

## THE BROOKINGS INSTITUTION

## WEBINAR

CHINA'S SLOWING ECONOMY: WHAT CHINA IS DOING ABOUT IT,  
AND WHAT IT MEANS FOR THE REST OF THE WORLD

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## WELCOMING REMARKS:

RYAN HASS

Chen-Fu and Cecelia Yen Koo Chair in Taiwan Studies, Senior Fellow and Director, John L. Thornton China Center, The Brookings Institution

## PANEL DISCUSSION:

WENDY CUTLER

Vice President and Managing Director, Asia Society Policy Institute

JONATHAN A. CZIN

Michael H. Armacost Chair in Foreign Policy Studies, Fellow, John L. Thornton China Center, The Brookings Institution

ZONGYUAN ZOE LIU

Maurice R. Greenberg Senior Fellow for China Studies, Council on Foreign Relations

ESWAR PRASAD

Senior Fellow, Global Economy and Development, The Brookings Institution

MODERATOR: BOB DAVIS

Former Senior Editor, The Wall Street Journal

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**HASS:** Hello, everyone. My name is Ryan Hass. I am the director of the Brookings China Center, and I'm honored to be co-leading today's event with David Wessel from the Brookings Hutchins Center. And today's event is on China's slowing economy and its implications for the world. It's widely recognized that China's economy is facing challenges, a slowing property sector, sluggish consumer spending, heavy debt loads and an aging society, just to name a few examples. And with President Trump's return to office in the coming months, trade tensions between the United States and China are certainly going to sharpen. So what does this all tell us and what does it mean for China's future economic trajectory? And how will China's economic performance impact global growth?

We are fortunate to have an all-star panel to help us think through these questions. We have experts on China's macro economy, China's political economy, trade issues, as well as how China uses its economic power to advance its global objectives. I'm going to be considerably brief in introducing each of our speakers, and then I will turn the floor over to our moderator, Bob Davis. Wendy Cutler is the vice president and managing director of the Asia Society Policy Institute and managing director of its office in Washington, D.C. Wendy spent three decades as a diplomat and negotiator with the United States Trade Representative's office, where she also served as acting deputy U.S. trade representative. John Czin is the Michael Armacost chair in Foreign Policy studies at Brookings. Prior to joining Brookings, John was a Senior Analyst at the Central Intelligence Agency and also a Director for China at the White House National Security Council.

Eswar Prasad is a senior fellow at the Brookings Institution. He is also the Tolani senior professor of trade policy and professor of economics at Cornell University. Eswar previously had a distinguished career at the International Monetary Fund, where he headed the China Division, among other roles. And last but certainly not least, is Zoe Liu, who is the Maurice R. Greenberg senior fellow for China studies at the Council on Foreign Relations. Zoe also is author, most recently of the book *Sovereign Funds: How the Communist Party of China Finances Its Global Ambitions*. And last, we are fortunate to have the legendary journalist Bob Davis leading our conversation today. Bob is known for many things, one of which is his coauthoring of a book, *Superpower Showdown*, which provides the inside story of the US-China trade war during President Trump's first administration.

And it will be required reading for everyone who is going to be following the period to come. So with that, let me turn it over to Bob to take the conversation away.

**DAVIS:** That's true. Ah, here we go. Start again. Well, thanks so much, Ryan. It was a very nice introduction. Legendary is a very nice term for old. I've been doing this a long time. You know, we're going to we're going to drill down on the Chinese economy. And part of that will be the impact of what the next administration is going to do when it comes to China. I was feeling last night this strange wishing sound, and it was once again sort of air being sucked out of Washington because of a Donald Trump tweet. This in this case, it was a threat to levy more tariffs on China and new tariffs, fresh tariffs on Mexico and China. But we will not I repeat, we will not let Donald Trump hijack this panel. So we'll be talking about US-China, but also that China in itself. And that way to start, I thought I'd turn to Eswar Prasad, who I've been talking to for more than a decade about China, to give us a sense of where the Chinese economy stands now. There's a lot of talk about it slowing. Are we at a peak China, given that's a loaded term. After all, people have talked about peak oil for years and have been wrong about it. So, Eswar, what's your thoughts on the Chinese economy?

**PRASAD:** So, Bob, first of all, you legendary not just because you were doing China reporting for a long time, but because you are doing it so well. I think you were required reading for all of us trying to follow China and understand it. So this panel is quite topical, not just because we had at the dawn of a new administration, but also because, you know, China has been the largest contributor to global growth since the global financial crisis. And what happens to the Chinese economy has large implications, especially for emerging markets, but also many other countries around the world. And China has been beset by a combination of very adverse circumstances. There are cyclical problems, structural problems as well as long term issues, all of which are feeding off each other.

And all of this is happening against a background of concerns about the Chinese government's ability to maneuver the economy around these difficulties and also an increasingly unfavorable and indeed hostile external environment. So on the cyclical front, you know, after the very sharp snapback from the COVID pandemic, the economy has lost growth momentum. And in particular, what we have seen is that the attempts of the Chinese government to rebalance the economy towards boosting

consumption and private investment have really had a setback in recent years. So we've seen industrial activity and various elements of domestic activity not doing terribly well. Now, of course, the structural issues have been quite longstanding and you've written quite extensively about them, but the banking sector remains quite inefficient in terms of its allocation of resources. It remains beset by a large number of issues, including, you know, a large number of bad loans, which really don't show up easily on the books. State governments have had a squeeze on their finances and the property sector has not been doing well.

