As China moves to recover from the effects of the novel coronavirus, it is likely that industry in the country will face a number of changes. Albert Hu, an associate professor specializing in Chinese economy at the National University of Singapore (NUS), recently took some time out to give The Chemical Daily his thoughts on what changes could be coming for industry and economy in China.

While the manufacturing sector in China is bringing its operating rate back up, it would appear that the recovery in demand is going somewhat slower. Commenting on this, Hu said that there are two kinds of economic stimulus measures that could be taken to help recover demand.

The first of these methods, Hu said, is infrastructure investment. He noted here, however, that rather than just limiting this to conventional fields - like the establishment of expressways, rail networks and power plants - there would be a need to also make new forms of investment, including efforts to expand services offered by health care networks. With China not having a proper system for early diagnosis, Hu explained, a pandemic like the current one sees people flood into major hospitals. And this then leaves significant room for improvement, he said, when it comes to the ability to access medical services such as regional outpatient clinics.

The second method of economic stimulus, Hu said, is to speed up economic restructuring. He explained that when looking to arouse demand, it can help to move to a setup with laxer regulations so that market principles can work more strongly. The Chinese government
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appears to be considering policies in this direction at present, he noted.

Under current Chinese leadership, a common view is that the state-managed sector enjoys preferential treatment, leading to the question of whether the process of deregulating this will be sped up going forward. Hu said here that while the country’s leadership has certainly been moving to strengthen the role of the state, the recent situation – in which it has become difficult to maintain the high growth rate seen previously – could potentially see deregulation serve as a powerful engine. And the necessity of this, he said, is only increasing now that the rapid spread of the coronavirus has prompted a sharp economic decline.

Examples of deregulation here, Hu said, could include the lifting of restrictions on financial services such as life insurance or securities, as well as a move to repeal the current upper limit on foreign ownership of companies.

Moving then to discuss how an economic recovery is also expected for various Southeast Asian countries that rely heavily on Chinese exports, Hu said that there is a real possibility that this recovery comes faster than that for other regions. He projected that while export volume will likely recover relatively quickly for the sorts of products that are ultimately consumed and used in China, intermediate products – those that China imports only to process and then re-export to the likes of the West – will likely see the demand slump continue for some time yet.

Asked whether he expects to see companies changing up their supply chains or their strategic positioning of China in the wake of the coronavirus, Hu noted first that the pandemic has made people around the world aware of just how much they rely on global value chains for daily necessities. And when even one part of this chain breaks, there can be an impact on the chain as a whole, he said. Due to this, Hu continued, there likely will be companies that consider relocating their production outside of China once the pandemic has settled down. And the countries receiving the largest benefit from this will undoubtedly be those in Southeast Asia, he said.

At the same time, Hu said, there were already a lot of companies – including Chinese ones – moving to relocate their production to Southeast Asia as a result of U.S.–China trade tensions, wage growth in China and so on. But with large-scale supply chain reconsiderations requiring immense costs, it is likely that such changes will be limited to the likes of health care-related
products, he said. And while wage costs in China are now high, he noted that the country also offers a benefit in the form of its refined production networks.

*Part 69 in this series coming soon.*