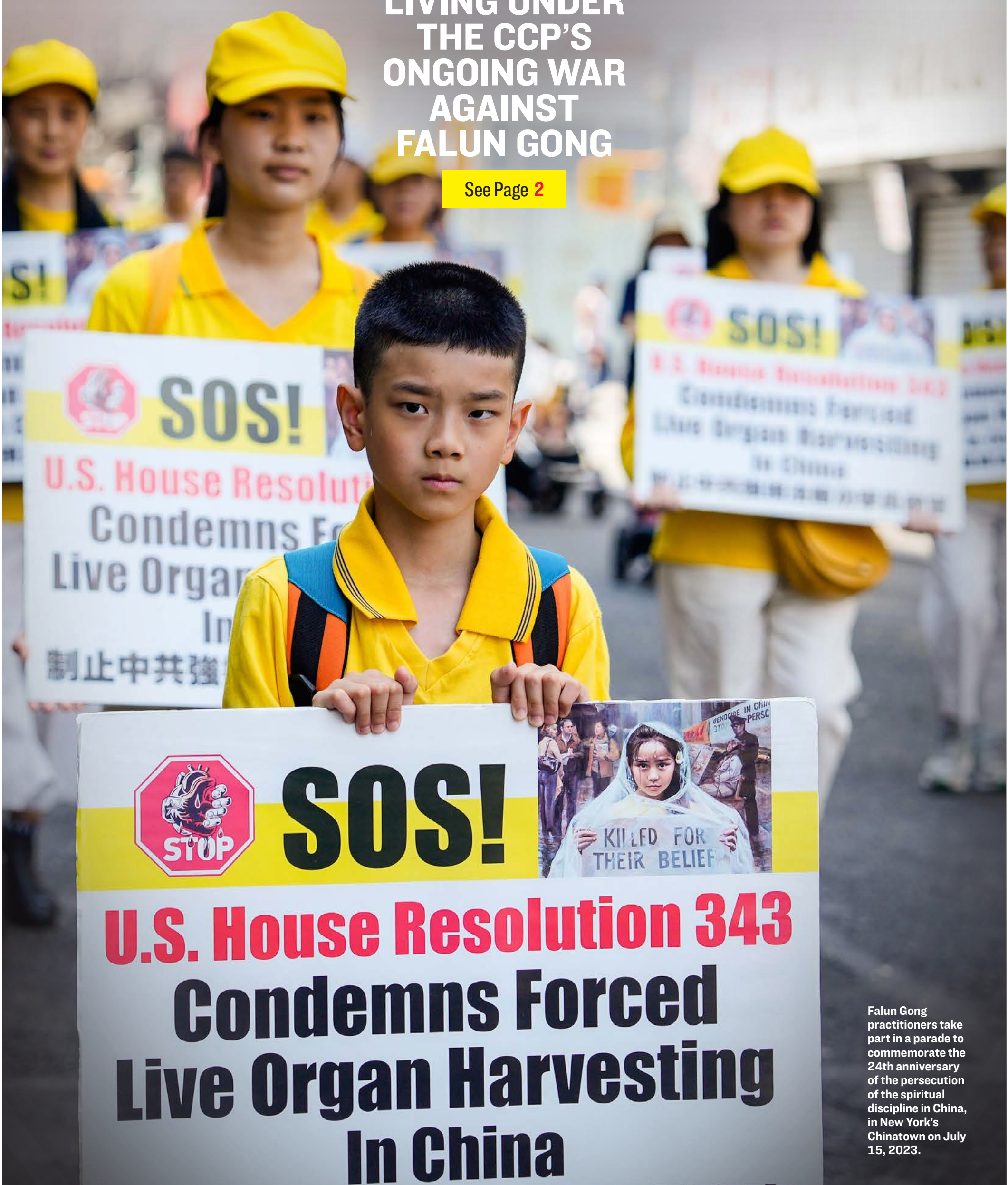


# CHINA INSIDER

# A HARROWING 24 YEARS

LIVING UNDER  
THE CCP'S  
ONGOING WAR  
AGAINST  
FALUN GONG

See Page 2



 **SOS!** 

**U.S. House Resolution 343**  
**Condemns Forced**  
**Live Organ Harvesting**  
**In China**

Falun Gong practitioners take part in a parade to commemorate the 24th anniversary of the persecution of the spiritual discipline in China, in New York's Chinatown on July 15, 2023.



## ANALYSIS

# China's Economy Is Facing Its Biggest Challenge in Decades

By Terri Wu

China's economy is facing its biggest challenge in decades, and authorities are running out of tools in their toolbox to address the issues, according to experts.

The country's latest macroeconomic data point to an economy on the verge of deflation.

