

# The Era of Chinese Supergrowth Is Over

COMMENTARY By William H. Overholt May 26, 2023 8:57 am ET

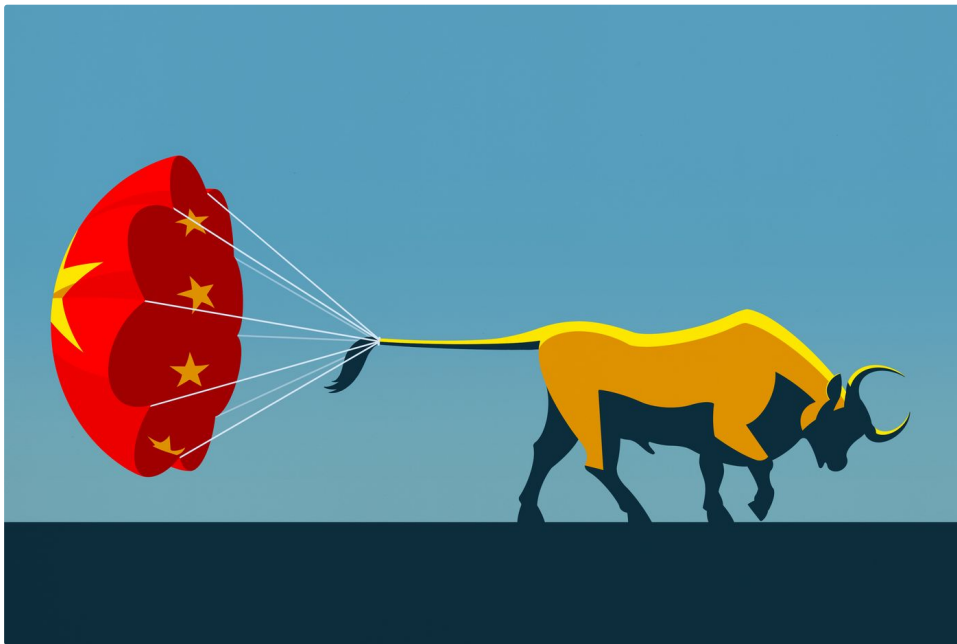


Illustration by Jon Krause



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Decades of supergrowth prove that China knows how to grow. Even if its economy slows, surely it will continue to grow faster than the U.S., right?

Well, based on painful experience, the law requires stockbrokers to disclaim such logic. Past expansions are no guarantee of future booms.

Why the spectacular growth? China is the latest country to choose the "East Asian development model," following the policies of the "little dragons," especially South Korea and Taiwan. That model includes land reform and other egalitarian policies. Promote agriculture first, then light industry, creating jobs for everyone. Make education universal. Emphasize exports. Make outsize investment in infrastructure, then heavy industry. Gradually liberalize prices, heighten competition, and open the market. And centralize hierarchical control of the economy and politics.

These economies follow a cycle. They grow 10% annually for a generation. Success creates a highly differentiated society with big private companies, big interest groups, innumerable social assemblages with money and education and leadership, and values moving beyond a full stomach. This is hard to manage centrally and hierarchically. They experience a period of political stress and financial distress, entailing lower growth, that is resolved by moving to more market-oriented economic and political management. Growth, having slowed to 7% for some years, settles down to 3%. This evolution has bequeathed the smaller dragons high incomes, high technology, and social stability.

China had its generation of 10% growth, then its era of social complexity, experiencing the same problems as the earlier dragons: rising political dissidence, private-sector leaders criticizing the government, financial difficulties for big government-connected firms, a national debt problem. But instead of accommodating complexity through a market economy and elections, under President Xi Jinping, Beijing is fighting the tide of a diverse society with redoubled hierarchy and centralization. Security fears are corroding the priority for growth.

Fear also drives Xi's economic model. In the global financial crisis, China benefited from central control of banks and major companies. Leaders concluded that central political control was superior to Western models. Yes, superior for crisis management, but inferior for normal times.

The drivers of supergrowth have been property, infrastructure, and urbanization. By 2030, those will be largely exhausted, as will the easy technological catch-up. The service sector will dominate the economy. But it is less competitive than Chinese manufacturing because it has been more protected from international competition. Amortizing the debt from property and infrastructure bubbles and from local governments' excesses will take many years. Meanwhile, the number of workers started declining in 2015, and the cost of an aging population will rise exponentially. And China still has a U.S.-size population not yet part of the modern world.

Growth ultimately comes from rising total factor productivity, which has collapsed by two-thirds. Bottom-up innovations have provided almost all of that productivity growth, top-down innovations almost none, but policy now emphasizes top-down innovation and unintentionally suppresses bottom-up innovation. Fear of anticorruption accusations has paralyzed the bureaucracy. Most growth comes from the private

sector, but private-sector credit and investment have drastically declined because of preferences for the state sector.

China will have wins. It is the champion of green energy, electric vehicles, batteries, trains and ships, and much biogenetics. Shenzhen and [Zhongguancun](#) are geysers of innovation. China has several great universities. But around the geysers stretches an increasingly listless sea.

Assuming Xi's economic structure persists, from the end of this decade onward, China's growth should slow to the little dragons' rate of 3%. Xi's security policies will subtract from that. Growing at or slower than the rates of the U.S. and European Union, China will still be the world's first- or second-largest economy. Any global company must still engage with China. Washington must inure itself to a permanent peer competitor; much of the world already sees today's panicky status anxiety as silly.

Without structural change, however, China is unlikely to ever achieve levels of income and technology comparable to the U.S., the EU, Japan, Australia, South Korea, Taiwan, and Singapore. While China no longer requires 7% growth for social stability, the Chinese people may demand more of their leaders than permanent second-tier incomes and technology. Chinese growth stimulus for others will be comparable to the U.S. or EU, unlike the exclusive growth magnet it is today. That will provide broader geopolitical space for countries that China constrains today. China's many sovereignty-challenged maritime neighbors should on average grow twice as fast as China, altering the power balance.

When growth averaged 10% and every social group was benefiting, multidecade forecasts were possible. When growth is declining and political leaders are visibly accelerating the decline, what is predictable is change. This goes against a seemingly unchallengeable tendency in Washington to argue that, well, China was always really like this, and to assume that it will always be like today. Not so. Every decade since 1949 has seen major changes. China may become better. It may become worse. It will not remain the same.

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