
Assessment: China's 19th Party Congress

October 27, 2017

Key takeaways

- **The 19th Communist Party congress effectively portrayed China as a nation with a strong and unified leadership and a well-defined plan for the future.** Key messages were that China is driving global growth, investing at home and abroad in infrastructure and innovation, and is committed to globalization and trade. This is in stunning contrast to many other countries' challenges with slow growth, governance, and nationalism.
- **President Xi Jinping's top priority is personal political consolidation.** He used the congress to make clear that he is China's most powerful leader since Mao Zedong. In advance of the congress, Xi continued to purge potential major rivals and place his allies in key positions in the national leadership, and at the congress he highlighted his anti-corruption campaign and called for it to be strengthened—a move that is popular but is also a means for him to eradicate political enemies. The absence of younger members elevated to the Politburo Standing Committee at the close of the congress reinforces the sense that Xi intends to dominate politics for the foreseeable future.
- **The president has also used the congress to reassert the power of the Communist Party.** Xi's opening speech was an uncompromising vision of a one-party state without even some of the shadings of political reform that other party leaders have mentioned in the past. Xi celebrated the stifling of domestic dissent and signaled that in his second term, Beijing would further tighten controls on the internet and social media.
- **Xi offered a more nationalistic view of China's future** than previous party leaders—a view of China as a dominant power on the world stage—and repeatedly referred to China as a strong and great power. He highlighted the country's Belt and Road Initiative, military modernization, and growing presence in South China Sea. He also used the congress to continue his strategy of positioning himself as a promoter of Chinese culture and tradition.
- **Xi's second priority is economic consolidation.** For the first time, he set out a timetable along which the party wants China to become a developed nation. This was a signal that he intends to continue and extend the power of the state in the economy to achieve that goal.
- **The topic of market-oriented reforms was broached in limited and perfunctory terms.** Premier Li Keqiang, an economist upon whom market reformers had placed some hope five years ago, has been totally sidelined in the policy-making and is virtually invisible. Xi did say that China will protect the rights of foreign investors and allow its special economic zones to operate without heavy regulation, but these statements were mostly afterthoughts. While he understands that China has to make some reforms to its financial system, including its equity markets, he made similar promises about financial reforms in his first term, only for them to mostly stall. Xi also called for certain state enterprises to become larger and more powerful. ▶

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- Xi and other party leaders repeatedly asserted that China would move forward with **state-led industrial policies designed to increase domestic production across a wide range of high-tech industries**, as laid out in the Made in China 2025 plan. (Priority areas include the internet of things, cloud computing, robotics, aerospace and aviation equipment, and new energy vehicles. Such industrial policies have been condemned by many foreign firms and governments as designed to force intellectual property transfer and are possibly illegal under WTO rules.
 - Policymakers made clear during the congress that they **do not intend to allow the currency to trade more freely any time soon**. The central bank governor said that Beijing eventually will make the currency more tradable, but that its trading band would not be expanded. He also hinted that regulators would seek to reduce leverage in Chinese markets in the next year.

Implications for foreign investors and businesses

- The congress confirmed the general sense of international business leaders in China that **the competitive environment will continue to get more difficult** especially in areas in which Beijing intends to bolster domestic innovation and firms through its Made in China 2025 plan and state-owned enterprise consolidation.
- President Trump will make a high-profile visit to China in November and **the strong messages coming out of Beijing are likely to grate on a US president keen to demonstrate his prerogatives on trade issues**. Sectors most likely to be immediately caught up in a trade conflict include soybeans, cotton, software, computer storage, optical equipment, steel, corn, and, possibly, aerospace.
- While outside observers have worried about a growing debt overhang and other imbalances, **Xi is likely to use his broad political power to assure that economic growth doesn't stumble**. In the early years of his leadership, Xi had prepared the political ground for a slowdown, instead growth numbers have remained strong and are likely to remain so, even if they have to be manufactured. While many other emerging markets have struggled to regain momentum, China will continue to outperform.
- **The image presented by the congress is clearly meant to be compelling to foreign business and political elites**, and Xi explicitly offered up the idea that China is a model of political and economic development for other countries. With its clear vision and expanding influence, Beijing intends to play a stronger role in shaping the terms of business and trade globally. ■