CHINA'S 19TH
PARTY CONGRESS

Analysis of the CCP work report

By Six Year Plan in cooperation with Patrik Andersson, Sinologist
TIGHTENING CONTROL: NEED FOR OPERATIONAL AND ETHICAL CONSIDERATIONS

The time of China is far from over. The Chinese Communist Party has high ambitions for how the political and economic influence of China will develop over the coming years. A more expansive foreign policy and predictions for a continued strong economic development indicate that the importance of China and the Chinese market will continue to grow for Swedish and other international companies.

Although there are few details in the report regarding planned economic reforms, everything points to a continuation of the direction of the past five years but at an increasingly high pace. In many ways, this will be to the benefit of international companies in China, with more importance given to quality, technological innovation, higher standards for production and continued priority given to development of the service industry. At the same time, a more comprehensive legal framework and development of new standards will continue to present regulatory challenges, and a continued struggle to compete on equal terms with local Chinese companies.

What is evident in the report is that the tightening of the political control will continue. Censorship, restrictions on internet usage and new legislation like the cyber security law, giving Chinese authorities a wider mandate to control the activities of international companies in China, is becoming a reality that international business in China will have to manage. This will involve both operational and ethical considerations.

To operate in this complex environment, a number of areas will become increasingly important:

- **China knowledge at headquarters.** Close communication between the China organization and top management. The higher speed of development, comprehensive changes to legal framework and potentially stronger political involvement will most likely require more frequent updates of strategy and plans. The ability to take fast decisions will be crucial.
- **Actively engaging with authorities on standards and regulations.** A planned approach to public affairs, covering both monitoring of policy and regulatory development, and engagement through available platforms
- **Enforcement of company culture and code of conduct.** Companies active in China need to guide their staff on how to handle operational and ethical challenges

The contradiction between “party leadership over all aspects of society” and the strive to continue market reforms will require companies to have both commercial competitiveness but also political sensitivity to succeed.

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Pär Uhlin, Managing Partner, Six Year Plan
EXECUTIVE SUMMARY

- On October 18th, 2017, General Secretary Xi Jinping delivered his work report at the opening of the 19th Party Congress of the Chinese Communist Party.

- The essence of the report was the update of “Socialism with Chinese Characteristics,” to “Thought on Socialism with Chinese Characteristics for a New Era,” an ideology that stresses “party leadership over all work”.

- The report called for greater market access for foreign enterprises, and for opening up the service sector to foreign investments.

- It reaffirmed China’s intention to develop world-class manufacturing and technology industries, and its commitment to innovation in the economy.

- Tensions remain between ambitious market reforms and a continued strong support of state ownership and leadership in the economy.

- The report struck a nationalistic tone throughout, putting great emphasis on the “Great Rejuvenation of the Chinese Nation”.

- The report makes clear that the party’s control over society is going to further expand and tighten in the following years.

METHOD

Much of the Western media reporting before and after the 19th Party Congress has focused on Xi Jinping’s consolidation of power, while less attention has been given to analysis of the congress work report. And most reporting has focused on separate quotes from the work report, without providing a comprehensive analysis. The following analysis is based on a careful reading of the original Chinese-language version of the work report delivered by General Secretary Xi Jinping at the opening of the congress. As of early November 2017, no official full English translation of the work report has been published. The analysis made use of the author’s own database of work reports from CCP party congresses dating back to the 1940s, which allowed for comparisons with previous reports.
In the past five years, the Chinese Communist Party (CCP) has tightened its grip in nearly all areas of Chinese society. The tightening of political control has occurred as China undergoes a crucial economic transformation. The growth strategy based on fixed-asset investments and export driven manufacturing has run its course, and diminishing returns have set in. To move up the value chain and avoid getting stuck in the “middle-income trap,” China must transition into a knowledge-based economy that relies on consumption, innovation, and exports of high-tech products. To achieve this difficult task, the party unveiled an ambitious reform program in late 2013, which called for the market to play a “decisive role in resource allocation”. However, as of 2017, only a small fraction of the reforms (less than 15 percent according to the European Chamber of Commerce in China) has been implemented.

