Ekonomski signali, 2023, 18 (2): 115-142
UDK: 338.1/.2(510)
DOI: 10.5937/ekonsig2302115S

RISK OF PLAN MANAGEMENT OF THE CHINESE ECONOMY

Vladimir Skoropad [1]
[1] University of modern sciences – CKM Mostar

Received: 12.10.2023; Accepted: 18.12.2023
Rewiev
Coresponding: volodimir.nikiforovic@gmail.com

Abstract: Based on official PRC statistics and analytical data obtained from modern scientific and public research, it follows that the so-called Chinese economic miracle has ended. The rapid development of China was driven using cheap labor and the open-door policy for Western investment under the rules of basic market laws after Deng Xiaoping's 1977 reforms. All three factors have exhausted their resources. Further growth in living standards and education began to pose a danger to the communist regime. Ignoring the laws of the free market economy, creating artificial plans for stimulating growth, repressing the entrepreneurs, sanctions pressure, an arms race, aggressive plans in the region and demographic changes inevitably lead to dangerous consequences - a slowdown in economic growth, debt load and capital outflow.

Keywords: Chinese economic miracle; cheap labor; communist planned economy; Chinese economic slowdown; trade war; repression of the entrepreneurs; media control in China; Chinese debt crisis; real estate bubbles; declining Chinese birth rate; Asian tigers; capital outflow from China; militarization of China

1. Introduction.

Historical aspects and reasons for economic success.

1. Great experiments as traditional history of China.

From the 20th century to the present day, all of China's economic activity can be seen as endless grand experiments. The attempts of PRC Chairman Mao Zedong to quickly industrialize the economy of a poor agrarian country and cleanse it of enemies (the Great Leap Forward Policy and the Cultural Revolution) led to a humanitarian catastrophe, the death of tens of millions of Chinese from starvation and the destruction of the intelligentsia. Modern economic decisions are also based on the ideas of communism. Moreover, if in the 60s Mao Zedong forced the peasants to smelt iron, then the Chinese communists of the 21st century build ghost towns to move people from villages to cities, forbid having children or fight against wealthy Chinese.

2. Decades of unexpected success.

In 1977, Deng Xiaoping initiated political and legal reforms, allowed private property and market relations, and restored diplomatic relations with the United States. The new legislation guaranteed the protection of foreign investment. American capital began to open China to the whole world. In 2001, China joined the World Trade Organization and soon Chinese goods were being sold around the world at reduced rates. China has moved to an export-oriented economic model based on global consumption. From 1979 until 2010, China's average annual GDP growth was 9.91%, reaching a historical high of 15.2% in 1984 and a record low of 3.0% in 2022. Attractive investment climate, market competition, cheap labor in large numbers, ready to work irregular hours in hazardous industries, peaceful international policy, government refusal to interfere in the work of private capital, played the role of catalyst and fuel in the Chinese economic miracle.

3. Has Chinese communist`s miracle' been able to overcome the laws of a market economy?

In four decades, the Chinese economy has become the second largest in the world in terms of GDP. It turns out that a planned communist economy can develop in defiance of all the laws of the market, in defiance of a free business climate, democracy and independent courts. In the book “Why nations fail: The origins of power, prosperity, and poverty” [2] 2012 Daron Acemoglu, James A Robinson write that “There have been speculations that China has its own, alternative path, in which it will be possible to maintain economic growth in conditions of authoritarianism, rather than inclusive economic and political institutions. Actually, it is not. The resurgence of China meant the drift of one of the most extractive sys-tems of economic institutions in the world towards much more inclusive institutions.” [2]

It should be noted here that Communist China generates 70% of its GDP from private enterprises with Western investment. The gateway for the communist regime to receive Western investment is the province of Hong Kong, which was leased from Britain for 100 years and was returned to China under Deng Xiaoping. Communist China allowed Hong Kong to keep its independent political and financial systems, courts, and democratic freedoms. More than 70% of foreign direct investment came to China through the financial institutions of Hong Kong. Through capitalist Hong Kong, the communists carry out 60% of the world's investments, which allows them to expand Chinese influence in the world.

The Chinese Communist dictatorship uses a free Hong Kong for trade and investment because it recognizes that market relations and openness provide better security for money, competition, and protection from arbitrariness than the politburo or the people's court of China. Michael Schuman [3] writes in The Atlantic, “China’s economic ‘miracle’ wasn’t that miraculous. The country’s high-octane ascent over the past 40 years is, in reality, a triumph of basic economic principles: As the state gave way to the market, private enterprise and trade flourished, growth quickened, and incomes soared.” [3]

Causes and consequences of Planned Communist Management.

In 2011, the world first began to discuss the risks of a slowdown in the Chinese economy. Can China continue to develop as quickly? Russian economist, Алексей Михайлов [4] writes that “The new leader of China, Xi Jinping ... deliberately plans to reduce economic growth from 10 to 7.5% in order to ... use the released funds to increase the living standards of peasants and the military budget. However, this is a thesis for internal use. China speaks to the world about the transition from an export orientation to a reliance on domestic consumption and about the growth of this very consumption." [4] But this is not entirely accurate either. In fact, the Chinese communist dictatorship in the person of the new leader Xi Jinping is facing a fatal choice. If China continues to adhere to Deng Xiaoping's reforms, this will lead not only to economic growth, but also to the growth of the class of educated and wealthy people. This, in turn, will lead to the demand for freedom and democracy, and hence to the change of the communist regime. China's poor and illiterate population was easier to manage. So, China's new leadership began manipulatively talking about raising the standard of living for peasants, while thousands of businesses, elite and cultural figures were repressed and accused of trying to copy the Western way of life.

