China Macro Outlook >

Yuan may appreciate further in 2022, but not hit 6 to the dollar

Growth continues to be weak. In November, industrial output grew 3.8% y/y, down 1.1 pps from Q3, much lower than the growth rates of recent years. Investment is also low, and was up 7.9% y/y, and down 1.2 pps from January-June. Its adjusted growth rate is instead negative. The real estate market is still cold: sales were down -14.2% y/y in November.

Consumption rose 3.9% y/y in November, down 1 pps from October, and its adjusted growth rate was 0.5% y/y, hitting its lowest level this year. But trade is still strong. Imports were up 26% y/y, and up 9.8 pps from Q3. Exports were up16.6% y/y.

Producer price growth finally reversed to a downward trend. The price level of the index of ex-factory industrial goods was the same as in October, and up 12.9% y/y, down 0.6 pps from October. PPI increased 1% m/m, 17.4% y/y from October, up 0.3 pps from October. We expect PPI growth to be slower next month. In November, CPI rose 2.3% y/y, up 0.8 pps from October. Its adjusted growth rate is the same as in October.

Principal financial indicators operated at low levels in November. M2 rose 8.5% y/y, comparable with 2018 and 2019. M1 rose 3%, up only 0.2 pps from the lowest growth rate this year. There is still uncertainty over whether money growth's downward trend will be reversed. Loan growth has been at its lowest since 1990, for three consecutive months.

The yuan has risen 2.6% against the dollar this year, even with the dollar strengthening 8% since May. This is in contrast to an unexpectedly weaker Chinese economy, and to real estate risks highlighted in the news headlines. Appreciation is likely due to strong export and investor confidence. We expect that the yuan may appreciate mildly in 2022, and that it won't fall below 6 against the dollar. This is based on an expected stronger dollar, and expectations of further growth slowdown in China in 2022.

Based in Shenzhen, Guangdong Province, China Development Institute (CDI) is a non-governmental and market-oriented think tank which was founded in 1989 on approval from the Chinese State Council. CDI was designated as one of the 25 China Top Think Tanks in 2015.

CDI develops solutions to public policy challenges through broad-scope and in-depth research to help advance China's reform and opening-up. CDI is committed to providing proactive, innovative and practical research and consultation for China's central and local governments and businesses at home and abroad. Its research and consultation is centered on macro strategy, regional economy, urbanization, industrial development, business strategy and decision-making.

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http://en.cdi.org.cn/

Editor-in-chief: Carol Feng, Sophie Li
Email:
carolf@cdi.org.cn, sophieli@cdi.org.cn
Tel/Fax: +86-755-8241 1011

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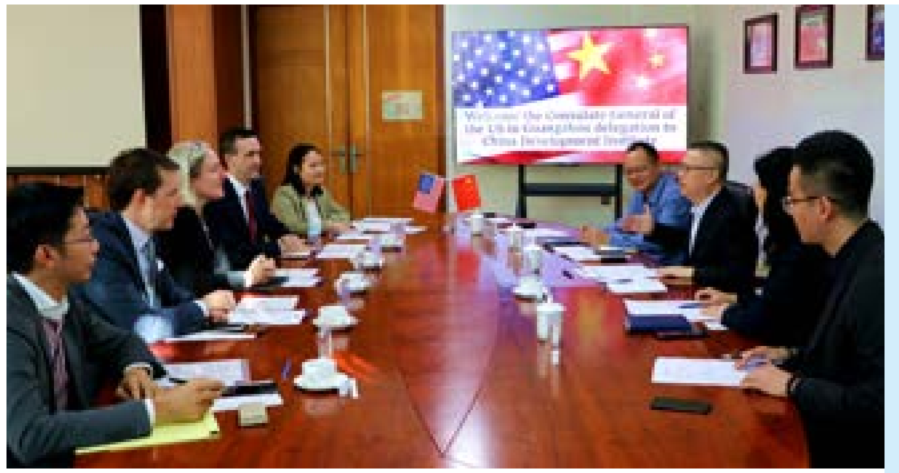

News >

Ms. Lisa K. Heller Consul General of the U.S. in Guangzhou visited CDI

On November 29, Ms. Lisa K. Heller met with Dr. Guo Wanda, Executive Vice President of CDI in Shenzhen, China. During the meeting, Dr. Guo briefly summarized China's overall economic performance in 2021 which was largely driven by the "dual circulation" development model. Given that the U.S. and China's economic growth will both face a number of challenges, such as the ongoing global pandemic, global inflation, and supply chain restructuring, both sides agreed that the U.S. and China should maintain a stable and open dialogue and stay focused on the long-term benefits, especially in the area of green economy and carbon neutrality. As two major emitters, the U.S. and China should work collaboratively towards reaching each other's respective carbon goals.

