

The Tyranny of State Productivism - On the 2024 China's People's Congress

Thursday 14 March 2024, by [AU Loong-yu](#) (Date first published: 10 March 2024).

Contents

- [The Premier's grocery inventor](#)
- ["Production must be Prioritise](#)
- [Exporting Excessive Capacity](#)
- [What if the Pilot has never](#)
- [Teacher Li has Something \(...\)](#)

The 2024 National People's Congress is now in session in Beijing, in the midst of a steep economic downturn affecting millions of people's livelihood – the credit crunch in the property market now spreading to other financial sectors (see my article [here](#)) there is deflation, a slowing down of manufacturing, a huge outflow of foreign investment, and a rise in unemployment. In response to all of this, Premier Li Qiang gave a report which was nothing but a long list of tasks laid out by his 26 governmental departments and looked more like an inventory report from a grocery store, along with empty slogans. What is in the head of Li Qiang concerning his main strategy for solving the emerging crisis is still a mystery. He did acknowledge that there have been “interwoven difficulties and challenges,” but reassured his audience about China's bright future stating that “under the strong leadership of the CCP Central Committee with Comrade Xi Jinping at its core, the Chinese people have the courage, vision, and strength to meet any challenge and overcome any obstacle.” Indeed, he mentioned Xi 19 times, showering him with all kinds of praise. If there is a main theme running through the Premier's grocery inventory report, it is the cult of a top leader.

The Premier's grocery inventory report

But this is precisely the reason why we should worry about this report, and not because the present economic downturn is entirely Xi's responsibility. Long before his coming to power the economic imbalances between investment, production, and consumption had already reached gigantic proportions and the day of reckoning has only been getting nearer. The problem with Xi, however, is that his policies have further deepened the imbalances and in some areas, he has been simply shooting his own feet, as his zero-Covid policy has shown. His disproportional crackdown in Hong Kong has not only wiped out the opposition and organized labour but has also done more than enough to kill the goose that once laid golden eggs for the party state – the city's financial market has always been Beijing's US dollars printing machine, but now Hong Kong is “over”, as [announced](#) by Stephen Roach, former chair of Morgan Stanley Asia who started working there in the late 1980s. Certain Western mainstream media outlets have lectured Beijing about how he should do what his predecessor Wen Jiabao did in 2008-9 – rolling out a 634 US\$ rescue package to stimulate the stagnant economy, or at least do something to raise consumer confidence. While their advice is highly disputable, the crux of the matter right now is that Beijing has no credible strategy at all to tackle the sinking economy.

In order to better understand the structural problem of the Chinese economy, we may need to revisit the Mao era, and upon finishing the journey our readers may understand that despite all the rupture between Mao and Deng's China there is also great continuity as well – the eagerness to “surpass Britain and catch up with the US” runs through both eras, hence the growth strategy of an abnormally high investment rate has been remarkably the same. This is so obvious to Li Qiang that he did not bother to elaborate on it at all. He just needed to carry on the CCP's tradition. Our readers need to come back to this under-reported but utmost important issue, however, because this will not only expose the absurdity of the strategy. but also shed some light on the question of how successful Beijing's economic policy will be.

“Production must be Prioritised Over Livelihoods”

In Mao's era the party's rapid industrialisation program was implemented through its “centrally planned economy.” But the tension between the central government and the provincial bureaucracies has always been one of the major obstacles for the economy to grow in a less imbalanced way. The “centrally planned economy” was infamous for its lack of efficiency, and provincial governments were always starved of necessary materials, professionals or simply incentives, which soon forced the central government to periodically resort to devolution again – not to the local people but to the provincial bureaucracies. The latter, prompted by their own self-interests, were always ready to seize any opportunity to gain more power (and hence more material interests), only to find out that the time of reckoning was to arrive quickly as decentralisation soon caused overinvestment and enough chaos to convince the central government to take back power from the provinces. This “cycle” of *shou, si, fang* and *luan* [1], or the repetition of centralisation, decentralisation and re-centralisation plagued the economy from the beginning.

The regime's cruel extraction of labour surpluses enabled the state to fund the absurdly high investment rate between 1958 and 1980, which had always been nearly 30% (except the aftermath of the famine in early 1960's). This had resulted in not only a lot of waste but first and foremost the fall of living standards of ordinary people. Wages had been frozen for the entire period despite an annual economic growth average was more than 4%. In response to disgruntled workers the party's propaganda rolled out the slogan of “production must be prioritised over people's livelihood”. [2]

The four decades of “reform and opening-up” was a period where state capitalism (in partnership with the private sector) replaced the “centrally planned economy”, but the absurdly high investment rate promoted by the state has been perpetuated until today. This time it was much higher, surpassing 30% and then staying at more than 40% for the past 20 years, at the expenses of a steep drop in the relative share of household consumption of GDP, from more than 50% in the early 1980s to below 35% in 2010. Although it has begun to rise since then, it has never reached 40% in recent years. The basic reason for such a decline in household consumption comes from a declining share of labour income in the national income.

Two Chinese scholars warned about the situation several years ago in their [article](#) and said that: *“China's investment rate is 30% higher than the world average, while its consumption rate is 30% lower than the world average, ... and this resulted in more and more serious excessive capacity.”*

Exporting Excessive Capacity

Beijing has no intention to drop its obsession about productivism, as long as it can continue to export its excessive capacity. The recent news about BYD EV cars sales surpassing Tesla and how the US

and Europe are now thinking of retaliation is just one example of how, in exporting its problems to the rest of the world, the world's sweatshop is now drawing more and more resentment and retaliation from other countries.

