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**Where Is The World Going?
How Do We Get There First?**

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China's Future Under Xi Jinping

Xi's Centralizing: What Does It Mean for CEOs?

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Xi Jinping assumed power at a pivotal moment in China's history. Faced with an outdated economic model, political decay and pervasive corruption, and a military that is unfit and untested, he is embarking on an ambitious agenda to rejuvenate the Chinese Communist Party (CCP) and secure its future. The 19th Party Congress will be a referendum on his progress during his first term and an indicator of his prospects in the years to come.

Xi's approach to the modernization of the Chinese nation is shaped by the lessons of the CCP's past — a past which he shares as his own. Xi's father, a first-generation leader of the People's Republic of China (PRC), was both a loyal disciple of Mao Zedong's revolution and a bold pro-market reformer. The younger Xi's childhood was shaped as much by the senseless brutishness of the Cultural Revolution — which tore apart his family and the Party — as it was by the Soviet Union's demise — which Xi views as a consequence of former leader of the Soviet Union, Mikhail Gorbachev's, weak consolidation of power within the political and military arenas.

Xi sees it as his duty to ensure the CCP — the family business — survives and thrives for the next generation. Like his father, he is attempting to strike a balance in his efforts to strengthen the CCP's institutional power — he is determined not to become China's Gorbachev, nor to re-trace Mao Zedong's missteps in the process.

Understanding Xi can provide CEOs and other business leaders with important context with which to read the tea leaves of China's once in a decade leadership change and provide clues as to what comes next.

A Crown Prince

Xi Jinping is not just a princeling, one of the children of the revolutionary leaders who served with Mao, but a crown prince. He was groomed to lead China. His father was a revolutionary leader during the Chinese civil war and one of the CCP's earliest members. In the PRC's early years, when Xi was born, his father served on the CCP's powerful Central Committee, but was purged during the Cultural Revolution when Xi was a teenager.

Xi has described his experience as a sent-down youth in rural China as “the starting point of my life.” While some cadre kids turned to romance, drink, and Western literature, Xi went “redder than red.” In order to attend Tsinghua University, he denounced his relationship with his family. In 1974, while his father was still in jail, he joined the CCP.

In 1978, Deng Xiaoping revived Xi's father, Xi Zhongxun, and made him party secretary of the southern Guangdong province. The elder Xi implemented liberal economic reforms, including creating China's first special economic zone (SEZ), which would become the engine of China's growth during the reform and opening period. Around the same time, Xi started his own career in politics. He was ambitious, and understood that in order to build his credentials, he would need to

return to the countryside. He served posts in the Party leaderships of Hebei, Fujian, Zhejiang, and Shanghai before making it back to China's capital city.

In December 2012, soon after becoming head of the CCP and PLA, Xi gave an important speech about the lessons that party members should learn from the fall of the Soviet Union. According to Xi, the decisive factor in the Soviet Communist Party's demise was its decision to give up its hold on the "instruments to exert power." Xi explained: "Why must we stand firm on the Party's leadership over the military? Because that's the lesson from the collapse of the Soviet Union... in the Soviet Union where the military was depoliticized, separated from the Party and nationalized, the party was disarmed."

Xi has long understood Mao's dictum that "political power grows out of the barrel of a gun." During his childhood, Xi watched as four generations of Chinese leaders struggled to modernize a military that is expected to be both political and professional in order to ensure it could meet China's changing security needs. Unlike his predecessors, Hu Jintao and Jiang Zemin, Xi came to power with PLA experience and a strong network, which allowed him to be appointed vice chairman of the CMC in 2010, earlier than Hu Jintao was during his career.

Xi had learned about the rampant corruption in the military and was determined to root out the entrenched business interests that stood in the way of China mounting an effective fighting force. When Xi took office in 2012, he appointed Wang Qishan as his anti-corruption czar and quickly went after the PLA. Once he had cleared the way in the second half of 2015 for reform, Xi announced cuts to China's ground forces, a restructuring of the PLA to create theater commands, and new guidelines forbidding the PLA from being involved in paid services.

On August 1, 2017, Xi marked the 90th anniversary of the PLA's founding by instructing the armed forces to be loyal to the Party. "You must be unwavering in upholding the bedrock principle of absolute party leadership of the military," Xi said, "Always obey and follow the party. Go and fight wherever the party points." The parade was an important milestone in Xi's extensive consolidation of power over the military since taking office.

Core Status

The title of "core" leader was originally given to Jiang Zemin by Deng Xiaoping, who wanted to strengthen the authority of a weak new general secretary selected in the aftermath of the Tiananmen crisis. When Jiang stepped down as the party's top leader in 2002 in favor of his successor, Hu Jintao, the "core" designation did not transfer. Hu was referred to as simply "general secretary." Thus, it was significant that Xi was granted core status at the October 2016 Sixth Plenum of the CPC.

