THE BROOKINGS INSTITUTION

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CHINA'S ECONOMIC PRIORITIES: THE FOURTH PLENUM IN REVIEW

MONDAY, NOVEMBER 3, 2025

DISCUSSION

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CZIN: Okay. Well thank you everyone for joining us today. Uh, I'm Jon Czin. I'm the Michael Armacost Chair in Foreign Policy Studies here at the Brookings Institutions China Center. Uh, and I'm delighted to have this event today focused on China's recently concluded fourth plenum, even though it feels like you know, two eons ago at this point, after the events of the last couple of weeks.

Um, as many of you probably know, the plenum is really the most consequential political event on the Chinese political calendar. And this one is especially important because it was devoted to discussing, uh, the Chinese leadership's recommendations for the next five year plan, which will govern China's economic and social development from 2026 until 2020.

And so to discuss the, the developments at the planet, we really have an all star lineup here today. So I'm gonna take a couple minutes just to introduce my colleagues here. First. Uh, to my left we have, uh, Kari Heerman, uh, who is a senior fellow here at Brookings and director of the Trade and Economic Statecraft, uh, program.

She was previously the acting Chief Economist in the Office of the Chief Economist at the US Department of State. And prior to that she was a deputy assistant US Trade Representative at USTR. And before that, she was at the White House in the Biden administration on the Council of Economic Advisors focused on international economic issues.

Next to her, we have my old friend and colleague, Oliver Melton. Uh, Oliver is currently director with Rhodium Group's China practice, where he advises clients and oversees research on China's economic policy and political dynamics. Before that, uh, Oliver spent five years in Beijing as the financial attache for the Treasury Department.

Um, and before that. He was a, a senior analyst at State Departments Intelligence, uh, and research bureau, uh, which is how I got to know Oliver in the first place. Then we have Ilaria Mazzocco. Ilaria is just down the road at CSIS. She's where she is a senior fellow with the trustee chair in Chinese Business and Economics.

And she has over a decade of experience researching Chinese industrial policy, climate policy and the intersection between the energy transition and national security and the economy. So very timely topics for us today. And last but not least, we have Andrew Polk. Andrew is the co-founder and head of economic research at Trivium China, a Beijing based strategic advisory firm.

I should also note that he is host of the excellent Trivium podcast, which I listen to religiously for news on China's economy. It is a very incisive show. Um. Before founding Trivium Andrew was director, uh, at Medley Global Advisors. And before that he was a China economist at the conference boards, China Center for Economics and Business.

He's also the co-author of the “Long Soft Fall in Chinese Economic Growth.” So those are our panelists here today. As you can tell from the backgrounds of our panelists, even though the plenum is a major political event, we're really gonna focus on the economic issues that are at play here. Happy to discuss more about the politics during the the q and a.

Um, but for the purposes of our opening conversation, the way we're gonna approach this is that it's gonna be a funnel. We're gonna start with the big picture, looking at the, the recent developments in the international economic order funnel down, funneled down to some of the key developments in China's macro economy, and then focus on some particular sectors and technologies.

So Kari, I'd like to start with you. Um, this has obviously been a very consequential year for the International Economic Order. So I'm curious to hear your thoughts about what are, what do you see as really the one or two key developments that we've seen in the past year, and where do you see China fitting into that overall narrative.

HEERMAN: Thanks, Jon. Yeah, I think at the outset it's important to say that the pressures on, uh, the external economic environment for China have been building for quite some time. Um, uh, country's willingness to engage economically with China in the same way that they have in the past has been waning as, uh, impacts from China's economic model have been spilling over to, into the economic and security outcomes in their own countries.

Um, no doubt, uh, the United States may have been the loudest voice, uh, talking about the need to de-risk our economic relationship with China, but it certainly hasn't been the only country, um, uh, putting up measures that are guardrails against openness, uh, with trade investment and technology flows from China.

Um, so in that environment enters the second Trump administration, and no doubt that has had a big impact on the international economic order, such as it is, um. It has certainly been a test of US global power and influence as the policies and postures with respect to aid and trade and investment of this administration, um, have, uh, interacted with not only China, but the, the rest of the world.

Um, we now have a situation where our, even our closest trading partners are looking to de-risk their economic relationship with the United States. And that is a very big change. And I'm not really sure how that helps us vis-a-vis China. Um, I'm interested to hear what my pet fellow panelists think about this and what they're hearing, but thus far I don't see that shift in the US posture really benefiting the external economic environment for China.

Um, at least not yet. It seems countries are maintaining an even tightening economic guardrails on, um, economic relationships with China. Um, export controls, new authorities for investment screening. Um, uh, um. Investigations into unfair trading practices. All these are staying in place or escalating, um, even in the face of countermeasures or threatened countermeasures from Beijing.

Um, and that's not to say these developments are entirely independent of what's happening in the Trump administration. Um, there's certainly pressure from the Trump administration to align with, uh, the, uh, Washington's approach to Beijing. Um, but um, I don't, uh, I don't see that it is completely di divorced from it either.

Um, take for example, as you mentioned, some of the, um, deals, the reciprocal trade deals that happened last week in Asia. Um. Of various, uh, forms. Um, the economic security, uh, um, provisions in these deals are really illustrative. Um, stipulated. There's a lot we don't know about these frameworks, their intentions, um, their enforceability, um, their durability, but I still think that the text is really informative.

Um, here we can see that the Trump administration is asking its trading partners in a commercial agreement to align on export controls, on sanctions, on investment screening, and a whole array of, uh, trade remedies. Um, when Washington deems national security or, um, uh, economic security or even just unfair trade practices, um, that he's ask, they're asking countries to coordinate with the United States explicitly Now, um.

Again, I'm not gonna speculate on how, uh, durable these agreements are, but, um, I would say that the tariff shock and awe approach of this administration is at least shifting countries willingness to stick signal that they would coordinate with the United States on economic security measures vis-a-vis China.

And that is something that in the past countries have been unwilling to do, likely for fear of retribution from China. I don't know what China's response is going to be, but I think that's really something to watch.

CZIN: So as somebody who's looking at the overall, uh, international economic pic picture, do you think it's fair to say that this is a moment of deglobalization right now That that's part of what China's facing?

HEERMAN: I would hesitate to use the word deglobalization simply because, um, the sort of advances in, um, communication information and transportation technology that have pushed globalization even more than policy, um, over the last 30 years are still with us and technological changes going even further. So I don't think that we will see a retreat from economic interconnectedness, unless there's some kind of utter disaster. Uh, that said, I do think, um, China will face a more restrictive external environment. Certainly there will be, uh, additional restrictions on the flow of goods and technology for China. Um, and I think more broadly we're entering a phase where governments are intervening more directly, um, in, um, actions that we used to leave to the market. And I think that's gonna change a lot of things. Um, but I don't know that I would say we're going backwards from globalization..

