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The Sixth Plenum of the 18th Congress of the Communist Party of China Factors in the Challenges Facing China



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The sixth plenary session of the 18th Central Committee of the Communist Party of China (CPC) was held at the exclusive Jinxi Hotel in Beijing from October 24 to 26, 2016. Nearly 370 Central Committee members of the Communist Party attended the meeting.

Chinese plenums are closed-door meetings wherein top Communist Party leaders meet and deliberate on select policy issues, and release a communique outlining the major outcomes of the session. The Fifth Plenum deliberated on the 13th Five-Year Plan and the policy on relaxing China's one-child norm. The Fourth Plenum¹ was focussed on "the Rule of Law with Chinese Characteristics" and the Third Plenum centred around the economic policy.

The 7th Plenum is expected to give the final touches to pave the way for China's 19th Party Congress which will mark the start of Xi's second term. The plenum will bring about important leadership changes based on the "Seven up and Eight down" rule wherein those who are 67 years old or younger at the time of the Party Congress, will continue in their respective positions or enter the Politburo, while those

Key Points

1. Economy and corruption have emerged as major challenges to China under Xi Jinping.
2. The Sixth Plenum of the 18th Congress of the Chinese Communist Party (CPC) has factored in these challenges in its policy formulations during the session.
3. The Congress has nominated Xi Jinping as the 'Leadership of the Core' thereby granting him unquestionable authority and placing him above the seven member Politburo Standing Committee.
4. Two documents "The norms of political life within the Party under the new situation," an update from the 1980 document and "a revision to an intra-Party supervision regulation," have been formulated to institutionalise the war against corruption.
5. A day after the 6th Plenum concluded, Xi chaired a meeting of the party's Political Bureau on economic matters, signalling the country's major economic anxieties and the importance that the leadership places in tackling the country's runaway lending and asset prices.

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who are 68 years old and above, will retire. Based on age criteria, the 7th Plenum is likely to see the departure of five of the seven current members of the Politburo Standing Committee leaving aside Xi Jinping, the President, and Li Keqiang, the Prime Minister. Another six of the remaining 18 members in the 25-strong Politburo, the Party's second-most powerful body, will also step down as they would have passed the compulsory retirement age of 68 by 2017.

Expectations from the 6th Plenum

The 6th Plenum was expected to take cognisance of the challenges facing the country while formulating its policies. Institutionalising the war against corruption by bringing out two contextual policy documents incorporating appropriate strategies and consolidating the Chinese President's domestic power to strengthen the hands of the leadership seem to have become a part of the solution in this effort.

A work report to the CPC Central Committee was to be presented by the Politburo, as envisaged in a meeting held by the Standing Committee of the Politburo² on September 27, 2016. *Beijing News* indicated the possibility of an announcement specifying the Party's punishment³ on corrupt Central Committee members.

CHALLENGES

Economy

To keep the flagging economy from going into a free fall, the Chinese government has resorted to a debt fuelled stimulus which, in turn, has created property bubbles in some areas and threatens to further increase the corporate debt. China's debt-to-GDP (Gross Domestic Product) ratio has soared from 150 percent to nearly 260 percent over a decade, the kind of surge indicative of a possible financial bust or a major slowdown. In the past year alone, China has

spent nearly \$200 billion to prop up the stock market; \$65 billion of bank loans have gone bad; financial frauds have cost investors at least \$20 billion; and \$600 billion of capital has left the country. Debt is still expanding twice as fast as the economy.⁴

Infrastructure spending, induced exports and easy credit, the tools that the Chinese government usually employs to simulate growth, have not been very effective. Excessive credit growth could heighten risks and trigger a financial crisis, if not controlled. The risks in stock, currency, property markets and the banking sector are threatening the Chinese economy in a big way.

Clear divisions have surfaced within the Chinese leadership over macroeconomic policy. Opinions that Prime Minister Li Keqiang is being sidelined⁵ have also emerged. Differences have become clear after an unnamed "authoritative figure" gave an interview about the Chinese economy to the *People's Daily*⁶, the Communist Party's mouthpiece, on May 09, 2016⁷.

