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# Robert Kuhn elaborates on China's high-quality development

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A worker uses a robotic arm for industrial manufacturing at the assembly line Photo: TUCHONG

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According to data from the National Bureau of Statistics (NBS) of China, the country's economy has shown ongoing signs of recovery and made significant strides in high-quality development since the beginning of 2023. As the world's second-largest

economy, China has achieved sustained high-speed economic growth, drawing considerable interest from international academic and economic communities regarding its economic development and future trajectory. Recently, CSST interviewed Robert Lawrence Kuhn, chairman of The Kuhn Foundation and recipient of the China Reform Friendship Medal (2018), on the prospects and challenges of China's high-quality economic development.

### **Encouraging economic performance**

Preliminary estimates from the NBS indicate that China's GDP reached 91.3027 trillion yuan in the first three quarters of the year, marking a 5.2% year-on-year increase at constant prices. The total retail sales of consumer goods saw an 8.2 % year-on-year increase in the first half of the year. In August, the Purchasing Manager Index (PMI) for the manufacturing industry rose to 49.7%, a 0.4 percentage point increase from the previous month, signaling a continued improvement in the industry's prosperity level.

In response to the economic performance, Kuhn expressed optimism regarding the latest GDP data, as well as the recent retail and PMI monthly reports. However, he cautioned against making long-term projections based solely on short-term results. To evaluate long-term sustainability, he recommended examining GDP components, such as consumption versus investment and the productivity of investment, and analyzing data over extended periods.

"I juxtapose gloomy international reports on the Chinese economy with recent Chinese government policies intending to bolster the economy in the short term, in ways that benefit, not sacrifice, the economy in the long term," Kuhn said.

How is the Chinese government addressing these challenges? "The first thing to say is what the government is not doing. It is not injecting a massive, blanket stimulus. Leaders know that the benefits of short-term boosts are not worth the cost of even larger long-term debt and diminished productivity. Moreover, President Xi Jinping emphasizes the importance of high-quality development, which cannot be achieved with fast money. So, no massive stimulus is a good sign," Kuhn explained.

He further expounded on what the government is doing instead—making multiple, targeted policy adjustments. These include: cutting interest rates; helping private businesses access funding; helping consumers purchase household goods, such as electrical appliances and furniture; providing support for new car purchases, especially new-energy vehicles; easing restrictions on buying property; renovating urban villages; reducing the stamp duty on stock trades—the list goes on.

“The bottom line is that there is no perfect policy, no magic solution. Many specific, targeted programs are being tried, tested, and monitored; correcting course when needed; always seeking to optimize and improve, recognizing that conditions are always changing,” Kuhn continued. As China’s previous successful growth model, reliant on exports and fixed asset investment, reaches its retirement age, the country’s new vision for the future emphasizes high-quality development and domestic consumption.

### **Consumption’s significant role**

Discussing the role of consumption in boosting the economy, Kuhn emphasized that it represents the most critical element in China’s growth strategy, and is built upon consumer confidence. “People need to spend today, not worry about what may happen tomorrow. The pandemic lockdown, the real estate crisis, and uncertainties about the future have impact. The readout of a CPC Central Committee Politburo meeting on July 24 was blunt in its assessment that the economy is facing new difficulties and challenges, mainly insufficient domestic demand, but optimistic that the economy has tremendous resilience and potential for development, and its long-term sound fundamentals remain unchanged.”

A week later, the State Council General Office transmitted a guideline by the National Development and Reform Commission detailing a total of 20 measures to restore and expand consumption. These measures encompass optimizing vehicle purchases and management, supporting essential housing needs and improved living conditions, as well as promoting expenditure on home decoration materials and electronic products. Additionally, efforts will be made to enhance spending on services related to tourism, culture, entertainment, and more.

