

**MORE EFFORTS NEEDED TO  
REENERGEISE CHINA'S  
CONSUMPTION AND  
INVESTMENT**

LI Yao, Sarah Y TONG & ZHOU Na

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## Executive Summary

1. In quarter three of 2023, China's economy rebounded after a lacklustre first half. Gross domestic product grew by 1.3% quarter-on-quarter, up from 0.8% in the previous quarter. Borrowing increased notably. Trade decline persisted, but at a slower rate. Wall Street and the International Monetary Fund recently raised their growth forecasts for China in response to these positive developments.
2. The Chinese economy did not rebound after an abrupt relaxation of the stringent COVID-19 policy at end-2022. For the first half of 2023, the growth of investment and international trade was both lower than that in 2022. Only consumption showed a relatively significant rebound, but it is still much weaker than the rebound in 2021.
3. Since the release of China's disappointing economic figures in July, the Chinese government has prioritised boosting consumption and investment, and introduced policies to stimulate the economy, including measures to promote consumption recovery and expansion, as well as to encourage private and foreign investment.
4. However, consumption and investment were still weak. Sluggish sales and investment in the real estate sector largely persisted in China. Retail sales of consumer goods had also slowed down, so had fixed asset investment in both (domestic and foreign) private and state-controlled sectors. The downward pressure on the economy was still high.
5. Investment was still an important driver to China's economic growth in the first three quarters of 2023. However, investment growth and its driving effects have decreased because of weak local government investment growth, on-going real estate slump, declining overall return on capital investment and lack of investment confidence in China.
6. The PMI (Purchasing Managers' Index) for employment still reflects a lack of confidence in future employment, further dampening consumption. This, along with

the decline of family wealth, including house values, growing disparity between the highest and lowest income groups, has constrained future consumption increase.

7. In the real estate sector, despite the temporary rebound of housing prices in early 2023, overall sales and investment continued to decline. The Chinese government has implemented further relaxation of market regulations and increased support for the real estate sector in the second half of 2023. The impacts of these new policies can vary significantly across different cities and regions.
8. Although China's PMI for Manufacturing (PMIM) returned to the expansion range in September 2023, challenges remain for a robust recovery of the Chinese economy, including restoring consumption and investment confidence, overcoming real estate sector difficulties and local government debt problems.
9. To revitalise China's economic recovery, expansionary fiscal policies are needed to encourage investment activities and bolster emerging industries in the short run. However, a lack of fiscal revenue in 2023 can be a constraint. Excessive government intervention should be avoided for the private sector to thrive.