

# The Chinese economy in transition: challenges, prospects and global shifts

Jack Xuebing Cao

Keele University

31/05/2024

One of biggest  
Chinese property  
firms Evergrande

([Guardian Jan 2024](#))

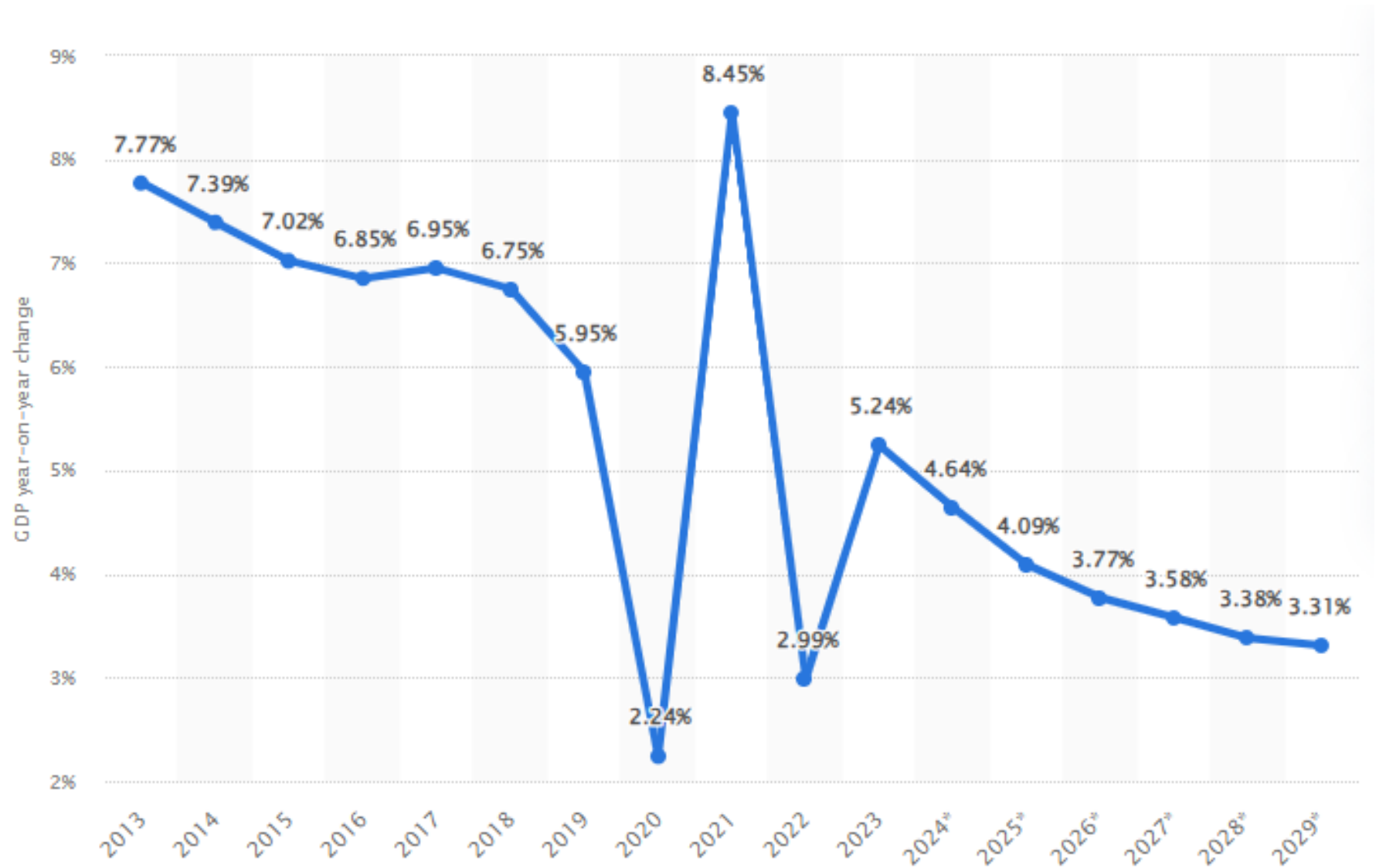
## EVERGRANDE COLLAPSE: HK COURT ORDERS LIQUIDATION



- Owns more than 1,300 housing projects in nearly 300 cities
- Shares plummeted 90%, with a debt more than \$300bn (world's most indebted real estate developer), about 1/4 of China's property sector debts
- Leaving 1.62 million unfinished apartments, influencing 5-6 million people

China's GDP growth has been declining significantly

([statista.com](https://www.statista.com))



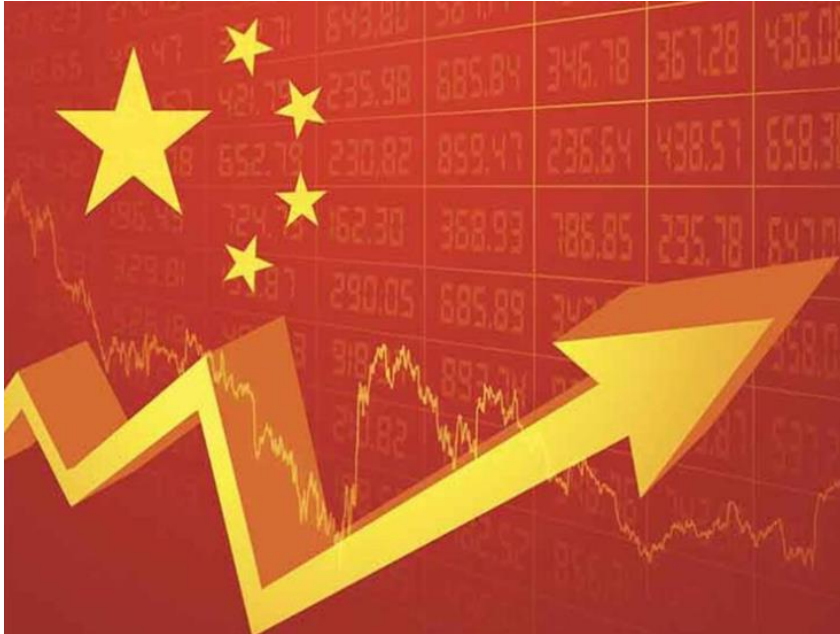
# IMF world economic growth outlook January 2024

Region/country	2023	2024	2025
Whole world	3.1%	3.1%	3.2%
Advanced economies	1.6%	1.5%	1.8%
US	2.5%	2.1%	1.7%
Germany	-0.3%	0.5%	1.6%
France	0.8%	1.0%	1.7%
Japan	1.9%	0.9%	0.8%
UK	0.5%	0.6%	1.6%
Emerging economies	4.1%	4.1%	4.2%
China	5.2%	4.6%	4.1%
India	6.7%	6.5%	6.5%

The weakest performance since 1990, except during the Covid

Growth to fall to 3.4% by 2028

# So, what is going on in China?



- How serious is it?
- How bad is the property market?
- Why has it happened?
- Impact on the global economy
- How has the government taken actions to stimulate the economy?
- Outlook: is it only pessimistic?

# 1 The Chinese economy: the current situation

GDP: US\$17.52 trillion, +5.2% y/y

Retail sales: \$6.55 trillion, +7.2%

Industrial added value: +4.6%

Services added value: +5.8%

Foreign trade: \$5.80 trillion, +0.2%

Fixed asset investment: \$6.99 trillion, +3.0%

Population: 1.40967 bn; -2.08 million.

Disposable income per capita: \$5,451, +6.1%

CPI: +0.2%

Unemployment rate: 5.2%

The 2023 data (China Briefing)

# Chinese economic growth has been on a declining trend for over a decade

Average annual GDP change over previous five years (%)

