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ABCI Policy Insight

Comments on the Fifth Plenary Session of the 19th CPC Central Committee

ABCI Research

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Summary

- Based on the communique of the Fifth Plenary Session of the 19th Central Committee of CPC, quality will be the major development theme of the 14th Five-Year Plan (FYP). In the medium and long term, China's economy will shift from the rapid-growth stage to one that emphasizes on quality expansion. To achieve that, three directions have been proposed
- Firstly, scientific and technological self-reliance will offer strategic support for the national development. Foreign powers, led by the US, will step up their technology blockade against China; hence, it is crucial for the latter to develop a core technology breakthrough system to achieve major progresses in critical industries
- Secondly, the session proposed to promote green development and the harmonious coexistence between men and nature. With quality economic development, one must attend to the issue of environment and sustainability. The green economy, including new energy industries and environmental protection industries, will make major headways over the next few years. This will undoubtedly create abundant opportunities for green debts and equity financing
- Thirdly, the adoption of a “dual circulation” strategy will be expedited. Domestic demand will be the mainstay of the economy; foreign markets and investments will contribute to China's growth while benefiting from the country's economy. We expect domestic demand to be the primary growth engine.
- In addition, development directions for forming a socialist market economy system were provided, with goals including promoting developments in agriculture, rural economy, coordinating regional development, fostering new urbanization, opening up the country further, as well as modernizing military and national security
- We expect China's economy to grow at an average annual rate of 5%-5.5% during the 14th FYP period, surpassing the middle-income trap to become a high-income country. China's economy is expected to grow by about 8% in 2021 with the low base in 2020. The country will accelerate industrial transformation and upgrading, expand the real economy, and tap into the full potential of domestic demand. In particular, it will strengthen frontier basic scientific research and accelerate independent research on key technologies
- Major central banks around the world are likely to maintain a loose monetary policy during the 14th FYP period, especially the US's Fed. We expect the Fed to keep interest rates low and maintain a sizeable balance sheet. The PBOC will continue to deploy a suitable monetary policy with flexibility to support economic growth while matching the money supply with the growth rate of nominal GDP



Interpretation of the communique of the Fifth Plenary Session

Based on the communique of the Fifth Plenary Session of the 19th Central Committee of CPC, quality will be the major development theme of the 14th Five-Year Plan (FYP) and throughout 2035. In the medium and long term, China's economy will shift from the rapid-growth stage to one that emphasizes on quality expansion. To achieve that, three directions have been proposed.

Firstly, the Fifth Plenary Session emphasized on taking scientific and technological self-reliance as a strategic support for national development. Western countries, led by the US, will step up their technology blockade against China; hence, it is crucial for China to develop a core technology breakthrough system in critical industries. China will elevate the total factor productivity through technological innovations and increasing the return on investment. We expect China to allocate more resources on high-tech industries, including the development of chips and semiconductors, software, precision machinery, and new materials. In this way, it can reduce reliance on foreign countries on core technologies.

Secondly, the session proposed to promote green development and the harmonious coexistence between man and nature. It is impossible to speak of quality economic development without attending to the issue of environment and sustainability. The green economy, including new energy industries and environmental protection industries, will make major headways in the next few years. There will undoubtedly create abundant opportunities for green debts and equity financing.

Thirdly, the adoption of a “dual circulation” strategy will be expedited. Domestic demand will be the mainstay of the economy; foreign markets and investments will contribute to China's growth while benefiting for the enormous market of the country. We expect domestic demand, which includes investment and consumption, to be the primary growth engine. For investment, the rate of return must increase. This in turn will rely on technological innovation capabilities. To release the consumption potential, China must improve employment to boost residents' income. The development of high-end manufacturing and high-end service industries will raise income substantially and expand the middle-income group, which in turn will increase and upgrade consumption.

In addition, development directions for building a socialist market economy system were provided, with goals including promoting developments in agriculture, rural economy, coordinating regional development, fostering new urbanization, opening up the country further, as well as modernizing military and national security.

Looking forward to the 14th FYP period, the Sino-US conflict may escalate in the future, adding complexity to the already challenging global situations in an intricately correlated world. In particular, the increased technological blockade of the West, mainly led by the US, against China will present threats to China's economic and social developments. Nonetheless, thanks to the mammoth size of the Chinese economy and rapid development in the emerging industries represented by 5G and Internet+, we believe China will maintain a reasonable economic growth at an average annual rate of 5%-5.5% during the 14th FYP period. It will surpass the middle-income trap to become a high-income country. China's economy is expected to grow by about 8% in 2021 with the low base in 2020. It will accelerate industrial transformation and upgrading, expand the real economy, and tap into the full potential of domestic demand. In particular, it will strengthen frontier basic scientific research and accelerate independent research on key technologies.



Major central banks around the world are likely to maintain a loose monetary policy during the 14th FYP period, especially the US's Fed, which we expect will keep its ultra-low interest rates and maintain a sizeable balance sheet. The PBOC will continue to deploy a suitable monetary policy with flexibility to support economic growth while matching the money supply with the growth rate of nominal GDP.

Finally, it should be noted that the communique of the Fifth Plenary Session only provides some directional guidance to the 14th FYP; specific outlines of the FYP will be approved by the National People's Congress during the Two Sessions in 2021 before being published in full.



Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate (10%)
Hold	- Market return rate (-10%) \leq Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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