

China : economic recovery and new outbreaks **- what perspectives for the world's second largest economy?**

Since it started its international opening, China faces its ever recession. No growth target has been announced for 2020 also for the first time. Priority has been set instead on generating enough jobs.

What should it mean in terms of business opportunities for international firms?

As we all remember, in order to deal with the first Covid-19 outbreak in Wuhan, China came up with the lockdown concept and the interruption of most social interactions to prevent the transmission of the virus. For Chinese, like for most of us in our countries of residence, the economic effects have been disastrous.

For the first time since China opened up to the world, 40 years ago, its citizens experienced negative growth: -6.2% in Q1 2020 when compared to Q1 2019.

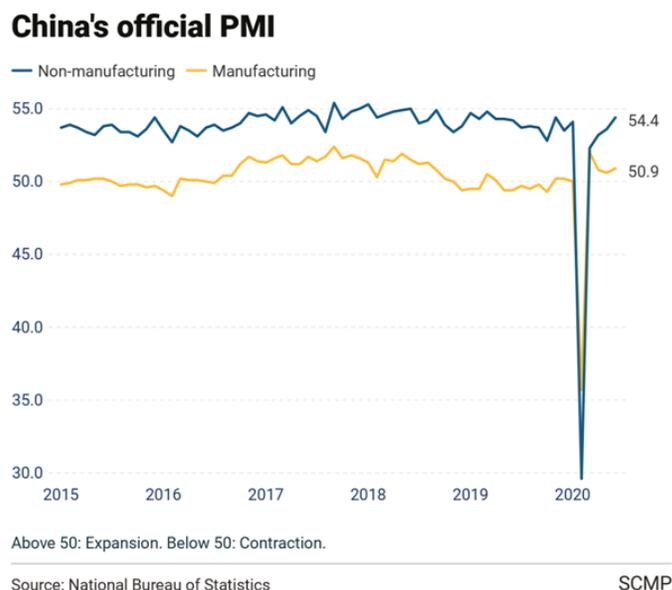
China's GDP growth, quarterly



The government reacted with numerous support policies to soften the blow. The state banks provided new loans to large companies and reduced interest rates, though the lowest lending rate to enterprises still remains at 4.35%. To support smaller enterprises all social charges for employees of SMEs have been waived until the end of 2020.

In addition, the government has used its traditional stimulus method by launching infrastructure and construction projects. Excavator and heavy duty trucks sales shot up by over 60%, while cement and steel sales increased by over 8% and 6% in May when compared to a year before.

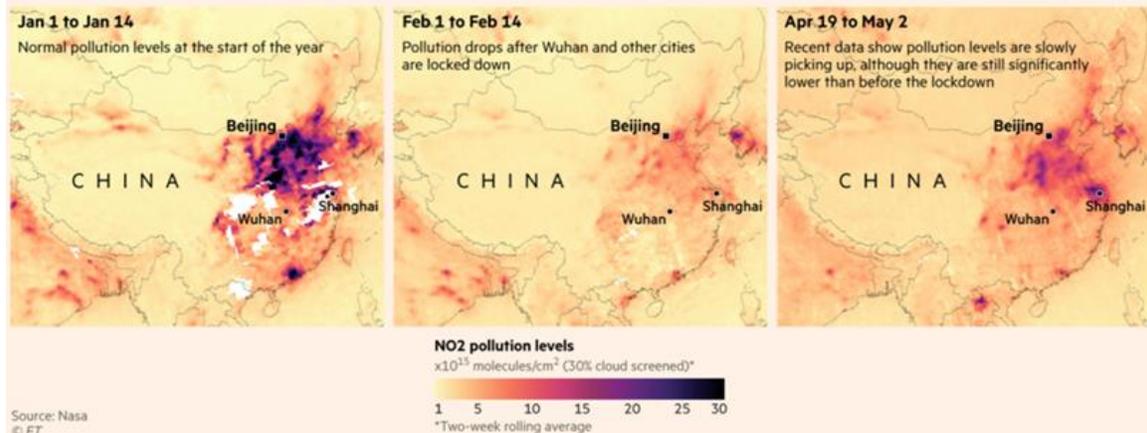
Industrial production in May also grew, by 4.4%, compared to last year. The Purchasing Managers Indexes for industry and services were above 50 in both May and June, also indicating expansion of the economy in general:



