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A BOOK TALK WITH KEYU JIN

Karolina Ordon: Hey, everyone. We're ready to start. Welcome back. This is our first book talk, during which we will explore China's unique economic strategies and their global implications. So let me again welcome to the stage Indermit Gill, for a conversation with Ms. Keyu Jin, Professor of Finance at Hong Kong University of Science and Technology, and the author of the book, *New China Playbook, Beyond Socialism Capitalism*, which if you haven't picked up a copy, there's still a couple left. So Indermit.

Keyu Jin: Thank you. Thank you. Thank you. Yes. Thank you. Well, it's a real privilege and honor to be here. Thank you so much, Indermit, for inviting me to talk about my book and about China. It's really a resounding theme. China has been mentioned many, many times throughout the conference. And I'm also going to build on what was discussed and connected to some of our perspectives from China, really from taking a different perspective on China from the inside is the goal. Look, China is heavily misunderstood. There are many paradoxes about the Chinese economy that defies economic logic, which was mentioned this morning. For one, it's been the fastest-growing economy for the longest period of time in all of human history, apparently, despite some of the conventional wisdoms about growth, ease of doing business, now called business ready.

China ranked very low during the period of fast growth, rule of law. Governance issues relatedly, really never scored very high. A second, a really interesting phenomenon, which I don't know if most of you have seen, is that the real returns to stocks, just during the fastest period of economic growth, the real return has on average been zero. If you look at cumulative stock returns from 2001 until recently. No correlation between economic fundamentals and stock market returns, which puts China in the same bucket as Iran. So that's another very puzzling financial phenomenon. Another paradox, housing prices, exorbitant prices. Someone living in Beijing has only one-fifth of an income of somebody who lives in San Francisco, but basically has to pay similar housing prices. How is that really affordable for the young generation? Another really interesting paradox, which is that a country that has only a quarter of the standards of living of advanced economies can do cutting-edge technology. Now, we can debate whether China's a developing country or not. I think this is a continued debate, but it's one of really the few in history that, if it qualifies still as a developing country, to really do cutting edge technology still.

So in that sense, it echoes with Indermit's comment that is it really a developing country? No, if you look at the dominance of manufacturing, if you look at the technology, which is a strong research area that I'm focused on currently. But out of 35, out of 41 cutting edge research, China now leads the US. And if we think about innovation not just as the breakthroughs and not just the invention part, but also diffusion and adoption as also critical parts of innovation, China really has that capacity advantage to combine both dominant manufacturing capacity and leading edge technology with a political economy that I will discuss, making it really, I would say, complementary role to the US in terms of diffusing and adopting technology. But that really is a puzzle, in the sense that if you look at the hundreds of millions of people still living in the rural areas, undereducated, underemployed, and the vast heterogeneity across the cities and regions in China in terms of income and prosperity, that China can do this cutting edge technology, I think is one of the most interesting and fascinating topics that we should focus on today.

And so, again, there are lessons to be drawn. I will try to paint a realistic picture of China. The good and the bad, I want to argue, are simply the same side, the two sides of the same coin. There are lessons to be drawn. There's wisdom to be extracted, not for emulation. It's very difficult to imitate, but for some inspiration. And there are some mistakes that are also not to be repeated. And that is the goal of what I want to discuss. Why I wrote this book? Western perspectives of China are quite singular, if you will. They're quite consistently negative. If we look at the China collapse theory, there have been at least five different additions of Chinese economic collapse since the 1980s, the period during which China grew the fastest, each time with a different iteration. Recently, it's the

peak China theory. Now, maybe it has been peak growth, but this actually the peak China theory happened before the DeepSeek moment, which was, I think, also a very symbolic moment that despite and maybe thanks to the export controls led by Trump and reinforced by Biden, that China has totally accelerated the national drive for technological supremacy.

But the local economic entrepreneurialism is still very dynamic. Now, there are serious challenges. Economically, it's very weak. There are political economy challenges. Again, I think it just echoes some of the fundamental themes I want to raise in this book, coming back to what that model is. But the other reason, apart from demystifying some of the misperceptions which are becoming dangerous to global peace and stability, the misperceptions about China is the fact that there's more than one way of making things work. And again, from Bob Zoellick's morning speech, we have also discussed about how it has to be contextual. You can't take a model and just say, "Let's copy it." There's not just one model or the few macro models that we study in Western economic thinking that is the only way to become economically successful. I sometimes venture outside a bit of the economic realm because I think to understand China's micro and macro from the consumers to the entrepreneurs to the political economy, which we call mayor economy, there have to be some elements of reference for culture and history and respect for history. Historical legacies to understand this. For example, the housing puzzle we come back to, the one-child policy.

How is it possible that the Chinese young generation can afford these housing prices? Everybody has to own a property, as we all know, let's say, in a country with missing women, to raise the status of bachelor, you have to own a property. And how is it possible with their current level of income and lack of job stability? Well, there's something we call in China called the Six Wallets phenomenon. Six wallets. You and your spouse, their parents pool together resources, share consumption risks risk to purchase a house for you. Maybe sometimes now the recent phenomenon is that the grandparents are supporting the young because they get pension. Youth unemployment is very high. They rather stay at home and so-called lie flat and get an income from your grandparents until maybe a more suitable job comes along that befits your very fancy academic diploma. So all these intergenerational, altruistic dynamics also feature very prominently. Some of that offsetting the lack of or deficiencies in the pension system coming from the intergenerational dynamics. And I think that explains a huge amount of socioeconomic phenomenon going from why the fertility rates are so low to the high saving rate in China, housing prices, a range of issues that we can understand, but in conjunction to the cultural and historical elements.

Finally, the subtitle of my book is called Beyond Socialism and Capitalism. And of course, people ask me what I mean by that. I'm not sure these labels really matter anymore in today's age, but certainly, if I were to summarize it in a sentence, it would be trying to strike a balance, a very different balance, a unique balance between government and industry, between coordination, state coordination and market mechanisms, and a balance between communalism and individualism. I want to argue that this is an ongoing endeavor of the Chinese leadership. When they have a vision for China's economic future, it is trying to strike that balance. Whether they can or have or will achieve that is still very much in question, but that is part of the overall holistic goal apart from just economic growth going forward. Now, I want to start by an example. Now, remember, one of the themes in my book, I talk about the dynamic new consumers and entrepreneurs. And one of the themes is what we call the mayor economy. Now, someone reminded me in lunch that we usually associate Mao and markets, and we like that dichotomy. But in China, actually, the mayor economy versus the market economy is more relevant.

Mayor economy and market economy, ironically, sounds almost identical. [Speaks foreign language.] Not sure anyone could tell the difference here. But I think the irony is that these two things actually, they are very much integrated. And that is the hybrid state economy, political economy that I want to discuss and why there's the good and the bad and some of the prevailing issues that we are struggling with, grappling with China has very much to do with the mayor economy. But before we

talk about that, let me go back to an interesting example. So solar panels. Start with solar panels. If you look at a solar panel production and innovation in China in 2005, it's really very much a desert. You probably can't really see this. I'm just pulling out research by colleagues at the London School of Economics. This is a patent distribution, the city level. You can have a very similar picture of production of solar panels. In 2005, a desert. And that's when the industrial policy harking back to the industrial policy debate, started for solar panels in 2005. Now, what was interesting is that it started from 13 cities. We talk about city level industrial policy, and it got rolled out to many, many cities, and then over 100 cities eventually.

