

The economy according to Xi Jinping: a technological 'leap forward'

Maciej Kalwasiński

In the vision for the economy presented by the leadership of the Chinese Communist Party (CCP) at the Third Plenum of the 20th Central Committee (CC), technological progress is portrayed as the solution to the major issues affecting the People's Republic of China and the concerns of its government. The party did not seize the event as an opportunity to present concrete solutions to China's structural problems or to improve its current economic situation. Instead, preparations for a confrontation with the US remain the party's unwavering priority. For Beijing, the ultimate goal of modernising the Chinese economy is to enhance the state's security and to discover new sources of productivity. Technologies developed and upgraded within China, alongside the expansion of its industrial base, are crucial in achieving this. This is expected to reduce China's reliance on foreign supplies, to make industrial development the new driving force of economic growth and to secure China's position as the global leader in innovation. This all comes at the expense of the Chinese people's prosperity. When faced with the choice whether to combat the fundamental problem of low consumption or strengthen the 'fortress' which is being besieged by the US, Beijing has opted for a technological 'leap forward'. This strategy is likely to escalate trade disputes with other countries that are affected by Beijing's industrial policy and fear a 'China shock 2.0'.

The long-awaited Third Plenum of the 20th Central Committee of the CCP was held from Beijing on 15 to 18 July. In the past, the party leadership used the third of the seven regular plenary sessions held during the CC's five-year term as an opportunity to present the direction of the state's economic policy to lower-ranking party members, the Chinese people, and foreign observers.¹ The Third Plenum held in December 1978 symbolically marked the beginning of the 'reform and opening-up' period. At the 1993 plenary meeting, members of the Central Committee adopted the formal principles of significant reforms guided by the rules of a 'Socialist market economy'. In turn, the 2013 plenary meeting, during which the 'decisive role of the market in the allocation of resources' was proclaimed, raised hopes for the launch of another stage of liberalisation.

¹ M. Bogusz, J. Jakóbowski, *The Chinese Communist Party and its state. Xi Jinping's conservative turn*, OSW, Warsaw 2019, osw.waw.pl, p. 19.



Aside from several historical issues, three factors have shaped the expectations for this year's Third Plenum. First, the previous meeting, which was held in 2018, did not devote much attention to economic issues, indicating that for more than a decade the party's key body did not formally express its views on economic policy priorities.

Second, in line with the usual procedure, the Third Plenum was scheduled to be held the year following the election of the CCP leadership (which took place most recently in 2022), which means

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that it should have been organised in 2023. The delay in holding the meeting sparked controversy. Was this a manifestation of divisions within the party elite? Did Xi Jinping and his aides prefer to postpone consulting broader groups on their policies? Or were they waiting for the domestic and international situation to stabilise after the profound disruptions caused by issues such as the COVID-19 pandemic and Russia's full-scale invasion of Ukraine? Beijing has not commented on these issues to clarify the situation. It may be the case that the party's top leadership felt that the direction the chairman has set in recent years remains unchanged and clear, thus negating the urgency of holding a Central Committee meeting.

Third, the attention of both domestic and international audiences was focused on the Third Plenum as this event was viewed as a convenient opportunity for the CCP leadership to make significant adjustments to the state's political course in light of prolonged economic downturn and mounting negative effects of unsustainable growth recorded over the past decades. China is currently experiencing its longest and most profound property sector crisis since this sector's emergence back in the 1990s. Moreover, public sentiment remains pessimistic due to declining asset values, reduced incomes, a challenging labour market situation, and concerns about the future amid the increasingly sluggish economy. As a consequence, consumption growth has failed to return to its trend seen before the COVID-19 pandemic. The fact that the state's policy is focused on supporting industrial production has led to a growing imbalance between supply and demand, leading to deflation. In addition, local administrations are struggling to meet their financial obligations while pressure from foreign partners to reduce China's trade surplus is increasing.

