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Driving Growth Amidst Challenges: China's Economic Focus for 2024

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Abstract: In 2023, China's economic growth exhibited an unexpected fluctuating pattern, marked by relative insufficiency in growth across the demand side, encompassing investment, consumption, and exports. Moreover, challenges stemming from geopolitical and global trends posed hurdles for China's international cooperation, exports, and foreign investment. To compound matters, the accumulation of domestic cyclical and structural contradictions created bottlenecks in the overall economic cycle, further hindering the nation's recovery. In light of these economic challenges and weaknesses, this thesis analyzes the reasons behind the sluggish economic recovery in China from both international and domestic perspectives. Based on this analysis, it delves into the direction and key points of the central economic policies for 2024, and further clarifies three policy measures to achieve economic development goals, including the feasibility of political means and the superiority of institutional characteristics. The conclusions drawn are as follows: It is expected that the economic growth rate in 2024 will exceed 5%, with the GDP growth target for the 14th Five-Year Plan period expected to be around 5.5% annually. Under an active fiscal policy, it is anticipated that the growth rate of fixed asset investment in 2024 will significantly increase, while the consumption growth rate is slowing down, requiring strong policy measures to restore expectations. Additionally, influenced by geopolitical factors, national security has become an important consideration, and exports may continue to face challenges. The analysis and conclusions of this paper provide a deep insight and theoretical development experience support for the better development of the Chinese economy.

Keywords: China's Economic, Economic Growth, Challenges, Policy

1. Introduction

In 2023, China's economic growth fell short of expectations, exhibiting a wave-like and tumultuous development. There remains a significant gap between the actual output levels and the pre-pandemic long-term growth trajectory. China's economy grew by 5.2% Year-over-Year in 2023, close to the growth target, but lower than expected [1, 2]. The areas where growth is relatively insufficient are mainly on the demand side, including investment, consumption, and exports [3, 4]. Investment only grew by 2.9%, and consumption's average growth rate over two years was only about 3.5%. Exports in US dollar terms decreased by 5.2%, and imports fell by 6%, indicating significant pressure on China's foreign trade. Insufficient demand is also reflected in prices, with CPI up by 0.2% Yo Y, and

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PPI down by 3.1%. To address weak demand, a loose monetary policy has been implemented, but market trading activity and social financing demand remain relatively insufficient. Government fund income declined by 13.8%, primarily due to the impact of the real estate market, affecting this year's fiscal policy's proactiveness [5]. Overall, China's economic recovery still faces significant challenges next year. Given the challenging domestic and international circumstances, what is the current status of economic development in China? Why is there a lack of endogenous momentum in China's economic growth, resulting in sluggish performance? Analyzing and elucidating these two questions holds significant importance for the healthy and sustainable development of the Chinese economy.

2. Reasons Behind China's Lackluster Economic Recovery

2.1. Turbulent International Political and Economic Environment

The favorable environment for China's economic growth has changed due to geopolitical and global trends. The pandemic has accelerated these changes. The global situation has shifted from peace to complexity, potentially leading to conflicts. Economic difficulties prompt politicians to resort to nationalism, exacerbating international tensions. Some countries, especially the US, view China as a strong economic competitor and seek control. The US election year adds uncertainty to China-US relations. These external changes, including global economy, geopolitics, and China-US relations, present challenges to peace and cooperation. China's international cooperation, exports, and foreign investment face significant challenges and will continue to be affected.

2.2. Accumulation of Domestic Cyclical and Structural Contradictions

2.2.1. Middle-Income Trap

After 34 years of rapid growth, China faces the middle-income trap. This stage requires long-term investment in human capital, education, healthcare, and other areas, rather than relying on cheap labor. The economic system must efficiently allocate resources to ensure robust growth [6]. This requires continuous improvement on institutions and fundamentals to increase efficiency. Overcoming this predicament is a challenging task for China.

2.2.2. Insufficient Demand, Excess Capacity, and Weak Societal Expectations

Official statistics indicate a consistent negative trend in both the CPI and PPI, reflecting a weakened and sluggish economy. Low inflation has contributed to a downward cycle, resulting in weak social expectations. This has led to sluggish personal investment and consumption, with intensified price competition among businesses. Furthermore, cautious investment demand from businesses has further exacerbated the economic downturn. The insufficiency of demand has also caused excess capacity in certain industries, particularly impacting the real estate and manufacturing sectors [7]. Some emerging industries exhibit duplication, highlighting the structural problem of excess capacity. The sudden real estate crisis in China has not only affected local government finances but also impacted household consumption. This has led to fiscal contraction and has had an adverse effect on household wealth and confidence in consumption. The lack of targeted fiscal transfer payments and limited household savings for consumption further worsen the situation. The weak real estate market, combined with a fragmented government response, hinders China's economic recovery and creates bottlenecks in the overall economic cycle [8].

