Weekly Commentary 46 -2024

On China

Over the past few days, the PLA Navy was out in force in the largest exercise one can remember. Where? In the South China Sea. Here is a report from CNN:

A record number of Chinese warplanes flew close to Taiwan during military drills

By Wayne Chang and Helen Regan, CNN
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Taiwan condemns China war games as 'unreasonable provocation'

China flew a record number of fighter jets and other warplanes around Taiwan during its large-scale military drills on Monday, the island's Defense Ministry said.

The one-day military exercises, which involved Chinese fighter jets, drones, warships and Coast Guard vessels simulating a blockade of the self-governing island, was condemned by Taiwan as an "unreasonable provocation" and is the latest in a series of recent war games conducted by Beijing against its neighbor.

According to the ministry, 153 Chinese aircraft were detected around Taiwan in a 25-hour period between Monday and Tuesday.

Of those, 111 warplanes crossed the Median Line – an informal demarcation point in the Taiwan Strait that Beijing does not recognize, but until recent years had largely respected – and entered Taiwan's air defense identification zone (ADIZ).

An ADIZ is unilaterally imposed and distinct from sovereign airspace, which is defined under international law as extending 12 nautical miles from a territory's shoreline. No Chinese warplanes were spotted entering Taiwan's sovereign airspace, a step that would be considered a major escalation.

While not directly comparable, the spike in Chinese warplanes on Monday superseded the previous daily record in September 2023, when 103 Chinese military aircraft were detected operating around Taiwan in a 24-hour span.

In response to the latest incursions, Taiwan's Defense Ministry said it employed its own aircraft, navy vessels and coastal missile systems to monitor the activity.

China said its military drills were intended as a "stern waning" to independence forces in Taiwan and came days after the island's new president, Lai Ching-te, gave a speech vowing to protect Taiwan's sovereignty in the face of challenges from Beijing.

Taiwan "is not subordinate" to China, Lai said on Taiwan's National Day Thursday, and Beijing "does not have the right to represent Taiwan."

China's military exercises around Taiwan, a democracy of 24 million people, have become increasingly frequent in recent years and have tended to coincide with events that angered Beijing.

Those drills allow China to monitor Taiwan's responses and also tax the island's own military resources including its aging and outgunned fleet of fighter jets.

Analysts said Monday's drills were part of a general strategy of both keeping Taiwan under pressure and normalizing regular war games.

The ruling Chinese Communist Party views Taiwan as part of its territory, despite having never controlled it. It has long vowed that the island must be "unified" with the Chinese mainland, by force if necessary, while the Taiwanese authorities strongly reject China's territorial claims over it. Many people on the island view themselves as distinctly Taiwanese.

The People's Liberation Army said the drills were a joint operation of the army, navy, air force and rocket force, and were conducted in the Taiwan Strait – a narrow body of water separating the island from mainland China – as well as encircling Taiwan.

A map released by the Eastern Theater Command showed drills taking place in nine areas surrounding Taiwan as well as its outlying islands that are closer to mainland China.

Defense Ministry added that 14 warships were detected around Taiwan over the same 25-hour period. Among them was the Chinese aircraft carrier Liaoning, which moved into a location to the east of the island.

Another report from the Financial Times:

China deploys record number of warplanes in drills around Taiwan
Manoeuvres come after president asserted sovereignty but asked Beijing to co-operate to secure peace. China says it has started new military exercises near Taiwan

China has sent its largest ever daily deployment of warplanes into airspace close to Taiwan as part of a wider military exercise, confirming fears that Beijing would ratchet up tensions days after Taiwanese President Lai Ching-te asserted his country's sovereignty.

The People's Liberation Army said its forces practised "combat readiness patrols, blockade of key ports and areas, assault on maritime and ground targets and seizure of comprehensive superiority", calling the drills "a stern warning to the separatist acts of 'Taiwan Independence' forces".

Taiwan said 125 military aircraft were deployed in the PLA exercise on Monday. The US said it was "seriously concerned" by the drills and condemned Beijing for threatening regional stability. China's "response with military provocations to a routine annual speech is unwarranted and risks escalation", said state department spokesperson Matthew Miller.

The EU said China's military activities further increased cross-strait tensions and called on "all parties" to exercise restraint. Lai's office called on China to end military provocations and stop threatening Taiwan. "There is a broad consensus among the international community on the importance of maintaining peace and stability in the Taiwan Strait and the Indo-Pacific region," Lai's office said.

"China should face the reality of the existence of the Republic of China (Taiwan) and respect the Taiwanese people's choice of a democratic and free way of life." The PLA exercises followed a National Day speech by Lai last Thursday in which he asserted Taiwan's sovereignty but also appealed to China to work with him for peace. He also highlighted the 1911 uprising that overthrew Chinese imperial rule as part of Taiwan's history, in an overture to those Taiwanese who embrace a Chinese identity.

Aides of Lai described his speech as a gesture of goodwill towards Beijing, while foreign observers viewed it as restrained and moderate. "There were times Beijing reciprocated Taipei's restraint. This could have been one of them. But they're choosing a different path,"

Rush Doshi, who worked on China affairs in US President Joe Biden's National Security Council until earlier this year, posted on X on Monday. Beijing has denounced Lai, who was elected in January, as a "dangerous separatist" and sharply stepped up manoeuvres near Taiwanese waters and airspace since he took office.

