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CHINA'S DETERIORATING ECONOMY HAS CREATED INSTABILITY FOR XI JINPING

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China's economy is in dire straits. While assessments of China's economic situation by foreign banks and economists is worrying, the views of some Chinese economists are even more pessimistic. They question the Chinese government's projected economic growth rate of 5 per cent and say that growth is really negative and nearer minus 2-3 percent! Close scrutiny of China's official media too reveals a worrying picture with little prospect of an economic recovery in the near term. Chinese President Xi Jinping, who has focussed on dissemination of Xi Jinping's Thoughts through his books, has been slow in addressing the economy. It was only at the Politburo meeting on January 31 -- 2 months after the 20th Party Congress -- that the economy and development was discussed. It also discussed better coordination of development and security, but the priority accorded to security apparently continues to hinder development. The unchecked deterioration of the economy has contributed substantively to the revival of direct, overt criticism of Chinese President Xi Jinping amid indications that factions, or groups, opposed to his policies have become active.

2. A variety of factors like tough new regulations on the Fintech, real estate and private businesses, have contributed to the spreading dissatisfaction. The deleterious effects of the slowing economy were compounded by the disastrous zero-Covid policy. The latter caused sudden unanticipated disruptions in logistics supply chains from ports to production centres, in turn upsetting delivery schedules. Citizens were impacted because they couldn't get food supplies while under lockdown. The disruptions caused a drop in exports and forced tens of thousands of small businesses to shut down. China's National Bureau of Statistics on August 31, showed that manufacturing activity shrank for the sixth straight month in August. China's exports to the US too slumped by around 41 per cent. Citizens anger increased and was occasionally manifest in protests and public criticism of Chinese President Xi Jinping despite the critics risking punitive action. Because of the rising incidence of protests the government stopped publishing data on their numbers. This simmering anger was on display in October 2022 when, provoked by the death of some citizens because of stringent zero-Covid restrictions which prevented fire-fighters from reaching and rescuing persons trapped in a burning house, citizens spontaneously took to the streets in ten cities across China. Dubbed the 'White Paper' revolution, it shook the leadership and prompted Chinese President Xi Jinping to suddenly announce abandonment of the zero-Covid policy.

3. The increasing joblessness has affected entrepreneurs, fresh graduates, veterans, rural folk and aggravated dissatisfaction. China's National Statistics Bureau (NSB) admitted that unemployment among students and youth aged between 16 to 24 years was at an all-time

high of 20.8 per cent. Chinese sources estimate the figure is much higher and the NSB has since announced it would suspend release of this data. The impact is more than on just the individual as most of these youth belong to 'one child' families and their parents are dependent on them. Joblessness in the countryside is far higher. The lack of opportunities and pressure at the work place has also given rise to a social phenomenon of '*tangping*' or lying flat. '*Tangping*' means the youth stay at home doing nothing because they have lost all hope of getting a job commensurate with their qualifications, or have no worthwhile prospects. Another very recent trend visible on China's social media is that of youth resigning their jobs and hosting "quitting" parties because they feel under excessive pressure or that they are at a dead-end in their jobs. CCP cadres have expressed concern at the spread of the phenomenon as they have the potential to adversely impact national productivity and spread disillusionment about the CCP.

4. The campaigns to 'clean up', or regulate, the fintech and real estate sectors have contributed to the economic decline and unemployment. China's central authorities so far appear unwilling to bail them out. The real estate sector accounts for over 60 percent of the revenues of provinces and counties. The prohibition on the sale of land by the provinces and counties has meant severe budgetary constraints. An unusually candid and critical article in China's Economic Observer on August 11, 2023, captioned 'No mother can cook for her children with no rice' highlighted the acuteness of the problem. Its reporter interviewed four Finance Directors of different provinces and highlighted that each had admitted to the severe paucity of funds and consequent pruning of development projects. The Directors, whose real identities were not revealed by the newspaper, said they spent most of their long working days explaining to queues of applicants why they are unable to give funds. The balance of their 14-hour work days, they said, were spent standing outside the doors of senior cadres pleading for funds. In addition they have to submit detailed explanations to inspection teams from the Central Discipline Inspection Commission (CDIC), provincial audit teams, County inspectors and inspectors from concerned Municipalities. Meanwhile, Provincial and county chiefs task them to ensure funds for key development projects, paying salaries of staff etc.. The Economic Observer assessed it was only a short time before the real estate sector becomes bankrupt. The article was deleted within a couple of days.

