legislators from the poor southern region of Guizhou (with which he has no known connection): he told the Chairman of a company that makes *moutai* liquor in the city of Kweichow how to handle allegations of producing fake spirits under the best-known Chinese brand name, and then launched into an attack on the heads of China's big banks for seeking size for its own sake. "Everybody is after big business," he said in terms reminiscent of Zhu Rongji's forthright style. "Who will then brave the mud and the smell of a pig farm just for a small loan of some hundred thousands of yuan?" He went on to praise small businesses as the major source of job creation. He complained that the big banks, by contrast, were simply after the business of big companies and jumped from city to city to enlarge their markets with no regard for their home bases.

**Wang Yang**, a former Party boss of Chongqing, has purged Guangdong of political hold-overs from the Jiang days, but has had trouble steering a new economic course for the province, particularly due to rising wages and the pressure on companies to move inland analyzed in our [report](#). There is also none-too-latent tension between him and Bo since the current Chongqing Party Secretary staged a mass trial of underworld figures and corrupt policemen who had thrived on Wang's watch in the mega-city, inevitably raising questions as to why a crackdown had not been imposed earlier. On his visit to Chongqing, Xi Jinping went out of his way to praise Bo Xilai's crusade against the triads and their police accomplices. The Chongqing Communist Committee, Xi added, had "scored a major victory in safeguarding the basic rights and interests of the broad masses ... the anti-triad campaign is deeply popular and has brought joy to the people's hearts". That could only be interpreted as a slap at Wang from the future leader.

# Do not rock the boat

The leadership is placing maximum emphasis on maintaining control ahead of the 2012-13 changes. The impact of the revolts in North Africa was never going to be significant in China for reasons I set out earlier in the year (see [Why China is not Egypt](#)). But this has not prevented the authorities from stepping up their security measures in a way that has led some observers to conclude that the threat of instability is much greater than it really is. About 100 human rights activists have been subject to repressive measures in the last two months. Six leading lawyers have vanished. Last week, a woman lawyer who was crippled when beaten up by police was re-arrested in Beijing. Special police units have been out in force in major cities.

On 2 March the Central Propaganda Bureau issued a one-sentence order: "Media are not to report on any information related to 'Chinese Jasmine'." On 3 April the prominent artist, Ai Weiwei, who has been a thorn in the side of the authorities but seemed to enjoy immunity as the son of a celebrated Mao-era poet, was detained at Beijing airport as he tried to take a flight to Hong Kong. Party media dismiss him as a "third rate artist" accused of unspecified economic crimes. The clampdown has set off a tit-for-tat between Beijing and Washington after Hillary Clinton expressed "deep concern" at such "negative trends". A report by the State Council issued by the Foreign Ministry at the weekend told the United States to stop its "domineering behaviour" of interfering in the internal affairs of other countries. "The United States ignores its own severe human rights problems, ardently promoting its so-called 'human rights diplomacy', treating human rights as a political tool to vilify other countries and to advance its own strategic interests," it added.

The spat has not had any noticeable effect on business ties as yet but the more fragile climate may add to difficulties reported by foreign companies working in China. There are also strong signs that Beijing is having second thoughts about its decision not to veto the United Nations resolution on the no-fly zone over Libya. Having abstained at the time, China has become critical of the NATO air strikes. Informed sources believe that there has been criticism from the army and hardliners in the Politburo of what can be portrayed as a sign of weakness in going along with the West.

The hyperactive security response to a tiny threat of a "Jasmine Revolution" in the PRC has put paid to any prospects for political reform. The stern Communist Party reaction to the call for change by Wen Jiabao last August, which we analysed at the time in our [report](#), was confirmed at the NPC when the Prime Minister himself spoke in praise of what is known as *wei-wen*, meaning the maintenance of law and order, the squashing of dissent and the extension of surveillance of the population – Chongqing is installing half a million cameras to watch its streets and there was a huge police presence at the meeting of the legislature in Beijing last month. The Rmb624.4 billion (US\$95 billion) budget for internal security approved by the NPC this year was 13.8 per cent more than in 2010 and exceeded planned spending on the armed forces by Rmb23.3 billion.

