Exports, Infrastructure, and Real Estate: Deciphering China's Economic Slowdown

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Ahead of the G20 summit, which President Xi Jinping has decided to skip, it is the domestic economy that the Chinese leadership is preoccupied with.

China is reiterating that the upcoming summit should focus more on economic cooperation and development, and not on geopolitical issues.

The Chinese Foreign Ministry spokeswoman Mao Ning said, “China hopes that the New Delhi Summit will help build up consensus, send a message of confidence to the world, and promote prosperity and development”.

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The COVID-19 pandemic has had a negative impact on the global economic growth as well as global supply chains. The world witnessed a major slowdown and thus the end of the pandemic did bring some hope for recovery.

Similar sentiments were expressed after the abolition of the Chinese zero-COVID policy in late 2022. It was expected that the Chinese economy will be able to regain its pre-pandemic growth rates and boost consumption.

However, as of August 2023, according to a report by Barclays, the Chinese economy is expected to grow at 4.5 percent instead of earlier projected 4.9 percent.

> The Chinese economy was headed for growth based on its real estate development, the building of infrastructure, and exports. But now, the Chinese real estate sector is in a major crisis.

The Evergrande crisis in 2021 clearly highlighted the challenges faced by the real estate sector and that the bubble was ready to burst anytime. A large number of homes have not been sold and suppliers are still waiting for their money, while the Chinese people who invested in these projects may never get their money back.

Similar sentiments are now being expressed regarding the Country Garden builder. The Country Garden has reported a slump of 50 percent in the overall sale of pre-finished apartments.

The foundation of China's huge economic growth was the push for domestic infrastructure and high-speed railways. It is now being argued that Beijing has exhausted the need and appetite for both.

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Exports, Tech, and Consumption

Another major pillar of the country's economic growth has been exports.

China is the largest trade partner to most of the countries in the world. Beijing has sustained its domestic economic growth by manufacturing and exporting goods. However, the pandemic has put a brake to these supply chains.

This has forced the world to rethink and revisit the existing economic channels. To add to its woes, China and the United States are engaged in a major trade war that shows no signs of easing.

> As per figures till July 2023, Chinese exports had dropped by 5 percent since last year, while the dip in imports for the same period was close to 7.5 percent. Industrial production is also contracting.

One major route to ease this challenge is technological growth.

China under Xi has been pushing for development in technological innovation, especially the manufacturing of chips and semi-conductors. Xi understands that for China to sustain as an economic powerhouse, there is an urgent need for technological development and an upgrade of the manufacturing sector.

However, the sanctions put in place by Washington are proving to be a major hurdle and even after investing billions of dollars, China has gained little to no success here.

China is now wooing the domestic tech giants like Alibaba and Meituan.

A major hard-handed approach was seen during the 2020s towards the private sector. The Chinese government adopted several stern measures to reign in the expanding private sector and cut it to size.

But this tone has now softened as the Chinese government needs them to push for domestic consumption and strengthen online consumer platforms, with the hope that this will help the economy recover to a certain extent.

> This is also an indication of the failure of the dual circulation policy promoted by Xi in May 2020.

The policy focuses on strengthening domestic consumption and thus reducing the dependency on exports. In the words of the president, the dual circulation policy will, “gradually form a new development model in which domestic circulation plays a dominant role”.

The dual circulation policy was an attempt to counter the trade war with the United States. However, the zero COVID policy and the shortage of essentials and healthcare faced by the Chinese population has forced them to intensify savings rather than increase consumption. This shift will only happen when people regain their trust in the economy, which may take time.

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The slowdown is an indication that the Chinese economy needs major structural changes.

The Chinese government has pushed for reform in the real estate sector and banking sector to motivate growth. It is also pushing for a reduction in interest rates as well as reducing tax liabilities. They are also saying that by 2024, the Chinese economy will recover from the current slowdown.

It's tough to ascertain as of now whether these changes will be enough.

This economic slowdown will impact the domestic population adversely. It will lead to fewer jobs to the new graduates while also affecting the savings of the people in the real estate sector. It is estimated that 70 percent of Chinese household savings are in real estate.

One can only imagine the level of domestic crisis and instability this can lead to and pose a challenge to the legitimacy of the Chinese Communist Party.

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