



# BULLETIN

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## Finalising the Power Change in China

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*The election of Xi Jinping as the new PRC chairman, Li Keqiang as the new prime minister and the setting of his cabinet at the first session of the 12<sup>th</sup> National People's Congress have completed the power change in China. The new leaders are expected to concentrate on domestic economic and social reforms, while its foreign policy priority is the Asia-Pacific region and relations with the U.S. The change of leaders, not only on the central but also regional levels, creates a chance for Poland to establish or reinvigorate direct contacts with Chinese local authorities. Poland's local governments should take the opportunity of the upcoming "First Regional Forum Poland-China" (22 April) to strengthen bilateral cooperation.*

At the first session of the 12<sup>th</sup> National People's Congress (NPC, or parliament) held in Beijing 5–17 March, the power transition was completed, ending the four-month period of dual power in China. The delegates elected Xi Jinping as chairman of the PRC, Li Keqiang as its prime minister along with members of his Cabinet (which was trimmed from 27 to 25 ministers). At the concluding session, Xi pledged to realise the "Chinese Dream," which he defined as a "great rejuvenation of the Chinese nation" and which will be achieved with the "solidification of national power" and "great national unity." Xi, in his first address as head of state, and Li, in his first press conference as prime minister, outlined a blueprint for their policies.

**Domestic Challenges.** Hu Jintao and Wen Jiabao's 10 years of leadership has created favourable conditions for the new leaders. Of noticeable success is China's economic growth and its status as the world's second-largest economy (in nominal GDP). China has become the biggest exporter, holder of the largest amount of foreign currency reserves and the biggest U.S. creditor. China's economic achievements are also a political success, giving Chinese society a sense of pride and enhancing PRC's comprehensive national strength. The outgoing leaders were also able to maintain stability, although Hu Jintao's core idea of building a "harmonious society" seems far from being realised.

But despite the achievements, there are also unsolved problems for the new leaders. The most pressing challenges are the necessity of restructuring the economy towards a consumption-driven model, narrowing income gaps, and effective social management with the emergence of a civil society and middle class that have become more aware of their rights. During the last four months as CCP chief, Xi presented elements of his economic and social agenda. In his first speech as CCP Secretary General he pledged to improve people's living standards and deepen economic reforms. A similar "message" was sent during the first inspection tours of his term, the first of which was to Shenzhen (the first special economy zone in China) on the 20<sup>th</sup> anniversary of Deng Xiaoping's 1992 southern tour, and which was perceived as a strong push for economic reforms. He then toured two poorer regions in China, Hebei and Gansu provinces. Xi and Li announced at the NPC session deeper economic reforms based on China's own economic path, with special attention paid to social issues, e.g., fair income distribution, a social insurance system, food security and environmental protection. A combination of high economic growth and speeded social improvements seems to be the only solution for preserving stability in the face of rising social protests and the use of social networking sites to put pressure on central and local governments. The NPC has already approved a new budget with a huge national deficit of RMB 1.2 trillion (\$190 billion) to boost spending on social welfare and stabilise economic growth, a step to reduce taxes and spur domestic demand.

New leaders intend also to improve the CCP's image and diffuse social anger against corruption while winning the peoples' support. Xi has initiated an anti-graft campaign and a policy of cutting ostentatious CCP behaviour (the "8 principles" restrictions on CCP-member extravagance). The changes in the government's structure are also perceived to address social demands. Dismantling the Railways Ministry, known as a corrupted "state within a state" (former Minister Liu Zhijun is accused of corruption and awaiting trial) and better control over food security after scandals with tainted milk (a new food security agency has been established) are aimed at gaining control over the central administration and resolving sensitive issues in order to prevent social upheaval.

**Foreign Policy Agenda.** Under the Hu–Wen decade, China improved its economic cooperation with ASEAN countries by signing an FTA with the association and warming relations with Taiwan. But the PRC has become more assertive, especially in its neighbourhood and in relations with the U.S.

