

China's leadership handover

The changing of the guard

A report from the Economist Intelligence Unit





Contents

| | |
|---|-----------|
| The changing of the guard | 2 |
| Xi Jinping: From princeling to king | 4 |
| Li Keqiang: The socialist reformer | 7 |
| More than a supporting cast: potential candidates for the remaining PSC places | 10 |
| Far from heaven: promotions in the provinces | 11 |
| Conclusion: what to expect from the new leadership | 14 |

The changing of the guard

On November 8th this year China will begin the once-a-decade process of changing its leaders, with the launch of the 18th National Congress of the Chinese Communist Party (CCP). This will, by coincidence, come just two days after the US presidential elections. Both events will have momentous repercussions, both for the countries involved and for the world, but they will mark a study in contrasts. Unlike the US, China's succession battles are being waged in near secrecy, yet observers are already sure who the next president and premier will be. Less clear is what exactly China's new leadership will stand for. This report will examine their backgrounds and policy positions, asking what we can expect from the incoming administration.

China's political system is complex. The country is essentially run by two parallel systems of government that interlock at every level: the CCP hierarchy and the state one. The state system is headed by the president, with the premier leading the State Council (cabinet) and its various ministries, and the National People's Congress (NPC) serving as a legislature. This branch of the government is important, particularly in terms of day-to-day administration, but plays very much a subservient role to the parallel CCP one. The party system, in turn, is headed by the Politburo Standing Committee (PSC) under the leadership of the CCP general secretary. Under the PSC, which currently has nine members, comes the Politburo, then the party's Central Committee.

A party for the people?

In theory, the CCP structure is designed to allow the leadership to be guided by the masses, whose opinion is channelled up through the party structures to the leadership. For this reason, the five-yearly party congresses are in principle the CCP's supreme agency, outranking even the PSC. In practice, the country imposes a Leninist top-down management style. So, although the new leadership is theoretically meant to be chosen by the central committee, with input from lower party cells, in practice it is the current PSC members who tend to choose their successors, with input from powerful party elders and various CCP factions. Once the new party leadership is in place, the associated changes in the state government will take place around March 2013 at the annual session of the NPC. A related change in the military's top leadership will probably follow shortly afterwards.

The process of handing over power in this way is a relatively new one. The first few times Communist China's leadership changed were traumatic occasions, as so much power was vested in personalities rather than the positions they held. The current system is designed to try to minimise the upset caused, both in terms of political in-fighting and policy change. So, the outlines of the new leadership (the fifth generation under Communist rule) have been known for some time, allowing factional interests to be balanced and the relevant figures to be groomed and to demonstrate their political prowess. Similarly, positions are formulated collectively and an incoming administration will have to position itself within frameworks laid down under its predecessor, the five-year plans that guide economic development being the most well-known examples. This should limit the potential for dramatic and disruptive policy shifts.

The best laid plans of mice and men

Real life, of course, does not always work out like that. The carefully plotted path to the leadership transition was thrown into disarray earlier in 2012 when Bo Xilai, Chongqing's party secretary and a leading contender for a PSC position, was felled in a scandal linked to his wife's role in the murder of a British business associate. Later, in September, Xi Jinping—the heir-apparent to the current president and general secretary, Hu Jintao—dropped out of public appearances for a period. Although he subsequently reappeared, if he (or any of the other top contenders) had been incapacitated by a medical emergency, it would have upset the finely balanced factional interests involved in the leadership transition, showing how delicate the process actually is.

Economic policy, too, is not as fixed as the five-year plans might suggest. No one could fail to note the contrast between the administrations of Jiang Zemin (especially under the reformist premier, Zhu Rongji) and Hu Jintao. The latter put much more emphasis on social welfare, under his “harmonious society” agenda, and took a more consensual line towards policymaking, which slowed reforms. In addition, the extent to which policy has become hostage to external events was highlighted by the changes necessitated by the global financial and economic crisis of 2008-09.

The task faced by the incoming leadership is not an enviable one. In the next ten years China will probably become the world's biggest economy. Its military and economic might will play an ever more important role on the global stage, a role that it currently seems ill-prepared for. Domestically, a host of challenges loom. As the “easy” gains from moving agricultural workers to industrial and service jobs in the cities are used up, the economy will have to put more emphasis on raising productivity through education and moving up the economic value chain. This will be difficult, particularly given the stifling hand of the country's overlapping and ineffective bureaucracies and the dominance of clunking state-owned enterprises over large parts of the economy. Above all, the leadership will have to address the thorny issue of political reform. With GDP per head set to pass the US\$10,000 mark in 2016, the next leadership will be presiding over a China that is firmly among the ranks of middle-income nations, a stage of development at which the population's political demands on their government tend to increase sharply. Managing all of these challenges would test even the most accomplished of politicians. Is the incoming leadership up to the task?

