

Insights: Quarter 1, 2022

# China Economic Update Report

## **This Issue:**

China's Economic Performance in Q1  
China accelerates infrastructure investments

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## China's GDP grew 4.8% year-on-year in Q1, 2022, beating previous expectations

Despite lengthy COVID lockdowns in March in key regions such as Shanghai, data released by the Chinese National Bureau of Statistics shows the country's GDP gained a 4.8% growth (YoY) in the first quarter of 2022, up from a 4% growth (YoY) in the fourth quarter 2021.

China's economy increased by 1.3% in Q1 compared to the previous one, a more modest growth in comparison with the 1.6% growth of the Q4 2021. Investment in manufacturing rose by 15.6% (YoY) in the first quarter. Industrial production in China expanded by 5% (YoY) in March 2022, surpassing the expected growth of 4.5%, but falling behind January to February growth of 7.5%. While many of the country's figures are positive overall, household spending showed signs of decline. Retail sales dropped by 3.5% in March, as consumption suffered from COVID lockdowns.

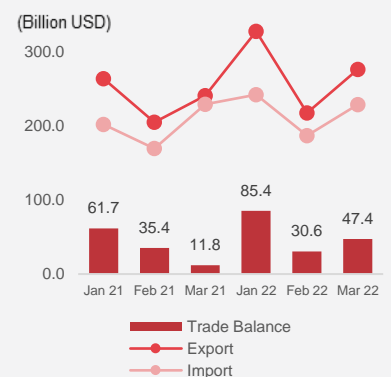
The country has experienced multiple macroeconomic related issues during the quarter, including uncertainty caused by the Ukraine war, a weak property market, and heavy COVID outbreaks that consistently hinder business activity. In Shanghai, China's largest economic hub, shut roads and closed ports started at the beginning of March. Factory activities were halted, including Tesla and Volkswagen's local units. Economists warn that if lockdowns are extended throughout April, the city would experience a 6% loss in GDP. Chinese authorities are introducing measures to aid in continuing factory activity, including letting staff sleep and work in the factories; nevertheless, the city-wide lockdowns .

### China's trade sustained momentum despite supply chain bottlenecks

Despite mounting challenges and uncertainties, China recorded an impressive quarter of trade.

Exports from China grew 14.7% (YoY) in March 2022, after a combined growth of 16.3% (YoY) in January and February 2022. Sales to the US and ASEAN countries 22.58% and 10-38% (YoY) respectively in March- Meanwhile, sales to Russia declined by 7.65% (YoY).

Imports in March 2022 slightly edged down by 0.1% compared to the previous year. This showed a less optimistic view compared to the first two months of the year, where a 15.5% gain in imports was recorded.



Source: National Bureau of Statistics of China, China General Administrations of Customs

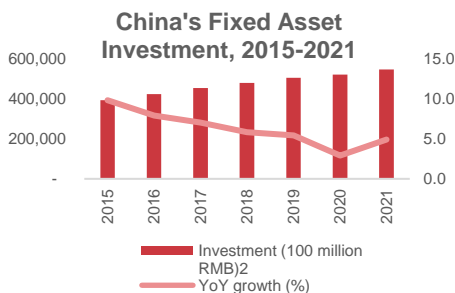
# China accelerates infrastructure investments

Traditionally, investment in infrastructure has been a key growth driver of Chinese economic growth. After facing a slowed economy, the government now hopes that spurring infrastructure investments will bring about similar growth that it has brought in the past. Any infrastructure projects that can help secure China's future would be strongly supported.

Infrastructure spending has played an important role in China's economic growth, providing jobs, and improving the quality of life for the population to this day. After some turbulent years, China is looking to recover its slowed economy.

Stimulating infrastructure spending would likely help ramp up growth numbers, attract foreign investments, and boost China's business sentiment once again. In 2021, the Chinese central government set goals to implement fiscal and monetary policy by year-end with the purpose to increase investments and instigate growth at the beginning of 2022. It may relax certain restrictions to enable debt and lending for target sectors that fit in China's long-term picture.

China's growth in infrastructure investment has slowed dramatically in recent years. Tightened regulations on local governments' debt and choices of funding have led to a decline in borrowing by the local governments and fewer eligible infrastructure projects to invest in.



Source: China's National Bureau of Statistics

However, given the government's support, investments in infrastructure in the first quarter of 2022 reportedly rose by 8.5% (YoY). Chinese National Development and Reform Commission (NDRC) have approved 32 projects worth a combined value of 81.6 billion USD in the first three months of 2022. The current value of

approved investments for 2022 has already reached 70% of last year's total. In 2021, 90 projects worth a total of 119 billion USD were approved by the NDRC. The sectors receiving investment approvals include transportation, energy, and advanced technology.

China has issued special-purpose bonds (SPBs) for funding, allocating 573 billion USD worth of SPBs for local governments in 2021. The funds raised through SPBs issuance were used in "key areas determined by the Party Central Committee and the State Council". The Ministry of Finance has pre-allocated 229.6 billion USD of the 2022 quota to be used in the first quarter.



Industries targeted for infrastructure spending include new infrastructure, namely innovative infrastructure, information infrastructure, and integrated infrastructure. While China has developed extensive transport systems, investments in transport infrastructure is expected to grow. The government has planned to expand China's high-speed rail networks and passenger airports in their 2025 development plans. Other target sectors include social welfare and environmental infrastructure.

The central government's focus on support and stimulus spendings on infrastructure projects show promising signs for economic growth. The public infrastructure projects, including railways, logistic chains, and social housing, would help boost local economies and further raise the standard of living for many people. Easing debt caps for local governments and real estate developers would further help increase investment in infrastructure projects.

Beyond 2022, the long-term outlook for infrastructure spending would be a continual transition to investment in advanced technology and infrastructure, allowing China to move up the global value chain.

## China-Europe Railway Express under pressure following the Ukraine crisis



The China-Europe Railway Express, or the China Railway Express (CRE), is a key logistical component of China's Belt and Road Initiative. It travels along multiple routes, departing from China, crossing Central Asia, and arriving in western Europe – mirroring the ancient Silk Road. The cross-continent network has served as an alternative to container shipping for Chinese exports to Europe via Russia in the past couple of years.

Since the COVID pandemic breakout, soaring sea freight costs and massive shipping delays have driven multiple exporters to consider trains as an alternative shipping transport. Over 15 thousand train trips were made along the Eurasia routes in 2021, transporting 1.46 million twenty-foot equivalent unit (TEU) containers. As of January this year, more than 50,000 train trips have brought 4.55 million TEU of cargo worth 240 billion USD to 180 cities in 23 countries in Europe (China State Railway Group).

As the Russia-Ukraine crisis prolongs, trains passing through Ukraine have been suspended or diverted. The main routes of CRE, which do not pass through Ukraine, have been able to continue their operations. However, sanctions on Russia by European countries may add pressure, particularly as all mail routes pass through Russian land. The European Union has already blacklisted the Russian state-owned railway company – Russian Railways. Uncertainties related to changes in sanction policies of the European Union have caused many European customers to cancel their bookings and switch to sea freight, adding more pressure to already strained supply chains.



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