Now, the bigger concern in my mind is really the sense that there is a lack of confidence in the government's ability to move the economy around these challenges. You know, in the pre-COVID era, when I went to China, I always got the sense from businesses and people in the private sector that I meant that the economy did face challenges, but the government was up to the task. In my post-COVID trips, there's been a clear difference between the way officials in Beijing seem to view the economy and its prospects and how private sector entrepreneurs seem to view it. I think there is a real sense that a fundamental view of the Chinese government towards the private sector has shifted when got a strong sense that talking through entrepreneurs that too much success was not going to be tolerated and the private sector needed to know its place. And this has serious implications for the short term as well as the long term, because the Chinese government does need the private sector for productivity growth, which is going to be crucial as the economy deals with unfavorable demographics and is also essential for employment growth, which the economy has not been very good at generating, even in a high growth period.

So layered on top of all of this, of course, is the fact that we now have an unfavorable external environment, which becomes even more important because the deficiency of domestic demand, especially in household consumption demand, has meant that much of the recent recovery has been on the production side of the economy. So there is a great deal of excess capacity that is going to need to be exported to the rest of the world. If China cannot revive domestic demand. And this is already generating tensions and certainly there are going to be intensifying once Trump takes office a couple of months from now.

One positive sign is that at least in the last few months, the Chinese government seems to have come to grips with the seriousness of the situation the economy faces. It has put in place some monetary and fiscal stimulus measures, and these are certainly going to help, but only at the margin. What we have not seen are the sort of measures that are really going to be necessary to restructure the banking system, although there has been some capital infused in the banking system. We have not seen measures to really reform the central provincial fiscal relationship, although the fiscal the local governments are being given some additional revenues and space to do a little more borrowing. But I think fundamentally the problem the Chinese government faces, which is going to have implications for China and the world, is that it needs to generate not just stimulus measures that can put the economy back on track in terms of stimulating household consumption, but in terms of reviving private sector confidence that the economy can get back on the right track. So it's going to be a heavy lift for the Chinese government. And by extension, it's going to have some implications, mostly adverse for the rest of the world.

**DAVIS:** Let me just a quick follow up on that. Do you think that we're at a moment where China is going to fall into a recession or the much, you know, talked about collapse of the Chinese economy or a vast slowdown in China's economy? Are we at that moment, do you think?

**PRASAD:** The Chinese government still has enough room to maneuver to get growth in the range of 4 to 5%? But as you and I know, Bob, the question is always what is the quality of that growth going to be? How durable is it going to be? So I worry a little less about the next year or two, but rather about the direction of policies that will have significant implications for the medium to long term.

**DAVIS:** John, you've been looking at the way the Chinese leadership looks at the economy, how Xi Jinping makes decisions. So how do you look at how the Chinese political calendar and the issues facing the leadership affect the decision making when it comes to the economy?

**CZIN:** Gray Well, thanks for that question, Bob, and thanks for that great way down here. And I think what's really interesting when you look at this problem set is that if you were to look at this from the perspective of Xi Jinping's inbox, the challenges that I just laid out are quite daunting, right.

But I think if you look at it from Xi's perspective and you look at and I think you have to look at it through a political prism, just understand how they've been dealing with these issues over the past year. Because if you just look at the economic data alone, it doesn't really make much sense. And I do think there's this conception sometimes that decision making in Beijing operates a little bit akin to our own Federal Reserve, right, where data comes in and policy comes out. But I think from Xi's perspective, it's very politically motivated. And I think there's really three key moments that I would anchor this storyline around over the past year. I think you have to go back to about a year ago when the third Plenum that is supposed to focus on economic policy for the Chinese Communist Party didn't happen and got bumped back to July.

I think the other key moment came in September and in the run up to October when the party convened the plenum. Not the point I'm sorry, the Politburo meeting where they announced some of the measures that were discussed and that occurred right before the 75th anniversary of the PRC's founding on October 1st, which I don't think is an accident. I think the final key moment was our own election this past month. So let me just walk folks through what's happened over the past year. So, again, if you go back to about a year ago, this time, there was a bit of a parlor game going on among the China-Washington community about when China was going to convene its third Plenum. And again, I think it's worth remembering here that going back to the start of the reform and opening up period, this meeting had occurred with almost metronomic regularity every five years. So to my mind, as a long time China watcher, it was remarkable that that meeting didn't happen at the end of last year.

But Xi did convene a foreign affairs work conference, which prior to his tenure did not occur very often. There was more of an apostle event than a regular one. And to my mind, what that indicated was that as Xi was rounding the corner from 2023 into 2024, he was much more focused on foreign affairs than economic policy. And I think if you just look at the political calendar, that makes a lot of sense, actually. Right? Xi was looking at an election in Taiwan in January and then, of course, our own election just earlier this month. So I think he was comfortable with delaying it. And I think my own perspective on Xi's thinking about this is a little bit of an outlier.

But I actually think that when Xi looked at the economy and the challenges facing, I actually think he felt fairly comfortable with where the economy was at. It was still growing, even though it was slowing down. But when you unpack some of the problems and you look at the sectors that were really taking a big economic hit, real estate was such a big one. And I think from the perspective of Xi Jinping, he knew that this had been a problem for such a long time and that the Premier, the previous premier, Li Keqiang, made this kind of iterative but frankly kind of lame attempts to rein in the property sector by ball. And I think from Xi's perspective, this is not a part of the economy that he really wants to focus on right now. And I think he's cognizant of the risks of moral hazard. I think something else that is looming in Xi Jinping's mind when he looks at this set of issues that, remember, he was the heir apparent or had just been designated the heir apparent when the global financial crisis occurred back in 2008.

