

THE DAILY CHECK-IN WITH GOLDMAN SACHS

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Liz Bowyer: Hi Hui.

Hui Shan: Hi Liz.

Liz Bowyer: You're the Chief China Economist for Goldman Sachs Research. China is preparing to host its two major annual political convenings called the Two Sessions. Tell us about the Two Sessions and why they're so important in China.

Hui Shan: The Two Sessions, just for background, refers to the annual meeting of the National People's Congress, NPC. And then there's also this annual meeting of Chinese People's Political Consultative Conference, CPPCC. Those are the two sessions that typically happen in March every year. And these two sessions are quite important because, China being China, is more of a planned economy. And oftentimes, a lot of the social and economic plans will be released or revealed at the two sessions. So, it is quite important for any investor with China exposure.

Liz Bowyer: So, leading up to the two sessions, what are some of the key economic themes that you're focused on?

Hui Shan: Yeah, there are a few things. One is that for the year 2021, we want to see what the premier's government work report says about, for example, growth target, inflation target, employment target. These economic parameters will attract quite a lot of attention. In addition, 2021 is different from other years because in March, it's the first year for the 14th five-year plan, 2021 to 2025. It's the 14th five-year plan. And it's also the first year of the Chinese Communist Party's second 100 years. So, it has political importance.

And we also want to watch for any details regarding the 14th five-year plan on policy implementations, which sectors. And lastly, because policy plays such a big role in the Chinese economy, we are watching for language on both monetary policy and fiscal policy. For example, on the fiscal policy front, what kind of [UNINTEL] deficit is the government thinking about? And how much of local government special bonds issuance this year? These bonds are used for infrastructure building. And so, that

kind of policy tone and policy parameters will also be something we'll be watching very closely.

Liz Bowyer: So, let's take this one by one starting with some of the near-term issues. What are you expecting to see in terms of the Chinese government's growth targets for the economy?

Hui Shan: On the growth target, our expectation going in is that there's a possibility the government does not have a growth target. Remember, before 2020 the COVID-19 shock, China always had a growth target. But last year, they did not really specify a numeric growth target. And President Xi Jinping mentioned the reason why they didn't want to set a target is that if they set a target, then they would have to provide a lot of policy support to ensure the target is met by the end of the year, which increases the risk of overstimulating the economy. So, it will be interesting to see this year after COVID is under control, whether we go back to the old regime of having a numeric target, or we continue this new regime of not really having a numeric target but focusing on more of people's livelihood in terms of inflation, employment.

As I said, our expectation is it's possible they don't have a target. There's also a possibility they set a very low target. When we look at the different provinces, there's a communication between the central government and local governments. When we look at the local governments' targets for this year, a lot of them just set a low target that's easy to surpass. For example, above 6 percent growth. When you look at how all the growth in 2020, 2021 should benefit from a low base. So, 6 percent is quite a low bar. Overall, our expectation is either no target or a very low target.

Liz Bowyer: And what about some of the longer-term issues? What are the details you'll be looking for when the country announces its 14th five-year plan?

Hui Shan: The 14th five-year plan, some of the broad frameworks were laid out last October when the party had its [UNINTEL]. And if you look at the bigger framework, the thinking behind it, it's really about recognizing, first, the domestic economy has many imbalances. And externally, the global picture, international relationship, US/China, a lot of things have changed. So, for China, it wants to focus on how to make its economy more balanced, more resilient. And rely more on domestic demand rather than external demand. So, that's the key thinking behind the 14th five-year plan. And we will be looking at how

exactly the government spells out specific parameters to achieve those goals.

So, for example, we might be watching urbanization. What's the target for that? R & D investment, given how important technology and innovation are for China's future growth. Consumption, any specifics encouraging, promoting consumption. Those are all the areas that we will be watching?

Liz Bowyer: And what will you be looking for in terms of the different sectors of China's economy?

Hui Shan: On the different sectors, I would summarize the 14th five-year plan in three buckets: technology, consumption, and environment. If you think about the guiding principles, there's the element of resilience, there's an element of sustainability. So, you think about technology, why technology is important for China. It is a very important component of becoming a more resilient economy. You know? Having technological advancement and being able to produce its own semiconductors, these are long-term objectives, both for self reliance, but also, you're going to improve productivity for China.

On consumption, this is getting at the sustainability point that a previous state Chinese economy has quite a bit of reliance on investment. So, how do you transition the economy from more of investment driven to consumption driven? That will allow growth to be more sustainable.

And environment. China laid out its objective or target to become carbon neutral by 2060. You know, having a cleaner environment, pushing for changes to address climate change concerns. That is a sustainability question.

So, I think technology, consumption, environment are the key areas of focus because that links to the principle of becoming more resilient, becoming more productive, and becoming a more sustainable growth model.

Liz Bowyer: You also mentioned the policy backdrop. What kind of language around monetary and fiscal policy will you be looking for?

Hui Shan: So, for background, 2020 was a year of COVID-19 and the economy experienced a big shock. So, like many countries, Chinese policy makers provided a significant amount

of support through fiscal policy and monetary policy. Now, also being the first in and first out country, I think for global investors, people are watching China to see how policy makers are managing the exit. That's the key question we will be looking at in the two sessions and trying to answer how fast and how the combinations of policies, policy makers want to normalize the whole set of support to the economy.

So, on the fiscal side there will be more numbers or specifics. On the revenue side, on the expenditure side we can have a better reading of how much of the fiscal deficit, how much of a fiscal support we're going to see in 2021. And the change from 2020 to 2021 will tell you how much of a fiscal impulse growth we'll experience this year.

On the monetary side, chances are the language will be more subtle. We'll have to read between the lines and read sort of the language that they describe the monetary policy stance and the focus of monetary policy management this year. In addition to monetary and fiscal, I think the property market policies are also quite important. So, any language around property market will also be important in informing us about policy makers' thinking and relating to the 2021 growth outlook.

Liz Bowyer: Thanks Hui.

Hui Shan: Thanks Liz.

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