

Communist China Faces Crises: Economic Turmoil and Political Purges

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Paramilitary policemen patrol the Tiananmen Square in Beijing in a file photo. Feng Li/Getty Images



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Commentary

As China's economy falters, Chinese leader Xi Jinping is under pressure. He's attempting to tighten his grip on the economy while simultaneously purging the military, but these moves may be exacerbating the situation and placing his authority under increasing scrutiny.

Under Xi, China's economy faces **significant challenges**, including unsustainable debt, a property market crisis, and weak consumer confidence. Xi's prioritization of state-driven industrial growth over critical reforms—such as boosting consumer spending and restructuring local government debt—has exacerbated these issues. Consumer spending accounts for only **39 percent of GDP**, compared to 68 percent in the United States, highlighting the limited role of domestic demand in driving growth.

China also contends with **\$11 trillion** in off-the-books **local government** borrowing, pushing its total **debt-to-GDP** close to **300 percent**. This debt, due to the Chinese Communist Party's (CCP's) centralized efforts to stimulate growth through local government financing, has crowded out private investment and weakened innovation. Favoring **state-backed firms** and exports over private enterprise has hindered sustainable economic development.

Despite Xi's efforts to tighten control, including military purges, China's economy continues to decline. His policies have shifted the country toward a more centralized system, weakening the private sector and deepening economic vulnerabilities instead of fostering the private, consumption-driven economy he once promised.

In response to economic struggles and the potential challenges of a second Trump presidency, including renewed trade restrictions, Xi has **focused on** reducing reliance on Western technology, expanding industrial supply chains, and fostering global dependence on Chinese goods. This strategy includes a **\$411 billion** stimulus package, which has further inflated public debt. True to its state-centric approach, the CCP has heavily subsidized key industries like semiconductors and electric vehicles to dominate global markets. However, this emphasis

on state-owned enterprises has stifled the private sector, as reflected in the declining share of privately owned companies among [China's top corporations](#).

China's economic situation resembles Japan's "[Lost Decade](#)," which was marked by a severe downturn in its real estate sector, accounting for [30 percent](#) of its GDP. Chinese developers like Evergrande and Sunac Holdings have defaulted on loans, halting projects and leaving approximately [9 million](#) homes unoccupied. This resembles Japan's housing bubble collapse, which triggered long-term stagnation.

Compounding the issue, consumer prices in China risk [deflation](#), mirroring Japan's struggle with falling prices. Coupled with high youth unemployment, declining investor confidence, an aging population, and heavy reliance on exports, these challenges suggest the possibility of prolonged economic stagnation.

Xi's [consolidation of power](#) has enabled the CCP to prioritize political stability over economic performance, reflecting a broader strategy of control. This shift is evident in the modest [5 percent growth](#) target set at the 2024 National People's Congress, less than half of what it was before Xi's first term. The focus on stability allows Xi to push reforms aimed at transitioning to a slower, more [sustainable growth](#) model, emphasizing technological self-reliance, regulatory overhauls, and wealth redistribution under the "common prosperity" agenda.

Xi has renewed his [anti-corruption drive](#) within the Communist Party, urging members to "turn the knife inward" to combat misconduct and discipline violations. Despite more than a decade of efforts, corruption remains deeply entrenched, particularly within the military. Recent purges of two former defense ministers for "serious violations of discipline" and an ongoing investigation into a Central Military Commission admiral highlight the persistent challenges in rooting out systemic corruption.

In tandem with tightening control over the economy, Xi is intensifying his crackdown on corrupt officials. In 2023 alone, approximately [2.3 million](#) officials, including [610,000](#) Party members, were punished for

various violations. Among them were 49 senior officials at or above the vice-ministerial level.

In a statement published in Qiushi Journal, Xi stressed the importance of countering interest groups and power organizations that exploit or corrupt Party members. He acknowledged that as the CCP confronts evolving challenges, internal conflicts and problems are inevitable, requiring proactive measures to maintain discipline and ensure the Party's vitality.

While Xi frames these anti-corruption efforts as a means of strengthening the CCP, their scale and scope suggest an additional motive: the elimination of political opponents. However, the staggering number of officials punished highlights the persistence of corruption and opposition within the Party despite Xi's aggressive campaign to eradicate them.

Unusual developments in China's political and [military leadership](#) further underscore potential cracks in [Xi's control](#). The arrest of [Miao Hua](#), a key ally and high-ranking member of the Central Military Commission, points to possible internal power struggles. The timing of the arrest—during Xi's absence at international summits—and its highly publicized nature have raised speculation that Xi may not have full control over the investigation, signaling potential shifts in the CCP's power dynamics.

Rumors of further military purges and the [marginalization](#) of Xi's allies suggest [growing dissent](#) within the People's Liberation Army. Xi's extensive military reforms and purges have reportedly fostered [significant discontent](#), particularly among those resistant to his policies. Within the CCP, the anti-corruption campaigns and Xi's consolidation of power have curtailed political maneuvering, intensified tensions among Party cadres, and fuelled potential factional competition.

This internal instability is compounded by external and economic pressures. A slowing economy and heightened [geopolitical tensions](#), particularly with the United States, are straining China's position. President-elect Donald Trump's return and hardline policies could

exacerbate economic challenges, further undermining China's export-driven growth model. These external pressures, coupled with domestic struggles, risk deepening public discontent and amplifying factional rivalries within the CCP and its military.

Xi is increasingly **under scrutiny** as he grapples with mounting challenges. His ability to maintain control depends on managing domestic factionalism, addressing economic vulnerabilities, and mitigating growing public dissatisfaction. However, the widening gap between his centralized authority and the effectiveness of governance raises the prospect of political instability and potential challenges to his continued dominance within the CCP.

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