Commentary on the November 2021 CKGSB Business Conditions Index

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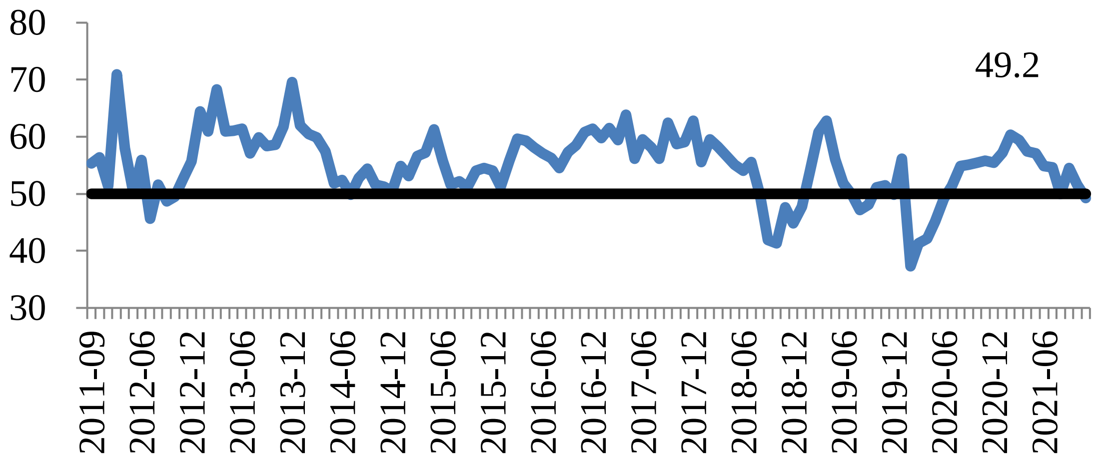
The November reading of the CKGSB Business Conditions Index (BCI) dropped from 51.6 to 49.2, under the confidence threshold (Figure 1). As expectations have fallen below the 50.0 mark, this indicates that company operations are in an extremely weak position.

Figure 1 **Business Conditions Index (BCI)**



Source: CKGSB Case Center and Center for Economic Research

This month's BCI data is worth looking at carefully, as it enables us to compare entrepreneurs' and executives' prognoses for the upcoming six-month period with their expectations a year ago. Let us first consider the BCI sub-indices, which this month registered three falling figures and one rise. The inventory sub-index was the one to grow in November, while the very important profit sub-index fell sharply from 53.9 to 47.1. How much profit a company can make in the long-term is a serious factor in its core competitiveness, and profit is at the heart of the development and growth of an enterprise. Our profit index has always performed well in the past, but in 2021 has fallen below 50.0 on two occasions, which is a cause for concern.

The second point of concern is price prospects. The index measuring consumer prices rose slightly, which means we are experiencing moderate inflation, but producer price prospects fell sharply this month, from 56.3 to 51.8. We believe there are two reasons for this clear drop. One is that the state has adjusted the prices of producer products to hold back inflation on products, such as thermal coal. The other is the major users of producer products such as industry and construction; the recent slowdown in production in these sectors has triggered a sharp drop in producer product prices. However, the fall in the price of producer goods is conducive to China's current economic transformation, with its campaign focused on the reduction of cost.

Finally, what about the state of structural economic reform in China? Consider for a moment that the universe in which we live in is huge. According to estimates, the observable universe is over 90 billion light-years old. In it, human beings are smaller than grains of sand, or even specks of grains of sand. There are too many things we don't know. For example, in the 1960s, Somalia's per capita GDP was higher than that of South Korea, but after decades of development, South Korea is now a developed country, and what Somalia is famous for is war, poverty, and pirates. Why is this happening? If it were due to ethnicity, why were Koreans so poor in the past?

To give another example, according to data from the World Bank, in 1996, the year before the East Asian Financial Crisis, the per capita GDP of Thailand was 3,044 RMB, while the GDP per capita of China was 709 RMB. The former was 4.3 times bigger. However, Thailand was devastated by the Asian Financial Crisis while China accelerated from that point. By 2020, according to the same standard, the per capita GDP of China and Thailand are 10,500 RMB and 7,189 RMB respectively. China has far exceeded Thailand's development level. Why is this?

In my opinion, the development of South Korea and China is not so different. The key to success is continuous structural reforms that improve efficiency under the premise of opening up to the outside world. However, structural reform is easier said than done, because it involves the redistribution of interests. Although the cake may be larger, some will lose out, and they will naturally oppose structural reform. For example, US-China trade is definitely beneficial to the people of the two countries, but may not be any help to manufacturing workers in America. Faced with competition from China, their very survival is at stake. For this reason, many of the original manufacturing cities in the United States have fallen into decline – the so-called "rust belt" of America. It is not hard to understand why workers living there oppose US-China trade and globalization.

Historical experience tells us that although opening up to the outside world is extremely important, whether a country can truly develop depends on internal factors. China has now reached the level of USD 10,000 per capita, making it a typical middle-income country. If a country can progress further, it should be able to catch up and become a developed country in due course. If such countries do not handle major risks well, or indeed experience devastating financial crisis, they may crash like Thailand.

This is a commentary on the CKGSB BCI report for November 2021 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.

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