

# **The 19<sup>th</sup> National Congress of the Communist Party of China: Preparation for a New Era**

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# **THE 19<sup>th</sup> NATIONAL CONGRESS OF THE COMMUNIST PARTY OF CHINA: PREPARATION FOR A NEW ERA<sup>1</sup>**

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<sup>1</sup> The Research was conducted before the 19<sup>th</sup> National Congress took place on 18<sup>th</sup> October 2017. Some opinions will remain unchanged, some will be updated according to the results of the 19<sup>th</sup> National Congress.

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## **INTRODUCTION**

The 19<sup>th</sup> National Congress of the Chinese Communist Party was held in China on 18<sup>th</sup> October 2017. With nearly 90 million Party's members, of which the total number of participants were 2,300 party delegates, this year's congress has been considered the largest one since the first one. After Xi Jinping became the General Secretary of the Communist Party of China, the country has witnessed fast changes in terms of both internal and external relations.

As regards internal relations, an absolutely different power structure compared to the previous generations of leadership has been established owing to reorganization, personnel restructuring and especially, the anti-corruption campaign. The power has been more concentrated, decisions have been quickly made and there have been more and more ambitious ideas. Besides, the military reform has also made significant progress. Nonetheless, it seems that economic reforms have failed to meet commitments. With respect to external relations, China quickly becomes a powerful country in the region. From the position of a rule taker, China established a simulative system, which parallels the current power system to form a new one. For instance, the foundation of the Asian Infrastructure Investment Bank (AIIB) with 57 founding countries, the Belt and Road Initiative (BRI) and the New Development Bank, etc.

Such changes have posed multi-dimensional influences on the Asia – Pacific region and the whole world, as well as direct ones on neighbor countries. In this context, the 19<sup>th</sup> National Congress Of The Communist Party Of China not only marks five years in power of Xi Jinping, but also opens a new development direction for China in the next 10 years. With a host of crucial targets to fulfill in the next term after the 19<sup>th</sup> Party Congress, China will surely take more drastic and unpredictable actions. Therefore, it is of significant importance for countries like Viet Nam to keep a close watch on and conduct an in-depth analysis of the 19<sup>th</sup> National Congress – the first movement for the following years of development.

## **CHINA IN THE FIRST TERM OF XI JINPING (2012 – 2017)**

### ***Politics of China – the devolution of powers and political features under Xi Jinping***

Surprisingly, the devolution of power of China from the fourth generation of leadership to the fifth one was much more rapid and peaceful than forecasted. It was marked by the fact that Xi Jinping took three crucial constitutional positions – different from Hu Jintao who merely served as Chairman of the Central Military Commission after two years taking up office.

Xi Jinping, an ambitious leader, quickly strengthened his power and amassed a supporting force to ensure that his decisions were strictly abided by. The political institution structure also experienced significant changes with the establishment of a number of “small groups”, which were beyond the control of the National Emblem and directly steered by Xi Jinping. Military reform was drastically conducted without interruption. The number of members of the Politburo Standing Committee was reduced to seven. Until the 6<sup>th</sup> plenary session of the 18<sup>th</sup> Central Committee of the Communist Party of China, Xi Jinping was officially considered the “core leadership”. All of the above movements contributed to the significant centralization of the China’s political institution. Differences were clearly seen in policymaking under Xi Jinping compared to previous periods as follows:

1. Personal hallmark was demonstrated. Important initiatives such as the Belt and Road Initiative (BRI), the anti-corruption campaign, the planning of roadmap and reforms of the 3<sup>th</sup> plenary session of the 18<sup>th</sup> Central Committee were directly steered by Xi Jinping.
2. Centralization was dramatically strengthened. The number of state agencies taking part in decision making was shrunk, which sped up and enhanced the effectiveness of this activity. Xi Jinping was the leader of 13 small groups whose foundation was not related to his three crucial constitutional positions. Centralization was not only demonstrated in personal relations of Xi Jinping, but also in the central – local relation through two channels: (i) change the appointment mechanism from assessment based on local economic achievements to direct appointment decided by the General Secretary, the anti-corruption campaign was applied to serve the personnel arrangement, (ii) local administration was shrunk as the financial allocation for localities diminished.

**Table 1. Compare the decision making mechanisms under Xi Jinping over previous periods**

No.	Post-Mao period	Xi Jinping period	Implementation methods of Xi Jinping
1	Decision making was based on collective consensus with core power belonging to the Standing Committee of the Central Political Bureau of the Communist Party of China	Decision making was highly centralized. Collective consensus was still applied, however, that core power belongs to the Standing Committee of the Central Political Bureau of the Communist Party of China was gradually replaced by the “consensus” definition of Xi Jinping	<ul style="list-style-type: none"> <li>- The number of members of the Politburo Standing Committee was reduced from nine to seven.</li> <li>- 13 small groups were established and steered by Xi Jinping.</li> <li>- Xi Jinping was officially considered the “core leadership” in the 6<sup>th</sup> plenary session of the 18<sup>th</sup> Central Committee of the Communist Party of China</li> </ul>
2	The central – local relation allowed localities to submit comments on the drafting of legal documents.	Localities’ administration was shrunk	<ul style="list-style-type: none"> <li>- The anti-corruption campaign</li> <li>- Tax reform</li> <li>- Judiciary system reform in the 4<sup>th</sup> plenary session.</li> </ul>
3	Participation in decision making was expanded with the involvement of the central communication agencies (CCTV, Xinhua News Agency, People's Daily) and core central state-owned enterprises.	State-owned enterprises were strictly controlled by the Central Commission for Discipline Inspection (CCDI)	<ul style="list-style-type: none"> <li>- Anti-corruption</li> <li>- The management role of the Party in economic corporations and central state-owned enterprises.</li> <li>- Addition of the Party charter to operational charter of Chinese listed companies.</li> <li>- Administrative intervention (require state-owned enterprises to increase investment to avoid a decline in economic growth).</li> </ul>
4	Horizontal coordination of ministries and branches was cumbersome, coordinating agencies which were super ministries were a miniature model of the National Development and Reform Commission (NDRC)	Horizontal coordination was strengthened by a super ministry which were not under the National Development and Reform Commission (NDRC)	<ul style="list-style-type: none"> <li>- More than 10 committees directly steered by Xi Jinping were established after the 18<sup>th</sup> National Congress, which were not related to the three crucial constitutional positions of him (President, General Secretary, Chairman of the Central Military Commission)</li> </ul>

5	The state's influence was more significant than the Party	The absolute leadership role of Party was gradually recovered	<ul style="list-style-type: none"> <li>- Anti-corruption</li> <li>- The guiding role of the Party in economic activities and in enterprises.</li> <li>- Expel protestors against reforms (Xi Jinping's policies) from the Party</li> </ul>
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*Source: Summarized by the Author*

3. The expansiveness of decisions. Economic reform proposals in the 3<sup>rd</sup> plenary session of the 18th Central Committee of the Communist Party of China, the One Belt and One Road Initiative (OBOR) or the Free Trade Zones (FTZ), etc. are expansive with a great number of ambitions, involved many regions and areas. After the announcement of the Resolution of the 3<sup>rd</sup> plenary session, analysts paid more attention to the large scale of the reforms, as well as showed disappointment about the inappropriate time frame as well as unclear orientation for prioritized areas.
4. Ambiguousness and incoherency of decisions increased. Such feature was due to the fact that all information and power were concentrated on newly established specialized committees, which were even granted more power than ministries. Therefore, the transference of viewpoints and explanation of ideas and methods from Xi Jinping and these committees to other ministries and branches took a longer time than before. The materialization of initiatives and policies proposed by these committees was also restricted due to the discrepancy in understanding of such initiatives and policies of ministries, branches and localities. A typical example is the Belt and Road Initiative (BRI). This is an important but abstract decision which causes confusion in the implementation of localities, ministries and branches.

### ***Chinese economy – stability in economic growth and perfunctoriness in reforms***

Several reforms were conducted in the first five years taking up office of Xi Jinping, but they mostly concentrated on the following areas: (i) the Party's operation, (ii) wide and deep military reform, and some related to (iii) political reforms. Economic reform was fostered in some areas, i.e. reforms in collective ownership of land, law on labour, state-owned enterprises and ones in financial and monetary area. Nonetheless, in general, stages and speed of economic reform did not meet commitments made at the beginning of his term.

