The General Secretary’s Extended Reach: 
Xi Jinping Combines Economics and Politics

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Xi Jinping has seized the initiative in economic policy, making himself the dominant actor in financial regulation and environmental policy, among other areas. These precedent-breaking economic policy roles provide Xi clear political benefits. They strengthen the central government’s power over local actors, and confirm Xi’s personal dominance of the political process.

Quiet economic conditions continue to prevail in the run-up to the 19th Party Congress. However, dynamic economic policy-making has begun to have obvious and significant effects that extend far beyond the economic arenas to which they are initially targeted. A number of recent policy actions show Xi Jinping exercising an extraordinary degree of initiative. This reinforces the consensus view that the 19th Party Congress is likely to conclude with Xi Jinping’s power even greater than before. As economic policy, these actions are likely to display mixed outcomes. They serve to display Xi’s commitment to certain policy objectives, which in some cases makes implementation more effective. However, they also serve as an alternative to institutionalization, which is the only way to ensure the long-term effectiveness of such policies.

Xi is going where no party secretary has gone before since Deng Xiaoping established a set of norms for policy-making under collective leadership. He is putting his stamp on everyday economic decision-making. Perhaps more tellingly, he is doing so in a way that extends central power and gives him personally direct instruments of pressure to reach into local governments. This is policy in the service of personal power, and also personal power in the service of policy. Xi Jinping clearly has a vision of the Chinese political system in which discipline is the watchword. He believes stronger top-down discipline will make the system more effective and more tractable, reducing corruption and increasing effectiveness. At the same time, Xi Jinping uses these disciplinary initiatives to strengthen his own personal power and weaken or eliminate opponents of his personal power.

It is widely accepted that Xi now dominates the Chinese political system more thoroughly than any leader since Deng Xiaoping. The designation of Xi as “core” at the October 2016 Sixth Plenum formalized this, stamping an official seal of approval on something that was already becoming apparent through many other indicators. We have long been accustomed to seeing Xi’s anti-corruption campaign as a weapon to weaken and eliminate rivals, and that use has been subtly expanded during 2017, in two ways. First, as Tony Saich has pointed out, in the January 2017 publicity from the Sixth Plenum, Xi alleged that the five most senior figures accused in the anti-corruption campaign had engaged in “political conspiracies.” That Xi himself was willing to tie together corruption and factional allegiances in making these unprecedented accusations
serves as a clear warning to his political rivals. Second, Xi used the anti-corruption campaign to bring down Sun Zhengcai on July 15, 2017, toppling an active contender to second-tier leadership smack in the middle of the final distribution of leadership jobs for the 19th Party Congress. The fact that Sun was then replaced by Chen Min’er, a close factional follower of Xi, simply made the message even more vivid. In other words, 2017 has seen the anti-corruption campaign explicitly linked to factional politics for the first time, and this serves as an obvious threat to any politician who might think of challenging Xi’s preferences in any way.

The political interactions detailed above are of course widely acknowledged. In this piece, I discuss a few important areas of economic policy and show that the same dynamic processes are at work. In particular, in the financial regulatory crackdown, discussed in the previous issue of the Monitor, we see a strong trend toward personalizing the crackdown and linking it to Xi Jinping personally. Second, a recent program of sending environmental inspection teams to every province reproduces the pressure, and some of the methods, of the anti-corruption campaign. The piece concludes with some brief episodes that also display new kinds of intrusive central policies, also closely associated with Xi. These include the One Belt One Road initiative (or “Belt and Road Initiative”), and the Xiong’an New District in Hebei. A conclusion points to the political implications of these initiatives.

Financial Regulatory Architecture: Minimal Change

The previous issue of China Leadership Monitor described the replacement of the heads of the three main financial regulatory commissions, and the crackdown on financial shenanigans in numerous areas. It emerged clearly from those episodes that one of the basic problems was regulatory arbitrage, in which financial players sought to exploit differences among regulation in different areas to engage in questionable practices. The negative examples, and the presumable triggers of the crackdown, were the fund-raising schemes engaged in by insurance companies, including Foresea and Anbang. The obvious follow-up question was whether this crackdown would result in a new regulatory architecture designed to control such practices. The short answer is: no. No major institutional restructuring was undertaken.