Consumption, however, was still 2.8% under May 2019's level as the population remained careful not to engage in social activities that could increase the risk of virus transmission.

Pollution levels provide a good illustration of this economic evolution in the first months of 2020

China's pollution levels are on the rise as lockdown restrictions ease



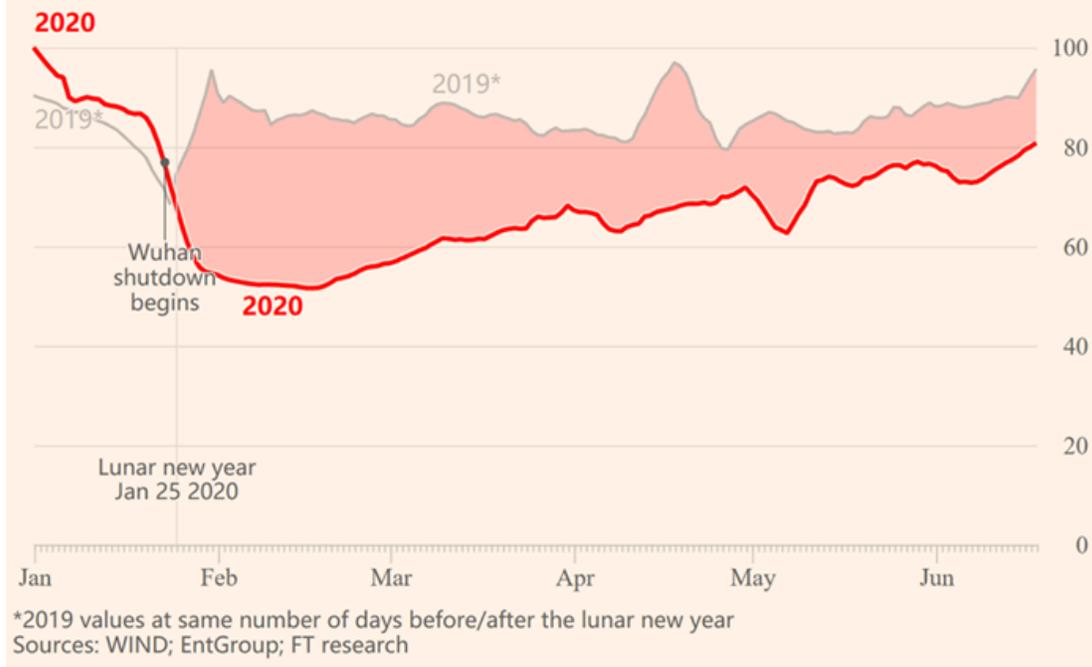
Yet, China is far from having recovered. May's urban unemployment rate was 5.9%, down from 6.0% in April. However, it does not account for the migrant workers who come from the rural areas of China who lost their jobs. Their total population is estimated at 290 million and a good 20% could well be unemployed today according to various estimates.

This dire job situation has been recognized by China's Prime Minister, who, during his very official annual address to China's parliament, encouraged unemployed Chinese to set-up street food and other stalls to earn money.

According to a measure of economic activity of the Financial Times, China's current economic activity is 20% below what it was at year start.