China claims Taiwan as part of its territory and threatens to annex it by force if Taipei refuses to submit under its control indefinitely. Lai's predecessor Tsai Ing-wen used a visit to Europe — which China has also opposed — to call for the EU to stand firm in its support of Taiwan.

“Taiwan’s democracy, similar to European democracies, was built on the sacrifices of those who fought against dictatorship,” she told a conference in Prague hours after Beijing started its drills. Tsai said she was making her first visit to Prague to see “friends who are not afraid of intimidation”.

The PLA called its drills “Joint Sword 2024 B”, framing them as a sequel to manoeuvres organised three days after Lai’s inauguration in May. The PLA said its aircraft carrier Liaoning participated in the exercise in waters east of Taiwan to practise “vessel-aircraft co-operation, joint air control, and strikes on maritime and ground targets”.

Beijing regularly uses military manoeuvres, and propaganda about them, to try to intimidate the Taiwanese public and put a strain on the island’s armed forces. China’s growing military activity makes a shift to war harder to spot, warns Taiwan In most past drills that China framed as responses to events in Taiwan, the PLA introduced some new operational patterns, which it then continued to use.

Taiwanese and western military officials have said this has eroded the fragile status quo between the two sides. Taiwanese officials said they did not detect such new operational steps on Monday. Moreover, the PLA declared the drill “successfully completed” on Monday night, making it shorter than previous ones.

But “indeed this time with their operations both on our western and eastern sides, they are creating a certain pressure on us”, said Lieutenant-General Hsieh Jih-sheng, deputy chief of the general intelligence staff of Taiwan’s armed forces.

Taiwan’s defence ministry said 90 of the PLA warplanes participating in the drills entered Taiwan’s self-declared early-warning zone, also by far the most ever spotted in a single day. Seventeen Chinese warships and 17 vessels from the Chinese coastguard, which helps assert Beijing’s expansive territorial claims and is part of the military command chain, also operated around Taiwan and its outlying islands, it added. Monday’s coastguard component was larger than in the May exercises, which involved the coastguard for the first time. The China Coast Guard said it would practise boarding and inspection of ships in waters of Taiwan-controlled islands off the Chinese coast, but Taiwan said no vessels were boarded.

If Beijing were to attempt boarding and inspection in Taiwanese waters or anywhere on its side of the Taiwan Strait, “we would use every possible means to prevent that”, said Hsieh Ching-chin, deputy director-general of Taiwan’s Coast Guard Administration, adding such moves would be a violation of international law.

Frankly, there is no news here. Every year, the Taiwanese would talk about independence on their national day (Oct 10) and Beijing would respond by carrying out yet another naval exercise. Nothing ever happens. Why do the Taiwanese even bother? Are they trying to solicit pity from the Americans to support their hopes that they have harboured since they were defeated in the Chinese Civil War in 1949 and escaped to Taiwan? Once they were "China", representing the country on the UN" Security Council. Now they are recognized as "China" only by a handful of irrelevant countries (I think the number is 8). Why they bother to do their annual declaration of defiance cannot be understood. In 1950, they could have challenged the CCP's might with America's help and the US stayed out of the fray. But now, the Americans are not in position to contest Chinese domination in the Taiwan Straits. Obviously, the Taiwanese are depending on fools on the US side to come to their aid, but there is no way that the Americans will fight the Chinese over Taiwan. They did not in 1949; why would they do it now?

Even if the will is there, there is no way it can succeed. The United States is halfway around the world across the Pacific and even if you count Japan, and South Korea as allies who may provide bases near to China, the logistics of a war between the US and China would be impossible for the Pentagon to organise without incurring heavy losses.

Besides, this was before the age of hypersonic missiles which China is known to possess and would turn US naval assets into lumbering targets. The Chinese navy is now larger than that of the US in terms of numbers of vessels, mostly missile carrying warships. And at the rate of shipbuilding, the Chinese is also building enough aircraft carriers to rival the Americans in terms of assets in Asian waters, given US dispersion of its navy to the many hotspots it chooses to fight wars. And Taiwan is just 100 miles from the mainland in which there are many airbases on the mainland carrying the latest Chinese fifth generation jets. At any one time, it will not be possible for the US to deploy four or five carriers to Asian waters, which the PLA N already has in theatre. The two sides are evenly matched.

And after the last few years in which the last proxy, Ukraine, lost its war against Russia when US military technology failed to produce results favourable to Kyiv's forces, why would we expect this to be different when it is going to be an even more difficult naval engagement in the case of Taiwan. If Ukraine did not and cannot win, we expect the lessons to rub off on both the Taiwanese and the Pentagon, and we would not expect idiocy to be so prevalent in both these groups that they will actually venture planning for a war against China.

If this is obvious, why do the Taiwanese continue to rattle the cages by trying to piss off Beijing every so often by saying they are an independent country? This is of course for domestic political purposes. The DPP has no reason to exist if it does not act as the pro independence party. And when it does that, the mainlanders have no choice but to swarm the skies and seas over the Taiwan Straits with their missile carrying ships and planes. Of course, this raises the risk of accidents, but an intentional war is highly unlikely.

