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# China's Central Economic Work Conference Promises Better Policies, More Coordination and Stricter Messaging

*By Bert HOFMAN*

**T**o divine directions in China's economic policy, the Central Economic Work Conference (CEWC), which was held from 11 to 12 December is key. The meeting, a regular occurrence on the Communist Party of China (CPC) calendar, offered some hope of more support for growth and reforms, though markets reacted lukewarm. The meeting closely followed the guidance issued by the Politburo of CPC that met a few days ahead of it. In fact, CPC General Secretary Xi Jinping felt confident of the correct outcome and left for a state visit to Vietnam after the first day and after delivering an important speech.

As usual, the readout of the meeting did not reveal what the growth target would be for next year even though that was discussed at the meeting. Traditionally the indicative target will be revealed at the National People's Congress (NPC) in March. The consensus among banks and international organisations is that it will be less than this year's, not least because next year would not see a favourable "base effect" of the weak growth in 2022. This year's outcome, though, is likely to be well within the target of "about 5%" set at the NPC last March. The International Monetary Fund now expects China to grow by 5.4%. The average projection for 2024 was about 4.8% just before the CEWC, and a growth target of "about 4.5%" would be reasonable to expect for the March NPC.

The likely GDP growth outcome for 2023 should please China's policymakers. In the wake of dismal GDP data in the second quarter, some analysts had doubted whether this year's target

would be met. The government responded with a flurry of measures to support growth and to reassure the private sector, and in particular foreign investors, that they are still welcome in China. Together with an additional fiscal boost of RMB1 trillion announced in October, it was enough to lift growth above 5% for the year.

Notably, the CEWC was not too pessimistic of the growth outlook for 2024, despite the challenges that the readout noted.

“The meeting pointed out that to further promote economic recovery, we need to overcome some difficulties and challenges, mainly insufficient effective demand, overcapacity in some industries, weak social expectations, there are still many risks and hazards, there are blocking points in the domestic cycle, and the complexity of the external environment, severity and uncertainty are rising”. However, “*Overall, favourable conditions outweigh unfavourable factors in China’s development*”.

The overall focus for economic work next year is on “promoting high-quality development”. In a nod to Deng Xiaoping,<sup>1</sup> the readout states “[w]e must adhere to high-quality development as the hard truth of the new era”. This is important to state as numerous observers have argued that China is no longer interested in growth and the focus is now on security and party control only.

The readout is somewhat cryptic on the balance between economy and security: “We must adhere to the benign interaction of high-quality development and high-level security, promote high-quality development to achieve high-level security, and ensure high-quality development with high-level security, balancing development and security dynamically and benefiting each other”. This seems to indicate that the leadership is aware of the possible negative effects of security on development and wants it changed when it stated that the “primary task” is high-quality development.

The CEWC readout contained another line that gave some hope for future growth. It said: “...next year, we must adhere to the principle of seeking progress while maintaining stability, promoting stability through progress, and prioritizing development before addressing problems”. An optimistic interpretation is that this means that policies will change more gradually than in the recent past. The regulatory crackdown on internet platform companies after Jack Ma’s Bund Summit Speech in October 2020 and the abrupt introduction of the “Three Red Line” policy in August 2020 that cut off bank credit to property developers has come at considerable costs to the economy, and still subdues investor expectations.

The CEWC readout pays particular attention to managing expectations. This was already the case last year, but events have demonstrated that more is needed: “It urged the introduction of more policies that will help stabilize expectations, growth and employment, as well as active endeavours to promote the transition of growth models, structural adjustment, and quality and efficiency improvement, so as to consolidate the foundation of stable economic development with positive outlook”.

Ironically, the leadership of the two largest economies in the world seem to suffer from the same issue: satisfactory economic performance but unsatisfied consumers and weary investors.

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<sup>1</sup> “Development is the hard truth” Deng Xiaoping famously said in his remarks during the 1992 Southern Tour. Deng Xiaoping’s Collected Works include a write-up of the things Deng said during the Tour. Oddly, the line “Development is the Hard Truth” is not mentioned there.

<https://dengxiaopingworks.wordpress.com/2013/03/18/excerpts-from-talks-given-in-wuchang-shenzhen-zhuhai-and-shanghai/>, accessed 17 December 2023.

*The Wall Street Journal* headlined: “Why People Feel So Much Angst When the Economy Is So Good”.<sup>2</sup> Biden’s popularity is in the doldrums even when the recovery from COVID-19 has been strong, employment is at record lows and the inflationary spike is now under control.

China’s mood among consumers as measured by the National Bureau of Statistics has been sharply down since the Shanghai lock-down and has not really recovered since. This, despite a reasonable rebound in consumption this year, which constituted some three quarters of growth in the first three quarters. Uncertainties in employment, a weak real estate market and an unusually high policy uncertainty (from abroad as well as at home) play a role here.

