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The Domestic Challenges that Threaten China's Superpower Future

Dexter Tiff Roberts

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Introduction

China is facing unprecedented challenges from overseas. The United States has pursued a campaign to cripple China's biggest technology companies, including fifth-generation (5G) telecom leader Huawei and semiconductor maker SMIC. The new administration of US President Joe Biden has largely continued with the more confrontational policies toward China set under Donald Trump, and the tariffs on $370 billion in goods, more than two thirds of China's exports to the United States, have yet to be lifted.[1] China's mercantilist trade and investment policies have fanned trade tensions not just with the United States, but also with Germany, the United Kingdom (UK), Japan, and Australia, while China's increasingly assertive dealings with India, Japan, and Taiwan have turned global opinion against its leadership.

Far more serious, however, are the internal challenges that Beijing confronts, many of its own making. They include: a rapidly aging population, due, in part, to the earlier one-child policy; a wealth gap that is growing alarmingly large and is now one of the world's most extreme; stalled reforms, including those to the household registration or *hukou* system; unbalanced regional development that has been exacerbated by the pandemic; and a dramatic new push to assert party control over private business, what an earlier report dubbed "Xi Jinping's politics in command economy."[2]

China's top leaders are also attempting a radical push to create a far more equitable economy, which Xi has called "common prosperity." That effort has been accompanied by sweeping crackdowns that restrict the business of multiple industries, while utilizing pressure campaigns on China's richest entrepreneurs, getting them to donate their company and personal wealth to Beijing's chosen causes, and leading many of them to resign from running the companies they founded. Called China's "Red New Deal" by some, the startlingly ambitious effort to remake China's economy is likely to be deeply disruptive to China's technology aspirations, future economic growth, and productivity.[3]

Meanwhile, Xi is using his unparalleled power to cement his place in the Chinese Communist Party pantheon alongside Mao Zedong and paramount leader Deng Xiaoping.[4] That will almost certainly culminate with him securing an unprecedented third term in office at a crucial party congress next fall, and perhaps aiming to become what some have called "leader for life."[5] This unprecedented effort, plus his massive anticorruption push, is likely angering other powerful leaders in China who could try to sabotage these plans, with dramatic consequences for China's political order, its economy, and even its social stability.[6]

Even without these ambitious goals, China is undergoing its biggest economic transition in decades, the move from a "factory to the world" model—based on heavy investment at home and producing low-cost manufacturing goods to sell abroad, long reliant on foreign cooperation for technological development—to what its leaders hope will be a much more self-reliant and domestically oriented model.[7] Beijing, too, has long struggled to boost household consumption as a driver of economic growth, while reducing the high savings rates of the Chinese people. After two years of the pandemic, China has only moved backward on those two goals. Whether China can successfully carry out this shift, which has been called the biggest economic change since Deng launched Reform and Opening four-plus decades ago, is an open question.

The demographic challenge of an elderly China and a shrinking workforce is putting new economic burdens

1 Jennifer Hillman and Alex Tippett, "What's Next for U.S. Trade with China?" Council on Foreign Relations, October 7, 2021, https://www.cfr.org/in-brief/whats-next-us-trade-china?gclid=EAIaIQobChMIopyYxOyG9AIVnB-tBh2aiQ8uEAAYAiAAEgIK1PD_BwE.

2 Dexter Tiff Roberts, *Xi Jinping's Politics in Command Economy*, *Atlantic Council*, July 29, 2021, https://www.atlanticcouncil.org/in-depth-research-reports/issue-brief/issue-brief-xi-jinpings-politics-in-command-economy/.

3 "China's Red New Deal: Tracking All the Different Crackdowns on Companies Going on Right Now," *SupChina*, September 9, 2021, https://supchina.com/2021/09/09/chinas-red-new-deal-a-guide-to-all-the-different-crackdowns-on-companies-going-on-right-now/; Nina Xiang, "Xi Jinping Risks Toppling China's Tech House of Cards," *Nikkei Asia*, September 4, 2021, https://asia.nikkei.com/Opinion/Xi-Jinping-risks-toppling-China-s-tech-house-of-cards.

4 "Xi Jinping Is Rewriting History to Justify His Rule for Years to Come," *Economist*, November 6, 2021, https://www.economist.com/china/2021/11/06/xi-jinping-is-rewriting-history-to-justify-his-rule-for-years-to-come.

5 Jeremy Wallace, "Is Xi Jinping Now a 'Leader for Life,' like Mao? Here's why this is dangerous," *Washington Post*, Februrary 27, 2018, https://www.washingtonpost.com/news/monkey-cage/wp/2018/02/27/is-xi-jinping-now-a-leader-for-life-like-mao-heres-why-this-is-dangerous/.

6 John Ruwitch, "China's Leaders May Decide to Allow Xi Jinping to Stay in Power," wbur, November 9, 2021, https://www.wbur.org/hereandnow/2021/11/09/xi-jinping-future-china; Richard McGregor and Jude Blanchette, "After Xi: Future Scenarios for Leadership Succession in Post-Xi Jinping Era," Center for Strategic and International Studies, April 21, 2021, https://www.csis.org/analysis/after-xi-future-scenarios-leadership-succession-post-xi-jinping-era

7 Dexter Roberts, *The Myth of Chinese Capitalism* (New York: Macmillan, 2020), https://us.macmillan.com/books/9781250089373.

on government, companies, and families, and is a drag on innovation.[8] The rising wealth gap is both threatening the building of a more consumption-driven economy and raising the risks that social tensions could lead to instability. Beijing's halting progress on key reforms—including ending the restrictive household-registration policy that ensures about half of Chinese remain second-class citizens, with limited access to affordable quality healthcare and good education—hurts China's productivity and puts its plans for a higher value-added economy powered by skilled workers at risk. And, the continued existence of a dual land system between city and countryside prevents rural Chinese from monetizing the land they till, and is holding back economic growth and leading to rising tensions between citizens and local-level government officials.

All of these challenges raise the possibility that China could get stuck in the "middle-income trap," in which a country's economy stalls and it finds itself unable to join the ranks of developed countries. More worryingly, it could face substantial social unrest that would undermine the government's hold on power. That, too, could test the apparently still strong popularity of the Chinese Communist Party. How China manages these sweeping challenges will also affect how it deals with the world, and whether its economy is a driver or a drag on future global growth.

Xi's Deep Ambition

The rise of Xi Jinping has been defined by his deep ambition. Chosen as a compromise candidate by party elders—including former President Jiang Zemin and his deputy, Vice President Zeng Qinghong—many predicted Xi would keep his head low and, for a time, hew to the policies established by his predecessors.[9] As Xi was not clearly associated with any powerful group within the government or the party, such as the Communist Youth League or Shanghai faction, he would need to take baby steps at first and be careful to not offend anyone.[10] It was also widely believed that Xi would eventually prove to be a proponent of expanding the role of private business and carrying out economic reforms in a way familiar to the West. His decade running Zhejiang, one of the country's most open provinces and home to many of China's biggest private firms—including Alibaba, automaker Geely, and snack-and-beverage giant Wahaha—and the influence of his father, former Vice Premier Xi Zhongxun, who played a key role in launching the special economic zones early in China's reform era, were both aspects of his background that suggested this proclivity, or so the argument went.[11]

Now one can see how radically wrong those assumptions were. Shortly after being named general secretary of the Chinese Communist Party at the 18th Party Congress in 2012, and even before his appointment to his state role as president in early 2013, Xi announced the first of his political campaigns, the "China Dream," calling for a much stronger and wealthier China. The slogan was soon being taught in Chinese schools, being debated in mandatory party cadre discussion sessions, and appearing on billboards across the country. By contrast, his predecessor, Hu Jintao, waited almost three years before he introduced his political catchphrase, "harmonious society," which focused on reducing inequity and creating a more stable China.

