U.S.-China Economic and Security Review Commission

Economics and Trade Bulletin

November 4, 2016

Highlights of this Month's Edition

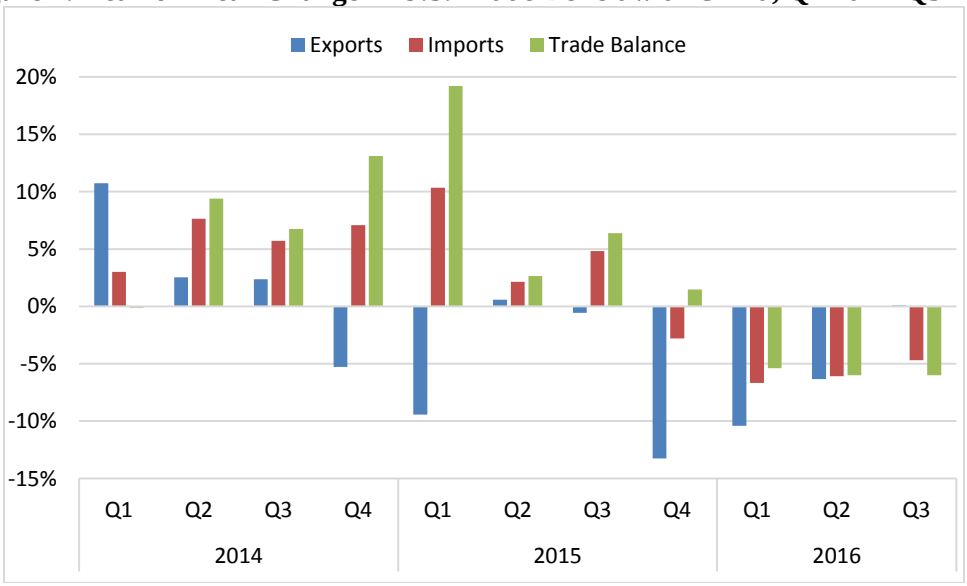
- **Bilateral trade:** In the third quarter of 2016, the U.S. trade deficit declined year-on-year due to weakened imports; in the second quarter of 2016 U.S. service exports to China reach $10.8 billion, an 8 percent increase year-on-year.
- **Bilateral policy issues:** China drops discriminatory aviation tax break; WTO rules against U.S. zeroing antidumping methodology; the United States advances WTO raw materials case against China.
- **Quarterly review of China's economy:** China's GDP growth hit 6.7 percent for the third straight quarter; strong public investment, largely in real estate and infrastructure, has counterbalanced lower private sector investment and driven economic growth, but questions remain regarding the health of the underlying economy; RMB posts weakest rate against the dollar since 2010.
- **Policy trends in China's economy:** The CCP designates Xi Jinping as its "core" leader at the Sixth Plenum.

Bilateral Trade

U.S. Trade Deficit Falls 6 Percent Year-on-Year in Third Quarter of 2016

The U.S. goods deficit with China declined 6 percent year-on-year in the third quarter of 2016 due to decreased imports.[1] U.S. goods imports from China declined 4.7 percent year-on-year while exports remained consistent with the same period in 2015, growing only 0.1 percent (see Figure 1).[2]

Figure 1: Year-on-Year Change in U.S. Trade Deficit with China, Q1 2014–Q3 2016



Source: U.S. Census Bureau. (Washington, DC: U.S. Department of Commerce, Foreign Trade Division, September 2016). *http://www.census.gov/foreign-trade/balance/c5700.html*.

The quarterly drop in the deficit was largely driven by a steep decline in imports in September, when goods imports fell 10.6 percent year-on-year while exports increased 1.6 percent year-on-year. Slower domestic economic growth in China likely contributed to declining U.S. imports, while a stronger dollar against the RMB weighed down U.S. goods exports to China.[3] By October 2016, the RMB's monthly average exchange rate had been devalued to a six year low of 6.76 RMB to one U.S. dollar.[*] [4]

Top U.S. Imports from China Increase

In the third quarter of 2016, top U.S. exports to China remained largely unchanged compared to the same period in 2015, while top imports increased by 3.2 percent year-on-year (see Table 1). Imports of computer and electronic products, which accounted for 33.8 percent of total U.S. imports from China in the third quarter of 2016, increased 10.1 percent year-on-year, while manufactured goods imports—the second largest import from China in the third quarter—increased nearly 25 percent year-on-year. Imports of electric equipment, non-electrical machinery, and apparel decreased year-on-year in the third quarter, with the three categories of products combined making up a smaller share of total imports from China—23 percent—than computer and electronic products alone.

U.S. exports to China continue to be led by transportation equipment, which accounted for nearly 24 percent of total exports in the first three quarters of 2016. While transportation equipment exports grew 10.4 percent year-on-year in the third quarter, the growth in this category was offset by sharp declines in other top exports like electronic products (10.7 percent decline compared to the third quarter of 2015), chemicals (14.2 percent decline compared to the third quarter of 2015), and non-electrical machinery (64.1 percent decline compared to the third quarter of 2015).[5]

Table 1: U.S. Trade with China: Top Five Exports and Imports

(US$ millions)