China has decided to fight the perceptions. The CEWC concluded it should be “enhancing economic publicity and public opinion guidance to promote a positive narrative of China’s economy...” Moody’s, a rating agency, was the first to interpret that statement. It revised its rating outlook for China from neutral to negative, a relatively minor action, motivated by the challenges that local government debt poses for China’s growth. The National Development and Reform Commission (NDRC), China’s economic planning body, accused the rating agency of “bias and misunderstanding of China’s economic outlook”. Separately, the *Financial News*, an Australian newspaper reported that Chinese analysts and brokerage houses were urged to tell positive stories on the economy.<sup>3</sup>

More serious warning came from the State Security Ministry on its WeChat account:

“To further promote economic recovery, we must overcome some internal difficulties and deal with some external challenges. For example, various “clichés” intended to denigrate China’s economy continue to appear. Their essence is to use various false narratives to construct a “discourse trap” and “cognitive trap” of “China’s decline” in order to continue to cast doubt on the system and path of socialism with Chinese characteristics. Attack and deny, in an attempt to strategically contain and suppress China”.<sup>4</sup>

Focusing on reforms and economic policies rather than on the message or messengers is likely to have more positive effects on growth than the suppression of negative news and analysis. And there is plenty of that in the read-out. Overall, the macro-economic stance remains moderately pro-growth, using language from last year’s meeting:

“[The meeting] urged the introduction of more policies that will help stabilize expectations, growth and employment, as well as active endeavours to promote the transition of growth models, structural adjustment, and quality and efficiency improvement, so as to consolidate the foundation of stable economic development with positive outlook. The country should strengthen counter-cyclical and cross-cyclical adjustments of macro policies and continue to implement a proactive fiscal policy and a prudent monetary policy with strengthened innovation and coordination of policy tools”.

This raises some hope that a more comprehensive package of policies and reforms could be in the making.

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<sup>2</sup> <https://www.wsj.com/politics/elections/angst-when-economy-is-good-97ded354>, accessed 17 December 2023.

<sup>3</sup> <https://www.afr.com/world/asia/no-bad-news-china-s-economists-warned-to-stay-positive-20230806-p5dubf>, accessed 17 December 2023.

<sup>4</sup> [https://mp.weixin.qq.com/s/pOVcm\\_d82q\\_cNr6VXqIHsw](https://mp.weixin.qq.com/s/pOVcm_d82q_cNr6VXqIHsw), accessed 17 December 2023.

Specifically, the CEWC urged to “plan a new round of fiscal and tax system reform and implement financial system reform”, which is long overdue. The fiscal system was last significantly reformed in 1994, and as a result, it is no longer applicable for present-day needs. The high local government debts, overreliance on land sales for revenues, highly uneven distribution of fiscal resources and decline in the share of tax revenues to GDP are challenges that can only be addressed in a comprehensive reform of the system. The 2015 piecemeal reforms to implement a new framework for local borrowing fell well short of their goals.

For better policy coordination, “the meeting proposed for the first time that non-economic policies should be included in the consistency assessment of macro policy orientation”. This could possibly in future prevent non-economic policies (such as regulatory policies or environmental policies) from working at cross-purposes with macro-economic policies.<sup>5</sup> Apparently, the NDRC is taking on this role. In a joint press conference with the Ministry of Finance, the People’s Bank of China (the central bank) and the State Tax Administration last August, an NDRC official said:<sup>6</sup>

“Prior to the issuance of policy documents by various ministries, assess the consistency of the content of regulatory documents and the timing of their issuance with macroeconomic policy orientation to promote the strengthening of policy coordination and synergy of work among various ministries, so as to prevent the problem of “fallacy of composition”...”.

Furthermore:

“To this end, the National Development and Reform Commission will work with relevant parties to ... strengthen overall planning and coordination, and implement a good macro policy combination, focusing on the three “strengthen” (of analysis, of assessment of consistency of policy, of linkages between central and local governments and enterprises)”.

The central role of the NDRC in policy coordination is not new, but in recent decades this role had been done at premier or vice-premier levels. Renewed powers for the NDRC, including on “coordination with enterprises”, are at the expense of other ministries and the central bank which are de facto losing some of their powers and autonomy. Vice Premier He Lifeng who headed the NDRC until recently may have confidence in the agency following his guidance in performing this coordinating role. While the new arrangements will slow down government decision making, they are likely to mean clearer policy directions and less conflicting policies in future.

