

China moves forward with opening up and works to retain foreign firms

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The real GDP growth rate for the January-March quarter fell sharply from 6.0% YoY the previous quarter to -6.8% YoY, recording the first period of negative growth since 1992, when China started to publish quarterly GDP data. This is due to the emergency measures taken to prevent the spread of COVID-19, such as the lockdown of some cities and an extension of the Lunar New Year holiday.

According to daily and weekly statistics, however, it appears that vehicles and residential property sales are slowly returning to normal levels as the spread of COVID-19 in China has been controlled (Chart 1). In addition, coal consumption by power companies and traffic delays have recovered to around 90% of normal. General Secretary Xi Jinping said it is “necessary to accelerate the restoration of production and social order as controls to prevent infection continue” at the Standing Committee of the Political Bureau of the Communist Party of China Central Committee held on 8th April, the day the lockdown in Wuhan was lifted. Based on the above, it is clear that Chinese government officials are working to restore production quickly along with China’s place in the global supply chain.

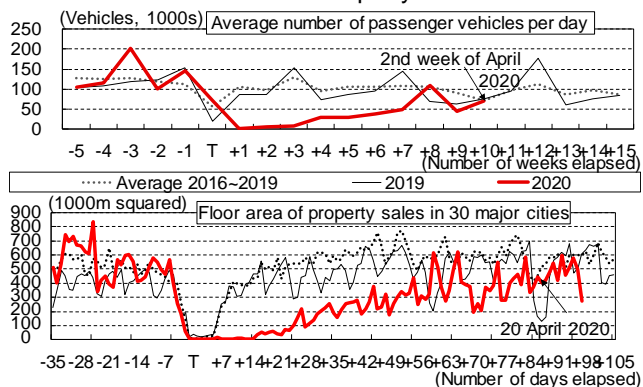
That being said, there is an undeniable rise in uncertainty about whether corporations’ supply chains and China’s position within them will remain unchanged. This is thought to be due to a renewed mindfulness of the risks associated with concentrating procurement in a specific country brought about by this pandemic. An example of this is masks and ventilators, of which there is a global shortage; the world relies on Chinese imports for around 40% of its masks and approximately 10% of its ventilators¹ (Chart 2). Meanwhile, there are those in developed countries advocating policies which support the reshoring and diversification of national companies’ production bases. In Japan, the Emergency Economic Measures agreed by the government on 7th April include such support and, in the US, National Economic Council Director Larry Kudlow stated “we should literally pay the moving costs of American companies from China back to the US” on 9th April.

Amid a rise in concerns about the withdrawal of foreign companies from China, the National Development and Reform Commission announced on 20th April that it will shorten its “negative list” this year, which bans or limits foreign investment in some industries, and will expand tax benefits to some foreign firms. China has been moving forward with its reform and opening up

as its conflict with the US heats up, and the question of whether or not it will speed up its reforms further owing to these headwinds is attracting attention.

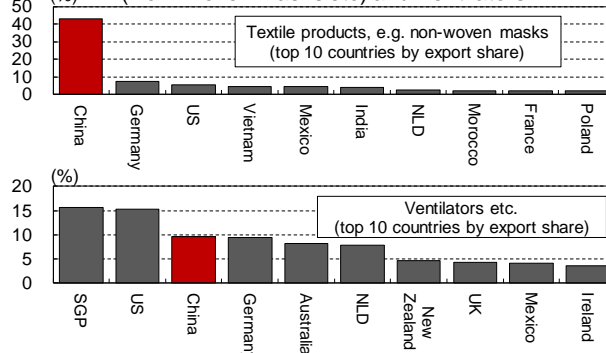
"Masks" includes other textile products. "Ventilators" includes other respiration apparatus, such as those for o-zone therapy.

Chart 1: Average Number of Vehicle Sales Per Day & Floor Area of Residential Property Sales in 30 Cities



Note: "T" in the top chart is the week of the Lunar New Year. "T" in the bottom chart is the Lunar New Year's day (25th January 2020 this year).
Source: Wind, MUFG Bank Economic Research Office

Chart 2: Share of Global Exports of Textile Products (Non-Woven Masks etc) and Ventilators



Note: 1. Share of exports is based on amount exported in 2018
2. "Textile products, e.g. non-woven masks" includes suit covers, baskets made from fabric formed from paper
"Ventilators" includes o-zone and oxygen therapy respiration apparatus
Source: International Trade Centre, MUFG Bank Economic Research Office

(Translated by Elizabeth Foster)

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