

China Economics View

A Primer on Communist Party Leadership

- **The 19th Party Congress will mark the start of China's new political economy cycle** – The Communist Party of China (CPC) has fixed the opening date for the weeklong event at October 18th, 2017. Since the publication of our [earlier analysis](#), we have received inquiries about the CPC's leadership structure. In this note, we provide an introduction about the CPC's organization.
- **Changing the setup of the Party's top post could have an impact on the collective leadership system** – At the top level, prior to the current General Secretary and PSC decision-making mechanism, the CPC was long-headed by the Chairman of the Central Committee. The difference between General Secretary and Chairman lies in their influence on the PSC's decision-making. To revive the Chairman system would require a revision to the Party Constitution, which would need the Congress's approval.
- **The Political Report and leadership election will be the most important elements to watch out for 19th Party Congress** – In addition to the policy priorities and possible PSC outcomes analyzed in our previous report, we now think whether "Xi Jinping Thought" will be written into the Party Constitution is an important thing to watch. Only "Mao Zedong Thought" and "Deng Xiaoping Theory", among the CPC's guiding philosophies, carry the names of their creators. If the Congress revises the CPC's Constitution to add "Xi Jinping Thought," it would elevate Mr. Xi's status in the Party to a level at least as high as Mr. Deng's. In this case, the revival of the Chairman post would not be a surprising outcome.
- **We are relatively constructive on China's growth outlook in the new political economy cycle** – First, the leadership will likely focus on economic overhauls and deliver the committed promises during the second term. It is unlikely for the Party to miss its measurable economic targets, which is a matter of the Party's credibility and authority. Second, the leadership can leverage on the political capital it has built to push forward reforms. No matter who will join the PSC, the top leadership will be more unified and effective than in the first term. Political incentives and rules will be more straightforward for government officials and policy makers, thus lowering the political risk premium for the markets. We expect more breakthroughs in SOE reform, rural land reform, second-round urbanization (as exemplified by the Xiong'an initiative), industrial upgrading (Made In China 2025), structural rebalancing and further opening up. Economic and financial risks will be addressed but probably in a more contained way.

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Figure 1. The CPC's Leadership Echelon
(Based on the 18th Party Congress)

Structure of Chinese Communist Party	Number
Total party membership	88,758,000
National Party Congress	2268
Alternative Central Committee	171
Central Committee	205
Politburo	25
Politburo Standing Committee	7
General Secretary	1

Source: Wikipedia and Citi Research

A Primer on Communist Party Leadership

The 19th Chinese Communist Party Congress will mark the start of China's new political economy cycle. The Communist Party of China (CPC) has fixed the opening date for the weeklong meeting at October 18th, 2017. Since the publication of our earlier analysis ([What to Expect from China's 19th Party Congress?](#)), we have received quite a few inquiries from investors about the CPC's leadership structure. In the run up to China's most important political event in five years, we provide an introduction about the CPC's organizations to help understanding the Congress's implications (Figure 3).

Basics about the CPC's Organizations

The CPC, founded in 1921, is the sole party in power in China. It has established formal and informal organizations within the government, military, and various levels and walks of life in the country. The CPC's organizations are at the central, local and grassroots levels.

Central Organizations

The central organizations consist mainly of the National Party Congress, Central Committee, Political Bureau, Standing Committee of the Political Bureau and their executive offices.

■ The National Party Congress

The National Party Congress (NPC) is the highest leading body within the CPC. It normally meets once every five years, and its meetings are convened by the Central Committee. The NPC discusses and decides on major issues of the Party, makes leadership changes, approves revisions to the Party's Constitution (if any), and elects the Central Committee and the Central Commission for Discipline Inspection (CCDI). The NPC's delegates, of 2268 for the 18th NPC, are formally selected from grassroots party organizations (Figure 1).

■ The Central Committee

When the NPC is not in session, the Central Committee implements its resolutions and leads all the work of the Party. The Committee is vested with the power to elect the General Secretary and the members of the Political Bureau, its Standing Committee and the Central Military Commission, and to endorse the composition of the Central Secretariat and the CCDI. The Committee convenes at least once a year a plenary session, known as Plenum, and functions as a top forum for discussion about important policy issues (Figure 4).