1. Economic plans and regular congresses of the Chinese Communist Party.

For a healthy economy, three basic laws must be fulfilled: the law of value, the law of supply and demand, and the law of competition. Market functions: Pricing (demand, supply, and competition), mediation, promotion of efficiency, quality, and new technologies. Purification of unnecessary activities, the weak and encourages the development of promising ones (bankruptcies and crises). The heavy hand of the state of John Keynes can only exert a general influence on the market, for example, through monetary policy. Any direct intervention in business has a destructive effect. Communist management is the dictate of planning. At the initial stage forty years ago, the communist command system became the engine of a powerful start, but in the future, it began to have a negative impact on the economy. For example. No bank will give a loan to an insolvent person or enterprise, and the owner of the enterprise will refuse to take a loan if the enterprise is unable to repay. However, this rule does not apply to China at least on the start of reforms. The Chinese Communist Party forced banks to lend and entrepreneurs to take out loans. Chinese cooperatives that received unsecured loans bought equipment and started building houses, making cheap knockoffs of plumbing, auto parts, perfumes, and children's toys. The whole world bought a huge amount of low-quality Chinese goods. A positive trade balance was formed and new markets for raw materials opened. Unfortunately, the command-administrative system has also become a source of negative impact on the economy. At each congress, the communists adopt a plan that specifies how much and where to build housing, power plants or high-speed railways. This has a destructive effect on the functions of the market economy. **Plans made in Beijing are sent down to provincial implementers on a regular basis.** For non-fulfillment of plans, cruel punishments follow. Therefore, local managers are not interested in the profitability or rationality of the facility. Often, new highways and residential areas are built next to an already built high-way or not yet inhabited residential area. Apart from the pompous construction of highways that no one travels on, loss-making high-speed railroads or empty infrastructure projects, about 3.5 billion square meters of housing is built in China every year on average. This is 2.5 square meters of housing per resident (about 1350 million) per year. For 40 years of building ghost towns, the population of the villages has grown old and there is no longer any need to relocate there. But more on that later.

2. Giant real estate bubbles as monuments to the planned economy.

The famous Russian orientalist, Alexei Maslov, Professor of East Asian Studies of Moscow State University with the focus on Chinese [5] writes on his personal website: "Ghost towns in China are a legacy of distortions and "overheating" in the Chinese economy and a by-product of rapid urbanization. 20% of the population lived in cities, and now about 60%. The Chinese economy is growing not only due to the development of production, but also due to investments from the central budget. Ghost towns are the consequences of investing huge amounts of money to stimulate the formal growth of GDP. In China, all simple means that bring quick profits have already been exhausted, and as a result, Chinese businesses are ready to invest "in the future." It is worth considering that local governments in China bear almost 85% of government spending but generate only 50% of revenues. Therefore, one of the main drivers financing the growth of cities in the country are urban development companies and investment companies. Moreover, there are a lot of such companies - about 11,566, that is, one for each city government, and these development companies are actively lending to local banks." [5]. Here the sinologist emphasizes that the Communist Party forces them to build, regardless of rationality. Ghost cities are built to achieve a short-term effect, show good statistics to investors, and receive loans. Further, Alexey Maslov writes: "The appearance of ghost towns in China relates to the dependence of local authorities on the sale of land for income. The high cost of urban land for redevelopment encourages municipal authorities to transfer rural land to "urban" land and sell it to developers. Developers are required to build multi-storey buildings according to the plan. Although the occupancy of such cities is increasing, they are still a sign of a huge "bubble" in the housing market, with the peak of the creation of such cities was in 2017-2018. One of the reasons was various operations with loans and debts, when companies took loans from banks for the construction of settlements, without even thinking about how they would sell apartments and offices. Local authorities turned a blind eye to this, so they tried to stimulate their economy (they were afraid of punishment for not fulfilling the plan. Author's note), creating additional infrastructure and stimulating the real estate market. Due to the excessive borrowing for the development of new settlements, there is a lot of speculative housing construction, and the cities are full of empty apartment buildings and shopping centers." [5].

3. The growth of the debt crisis in the provinces of China.

Economic columnist for China's Epoch Times, Alex Wu November 25, 2021 [6] writes that "The Chinese communist regime's Ministry of Finance released the local governments' bonds and debt balances for this year on its website on Nov. 23. As of the end of October, the local government debts balance was $4.64 trillion. Mainland Chinese media Securities Times and Tencent Finance jointly released the "China Cities Debt Ratio Ranking," showing that most major cities in China have debt ratios exceeding 200 percent, and the debt ratios of some cities in underdeveloped regions are particularly high. In 2020, 85 cities had debt ratios exceeding 100 percent. Beijing and Guangzhou have debt ratios exceeding 200 percent. The debt ratio of Guiyang is as high as 929 percent, making it the most indebted city in mainland China.

According to Wall Street, investment bank Goldman Sachs issued a report on Oct. 29 indicating the total debt of China's local government financing vehicles (LGFV) has surged from $2.5 trillion in 2013 to $8.3 trillion at the end of 2020. According to a Bloomberg report, this figure is equivalent to 52 percent of China's gross domestic product (GDP) and is higher than the official total amount of the Chinese regime's outstanding debt. The Goldman Sachs report also pointed out that about 60 percent of China's local government financing platforms that issued bonds to raise funds have used the money to repay debt due from 2020 to 2021, rather than for new investment." [6].

The New York Times By Li Yuan March 28, 2023 [7] She quotes Victor Shih, an associate professor of political science at the University of California, San Diego: "As part of the ruling Communist Party's all-in push for economic growth this year, local governments already in debt from borrowing to pay for massive infrastructure are taking on additional debt. They're building more roads, railways, and industrial parks even though the economic returns on that activity are increasingly meager. In their struggle to find the money to fund their new projects, and the interest payments on their old ones, cities are cutting public services and benefits. Governments don't have money to spend on basic services if land sales do not recover dramatically. Local government, especially in third- and fourth-tier cities, will still find it difficult to meet many of its budgetary obligations."[7] Further, Li Yuan writes, "According to official data, **China's 31 provincial governments owed around $5.1 trillion at the end of 2022, an increase of 66 percent from three years earlier. An International Monetary Fund report puts the number at $9.5 trillion, equivalent to half the country's economy**. Two-thirds of the local government entities that borrow money exceeded unofficial debt thresholds set by Beijing, with their outstanding debt having surpassed 120 percent of their income by December, according to S&P Global. The problem is that these governments don't have the money." [7]

