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Where is China's Economy Heading under Xi?

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Abstract

China's economy is undergoing a difficult period in which its gross domestic product, rate of employment, and residential real estate market are a few segments that are in serious trouble. China's gross domestic product, at one time the envy of the global economy, has experienced a severe slowdown that deeply worries its policymakers. This has affected its workforce resulting in layoffs and that China's young graduates cannot find employment matching their training and level of education. The once-booming real estate market has experienced severe contractions resulting in ghost cities full of empty buildings.

The response of China's President Xi has been anything but exemplary. Xi's policies and actions have attempted to turn China's economy away from privatization, high technology, and innovation just so he can retain control over the country even if it means slower economic growth.

The aim and purpose of this article is to examine China's economy and what President Xi is attempting to accomplish as its leader.

Keywords

Gross domestic product (GDP), high technology, unemployment, zero-Covid policy

1. Introduction

China's economy has made significant progress since it was opened by Chairman Deng Xiaoping in his historic trip to the United States in 1979. Deng's main goal was to advance China's economy, business environment, and technology. He knew this would be very difficult given the repression of China's economy under Chairman Mao.

Deng set the wheels in motion to advance his nation's economic growth and this policy has been followed by subsequent leaders in China well into the 21st century. This has resulted in China attaining a gross domestic product (GDP) exceeding $17 trillion in 2021 according to the World Bank. While it is still behind the United States, the gains China has made since Deng's visit in 1979 have been impressive and there seems to be no limit to what it can achieve.

However, in recent years China, under President Xi Jinping, has experienced a turbulent period not only in terms of stagnating economic growth, but also conflicts with its business elite, problems with its young people, and a falling real estate market. President Xi has been criticized for working to advance his own agenda rather than making every attempt to build China's economy at the growth rate it needs in order to provide its people jobs and financial security. This may cause China to fall further behind the United States not only regarding areas such as GDP, but also technological innovation and financial advancement.

China must do what it can to see that its economy will grow at a rate of 7 to 10 per cent per year. But given its present situation, that is just not possible. And because of this, the questions that must be asked are, "How much of that is President Xi's fault and where is China's economy heading?"

2. Current State of China's Economy

Currently China's economy is not where it should be or where its policymakers hoped it would be. In numerous aspects, China's economy is experiencing a dangerous slump that could have long-term consequences.

A key indicator of China's economy is GDP. In 2021, China's GDP reached $17.37 trillion which was an increase exceeding 100 per cent since 2012 (Davidson, 2022). Since 2012, China has had an average annual rate of economic growth of 6.7 per cent which has been a credit to its diligence and determination to advance itself (He, 2022). China has relied upon being a manufacturing-based economy in which it has become the factory for the world. China has been able to make products not only in great volume but also at lower cost due to its massive labor force that works long days at low wages. For many years, China could make products ranging from sneakers to pharmaceuticals at vastly lower costs, sell them to the United States and Europe at a substantial profit and not worry about competition from anywhere else in the world. While for many economies this rate of economic growth would be considered a monumental task, trying to maintain this pace has proven difficult.

China's rapid growth rate has slowed substantially due to internal rather than external factors. The first key factor has been its zero-Covid policy imposed in order to rid itself of the virus in 2020 as well as 2021. While this policy seems to have helped cut back on the spread of Covid, there has been the side effect that China's economy has contracted to the point where it cannot maintain its past level of growth. China's strict policy in combatting Covid resulted in the shutting down of factories and even cities with millions of inhabitants which could be regarded as key for shrinkage of its macroeconomy. Because of its zero-Covid policy, the World Bank, as well as other international monetary and economic monitoring organizations, have lowered their forecasts for China (Davidson, 2022). China must now be regarded as just another player in the Asia-Pacific region as opposed to the area's economic leader.

China's zero-Covid policy has been cited as a key reason why its industrial production declined by 2.9 per cent in April 2022 as compared to one year earlier (Shu & Zhu, 2022). Also, retail sales in the country dropped by 11.1 per cent for the same time period while projections were for a smaller decrease.

Another troublesome sign for China's economy is unemployment. China is experiencing a significant rise in unemployment for all its workers which is rather unexpected. In September 2022, unemployment rose to 5.5 per cent from 5.3 per cent in August (Brown, 2022). What could hurt China's future is the current record-setting unemployment rate among its young people. It is estimated that a record 11.6 million college graduates will join China's workforce in 2023 and that there will be an unemployment rate of 20 per cent among its young people (Yuan, 2023).

