A RESILIENT INDIA, BUT GROWTH PANGS FOR CHINA

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‘China is confronted with more competition than before, especially from India because of its market size and the large labour pool | Photo Credit: AP

The Chinese government (in the last government report of Chinese Premier Li Keqiang before he stepped down, and in the backdrop of the reopening of the country after three years of zero-COVID-19 policies) has disappointed observers with the projection of a growth target of around 5% in 2023, which is lower than that of last year (5.5%) and even lower than the expected GDP growth for India in 2023 (6.1% according to the International Monetary Fund). This is all the more surprising if one considers that India is benefiting from the positive impact of the country reopening after COVID-19 lockdowns while China should benefit from its reopening only this year. Still, growth will remain rather meagre for a simple reason: the Chinese economy is in a process of structural deceleration while India is still enjoying its benefits of its demographic dividend.

It is clear that Mr. Li was being cautious about the growth target this year. But why? First, the Chinese government, especially the new Premier Li Qiang, does not want to run the risk of undershooting its growth target again, as it happened in 2022. Even if consumption is recovering, external demand remains weak and it is hard to know whether private investment will indeed rise given the doubts about the role of the private sector in the Chinese economy as well as increasingly cautious sentiment being expressed by foreign investors. Further, the real estate sector is still dragging down growth.

Beyond 2023, the government’s push for a structural shift of the Chinese economy is still on the way. Over the last few years, tighter regulatory measures have been introduced to contain financial risks and achieve more social objectives such as a green economy, food security, etc. This is an important signal by the Chinese government, recognising that too high a growth is no longer possible nor desirable as it only aggravates financial imbalances. In fact, sustainable growth has become a key concept in China’s new economic narrative. It is hard to tell if this relates to the government’s firm belief that the quality of growth is what matters the most for Chinese citizens today, or an expression of the recognition that pushing growth up too much is only going to create additional imbalances.

Against such a backdrop, job security is one of the most important objectives of the sustainable growth narrative, which is enshrined in a higher target for new jobs (12 million), compared to what it was in the last past years (11 million, except for the even lower target in 2020 after the COVID-19 pandemic in China). The revision of the employment target reflects the government’s concern about the job market, especially young workers (the unemployment rate reached almost 20% in spring 2022).

The need for jobs explains China's recent charm offensive to retain foreign direct investment in China as it is an important source of job creation. The sentiment for supply chain diversification is not going to help China fulfil the employment objective as investors are looking at new pastures, with India likely to be a major beneficiary. India also needs to create as many jobs as possible (at least 13 million a year, which is more than China's target). Foreign investors are beginning to contribute more substantially to job creation in India, which given the country's sheer size in terms of market size and labour force could pose challenges for China as it tries to hold on to foreign direct investment within the country. The forces pushing foreign investors out of China are in plenty: from containment by the United States at the highest end of the value chain, which is forcing bifurcation, to higher wages at the lowest end. In addition, China's push for self-reliance is certainly not helping with the future plans that foreign investors have in mind for China.

All in all, the 5% growth target is consistent with the current challenges that the Chinese economy faces as well as the government's more diversified objectives beyond economic growth. Creating more jobs is a quintessential part of China's new sustainable growth narrative, but China is confronted with more competition than before, especially from India because of its market size and the large labour pool.

While India and China may not be too different in size and population, growth prospects differ substantially. At the National People's Congress, Premier Li had to lower the GDP target further; in contrast, India remains resilient. An acceleration of this pattern is to be expected in the next few years, especially if the reshuffling of the value chain continues, pushed by geopolitics and high costs in China.

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