The measures are remarkably specific, Kuhn commented. For example, in the promotion of spending on home decoration materials and electronic products, efforts were required to spur consumption of smart home appliances, functional furniture, and other products aimed at developing smart and green homes. This included improving after-sales service for home appliances, facilitating the exchange of old household appliances for new ones, and enhancing the recycling of used household appliances. The circular also highlights the need to expand new forms of consumption, such as digital and green consumption, while promoting e-commerce and low-carbon, energy-saving consumer products.

In addition to these specific measures, Kuhn pointed out that a crucial path for the Chinese economy to achieve long-term sustainable growth is by transitioning economic activity from investment to household consumption, thereby increasing consumption’s ratio in the GDP.

## **'New quality productivity'**

Certain foreign analysts assert that China has reached the peak of its relative economic power, particularly in comparison to the United States, leading to the popular catchphrase "Peak China." Simultaneously, China is prioritizing high-quality development to foster a modern industrial system. In Kuhn's view, the two things are related. "A 'Peak China' now, or soon, could mean that China's economy would never overtake America's economy (at market exchange rates), as commonly assumed for years."

In a May article, The Economist magazine reported that certain analytical agencies have downgraded their forecasts, no longer predicting China to surpass America and maintain a commanding lead, but rather to approach economic parity. However, the Financial Times published an article by its chief economic commentator, Martin Wolf, titled "We shouldn't call 'peak China' just yet," highlighting deep structural issues in the economy while acknowledging China's significant strengths. These strengths include a large number of engineers graduating annually, the world's busiest patent office, a highly entrepreneurial population, and impressive world-leading potential in areas such as electric vehicles and information technology.

Kuhn summed up the various headwinds China is facing, including geopolitical tensions, imbalanced industrial structure, and a shrinking and aging population. However, he also emphasized China's ambitious vision of high-quality development, aimed at establishing a modern industrial system that optimizes the market's decisive role while the government maintains its guiding role.

"This is far more relevant, and far more sustainable than an old, energy-intense, heavy industry model that remains concentrated solely on high-growth," Kuhn said. To highlight this transformation, President Xi Jinping has put forth a new term of art during his inspection visit to northeastern China's Heilongjiang Province in September, "new quality productivity." Xi said that resources for sci-tech innovation should be integrated to guide the development of strategic emerging industries and future industries, so as to form new productive forces.

Kuhn explained that these new productive forces represent novel forms of economic growth stemming from ongoing sci-tech breakthroughs in an increasingly intelligent information era.

"China is prioritizing science and technology for driving high-quality economic development, and, with constraints from the West increasing, which is also objectively making China attach greater importance to technological independence

and self-reliance,” Kuhn said. “It is hard to overstate the significance of innovation-driven development in China’s strategic plan to achieve full socialist modernization.”

He also noticed that the Report to the 20th CPC National Congress called science and technology “our primary productive force” and innovation “our primary driver of growth.” Provisions are prescribed for developing education that meets the people’s expectations, improving systems for sci-tech innovation, accelerating the implementation of the innovation-driven development strategy, and implementing the workforce development strategy.

China is now making it a national priority to develop its own technology capabilities, Kuhn noted. “China has long called for ‘indigenous innovation’ and has made sci-tech commitment abundantly clear, stressing that specialized, high-end, innovation-driven enterprises secure China’s high-quality economic growth and stabilize industrial and supply chains.”

Kuhn stressed that especially important is the commercialization of technologies in IT, AI, robotics, semiconductors, new materials, e-commerce, ocean and space technologies, advanced manufacturing, and certainly green technologies, like lithium batteries, photovoltaic power, and new energy vehicles. He then expressed his anticipation for new policies to promote this “new quality productivity.”

Guidelines have called for strengthening the core competitiveness of state-owned enterprises and providing guidance for the sound development of the private sector. Additionally, efforts to improve the rate of technology commercialization include establishing a series of industrial clusters to facilitate the application of sci-tech advancements by enterprises. Moreover, a unified national market is essential, while provincial development must align with national industrial and supply chains, Kuhn said, adding “the bottom line is high-quality ‘new quality productivity’ is the future. It is indeed a big vision.”

Edited by CHEN MIRONG

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