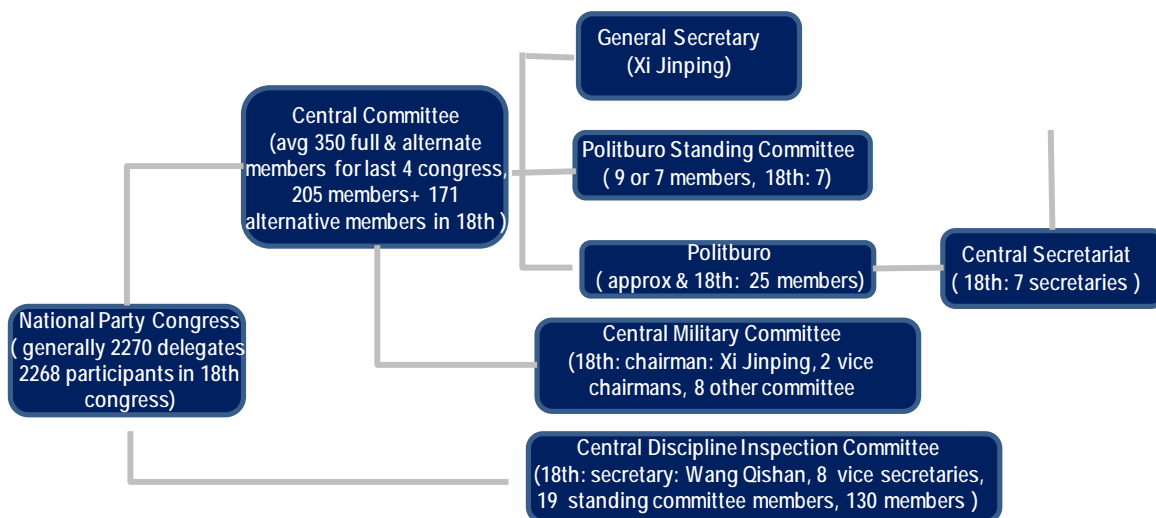
The Committee is composed of full members (205 for the 18th NPC) and alternate members (171). A member has voting rights, while an alternate does not. If posts of members fall vacant, the vacancies shall be filled in proper order by alternate members. The Committee has been customarily composed of, with a few exceptions, officials of provincial-ministerial ranking and above, such as party chiefs and governors of provinces, ministers and minister-level commissioners, heads of military-region level organizations, and ministerial-level heads of party organizations, as well as national-level heads of state-sponsored civic institutions (Figure 2).

Figure 2. Background of Members of the 18th Central Committee

Affiliate Organizations	Numbers
Politburo Standing Committee	7
CPC Central System	27
Military System	41
Central Government	51
Party Chiefs and Governors of Provinces	57
Judiciary	4
Social Groups	6
Managers of SOEs	7
National People's Congress & Political Consultative Conference	4

Source: [Media Report](#)

