

December 2020 Report

Japan and companies in the world to gain from China's quick economic recovery

Japan trying to keep their distance from China politically, is finding the country's economic pull inescapable. Japanese companies see China's rapid recovery as a rare bright spot as the pandemic lingers and continues to sap demand in other markets around the world.

Despite a much talked-about "exit" from China by some, others are staying put. "Demand in China has been strong beyond our expectations," said Hiroyuki Ogawa, CEO of Komatsu, Japan's largest construction equipment maker, in a teleconference in late October.

Last month Komatsu raised its consolidated sales forecast for this fiscal year ending March 2021 to 2.12 trillion yen (\$20.5 billion) from 2.07 trillion yen, reflecting strong sales in China. Of the five major markets, Komatsu operates in, China was the only one where demand for construction machinery grew in the second quarter. With China's infrastructure spending accelerating as the government opens the fiscal taps, Komatsu estimates demand for seven main types of construction machinery rose 44% from April to September, compared with the same period last year. Komatsu is far from alone in pinning its hopes on China's recovery. While other countries face a rising number of COVID-19 infections, China has contained the spread of the virus. Economic activity is picking up faster there than in many other countries.

Retailers also see customers in China returning to shops faster than elsewhere. Sadanobu Takemasu, president of Japanese convenience store chain Lawson, told reporters in October that its same-store sales in China have been recovering rapidly since September. "We sense that we have momentum [in China] to achieve the goal that was set before the pandemic," Takemasu said.

Fast Retailing, which owns the Japanese casual clothing brand Uniqlo, has also seen a better-than-expected recovery in China since March. It expects its sales and profit to expand through fiscal 2021 in the greater China region. Tadashi Yanai, chairman and president of Fast Retailing, expressed confidence in the company's business in China, saying that it is "feasible to open 3,000 stores" there, up from 780 stores now.

According to the International Monetary Fund, China is the only major economy expected to grow this year, with its gross domestic product forecast to expand 1.9%.

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The IMF also estimates that China's economy will grow 8.2% in 2021, compared with growth of 5.2% in the rest of the world.

The U.S.-China decoupling is expected to continue no matter who wins the U.S. presidential election. However, as the rest of the world struggles to weather the pandemic, "the significance of China as a market will grow further," said Yuji Miura, advanced senior economist at the Japan Research Institute.

Miura said that **no other country can replace China in terms of its market, supply chain and industrial clusters. "If you look at the situation coolly and calculate cost-benefit, you can't really rule out making and selling things in China."**

Reference Information : <https://asia.nikkei.com/Business/Companies/Japan-and-Taiwan-companies-to-gain-from-China-s-quick-recovery>

Comments:

This shows somewhat ironic that countries in the world have been struggling COVID-19 measure and also have to recover economy to protect people's life and jobs, but China which is the origin of the virus whose economy has been and will be recovered strongly and rapidly. It is the fact that not only companies in the world but also Japanese companies in a variety of business segmentation depend on China for better or worse. We believe that this fact will affect not only the economic aspect but also the supply chain and procurement operations.

So far, Japanese companies have been shifting their supply chains from China from the perspective of risk diversification. It is currently in an unsteady state under the COVID-19, and I don't think this policy will change immediately, but we should avoid rethinking the supply chain in the after-COVID-19, except for China, which continues to expand its economy approaching the United States. This time, COVID-19 gives us an opportunity to reconsider China's direct and indirect influence and Japanese companies are also under pressure to review their strategies including supply chain management and procurement operations as well.