

The Coronation Congress

Xi Jinping Forms His Government

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China's National People's Congress (NPC) adjourned its annual spring session on March 20. It was the legislature's longest and most momentous meeting in decades, its outcomes trumpeting the political dominance of Xi Jinping. The Congress "re-elected" Xi as president of the People's Republic of China (PRC), even as it abolished term limits for the presidency and vice presidency. Xi loyalists moved into senior government roles, further marginalizing the nominal head of China's government, State Council premier Li Keqiang. The Congress also ratified major government reorganizations devised by Xi's technocrats. One of these changes will make Xi's "anticorruption" campaign a permanent feature of the party-state system, while others aim to reduce risk in China's highly leveraged financial sector and better address citizen concerns about food safety and environmental degradation.

Running like a bright red thread throughout these patterns of governance is the reassertion of Chinese Communist Party (CCP) control over all aspects of Chinese society, polity, and economy. At the Congress's concluding ceremony, Xi delivered a hortatory sermon, praising the Chinese people's creativity and resilience and proclaiming that the "international context" had given China a moment of great opportunity. While avowing China's peaceful intentions, he sharply warned of dire consequences should Taiwan or any others dare to split

China's territorial sovereignty. In sum, this spring's NPC definitively launched the era of Xi Jinping Thought. The early years of this epoch should bring China increased prosperity and relative stability. But as Xi weakens with age, or if he should suddenly be felled by illness without a clear successor at hand, China's Communist rulers could revert to the unpredictable politics that his predecessors strove to contain.

The "People's Leader"

March brings to Beijing the networking event of China's political calendar: the annual meetings of the NPC and the Chinese People's Political Consultative Congress. With 6,000 delegates all told, plus countless retainers, staff, and attendants, the two meetings paralyze Beijing's traffic and set the Chinese chattering classes' chins wagging with political gossip, even though both congresses' proceedings are tightly choreographed by the Politburo in advance of the public meetings.

This year marked the start of fresh five-year terms, with new leaders—both Politburo Standing Committee

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members—chosen for each. But the NPC plenary that ended on March 20 was notable for the exceptional breadth of government reorganization enacted and for CCP general secretary Xi's unmistakable stamp on the outcomes. The Congress agenda, the changes to the PRC constitution that effected the government reorganization, and the placement of party leaders in their state jobs had all been finalized in the Third Plenum of the current 19th CCP Central Committee the week before the NPC convened. That an out-of-sequence plenum was needed to "socialize" the outcomes suggested that consensus among the party's leadership on sensitive matters had not been easily achieved.

Still, when the Congress opened on March 5, with Premier Li's ceremonial reading of the Government Work Report, it was clear that Xi would dominate the proceedings, secure an unlimited term for his presidency, and place his loyalists in the top posts of a government restructured to his wishes. A week later, the Congress voted with near unanimity (2,958 "yes" votes, 2 "no" votes, 3 abstentions, and one invalid ballot) to amend the PRC constitution to remove the limit of two five-year terms for the offices of president and vice president. Other constitutional amendments enshrined Xi Jinping Thought in the document preamble, sprinkled the text with Xi memes like "China dream" and "great revival of the Chinese people," and canonized Xi's signature foreign policy, the Belt and Road Initiative, as a national goal.

On March 18, delegates unanimously voted Xi into a second term as president ("chairman" in the Chinese system) and elected Wang Qishan as vice president. Unlike other state leaders, Wang no longer sits on the Politburo Standing Committee—he "retired" at last fall's 19th Party Congress—but, testifying to his actual power at the right hand of Xi's throne, Wang is now listed in official media as if he were the eighth member of the seven-man Standing Committee. While the vice president has no prescribed duties, Wang seems likely to serve as Xi's consigliere and special emissary to foreign leaders, particularly American.

Re-elected as president, Xi then "appointed" Li Keqiang as premier of the State Council upon a further round of voting. On March 19, the State Council's four vice premiers and five councilors were chosen by the Congress. Aside from one token woman, Sun Chunlan, the roster comprises

Xi's liegemen. Most notable among those is Liu He, the U.S.-educated economist and public policy technocrat who as vice premier will oversee the macroeconomy, finance, and in some measure foreign economic relations.

Also on March 19, in a ceremony unprecedented since 1964, according to official media, Xi swore an oath of loyalty to "the constitution, the motherland and to the people," promising to lead China to "wealth, strength, civility, harmony and beauty." Xi's oath taking was nothing less than a self-coronation, conducted with the tinhorn solemnity of CCP ritual, as the man rested his left palm on a bound copy of the state constitution and raised his right fist in the party salute. With Xi's ascent to a limitless term as president, the media has begun extolling him as the "people's leader," a term that explicitly echoes the "great leader" title accorded Mao. In other unmistakable echoes of Mao-era usage, CCP organs have been calling Xi "he who guides the people's path" and "helmsman" (掌舵着), with the Chinese characters of the latter slightly changed from those used for "great helmsman" Mao Zedong (大舵手). A Xi Jinping personality cult thus appears to be in full bloom.