4. Cutting spending on social needs, urban services, and pensions in China.

Next, Li Yuan talks about a typical situation in China using the example of one city. "In Shangqiu, the government didn't specify how it would fund its 701 projects (Endeavor Spring | Emerging Industry Project Shangqiu creates a development pattern of "one county and one characteristic" (dahe.cn)) for 2023. [We are talking about projects according to the plans adopted by the communist party. Author's note]. Shangqiu is not planning to spend the money on public services. On the contrary, the city plans to cut spending on education, health care, employment protection, transportation, and many other public services, according to budget documents on its website. “We should protect and improve the public’s livelihood based on our economic growth and financial health,” the documents said. China is full of wasteful infrastructure that the government likes to brag about but that doesn’t serve the most urgent needs of the public.” [7] Li Yuan in the NYT article reports about the low level of wages and pensions in China. “It’s nice to have green space for everyone. But like most inland Chinese cities, Shangqiu isn’t wealthy. Its college graduates are complaining on social media that it’s difficult to find a job that pays more than $300 a month. Its basic pension provides its seniors with $17.80 a month, after a $1.50 raise this year according the Notice of Henan Province on Raising the Minimum Standard of Basic Pension [8]. Many Chinese people who are at least 60 years old live on pensions like this. According to Official data of Government of China [9], in 2021, $54 billion in basic pensions was distributed to more than 162 million people, or about $28 a person each month on average.” [7] This proves that it is not enough to simply move half a billion people from villages to cities. It is important that in new cities people can find work. It is also impossible to return these people to the villages. Li Yuan concludes that “Local leaders are interested in infrastructure projects because their economic payoff, while minimal, is immediate - people get construction jobs, and companies get building contracts. **Such a short-term approach dominates in China’s political system**, in which cadres are deployed to run toward the goal set by their leader regardless of the financial or human cost.”[7]

5. Financing obviously unprofitable global projects.

Zhao Jian, a professor at Beijing Jiaotong University in an article Beware of high-speed rail gray rhinos [10] noted that “high-speed railways could become the “gray rhino” that crushed the Chinese economy because many local governments had taken on a lot of debt to build them. But most of those railways move people, not freight. So, they would make sense only in densely populated areas where people were willing to pay more for speed. The Chinese government likes to say the country has the longest and fastest high-speed railways in the world. But except for a couple of lines that connect the megacities of Beijing, Shanghai, Guangzhou and Shenzhen, most lines operate below capacity and at a great loss. About 80 percent of China's high-speed railways constructed in the past decade were built in distant and poor regions, China State Railway Group said last year."[10]

6. Great Problems with the demographics of China.

Professor Maslov [5] writes about this: "There are not enough people of working age in China and a rapid decline in the birth rate. The num-ber of newborns in 2020 is 12 million, down from 14.65 million in 2019, a decrease of 18. Graph 1. The fertility rate has fallen to 1.3, below the 2.1 required to sustain the popula-tion. And this is lo-wer than in Japan (1.37). China will shrink by another 32 million be-tween 2019 and 2050, while the US population will increase by 50 mi-llion, according to the People's Bank of China." [5]

Further, Maslov cites statistics: "264 million people over 60 years old live in China, which is 18.7% of the population. This is a notable increase from 2019, when there were 254 million older people. For those over 65, this figure rose from 176 million in 2019 to 190 million in 2020, representing 13.5% of the population. By 2050, more than 500 million people over the age of 60 will live in China. That is, the number of elderly people in China will obviously be greater than the entire population of the United States.

Graph 1. Sources: Wind, National Bureau of Statistics via SCMP/Reuters

And that puts a huge strain on pension funds.” [5]

Milton Ezrati, on Forbes, Jan 16, 2023, [11] writes, that “Because Beijing for decades imposed a one-child rule on families, China now has a paucity of young workers to support a disproportionately large, retired population, a matter that will only get worse in coming years. A summary of the Pew Research Center estimates that China’s population has already begun to decline and that soon the economy will have less than three people of working age for every retiree. Because these three workers cannot possibly produce the required surplus, Beijing will have to use debt to support its social security pension obligations.”[11]

The experiment of resettling peasants in the cities failed. For four decades, the task of the communists to resettle 500 million people from villages to cities has almost been completed, 40% of the population remains in the villages. But the cities are not populated, there are empty cities and blocks with apartment buildings for tens of millions of people. Time passed and it turned out that the able-bodied were already in the cities, and it makes no sense to relocate old people from villages to ghost towns. For 40 years of development, the population of the villages has also grown old.

China's main resource has been exhausted - many poor and uneducated rural people. For 40 years, well-mannered and educated generations have grown up. Standard Chartered predicts that by 2030, about 27% of working Chinese will have a college degree, the figure for today's Germany. The new youth does not want to work in heavy or hazardous production. However, China's educated youth have nowhere to apply their knowledge, they often sit unemployed in the care of working parents. The soft power of European culture has established the desire for a comfortable life, quality food, and a career. Children have become expensive because I want to give them an education and a comfortable future. Many Chinese of childbearing age remember the poverty of large families from their childhood and fear a repetition. “The number of marriages in China in 2020 fell to 8.13 million, and in 2013 it was 13.47 million. Polls showed that 55% of young couples do not want children. This is practically the collapse of traditional values.” The Russian academician Maslov notes. [5]

Low standard of living and income in China. According to World Bank estimates, per capita income in China remains at the level of developing countries and is less than a quarter of those in developed economies. The median annual income in China is $10,000, according to DBS. In the USA - 62 thousand dollars. [12]

John Mac Ghlionn [13] writes: “To get a clearer picture of the real China, you need to look at its GDP per capita. According to the World Bank, that figure is $10500, meaning the country is somewhere between Grenada and Nauru, tiny island nations.” [13] When we think about China, concepts like "wolf diplomacy" and technological progress pop into our minds. In fact, the sharp attacks and muscle flexing are an attempt to distract us from the real situation facing the Chinese regime. If China really wants to overtake the United States, it still has a lot to do. As Scottish-American historian Neil Ferguson recently noted, China's GDP adjusted for "purchasing power parity" tells us “That food in Chongqing is much cheaper than in Chicago." According to him, in current dollar terms, "China's GDP last year was still only 72% of US GDP, even with Hong Kong." [13] “China creates a strong image, but the facts say otherwise. With or without a strong GDP, China is a country with many problems and no obvious means of solving them. Given the economic crisis of colossal proportions, the problems can be expected to become even more serious.”

Statistics of irreversible consequences.

1. Situation of the Chinese economy.

On the International Statistics website [14] we find that “In 2022, the construction industry accounted for around 6.9 percent of China's gross domestic product. A significant share of the country's economy relies on real estate and infrastructure construction.” However, surplus cement production capacity began to exceed the combined consumption in the US, Japan, India, and South Korea. The construction boom, based on the communist drive to relocate rural dwellers to the cities, spurred demand for anything used in construction. Therefore, the problems of the construction industry entail problems in the steel, mining, cement, oil refining, service, transport, engineering and even food industries. As a result, adding dependent industries, we get that in reality 31% of the GDP of the Chinese economy is oriented and dependent on construction.