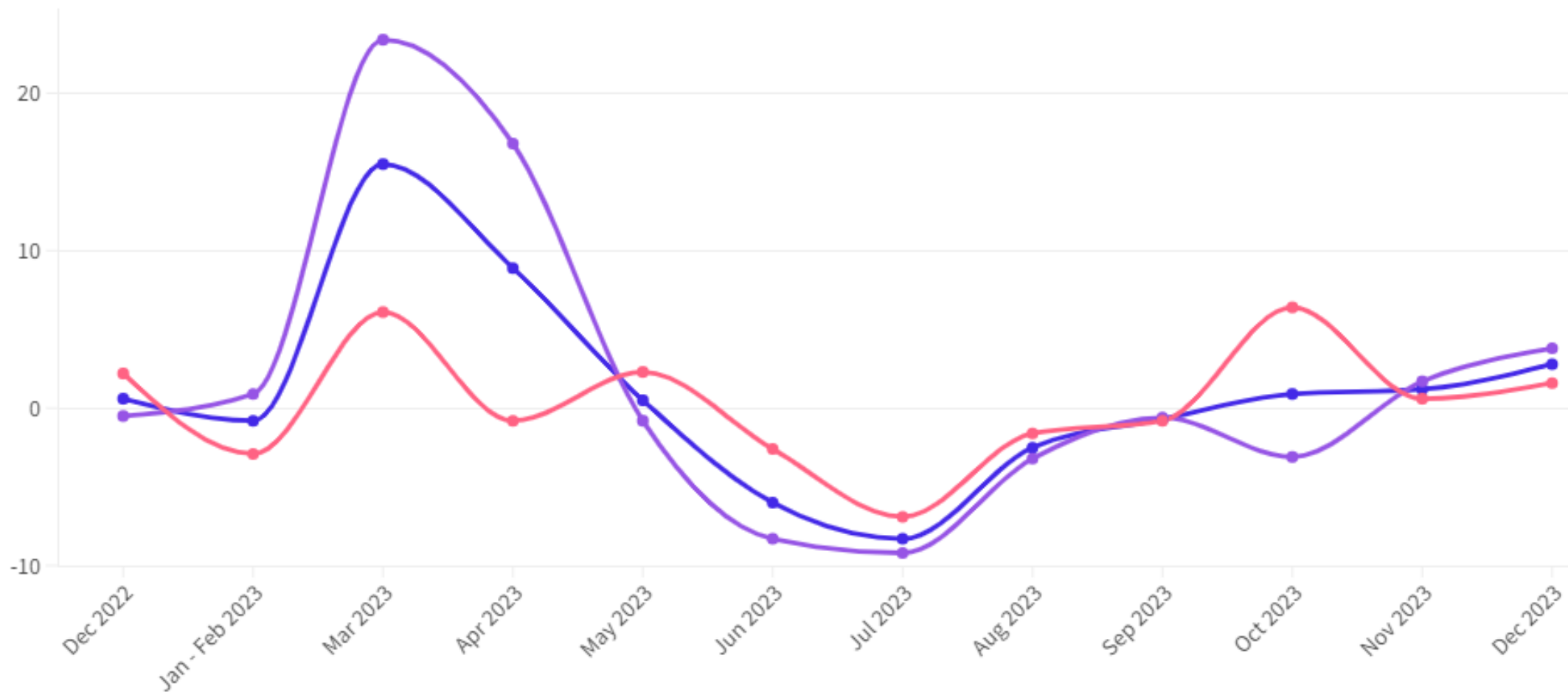


Sources: Haver Analytics, FT calculations

# Foreign Trade, 2023

Percent change year-on-year

Total trade Exports Imports

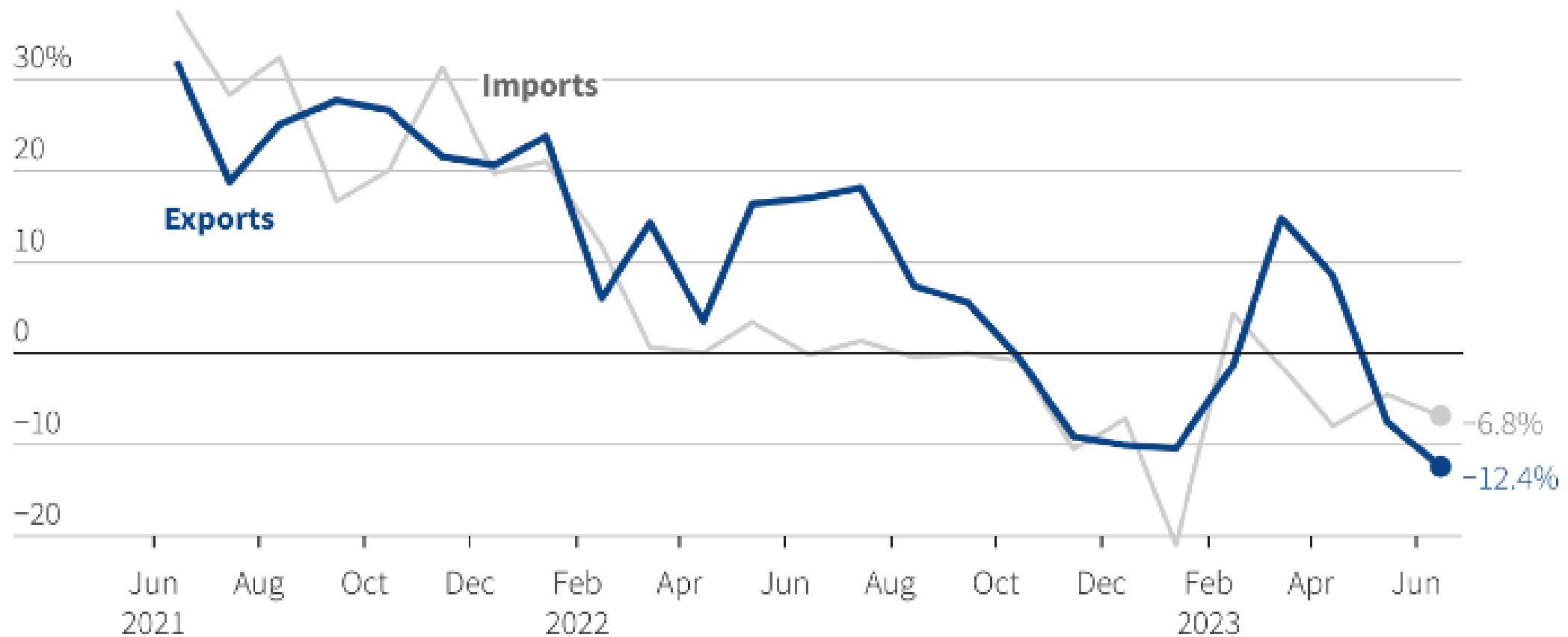


Source: China General Administration of Customs



# Both import and export are declining

Change in dollar-denominated exports and imports (Y/Y)



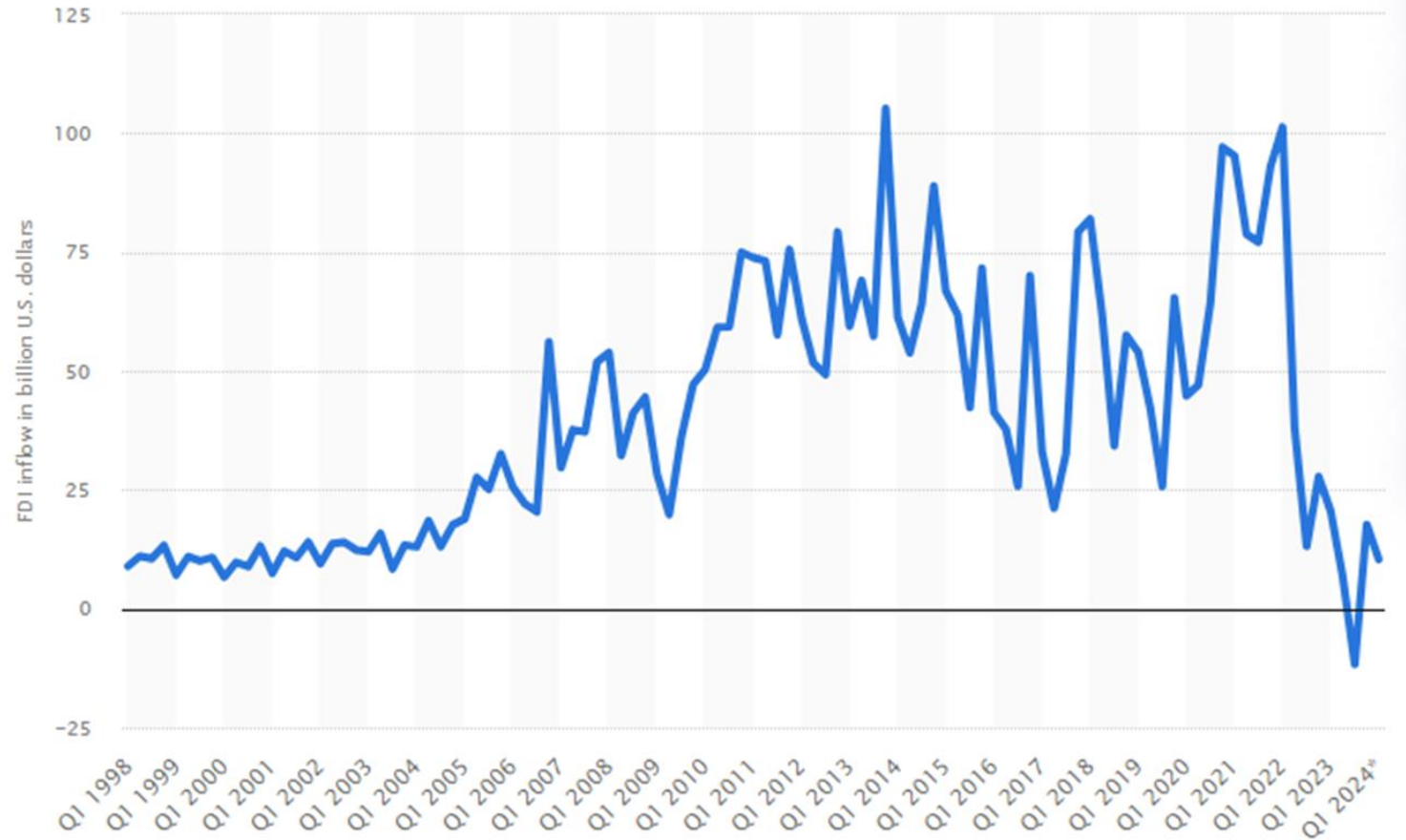
Source: Refinitiv Datastream | Reuters, July 13, 2023 | By Kripa Jayaram

Reuters Graphics

# FDI inflow: dropped significantly from 2022

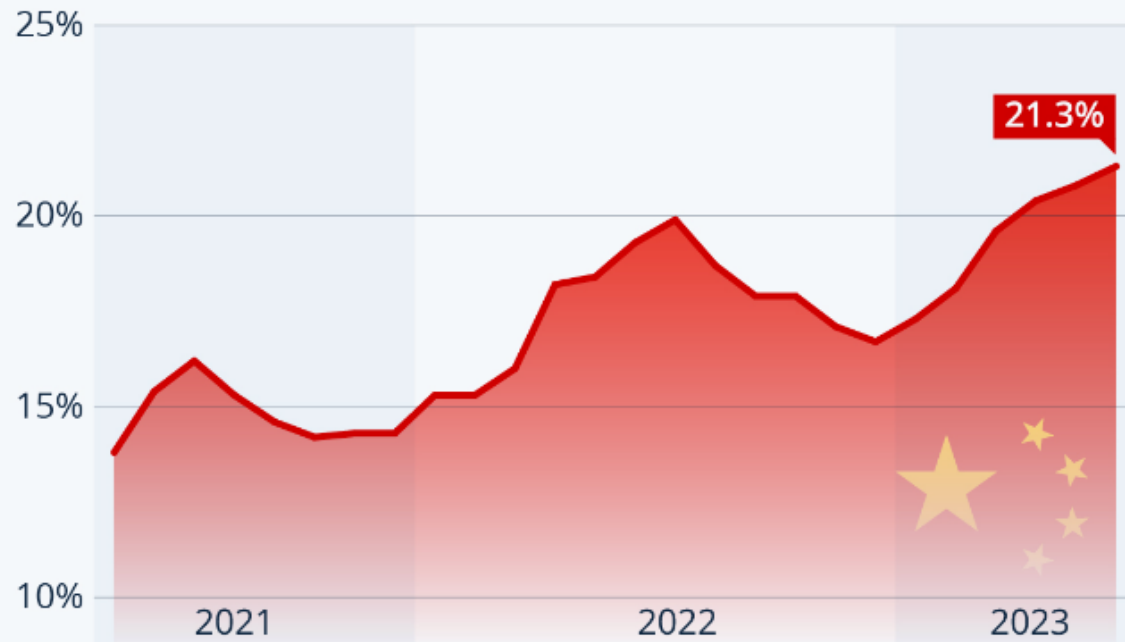
- A £9.6bn deficit in foreign investment Jan-Sep 2023: first time since 1998
- Still the 2<sup>nd</sup> largest recipient of FDI worldwide
- About \$189 billion in 2022

([statista.com](https://www.statista.com))



# Youth Unemployment Hits High in China

Monthly urban unemployment rate of people aged 16 to 24 in China



Source: National Bureau of Statistics of China



statista

Inadequate job creation in the private sector

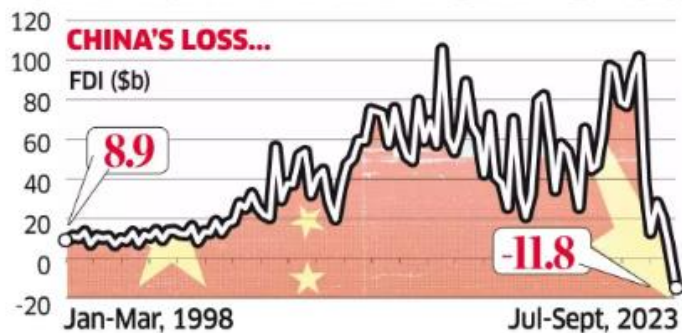
Skills mismatch in industries that can employ young people