And even though China whether that crisis very well compared to other great powers, including the United States, I think he was very mindful of the criticism that China got at the time for how they handle, which was basically flood the zone with debt and kick all your problems down the road. Right? And now that I think Xi is well into his third term, he stacked the Politburo Standing Committee in the key economic decision-making bodies with his own buddies. I think he feels that he is in a sufficiently politically unassailable position that he can muscle through these problems, that, yes, there's going to be a crunch time. It's going to be difficult and painful. But we but the Chinese economy is going to emerge in a stronger position on the other side of all these problems and all these pains and difficulties. And I think that's why he was comfortable with postponing the plan him until this past July. Right. I think what got Xi's attention following the planner was not just the severity of the mounting economic data per se.

Again, I think he views these problems through very much a political perspective. Right. And I think what it started to get his attention was not just the problems that were confounding the localities, but the fact that the localities were starting to have trouble paying their own party cadre. Right. And I think at that point, the issue stops being just an economic one and starts to get to something that Xi Jinping does really care about.

And that's how you maintain control over a Communist Party that's larger than the population of Germany. Right. And I think that that partially explains the timing of some of the measures that we saw. Now, I'm partial to the to the to the phrase that Article Kroeber is used for describing the package that we saw unveiled starting and starting at the at the at the Politburo meeting in September and then the subsequent NPC Standing Committee meeting. That's more of a stabilization package, right, than a stimulus package per se. There was some relief provided to the localities, but a lot of it was, you know, seemed like it was shuffling money around and shuffling debt around. Right. To give them a little bit more space to do things. And I think, again, part of the timing here and part of the story about why he did that during the September Politburo meeting and got people all excited was again, because of the PRC, his impending birthday party on October 1st. Right.

I don't think he wanted the storyline and the narrative to be going into that celebration that the Chinese economy was in the tank and that the stock market in particular was in rough shape. And that was the first element that you saw where people got excited, right? Was it the stock market did a huge rally as they went into as they went onto October 1st? Right, and then what we've seen subsequently in the run up to our own election was they delayed another important meeting, and that was the National People's Congress Standing Committee meeting. And they did. And they delayed it, I think, quite obviously, until after our election because they wanted to see the outcome.

And I think this is another way to explain the reserved and relatively restrained approach that we've seen the PRC leadership take towards stimulus so far is they want to make sure that there are saved rounds for the coming Trump administration. Right. They want to make sure that they have additional stimulus measures that they can unveil in the new year, too, to speed along the economy if they need to. I think what they've been leery of throughout this past year is stimulating the economy and then not having any more headroom to lean into those fiscal resources that they do have to ensure that they hit their growth targets in the coming year.

**DAVIS:** Right. Just a note here. John mentioned Arthur Kroeber. For those who don't know him, he's the head of a firm called DragonNomics, which does economic forecasting about China and Zoe.



So there's a lot of talk about doom and gloom when it comes to the Chinese economy and a lot of a fair amount of triumphalism, I would say, in the United States that, you know, the United States is growing faster, China is on the ropes. What do you think the chances are that the kind of gloom and doom or wrong that they'll muddle through somehow? You know, they'll now reduce the real estate bubble. They'll have the local governments, you know, met summits, but that they'll kind of get through it. What's your kind of assessment?

**LIU:** And thank you very much, Bob, for the question. And also thank you, Ryan and David, for reminding me. And I think a Professor Prasad and Jonathan earlier laid out some great point about the challenges, both internal and external for the Chinese economy and certainly viewing from some of the Chinese policymakers point of vintage a point they try to make the argument to saying that the Chinese economic difficulties this time is very much a cyclical problem rather than a long-term structural challenges. But personally, I tend to think that this is more of a structural problem rather than just the cyclical issues. Right. But that being said, you know, to what extent this is this merely fits into the sort of, you know, like the boom and bust cycle. I personally don't think this at this moment. It is merely a boom bust.

The cycle of and the challenges for a China economic stagnation is there and in particular in terms of downward spiral towards deflationary loop. And let me take a step back by explaining is there reasons to be optimistic if viewing from Beijing's point of view? Yes. Obviously, there is strong reason to be optimistic despite the slow recovery since COVID and why the important the factor is that if we take a look at the contribution of GDP growth last year, renewable energy expansion actually contribute to about a 40% of GDP expansion last year. So viewing from Beijing's point of view, and if you are the five-year plan is out of that renewable sector is the strategic sector, this is where we are going to go. Then obviously this is a triumph and there is reasons to be triumph of take up, for example. Yes, it has fueled a lot of trade tensions, but last year EV exports actually grow by almost 70% compared with a year ago.

And about a third of a Chinese passenger car export. In terms of the quantity that is, you know, electric vehicles. So, again, those are the data points to be optimistic about, especially the goal is to

make sure that the strategic sectors get to better get to their fair share of spotlight. And but I do think that there are sort of more reasons to be to be cautious rather than having this kind of a celebratory moment as if the Chinese economy is going to continue. Some people argue that if the Chinese economy can continue growth at least to 5% or even 8% for another decade. I think if we are thinking about potential, sure. But how China can reach that growth potential, at least for now, it's doubtful, not just in terms of debt, demographics demand or de-risking the decoupling. I think there are near-term challenges at people level this to fit into earlier. Professor Prasad mentioned the lack of confidence in the Government's ability to deliver continued economic growth.

