China growth hits official target but significant problems remain

Nick Beams
21 January 2024

China's economy grew by 5.2 percent in 2023, slightly above the official target of 5 percent, and a significant rise from the 3 percent growth in 2022 when anti-COVID measures were in place.

From late 2022, the government lifted virtually all public health measures under enormous pressure from the imperialist powers and global corporations, resulting in the death of an estimated two million people. It had been hoping for a resultant "boost" to the economy, particularly as a result of increased consumer spending.

Apart from a brief uptick at the start of the year, that has not materialised. While some sectors of the economy are expanding quite rapidly—car production is one—there are growing problems in both the short and longer term.

An immediate issue is that China could be in the grip of a deflation cycle with the risk of what is known as a deflation-debt loop. Chinese consumer prices fell 0.3 percent in December for the third month in a row with producer prices dropping by 2.7 percent.

Prices have now fallen or remained flat in every month since August with the 0.5 percent decline in November the biggest drop in three years.

Deflation means that corporate profits and revenues fall and the debt burden increases. As a result, wage growth will slow, leading to falling consumption spending in conditions where the government is looking to it to boost the economy. Deflation threatens to see off a loop of falling aggregate demand which in turn leads to further deflation.

While showing that GDP came in on target, the data underscored the continuing problems in the property and real estate sector. This has been a mainstay of the Chinese economy for the past decade and half and accounts for around 25-30 percent of the economy when its connection to other sectors is considered.

Investment in property development fell 9.6 percent in 2023 compared to a year earlier, with the price of new homes falling by 0.4 percent for the month of December, the sharpest decline since February 2015. In a sign of conditions in the housing market, existing homes are selling for a fifth less than their peak in the summer of 2021.

The real estate crisis has seen the collapse of major developers Evergrande and Country Garden together with at least 50 other smaller firms that have defaulted on loans. It is now extending into what is known as the shadow banking area of the financial system.

Last July, the wealth management group Zhongzhi revealed it was experiencing difficulties. It announced in November that it was "seriously insolvent" and has since filed for bankruptcy.

In a note on the bankruptcy filing earlier this month, Alicia Garica-Herrero, chief Asia-Pacific economist at the investment firm Natixis, said: "All in all, Zhonghzi's bankruptcy filing points to the rippling effects of real estate and some failures in the shadow banking sector."

The bankruptcy is not expected to have major immediate flow-on effects, but it does point to the growing debt problems, especially in the real estate sector. This has led to calls in some quarters for a "bazooka" stimulus package for the economy along the lines of measures the government has taken in the past, if not as large.

This has been ruled out, as was made clear by China's premier Li Qiang in an address to the World Economic Forum gathering of the global elites at Davos, Switzerland, last Tuesday.

Announcing the GDP number before its official release, Li said the rise from 2022 had been achieved without resorting to "massive stimulus."

"We did not seek short-term growth while accumulating long-term risks, rather we focused on strengthening internal drivers," he said, adding that the economy was making "steady progress."

Likening a viewing of the Chinese economy to zooming out to appreciate the majestic beauty of the European Alps, he said this approach had to be taken for the Chinese economy. "One has to broaden the vision and take a panoramic view … to truly grasp where it is now and where it is going," he said.

However, he was forced to refer to the giant black cloud which hangs over this panoramic view: the drive by US imperialism to use an arsenal of trade bans and sanctions to suppress the development of the Chinese economy which it regards as existential threat to its global dominance.

Using the veiled language in which Chinese leaders speak of the actions of the US which claims to be upholding a "rules-based order," Li said: "The question is, what is true multilateralism? Who will set the rules? What are the rules? If the rules are set by certain or a few countries, then we will have to put quotation marks on multilateralism because it will still be unilateralism in nature."

While Li did not spell out the "long-term risks" the government is seeking to avoid in its opposition to stimulus measures, it was a reference to the growth of debt.

The credit rating agency Moody's last year issued a negative rating for China's government debt while another agency, DBRS Morningstar based in Chicago, downgraded its rating in November.

In remarks to the *New York Times*, Rohini Malkani, a senior for sovereign debt ratings at the agency said that overall debt in the economy now exceeded three years of economic output.

"Over the past 15 years, it has more than doubled" compared to the country's fast-growing output, she said.

As the GDP figures were announced, another set of data pointed to longer-term problems for the economy. The population in 2023 shrank for the second consecutive year. There were 9.02 million babies born last year compared to 9.56 million in 2022.

The fall in population has significant implications. China's economic development over the past 30 years was driven by an influx of a cheap young workforce. It is now becoming one of the oldest societies in the world.

Some of the population decline can be attributed to the previous one child policy, the effect of which the government appears to be now trying to turn around.

Recently, according to a report in the NYT, president Xi Jinping urged government officials to promote a "marriage and childbearing culture." The fact that it seems to be having little effect so far may well indicate a growing lack of confidence in the future.

Many factors may be involved, but one could well be the rise in youth unemployment raising question marks for families about the future for their offspring.

Back in August, the publication of data on youth unemployment—aged between 16 and 24—ceased after it reached over 21 percent. Publication has now been resumed after high school students seeking part-time jobs were excluded. But it still showed a jobless rate for urban youth of nearly 15 percent.

Apart from the decline in births, the population decline reflected the lifting of anti-COVID measures at the start of the year, which resulted in up to two million deaths.

The government was no doubt relieved the growth rate for the year reached its target, but repeating that target—the lowest level in three decades apart from 2022— may prove difficult with many predictions that it will fall further.

Summing up to the situation, China economy observer Eswar Prasad of the Brookings Institution, told the *Financial Times* that the latest data revealed an economy experiencing "at best subdued growth characterised by weak demand and persistently deflationary pressures" which was "not out of the woods."

The next indication of the direction of official policy will come at the National People's Congress in March where the decisions reached in the leadership bodies of the ruling Communist Party will be announced.