Mizuho Economic Outlook & Analysis

October 1, 2020

The Chinese economy continuing its moderate recovery

The focus is on expanding domestic demand and enhancing innovation capability

< **Summary** >

◆ The Chinese economy is recovering rapidly from the downturn because of the spread of COVID-19 infections. Behind the quick recovery are (a) an early containment of the spread of infections, (b) a rise in special demand for medical supplies and communication equipment, and (c) policy support such as infrastructure investment.

◆ Going forward, while special demand and the temporary policy effects will gradually diminish, the Chinese economy is expected to continue a moderate recovery with the support of infrastructure investment. However, there exist downside risks due to a resurgence of COVID-19 infections and a deterioration of the employment environment.

◆ With short-term economic stability on the horizon, the Chinese government has stepped up its efforts to address medium and long-term problems. In the wake of rising uncertainties in the external environment, expanding domestic demand and improving innovation capabilities have become important policy challenges.

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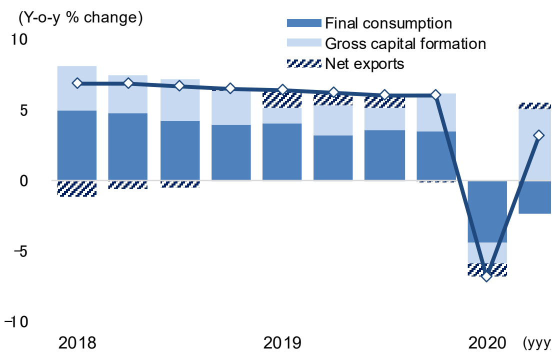
1. The Chinese economy that continues its favorable recovery

The Chinese economy has made a rapid recovery from the downturn caused by the spread of COVID-19 infections. The real gross domestic product (GDP) in the April–June quarter of 2020 rose +3.2% year-on-year (y-o-y), turning positive from the sharp downturn (-6.8% y-o-y) in the January–March quarter due to the powerful steps taken to contain the spread of infections (**Chart 1**). The Chinese government described the growth as "faster pace than anticipated." Subsequently, major economic indicators in July and August (retail sales, investment and exports) have shown a continuing moderate recovery (**Chart 2**). In September, the manufacturing PMI (Purchasing Managers' Index) stood at 51.5 (August: 51.0) and the nonmanufacturing PMI came to 55.9 (August: 55.2), both improving from the preceding month and exceeding the 50 which marked the boundary between improvement and deterioration in business sentiment.

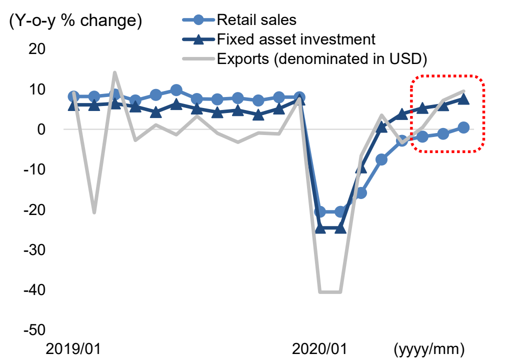
In addition to the gradual recovery of the global economy, the following factors contributed to the steady recovery of the Chinese economy: (a) an early containment of the spread of COVID-19 infections, (b) a rise in special demand for medical supplies and PCs, and (c) policy support such as infrastructure investment.

Chart 1: China's real GDP growth rate



Source: Made by MHRI based upon the National Bureau of Statistics of China, CEIC data

Chart 2: China's key economic indicators



Note: All in nominal terms. Retail sales and investment for January and February are the cumulative total for January and February.
Source: Made by MHRI based upon the National Bureau of Statistics of China, CEIC data

(1) Early containment of the spread of COVID-19 infections

First of all, the early success of containment of infections and the subsequent resumption of economic activities are cited as factors behind the recovery.

