

China's Economic and Political Landscape: A Closer Look at Opportunities and Challenges

Economic Overview

China, the world's second-largest economy, stands as a global powerhouse in trade and foreign exchange reserves. Despite its remarkable economic growth over the past decades, the COVID-19 pandemic significantly disrupted China's economic trajectory. In 2022, the nation's GDP grew by a modest 3%, reflecting the impact of stringent lockdown measures and global supply chain disruptions. However, as China abruptly ended its zero-COVID policy at the close of 2022, a swift recovery ensued in the first quarter of 2023, with GDP growing by 2.3% quarter-on-quarter. This rebound was primarily fueled by a resurgence in private consumption and state-owned enterprise investments.

Yet, this recovery proved short-lived. The lingering effects of the pandemic led to cautious consumer spending, with households maintaining high savings rates as a precautionary measure. Moreover, ongoing uncertainty from the real estate crisis continued to dampen consumer and investor confidence. As a result, growth slowed in the second quarter, with a 0.5% quarter-on-quarter increase, before regaining momentum in the third quarter, which saw a 1.3% growth. Overall, China's economy grew by 5.2% in 2023, slightly exceeding the official target. However, the recovery has been more fragile than many analysts anticipated. The deepening real estate crisis, rising deflationary risks, and subdued demand have cast a shadow over the outlook for the coming year. The IMF forecasts a slowdown in growth to 4.2% in 2024 and 4.1% in 2025, well below pre-pandemic trends.

China's current growth model, heavily reliant on substantial real estate and infrastructure investments fueled by debt, is showing signs of strain, while new growth drivers have yet to emerge fully. Despite these challenges, household consumption is expected to continue recovering in both 2024 and 2025.

In terms of public finances, China's fiscal revenues grew by 6.4% in 2023, a significant improvement from the 0.6% growth recorded in the COVID-hit year of 2022, while fiscal expenditures increased by 5.4% (according to official government data). The overall budget deficit was estimated at 6.6% of GDP and is expected to remain stable in 2024 (IMF). Meanwhile, the debt-to-GDP ratio rose to 80% from 77% in 2022, with the IMF predicting this ratio to climb to 91.8% by 2025. The increasing debt poses a significant risk to China's economy in the coming years, exacerbated by the real estate crisis, which could spill over into the financial sector. By the end of the first quarter of 2023, total non-financial sector debt had reached 306% of GDP, nearly 17 percentage points higher than the previous year and 40 points higher than in 2019. Servicing such massive debt, particularly corporate debt, is becoming increasingly challenging amid the



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forecasted growth slowdown. Additional risks arise from weak investor and consumer confidence, geopolitical uncertainties, and adverse demographics.

Despite the global economic environment, China's inflation rate remained low at 0.7% in 2023, thanks to high food self-sufficiency and the substitution of some crude oil imports with discounted oil from Russia. However, inflation is expected to rise slightly this year, with the IMF forecasting a 1.7% rate.

According to the Ministry of Human Resources and Social Security, the low unemployment rate in recent years is largely attributed to the new digital economy and entrepreneurship. However, many analysts argue that the government's figure is an unreliable indicator of national employment levels, as it only accounts for urban employment and does not measure the millions of migrant workers entering the country each year. Despite the global context, the unemployment rate stood at 5.3% last year and is expected to remain stable in the forecast horizon (IMF). Significant disparities remain between the living standards of urban and rural areas, between the urban coastal regions and the inland and western parts of the country, as well as between the urban middle classes and those who have not benefited from growth in recent decades. The COVID-19 pandemic also highlighted deficiencies in the healthcare and social security systems and pushed many households and businesses to the brink of bankruptcy. Additionally, it exacerbated inequalities between central provinces, which were the hardest hit, and the coast; between poorer households, already in debt, and wealthier ones; and between the private sector, with limited access to infrastructure contracts and heavily affected by sluggish demand, and the state sector. To achieve inclusive and sustainable growth, the central government will need to address these divides (OECD).

