



CHINA ECONOMICS WEEKLY

Reviving private investment and hiring won't be easy

Regulatory environment is only part of the problem

After making life more difficult for many private firms in recent years, officials are shifting course. On Wednesday, a document aimed at promoting the development of the private sector was jointly issued by the top organs of the government and the Communist Party. Such high-level policy documents are rare and a clear sign that the leadership is now placing a great deal of importance on this area.

The key pledges in the document are about improvements to the business environment for private firms. They include reducing barriers to entry, improving access to financing and ensuring equal treatment with state-owned firms. As usual, it has been left to various ministries to draw up specific policies and to implement them.

We doubt this marks a fundamental shift in the way that the leadership views the role of private firms in China's state-led "socialist market economy". Instead, the attempt to woo private capital appears to be a strategic response to the current economic weakness.

Capital spending by private firms has been stagnant since mid-2021, leaving investment growth dependent on the state. That's a problem given that much of the state sector is already heavily indebted, limiting its ability to support the economy. Private firms are also responsible for most of the job creation in China, so boosting their confidence in the outlook is key to reversing the sharp rise in youth unemployment.

The fact that the leadership is trying to mend fences with the private sector is positive. But on their own, such efforts will only go so far in supporting private investment and hiring. For a start, there is still a tension between policies that seek to level the playing field for private firms and those that try to influence the sectoral composition of economy, engineer a more equal primary distribution of income, and retain a large role for the state sector. These involve distorting market forces, usually at the expense of private businesses and investors.

Even if such conflicting objectives were sidelined for the time being, investors and business owners would harbor doubts about the durability of such a shift. With power now heavily concentrated at the top of the Party, there is little to prevent private firms from being targeted again down the road.

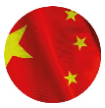
In any case, the current caution among private firms is not just a by-product of the policy environment but also due to economic headwinds that officials have little control over.

The recent divergence between state and private investment has been concentrated in certain sectors. In parts of the economy have long been viewed favourably by the authorities, there are few signs of underperformance among private firms. The private sector has actually been outpacing the state when it comes to manufacturing investment, and almost matching it on growth in infrastructure spending. Private spending has slowed recently in both areas, but that's also the case among state firms and reflects weaker export demand and waning fiscal support, rather than challenges particular to private firms.

Private investment in some parts of the service sector, such as education and IT, was hard hit by regulatory crackdowns and would benefit from a more supportive official stance. But by far the largest driver behind the stagnation of private investment has been the downturn in real estate – a sector that until recently was dominated by private firms. The downturn was triggered by tighter regulation of developer borrowing. But that has since been relaxed. The main problem now facing developers is the structural downturn in housing demand, against which regulatory tweaks are of limited use.

The week ahead

We're holding our monthly drop-in on Thursday (register [here](#)). Otherwise, the key thing to watch for will be the readout of July's politburo meeting. It is typically held in the last week of the month and focuses on the economy. While it is likely to be light on policy specifics, it may provide some sense of the scope and scale of planned policy stimulus.



Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (China)	Previous*	Median*	CE Forecasts*
July						
Tue 25 th		HK Exports (Jun., HKD)	(16.30)	(-15.6%)	-	(-16.0%)
		HK Imports (Jun., HKD)	(16.30)	(-16.7%)	-	(-18.0%)
		HK Trade Balance (Jun., HKD)	(16.30)	-26.4bn	-	-49.5bn
Thu 27 th		Chn Profits of Large Industrial Firms (Jun.)	(09.30)	(-12.6%)	-	-
Also expected during this period:						
TBC		Chn CBRC Data on Assets & Liabilities of Fin. Insti. (Jun.)	-	-	-	-

Selected future data releases and events:

July

Mon 31 st		Chn "Official" PMIs (Jul.)
		HK GDP (Q2, q/q(y/y))

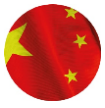
August

Tue 1 st		Chn Caixin Manufacturing PMI (Jul.)
		HK Retail Sales (Jun.)
Thu 3 rd		Chn Caixin Services PMI (Jul.)
Fri 4 th		Chn Current Account Balance – Preliminary (Q2)

Main Economic & Market Forecasts

%q/q annualised (%y/y), unless stated	Latest	Q3 2023	Q4 2023	Q1 2024	Q2 2024	2022	2023f	2024f	2025f
Official GDP	+0.8(+6.3)*	(5)	(5.7)	(4.6)	(4.9)	(3.0)	(5.5)	(4.6)	(4.2)
GDP (CE CAP-derived estimates)	+7.0(+4.2)***	(7.6)	(11.2)	(4.8)	(4.3)	(-2.5)	(8.5)	(4.5)	(4.0)
Consumer Prices	(0.0)**	(0.0)	(0.5)	(1.7)	(1.7)	(2.0)	(0.5)	(2.0)	(1.5)
Producer Prices	(-5.4)**	(-2.6)	(-1.9)	(-1.2)	(-0.5)	(4.2)	(-2.5)	(-0.7)	(-0.9)
Broad Credit (AFRE)	(+9.0)**	(10.0)	(10.8)	(9.5)	(9.3)	(9.6)	(10.8)	(8.9)	(8.3)
Exports (US\$)	(-12.4)**	(-16.0)	(-5.5)	(-10.0)	(-4.0)	(7.0)	(-8.0)	(-3.0)	(2.5)
Imports (US\$)	(-6.8)**	(-11.0)	(-3.0)	(15.5)	(6.5)	(1)	(-7)	(7.5)	(1.5)
RMB/\$ [†]	7.18	7.05	6.90	6.80	6.70	6.95	6.90	6.50	6.40
7-day PBOC reverse repo [†] %	1.90	1.80	1.80	1.80	1.80	2.00	1.80	1.80	1.80
1-year Loan Prime Rate [†] (LPR) %	3.55	3.45	3.45	3.45	3.45	3.65	3.45	3.45	3.45
1-year MLF Rate [†] %	2.65	2.55	2.55	2.55	2.55	2.75	2.55	2.55	2.55
10-year Government Bond Yield [†] %	2.67	2.80	2.80	2.70	2.70	2.85	2.90	2.70	2.60
RRR (major banks) [†] %	10.75	10.50	10.25	10.25	10.25	11.00	10.25	10.25	10.25
CSI 300 Index [†]	3,822	3,900	3,950	4,088	4,088	3,872	3,950	4,500	5,100
Hong Kong GDP	(+2.7)***	(9)	(10.5)	(7)	(7)	(-3.5)	(6.5)	(7.5)	(6.5)
Hang Seng Index [†]	19,075	19,400	19,750	23,500	23,500	19,781	19,750	23,500	27,000

Sources: Bloomberg, Refinitiv, CEIC, Capital Economics *Q2; **Jun.; ***Q1; [†] End of period



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