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MCC CIE Papers

Publisher:

MCC Center for International Economy

Address:

1113 Budapest, Tas vezér utca 3-7.

<https://cie.mcc.hu>

Editor:

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Budapest 2024.

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ISSN 3004-2607

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Abstract

2023 was a year of recovery and development after China's removing of Covid-19 restrictions, and it is also a year when decline of China's real estate became to adversely influence the development of the economy. China faced challenges in real estate, youth unemployment and consumer confidences, but saw new highlights on energy transition and digital economy. The [IMF](#) has estimated that 0.1% GDP growth in China will have an impact on the world economy by 0.3%.

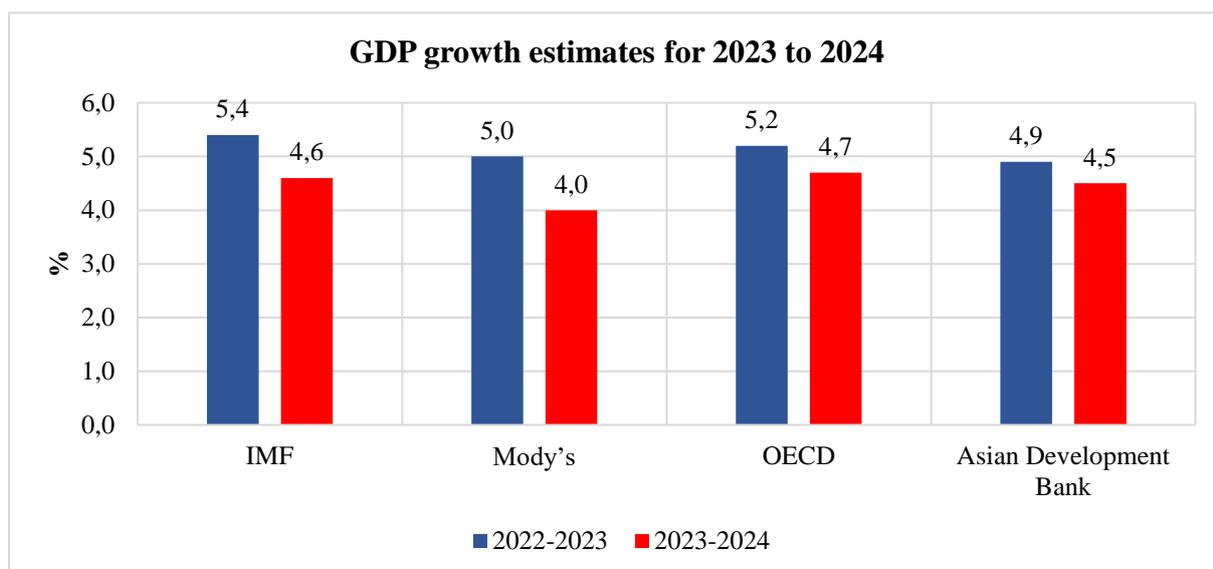
Keywords: Chinese economy, youth unemployment, import and export trade, inflation, energy transition, digital economy

Key trends and influencing factors of China's economy

In 2023, [China's GDP](#) surpassed RMB 126 trillion yuan, with a growth rate of 2.2%. On a quarterly basis, growth in the two quarters was relatively slow, while economy's growth accelerated from the second quarter, slightly slowing down again at the end of the year. China's GDP was RMB 126,058.2 billion yuan in 2023, up 5.2% from the previous year at constant prices. This change was in line with the OECD forecast. In terms of industries, the added value of agriculture was 8,975.5 billion yuan, up by 4.1 percent over the previous year, that of manufacturing sector was 48,258.9 billion yuan, up by 4.7 percent, and that of the services was 68,823.8 billion yuan, up by 5.8 percent.

In terms of quarters, GDP grew by 4.5% year-on-year in the first quarter, 6.3% the second, 4.9% the third and 5.2% the fourth. On a quarter-on-quarter basis, GDP grew by 1.0% during the four quarters. However, international organizations and mainstream rating agencies have lowered China's economic growth forecast for 2024 to a range of 4.0 to 4.7. OECD forecast China's economic growth rate was downgraded to 4.7% in 2024.

In general, the downward trend of China's economy is obvious, and among all industries, real estate market has the most extensive impact on China's economy, because it not only affects development of more than 35 industries, but also is the main target of investment by Chinese residents, and the downturn in the real estate market usually affects economic indicators such as consumer confidence in China.



Source: own compilation based on data from the IMF, Moody's, OECD, and the Asian Development Bank.

