

GLOBAL ECONOMY AND FINANCIAL MARKETS SHORT COMMENTARY



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China's Two Sessions 2021: What is on the Agenda?

Thousands of legislative bodies and advisors gathered in China's Two Sessions to set and endorse the national agenda. One of the highlights of this year is to prioritize the roadmap for the country's 14th Five Year Plan and 2035 long term goals, ranging from economics and religion to sport, health and foreign affairs.

1. Economic growth target

The annual announcement of the GDP growth target has always been one of the most anticipated features of the Two Sessions, reflecting government's significant role in the economy. The GDP growth target is not just a predictor of output growth but also an important signal of forthcoming changes in government's fiscal and monetary policies.

However, it was not stated in last year's Government Work Report. Premier Li Keqiang announced that China would not set a GDP growth target for 2020, the first time since 1990. According to Li, the government opted against setting such a target due to the high level of uncertainty caused by Covid-19 and its impacts on the global economy. Notably, China is among the first regions hit by the pandemic, but it is also likely among the first to emerge from the crisis. As compared to the estimated 3.5% contraction of global economy, China's GDP grew by 2.3% instead in 2020. Despite the lowest level recorded in years, the US and European economy had recorded a recession of -3.5% and -6.6% respectively. China's manufacturing PMI is back in expansion, signaling a gradual recovery of the supply chain. Although it still takes time for external demand to recover, the market expected that China will have a relatively optimistic outlook in 2021. IMF forecasts that China's GDP will grow 8.1% in 2021.

Chinese government has set 2021 GDP growth target at "6% or more", which is considered conservative by the market. Some analysts are positive about having back the GDP target, it is necessary to set benchmarks to keep its growth on pace. Li added the government has considered the recovery pace of economic activity when setting the modest goal, which is meant to help sustain healthy economic growth.

While some experts believe that this lower-than-expected growth target is designed to tell the world that China will focus more on growth quality rather than pure growth rate. The target will give the government more room to push reforms when uncertainties remain, such as the COVID-19 and the US-China trade tensions.

In fact, this time goal is actually set with the central government's emphasis on the GDP goal to maintain the "continuity, stability, and sustainability" of macroeconomic policies. Although it is expected it will not be difficult for the GDP growth rate to reach over 6% or even 8% this year due to the relatively low basis last year, China's economy has already entered a period of more matured development, it will not be a matter to the long-term growth if GDP growth rate is 2-3% higher or lower in just a single year. If the government really sets the target for this year at 8% or even higher, it is likely to have a risk that the economy may be overheat and lead to other structural economic problems, such as over leveraging or overcapacity. At this moment, sustainable development is the biggest target for the China's government.

2. Chinese government deficit

China's manufacturing PMI fell to 50.6 in February 2021, reduce from over 51 or even over 52 from July 2020 to Jan 2021, reflecting China's economy growth rate is slower after the strong rebound in Q3 and Q4 of 2020. Though the economic rebound momentum may start decelerating from the peak in 2nd of last year, as Premier Li Keqiang said the pandemic is gradually being controlled and the economic impacts from the pandemic had been greatly reduced, 2021's government budget deficit rate has been adjusted downward from 3.6% to 3.2% of GDP. Therefore, government's fiscal policy may be less expansionary this year and thus its positive impact to economic growth will likely to be slightly reduced.

3. Technology Innovation and Investment

Notably, the latest five-year plan will be the first to dedicate a specific chapter to technology, which highlighted that China intends to boost domestic consumer demand and encourage self-reliance in technology as a major pillar of China's economic development and marking a shift in priorities towards industrial tech and national security as well as reduced tech imports, as part of its so-called dual circulation strategy, and specifies in the development of 5G and the promotion of new energy vehicles.

The "14th Five-Year Plan" proposes that the R&D expenditure will increase by more than 7% annually, technology innovation and industrial upgrading have been highlighted as main themes in the future.

However, technology is also one of the most contentious areas among the China and US relationship, and a field that China sees as critical to its drive for self-reliance in the future.

Source: Bloomberg, WSJ, Financial Times, Yahoo Finance

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