Large supply: 10 million graduates in 2024

Long working hours and job intensification culture

'Lie flat' – paying less effort

# China FDI Inflow Crashes



## ...IS OTHERS' GAIN



## GREENFIELD INVESTMENT ANNOUNCEMENTS

US	2,075
UK	1,230
India	1,008
UAE	997
Germany	984

Numbers for 2022/ Source: UNCTAD



# Foreign businesses are pulling out

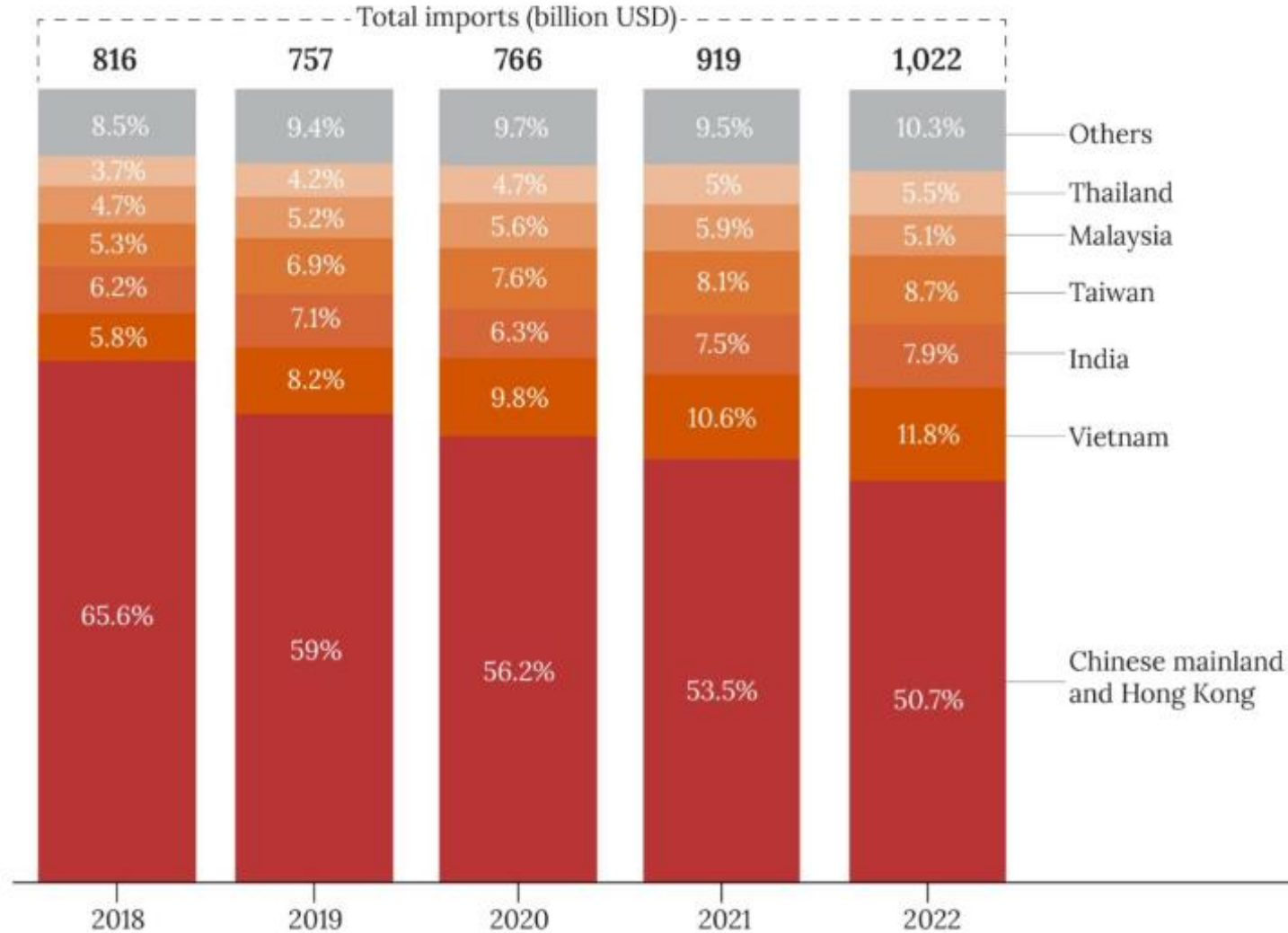
- The slowing economy, low interests rates and a geopolitical tussle with US have sparked doubt about its economic potential (bbc 2023)
- A rising labour cost



- Intel: ➡ US due to US government regulations
- Microsoft: ➡ EU for lower supply chain risks
- Nike: ➡ Southeast Asia to reduce cost and improve quality
- Dell: ➡ Vietnam and Mexico to improve efficiency
- Apple: ➡ India for labour cost reduction and closer to market

# China's Shrinking Share

Proportion of manufactured goods imported into the U.S. from low-cost countries or regions in Asia



Note: Others include the Philippines, Indonesia, Pakistan, Sri Lanka, Bangladesh, Singapore and Cambodia

Source: Kearney 2022 Reshoring Index

## 2 Why has the Chinese economy been slowing down?

- Housing market collapse is central to the economic downturn and has further undermined consumer demands, business confidence, and local government debt crisis
- Slowing productivity growth
- An ageing population and declining birth rate
- Political authoritarianism overrides marketisation policies: e.g. crackdown on tech firms and non-state education providers
- Prolonged and very strict Covid shutdown hurts
- Fundamental issue is the declining domestic demand

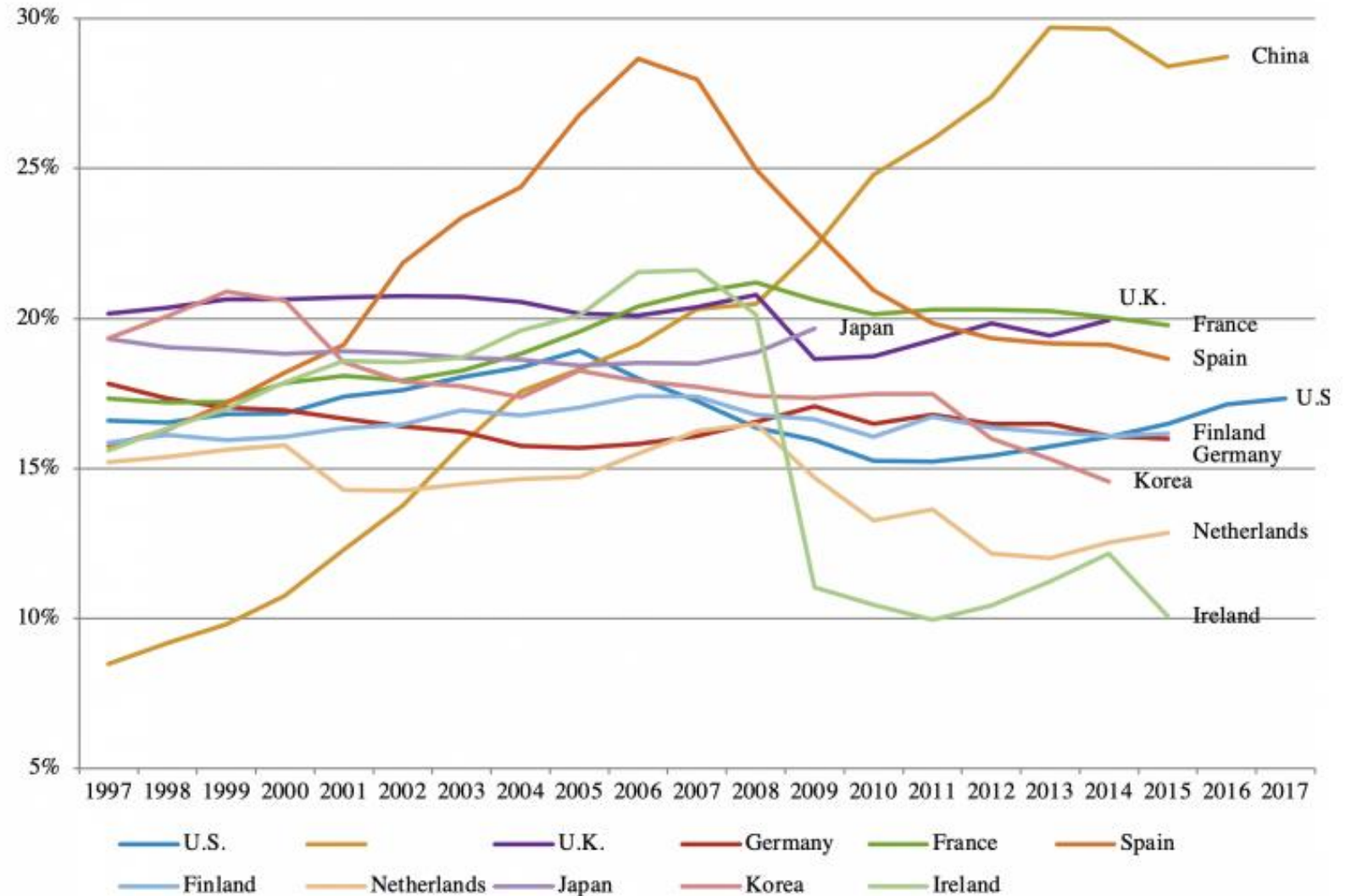
# (1) Property market crisis

- Years of overbuilding of homes met with low demand, weak confidence and developer debts
  - Declining consumer confidence: potential homebuyers are increasingly pessimistic about job security and future earnings
  - By Aug 2023, finished but unsold homes floor areas had a 648 million square metres (7bn square feet), equal to 7.2 million 90<sup>2</sup>-metre homes ([Reuters 2023](#))
- House prices crashed since 2021; land sales revenue fell 33% in 2022
  - Real estate has been the most important sector of the nation's economy: accounted for 1/3 of its entire wealth until recently
  - Long term decline in intrinsic housing demand – a survey showed 96% of urban households in China own at least one apartment ([Ouyang 2023](#))

