Thank you, John, for the very kind introduction. I always enjoy having the opportunity to speak to this group. Some of you may have seen my recent op-ed on the major threats to China’s economy which I will discuss today. As we all know, China is the world’s 2nd largest economy and over the last decade the fastest growing major one in the world.

This is also one of the most important years in China’s modern political history, because President Xi Jinping, is looking forward to being named for a 3rd term as president, secretary general of the communist party and head of the armed forces of China. He will only be the third president of China since the communist party took power after WWII to be nominated and elected for a third term. The only previous two were, Mao Zedong, and Deng Xiaoping. However, he is probably going to face a major economic crisis, the like of which we have not seen for over 30 years since Tiananmen Square.

The five major economic threats that Xi and China are facing at home are in real estate and property development, health, debt, and a fracturing global economy brought on by the Russia Ukraine war.

**In the real estate** and property area major defaults among companies continue. Last year saw a record number of defaults among Chinese developers from Evergrande on down. S&P estimates that between 20-40% of property developers may face defaults. A stumble in real estate bodes ill for the economy as a whole.

Economists have demonstrated that most recessions are either equity- or housing bust-related. Once home prices shake, and start falling, we know the effect of debt on declines in home prices: The former amplifies the latter and can cause a collapse in wider consumption. Underwater homeowners stop spending as their house prices fall.

[China is not at that dangerous juncture yet.](https://www.cnbc.com/2022/04/19/china-real-estate-sector-may-improve-wont-be-high-growth-market-analysts.html) But the signs are ominous. We would be naive to think that normal economic boom-bust rules never apply in China, or to assume that Chinese authorities can always effectively control prices across the entire country indefinitely. Yet we have to hope they can manage housing better than the West did in 2007-2008.

**The second** and most recent problem China is facing is the implementation of its zero Covid policy.

China’s zero-Covid policy, by far the toughest medical and public health response to the pandemic anywhere in the world, is in trouble. China’s rigid stance on prevention paid huge dividends — the country continued to operate largely free of the virus in 2020 and 2021.

Today however, as the virus mutates and spreads rapidly, those measures may be more costly. An uptick in [cases in Shanghai to about 20,000 a day last week](https://www.cnbc.com/2022/04/17/shanghai-by-the-numbers-chinas-covid-lockdowns.html) caused the city to shut down, triggering citizens’ anger and the quarantining of 26 million residents. Shanghai alone contributes 4% of China’s gross domestic product and is its largest port.

More recently the government has been forced to shut down its capital Beijing and its major city in the South, Shenzhen because of rising cases of Omicron.

These lockdowns that are being imposed in cities across China are having a negative economic affect that will become more visible in the months ahead. Already most economists are cutting forecasts for growth in the country for this year.

If demand in China weakens, everyone outside the country may feel it too. It’s unclear whether the central government is willing or able to pivot from zero tolerance to a new approach — even though such a shift appears increasingly necessary to outsiders.

**The third** problem is risky external loans and debt.

Interest rates are rising as the developed world tries to contain inflation. Many loans made by Chinese entities as part of Beijing’s Belt and Road Initiative are not only straining balance sheets in low-income countries across the globe, but will also burden China’s banks with nonperforming loans. That, in turn, will affect the economic performance of those banks, which are key conduits for Chinese domestic investment, businesses and the economy.

[Belt and Road has saddled developing countries with at least $385 billion in debts](https://www.aiddata.org/publications/banking-on-the-belt-and-road), according to a 2021 report from [AidData](https://www.aiddata.org/%22%20%5Ct%20%22_blank), an international development research lab based at the College of William and Mary in Virginia.

There, China faces three negative dynamics: debt defaults, nonperforming loans on the books of its largest banks and state lenders, and collateral damage to diplomatic and geopolitical interests if it seizes nations’ assets as part of sometimes onerous loan terms.

In 2022, China’s leadership will learn that not all lending is smart policy. Even if the contract appears beneficial at first glance, China needs solvent borrowers and happy customers and allies, not bilateral sleight of hand, defaults and angry citizens.

In addition, China’s debt to GDP has grown to over 300% and is concerning many economists as well as the country's central bank the People’s Bank of China.

**The fourth danger** is the threat to globalization, the engine that powers China’s economy which risks stalling under the [pressure of the pandemic and Russia’s war with Ukraine](https://www.cnbc.com/2022/04/21/from-food-to-inflation-the-russia-ukraine-war-has-a-global-impact.html). Supply chains are stretched and broken, or else being reconstituted with new routes and links.

China’s leaders must ask whether their political support for a declining, weak, and unpredictable Russia is worth more to China than an interlinked world in which all competitors agree to general rules and norms. Everyone benefits from such a global architecture.

Choosing Russia over the globalization in which their country is so deeply embedded is a shortsighted, damaging economic bargain, one which could result in secondary sanctions on Chinese firms, as the U.S. has warned.

Russia may continue the war, diminished, shrunken, fueled by its oil and gas, but ostracized by most countries in the world. China too may pay a heavy price if it continues to back Russia at the expense of engagement with the trading system the country relies on for economic growth.

**The fifth danger** is that the Chinese exchange rate of the renminbi, to the US dollar has fallen over the last few days over 4% to around 6.6 to the dollar, the biggest percentage drop China has seen since it went off its peg to the dollar in 2005, and even steeper than its drop in 2015 when it lost a trillion dollars in reserves, in other words, by allowing the renminbi to fall to push exports, China could face a major capital fight similar to 2015.

All of these challenges suggest that the Chinese government’s official forecast of a 5.5% growth rate in 2022 is too optimistic. Indeed, it now seems more likely than not that China will grow well below 5% in 2022 — a rate not seen since the crisis of 1989 in Tiananmen Square.

Such an economic outcome would be bad news for China, and bad news for the rest of the globe, even as we sometimes distrust one another.

Let us hope the right choices are made — choices that are globally framed rather than narrowly constructed.