The answer to the immediate question of regulatory structure emerged at the Fifth Financial Work Conference, which took place July 14–15, 2017. The first of these conferences, in 1997, was an essential milestone in China’s construction of a modern financial system; the second, in 2002, laid the framework for the regulatory system that endures today, with three separate Regulatory Commissions for banking, securities, and insurance. After these two crucial meetings, the Financial Work Conference became routinized, taking place every five years, and immediately lapsed into irrelevance, or worse. The fifth such conference occurred at a more opportune moment because of the regulatory crackdown, but still must be judged a disappointment.

The conference determined to keep in place the existing regulatory framework, but to add on a strengthened oversight layer. The conference also set up a Financial Stability and Development Committee under the State Council. It needs to be stressed that there has
already been, since 2013, an Inter-Ministerial Coordinating group on financial regulation, chaired by the People’s Bank of China (PBC). The purpose of the new committee is to raise the group in rank and give it an expanded ability to propose legislation and broader changes. The committee’s scope is potentially quite wide, since its name (and presumably its remit) includes financial “development” and not just regulation. Its practical significance, role, and scope will be determined by its ultimate head, who will presumably be a vice-premier. Tellingly, however, no appointment to that position was made, either at or in the wake of the Financial Work Conference. Thus while it was decided to create a powerful and authoritative body of wide-ranging scope and meant to preside over financial regulation, no actual decisions about who or what that body would be were made.

The new committee has more or less the same structure as a “leadership small group.” Leadership small groups have generally worked well as single-issue groups focused on specific policies, such as health care reform. However, as a permanent oversight body, much less a combined oversight-and-policy body, the leadership small group has a much sparser track record. A key question for any leadership small group is who staffs the office (since leadership small groups do not have their own permanent staff). Not surprisingly, in the instance of the new committee, the PBC will assume the office functions, that is, it will provide the staffing. In essence, then, the PBC was given a professional leadership role over the three regulatory commissions. The PBC is already generally viewed as “first among equals,” so this ruling makes the PBC’s predominant role more explicit.

Presumably, additional matters about the distribution of regulatory authority will not be determined until after the 19th Party Congress. To be sure, an ambitious vice-premier might make the Financial Stability and Development Committee into something effective—after the 19th Party Congress—but there is no particular reason to believe that will happen. For now, the changes in regulatory framework are modest.

At this point, each of the three heads of the regulatory commissions has a strong and distinctive personality, and a strong and distinctive approach to regulation. Political leaders did not want to disrupt this activist troika, nor be seen as punishing any of the inevitable losers if regulation was consolidated under a single head. At the same time, the political challenges of such a consolidation are also daunting, since each agency has its own expertise, insider information, and related interest groups. None of these issues were tackled.

In this sense, the outcome of the Financial Work Conference was the obvious equilibrium outcome. The existing system has accumulated significant capabilities in regulation, and has finally moved off policy ground-zero. Progress is being made in uncovering abuses. Given the fraught financial circumstances in which China now finds itself, the danger of regulatory failures in the wake of a complete restructuring of the financial system is probably large. So it makes sense to stay the course for now. But this outcome certainly implies that the current system will continue, under which individual cases serve as
highly publicized markers of what is permissible and what isn’t, and spectacular falls are an intrinsic part of the regulatory landscape.

The other significant outcomes of the Financial Work Conference all related to the current policy setting: The financial sector is to serve the real economy; the high profits accruing in the financial sector are to be viewed with a certain amount of suspicion; the “de-leveraging” effort is to continue. Above all, discipline is to be emphasized and Communist Party leadership strongly reaffirmed. Fines have already increased dramatically, and inspection teams have been sent to futures companies and exchanges. Potentially most important is a novel emphasis on the role of the judicial system in prosecuting financial crimes. Of course, many financial cases have gone to the courts in past years, but this new initiative marks a fundamental shift in which court prosecutors take a proactive stance in ferreting out financial wrongdoing.