5. Provincial and local governments are trying to implement central instructions to tackle unemployment among students and youth, veterans and rural folk and alleviate living conditions. The Ministry of Housing this month announced concessions and exemptions for public housing construction till December 2025. In addition to job fairs, State-Owned Enterprises are being urged to recruit youth and veterans. In provinces, students are offered travel concessions for 3 to 6 months and other financial incentives. Shaanxi province, for example, from mid-August began offering students 1500 Yuan per month to go and work in the countryside.

6. Chinese President Xi Jinping, however, continues to emphasise security and 'ideological' education. Books on Xi Jinping's thoughts are required reading for Party members who are mandated to read four books a month. Since June 2023, Party members are required to watch the 40-second video released each morning by CCTV's Xiaoyang Video. A spate of directives have been issued almost each month to Party members on issues like "absolute loyalty", avoiding corrupt practices, restraining their family and relatives from violating Party

discipline, use of the internet etc. Xi Jinping has also strengthened the internal security apparatus to curb opposition and stamp out protests. The public security departments at the provincial level have trebled their manpower strength. Facial recognition and the social credit management systems have become widespread and angered the citizens. Academics and students are also subject to strict controls to ensure they adhere to the correct political line and don't succumb to, or disseminate, western liberal ideas. The administrative and financial powers of senior CCP cadres including members of the Politburo have been curtailed and they are under surveillance. CCP members and enterprises, including foreign-owned businesses, are mandated to attend Party education classes a couple of times each week. While Xi Jinping's acolytes portray that the Global Development Initiative (GDI) and Global Security Initiative (GSI) could be effectively implemented at the same time, there have been no substantive steps to revive the economy.

7. A major 3687-word article in the *Jingji Ribao* (Economic Daily; June 9) sought to explain the new development pattern with the new security pattern. Its focus, though, was on security. Authored by the National Defence University Party Committee Doctrinal Study Centre Group, among China's leading Party doctrinal centres, it stressed that "National security is the foundation of national rejuvenation, and social stability is the prerequisite for national prosperity. Adhering to the overall national security concept and guaranteeing a new development pattern with a new security pattern demonstrates our party's major strategic considerations in coordinating development and security, and achieving high-quality development and high-level security dynamic balance". Mentioning the role of security in every aspect, it said the 20th Party Congress report "for the first time proposed "guaranteeing a new development pattern with a new security pattern", emphasizing adherence to the principle of people's security, political security as the foundation, and economic security based on military, scientific, technological, cultural and social security, and relying on the promotion of international security, coordinate external security and internal security, homeland security and national security, traditional security and non-traditional security, self-security and common security, and maintain and shape the safety of the country as a whole". It justified the emphasis by saying "As the world enters a new period of turmoil and change, the instability and uncertainty of China's national security situation has increased, and various aspects and fields are facing many security challenges". The article's focus was on countering sanctions, restrictions hampering the country's development, safeguarding peace etc.

8. The difficult economic situation and discontent with Chinese President Xi Jinping and his re-election for a third term, has not only revived criticism of Xi Jinping but has encouraged factional politics in the CCP. Some factions are already clearly visible. China's official media continues to periodically report instances of cadres associated with senior cadres like former Politburo member Bo Xilai, Deputy Minister of the Public Security Department Sun Lijun, former Central Military Commission Vice Chairmen Xu Caihou and Guo Boxiong etc being punished. Some Party directives clearly warn cadres against "black-faced liars", "double faced cadres" and "factions, cliques and groups". The disappearance of Xi Jinping's protégé Qin Gang, who was divested by the National People's Congress Standing Committee (NPCSC) of his post of Foreign Minister in July this year, remains a mystery. Curiously Qin Gang has retained his higher post of State Councilor pointing to robust behind-the-scenes

disagreements regarding Qin Gang. In this backdrop, conditions are suitable for factional infighting in the CCP.

9. In October 2022, coinciding with Xi Jinping's re-election for the third time, a 2015 essay by China's Rao Yi warning against "state eunuchization" circulated on China's social media, with the warning: Today's China is mass-producing 'eunuchs'." Earlier this year, the photography department of a Beijing student press association organized by the Beijing Youth Daily, a Party-run media outlet controlled by the Municipal Communist Youth League, posted a requiem for the 2022 "White Paper Movement" to WeChat. The photograph was captioned: "I will remember November 26, 2022, I will remember the bravery of the Communication person." The post was quickly deleted.

