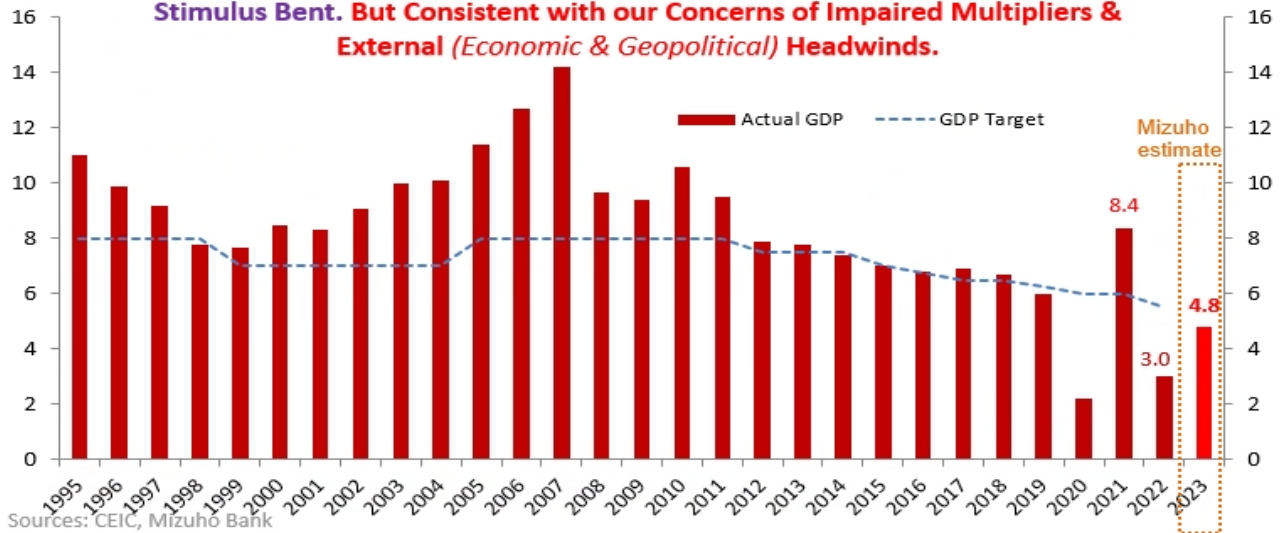


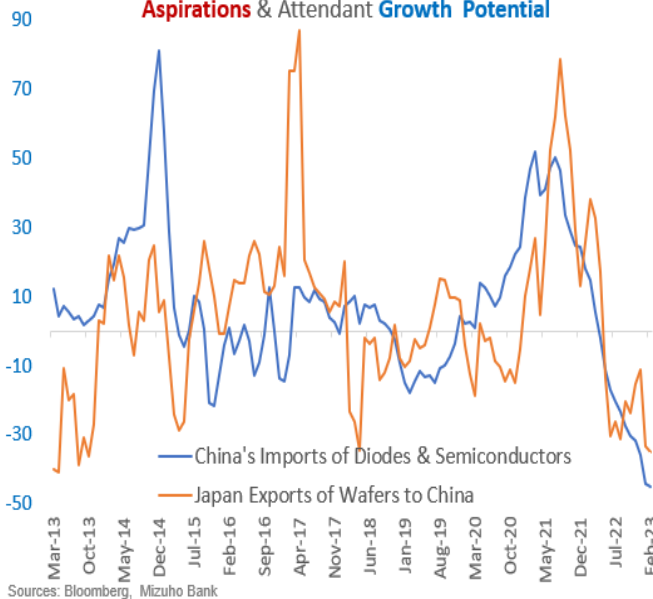
## China Macro Risks: Unpacking “Around 5%” Disappointment

A raft of policy stimulus at the CEWC has been followed by **“Around 5%” growth Target**. Underwhelming for Bullish China-watchers Encouraged by Stimulus Bent. But Consistent with our Concerns of Impaired Multipliers & External (Economic & Geopolitical) Headwinds.

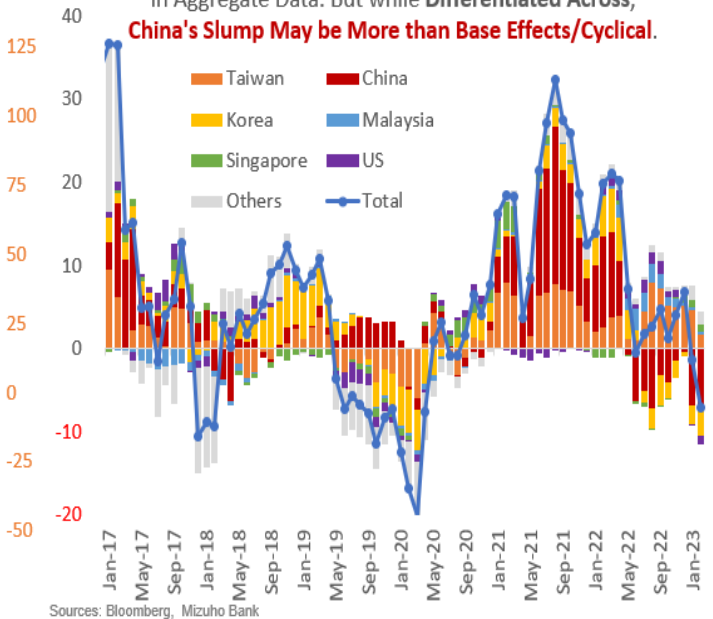


|            | 2005-2011 | 20102-2014 | 2015        | 2016     | 2017            | 2018          | 2019     | 2020     | 2021     | 2022          | 2023        |
|------------|-----------|------------|-------------|----------|-----------------|---------------|----------|----------|----------|---------------|-------------|
| 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%” |

**China High-Tech Imports (Volume, % YoY): Tightening Sanctions Threaten to Compromise China's High-Tech Aspirations & Attendant Growth Potential**



**Japan Wafer Exports: Demand Headwinds Showing up in Aggregate Data. But while Differentiated Across, China's Slump May be More than Base Effects/Cyclical.**



“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 was **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.

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