

Beijing Tells *an* Upbeat Story

Here's the counter view.

BY PIPPA MALMGREN

It's tricky to track the Chinese economy these days. They've turned off the transponders on ships so it's harder to measure what's going in and out of China. They raised a Great Digital Wall that keeps Westerners out and the Chinese blind to what's really happening. For years, observers doubted Chinese data, but now we have a data blackout.

It is clear that the losses in the property sector are pervasive and touching every household. Foreign direct investment is at a thirty-year low with no prospect of reversing. Capital flight is at a seven-year high if we are to believe the numbers, though it's probably larger.

Thanks to the friction between Washington and Beijing, the West is manufacturing again, which means China's export-led strategy is dead. Meanwhile, Western bans mean China can't access key components for value-added manufacturing, especially semiconductor chips.

China's role in the world economy has been reduced. Some Chinese are moving back to the countryside again because cities can't deliver on the promise of a better future. Others are simply fleeing the country. Is it possible that the losses in the property sector and from the loss of export markets are so huge that households cannot afford even basic items like food? Maybe we still underestimate the situation. China may have already sown the seeds of catastrophic outcomes, possibly even a famine.

China may have the fastest supercomputers, worldwide diplomatic alliances, manufacturing expertise, and more, but the one problem they've never been able to fix is food. It is the world's biggest importer of almost all food-stuffs because they simply do not have enough arable land or water to grow what their population requires. There's nothing wrong with relying on imports

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unless you do not have money to pay for them. The famed Belt and Road Initiative should have been the solution. The idea was simple. In exchange for Chinese-built ports, roads, bridges, highways, airports, and sports stadiums, many nations pledged their best crops to China. But things went awry because the infrastructure China built often wasn't up to scratch and the receiving nations stopped buying more. Many of these nations have dollar-denominated debt. They've been crushed by inflation and devaluations. They are defaulting on payments to China and refusing to buy any more infrastructure. And now, thanks to inflation and devaluation, they want or need to keep their food. Beijing had counted on cash flows and calorie flows that are simply not happening.

Ominous signs are appearing which indicate the stress is greater than anyone had imagined possible. Farmers are being arrested by newly formed agricultural police units for planting the wrong things, like tobacco, bamboo, and decorative flowers. Growing vegetables in the backyard has been banned. A notice in Xian read, "Due to the need to create a civilized environment, the planting of climbing vegetables like beans or melons and squashes in front and backyards is strictly forbidden... That includes cucumbers, tomatoes, loofahs, pumpkins, zucchini, etc." Last year, a Tiananmen-era pro-democracy activist named Wang Dan wrote a piece called "A Food Crisis Lurks Behind China's Return of Forests to Farmland." He says grain farming has become compulsory and these agricultural police are razing the forests around major cities, like Chengdu, to make way for this. These new enforcement units are made up of so-called agricultural management officers, a ragtag collection of traffic cops, security guards, former covid lockdown and PPE enforcers, and retirees. Chinese President Xi Jinping is giving these people ever-greater enforcement powers. He has also empowered neighborhood committees to create local militias to ensure "stability maintenance."

Meanwhile, CNN reports that Chinese firms are creating their own militias, which suggests that they are, according to the headline, "Preparing for war, social unrest or a new pandemic? Chinese companies are raising militias like it's the 1970s." The article reads, "Chinese companies are doing something rarely seen since the 1970s: setting up their own volunteer armies. At least sixteen major Chinese firms, including a privately-owned dairy giant, have established fighting forces over the past year, according to a CNN analysis of state media reports. These units, known as the People's Armed Forces Departments, are composed of civilians who retain their regular jobs. They act as a reserve and auxiliary force for China's military, the world's largest, and are available for missions ranging from responding to natural disasters and helping maintain 'social order' to providing support during wartime." Why is Xi encouraging and even mandating these new enforcement units?

Last year Xi ordered that internal migration rules be relaxed so that factory workers could more easily return to the countryside. The city factories in China have, in some cases, become almost like prison camps where staff were theoretically paid pennies per hour but almost never received that money. They were not allowed to leave the factory premises for any reason. Now, suddenly, the policy has reversed. This reversal was sold as an effort to ease up on migration to small cities where the urban *hukou*, or household registration requirement, has been dropped altogether. Even cities with populations of five million or more residents have been

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urged to relax their immigration/emigration rules. Might all this have to do with the collapse in factory orders and the explosion of unemployment? If workers are kept inside these factories, they have to be fed. Better to send them home.

But these workers are not going home. They are leaving the country instead. According to Bloomberg, the main destinations are those that can be reached most easily on foot—Thailand, Vietnam, and other southeast Asian countries. Americans are increasingly being made aware of Chinese immigration into the United States from as far away as Ecuador. Chinese nationals are willing to cross the Pacific and tackle the perilous Darien Gap to reach the southern border of the United States.

It's not just the poor who are quitting China. This year will be the largest millionaire exodus China has ever seen. One analysis shows that China will lose more millionaires this year to migration than any other nation. It makes sense now that Xi has consistently shown that he is happy to confiscate the wealth of successful entrepreneurs. If the loss of human capital is so severe, then why wouldn't China let in foreign workers? *The Economist* asked this question last May. The answer might be simple. That would mean witnesses to the true situation on the ground, which Xi obviously cannot allow.

