

China in the New Era

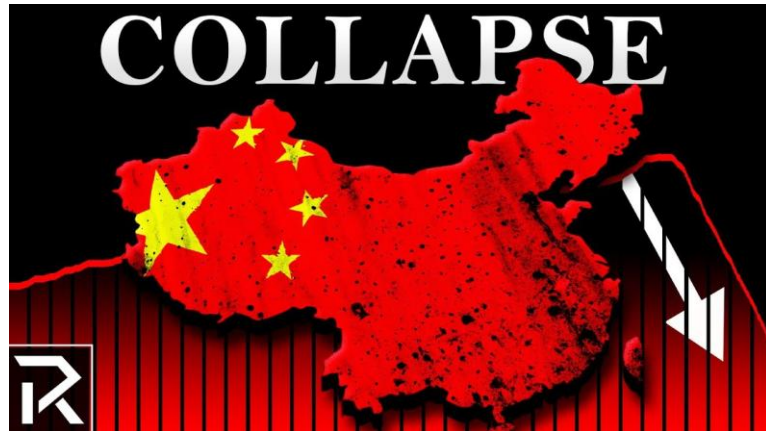
*National Economic Council
Republic of Indonesia*

Sep 2026

Jakarta

Keyu Jin

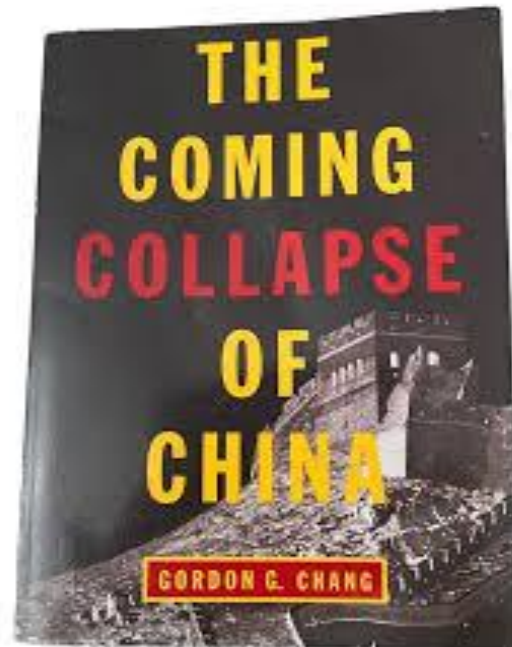
1980s



1998



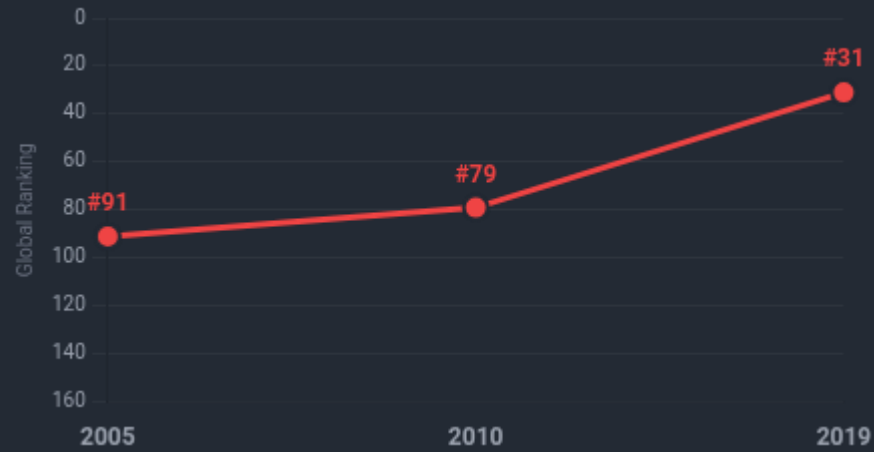
2020's



2001, 2015

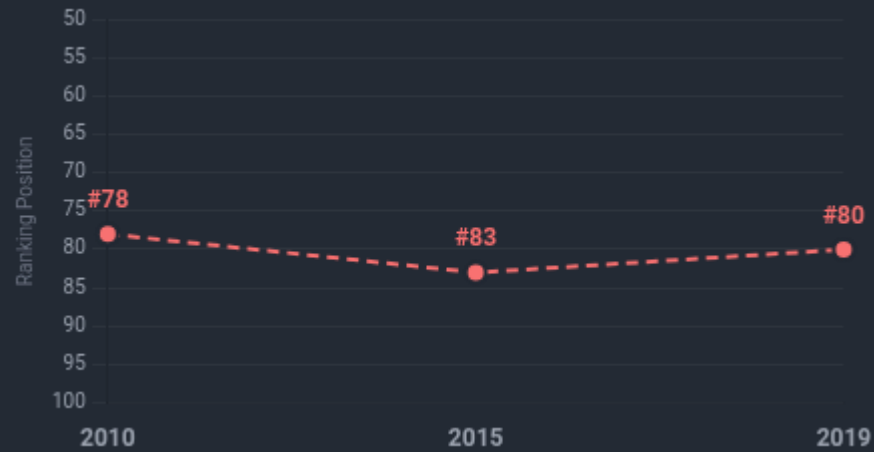
Ease of Doing Business