The three most three important documents in the past five years, equivalent to three operational – economic focuses included the Resolution of the 3<sup>rd</sup> plenary session of the 18<sup>th</sup> National Congress, the 13<sup>th</sup> five-year plan and the document of the Belt and Road Initiative (March 2015).



**Table 2. Major reforms, China, 2012-2017**

No.	Areas	Major measures
1	Reform of state-owned enterprises	<ul style="list-style-type: none"> <li>- Speed up the improvement of enterprise administration with pilot application for six large economic corporations yet concentrating on three less important areas.</li> <li>- Reform in ownership mechanism. In the 3<sup>rd</sup> plenary session, local governments were encouraged to develop plans to shift to mixed-ownership system. Nonetheless, the pilot shifting program is slowly conducted.</li> <li>- Promote the merger of large state-owned enterprises.</li> </ul>
2	Reform of the collective ownership of land and the household registration system in rural areas.	<ul style="list-style-type: none"> <li>- The current land management mechanism is selected to be reformed.</li> <li>- Transfer of collectively-owned land is allowed – private-owned agricultural land is not mentioned.</li> <li>- This measure aims at making capital for agricultural production easier to access, encouraging the accumulation of land for agriculture.</li> <li>- Reform in household registration system is conducted in large provinces and cities.</li> </ul>
3	Financial and monetary liberalization	<ul style="list-style-type: none"> <li>- Liberalize both deposit interest rate and lending interest rate.</li> <li>- Change the exchange rate regime of the Yuan. Significant changes were conducted in August 2015. The People's Bank of China (PBoC) sets a reference exchange rate at the end of the day and allows the market's regulation around this level. Nonetheless, when the exchange rate of the Yuan wildly fluctuates, the PBoC still intervenes the market by purchase or sell currency in a large sum in Hong Kong market – in some sessions, the central bank even intervened the exchange rate by 1%.</li> <li>- Connect the Shanghai and Shengzen Stock Exchange and the Hong Kong Stock Exchange.</li> <li>- The Yuan is included in SDR basket of the IMF.</li> </ul>
4	Control financial risks	<ul style="list-style-type: none"> <li>- Allow provincial governments to issue bonds (applied with about 50% of the total provinces), nonetheless, mobilized capital is moderate. In 2016, debts of local government increased which made the central government worried.</li> <li>- Officially issue the plan on swapping debts to equity in order to ease difficulties and reduce risks for enterprises. The point is that this method will be considered as an untraditional loose monetary policy.</li> </ul>

5	Tax and fiscal reforms	<ul style="list-style-type: none"><li>- Fiscal and tax reforms are being implemented and the government has also conducted a pilot linkage program at city level from May 2014. This action may exert important influences on the changes of budget system of China.</li><li>- Tax on corporate income is switched to value added tax.</li><li>- Issue Law on Wealth Tax.</li><li>- Build institution on national budget to reallocate state budget revenues and expenditures between the central and localities.</li><li>- Swap debts of state-owned enterprises to equity.</li></ul>
6	Upgrade industries	<ul style="list-style-type: none"><li>- Close several enterprises in traditional industries which cause pollution and have low returns such as steel, cement and coal industries.</li><li>- Merge a number of state-owned economic corporation to enhance global competitiveness.</li><li>- Issue the Made in China 2025 strategy.</li></ul>

*Source: Summarized by the Author*

There are two facts which reveal the perfunctoriness of reforms compared to commitments at the beginning of the 18<sup>th</sup> National Congress.

*First*, all researchers currently believe that the focal point of Xi Jinping's policies "inherits" many features of Lenin's policies, which puts great emphasis on political reforms rather than economic ones. For instance, according to Feigenbaum and Ma (2015), main missions of Xi Jinping in his first term were not to solve economic problems but to purge and stabilize internal structure of the CCP with three clear tasks: (i) clean up the CCP, (ii) enhance discipline, and (iii) enhance strength and sustainability of the Party (Feigenbaum and Ma, 2015).

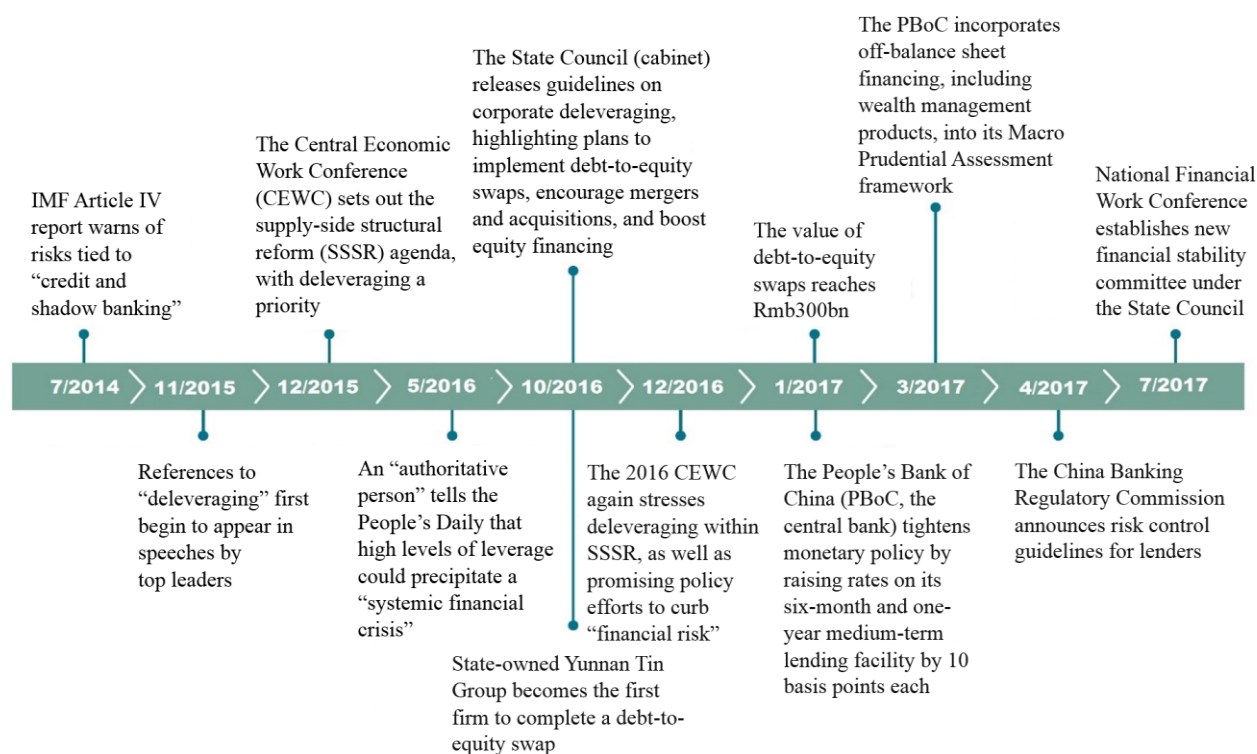
*Second*, in the first phase of the term 2012 – 2017, China bravely conducted many reforms taking priority over cleaning up the economy, enhancing quality of growth while accepting a lower economic growth rate. The PBoC usually postponed lowering interest rates and reserve requirement ratio of the commercial banking system to urge economic subjects to increase their effectiveness. It posed great pressures on economic growth. However, after that, loose monetary policies were applied since the beginning of 2015 with four times lowering interest rates and twice cutting the reserve requirement ratio in the whole year, aiming at ensuring the achievement of set targets. Especially, economic growth of China is boosted by investment in infrastructure, the real estate and investment of the state-owned enterprises. The most severe problem of the Chinese economy in the three quarters of 2016 was the sudden decrease of the private sector's investment (a decrease of 80%), therefore, the government had to urge the state-owned enterprises to increase their investment by three times, despite of the fact that investment of this sector was less effective than that of the private sector.

In general, economic achievements in the first term of Xi Jinping were as follows: (i) changes in economic thinking, which is demonstrated by the acceptance of a lower economic growth rate with improvement in growth quality, less pollution and reducing waste of resources: this is the “new normal” definition; (ii) present a prospect of major economic reforms in the two term taking up office; (iii) promote reform in financial liberalization with positive outcomes. Nonetheless, the two basic challenges of economic reforms existing for the past five years were not solved.

