



Economic Policy Decision-Making Under Xi

Victor Shih

Associate Professor and Ho Miu Lam Chair in China and Pacific Relations

UC San Diego School of Global Policy and Strategy

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Testimony Before the U.S.-China Economic and Security Commission
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Testimony by Victor Chung Shih, Associate Professor and Ho Miu Lam Chair in China and Pacific Relations,
University of California at San Diego
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Chair Bartholomew and distinguished Members of the Commission, thank you for the opportunity to appear before you today to discuss China’s economic policy making in the run-up to the 20th Party Congress of the Chinese Communist Party (CCP). I would like to acknowledge the support I have received from my colleagues at the School of Global Policy and Strategy at the University of California at San Diego. I see the value of publicly funded higher education everyday as I lean on my esteemed colleagues and students for new ideas and research support. Much of the discussion below is based on a database on elite policy meetings that I collected from official press reports with the financial support from the Carnegie Corporation of New York and from the 21st Century China Center at UC San Diego.

Key Findings:

-Xi has side-stepped potential vetoes by his Politburo Standing Committee (PSC) colleagues by setting up and chairing powerful leading groups and channeling policy decision making to them.

-By the end of his first five-year term, Xi Jinping chaired 80% of all elite level policy meetings in the CCP, including Politburo and leading group meetings. These meetings discussed policies and issued decrees on a large number of areas encompassing the economy, propaganda, technology, national security, and internal party affairs.

-With the consolidation of these leading groups into party commissions, the administrative directors of these commissions have become powerful officials in their own right because they control the information flow and agendas of these commissions.

-Elite level policy discussion and policy making are driven by three main factors: medium term agendas set forth at the party congress, external shocks, and personal preferences of the top leader.

-After the 19th Party Congress in 2017, Xi put a high priority on high quality growth, financial stability, equalizing the playing field for businesses, and controlling housing prices, but he neglected SOE reform, free trade zones, leased housing, and rural land ownership reform. Disaster/ pandemic control was neglected until 2020, when it consumed the leadership’s attention.

-The consolidation of policy power in his hands means numerous special interests, including foreign countries, must compete for his limited attention. In the meantime, information manipulation by officials around him may lead to policy missteps. Recent defaults by Chinese real estate companies may be the manifestation of such missteps.

Economic Decision Making Under Xi

Since the beginning of the reform era in China (1978-), economic policy mainly had resided in the State Council with overall guidance from the Central Finance and Economic Leading Group (CFELG), which is a party organ (Miller 2008). With the formation of numerous party leading groups on various issue areas, economic policy making authorities have migrated from the State Council and even from the PSC to these leading groups. Because Xi Jinping sits as the chair of most of these party leading groups, he in effect has centralized final decision making authorities in his own hands and away from his State Council and even Politburo Standing Committee colleagues (Johnson and Kennedy 2015).

Unlike the PSC, where every member had an equal vote on important issues, leading group meetings were chaired by Xi with one or two vice-chairs who specialized more on an issue area. The members of leading groups were Politburo level and ministerial level officials who had lower party ranks and thus could not resist decisions made by Xi himself. This set up has allowed Xi to shape the agenda across economic, financial, internet, legal, party building, environmental, cultural development, education, ethnic and religious, and national security issues. Even in the observed data, we see that he gave speeches on every one of these issues, which shaped policies in these areas. Judging from the flow of decrees issued by these leading groups, Xi is by far the most powerful official in China making decisions unilaterally on a large number of issues.

In March of 2018, the majority of these leading groups was further consolidated into commissions. Leading groups had borrowed cadres and office space from more permanent party organs or State Council ministries in the past. Thus, the transition to party commissions likely meant larger permanent staff and even their own office buildings. This transition also empowered heads of the administrative offices of these commissions, which ran the day-to-day information flow and agenda setting for these commissions. Table 1 lists the directors and executive vice directors of the administrative offices of some of the most powerful leading groups (commissions). While Wang Huning, Liu He, and Yang Jiechi were all well known officials with high profile positions, Jiang Jinqun, Han Wenxiu, Zhuang Rongwen, Ding Xuexiang, and Chen Wenqing tended to be powerful figures behind the scenes. Yet, their positions in the administrative offices of these commissions allowed them to shape or nudge the agenda and even policy outcomes. Moreover, some of these officials such as Liu He, Zhuang Rongwen, and Ding Xuexiang are officials who share past working history with Xi and are generally considered members of his faction.