In Wuhan, the Hubei province, which was the epicenter of the outbreak of COVID-19, strict lockdown measures were implemented from late January, including restrictions on personal outings and the suspension of public transport services. In many other cities, measures such as self-restraint on outings, travel restrictions, and the extension of the Spring Festival holidays were taken. As a result of these powerful measures, the number of existing infected cases began to decline by mid-February, and the Chinese government expressed the view that "the expansion of infections has peaked out" in mid-March, leading to a gradual resumption of economic activities.[1] From June, despite occurrences of mass infections in some cities including Beijing, Urumqi and Dalian, the infection was successfully contained in a relatively short period of time thanks to the identification of infection routes through smartphone-based applications, large-scale polymerase chain reaction (PCR) examinations, and lockdown steps implemented in limited areas[2] (**Chart 3**). Since August, cases of imported infections via people returning from the Middle East and Asian countries increased, but the number of infections is currently limited to around 10.

Considering the fact that the spread of COVID-19 infections continues in many emerging countries, and that the infections have spread again in major developed countries such as the U.S. and Europe since the latter half of September, it can be stated that China has realized the containment of the spread of infections in a short period of time.

(2) Occurrence of special demand associated with the spread of COVID-19 infections

As the spread of COVID-19 infections grew more serious and prolonged globally, demand mounted for medical and hygiene products, such as masks and protective clothing, and communication equipment necessary for telework and online education, pushing up exports, production and investment by related sectors.

Looking at exports from China in August by item, the contributions by textile products (including masks) and medical equipment have been gradually decreasing from the April–June quarter of 2020 but still large, and exports of communication/electronic equipment, such as personal computers (PCs), are also robust (**Chart 4**), indicating firm demand for communication equipment due to continued social distancing constraints.

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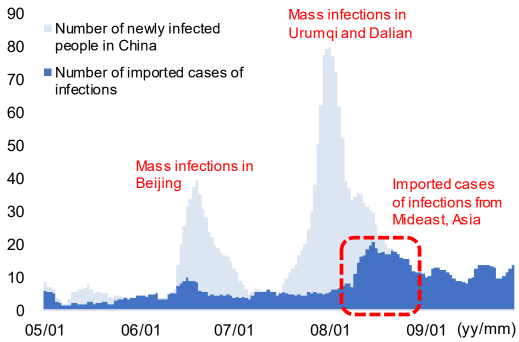
[1] Yusuke Miura, Naoaki Sato, Shingata Haien Mondai de Chugoku Keizai ha Kyuugensoku – 1-3 Gatuki no Jissitsu GDP Seichouritu ha Zennenhi Mainasu he (The Chinese economy slowing sharply due to COVID-19 – Real GDP Growth for the January–March quarter turning negative y-o-y), *Mizuho Insight*, March 18, 2020.

[2] Pekin-shi Kansen Sairyukou wo Yokusei, Shuchuteki Kensa to Sentakuteki Fuusa ga Soukou (Beijing contains the resurgence of COVID-19 infections; Intensive inspections and selective lockdowns succeeded), *Jetoro Bijiness Tanshin (JETRO Business Reports)*, July 6, 2020.

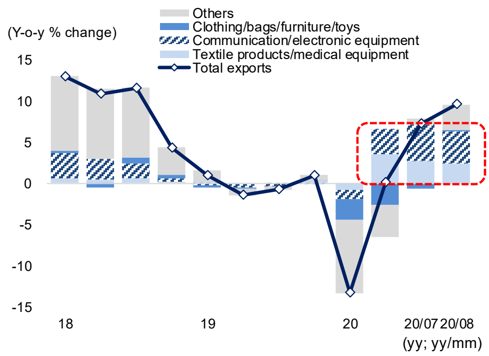
While fixed asset investment in August as a whole posted a y-o-y rise of +7.6% (an estimate by Mizuho Research Institute Ltd. The same is applicable to pharmaceuticals manufacturers and manufacturers of communication/electronic equipment.), investment by pharmaceuticals manufacturers increased +38.3% y-o-y and investment by manufacturers of communication/electronic equipment +17.9% y-o-y, showing the double-digit growth that suggests the powerful recovery of special demand-related sectors.

