China's Reopening Is the Boost the Flagging World Economy Needs

The easing of Covid restrictions will unleash pent-up demand for commodities, consumer goods and travel.

By Enda Curran
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The 269 passengers on China's first direct flight to Thailand since the end of Covid Zero restrictions got an extra-special welcome when they disembarked in Bangkok from Xiamen on Jan. 9. The country's deputy prime minister showed up to present them with orchid bracelets. There was good reason for the warm welcome: Thailand expects 7 million to 10 million Chinese travelers to arrive by air this year and hopes their spending will help power an economic recovery.

Around the world, economies that rely on tourism and commodities are set to receive a shot from China's sudden reopening, as consumers unleash some of the 5.6 trillion yuan ($836 billion) in excess savings they built up during the pandemic. Demand for air travel, hotels and spots at foreign schools and universities will light up as Chinese pack their bags for international travel for the first time since Covid-19 struck.

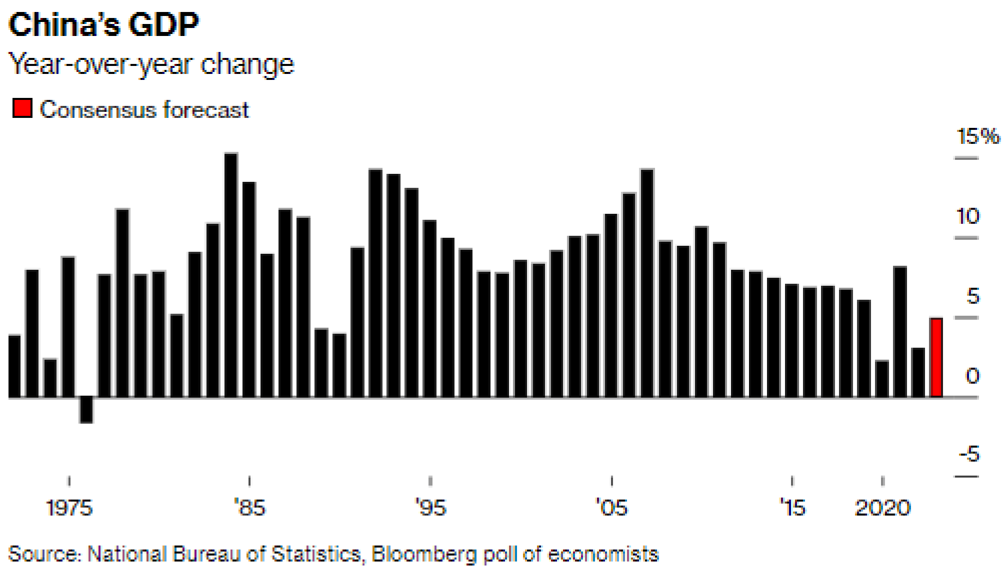
Thailand attracted around 11.5 million foreign visitors last year—way down from the 40 million who visited in 2019, before the pandemic, when almost a quarter were from China. While Thailand and other tourism-heavy nations in Southeast Asia like Singapore and Vietnam will likely be the first to benefit, developed economies including Japan and the UK will also get a lift.

Economists predict that China's economy will expand by close to 5% in 2023, ahead of the 3% growth registered last year.

Covid's spread will hamper the revival. Experts say the almost 60,000 Covid-related deaths China reported for the first five weeks of its current outbreak may underestimate the true toll by hundreds of thousands. The Lunar New

Year holidays that begin on Jan. 22 are expected to send the virus deeper into rural areas. Still, the government's decision to ease Covid restrictions, along with its efforts to shore up the slumping real estate sector, will lift consumer confidence at home and help such overseas commodity producers as Brazil and Chile.

Prices for copper, considered a barometer of China's economy, have already climbed above $9,000 a ton for the first time since June in anticipation of increased construction; Goldman Sachs Group Inc. has said the price may reach $11,500 by yearend. The rise in copper has helped boost the Chilean peso, which is enjoying its best streak since August. China is Australia's biggest trading partner, hoovering up its iron ore supplies. A gauge of Australian mining shares is close to an all-time high. A recent thaw in political relations between the countries' governments is expected to lead to a resumption of trade in other sectors, such as coal, while Chinese tourists and university students are also likely to return.



The price of Brent crude will average more than $100 a barrel this year, in part because of China, according to ING Groep NV. BNP Paribas SA predicts the MSCI Emerging Markets Index will rise to 1,110 by yearend—a gain of 9%."China's reopening will deliver a much-needed jolt to global growth," says Frederic Neumann, chief Asia economist at HSBC Holdings Plc. "Accelerating Chinese household and investment spending will help put a floor under global trade at a time when demand in the West is faltering."

Factors other than Covid may weigh on China’s recovery. The big slump in property prices will lean against a consumer rebound. And government stimulus, so far at least, has been relatively restrained. Other big, structural impediments face the country, too: Its population started shrinking in 2022 for the first time in six decades.

“When the Covid situation settles down enough for China truly to re-open, probably around March, the re-opening boomlet will disappoint” in comparison to the surge when richer countries reopened, says Freya Beamish, chief economist at TS Lombard. “Chinese domestic stimulus has been pale in comparison and the pool of wealth to support pent-up demand is much smaller” than in more developed economies.

There’s also the question of global inflation. Bloomberg Economics estimates the reopening will push China’s 2023 GDP growth to 5.1%, which would add about 0.9 of a percentage point to global inflation, relative to what would have happened if Covid Zero policies had continued. It estimates that every percentage point acceleration in China’s growth adds 12% to the price of a barrel of oil. Bank of Korea Governor Rhee Chang-yong acknowledged on Jan. 13 that, while demand from China may boost his nation’s exports, it could also stoke inflation. “If China’s economy is recovering fast, that might be good for the current account balance of Korea,” Rhee told reporters. “But it may cause crude oil prices to rise.”

Even so, for a world economy grasping for good news, a rebound in demand from China will be welcome. Kristalina Georgieva, the head of the International Monetary Fund, says Beijing’s pivot from Covid Zero is probably the single most important factor for global growth in 2023 and will make China a positive contributor to average growth by around midyear.

Barclays Plc analysts expect a surge in outbound tourism, noting data from Ctrip International Ltd. that show international bookings for the upcoming Lunar New Year holiday soared 260% from a year ago. They say economies such as Australia, the UK and the US will be among the beneficiaries. Before Covid forced borders to close, China ran a $260 billion services deficit, 85% of which was attributable to outbound tourism, according to Barclays.

At the same time, a domestic recovery in China will lend itself to stronger demand for imports. S&P Global forecasts Chinese retail growth of 5.8% in 2023. “Given the meager growth expected for the US and Europe, with downward risk of a recession for both,” says Garcia Herrero of Natixis, “our expected 5.5% GDP growth for China in 2023—even if not impressive—will greatly contribute to global growth.”