Winter Olympics

BOOST TO CHINA ECONOMY?

In any event, global tensions over Russia's maximalist demands and US-led wide-ranging Western economic and energy sanctions are likely to spook markets and trade flows for some time. As the world's largest trader and exporter, China is particularly exposed.

Since 2021, I have written serially in these columns on challenges to China's economy: "China: Is Slowing Down for Real" - February 2022; "China's Stagflation Risks - Warning Signals" - December 2021; "China: The Evergrande Crisis" - November 2021; "China's Common Prosperity Goal" - October 2021; "Behind Beijing's Big Tech Crackdown", September 2021; "China: No Longer the Global Growth Engine" - June. 2021; "China's Digital Currency" - May 2021; "What China's Low Growth Means for the World" - April 2021; and "China GDP: Growth Sans Productivity - How China Is to Overcome Its Productivity Hurdle" - February 2021.

Background: Slow but higher quality more balanced growth expected

I am loath to repeat myself. Suffice it to say that China's still-respectable growth rates, while slowing down, are what can be expected of the world's largest economies, regardless of domestic and external headwinds. Just compare the growth rates of the US and Japan, for example. As a state-managed economy, China has ample financial muscle to keep the economy on an even keel. Much of the domestic headwinds are self-generated, to create a fairer, more equitable, and greener society in the name of "Common Prosperity". An oft-talked about bottleneck constraining China's economic trajectory is its worsening demographics. However, to overcome the "middle-income trap", value-added productivity and efficient economy of scale are more important than the sheer size of the labor pool. Supported by a vast reservoir of university-educated manpower (over half of adults), China is jumpstarting national productivity with rapid increases in research and development, ahead starts in 5G and Artificial Intelligence (AI), as well as wide adoption of robotics and automation. As displayed at the Olympians' village Beijing, restaurant meals were ordered online, perfectly cooked by robotics, and delivered via digitally-controlled overhead conveyor wires. In many cities in China, "people-less" hotels, shops, and supermarkets are becoming commonplace. Additionally, China is turbo-charging nationwide connectivity and productivity by doubling its impressive high-speed rail network to 70,000 km by 2035. Along with a dense network of expressways and electric railways, this will connect all of China's cities and towns with 200,000 people and above, however remote. Many of these have already formed economic clusters capitalizing on each other's unique strengths.

Headwinds in 2022

However, the highly disruptive Covid-19 pandemics has intervened. Thanks to Beijing's resolute response, most of China's productive capacities have practically returned to normalcy while remaining relatively close to the outside world. The Associated Press (AP) reported that China's economy grew 8.1% in 2021, while significantly slowing in the second half. In the light of stringent Covid restrictions, Goldman Sachs has cut China's 2022 economic growth forecast to 4.3%, down from 4.8% previously, largely due to the impact on domestic consumption. At the Group of 20 Finance Ministers Meeting in Jakarta from February 17-18, the top of this year's challenges was flagged up: the crisis over Ukraine, the global pandemics, inflation, and monetary tightening.

Ukraine

China, while unlikely to get involved militarily, is supportive of Russia's security concerns diplomatically, including in the United Nations Security Council. Nevertheless, it is in China's best interests to decry war and to promote dialog. In any case, as neither the US nor the EU has any appetite for a risky hot war with Russia, a pan-Europe war involving the US seems unlikely. In any event, global tensions over Russia's maximalist demands and US-led wide-ranging Western economic and energy sanctions are likely to spook markets and trade flows for some time. As the world's largest trader and exporter, China is particularly exposed.

Covid-19

As for the pandemic, China is sticking to a "dynamic zero-Covid" strategy. Armed with a relatively high vaccination rate, ultra-efficient tracking technologies, including facial recognition, and the ability for rapid partial or total lockdowns, China has been able to keep infection and death rates extremely low. As of February 4, 2022, over three billion (3,016,698,519) vaccine doses had been administered. According to World Health Organization statistics, from January 3, 2020, to 5:20 pm CET, February 18, 2022, China had registered 164,322 confirmed Covid-19 cases with 5,726 deaths. Even allowing for possible under-reporting, these numbers are extremely low for a population of 1.4 billion. Most of China remains out of bounds to the outside world where highly contagious Delta and Omicron variants are raging. At the same time, these variant cases remain relatively low inside China. Nevertheless, the rest of the world is beginning to reopen regardless, embracing a "Living with Covid" strategy, treating the disease as endemic. According to a research note dated February 15, 2022, of Natixis, a French bank, global supply chain constraints have peaked as major ports in both the US and China are witnessing a reduced number of queuing ships.