*First*, the reform route announced in the 3<sup>rd</sup> plenary session of the 18<sup>th</sup> National Congress was lack of focuses, priorities and too ambitious. With 60 articles and 336 detailed measures, the “Resolution” of the 3<sup>rd</sup> plenary session demonstrated commitments of the Politburo of the CMC, nonetheless, this was not a reform strategy due to the following reasons: (i) conflicts were clearly seen in each reform area, (ii) no priorities were mentioned, (iii) a great number of crucial issues were not thoroughly discussed before becoming a part of the Resolution.

*Secondly*, dealing with the large debt of the economy. China’s debt went up from 141.3% of GDP (in 2008) to 260% of GDP (in 2016). Financial leverage quickly rose after the 2008 crisis – in contrast to developing countries’ efforts. The most significant concern over debts of China was (i) debts of state-owned enterprises, (ii) debts of local governments and (iii) debt of the shadow banking system.

**Figure 1. Timeline of controlling financial risks, China, 2014-2017**

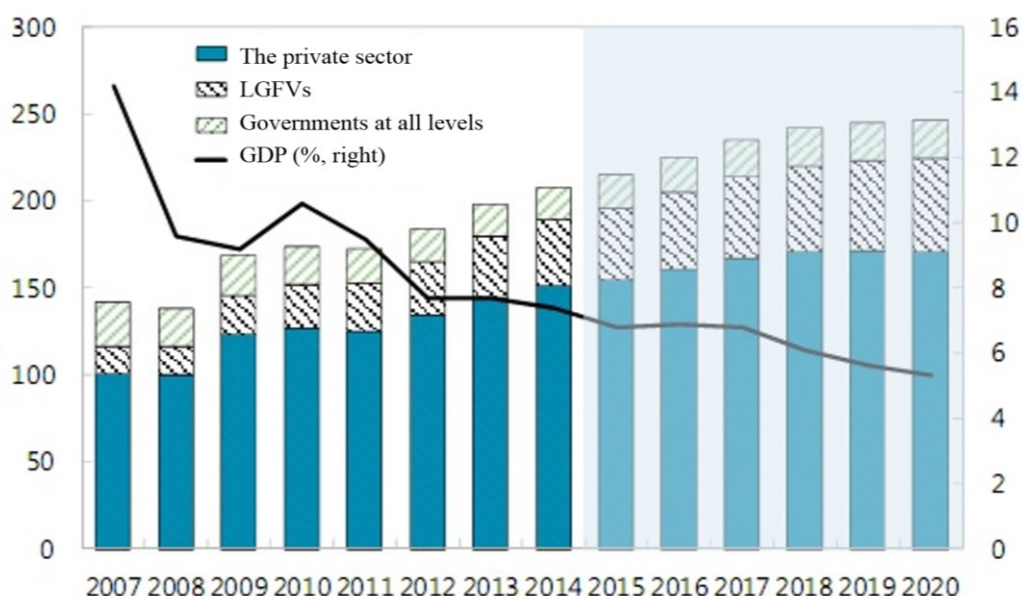


*Source: EIU (2017)*

Debts of state-owned enterprises, which is considered as the main reason for the surge in Chinese's debt. From 2004 to 2014, debt ratio of Chinese state-owned enterprises climbed from 107 to 160% of GDP. At the end of 2015, 42% of state-owned enterprises suffered losses while 1.8 million workers were made redundant due to restructuring activities in the coal and steel industries. At the end of 2016, China had to merge several state corporations and give up dissolving state-owned enterprises with poor performance while the number of “zombie companies” fell moderately. According to a survey conducted with 6,800 bond issuers, at the beginning of 2016, the rate of getting a new loans to pay off the existing ones reached 42% while that figure for 2014 was only 8%. The Global Financial Stability Report 2016 of the IMF showed that about 1,300 billion USD of credit was risky loans, accounting for 15.5% of the total and three times higher than the figure announced by Chinese government.

Debts of local governments. For local governments, land revenues make up 75% of the total revenues of local governments. Nonetheless, due to the frozen real estate market, revenues from this source plunged. In 2015, land revenues went down by 30-40%, posing more challenges on the repayment ability of local governments. The pilot program on allowing provincial government to issuing bonds has been applied in half of provinces. Nevertheless, it is not easy to sell such bonds due to the lack of transparent information as well as audit criteria. Moreover, the issuance of 1,000-2,000 billion Yuan of bonds is not enough to cover the large-scale debts of this country. By the end of September 2017, provincial governments had borrowed an addition of 160 billion USD through capital mobilization channels, 20% higher than such figure for the whole year 2015.

**Figure 2. Debt settlement and GDP economic growth rate of China up to 2020 (% GDP)**



*Source: IMF (2017)*

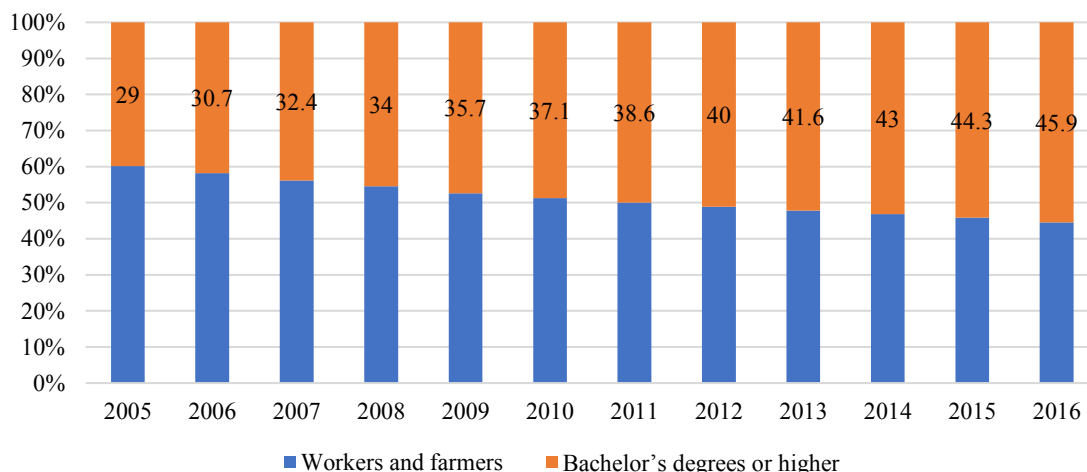
In the China's National Financial Work in July 2017, Xi Jinping stressed that “reducing debts of state-owned enterprises must be given top priority” (Hoa Phong, 2017).

## CHINESE POLITICS IN PREPARATION FOR THE 19<sup>TH</sup> NATIONAL CONGRESS

### *Personnel issues before the 19<sup>th</sup> National Congress*

Personnel structure of the CCP has been significantly improved with the proportion of the party members being workers and farmers falling from 43.2% to 37% (2005-2016). Party members holding a bachelor's degrees or higher increased from 16.7% to 45.9%. The three elite groups are leaders, enterprises and those with high qualification made up 10% of the total.

**Figure 3. Party members by qualification (%)**



*Source: MERICS (2017)*

The average age of party members is high (the group of those aged 60 or above is growing faster than the group of those aged 35-60), therefore, preparation for the next force will be strengthened. Of all 370 provincial leaders, 298 ones were born in the 1960s and 80.7% of the provincial Party Secretaries were born in the 1960s. The personnel selection mechanism changes with selection criteria as follows: (i) experiencing difficulties and gaining a number of achievements in provinces; (ii) be loyal to Xi Jinping; (iii) have close relationship with Xi Jinping, called the “helicopter mechanism” like the case of Cai Qi. Cai Qi (1953) served under Xi Jinping in Fujian and Zhejiang and becomes the Communist Party Secretary of Beijing after only eight months.

In 2016, leaders in 29 out of 31 provinces were appointed and in the first six months of 2017, governors of 17 provinces were changed while more than 200 members of the Party Standing Committee of provinces were promoted. New eight provincial secretaries and governors were appointed to the leadership board of state-owned enterprises. That appointments were made on a large scale for those who were born in the 1960s demonstrated that the personnel preparation for next terms of the CCP was almost finished. With such rapid personnel arrangement and some direct appointments, it was believed that Xi Jinping power would be more and more strengthened after the 19<sup>th</sup> National Congress. The increasing power of Xi Jinping may result from (i) arrange positions in the Politburo and the Politburo Standing Committee, and (ii) the addition of Xi Jinping's thought to the Party Charter.