Historical Ranking (Lower Rank # is Better)



Corruption Index

Global Ranking (Stagnant Perception)



THE CHINA PARADOX

"Achieving world-leading economic velocity despite challenging governance metrics."

Low Rankings

High Growth

Unmatched Growth

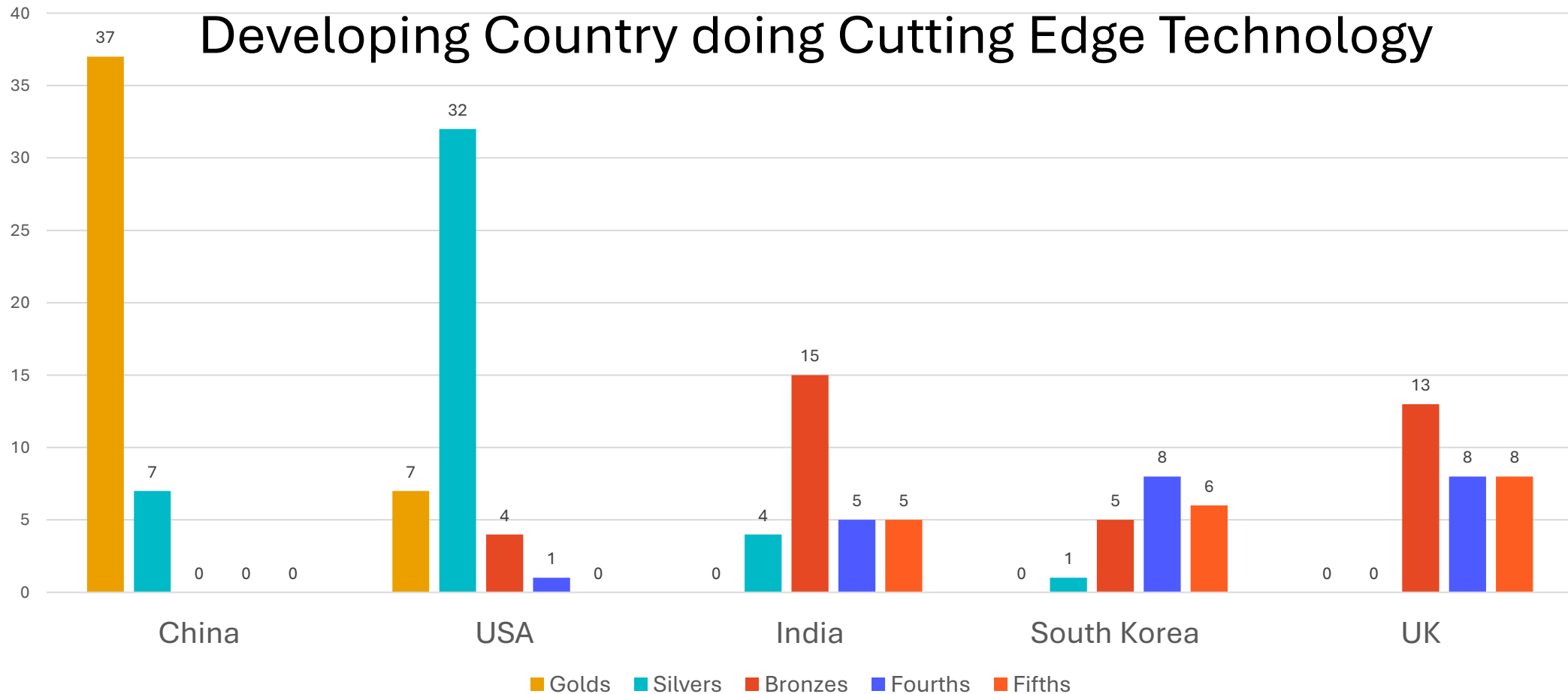
Duration of Sustained High Economic Growth (>8%)