CZIN: Okay, great. That's very fair. I ask in part because Andrew and his, uh, recent excellent report from CSIS talks about deglobalization as one of the chief challenges that China's economy is facing right now.

So Andrew, I'm curious to hear your thoughts about what we see reflected in the recommendations for the five-year plan and how China is trying to grapple with, if not de full deglobalization then many of the challenges that now confront them now in the external environment.

POLK: Yeah. Well I think Kari put it well that, You know, globalization may not fully go into reverse, but China will certainly be facing a much more challenging external environment. In our report, we talked about the three Ds that China's gonna, that which are challenges that China will face over the next decade, which are debt, demography, and deglobalization.

And the idea behind the report was really that China has limited fiscal resources and it's going to have to choose which one of those areas it wants to really focus on most. Does it want to build out a pension system in the future to support its old age population? The demographic piece, does it want to address the legacy debt issues that have been building up in the property market, for example, at, at local governments, or doesn't wanna focus on this issue of deglobalization and ensconcing, its supply chains, um, or, or defending its supply chains such that the rest of the world supply, uh, relies on them.

And the ultimate answer, we don't really know, but it's gonna be a trade policy trade off that. Beijing faces, I think we basically got our answer in what they're gonna try to do in the 15 or in the, from the plenum, the 15th five year plan proposals, which is, it all starts with trying to boost productivity at industrial companies such that profits rise and that wealth is spread both inside the companies to workers and to the government, right?

So that workers can get higher wages, the government can get a higher tax haul, build out a social safety net, and share prices rise. So that wealth of both the companies and the individuals and institutions invested in them also rises. So that to me was a pretty clear takeaway from the 15th five year plan.

I have to give props to my colleague Denny McMahon, who really, as we were writing on the, this report, focused in on this idea that it, that the industrial sector is at the heart of everything they want to do. And that was. I think fully validated in the 15 five year plan proposals. They said their number one goal is to, uh, modernize the industrial system.

As we read that, it has two elements. One, invest in cutting edge technology, right? The technologies of the future, so future technologies and emerging technologies. They list out the ones they're most interested in, and I'm sure Aria will talk about those. But also upgrading traditional in industries with new technologies so that not only we can get into this later, but that very much aligns with their sort of plan for ai, their AI plus plan, which is all about diffusing current AI technologies into the industrial system.

Rather than going for sort of AGI, the moonshot, let's take those technologies that exist now and use them to upgrade our industries. One implication of that when it comes to the deglobalization piece is that the sort of traditional industries as China moves up the value chain, are not necessarily gonna go to the other countries in the region.

Sort of the flying geese model of East Asian development that we've seen over the past several decades, because they wanna defend and ensconce those continue to, to capture them in China. Or at least that's, that's the goal as we see it. And that's one way that they're really defending against this deglobalization piece.

I think. So I think that's the answer as we see it. For now, I just want to sort of make a couple other key observations from the 15th five year plan at a, at a high level so that I don't step on Oliver's comments too much here. I thought this document, the proposals was actually a pretty remarkable document.

Um, there's one line in there and we don't want to overread one statement from any Chinese policy document, but they said the 15th five year plan period represents an important period in. Inheriting the past and ushering in the future, in the process of socialist modernization. And as I read that, it's the party saying this next five years is critical.

A critical transitionary period where we need to make strides in new technologies. The technologies that are gonna dominate the next, you know, 10 years of reindustrialization, of the global economy. And that they also need to make decisive strides in technological self-reliance, right? Semiconductors, other basic tech.

So I thought that was really notable that it seems that the party sees this period as, as a critical window. And on the back of that I saw a, a significant amount of urgency in this 55 year plan proposals that you don't normally see in a fif in a five year plan. You know, normally the five year plan's kinda like the state of the union, it's everyone wants to get their little pet policy.

Projects shoved in there and it's a loose, incoherent sort of set of priorities. But there was an urgency to this document and a coherence to this document that I haven't seen in previous five-year plans. And I think it, as I read it, almost every single policy area kind of fit neatly into the two overarching goals of industrial modernization and tech self-sufficiency.

So that's how I read it. And I guess the ultimate takeaway is Xi Jinping and his colleagues are going for it over the next five years. And you know, there are huge implications for US policy that we can talk about from that. But this was a statement piece to me

CZIN: That that's great and I think that that's very helpful context.

One, one question I wanted to ask you as a quick follow up, Andrew, is you talked about the tool goals that they identified as guiding this entire document. Right? And conspicuously absent from it is boosting consumption. Right? Which has been such an important feature of previous economic documents over the past year, going back to last year's plenum.

So I know you have a very particular view of how consumption fits into this and obviously it's an important part of the discourse here in Washington and elsewhere about China's economic development and what they need to do. So could you share with you, us, your perspective on that?

POLK: Sure. Our view is that consumption fits into this piece at the tail end of everything I just described, right?

So that you, the way you unlock consumption is that you start with the supply side of the economy, very, you know, traditional Chinese approach. If you can boost the profitability of companies, then that all it's trickled down economics in a way. All of that filters through the system and at the end of the day, you get workers with higher wage.

Who can buy more. And you have a government with more money who can build out a social safety net, unlocking more consumption, and you have more wealth in households through appreciating share prices that they now own in the stock market instead of the property market. And so that is how we understand their desire to boost consumption.

We can talk more about kind of how they don't want to do so in a, in a, in a way that would be an unfunded mandate. They're, they're very, uh, clear about that. But I know Oliver's gonna talk a little bit about this as well.

CZIN: Yeah. So I'll, Oliver over the, to you then, I'd like to get your take on, you know, things that jumped out to you from the plenum document.

And do you think what they're laying out here, given the coherence and urgency that Andrew identified, do you think this is going to be adequate for managing and navigating some of the challenges that we know are endemic to China's economy right now?

MELTON: Yeah. Thank you. Uh, so I, I agree with everything Andrew just said, and I think it's, it's important to understand that they don't, that they have a, they do have a very coherent vision and they do have a very coherent economic strategy or ideology, and it really does start with technology and industry.

Um, and they, they see that as inherently driving productivity. And that is the answer, to grow, to growth. Full stop. They have made some progress or they have had, um, a bit of an evolution in their thinking that I think is quite significant on the role of consumption and specifically household consumption.

