

China's Economic Rebound: Views from Beijing



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Paris, June 10, 2021 - China's macroeconomic policies, including the implications of Xi Jinping's decarbonation pledges and the recent findings on demographic decline, have been the subject of much public debate in China in recent months. This is why Institut Montaigne publishes today *China's Economic Rebound: Views from Beijing* in which François Godement, Senior Advisor for Asia to the think tank, provides an in-depth analysis of these debates in China and an assessment from within of Chinese economic policies.

From this review, François Godement identifies five lessons for Europe:

1. China's priority is to maintain a dynamic in foreign direct investment, capital inflows and Chinese exports, and it is not ready to concede on these grounds.
2. China's economic choices, including on decarbonation and demography, are shaped by domestic factors.
3. State capitalism, support for the supply side rather than demand, industrial policies and innovation remain China's prevailing choices to foster growth.
4. Most changes in China remain driven by the party-state and are therefore reversible. Any international agreement must still insist on implementation and verification.
5. The country remains a free rider achieving its economic rebound on the basis of a support for global demand by other central banks.

"China had the fastest and strongest economic rebound in the world. Chinese exports reached historic heights in 2020, a trend that is being carried forward to Q1 2021. Even consumption has picked up. Still, China's economists experience uncertainty - fear of imported inflation and of the consequences of a carbon tax at the borders, questions about the future policies of the United States towards China... These factors explain China's conservative budget and credit policies." François Godement, Senior Advisor for Asia and author of the policy paper, explains.

China's economy in numbers

- China's Q1 2021 economic recovery has extended the recovery of the second half of 2020. The recovery is stronger in supply than in demand, in housing and construction than in manufacturing or even infrastructure.
- China has become the world's leading destination for foreign direct investment in 2020, ahead of the United States. The country continues to break records in Q1 2021.
- Chinese exports also reached historic heights in 2020 with a trade surplus of USD 440 billion. The trend remains explosive in Q1 2021. However, March 2021 also saw a strong rebound in imports, a 38.1% YoY increase, largely due to the stockpiling of IT components and raw materials.
- There is a gradual reduction in public support for the economy, both in the central budget and in credit operations. "Total social financing" (*i.e.*, credits made available to private actors

by the financial system) is also down considerably.

- Xi Jinping has set ambitious targets for decarbonation: peak CO₂ emissions in 2030, carbon neutrality by 2060. Yet coal consumption has bounced back to its 2013 peak of 4.2 billion tons. The price of electricity is half that of other industrialized countries. Much effort is needed to bridge this gap.
- The number of women of childbearing age is low and the number of women aged between 22 and 35 is expected to fall by 30% in the next decade. The consequences are clear: China's population will enter an absolute decline earlier than 2025 (which was the official prediction), and perhaps as early as 2021. The trend points to a reduced growth potential in the future.

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