Atradius
Managing risk, enabling trade

China's faltering growth engine

Ten reasons why the Chinese economy is heading for lower growth

Atradius Economic Research – January 2023

Summary

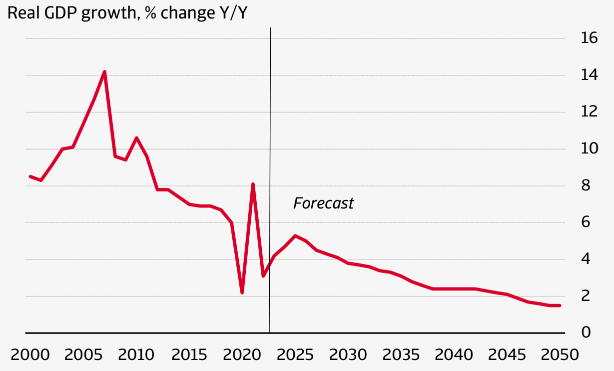
- China has developed itself into the world's factory, with an economy that has grown fast for decades and lifted many millions out of poverty. Since 2010, however, economic growth is slowing down, raising the question of whether the economy could fall into the so-called 'middle-income trap'.
- It is too early to draw conclusions on this, as it is not yet clear what the results of earlier policy measures will be, and these policies may change in the coming years. Nevertheless, multiple developments in the Chinese economy point to a further growth slowdown. We have listed ten of them.
- Currently the consequences of the **zero-Covid policy** and the **real estate sector crisis** are putting a brake on GDP growth, while **high debt** at local governments and state-owned enterprises is a risk for financial stability. The long-term growth outlook is negatively affected by the **ageing** of China's population, a **human capital mismatch** and **low productivity growth**, aggravated by policy measures related to **controlling private business** and a **focus on self-reliance**.
- In addition to these domestic factors, China's economic growth is affected by the country's relationship with the rest of the world. Many countries where Chinese exports are destined want to reduce their dependence on imports. **Making supply chains more secure** will lead to only a partial and gradual decoupling of economies, but increasing **geopolitical rivalry** - of which the trade war is just a part - is nonetheless an uncertain factor that can only turn out negative.
- The 14th Five-Year Plan of the Chinese Communist Party (CCP) stated that China will become a 'moderately developed' economy by 2035. Crucial to achieving this goal will be that China manages to sufficiently adjust its current, faltering growth model. It is therefore worrying that the policy choices made as a result of geopolitical rivalry now appear to be counterproductive in terms of increasing productivity growth.

Factory of the world

The Chinese economy has been an important growth engine for the global economy for decades. Heavy investment in infrastructure, high productivity growth, and an expanding workforce have made China the factory of the world. Since China started opening up its economy and embarking on reforms in the late 1970s, GDP growth has averaged 9%. From being the world's tenth largest economy in 1980, China has grown to become the second largest. In about ten years, China will probably overtake the US as the world's largest economy, measured in US dollars and at nominal market exchange rates. This is not to say that China would then be more prosperous than the US: the population of China, at 1.4 billion, is more than four times that of the US. This means that China's GDP per capita needs to reach only a quarter of America's for its total GDP to become the biggest in the world.

China's high economic growth has clearly led to a strong increase in prosperity. No fewer than 800 million people have been lifted out of poverty and in 2001 China became a lower-middle-income economy according to World Bank criteria, only to achieve the status of an upper-middle-income economy nine years later. However, it is from then on, in 2010, that economic growth started to weaken. In 2011-2015 GDP growth averaged 7.9% per year, before slowing to 5.7% in the following five-year period. For 2021-2025, average GDP growth appears to be around 5%. And the growth slowdown is expected to continue: for 2026-2030, consultancy firm Oxford Economics foresees average GDP growth of 4.4%, while the Economist Intelligence Unit (EIU) forecasts growth of just under 4%. The Economist's think tank even assumes an average growth of only 2.0% for 2031-2050. Oxford Economics expects an average of about 2.5% for that period, with GDP growth at the end only 1.5%.