It was expected that the members of the Politburo's Standing Committee of the CCP may include: (i) Xi Jinping – General Secretary; (ii) Li Keqiang (Chairman of the National People's Congress; Wang Yang (Premier); Hu Chunhua (Vice Premier); Han Zheng (Chairman of the Chinese People's Political Consultative Conference (CPPCC); Li Zhanshu (First Secretary of the Central Secretariat of the Communist Party of China); (vii) Chen Miner (Secretary of the Central Commission for Discipline Inspection). Of 25 members of the Central Politburo of the Communist Party of China, it is expected that 11 people will be appointed by Xi Jinping while the other four members are appointed by Wang Qishan. Therefore, there will be 15 supporters of Xi Jinping out of 25 members of the Politburo.

### ***Xi Jinping thought***

The most controversial issue before the 19<sup>th</sup> National Congress was whether the Xi Jinping thought would be added to the Party Charter. In the past, the “three represents theory” of Jang Zemin and the Scientific Development Concept were added after his two terms. If Xi Jinping thought were added, his political position and power concentration reached the peak.

### ***Political trend after the 19<sup>th</sup> National Congress***

The following six political trends will shape Chinese politics after the 19<sup>th</sup> National Congress.

1. Centralization of power continues. One political feature under Xi Jinping is promoting the propagation of Mao Zedong ideology. Focusing on Mao Zedong ideology will strengthen the central role of the Party in all areas of the society and the economy. The role of the government in decision making will diminish while personal influences of leaders will expand.
2. Ideology will control both the hearts and thoughts (Social Credit System); minimise the impacts of westernization; promote the propagation of Xi Jinping theory via the National Textbook Commission.
3. Enhance the presence of the CCP as well as the role of the CCP compared to the government, implementing the absolute leadership of the CCP. In the previous term, the CCP's presence was promoted in state-owned enterprises, NSEs and non-government organizations. The mixed-ownership economy and civil society organizations are possible to be concentrated in the second term.
4. The policymaking will consistently be steered by subcommittees with direct supervision of Xi Jinping.
5. The group of politicians who were born in the 1960s reveals no clear signs.
6. Anti-corruption will be continuously conducted at the highest level (from the members of the Standing Committee of the Politburo) and at grass-roots level (eliminate more “flies”).

## CHINESE ECONOMY TOWARDS THE 19<sup>TH</sup> NATIONAL CONGRESS AND BEYOND

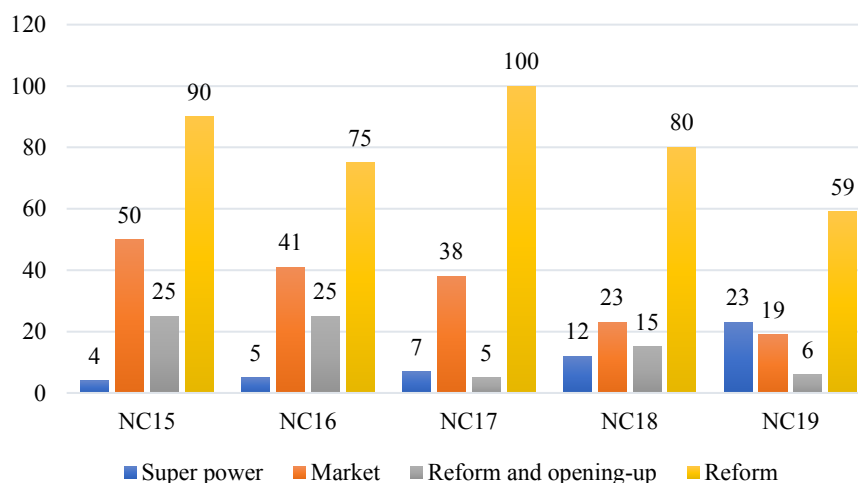
### *Major economic messages*

On 18<sup>th</sup> October 2017, witnessed by nearly 2,300 party delegates, General Secretary Xi Jinping spent 3 hours and 23 minutes delivering his 68-page political report. The report outlined nine crucial criteria and the vision for development of China by 2035 and by 2050. By declaring “Socialism with Chinese Characteristics for a New Era”, Xi Jinping directly sent his message saying that Chinese development has gone beyond Mao Zedong ideology and Deng Xiaoping theory. Major economic messages are as follows:

#### **(i) Economic reform with the model of large government, small market**

“There are not massive economic reforms, the government will lead them”, this is the strongest message delivered. Looking at political reports of the previous national congresses of China, it can be seen that the word “market” was mentioned less than before. In 1997, in the 15<sup>th</sup> National Congress, “market” term appeared about 50 times while in the 18<sup>th</sup> one, it was mentioned 22 times. In the 19<sup>th</sup> National Congress, this figure was reduced to 19 times. In the 3<sup>rd</sup> plenary session of the 18<sup>th</sup> National Congress, China strongly declared that “the country will let the market decide resource allocation”. However, this year’s political report even did not mention the economic reform which is led by the market as before. According to its implication, political stability and the pursuit of the national benefits take priority over the application of market economy principles.

**Figure 4. The occurrences of terms in Political Report of National Congress**



*Source: Summarized by the Author*

Besides, compared to the 15<sup>th</sup> National Congress, the occurrences of the terms “reform” (for all areas) and “reform and opening-up” (for economic area) also plunged. “Reform and opening-up” appeared only six times in the 19<sup>th</sup> National Congress, down from 25 times in the 15<sup>th</sup> National Congress. Similarly, the term “reform” also appeared only 59 times compared to 90 times in the 15<sup>th</sup> National Congress.

For the advocates of free economic reform, it is considered as a strange signs against the 18<sup>th</sup> National Congress. Expectation of a strong market economy, especially one designed by Liu He, is replaced by the leadership of the CCP in economic area. Although the Leading Group for Economic growth has issued 286 documents in the period 2013-2017 with 46 instruction documents on economic issue and state-owned enterprise reform, it is clear that the direction of the CCP will pose double challenges for policymakers: should the political target or economic one be given priority and whether these two targets can always coincide?

Two reasons for the current intervention of the state in the economic action program may be that by 2012, the first centenary goals of the two ones set by Xi Jinping must have been fulfilled. Accordingly, GDP in 2020 must double that of 2010. It requires intervention instruments or policies from the state in the circumstance that the private sector gets weak or is unable to be responsible for ensuring the economic growth rhythm. Secondly, international economic initiatives and large strategies of China require a great deal of resources and implementing instruments. Therefore, state-owned enterprises and private corporations with close relationship with the government will be given preferences in policies and resource access to fulfill goals pursuing by the state. China believes that its initiatives are “knowledge contribution” and provide “Chinese solution” for the world<sup>3</sup>.

One clear example is that state-owned enterprises and state investment funds of China are guiding the overseas investment although the private sector’s investment capital accounts for about 40% of the total capital. In the first half of 2017, total investment capital of the state-owned enterprises reached 28.7 billion USD, much higher than that of the private sector (MERICS, 2017). According to the Report of the Financial Times of the UK, in 2016, state negotiations of China climbed by 86% while international negotiations of the private sector went down by 40%. The latest negotiations to realize Xi Jinping’s ambitions is the China Merchant Port Holding, a state-owned corporation, was successful in a negotiation of 924 million USD to gain the control of 90% of the TCP Participações SA, the most profitable port terminal of Brazil. The largest negotiation gained by one private company of China in 2016 was the one of China Legend which bought a 90 percent stake in Banque Internationale a Luxembourg (BIL) for 1.8 billion USD. Luxembourg is considered important for China in the EU. Representative of China Legend said that they will provide financial services for companies developing the Belt and Road Initiative (BRI) (MERICS, 2017).

## **(ii) Promoting the export of the development model**

Xi Jinping emphasized the significant intervention of the state in the market to form a modern economy with global strengths. In essence, it is similar to the state capitalism model. The state will apply both directing policies and the state-owned enterprise instrument. All instruments are planned thoroughly by the state, from the master plan on upgrading the industry such as the “China

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<sup>3</sup> Important speech of Xi Jinping on 26<sup>th</sup> July 2017 on the preparation for the 19<sup>th</sup> National Congress



Manufacturing 2025” initiative to technical measures in the security and banking markets. One high-ranking official of China spoke in the 19<sup>th</sup> National Congress that. “As the key motivation of the national economic development, state-owned enterprises must play their role as the guiding subject in the supply-side structural reform (SSSR). State-owned enterprises must be responsible for directing this reform model, become the guide and the main force of the reform.”