The Plenum's statement signaled Xi's significant consolidation of power, as well as the central leadership's efforts to centralize power and decision-making and assert authority over local government, something that has been notoriously difficult in China. After the Plenum, another notable signal was sent. A senior Chinese official said that China's age limit rule, which requires Politburo members to retire if they are 68 or over at the time of a Party Congress, was "folklore." The unwritten retirement norm, which has been strictly followed since 2002, has led to speculation

Where Is The World Going? How Do We Get There First?

that this custom may be broken for Xi's ally, Wang Qishan, who will be 69 at the upcoming Congress. Xi could then more easily buck the norm himself in 2022, when he will be 69, and stay on past the two terms that have been served by his predecessors since Deng.

Xi is a different kind of Chinese leader. The Belt and Road Initiative (BRI) and other new efforts mark a major departure from Deng's foreign policy dictum of keeping a low profile on the international stage and avoiding involvement in faraway issues. Instead, Xi sees his more active, ambitious, and confident style of leadership as directly linked to the goal of achieving the great rejuvenation of the Chinese nation.

In the lead-up to the 19th Party Congress, Xi has tried to demonstrate his international leadership credentials and prove that he can defend China's interests on the world stage. In January 2017, Xi became the first Chinese leader ever to attend the World Economic Forum in Davos, where he gave a keynote speech that heralded the importance of upholding economic globalization. Xi recognizes that China has benefited enormously from globalization, but sees its forces as a means toward a familiar end: the strengthening of the Party and rejuvenation of the Chinese nation.

Xi's visit to Hong Kong in July 2017 to mark the twentieth anniversary of its return to Chinese sovereignty was also notable. Under Xi, Hong Kong has seen its autonomy increasingly impinged upon. During his visit in July, Xi delivered a tough warning against challenging the authority of the central government or of using Hong Kong to carry out infiltration and sabotage against the mainland.

Within Hong Kong's population there has been an escalation of political demands over the past five years. Academic and student-led calls for self-determination have been overtaken by radicals' campaigns for independence. Beijing will further tighten its political control and define the city's high degree of autonomy in a stricter way. Still, Beijing recognizes Hong Kong's role as a global financial center, and further, that it is in Beijing's interest to respect the city's rule of law and free-market economy. In return, major institutional changes affecting business and economic activities are unlikely to be undertaken by Hong Kong citizens.

As for Southeast Asia, growing economic links mask deep and simmering political tensions over territorial claims in the South China Sea. While the United States occasionally shows visibility through military exercises and some tough talk, Southeast Asian countries are largely alone in dealing with China, which has forged a raft of bilateral agreements that have put political agitation on the back burner.

The Next Five Years

The Communist Party Congress taking place in October (which will take place before the publishing of this piece) is the 19th convened since the CCP's establishment: a closed-door, twice a decade event where top leadership is formally selected. The congress sets the direction of policy for the next five years and selects a new Party leadership. It also serves as a referendum on Xi's first term, which has seen Xi attempt to reinsert the Party more dominantly into politics, society and the economy. The outcomes of the congress indicate how successfully (or not) Xi has consolidated power, how much support there is for his agenda, and how this agenda will evolve in the coming years.

Xi has attempted to use the 19th Party Congress to overcome resistance to his economic and political reform agenda during his second term. A key example was his ousting of Sun Zhengcai, Party Secretary of Chongqing in July, just a few months before the congress. Many have speculated that the sudden move was intended to block a potential successor to Xi from joining the all-powerful Politburo Standing Committee (PBSC). Sun was replaced by Chen Min'er, a close ally of Xi, who will likely use the Chongqing position as a launching pad to a more potent role in Beijing. Hu Chunhua, who rose through the Communist Youth League, is the youngest Politburo member and the current Party Secretary of Guangdong Province. Like Sun, he has long been seen as a candidate to replace Xi in 2022, but Sun's removal makes that climb more uncertain, as it is another sign that Xi is not bound by the rules or norms of the Party's past.

The congress will provide other indications of Xi's political power, how much opposition he will face in implementing his agenda in his second term, and the degree to which he will be constrained by collective leadership norms. The most consequential question for the next five years is whether Xi will attempt to stay past the end of his second term in 2022 for a third term. Doing so would break a tradition followed by his two predecessors. While no one knows for sure, one key indication that Xi is preparing to do so would be the inclusion of his name in his "banner term," a phrase summing up his contributions and importance to history, for the Party Charter. Every leader in PRC history has had his own "banner term," but only Mao and Deng's included their names in the phrases written into the Party Charter. A banner term such as "Xi Jinping's Governing Concepts" would be an indication that Xi is the most powerful Chinese leader since Deng, and has potentially amassed the clout within the Party necessary for him to buck other long-time norms.

