Lockdown Halts Powerful Economic Recovery

The COVID-19 lockdowns in Shanghai and some other cities since late March have halted the strong economic recovery. In Q1, GDP was up 4.8% y/y, up 0.8 pps from Q4 2021, but 0.2 pps lower than in Q1 2020. Industrial output rose 6.5% in Q1, up2.6 ppts from Q4, but down 1 pps from January-February. Investment rose 9.3% y/y in Q1, up 4.4 pps from 2021, but 2.9 pps lower than in January-February.

In March, overall PMI, manufacturing PMI, and non-manufacturing business activity PMI were 48.8%, 49.5% and 48.4% respectively, all falling steeply from the previous month, demonstrating that the economic environment has been shrinking in all dimensions.

In Q1, retail sales of consumption goods were up 3.3% y/y, down 9.2, 0.2 and 3.4 pps from 2021, this January and February respectively. In March, consumption fell -3.5% y/y; restaurant income fell -16.4% y/y, its first negative turn after more than one year.

Exports rose 13.4% y/y in Q1, down 4.6 and 0.2 pps from Q4 2021, January-February. Weak export is more because of foreign weakening demand factors, including the Russia-Ukraine war and the Fed raising rates, than because of domestic lockdowns.

In Q1, PPI rose 8.7% y/y, down 3.5 pps from Q4. Production material slowdown is the main reason for lagging PPI growth, and its growth rate was 4.8 pps, down from Q4. In Q1, CPI rose 1.1% y/y, higher than last year. In March, CPI rose 1.5% y/y, a clear rise from January and February. We expect higher CPI to persist.

Shanghai, China's largest economic and financial center, has been under lockdown since March 27th. On April 26th, Beijing was put on Omicron alert. China's yuan fell to a one-year low, at 6.5 against a strengthening dollar on April 25th, extending losses after posting its worst week since 2015. The economy will be volatile in the near term. However, a depreciating yuan benefits export. The Chinese government is also accelerating fiscal expansion to keep the economy afloat. For example, infrastructure investment rose 8.5% y/y in Q1, up 8.1 and 0.4 pps from last year and January-February respectively.

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 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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Sino-Japan Dialogue on Population Aging and Countermeasures

According to UN report, population aging is one of the problems the world has to confront with by 2050. Being the two big countries in Asia, Japan is one of the fastest aging countries in the world, while China is getting "old but not rich". China and Japan are both facing population aging issues, which will cause great effect on the economic and social development in both countries. Despite population aging will be a common global issue in the future, yet countries like China and Japan are at different stages of their development. Therefore, strengthening exchanges and mutual learning in the areas of coping with aging society issues will prove to be quite important for both countries in years to come.

On April 14, China Development Institute, hosted an online webinar on "Sino-Japan Dialogue on Population Aging and Countermeasures". The event aims to gather experts and scholars from China and Japan to debate on how aging issue affects the economy, with a focus on policies and coping measures, comparisons and mutual learning in the field of population aging between China and Japan, in a bid to build capacity for addressing population aging and promoting economic and social sustainability of the two countries.

The organisations that these experts represent include: the China Development Institute, the China Pangoal Institute, the China National School of Development, the Chinese Academy of Social Science, the National Institute of Population and Social Security Research, the Research Institute of Economy, Trade and Industry, the Ministry of Health, Labour and Welfare Japan, the Waseda University, the Kyoto University, the Hitotsubashi University.

Why China's Post-Covid Financial Relief Policies Matter?

As the Omicron outbreaks slowed down production across the globe, funding options have become limited but also urgently needed for private companies. Over the last two years, financial relief policies had been delivered rapidly to those pandemic-hit cities in China. In this regard, the accumulated experiences in policy implementation could serve as the role to stabilise and stimulate the market to greater effect.

What are the Problems facing China's post-Covid financial relief policies?

Policies that are packed with low-interest rate loans in order to reach more beneficiaries will lead to increased financial risk as the return on such loans cannot cover the cost of capital. Resultantly, financial institutions will become reluctant to supply the market with more capital, thereby compromising the efficiency of the financial relief policies.

The suppressed funding needs of certain companies rise to the forefront due to the surge of overeager bankers and the sudden drop in cost of funds. Thus, these companies sign on to financing programmes without a clear business plan. The compulsive investment into rapid expansion only leads to short-lived prosperity while losses and financial risks will increase with time goes on.

At the same time, customised policies for a green economy alongside science and technology innovation, finance are not widely known among MSMEs, which as such will not be able to take advantage of the prescribed financial concessions or privileges.

How to make the financial relief policies more effective?

Financial institutions, serving as middlemen between the capital supplier and receiver, bear the responsibility of not only providing necessary funds for the receivers on the demand side but also ensuring the safety and return of the capital. If fulfilled, people will then entrust financial institutions with their savings, allowing capital to be utilised and circulated. In other words, the sustainability and value addition capability of financial products are crucial for attracting more capital to empower the real economy. Therefore, financial institutions need to vet companies and supervise the relevant funds to suitably perform their role in capital allocation and risk management.

In the current context, financial relief policies should enable financial institutions to freely price their services within the policy's selected range. In addition, more freedom in decision-making should be given, ensuring that limited financial resources and services are allocated to the companies with higher potential.

Moreover, the customized policies for a green economy alongside science and technology innovation finance need to be further promoted. The private sector, especially the MSMEs, need to prepare and make full use of these policies which allow financial institutions to have a higher tolerance for risk in the targeted sectors. This will support the fulfilment of stable and sustainable development.

Lastly, competition and cooperation among financial institutions should be encouraged. This can be promoted by additional service licenses being provisioned to the market by financial policies. With more financial institutions entering the market, the quality and efficacy of financial services will be able to improve further whilst costs diminish. In the meantime, the diversified financial service providers and the increased competition and cooperation within the industry will facilitate sustainable economic development and promote high-quality development.

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Outlook on China's Economy: Dialogue between Fan Gang and Bert Hofman

On April 19, Prof Fan Gang, President of China Development Institute, and Prof Bert Hofman, Director of the East Asian Institute at the National University of Singapore, provided their insights on China's economy in the hybrid talk held by the Singapore Institute of International Affairs.

On China's economic growth amidst the ongoing pandemic

The second quarter could see 2% growth, lower than it is expected due to the resurgence of the epidemic, which exerts negative effect on consumption, production and transportation. Collective efforts are being made across the nation in speeding up vaccination rate, building module hospitals and launching more stimulative measures, in hope to contain the pandemic and reactivate the market.

On China's debt issues

China's government debt over GDP is at 46%. Comparatively, Japan is at 260%, U.S. 130%, and European countries are mostly over 100%. With enough reserve and resources, China's debt issue is generally manageable. It is also trying to improve the efficiency of distant spending. China has announced the third pillar pension system, which is a privately supplied pension saving scheme, providing people an alternative for investment while preparing the society for an aging population.

On China's long-term economic outlook

Green investments in energy transition could be the next growth driver for China's economy. Investments in urbanization will continue to be crucial, as the urbanization rate in China is still lower than that of most developing countries which shows that urban facilities and services are in great need. At the same time, as the service sector grows and consumption prices increase, China's share of exports in GDP will begin to decline.

On China and the regional economy

China is strongly connected with its Asian trade partners. With RCEP taking effect in 2022, China will further open up to its regional partners and with whom jointly promote regional economic growth.