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# China faces a trade-off between confidence and credibility

*Setting the official economic-growth target poses a dilemma*

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By Simon Cox

In the spring of 2024 China's prime minister, Li Qiang, and his colleagues will face an awkward dilemma. They will have to choose between reviving the morale of entrepreneurs or safeguarding the credibility of the ruling Communist Party. Their choice will be revealed in Beijing in March, when Mr Li will read out his first report on the work of the government to China's legislature. The report will be full of party boilerplate, but it will also contain a consequential number: China's official economic growth target for 2024.

Such targets are easy to ridicule as a relic of central planning. In today's China, economic growth is the alchemical result of countless decisions by households, firms and officials. Surely even the party cannot engineer it to within half a percentage point?

In fact, China used to miss its growth target by a wide margin, exceeding it by several percentage points in some years (see chart). But recently, it has been a closer run thing. The target has therefore loomed larger in policymaking. In 2023, for example, the government's fear of falling short of its 5% goal prompted monetary and fiscal easing.

Many economists worry that these efforts to meet an arbitrary target distort China's policymaking, resulting in reckless lending or wasteful infrastructure projects. Some have urged China to drop its growth target altogether. Doing so "would serve as a clarion call that the government's priorities have shifted away from growth at all costs," said Eswar Prasad of Cornell University in 2014.

But 2024 would be the wrong year to make such a gesture. China's entrepreneurs will still be recovering from the property slump that began in mid-2021, the lockdowns that hobbled the economy in 2022 and the disappointing recovery of 2023. They will need the reassurance that an official growth target can provide.

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So what number should Mr Li announce in March? China's economy struggled in 2023 to reach the official target of around 5%, and inflation fell dangerously low. Economists worried that falling prices would erode profits and deter investment, further weakening demand. Low inflation is, however, an invitation as well as a threat. It is a sign that the economy has capacity to grow faster, if only spending were stronger. Mr Li's first growth target should therefore entice the private sector to spend, by signalling that the government will do the same if necessary. The way to do that is to set a growth target of at least 5%.

That would be tougher than the same target was in 2023, because the economy will be into its second year of recovery. It cannot count on the rebound that results from removing social restrictions and releasing pent-up demand. But after a disappointing reopening, China presumably still has some ground to make up. And if the economy runs hot at the end of 2024, putting upward pressure on wages and prices, that would not be all bad. It would help dispel fears of deflation and reduce the burden of China's debts.

The bigger worry is that a despondent, weakened China might fall short of such a target, even with extra government stimulus. That would be bad in itself. It would also be embarrassing for the Communist Party, denting the credibility of its economic management.

But setting an easy target entails risks of its own. It could depress private-sector expectations further, making a sub-par outcome more likely. In 2024, the Communist Party should know that reviving private-sector confidence is more important than safeguarding its target's credibility.

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