The June consumer price index was little changed year-over-year and down by 0.2 percent compared with May. The producer price index, which reflects wholesale costs, declined by 5.4 percent compared to June 2022, showing a bigger drop than May's 4.6 percent.

June's trade data continued to show a downward trend. The dollar value of China's exports decreased by more than 12 percent year-over-year, a bigger drop than May's 7.5 percent. Imports also declined by nearly 7 percent from June 2022, compared to 4.5 percent in May.

The troubles facing the world's second-largest economy are multifaceted, including heavy debts in the property sector and local governments, the weakening of return to investments, low household confidence, and geopolitical tensions with the United States and the European Union, according to Gary Jefferson, an economics professor at Brandeis University and a specialist in the Chinese economy.

It's the result of the regime's policies over the past 30 to 40 years, he said.

While many have pointed to the massive disruptions brought about by the pandemic and the regime's zero-COVID policies as the source of China's current woes, Mr. Jefferson believes that structural issues are likely to blame.

"As evidence of the systematic nature of the problem, it appears that the decline in economic confidence and social confidence are mutually reinforcing," Mr. Jefferson told The Epoch Times.

"The reluctance to partner and marry and have children likely results in part from and feeds into the economic downturn. Fewer families augur a decline in the demand for larger or upscaled housing units, further contributing to weakness in the property sector, leading to less demand for land leases and local government revenue."

China is grappling with a declining birth rate even as the regime dropped its one-child policy in 2016 and has allowed families to have up to three children in recent years. Many couples have refused to have more kids, citing the high costs.

## 'Deepest Difficulty' Since 1989

"The government is really in sort of the deepest difficulty it's been in, at least since June 4th, 1989," he added, referring to the Tiananmen Square massacre of Chinese students seeking democratic reforms and the resulting international isolation. After that, China's economic growth took three years to get back on track.

While a southern tour by then-Chinese communist leader Deng Xiaoping in 1992 helped reignite economic growth, China is now not in the same situation, having significantly developed since then, Mr. Jefferson points out.

With decades of savings by Chinese families and enterprises and abundant investment opportunities, economic recovery isn't likely to readily happen, he said, adding that authorities are running out of options.

In response to the 2008 global financial crisis, Chinese authorities released an enormous stimulus package—4 trillion yuan (\$586 billion at the time)—that significantly increased government spending on infrastructure, and debt in the property sector and local government.

Today, the return on physical and human capital investment is low compared to 10 years ago, due to the enormous volume of infrastructure investment already undertaken, and the increase in higher education enrollment the Chinese Communist Party (CCP) initiated in 1999, Mr. Jefferson said. China's youth unemployment rate topped 20 percent in May and June, partly due to the oversupply of college graduates that has grown to 10 million, from 1 million two decades ago.

In his view, a stimulus would require enormous funding from the central and local governments, which would mean even more debt accumulation—



STR/AFP VIA GETTY IMAGES

Shipping containers stack at Zhoushan port in Ningbo, Zhejiang Province, China, on Apr. 19, 2023.

The government is really in sort of the deepest difficulty it's been in, at least since 1989.

Gary Jefferson, economics professor, Brandeis University

Everyone is dealing with much stress in life.

Mike, factory supervisor in China's Zhejiang Province

and that's very problematic. And when people have more money, they may choose to bank it or use it to pay off their debts. Therefore, getting more money into people's hands may not stimulate spending, he added.

The professor gave an analogy of a car speeding along a hill and suddenly facing a cliff.

"Often when this happened, there's been a cliff maybe 50 or 100 feet away that the car could land upon and then resume its journey," he said.

But in the current circumstances, "more than any other situation in the past 40 years, the distance to the other side of the cliff is substantially greater than that has been, making a safe landing more problematic."

A key distinction between China and Western economies, according to Mr. Jefferson, is that Western governments have procedural legitimacy from elections and legislative processes, but the Chinese Communist Party's (CCP) legitimacy depends entirely on its economic performance.

"It makes it very, very difficult for the Party to be able to manage a recession or accept a recession," he added.

"It's a rather difficult, embarrassing situation for the leadership."

## 'I Don't See Hope Now'

Mike, 27, works at a polymer additives factory in a city in eastern China's Zhejiang Province, one of the country's private sector hubs. Mike used a pseudonym when speaking to The Epoch Times for fear of CCP reprisals.

He graduated from college in 2017 with a major in urban underground space engineering. In July 2020, after his two-year contract with a subway project in southern China's Hunan Province ended, he moved to his current city to work at a factory that had just opened. The factory specializes in higher quality products tailored to the overseas market.

