China’s 19th Party Congress: A New Cycle?

October 9, 2017

by Isaac Meng
of PIMCO

Considered the most important political event in China, the National Congress of the Communist Party, held once every five years, has the potential to reshape the political landscape of personnel, policy and institutions for the next decade.

The 19th Party Congress, set to begin on 18 October, could introduce even greater change: Depending on how much President Xi Jinping succeeds in further centralizing power, he could tackle China’s long-term challenges more decisively, signaling an end to 20 years of collective leadership and cautious rule by consensus.

What will happen at the 19th Party Congress?

When the Party Congress begins, General Secretary and President Xi will present a work report to about 2,300 Party Congress delegates – the top echelon of the 89-million-member Communist Party. The report will summarize the achievements and lessons of the past five years and lay out a grand vision for China over the next term (through 2022) and beyond. Group discussion led by the current top leaders will follow, designed to cement broad support for the plan.

On 24 October, the 19th Central Committee of the Party will be elected, consisting of 205 members and 171 alternates. The Party Congress will then conclude with a speech by President Xi.

The following day, the first plenary session of the new Central Committee will elect the 25 members of the Politburo, and most critically, the Politburo Standing Committee (currently seven members, though this could change too), which forms the core of the party leadership.

What to watch for

After the radical anti-corruption purge of the last five years, the upcoming Party Congress is unlikely to be the typical midterm power reshuffle, as seen in 2007. The consensus is that President Xi will centralize power, but the questions are to what degree, and whether there will be more radical institutional change to the party leadership, such as the Standing Committee of the Politburo. If President Xi’s power is strongly reinforced, the 19th Party Congress could be a defining moment for the next decade – essentially, the start of a new political cycle.
We see three developments to watch closely.

1. Will President Xi be elevated to a paramount leadership position and will his ideology – “Xi Jinping thinking” – be crystallized and endorsed as the dominant party ideology?
2. Will there be institutional changes, such as the composition of the Politburo and the conventions surrounding retirement, which could open the door for leadership terms longer than the usual two five-year terms?
3. With the changes to the Politburo and the Standing Committee, who will lead the macroeconomic team? The vice premiers, the cabinet members and the People’s Bank of China (PBOC) governor are all likely to be replaced after the Party Congress.

Macro implications of the Party Congress

China’s specific 2018 policy objectives will be set by the new leadership closer to year-end at the annual Central Economic Work Conference. We expect that economic policy in the coming year will be a continuation of the current focus on “financial risk control and macro stability.” Somewhat slower growth (around 6%–6.5% growth during 2018–2020 would be enough to reach the goal set in 2010 of doubling GDP by 2020) will likely be the target, and monetary policy will likely maintain its hawkish bias. Financial regulation will be reinforced, property curbs could be further tightened, and loose fiscal policy could be reined in gradually.

The new Financial Stability and Development Commission (FSDC), a vice-premier-level group created in July, will have the task of closely coordinating monetary, financial and fiscal policy going forward so as to suppress the types of systemic financial risk that culminated in the severe market shocks of 2015–2016. The creation of the FSDC signals the strong will in China to achieve a much more coordinated and coherent policy focused on macro stability, and the newly appointed vice premier running it will be key in shaping macro policy.

Isaac Meng is an emerging markets portfolio manager with a focus on macroeconomic and financial analysis of China. He is a regular contributor to the PIMCO Blog.

All investments contain risk and may lose value. This material is intended for informational purposes only. Forecasts, estimates and certain information contained herein are based upon proprietary research and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission. PIMCO is a trademark of Allianz Asset Management of America L.P. in the United States and throughout the world. THE NEW NEUTRAL is a trademark of Pacific Investment Management Company LCC in the United States and throughout the world.

©2017, PIMCO