While the contribution of real estate market to China's economy is declining, many Chinese residents still regard buying houses as an important means of investment. According to the People's Bank of China statistics, China's urban home ownership rate reached [96 percent](#). At the same time, the contribution of the housing market has been declining in recent years. The cumulative year-on-year contribution rate of real estate market to China's GDP has declined from the second quarter of 2021, while the contribution of industry, information transmission, software and IT services has increased significantly during the same period.

The changes in the allocation of loans from financial institutions are determined by the transformation of the economic structure. The decline of growth rate of real estate loans and the increase of manufacturing loans have been seen a widely know phenomena in China since 2020. The share of real estate-related loans in total loans has experienced a 15-year upward cycle, reaching a historical high point of 29 percent in late 2019 before starting to decline. As of end of September 2023, the growth rate of manufacturing loans was [38.2 percent](#), much higher than the average growth rate of 10.9 percent for total loans, while the growth rate of real estate loans dropped by 0.2 percent, entering a negative territory.

In a model of real estate-driven economic growth, the higher return on investment brought about by the rise in real estate prices has raised the interest rate level of loans. About [80 percent](#) of real estate-related loans are residential property loans, and the return on housing investment once reached circa 20 percent at the end of 2016, much higher than the interest rate of residential property loans, which is also why this segment expanded rapidly. Real estate-related loans accounted for 29 percent of the total loans of financial institutions at the peak, which supported relatively high loan interest rates, keeping the lending rates of financial institutions in a relatively high range.

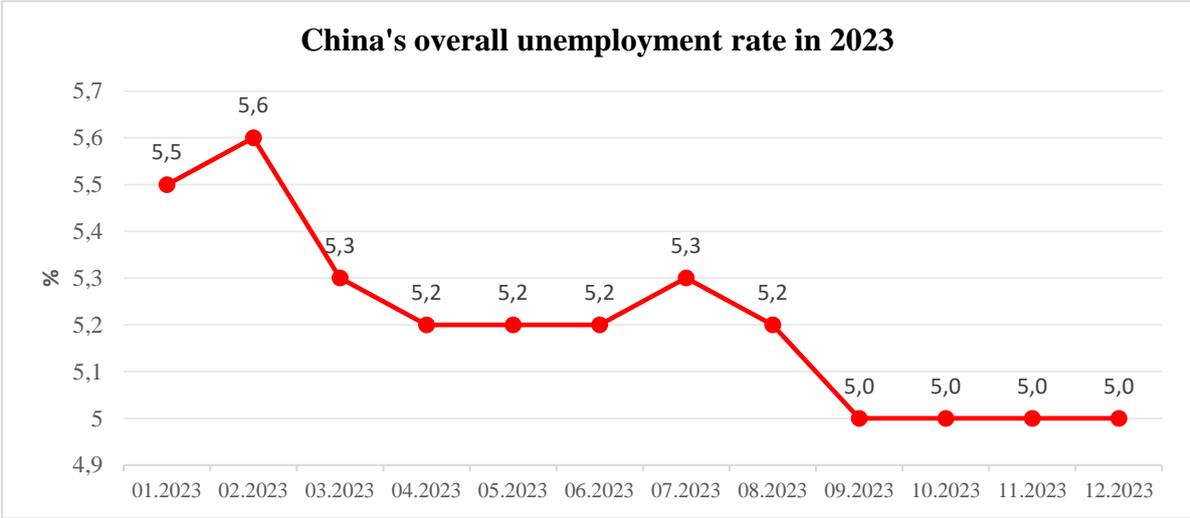
China is now in a period of economic transition, and the return on housing investment has

become lower than the interest rate of residential property loans in the third quarter of 2019 and has been declining rapidly since the third quarter of 2021.

The most volatile sector in the economy in 2024 remains the real estate sector. In 2023, the real estate market had negative growth, with the completed real estate development projects falling by [9.6 percent](#), and the new construction and sales of commercial housing falling sharply again. While measures were made to boost the real estate market, they have not reversed the decline in commercial housing sales, and the real estate developers are still suffering from relatively tight funds. In 2024, we expect the real estate sector drop until the second half of the year, and for the whole year, a slightly negative growth will be most likely recorded. If the decline in the real estate sector does not stop in 2024, economic growth will come under more pressure.

