

China Policy

China's focus on high-quality development in next 5 years

According to President Xi's report at the opening session of the 20th CPC congress yesterday, Chinese policymakers may maintain the policy philosophy and logic in next five years despite the political reshuffle. China will continue to focus on high-quality development and lower the importance of GDP growth in government officials' KPI evaluation. Manufacturing and hard technology industries are the key for the economic development. The policymakers will continue to guide credit flow into those sectors and maintain negative attitude towards financial liberalization and property market speculation. China will enhance the policy support to information technology, artificial intelligence, biotechnology, new energy, new materials, high-end equipment and green & environmental protection industries in future. China will push forward energy structural transition in a smooth manner to facilitate the carbon peaking and neutralization in the long term. China still targets common prosperity in the long term by increasing income level for the poor and expand the middle-income group, which should be positive for consumer staples. To facilitate fair competition, China will enhance anti-monopoly regulation and guide the healthy development of capital.

- **High-quality development is the priority and there is no specific GDP growth target in the report for next 5 years.** Development remains No. 1 task for China, but President Xi emphasized quality and security for the development. In his report, high-quality development is the priority for China and there is no specific GDP growth target for next 5 years. The high-quality development has several characteristics: i) real economy dominated and technology driven; ii) low-carbon green development mode; iii) balanced development for common prosperity; iv) good resilience & security of supply chains especially in grain, energy and industry; v) and high-level opening up.
- **Manufacturing and hard technology as the key for economic development.** President Xi emphasized economic development should focus on real economy. It indicates policymakers maintain negative attitude towards financial liberalization and property market speculation as China will continue to guide more credit flow to manufacturing and hard technology sectors. Xi maintained the stance that "housing is for living and not for speculation" in his report, although he did not mention it at the opening session yesterday. China's manufacturing sector will upgrade towards the high-end, intelligent and green. China will focus on the development of information technology, artificial intelligence, biotechnology, new energy, new materials, high-end equipment and green & environmental protection industries in future.
- **Green development.** President Xi pledged to continue to accelerate the green development. China will restructure its industry, energy consumption and transportation service to improve the energy utilization efficiency. Meanwhile, China will optimize its fiscal and credit policy to support the development of new energy and green industries. China will steadily promote carbon peaking and neutralization in the medium and long term. It indicates China will seek a balance between the energy structural transition and the energy supply security.

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- **Balanced development & common prosperity.** China will boost the development of rural area by improving infrastructure & public service supply, developing non-agricultural business and reforming rural land system to strengthen farmers' land rights. China will accelerate the urbanization process and facilitate cities to absorb more rural migrant population. China seeks for common prosperity for all people in the long term by increasing income for poor people and expanding the middle-income group. China will keep employment stability as the priority in the government's economic work. The country will also improve its social security system to benefit the-middle-and-low-income households. To facilitate fair market competition, China will enhance anti-monopoly regulation, remove local protectionism & administrative monopoly and guide the healthy development of capital in China per the law.
- **High-level opening up.** President Xi said China should rely on its huge domestic market to attract global capital, technology and talents and to strengthen trade & investment cooperation with other economies. The top leader promised to moderately reduce the negative list for foreign investment access. Foreign capital inflow into China faces downward pressure amid global economic & geopolitical uncertainty. China may further open its market to foreign business in next several years to attract foreign capital. Xi also said to orderly push forward the process of renminbi internationalization.
- **Policy implications.** President Xi's report indicates the policy philosophy and logic from the top will not change noticeably after the political reshuffle. We may continue to see strong policy support to manufacturing and hard technology industries with negative policy attitude towards financial liberalization and property market speculation. The current credit policy easing especially towards the property sector is pro-cyclical and it may change when the economy especially housing market gradually stabilizes in future. Amid the policy philosophy as well as demographic changes, China economy should continue to transit towards a consumption and technology driven model. The contribution of property and infrastructure investment may remain low in next several years. Meanwhile, China will continue to boost green development by facilitating energy structural transition. However, China also pays attention to energy security issue as the energy structural transition should be in a smooth manner. PV power, wind power, hydropower and nuclear power should make more and more contribution, while thermal power should remain as the backup energy when new energy supply is unstable.

