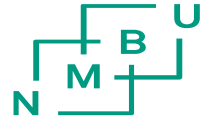


China's dilemma of economic growth versus political power

Will China grow prosperous and powerful or be caught in the middle-income trap?

Can studies of China's history, culture and economic structure help us in understanding its strategic priorities?

ECN 122, Macro
by Knut N. Kjær
Spring 2024



China since 1978 has been an economic “miracle” – but it is still a middle-income country (in GDP/capita)

Will China be able to become the global leading economic power – against strong demographical headwinds, high burden of debt, misallocation of capital and stalled growth in factor productivity?

Will the centralization of political power weaken the entrepreneurial equity culture and efficiency of resource allocation that were essential parts of the economic reforms?

Do we really understand China; its history and culture, its need for basic resources as food, water and energy and the leadership’s respect for the challenges of keeping this large and diverse country from falling apart? Do we understand the basic rationale for its national security strategy?

Can China afford – and will it contribute to – an economic and financial decoupling of Global West from Global East and Global South? Or will China over the next five years contribute to normalizing the relation to Global West?

Background and Disclaimer



- My thesis into this work is that more knowledge on China's history and economic structure is required to understand what's driving the current leadership. Lack of knowledge often goes together with underestimation of China's economic strength and its importance for global wealth creation, including interconnectivities and supply chains
- My methodical approach is that of economics and finance. Those are social sciences and often not helpful when it comes to predict possible shifts in regimes. The models we use in economics and finance are often based on a normality of a World Order set by the US with low "market share" for countries opposing that order. But China's share of global GDP has increased from only 3-4 percent in 1980 to near 20 percent now. It controls 30 percent of the global manufacturing capacity. China has the economic power to shape the world order and will do so.
- So I try in this memo to include perspectives both from history and political science. We need that to understand the new China and to build awareness of a new economic and financial regime that will be different from what we are used to.
- I have been fortunate to spend much time in China and learning from highly qualified people who have been important in building its modern economy. From 2009 until 2020 I was member of the International Advisory Board of China Investment Corporation (that reports to the State Council).
- The disclaimer here is related to that – I have a bias to find Chinese angles where those may be lacking in the public debate in the West. I believe in sharing knowledge and building common understanding – as long as we are realistic on the need to protect our own security. The additional disclaimer is that I take the sole responsibility for this presentation – none of the institutions I'm related to should be blamed for or associated with this lecture.

The key narrative of president Xi: National rejuvenation Put an end to China's national humiliation But its biggest challenge comes from within



“Fellow deputies,

The Chinese nation, with a civilization spanning over 5,000 years, has created a myriad of glories and also been through a lot of hardships and adversity.

With the advent of modern times, China was reduced to a semi-feudal and semi-colonial society, **when bullying by foreign powers and frequent wars tore the country apart and plunged the Chinese people into an abyss of great suffering.**

Since its founding, the Communist Party of China (CPC) has closely united and led the Chinese people of all ethnic groups in working hard for a century to put an end to China's national humiliation.

The Chinese people have become the masters of their future, the Chinese nation has achieved the great transformation from standing up and growing prosperous to becoming strong, and China's national rejuvenation has become a historical inevitability.”

March 13, 2023



Full text of Xi Jinping's speech at first session of 14th NPC

<https://english.news.cn/20230314/38b6491926ea4c6b82bf7d58d0518a48/c.html>

What was the “bullying by foreign powers”?

Was this bullying the root cause behind the national humiliation?

The political leadership knows from thousand of years of Chinese history how hard it is to govern this enormous country: The dynastic cycles. Violence and bloodsheds

China's key strategic vulnerability is import-dependencies of oil, gas and food. Long and unprotected transport lines. The leaders are also aware of the demands from within: Its legitimacy to stay in power rests with ability to deliver continued prosperity – as with the former dynasties. The abrupt change of the zero-covid policy following nationwide protests illustrates that the leadership is sensible for discontent in the population and need to maintain the Mandate from Heaven.

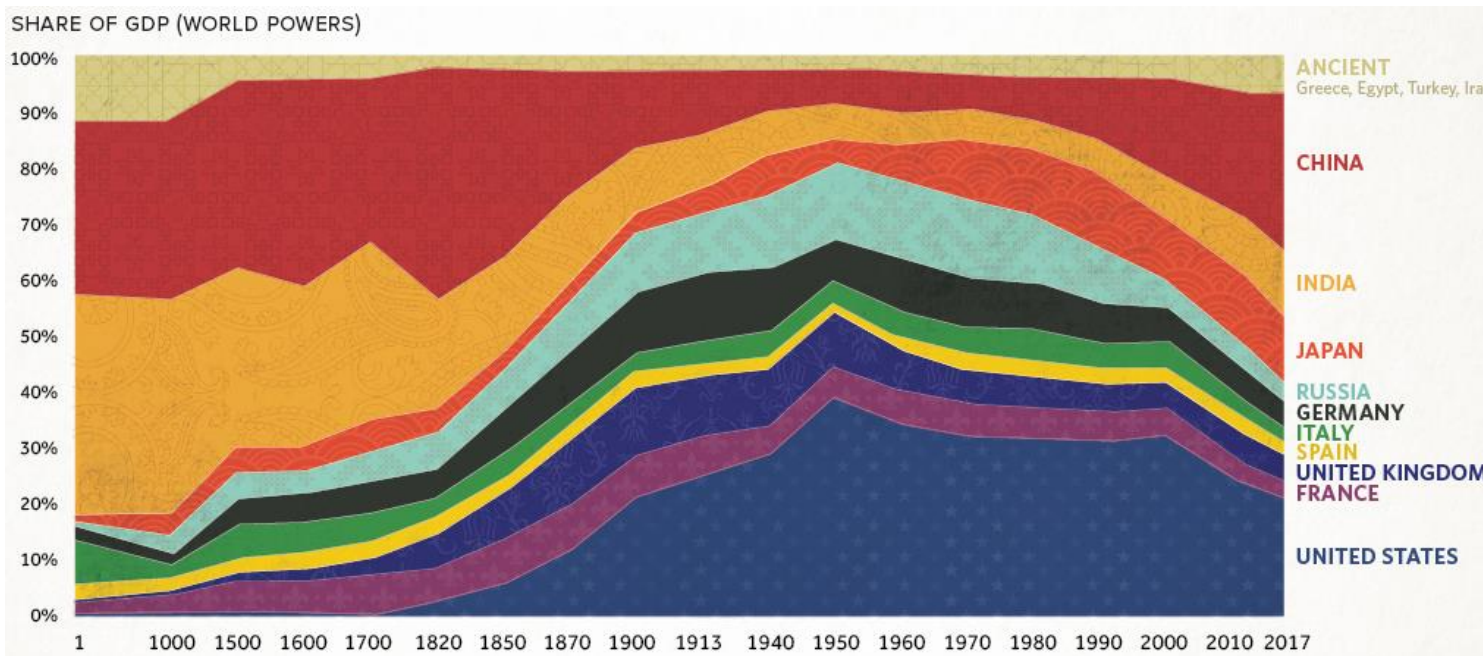
In the long historical perspective China is still cornered in by the vast US military power. With the “100 years of humiliation” in its bone marrow and many examples of US led abuse of power in fresh memory, combined with examples of weak governance (as the global financial crisis, the Trump presidency), it should not be surprising that China is building a strong military power and aspire to influence the World Order.

However, how China communicate and execute on its ambitions doesn't always seem to be consistent and in line with its best interest?

The long-view: China and India were the global economic powers 1000 and 2000 years ago. Why? Will they regain their position over the next 50 years?



China and India were the dominating economic powers until the Industrial revolution



China from 800 to 1300 – a major shift in the center of gravity, from north to south – from wheat to rice with much higher productivity

Demographic expansion from 13th to 18th century by a four-fold

In the 18th century China's extensive growth was most impressive

<https://www.visualcapitalist.com/2000-years-economic-history-one-chart/>

<http://piketty.pse.ens.fr/files/Maddison07.pdf>

China: What has happened since 1978 is extraordinary

Real GDP per capita increased by 25 times- Share of global GDP up 11 times



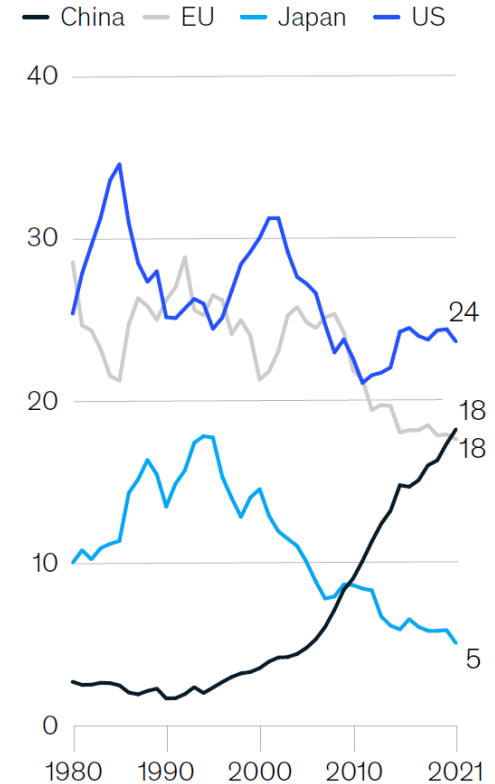
CHINA'S DEVELOPMENT SINCE 1949 AND 1978

	1949	1978	2018	Δ Since 1949	Δ Since 1978
RGDP Per Capita*	348	609	15,243	44x	25x
Share of World GDP	2%	2%	22%	12x	11x
Population Below the Poverty Line (\$1.90/Day)**	—	96%	1%	at least -96%	-96%
Life Expectancy	41	66	77	+36 Yrs	+11 Yrs
Infant Mortality Rate (per 1,000 Births)	200	53	7	-96%	-86%
Urbanization	18%	18%	59%	+41%	+41%
Literacy	47%	66%	97%	+50%	+31%
Avg Yrs of Education	1.7	4.4	7.9	+6.2 Yrs	+3.5 Yrs

*USD 2017, PPP-adjusted

**The World Bank only has poverty data back to 1981

Share of global GDP, %



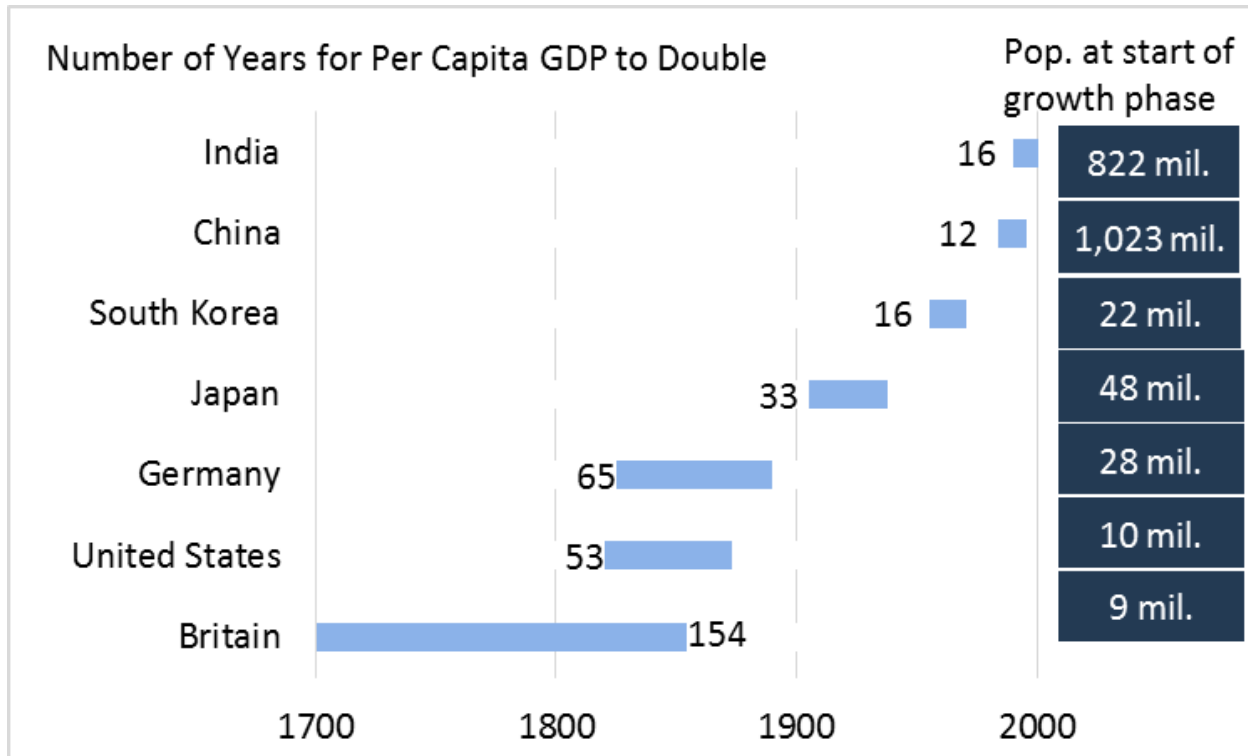
https://www.mckinsey.com/~/media/mckinsey/mckinsey%20global%20institute/our%20research/the%20china%20imperative%20for%20multinational%20companies/the-china-imperative-for-multinational-companies_vf.pdf

Ray Dalio, <https://economicprinciples.org/cwocharts>

Such a rapid and impactful rise of an economy has never happened before in the world history



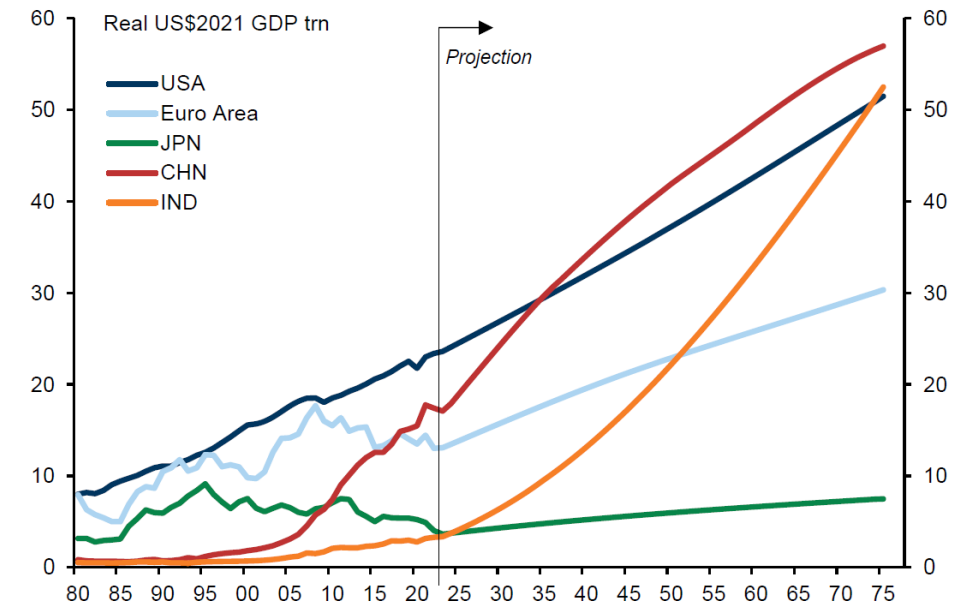
History



One of many predictions: Overtake US in around 2035

China to Overtake US in Around 2035, While India Should Catch up By 2075; EM Leaderboard to Change Significantly by 2075

GDP level projections in Real (2021) USD trillion (Not PPP)



Goldman Sachs

Angus Maddison, University of Groningen, McKinsey and IMF

How can we explain the remarkable economic growth of China?



- By neoclassical, traditional growth models, as the Solow model?
 - Favorable demographics
 - Very high and rising investment rates
 - Exceptionally high growth in total factor productivity
- Or is it a large “residual” of “Chinese development economics”, a unique mixture of economic policy elements with Chinese characteristics?
 - See the next pages with an example
- Are we able to make a fact-based assessment of the drivers of growth based on the current Chinese narrative – or is the history politicized and the version of it changing with the evolving thoughts by the political leadership?
- Is the way the story is being told guiding our understanding of the future?

Example of a recent story on “China’s Development Miracle”

“China’s development miracle was not achieved under the guidance of the existing theories of development economics, nor are existing development economics theories sufficient to explain China’s development miracle.

The pathway of socialism with Chinese characteristics has created a miracle of development rare in human history; it has expanded the way for lagging countries to modernize, contributing Chinese wisdom and Chinese solutions to human problems, and providing a rich practical basis and unique theoretical resources for innovations in development economics.

.. along with China’s four miracles of development and the even more remarkable economic development achievements of the future, theoretical and empirical research results based on Chinese experience and the Chinese story will surely play an increasingly important role in mainstream development economics theory, and it will ultimately take the lead in the development of the discipline of development economics.”

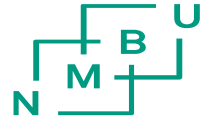
China’s four miracles of development: Rapid economic growth, rapid structural transformation, alleviation of poverty, and long-term stability

July 2022: China’s Development
Miracle and Development
Economic



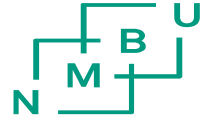
https://china-cee.eu/wp-content/uploads/2022/07/China_Watch_LIU-Shouying_2022_29.pdf

Professor Liu Shouying, Dean and Secretary of the Party Committee at the School of Economics of the Renmin University of China.



Key observations in this article

- The achievements of China's economic growth are unprecedented in the course of human history
- In 2010 China became the world's largest manufacturing country
- Urbanization rate rose from 17.9% in 1978 to 60.6% in 2019
- The number of China's people in poverty dropped from 878 million in 1981 to 9.6 million in 2015—this alone amounted to a 67% reduction in the number of impoverished people worldwide
- China has avoided contradictions and conflicts in the process of pursuing modernization, and maintained long-term economic and social stability
- After the CPC took power, it proposed the constructive goal of transforming China from an agricultural country into an industrial country
- Among key drivers: A high saving rate, the relaxation of household registration system (Hukou), the government's use of China's land system to seek development, opening-up to the outside world, initial prioritization of heavy industry, social re-engineering – institutional modernization
- After the economic reforms the income gap expanded at high speed and encountered other issues as increased social conflicts, rising debt ratios and asset bubbles, widening regional disparities



Omissions and rewriting of history

- “After the CPC took power, it proposed the constructive goal of transforming China from an agricultural country into an industrial country”
No words on the disastrous Great Leap Forward
- The Hukou system: A system from ancient times, but actually strengthened from 1949 and put into law in 1958. Reforms initiated from 1978 by Deng Xiaoping
- “China’s development economics is guided by Xi Jinping’s thought on the new era of socialist economy with Chinese characteristics”
Most of the transformational changes and the foundation for the “miracles” were made before Xi came to power, without any significant influence from him

Why are not all the policy errors done in the era of Chairman Mao from 1949 until he died in 1976 mentioned?

Where are the reflections and learnings based on that?

Why is not Deng Xiaoping mentioned ?

[Class discussion on this article](#)

Is China’s economic development since 1949 a miracle that not can be explained by existing theories?

What are the key ingredients of “Chinese development economics”?

Gives the paper an “objective” description of the economic history of China?

Policy errors during the one-person rule 1949 - 1976



1: The great Leap Forward 1958 - 62

The 130 million family farms were transformed to 26.000 people's communes in 1958 with an average size of 6.700 workers. "This was a disastrous move."

The Great Leap led to the greatest destruction of real estate in human history, outstripping any of the bombing campaigns from World War II

Approximately 30% to 40% of all houses were turned to rubble. Homes were pulled down to make fertilizer, to build canteens, relocate villagers, straighten roads, make place for a better future, or punish their owners

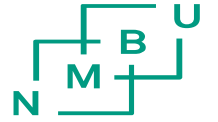
This has been called the greatest, largest famine in human history. In some sense, it was perfectly predictable, because it matched the pattern of events unfolding in the "terror famine" of Ukraine, in 1932 and 1933, in the Soviet Union (Stalin)

By 1960, famine was raging in the provinces, and cases of cannibalism were recorded. Dining halls in the communes broke out into food riots. **Up to 40 million people died as a result**

"Hard work for a few years was then to be followed by a thousand years of happiness." Mao explained that if one followed industrialization and the agricultural reforms that he had in mind, China would become a utopia, a paradise on Earth. He explained that new ideas about deep plowing in agriculture would produce food so bountiful that China would no longer even have any food problems, but in fact, would export food. Food would be distributed free



Policy errors during the one person rule 1949 – 1976



2: The cultural revolution, 1966:76

The Great Proletarian Cultural Revolution was a decade-long period of political and social chaos caused by Mao Zedong's bid to use the Chinese masses to reassert his control over the Communist party.

Its bewildering complexity and almost unfathomable brutality was such that to this day historians struggle to make sense of everything that occurred during the period.

However, Mao's decision to launch the "revolution" in May 1966 is now widely interpreted as an attempt to destroy his enemies by unleashing the people on the party and urging them to purify its ranks



<https://www.theguardian.com/world/2016/may/11/the-cultural-revolution-50-years-on-all-you-need-to-know-about-chinas-political-convulsion>

Reflections on the 1949 – 1976 period



- What general mechanism lead to potentially large policy errors under a one-person dictatorship?
- What are other prominent examples? Any recent example?
- Any parallels to other leadership arenas, like running businesses with the role of Chair of the Board and CEO are combined?
- What mechanisms did Deng Xiaoping put in place to build collective leadership and avoid similar policy errors?
- What is happening now in China?
- Why is not the Mao-experiences and the structural causes leading to the “Dictators curse” not discussed in the article by Professor Liu Shouying?
- What are the key risks for a political and economic system that not encourage critical discussions? (even not on its history)

Data on the economic progress of China

Can the growth be explained by neoclassical theory?