And for individual people, this literally means that a bigger wage growth has to not stagnate, but rather they have to be able to have a stable not just in terms of stable job, but also stable income. And their housing prices can not necessarily stay as low as it is. But right now, I think especially recent incidences like the mass the mass public attack in one week, three cases in November, perhaps it is the outcry of a lot of these normal Chinese people who felt that they have no other ways to be heard, given a lot of the economic pressure. And then I guess I'll just conclude by saying, by explaining why this moment is still very much a fluid and why the pressure of deflationary is high. Yes, you have a lot of new sectors, but then the so-called overcapacity sectors. Although Chinese colleagues may disagree about some of these manufacturing jobs, the order to find a tariff bypassing country or for whatever reasons.

These companies have all the reasons to relocate outside of China and inside of China. To address the problem of aging. You also have a lot of government attention to investing in automatics and robotics. And a lot of this means less jobs, not only for the existing population, but for the younger generation. So a lot of this does not really bode well for the labor market dynamics or for that matter, the realization of China's growth in the long run.

**DAVIS:** Okay, great. Wendy, I asked John to try to explain how Xi Jinping thinks about things. I'm going to ask you a harder question. How does Donald Trump think about things? So give me your sense. I mean, it's crystal clear he couldn't have been any more clear than last night that Trump's going to focus on US-China economic and trade relations. What do you what do you make of what he

said last night and what do you expect going forward? What will you know, what will it mean in terms of tariffs and trade wars and so on?

**CUTLER:** Okay, some easy questions. But first of all, just by honor to be on this panel with my colleagues. So what did we hear last night? I think one takeaway is that he's threatening higher tariffs on our friends, Canada and Mexico now than China. But second, he announced last night about imposing a 10% additional tariff on China. But this was not for our purposes dealing with trade. This had to do deals with fentanyl and his and his view that, you know, illegal drug trafficking is taking place. So for those when I initially heard the 10%, I'm like, wow, that's a lot less than the 60% hike he announced he was talking about on the campaign trail. But none of us should be mistaken that this 10%. That's it. Because, again, this isn't even a tariff to deal with China's huge trade imbalance, which he has, you know, made very clear that this is top of mind. So what does this all mean? You know, when I look at China, I think China has been preparing for this second Trump term for a while. And why do I say that?

I mean, if you look at efforts by China to become more self-sufficient, if you look at efforts by China to diversify its trading partners and seek trade agreements, not only did they conclude RCEP in the past few years with the with 14 other Indo-Pacific countries, but they also applied to join the TPP. They are now negotiating to join the Digital Economic Partnership Agreement. They upgraded their FTA with Peru. They're importing more agriculture from Brazil and Argentina, making them less dependent on the US market. They've also implemented a legal framework which wasn't around during the first term, giving them kind of the platforms to quickly take measures if they choose to do so, including their anti-sanctions law, unreliable entities, last export control laws, etc. And then within the past couple of months, Jonathan's already touched on the fiscal stimulus.

They've been you know, they've obviously announced stimulus or stabilization funds, whatever you want to call them. But I couldn't agree more that they're holding back some to see what more might be needed, depending on how disruptive Trump's actions may be on their economy. They also just last week announced a new nine-point assistance program for their exporters to help them kind of weather the storm not only of Trump tariffs, but also let's just put on the table, many other countries

are imposing tariffs and other import restrictions against Chinese imports due to large surges of imports in these so-called overcapacity sectors. And then finally, China, over the past recent years and just the past few weeks, is really positioning itself to be the champion of free trade, the champion of globalization, you know, anti-protectionism, etc. And so I was struck just, you know, in the past 24 hours that China's now come to the you know, is becoming the best friend of Mexico and kind of defending Mexico now against the Trump tariffs. I can go on. And you know what actions they may take in response. But over to back to you, Bob, to lead the discussion.

**DAVIS:** And let me just ask a quick follow up on that. What do you think the chances are that he doesn't go out full blast on tariffs that he, well, let me let me modify that, so he talks about tariffs and all that, but really, what he tries to do is enforce the phase one deal and negotiate another deal. What do you think chances are?

**CUTLER:** And I think we'll learn a lot by how high the additional tariff rate is. In other words, right now, both in just general terms, the US and China's average rate against tariff rate against each other is in the 20% range. If he then announces another 60% and that takes two tariffs, you know, over 80%, I think that's less about negotiating and more about disentangling our economies and decoupling them. If he goes forward with low margins and maybe says over time he might increase them. I think that will be a sign of he wants to do a deal with China. But I just want to put on the table as a former trade negotiator, I don't really know what we would negotiate with China this time around in a trade agreement except for a managed trade agreement along the lines of China agrees to buy more from us like the first phase agreement. But also, we agree to import quotas. You know, in terms of limiting Chinese exports to the United States, I don't see us going back to the table and trying to negotiate, strengthen IPR and more on technology transfer and all of that. While there were some incremental gains for the trade war and, you know, all of the impacts of all of the tariffs, there was frankly very little to show from the phase one agreement.

**DAVIS:** Let's switch back to Xi Jinping. John, let me ask you this question. I mean, he's clearly all in on a tech first policy when it's you know, it's very clear that China has a youth unemployment problem, an aging unemployment problem. Tech clearly need I mean, if you want to be a world leader, it means

a lot of automation. Why do you think he's moving in that direction, which you would think would be not all that helpful, generally speaking, to the Chinese economy?