Chart 3: The number of newly infected people in China



Note: As of September 29, 2020. Seven-day backward moving averages.
Source: Made by MHRI based upon the National Health Commission of China, wind

Chart 4: Exports from China (by item)



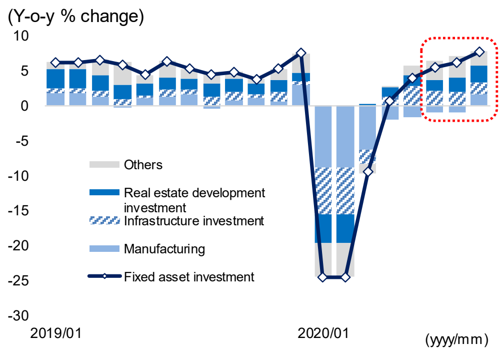
Note: "Communication/electronic equipment" shows the total of PCs/PC components, cellphones, integrated circuits, and liquid crystal panels.
Source: Made by MHRI based upon the General Administration of Customs of China, CEIC data.

(3) Policy support such as infrastructure investment

The government's policy responses also contributed to underpinning the economy. First, among key indicators, investment recovered rapidly, particularly driven by infrastructure investment acted as a driver (**Chart 5**), due to an expansion of issuance of revenue bonds (municipal bonds that are redeemed with revenues from infrastructure, etc.) by local governments (from 2.15 trillion yuan in 2019 to 3.75 trillion yuan in 2020). As a result of enhanced measures on the basis of the reflections that, between 2018 and 2019, the bulk of funds raised through revenue bonds issued by local governments were used for the stockpiles of lands and failed to give a boost to infrastructure investment,[3] the size of funds intended for infrastructure investment expanded significantly in 2020 (**Chart 6**). Infrastructure investment includes "new types of infrastructures," such as the fifth-generation mobile communication system (5G) and artificial intelligence (AI), in addition to conventional infrastructures, such as transportation infrastructure.

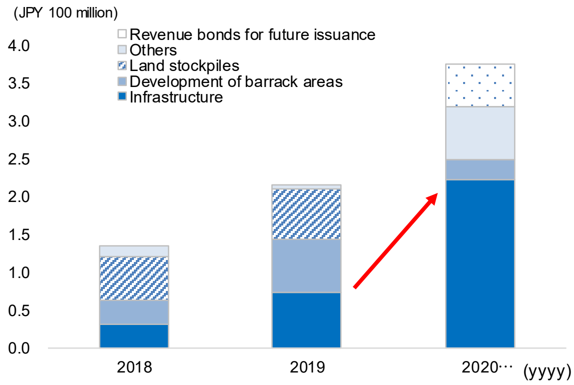
[3] Yusuke Miura, Naoaki Sato, Teichou kara Dassuru Chugoku Infura Toshhi – Yuruyakani Kaifuku Tsuzuke 2020 nen no Keiki wo Shitasasae (China's infrastructure investment getting out of the doldrums – Continuing moderate recovery should underpin the Chinese economy in 2020), *Mizuho Insight*, December 25, 2019.

Chart 5: Fixed asset investment (by industry)



Note: Infrastructure investment = the total of three industries of utilities, water/environment/public facilities, and transportation/warehousing/postal services.
Source: Made by MHRI based upon the National Bureau of Statistics of China, CEIC data

Chart 6: Revenue bond issuance by local government



Source: Made by MHRI based upon wind, China Industrial Securities, "133.4 billion yuan of special bonds were issued this week, with the amount of winning bids up 15% from the previous week" (September 27, 2020)

Measures to promote sales of motor vehicles by the central and local governments are also contributing to the recovery of consumption and production of goods. In late April 2020, 11 departments of the government, including the National Development and Reform Commission, jointly announced a set of measures to help expand motor vehicle sales, which included postponing the implementation period of stricter emission standards, extending the application of subsidies for the purchases of new energy vehicles, facilitating used vehicle distribution, and promoting automobile loans.[4] Deregulating the issuance of license plates in large cities including Shanghai and Guangzhou, and sales promotion measures such as purchase subsidies by about 30 local governments were announced as well.[5] As a consequence, sales of passenger vehicles recovered positive y-o-y growth in May, and the value added of industrial production of the motor vehicle industry has maintained double-digit growth since May.