Importance of trade – The Opening Up from 1978



From 1949 until Deng started the reform process in 1978:

No ambition to trade. Overvalued currency

Early reform process

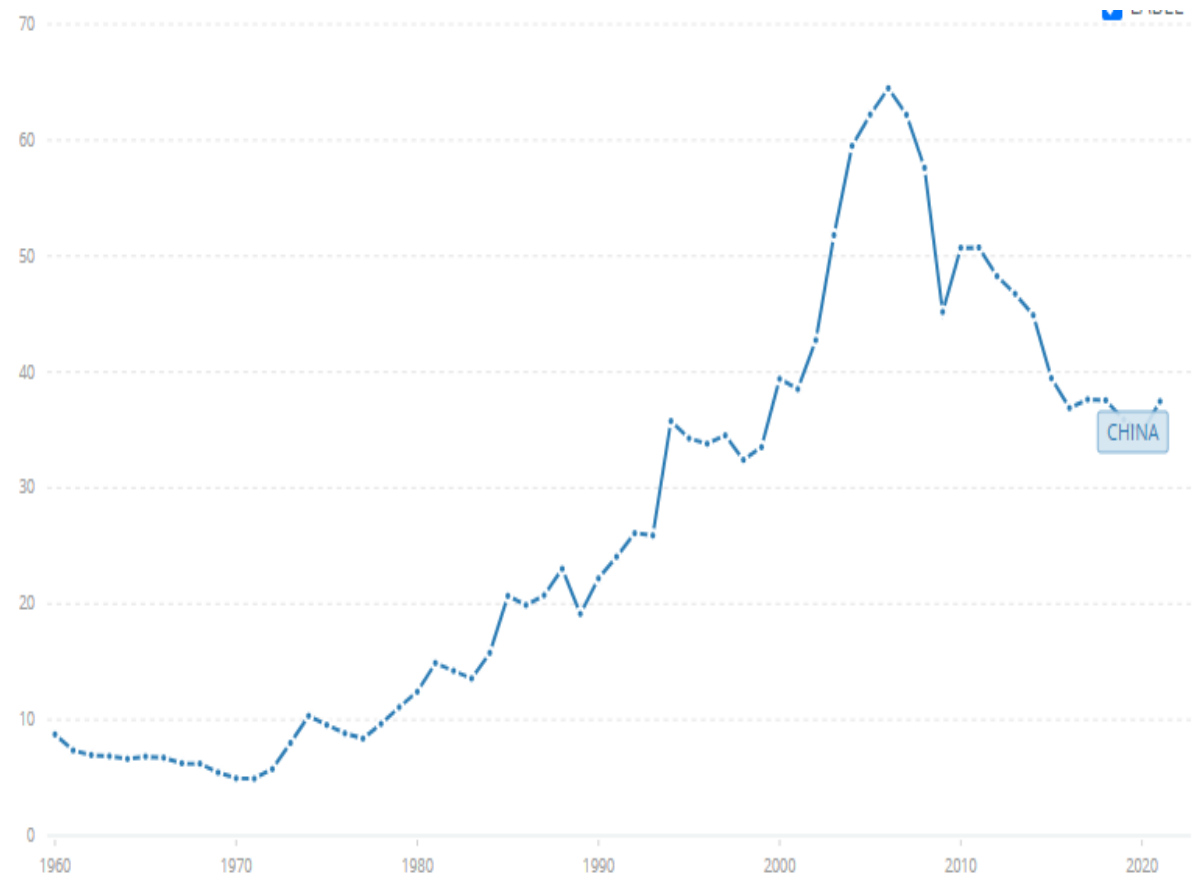
Currency devaluated by four times

Establishment of economic zones

China joined WTO in 2001. Marked a large global transformation of industrial structure

Created a deflationary force into the Global West economies (that were counteracted by ultra loose monetary policy, that led to the global financial crisis in 2008-09 etc)

**Sum of exports and imports in percent of GDP
1960 – 2021, Source: World Bank**



A dedicated policy for foreign investments and trade



Shenzhen – a tiny fishing village until 1989



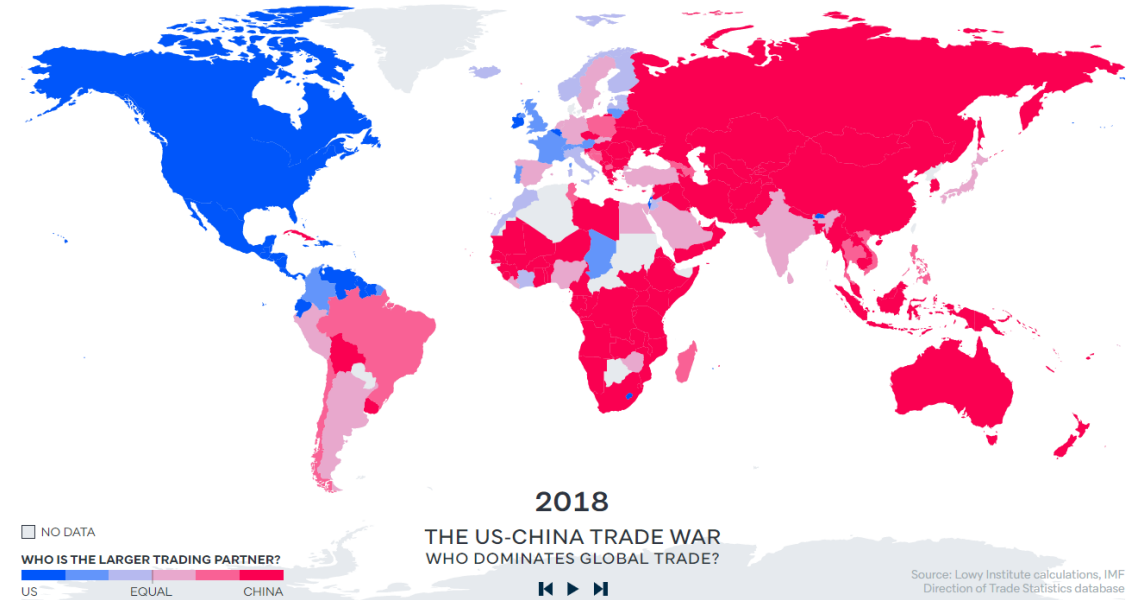
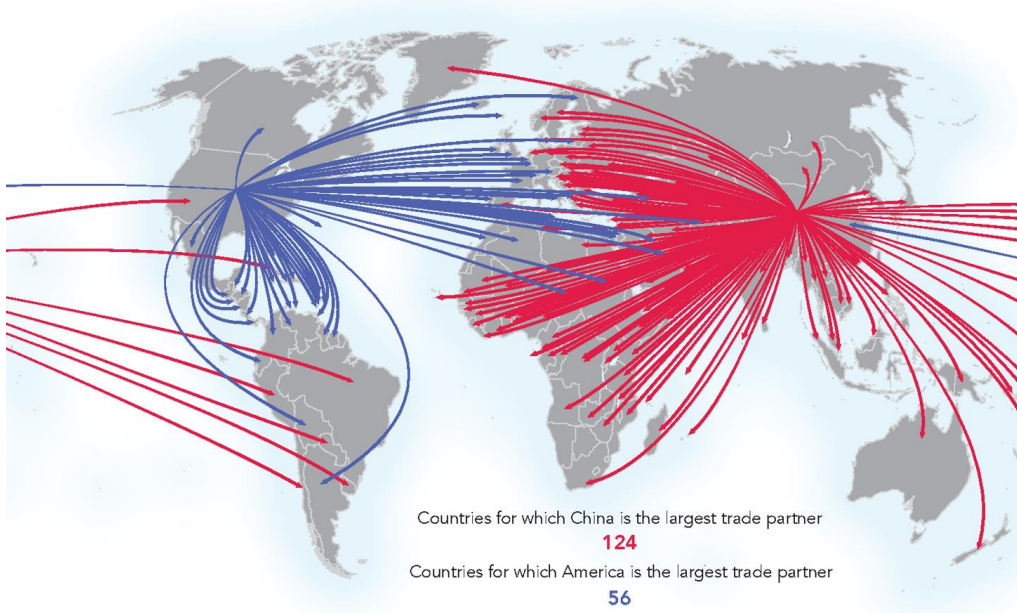
The first SEZ was set up in the then tiny fishing village of Shenzhen lying on the southern coast of China's Guangdong Province and across from the Hong Kong SAR (Special Administrative Region). The SEZ is designated land space that offers preferential tax and regulations treatments to enterprises opening up factories, warehouses and offices in the zone <https://www.quora.com/Why-has-the-Western-world-not-tried-to-adopt-similar-public-private-partnerships-that-China-has-employed-to-create-such-astonishing-economic-growth-since-the-80s>

The government established from 1978 a number of areas for foreign investment, including the special economic zones, open coastal cities, the economic and technology development zones, the delta open zones, the peninsula open zones, the open border cities, and the high-tech industry development zones. The establishment of these zones provided the trigger for massive inflows of foreign investment, primarily from companies in Hong Kong and Taiwan

Inflows of foreign capital, technology, and management knowhow enabled China to turn its vast labor resources and space to rapid economic growth. The shift to an open-door economic policy ushered in a period of high economic growth in the first half of the 1980s.

<https://www.jri.co.jp/english/periodical/rim/1999/RIMe199904threeforms/>

China is now the largest trade partner for 124 countries



China's Global Supply Chain Complementarities

China is now the largest trade partner of twice as many countries as America.
(Created by University of Wisconsin-Madison Cartography Laboratory)

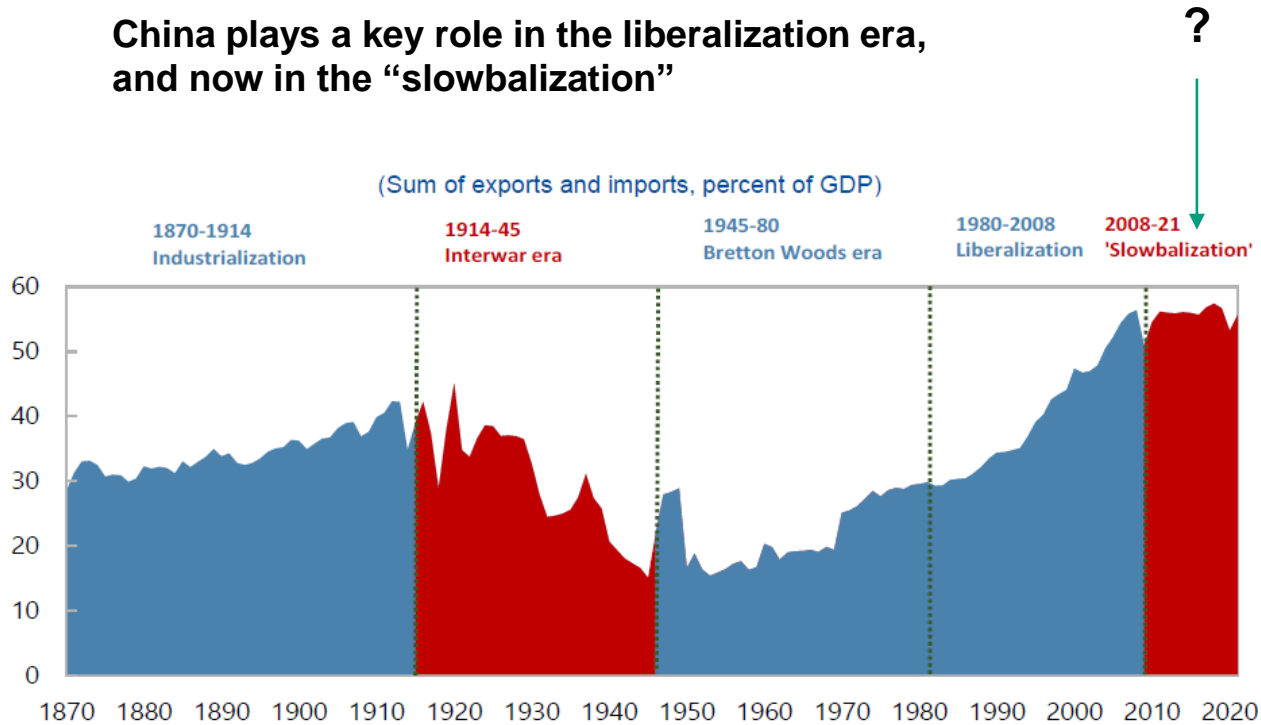
Parag Khanna

<https://interactives.lowyinstitute.org/charts/china-us-trade-dominance/us-china-competition/>

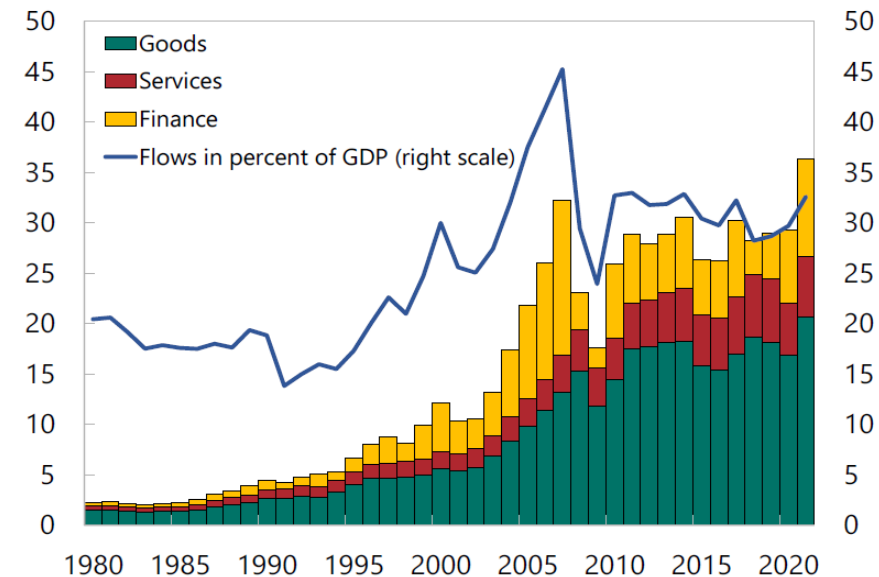
The long lens on trade globalization: China has played a leading role since the 1990's



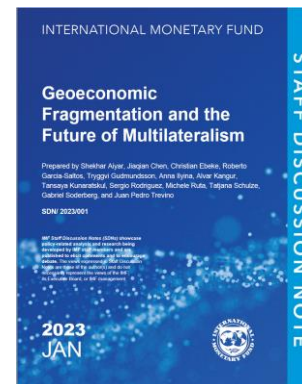
China plays a key role in the liberalization era, and now in the “slowbalization”



Global Flows of Goods, Services and Finance (\$ trillion, unless indicated otherwise)



<https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2023/01/11/Geo-Economic-Fragmentation-and-the-Future-of-Multilateralism-527266>



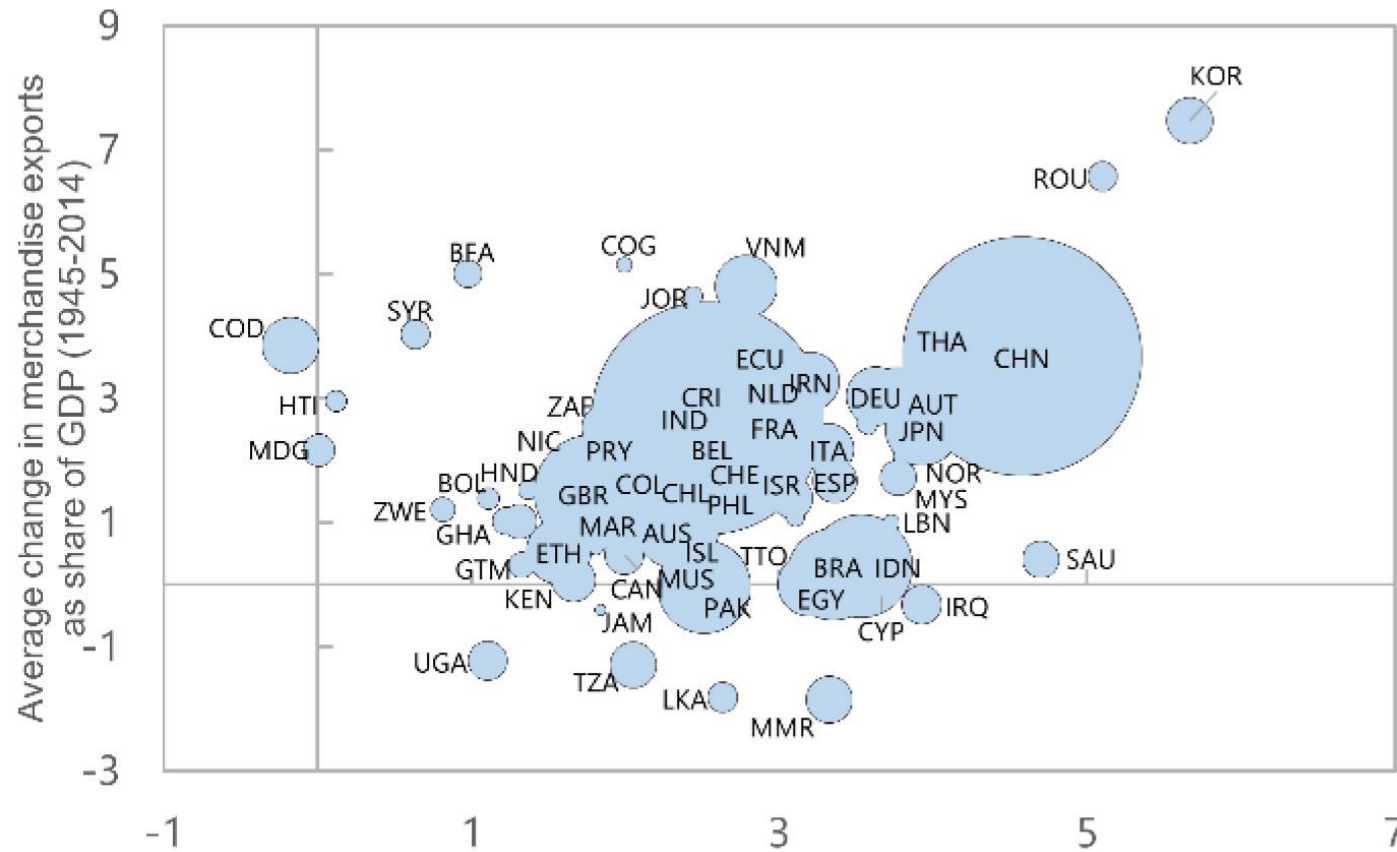
IMF: International trade has been a catalyst for catch-up in income across countries

Increase in trade restrictions recently



Growth of GDP and Trade, 1995–2014

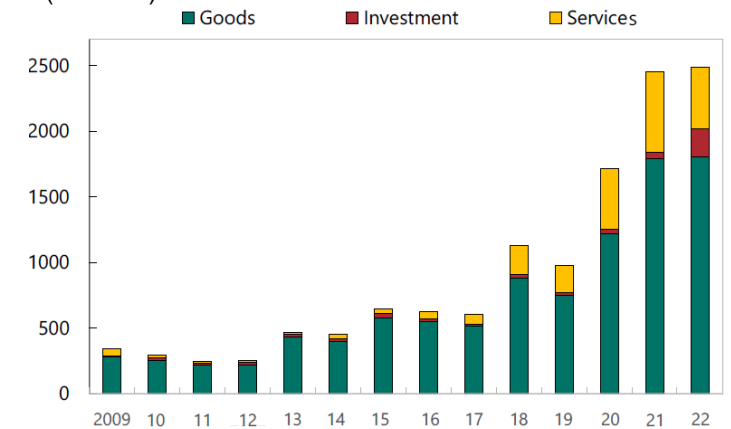
(Average annual change in real GDP per capita vs. average annual change in exports as share of GDP, percent)



<https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2023/01/11/Geo-Economic-Fragmentation-and-the-Future-of-Multilateralism-527266>

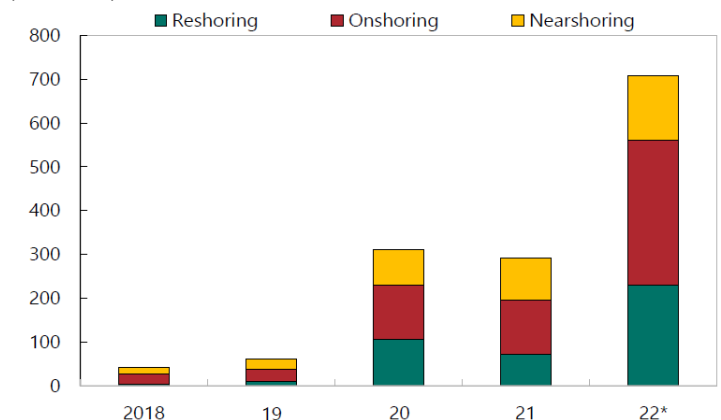
Trade Restrictions Imposed

(Number)