Xi Jinping: From princeling to king

Despite the recent flurry of speculation about his health, the vice-president, Xi Jinping, still looks set to be appointed as the next CCP general secretary and president, offices that he could retain until 2022. On paper, Mr Xi's personal background is very different from that of Mr Hu. The latter was born to a relatively humble family in Jiangsu province and progressed within the party by taking on postings in the country's poorer and more remote regions. By contrast, Mr Xi is the son of a former vice-premier, Xi Zhongxun, and enjoyed a relatively privileged upbringing (albeit with some turbulence during the Cultural Revolution). Furthermore, Mr Xi has spent most of his career in China's wealthiest eastern provinces. After serving as deputy mayor of the coastal city of Xiamen (1985-88), he held various roles elsewhere in Fujian province (1988-2002), including the governorship, before becoming party secretary of Zhejiang province (2002-07). Prior to his promotion to the vice-presidency, Mr Xi acted briefly as party boss in Shanghai (2007).

An elite background

Drawing too many conclusions from the backgrounds of China's political leaders can be misleading. Despite Mr Hu's ambition of creating a more harmonious society, wealth inequality in China has widened during his decade in power. Similarly, although the vice-president has clearly benefited from his privileged background as a member of the CCP's "red aristocracy", he would not have been promoted under Mr Hu if his advantages were solely derived from his family heritage. Mr Xi was quick to grasp that his background might not be entirely advantageous—hence a spell working in rural Hebei province early in his career. He has also worked hard to cultivate ties with the existing leadership. Over the past five years as head of the Central Party School, an internal CCP training institution, he has assiduously promoted Mr Hu's pet concept of "scientific development".

Mr Xi does appear to be a more gregarious character than Mr Hu, with greater confidence in his public interactions. Mr Hu cultivated a lower profile during his presidency than his predecessors, and the idea of collective leadership was promoted instead. This may have helped to ensure factional balance but also served to stymie decision-making. Some re-centralisation of power is now considered desirable, and Mr Xi may look to use the greater force of his personality, as well as his broad personal network, to achieve this. A rumoured reduction in the size of the standing committee of the CCP politburo (China's top political body) from nine to seven members would represent an early indicator of this new approach.

Some re-centralisation of power is now considered desirable

Liberal economic instincts

The challenges facing the domestic economy provide the most compelling rationale for some concentration of policymaking. Mr Xi will inherit an economy that is likely to have recorded its slowest rate of annual economic growth since the late 1990s. A more subdued pace of economic expansion is not necessarily problematic, and the slowing growth of China's workforce means that 8% GDP growth is probably no longer required to absorb surplus labour. However, 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.

Mr Xi's experiences in Fujian and Zhejiang mark him out as sympathetic to those advocating fresh market reforms. Although he possesses no evident economic expertise and is likely to leave the day-to-day running of the economy to the future premier, Li Keqiang, the broad policy direction offered by Mr Xi will nevertheless be important. The provinces in which he built his career are among China's most entrepreneurial, with relatively dynamic private-sector economies and high exposure to foreign investment (especially from Taiwan). In Zhejiang he extended support to two of China's best-known private firms: a local carmaker, Geely, and an Internet group, Alibaba. Moreover, Mr Xi's father was an economic liberal, responsible for establishing the Shenzhen special economic zone while serving as party secretary of Guangdong province in the early 1980s. This all suggests that Mr Xi's presidency will place a stronger emphasis on liberalisation than that of Mr Hu, which was guided—at least rhetorically—by social welfare priorities.

Mr Xi's experiences mark him out as sympathetic to those advocating fresh market reforms

However, even if Mr Xi is an economic reformer by conviction, there is no guarantee that he will be able to implement bold restructuring policies. First, he must initially work within the framework provided by China's current five-year economic plan, which extends up to 2015. Second, it will require formidable political resources to overcome an array of groups that are likely to oppose elements of reform, notably the state-owned enterprises. Mr Hu chose not to confront those vested interests; Mr Xi may determine that the needs of the economy will offer him little choice. This opens up the possibility of China moving towards a more sustainable growth pattern, but might also augur a rocky period of reform in the near term.

