Chinese leadership doubles down on high-tech development

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China will seek to intensify its technological development and become increasingly “self-sufficient” in this area according to its 15th five-year economic plan the outlines of which were approved at the fourth plenum of the Chinese Communist Party Central Committee held this week.

The emphasis placed in the plan on further “high quality” development will bring more countermeasures from the US, which regards the technological advance of China, particularly in new fields such as AI, as an existential threat to its global dominance.

The communiqué from the fourth plenum said China would seek to “upgrade traditional industries as well as foster, strengthen and expand emerging and future industries.”

It said China had to “achieve greater self-reliance and strength in science and technology and steer the development of new quality productive forces” and to seize the “historic opportunity presented by the new round of industrial transformation to boost China’s strength.”

No specific details were released—that will not happen until the next National People’s Congress in March next year. But it is certain to involve further government spending and initiatives.

According to Julian Evans-Pritchard of the research firm Capital Economics, whose remarks were cited in the *Wall Street Journal* (WSJ): “There are few signs that officials are backing away from industrial policy. If anything, the balance the leadership is trying to strike between market forces and government intervention is still shifting toward the latter.”

Another analyst speaking to the WSJ, Katja Drinhausen of the Mercator Institute for China Studies based in Germany, noted that when China first advanced plans to dominate in key economic areas and cutting-edge technologies these were dismissed as “party language” not carrying much weight.

“But the past decade and a half has shown that there is power in these plans, especially if they are coupled with investment, resources and incentives—and that this formula has paid off.”

However, all is far from plain sailing. The turn to the development of “new quality productive” forces launched two years ago has led to industrial overcapacity and price wars for industrial goods, deflation and lower profit margins in a process described by the party leadership as “involution.”

These problems are reflected in the domestic economy. Data released on the eve of the Central Committee plenum showed that the economy grew at its slowest pace in a year. The year-on-year growth in GDP was 4.8 percent, compared with a 5.2 percent growth in the second quarter.

The National Bureau of Statistics said the third quarter growth laid a “solid foundation” for reaching the official target of “around 5 percent” for the year. But as a Bloomberg report noted, growth was “powered by an export boom that’s papering over deeper vulnerabilities.”

China has been hit by the Trump tariffs with exports to the US dropping by 27 percent in September. But exports to the rest of the world are booming as a result of deflation in the Chinese domestic economy. Total Chinese exports in the month of September rose to $328.6 billion at the fastest pace in six months.

China’s surplus in merchandise trade has increased by 12.4 percent in the past three months compared to the same period last year and the trade surplus is expected to reach $1 trillion for the year, setting a new record high.

The relationship between the domestic economy and

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exports was highlighted in comments by Christopher Beddor, the deputy director of Chinese research at Gavekal Dragonomics, to the *New York Times*.

"As things get worse at home, their exports get more competitive. The bottom line is that between the deflationary shock and depreciation in currency, China's exports are just mechanically becoming way more competitive to many other countries."

China is becoming increasingly reliant on foreign markets to absorb its factory output. Net exports accounted for 6.2 percent of the economy in the third quarter. While this was slightly down from the record 6.4 percent in the second, it was still larger than in any other quarter since 2014.

But the Chinese export surge is leading to other countries, including in Southeast Asia, to consider imposing restrictions.

The latest draft five-year plan approved by the plenum makes some reference to the need to expand domestic demand, improve living standards and increase consumer spending, but there are unlikely to be any major initiatives. Past actions have included limited measures to boost consumption, but they have had little effect as indicated by the latest data.

Figures showed that so-called nominal growth, that is growth without adjusting for price changes, was down to 3.7 percent in the third quarter. This means that overall, prices as measured by the GDP deflator fell for the 10 consecutive quarter—the longest period of deflation in recent history.

The ongoing decline in the property market continues to weigh on the domestic economy. Apartment prices are down by as much as 40 percent from their peak in 2021 and there is a contraction in real estate and construction. In the past, this sector accounted for as much as a quarter in the Chinese economy.

Local government authorities, which are responsible for much of infrastructure spending have been impacted because their growth model has been all but destroyed. In the past they were able to finance themselves by selling land for development and then using the funds for local development projects as well as providing some social services.

In an outline of the measures it considers should be adopted, economists at the financial firm Société Générale said the central government needed "a fiscal system that effectively incentivises consumption while addressing the fiscal gap for local governments caused by declining land revenue."

But from the data released so far, that does not appear to be the case. The WSJ said that China's five-year plan only "nods at priorities" while Western economists and US officials have called for "most notably, boosting consumption in an attempt to lessen its reliance on export-driven growth."

Summing up the economic situation, the plenum communiqué said China faced a "stage where strategic opportunities coexist with risks and challenges, and uncertainties and unpredictable factors are increasing."

It insisted, as has become mandatory, on the need to "fully implement Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era."

This phrase may have more significance than usual in view of the recent purge organised by Xi. In the lead-up to the meeting, the number two general in the People's Liberation Army He Weidong was sacked along with eight other senior commanders. It was the first time in six decades that such a high-ranking military leader was removed.

The purge went further. According to WSJ calculations, the Central Committee meeting was one of the smallest in decades with nearly one sixth of those on the Central Committee that was elected three years ago absent this week.

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