Personalizing the Financial Regulatory Storm

The financial regulatory storm began unambiguously in December 2016 with scarcely veiled attacks on the Foresea (Qianhai) Insurance Company and its boss, Yao Zhenhua. Rather than transitioning into a strengthening of regulatory institutions, this “storm” has instead morphed into a broader crackdown, but one with four main corporations selected to bear the brunt of heightened financial scrutiny. These four companies—Anbang Insurance, Wanda Real Estate and Entertainment, Hainan Airlines, and Fosun Pharmaceutical—have been the largest and most aggressive diversified acquirers of foreign assets. Beginning in late June, these four companies have been under constant pressure from financial regulators, and have scrambled to reposition themselves.

The crackdown on these four companies have provided an immense amount of entertainment and the various stories have been well covered in the English-language press, beginning with the South China Morning Post. The maneuverings of Wang Jianlin, head of Wanda and often tipped as China’s richest man, have been especially interesting. Wanda announced on June 22 that its finances were completely in order with “optimal cash flows and no default risks,” and then three weeks later sold off U.S. $9 billion worth of real estate to the Sunac China group, easily the largest single real estate transaction in Chinese history. Since then Wang Jianlin has been busy aligning himself with the priorities of Xi Jinping, selling off entertainment assets, and investing in Western China. China’s richest man clearly accepts that the party is the boss, and believes that he can reposition himself in conformity with the regime’s demands. Wu Xiaohui, the former head of Anbang, is probably not so lucky, having stepped down in February. Fosun has forged ahead with the acquisition of a U.S. pharmaceutical company (Arbor Pharmaceuticals), but will certainly scale back the diversified acquisitions that have characterized its activities over the past few years. The most dramatic and mysterious of all is Hainan Airlines (HNA) which has completed some of its acquisitions, while also transferring a 30 percent ownership stake to a Buddhist charity foundation that technically may not yet exist.

These firms are linked substantively by the fact that all have made massive overseas acquisitions. It has also been alleged that they are linked to the interrogation of Xiao
Jianhua, abducted from the Four Seasons Hotel in Hong Kong in January 27, 2017 by unknown persons widely believed to be Chinese security agents. Jonathan Fenby, one of the most seasoned China journalists, described how Xi Jinping, when briefed on Xiao’s confession, “is reported by several sources to have gone into a rage, pounded his fist on the table and demanded action against the culprits.” The New York Times attributed a similar version of the story of Xi Jinping’s anger to Tony Saich, who in addition to being a distinguished Sinologist and Harvard professor, is on the board of Wanda’s AMC Entertainment.

These stories may well be true, but it is important to recognize that they are also “leaks,” that is, selectively released information designed to put a certain spin on events. This particular leak is ideally constructed to give us the impression that, one, Xi really didn’t know this was going on before and, two, as soon as he found out about it, he took decisive action. Neither of these is likely to be true. First, it has been reliably reported that Xi Jinping’s elder sister, Qi Qiaoqiao was an early investor in Wanda who transferred her stake to an associate on the eve of Xi’s accession to power. Moreover, the subsequent Panama Papers revelation confirmed that Qi Qiaoqiao’s husband—Xi Jinping’s brother-in-law—maintained offshore accounts in Panama in 2016. So Xi is most unlikely to have been surprised by ways that elites can move money offshore.

Second, the chronology doesn’t work. The regulatory crackdown started in December 2016, so Mr. Xiao’s abduction on the following January 27 is more likely the outcome of the crackdown than a catalyst for it. Xi’s reported shock and surprise may explain some, but only some, of the targets selected for the current regulatory crackdown. It doesn’t explain the crackdown itself.

What the leak does show is Xi Jinping’s determination to cast himself as the protagonist in the regulatory crackdown story. It is Xi who is demanding discipline and financial probity, in the name of the party and in the name of its leader. Xi has identified the regulatory crackdown with his own personal leadership in several stages in 2017, as reported in the previous issue of CLM.