Three years ago when they, um, released a, a big demand promotion plan, it was all focused on basically investment demand, right? We're gonna promote domestic demand through investment in more technology and manufacturing. Over the last, uh, year and a half in particular, there has been a pretty substantial and important shift to understanding the importance of the role of household consumption, so final consumption, and I think that that is significant.

But I think that they see that as a minor tweak in the cyclical imbalance between supply and demand, not as any sort of revision to the core ideological framing of economic, of the economic growth strategy. So there may be on the margin, some support for consumption, uh, that will be useful. We saw in the last, uh, year and a half, we've seen consumption in the support, in the trade-in programs.

We've seen modest tweaks to, uh, social welfare programs, um, and we've seen, uh, the introduction of a pro fertility policy that's a direct transfer to households. So these are really significant. These are not the kinds of things that they had done before at this scale, but they're still, they still remain incredibly small, um, by macroeconomic standards.

So I think that you can, and many Chinese economists will point to significant progress in the last year and a half, either ideologically or in practical terms, but it's just orders of magnitude too small to address the macroeconomic imbalances. Um, I think that the, the big danger here is that they see current indicators in the economy and they recognize these, these imbalances.

But by and large, they think they're on track to achieve their goals as Andrew defined them, they're looking at specific sectors, they're looking at the progress in EVs, they're looking at Deep Seek. They're even looking at nja, you know, and they're seeing general progress across industries, and they think that they're more or less on track with some tweaks or maybe some rough turbulence in the, in the near term.

I think most Chinese economists and, and sort of, um, Western trained economists, I don't like that term, but sort of classically trained economists would say that, um, they face a much more fundamental problem and that the deflation, um, the decline in the PPI, uh, employment pressures, um, and then even, uh, really significant reduction in investment that we've seen this year is, um, is revealing a much more fundamental structural macroeconomic imbalance that cannot be resolved through technological progress.

Uh, you cannot make more cars or fancier cars or more robotics to, um, to build your, to build your way out or grow your way out of a, a fundamental imbalance unless you have infinite export market opportunities. And we, we know quite clearly, they do not. And so if you look over time at the composition of Chinese growth, it becomes increasingly reliant on net exports, uh, particularly in the last year, precisely because there's a really fundamental demand in supply imbalance in the economy.

And I think the unfortunate thing is that, um, from our perspective or from my perspective, um, they're not targeting the right issues, right? And so, uh, the success that they may yet have in advanced industries, um, won't, won't translate into more demand or certainly not enough demand, um, to resolve this imbalance.

And you're gonna continue to have deflation, you're gonna continue to have, um, employment pressures, and particularly as workers internalize those trends and internalize the, the expectation that the employment market or the wage, wage outlook. Is not as strong as it was before. You're gonna see a, a negative feedback loop.

And we already are seeing that where investment declines, consumption declines, and the need for near term stimulus will only grow. Um, and if they continue the focus on investment led or manufacturing led, um, growth or industrial led growth, the, the gap between what China produces and what it needs will only continue to grow.

And so there's a risk of, um, of this imbalance exacerbating over time. The big question in China when I left in, uh, July, was whether or not the leadership, um, is taking an incremental approach. There's some indications again that they, they, they did tweak their understanding of the problem. The party formally identified price pressures as one of the core targets.

That's a really big shift. Um, so that's important. Uh, they've talked about the, the imbalance a little bit more, but. Uh, nobody really knows if this is all they're willing to do, if this is, if they're willing to tweak ground the edges only, or if the continuation of deflation, um, and the continuation of sort of stagnated, uh, fixed asset investment will cause them to reevaluate and expand the cyclical or structural policy appetite.

Um, I'm pessimistic about that. I think we've seen relatively little, particularly on the welfare side. Um, we had heard a lot of rumors, there were a lot of rumors in Beijing in 2024 and 2025 that even though the government was generally opposed to, um, large fiscal support for social welfare programs, they were open to it in pro fertility policies.

And so there was a lot of chatter and a, and a lot of policy experiments that indicated that they might have a large appetite for transfers in that realm. But what we saw was, was really poultry, you know, it's 3,600 MB per kid for about three years. That adds up to a, just a, a. Uh, uh, Frank, frankly, just a, a vastly insufficient, um, amount of money either for the fertility goals or for a sort of a macroeconomic balance goal.

So I'm, I'm pessimistic, but the, the main question is what happens a year from now if indicators continue to deteriorate? Does the leadership have the stomach or the willingness to respond, um, more forcefully?

CZIN: It's really interesting to lay, to hear you lay out that more pessimistic case for their trajectory going forward, especially given not just the, the clarity that was imbued into the document, but also I thought from my perspective and from my reading of the documents, a lot of confidence too, right?

There was very much a tone in this doc in the documents that came outta the plenum of, yes, there are challenges, but we've got this basically. Right. And so, am I hearing you correctly to say that that confidence seems to be misplaced?

MELTON: I mean, I think that if you grew up in the communist party as a, as a city and then provincial and then national, uh, official, particularly from the planning agencies.

You look at the data and you look at industrial trends and you think, okay, we are, on the one hand we're, we're killing it. On the other hand, we have some minor tweaks that we need to make, but overall, we're headed in a wonderful direction. If you got a PhD in economics, you're watching a totally different movie, um, and, and you are, you are very nervous about the direction this is headed.

Um, and I think that this is, this is a widely held view even inside of China, among economists that, um, either they're going to eke out two, 3% growth for the, for the medium term through industrial led sort of innovation led or advanced industry and heavy reliance on exports somehow. Or they're going to have a deflationary sort of downward cycle that causes them to have a really fundamental rethink.

Um, but generally, I'm, I've come from the economist school, not the, not the Communist Party school, and I, uh, I'm fairly pessimistic about the, the outlook.

CZIN: Okay, great, thanks. Ilaria, I'd like to turn to you next to talk about some of the specific sectors that are discussed that in the plenum, especially some of the ones that you follow closely, autos, energy, high technology.

Um, based on your reading of the document and the trajectory that they're currently on, where do you see China positioning themselves to either catch up to the United States or further extend their lead in areas where, where they, where they're already pulling ahead of us?

MAZZOCCO: Um, so I think, I agree with Oliver that, um, this seems like a very-- and, and with you--that this, there's a lot of positivity here and a lot of confidence, right? Um, and there's a lot of talk about innovation, manufacturing, and the sense you get is that, um, the, the drafters, right? The leadership is thinking, you know, we kind of, we know how to do innovation, right? Um, and we know that manufacturing is part of that and we, we know we succeeded with made in China 2025, more or less, right?