In the meantime, China is building up its navy and airforce. While it is arguable whether China has caught up with the US in terms of capabilities, it has reached the point in which a war will result in heavy losses for the American military should it choose to go to war. Given the American distaste for and fear of casualties, even the threat of it will dissuade the idiots from ditching common sense.

Of course, the other reason for the war mongering talk is simply because the Taiwanese know the Americans well. The Taiwanese are smart, and unlikely to fall into the kind of geopolitical trap the Ukrainians have fallen into. They know that the US regards China as a peer competitor that it must confront and contain, whether or not it actually goes to war. So they do the necessary – kiss ass, talk tough but in fact don't do anything about it. So they will not declare independence. It is just to curry favour with the Americans to get weapons, trade and diplomatic support.

In all of this, the US is being made the fool, and the bad actor in the process. At the UN general assembly last month, Wang Yi called Blinken "two faced" which is a blunt assessment of the Sino-US relationship at this time. And the rest of the world outside of the west also sees things the same way as Beijing does– that the US is duplicitous, war mongering and a trouble maker in its foreign policy. In this way, it is actually eroding American reputation, goodwill, its empire and US hegemony everywhere, particularly in Asia.

I reckon this degradation of American power will culminate in the BRICS conference in Russia in another two weeks in Kazan. I will cover that important development when it happens.

The Chinese are not bent on pursuing military expansion at the expense of its economic development. That is evidently still top priority for Beijing. Recent data on its growth revealed that it is still growing strongly, although third quarter growth was somewhat below expectations. And last week, we covered the fact that the Chinese government has launched stimulus measures to bolster its economy. Here are some reports of how the Chinese economy is doing:

Wall Street Journal:

Chinese Growth Comes in Cooler as Investors Pin Hopes on Stimulus

Wobbly data for the third quarter underscores challenges for Beijing policymakers seeking to boost economic activity

By
Jason Douglas

Updated Oct. 18, 2024 7:37 am ET

SINGAPORE—China's economy slowed in the third quarter, a deceleration that highlights the urgency of Beijing's recent pivot toward greater support for growth after months of hesitancy.

Investors' initial euphoria over Beijing's weeks long barrage of stimulus measures and messages of reassurance has faded, however, as doubts have crept in over just how effective any planned stimulus will be at revving up the ailing economy and bringing a festering property crisis to a close. Key details remain unclear—including, critically, how much more Beijing intends to borrow to finance its support plan and what exactly it intends to spend it on.

The result has been a roller coaster for Chinese stocks in recent weeks, as investor sentiment has swung wildly between boundless optimism and nagging unease.
The growth figure China released Friday will do little to buoy sentiments. China's economy expanded 4.6% in the July-to-September quarter compared with the year-earlier period. That was a touch slower than the 4.7% year-over-year expansion in the second three months of the year.

Pan Gongsheng, governor of the People's Bank of China, said on Friday that benchmark interest rates could be cut as soon as Monday. In mainland China, the benchmark CSI 300 index closed up 3.6%. In Hong Kong, the Hang Seng Index also closed 3.6% higher.

Chinese stocks have fluctuated in recent weeks, as investor sentiment has swung between optimism and unease.

Expectations are high that a committee of China's legislature, the National People's Congress, will sign off on a big new fiscal package, possibly running into hundreds of billions of dollars of extra government borrowing, when it convenes later this month.

Friday's GDP figures "seriously jeopardize the government's growth target for this year. It will take a huge stimulus-fueled push to generate a turnaround in growth sufficient to attain the target," said Eswar Prasad, professor of trade policy at Cornell University and a former head of the International Monetary Fund's China division, referring to the government's annual growth target of "around 5%."

But a meaningful effort to turn the economy around would require putting money into the pockets of Chinese consumers, many economists say, and the odds of that type of stimulus are diminishing. Instead, leader Xi Jinping and his top lieutenants are focused on managing a brewing financial crisis in local government budgets, not reorienting China's economy away from its heavy reliance on investment and manufacturing, The Wall Street Journal has reported.

That reluctance to restructure the economy is a recipe for slower growth in the years ahead, and raises the chances of persistent tensions over trade, economists say.

China may still meet its official growth target. For the first nine months of 2024, China says the economy has grown 4.8% from the same period in 2023, putting it at the low end of the "around 5%" goal.

Other data Friday showed some signs of stabilization in the economy in September after a weak July and August. Retail sales rose 3.3% in the first nine months of the year compared with the same period in 2023, while unemployment edged down to 5.1% last month from 5.3% in August.

Industrial production rose 5.8% in the nine-month period compared with a year earlier, unchanged from the previous reading for January to August. Over the same period, investment in buildings, equipment and other fixed assets was similarly unchanged, at 3.4%.

"On the whole, the economy is still functioning in a smooth and stable manner," despite challenges from a tepid property market, rising local government debt and weakening market confidence, said Bi Jingquan, chairman of a Beijing think tank affiliated with the National Development and Reform Commission, China's top economic-planning agency.

Beijing's target of 5% GDP growth for this year "is still possible, but it could come under 5%," Bi, a former NDRC vice chairman, said at the FutureChina Global Forum in Singapore.