Now, this is the graph in 2019. Okay, so if we look at the hottest red areas, are those cities that that have between 1,000 to 2,500 new patents per year. And obviously, the warmer the color is, the more patents you see. So first of all, it's really spread out over China. Solar panel innovation, production. If you have the same graph for EVs, for robotics, it would be a very similar picture. It's not in just Beijing, Shanghai, and Shenzhen. It's really very spread out. And the ones that have the circle, the black circles, are the ones that pursued these industrial policies. You can see that the ones that pursue the industrial policies are very much the ones that have seen the fastest both production growth and innovation growth. Really quite a striking picture. Again, if you look at some of the other city level policies and link it with EVs and an ongoing work that I'm doing with a few co-authors, it would be very similar picture. On one level, it seems like industrial policy does really work because over this period, we saw a 90% reduction in the cost of solar. We saw China becoming very dominant in this industry as well as in EVs.

It seems like some state role, industrial policy is incontrovertible. Now, we did mention a lot about industrial policy and this revival of interest in industrial policy in the Western front. But I'd say that a lot of the catch-up industrial policies in China have not worked very, very well. But the industrial policies that are designed to dominate emerging strategic new sectors, to jumpstart new sectors like the ones we're seeing are actually working very well. Now, we don't have time to go into this, but I think it does merit a further investigation as to what policies actually matter. So for instance, the case of solar, in case of EVs, they see that innovation subsidies matter, but investment subsidies do not matter. Demand-side policies matter. And what's really crucial is that it's really some of the softer policies, right? It's about creating that ecosystem, that environment. So these mayors, they go around and they build mini Silicon valleys all over China, right? It's about providing land and cheap access to capital and providing a bank or coordinating banks, but also bring in lots of battery manufacturers, control systems, different coordination that the local government does a lot.

And so creating that ecosystem is something that is very much complementary to actually the amount of financial subsidies, I'd say. And even in Shanghai, people don't mention about this. I don't know why the US doesn't talk about this more often, but Tesla got a lot of free cash and cheap land, right? Actually, in some ways, saved Tesla when they could build that gigafactory in Shanghai. The mayor of Shanghai at that time happens to be the premier of China today, Li Qiang, invariably open to markets, market-based, and very friendly with entrepreneurs. So one of the key myths here is we hear so much about the Chinese state suppressing the private sector and so on and so forth. There's a much more nuanced picture behind it. I mean, entrepreneurs and mayors are very much buddies. Their interests are very aligned. It helps them, right? These mayors need these entrepreneurs to push through, to create the jobs, but also bring about the GDP growth and employment and all that. But it also makes them really look good if you have DeepSeek in your city. Hangzhou became very famous overnight. Actually, Hangzhou housed Alibaba and many other great robotics, Yushu, and DeepSeek.

But I'll show you a picture of what city governments tend to produce these great companies. Even the small city of Hefei, I call it small, still 5 million people, but small in comparison for Chinese, almost unheard of, but houses a global quantum avenue, has NIO, one of the leading EV companies, and many, many others. And in the city, in the province of Jiangsu, you have Wuxi, Suzhou, all

specializing on one part of semiconductors and also doing EVs and so on and so forth. So it's a very interesting picture, this mayor economy, but it's also at the root cause of some of the problems. But let me now explain some of the elements. But just before that, if we look at the overall, let's say, achievements, whether it's in mobile phones, PCs, EVs obviously, batteries now. China really does dominate, and as Internet said, almost 100%, right? This is also a problem. I mean, and still by the perception of the Chinese, it is a success, right? But it does create a lot of this international tensions if you become so dominant. But the truth of the matter is that this local economy, if this is the goal, has produced some of the success.

Now, people ask me, "What is the China model exactly?" If I were to summarize and give you a few key of the elements, the first thing we have to understand is that even though China is centralized, we should really accurately describe it as political centralization, coupled with economic decentralization. That's at the core. It's not just the centralization part. It's really the mayors. I call them mayors, but it's provincial leaders or provincial governors, provincial party secretaries, the mayors, and so forth. It's very much a local government drive. We heard from this morning discussions about the very centralized plan to go after technology. I'd again qualify that as the central government setting the strategic direction, let's say, AI, EV, robotics, green technology, technological independence. But then it comes back to the local governments that implement them. And it also echoes [Shin-wha Lee] this morning's talk about policy similarity. Why are all the mayors doing the same thing? They're all going after solar panels and EVs. Do we really need 80 cities that do EVs, and each of them have their own EV brand? Maybe that's part of the problem, right? But in fact, it is that local implementation of a strategic objective set by the central government.

And state power. One of the major differences between China and the other countries is that the state does have vast amount of power, right? It is not only the fact that it owns land, and as we know, that the ownership of land has created the incentives to drive this over rapid urbanization or real estate ecosystem, but it really has also the keys and licenses and permits of everything, the levers of business, but also in that it can mobilize. Now, I think one of the elements that are missing in a lot of our canonical Western economic models is really an under-emphasis on mobilization, on state coordination. And again, this is why I emphasize the difference between catch-up economics or catch-up industrial policies, and industrial policies that are meant to strive to dominate new sectors or create new sectors. And that element of state mobilization, whether it is in the beginning stages of development or when you come to trying to go after these emerging new technology, there is a role. State capacity does have a role, at least in the experience of China. Now, of course, when do you back off is really a fundamental question.

And arguably, China is at the point in which the state can step back. But certainly, that initial mobilization and resource allocation have been instrumental in our view in determining that success. And allocating resources, but not only gains, but also losses. The ability for China to say, Okay, these are the group of people that will take a loss, and that's it, has also been, let's say, an element of power that is not afforded by many other economies. Now, also, there are so many interventional tools. The financial system is a tool. Lots of things are a tool. The state government have powers on market access, on project approvals, on land supply, on loan approvals, out data production capacity. Now they recognize and realize the problems over capacity. Now it's about coordinated capacity, cutting down capacity. You can shut down factories. At the moment, Beijing turned into a city of blue skies just days before the Olympics because the government can say, "We need to shut down these factories for two months." Also, the financial system is a massive, really, toolbox for the Chinese government SOEs. The tools in the financial system are many, as we're all aware of, listing requirements, who gets to prove to be on the IPO and so forth.

All of this actually explain a lot of the financial puzzles that we see, including the one that was referring to why we've seen zero real equity returns during the fastest period of growth has a lot to do with state intervention, state power. And then I think the result of this is, first of all, an enormous

degree of local competition and local mayor tournament or local government tournament. Again, for those who think that there are no democratic elements in China, that it is very singularly dictated. That's just not the reality. There is checks and balances in very different forms. And these local governments are really competing with each other. And the heads of these provincial governors and mayors, they get rotated in different places every five years or so that they break the so-called corrosive linkages between politicians and business. But the competition element is a really important one. I look at my neighbor's GDP growth. What are you? I have to do better. And I think people ask me, why can't the mayor economy be replicated all around the world? Think about a mayor of Miami moving to becoming a mayor of New York.