Figure 1: Schedule of the Political Reshuffle after the 20th CPC Congress

Date	Meeting	Agendas
2022-10-16	Opening Session of the 20th Party Congress Meeting	Xi's report at the opening session; the report of the Commission for Discipline Inspection of the 19th Central Committee of the CPC; amendment of the CPC constitution; election of the members of the 20th Central Committee of the CPC and members of the Commission for Discipline Inspection
2022-10-22	Closing of the 20th Party Congress Meeting	
2022-10-23	The 1st Plenary Session of the 20th Central Committee of the CPC	Election of the members of Standing Committee of Politburo, members of Politburo and general secretary of the 20th Central Committee of the CPC
2023-02	The 2nd Plenary Session of the 20th Central Committee of the CPC	Review the list of national leaders recommended to the National People's Congress
2023-03	National People's Congress Meeting	Elections of the national leaders

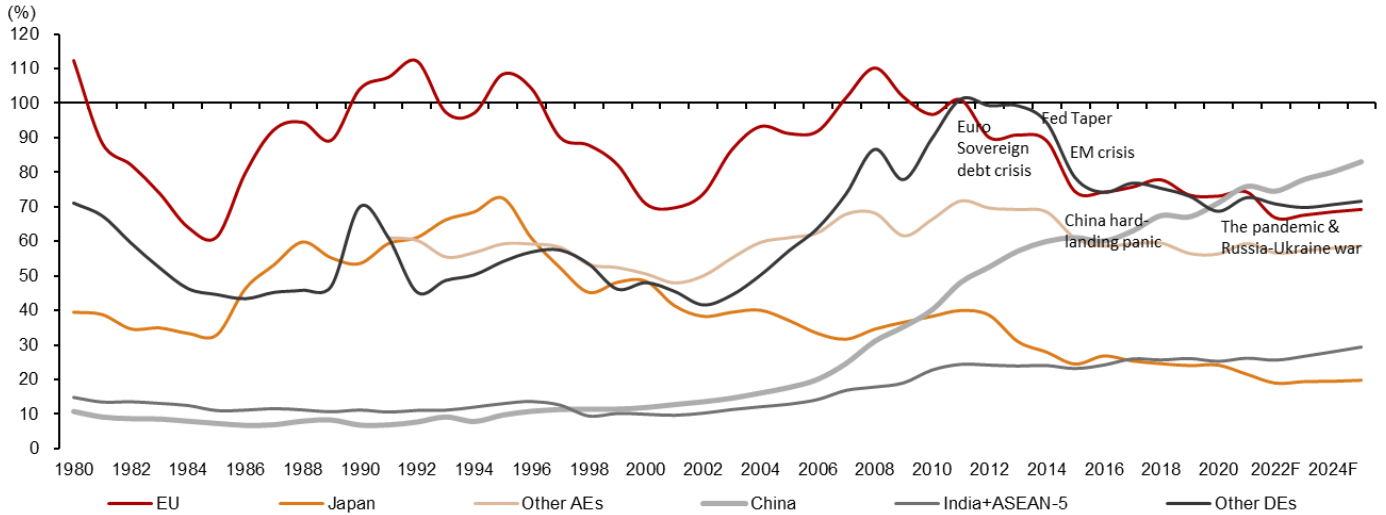
Source: Xinhua News Agency

Figure 2: Occurrence Numbers of Key Words in the Reports at the CPC Congress Meetings