Environmental Inspection Teams

During 2016 and 2017, every province has hosted a central government environmental inspection team. Initially piloted in early 2016 with Hebei, but gradually expanded to four successive waves (or “batches”) that cover all provinces during 2017, environmental inspection teams have fanned out across the country. Each team spends about a month in each province, evaluating compliance with environmental policies and regulations. It sets up a citizen hot line for complaints about environmental problems. The explicit target of the team is the provincial leadership, both Communist Party and government officials.

This system replicates a key feature of the anti-corruption campaign, which included the dispatch of special inspection teams from the Central Disciplinary Inspection Commission (CDIC) to every province, major state-owned enterprises, and numerous universities and nonprofit organizations. These central government environmental inspection teams, in spite of their different policy objectives, bring a number of features from the earlier experience. First, each inspection team is headed by a current or recently
retired ministerial official, so that they are of at least equal rank with the provincial party secretaries and governors who are the object of their oversight. Second, each group includes not only a vice-chair from the Ministry of Environmental Protection, but also officials from the CDIC and the Organization Department.\textsuperscript{13} In other words, each inspection team brings the requisite central government manpower to give it “clout.” The Organization Department official is there to make sure that the fulfillment of environmental objectives is in fact given serious weight in the provincial officials’ career evaluation, so that economic objectives are not the only criteria being weighed. The CDIC official is there to ensure that violations of environmental rules or policy can be dealt with strictly.

In addition, the environmental inspection teams trace their policy lineage to a 2015 meeting of the Deepening Reform Leadership Small Group, the extraordinary party organization set up to foster Xi’s economic reform agenda.\textsuperscript{14} The meeting, held July 1, explicitly laid out the principle that both Communist Party and government officials would be held accountable for both environmental and economic development objectives, and that supervisions would be strengthened. Whether that meeting explicitly advanced the ultimate design of the environmental inspection teams is not clear, but it certainly set in motion the gradual creation of a system of heightened central supervision. Thus, environmental policy enforcement now boasts an instrument of central control that is in turn linked to Xi Jinping’s personal leadership and his effort to deliver on his policy promises, in this case environmental.

By all indications, the arrival of these teams in a province is a serious matter for the local leadership. The press reports thousands of officials held accountable in each wave of inspections, tens of thousands of remedial actions, and new environmental initiatives at the provincial level.\textsuperscript{15} Officials must scramble to show they are responsive and to rectify serious problems. A special subset of this enforcement effort is taking place with coal mine safety inspections (dangerous coal mines are often the most polluting as well). Inspection has been stepped up, provincial officials have been held personally accountable, and fines and punishments significantly increased.\textsuperscript{16}

**Economic Policy Initiatives**

The two foregoing cases—financial regulation and environmental inspection teams—could both be considered a Chinese model of regulation. That is, they impose stricter rules and closer enforcement, but are in principle compatible with a decentralized market economy. However, at the same time, the Xi Jinping administration is carrying out a series of policies that concentrate an increasing share of economic decision-making power in the hands of the state and the Communist Party. These are important policies with wide implications, and are only briefly mentioned here.

*One Belt One Road (OBOR)*

The “Belt and Road Initiative,” the policy formerly known as One Belt, One Road, has taken on an explicit new meaning in 2017 as one of the few types of preferred external investment. This ambitious program supports Chinese-led and financed infrastructure
construction in China’s Asian neighbors. In its earlier incarnations, the Belt and Road Initiative was a loose bundle of initiatives that met with the favor of the central government, and of Xi Jinping in particular. Before, it was possible to give nominal support to the initiative and do little, but now OBOR will draw resources from other types of potential outward investment. This is explicitly the case since the State Council issued binding guidelines on external investment on August 4, 2017.17 Just to make sure there is no misunderstanding, the National Development and Reform Commission, the agency formerly known as the State Planning Commission, indicated it would give enhanced guidance to investments within the OBOR region.18 These actions clearly pull resources out of the market track and into a domain where government planners have an explicit voice.