U.S. Top-Five Exports to China				U.S. Top-Five Imports from China			
	Exports	Share of total (%)	Change over Q3'15 (%)		Imports	Share of total (%)	Change over Q3'15 (%)
Quarter 3 (July-Sept'16)				*Quarter 3 (July-Sept'16)*			
Transportation Equipment	7,281.8	25.9%	10.4%	Computer and Electronic Products	42,106.12	33.8%	10.1%
Computer & Electronic Products	4,307.1	15.3%	-10.7%	Miscellaneous Manufactured Commodities	12,014.3	9.6%	24.9%
Chemicals	3,218.3	11.4%	-14.2%	Electrical Equipment	11,023.4	8.8%	-17.8%
Agricultural Products	2,977.2	10.6%	2.2%	Apparel and Accessories	10,044.5	8.1%	-25.6%
Machinery, Except Electrical	1,859.3	6.6%	-64.1%	Machinery, Except Electrical	7,550.9	6.1%	-0.6%
Other	8,467.0	30.1%	-	Other	42,018	33.7%	-
Total	**28,110.6**	**100.0%**	**0.1%**	**Total**	**124,757.12**	**100.0%**	**3.2%**
Year-to-date (thru Sept'16)				*Year-to-date (thru Sept'16)*			
Transportation Equipment	18,856.9	23.8%		Computer and Electronic Products	112,939.3	33.5%	
Computer & Electronic Products	12,604.2	15.9%		Electrical Equipment, Appliances, and Component	29,976.5	8.9%	
Chemicals	9,776.2	12.3%		Misc. Manufactured Commodities	27,962.0	8.3%	
Agricultural Products	7,483.0	9.4%		Apparel and Accessories	23,111.5	6.9%	
Machinery, Except Electrical	6,098.0	7.7%		Machinery, Except Electrical	22,985.4	6.8%	
Other	24,513.6	30.9%		Other	120,029	35.6%	
Total	**79,331.9**	**100.0%**		**Total**	**337,003.7**	**100.0%**	

Source: U.S. Census Bureau. (Washington, DC: U.S. Department of Commerce, Foreign Trade Division, September 2016).

Advanced Technology Products Deficit Widens

The U.S. trade deficit with China in advanced technology products (ATP) exceeded $85 billion in the first three quarters of 2016, a $7.4 billion decline from the same period in 2015 (see Table 2). Imports of information and communication products (ICT) were the main contributor to the deficit, accounting for 91 percent of total ATP imports in the first half of 2016.[6] Meanwhile, aerospace products remain the largest U.S. ATP exports to China, accounting for over half of total ATP exports through the third quarter of 2016, followed by electronics (16 percent

[*] For more information on the USD-RMB exchange rate see "China's Exchange Rate Backslides to 2010 Rates" in this bulletin.

of total exports to China) and ICT (12.6 percent of total exports to China).[7] However, total ATP exports to China in the first three quarters of 2016 decreased 1.3 percent, with aerospace, electronics, and ICT exports during that period declining 3 percent year-on-year, 2 percent year-on-year, and 6 percent year-on-year, respectively.[8]

Table 2: ATP Trade through September 2016

(US$ millions)

	Monthly			Cumulative year-to-date				
	Exports	Imports	Balance Sept 2016	Exports	Imports	YTD Balance Sept 2016	YTD Balance Sept 2015	YOY Change
TOTAL	**3,084**	**13,761**	**-10,677**	**25,203**	**103,002**	**-77,799**	**-85,160**	-8.64%
(01) Biotechnology	71	12	59	619	99	520	435	20%
(02) Life Science	290	222	68	2,523	1,951	572	625	-8%
(03) Opto-Electronics	45	529	-484	349	4,312	-3,963	-4,599	-14%
(04) Information & Communications	388	12,486	-12,098	3,614	92,007	-88,393	-95,365	-7%
(05) Electronics	507	290	217	4,382	2,821	1,561	1,747	-11%
(06) Flexible Manufacturing	161	103	58	2,232	775	1,457	1,385	5%
(07) Advanced Materials	18	29	-11	174	262	-88	-163	-46%
(08) Aerospace	1,598	74	1,524	11,092	672	10,420	10,738	-3%
(09) Weapons	0	16	-16	3	101	-98	-106	-8%
(10) Nuclear Technology	5	0	5	214	1	213	144	48%

Source: U.S. Census Bureau. (Washington, DC: U.S. Department of Commerce, Foreign Trade Division, September 2016). *http://www.census.gov/foreign-trade/statistics/product/atp/2016/06/ctryatp/atp5700.html*.

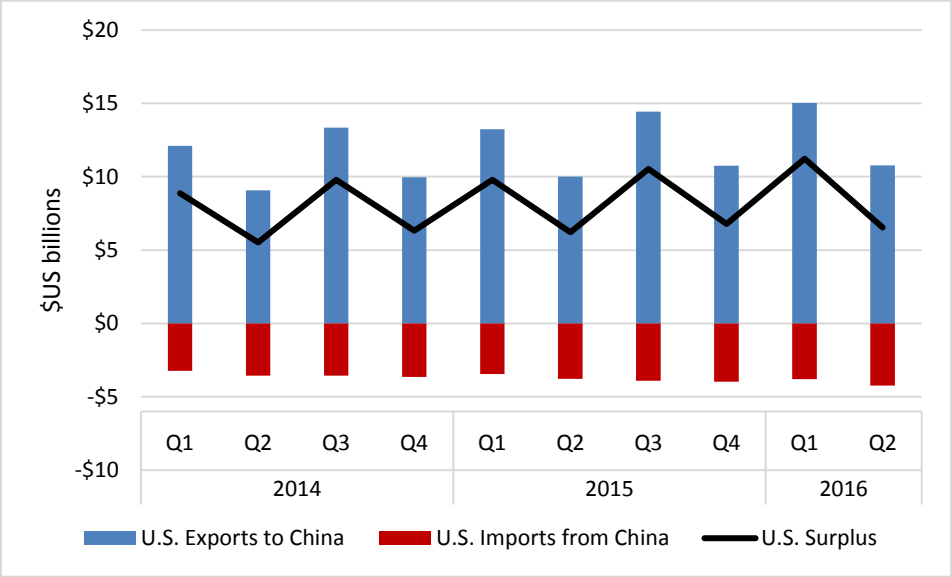
U.S. Services Exports to China

During the second quarter of 2016, U.S. service exports to China reached $10.8 billion, a 28 percent quarter-on-quarter decline but an 8 percent increase year-on-year. As Figure 2 shows, overall the United States had a quarterly service trade surplus of $6.5 billion.[9] U.S. service exports to China are cyclical and largely driven by tourism,[*] the top U.S. service export to China. U.S. tourism and travel exports to China reached $5.7 billion in the second quarter, a 42 percent decline quarter-on-quarter but an 11 percent increase year-on-year.[10] Chinese tourism spending in the United States regularly peaks in the first and third quarters, likely because of tuition payments, which are classified as tourism and travel exports.[†] In 2015, 2.7 million Chinese visitors traveled to the United States, compared with under 400,000 visitors in 2007.[11] Goldman Sachs estimates the number of Chinese travelers to the United States will reach five million by 2025.[12]

