

Will the Dragon fire-up China's Economy in 2024?

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Navigating China's Economy in 2024.

As we embark on 2024, the global market turns its gaze to China, a nation that continues to define its stature as an emerging economy of significant influence. Understanding the role of China economic growth is pivotal for investors, businesses, and policymakers worldwide. With the Chinese New Year festivities marking a blend of cultural richness and economic vigor, this period becomes reflective of the broader dynamism within China's financial landscape.

Chinese New Year: Cultural Significance and Economic Implications

The celebration of the Chinese New Year, also known as the Spring Festival, which started on February 10th, is of monumental cultural significance in China, marking the start of the Year of the Dragon, a symbol heralded for its embodiment of strength, good luck, and intelligence. This period forges a deep connection between the traditional and the modern aspects of the emerging economy, as it influences economic activities both domestically and internationally.

As the festival unfolds, a ripple effect can be felt across various sectors of business due to the extended three-week shutdown of factories and offices. The widespread travel to reunite with family members for this auspicious occasion is not merely a migration of people but also a temporary migration of consumer spending and labour out of urban economic centres. Given that China's economy is expected to grow by 4.2% in 2024, well above the global average of 2.9%, the impact of the New Year's celebrations could further catalyse momentum in local financial and retail markets, providing a short-term boost as households typically increase their consumption during this time.

Yet, the grandeur of the festivities slightly masks the underlying economic challenges such as deflation, debt, and high youth unemployment. The intriguing factor for stakeholders is how these challenges, combined with a shrinking workforce, might shift post-celebration. As government support becomes critical, particularly following the downturn of key indices in 2023 and the first negative foreign direct investment in decades, all eyes will be on the annual Two Sessions in March for policy direction.

A brief review of China's Economic Performance in 2023

Delving into the economic trajectory of 2023, China's GDP growth experienced fluctuations. While some estimates suggested a modest growth rate of around 1.5%, it was the official claims targeting approximately 5% that painted a more hopeful picture. The World Bank presented a moderately optimistic stance with a projection of 5.2% growth for the year. A primary concern was the property sector, which notably dampened the economy's vitality, with new residential property construction plummeting to half its peak volume back in 2021.

Key Economic Challenges Facing China in 2024

As the calendar turns to 2024, China's economic growth faces a confluence of headwinds. Despite unfurling from a year that saw pockets of recovery, the global economic behemoth greeted the new year with an economy regaining its balance on tremulous ground. An array of challenges looms; foremost among them is the overhang from a beleaguered real estate sector which accounts for approximately a quarter of the nation's GDP. Debt-stricken property giants like Evergrande and Country Garden exemplify a crisis that casts long shadows over the prospects for sustained economic growth in China.

The ramifications of this sector's instability permeate the economy, from contributing to a deflationary period to inflaming concerns around alarmingly high youth unemployment rates, which have recently peaked at 21.3%. The sight of graduates returning to rural homes in significant numbers within six months of graduation casts a stark light on an economy grappling with slowdown. Moreover, an edifice of high debt borne by local governments, state enterprises, and property developers teeters precariously, triggering warnings of potential defaults that could ripple through the broader financial system.

The budding friction in international trade relations also spells concern for business and its broader economic projections. With the threat of a new trade war, particularly with the EU, China faces prospects of increased tariffs and import restrictions that stem from discord over Chinese industrial policy and lingering issues around excess capacity in sensitive sectors.

China's blueprint for 2024 has positioned priorities that include buttressing science and technology innovation and fostering robust demand, underpinned by the paramount need for stability. Emphasis on rural development, integration, and investment in sustainable, low carbon technologies are parts of an ambitious strategy that China's leadership acknowledges faces formidable barriers on its road to recovery. In particular, a reticence to undertake expansive macroeconomic stimulus or to launch sweeping reforms suggests a more conservative approach.