Figure 1 Growth slowdown has not ended yet



Source: Oxford Economics, Atradius

Middle-income trap

Economists now wonder whether China might be caught in the so-called 'middle-income trap'.[1] In order to maintain the upward momentum in economic development, countries need to adjust their development model as they move into the next phase. This also applies to China, if it wants to develop from a middle-income to a high-income economy. The trap consists of wages in a country rising to a level where the growth potential in export-driven, low-skill manufacturing decreases, while the growth in innovative capability needed to boost productivity and compete with developed countries in higher value-chain industries still lags behind. The period in which middle-income countries go through this transition usually lasts about 25 years. South Korea, Taiwan and Singapore were middle-income economies for 23, 27 and 29 years respectively before moving up to high-income level. China became a middle-income economy in 2001. From this point of view, time is running out for China.

Multiple factors pointing to lower growth

For now, it is difficult to determine whether China will fall into the middle-income trap or not. The consequences of earlier policy measures are not yet clear, and these policies may change in the coming years. However, listing the key developments currently playing a negative role will help to better understand the growth prospects for the Chinese economy. We therefore explain ten, often interrelated reasons that point to a further growth slowdown. These concern both temporary and structural developments, some of which result from discretionary policy choices.

#1 Zero-Covid policy

One factor that has put downward pressure on growth over the past two years obviously is the Covid-19 pandemic. The strict zero-Covid policy that the Chinese authorities have followed until recently - to nip infections in the bud wherever they occurred - was initially successful. The number of infections and deaths has remained very low compared to almost all other countries. However, while Covid-19 currently is no longer an issue elsewhere, China's economy is still feeling its impact. Illustrative of this is that in 2022 economic growth in China was lagging behind that of the rest of the region for the first time this century. Countries in East and Southeast Asia generally feel the impact of other factors - higher food and energy prices, monetary tightening, weak demand from the US and Europe – as much as China, but domestic demand (which is most sensitive to Covid restrictions) is stronger in most of these countries.

The Chinese authorities have largely lifted the restrictions in December 2022, but their negative effect will continue for a while. The previous strict policies - and the use of domestic, less effective vaccines – have left the Chinese people with little immunity. Meanwhile, the sudden policy change coincides with a medical system lacking readiness. China therefore will need more time to stabilise the caseload than the two or three months that other countries needed after they moved away from stringent Covid restrictions. The number of infections in China will probably rise sharply in the winter period, with short-term negative consequences for consumer confidence and spending. The economic outlook for the second half of 2023 will be better, with private consumption picking up, and the likelihood that the zero-Covid policy will cause economic scars and reduce the economy's potential growth having diminished. However, this improved outlook will also depend on the extent to which the authorities succeed in increasing vaccination coverage and restoring consumer confidence.

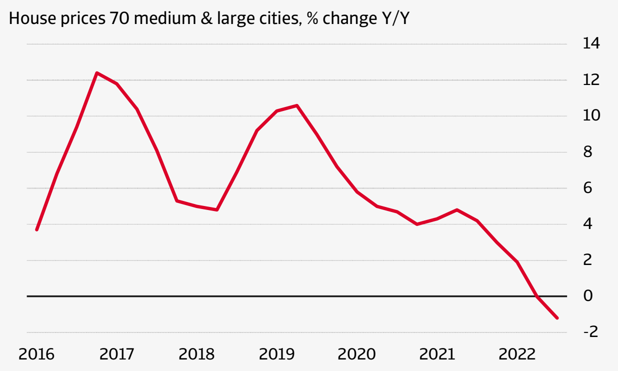
[1] For example: Chen Y, Liu Y, Fang X (2021) The new evidence of China's economic downturn: From structural bonus to structural imbalance. PLoS ONE 16(9): e0257456.; and Rozelle S, Hell N (2020) Invisible China – How the Urban–Rural Divide Threatens China's Rise. The University Of Chicago Press.

#2 Real estate crisis

Simultaneously with the Covid pandemic, problems in the real estate sector escalated. The first signs of a possible crisis appeared earlier, but the impending default of the Evergrande Group in August 2021 was the trigger for trouble that spread widely. Real estate development was 7.4% lower in the first eight months of 2022 than in the same period one year earlier, while housing sales fell about 30%.

