

# Xi's Prioritization of Security Will Continue to Weigh on Growth

Diana Choyleva

## What We're Watching

Xi Jinping has elevated an all-encompassing concept of “comprehensive national security” as the Party-state’s top priority. This focus on security, when combined with Xi’s reemphasis of Marxist-Leninist ideology, is now clashing with Beijing’s concurrent goal of sustaining Chinese economic growth. Whether Xi is willing to ease off the prioritization of security for the sake of addressing China’s mounting slow-motion economic crises and restoring growth has emerged as a key question for assessing China’s direction in 2024.



Photo by Noel Celis/Pool/AFP via Getty Images

## The Context

China’s economy has begun to flounder as debt deflation, international decoupling, and depressed consumer and private sector confidence have combined to present the sternest test for the Chinese development model since Beijing began its period of reform and opening more than four decades ago.

Contributing to this challenge is China’s pivot under Xi Jinping toward more fundamentally autarkic, statist, and ideological policies. In this environment, private entrepreneurs have reduced their willingness to invest for the long term, while foreign investors have also become wary and are increasingly pulling their money from China. Chinese consumers have hedged by increasing their savings at the same time Beijing is desperate to boost consumer spending as an engine of economic growth.

A primary cause of this contradictory approach is Xi’s overriding emphasis on national security, including China’s need for technological and economic “self-reliance” to fend off threats he sees posed by the United States and its allies, which he has accused of waging a campaign of “encirclement and suppression.” So far, Xi has demonstrated a willingness to double down on national security even at the expense of growth, if necessary.

Economic challenges in 2023 led to subtle critiques within China of Xi’s ability to lead the country in a positive direction; toward the end of the year, Beijing began to shift its policy toward prioritizing growth. This included a change in diplomatic approaches, with Xi meeting with U.S. President Joe Biden and U.S. business leaders in San Francisco in an attempt to reassure American and international investors that they are welcome and can still find attractive opportunities in China. Regulators also worked to further level the playing field for private enterprises, including developers seeking to stem an ongoing crisis in the property sector. And China’s annual Central Economic Work Conference concluded in December with a nod to the need to balance development with

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security, declaring that economic work will be the central task for 2024. It offered no concrete solutions, however.

So, it remains unclear whether the actions taken so far entail a substantial and lasting elevation of economic development to be genuinely on par with national security, or whether these steps merely represent a tactical pause in Xi's relentless pursuit of geopolitical and ideological goals.

## What to Expect in 2024

- Beijing's current charm offensive aimed at boosting foreign investor confidence in China will fall short and the exodus of Western capital will persist.
- China will continue to struggle with debt, and business and consumer confidence may not substantially improve.
- This could ultimately lead to the imposition of stealth controls on international capital, as preferable to a yuan devaluation that would outright undermine Beijing's long-standing efforts to present China's currency as a stable alternative to the dollar.

Xi has repeatedly sought to rally China's people to prepare for an as-yet-to-be-defined painful struggle. It remains to be seen how willing the population will be to endure this, and if economic hardship and diminished prospects for development will spark any popular or elite political discontent, or if such discontent could be enough to alter Xi's long-term policy platform.