Limited political reform prospects

Mr Xi's father is often seen as a political liberal. Some sources report that he condemned the 1989 Tiananmen Square crackdown, and he was allied to a prominent CCP liberal, Hu Yaobang, who fell from power in the 1980s. There is less hard evidence about the son's position on political reform. An experiment in deliberative polling conducted in a Zhejiang village in 2005 has been taken as evidence that Mr Xi may possess reformist zeal. But that took place largely outside Mr Xi's purview, and the significant political campaigns that he has waged, notably a series of anti-corruption drives that brought him to the attention of his superiors, have been decidedly on-message. (Mr Xi's efforts to cast himself as an honest cadre took a knock in 2012 when a report by Bloomberg revealed that his relatives had accrued assets worth several hundred million US dollars; the newswire's business in China faced immediate retaliation and has yet to recover.)

Those who hope for a more aggressive approach to political reform have pointed to the vice-president's recent meeting with Hu Deping (Hu Yaobang's son), a prominent advocate for the cause. They also note a prominent article published in September 2012 by Deng Yuwen, vice-editor of the

Study Times, which is affiliated with the Central Party School, highlighting the failure to advance political reform as one of the main blunders of Hu Jintao's administration.

Nevertheless, given the intense opposition that any major political reform push would face from within the CCP, it seems unlikely that Mr Xi will depart significantly from the limited agenda of the current leadership. This has focused on improving the efficiency of the one-party system through implementing small improvements in bureaucratic transparency and levels of official disclosure. More far-reaching political reform appears to be unlikely, which may create tensions—if not destabilising ruptures—with wider society. Chinese citizens will become more demanding of their politicians, and a proliferation of social-media tools has given them more means through which to express scepticism and dissatisfaction. Mr Xi is also likely to find it difficult to engage fully in economic liberalisation without also allowing some loosening of the CCP's political controls.

Comfortable on the international stage

Mr Xi has gained some foreign policy experience since becoming vice-president, and has given the impression of being comfortable in the international diplomatic arena. A trip to the US in February 2012 suggested that Mr Xi would be a less passive figure than Mr Hu, and more capable of articulating a vision of an expanded role for China in the world. He offered the positive description of the Pacific Ocean as having “ample space” for both the US and China, and adeptly responded to a challenge on human rights with the statement that “there is no best, only better”. Comments he made on a visit to Mexico in 2009, when he complained of foreigners with “full bellies and nothing better to do than to point fingers at our affairs”, were less friendly, however. Many members of Mr Xi's family (including his ex-wife) are based overseas, and he has also held responsibility for the central government's policy over Hong Kong and Macau.

The vice-president's sway over the military when it comes to foreign policy is a matter of some speculation. As a singer, his wife, Peng Liyuan, holds a civilian rank in the People's Liberation Army (PLA), but Mr Xi's role as a personal secretary to the former defence minister, Geng Biao, early in his career represents a more important personal connection. Mr Xi is also close to the previous president, Jiang Zemin, who continues to exercise influence in the PLA, and the vice-president's position on the central military commission will also have strengthened his hand in dealings with the army. A strong hand will be necessary to prevent the PLA's leadership from speaking out of hand and spooking China's neighbours, something that has become notably common in recent years.

A president more engaged in foreign affairs could help to stabilise relations between China and some of its neighbours in other ways. The regional tensions generated in recent years have stemmed partly from a diffusion of decision-making authority in China, which has created difficulties in forging coherent positions on key foreign policy issues. Ensuring that Sino-US relations remain on an even keel will also require strong executive direction, particularly as domestic constituencies urging a tougher stance in response to the “return” of the US to the Asia-Pacific region are likely to become more vocal. The temptation to adopt a more nationalist line may arise, but Mr Xi will be aware that a deterioration in China's external relations would have potentially calamitous implications for the country's internal development. As with his predecessors, foreign policy under Mr Xi will be driven by domestic objectives, which should act as a brake on expansionist impulses.

Li Keqiang: The socialist reformer

Li Keqiang, currently China's first-ranked vice-premier, is tipped to fill Wen Jiabao's shoes at the November congress of the CCP. Mr Li is usually regarded as a firm supporter of the president, Hu Jintao, and his policies. However, the vice-premier has recently also taken surprisingly bold stances on issues such as state-owned enterprise (SOE) reform. As he gains more leeway to exercise his own authority at the top of the CCP, which version of Mr Li will we see—the Hu protégé carrying forward his patron's agenda, or the reformer pushing to shake up the status quo?

In theory, if Mr Li moves into Mr Wen's position, he will probably become the third most senior member of the CCP after the general secretary and the head of the NPC (the rubber-stamp legislature). However, as the number-three slot is traditionally granted to the holder of the premiership (the head of the State Council, China's cabinet), it has recently carried much more authority than the party's number-two slot. Mr Li is thus set to become the second most important person in government after Xi Jinping, the current vice-president and Mr Hu's heir-apparent.