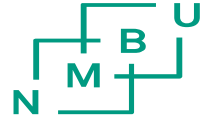


Mentions of Key Terms in Corporate Presentations

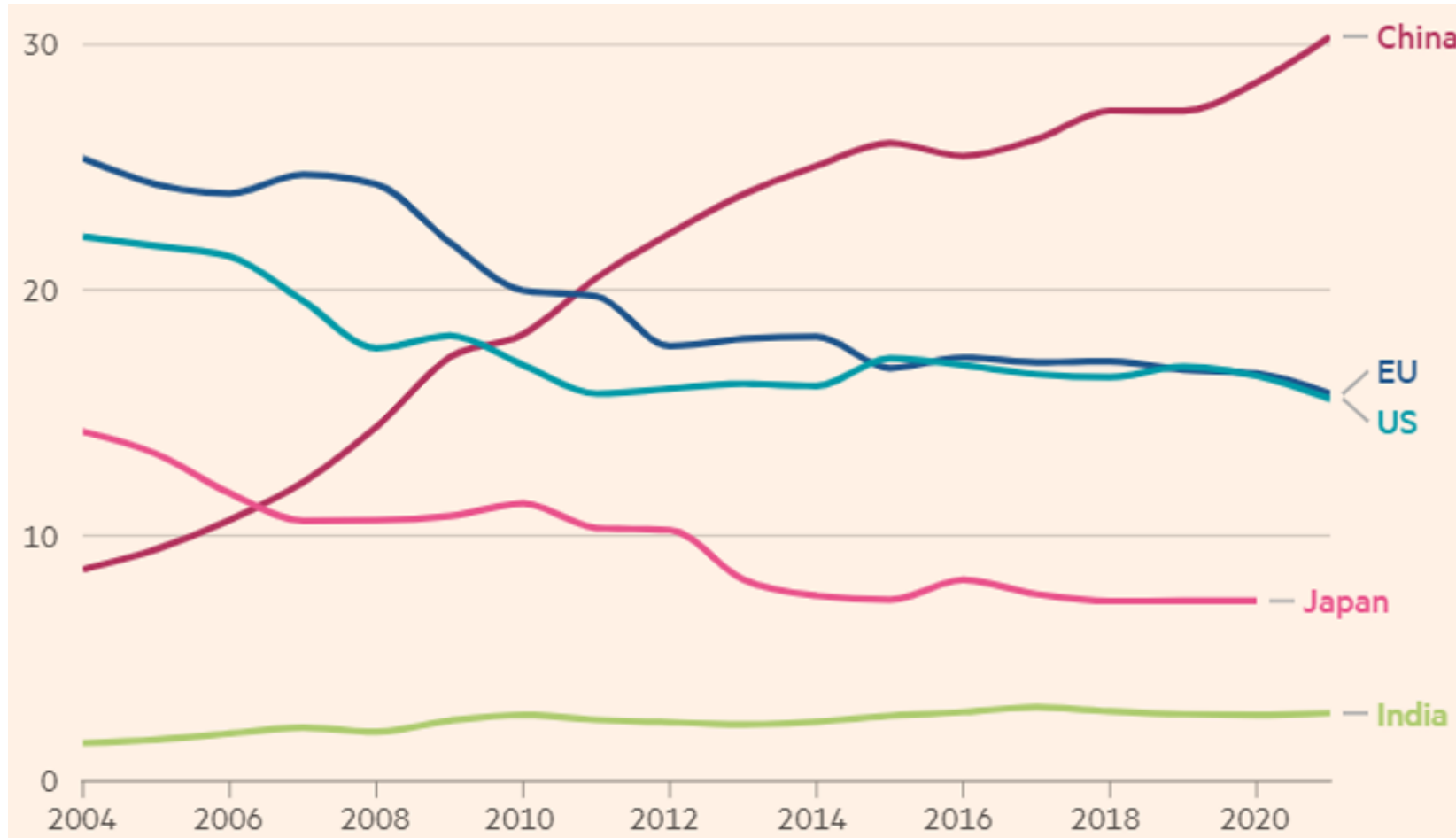
(Number)



Becoming the manufacturing superpower of the world



Share of global manufacturing value added, percent



Financial Times

Example Apple:

Produce USD316bn worth of iGadgets each year

Production in China essential; developed over 20 years

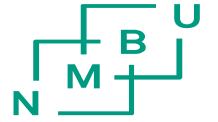
Have strived to move operations outside since 2014, but little progress to show for it. Less than 5% of the iPhones are made in India

“China is going to dominate labour and tech production for another 20 years”

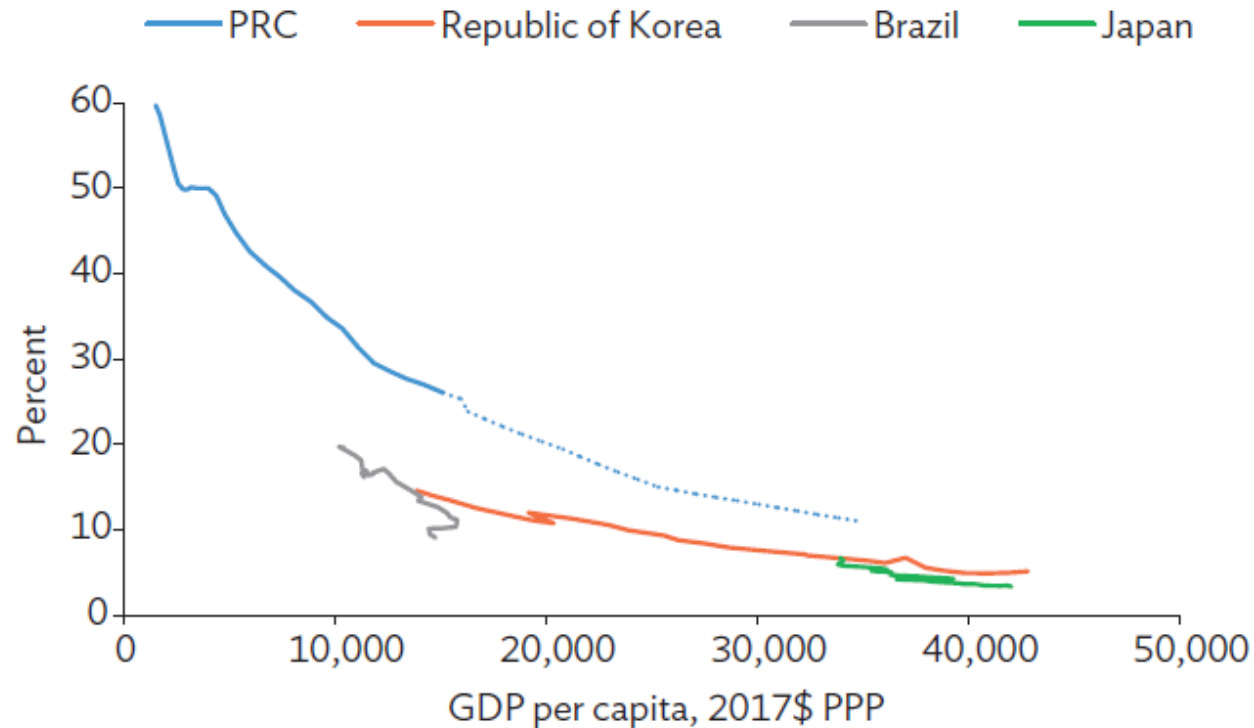
1.5 workers in the Apple global supply chain, most of them in China

<https://www.ft.com/content/74f7e284-c047-4cc4-9b7a-408d40611bfa>

Reduced share of employment in agriculture a key ingredient in the increase in GDP per capita



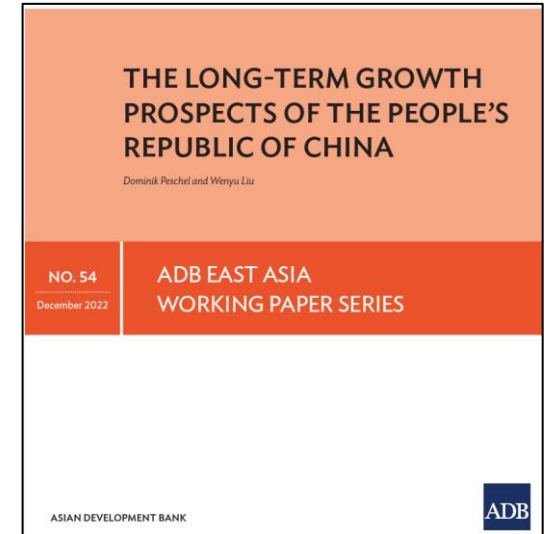
Share of Agriculture in Total Employment



GDP = gross domestic product, PPP = purchasing power parity, PRC = People's Republic of China.

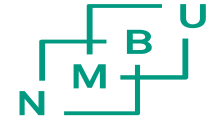
Note: Blue dashed line shows the forecast for the PRC up to 2040.

Sources: World Bank, World Development Indicators; and authors' estimates.

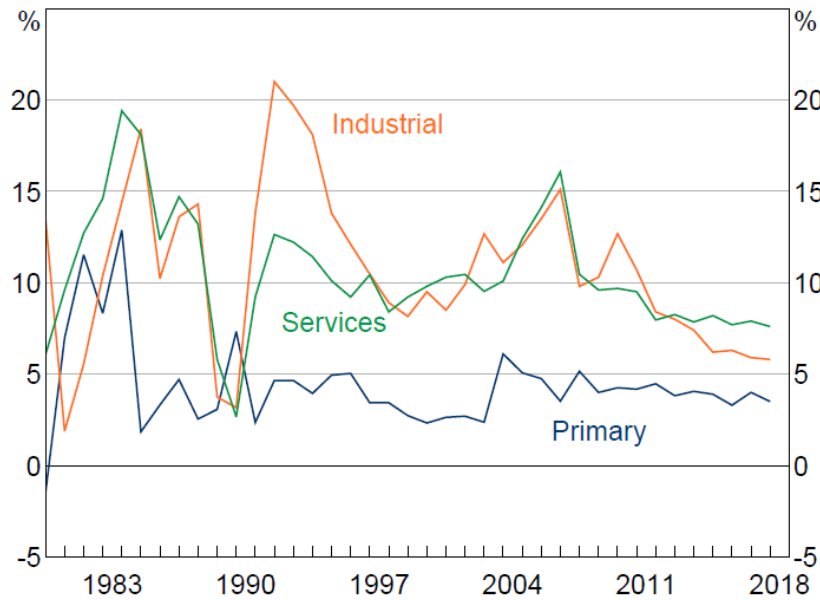


<https://www.adb.org/sites/default/files/publication/849946/eawp-054-long-term-growth-prospects-prc.pdf>

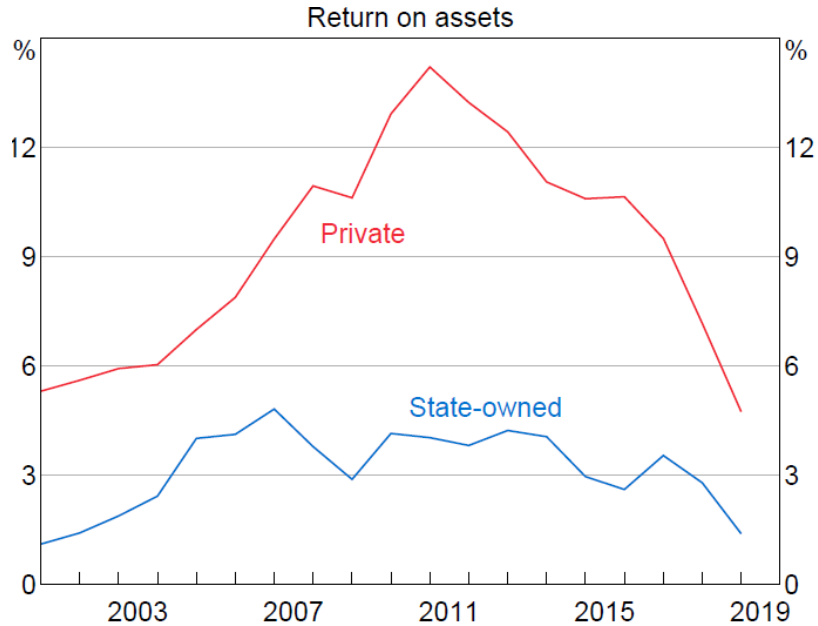
Another radical decrease in the share of people employed in state-owned enterprises



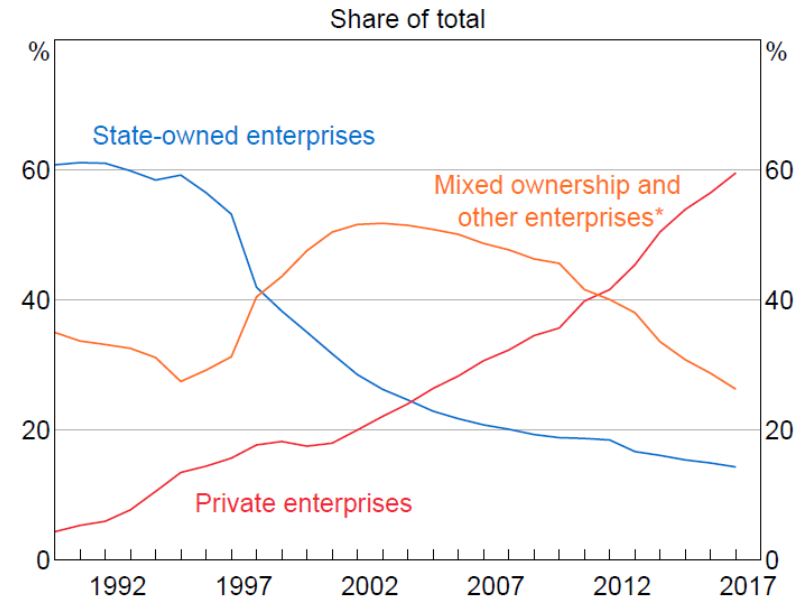
GDP Growth by Sector



Profitability of Industrial Firms



Urban Employment



<https://www.adb.org/sites/default/files/publication/849946/eawp-054-long-term-growth-prospects-prc.pdf>

One example of explaining the growth: The Solow model provides a fairly good account of China's relative success in global growth

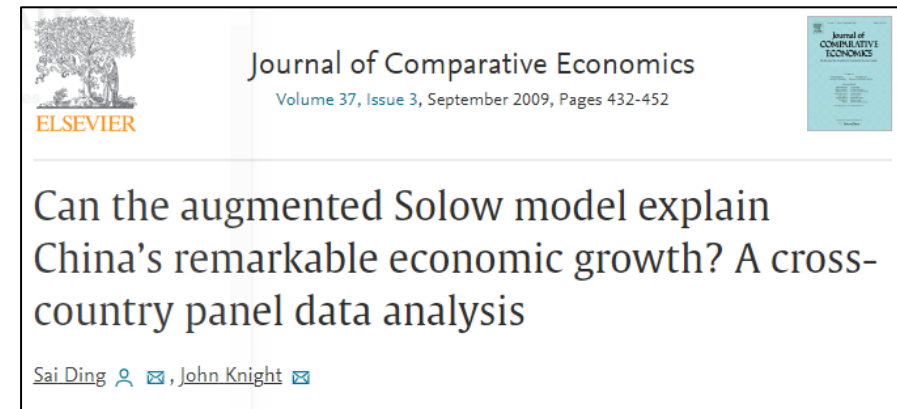


China's economy grew at an average annual rate of 9% over the last three decades. Despite the vast empirical literature on testing the neoclassical model of economic growth using data on various groups of countries, very few cross-country regressions include China and none of them particularly focuses on the explanation of China's remarkable economic growth.

We attempt to fill this gap by utilising panel data on 146 countries over the period 1980–2004 to examine the extent to which the rapid growth of China and the huge gap in the growth rate between China and other countries can be explained by the augmented Solow model.

Using system GMM estimation techniques, we find that, in spite of the restrictive assumptions involved, the Solow model augmented by both human capital and structural change provides a fairly good account of international variation in economic growth.

In particular, China's relative success in economic growth is due to high physical capital investment, conditional convergence gain, dramatic changes in the structure of employment and output, and low population growth.



https://ora.ox.ac.uk/objects/uuid:380c2e1e-ccb8-483a-a0d5-0d97c513f2a4/download_file?file_format=application%2Fpdf&safe_filename=din_g1.pdf&type_of_work=Working+paper

Another example: China's rise fits every development model



HARROD-DOMAR, SOLOW-SWAN, LEWIS, AND LUCAS-ROMER MODELS

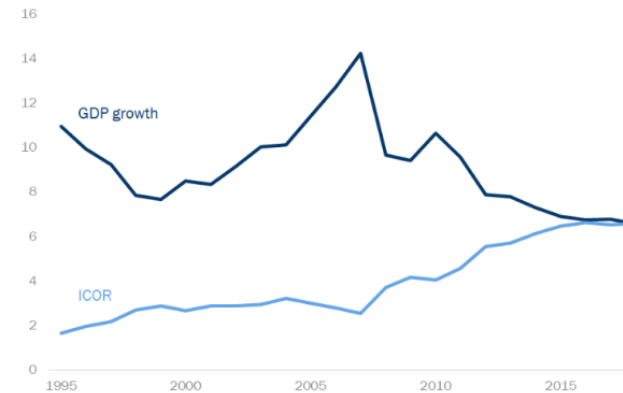
High domestic savings and high productivity of capital both contributed to China's rapid growth after 1978. Recently, however, the productivity of capital has begun to decline and with it China's growth rate (Figure 1). Investment-led growth alone is no longer an option.

During the last decade, China has doubled down on a public-investment-led growth strategy, while investments in human capital have lagged particularly in the non-coastal and rural areas (Figure 2). The result has been declining returns to physical investment, just as the Solow model would have predicted. Besides, China's labor force, which grew much faster than the total population until around 2010, has since stabilized and is expected to begin to decline in the next decade. To sustain growth, China might soon need to shift public spending from physical investment to human capital.

The third theory is the model of growth proposed by Sir Arthur Lewis. Growth is driven by the reallocation of labor from low-productivity agriculture to high-productivity industry. China's experience provides ample evidence in support of Lewis' theory. **When it began its heralded reform efforts in 1978, three-quarters of the labor force were in rural areas. This has now fallen to below 40 percent and surplus labor in agriculture may disappear completely by the middle of the 2020s.**

Despite these institutional specifics, China's growth trajectory is quite similar to the East Asian "Tiger" economies. As an upper-middle-income country (UMIC), China is now facing many of the same challenges confronted by these economies earlier in their history, such as declining productivity growth as the forces of structural change run out of steam, and a rapidly aging labor force. These developments have been fuelling fears of a middle-income trap. Moreover, some of China's specific institutional solutions—such as the substantially larger role played by state-owned enterprises, particularly in finance and services, or the highly decentralized and competitive system of inter-governmental relations—may hinder growth more than help going forward.

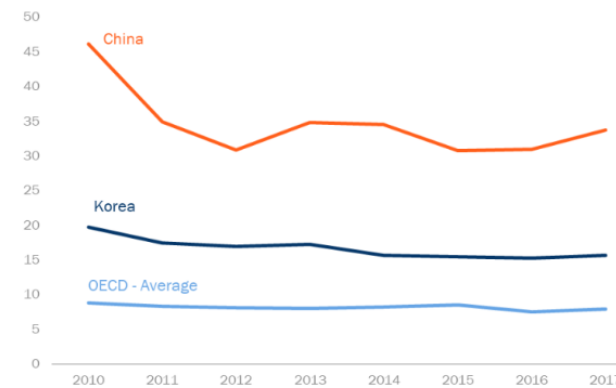
Figure 1: The productivity of capital and economic growth in China



Source: Innovative China: New Drivers of Growth, World Bank (2019)

BROOKINGS

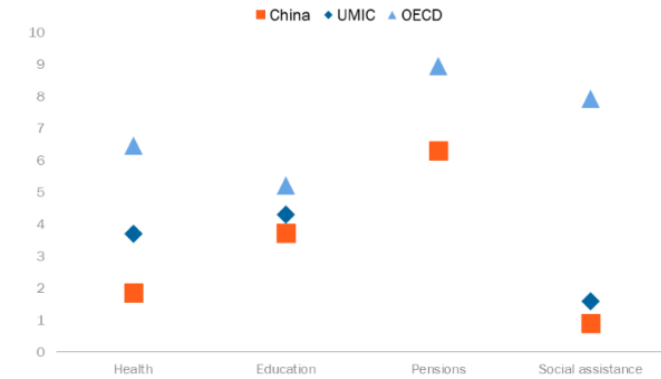
Figure 2a: Public investment as a share of GDP, in percent (2010-18)



Source: World Bank staff calculations based on NBS, Ministry of Finance and OECD.

BROOKINGS

Figure 2b: Government social spending as a share of GDP, in percent (2010-18 average)



Source: World Bank staff calculations based on NBS, Ministry of Finance and OECD.