Beijing's policy pivot came in late September, when Pan, the central bank governor, announced plans to cut interest rates and support China's swooning stock market by offering central bank funds to investors.

A cascade of policy announcements followed, some of which were new while others reheated old promises. Homeowners were told they would be able to refinance their mortgages at lower rates, a trickier process in China than in the U.S. Economic planners pledged to clear a backlog of unsold homes. China's finance minister said he would ensure some $300 billion of unspent borrowing proceeds would be plowed into the economy this year and that banks would get new capital.

Stocks swung as investors wrestled with how significant each new measure was. The benchmark CSI 300 index surged more than 30% in the span of six trading days through Oct. 8, but by Friday was down around 8% from that heady peak. It is still up more than 10% since the start of the year. Hong Kong's Hang Seng Index has tumbled

10% since that same early October peak, but remains around 22% higher than where it started the year.)

One promising signal that stimulus is having an effect: Home sales during the seven-day National Day holiday earlier this month doubled compared with last year, National Bureau of Statistics spokesman Sheng Laiyun said at a news conference Friday.

On Thursday, China's housing ministry said it would redevelop one million homes in rundown urban shantytowns and said it would prod banks to double the loans on offer for developers to around $500 billion, part of a broader attempt to complete unfinished homes. It remains to be seen whether either move will lead to any durable improvement; property stocks slumped after Thursday's announcement.

China's Property Crisis: Inside a Ghost Town of Abandoned Mansions

China's property crisis is expected to worsen as new home sales plummet and indebted developers struggle to find funds to complete projects. WSJ's Jonathan Cheng traveled to an abandoned "ghost town" to see the challenge China's real-estate slump poses for the government.

Though officials have yet to spell out the scale of their overall stimulus plan, economists mostly expect new borrowing to come to somewhere between 1 trillion yuan and 3 trillion yuan, equivalent to between about $140 billion and $421 billion, though some are holding out for more like 10 trillion yuan.

Logan Wright, a partner at New York-based research firm Rhodium Group who leads its China markets research, said the policy moves since late September show the government is becoming more responsive to the economy's short-term weakness. But he said fiscal policy needs to focus on consumption to have a big effect and that deep-seated problems weighing on growth, such as decaying local government finances, will require bolder changes.

"It is a better situation this month than last month," he said. "But does this change the central tendency of the economy? Probably not."

Other data Friday showed the property crisis is far from over, underscoring the importance of government efforts to address a widespread lack of home-buyer confidence. New home prices in 70 Chinese cities fell 6.1% in September compared with a year earlier, worse than the 5.7% drop recorded in August, official data showed. Of the 70 cities, 68 recorded year-over-year price declines, unchanged from August.

Figures earlier this week showed export growth slowing sharply in September to 2.4% in year-over-year terms, compared with 8.7% in August, suggesting buoyant export growth could be petering out as the global economy slows and trade barriers go up to Chinese goods.

The New York Times:

China's Lackluster Growth Continues, Signaling Why Beijing Acted on Economy

New data shows the challenges facing Chinese policymakers trying to stimulate an economy marked by falling prices, weak consumer spending and a housing market crash.

By Keith Bradsher
Reporting from Beijing
Published Oct. 17, 2024Updated Oct. 18, 2024, 3:52 a.m. ET

The Chinese economy continued to grow at a lackluster pace over the summer, according to data released on Friday, underscoring the urgency of the government's recent attempts to bolster growth.

Construction has slowed because of a housing market meltdown. Millions of young college graduates have been unable to find work. Many local governments have run out of money to build roads or even pay the salaries of teachers and other workers.

China's economy grew 0.9 percent in July through September over the previous three months, China's National Bureau of Statistics said. When projected out for the entire year, the economy grew at an annual rate of about 3.6 percent in the third quarter.

But the growth in part reflected an official revision that showed the second quarter was even weaker than previously acknowledged. Growth between April and July was at an annual pace of 2 percent, and not the previously reported pace of 2.8 percent.

Beijing has announced a series of measures since Sept. 24 to address the economy's lingering troubles. The central bank has cut interest rates and minimum down payments for mortgages. The finance ministry promised the sale of more bonds to raise money for local governments to pay municipal salaries and buy vacant apartments for conversion into affordable housing.

"The timing of the stimulus shows the government realizes the deterioration of the economy," said Louise Liu Qian, the founder and chief executive of Wusawa Advisory, a Beijing geopolitical and business consulting firm.

There were some bright spots. In September, factory output rose and sales of appliances and electronics surged because of consumer trade-in subsidies.

The challenges facing policymakers continue to be complicated by falling prices across the Chinese economy, a phenomenon called deflation. With prices lower for everything from apartments to cars to restaurant meals, it is hard for many companies and families to earn enough to pay their mortgages and other debts.

According to the data released on Friday, prices were roughly a half percent lower than a year earlier. That represented the sixth consecutive quarter of falling prices according to the broadest measure, the gross domestic product deflator.

Prices for new apartments in China’s 70 largest cities tumbled at an annual rate of 7 percent in September, while prices for existing homes are falling even faster in many cities.

Most of the stimulus programs announced in the past month have involved making more credit available, but households and companies have been wary of borrowing.