Xiong’an New District

The domestic analogue to OBOR is the Xiong’an New District in Hebei. Like OBOR, Xiong’an has Xi Jinping’s fingerprints all over it. Indeed, Xi has personally identified with the entire program to restructure the entire Beijing-Tianjin-Hebei (Jing-Jin-Ji) region. Xiong’an New District is the jewel in the crown of the regional reconstruction program, a new city designed to display modernity, environmental friendliness, and seamless integration into knowledge and transportation networks.19 This ambitious program clearly draws investment resources into the state-planned municipality, leaning against the inclinations and wishes of current Beijing residents.

These programs provide resources and almost demand compliance from local government actors and businesses. As a result, they can also be effective instruments of political power. They enhance the power of the central government, and they enhance and display the power of Xi Jinping.

Conclusion

As a preliminary matter, all these initiatives show Xi Jinping reaching deep into economic policy arenas. It is quite unprecedented for a general secretary to dominate economic policy-making in this way in China. Even Deng Xiaoping never did—you have to go back to Mao Zedong to see a Chinese Communist Party leader dominate economic policy in this way.20 This is very striking as a shift in the policy process in China.

In terms of the immediate political impact for Xi and the 19th Party Congress, these economic initiatives help explain the manner in which Xi has been able to establish such personal political dominance. Xi has seized the initiative in many areas, and is far ahead of any potential rival for political power. He can punish opponents: the threat of charges or accusations on account of corruption, violation of financial regulatory norms, or environmental policy failures is serious. He can reward supporters: promotion and resources for central government programs are easily channeled to favorites. It is not just the obvious point that no politician could possibly challenge Xi for the top job. It is the more subtle point that challenging any of Xi’s initiatives or arrangements could be very costly, and any Chinese politician will hesitate to do so.
Xi’s objectives are political in another sense. They help him deliver on his promises, particularly those that resonate with the public. Environment is one area in which Xi has promised much; and while much has been done, the average Chinese citizen has yet to see evidence of improvements in air, water, and soil quality. Enhanced environmental compliance will certainly contribute to Xi’s standing among the populace. The fact is that Xi will appear to the average Chinese citizen to be delivering on his promises for cleaner government, cleaner environment, and more regular financial procedures with less financial risk.

Xi’s actions raise important questions from a systemic perspective. He is shifting the fundamental political economy of the Chinese system, making it more centralized, more top-down, and more personalized. He is developing new instruments to make this kind of centralized system work more effectively. These new instruments should be seen as an alternative to the independent regulatory institutions that are the norm in all other developed market economies. The system is drawing more resources into those areas of investment that are dominated by central policy decisions. The future success and stability of the system will depend on whether those investments can be used effectively and efficiently.

Notes
5 Cao Wenjiao 曹文姣, “期货公司专项检查全面启动” (Special inspection on futures companies was launched), Caixin Online (财新网), July 28, 2017, accessed at http://finance.caixin.com/2017-07-28/101123579.html.


11  “I think virtually all these things that are unfolding now are possibly related to Xiao’s trip across the border,” Saich is quoted as saying. “My sense is this has gone up the system to Xi and they are just staggered by what is going on.” See Michael Forsythe, “A Missing Tycoon’s Links to China’s Troubled Dalian Wanda,” *New York Times*, August 10, 2017; accessed at https://www.nytimes.com/2017/08/10/business/dealbook/china-wanda-xiao-jianhua.html.


13  Pengpai News Network (澎湃新闻), “揭秘中央环保督察组: 部级干部任组长 中纪委参加” (Revealing the secrets of the Central Environmental Inspection Groups; Ministerial cadres lead and the Discipline Inspection Commission participates), January 6, 2016; accessed at http://news.163.com/16/0106/07/BCMKH1IE00014AED.html. In several cases, the ministerial-rank officials actually held vice-ministerial jobs, but achieved personal ministerial rank on retirement through positions in the CPPCC and other entities.

14  Ibid.


17 State Council Office 国办发, “关于进一步引导和规范境外投资方向的指导意见〔2017〕74号” (Guiding opinions on further leading and regularizing outbound investment, Document 74, 2017), August 4, 2017; accessed at http://www.gov.cn/zhengce/content/2017-08/18/content_5218665.htm.