In a far more stunning demonstration of his power, within his first year Xi launched an anticorruption campaign the likes of which China had not seen in decades. Rather than run a few months and quietly end, as was true of previous campaigns under his predecessors, the sweeping battle against official malfeasance continues today. And, its targets have been high in the party structure, suggesting that its purpose has not just been rooting out graft and corruption, but also taking down Xi's political rivals. On November 6, China's official Xinhua News announced that, over the past nine years, more than four hundred officials at the ministerial level or higher had been punished or investigated, including two former vice chairmen of the Central Military Commission, as well as a former member of the Politburo Standing Committee, the elite group of China's top leaders.[12]

Xi's ambitious, and so far successful, efforts to rewrite the map of Chinese politics can be seen in many other places. The earlier creation of party-leading small groups, many of which Xi heads, to manage everything from cybersecurity

8 "Chinas' Aging Population Bad for Innovation, Says Ctrip's Liang," Bloomberg, December 18, 2017, https://www.bloomberg.com/news/articles/2017-12-18/china-s-aging-population-bad-for-innovation-says-ctrip-s-liang.

9 Dexter Roberts, "Xi Jinping Is Officially China's New President. Now What?" Bloomberg, March 14, 2021, https://www.bloomberg.com/news/articles/2013-03-14/xi-jinping-is-officially-chinas-new-president-dot-now-what.

10 Cheng Li, "One Party, Two Factions: Chinese Bipartisanship in the Making?" Conference on Chinese Leadership, Politics, and Policy, Carnegie Endowment for International Peace, November 2, 2005, https://carnegieendowment.org/files/Li.pdf.

11 Dexter Roberts, "Will Xi Jinping Be the Reformer China Needs?" Bloomberg, March 1, 2013, https://www.bloomberg.com/news/articles/2013-02-28/will-xi-jinping-be-the-reformer-china-needs.

12 Wang Jinye, et al., "Profile: Xi Jinping, the Man Who Leads CPC on New Journey," Xinhua, November 6, 2021, https://xhnewsapi.xinhuaxmt.com/share/news_pc?id=626517694570496.

to economic reform was seen as a power grab from the government apparatus run by premier Li Keqiang.[13] Xi's restructuring of the People's Liberation Army, including its military command, was crucial to further cement his power, as was getting his official dogma, formally known as "Xi Jinping Thought on Socialism With Chinese Characteristics for a New Era," put into the party constitution in 2017. By contrast, Xi's two predecessors, Hu Jintao and Jiang Zemin, did not have their names attached to their doctrines, and had to wait until they retired before getting their offerings written into the document.[14] In August of this year, the Ministry of Education announced that studying Xi Jinping Thought would become mandatory for all students from primary school to college.[15]

Now, Xi is engaged in his most ambitious effort to date. After successfully getting term limits for the presidency dropped several years ago, he is preparing to stay on as leader after next fall's 20th Party Congress, breaking the ten-year term that previous leaders followed. This move goes against Deng's efforts to ensure that no single leader becomes too powerful, fixated on his own radical ideas, and leads China down a path that damages its economy and people.

Xi sees this radical break as necessary to carry out his revolutionary plans to transform China. He believes the sweeping changes are the right thing to do; lifting up Chinese who have been left behind, for example. At the last party congress in 2017, he signaled this priority in a speech in which he described a new "principal contradiction" facing China. No longer was it the "ever-growing material and cultural needs" of the people confronted with "backward social production" of the Deng Xiaoping era; instead, it was the "contradiction between unbalanced and inadequate development and the people's ever-growing needs for a better life." That meant a new emphasis on ensuring higher-quality economic growth, and solving problems such as inequality, regional gaps, pollution, and corruption—some of which are included in today's "common prosperity" campaign (indeed, Xi mentioned the need for "common prosperity" briefly in that 2017 speech).

Xi, too, believes his unprecedented consolidation for power is necessary to save the party and make China into a strong and prosperous country—and he believes now is the time to act. The first of two centenary goals was achieved earlier this year, timed to happen on the hundredth anniversary of the founding of the Chinese Communist Party on July 1. That goal was making China into a "moderately prosperous country," with ending absolute poverty a key piece. Now comes the much more ambitious centenary goal: making China into a stronger and prosperous country, with the target date of 2049, the hundredth anniversary of the founding of the People's Republic of China. There is a widespread belief in Beijing that, while China is on the rise, the West is in terminal decline. "The world is in a turbulent time that is unprecedented in the past century" and "time and momentum are on China's side," Xi said in a speech early this year.[16]

That almost messianic sense of his special role was on evidence just months after Xi took power almost a decade ago, when he spoke to People's Liberation Army (PLA) soldiers in Shenzhen about the dissolution of the Soviet Union and its leading party, blaming Mikhail Gorbachev for his role in their demise. ""Finally, all it took was one quiet word from Gorbachev to declare the dissolution of the Soviet Communist Party, and a great party was gone," Xi said in December 2012.[17] That happened only because "in the end nobody was a real man, nobody came out to resist," he continued, the clear implication being that Xi would be the "man" who would fight for the future of a party and China facing huge challenges.

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13 Christopher K. Johnson, Scott Kennedy, and Mingda Qiu, "Xi's Signature Governance Innovation: The Rise of Leading Small Groups," Center for Strategic and International Studies, October 17, 2017, https://www.csis.org/analysis/xis-signature-governance-innovation-rise-leading-small-groups; Lingling Wei and Jeremy Page, "Discord Between China's Top Two Leaders Spills Into the Open," *Wall Street Journal*, July 22, 2016, https://www.wsj.com/articles/discord-between-chinas-top-two-leaders-spills-into-the-open-1469134110.

14 Charlotte Gao, "The CCP Says Xi Jinping Deserves to Have His Name Written in the Party Constitution," *Diplomat*, October 27, 2017, https://thediplomat.com/2017/10/the-ccp-says-xi-jinping-deserves-to-have-his-name-written-in-the-party-constitution/.

15 David Stanway, "China to Add 'Xi Jinping Thought' to National Curriculum," Reuters, August 24, 2021, https://www.reuters.com/world/china/china-add-xi-jinping-thought-national-curriculum-2021-08-25/.

16 Kinling Lo, "Xi Jinping Says 'Time and Momentum on China's Side' as He Sets out Communist Party Vision," *South China Morning Post*, January 11, 2021, https://sg.news.yahoo.com/xi-jinping-says-time-momentum-155525366.html.

17 "习近平内部讲话中的"新观点"摘录 [Excerpts from "New Views" in Xi Jinping's Internal Speech]," 阿波罗新闻 [*Apollo News*], January 26, 2013, https://www.aboluowang.com/2013/0126/280590.html.

The Domestic Challenges Holding China Back

Demography is one of the most obvious obstacles facing Xi as he attempts to transform China's economy and put it on a sustainable, long-term growth path. In part because of the earlier impact of the now-loosened one-child policy, but exacerbated by a natural drop-off in births as urban Chinese have become better off and more educated and are choosing to have smaller families, the country is now facing a looming demographic timebomb as the workforce ages, and as the number of retirees who must be supported grows ever larger. The severity of the situation became clear after the release earlier this year of the 2020 national census. While it showed China now has 1.41 billion people, up seventy-two million since 2010—or more than the combined populations of France and the UK—the annual growth rate was only 0.53 percent, the slowest since the country's first census in 1953. Alarmingly, only twelve million babies were born in 2020, the fourth consecutive year of falling numbers and the fewest since 1961. That was the year of China's great famine, following the Great Leap Forward, Mao's disastrous economic experiment that led to tens of millions of deaths by starvation. Today, the total fertility rate (TFR) has dropped to 1.3 births per woman, one of the world's lowest; demographers don't expect it to rebound.[18]

Aging China

Meanwhile, the proportion of Chinese over the age of sixty-five—an age bracket likely to face substantial new healthcare costs, as well as to expect pension support from the Chinese government—has grown from 8.9 percent of the population in 2010 to 13.5 percent today, a figure that demographer Wang Feng of the University of California San Diego has predicted will reach 30 percent by mid-century.[19] The rapidly aging population will put new financial pressures on cash-strapped local governments, which are responsible for providing social welfare like pensions, healthcare, and education in China, and on families facing what is called the "4-2-1 family structure," in which one working couple must support four grandparents (paternal and maternal) and one child.[20] With ever more retirees, the main urban pension fund could be used up by 2035, a study by the Chinese Academy of Social Sciences has predicted.[21] As for rural pensions, the average payout is still only 10 percent that of those in the cities, a gap Beijing has repeatedly pledged to address with new spending. "After about ten years, demographics will start to really hit. The labor force starts dropping much more rapidly…and the total population starts to drop," says University of California San Diego economist Barry Naughton. "That timeframe is a good marker. Government resources will have to go into health care, will have to go into pensions. They will really have to start moving resources in that direction."[22]