And the government has not shown strong signs that it is ready to address the biggest problem in the real estate market: how to clear out a backlog of tens of millions of empty homes, many of which have not even been finished by developers. Many investors and economists are unconvinced that officials are willing to shift significant spending toward consumers and away from national priorities like building high-tech factories and upgrading the military.

Investors in China initially reacted to the announcement of the economic data on Friday with a shrug. Share prices later rose sharply after the governor of the central bank released details of a program to expand lending to buy stock.

Many storekeepers complain of weak sales, even as they cut prices so steeply that they are left with little or no profit.

“We have no transactions now,” said Yu Xingjun, a wallpaper dealer in Zibo in east-central China, as he sat idle in his empty store on a recent weekday. “As real estate fails, everything else follows.”

Overall retail sales were up 3.2 percent in September from a year earlier, compared with a gain of only 2.1 percent in August. One component of that data, sales of household appliances and electronics, soared 20.5 percent last month from a year ago.

Over the summer, the government roughly doubled trade-in subsidies, particularly for the replacement of older, energy-inefficient items like washing machines and refrigerators. Smaller rebates introduced last spring were dismissed by many shoppers as too meager.

Falling prices are a problem for China not just at home but increasingly in its overseas trade. Deflation is starting to hurt what had been China's sole remaining economic strength this year: exports.

By September, the overall value of China's exports was growing only 2.4 percent from a year earlier, as an ever-rising volume of shipments was mostly offset by Chinese manufacturers receiving less money for each product.

For the past four years, China has relied on exports to offset difficulties in its domestic economy. But Chinese companies have cut prices to try to clear their warehouses of excess merchandise.

For example, the number of cars and trucks exported by China surged 36 percent during the past three months, from the same period a year earlier. But their total value increased 29 percent. That means the average price for each exported motor vehicle was falling. Similarly, the number of flat-panel displays that China exported was up 12 percent. But their total value climbed half as fast.

The result is in some ways the worst outcome for China's leaders. The country's rising quantity of exports and increasing market share in overseas markets have triggered a backlash in many countries, prompting tariffs.

Chinese officials contend that they are ready to pursue the answer that many foreign and Chinese economists recommend: strengthen the domestic economy.

Central to that task is stabilizing construction and other real estate-related industries that together accounted for a quarter of the economy before the property meltdown began three years ago. Real estate investment was down 10.1 percent in the third quarter from a year ago.

The total square footage of buildings where construction started has dropped 66 percent in the first nine months of this year compared with the same period in 2019, before the pandemic. Data on so-called construction starts are important because the numbers indicate how much activity will take place over the next several years.

There are signs that loosened lending policies are having some impact. Shanghai recorded more existing apartments changing hands on Oct. 13 than on any day since September 2023, according to the state news media. But even in Shanghai, buyers are cautious after three years of flat or falling prices.

"The investment appeal is gone, and buying a house is essentially for practical needs now," said Cao Longquan, a Shanghai real estate agent. "While apartment viewings have increased, buyers remain relatively cautious."

The slowdown in economic growth was less apparent in the Chinese government's preferred statistic: the change in the third quarter versus the same period last year. By this measure, the economy was 4.6 percent larger than a year earlier, down from a 4.7 percent pace in the second quarter.

Many analysts have warned that China's economic troubles echo Japan's struggle a generation ago with rising debt and slowing growth. But some believe the government's stimulus measures could reduce the chances the outlook will get worse.

"China is in the midst of a debt-deflation spiral, but Beijing's latest economic policy U-turn will go a long way to preventing China from repeating Japan's experience during the 1990s," said Diana Choyleva, chief economist at Enodo Economics, a London research firm focused on China.

The Economist:
How to read China's economy

Oct 17th 2024

New figures released on Friday showed that China's economy grew by 4.6% in the year to the third quarter, a little faster than expected. Industrial production also beat forecasts. But China's investors are no longer much concerned with backward-looking data. They are preoccupied instead with press conferences. Ever since the central bank and financial regulators held an unusual joint media briefing on September 24th, investors have been reacting—and overreacting—to every hint of impending stimulus. China's planning agency, finance ministry and housing ministry have all held press conferences so far this month, but the ultimate scale of any fiscal easing remains vague.

Friday's figures, although better than expected, suggest the economy is still falling short of this year's official growth target of 5%. They also show that China suffered its sixth straight quarter of deflation (as measured by the gap between "real" inflation-adjusted growth and the unadjusted figure). The statistics cannot say how much stimulus the government will eventually provide. But they do help clarify how much stimulus China's economy needs.

Wall Street Journal

China Says It Has a Big Stimulus Coming—But Still Won't Say How Big

With few details offered by officials, stock investors are back to where they started the week: in a waiting game

By

Rebecca Feng

Updated Oct. 12, 2024 9:25 am ET

HONG KONG—After a week of hope and disappointment on China's stock market, anticipation was high among investors on Saturday that senior officials in Beijing would unveil a fiscal stimulus package with a large headline dollar figure.

They did not.

Instead, Finance Minister Lan Fo'an said that officials had a "fairly large" amount of room to boost spending, while pledging the boldest measures in years to resolve local governments' debt loads, support the nation's ailing property market and recapitalize large banks—tackling some of the most intractable challenges in the Chinese economy.