And one of the reasons is, again, a power that's bestowed upon the central leadership is this ability to determine the destiny of the local government officials. They control their promotion. They can promote you, demote you, or put you in jail. So it's that central power of these government officials. The motivation is for a long period of time, although that's evolving, that's something I want to try to emphasize in this talk. In the beginning, it was all about GDP growth. That's the single metric, quantifiable, observable with qualifications, target, that is the yardstick, to measure local government performance. So economic, how well you do in the economy is a very, very important metric, determining whether you, as a provincial governor, will be promoted to the central hierarchy. And a lot of the most powerful leaders in the Chinese political system come from the local areas. If you have a bright future in the political system, you're going to be sent to the rural areas to demonstrate your capacity, not to just be a mayor for Shenzhen, but can you make a city in the western parts and central parts of China also equally successful to demonstrate your capacity.

So the interests are very much aligned. There's competition because we're also competing for that role. So I have to do better than you. And interests are aligned, whether it's personally or politically. I want to help the most promising entrepreneurs. So the whole idea that the state is a grabbing hand, I think, again, there's a huge amount of qualifications when it comes to China. I would say that it's actually a helping hand in most parts because they want the entrepreneurs to be successful. And the most productive entrepreneurs are typically the private ones, not the state-owned ones. So they're not only protecting and assisting, supporting the local state enterprises, but by and large, the private ones, because they are the ones that will bring investment into the region, provide the jobs, contribute to the GDP growth, the tax revenues, and all that. Again, coming back to DeepSeek companies, it's these companies that have the most contribution, or it could be part of and/or part of cronyism. There's no sense in denying that, at least for a period of time, even though anticorruption campaign has been really one of the most rigorous and probably successful national campaigns in the last 10 years, there was a lot of personal benefits as well.

But whether you're helping hand and helping the best and promising technologies also helps yourself. And again, there's overall data and evidence on this, looking at the whole spectrum of firm networks, the ones that are most connected to the local and central governments are actually the more productive ones as well. So the whole notion of suppressing the private has to be qualified. Of course, is there a certain amount of crowding out element in certain sectors? Absolutely. But that's for a different discussion.

Indermit Gill: I know that I can see from the faces of many people that they have a lot of questions to ask you.

Keyu Jin: You told me to talk longer. Now you're asking me to talk...

Indermit Gill: Take another five minutes, but then take I'll take a couple of questions and continue with some of the stories.

Keyu Jin: Sure. That's really pretty much the model. Again, why so many interventions? Again, financial system as a tool, SOEs as a tool to advance state objectives. There's an element of paternalism. I would totally not underestimate this cultural element of protection, the desire for

stability. And part of the reasons we go back to why is China not opening up the capital account and so forth, there's this element of wanting to see stability and actually holding on the levers control, maintaining control, the inability to let go is a perennial goal of the Chinese government. Just to elaborate on the local mayor economy, I want to make one more point, which is there's a huge amount of heterogeneity inside China. It's just not a monolithic hole. For all the things I've said about local governments, there is a wide dispersion of their performance. So we have a clean and friendly index. Clean meaning you're not as corrupt, friendly, a degree to which you are more friendly towards the private entrepreneurs.

And in this graph, the bigger size, the bigger bubble means the number of large industrial private companies. And you can see on the top, the more clean and friendly ones like Shenzhen, Guangzhou, Shanghai, Zhejiang, Hangzhou, somewhere up there, also have the bigger industrial base. And so that really matters. And there are some that are clean, but not as friendly. There are some that are friendly, but not as clean, et cetera. And then we also just graphed this interestingly, just out of curiosity, against resource abundance and scare. So those of you who know a little bit about China, we often talk about the corruptions of the northeast, the mining, the ones where there's a lot of resources. Actually, Shenzhen was a fishing village and had very little amount of land, so they couldn't even do property. If you can't do resources, you can't do property, what are you going to focus on? You're going to focus on technology or innovation or something that gives you sustainable growth in the future. For those who had a lot of resources, especially in the research-rich areas which were in the top right corner, they didn't have to be...

Sorry, the bottom left corner, they didn't have to be as... They were quite corrupt. They were more extractive. But the ones that were pushed to use innovation, sustainable growth, had to be friendly and clean. So this is actually just one correlation, but maybe there are others. But just to say that I've seen many extremely responsible, accountable, pragmatic governments in the South who work tirelessly day and night, weekends, with the entrepreneurs to help them, especially in today, when there's an economic recession, in contrast to some of the other kinds of local governments. So it's a mix. On technology, last two words about technology. I think this is really the most fascinating aspects. Now, there's what's called a whole of a Nation program, [speaks foreign language,] that started with two satellites and [One Bomb] program in the Maoist era. And this part, I just wanted to show you that there has been an evolution on the innovation system and model. Coming back to how China is able to achieve this leading edge technology, there's been a lot of evolution of thinking. And so in the beginning, it was a lot about government. The SOEs, in the beginning, were in charge of coming out with all the innovations and pushing through the national innovation drive.

And then slowly morphed in something where private enterprise participated more until actually the first Trump bans and sanctions on Chinese companies, where China really felt this existential threat. Then this whole technology reform became the key national economic drive. It never really featured that prominently. Technology and science was never really as part of the priorities of the leadership until the US came out with these policies. And in the last few years, there has been really an emphasis on private sector, on innovation being driven by the private sector. Actually, 80% of innovation is driven by the private sector. And again, coming back to the Alibaba and DeepSeek and the robotics of the world, this is the private sector going forth. But I point out this whole Venetian program, there's lots more to discuss here because it's a holistic innovation system approach, like the Manhattan Project, taking inspiration from their innovation ecosystem that links industry to universities, to businesses, to the local government, and it's still very much evolving. I also like the analogy between this and the Olympic gold model, Olympic Gold Medal Project, where China wanted to reap the most number of Olympic gold models and had a whole of a nation program around that, which meant no resource, just cast a big wide net, resources allocated, no concern about cost.

That's the drive that China is looking at technology today. I will point out that, again, this also is a deeper root of some of the present day challenges. So the objectives have changed, right? It was

growth in the beginning. That was the KPI of local governments. But then after 2013, we talked about the exchange rate shocks, it was financial stability. Now China is searching for something different, even more going back to this socialism versus capitalism balance. It's a lot about the social issues. If you look at what the government is most concerned about, it's about stability, social stability. It's about jobs, it's about unemployment, youth unemployment. They are so fearful of people moving onto the streets or complaints of all sorts. They're actually extremely accountable. They will punish any private sector, SOEs or whatever that harms a social consumer rights. That's the degree of obsession with social stability and has turned into technological dominance, common prosperity. It's, again, the KPIs have changed, the growth objectives have changed. I want to just take one minute to tell you why some of the current challenges are also just the other side of the coin of China's economic strength.

The political economy model that I described to you, the mayor economy, in a nutshell, was really important fostering reforms in the 1980s, and then now innovation and technological drive currently. If you think about it, this is also at the root of the overcapacity issue, right? Do we really need 80 cities having their own EV brands? If you're a local government, where are your resource is going to be spent? Are you going to spend on social security issues and social infrastructure, or are you more incentivized to spend on fostering the next national and potentially even global champion? Local governments I speak to dream about building unicorn islands. Everybody has a unicorn island dream. That's where their incentives lie. And as we know, and again, I want to come back to this point that has been made this morning. It's about demand. It should be about demand. It's about aggregate demand. There's a permanently deficit aggregate demand in China because everything was focused on supply because the political economy model was incentivized around supply and capacity issues and technology. But this demand has been totally ignored. One of the perennial causes of a lack of a consumption is a lack of social security, lack of social protection, lack of that social safety net.

