
Mizuho Economic Outlook & Analysis

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China aims for economic normalization in 2023

Economic policy agenda was determined at an important conference based on the “live with the virus” policy

< Summary >

- ◆ China's Central Economic Work Conference has set forth the economic management policy for 2023, with priority given to normalizing the economy stifled by the state's “zero-COVID” policy. China aims to expand domestic demand by maintaining a combination of proactive fiscal policy and prudent monetary policy.
- ◆ In December 2022, China made a sharp turnaround from its zero-COVID policy, which was having a markedly negative impact on the economy, to a “live with the virus” policy that balances infection control and economic activity. But the country's sudden transition to fewer restrictions on business and social life has caused an explosive rise in COVID infections.
- ◆ China's economy in 2023 faces the risk of deterioration driven by resurging COVID infections in the first half of the year. But we believe the economy will pick up moderately in the second half of the year as infections are expected to ease off and real estate investment to bottom out.

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1. The sudden transition in policy from “zero-COVID” to “live with the virus” caused an immediate explosion of infections

The Xi Jinping administration held the Central Economic Work Conference (“CEWC”) on December 15 and 16, 2022, and set forth the government’s economic management policy for 2023.¹ It clarified its priority to normalize an economy hamstrung by the zero-COVID policy.

China’s COVID-19 control measures took a major turn in December triggered by protests by citizens whose dissatisfaction with the zero-COVID policy had reached its peak. The Communist Party’s Politburo meeting² held on December 6 did not refer to the “dynamic zero-COVID” slogan, and the State Council issued a notice³ on the 7th significantly easing infection control measures, such as allowing home quarantine, abolishing mass PCR testing by administrative districts, and abolishing PCR-negative certification in public transportation. This effectively lifted the zero-COVID policy that had been in place for nearly three years since the outbreak of the new coronavirus in Wuhan, Hubei Province. Currently, the transition to “live with the virus” is proceeding rapidly and irrevocably, and the state has eliminated lockdowns and other blockade measures as well as restrictions on social behavior, although home quarantine is still required for infected persons.

The easing of COVID-19 restrictions, however, has led to an explosion of infections, stretching medical resources thin as patients flood to outpatient fever clinics. There are reports that crematoriums in many cities, including Beijing, are being overwhelmed, suggesting a surge in the number of deaths from COVID-19 infections, especially among the elderly. After virtually lifting the zero-COVID policy, the official statistics on the number of confirmed cases by the National Health Commission were on a downward trend (**Chart 1**). But on December 14, publication of the number of patients with asymptomatic infections was suspended with the drastic cutback of the PCR testing system. Furthermore, announcement of the number of confirmed cases was cancelled on December 25, and it was decided that the count of confirmed coronavirus cases would be released only by the Chinese Center for Disease Control and Prevention, which is under the control of the Chinese government. Since the statistics no longer reflect the actual state of COVID infections, it seems the government has judged the release of statistics at the ministry level to be misleading.

The media has reported that an internal meeting of the health authorities estimated that

¹ Xinhua News Agency, December 16, 2022 http://www.news.cn/politics/leaders/2022-12/16/c_1129214446.htm

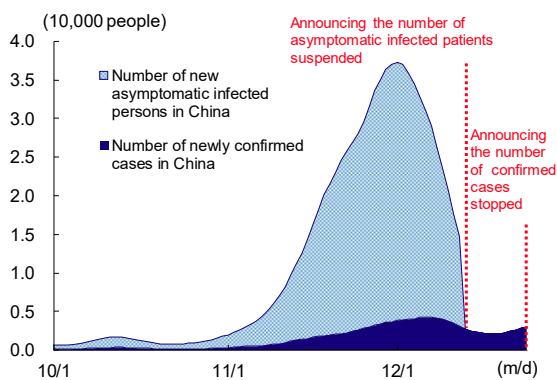
² China Communist Party News, December 6, 2022 <http://cpc.people.com.cn/n1/2022/1208/c64094-32582695.html>

