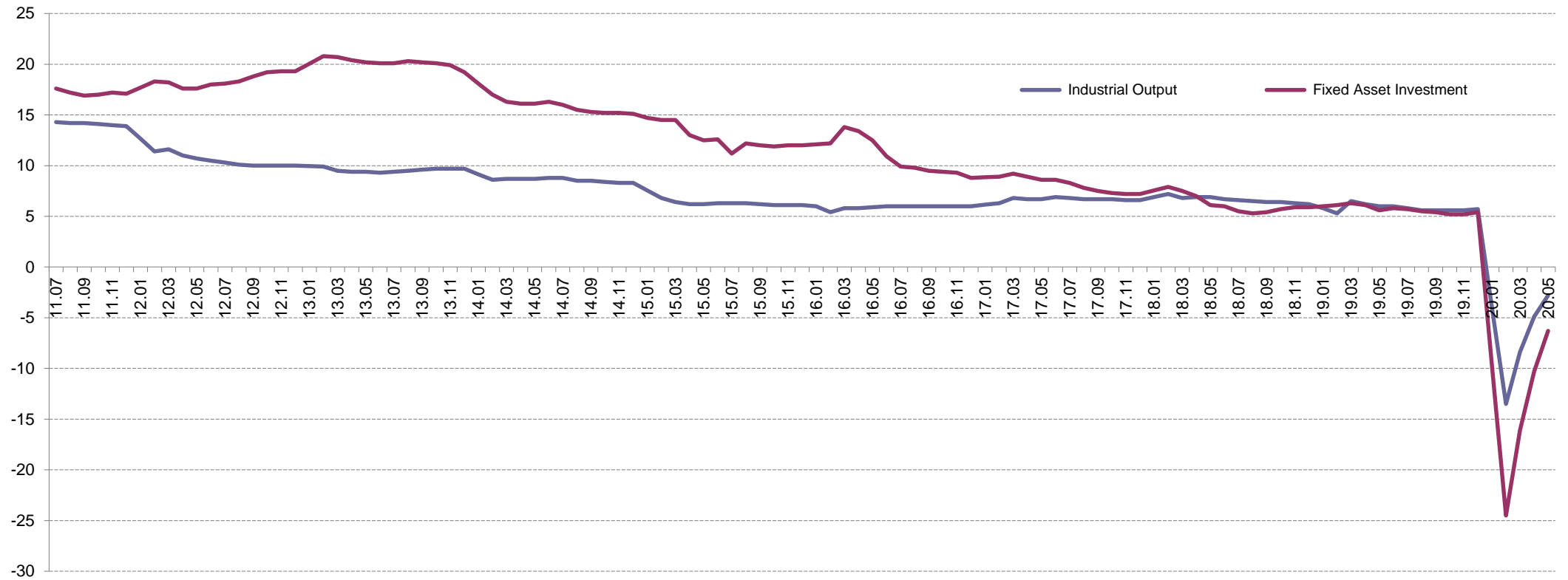


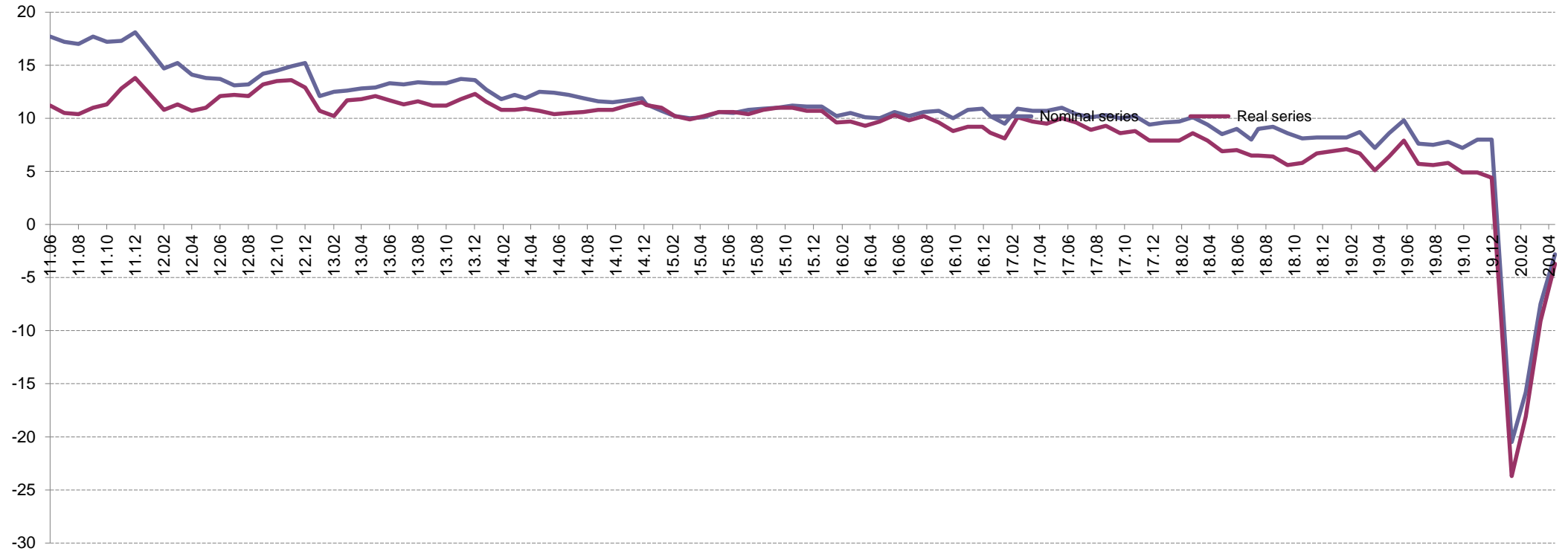
Pandemic, Economic Recovery, and Supply Chain Adjustment