Table 1: Directors and Executive Vice Directors of Administrative Offices of Leading Groups (Commissions) Chaired by Xi Jinping

LG/Commission	Director of Administrative Office	Executive Vice Director
Comprehensively Deepening Reform	Wang Huning (Jiang Jinqun)	Jiang Jinqun
Finance and Economic	Liu He	Han Wenxiu
Internet Security and Informationization	Zhuang Rongwen	
Foreign Affairs Work	Yang Jiechi	
National Security	Ding Xuexiang	Chen Wenqing

Source: (editors 2020; Supreme People's Court 2018)

The situation for Xi, however, is not an enviable one. In the first 60 months of his rule, he likely attended upward of 300 policy meetings on a wide range of topics, 219 observed meetings and at least 80 unobserved classified meetings on defense and national security. In addition to the over 100 leading group meetings, Xi also attended Politburo meetings, Politburo study sessions, a subset of the national work meetings, and special topic meetings with senior officials, and all of the national security related meetings. That was an average of 5 meetings a month on different issue areas, which often discussed and promulgated multiple policies. Every year, the end of December and early January is an especially busy time for the CCP elite with multiple Politburo meetings and national work conferences on different policy areas compressed in a four-week period.

As one can see on Figure 1, the share of elite policy meetings chaired by Xi has increased almost without interruption since the second half of 2014. In the latter two years of his first term (2016-2017), at least 50% of the elite policy meetings were chaired by Xi personally. If one were to take into account the dozens of classified national security related meetings, most of which chaired by Xi, the ratio likely would be higher.¹ In essence, PSC members like Yu Zhengsheng, Liu Yunshan, and Wang Qishan chaired a large number of policy meetings on anti-corruption, propaganda, and united front work during that first three years that Xi was in power. However, after 2015, their willingness or ability to chair these meetings declined, leaving Xi as the chair of the majority of high level meetings. As one can see on Figure 2, the share of elite meetings on party construction chaired by Xi, which included meetings on anti-corruption and cadre promotion, rose to 100% in the run-up to the 19th Party Congress in the fall of 2017. Even in the economic realm, party-led meetings on economic issues, which also included technology and anti-poverty issues, rose to 100% just before the 19th Party Congress. Of course, for economic issues, the State Council held specialized meetings regularly also, which are not counted in this data base.

¹ Unobserved classified meetings included most of the Politburo Standing Committee meetings, standing committee meetings of the national security commission and the Central Military Commission, as well as regular meetings of the national security leading group and the foreign affairs leading group/commission. There likely are a number of ad hoc classified policy meetings attended by Xi as well.