High youth unemployment

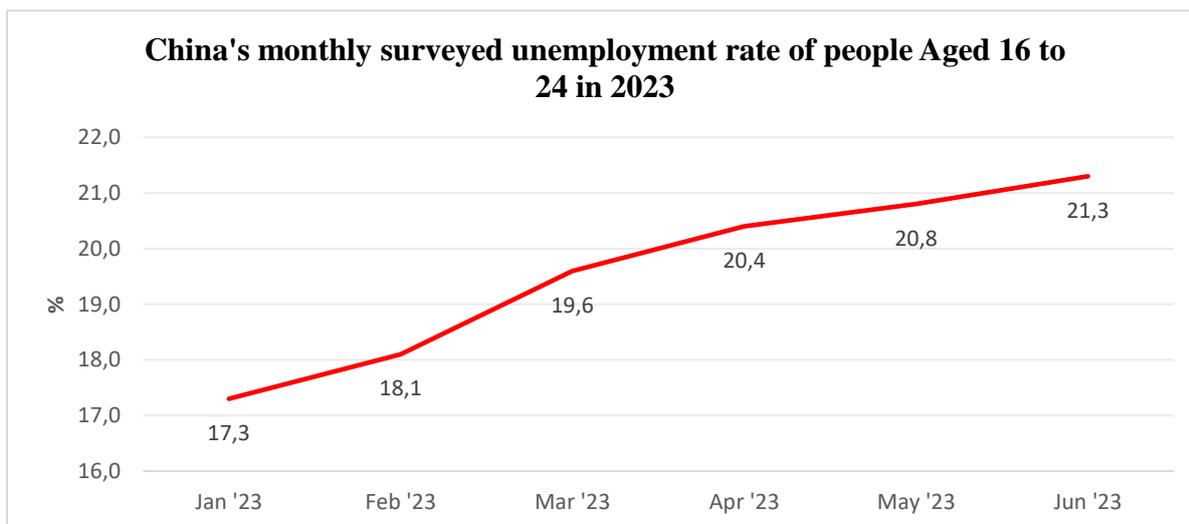
China's labor market remained stable in 2023, with the surveyed unemployment rate ranging from 5 percent to 5.6 percent, and finally stabilized at 5 percent at the end of the year.



Source: own compilation based on data from the National Bureau of Statistics of China.

Compared with the national average, youth unemployment rate is much higher than the normal level before COVID-19 and it also differs from the trend of the overall unemployment rate. The youth unemployment rate was still high in 2023, and the Chinese Bureau of Statistics had even stopped publishing the indicator since August 2023.

Since 2022, China's youth unemployment rate has hit record highs, and the problem of youth employment has attracted great attention from policymakers. The youth unemployment rate, i.e., the surveyed urban unemployment rate of the population aged 16-24, reflects the employment situation of the youth group to a certain extent. Over time, the youth unemployment rate has continued to rise, with an average annual youth unemployment rate of 19.58 percent as of July 2023, higher than 17.6 percent in 2022 and 14.25 percent in 2021, and a significant increase has been seen against the pre-COVID level of 12%.



Source: own compilation based on data from the National Bureau of Statistics of China.

As the downward pressure on China's economic growth will persist for a long time, the employment elasticity in different industries will be significantly different, so the demand is objectively under obvious pressures. In particular, the reason why the youth unemployment rate has continued to rise while the overall economy is picking up this year and deviated from the overall positive employment situation, is due to the differentiation of the different hiring practices of industries and the differentiation of the youth employment structure. Other service sectors with high employment elasticity for young people, such as import and export enterprises, have not recovered as expected.

Pressures on China's import and export

In 2023, China's import and export declined due to weakened external demand, insufficient domestic demand, falling prices of key imported commodities, and a high calculation base. In 2023, exports and imports decreased by [-4.6 percent](#) and [-5.5 percent](#) year-on-year, respectively. Western countries have implemented de-risking policies to seek substitution import sources and reduce imports from China; the improvement in consumer demand in major developed countries, except the US, has been weak after pandemic, this weak consumption was partly caused by monetary tightening and partly by weak consumer confidence. China's exports to major trading partners dropped across the board due to the relocation of some industrial chains.

We expect China's foreign trade exports remain under pressure in 2024. On the one hand, the world economic recovery is slowing down, the geopolitical environment is unpredictable, international competition is becoming more complicated, global supply chains are accelerating the reconstruction process. On the other hand, from the perspective of trading partners, although China's exports to the United States, the European Union and ASEAN turned negative, China's exports to Russia increased sharply (up [46.9 percent](#) year-on-year in 2023), and the deepening of economic and trade exchanges with countries and regions in the

Regional Comprehensive Economic Partnership (RCEP) framework and along the "Belt and Road" supported the resilience of exports. In addition, the total export of the "new three" products, represented by electric vehicles, lithium batteries, and solar cells, was [1.06](#) trillion yuan in 2023, breaking through the trillion mark for the first time.

