# Mizuho Flash: China

**Economics & Strategy | Asia ex-Japan**

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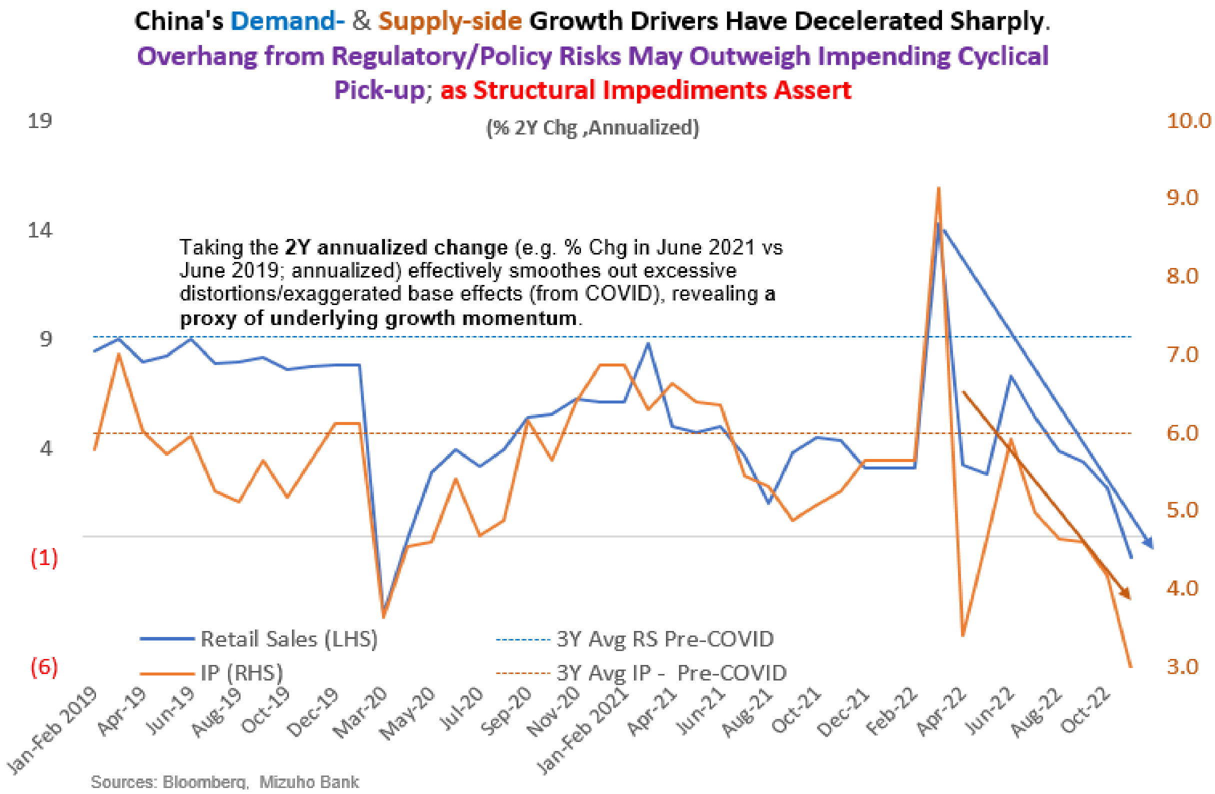
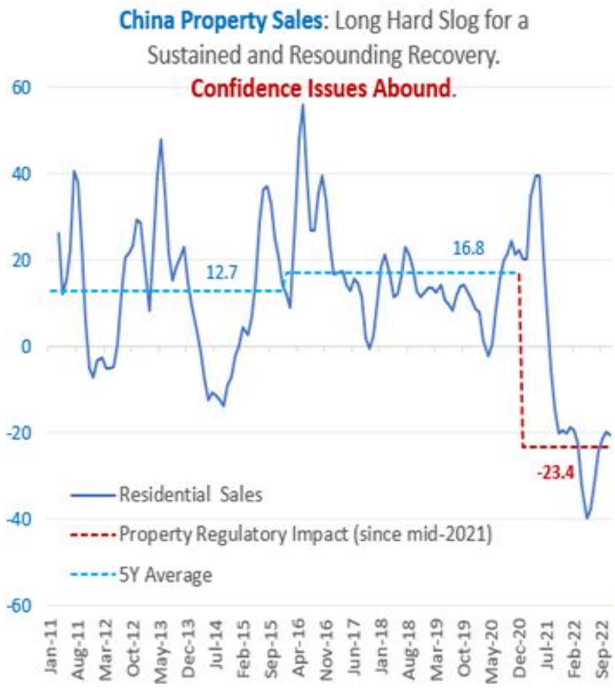
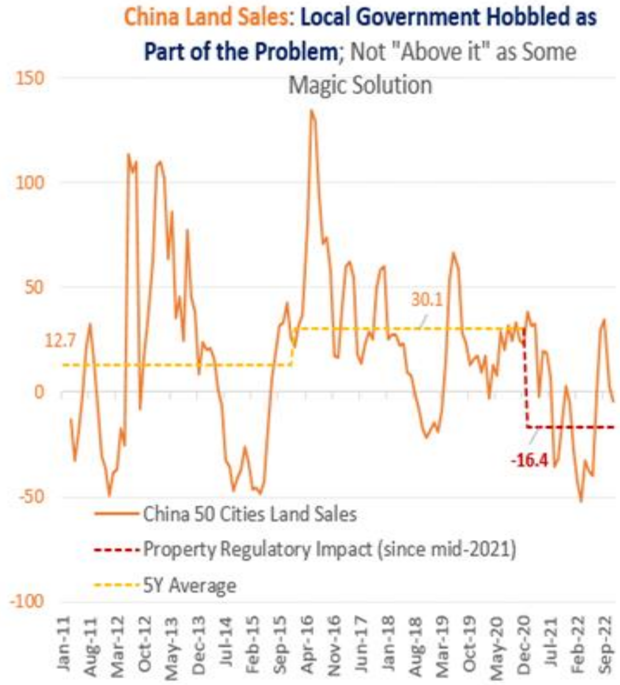
## China Outlook: Bumpy, Not Unbridled, Recovery




