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**China's economy after Covid-19.**

## **China's economy today.**

- In the first quarter 2020 China's GDP fell by 7%, but expanded by 4.9% on a yearly base in the third quarter of 2020.
- The last IMF forecasts are that in the whole 2020 GDP is likely to grow by 1.9%.
- The stronger push came from industrial production that increased in September by 6.9%.
- The recovery shows signs of extending to consumption: retail sales increased in October by 3.3%.

- China's domestic growth has led to an increase in imports, but exports increased more.
- Hence, the current external surplus has started to increase again reaching 4-5% of the GDP.
- The exchange rate increased this year by more than 5.5% on a yearly basis.

- At the meeting of the National People Congress on May 2020, premier Li Keqiang announced that the public budget deficit would increase in 2020 to the 3.6% of the GDP from the 2.6% in 2019.
- However the expansionary fiscal policy this time is less strong than that used after the crisis of 2008-2009.
- Initially the Bank of People, China's central bank, has increased liquidity and reduced interest rates; but later the monetary strategy became less expansionary.

- Behind this prudent attitude of the leadership it is likely to be the fear of an increase in the indebtedness of the economy.
- A sign is a number of defaults of state-owned companies mainly financed by debt.
- The head of the Financial and Stability Committee, vice-premier Liu He, has declared that a “zero tolerance” approach will be taken towards misconducts.
- Hence, the Chinese authorities are introducing new rules limiting borrowing on debt.

- China's good economic performance has however helped a growth in the international demand for its assets.
- The increasing inflow of investment does not seem to have been discouraged by actions of Chinese regulators that have created problems in Hong Kong and Shanghai stock exchanges.
- The most important example is the stopping of the 37 billion dollars IPO that Ant Financial (the financial branch of Alibaba) was prepared to launch in the two stock exchanges.

- During a financial conference in Shanghai on October 24, 2020, Jack Ma, the founder of Alibaba, accused Chinese banks, most state-owned, of having a “pawnshop mentality” that requires excessive collateral and guarantees to extend credit.
- A few days later, Jack Ma was summoned by Chinese regulators in Beijing for “supervisory interviews” and soon afterwards the IPO was suspended.
- This was the first major step of Chinese regulators towards curbing the monopolistic power of tech giants.

- New antitrust regulations have been proposed, covering how companies should use customer data, how they should price their offerings, what sort of promotions and subsidies they could use to attract customers.
- The new antitrust regulations are targeted at exclusivity clauses used to hinder competition.
- An example is users being prevented from using Tencent's WeChat Pay to purchase products in Alibaba's Taobao online store.



## **Long run perspectives of the Chinese economy and its role in the world economy.**

- The recovery from the Covid-19 downturn represents an opportunity for China to correct the long run model of economic growth.
- The most importance correction is the increasing role that must be played by the domestic consumption demand.
- As this will imply a lower weight of investments and exports on GDP, the risk is that of a lower rate of growth in the medium-long run.

- This outcome is in a sense unavoidable the more China approaches a mature economy.
- However it may be compensated by a higher efficiency, particularly in the state-owned enterprises (SOE) and in infrastructures of the traditional type (highways, high speed railways, ports and airports).
- The economic growth should become more sustainable in an environmental and social science.

- The willingness of China to participate in the fight against global warming and climate change through reduction in greenhouse gases has been confirmed by the ambitious announcement of President Xi Jinping to the online assembly of UN to arrive at “zero net” emission by 2060.
- However, China’s economy remains too dependent on coal; investments in coal-fired electricity should be abandoned.

- In the social area there is the need of upgrading both the social security and the health systems organizing them so that to overcoming the still large differences between the urban and the rural areas.
- This will also contribute to reduce the signs of inequality that are again appearing in China, and that have been aggravated by the epidemic of Covid-19.

- It is expected that these elements of re-adjustment of the model of economic growth in China would be addressed in the next 14<sup>th</sup> five year plan from 2021 to 2025.
- The plan's guidelines have been approved, at the end of October, by the 19<sup>th</sup> session of the Central Committee of the Chinese Communist Party.
- A further document was approved concerning a longer period with the title Vision 2035.

- The five year plan has a general target of a sustained economic development, but no quantitative index for an aimed GDP rate of growth is indicated.
- An important specific target is increasing “domestic circulation” (linked to the production’s development led by domestic demand) in the “dual circulation”, compared to “international circulation” (linked to China’s economic relations with the rest of the world).
- Other specific objectives are modernizing agriculture, strengthening health and social security systems, making further steps forward towards an “ecological civilization”, improving public administration.

- The development of new technologies to make China a world leader in innovation is placed as a crucial objective within a longer horizon in the other document approved by the Central Committee, Vision 2035.
- But here China has to face the drastic change in the relations with the Western countries led by the initiatives of the Trump administration.
- And it is not clear if anything will change with the new American President Joe Biden.

- In many sectors such as mobile payments, e-commerce, facial recognition, electric vehicles, livestreaming, China is now far ahead of the United States.
- But in other crucial sectors of the digital technology frontier, such as design and manufacture of the semiconductor integrated circuits (“chips”) that power electronics and smartphones, China is lagging behind America.
- More time is needed to understand if and when China will come out from this situation.



- And even if China will succeed, it is not clear whether this will happen reducing the risk of a technological decoupling or “splinternet”.
- What is clear is that China has not given up its attempt towards a leadership position in the world economy.
- Although there are signs of a lower commitment in loans related to the Belt and Road project, a signal is the role of China in the Regional Comprehensive Economic Partnership (RCEP) signed on November 15 by the leaders from 15 Asia-Pacific nations, among which are also Australia, Japan, New Zealand and South Korea.

- It is one of the biggest trade deals in history, seeking to reduce barriers in an area covering a third of the world's economic output.
- After Trump withdrew from the TPP, the US now sits outside both the main trading groups in Asia.
- Neither the EU nor the US, the world's traditional trade superpowers, will have any voice when Asia sets its trading rules.
- The risk is that a further element of economic decoupling between East and West will add to the technological one.