The NPC's closing ceremonies on March 20 shone the limelight on Xi exclusively. The "people's leader" himself delivered a "throne speech" invoking the Chinese people's millennia of creativity, resilience, and unity, while also sternly warning Taiwan's leaders against separating the island from the motherland and "foreign forces" from encroaching on China's sovereign territory. As Xi raised his voice to issue these warnings, television cameras hovered over the large bloc of military delegates to the Congress, all applauding mightily. While the address held bits of self-effacing rhetoric—"we party members are but humble servants of the people"—its overarching themes echoed Xi's long speech last October to the 19th Party Congress: China's moment of opportunity has come, the international situation favors us, I am the man to lead the Chinese people to their great national renaissance.

Top-Level Design, but the East Remains Red

While abolishing presidential and vice-presidential term limits may have been the most controversial of the two dozen constitutional amendments voted by the NPC, the

changes to China's government structure were profound and could have long-lasting effects. Those reorganizations fall broadly into two categories: (1) institutionalizing in state governance the anticorruption campaign that Xi has promoted since his first days as CCP general secretary, and (2) reconfiguring the State Council regulatory agencies to reduce risk in the financial sector, improve food and drug safety, strengthen natural resource protections, buttress military veterans benefits, and address other citizen concerns. Newly elected vice president Wang, who led Xi's anticorruption campaign from its inception, appears to have designed the campaign's shift from an extralegal party operation into a government organ. The technocrat vice premier Liu He and his staff were the architects of the regulatory reforms.

Through Xi's first term as general secretary, the anticorruption campaign punished a hundred thousand or more party cadre, including numerous army generals and senior civilian officials. As the campaign unfolded, its objectives widened beyond punishing venal and dishonest officials to settling scores with Xi's enemies, blocking potential rivals, and, finally, ensuring fealty to Xi himself as the party's core leader. But its operations had always been explicitly the province of the party, not the government. The campaign was extrajudicial: only when party investigators had finished working over a target was that person remanded to the judicial system for trial and punishment.

This month's constitutional amendments created the National Supervisory Commission as a government entity, thus draping a thin gauze of legality over machinery that Central Commission for Discipline Inspection cadres will continue to operate. In parallel, the Ministry of Supervision, previously the government's in-house inspectorate, has been abolished and its functions folded into the National Supervisory Commission, while the Ministry of Justice has been "restructured" to accommodate the new agency. It seems highly likely that Wang, from his new perch as vice president, will de facto direct the National Supervisory Commission. Wang's long-time deputy at the Central Commission for Discipline Inspection, Yang Xiaodu, has been named its chief. How the National

Supervisory Commission will relate to police, public prosecutors, and courts—the current (party-controlled) judicial system—remains unclear. But it is clear that in the government hierarchy this new commission outranks the "rule of law" judicial system. In announcing senior government appointments on March 19, the state media placed Commissioner Yang above the Supreme Court chief justice, procurator general, and justice minister.

Protocol aside, the commission's mandate will extend far beyond the bounds of Xi's anticorruption apparatus to encompass the monitoring of employees in schools, hospitals, and other public service agencies. In addition, media reports suggest that potential targets may well include purely private sector players.

In the second category of government reorganization, a host of regulatory agencies, ministries, and State Council offices were realigned. Most important for the macroeconomy were measures to subsume the troubled China Insurance Regulatory Commission into the China Banking Regulatory Commission to create a super-regulator for the banking and insurance sectors. Given China's levels of public and private debt—the consensus estimates run to over 270% of GDP—and the immaturity of the insurance sector, with its plethora of dodgy products and links to shadow banking, creating this oversight agency makes very good sense. One macro impact should be the gradual reduction of risk in the banking sector, with added consumer protection a further benefit.

According to the NPC legislative language, the combined China Banking and Insurance Regulatory Commission will report directly to the State Council, while the People's Bank of China will draft all laws and regulations for the financial sector. Presumably, the bank will coordinate this work with the Ministry of Finance, with the entire project—and overall macro direction in the financial sector—coming under a financial security commission chaired by Vice Premier Liu He. Fully in sync with Liu, and sophisticated technocrats in their own right, Yi Gang has been named governor of the People's Bank of China and Liu Kun as finance minister. Yi has been the bank's senior deputy governor with responsibility for international operations, and his appointment will be widely welcomed by the many central bankers who know him.

