

1.- China has reduced the contagion practically to zero after the drastic measures adopted, with the workers returning to their jobs (except in Hubei, the most affected province). Is the worst of the crisis in the country over?

It's good news that after almost 2 months of containment the number of contagious people no longer increases. It's a first step but it doesn't mean that this is the end of the story. A recent analysis on the Covid-19 epidemic suggests that the virus is more persistent than usual. Therefore, it's too early to consider that the crisis is over. This is only part of the problem.

Because we've seen that in February the Chinese production dropped dramatically. The industrial production index was up 6.9% in December on a YoY basis and was down -13.5% in February. This has already had a considerable impact on the Chinese production process. In February, surveys on the manufacturing sector noted that suppliers' delivery times indices were high everywhere in the world notably in China. This means that for, at least a moment, sectors will not go at the same speed of adjustment and the recovery will be delayed.

2.- Is it going to be possible to see a V shape Recovery in China? Or rather a U shape?

A V shape doesn't seem possible as there are a lot of interactions between China and the rest of the world. We had the V profile for the SARS in 2002/2003 because China was not integrated in the world economy. This has deeply changed as China is now the biggest world exporter and just below the US for imports. In 2002/2003, it was just a Chinese health issue, in 2020 it is a world health issue coupled with a brutal global economic slowdown. The negative impulse to the world economy coming from China will have a negative impact on China as markets in the US, Europe and elsewhere will deeply contract. This is the interdependence.

A U shape would suggest that after a long period of stagnation, the economy can recover rapidly. What could provoke this spontaneous recovery?

If I can have a favourite profile it would be an open V which shows a strong negative shock at the beginning, a persistent negative effect and a smooth recovery.

3.- What sequels could remain for the Chinese economy and markets?

The Chinese economy was on a structural downside adjustment. The economy was in transition from an industrial led growth economy to a service led growth economy. This means lower growth rate than we earlier had in mind. It will drop from 10% in the past to 4% in the foreseeable future.

It may have two types of consequences

First, the government will want to increase the Chinese advantage in terms of technology and biotechnology. It will want to immune the Chinese economy from any negative shock in the future. Second, many non-Chinese companies will want to reallocate their investments in China. Their currently perceive that their supply chain is too dependant on China. They will continue to invest in Asia but with more diversity.

4.- Is China now the hope for the West?

It will still be the case as China remains a strong source of impulse in the very large and very dynamic Asian market. No other emerging countries/regions create this type of opportunity.

5.- What lessons can the investor draw from what has happened in China?

On the companies' side, the main lesson is on the concentration of investment and the lack of diversification in the location of these investments, even if it's in Asia. But that's not that simple. The main question for investors is the following arbitrage: what would have been the difference of costs in this crisis with a strong diversification in Asia and with a strong concentration of investments in China? The comparison is not necessarily easy as in many Asian countries, local

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Chinese people are conditioning the local business. Therefore, the dependency on China will remain important.

The other point is to say this type of event is rare. It will not come back for many years and in the interval the business will develop rapidly. A may be is that China will not be the country that will pay the highest price in the crisis. Europe may be a candidate.