

China focusing more closely on science and tech to achieve stable growth in medium and long term

SHOHEI TAKASE
ECONOMIC RESEARCH OFFICE

MUFG Bank, Ltd.
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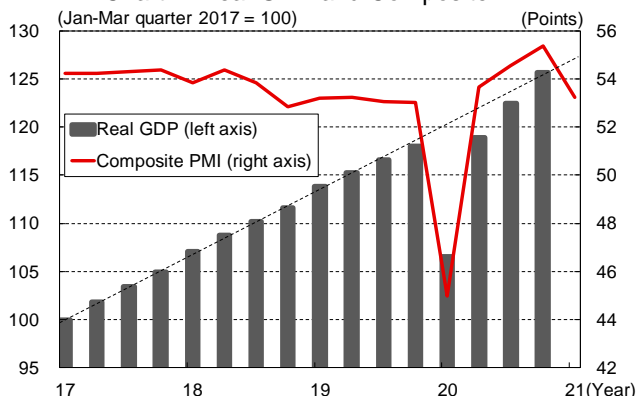
The Chinese economy is succeeding in curbing the spread of COVID-19 and it appears the trajectory of its growth has already returned to the path it was on before the pandemic. The level of real GDP in the October-December quarter last year is roughly in line with the trend established between 2017 and 2019 before the pandemic (Chart 1). Composite PMI, on the other hand, peaked at the end of the year and has already started to fall, but this does not necessarily mean a decline in business sentiment and instead suggests that the Chinese economy is reaching the end of its catch-up phase after the slump caused by the COVID-19 pandemic.

The National People's Congress was held from 5th to 11th March. In order to remain flexible in light of the significant levels of uncertainty caused by the pandemic, Congress did not announce its growth rate target for the next five years in its fourteenth Five-Year Plan (2021 to 2025), as was the case in its communique of the fifth plenary session. However, an important point to note is that it did put forward an increase in spending on research and development (R&D) of 7% or more a year on average as a new target. Although the scale of China's spending on R&D (PPP basis) was only around half of that of the US in 2010, it increased to around 80% in 2018. Given that US spending on R&D has increased by around 5% YoY in recent years, it is possible China's spending will be on the same scale in 2025 if it achieves its aforementioned target (Chart 2). Furthermore, targets have also been set for the breakdown of R&D costs; a target has been set to increase the ratio of basic research to support science and technology innovation at more than 8% from its current level of around 6%, which takes into consideration the technological gap between China and advanced economies, as is typically the case with semiconductors. Meanwhile, in its "Priorities for 2021", China set a growth rate target of "more than 6.0% YoY" for real GDP – a more conservative target than most economists' predictions. This suggests that the focal point of their economic policy has shifted from boosting the economy in the near term by generating demand, to achieving stable growth in the medium and long term by increasing technological and supply capabilities.

According to the Science and Technology Indicators 2020 published by Japan's National Institute of Science and Technology Policy under the Ministry of Education, Culture, Sports, Science and Technology, China already overtook the US in 2018 in terms of the number of researchers and scientific publications. Assuming China will continue to focus its attention on

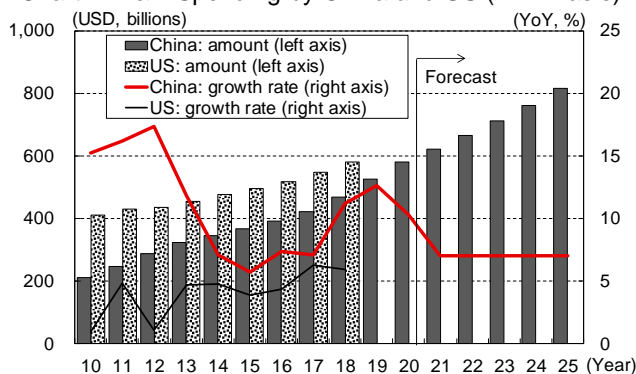
the field of science and technology as mentioned above, it is highly likely that its presence as a technological power will increase further, despite its ongoing conflict with the US.

Chart 1: Real GDP and Composite PMI



Note: The most recent figure for "composite PMI" is an average of the result for January and February
 Source: National Bureau of Statistics of China, MUFG Bank Economic Research Office

Chart 2: R&D Spending by China and US (PPP Basis)



Note: For "China" from 2019 calculated assuming USD 1 = RMB 4.2 (OECD's PPP rate as of 2018). Forecast from 2021 calculated assuming an RMB-denominated growth rate of 7% YoY (lower limit of NPC's target)
 Source: National Bureau of Statistics of China, OECD, MUFG Bank Economic Research Office

Translated by Elizabeth Foster

For further details, please contact the Economic Research Office, MUFG Bank

Managing Director, Rei Tsuruta Tel: +81-(0)3-3240-3204

Written by Shohei Takase <Shiyouhei_takase@mufg.jp>

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