Figure 1: The Share of Elite Policy Meetings Chaired by Xi Jinping

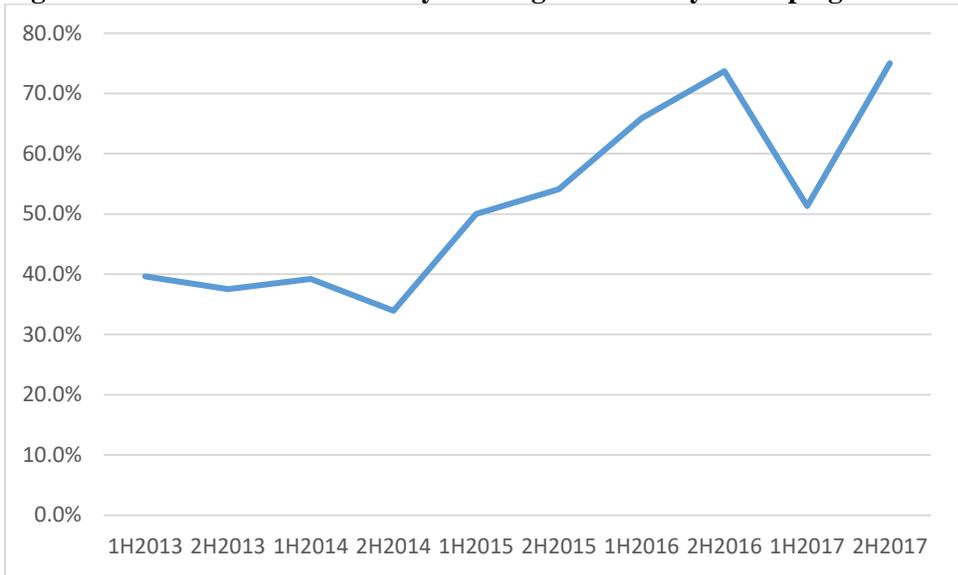
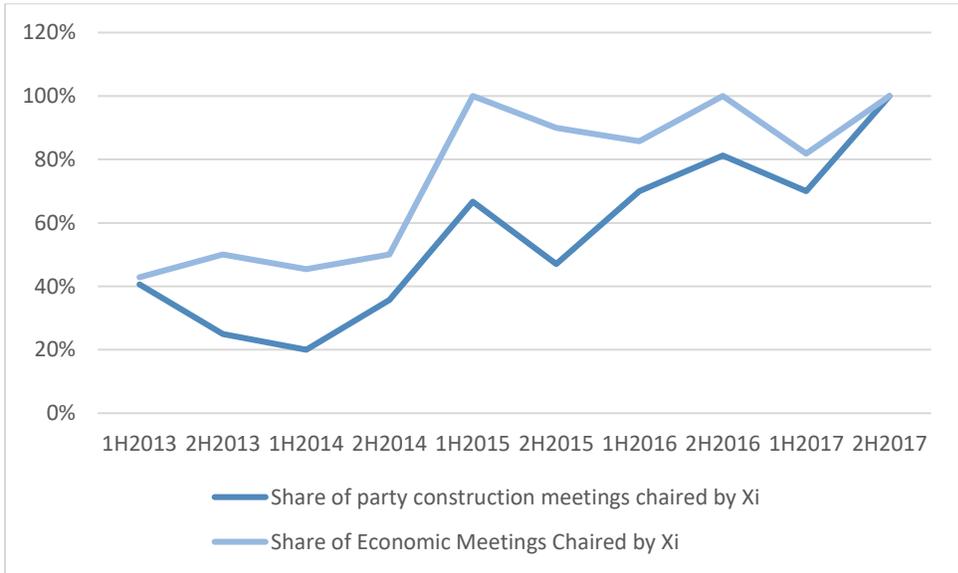


Figure 2: The Share of Meetings on Party Construction and the Economy Chaired by Xi



Policy Priorities and their Sources at the Top Level

The inner workings of the CCP remain relatively opaque. However, based on publicly available information, we can deduce at least three major sources of policies at the highest level: the party congress political report, external shocks, and leadership preferences. First and foremost, the medium-term agendas laid out during the party congresses turned out to shape policies discussed at high level policy meetings to a large extent. Because the party congress political reports were so comprehensive, covering some 160 policy topics in the case of the 18th Party Congress report, policy discussions in the subsequent five years mostly fell within one of these policy areas. Moreover, the way in which policy discussions were framed largely conformed with their framing at the previous party congress. To be sure, leadership preferences drove the prioritization of such a large bundle of policies. Leadership preferences themselves were driven by intrinsic preference and informal political considerations. Finally, as the case of Covid showed clearly, leadership attention was captured by emerging crises and challenges to the regime.

Figures 3 and 4 show the dynamic interactions of preexisting policy agendas, external shocks, and leadership preferences to drive elite policy discussions and policy making. Figure 3 reveals that three policy areas highlighted at the 19th Party Congress political report, namely growth quality, financial stability, and creating an equal playing field for businesses, were discussed in between 10 to 60% of economically focused policy meetings every six months. As housing prices rose quickly in 2018, however, controlling housing prices entered the policy agenda at elite policy meetings on economic issues. Obviously, the onset of Covid, saw every other agenda being pushed aside as the leadership focused almost exclusively on controlling the pandemic in the first half of 2020. Even in the middle of the pandemic, growth and financial stability remained important topics for discussion. Toward the tail end of Figure 3, one sees the payoff of controlling Covid—it allowed the leadership to focus on other issues again.

Figure 4 shows some less favored policies mentioned in the 19th Party Congress political report—leasing options for housing, free trade zones, rural land ownership reform, SOE reform, and disaster prevention. Even though these issues were outlined in the party congress report, they were only mentioned at most in 20% of the elite policy meetings that took place in a six-month period. In some cases, they were not mentioned at all in these meetings, including disaster prevention. The neglect of these topics clearly revealed their low priorities for the top leadership and perhaps even lower level bureaucratic or even special interest resistance to these policies. Offering a large pool of housing for lease at low prices, for example, went against the interests of China’s powerful real estate sector, which worked hand in hand with local governments. That issue was not brought up once since just after the 19th Party Congress. Until someone successfully brings the issue to Xi’s attention, that issue likely will remain neglected.

