Chinese leadership focuses on high-tech as problems of slowdown grow

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Documents from the Third Plenum of the Chinese Communist Party (CCP) central committee, which met last week, confirm the initial assessment of its deliberations that very little will be done to boost consumption spending to try and overcome the mounting problems in the economy resulting from lower growth rates.

Rather, the Xi Jinping regime is placing heavy emphasis on the development of "new quality productive forces" based on high-tech to launch the next stage of China's economic development.

There is no doubt that in many critical areas the Chinese economy has made significant advances, drawing on the skills and expertise of the tens of thousands of young graduates from its universities and colleges.

But the hopes of the regime that this can provide a way forward for the economy as a whole, ensuring the continuation of growth which it regards as crucial to the maintenance of "social stability," are running into major problems. Not the least of these is the unending economic warfare being waged against China by the US, now increasingly being joined by its allies.

In a statement issued last Sunday, Xi pointed to those issues when he warned of "frequent conflicts and turmoil, intensified global problems, and escalating external suppression and containment."

The economic plan made more than 300 recommendations, many of them focusing on government investments in high-tech manufacturing and scientific innovation. But there was little mention in the statement, which ran to 15,000 words in English translation, of the ongoing problems in real estate and property development.

The issue of lifting domestic spending, which international economists and some within China have identified as a key problem, received only a passing mention as the document referred to the need to "refine long-term mechanisms for expanding consumption."

There were some measures advanced to grapple with the debt problems facing local governments, which have been responsible for much of the infrastructure development that has powered Chinese growth for a decade and a half.

Local governments have financed these projects through funding vehicles which were sustained by the sales of land to real estate developers. But the downturn in the property market over the past three years has meant this has become unviable.

The Third Plenum statement proposed that transfers to local governments from the central government should increase and that local tax revenue sources needed to be expanded. But there was only a passing reference to a real estate tax. This proposal was advanced in 2013, but little was done to initiate a national property tax to provide money for local governments.

There was also some relaxation in the *hukou* household registration system, which prevents migrant workers from having full access to public services when they come to work in the cities. But how much of a real change this involves remains to be seen.

Robin Xing, chief China economist at Morgan Stanley, told the *Financial Times* (FT) there was a "slightly more balanced tone on social welfare programs" which could benefit consumption in the long run.

However, he said, the document was "very general, [and] there is no clear timeline on how to deliver and finance it."

The main thrust of the economic program remains heavy investment in high-tech manufacturing.

According to the FT report, the final statement "mentioned terms related to technology, talent, science and innovation 160 times. But the property sector warranted only four mentions and did not appear until two-thirds of the way through the document."

Its main thrust was that "the great rejuvenation of the Chinese nation" would be obtained by promoting "scientific and technological self-reliance."

But it acknowledged that this took place within a "complex" international situation. That was a reference to the growing list of high-tech bans and tariffs being placed on China by the US, for which it has got some support from the European powers, out of fear that Chinese expansion in this area poses an existential threat to American imperialism's economic dominance.

The Chinese leadership is engaged in something of a high wire act. Apart from the high-tech bans imposed by the US, its focus on the expansion of quality products depends on finding global markets. And here it is running into the mounting protectionist measures of the US and increasingly Europe, as reflected in the recent tariffs imposed on electric vehicles and other high-tech exports.

Trump, who has a very real prospect of winning the US presidency, has threatened to impose a tariff of 60 percent or more on all Chinese goods if he is returned. But the Democrats will be no less belligerent if they win. In fact, the economic war initiated by Trump in his presidency has been deepened under Biden.

Moreover, replacing the dependence of the Chinese economy on real estate and infrastructure projects as the main driver of economic growth—it has been estimated to account for up to 30 percent of GDP—cannot be accomplished overnight.

In the meantime, there is a marked slowdown in the Chinese economy. It slipped to year-on-year growth of only 4.7 percent in the second quarter amid predictions by the International Monetary Fund and other institutions that it is on a downward trend over coming years.

Data for the second quarter showed that sales in June grew by only 2 percent from a year earlier, prompting warnings about the direction of the economy.

According to a report in the *Wall Street Journal*, analysts at the French Bank Société Générale said the retail sales figure was "just shocking" and the Chinese economy was "limping along precariously."

It appears that while the focus is on the development of high-tech manufacturing, there are growing concerns within sections of the CCP leadership about the immediate state of the economy.

In a media briefing last Friday, following the conclusion of the Third Plenum, Han Wenxiu, deputy director of the CCP's financial and economic affairs department, said that while the economy was moving in a positive direction and making solid progress, "we are also confronted with some difficulties and challenges, which are mainly manifested in a lack of effective demand."

He said China's economic recovery was "not strong enough" and "we need to introduce and implement more robust and effective macroeconomic … policies." Proactive fiscal policy had to be used to "better effect."

Underlying these remarks is the fear of the entire CCP leadership, which rules on behalf of a capitalist oligarchy, that, in conditions where its sole legitimacy derives from its ability to promote growth, a significant slowdown can lead to "social instability" and even political opposition.