

Maintaining Stable Economic Growth in China: Conditions and Strategies

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Abstract: According to the Report to the 20th National Congress of the Communist Party of China (CPC), development is the top priority of the Party's governance for the rejuvenation of the Chinese nation. Under the theme of promoting high-quality development, our top priority is to enhance the quality and sustain a moderate rate of economic growth. Stability in economic growth is an essential manifestation and inherent requirement of China's current development dynamics. This paper analyzes the necessity, favorable conditions, long-term challenges, and short-term situation of maintaining stable growth, as well as the critical significance of growth stability to the achievement of Chinese modernization and the balancing of development and security. China's relatively high economic growth rate, updating production factors, and world-class new economy create favorable conditions for economic stability. However, there remain some domestic and international risks and obstacles. China's economic development is on the path of recovery and lacks inherent dynamism in the short term. To maintain stable growth, China must restore and expand aggregate demand, as well as enhance social expectations and economic performance.

Keywords: Stabilizing growth, macroeconomy, aggregate demand

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As stated in the Report to the 20th National Congress of the CPC, high-quality development is the primary mission in building a modern socialist country in all respects, and development is the top priority of the Party's governance for the rejuvenation of the nation. This statement demonstrates the significance placed on development by the CPC Central Committee with Comrade Xi Jinping at its core. Development is the precondition for meeting people's growing demands for a better life, enhancing their quality of life, and boosting their perceptions of gain and happiness. China's current stage of development necessitates growth stability as a crucial manifestation and a natural requirement. Maintaining stable growth performance is of particular importance in the context of turbulent international environment and domestic economic momentum yet to gather strong.

1. Necessity of Maintaining Stable Growth

1.1 Economic Growth: Foundation for Human Civilization towards Modernization

Mankind has lived for millennia in an agrarian society with stagnant economic development. According to research on long-term economic and population development conducted by Maddison (2010), the period from 1 A.D. to 1000 A.D. was marked by sluggish global GDP growth, with global

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total population growth of only 16.2% and little change in GDP per capita. Annually, the global GDP per capita increased by less than 0.05% from 1000 A.D. to 1820 A.D.. Rapid economic expansion did not occur until after the Industrial Revolution, which ushered in the industrial era. From the invention of the steam engine to the development of electric power and today's internet infrastructure, tremendous global material progress has raised living standards in every part of the world. In the two centuries between 1820 and 2020, global GDP increased by 93.7 times, and per capita income rose by 11.1 times, laying the foundation for modernization in countries across the globe.

1.2 Growth Stability: Bedrock for Realizing Chinese Modernization

According to the report to the 20th CPC National Congress, Chinese modernization is modernization for a large population, for the common prosperity of all its people, for the harmonious coexistence of man and nature, and for peaceful development. China's overall development goal for 2035 is to substantially increase its economic strength, technological prowess, and comprehensive national power, increase its GDP per capita to a new level on par with moderately developed nations, and achieve socialist modernization. Without a solid material and technological foundation, it would be impossible to establish a modern socialist country from the ground up. Under the premise of furthering high-quality development, the strategy of expanding domestic demand should be combined with supply-side structural reforms to promote economic quality and sustainable growth. Maintaining a certain rate of economic development is essential for achieving these targets. If China is to double its economic volume by 2035 as planned, it needs to maintain an annual average economic growth rate of 4.6% between 2023 and 2035. To attain the goal of doubling GDP per capita by 2035, this growth rate must reach 4.1% over the same period.

1.3 Maintaining Stable Growth: Vital for Balancing Development with Security

The COVID-19 pandemic and the Russia-Ukraine conflict have caused a surge in inflation throughout the world's main economies, forcing central banks to raise interest rates. Global financial risks have increased as a result of tightening global financial conditions. There remain geopolitical uncertainties. The Russia-Ukraine conflict has exacerbated Russia's tensions with the European Union and the United States, creating shortages of food, energy, and resource supplies. As a result of the turmoil and divergence in Europe, manufacturing PMI in the eurozone has decreased for nine consecutive months (see Figure 1). Against the backdrop of unrest, numerous nations have shifted their focus towards security. The choice between efficiency and fairness has given place to a trilemma of efficiency, fairness, and security. However, national security is undergirded by the balance of power. The maintenance of security and stability is essential for development, and only with development can security issues be solved. Therefore, growth stability becomes the most important factor.