³ The State Council’s Joint Prevention and Control Mechanism, “Notice on Further Optimizing and Implementing the Prevention and Control Measures for Novel Coronavirus Pneumonia Infection.” <http://www.nhc.gov.cn/xcs/gzccwj/202212/8278e7a7ace34e5bb378f0e0fc94e0f0.shtml>

248 million people were infected nationwide between December 1 and 20, and the number of pandemic-related deaths exceeded 5,000 per day. Zhejiang authorities stated at a press conference on December 25 that the number of COVID-19 cases in the province exceeded 1 million per day. Also, the official social media account of the Shanghai Deji Clinic estimated that 5.43 million people, or about one-fifth of Shanghai's population, had tested positive by December 17, and that the number would possibly reach 12.5 million at the peak of infection.

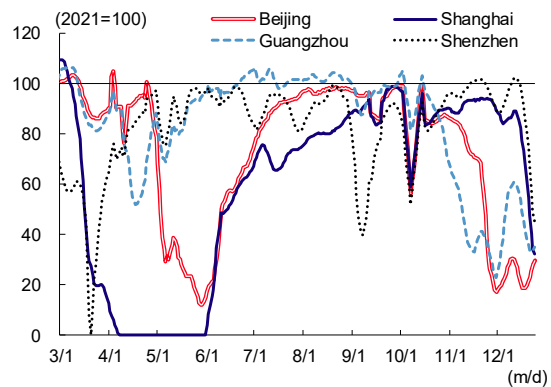
The health authorities are working to dispel citizen concerns, claiming that the virulence of the Omicron strains has decreased significantly, with the most recent fatality rate down to around 0.1%, not much different from influenza, and that most people recover in 7 to 10 days after being diagnosed with COVID-19.⁴ However, many citizens grown accustomed to the zero-COVID policy remain fearful of the coronavirus; they are stocking up on antipyretics and other medicines, and taking precautions to reduce personal contact by telecommuting and refraining from going out. As a result, despite the lifting of restrictions, people's mobility has dropped significantly recently (**Chart 2**). The acute spread of infection has also led to a severe shortage of labor; for example, delivery services active even under the zero-COVID environment are being delayed by the lack of delivery personnel. In the medical field, retirees are being rehired, medical students are being mobilized, and even those testing positive are being brought back to work.

Chart 1: Number of newly confirmed cases in China



Note: The data above are 7-day moving averages; most recent data as of December 24.
 Source: Made by MHRT based upon the National Health Commission and CEIC.

Chart 2: Number of subway passengers in major cities



Note: The data above are 7-day moving averages; most recent data as of December 24.
 Source: Made by MHRT based upon Wind.

⁴ Remarks by a leading infectious disease researcher, Mr. Zhong Nanshan, Xinhua News Agency, December 10, 2022
http://www.news.cn/politics/2022-12/10/c_1129199010.htm

China never experienced a major wave of infections since the pandemic's outbreak because of its zero-COVID policy, and thus the public has not acquired sufficient herd immunity. Although progress has been made on administering domestic inactivated vaccines, such vaccines are considered less effective than messenger RNA vaccines ("mRNA vaccines"), and the vaccination rate among the elderly continues to be low.⁵ Hence the government is again strongly urging people to get vaccinated. The Chinese government has not approved the use of imported foreign mRNA vaccines, and although research and development of domestically produced mRNA vaccines is underway, practical use of these vaccines is yet to be seen. Considering this situation, Chinese society is considered to remain vulnerable to coronaviruses.

Under these circumstances, the CEWC is directing stronger infection control measures based on the transition to live with the virus policy. It aims at "better unifying and coordinating infection control and economic and social development." In other words, it emphasizes the compatibility of infection control and economic activity by saying, "We will optimize infection control measures according to the time and circumstances, seriously implement various infection control measures at a new phase, ensure that citizens receive medical examinations and medication, and focus on strengthening infection control for the elderly and those with underlying medical conditions to protect their health and prevent serious illness." The "new phase" here is thought to be the transitional period to live with the virus. It goes on to say that the goal is to "smoothly ride out the epidemic and ensure a peaceful transition and stability of social order." We assume that "transition" means transition to live with the virus policy. Considering these policies, we believe it is highly unlikely that the "dynamic zero-COVID" slogan will make a comeback with Chinese society returning to the zero-COVID environment, even if infections spread further in the future.

