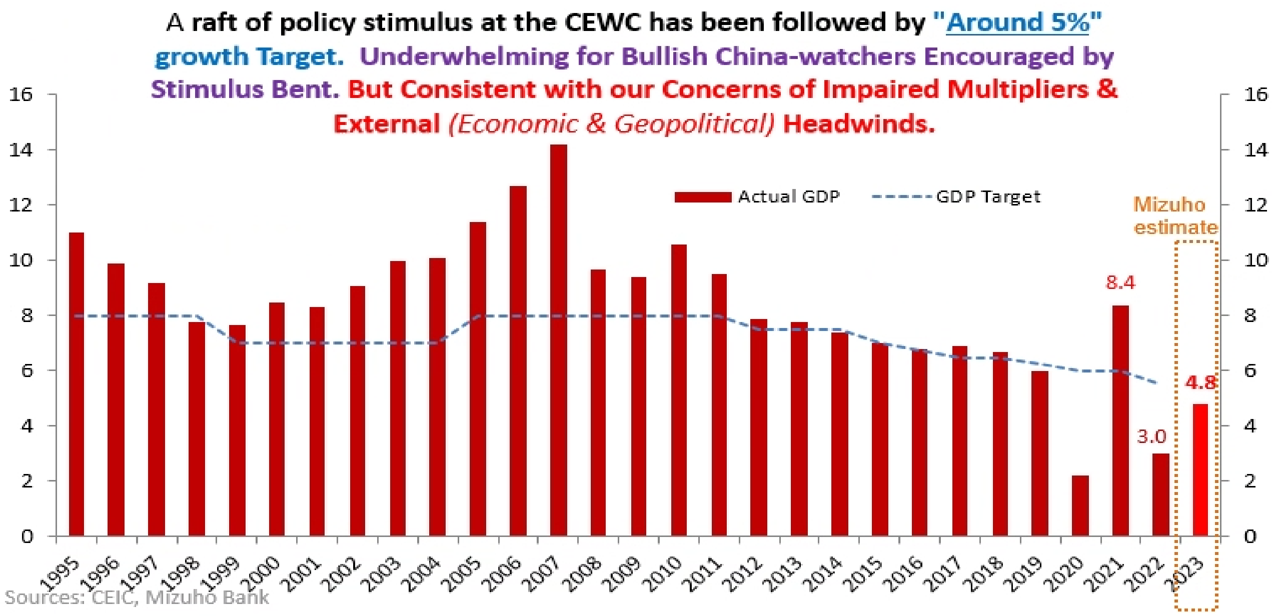
Mizuho Flash: China Macro Risks

Economics & Strategy | Asia ex-Japan

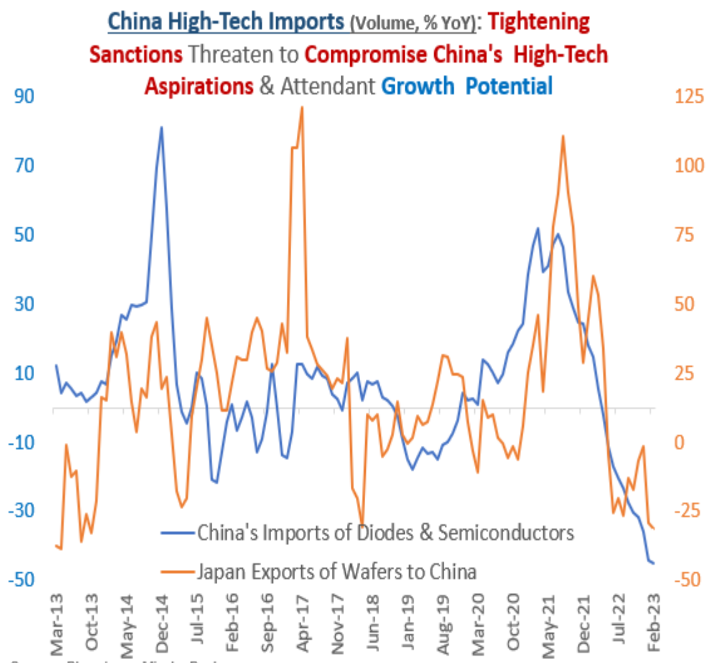
30 March, 2023 | Vishnu Varathan | Head, Economics & Strategy