The Chinese government has taken steps to stabilise the property market, cutting interest rates on mortgages, reducing down payments and relaxing purchase requirements. These measures will probably stabilise the housing market in the coming months, but further defaults by property developers remain a major risk to the property sector as well as the financial sector. Banks are heavily exposed to real estate, since the property sector makes up 25% of total bank loans, and personal mortgage loans account for more than 70% of real estate loans. With a weakening asset quality, non-performing loans will increase and profit margins will face further downward pressure. The government will do enough to avert collapse of the sector, but anything more than a lengthy L-shaped recovery of the sector is not in sight. The real estate sector will probably continue to put pressure on economic growth for the coming five years at least.

Figure 2 No sign of recovery for house prices



Source: China National Bureau of Statistics, Atradius

#3 High debt at local governments and state-owned enterprises

The government has relied much on fiscal policy measures to counteract the headwinds coming from the Covid pandemic and the real estate crisis. Besides the impact of a weaker economy, stimulus measures like tax cuts, refunds for enterprises and rising public expenditure have widened the budget deficit, while central government debt has risen. Central government finances are strong and the higher budget deficit gives no cause for worries about debt sustainability, but implicit liabilities associated with local governments have risen. Local governments have funded infrastructure projects not only in recent years, but have - in an effort to reach economic growth targets - provided countercyclical investments already since the mid-nineties. Using so-called Local Government Financing Vehicles (LGFVs) to raise capital market funding, they created a large pile of debt, estimated at about 40% of GDP.[2] Besides funding public infrastructure, LGFV activities also included forms of financial support for local governments, firms and the property market, much of which is not captured in earnings statements. Meanwhile, not even half of this LGFV borrowing is used for capital expenditure in public investment like infrastructure, which can generate productivity gains. Instead, the bulk of expenditure went to interest payments, accumulation of land and real estate, employee payrolls and investments in unprofitable financial assets.

The implicit liabilities among local governments and LGFVs, including their poor visibility, are reasons for the central government to try to contain the growth in LGFV debt and the associated risks of adverse macro-financial feedback loops. This relates also to the non-financial corporate sector, with state-owned enterprises (SOEs) and private firms investing in LGFVs, as well as LGFVs investing in SOEs. This interconnectedness is seen as adding to the risk associated with China's high non-financial corporate debt. Because this debt, which rose rapidly in the 2010s and reached a level of 152% of GDP in 2021, is largely domestically financed and state-owned, the risk of a financial crisis remains low. However, still nearly 60% of companies in China belong to the category with the highest credit risk, which is significantly higher than the global average of 38%. Because firms with investment linkages to LGFVs tend to have lower capital productivity, this is pointing to resource misallocation.

So far, the elevated debt levels at local governments and SOEs have not led to an unsustainable situation. Still, with the property crisis continuing to unfold, they represent a threat to China's financial stability that is not easy to address.

#4 Ageing

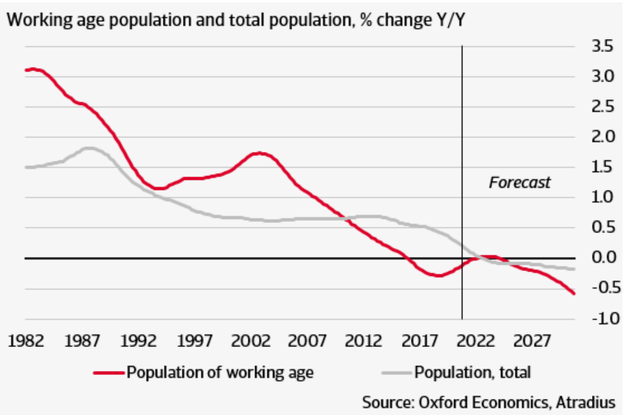
The aforementioned factors have been at play for quite some time, and for longer than many expected. Nevertheless, in principle they are temporary and their impact on economic growth likely will decrease in the medium term. This, however, certainly does not apply to the ageing of the Chinese population, which will last for decades and will have a profound impact on the economy. After all, besides productivity growth (which we look at in the next section) and growth of the capital stock (plant, equipment and other assets that help production), it is the long-term growth rate of the labour force that determines the potential growth rate of an economy.