Despite the exceptionally difficult economic situation, the party opted not to use the event to present specific solutions to the outlined problems or methods to improve public sentiment. As in previous years, it appears that the plenary session was dominated by certain strategic issues which Beijing views as highly sensitive, namely, security and development, rather than the issue of improving Chinese people's living standards, which is more important to the public. Contrary to assurances given in recent years, the Chinese authorities do not intend to abandon the state's current development model which is primarily based on investment and exports rather than on boosting private consumption – a goal Beijing has long emphasised declaratively. It has also been regularly recommended not only by leading foreign economists such as Michael Pettis, who is associated with Peking University, and Paul Krugman, but also by international institutions (including the International Monetary Fund) and local experts. In recent months alone, researchers such as Huang Yiping from Peking University,²

² Du Jiaoyang *et al.*, 'Transcript: Huang Yiping & Tu Xinquan decode Third Plenum', CCG Update – Centre for China and Globalisation, 26 July 2024, ccgupdate.substack.com.

Li Daokui from Tsinghua University,³ and Zhang Jun from Fudan University,⁴ have advocated for this shift. As regards boosting social welfare and increasing the population's income, the party remains cautious and has not decided to carry out radical reforms, opting instead for gradual change.

New and old ideas for the economy

In line with the tradition of CCP publications, documents released following the end of this year's plenary meeting contain numerous slogans and general references to various issues. However, they fail to present specific methods for attaining the set political goals and for securing funding for these activities. In its 'Resolution on Further Deepening Reform Comprehensively to Advance Chinese Modernisation', the Central Committee has presented 300 proposed reforms divided into 60 sections in 15 chapters.⁵ However, the proposals are vague, and the identified problems require solutions which are often contradictory. The CCP leaders have limited themselves to setting general directions, while the task of refining the slogans has been entrusted to mid- and lower-level party apparatus, as well as trusted experts. As a result, the final scope of the reforms remains unclear at this stage.

The CC has emphasised the need to "ensure that high-quality development and greater security reinforce each other" and stressed that national security "provides a pivotal foundation for ensuring steady and sustained progress in Chinese modernisation". The document's leitmotif is "modernisation with Chinese characteristics" (中国式现代化), which is expected to lead to "the rejuvenation of the Chinese nation" (中华民族伟大复兴) and the emergence of a "great modern socialist country" (社会主义现代化强国).

According to the CCP elite, technological and scientific progress fostering innovation, particularly in the industrial sector, will enable the achievement of these goals. On the one hand, this progress is expected to boost the security of China and its ruling party in a context where "external attempts to suppress and contain China are escalating" (来自外部的打压遏制不断升级) and "global changes of a kind not seen in a century" (百年未有之大变局) are unfolding. On the other hand, it is anticipated to provide a new economic momentum by applying "new quality productive forces" (新质生产力) to improve productivity and spur "high-quality development" (高质量发展) amid an increasingly slower economic growth.⁶

The proposals also included references to the major challenges facing the Chinese economy. For example, Beijing has pledged to diversify revenue sources for local government bodies and to shift more of the expenditure burden to the central government. Additionally, it has committed to removing all restrictions that prevent people from accessing social security in places where they work but do not hold permanent residency. The proposals also include granting greater decision-making powers to municipal governments to regulate the real estate market based on local conditions, offering incentive mechanisms to boost the birth rate, promoting the employment of college graduates and rural migrant workers, and raising

” Beijing believes a new industrial revolution is unfolding that could reshape the global order and aspires to lead this transformation.

³ Wang Zichen, 'David Daokui Li assembles experts to telegraph policy advice ahead of Third Plenum', *Pekingology*, 11 July 2024, pekingology.com.

⁴ Zhang Jiawen, Jia Yuxuan, 'Zhang Jun advocates for household income focus, discourages infrastructure over-investment', *The East is Read*, 22 March 2024, easiread.com.

⁵ 'Full text: Resolution of CPC Central Committee on further deepening reform comprehensively to advance Chinese modernization', *Xinhua News*, 21 July 2024, english.news.cn.