Policy support measures for companies, such as tax reductions, fee reduction and exemptions and an expansion of financing for small and micro-sized enterprises, appear to

[4] Daisuke Takahashi, Kokka Hatten Kaikaku Iinnkai nado 11 bumon ga renmei de Jidousha Shouhi Kakudai Saku to Happyou (The government's 11 divisions, including the National Development and Reform Commission, announced in their joint names a set of measures to help expand motor vehicle sales), *Jetoro Bijiness Tanshin (JETRO Business Reports)*, May 12, 2020. Liu Jiamin, Jidousha Hanbai no Antei Kakudai no Tame no Jakkan no Sochi ni Kansuru Tsuuchi (The circular on some measures for the stabilization and expansion of motor vehicle sales), *Mizuho Chugoku Seisaku Buriifingu (Mizuho Briefings on China's Policies)*, June 1, 2020.

[5] Ren Huijuan, "A list of national and local policies to promote motor vehicle consumption in the first half of 2020," *Gasgoo China Automotive News*, June 18, 2020. The periods for application of measures to promote purchases of motor vehicles by local governments vary depending on regions, but many of them are applicable until the end of 2020.

have mitigated business deterioration pressures on companies to a certain extent. The amounts of tax cuts and exempt fees are estimated to exceed 2.5 trillion yuan (equivalent to 2.5% of GDP) for the entire 2020, with a cumulative amount of 1.5 trillion yen in tax cuts and fee exemptions already carried out in January–June.[6] With respect to support for small and micro-sized enterprises, at the National People's Congress (hereinafter referred to as the "NPC") held in late May, the government announced a policy to increase lending to those enterprises by major commercial banks by +40% y-o-y. Actually, such lending showed a y-o-y increase of +46.4% at the end of June 2020. In addition, in Zhejiang province, where many small and micro-sized enterprises exist, the local government has announced support measures to reduce tax burdens and extend tax payment deadlines.

2. Moderate recovery expected to continue, but there exist risks of a resurgence of COVID-19 infections and a deterioration in the employment environment

(1) Moderate recovery likely to continue, underpinned by infrastructure investment

Looking ahead to the Chinese economy through 2021 in view of the aforementioned economic trends, while special demand associated with the spread of COVID-19 infections and the temporary policy effects will gradually diminish, the Chinese economy is expected to continue its moderate recovery with the support of infrastructure investment.

Infrastructure investment is expected to remain robust as the continued issuance of revenue bonds by local governments has already been decided. According to the Ministry of Finance, issuance of local government revenue bonds is expected to reach the planned scheduled full-year amount of 3.75 trillion yuan by October 2020. However, as revenue bonds set for 2021 is likely to be frontloaded,[7] any downturn in infrastructure investment due to constraints on financing is unlikely. Since excessive reliance on infrastructure investment could lead to an expansion of debts by local governments, the pace of increase should slow down in 2021, but spillover effects of infrastructure investment are expected to push up investment and production in earnest by materials sectors (steel and cement, etc.) and specialized machines (construction machinery, etc.).

On the other hand, real estate development investment, which has been recovering as strongly as infrastructure investment, is expected to slow down due to policymakers' measures to cool down the overheated housing market. The People's Bank of China and the Ministry of Housing and Urban-Rural Development have repeatedly set forth the

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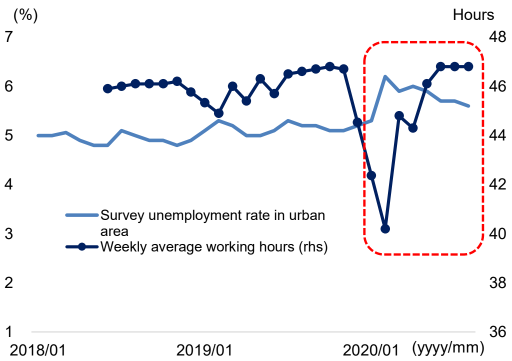
[6] He Daixin "Short-term Effectiveness and Medium- and Long-term Goals of Tax and Fee Reduction," *People's Daily Online,* September 15, 2020.