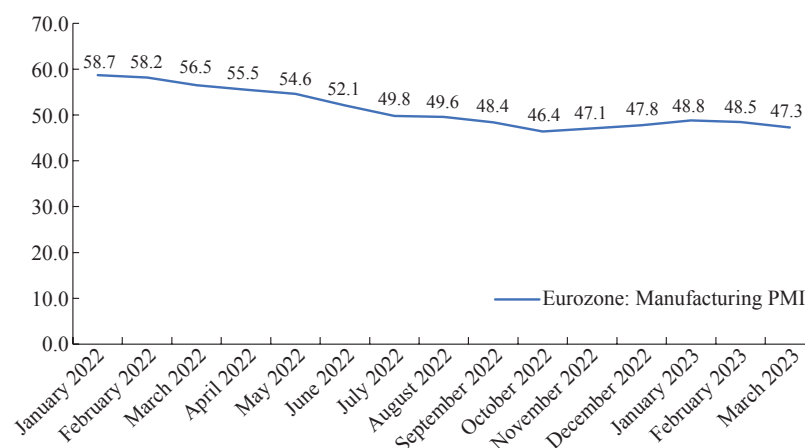


Figure 1: European Manufacturing PMI

Source: Wind database.

2. Favorable Conditions for Maintaining Growth Stability

2.1 Relative Strengths for Economic Growth

In the past decade, China's economic growth has outpaced the global average and that of countries at a similar stage of development. First, higher growth rates than countries at a comparable stage of development. Between 2012 and 2021, China's cumulative actual GDP growth was 91.5%¹, compared to 29.3% for high income countries, and China's annual average GDP growth of 6.7% exceeded the global average by 4.1 percentage points. It also outperformed the annual average actual growth of major high-income economies with over 10 million inhabitants by 1.3 percentage points in the decade prior to their crossing the high-income threshold. Second, China contributed significantly to global economic growth. From 2012 to 2021, China's nominal GDP grew by 9.2 trillion US dollars, accounting for 44.6% of the global nominal GDP growth of 20.6 trillion US dollars, an increase of 29.0 percentage points compared to the period from 2002 to 2011. Third, China was able to double its GDP per capita in a shorter period of time; China's GDP per capita doubled in nine years, from 6,100 US dollars in 2012 to 12,550 US dollars in 2021 at current prices, which is half the time it took for the global GDP per capita to increase from 6,000 US dollars to 12,000 US dollars.

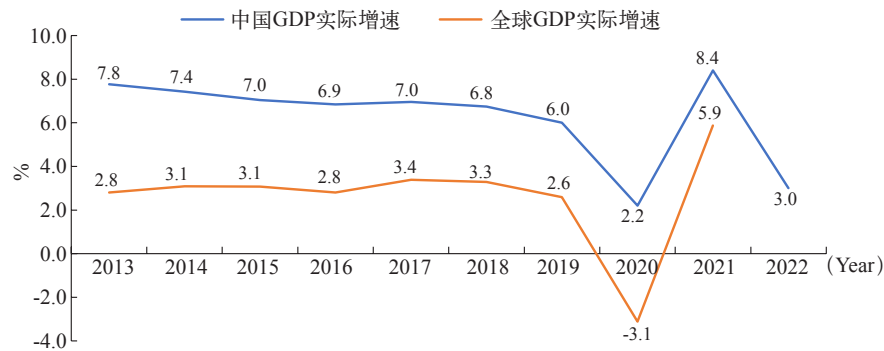


Figure 2: China's Actual GDP Growth Rates

Source: National Bureau of Statistics (NBS) of China and the World Bank.

2.2 Large Domestic Market Conducive to Economies of Scale

China's GDP surpassed 121 trillion yuan in 2022. With industrial value-added exceeding 40 trillion yuan, China became the second-largest economy and largest manufacturing nation in the world, and its foreign exchange reserves remained above three trillion US dollars. China's economies of scale advantages have strengthened as a result of its economic growth. The first advantage is the large profit potential of a vast market space. As a large and populous nation, China has a huge market that enables its businesses to dilute fixed costs and increase sales volume to generate sufficient profits. The second advantage is the opportunity for innovation. Innovation is based on trial and error. By January 2023, China hosted 170 million market entities, which create a large base for trial and error, increasing the possibility for innovative inventions. The broad market accommodates diverse requirements and technological paths, thereby increasing the innovation success rate and the tolerance for failure.

¹ Unless otherwise specified, China's data in this paper is from the National Bureau of Statistics (NBS), the State Administration for Market Regulation (SAMR), the Ministry of Education, the China Internet Network Information Center (CNNIC), the Ministry of Industry and Information Technology (MIIT), and the General Administration of Customs of China (GACC) databases, etc.; global data and data of various other economies come from the World Bank, the International Monetary Fund (IMF), and other databases.