No princeling

Mr Li's background presents something of a stark contrast with Mr Xi's. Unlike the vice-president, whose family ties were vital to his elevation through the CCP's ranks, Mr Li was promoted through the Chinese Communist Youth League (CCYL). This organisation exists partly to channel talented party members swiftly up to higher positions, and was the redoubt of Mr Hu in the 1980s. The two thus met relatively early in their political careers, and Mr Hu seems to have been impressed with Mr Li's abilities, championing him in later years. Indeed, the president is thought to have pushed for Mr Li to be nominated as his successor, but was defeated by a CCP consensus that this would leave Mr Hu with too much influence over government.

A further difference between the vice-president and Mr Li lies in their academic backgrounds. Mr Xi's educational qualifications seem to have been gained somewhat cursorily, but there is no doubting Mr Li's academic clout. He helped to translate British law textbooks into Chinese while studying law at Peking University in the 1980s, and obtained a doctorate in economics. Even given the Communist-tinted education system of the time, this suggests a degree of comfort with both legal and economic theory that is largely absent among China's current top leadership.

The vice-premier has a reputation for calm competence but in the past he has also been characterised as something of a cold fish. His political experience is impressively deep: he worked within the CCYL secretariat before moving to provincial-level leadership positions, notably as party secretary of Henan and Liaoning provinces. Since 2007 he has been a member of the nine-member CCP politburo standing committee, the country's most powerful political body, and has held the rank of vice-premier since 2008.

The vice-premier has a reputation for calm competence but has also been characterised as something of a cold fish

On message, but unlucky

Nevertheless, Mr Li's provincial record is somewhat clouded, both by a record for unluckiness (associated with disasters that happened in the provinces for which he served as party secretary) that he can hardly be blamed for, and by more substantive issues of governance for which he perhaps bears more responsibility. A blood-trading-related HIV/AIDS crisis in Henan began before he took charge there, but he continued a shameful campaign to repress and ignore the problem. If one looks purely at economic issues, Henan and Liaoning were hardly roaring economic success stories under his leadership. Both delivered solid but uninspiring growth performances. Although Dalian in Liaoning emerged as a hub for foreign investment in the past decade, this was more down to the role played by the now-disgraced Mr Bo, the city's former mayor. Liaoning's vehicle sector has also developed impressively in recent years, but in general Mr Li has not been seen as a particularly strong supporter of private business or foreign investors.

What was obvious in his provincial placements was that he delivered a very on-message performance, designed to be measured against Mr Hu's harmonious society agenda. In Liaoning, Mr Li's most high-profile policy was a programme to clear slums and construct new social housing. Since moving into the vice-premiership he has continued along this vein and is the leader most closely associated with the national-level social housing drive. Mr Li has also been strongly tied to other aspects of the government's efforts to tackle China's widening social inequalities, including moves to build a nationwide state-funded health insurance system. The vice-premier's championing of social causes has been more enthusiastic than most other leaders of his generation, suggesting that they are close to his own heart rather than simply a ploy to win Mr Hu's support.

The vice-premier's championing of social causes has been more enthusiastic than most other leaders of his generation

A weak premier?

Yet these policies have also been controversial. Chinese media have openly discussed the problems that the government is having in implementing its social housing agenda, which arguably reflects badly on Mr Li. Despite this, earlier concerns that, once elevated to the office, he would be a weak premier have eased in recent months. This partly reflects the fact that Mr Li has come out fighting more aggressively for a reform issue that looks both bold and risky. The vice-premier was seen as an influential force behind a report released in early 2012 by the World Bank and the Development Research Centre of the State Council (a senior Chinese government-backed think-tank) entitled *China 2030*. Although the report touched on a number of issues, its most politically explosive content was a call for reform of the country's state-owned sector.

Mr Li's clear backing of the report seems to indicate that governance reform of SOEs will be one of the touchstone issues facing the new administration. Although this does not necessarily imply a renewed push for privatisation, recent government comments have suggested a greater willingness to allow private-sector competition to SOEs in major sectors ranging from telecommunications to finance,



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as well as a restructuring of the current system for managing China's large SOEs. Quite how far this liberalisation would go remains open to question. It is still hard to see the CCP willingly relinquishing the government's control of the economy's commanding heights. Mr Li is similarly unlikely to push hard for political reform. Although political reform was a hot topic when Mr Li was at university, he has shown little sign of innovative thinking in this direction since then. This may partly reflect the fact that, during his rapid promotion through the CCYL under Mr Hu's mentoring, he would have been encouraged to adopt a more cautious approach.