26 YEARS

Global Record Holder

Developing Country doing Cutting Edge Technology

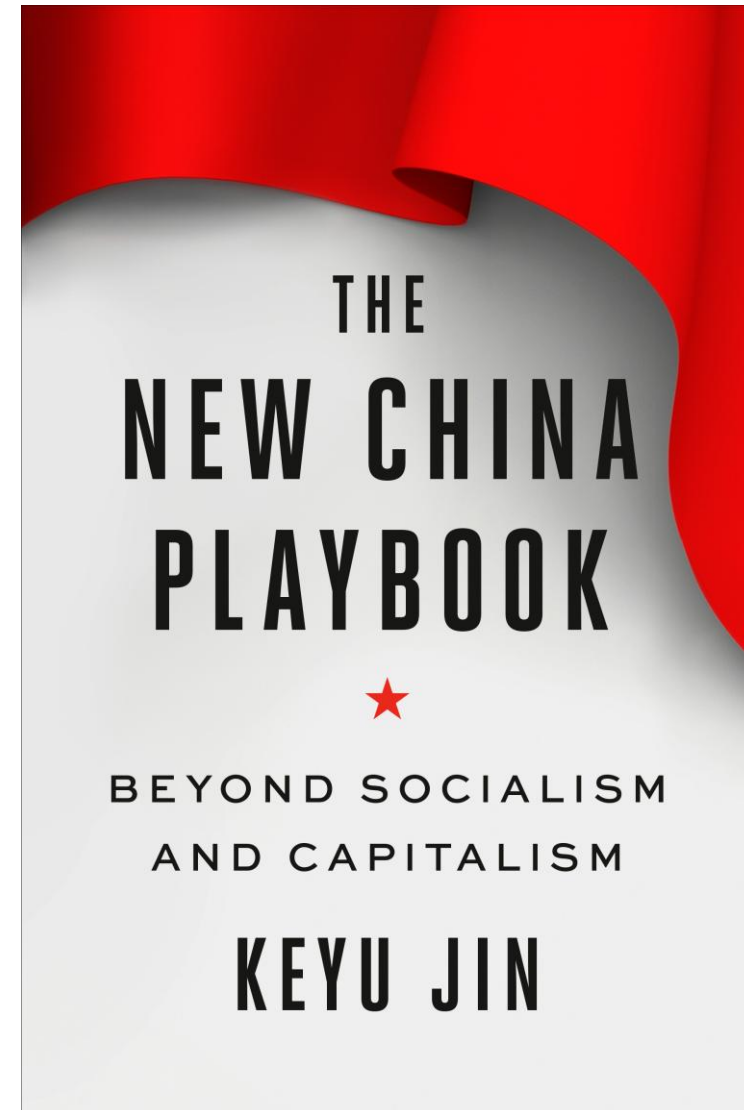


Top 5 ranking across 44 sectors

The ASPI study 2023 is based on an analysis of the top 10% most-cited papers in each area of research published between 2018 and 2022 – a total of 2.2 million papers; China is the leading country in **37 of the 44 cutting-edge** technologies evaluated, often producing **more than five times** as much high-impact research as its closest competitor.

What We Get Wrong

- More than one way of making things work
- Cultural constraints and historical legacies
- (‘irreconcilable paradoxes’?)
- Political centralization + Economic decentralization



Four Phase of Transformation



1. Catching the Mouse – Pragmatic Reform

It doesn't matter whether the cat is black or white, as long as it catches mice."

The first engine was **pragmatism**: experimentation, opening, and letting markets work where they could.

2. Flying Geese – Industrial Catch-Up

Joined the **Asian flying geese formation**, absorbing manufacturing from Japan, Korea, and Taiwan.

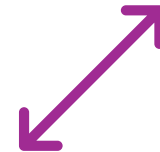


3. Innovation Flywheel – Technology Scaling

Once the manufacturing base was built, innovation began to reinforce itself.