BROOKINGS

FUTURE DEVELOPMENT
China's rise fits every development model
 Martin Røiser · Thursday, October 17, 2019

<https://www.brookings.edu/blog/future-development/2019/10/17/chinas-rise-fits-every-development-model/>

Understanding the history and culture of China

The self-image of the current leadership is not the small role given China by the post WWII world order but the peak times of former dynasties when China was large and powerful

The Opium Wars 1839-1842 & 1856-1860



- The Opium Wars were a series of conflicts between China and Great Britain in the mid-19th century, centered around the trade of opium.
- During the 18th and 19th centuries, Britain began importing opium from India into China in large quantities, in order to offset the balance of trade and to pay for Chinese goods such as tea, silk, and porcelain. However, this trade was illegal under Chinese law, and the Chinese government attempted to suppress it.
- In 1839, tensions between China and Britain came to a head when Chinese officials seized and destroyed British opium shipments in Guangzhou (Canton). Britain responded by sending warships to China and declaring war, leading to the First Opium War (1839-1842).
- The war ended with the signing of the Treaty of Nanjing in 1842, which forced China to open up several ports to British trade, cede Hong Kong to Britain, and pay an indemnity to Britain for the cost of the war.
- A second conflict, known as the Second Opium War (1856-1860), erupted when China attempted to crack down on the opium trade once again. This time, Britain was joined by France, and the two powers were able to capture Beijing and force the Chinese government to sign the Treaty of Tianjin, which opened up more ports to foreign trade and allowed foreign powers to station troops in China.
- The Opium Wars had a profound impact on China, weakening the Qing dynasty and leading to the erosion of Chinese sovereignty. They also contributed to the growth of anti-foreign sentiment in China and the eventual collapse of the imperial system in 1911



The text here is from Chat GPT and checked by me

The Unequal Treaties



Unequal treaty is the name given by the Chinese to a series of treaties signed during the 19th and early 20th centuries, between China (mostly referring to the Qing dynasty) and various Western powers (specifically the British Empire, France, the German Empire, the United States, and the Russian Empire), and the Empire of Japan.

The agreements, often reached after a military defeat or a threat of military invasion, contained one-sided terms, requiring China to cede land, pay reparations, open treaty ports, give up tariff autonomy, legalise opium import, and grant extraterritorial privileges to foreign citizens.

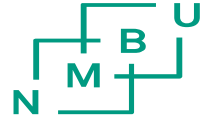
With the rise of Chinese nationalism and anti-imperialism in the 1920s, both the Kuomintang and the Chinese Communist Party used the concept to characterize the Chinese experience of losing sovereignty between roughly 1840 to 1950. The term "unequal treaty" became associated with the concept of China's "century of humiliation", especially the concessions to foreign powers and the loss of tariff autonomy through treaty ports



A French political cartoon in 1898, *China – the cake of Kings and Emperors*, showing [Queen Victoria](#) of [Britain](#), [Kaiser Wilhelm II](#) of [Germany](#), [Tsar Nicholas II](#) of [Russia](#), [Marianne](#) of [France](#) and a [Japanese samurai](#) dividing [China](#). "[Kiautschou](#)" and "[Port Arthur](#)" are written on the cake; a stereotyped [mandarin](#) reacts with horror in the background

https://en.wikipedia.org/wiki/Unequal_treaty#/media/File:China_imperialism_cartoon.jpg

Century of humiliation: 1839 - 1949



The "century of humiliation" is a term used to describe a period of time in Chinese history from the mid-19th century to the mid-20th century when China experienced a series of defeats and humiliations at the hands of foreign powers, particularly during the Opium Wars (1839-1860) and the Sino-Japanese War (1894-1895).

During this period, China was forced to sign unequal treaties with foreign powers that granted extraterritorial rights to foreigners within China, ceded territory to foreign powers, and opened up its markets to foreign trade. China was also forced to pay indemnities to foreign powers for losses incurred during conflicts.

The term "century of humiliation" is often used in modern China to reflect on this period of history and to emphasize the importance of national unity, strength, and independence. The Communist Party of China often invokes this history as a reminder of the importance of resisting foreign influence and maintaining Chinese sovereignty.



But what was the root cause behind the Chinese weakness?

To answer that we need to understand the much longer history of China, included the Dynastic cycle

The Dynastic Cycle



1. A new ruler founds a new dynasty, and gains the Mandate of Heaven.^[5]
2. China, under the new dynasty, achieves prosperity.
3. The population increases.
4. Corruption becomes rampant in the imperial court, and the empire begins to enter decline and instability.
5. A natural disaster wipes out farm land. The disaster normally would not have been a problem; however, together with the corruption and overpopulation, it causes famine.^[5]
6. The famine causes the population to rebel and a civil war ensues.^[5]
7. The ruler loses the Mandate of Heaven.^[5]
8. The population decreases because of the violence.^[6]
9. China goes through a warring states period.^[6]
10. One state emerges victorious.
11. The state starts a new empire.^[5]
12. The empire gains the Mandate of Heaven.^[5]
(The cycle repeats itself.)

The Mandate of Heaven was the idea that the monarch was favored by Heaven to rule over China. The Mandate of Heaven explanation was championed by the Chinese philosopher Mencius during the Warring States period.^[5]

It has 3 main phases:

1. The first is the beginning of the dynasty.
2. The second is at the middle of the dynasty's life and is the peak of the dynasty.
3. The last period is the decline of the dynasty, both politically and economically, until it finally collapses

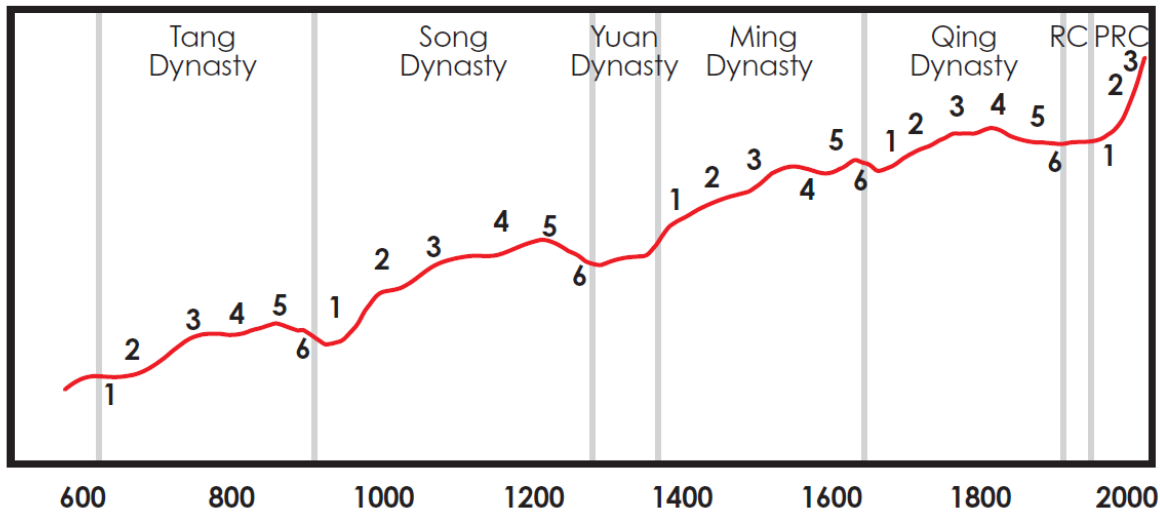
<https://www.sutori.com/en/story/chinese-dynasties-timeline--WH8aDMYHMuATMR4UCpw4PQy5>

https://en.wikipedia.org/wiki/Dynastic_cycle

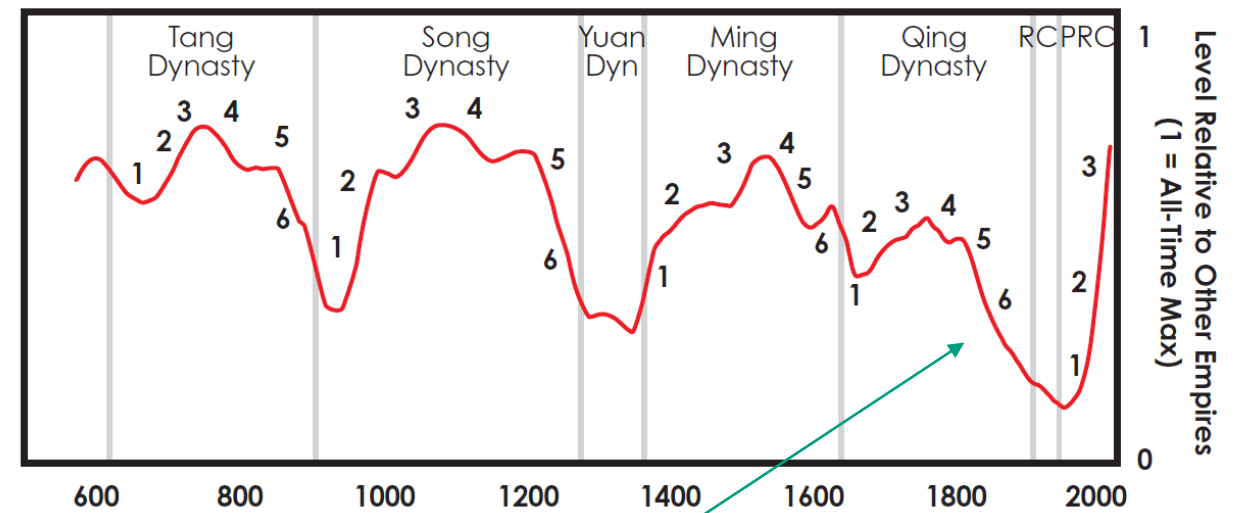
The six last dynasties, as observed by Ray Dalio



**MAJOR CHINESE DYNASTIES AND THEIR STAGES
(WITH INDICATIVE UPWARD EVOLUTION)**



MAJOR CHINESE DYNASTIES AND THEIR STAGES



Why did the Qing Dynasty fall apart?

<https://economicprinciples.org/cwocharts>

The Qing Dynasty: A great power surrounded by tributary states



China was the hegemonic power in East Asia

Tributary system: network of loose international relations centered around China which facilitated trade and foreign relations by acknowledging China's hegemonic role within a Sinocentric world order

With 419 million people in the early 1900s China was the most populous country in the world

https://en.wikipedia.org/wiki/Qing_dynasty#/media/File:Qing_Dynasty_1820.png

The classical principles for world order: Size and military strength gives right to control smaller states

What caused the weakening of the Qing dynasty?

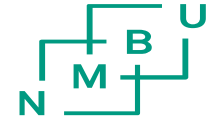
There were several factors that contributed to the weakening of the Qing Dynasty in China:

- 1. Internal corruption and incompetence:** The Qing government was riddled with corruption, and officials were often appointed based on their connections rather than their abilities. This led to inefficiencies and mismanagement, which weakened the state's ability to govern effectively.
- 2. Economic stagnation:** The Qing Dynasty was slow to adopt modern economic practices and continued to rely on an agricultural-based economy. This made it difficult to generate enough revenue to support the state's needs and to compete with the growing industrial powers of the West.
- 3. Social unrest:** The Qing Dynasty was plagued by social unrest, including peasant uprisings, ethnic tensions, and the emergence of new political ideologies such as communism and nationalism. These movements challenged the legitimacy of the Qing government and weakened its ability to maintain social stability.
- 4. Military defeats:** The Qing Dynasty suffered several military defeats in the 19th century, including the Opium Wars and the Boxer Rebellion. These defeats weakened the state's military power and reduced its prestige in the eyes of its subjects.

Overall, a combination of internal weaknesses, external pressures, and social changes contributed to the decline of the Qing Dynasty and its eventual collapse in 1911.

More perspectives on the history of China

Not just a peaceful “Middle Kingdom”



A large amount of massacres over thousands of years

List of massacres in China

Article Talk Read Edit View history Tools

From Wikipedia, the free encyclopedia

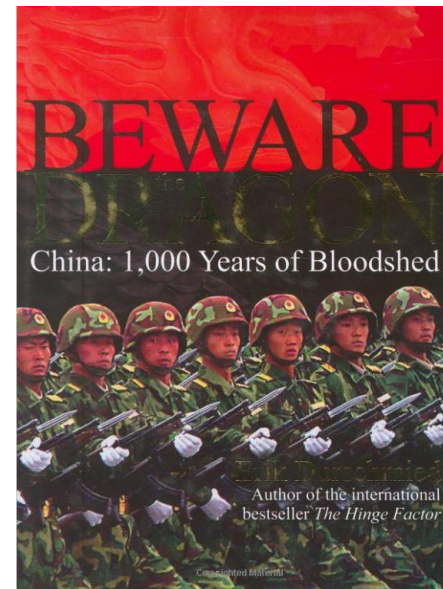
The following is a list of [massacres](#) that have occurred in China. The massacres are grouped for different time periods.

Imperial China (before 1912) [edit]

Name	Date (Dynasty)	Location	Deaths	Notes
Yongjia disaster	304–316 (Jin)	Luoyang	30,000, exaggerated ^[1]	The capital was sacked in the disaster, an landmark incident in the <i>Invasion of the Five Barbarians</i> . The deaths of 30,000 was based on the <i>Book of Jin</i> compiled in 648. ^[1]
Yangzhou merchants massacre	760 (Tang)	Yangzhou	1,000	Merchants from the <i>Abbasid Caliphate</i> (Arabs, Persians) were killed. It coincided with the <i>An Lushan Rebellion</i> . ^{[2][3]}
Guangzhou merchants massacre	878–879 (Tang)	Guangzhou	Tens of thousands ^[4]	Merchants from the <i>Abbasid Caliphate</i> (Arabs, Persians) were killed.
Mongol conquest of the Jin dynasty	1211–1234 (Song)	Northern China	?	
Mongol conquest of Western Xia	1225–1227	now Ningxia	?	
First Sichuan massacre	1221–1264 (Song)	Sichuan	2 million est. ^[5]	Part of <i>Mongol conquest of the Song dynasty</i> .
Second Sichuan massacre	1645–1646 (Qing)	Sichuan	1 million est. ^[5]	There is no reliable figure, but estimated 1 million out of 3 million <i>Sichuanese</i> were massacred mainly by the army of <i>Zhang Xianzhong</i> . ^[5]
Yangzhou massacre	1645 (Qing)	Yangzhou	300,000 (modern estimate) ^[6]	The <i>Yangzhou massacre</i> in May, 1645 in <i>Yangzhou</i> , <i>Qing dynasty</i> China, refers to the mass killings of innocent civilians by Manchu and defected northern Chinese soldiers, commanded by the Manchu general <i>Dodo</i> . The massacre is described in a contemporary account, <i>A Record of Ten Days in Yangzhou</i> , by <i>Wang Xiuchu</i>

https://en.wikipedia.org/wiki/List_of_massacres_in_China

1000 Years of Bloodshed

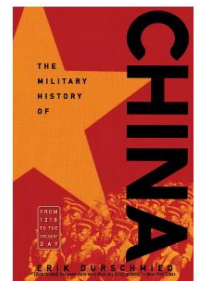


<https://www.amazon.com/Beware-Dragon-China-Years-Bloodshed/dp/B0062GKUMY?asin=0233002316&revisionId=&format=4&depth=1>

Catastrophic clashes with other countries are a thread woven into the fabric of the nation's history

Long ago China engaged in brutal tribal wars and rapacious conquests of territory stretching from the far shores of Asia to Eastern Europe. Back in the mid-thirteenth century Mongol hordes obliterated an army of Europe's finest knights and terrorized whole populations. Seven hundred years later China went to war with Japan, took on UN forces in Korea and squared up to the Soviet Union and America. Over the centuries in between, the Chinese sought bloody conflict with Muslims, Jews, Christians and Buddhists and, in more recent times, lived through political conflict that claimed tens of millions of lives.

Long the world's most populous country, China has always flexed its muscles beyond its borders, for all its contemplative religion and dreamlike art. Catastrophic clashes with other countries are a thread woven into the fabric of the nation's history.



<https://www.amazon.co.uk/Military-History-China-Erik-Dürschmied/dp/0233005412>

Will China escape the middle-income trap?

China is set to be the leading global economic and military power

Though only is it able to escape the middle-income trap



Most countries are stuck in the middle-income trap

Difficult to move from low-income economic structure: competing with cheap labor and high income: competing with innovation

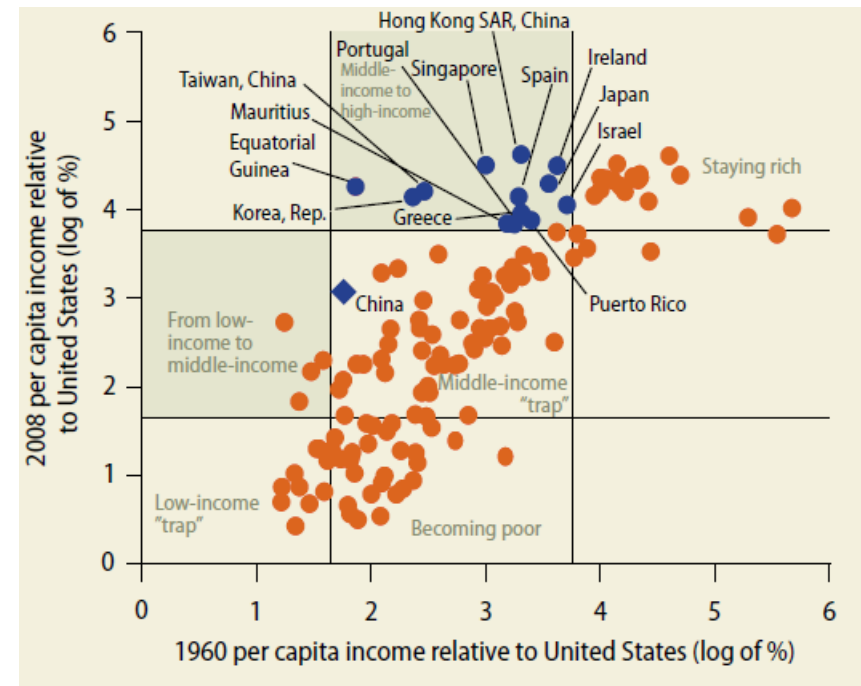


Of 101 middle-income economies in 1960, only 13 became high income by 2008

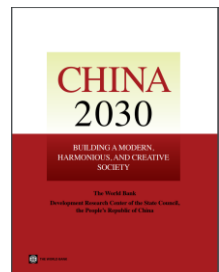
Why are most countries stuck in the middle-income trap?

“Low-income countries can compete in international markets by producing labor-intensive, low-cost products using technologies developed abroad. Large productivity gains occur through a reallocation of labor and capital from low-productivity agriculture to high-productivity manufacturing.