The Wealth Gap

An equally important challenge facing China's leaders is dealing with the yawning income and wealth gaps, already some of the world's most extreme. While various surveys show slightly differing numbers for the Gini coefficient, the most widely used measure of inequality (developed by Italian statistician and demographer Corrado Gini), all results put China's income inequality among the world's most severe and above 0.4, a level widely believed to be socially destabilizing.[23] Meanwhile, research by noted inequality scholar Thomas Picketty, along with University of California Berkeley economist Gabriel Zucman and Li Yang of the Paris School of Economics, shows that the proportion of total wealth held by the richest 1 percent almost doubled over two decades, growing from just over 15 percent in 1995 to 30 percent by 2015. That level of inequality and the speed of growth are on par with Russia, widely known for having a deeply unequal society.[24]

Figures from China's National Bureau of Statistics show that the richest 20 percent of Chinese had an average disposable income above 80,000 yuan ($12,000) last year, 10.2 times what the bottom 20 percent earn. That compares to a multiple of five in Western European countries

18 Frank Lavin, "China's Slowing Birth Rate: Can Beijing Reverse the Trend?" *Forbes*, May 11, 2021, https://www.forbes.com/sites/franklavin/2021/05/12/chinas-slowing-birth-rate-can-beijing-reverse-the-trend/?sh=49d9fee87323.

19 "What Should China Do about Its Aging Population?" ChinaFile, May 6, 2021, https://www.chinafile.com/conversation/what-should-china-do-about-its-aging-population.

20 Quanbao Jiang, "The 4-2-1 family structure in China: A survival analysis based on life tables," *European Journal of Ageing* 8, 2, 2011, 119–127, https://www.researchgate.net/publication/226136298_The_4-2-1_family_structure_in_China_A_survival_analysis_based_on_life_tables.

21 Frank Tang, "China's State Pension Fund to Run Dry by 2035 as Workforce Shrinks Due to Effects of One-Child Policy, Says Study," *South China Morning Post*, April 15, 2019, https://www.scmp.com/economy/china-economy/article/3005759/chinas-state-pension-fund-run-dry-2035-workforce-shrinks-due.

22 Interview with author, April 30, 2021.

23 Terry Sicular, Shi Li, Ximing Yue, and Hiroshi Sato, eds., *Changing Trends in China's Inequality* (Oxford: Oxford University Press, 2020).

24 Thomas Piketty, Li Yang, and Gabriel Zucman, "Capital Accumulation, Private Property, and Rising Inequality in China, 1978–2015," *American Economic Review* 109, 7, 2019, 2469–2496, https://www.aeaweb.org/articles?id=10.1257/aer.20170973.

like Germany and France, and 8.4 in the United States, according to the Organisation of Economic Co-operation and Development (OECD), Bloomberg News reported earlier this year.[25] And, while China had 1058 billionaires last year, more than in the United States, it also had six hundred million people who lived on only 1,000 yuan a month, Premier Li Keqiang noted last year.[26]

Unfinished Reforms

A looming question is whether Xi and his deputies will carry through with their bold plans to change China's economic structure to make it fairer this time, or will pull back when challenges arise. Their track record on pursuing arguably the most important reform—that of the household registration system or *hukou*—isn't very good. Top party officials meeting for a third plenum in the fall of 2013 laid out strikingly ambitious plans for reform of the *hukou*, also pledging to move to end the dual land system between city and country—both legacy policies that date back to the Mao era—carry out local-government fiscal reforms to ease the burden on cash-strapped local governments, and give the private sector a much larger role in the economy.[27] According to the sixty-point reform plan laid out in the plenum communique, markets were henceforth to play a "decisive" role in the economy, up from their previous "basic" role, while reform of rural land would allow farmers to "equally participate in the modernization drive and share its fruits."[28] By 2020, the communique stated, "the reform tasks put forward in this Resolution are to be completed."[29]

The *hukou* reform pledges were fleshed out with targets set the following year, when China's State Council issued the "National New-type Urbanization Plan (2014–2020)" as well as the related "State Council Opinion," which together aimed to expand the number of Chinese with urban *hukou* by one hundred million, while reducing the overall size of the so-called "floating population" of migrant workers.[30] A key target was to reduce the gap between migrants who lived in cities but had no access to urban social-welfare benefits, because of their rural *hukou* status, and the overall urban population. In 2014, 17.8 percent of all urban residents fell into this disadvantaged category, and the goal was to reduce the proportion to 15 percent by 2020.

This was to be accomplished by granting more urban *hukous* through a tightly controlled points system. By having a certain level of education, paying taxes, and contributing to local company social welfare, migrants could earn points, with a certain number necessary to get the coveted urban *hukou* and the benefits that came with it. For most migrants, the majority of whom don't even have a contract with their employer, the coveted urban *hukou* has been out of reach. Meanwhile, the largest and most attractive cities for migrants—places like Beijing, Shanghai, Shenzhen, and many provincial capitals—have been the least welcoming, putting the bar for local citizenship highest.

The failure of that effort was revealed by the 2020 census. It showed 63.9 percent of all Chinese lived in cities by last year—seemingly a positive step toward creating a more urbanized China, an official goal.[31] The proportion of those who were migrants reached a new high of almost five hundred million.[32] But, the proportion of all urban residents who still did not have local *hukou* had actually increased to 18.5 percent, even higher than when the plan was announced in 2014. "China's *hukou* reform has stalled and arguably even regressed," wrote University of Washington geographer and *hukou* expert Kam Wing Chan in the *Jamestown Brief* earlier this year.[33]

25 "China's Wide Income Gap Holds Back Consumer Spending," Al Jazeera, January 19, 2021, https://www.aljazeera.com/economy/2021/1/19/bb-chinas-wide-income-gap-holds-back-consumer-spending.

26 "China Has 1,058 Billionaires, Outpacing the US: Hurun Report," *Global Times,* March 2, 2021, https://www.globaltimes.cn/page/202103/1217047.shtml.

27 Dexter Roberts, "Get Ready: China's Third Plenum Will Open Nov. 9," Bloomberg, October 31, 2013, https://www.bloomberg.com/news/articles/2013-10-31/get-ready-chinas-third-plenum-will-open-nov-dot-9.

28 Dexter Roberts, "The Trouble with China's Reform Plan," Bloomberg, November 18, 2013, https://www.bloomberg.com/news/articles/2013-11-18/the-trouble-with-chinas-reform-plan; "Communiqué of the 3rd Plenum of the 18th Party Congress," China Copyright and Media, November 12, 2013, https://chinacopyrightandmedia.wordpress.com/2013/11/12/communique-of-the-3rd-plenum-of-the-18th-party-congress/; Dexter Roberts, "Market to Play 'Decisive' Role, Says China Plenum Communiqué," Bloomberg, November 12, 2013, https://www.bloomberg.com/news/articles/2013-11-12/market-to-play-decisive-role-says-china-plenum-communiqu?sref=a9fBmPFG; "New Urban-Rural Relations to Take Shape: Communique," *Global Times*, November 12, 2013, https://www.globaltimes.cn/content/824360.shtml#.Uoli3ygry0s.

29 "CCP Central Committee Resolution Concerning Some Major Issues in Comprehensively Deepening Reform," China Copyright and Media, November 15, 2013, https://chinacopyrightandmedia.wordpress.com/2013/11/15/ccp-central-committee-resolution-concerning-some-major-issues-in-comprehensively-deepening-reform/.

