China growth reaches official target as economic conditions trend down

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17 January 2025

China's official GDP growth rate for 2024 has come in, as expected, at 5 percent in line with the official target set by the government a year ago. But the growth numbers have given rise to a deal of scepticism as they are framed to meet political objectives and do not reflect the real state of the economy which is experiencing its most significant slowdown in more than three decades.

The National Bureau of Statistics (NBS) said the economy had "recovered remarkably" in the fourth quarter, during which it rose at an annual rate of 5.4 percent. This was attributed to the package of stimulus measures announced since September which bolstered confidence.

Its statement was very much in line with the objectives of the government which is seeking to show that it is taking action to boost the economy.

Analysis of the figures, however, showed that the growth rate was lifted by industrial production due to increased exports. Companies have front loaded their orders from China in order to escape at least the initial effects of Trump's threatened tariff hikes.

Frederic Neumann, chief Asia economist at HSBC said the headline figure masked "some underlying vulnerabilities" and the frontloading of export orders would "inevitably lead to a payback at US import restrictions begin to bite."

Despite the upbeat tone of the official press release, NBS director Kang Yi told a press conference that 2024 could be described as "highly turbulent, marked by intensified geopolitical conflicts and escalating trade protectionism" and that the "adverse effects of the external environment are deepening."

He also remarked that domestically "insufficient demand persists" and employment and income growth were under pressure.

The achievement of the target has not silenced the critics of the government. Long-time China analyst Eswar Prasad, a professor at Cornell University, said the government's "ostensible achievement" was a "Pyrrhic victory" which further eroded credibility in the official figures.

Scepticism about the official data has been articulated by a number of economists, within investment and financial institutions and even from within official bodies.

One of the most prominent critics has been Gao Shanwen, chief economist at state-owned SDIC Securities, who has advised the government on economic and financial policies.

He raised his doubts at a meeting of the Peterson Institute in Washington on December 12.

"We do not know the true number of China's real growth figure," he said. "My own speculation that in the past two to three years the real number on average might be around 2 percent even though the official number is close to 5 percent."

His comments are reported to have angered President Xi Jinping who ordered authorities to take disciplinary action against him. Other reports indicate that spokespeople for official bodies have been directed to speak positively about growth and financial data.

Analysts at the US think tank, the Rhodium Group, estimated last year that the growth rate was probably half the official target at between 2.4 and 2.8 percent.

Whatever the truth about the actual growth numbers, official data make clear the Chinese economy is experiencing a significant downturn and could be entering a deflationary spiral. Some economists have likened it to what took place in Japan after the collapse of its property and stock market bubble at the beginning of the 1990s.

The worsening economic situation is expressed in a number of areas.

Growth in consumer prices for December was 0.1 percent against a year ago, lower than the rise of 0.2 percent for the previous month. The producer price index, which measures the price of goods at the factory gate, declined by 2.3 percent in December making it the 27th month in a row that it has fallen.

The deflationary pressures are expected to continue through 2025. This is despite various stimulus measures initiated last September which, while having had some limited effect, have been regarded as being insufficient in providing a boost to consumption spending.

The deflationary environment is having an impact on corporate profits.

Data from the NBS released earlier this week showed that profits for companies with more than 20 million renminbi ($2.7 million) in revenue fell by an average of 4.7 percent between January and November last year. This was a bigger decline than

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the 4 percent experienced in 2022 when the country was still under COVID lockdowns.

The data, which covered some 500,000 companies, showed that 25 percent of companies made outright losses in the January-November period last year compared with 16 percent in 2019, the year before the pandemic struck.

Commenting on the numbers, Laura Wang, chief China equity strategist at Morgan Stanley told the *Financial Times* (FT): "The biggest reason behind that slowdown, I would say, is deflation."

Deflationary pressures extending into the future are also being cited as the reason for the fall in yields in the bond market. Earlier this month, the yield on the 10-year Treasury bond fell to a record low of 1.6 percent and has stayed around that level since.

Falling yields are expression of a worsening outlook in the economy as investors, seeing lower prospects for profit in the economy, divert money into government debt, raising the price of bonds and thereby lowering their yields.

Hui Shan, chief China economist at Goldman Sachs, told the FT the downward trend in yields was about "longer term growth expectations and inflation expectations becoming more pessimistic" and "that trend is likely to continue."

The stock market is telling the same story. Despite some efforts by the central bank to stimulate it, the stock market made its worst start to the year since 2016.

Bloomberg said that "a familiar sense of pessimism" was returning for equity investors in China and cited remarks by Charu Chanana, chief investment strategist at Saxo Markets. She said external pressures on China—the result of Trump's tariff threats—were being "compounded by China's domestic economic struggles, including weak consumer confidence, a battered property sector, and looming debt issues."

The debt concerns relate above all to the property market. Bloomberg reported that developers "are starting 2025 facing liquidation petitions, sliding share prices and mountains of debt, as the nation's real estate crisis enters its fifth year with little sign of improvement."

In fact, in some ways the situation is worsening. Sales by the top 100 builders fell 28.1 percent last year, compared with a 16.5 percent decline in 2023.

According to Gary Ng, senior economist at the financial firm Natixis: "Unless home sales recover quickly, the phantom of weak cash flows can continue to haunt China's high-yield property developers."

There had been some improvement in so-called Tier 1 cities, but the problem was much bigger in smaller ones, he said.

The major area of growth was in exports in line with the focus of the Xi government in developing Chinese capacity in what it calls the new productive forces based on advanced technology.

Official data released this week show that China's trade surplus with the rest of the world reached a record high of $992 billion last year. But with a third of this surplus incurred in trade with the US, this source of growth is immediately threatened by Trump's declaration he will impose a 60 percent tariff on all Chinese goods. It is impossible to calculate their full effect if implemented but current estimates are that the cut to GDP growth would be at least half a percentage point and possibly more.

One way of countering the effect of the tariffs would be to allow the value of the renminbi to fall. But China's central bank has said it is committed to holding the line on the currency. This is because it fears that any major devaluation would spark a capital outflow and create problems in financial markets.

The slowdown in the Chinese economy is also creating major political problems for the Xi regime. Its sole source of political legitimacy in the eyes of broad sections of the working class and middle class is that it has promoted economic growth.

But there is now a growing gap between official statements and lived experience which was reflected in some comments reported by the FT.

It cited the remarks of the owner of a printing and advertising firm in Beijing who expressed what were growing sentiments.

"I don't know where this growth is supposed to be coming from. The authorities can say whatever they want. For me, 2024 has been the worst year in my 20-plus years of running this business."

His firm suffered a 40 percent decline in revenue last year and an even larger fall in profits.

A ride-share driver told the FT: "They said 5 percent growth year after year, but do people feel this growth? For ordinary people… it's just about earning enough to get by and not starve."

An economist at Beijing university said: "Middle-class people are losing their jobs for the first time. In 45 years, this never happened."

When the Chinese Stalinist regime committed itself fully to capitalist restoration after the brutal suppression of the working class in 1989, in which the violent attack on the Tiananmen Square protests was only most public expression. It promised that integration into global capitalism would bring prosperity and the peaceful rise of China.

For a time, extraordinary growth rates and industrial and technological development appeared to be meeting that promise. But that very growth has only created a multi-million strong working class which is now coming face to face with the realities of the capitalist system, and which will be propelled into major class struggles.

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