There's some, some, some challenges in some sectors, but like on the whole, a lot of progress overall. Um, and so we're gonna do it again, right? Um, and we're gonna do it maybe more efficiently. There's fiscal constraints, there's some issues, but I think there's, this is like the part of the document where you read it and it's like, we're killing it and we're gonna continue to kill it.

Right? Um, so I think lots of confidence. I, I would agree. I mean, there's a, I I'm just gonna make a point that, you know, um, there, there are all these other challenges, right? And even, you know, I'm not a demographer obviously, but I do speak with demographers and they tell me that transfers just don't work in general in, in any country unless you have a broader framework, right?

And you need a lot of other, uh, uh, you know. Uh, social welfare, generally positive feelings about the economy, you know, a lot of other different factors. Obviously there's all cultural factors as well. Um, but generally speaking, just giving a little bit of money to people doesn't generally make a difference, right?

So there's these challenges that they're probably not gonna be able to fix with these sort of mechanical solutions, but those mechanical solutions work pretty well in industrial policy, uh, especially in industries that benefit from scale. That where you see big returns on investment in r and d. Um, and so I think when there's a lot of these industries where there's going to be a lot of money poured into them, and I think we'll con, we'll continue to see China doing well or per outperforming them other industries.

Right? And I think it's interesting. There's a, there's a, this very urgent paragraph about semiconductors and, uh, precision machine tools, uh, right, that extraordinary measures are necessary. These are clearly areas where China has made some progress, but it's not where, you know, these are, these are areas where the, these are technologies where they continue to struggle a little bit, right?

Obviously, I, I think most people are familiar with the, um, semiconductor saga, uh, but uh, precision tools as well, right? The more advanced, uh, levels, China has really not reached the sort of targets that they had hoped to reach. Um, so I think those are areas where we'll continue to see a lot of focus and perhaps, uh, progress.

But it's probably gonna be a little more challenging than. Uh, the, the, the areas where China has just performed traditionally very well, right? There's a, there's a new technologies that have been listed, and I, on the whole, I'd say those are ones where, where, uh, Chinese industry is already performing very well.

Hydrogen, um, the low, um, altitude economy, basically drones, uh, right. Uh, these are, these are, um, fusion, right? Which I'm not saying that China's about to crack fusion, but you know, they, they're doing quite well in, uh, in, in building out, uh, nuclear energy, right? So I think we can probably see a lot more in that area.

Um, aircraft are an area where they've continued to struggle. Um, again, there's uh, various factors for all these, uh, things, but I think, you know, on the whole, the formula that's worked well is technologies that perform well, um, or that have high returns when, when scaled, where you have private actors that are very entrepreneurial.

Um, and, uh, and you know, where the state is providing support and resources, but not necessarily directly meddling too much, right. And for incentives as well. But I think that's, uh, so that's probably the areas to, to watch, and that's a lot of these areas that they've listed, right? There's, um, there's usual ones that you, you expect they've been on the list forever and they're continuing to be on the list, like quantum, right? Biotech. Um, there's some new ones as I mentioned. Um, a a, uh, one that is not present is new energy vehicles, right? Electric vehicles. Thankfully so, right? This is, this is an area where China's done well.

I think the, you know, the government probably doesn't need to support this industry any further.

Um, and in fact, it's one of those areas where, um, there's, uh, on the one hand, it's a source of pride, right? This has been a technology where China's had incredible breakthroughs, but it's a problem, uh, industry, right? The margins are low. It's, it's really sort of the center of the, the eye of the storm when it comes to evolution, um, which I think is going to continue be the problem.

I think the, the question is, can they do industrial policy in a way in which it gets, you know, that higher profitability that, uh, uh, Andrew was talking about without getting to involution again, right? And I don't think that's clear, right? That they really have that formula for how to, uh, you know, they, they think they, they have innovation down, but do they have innovation without involution down?

Right? And I think that's going to be really tricky. Um, so I think that's going to be something to, to keep an eye on. And I think, again, so you might have a really successful. Um, innovation in a lot of these industries, but it might make it worse in the terms of the macro economy and the sort of more general economic area, especially because as, as noted before, fiscal resource is a little more constrained these time these days than they were 10 years ago, right. So there's two more trade-offs.

CZIN: Yeah. Quick follow up question. First of all, for for the audience and for the laity and non-economist among the group, could you explain a little bit more about involution and how that's afflicting the Chinese system? What, what is that and what is the challenge? And then, uh, it sounds like you're pretty pessimistic about their, their ability to, to manage this successfully, but I know they have been focused on this more recently.

So you could address both those questions.

MAZZOCCO: Yeah, um, I'm sure others might have better definitions of involution, but essentially what we're observing and has been observed for a while in a lot of these industries that have been, uh, technologically, uh, very successful and in terms of market share, extremely successful, like, you know, um, electric vehicles or solar panels.

There's been this, um, incredibly, um, uh, you know, tough competition internally in China, which has driven a lot of innovation, but it has eventually dropped lower to, led to increasingly low prices. It's contributing to deflation. Uh, margins are extremely low, so a lot of these companies are not, you know, necessarily going to be sustainable in the long term.

Uh, so reinvestment in R&D might be lower, right? So there's this, all these threats that are, that are baked into this. I think, you know, um, overcapacity is a loaded term, but you know, that's, that's part of it, right? And so you are seeing a lot of these companies really sort of betting on market share rather than, um, you know, profitability.

So it's a very different model from what, uh, Western companies are doing. I think there's probably issues with both approaches, right? Uh, a lot of short-termism in, in, in Western firms that are beholden to shareholders. Maybe too much long-termism on, uh, the part of Chinese companies that are solely focused on gaining market share and not necessarily as much on profitability.

And so, you know, it is contributing to some of these macroeconomic problems, um, in China. So I think that, as you said there, this has been, there's been an ongoing campaign. Uh, I've actually spoken to Chinese economists who are pretty positive about the effects of the campaign. Um, so I guess we'll see. But I think, you know, on the whole, there's a lot of structural issues that are leading to this.

And so the government stepping in and just, you know, having price controls may not entirely solve this, but it might alleviate some to some extent, so.

MELTON: Just in terms of terminology though, I'll say that uh, Chinese have been using, uh, overcapacity for 15, 20 years. Mm-hmm. And they had to switch to a new term because foreigners started using the word overcapacity. And so as soon as Secretary Yellen said it, it became something evil imperialists said. And so now they had, they had to switch over to Naja.

CZIN: Right, and involution just rolls off the tongue. That's a great phrase. Uh, Andrew, I wanted to bring you into the conversation as well, 'cause I know you've spent a lot of time thinking and writing about this problem of involution in China's economy.