**CZIN:** Yeah. So my own sense of it is that it's precisely because of the demographic crunch, right? And I think part of the bet that he's making is that technology is going to be able to ameliorate some of China's problems with product, both with productivity and with dealing with the factor of an aging population over time. Right. It does less to explain the youth unemployment problem, which I do think is probably a little bit more eye catching for them. But again, I think that probably from his perspective, I think this is a short-term manageable problem. Right. I mean, there's an argue there's a very good case to be made. And I think a lot of Western economists have made that case and I think elsewhere and others have been arguing this, too, that this is this is a big bet, but that this perhaps might not be the right trajectory to go on. Right. And if you really wanted to ameliorate the economy, you should focus on demand side. But I think what's very striking is that even though that's been the consistent conventional wisdom in Washington and in the West more broadly and from the financial sector, since the end of zero COVID, we have seen Xi Jinping been very loath to go in that direction and take efforts to take steps to prop up the demand side of the economy.

**DAVIS:** Zoe, what are your thoughts on this? You know, why go in, you know, tech heavy.

**LIU:** And there are an intern...I think the investment in tech certainly fits into the productivity growth narrative. But on the other hand, President Xi Jinping, as well as his predecessors, talk a lot about building China as a technology power. And this is certainly fits into his, a self-sufficiency drive and to build up China's international prestige. But I think in the you know, the short term in the shorter term, in particular, addressing some of these structural economic challenges, perhaps the view from his point of view, allocating more investment again to the tech sector, also sort of the remove money or the extra credit into the property sector that has fueled China's economic and financial instability. So from that point of view, I think are there good reasons to be investing in tech? Sure.

But I think perhaps at this particular moment, especially after the first Trump term, you know, the Huawei shock really mobilized not just to seizing beyond Chinese policymakers, but to a certain

extent, even Chinese tech companies mobilize them to realize the risk of being overly dependent on tech suppliers from the United States. And I remember talking to a few tech startup people in Shenzhen this summer. I asked them, you know, to what extent you are trying to get money from or like our American money. And the investors are still attractive, focused, told to me that, well, yes, we would like to continue to welcome them. But the problem is that we learned the lesson from Huawei and therefore, you know, we don't want to take their money. And it seems that the strings attached there is more coming from what if you cut not just the money but also the technology. Now, I think the kind of fundamental insecurity felt at the private sector level, especially the tech startups, they realized that if I can get money from the government, I can get a subsidy. Probably that's a safer way to go, especially if you, Brand Weiwei, as if you don't support Huawei. That's not a patriotic if you're branded of that way. I think that makes a lot of sense to mobilize the entire country.

**DAVIS:** As for what happened to the much-discussed Chinese stimulus package that so excited the stock market? I mean, what were the impact of the measures? What would you expect going forward?

**PRASAD:** What was really important, in my view, Bob, was the sense that after a period when the government did not seem to be, you know, coming to grips with the risks the economy faced in terms of growth, in terms of the inflation becoming entrenched and so on. Finally, the government seemed to be, you know, coming alive, so to speak, with its policy measures. We saw a barrage of monetary policy actions first, including cuts in interest rates, measures to make credit more easily available. And those are certainly good, but not very effective at stimulating household consumption or private business investment at a time when confidence is a problem, you know, making money more easily available and making it available more cheaply does not really incentivize the households to go out and consume or private businesses to invest.

Fiscal policy tends to be a little more effective in those circumstances. And I think we have seen some significant measures. Now, I think, as John pointed out, what these measures amount to so far are measures to deal with some structural issues. You know, the very perilous state of local government finances, which have been hit by the property sector downturn and other structural issues. And also the fact that the banking system certainly needs an infusion of capital.

So it's good that we have seen measures on that on those fronts. And I think all of our colleagues, John, Zoe and Wendy, have pointed out that the government is also trying to accomplish some longer-term objectives. And it seems to me trying to direct fiscal policy in a way that tries to meld both the short term and long-term objectives. But I think we're going to need to see some slightly more targeted fiscal policy measures, and maybe that is holding firepower in reserve, given what we all knew was coming, which was the Trump tariff shock, which we are beginning to see the initial indications of. But in addition to those measures, I think we're really going to need to see a broader package of confidence building measures now.

China is a big, complicated economy. And, you know, once upon a time we used to argue that substantial reforms were needed. But I've come to the view that in an economy beset with so many inefficiencies, you can't have big change overnight. But what I think markets are looking for investors and both domestic and foreign and, you know, households and private businesses in China are looking for is a sense that the government is willing to undertake some of the important structural reforms, you know, to the financial markets, to the fiscal system, its orientation towards private enterprise that are really needed to set the ship in the right direction. And while no huge, you know, changes can be expected overnight, at least some down payment in terms of some small steps in these directions could really increase the effectiveness of any stimulus measures that they undertake, because I think at this stage, stimulus by itself, even if we see more fiscal stimulus, is not going to cut it. It's going to take a bit more.

**DAVIS:** Are you optimistic or pessimistic that they will make those down payments on the structural changes?

**PRASAD:** What I see that is a little disconcerting is a sense that there is a degree of policy. Well, maybe paralysis is too strong a word, but there is a sense of extreme conservatism in political circles right now because, you know, there have been a number of steps taken by Signet paying in now what looks like an extended term of office and possibly an indefinite one, you know, to centralize power.

I think a number of bureaucrats and people in the private sector have gotten caught up in the anti-corruption issues, which, again, might be well-intended but have certainly had a chilling effect in terms of both the private sector and in terms of the risks that government officials take. So I think the overall policymaking environment doesn't quite seem to be up to the task of moving in a flexible way. We saw this with the way the COVID policy was handled. You know, the zero-lockdown policy, in my view, was held far beyond any length for which it was tenable, and then it was abruptly reversed in a way that caused some complications when it was coming off and I think had some fairly negative consequences. So I think the sense that there can be good continuity to policy making and that there is, you know, a set of. Officials were willing to take the risks necessary to push the economy in the right direction. I don't quite see that. So that is a fair bit, I think, to worry about.