30 "国家新型城镇化规划（2014－2020年）," [National New Urbanization Plan (2014-2020)], 中央政府门户网站[Central Government Portal], March 16, 2014. http://www.gov.cn/zhengce/2014-03/16/content_2640075.htm; "国务院关于进一步推进-户 籍 制 度 改 革 的 意 见,"[State Council on further advancement Opinions on the Reform of the Household Registration System], 国务院[State Council], July 24, 2021.

31 Peter Brennan, "Weak Chinese Consumption Holds Back Global Economic Recovery," S&P Global, March 16, 2021, https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/weak-chinese-consumption-holds-back-global-economic-recovery-63169784.

32 Scott Kennedy and Mingda Qiu, "Surprises from China's Latest Census," Center for Strategic and International Studies, May 14, 2021, https://www.csis.org/blogs/trustee-china-hand/surprises-chinas-latest-census.

33 Kam Wing Chan, "What the 2020 Chinese Census Tells Us About Progress in Hukou Reform," *China Brief* 1, 15, 2021, https://jamestown.org/program/what-the-2020-chinese-census-tells-us-about-progress-in-hukou-reform/.

Lack of progress on reform matters because of China's badly skewed social-welfare system, with deep gulfs between the relatively high-caliber services provided to those from urban areas along the country's coast and the rural areas in interior provinces.[34] Along with the gulf in urban vs. rural pensions, the gap is also obvious in healthcare, reflected in life expectancy being far higher in, for example, Shanghai, where the average male lives to 80.2 years, while in Tibet it is only 68.4 years. Perhaps most striking is China's unequal education system, as expenditures per pupil in big cities like Beijing are more than four times higher than in western provinces like Guizhou. The poor education provided in rural China—often through impersonal boarding schools where the estimated one hundred million children of migrants or "left-behind children" grow up far from their parents, who still work mainly in the east—helps explain why dropout rates are so high in the countryside. Only 30 percent of China's labor force has graduated from high school, a lower rate than in other developing countries including South Africa, Turkey, and Mexico, research by Stanford University economist Scott Rozelle and researcher Natalie Hell has shown.[35] Meanwhile, only 0.3 percent of rural students—with those from the countryside amounting to about half of all Chinese youth—make it into China's best universities. That compares to 2.8 percent for urban students.[36]

If China is to lift social-welfare provisions across China so that they match those in the cities, as Xi and other leaders have long pledged—a goal that presumably has now become more urgent with the new focus on "common prosperity"—it will be very costly. Today, China only spends some 8 percent of gross domestic product (GDP) on social services. This is low compared to the 20 percent spent in the United States and OECD countries, and is even dwarfed by the 17-percent level reached by Brazil. The cost of eventually bringing its national pension, healthcare, and education just to the levels reached by developed countries a decade ago would surpass the total tax take of the government (17 percent of GDP), says University of California San Diego's Wang Feng. That would leave nothing to pay for road building, policing, or civil-servant salaries. "The government can of course increase taxes, and it will have to, but it is not always easy. There will be a 'stress test' for the government," Wang said to Bloomberg.[37]

The Household-Consumption Dilemma

The unfair social-welfare system is directly related to China's biggest economic challenge: boosting the spending power of the Chinese people and making domestic consumption a more important growth driver. That transition is essential so that China can wean its economy off debt-fueled investment, which became the key creator of GDP following the global financial crisis in 2009, but has gradually lost its effectiveness with ever more spending required to spur growth in recent years. The buildup of debt, too, could lead to a financial or economic crisis if not properly managed. Even as officials have been calling stronger household spending a national priority for more than a decade, consumption has been stubbornly stuck below 40 percent. That low level compares to an average of 55 percent for other major economies, according to Standard & Poor's (S&P) Global.[38] "The weak consumption figures are also an unwelcome development for Beijing's policymakers, who want to transition the burden of growth in the long term onto the growing middle-class consumer base and away from debt-fueled investment and industrial exports," notes a 2021 report from the financial information company.

Together, the aging population, the wealth gap, and the poor quality of social services for half of Chinese are a perfect storm inhibiting household consumption. The fact that wealth is concentrated among a relative few means most Chinese have limited spending power. The low quality of welfare services and lack of access force many Chinese to turn to pricier private alternatives for healthcare and education. This leads to what economists call "precautionary saving," where people don't spend and instead save most of their income in expectation of possible future costs, such as elevated medical, school, and retirement costs. That reality has contributed to China's extremely high level of household savings, which amounts to 23 percent of GDP, 15 percentage points higher than the global average of 8 percent, according to the International Monetary Fund.[39] China's national savings rate is similarly inflated. At 45 percent of GDP, it is one of the highest in the world, compared to a global average of 25 percent, and 15 percent for developing countries. Meanwhile, the growing burden of taking care of an ever-older population also pressures younger Chinese to save. Labor economist Cai Fang, who recently became a member of China's central

34 Roberts, *The Myth of Chinese Capitalism*.

35 Scott Rozelle and Natalie Hell, *Invisible China* (Chicago, University of Chicago Press, 2020).

36 "Education in China Is Becoming Increasingly Unfair to the Poor," *Economist*, May 29, 2021, https://www.economist.com/china/2021/05/27/education-in-china-is-becoming-increasingly-unfair-to-the-poor.

37 "China Bets on Productivity Over Population to Drive Its Economy," Bloomberg, May 11, 2021, https://www.bloomberg.com/news/articles/2021-05-11/china-bets-on-productivity-over-population-to-drive-its-economy.

38 Brennan, "Weak Chinese Consumption Holds Back Global Economic Recovery."

39 Longmei Zhang, et al., "China's High Savings: Drivers, Prospects, and Policies," International Monetary Fund, December 11, 2018, https://www.imf.org/en/Publications/WP/Issues/2018/12/11/Chinas-High-Savings-Drivers-Prospects-and-Policies-46437.

bank monetary policy committee, warned in a speech earlier this year of the "demand side" effects of aging and how they could further suppress consumption, hurting the economy.[40]

Regional Gaps

Meanwhile, the pandemic has exacerbated existing inequalities, including regional gaps.[41] In the years after Deng Xiaoping decided to "let some get rich first" with reform and opening in the 1980s, an ever-larger gulf emerged between wealthier coastal provinces and the interior. By the year 2000, narrowing the geographical differences became a central concern, with former President Jiang Zemin launching the Develop the West policy, and some progress was made.[42]

Today, the gap seems to be reemerging with a vengeance. China's northeast, historically the rust belt home to heavy industries like steel and cement, has seen its population drop much more rapidly than much of the rest of the country, as the latest census shows.[43] The five provinces with the slowest-growing economies in the first half of this year—other than Hubei, where the pandemic hit hardest—are all from the northeast and north of China, including Heilongjiang, Liaoning, Inner Mongolia, and Hebei.[44] All saw negative growth in retail sales, often seen as a proxy for consumption. The jobs situation also mirrored this trend. While the number of positions exceeded applicants in eastern, central, and western China, the northeast and north of the country, including large cities like Beijing and Tianjin, saw the opposite, according to a survey by the China Institute for Employment Research at Renmin University of China and job website Zhaopin. "The pandemic inflicted a shock to the psychology of the average Chinese household," said Nigel Chiang, an economist at Centennial Asia Advisors, speaking to the *South China Morning Post*.[45] "[There is a] fundamental change in spending behavior arising from a more anxious citizenry, despite the economic recovery."