"I can tell you responsibly that China's finances are sufficiently resilient, and that by adopting comprehensive measures, we can achieve a balance between revenues and expenditures and accomplish the annual budget target," Lan said. "Please be assured."

Markets were closed on Saturday, so it remains to be seen whether Lan's pledge, free of any specific dollar figures, will be enough to assuage worries that Beijing has moved too slowly to address a sharp slowdown in the world's second-largest economy.

Earlier in the week, stocks had surged as expectations for a flood of stimulus ran high, only to come tumbling down after a Tuesday news conference by China's main economic planning agency ended without any details on the scale and scope of any government measures.

Those hopes were revived again after China's Finance Ministry announced plans for Saturday's news briefing, although mainland China and Hong Kong's respective benchmark stock indexes both finished the week deep in negative territory.

With the Finance Ministry now having outlined its plans, albeit without a headline figure, stock investors are back to where they started the week—in a waiting game for more details from Beijing. Economists and market strategists now say any specific numbers are only likely to be announced later this month, after the standing committee of China’s legislature, which is entrusted with approving changes to the budget, can meet and approve any stimulus plans.

Despite shying away from any specific fiscal stimulus figures, the Finance Ministry addressed a range of challenges that they are focusing on, specifically the growing debt burden at the Chinese local government level, concerns about banks’ capital levels and the mess in the country’s property market.

The Finance Ministry said it would conduct a one-off quota increase for local governments, many of which have spent lavishly on infrastructure projects using off-the-books financing vehicles, to swap out their “hidden debt” for explicit government-backed debt. Without disclosing the size of the quota, Lan touted the plans as “the boldest measure” in recent years to address the local-government-debt overhang, which has become one of the biggest worries among China economists.

Many governments at the subnational level have fallen into dire financial straits as land sales to property developers—a key pillar of local government coffers—collapsed amid Beijing’s attempts to rein in the real-estate sector. That drop in land-sale revenues coincided with the Covid-19 pandemic, which hit the governments’ tax intake.

China’s local governments are in debt after losing a key revenue source, the sale of land to property developers. No one knows exactly how much Chinese local governments have accumulated in off-the-books debt, but economists estimate the size to be somewhere between $7 trillion and $11 trillion, about twice the size of China’s central government debt. As much as $800 billion of it is at a high risk of default, some economists have estimated.

Lan said Saturday that local governments will be allowed to use the proceeds from special-purpose bonds—debt typically used to fund state-led infrastructure projects—to buy up unsold homes from developers and convert them to affordable housing, and to repurchase idle land parcels from developers. Both measures have been floated by economists as ways to help relieve liquidity pressure on the country’s distressed real-estate developers.

Separately, Liao Min, a vice finance minister, said during Saturday’s briefing that the government will sell special treasury bonds to recapitalize China’s largest commercial banks. Notably, Liao didn’t put a number on the size of the bond issue—a figure that investors were closely watching for.

Before the press conference, economists and strategists had offered predictions about the dollar amount on any notional stimulus package, with estimates ranging from one trillion yuan and three trillion yuan, equivalent to $142 billion to $425 billion. Some tallied up all the key areas where China’s economy needed fiscal boosts and the figure came to about 10 trillion yuan, or $1.42 trillion, equivalent to roughly 8% of China's gross domestic product last year.

While some, like Ting Lu, chief China economist at Nomura, had predicted earlier that the stimulus package might be capped at 3% of GDP a year for a few years, Lan's comments on Saturday imply that Beijing will likely raise the fiscal deficit above that level next year, said Zhiwei Zhang, president and chief economist at Pinpoint Asset Management.

Lisheng Wang and his colleagues at Goldman Sachs, writing to clients after Saturday's news briefing, expressed some disappointment at the continued lack of specifics on the size of the stimulus.

Still, over the past few weeks, "it's clear that policymakers have been making more forceful and coordinated easing efforts to boost domestic demand (especially consumption), normalize inflation and rebuild confidence," he wrote. "Fiscal stimulus is likely to take the heavy lifting."

The measures which the western media covered above, are short term stimulative measures which are similar to such measures used by their own central banks. But those are all short term. The government is Beijing is doing a lot more than just fixing the immediate problems facing the economy. These longer term measures have been analysed by Harvard Business Review and here is their assessment.

Harvard Business Review:

The 4 Key Strengths of China's Economy — and What They Mean for Multinational Companies
by Mitch Presnick and James B. Estes
August 26, 2024

Summary.
China's hybrid "state capitalist" system, driven by centralized planning and fierce competition, has led to dominance in critical technological fields and emerging markets.

In 1978, Deng Xiaoping launched his "Reform and Opening" policy to leverage Western technology and know-how for China's development. It was a politically risky move: Ideological hardliners in the Communist Party resented the implicit assumption of China's economic backwardness under socialism — and the superiority of the capitalist West. But Deng recognized that China's modernization required both pragmatism and humility.

Today, the roles are reversing. Although it's too early to say whether China's hybrid "state capitalist" system will outmatch Western models, it has undeniable strengths. China leads in 53 out of 64 critical technological fields, according to the Australian Strategic Policy Institute. This success is built on centralized planning and control, but also features ruthless competition that produces global winners able to compete on price and quality in developed and emerging economies alike. No other country can match China's market scale, or consumer enthusiasm for the latest tech wizardry.