Other significant changes in government structure include:

- *Combining myriad land allocation and environmental protection functions into two new ministries, the Ministry of Natural Resources and the Ministry of Ecology and Environment, respectively.* This realignment aims to control environmental degradation and pursue remediation strategies in keeping with Xi's "green China" goals. If these ministries prove more effective than their weak predecessors, Chinese consumers will have been well served, and China's burgeoning environmental technology companies might find economies of scale enabling them to compete abroad.
- *Combining the State Administration for Industry and Commerce (a perennial nemesis to business formation), Quarantine Administration, Intellectual Property Office, and Food and Drug Administration into one mammoth General Bureau of Market Supervision and Management.* Chinese consumers have already registered on social media their anxiety that this amalgamation could worsen rather than improve food and medicine safety. Whether the new agency will improve intellectual property protection remains to be seen.
- *Forming the State Office of International Development and Cooperation.* Picking up vestigial functions of the Foreign and Commerce Ministries, this office looks to become the clearing house for Belt and Road Initiative projects.
- *Creating the Ministry of Veterans Affairs.* Barely reported in Chinese, let alone foreign, media, military veterans who have not been absorbed into civilian government jobs have become a deeply worrying social problem for the CCP leadership. Large demonstrations, including at the party's Central Military Commission Headquarters, have occurred, as has sporadic violence. It remains to be seen whether this new ministry will improve veterans benefits, particularly those of retired officers, which have not kept pace with active duty salaries, new pensions, and improving economic conditions more generally.

In a long interview on March 13 with the financial journal *Caixin*, the architect of this extensive government reorganization, Liu He, described it as evidence of the "top-level design" approach favored by Xi. A friend of Xi's since middle school and his closest adviser on economic and finance matters, and perhaps on social questions as well, Liu has kept his current personal views close to the vest. He holds an MPA from Harvard and once had a reputation as an economic and political reformer. Before Xi became general secretary, Liu led the drafting group behind the World Bank's *China 2030* report, an elaborate blueprint for market-oriented reforms protected by a legal system built on an independent judiciary. That report has never been published in Chinese, and many of its recommendations on political reform have become heresy under Xi. Perhaps as a sign of the new times, the day that Liu was explaining top-level design to *Caixin*, he published under his own byline in the *People's Daily* a long statement promoting the government reorganization as strengthening the "party's overall leadership" of all aspects of Chinese public life.

Black Swans and Other Fowl

"The forest is big and contains all manner of bird" runs a Chinese folk saying. The NPC offers observers harbingers of good times still to come as well as warnings of predators flying in the distance. Investors in Chinese equities or in the stocks of foreign firms with significant exposure to China will find much to cheer in the NPC results:

- With Xi and Wang in place, and Xi loyalists running government agencies, China's senior leadership should be stable over the next five years.
- A compatible team of technocrats looks set to tackle the country's high levels of public- and private-sector debt, deleverage local governments and state enterprises, and correct weaknesses across financial services.
- Reorganized regulatory agencies should more effectively address consumer financial risks, food and drug safety, environmental degradation, veterans affairs, and possibly healthcare—all citizen concerns that have damaged the party's credibility.

- Taken together, and boosted by Xi's projection of confidence in China's future, these factors should lead to continued strong economic growth over the medium term.

Beyond this time frame, however, risks arise. The overriding risks, of course, are those inherent in the personalized, one-man rule that Xi has now assumed. While appearing to have surrounded himself with skilled economic and political advisers, Xi has taken on so much authority in the complex economy that China has now become that policy mistakes will be made—perhaps because Xi's system stifled debate, perhaps because zealous bureaucrats carried measures too far, perhaps because Xi's arrogance overrode others' cautions. And looming over these potential problems in governance will be the big question: What happens as Xi ages, or if he suddenly falls ill without there being in place a succession plan ratified by the party leadership?

Deng Xiaoping and his contemporaries who strove in the early 1980s to install “collective leadership” across the CCP hierarchy, particularly at its apex; institutionalize personnel promotions and leadership succession; and separate party politics from government functions might not have read Lord Acton. But their own painful experiences of Mao's autocracy taught them all too well how absolute power can corrupt absolutely. Not a few Chinese intellectuals and thoughtful ordinary citizens have expressed dismay at Xi's reversion to the personalized, almost imperial model of leadership that over China's long history has brought its people periods of great prosperity and cultural achievement, punctuated by times of upheaval and tragedy. These citizens' anxieties, though blocked from today's public forums, may yet prove prescient. History indeed suggests that these folk have reason to worry. ◆

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