**DAVIS:** John, do you think it's conservatism on the part of the Chinese leaders or self-satisfaction that they think they know what they're doing and, you know, the people the critics are wrong?

**CZIN:** Yeah, I think it's probably the latter. Right, Because as we discussed earlier, I mean, do they do have the wherewithal and the resources to take a different direction if they so choose? And I do think there's a degree of comfort, even if it's misguided, that they are on the right trajectory. And I think it's telling, too. I mean, especially given the way the political system operates in China, the fact that they did have a third party in July, I think that basically laid out the parameters for what we could see for the, you know, for the next year or two, because that is the definitive, authoritative document. Right. So that kind of sets the left and right boundaries. So I think what we saw at the Politburo meeting and then at the NPC Standing Committee meeting, I think people got a little bit overexcited about what might be coming down the pike. Right.

But I don't think they were going to go beyond that, especially given how closely sequence those meetings were. Right from July to September. There was nothing so dramatic for them to fundamentally shift course. Right. I think they did some things to stabilize. They did some things around the margins. Right. But I think from their perspective, they having delayed the meeting. Right. And then codified in the communique and the decision from the third Plenum, I think that sent the outer boundaries really of what they can do going forward. The last thought that I would share, too, is



that I think there's I my strong suspicion is there's probably a little bit of a difference in perspective from the top political leadership, right, from the Xi Jinping Politburo Standing Committee level and people further down in the system. You know, my sense is that, as others indicated, right, there is a fair bit of anxiety among, you know, not just the private sectors, but I think lower level officials. Right. I assume that many of the U.S. side's counterparts, that maybe the vice-ministerial level or the DG level are experiencing quite a bit of anxiety right now and really, really sweating out the trajectory that they're on over there.

**DAVIS:** Zoe, it sounds like you agree with the latter. What about that whole idea that is there a division between the more junior members of the government and party and the more senior members as far as you can tell?

**LIU:** As far as I can tell. I do think within China and even within one particular government institution or one think tank, there are diverse opinions, but it matters. And it still puzzles me and perhaps a lot of the China watchers, you know how the individual opinions eventually got to selected and a push up to the Xi Jinping secretary office and eventually being sent up in the conversation. I think I learned a slightly a little bit and that that sort of helped me understand why there seems to be major policy slogans since President Xi Jinping came to power for a long period of time. He talked a lot about a common prosperity and these things. Now that that slogan becomes a slogan again. And it seems that there was a lot of talking about of the three red lines, the and the property market. And now we swing back encouraging Chinese families to buy not just one house, but more 2 or 3 houses.

So I feel like, you know, first of all, I think it is very important for me to realize that perhaps this major policy swing goes to show he doesn't really have a at the top leadership level. He as well as you know, he's surrounded himself by the so called a yes man. There is no coherent, coherent marching direction. There is no vision in terms of where we wanted the economy to march towards. And as a result, you end up having let's try what might work. So the first the first set of policy measures is one that sort of fits within the vision of a China is the greater power. The east wind prevails over the west wind and the United States probably is in decline. And you try to that over one year or one year and a half realizing that that's not necessarily working.

So now you started to swing back and try a different set of policies. I feel like if there is lack of a coherent vision and I think that is probably a problem and the over trying to if they are making the bet, saying that the United States, the US is in decline, whereas China is having the upper hand, I think that is a fundamental mistake if that's what they are back they are banking on.

**DAVIS:** Wendy, you or excuse me, I have a cold, when you were talking about the various efforts by the Chinese to cut trade deals, a variety of trade deals in Asia and with the Global South. I wondered and also the irony of irony, even joining what used to be called the trade. Transpacific Partnership, which was a U.S. effort basically to freeze out the Chinese and pressure them by an alliance with other countries in the region. How successful do you think your strategy in that could be? I mean, can you actually replace, you know, a loss of trade with the United States?

**CUTLER:** Well, you know, look, it's a strategy. And like all strategies, they're having mixed results. Clearly, they are making inroads. And I would say they are separate agreement, for example, is a strong indication of further integration of the economies in Asia. The CPP, their bid is now three years old. And the CPP, TPP members are meeting this week in Canada for their annual ministerial meeting. And I think there's zero chance that they're going to announce that, you know, they've accepted China's application to start negotiations. But again, you know, mixed results I think, in the digital space. And the deeper they're getting closer to joining. And again, they're upgrading their FTAs.

Also, I think what's interesting and a tool that they may use is giving more benefits, not just through trade agreements, but just generally to foreign businesses, maybe with the exception of U.S. businesses, in order like they follow on affirmative action. And by definition, U.S. companies have less access and are in it are in a disadvantage position. So, for example, just last week, China announced further easing of visa requirements for a whole host of countries, including Japan. And so I think they are making efforts and looking at ways to kind of not just drive wedges between all these countries, but also to get closer to them, give them more benefits. And I think that's a way to disadvantage the United States.

**DAVIS:** Do you see any evidence that they'll make a gesture to the United States to try to hold off Trump, you know, crack down on fentanyl or buy more soybeans? I don't know. A variety of things.

