Global Counsel

Xi’s next term, or is it his last?

Blog post by Global Counsel Chairman Lord Mandelson, 7 March 2018

At the China Entrepreneurs Conference in Yabuli last week (see my previous blog for reflections), the theme was 40 years of reform and opening up of China’s economy. Earlier in the week, news seeped out that China’s two-term leadership rule was about to be scrapped, allowing Xi Jinping to stay in power beyond 2023. Commentary flooded the international media, but participants at Yabuli were strangely silent on the issue. This led me to think about the role that political leadership has played in the transformation of China over the last 40 years, and what the Chinese think of their current leader.

The transformation of China’s economy is rightly attributed to its successful mix of Leninist politics and market economics. It is said of China’s best-known post war leaders that Mao saved the country, Deng saved the economy and the present leader, Xi Jinping, is saving the Party. There is truth in this.

Before the watershed 19th Party congress last autumn, judgements about Xi varied – is he preparing the way for another major spurt of economic reform in China for which he needs to consolidate his position, or is he simply vanquishing his rivals and enemies? By portraying him as someone who is simply engaged in a giant power grab inside China’s administrative and doctrinal structures, the West has been underestimating him.

Amongst China’s cognoscenti, there is a belief that Xi is indeed preparing to carry China over the threshold to a new era. He calls it revitalisation or rejuvenation - of the economy, the Party, the military and the country’s position in the world. He is certainly ambitious and is regarded with a mixture of reverence and caution. Unlike Putin, who is a more command control leader, Xi has an elaborate Party structure through which to govern. If successful, he and his cohorts will bring fresh legitimacy to the Party’s rule and, if there was an election tomorrow, I would expect him to receive an overwhelming mandate. He is a mixture of the authoritative and the authoritarian.

I asked a senior personality close to Xi whether the new era would bring less state and more market. No, my interlocutor said, more of both. Xi believes that the state-owned sector has an important role, but he wants it to be leaner, meaner, more competitive and less wasteful. He wants private sector skill to combine with state ownership and, increasingly, international capital to transform these enterprises.

In elevating Wang Qishan to vice president (he was my counterpart when I was trade commissioner and we jointly chaired the EU-China High Level Mechanism) and selecting Liu He as vice premier responsible for economics (I got to know him when he was secretary of the Party’s leading group on economic and financial reform), Xi is making two shrewd appointments. They are highly respected internationalists and testimony to Xi’s reform strategy.

How the West responds to China’s new era will define the course of history in the 21st century. China’s Belt and Road initiative – the multi-billion dollar infrastructure investment programme being deployed along the international highways and byways leading to and from China – is an early test of the West's attitude. It seeks to redefine China's whole external environment.

Western governments don't know whether to try to cash in on the programme or denounce it. The German foreign minister, Sigmar Gabriel, recently said that Belt and Road is being used to create a different value system and will bring conflict between democracy and dictatorship. To which the response might be to ask why the West has chosen to create such a vacuum of influence and soft power in the world that is available for China to fill. In contrast to Western leaders, Xi will be providing stability and predictability for a long time, given the abolition of the two-term limit. I doubt whether Germany's businesses, amongst many others, will be holding back from participation in the Belt and Road programme where they see opportunities to do so. China would be wise to spread the benefits.

Meanwhile, one area where the Chinese authorities are retrenching, rather than expanding, is in respect of some of the country's large privately-owned conglomerates, like the insurers Anbang, which has been throwing its money around on show-off purchases like New York's Waldorf Astoria hotel. The problem is that the money isn't Anbang's to throw, it is a mixture of highly leveraged capital taken out of China's financial system and the insurance policies of ordinary Chinese, and wasted on what Chinese leaders regard as an irrelevant trophy asset. It seems the Anbang chairman (before his well-publicised removal and confinement) took Deng's injunction to "get rich quick" too literally – or at least to allow appearances to suggest this. This is now unwise in Xi's China. It shows Xi's strong political touch which, as long as it does not desert him, will serve him well for years (or decades?) to come.