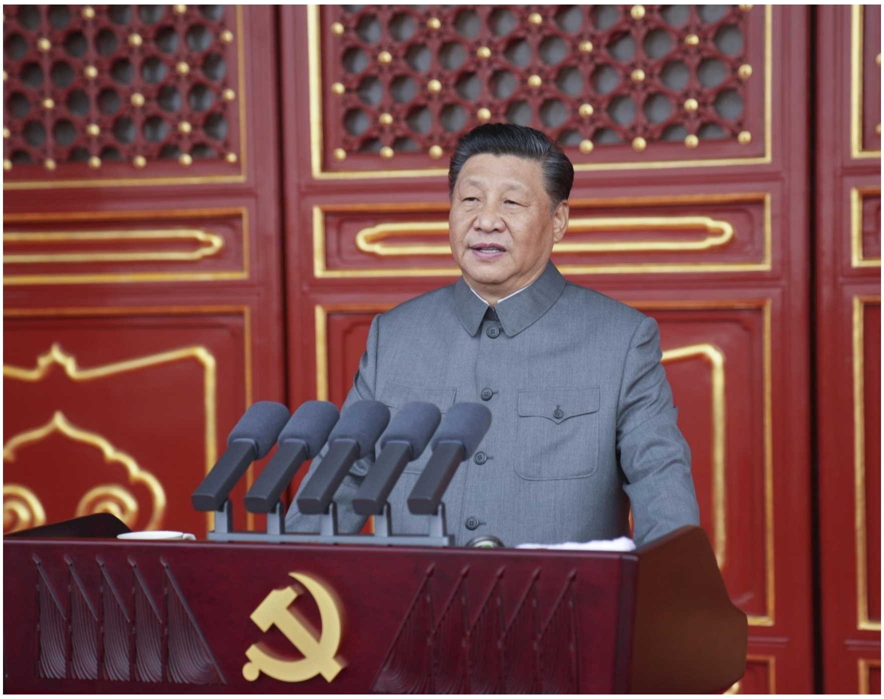
# China: Policy directions for the second half of 2021

President Xi has laid out his economic policy directions at a Politburo meeting. The policies aim at a more stable economic environment but they could risk short-term growth



China Beijing Cpc Centenary Grand Gathering Xi Jinping Speech

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## Policies on China domestically

President Xi has held a meeting to set policy direction for the second half of the year. We highlight the important policies here.

The main one is the self-sufficiency of technology. It is very clear that this policy is trying to solve the problems brought about by the technology war. The assignment of Vice Premier Liu He to lead this project confirms the importance of this policy to future economic growth.

Domestically, Xi emphasised commodity price stability, no speculation on housing, active fiscal stimulus, closely monitoring local government debt, preventing financial risks, and implementing the third child policy.

Preventing financial risks catches our attention. Together with the reserve requirement ratio (RRR) cut, it seems that financial market risks have increased with several reforms happening at the same time. These reforms include real estate deleveraging, and reforms on data privacy, micro-lending and antitrust, each of them targeting different technology sub-sectors.

Even though the description of monetary policy is "prudent" there is a high chance the central bank will cut the RRR again in the fourth quarter after cutting it in July.

## Policies that could also affect the world

The policy direction also mentioned international policies, including improving overseas listing regulations, the Belt and Road initiative, and announcing the roadmap for carbon emissions peaking by 2030.

We expect that overseas listing regulations will be amended, at least to avoid sharing sensitive data with overseas bodies unintentionally. We believe that a more complete examination by regulators will be one of the amendments. And this should cover not only stock IPOs but also other activities that involve foreign investments and ownership.

At the same time, China will rely on the Belt and Road initiative to consolidate relationships with existing nations, which some developed economies would like to take charge of from China. This may create more conflict with developed economies worrying about China's rising power in the region.

Regulating carbon emissions, in our view, will be a bridge to build better relationships with developed economies. This could also create new investment.

## Short-term growth sacrificed

All the policies have their challenges. We expect a complicated situation that exercises both controls and pro-growth policies. The market should be aware of various risks playing at the same time though we strongly believe that the Chinese government should be careful not to trigger high risks.

Nevertheless, we will closely monitor the execution of the policies and may adjust our GDP and USDCNY forecasts as a result.

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