



GDP 5.5% Growth – low hanging fruit or a bridge too far?

In March, during the National People's Congress (NPC), China Legislature has announced its target plan of 5.5% GDP annual growth. China achieved 8.1% GDP growth in 2021, bouncing back from 2.3% in 2020. However, due to the challenging environment ahead, the state planners adopted a conservative figure for 2022. This is the first time of having a GDP growth plan below 6% in the last 30 years. Nevertheless, many analysts still question if the nation can achieve this relatively low target value or not.



There are several factors that may adversely affect China's GDP outlook in 2022:

a. Flexible Employment Increasing

Chinese official media indicated that 200 million people, approximately 15% of the population, were

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The CCA Newsletter is summary of articles about the Asia Business environment. This issue is about "GDP 5.5% Growth – low hanging fruit or a bridge too far?". Please follow-us on [Linkedin](#) for more.

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employed under flexible work arrangements as of the end of 2021. Within these 200 million “Flexible Employed” workers, only 1.6 million were netizens: such as bloggers, live streamers, or related sectors. The rest of the 15% were “general workers” in construction, service, sanitation, security, cleaning, and housekeeping services. “Flexible employed” workers engaged in employment not only receive flexible remuneration but also flexible working hours, work location, fringe benefits, and no long-term employment commitment. Some critics say that “Flexible Employment” (particularly in China) is just a nicer term for “Under-Employment” and fear that the low job security atmosphere will suppress the buying power within the nation.

b. Low Degree of Property Market Investment Rebound

China’s Real Estate investment contributed to 17% of the total GDP in 2020 (7.3% directly, 9.9% indirectly). In 2021, China’s property market had been impacted by financial crises of the real estate conglomerates, including fears of default or even the collapse of the developers. Though the situation has been improved and the crises will likely be soft-landed, the rate and capacity of people coming back to the market are still doubtful and full of uncertainty.

c. Uprising of Competition Countries for Export

“Shifting of the supply chain sources from China to other countries” did not significantly transpire in the last 2 years. One of the reasons is that many countries in the competition were locked down due to the pandemic. However, these countries started to shift their perspective to “Coexistence with the Virus” and opened their doors again for visitors, especially business visitors. Factories in these countries are open again and are beginning to compete with China for exporting orders. China’s ability to maintain strong exports in 2022 will be another important factor affecting the GDP growth achievement.

d. Slow Global Economy Recovery Progress from COVID outbreak

Many countries kicked-off their recovery plans after the COVID outbreak. Increasing interest rates and reduced money supplies are expected to cool down the inflation escalation because of the monetary easing policy launched during lockdown, therefore the short-term buying power could be affected. Consequently, exporters might have difficulties getting more orders from overseas in the coming few seasons.

e. Strict Zero-COVID Policy

China has been very successful in managing the virus crossing the border by executing a “Zero-COVID” Policy, but it is very costly to suddenly freeze all activities within affected districts and cities. The situation started to be reviewed when the latest “Omicron” appeared. Notwithstanding the tight controls and preventions of the new variant, new cases have emerged and spread. The impacts of unexpected lockdowns have slowly impacted the supply chain. Some high-level opinions have been voiced that it is time to fine-tune the strict “Zero-COVID” policy to reduce the economic impact.

f. Threats of Energy & Commodity Prices Fluctuation

China is a big consumer of various energy sources and raw material commodities for manufacturing products to satisfy both domestic and export demand. Industries are hurt because of energy and commodity prices fluctuation as it is difficult to control the cost/margin and are also at risk of shortage of supply. [The Power Crunch in 2021](#) was a good example. The geographical rivalry in Europe recently further enhances the price fluctuation of energy and commodity prices.

Fastening the Seatbelt

Even though Chinese policymakers have toned down their GDP growth expectation for 2022, it is still a challenging target to achieve. Logically, this should be an achievable goal as this is conservative and the lowest projection in the last 30 years. However, there are so many uncertainties and uncontrollable factors ahead that would make the process like riding a roller coaster.

Standing from the viewpoint of Supply Chains: suppliers might have difficulty committing to long-term contracts because of costs uncertainty, low reliability of shipment due to sudden lockdowns, and overseas competition (both orders and supplies).

CCA will keep tracking the changes and update Supply Chain performance and the GDP growth rate forecast for our readers to adjust their Supply Chain strategy.

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