As countries reach middle-income levels, the underemployed rural labor force dwindles and wages rise, eroding competitiveness. Productivity growth from sectoral reallocation and technology catch-up are eventually exhausted, while rising wages make labor-intensive exports less competitive internationally. **If countries cannot increase productivity through innovation (rather than continuing to rely on foreign technology), they find themselves trapped.**”

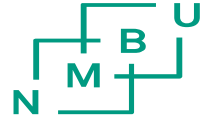


An important, high quality report on economic reforms in China written by the World Bank together with the Development Research Center of the State Council, in 2013. Among the conclusions: **First, implement structural reforms to strengthen the foundations for a market based economy** by redefining the role of government; reforming and restructuring state enterprises and banks; developing the private sector; promoting competition; and deepening reforms in the land, labor, and financial markets. As an economy approaches the technology frontier and exhausts the potential for acquiring and applying technology from abroad, the role of the government and its relationship to markets and the private sector needs to change fundamentally

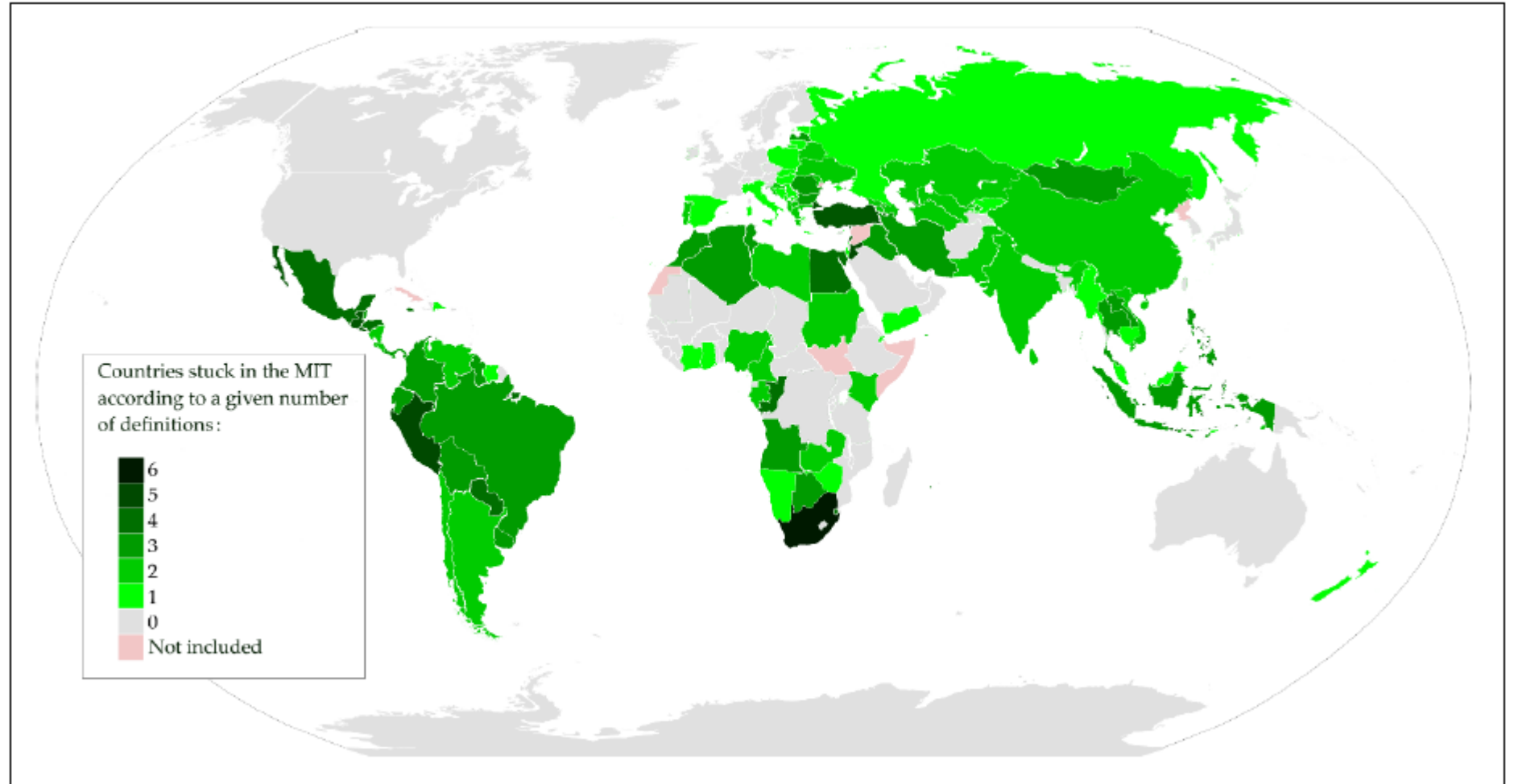


<https://www.worldbank.org/content/dam/Worldbank/document/China-2030-complete.pdf>

Many countries in similar situation



MIT: Middle Income Trap

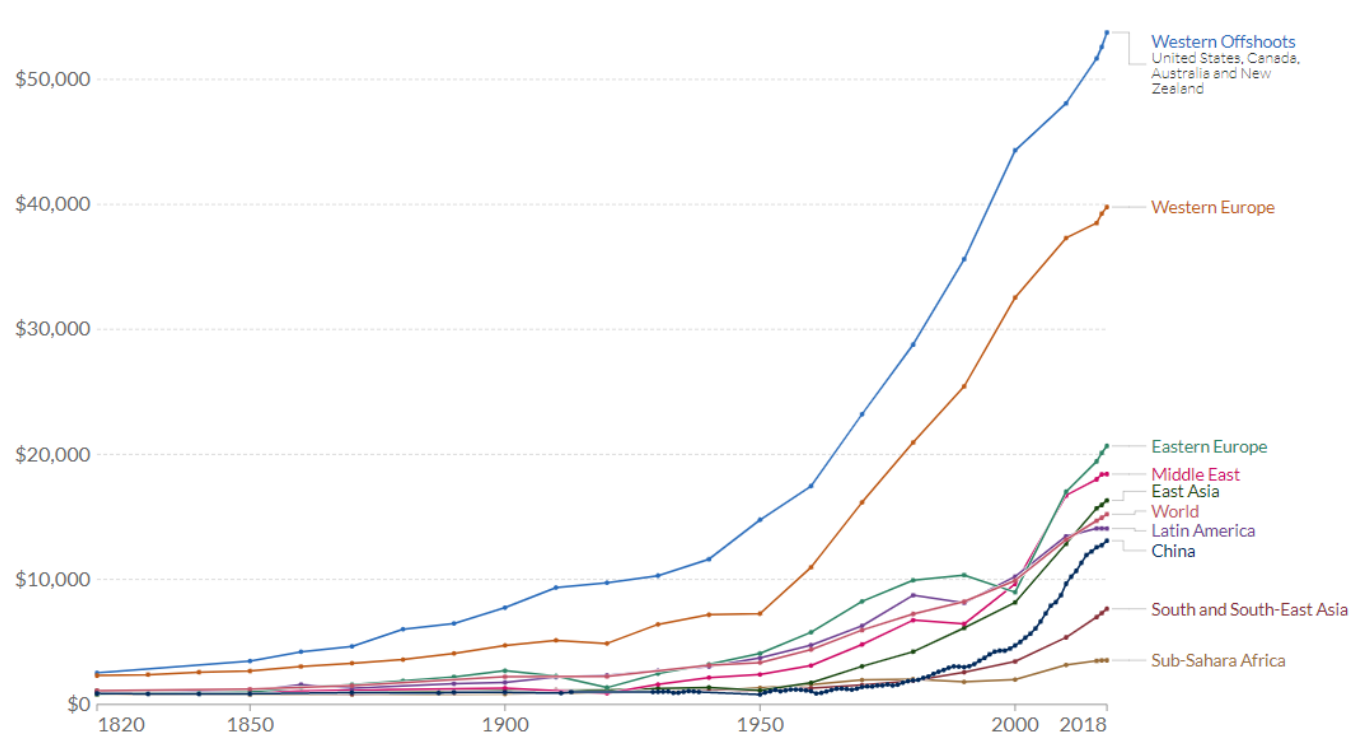


<https://www.adb.org/sites/default/files/publication/329201/adbi-wp760.pdf>

From 17-1800: A complete different way of organizing economies China lagged behind. Why?



The Great Divergence GPD per capita 1820-2018, PPP constant 2011 international USD



https://ourworldindata.org/grapher/gdp-per-capita-maddison-2020?tab=chart&country=Western+Europe~Western+Offshoots~East+Asia~South+and+South-East+Asia~Middle+East~Eastern+Europe~Latin+America~Sub-Sahara+Africa~OWID_WRL~CHN

The industrial revolution left China behind. Why?

Between the 15th and 18th centuries economic leadership passed from China to Western Europe – due to:
Belief in human capacity to transform the forces of nature – thanks to the Renaissance and the Enlightenment – abandoning magics and religious authority; scientific principles impregnated the educational system

China: No fundamental basis for modern science; education system stepped in classic and bureaucratic orthodoxy

GDP per capita actually fell.

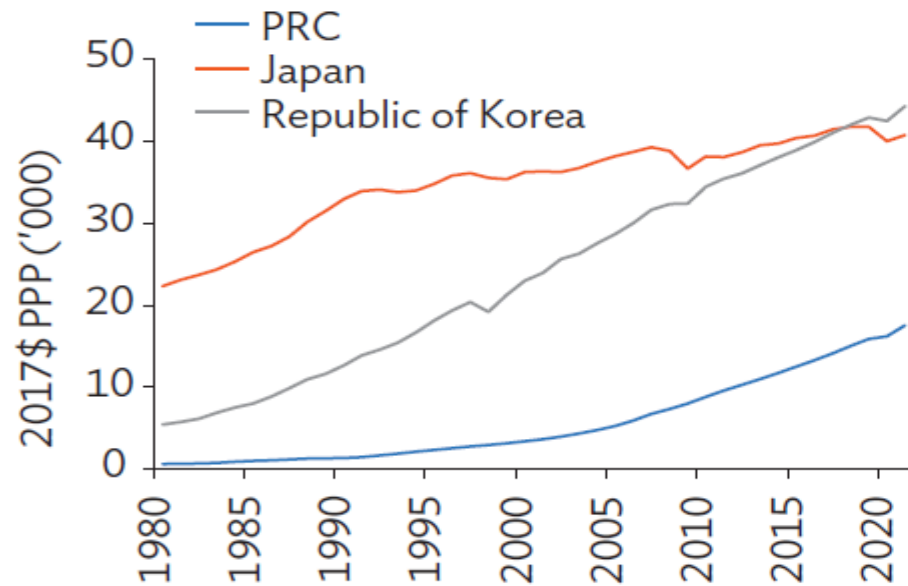
Indigenous institutions hindered modernization. China's bureaucratic system hindered the emergence of a commercial and industrial bourgeoisie of the European pattern. The bureaucracy were rent-seekers. Any activity which promised to be lucrative was subject to bureaucratic squeeze. Larger undertakings were limited to state or public ally licensed monopolies. Merchants, bankers and traders did not have city charters and legal protection. International trade and intellectual contacts were severely restricted – a self-imposed isolation that also was a barrier to growth

Catching up in GDP/Capita – progress vs US slowing since 2010

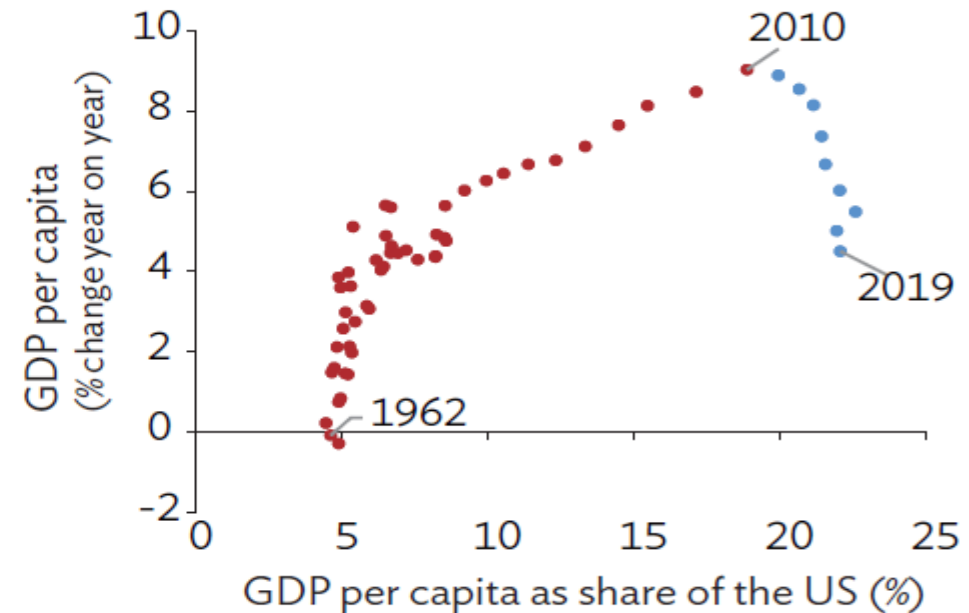


PRC's Per Capita GDP in Comparison

Compared to Japan and Republic of Korea, 1980–2021

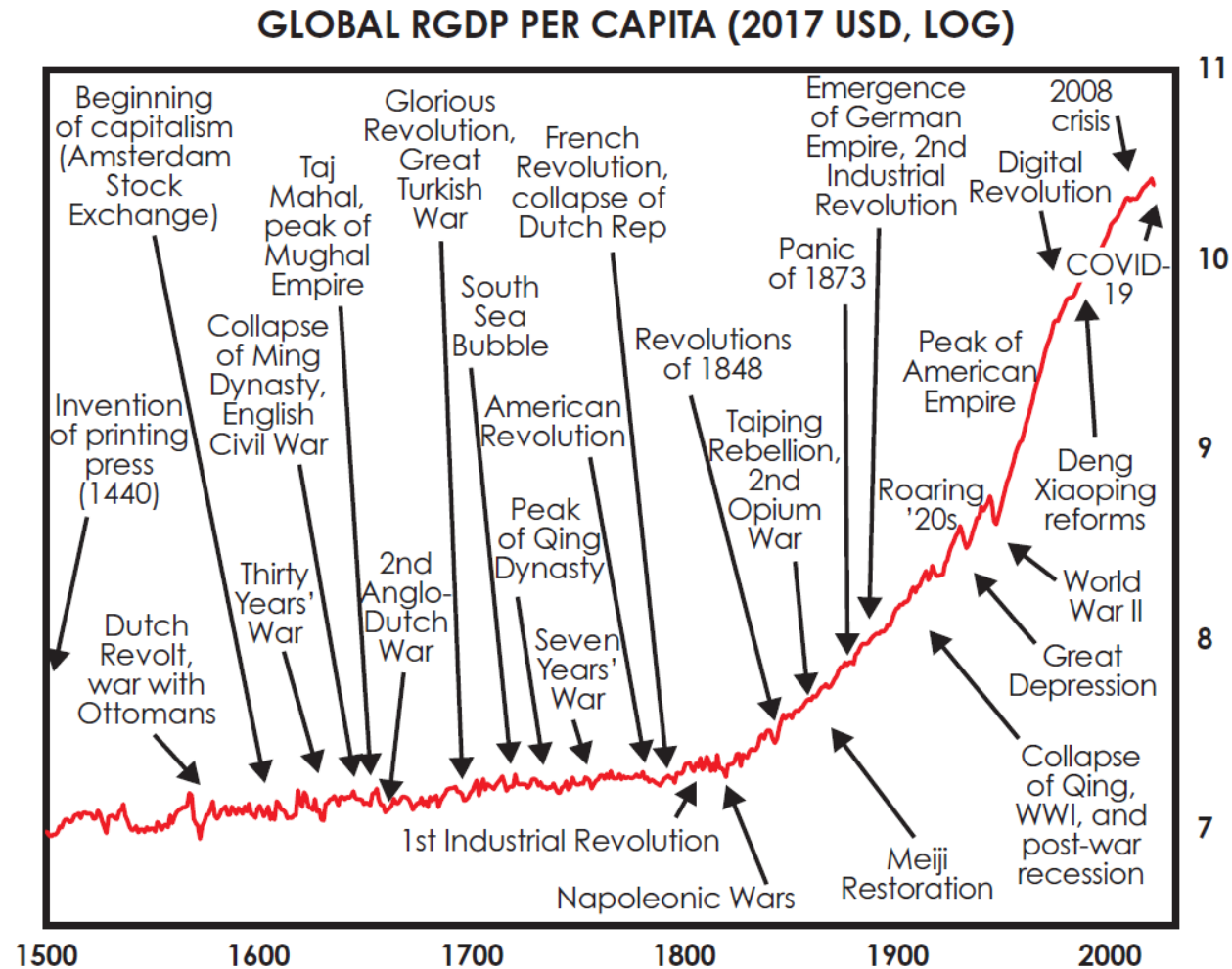
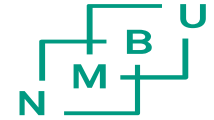


As Share of US Per Capita GDP, 1962–2019



<https://www.adb.org/sites/default/files/publication/849946/eawp-054-long-term-growth-prospects-prc.pdf>

A quick view on the development in global GDP per capita!



Global RGDP is primarily a mix of European countries before 1870 due to limited reliable data coverage across other countries before that point.

Ray Dalio, Bridgewater

<https://economicprinciples.org/cwocharts>

Example on negative views – China may not escape the middle-income trap But please have in mind that the economic strength of China has been systematically underestimated over the last two decades – especially in the US



China Is About to Fall Into the Middle-Income Trap

By turning away from free enterprise, Xi Jinping ensures that the country's economy will stop growing.

Mr. Xi's regime has throttled back free enterprise, undercutting what brought China prosperity. Tighter controls are squeezing private entrepreneurship, innovation and capital mobility. The government's increasing ownership of industry and bureaucratic allocation of national resources are generating inefficiencies and excesses.

Mr. Xi is tightening state control over China's digital economy, large-cap social-media and information-technology companies and many businesses he deems a threat to Communist ideals. These include firms that provide a platform to express contrary views and "excess" wealth generation. More capital is being allocated to politically loyal state-owned enterprises. Stricter financial regulations and constraints on capital flows are oppressive and reduce capital to finance private entrepreneurs. Debt defaults on foreign creditors and tighter controls deter foreign investment, raising the cost of capital. Nevertheless, Mr. Xi's tightening grip and rejection of free enterprise raise the probability that China will become mired in the middle-income trap that has captured many emerging nations. Its oppressed citizens will pay the price. China's trading partners are already feeling the effects. Looking forward, this economic environment makes China's international maneuvering prone to risks and a potential source of global instability.

<https://www.wsj.com/articles/middle-income-trap-china-xi-jinping-real-estate-ccp-congress-gdp-manufacturing-11666815892>

China May Be Running Out of Time To Escape the Middle-Income Trap

A former senior director for Asia in President **Barack Obama's** National Security Council says that China only has "about five years" to become a high-income economy, or it will likely find itself stuck in the middle-income trap

Medeiros said China needs to carry out serious market reforms in order to help drive the growth needed to "graduate" from middle to upper-income level in time. He recalled attending a meeting between President Obama and Communist Party General Secretary **Xi Jinping** in 2013, where Xi stressed his hope of avoiding the middle-income trap. Later that year, China's government laid out an ambitious economic reform program that would help accomplish this. But so far the reforms have been a "big disappointment" for the international community, he said, as few of them have actually been accomplished.

"I don't think Xi Jinping necessarily is a reformer," he added. "I think he is a modernizer, and the reason that distinction is critical is because Xi Jinping's views about the economy are informed by a series of Leninist and nationalist political beliefs, not a full-throated embrace of the market. So I think what we're going to see in the next five years is a tension play out between those nationalist Leninist beliefs and market forces."

<https://asiasociety.org/new-york/china-may-be-running-out-time-escape-middle-income-trap>

Building blocks of understanding future economic growth

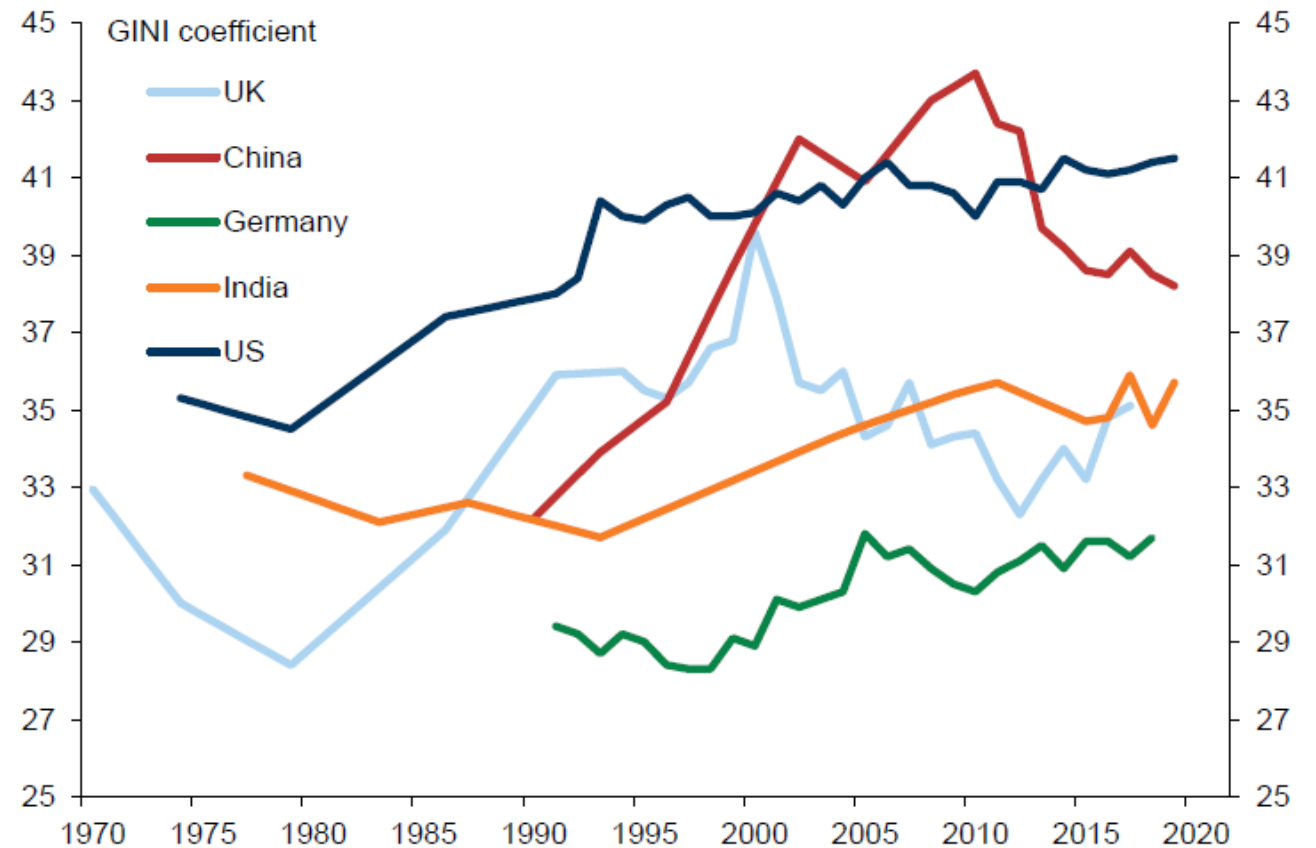
The “common prosperity” program required to take down inequality and corruption



One prominent area is the “common prosperity” agenda, which seeks to combat China’s growing income inequality. Although the country’s economic growth has increased income at all levels, the boosts have been larger for the rich than for the poor

Income inequality as measured by the Gini coefficient—in which zero indicates total equality and 100 total inequality—reached a peak at 49 in 2008, according to the National Bureau of Statistics of China. It remains high and was 47 in 2021, higher than the United States’ 38 and the European Union’s 30.