Moderating contradictions in the economy and bringing back the country's economy on track is a major challenge that Xi faces today.

Taming the PLA

In an attempt to discipline the military, Xi has expanded his anti-graft campaign to the doorstep of the People's Liberation Army (PLA). His attempt to bring the PLA under the grip of the Party surfaced when China Military Online, an online portal under the PLA, on January 15, 2015, released a list of 16 senior military officers⁸ of the level of Corps Commanders and above who were investigated for allegations of corruption in 2014. Coming a day after the fifth plenary session of the Central Commission for Discipline Inspection (CCDI) of the Communist Party of China concluded, a meeting, which, for the first time, was also attended by members of the military's top disciplinary organ, the Commission

for Discipline Inspection of the Central Military Commission (CMCCDI) indicates the attempt to bring the military's anti-graft organ under the Party's control, a move which will be resented by the military. A second list of 14 officers who had been placed under investigation for corruption was released on March 02, 2015.⁹

Though conclusive evidence is not available, in recent years there have been reports of the PLA acting without civilian authorisation, giving an impression that the military may be considering itself beyond the control of the country's political establishment. The standoff at Demchok and Chumar in September 2015 during Chinese President Xi Jinping's visit to India and the 21-day Dopsang faceoff at the Daulat Beg Oldie (DBO) sector in April-May in 2013, just before Chinese Premier Li Keqiang's visit, may be symptomatic of such PLA comportment.

Disciplining the military, therefore, became a priority for Xi Jinping. Apart from probing military corruption as never before, he pronounced a major military cut, reducing the strength of the PLA by 300,000. This was followed by the announcement of a path-breaking restructuring and reform blueprint for the PLA which, apart from defining the structures for future military operations also came down heavily on the PLA Army to cut down its powers, thereby strengthening the Party's and his own grip over the military.

The cumulative effect of all these measures was the unspoken resentment at the loss of authority reflected in the rumours of unease between the powerful Central Military Commission (CMC) and PLA Commanders.

Resettlement of Military Veterans

In a rare demonstration, on October 11, 2016, hundreds of middle-aged retired PLA soldiers in green fatigues gathered outside China's Ministry of Defence to protest against spending cuts and

to demand veterans' benefits¹⁰, highlighting the difficult task Beijing faces in cutting spending while keeping citizens fully employed¹¹. Many of these veterans had been out of work for years after retiring from the Army. This is an emotive issue for the PLA.

Resistance to Anti-Corruption Drive

Xi's anti-corruption campaign resulted in major turmoil within the country. The ouster of the rising-star, Bo Xilai, Party leader of Chongqing and an ally of Zhou Yongkang, who was a member of the Party's Politburo Standing Committee, was the beginning. Since then, Xi has systematically dismantled the network established by Zhou who had headed the national oil company and China's domestic security agency. At least seven people with close ties to Zhou were brought down, including his one-time Secretary and Vice Governor of Hainan province, and a former Vice Minister of public security. The drive extended to the PLA, with Generals Xu Caihou and Guo Boxiong, former Vice Chairmen of the Central Military Commission (CMC) and Politburo members, being arrested and tried for corruption. Guo practically controlled the PLA for 13 years on behalf of Jiang Zemin, the former Chairman of the CMC, President and former General Secretary of the Party. Su Wei, a professor at the Party School of the CPC Chongqing Committee, told the *Global Times*¹² that many officials, who felt that their interests were being affected, resisted the anti-corruption campaign with a slack work style, a brand of passive resistance.

Political Blocks

A year before a Communist Party conclave that could decide his replacement as China's next President, President Xi Jinping is pushing hard to reduce the power of the rival political blocs, while seeking to get members of his own faction into the country's top ruling body. His efforts to prevent the Communist Youth League¹³ faction, with approximately 89 million members, from

dominating the Party's seven-member Standing Committee during the 19th Congress next year is a case in point. The Youth League is the entry point for those wanting to join the Communist Party. It recruits and trains the nation's best and brightest, mostly university students. Premier Li Keqiang is a member of this faction.