Event >

RCEP: Sino-Japan Economic and Trade Cooperation Outlook

On November 4th, 2021, China Development Institute and Pangoal Institution co-organized webinar on Sino-Japan industrial development and bilateral cooperation under RCEP.

China and Japan have large room for cooperation in emerging industries and the two sides should seek complementary development, scholars said on Thursday.

They made the remarks at an online seminar on China-Japan industrial cooperation and development, co-organized by the Shenzhen-based think tank China Development Institute and Beijing-based think tank Pangoal Institution.

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China and Japan to further open up bilateral industrial cooperation

The Regional Comprehensive Economic Partnership (RCEP) trade agreement will take effect as of January 1, 2022. In light of the changing regional economic landscape, on November 4, 2021, China Development Institute (CDI) and the Pangoal Institution co-organized a webinar themed Sino-Japan industrial development and bilateral cooperation under RCEP where scholars from both countries shared insights on how China-Japan economic cooperation and trade should respond to global economic uncertainties and how to bring China-Japan industrial cooperation to a higher level.

Dr. Guo Wanda, Executive Vice President of CDI, proposed that China and Japan bilateral cooperation should further open up in order to achieve win-win outcomes under the framework of the RCEP against the suffering global economy, while fully accommodating market demands and complementarily building on each party's respective strengths.

Yi Peng, Chairman of Pangoal Institution, suggested that China and Japan should explore cooperation in finding solutions to key issues such as the aging population and climate change. In addition, China can learn from Japan's rich and valuable experience in medical and recreational industries and clean energy technology development. Once RCEP comes into force, the rest of RCEP signing members will be motivated to accelerate their rectification process and attracted by the huge regional potential unleashed by it. The global economic recovery will undoubtedly benefit from it as well.

Global supply chain has been largely affected by Sino-U.S. trade frictions and the COVID-19 pandemic. Li Wei, professor at School of International Studies, Renmin University of China, suggested that since Japan and the United States share strong interests in reshaping the supply chain, industrial transfer is likely to occur among Japanese companies, namely the China-based Japanese enterprises that operate internationally, especially those in the manufacturing sector. Although it's less likely to see obvious industrial transfer among Japanese multinationals with China as their main consumer market.

Chi Hung Kwan, senior fellow at Nomura Institute of Capital Markets Research, said that China's "dual circulation" strategy will have impacts on the global economy as well as Sino-Japan cooperation. On one hand, China's growing domestic production will lead to reduced imports of intermediate products such as parts and components, and Japanese and Korean enterprises will face greater competitive pressure from their Chinese counterparts. On the other hand, with the continuous upgrading of China's domestic industries, more commodities originally produced for exports will be sold domestically, providing opportunities for emerging economies such as ASEAN to expand their share of labor-intensive products in the global market.

Pang Zhongying, distinguished professor at Ocean University of China, advised that under the impact of the pandemic, countries around the world have

tightened their trade policies, posing a significant challenge to the multilateral trading system. Once RCEP takes effect, free trade among East Asian economies will be enhanced. As two major economies in East Asia and important members of RCEP, China and Japan should establish a more resilient industrial chain and supply chain in a bid to alleviate the adverse effects of unilateralism and anti-globalization on regional economic development.

He Jun, researcher at the Institute of Industrial Economics of Chinese Academy of Social Sciences, offered that there is still huge potential for Sino-Japan cooperation. On one hand, China needs to further open-up its market while improving the intellectual property protection mechanism. On the other hand, Japan derives its industrial advantages from a closed supply chain; its opening-up to China is critical to the qualitative improvement of Sino-Japan cooperation. Moving forward, Sino-Japan industrial cooperation lies in industries where one has a lot to offer to the other, such as Japan's elderly care and medical device industries and China's mobile communication terminals and system equipment industries.

Cao Zhongxiong, Director of New Economy Research Institute at CDI, proposed that in order to cope with the challenges brought about by a changing global industrial chain, China-Japan cooperation should seize four major opportunities, namely, 1) consumption upgrade in China's market; 2) transformation of China's industrial structure; 3) China's efforts to make up for missing links in its industrial chain and supply chain; 4) China's efforts to participate in depth in global industrial operations. China-Japan future cooperation will need to give consideration on higher level industrial chain and supply chain, and digital technology applications.

Liu Qingbin, professor at Institute for Advanced Study, Yokohama National University, suggested that as a leader in analog technology, Japan is highly dependent on fax for daily information exchange within and between its government authorities and enterprises, with digital reform slowly progressing. Thus, there are broad prospects for cooperation between China and Japan in digital technology platform and digital business platform among other fields of digital economy in the future. In addition, China and Japan future cooperation should lean towards industries like prefabricated construction which is a well-developed industry in Japan but not in China.