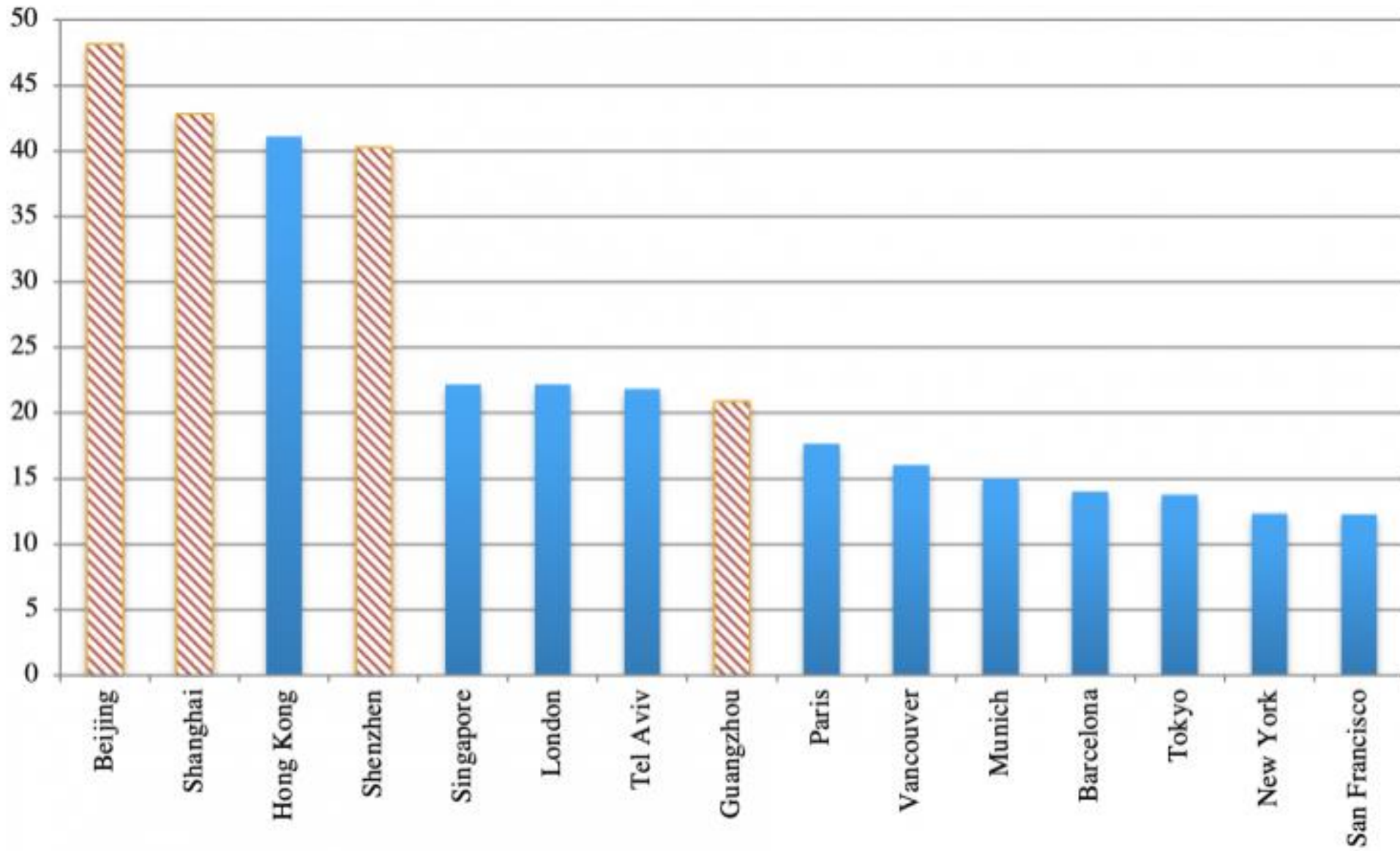


# Impact of real estate-related activities on GDP by country

- Huge impact of property market
- 29% of GDP are real estate production and property services

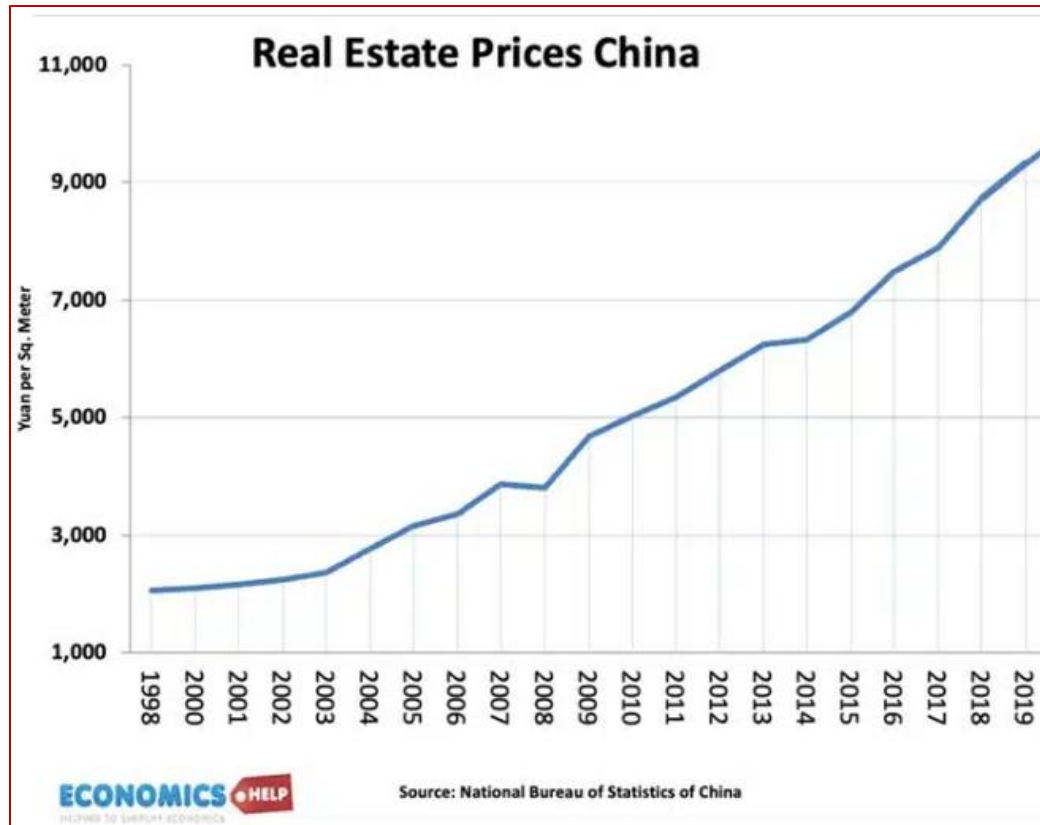


([cepr.org](http://cepr.org))



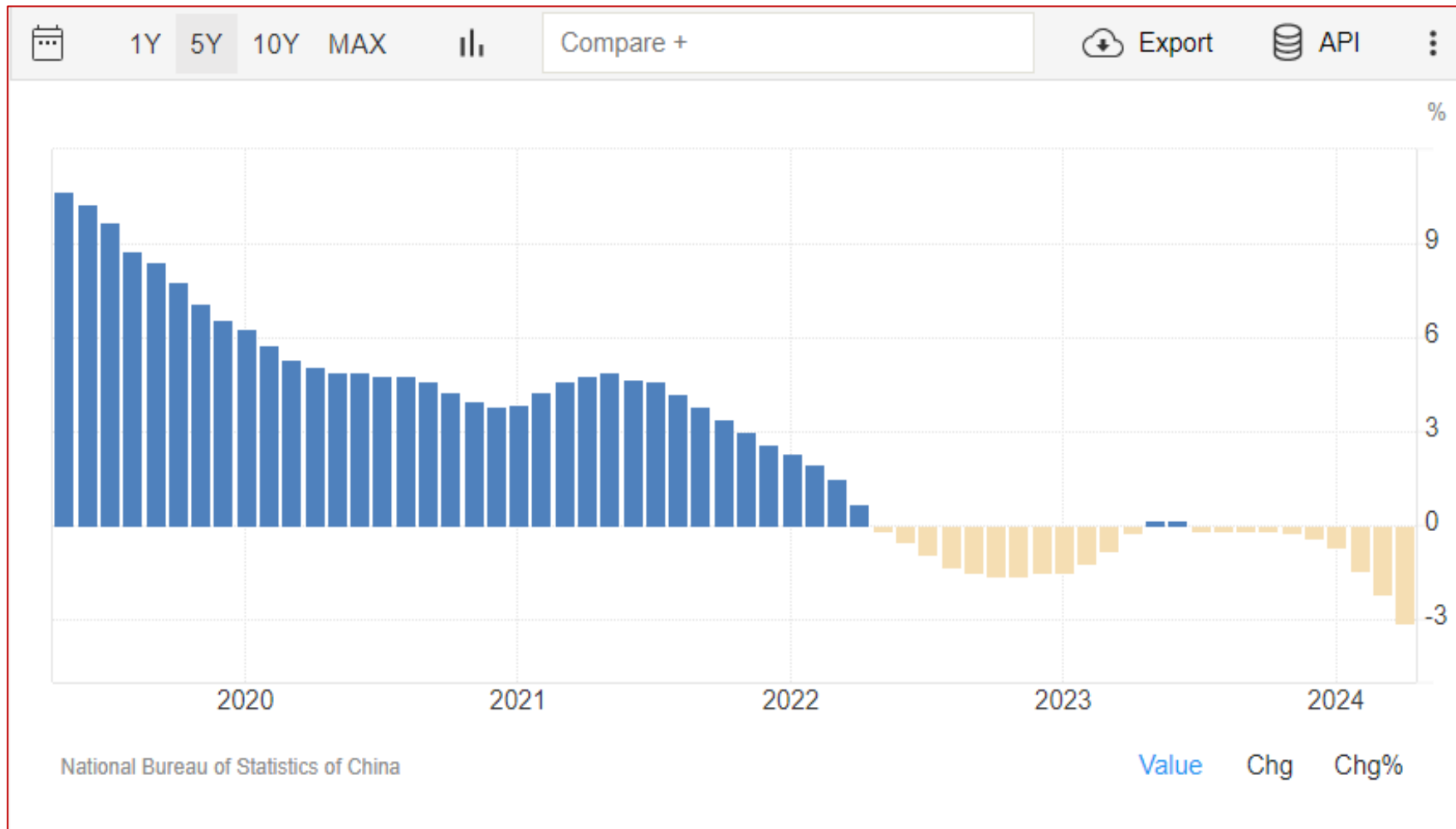
Home price-  
to-income  
ratios, 2018

(Rogoff and Yang  
2021)



Due to declined demand, built apartments remained empty and prices started to fall from 2021. Suddenly the highly leveraged property companies were struggling to meet their basic finance deals. With property companies running out of cash, building projects were stopped halfway through.

# China newly built house prices year-year changes



House prices fell 3.1% in April 2024, 10<sup>th</sup> straight month of decrease

The fastest drop since July 2015,

(tradingeconomics.com)

# Housing market crash



- Currently 20 million pre-sold homes remain unbuilt, which needs at least \$442bn to complete ([Daniel, 2023](#))
- Outstanding mortgages amount to 31% of GDP, and 59% of the country's household assets are held in real estate
- Mega-developers are particularly hurt: Country Garden (the largest developer) lost \$6.72bn in 1st half of 2023, Evergrande lost \$81bn in 21-22,
- Property developers stocks as a whole have collapsed ([Laura He, 2024](#))

## (2) Weakening domestic demand

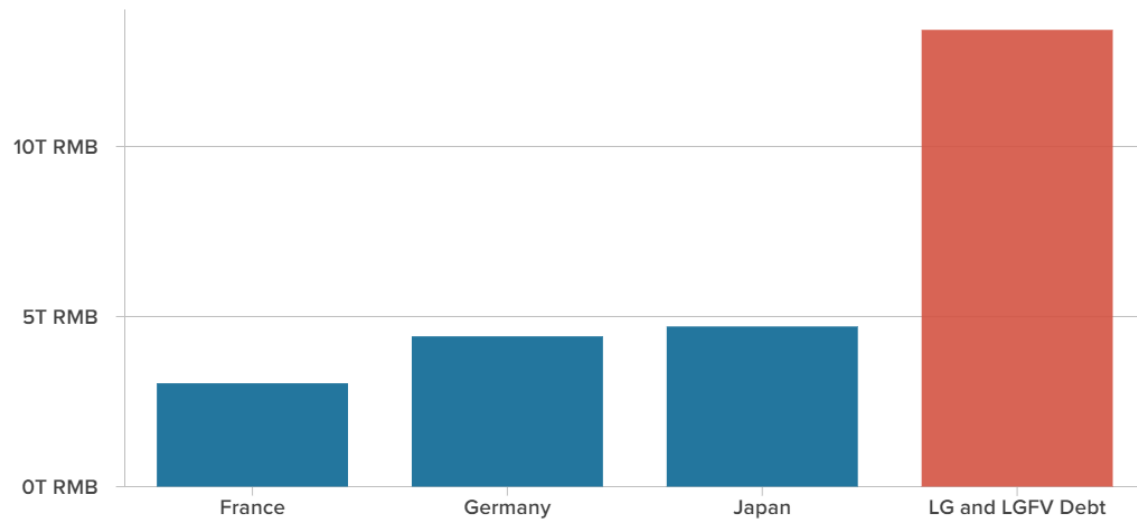
- Post-pandemic recovery is weakened by slowing domestic demand
- In 2023, retail sales grew 2.5% (instead of the expected 4.5%)
- CPI fell 0.3% - a sign of economic deflation ([Liang & Marsh 2023](#))
- Interest rates have been low
- A period of falling prices in China could also hit company profits and consumer spending. This may then lead to higher unemployment.
- But it could hit investment by businesses and squeeze employment, company profit, consumer spending, and employment

