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Special Coverage:

Our take on China's Fourth Plenum: a more assertive shift to domestic demand

Key takeaways

- China's Fourth Plenum outlined a clear demand-side-driven growth shift in the 15th Five-year Plan (FYP) and emphasised the need to focus on internal development and self-sufficiency amid heightened external uncertainty.
- With more assertive language used than in the 14th FYP, the latest communiqué stays on the strategic course of "China's high-quality development", with key strategic focuses on domestic demand supply, technological innovation, household and consumer wellbeing.

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- We maintain overweight on both Chinese onshore and offshore equities, with a barbell strategy to keep exposure to the tech sector and high dividend quality stocks. China's innovation is driven by wider AI application and adoption, and an increasingly self-reliance-focused hardware and software ecosystems. Our strategy helps portfolios to weather uncertainties in Sino-US trade negotiations and volatility in cyclical Chinese data.

What happened?

- The Fourth Plenary Session (Fourth Plenum) of the 20th Central Committee of the Chinese Communist Party (CCP) concluded on 23 October, followed by a press conference on the morning of 24 October.
- The Fourth Plenum approved the Party's proposals for the 15th Five-year Plan (FYP) covering 2026 to 2030, regarded as a "critical transitional" period in China's ambition of becoming a "moderately developed country" by 2035 through socialist modernisation.
- The plenary session didn't explicitly set a quantitative growth target but kept the 2035 long-term target outlined in the 14th FYP: The long-term target for per capita GDP should reach the level of moderately developed countries by 2035, meaning that per capita GDP in real prices would double to USD20,000. Considering that the potential growth rate may decrease gradually, the implicit actual growth target for the 15th FYP may still be around 5% (assuming a stable RMB exchange rate).
- Economy rebalancing is a high priority for China, as seen from the communiqué. Establishing "a unified domestic market" is pivotal for this effort. This initiative aims to curb local protectionism and enable the free movement of production factors, addressing long-standing barriers to efficient domestic resource allocation and productivity enhancement.
- One of the significant changes compared to the 14th Five-year Plan is the **removal of the emphasis on "deepening supply-side structural reform as the primary focus.**" We believe that the shift from supply-side reform to a "comprehensive expansion of domestic demand" is a policy response to the current economic reality of "strong supply and weak demand," and the consequential deflationary pressure.
- In the press conference, the CCP highlighted seven key focus areas, including high-quality development, technology self-sufficiency, further economic reform, social development, people's livelihoods, environmental-social-governance (ESG) and national security.

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- The plenary session called for "integrating improving people's livelihoods with promoting consumption, and investing in goods with investing in people". The policy approach aims to consolidate the consumption base by investing in people, improving livelihoods, and increasing incomes. "Common prosperity" was mentioned in the context of emphasising the need to unblock social circulation channels, improve the income distribution system, strengthen the social security system, and steadily advance equalisation of basic public services.
- Furthermore, the plenary session called for promoting high-quality development in the real estate industry, and further proposed goals to stabilise the property market, which we agree is an important pillar of improving household propensity to consume.
- One of the major objectives of the 15th FYP is the significant achievements in high-quality development particularly in expanding capacity in scientific and technological self-sufficiency, strengthening education and talent development, and deepening the digital economy. It was stated that China should integrate technological and industrial innovation to build a high-tech, manufacturing-centric, and modernised industrial system.
- In recent years, China has achieved tangible technological breakthroughs in GenAI, biotech, advanced manufacturing, semiconductors, electric vehicles and other industries. However, the uncertain external environment, especially related to trade tensions and technological competition with the US, has highlighted the strategic importance of accelerating and strengthening its technological advancement. In the coming quarters, capital expenditure related to the innovation industries should help support investment growth in China, alleviating the drag from the sluggish property investment.
- The communiqué also included a short-term economic policy goal, proposing to "resolutely achieve the annual economic and social development goals". This means the 5% growth target remains intact for 2025, in our view.
- With softening growth indicators in Q3 (larger drops in fixed asset investment and weakening retail sales), Beijing has introduced more tools for near-term growth stabilisation since September, including CNY500bn in central government re-lending instruments and another CNY500bn in local government bonds quota, primarily to resolve payment arrears and replenish local project capital.
- With the pro-growth policies released since "924" meeting in 2024, Q1 2025 formed a high growth base for early 2026. Therefore, we expect proactive fiscal policies to continue leading the way to backstop growth pressures into Q1, with the year-end Central Economic Work Conference being another crucial window for policy announcements.

Investment implications

- **For the Chinese offshore market**, a positive outlook on innovation themes, supported by government policies under the guidance of the new FYP, should continue to provide positive momentum to related industries. We think the outlook for GenAI enablers and adopters, biotech, robotics and semiconductor segments is more promising.
- Capital expenditure related to the innovation industries should help support earnings growth for the stock market, in our view. Hence, we favour domestically focused technology leaders in these industries.
- Elsewhere, we also like the quality state-owned enterprises that are well positioned to deliver better returns on equity and increase distributions through higher dividends and share buybacks.
- The Chinese offshore stock market trades at 12.8x 12-month forward consensus earnings, roughly in line with the 5-year historical average of 11.4x. We note that consensus earnings estimates show signs of rebounding after the downward revision during the Q2 result announcement season.
- **For the Chinese onshore market**, we think the increasingly self-reliance driven technology ecosystem is a key driver. This includes high-end manufacturers in key semiconductor-related components, consumer technology and gaming, as well as Chinese software substitutes in the face of increasing US restrictions. Our barbell strategy helps hedge against lingering uncertainties in Sino-US trade negotiations and volatility in cyclical Chinese data.

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