In total, the CEWC decided on nine priorities, four more than last year’s conference (Annex Table). The first mentioned (though not necessarily the top priority) was “promoting a modern industrial system”, which was the second priority last year. Expanding domestic demand is now second. New compared to last year (though not new overall) is the focus on high-level

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<sup>5</sup> This was mentioned in a press conference of the CPC Central Finance Office after the CEWC. See “Relevant comrades from the Central Finance Office explained in detail the spirit of the 2023 Central Economic Work Conference”, Xinhuanet, 17 December 2023, <https://app.xinhuanet.com/news/article.html?articleId=3b245fb3851af6812bd8452baef1b002&timestamp=25135>, accessed 22 December 2023.

<sup>6</sup> The National Development and Reform Commission, Ministry of Finance, People’s Bank of China and State Administration of Taxation jointly held a press conference to introduce the relevant situation of “implementing a good macro policy combination to promote high-quality economic development” (In Chinese) <https://www.ndrc.gov.cn/xwdt/wszb/dtdjjgzlzf/>, accessed 22 December 2023. Note that this was first cited by Beijing Channel in a blog in December 2023 <https://beijingchannel.substack.com/>.

opening up, rural development and urban-rural integration, ecological civilisation and protection of people's livelihood.

These areas of “economic work” are broader than usual and may be the prelude to skipping an economic third plenum altogether. This would be a loss, though, as such a plenum could better clarify the policy intent for the short term and spell out a policy plan that would deliver high-quality growth in the medium term. It would serve to stabilise expectations and resolve some of the trade-offs between economic and non-economic priorities such as national security and common prosperity.

No economic third Plenum has been planned for this year. The last Politburo meeting of the year did not set a date for it; if there is a third plenum, it will be held next year. Traditionally, each Plenum has its own theme (Table 1): the first and second Plenums handle personnel matters; the third on economic policies and reforms; the fourth on party governance and party building; the fifth on the Five-Year Plan; the sixth on the broad agenda for the National Party Congress; and the seventh to approve the documents for the Party Congress and party appointments to be made at the National Party Congress.

**TABLE 1 PLENUM THEMES AND TIMELINES**

**Indicative Timeline and Topics**

Plenum	Indicative Timeline	Topic
1st	Immediately following the conclusion of the quinquennial Party Congress	Select Politburo and Politburo Standing Committee membership*
2nd	Preceding the National People's Congress session	Discuss and confirm key leadership roles for the PRC State Council, the Supreme People's Court, the Supreme People's Procuratorate, and the National Supervisory Commission*
3rd	September-November	Set Economic reform policies
4th	September	Announce policies relating to CCP governance and Party building
5th	Late Fall	Focus on the next five-year plan*
6th	Fall	Determine rough timeframe for upcoming Party Congress; discuss intra-Party rules, cultural or social policies
7th	Preceding upcoming Party Congress	Fix and announce dates for upcoming Party Congress*

*Note: \* indicates fixed issues due to other major economic and political events.*

Source: Jude Blanchette and Mingda Qiu, “Red Flags: Why Was China's Fourth Plenum Delayed?” CSIS, 2019, <https://www.csis.org/analysis/red-flags-why-was-chinas-fourth-plenum-delayed>, accessed 16 December 2023.

The Central Committee Plenums are normally the most important political event of any year without the National Party Congress. The decisions and goals announced at the meeting will usually trigger a wide range of specific policies from government agencies. A third plenum is typically held about a year after the National Party Congress (Table 2). It is meant to translate the political guidance of the Party Congress into more detailed guidance on economic reforms, which the government can then translate into policies on the ground—laws, regulations and administrative decisions. The major exception came after the 19th Party Congress: the third plenum was held only a few months after the Party Congress and was not used to decide on



economic reforms, but on changes in China's constitution that allowed President Xi Jinping to take on a third term.

**TABLE 2 TIMING OF PARTY CONGRESSES AND THIRD PLENUMS**

Date of National Party Congress	Date of Third Plenum Held
August 1977	December 1978
September 1982	October 1984
November 1987	September 1988
November 1992	November 1993
September 1997	October 1998
November 2002	October 2003
October 2007	October 2008
November 2012	November 2013
October 2017	February 2018*

\* The third Plenum of 2018 discussed proposed changes in the constitution.

Source: Bloomberg, <https://www.bloomberg.com/news/articles/2023-12-01/china-s-xi-seen-delaying-key-economic-meeting-defying-norms>, accessed 16 December 2023.

The delay of the third Plenum raises the question of why it was delayed. One possible reason is that the CPC leadership believes it is not necessary as it would be similar to the 19th Central Committee, which never held a plenum dedicated to economic reforms. Another could be the confidence that the economy is doing fine, or that reforms are not the main reason behind the economy's poor performance. The likely outcome of the GDP growth for this year gives some credence to this belief, though the deep structural problems that China faces and the recognition thereof by the authorities makes this explanation less likely.