The problem for China is that more and more young people are completing college, both on the undergraduate and graduate levels, and cannot find employment commensurate to their level of education. And even if they do find employment it most often is outside of their field of study or training and at much less income than they need to live on. This often means either living at home with their parents or in substandard accommodations. President Xi has not helped the situation by encouraging these educated, skilled young workers to perform manual labor or relocate to China's countryside in order find work. Xi stated that China's young people should "eat bitterness" or endure hardships (Yuan, 2023). This advice has not been well received by China's young people who attended school and endured the frustrations and hard work associated with higher education, only to encounter a job market that is contracting to dangerous levels as well as lower wages. This was not the end-result they were promised when they were encouraged to attend school many years ago. In the long run, this could cause many young people to leave China for other countries that need workers and pay a living wage with chances for advancement. Or cause discontent in China in which there could be serious threats to the nation's leaders and how they have traditionally ruled the country.

There are also problems with China's real estate market that could affect many other parts of the economy. Chinese policymakers have used real estate as a key component of its economy in order to reach the level of growth they wanted to achieve. While this strategy worked for the short term, it is now having serious repercussions.

China's housing market has been able to boost the national economy but it has been in a downward trajectory since about 2021. Sales of new homes have declined at more than 10 per cent every month since August 2021 while new home prices are also falling after the central government cracked down on property developers who were heavily in debt (Shu & Zhu, 2022). China has experienced a 2.7 per cent decline in the investment in property development during the first third of 2022 combined with a 32 per cent drop in the value of home sales (Shu & Zhu, 2022). This is a troublesome sign since new housing is desperately needed in China's major cities and with a drop in the value of home sales there is little to no incentive to build new housing units. The Peterson Institute for International Economics reported in January 2022 that property development made up 25 to 30 per cent of China's macroeconomy (Mackintosh & Rhodes, 2022).

What is also a serious problem is the number of real estate loan defaults by Chinese land developers. According to Standard and Poor's, they estimate that anywhere between 20 and 40 per cent of land developers have the possibility of defaulting on real estate backed loans (Mackintosh & Rhodes, 2022). The potential dilemma is that the lenders to such loans, whether they are commercial banks, finance companies, investment firms, or private individuals, face serious losses if the default rate goes higher than estimated by Standard and Poor's. This would also affect cities such as Nanchang, the capital city of Jiangxi Province, with an oversupply of apartment buildings that developers will have a difficult time trying to sell. For example, Nanchang has had rapid development of apartment buildings construction resulting in an oversupply in which almost 20 per cent of homes located there are vacant which is the highest rate of China's 28 large and midsize cities (Fu & Wakabayashi, 2023). A high number of real estate loan defaults along with an oversupply of apartment buildings would surely contribute to and economic crisis in China.

China's GDP, unemployment, and its real estate crisis are only a few of the many problems confronting policymakers as they try to expand the nation's economy. But the real problem is where President Xi is trying to lead China's economy into the future.

3. What Xi is Trying to Accomplish with China's Economy

President Xi, as any leader would, is instituting his own agenda on the Chinese economy that he hopes in the long run will become the largest on earth. Among the strategies Xi is using is his "common prosperity" campaign. This strategy calls for reducing inequality in China while also dealing with huge technology companies and private firms and their perceived monopolistic behavior (Ang, 2022). Xi's response to these entities has been severe regulatory crackdowns that have frightened investors to the point where they have withdrawn trillions of dollars from Chinese technology firms. These are moneys that are vitally needed if China is to grow and enhance its competitiveness in the global technology field.

Xi is also attempting to keep in check many vital aspects of the free market system in China. This means tight control on any part of China's growing market economy that may pose a serious challenge to its one-party rule and Xi's grip on the nation. The goal is to promote the free market system so that China's economy can grow over the long term but not interfere with its one-party system. Xi, like his predecessors, wants to ensure the fact that the party-state has complete and unyielding control and command of China's economy.

Xi also wants China to challenge the United States in global economic markets, not just in Asia. This means making a direct challenge to the United States from a political perspective in which China does not intend in adopting American political or legal ideas, nor its ways of doing things if it means a direct challenge to the Chinese system (Wu, 2022). Xi wishes to have a growing Chinese economy based on American business principles but without the American concepts of freedom and democracy.