It was against this background of difficult political, social, and economic challenges that the CCP convened its 19th Party Congress on October 18, 2017. Much of the Western media reporting before and after the congress has focused on Xi Jinping’s consolidation of power, while less attention has been given to analysis of the congress work report. The work report is an authoritative political document that summarizes the CCP’s work over the past five years, and lays out the policy blueprint for the next five years. Below we will present our main takeaways from the report.

The congress work report
The congress work report, titled “Secure a decisive victory in building a moderately prosperous society in all respects and strive for the great success of socialism with Chinese characteristics for a new era,” was delivered by Xi Jinping in his three-and-a-half-hour speech at the opening of the congress. The report, which was read out in its entirety by Xi, reaffirmed the important policies of the Xi Jinping administration, and thus offered few big surprises. Compared to work reports in the past, however, it contained several noteworthy deviations.

Party leadership over all work
Most importantly, the work report updated the ideology of “Socialism with Chinese Characteristics,” to “Thought on Socialism with Chinese Characteristics for a New Era”. This new ideology is the essence of the work report, and it was later enshrined into the Party Charter as a “guide to action,” with Xi Jinping’s name attached to it. The ideology, which is explained in 14 points, appears to be a collection of Xi Jinping’s key policies from the past few years. Its most important principle is to “uphold party leadership over all work”. The ideology is presented as the CCP’s grand strategy for achieving a “moderately prosperous society” by 2020, “realize socialist modernization” by 2035, and turn China into a fully-developed “modernized and powerful socialist state” by 2050.

Throughout the work report, CCP leadership is emphasized to a degree not seen in decades. Phrases such as “the party leads everything” (党是领导一切的) have not appeared in a congress report since the late Mao era. Overall, the Chinese term for “lead,” or “leadership” (领导) appears almost twice as many times as in the previous report (60, compared to 36).

Continued push for economic reforms
Whereas the political message of the report was loud and clear, the economic implications are more difficult to read. The report reaffirmed the intention to “let the market play a decisive role in resource allocation,” “support the development of private enterprises,” “prevent market monopolies,” and ensure “fair and orderly competition.” Yet it also promised to build “stronger, better, and larger” state firms, and cultivate “world-class firms that are globally competitive”. The report promised both to “consolidate and develop the public economy,” and to “encourage, support and guide
[emphasis added] the development of the non-public economy”. Hence there are clear tensions between ambitious market reforms and a continued strong support of state ownership and leadership in the economy.

On a positive note, the report promised to facilitate market access for foreign enterprises, and to protect the rights and interests of “legitimate foreign investment”. It pledged to open the service sector to foreign companies, and to ensure equal treatment of all businesses (Chinese and foreign) registered in China. The report also called for improving the protection of property rights, and for speeding up the establishment of a modern Chinese financial system.

The much-touted “supply-side structural reform” featured prominently in the work report, the goal of which is to reduce overcapacity and improve the overall quality and efficiency of the Chinese economy. The report pushed for China to develop world-class manufacturing clusters, and called for innovation in new technologies such as big data and artificial intelligence.

Notably, the report did not restate the goal of doubling the 2010 GDP by 2020, a goal that was stated in the report to the 18th Party Congress, and included in the 13th Five-Year Plan (2016-2020). However, the government is almost certainly still committed to this goal, since it is an important part of realising “a moderately prosperous society” by 2020. Hence, a targeted annual GDP increase of around 6.5% until 2020 is to be expected.

Lack of political reform

Despite being primarily a political document, the work report was almost completely silent on the subject of political reform. While the previous report devoted an entire section to “reform of the political system,” and put a lot of emphasis on political reforms such as “intra-party democracy,” the new report mentioned them only in passing.