For China, the picture is far from favourable. In 2021, China's birth rate declined to 0.75%, a record low across its 72-year data, after a steady decline for more than five decades. An important reason for the decline has been the one-child policy, which was abolished in 2016,

[2] IMF (2021) People's Republic of China, Selected Issues.

leading to a temporary rise in the birth rate, but is still affecting the choice of many families. Simultaneously, China's death rate is gradually climbing due to its ageing population. As a result, the natural population growth rate (births minus deaths) dropped to 0.034%, the slowest pace since 1960, when the country was plagued by widespread famine, caused by the policies of the infamous Great Leap Forward. Meanwhile, China's fertility rate (the average number of children per woman aged 15-49) also declined rapidly. At just 1.3 it is among the lowest in the world and much lower than the natural replacement rate of 2.1.

Figure 3 Labour force declining faster than total population



According to various estimates, the Chinese population will gradually decline to between 800 million and 1.1 billion people by 2100, from 1.41 billion now.[3] The working age population (age 15-64), which is relevant for economic growth, already peaked about ten years ago. Moreover, China's working age population is ageing faster and at an earlier development stage than most other G20 countries. In the year when the per capita gross national income of China's G20 peers was equivalent to China's in 2019, most of them still had a growing labour force relative to the total population, while China's already was declining for ten years.[4]

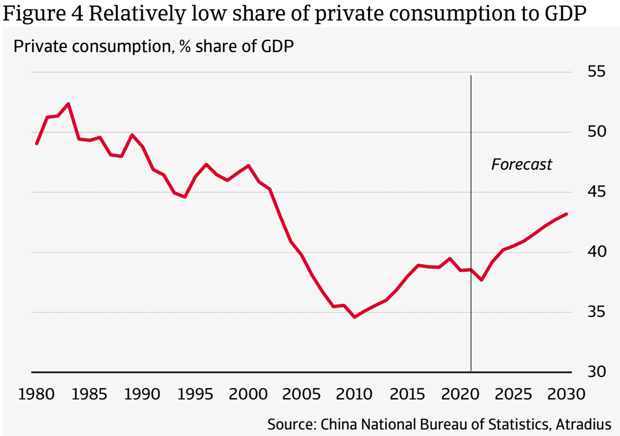
#5 Human capital mismatch

Until recently, China enjoyed a 'demographic dividend' because a large pool of rural migrants helped the urban workforce to grow. The unskilled workers contributed much to China's growth, but since their wages are rising, an increasing number of companies are shifting manufacturing production to countries with lower wages like Vietnam, Malaysia and India. Upgrading its industry is the logical response for China, but while the government has invested much in physical infrastructure, it did not invest adequately in human capital. Surveys show that, on average, China's labour force has one of the lowest levels of education compared to peer countries.[5] Only 30% of all workers have completed just one day of high school, let alone obtained a high school diploma. This means that a large majority of low-skilled workers are not suitable for the jobs where they are needed - in advanced manufacturing.

Meanwhile, part of the workforce is overeducated. In recent years China has made important strides in higher education in science, technology, engineering and mathematics, while the number of young people pursuing higher education has risen apace. In 1998, only 1 million students gained admission to Chinese colleges, while nearly 11 million graduated in 2021. However, here too, there is a mismatch, with only 0.71 white-collar jobs available for each college graduate. Joblessness among youth is now a serious problem, at 18% in mid-2022, the highest rate since before the pandemic and far above that of the US or Europe. As far as production is concerned, technological innovation, in particular automation, will be helpful to solve the over/undereducated issue. But it will take a lot of time and investment to make China's workforce equipped to become a high-income economy.

A prosperous workforce is also essential for another change to take place successfully. To avoid the middle-income trap, the manufacturing-heavy economy has to change into a services-led one, with private consumption becoming the main driver of growth, at the expense of investments and exports. The Chinese government has been committed to this transition for a long time, but so far little progress has been made. Twenty years ago, when the government announced its intention to move to a more consumer-led economy, the ratio of private consumption to GDP had fallen to 45%, which is tens of percentage points lower than in the US and Europe. After a further decline this ratio has risen, but it still lags behind. Apart from the fact that investments and exports are still important drivers of growth, high private savings related to an inadequate social protection system play an important role in relatively low private consumption. Social insurance and assistance protection spending doubled during the 2010s, but with a population ageing rapidly and traditional multigenerational family support weakened because of urbanisation, China has some way to go.