Weak confidence and sluggish expectations

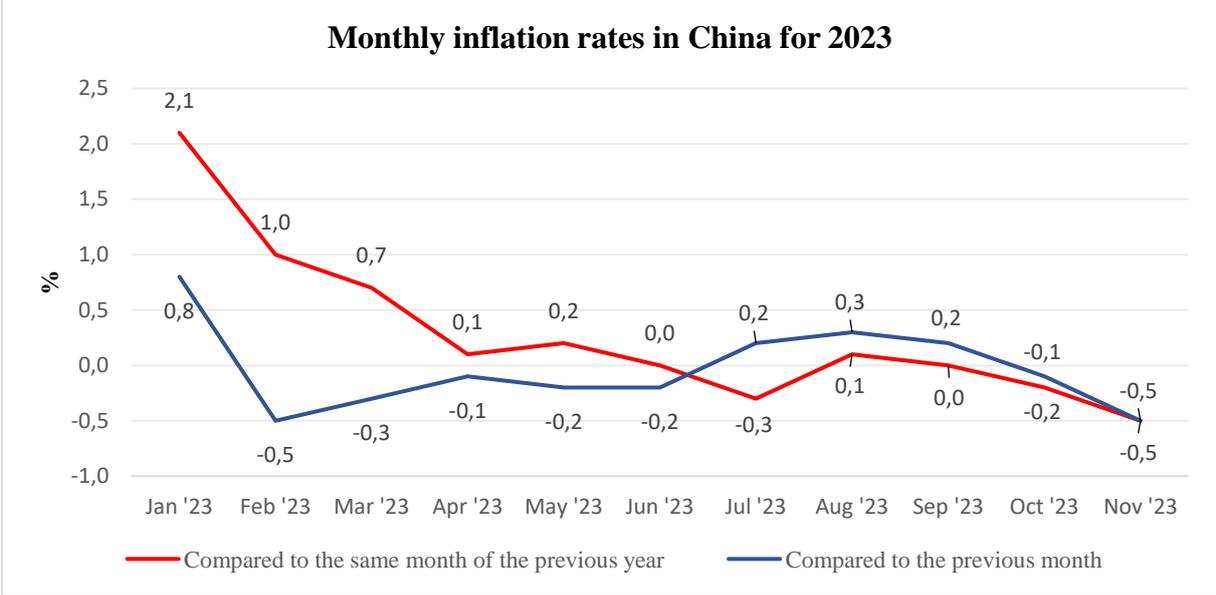
Due to the slowdown in income growth and the decline in asset prices, residents' expectations have weakened and their willingness to consume become weaker. The main signs are:

1. Chinese residents save more and borrow less now. According to [Bank of China](#), China's residents' deposits increased by 11.89 trillion yuan from January to August 2023, an increase of 1.07 trillion yuan over the same period of the previous year and the highest in the same period in history. There is an increase in early prepayment for housing loans. As of the end of the first half of 2023, the balance of residential property loans was 38.6 trillion yuan, a decrease of 200 billion yuan from the end of last year, and the first year-on-year decline on record.
2. The consumption continued to be lower than before the pandemic, and the bulk consumption was weak. In the first half of 2023, the country's per capita consumption expenditure was 65 percent against the per capita disposable income, still below the level before COVID-19 (68 percent in the first half of 2019). The recovery of goods consumption has been slow, especially in housing-related consumption. According to the data from the [Bank of China](#), the cumulative growth rate of China's consumption in construction and decoration, home appliances and furniture from January to August 2023 was 7.8 percent, 0.4 percent and 3.4 percent respectively.
3. Consumers become more sensitive to prices. Comparing the financial report data of JD.com, Alibaba, and Pinduoduo, which are main Chinese e-commerce companies, their operating incomes in the second quarter of 2023 increased by 7.6 percent, 14 percent, and 66 percent year-on-year, respectively. Pinduoduo, which has an obvious advantage in low prices, is performing strongly, and the proportion of their users in large cities is gradually expanding, reaching nearly half.

In 2023, China's prices generally maintained a moderate upward trend, with the annual consumer price index (CPI) rising by [0.2%](#) compared to 2022. At this point, it is worth noting that [according to Statista](#), global inflation rate was 6.8 percent in 2023. The difference shows the different trajectory of China where the domestic economy is grappling with deflation.

