March 2024 Update on the Chinese economy.

The National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC) meet once a year in March, in what is unofficially called the "Two Sessions". In essence, this is China's parliament; formulating, debating policy and making ‘advisory’-type recommendations to government. These are non-binding but often are implemented. It should be noted that the CPPCC also exists to ensure different political and ethnic factions in China are kept happy and aligned with the Chinese Communist Party (CCP). It’s good to talk, as it were.

This year, the key themes to emanate from the ‘Two Sessions’ were:

(1) *Property market*. The distressed property market in China which has partly recovered as price drops stall but the demand for new real estate remains in the doldrums.

(2) *Growth*. Period. President Xi has doubled down here, although the target has been kept to a modest 5%.

(3) *Job creation.* Youth unemployment remains very high and there is still little take-up from graduates in the newly created Tech and Manufacturing areas, with white collar opportunities in the traditional Banking etc sectors continuing to drop.

(4) *Deflation.* Chinese consumer goods are at their lowest price level for 15 years which is really hurting Producers because domestic buyers are conserving cash rather than spending, hence the West is anticipating a continuing flood of exported Chinese consumer goods.

(5) *Defence.* China's defence budget will increase by 7.2% which keeps it on track with 2023. This is 3 or even 4 times the % of most European countries. Although some, such as Poland and the Baltics, are gradually increasing spend beyond the standard 2%, with the continuing threat to border security from the Russia/Ukraine conflict. It is interesting to note that the Chinese Defence budget has more than doubled since Xi Jinping took office in 2013.

(6) *Ageing population.* This is not unique to China of course. The Chinese population has decreased in size for two years in a row. The government continues to increase childcare subsidies and parental leave, without any discernible effect to date.

(7) *Foreign relations.* The new Foreign Minister, Wang Yi, reemphasised how important China’s relationship with Russia is; noted that China’s relationship with the US was gradually improving although was also critical of the US protecting its own economic interests; and was remarkably sanguine, indeed positive, about China’s trade with the EU. This was generally perceived to entice Germany in particular to become more invested in the Chinese economy.

(8) *Stock market woe.* It has been a shocking couple of years to be invested in China. The government finally appears to be offering help, although it could be too little too late. Increasing pressure on companies to pay shareholders dividends, tougher regulations on quant-derived trading via algorithms and tougher pre-IPO scrutiny were three of the policies discussed. Watch this space. More dramatic action may need to be taken.

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