[*] Under international and U.S. standards, tourism is broadly defined to include travel and related expenses for business purposes and travel and expenses for personal purposes, such as vacation, education, and medical services. International Monetary Fund, "Balance of Payments and International Investment Position Manual," 2009; U.S. Department of Commerce, *Comprehensive Restructuring of the International Economic Accounts: New International Guidelines Redefine Travel*. *http://travel.trade.gov/pdf/restructuring-travel.pdf.*

[†] For more on Chinese tourism in the United States, see Matt Snyder, "Chinese Tourism and Hospitality Investment in the United States," *U.S.-China Economic and Security Review Commission*, July 25, 2016. *http://www.uscc.gov/Research/chinese-tourism-and-hospitality-investment-united-states*.

Figure 2: U.S.-China Trade in Services, 2014–2016 Q2



Source: U.S. Department of Commerce – Bureau of Economic Analysis, *U.S. Trade in Goods and Services by Selected Countries and Areas, 1999-Present*, U.S. Department of Commerce, Foreign Trade Division, September 2016.

Chinese service exports to the United States reached $4.2 billion in the second quarter of 2016, an 11 percent increase quarter-on-quarter and a 12 percent increase year-on-year. China's top three service exports to the United States are transportation services, tourism, and "other business services";[*] together, they made up 84 percent of China's service exports to the United States in the second quarter. In the second quarter, U.S. travel and tourism to China saw the largest increase, growing from $1.03 billion in the first quarter to $1.32 billion in the second quarter, a 28 percent increase.[13] Overall, the U.S. balance in service exports decreased 42 percent quarter-on-quarter, but increased 5 percent year-on-year.

Bilateral Policy Issues

World Trade Organization Rules against U.S. Zeroing Methodology

China won the bulk of a World Trade Organization (WTO) complaint against a so-called "zeroing" methodology used by the United States in calculating antidumping duties against foreign goods. Typically, when a government agency calculates antidumping margins, it does so by comparing the average difference between export prices and home market prices of the good under investigation. Zeroing occurs when an agency chooses to discard or place a value of zero on instances where the export price exceeds the home market price.[14] While this practice can account for unseen price differences—such as freight costs and custom charges—that would make the export price of a product appear more expensive, critics allege the practical effect of zeroing is to raise the duty levied against goods dumped in the United States and increase the chances antidumping duties will be applied against foreign goods.[15]

China brought a case against the United States' zeroing methodology at the WTO in 2013, arguing the United States' application of zeroing was in violation of its WTO commitments.[16] This October, a WTO panel largely ruled in China's favor, finding against U.S. zeroing procedures.[17] The panel also ruled against the United States' application of a uniform dumping rate against several Chinese manufacturers, arguing it subjected Chinese exporters to a "presumption of government control and singularity."[18]

The United States has already been challenged by other countries on its zeroing methodology and has removed the practice from most of its antidumping procedures. In 2009, Brazil brought a case challenging the use of zeroing against orange juice imports; the judgement found that zeroing was largely inconsistent with WTO rules.[19] In 2012,

[*] This category is a catch-all that includes all service sectors not explicitly reported in U.S. trade statistics.

the U.S. Department of Commerce announced a policy change that would for the most part end zeroing procedures, but leaves the door open to using zeroing in cases of "targeted dumping" wherein an exporter lowers prices to certain consumers or regions.[20] In October, the WTO panel in the China case ruled against using zeroing in cases of targeted dumping.[21] The United States has 60 days to appeal the decision.[22] A representative of the Office of the U.S. Trade Representative (USTR) said he was disappointed by the ruling, and that the United States would consider its next steps.[23] If the United States appeals the decision and loses, it will either have to modify its antidumping methodology in accordance with the ruling or face sanctions from other countries. Korea, Japan, Canada, and Vietnam all submitted arguments supporting China's case against the United States.[24]

China Ends Tax Benefits for Domestic Aviation

In a positive development, the USTR announced that China has ended discriminatory tax benefits applied to domestic aviation manufacturers.[25] China levies a 17 percent value-added tax on aircraft weighing under 25 tons.[26] And while U.S. and other foreign aviation firms are subject to this tax, in 2015 the USTR discovered that Chinese businesses were exempted, resulting in a tax policy that U.S. Trade Representative Michael Froman described as "discriminatory, unfair [and] ... harmful to American workers and American business of all sizes."[27] In December 2015, the United States launched a case against China at the WTO, challenging its application of taxes against foreign aviation firms.[28] China and the United States entered consultations to resolve this discriminatory benefit for Chinese firms, and the tax benefit has since been dropped.[29]

China is the world's second-largest civil aviation market and an important buyer of U.S. aerospace exports.[30] In 2015, China was the United States' largest aerospace market, accounting for 13 percent of U.S. aerospace sales overseas ($15.8 billion).[31] The Chinese aviation market is expected to grow dramatically: According to Boeing, China will require 6,330 new commercial aircraft worth $950 billion over the next 20 years.[32] While the United States is currently the top provider of aerospace exports to China, accounting for 63 percent of Chinese aerospace imports in 2015, China is working to promote its domestic aviation industry to challenge U.S. and European firms.[33] Aerospace is considered a strategic sector for development by the Chinese government, and the Commercial Aircraft Corporation of China (COMAC)—China's national aviation champion—has received more than $7 billion in investment from Chinese state-owned firms.[34]

The United States faulted China for failing to disclose its aviation tax exemptions to the WTO. The exemptions were not included in any of China's subsidy notifications to the WTO, nor did China publish the official documents that exempted Chinese companies from the tax.[35] Ambassador Froman noted that while he is pleased the discriminatory exemption has been removed, he remains "deeply concerned about China's lack of transparency on taxes affecting American products."[36] China's failure to notify other countries of its subsidies has been a perennial problem. While China is required to notify the WTO of its domestic subsidy programs every year, since joining the WTO in 2001 it has done so only three times, and has never notified any local or provincial government subsidies.[37] The United States has called China's subsidy disclosures "grossly incomplete," and has noted they fail to contain known subsidies to excess capacity Chinese sectors, such as steel.[38]

