China Political Cycle Watch

A new investment playbook

SIGNATURE

China's local leadership reshuffle could revive investment, but through a different playbook. Tighter local fiscal positions suggest a shift from local leverage to central funding, and from an infrastructure race to an industrial-policy race, with risks of duplicative capex and global spillovers.

Economics

Yingke Zhou
+852 2903 2653
yingke.zhou@barclays.com
Barclays Bank, Hong Kong

Ying Zhang
+852 2903 2652
ying.zhang3@barclays.com
Barclays Bank, Hong Kong

Jian Chang
+852 2903 2654
jian.chang@barclays.com
Barclays Bank, Hong Kong

China's five-year local leadership reshuffle is more than a political event. Historically, changes in provincial leadership have influenced the timing and composition of local investment, credit demand and policy implementation, providing an important link between China's political and economic cycles. New leadership teams typically enter office with incentives to establish priorities and accelerate policy execution, making the local political cycle a useful lens to assess the growth and investment outlook.

The 2026-27 cycle could be particularly important, but the traditional playbook is changing. Local governments face tighter debt constraints and weaker fiscal positions, while China's policy priorities have increasingly shifted toward technology self-reliance, advanced manufacturing and targeted support rather than broad-based stimulus.

The key question, therefore, is whether the upcoming leadership reshuffle can still produce the traditional investment impulse, or whether the political cycle is entering a new paradigm: from local leverage to central funding, and from an infrastructure race to an industrial-policy race. This shift could also increase the risk of duplicative capex in high-tech sectors, with potential spillovers to global markets.

Key timeline for the upcoming leadership reshuffle

China is entering a year-long political reshuffle cycle from late 2026 through late 2027, with provincial leadership changes preceding the National Party Congress in late 2027. We highlight the key political and policy milestones over the next 12 months (Figure 1):

- **October-December 2026:** Provincial-level party leadership reshuffles across around half of China's provinces and municipalities.
- **January 2027:** Local People's Congress and CPPCC meetings, including reviews of local government work reports and the announcement of provincial growth and policy targets.
- **March 2027:** National People's Congress and CPPCC meetings, including the review of the national Government Work Report.
- **April-June 2027:** Provincial-level party leadership reshuffles across the remaining half of China's provinces and municipalities.



- **July 2027:** Politburo meeting to assess economic conditions and set policy priorities for H2 2027.
- **October-November 2027:** National Party Congress, setting the broad political and development agenda for the next five years.

FIGURE 1. **Timeline of China's political transition**



Source: Xinhua, Barclays Research

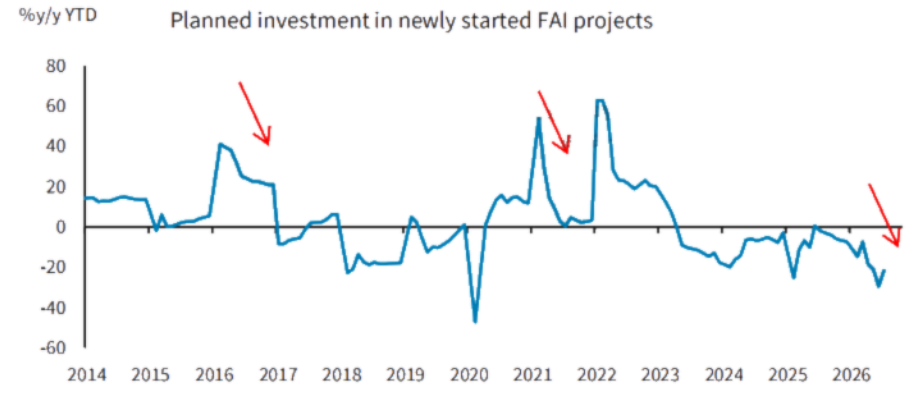
Pre-reshuffle: Infrastructure investment slowed

China's infrastructure investment contracted 6% ytd in 2026, reversing from an average growth of 5% in 2023-25. Beyond tighter fiscal constraints and fewer eligible projects, we think uncertainty ahead of the local leadership reshuffle may have also further dampened local governments' appetite for new investment (Figure 2).

A new round of provincial leadership reshuffles is set to begin in late 2026 and run through H1 2027, with many party secretaries and other senior officials likely to be rotated, promoted or reassigned. Large infrastructure projects typically have long approval, construction and payback periods. For officials expecting to leave their posts within the next year, launching major projects today could mean taking on additional debt and execution risks, while much of the economic benefit accrues under their successors.