Figure 3. The Overall Structure of CPC



Source: Wikipedia and Citi Research

Figure 4. Plenary Sessions of the 18th Central Committee

Plenum	Start-end	Length	Summary
1st Plenary Session	15-Nov-12	1 day	Xi Jinping was elected General Secretary and CMC Chairman. A 25-member Politburo, 7-member Politburo Standing Committee and seven members Secretariat with Liu Yunshan as first-ranking secretary were elected. The plenum approved the composition SC-CCDI elected by the CCDI 1st Plenary Session, and the election of Wang Qishan as CCDI Secretary, CCDI Secretary-General and several CCDI deputy secretaries.
2nd Plenary Session	26-28 Feb 2013	3 days	The meeting approved lists of nominees for leading posts within the 12th National People's Congress and the 12th CPPCC National Committee, as well as a State Council restructuring plan aimed at a "simpler and decentralized administration".
3rd Plenary Session	9-12 Nov 2013	4 days	Xi Jinping made a report on behalf of the Politburo titled "The Decision on Major Issues Concerning Comprehensively Deepening Reforms". Market allocation of resources was given, in official speech, a "decisive role". Procedures were taken to liberalize the banking system, with the goal of achieving significant results by 2020. The National Security Commission and the Central Leading Group for Comprehensively Deepening Reforms were established, and both are led by Xi. The meeting anticipated the abolition of re-education through labor and an easing to the one-child policy.
4th Plenary Session	20-23 Oct 2014	4 days	It passed a comprehensive package of legal reforms. The decision upheld the supremacy of Communist Party rule and emphasized the importance of the Constitution. It resolved to establish circuit tribunals and cross-jurisdictional circuit courts and prosecution agencies. The decision also said that management of court resources of in municipal and lower level courts would be managed directly by the provincial level. The Central Committee passed resolution to expel Yang Jinshan, Jiang Jiemin, and Li Dongsheng, officials who have been dismissed during the anti-corruption campaign launched after the 1st Plenary Session.
5th Plenary Session	26-29 Oct 2015	4 days	The session passed a draft of the 13th five-year plan, with provisions for combating poverty. Secondary education for children of less well-off families will gradually be made free, including any school fees; the document also called for a "comprehensively well-off society" by 2020 and a total elimination of "poverty counties" (<i>pinkunxian</i>), and a universal relaxation of the one-child policy: any married couples could now have two children. The Central Committee passed a resolution confirming the expulsion of CC members Ling Jihua, Zhou Benshun, Yang Dongliang, and CC alternate members Zhu Mingguo, Wang Min, Chen Chuanping, Qiu He, Yang Weize, Pan Yiyang, and Yu Yuanhui from the party; this was the largest ever number of CC members expelled during any CC plenum due to corruption.
6th Plenary Session	24-27 Oct 2016	4 days	The 6th Plenum's main focus was on "strict discipline and supervision of the Communist Party." Xi Jinping strove for greater transparency in the decision-making process in local governance, which also represents his effort to establish a positive image of China's Communist Party overseas. This is in addition to his actively promoted anti-corruption campaign within China's political system. Xi was declared the "leadership core" of the party.

Source: Wikipedia and Citi Research

- The Political Bureau, Its Standing Committee and the General Secretary

Figure 5. Positions Held by Members of the 18th Politburo

Name	Current Position
Standing Committee	
Xi Jinping	President, Chairman of the PRC Central Military Commission
Li Keqiang	Premier of the State Council
Zhang Dejiang	Chairman of the Standing Committee of the National People's Congress
Yu Zhengsheng	Chairman of the Chinese People's Political Consultative Conference
Liu Yunshan	Top-ranked Secretary of the Central Secretariat of the CPC; President of the CPC Central Party School
Wang Qishan	Secretary of the Central Commission for Discipline Inspection
Zhang Gaoli	Executive Vice Premier of the State Council
Others	
Han Zheng	Party Secretary of Shanghai
Hu Chunhua	Party Secretary of Guangdong
Li Yuanchao	Vice President of the People's Republic of China
Li Zhanshu	Secretary of CCP Central Secretariat, Chief of the General Office of the Communist Party of China
Liu Qibao	Secretary of the CCP Central Secretariat, Head of the CCP Propaganda Department
Sun Chunlan	Head of the CCP United Front Work Department
Wang Huning	Director of the Policy Research Office of the CCP Central Committee
Wang Yang	Vice Premier of the State Council
Xu Qiliang	Vice Chairman of the Central Military Commission
Zhang Chunxian	Deputy leader, Leading Group for Party Building
Zhao Leji	Secretary of the CCP Central Secretariat, Head of the CCP Organization Department
Fan Changlong	Vice Chairman of the Central Military Commission
Guo Jinlong	Party Secretary of Beijing
Li Jianguo	Vice-Chairman and Secretary- General of the National People's Congress
Liu Yandong	Vice Premier of the State Council
Ma Kai	Vice Premier of the State Council
Meng Jianzhu	Head of the Central Politics and Law Commission of the Communist Party of China
Sun Zhengcai	Under Investigation, previous Party Secretary of Chongqing

Source: Wikipedia and Citi Research

The leading organs of the Central Committee are the Political Bureau (Politburo), its Standing Committee (PSC) and the General Secretary of the Central Committee, all elected by the Plenum. The General Secretary must be elected from among PSC members.