United States Continues WTO Raw Materials Challenge against China

The United States advanced its case against Chinese export duties on raw materials. The United States initiated a trade enforcement action against China regarding Chinese duties levied on exports of antimony, cobalt, copper, graphite, lead, magnesium, talc, tantalum, and tin.[39] The USTR claims the duties impose higher costs on U.S. manufacturers in sectors such as electronics, aviation, chemicals, and automobiles that use these materials as inputs.[40] The duties allegedly range from 5 percent to 20 percent and do not apply to Chinese manufacturers, providing them with lower input costs.[41] In July 2016, the United States requested consultations with China to address these duties, which, it argues, are inconsistent with China's WTO accession protocol; the United States later expanded those consultations to include chromium and indium.[42]

This October the United States declared that its consultations with China had failed to address its concerns, and requested a WTO panel examine China's export duties, the next step in the WTO dispute settlement process.[43] China blocked this request under WTO procedures, arguing that its export quotas are necessary to manage finite natural resources and are a key part of its environmental and sustainable development policies.[44] However, the

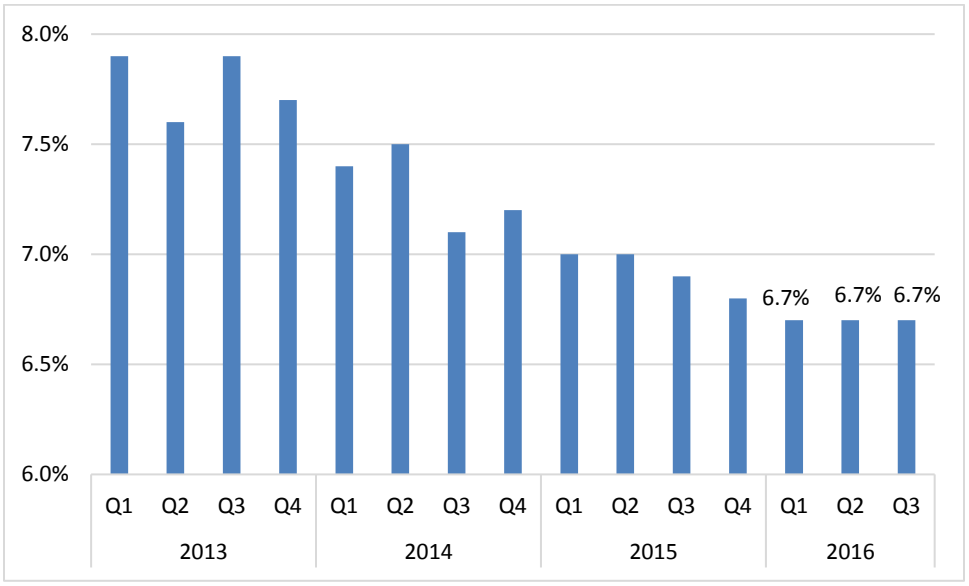
United States can request a WTO panel at the next meeting of the WTO Dispute Settlement Body, at which a panel will likely be established and the process will continue.* The United States has successfully challenged Chinese raw material export duties or export restraints in the past, including on bauxite, zinc, and rare earths.[45] In these challenges the WTO rejected China's arguments that such quotas were necessary to protect China's environment, and found these measures in violation of China's WTO accession protocol.[46]

Quarterly Review of China's Economy

China's GDP growth hit 6.7 percent for the third straight quarter—an unlikely consistency that once again ignited speculation among analysts that the Chinese government was "leveling" the data (see Figure 3).[47] Many economists believe official GDP figures failed to reflect the significant slowdown in growth in 2015, and are similarly failing to acknowledge a recent pickup in growth.[48] This pickup has been fueled by easy credit, a hot property market, and other stimulus measures, and economists expect these trends will support the strong pace of expansion through the end of the year.[49]

Figure 3: China's Quarterly GDP Growth, 2013–2016 Q3

(year-on-year)



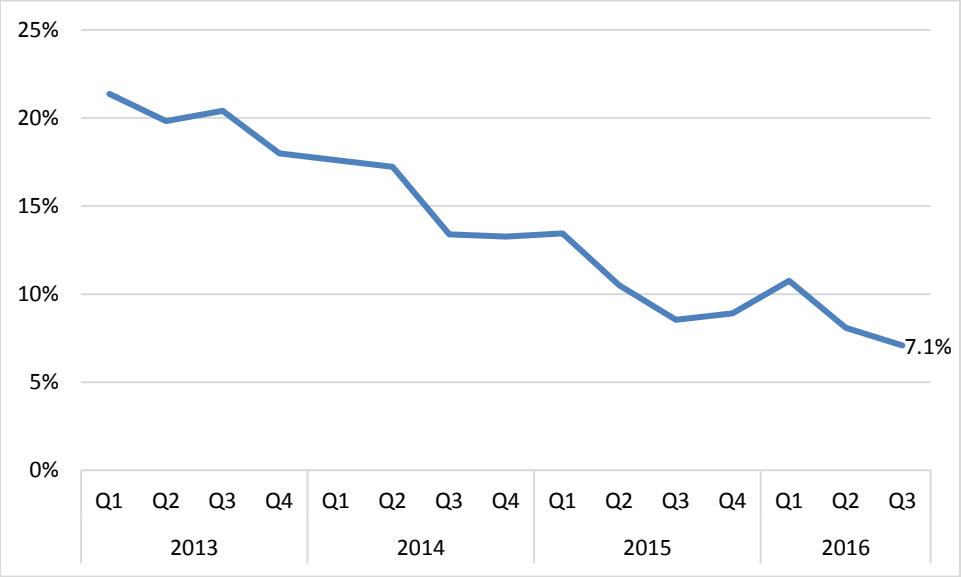
Source: China's National Bureau of Statistics via CEIC database.

