Geography update
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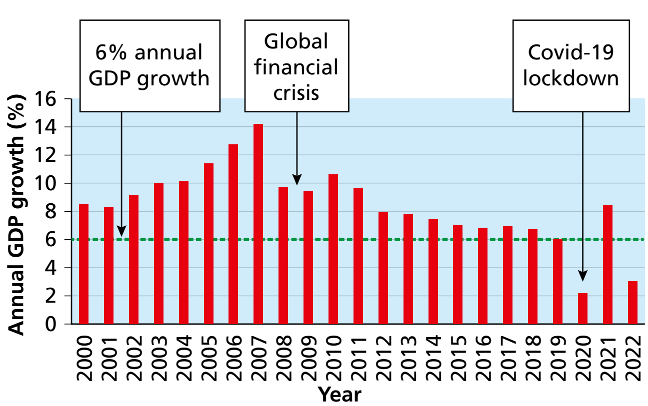
China's economy stalls

Despite being the world's second-largest economy, there is growing evidence that China is transitioning to a much slower growth model. Why might that be? **Cameron Dunn** takes a look

In 1990 China's economy was the world's eleventh largest by nominal GDP and represented 4% of global GDP. By 2022, China's US$18 trillion economy was the world's second largest, and represented 18% of global GDP. Economic problems in China today have the potential to ripple around the world, lowering global demand and slowing growth.

Slowing growth

Figure 1 shows that prior to the global financial crisis, China's economy had boomed, regularly posting annual growth over 10%. Growth then slowed but remained above 6% per year. It was often said that the Chinese Communist Party (CCP) determined to keep growth above 6% in a 'bargain' with the Chinese people, i.e. people would get wealthier and this would offset any calls for greater democracy and freedom.



Source: Author's own, using World Bank data

Figure 1 China's annual nominal GDP growth 2000–22

China's harsh and long Covid-19 lockdowns reduced growth to a mere 2%, and while there was a recovery in 2021, economic growth in 2022 was just 3%. It is expected to be 4–5% in 2023.

External economic headwinds

Several external factors have slowed China's growth since 2018, although they are not unique to China:

- Since 2018 China and the USA have been engaged in a 'trade war' started by President Trump, who accused China of unfair trade practices. Tariffs on imports, and reduced investment from the USA, increased trade friction and reduced growth.
- Covid-19 created global supply chain problems with shortages of critical components such as microprocessors, and this restricted production in many of China's factories, reducing exports.
- Russia's invasion of Ukraine in 2022 dramatically increased global energy prices, adding costs to producers but also reducing consumer demand.

Xi's internal decision-making

Xi Jinping, China's leader since 2012, has increasingly centralised political and economic power around himself. He was elected unanimously to a third leadership term by the CCP in 2023 and could lead China for the rest of his life. His political ideology, *Xi Jinping Thought on Socialism with Chinese Characteristics*

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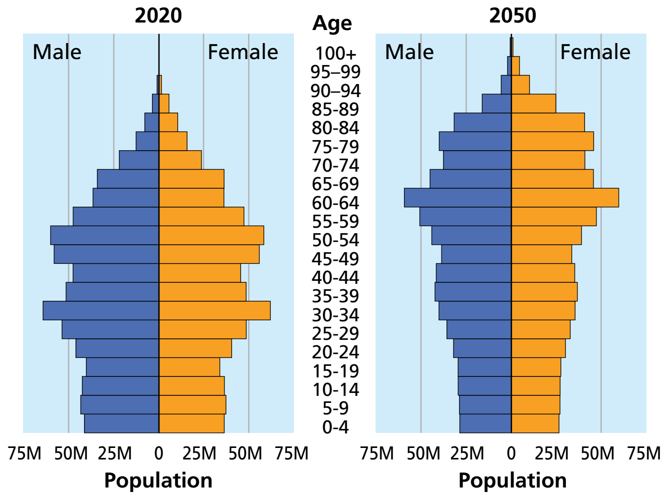
for a New Era, is taught in all Chinese schools from primary level. Increasingly, political commentators compare Xi with the cult of personality that surrounded Mao Zedong, China's leader from 1949 to 1976. There are increasing questions about the impact of Xi Jinping's personal policy decisions on the economy of China:

- China's 'zero-Covid-19 policy' regularly shut down whole cities for weeks, but vaccination programmes failed to deliver widespread protection.
- Beginning in 2020, the CCP cracked down on numerous Chinese tech companies (online marketplaces, social media) deemed to be getting too powerful and too influential. Some estimates suggest Chinese tech companies have lost up to $1 trillion in value due to these restrictions.
- Crackdowns on online gaming, TV and film (deemed 'Western' and corrupting) and private tutoring followed.
- Beginning in 2020, the CCP introduced measures to 'cool' China's rapidly expanding housing and property market, but these policies appear to have created a debt crisis among China's huge property companies.

A demographic deficit

China has other problems too. Youth unemployment (16–24 year olds) was over 20% when China suspended future releases of this data in August 2023. Property prices are falling and there are signs of deflation (where prices fall over time), which encourages saving, not consumer spending. Deflation was a key reason why the Japanese economy stalled in the 1990s. Looking further ahead, China's labour force of 775 million workers in 2023 is expected to fall to 640 million by 2050 as the population ages (Figure 2). This brings the added challenges of rising health and care costs but a shrinking productive population.

For the last 30 years China has essentially been 'Made in China', rather like the UK was 'Workshop to the World' during the Industrial Revolution. However, China is transitioning to a more consumer-driven, service-sector economy, and manufacturing is less



Source: US Census Bureau International Database

Figure 2 Population pyramids for China in 2020 and projected to 2050

important than it was. This is likely to mean slower GDP growth, just as it does in OECD economies. Managing this economic transition is a major challenge for the CCP. External headwinds, and arguably poor internal decision-making combined with unhelpful demographics mean predicting China's future path and prosperity is harder than it has been for decades.

Questions

1. How dangerous is it, for Xi Jinping and the CCP, if Chinese people begin to feel that they are not getting wealthier with improved quality of life? Could there be calls for political reform and greater democracy?
2. Which countries are likely to be the manufacturing powerhouses of the future as China shifts away from factory production towards consumer consumption?
3. Do you think Western democracies are any better at managing their economies compared to authoritarian regimes such as China?