This could create a "wait-and-see" effect ahead of the reshuffle, weakening incentives to initiate large, long-duration projects. Instead, local governments may prefer smaller, targeted investments and completing existing projects, rather than embarking on another round of large-scale, debt-fuelled infrastructure stimulus.

FIGURE 2. **New project starts tend to slow ahead of the leadership reshuffle**



Shaded areas indicate local Party committee reshuffle years.

Source: Wind, Barclays Research

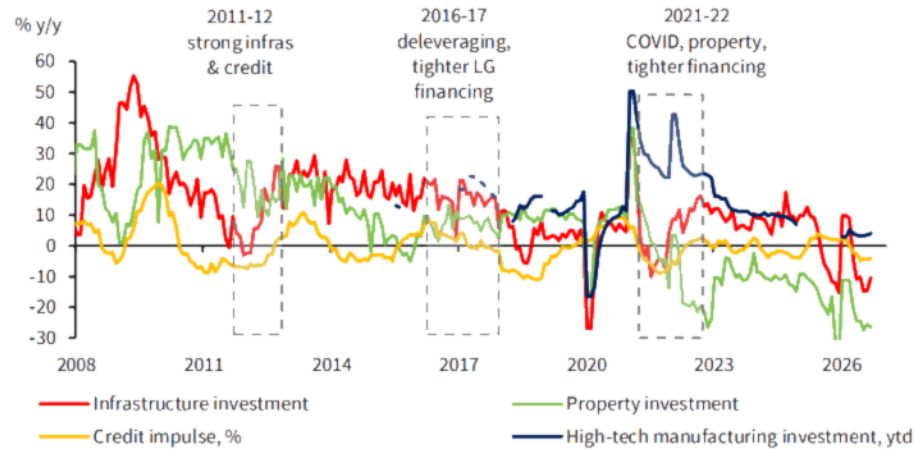
Post-reshuffle: The traditional "reshuffle-investment" impulse is fading

The investment response to leadership transitions has weakened across successive cycles. The 2011-12 reshuffle coincided with a powerful infrastructure and credit impulse, while the 2016-17 cycle was constrained by deleveraging and tighter local-government financing. By 2021-22, COVID disruptions, property weakness and tighter financing further diluted the effect (Figure 3). The lesson is that leadership incentives matter, but financing constraints and the central policy stance matter more.

Historically, incoming officials could demonstrate performance through GDP growth, infrastructure and fixed-asset investment. The new policy framework places greater emphasis on technology self-reliance, advanced manufacturing and macro stability, while reducing the previous emphasis on headline GDP growth.

In 2026, several provinces moved from point GDP growth targets to target ranges, reducing the emphasis on hitting a single growth number. The incentive structure for local officials is therefore shifting from "growth at all costs" toward a broader scorecard of economic and social objectives. We could still see a "new leader effect," but it is unlikely to come primarily through traditional infrastructure investment.

FIGURE 3. **The infrastructure investment response following local leadership transitions has weakened across successive cycles**



Source: Wind, Barclays Research

"Reshuffle effect" is constrained by fiscal conditions

The political cycle could increase local governments' desire to support growth, but their capacity to finance another large stimulus is much more constrained than in previous cycles. This matters because local fiscal conditions have deteriorated sharply. Local governments have long shouldered expenditure that are large relative to their share of fiscal revenues, while also undertaking the bulk of public infrastructure investment. Beyond central government transfers, they historically relied heavily on land-sale revenues and borrowing through local government financing vehicles (LGFVs) to bridge the funding gap.

