OPINION | COMMENTARY

China's Economic Downturn Gives Rise to a Winter of Discontent

With Xi likely seeking a third term, his critics may have more leverage than they have had for years.

By Kevin Rudd
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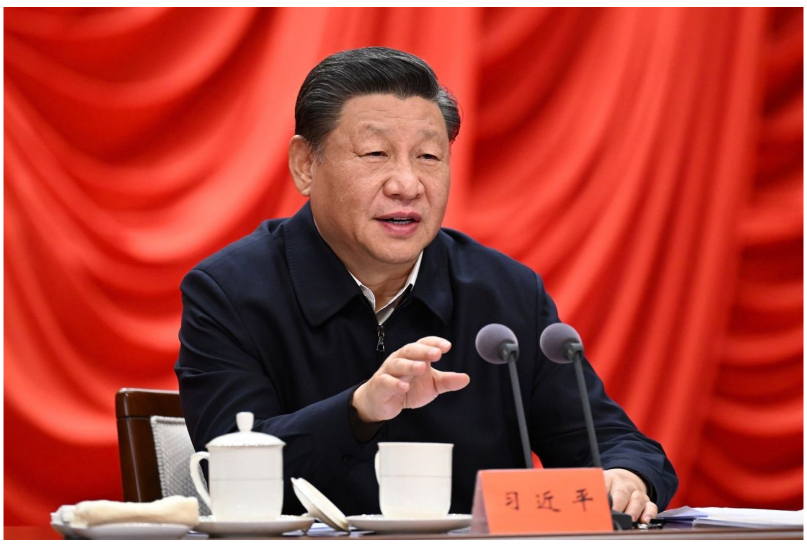

Chinese President Xi Jinping speaks in Beijing, Jan. 11.
PHOTO: LI XUEREN/ZUMA PRESS

China's economic future isn't looking all that bright and is starting to have political implications for President Xi Jinping. The Chinese Academy of Social Sciences expects annual growth to slow to 5.3% in 2022 from 8% in 2021. Real-estate giant Evergrande, declared in default last month by ratings agencies, unleashed a wave of defaults in the country's property sector, which is worth about 29% of gross domestic product.

Evergrande, with $300 billion in liabilities, is only the tip of the iceberg—one of many problems flowing from economic-policy decisions made in Beijing. Political reverberations of those decisions are emerging in China's official media.

China's most important annual economic meeting, the Central Economic Work Conference in December, revealed a debate roiling between reformists and more-conservative officials over whether the market or the state can more efficiently allocate capital and economic resources.

Policy documents from the most recent CEWC—where senior Communist Party officials convene—included a loosening of Mr. Xi's flagship "Common Prosperity" campaign. The effort to ease wealth inequality included a crackdown on many of China's richest private-sector individuals and enterprises and stoked fears of a witch hunt against the wealthy. Policy makers at December's CEWC meeting, while grappling with slower growth, concluded this may have been an overreach and said Common Prosperity should be more of a "long-term historical process." In other words: Now may not be the time to kill the private-sector goose that laid the golden egg.

It is also significant that the directive to "strengthen antimonopoly and prevent disorderly expansion of capital"—which appeared among "Eight Major Tasks" of the 2020 CEWC—wasn't among the "Seven Major Policies" of the 2021 meeting. Instead, policy makers focused on achieving macroeconomic "stability" in 2022. This change in messaging appears designed to assuage China's massive fintech firms, which Mr. Xi has targeted over the past 18 months

This is a crucial year for Mr. Xi because he will likely seek a third five-year term at the Chinese Communist Party's 20th Party Congress this fall—and then potentially rule for life. Presumably, he wants to prevent any disruption of China's economic, financial or social stability. But the economic destruction Mr. Xi's centralization of power has wrought may give his critics leverage that they haven't had for years.

Beneath the surface of Chinese politics, there is other evidence of a political reaction to Mr. Xi's attacks on the private sector and his overall negative views on the role of the market.

For starters, last month Qu Qingshan, a member of the Central Committee, the Communist Party's senior leadership body, published a remarkable article in both Qiushi, the Party's flagship ideological journal, and the People's Daily, one of the Party's four approved central propaganda organs. The article subtly rebuked Mr.

Xi's policies by praising Deng Xiaoping's era of "reform and opening" as the key to China's success, and then quoting the former leader's criticism of the legacy of Mao Zedong's Cultural Revolution: "If we do not implement reforms now, our modernization and socialism will be ruined."

This was followed by a piece in another major paper, Liberation Daily, this time by Hu Wei, a leading member of the Party School in Shanghai. It praised Deng for having put to rest "Left Socialism" and the "planned economic system, which completely suffocates the economic vitality of the market and society."

The author tacitly took on Mr. Xi by praising as vital Deng's reforms of the "party leadership system," which ended a period in which power was "overcentralized," leading to "one-voice rule," "arbitrary" individual decision-making, and the damaging phenomenon of some cadres "leading for life." Fulfilling China's "economic miracle" will require more than continuing to throw off "the shackles of the planned economy," the article continued. "We must not only break through the imprisonment of ideology, but also reform the leadership system of the party and the country."

That is a daring position to take in the Xi Jinping era.

It isn't clear how widespread the dissent or resistance to Mr. Xi may be. But the two articles in the party's historically most important outlets may signal that some members are frustrated with Mr. Xi's ideological move to the left and the consequent redirection of politics and the economy in that direction.

Mr. Xi has hardly taken this lying down, recently thundering at a Politburo meeting that "unity is the lifeblood of the party," while his allies have launched a barrage of salvos in state media. Nonetheless, even the minor pullback in his Common Prosperity plans—at a meeting Mr. Xi himself attended—is telling.

How much private-sector confidence can be restored by the recent shifts in policy and language is an open question. Soothing words from the top are unlikely to cause private investors to believe that China's political and policy center of gravity has changed.

The Chinese economy could face even tougher times in 2022, leading many to expect the stimulus spigot to be opened for Mr. Xi's election year.

If so, we should expect the rumblings of political discontent to get louder. But given the president’s control over much of the party’s security apparatus and personnel files, and his gifts for the dark arts of internal Chinese politics, Mr. Xi is likely to continue in power come November.

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