When the Plenum is not in session, the Politburo and the PSC exercise the functions and powers of the Central Committee, with the Central Secretariat as their administrative body. The General Secretary is responsible for calling sessions of both the Politburo and the PSC, and is in charge of the Secretariat.

Power within the Politburo is centralized in the PSC (Figure 6). The power of the Politburo resides largely in the fact that its members generally simultaneously hold China's key state positions or powerful regional positions and with the control over personnel appointments that the Politburo and the Secretariat have (Figure 5). Largely, the full Politburo meets once a month and the standing committee meets weekly. The agenda for the meetings appears to be controlled by the General Secretary and decisions are made by consensus rather than by majority vote.

The CPC's military leading organ is the Central Military Commission (CMC), whose members are also decided on by the Central Committee. Under the Central Committee are also such offices and departments as the General Affairs Office, the Organization Department, the Publicity Department, the International Liaison Department, the United Front Work Department and the Policy Research Office.

Local Organizations

The CPC's local organizations have a similar structure as at the central level. The local organizations include congresses of provinces, autonomous regions, municipalities, cities, autonomous prefectures, counties, autonomous counties and city districts which are held once every five years. When congresses are not in session, local Party committees at various levels carry out directions of the Party organizations at the next higher level and the resolutions of Party congresses at the same level, lead the work of the locality, and report work regularly to the higher Party committee. Plenary sessions of local Party committees at various levels shall be held at least twice a year. The plenary sessions of local Party committees at various levels elect their standing committees, secretaries and deputy secretaries, and report the results to the Party committee at the next higher level for approval. The standing committees of local Party committees exercise the functions and powers of the committees when the plenums of the committees are not in session.

Grassroots organizations

The CPC's grassroots organizations are set up in enterprises, rural villages, organizations, schools, research institutes, neighborhoods, the People's Liberation Army companies and other basic units in China with more than three Party members. The grassroots organizations respectively set up grassroots Party committees, general Party branch committees and Party branch committees in accordance with the requirements of the work and the number of Party members, after approval by the next higher level Party organization. As of 2016, the CPC had 4,518,000 grassroots organizations distributed in all kinds of social entities in China. They lie a social foundation for the Party.

Figure 6. Politburo Standing Committee Members in History

Nr of Congress	Duration	Standing Committee of Political Bureau	Nr of PSC Members
12th	1982	Hu Yaobang, Ye Jianying, Deng Xiaoping, Zhao Ziyang, Li Xiannian, Chen Yun	6
13th	1987	Zhao Ziyang, Li Peng, Qiao Shi, Hu Qili, Yao Yilin ; Jiang Zemin, Li Peng, Qiao Shi, Yao Yilin, Song Ping, Li Ruihuan (after 1989 reshuffle)	5, after 1989: 6
14th	1992	Jiang Zemin, Li Peng, Qiao Shi, Li Ruihuan, Zhu Rongji, Liu Huaqing, Hu Jintao	7
15th	1997	Jiang Zemin, Li Peng, Zhu Rongji, Li Ruihuan, Hu Jintao, Wei Jianxing, Li Lanqing	7
16th	2002	Hu Jintao, Wu Bangguo, Wen Jiabao, Jia Qinglin, Zeng Qinghong, Huang Ju, Wu Guangzheng, Li Changchun, Luo Gan	9
17th	2007	Hu Jintao, Wu Bangguo, Wen Jiabao, Jia Qinglin, Li Changchun, Xi Jinping, Li Keqiang, He Guoqiang, Zhou Yongkang	9
18th	2012	Xi Jinping, Li Keqiang, Zhang Dejiang, Yu Zhengsheng, Liu Yunshan, Wang Qishan, Zhang Gaoli	7

Source: Wikipedia and Citi Research

The Top Post: From Chairman to General Secretary

The setup of the CPC's central organizations has experienced significant changes in the history. At the top level, prior to the current General Secretary and PSC decision-making mechanism, the CPC was long headed by the Chairman of the Central Committee. The post was introduced into the Party Constitution in 1945 at the 7th Party Congress and had been held by Mao Zedong until his death in 1976. The post was abolished in 1982 at the 12th NPC, and most of its functions were transferred to the revived position of General Secretary. This was a key step toward the CPC's "collective leadership" system that Deng Xiaoping helped to establish.