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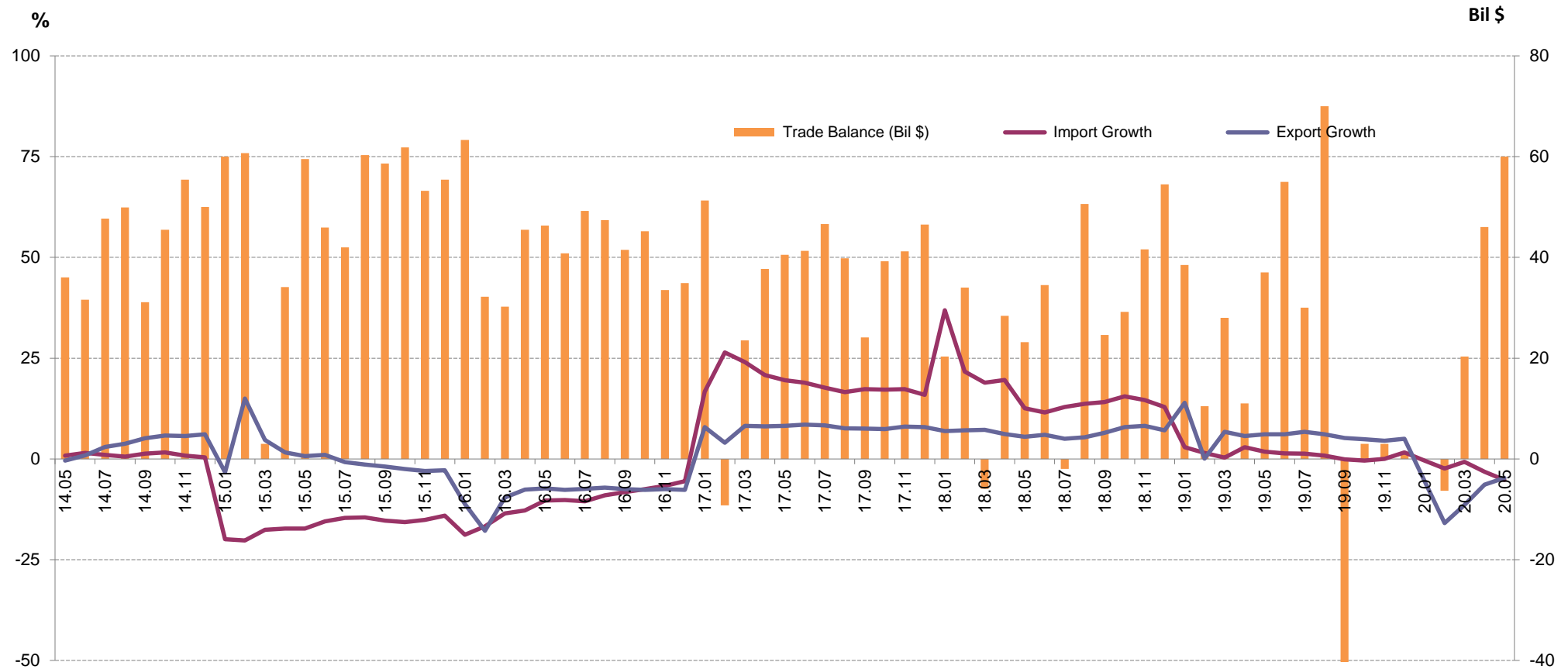
Pandemic and Recovery, GDP (yoy)