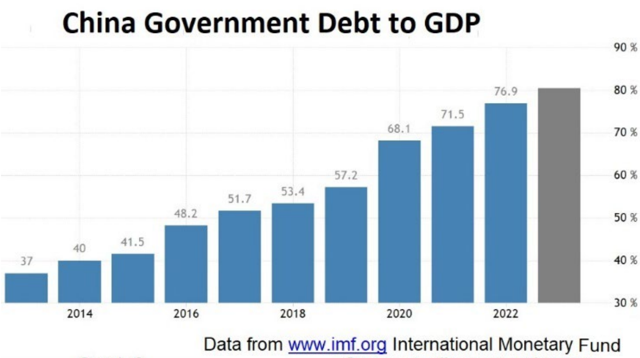
Milton Ezrati [11] writes that "Beijing has at last begun to acknowledge its deep financial problems. A few weeks ago, after dithering for more than a year, it took steps to reliquefy its troubled property sector. More recently, it announced a new financial stability law that according to Vice Chair of the People's Bank of China (PBOC) Liu Guoqiang, aims to control risk. Such measures may offer temporary relief, but they cannot address China's deeper economic troubles and their reflection in financial markets. China's debt overhang far exceeds the burdens facing the United States. As recently as 2020, total debt in the United States relative to GDP exceeded China's. But as of mid-2022, China's relative debt burden stood 40 percent higher than America's. If this comparison does not highlight China's precarious situation, it is worth considering that more developed countries, such as the United States, tend, because of their greater relative wealth, to have higher relative debt burdens and can support them more easily than less developed economies, such as China's." [11]

In 2022, the Chinese economy grew by 3%, which is the lowest since 1978, not counting the covid 2020 with a growth of 2.2%, from 2014 to 2019, growth averaged 6.8% and 8.4% in 2021. Servicing the public debt costs China about 2.9% per annum (depending on the maturity of the bonds). While the economy was growing at 9% per year, it was possible to refinance at 2.5% per annum an amount of 100% of GDP and even 200%. But when the economy slows down to 3% per annum and gross debt exceeds 300% per annum, there are serious risks of a parade of domestic defaults and China's debt servicing problems.

An additional problem arises from the fact that China lives and works in Yuan, while external debts must be serviced in US dollars and Euros. In 2023, due to the crisis, the US Federal Reserve raised rates several times. With each rate hike, China finds it harder to service its debt. It can be argued that the economies of developed countries that use the levers of monetary policy also have a large public debt. However, China does not have a convertible currency and is dependent on Western investment, markets, credit, and Western technology.

China's gross debt, which includes obligations of the state, companies, and households, exceeded GDP by 3 times. Total National Debt of CPR USD $22 397 190 071 167 on April 03. 2023. [27]. The main reason for this growth is the artificial stimulation of the growth of the Chinese economy. With China's GDP of $17.7 trillion, loans to the non-financial sector amounted to $51.87 trillion, or 295% of GDP. For comparison, in the US the volume of such debt is 263.5%, in the UK - 257%, in Germany - 195%.

Government debt to GDP ratio in China increased to 76.9 % in 2022. Graph 2. Approximately 60% of the country's borrowing funds are used to repay bond payments. This does not allow for a proper increase in direct investment in the economy. The debt pyramid is growing. The data are published annually by the IMF. The Chinese Communist Party cannot control this data.



Graph 2.

2. Attempts of communists to hide or correct real statistics.

According to the Chinese constitution, the Communist Party is the only guiding force in society that cannot be changed or criticized. There are no competition as other political parties are banned. The Communist Party cannot admit guilt that under its leadership there may be bankruptcy of enterprises, or a default declared. With the rise of Xi Jinping, the Communist Party began to strictly "control" or hide some statistics after 2013. [15] To prevent investors from seeing the real state of affairs, the Chinese leadership extracts important parts of the country's financial system from statistics or improves data. Ph.D Salvatore Babones writes about this. In the article “Yes China Is Lying About the Size of Its Economy” In the magazine “The National Interest” [16] “Not surprisin-gly, they found that China has been over-reporting its growth rate by an average of 1.7 per-centage points every year. Shave off a little growth every year for the last do-zen years ago, and the cumulative effect is that China is now overstating its true GDP by nearly 20 percent." [16]

Below is Graph 3. You can see that China does not include the debts of state-owned enterprises into its accounts.

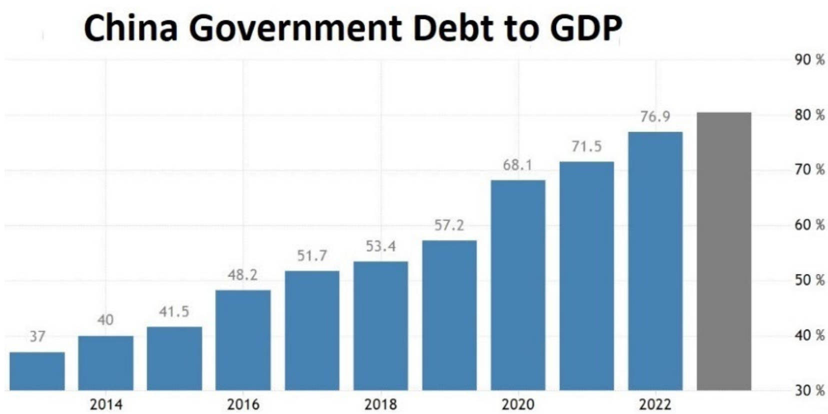
sector of the economy and banks lend to them in preference to private sector businesses. This credit availability makes state-owned enterprises potential cash cows for unscrupulous managers.

Chinese Government Obligation	Government Department	Included in National Debt?
Government-issued bonds	Ministry of Finance	Yes
Short-term debt instruments	Ministry of Finance	Yes
Local government debt	None	Yes
Public-Private Investment initiatives	None	No
Civil Service and army pension obligations	All	No
Debts of state enterprises	Various	No
Debts of state-owned banks	Ministry of Finance	No
Guarantees to the private banking sector	Ministry of Finance	No
Debts accumulated by the gov. of Macau and Hong Kong	None	No
Accounts Payable (unpaid bills)	All	No

Graph 3. Source: https://commodity.com/data/china/debt-clock/

These businesses, which are controlled either by the central government or by the local government, represent a very large

