Planning China’s future

An interesting feature of China’s leadership practice, both historically and today, is the way significant and granular plans are developed and publicized. This is in part because, even after 40 years of reform, they present China’s economy as being “in transition” from something to something else, and that transition process is spelled out in the series of five-year plans, coordinated but separate major initiatives like Made in China 2025 (MIC25) and the Greater Bay Area, and the hundreds of detailed, sector-specific addenda published in tandem with the top-tier master planning documents. The endgame of China’s reform transition has been often expressed as the building of a moderately prosperous society in all respects. China’s major, long-term planning activities are based on that goal.

For foreign investors, what is published in this practice can be helpful, as it indicates what activities will receive government support, what areas of technology are privileged for development, where foreign participation is likely to be most welcome, and even the language that foreign investors can use to communicate alignment with leadership goals. Whatever view one holds on what might and what might not actually be achieved, these plans are likely worth study.

The major annual planning event, the Central Economic Work Conference (CEWC), was held in Beijing from December 10-12 and discharged its responsibilities to review economic work in 2019 and lay out key tasks for
2020. The meeting was held at roughly its normal time, in spite of reports of rapid developments in Phase 1 trade talks with the United States.

Six major areas of work were defined, perhaps most notably one vowed to “take resolute efforts in the ‘three tough battles’ of preventing and defusing financial risks, targeted poverty alleviation, and pollution control.” Official media noted that “financial stability” was a more explicit goal than it had been in previous meetings, and in fact, maintaining financial stability in the face of growing pressures was promoted as essential to achieving all of China’s important development goals. More specific numeric targets related to the six discussion areas are to be announced in connection with the “Two Meetings” to be held in March 2020, the Chinese People’s Political Consultative Conference, and the National People’s Congress. Prior to the CEWC, in late November Premier Li Keqiang presided over another planning event, a symposium to develop the process for compiling the 14th Five Year Plan, which will run from 2021-2025 and be under intense development throughout the current year. The concurrence of the new year and new decade, launching work on the next five-year plan, the uncertainties of US-China negotiations, and the explicit goals of Xi Jinping’s “New Era” helped amplify the significance of this year’s cycle of planning events.

**Current approach to regional development**

At the CEWC, regional development plans were also stressed, primarily the coordinated development of the Beijing-Tianjin-Hebei region, the integrated development of the Yangtze River Delta, and the construction of the Guangdong-Hong Kong-Macao Greater Bay Area. These plans align with a greater emphasis on specific regional development priorities that has become prominent over the last few years. A legacy from the Mao era that carried into reforms was a lean toward self-sufficiency, in which all of China’s major economic territories endeavored to develop local capability across the board, from steelmaking to software development. Still, emphasis on catch-up strategies for poorer areas continues, in programs like the Rural Vitalization Strategy announced in late 2018.

But a major and important shift also occurred that year. In 2018, China’s Ministry of Industry and Information Technology (MIIT) stressed the importance of regional specialization, an effort to break down domestic regional trade and investment barriers and rationalize R&D investment flows by mapping regional focus. Since the introduction of Made in China 25 in 2015, 30 pilot cities have been established, each charged with development of a specific target industry, and since 2018, nearly two dozen National Demonstration Zones (NDZ) have been set up to drive innovation, especially in smart manufacturing. The success of the planned development of the southwest city of Guizhou as China’s big data and cloud hub, which brought in significant foreign investment, is a useful case to study.

The new focus is likely important for foreign investors. The CEWC regional development plans are enhancements and updates of efforts that previously
focused on underdeveloped regions, such as China’s “rust belt” northeastern provinces and the lightly populated and economically underdeveloped western regions. In these undeveloped or “rusty” regions, commercial viability for foreign investors was mixed at best, although the benefits of political alignment with government goals were always clear. The current iteration of regional development plans is likely more important for foreign investors because the pilot cities and NDZ are emerging with clear areas of specialization, are likely to be enthusiastic and flexible about new investment, will likely become significant markets in themselves, and will attract continuous flows of resources from national- and provincial-level sources.

To stimulate or not to stimulate

While state media has noted how visible the focus on financial stability became at this year’s CEWC, for several years now, top leadership has paid attention to financial risks and undertaken detailed, frequent rebalancing of moderating policies on one hand and robust stimulus on the other, a process described as a “policy framework of stable macro policies, flexible micro policies, and social policies that ensure basic needs are met.” This had two measurable outcomes through much of 2018 and 2019; large up and down shifts in liquidity injections month-to-month and frequent adjustments to regulations bearing on major asset classes.

The future role of stimulus in driving growth in 2020 is not yet entirely clear, but official statements promise to taper off many channels of stimulus. Doing so will certainly be contingent on the extent to which household consumption grows and profitable export growth continues. But it has been made clear that the role of fixed asset appreciation, especially residential property, has changed, as leadership strives to create and sustain stability in property markets. Caixin reported in late November that 459 real estate companies filed for bankruptcy, surpassing the entire 2018 filings. The official work report of the CEWC promotes the coined phrase “that houses are for living in, not for speculating on,” a phrase already surfacing from Xinhua news service in early November, when it reported that in the first 10 months of 2019, 483 housing regulatory measures were implemented.

Vice Premier Han Zheng subsequently repeated the phrase, adding that the country must not take real estate as a short-term stimulus to the economy. By December updates, Caixin reported that 575 adjustments in regulations governing real estate had been implemented in 2019, marking 92 new adjustments just in the post-October one-and-one-half months. This emphasis follows reports that banks in several major markets have ceased making mortgage loans and at least one major bank default required a special facility to sell 100 billion RMB of new shares, 60 billion of which are to be purchased by CIC, China’s sovereign wealth fund. In line with these developments, leaders have articulated a policy to have larger and stronger banks take over smaller banks and local financing vehicles facing liquidity issues.
Staying the course

The extent to which China’s media publicly focuses on various development initiatives has shifted over time, but we can see a remarkable steadiness in major, long-term goals. Although Deng famously spoke about an opportunistic and short-term tactic to guide reform, “crossing the river by feeling the stones,” in fact, the long-term goals are the context in which many short-term adjustments are made. As we have noted in previous editions of this series, regulators are well aware of the leadership’s long-term goals set out in major campaigns, and they align accordingly. For domestic executives and foreign investors alike, being always mindful of China’s long-term goals is necessary to navigate the fast-moving, granular regulatory changes and manage what sometimes seem to be daunting compliance challenges.

Endnotes
1 https://www.chinadaily.com.cn/a/201912/13/WS5df33281a310cf3e3557e026.html
2 http://www.financialnews.com.cn/gc/gz/201912/t20191212_173311.html
6 http://www.xinhuanet.com/english/2019-12/12/c_138626302.htm
8 http://economy.caijing.com.cn/20191218/4633852.shtml

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