

The Chinese government has set its sights on mid-to-long-term growth by strengthening its digital economy

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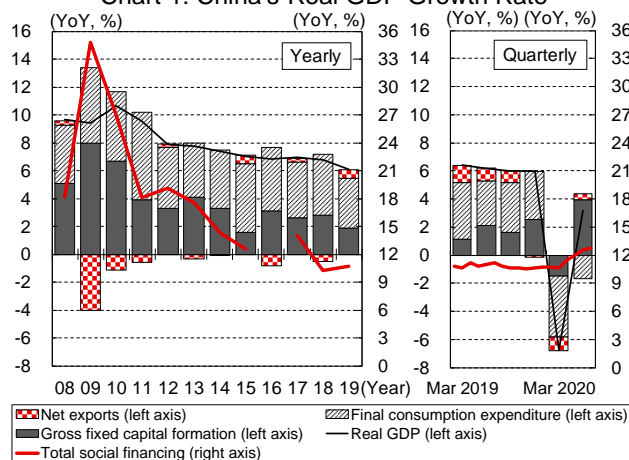
China's real GDP growth rate for the April-June quarter was 3.2% YoY: a sharp recovery from -6.8% YoY the previous quarter (Chart 1). This was due to an easing of restrictions on economic activities as China brings its number of new COVID-19 cases under control for the most part, as well as a government-led restart of production.

Currently, the amount of total social financing is increasing at a pace of 2% points compared with before COVID-19. When this growth is placed alongside the 17% points that occurred between the end of 2008 and the end of 2009 during the global financial crisis, the pace appears fairly gradual. At the time of the global financial crisis, the economic recovery was centred on domestic demand and was the result of highly accelerated investment, which in turn caused an increase in debt. On the other hand, during the current COVID-19 pandemic, the government appears to be searching for a way to achieve economic growth in the medium-to-long term by moving forwards with digitalisation and increasing the quality and efficiency of economic development while also remaining cautious about ensuring any source of excess debt will not remain in the future. For example, when the Chinese government expanded its framework for issuing special local government bonds, which are used to fund infrastructure investment, it emphasised the “development of new infrastructure” (investment in 5G, IoT and scientific technology) as the purpose of the funds, and it appears to have plans to tighten investment screening at the financing stage. Turning to consumption and production, in its guidelines for Supporting the Sound Development of New Businesses and Models, Energising Consumption Markets and Leading the Expansion of Employment published on the 14th July, the government announced it will “place particular emphasis on development of the digital economy” (Table 1). These guidelines were published by the National Development and Reform Commission together with 13 other ministries and institutions, such as the Ministry of Commerce, and lays out 15 areas that the Chinese government will support, such as energising new consumption markets that fuse online with offline, constructing a virtual industry by accelerating the digital reform of industries and developing an “unmanned economy” that uses new technology.

This strengthening of its digital economy by China is not only a response to the new lifestyle of living with COVID-19, but it could also be a means of surpassing the US in their battle for technological hegemony, which is becoming more intense. China surprised the world with its digitalisation at the start of the century, but whether or not it can achieve a more sophisticated,

new digitalisation while also dealing with its friction with the US will be a deciding factor in the strength of its future economic growth in the medium and long term.

Chart 1: China's Real GDP Growth Rate



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

Table 1: Guidelines for Supporting the Sound Development of New Businesses and Models, Energising Consumption Markets and Leading the Expansion of Employment

<p>Using online services and energising new consumption markets</p> <ul style="list-style-type: none"> Construct an education framework that merges online and offline Proactive use of online medical care Encourage remote working Continued improvement of digital governance. Accelerated streamlining of new infrastructure such as 5G
<p>Accelerating digital reform of industries to give a new boost to the economy</p> <ul style="list-style-type: none"> Use of internet platforms to strengthen function of existing industries and improve value added Accelerate digital reforms of existing businesses Construct a virtual industry Develop an "unmanned economy" which uses new technology
<p>Encouraging the development of personal economies and expand consumption and labour employment opportunities</p> <ul style="list-style-type: none"> Decrease cost of starting an online business for sole proprietors and supply diverse employment opportunities Encourage second businesses and jobs, create an outline for various developments Increase protection for workers' interests in a flexible working system
<p>Creating and developing a sharing economy</p> <ul style="list-style-type: none"> Reform business models and develop new lifestyles and consumption in fields such as food delivery, joint purchases and purchasing medication online Encourage businesses to make use of crowds Remove unfair restrictions that have become a barrier to the sharing economy Encourage the opening-up of public data, such as population, transportation, communication, hygiene and health

Source: National Development and Reform Commission, MUFG Bank Economic Research Office

(Translated by Elizabeth Foster)

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