20th CPC congress		19th CPC Congress		18th CPC Congress	
Key words	Number of occurrences	Key words	occurrence s	Key words	s
Development "发展"	238	Development "发展"	232	Development "发展"	301
Politics "政治"	63	Politics "政治"	93	Economy "经济"	104
Economy "经济"	59	Economy "经济"	70	Reform "改革"	86
Innovation "创新"	55	Reform "改革"	69	Innovation "创新"	58
Reform "改革"	51	Innovation "创新"	59	Politics "政治"	52
Education "教育"	49	Education "教育"	43	Education "教育"	49
Science & tech "科技"	44	Opening up "开放"	27	Opening up "开放"	38
National security "国家安全"	29	Struggle "斗争"	23	Market "市场"	24
Opening up "开放"	29	Revolution "革命"	20	Employment "就业"	20
Struggle "斗争"	22	Market "市场"	19	Healthcare "医疗或卫生"	19
Quality "质量"	20	Livehoods "民生"	18	Livehoods "民生"	18
Employment "就业"	18	National security "国家安全"	18	Science & tech "科技"	16
Market "市场"	18	Science & tech "科技"	17	Revolution "革命"	9
Healthcare "医疗或卫生"	17	Quality "质量"	16	Quality "质量"	9
Livehoods "民生"	15	Employment "就业"	14	Finance "金融"	9
Revolution "革命"	12	Healthcare "医疗或卫生"	13	Anti-corrupcion "反腐"	8
Anti-corrupcion "反腐"	10	Ideology "意识形态"	8	Urbanization "城镇化"	7
Ideology "意识形态"	10	Anti-corrupcion "反腐"	8	Struggle "斗争"	5
Finance "金融"	9	Finance "金融"	7	Common prosperity "共同富裕"	4
Common prosperity "共同富裕"	8	Common prosperity "共同富裕"	6	National security "国家安全"	4
Social stability "社会稳定"	4	Social stability "社会稳定"	2	Ideology "意识形态"	1
Urbanization "城镇化"	4	Urbanization "城镇化"	2	Social stability "社会稳定"	1
Total number of words for the report	31551	Total number of words for the report	32329	Total number of words for the report	28997

