

The Chinese government aims to achieve “self-reliance through one’s own efforts” with medium-to-long term policies

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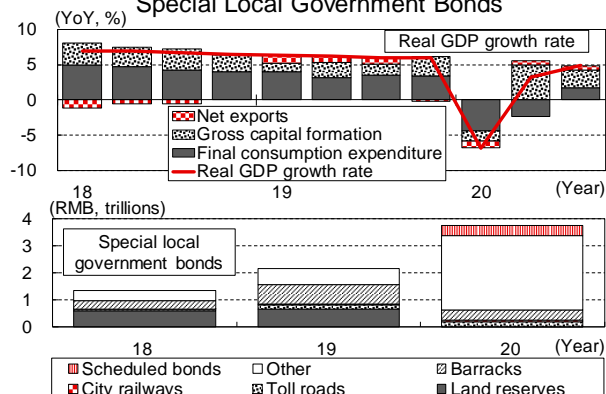
China’s real GDP growth rate rose to 4.9% YoY in the July-September quarter from 3.2% YoY the previous quarter. The breakdown of this figure reveals that, although it slowed from the previous quarter, growth of investment remains at roughly the same level it was at before the COVID-19 pandemic. Nevertheless, growth of consumption is still weak, despite turning positive. Taking this into account, it seems China’s recovery is not free from bumps (Chart 1 upper).

Looking at investment, which is affected by policy, the Chinese government has expanded its framework for issuing special local government bonds, which are used to fund infrastructure (RMB 3.75 trillion in 2020 with an increase of RMB 1.6 trillion from the previous year). This, together with a new regulation on how to use the funds, appears to have sparked the recovery in investment. Last year, more than 30% of special local government bonds were used for land reserves, which are not counted as investment (Chart 1 lower). The Chinese government has tightened controls on the use of government bonds, and it has forbidden the use of bonds for land reserves. In addition, when it made its decision to raise the quota on special local government bond issuance at the National People’s Congress, the government placed greatest emphasis on the development of new infrastructure. As a result, the use of government bonds for land reserves remains below 1% at present, while those grouped under “other” have experienced a sharp rise, suggesting a considerable amount is being devoted to new investment, which is not classified as a separate item under the conventional system and so is included under “other”.

Meanwhile, consumption is still weak in places and the government, conscious of resolving current issues and achieving its medium-to-long-term growth target, announced its “Opinions Concerning New Operating States and New Models Guiding Accelerated Development of a New Model of Consumption” on 21st September (Table 1). This circular sets forth a promotion of “new consumption”, such as online education and medical care that makes use of technology like 5G and proposes the strengthening of the information infrastructure necessary to achieve this, like 5G and data centres. It maps out an expansion of online consumption under the assumption of life with COVID-19. In addition, the government advocated for establishing regulations and improving policies within the next three to five years, and established a premise for future city development and the cultivation of major enterprises. The circular shows the government’s aim to further develop the implementation of world-leading digital technology into society.

The government announced policies in August to nurture its semiconductor industry, which in turn will support its policies to stimulate new consumption mentioned above on the hardware front. At the meeting of the Communist Party's Central Committee in October, the improvement of China's capacity for innovation and the strengthening of its domestic market were raised as economic and social targets for the 14th five-year plan (2021 to 2025). China is preparing to tackle difficult issues, such as combining prevention of infection and economic activities, and the growing intensity of its conflict with the US and, in the medium-to-long term, it also aims to change the structure of its economy and increase its growth potential through "self-reliance through one's own efforts".

Chart 1: China's Real GDP Growth Rate and Purpose of Special Local Government Bonds



Note: Breakdown of special local government bonds as of 16th October
 Source: National Bureau of Statistics of China, Wind, MUFG Bank Economic Research Office

Table 1: Opinions Concerning New Operating States and New Models Guiding Accelerated Development of a New Model of Consumption

Integrating online and offline consumption
<ul style="list-style-type: none"> Improve quality using 5G, promote new consumption business models such as online medical care and smart tourism Integrate online and offline consumption Support enterprises in digital services to go overseas
Speed up infrastructure for new consumption and ensure service ability
<ul style="list-style-type: none"> Strengthen construction of information networks, such as 5G, data centres and industrial internet Establish a digital commodity circulation system Promote development of technology, such as AI. Speed up application of blockchain in digital scenarios, such as cross-border remittance Encourage commercial use of data in a safe and orderly manner Cultivate international consumption centres
Create a better environment for new types of consumption
<ul style="list-style-type: none"> Catch up with relevant laws and regulations Set regulations that suit the development of new consumption Apply stringent crackdowns on sales of forged commodities and infringements on intellectual property rights Simplify permit handling for new retail forms and models
Explore fiscal support for boosting new consumption
<ul style="list-style-type: none"> Explore tax policies designed for boosting new consumption, enable tax and fee cuts Encourage financial institutions to develop products and services suited to the characteristics of enterprises engaged in new consumption Support new job patterns and flexible occupations with improvements in labour security systems

Source: The State Council, MUFG Bank Economic Research Office

Translated by Elizabeth Foster

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