

Xi Jinping's Challenges: China's Deep-seated Economic and Social Crisis

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China's economic engines are spluttering as they seek thrust to emerge from a stall. The property sector is mired in debt. Empty apartment blocks, about 65 million units, dot the landscape. They represent just over 20 percent of homes in urban China. They seem to taunt the many millions in the country who desperately need better housing. The [World Bank](#) estimates that 61 percent of China's population lives in cities, up from 36 percent at the turn of the century. It is a property-owning society. About 90 percent own their own homes, with at least 20 percent having more than one.

On top of this, it is estimated that about 100 million properties have been purchased but not occupied.

New home prices in October fell by 0.2 percent, the biggest decline since February 2015.

The market is saturated and the population is aging which means the number of newly-built homes was set to decline anyway before this glut. It was the construction of homes that helped propel the economy. With a growing hostility to the US and a shift to state rather than private enterprises economic vitality seems to be draining. Major power cuts in cities and Covid cases are also taking a toll.

Covid has dampened international demand for goods manufactured in China. And the country is no longer the answer it once was to the question; where will global growth come from? Courier services, delivering everything from hot meals to medicines, with long hours demanded for low wages, are mushrooming in Chinese cities but that means that people are spending less in the actual shops. Consumer consumption is weak.

There is much to admire and cherish about living in Beijing. The streets are clean and safe and for a city of 21 million it is remarkably efficient. But, there is always a but, there are caveats. Pollution is a problem. Less so than say four years ago but still a problem. Bookshops that sell quality tomes have closed. The best, Bookworm in the shopping area of San Li Tun, stopped trading about a year ago. Of course, bookshops are not an obvious

economic indicator. But they can serve as the canary in the coalmine.

E-bicycles, those that can only be unlocked by smartphone apps, clog the pavements. This forces pedestrians to walk on the road and dodge the traffic. It is a hazard that causes injury to hundreds of people a year. The badly parked e-bicycles on busy pavements represent the clear and present danger of over-investment. [Debt in China](#) has increased 13-fold in the past 15 years according to the Bank for International Settlements. It has mushroomed to about three times the size of the entire economy. Many of those loans, about 30 per cent, will never get repaid. GDP per capita is \$10,500, about one sixth of the US equivalent.

The boys from the Chicago school of economics would be rubbing their hands with glee at the prospect of getting their hands on the economy and letting market forces rampage, not necessarily for the benefit of the people. But even allowing limited economic reform would face stiff opposition from President Xi Jinping who would view this step as tantamount to loosening its grip.

Better a weaker economy and stronger party, from his point of view.

China's economic miracle was simple. Unleash capitalism, red in tooth and claw.

A state sector, wasteful of both resources and investment, knows that it is Xi's favorite economic model. Four decades after reform the population is still relatively poor, especially inland.

US export restrictions are beginning to bite. "Self-sufficiency" campaigns hope to replace foreign technology with homemade alternatives. But that, too, could be a drag on the economy.

If China is not on a trajectory to overtake the US economically then Washington needs to recalibrate and respond accordingly.

Xi could also use it to his advantage in another way, a flatlining economy may require a distraction. Growing nationalism? Certainly. A Taiwan crisis? Possibly. A weaker, rather than stronger, country poses challenges not just to the West but to itself.

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