⁶ Xi Jinping, 'Full text: Explanation of resolution of CPC Central Committee on further deepening reform comprehensively to advance Chinese modernization', *Xinhua News*, 21 July 2024, english.news.cn.

salaries to reduce inequality. The CC also highlighted the importance of “further reform and opening up” and reaffirmed its intention to ensure that “the market plays a decisive role in resource allocation”.

These declarations suggest that the party has correctly identified the current problems and has signalled its willingness to address them. However, doubts remain regarding the sincerity of its intentions and its ability to implement them. In the previous decade, at the Third Plenum of the 18th Central Committee held in 2013, the party leadership presented an ambitious plan of pro-market reforms, from which the CCP retreated over time, even introducing changes that had the opposite effect, such as reducing the role of the private sector in the economy. Despite this, it now argues that it has achieved the goals set at that time, while simultaneously announcing its intention to pursue them in the future. This undermines its credibility, and casts doubt on its ability to deliver on its promises. Making these plans a reality depends not only on the willingness of the CCP leadership but, more importantly, on its ability to turn slogans into actionable solutions for individual problems, as well as the level of resistance from local interest groups which benefit from the current model and are likely to bear the financial and political costs of the transition. The party’s decision to set a relatively near-term deadline for completing the reform – namely, 2029 – can be interpreted as Beijing’s attempt to mobilise the lower-ranking party apparatus into action.

Technology as the foundation of independence and prosperity

The vision of China’s economy, which arises from the documents published following the end of the Third Plenum of the 20th Central Committee, aligns with the direction set by the CCP leadership in previous years. The policies pursued by Donald Trump and the bipartisan consensus reached in the US have demonstrated to the Chinese authorities that an escalation of the great power conflict is both inevitable and enduring. This has given fresh impetus to efforts initiated by earlier generations of Chinese leaders. Just before the start of the session in July, state-controlled media published an article emphasising that “reform does not imply a policy shift” and that on fundamental issues, Beijing’s stance “is unwavering and [its] thinking clear”.⁷ “We are continuously committed to implementing thorough and comprehensive reform as part of our path towards Socialism with Chinese characteristics to the end. This is an unavoidable path leading to our nation’s revival”, wrote the propaganda apparatus.

Beijing’s foremost economic priorities include modernisation, aimed at enhancing the security of both the party and the state, and sustaining development amid the declining effectiveness of previous growth drivers and efforts by Western governments to curb technology transfer to China. Industry, which the CCP views as the foundation of independence and prosperity, is expected to play a leading role in this process.⁸

For decades, China has pursued an exceptionally active policy of supporting domestic production, which has taken the form of actions to protect certain ‘emerging sectors of the economy’, carry out

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supply-side reforms, implement the *Made in China 2025* strategy, and ensure ‘dual circulation’. Fragmentary statistics compiled by the CSIS indicate that in 2019 alone China spent approximately 1.7% of its GDP on this, the equivalent of \$250 bn.⁹ Analysts argue that, when viewed in proportion to the

⁷ ‘新思想引领新时代改革开放’, Xinhua News, 9 July 2024, news.cn.

⁸ Jin Zhuanglong, ‘加快推进新型工业化’, Qiushi, 16 February 2023, qstheory.cn.

⁹ G. DiPippo, I. Mazzocco, S. Kennedy, *Red Ink: Estimating Chinese Industrial Policy Spending in Comparative Perspective*, Center for Strategic and International Studies, May 2022, csis-website-prod.s3.amazonaws.com.

state's economy as a whole this sum is more than twice as high as that spent by South Korea (which ranks second on this list), while in terms of its nominal value it is more than double the amount spent by the US. Due to support provided by the central and local governments,¹⁰ and to the dedication of Chinese business owners and their employees, over recent decades China has developed a globally unrivalled industrial ecosystem which now accounts for more than 30% of global production – compared to less than 15% two decades ago.

Despite this, according to Xi Jinping, it is not yet “strong or sophisticated enough” and continues to excessively rely on “key and core technologies controlled by others”.¹¹ As early as 2014, China's president emphasised that “only by controlling key technologies can we ensure basic economic and defence security for our state”.¹² Over the years, he added that “key, basic technologies cannot be obtained by begging, purchasing, or negotiating”.¹³ At present, due to pressure from the US, the goal of developing China's own innovation has become urgent and attainable, due to the country's advancements in research and development, as well as its potential. The purpose is no longer just to improve existing technologies but also to develop new, breakthrough solutions.