When exerting influences to the outside world, China not only promotes its capital export (in the period 2000-2014, China offered development loans at all kinds with a total capital of 354.3 billion USD), labour export but also development model export. After spreading the Belt and Road Initiative, in the 19<sup>th</sup> National Congress, Xi Jinping introduced the “Chinese solution”, “Chinese model” as new challenges for rapid development and avoiding crisis of the free market economy. He said that this model was designed for countries who want to develop rapidly while protect their dependence [without intervention of other countries].

The Chinese model or “Chinese solution” was emphasized in the Political Report. Although the western model is not directly criticized, “populism” and the “threat of terrorism” have become the main concerns of many countries. Meanwhile, the political stability and safe living in China may be the model for many countries. Besides, China is willing to play the new international role in guiding new trends, as it did in the climate change prevention program.

The occurrences of “nation” rose from 4 times (in the 15<sup>th</sup> National Congress) to 23 times, which reveals the ambitions of reaching out across the globe and define its influences, as well as the confidence of Xi Jinping and the international position of China after his first five years taking office.

### **(iii) Political stability and national benefits overwhelm foundations of the market economy**

The 3<sup>rd</sup> plenary session of the 18<sup>th</sup> National Congress set several important goals in reform such as the reform in state-owned enterprises, reform in collective-ownership land in rural areas, reform in the household registration system, etc. Especially, the session also brought expectation for the observers of “letting the market play an important role in allocating resources”. Therefore, the marketization reform was expected to not only (i) allocate resources but also (ii) lowering market barriers. After the first five years, China showed conflictive signs in this area, especially in lowering market barriers for international enterprises.

In terms of investment, on the one hand, China conducted reforms in the list of investment areas and reduced the number of lines subject to prohibited investment. For instance, in August 2017, the National Council issued Document No. 39/2017 on lowering market barriers and opening up 22 groups of industries and 95 industries for international investment (Zenglein, 2017).

On the other hand, with many open policies, China forced international enterprises to choose between transferring technology or standing outside and receiving strict administrative management.

**Table 3. Policy on managing FDI enterprises by list of investment areas**

Market access	Clearly stipulated in the Instruction on international investment, there are also specified requirements in some areas.  - Clearly regulate areas and businesses that encourage investment of FDI enterprises as well as those which are subject to permitted or prohibited investment.  - Require to have a main Chinese partner, to establish a joint company instead of encouraging 100% FDI capital enterprises to disburse a certain amount of capital  - Both FDI enterprises and Chinese joint companies must abide by a certain number of financial and technological requirements.
Authority's management	Regulate rules and assessment criteria for restructuring lists of investment areas and policies on industries, suitable for each period and each requirement.
Management in mergence activity	Based on the Law on Anti-monopoly of China.

*Source: Summarized by the Author*

Even when the list of choose-reject investment areas were simplified in terms of management items, the latest amended list (in 2015) were not significantly different from the one when Xi Jinping took office (in 2011).

**Table 4. Compare the list of foreign investment areas of China 2011 and 2015**

	2011	2015
Areas which encourages investment of FDI enterprises	78	38
Sensitive areas which are not encouraged	39	36
Areas require to have Chinese partners	43	15
Areas require to have Chinese partners and managing agencies	44	35

*Source: Summarized by the Author*

In terms of financial and monetary reform, China has established many pilot free trade zones (FTZ), of which the most important one is the Shanghai FTZ. Nonetheless, Shanghai FTZ is not a successful one. When it was established, nearly 3,500 companies, of which 288 ones were FDI enterprises and 12 ones were international banks, accepted the new FTZ management regulations to register in this zone (Sina News, 2014). The Financial Cooperation, chaired by the Deputy Mayor of Shanghai Municipality, was established to develop the agenda on financial reform of FTZ. This zone was also advocated in the 3<sup>rd</sup> plenary session and considered as “an important solution in the context of orientation towards reforms and new conditions”. The FTZs were included in many documents on the agenda of 10 years of reform, which showed the support of Chinese leaders.

A great number of reforms conducted in the previous period including the free trade account system, the interest rate liberalization for foreign currency deposits of companies, abandonment of requirement of charter capital, which were clearly oriented, failed to prove the success of the pilot zone. Even that the Ministry of Commerce reapproved the list of choose-reject investment areas in July 2014 of which 27% of prohibited investment areas were reduced was severely criticized. According to analysts of the Ministry of Finance of the USA (Inside U.S. Trade, 2014), this reduction mostly resulted from the removing of the excess and was not signs of opening-up (Lu & Ruwitch, 2014). Apart from such troubles of Shanghai, Dai Haibo, the deputy director of the zone administrative committee, was removed from the post due to his serious violation of party discipline and laws in the middle of September 2014 (*South China Morning Post*, 2014).

The future of the FTZ is not clear. Although the experiment of FTZ in the past three years were criticized, this project was still supported in the Zhongnanhai with the presence of Premier Li Keqiang in its first year anniversary and comments of President Xi Jinping in the meeting of the Leading Group for Comprehensively Deepening Reforms at the end of October 2014<sup>4</sup>. In September 2014, the PBoC promised that the financial reform will be promoted (Xinhua, 2014) and this zone will be expanded to the financial center Lujiazui in January 2015, which would enhance the influences of financial reforms in the future (Li, 2015). If this promise was not kept, the Party Secretary of Shanghai still justified that: “the focal point of the reform is to change the role of the authority” (Hu, 2014), which meant that the excessive concentration on finance or preferential policies for foreign enterprises would neglect the main purpose of this effort (although it cannot explain the continuous emphasis on the opening of capital accounts in many official speeches) (Xinhua, 2014).

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<sup>4</sup> In the meeting, Xi Jinping considered experiences from pilot FTZs “seeds gained from experimental farming”, and promised that China would spread the pilot program in Shanghai to other regions “as soon as possible”. This was an early sign for the approval of the other three FTZs in December. “Xi Jinping said China would established more FTZs after the pilot one in Shanghai”. Xinhua, 27/10/2014, [http://news.xinhuanet.com/english/china/2014-10/27/c\\_133746159.htm](http://news.xinhuanet.com/english/china/2014-10/27/c_133746159.htm).

Nonetheless, Chinese leaders are changing their approaches and the importance of Shanghai has gradually faded. After one year rejecting the requests for establishment of FTZs of many provinces, in December 2014, the National Council approved the requests of three provinces (Anderlini, 2014). The official announcement was: “Continuing the success of the pilot Shanghai Free trade zone, new FTZs will be opened in Tianjin, Guangdong, Fujian<sup>5</sup>”.

After the 19<sup>th</sup> National Congress, there are no signs that barriers to market access will be lowered for investment of foreign enterprises. The reason is that the most important strategy to upgrade the industry of China – Made in China 2025 – has considered price subsidy, financial support, government procurement and prevention of competition of international enterprises main measures to promote several new industries of China (MERICS, 2016). Of 10 detailed policies to boost the Made in China 2025 Strategy, there are seven preferential policies for domestic enterprises and the other three preventing international companies.

**(iv) The Belt and Road Initiative (BRI) was added to the Party Charter and became the foundation for policies on foreign affairs and international economic relations of China**

In the 19<sup>th</sup> National Congress, there were important addition to the Party Charter, of which the most crucial ones were the “Xi Jinping thought” and the “Belt and Road Initiative”.

In detail, according to the amended Party Charter, it is necessary to “promote the building of a community of shared interest through joint discussion and collaboration, construction, enjoyment towards building One Belt, One Road.” The inclusion of the BRI, first, implies the ineffectiveness of the whole policymaking and the implementation of the BRI in the period 2013 – 2017, although they were conducted consistently and were institutionalized. The implementation of the BRI lacks explanation, strategies and a clear and oriented action framework. Therefore, it is necessary that the BRI is included in the Charter to form a legal foundation and policy compulsoriness at the highest level in order to guide authorities at all levels. Secondly, with the institutionalization of the BRI at the highest level, China can reassess the BRI comprehensively from targets, focuses, partners and implementation methods. Thirdly, Xi Jinping can utilize the BRI as a replacement for the “Tao guang yang hui” policy, literally translated as “Hide brightness, nourish obscurity”. It may be the new foundation for the foreign policy of China in the coming time.

Nonetheless, it is not easy to ensure the success of the BRI in foreign countries. Ambitious initiatives such as the BRI or the Asian Infrastructure Investment Bank (AIIB) are multi-target initiatives. For such super projects to be successful, China not only needs to accumulate enough domestic power but also persuades other countries – especially developing countries – to accept and participate together.

