Boosting Consumption and Investment for a Stable and High-Quality Economy

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China's economy is off to a stable start this year. But complex developments abroad and COVID-19 flare-ups at home are creating mounting challenges to economic growth. Still, the fundamentals for sound growth in the long run remain unchanged, as both consumption and investment still have much room for growth given the resilience and potential of our economy. In this regard, the CPC Central Committee and the State Council have recently made a series of major decisions and arrangements. We should ensure that these policies and measures aiming to support the stable development of the real economy are thoroughly implemented, such that consumption and investment can respectively play their basic and key roles in the economy, to promote high-quality economic development.

I. Fully Tapping into the Potential of Consumption to Promote its Sustained Recovery

Consumption is an essential part and engine for the domestic economic flows. In Q1, the final consumption expenditures were the country's largest economic driver, contributing 69.4 percent of the GDP growth. With China's hyper-sized market—over 1.4 billion people, a middle class of around 400 million, and a per capita GDP of over USD10,000—there is tremendous potential for consumption growth. But recovery in consumption, and contact-based consumption especially, is slow at present due to the pandemic. To address this, on April 25 the General Office of the State Council issued the *Opinions on Further Unleashing Consumption Potential and Promoting Sustained Consumption Recovery*. Putting forward a comprehensive package of 20 key initiatives in 5 areas, the document aims to boost consumption and drive its sustained recovery by stabilizing basic spendings, ensuring market supply, and promoting new consumption needs.

First, taking comprehensive measures to respond to the pandemic and promote the orderly recovery of consumption. Targeted measures should be taken for areas and people across income and spending levels to unleash the potential of consumption, cultivate new spending areas, and reinforce the fundamental role of consumption in economic development.

Second, stabilizing the spending level of low-income groups through priority employment, subsidies, and supporting policies. In recent years China has seen better long-term mechanisms for employment support, greater magnitude and applicability of tax and fee reduction policies, and faster refund of tax credits. All of these help low-income groups find jobs and ensure they can meet their daily spending needs. Subsidies to the low-income groups will also boost their spending capacity.

Third, creating new consumption models to tap into the potentials of "new consumption." Data from the China Internet Network Information Center (CNNIC) show that as of the end of 2021, China's internet penetration rate was 73 percent with 1.032 billion internet users, representing the world's largest and most promising "new consumption" demographic. By continuing to build the infrastructures for new consumption, expanding consumption scenarios, and driving the integration of online and offline spending, the country will boost smart products and services and other "Intelligent + X" spendings, foster new consumption paradigms, and drive the growth of new consumption. Regular pandemic containment policies have buoyed the demand for online shopping and contact-free transactions, both playing into the strength of new consumption.

Fourth, boosting the consumption of healthcare, elderly care, and childcare services. China has an aging population. The country should therefore vigorously look into and expand the different tiers and kinds of healthcare services, accelerate senior-friendly infrastructure improvements and the development of smart products, and promote innovations in the smart healthcare and elderly care industries for more sophisticated healthcare spendings. Similarly, we should hasten the creation of an inclusive childcare services system, support the private sector to provide diversified yet standardized childcare services, and encourage domestic market players to develop a wider selection of safe and beneficial baby care products to meet the market demand for childcare services. On April 21, 2022, the General Office of the State Council issued the *Opinions on Promoting the Development of Individual Pensions*, supporting personal pensions development through tax incentives. This will help strengthen China's pension system, reduce the residents' need for precautionary savings, and increase current consumption. These pension reforms will thus have an growing positive impact on consumption.

Fifth, unleashing the potentials of county and rural consumers. As of end-2021, China had 160 million long-term residents in 1,472 counties and 90 million long-term urban residents across 394 county-level cities, together representing more than 50 percent of the country's population. From 2011 to 2021, rural residents outpaced urban residents by 3.72 percentage points in annual growth rate of average consumer spending level, indicating strong consumer demands in counties and rural regions and much potential for consumption upgrade. To turn this potential into reality, we should build robust county-level commercial systems and consumption infrastructures, help distribution channels and services reach out to these underserved consumers, make purchasing products and services easier for the rural population, and improve the delivery and quality of rural tourism and agritourism.