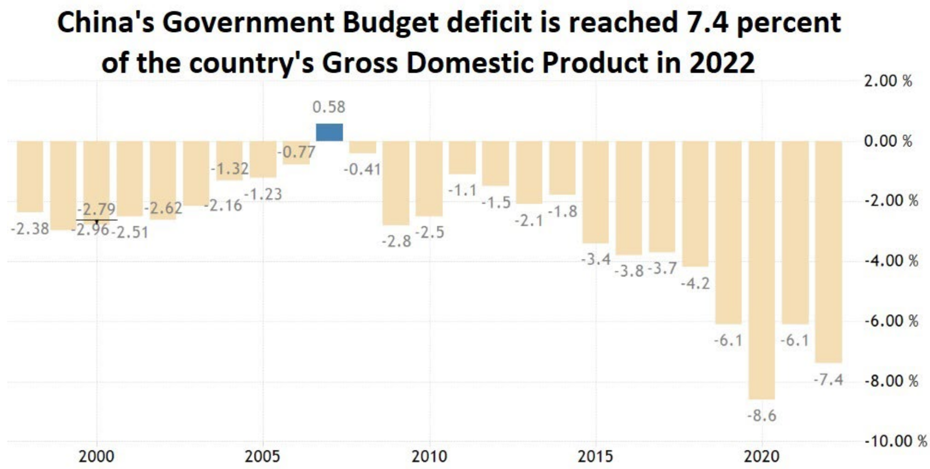
Accurate data of the Chinese economy on April 02, 2023: Interest Payments Per Year $278,868,162,353; Debt as % of GDP 63.28%; GDP Of



Graph 4. Data from www.imf.org International Monetary Fund
Source: tradingeconomics.com

China $14,836,591,312,739; China Population 1,402,000,000; Read more at: https://commodity.com/data/china/debt-clock/ According to official data, in 2022, China reduced its external debt to $24,528 trillion. Graph 4. However, following from Graph 3., all debts are not included here.

The latest data on the state budget of China. It is important to pay social security, financing of public transport and other local needs to economically unjustified global projects. Also, a huge share of the budget is eaten up by military spending. Government deficit in China decreased to 359 CNY 100 million (5.195 B USD) in March 2023. Data published Monthly by National Bureau of Statistics. Graph 5.



Graph 5. **Source: https://tradingeconomics.com/ Ministry of Finance of PRC**

attention to the growing problems with financing the state budget of China. The trend towards a deficit. I have already pointed out in this article that the local authorities in the provinces bear the brunt of the economic risks of fulfilling the plans adopted by the leadership of the Chinese Communist Party. This causes a reallocation of funds from

3. The invisible hand of Adam Smith hits the communists on the head.

Despite the "control" of official government statistics by the communists, the invisible hand of the market is destroying the planned economy. One of the largest com-panies in China, Evergrande Group [17], has debts of $300 billion. The company has more than 200 thousand employees, sales in 2020 amounted to more than $110 billion, the company maintains 1,300 construction projects in 280 cities. In August 2022, Evergrande failed to fulfill its debt restructuring obligation and announced another default. Condo savers boycotted $6 billion in mortgage payments when they saw construction on their homes halt. As a result, banks stopped lending to developers. Protests began throughout China, which had to be dispersed with the help of tanks and armored personnel carr-ers. Kaisa, Fantasia and Shimao Group, as well as several rural banks, have also applied for creditor protection. All this showed the mediocrity of managing the economy with the help of plans and exposed investors the true situation in the Chinese economy.

The problems are too big to hide. Therefore, even in China's government newspaper China Daily Feb 08, 2023, economist Linan Liu [18] admits that the threat of mass defaults remains: "In 2022, credit events by property developers, mortgage defaults and the spillover to the financial sector were the main threats to China's financial stability. China is also expected to continue prioritizing financial stability risk management to resolve debt risks in 2023. But property default risks will linger in 2023 considering the repayment of heavy debt. Developers that manage to secure funding may receive near term relief of liquidity, while those unable to take advantage of the latest financing support may default." [18]

Economist Milton Ezrati [11] "The size of China's debt problem is truly staggering. At last measure, debt of all sorts - public and private and in all sectors of the economy – amounted to the equivalent of $51.9 trillion, almost three times the size of China's economy as measured by the country's gross domestic product. This is the highest level recorded in the 27 years since Beijing first began to track such statistics. Matters seem set only to get worse. According to the Beijing-backed National Institution for Finance and Development, local authorities are set to issue new debt next year of some 4 trillion yuan, the equival-ent of $570 billion." [11]

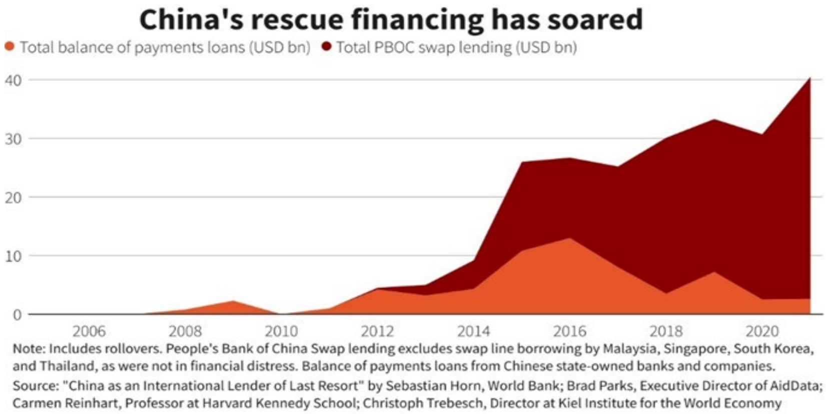
The Communist's experiments in global expansion and unsecured loans

1. Debts owed by 165 countries to China for "Belt and road initiative"

In 1992, Deng Xiaoping defined the concept of Chinese foreign policy as "opportunity hiding". Xi Jinping changed it to "active action policy." PhD А.Д. Воскресенский. [19] In 2020, The Guardian newspaper published the results of an economic investigation. [20] Laboratory Aid Data finds 42 low-to-middle income countries with 'belt and road' exposure exceeding 10% of GDP. Researchers have identified debts of at least $385bn (£286bn) owed by 165 countries to China for "Belt and road initiative" (BRI) projects, with loans systematically underreported to international bodies such as the World Bank. The BRI was launched in 2013 as Xi Jinping's signature international investment programme. "Many poor governments could not take on any more loans," AidData executive director Brad Parks told AFP. "So [China] got creative." Peter Cai, a research fellow at the Australia-based Lowy Institute, said it would be difficult to enforce the debt repayments, particularly where there was civil unrest or poor governance. "There's always a problem of enforceability," he said [20]. The report also found China had rapidly scaled up its provision of loans to resourcerich countries that have high levels of corruption, and 35% of BRI projects had faced issues of corruption, labor violations, environmental pollution, and public protests. [20] "Beijing is more willing to bankroll projects in risky countries than other official creditors, but it is also more aggressive than its peers at positioning itself at the front of the repayment line," the report said, noting 40 of the 50 largest loans were collateralized, often against future commodity exports. Russia secured loans and export credits worth $125bn, mostly contracted by Russian state-owned oil and gas enterprises, collateralized with the proceeds from oil and gas sales to China. Venezuela secured $86bn in non-concessional and semi-concessional debt from China's state-owned policy and commercial banks, mostly through loans collateralized against future oil exports. [20]