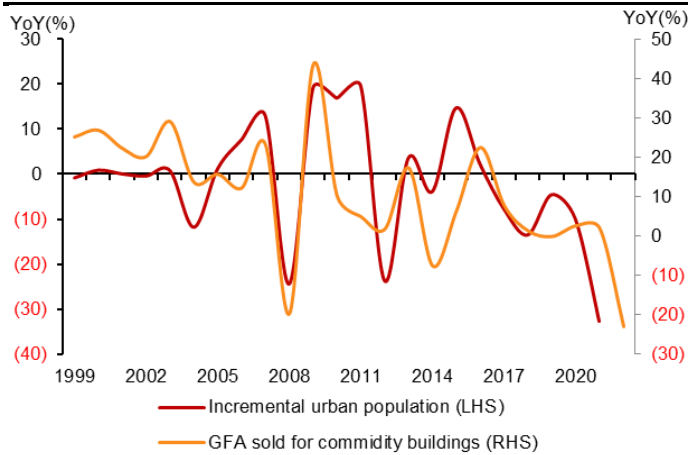
Source: Xinhua News Agency, CMBIGM

Figure 3: Large Economies' Nominal GDP as % of the US Nominal GDP



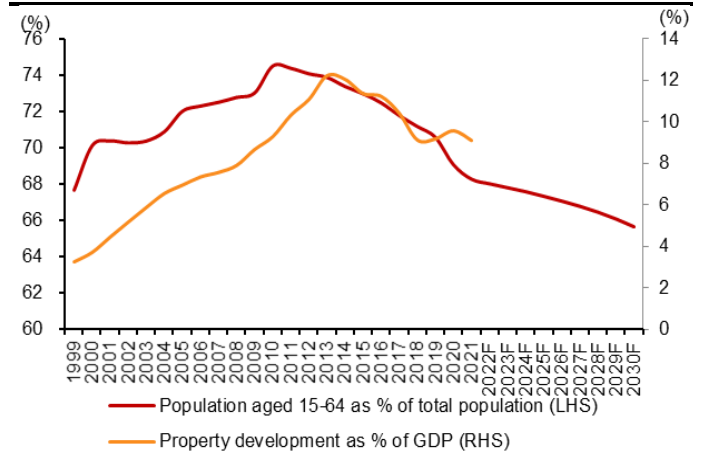
Source: Wind, CMBIGM

Figure 4: China's Urbanization Pace & New Housing Sales



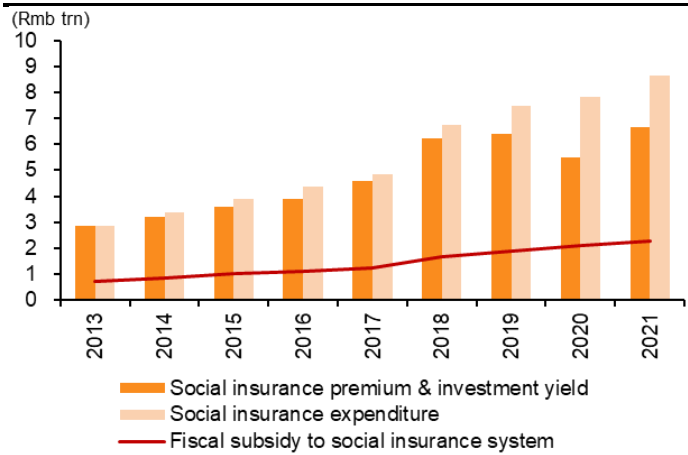
Source: Wind, CMBIGM

Figure 5: Working-age Population & Property Development Investment



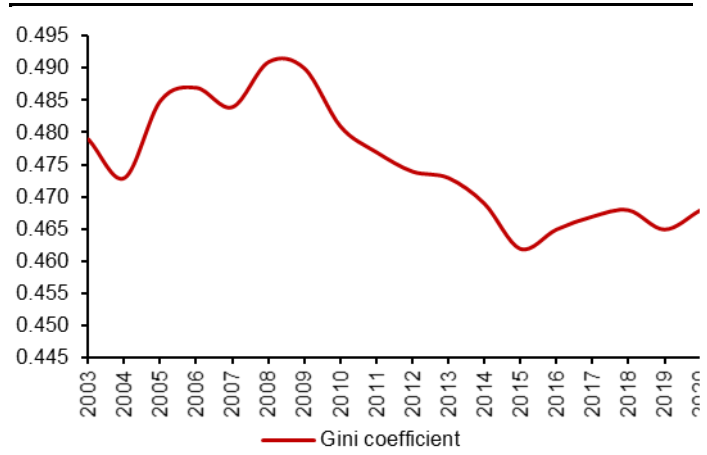
Source: Wind, CMBIGM

Figure 6: Rising Deficit in Social Security System amid Aging Population



Source: Wind, CMBIGM

Figure 7: China's Gini Coefficient



Source: Wind, CMBIGM

Figure 8: China and the US GDP Structure(2021)

	US		China		China as % of US
	Amount (US\$ trn)	Structure (%)	Amount (US\$ trn)	Structure (%)	
GDP	21.4	100.0	14.4	100.0	67.2
Household consumption	14.5	67.9	5.6	38.8	38.4
Goods	4.5	21.1	2.8	19.6	62.5
Service	10.0	46.8	2.8	19.2	27.5
Private fixed investment	3.7	17.3	5.0	34.9	135.9
Housing	0.8	3.8	1.1	7.4	132.1
Construction	0.7	3.0	1.8	12.2	269.9
Equipment	1.2	5.8	1.7	11.7	135.2
Intellectual property	1.0	4.7	0.5	3.7	53.1
Change of inventory	0.0	0.2	0.1	0.7	194.8
Government expenditure	3.7	17.5	3.5	24.1	92.6
Consumption	3.0	14.0	2.4	16.6	80.0
Investment	0.8	3.5	1.1	7.5	142.9
Net exports	(0.6)	(2.8)	0.2	1.5	

Source: Wind, CMBIGM

Figure 9: Industrial Structure of the US GDP

(%)	2007	2012	2017	2021
Agriculture & mining	3.2	3.3	2.3	2.3
Construction	4.9	3.4	4.1	4.2
Public utility	1.6	1.7	1.6	1.7
Manufacturing	12.8	11.9	11.3	11.1
Wholesale & retail	11.9	11.8	11.6	12.0
Transportation & storage	2.9	2.9	3.1	2.8
IT	4.9	4.7	5.2	5.7
Profession & business services	11.5	12.1	12.5	12.9
Property & leasing service	12.6	13.0	12.9	12.8
Banking & insurance	7.2	7.2	7.8	8.5
Education	1.0	1.3	1.3	1.1
Healthcare & social welfare	6.5	7.4	7.5	7.3
Hotel, catering, recreational services	3.6	3.9	4.2	3.7
Government	13.0	13.3	12.6	12.1
Other service	2.4	2.1	2.0	1.8

