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FRONTLINE CHINA REPORT

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China Update

by Simon Hunt

This is a short note to update our views on China's economy in view of the renewed enthusiasm for investing in China.

As readers know full-well, we remain very optimistic for the country's medium-and-long term future, but the country is going through a transition period because of the upcoming election for the presidency, the war over Ukraine and China positioning herself on the global stage. Any one of these subjects would be enough to keep the leadership fully occupied but all three does require careful planning.

Our primary note of caution is that we are likely to experience a series of lockdowns across the country at least through the rest of this year. This may well include new restrictions if not lockdowns in Shanghai over the coming months.

What happens in Hong Kong is often a forerunner to what takes place on the mainland. Hong Kong has just announced 'The Sixth Wave' which means a new occurrence of restrictions such as only being allowed to visit the office 50% of the time.

Moreover, Beijing has announced that it is cancelling the Asian Football Games to be held in 2023 because the country cannot guarantee that visitors will be allowed freely into the country and that there will be no lockdowns in the country. And this is after spending $18.5 billion on building the stadium and infrastructure.

Logistics within the country under rolling lockdowns will remain a nightmare. Clearly at the top, there are different opinions as to how the economy should be handled; one side pushing for stimulus measures to stabilize the economy; whilst the other side is more concerned with the country's standing on the world together with the impact of Covid and its variations on the elderly and infirm. Those aged over 60 years total some 120 million. If many contracted the virus, the health system would be overrun.

At the lower level within local governments, officials appreciate that if cases were found in their area, they risk being fired but if their economy remained weak, no action against them would be made. The result is that despite central government encouraging local government officials to fulfill government demands, they will do little to follow through on the stimulus measures being announced almost on a daily basis.

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Then there is the basic problem of confidence. After an initial flurry of spending on restaurants and clothes etc. after a month or so of being locked down, households will revert to saving given the uncertainty of the times.

Private businesses are faced with falling profits with the future looking so uncertain so they will be managing difficult times rather than investing in the future. That might come next year depending on the global situation.

In summary, we stick to our view that China's actual GDP will be around 2-3% this year.