2. Expansion of domestic demand is the most important task in 2023. Maintain an expansionary fiscal policy to support the economy

We will now look at the economic management policy for 2023 as indicated by the CEWC.

The CEWC began by stressing the achievements in 2022, saying as follows: "We have triumphantly held the 20th Party Congress⁶ and drawn up a grand blueprint for the

⁵ According to the National Health Commission, as of December 13, 2022, the two-dose vaccination rate in the total population was 90.37%, and 86.6% for those aged 60 years and older, but only 66.4% for those aged 80 years and older. The booster vaccination rate, calculated from the number of vaccinations announced at the press conference, stood at 57.9% for the entire population, 69.8% for those aged 60 and older, and 42.4% for those aged 80 and older. The State Council's Joint Prevention and Control Mechanism press conference on December 14, 2022 <http://www.gov.cn/xinwen/gwylflkjz221/index.htm>

⁶ For more information on the Party Congress, refer to "China Continues on the 'Strong Power' Path: Challenges Facing Xi Jinping's Leadership as He Launches His Third Term" (Mizuho Insight, November 2, 2022). <https://www.mizuho->

comprehensive building of a modern socialist country,” and pointed out that with regards to the Chinese economy, “the triple pressures of shrinking demand, supply shocks, and lowered expectations remain significant, and the external environment remains turbulent and unstable, deepening the impact on the Chinese economy” (**Chart 3**). The CEWC also instructed that the economy be managed with confidence because “the Chinese economy has strong resilience, great potential, and sufficient vitality” and “an overall recovery in economic performance” is expected in 2023 as a result of various policies taking effect.

Chart 3: Key points of the Central Economic Work Conference

Item	Outline
Current situation	The triple pressures of shrinking demand, supply shocks, and lowered expectations (in the Chinese economy) remain significant, and the external environment remains turbulent and unstable, deepening the impact on the Chinese economy.
Basic policy	Promote high quality development and organically combine domestic demand expansion strategies with supply-side structural reforms. Stability comes first, make growth, employment, and price stability top priorities, maintain the economy’s performance within a reasonable range.
Fiscal policy	Proactive fiscal policy. Maintain the intensity of fiscal spending, use a mix of tools such as deficits, special-purpose bonds, and interest subsidies, ensure fiscal sustainability and control of local government debt.
Monetary policy	Prudent monetary policy. Rationalize liquidity needs, match the growth of the money supply in broad term and the size of social lending with nominal GDP growth, and enhance support for small and micro-enterprises, high-tech innovation, and green development.
Key missions	(1) Focus on the expansion of domestic demand, (2) accelerate the building of a modern industrial system, (3) implement the “Two Unwavering” policy steadily, (4) attract and use foreign capital with greater intensity, and (5) prevent and eliminate significant economic and financial risks effectively.
COVID-19 measures	Better unify and coordinate infection control and economic and social development. Optimize infection control measures according to the situation, implement various infection control measures at a new phase, ensure that citizens receive medical examinations and medication, strengthen infection control for the elderly and those with underlying medical conditions, and prevent serious illnesses. Smoothly ride out the epidemic, ensuring a peaceful transition (to the “live with the virus” policy) and social stability.
Real estate market	Ensure peaceful development of the market and guarantee the delivery of homes. Fulfill the industry’s reasonable financing needs and promote restructuring and mergers. Support real demand, including replacement. Maintain the position that “housing is for living, not for speculating.”

Source: Made by MHRT based upon the Xinhua News Agency.