Figure 4 Relatively low share of private consumption to GDP



#6 Productivity growth decline

From the above it may be clear that higher productivity has to compensate for worsening demographics.

---

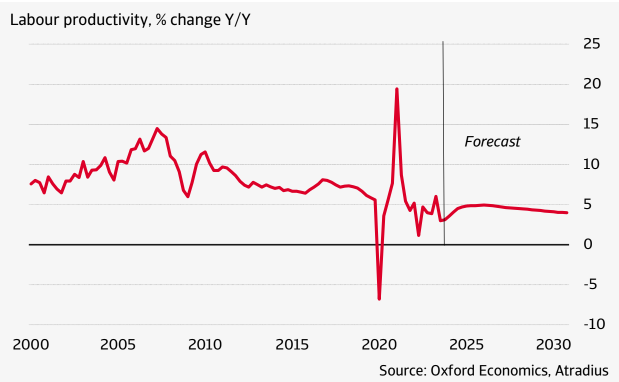
[3] The high estimate from United Nations World Population Prospects, the lower one from YuWa Population Research Institute.
[4] IMF (2021) People's Republic of China, Selected Issues.

[5] Rozelle S, Hell N (2020) Invisible China – How the Urban–Rural Divide Threatens China's Rise. The University Of Chicago Press.

However, after impressive growth in the 2000s, China's productivity has more recently stagnated.[6] Reforms twenty years ago spurred China's productivity growth, including entry into the WTO and reductions in external trade barriers, reductions in internal trade and migration barriers, and reform of SOEs. The entry and rapid growth of young private firms were also important drivers of aggregate productivity growth. But since the financial crisis twelve years ago, there has been a decline in China's business dynamism, with a falling share of young firms in the economy and younger and smaller firms performing weaker than their older and larger counterparts. Moreover, the economy's ability to allocate capital has worsened over time, while there were large and persistent productivity gaps between SOEs and private firms, with the latter performing consistently better. The productivity stagnation took place in a period when the share of SOEs in the economy remained flat, after falling in the first decade of the century. Looking at different provinces, it appears that where SOEs account for a larger share of assets, business dynamism tends to be weaker.

The findings underscore the need for China to undertake pro-market reforms to boost productivity growth. However, if the government decides to put more effort into expanding the private sector at the expense of SOEs, even then productivity may not increase enough to compensate for the negative impact of the ageing population. China's investments in high-tech will help, but given their relative weight in Chinese GDP, these technologies are a long way off from being the drivers of growth.

Figure 5 Productivity growth gradually slowing further



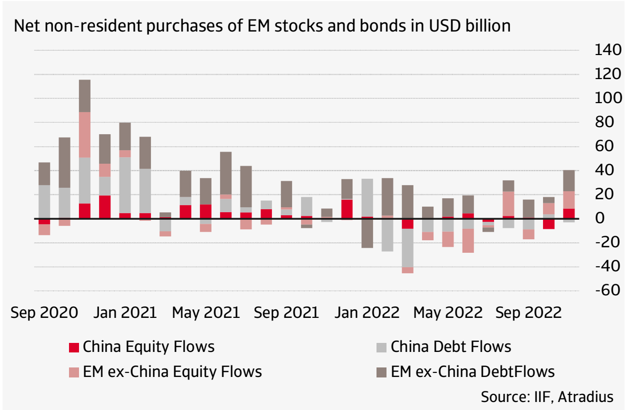
#7 State control on the technology sector

As indicated, it is now important for China to take the right steps in adjusting its growth model. Some factors that currently complicate this adjustment can be said to have happened to China accidentally or at least unintentionally. However, a number of discretionary policy choices may also have had an adverse impact on China's growth outlook. One of these choices is to increase state control on the high-tech sector, described by many as a crackdown. In 2021, regulators took a series of actions concerning anti-trust, finance and data security. IPOs and takeovers were frustrated and corporate leaders were called to order because of meddling in government policy. One reason for the crackdown on the sector was that its growth had led to much power and wealth being concentrated in a few hands. Since the government's 'common prosperity' campaign had become a defining theme in many policies, the government wanted to put a brake on the expansion of the sector.

