

# The potential implications of China's 20th Party Congress

Focus to shift towards specific policy announcements over the next several quarters

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By the Asian Equity Team

## How the 20th Party Congress played out

The 20th National Congress of the Chinese Communist Party ended on 23 October with President Xi Jinping winning an unprecedented third term as expected. Securing a historic third term makes President Xi the country's most powerful leader since Chairman Mao Zedong. Furthermore, President Xi was able to have his loyalists appointed as the other six members of the Chinese Communist Party's (CCP) seven-person Politburo Standing Committee. The markets initially reacted with caution to the news as investors were worried that a lack of dissenting voices could lead to policy mistakes which may be difficult to reverse in a timely manner.

However, details were scarce concerning the direction of potentially market-impacting policies because the Congress is held to determine key positions within the CCP and decide the political direction of the country for the next five years. Judging from President Xi's speech, investors can only try to second guess on what will be coming at the closely-watched "two sessions" (or Lianghui) annual meetings in March 2023, at which the country's leadership will outline economic development goals. We provide a brief analysis of the Congress and the impact it could have on China's zero-COVID policy and the capital markets.

## What the party leadership now looks like

The 20th Party Congress was a departure from the norm, with President Xi winning an unprecedented third term for a start. In addition, Shanghai's Communist Party chief Li Qiang, previously little known outside of China, was chosen as the second-ranking Politburo Standing Committee member. Li is also likely to become China's next premier; at the Congress, he was the first Politburo Standing Committee member to walk on to the Great Hall of the People stage behind President Xi. Li's case would break precedent as premiers are historically selected after experiencing the role of vice premier, a position Li has never held. In addition, a vice premier was not included among the six other members of the Politburo Standing Committee, making the appointment of a premier a historic occurrence in any event. Furthermore, the CCP Youth League will not be represented in the Politburo Standing Committee for the first time. This is a huge setback for the Youth League. The majority of the Politburo Standing Committee members have had strong working relationships with President Xi, supporting him in several of his previous provincial appointments.

On the positive side, the bulk of the members of the Politburo, which consists of 25 top officials (including those in the Politburo Standing Committee) have science and technological backgrounds. This is in contrast to the previous committee, which was mostly made up by members with financial backgrounds.

The composition of the new Politburo reflects the government's intention to focus more on the science and technological aspects of China.

The Politburo's composition, that said, is a key concern for investors, who have historically been more accustomed to a segregation of power affecting the political and economic spheres and preferring a more hierarchical style of management to a concentration of power. Domestic investors, however, see positive aspects to the concentration of power as it may enable what is perceived as a faster and more coherent execution of policies— although international investors seem to have a different view.

### Coronavirus policies

As mentioned, the Congress is not a policy-setting event. Rather, the Congress is held to confirm appointments, review achievements and set very broad-based directions for the country. Hence, the Congress provided very few hints on whether China will stick to its zero-COVID policy. There were expectations that the Congress could result in a further relaxation the zero-COVID policy, but we may not get a clearer picture until March 2023, in our view. Once the political appointments have been made, working committees will be formed and clearer, more discernible policies will be announced; there is a good possibility of China introducing more dynamic coronavirus policies. For now, the country may not impose wholesale lockdowns of entire cities but focus on individual communities depending on the severity of the cases. That said, the zero-COVID policy is likely to remain intact. We would only expect some form of relaxation to the policy in March 2023 and a full relaxation similar to the rest of the world is unlikely to happen until at least the third quarter of 2023.

### Capital markets

China's capital markets are expected to experience volatility in the coming years. Domestic and international investors appear to focus on different priorities and hold divergent views of the 20th Congress as a result.

Domestic investors are seen preferring to focus on the two main positives. First is the perception that the concentration of power is good: policies can be executed quickly, efficiently and effectively with the Politburo Standing Committee in tune with President Xi's thinking. Second is the mention of more detailed issues, such as the government focusing on a national digital information system (software stocks have rallied along with other related sectors within the market).

International investors seem to have the opposite view regarding the concentration of power. With power concentrated, they are more worried about the possibility of policy missteps and the potential for rational views being absent in the event of a potential policy error. International investors are also seen to be worried about a further heightening of geopolitical tensions after President Xi actively mentioned Taiwan at the opening speech of the Congress. President Xi's rhetoric towards self-sustainability, which could put China in a collision course with the rest of the world, is also a concern.

We have a positive short-term view regarding China's markets as they are under-allocated after declining extensively and any news could be perceived as positive. For the longer term, we believe that the markets will need a more concrete narrative from the coming government meetings, and we will be keeping an eye on policy announcements in the coming quarters for more clarity.

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