The basic economic management policy is the same as the previous year’s “Stability comes first,” and the macroeconomic policy also maintains the existing idea of an “proactive fiscal policy and prudent monetary policy.” It goes on to say that the government will “promote high-quality development” and “greatly enhance market confidence” that had declined under the zero-COVID policy, “organically combine domestic demand expansion strategies with supply-side structural reforms,” place top priority on growth, employment, and price stability, and “maintain the economy’s performance within a reasonable range.” Concerning employment stability, the CEWC stated that the highest priority must be placed on supporting young people, especially university and vocational school graduates, in finding employment, given lingering high rate of youth unemployment.⁷

rt.co.jp/publication/report/research/insight/2022/insight-as221102.html

⁷ For more information on the youth unemployment rate that remains high, refer to “China’s Youth Unemployment Rate Stays High:

The “proactive fiscal policy” will “focus on improving efficiency” and specified it will “maintain the necessary intensity of fiscal spending and optimize the mix of tools, including deficits, special-purpose bonds, and interest subsidies.” While it does not include tax cuts or measures to reduce the burden on businesses on a significant scale as in the previous year, it does indicate that the government intends to support the economy through a substantial fiscal stimulus package. On the other hand, it also focuses on fiscal risk, “ensuring fiscal sustainability and control of local government debt risk,” and strengthening fiscal transfers from the central government to the local governments.

The “prudent monetary policy” will be “precise and strong” and will “rationalize liquidity needs and basically match the growth of the money supply in broad term and the size of social lending with nominal GDP growth.” In the previous year, the expression “prudent” (neutral) policy was maintained but with a slight focus on monetary easing, while this time the expression is more inclined toward monetary easing while maintaining neutrality. The CEWC also included, as in the previous year, increased support by financial institutions for small and micro-enterprises, high-tech innovation, and green development.

The CEWC specified five key tasks in the management of the economy in 2023, the first of which is to increase domestic demand.⁸ Although the current situation is largely due to the pandemic, weak domestic demand is also a structural issue for the Chinese economy. Domestic demand consists of consumption and investment, and the CEWC went into specific consumption measures, saying the government will “support consumption for home improvement (replacement), new energy vehicles, services for the elderly, etc.” For investment, it instructed the government to speed up the implementation of the major projects set forth in the “14th Five-Year Plan (2021-2025).” The investment plan also includes cutting-edge technology, critical equipment, and expanded import of energy resources.

The second key task is the building up of domestic industry. The CEWC stressed that it will “guarantee independent control, safety, and reliability of the industrial system” in preparation for supply chain fragmentation, and specified that it will “accelerate R&D and application and popularization of advanced technologies such as new energy, artificial intelligence, bio-manufacturing, green and low-carbon, and quantum computing.” In another section, the CEWC emphasized that the “science and technology policy will focus on self-reliance and self-reinforcement,” indicating its intention to resolve supply chain

Surge in New Graduates Makes the Job-Hunting Environment Even Tougher” (Mizuho RT EXPRESS, July 22, 2022).
<https://www.mizuho-rt.co.jp/publication/report/research/express/2022/express-as220722.html>

⁸ On December 14, just before the CEWC, the Chinese government announced the Outline of the Strategic Plan for Expansion of Domestic Demand (2022-2035), reiterating its long-term goal of achieving “common wealth” by increasing the scale of consumption and investment, and raising the per capita income of residents.
http://www.gov.cn/zhengce/2022-12/14/content_5732067.htm

bottlenecks and hasten the domestic production of advanced technologies in view of the US decoupling from China.

The third key mission is to steadily implement the “Two Unwavering” policy. The “Two Unwavering” slogan means (1) to strengthen and develop state-owned economy unwaveringly and (2) to encourage, support, and guide the development of the private economy unwaveringly, emphasizing the importance of both state-owned and private firms to the Chinese economy. We believe the CEWC expressly mentioned this slogan because it is aware of the market’s growing concern over tighter controls on the private economy and “the state advances, the private sector retreats” movement (expansion of the state-owned economy and contraction of the private economy). The CEWC underlined “equal treatment of state-owned and private enterprises in terms of institutions and laws” and “encouragement and support for the development and strengthening of the private economy and private enterprises in terms of policy and public opinion.”