In terms of the domestic market, the CCP has disregarded the constraint of the relatively low household disposable income among working people, and continues to encourage people to buy their own homes and then second homes, while allowing local governments to pile up debts just to promote the property market and urbanisation projects. Now the day of reckoning has arrived, and boom turns into bust. Xi did intervene to deal with the mega bubble in the end of 2020 ([the three red lines policy](#)) but it was too late. He has presided over the rapid growth of the bubble since he came to power in 2012, but for ten years he did nothing substantial to cool down the mad speculation, not to mention to right the wrongs in relation to the structural problems of productivism. "Accumulate, accumulate! That is Moses and the prophets!" But the Victorian free market capitalism that Marx depicted looks pale in comparison to today's Chinese state capitalism. However, the inconvenient truth is that there is always a limit to everything, especially in relation to the impulse to accumulate and the impulse to abuse power. In China's case we are now in great trouble because the two impulses are entangled, as the ongoing People's Congress has revealed to us.

What if the Pilot has never Flown a Plane?

This session of the Congress was very different from previous ones because the tradition of having the premier hold a news conference at its conclusion, as has been done every year since 1993, was cancelled. This has always been a very important moment to allow outsiders a glimpse into the balance of power among different factions in the top leadership. Giving the premier the limelight is Deng Xiaoping's political legacy – "we would never allow the party's grip over the government to ever loosen up, not even a single millimetre, but neither should we allow the return to the Mao era autocracy." However, what Xi is doing right now is not only to bring back autocracy but also to turn his abuse of power into the new normal. He is not content with putting all the branches of power into his hands, he also keeps on making himself the head of a dozen high level working groups in order to grasp more power. In the midst of the credit crunch, last October Xi set up a new organisation, the Central Financial Commission (CFC), in appearance under the auspices of the Central Committee of the CCP. Although the head of the CFC is Li Qiang, the present session of the People's Congress has already shown clearly who the real boss of this CFC is. Xi's intention seems to be a further weakening of the established state's financial institutions such as different branches of regulators. But does Xi know anything about how capitalism or its financial markets work? Last January we saw the market regulators, in a rush to save the market from falling sharply, giving out orders to institutional investors not to do any net selling of stocks on certain days. This is like closing the lid of a boiling pot to stop it from overflowing. The measure actually further erodes the confidence of the market. To be fair, Li Qiang announced that he is going to issue one trillion RMB (or 139 billion US\$) worth of government bonds to raise money for the liquidity squeezed economy. This is miniscule in relation to the risk of default among local governments which had 94 trillion RMB of debt and among this 3.2 trillion would mature at the end of this year ([source](#)). Not to mention that developers also need 2 trillion US\$ just to liquidate their inventory ([source](#)).

Teacher Li has Something to Tell You

Or has Xi a more radical plan in mind? The only thing we can be sure is that Xi has a lot of policies at his disposal to solve the emerging crisis. If there is any unpleasant market update, he can just make the news disappear into thin air. After statistics last May showed that youth unemployment had

reached more than 20%, the government simply stopped releasing the figures. Very soon more statistics were added to the list of censored news – the falling birth rate, diving consumer and financial market confidence and so on. Our leader has solved all these problems by simply sweeping them under the carpet.

So the People’s Congress has done a great job, again, in reminding the people that with Xi Jinping as their leader no one should worry about anything – he is so good at eliminating problems by eliminating those who report the problems, as the Chinese saying goes. Foreign readers are rarely aware that throughout the sessions of the Congress there are petitioners trying to petition the government over all kinds of grievances, since these petitioners are not allowed to be seen publicly at all. The “People’s Delegates” inside the Great Hall couldn’t care less about these petitioners. Neither does the official media. Occasionally the plight of these petitioners is recorded through private social media accounts. The followers’ comment of this particular [post](#) about the petitioners is worth quoting:

*“Lucky them that they could leave their own provinces and head onto Beijing in the first place!”
(Note by author: it is common for local authorities to stop, by force, the petitioners from heading to Beijing to petition the central government)*

“The damaging effect of brain washing is that the petitioners do not know that the National Public Complaints and Proposals Administration (that the petitioners are approaching) is nothing but the employee of their own wrongdoers.”

“There is no other way out except overthrowing the Communist Party.”

The people are deprived of the right to be heard; at most they may only voice their discontent in private through social media, but even this is regularly suppressed. Occasionally their voices are shared publicly by certain online influencers. Nowadays the very well known “Teacher Li” “has become a one-person news outlet and a crucial source of information about the protests in China for those both inside and outside the Great Firewall”, as [reported](#) by the *Nation*.. Teacher Li is a 32 year old Chinese immigrant living in Italy who has enough Chinese contacts to be able to post all kinds of news on his Twitter account and became famous during the White Paper movement at the end of 2022. According to a recent [report](#), the authorities decided to crack down on him by harassing his online followers, who have grown to a million in number. Foreign readers who want to listen to voices from below should follow “Teacher Li” – but meanwhile, watch your back.

10th March, 2024

Au Loong-yu

Footnotes

[1] “XXXXXXXXXXXXXXXXXXXXXXXXXXXX”

[2] “XXXXXX”