

Hong Kong Watch Briefing Note:

Risks for Canada: 20th Chinese Communist Party Congress, Chinese markets, & John Lee's Policy Address

Key outcomes from the 20th Party Congress

Third-term for Xi

Last week the Chinese Communist Party Congress had its annual meeting to confirm its standing committee and elect Xi Jinping for an unprecedented third term as general secretary.

No other party leader besides the founder of the Chinese Communist Party Mao Zedong has ever served a third term. His appointment to a third term has titled the country decisively back towards one-man rule after decades of power-sharing among its elites.

Composition of the Central Committee of the Chinese Communist Party

Historically, the Chinese Communist Party has ruled China through a seven-man central committee that has been balanced between various party factions.

At the 20th Party Congress Xi Jinping made a series of unexpected announcements regarding the composition of the central committee. This included Xi removing Premier Li Keqiang and former Guangdong party boss Wang Yang from the committee, despite both men being eligible under existing age rules to sit on the central committee for another five years.

Only two of the seven men will remain on the central committee, these include anti-corruption chief Zhao Leji and political theorist Wang Huning - the rest are newcomers Cai Qi, Ding Xuexiang and Li Xi and Shanghai Communist Party Chief Li Qiang who will likely to succeed Li Keqiang as premier when the latter retires in March.

Xi Jinping's new central committee is now heavily dominated by [loyalists](#) who have worked with him at different stages in his career. Li Xi has been a close family friend for many years, Ding Xuexiang served as Xi's political secretary when he was Shanghai Party Chief, Cai Qi worked under Xi Jinping when he served as the Governor of Zhejiang province and served as party secretary in Beijing, and Li Qiang was Xi Jinping's chief of staff when he was Zhejiang province's party boss.

The removal of Li Keqiang and Wang Yang was largely seen as a surprise with both men previously expected to stay on the central committee but serve in other roles.

Alongside the removal of Li Keqiang who was seen as a calming influence on markets and advocate for open markets, the appointment of Li Qiang as premier who is currently the party secretary of Shanghai and oversaw the city's controversial lockdown where tens of millions experienced significant food shortage, has led some to speculate that this signals that Xi will not prioritise economic growth in his third-term.

Announcements

At the 20th Party Congress the Party has cemented “security” and [“common prosperity”](#) as high priorities on its [economic agenda](#) by adding the [“dual circulation”](#) strategy and pursuit of “high-quality development” to the party constitution.

Xi Jinping also stated in his [speech](#) at the Party Congress that Beijing now has “comprehensive control” of Hong Kong and refused to rule out tackling so called “Taiwanese separatism” by force.

Economic outcome of the 20th Party Congress

China, the world's second-largest economy, is slowing and facing a potentially [painful rebalancing](#) of its investment- and property-led model.

As a result of the 20th Party Congress, China delayed the publishing of its third-quarter GDP figures and private sector attendance was [down almost 50 percent](#) reflecting the waning status of tycoons.

On Monday, China [reported](#) its third quarter GDP figures grew by 3.9% between July and September of this year, below the government’s target annual goal of “around 5.5 percent.”

Hong Kong Stocks

In response to China’s economic growth figures and the 20th Party Congress, foreign investors rushed to exit from China’s domestic stock market pulling out 17.9 billion yuan, the equivalent of \$2.5 billion, through the Stock Connect.

Hong Kong’s Stock Exchange the Heng Seng Index sank 1030 points to 15,180.69. This reflects a 13-year low and a level not seen since the 1997 handover of Hong Kong.

[Hong Kong-listed shares of tech giants Alibaba Group](#) Holding Ltd and Tencent Holdings Ltd plunged 10% and 8% respectively. While Hong Kong-listed Chinese developers plummeted 9% to record lows.

Hong Kong’s onshore [yuan fell to its weakest](#) level at 7.3 in 15 years, after Xi Jinping’s newly unveiled leadership team heightened fears that economic growth will be sacrificed for ideology-driven policies.

Chinese Stocks

Following the 20th Party Congress, Nasdaq’s Golden Dragon Index, which tracks US-listed shares in Chinese companies [fell 14.4%](#) as Alibaba, JD.com, and Pinaduo duo faced heaving selling. The index is down 50 percent this year.