2. China is secretly bailing out its own risky 'Belt and Road' loans.

Markets Correspondent at Reuters Rachel Savage provides new research data AidData. [21] China spent $240 billion bailing out 22 developing countries ...as more have struggled to repay loans spent building "Belt and Road" infrastructure. Chinese loans to countries in debt distress soared from less than 5% of its overseas lending portfolio in 2010 to 60% in 2022, the study found. The study was critical of some central banks potentially using the PBOC swap lines to artificially pump up their foreign exchange reserve figures. China's rescue lending is "opaque and uncoordinated," said Brad Parks, one of the report's authors, and director of AidData, a research lab at The College of William & Mary in the United States. [21]. **Graph 6.**



Graph 6. Source: Reuters Graphics

From this I conclude that China is repeating the mistakes of the USSR, spending money to buy corrupt governments, insecure assets, obtain lucrative contracts and seize new territories. The history of the USSR has shown that in the end these loans are “forgiven”, so China will get new holes in the budget.

Loss of investment attractiveness and capital outflow.

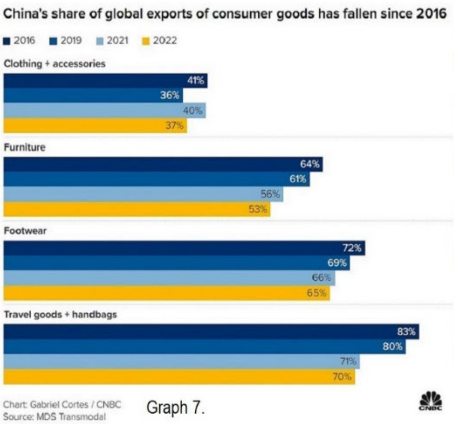
1. China's problems are chance for developing countries.

For many countries in Asia, Oceania and Latin America, China's problems are an opportunity to accelerate their development. Communist economic plans, mismanagement of funds, deteriorating investment climate, growing budget deficits, technology theft, an aging population and rising labor costs in China are forcing Western companies and China itself to move their factories from China to countries that now have the same potential which China had 30 years ago. The most promising candidate to replace China is the ASEAN (Association of Southeast Asian Nations) countries, which are united by a common colonial history, language, culture, and population of 668 million people (2021). Under the influence of globalization, legislation in the ASEAN countries has been changed to guarantee the safety of capital. Asian Club countries: Indonesia, Malaysia, Thailand, Vietnam, Bangladesh, and the

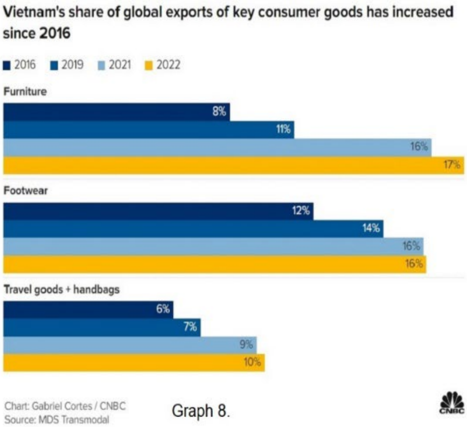
Philippines. No less promising is India with a population of 1.36 billion people. Prof. Bill Conerly in a Forbes article Apr 14, 2023. writes about the growing trend of transferring production capacities from China to Mexico. [22] "China presents a less attractive location for manufacturing than it did a decade ago... The legal system often works against foreign companies, theft of intellectual property has been common and labor costs have risen in the last decade. Nonetheless, China has been a great location for many companies. Many business leaders wonder if they should reshore their production to the United States, or near-shore production to somewhere close, such as Mexico. Shifting production will certainly happen..." [22]

2. The process of exporting production from China is gaining momentum.

PhD Srivatsa Krishna in The Financial Express magazine in the article "Is China still the factory of the world?" [23] writes that "Trust and reputation are perhaps the only two things in the world that travel faster than light. From all accounts it appears as if China is losing the trust game and this global untrustworthy reputation is casting a long dark shadow over its manufacturing muscle. The perfect heady cocktail of Covid-19, geopolitical tensions, unwanted aggression on neighbors and in the South China Sea, high tariffs, use of forced ethnic minority labour, misusing WTO (World Trade Organization) rules are all coming together to move the world's factories away from the world's factory! [23] China is losing factories at an astonishing pace. Yet *Samsung Electronics closed its last factory in China last year* but has opened new ones in Vietnam and India. They make about 300 million phones every year, more than half of which are today made in Vietnam, and the Noida plant has the capacity to make 120 million per annum. This Samsung India factory is its largest in the world, even bigger than those it had in China and almost as much as Vietnam's entire Samsung capacity. Motorola's iconic Razr, its first folding phone, was made in India, not China. Dongguan, the epicentre of China's manufacturing, has many shutters down and 'space available' signs all across. Closer home, Foxconn, Wistron, Pegatron and Tata Electronics are the newest beneficiaries of Apple moving its manufacturing out of China and the government of India's thoughtful PLI (Production-Linked Incentive) scheme.



Graph 7.



Graph 8.

