



American Cotton Shippers Association
88 Union Avenue, Suite 1204
Memphis, TN 38103
United States

P +1 901 525-2272
F +1 901 527-8303
www.acsa-cotton.org

2021 Central Economic Work Conference – Challenges, Policy Responses and Concept

December 14, 2021

Provided by:



What is the difference between this year's conference and the previous ones?

The 2021 Central Economic Work Conference was held in Beijing between December 8th and 10th. There are three major differences compared with previous ones:

1. The opening chapter straightforwardly pointed out current challenges of the Chinese economy.
2. Instead of adopting a certain policy or policies to tackle the challenges, a policy system is adopted as a countermeasure to deal with the difficulties and the economic downturn.
3. The conference not only put forward a policy system, but also addressed five issues from a theoretical perspective explaining how to implement the policy system.

Why is the Central Economic Work Conference important?

In 2022, the Communist Party of China (CPC) will convene its 20th National Congress, which is a very important political event in China. The organization of the 20th National Congress of CPC requires stability, i.e., a relatively stable economic development environment and a stable social ecological environment in China. The challenges, policy systems, and concepts put forward by this conference will provide programmatic guidance for the National People's Congress (NPC) next March. In other words, the resolutions concluded by this conference are the guidelines for China's government work throughout 2022.

What does the conference mean for us?

In a nutshell, in 2022 there is still plenty of room for U.S. cotton to enter the Chinese market roughly at the 2021 level. Moreover, the current promotional projects in China could create a win-win situation.

1. **In 2022, U.S. cotton exports to China will probably stabilize at this year's level.** According to the conference, "stability" is the core of China's economic work in

- 2022, which include all aspects and certainly include the scale and development of textile enterprises, as well as their demand for cotton. Therefore, the demand of cotton from the international market will be maintained at a certain scale to support the development of China's textile industry.
2. **The U.S. cotton's technical solutions and sustainable project promoted in China could create a win-win situation.** The technical solutions meet the requirements of promoting comprehensive resource conservation, intensive and recycling utilization, and the sustainable program meets the call for the low-carbon green development in the consumer field.
 3. Further reform and opening-up, especially comprehensively reform the market-based allocation of factors of production means that cotton, as one factor of production for the textile industry, will also be reformed and the cotton market will be reformed towards a more market-oriented perspective. In addition, national treatment and other benefits are favorable for the operation of foreign-funded enterprises importing cotton in China, and the economic and trade environment will be more optimized, especially for shippers in China.

Here is the summary of analysis on the challenges faced by China, the policy system in response and explanations on concepts.

Challenges

The pressing challenge for China's economy can be concluded as slow economic growth. China's economic growth rate should be kept at 6% (with a potential growth rate of 5.7% according to the People's Bank of China). However, the growth rate in Q3 was only 4.9% which was obviously lower than anticipations. Due to the economic slowdown since H2 2021, the employment pressure becomes even greater, especially for the 10 million college graduates this year. The current low economic growth rate is mainly due to three reasons as follows:

1. **Demand contraction.** It is mainly because of weak domestic demand and continued sluggish consumption; the growth rate of fixed asset investment, especially real estate and infrastructure, continues to decline, as well as a series of uncertain factors for the growth of external demand.
2. **Supply shocks.** Mainly caused by partial power outages and environmental protection pressures, raw material prices have increased very fast due to capacity constraints, the high ex-factory price brings great pressure to the middle and downstream market entities under the condition of sluggish demand.
3. **Weakening expectations.** Under the influence of the repeated pandemic outbreaks globally, constant conflicts in international relations, especially between China and the U.S., as well as the increasing downward pressure on the economy, enterprises and residents start to have negative expectations, which lead to hesitations for

residents' consumption and corporates' investment. To tackle the problem, the Central Economic Work Conference required the economic work in 2022 to highlight stability, that is, to stop the continued downward trend of China's economy, and strive to maintain a 6% of GDP growth.

Policy Responses

In the past, when there were problems in the economy, China often adopted several policies to deal with them. This time, the central government adopts systems thinking with a set of economic policies to deal with the potential crisis of the economic downturn. This set of economic policies consists of seven policies:

1. **Stable and effective macro policies.** China will continue to implement a proactive fiscal policy and a prudent monetary policy.
2. **Micro-policies** will be carried out to stimulate the vitality of market players and boost their confidence.
3. **Structural policy** will be carried out to smooth the domestic economic cycle. The key is to break through the supply constraints and open up all links of production, distribution, circulation, and consumption.
4. **Science and technology policies** will emphasize improving science and technology innovation and continue to carry out international science and technology cooperation.
5. **Reform and opening-up policies** will be maintained to activate development momentum, comprehensively reform the market-based allocation of factors of production. China will also expand high-quality and institutional opening-up, grant foreign-funded enterprises national treatment, attract more investment from multinational companies, and facilitate the early implementation of major foreign-invested projects.
6. **Regional policies** will be carried out to enhance the balanced and coordinated development and promote the coordinated development of the eastern, central, western and northeastern regions.
7. **Social policies** will be carried out to ensure the bottom line of people's livelihood, promote the relationship between economic development and people's livelihood as a whole.

Theory and concept

To smoothly implement the above-mentioned policy system and clarify the vague understanding of certain issues, the Central Economic Work Conference clarified five issues from both policy system perspective and theory perspective. The five issues are:

1. **Correctly understand the strategic goals and practical approaches to achieve common prosperity.** Common prosperity is a long historical process, not an

existing policy. Common prosperity must be achieved through steady steps. To realize common prosperity, the nation should first “make a bigger and better cake” through joint efforts of the people, and then divide and distribute the cake properly through rational institutional arrangements.

2. **Correctly understand the characteristics and behavioral rules of capital.** China will set “traffic-light” mechanism for capital, aiming to support and guide the healthy development of capital, give full play to the positive role of capital in promoting market construction, and also regulate capital and prevent the brutal growth of capital.
3. **Correctly understand the supply of primary products.** For production, promote comprehensive resource conservation, intensive and recycling utilization. For consumption, China will increase the nation’s awareness of conservation and a green and low-carbon lifestyle.
4. **Correctly understand the prevention and resolution of major risks, especially those in the financial sector.** China will improve the financial risk handling mechanism.
5. **Correctly understand the carbon peak and carbon neutrality goals.** Achieving carbon goals is an inherent requirement for promoting the high-quality development which demands unwavering efforts. The phase-out of traditional energy in China should be based on safe, reliable new energy alternatives. The implementation policies for carbon goals should be on the basis that China is still at the economic level of a developing country.