And again, this is not part of the political economy model. So then we talk about the debt issues, we talk about the overcapacity issues, about the dominance issues. I think a lot of it can come back to this general political economy model. One last theme that I will just touch upon is I think that China has a new generation of consumers. They are very, very different. If you want to understand about where China is going in the future, and again, this is bordering outside of a little bit about the economic sphere, understand the post-1980s, post-1990s new consumers. They spend. I have lots of data here about how much they spend, and how much they're willing to borrow. They think in very, very different terms from the parents. So China is the saver, big saver. I don't think it will be the case when you have this new consumer around. And 85% of consumer credit is actually accounted for by people under 35, and they have a new dream about China. Anyways, they're also highly indebted. How do we harness the new consumer who could be part of the answer to China, China's ongoing issues? I'll conclude with that.

Sorry, conclude with that, that there are lots of changes. I think one of the most important changes, the whole debate politically is around going from what is economically efficient to what is socially optimal, although I'd argue that the target has shifted back a little bit more focused towards the economy in the recent year, given its problems. But still, where China is going will be continuing along that balance. But also coming back to the central problem and zoning out a bit, zooming out a little bit from just China internally to China in the world and the ongoing international tensions, it has to move from global to local. Not in the sense of economic fragmentation. China is still going to be a very open economy, but focus on the local economy. And this is why I bring up the new generation, because the amount of power they have, interest in fostering the local economy. I think that going forward, a lot of the opportunities are going to trickle down from the first-tier cities to the second and third-tier cities, which is something we're observing right now, because these new generation care about having a not only a higher standard of living, but having a really good time.

They want to focus on the local services, again, which provides jobs. I don't know if anyone follows the latest Gen Z trends, but something like Labubu, which has been Pop Mart, has been the global A-listers' obsession with something that's created by China. The Chinese new generation, their brands, their desire for consumption, for leisure, for having a good time. They're not that interested in the manufacturing, lining up the manufacturing production lines. And so over time, by raising aggregate demand, focusing on local services, local jobs, creating that local opportunity from global back to local has got to be an important objective of China and the Chinese leadership. And so in the end, it's not just about efficiency. We talked a lot about not about efficiency, but also about harmony. And this is something that China perhaps can link back, hark back to the old Confucius idea. Everything around Confucius was about maintaining a harmony, a degree of social harmony within the family, within the society, within the nation. And how to think about harmony as the new currency of power is going to be very important. I think they're starting to realize that. And so China may revise something older than just the mere five-year plans.

And that Confucius ethos is about balance, being strength. And harmony, not being a weakness, the harmony being the very wisdom that China has understood for thousands of years. So thank you.

Indermit Gill: So because the theme of the conference is development in an age of populism, I'm going to start the questioning off, and I'm sure you'll have hundreds of questions here. But my question is the following. If I had to look at your background, you're from Beijing. Then after that, you lived in New York. You went to an American school, high school. Then after that, you went to an Ivy League place for your BA, and then you got a PhD in the same Ivy League place up in Massachusetts. Then after that, you went to London. Then after that, now you split your time between London, Beijing, and Hong Kong. You're an elite. You're a super elite.

Keyu Jin: So are you.

Indermit Gill: No, I understand that. But I'm not giving the talk. You are, right? Now, in this case, how do I know that you actually know about China? Okay. Number two, how do I know that you're seeing this as a filter through the elite? Because I read your book, and it's very positive. It's good to see positive stories about China. But I don't know if this is correct, because I don't know if you have the experience that the typical Chinese person has.

So what would a populist view of this look like?

Keyu Jin: Well, if the Chinese government really had a future for me, they sent me to the rural places and have me stay there five years. And that's usually how you ensure that the civil servants and the future leaders really understand from the grassroots. And I argue that President Xi is someone who really knows the grassroots and knows the grassroots challenges. What a good question. Good challenge. First of all, I at least understand that you have to dig deep in order to understand what's actually going on. And there's a lot of... There's a huge dichotomy between the micro and the macro. The macro numbers, you can achieve to potentially achieve the 5 % growth. At the micro level is a very different picture. And we know that that's a dichotomy. The another dichotomy is despite the economic weakness we're seeing in China today, technologically, it's still very, very dynamic. There's huge incentives to do stuff, and there's a lot of activity, effervescent, very diffusive energy. So there are lots of different sides of China. Now, I'm an academic by training, so I do read the papers. I do some of these papers myself, but I understand that you have to dig deeper.

So I spend a lot of time going to the local areas, and a lot of the inspirations and anecdotes from the book are coming from that work. Entrepreneurs, and people, my colleagues and I who teach about China, have to talk to the entrepreneurs. And I'm seeing their struggles. I'm seeing their resilience. There are lots of things that you can't explain through the conventional logic. And that's the part that I want to bring out, that energy, that resilience, that adaptability. To give you an example, after the education sector was almost demolished overnight, the tutorial sector, actually,

lots of the teachers who are earning a pretty good living became even more successful because they transformed themselves into TikTok stars. They found that they actually had a capacity to sell stuff. So these are the stuff that you don't hear in Western newspapers that I make a point of trying to understand more. And by the way, this is also an important point. For those of you who think that China doesn't have a very vibrant social media civil debate around lots of crucial things, you're completely wrong. You can get so much information, so many stories that are realistic, that are real, that are both reflecting the good and the bad through these very rooted stories.

So at least I tried to make a point of that.

Indermit Gill: I know that many If you have questions, so while you're getting ready, I'll have another one for you, which is you said that, look, there's this new generation is consuming a lot. I completely identify with that because my daughter just by herself consumes 10 people. But the thing is that it doesn't show up in the stats. I was looking at the household final consumption, and the numbers are basically around 40% for the last 10 years. I look at India for the same thing, it's 60%. There's a 20 percentage point difference. So the story that you're telling don't seem to add up into an aggregate.

Keyu Jin: So first of all, in the recent years, youth unemployment has been really a big challenge. Youth unemployment is probably underestimated. And the youth, with the prospect of very little job security and wage group, have cut it down. But they have cut down overall size of consumption, but not the actual activity, if you know what I mean. Actually, huge, and coming back to being grounded here, there's a huge wave of innovative approach of consumption. Having just as much fun, maybe even more, and spending even less has been the motto. So they've come out with all these innovative new ways, new lifestyles of consumption. So you see that the potential is still there. It's just that currently, in the last couple of years, they don't have enough money. But if you look at, again, the credit side, the borrowing side, the young people are the major borrowers, and they're able to spend. So I think the data, first of all, we have to look at by age group, but it's also conflated with the fact that recently, with economic in recession, the first people to go to lose jobs are the young people.

Chavi Jinnay: Thank you so much for the presentation and for the book. I mean, it's a great read. The question I have is about the...

Indermit Gill: So please introduce yourself and please don't editorialize, only ask questions. I'm not saying you're doing that. I'm just saying.

Chavi Jinnay: Okay. My name is Chavi Jinnay. I work in the research group at the Bank, and now I lead the World Development Report, which is actually on standard. We're learning a lot about how things are done in China.

Indermit Gill: We just came back from Hangzhou and Lanzhou, by the way.

Chavi Jinnay: That's true. The question is about the mayor economy.

The way I understand it is these guys have incentives to collect taxes.

