

China: 20th Party Congress opening makes self-technology advancement the top priority

The 20th Party Congress in China opened on 16th October. The Party Work Report discussed the economic roadmap. Among all the policies mentioned in the Report, we find that China is prioritising high-technology at the top of all economic policies. This echoes the technology war imposed by the US's CHIPS Act



Visitors observe various kinds of chips are exhibited at different booths by semiconductor companies at the 18th China International Semiconductor Expo, Shanghai, China

Source: Shutterstock

Key takeaways from the 20th Party Congress

The 20th Party Congress' Party Work Report emphasised that high-quality growth is the basis of economic growth policy. The Congress pointed to several factors that could lead to the high-quality growth objective. ([Here](#) is the full text of the Report in Chinese)

The key takeaways we highlighted below are in the order of their importance we get from the tone, language and the sequence that appeared in President Xi's Party Work Report.

↑ Technology

The Report explicitly pointed out in the 20th Party Congress that advancement of technology is vital to economic development, and need of a professional workforce for that development.

It stated that China "insists that science and technology is the first productive force, talent is the first resource and innovation is the first driving force, implement the strategy of developing the country through science and education, the strategy of strengthening the country through talent and the strategy of innovation-driven development".

While this may not mean the immediate removal of restrictive policies on technology companies, it is at least addressing the urgent need for talent and promoting self-sufficiency in technological advancement. We believe that this echoes to US's CHIPS Act. As such research spending on semiconductor technology should increase. Typically, policies are released after such important events in China.

→ Covid measures

When the Report mentioned Covid, there was no change in the tone of Covid measures. Life is put as the first priority and there was no wording like "balancing economic cost and benefits" when it comes to Covid measures.

We expect that the existing Covid measures, that is the number of Covid tests, quarantine days, etc, will remain the same after the Party Congress. This will continue to put fiscal pressure on local governments, and when the number of Covid cases increase, we should keep seeing localised lockdowns in China. We include this scenario in our forecasts for 2023.

→ Parental control policy to remain in place

The Party Work Report stated that the internet ecology continues to improve. This, we think, refers to the policy result of restricting children's hours spent on online games. The policy is unique to Mainland China as this is related to the ideology of the Chinese style socialism.

This is in a way to remind us that the Party's ideology can infuse into policies that affect growth models of industries.

↑ ESG policies

There are quite some contents in the Report that refers to more aggressive objectives related to Environmental, Social and Governance of the economy. What was most mentioned and repeated several times is to build a high-quality education system, not only to support technology advancement that we mentioned earlier, but also for the overall economy.

Contents on promoting the green economy has not changed but the Report highlighted its importance to future growth.

Our thoughts: fiscal policies to boost technology research

The Report makes us rethink the intensity of fiscal policies that is going to deliver on the objective of high-tech. Apart from preferential taxation policies for corporates if they put resources in high-tech research, state-backed companies may be the main entity to do this.

This means there would be a large sum of fiscal spending going into the technology industry. This also applies to achieving high-quality education, too.

The fiscal deficit has been over 5.1% so far this year, which was around 4% previously. We believe that this will continue to increase due to low revenue from land sales for this year and next. As such, the Report also gives a hint that the Chinese government is going to issue more bonds to support its growth plan. Though we believe that the fiscal health of the government is still in good shape, the increasing demand for fiscal spending and investments means that fiscal pressure is increasing, even it is not imminent.

We will continue to keep an eye on the 20th Party Congress, and will update with any impacts on the economy.