### (3) Local government debt crisis

By 2022, China's LGFV and local government debts reached \$13.4 trillion, equalled about 3/4 of GDP (\$17.96 trillion)

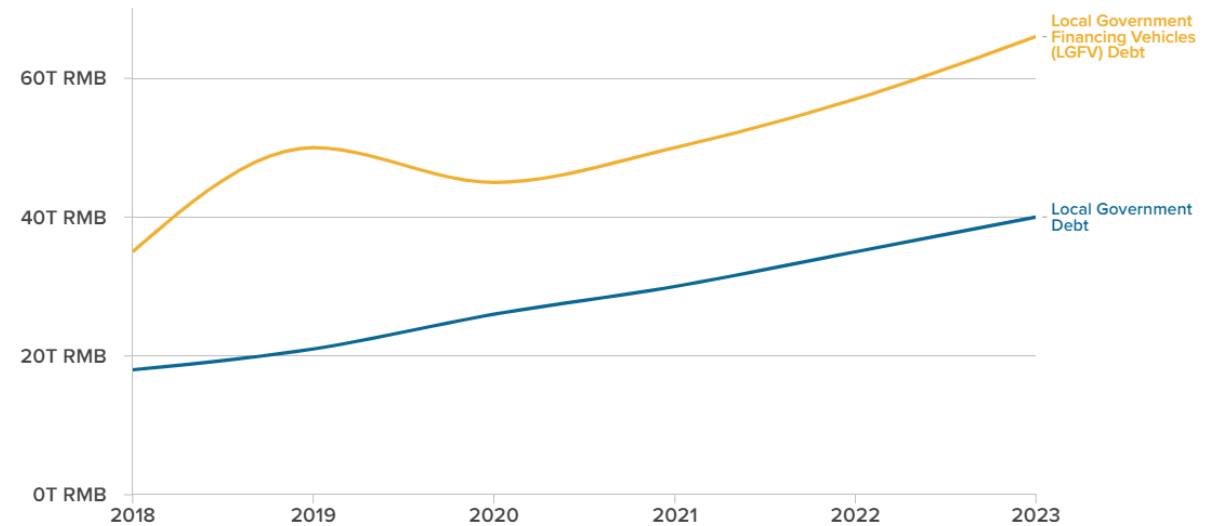
Chinese local government and LGFV debt exceeds annual GDP of most major economies

2022 LG and LGFV debt vs. 2022 GDP of select economies



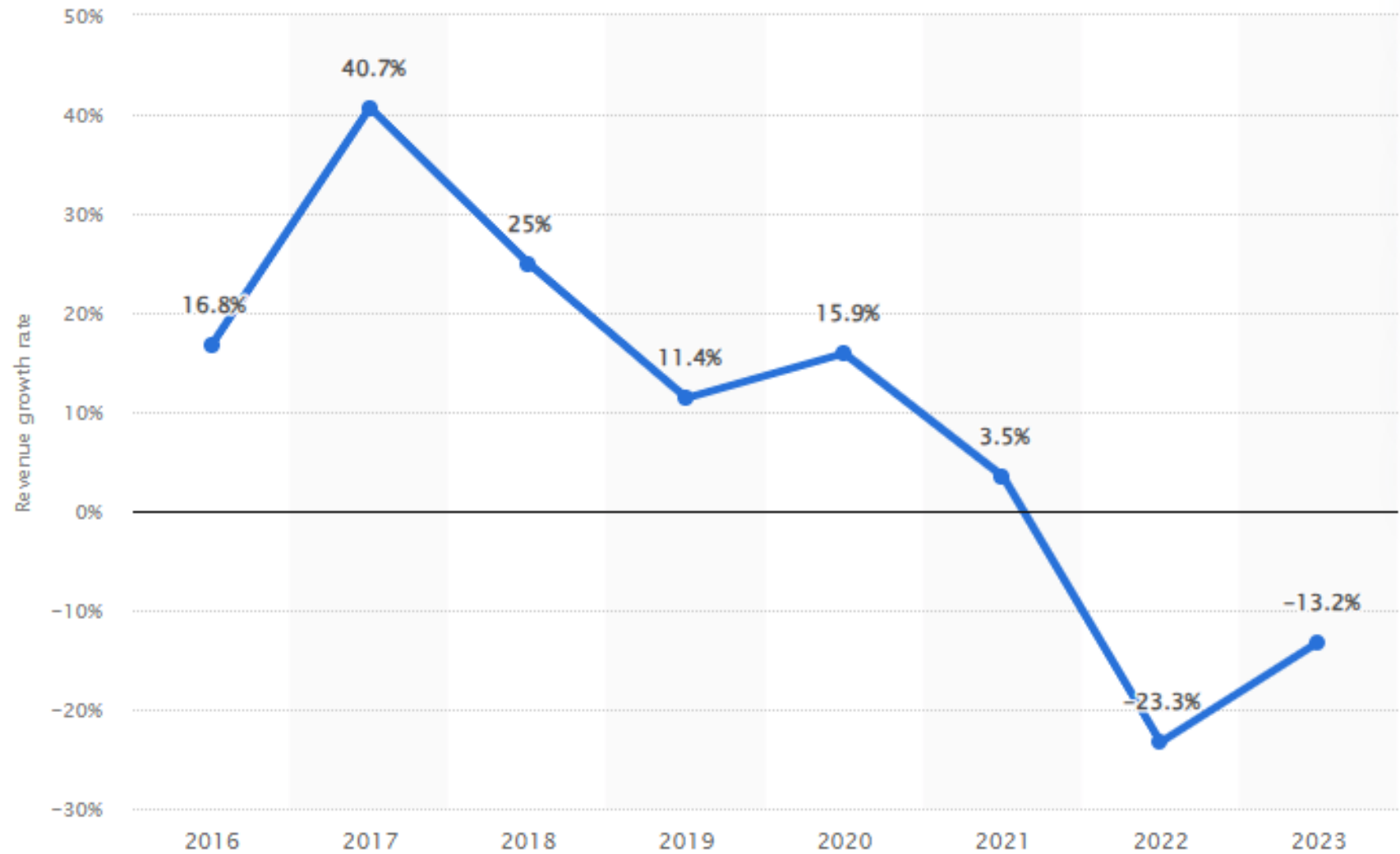
Source: IMF Article IV Consultation, IMF WEO, Author's calculations.

Chinese local government and LGFV debt is rising



Source: IMF Article IV Consultation.

# Growth rate of income from the sale of land use rights for local governments 2016-2023





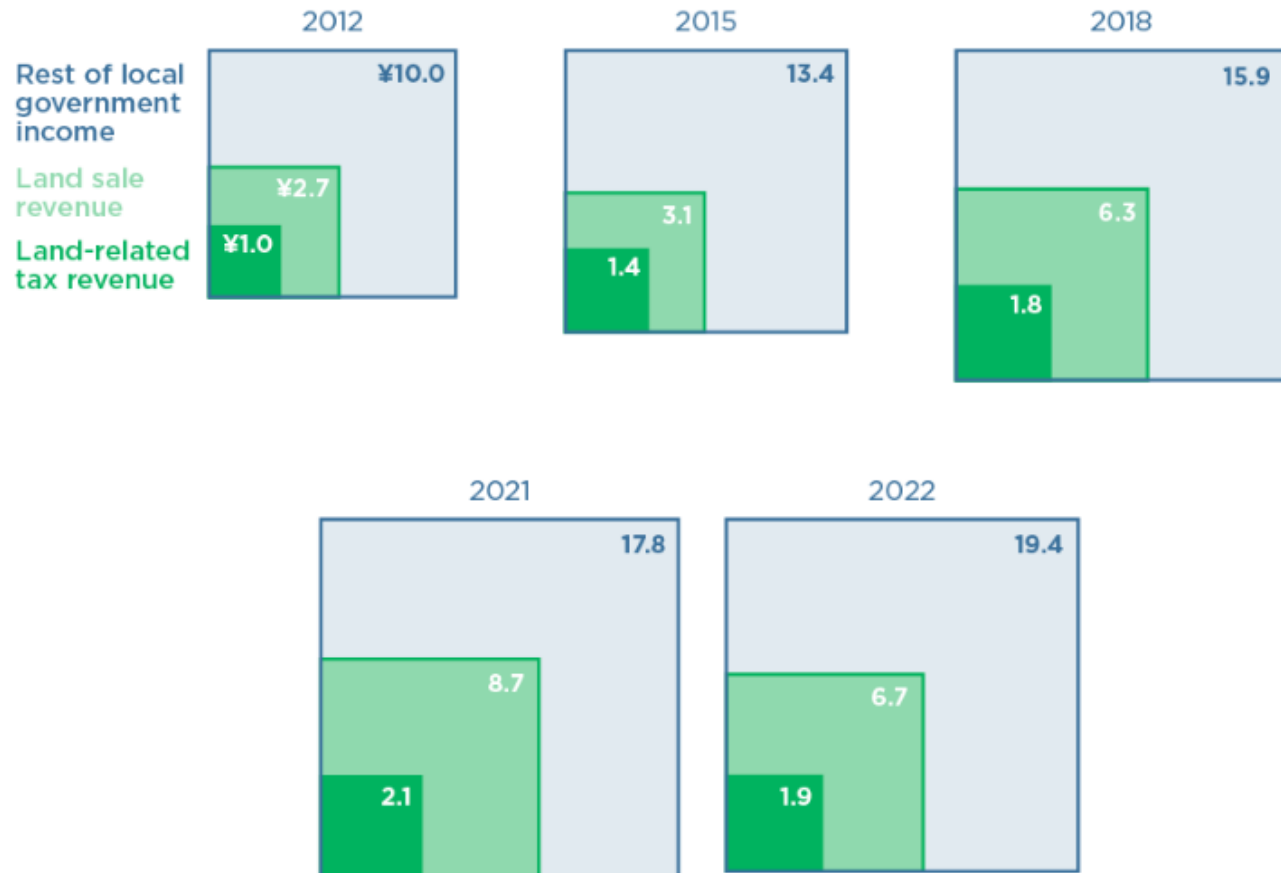
## Local governments in China rely heavily on land revenue

The share of land sale revenue in total local government revenue increased:

from 20% in 2012 (2.7 trillion yuan) to 30% in 2021 (8.7 trillion yuan).