Sources: Bloomberg, Mizuho Bank




*"I'm afraid, my dear Watson, that most of your conclusions were erroneous"* **- Sherlock Holmes**

In a Nutshell: At the **Central Economic Work Conference** (CEWC*), Beijing **declared unambiguous desire to get economic growth purring on all cylinders**; **led by** *re-opening* **based on dismantling "Zero-COVID"**, a suite of property market backstops and *ambitions to boost consumption*. The intent is unmistakeable. And encouragingly, the policy initiatives are mostly aligned, if not aptly accentuated.

**Nonetheless**, the risk is that China will be **hobbled by a bumpy ride out of subpar ~3% growth**, **not ordained for unfettered acceleration** back above 5%. In *Sherlock Holmes' words, optimists finding cheer in China stimulus hopes are erroneous in thinking it will offset wider risks*. Simply because **cyclical tailwinds from re-opening are constrained** by a "worse-before-better" gestation for "herd immunity"; especially as *confidence deficit hampering a restoration of robust growth multipliers*.

Crucially, **potential growth is also impaired by a conspiracy of structural impediments** such as; i) *gathering geo-political headwinds* (e.g. broadening chips embargo); ii) credit restraint required to check *inherited financial stability risks* and; iii) inevitable *social stability trade-off* imposed by "Common Prosperity", which is an existential necessity for the Chinese Communist Party. We expect after risks of slipping below 3% growth in 2022, **China's growth momentum may still fall short of exceeding 5% (at 4.8%) as global headwinds look set to impede in H2**.

## Quantity & Quality!

To be sure, the communique from the **CEWC left no doubt** about the **desire, if not necessity, to boost absolute headline growth**. Expressly flagging *"quantity"* over and above what has been a common allusion to *"quality"* of growth suggests a keen awareness to lift the economy from an essentially depressed state. **After a dismal year** of growth threatening go sub-3%, **importance is understandably accorded to baseline quantum of growth**. And so, Beijing is likely to restore growth to "around-5%".

But **not be at the cost of "quality"**. Specifically, the **binding constraint from financial stability risks suggests more targeted credit channelling to highly-productive, value-add industries**. And so, *pulling all stops to revert back to mainly construction/housing driven gains will not be the play book either*.