For the new leaders, the most important foreign policy direction seems to be the Asia-Pacific region, especially after the recent deterioration in relations with countries with which China has territorial disputes. The new authorities would like to show their capabilities for preserving national sovereignty and territorial integrity. Acrimony in relations with Japan, the establishment of China's National Oceanic Administration and rising navy spending is an answer to society's demands that their leaders respond resolutely in case of provocation. What is more, Xi's "Chinese Dream" could be interpreted as putting pressure on Taiwan President Ma Ying-jeou to begin political negotiation as a first step of reunification. The appointment of Wang Yi, the previous head of the Taiwan Affairs Office, China's negotiator at the Six Party talks and former PRC ambassador to Japan, as foreign minister shows that relations with its neighbours are going to be a priority for China's foreign policy.

Taking into account China's position in the region and ambitions to be a superpower, its relations with the U.S. remain crucial and are anticipated to be based on a "new model of a great power relationship," a concept Xi proposed last year. The appointment of Yang Jiechi, departing foreign minister and former ambassador to the U.S., as State Councilor for foreign affairs, and Cui Tiankai, who was educated in the U.S. and is former MFA vice-minister to the PRC ambassador in Washington, demonstrate the significance of PRC–U.S. relations and the desire for improvement. However, Xi's first overseas visit to Russia signals China's willingness to also enhance relations with Moscow in case the U.S. pivot to Asia becomes significant or there are further disputes with Japan. In EU–China relations, the new leaders will be focused on the long-awaited Partnership and Cooperation Agreement, while in relations with Central and Eastern Europe (CEE), including Poland, the emphasis will be on the implementation of a "12-point strategy" (a programme for strengthening CEE–PRC economic and people-to-people cooperation) presented by then-Prime Minister Wen in Warsaw last year.

**Conclusions and Recommendations for Poland.** Although the power change in China has been finalised and Xi has assumed full control over the party, state and army, it seems that during the following months leaders will be concentrated on consolidation of their authority. This very process indicates that significant decisions about domestic and foreign policies—which could become a "brand" of the Xi–Li leadership—are expected to be unveiled no sooner than at the 3<sup>rd</sup> CCP Central Committee Plenum, in autumn of this year.

Poland, which perceives China as one of its most important partners in Asia, should continue its recent policy of deepening cooperation with the PRC. But, along with strengthening relations at the top level, it is also the right time to launch and develop cooperation with the new Chinese local governments. Apart from the power change in the highest party and administrative posts, the reshuffle also has taken place on regional levels. After the 18<sup>th</sup> CCP Congress, 11 new provincial party secretaries were nominated (their predecessors had been elected to the highest CCP posts), while in January, at the first sessions of new provincial parliaments, new local governors were appointed (after the NPC, a few further personnel adjustments are expected).

Taking into account the differences between Poland and China, cooperation in specific regions may be more effective than ambitions to be present in all of China. Despite the centralisation of decision-making in the PRC, local authorities are getting more space for pursuing their own policies. Polish local governments and companies interested in relations with Chinese counterparts should painstakingly study and decide which of China's regions are worth cooperating with. Currently, as Poland has a huge trade deficit with China, bilateral economic relations are concentrated on the developed eastern and northern part of China—an attractive but very competitive region with a strong presence of American and Western European enterprises. It seems that in terms of Polish interests (e.g., increasing exports to China, attracting Chinese students to study in Poland), the more prospective regions for these are the poorer central and western provinces covered by Western Development Policy, which is government support for infrastructure improvements, favourable investment conditions, and other assistance to narrow the development gap between the eastern and western parts of the country and launched by the PRC authorities in late 1990s.

The upcoming "First Regional Forum Poland-China" (22 April in Gdańsk) could be a good starting point to set up and/or reinvigorate cooperation between local authorities, companies, educational institutions, and others. The Polish authorities should support and encourage local governments to establish contacts with their Chinese partners and organise additional forums annually.