The following pages outline the PPTs by the same title. This precis is designed to (i) provide an overview of the PPTs and (ii) clarify various points. Both this precis and the PPTs are of Dec 2023 – many things may change over the next several months.

**China in the 2020s: Is the East Still Red?**

In 1980 the People’s Republic of China (PRC) was a poor country. Despite its large population – more than 20% of the global total – the county produced only 2.5% of world GDP. But from 1980-2020, the PRC’s GPD doubled every decade and today accounts for almost 20% of global GDP. And the standard of living for the Chinese population changed dramatically: per capita income increased from less than $500 to over $11,500. Both the GDP and the per capita growth over these four decades are historically unique.

How did they do it?

1. **PRC Economic Growth Model**

The PRC’s growth model, part deliberate policy and part chance, comprised five elements: (i) high rates of domestic investment; (ii) low rates of household consumption ; (iii) large export growth ; (iv) rural to urban population shift; and (v) inward Foreign Direct Investment (FDI).

1. **High Rates of Domestic Investment**

The share of GDP going into fixed investment, both non-residential and residential, was consistently in the 40-45% range. New roads, airports, schools, light rail, houses, and more were the product of huge financial flows targeted for infrastructure.

1. **Low Household Consumption**

The level of household consumption was deliberately held down. Although definitive numbers are somewhat hard to come by, the best estimates are that 30-35% of GDP went into household consumption. This is among the lowest that we know of, internationally, for a sustained period of time.

1. **High level of Exports**

As PRC growth took off, the limited ability of the internal market to absorb the new output of factories meant a need to find markets outside of China. Although exports as a share of GDP were already growing by the time the PRC joined the World Trade Organization in 2001, there followed an escalating growth of exports at least until the Great Financial Crisis of 2007/08. There has been some decline as a share of GDP, but the size of the PRC’s exports remains larger than any other country, accounting for almost 15% of total global trade.

1. **Foreign Direct Investment (FDI)**

FDI was not an initial pillar of the PRC growth model but became increasingly important as the county moved up the value-added curve. FDI was also important in the ability of Chinese companies, either private or State Owned Enterprise (SOE), to acquire new technologies that further strengthened their productive capabilities and allowed movement up the value-added chain.

1. **Rural to Urban Migration**

In 1980 less than 20% of the PRC population lived in cities. Today almost 7 in 10 are urban residents. The move out of agricultural labor into manufacturing and service work was one from a low productivity sector to middle and at times high productivity sectors.

1. **Straws in the Wind?**

The question going forward is whether this growth model – very similar but on a much larger scale than Japan or South Korea – has played itself out. Almost overnight, it seems, commentators are finding problems for continued PRC growth: the International Monetary Fund has raised the question of financial stability; total debt has ballooned; producer prices has fallen over the last year; and youth unemployment has almost doubled to 21% from 11% in 2019. The latter has led to the “lying flat” movement among some well-educated and well-positioned PRC youth.

III**. PRC Housing Market**

The rural-to-urban migration was also a major shift in how the Chinese family is housed, and the housing market in turn highlights some of the problems facing the PRC growth model today. In 1980, most Chinese families lived in publicly subsidized/provided rental housing. Today, more than four of every five urban families own their homes, usually without any outstanding mortgages.

Residential fixed investment grew to became a major component of infrastructure, accounting for as much as 25% of GDP. The result has been the transformation of family living in the PRC. It has also resulted in a glut of houses: one of every five houses in the PRC is vacant. And one of every four urban families owns more that one house. Household wealth in China is over 70% in housing, compared to half of that in the United States.

The overbuilding of houses (at the same time there is a significant homeless population) continues and also threatens the financial system, along with several major developers such as Country Gardan, China Evergrande, and others. And housing prices have started to decline.

Is a shift in growth drivers necessary and/or possible?

**IV. Possible Paths**

The future of the PRC growth model is unclear, but there are at least three possible directions that the CCP can pursue. Each has its own problems and risks.

1. Continue on the existing model – this may sound like a bad decision, but it is hard to decide to abandon what has worked in the past. And there are large vested interests that benefit from the existing model. Beyond the obvious, the huge struggling developers, many local governments are dependent on the revenues from land sales to developers, while appliance manufacturers, cement producers, and others profit from more houses.
2. Shift GDP composition in favor of consumption. This may seem an obvious choice, but it has been discussed since at least premier Wen Jiabao urged this course in 2009. Very little progress has been made in this direction. Such a shift in favor of consumption implies a redistribution in favor of households – losers will resist.
3. Redirect investment into new technologies. The PRC already has as a significant commitment to countering climate change but could direct SOEs to ramp up R&D in new technologies to further this sector. There is also potential for provision of better water and food.

The PRC’s direction is to be determined.