Xi Riding the Tiger Michael Gill

China's official data releases usually occur right on time. But on 14 and 18 October – in the lead up to the Congress of the Chinese Communist Party – data on foreign trade and basic economic data, including GDP, were deferred by the customs and statistics bureaux. Technical issues might well have caused the highly unusual delay, but no one could ignore the thought that poor numbers would not suit the Party's agenda.

Similarly, on the last day of the Congress and as President Xi Jinping was about to embrace his newly-endorsed unitary leadership, an ambiguous event attracted speculation. One of China's former leaders, Hu Jintao, was removed abruptly from his place adjacent to Xi: an undoubted embarrassment for Hu that – according to whose interpretation you choose – was a case of Xi flexing his muscles in front of the entire Party leadership; or an unfortunate onset of ill health.

These two incidental events are useful metaphors. One reflects China's policy direction and the other is a sign of centralised power around President Xi. What the Congress made very clear is that neither is in doubt.

Since the previous Congress of 2017, stability, security and ideology have been elevated and economic priorities have slipped. Self-sufficiency in high technology and security in supply chains are thematic among key policies. Xi allowed that reforms and opening-up policies will persist and that markets and the private sector matter, yet government encroachment into Chinese economic life will extend further. No changes in the zero-covid strategy are planned. China's military strength will continue to grow and Taiwan policy was reiterated. Xi warned that China must prepare for turbulent times.

Effectively, the CCP doubled down on its ambitious 2017 policy goals, aligned with "common prosperity" – by which income and wealth disparities are to be narrowed. In short: Xi aims for leadership in education, science, technology, culture, sport and health, as well as join the elite group of innovation-driven countries by 2035. The CCP aims to reduce poverty and increase the share of middle-income earners. Increases in the birth rate, the quality of senior care and pensions were also targeted. Increased monitoring of wealth accumulation will test legitimacy of the means of acquisition.

The CCP established a metric for 2035: that China's GDP per head would match the average for developed countries. This is where the missing data becomes interesting.

For China to reach its target GDP per head, which is roughly that of Finland, economists estimate that China's GDP would need grow about 7 percent *faster* than other developed countries through to 2035. This is a tall order, even on China's history. On current trends it looks unlikely.

China's policies are inevitably disruptive and would by themselves have slowed the economy. In particular, the switch away from construction and property stimulus is akin to "cold turkey" solutions to drug abuse. Something like 20-30 percent of GDP growth has typically come from construction in recent years, building up unsustainable debt for less and less sustainable growth. This policy direction is sensible and overdue. But that's not the only weight in China's economic saddlebags.

China's COVID policy is remarkably strict. Effectively, it is zero tolerance – of even the slightest sign of infection. And while the risk to very large numbers of – particularly elderly, unvaccinated or ineffectively vaccinated – Chinese is real, there are plenty who believe the policy is more about demonstrating power and control than about health administration. Either way, constant, large scale lockdowns have been a feature of life for a long time and have had inevitable consequences for the economy in both international trade and domestic retail sales. The Congress offered no suggestion of a new approach.

Which brings us back to the data.

COVID aside, China's GDP growth in recent years has been about 8 percent. This year, the combination of the weakened construction market and continuing COVID lockdowns lowered the official target to 5.5 percent. This week, the data was finally released to show September quarter GDP growth at 3.9 percent, lifting the year to date to 3 percent. But it has been much weaker – with most recent data indicating a trend near 2.5 percent. Trade numbers are down about 30 percent on last year, with the latest data down a further 5.7 percent. And retail sales numbers have been barely positive, in sharp contrast with "normal" recent growth of 9-12 percent annually.

In a global environment characterised by efforts to limit inflation, China is working hard instead to promote activity and offset the deepening effects of its policy approaches to underlying debt financing and management of COVID.

A large share – perhaps three-quarters – of government activity in China is delivered by county and city governments. Right now, local government finances are seriously constrained, so much so that salaries are being cut (by as much as half, on some reports) and pensions – even military ones – suspended or reduced. Industry subsidies have been cut and assets sold. None of these is anything more than a bandaid. This crisis is due to the loss of lucrative sales of land and property, combined with tightened financing for bloated local government property vehicles. In short, this is where China's structural policy change meets reality. And it is a domestic lens through which we might understand the heavy emphasis on security and stability in the rhetoric of the CCP.

Riding the tiger of structural change, President Xi has accumulated and now cemented his own choices among the leadership and most key roles in China's hierarchy. All seven members of the Standing Committee of the Politburo, China's peak council, are closely aligned with Xi – and with the need for concentrated authority at the top to promote reform.

Having acquired concentrated authority, Xi will need to fundamentally re-shape China's economic drivers. While great effort is going into stabilising the market, the construction/property balloon has burst and is discarded as a growth driver. Xi has also lopped the tall poppies in China's powerful fintech and IT industries, among others. Big foreign players have found China a much tougher place to invest and grow, partly because of the new status and preferences given to state enterprises. In short the landscape formed after 1982 has been bulldozed to make way for China's new political drivers.

One clue to priorities is in Xi's report to the Party Congress in which he dedicated an entire section to science and education. Xi nominated sectors for State backing, including next-generation IT, AI, biotech, new energy, new materials, advanced equipment and green energy. China, he said, will "resolutely win the battle of key core technologies."

Xi's high profile bets are on innovation related to the energy transition and climate change. China's subsidies fostered a world leading photovoltaic industry, which is now globally dominant (and, since December, free of subsidy). Wind turbines may be next. Electric vehicles and related products are a big priority, and China has some substantial projects involving fuel cell vehicles for heavy freight haulage. China is the leader in innovative battery production and has a variety of projects experimenting with storage. At the experimental stage, one huge bet is on 'green' hydrogen. After some earlier pilots with other options, China's focus has been on hydrogen produced with renewables. At last count the number of hydrogen projects was over

200, many of which are intended for experimental industrial processes such as steel and glass-making.

Beyond the industry and energy sectors, China has a wide variety of technological and scientific efforts that are designed to rapidly accelerate total productivity and lift China's value added contribution to much higher levels. In short, China's ambitions for its economy are sharply in focus. Its leadership has aggregated the power to deliver. Apart from the essential need to credibly shift the balance of the economy to domestic drivers and consumption, Xi has laid out remarkably ambitious means of achieving China's goals. And it has, so far, taken on many of the nation's powerful vested interests – fairly, or not.

Xi's handicap is the inevitable problem of centralised power: China is remarkably diverse and in many ways. Xi will likely lack the support of Maoists, who would revert to more fundamentalist communism. He probably lacks the sympathy of reformers who led the way from 1982; centrists who accept the pragmatism of growth's demands. And he certainly lacks the faith of political reformers, a small but at times influential group that would loosen the grip of the CCP.

And then, of course, there is the rest of the world – which did not respond well to the confirmation of Xi's dominance. High profile China stocks, like Pinduduo (34 percent), Alibaba (20 percent) and Tencent (17 percent) fell sharply in early US trading. China-exposed stocks, such as the US casino operators with Macau operations, also took a beating. Even some SOEs presumably favoured by Xi's policies were sold off, reflecting expectations of persistent US intervention to inhibit technology transfer in IT and related sectors.

Xi's stated goals require a sharp uplift in growth. His policies to date seemingly accepted as a consequence the disruption that we see. From here, the balance of Xi's power and his policies will be critical. Re-engineering an economy of 1.4 billion people would be a challenge in the best of circumstances. Doing so from Xi's starting point will be perilous. And always, there will be the temptation to impose even tighter controls in the face of any setback.

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