[7] "Many places are preparing for the 2021 special bonds, which are expected to be approved in advance in the fourth quarter of 2021," *Caijing Online*, September 15, 2020.

guidance for “not making use of real estate as a means of stimulating the economy for the short term,” indicating the authorities’ deep-seated stance to curb property bubbles. This is evidenced by the fact that since July, a total of 24 cities introduced bubble-containment measures, including tighter reins on housing loans and the priority given to house purchases by people who have yet to own a home.[8]

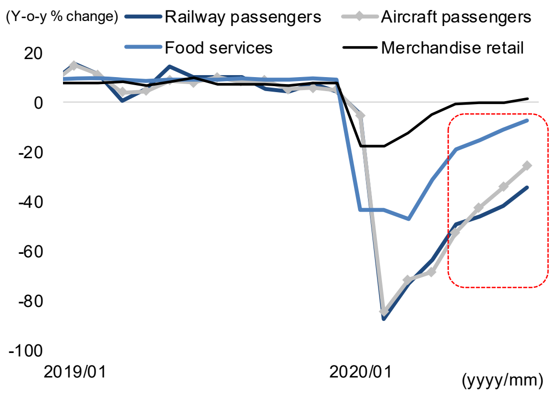
Private consumption, affected by the impact of measures to prevent the spread of COVID-19 infections, should recover at a slower pace than investment. It is good news that the employment environment has emerged out of the worst and is headed for improvement. The survey unemployment rate in urban area has continued to decline from the peak level of 6.2% immediately after the outbreak of the COVID-19 pandemic and the weekly average working hours recovered to the levels preceding the outbreak of the pandemic (**Chart 7**). Sales of passenger motor vehicles, the driver of the recent recovery in consumption, is expected to decline as many of the aforementioned measures to promote purchases of vehicles by local governments are set to expire at the end of 2020, but consumption of other goods and services are likely to follow a path of recovery as the employment environment improves. However, consumption of face-to-face services vulnerable to infection trends, such as food, transportation and entertainment services, should recover at a pace slower than consumption of goods (**Chart 8**).

Chart 7: Survey unemployment rate in urban area /weekly average working hours



Source: Made by MHRI based upon the National Bureau of Statistics of China

Chart 8: Transport services, food services, merchandise retail



Note: Figures for January and February for food services and retail of merchandise are the cumulative total for January and February.
Source: Made by MHRI based on the National Bureau of Statistics of China, General Administration of Civil Aviation of China, China State Railway Group Co., Ltd., China Railway, CEIC data.

Exports are likely to follow a path of moderate recovery, mainly to developed economies, though the decline of the aforementioned special demand for medical supplies and communication equipment and the protracted recession in emerging economies may apply downward pressure.

(2) The risks are the resurgence of COVID-19 infections and a deterioration in the employment environment

Factors that could pose downside risks to the main scenario are (a) a resurgence of COVID-19 infections and (b) a deterioration in the employment/income environment.

With respect to (a), in the environment where safe vaccines are not widespread, the risk of a resurgence of infections always exists,[9] and this is applicable to any country. Even in China, where the recent situation of infections has been stabilized, COVID-19 infections could spread again when large-scale movements of people occur during a long holiday. Most recently, for example, during the long vacation from October 1 through 8 (consecutive holidays marking the anniversary of the founding of the People's Republic of China/mid-autumn harvest festival), the number of domestic travelers is expected to run as high as around 600 million.[10] While infection prevention precautions are to be taken, including wearing masks and measuring body temperatures before entering tourist sites, the possibility cannot be entirely ruled out that the infections may spread again in big cities such as Beijing, Shanghai, Guangzhou and Shenzhen. Overseas travels should turn out to be limited, as the government has asked Chinese people to refrain from making non-essential overseas trips and travelers are required to go through up to 28 days of quarantine observation before and after departures. However, it would be necessary to keep in mind the possible entry of infected persons from abroad. If the spread of infections should recur to require restrictions on economic activities, a downturn of the economy is inevitable.

