In terms of government investment in education, China remains distinctly average. However, what sets China apart is the rising quality and widespread availability of basic education (primary and secondary).

According to the Stanford Index of Quality of Education, most East Asian economies and advanced Western economies are at the top, while developing countries are mostly at the bottom. China is the exception: It is a developing economy that provides a relatively high quality of basic education. Basic Education has a significant impact on economies – Stanford believes that a difference of two percentage points of education quality translates into 1% of per capita GDP growth. This is a large part of the puzzle which translates into 1% of per capita GDP growth. This is a large part of the puzzle.

This trend highlights the importance of the previous two factors. China’s per capita GDP growth is being accelerated by a faster accumulation of physical capital (due to higher savings) and relatively higher quality of education – making its workforce more capable of absorbing existing Western technologies, and consequently spurring on greater innovation and technological catch-up.

China’s R&D spending is rising rapidly, but this is not led by government policy. This is an indigenous occurrence; it’s coming from companies, entrepreneurs and multinationals, as well as government spending.

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Ultimately, economic fluctuation may be inevitable and it’s clear that growth can be slowed down somewhat by geopolitics or policy mistakes. But, as long as China stays the course of market reform and opening up – or at least does not significantly reverse the current trend of market reforms – then it can still achieve a relatively high long-term growth rate, averaging about 5% a year in the next 10 to 20 years.

In 1700, China and India were the world’s biggest single-entity economies due to their massive populations. However, this status quo was not to last. Expanding revolutions in scientific thinking and industrial production would smash this ancient formula to pieces, forever. With it, both China and India would lose their economic status in a (relatively) short space of time.

From 1820-1950, China and India’s GDP growth rates had remained essentially flat, while that of the US took off spectacularly. Between them, Europe and the US owned over 50% of global GDP share, while China and India accounted for less than 9%.

When we think about China’s economy today, and consider its potential future growth opportunities and possible stumbling blocks, historical context is as important as ever. China’s history tells a compelling tale of how politics can shape economic upturns and downturns more profoundly than the ‘surface level’ events that lead to more short-term economic shocks.

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In every country, there is a tug-of-war between efficiency and equity. This is the very balancing act that has perplexed leaders since the Industrial Revolution, and it features heavily in Chinese political thinking today.


Surges and pitfalls – How policy has impacted China’s economic fortunes

Thirty years after the founding of the People’s Republic of China, the reform and opening-up policies of Deng Xiaoping introduced large amounts of market-economy elements to China, leading to a 10.2% average GDP growth between 1978 and 1988 – far outstripping the 3.9% growth of the first thirty years of the Republic that featured numerous political movements including the ten-year-long Cultural Revolution that ended in 1976.

Chinese-style modernisation as proposed by President Xi Jinping last October, aims to create an economy that enjoys both maximum efficiency and maximum equity, with the most important goal being promoting shared prosperity. This has begun with the ongoing process of lifting hundreds of millions of Chinese citizens out of poverty. Beijing claims it will go beyond this goal with the active redistribution of wealth to close the inequality gap. How and when this will work out in practice remains to be seen.

The future outlook for the Chinese economy

The end of the zero-COVID policy and the subsequent opening-up may signal the end of this short-term shock that hit the Chinese economy hard between 2020-2022. How well the economy can climb out of this pitfall is yet to be seen.

What we can be sure of is that politics will continue to shape deeper economic trends in China, both positive and negative. The country’s future economic success will depend on its political leadership providing greater certainty and a deeper commitment to an open market economy in which government maintains a reliable and good-faith actor role.

This is no small task, and Chinese-style modernisation won’t be fully achieved overnight. It will be years, possibly decades, before we can see tangible signs that everyone in Chinese society is enjoying the fruits of greater efficiency more equally.