**CUTLER:** Look, yeah, I'm sure someone in Beijing, as well as in world capitals all over the world, are coming up with those plans, like how they can, you know, head off tariffs, whether they ever see the light of day. We don't know. I'm fairly confident that China, you know, is very ready to retaliate against the United States, even with its weak economy. Maybe it is. It has less levers and it needs to be more careful this time. But they have a whole host of tools, and I don't think they're going to be reluctant to use them and to, you know, and show that, you know, they can that two can play at this game.

**DAVIS:** You know, it's interesting. I mean, but the last time so I mean, what's the example we have the trade war that they had under Trump the last time you know yeah that clearly, they match them tariff or tariff without a doubt. But there were so many more things they could have done. I mean, I kept thinking all they needed to do was slow iPhone deliveries during Christmas. You know, that that in itself would have been just an enormous, you know, hit to the American economy. But they didn't do any of it or yeah, they didn't do anything. And I think it was their concern about losing foreign direct investment. You know, that if you if you hurt Apple, you know, and you're Samsung, would you think, this is great, we have a competitive advantage or you think, we're next. I wonder if you think John, let me move this to you. Do you think that that dynamic still plays in or do you think it's just different this time and they'll be more likely actually follow through on the many things they could do to disadvantage the United States?

**CZIN:** Thanks, Bob, it's a great question. I think it's the it's the trillion-dollar question, right? What's going to be their appetite for risk on the on this go around? Right. Because I was struck by the same thing in the last trade war, Right. They did enough just to retaliate and signaled their peak. Right. But they didn't really do undertake actions that would have led to further escalation. Right. They seemed very well calibrated in in that way. And I think that that approach in that posture has actually held through the Biden administration as well. Right. With the various measures that the Biden administration has undertaken.

Like, I think if you go back two years ago to the to the first round of major export controls right on chips in October 2022, the reaction was fairly muted. Right. I think when these point is very well taken, though, that they have put in place another a number of options. Right. And they haven't pulled the trigger yet. Right. Like on like on germanium and on gallium. Right. These various export control measures, they they've laid the predicate down, but they have not implemented these measures yet. Right. And that in and of itself has been a signal so far. I think as I try to try to two thoughts. Number one, it seems clear just from talking to Chinese interlocutors that it seems like China is not going to want to make the first move in the in this engagement. Right. They're not it doesn't they seem reluctant, at least initially, to try to take measures to assuage the Trump administration. Right.

And get off the ax. Right. What I heard from Chinese friends so far and these are more kind of think tank academic sites is that they're going to wait for the US to make the first move and then they'll calibrate in response. Right. Which seems to kind of fit with their modus operandi and handling these issues. Right. I think there's also a political upside for them diplomatically in dealing with the Global South and others. Right. It gives them the moral high road because then they look like the victim. Right. And then whatever justifies whatever it is that they're going to do in response to this. But I think what's really changed when I think about, you know, comparing trade war 1.0 and then a potential trade war 2.0. And this perhaps just reflects my own bias issues, political position at home. Right. When the first trade war happened, Xi was still in the process of moving the system toward strongmen who. All right. It was it was in the midst of all this that he rolled back the term limits on the presidency and was really consolidating his own position.

So he was at the front end of his second term. Now he's well into his third term in office. Right. And he's in a much different political position at home. Right. And I think on the one hand, that potentially gives him the flexibility to take a more accommodating approach. Right. And to try to mollify Washington if he thinks that's going to be an effective posture. Right. Because I don't think he's had a point at this point in his tenure. Nobody's going to give him a hard time for being insufficiently tough with the United States. Right. He, nobody's going to stand up and criticize. And that's a that's an unwise career move at this point in the political system. Right.

So that's one way this could all play out. But on the other hand, if you try to get into his headspace, he is in his third term is, you know, larger and larger at this point in his tenure. And is he really does he really have the patience for this this go around? Right. And I think, as Wendy indicated earlier, part of it, part of the reason why they might let the U.S. go first is precisely because of that. Right. If this looks like it's the opening round of a conversation and an engagement, then I think Xi takes a course where he tries to mollify us. And I increasingly think what he'll do is kind of like what seemed to happen in Trade War 1.0. Based on reading your book, Bob, it's a rope a dope strategy, right? Drag out the negotiations until Trump starts to feel the political pressure of having some kind of win going into the midterms. Right. I think that's one potential way he plays it. But if it looks like it's going to be a more draconian set of measures and it looks like this is a strategy that is aimed more at decoupling rather than having some kind of protracted trade discussion, then I think we're playing a different game. And I would suspect that he would resort to those sharp, informal trade retaliation measures that Wendy talked about earlier more quickly.

**DAVIS:** I mean, what I noted with the Biden administration, you know, as I kept expecting the Chinese to make, you know, offer some olive branches and so on, make some move, I mean, they finally got rid of Trump. Maybe they didn't. And I extend and I think from both capitals, who is waiting for the first the other guy to make the move first. And that kind of started things off in a less advantageous way. I mean, so I wonder what you think about how the export controls so far. I mean, how have they affected China's tech plans? Do you think the U.S. is actually hurt or slowed down China's economic development or, you know, they've been less effective than advertised?

**LIU:** And I think there are two dimensions. One is in the short term and short term versus long term. And then the other dimension is in the U.S. leverage. I do think that into sort of either slowed down China's and increased the cost and forced the Chinese government to make a costly prioritization decisions in arguing to double down tech investment or are you going to have more money allocated to beef up the Social Security network? So I do think that that's one choice that has been obvious, that the government has moved the Chinese government made more investment in tech, specifically in response perhaps to the export controls.