According to CB Insights, China had 172 unicorns in 2022, accounting for 14.3% of the global total of 1,205, as well as over 70,000 small and medium-sized “specialized and sophisticated enterprises that produce new and unique products,” which serve as the backbone of innovation and development in China. The third advantage is the network effect that results from economies of scale. Close interactions between the industrial chain and the supply chain have resulted in the formation of a vast and intricate production network. China is the only nation to have all of the industrial sectors listed in the United Nations Industrial Classification. It has fostered mature industrial clusters characterized by centralized production and professional labor division. Giving play to comparative advantages, Cities such as Beijing, Tianjin, and Shanghai engage in R&D and marketing by merit of their comparative advantages while other provincial-level regions specialize in manufacturing. Highly efficient collaboration is made possible for industrial clusters by an efficient and inexpensive logistics system, along with the transformative force of digitalization and AI-based solutions.

2.3 Continuous Upgrade of Production Factors

China has experienced continuous improvements in the quality of its labor, investments, and land use as a result of its comprehensive, high-quality development progress. The convergence of data and other factors, made possible by technological advances, has transformed resource allocation and production methods, with beneficial results. First, the continuous accumulation of human capital. China’s rising education level and accumulation of human capital have paved the way for an economic structural transition. According to data from China’s seventh demographic census, the number of college graduates in the country reached 10.76 million in 2022, representing 73.9% of its population aged 22. The average length of education for China’s new labor force has increased from 13.5 years to 14 years over the past five years. Of China’s working-age population between the ages of 15 and 64, 21.8% possess a college diploma or higher. Second, the utilization of China’s capital has also improved considerably. China’s investment rate in 2021 was 43.3%, which was significantly higher than other major economies². In recent years, supply-side structural reforms have accelerated the upgrade of traditional factors, boosting the profitability of capital stock and incentives for new capital. From 74.4 in 2016 to 75.1 in 2019, China’s capital utilization has increased to a reasonable level (Wang and Zeng, 2023). The third positive development is an abundance of data. According to the International Data Corporation (IDC), China’s data stockpile is projected to reach 48.6ZB by 2025, representing 27.8% of the global total, far exceeding the United States’ 17.5% share. Data has emerged as a new factor of production. Under the new mode of production, the abundance of data will position the digital economy on a more stable footing for growth, presenting a vast opportunity for the convergence of data with other factors.

2.4 Global Leadership in the New Economy

Digitalization and the green transition are two main economic development trends at present. China’s growth dynamism has been turbocharged by the widespread adoption of cutting-edge technology, such as artificial intelligence (AI), big data, and block chain. First, global competitiveness for the digital economy. China has made rapid progress and is at the forefront of the digital economy as a vital growth driver. According to Chen and Xu (2022), China’s digital economy represented 13.3% of its GDP in 2020. The number of IoT subscribers in China reached 1,845 million by the end of 2022, an increase of 447 million from the end of the previous year, accounting for 70% of the global total. Second, continuous expansion of the renewable energy market. China has made significant strides in developing its clean energy market, as evidenced by the rising proportion of non-fossil energy consumption, amidst the intensifying low-carbon transition. In 2022, China’s power generation from

² Source: IMF.

clean energy sources such as hydropower, nuclear power, wind power, and solar power climbed by 8.5% over the previous year, and non-fossil energy consumption accounted for 17.5% of total energy consumption, a rise of 0.8 percentage points. Third, the market for eco-friendly and low-carbon products is expanding at a brisk rate. China's production of new energy vehicles increased by 97.5% in 2022. The output of new energy products such as charging piles, photovoltaic batteries, and wind power units increased 80.3%, 47.8% and 45.5% from the previous year, respectively. Fourth, rapid expansion and production of new equipment and materials. In 2022, the value-added of China's large high-tech manufacturing enterprises increased by 7.4% over the previous year with an investment growth rate of 18.9%. New material products have experienced double-digit expansion: Manufacturing production of ultra-clear glass, polycrystalline silicon, and monocrystalline silicon for the solar energy industry climbed by 78.0%, 64.4%, and 51.8%, respectively. High-tech manufacturing also recorded decent growth rates. The output of mobile telecom base station equipment, industrial control computers and systems, and civilian aircraft increased by 16.3%, 15.0%, and 10.5%, respectively. Fifth, steady increases in innovation input and output. China's total spending on R&D for the first time surpassed 3 trillion yuan in 2022, reaching 3.1 trillion yuan, an increase of 10.4% from the previous year and the seventh consecutive year of double-digit growth; the ratio of R&D spending to its GDP increased by 0.12 percentage points to 2.55%. By the end of 2022, China ranked first in the world with 4.21 million valid invention patent applications. Sixth, enterprises played a greater role as the backbone of innovation and accelerated the commercialization of R&D results. According to the *China Patent Investigation Report 2022* released by the China National Intellectual Property Administration (CNIPA), 48.1% of invention patents held by Chinese companies were commercialized in 2022, an increase of 1.3 percentage points from the previous year.