(Huang 2023)

Land revenue in local government income, trillions of yuan, 2012-2022

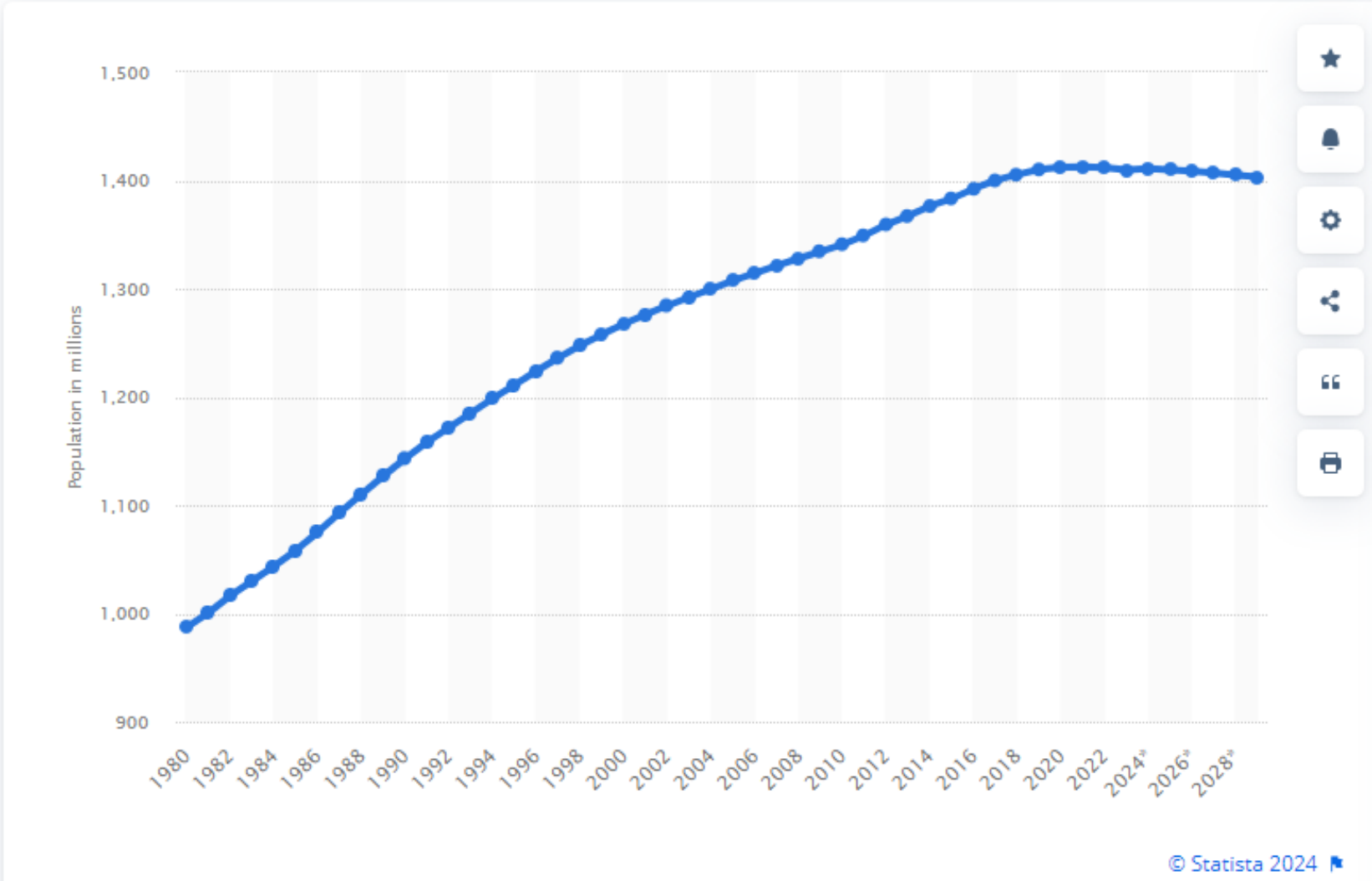


# (4) Population in decline

Total population  
1980-2023

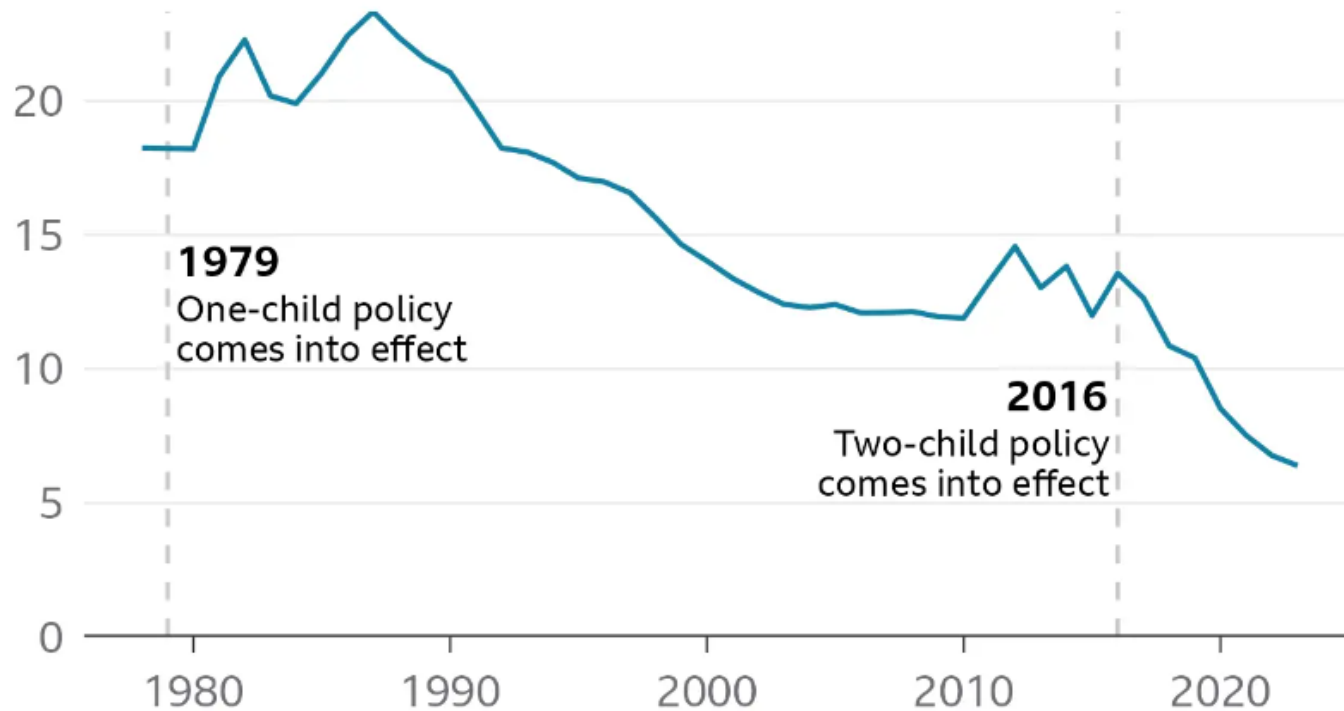
with forecasts  
until 2029

(in millions)  
statista.com



## China's birth rate has fallen in recent years

Total number of births in China per 1,000 people (1978-2023)



Source: China Statistical Yearbook

BBC

- Now 1.409 billion population by end 2023
- A 2.08 million (0.15%) decrease
- Birth rate down to 6.39 per 1,000
- 2024 could see some growth (Year of Dragon) but likely further decline from 2025
- Only 6.8 million marriages in 2023, lowest since 1986 and 50% down from 13.5 million in 2013

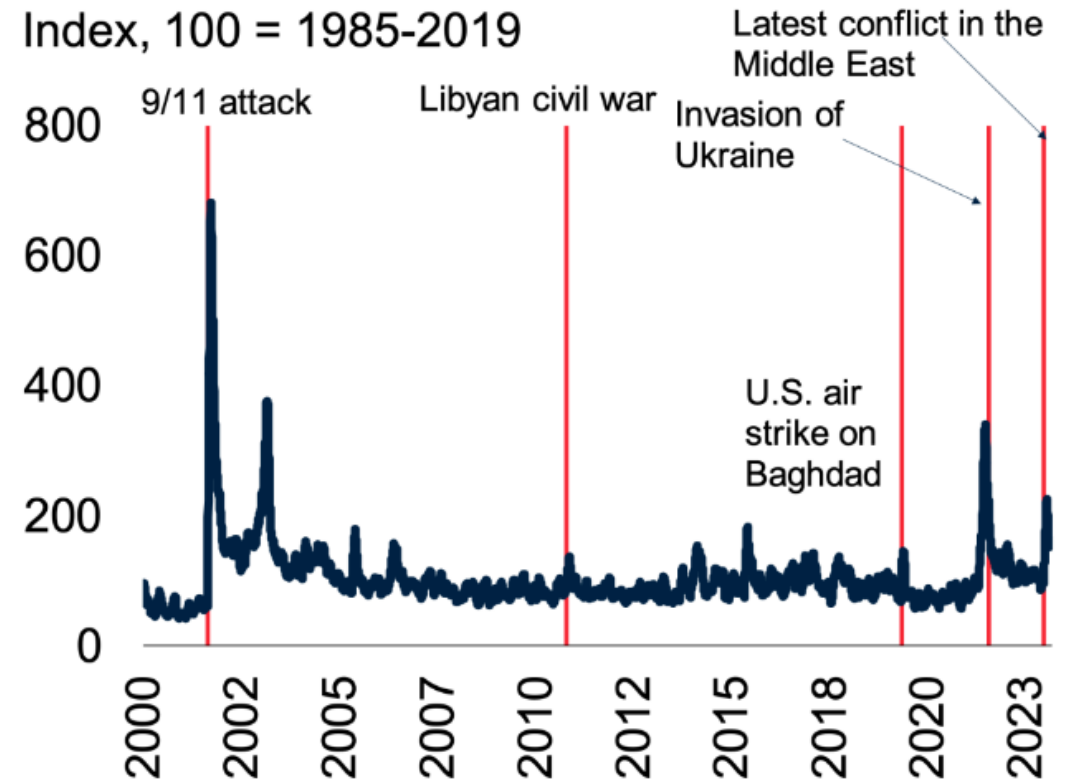
## (5) Geopolitical pressure



- Trade disputes with the EU
- Regional tensions: Ukraine and the Middle East
- But mainly on tensions with the US, China's largest trading partner
  - Bilateral relationship the lowest point last 40 years
  - Intensified by Trump's anti-China campaign-rhetoric from 2018
  - The US has instituted restrictions on both exports and imports to China, embargoes of key tech goods
  - Aggressive competition on AI, biotechnology and quantum mathematics, with potential regional conflicts involving military intervention

# External challenges to global economy

- Rising geopolitical tensions: threatening global food and energy supply, hurt investment and economic growth
- Surging financial stress: high interest rates and debt distress
- Trade fragmentation: policy measures to restrict trade increased dramatically
- Climate change: 2023 hottest year on record, visible from more droughts, floods and wildfires (Brookings 2024)



### 3 Why China's slowing growth matters for world economy?

- Global growth will be negatively impacted
- A fall in demand from the world's largest marketplace for energy, raw materials and food would hit global exports.
- Nations in sub-Saharan Africa will also feel the pinch as Chinese sovereign lending continues to fall
- Property crisis has global repercussions, potentially dampening international trade and affecting commodity markets, and overseas developments which can be hit with discounts and losses.
- 'Over-capacity' worries

# The developing country debt crisis

- Relatively small size (6%) to its economy but these loans are particularly sensitive politically
- Lending nearly \$1 trillion to 150 developing countries
- China is by far the largest sovereign lender to developing countries who have soaring debt payments to China
- But China is increasingly reluctant to cancel large debts owed by low-income countries struggling to make ends meet

([NY Times, 2024](#))

## 4 Government stimulus policies

- China has responded by promising to invest more in manufacturing and infrastructure but economists are calling for it to do more to stimulate domestic demand.
- New Foreign Investment Law 2020 to improve the investment environment: protect intellectual property, ban forced tech transfer, and advocate equal treatment
- Central bank cuts 5-year loan prime rate by 0.25% to 3.95% in Feb 2024
- The government is stepping up fiscal stimulus efforts, selling the first tranche of \$140bn of ultra-long bonds in May 2024.