Basically, they're promoted based on incentives. Early on, this was all about growth, as you mentioned, and now there's been a shift to maybe growth and environmental concerns. I guess the question is, how are they getting the formula right? How are the preferences from the population being reflected in the policies? You talked about unemployment, there's inequality, I believe. Again, people could have preferences for a broader safety net that may or may not be reflected in the public? Sorry, you know where I'm going, right? Here we vote, or at least we still do. In China, it doesn't happen. So how is that reflected?

Keyu Jin: Thank you for your question. Really important. I think, first of all, it reflects the preference of the central government, right? But that is also now becoming more endogenous in the sense that

the central leadership has shifted before from, let's say, just growth now to really back to the people. And there's lots and lots evidence. I mean, again, coming back to, thank you for reminding me of being grounded, all of what these local governments are talking about is we don't want to see protest, we don't want to see complaints, we don't want to see people unhappy. We want to protect them. So this is the feedback from the central leadership, but it has also come up from the ground up. So I think starting from the last 10 years, maybe five years, definitely during, this has become much more of an endogenous thing, which, again, is hard to measure. I think this is part of the slow growth problem in China right now because the objectives have changed, and it's very hard to measure. Environmental protection is really important, but then it's at the cost, potentially, of growth. And so if you're really serious about environmental protection, and they were after a long period of looking at the local government not actually doing much because it was against the growth thing, then they started to have these punitive measures.

Then it became very effective. And so now it's a mixed bag, and it has politics in it as well. And so the incentives are not just on economics, which I think also explains some of the engine, the dynamism of that former engine being lost. Over time, I do think it starts to reflect people's preferences, but certainly still strategic preferences from the top. Thanks.

Audience Member 2: Hi, I work as a data scientist. My question is more to the start of your presentation where you mentioned that the definition of economic agent has changed rather than just being one person being a whole household. How do you think that affects economic policy as a whole when it's being implemented? Because I've seen that pattern in some other countries that I've been to where people make decisions as a household rather than an individual. So how do we change the generic microeconomic models that we've seen for so long now that the definition is changing? And do we perhaps just need a new form of economics, which is not micro or macro, but somewhere in between? So that's the question.

Keyu Jin: Thanks. I think models that incorporate intergenerational altruism and dynamic household's preferences could be incorporated, including not only just income, but also consumption, risk sharing, and so forth, I think, is an element that explains a lot of developing country, a phenomenon on, and it can explain a range of the issues, the ones that I mentioned about consumption saving, housing, but potentially also pension has implications on pension. Now, it is interesting that because China has a one-child policy, that also changes the family fabric as well. And some people say the Chinese new generation are the most individualistic and selfish people of all time in China because of the changing family fabric. So I think having both of these elements, again, emphasizing that that moderation of a standard model could extend to lots of understanding a lot of paradoxes is very useful.

Devagna: Hi, I'm Devagna. I also just graduated from the same school in Massachusetts, so lovely to see an alum. My question is, with China leading institutions like the AIB and the New Development Bank, how do you see World Bank influence evolving in emerging market economies? And do you think China views these institutions as a challenge to the Western governance model? Thank you.

Keyu Jin: Tough question. I don't think the objective is to challenge Western institutions. I'd argue, given all the things that we discussed in this morning, that China quite likes the US-led post-world liberal order. It's really during that period that China saw the fastest amount of growth and the most stability and peace. There's nothing that China doesn't like about that. I think there are, as Indermit also mentioned, lots of themes. It needs updating. There are lots of reforms that need to take place that need to keep pace with the evolving world. So they don't see themselves as a challenger, but also reflection. If we're talking about reflecting preferences of the regions, of a larger group of economies who didn't participate in the rules, in the writing of the rules of the Bretton Woods. And some of them have been fairly successful. And I think we're going to see more of that as we go from globalism to regionalism to more localism, to more corridors. That's definitely going to be a trend. And this reflects geopolitics, this reflects economic convergence, this reflects distribution and

dispersion of wealth opportunities and more coordination. So I think they should be seen as challenging each other to become better.

Masaki: Thank you so much for your informative presentation. My name is Masaki, at Georgetown. So my question is, I have a two questions. [What's the law that techno-rationalism pray Chinese economic strategy?]

And the second question is, China is a very slow down.

So a future, so a pitfall, like a Japanese loss decade or two decades. Thank you so much.

Keyu Jin: Yes. One thing you can be sure is that the Chinese leadership is studying very closely Japan and the experience just for fear that it might have some of the same problems. I think there are similar symptoms, let's say, although I don't think the root causes are same or it's really identical in the sense that, first of all, the obvious one is China was not nearly as rich as Japan during the peak. Again, coming back to the fact that we do talk about demographics and all that, but what about, again, the hundreds of millions of people that have \$300 of average income per month? Very undereducated. Again, coming back to the consumption issue, the rural average pension is only 5% of the urban person's pension. The geographical barriers that restrict the flow of trade and capital and knowledge and all of that is still very... Especially people, I would say, is very much there. Also, China is, I would argue, much more diversified as an economy than Japan was back then. Japanese housing prices, I think Tokyo fell from peak to trough, like something like 80%, right? Now in China, it's probably around 30%, even though there might be still some room to grow.

Urbanization is not nearly as much as what Japan was. The banking system is very different. Japanese banks, to my knowledge, a lot of those were private banks, and there was a huge appreciation pressure, and then they went out and acquired lots of international properties. That's not at all the experience of the Chinese banks so far. They're state-owned. There are MPLs, but they're not nearly as big as the ones that to the extent that Japan experience. So I think there are some elements that are similar. And to be very honest, I still think the real driver of the economic, let's call it the slowdown, the drastic slowdown, is caused by the real estate sector because, again, unlike Japan, real estate really was behind the two fundamental pillars of the Chinese economy. One is the fiscal system, and one is the financial system. And so when real estate came down, it really brought down these two fundamental pillars. So it is driven by a real estate crisis, although I think given China's openness to the world, the technological dynamism, the diversity of production, the central problem today, as I still maintain, is the lack of aggregate demand and the fact that policies are not so still focused on that.

But the debt deflation cycle is something that we have to watch very carefully. But I think there is a real risk of that transition of housing. A bad transition would take 10 years, maybe even longer. And there is a real risk that China could be stuck in a very low growth period for that long unless the policies really keep up. And this is probably the Japanese lesson as well, is that insufficient degree of policy intervention was one of the problems of the Japanese growth. So watching very carefully.

Alberta Hagen: Thank you for a very brilliant presentation. I have two questions. You alluded to the fact that China has been growing fastest in world history for a number of years, which is true, and also a leading innovator. And by the same time, we have a huge unemployment situation where the young have to depend on even grandparents, not just their parents. So this is a paradox. So how can we sustainably solve this issue? And then my second question is that you also indicated that there's a need for consumption spending to increase. That has been a call for years, but it's still an issue. Consumption spending in China is quite low.

You indicated that this is affected by a lack of social security, social protection.

What are your proposals for increasing social security and then all other impediments to increasing consumer spending? Thank you.

I'm Alberta Hagen from Ghana. I apologize.