2.5 Considerable Room for Growth Motivated by People's Desire for a Better Life

China's primary social contradiction in the new era is between the people's ever-growing needs for a better life and unbalanced and inadequate development. There is still space for infrastructure improvement, urbanization, and rural development. First, there is great room for addressing infrastructural shortages. Infrastructure investment per capita in China is only 20% to 30% the level of developed countries, and rural per capita input of public facilities is only about one-fifth that of urban residents, indicating substantial investment potentials (Ning, 2022). Second, there is still room for more urbanization. China's urbanization rate reached 64.7% in 2021. By the average urbanization rate of 81.5% for high-income countries, some 240 million rural residents are expected to migrate to and settle in cities, creating a massive consumer demand. In 2021, urban residents' per capita consumption expenditure was 30,307.2 yuan, which was 1.9 times that of rural residents. The intelligent and sustainable urban transition will also generate new demand. Third, the development potentials of agriculture and rural areas. China had an agricultural workforce of about 290 million people in 2021, with a per capita output value of 33,000 yuan from farming, forestry, livestock, and fishery sectors, according to the seventh national demographic census. During the same time period, China's agricultural output value per agricultural worker was 5.2% that of the United States. There is space for improvement in the convenience of public services and the comfort of the human environment in the countryside. The modernization of rural living conditions will increase consumer demand significantly. Fourth, the development of public services such as education and healthcare will create more opportunities. China still needs to raise the bar on educational quality. The level of compulsory education is uneven across regions, vocational education is imperfect, and higher education needs innovation. The country has yet to improve the capacity of high-quality medical resources, whose regional distribution is imbalanced. With a declining population and an aging society, the government must enhance its birth support policy and cultivate the "grey-hair economy."

2.6 Leading the World in Foreign Trade Volume for Years

The expansion of China's economic ties with the rest of the world and its increasing market share abroad creates a favorable external environment for domestic growth. First, China's share of global trade has consistently increased. According to the General Administration of Customs of China (GACC), China's total imports and exports of goods exceeded 40 trillion yuan in 2022, making it the world's largest trading nation for the sixth consecutive year. According to the World Bank, China's total imports and exports of goods and services ranked first in the world in 2020 and 2021. In 2021, China's imports and exports of goods and services accounted for 12.0% of the global total, surpassing that of the second-largest trading nation, i.e. the United States, by 1.2 percentage points. Chinese companies have access to a massive international market. Second, China serves as an important trade hub in Asia. In 2005, China's total imports and exports of goods and services represented 5.5% of the global total, surpassing Japan's by 0.6 percentage points. For the first time, China eclipsed Japan as Asia's leading trading nation in goods and services. Since then, China has remained Asia's largest trading nation, with total imports and exports of goods and services that are 3.6 times greater than those of Japan, the region's second-largest trading nation. In addition, other Asian nations have maintained ever-closer trade ties with China, highlighting its status as the trade hub of Asia. Third, globalization strategy has yielded policy dividends. The Regional Comprehensive Economic Partnership (RCEP) has strengthened economic and commercial ties between countries in the region, including China and BRI countries. China's total import and export volumes with the 14 other RCEP countries reached 12.95 trillion yuan in 2022, up 7.5% from the previous year and accounting for 30.8% of China's total import and export volumes. China's total imports and exports of goods and services with BRI countries increased 19.4% to 13.8 trillion yuan in 2022, representing 32.9% of China's total imports and exports of goods and services with BRI countries. This ratio has increased by 7.9 percentage points since 2013.