Governance reform of SOEs will be one of the touchstone issues facing the new administration

Mr Xi is seen as a man capable of making difficult choices—a manager to Mr Hu's bureaucrat. By contrast, Mr Li looks to come from a more ideological position, capable of providing the intellectual underpinning to guide a set of policies. In this he would fall into the tradition of Mr Wen's predecessor as premier, Zhu Rongji, albeit with a much more leftward-leaning agenda than Mr Zhu. China's former leader, Deng Xiaoping, characterised the country's reform process as "crossing the river feeling for stones", but too often in the past decade it has felt that the crossing lacked direction. If Mr Li were able to give some of that back to the reform process, it would mark a welcome shift indeed.

More than a supporting cast: potential candidates for the remaining PSC places

Li Yuanchao

While party secretary for the wealthy province of Jiangsu, Li Yuanchao built a reputation as a reformist, notably championing more competitive and meritocratic personnel promotion policies. He has also been an outspoken advocate of political reforms. He has kept a low profile since 2007, when he was put in charge of the CCP Central Organisation Department, but since this body signs off on all senior government, state enterprise, media, judicial and academic appointments it is safe to assume that his influence remains strong. He has close ties to Shanghai and its influential group of politicians, and authored an economic tract with Li Keqiang in the early 1990s. Mr Li's membership of the PSC looks assured and there are rumours that he will handle the CCP disciplinary portfolio, including anti-corruption efforts. Once talked of as a potential candidate for the presidency, Mr Li could also be a possible candidate for the vice-presidency when this changes hands in 2013.

Wang Qishan

Wang Qishan, currently a vice premier, is one of the certainties for promotion to the PSC. He is known as something of a fire-fighter, having been brought in to clear up the mess in the wake of crises like the SARS outbreak in Beijing during 2003. He is also seen as a strong supporter of economic and tax reforms, with a liberal inclination on issues like trade and financial sector reform that makes him popular among foreign investors. His financial expertise was built through a series of senior posts that he held in major financial institutions, including China Construction Bank and the central bank. He is sometimes seen as being close to Jiang Zemin's camp, owing to the close ties between his father-in-law, Yao Yilin (a former vice premier), and the former president.

Zhang Gaoli

The current party secretary for Tianjin, Zhang Gaoli, is seen as a possible candidate for promotion to the PSC. Beyond overseeing

rapid economic growth in Tianjin, his credentials include senior positions in Shenzhen during a period when the city served as a hotbed for economic experimentation. Mr Zhang is a former economist and is seen as being broadly pro-market. Close to the former president, Jiang Zemin, he could serve to balance the influence of the current president, Hu Jintao, within the new leadership.

Liu Yunshan

If it is decided to abolish the current PSC seat with responsibility for the propaganda portfolio, Liu Yunshan's promotion prospects could take a knock, as he would otherwise be a contender for this position. He currently holds the post of director of the CCP Propaganda Department, where he has overseen a conservative approach to media and Internet freedom. This is credited by many in the party with helping to ensure social stability, although the department is deeply unpopular among the wider public.

Liu Yandong

The only woman with a chance for elevation to the PSC, Liu Yandong, currently serves as a state councillor and in the past has overseen the important United Front Work Department, which oversees the party's relations with non-CCP elements in China and abroad. However, her age, gender and close ties to the president, Hu Jintao, suggest that it will be difficult for her to rise to the top ranks of the party in November. China has not had a female member of the PSC in the modern era.

Yu Zhengsheng

The party secretary for Shanghai, Yu Zhengsheng, has a relatively low profile and close ties to Jiang Zemin and Deng Xiaoping that could yet propel him into the PSC. He is relatively supportive of the private sector and is also thought to be interested in issues like urbanisation and legal reform. His stint in Shanghai has been relatively successful, although the municipality's economic growth has slowed in recent years. Nevertheless, Mr Yu's involvement in some alleged corruption cases and his brother's defection to the US in the 1980s would make him a controversial choice.

Far from heaven: promotions in the provinces

The shuffling of positions at the top of the CCP is a process that ripples through the whole party-government system. While much attention is understandably focused on figures like Mr Xi and Mr Li, who will be the public faces of the next administration, it will also be worth watching what happens to China's provincial officials. In many ways, China's provinces, like the states in the US, serve as testing grounds for reforms. As the old Chinese saying has it, "heaven is high and the emperor is far away", giving local officials leeway to pursue their own agendas. Yet in recent years it has often been those who have stuck close to the central government line in their provincial careers who have been elevated to the highest tiers. As the CCP makes its choice over who to promote this November, it will be sending a message to lower level officials over what it takes to get ahead within the party.