AT Kearney has an interesting China Diversification Index (CDI) that tracks the shift in US manufacturing imports away from China and to other countries. It concludes that while China remains the world's primary producer of manufactured goods, it has now lost share within the CDI steadily for the last seven years. All this is well known to the Chinese leadership who are doing everything in their power to slow it down, for it cannot be reversed." [23]

In Figure 6 (CNBC) we see that China is rapidly losing the global market to new Asian players. At the same time, 100 millionth Vietnam (Figure 7) successfully ousts the giant from the world market. [24] Lori Ann LaRocco CNBC Oct. 2022, notes: "Since U.S. trade tariffs in 2018, there has been a hunt for alternative sourcing locations to China, initially limited to fashion and footwear, according to Akhil Nair, senior vice president of products, Asia Pacific for SEKO Logistics. Ocean carrier MSC, along with the Vietnam Maritime Corporation, announced in July the creation of a new transshipment container terminal project near Ho Chi Minh City. Once completed, this terminal would become the largest in the nation. Both Maersk and CMA CGM are investing in their own facility expansions in that region. According to data shared with CNBC by transport economics firm MDS Transmodal, China has lost ground in key consumer categories, including clothing and accessories, footwear, furniture, and travel goods, while also seeing declines in its share of exports from minerals to office technology." [24]

3. The trade tariffs war and sanctions.

The trade tariffs and sanctions imposed by the United States during the Trump presidency and sanctions on high-tech exports imposed by President Biden contribute to the increase in the risks of the outflow of capital and production from China. US sanctions have deprived Hong Kong of many market benefits for the communist regime. Known fact, as in 2019, President Trump announced that he was ordering U.S. companies to "immediately start looking for an alternative to China, including bringing your companies HOME and making your products in the USA." Despite the criticism, according to many researchers, the result of the sanctions is growing. Finbarr Bermingham in the South China Morning Post [25] writes "Now, after four years of being pummelled by anti-dumping duties, tariffs and extreme political volatility, about 50 per cent is made in China, with the balance of production scattered around Vietnam, Malaysia and Eastern Europe. "We eventually came up with a solution, and the only real winner was my frequent flier programme," said the American company's president H. David Murray. "My eldest son and I travelled just about all over the world to find resources." [25] This suggests that international and even Chinese private business is intensively working to find safer countries to export their capital and production from China. Given the speed of scientific and technological progress, high tariffs, and sanctions on the supply of technology could make Chinese industry backward in one decade. China's claims about its own research and discoveries are not enough to provide the economy with new technologies and belong to the next pompous communist plan.

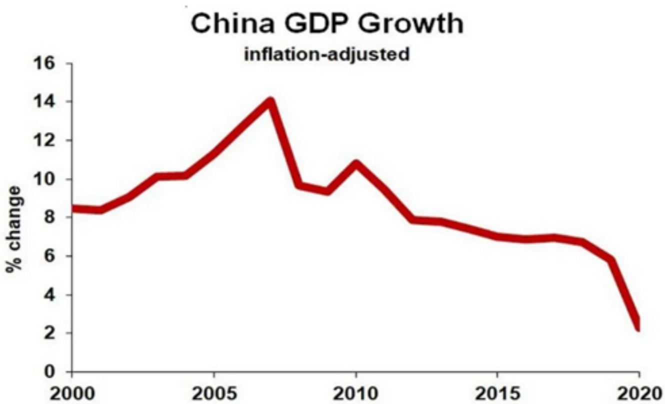
4. Changing the course of the country and the arms race.

"In 2017, at the Chinese Communist Party Congress, Xi Jinping said that China had completed the "enrichment stage" (which Deng Xiaoping announced) and was starting the "strengthening stage." [19] PhD А.Д. Воскресенский. China is preparing to invade Taiwan and is trying to declare the South China Sea inland. Russia's bad experience in trying to annex Ukraine has forced China to reconsider its plans and increase military spending. In 2022, experts estimate the real military budget of China at $229 billion, with a growth trend to $400 billion by 2030. Military spending in China increased to 293352 USD million (293.352 billion

USD) in 2021. The data is published Yearly Stockholm International Peace Re-search Institute. [26] Famous economist and Senior Contributor of Forbes Ph.D. Prof. Bill Conerly predicts “The potential conflict over Taiwan presents an even greater risk to businesses with Chinese operations. A shooting war, similar to the Ukraine-Russia war, would be disastrous for businesses in China as well as for the people of Taiwan. More likely, though, is a Chinese squeeze on Taiwan to try to obtain voluntary unification. That squeeze could begin with searching ships entering Taiwanese ports and progress to an embargo. The U.S. would probably impose trade sanctions on China, and western companies would lose access to their manufacturing plants in both China and Taiwan.” [22]

5. Downgrading China's internal security and stability.

The growing problems in the economy are pushing the dictatorship to distract the people by promoting patriotism, developing aggression and filtering information. There has also been an increase in repressive tendencies against foreign investors, management, and capital. Such actions towards those who were the investor, and the source of the Chinese miracle are at least harmful to China itself.



Source: DR. BILL CONERLY USING DATA FROM INTERNATIONAL MONETARY FUND

Graph 9 May 4, 2021, Forbes.com China's economic growth has decline in recent years.

Final conclusions.

The main conclusion is a grows of risks of contradictions between the plan management of the Chinese economy and the laws of the market. The whole essence of China's economic reforms success at the initial stage was the maximum removal of the Communist Party from interference in the economy. The return of the communists to rigid economic planning based on the teachings of Mao Zedong and the aggressive policy pursued by the new leadership of China are contrary to the laws of economic development and cause additional risks. The main risks of communist intervention in the economy are a planned economy, rising debts, a decrease in the quality of life in cities, an increase in protests and internal instability, falsification of statistics, interference in the internal affairs of private business, distrust of investors, repression of the rich, capital outflow, export of factories, sanctions burden, increased military spending and budget deficit, population aging and low birth rates.

Don't expect the collapse of Chinese economy because of the debt crisis. But the country and the Chinese people are waiting for new great upheavals. The Chinese economy is highly integrated into world trade. However, the former sources of growth have been exhausted, and the planned economy will not allow development at the same pace. Of course, the authorities will try to stimulate the birth rate, raise the retirement age, transfer the economy to automated production, and take tough measures to fulfill the communist five-year plans. China's economy is heavily dependent on Western high technology, markets, factories, and investment. Therefore, Chinese leadership will be forced to improve relations with the US and Europe. It is for this reason that China refused to help Moscow during the unsuccessful war to return Ukraine to Russia.

The economic slowdown in China does not threaten the global economy, because it will be compensated by the acceleration of growth in the countries - the new Asian "tigers" and Latin America. China's economic miracle will be continued by other countries. It is no secret that the transformation of other overpopulated agrarian countries in Asia into the booming economies of the Asian Tigers was the work of entrepreneurs from the United States, Japan, Western Europe, and later from China. China's economic miracle is the result of a market economy, not a communist dictatorship. The tightening of the dictatorship, along with depleted human resources and growing problems, will slow down China's development and require fundamental reforms.