3.Challenges to Stabilizing Growth

3.1 Innovation Quality and Strength Need Improvement

In 2012, China's patent applications surpassed those of the United States and Japan, propelling it to the top position in the world. In 2021, China submitted 1.54 million patent applications to patent offices worldwide, more than three times the number submitted by the United States³. However, it should be noted that China's technological ingenuity remains feeble, as evidenced by the following areas: First, patents are of limited quality. According to the patent quality index developed by Dai and Zhao (2023), China trails significantly behind the United States and the United Kingdom in terms of innovation quality. Among the countries with the most US PTO patents in recent years (the United States, Japan, China, South Korea, Germany, and the United Kingdom), the United States and the United Kingdom rank highest in terms of patent quality over the years, followed by Germany with an index above 0.92, and China comes last with an average index of 0.83. The commercialization of university patents remains insufficient. According to the *China Patent Investigation Report 2022*, only 3.9% of university patents became commercialized in 2022, which is 44.2 percentage points lower than the commercialization rate of corporate invention patents. In 2022, the rate of invention patent commercialization of small businesses fell for the first time, while that of micro-businesses fell for the second year in a row. Second, R&D intensity has potential for improvement. In 2020, China's R&D spending as a percentage of GDP was 2.4%, which was lower than the United States (3.5%), Japan (3.3%), and Germany (3.1%). R&D spending by Chinese firms is particularly inadequate in high-tech sectors such as computer and electronics, pharmaceuticals, and basic research. Third, the protection of intellectual property rights

³ Source: WIPO.

must be enhanced. According to the *China Patent Investigation Report 2022*, 7.7% of Chinese patentees experienced patent infringement in 2022, an increase of 0.5% from the previous year. In a 2022 study on the difficulty of IPR infringement lawsuits, roughly half of patentees rated the submission of evidence for the application of punitive compensation as difficult or extremely difficult, while less than 20% rated it as easy or very easy. IPR lawsuits are time-consuming with poor monetary compensation.

3.2 Rising Geopolitical Risks

Countries have raced to diversify their supply chains against the backdrop of deglobalization over the past few years and the Russia-Ukraine conflict, and the United States has ramped up its containment policy against China. First, an increasingly aggressive US policy of containment against China. Since 2017, both the House and Senate of the US have introduced a growing number of anti-China legislations, which reached 230 in the first three months of 2023. Under the “PRC Is Not A Developing Country Act” passed by the House, the US government must ensure that China does not receive any policy preference as a developing country in any international organization or institution in which the US participates. With a slew of restrictive trade, finance, and technology bills, the US intends to maintain its repressive posture towards China. Second, escalating risk of decoupling. Alliances such as the semiconductor Quad led by the US have excluded China from supply chains. The “long-arm jurisdiction” of the US, geopolitical dangers, and the scarring effects of COVID-19 have accelerated the relocation of supply chains outside China, posing a long-term threat to China’s supply chain stability and security. Third, increasing reliance on foreign suppliers for choke-point technologies. China is dependent on other countries for technology upgrades in advanced chip production, smart manufacturing, and new materials in the technology sector, which is the primary battlefield of the China-US contest. According to the *China Patent Investigation Report 2022*, 39.3% of surveyed corporate patentees found it challenging to import technology from the US, followed by Europe (30.7%) and Japan (21.4%). Among large enterprises, 57.6% deemed it difficult to import technology from the US. Of companies surveyed in 2022, 46.0% attributed the difficulty of patent technology importation to patentees who impose unreasonable conditions that cannot be met, while 25.2% blamed technology export restrictions imposed by governments with jurisdiction over patentees.

3.3 Fragile Industrial Foundation

China has not yet completed its ascent from mid- and low-end industries to high-end industries, and its position on the value chain remains unfavorable. First, China occupies a relatively low position in the value chain. According to the global value chain data estimated by the Research Institute for Global Value Chains at the University of International Business and Economics (UIBE) based on Koopman et al. (2012), China’s value-added from global value chain participation accounted for 7.9% of its GDP in 2021, which is 5.5 percentage points below global average. Specifically, China’s value-added from sophisticated global value chain participation represented only 3.4% of its GDP, which is 2.1 percentage points below the global average and suggests a relatively low value chain position. Second, deficiencies in critical industries. China’s emerging industries such as IT, AI biotechnology, new materials, and high-end equipment have yet to establish complete industrial chains due to weak fundamentals. The deceleration of growth in these industries is likely to retard China’s industrial upgrade as a whole, impeding manufacturing innovation and development. Third, inadequate industrial integration. Insufficient integration exists between modern services and manufacturing, and producer services remain underdeveloped. To meet people’s needs for a smart and digital lifestyle, traditional infrastructure has yet to be integrated with new infrastructure development. The digital and smart industrial transition has a great deal of space for improvement in the development of the digital economy.

4. Short-Term Macroeconomic Situation

According to a meeting of the CPC central politburo convened on April 28, 2023, China's improving economic performance is primarily driven by recovery and lacks inherent dynamism and demand; it is confronted with new obstacles to economic transition and upgrade and must still surmount a multitude of obstacles and challenges. The key to achieving mid- and long-term growth and development goals is to return China's economy to its potential growth trajectory based on an accurate assessment of the current economic situation.

