

Chinese government focuses on long-term stability with economic policy plans amid trade friction with the US

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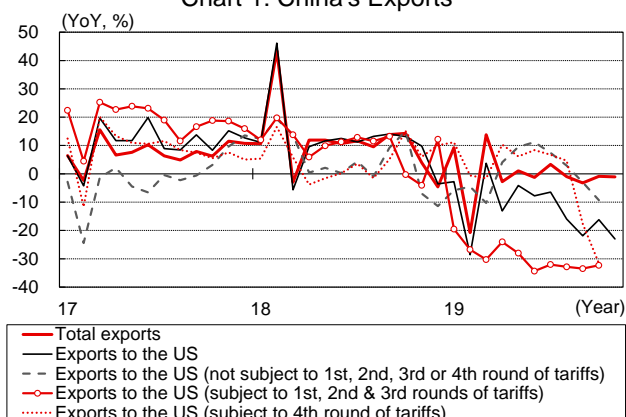
On 13th December, the Chinese and US governments announced that they had reached an agreement on Phase One of a trade deal (for further details, please refer to Economic Monthly-US). China's exports to the US have taken a sharp fall since the end of 2018 and put significant downward pressure of -23.0% YoY on total exports (-1.1% YoY) in November (Chart 1). Therefore, this agreement with the US is a positive step in avoiding additional retaliatory tariffs. Nevertheless, there is an undeniable possibility that this agreement is merely a temporary ceasefire since the root of the China-US conflict are issues of national security and a competition for technological hegemony, and it is thought that tariffs and uncertainty about the future will continue to act as a weight on the Chinese economy.

Meanwhile, the Chinese government's economy policy plans have attracted attention. At the Central Economic Work Conference (meeting to decide basic plan for economic policies in 2020) held from 10th to 12th December, the government set forth six, major policy plans, the first of which involves its approach to administration, such as "reform" and "collaboration", and the second is to "eliminate poverty". Compared with the first and second major policies of "high-quality manufacturing development" and "developing a powerful domestic market" at the same conference last year, there appears to be a conscious move this year towards policies which place great importance on the stability of citizens livelihoods, such as employment policies, owing to the current slowdown of the economy. The government plans to guarantee wages and a basic standard of living by continuing with its "proactive" fiscal policies (Table 1).

That being said, the scale of the economic policies is not large. Instead, policies are sustainable and focus on the long-term stability of the Chinese economy. Specifically, in terms of monetary policy, the government said it would "address the difficulties and costs of financing for private and small businesses", yet it maintained its "prudent" stance from last year and will "ensure money supply, credit and social financing growth is in line with economic growth". In addition, the government again stated that real estate is "not for speculation" and will not be used as an economic measure. Despite the continued downward pressure from the economic slowdown sparked by deleveraging and from China-US trade friction, the Chinese government aims to avoid causing problems in the future with excessive economic policies and monetary easing. As it accepts a small deceleration of economic growth in the short term, the government appears to have again confirmed that it will proceed with structural reforms that

contribute to the long-term growth of the economy, such as reforming state-owned enterprises and opening up the country.

Chart 1: China's Exports



Note: "Exports to the US" data is based on statistics released in the US
 Source: General Administration of Customs People's Republic of China, the US Commerce Department, MUFG Bank Economic Research Office

Table 1: Summary of Central Economic Work Conference

Financial Policies	<ul style="list-style-type: none"> Continue with proactive fiscal policies. Increase the quality and effectiveness of fiscal policy. Decrease spending, focus on important sectors, guarantee wages and basic standard of living.
Monetary Policies	<ul style="list-style-type: none"> Ensure money supply, credit and social financing growth is in line with economic growth. Maintain a stable debt ratio for the economy as a whole. Increase mid and long-term financing for the manufacturing sector. Address the financing difficulties and costs of private and small businesses.
Real Estate Policies	<ul style="list-style-type: none"> Maintain its position that "houses are for living, not for speculation". Carry out policies appropriate for each region.
Opening-Up Policies	<ul style="list-style-type: none"> Deepen reform and opening-up, attract and secure more foreign investment. Accelerate progress in negotiating multilateral and bilateral free trade agreements.

Source: The State Council, MUFG Bank Economic Research Office

(Translated by Elizabeth Foster)

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