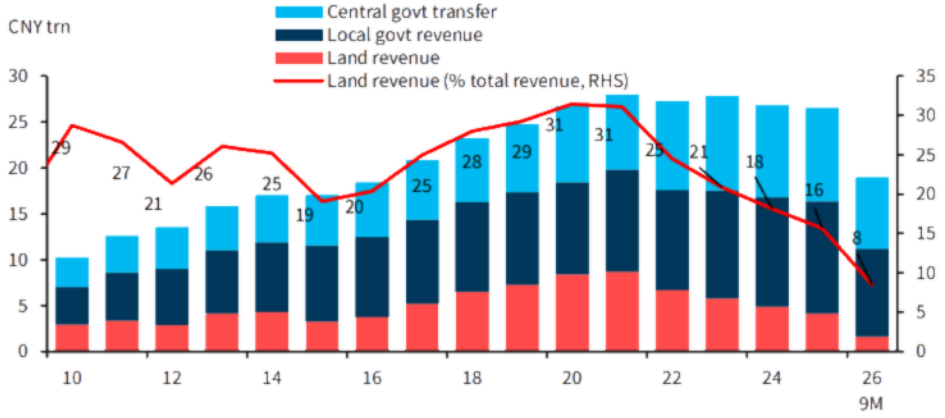
- The property downturn has weakened the first funding pillar. Local governments historically derived around 30% of their broader fiscal resources from land sales to property developers, but this revenue source has collapsed alongside the housing market (Figure 4). We estimate land-sale revenue has declined from around 8% of GDP in 2020-21 to 2% this year, implying a revenue shortfall equivalent to roughly 6% of GDP relative to the peak. This has left local governments with much less fiscal room to finance infrastructure and other growth-supportive spending.

- At the same time, the second pillar, LGFV financing, has shifted from a source of stimulus to a constraint on local spending. China has sought to contain hidden local-government debt for years, but the campaign intensified materially from 2023, when the authorities launched a broad debt-resolution programme alongside tighter restrictions on new hidden debt and LGFV financing. The emphasis increasingly shifted from using LGFVs to support growth toward preventing new hidden debt, refinancing existing liabilities and reducing financial risks.

Taken together, the collapse in land revenues and constraints on LGFV borrowing mean that local governments have much less capacity to engineer the kind of infrastructure-led stimulus seen in previous political cycles. Any meaningful fiscal impulse would therefore likely require greater support from the central government — likely through higher transfers, larger central-government borrowing, or additional explicit local-government bond quotas.

This raises an important question — whether the central government is willing to provide the funding. In this framework, we believe the next investment pulse would be less about local governments independently leveraging up and more about central government determining the quantity and destination of incremental fiscal resources.

FIGURE 4. **Land sales revenue slumped for local government**



Source: Wind, Barclays Research

From an "infrastructure race" to an "industrial-policy race"

We think shrinking local-government fiscal space reduces the likelihood of a return to the traditional"infrastructure race", in which local governments competed to support growth through debt- and credit-fuelled investments. At the same time, China's 15th Five-Year Plan reinforces a structural shift in policy priorities toward technological self-reliance, advanced manufacturing and the deeper integration of frontier technologies into the real economy. Together, these trends suggest that competition among local governments is likely to shift increasingly from an "infrastructure race" to an "industrial-policy race."

Rather than competing primarily to build roads, airports and traditional infrastructure, local governments are likely to compete to attract strategic industries, cultivate technology clusters and mobilise capital for advanced manufacturing and innovation. Key strategic industries include AI and robotics, semiconductors, biomedicine and new energy, all of which feature prominently in China's industrial and technology priorities. Local governments could increasingly compete to build industry clusters and supply-chain ecosystems around these strategic sectors.

The financing model of "industrial-policy race" is also likely to evolve. With local fiscal balance sheets constrained, more of the funding burden will need to shift from LGFV borrowing toward social capital and market-based financing. In this context, reforms to China's equity and bond markets can be viewed as part of a broader effort to channel household and institutional savings into the real economy and strategically important sectors. The result could be a more diversified model in which local governments increasingly play the role of catalyst rather than principal financier, using limited public resources to mobilise larger pools of bank, corporate and capital-market funding.

Overall, we think the shift towards "industrial-policy race" could further support China's manufacturing competitiveness and export strength, but may also increase the risks of duplicative investment and excess capacity, with potential spillovers to global markets through exports. Looking at the regional distribution of strategic industry clusters (Figure 5-7), we find 17 biomedicine clusters across 16 provinces and municipalities, followed by nine new functional materials clusters across seven regions and five integrated-circuit clusters across five regions. This highlights both the breadth of local competition and the potential for investment duplication in strategic sectors.

Importantly, however, China appears increasingly conscious of these risks and the potential for inefficient capital allocation. The 15th FYP, for example, calls for more coordinated development of computing infrastructure after local governments rushed to build data centres in previous years.