From October to December 2023, the CPI was negative for three consecutive months. To a certain extent, low prices reflect the lack of sufficient demand in China. We believe this is a temporary phenomenon of the slow and gradual normalization after the pandemic. With the introduction and implementation of relevant policies, as mentioned by the [National Bureau of Statistics of China](#), the impact of additional issuance of treasury bonds, tax and fee reductions, and interest rate cuts will be felt through 2024. This problem of weak demand will be gradually alleviated, and consumer prices are expected to stabilize and rebound. Prices are expected to rise moderately in 2024. At present, China's inflation rate is low, the policy

toolbox is constantly enriched, and fiscal, monetary, and other policies have relatively large room for maneuver.



Source: own compilation based on data from the National Bureau of Statistics of China.

The causes of low consumer confidence are:

1. On the one hand, while the pandemic had negative effect on incomes, it has also lowered people's expectations of future income, which in turn has led to insufficient spending power, more conservative consumption behavior, and a decline in residents' willingness to consume. [China's consumer confidence index](#) has been at a low level since the sudden decline in early 2022, reaching only 87 points in November 2023, far from recovering to the pre-Covid Epidemic level of more than 120 in 2019.
2. On the other hand, according to the data from the [National Bureau of Statistics](#), the propensity to consume, as measured by the ratio of consumption expenditure to disposable income, has decreased from 67.6 percent in the first three quarters of 2019 to 66.4 percent in the same period in 2023. Although the contribution of final consumption expenditure to economic growth in the third quarter of 2023 was very high, compared with the same period in 2022, the pent-up demand such as tourism (152.7%) and catering (14%) was strong, while the retail sales of goods of enterprises above designated size¹ increased by only 2.4 percent year-on-year.

Potential breakthroughs and risks for China's economic growth in 2024

At present, energy transition and digital economy are two key areas for China to boost Chinese growth and become leading sectors. These sectors also accelerate China's scientific and technological innovation and industrial transformation. In the field of energy transition,

¹ Above designated Size refers to companies in China that reach certain revenue thresholds, distinguishing larger companies from smaller ones. This classification helps in economic analysis and policy making as it focuses on the major economic players.

China needs to address the issue of energy security, while also considering the so-called "dual carbon" goals - reaching CO emission peak by 2030 and achieving carbon neutrality by 2060. According to the estimates of the [National Development and Reform Commission of China](#), China's total green investment need amount to 139 trillion yuan by 2060. Around 3.1 trillion-3.6 trillion yuan of annual investment is needed to achieve carbon peak before 2030. It is urgent to create an industrial format² that promotes a coordinated development of upstream and downstream industrial chains such as photovoltaic, energy storage, green alcohol, green hydrogen, and green ammonia, and closely cooperates with industry, academia, and research to attract more enterprises to invest in green industries.

In the field of digital economy, "data + computing power + algorithm" ³ is the core productivity in the era of digital economy. China has many talents in algorithms, has a scale advantage in data elements⁴, and has a large overall scale of computing resources, with the advantage in all the above-mentioned elements. If China can make full use of this advantage, the potential for the development of the digital economy will be huge. However, at present, the interconnection bandwidth of China's computing chips and the general computing performance of the most advanced chips are only half of the world's mainstream chips, and the development of the digital economy is still facing bottlenecks.

Summary

In 2023, the bubble in the property market slowly deflated and consumer confidence, investment and other areas were hit one after the other. At the same time, China's exports of manned electric vehicles, lithium batteries and solar cells, which are the "new three" products, have helped the country overtake Japan to become the world's largest automobile exporter. Chinese economic growth is expected to be closer to the IMF forecast of 4.6% in 2024, as the recent competition between the US presidential candidates with tougher trade restrictions, similar to the negative impact of the Russia-Ukraine war and the European Union's de-risking plans, could have a greater impact on China's economy.

² The industry format refers to the classification of business models, product or service types and market positioning within a particular industry. It emphasises the diversity of operations and strategies in the different segments or sub-sectors of an industry.

³ "Data + computing power + algorithms" is the fundamental triad that drives the digital economy. Data encompasses various sources of information, such as user behaviour and business transactions. Computing power refers to the ability to process and analyse large amounts of data, supported by high-performance computing resources such as servers and cloud platforms. Algorithms are instructions for data analysis, pattern recognition and decision making, with advances in machine learning enhancing problem-solving capabilities. Together, these elements enable the development of intelligent products and services and mark a significant leap in productivity and economic development.

⁴ The term "data element" refers to data as a fundamental resource or factor that plays a crucial role in creating value, supporting decision-making and fostering innovation. Comparable to traditional economic elements such as land, labour, capital and entrepreneurship, data in the digital age is seen as a vital component that is essential for economic growth and social progress.