10. Criticism has progressively become more direct. During the recent flood in Hebei Province, the authorities released water from the dams disregarding the plight of residents of Zhouzhou, who suffered heavy losses of life and property, to protect the Xiongan New Area. A CCP member called it "a typical 30% natural disaster and 70% man-made disaster". Many residents posted criticisms of Xi Jinping saying that unlike previous leaders he has never visited areas affected by disasters and natural calamities. Some alleged he was unaware of the extent of damage and had not despatched units of the People's Liberation Army (PLA) or People's Armed Police (PAP) to assist local authorities. The posts stayed for days.

11. Damaging in recent weeks, however, was the lengthy 2980-word article published by the pro-CCP Singapore newspaper 'Lianhe Zaobo' on August 21, 2023. In classic Chinese style the article, a sharp criticism of Xi Jinping, but without actually naming him, was published outside China. Captioned 'The root cause of China's economic problems lies in political problems', the article did not name Xi Jinping but the target of its criticism was clear. It was authored by Lew Mon-hung, a Hongkong businessman and member of the 11th Chinese People's Political Consultative Conference (CPPCC) – China's top political advisory body. The author has taken considerable risk since outspoken critics in Hongkong have been arrested under the National Security Law. Its publication points to the beginning of factional infighting in the CCP.

12. Mentioning the contributions of past leaders like Deng Xiaoping and Hu Yaobang, the article discussed the distressing economic situation. It said China "is facing a wave of private enterprise closures, foreign companies evacuating, sharply shrinking investment, declining imports and exports, serious shortage of consumption, serial debt explosions, large-scale unemployment, and government facing losses in tax. Investment, export and consumption, all the three big economic engines are underpowered or even stalled". It said the joke in China is : "The three new engines of the economy are the National Bureau of Statistics, Central Propaganda Department, and Xinhua News Agency" and "the only toolbox to save the economy is blowing the trumpet"! The article regretted that decisions by consensus had been jettisoned. It asserted that the main reason for China's economic rise is that "the mainland government suspended class struggle in politics and insisted on economic construction as the centre, thus liberating productive forces". In contrast now there has been a "strengthening of ideology in politics, insisting that "Marx is right", eliminating private ownership, emphasizing the philosophy of struggle, and abusing the concepts of national security and anti-espionage". Consequently, it said, foreign businessmen and tourists are hesitant to visit

China. It said that instead of implementing political system reforms for an effective anti-corruption process, various forms of political campaigns are successively initiated.

13. It attributed the economic downturn in recent years to the violation “by some people” of the centre’s second historical resolution on "prohibiting any form of personality cult", advocating that "loyalty is not absolute, absolute is not loyal", and of "one authority determining the final say". It declared that the cult of personality had been raised to a new peak. It blamed the “wolf warrior diplomacy” and the boasting that accompanied it with claims that “China has surpassed the United States in terms of economy, technology, and comprehensive national strength” and that China "points the way for mankind". It regretted the lack of grace in international exchanges “and making enemies on all sides”. It criticised the erroneous policy of support for Russia.

14. The article pointed out that “as a result of years of wolf warrior diplomacy, Sino-US relations have fallen to their lowest point since President Nixon’s visit to China in 1972. Relations between China-Europe, China-UK, China-Japan, China-South Korea, China-Australia, and China-Canada have all fallen to their lowest point in decades. The result of the Belt and Road Initiative and the large-scale distribution of coins is only to ruin the hard-earned wealth of the Chinese people, and has not exchanged for real allies”. It said if China “wants to realize modernization; the main target of opening up is the United States. Therefore, improving and developing relations with the United States is an inherent requirement of reform and opening up, and it is also a fundamental requirement for ensuring national security under the Cold War situation”.

15. Saying “The example is right in front of you”, it advocated reform of the political system, including the implementation of constitutional democracy, universal suffrage, declaration and publicity of officials' assets, judicial independence, freedom of speech and press and supervision by public opinion.

16. Unless the economic situation improves and unemployment comes down, confidence in the CCP will erode impacting its legitimacy. Opposition already exists within the CCP to many of Xi Jinping’s policies – for example the intrusive security policies, on Russia, the U.S. etc. – and have the potential to fuel factions. The next few years will be difficult for China and Chinese President Xi Jinping and be possibly marked by political instability.

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