Beijing views technological progress as both a necessity driven by security concerns and an opportunity. It is convinced that another industrial revolution is underway,

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one that may alter the global order, and aspires to assume the role of global leader in this revolution. Thus, it advances and controls development in the ‘sectors of the future’ (new-generation information technology, artificial intelligence, aviation and astronautics, new materials, advanced equipment, biomedicine, and quantum technology). Its decision to support the domestic semiconductor sector should be viewed as unprecedented.¹⁴ Electric vehicles, new-generation batteries and photovoltaics are of particular importance to the CCP leadership. China has become the global trendsetter in these fields. This ‘new trio’,¹⁵ is expected to make China independent of foreign energy fuel supplies and to ensure that the domestic industrial sector gains another competitive advantage in terms of cost and enables the state to assume a leading role in the global green transition.¹⁶ Alongside this, the ruling elite is still interested in maintaining traditional industries and intends to upgrade these by implementing new technological solutions.

At present, the government's main priority is “striving to modernise the industrial system and developing new quality productive forces at a faster pace”.¹⁷ The term “new quality productive forces” was introduced into the CCP's vocabulary in September 2023. It refers not only to pioneering and cutting-edge technologies, but also to smaller innovations that enable a more effective utilisation of

¹⁰ This support includes subsidies, tax reliefs, loans with interest lower than market rates, funds provided by state-controlled investment funds, public expenditure on research and development, preferential land and electricity prices, consumer subsidies, public tenders, discrimination against foreign competitors, world-class transport infrastructure and not very strictly enforced regulations regarding accounting, labour and environment.

¹¹ Xi Jinping, ‘Full text: Explanation of resolution of CPC Central Committee on further deepening reform comprehensively to advance Chinese modernization’, *op. cit.*

¹² *Idem*, ‘把关键技术掌握在自己手里’, Xinhua, 9 June 2014, xinhuanet.com.

¹³ *Idem*, ‘努力成为世界主要科学中心和创新高地’, Qiushi, 15 March 2021, qstheory.cn.

¹⁴ P. Uznańska, ‘A siege broken? China's processor sector under US sanctions’, *OSW Commentary*, no. 614, 23 July 2024, osw.waw.pl.

¹⁵ The ‘old trio’, that formed the backbone of China's exports strength, included the production of clothes, furniture, and household electronic appliances.

¹⁶ M. Kalwasiński, ‘China on the road to ‘green’ energy security’, *OSW Commentary*, no. 605, 7 June 2024, osw.waw.pl.

¹⁷ ‘Report on the work of the PRC's government’, 5.03.2024, english.news.cn.

production factors. This is intended to sustain the country's economic growth in a situation where boosting the number of workforces is unlikely,¹⁸ and capital investment is becoming less profitable.

'A leap forward'

In the vision of the economy that emerges from the party leadership's statements and party documents, technological progress appears as a remedy for all of China's most serious ills and the concerns shared by its leadership. Not only is it expected to strengthen the US-besieged 'Chinese fortress' and ensure 'high-quality development', but it is also intended to enable China to 'escape by running forward' to avoid the consequences of its rapid expansion over the past decades and of the decisions Beijing implemented in recent years, including the 'zero COVID' strategy and the CCP's increased control of the private sector.

Until recently, the government's typical response to economic challenges was a major easing of fiscal and monetary policies to spur investment. Although investment activity did fuel growth, it also exacerbated certain structural problems, resulting in increased debt, destabilisation of the financial sector, inefficient capital allocation, excessive production capacity, growing social and regional inequalities, rising housing prices, and reduced consumption. Currently, innovation is expected to drive output by boosting productivity. This, in turn, should lead to higher incomes and increased spending for the Chinese population.