2024 Outlook: Government Policies and Economic Stimulus Measures

In light of the anticipated slowdown, with GDP growth projected to decelerate to 4.4% in 2024, Chinese authorities are crafting a tapestry of policies and economic stimuli tailored to underpin the economic growth sustainably. The government's nuanced approach, as opposed to wielding broad stimulus measures, speaks to a strategic calibration aimed at fostering high value-added manufacturing sectors and buttressing policy tailwinds to spark a recovery that is both tempered and sector-specific.

Looking ahead, a cluster of priorities for 2024 is crystalising within the government's focus on economic strategy. A prime emphasis is placed on unleashing the potential of science and technology innovation, stimulating stronger demand amidst global uncertainty, and maintaining stability in the emerging economy. There is an increasingly pronounced commitment towards rural development, harmonisation and low carbon ecological pursuits that chime with the global pivot towards sustainability.

The Global Impact of China's Economy

Despite predictions of economic softening in 2023 and 2024, China's hefty contribution to global economic stability and recovery cannot be understated. For more than two decades, with an impressive annual average GDP growth rate of 9.3%, China has propelled the engine of world economic growth, drastically reducing its impoverished population by 147 million and revolutionising the very notion of economic growth.

China's expansive trade growth plays a transformative role in global economic dynamics, causing significant shifts in bilateral trade balances and accounting for about 24% of the world's growth during the period from 2001 to 2003. This considerable expansion has not only leveraged economic vigour across East Asian countries but has also been pivotal in fostering regional economic cooperation.

Trade reforms and unwavering commitments under the WTO agreement have been key cogs in China's integration with the global trading system, enhancing the connectivity and interdependence of global trade networks. Yet, such integration comes with its share of contingencies, as the extensive safeguards provisions under China's WTO agreement could challenge the furtherance of China's export growth. Despite the formidable size of its economy, China's impact on the global economic stage remains comparatively moderate, an attribute of its still-developing country status.

Through the lens of investment, technology, innovation, and commitment to sustainable development, China is reinforcing its position as a celestial body in the global economic system. The potential impediments inherent in macroeconomic vulnerabilities, structural challenges, and the global implications of a rapidly expanding trade landscape serve as waypoints for future economic navigation.

Sector-Specific Outlook for 2024: Technology, Real Estate, and Manufacturing

China's economy, on the precipice of entering 2024, stands at a critical juncture across its principal sectors—Technology, Real Estate, and Manufacturing—each carrying unique forecasts that may together shape the trajectory of economic growth.

In the sphere of Technology, the nation's unwavering commitment to remaining at the forefront of innovation is evident. An anticipated investment surge into AI, quantum computing, and next-generation mobile networks is poised to bolster China's technological infrastructure, further cementing its status as a behemoth in global tech leadership. This dedication to cutting-edge development not only fortifies the domestic tech industry but also stands to significantly influence global markets through shifting trade dynamics.

Turning to the Real Estate landscape, predictions lean towards a period of adjustment, shadowed by an oversupply challenge and a deceleration in household formation. Government intervention is expected, wielding policies designed to temper housing prices and curb speculative activity. Urbanisation, an ace in China's economic playbook, continues to thrive, propelling a demand for housing in major cities despite a predicted decline in enthusiasm owing to softer price points.

Manufacturing, the linchpin of China's economic prowess, is on the cusp of an ambitious renaissance. The nation's strategic move towards high-tech, value-added production, rooted in initiatives amplifying industrial automation and robotics, promises to fortify its manufacturing capability.

To encapsulate, the Chinese economic outlook for 2024 in these vital sectors is a tapestry interwoven with innovation, regulatory consideration, and strategic shifts towards sustainable and advanced practices.

Conclusion

In conclusion, this article has navigated the myriad facets of China's economic landscape as we progress into 2024, underlining the synergy between cultural traditions and modern-day economic practices, most notably during the Chinese New Year. The key challenges that mar the horizon, including the real estate sector's fragility, rising debt, and youth unemployment, have been set against the backdrop of government policies and stimulus measures aimed at steering China towards sustained economic growth. As we have discussed, these broader implications bear significant weight for the global economy, marking China's strategic footing as an anchor in a multipolar world economic order.

Risk Warnings

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