II. Expanding Productive Investment to Provide New Engines for Economic Growth

China's rapid progress toward the new form of industrialization, the broader application of information technologies, urbanization, and agricultural modernization has created a huge potential demand for investment. Therefore, promoting productive investment would produce the dual effect of reducing the downward pressure on the economy and optimizing the supply structure and, therefore, promote high-quality economic development.

First, accelerating the building of new types of infrastructures to create momentum for investment growth. The China Academy of Information and Communications Technology (CAICT) reports that China's digital economy stood at RMB39.2 trillion in 2020, or 38.6 percent of the GDP. Vital to a stronger, larger, and more sophisticated digital economy, the new types of infrastructures—5G network, data centers, next-generation supercomputers, cloud computing, and artificial intelligence platforms—in the key industries should be given greater fiscal and financial support. This would strengthen the foundations of the digital economy, shape industry development, and unleash the potential of investment growth.

Second, improving traditional infrastructures to address inadequacies and make up for the weak links. Transportation, energy, and water conservancy should be improved with priority on the establishment of a complete and strong nationwide network. We should ensure investments are sharply focused on the productive areas, take targeted actions to address current infrastructural deficiencies, and augment urban, agricultural, and rural infrastructures, so as to support the steady development of the urban and rural economies.

Third, mobilizing market entities in infrastructure investment. We should improve the environment for infrastructure investment, promote the well-regulated collaborations between the government and private capital, and better leverage the guidance and multiplier effect of government investment to fully mobilize private investment. We should also broaden the ways to raise long-term funding, such as through promoting the healthy development of real estate investment trusts (REITs) in the infrastructure sector by amending the relevant laws or introducing dedicated regulations, optimizing processes, and strengthening investor education. This would put the idle assets to productive use and create a virtuous cycle between stock assets and new investments.

Fourth, building a stable and healthy real estate market. While strictly adhering to the general principles of real estate market regulation and the policy goals, we should meet the market demand for necessary and better housing and improve the supply structure of the housing market. We should build more affordable rental housing and increase the financial support for them through tax policies. We should also improve the prudential management framework for real estate finance, implement city-specific housing credit policies, and support the reasonable financing needs of real estate enterprises.

Fifth, actively increasing productive investments in the manufacturing industry. The value added of China's manufacturing industry has grown from RMB13.03 trillion in 2010 to RMB31.38 trillion in 2021, ranking first in the world for 12 consecutive years. Productive investments in the manufacturing industry should be increased not only to maintain the growth momentum of today, but also to improve the industrial structure of tomorrow and add to the potential for future economic development. Therefore, we should further empower the manufacturing industry through finance in two ways. First, we should support traditional industries to transition to high-end, intelligent, and green ones. Second, we should leverage monetary policy instruments, such as central bank lending facilities for sci-tech innovation, to support technological innovation and the development of specialized, sophisticated, differentiated, and innovative enterprises, with a view to raising the core competitiveness of the manufacturing industries, promoting the research and development of key technologies, and fostering highly competitive and industry-leading businesses.

III. Developing Green Economy and Promoting Green and Low-Carbon Transition

Green, low-carbon, and sustainability is integral to China's high-quality development. Consequently, we should drive the green and low-carbon transiton of the economy, stimulate green consumption and investment, and promote nationwide green production and lifestyle in line with China's new development stage. This will not only empower China's high-quality economic growth, but also play an instrumental role in the sustainable development of our nation.

(I) Clarifying the key areas for green and low-carbon development

First, actively promoting the low-carbon transition of the energy structure. As the backbone of the economy and economic growth, the energy industry holds the greatest need and potential for emissions reduction. So long as clean and green power can be generated and delivered to the grid, we should develop a coordinated timetable for replacing fossil fuels and avoid any "one size fits all" approach. We should set a minimum output level for coal-fired power and unveil a mix of targeted tax, financial, and price policies to ensure the sustainability of coal-fired generating units and make our energy supply more resilient. We should also support the adoption of low-carbon energy technologies, especially energy storage, carbon capture and utilization, smart grid, retrofits for more adaptive coal-fired power generation, and other projects with significant emissions reduction effects.

