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Uncertainties about China as Global Growth Driver and Future Challenges

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Uncertainties about the outlook for the Chinese economy are growing. China, now the world's second-largest economy after the United States, has basically continued remarkable economic growth over more than 20 years. Against the backdrop of China's huge growing economy, China's presence in the international community has increased more and more. There is widespread belief that if the past pace of growth continued, China would soon overtake the United States as the world's largest economy. However, the Chinese economy is slowing down, with uncertainties growing about its future. After driving the global economy, the Chinese economy has been losing its growth momentum and decelerating growth, exerting various impacts on the global economy.

China's energy consumption has continued to increase at a tremendous pace amid the rapid expansion of domestic investment and construction as China has achieved economic development as the factory of the world and enormous domestic demand growth with a population of 1.4 billion. China's primary energy consumption quadrupled from 42.5 exajoules in 2000 to 170.7 EJ in 2023. As its energy consumption sustained explosive growth over the 23 years, the increase of 128.3 EJ in Chinese energy consumption during this period accounted for 57% of global energy consumption growth. Moreover, the Chinese energy consumption growth far exceeded 94.3 EJ in 2023 energy consumption in the United States, the world's second-largest energy consumer. The rapid Chinese energy consumption growth has had extremely great impacts on the international energy market as a whole.

China is now not only the world's largest primary energy consumer; as of 2023, China was the second-largest oil consumer after the United States, but it is rapidly catching up with the United States in oil consumption. On the other hand, its oil imports totaled 13.72 million barrels per day in 2023, far ahead of 8.54 million bpd for the United States, the world's second-ranked oil importer. In the year, China was also the world's largest natural gas and LNG importer, buying 159.2 billion cubic meters in natural gas and 97.8 billion cubic meters in LNG. China was a dominant coal consumer, accounting for 56% of global consumption. It posted the world's largest share of renewable energy consumption at 35%. Its share of global hydropower generation was also the largest in the world at 29%. China, though remaining the world's second-largest nuclear power consumer after the United States in 2023, is rapidly catching up with the leader. Thus, it is no exaggeration to say that the expansion of consumption in China has driven the growth of all energy markets.

This is why the outlook for the Chinese economy, which has supported the expansion of China's energy consumption, becomes a factor that greatly affects the international energy situation.

Even in 2020, when the global economy contracted by 3% due to the COVID-19 pandemic, the Chinese economy grew by more than 2%. Since then, China has continued economic growth itself, but its growth has recently decelerated partly due to a real estate recession. According to the

International Monetary Fund's latest World Economic Outlook released in July 2024, China's economic growth is projected to decline from 5.2% in 2023 to 5.0% in 2024 and 4.5% in 2025. Its GDP growth in the second quarter of this year is estimated to have decelerated from 5.3% in the first quarter to 4.7%, slipping below the projected growth of 5.0% for the whole of 2024.

An important factor behind the economic growth slowdown is the real estate recession. Real estate investment, which reportedly accounts for 30% of China’s GDP, has continued to decline by around 10% since 2022 and is believed to have done so in the first half of 2024. In addition, consumption, which has driven Chinese economic growth along with investment, has also been sluggish. It is reported that China has plunged into a vicious cycle where uncertainties about the economic outlook have depressed consumption. A high unemployment rate is also affecting consumption. The contribution of external demand, or exports, to GDP has also slowed amid the slowdown in the global economy. Regarding trade relations with the United States, Europe, Japan, and other countries, China is increasingly under scrutiny due to economic security and overproduction issues.

While the Chinese government has adopted a policy that gives priority to state-owned enterprises, foreign direct investment in China is believed to have turned down in 2023 and declined substantially so far this year because of uncertainties about the utilization of private sector resources and foreign capital. Various downward pressures on the economy have thus been observed over the short term, contributing to growing uncertainties about the outlook.

Under these circumstances, a decision at the third plenary session of the 20th Central Committee of the Communist Party of China held in Beijing July 15-18 attracted global attention. This is because the session was an extremely important meeting to decide on the direction of China's medium to long-term economic policy. In light of the current challenges facing the Chinese economy, the question of what policy would be put in place attracted a great deal of interest both inside and outside China.

The key CPC meeting adopted the “Resolution of CPC Central Committee on further deepening reform comprehensively to advance Chinese modernization” and released a communique. On July 21, CPC President and General Secretary Xi Jinping's explanation of the resolution was published by the state-run Xinhua news agency. The communique sets out a major goal of deepening reform to establish a high-standard socialist market economy, modernize the CPC system and capacity for governance, and realize socialist modernization by 2035. It also clarifies 12 specific initiatives to deepen reform, including a high-level socialist economic system and high-quality development. In addition, the communique lists important short-term issues, calling for addressing real estate and local government debt issues as important risks and for expanding domestic demand.

The communique demonstrated the Chinese government's attitude of recognizing and addressing important current issues and medium to long-term challenges. However, market participants and experts, while welcoming the demonstration, interpret the communique as covering too many issues and lacking specific or new policy measures for the right direction of deepening reform. They also view the communique as giving priority to the state-owned economic sector while failing to indicate the private sector’s roles and performances and foreign companies’ roles in the future. Therefore, they believe that the resolution at the key CPC meeting falls short of dispelling short to long-term concerns about the future Chinese economy.

Against this backdrop, attention is paid to how Chinese economic growth will slow down over the short term. While growth slowed from quarter to quarter so far in 2024 as noted above, the World Bank in June 2024 forecast China's economic growth at 4.8% for 2024 and at 4.1% for 2025. The forecast growth pace is slower and grimmer than projected by the IMF. If this trend continues, Chinese economic growth is expected to slip below 4% from 2026 onward. Over the medium to long term, we cannot overlook the impact of the rapid population decline.

The fate of China as the second largest economy and the first largest energy consumer in the world is extremely important for analyzing the international situation. If China's economic slowdown leads to a decline or deceleration in its energy demand over the short term, downward pressure may be generated on prices in international energy markets. Developments in China are the most important demand-side factor for predicting future prices of fuels such as crude oil, natural gas, LNG, and coal. Over the medium to long term as well, trends in energy demand in China will undoubtedly be a significant factor to affect the supply-demand balance in individual energy markets and energy geopolitics. We cannot take our eyes off China's economy or energy supply and demand trends.

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