Effectiveness of private companies' policies questioned as US-China trade conflict continues

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Current data regarding the Chinese economy indicates total exports are holding out at roughly the same level as the previous year despite a large decrease in exports to the US as the trade friction between China and the US escalates. However, a deceleration in investment, retail sales and production and the remarkable slowing of imports show clear, prolonged sluggishness in domestic demand (Table 1).

Meanwhile, it is not an overstatement to say that the world takes great interest in what sort of economic policies China will choose. What is becoming clear since the Political Bureau of the Communist Party of China Central Committee meeting in July is that, in light of the prolonged trade conflict, China is focusing its attention on moving forwards with reforms to its economic system which will strengthen its economic growth, rather than short-term economic stimulus policies. The main focus of the policies is businesses (the starting point of economic activity), in particular private businesses, for which President Xi Jinping suggested his support in his keynote speech in November last year.

As mentioned in the speech, central and provincial governments have used fiscal and monetary policy tools such as tax cuts, subsidies and financial support (including monetary easing). In addition, they have expanded their support policies for private companies, such as human resource development and R&D assistance, as well as regulatory reforms (Table 2). Financial support in particular was something on which financial officials had been focusing before the speech. At the State Council executive meeting on 4th September, a lowering of the reserve requirement ratio for banks (implemented on 16th September; 6th rate cut since April 2018; additional ratio cut for some city commercial banks) was included in the form of an early implementation and partial expansion of the policies revealed at the National People's Congress in March (the government also mentioned speeding up and increasing the scale of vocational training at the meeting on 4th September).

At this point in time, however, the effects of these policies are not noticeable. The reserve requirement ratio has been lowered incrementally since spring last year, but any changes in the growth rate of banks' lending has been negligible and there is continued pressure to reduce shadow banking, which is one of the reasons for private corporations' financial difficulties. In August, the People's Bank of China launched loan interest rate reforms which commercial banks are to refer to when lending, but the actual reduction has remained limited.

In addition, as long as no problems occur, private corporations have been left to their own devices in the past. However, it appears the Xi administration is strengthening "management" separately from "support" of private companies in its second term. Recently, a controversial decision was made to send provincial government officials to large private firms, and there are concerns that this will lead to negative impacts on corporate behaviour. This calls into question the effectiveness of private companies' policies in difficult situations, namely the ongoing trade friction between the US and China.

Table 1: Main Economic Indicators (China)

	2019				
	Apr	May	Jun	Jul	Aug
Real GDP (YoY, %)	6.2			n.a.	
Exports (YoY, %)	-2.8	1.1	-1.3	3.3	-1.0
Imports (YoY, %)	4.2	-8.5	-7.4	-5.3	-5.6
Fixed Assets Investment (YTD, YoY, %)	6.1	5.6	5.8	5.7	5.5
Retail Sales (YoY, %)	7.2	8.6	9.8	7.6	7.5
Industrial Production (YoY, %)	5.4	5.0	6.3	4.8	4.4
Manufacturing PMI	50.1	49.4	49.4	49.7	49.5
Non-manufacturing PMI	54.3	54.3	54.2	53.7	53.8
CPI (YoY, %)	2.5	2.7	2.7	2.8	2.8
PPI (YoY, %)	0.9	0.6	0.0	-0.3	-0.8

Note: 1) Manufacturing PMI and Non-manufacturing PMI are from China National Bureau of Statistics.
2) Shadowed portion indicates lower growth rates or decline in indicators from previous months.
Source: National Bureau of Statistics of China, MUFG Bank Economic Research Office

Table 2: Government's Main Policies for Supporting Private Firms

Central government, financial authorities	
People's Bank of China	Reserve requirement ratio cut aimed at supporting private firms
State Taxation Administration	Reduced tax burden for private firms
Ministry of Finance	Tax benefits: a partial exemption for real estate tax and value-added tax for state and ministry-level science and technology incubators
Employment authorities	Implemented hiring week to support private firms in attracting employees
National People's Congress Standing Committee	Requested central and provincial governments to streamline legal and business conditions for the development of small and medium-sized private firms
Provincial governments	
Established relief fund for private firms	
Subsidies for newly listed companies and newly registered companies at OTC markets	
Financial support (increased loan target for private firms, ban on shady compression loans)	
Tax incentives, extend deadline for private firms struggling to pay taxes, lower social security rate	
Ease regulations for market entrants, simplify administrative procedures	

Source: Chinese government, news reports, MUFG Bank Economic Research Office

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