## Consumption

Instead, it is telling that **boosting consumption gained notable prominence** on the economic policy agenda. Notably, boosting **consumption is the end-objective of** "*Common Prosperity*" and **critical to** (at least one half of the mechanism for) "*Dual Circulation*". But for now, the consumption focus is arguably to **ensure that confidence crushed by COVID is restored**.

## Exiting "Zero-COVID"

And so, consumption boost objectives are *coupled with treatment-driven management of COVID;* rather than zero infections goals, which have come at hefty economic and social cost. The plan to "*optimize COVID policy in a timely way*" towards a "*new stage*" is **essentially alluding to exiting Zero-COVID policy to rebuild business/consumer confidence**.

## Restoring "Animal Spirits"?

Interestingly, despite "*Common Prosperity*" objectives **buried in the consumption, wage, property and social guidance**, **care to avoid express allusions** to the slogan *speaks to sensitivities about the private sector fears of "anti-market" agenda*. Instead, in the context of **assurances of supporting development of private sector and SOEs,** the **desire to convey a market-friendly economic approach to reignite "animal spirits" is evident**.

Moreover**, roping in tech/platform firms to boost employment and the economy** hints at a back-down from uncompromising regulatory crackdown that had chilled confidence and investments; to the detriment of growth. Whereas, *a mutually beneficial private-public sector growth boost is being implied.*

### Property Backstop, Not "Boom Town"

That said, the **adherence to** *"housing is for living, not speculation"* refrain **suggests** that the 16-point plan comprising **emphatic liquidity backstop for the property market** is to **avert a crash and manage a soft-landing**; and **not ignite a boom that perils financial and wider economic stability**. This **inherent restraint is prudent, but nevertheless may inadvertently impedes buyer confidence**. And so, ultimately, property market measures buy time rather than ensuring a durably and convincing turnaround.

### Confidence is Pre-condition, Not Panacea

All said, assurances aimed at **confidence restoration** in the private sector via COVID, economic and regulatory channels is *as evident as it is welcome*. But while these policy efforts are **critically necessary for**, they may **not** be **sufficient to, rapidly and resoundingly get China's growth back to rude health**. And not the least because **confidence takes time to recover**. Consequently, **growth multipliers may be subdued** initially, thereby *holding back the extent of economic boost from policy stimulus.*

### Cyclical Constraints

What's more, **cyclical tailwinds from re-opening may inadvertently by somewhat more diminished, and likely delayed**. Certainly **not as imminent and as "big bang"** as fervent optimists might want to believe. For one, between vaccinations and herd immunity a flare-up in infection, potentially exacerbated by winter and Lunar New Year travel, will almost surely interrupt and diminish the re-opening boost that may be expected. And in any case, looking past pent-up activity, *restoration of pre-COVID demand rather than unbridled acceleration to uncharted levels of activity is the baseline.*

### Structural Impediments

Crucially, a conspiracy of **structural impediments** also cast a shadow on the efficacy and durability of intended policy boost. The most prominent of these structural challenges, apart from demographics and attendant productivity constraints being; i) *gathering geo-political headwinds* (comprising, but not limited to a broadening chips embargo) that threaten to drag on industrial gains alongside; ii) the *binding limitation to credit growth imposed by financial stability risks* amid elevated debt levels and; iii) *mounting socio-economic trade-offs* imposed by "Common Prosperity" initiatives (that the political leadership likely consider as an existential necessity) stifle capacity for unfettered economic rebound.

### Silver Lining, Not Bullet

The upshot being, even as markets cheer re-opening and are seduced by CEWC suite of economic stimulus (details expected in 2023), China's prospects may be hobbled; as re-opening and stimulus are mere silver linings, not silver bullets to gathering global headwinds and China's deep-seated structural challenges.
And so, overly optimistic assumptions of linear acceleration need to be reined in to reflect realities of a **bumpy recovery that is not immune to – much less capable of offsetting – global recession risks**. As such, *while policy is directed as boosting growth above 5% in 2023 (after a 3% run in 2022), global headwinds picking up distinctly in H2 may tilt growth a touch below at around 4.8%.*

* Typically, the annually-held CEWC unveils the major economic objectives/policies for the year ahead. As such, presents a reliable guidance of policy focus and aspirations (which may be less obvious). And at this year's CEWC, which wrapped up on 16th December 2022, the intent to revive headline, consumption-driven growth boost is evident.