References

[1] Proverbs of Solomon, 16:12. Wicked behavior is detestable to kings, for a throne is established through righteousness. (biblehub.com)

[2] Book "Why nations fail: The origins of power, prosperity, and poverty" 2012 / Daron Acemoglu (The Elizabeth and James Killian Professor of Economics at MIT.), James A. Robinson (The Reverend Dr. Richard L. Pearson Professor of Global Conflict Studies and University Professor at the Harris School of Public Policy, University of Chicago);

[3] Michael Schuman, senior fellow at the Atlantic Council's Global China Hub The Atlantic, https://www.theatlantic.com January 11, 2021 The Undoing of China's Economic Miracle

[4] Алексей Михайлов (Михайлов, Алексей Юрьевич - Википедия (wikipedia.org)) Газета.Ru, 12 ноября 2012 (gazeta.ru) статья "Китайское экономическое чудо продолжат другие/"

[5] Alexey Maslov, Ph.D., Professor of the Institute of Asian and African Studies, Moscow State University with the focus on Chinese culture and modern sociopolitical development. https://amaslov.me/

[6] Alex Wu "Epoch Times" November 25, 2021 Chinese Regime's Local Debts Reach Record High, Equivalent to 52 percent of GDP (theepochtimes.com)

[7] New York Times | Li Yuan March 28, 2023 China's Cities Are Buried in Debt, but They Keep Shoveling It On - The New York Times (nytimes.com)

[8] Notice of Henan Province on Raising the Minimum Standard of Basic Pension for Basic Endowment Insurance for Urban and Rural Residents in the Province (2023) https://m12333.cn/policy/emes.html

[9] Official data of Government of China 2021年人社统计公报发布 全国就业人员7.465亿人_滚动新闻_中国政府网 (www.gov.cn)

[10] Author: Director of China Urbanization Jian Zhao, Professor and PhD supervisor, School of

Economics and Management, Beijing Jiaotong University, Research Center, article Beware of high-speed rail gray rhinos | Interface News https://m.jiemian.com/article/2844468.html

[11] Milton Ezrati, on Forbes, Jan 16, 2023 China's Overwhelming Debt Burden Points To Still Deeper Problems (forbes.com) Center for the Study of Human Capital and Economic Growth at the University at Buffalo (SUNY)

[12] World Bank Indicators | Data (https://data.worldbank.org/indicator?tab=all)

[13] John Mac Ghlionn 17.10.2021, The Epoch Times, "Впечатляющий показатель ВВП Китая - тоже ложь" https://www.epochtimes.ru/ (Researcher and essayist by the New York Post, The Sydney Morning Herald, Newsweek, National Review, and The Spectator US, among others.)

[14] International statistics www.statista.com China: construction industry's share of GDP 2022

[15] Source: State Statistic of China The Profit of Industrial Enterprises above Designated Size in 2022 (stats.gov.cn)

[16] Ph.D. Prof. Salvatore Babones March 22, 2020, article "Yes China Is Lying About the Size of Its Economy, magazine The National Interest" (Centre for Independent Studies in Sydney, Australia, professor at the Univer sity of Sydney) nationalinterest.org

[17] Yahoo Finance, China Evergrande Group (EGRNY) stock price, news, quote & history https://uk.finance.yahoo.com/quote/EGRNY?p=EGRNY&.tsrc=fin-srch

[18] Linan Liu China Daily | Feb 08, 2023, Pivoting to long-term resilience in 2023 Opinion Chinadaily.com.cn https://www.chinadaily.com

[19] PhD Prof. А.Д. Воскресенский, МГИМО МИД России; журнал «Сравнительная политика» 2019 Круглый стол: «Перспективы китайских реформ в изменившемся мире». Страница 5, Часть I DOI: 10.24411/2221-3279-2019-10019 Кибер Ленинка (cyberleninka.ru)

[20] The Guardian, 2020 AidData a Research Lab at William & Mary VA report "China owed $385bn – including 'hidden debt' from poorer nations."

[21] Rachel Savage_March 28, 2023 Reuters "China spent $240 billion bailing out 'Belt and Road' countries" - study on www.reuters.com

[22] Senior Contributor of Forbes Ph.D. Prof. Bill Conerly | Apr 14, 2023 Art. Near-Shoring: Can Manufacturing Move From China To Mexico? (forbes.com)

[23] *Dr. Srivatsa Krishna*| N100, Chou Hall Haas School of Business, *The Financial Express, article* "Is China still the factory of the world?" https://www. Financialexpress.com

[24] Lori Ann La Rocco CNBC Oct. 2022, article "China, 'factory of the world,' is losing its manufacturing dominance (cnbc.com)"

[25] Finbarr Bermingham, 2 Oct, 2020 in Chinese edition South China Morning Post (scmp.com) article "Donald Trump's four years in power have 'totally changed manufacturing'. https://www.scmp.com

[26] SIPRI databases | Stockholm International Peace Research Institute. https://www.sipri.org/databases

[27] China GDP and National Debt (https://countrymeters.info/en/China/economy) Source: www.imf.org International Monetary Fund 700 19th Street, N.W. Washington, D.C. 20431.

Ekonomski signali, 2023, 18 (2): 115-142

RIZICI PLANSKOG UPRAVLJANJA KINESKOM EKONOMIJOM

Vladimir Skoropad

Univerzitet savrmenih znanosti – CKM Mostar

Apstrakt: Na osnovu zvanične statistike NRK i analitičkih podataka dobijenih iz savremenih naučnih i javnih istraživanja, proizilazi da je završeno tzv. kinesko ekonomsko čudo. Brzi razvoj Kine bio je vođen upotrebom jeftine radne snage i politike otvorenih vrata za zapadne investicije prema pravilima osnovnih tržišnih zakona nakon reformi Deng Xiaopinga iz 1977. godine. Sva tri faktora su iscrpila svoje resurse. Dalji rast životnog standarda i obrazovanja počeo je predstavljati opasnost za komunistički režim. Ignorisanje zakona slobodne tržišne ekonomije, kreiranje vještačkih planova za podsticanje rasta, suzbijanje preduzetnika, pritisak sankcija, trka u naoružanju, agresivni planovi u regionu i demografske promene neminovno dovode do opasnih posljedica – usporavanja privrednog rasta, opterećenja duga i odliv kapitala.

Ključne riječi: kinesko ekonomsko čudo; jeftina radna snaga; komunistička planska ekonomija; kinesko ekonomsko usporavanje; trgovinski rat; represija nad preduzetnicima; kontrola medija u Kini; kineska dužnička kriza; baloni za nekretnine; pad kineske stope nataliteta; Azijski tigrovi; odliv kapitala iz Kine; militarizacija Kine.