4.1 Service Recovery Outpacing Manufacturing

With the implementation of the guidelines outlined at the central economic work conference and the dissipation of COVID-19's impact, China's manufacturing sector rebounded strongly in the first quarter of 2023, and PMI has been on an upward trend, indicating a general improvement in the business performance of Chinese enterprises. First, the service sector experienced a robust recovery. According to the National Bureau of Statistics (NBS), during the first three months of 2023, the business activity index of China's service sector stood at 54.0, 55.6, and 56.9, indicating a favorable recovery momentum. NBS data also shows that, in March, the service sector PMI reached 58.5, an increase of 3.8 points on a quarterly basis, or 0.7 points higher than the increase in the previous month. Service sector recovery is expected to continue for some time. The business activity indices were well above 60% for the retail, rail transportation, road transportation, air transportation, internet software and IT services, and financial leasing and commercial services sectors. Second, manufacturing recovery is expected to decelerate. In the first three months of 2023, the value-added of China's large industrial enterprises climbed by 3.0% on a cumulative basis, which is much slower than in 2022. In March, the PMI index for China's manufacturing enterprises stood at 51.9, which was still on an expansionary trajectory but declined by 0.7 points on a quarterly basis, indicating a sluggish manufacturing recovery. In March, China's manufacturing order index was 53.6, a decrease of 0.5 points compared to the previous month. The implication is that China's manufacturing market demand will continue to rise, but the growth rate is likely to decelerate, thereby slowing the manufacturing recovery. Third, the decrease in PPI has further diminished corporate profits. Falling commodity prices have reduced production costs, but they are insufficient to compensate for lost corporate revenues. China's producer price index (PPI) deflation increased from 0.8% to 2.5% from January to March 2023, which hampered corporate income. The purchasing price index decreased by a smaller margin of 1.8% in March. The reduction in cost was insufficient to offset the income loss. In the first three months of the year, large industrial enterprises reported an operating income of 31.2 trillion yuan, down 0.5% year-on-year; their business costs rose 0.6% year-on-year to reach 26.5 trillion yuan; and business profitability stood at 4.9%, down 1.3 percentage points year-on-year.

4.2 Uncertainties in Export Growth

First, the large export base exerts pressure on continued rapid growth. China maintained a favorable export growth trajectory from the second half of 2020 to the first three quarters of 2022, with a monthly average growth rate of 23.2%. According to data from General Administration of Customs of the People's Republic of China (GACC), since October 2022, China's export volume started to decrease. The export decline persisted throughout the first two months of 2023 before a 14.8% year-over-year increase (in US dollars) was recorded in March, bringing cumulative export growth in the first quarter to 0.5%, which is 6.5 percentage points below the fourth quarter of 2022. Second, sluggish global economic performance has dampened external demand. In a speech delivered in Washington on April 6, 2023, Managing Director of the International Monetary Fund (IMF) Kristalina Georgieva projected that the global economy would develop by about 3% over the next five years, the lowest growth rate since 1990. According to the World

Trade Organization's (WTO) most recent *Global Trade Outlook and Statistics*, the volume of global merchandise trade is expected to increase by 1.7% in 2023, which is one percentage point less than in 2022 and below the average growth rate of 2.6% over the past 12 years. China's efforts to sustain steady growth would be significantly hampered by a decline in global aggregate demand. Third, US sanctions have also contributed to a decline in Chinese exports. The US government has increased sanctions against China in technology, trade, and security, resulting in a decrease in imports from China. GACC data shows that China's exports to the United States have been decreasing steadily since August 2022. In the first three months of 2023, China's exports to the US totaled roughly 115.23 billion US dollars, a 17% decline from the same period in 2022. Continued declines in exports to the United States may cast doubt on China's growth stability.

