The 19th Congress of the Communist Party opened overnight with Xi Jinping presenting the so-called work report. In a three and a half hour speech, he evaluated the policies of the past five years and laid out the road for the future of China. As is normal for these reports, there were no specific details but the report paints a picture of China and the road ahead with a very broad brush.

Overall, the report contained few surprises. With Xi Jinping starting on his second five-year term, we should expect continuity on all policies: a continuation of the corruption campaign, strengthening of economic and financial reforms and a continued gradual opening of the Chinese economy. However, it is likely to happen in the usual ‘two steps forward, one step back’ fashion, as China is balancing reforms with control by the leadership. If something rocks the boat, China favours regaining control at the expense of opening up, as we have seen over the past few years when it sealed capital outflows following the financial storm in 2015/early 2016.

Xi Jinping’s characterisation of China is ‘socialism with Chinese characteristics in a new era’. The notion ‘new era’ was used 36 times to highlight that a new phase of Chinese development is starting. Xi stressed that for China to reach the Chinese ‘dream’ of national rejuvenation hard work continues to lie ahead: ‘Achieving national rejuvenation will be no walk in the park; it will take more than drum beating and gong clanging to get there.’

**Highlights of the speech**

- **Opening up.** Xi Jinping declared China would continue opening up the economy for foreign businesses. China has moved gradually in this direction over the years, although the pace has slowed in recent years and many foreign companies still experience difficulty getting access to the Chinese market on equal terms with Chinese competitors.

- **State sector reform.** In this area, Xi Jinping mentioned strengthening of the state sector. This is in line with the policy in past years, where the strategy has been to keep a big state sector in strategic areas but to strengthen state-owned enterprises (SOEs) through consolidation and making them more efficient. One way to do this is through mixed ownerships allowing the private sector to be part owners but with the state having a clear majority and control. However, we do not expect the state to play a smaller role in future.

- **Financial reforms.** Xi stressed a continuation of strengthened financial regulation. This work has intensified over the past year, as Xi Jinping has put his weight behind this area and launched a crackdown on shadow banking. Deleveraging of SOEs is also becoming a higher priority.

- **Political reforms.** Xi made it clear that a strong Communist Party will continue to be the centre of the political system and he gave no sign of reform. Xi stressed, ‘We should not just mechanically copy the political systems of other countries…We must unwaveringly uphold and improve party leadership and make the party still stronger’.
• **Long term vision.** Xi reiterated the goal of attaining a ‘moderately prosperous society’ by 2020. This is well in sight, as it requires only an average growth rate of 6.3% over the next two to three years to achieve the formulated goal of doubling incomes from 2010 to 2020. Xi’s long-term vision for China is to achieve a ‘great modern socialist country’ by 2050 with rule of law, innovative companies, a clean environment, an expanding middle class and reduced inequality.

The speech had little impact on markets, although the strong momentum in the Chinese stock market has continued overnight. It contained no big surprises and did not lay out any specific policies. However, markets are increasingly pricing a further push for reforms in 2018, as Xi Jinping is likely to have more focus on the economy following five years when a lot of focus has been on ‘cleaning up’ the party and strengthening his power base. We are also cautiously optimistic that China will continue the gradual reform pace and that it will get increased focus over coming years. Nevertheless, we expect the economy to slow gradually over the next year due to financial tightening, which would cause some headwinds for equity markets as well.

**Further key quotes from the speech**

• ‘China is still in an important period of strategic opportunity for development. The prospects are bright but the challenges are severe.’

• ‘We should not just mechanically copy the political systems of other countries’, he said. ‘We must unwaveringly uphold and improve party leadership and make the party still stronger.’

• ‘No country can alone address the many challenges facing mankind; no country can afford to retreat into self-isolation,’

• ‘Through a long period of hard work, socialism with Chinese characteristics has entered a new era; this is a new historical direction in our country’s development.’

• ‘We have a long way to go in protecting the environment.’

• ‘China’s cultural soft power and the international influence of Chinese culture have increased significantly…China’s international standing has risen as never before.’

• ‘Chinese people will enjoy greater happiness and well-being and the Chinese nation will stand taller and firmer in the world’ (on vision for 2050).

For more on our expectations on China, see *China Outlook – Moderate slowdown and CNY stabilisation*, 13 October.

Next to look out for are changes in the Constitution and a reshuffle of the leadership, which is due to be announced on the day after the Congress ends on 24 October (see more on what to watch out for here: *Research - Why the Party Congress is key for China’s road ahead*, 3 October.)
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