As for (b), since the aforementioned survey unemployment rate in urban area does not fully cover the unemployment of temporary employees, self-employed or migrant workers in urban areas originally from rural areas, it is possible that the actual employment rate may be higher than statistic indicates.[11] For example, the above unemployment rate does not count in unemployment of migrant workers from rural areas who returned home during Lunar New Year holidays but could not return to their work in urban areas due to the spread of infections.[12] Furthermore, it is also a problem that existing safety nets for such workers,

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[8] "More than 24 cities announced new property market policies: tighter regulation becomes mainstream, the golden season for property sales is affected,", *Caijing Online*, September 17, 2020.

[9] The Chinese government approved the use of vaccine against COVID-19, which is still at the stage of clinical trial from July 2020. The use of this vaccine is approved for health-care personnel and quarantine and inspection officials as well as those planning to take up positions and study in foreign countries. According to a press report ("China has inoculated 350,000 people with the COVID-19 vaccine still under development, raising safety concerns," the Nihon Keizai Shimbun, September 28, 2020), 350,000 people have already been vaccinated, but since the vaccine is still undergoing clinical trials, its safety is not fully guaranteed.

[10] The forecast number of domestic travelers is based on a major online travel agency (Trip.com. Group, Ltd.). "National Day travelers may reach 600 million, over 1,500 scenic spots nationwide free or discounted," *Caijing Online*, September 24, 2020.

including unemployment insurance, do not play an adequate role. The unemployment insurance coverage of the employed in urban areas (inclusive of migrant workers from rural areas) stood only at 47% as of the end of 2019, and temporary employees and self-employed people are not covered by unemployment insurance.[13] Thus, the recovery pace of consumption may be slow when the actual employment environment is severer than an assessment on the basis of publicly announced statistics and safety nets are insufficient. However, since the income levels of those who cannot be included in official statistics are relatively low, the downside of overall consumption is considered to be limited.

3. Policy focus is on an expansion of domestic demand and enhancement of innovation capabilities

(1) Policy focus shifting from COVID-19 responses to tackling structural issues

Though the risks mentioned above do exist, the Chinese government is beginning to shift its policy focus from short-term economic stability to addressing medium- to long-term structural problems as the prospects for economic recovery improve. In light of the government's important meetings and policies as well as statements by General Secretary Xi Jinping since July, the Chinese government, recognizing the growing uncertainties of the external environment, including the continuing spread of COVID-19 infections around the world and the tensions with the US, intends to expanding domestic demand, particularly consumption, and foster core technologies on its own by enhancing innovation capabilities.

The above policy was firstly presented at a meeting of the Political Bureau of the Central Committee (Politburo) of the Communist Party of China held on July 30 to discuss economic policies for the second half of 2020. While the Politburo said that the current economic situation "remains complicated and challenging with unstable and uncertain factors," the wording regarding fiscal policy for the second half of 2020 was adjusted to "achieve more positive results and emphasize effectiveness", emphasizing policy effectiveness rather than the expression used at the NPC in late May ("a proactive fiscal policy will deliver more proactive results"), indicating a shift from crisis mode.[14] On the monetary policy, the Politburo showed the stance to avoid negative effects of large-scale credit easing, such as the formation of economic bubbles, by underscoring "a more flexible

[11] "All efforts to preserve employment," *Caijing*, 14th period of 2020, July 6, 2020.

[12] "Some Economists Question Strength of China's Labor Market," *The Wall Street Journal*, June 7, 2020.

[13] Footnote 11, Wang Xiaolu, "Most Migrant Workers Not Covered by Unemployment Insurance, Key to Solving the Problem lies in Promoting Migrant Workers to Settle in Cities," *Sohu Think Tank,* July 6, 2020.