4.3 Consumption Recovery Expected to Be Limited

Since the beginning of 2023, China's economic recovery and pro-consumption policies have contributed to an uptick in household consumption. NBS data shows that, in March 2023, the total volume of retail consumption increased by 10.6% year-on-year, the highest growth rate since July 2021. However, China's consumption growth could be constrained by the slow increase in household disposable income over the past three years. Service consumption has recovered at a much faster rate than commodity consumption. In March, catering income increased by 26.3% year-on-year, which is 17.2 percentage points higher than the annual increase in commodity retail sales volume. According to the data center of the Ministry of Culture and Tourism, domestic tourists in China are projected to make 4.55 billion trips in 2023, an increase of 80% year-on-year and equivalent to 75.8% of the pre-pandemic level. Revenues from tourism are anticipated to reach 4 trillion yuan, an increase of 95% year-on-year and 60.2% of pre-pandemic level. Automobile consumption slowed down. Automobile consumption entering the stage of non-essential upgrade, the withdrawal of purchase subsidies, and chaotic pricing signals have all contributed to the first quarter's underperformance. According to China Association of Automobile Manufacturers(CAAM), cumulatively, China's automobile sales in the first three months of the year decreased by 6.7% year-on-year. The production-to-sales ratio of merely 97.8% is the lowest since 2008 as a result of the excess production output, causing high inventories. Consumption growth has been restrained by tepid income growth. During the pandemic, China's economic downturn discouraged household consumption. NBS data shows that, in 2022, China's disposable household income per capita reached 36,883 yuan, a nominal increase of 5.0%. However, the actual growth rate was only 2.9%, or half of the 2019 growth rate. In 2022, China's per capita household spending was 24,538 yuan, a decrease of 0.2% after adjusting for inflation. Slow growth in household income may have constrained household purchasing power.

4.4 Investment Growth Likely to Slow

Since the beginning of 2023, China's fiscal and financial instruments have continued to support major project construction, while equipment upgrades and renovations have resulted in increased physical workload and the real estate sector has bottomed out. Investment in fixed assets steadily increased. China's fixed asset investment grew by 5.1% year-over-year in the first quarter of this year, which is the same growth rate as in 2022. The growth rate of infrastructure investment is likely to remain fairly strong. From January to March, China's infrastructure investment excluding electric power grew 8.8% year-on-year, which was 3.7 percentage points higher than the growth rate of overall fixed asset investment. Specifically, investments increased by 17.6% for rail transportation, 11.3% for information transmission, 10.3% for water resources management, and 8.5% for road transportation. Falling industrial profits have discouraged investment in manufacturing. Since the second half of 2022, the total profits of industrial enterprises in China declined by a widening margin. From January to

March 2023, large industrial enterprises in China reported a year-on-year decrease of total profits by 21.4%, and the falling profits have weighed on investment growth. In the first quarter, manufacturing investment increased by 7.0% year-on-year on a cumulative basis, which is 2.1 percentage points less than in 2022. In the near future, China's manufacturing investment growth is likely to decelerate. Real estate investment will continue to underperform. From January to March of 2023, China's real estate investment decreased by 5.8% year-on-year, which is 4.2 percentage points less than the slump in 2022. However, in the short run, real estate investment growth is not likely to become positive, continuing to drag overall investment growth. Private investment is recovering slowly. Waiting for the chilly economic downturn to end, struggling private businesses are reducing debt and spending to stay afloat. From January to March 2023, private investment in China increased by 0.6% year-on-year, which is 0.3 percentage points below the annual average for 2022 and 7.8 percentage points below the first quarter of 2022. In the absence of an improvement in business performance and confidence, private investment will remain lethargic. Economic performance will continue to be driven by major projects. From January to March of 2023, major projects with a planned total investment of at least 100 million yuan saw a 12.3% increase in investment year-on-year, boosting total asset investment growth by 6.3 percentage points. Major projects will continue to bolster economic growth as a result of the implementation of supporting policies.

4.5 COVID-19's Scarring Effects on Household, Corporate and Government Sectors

The stimulative effect of the pandemic's end has waned. Future improvement of expectations will require positive feedback from a durable economic recovery. Youth unemployment has dampened household expectations. In January 2023, the surveyed unemployment rate of China's youth population aged 16 to 24 was 19.6%. The high youth unemployment rate has been exacerbated by layoffs in the technology sector and an increase in the number of college graduates, who struggle to find suitable jobs and are advised to take less rewarding or unskilled work. Consumer expectations have yet to return to normal levels. In 2022, China's per capita disposable income growth slowed by 4.1 percentage points compared to 2021, while household savings increased by 7.9 trillion yuan compared to 2021. In February 2023, the consumer expectations index increased to 98.4, which is 26.1 percentage points less than the annual average of 124.5 in 2021. The business activity expectations index decreased. Since the start of 2023, corporate expectations have increased sharply, but have recently dipped. In March, the index of manufacturing production activity expectations was 55.5, remaining on an expansionary path but falling by 2 percentage points from the previous quarter; the index of non-manufacturing business activity expectations was 63.3, which remained high but fell by 1.6 percentage points from February. Negative feedback is likely to result from a worse-than-anticipated improvement in business activity. The market expressed concerns over new sources of dynamism. According to Ministry of Industry and Information Technology of the People's Republic of China, in 2022, China's internet sector experienced the first contraction in business revenue in a decade, with a 3.9% drop in the first two months of 2023. Since 2022, this decline has increased by 2.8 percentage points. Internet-related businesses are continuing to contract. The new energy vehicle industry has encountered roadblocks. In March, the sales volume of new energy vehicles increased by 34.8% to 653,00 units, which is 60.8 percentage points less than the average annual growth rate for 2022. The liabilities of local governments may present risk. The total amount of local government bonds issued in China in 2022 was 7,367.6 billion yuan. By the end of December 2022, the balance of local government liabilities amounted to 35,061.8 billion yuan, representing 28.9% of China's GDP in 2022. As a result of falling tax revenues during the pandemic and land transfer revenues that are less than 10% of the previous year's levels in certain localities, local governments are under increasing pressure to repay their debt.

