

23 July 2024

Key takeaways

- China's latest five-year plan includes an ongoing focus on high-quality development and sweeping reforms to position the economy on an innovation-led and sustainable growth path.
- The reforms are positive for long-term economic growth but may not have much impact on short-term growth, and we await more policy details at the end-July Politburo meeting.
- If you are willing and able to take risk, and are thinking of investing in China, consider doing so through a diversified Asia ex-Japan approach or via selected opportunities such as quality dividend stocks.

China aiming to achieve sustainable and innovation-driven growth

China's Third Plenum, a major meeting held around once every five years to outline the country's long-term social and economic policies, took place from 15 to 18 July 2024. The post-plenum statement outlined sweeping reforms to support Beijing's goal of high-quality development.

Key takeaways from China's Third Plenum

1. Reforming state-owned enterprises, fiscal and tax system

- Improve governance and supervision of state-owned enterprises (SOE), with the aim to support the country's economy, national security, and public services.
- Deepen fiscal and taxation reforms and improve the budget system to lessen the fiscal burden faced by provincial governments.
 - Develop ways to increase local government revenue and tax revenue sources, with local governments to potentially receive some consumption tax revenue that currently goes entirely to the central government.
 - Better align provincial government revenue and spending, with the aim of resolving long-standing concerns of heavy debt liabilities and high budget deficits.

2. Private sector development

- Beijing intends to establish a law to facilitate private-sector development and elevate the role of private companies by removing market access barriers.
 - Private enterprises will be allowed to participate in key national projects such as major technology projects and major infrastructure for science research.
- Support and provide financing for private enterprises that drive key technological breakthroughs.
- These are welcome signs that Beijing is trying to revive private-sector confidence.

3. Boosting innovation

- Support industrial transformation and science and technology innovation, both in state-owned enterprises and the private sector.
 - Policies to promote technological breakthroughs in artificial intelligence, aerospace, renewable energy, advanced materials, biotechnology, and quantum computing.
- Improve funding to the innovation sectors from venture capital and private equity funds.

4. Long-term sustainable housing model

- No property sector stimulus hints were given, as China is emphasising a transition from a high debt, high turnover, and high leverage model to a long-term sustainable model.
- As communicated previously, China's new housing model seeks to ensure the timely delivery of homes to buyers and boost the construction and supply of affordable housing.
- More public housing will be prioritised, and provincial governments will be given greater autonomy to regulate the property market and property tax system.

5. Lifting foreign investment restrictions

- Remove foreign investment restrictions into China's manufacturing, telecommunications, internet, education, cultural and medical services sectors.
- Protect the rights and interests of foreign investors in accordance with the law, and lift restrictions on foreign ownership limits of financial and investments companies.

PBoC lowered key benchmark rates on 22 July 2024

- China's central bank (PBOC) lowered its 7-day reverse repo rate by 10 basis points (bps) to 1.7%.
- Both the 1-year Loan Prime Rate (LPR) and 5-year LPR were also cut by 10bps to 3.35% and 3.85% respectively.
- **UOB house view:** 1-year LPR to be cut by an additional 15bps to 3.20% by end-2024 while the 5-year LPR may be unchanged at 3.85% for the rest of 2024. There is a possibility of a 50bps cut to the reserve requirement ratio (RRR) in second half of 2024 to release CNY1 trillion of long-term liquidity.

What you can do

- China's Third Plenum outlined sweeping reforms to position the Chinese economy on an innovation-led sustainable growth path for the long term but may have limited impact on short-term growth prospects. More policy details may be forthcoming at the Politburo meeting at the end of July.
- Anchor your portfolio with Core investments such as multi-asset strategies that can lower portfolio volatility while capture opportunities in different asset classes, sectors and regions. Focus on global quality dividend stocks and investment grade bonds as they can benefit when interest rates fall globally.
- If you are willing and able to take risk, and are thinking of investing in China, consider doing so through a diversified Asia ex-Japan approach or via selected opportunities such as quality dividend stocks.
- Speak to a UOB Advisor to build a portfolio that meets your investment goals.



Right By You

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