Xi is also using economic statecraft in order to promote China's policies by taking on an active leadership role. This has resulted in President Xi and other Chinese policymakers attempting to have greater international influence in other parts of the world. China realizes that it is the second leading economic power, but in order to eventually become the global leader it must be aggressive when dealing with other nations. This strategy of being aggressive is seen in Xi's "going out" gameplan which calls for encouraging foreign investment by Chinese companies in the form of the Belt and Road Initiative (BRI), or formerly known as One Belt One Road (Wong, 2019). The BRI is a combination of China's foreign policy and economic strategy in which it is combining its geopolitical initiatives with advancing its reach into foreign markets. Xi and China's leaders want to open foreign markets to their products and technology as well as excess labor. The goal is that these overseas investments will give Chinese companies a foothold in foreign markets and provide employment for Chinese workers needing jobs. China has also created the Asian Infrastructure Bank (AIB) under Xi that can provide financial capital to foreign countries that need it and build relationships for the long run.

Xi is also using state-owned enterprises (SOEs) as a key aspect to China's economic base. This will mean that China will have firms owned by the Chinese government and answering only to it and not investors nor shareholders. SOEs allow for companies to hire workers and keep them employed with a regular salary even if there is a recession or a downside in the economy. Many analysts regard this as an inefficient way to run a business that will ultimately lead to reduced profitability. But Xi's goal is to have more control over firms where this is less likely to happen with privately run entities.

As stated by Andrew Collier, managing director of Orient Capital Research, a Hong Kong-based expert in China's macroeconomy, President Xi "essentially doubled down on his existing policies to promote the state-owned system and. . . . . the crackdown on the tech sector that occurred in the past couple of years is very much part of his world view." (Sui, 2022) This has resulted in more financial capital in the form of bank loans going to SOEs rather than to privately owned firms. In this case SOEs receive cash to either expand or remain in business just for the sake of providing workers with employment and an indirect way to control and stymie privately run firms. This will hurt the Chinese economy in the long run.

Xi's leadership is one based on power and control. Because of this strategy, President Xi cannot be credited with helping China become the second largest economy in the world. As stated by Professor Sonja Opper of Bocconi University in Milan, Italy, who studies the Chinese economy, "Xi was able to capitalize on an ongoing entrepreneurial movement and rapid development of a private [sector] economy prior leaders had unleashed." (He, 2022) Xi came into office enjoying the rewards of a growing Chinese economy based on the policies and actions of his predecessors. But in less than five years, his policies have seen the Chinese economy shrink. These include the zero-Covid policy, the emphasis on SOEs, and stifling the growth of high technology and privately run companies. The result has been an excess of $1 trillion has been lost in the market value of companies such as Alibaba and Tencent, the high technology giants of China, a substantial jump in unemployment for Chinese workers, and record job loss for the nation's young people leading to substantial disenchantment and lack of ambition (He, 2022).

Xi is steering China's economy toward greater state-control which is a totally different way than what advanced nations such as the United States are headed. The Chinese Communist Party newspaper, The People's Daily, had a series of commentaries praising Xi's economic strategy in October 2022 in which the nation would move away from being a virtual economy, more regulations on private firms, and an emphasis on the "real economy" (Di, 2022).

According to one part of the commentary, "The real economy is the lifeblood of [the Chinese] economy. . . General Secretary Xi Jinping has said that the real economy is the foundation of a great country, and the economy cannot be allowed to escape from the real to the virtual." (Di, 2022) What is meant by "real economy" is the shocking aspect of Xi's economic strategy for China with serious implications for its future. "Real economy" means fundamental goods and services such as "food, clothing, housing, transportation, culture, education, health, leisure and entertainment." (Di, 2022) This definition does not include technology, research and development, nor innovation and originality in product design or services. Nor is there any mention of initiative, originality, or "thinking outside the box." If this policy is followed by China, then its economic development will see a severe slow down and eventual decline. Analysts and investors will then lower their expectations for China and become very hesitant about putting any more financial capital into that market. This will also cause China's business elite to leave the country for other nations that are free, willing to accept intelligent and risk-taking entrepreneurs, and expect substantial long-term rewards for their ventures.

4. Conclusion

China's economy has a great long-term potential if it can be allowed to free itself from President Xi's grasp. The Chinese people want to enjoy economic growth and prosperity for themselves, their children, and future generations. But this is becoming very difficult when China's policymakers are placing constraints on the economy in the form of more controls on privately-held firms and high technology companies.

The future lies not with Xi's definition of "real economy" but with new, innovative, modern technology based on research and development performed by bright, intelligent, highly educated young Chinese who can bring the country to new levels of economic and financial growth. Xi represents the past without a new vision for the future. If that new vision does not exist, China's era of extraordinary growth is over. For China to advance economically, it must have leadership with that new vision.

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