POLK: Yeah. Well I would say, you know, the, the way we think about involution is basically value destroying competition. Um, and I think that's how the Chinese leadership thinks about it. And, you know, it's related to overcapacity, which as you said, we have to acknowledge we stole overcapacity from the Europeans.

They were the ones who really came out swinging on that. Um, but I think, or we stole the term to point at China, um, it is also part of new efforts. Part of what they're doing to address that is that new efforts. To unify their market. There's a lot of protectionism in inside of China, right? That leads to, uh, over capacity and, uh, like redundant investment in various technologies.

Um, so we'll, we'll see if they are, are able to break those barriers down and whether or not it, it helps them. But I, I, you know, I do think it's interesting. I, I actually think what they're doing is very much what Silicon Valley companies often do, which is go for market share, worry about profitability later. Uh, we'll see if it works out for them. For some companies, you know, startups in the US it doesn't work out, for some of them, it works out fantastically.

But I sort of, I don't want to to steal your thunder on the moderation, Jon, but I, I did wanna pick up on the, a couple of things. One is, um, totally agree on the pessimism side. What I was trying to do is, is kind of lay out what I see as their vision and not, you know, catch judgment one way or the other on whether or not they'll be successful. These are hugely difficult things to do. I also agree there's a lot of confidence in the document, but I might, as I read it, I see less confidence and I go back to that urgency less so we know we're gonna be able to do it and more like we don't know, but we have to try.

And then I'd also pull in that piece on transition, which I think is also really important in the, in the demand supply mismatch, which is we have to re, I think we often forget that China is, China's economy is in this, you know, world historic transition away from reliance on property. And it, they just blew a hole in their own economy and now they're trying to raise up these other things so that to eventually make up for that hole.

And so I just don't know what the economy looks like on the back end of that transition. Xi Jinping's trying to say. We can't rely on property anymore. Like Western Econ have told us not to do that for a long time. It's insane that economy used to be, or property used to be 30% of our economy, we have to get onto a new economic growth model.

And, and this is how we define it. So I just, I guess my point is do I'm reserving judgment to see if maybe some of those supplant, sema, excuse me, demand supply mismatches start to align once the property sector fallout kind of stabilizes and we're on this new set of tracks, just like I think we're in this transitionary moment.

So it's so hard to predict what the future of China's economy looks like right now. Oh, please, Ilaria.

MAZZOCCO: Yeah, I was gonna say, no, I, I think that's fair and I think, you know, a lot of these technologies that we're talking about including like EVs or batteries or solar panels, well, solar panel, probably not, but like the many of these others are still sort of.

Not fully mature. Right. We're still seeing, it's an emerging sector, so we don't know exactly how the cards will fall, and that's partly why these companies are, are being so aggressive. Right. So I think, I think that's, uh, that's, that's fair. But I do, I do think there is a sense within the document that they know how to do innovation, right?

Like there's, like this, there's all these really interesting parts about like clusters that they're going to create, which, I mean, I think they, they've been fairly successful in China. I think even in the US there's a lot of experts in innovation that have been advocating for clusters and um, uh, for, you know, the industrial parks and that sort of thing, right?

And so they're, they're, they're doubling down on that approach, which actually I, I, I'm, I'm fairly positive on the innovation side, right? Mm-hmm. I'm just not sure if that innovation is then going to match the vision of the general economic transformation and sort of the macro challenges in China. I think, you know, we we're going to see that layer of really shiny.

Great technology and some of that technology is going to really make life better in China and even outside of China. Um, but some of the, uh, you know, some of the, the, the resources that are gonna be funneled in that direction may be, you know, there may be trade offs and, and where else it might have been allocated.

Right. Um, so I think, as you said, right, there's, there's gonna be trade-offs between the, the three Ds.

POLK: Yeah, yeah, they're not gonna be a hundred percent successful, but are they 50%? Are they 80%, That 10%.

MAZZOCCO: Yeah, that's fair. Fair. Yeah.

CZIN: So on this point, I've heard you talk about this before. I mean, tell us a little bit about how this all plays out, if they're able to pull off, not, you know, a plus on this next five year plan.

Right. But a, b or B plus, right? Because it sounds like it's still going to be pretty profound in terms of the economic outcomes. So could you share some of your thinking about this, Andrew?

POLK: Well, I mean, we were talking on our podcast. Thank you for the plug the other day about how the, the technologies that China's investing in are.

Are really gonna reshape the way people live. We're talking about flying cars, we're talking about the Jetsons and the green, right? We're talking about humanoid robots. If they can even just do a few of them, I think, um, not only will China's economy change, but these are technologies that the rest of the world will almost have to buy unless we can compete with them or just say we don't want them, which is what we're doing with EVs.

Right? And, and so I think there will be a market, I, and I think this is China's play, is there will be a market, even if we lose the US totally parts of Europe and the global South will buy this stuff from us. And so I think that will will, you know, has the potential to reshape China's economy dramatically.

I actually think there's more legs on domestic demand. I think they can continue exporting. Uh, but all that said, I do think that leads to, like the trade tensions that we're seeing now look like child's play five years from now. If they're successful in this like. 50% of the world's manufacturing in China, that's unacceptable to the rest of the world.

Right. So I'm, I'm not exactly sure where we land, but I think there will be some profound changes.

CZIN: Right. Especially if you combine it with what you said earlier about, you know, they're not allowing this flying geese model to exist anymore. Right? Right. They're kind of scooping up the rest of the terrain, further down the value chain from those other economies.

Right. So they'll deprive those economies for that. I mean, Kari, over you, I mean, do you see the rest of the international community then mustering some kind of meaningful response to this, right? Having the wherewithal or the capability.

HEERMAN: Not in the near term. Um, but I do think that there has been increasing, uh, recognition that the only way to sort of push back against this and the impacts that it imposes on, um, uh, our own economies is in a coordinated manner.

It's not something that can be tackled in a bilateral way. And I should say that a lot of times the response, uh, uh, to the influx of, uh, technology and innovation and just goods, um, is, is sort of, uh. Re framed as just simple protectionism, but I think there is actually something more here. Um, that everything that you've just talked about is a fundamental challenge to the, um, market based open economy that the rest of the world has been engaged in in the last 80 years.

And this is a fundamental challenge to that. Um, regardless of how great advances in innovations and how much life can be better, um, I think that countries are legitimately concerned that the, um, path of innovation as defined by the priorities of the Chinese Communist Party is not necessarily the path, uh, that we might want to follow.

And I think the allowing, uh, the vast competition that comes from, from, uh, that influx of goods, um, can crowd out our ability to respond and create passive of our own alternative technologies. And so I think even though. Boy, isn't it great that we have, uh, you know, humanoid robots and even advances in, uh, healthcare, um, that are cheap?