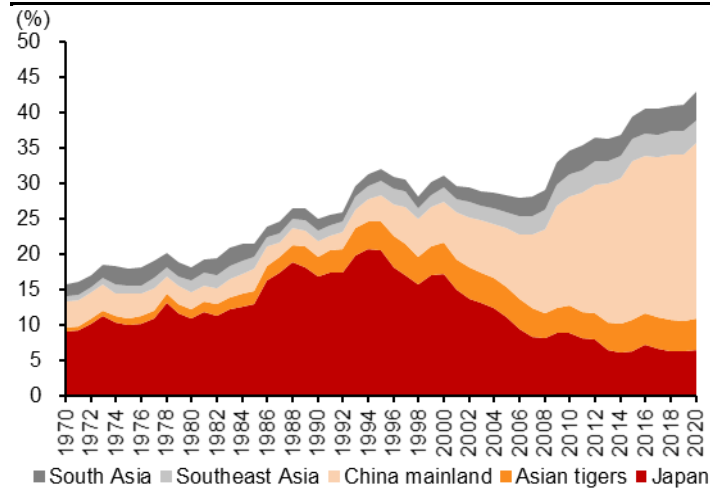
Source: Wind, CMBIGM

Figure 10: The Industrial Structure of China's GDP

(%)	2007	2012	2017	2021
Agriculture & mining	15.6	14.0	10.3	10.1
Construction	5.7	6.9	7.0	7.0
Public utility	3.6	2.6	2.4	2.0
Manufacturing	32.9	31.4	29.3	27.4
Wholesale & retail	7.8	9.3	9.8	9.7
Transportation & storage	5.4	4.4	4.5	4.1
IT, telecom & software services	2.5	2.2	2.9	3.8
Leasing & business services	1.8	2.1	3.0	3.1
Property	5.1	5.7	6.9	6.8
Banking & insurance	5.6	6.5	7.8	8.0
Education	2.9	3.1	3.6	3.8
Healthcare & social welfare	1.5	1.7	2.2	2.8
Hotel, catering & recreational service	2.7	2.4	2.6	2.8
Government	4.1	3.7	4.7	4.0
Other service	2.9	4.0	3.1	4.6

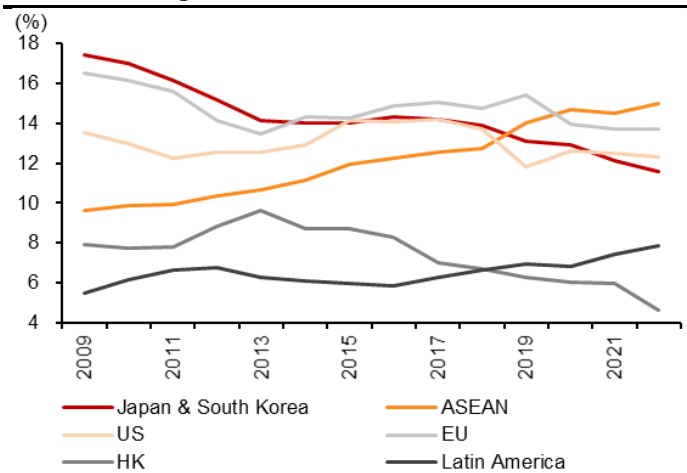
Source: Wind, CMBIGM

Figure 11: Weights of Asian Economies in Global Industrial Output



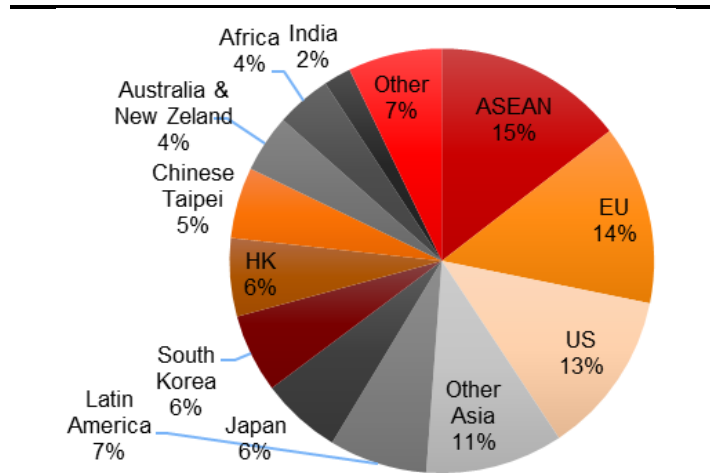
Source: Wind, CMBIGM

Figure 12: Market Shares of Main Trade Partners in China's Foreign Trade of Goods