Pandemic and Recovery, Consumption(yoy)



Pandemic and Recovery, Trade (ytd)



Why recovery fast?

1. People really feel safe: swift and serious lockdown, massive, thorough, and free, testing and tracing, plus social distance restriction (vs. half-hearted actions)
2. Large proportion (about 50%) of the economy is manufacturing (vs. service)
3. Fiscal policy speeds up the construction of infrastructures (vs. spending on social subsidies)

Policies

- Fiscal policies: medical expenses, and infrastructure investment.
- Monetary policies: did not follow others on supper easing, but more “micro policy” actions with macro quantitate support.
- “low-key policy” approach, in order to avoid chaotic situation last time in 2009.

Money supply



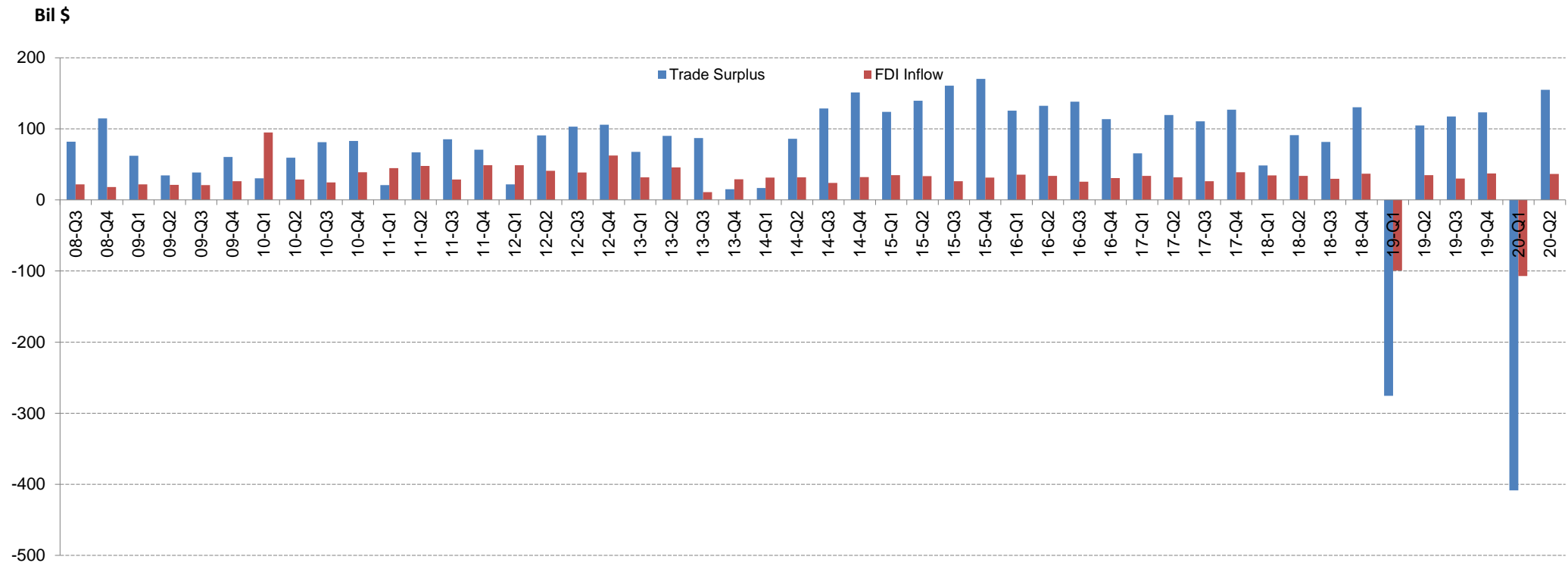
Growth prediction

- China's GDP growth could be 2% 2020
- It could be better balanced in terms of relationships between domestic consumption and export, financial market and goods market, etc.
- Vaccine seems in good progress, which will ensure the strong growth for 2021.

Changes of Supply Chain

- The pandemic and China-US tension make people think of the adjustments of the supply chain and diversify the sources of supply.
- Some governments provide incentives and helps for their companies to move out of China.
- What have happened and what will happen?

China's FDI inflow and trade balance



Who are leaving China?

- Some foreign companies and Chinese companies have been leaving China due to the cost structure changes, particularly in labor-intensive industries, in past years.
- Companies which sell to US market are leaving, or reallocating some production to other places, because of the trade war and tariff hike;
- Some companies, including Chinese ones, are reallocating part of their production facilities, or new additional facilities, to other countries in order to diversify the supply chain (so-called China +1 strategy).
- Companies which are, and might be, under the US government pressures or “suctions”!
- So far, there is hardly any “total pull-out”, except for real business reasons.

The reasons for not leaving and coming

- China's big market is getting bigger.
- China's market is becoming more open (since the start of the "trade war") and business environment has been getting improved.
