

## China explores achieving medium and long-term growth with an expansion of “new infrastructure investment”

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The Chinese economy experienced an unprecedented shock at the start of the year due to COVID-19, but it is now recovering after the infection was brought under control for the most part in early spring. Although retail sales have remained below last year’s level since the start of this year, year-on-year growth of production and investment turned positive in April and started to accelerate in May (Chart 1).

The Chinese government’s decision to stimulate an economic recovery with investment during a significant economic slump was also seen during the global financial crisis. However, comparing its economic policies during that time with its policies now reveals some differences. During the global financial crisis, the government underpinned the economy with conventional infrastructure investment, such as rail and road maintenance and improvement, but a number of these investments were deemed unprofitable. In light of the excess debt which resulted from this conventional investment, this time the government is focusing on “new infrastructure investment”.

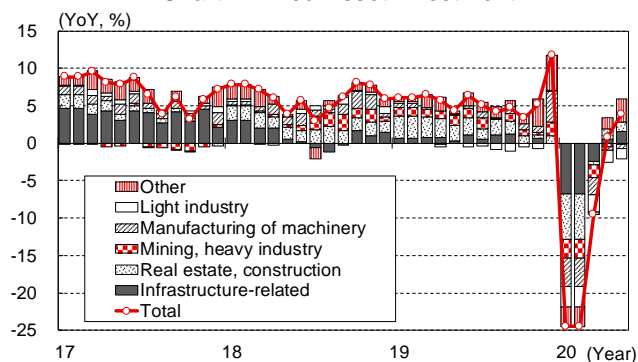
“New infrastructure investment” is a category that was originally raised at the Central Economic Work Conference in December 2018 (Table 1). That year was the year when tension over trade between the US and China was at its height – the struggle with the US over technological hegemony was heating up and Chinese companies with cutting-edge technology, such as Huawei, experienced a growing headwind overseas. Amid this situation, it is thought the Chinese government needed investment in information and technology infrastructure in order to achieve its aim of “regeneration through one’s own efforts”. Currently, it appears “new infrastructure investment” also has implications as a means to overcome COVID-19 and has been covered at various meetings every month since February, when COVID-19 was spreading. It appears that the government is throwing its weight behind “new infrastructure investment”; at the National People’s Congress in May, it decided to expand the framework for issuing special local government bonds (RMB 3.75 trillion in 2020, an increase of RMB 1.6 trillion from the previous year) and it declared that the funds would be used to “step up construction of new infrastructure, develop next-generation information networks and expand the use of 5G”.

Although a rise in debt as China expands its infrastructure investment seems unavoidable, it will be important to keep an eye on whether or not China can balance this rise in debt with the

energetic growth of its economy in the medium and long term, as well as looking out for developments in the future, including its technology race with the US.

\*“New infrastructure investment” is comprised of 3 fields: information infrastructure (5G, IoT), fusion infrastructure (a shift away from conventional technology using AI) and innovation infrastructure (contributors to technology development and product development, such as science and technology).

Chart 1: Fixed Asset Investment



Note: "Infrastructure-related" covers transport, storage, postal services, water conservancy, environment and utility management. New infrastructure investment is not just contained within "infrastructure-related", but is likely included in other items too

Source: National Bureau of Statistics of China, MUFG Bank Economic Research Office

Table 1: Meetings Where "New Infrastructure Investment" Was Raised

Date	Meeting	Main Points
Dec 2018	Central Economic Work Conference	Accelerate commercialisation of 5G and construction of new infrastructure, such as AI
Mar 2019	National People's Congress	Strengthen next-generation new infrastructure construction
Jul	CPC Political Bureau Standing Committee meeting	Accelerate construction of new infrastructure, such as information networks
Dec	Central Economic Work Conference	Strengthen construction of infrastructure, such as information networks, and promote improvements in industry and consumption
Jan 2020	State Council Executive meeting	Launch measures to support investment in new infrastructure, such as information networks
Feb	CPC Political Bureau Standing Committee meeting	Develop conventional and new infrastructure, build a system of modern infrastructure which is smart, green and safe
Mar	CPC Political Bureau Standing Committee meeting	Accelerate construction of new infrastructure, such as a 5G network and data centres
Apr	State Council Executive meeting	Accelerate construction of new infrastructure, especially that related to IT, such as internet facilities
May	National People's Congress	Strengthen new infrastructure development, develop next-generation information network

Source: Various news reports, MUFG Bank Economic Research Office

(Translated by Elizabeth Foster)

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