There are other important signs. Brazil is selling 60 percent less meat to China than had been anticipated, and Australian beef sales have collapsed as well. Has demand

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really fallen or has the capacity to pay? Chinese vessels are apparently pumping cyanide into the waters around the Scarborough Shoals in the disputed islands between China and the Philippines. Most assumed that this was designed

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to permanently damage the ecosystem there. But perhaps it is a way of speeding up a larger haul of seafood protein? China has been ever more focused on the Arctic passage from Dalian to Rotterdam. This interest began well before the troubles in the Red Sea and the Panama Canal. Maybe it's not the shipping time gains they are after but protein, which is plentiful in the Arctic. Yes, there are prohibitions

on Arctic fishing, but there's hardly anybody policing those inhospitable and remote waters.

Perhaps we are witnessing the start of a serious logistics problem. Wang Dan suggests that "the real issue is not whether there is an adequate supply of food, but whether people have access to it." He cites Nobel Prize-winner Amartya Sen who has shown that famines can occur even when food production is high. Logistics trumps volume.

We know how centralized agricultural orders have ended in the past. Remember what happened in Ukraine in the early 1930s. Ukraine is famous for its highly fertile rich black soil known as *chernozem*, and has always been the breadbasket of the region. But Russian leader Joseph Stalin forced the farmers to collectivize their assets and follow his rules on what could and could not be planted. The result was a genocide known as the Holodomor. Some ten million people died from starvation on land that can grow almost anything. China's land, in contrast, cannot grow almost anything. In fact, it can grow hardly anything at all.

So what would a famine or the outbreak of profound social unrest in China mean for the world? To suggest a famine is possible in this day and age may seem outrageous. Not too long ago, however, it was outrageous to suppose modern society could face a global pandemic. If

things are so bad in China that it requires the creation private militias and the imposition of centralized orders on agriculture, shouldn't we now consider what to do if the unthinkable actually happened?

The West is currently focused on punishing China for supporting Russia's invasion of Ukraine and for threatening Taiwan. Washington is preparing to apply financial

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sanctions on China for their part in that conflict. But what if Xi's bravado on Taiwan is really about maintaining control at home in China? What if the Communist Party is also uneasy about Xi's authoritarian approach but can't remove him? They ceded so much power to him during the boom years that it's almost impossible to unseat him now. The military no longer reports to the Politburo, but to Xi personally. The intelligence services are entirely under his personal control as well. Anyone who opposes him disappears or is demoted. Is Xi like Stalin? Perhaps he does not even care if China falls into a famine. It might even make it easier to retain control. He also controls the global network of ports and physical infrastructure. He and the elite on his team may think they'll be just fine in an emergency.

Maybe the West can't bring itself to face a hard truth. So many investors and companies bet that China was the future. They want Xi to be the pro-market capitalist they believed him to be. It is painful to recognize that he has been centralizing control and emulating North Korea more and more. Westerners still haven't fully swallowed this truth. At this rate, China is not the future. But to suggest that China could fall victim to a true catastrophe like a self-imposed famine is an ontological leap. We may know that centralized rules about what can be grown and where have a long history of ending in famine. Yet it is hard to believe it could happen to a nation as advanced as China.

It is harder still to conjecture what the West might have to do in response if the unthinkable happened.

There is a precedent. The United States bailed the Soviet Union out of a looming famine in the early 1970s. This was at the height of the confrontation between the capitalist West and the Communist Soviet Union. The two nations were locked into a nuclear standoff known as Mutual Assured Destruction. Yet when it became clear that a global drought threatened to create famine conditions in the Soviet Union, the United States organized a grain bailout. In July 1972, President Nixon announced \$750 million in credits to Moscow to clear the way for massive grain sales from the United States to help save the Soviets. Luckily, the United States had a substantial grain surplus at that time. It was so large that the U.S. government was actually paying farmers not to plant grain. We are similarly lucky with a grain surplus now.

Perhaps the motivation was selfishness? The price of bread was already on the rise, and the United States still had price controls at that time. Bread prices in the West would have gone up even more if the Soviets had tried to buy up the remaining global wheat supply. Perhaps the motivation was not altruism but self-preservation. This issue is identical today. Could the United States handle the inflation that might result if China has to engage in an emergency grain grab? What if they cannot afford it? Does the United States simply let a humanitarian crisis unfold? Was the United States concerned about the stability of the Soviet Union in the 1970s? A collapsed Soviet Union with all its nuclear weapons would have been a serious mess to handle then. It was an even bigger mess to handle when it finally did collapse in 1989. America bought many loose nukes from the

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new Russia. China, too, is a nuclear power. If it collapsed, there would be a need to manage loose nukes again.

What should the West do now if faced with this same problem of a food shortage but with a nation that has a vastly larger populace? If the United States hits China with even more economic pain when they are more fragile than we understand, does Colin Powell's Pottery Barn rule apply? As the former general and secretary of state famously used to say, "If you break it, you own it." China is now broke, which means it may break. How will the West know if it falls into a serious food shortage and what should the West do to help China if this happens? ◆