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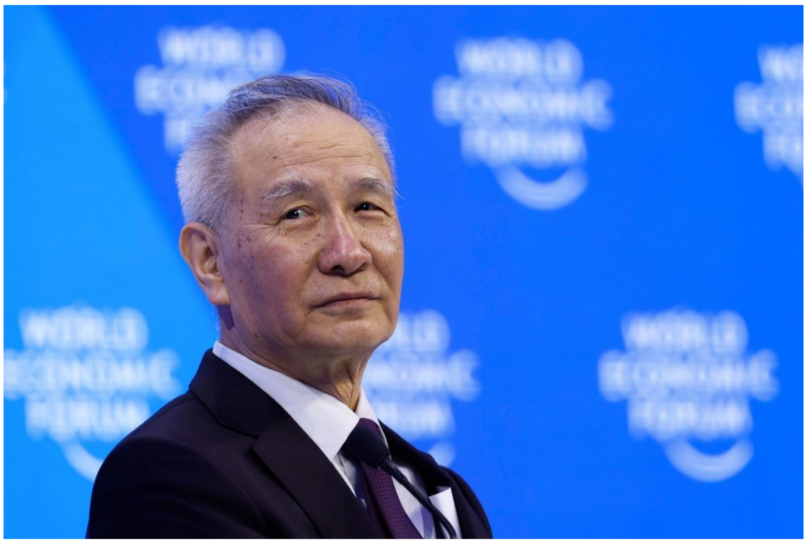
China Says Economy to Return to Faster Growth as Covid Isolation Ends

Vice Premier Liu He says Beijing will focus on boosting domestic demand this year



Chinese Vice Premier Liu He said Tuesday in Davos, Switzerland, that a return to a planned economy is impossible.

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By Lingling Wei Follow *and Jing Yang* Follow

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DAVOS, Switzerland—President Xi Jinping's top economic adviser sought to restore global investor confidence in a Chinese economy much battered by the country's self-imposed Covid isolation, saying in a high-profile speech on Tuesday that China's growth would return to prepandemic levels this year as the country reopens to the world.

"We're confident China's growth will most likely return to its normal trend," Vice Premier Liu He told members of the world business and political elite gathered for the annual World Economic Forum in Davos.

As life in China has been restored to normal following the government's lifting of pandemic restrictions, Mr. Liu said Beijing will focus on boosting domestic demand this year, which he said will lead to more imports from the country's trading partners.

The open-to-business message comes as foreign investors and businesses grow more concerned over the health of the world's second-largest economy. A barrage of policies initiated by Mr. Xi in the past few years, from broad-based Covid-19 lockdowns to crackdowns on private technology and property firms, has significantly cut into consumer spending and industrial manufacturing while pushing up unemployment rates especially among the young.

The latest official data shows China's economy expanded 3% in 2022, one of its slowest rates in decades. In an even more worrisome sign for the economy's long-term prospects, the country's population shrank last year for the first time since the early 1960, falling by 850,000 to 1.412 billion.

Beijing is now betting on a robust rebound in economic activities as the recent wave of infections reach its peak. Some government advisers say the central leadership likely will announce a growth target of between 5% and 5.5% for 2023 at the coming legislative sessions in March—the kind of rates needed for China to double the size of its economy by 2035, a long-term goal.

Having secured a third five-year term in power, Mr. Xi in recent weeks has shown some willingness to adjust policies to prop up growth. Over the past month, he has abruptly dismantled his zero-Covid policy that featured harsh lockdowns and mass testing, loosened financing restrictions on property developers and instructed underlings to signal an end to the government's regulatory clampdown on the private tech sector.

However, investors and corporate executives both inside and outside China remain wary of Beijing's willingness to sufficiently roll back its restrictions on businesses of the past few years to re-embrace private capital.

Mr. Liu sought to allay those concerns during his Tuesday speech. He told the Davos crowd that a return to a planned economy, where the party-state dictates economic activities, is impossible.

But with his own retirement looming, Mr. Liu, known for his pro-market inclinations, also took care to adhere to his boss's economic and social agenda centered on "common prosperity," a vaguely defined term that conveys a desire to redistribute wealth among the nation's population. Mr. Liu is expected to step down during the March legislative sessions.

The term “common prosperity” dates to China’s planned-economy era, which Mr. Xi revived in 2021 when he launched a sweeping effort to rein in private tech firms like e-commerce giant Alibaba Group Holding Ltd.

Despite its lack of substance, the slogan has since instilled much fear among private entrepreneurs and foreign businesses operating in China that the government would try to limit their ability to make money and force them to donate wealth.

During his Davos speech, Mr. Liu said China’s “common prosperity” push doesn’t mean the country is embracing egalitarianism or welfarism, but is instead adopting a long-term development goal where “entrepreneurs, including foreign investors, will play a critical role as they are the key elements of social wealth creation.”

In his first time to the World Economic Forum since 2018, Mr. Liu drew a full house with his edict from Beijing. Yet not everyone in the conference hall was convinced.

“It’s a very impressive speech with a huge agenda. But it sounds too good to be true,“ said Ajit Gulabchand, chairman of Hindustan Construction Co. Ltd. of Mumbai. “The supply chain and geopolitical issues, the fragmentation of the world, are the same. In this context, it’ll be quite a big task,” he said, referring to China’s pivot back toward growth. “So while his intention is good, and there’s opportunities, I just don’t know when.”

Others in the audience picked up on what Mr. Liu left out in his speech.

“What’s interesting is hearing what he said, but also what he didn’t say,” said Philipp von der Wippel, managing director at Project Together, a Berlin-based nonprofit organization focused on sustainable development. “I would’ve been really interested in his response to the West’s attitude that China is both an economic partner and a geopolitical rival,” he said.

In a research note after the speech, Goldman Sachs Group Inc. said Tuesday: “In general these comments are market-friendly and should help restore investors’ confidence in the economy.”

While pledging greater global cooperation, Mr. Liu, who is scheduled to meet U.S. Treasury Secretary Janet Yellen in Switzerland this week, also took a stab at the interest-rate hikes by the Federal Reserve and other developed economies to tame inflation.

Some Chinese officials have privately complained that the rate increases had increased pressure on capital outflows from China and made it harder for the Chinese central bank to loosen monetary policy to spur growth.

During Tuesday's speech, Mr. Liu warned that such rate increases by developed economies could lead to recession and urged greater attention on their spillover effects on developing countries.

—*Grace Zhu contributed to this article.*

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