

Economic Watch

China | Understanding the policy signals of the July CPC Politburo meeting

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Amid the global contagion of COVID-19, the ongoing V-shape recovery of Chinese economy and the deteriorating Sino-US relation, the eye-catching Political Bureau of the Communist Party of China (CPC) meeting concluded on July 30th that will chart the development path of Chinese economy in 2H 2020 and ahead. The Politburo meeting focused on analyzing the current and medium-to-long term economic situation and clarifying the economic policy stance in the 2H 2020.

The main take-aways of important policy moves from the CPC Politburo meeting

- **The “dual circulation” growth model with a focus on “internal-circulation” is the new strategy for Chinese authorities in coping with new global circumstances.** The implications of this new strategy are multifaceted: First, the “internal-circulation” has two important perspectives: “consumption internal-circulation” and “supply-chain internal-circulation”. The former simply means domestic market comes first amid the global expansion of COVID-19 pandemic, indicating China needs to focus on stimulating domestic demand in the near-term as the lockdown of other countries imposed. The latter suggests to strengthen China’s grip on supply chain and reduce the reliance on foreign suppliers in key technology field amid the decoupling of China and the US. Second, “dual circulation”, ideally means the two pillars of external demand and domestic demand to support growth. That means, the trade sector in the medium to long term, together with foreign investment and capital inflows etc. are still crucial in cushioning Chinese economy. Beyond that, “dual circulation” also indicates to continue to press ahead opening-up measures and financial liberalization.
- **The gradual stimulus policy normalization in 2H amid ongoing V-shape recovery is expected.** In the pandemic time, China has achieved the “first-in, first-out” strategy with the Q2 GDP growth realizing the V-shape recovery. The better-than-expected recovery indicates the stimulus policy will gradually be normalized in 2H. Taking lessons of 2008-09 GFC RMB 4 trillion stimulus package which led to debt overhang and asset bubbles in the following 10 years, the authorities will not promulgate a new round of stimulus in 2H but continue the rollout of the previous announced measures, if the current economic situation maintains. In particular, we expect the authorities will adopt a more conservative interest rate cut, thus we anticipate there will be no LPR cut or at most one cut in 2H 2020; while the fiscal policy will pay more attention on the efficiency and quality to allocate the fiscal stimulus funds on different investment projects.
- **The post-pandemic growth engines of Chinese economy are anticipated to maintain a sustainable growth recovery.** The Politburo meeting also clarifies the post-pandemic growth engines in China. First, the authorities will take efforts to stimulate domestic consumption. After all, the V-shape recovery has been unbalanced tilting towards the production side while demand side lagged behind in the past months. Stimulating domestic demand through various targeted fiscal and monetary measures is the key to maintain a sustainable growth recovery. Second, the new infrastructure investment will be the main direction of the future investment, including artificial intelligence, blockchain, cloud computing, data centers and 5G. Third, new

urbanization, led by five megalopolis and metropolitan areas, will be the new engine to stimulate regional growth and real estate market.

Summary

The July Politburo meeting emphasized the importance of domestic market for Chinese economic growth amid COVID-19 pandemic, that means, the “internal circulation” will be the focus of “dual circulation” strategy. This suggests an official shift away from an export-led growth model toward a sharper focus on building an economy with stronger domestic drivers. In addition, the meeting also confirmed that the stimulus policy will be gradually normalized with ongoing rollout of targeted fiscal stimulus and a more conservative monetary policy stance. Last but not least, the growth engines in post-pandemic time which include domestic consumption, new infrastructure and new urbanization are expected to help maintain growth momentum in 2H 2020.

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