In 2012, Ling Jihua, a top aide to erstwhile President Hu, who belonged to this faction, was charged for corruption and sentenced to life imprisonment for attempting to cover up the circumstances around the death of his son in a luxury sports car crash, an embarrassment for the Party which is sensitive to perceptions that children of top officials lead rich and privileged lifestyles.

The once powerful faction is struggling to remain relevant after the League's annual budget was slashed by half. According to the League's 2016 annual budget¹⁴, this year's fiscal appropriation is Yuan 306.27 million (\$47.3 million) compared to the executed fiscal appropriation in 2015, which was Yuan 624.13 million, a decrease of 50.93 percent. Expenses for public services in 2016 are budgeted at Yuan 227.9 million, a decrease of 54.8 percent, compared to the actual expenses in 2015. Budgeted fiscal appropriations for 2016 are also down to 44.7 percent compared to those budgeted in 2015.

Incidentally, Xi's group is known as the 'Zhejiang Clique' after the eastern province of Zhejiang where he built his support base when he was Governor and Party head from 2002-07. The other faction in the Party is called the 'Shanghai Gang', led by 90-year-old former President Jiang Zemin, which is also expected to diminish in power.

In the past six months, more than a dozen provincial Party chiefs have been replaced by officials considered close to Xi. There are suggestions that Xi might bend the age rule to allow his confidant, Wang Qishan, a member of the Politburo Standing Committee and the Secretary of the Central

Commission for Discipline Inspection (CCDI) of the Communist Party of China, who has played a leading role in fighting corruption, to continue after the 19th Congress.

Reform of State Owned Enterprises (SOEs)

The reform of SOEs is a priority for Xi Jinping. These enterprises, known as 'Yangqi', have been a drag on domestic growth, plagued by poor performance, rising debt and corruption. Personal connections and family background are still weighty factors in hiring and promotions in these establishments. The 'princelings', a clique made up of children of former top officials to which Xi Jinping himself belongs, being the son of a prominent revolutionary, have a major say in these matters.

The Central Organisation Department of the CPC, the powerful Party organ charged with management of elite cadres, appoints the top executives for the core 53 SOEs which are ranked at the Vice-Ministerial level. Leaders of the remaining central state-owned firms are appointed by the state-owned 'Assets Supervision and Administration Commission of the State Council' (SASAC) in coordination with the Central Organisation Department¹⁵. The Party exercises influence over the SOEs through its authority to appoint, transfer, and remove their top leaders. This control is thought to align officials' career incentives with Party priorities.

Challenges to SOE reforms include divergent interests of multiple government, Party, and company players, many of whom view reforms as threatening the status quo from which they have long profited. Wading through these roadblocks to transform China's economy is unlikely to be an easy walkthrough.

Leading Groups

Xi employs Party 'leading groups' as think-tanks for evolving policies and to coordinate their

implementation across government agencies. Xi himself is the Director of some of the leading groups, including newly created ones focussed on cyber space, economic reform and national security. Chapter IX of the Constitution¹⁶ of the Communist Party of China authorises the establishment of these groups.

The leading groups are increasingly becoming an alternate channel for decision-making with minimal visibility. The leading group responsible for financial and economic affairs, however, is an exception. Headed by Xi himself, and with about two dozen members, including Liu He, a key presidential adviser who runs the group's general office and oversees its operations on a daily basis, this group is increasingly recognised in the outside world. Liu He is one of 10 Vice-Ministers at the National Development and Reform Commission. He, however, owes his real power to his position in the Party's leading group.

These groups have gained more authority under Xi at the expense of the State Council and the ministries. Consequently, they have become important power centres within China. The bureaucracy views these groups as encroaching on its turf, hence, there is unspoken but constant rivalry between these establishments.