[14] Premier Li Keqiang, Government Work Report, May 22, 2020.

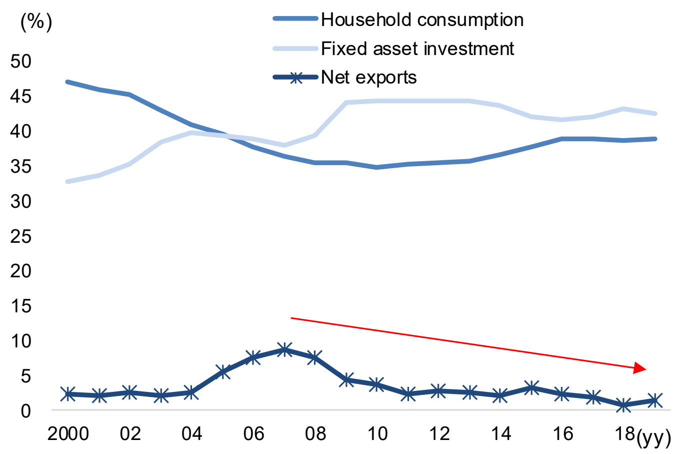
and appropriate monetary policy that shall be guided in the correct direction" (instead of "making a moderate monetary policy more flexible and appropriate" at the May NPC). At the same time, the Politburo meeting noted the importance of dealing with medium and long-term problems, stating that "many problems we face are medium and long-term, and we recognize them from the perspective of endurance."

Of particularly noteworthy in the ensuing part of the Politburo statement is the expression that "China will accelerate the formation of a new development pattern with domestic circulation as the main body and domestic and international dual-cycle to promote each other." This is an expression somewhat difficult to understand, but the general meaning of the expression is that China will pursue sustainable economic development by accelerating the shift from the export-dependent economy to a domestic demand-led economy, enhancing innovation capabilities to foster key and core technologies on its own and maintaining the policy of opening up to the outside world.

China has been promoting a transformation into a domestic demand-led economy for approximately 20 years, after it was first proposed following the Asian currency crisis in 1998 and its importance was emphasized again following a sharp downturn in external demand due to the global financial crisis in 2008. In fact, the dependence on external demand has declined as shown in Chart 9. Why did China emphasize the domestic demand-led economy at this time by using a new key phrase "domestic circulation"? There are two reasons behind this: (a) response to changes in the external environment and (b) response to domestic structural problems.

First, (a) response to changes in the external environment reflects the growing need to make a further review of China's dependence on external demand and reliance on foreign companies and to put more emphasis on expanding domestic demand and enhancing its innovation capabilities, following the sharp decline in external demand due to the global spread of COVID-19 infections, escalating tensions with the U.S. in various areas, including trade, technology and human rights, and moves to rebuild supply chains from the national security perspectives. With respect to innovation in particular, in view of the trends toward exclusion of Chinese companies from the supply chains for information and communications equipment and services, as seen in export controls on Huawei Technologies by the U.S., China appears to be pursuing domestic production of semiconductors and other high value-added products for which China has thus far relied on foreign companies. In General Secretary Xi Jinping's remarks at a symposium on economic and social work held on August 24 to discuss the 14th Five-Year Plan for Economic and Social Development, he said that "China needs to prepare itself to respond to new risks and challenges that are expected to emerge as the external environment become severer."[15]

Chart 9: Ratios of demand items in GDP



Source: Made by MHRI based upon the National Bureau of Statistics of China, CEIC data

With respect to (b) response to domestic structural problems, General Secretary Xi, in his remarks at the same symposium on economic and social work, said he is aware that China is faced with domestic problems such as "economic development is disproportionate and inadequate; innovation capabilities are not adaptable to high-quality development; there exist huge disparities in development and income distribution between cities and rural areas and between regions; and life security of people is lacking," and expressed his strong desire for reforms. The reform is expected to resolve long-standing structural problems such as income disparities and insufficient social security, and to expand consumption. This indicates that the government has come to recognize that sustainable economic development is possible only by increasing consumption, as it cannot rely on external demand and investment because marginal productivity has declined due to the accumulation of investments in past years.