5. Policy Recommendations for Maintaining Stable Growth

In China's economic performance, a notable contradiction arises from the overall deficiency of aggregate demand. In order to achieve the goal of stabilizing economic growth, it is imperative for the government to augment aggregate demand, promote consumption, investment and export, harness new dynamism, enhance market confidence, and proactively tackle challenges.

5.1. Expanding Aggregate Demand by Raising Income and Promoting Consumption

In the five years prior to the pandemic, final consumption spending contributed an average of 62.7% to China's GDP growth, whereas in 2022, this figure was only 32.2%. The best method to increase domestic demand is to raise household incomes and consumer spending. The government should enhance the personal income tax system in order to increase the share of labor income. It should promote industrial upgrading in order to increase job opportunities for college graduates. Allowances for temporary living expenses can be issued to protect low-income groups. To stimulate consumption, it is recommended to pilot and promote flexible work schemes, such as three days of office work and two days of home-based work per week. The county, municipal, and village logistical systems should be improved with a focus on the development of warehousing facilities, transportation, and intelligent sorting equipment. To promote consumption, it is suggested to implement trade-in programs and other incentives. The elderly and infant care services should be given substantial policy support.

5.2 Unleashing New Investment Dynamism

Investment has played a vital part in supporting China's economic growth in recent years. New dynamism is a significant source of future development prospects. To unleash new vitality, continuous investments should be made in projects and directions with a high multiplier effect. To increase the confidence of digital economy enterprises, regulators should establish a clear orientation for the day-to-day oversight of platform economies and eliminate superfluous *ex-ante* review. Fundraising, investment, management, and exit processes for venture investment should be optimized to increase the intensity and professionalism of venture investment and provide an institutional setting for matching superior projects with smart capital. Through market mechanisms, the new energy vehicle industry should be standardized and given development space. Greater efforts should be made to encourage technology upgrade investment in order to promote digital and smart industrial upgrading and transition.

5.3 Increasing Openness to Stabilize Foreign Trade

The government should properly reduce the negative list for foreign capital investment, further open up modern services, implement proclaimed foreign capital access policies, and strengthen the protection of foreign investors' legitimate rights and interests. Foreign-invested businesses should have equal participation opportunities in government procurement, public bidding, and standard-setting. Proactive efforts should be undertaken to join high-standard economic and trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Digital Economy Partnership Agreement (DEPA). Pilot zones for free trade, the Hainan Free Trade Port, development zones, and bonded districts should serve as platforms for a higher level of opening. In domestic reforms, reference should be made to the rules, regulations, administrative procedures, and standards outlined in economic and trade agreements of the highest quality. Processing trade should be improved to increase the value-added to exports. It is important to develop digital trade, strengthen our export advantage with respect to emerging industries such as new energy vehicles, import more advanced technologies, equipment and energy resources, and enhance the role of the China-Europe Railway Express in our country's development as a major trading nation.

5.4 Proactively Guiding Expectations to Boost Market Confidence

The government should unwaveringly strengthen and develop the state sector of the economy, while also encouraging, supporting, and guiding the development of the private sector. The policies and guidelines of the central government should be adequately communicated to private enterprises and entrepreneurs to reassure and encourage them to develop their businesses with confidence. It is vital to enhance the business climate, remove institutional barriers to the equal participation of private enterprises in market competition, and establish institutional and legal frameworks for the equal treatment of state-owned enterprises and private businesses. Private investment should be encouraged and enticed to participate in the construction of major national projects and industrial and supply chains. It is suggested that policy continuity and stability be maintained, that transparency and predictability be increased, and that policy coordination be strengthened. It is important to minimize government interference and give the market an institutional foundation for diversity by working to establish a law-based society in which everything that is not explicitly forbidden is permissible. ■

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