



Chi Time

FOR PROFESSIONAL INVESTORS – 25 August 2017

CHINA'S COMMUNIST PARTY CONGRESS MADE SIMPLE

Truth is ever to be found in simplicity, and not in the multiplicity and confusion of things.
Isaac Newton

SUMMARY

- The Chinese Communist Party will convene its 19th Party Congress this fall. This five-yearly gathering is essentially China's "election" process for its new top leaders.
- For President Xi Jinping, the Party Congress will be an opportunity to install his protégés and push forward his policies for realising his "Chinese Dream".
- For the world, the outcome of the Party Congress could affect global trends as the impact of China's importance and influence is rising. So we need to understand it.

The Chinese Communist Party constitution requires a Congress to be held once every five years to review the work of the leadership and discuss/decide on major political/party issues for the next five years. The Congress was originated in 1921 but the five-year interval has only been strictly followed since 1982. It is also the formal mechanism by which the Party's leaders are chosen. But ironically, this process is not institutionalised or governed by law.

The Congress is attended by 2,300 delegates, who are chosen by the local selection process in their respective constituencies, representing different geographical regions, party and state cadres, economic sectors and the military. They will vote to choose the 350 members of the Central Committee, which consists of China's most powerful officials, entrepreneurs, state-firm executives and military officers. The Central Committee then appoints the 25-member Politburo (or Political Bureau), which meets monthly, and the Standing Committee of the Politburo (SCP), which meets weekly, to run the country. The SCP, which has seven members currently, commands supreme authority over the party-state.



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In principle, the top leaders are selected through this bottom-up process (Chart 1). In practice, the process is managed by the Party elites and the votes at the Congress only confirm the arrangements and consensus reached among them in private. The elites consist of the current Politburo members and Party elders, including retired members of the SCP and former presidents.

The Congress has the authority to revise the Party constitution. This is where President Xi Jinping can potentially make changes to strengthen his power. The current constitution was adopted at the 12th Party Congress in 1982 by former patriarch leader Deng Xiaoping to rein in the legacy of personal arbitrary power of Mao Zedong and to install some form of institutional safeguards. In particular, the constitution forbids all forms of personal cult and ensures collective leadership by banning any Party officials, despite their seniority, from making decisions based on their personal likings.

NOTHING CARVED IN STONE

The Party constitution limits senior government officials, including the President, Vice President, Premier and Vice Premiers to two five-year terms. It has also retirement age limits of 60 years old for junior and intermediate officials and 65 for ministerial-level officials. However, rules for the top leaders are vague. The constitution only stipulates that leading Party cadres at all levels cannot have lifelong tenure but sets no specific term limits.

Since the 16th Party Congress, Chinese leaders have followed a practice dubbed “seven up eight down”, meaning that leaders who are 68 or older in the year of a Party Congress have to step down, while those 67 or younger can rise to or remain in the top posts. But in practice, the age limits for the top leaders appear to be negotiable rather than mandatory. Furthermore, there is no constitutional requirement for the number of SCP members. The president can change it, just as President Xi did when he came to power in late 2012 and cut the number of SCP members from nine to seven.

Arguably, China's political system is run on conventional practices but not on a black-and-white governance structure. If the upcoming Congress follows the past practices, there will be significant turnover in the top

leadership. Five out of the current seven SCP members will have to retire (except President Xi Jinping and Premier Li Keqiang); eleven of the 25 Politburo members will also have to retire; and as many as 70% of the 350-strong Central Committee seats will be up for grabs. The designated successors to President Xi and Premier Li in 2022 will also be announced.

However, there has been intense speculation that President Xi will change some of the conventions, such as scrapping the retirement age and not naming his successor, to extend his authority and influence beyond his second term. The Party constitution does not allow him to remain as president after the second term (in 2022), but it does not prevent him from retaining control as the chairman of the army and general secretary of the Party.

So there is an unusual amount of uncertainty in the upcoming 19th Party Congress. The significant top leadership turnover will affect China's domestic and foreign policy directions in the coming years. Of immediate concern is whether its structural reform and deleveraging policies, which have yet to gain traction, will continue in the second term of the government.

Our initial assessment is that the new SCP will likely consists of more reformers than the current SCP so that structural reforms and debt-reduction will gain momentum¹, dragging 2018 GDP growth down to 6%-6.5%. In this case of structural reforms acting as a restraining force on growth, slower growth should be seen as good news. I do not agree with the market view that Beijing should aim at slowing growth as the primary medium-term policy, as growth (in an economic system) can slow without structural reform progress.

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25 August 2017

¹ See "*Chi Time: A Strategic Assessment of China's Upcoming 19th Party Congress and its Implications*", 19 July 2017.

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