More recently there have been signs that the crackdown might have started to ease, but the stricter regulations and enforcements are likely to remain. There certainly was a logic to clamping down on monopolies and abuses of market power. And there is also a rationale in greater control on the technology sector if the government is aiming to bolster more strategically useful sectors such as high tech manufacturing at the expense of parts of the tech industry that it sees as dispensable, such as online gaming, social media and the wider platform economy. One probable consequence of the measures, however, is that they will dampen innovation and will therefore have a negative impact on productivity gains that could fuel economic growth. After all, too much government intervention could undermine the entrepreneurial energy the sector needs.

While opinions may differ in this respect, the regulators' tough approach has led to the exit of companies in various sectors. Declining confidence has also had a negative impact on investor confidence, at a time when China has to compete with other Asian countries in attracting investment from abroad.

Figure 6 Interest for Chinese equities and bonds fell in 2022



#8 Self-reliance by Dual Circulation

A second policy choice that could have negative consequences for the economy is the government's Dual Circulation Strategy (DCS). With this strategy, launched in 2020 and incorporated in the CCP's 14th Five-Year Plan, China places greater emphasis on the domestic market, or internal circulation, without abandoning its export-oriented development strategy, the external circulation. Expanding domestic demand essentially means boosting private consumption, which is in line with the desired shift to consumer-led growth that China has been pursuing since 2008. An important difference, however, is that the push for a consumption-based

[6] Cerdeiro D, Ruane C (2022) China's Declining Business Dynamism. IMF Working Paper.

model at that time represented a call for more, rather than fewer, imports, as is the case for the DCS.[7] In the first years after 2008, imports of commodities and intermediate goods rose sharply as a consequence of fiscal stimulus in infrastructure. The underlying reason for dual circulation, however, is that China wants to reduce its exposure to other countries, especially the US and other nations with which it is at odds. Under the DCS, China therefore aims to substitute imports for domestic production as soon as it is able to produce the relevant goods domestically.

In a period of rising geopolitical tensions such a strategy of import substitution may be understandable. Western countries are likewise aiming to reduce their external reliance on a number of strategic sectors while, related to the Covid pandemic, awareness of the vulnerability of global supply chains has grown. The flip side of this increased emphasis on self-reliance, however, is that it comes at the expense of economic efficiency. Economic science and history, including China's, have proven that international trade and removing the barriers that hinder it are positive for the economy. Dual circulation will require additional investment for China to compete in new areas, and the question is whether it will be successful in doing so. Especially if an increasing number of countries see China as a systemic rival, it will be difficult to achieve a competitive edge in the markets that support economic growth and can propel the country to the status of a high-income economy. Therefore, it will be difficult to make external circulation successful as well. China is undertaking efforts to increase its access to foreign markets by entering trade agreements like the Regional Comprehensive Economic Partnership and, if allowed, the Comprehensive and Progressive Trans-Pacific Partnership. Yet trade deals alone will not make China a leader in exporting high value-added goods.

#9 Securing global supply chains

The aim to be less reliant on other countries does not apply only to China. The awareness that supply chains are vulnerable has grown globally in recent years, and is not only related to the US-China trade war (which we look at in the next section). The Covid-19 pandemic has especially played a role in this. At the height of the pandemic, lockdowns in China and other countries disrupted international shipping, created shortages of essential goods and led to elevated commodity prices. Currently, the war in Ukraine and Western sanctions against Russia also show how dangerous it is to depend on only one or a few countries of origin for essential goods. Governments and internationally operating companies therefore want to make their supply chains less vulnerable. Especially when it comes to food, energy, technology and medical equipment, governments are considering promoting a return of production to their own country, or to countries seen as more reliable.