The Xi Jinping administration formulated the policy of “strengthening anti-monopoly measures and preventing the uncontrolled expansion of capital” at the 2020 conference and tightened market supervision over IT platformers and regulation of tutoring services. At the 2021 conference,⁹ the government used the stronger expression of “preventing the barbaric growth of capital” and appeared poised to tighten supervision and regulation even further; but in the April 2022 Communist Party’s Politburo meeting, held under the shadow of an economic slowdown due to the lockdown in Shanghai,¹⁰ the administration changed its stance to “promoting the healthy development of the platform economy.” While the conference this time eliminated any phrase that hinted at tighter controls, such as “preventing the barbaric growth of capital,” it also adopted the expression of “supporting platform companies in driving development, creating jobs, and fully demonstrating their capabilities in international competition” in the second key mission.¹¹ The administration never loosened supervision and regulation, but it showed some consideration for the business development of platformers who have contributed significantly to job creation.

The fourth key mission of the foreign investment policy remains unchanged as “promoting a high level of openness to the external world,” stating that equal participation of foreign companies in government purchasing, bidding, and standard setting will be guaranteed, and that the protection of intellectual property rights will be strengthened. The administration also expressed its intention to proactively promote domestic market reforms

⁹ For more information on the CEWC in 2021, refer to “China’s Economic Policy for 2022: ‘Stability First’ in the Run-up to the Autumn Party Congress” (Mizuho Insight, December 27, 2021).
<https://www.mizuho-rt.co.jp/publication/report/2021/pdf/insight-as211227.pdf>

¹⁰ China Communist Party News, April 30, 2022 <http://cpc.people.com.cn/n1/2022/0430/c64387-32412511.html>

¹¹ The visit of Zhejiang Province’s top official, Yi Lianhong, Secretary of the Party Committee, to Alibaba’s headquarters in Hangzhou, Zhejiang Province, on December 18, after the CEWC, was a positive sign for private companies.

necessary to join various partnerships, including the Comprehensive and Progressive Trans-Pacific Partnership Agreement (CPTPP) and the Digital Economic Partnership Agreement (DEPA). It also stated that the “maximum degree of convenience will be provided for trade and investment negotiations,” suggesting the relaxation or elimination of COVID-19 border control measures.¹²

3. The economy in 2023 hinges on the resurgence of infections and the recovery of the real estate market

The fifth key mission refers to policy responses to the real estate market,¹³ which appears to be in a protracted slump. China's real estate market has been sinking primarily due to the housing delivery delays that surfaced in July 2022, compounded by the reinforcement of the zero-COVID policy (**Chart 4**). Amid a growing sense of crisis, the Chinese authorities set up a framework to provide financial support to real estate developers to accelerate the completion and delivery of uncompleted properties, and in November, the government launched additional financial support measures to leverage the market.¹⁴

The CEWC specified its policy to continue supporting the market by including “guaranteeing housing delivery” and “meeting the industry's reasonable financing needs, and promoting restructuring and mergers in the industry.” The authorities are also working to stimulate the demand side by lowering loan interest rates and down payment ratios, and during the conference, while the existing policy to curb speculation, that “housing is for living, not for speculating,” would be maintained, the CEWC expressed its stance on encouraging real demand, including replacement purchases. The authorities also stressed the responsibility to “prevent regional and systemic financial risks,” so that market turbulence caused by failing real estate developers and other events would not spill over into the financial sector.

The Chinese economy is currently swinging wildly due to the virtual lifting of the zero-COVID policy. Key economic indicators in November deteriorated sharply with the doubling down on the zero-COVID policy; consumption in particular continued its downward trend, falling -5.9% on a year-on-year basis (**Chart 5**). Given the rapid spread

¹² Bloomberg and other media have reported that China is considering the elimination of the mandatory 5-day hotel quarantine at the border in January 2023 and requiring only 3-day home quarantine, but as of this writing, no official announcement has been made by the authorities.

