

READING BETWEEN THE LINES OF CHINA'S MACROECONOMIC MESSAGE

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If [Federal Reserve](#) chair Jerome Powell gave a speech on U.S. economics during the same week that President Trump gave a speech on the labor market, you would expect that Powell's speech would be parsed and analyzed more closely by investors.

So, I was a little bit surprised that the Central Committee of the Chinese Communist Party's (CCP) communique got more attention in the U.S. last week than the speech given by the governor of China's central bank.^{1,2,3}

Most of these official Chinese speeches are conservatively worded, devoid of humor and boring. Their dry writing also means that Google Translate gets to the main points accurately.

China Central Bank governor Gang Yi's speech, titled "Construct New Economic Development Environment and Open Up Financial Industry," was short and on point. The first section repeats talking points on why China needs to open up the financial industry so financial capital can support the real economy.

The second section touts the usual points on the progress made opening up the Chinese financial industry. It emphasizes that the Central Bank has eliminated the foreign ownership cap requirement for banks and brokerages. It cites that FTSE Russell recently announced its intention to add China to its [World Government Bond Index \(WGBI\)](#). "For the first 9 months, foreign capital has on net bought 719 billion Yuan of Chinese Inter-bank bonds."

The third section received the most interest from the financial market. It talks vaguely about further opening up the financial industry. But its wording on the yuan's role was considered the strongest and clearest signal that unless there are other substantial risks, the "strong yuan" policy is now implicitly the official policy. This confirmed that the central bank is less inclined to move against the recent, rapid rise of the yuan, even if it might hurt China's export industries.

Here is my translation of the Chinese text. The phrase "internationalization of the renminbi/yuan" is usually considered the code word for letting the market decide the exchange rate in a yuan-appreciating environment:

...we must coordinate the promotion of the opening up of the financial services industry, the reform of the RMB exchange rate formation mechanism and the internationalization of the RMB. The reform of the RMB exchange rate formation mechanism should enhance the flexibility of the RMB exchange rate and make better use of the exchange rate's "automatic stabilizer" function in macroeconomic stability and the balance of payments. The internationalization of the renminbi must adhere to the market. Regulatory authorities are mainly to reduce restrictions on the cross-border use of the renminbi and go with the flow of the market. Under the new situation, the internationalization of the renminbi can further support the usage of local currency (renminbi or yuan) to better support the broad market economy under a better environment and conditions.

The party plenum communique is longer and more expansive. For example, it wants to "prioritize the development of agricultural and rural areas, and comprehensively promote rural revitalization." As someone who, more than 40 years ago, grew up with a rural citizenship in China, where systematic discrimination against rural citizens still exists in law today, I know this priority for rural development is merely aspirational.

From my observations, the commentary parsed in English media focuses on the high aspirations listed as national goals, and its emphasis on innovation. Clearly it is alerting the U.S. to the competitive landscape that will develop between the U.S. and China across industries. The Chinese Communist Party's specific list of areas of competition for the next 10–15 years illustrates this.

The analysis in Chinese media, whose audience is mainly Chinese, focused on the point that the goal set for the next 15 years is to target per-capita Chinese income so that China is among the "middle of developed country (????????)." The lack of a specific [gross domestic product \(GDP\)](#) growth goal is widely viewed as gradually getting people used to a

slower growth rate in the next 15 years. Usually a nonspecific goal like that is in the ballpark of a doubling of GDP in 15 years, which means an annual growth rate of about 4.8%.

Interestingly, the communique only mentions the word “finance” once, in the context of having a better tax infrastructure. There is no mention of internet technology, with more emphasis on domestic production and consumption than on exports as an economic driver. In that sense, the communique’s economic tone is consistent with the “strong yuan” position of the central bank’s governor’s speech.

The consensus of the party’s desired Chinese macro environment is still focused on economic growth, but slower growth. Though the U.S. was never mentioned, every policy goal points toward cross-border interaction and competition with the U.S. For now, China is emphasizing a “strong yuan,” domestic production, and domestic consumption as a way of strengthening its competitiveness on the global stage.

¹19th Central Committee of the Chinese Communist Party 5th Plenum Communique (in Chinese), 10/29/20. http://www.xinhuanet.com/2020-10/29/c_1126674147.htm

²Speech by Governor of People’s Bank of China, Mr. Gang Yi, at Bund Summit (in Chinese), 10/24/20. <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4115111/index.html>

³History on Central Committee of the CCP. https://en.wikipedia.org/wiki/Central_Committee_of_the_Chinese_Communist_Party

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DEFINITIONS

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

World Government Bond Index (WGBI) : A broad index providing exposure to the global sovereign fixed income market, the index measures the performance of fixed-rate, local currency, investment-grade sovereign bonds. It comprises sovereign debt from over 20 countries, denominated in a variety of currencies.

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.