Deepening economic problems as China’s National People’s Congress meets

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4 March 2024

A key issue at the National People’s Congress (NPC), which gets underway today in Beijing, will be what plan Beijing has for boosting the flagging Chinese economy in conditions of deflationary pressures, the ongoing crisis in the property and real estate market and the ever-escalating economic warfare measures by the US.

Premier Li Qiang will deliver a “work report” at which he is expected to announce the government’s growth target for this year, most likely around 5 percent. But in a significant sign of the problems for the regime, he will not hold a press conference—the first time this has happened in 30 years—or at any of the NPC sessions over the rest of its five-year term.

No reason was given for the decision, apart from a statement at a regular press briefing by a Foreign Ministry spokeswoman that “worries” over “non-openness and non-transparency” were “unnecessary.” It is in line with a growing clampdown from the top on commentary about the state of the economy from academics and journalists.

Growth last year came in at 5.2 percent, slightly above expectations, but the lowest in more than three decades. Growth of 5 percent will he harder to achieve this year because the 2023 figure came off a lower base because of the effects of COVID in 2022. It may get even more difficult in coming years with the consulting firm Capital Economics predicting that China’s growth will fall to just 2 percent by 2030.

One of the main factors weighing on Chinese growth is the crisis in the real estate and property market, as shown by the bankruptcy of the property giant Evergrande, the mounting debt problems of Country Garden, and the debt defaults by at least 50 other developers.

Over the past decade and more, real estate and property development has been the key driver of growth, accounting for about 25 percent of gross domestic product.

There have been continuous calls from economic analysts and commentators for the government to stabilise the property market as the basis for a broader economic revival. A typical example was the comment by Tao Wang, chief China economist at UBS Investment Research, in the *Financial Times* last Friday.

“Both short-term macro policy support and medium-term structural policies are now needed to boost the economy and confidence. Stabilising the property market is key to restoring confidence and preventing more menacing spillover effects on the economy and financial system. Credit support to property developers will improve buyer confidence, as well as allaying defaults,” she wrote.

However, the government has been opposed to providing the kind of measures carried out in the past—massive infrastructure spending and the expansion of credit—because of fears this will only exacerbate debt problems.

In fact, the property crisis had its origins in the decisions of 2020 to introduce restrictions on credit, particularly to developers, known as the “three red lines” policies. This tightening took some time to work its way through—Evergrande was one of the first casualties—but it is now taking effect.

There are also concerns that credit expansion and a fiscal boost under conditions of higher interest rates world-wide, especially in the US, will put downward pressure on the renminbi and lead to capital flight from the country.

Recognising that the old growth model could not continue indefinitely, the government has sought to develop a new growth plan based on high-tech industries.

However, there are major doubts that the development of new industries such as electric vehicles, more efficient batteries, advances in the development of renewable energy and other high-tech industries will be sufficient to fill the gap left by the crisis in the property sector.

Moreover, high-tech development in China has run headlong into opposition from the US, which regards it as the central economic threat to its global dominance and is determined to block it.

This economic warfare began under the Trump administration and has been continued and deepened under Biden with the imposition of bans on the export of the most sophisticated computer chips to China and the threat that other suppliers will be hit by US sanctions if they do not cut off supplies as well.

The latest escalation in the high-tech war came last week with the announcement by Biden that he had ordered an investigation by the Commerce department into whether so-called "connected" vehicles, those which have capacities installed like a smart phone, posed a security risk.

Similar investigations by the Commerce department in the past have almost invariably led to the imposition of bans. From the tone of Biden's at times hysterical remarks in announcing the decision, it appears certain this will be the case on this occasion.

China, Biden said, was "determined to dominate the future of the auto market" by using "unfair practices" and developing policies that "could flood our markets, with its vehicles, posing risks to our national security." He described "connected" vehicles as "like smartphones on wheels."

US commerce secretary Gina Raimondo chimed in, saying these vehicles could collect huge amounts of data.

"It doesn't take a lot of imagination to figure out how a foreign adversary like China with access to this sort of information at scale could pose a serious risk for national security and the privacy of US citizens," she said.

The invocation of "national security" is a smokescreen for the real fear of the US, that Chinese vehicles could be developed with capacities greater than those produced in the US and at a cheaper price. This was the concern over telecoms giant Huawei regarding smart phones, before the US moved to crush the Chinese company by denying it access to chips.

The protectionist and trade war drums are also beating in Europe with the European Union now considering whether Chinese-made electric vehicles are unfairly subsidised and should be subject to tariffs and other import restrictions.

In the lead-up to the NPC, the Politburo of the Chinese Communist Party issued a statement on Thursday that "proactive fiscal policy must be appropriately intensified."

That does not indicate a return to the policies of the past but a deepening of the new orientation.

"We must vigorously promote the construction of a modern industrial system and accelerate the development of new productive forces," the Politburo said.

The big questions are how these changes will be implemented and what will be the political consequences of the shift under conditions where the stability of the regime depends on its capacity to provide steady economic advancement.

A recent article on Bloomberg pointed to some of the political rumblings which are occurring. It reported criticisms of the government's handling of the economy amidst a stock market plunge which has hit the better-off sections of the population that form an important social base for the regime.

Some of the posts, it reported, had even insinuated that a change in the top leadership—an implied criticism of President Xi Jinping—might help the stock market before they were taken down.

It also noted that civil servants and government workers, another base of support, were under pressure because of cuts in their bonuses due to the financial problems of local government authorities. They have experienced a decline in revenue from land sales, on which they have been highly dependent, due to the real estate crisis.

Remarks by Yuen Yuen Ang, a professor of Chinese political economy at Johns Hopkins University cited in the article, pointed to some of the problems confronting the government.

The danger for Xi, she said, was that the "fallout of the decline of the old growth model might be so great it prevents him from moving into the new growth model. The big question is, can you make that change fast enough?"

It is doubtful that the question will be answered in the reports delivered to this week's NPC meeting because, while there have been calls for "high quality developments" amid acute awareness of major problems, no concrete decisions have been announced as to how to meet them.