Keyu Jin: Thank you very much. Yeah, I think to solve the internal economic challenges at the same time mitigating a bit of international tensions really have to fall upon beefing up the internal economy and demand and capacity and consumption. I'm going to answer your two questions actually in one way. First of all, there's this thing, and again, it harkens back to an earlier comment that in China, they think about production and capacity as the real economic power. They don't think about consumption. But the truth is, you have to be... Rich countries are also high consumption countries. And so there's an aversion to using the stimulus, Keynesian stimulus policies, to think about consumption as a driver of the economy, that just conceptually, it doesn't feature prominently the government's mind. And even for the people, they think about, "Oh, I need to save, right? Because if I don't see income growth, how can I spend?" But the idea that my spending is another person's income is just not there. That logic is just not there. People talk about saving more and more. They don't talk about getting the engine going.

I think that's one of the conceptual issues. The other, which I've also raised recently, which we had a very big debate in China recently, because one side thinks that consumption is really key. Another is still about infrastructure spending. Spending more on production, infrastructure, fiscal policy to get out the low growth problem is basically that this is the KPIs, local government KPIs. Why not, as we were talking about during lunch, put consumption growth or wage growth or something in the KPI alongside GDP for the local governments to recognize that consumption as a major potential to boost the economy, not just private investment. Of course, spending on Social Security. It would be remiss to say that there has not been a pretty important improvement in Social Security and pension over the years and decades, the coverage, but it's still not sufficient in the rural areas. But you see that the government is now slowly shifting from supply-side policies to demand-side policies. But what will actually be effective? What is the size of the policy that was stimulus that will be important or necessary to ignite that engine? That is still very much a question. But again, harnessing the potential of the young people.

I think if the job security and all of that is better aided, then that would be a potential as well. But this is the key national question of today.

Indermit Gill: I have a question, just to interrupt you, really quickly, a quick question. Early on in the book, you have this thing. You said that, Look, markets work in China, goods and factor markets, and then you put in parentheses capital and labor, operate on the basis of supply and demand. My view of China, which is probably outdated, and you can actually update me on this, is that actually, if you look at the three goods markets, which are some farm products, manufacturers, and services, these are actually intermediate through markets pretty well. I think there was an ADP study that said something like 95% or something like that. But if you look at the factor markets, land, especially, you don't mention that here, land, capital to a large degree, and labor, there is a big hand of government in these things. In fact, they're not being intermediated by markets. There's a lot of directed credit. There are not geographic impediments to labor mobility, but government-imposed, like the Hukou, et cetera. The same thing is true of capital. When you have so many of the banks are state-dominated, again, you get directed credit and so on.

Why are you saying that there's no problem on that goods and factor markets are all being intermediated by markets? I don't think they are.

Keyu Jin: I agree. I think I was saying that markets work. Markets work in China. There's competition, and all these. But for sure, there's still a heavy hand of the state, and capital allocation, especially in the earlier years, was highly distortive. But you saw these distortions actually coming down over time, the misallocation of capital coming down over time. Again, wage growth, as a share

of GDP was falling. So there's a notion of suppression of wages to promote this production-based economy, which is good for firms, interest. There's lots and lots of interventions.

Indermit Gill: I see that, Keyu. But if you look at incremental capital output ratios, they're much higher than what they were in Korea and Japan at this time, in terms of capital market inefficiency. Then you have, for example, if you look at vacancy ratios in terms of real estate and so on. I mean, they have vacancy ratios in China, which look like those in the middle of a recession in a normal market economy. I wouldn't say that markets are working then, because if markets were working, you wouldn't be building in places where nobody wants, and you'd be building a lot more where people want to be.

Keyu Jin: Yeah. I think this is more of a debate of what we mean by markets working. But certainly, if you look at the real estate sector, if it was completely market-based, the prices will fall even further. There are a lot of...

Indermit Gill: It's because you learned about markets at Harvard, and I learned about markets at Chicago.

Okay. All right, go ahead, please.

Hezhu Jun: Hi, Professor Jin. I'm Hezhu Jun from the World Bank's Youth Advisory Group, Social Protection and Job Global Practice. My question is about China's local microinitiatives. Very much, it shows the promise in addressing the youth and their employment. However, the current microinitiatives highly rely on the government subsidies. How could the policymakers translate such initiatives into a more solid action in addressing the youth and their employment? Also, how do you think about the agencies or the multilateral development banks like the World Bank could assist China in maybe integrating those little initiatives into a scalable framework that the developing country could probably borrow some experience from? Thank you.

Keyu Jin: Thank you. I wanted to answer your question, but also forgot one really important answer in the previous question. It is related, and I didn't talk about services. Again, I think in discussions we've had previously jobs. Jobs are really important. If you look at China's service sector, it's only half of GDP. These numbers should be at 50%. And in terms of employment, they account for something like 47%, and that's very, very low. And coming back to the consumption problem, a question earlier, the reason I mentioned, the new generation, is that they're so focused on their local economy, the restaurants, the entertainment, the new forms of entertainment, the coffee shops.

They're super interested in that, not like their parents who just want to save. That's why I wanted to emphasize. There's a lot of opportunities there that you can create the jobs and the demand. For consumption, you need also an environment, the potential, the environment to consume. But again, these services are also regulated, heavily regulated. There's high barriers of entry. For the youth, lowering this barrier of entry could provide an opportunity. But to answer specifically your question, the real problem is that there's a skill and education mismatch for the youth. A hundred million new graduates, college graduates in the last, I don't know, 15 years because of a government policy. They all have really fancy degrees, and there are actually jobs around, by the way. There are 30 million jobs in manufacturing that need to be filled up in the next few years. But the people who have the bachelor degrees don't want these jobs. Again, this is the cycle of renewal that we have to keep in the back of the mind. At some point, even the Chinese don't want to do these jobs and make these basic manufacturing. And a flying geese will fly to somewhere else.

It's the same idea. You already see it in the generations. They rather stay at home and take the grandma's income because they're very educated. Why should they go and get a job in the manufacturing cigarette lines, lining up in the factories? But another issue for the youth is that companies complain that these people know how to take tests. They don't have hands-on experience. They don't have on-the-job training. They don't have these necessary skills that the

company needs. This is a wider developing country, maybe, lesson to be drawn is that you need to equip the youth. Now, again, coming back to the local government economy, I really want to convince you that I am grounded because I did talk to one local government, provincial governor who did a phenomenal job. There are something like many, many multinationals in her city, but she found that the college graduates just couldn't find jobs, and she trained them as a local government initiative. She trained them, and actually, they ended up getting a higher pay than they would have otherwise. And the companies were happy, and they were happy, and the youth were happy, and the local government was, of course, very happy.

And so this active, trying to fill or reduce that gap is very important. So now the government is actually coming up with mandatory forcing these companies to give free internships, if you will. But also there's a huge expansion on the quantity and quality of a vocational training. Because China is still a manufacturing-based economy. The skills you need, whether you operate the new technologies or the high-end manufacturing, there's still a lot of skills that are required. But you were viewed with discrimination if you went to a vocational school. So now they want to raise that status and eliminate that social bias. Actually, the policy is to direct 50% of high school students to vocational schools. And that's an active effort. Again, rolling out these programs throughout the country. Again, another state initiative. So I think these are some of the proactive measurements that you can take.

Hezhu Jun: Yeah. Thank you, Professor. By the way, I'm going to Massachusetts next year.

Keyu Jin: Great. Congratulations.