The growing division between those of different socioeconomic backgrounds is obvious from a survey done earlier this year by Ant Group and the Southwest University of Finance and Economics Household Finance Survey Center, which canvassed people on how they perceive their economic prospects.[46] For China's low-income people, or those making less than 30,000 yuan ($4,643) a year, one-third said their incomes in the second quarter of this year were actually lower than they were in the same period of 2019, before COVID. More worryingly, more than half reported they only had enough financial assets to survive for three months, and most said they were worried about their future employment. By contrast, wealthier people reported far better incomes, finances, and work prospects. "Higher income people are doing better in all aspects—household incomes, assets and job security—lower income people are doing worse. That's the story for China's economy today," says economist Gan Li of Southwest University, who as director of the survey center has been overseeing similar polls of Chinese households for more than a decade.[47]

Pandemic Backsliding

China is also emerging from the pandemic having lost ground on its rebalancing goals despite their recently being given even more priority under Beijing's new dual-circulation strategy.[48] That's the plan to move to a much more domestically reliant economy, and lessen dependence on exports and investment, while simultaneously creating greener growth and reducing carbon emissions. The imperative of shifting the economy away from the old growth model got new impetus following the imposition of tariffs on Chinese goods during Trump's trade war, which today are still largely intact under US President Biden. (The November 10 signing of a climate agreement between US climate czar John Kerry and China's Xie Zhenhua in Glasgow, Scotland, also adds urgency to the goal.) But, GDP growth this year has been driven by a surge in infrastructure and, until the recent crackdown on

40 "蔡昉：中国经济复苏要防止美国经济复苏带来的负面外溢效益 [Cai Fang: China's Economic Recovery Must Prevent the Negative Spillover Benefits of the US Economic Recovery]," 新浪财经 [*Sina Finance*], April 11, 2021, https://finance.sina.com.cn/hy/hyjz/2021-04-11/doc-ikmxzfmk6229636.shtml.

41 Ji Siqi, "Coronavirus Amplifies China's Regional Economic Divide, as Some Provinces Struggle to Reset Consumption," *South China Morning Post*, August 10, 2021, https://www.scmp.com/economy/china-economy/article/3144093/coronavirus-amplifies-chinas-regional-economic-divide-some.

42 Doris Ma and Tim Summers, "Is China's Growth Moving Inland? A Decade of 'Develop the West,'" Chatham House, 2009, https://www.chathamhouse.org/sites/default/files/public/Research/Asia/1009pp_chinasgrowth.pdf.

43 "China Census Reveals the True Scale of the Northeast's Decline," *Andrew Baston's Blog*, May 12, 2021, https://andrewbatson.com/2021/05/12/china-census-reveals-the-true-scale-of-the-northeasts-decline/.

44 Karen Yeung, "China's Economic Recovery Normalising after Coronavirus, but Consumers Still Suffering from 'Psychological Shock,'" *South China Morning Post*, August 12, 2021, https://www.scmp.com/economy/china-economy/article/3144680/chinas-economic-recovery-normalising-after-coronavirus.

45 Ibid.

46 "After the epidemic: Changes to the finances of Chinese families,"(疫情后时代中国家庭的财富变动), Southwest University of Finance and Economics Household Finance Survey Center, Ant Group, 2021Q1 https://e.swufe.edu.cn/

47 Interview with author, July 30, 2021.

48 Frank Tang, "What Is China's Dual Circulation Economic Strategy and Why Is It Important?" *South China Morning Post*, November 19, 2020, https://www.scmp.com/economy/china-economy/article/3110184/what-chinas-dual-circulation-economic-strategy-and-why-it.

Evergrande and the indebted real-estate sector, heavy property investment.[49]

These grassroots challenges are hindering the continued growth of China's middle class, now estimated to number more than seven hundred million people, or a little more than half the population, according to the Pew Research Center.[50] To date, the overwhelming majority of China's newly prosperous citizens have all come from urban, largely coastal regions. That is directly because of the *hukou* policy, putting those from rural areas in a more precarious position, with substandard social services and limited work opportunities. A second, equally large, obstacle to expanding the middle class is the dual land system, which restricts the ability of those from the countryside to rent or sell their land at market value. That stands in direct contrast to the cities, where urbanites have experienced an explosion in wealth as city apartments have rapidly appreciated in value since former Premier Zhu Rongji launched state-enterprise housing reform in 1998.[51] That leaves close to a billion Chinese who likely will continue to be blocked from joining the better-off middle class unless Beijing finally reforms these legacy policies that hold them back.[52]

49 Tom Hancock, "China Sticks With Old Growth Drivers to Spur Covid Recovery," Bloomberg, April 19, 2021, https://www.bloomberg.com/news/articles/2021-04-19/china-s-old-growth-drivers-are-here-to-stay-in-pandemic-recovery?sref=a9fBmPFG; Stella Yifan Xie, "China to Walk a Fine Economic Line After Posting Second-Quarter Growth," *Wall Street Journal*, July 15, 2021, https://www.wsj.com/articles/china-to-walk-a-fine-economic-line-after-posting-second-quarter-growth-11626345365?st=0bzzhoc488qiio0&reflink=desktopwebshare_twitter.

50 "How Well-off is China's Middle Class?" ChinaPower, Center for Strategic and International Studies, https://chinapower.csis.org/china-middle-class/.

51 Dexter Roberts, "Home Ownership For The Chinese? Well, Maybe Later," Bloomberg, August 2, 1998, https://www.bloomberg.com/news/articles/1998-08-02/home-ownership-for-the-chinese-well-maybe-later-intl-edition.

52 Roberts, *The Myth of Chinese Capitalism.*

China's Self-Inflicted Policy Wounds

While China's challenges at the grassroots are clearly hindering its ability to transition to a more sustainable economy, the top-down policies—economic, political, and ideological—seem to be making things even worse. This year's series of sweeping crackdowns on technology companies and large private businesses have at least three purposes: regulatory-market measures to deal with issues like monopolies and data security; common prosperity goals to make a fairer economy; and efforts to assert more political control over what Beijing perceives as its increasingly wayward rich entrepreneurs. The first goal—one whose measures could potentially create an even stronger economy if it allowed more room for newly competitive smaller firms to succeed—is apparent in Beijing's moves to curb the monopoly power of companies like e-commerce giant Alibaba and food-delivery firm Meituan, and in measures that aim to protect the data security of millions of Chinese, as when the Cyberspace Administration of China (CAC) launched a security probe into ride-hailing giant Didi—in that case, coming right after its initial public offering (IPO) in New York and badly damaging it business.[53] Also, in October, Beijing announced draft rules blocking other companies that hold large amounts of data from listing overseas.[54]

"Trumpeters of Western Capitalistic Ideology"

Beyond imposing standard market-regulatory measures, another purpose is top-down control. This is part of one of Xi's clearly most important aims: strengthening the party's power over not just the government and the military, but also society and business. Xi emphasizes this through his frequent use of the slogan: "East, west, north and south—the party leads them all." It is a radical departure from earlier years, which saw a broad trend toward ever more business-friendly policies—beginning with former President Jiang Zemin's doctrinal shift of the "Three Represents," recognizing the important role of entrepreneurs. Xi's shift began to become clear in 2016, when he declared in a high-profile speech in Beijing that private firms must "love the motherland, love the people, love the Communist Party and actively practice socialist core values."[55] In a separate, earlier speech, Xi warned of those who have "unwittingly become trumpeters of Western capitalistic ideology," a development that could have "disastrous consequences."[56]

The previous year, Xi's administration had already taken steps to rein in China's independent private companies and the entrepreneurs who head them. The expression *shilian,* or "lost contact," became popular after almost three dozen senior managers of private companies, including Guo Guangchang, the chairman of prominent private conglomerate Fosun Group, were picked up by local officials carrying out probes into their business practices.[57] Guo and most others were released shortly afterward, sometimes after paying fines. More recently, the Xi government seems to have moved to much harsher tactics, sentencing a number of high-profile businessmen to long jail sentences on what seem trumped-up charges. Outspoken former real-estate tycoon Ren Zhiqiang, who got one-year probation in 2016 for publishing "erroneous views," was given an eighteen-year sentence last year after writing an essay that called Xi a "clown" for his early mishandling of the pandemic, and sending it to friends; the official charge was for corruption. Also apparently punished, in part, for his criticisms of government policy toward rural Chinese was Sun Dawu, the founder of an agricultural conglomerate in Hebei province near the country's capital. Early this year, Sun was charged with a number of offenses, including illegal fundraising and the catch-all charge of "picking quarrels and provoking troubles," and sentenced to eighteen years in jail.[58]

Less harsh, but ultimately more far reaching, have been efforts to increase the role of the party in the management and operations of private companies. That has taken the form of so-called "mixed ownership," in which state firms buy shares in private companies and vice versa. The number of companies involved in mixed ownership went up almost a quarter

53 "Didi Global's Rapid Ride from IPO Star to Regulatory Target," Reuters, September 3, 2021, https://www.reuters.com/world/china/didi-us-debut-overshadowed-by-china-cybersecurity-probe-2021-07-05/.