High achievers

Certainly, some figures have demonstrated a capacity for innovative and bold thinking in devising solutions to their province's challenges. Much has already been written about Guangdong's party secretary, Wang Yang, who had a well-publicised spat with the now disgraced Chongqing party secretary, Mr Bo. Guangdong was the posterchild for China's export-orientated manufacturing model, but it has made good progress in upgrading its industrial structure from labour-intensive low-end manufacturing to higher-value-added industries. This process of "emptying the cage and changing the birds" was championed by Mr Wang. Stretching targets were set for the high-tech sector, and the province poured money into incentives to help so-called advanced industries acquire land, talent and capital. By and large Mr Wang has leaned towards a market-based approach. Part of his strategy included allowing low-end manufacturers go out of business when they became uncompetitive. This proved controversial as unemployment spiked briefly and GDP growth dipped.

Wang Yang has championed a process of "emptying the cage and changing the birds"

Mr Wang has long championed the role of private investment in the economy, but some of his inland counterparts have arguably made more impressive headway. Huang Qifan, the mayor of Chongqing, has adeptly handled the reforms that made Chongqing China's fastest-growing province in 2011. True, much of Chongqing's boom has been driven by traditional infrastructure and property investment. However, massive inflows of foreign direct investment (FDI) from firms like HP of the US and Foxconn of Taiwan have helped to underpin its development. Mr Huang's flair for melding traditional investment-led growth with FDI dates back to the 1990s, when he worked on the incipient stages of Pudong, now the glittering showcase of Shanghai's financial prowess. More recently, he has led a drive to inject more private capital into Chongqing's economy and has helped to draw large foreign private equity players, like US-based TPG, into partnerships with the Chongqing municipality's Liangjiang New Area. Mr Huang's ties to the financial sector in Shanghai were probably instrumental in forging these deals. The mayor's promotion prospects would seem certain but for Chongqing's recent troubles. Although he

became deputy mayor when Wang Yang was party secretary in Chongqing, Mr Huang was seen as being a protégé of Mr Bo's. It remains to be seen whether he will be able fully to shake off the associations with his disgraced mentor.

Economic credentials are a *sine qua non* for provincial officials, and the Hunan party secretary, Zhou Qiang, has, like Mr Huang, been successful in this area, inviting foreign co-operation in sectors like steel that have traditionally been dominated by state firms, and taking a hands-on role in supporting Hunan enterprises' efforts to "go out". Even more interesting, however, have been his moves in the legal and regulatory spheres. The provincial secretary has an academic background in law, and served as secretary to Xiao Yang, the minister of justice in the mid-1990s. In Hunan, Mr Zhou has played a central role in rolling out the first comprehensive administrative procedure provisions at the provincial level, designed to define more clearly the powers of administrative organs and outline citizen's roles in administrative procedures. As the next administration looks to tackle issues such as administrative and regulatory overlap, and the separation of powers (allowing the legal system more leeway to keep in check abuses by government and CCP officials), Mr Zhou's expertise will surely be drawn upon. Nevertheless, Hunan's credentials in the field of judicial and regulatory reform are far from perfect. For example, an effort to separate the posts of officials heading both the provincial police and the provincial political and legal affairs bureau in 2010 was swiftly abandoned.

Putting it back in the box

While the three leaders mentioned above are known for thinking outside the box, other provincial leaders with good promotion prospects are better known for keeping things boxed up. For example, Zhang Dejiang, the current party secretary of Chongqing, was blamed for keeping the news of a SARS outbreak under wraps until it had spread beyond control when he was party secretary of Guangdong. In 2011 he was the first to be dispatched the site of a massive train accident in Wenzhou as the vice-premier in charge of work safety. He bungled the initial days of rescue work, when many observers noted that officials seemed keener on covering up what had happened than on finding out the cause of the crash. His inept public relations management contrasts with more modern figures like Wang Yang, who has shown deftness in handling controversial incidents like a stand-off between police and inhabitants in the Guangdong village of Wukan in 2011. The fact that even after a lacklustre career Mr Zhang is still tipped for promotion to the PSC illustrates that factional ties can triumph over achievement—Mr Zhang appeals to the party's large conservative wing and has ties to Jiang Zemin.

Liu Qibao, the party secretary of Sichuan province, is another controversial figure with good promotion prospects, partly owing to his factional ties to Mr Hu. Although Sichuan is a strategically important province for the central government, his critics argue that most of the interesting work done in promoting high-tech industry and reform of hukou (governing where people can live and what benefits they can access) in the province has actually been carried out by city officials in Chengdu under its mayor, Ge Honglin, and its previous party secretary, Li Chunheng. There have been criticisms of Mr Liu's record in supervising Sichuan's reconstruction after the Wenchuan earthquake of 2008; donations were embezzled and parents protesting over the deaths of their children detained. His

record in ethnic minority relations is little better. He employed heavy-handed tactics after a spate of self-immolations in Tibetan areas in the past year, putting in place travelling restrictions in ethnic Tibetan regions and stepping up arrests of monks, while asserting that “public complaints about cultural repression [in ethnic Tibetan areas] do not exist”. Tensions are still simmering as the immolations continue.