And on the other hand, this in the long run, I do think that probably this is going to reduce the US leverage over China in the long run, assuming that given the nature of technology is diffusion. And one way or another, over time, assuming that China can develop its own type of standard, its own type of operating system, or even entire ecosystem for apps or for infrastructural communication or even space competition with the United States. So I think that is a concern. But on the other hand, I do think that China is trying to learn from the US playbook in terms of export controls and here in terms of critical mineral probably is a very, very important example and a given that both Japan, European Union and both have, you know, encoded in their economic security strategy of developing their own critical mineral supply chain. And the Biden administration also established the Mineral Security Partnership from long term perspective, perhaps to boot, Beijing realize about its leverage over the West in terms of critical minerals is going to diminish. So I am afraid of that. Probably the willingness to use export controls in terms of critical minerals in the coming in the coming new trade war probably is going to be higher than before, specifically because the diminish to return in the long run.

**DAVIS:** Eswar, what do you think? Let's. Let's do some wargaming, I suppose. Let's assume here that there is a really serious trade war between the U.S. and China, that China actually retaliates. I mean a significant trade war and has significant economic cost to both the U.S. and China. What do you think the odds are? And I know that it's not the majority view, to say the least. What do you think the odds are that a serious trade war actually spurs China to make the reforms that you and many other economists inside China and outside China have been urging for many years?

**PRASAD:** That would be a positive outcome perhaps for China and maybe for the rest of the world as well. I do want to pick up on a point that John made about the political context in China having shifted. You know, it's also shifted in the U.S. and the economic context has shifted in a very important way as well. You know, as we all suspect, you know, there are going to be fewer restraints on Trump in a second term. And yes, there are going to be mid-terms looming sooner than we think. But it's clear that Trump's political support seems to be increased if he takes very aggressive actions against China on issues such as immigration and so forth.

So I think we will see a much more, you know, hostile at Trump on issues related to China. And the economic context is hugely different, unlike in the first Trump presidency. You know, the U.S. economy is on the upswing. The Chinese economy is not doing so well. And China in the last couple of years has relied quite heavily on exports and much of the rest of the world that China would like to export or to pick up on when this point is not doing very well. Europe is not in great shape. Neither is Japan, nor are many other major export markets of China. So Germany is trying to find ways to deflect Chinese exports. So this is a very, very different scenario in terms of the relative economic power between the two countries. But in terms of the broader issues, and this touches on something that Zoe alluded to, China does want to move up the value-added chain wants to become technologically more self-sufficient, but it's not quite there yet. And I think what we saw was very effective in the Biden administration's approach to China was that restricting technology transfers, restricting access to chips really hurts China, both in terms of its short-term growth and in terms of its longer-term industrial restructuring.

So I think the gloves are really coming off at this stage, and I don't see an easy way to deescalate this now. China can certainly try to go back to its playbook of, you know, proportionate reactions, try to do other things that mollify Trump. But I think the Trump team has probably learned the lessons from the last time that Trump was able to declare victory. As you wrote, Bob, in your book and elsewhere about, you know, more soybean purchases and so on, most of which were never fulfilled. So I think the Trump team is going to take a much harder tack this time. So I think some rough times ahead.

**DAVIS:** I mean, I think the biggest restraint on Trump by me was last night was certainly the markets, man, this election this time, presumably. Well, this time he won't be up for reelection. But the markets, the markets are significant. It's the way he judges himself, the market. You know, the stock market going up and down. I wonder also, given that China will probably try to peel off Europe from the United States when it comes to trade. I mean, how much do you think Chinese growth depends on the settling of the Russia Ukraine war in the sense that that's the biggest disagreement, I would say, between Europe and the and between the EU and Beijing. John, what do you what do you think? Do you think there's a spillover from that military question to the economic?

**CZIN:** Yeah. I mean, I think I think from Beijing's perspective and they might be wrong about this and underestimating the dynamic, but I think from their perspective, they've already managed the tensions with Europe, at least vis a vis their China's own support for Russia fairly effectively. And I think we saw that manifested earlier this year where Xi Jinping went to Europe for the first time in a while and he had a series of engagements with Macron and others. Right. And the European delegations that visited China were accompanied by large business delegations. Right. And I think that I think that made China feel better about its position. Right. That it's able to have it both ways. It's not really balancing. It's it seems pretty clearly intent on deepening this relationship with Russia, not just in the context of the Ukraine war, but I think for the long term. Right.

And I think that that entente between the two, it's much deeper and much bigger than the war in Ukraine. I think from my perspective, it really goes back to the start of Xi Jinping's tenure when he made his first state visit to Russia right after becoming general secretary. Right. This has been an accelerant, clearly. So I don't think that dynamic is going to change. But I think that there is a real risk that China can and might be able to have it both ways by having both the entente with Russia. And if this war comes to some kind of conclusion and they're not getting beaten up about this diplomatically, episodically, that that there is space for them to drive a wedge between the United States and its European allies.

**CUTLER:** All right. If I could, just, I think. I think it's important to watch progress made in the current negotiations between China and the EU on electric vehicles. Those negotiations have been going on for a while. My understanding for a long time they weren't going anywhere. And just recently I'm hearing that there seems to be maybe, you know, some potential for a deal. And so I think that will send an important signal either way. On whether Europe and China can find a way to work together going forward, particularly, you know, in the in this in a world where, you know, where Trump becomes president in a couple of months.

**DAVIS:** All right. I think we have to leave it there. We've run out of time. Thanks, everyone. Jon, Zoe, Wendy, Eswar, for a great conversation. And there'll be a lot more of these sort of conversations going on over the next four years and moving on. Thanks again.