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3. Analysis of the direction and priorities of the central economic policy in 2024

3.1. Objective Priorities for 2024

Based on such a complex economy, the annual CCP Central Committee has set the general policy tone for 2024 as "Seek Progress While Maintaining Stability" with nine objectives: (1) To lead the modern industrial system with technological innovation. (2) To expand domestic demand. (3) To deepen reforms and insist on "two unwavering" about state-owned and private enterprises. (4) To expand high-level opening-up. (5) To prevent and resolve risks in key areas like real estate and local debts. (6) To solve problems of agriculture, rural areas and farmers. (7) To promote urban-rural integration and balance regional development. (8) To build an ecological civilization and green society. (9) To improve people's livelihoods. We can find many similarities in 2023 plan, which consists of five goals: (1) To expand domestic demand. (2) To accelerate the modern industrial system. (3) To implement the "two unwavering" principle. (4) To attract and utilize more foreign investment. (5) To prevent and resolve economic and financial risks [9, 10].

As seen above, the first five goals for 2024 are basically the same as those for 2023, with (1) to (4) emphasizing "development", in line with China's core long-term goal of economic construction, while (1) (2) are technology and consumption, referring to outcomes, and (3) (4), reform and opening-up, are how to reach these outcomes. The (5), yet, relates to "stability", which was once rare but now gains importance due to the volatility of de-globalization and domestic economic recovery [11].

3.2. Priorities Difference and Analysis

However, the differences are more striking.

Most notably, the top target shifted from boosting domestic demand in 2023 to developing technology and innovation in 2024, reflecting an adjustment of the policy guideline in line with economic recovery, from highlighting stability to pursuing progress while ensuring stability. That means that focusing on domestic demand is actually a short-term post-epidemic policy and our new top priority should return to striving for "progress", that is, technology innovation, since its inputs and products can stimulate investment and consumption. But China's overall economic recovery is still inadequate, resulting from the structural mismatch between supply and demand, and technology innovation, is a sustainable way to change the investment-driven (K) growth mode, enhancing total factor productivity (A) and human capital (L).

Besides, there are four more objectives (agriculture, urban-rural, green and people) centered on social comprehensive development in 2024 than those in 2023, taking over the kernel of the 14th Five-Year Plan and balancing both economic and social benefits, to fit the new development model, "from quantity to quality, from scale to efficiency", that is from industry to innovation, and from vigorous opening up to high-level opening up.

In summary, China's objectives priorities for 2024 return to the main lines of the Five-Year Plan and mid-to long-term development, focusing on economic construction and high-quality development, and striving to boost real productivity.

4. Policy Initiatives and Feasibility Analysis

4.1. Policy Initiatives to Achieve the Objective Priority

To achieve the 2024 objective priority, based on the past economic policies and current situation, the government may use these policy initiatives.

Firstly, the government will adopt a proactive fiscal policy to ensure economic stability and development. In terms of concrete measures, the "Three Major Project" model and special bonds aim

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to balance real estate supply and manage debt, focusing on ROI and budget constraints. Additionally, while cutting the budget deficit, the optimization of tax and fee preferential policies and fiscal expenditure structure will be concurrently pursued [12].

Secondly, the government will implement Prudent monetary policies by consistently lowering the LPR and various loan interest rates to reduce the cost of social financing. In addition, capital utilization efficiency will be emphasized by investing in technological innovation, green transformation, small and micro enterprises, and the digital economy [13].

Thirdly, regarding macroeconomic coordination, combining non-economic with macro-policies boosts market confidence and economic success through positive public opinion and expectations.

4.2. Feasibility Analysis of Political Instruments

Based on the analysis, these policies meet the requirements across information clarity, policy coherence, interest balance, and regulatory coordination.

Bond interest rates affect government debt costs, while PPI impacts construction costs, making them key indicators. Additionally, the CPI and Shanghai Composite Index reflect economic and market reactions to deficit adjustments, offering timely data for government analysis.

The economic policy orientation in 2024 is basically the same as last year, reflecting the coherence of policies. Compared with the macroeconomic policies last year, the primary difference is that Technology innovation and Industrial policy are prioritized this year. This is because the export data shows that the export rate of mobile phones and new energy vehicles rose sharply and they will be the trend of new driving forces for economic development, which is also the forward-looking characteristic of macroeconomic policies.