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<sup>5</sup> By the end of 2017, there have been 11 FTZs established in China.

The Belt and Road summit took place in Beijing in May 2017 with the participation of 26 heads of state and thousands of delegates. In this meeting, China signed more than 270 projects with other countries despite (i) the absence of heads of economic powers which used to be members of the AIIB such as the UK, France, Germany, Australia, etc. and (ii) the lack of explanation of the BRI's purposes and targets which will seriously and immediately affect the support of developing countries; (iii) economic and strategic risks of Chinese super projects in the opinion of western countries. Currently, the AIIB cooperates with the WB and the ADB to provide first loans serving for infrastructure, nonetheless, the scale of such loans is still moderate<sup>6</sup>. Moreover, the AIIB has not set its criteria like the WB and the ADB.

After the crisis in Venezuela, China had to reviewed all of its overseas investment <sup>7</sup>. The period 2016 – 2017 marked the reduction of investment and trade activities of China in BRI countries.

Solutions focus on:

- (i) Encourage the local media to spread news of national initiatives and strategies (such as the BRI).
- (ii) Study and enhance the image of China and Chinese projects in the international media by organizing workshops, talk shows, sharing experiences in communication management, etc.
- (iii) Promote the role of think-tanks in putting forward proposals and solutions to realize guidelines and policies of the government. Build a network of international scholars to improve the propagation of the country.

Nonetheless, not all loans are as economically or politically effective as expectation. One typical example is the Venezuela case. China lost billions of dollars in the economy with a host of latent risks. In the period 2007-2015, China invested a total of 65 billion USD in this country. Moreover, several Chinese corporations invested and a great number of labors were sent here. The CITIC group built railway systems and accommodations; the Sinohydro Group built an electricity generation station, the ZTE provided a telephone network; Sinopec and PetroChina built petrochemical plants and the China Railway Group constructed railway networks. When the crisis occurred, China could not invest more capital for Venezuela just to be present in this country, as it

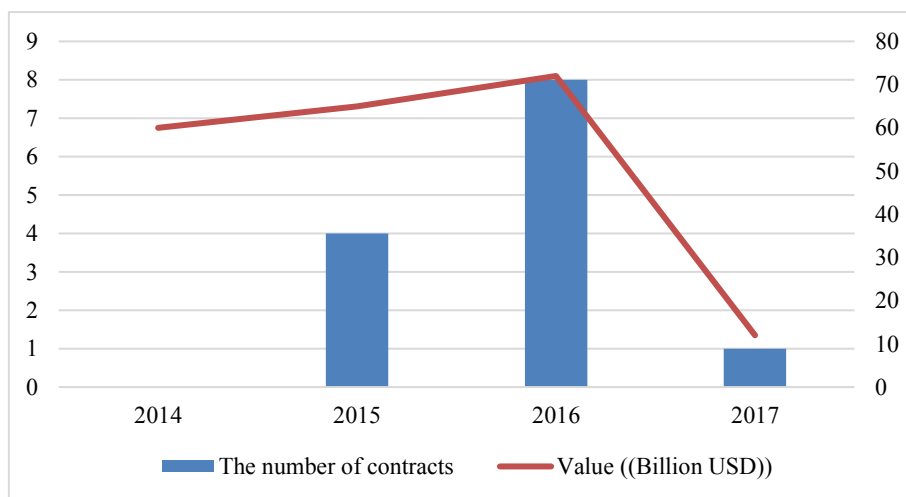
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<sup>6</sup> Total capital which was provided and waited for approval in 2016 was 1.82 billion USD, of which 1.43 billion USD was provided for eight projects and four projects worth 386 billion USD waited for approval. One of the first projects receiving capital from SRF was the Karot hydropower project, which is a part of the China-Pakistan Economic Corridor (CPEC). The total capital was more than 1.65 billion USD and provided in February 2015. Besides, SRF also provided 11 billion USD for the Yamal LNG project of China and Russia.

<sup>7</sup> In the period 2007 – 2015, China invested a total of 65 billion USD in Venezuela while since 1945, the WB has never provided more than 65 billion USD of capital for any countries. In the period 2013-2015, 6 out of 10 countries receiving development loans of China were in the list of risky countries in terms of development investment of the OECD, while that figure announced by the WB was only two. The Weighted Average Risks of China's development loans was 20% higher than that of the WB.

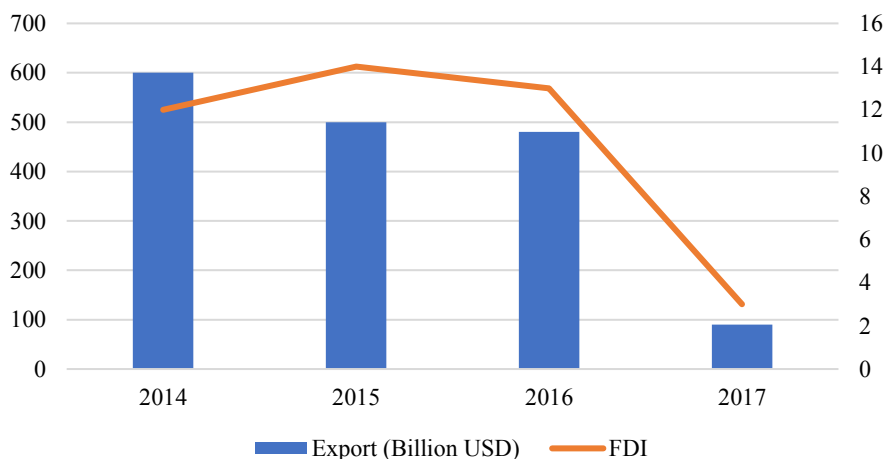
was risky investment. According to a survey, in the period 2013-2015, 6 out of 10 countries receiving development capital from China were in the list of risky countries in terms of development investment (assessed by the OECD) while that figure announced by the WB was only two. The Weighted Average Risks of China's development loans was 20% higher than that of the WB. Therefore, in 2017, China was more prudent, even with a key initiative as the BRI.

**Figure 5. The number and value of construction contracts in BRI members**



*Source: Financial Times (2017)*

**Figure 6. Exports and FDI of China in BRI members**



*Source: Financial Times (2017)*

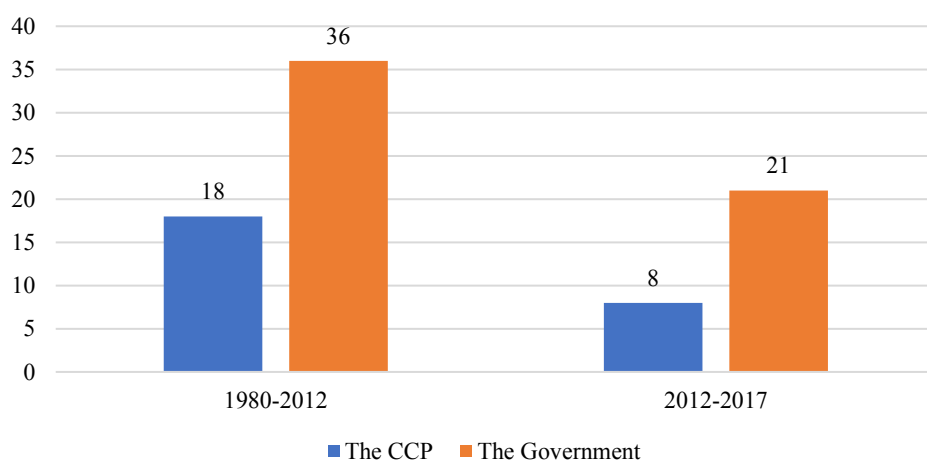
In 2016, FDI of China fell by 2% while that figure for Q1 was 18%. Exports to BRI members went down by 40%.

### ***Economic reform constructing mechanism: emphasize the centralization of competence***

One characteristic of the decision making under Xi Jinping was the centralization of power. Therefore, to construct and implement reforms, Xi Jinping established dozens of small groups. In essence, such small groups follow the model of centralization of competence. “Second-ranked figures” of such small groups are competent and can work flexibly among different levels of authorities. Liu He, the Chief of the Leading group for Financial and Economic Affairs – takes the main responsibility for constructing economic reforms of China from 2012.