54 Xinmei Shen, "China Drafts Tough Rules to Stop Data from Leaving Its Borders as Beijing Tightens Grip on Information," *South China Morning Post*, October 29, 2021, https://www.scmp.com/tech/policy/article/3154135/china-drafts-tough-rules-stop-data-leaving-its-borders-beijing-tightens.

55 Dexter Roberts and Jasmine Zhao, "Chinese Business Feels the Sting of the Party," Bloomberg, May 5, 2016, https://www.bloomberg.com/news/articles/2016-05-05/chinese-business-feels-the-sting-of-the-party.

56 Ibid.

57 Ibid.

58 Alexandra Stevenson, "China Reveals Charges Against Outspoken Businessman," *New York Times*, April 24, 2021, https://www.nytimes.com/2021/04/24/business/china-sun-dawu-arrest-charges.html?smtyp=cur&smid=tw-nytimesworld; Emily Feng, "Chinese Billionaire Sun Dawu Is Sentenced to 18 Years for 'Provoking Trouble,'" National Public Radio, July 28, 2021, https://www.npr.org/2021/07/28/1021651586/chinese-billionaire-sun-dawu-is-sentenced-to-18-years-for-provoking-trouble.

in the three-year period ending in 2018.[59] It has also been accomplished by encouraging more private firms to establish their own party branches, according to Chicago-based think tank MacroPolo. According to Chinese regulation, a party cell can be established in any firm that has at least three employees. After Xi announced this as a priority, the proportion of private enterprises with party organizations grew from 35.6 percent in 2012 to 48.3 percent in 2018, with more than 90 percent of China's top five hundred private companies opening a branch.[60] That proportion likely has become much larger following a top-level party declaration emphasizing the importance of the policy last October.[61]

"For Living In, Not for Speculation"

Finally, the crackdowns also aim to achieve Xi's "common prosperity" goals of making a fairer and less stressful economy and society for Chinese families. That was the rationale for banning the once-huge private for-profit tutoring business. Beijing's stringent efforts to force its heavily indebted property sector—in particular, Evergrande, one of its largest real-estate companies—to reduce dangerously large financial burdens, are also clearly a "common prosperity" goal. Officials fear that property companies could collapse if they were unable to make loan payments, hitting both the economy and the savings of individual Chinese, who hold some 90 percent of their household wealth in property. At the same time, Beijing wants to force inflated apartment prices down and make it easier for Chinese to buy homes without going deeply into debt. The average cost of a home in Beijing now reaches twenty-five times the annual household disposable income of that city's residents, and it is also twenty-five times in Shanghai; in London and New York City, it was just eight and seven times, respectively.[62] Housing, education, and medical fees are jointly referred to as the "three big mountains" whose high costs contribute to inequality. That houses are "for living in, not for speculation" has been a common refrain by Xi.[63]

Fears are growing that the crackdown on the property sector may have gone too far. Restrictions on borrowing by property developers were announced last year, with the so-called "three red lines" another policy trinity. Now the housing market has almost ground to a halt as borrowing costs have soared, and sales have badly stagnated. A sign of that slump appeared when China saw the first drop in home prices in more than six years in September, according to a monthly survey of seventy of China's largest cities carried out by the National Bureau of Statistics.[64] With the property market estimated to make up as much as 30 percent of China's total economic output, as research by Harvard Professor of Public Policy and Economics Kenneth Rogoff and International Monetary Fund (IMF) economist Yuanchen Yang shows, a longer-term slowdown would likely have a serious impact on GDP growth.[65] "They are in a bit of a bind. I expect they will try to help the property sector out this year, and in 2022 before the congress in November, but I think the market faces years of stagnation," former UBS chief economist George Magnus said in a recent interview with CNBC.[66] The impact of a slowdown would spread beyond the country's borders, warned the US Federal Reserve in its Financial Stability Report released on November 8. "Given the size of China's economy and financial system as well as its extensive trade linkages with the rest of the world, financial stresses in China could strain global financial markets through a deterioration of risk sentiment, pose risks to global economic growth, and affect the United States," the report said.[67]

The 56789 Private Economy

Beyond the property industry, the combination of the sweeping crackdowns and tighter party control risk damaging the entire private sector, the most vibrant part of the economy; Xi's advisor Liu He has long referred to the "56789" nature of private business in a nod to its high level

59 Neil Thomas (@neilthomas123), "To what degree has Xi Jinping succeeded in having private firms cooperate more with Party policies? Sharing some data from the official 'China Top 500 Private Firms' survey. Overall, participation in 'national strategies; increased 23% from 384/500 to 471/500 over 2016-2019," Twitter, January 14, 2021, 12:37 p.m., https://twitter.com/neilthomas123/status/1349789018985267207.

60 Neil Thomas, "Party Committees in the Private Sector: Rising Presence, Moderate Prevalence," Macro Polo, December 16, 2020, https://macropolo.org/party-committees-private-sector-china/?rp=m.

61 Scott Livingston, "The Chinese Communist Party Targets the Private Sector," Center for Strategic and International Studies, October 8, 2020, https://www.csis.org/analysis/chinese-communist-party-targets-private-sector.

62 Stella Yifan Xie, "What's Driving Xi Jinping's Economic Revamp? China's Social Mobility Has Stalled," *Wall Street Journal*, November 14, 2021, https://www.wsj.com/articles/xi-jinping-china-economy-growth-poverty-tech-beijing-11636915358.

63 Barry Wilson, "Xi Jinping Says Houses are 'for Living in, Not for Speculation.' But Is Hong Kong Listening?" *South China Morning Post*, November 12, 2017, https://www.scmp.com/comment/insight-opinion/article/2119306/xi-jinping-says-houses-are-living-not-speculation-hong-kong.

64 Pearl Liu, "China's September Home Price Index Falls, the First Monthly Drop in 6 Years and Sign of the Coming Winter for the Real Estate Market," *South China Morning Post*, October 20, 2021, https://www.scmp.com/business/china-business/article/3152972/chinas-september-home-price-index-falls-first-monthly-drop.

65 Kenneth S. Rogoff and Yuanchen Yang, "Peak China Housing," National Bureau of Economic Research, Working Paper 27697, August 2020, https://scholar.harvard.edu/files/rogoff/files/nber_27697_peak_china_housing_1.pdf.

66 Elliot Smith, "China's Property Market Debt Could Weigh on the Country for Years, Economist George Magnus Warns," CNBC, November 9, 2021, https://www.cnbc.com/2021/11/09/chinas-property-market-debt-an-issue-for-the-economy-george-magnus.html.

67 Rob Garver, "US Federal Reserve Warns of Turmoil in Chinese Real Estate Sector," Voice of America, November 9, 2021, https://www.voanews.com/a/federal-reserve-warns-of-turmoil-in-chinese-real-estate-sector-/6307227.html.

of importance.[68] That phrase refers to the fact that nonstate firms generate 50 percent of total tax revenue, 60 percent of GDP, and 70 percent of all innovation produced—and, importantly, make up 80 percent of jobs in the cities and 90 percent of all registered companies. Already, years of favoring the less competitive state sector with easy access to bank credit, particularly after a massive stimulus package was announced and money was pumped into the economy after the global financial crisis in 2008, has hurt overall economic productivity. While before 2007 productivity increases made up about 70 percent of GDP growth—much of that from the then-flourishing private sector, as well as the migration of people from farm work into factories and services—it has now fallen to zero, according to research by University of Toronto economist Loren Brandt. "Tensions have always been there between bottom-up, decentralizing reforms and the state trying to exert itself," Brandt says. "Policy choices and the more visible hand of the state may be at the core of a productivity decline that is widespread."[69] Meanwhile, the private sector has seen its share of fixed-asset investment continue to fall after reaching a peak in 2015, even as state-owned firms take an ever-larger role.[70]

The "common prosperity" push to get some of China's biggest private companies to donate much more of their earnings to Beijing's favored causes—whether they are rural agricultural development or education, what officials have called the "tertiary" part of creating a more equal society—along with new regulations limiting their business scope, seems to be hurting the confidence of many entrepreneurs. That's shown in recent resignations of the well-known founders of some of China's most successful private companies, including Ant Group, JD.com, short-video platform Kuaishou, Pinduoduo, and Bytedance, parent company of TikTok. This has hurt the stock prices of many of them, too—in some cases, devastatingly. Beyond the near-total wipeout of companies like TAL Education and New Oriental English in the for-profit tutoring industry, Alibaba lost $344 billion in market cap over the last year, more than any other listed company in the world. These pressures on the private sector are likely to further hit their economic productivity, as well as be a drag on employment and income growth going forward.[71] Meanwhile, the push to give state enterprises a leading role in the economy, plus vast new sums of government financing being directed at national technology-upgrading targets—what University of California San Diego's Barry Naughton has called "Grand Steerage"—not only squeezes out the more competitive private sector, but diverts huge sums of money from improving China's tattered social-welfare system.