Chris McRoy: Hi, Chris McRoy. I know your work's grounded. I've seen it for at least 10 years on things like CGTN, but I'd like to know, do you have some academic heroes of your own, or is it that the engineering revolutions that scale are so contextual that really you have to go out and be in the field? It's not really something that can be studied in the library. You have to have the right contacts or the right networks. Maybe like a financial investor, a VC needs to have the right contacts. Is that actually the skill you have or how would you describe it?

Keyu Jin: Thank you. I think you do need both. The rigor of these academic papers, and really a host of really fantastic papers written on China, very rigorously done using the new frameworks. We've all drawn inspiration from that. But again, Indermit is absolutely right, especially for an unconventional economy like China. To really understand what's going on, you have to do a lot of the field work, and you have to feel the pulse to understand, because a lot of it outside of the models. We have to be very honest to ourselves. We really tie our hands with the rigors of the models. But without that rigor, without the data work, without, we can't really inform ourselves systematically. But I think to identify the key problems, but also to use tools that are rigorous, I think that has the best combination.

Yichen: Hi, I'm Yichen. I'm an undergrad at MIT.

So I heard a few things that seem to conflict with each other.

So first, a lot of people brought up the fact that data suggests that Chinese are not consuming at very high levels.

But you also say that, for example, the younger generations consume more but are in some way cheaper.

I wonder if that's something that washes out of the data. If you take a closer look, maybe they're aggregating or there's something that the data don't capture, or if there is some discrepancy that you think the data don't capture, how do you measure that increase in consumption by the younger generations?

How do you capture that?

Keyu Jin: Well, first of all, this is coming back to Indermit's point. Some of the numbers which I didn't go into are based on data work that we have done. Some of them are based on surveys, Internet, etc. It is very much the case despite earning lower income than the previous generation, they still spend more on certain sectors, on certain things like entertainment or restaurant or clothing, apparel. It's very, very clear in the data. But again, if you look at this young group, they just don't matter that much in the overall. They're not doing well, especially these days. Yeah, they're not doing well these days, especially, but they're also, in terms of the weight in the economy, they're still very small. The middle-aged group is the highest economic-powered agent. So it does wash out a little bit in the aggregate. If you look at disaggregate data, they do have an inclination to spend more on those categories. So when they do become the middle income group, and assuming that China still stays on track, they will be higher spenders. So that's one way to answer that.

Yeah, they're also a smaller cohort because of the one-child policy. But also in their 20s, they're just not earning that much. So anyway.

Anupam Khanna: Hi. I'm short, so I have to hold it. My name is Anupam Khanna, and I started working on China back when China joined the World Bank, and I lived there in those times. So I would say yours has been one of the most masterful presentations because you've tackled two things which are not understood. This is backdrop, so it's not a comment, generally. It's basically people misunderstand here about decentralization and centralization of China. I spent 40 years trying to explain to my colleagues in India and the bank that China is actually more decentralized than India, which is supposedly a decentralized country. Number two, you've also clarified the issue of market and socialism are actually two different things. We had the debate in the '80s was socialist market economy, trying to understand it, and we had people explaining it. I think both of them are excellent. But let me now ask you the two questions. One, decentralization was centralisation. President Xi has come back recently with something which is very different than he has been talking for the last 20 years, which is the three pats. You read about the comment that he said the Chinese bureaucrat should get away from the three-pat system.

Three pats being patting your chest, patting your back, and patting your bum. She cannot explain. Does that represent a change, a new cycle. Zhu Rongji, for example, had to change course quite dramatically during his time. That's one part. Second one is the question of market versus the... Well, ownership. That's the difference, really. Socialism means ownership, the means of production. We can work with the market economy. But there's some excellent work which has been done. Many of them Chinese scholars based in the US, like Wang Yungao at, I think, Charlottesville and Yuen Yuen Yang, which are different from the normal narratives that you find in the American and Western discourse. Which is that, for example, Wang's point is, it was a PhD dissertation, saying that you should think of China as a market with bureaucratic characteristics, which is very much, I think the type of thing that you have been discussing about mere economy versus that, or is it something different? Or is there more to it? And Yuen Yuen Yang's point is that the general way the World Bank would always say, People can't learn from China because the governance system is so much stronger there.

Actually, her work is to say that China achieved its massive growth when all the things we make as excuses for other countries were present in China, too, but they figured out a way to do it. So what do you think of that?

Keyu Jin: Well, thank you. Excellent questions, and thank you for sharing your experience. Look, as I mentioned in the talk, the last 10 years, the most important national drive and successful national programs was the anticorruption program. And part of the political economy model, the consequence was a lot of cronyism, a lot of corruption. Disruption and a lot of linkages between business, what's called this, corrosive linkages between business and politics that the current Chinese government administration want to completely undermine. Actually, part of the weak

consumption also has to do with the fact that public consumption has dramatically gone down. We all know the days of the karaoke and the wine and the dining, and you risk losing your life over one meal with the private sector currently in China today. And let's not underestimate that effect as well. So in that sense, it has broken the effort to reduce the power members, also fiscally, of the local governments. It's a very, very complex relationship, the tension between the central and the local. On the one hand, they want all the locals to do all the work, the local governments to implement all the strategies because that's the only way to do it.

They're very, very far. On the other hand, fiscally, sharing the responsibility is not the same. The revenue is not the same. And third of all, the local government debt issue. There's a real moral hazard issue that they are concerned about. Some of the comments like, "Had I known that these guys would be bailed out, I would have borrowed even more." That comes up for the local government, comes all the time because a lot of the responsible local governments regret that they were so responsible. Had they known that some of these other local governments would be bailed. So this is also another reason why there's not this really huge effort for the central government to fiscally transfer into the local governments and forget some of the debt because they want to prevent that. And then the power division, right? They need the local government. At the same time, they have to rein them in. It's always a very delicate balance. And I would argue also that, yes, corruption has come down significantly, significantly in China. You really cannot accuse of China being as corrupt as it ever was before, but so has growth, right?

And because the incentives are also much weaker. It's not just the local governments, but also the SOEs, all the state. Again, they worked together before. Now, do I really want to do this when I'm taking a risk? Before the local governments were rewarded for risk-taking, by being entrepreneurs, every reform that was successful was going to be copied by everybody else. Today, who wants to stick their neck out? Because, again, the objectives have changed. So again, it's a very complex thing. I think what I'm trying to give you is a framework to how to think about this, how to grapple with some of the tensions that are there. But the second, I think it also answers some of your second questions, but it's just not a black and white picture. I think my view is there are elements to be drawn at a very specific, narrow way, maybe some of the new industrial policy, certainly how to think about state capacity, how to think about... Again, coming back to Bob Zoellick's morning question of contextual-based solutions, contextualizing the issues and finding solutions. If I were to summarize China's huge advantage in technology and all these things, even responding to Trump trade wars, it's all about finding solutions and adapting and finding the cracks or whatever.

They are very good at that, reverse engineering, all of that. Even their innovation approach is based on solution-based approach. And so maybe that is part of the unique China approach. But certainly, even they themselves say, there's no model to copy, there's no model to emulate, but there are only certain elements that we can draw on inspiration.

Indermit Gill: Last two questions.

Audience Member 10: Thank you. My question is, given China's success in a flexible industrial policy and targeted. You mentioned about stock earnings being around 2% or something. So I'm wondering, Is Confucianism partly explaining the stability social contract where people might be willing to take risks in pretty much everything, but not the volatility of stock market? Thank you.