In May 2022, a big Western European company didn't renew its annual order of 15,000 pounds of products due to the geopolitical tensions between China and Europe, he said. Since then, the

factory hasn't been able to secure any replacement orders to make up for the shortfall. It has now stopped production and is selling its inventories.

"The business, he said, is looking for ways to adjust the product line to cater to the domestic market, but "securing orders will be very difficult" because demand is low.

Mike's small factory wasn't alone. According to him, a nearby auto parts factory has cut 3,000 workers or 30 percent of its workforce. In addition, he said workers at that factory no longer have overtime opportunities, a main source for them to earn above the minimum line to make ends meet.

When Mike first moved to Zhejiang, he thought his life was going somewhere. So he bought an apartment in the city in October 2020. However, the economy took a downturn and the three-year pandemic lockdowns exhausted many, he said.

"I don't see hope now," he told The Epoch Times. "Everyone is dealing with much stress in life."

As a factory supervisor, Mike makes

about 9,000 yuan a month, or \$1,260. His mortgage is 6,000 yuan, or two-thirds of his monthly income. After paying for all necessities, he can hardly save anything, he said, and he still needs to save for a car. Even though his girlfriend, unlike many Chinese women, doesn't require Mike to have a car and an apartment to marry, he considers it "a man's obligation" to achieve those before marriage.

Mike's hope is to have some savings to take care of his parents, at least to cover their medical expenses when they get older. He wants a child but would rather wait until he's financially able to provide the baby with a good life. As to having more than one child now that the one-child policy has ended, Mike said "no" without hesitation.

"I wouldn't be able to afford that!" When asked about Chinese state media reports that the economy has been steadily recovering, he replied, "That's propaganda! It's exactly the opposite of how we feel among the people."

"As far as my life goes, I'm in a recession," he added.

## Courting the Private Sector Again

Recently, CCP leaders have been meeting with business leaders, especially high-tech companies, signaling an end to the three-year clampdown on private industry.

Antonio Graceffo, a China economic analyst and contributor to The Epoch Times, said there's long been a love-hate relationship between the CCP and the private sector.

"Obviously, being communists, they have to hate the private sector. However, China wants economic growth, and they realize the private sector is responsible for most of the economic growth," he told The Epoch Times. "And they're smart enough to realize that, so they don't want to kill the goose that lays the golden eggs."

The CCP has never grown out of its "bird in a cage" thinking, according to Mr. Jefferson, and that mentality persists with current leader Xi Jinping.

Chen Yun, who sat alongside Deng Xiaoping as one of the most influential CCP leaders shepherding economic "opening up" policies in the 1980s, said that under the reforms, the private sector should operate like a "bird in a cage." The freedom of the market economy is restricted by the cage's dimensions embodied by central planning.

Mike says he doesn't trust those meetings for a slightly different reason. He said if the sessions were led by Mr. Xi, whom he called "the emperor," he might've had a little bit of hope.

If not, any decisions could be overridden by Mr. Xi at any time, and the system of China's society determines that politics come before the economy. To him, the CCP prioritizes government spending on maintaining stability or the ruling of the Party, and any stimulus will result in very little money in people's hands because the elites with connections at the top will be the main beneficiaries.

He said more people like him have started wondering about the structural nature of China's economic problems.

A year ago, he said, most people still blamed the United States for their economic problems and echoed CCP propaganda, such as "The American imperialists never abandon their wishes to see us die." But now more are complaining about the structural issues within Chinese society, such as the corruption of CCP officials.

## Looking Ahead

The CCP has yet to roll out any large-scale stimulus. It cut borrowing rates in June and recently extended property loan relief for developers to ensure the delivery of homes under construction. This week, the China Securities Regulatory Commission cut mutual fund management fees to boost investor participation.

Also, earlier this week, a Singapore hedge fund filed a petition in Hong Kong to force bankrupt developer Kaisa into liquidation. The petition was the first case based on unpaid mainland debt, signaling creditors' impatience and low confidence in the restructuring of China's property sector. Previously, such petitions only involved offshore debt.

In April, Evergrande, the world's most indebted property developer, reached a restructuring deal with major creditors, which includes allowing bondholders access to the company's offshore assets listed in Hong Kong.

On July 6, Chinese Premier Li Qiang vowed to introduce "targeted and coordinated policy measures" to address the current economic challenges.

