CHINA

A NEW RISE IN EXPORT POWER

Against a backdrop of sluggish domestic demand and strategic rivalries, particularly with the US, the Chinese government is further developing its industrial policy to support economic growth and strengthen "national security". Priority is being given to the high-tech and energy transition sectors. With considerable support from the government, these sectors are moving up the value chain, increasing their production capacity, lowering selling prices and winning export market share. The flood of green tech products is expected to lead to further trade conflicts in the coming months.

At the annual session of the National People's Congress held at the beginning of March, the Chinese authorities set out the main objectives of their economic strategy for 2024. In particular, to achieve the relatively ambitious growth target of "around 5%" for this year and stimulate supply, priority is being given to the "new productive forces" that are the new technology industries – ranging from artificial intelligence to the energy transition sectors (renewable energies, electric vehicles, lithium batteries).

China's industrial policy therefore continues to focus on production and innovation across the entire value chain of the targeted manufacturing sectors. It aims to support a continuous rise in the value chain in order to boost productivity gains and make China a major global tech leader. These priorities are not new (they were set out in the "Made in China 2025" programme published in 2015), but the authorities have increased their level of ambition over the past four years in response to a difficult domestic economic environment and an external context marked by strong commercial and strategic rivalries, particularly with the US. In particular, industrial policy must contribute to China's "national security" objectives and reduce its dependence on imported materials and foreign technologies.

Regarding demand policy, the authorities confirmed in early March the accommodative yet cautious stance they had been following for several months. New public investment in infrastructure is planned in 2024 but, at the same time, efforts are expected to be made to rationalise local government spending and restructure the debt contracted by their financing vehicles. In addition, new fiscal and monetary policy measures are being envisaged to stimulate domestic demand and stabilise the property sector, but the emphasis on boosting household consumption remains limited in reality.

In the short term, this economic policy risks amplifying the divergence in performance between sectors and the imbalance between domestic demand and supply, which have been apparent for several months now. On the one hand, domestic demand is lacklustre, still held back by the crisis in the property sector, regulatory uncertainties, and low confidence of consumers and private investors. This sluggishness persisted in January-February 2024, with property investment and house sales continuing to contract sharply, and the recovery in retail sales failing to gather momentum. Activity in the services sector slowed, contributing to a slight rise in the unemployment rate (to 5.3%). Also reflecting the weakness of domestic demand and the imbalance between supply and demand, consumer price inflation has, on average, been slightly negative since mid-2023 (at -0.2% y/y) and core inflation has remained low (+0.7% on average over the period July 2023-February 2024).

On the other hand, industrial production and production capacity continue to grow, especially – but not only – in the high-tech and green-tech sectors. These are largely supported by the government through a wide range of subsidies, tax incentives, low-rate credits and other financing measures. Manufacturing investment has gradually picked up since summer 2023, and the post-Covid rebound in industrial production has accelerated, with improvements seen in a large number of sectors. Government support and the increase in industrial production capacity have enabled Chinese companies to aggressively lower their selling prices in order to increase their export volumes and strengthen their market share.

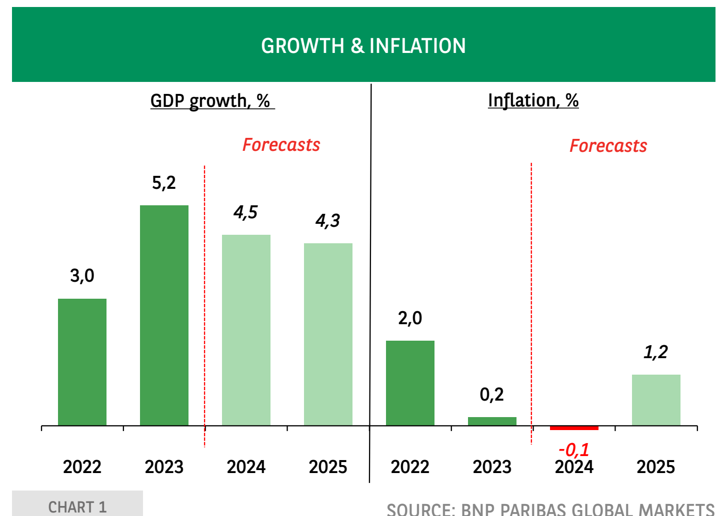

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

China's goods exports have picked up since November. They totalled USD 3,380 billion in 2023, fuelling a trade surplus that has almost doubled since 2019 (from USD 421 billion to USD 823 billion). China's share of total world goods exports has recently increased again. After only partially losing the ground gained during the Covid crisis, it recovered in H2 2023. It stood at 14.4% for 2023 as a whole (as in 2022), compared with 13.3% in 2019. A diversification of China's trading partners had initially offset the effects of "decoupling" from the US between 2018 and 2023, but the latter has come to a halt in recent months. China's share of US goods imports has also recovered, rising from 13.3% in H1 2023 to 14.3% in H2 2023 (compared with 22% in H2 2018).

In addition, China's global market share gains have been recorded across a wide range of products such as: low value-added consumer goods such as furniture and toys, organic chemicals and plastics, vehicles, electrical and electronic machinery and equipment and parts thereof. They have been particularly impressive for electric vehicles (with export volumes multiplied by 7 between 2019 and 2023 and by 1.7 in 2023), solar panels (exports multiplied by 5 between 2018 and 2023) and lithium batteries. The flood of Chinese products has given rise to growing concerns among industrial entrepreneurs and governments in the US, the European Union and now emerging countries, and is likely to lead to new trade confrontations in the coming months.

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