TOMORROW'S CHALLENGES

FORTUNES AND FORECASTS: WHY CHINA'S GDP HAS WEATHERED THE GLOBAL STORM AND IS LIKELY TO CONTINUE

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The Chinese economy was not as hard hit as many others in 2020. But why? And what makes it well positioned to continue its upwards trajectory in 2021? Ask Professor Professor Winter Nie, Professor James Wang and Yunfei Feng

The Year of Rat is almost behind us as the Ox is ushered in, and what a raucous year it has been. Efforts to take stock of the Chinese economy in 2020 as the New Year gets underway this month have revealed a GDP level of 2.3%, according to the Chinese National Bureau of Statistics.

China is the only major economy in the world to have experienced positive growth in 2020. Perhaps this is why Ray Dalio, the founder of the world's largest hedge fund Bridgewaters, said so bluntly: "It is very dangerous not to be invested in China."

All things considered, beating the 2.1% consensus estimate was no small achievement. As always, there is more to it than meets the eye.

An unemployment low hides in the steadying of the epidemic

Breaking the year down shows GDP growth in the fourth quarter to have been 6.5% year-on-year, up from 4.9% in the third quarter; 3.2%in the second quarter and a negative 6.8% for the disastrous first quarter.

The quarterly figures demonstrate that, as China brought the epidemic under control domestically, its economy steadied itself. Nevertheless, the unemployment rate in urban areas still stands at 5.6%, a somewhat elevated level compared to previous years.

The retail rollercoaster

Retail data was not all upbeat and told a relatively sluggish story from the consumer side. Growth in retail sales came in at a negative 3.9% year-on-year for the whole of 2020. Taking out automobile sales, the rest of consumption data was a negative 4.1%. Catering had a significant decrease of 16.6 %, department store sales dropped by 9.8%, and online retail increased by 10.9 %.

On the one hand, the recent trends of eating in more and largely shopping online will persist even in the post-pandemic era. On the other, the annual retail sales of clothing, jewellery, household appliances, furniture, home decoration and petroleum products came in at negative growth, which painted a picture of lacking consumer enthusiasm.
Clearly, recovery is uneven and not convincing in this realm.

Cashing in on the stay-at-home economy

Positive GDP data has been largely egged on by investment, especially net export.

Disruptions to major economies around the world as well as heightened demand for home electronics during prolonged stay-home time-period has more than offset the negative impact from trade disputes. Chinese exports of laptops, household appliances, medical instruments and devices increased by 20.4%, 24.2% and 41.5%, respectively.

Textiles, including masks, enjoyed an increase of 30.4%.

And so it is that, overall, the export of "stay-at-home economy" products increased by 8.5%, and this area shows no sign of slowing for at least the first half of 2021.

2021: money for a rainy day but dry spots of uncertainty remain

To soften the impact of the COVID-19 shock, the Chinese government has rolled out a raft of measures, including fiscal and monetary policies. However, they are different from the common practices of Western countries, which directly subsidize their citizens.

China's pandemic stimulus policy tilts more toward subsidizing the business sector, by reducing taxes and fees for small and medium-sized enterprises; providing special loans with financial discounts; issuing targeted subsidies to key sectors; and supporting local government efforts to contain the spread of COVID-19.

Multinationals are seeing China as one of the safest investment options in the world. In a year-end 2020 Investor Relations meeting, Starbucks announced that it plans to expand worldwide outlets from 33,000 to 55,000, and that China will be its major focus. Many multinationals are reaching similar conclusions, having experienced major growth in the Chinese market amid the pandemic. Nike, Coca Cola and Mercedes Benz are three major examples and in the case of the latter, for every three cars the company sold globally in 2020, one was in China.

Given the direction in which the Chinese government has invested, it still has a lot of dry powder to lean on should it become necessary to prop up the economy down the road.

Fairly reliable sources of economic support with some details to be ironed out

Much hope, meanwhile, rides on domestic consumption. The Chinese Academy of Sciences predicted that China's GDP will grow at about 8.5% for 2021. Given the relatively low benchmark of 2020, such a lofty growth number for 2021 has a realistic chance of being reached. Sequential growth data and, in particular, that from Chinese New Year consumption will form telltale signs for things to come.

Should the pandemic be contained in Europe and the US, Chinese exports of PPE will likely slow down. While investment in real estate will probably still contribute positively to economic growth, the Chinese government is reluctant to lean too heavily in this direction.

One of the biggest wild cards in 2021 is China’s relationship with the US. How the new US administration will anchor its China policy is a billion-dollar question. A partial thawing of the freeze in US-China relations is likely, although China will most probably continue to be viewed as a strong competitor that has the potential to upend US dominance in global affairs.

With much of the developed world still reeling from the impact of COVID-19, China’s advantageous positioning in the global supply chain ensures that “delinking” the Chinese economy from that of the West is unlikely to happen in 2021.