Key Economic Indicators

Indicator	2022	2023 (E)	2024 (E)	2025 (E)	2026 (E)
GDP (USD billion)	17,848.54	17,662.04	18,532.63	19,790.07	21,027.66
GDP growth (annual %, constant prices)	3.0	5.2	4.6	4.1	3.8
GDP per capita (USD)	12,643	12,514	13,136	14,037	14,929
Fiscal balance (% of GDP)	-6.6	-6.6	-7.2	-7.5	-7.8
Government debt (% of GDP)	77.1	83.6	88.6	93.0	97.5
Inflation rate (%)	2.0	0.2	1.0	2.0	2.0
Unemployment rate (% of labor force)	5.5	5.2	5.1	5.1	5.1
Current account balance (USD billion)	401.86	264.20	235.71	275.51	284.87
Current account balance (% of GDP)	2.3	1.5	1.3	1.4	1.4

Primary Economic Sectors

China's economy is highly diversified, dominated by the manufacturing and agricultural sectors. As the world's most populous country, China is a major producer and consumer of agricultural products. The agricultural sector is estimated to employ 24% of the labor force (World Bank, latest available data) and contributes 7.3% of GDP, though only 15% of China's land (about 1.2 million square kilometers) is arable. China is the world's largest producer of grains, rice, cotton, potatoes, and tea. In livestock farming, it also leads in sheep and pig farming, as well as in global fish production. Several initiatives have been launched to transform, modernize, and diversify agriculture to boost productivity. Data from the National Bureau of Statistics (NBS) shows that China's grain production increased by 1.3% year-on-year to a record 695.41 million tons in 2023, marking the ninth consecutive year with a grain harvest exceeding 650 million tons. Additionally, the country is rich in natural resources and has significant coal reserves (the main energy source for the country), accounting for two-thirds of total primary energy consumption. China is a world leader in the production of certain minerals (tin, iron, gold, phosphates, zinc, and titanium) and has substantial reserves of oil and natural gas, making it the sixth-largest oil producer globally, with production reaching 4.01 million barrels per day in 2023.

The industrial sector contributed approximately 39.9% of China's GDP and employed 28% of the population in 2022 (World Bank). China has become a preferred destination for outsourcing global manufacturing units due to its cheap labor market, despite rising labor costs in recent years. The country is a global leader in several manufacturing sectors, including machinery; electronics; textiles and apparel; and steel and automobiles (Chinese manufacturer BYD surpassed Tesla to become the world's largest electric car

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company in the last quarter of 2023). China's economic growth has primarily coincided with the development of a competitive and export-oriented manufacturing sector. More than half of China's exports are made by foreign-funded companies. Their share of value added in the sector varies by industry: more than 60% for electronics and less than 20% for most production goods. Industrial value-added production increased by 4.6% year-on-year in 2023 (NBS data). The equipment manufacturing sector's production grew by 6.8% year-on-year in 2023, faster than the average industrial production growth. Production of solar batteries, new energy vehicles, and power generation equipment increased by 54%, 30.3%, and 28.5%, respectively.

China's services sector has experienced rapid expansion over the past decade, becoming the largest contributor to GDP (52.8%), surpassing manufacturing, and employing around 47% of the workforce (World Bank). Although the sector's share of GDP has grown in recent years, the services sector as a whole, burdened by public monopolies and restrictive regulations, has not progressed significantly. The sector's development has been hampered by the country's focus on manufactured goods exports and significant barriers to investment in the sector. However, the Chinese government has recently placed more emphasis on the services sector, particularly in subsectors such as finance, logistics, education, and healthcare, as it also aspires to become a leading exporter of transportation, tourism, and construction services. The trade sector is particularly strong and includes online giants like Alibaba and JD.com.

Conclusion

China's economic landscape presents a mix of opportunities and challenges. While the nation continues to be a global leader in various sectors, its growth model faces significant headwinds, including a slowing economy, rising debt, and deepening structural imbalances. As the country navigates these challenges, the central government's ability to implement effective reforms and foster new growth drivers will be crucial for ensuring sustainable and inclusive economic progress.