Within-Country Inequality Remains High
Global Lorenz Curve – closer to the 45-degree line implies less inequality (LHS); GINI coefficients for major economies (RHS)

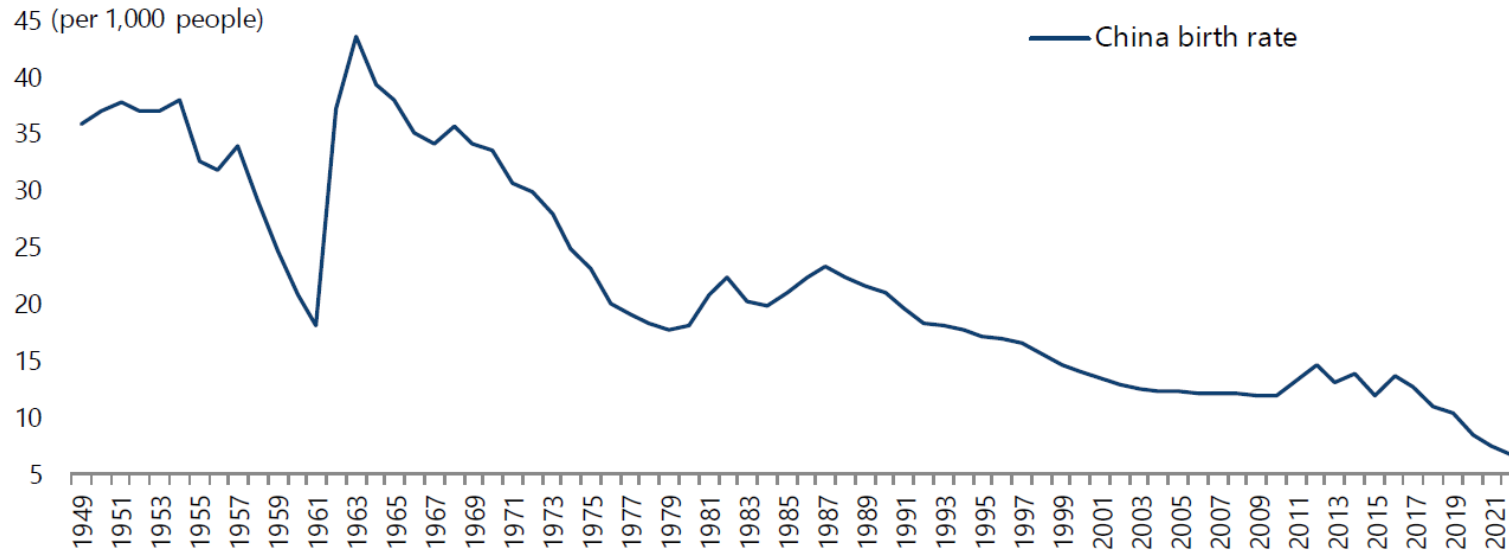


Radically declining birth rate

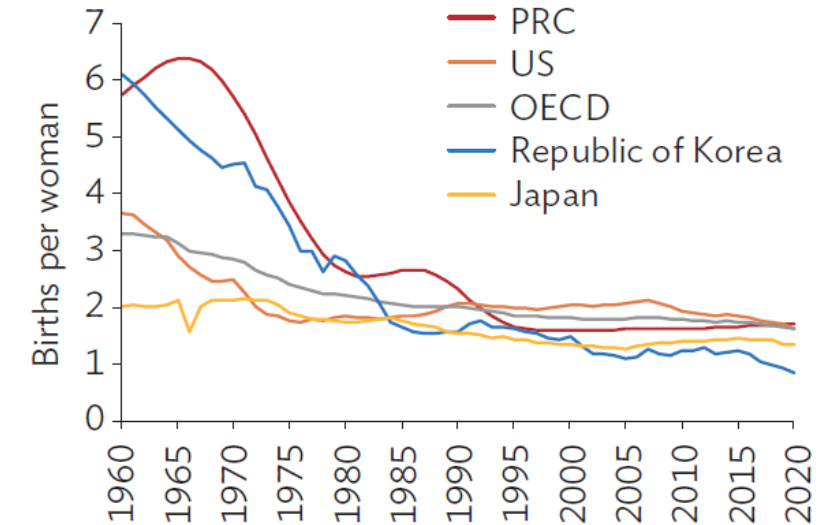


Birth rate 1949 – 21

(Number of newborns per 1,000 people)



Fertility Rate for Selected Countries, 1960–2020



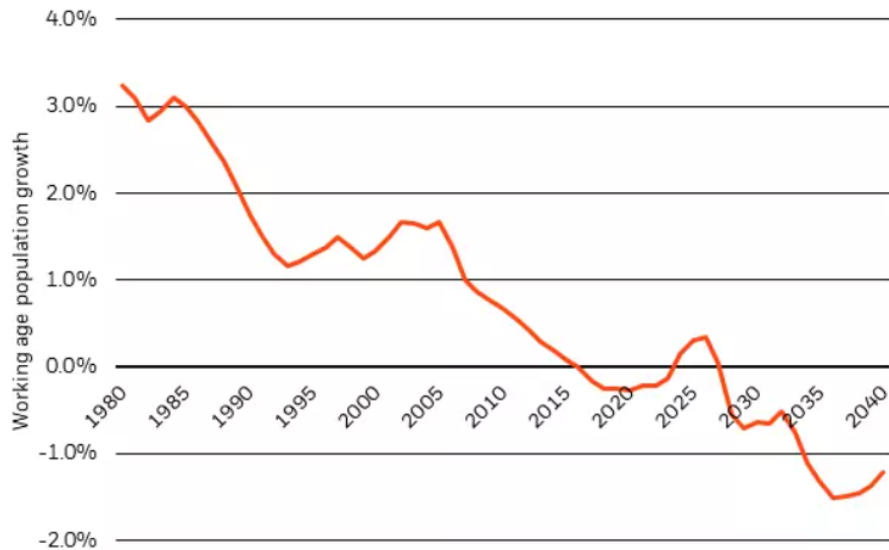
<https://www.adb.org/sites/default/files/publication/849946/eawp-054-long-term-growth-prospects-prc.pdf>

A shrinking working-age population (China getting old before it gets rich?)



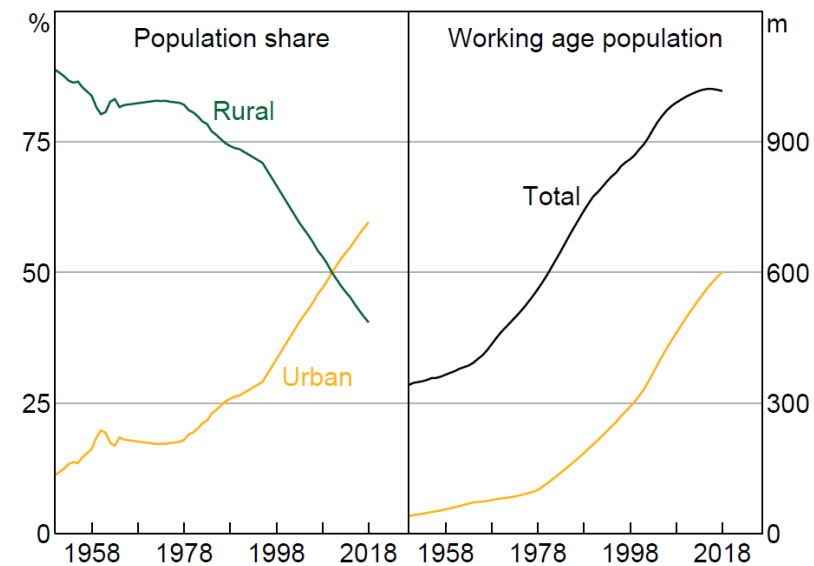
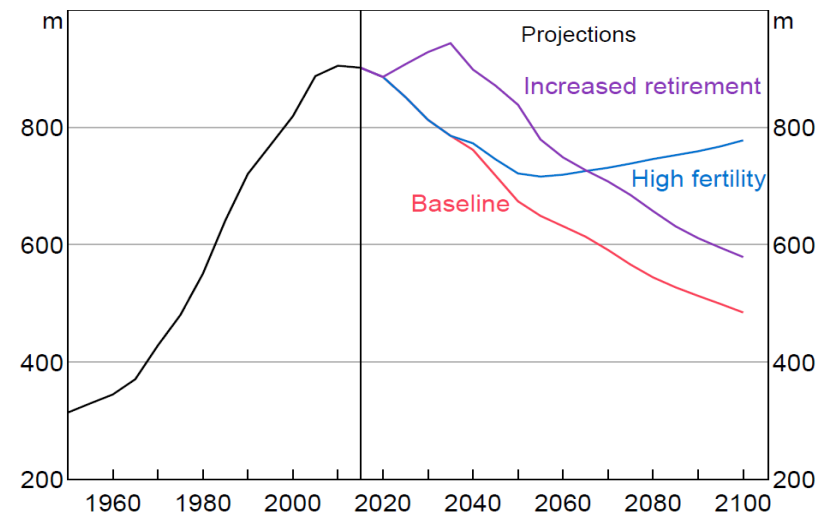
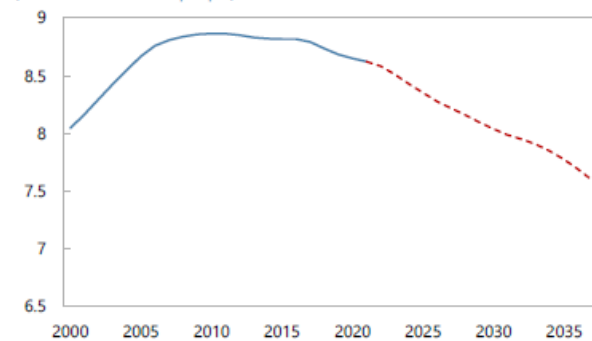
A shrinking working-age population

Actual and forecast growth in China's working age population, 1980-2040



Estimated Workforce

(In hundred thousand people)



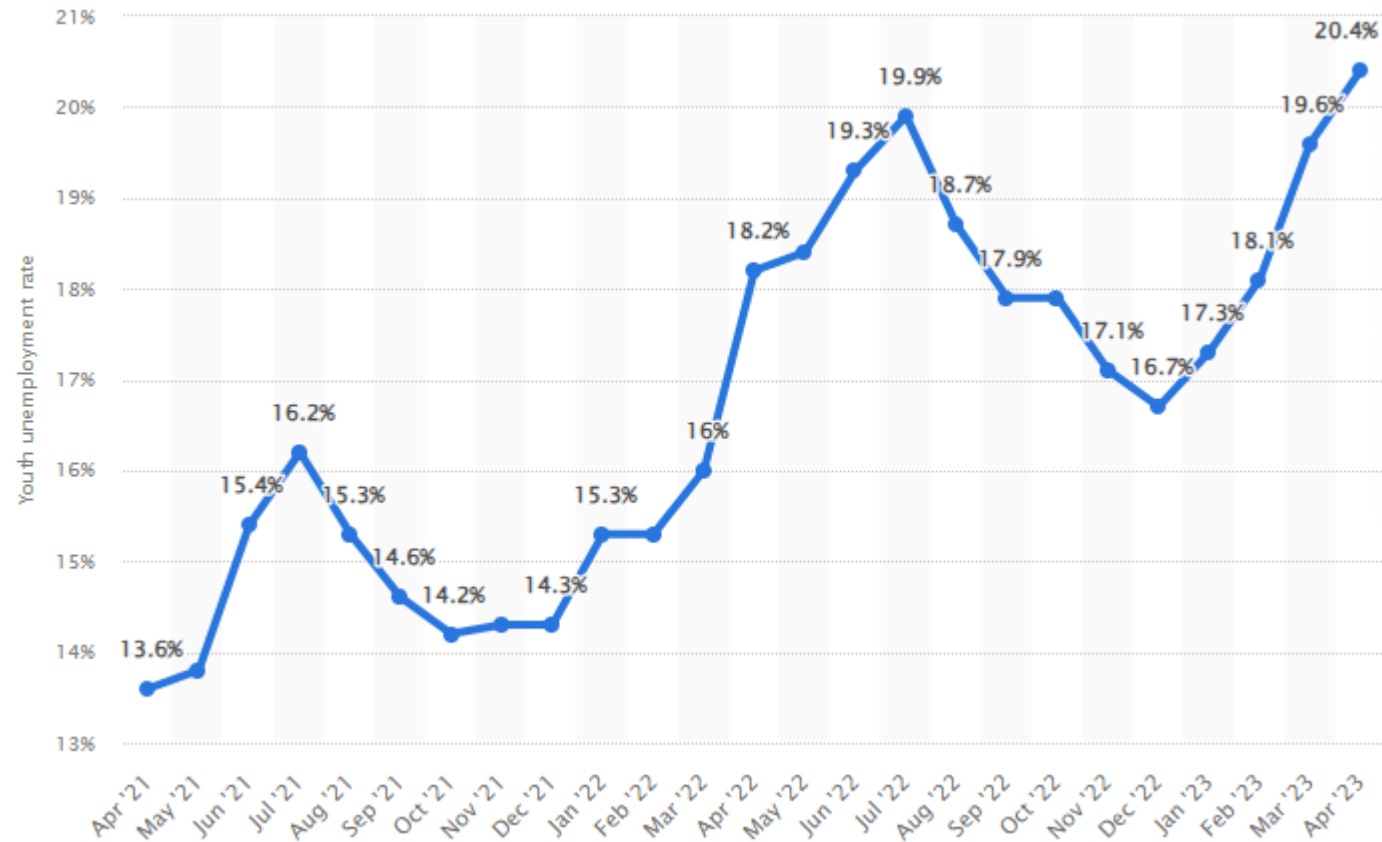
<https://www.adb.org/sites/default/files/publication/849946/ea-wp-054-long-term-growth-prospects-prc.pdf>

<https://www.blackrock.com/corporate/insights/blackrock-investment-institute/economic-insights/2022/10/china-growth-challenges>; Jefferies, IMF

Serious issue: Very high youth unemployment



Monthly surveyed urban unemployment rate of people aged 16 to 24 in China from February 2021 to February 2023

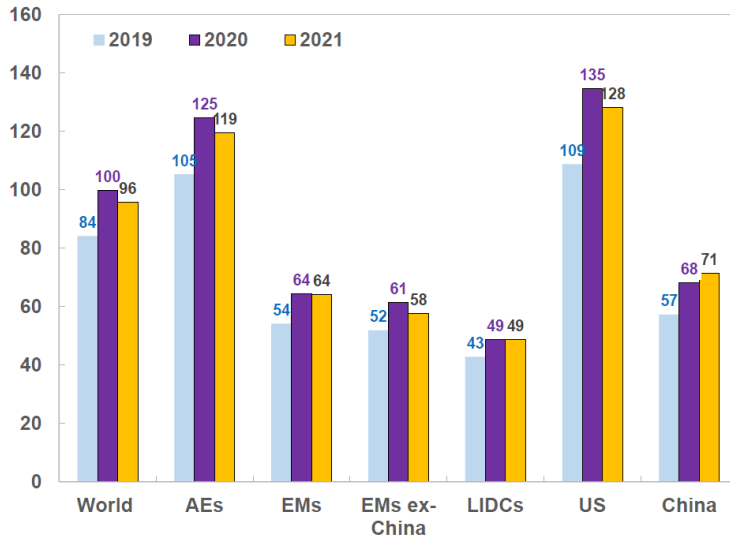


<https://www.statista.com/statistics/1244339/surveyed-monthly-youth-unemployment-rate-in-china/>

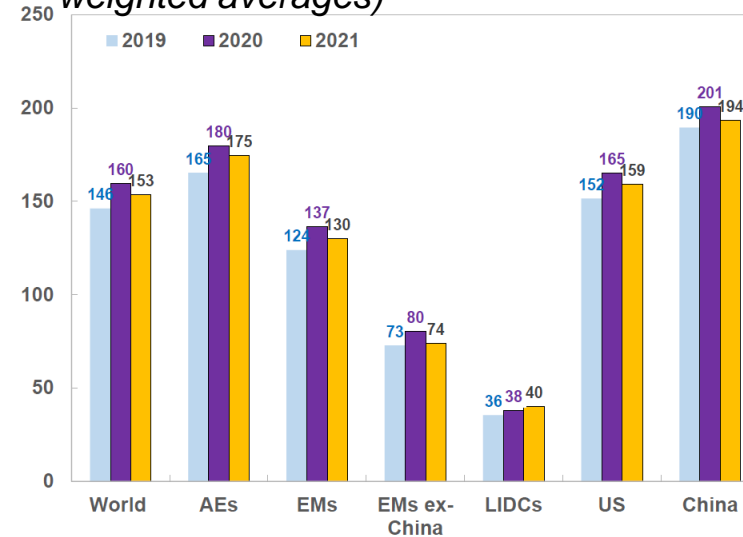
China has an indebted private sector



Public Debt Ratios by Country Group, 2019–21 (Percent of GDP, weighted averages)

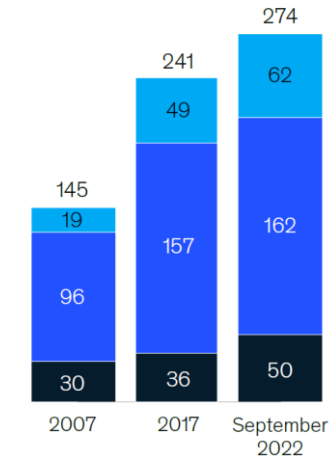


Private Debt Ratios by Country Group, 2019–21 (Percent of GDP, weighted averages)



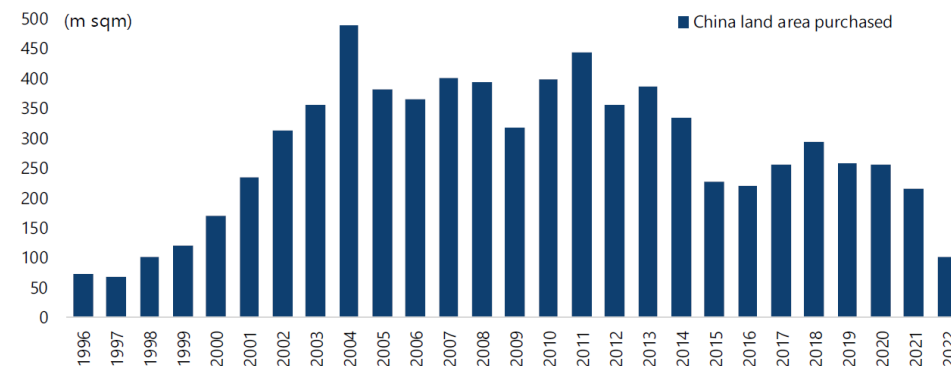
Debt-to-GDP ratio, %

- Household debt
- Nonfinancial corporate debt*
- Government debt



Financing of local governments is highly dependent on selling land for construction

China land area purchased



IMF Global Debt Monitor, McKinsey, Jefferies

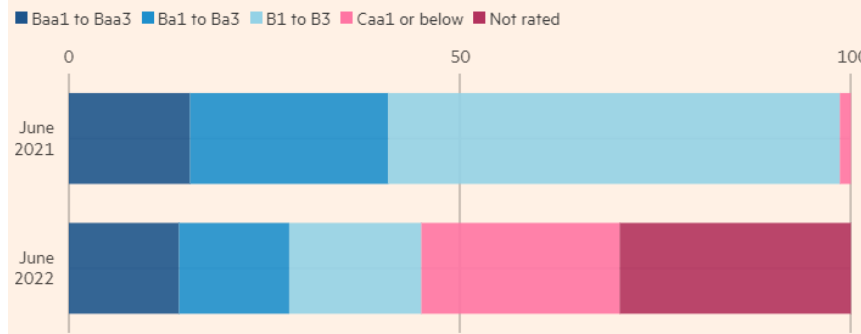
The old formula of propping up investments in construction does not work any more



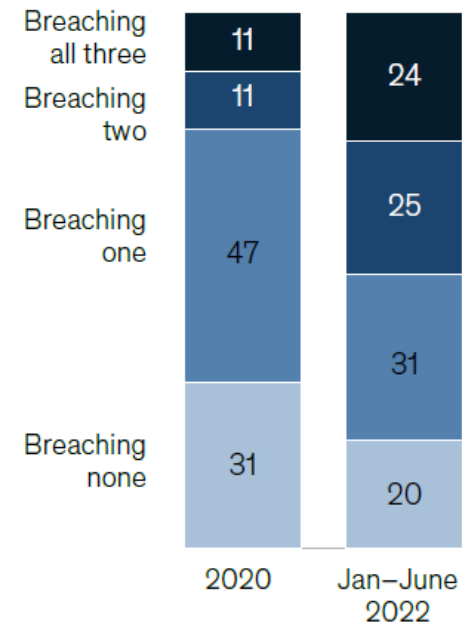
China's property crash: 'a slow-motion financial crisis'

Most Chinese property developers were rated worse than 'very high credit risk' or not rated in June 2022

Chinese property developers' ratings, share of 71 rated developers (%)