Leaders of multinational corporations must adopt a certain Deng-like pragmatism and humility to achieve success in China today. Those who do will see profitable global growth and will have a leg up in their home markets, provided they seize opportunities in the four key strengths of the Chinese economy:

1. Its Innovation Ecosystem

China's innovation ecosystem uniquely combines top-down government–industry coordination with the bottom-up drive of Chinese entrepreneurs. Startups that align with government-picked growth industries of the future can prosper through favorable policies, regulations, and centralized investment in scientific research.

A "whole-of-nation" approach to innovation marshals almost unlimited state resources. From 1995 to 2021, China's total R&D outlay soared from $18.2 billion to $620.1 billion — a 3,299% increase compared to America's 277%, according to the Netherlands' Rathenau Institute. China has become a leading global hub for advanced scientific research. According to The Economist, Chinese scientists now lead the world in producing high-impact papers and contributing to famous scientific publications selected after rigorous peer review.

No segment better illustrates China's technological prowess than clean tech. China now accounts for over 80% of global production capacity in 11 essential technologies, including solar wafers and lithium-ion battery components. Moreover, China dominates the rare-earth supply chain, accounting for 70% of global rare earth ore extraction and 90% of rare earth ore processing.

Just as Chinese companies once benefited from decades of Western investments in traditional industries like autos and chemicals, U.S. and European companies should now cash in on China's colossal expenditures on clean tech.

In the solar sector, for example, there's virtually no point in Western companies trying to compete. China's investment in large-scale solar panel manufacturing over the past two decades drove down prices by 85% between 2010 and 2020, leading to exponential global growth — and significant climate benefits.

Invenergy, the largest U.S. independent renewable energy developer, has seized the opportunity to benefit from China's investment in solar. This year, the company opened the biggest solar factory in the U.S. through its newly formed subsidiary Illuminate USA, a 51/49 partnership with LONGi Green Energy Technology, a leading Chinese solar photovoltaic company. As part of the deal, Invenergy acquired LONGi's advanced solar technology. The Ohio facility is expected to eventually produce 5 GW of solar panels annually and create more than 1,000 new jobs. As of the end of 2022, the U.S. had only 8 GW/year of module production capacity yet needs to install over 60 GW annually by mid-decade to meet U.S. climate goals. Invenergy's partnership with LONGi enables it to leverage LONGi's scale, advanced technologies, and supply-chain advantages to help meet that target while achieving sustainable competitiveness in U.S. manufacturing.

Ford is another U.S. company that has recognized that Chinese technology is indispensable to its green ambitions. To make the difficult transition from gas-guzzling SUVs and trucks to electric vehicles (EVs), the Detroit giant has teamed up with CATL, China's dominant EV battery manufacturer. Ford is investing $3.5 billion into an EV battery factory in Michigan that will use licensed CATL technology to cost effectively produce lithium-ion batteries for Ford's F-150 Lightning trucks and other EVs.

2. Its Investment in the Global South

China's strength in emerging markets is reshaping global business dynamics. Traditionally, Western multinationals have focused on mature markets with highly engineered products at high price points, while China conquered growth markets. China excels at tailoring affordable, innovative solutions to local needs. For instance, Chinese smartphone companies, led by Transsion Holdings, Xiaomi, and Huawei, captured 76% of the smartphone market in India and more than 60% of the African market by 2021. Similarly, Chinese EV manufacturers dominate Latin America, holding an impressive 86% market share. Moreover, Huawei supplies around 70% of Africa's 4G network infrastructure.

China's dominance in the Global South is supported by its trillion-dollar Belt and Road Initiative (BRI), an infrastructure initiative that has signed up more than 150 countries and 30 international organizations. BRI-driven demand is a huge advantage for Chinese companies, and a large opportunity for Western multinationals willing to partner with those firms.

Cummins Inc, a global leading power solutions provider, recognized early on the value of such tie-ups. While many U.S. companies were hesitant to invest in China due to the then mandatory 50-50 partnership with Chinese-owned entities, Cummins saw this requirement as an opportunity, establishing six joint ventures with leading Chinese truck and construction machinery manufacturers, such as DongFeng, Foton, and LiuGong, between 1995 and 2018. Cummins contributed engine technology and manufacturing know-how, while the Chinese partners shared the investment risk and purchased a significant portion of the output. "We're the engine people. They are the truck people," said Steve Chapman, then Cummins vice president for East Asia and Southeast Asia.

Today, China represents the largest overseas market for Cummins, and Cummins China's partnerships have been pivotal in Cummins' successful journey. "The economy of scale we have developed through our partnerships has allowed Cummins to develop a localized supply chain and build up our engineering capabilities in China. This in turn has helped Cummins develop robust and innovative 'fit-for-market' solutions that are required to compete and win in China," shared Nathan Stoner, Cummins vice president and chairman of Cummins China.

Crucially, the technology innovations pioneered in China have allowed Cummins to expand in other developing markets such as India, South America, and Southeast Asia, where performance, quality, and cost requirements are more similar to China than to the U.S.- or Europe-designed products. Complementary strengths and collaboration with Cummins contributed to Chinese truck OEM's exporting over 300,000 heavy- and medium-duty trucks in 2023, which is approximately 30% of total domestic production and roughly equivalent to the entire North America heavy duty market size.