Stabilising property market a top priority for Beijing

- **17 May: most ambitious stimulus policy in years to rescue the property market**
  - Lowering mortgage rates
  - \$41.5bn fund to local governments to buy unsold property inventories and turn them into affordable housing
  - Stimulate housing demand
- Effective? Equity market sentiment improved immediately; though implementation is the key
- But: hard to say any quick turnaround of the downward price trends in the housing market



- While the urgency is welcome, experts say the current package may be far too small in scale to be effective
- Probably needs 20 times more (Laura He 2024)
- The total value of unsold homes, unfinished projects and unused land in China is about \$4.1 trillion (Goldman Sachs)
- Market confidence and demand are still struggling, and it is likely that house prices will only go up in longer-term

# Addressing youth employment

- Xi Jinping calls for quality jobs for youth, pledging to prioritise policies to boost the job market and support youth employment efforts ([27 May, ft.com](#))
- To address the mismatch in job market supply and demand, the new pledge aims to create new job growth avenues through education, vocational training, and new business models.
- Despite a gradual decline in urban unemployment to 5% in April, youth unemployment remains high, with 7.1% for ages 25-29 and 14.7% for ages 16-24 ([Caixinglobal.com](#)).



## 5 Outlook and challenges

- While the economy is unlikely to implode any time soon, China faces huge, deep-rooted challenges (bbc.com 2024)
- Is China's economy "a ticking time bomb" (Joe Biden), or "strong resilience, tremendous potential and great vitality" (Xi Jinping)?
- As is often the case, the answer probably lies somewhere in between.
- The outlook will depend on the uncertainties around government's economic stimulus policies, domestic demand, business confidence, and geopolitics

# Biggest challenge is the real estate crisis

- Property investment and sales fall at a slower pace than last year
  - Fell 9% in Jan-Feb 24, down from 24% fall in Dec 23
- Domestically needs to tackle 3 problems:
  - Bailing out troubled developers on pre-sold/unfinished homes
  - Boosting housing demand
  - Mitigating the contraction in property construction
  - All need further, detailed measures to revive consumer confidence and boost housing prices

---

## Trade tensions with US escalating

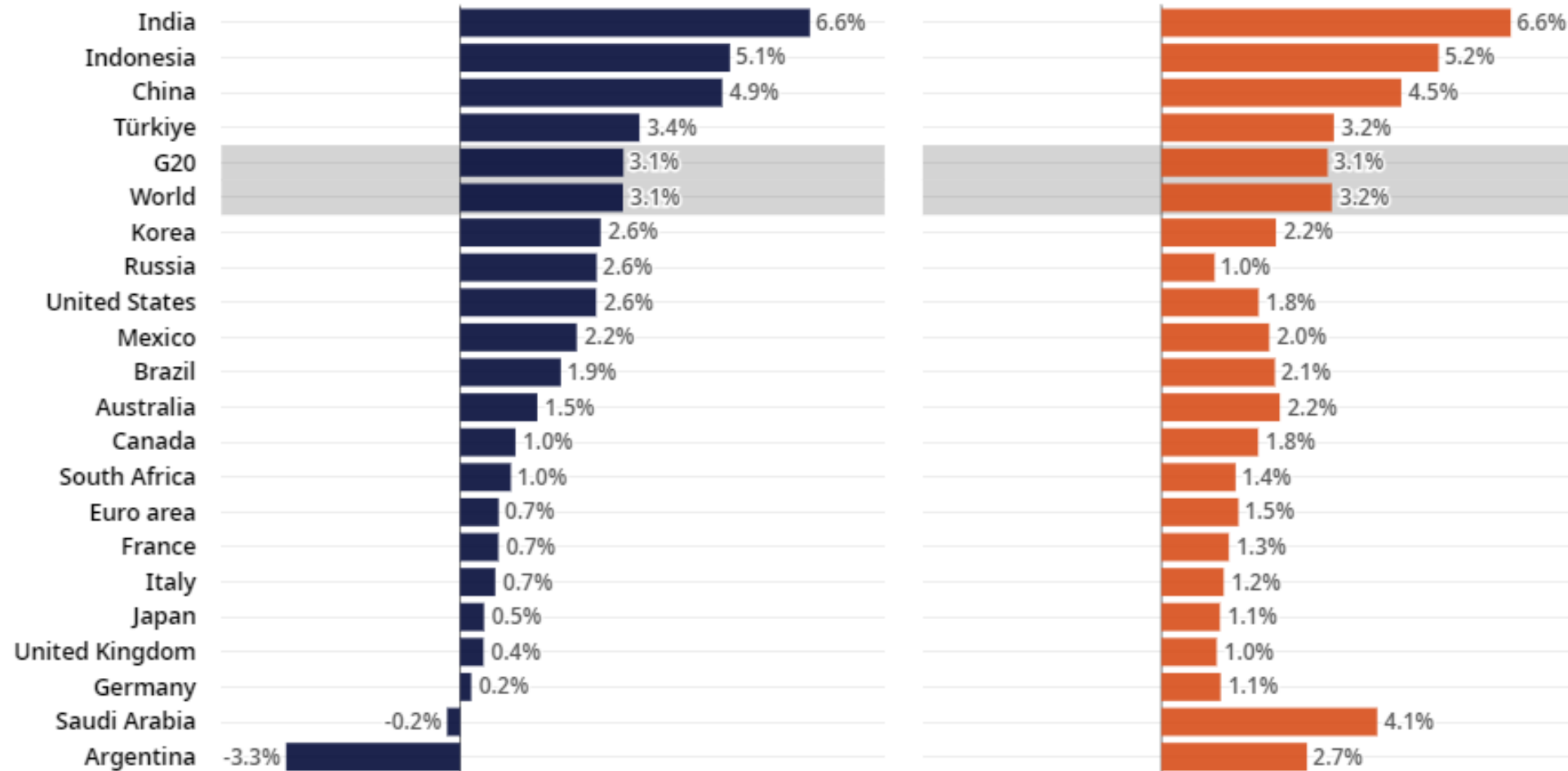
- New tariff increase from Aug 2024 targeting 4.2% total Chinese export to US
- 100% tariff to Chinese EV (from 25%)
- Batteries from 7.5% to 25%
- Semi-conductors up to 50%
- Solar sells from 25% to 50%
- Though short-term impact insignificant
- China sought to retaliate



# Positive signs: robust manufacturing and trade data

- Achieved 5.3% growth in first quarter of 2024 - thanks to strong performance in export and manufacturing
- April 24: imports climbed by 8.4% and exports rose by 1.5% ([cnbc.com](https://www.cnbc.com))
- Strong export performers: cars, LCD panel displays and home appliances, mobile phones, to overtake Japan as the world's biggest car exporter
- FDI is still growing, yet slowly – 4<sup>th</sup> largest inflow country (down from 2<sup>nd</sup>) and 2<sup>nd</sup> largest outflow in 2023 ([OECE 2024](#)), e.g., Germany and US investment
- Projected GDP growth rates are up from 4.6% to 5% due to strong 1<sup>st</sup> quarter performance and recent policy measures ([IMF 28 May](#))

# The global economic growth (2024-2025): slow but steady

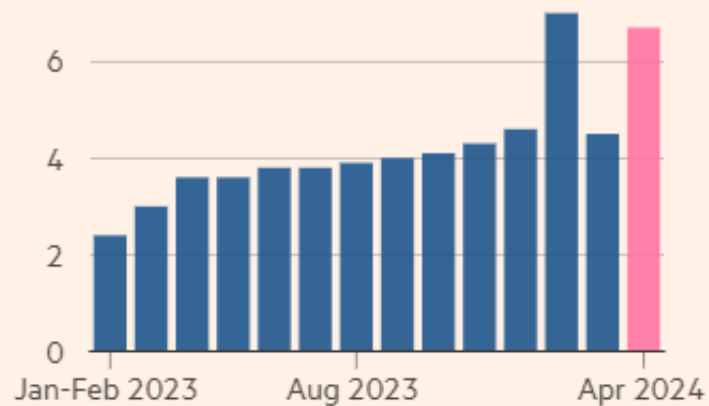


Source: [OECD Economic Outlook, May 2024](#).