Too early to call?

Two of the youngest provincial leaders have attracted attention simply because of their age, which makes them obvious contenders to head up the CCP when Mr Xi and his cohort step down. They seem to be following the traditional route of getting ahead by steering away from controversy—but also from bold, eye-catching policies. Sun Zhengcai, the party secretary of Jilin (now 49 years old), gained much attention as the youngest individual to hold a ministerial post when he was made agriculture minister in 2006. Jilin, a base for pilot rural land reforms (the province is a major grain producer), has seen impressive growth in agricultural output under Mr Sun's tenure. Otherwise, no significant departure has been made from the province's traditional emphasis on manufacturing and food-processing.

Hu Chunhua, the party secretary of Inner Mongolia (also 49), is of the same sort. He worked in Tibet for many years, and is said to be close to the current president. But, other than the swift handling of an outbreak of ethnic unrest in Inner Mongolia, he has yet to make a mark beyond carrying out policies closely in line with those of the Hu-Wen administration in the resource-rich province. In addition, Mr Hu has done little to rein in the excesses of the property market in the province, a lacuna that threatens to leave significant damage once Inner Mongolia's mining boom eases.

Hu Chunhua is said to be close to the current president

It is likely that accomplishments alone will not determine who will advance in November. Deal-making between factions, and particularly the influence of elder kingmakers, will play a deciding role. Yet, as China seeks to adapt to changing demands on its political system as its economy and society develop, there is an ever greater need for politicians who can show more than a simple ability to drive growth through state-led investment. Managing public relations, economic upgrading and other such tasks are becoming necessary skills for the modern Chinese politician. If leaders like Mr Sun or the younger Mr Hu seek to simply play it safe, they may find themselves left behind in a political environment that will be very different in ten years' time from the one they currently face.

Conclusion: what to expect from the new leadership

The fact that a younger generation is coming to power will lead to a change in the government's policy focus. The backgrounds of the new leaders, strong in law and economics, are very different from those of the engineers that dominate the current administration. Further impetus for change will come from public pressure, as slowing economic growth, improving education and a strengthening awareness of the problems facing society—fed by the Internet—lead to greater popular demands on the CCP. But the party will remain cautious, seeking to avoid moves that will reduce its ability to control society and the economy until the alternatives look unpalatable. What sorts of changes might, then, be expected from a Xi-Li government?

It is perhaps easiest to turn first to the economic front. Some changes are already laid down under the five-year plans that guide the economy. Moving up the value chain and towards the technological frontier will remain key targets. Green industries will be particularly favoured: with the ravages to China's environment increasingly apparent, making development sustainable is a vital goal. Hu Jintao's "harmonious society" agenda will remain important, although advancing it will mostly be a question of finding funding to channel through the nascent social welfare systems (especially the health and pension insurance schemes) that have been created in recent years. A big remaining challenge will be pushing forward changes to the hukou system. To date these have been left largely to local governments, but as the tide of urbanisation peaks in the next ten years the centre will have to step in to set some universal standards and allow benefits to become truly portable.

With Wang Qishan and other economic reformers on the PSC championing them, financial sector reforms should make good headway in the next ten years. Already a consensus in support of liberalisation of past policies on exchange rates, the capital account and interest rates seems to be firmly in place. There is good reason to hope that all three of these will be set basically by the market within a few years, with government interference limited to smoothing turbulence. This will do much to alleviate the economic imbalances that have distorted China's economy—and, indeed, the world's—by removing factors that have made investment and exporting artificially attractive, and thus distorted China's economy. Meanwhile, these policies will also encourage consumption, by raising the income of savers and reducing the cost of imports, thus boosting consumer purchasing power. The boost to income growth provided by China's tightening labour market will need no help from the government, but its impact will be accentuated by official measures such as higher minimum wages, which will provide further fuel for consumption growth. The government could help the process of economic rebalancing along by liberalising input costs, notably for power and fuel, but may be more reluctant to free up these markets fully.

Financial sector reforms should make good headway in the next ten years

One of the big uncertainties on the economic side is how far the government will be prepared to relinquish its grip over the financial sector. If interest rates are freed up, state control of the banks is likely to prove increasingly problematic, requiring large and ongoing recapitalisation programmes, but efforts to encourage a private-sector role in banking are still in their infancy. Liberalisation of the banks is therefore likely to be undertaken only as part of a wider restructuring of the state-owned enterprise sector, and probably only as part of a later stage of this process. There are stronger prospects for early moves to reduce the state's monopolistic hold over other parts of the economy. Li Keqiang's backing of the World Bank 2030 report suggests that new thinking on state enterprises could emerge quickly, perhaps taking the form of allowing private-sector firms into sectors like power and telecommunications. It remains unclear whether foreign investors would be welcome to participate in such a process.