Besides, decision-makers can send clear signals. For instance, the target deficit rate for 2023 was set at 3.0%, with a local government special bonds scale of 3.8 trillion. Statistics related to 2024 will also be announced soon. Additionally, adjustments to the reserve requirement ratio and the prime rate provide a transparent signal to the public.

Interests will be all balanced among local governments, SOEs, the private sector, and the central bank. The issuance of government bonds and the increase in tax revenue will improve corporate cash flow, and Special Refinancing Bonds provide liquidity support to local governments. These measures simultaneously enhance the vitality of enterprises and central banks while reducing the fiscal risks of local governments.

Regulatory coordination is being enhanced by creating a comprehensive financial regulatory system and easing market entry barriers to decrease financial risks and support private enterprises. Furthermore, measures should be implemented to reduce local governments' hidden debt.

4.3. Important Institutional Features

The effectiveness of China's economic policies depends on whether they are closely aligned with national conditions, respond to people's needs, and are comprehensively implemented. The Socialist Market Economy System, where the government guides economic development, policy support, and market direction, is key to China's economic success. Additionally, openness to global markets, state-owned enterprise reform, and the Dual Track System are key institutional elements that ensure policy effectiveness.

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5. Conclusion

5.1. Forward: Progress with Maintaining Stability

Reflecting on 2023, amidst global volatility and the task of domestic economic recovery, Chinese governments at all levels have upheld the principle of progress while maintaining stability. Looking ahead to 2024, considering target planning and development expectations, it is projected that the implicitly targeted growth rate for 2024 will be approximately 5%, with a high likelihood of exceeding this threshold.

5.2. Target Planning: Objective Leadership Outcome

Since the 14th Five-Year Plan did not explicitly specify the growth expectation, China's economic development has entered a new phase, with a heightened emphasis on the shift from quantity to quality and from scale to efficiency. However, the Two Centenary Goals suggest that the central has implicitly set the baseline for average GDP growth at 5% over the next 30 years. Specifically, during the 14th Five-Year Plan period, the targeted annual GDP growth rate is expected to average around 5.5%.

So, how could we interpret China's target GDP? After the central releases its plans, local governments often announce slightly higher GDP growth targets than those set by the central. These predetermined growth targets incentivize governments at all levels to employ various methods, such as subcontracting or tournaments, to strive for achievement. These pre-set GDP targets are often met "coincidentally". However, this does not imply China's recent economic growth is not genuine. The growth may have been reconfigured, with certain sectors such as the underground economy being underestimated. Moreover, local governments face pressure in tax revenue and politics, leading to offsetting manipulations, such as smoothing over time.

5.3. Development Expectations: A New Stage of Development

In 2023, the Chinese economy moderately recovered, with growth aligned with policy cycles. Sector performance varied, with consumption driving growth, while investment and exports faced pressures. Looking at specific sectors, the following development forecasts can be made for 2024.

(1) With an active fiscal policy, the growth rate of fixed asset investment is expected to see a significant increase. From a cyclical perspective, the inventory cycle is nearing its bottom, indicating potential for a significant rebound. High-end technology manufacturing's spill-over effects on the industrial chain will be crucial from a structural standpoint. Real estate investment is expected to stabilize in 2024 due to the lagging impact of policies and the combined influence of monetary and housing policies. Infrastructure development will be further driven by the continuous expansion of local government special bonds.

(2) The growth rate of consumption is decelerating, desiring robust policy measures to restore expectations. During a period of weakened expectations and economic growth slowdown, the central is expected to engage in secondary redistribution through subsidies and tax policies to increase income and boost confidence. Regarding consumption structure, the growth trend of retail goods and non-automotive consumer goods is expected to continue the momentum seen in 2023, maintaining a range of around 5%-6%. However, revenues from sectors such as catering are projected to decline after the subsiding of the base effect caused by the pandemic. When considering the factors influencing consumption, although the release of accumulated consumption intentions during the pandemic has been somewhat delayed, there remains a significant gap from the previous peak. Based on the Central Economic Work Conference's emphasis on "stimulating potential consumption, expanding beneficial investment, and forming a virtuous cycle of consumption and investment", the

medium to long-term view indicates that the slowdown in consumption is an inevitable challenge in the current process of adjusting consumption structure and transitioning growth rates.

(3) Due to geopolitical influences, national security has become a significant factor to consider, and exports may continue to face challenges. At the regional level, as the global trade landscape shifts its focus from economic efficiency to national security concerns, and geopolitical risks escalate, China’s export share, particularly to the United States, is under downward pressure. However, there are expectations of stable or even increasing export shares to emerging markets and developing economies.

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