Some have argued that with an increasing re-integration of party and state, there is no necessity for the party to instruct the state to implement reforms as the party could assume this role. Indeed, the most recent “Regulations on Punishment of Staff of Public Institutions”<sup>7</sup> seem to imply that whatever is decided by the party is law for civil servants, be they party member or not. Consequently, the government need not go through the cumbersome task of translating party guidelines into policy through laws and regulations—the guidelines *are* policy. Coordination can be done by the NDRC.

A further reason could be that there is still disagreement on the reforms to be announced. Given the challenges China is facing, from lagging productivity and insufficient domestic demand to fiscal shortfalls and debt, the reforms for addressing these challenges are complex and require the balancing of many interests in the economy.<sup>8</sup> Disagreement on high level personnel appointments, a traditional element of Plenums, may have added to the delays. The abrupt changes in the Ministry of Foreign Affairs and the Defence complex may also take longer to sort out before they can be announced at the Plenum.

<sup>7</sup> Notice of the Organisation Department of the Central Committee of the Communist Party of China and the Ministry of Human Resources and Social Security on the Issuance of the “Regulations on Punishment of Staff of Public Institutions”, 6 November 2023, [http://www.mohrss.gov.cn/xxgk2020/fdzdgknr/zcfg/gfxwj/rcrs/202311/t20231124\\_509465.html?mc\\_cid=069d696d33&mc\\_eid=90982661b8](http://www.mohrss.gov.cn/xxgk2020/fdzdgknr/zcfg/gfxwj/rcrs/202311/t20231124_509465.html?mc_cid=069d696d33&mc_eid=90982661b8), accessed 17 December 2023.

<sup>8</sup> <https://asiasociety.org/policy-institute/chinas-economy-ahead-third-plenum-end-china-miracle>, accessed 15 December 2023.

Finally, the leadership may have simply been too busy. The last quarter saw the APEC summit and the Biden Meeting, the 10th anniversary of the Belt and Road Initiative, the death of Li Keqiang and the removal of two ministers, all of which absorbed the leadership's time and attention.

Therefore, for now, we will have to settle for the CEWC in determining the economic policies and reforms we can look forward to.

### ANNEX TABLE PRIORITIES FROM THE CENTRAL ECONOMIC WORK CONFERENCES 2023 AND 2022

Priorities for 2024	Priorities for 2023
<b>1. Lead the modernisation of the industrial system with scientific and technological innovation</b>	1. expand domestic demand
<b>2. Expand domestic demand</b> , among others, through: <ul style="list-style-type: none"> <li>- stimulating potential consumption;</li> <li>- expanding profitable investment;</li> <li>- forming a virtuous cycle in which consumption and investment promote each other; and</li> <li>- giving full play to the amplification effect of government investment</li> </ul>	2. accelerate the construction of a modern industrial system
<b>3. Deepen reforms in key areas</b> , among which are <ul style="list-style-type: none"> <li>- improving and implementing the “two unwaverings”;</li> <li>- reforming and improving actions of state-owned enterprises;</li> <li>- developing specialisation and innovation in small and medium-sized enterprises</li> </ul>	3. implement the “two unwaverings principles”
<b>4. Expand high-level opening up</b> by, among others, <ul style="list-style-type: none"> <li>- relaxing market access in telecommunications, medical and other service industries;</li> <li>- benchmarking against international high-standard economic and trade rules;</li> <li>- earnestly solving problems such as data cross-border flow; and</li> <li>- ensuring equal participation in government procurement</li> </ul>	4. attract and utilise foreign investment
<b>5. Prevent and defuse risks in key sectors</b> including <ul style="list-style-type: none"> <li>- coordinating the resolution of risks in real estate, local debt and small and medium-sized financial institutions;</li> <li>- calling for a crackdown on illegal financial activities to firmly guard against systemic risks;</li> <li>- satisfying property developers' reasonable financing needs;</li> <li>- accelerating the construction of affordable housing and “dual-use” public infrastructure; and</li> <li>- transforming urban villages</li> </ul>	5. prevent and resolve major economic and financial risks
<b>6. Do a good job in the work of “agriculture, rural areas and farmers”</b> with the bottom line of ensuring national food security and that no large-scale return to poverty occurs	
<b>7. Promote urban-rural integration and coordinated regional development</b> including by promoting the two-way flow of various factors	
<b>8. Construct an ecological civilisation and facilitate green and low-carbon development</b>	

<p><b>9. Effectively protect and improve people's livelihood by:</b></p> <ul style="list-style-type: none"><li>- building a tight social security net and enhancing the social assistance system;</li><li>- improving the fertility support policy system;</li><li>- developing the silver economy; and</li><li>- promoting high-quality population development</li></ul>	
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Source: Readouts of the Central Economic Work Conference 2023 and 2022. Translation: Ginger River Review <http://tinyurl.com/m3vcrh8f>, accessed 22 December 2023.

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