The priorities outlined at the plenum indicate that in Beijing, there is a prevailing belief that the path to increasing demand lies primarily through supporting supply, along with a reluctance toward social

programmes perceived as encouraging laziness'. Meanwhile, a consumption-boosting reform would require the government to reallocate funds currently directed to the industrial sector towards Chinese households, for example, by extending the social security network. However, this would not only hinder the achievement of the most important goal – developing a competitive and self-sufficient production base – but also weaken the position of the party and the business elite linked to it, who would lose control of some of their resources. As a result, this change has faced resistance from those benefiting from the current model. For these reasons, the CCP has consistently failed to solve the problem of low consumption, although it has recognised its importance for years. In 2023, China accounted for around 13% of global spending on consumption and for as much as 27% of investment spending. Private consumption represents less than 40% of China's GDP, compared to around 60% in Poland, almost 50% in South Korea, and more than 70% in the US. Consequently, Chinese citizens enjoy the effects of their country's economic growth only to a limited degree. As early as 2007, Prime Minister Wen Jiabao described the Chinese economy as "unstable, unbalanced, uncoordinated, and unsustainable" and argued that the country needed to "boost domestic consumption".¹⁹ President Xi Jinping, for his part, at the beginning of his rule spoke of the "new normal",²⁰ and the need to increase consumption and expand the service sector.

In the documents published following the July Third Plenum this issue was not clearly emphasised, which greatly disappointed commentators. However, in the days that followed the party modified its

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¹⁸ M. Bogusz, 'A disaster of their own making. The demographic crisis in China', *OSW Commentary*, no. 570, 7 February 2024, osw.waw.pl.

¹⁹ 'Wen confident in maintaining economic growth', *Xinhua*, 16 March 2007, after: chinadaily.com.cn.

²⁰ A period of slower but more sustainable economic growth.

narrative: the plan to boost consumption was mentioned in one paragraph of a several-paragraph-long summary of the meeting of the Political Bureau of the CCP's CC.²¹ The State Council unveiled an urbanisation plan which includes the pledge to increase access to local public services for individuals who do not hold permanent residency (*hukou*),²² and a guideline committing the authorities of the largest cities to ensure migrant workers, and their children have.²³ Although this could be merely a tactical shift in the party rhetoric, which will not trigger real significant action, these documents may also be an indication that the government views low consumption as a problem that needs to be gradually addressed, rather than a fundamental, long-term challenge akin to modernisation of the economy.

The long-term strategy that Beijing has adopted is being implemented at the cost of the Chinese people's prosperity. The development of a self-sufficient industrial base and technological progress requires considerable financial and human resources. This, in turn, limits the resources available in other areas which have a more direct impact on the population's prosperity. Combined with the decline in the pace of economic growth, this has resulted in a situation where China's living standards are not improving as rapidly as they did in previous decades.

The CCP leadership's policy also inevitably leads to an escalation of conflicts with China's trading partners, which are experiencing the consequences of the Chinese 'beggar-thy-neighbour policy' and are concerned about a 'China shock 2.0'. Due to strong support for the industrial sector, combined with curbing domestic consumption, companies operating in China have successfully expanded into foreign markets. In 2023, China's trade surplus exceeded \$800 bn, and in the category of manufactured goods it accounted for 2% of the global GDP, which is more than what Germany and Japan combined achieved at the peak of their export activity in the 1970s and 1980s. China accounts for around a third of the global industrial production and exports about 30% of the goods it produces. Its expansion has sparked protests from other states with their own industrial development ambitions, as they seek to protect local jobs. In recent months, countries that have introduced or announced restrictions on the influx of Chinese-made goods included not only the US and the EU, but also Brazil, India, Indonesia, Chile, Turkey, and Mexico.

²¹ 'CPC leadership sets out economic priorities for 2nd half of 2024', Xinhua, 31.07.2024, english.news.cn.

²² '国务院: 实施新一轮农业转移人口市民化行动', State Council of the People's Republic of China, 31 July 2024, gov.cn.

²³ '国务院办公厅关于健全基本医疗保险参保长效机制的指导意见', State Council of the People's Republic of China, 1 August 2024, gov.cn.