Growth in fixed asset investment (FAI) continued to decline in the third quarter of this year, expanding only 7.1 percent year-on-year (see Figure 4).[50] The FAI slowdown is largely a function of continued weakness in investment from the private sector, which grew less than 2 percent.[51] Public spending, on the other hand, was the primary driver of FAI, accounting for about 82 percent of growth.[52] Infrastructure made up around 45 percent of FAI growth: China invested about $74.7 billion (RMB 505 billion) more in infrastructure in the third quarter of 2016 than in the same period last year.[53] These figures give further support to arguments that the Chinese government's stimulus spending is a main pillar propping up the country's nominal GDP growth.[54]

* Under WTO rules, a member can block the establishment of a dispute panel the first time a request to establish a panel is made. However, if a request is made at a second Dispute Settlement Body meeting, a WTO panel will be created and the dispute procedure will continue unless the Dispute Settlement Body decides by consensus not to do so. The time between Dispute Settlement Body meetings is typically 30 days. World Trade Organization, "The Process—Stages in a Typical WTO Dispute Settlement Case." *https://www.wto.org/english/tratop_e/dispu_e/disp_settlement_cbt_e/c6s3p1_e.htm*.

Figure 4: Fixed Asset Investment, 2013–2016 Q3

(year-on-year)

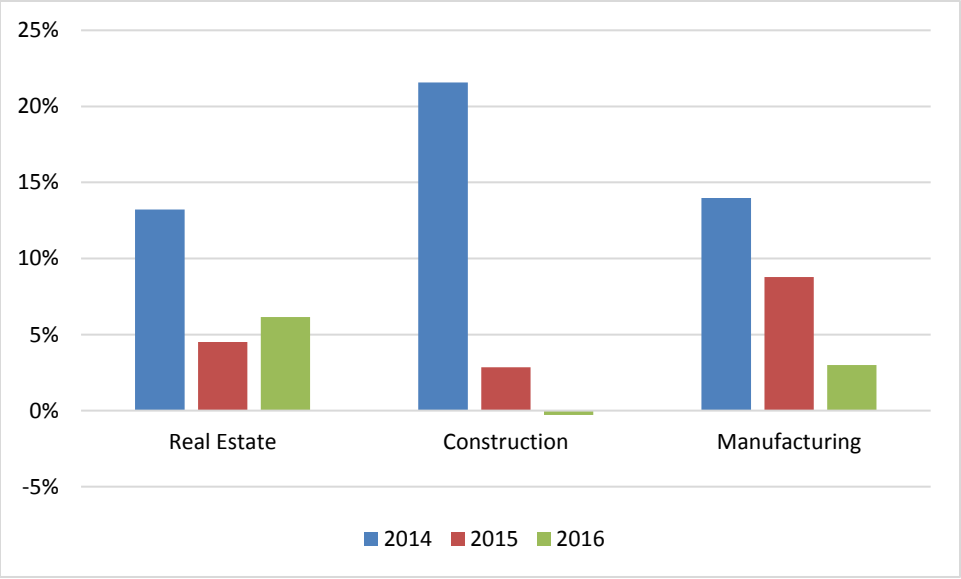


Source: China's National Bureau of Statistics via CEIC database.

Growth in manufacturing investment slowed to 3 percent year-on-year in the third quarter of 2016.[55] This is due to a host of factors, including export weakness, the construction slump, and overcapacity in heavy industry.[56] The continued decrease in FAI was also due to remarkably weak construction investment, which declined by 0.3 percent year-on-year (see Figure 5), primarily a result of delayed residential housing starts while households and investors absorb existing unsold housing stock.[57] Real estate investment was modest overall, with impressive year-on-year growth in several inland regions and contraction in some megacities like Beijing and Chongqing.[58] However, recent mortgage and lending restrictions from many city governments will most likely dampen this investment going into the fourth quarter.[59]

Figure 5: Fixed-Asset Investment by Industry in the Third Quarter, 2014–2016

(year-on-year)

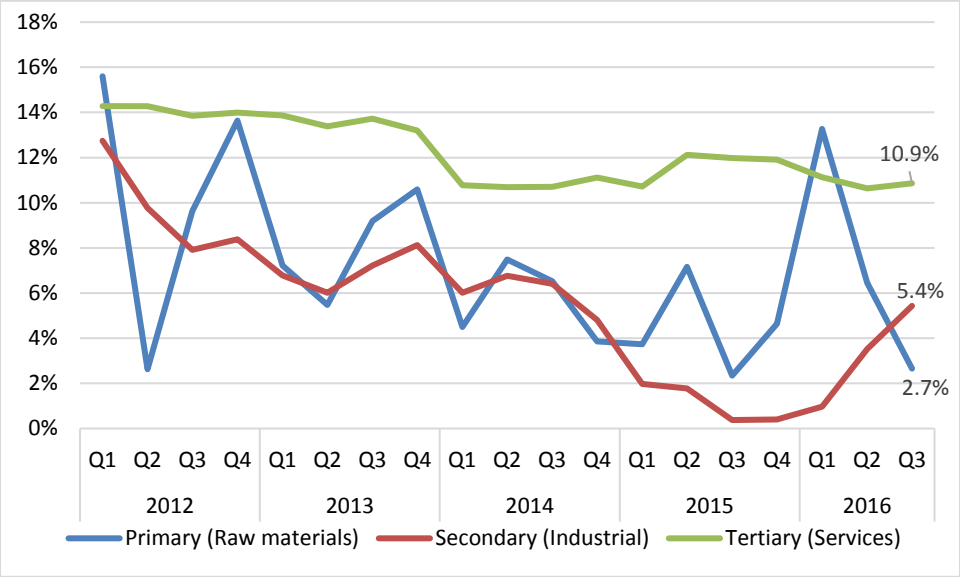


Source: China's National Bureau of Statistics via CEIC database.