That's a huge benefit. But if it crowds out the alternative past, I think there is a reasonable, uh, reason to be wary of it. Not to mention the fact that, um, when China builds up market power in these areas, they sometimes apply it coercively not only to out compete in a commercial sense, but also sometimes in foreign policy settings. And so I think countries have sort of learned the lesson better not get hooked, and I think they're very wary of getting hooked in the future.

CZIN: Right. Yeah. And there, there's a wariness there, but one of the things I'm struck by is that the measures that the US and other economies have tried to take to try to cope with the problems now, which as Andrew points out, are about to intensify and really accelerate in the coming five years, seem to have been pretty ineffectual.

Like you think about the tariffs from the start of the trade war, China seems to have shrugged them off. And part of what I read into this document from the, the documents from the plenum is that they're doubling down on the model that the rest of the international community is complaining about, right. And they're saying, we're full steam ahead. We know it's gonna exacerbate the problems. Uh, so what do you all think about that? Number one, is it correct that they were pretty much able, able to successfully shrug off the tariffs earlier this year? Looked like exports went up right, uh, markedly over the past six months or so.Um, and what does that mean going forward? Like what options or levers do policy makers have to deal with these challenges if we go in this trajectory?

MELTON: I would, I would say that you're right. Yeah. I think that the Chinese looked at both the trade war under the first Trump administration, but then also the trade actions in the United States and in Europe in the last year.

And they, they feel pretty confident that they can weather the storm. The, it'll add a little bit of friction to Chinese exports, especially if there's a degree of, if this, if this, if this intensifies in the trend that has been in the last year or so, it'll get a lot worse. But unless there is really serious concerted and coordinated action, uh, the overall impact on Chinese value added exports will be relatively modest.

Um, and I think that they think that that friction is, is worth the costs. And, and that if we can't unify and create basically an X China global tariff block, which seems incredibly unlikely, um, they'll be more or less okay. And so they, they will focus on rebalancing external and internal demand. They'll try to reduce the trades, the good trade surplus to an extent.

They'll try to reduce the, the most severe excesses of overinvestment. Um, and soft budget constraints that lead to price wars. Um, but that more or less they can continue on this path.

MAZZOCCO: Um, I would, I would also point to the deal that was, uh, struck last week. Right. But I think, um, it was notable because there wasn't much talk at all about sort of structural challenges or industrial policy.

So it doesn't seem, I mean, you know, we'll see what happens, but you know, if this holds for the next year, it would seem that the US is likely not going to be putting any kind of pressure on, on China to rethink this model. And I think the other big economic power that traditionally has been pushing back on China as the European Union, and they really have seemed to be completely sidelined.

Right. The Xperia drama was resolved because of, uh, it seems to have been resolved because of the, the bilateral US-China talks, not EU-China. Right. And I think generally speaking, the. Um, there's a sense I think, uh, that, that, uh, you know, European effectiveness when it comes to China policy has been fairly limited.

Um, so I think, you know, on the whole, they, in the short term at least, right? Uh, I agree with Kari that there's gonna be a lot of challenges, uh, but I think in the short term term at least, there doesn't seem to be any sort of coordinated, uh, response. Um, I will say in terms of, of exports, one thing that I'm noting, at least in the automotive sector is that a lot of countries have been complaining and unhappy, but they seem to be, uh, pretty content with receiving Chinese investment as a solution.

Um, and so that's, especially in the global south, that seems to be a pathway, uh, that might, uh, again, alleviate a lot of concerns and might be sort of a win-win solution for China and, and some of these countries, so.

POLK: That, that's exactly what I was, I you make a great point. And the, this model is most threatening to countries who currently have advanced manufacturing capabilities. The US, parts of Europe, North Asia, Korea, Japan, because they're the ones that are threatened. I talked to my colleague Denny, he's from Australia. He says, you know, we're not really, we don't, we don't make any manufac advanced manufacturing in Australia. We're not that worried about this. We're actually pretty happy to ride in the slipstream, sell them the minerals and other things that we, we need or that they need while we drive EVs.

Meanwhile, one of the ways you can make the model work is China invests in the global south. Hey, we'll help you electrify, we'll give you the money, give you some of the technology, we'll let you, you know, use the technology and then as that's happening, you'll be, that will raise your, you know, demand for more of our goods to export.

And I think for a lot of countries that sounds pretty good. And so. To kind of your point. I, I think right now the response has been pretty fe feckless, and I think it absolutely has to be the advanced manufacturing company or countries that come together as a whole to have a counter strategy. Because if everyone tries to do it on their own, China's gonna, I think, you know, pick us apart and eat our lunch.

MELTON: I just agree with that entirely, but also want to really emphasize the fact that the tariff differential, the, of the tariffs that we have on China versus Southeast Asia and other places where trade might have migrated, is actually much smaller now after this weekend. And so the pressure on Chinese exporters has actually come down.

CZIN: Yeah. And, and that's been the striking thing to me, watching how this trade war has played out. Right. Just to pick up on the point that Ilaria made, right, is that we ostensibly started this trade war because of those big concerns about really meaty and substantive, sometimes longstanding grievances about China's unfair trade practices and about some of the imbalances in the relationship.

And I'm struck that, you know, more than six months into this now we're not really addressing those issues, right? Like when there are conversations between Vice Premier He Lifeng and Secretary Bessent and USTR Greer, the conversations are really about particular sectors or products like soybeans, um, or about particular firms like TikTok, right?

And we have, I I think that's an intentional and deliberate negotiating tactic by Beijing, right? Where they want to keep us distracted and not focused on this. So, I'm impressed that our panel made it 40 minutes into a session. You can tell this is true China experts that we did it, we made it 40 minutes in before mentioning President Trump and the meeting last week.

So thank you. I appreciate that. But now it seems like a natural point since we've gone into this broader topic, uh, to open up the, the, the, the conversation to, to the group and to field some questions from, from the audience. So please, if you have a question, please stand up and identify yourself and refer to the audience.

Audience question: Hi, um, I'm Alex. I'm a current undergraduate student at Georgetown. Um, I really appreciated the insights of how, um, the, like China is trying to approach, oh, the Western economies are trying to approach China in the next five years. Um, and my question is, what is the role that, um, foreign capital and investment, um.

Um, in the Chinese eco, how do you envision the role that foreign capital investment plays in China, in the Chinese economy for the next five years? Um, we're seeing like, um, kind of opposite trends. We're seeing firms like Apple, um, continuing to expand their presence within China, but we're also seeing rollbacks, um, and, and sluggish consumption, um, of foreign, um, of foreign firms within China, especially like through the case of Starbucks, which are, they're trying to sell their business in China.

