Insights on China’s post-outbreak economic relief package
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Highlights

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In the Politburo Standing Committee Meeting on 4 March, President Xi Jinping evaluated the current situation of the novel coronavirus infection (COVID-19) and its impact on economic and social development, according to Xinhua\(^1\), where he confirmed the outbreak has shown early signs of improvement. While Hubei, the epicenter of the outbreak, remains in a critical stage, and the risk of contagion may rise again due to heavier passenger traffic, he noted that the rest of the country will have to increasingly focus on restoring social order and keeping economic impact to a minimum.

While the National People’s Congress (NPC), which typically releases China’s annual development targets, has been postponed due to the outbreak, the President’s comments may amount to an outline of the government’s plan to support the economy. Specifically, there are three key directions that will lead to new opportunities for corporates in the coming months.

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1. [www.xinhuanet.com/politics/2020-03/04/c_1125663518.htm](http://www.xinhuanet.com/politics/2020-03/04/c_1125663518.htm)
New packages to mobilize investment

New infrastructure projects pledged by local governments

First, President Xi highlighted the plan to speed up infrastructure investment in order to stabilize the economy. That includes more spending on new infrastructure projects such as the construction of 5G network and data centers. At least 7 of 31 Chinese provinces have published long lists of investment projects in the last two months, with a combined investment of around RMB40t, including RMB3.5t to be spent in 2020 alone\textsuperscript{2}.

The pledges for increased spending are echoed by the announcement of the Ministry of Finance (MOF) that local governments will be allowed to issue more bonds for infrastructure construction and the debate on temporary tax breaks will be accelerated. The new quota, together with the previous early allocation announced in November 2019, already reached RMB1.3t or 60\% of the total new special purpose bond quota in 2019\textsuperscript{3}. The official annual quota is normally set during the NPC.

\textsuperscript{2} finance.china.com.cn/news/20200306/5213935.shtml
\textsuperscript{3} yss.mof.gov.cn/gongzuodongtai/202002/t20200211_3468495.htm
Helping foreign investors in project implementation

In addition, President Xi emphasized the role of foreign investment and pledged for effective implementation of the foreign investment law, which have been in effect since 1 January 2020. In particular, he highlighted the need to 1) proactively support foreign businesses that have problems resuming production after the outbreak, 2) ensure the success of key foreign investment projects, and 3) expand China’s financial market opening. New measures are already in place to support the financial sector to achieve its reform target in 2020⁴.

Foreign investment plays a key role in boosting China’s economic resilience

Second, as the leadership emphasized in the previous weeks⁵, the key economic challenge following the outbreak is production resumption, particularly on mobilizing workers to return to employment in major cities after the extended Lunar New Year holiday. Compared to previous acknowledgements of the issue, however, the focus of President Xi’s comments is set on safeguarding China’s position in the global supply chain. His comments pledged for increased connectivity between upstream and downstream industries, between leading businesses with their suppliers at various levels, and between domestic businesses with their external counterparts.

In February, China’s manufacturing Purchasing Managing Index (PMI) dropped to 35.7, the lowest since the index was founded in 2005⁶. By component, the headline PMI was lowered by the decline in new order (including export order) and supplier distribution delay than reduced employment. Downbeat production has led to a 17.2%YoY decline in China’s exports in January-February in US dollar terms.

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⁵. www.xinhuanet.com/politics/leaders/2020-02/23/c_1125616016.htm
⁶. www.stats.gov.cn/tjsj/zxfb/202002/t20200229_1729136.html
China’s hiatus in production has led to widespread repercussions in the global supply chain, and some businesses are considering to review their supply structure. However, as China has become not only one of the world’s largest producers but also one of its largest consumers, and it is the only country that has all industries based on the classification by the United Nations, a stable global supply chain would first and foremost call for a stable Chinese economy.

Capturing stifled consumption demand through new drivers

Third, President Xi also called for releasing the consumption demand that was stifled by the outbreak and new economic drivers to offset the loss in the economy. Online sales are already a significant part of total retail sales in China, but when social distancing brought the traditional service sector to a halt during the outbreak, the digital economy immediately has become indispensable. During the Lunar New Year, mobile internet data usage increased by 36.4% YoY, according to the Ministry of Industry and Information Technology (MIIT). Online sales of fresh produce and household items have soared in major cities, while sales of big-ticket items such as automobiles have also moved online.

Devices reaching 15% daily time spent in 2020

Source: eMarketer

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Digital strategy ride on new government priority

Outbreak control measures also pushed the boundary of technology adoption. President Xi pledged in a meeting of the Central Committee for Reform Deepening on 14 February for increasing use of big data, artificial intelligence, and cloud computing for the analysis and surveillance of the outbreak, treatment, and medical resources allocation. It suggests that China’s health care system will likely move up to a new stage in digital adaptation.

With the widespread adoption of online learning, remote workspace, digital government platforms, and online health care, the outbreak brought the digital economy in China to center stage. To promote further digitalization, it is also expected that supportive policies will likely shift to high gear in the coming months. The change may be irreversible, and this will go a long way toward boosting China’s economic resilience. As such, this is likely a time for the business sector to review its digital strategy in order to seek and seize opportunities.

15. Ernst & Young China has articles covering specific opportunities such as 弯道超车, 数字营销, 助力品牌实现中国市场扩张, 科技行业于疫情下的前景发展——TMT行业抗疫系列, and 危机之下的长远之策, 加速构建数字化组织, Ernst & Young China, 2020 (Chinese only).
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