Based on data from the National Bureau of Statistics, China's primary industry* continued the precipitous decline that began in the first quarter of this year (see Figure 6), as a result of falling demand from heavy industries for primary inputs like glass, cement, and steel.[60] For example, the central government mandated large cuts to both steel and coal capacity in 2016. China cut 21 million metric tons of steel by the end of July, and 150 million metric tons of coal capacity by the end of August. The secondary industry, on the other hand, has been on an upward trend after hitting a historic low at the end of last year. Central and local governments have been investing heavily in infrastructure construction projects,[61] and high-tech, auto manufacturing, and shipbuilding sectors, which contributed to the recovery in the secondary industry.[62]

The Caixin/Markit services purchasing managers' index (PMI) averaged 51.9† (seasonally adjusted) in the third quarter of 2016, with service providers listing new order intakes and new project development as contributors to modest growth.[63] However, this growth is due in part to potentially unsustainable growth in the real estate sector.‡[64]

Figure 6: GDP by Composition, 2012–2016 Q3

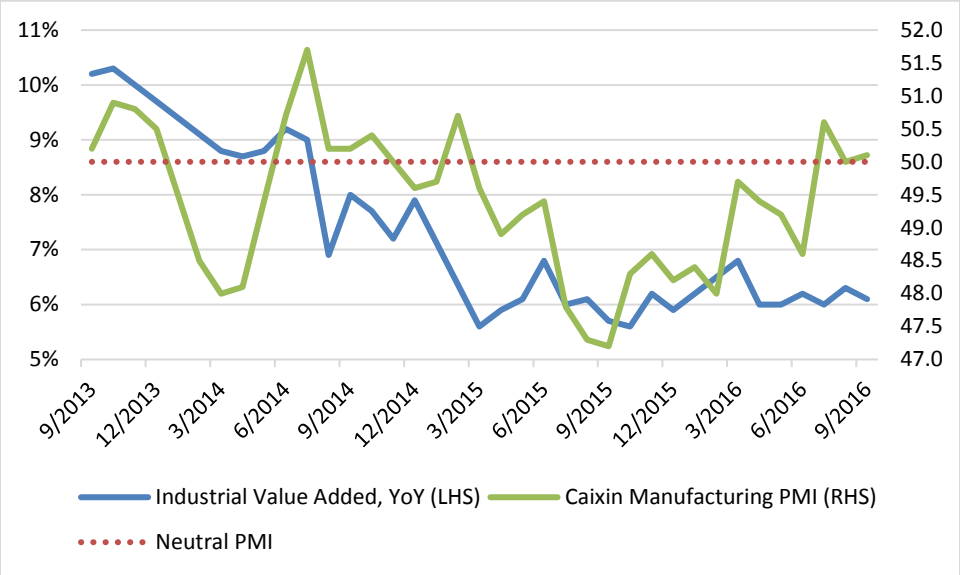


Source: China's National Bureau of Statistics via CEIC database.

Based on official and unofficial estimates, China's manufacturing sector has stabilized after a year of contraction. Caixin's unofficial estimate of China's manufacturing PMI, based on monthly responses from mostly private small and medium-sized enterprises, showed China's manufacturing PMI at 50.1 in September 2016—a slight expansion in new orders and output after growth stagnated in August (see Figure 7).[65] This trend continued into the start of the fourth quarter, with Caixin's manufacturing PMI accelerating to 51.2 in October 2016, the fastest rate in over five and a half years due to strong domestic demand.[66] China's official PMI, compiled by the National Bureau of Statistics, tracks larger state-owned companies and generally shows a stronger reading than the private PMIs.[67] In August and September 2016, China's official PMI reached 50.4—compared with Caixin's PMI at 50.0 in August and 50.1 in September.[68] Value-added industrial growth—viewed by markets as a proxy for economic growth—expanded 6.1 percent year-on-year in September.[69]

* Primary industry includes raw materials meant for processing into commodities like agriculture, mining, and forestry.
† A PMI reading below 50 points indicates contraction.
‡ The recovery in the housing market is being driven by rapid increases in house prices in megacities. For example, in the first eight months of 2016, new home prices in Beijing grew 28 percent. Many analysts claim this trend is unsustainable. The financial services supporting this kind of real estate investment, therefore, may not be stable.

Figure 7: China's Manufacturing PMI and Industrial Value Added, September 2013–September 2016

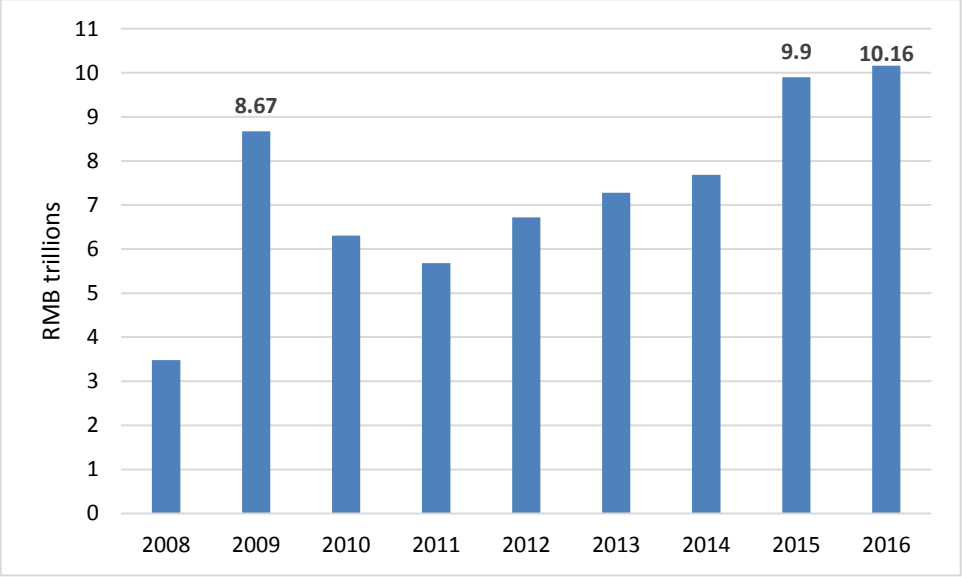


Source: China's National Bureau of Statistics via CEIC database; Markit, "China Caixin Manufacturing PMI." *http://bit.ly/23pH7o3*.