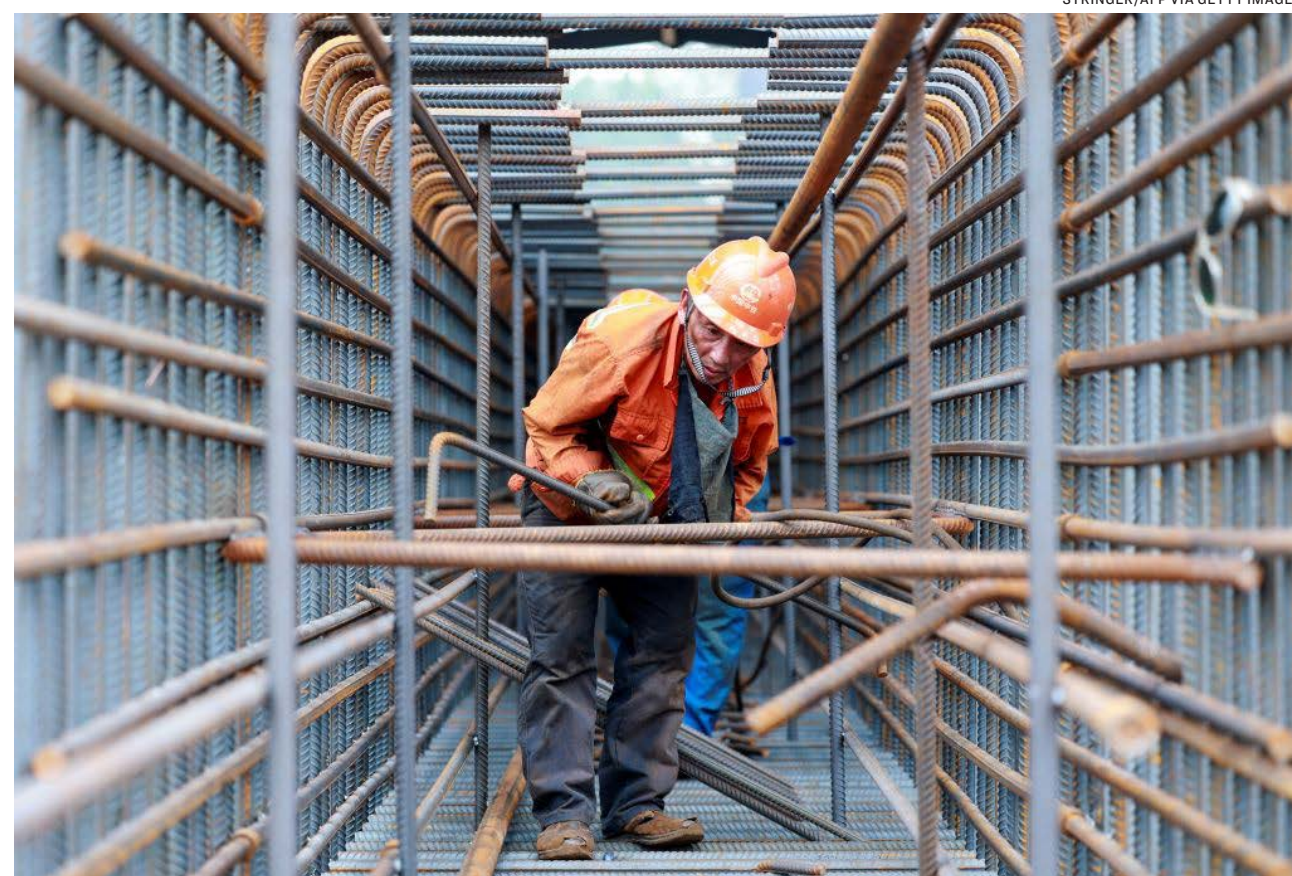
The CCP will probably release a stimulus package to finish the unfinished construction projects, said Mr. Graceffo. However, that isn't going to really increase the demand, he added, saying that it will give employment only a temporary boost. Some of the salaries of those jobs may be spent on consumption, but apartment or office buildings will remain empty in the long run.

Mr. Jefferson said that as a developing country, China would need 3 or 4 percent inflation to accommodate structural economic changes that forge new sectors with rising prices as money flows out of weakening sectors.

"When you have across-the-board price stability, it's also evidence that you're not getting really these sectors that are driving new growth in the economy."

In Mr. Graceffo's view, China's economy will get worse in the near term. And in the long term, China may not see a growth rate above 5 percent again unless something unusual happens, he predicted. Five percent GDP growth is China's goal this year.

"I don't see in the long term the growth going up again."



STRINGER/AFP VIA GETTY IMAGES

A worker prepares steel bars on the construction site of the Zhangjingsao Yangtze River Bridge on Mazhou Island in Jingjiang, Jiangsu Province, China, on July 14, 2023.

GOH CHAI HIN/AFP VIA GETTY IMAGES

A Chinese "one-child" policy billboard saying, "Have fewer children, have a better life" greets residents on the main street of Shuangwang, southern China's Guangxi region on May 25, 2007.





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