A related suggestion of Xi's future intentions is whether or not he designates a successor at the Congress. Recent administrations have designated the top leader's successor five years before the power transition, providing an extended grooming period. Hu Jintao was designated in 1997 before assuming the top job in 2002 and Xi was tapped in 2007 before taking office in 2012. Tradition also holds that the successor is chosen from the 25-member Politburo. If Xi's successor is not made clear at the upcoming Congress, the greater the likelihood that Xi will seek to maintain power after 2022.

Another telling sign of Xi's political clout at the congress will be his degree of success in installing a majority of allies in the Politburo and Standing Committee. Five of the seven incumbent members of the PBSC are due to retire this year (the exceptions being Xi and his premier Li Keqiang) according to the traditional retirement age. An additional six members of the Politburo will step down, along with roughly half of the Central Committee – an unusually high volume of turnover. Xi's ability to get loyalists into the PBSC and Politburo seats, whether by breaking the retirement age norm or removing prospects who oppose his agenda, will be vital toward his aim of eliminating obstacles to his second term agenda. Above all, his objective is to ensure that his allies – not former President Hu Jintao's Communist Youth League faction nor former President Jiang Zemin's Shanghai faction – hold a plurality of seats on the next Standing Committee.

Xi gave a State of the Union-like address in July 2017, during which he noted eight policy areas that must be attended to going forward: better education, higher incomes, more stable jobs, more

Where Is The World Going? How Do We Get There First?

reliable social insurance, higher quality of medical services, more comfortable living conditions, environmental preservation, and richer cultural life. In state media commentaries that followed, he also singled out three short-term priorities: (financial) risk control, poverty alleviation, and environmental protection as key to China's ability to fulfill its goal of becoming a moderately prosperous society by 2019. These likely indicate the top policy issues for the government in Xi's second term.

Beyond those priorities, Xi is clearly focused on maintaining domestic political stability, management of the Chinese economy, North Korea, and growing Chinese economic and political clout in Asia. He can also be expected to continue his signature anti-corruption campaign, as everything Xi does can be brought back to centralizing authority and eliminating opposition, from weeding out corruption in the military to consolidating foreign policy decision-making. But there is much that is uncertain about Xi's future aims, including his attitude towards economic and political reform, and whether it goes beyond re-asserting the CCP's primacy.

New Influencers

As the strongest leader in more than two decades, Xi has concentrated power and decision-making in his own hands. He relies less on the formal State Council structure and hierarchy for policymaking, and more on a close set of informal advisors and advisory bodies. He has also brought about the rise in influence of party leading groups, which have assumed great authority within the policy planning process. These bodies make policy instructions and oversee implementation on issues ranging from economic reform to foreign policy.

With so much authority concentrated with Xi, over-centralization has caused some paralysis in the system and led many to ask if Xi has the bandwidth to be in charge of everything. Few see a serious leadership challenge to Xi, but his authority could suffer if these policy-making problems intensify and the economy continues to sputter. The enormous authority concentrated in Xi's hands in the short term, with so few checks and balances, also raises questions for the long run.

These changes in the way the leadership is operating and who top decision-makers are going to for advice has important implications for how foreign businesses need to connect and deal with the Party and its agencies and people. In many cases, they will require a revision of government relations strategies. Multinationals will need to expand their strategic networks from government officials to strategic influencers. Understanding new circles of influence in China and building those relationships will be critical, and knowing the key "influencers" in the Party, Chinese government and business circles, is more important than ever.

Moreover, if Party norms, like the retirement age, are being bucked, this has big implications. The rules have changed. Navigating these changes in the foreign business environment as Xi guides China through this difficult transition period will require sophisticated business leaders who understand the domestic environment and spend time in country to build strong relations.

Principles for CEOs

Align yourself with the leadership's objectives: It is vital to demonstrate alignment with government goals and concern for the Chinese consumer. These objectives are made explicit in government documents such as the Party Congress reports. Executives should develop robust outreach efforts to convey their contribution to government objectives, compliance with government policies, and support for the rise in Chinese well-being and lifestyle.

Build broad strategic networks and strong access: Future growth and good standing in China can require the sanction and support of China's political leadership. Companies need to be proactive about identifying key stakeholders with oversight of their business and industry, and constructing a strategy to gain their backing. This requires consistent engagement, meetings and networking by a dedicated China team.

Review internal compliance procedures: Anti-corruption investigations provide good reasons to review internal compliance procedures, ensure that they are compliant with all relevant laws and regulations, and exercise caution in areas of ambiguity. Foreign companies cannot use others' non-compliance as an excuse for their own. Localized programs to address specific Chinese operations and environments are a must.

Develop a meaningful in-country presence: On their trips to China, a common mistake executives make is limiting itineraries to ministerial level meetings. CEOs need stronger itineraries of engagement with key influencers and should be working with advisers on the ground to find opportunities for one-on-one meetings and small, private engagements with key Chinese business leaders, media representatives, and members of the Chinese political consultative committee, to inform and socialize there.

Above all, foreign companies must remember that they will remain easier and more effective scapegoats for political leaders looking to deter broader corruption in the industry or sector.



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