So are there any signals that, um, through the fourth plenary session, um, about how China, um, is trying to approach foreign di um, direct investment for the next five years?

POLK: I would just say when we hear the words foreign investment in the context of China, we think US investment into China. When China talks about foreign investment, they're talking about the globe.And specifically right now it's the GCC. And all of those countries are very interested in investing. In China and tying up, you know, tying up their futures technologically with China.

So the, the, the proposals speak to the idea, you know, it's kind of the normal stuff of we're going to improve the operating environment and all of this stuff that they constantly say. I think macroeconomically, it's gonna be difficult for Western firms to increase investment in China because the returns aren't there. Geopolitically, it's gonna be difficult for Western firms to invest in China because of the blowback you get in home markets. But that doesn't mean there aren't other countries that are interested, or interested in, in doing so. And I think it's particularly GCC at this moment.

CZIN: Yeah. Oliver, I'd like to bring you in, especially since you were on the ground from COVID, uh, through the reopening and the end of Zero COVID. How did, how did you see the, the investment environment change while you were on the ground in China?

MELTON: Yeah, so, um, I'd say US investors who we talked to the most out of the embassy had more or less the exact same pressures or concerns that Chinese investors and Chinese entrepreneurs had. So on the one hand, um, particularly after the reopening, and particularly after consumption didn't surge back, uh, the concern was primarily about this demand imbalance, right?

It was price pressures, it was excess competition in almost every sector, um, however you wanna define it. Um, and it was the, the lack of consumption rebound, right? That was the biggest, that was the biggest focus for, for US investors that were investing into China. For the China market, the subset of the economy, whether it's foreign owned or, or Chinese owned or, or, or whatever, um, that exports was in, was concerned about supply chain disruptions, right?

And that was as much geopolitical tensions as it was the tensions over, over, um, or the, the disruptions that happened due to COVID and the realization that a lot of companies had, again, Chinese and Foreign, that their supply chains were dependent on one set of border guards, right? And they wanted to diversify their, their, um.

Their production. There's also a bit of concern among foreign investors about how much capital they can get out of China. Um, and if they decided to leave, how much could they repatriate? Um, but I'd say more or less, uh, the foreign investors and the Chinese investors had essentially, uh, very, very similar and overlapping concerns.

CZIN: Interesting. Antoine? Yeah. Alex, come.

Audience question: Um, Anton van Agtmael. If you look at what China has done over the last 10 years with solar, with, with EVs, et cetera, they have made a serious effort and successful in making themselves very competitive in what you could call the age of electricity or, you know, things that, that respond to the reality of climate change.

Now, here in, in the US uh, in the Trump administration, there's been kind of a denial. Of climate change. And so the question is, how will that play out? Because it's, it's a totally different strategic approach. And frankly, I'm a little bit worried about our approach here.

CZIN: Ilaria, I know this is your specialty.

MAZZOCCO: Yeah. Uh, yes. Uh, so, and I think, you know, if, if you look at the industries that they list in this new five-year plan, there's a lot more, you know, on, uh, alternative storage batteries, microgrids, right? There's a lot of other investments, as I said before, hydrogen fusion, just, you know, renewables, et cetera.

Um, so they're, they're continuing this path on sort of, um, new energy technologies. This is what they call them, right? And I think that's actually a good definition of how to think about them, sort of next generation electricity based technologies. Um, they are very important for China. I think they're important for right now, they're becoming a bigger and bigger part of their sort of energy system.

Um, they're going to be important for their energy security, right? They see this as their pathway to reducing ex imports. Uh, they're becoming a big source of exports. Um, and increasingly there seems to be a lot of demand, a lot of latent demand in other countries, right? So we talk about over capacity, but the, which, you know, the, there's various ways of interpreting over capacity, but one thing to note is nobody really knows what the demand for these technologies are because they're so new.

Um, and so now all of a sudden there's been, for decades we've been talking about the potential for solar in Africa. Now we're actually starting to see the effects, right? We're seeing that there's actually partly because there's, uh, so much solar and it can't go to the US market, for example, right? And now it's starting to flow to Africa. This could be very transformational.

I just did a report on EVs. Uh, we don't really look at an aggregate level, or not aggregate, but we don't talk that much about automotive markets in the, in developing countries because they're small. So even automakers don't necessarily think about these markets. But if you're looking at it from the perspective of.

You know, I live in Indonesia, or I live in Ethiopia, it's having a huge impact. Um, so yes, so I think there is this element where I think in the part the us because these technologies are so ideological in the United States, and I'd say I, a lot of people in the US are surprised when I tell them that in other countries, they're not necessarily seen through this lens, right?

And they're seen more from a practical perspective, does this help me with my grid stability? Does this help me with my oil imports, uh, which then helps me with my currency, or, you know, there's other reasons or do I just like this car? Right? That sort of thing. Right. And I, I think we're seeing a lot of world that there's a lot of interest and you know, I just mentioned developing countries because nobody actually expected there was any demand for this in developing countries.

Of course, Europe, huge consumer of these technologies, right? Which has led to some challenges, but, um, when you look at solar, it's been, it's been incredible. So, uh, I do think these are going, the China's gonna become more central in a lot of countries energy systems, uh, because of these technologies. Um, and you know, increasingly, I I, I, you know, grid technologies as well, which are actually even more important from an infrastructure standpoint. So there's actually more security risks potentially there.

CZIN: And, and just to tie it back to our earlier conversation, I mean, how, how do you see European and US automakers, their ability to compete with China, especially in the EV space, and especially just in the auto sector generally?

MAZZOCCO: Yeah. Well, um, I'd say it's interesting. Auto, European automakers, um, are in some ways embracing the technology more. I think in part they're, they're, you know, very much at the heart of this competition and they're direct facing a lot of direct competition. Um, so you're seeing actually partnerships, which I don't think is an option really for, um, American automakers, although some of them, I still have joint ventures in China that make EVs, which is sort of an interesting story.

Uh, but, um, you know, on the whole, there's, there's the potential there for some. You know, they, I think they have to be very careful. This is a much more segmented world. Like, you know, there's going to be different value chains for different markets. This is a really complicated world for automakers that used to make one platform the whole world.

It's gonna be much more complicated. But I think European automakers are in a slightly different pathway compared to American automaker. US automakers are in a very privileged position protected market. Um, they make a lot of their profits in the United States, um, and they, they're not gonna have any competition with China anytime in the foreseeable future.