Alibaba closed [12.5 percent lower](#) in Wall Street Trading which has pushed its shares below \$68 offering price when it went public in New York eight years ago. Alibaba’s 80 percent decline in this period reflects a loss of about \$670bn in equity market value.

This matters for many Canadian public pension funds, who as Hong Kong Watch has previously highlighted in research are heavily invested in Alibaba and other Chinese technology companies.

Eli Lee, head of investment strategy at Bank of Singapore, discussing the economic turmoil [said](#), “Warranted or not, this is clearly, at least over the near term, a vote of reduced confidence in the new body of power that’s just been announced.”

Bank of America economists commenting on the fall in Chinese stocks [said](#), “some investors may worry about checks and balances” after the increase in the concentration of power at the top of the Chinese Communist Party. But they also said the move could lead to a better execution of policy and “little political resistance against bolder reforms or changes to existing policy stances.”

Hong Kong Chief Executive’s Policy Address

The 20th Party Congress came in the same week of the first policy address by the new Hong Kong Chief Executive John Lee.

In his first policy address, John Lee confirmed his intention to introduce further domestic security legislation in Hong Kong next year covering espionage, cyber security, and tackling so called “fake news”.

The Policy Address [earmarked](#) HK\$60 million for kindergarten children to be taught national security education and newly appointed teachers will be required to complete a test on the Basic Law and the National Security Law.

Hong Kong’s Chief Executive also [acknowledged](#) the exodus of people from Hong Kong, which has primarily come as a result of the National Security Law, and announced a HK\$30bn talent scheme to attract businesses to the city.

As with previous policy addresses, John Lee announced [six additional infrastructure projects](#), including a number railway line extensions. Critics have previously questioned the logic of many of these “white elephant” projects that have seen public contracts be awarded overwhelmingly to Chinese state-owned enterprises and often done little to improve Hong Kong’s economy.

Analysts have [warned](#) that Hong Kong’s budget deficit is likely to triple to \$20 billion later this year and the economy is predicted to contract by 0.7%. Many have cited the Government’s COVID policies and the mass exodus of Hong Kongers are driving these economic problems.

It is notable that Hong Kong’s surplus has shrunk as Beijing has tightened its grip on the once open and international city, with an increasing amount of public spending dedicated to “white elephant” infrastructure projects connecting Hong Kong to the Greater Bay Area and on a bloated national security budget.

Risks for Canada

The outcomes of the 20th Party Congress and the response from financial markets present several risks for the Government of Canada, Canadian citizens, investors, and businesses, this includes:

1. Risks for Canadians living and working in China and Hong Kong.

As the detention of the two Michaels demonstrates, Xi Jinping's China is more than happy to detain foreign nationals as part of "hostage diplomacy" and dispense with the rule of law. Now that Xi has tightened his grip on the control of the party and country, there is a likely expectation that foreign citizens including Canadians will be targeted in the future.

2. Business risks for operating in China and Hong Kong

The 20th Party Congress's focus on "common prosperity" and "domestic security" will likely lead to a further deterioration in the business environment for Canadian companies operating in China. Many of whom are already experiencing a more hostile environment to foreign businesses and a raft of domestic legislation aimed at targeting "foreign espionage" and limiting the influence of "foreign forces."

3. Risks for investors

As the financial markets have demonstrated in the last few days, Chinese stocks and government bonds remain a risky proposition as Xi tightens his grip on power. Chinese companies and many foreign companies partnered with local businesses do not have proper governance structures in place, instead they rely on government diktat and Communist Party cells.

This means that any investment in China today can be wiped out tomorrow, either by the markets that are increasingly weary of Xi Jinping's erratic behaviour or by the party itself that can wipe out whole sectors of the economy, as we saw recently in the technology and education sector.

4. Risks for the Government of Canada

As with other foreign governments, Canada is facing a Chinese Communist Party state that is now openly challenging the international rules-based order and has aligned itself with Vladimir Putin's Russia.

Xi Jinping used his remarks at the 20th Party Congress to reaffirm China's right to use military force to occupy Taiwan and confirmed that Beijing now has comprehensive control of Hong Kong in the face of previous international commitments.

Canada must learn the lessons from Ukraine and work with democratic partners to reduce its economic dependency on Xi Jinping's authoritarian state before it is too late.