3. Its Ultra-Competitive Markets

Companies that survive the life-and-death struggles of China's markets — often described as a "Gladiators Arena" — often emerge as global champions. Think of CATL (batteries), BYD (batteries and electric vehicles), Tongwei (solar), Goldwind (wind), or Huawei (information and communications technology).

Once Beijing decides to develop a new industry, regional governments scramble to offer subsidies and other support programs. Hundreds of companies jump in. This necessitates a "lean startup" mindset and fast product iterations where companies use data from real-world experiments to get ahead of competitors. It is a colossally wasteful process, but also devastatingly effective.

Tesla should know. Elon Musk became part of this dog-eat-dog competition after it began selling vehicles in the China market in 2014. In fact, Beijing encouraged Tesla's arrival precisely to trigger such a contest. As Tesla scaled up operations, local manufacturers like NIO, Xpeng, and BYD began producing high-quality EVs at competitive prices, challenging Tesla's market position. Within six years, some 500 Chinese EV companies sprouted up, yet after fierce competition only 100 remained in 2023. Of these, BYD surpassed Tesla as the world's largest EV manufacturer in total number of cars sold in 2023.

Initially, Tesla's premium pricing strategy led to a loss of market share as price-sensitive consumers opted for more affordable alternatives. Tesla responded to the rapidly growing competition by leveraging China's supply-chain opportunities to reduce costs of car parts. Tesla cut its prices four times in 2023. More importantly, Tesla's reduced cost structure turned Tesla's Model Y into the number-one selling car in the world in 2023.

German car manufacturers are on a similar journey in China. Mercedes and other German automakers that once transferred combustion engine know-how to Chinese partners are now learning from Chinese EV makers, reversing the teacher-student relationship. In October 2023, Audi and Chinese automaker FAW announced a joint project to build a $4.87 billion new energy vehicle production facility in Changchun China. In April of 2024, BMW invested $2.76 billion to update its Shenyang plant to produce its Neue Klasse series of EVs starting in 2026. In response to Mercedes' billions of dollars of EV investment into China, Ola Kaellenius, chair of the management board, told Reuters: "You have to be here and you have to be part of that innovation cycle."

4. Its 1.4 Billion Consumers

Despite all the talk about companies "de-risking" and "decoupling" from China, the country still offers a market of unmatched scale with sophisticated consumers that push companies to continually improve.

Accounting for almost 17% of global GDP — equal to the economic output of the European Union — China's economic trajectory poses significant implications for global commerce. Should China's GDP ascend at its growth target of 5% — a benchmark it achieved in 2023 — its incremental growth this decade alone would match the combined 2021 GDP of India, Indonesia, and Japan. Moreover, China already constitutes 25% to 40% of global revenues in key industries such as cars, luxury goods, and industrial equipment.

China's large tech-savvy consumer base, bolstered by an expanding middle class and increasing disposable income, has driven substantial demand for consumer purchases ranging from tech-laden EV cars to the latest luxury products. A report from Bain suggests China is expected grow to as much as 40% of global luxury spending by 2030. In 2022, the Chinese luxury e-commerce market was valued at approximately $74 billion. Before Covid, which restricted Chinese foreign travel and consumer expenditure, tourists, a majority from China, made up 40% of 2019 spending in Europe's then €89 billion luxury market.

The Perils of Not Being in China

Amazon entered China in 2004 by acquiring Joyo.com, an online retailer, for $75 million. By 2011, Amazon held a 15% market share in the China e-commerce market. While Amazon's two primary competitors in China at that time, Alibaba and JD.com, rapidly built out extensive courier networks to enable almost-instant delivery and direct relations with local suppliers to provide the lowest pricing possible, Amazon adapted slowly. By 2019, with a market share of less than 1%, Amazon shut down its domestic China marketplace operations.

Meanwhile, the Chinese e-commerce landscape dynamically evolved. Pinduoduo (PDD), with its formula of "super-cheap goods shipped from the factory gates," emerged as a disruptive force, challenging both Alibaba and JD. PDD, having built scale, profitability, and honed strategies in China, aggressively launched their innovative e-commerce model Temu in Amazon's home market. Temu entered the U.S. market in September 2022 and achieved over 90 million unique monthly visitors in less than 12 months, compared to Amazon's 221 million unique monthly visitors built over nearly three decades. As of October 2023, the total number of Temu app downloads reached almost 235 million, surpassing the Amazon Shopping app. Amazon's withdrawal from China left it vulnerable to competitive threats internationally and domestically.

It is time for multinationals to flip the paradigm. Companies like Tesla, Cummins, Invenergy, and Ford have all adjusted a worldview shaped by decades of Western technological leadership and understood that China, for all its macro-economic challenges, has essential strengths to be capitalized. Multinationals that fail to understand and follow their lead risk ceding global revenue and strategic opportunities to their Chinese competitors.

On the basis of the assessment by the Harvard Business Review, especially the emphasis on the Global South (ie BRICS and other parts of Asia and Africa) it is very likely that the growth in China will continue to be strong.

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