What can China do to save its economy?

Pumping more money into 'new infrastructure' and 'GDPism' won't be enough in the face of daunting short- and long-term challenges

What more can China do to save its economy? What is in the works? It's likely a heavy game plan will emerge at the National People's Congress, which has been postponed because of the outbreak. Although no new date has been announced for the next sitting, there has been much discussion in policy circles on steps needed to reverse the economy. For now, we're seeing the outlines of a Chinese version of non-liberalism, or what some observers have dubbed "GDPism," which is the single-minded pursuit of economic growth regardless of the cost.

THREE-PRONGED RESCUE EFFORT
There are broadly three prongs or sets of measures to this economic recovery effort:

The first is investment in so-called "new infrastructure."

After the 2008 global financial crisis, China's shock-stimulus economy was as well led with strings attached. But the language has changed.

The question now is whether Beijing will deploy a stimulus with a similar largesse spending package. Indeed, China's provinces have announced a string of major projects in the new wave of economic development, starting from fiscal year 2020. From the available figures, the total investment in these projects will come up to nearly 3 trillion yuan ($440 billion). It is estimated that this will lift the economy from its "new infrastructure." The 2008 spending package funded traditional infrastructure such as highways, bridges and high-speed rail lines across the country. The package led to big construction projects, and steel, glass and cement factories were encouraged to enter the new development. While this time, the government is focused on technological parks, named artificial intelligence, blockchain, closed-loop and big data.

The second prong of the economic revival plan is to increase the reliance on market mechanisms in factors of production such as land, capital and labour with the aim to promote economic growth. The central government has announced that it will do whatever is necessary to promote the power of approval for local government authorities.

The government will empower the local authorities in the past approved budget projects that are technically feasible and can be carried out with a few trillion yuan ($1.5 trillion). The government will also introduce a new regulatory framework to deal with the issue of silos in government procedures.

The third prong is the stimulus consuming by lowering the barriers to consumption. Like many other countries, China has so far focused on helping companies stay afloat and help paying their workers. But mainstream economists are increasingly recommending that more be done -- namely, hand out vouchers or pay people to make spending and thereby keep market demand alive.

Indeed, some local governments have begun to do so. The Hangzhou municipal government has been active in issuing electronic vouchers for people to spend. The vouches are worth $70 and sends direct financial assistance to the general public as a relief package. But if the government simply sends cheques to people, they may choose not to spend it immediately, but put the money into bank savings accounts, deferring the purpose of generating consumption.

The shortcoming:
Will these measures be sufficient to save China's economy? The answer is no. It is understandable that the government is reluctant to issue a spending package similar to the 2008. The 2008 stimulus budget was spent on many problems, such as social overheads of the economy, capital inflows, financial market mergers, expansion of production capacity, and ensuring social stability.

Indeed, until today, China is still recovering from the crisis. It has become one of the world's most indebted economies in less than a decade. The debt burden is on the banks, the local governments and the trade-off of social stability and financial stability. Meanwhile, the application of new technologies such as 5G will have a positive impact on the economy. The central government and state-run companies threaten to decide the fate of the financial system and hold back long-term growth. Furthermore, traditional infrastructure is over-supplied in most parts of the country. In this sense, it is a good move to invest in new infrastructure. But these new forms of infrastructure are inadequate for the economy. China has about 1.5 million 5G base stations that have been rolled out since the 2008 financial crisis and has become more diverse and more complex.

When applying these new technologies such as 5G, the government will provide a long-term demand for investment and boost infrastructure. The government can stimulate the economy by focusing on the new infrastructure investment and attract more private investment.

To promote landing by extending the spending approved from Beijing to provincial government, the immediate response is to ensure the government can continue to do business as usual. Carefully crafted institutions are needed to ensure the smooth transition.

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Beijing is thinking of the regions like Beijing, Guangdong and Hainan, which have been added to the "harmonious" list of regions. The government is looking at other regions to stimulate the demand for investment and consumption.

More important, the government should not focus on short-term measures but instead develop the "call for new infrastructure." In the long run, the government should focus on the long-term sustainability of the economy.

Over the decades, while China has harnessed rapid growth on economic gains, that has come at a great price of inequality and social instability.