

China's Economy Will Continue to Struggle

Nathan Levine

What We're Watching

Among the most pivotal questions of the year ahead is the pace and direction of Chinese economic growth. In short: is China's economy facing recovery or stagnation in 2024? Or — if some more alarmist observers are to be believed — is it on the precipice of an even deeper and more sustained economic decline? The answer will substantially impact not only the future of China but also the future of the entire global economy and the geopolitical balance of power and global influence.



Photo by Hector Retamal/AFP via Getty Images

The Context

China's economy has struggled to bounce back since the COVID-19 pandemic, when the government's draconian "zero COVID" lockdowns helped crush consumer spending and overall economic activity for a sustained period. However, many economists point to much deeper and longer-running structural problems in the Chinese economy as having come to a head over the past several years, trapping China in a "new normal" of significantly slower growth.

In this view, China's economy faces deep structural problems and is increasingly running into the limits of its current growth model. For decades, China relied on investment-led growth, pouring money into infrastructure, real estate, and export-driven industrial manufacturing, while consumers maintained a high savings rate. That model is no longer performing: public investment has reached a point of severe diminishing returns, China is now awash in high levels of debt, and overspending on a property construction bubble has led to a significant crisis. Further weighing on the economy is largely stagnant productivity growth and a private sector shaken by President Xi Jinping's insistence on growing the Party-state's control over the economy and finance.

The obvious solution to this impasse would be to shift to a growth model driven by a much higher share of consumer spending. So far, however, Chinese consumer demand has remained sluggish in 2023. Consumers have signaled that they remain deeply wary about the future, still saving an average of 2% more of their income than before the pandemic (when they already had among the highest savings rates in the world). Moreover, the economy fell into deflation in 2023, creating spiraling incentives to wait to spend. China also faces a serious long-term demographic crisis, further threatening its ability to grow rich before it grows old.

Although China officially met its annual growth target of "around 5%" in 2023, with 5.2% growth according to official data, most economists predict these structural factors will only further weigh on China in 2024.

China's Economy Will Continue to Struggle

The International Monetary Fund (IMF) forecasts growth will slow to 4.6%, while other leading economists predict growth to fall below 4%. Beijing, however, is poised to again set an official growth rate of around 5% in March, according to policy insiders involved in the deliberations of China's Central Economic Work Conference (CEWC), held in December 2023.

Achieving this target will likely require significant policy changes, however. The Chinese property sector (which still represents some 23% of GDP) shows no signs of recovery — or even that it has yet hit bottom. Restoring robust growth, therefore, will largely hinge on whether Chinese consumers can be convinced to spend, and private sector entrepreneurs to invest. Beijing has signaled only limited action is likely forthcoming, however, including a minor shift in rhetoric at the CEWC from “stability” to “progress,” hinting at a potentially minor expansion of stimulus measures. Overall, however, the CEWC declared that China must “adhere to high-quality development as the hard truth of the new era” — signaling the economy should indeed be prepared for a long slog.

What to Expect in 2024

- China will likely again set an official growth rate of around 5% for 2024 but may struggle to meet it.
- Consumer demand is likely to continue to lag, while the ongoing real estate crisis is likely to continue to reverberate throughout 2024.
- Sweeping government stimulus efforts are highly unlikely amid continuing fiscal and debt concerns.
- A broader financial crisis or economic recession is unlikely, but China's economy is likely to continue to at best muddle through in 2024 rather than demonstrate a significant recovery.