China's Troubled Workers

The labor market, too, is proving a huge challenge for China today. For the blue-collar workforce, the majority of whom are migrants from the interior of China, previous years of rapid wage gains have ended and working conditions are not getting easier. Even as factory and construction jobs are increasingly replaced by those in the service sector—since 2015, most migrants have been employed in service jobs— most are in the informal or gig economy, and are generally low paid and exhausting. One of the most common new-migrant jobs is motorcycle courier, the vast majority of whom do not have work contracts nor get social-welfare benefits. The workers are fined when they are unable to meet near-impossible targets for package delivery and, as a result, drive at high speeds, take few breaks, and are often the victims of road accidents. While the number of couriers is estimated to have reached four million last year, the poor conditions contributed to a turnover rate of about one-third, the highest of all occupations, according to China Labour Bulletin, a Hong Kong-based organization that researches and advocates for worker rights.[72] Workers in the so-called platform economy are increasingly striking over poor conditions, leading to a surge in new protests in recent years.

The response of Chinese officials has been twofold. On the one hand, companies like food-delivery giant Meituan have been ordered to improve working conditions for employees, including for the many drivers who have been hired by middleman labor firms. Meituan and others have been ordered to adjust the use of management algorithms, which have put excessive burdens on workers.[73] Under pressure from regulators touting "common prosperity," ride-hailing giant Didi recently announced it will open a branch of the official Chinese union, making it one of the first big tech firms to do so.[74] But, along with the carrot, Beijing has also used the stick, arresting worker activists like Guizhou migrant Chen Guojiang, who had used social media, including

68 Jude Blanchette, "Against Atrophy: Party Organisations in Private Firms," *Made in China*, April 18, 2019, https://madeinchinajournal.com/2019/04/18/against-atrophy-party-organisations-in-private-firms/; Roberts, *The Myth of Chinese Capitalism*.

69 Interview with author, April 20, 2021.

70 Roberts, *Xi Jinping's Politics in Command Economy*.

71 Albert Park, interview with author, October 9, 2021.

72 "On Singles Day, Price Wars Mean Some Couriers Earn Less than 1 Yuan per Delivery," *China Labour Bulleti*n, November 13, 2021, https://clb.org.hk/content/singles-day-price-wars-mean-some-couriers-earn-less-1-yuan-delivery.

73 "China's Deliverers Battle Algorithms," *Taipei Times*, November 8, 2021, https://www.taipeitimes.com/News/world/archives/2021/11/08/2003767533.

74 "Didi Creates Union, Setting Precedent for Xi's Worker Agenda," Bloomberg, August 31, 2021, https://www.bloomberg.com/news/articles/2021-09-01/didi-creates-union-setting-a-precedent-for-xi-s-workers-agenda.

short videos, to advertise the plight of motorcycle delivery workers and advocate for collective action.[75] Chen was charged with "picking quarrels and provoking troubles" in March. "Anything that coheres collective power for workers is seen as a threat to state power," Eli Friedman, an expert on Chinese labor activism at Cornell University, said in an interview with National Public Radio (NPR) earlier this year.[76]

"Avoiding Involution and 'Lying Flat'"

Managing China's professional and white-collar workforce, too, is becoming challenging, as seen in the recent "996" movement, as workers organized petitions against the culture of long working hours in tech companies (996 refers to working from 9 a.m. to 9 p.m., six days a week).[77] And, with the number of annual graduates setting a new record of nine million earlier this year, many without the skills needed in China's fast-shifting economy, the struggle to find work has become ever more difficult. That was reflected in an unemployment rate of 19.3 percent for those with degrees ages 20–24 last year, research by HSBC Holdings shows.[78] That compares to a 14.6-percent jobless rate for all youth ages 16–24 this year, and an overall unemployment rate of 5 percent.[79] The struggle to find work, plus a lack of social mobility, has spawned what China's media have dubbed the "lying flat" or "involution" movement, in which youth decide voluntarily to opt out of the rat race and not compete for success, a trend that even Xi Jinping has warned could hurt the economy. "Falling social mobility, as a result of widening wealth inequality, is sowing the seeds of discontent, especially among younger people, who have higher expectations after observing the vast amounts of wealth accumulated in cities," an August report by Nomura quoted in the South China Morning Post said.[80] "This kind of disenchantment and dissatisfaction is only likely to worsen with the expected slowdown in economic growth." In a recent speech on "common prosperity" published in October in the Communist Party journal *Qiushi*, Xi spoke of the worrisome trend: "It is necessary to prevent the stagnation of the social class, unblock the channels for upward social mobility, create opportunities for more people to become rich, and form an environment for improvement in which everyone participates, avoiding involution and lying flat."[81]

But, even as China's top leaders stress the importance of breaking down the growing wealth gap and creating a more equitable society, they have not instituted the tax and redistributive policies that could accomplish these goals, and that are widely used in other countries, including the United States. A plan to institute a nationwide property tax, for example, was recently back in the news after more than a decade, after Xi raised it in his recent "common prosperity" speech. But, shortly afterward, Beijing was once again backtracking, indicating that it would only be done on a trial basis, apparently after getting pushback from economists worried it could hurt the overall economy, as well as officials loath to see the apartments they own be exposed and taxed.[82] "Everyone with property is against it, including high level officials who might have property too," says Hong Kong University of Science and Technology economist Albert Park.[83]

A potential inheritance tax faces similar challenges, with opposition from parents who typically buy an apartment for their son before marriage. Notably, unlike in the United States and other countries, China's officials did not provide cash transfers to its more vulnerable people during the pandemic, instead relying on tax cuts for small businesses that, in theory, would continue to provide jobs for their workers. "Fundamentally they believe that revitalization of China requires big spending on big projects. They firmly believe that. So they don't want to go down to the level of transfers to the poor," said Southwestern University's Gan Li. "They are very supply side, and they also think that big projects are key to national power."[84]

The Resolution on History

On November 11, the Chinese Communist Party (CCP) announced the end of a four-day, top-level party meeting, the

75 Guo Rui, "The Detained Delivery Worker Exposing the Plight of China's Couriers," *South China Morning Post*, May 1, 2021, https://www.scmp.com/news/china/politics/article/3131871/detained-delivery-worker-exposing-plight-chinas-couriers.

76 Emily Feng, "He Tried To Organize Workers In China's Gig Economy. Now He Faces 5 Years In Jail," National Public Radio, April 13, 2021, https://www.npr.org/2021/04/13/984994360/he-tried-to-organize-workers-in-chinas-gig-economy-now-he-faces-5-years-in-jail.

77 Shen Lu, "China's Era of Big Tech Overwork has Ended," *Protocol*, July 28, 2021, https://www.protocol.com/china/china-996-overtime-era-ended.

78 Shuli Ren, "China Tries to Tame Its Supercompetitive Tiger Parents," Bloomberg, November 1, 2021, https://www.bloomberg.com/news/articles/2021-11-01/china-tries-to-tame-tiger-parents-with-the-german-schooling-model

79 "What to Know in China's GDP Beyond the Headline Numbers," Bloomberg, October 18, 2021, https://www.bloomberg.com/news/articles/2021-10-18/what-to-know-in-china-s-gdp-beyond-the-headline-numbers.