- China now has the most complete and comprehensive manufacturing industrial systems, with low logistic cost and transaction cost for many industries.

De-globalization or Re-globalization?

- Except for some politicians, most business leaders and multinationals are still thinking and acting globally. And most developing countries are still welcoming FDI and want to have better access to the global market.
- Supply chain adjustments may be truly needed in dealing with the situations like coronavirus pandemic, and other disruptions of normal life. So the current relocation and diversification should be regarded as an improvement. It is rather not an stop of the globalization, but re-globalization.
- We may expect to see some kind of supply chain integration in regions (time zones).

Recent developments

- Chinese and Korean officials have met recently on pushing up the RCEP and China-Korea-Japan FTA.
- China and Europe have resumed negotiation on investment agreement.

Will China survive the “New Cold War”?

- China will continue to develop with
 - Independent Technology innovation.
 - Further marketization reforms, and freer trade with everyone in the world.
 - And engaging more deeply in multilateralism and globalization.
- China should de-couple or diversify from US too, as it was too much to rely on US market and technology.

We have learned from Americans so much!

- Before: technology, free market, globalization, rule of law; etc.....
- Now: unilateralism, withdrawal from international treaties, state power intervention in market competition, “The Jungle Rule”.
- We are adding a new chapter to “Economics of Development” on “Various difficulties in the process of Catching up”.

Growth Engines in the next stage of development

New growth engines: supply and demand

1. High tech. industries and “new infrastructures”: Internet of things, 5G applications, AI, automations, Biotech, new energies, Smart cities, etc.
2. Further reforms of institutions and further opening up: better conditions for private business, start-ups, and FDI.
3. Urbanization: great metropolitan areas such as Great China Bay area, Yangzi Delta area, and other “group city areas”..
4. Consumption growth with greater “dissaving”.