This reshoring, or - in the case of shifting production to befriended countries - 'friendshoring', has to be weighed against the downsides and costs that come along with it. Some strategic reorientation in critical sectors probably will happen, but a major step back on the globalisation ladder is unlikely, as the key economic rationale behind global value chains – the opportunity to exploit differences in labour costs – still holds.[8] However, related to specifically China, the situation is different. With the US leading the way, several Western countries have developed initiatives to encourage companies to move their production and investments from China to other countries. For the time being, it is unclear to what extent these initiatives will result in major shifts, but if friendshoring continues in the coming years, this will have major consequences for the Chinese economy. Estimates say that up to 28 million jobs could disappear from China. This concerns both low and medium tech jobs that would move mainly towards India and other emerging economies, as well as, to a lesser extent, high-tech jobs from which the advanced economies in particular would benefit. The implied dollar value of exports that would be lost via friend-shoring potentially could be the equivalent of China's trade surplus of 3% of GDP turning into a deficit of -0.6%.[9]

Taiwanese companies have a special place in the migration from China. According to a recent survey[10], most of them are not advocates of outright decoupling from China and onshoring, but they are collectively diversifying and seeking other ways to manage their risks and create new opportunities in a complex and changing world. More than three quarters of Taiwanese companies think Taiwan needs to reduce its economic dependence on Mainland China. Over a quarter of the surveyed Taiwanese firms with business in China have already moved some of their production or sourcing out of China, while another third are considering doing so. China's zero-Covid policy has played a role in this, but the increasing cross-strait tensions are the main reason to leave.

For the time being, decoupling of China from other economies will probably take place to a limited extent only. Several governments do not want to go further than securing the most critical supply chains. Unlike the US, they see no end in itself in deliberate hobbling of the Chinese economy. Second, companies that do not see any problems in their own dependence on China will be reluctant to participate in reshoring their activities because of the higher costs. The business relationships, investments and supply chains cannot be easily unwound, and for many companies the Chinese market is still very attractive. Nevertheless, the process of global

---

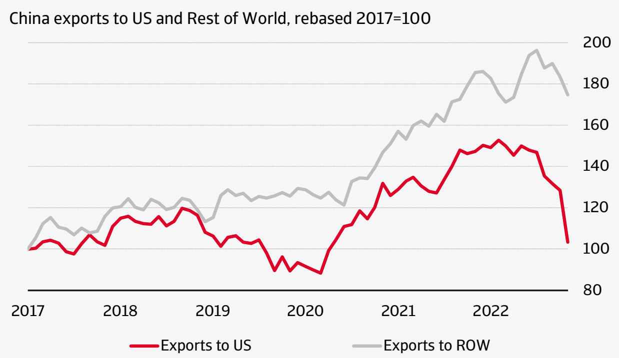
[7] Herrero A (2021) What is Behind China's Dual Circulation Strategy? China Leadership Monitor.
[8] Smid T (2022) Pandemic and security shocks shake global value chains. Atradius Economic Research.
[9] Every M, Harn E-J van (2022) Friendshoring: Who will benefit? Rabobank Research.
[10] Kennedy S (2022) It's Moving Time – Taiwanese Business Responds to Growing U.S.-China Tensions. Center for Strategic & International Studies. The survey was conducted in July 2022, prior to the visit of Nancy Pelosi, speaker of the U.S. House of Representatives, to the island.

fragmentation of technological development will affect China's growth potential negatively. The extent to which this will happen will depend on the further development of the geopolitical rivalry between China and the West.

#10 Geopolitical rivalry

Closely intertwined with the pursuit of self-reliance and making global supply chains safer is the US-China trade war that has been going on for more than four years now. In July 2018, the Trump administration began setting tariffs and other trade barriers on China in response to alleged unfair trade practices and intellectual property theft. The Biden administration, with bipartisan support in US Congress, has thus far kept these measures in place. The trade war has significantly reduced the share of Chinese exports to the US. While China's exports to the rest of the world have increased by almost 80% since the start of 2017, exports to the US are at about the same level as they were then. China's share of total US goods imports has fallen to 18%, down from 22% at the onset of the trade war.

Figure 7 Chinese exports to US lagging those to rest of world



Source: Macrobond, Atradius

Recently the trade war entered a new, more intense phase. The US has unveiled regulations that will restrict the export to China of goods containing US-made technology related to semiconductors manufacturing and artificial intelligence. The regulations will make it difficult for China to develop advanced chips and other high-tech industries and will be, if implemented effectively, a major setback for the Chinese tech sector. The export controls probably will encourage China even more to achieve supply-chain self-sufficiency, but - as explained above - this will take many years, especially if, as expected, further restrictions follow to prevent the transfer of US technological knowledge to China. In addition, the curbs will also apply to non-US companies that use US technologies, like global chipmakers and chip equipment suppliers in other Western countries. Also these actions will encourage multinational corporations to reassess the risks of doing business in China.