The previous Chairman, leading the Politburo and the Central Secretariat, was the head of the CPC and the de facto top leader for the country. The difference between General Secretary and Chairman is their influence on the CPC's decision making. In accordance with the Party Constitution, the General Secretary is only the convener of the PSC and Politburo meetings. His status and voting power is the same as all other PSC members, and the PSC's decisions are made by consensus. While in the Chairman System, the Chairman is the leader of the PSC and can veto the decision of all.

If the CPC were to revive the Chairman system, it would require a revision to the Party Constitution, which would need the approval by the NPC. The move in such direction would have a nontrivial impact on the CPC's collective leadership system.

How to Observe the Party Congress?

The Political Report and leadership election will be the most important elements to watch out for 19th Party Congress. The meeting will open with a lengthy speech delivered by General Secretary Xi Jinping, known as the Political Report. The Congress will elect a new Central Committee in its conclusion. The first Plenum of the 19th Central Committee will be held in the following day and elect the Politburo and its PSC. New PSC members will greet the media after their election.

The Political Report will present what the top leadership considers the priorities for the next five years:

- **Grand themes:** The Report will likely highlight the "Chinese dream" and the goal to achieve the "great renewal of the Chinese nation" as its themes.
- **Tractable targets:** The Report should reiterate the CPC's commitment to achieve the first "centenary goal" of creating a "moderately prosperous" (xiao-

kang) society by 2021. The CPC is to double China's 2010 GDP and per capita income by 2020(Figure 7). It also pledges to improve the public's "sense of gains" and lift all of the poor (70.17mn as of 2014) out of poverty by 2020, known as "2020 poverty relief target."

- **Economic assessment:** The Report may underscore the "new normal" status of the Chinese economy, Mr Xi's contribution to the Party's economic thoughts.
- **Policy priorities:** Economic policy and reform will largely focus on the efforts (1) to achieve economic stability and sustainable growth; (2) to prevent and control systemic risks, especially related to structural imbalance, high leverage (Figure 8), local government finance, rising property prices, and financial risks; (3) to carry on supply-side structural reform, especially SOE reform, Made In China 2025(Figure 9), Hukou reform, land reform and second-round urbanization (exemplified by the Xiong'an initiative); (4) to win the "war on pollution" and give more weight to the quality of growth; and (5) to open China further but in a more manageable way, building a high-level "new open economic system."

Among political priorities, whether "Xi Jinping Thought" will be written into the Party Constitution is an important thing to watch. The CPC regards "Mao Zedong Thought", "Deng Xiaoping Theory", Jiang Zemin's "Three Representatives", and Hu Jintao's "Scientific Development Theory" as its guiding philosophies, of which only two carry the names of their creators. And "thought" ranks above "theory" in the Chinese context. If the 19th NPC revises the CPC's Constitution to add "Xi Jinping Thought," it would elevate Mr. Xi's status in the Party to a level at least as high as Mr. Deng's. In this case, the revival of the Chairman post would not be a surprising outcome.

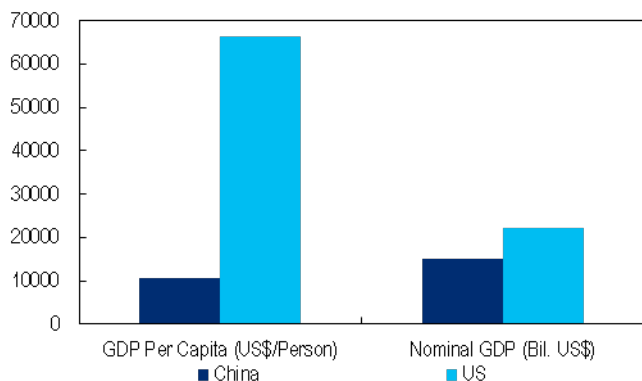
In the meantime, the Congress should reaffirm the policy to root out corruption. The anti-corruption campaign has become a multi-year affair, and it is not likely to wind down soon. The Congress will likely reiterate the leadership's determination to strengthen party governance and internal regulation and hold party officials accountable for their work.

