



China's Political and Governance System

China's transformation is shaping the investing landscape, and its political, economic, and societal systems are very different from the rest of the world. To better understand China's political and governance system, it is critical to look beyond the headlines.

Key Topics:

- The history of the Chinese Communist Party (CCP) and the People's Republic of China (PRC)
- The CCP's mission and its evolution in recent decades
- Characteristics that shape China's governance system
- China's governance structure, policy-making process, and core principles
- The risks and benefits of China's political and governance system

History of the CCP and the PRC

The CCP was founded in July 1921 by a group of highly educated intellectuals with the intention to build a better, stronger, and more peaceful China after years of constant foreign invasions, weak and corrupt governments, and civil war.

By 1949, the CCP had accomplished its goals of fighting feudalism and imperialism, establishing the PRC in October of that year. Despite its mistakes, including severe political infights in the early 1930s, which led to the Long March and the Great Leap Forward from 1958 to 1960 and the subsequent famine and deaths, the CCP has shown it can course correct as needed.



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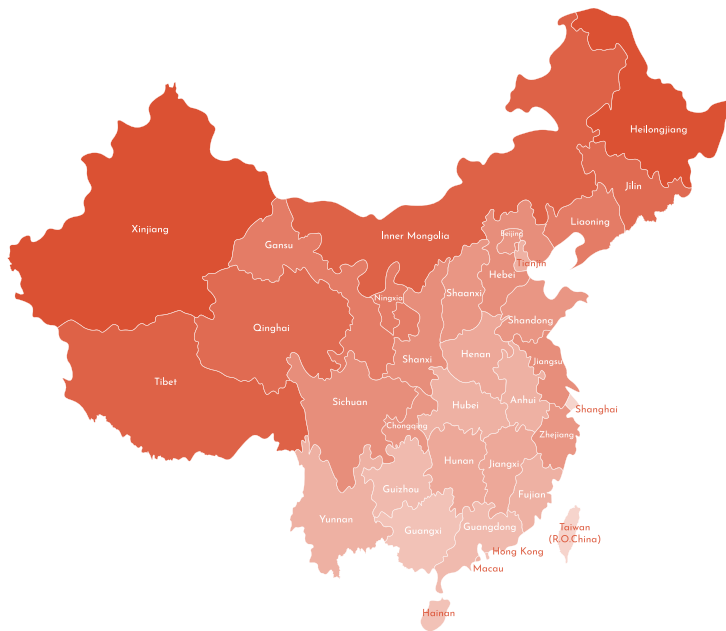
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A Centralized and Multi-Level Governing System



Source: National Bureau of Labor Statistics.

Governance System Characteristics

China's centralized and multi-level governance system is shaped by the need to serve a large and diverse population, which totals over 1.4 billion and is the largest in the world; a vast landscape, consisting of 9.6 million square kilometers; and the many regime changes that have occurred over the years.

China's governance system is defined by four main characteristics. It is authoritarian; meritocracy-driven and elite ruled; upwardly mobile; and pragmatism- and success-driven.

Governance Structure and Policy-Making Process

China's government is large, diverse, and well-established. It is both top-down (authoritarian and centralized) and bottom-up (accommodating the needs of a broad swath of society).

Ultimately, the CCP leads all levels of government, though not always directly, and its authority comes with full responsibility and unlimited liability. The government is accountable to a constitution and a series of laws and regulations.

Provincial-Level Regions (33)
22 Provinces, 5 Autonomous Regions,
4 Municipalities, and 2 Special Administrative
Regions (HK, Macau)



Prefecture-Level Divisions (334)



County-Level Divisions (2,862)



Township-Level Administrations (41,034)



Basic-Level Autonomies (704,382)

Policies tend to be made based on the bottom-up needs and enforced via a top-down structure. It is imperative for global investors to understand the mechanism of China's policymaking to properly assess its intent, goal, duration, magnitude, and impact.

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Vivian Lin Thurston, CFA, Partner

Governance Principles

In addition to the five components of the Confucian value system—the doctrine of mean, social order, collectivism, success, and individual virtue—democratic centralism is an important governing principle of China.

Incorporating both democracy and centralism into the decision-making process allows China's governance system to reflect the voices of a broad spectrum of social groups and reduce costs of governing.

This CCP is committed to representing the fundamental interest of the Chinese people. Today, most members are still part of the country's working class, and a core mission of the CCP is serving the people along with ensuring prosperity and stability for different groups within the country.

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Benefits and Risks of China's Governance System

Benefits

- Efficient execution of top-down policies
- Effective pooled resources and capital allocation to support the country's strategic goals, such as economic growth and development and technological advancement
- Comprehensive consideration and care for the country, people, and all stakeholders on a sustainable basis
- Overall policy continuity

Risks

- Lack of formal checks and balances
- Strong and long-lasting influence of CCP leaders over China's direction of political and economic development
- A heavily top-down governance system
- Complex and hierarchical system that tends to result in bureaucracy and inefficiency
- Inherent paradox between an authoritarian, socialistic, top-down governance system vs. a bottom-up, market-driven, capitalistic economy
- Materially different ideologies and governance system than the West, leading to misunderstandings

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