Since 1980, the Leading Small Group model (LSG) has been applied in order to promote economic reforms towards marketization. The Leading group for Financial and Economic Affairs was responsible for providing policy consultation for Deng Xiaoping in propose reform solutions for key areas. By 2012, 54 LSGs had been established. In the period of 2012-2017, 29 more LSGs were founded, accounting for 35% of the total LSGs since 1980. Of the total 83 LSGs, 26 ones are under the CCP, of which 8 ones are chaired by Xi Jinping while 57 LSGs are under the National Emblem with 8 LSGs chaired by Li Keqiang. Of the eight LSGs steered by Xi Jinping, two economically important ones are the Leading Group for Financial and Economic Affairs (founded in 1980) and the Leading Group for Comprehensively Deepening Reforms (founded in 2013).

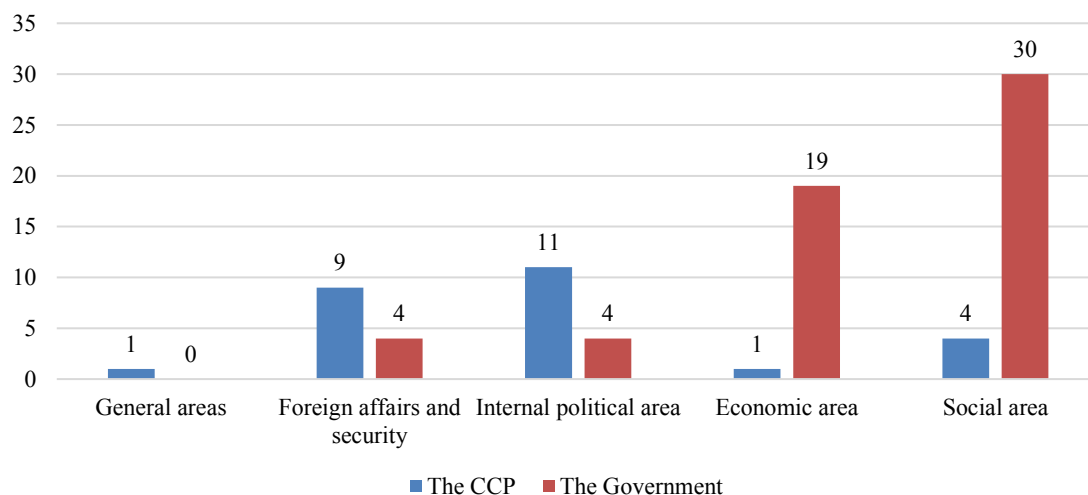
**Figure 7. The number of LSGs founded before and after the 18 National Congress 2012**



*Source: Summarized by the Author*

Of 57 LSGs steered by the government, LSG related to economic issues are 19, only less than the number of LSGs related to social affairs (30 ones). It implies that economic reforms have been a decisive issue for the further development of China in midterm and the long term. The Leading Group for Comprehensively Deepening Reform includes four members of the 18<sup>th</sup> Standing Committee of the Politburo, i.e. Xi Jinping, Li Keqiang, Liu Yunshan, Zhang Gaoli. This LSB has organized 38 meetings and issued 286 documents and policy directions. Of all 286 ones, 36 documents directly relate to economic reform (accounting for 13%), 10 ones are state-owned enterprise reform (4%) while 36 ones are about environment and resources (13%).

**Figure 8. LSG by reform areas**



*Source: Summarized by the Author*

What is the operating tendency of such LSGs in the second term of Xi Jinping after the 19th National Congress? The first trend is that such LSGs will return to its traditional role in coordinating information and when fulfilling their state goals, they will be abandoned. The second one is that the LSGs will play its current role in providing strategies for the CCP and the government. The third one is that the LSGs will be granted firm roles in policymaking, especially ones under the CCP. It is possible that the second trend will be promoted to serve centralized reform initiatives of Xi Jinping.

### ***Focus of economic reform: adjust total supply***

Economic reform of China has the following characteristics: (i) cut the output surplus, (ii) reduce inventories, (iii) reduce the financial leverage ratio, (iv) make up for difficult areas, and (v) lower cost of capital. This approach focuses on controlling risks before implementation. Tight budget constraints will slow down investment and economic growth. To accomplish the set growth target, China urged its state-owned enterprises to increase investment in some appointed areas. Therefore, economic reform by adjusting the total supply is a long-term plan which intervenes in the economy through state-owned enterprises.

#### **(i) State-owned enterprise reform: encouraging mixed ownership system**

In the last years of Xi Jinping's first term, the property rights' reform towards encouraging the mix ownership system and public private partnership prevailed against anti monopoly and dissolution and mergence of ineffective state-owned enterprises. Especially, apart from the BRI and the Made in China 2025 strategy, appointed/selected private companies will receive preferences from the government to fulfill set industry goals. Giant private technology company such as Alibaba, Baidu and Tencent take responsibility for developing high and new technology industries based on the foundation of big data, icloud, digital payment and robot to boost the national competitiveness as well as to affirm the leading role in technology of China (Zenglein, 2017).



Liu He holds responsible for constructing large-scale economic reform initiative of China after the 18<sup>th</sup> National Congress. With comprehensive understanding of the Chinese economy and ability to “attach Chinese economic issues to the global orbit”, which is absolutely suitable for Xi Jinping’s political and foreign affair ambitions, Liu He lays down as a policy the development of state-owned enterprises which meet national targets and ensure national benefits in the new context (Wu & Choi, 2017). It reminds the models of Japan and South Korea when the two governments utilized *keiretsu* and *chaebol* to exert influences overseas. During the visit of the national security advisor Tom Donilon in China in 2013, Xi Jinping introduced that Liu He was a “very important person for him” (Wu & Choi, 2017).

At the end of August 2014, all 25 member of the Standing Committee of the Politburo were gathered to discuss the guideline and policies for fundamental and comprehensive reforms for state-owned enterprise (Naughton, 2014). In practice, arguments lessened the effectiveness of previously issued policies – due to abstract description and unclear reform goals. By focusing the responsibility for state-owned enterprise reform on the Leading Group for Comprehensively Deepening Reforms (RSG), Xi Jinping hoped to set new motivations and absolutely solve the inconsistent implementation of policies at lower levels. The biggest problem is that the heads of state-owned enterprises are both the CEO and members of the governments so they take both political and economic responsibilities. The State-owned Assets Supervision and Administration Commission of the State Council (SASAC) had several discussions about this issue but no solutions were given. After some delay, the SASAC finally issued a document on state-owned enterprises in July 2014 with no breakthroughs (Naughton, 2014).

According to several issued documents in the Central Economic Work Conference 2016 at the end of December 2016, the year 2017 is considered “the first year for implementing mixed-ownership reform at the lowest/grassroots level (Naughton, 2017). By January 2017, there had been 28/31 provinces and autonomous regions organizing People’s Congress at grassroots level and the Political Study Workshop to emphasize the importance of developing the mixed-ownership mechanism as a key to state-owned enterprises reforms. Some leading state-owned enterprises were selected to be reformed. Normally, there would be no single model for such reforms in China, but selected enterprises must represent for their area, both in terms of scale and administration model. Local government also emphasized the “financialization” of the state’s assets but issued no detailed documents on implementing state-owned enterprise reform on a larger scale. The regular version of the mixed-ownership reform was that the governments would securitize their owned assets in the enterprises. In the past five years, Tianjin government has securitized 40% of the government’s assets in state-owned enterprises. Beijing, Gansu, Hubei governments strives to securitize 50% of government’s assets by 2020; other provinces even set high targets such as Jiangxi (60%), Guangdong (70%), Chongqing and Hunan (80%). Central state-owned enterprises are also securitized (Naughton, 2017). Some provinces even applied more progressive measures, such as Yunnan which allows private pharmacy companies to buy 50% shares of state-owned pharmacy

companies while Guangzhou publicize all assets of state-owned enterprises in competitive areas to be securitized. Nonetheless, such progressive measures are merely applied on a narrow scale.

Recently, the pilot employee stock ownership plan program (ESOP) has been regularly reported by the Chinese media. ESOP was introduced in the 3<sup>rd</sup> plenary session of the 18<sup>th</sup> National Congress but it disappeared in the two following years. Recently, it has been rekindled. Local governments in Jilin, Shaanxi, Gansu and Shandong have applied this pilot program. Nonetheless, it is still controlled to avoid the internal big sell-off of stock for the interest of small groups of rich people. For instance, Beijing government regulates that the total stock owned by the whole people within the enterprises must not surpass 30% while each staff is not allowed to buy more than 1% of the securitized assets (Naughton, 2017).