A look at the recently announced policies reveal China's intentions to seek an expansion of consumption and enhancement of innovation capabilities. On August 4, China announced a package of policies related to fostering the integrated circuit (IC) industry and the software industry for the first time in 10 years (the previous package was announced in 2011), providing relevant companies with reductions/exemptions of taxes and financial support as well as measures to support the development of research and development systems, and promotion of their advances to overseas markets.[16] On expanding consumption, the State Council on September 21 announced "Opinions

[15] "Xi Jinping: Remarks at a Symposium of Experts in Economic and Social Fields," *Xinhua News Online,* August 24, 2020.

Concerning New Operating States and New Models Guiding Accelerated Development of a New Model of Consumption". In order to promote new types of consumption characterized by internet-based mail order shopping, mobile payments and the fusion of online and offline businesses[17], the policy was presented for the construction of infrastructure such as 5G and data centers, the development of legal rules, and fiscal and financial support. The State Council Opinions clearly reflect the aforementioned policy for expanding domestic demand by saying that "China will accelerate the formation of a new development pattern with domestic circulation as the main body and domestic and international dual-cycle to promote each other" through the development of new types of consumption.

(2) Stay alert to whether the menu of reforms necessary for the 14th Five-Year Plan will be unveiled

The policy to pursue sustainable development by expanding domestic demand and enhancing innovation capabilities was apparently proposed with a view to the 14th Five-Year Plan (2021–2025) to be discussed at the fifth plenary session (hereinafter referred to as the "Fifth Plenum") of the 19th Central Committee of the Communist Party of China scheduled for October 26–29. As mentioned above, ideas about the policy became more specific at the symposium on economic and social work that discussed the 14th Five-Year Plan. Thus, it is highly likely that a gist of the 14th Five-Year Plan to be released after the Fifth Plenum will include reform measures necessary to expand domestic demand and enhance innovation capabilities.

More specifically, the gist is expected to demonstrate the Chinese government's stance of addressing, in earnest, reform of the household registration system, the income distribution system, and the medical, educational and nursing care systems in order to realize the potential of consumption by resolving the problems of income disparities and inadequate social security. With respect to innovation, the gist is expected to present a menu of reforms, including the enhancement of basic research, fostering advanced technologies such as semiconductors, which will be difficult to procure due to the impacts of tensions with the U.S., protection of intellectual property rights, and human resources development.

[16] State Council, "Several Policies for Promoting the High-Quality Development of the Integrated Circuit Industry and the Software Industry in the New Period," announced on August 4, 2020. Liu Jiamin, Aratana Jiki ni Okeru Shuuseki Kairo (IC) Sangyo to Sofutouea Sangyo no Shitsu no Takai Hatten ni Kansuru Jakkan no Seisaku (Several Policies for Promoting the High-Quality Development of the Integrated Circuit Industry and the Software Industry in the New Period), *Mizuho Chugoku Seisaku Buriifingu (Mizuho Briefings on China's Policies)*, September 10, 2020.

[17] Office of the State Council, "Opinions Concerning New Operating States and New Models Guiding Accelerated Development of a New Model of Consumption," announced on September 21, 2020.

Though the reforms involve a very high degree of difficulties, it is an opportunity for China to take advantage of the favorable economic recovery from the COVID-19 pandemic and concentrate on the transforming its economic model to enable sustainable growth. The keys to determining whether China can really “turn the crisis into an opportunity” following the serious changes in the internal and external environments, as observed by General Secretary Xi Jinping, will be whether the steady recovery of the Chinese economy discussed in this paper will be sustained and whether the Five-Year Plan will demonstrate the necessary reforms. Foreign companies should also closely monitor whether reforms for an expansion of domestic demand will be steadily promoted and whether the open-door policy, including the easing of regulations on foreign companies, will be adequately maintained in order to consider the scope for developing their businesses to take in domestic demand in China.