China's centrality in the global supply and value chain

As more countries are beginning to return to normalcy, unleashed pent-up demands should help China as the world's largest exporter, hosting seven out of the world's ten busiest container ports including Hong Kong.

Notwithstanding some decoupling including the so-called "China Plus One" hedging strategy, China remains the largest trading partner to 124 counties worldwide, compared to 56 for the US. Its centrality is further cemented as the world's largest trader in the recently established Regional Comprehensive Economic Partnership (RCEP), the world's largest free-trade bloc accounting for a third of the world's GDP and a third of the world population. Even with draconian American tariffs and the raging pandemics in 2021, China's bilateral trade with the US increased 28.7% to $755.6 bn. Since 2019, by some estimates, China's GDP has increased by 10.5% compared with 2.1% for the US.

Andrew K P Leung
SBS, FRSA International,
and Independent China Strategist

Inflation and money-tightening

Thanks to trade-war tariffs on China, where a vast proportion of America's consumer goods is produced, inflation in the US has risen 7.5% over 2021, the highest rate in four decades. The Federal Reserve is widely expected to introduce several interest rate hikes this year, prompting money-tightening measures across the globe. This is bad news for China's exports.

As reported by CNBC on January 19, 2022, exports will continue to drive China's economy for the rest of the year as the domestic market remains sluggish. However, exports account for only 18.5% of China's GDP. The domestic service sector, including wholesale and retail trades, information services, and other tangible and intangible products, had grown to 54.5% of China's GDP in 2020. As reported in the *South China Morning Post*, while economic policies between the US and China continue to diverge, Beijing doesn't seem to lack tools to cope with subsequent shocks. Unlike the US, China's inflation rate remains very low. As reported by Reuters on February 16, 2022, China's Consumer Price Index (CPI) inched up 0.9% last month from a year earlier, lower than the expected 1% rise following a 1.5% uptick in December. Cooling inflation would provide room for the People's Bank of China (PBOC) to ease monetary policy to support the slowing economy, even as major central banks elsewhere tighten policy.

Debt mountain vs. economic stimulus

According to Standard and Poor's Global Ratings, China's corporate debt of $27 tn is equivalent to 31% of the global total. Its debt-to-GDP ratio of 159% is markedly higher than the global rate of 101% and twice the US' 85%. Following the Evergrande crisis, Beijing has been extra careful in fueling over-indebtedness, especially in the gigantic housing and property sector. In August 2020, the Chinese government introduced the so-called "three red lines" policy on major property developers: (a) a 70% ceiling on liabilities to assets; (b) a 100% cap on net debt to equity; and (c) cash to short-term borrowing ratio of at least one. Failure to meet all three requirements would cap a developer's annual debt growth rate at 0%. According to Natixis, China's corporates have continued to deleverage as their debt to GDP ratio dropped from 158.3% in Q3 2021 to 155.1% in Q4 2021. The household sector also saw its debt ratio slightly come down from 62.4% in Q3 to 62.2% in Q4. However, central government debt has increased from 19.9% of GDP in Q3 2021 to 20.4% in Q4, while local government debt has risen from 26.0% to 26.6% of GDP. Off-balance sheet Local Government Financing Vehicles (LGFVs) have increased by 5.3% over Q4 2021, representing a one percentage point increase in terms of the debt-to-GDP ratio. Nevertheless, aside from the still heavily indebted property sector, there is plenty of scope for economic stimulus to jump-start the economy, such as state-enterprise salary increases, tax cuts, and government coupons to boost domestic consumption and the service sector.

Dynamics of the Beijing Olympics

Of course, the Beijing Olympics was not designed to boost the national economy. According to an analysis on Investopedia, a financial information digital publishing firm headquartered in New York, "The economic impact of hosting the Olympics tends to be less positive than anticipated. Because most cities have ended up falling massively in debt after hosting the games, cities without the necessary infrastructure may be better off not submitting bids".

