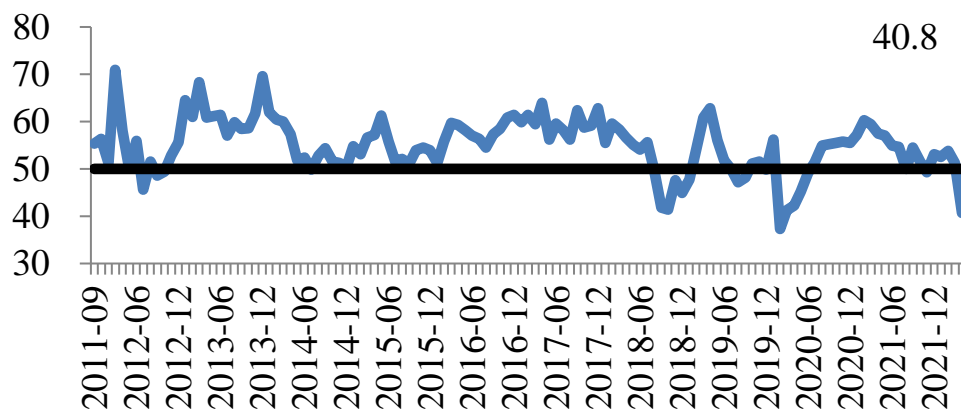


Commentary on the April 2022 CKGSB Business Conditions Index

Professor Li Wei

The April CKGSB Business Conditions Index (BCI) fell to 40.8 from 51.3, well below the confidence line of 50.0 (Figure 1), reflecting impossibly hard times. The ten-point drop indicates that our sample of successful business owners in China are very pessimistic about business prospects for the next six months.

Figure 1 Business Conditions Index (BCI)



Source: CKGSB Case Center and Center for Economic Research

All but the industry competitiveness index have fallen. But this only benchmarks our sample against their rivals, and says nothing about operating conditions. For this reason, we can say there has been an overall decline in confidence in Chinese business in April. Since the BCI and its related indices look to the upcoming 6 month period, this means difficult times ahead. Comparing today with the situation over the past two years, we see the current situation is just as severe as that of March 2020, and GDP growth in the second quarter will reflect this.

How has China come to this? The country's battle with the Omicron variant through strict measures to prevent the spread, has been disastrous for the economy. In March 2022, a wave of Omicron hit Shanghai, infecting hundreds of thousands of people. Shanghai adopted heavy measures to curb the number of cases, with residents unable to leave their communities or even their homes, and businesses unable to resume work or production. Blanket nucleic acid test were carried out. Logistics was heavily impacted causing a shortage of food, water and daily necessities. How could such services run smoothly while movement was so heavily restricted? Many transportation holdups, which turned into disastrous bottlenecks to getting goods to consumers, added to financial pressures.

Another model for confronting Omicron has emerged in Shenzhen, which has involved stationing nucleic acid testing points across the city and testing everyone every 48 hours. Entry to public places required a negative result. Beijing has also adopted similar measures. The method has allowed Shenzhen to continue to function, keeping people in work, which goes without saying is essential

for a city and economy.

In addition to maintaining the healthy flow of logistics, how do we keep work and production up and running, especially for small and medium-sized enterprises. These are the capillaries of the economy, where most innovations take place. They mark the level of economic vitality of a country. Tsinghua University's Professor Zhu Wuxiang conducted a study in which he surveyed over 1,400 small and medium-sized enterprises in early 2020, and found that less than 15% of them could last more than 3 months without cash flow. In the United States, businesses faced similar hardships during the early months of the pandemic. For example, a study in *The Statesman* found that from January 2020 to June 2021, 37.5% of small businesses were forced to close. In California, 39.1% closed, as pandemic policies were more strictly enforced. The government and society as a whole need to stand behind companies in times of trouble, giving them financial support to tide them over until the situation improves.

In addition to supply side issues, demand also needs attention. We want companies to get back to work and production, but if residents are still locked up at home, how can we drive consumption driven growth? Allowing people out of their homes, especially in areas that have been mainly cleared of infections, is essential, as a first step. After so long indoors, incomes will have dropped sharply, and spending power too. This is a good time for the government to exert its macro-economic power. Consumer coupons could be used to encourage consumption, to not only meet the consumption needs of residents, but also boost sales issues on the supply side.

Under Shanghai's strict quarantine rules, foreign employees, experts have left the city or country. These are people who bring with them the latest technological or managerial knowledge and promote the development of China's economy are needed. We hope that these professionals from overseas will be offered certain preferential policies, such as lower income tax, in an effort to keep them in the country.

This is a commentary on the CKGSB BCI report for April 2022 to which you are welcome to refer for detailed statistics. Do not hesitate to contact the BCI team by email for the accompanying BCI data report.

CKGSB Professor Li Wei

1 May 2022