HIGHLIGHTS OF THE 6th PLENUM

Xi as the 'Core of the Leadership'

The highpoint of the plenum was the Communist Party's call to all its members to "closely unite around the CPC Central Committee with Comrade Xi Jinping as the core." By conferring the 'core' status, the Party substantiates its confidence in Xi's leadership and places him above the 7-member Politburo Standing Committee, unlike Hu Jintao who called himself the first amongst the equals. The move also indicates a departure from the concept of 'collective leadership' that had emerged as the

norm in Chinese politics since 2000. The need for a strong leadership to manage the corruption ridden grim economic situation facing the country and the current international situation might have prompted the Congress to do so.

Apart from being the General Secretary of the Central Committee of the CPC and President, Xi has appointed himself the Commander-in-Chief of the military and is also the head of the Central Military Commission (CMC). He is also the Chairman of China's "Central National Security Commission" (CNSC) intended for the preservation of internal stability and security, and not national defence¹⁷.

Institutionalising War on Corruption

The meeting approved two documents "The norms of political life within the Party under the new situation," meaning Party discipline, an update from the 1980 document, and "a revision to an intra-Party supervision regulation," implying intra-Party supervision and scrutiny. These documents institutionalise the CPC's war against corruption and legitimise the government's actions against corrupt officials. In his comments during the plenum, Xi Jinping enunciated that these documents have been introduced to supplement the "Four Comprehensives," a strategy designed to promote reform and opening up, refine the socialist modernisation drive, as well as to adhere to, and develop, socialism with Chinese characteristics. The "Four Comprehensives" are the comprehensive building of an all-round moderately prosperous society, deepening of reform, advancement of the rule of law and strict governance of the CPC.

Democratic Centralism

Democratic centralism is the CPC's fundamental organisational principle¹⁸. The principle is reiterated in the newly published "norms of political life in the Party under the current conditions", and asserts that intra-Party democracy is vital to the CPC, and is

fundamental to a positive, healthy internal political environment. According to Sun Xiaoli, a Professor with the Chinese Academy of Governance, the democratic aspect of the principle involves the freedom of Party members to discuss and debate matters of policy and direction, while the leadership of the Party makes decisions based on the debate and discussion. This latter aspect represents centralism. The norms of political life in the Party under the current conditions also consented to create within the Party “a political landscape, which integrates concentration with democracy, discipline with freedom, and unified will with ease of individual mind.”

Economy

There was no specific mention of the economy in the communique issued at the end of the plenum. However, a day after the 6th Plenum concluded, Xi chaired a meeting of the Party’s Politburo on economic matters, signalling the importance of tackling the country’s runaway lending and asset prices. At the top of the agenda for the meeting was the need to “curb asset bubbles and safeguard against economic and financial risks,” according to the state media¹⁹. Usually, three Politburo meetings on economic issues are held every year, one each in April, late July and early September. This out-of-

the schedule meeting, coming on the heels of Xi’s elevation as the “core of the leadership” signals major economic anxieties.

Conclusion

With all the powers vested in him as the ‘Leadership of the Core’, it is yet to be seen how the Chinese leader Xi Jinping exercises his powers to achieve his “Chinese Dream”, which he has been propounding since he became the General Secretary of the CCP at the 18th Congress in November 2012. Will it be a more aggressive Chinese foreign policy behaviour, with China declaring more Air Defence Identification Zones (ADIZs) and creating artificial islands in disputed territorial waters to dominate the air space and the sea lanes in the region? Or will it keep claiming territory beyond its borders on the basis of some fictional history? Is it attempting to proactively reshape the international system through initiatives such as the Asian Investment Infrastructure Bank (AIIB), Brazil, Russia, India, China, South Africa (BRICS) Bank, New Silk Road, Maritime Silk Road, and China Pakistan Economic Corridor (CPEC) and, thus, attempting to dominate the world and create a new world order? The moot question is: will the present crisis in China’s economy play a dampener in its quest for the ‘Chinese Dream’?

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