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sixth plenum of the 19th Central Committee, held in tight security at the Jingxi Hotel in west Beijing. It was the second-to-last plenum before the 20th Party Congress will be held next fall, which almost certainly will propel Xi Jinping to an unprecedented third term in power (the last plenum will happen just days before the congress opens, and will be focused on the logistics for the big event). At the sixth plenum, Xi also presided over a resolution on history, only the third in the one hundred years of the Chinese Communist Party. Like the first in 1945, where Mao emerged as the unquestioned leader of the CCP, and the second in 1982, where Deng Xiaoping did the same, the latest resolution leaves Xi seemingly untouchable as China's top leader.

In what appears part of a continuing effort to establish a cult of personality around Xi, an official speaking at a press conference at the close of the plenum referred to Xi as the "helmsman" of China and the "people's leader," phrases only used before to describe Mao. "As long as we uphold Comrade Xi Jinping as the core…the giant vessel of Chinese rejuvenation will have a helmsman and will be able to brave any storms," said Jiang Jinquan, head of the party's policy-research office. Just days before the plenum, the official Xinhua News had published a fawning profile of Xi, notable for a level of effusive language not seen previously. Since becoming China's top leader in 2012, "Xi has been seen as a man of determination and action, a man of profound thoughts and feelings, a man who inherited a legacy but dares to innovate, and a man who has forward-looking vision and is committed to working tirelessly," the article raved.[85]

Xi seems to have no political rivals at this point—they were either locked up long ago in his anticorruption campaign or have been cowed into acquiescence by his stunning success defining himself as the indispensable leader of China. Among average Chinese, support for Xi and the Chinese Communist Party also seems high, and has gotten a recent boost from Beijing's success to date in controlling the pandemic, according to Southwestern University's Gan Li.[86] The fact that COVID deaths are nearing eight hundred thousand in the United States, while China officially has had fewer than five thousand, is regularly highlighted in the press and in official statements, cited as proof of how officials in Washington have a disturbingly high tolerance for US deaths. In marked contrast, the argument is often heard that China's leaders deeply care about the health of the Chinese people, as shown by their COVID zero-tolerance policy. Police brutality toward African Americans, as well as the January 6 insurrection, in which Trump-supporting rioters stormed Congress, is held up as evidence of the disfunction of US democracy. Nationalism, too, is being drummed up in the media, particularly related to Taiwan and Hong Kong, where the United States is accused of meddling in China's sovereign affairs. The apparent goal of this propaganda is ensuring the Chinese people continue to rally around the party.

Ultimately, however, the legitimacy of the party and Xi is based on ensuring constantly rising living standards for the people. That will be impossible to guarantee in the coming years. Demography and growing inequality, plus declining returns after more than a decade of debt-fueled growth, are contributing to the deceleration in the economy, which has fallen from three decades of annual double-digit growth before 2008 to an estimated growth of around 5 percent next year, a number that will almost certainly continue to fall.[87] Beijing seems likely to make things worse with its crackdown on the private sector; if that continues, as is likely, it will start to hurt employment and further drag income growth. Meanwhile, the vast sums now being spent on technological upgrading, which usually end up going to China's less competitive state firms, leaves little to spend on upgrading China's still-weak social-welfare system. And, with limited progress on reforming the household-registration system and dual land policy, China's massive population of rural Chinese and migrant workers is likely to suffer even worse in any slowdown.

Social mobility in China, which perhaps surprisingly is very low, is a serious source of concern. Recent research has shown that children of disadvantaged Chinese, rather than becoming better off during the reform era, have been even more likely to stay poor. While children born into families from the poorest 20 percent of the population between 1970 and 1980 had a 9.8-percent chance of becoming part of the top 20 percent, those from a comparable background born in the following decade only had a 7.3-percent chance. Two likely culprits: the *hukou* policy and the unequal education system, researchers concluded. "Removing migration restrictions…may reduce the rising intergenerational income persistence," wrote Yi Fan and Junjian Yi of National Singapore University and Chinese University of Hong Kong's Junsen Zhang in a 2019 paper published by the IZA Institute of Labor Economics.[88] The Chinese government should also take measures to "subsidize the education of children from disadvantaged families, such as left-behind children," the authors suggested.

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Conclusion

The positive scenario for China's future is one in which Xi's multiple business crackdowns, the anticorruption campaign, and the tightening of control by the party across society and the economy are all tough-love measures necessary to get a country that had been dangerously out of whack back in order. In that telling, Xi will later become the economic reformer for whom many in the West have long hoped. An eventual shift back to a more open China will allow a newly cleaned-up private sector, no longer engaged in monopoly behaviors or graft, to once again thrive. Chinese officials will downplay Mao-era economic principles like self-reliance, and once again welcome foreign technology into their economy. All that will boost China's overall economy, giving Beijing confidence to carry out the long-delayed, necessary reforms like that of the *hukou*.

That prospect, once touted by global businesses enamored with the China market, seems increasingly farcical. Instead, Xi has shown again and again his belief in the necessity of a much more state-run economy and party-dominated country, and has continued his unprecedented and ambitious experiment that aims to achieve that. As China's economy continues to slow and domestic pressures grow in strength, Xi's push to control the economy and businesses will face pushback from local officials who see their prospects for financial gain limited, rich entrepreneurs who see their businesses lose independence, elite officials and their families whose status and wealth are threatened, and, increasingly, regular Chinese who no longer trust the party to fulfill its side of an unwritten but deeply influential bargain: the people accept restrictions on their right to speak out or criticize the government, and the party guarantees ever-rising living standards. That guarantee is no longer possible in China, and the implications for the country's future economic course are huge, as is its potential impact on the world.

Policy Recommendations

- The United States should work more closely to coordinate investment, trade, and standards policies with countries in Asia that share similar concerns about the increasing politicization of business in China and how it is manifested in mercantilist policies abroad. The United States should also focus much more on playing a central role in the emerging trade-and-investment architecture in the region and consider joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).
- The US government should reinstate and expand people-to-people exchanges between the United States and China, including by reestablishing the Peace Corps program and the Fulbright scholarships in mainland China and Hong Kong. More exchanges could provide an avenue for maintaining the relationship, even as it likely continues to deteriorate at the government-to-government level.
- Without recreating something akin to the Strategic and Economic Dialogue of the past, which was criticized for being heavy on protocol and accomplishing little, the United States should work with China to establish more recurring lower-level meetings, with the United States Trade Representative (USTR), Treasury Department, Commerce Department, and other officials regularly meeting their Chinese counterparts. A scorecard system could be set up, in which the two sides each list their respective priorities, and each meeting could be graded in terms of progress, in order to encourage forward movement.
- As the number of Chinese students studying in the United States faces a precipitous drop—in part because of the pandemic, but also because of growing state-to-state tensions—the US government should loosen some of the Trump administration-imposed restrictions on Chinese student visas, and find other ways to try to ensure the United States continues to attract large numbers of Chinese students, as it has historically.
- The US government should support the study of Chinese language, politics, and economics in US schools from elementary schools through universities.
- Given the shared values between the United States and Taiwan, as well as the role of Taiwan as an example of Chinese democracy and its outsized role in global technology supply chains and business, the US government should continue to strengthen overall relations with Taipei, including by allowing informal delegations of US officials to visit. It should also work with ally nations to jointly issue more statements supporting a peaceful resolution to the Taiwan Strait situation.
- The United States should encourage US universities to expand cooperation in language studies and joint research with Taiwanese universities, even as they continue their programs cooperating with mainland universities.

- The US government should expand its Chinese media reach through existing outlets like Radio Free Asia, and should consider creating additional outlets focused on Chinese-language news in business and economics. That would promote the value of more open economies, as Beijing increasingly politicizes business, and potentially would have wide reach into Chinese business communities inside and outside China.
- The US government should consider working with business associations like the US Chamber of Commerce and US-China Business Council to support US companies facing pressures to self-censor and adapt their business practices according to the demands of the Chinese government.

About the Author

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