## Crisis management

In his report to the legislature on 5 March, Wen urged government departments to "strengthen and perfect the public security system" and to "raise our ability in crisis management and withstanding risks". Calling for strengthening of the paramilitary People's Armed Police, he added: "We must

bolster our ability in tackling emergency incidents, countering terrorism and upholding stability.” Hu Jintao has struck a similar note and Zhou Yongkang, who holds the portfolio for law and order in the Politburo Standing Committee, insists on the need for security forces to “put together a comprehensive and viable system to ... control social order, so that contradictions and disputes can be resolved at the embryonic stage”. State media said hundreds of thousands of police were on duty for the NPC meetings. The tiny “Jasmine Revolution” gatherings in Beijing and Shanghai this spring have been blanketed by heavy security forces.

In a commentary to coincide with the opening of the NPC, the ultra-orthodox newspaper *Beijing Daily* warned against “people with ulterior motives in and out of China who want to bring chaos into China” while the *Liberation Daily* in Shanghai attacked anti-Chinese elements who were allegedly “confusing and poisoning people’s minds in an effort to stir up ‘street politics’ and plunging China into chaos”. Continuing the rollback of legal reform which we highlighted in a report in 2009 (see [The costs of China’s legal regression](#)), Wang Shengjun pledged in his report to the NPC that judicial officials would step up their “education in the Party’s nature, Party style and Party discipline”.

The sharply conservative tone is striking coming from a leadership that has preached the need for a “harmonious society”, but it reflects the fear of losing even the smallest degree of the state control that is plugged into the regime’s DNA. This fear is heightened by an awareness at the top of the regime of the challenges China and its rulers face as they try to rebalance the economy away from the 1980s model of low-cost labour, cheap capital and high exports. The 12th Five-Year “Blueprint on Economic and Social Development” starts by stating that the country is “up against risks and uncertainties that are both anticipated and hard to foretell”. In those circumstances, risk aversion takes on a premium.

In any case, as shown by the way in which as senior a figure as Wen Jiabao was slapped down when he spoke of the need for reform last summer, the Communist Party remains profoundly totalitarian in its political approach even if this blows a huge hole in its efforts to mount a “soft power” charm offensive through cultural exhibitions and its network of Confucius Institutes teaching Mandarin. In his concluding address to the NPC, Wu Bangguo, the legislature’s President (who ranks second in the Politburo Standing Committee), warned that any deviation from the present political system would “plunge the country into the abyss of internal chaos” in speech that set out the current top-level thinking as explained in our [note](#) at the time.

## Keep the people happy

But the leadership is also aware of the need to cater to public opinion in non-political ways as the Gini coefficient of wealth disparity approaches 0.5 (generally considered to be above the level likely to provoke social disorder) and corruption figures as a leading cause for complaints in opinion polls. Wen acknowledged in a webcast before the NPC that the combination of corruption and inflation “could even create severe social problems”. Senior cadres have been urged to file regular reports on their assets (and changes in nationality of their close relatives) with anti-corruption agencies, but “strengthening the construction of a clean government and fighting graft” figured in last place among 10 targets set in Wen’s report to the legislature.

The government has committed itself to wage increases for blue-collar workers, as shown in our [report](#), at the time as enclosed) and is cushioning the middle class by taking only cautious measures to cool down the property

market. The new Five-Year Plan, which runs from 2011 to 2015, provides that: the government will build 36 million subsidized apartments; the central government's annual contribution to medical insurance will rise from Rmb120 yuan (US\$18.40) to 200 yuan (\$30.50) per person; and spending on education is being raised to 4 per cent of GDP from this year on. But, as our [report](#) November showed, progress on the medical front will be a long-term process while education has a long way to catch up. The outlook for cheap housing may be less rosy than it appears, as we will be explaining in a forthcoming report.

The problem for the leadership is that the harder it stamps on the authoritarian pedal, the more it will feel a need to hand out money and avoid hard economic choices that might bring unpopularity. This is one reason why we expect a more relaxed attitude towards inflation and an easing of the recent monetary tightening in the second half of this year ahead of the leadership change.

Xi Jinping's personality and track record suggest that he will continue to accommodate as many interests as possible at least in his first five-year term as China continues on its course of boosting wages and consumption, developing the west, moving industry up the value chain and promoting renewable energy, to try to evolve a new economic model for the decade in which he will head the Party. But he takes an even longer view: in his speech to the Party school last month he said, "Crowning success does not have to come in my term".

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