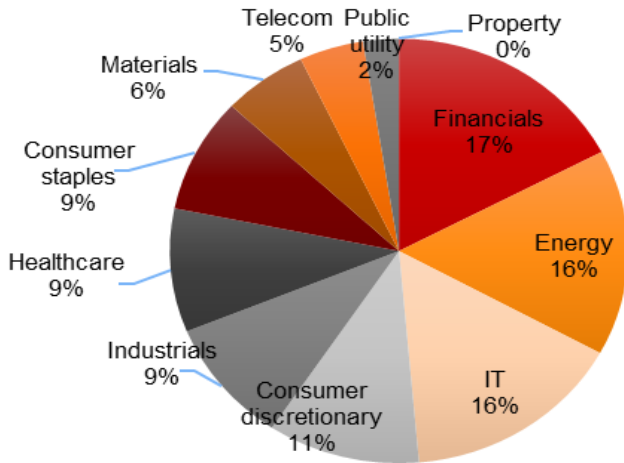
Source: Wind, CMBIGM

Figure 13: Structure of China's Foreign Trade by Trade Partners in 2021



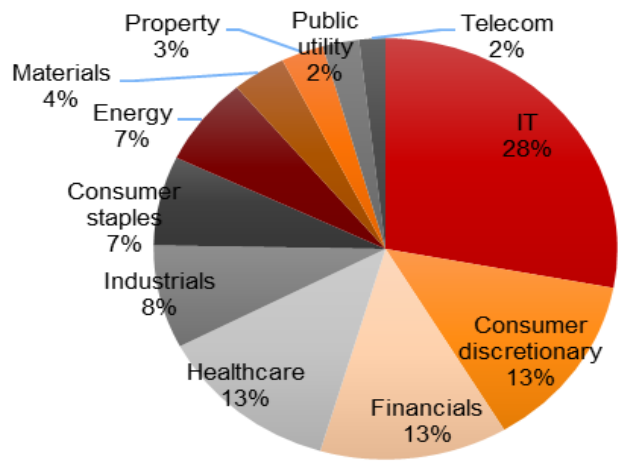
Source: Wind, CMBIGM

Figure 14: Sector Structure of the US Stock Market Cap (2010)



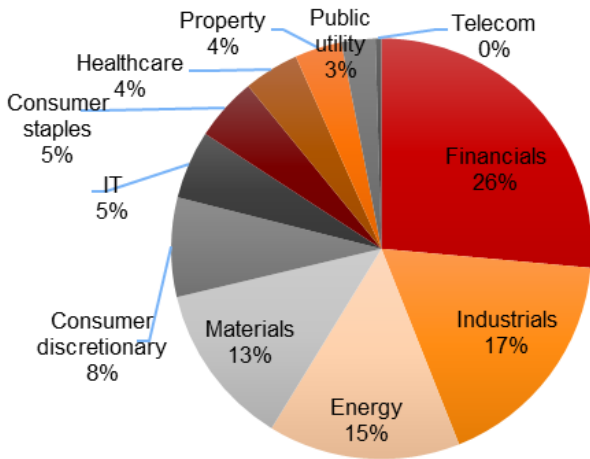
Source: Wind, CMBIGM

Figure 15: Sector Structure of the US Stock Market Cap (1H2022)



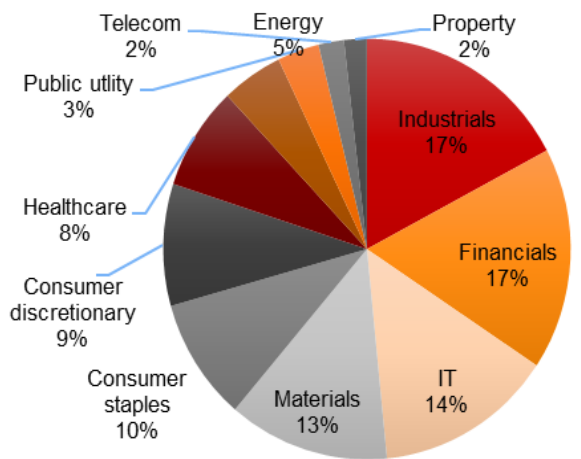
Source: Wind, CMBIGM

Figure 16: Sector Structure of the A Share Market Cap (2010)



Source: Wind, CMBIGM

Figure 17: Sector Structure of the A Share Market Cap (1H2022)



Source: Bloomberg, CMBIGM

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