

China's July Politburo meeting emphasises key themes for future development

China's Politburo meeting showed that the policy stance will remain supportive while continuing to emphasise the recent focus on building domestic demand, supporting the hardest hit exporters, and addressing China's difficult "involution" problem. All eyes will now be on China's Fourth Plenum and the upcoming 15th Five Year Plan



July Politburo meeting stays the course

China's Politburo meeting continued to emphasise many of the key messages from the previous years. The meeting also confirmed that the Fourth Plenum meetings will be held in October, which will feature proposals for the 15th Five Year Plan, which is set to focus on high-quality development, innovation, and domestic demand.

The meeting maintained the verbiage around fiscal and monetary policy, which indicates that the policy stance will remain on the side of easing. Given the [recent stronger-than-expected economic data](#) and what looks like a high possibility for another trade truce extension with the US, the

immediate urgency for further policy support does not look as high as it did a few months back. However, with some signs of weakness persisting, especially in weak investment and a renewed downturn of the property market, and with domestic confidence still tepid, policy support remains important to ensure growth stays on track.

Most of the key policy themes repeated the priorities that have been outlined in previous government communications.

Boosting domestic demand has been a recent policy focus, and the Politburo meeting continued to emphasise this, calling for deepened implementation of policies to boost consumption, along with further developing service consumption.

At the same time, despite [stronger-than-expected export performance in the first half of the year](#), the meeting also continued to emphasise supporting the hardest hit exporters, while noting that there was a need to optimise export tax rebate policies and push for free trade zone policies. We expect that exports could slow modestly in the second half of the year, but will still remain a growth contributor this year.

We got another nod to the recent anti-involution push, with notes on managing disorderly competition as well as promoting capacity management in key industries. Depending on how aggressively these policies are pursued, there could be a short-term negative impact even if it is healthier over the long term.

One factor holding back China's overall domestic demand picture has been weak household confidence, and one of the reasons behind this has been the recent environment of cost-cutting, leading to pay freezes and pay cuts hampering income confidence. The meeting addresses some of the labour market challenges by emphasising employment-first policies and supporting employment of key demographics such as college graduates and migrant workers.

15th Five Year Plan will likely focus on facilitating China's Great Transition

Our core long term view on China is that [China's economy is not in a Great Decline but a Great Transition](#).

Economic transitions are never easy, even in the calmest of environments – and with external headwinds and uncertainty aplenty, combined with generational shocks such as the Covid pandemic, there have been plenty of pitfalls along the road for China. Numerous short-term challenges have added to longer-term challenges such as demographic shifts and rising debt levels.

One of China's benefits amid these challenges is the ability to set longer-term goals and priorities and execute these plans on a longer timeframe, and this will likely continue when the next Five Year Plan is set. We expect that continued policy emphasis on building out China's domestic demand will help it transition toward a domestic demand economy, one of our four main transitions. We also continue to expect it to expend considerable efforts to compete in future industry and move toward an innovation-driven economy, as well as moving up the value-added ladder in general.

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