

Xi's economic agenda no answer to China's problems

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The universal response to the Chinese government's economic agenda announced at the opening session of the National People's Congress in Beijing on Tuesday is that it will do next to nothing to overcome growing problems.

Comments by Alicia Garcia Herrero, the chief Asia-Pacific economist at the investment management firm Natixis, to Bloomberg summed up the general sentiment when she said it was a "target without a plan."

In his "work report" premier Li Qiang set a target for growth of "around 5 percent" this year—the same as 2023. But this will be harder to achieve because growth measurements last year were coming off the lower base of 2022 due to COVID. Li said support for the economy was needed on "all fronts," but few concrete measures were announced and certainly nothing resembling a stimulus package.

"It shows they're not understanding the seriousness of the situation. How are you going to support consumption? Wages have been falling. There's deflation. What are you going to do?" Herrero said.

It is not so much that the government does not understand the problems confronting the economy but that it has a different agenda from that advocated by those who want to see a turn to stimulus measures, particularly aimed at lifting consumption spending.

In his report Li announced a budget deficit in line with last year's figure indicating there would be no major spending boost. However, he did point, albeit in a limited fashion, to economic difficulties.

"The foundation for the continuous recovery and improvement of our country's economy is still not solid, with insufficient demand, overcapacity in some industries, weak societal expectations and many lingering risks," he said.

The Xi Jinping regime, however, is opposed to countering those problems and risks by a return to the stimulus policies—expansion of government spending and credit—of the past. This is because it fears that such policies will only exacerbate the country's debt problems posing even greater risks.

Noting the shift in orientation, the consultancy firm Gavekal Dragonomics, which focuses on China, pointed out that the objective to expand domestic demand was demoted from its top priority in last year's report to third place. The two top goals were to "modernise the industrial system" and develop "new quality productive forces."

This reflects the agenda of the regime that the new economic path must be based on the development of high-tech industries with an orientation to what Xi calls the "new productive forces."

The state news agency Xinhua reported: "Developing new quality productive forces does not mean neglecting or abandoning traditional industries, Xi said. It is necessary to prevent a headlong rush into projects and the formation of industry bubbles, and avoid adopting just a single model of development, he noted."

There are a number of problems associated with the new turn. The long-term issue is whether high-tech production can overcome the dependence on real estate and property development which for the past decade and more has accounted for around 25 percent of China's gross domestic product.

One immediate question if China expands production in high-tech such as electric vehicles, battery storage and solar panels, is where will these products be sold under conditions of weak domestic demand?

It can only be on international markets at lower prices which is already threatening to bring retaliatory action both from the US and the European Union on the

grounds that China is “dumping” its products and using state subsidies to undercut competitors.

In addition, there is the escalating economic war being waged by the US, imposing an ever-increasing list of bans and sanctions on chips and other products required for high-tech development out of fear that China’s growth on this path will further undermine its dominance of the global economy.

The US is determined to retain its hegemony not only through economic warfare but also by military means for which it is actively preparing.

The rapid expansion of the Chinese economy over the past three decades has been fuelled in no small measure by the influx of foreign investment as major corporations have used China as their cheap labour base for manufacturing processes.

However, there are now very clear indications this flow is drying up both because of the sanctions imposed by the US and the fact that there are other more lucrative opportunities elsewhere, including in countries in Southeast Asia.

This shift is starting to show up in the economic data. According to figures released by the State Administration of Foreign Exchange last month, the inflow of foreign capital into the country in 2023 was \$33 billion, an 82 percent decline on the year before and the lowest annual figure since 1993.

The main area of increased spending outlined in Li’s report was the issuing of \$139 billion worth of special Treasury bonds to finance “security capacity in key areas” and the expansion of the military budget by 7.2 percent, higher than the official growth target.

These measures are hardly surprising given the expansion of the US war front in the Ukraine and the Middle East and the recognition in Chinese ruling and military circles that, whatever might be said to the contrary, the US is out to provoke a war.

Summing up its assessment of the report, the *Financial Times* commented: “There are real risks for China in prioritising security, technology and self-reliance over GDP growth. The country’s vulnerabilities—a faltering property market, hefty local government debts, deepening deflation, high youth unemployment and others—all require growth to avoid further slumps. Yet there is little evidence that Beijing has the policies to achieve the growth target it has declared.”

The Xi regime is well aware of those risks and that its political legitimacy rests primarily on its capacity to provide economic growth and rising living standards. It used to say that 8 percent growth was needed to provide “social stability.” That target has long gone, and growth is now on a downward path.

It knows such a situation can produce cracks at the top which may lead to the eruption of social discontent from below.

In that context it is significant that the “work report” reflected a certain circling of the wagons around the Bonapartist president Xi.

In his report Li said the achievements of 2023 were thanks to Xi “who is at the helm, charting the course, to the sound guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era.”

The tightening of control around Xi was also exemplified in the decision that Li would not hold a press conference on his report—the first time this has happened in 30 years.



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