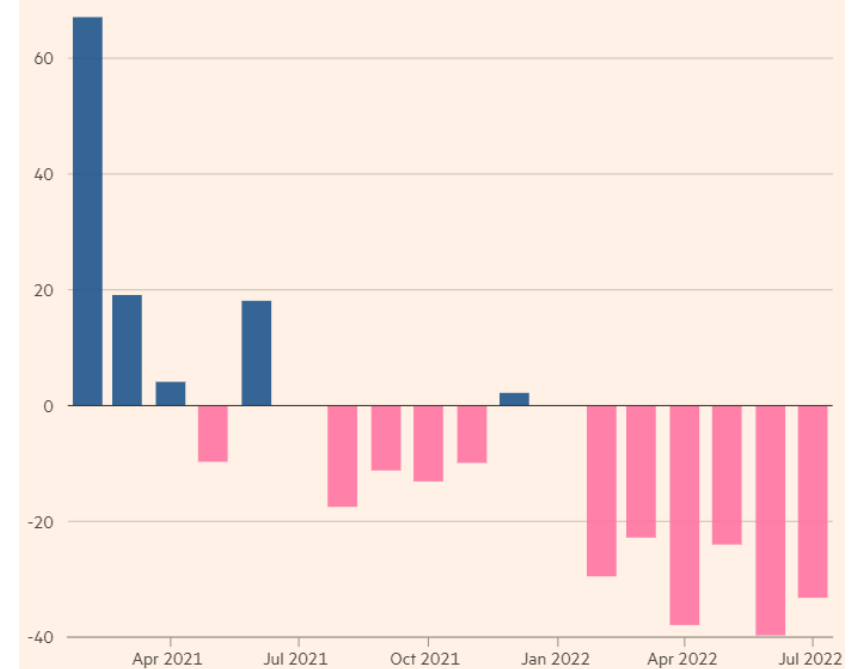


Share of Chinese real estate developers breaching the "red lines" indicating risk, %⁵



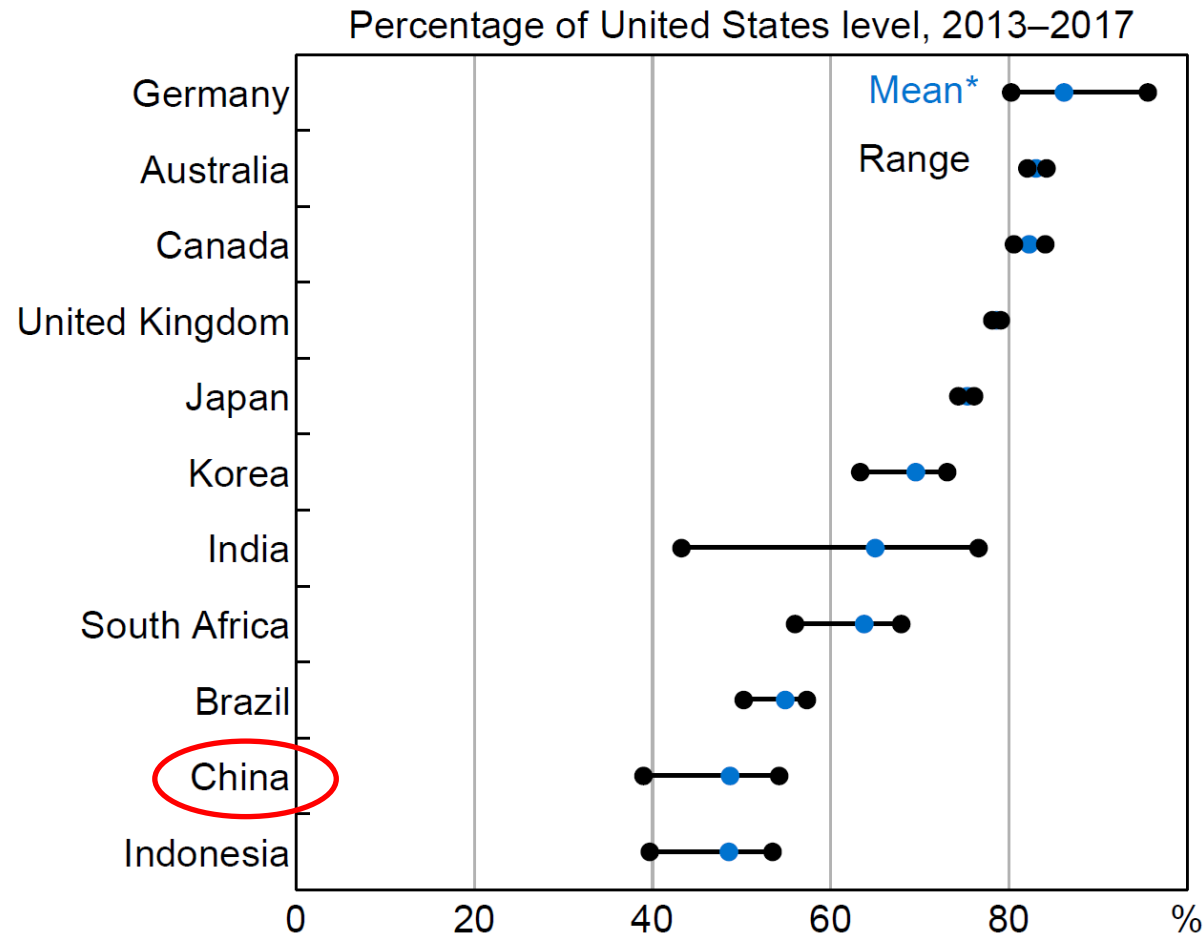
Local authorities' income from land sales crumbled in 2022

Monthly revenue, year-on-year change (%)



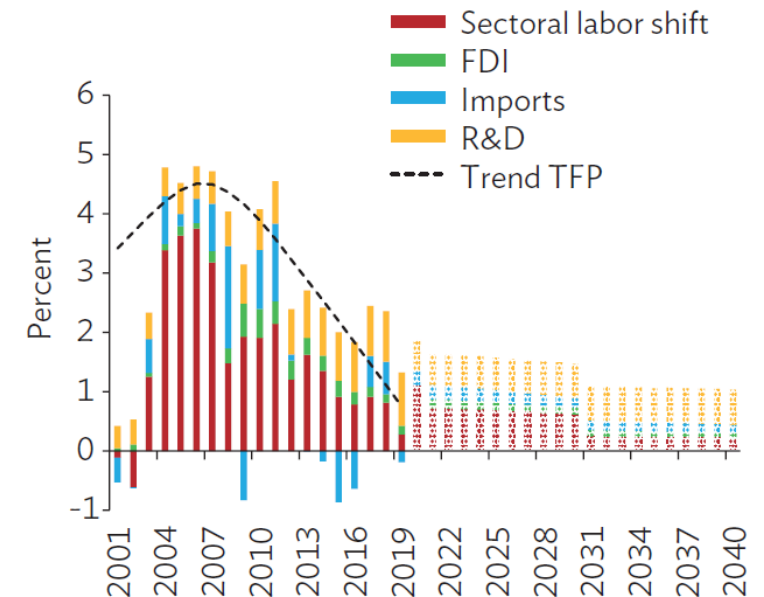
<https://www.ft.com/content/e9e8c879-5536-4fbc-8ec2-f2a274b823b4>

The key component when forecasting future growth: Total factor productivity



Both IMF and Asian Development Bank expect much lower TFP growth in the future

Decomposition of TFP Growth, 2001–2040



FDI = foreign direct investment, R&D = research and development, TFP = total factor productivity.

* Average of three estimates

<https://www.adb.org/sites/default/files/publication/849946/eawp-054-long-term-growth-prospects-prc.pdf>

IMF: Rapidly diminishing return on capital



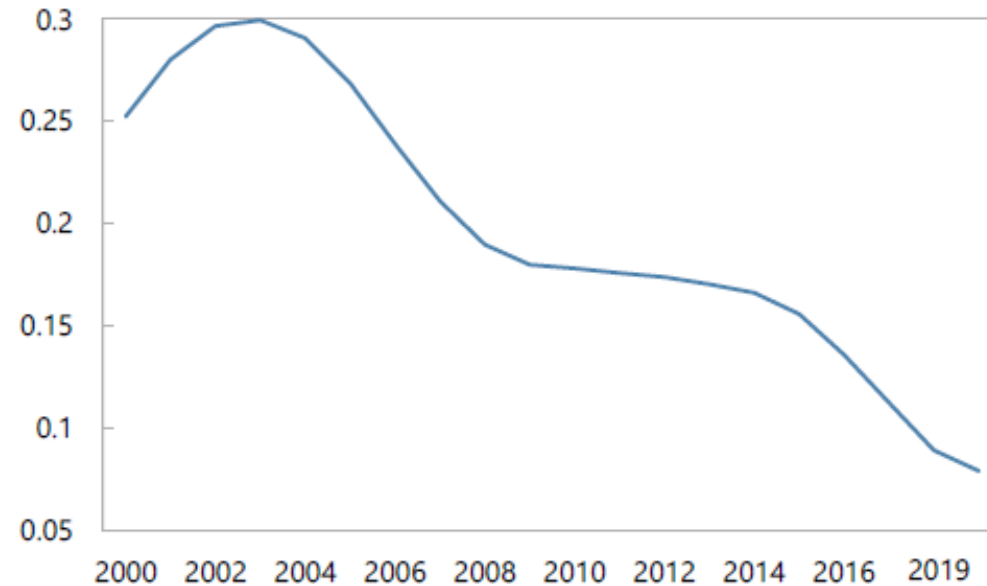
Following the Global Financial Crisis (GFC), China's growth has become increasingly dependent on investment in infrastructure and housing. To maintain high growth rates in the wake of the global recession, the authorities ramped up infrastructure investment. In addition, households channeled their high savings increasingly towards housing, including for speculative motives, and real estate investment became one of the main drivers of growth, with the real estate sector accounting for around 20 percent of China's GDP.

China's investment-led growth strategy has been facing rapidly diminishing returns.

Vulnerabilities have risen—as shown by the ongoing crisis in the real estate sector—and strong investment in infrastructure and housing has been associated with falling returns to capital

Marginal Product of Capital

(Marginal product of capital = ratio of change in output to change in capital stock)



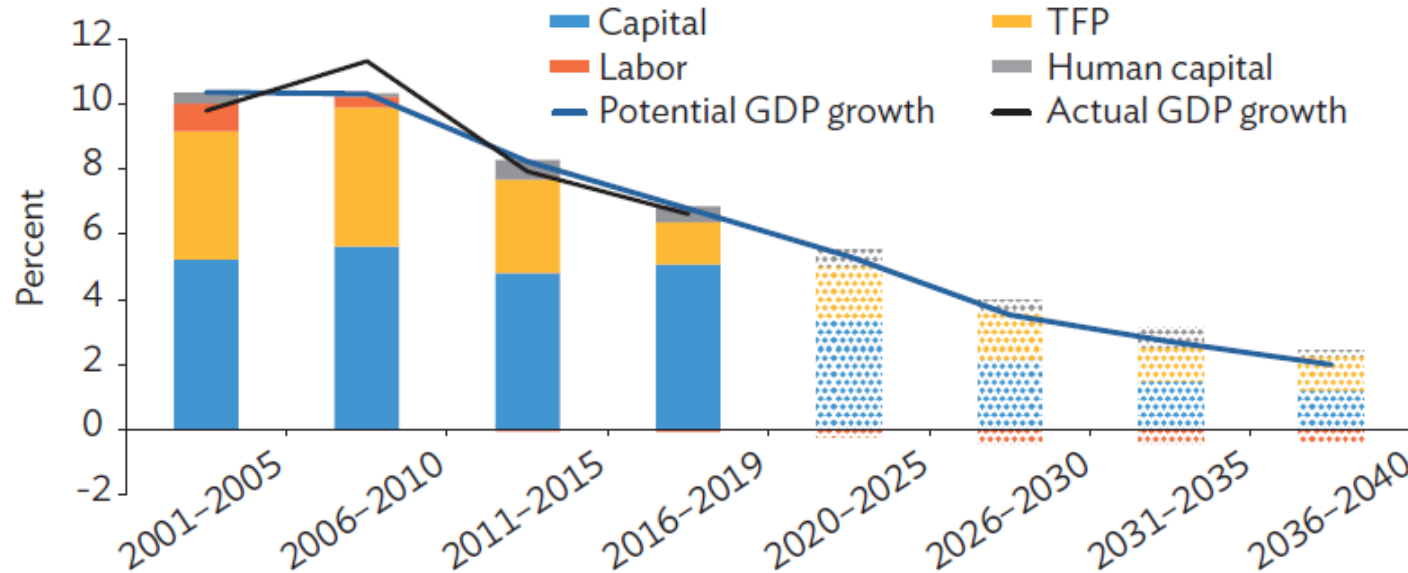
Productivity growth in China's manufacturing sector has been falling amid a large SOE presence.

Compared to infrastructure and real estate investment, manufacturing investment has grown more slowly in the previous decade with less evidence of excessiveness.

Most forecasts show much lower growth over the next decades



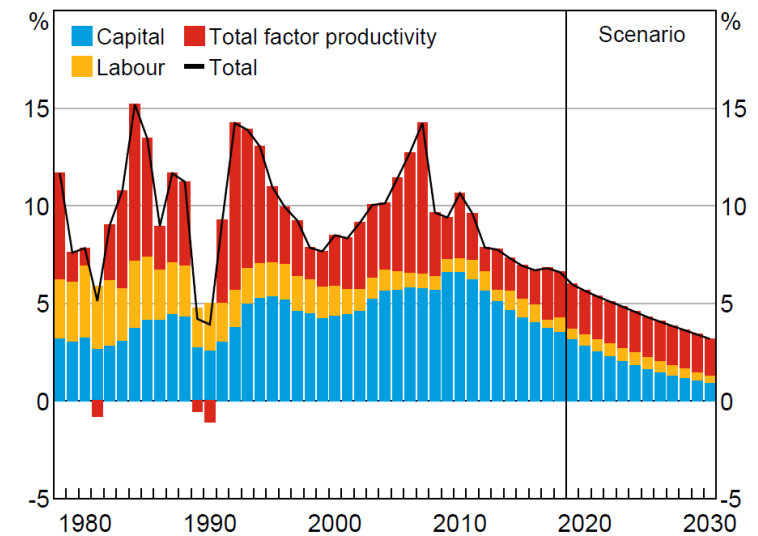
Decomposition of Contributions to Potential GDP Growth, 2001–2040



GDP = gross domestic product, TFP = total factor productivity.

Note: Forecast starts in 2020. The future contribution of capital to growth is derived from the projected share of gross fixed capital formation in GDP.

GDP Growth



<https://www.adb.org/sites/default/files/publication/849946/eawp-054-long-term-growth-prospects-prc.pdf>

IMF has chain sawed longer-term growth



China's potential growth has started falling and several headwinds suggest it will continue to slow, showing the need for comprehensive reforms of China's growth model.

With an ageing population, slowing aggregate productivity, as well as record-high investment rates that have pushed investment into less productive sectors, potential growth under a baseline medium- to long-term scenario is expected to fall.

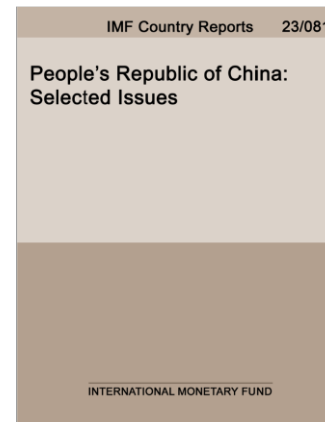
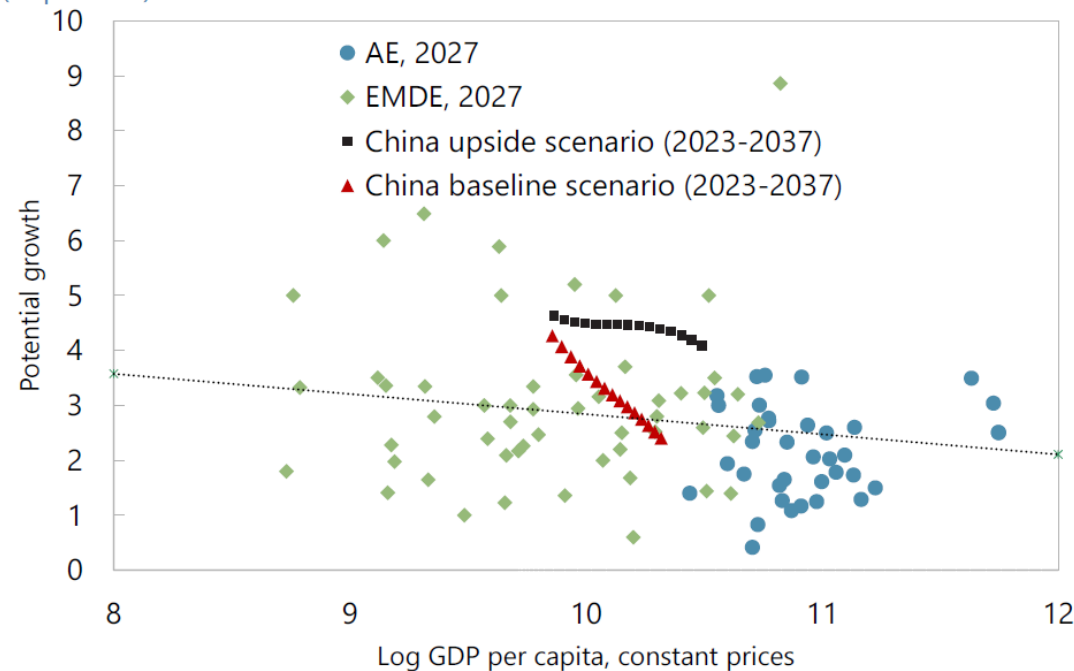
Without reform efforts, aging and declining productivity would likely continue to suppress growth over the long term, beyond our forecast horizon.

These pressing factors suggest the need to rebalance away from the investment-led, carbon-intensive, growth model towards more sustainable growth drivers, in particular consumption.

Such a demand side transformation could be an important step on China's path to an advanced economy.

Potential Growth in the Cross-Section

(In percent)



<https://www.imf.org/en/Publications/CR/Issues/2023/02/09/Peoples-Republic-of-China-Selected-Issues-529473>

IMF propose:

State Owned Enterprise (SOE) reforms

Pro-market reforms

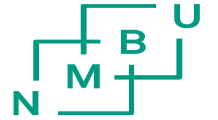
Demand-side rebalancing; from investments to consumption

Retirement age reform; lift retirement age from 60 to 65 for male and from 55 to 65 for female

Education reform, boost human capital

But don't underestimate China

It is leading in 37 out of 44 pivotal technologies



China is further ahead in more areas than has been realised.

It's the leading country in 37 of the 44 technologies evaluated, often producing more than five times as much high-impact research as its closest competitor.

This means that only seven of the 44 analysed technologies are currently led by a democratic country, and that country in all instances is the US.

For some technologies, all of the world's top 10 leading research institutions are based in China and are collectively generating nine times more high-impact research papers than the second-ranked country (most often the US).

Notably, the Chinese Academy of Sciences ranks highly (and often first or second) across many of the 44 technologies included in the Critical Technology Tracker

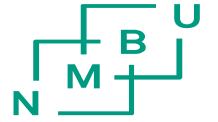
<https://www.aspi.org.au/report/critical-technology-tracker>

Technology	Lead country	Technology monopoly risk
Advanced materials and manufacturing		
1. Nanoscale materials and manufacturing	China	high
2. Coatings	China	high
3. Smart materials	China	medium
4. Advanced composite materials	China	medium
5. Novel metamaterials	China	medium
6. High-specification machining processes	China	medium
7. Advanced explosives and energetic materials	China	medium
8. Critical minerals extraction and processing	China	low
9. Advanced magnets and superconductors	China	low
10. Advanced protection	China	low
11. Continuous flow chemical synthesis	China	low
12. Additive manufacturing (incl. 3D printing)	China	low
Artificial intelligence, computing and communications		
13. Advanced radiofrequency communications (incl. 5G and 6G)	China	high
14. Advanced optical communications	China	medium
15. Artificial intelligence (AI) algorithms and hardware accelerators	China	medium
16. Distributed ledgers	China	medium
17. Advanced data analytics	China	medium
18. Machine learning (incl. neural networks and deep learning)	China	low
19. Protective cybersecurity technologies	China	low
20. High performance computing	USA	low
21. Advanced integrated circuit design and fabrication	USA	low
22. Natural language processing (incl. speech and text recognition and analysis)	USA	low
Energy and environment		
23. Hydrogen and ammonia for power	China	high
24. Supercapacitors	China	high
25. Electric batteries	China	high
26. Photovoltaics	China	medium
27. Nuclear waste management and recycling	China	medium
28. Directed energy technologies	China	medium
29. Biofuels	China	low
30. Nuclear energy	China	low
Quantum		
31. Quantum computing	USA	medium
32. Post-quantum cryptography	China	low
33. Quantum communications (incl. quantum key distribution)	China	low
34. Quantum sensors	China	low
Biotechnology, gene technology and vaccines		
35. Synthetic biology	China	high
36. Biological manufacturing	China	medium
37. Vaccines and medical countermeasures	USA	medium
Sensing, timing and navigation		
38. Photonic sensors	China	high
Defence, space, robotics and transportation		
39. Advanced aircraft engines (incl. hypersonics)	China	medium
40. Drones, swarming and collaborative robots	China	medium
41. Small satellites	USA	low
42. Autonomous systems operation technology	China	low
43. Advanced robotics	China	low
44. Space launch systems	USA	low

Table 3: Top 5 country rankings: Artificial intelligence, computing and communications.

