ASIA PERSPECTIVE

Insights: Quarter 2, 2022

China Economic Update Report

This Issue:

China's Economic Performance in Q2 2022

Signs of easing crackdown on tech industry

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China's GDP slowed sharply to 0.4% (YoY) in Q2 following lockdowns and global inflation

China's GDP declined sharply in Q2 to 0.4% (YoY). Apart from the first quarter of 2020 during the initial covid outbreak, this quarter registered the slowest growth since the data series first started in 1992. The decline can primarily be attributed to the aftermaths of widespread lockdowns imposed under March and April.

Following an unexpectedly strong Q1, reporting 4.8% growth (YoY), the economy only expanded by 0.4% in the second quarter, according to data from the Chinese National Bureau of Statistics. For the first half of the year, the GDP grew by only 2.5%, far below the expected Q2 growth of around 1%. As a result, the annual GDP growth rate target of 5.5% is looking increasingly difficult to achieve, as admitted by Beijing after the figures were made public.

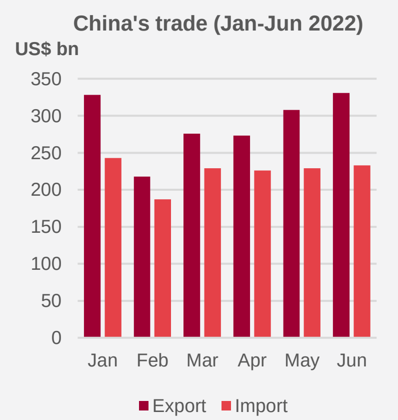
Compared to the 7.9% GDP growth in the same quarter 2021, the figure was far from impressive. New outbreaks of the covid-19 pandemic, imposing widespread lockdowns in March and April, as well as the growing risk of stagflation in the world economy, were highlighted as contributing factors when the Chinese National Bureau of Statistics discussed the "hard-earned" figures.

Economic data from June however, might indicate that the bottom is closing in, or has already been reached. Retail sales rose by 3.1% in June, far exceeding expectations, as no growth was expected compared to the same period from last year. Together with lockdowns slowly easing from early June, analysts are being cautiously optimistic for the second half of 2022.

China's trade momentum slowly stagnating

Export turnover in the quarter increased by 12.8% (YoY), 2.9% lower than the previous quarter, while import turnover was down by 8.1% compared to Q1, increasing by only 1.9% (YoY).

The total trade surplus amounted to US$224.9 billion, a year-on-year increase of US$90.8 billion.



Source: National Bureau of Statistics of China.

Affected by the base period effect, policy tightening, the Covid-19 situation and control policies, the pressure on the YoY growth rate of exports has increased. In general, it is expected that China's foreign trade will show a downturn and rising prices in the second half of 2022, and the nominal growth rate to remain around 8%-10%.

China shows signs of easing crackdown on tech industry

After years of explosive expansion and loose regulations, the state government introduced a shift for China's tech industry in late 2020. The State Administration for Market Regulation (SAMR) set an example by taking aggressive steps to curb monopolistic behavior, imposing a record US$2.8 billion fine on Alibaba and a US$530 million fine on Meituanwan.

The unrestricted exponential growth of Chinese technology giants presented several issues, including data security, privacy violations and most significantly an abuse of the market competition, sparking a reaction from the Chinese government. During the last two years, China swiftly implemented several policies and rules in regards to antitrust and data protection, causing international doubt and a large-scale withdrawal from investments into giants such as Tencent and Alibaba. At the time, China was less interested in the economic impacts of such regulations, and instead motivated by increasing control of data trade and tightening state control of the digital economy.

However, amidst recent resurgences of covid and subsequent lockdowns, China has signaled an easing of the crackdown and policy reforms. During the first half of 2022, several government initiatives and statements have emphasized a healthy development of the platform economy, a commercial business model favoring digital platforms. The easing crackdown and clearer guidelines have allowed for the recovery of plummeting stock values among tech giants, and the revival of IPO discussions, most recognized Jack Ma's Ant Group which was scrapped by regulators in 2020.

Despite these positive signals, a return to previous market conditions is unlikely, as the regulatory scrutiny of the tech industry has been driven by the top of the Chinese political hierarchy. Rather, current easing restrictions is assumed to be an initiative to combat the slowing economic growth, caused by new covid lockdowns and global inflation trends. Experts expect a grace period to exist and slowly diminish, as China recovers during the second half of the year.

While a complete U-turn is questionable, the current trend gives hope for a clearer tech landscape in China. Early this year, The China Securities Regulatory Commission (CSRC), clarified and communicated with more transparency about the intentions of enacted regulations, allowing businesses to navigate more securely in the regulatory new landscape. The government has further communicated that several meetings has been held with tech executives and founders in the tech industry to support public listings and development of the industry.

Looking forward, cautious optimism can be expected for the final two quarters of 2022, with many tech giants pursuing more transparent guidelines and clear regulations from the Chinese political body. Beyond, however, we can still expect the implemented fundamental policy changes and approach to remain.

Covid-19 restrictions are slowly easing, and consumer habits are changing

Following the most recent lockdowns, factories in China's two largest economic hubs, Shanghai, and Beijing, are again mostly reopened. According to China's Ministry of Industry and Information Technology, the impact of the virus is now receding, and restrictions are slowly easing with shorter quarantines and better traveling conditions.

Shanghai-based state-owned automaker SAIC, a Chinese partner of Volkswagen and General Motors, reported a close to 60% year-on year increase in production in early June and other regions are following suit. Guangdong, the southern industrial hub, is also reporting that production is returning to normal.

Despite the revival of industrial hubs and commercial availability, consumption is lower than expected. In fact, Chinese consumers' willingness to save money is the highest it has been in two decades. In part, low consumption levels can be attributed to the lockdowns in Shanghai and Beijing, but also caution due to the recent uncertainties in the country. People are further less willing to invest, with investment falling by 3.7% in Q2 to 17.9%, stocks being the least attractive asset. Rather, research show that education and healthcare will be the primary spending factors for the next quarter, as society slowly return to normal.

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