New Lending Stabilizes Economic Growth

The Chinese government continues to stimulate economic growth with new lending. The amount of lending in the first nine months of both 2015 and 2016 surpassed the $1.4 trillion (RMB 9.6 trillion) of new loans issued in the entire first year of China's stimulus program (see Figure 8).[70] The amount of new loans issued in the first nine months of 2016 reached $1.5 trillion (RMB 10.2 trillion), an increase of $84 billion (RMB 570 billion) over the amount issued in the entire 2009.[71] While it has stabilized growth, this new lending impedes China's transition away from infrastructure-led growth and exacerbates rapid debt buildup.[*]

Figure 8: New Loans Issued by Chinese Banks, January–September 2008–2016



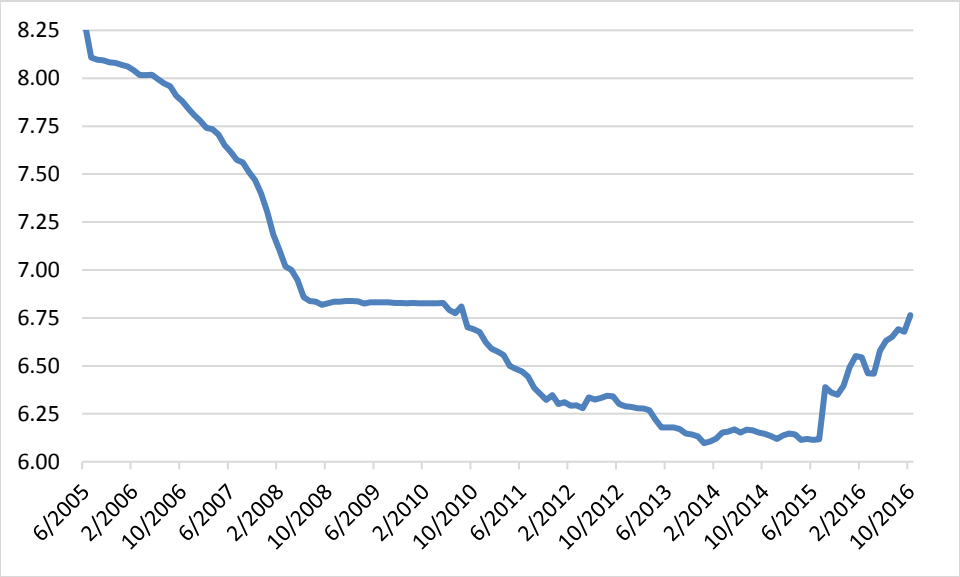
Source: The People's Bank of China via CEIC database.

[*] For more information on China's rising debt issues, see U.S.-China Economic and Security Review Commission, *Economics and Trade Bulletin*, October 7, 2016, 3–6. *http://origin.www.uscc.gov/sites/default/files/Research/Oct%202016%20Trade%20Bulletin.pdf*.

China's Exchange Rate Backslides to 2010 Rates

Since August 2015, China's renminbi (RMB) has been weakening against the dollar, reversing a decade's worth of appreciation.* Since the People's Bank of China (PBOC) depegged the RMB from the U.S. dollar in July 2005, the RMB has appreciated 35.3 percent relative to the U.S. dollar between June 2005 and July 2015 (see Figure 9). But in August 2015, the PBOC unexpectedly delinked the opening RMB exchange rate for trading and devalued the RMB relative to the U.S. dollar by 1.9 percent, leading to market panic and massive capital outflows among investors jittery about China's slowing growth.[72] In January 2016, the PBOC again weakened the RMB, setting the daily reference rate at the lowest level since April 2011, thus leading to a second market selloff.[73] By October 2016, the RMB's monthly average exchange rate devalued to 6.76 RMB to the dollar, a six-year low.[74] In the face of market pressure to further devalue, the PBOC spent $370.1 billion in foreign exchange reserves to defend the RMB between August 2015 and September 2016.[75]

Figure 9: Monthly Average of RMB to U.S. Dollar, June 2005–October 2016



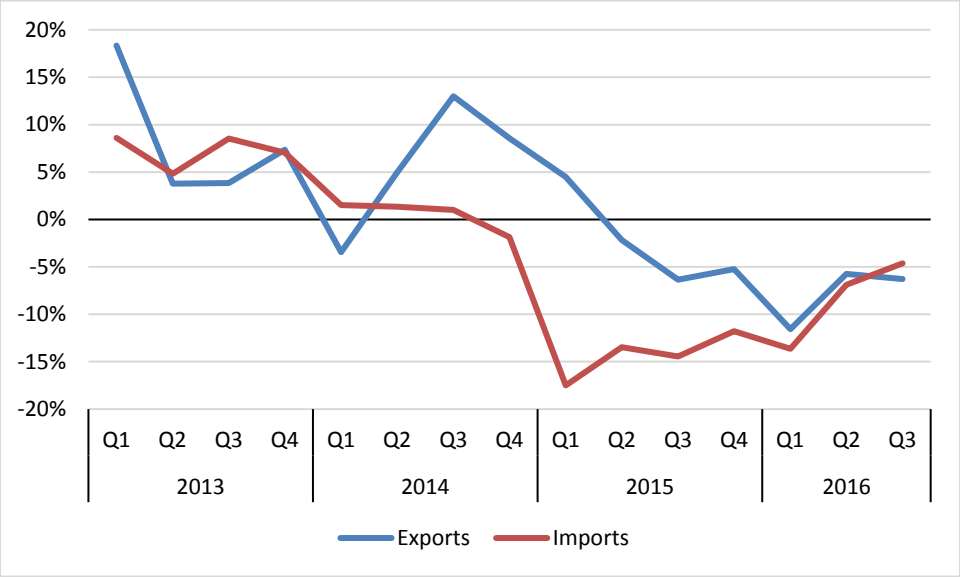
Source: The People's Bank of China via CEIC database.