Politically, the outlook for reforms is much more obscured. No one expects the Xi-Li administration to push for multiparty democracy, but demands for a strengthening of checks and balances on government officials are growing. Li Yuanchao's ideas may help to define the party's approach on this issue. The policy providing a wider array of candidates for internal party elections, which has moved forward with glacial slowness in the past, may be accelerated. The judiciary's authority over, and independence from, the CCP may also be strengthened slightly. The reformist bias of the new PSC and Mr Xi's less conciliatory approach to the various factions in the CCP might also result in the emergence of more public factions within the party. Vietnam, where several strong and competing leaders, as well as a vocal legislature, serve to check each other's power, could provide a role model.

Demands for a strengthening of checks and balances on government officials are growing

One of the tests of the new government's commitment to improving checks and balances will be whether it allows the media to hold local officials accountable. If the PSC is shrunk from its present nine members to seven, dropping the propaganda and security bosses, this could herald a more tolerant approach. Nevertheless, a full winding-down of censorship is not yet on the cards. Similarly, policies towards China's ethnic minorities look unlikely to change in the short term. The continuing promotion of officials who have taken a hard line on ethnic unrest suggests little new thinking in this area—Huang Xinchu, for example, was recently elevated to become party secretary for Chengdu, having taken a hard line against Tibetan self-immolation protests in Aba prefecture. However, the possible death of the Dalai Lama at some point in the next ten years might shake up the situation in Tibet, and the fact that one of the possible sixth-generation leaders, Hu Chunhua, speaks Tibetan and has experience in the province creates possibilities for more innovative approaches.

Another trend that could emerge is local-level political liberalisation. By 2020 places like Shanghai and Zhejiang will be relatively wealthy. There will be demands to let them move ahead first. It will be interesting to see whether the slow process of allowing more popular input into elections in Hong Kong—a transition with which Mr Xi is particularly familiar—might serve as a model in this respect. At the very least there should be some streamlining of China's multiple and overlapping bureaucracies,

whose ill-defined responsibilities encourage buck-passing and inefficient enforcement of regulation. One factor that will encourage this will be the growing expense of maintaining a vast civil service amid a background of soaring wage costs.

The increasing salary burden for government workers will increase the urgency of local government fiscal reforms—particularly as land sales, a key source of local fiscal revenue, will ease in line with slowing property development over the next five to ten years. The property taxes being piloted in some regions represent one aspect of efforts to diversify local government funding, and will broaden and spread under the next government. But, ultimately, a more comprehensive local government financing arrangement may be necessary, reallocating more funding from the centre to the regions for responsibilities like education. On the positive side, removing local government's reliance on land sales will reduce a major source of friction over residents being evicted to make way for developments.

Finally, there is a hope that the next administration will put in place a political structure that is better at dealing with international crises than the current arrangement. Notably, suggestions that the next PSC will have a member with specific responsibility for international affairs would be a welcome development; the Ministry of Foreign Affairs currently lacks the clout to manage the multiple actors contending to steer the country's foreign policy. Nevertheless, it is hard to see which of the members of the PSC would bring appropriate skills to the task. Although some have experience in niche areas—Li Keqiang and Zhang Dejiang have, for example, had dealings with North Korea in the past—most senior Chinese politicians have focused overwhelmingly on domestic matters throughout their careers. Meanwhile, the government will have to steer a fine line between satisfying an apparently strengthening chorus of nationalists at home while reassuring its neighbours and trade partners. Continued diplomatic clashes with Japan, south-east Asian neighbours and possibly India as well, look likely.

Many of the reforms suggested above are speculative, but they represent outcomes that are realistic possibilities given both the backgrounds of the new leadership and the constraints that they operate under. There are other scenarios, however. Conservatives within the party are still a potent force. The refrain that the CCP still supports “reform and opening” will be heard many times in November, and it represents not just a mantra but a constant effort by the leadership to push back against those who think liberalisation has gone too far. If the party's leftist conservatives do manage to seize back control of the agenda, stymieing change, the chances of China's social and economic tensions spiralling out of control would increase dramatically. It must be hoped that the new leadership can adopt a more positive approach that engages with the changes that China is going through and adapts to them, for the sake of the country and the wider global economy that increasingly depends on it.

There should be some streamlining of China's multiple and overlapping bureaucracies



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