

China Economic Update November 2022

Could Xi Jinping extend his leadership beyond his third term?



NAB Group Economics

The latest transition of China's leadership – which occurs every five years at a major party congress – took place in mid-October. As expected, the congress confirmed Xi Jinping's third term as President (an extension that until recently would have been prohibited, as term limits applied between 1982 and 2018), while the appointments to the Politburo Standing Committee (PSC) suggest that Xi's influence has increased, with allies now filling all positions on the committee. One notable issue that the congress failed to address was potential leaders post-Xi, with a lack of younger officials appointed to the PSC, increasing the likelihood that President Xi will lead beyond his third term.

Xi remains at the top

As was widely expected, Xi Jinping was re-elected as China's President for a third term at the 20th National Congress of the Chinese Communist Party (held between 16-22 October). While this appointment broke earlier conventions that limited the rule of individual leaders, it had been signposted by earlier events.

China's constitution was amended at the 13th National People's Congress in March 2018 (at the start of President Xi's second term in office) to remove term limits on the offices of President and Vice-President (which had previously comprised two five-year terms). This change, which came after the selection of the Politburo Standing Committee the previous October that featured no emerging leaders young enough to succeed President Xi in 2022, increased the expectation that Xi would remain as China's leader beyond the conventional norms established by his predecessors.

It is worth noting that the powers of the President are relatively limited, as it is a largely ceremonial position as Head of State. Instead, far more power and influence are vested in the other offices that he holds – General Secretary of the Chinese Communist Party (head of the party) and Chairman of the Central Military Commission (head of the military). While these roles have not been term limited in the constitution, Xi Jinping's predecessors, Hu Jintao and Jiang Zemin, handed these roles on to their successors (albeit Jiang Zemin served as head of the military almost two years into Hu Jintao's first term as President).

Politburo composition points to greater control

Considerable political power is also vested in the Politburo Standing Committee (PSC) – the committee responsible for day-to-day policy decisions, given the lower frequency that larger bodies, such as the Politburo (typically once a month) and Central Committee (once a year), meet. Debate within the PSC is not typically made public, however it is suggested that opposition within the PSC can curtail the agenda of a President, particularly given factional disagreements within the Communist Party.

Factional alignment of PSC Xi allies now fill the committee

PSC	Faction alignment of membership							
16 th	Hu							
17 th	Hu							
18 th	Xi							
19 th	Xi							
20 th	Xi							

Notes: PSC was expanded to nine members ahead of Hu Jintao's first term as leader and reduced to seven for Xi Jinping's first term. Yellow indicates ally of Jiang Zemin, red an ally of Hu Jintao and blue an ally of Xi Jinping. Grey indicates ally of former Premier Li Peng.

For example, it has been suggested that Xi Jinping's predecessor, Hu Jintao, frequently faced opposition within the PSC from a faction loyal to his predecessor, Jiang Zemin, particularly in his first term. That said, the two primary factions – the Shanghai faction lead by Jiang and the Communist Youth League (CYL) group

headed by Hu – had broadly agreed to a system of power sharing between them, following norms within the party outlined by Deng Xiaoping in the late 1970s.

It is worth noting that factionalism within the Communist Party is somewhat fluid, when compared with trends abroad. For example, Wang Huning (who was elected to the PSC in October 2017) is now seen as a close ally of President Xi, despite having initially risen with Jiang Zemin's Shanghai faction.

Some observers believed that as Xi Jinping rose to power that he was part of the Shanghai faction, however various members of both Jiang and Hu's factions were prosecuted within the major anti-corruption drive instituted early in Xi's first term.

The Politburo Standing Committee was dominated by members of the Shanghai faction during Xi's first presidential term – with four out of the seven members of the PSC – however this was reduced to just one member in Xi's second term, as a number of close allies of Xi were elevated to senior positions. This trend was accelerated at the 20th National Congress, with the departures from the PSC of CYL aligned Premier Li Keqiang and Wang Yang, despite both being younger than the mandatory retirement age. The new PSC following the congress is seen as entirely allied to President Xi, with no strong links to the previously powerful factions.

No sign of a succession plan

The first sign that President Xi would seek to extend his role beyond the previously limited two terms came with the appointment of the PSC at the 19th National Congress in October 2017. Members of the PSC (along with most senior party positions, excluding the President, General Secretary and Chairman of the Central Military Commission) are typically subject to retirement at 68 and at least one term on the PSC is seen as necessary to become President.

Traditionally, leaders have been elevated at young enough ages to serve two terms prior to (or close to) the retirement age. Hu Jintao was elected to the PSC at 49 and became president at aged 60. Similarly, Xi Jinping and Li Keqiang were 54 and 52 respectively when elected to the PSC, with Xi officially becoming President at 59. This convention was broken at the 19th National Congress in 2017, with the youngest appointee to the PSC aged 60.

This trend was continued at the 20th National Congress, when the youngest member of the new PSC – Ding Xuexiang – was again aged 60 at the time of his election. At the time of writing, Xi Jinping is 69 years old, however with the absence of an obvious successor, along with support from allies, he may seek to lead China beyond his current third term.

PSC members

Age profile points to Xi's leadership extending beyond his third term

Member	Age
Xi Jinping	69
Li Qiang	63
Zhao Leji	65
Wang Huning	67
Cai Qi	66
Ding Xuexiang	60
Li Xi	66

Conclusions

To a large extent, the changes to leadership at the 20th National Congress merely confirmed what was expected, that President Xi had consolidated power and that he will continue to lead China for longer than his predecessors. It was of relatively little surprise that no younger leaders were promoted – given the precedent seen at the 19th National Congress in 2017.

That said, the failure to have a clear succession plan risks creating a period of turmoil in a post-Xi future, a historical lesson from other one-party states.

From an economic perspective, there is little likelihood of significant policy shifts. The most closely watched policy is China's public health response to COVID-19. Given President Xi's public support for these measures, this policy is likely to persist until China's population has sufficient vaccination protection – with some observers suggesting this may occur by mid-2023. A rumour circulating on Chinese social media in early November suggested a committee had been formed to develop plans for a post-COVID-19 reopening – targeting March 2023 – however this was dismissed by a spokesperson from China's Foreign Ministry. This serves to highlight ongoing uncertainty around the direction of China's public health response to COVID-19.

More generally, economic policy has become more state-oriented in recent times, with Xi emphasising a greater role for state-owned enterprises in the economy, implementing greater party influence within corporates (including private firms) and cracking down on sectors such as property development and technology (the latter in part related to the Common Prosperity goal). Greater state control over the economy is a negative trend with regards to innovation – which may be further impacted by efforts (led by the United States) to isolate China from high technology semi-conductors.

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