Keyu Jin: Thank you.

Indermit Gill: There's a lot in the book about it.

Keyu Jin: Yeah, I think it's a good question. First of all, just to put it plainly, if you compare the equity returns of Chinese company listed in China versus Chinese companies listed abroad, in fact, the ones that are listed abroad actually did very well. It did reflect economic fundamentals. This is something that we can go... If you take a copy of the book, you will see. But the point about the Confucius stuff is really the government paternalistic approach. And that is coming back to some of

the Confucius ethos, the paternalism that I have to protect you as a retail investor. But the irony is that the more you protect them, the less they learn, and the more you have to keep on protecting them in intervening, because they never learn. And so that's why there have been so many interventions in the financial system, both because they want to utilize them as a tool, but also because it wants to think about stability and control and also paternalistic inklings to protect. I'd say that that is a cultural element. But again, I think this is a very important topic about China's internationalization going forward. You just can't have it both ways.

I think China is struggling. It wants to be the technological superpower, but at the same time has problems with seeing some people getting unfathomably rich. It wants to have international RM, but it still wants to have control over its financial system and not liberalize.

Indermit Gill: It's just like New York.

Keyu Jin: I'm not updated on what's going on in New York. So I see US is becoming more like China, right?

Ruda: My name is Ruda. I'm from Brazil, and I work at Sepal. My question, too, is regarding the Chinese position in the BRICS. Do you think it's more as a leader or you see more like equal participation among the members? And also, what's your view on the growing Chinese influence in Latin America, mainly through the Better World initiative? Thank you.

Indermit Gill: Do you get that? Then I have one more question, and then you have the last one.

Keyu Jin: Thank you. Yeah, look, this is especially against the backdrop of the US receding into the background from the leadership position. Certainly, China wants to play a more influential role. However, I still believe that including the leadership, the main challenge is still internal. The economic challenges are still internal. You can see that the Belt and Road initiative, while in continuation, is not really as prominently featured as it was 10 years ago because they've shifted the focus back internally. But I think certainly if you look at whether it's financial payments or currency or trade or new international developmental and financial architecture, certainly, BRICS are coming together, and especially when the US has a very isolationist set of policies, does China want to be the leader? China wants to bring them along, in my view, because they think that together they are stronger. There will still be the competition between China and India that I think very much shapes the future of BRICS, including the currency issues and the payment issues, because that tension will have to be managed despite the opportunities that are afforded. Certainly, when it comes to technology and the diffusion of Chinese technology, I think the developing world is still very much a market for China.

But I think the whole notion of dominance is really a very outdated one, and I don't think that's exactly where China fits. But on Latin America, again, it's an opening. It's an opening given by the US to China. And this is in light of the terrorist, but in light of the fact that infrastructure, financial markets, technology, certainly China wants to diversify its relationship, its in markets, and try to make as many friends as possible. Again, I'm not trying to say that there are no challenges. There are a lot of challenges. But if the US is doing these things, it does provide an opening for China, not because they like China, but because someone has to step up. But whilst I want to emphasize that that's something that China wants to play, I still want to reiterate the fact that still the priority is still internal, domestic challenges.

Indermit Gill: I have one question, and then you have the last word, Prof, after that. So had you come two years ago here, Keyu, you would have had a much tougher job convincing people about looking up on China. So for example, there was this anti-big enterprise sentiment. There was the zero COVID policy bundle, basically. I would call the third one was the real estate bust, bad loans in banks, high graduate unemployment, all of these things. I think one of the advantages of living in Washington is that all of these things get forgotten very quickly because we have to think of a new thing every day here because there's something new in the news every day. So all of this seems like

a very long time ago. But it does reveal that from your book, you actually evidence a lot of faith in the Chinese government. From the track record, recent, you would actually question that amount of faith, right? And had you come two years back, there would have been a lot of questions about all of these things. Anyway, so I thought you should get that question anyway.

Keyu Jin: I think it's an excellent question. I wish that my book was actually published not two years ago, but right after the DeepSeek moment, in which case the narrative could also swing again. But again, it's a pendulum swing, right? And this is what I want to say. I say by and large, I think it's been a net positive, this model. Are there costs? Yeah, massive. Massive cost. But the achievements are also pretty recognizable. And can you argue what would the counterfactual be? It's a very difficult question. Would China have been better?

Indermit Gill: The counterfactuals are there. There's a very nice paper by Martin [INDISCERNIBLE] that actually looks at this. The counterfactuals are... The first counterfactual, of course, is essentially South Korea. The second counterfactual is the Taiwan-China, and then the third counterfactual is Hong Kong. So you can actually think about...

Keyu Jin: I don't know. I think that the size of China makes it very hard to compare with these small city states, I believe. 1. 4 billion people. How do you keep it? How hold it together? How do you get such a massive country to be really rich? It's a different... Again, if you look at Beijing, Shanghai, and lots of Eastern cities, there are 30,000, 35,000 per capita incomes.

Indermit Gill: I don't mean it that way. I meant in terms of the counterfactuals as in the efficiency of the government or the ability of the government to get decisions right, even if it makes mistakes after that. That's the part that I was talking about.

Keyu Jin: I think some of the... If you look at certain parts of China, I think you'll get that analogy as well. There are a lot of cities that have done really well. There are a lot of cities that have done poorly. I think as a whole country, let's say, without the state mobilization, without the state initiation, without the state coordination, I don't know. How do you get EVs to be... How do you make a dominant car industry within 10 years? Again, the costs are there, and we're seeing that in action. The overcapacity, the debt issues. Finally, 80 EV companies will become three in the end. But ultimately, there's competition in the end. I think that's the lesson that we draw, is that industrial policy leads to ultimately more competition could be a good one. I don't know. I mean, these are the things that we should focus on. But again, it's also the government has done lots of things right and many things wrong. We tend to focus on the things that are wrong. Also, if we look around the world, I argue there are plenty of governments that are making serious policy errors without having China's political system.

So I do believe that there are a lot of critiques we can put on China for the bad policies in the recent years in particular, but I don't think they have made China collapse. I don't think they're outrageous by the norms of what we're seeing around the world. I think there were policy errors, there were conceptual issues. But again, it's not that bad to put into perspective. And again, you have to also look at the end result. Again, DeepSeek happened not in times of comfort, Europe, but in times of crisis. And the dynamism that are still there despite the economic weakness, I think it's still indicative that something has gone right. So finally, to conclude, again, I want to say the pendulum swings. A few years ago, yes, maybe I think they have gone a little astray. And your talk was about populism. There were some populism tendencies. But now, two years back, they're focused squarely on economics again. All about consumption and growth and coming back and how to react to... So we don't talk about common prosperity anymore. The whole Marx's, Lenin's rhetoric doesn't really feature very prominently anymore in China.

So this pendulum is all... And I said that two years ago, and I didn't convince people, but it is winged back. So to summarize that, I'd say more Mao in times of confidence and more Deng in times of crisis.

Indermit Gill: Very good. Very well put. Thank you very much. This has been an education. Thank you very much. Give me a hand.

Keyu Jin: Thank you.

Karolina Ordon: Thank you very much. Just a reminder that tomorrow we're starting at 9:30 with breakfast starting at 8:30. Right here, not at CGD, but right here in the present auditorium. Thursday and Friday sessions are here.

[END OF TRANSCRIPT]