The report carried a strong emphasis on “ruling the country according to law,” (依法治国) mentioning it 19 times, compared to only five times in the previous report. Yet the report makes it clear that “rule by law” (note: not rule of law) is the “basic way for the party to lead the people to govern the country”. In other words, the CCP continues to view law as a tool to govern the country; it shows no intention to subject itself to the constraints of the law.

An increasingly nationalistic tone

The work report struck a distinctly nationalistic tone. It put great emphasis on the “Great Rejuvenation of the Chinese Nation,” mentioning the phrase a total of 27 times, compared to only seven times in the previous report. The report committed to developing a military with “global combat capabilities”. Whereas in the previous report, the CCP declared its intention to build an army capable of “winning local wars,” the new report simply states “capable of winning wars” (omitting the word “local”). The character for “army,” or “military” (军) was used 86 times in the new report, compared to 49 times in the previous one, and the phrase “strong army” (强军) was used 13 times, compared to a single reference in the previous report. Equally interesting is that the word “peace,” (和平) that appeared 37 times in the report to the 18th Party Congress, only occurred 20 times in the new report.
# Change in frequency of key terms in recent CCP work reports

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<th>Term</th>
<th>17th</th>
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<td>Reform of the political system (政治体制改革)</td>
<td>5</td>
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<td>Ruling the country according to law (依法治国)</td>
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A more assertive foreign policy

The work report presents a markedly more confident China. The CCP appears to have officially abandoned Deng Xiaoping’s strategy of “keeping a low profile” in international affairs, instead opting for a more assertive foreign policy. In the years ahead, China will “move closer to the centre of the world stage”. Most notably, China may seek to promote its development model as an alternative to the Western model of development. According to the report, “socialism with Chinese characteristics” offers “Chinese wisdom” and “Chinese solutions” for “countries and peoples that wish to speed up development while maintaining independence”. The report confidently states that “China’s socialist democratic politics” can contribute to advancing human political civilization. The report signals that China could play a more active role in “global governance” in the future, a concept that Chinese leaders have been highly suspicious of in the past, viewing it as a trap laid by the West to contain China.

Finally, the Belt and Road Initiative – Xi’s signature foreign policy initiative – was mentioned five times in the report, and was later written into the Party Charter, signaling a strong commitment to this initiative.

Implications for the future

China is experiencing a prolonged period of increased political control, and the work report offers no indications that the political climate is about to loosen up. On the contrary, the report makes clear that the party’s control over society is going to further expand and tighten in the following years. This is a clear brake from the past. In the post-Mao era Chinese politics have tended to alternate between short periods of political tightening and political liberalization, in a relatively predictable cycle. The political tightening can be understood as a response to the many economic, social, and demographic challenges that lie ahead and the centralization of power at higher levels is meant to facilitate top-down implementation of economic reforms. It may also be that the CCP foresees an increase in social tensions in the coming years, due to the economic transition, and wants to tighten its grip of society while it still can. The greater use of nationalist rhetoric in the work report can be understood as a response to the economic slowdown, as the CCP needs to make up for the loss of economic performance legitimacy by promoting other sources of legitimacy.

The continued push for structural reforms and the omission of growth targets are positive signs, and will facilitate the transition to a more quality-focused growth model. However, to achieve a “moderately prosperous society” by 2020, the CCP is still committed to an annual GDP increase of around 6.5%, making the qualitative shift difficult to achieve before that time. To keep the growth rate high, China is likely to keep pushing investments and rely on credit expansion, resulting in a further increase in local government debt. For a clearer picture of the CCP’s future economic policy, we need to wait for the annual Central Economic Work Conference in December, which is when the new leadership will set the specific aims for economic policy in 2018, and for the 3rd plenum of the 19th Central Committee in the fall of 2018, which is when the CCP’s blueprint for long-term economic reforms will be presented.
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