Key indicators to watch to gauge "reshuffle effect"

We would monitor three sets of indicators to gauge whether the leadership reshuffle translates into a stronger investment impulse, and what form that impulse takes:

- **Provincial growth and investment targets:** Higher GDP and FAI targets would point to a stronger post-reshuffle growth push, while wider or more flexible targets would suggest a more measured approach. The first key signal will come from provincial targets announced at the Local Two Sessions in early 2027.
- **Funding sources:** An improvement in local financing conditions would strengthen local governments' capacity to invest, while continued reliance on central fiscal resources and policy-financing tools would underscore persistent local balance-sheet constraints.
- **Project composition:** A rebound in traditional infrastructure would point to a more conventional reshuffle-investment cycle, while stronger investment in AI, advanced manufacturing, green technology and other strategic industries would reinforce our view of a shift toward an "industrial-policy race."

FIGURE 5. **Regional distribution of strategic industry clusters**



Note: Numbers denote the number of strategic industry clusters in each province.
Source: NDRC, Notice on Accelerating the Development of Strategic Emerging Industry Clusters, Barclays Research

FIGURE 6. **Strategic industry clusters by region - Part 1**

Province / Municipality	Number of Clusters	Main Cluster Distribution
Shandong	7	• Jinan Information Technology Services • Qingdao Energy Conservation and Environmental Protection • Qingdao Rail Transit Equipment • Linyi Biomedicine • Yantai Biomedicine • Yantai Advanced Structural Materials • Zibo New Functional Materials
Guangdong	6	• Guangzhou Biomedicine • Guangzhou Intelligent Manufacturing • Shenzhen New Display Devices • Shenzhen Artificial Intelligence • Shenzhen Intelligent Manufacturing • Zhuhai Biomedicine
Anhui	4	• Tongling Advanced Materials • Hefei Integrated Circuits • Hefei Artificial Intelligence • Hefei New Display Devices
Beijing	4	• Beijing Economic-Technological Development Area Integrated Circuits • Beijing Haidian District Artificial Intelligence • Beijing Changping District ls • Beijing Daxing District Biomedicine
Fujian	4	• Fuzhou New Functional Materials • Putian New Functional Materials • Xiamen Biomedicine • Xiamen New Functional Materials
Henan	4	• Zhengzhou Information Services • Zhengzhou Next-Generation Information Networks • Pingdingshan New Functional Materials • Xuchang Energy Conservation and Environmental Protection
Hubei	4	• Wuhan Integrated Circuits • Wuhan Biomedicine • Wuhan Next-Generation Information Networks • Wuhan New Display Devices
Hunan	4	• Changsha Intelligent Manufacturing • Loudi Advanced Structural Materials • Xiangtan Intelligent Manufacturing • Yueyang New Functional Materials

Source: NDRC, Notice on Accelerating the Development of Strategic Emerging Industry Clusters, Barclays Research

FIGURE 7. **Strategic industry clusters by region - Part 2**

Province / Municipality	Number of Clusters	Main Cluster Distribution
Shanghai	4	• Pudong New Area Biomedicine • Shanghai-Zhangjiang Integrated Circuits • Yangpu District Information Services • Xuhui District Artificial Intelligence
Jiangsu	3	• Suzhou Biomedicine • Changzhou Intelligent Manufacturing • Xuzhou Intelligent Manufacturing
Zhejiang	3	• Hangzhou Information Technology Services • Hangzhou Biomedicine • Ningbo New Functional Materials
Sichuan	3	• Chengdu Biomedicine • Chengdu Rail Transit • Zigong, Sichuan - Energy Conservation and Environmental Protection
Tianjin	2	• Tianjin Network Information Security Products and Services • Tianjin Economic-Technological Development Area Biomedicine
Liaoning	2	• Dalian Intelligent Manufacturing • Dalian Information Technology Services
Shaanxi	2	• Xi'an Integrated Circuits • Baoji Advanced Structural Materials
Guizhou	2	• Guiyang Information Technology Services • Tongren New Functional Materials
Jiangxi	2	• Ganzhou New Functional Materials • Yingtan Next-Generation Information Networks
Chongqing	1	• Banan District Biomedicine
Hebei	1	• Shijiazhuang Biomedicine
Heilongjiang	1	• Harbin Biomedicine
Jilin	1	• Tonghua Biomedicine
Hainan	1	• Chengmai County Information Technology Services
Xinjiang	1	• Urumqi Advanced Structural Materials

Source: NDRC, Notice on Accelerating the Development of Strategic Emerging Industry Clusters, Barclays Research