Change of Leadership in China – What Does It Mean For Doing Business There?

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When I visited Spain last year, a local Spaniard talked with me about his thoughts as he watched coverage of the presidential election in the United States. The U.S. presidential election received worldwide attention as a game changer with far-reaching implications for other nations. However, as the U.S. was embroiled in its own elections, less attention was paid to the perhaps equally significant transition of leadership in China. On November 8, 2012, two days after the presidential election in the U.S., the 18th National Congress in China selected its own new group of leaders.

Let's start with a broad overview of the political leadership in China. The Chinese Communist Party (CCP) – the ruling political party in China, is comprised of the General Secretary, the Poltiburo Standing Committee – consisting of 7-9 members, the Poltiburo – consisting of 25 members, and the Central Committee – consisting of 205 members. The Poltiburo Standing Committee is essentially the ultimate decision making body in China.

Change to the leadership of the CCP does not come often and does not occur widely. Therefore, when seven of the nine members of the Poltiburo Standing Committee are slated to depart (due to the CCP's term limits and unofficial retirement age of 68), it's a very significant change. In November 2012, the CCP completed a sweeping transfer of power, to be helmed by the new General Secretary, Xi Jinping and the new Prime Minister, Li Keqiang. While this transfer is not technically official until the annual session in March 2013 of China's parliament, for all intents and purposes, this new leadership is in place.

What will this change likely mean for the nations outside of China? While China's economy has thrived in recent years on a diet of infrastructure investment and exports, its growth has inevitably waned due to weaker global demand. The new Chinese leaders have already spoken of reform, including rising labor costs in China in the coming years and a direction towards a more sustainable growth model that relies on domestic consumption. Considering that China represents about 20% of the world's population with its 1.3 billion people, an economic plan based on domestic consumption is likely to greatly impact the international economy (i.e. countries who rely heavily on manufacturing items for import to China).

Coupled with these economic reforms, the new leadership also seeks to campaign against the reportedly widespread corruption among officials and State Owned Enterprises (SOEs). For those not familiar with the concept of SOEs, they are government-owned companies (either fully or not familiar with the concept of SOEs, they are government-owned companies (either fully or partially) that are major employers, pay very little for land rent, enjoy preferential policies, and have easy access to capital from China's state-owned banks. Most of the Chinese companies on the Fortune Global 500 are state-owned. However, SOEs are often accused of rampant corruption and inefficiency. Suffice to say, reforms dealing with SOEs will be of great interest to foreign companies who partner with or are involved in joint-ventures with SOEs.

While the new leaders are mindful of the needed reforms, these reforms come with obstacles and risks. Potential changes won't be quick or sweeping in the near future. If anything, Chinese leaders value stability. However, reforms that do eventually come will impact the way foreign companies do business with China in the form of both challenges and opportunities, so pay close attention.

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