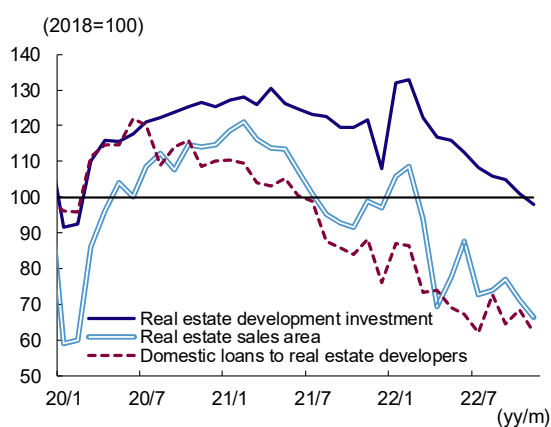
¹³ For more information on the sluggish real estate market, refer to “China's Real Estate Slump Looks Prolonged: August Real Estate Investment Continues to Fall” (Mizuho RT Express, September 16, 2022).
<https://www.mizuho-rt.co.jp/publication/report/research/express/2022/express-as220916.html>

¹⁴ The People's Bank of China/China Banking and Insurance Regulatory Commission, “Notice on the adequate execution of support for stable and healthy development of the real estate market through immediate finance.”
<http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4720023/index.html>

of infections, mobility declined significantly in December, and China’s economy is likely to deteriorate further. But the real estate market is expected to see an early upturn in real estate lending, a leading indicator of investment, as a result of additional support measures.

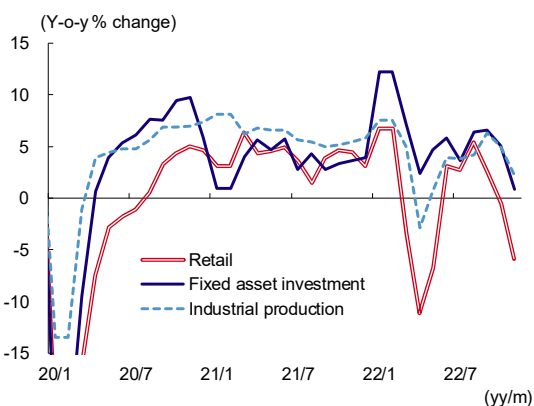
We hold that the Chinese economy in 2023 hinges on the resurgence of COVID infections and the recovery of the real estate market. The spread of infections is anticipated to peak after the Lunar New Year (January 22 in 2023) holidays, a period when people rush back to their family homes, which may lead to further social restrictions. The medical system may continue to be strained in response to a new wave of infections, and economic activity is expected to seesaw between decline and recovery. But the economy is predicted to pick up in the second half of the year, when the explosive rise in infections following the lifting of the zero-COVID policy will have run its course, coupled with real estate investment bottoming out. The pace of recovery, however, is expected to be dull, partly due to the slowdown in exports driven by the economic downturn in the US and Europe. As such, MHRT forecasts China's real GDP growth rate to be +4.8% in 2023, below the 5% growth rate.¹⁵

Chart 4: Real estate-related indicators



Note. The above data are seasonally adjusted by MHRT.
 Source: Made by MHRT based upon the China National Statistics Bureau and CEIC.

Chart 5: Key indicators (consumption, investment, production)



Note: The data for 2021 are growth rates compared to 2019 (2-year average); the data for January and February of each year are growth rates of the total.
 Source: Made by MHRT based upon the China National Statistics Bureau and CEIC.

¹⁵ The Chinese Academy of Social Sciences forecasts the 2023 growth rate to be +5.1% and recommends a growth target of “+5% or more” and a budget deficit (as a percentage of GDP) of “around 3%.” China Internet Information Center, December 13, 2022. http://www.china.com.cn/zhibo/content_85008515.htm

Reference

Refer to the original Japanese report by clicking the URL below for the reference material.
<https://www.mizuho-rt.co.jp/publication/report/2022/pdf/insight-as221226.pdf>