The leadership election will greatly influence China's political future. Mr. Hu opted for complete retirement in the 18th Congress, clearing the way for Mr. Xi to take the helm in China, and accelerating the process of a power reshuffle. Mr. Xi was appointed to the PSC in the 17th Congress, indicating his status as the successor to Mr. Hu, while the 16th Congress marked the orderly transition of power from Mr. Jiang to Mr. Hu. The historic precedents suggest that the influence of the leadership election in this fall will extend well beyond 2022. And a detailed analysis on possible candidates for the PSC based on the CPC's conventional rules and criteria while allowing for some exceptions can be found in our earlier report (See: [What to Expect from China's 19th Party Congress?](#))

China is entering a new political economy cycle, and we are relatively constructive on China's growth outlook for the next five years (Figure 10). First, the leadership will likely focus on economic overhauls and deliver the promises committed during the second term. It is unlikely for the Party to miss the above measurable targets. This is a matter about the Party's credibility and authority. The legacy may also shape the leadership's influence after 2022. Second, the leadership can mobilize the political capital it has built to push forward reforms. No matter who will be eventually selected to the PSC, the top leadership will be more unified and effective than in the first term. Political incentives and rules will be more straightforward for government officials and policy makers, thus lowering the political risk premium for the markets. All these should allow the CPC to carry out

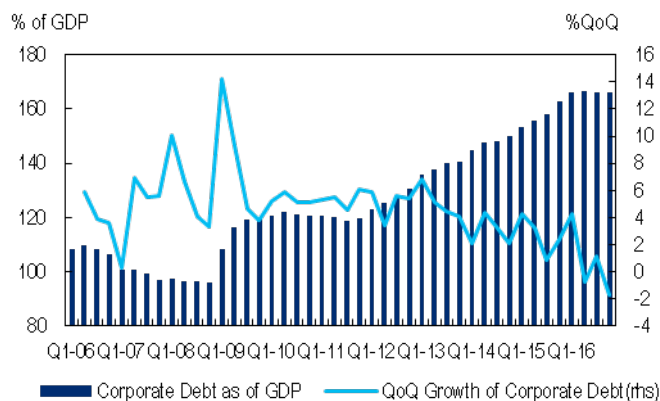
reforms while facing less resistance. We expect more breakthroughs in SOE reform, land reform, urbanization, industrial upgrading, structural rebalancing and further opening up. Economic and financial risks will be addressed but probably in a more contained way. Deepening structural reforms is the key to rejuvenate China's economy.

Figure 7. IMF Projection on GDP Size and Per Capita Income in 2020: China vs US



Source: IMF, Haver and CEIC Research

Figure 8. BIS Corporate Debt as of GDP and QoQ Growth



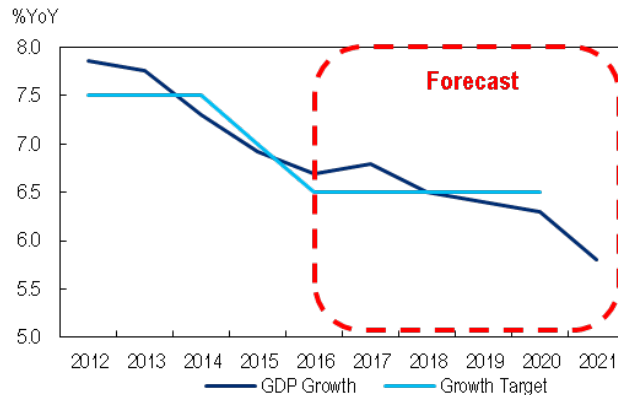
Source: IMF, Haver and CEIC Research

Figure 9. Manufacturing Sector's Global Competitiveness



Source: Citi Equity Research Estimate

Figure 10. Citi Annual GDP Forecasting



Source: CEIC and Citi Research

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Source: Citi Research

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Source: Citi Research

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