



Security Over Prosperity: China Grapples with the Political Consequences of its Economic Problems

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The growing structural problems of the Chinese economy are creating social tensions, weakening the Chinese Communist Party's (CCP) position in the provinces and threatening Xi Jinping's policy plans. Fearing a loss of control, the authorities rule out deregulating the economy, which would increase its efficiency and strengthen the middle class, leading to higher consumption. The Party's response instead is linked to social mobilisation around state security in "difficult times". Faced with internal problems, the Party may strengthen anti-Western rhetoric and, in blaming the West for its problems, introduce further export restrictions as a response.

Following the lifting of pandemic restrictions in December 2022 related to its zero-COVID policy, [China's economy](#) grew rapidly for several months, but from April-May its structural problems have become increasingly apparent. Manifestations of these troubles include high youth unemployment, relatively low levels of consumption, and the precarious financial situation of real-estate companies. Even the slightly better official economic results for August this year, including a 4.6% year-on-year increase in retail sales, 4.5% increase in industrial production, and a slight decrease in overall urban unemployment (from 5.3% to 5.2%) do not indicate a strong rebound in the economy. The structural (e.g., demographic) economic challenges, combined with the nature of China's political system and the difficult international situation, make for a real prospect of a prolonged slowdown in the country's economic growth (below 5%). This could spell political problems for Xi relating to social stability and CCP member loyalty.

Growing Domestic Problems. The economic problems are translating into discontent among both the Chinese middle class (up to 900 million people) and the Party apparatus. Chinese people, especially the young (16-24 years old) living in larger cities, are sceptical about the Party's offer of hard work for low wages. At least 20% of them (about 30 million people) are unemployed. They are disillusioned by the failure to translate their expensive education into material

success. This situation contrasts with the experience of their parents, whose standard of living improved after the introduction of reforms in the 1980s. The current situation is blamed not only on the economic downturn but also on the structure of the labour market in which getting the best jobs depends on service and Party connections. Wage-based protests, including workers' strikes, and others directed against the local administration over decisions are also frequent. According to the independent organisation China Labour Bulletin, 757 incidents, including strikes, demonstrations, and protests, were recorded in 2022. From January to September 2023, there were already more than 900.

A more serious challenge for the CCP authorities is the growing financial instability of the provinces, and thus the problems of their efficient management by the Party apparatus. As many as 14 of the 31 administrative units (provinces and provincial cities) achieved GDP growth of less than 5.5%—the average for all units—in the first half of this year. The Party secretaries in charge of these provinces (some of whom are Xi protégés and appointed after the 20th CCP Congress in October 2022) may therefore have problems with, for example, securing revenue and thus stabilising the local social situation. The crisis in the real-estate sector is having a significant negative impact on the province's financial situation. Problems with leasing land to

developers are severely limiting the income of local authorities. At the same time, the central government is limiting the provinces' debt capacity. Property developers were not only involved in building housing estates or office buildings, but their bonds were a capital investment for companies, or local administrative units, which now have limited and uncertain possibilities of recovering the funds. These problems make it difficult for some provinces, for example, to pay the salaries of government employees. The provincial authorities' maintenance of GDP growth forecasts of 5-6.5% this year confirms that, despite the problems, they want to meet the expectations of the central government.

Response from the Chinese Authorities. The authorities want to mobilise the Party apparatus and the public through new slogans. The focal point of the Party narrative is no longer "common prosperity" (as [at the 19th CCP Congress](#) in 2017), but national security in the broadest sense. According to the communiqué of the [20th CCP Congress of October 2022](#), sacrifices, including reduced revenue growth rates, are needed to harness the state's potential to strengthen China's economic, social, political (stability of power), and military security. Mobilisation efforts are evident, for example, in the sphere of science. In September, the Chinese Academy of Sciences introduced regulations ordering academics to keep their publications in line with the CCP view.

Xi's [centralisation of power](#), implemented since the beginning of his rule in 2013, has reduced the willingness of local Party officials to criticise the government. An additional measure disciplining them and interest networks in the provinces are anti-corruption investigations. In recent months, this has included China's armed forces (including arguably the defence minister), the deputy Party chief in Shanxi province, and the former CCP secretary in Hangzhou city. Repression is also affecting the business elite—the financial managers of China's largest property developer, Evergrande, were detained in September (the charges against them have not been disclosed, but police are looking for witnesses to possible fraud) and the company's chairman is being monitored by the police.

The Chinese authorities are also strengthening anti-Western propaganda. This includes not only rhetoric about "U.S. hegemony" to limit China's socio-economic development but also the mobilisation of the public to detect and report threats to the state. In July, the country's anti-spying law was amended, creating a broad and vague catalogue of activities considered treasonous (e.g., contacts with foreign organisations). In contrast, social media has been awash with encouragement from, for example, the Ministry of State Security to report individuals suspected of such activities. In September, a high-ranking activist of an

institution dealing with relations with Taiwan was convicted of spying for the U.S. The escalation of China's provocative actions towards the island (manifested, among other things, in large-scale military exercises in close proximity to Taiwan) is intended to focus public attention and activate the Party apparatus. From the perspective of the EU and the U.S., restrictions on foreign companies are becoming acute, as seen in the detention of their employees, inspections, or orders to educate and promote "Xi Jinping thought" among employees.

Conclusions and Outlook. The growing economic problems are [another](#) manifestation of the negative impact of the country's economic model and political system on China's development capabilities. A rollback of the CCP regulations on business and a more even distribution of national income that factors in the middle class could be useful to stimulating the economy. This is impossible for the CCP, though, as it could threaten the stability of its power, identified with state security. Therefore, the CCP is further tightening its control of society and increasing mobilisation via security-related slogans. This trend may be long-lasting due to the authorities' belief that the rivalry with the West will only increase, the rhetoric of "hard times", and the perceived threat from the U.S. Given the capacity of China's security services, larger-scale public protests are unlikely.

This attitude makes it possible to eliminate voices of discontent within the CCP, including in the armed forces or among local authorities. However, the central authorities must be aware that, despite the centralisation of power, a deteriorating economic situation that translates into negative perceptions by the heads of local Party structures will mean that Xi himself will be weakened. The Party maintaining full control will not foster innovation nor the ability to compete effectively with the West, as China has managed to do in some sectors, such as electromobility or renewable energy. With an internal crisis threatening Xi's position and his ability to completely control the Party apparatus, an escalation towards Taiwan cannot be ruled out. A blockade of the island, increased hybrid actions, or even an invasion would be in part to mobilise the Party apparatus and the public by diverting their attention from the internal situation to Taiwan.

The EU should approach China's declarations of willingness to strengthen bilateral relations with a degree of caution. China's prioritisation of security issues over socio-economic development will mean a further polarisation of its and the EU's positions and an increase in anti-Western rhetoric. China will seek to blame the West for the problems and thus justify the need for an appropriate response, such as further export restrictions along the lines of those introduced on [gallium and germanium](#) sales in July.