

Purges in the Provinces as Local Liabilities Rise

Neil Thomas

What We're Watching

Property-related fiscal challenges, debt burdens, lax policy implementation, and other issues will drive increased scrutiny of local officials by China's central Party-state. Meanwhile, many local governments are in increasingly dire financial straits. The results include policy paralysis, steadily increasing central-local tensions, and a growing wave of anti-corruption purges in the provinces that are reshaping Chinese politics.

The Context

Local government debt is a significant and growing risk to China's economic stability, rising from 62% of GDP in 2019 to 76% in 2022. Local governments are seeing revenues from land sales and taxes sink with the struggling property market, returns from infrastructure fall after years of over-construction, and liabilities mount as many struggle to pay off bills incurred to maintain the central government's strict zero COVID policies from 2020 to 2022.

In 2023, the Party proposed a basket of measures to reduce local government debt risks, as well as a long-term mechanism to resolve such risks. Part of this effort will involve investigations of local finances by the Party's Central Commission for Discipline Inspection (CCDI) and the State Council's National Audit Office. They will now have extra political backing from the new Central Financial Work Committee, which exists to enhance Party discipline in the financial sector.

In August 2023, the CCDI announced the detention of Sun Zhigang, a retired Party Secretary of Guizhou, a few months after the province declared itself unable to resolve its debt problems. Political insiders attribute his detention at least partially to Guizhou's debt issues. The incident is one of what appears to be a growing wave of cases in which the central government is attempting to use anti-corruption and Party discipline mechanisms to address — or at least show the appearance of addressing — worsening local government fiscal problems.

What to Expect in 2024

- Central scrutiny of local government finances and operations will intensify in 2024, with the Party's formidable internal discipline apparatus targeting provincial leaders judged culpable for ballooning local debt.
- A significant political story of 2024 could be purges in the provinces, rather than personnel dramas in the



Purges in the Provinces as Local Liabilities Rise

capital, as was the case in 2023. Such a campaign would likely be most concentrated in China's poorer and more indebted provinces in the northeast and southwest, creating political disruption and policy stasis in affected areas.

- Localities everywhere will face more pressure to reduce debt, potentially leading to more incentives to support private firms and boost growth and revenue. However, pressure to cut expenditures may also reduce the provision of public services, potentially contributing to rising social tensions — an outcome that creates different policy headaches for Beijing.