

CHINA ECONOMIC UPDATE NOVEMBER 2017



Changing of the guard – what does China’s new leadership mean for its economy?

NAB Group Economics

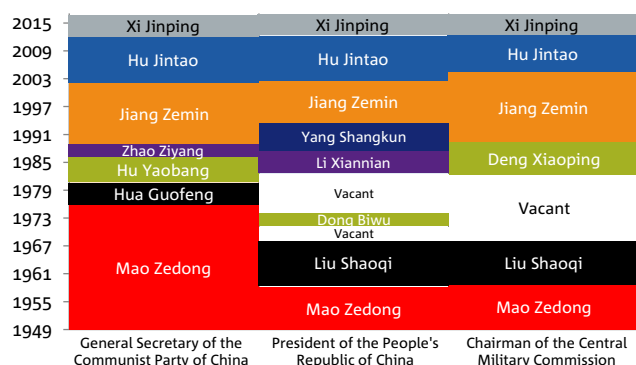
In mid-October, China’s Communist Party held its 19th National Congress – a quinquennial meeting of the party that determines the key strategic direction for the country. Odd numbered meetings – such as this year – have significance in that they have traditionally identified the next generation of the country’s leadership, however this was not the case at the 19th Congress – fuelling speculation that President Xi Jinping will continue to serve beyond the end of his second term (which ends in 2022).

PRESIDENT XI’S GROWING INFLUENCE

There is little doubt that President Xi Jinping is China’s most powerful and influential leader in several decades (at least since Deng Xiaoping’s departure in late 1989). In part this reflects the consolidation of power under his control – which has been unusual in the post-Mao period – a time where there have been efforts to separate powers along with a greater emphasis on collective leadership.

CHINA’S LEADERSHIP

Xi’s full control a contrast to recent history



Although China’s two previous leaders, Jiang Zemin and Hu Jintao, both held the three most important offices in China – President (Head of State), General Secretary (Head of the Party) and Chairman of the Central Military Commission (Head of the Military) – they did not immediately have broad control. Jiang became President over three and a half years after becoming General Secretary of the Party. Similarly, he remained in the role as Chairman of the Military until March 2005, over three years after Hu became General Secretary. In contrast, since Xi’s appointment

as President in March 2013 (four months after becoming General Secretary), he has held all three roles.

President Xi’s influence has only increased during his first five year term – receiving the designation of ‘core’ leader by the party’s Central Committee at last year’s Sixth Plenum – a title previously only awarded to Mao Zedong and Deng Xiaoping (both by Deng at the time of his departure) and Jiang Zemin (to provide necessary authority at the start of his leadership). His growing influence was also illustrated at last month’s National Congress, where delegates voted unanimously to include a reference to “Xi Jinping Thought” into the Communist Party’s constitution. The only other leaders whose philosophies are referred to by name in the constitution are Mao and Deng (with Deng’s only included after leaving office).

LEADERSHIP CHANGE STRENGTHENS XI’S POWER

The key event at the National Congress was the announcement of the country’s new leadership – with significant changes to the powerful Politburo Standing Committee (PSC). The PSC has the authority to make policy decisions when the broader 25 member Politburo is not in session – which in practice makes the body China’s key decision making body.

Historically, the PSC has had between five and nine members – with the current committee consisting of seven. Leading into the National Congress, five of the seven members were forced to retire – having reached the unofficial retirement age – with only President Xi and Premier Li Keqiang remaining.

Three of the five new members of the PSC – Li Zhanshu, Wang Huning and Zhao Leji – are known to be close allies of President Xi – providing him with greater authority in terms of China’s key decision making. The additional significance of the new members is their age – ranging from 60 to 67 – which theoretically makes them all too old to succeed President Xi in 2022.

POLITBURO STANDING COMMITTEE

No new leaders emerge

Name	Age	Previous role
Xi Jinping	64	President since March 2013, Communist party General Secretary since November 2012
Li Keqiang	62	Premier of the State Council since March 2013
Li Zhanshu	67	Xi’s Chief of Staff since 2012
Wang Yang	62	Vice Premier since March 2013
Wang Huning	62	Director of the Central Policy Research Office since 2002, advisor to Xi
Zhao Leji	60	Head of the Organization Department of the Communist Party of China since 2012
Han Zheng	63	Communist Party Secretary of Shanghai since 2012

This breaks from tradition in place since the 1990s, where younger candidates have been elected to the PSC and groomed to lead the party in the future. Both President Xi and Premier Li were elected to the 17th Politburo Standing Committee in 2007 (at the start of Hu Jintao’s second term) at aged 54 and 52 respectively, while Hu was first elected to the PSC in 1992 at the age of 49. The lack of an identifiable successor has only raised existing speculation that Xi intends to lead for a third term. While China’s constitution limits the Presidency to two five year terms, there are no term limits on the role of General Secretary or Military Chairman – which are far more important given limited Presidential powers.

CONCLUSIONS – WHAT DOES IT ALL MEAN FOR CHINA’S ECONOMY?

It is unlikely that Xi’s greater influence and the change in Politburo leadership will have a measurable impact on China’s economy in the short term. However, greater control may allow for a renewed focus on the stalled reform agenda outlined at 2013’s Third Plenum.

President Xi’s speech at the National Congress outlined an economic vision for the country – realising ‘socialist modernisation’ by 2035 and becoming a fully developed nation (on par with the United States) by 2049 (the 100th anniversary of the People’s Republic). In order to achieve this goal, Xi

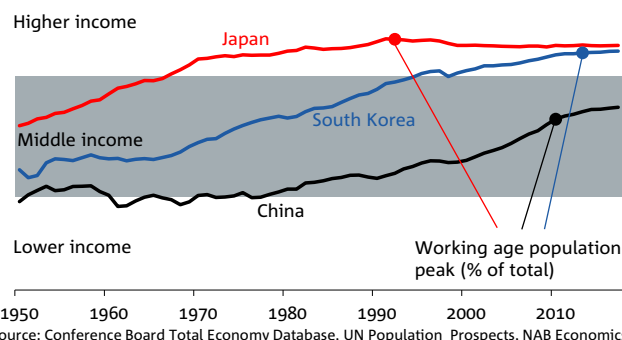
cited supply-side structural reforms, along with higher quality production, greater efficiency and more robust drivers of economic growth. The specifics of these reforms are far from clear.

Progress on the reform agenda has disappointed so far – with some measures implemented, some partially introduced or delayed and others reversed in the face of economic volatility. Some have argued that Xi has been constrained from implementing some reforms by political rivals. However, a major concern over this period has been the level of control that the Communist Party has exerted over the economy under Xi’s guidance – including party cells having a greater role in decision making within State Owned Enterprises, foreign joint ventures and even private firms – counter to the promise of the decisive role for markets outlined at the Third Plenum.

CHINA’S ECONOMIC DEVELOPMENT

Demographics slowing China’s potential growth

Natural log of per capita income, relative to the US



Source: Conference Board Total Economy Database, UN Population Prospects, NAB Economics

This environment is unlikely to help achieve the innovation necessary to drive the economy to high income levels. On a per capita basis, China is now a middle income economy, but its rate of growth has slowed considerably in recent years. Demographic constraints are likely to become more of a concern in coming years – as a share of its total, China’s working age population peaked in 2010 and has fallen ever since – a long term structural constraint. Productivity growth – via education and innovation – will be essential to China’s economic aspirations.

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