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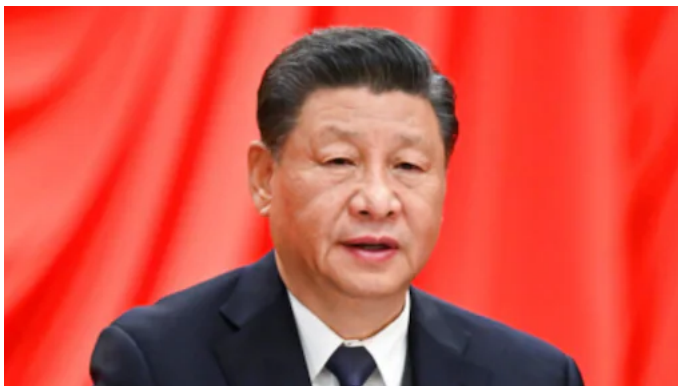
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5-MIN READ

China's Economic Downturn is Self-Inflicted and Threatens Xi Jinping's Supremacy Like Never Before



Chinese president Xi Jinping (File photo/Reuters)

The Chinese economy will not be the same as long as the property sector does not return to its former glory which is a bleak prospect for the years to come

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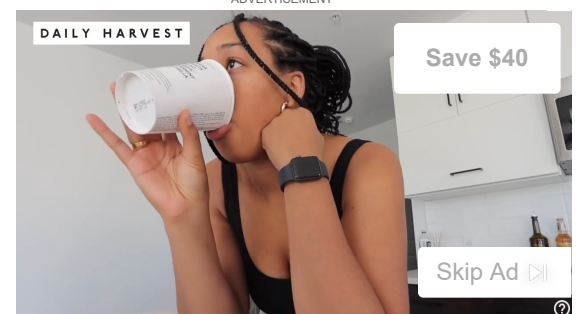
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SHUBHANGI SHARMA

Even as it attempts and fails to establish a death grip over South Pacific countries, maintains a massive military buildup at the border with [India](#) and threatens Taiwan with regular airspace violations, China is facing a multi-dimensional crisis within, with Covid cases on the rise, draconian lockdowns hampering economic activity, falling exports and foreign investment, a cross-sectoral debt crunch, and consequently, a beleaguered economy with sliding growth numbers. Ironically, a significant part of this turbulent phase in the Chinese economy is self-inflicted, tracing back to the diktats of President Xi Jinping himself. Moreover, his 'common prosperity' and dual circulation plans, which involve seeking a much-needed consumer-led growth, while also strengthening the export economy are failing so far as consumer spending remains sluggish.

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The GDP growth forecasts by various agencies have been revised amid crippling lockdowns in Chinese cities including Shanghai and Beijing. It is almost certain that China will miss the mark by a considerable margin when it comes to its official growth target of 5.5% for the year. The [World Bank](#) and the International Monetary Fund, both known to be lenient with China, have cut their forecasts to 4.3% and 4.4% respectively. Morgan Stanley on the other hand has downgraded growth to 3.2%. In fact, the second quarter for China looks grim enough for JP Morgan to cut its forecast for the period from -1.5% to -5.4%, marking an extended contraction in the world's second-largest economy. More bullish assessments reflect that its GDP might struggle to even achieve the 2% mark by the end of the year.

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China's tragic tryst with zero-Covid lockdowns is far from over. After months of harsh city-wide lockdowns in major metropolises like Shanghai and Beijing, China lifted some of the restrictions earlier this month, but the draconian lockdown is making a comeback once again owing to fears of multiple variants raging across cities, frantic testing, and the obsession with the 'zero-Covid' goal, one that Xi Jinping has thrown his entire weight behind, in the face of widespread frustration and hushed-up criticism. While countries worldwide acknowledge that reducing Covid cases to zero is an unachievable goal and economic activity must continue, the same view in China directly contends with Jinping's and invites trouble even as half a billion Chinese remain affected by protracted lockdowns.

This does not mean that Jinping is not at the receiving end of indirect public criticism spearheaded by China's own premier, Li Keqiang, who has voiced concerns about the worsening economic downturn and has instructed authorities to chase economic growth over zero-Covid, leading to obvious bewilderment within the Chinese Communist Party ranks. In a gathering of 100,000 party officials, Keqiang remarked that the economy has been worse off in March and April than in 2020 during the initial outbreak of Covid. The situation is "complex and grave," says Keqiang who is close to former President Hu Jintao, raising questions about Xi Jinping's grip over the party ahead of the 20th Communist Party Congress this October when he plans to clinch an unprecedented third term.

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Preceding an egocentric Jinping's failure to walk back on the zero-Covid strategy is a series of counter-productive policies, or government crackdowns to be precise, that ail the Chinese economy. Jinping, who has not made a foreign tour in 29 months since the emergence of Covid in 2020, has been busy cracking down on large private corporations all the way from the tech sector to online tutoring platforms, wiping out over \$1.5 trillion in market share and spooking away foreign investors who made the mistake of betting on China's growth story. For the masses, this was linked with Xi Jinping's 'common prosperity' goal. But on a closer look, the high-handed policy measures were driven by factional politics to a substantial degree, and intended to crush tech monopolies and rein in tech giants ensuring their subservience to the government, the Xi government.

A bigger crunch was felt in China's mammoth property sector which has been a drive has now crumbled under its own weight. The property sector and related industries f GDP and had been growing unchecked with the patronage of the government creatin seen as a potential trigger for 'China's Lehman moment'. The property bubble left se verge of bankruptcy, the most infamous among them being Evergrande, China's seco developer. Mired in the practice of endlessly raising funds from the market as well as backing of local governments, Chinese developers found themselves in a pool of crip

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that credit stream turned dry. Evergrande, a 150-billion-dollar giant was just the first to go under, triggering a cascade of troubled developers falling under government scrutiny. Foreign investors have been hurt the most because while Chinese citizens may have a slim chance for recourse, the government has nudged companies to keep foreign investors at the bottom of their priority list. Meanwhile, with real-estate revenues sliding, local governments are buried under their own pile of debt. According to Goldman Sachs, China is sitting on \$8.2 trillion in hidden local government debt, or approximately half the size of the country's GDP.

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Amid a global economic and food crisis triggered by the Western action against Russia in the backdrop of Moscow's invasion of Ukraine, China, a primary growth engine for the world economy is reeling under systemic and self-inflicted woes. Foreign investors have gotten their fingers burnt and investor confidence has faded. The Chinese economy will also not be the same as long as the property sector does not return to its former glory which is a bleak prospect for the years to come. Until then, it's worth noting that all is not well in China and as a result, Jinping's political troubles and external belligerence will only mount as time passes.

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SHUBHANGI SHARMA Shubhangi Sharma is a Chief Sub-Editor at News18. She covers foreign affairs and geopolitics, and also keeps a close watch on the national pulse of In...[Read More](#)

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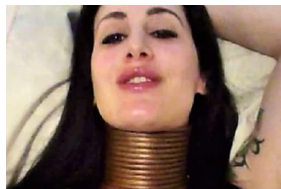


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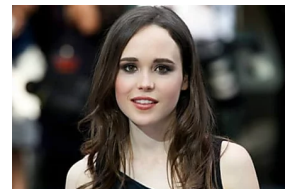


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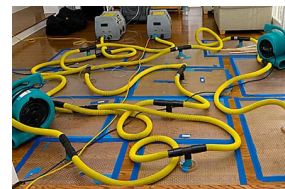
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