As one can see, disaster control/ Covid control was almost completely neglected by the top leadership until late in 2019. With the rapid spread of Covid in Wuhan in January 2020, however, the leadership set up a party leading group on fighting Covid, headed by Li Keqiang, and devoted the vast majority of Politburo and PSC meetings on controlling Covid and related economic issues (Shih 2021). It consumed the entire leadership, including Xi himself, for months. As Figure 3 and 4 show, however, as the pandemic came under control in the second half of 2020, the leadership resumed their focus on other issues, although the neglected issues were still neglected, including disaster control and health policies.

There were also blatant pet projects of Xi himself which became topics of discussion at the highest level. For example, because Xi himself lives in Beijing, he instructed the Beijing-Tianjin-Hebei Regional Development Leading Group to focus on driving “non-core” businesses from Beijing to reduce congestion. He likewise made it a high priority to clean up the air in Beijing, which drove polluting manufacturing to southern and western China. He also instructed the Beijing-Tianjin-Hebei Regional Development Leading Group to devise a “one thousand year” investment plan for Xiong’an, a backwater

town that was envisioned to be second capital city of China. After hundreds of billions of RMB in investment, Xiong'an remains a backwater town, now with hundreds of empty buildings.

Figure 3: The Share of Economic Elite Policy Meetings that Discussed Four Key Economic Topics: 2017-2020

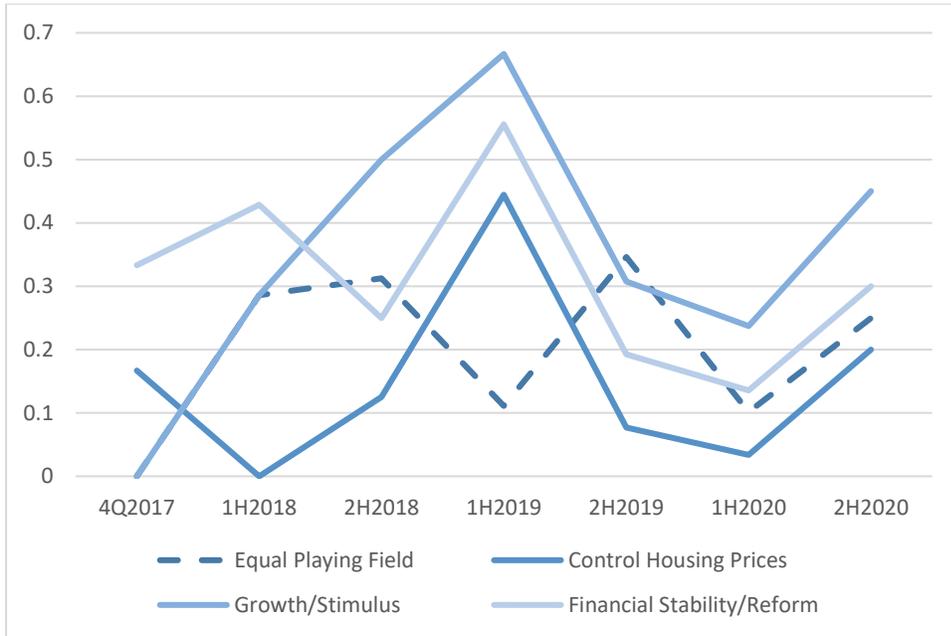
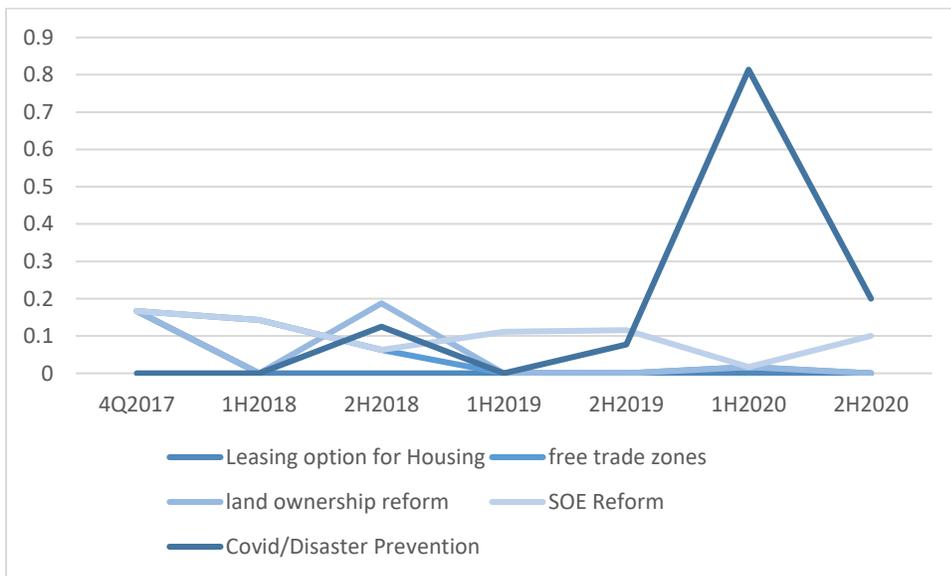