Covid 19' s impact on the Chinese economy

FT China Economic Activity Index (Jan 1 2020 = 100), last updated Jun 18

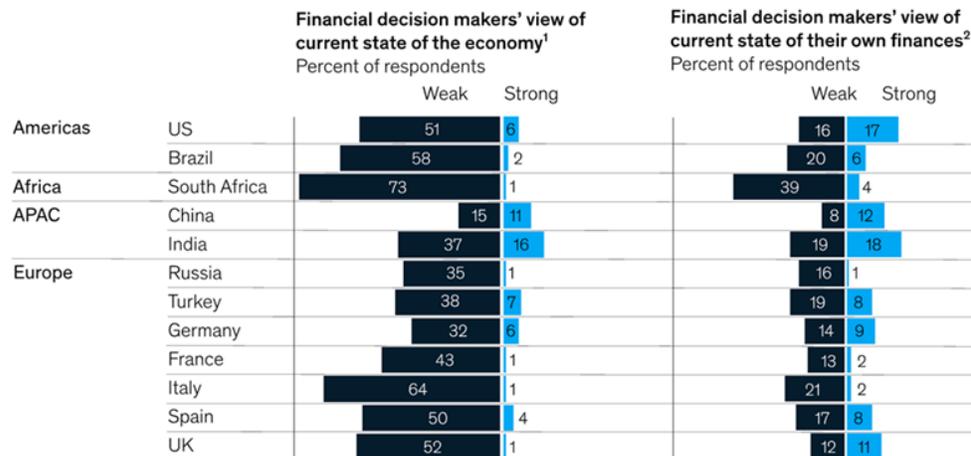


Besides, the pandemic risk has not been eliminated. When a few people tested positive for the coronavirus in Wuhan, the city went into a major effort and tested all 10 million inhabitants in the last 20 days of May. 300 asymptomatic cases were identified, clearly illustrating that the virus had not been eradicated after 77 days of lockdown.

Beijing, the city in China receiving the most attention in terms of virus prevention to ensure the protection of the country leadership, also saw a batch of new cases in June. It prompted an intensive 10 days of mass testing, screening 2.3 million inhabitants in neighborhoods at risks. 227 positive cases were identified and isolated.

Nevertheless, consumer sentiment is positive. Chinese have the most positive outlook among citizens of the major economies both in terms of the economy's strength and of their individual financial situation.

Many consumers feel their current economies are weak, however some rate their personal financial situations as strong.



¹ Q: How would you rate the current state of the economy; Strong is top-2 box "extremely strong" and "very strong", weak is bottom-2 box "extremely weak" and "very weak".

² Q: How would you describe your current personal financial situation; Strong is top-2 box "extremely strong" and "very strong", weak is bottom-2 box "extremely weak" and "very weak" and "very weak".

Source: McKinsey Financial Insights Pulse Survey, sample weighted to match gen pop 18+ years in each country; margin of error for wave-over-wave changes is +/- 6 percentage points for all financial decision makers and larger for sub-audiences; surveys from 5/4/2020-5/18/2020

To boost the economy for the long term, China's government has announced a USD 1.4 trillion investment package for new technologies to be deployed until 2025. In addition to the traditional brick and mortar infrastructure investment, infrastructure into 5G, internet of things, autonomous driving vehicles and Artificial Intelligence among others will be built countrywide to attempt to turn China into a truly digital giant.

In the year of the coronavirus, uncertainty prevails and one may reasonably doubt about the prospects of China's economy. Still, China's containment of the Beijing outbreak without major lockdown indicates that the country has developed the social tools to control the pandemic without major economic impact.

While more outbreaks are almost certain, they may well be contained without new lockdowns.

The International Monetary Fund (IMF) appear to subscribe to this view. It recently announced its revised economic forecast for China: 1% growth in 2020 and 8.2% growth in 2021.

Considering the low level of activity during the first half of the year, it implies that the coming 6 months will see a very significant acceleration of the economy. This and the expected 10% decrease of GDP for the EU and 8% negative growth in the USA for 2020, should make China, the only large world economy that may not shrink this year, a very attractive market opportunity, yet again!