Exports Continue to Fall

Despite the benefits of a weaker exchange rate, China's global exports continued to fall in the third quarter of 2016, reflecting sluggish global demand and rising labor and material costs.[76] In the third quarter, China's exports contracted 6.3 percent year-on-year in dollar terms and decreased 12.4 percent year-on-year by volume (see Figures 10 and 11).[77] Imports fell 4.6 percent year-on-year in dollar terms but increased 6.3 percent year-on-year by volume.[78] Rising imports of increasingly less expensive bulk commodities such as iron ore, crude oil, and copper partially account for this trend.[79]

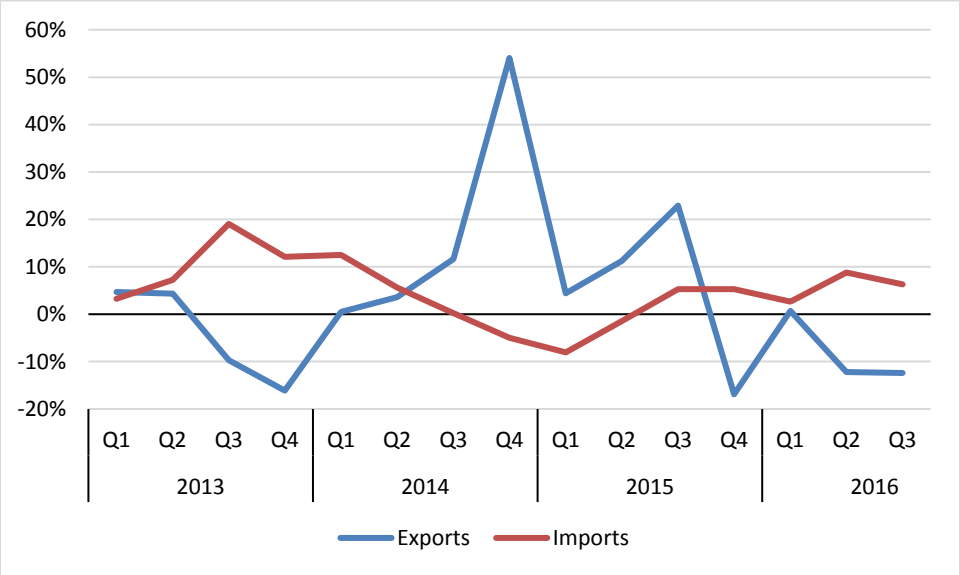
* For more information of China's exchange rate regime, see Eswar S. Prasad, "China's Efforts to Expand the International Use of the Renminbi" (prepared for the U.S.-China Economic and Security Review Commission), February 4, 2016, 27–39. *http://origin.www.uscc.gov/sites/default/files/Research/China%27s%20Efforts%20to%20Expand%20the%20Internationalization%20of%20the%20RMB.pdf*.

Figure 10: Change in Chinese Exports and Imports in Dollar Terms, 2013–2016 Q3
(quarterly, year-on-year)



Source: China's General Administration of Customs via CEIC database.

Figure 11: Change in Chinese Exports and Imports in Volume Terms, 2013–2016 Q3
(quarterly, year-on-year)



Source: China's General Administration of Customs via CEIC database.

Policy Trends in China's Economy

Chinese Communist Party Names Xi Jinping the Party's "Core" at the Sixth Plenum

The Chinese Communist Party (CCP) held the Sixth Plenary Session (Plenum) of the 18th Central Committee in the last week of October. Plenums under each administration typically have a theme. For example, the Third* Plenum focused on economic reform, while the Fourth† Plenum looked at legal developments and rule of law issues. The Sixth Plenums have historically been dedicated to ideological matters.[80] This year was no different, with Party discipline dominating the discussion—an expected choice given Chinese President and General Secretary of the CCP Xi Jinping's ongoing and far-reaching anticorruption crackdown. A communiqué from Beijing, released at the completion of the Sixth Plenum, highlighted "strict discipline" and "zero tolerance" in the government's fight against corruption, among other outcomes.[81] The Plenum approved two documents, the "Guidelines on Inner-Party Political Life under the New Situation" and the "Regulations for Inner-Party Supervision in the CCP," which focus on CCP political norms and intra-party supervision.[82]

The outcome that attracted the most international attention—and ignited speculation—concerns the elevation of President Xi as the CCP's "core" leader. With this designation, President Xi joints China's paramount leaders—Mao Zedong, Deng Xiaoping, and Jiang Zemin—who bore the "core" title; only President Xi's immediate predecessor, Hu Jintao, was not similarly anointed.[83] Most analysts interpreted this move as a confirmation that in the era of President Xi, the CCP's emphasis on power sharing and collective leadership that emerged post-Mao is being supplanted by a strongman who controls key levers of power.[84] Christopher Johnson and Scott Kennedy, China scholars at the Center for Strategic and International Studies, noted in their assessment of the Sixth Plenum outcomes that "Xi's designation as the 'core' of the leadership confirms that he aspires to transcend the post-Mao era emphasis on power sharing and collective rule and suggests he may well have the power to do it."[85] Cheng Li, an expert in elite CCP politics, and Zachary Balin—both at the Brookings Intuition—had a different interpretation, noting, "In no uncertain terms, the communiqué affirms the importance of practicing collective leadership," emphasizing continuity of leadership and adherence to strict party discipline.[86]

Ultimately, the correct interpretation of President Xi's intentions and the future of the CCP's collective leadership model will be revealed at the 19th Party Congress—scheduled for fall of 2017—which is expected to have the largest leadership turnover since the 1980s.[87] President Xi's agenda for the 19th Party Congress and his ability to promote his protégés to high positions will reveal the extent of President Xi's power consolidation.

* For an in-depth analysis of the Third Plenum's proposed economic reforms, see Nargiza Salidjanova and Iacob Koch-Weser, "Third Plenum Economic Reform Proposals: A Scorecard," *U.S.-China Economic and Security Review Commission*, November 19, 2013. *http://origin.www.uscc.gov/sites/default/files/Research/Backgrounder_Third%20Plenum%20Economic%20Reform%20Proposals--A%20Scorecard%20(2).pdf*.

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