Second, strengthening the foundations and implementing multiple measures to encourage green consumption. Green consumption is a new growth driver for China's economy and has far-reaching significance in promoting the green and low-carbon upgrade of the supply of goods and services. Therefore, we should accelerate the establishment of a unified labeling system for green products, develop a unified green label catalog, and offer labeling services for green consumption. At present, we can start with areas that are heavily affected by COVID-19 and coordinate e-commerce and payment platforms to offer a wider range of green products and services. Moreover, we should enhance incentives and constraints by encouraging local governments to provide tax incentives to financial institutions that offer green consumption credits and to increase the proportion of green products and services in government procurement contracts.

Third, facilitating the large-scale development of green buildings. According to the *14th Five-Year Plan for Energy Conservation in Buildings and Green Buildings*, by 2025 all newly built buildings in China's urban areas will be green. The plan calls for completing the efficiency upgrade of over 350 million square meters of existing buildings, building 50 million square meters of ultra-low and near-zero energy buildings, and increasing the annual share of prefabricated buildings in newly built urban buildings to 30 percent by 2025. Moreover, to align the financial industry with the green building industry, we should identify the criteria for green buildings as early as possible and promote the liability insurance for the green performance of buildings. Furthermore, we should step up support for the industrial chain by expanding the coverage of transition finance to the production and consumption of energy-efficient building materials. We should also set up an efficient, trusted information platform that tracks the lifecycle emissions of buildings to supply the necessary data for financial institutions to help tackle climate change and manage climate risks.

(II) Providing systematic financial support for green and low-carbon development

First, enhancing the basic institutional arrangements of green finance. We should strengthen the law-based disclosure of environmental information in the financial sector, such as by making further progress on a unified domestic environmental disclosure framework for green bonds, establishing environmental disclosure norms that are appropriate for most of the banking institutions across China, introducing nationally uniform environmental disclosure rules for transition finance, and becoming an active contributor to global standards for sustainable disclosure. Furthermore, we should implement subsidies for green bond certification to encourage the development of the green bond market, create a conducive institutional environment for fostering and enhancing the capacity of third-party certification agencies, and reduce the issuance cost. In addition, we should vigorously conduct carbon accounting in the financial sector and improve interbank information exchange.

Second, establishing a reliable and efficient carbon pricing framework. We should build a sophisticated national carbon market to lower the overall cost of emissions reduction through a market-oriented approach. We should keep the total emission allowance at a reasonable level and develop a sound approach for the allocation of initial emission allowances; improve the liquidity and pricing efficiency of the carbon market; enhance the capacity for carbon accounting and the quality of data; establish sound trading mechanisms and rules for the carbon market; and clarify the registration, trading, and settlement rules. Furthermore, we should steadily bring more industries into the mandatory emission control regime, develop financial products linked to emission allowances, and, while complying with the investor suitability principles, gradually expand the participant base of the carbon market.

Third, offering a wider range of financial products and services. We should develop innovative green finance and transition finance products, promote the issuance of carbon neutrality bonds and sustainability-linked bonds, and support green and low-carbon economic activities through various financial tools including loans, bonds, equity investment, and trusts. We should support private equities, venture capitals, and other risk-accommodating financial products to specifically resolve the high leverage ratio and insufficient collateral commonly seen in carbon-intensive enterprises. We should also advocate green investment, involve more players in the green finance and transition finance markets, and encourage green investors to monitor and support green and low-carbon economic activities.

Overall, China possesses the fundamentals, resilience, and potentials for economic growth. Much progress can be made in promoting consumption and investment, and the green transition is proceeding steadily. All these would help China to effectively respond to domestic and international challenges and put it well on the path to achieving this year’s economic growth target.