When it gets closer to the 19<sup>th</sup> National Congress, state-owned enterprise reform reveals more and more negative signs. On the one hand, the government wants to encourage the participation of market forces. On the other hand, the role of non-market forces – the CCP – in guiding and orienting is enhanced. The SASAC will establish three more consultation groups to expand the reform consultation. More important, China will carry out the experiment that secretaries of the SOE's Communist Party Committee will also be CEOs or general directors of the enterprises (Economic Daily, 2016). In the longer term, the SASAC declares that any decisions related to “strategic issues” such as macroeconomic ones, enterprises' strategies or national benefits of the enterprises must be discussed with the SOE's Communist Party Committee. The SOE's Communist Party Committee will give consultation before the final discussion with the board of director. With this regulation, China hopes that behaviors of SOEs will be attached to the benefit of the CCP. All of such conflicts prevent the SOE reform from making significant progress (Naughton, 2017).

SOE reform in the past five years has three notable features. First, only private capital is enhanced while privatization is not accepted (radical equitization expanded for private subjects). Secondly, state capital investment companies are considered the main way to carry out SOE ownership reform. Third, large-scale and rapid mergence of large state-owned corporations and companies is implemented.

## **(ii) Financial and monetary reform**

It is risky if Xi Jinping government postpones the decisive financial reform. Nonetheless, it is likely that China will not suffer from a severe financial crisis in the coming time. They can restrict the external threats while maintain a relatively sound banking system. Chinese government still applies policy instruments to speed up economic growth. They includes huge foreign exchange reserves, large amount of public assets and a low foreign debt rate. Moreover, Chinese financial experts – especially Zhou Xiaochuan – are talented, experienced and confident reformers.

Solutions to financial reform after the 19<sup>th</sup> National Congress may include:

*First*, fixed GDP growth rate will be abandoned, which is replaced by “GDP range” in order to enhance the flexibility of the government, reduce pressures to implement loose fiscal and monetary policies, reduce debts and conduct financial and banking reforms.

*Second*, competition in regulating and trading securities is replaced by regulating route with the cooperation of different stakeholders. Management positions at the highest level share the same foundations and purposes, and maintain continuous communication with the media and the government.

*First*, enterprises are required to report their financial leverage ratios and estimate effects of all of their credit transactions.

*Fourth*, tighten all risky transactions – including securities and investments related to whole life insurance. All of such transactions are subject to special restrictions.

*Fifth*, liquidity cost (interest rate) is allowed to increase in capital market – including interest rates of the refinancing activity of government bonds and interbank transactions. This measure can stimulate loans for projects that require capital supplements in the short term.

## **POLICY IMPLICATIONS FOR VIET NAM AND THE REGION**

### ***About foreign affairs***

(i) Xi Jinping is a powerful and firm leader. Sovereignty and territory integrity were top priorities in political focuses of the 19<sup>th</sup> National Congress, which may increase conflicts and collisions with other countries. Moreover, more steps will be taken for negotiations.

(ii) The China – USA relation may confront challenges in the term of President Xi Jinping and President Donald Trump. After six months taking up office, there were not much progressive made in important issues of the China – USA relation. On the one hand, it is a political move of Donald Trump in terms of home affairs, on the other hand, it will directly impact the Asia – Pacific region in which many countries share interests with both the USA and China.

During the time taking up office of Donald Trump, policies related to this relation focus on two topics: North Korea and trade. Nonetheless, policy stability of the two countries is not clear. Conflicting opinions of members of the cabinet of Donald Trump will continue until the Trump administration identifies a strategy in the relationship with China. According to the practical approach of Mattis, Tillerson, McMaster, Kelly and Dunford, a stable relation based on dialogues to solve problems is expected. Mnuchin and Cohn are aware of the risk of a trade war between the two countries. Meanwhile, the influential consultation group of the President such as Ross, Lighthizer, Navarro and Bannon wants the USA to take strong action against Chinese challenges for the US priorities (Bader, 2017).

Some US officials hope that the future relationship with China will be a constructive one with cooperation expansion, fair competition, and especially avoiding conflicts. Since his inauguration, Donald Trump have introduced many “bargaining” moves with China such as the Taiwan case, the South China Sea case, the North Korea one and trade. Only the North Korea and the trade one have been “successful” so far. For the Taiwan case, the USA cannot change the “One China” policy which was shown by the protest of China. In terms of the South China Sea issue, the US major actions are ones related to military, calling for maritime freedom and the implementation of FONOP. The US have tried to standardize the FONOP after foreign choices no longer kept the upper hand due to the “withdrawal” of Philippines under President Duterte.

In terms of the North Korea issue, Trump urged China to take more action by extensively intervening and imposing sanctions against Chinese enterprises (i.e., coal ban, support more stringent sanctions of the UN and increase control on trade with North Korea).

At the end of June 2017, the White House imposed indirect sanctions at limited level against two Chinese citizens and one shipping company due to the charge that they supported North Korea in developing nuclear weapon. The White House also accused the Bank of Dandong of primary money laundering concern for North Korea.

Fundamentally, the two countries may have to build a strategic relation as the four new dialogue mechanisms are ineffective and the new dialogue mechanism for regional hot spots has not been founded yet. The return of the protectionism in the USA may redirect China-US trade and exert great trading impacts on other countries. Trade policies of the US may cause harms for developing countries and exacerbate trade deficit with China.

(iii) Sovereignty issues have been emphasized during and after the 19<sup>th</sup> National Congress, which reveals that Chinese foreign policies in the coming time will be more tougher than the previous term. With increasing power and military reforms, the declaration of “Four Sha” will pose challenges for Viet Nam and other countries in sovereignty protection and territory integrity. After the international tribunal ruled that the nine-dash demarcation could not be used by China to make historic claims to the South China Sea in July 2016, China has found a new way to overcome such fact. It is certain that the “Four Sha” claim will ruin the situation.

### ***Economic issues***

(i) The BRI is an ambitious initiative and will be sped up in the coming time. In the Southeast Asia, Viet Nam is currently the country less influenced by this initiative. After added to the Party Charter, the BRI may be upgraded to a “strategy”. This initiative still has shortcomings despite containing an action plan. So far, there have been no lists of prioritized infrastructure as well as schedules for implementation. Agreements between Viet Nam and China should be more practical. Viet Nam should establish and enhance the effectiveness of the consultation group on issues of the BRI. The operation of ASEAN may be separated due to impacts of economic benefits of China. The infrastructure construction of each member country must take account of the master plans of ASEAN as well as attach the BRI to such master plan.

(ii) The trend towards technology innovation may exert pressure on manufacturing environment and ability of other regional countries.

(iii) Economic reforms may slow down economic growth, therefore, the Chinese economy may have two-way impacts on the Vietnamese economy. First, Chinese investment growth rate will fall from 5.8% to 6.3%. Therefore, general economic growth will wane, which affects Chinese import and stimulates the export of the excessive goods. It will be a pressure on Vietnamese goods. In addition, the increasing income will enhance consumption of high-quality imported goods. In such context, it is necessary that Viet Nam is fully aware of this trend to have suitable direction for enterprises and trade policies.

### ***About military issues***

Changes in military personnel structure demonstrate that the Chinese People’s Liberation Army (PLA) will prioritize marine combats. With the current situation in the South China Sea and

the firm attitude of China, new challenges will appear. Moreover, the People's Liberation Army Navy is quickly modernized and highly determined.

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## **Disclosure appendix**

### **Author's Certification**

The following author who are primarily responsible for this report, certify that the opinion on the subject or issues and/or any other views or forecasts expressed herein accurately reflect their personal views and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report: Dr. Pham Sy Thanh, Director of VEPR's Chinese Economic Studies Program (VCES). Email: [pham.sythanh@vepr.org.vn](mailto:pham.sythanh@vepr.org.vn).

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### **Additional disclosures**

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VEPR has procedures in place to identify and manage any potential conflicts of interest that arise in connection with the authors. Any confidential and/or sensitive information is handled in an appropriate manner. All contributions and exchange please send to: Viet Nam Institute for Economic and Policy Research, Room 707, E4 Building, 144 Xuan Thuy Street, Cau Giay district, Ha Noi. Email: [info@vepr.org.vn](mailto:info@vepr.org.vn)



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