For the Summer Olympics in 2008, Beijing generated \$3.6 bn compared with \$40 bn spent. What is more, hosting an Olympics during the Covid-19 pandemic would invite colossal health hazards and financial risks, with potential earnings massively curtailed, absent crowds of in-person spectators. However, as it turned out, Beijing is reaping a wealth of global soft power and prestige from its remarkable success in hosting a "streamlined, safe and splendid" Winter Olympics, against diplomatic boycotts and almost impossible odds. Its strict yet considerate "closed loop" with meticulous hygiene and sanitation protocol worked and received universal approbation. Overall infection rate including for athletes was kept at 0.01%. The games were attended by 3,000 athletes from 91 countries (including 224 athletes of Team US), 32 foreign heads of state, heads of government, members of the royal family, and heads of international organizations as well as 27,000 overseas guests. Even President Biden said he would "absolutely" watch the Beijing Olympics. So much for the US-led "diplomatic boycott".

At the opening ceremony, a young lady Xinjiang Uyghur cross-country skier was given the honor of lighting the Olympic cauldron together with a male athlete, a reminder that China has for millennia been a multi-ethnic civilization with 56 ethnic groups including Uyghurs. This was a robust riposte to repeated allegations of Beijing's "Xinjiang genocide". Indeed, appearing on every Renminbi (RMB) banknote are four main ethnic languages, one of which is the Uyghur language.

The Winter Olympics' state-of-the-art and ecologically-friendly sporting, transport, accommodation, catering, and communications facilities won endless praise from athletes and other personnel, regardless of nationality.

All competition venues were powered with renewable energy, marking a first in the game's history. As a gesture of the games' sustainable intent, the National Speed Skating Oval in downtown Beijing—which measures 12,000 sq.m—is the first Olympic venue in the world to use carbon dioxide for making ice. As an exemplar of the Olympic Spirit, the organization and delivery's thoughtful hospitality, friendship, compassion, and camaraderie brought many a tear to participants of different colors and creeds. Its spectacular yet minimalist opening and closing ceremonies are likely to be long remembered by those present or watching on global TV screens. What is more, nouveau winter sports upstart notwithstanding, China swooped nine gold, four silver, and two bronze medals, ranking third in the Olympic Medals Table, showcasing China's national capabilities.

China's gold medalists' performance dazzled, including that of now globally-famous photogenic 18-year-old freestyle skier Eileen Gu, who won two golds and a silver, the world's first in this category. Born and bred in San Francisco, she has a Chinese mother and an American father. An accomplished winter sporting star and international high-fashion model, she has won a place at Stanford University.

With impeccable *putonghua* (mandarin), she is the epitome of US-China synthesis. In answer to Western hostile media questions, she calmly and cheerfully defended her decision to play for China in the genuine hope of enthusing potentially hundreds of millions of new Chinese winter sporting athletes, bringing the global popularity of winter sports to new heights. She also said that she wanted to build a bridge of friendship between the US and China, sending a powerful message to the world that tooth-and-nail rivalry apart, the United States should and could work together with China as equals.

Massive economic benefits from 300 million Chinese winter sports enthusiasts

In his Closing Ceremony speech, Thomas Bach, President of the International Olympic Committee (IOC), alluded to China's over 300 million winter sports enthusiasts. The extensive national media coverage and the Winter Olympics' resounding success are set to turbo-charge many businesses, activities, services, production, and sale of equipment and products, including branded merchandise, clothing, fashion, and advertising. Set to promote domestic consumption and exports under China's newly-declared "Dual Circulation (exports-cum-consumption) Strategy", this is likely to give a much-desired kick to the faltering economy ravaged by pandemic disruptions.

Outlook for 2022 and beyond

By all accounts, black swans excepting, the pandemic are likely to peter out into a milder, long-lasting, and endemic by year-end. During the year, China's exports are set to benefit from the gradual restoration of normal global supply and value chains as well as pent-up demand from markets across the globe. More internal logistical restrictions are likely to ease or lifted, powering up the "dual circulation" economic engine, helped by careful doses of state-directed economic and financial stimulus made possible by relatively low inflation.

A World Bank assessment on January 12, 2022 expects growth in China to slow to 5.1% in 2022, closer to its sustainable growth rate of output at full capacity.

According to a January 5, 2022, forecast by British consultancy Centre for Economics and Business Research (CEBR), on average, China's GDP should grow 5.7% annually through 2025 and then 4.7 % annually, remaining on track to overtake the US as the world's largest economy in nominal terms by 2030. ■

Reference # 20M-2022-03-15-01