Uh, they're currently with this administration, they really don't have to transition to EVs anytime soon. Uh, right. Uh, with the new, the, they don't have, um, their mission standards that pressure them to do so. They're, they also don't have incentives as much, uh, like the same incentives that were present under the IRA.

Uh, but so I think, you know, that there's probably gonna be a much slower transition to EVs in the United States, even though when you do talk to automaker, you know, to even people in Detroit, they recognize that globally this is where the trend is going. Right. So 20% of new sales of cars in globally were EVs.

That's largely because China is such a big market, but if you start looking at other markets, they're, they're, you know, many of them, you start seeing this trend. But in the United States, there's probably gonna be a deceleration in the next few years. So we're, yeah, we're in a weird position.

POLK: Yeah, and just to tie this back to the overcapacity piece, this is their answer on the over capacity is, well, yeah, there's overcapacity now, but there's gonna be massive global demand for this stuff. So do you want overcapacity now or do you want shortages later when we really need to electrify the global economy? So, you know, we can quibble with that or, or, you know, we may not accept that argument, but I think that's how they view it.

MAZZOCCO: Well, I mean, I do think an interesting trial stop here, but there's interesting trend is that now you're seeing internationalization of these Chinese automakers.

So they have tons of factories in China, and now they're opening factories outside of China as well. And meanwhile, the, the internal combustion engine factories are not shutting down as quickly in China. So you're seeing China exporting a ton of vehicles of all kinds, uh, which creates, uh, you know, some challenges.

And really the real over capacity is actually into much engine vehicles because they've transitioned so quickly and the supply hasn't really adjusted. And we, we know China not the best of shutting down factories in general. That's--

CZIN: How about from up front right here?

Audience questions: Hi, thank you. Uh, I'm Sam Vortherms, uh, associate professor at University of California Irvine in political science. Um, and part of my work is on foreign investment in China, especially post-trade war. And so about, uh, three, four years ago, we were talking a lot about, uh, geographic diversification within China as a means of cost cutting, um, just in the immediate aftermath of the, of the 2018, um, initiation of the trade war.

So I was, um, which we don't seem to be talking about very much anymore. Um, so I was wondering if, um, if you've seen any, um. Push for moving some of the economic production, more interior, um, or outside of the major industrial clusters within China. Um, either through foreign investment or, um, encouraging industrial clustering outside of traditional areas, especially because that supply demand mismatch and household consumption issues are complicated by the great geographic inequalities within the economy.

MELTON: Um, I would just say that I think that deflationary trends have, have reduced some of the pressure to get out of the big areas. You know, 10 years ago, I think there was an enormous amount of pressure to move inland because everything was so expensive. Land in particular, fact- industrial land was very expensive in the, on the coast, but that's, that's lessened a bit.

Um, I'd say in terms of population flows, there's a lot of talk and, and some of the data supports this, that, that people are more comfortable moving to second tier cities or even third tier cities. Life is pretty good. Healthcare is okay. Um, so there is a bit of human diversification, so I wouldn't be surprised if, if non-manufacturing, also non-manufacturing industries also start to, to trickle out, um, 'cause they don't have to concentrate in the sort of top five, 10 cities.

CZIN: Ryan, did you have a question?

Audience question: Hi, Ryan Hass, Brookings. The Trump administration senior officials often make the case that China's economy is very weak, and that if given enough pressure, China could be forced to bend to America's will. I was wondering if you could comment on what about this argument they get right and what they get wrong.

CZIN: Go for it, Oliver.

MELTON: Well, I would say first of all, to, to some, to the point that we were discussing earlier, they would also have to believe that their economy is weak. Right? If you, if you tell them that they're fragile, they have to believe it. Uh, and they certainly don't.

Uh, second, the direct, uh, direct, direct transmission channels between our countries are, are predominantly trade. It's overwhelmingly trade. Uh, only about a sixth or a little bit more than a sixth of Chinese exports went to the United States. Uh, and, uh, they've done pretty well even as those direct exports went, went to zero. Uh, you know, if we tightened, if we really tightened down trans shipment rules or rules of origin, uh, we might be able to have a, a larger impact on China's net trade or net export flow. But, um, but by and large, I think that the, the China economy is just too big, too diversified, uh, and not sufficiently dependent on the United States to, um, to give us enormous amounts of leverage over them.

POLK: Yeah, I'd just say I, I think their assessment of the economy is incorrect. Um, that there are weaknesses and they're obvious.

It's the property market and consumer confidence properties, as I said, its own thing. The rest of the economy is quite healthy. Uh, but then I'd also say even if their assessment was correct, that their misreading China's willingness to capitulate even if things aren't going well economically. So I just think on a couple of levels, it's poor analysis.

CZIN: I think we've got time for one more question, maybe Ken?

Audience question: Ken Lieberthal, Brookings. Tthe property market has been a huge drag and has affected consumer confidence, has also affected what they're importing because they've stopped building, uh, a lot. Uh, how do you see that playing out? You've made several comments that, you know, as that becomes, uh, less of an issue, uh, less of a drag, uh, then these other things can kick in.

But, uh, they seem not to have been able to make that less of a drag of, how do you see the future there and how does that affect the rest of what you've been talking about? Thanks.

POLK: Yeah. I, I don't know if Oliver has thought, I, I don't know where the property sector fallout stops. Typically after a property bubble bursts, it takes about five years. Next year will be year number five. That doesn't mean that China's property fallout will stop, but as Oliver's colleague has said, all, all bad things must come to an end. When in the terms of, uh, the property market fallout, it will end at some point. And I, I think we've fallen far enough that the, the countries that used to export commodities to China have already felt the adjustment. And so we've made probably 80% of the adjustment. And I think if, if the question's mostly about are those exports of commodities to China from, you know, mining countries going to stabilize, I think the adjustment has already largely taken place. And if there's 20% more adjustment, we can kind of deal with that.

MELTON: Yeah. I would point you to a panel at the Atlantic Council, November 18th, where we're presenting a report on China's spillovers, um, not just due to the real estate, uh uh, construction reduction, which is probably dominant in that spillover channel, but also to the, the impact of China's structural transition, right?

So if China, if China reforms and has, uh, a big increase in consumption that will also have a really serious, uh, compositional effect on what, what China's imports are, um, or if it doesn't reform and, and moves to transitions to a much slower growth rate over time, um, those spillovers will be more severe. Um, but depend on, but it'll be very country specific.

Uh, in terms of construction. I think most, most estimates, including ours, are that construction that, that, that construction has declined to a, a sustainable pace right now. Um, and, um, and shouldn't get too much worse.

CZIN: Well, I think we'll have to wrap it up there. So thank you to our audience and thank you to our wonderful panelists.