China Macro Risks: Unpacking "Around 5%" Disappointment

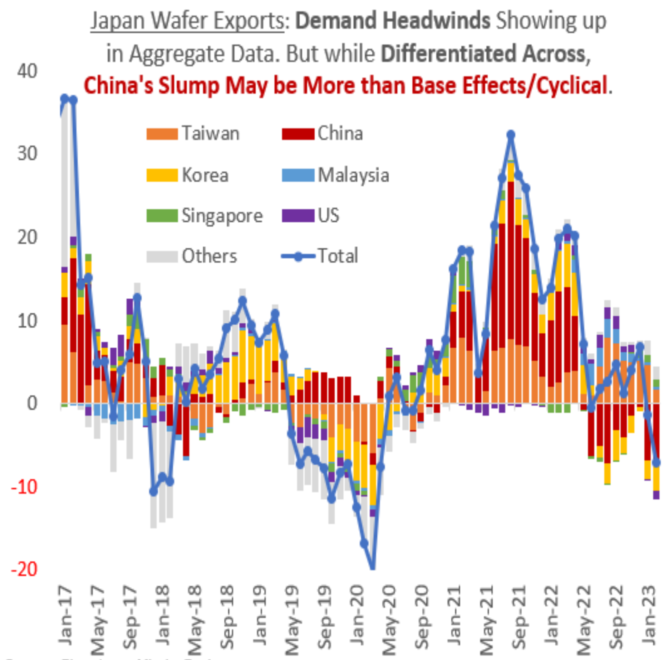


Sources: CEIC, Mizuho Bank

	2005-2011	20102-2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
GDP Target	8.0%	7.5%	"Around 7%"	6.5-7.0%	6.5% or higher"	"Around 6.5%"	6.0-6.5%	6.0-6.5%	Above 6%	"Around 5.5%"	"Around 5%"



Sources: Bloomberg, Mizuho Bank



Sources: Bloomberg, Mizuho Bank

"Be careful not to choke on your aspirations" - Darth Vader, Star Wars

- The **palpable disappointment at Premier Li's "around 5%" growth guidance** for 2023 (announced first weekend of March) rather than loftier ambitions of "around/above 5.5%" is notable.

- Optics is partly to blame as 2023 target is **glaringly**, **lower than the initial "around 5.5%" target for 2022**; on paper **suggesting a less upbeat a priori economic targets for 2023** as compared to 2022.

- Admittedly, the earlier **"around 5.5%" target for 2022 was subsequently abandoned in favour of "quality growth" when the wheels started coming off the wagon**.

- **Nonetheless**, the notable fact is that the "around 5.5%" growth target for 2022 w**as never officially supplanted by more bearish, quantified, revisions**. And **so, to step down by some 0.5%-pts to "around 5%" is disappointing, if not worrisome**.

- Especially **considering that exceptionally weak 2022** (that struggled to clear 3%) ought to have **set a more favourable base from which to achieve higher growth** (even if only fleeting so).

- More so **in the context of sharp 180-degree policy turn from tightening to forceful stimulus** to boost growth; led by the **16-point real estate sector liquidity restoration plan**, **relaxation of** earlier tightening on the **tech sector** and **sooner-than-anticipated lifting of COVID restrictions** (Zero COVID policies).

- The innate question that demands asking is: "*If Beijing has front-loaded upsized stimulus as well as hastened re-opening, why is it more restrained on growth outcomes?*"

- Partly, and justifiably, this may implicitly **reflect acute cognisance of pre-existing constraints** on the economy, comprising risks from;

  i) Elevated Leverage: Which inevitably results in that **structurally higher credit intensity** that conspires with **growing risks to financial stability** (the dreaded "Minsky moment"), necessitating somewhat more subdued, if not sub-par growth outcomes.

  ii) Confidence Deficit: A by-product of **uncertainty about far-reaching policy shifts** associated with "**Common Prosperity**" campaign (motivated by *complex socio-political objectives that might at times supplant outright economic pursuits*) that remains intact even if not currently in the spotlight; the consequent overhang **hampers big-ticket spending/investments**, ***compromising growth multipliers***.

  iii) Geo-politics: Crucially, US **stepping-up, unremitting embargo on chips/high-tech**, directly **challenges China's industries**, and is arguably China's **most binding structural challenge**. **Policy and/or diplomatic options are precious few**, and with **unforgiving margins for miscalculation**. Crucially, resultant adverse impact may be exceptionally large and far-reaching.

- And so, myopic, singular focus on rapid 2023 growth at all (at times exceptionally high) costs threatens to be counter-productive. Whereas a balanced approach to wider risks is sensible; especially as these adverse **forces have a tendency to interact**, and **in some cases** (eg. policy mis-steps) be **amplified**.

- Bottom-line being, **structural policy conflicts** (some inherited, others self-inflicted amid complex socio-political circumstances) exacerbated by **mounting geo-political threats** *with real-time economic blow-back* means **economic stimulus is a silver lining of cyclical pain relief but not a silver bullet offering any meaningful structural panacea**.

- So, **fussing over the absence of loftier "above 5.5%" growth ambitions not only misses larger, looming risks**, but may ironically amplify greater dangers.