Opinion **Chinese economy**

China’s playbook no longer involves a big stimulus bazooka

Beijing is adjusting to a more parsimonious future — but are its people?

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President Xi Jinping’s tech-centric growth model may struggle to resolve the nation’s chronic youth unemployment problem and insipid consumer spending © Mark Schiefelbein/AP

James Kynge FEBRUARY 23 2024

Dark satire is a developing genre online in China. Take the recent social media posting of a People’s Daily article, the mouthpiece of China’s ruling Communist party, from the lunar new year of 1960. It told of harvests up “28.2 per cent” at a time when — as educated Chinese now know — the country was in fact sunk in a desperate famine that may have killed as many as 40mn.

Aside from the chilling absurdity of a huge lie, the post's impact rested on the fact that in 2024 — as in 1960 — the national output of Panglossian propaganda is once again outstripping a more meagre reality. Official censors clearly recognised the satire — they deleted the article this month.

"The censorship . . . occurs as many Chinese people ponder the disconnect between the unconvincing optimism peddled by the state media and the real economic pain afflicting people via the employment, housing and stock markets," commented the China Digital Times, an independent website based in the US.

This pain is prompting some to call Xi Jinping, China's leader, a "driving-in-reverse emperor" because of the way in which life for many ordinary Chinese seems to be getting worse rather than better. What chance is there that Beijing will seize this new lunar year to decisively reflate domestic demand? And would it work if they did?

The world is watching the struggles of its second-largest economy, which last year saw the lowest foreign direct investment since the 1990s. Over the past decade and a half, writes Eswar Prasad for the IMF, China has contributed 35 per cent of the world's nominal gross domestic product growth, while the US accounted for 27 per cent. If China really stumbles, the fall out could exacerbate an economic malaise in parts of Europe, create headwinds for the US and clobber fragile developing economies.

Most economists agree that if it needed to, China could launch a big bazooka. The level of debt on the central government's balance sheet is low enough for Beijing to finance a stimulus similar to the 2009 splurge that sent growth rocketing to 9.4 per cent a year.

But, with the exception of a relatively small stimulus for property, such strenuous fiscal interventions are no longer in Beijing's preferred playbook, nor do they fit with a Xi mindset that elevates security and self-sufficiency above all, says Zongyuan Zoe Liu, a fellow at the Council on Foreign Relations. "Beijing has been emphasising 'high-quality growth', which is a subtle way to acknowledge the reality of slower growth," she says. "It is unlikely to do debt-fuelled stimulus, which would exacerbate the structural imbalances, impair China's credit rating outlook and constrain long-term growth."

Indeed, that 2009-10 stimulus is still blamed in Beijing policy circles as a root cause of the current slowdown. The flood of cheap liquidity contributed to the continuing local government debt crisis, nurtured a network of underground banks, inflated property prices to unsustainable levels and spurred overcapacity in a host of industrial sectors.

These factors, coupled with a rapidly ageing population and intensifying trade friction with both the US and EU, feed into a growing consensus: China's troubles are not transitory but rather long term and structural in nature. Local governments, which have financed much of the country's infrastructure-led development, are now so submerged in debt they can often afford to do little but issue bonds to repay earlier ones.

Arthur Kroeber, a partner at Gavekal Dragonomics, expects a much slower rate of GDP growth in China over the remainder of this decade, probably in the region of 3 to 4 per cent. This compares with an official 5.2 per cent last year and an average of 7.7 per cent in the decade before the pandemic.

The big exception to this vision of a more parsimonious future, however, is technology. Xi has been enchanted by technology ever since as a village party boss barely out of his teens he built a dam, a methane tank, a sewing workshop and a mill, according to official accounts. Now he sees it as the main thrust in the national drive for self-reliance and security. "China's growth strategy is now driven entirely by industrial policy, on the theory that massive subsidised investments in technologically-intensive industries will deliver broad productivity benefits," says Kroeber.

To be sure, the successes have been spectacular. China accounts for about 60 per cent of electric vehicles sold worldwide. Its solar and wind power companies are global leaders. Its factories install about half of all industrial robots and its tech companies file more patent applications than any other country. Its hypersonic missile launch in 2021 startled US intelligence.

And yet technological prowess does not necessarily engender strong economic growth. The number of people employed in a sector increasingly animated by industrial robots and artificial intelligence is relatively low. Thus, Xi's tech-centric growth model may struggle to resolve the nation's chronic youth unemployment problem and insipid consumer spending.

As the decades of go-go growth fade in the rear-view mirror, Xi’s China may settle into a curious new phase. Even as it emerges as a technological superpower, its people feel that their quality of life is slipping into reverse.

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