In fact, the trade war is broader than its name suggests. It can be seen as a collision between systems, market capitalism versus state capitalism, and – as put by some Western leaders - autocracy versus liberal democracy. What does not help is that tensions around Taiwan have increased further in the past year. Although neither of the superpowers wants to escalate the situation, a lasting solution that will satisfy all parties, including Taiwan itself, is not in sight at all.

The geopolitical rivalry between China and the US, and increasingly also frictions between China and other Western countries, are at the expense of the benefits of international cooperation, including free trade and exchange of knowledge. If heightened tensions lead to technological decoupling, this will be more detrimental for China than for Western countries, causing China's GDP growth to slow by almost 0.3%-pt. over the medium term, whereas the US and the EU would see growth falling by less than 0.1%-pt.[11] An important reason for this difference is the impact of weaker knowledge transfers. An assessment of the impact of knowledge spillovers on productivity across 35 countries shows that both domestic and foreign Research and Development (R&D) have a major impact on productivity growth. Furthermore, while domestic R&D is hugely important, foreign knowledge spillovers contribute almost a third of the total knowledge contribution to productivity. Looking at the patterns of knowledge spillovers, it turns out that US R&D, and to a lesser extent that of the EU, are critical to driving global productivity growth in the rest of the world. China's influence on the US, Europe, and advanced Asia, however, is limited. Although China is an important innovation centre, it will feel the impact of technological decoupling more than the US and the EU.

Counterproductive policy choices

The 14th Five-Year Plan of the Chinese Communist Party (CCP) stated that China will become a 'moderately developed' economy by 2035. Crucial to achieving this goal will be that China manages to sufficiently adjust its current, faltering growth model. Looking at the multiple developments that are putting a brake on economic growth now and in the future, the only conclusion can be that achieving the target is uncertain. Some of the problems, such as the crisis in the real estate sector and high debt of local governments and state-owned enterprises, appear to be reasonably under control. Others, such as the ageing population, low productivity growth and the mismatch in the labour market, are challenging. It is therefore worrying that the Chinese government is currently embroiled in a trade war with the US amid other geopolitical rivalries. The policy choices made as a result of this now appear to be counterproductive in terms of increasing productivity growth. It is precisely this that is crucial for avoiding the middle-income trap and making the step towards the status of a high-income economy.

Bert Burger, Principal Economist
bert.burger@atradius.com
+31 20 553 2872

[11] McFee I (2022), Technological decoupling is the real deglobalisation threat. Oxford Economics Research Briefing.

If you've found this economic update useful, why not visit our website www.atradius.com, where you'll find many more Atradius publications focusing on the global economy, including country reports, industry analysis, advice on credit management and essays on current business issues.

Connect with Atradius
on social media

Disclaimer

This publication is provided for information purposes only and is not intended as investment advice, legal advice or as a recommendation as to particular transactions, investments or strategies to any reader. Readers must make their own independent decisions, commercial or otherwise, regarding the information provided. While we have made every attempt to ensure that the information contained in this publication has been obtained from reliable sources, Atradius is not responsible for any errors or omissions, or for the results obtained from the use of this information. All information in this publication is provided 'as is', with no guarantee of completeness, accuracy, timeliness or of the results obtained from its use, and without warranty of any kind, express or implied. In no event will Atradius, its related partnerships or corporations, or the partners, agents or employees thereof, be liable to you or anyone else for any decision made or action taken in reliance on the information in this publication or for any loss of opportunity, loss of profit, loss of production, loss of business or indirect losses, special or similar damages of any kind, even if advised of the possibility of such losses or damages.

Atradius N.V.
David Ricardostraat 1 – 1066 JS Amsterdam
Postbus 8982 – 1006 JD Amsterdam
The Netherlands
Phone: +31 20 553 9111

info@atradius.com
www.atradius.com