Technology	Top 5 countries					Technology monopoly risk
Advanced radiofrequency communications (incl. 5G and 6G)	29.65%	9.50%	5.18%	4.89%	4.83%	8/10 3.12 high
Advanced optical communications	37.69%	12.76%	5.64%	3.88%	3.48%	8/10 2.95 medium
Artificial intelligence (AI) algorithms and hardware accelerators	36.62%	13.26%	4.20%	4.15%	3.48%	7/10 2.76 medium
Distributed ledgers	28.38%	11.32%	8.94%	5.54%	4.81%	6/10 2.51 medium
Advanced data analytics	31.23%	15.45%	6.02%	4.19%	3.92%	8/10 2.02 medium
Machine learning (incl. neural networks and deep learning)	33.20%	17.93%	4.87%	3.87%	3.32%	7/10 1.85 low
Protective cybersecurity technologies	23.33%	16.80%	7.67%	5.71%	5.20%	5/10 1.33 low
High performance computing	29.31%	25.57%	6.34%	4.68%	3.98%	3/10 1.15 low
Advanced integrated circuit design and fabrication	24.18%	21.19%	7.16%	4.46%	3.57%	4/10 1.14 low
Natural language processing (incl. speech and text recognition and analysis)	25.73%	23.57%	5.74%	4.55%	3.37%	5/10 1.09 low

What is the economic impact by centralization of power?
Back to the days of one person autocratic rule?
This issue will decide the future growth of TFP



FOREIGN AFFAIRS

The Real China Model

It's Not What You Think It Is

By **Yuen Yuen Ang** June 29, 2018

<https://www.foreignaffairs.com/articles/asia/2018-06-29/real-china-model>

With centralization of power comes
higher risk of policy errors and
perversion of information and
incentive structures

What exactly is the China model? It is clear that China's economy has boomed despite its decision to spurn Western-style democracy, but does this mean that authoritarianism was responsible for the country's capitalist success?

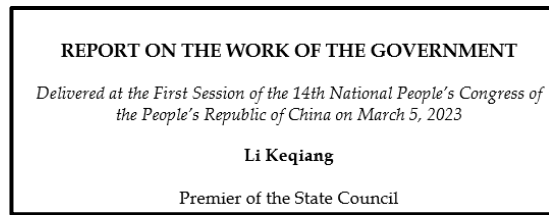
In reality, different parts of China have followed many different paths to economic and social development over the last several decades. The China model changes depending on where and when one looks for it. More important, it is inaccurate—and indeed misleading—to equate the China model with conventional authoritarianism.

The political foundation of China's economic success since Chinese leader Deng Xiaoping opened markets in 1978 was not autocracy, but autocracy with democratic characteristics. By reforming China's bureaucracy, Deng introduced democratic features, specifically accountability, competition, and partial limits on power, into the country's single-party system.

China's experience in the reform era shows that even a partial injection of democratic qualities into an autocratic system can unleash tremendous initiative and adaptive capacity. Western democracies do not need to fear the China model. Instead, they should worry about the widespread misinterpretation of this model by the West, the developing world, and China's own political elites.

Key priorities for the new Chinese government

Not a walk in the park. We should not underestimate its understanding of this complexity, as illustrated here



1. Expanding domestic demand

We should give priority to the recovery and expansion of consumption. The incomes of urban and rural residents should be boosted through multiple channels. We should stabilize spending on big-ticket items such as automobiles and promote recovery in the consumption of consumer services in sectors such as catering, culture, tourism, and sports. We should see that government investment and policy incentives effectively drive investment society-wide

2. Accelerating the modernization of the industrial system

Scientific and technological innovation must play a bigger role in supporting industrial development. We should continue the initiative to bolster industrial and supply chains, with a focus on key industrial chains in the manufacturing sector.

3. Unswervingly consolidating and developing the public sector and unswervingly encouraging, supporting, and guiding the development of the non-public sector

We should deepen reform of state-owned capital and SOEs and enhance the core competitiveness of SOEs. We should continue with a category-based approach to reform and see that SOEs fulfill both their economic and social responsibilities and that they improve their modern corporate governance with distinctive Chinese features.

We should, in accordance with the law, protect the property rights of private enterprises and the rights and interests of entrepreneurs and refine related policies. We should encourage and support the private sector and private businesses in growing and expanding and support MSMEs and self-employed individuals in business development.

4. Intensifying efforts to attract and utilize foreign investment

We should expand market access and continue to open up the modern services sector. We should ensure national treatment for foreign-funded companies.

5. Effectively preventing and defusing major economic and financial risks

We need to deepen reform of the financial system, improve financial regulation, and see that all those involved assume their full responsibilities to guard against regional and systemic financial risks. We should ensure effective risk prevention and mitigation in high-quality, leading real estate enterprises, help them improve debt-to-asset ratios, and prevent unregulated expansion in the real estate market to promote stable development of the real estate sector.

6. Stabilizing grain output and advancing rural revitalization

We should adopt an integrated approach to promoting agricultural and rural modernization. We should keep total grain acreage at a stable level, promote the production of oilseed crops, and launch a new drive to increase grain production capacity by 50 million metric tons

7. Continuing the transition to green development

Pollution prevention and control should be intensified. We should take more robust and comprehensive measures to improve river basins, upgrade urban-rural environmental infrastructure, and continue to implement major projects for protecting and restoring key ecosystems. We should promote R&D for the clean and efficient use of energy, move faster to develop a new energy system, and increase the share of renewable energy in China's energy mix.

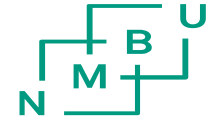
8. Meeting people's basic living needs and developing social programs

We should improve the housing support system, support people in buying their first homes or improving their housing situation, help resolve the housing problems of new urban residents and young people, and accelerate renovations of old residential communities and dilapidated houses.

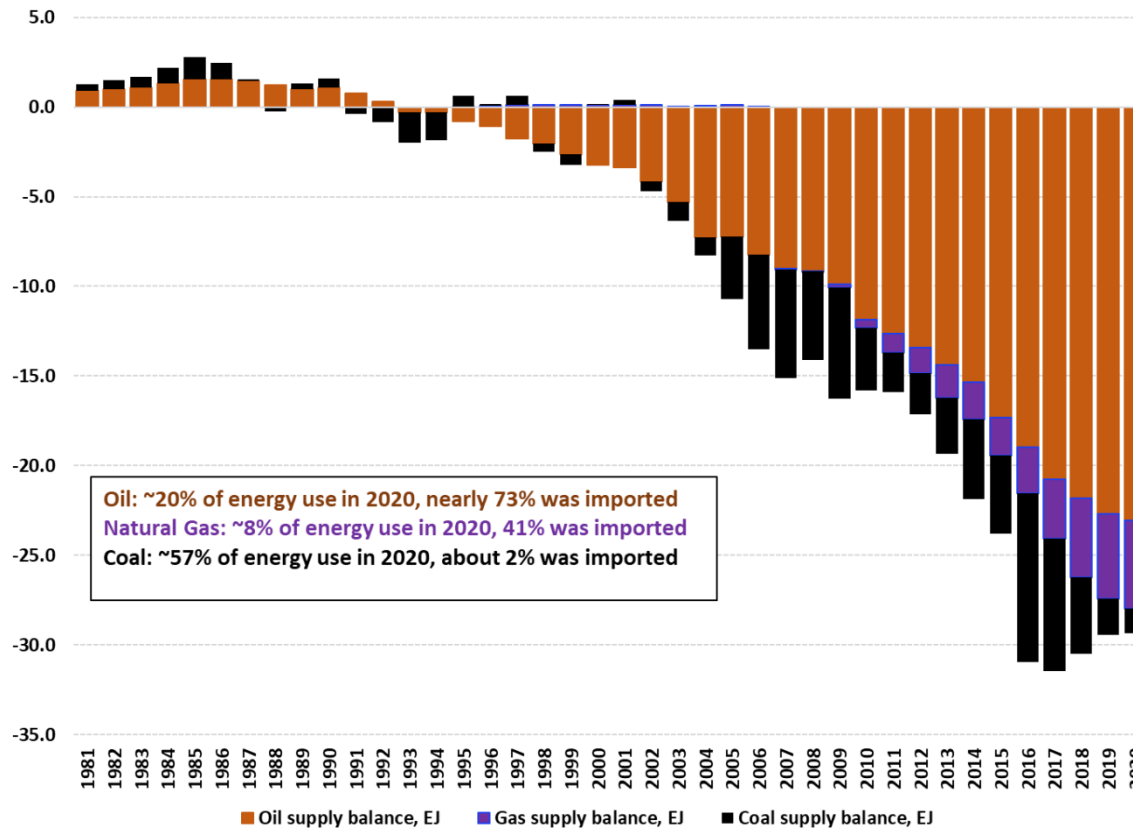
We should work faster to build a high-quality educational system, promote high-quality, balanced development and urban-rural integration of compulsory education, advance public-benefit preschool education and special needs education, and intensify efforts to develop vocational education. We should continue to explore new ground in higher education, support the development of universities and colleges in the central and western regions, and further integrate sports with education. We should deepen reform of the medicine and healthcare systems and promote the coordinated development and governance of medical insurance, medical services, and pharmaceuticals

<https://www.chinadailyasia.com/article/320383>

With economic growth comes import of oil and gas and dependencies of seaborne trade: A key national security issue

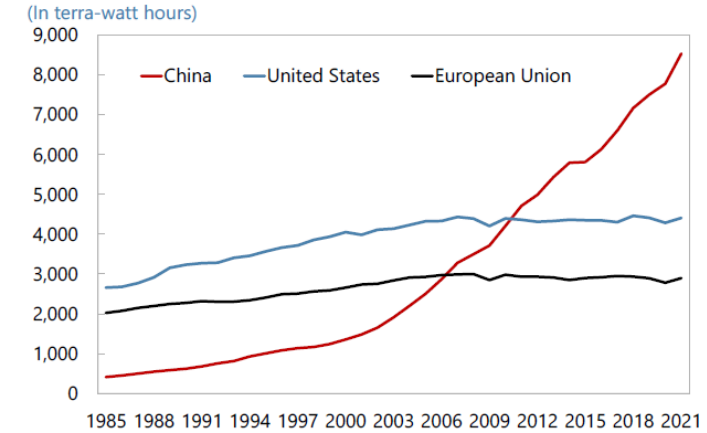


Increasing exposes to seaborne trade dependencies

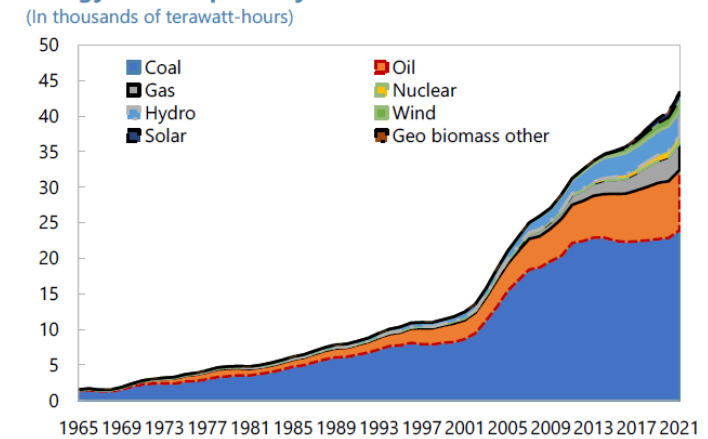


China demands c450TWh *more* energy per year, which accounts for more than half of the planet's incremental energy needs. China's need to have energy supplied from new-energy sources is an imperative for GLOBAL energy markets (IEA)

Electricity Generation

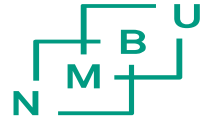


Energy Consumption by Source



The strategic imperative of China: Access to energy, food and water

The Malacca Strait Dilemma



China lacks:
Energy (oil, gas) – long transport routes
Water
Food (only 65% self sufficiency rate)

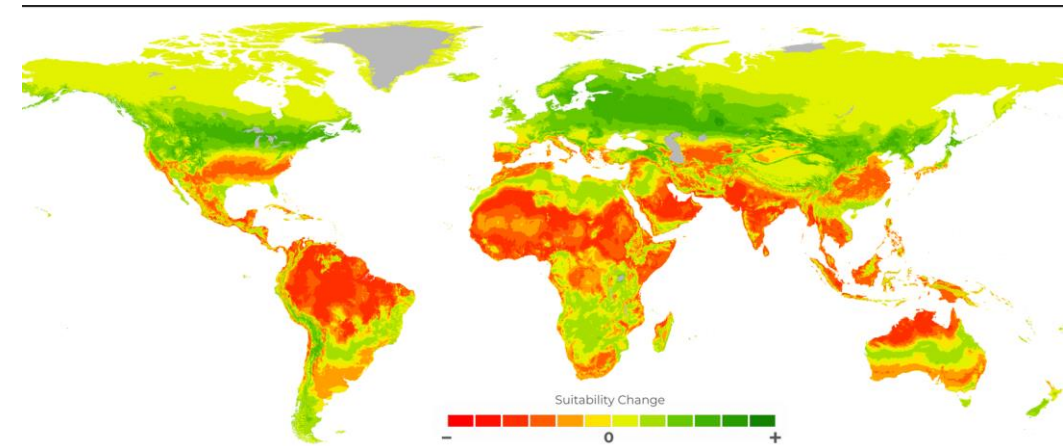
China is already very negatively impacted by the global warming: Droughts, rivers drying up

US has plentiful of energy, water and food

Europe lacks energy

In a future of global warming

Darker regions will become unsuitable for human habitation by 2070 or sooner, while lighter regions will become more suitable for settlement. (NASA, National Academy of Sciences, Chi Xu, Marten Scheffer)



China will need the water and food from Siberia



Yes, China has become much more assertive That comes with power. We have seen the movie before: The power abuses of the US as global hegemon



- > The past two decades might have functioned as an extended “Suez moment” for the United States. But the U.S. foreign policy establishment has refused to move on, clinging to the myth that what the world needs is more American military power. The failure in Iraq did not prevent Washington from doubling down on its “good war” in Afghanistan—an act of rashness that culminated in a chaotic, humiliating withdrawal in 2021.
- > President [Harry Truman’s](#) decision to send U.S. troops north of the 38th parallel on the Korean Peninsula in 1950 was an epic blunder, albeit one eclipsed 15 years later by President [Lyndon Johnson’s](#) decision to commit U.S. combat troops to Vietnam. Beginning in 2001, the war in Afghanistan gave new meaning to the term “quagmire.” As for Iraq, it remains impossible to refute [Barack Obama’s](#) 2002 denunciation, delivered when he was a state senator in Illinois, of the approaching U.S. invasion as a “dumb,” “rash,” “cynical attempt” by “weekend warriors” to “shove their own ideological agendas down our throats.”
- > ...But if the aim of U.S. hegemony has been to establish global order and justice through the prudent use of hard power, the results have been mixed at best. Since 1950, people in the English-speaking world and those living in some proximity to Paris and Tokyo have fared relatively well. By comparison, the benefits accruing to the billions living in the global South have been spotty; only occasionally has the opportunity to live longer and healthier lives translated into personal freedom and security. Government respect for individual rights and adherence to the rule of law remains more hope than reality.

The Reckoning That Wasn’t

Why America Remains Trapped by False Dreams of Hegemony

By [Andrew J. Bacevich](#) March/April 2023

Published on February 28, 2023



The Roots of Washington’s Addiction to Military Force

And How China’s Rise Could Constrain American Interventionism

By [Monica Duffy Toft](#) and [Sidita Kushi](#) January 10, 2023

<https://www.foreignaffairs.com/united-states/andrew-bacevich-the-reckoning-that-wasnt-america-hegemony>

<https://www.foreignaffairs.com/united-states/roots-washingtons-addiction-military-force>

The new premier: China and the US are closely intertwined economically



As for the specific issues concerning China-US relations, Foreign Minister Qin Gang already elaborated on China's position during the press conference a few days ago. So I will not go into details. But I want to stress that it is important for us to translate the important consensus reached between President Xi Jinping and President Biden during their meeting last November into actual policies and concrete actions.

I know that in recent years, some in the US have been trumpeting the idea of decoupling from China. And sometimes it could become quite a hot topic on the media. But I wonder how many people can truly benefit from this kind of hype? According to Chinese statistics, last year two-way trade between China and the US reached nearly US\$760 billion, which again set a new record in history. China and the US are closely intertwined economically. We have both benefited from the other's development. For most part of last year, I was working in Shanghai. I had a lot of opportunities to talk with the senior managers of multinational corporations, including many American companies. They all told me that they were optimistic about the future of Shanghai and China, and wished to achieve win-win results through cooperation. All this demonstrates that China and the US can and must cooperate and there are a lot that the two countries can achieve by working together. Encirclement and suppression is in no one's interest.



https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/202303/t20230314_11040394.html

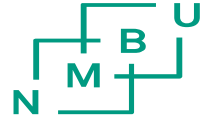
US Treasury secretary calls for “constructive” China relationship



- ...we seek a healthy economic relationship with China: one that fosters growth and innovation in both countries. A growing China that plays by international rules is good for the United States and the world. Both countries can benefit from healthy competition in the economic sphere. But healthy economic competition – where both sides benefit – is only sustainable if that competition is fair. We will continue to partner with our allies to respond to China’s unfair economic practices
- As we take these actions, let me be clear: these national security actions are not designed for us to gain a competitive economic advantage, or stifle China’s economic and technological modernization.
- China’s “no limits” partnership and support for Russia is a worrisome indication that it is not serious about ending the war. It is essential that China and other countries do not provide Russia with material support or assistance with sanctions evasion.
- ...But China’s government employs non-market tools at a much larger scale and breadth than other major economies. China also imposes numerous barriers to market access for American firms that do not exist for Chinese businesses in the United States.
- As we set the terms of our economic engagement with China, we will also pursue our third objective: cooperation on major global challenges. We believe that the world is big enough for both of us. China and the United States can and need to find a way to live together and share in global prosperity. We can acknowledge our differences, defend our own interests, and compete fairly.
- The United States believes that responsible economic relations between the U.S. and China is in the self-interest of our peoples. It is the hope and expectation of the world. And at this moment of challenge, I believe it must be the choice that both countries – the United States and China –make.

<https://home.treasury.gov/news/press-releases/jy1425>

Final remarks: Balancing assertiveness and global power play against the necessities of delivering economic prosperity to the people



• What we know

- **History:** The dynastic cycle. Struggles to keep the large country together. The century of humiliation with the built in strategic issue for the current leadership: What caused the weakening of the Qing dynasty that made China an easy target for small imperialistic powers? The importance of maintaining a strong economic machinery
- **Economic structure and global interdependencies:** The power of applying market reforms (as opposed to the Soviet Union communistic system that caused the bankruptcy and consequentially collapse of the Soviet state). The enormous size and productive skills of the Chinese economy and its importance to the whole global economy. But also the vulnerability: Dependencies of the old school” top-down construction projects and housing sector, diminishing return on capital, debt-build up, population decline, high youth unemployment.
- **The costs and risks of concentration of political power:** The dictators curse (es exemplified with the failures of Mao). The possible harm to productivity by curbing entrepreneurship and short-circuit the delegated structure for resource allocation.

• Uncertainty – what we simply don’t know

- **The cultivating of the strongest leader since Mao** signals strong concentration of power. How much real checks and balance remains and will ensure rationality in the future decision making and no catastrophic policy error? At what level of centralization will the gains from market reforms be put in reverse?
- **How will the leadership balance global power play and take risk**, as for example by providing more support to Russia, against the economic need for still being integrated in the international flow of trade and capital? How will events and internal power dynamics impact on that calculation?

Appendix

**New York Times article by Thomas L. Friedman
April 14, 2023
References to other ECN 122 course topics**

Class discussion



Why absence of trust –
seen from the US side?
Seen from the Chinese side?

Why is trust essential in
today's international trade
structure?

Is US – China destined for
war?



By Thomas L. Friedman
Opinion Columnist

April 14, 2023

<https://www.nytimes.com/2023/04/14/opinion/china-america-relationship.html?searchResultPosition=1>

From Friedman's article



- ...Beijing reminds you that China's stability is a product of both an increasingly pervasive police state and a government that has steadily raised standards of living. It's a regime that takes both absolute control and relentless nation-building seriously.
- When so many more products or services became digitized and connected, so many more things became "dual use." That is, technologies that can easily be converted from civilian tools to military weapons, or vice versa.
... a real fear that TikTok's highly addictive algorithm is dual use and could be repurposed by the Chinese intelligence service to amass data on our youth — more than 150 million Americans have downloaded the app
- Taiwan Semiconductor Manufacturing Company (TSMC) – the secret enabling them to make 90% of the world's most advanced logic chips: "Trust"
- China also has a foundry, Semiconductor Manufacturing International Corporation, which is partly state-owned. But guess what? Because no global chip designers trust SMIC with their most advanced designs, it is at least a decade behind TSMC.
- I don't buy the argument that [we are destined for war](#). I believe that we are doomed to compete with each other, doomed to cooperate with each other and doomed to find some way to balance the two. Otherwise we are both going to have a very bad 21st century.
- China will never realize its full potential — in a hyper-connected, digitized, deep, dual-use, semiconductor-powered world — unless it understands that establishing and maintaining trust is now the single most important competitive advantage any country or company can have. And Beijing is failing in that endeavor.

References in this lecture to ECN 122 topics (and ECN 120)



- Theory international trade
- Welfare gains from international trade (incl effects of managing exchange rates)
- Drivers of economic growth; growth models, included:
Demographics, capital allocation, trade, urbanization
State intervention (for good and for bad)
- Other factors affecting economic growth
Education, research & development
Infrastructure
Equity culture, entrepreneurship, decentralised decision making
Immaterial factors, as trust, rule of law
Trust
- Side effects and possible impediments
Income distribution
Debt accumulation
Centralisation of power
- The Chinese versus the Nordic model