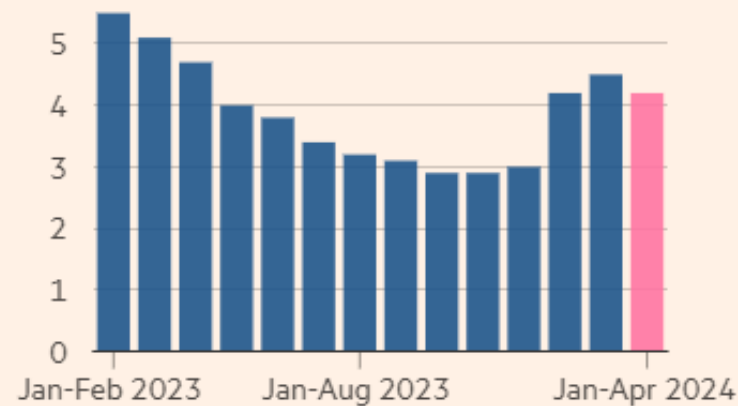


## Economic indicators, year-on-year change (%)

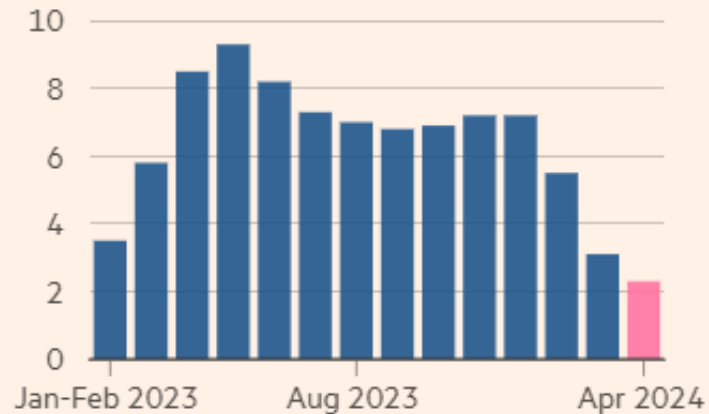
### Industrial production



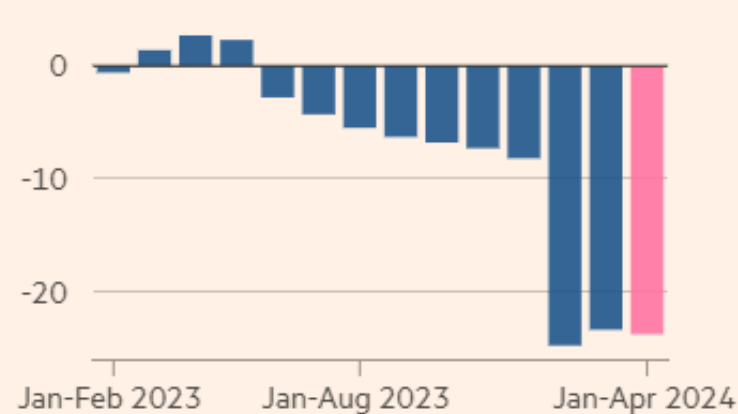
### Fixed-asset investment



### Retail sales



### New home sales by floor area



Since 2023, China's economy has shown mixed signs of a recovery in recent months

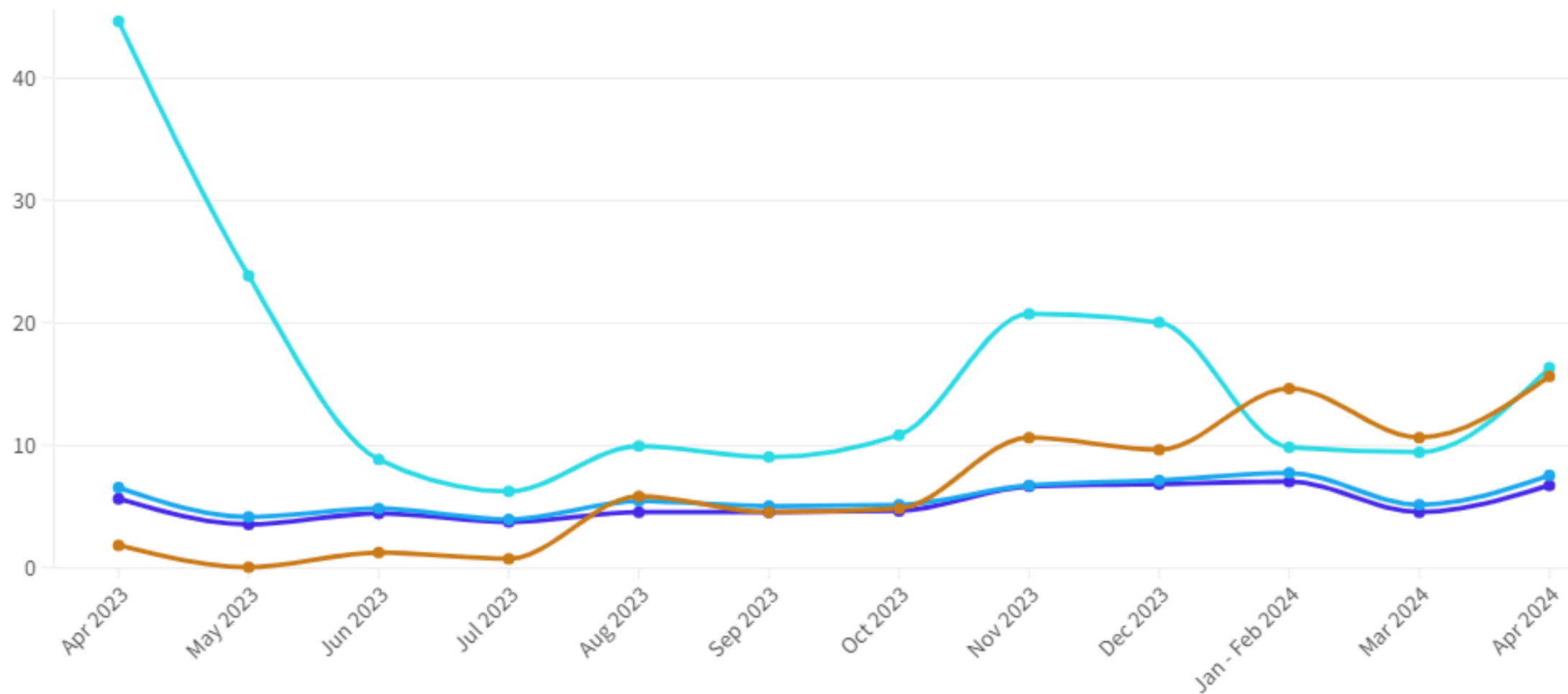
Exports has returned to growth in April 24 and some consumption indicators recovering

Factory output and broader investment have leapt but consumption and property sector struggle

## Growth in Industrial Added Value in the Last 12 Months

Percent change year-on-year

■ Total industrial ■ Total manufacturing ■ Automotive manufacturing ■ Electronics manufacturing

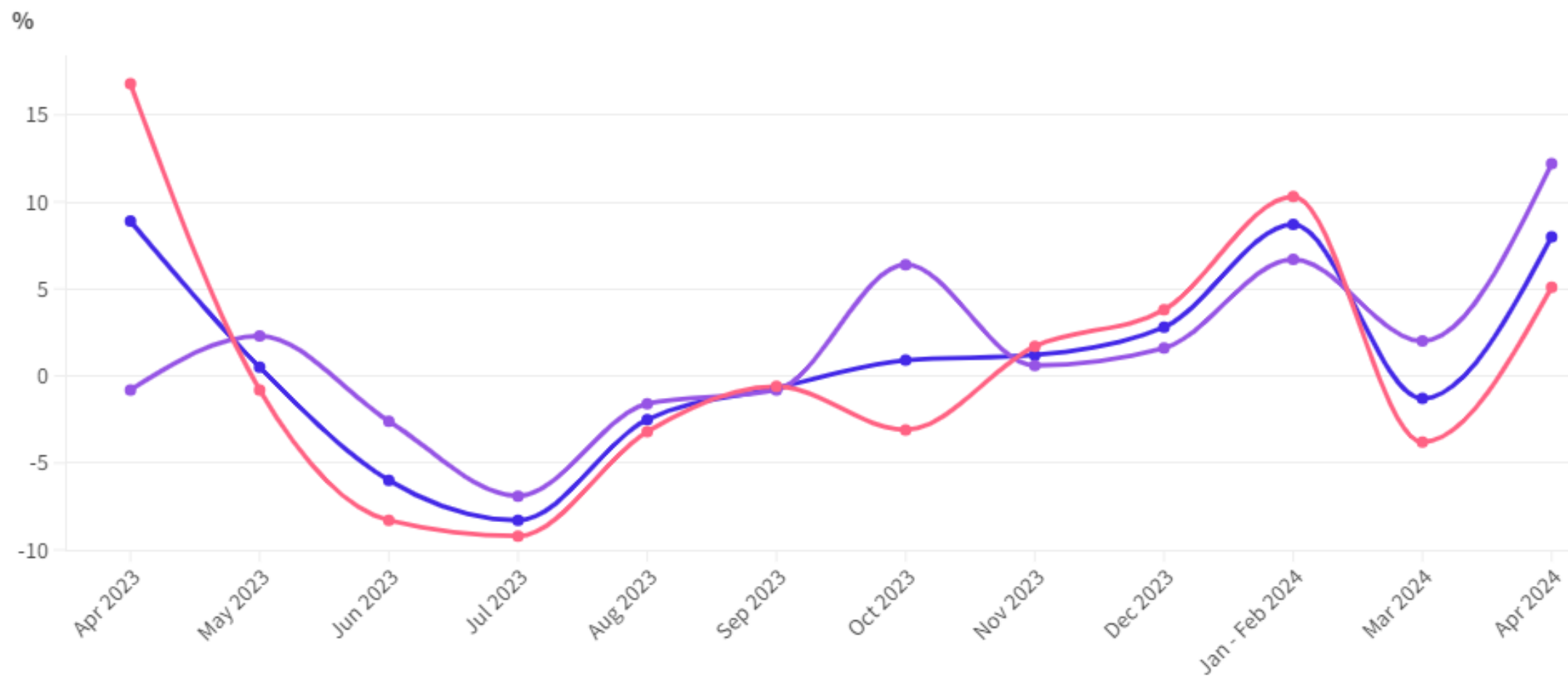


Source: National Bureau of Statistics

# China's Foreign Trade in the Last 12 Months

## Year-on-year change

Foreign trade (total) Imports Exports



Source: China National Bureau of Statistics, China General Administration of Customs

## China's exports grow for first time in 7 months

China's exports grew for the first time in seven months in November, suggesting factories in the world's second-largest economy may be finding their footing after a bruising slump in demand at home and abroad.



Source: LSEG Datastream | Reuters, Jan. 9, 2023 | By Kripa Jayaram

Reuters Graphics

# A resilient, mixed, and cautiously optimistic outlook

- No sign of systemic financial risks
  - Prudent monetary policy; precautionary financial regulation measures; huge surplus of foreign reserves; relatively low borrowing (BBVA Research 2024)
- But, internal/external conditions:
  - World political economy: global shift, especially geopolitical tensions
  - Domestically, a comprehensive policy package to achieve high-quality growth  
The path forward requires strategic reforms and international cooperation to mitigate the risks and stabilise the sector, ensuring China remains a key driver of global economic growth ([theglobaltreasurer.com](https://theglobaltreasurer.com)).

# Geopolitical dynamics

- China-US and China-West tensions will last
  - Trade disputes, and political and military divisions
  - China-US rivalry and mistrust have shaken the confidence of the business world
  - Growth could be cut by 0.9%: Trump threatens to raise tariff to 60% if re-elected
- But signs are not always negative
  - Xi Jinping's 5-day visit to Europe (France, Serbia and Hungary) in May
  - Trilateral summit South Korea-Japan-China 28<sup>th</sup> May
  - Minister of Defence attending 21<sup>st</sup> Shangri-La Dialogue in Singapore 31/05-02/06 in Singapore
  - Panda diplomacy is back: two giant pandas to be sent to Washington

# Overall China's economy is in a crucial transition

- Need to take a step back and look at longer-term horizon/strategy
- Real estate crisis, weak confidence and local government debts are serious, but short-term concerns
- During this critical transition, policies need to focus on long-term, sustained development aimed at higher quality growth towards:
  - A consumption-driven growth model
  - Via value-added ladder
  - Green growth
  - A digitised economy ([ING 2024](#))

## 6 Conclusion

- For China's economy, the road to recovery appears uncertain and complex
- Solving the property sector's crisis is a serious test of China's resilience and adaptability in the face of profound economic shifts.
- But the economic foundation is stable, with industrial and manufacturing sectors continuing to be the engine of growth, showing robust performance
- The government's ability to navigate these turbulent waters will be critical in determining the trajectory of the economy and transition.
- Longer-term and sustainable growth model needs serious rethinking