Figure 4: The Share of Economic Elite Policy Meetings that Discussed Four Less Favored Economic Topics: 2017-2020



Implications

Xi is clearly the most powerful figure in the CCP. He managed to sidestep potential vetoes in the PSC by setting up numerous leading groups, in which he can monopolize policy-making. After purging his potential rivals and consolidating control in the military, his power is now unrivaled within the CCP. This power is manifested in his dominance in elite policy meetings, where he now can unilaterally make decisions for a large number of important issues. Yet his exercise of dictatorial power is constrained by two factors. First, he is not an expert in all of the issues over which he controls and thus has to rely on officials and experts who know a great deal more about issues than he does. Second, his time and attention are limited, especially given his grueling schedule of elite meetings, attending ceremonial meetings, inspection trips, and meetings with foreign leaders. Even if he seeks to become an expert on a large number of issues, he cannot possibly keep abreast of the latest developments in dozens of important issues and over 100 less important issues. This has two important implications.

First, those who wish to get Xi's attention, including foreign countries, must fight to get his attention. Special bureaucratic and even commercial interests are likely competing with each other to gain Xi's attention through submission of analytical briefs, briefings to high level leading group officials, or even briefings or lectures to Xi himself. Even for a country like the United States, still the largest economy in the world and a strategic competitor to China, Xi may not keep abreast to the latest developments in the United States and its ally countries unless diplomatic events force him to do so. He may fall into easy assumptions about the United States' declining power and ill intention, which are enforced by some foreign policy experts and perhaps even some segment of the national security establishment. Such misunderstanding may exacerbate bilateral tension more than is necessary. An impending meeting with a U.S. leader may nudge Xi to obtain the latest information about the United States and receive briefings from multiple agencies about the United States, thus updating his beliefs about the United States to some extent. In addition, a high-profile meeting between Xi and the U.S. president would prompt lower level officials in China to resume dialogues with their U.S. counterparts also, which may ease bilateral tension. Thus, high level bilateral meetings between the United States and China, even if they accomplish few substantive agreements, serve to focus Xi's attention on the United States in the midst of dozens of other issues competing for his attention.

Second, members and staff of the leading groups, some of whom are specialists in these issue areas, have an informational advantage over Xi in that they have greater knowledge and time than Xi has. Thus, although leading group members likely cannot veto Xi's decisions, they may structure the information flow to Xi and the agenda at the meetings to serve their own interests. They can either shape the information flow in favor of special interests or they can shape them according to the biases of Xi himself. That is, instead of presenting Xi with fairly objective information, his advisors may present information that is consistent with Xi's biases, thus improving their status in Xi's eyes in the short-run. Alternatively, officials may carry out Xi's favored policies zealously, even knowing the undesirable side effects of these policies. This may lead to policy missteps in the medium term. The recent series of defaults by Chinese real estate developers may be due to over-zealous implementation of Xi's call for deleveraging. These defaults have greatly tarnished the reputation of Chinese corporate bonds and have put local government budgets in dire straits, which now need sizable central level bailouts. In other words, substantial releveraging is now needed to counteract the ill effects of deleveraging.

Recommendations

-First and foremost, Congress should continue and even intensify support for areas studies and language expertise at the university level. This should take the form of both basic language training through Title VI Language Centers and FLAS programs, as well as support for advanced field and quantitative research through the Fulbright, NSF, and MINERVA. Even with the advent of big data analysis, in-depth knowledge of foreign countries is still necessary to make sense of the patterns seen in the data.

-Congress generally should be supportive of the administration's effort to hold high-level bilateral meetings with Chinese counterparts, ideally with Xi Jinping himself. Because he is by far the most powerful leader in China, a prolonged absence of engagement with the United States may allow his attention be dominated by ultra-nationalist voices around him. High level bilateral meetings may nudge Xi to update his understanding about the United States and the rest of the world, which serves U.S. interests by reducing the chance of unnecessary tension between the two countries.

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