

China's Policy Emphasis (2022) and Global Deglobalization Policies (2023)

Louis Kuijs's Year-End Blog

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This report does not constitute a rating action

For the final edition of our *Essential Economics* Newsletter this year, we asked each of our chief economist to share their insights on the following questions:

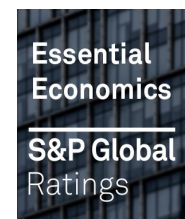
- What was the biggest surprise for you in 2022 and what are the takeaways?
- What will you be watching most closely in 2023, and why?

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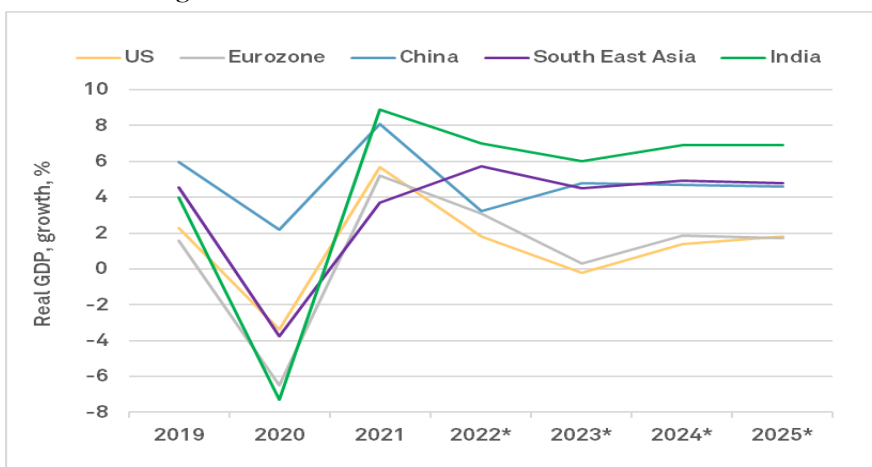
2022: China's temporary de-prioritization of growth

For much of 2022, China appeared to de-prioritizing economic growth relative to health and financial risk considerations. The government held on to its "dynamic zero" COVID stance and held on to tight financial restrictions on property developers, despite the severe impact on the economy. China watchers started to wonder whether the country's leadership had shifted away from its traditional emphasis on growth and development towards objectives such as various aspects of security.



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Chart: China's growth in international context



Note: * is forecast. Source: CEIC, S&P Global Economics.

The key policy report for the 20th Congress of the Chinese Communist Party in October suggested this was not the case. It confirmed that “high quality development” remains the Party’s most important task and commits to continued market-oriented reform. Indeed, since early November the government started to adjust its COVID stance, lifting restrictions. It also pivoted its property policy, allowing financing to flow to the developers again. In line with these policy changes, we expect China’s growth to pick up in 2023 after a poor 2022.

Takeaways: The COVID crisis and the efforts to rein in excesses in the property market led to policies that seriously hampered growth. But there are for now no indications that this heralded a fundamental shift in economic policy orientation.

2023: The spread of politicization of economic policy

Following earlier headwinds to globalization, in 2022 governments increasingly intervened in the economy to pursue political, security or other non-economic objectives. High-profile examples include the sanctions and restrictions by Western governments on Russia and Russian people, a range of measures by the U.S. to contain China’s technological development and decouple from its economy, and the related pursuit of ‘onshoring’ and ‘friend-shoring’. Encouraged by such steps by leading economies, other countries stepped up banning certain foreign firms and their investments and restricting certain imports and exports, often in the name of national-, food- or other security considerations.

What to watch: The key thing to watch in 2023 is whether this trend towards politicization of economic policy will continue or even accelerate. While the temptation to take such measures is at times understandable, the problem is that, once the ‘genie is out of the bottle’, it will be hard to stop. Meanwhile, such discretionary interference, erection of trade and investment barriers and attempts to decouple from certain economies will obviously contain growth of productivity and living standards. Also, fragmentation of the global economy will impede the green transition. Thus, it is worth focusing on how this agenda proceeds.

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