Talent, capital, data, and scale began to create a **technology flywheel**.

Manufacturing+ scale+ leading edge tech



4. The Domestic Engine – Consumption and Services

The next stage is a **large middle-class consumption economy**, where services and domestic demand become the stabilizing force.

China has entered a new macro regime

- Post-property
 - Post-globalization boom
 - Post-demographic dividend
 - Peak-urbanization
-
- Weak Policy Transmission
 - New growth sectors capital-efficient
 - Growth becomes stable but harder to accelerate



1. The Model



**Political
Centralization**

**Central
Government**

**Strategic objective
Whole of a nation**



Promotion



**Economic
De-centralization**

**Local
Government**

+

Companies

GDP

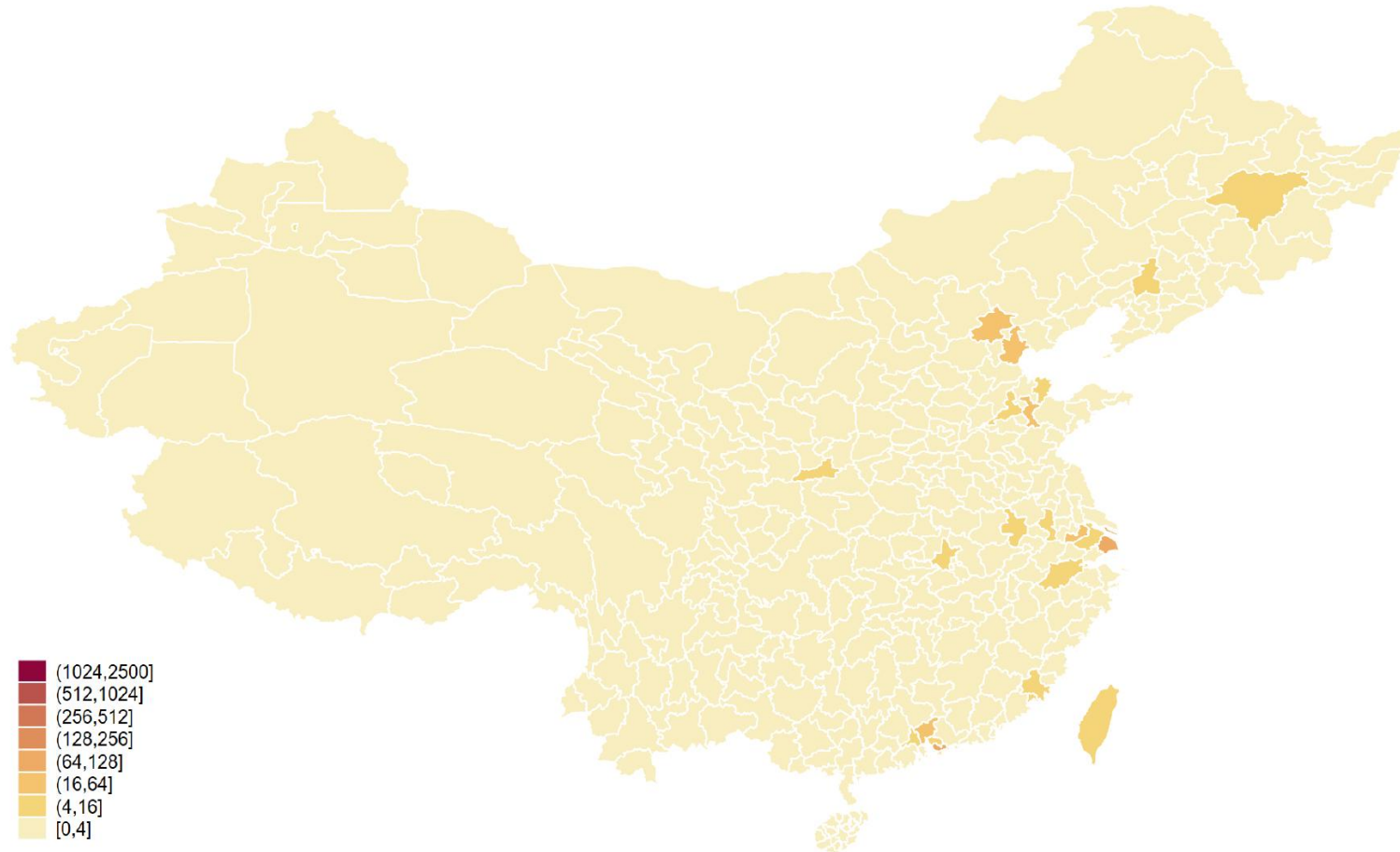
Innovation

Environment

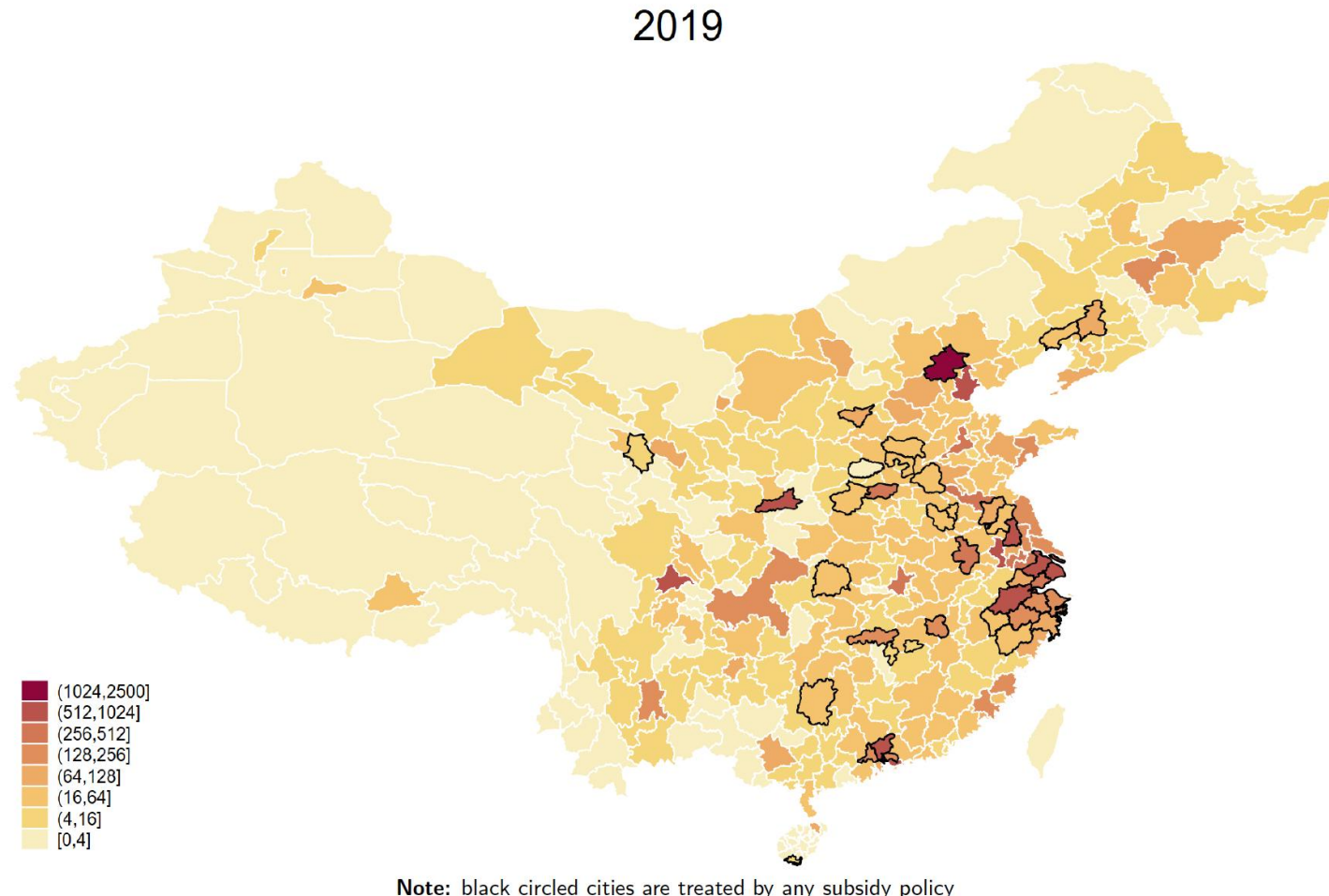
Stability

Solar Patent Distribution at City Level: 2005

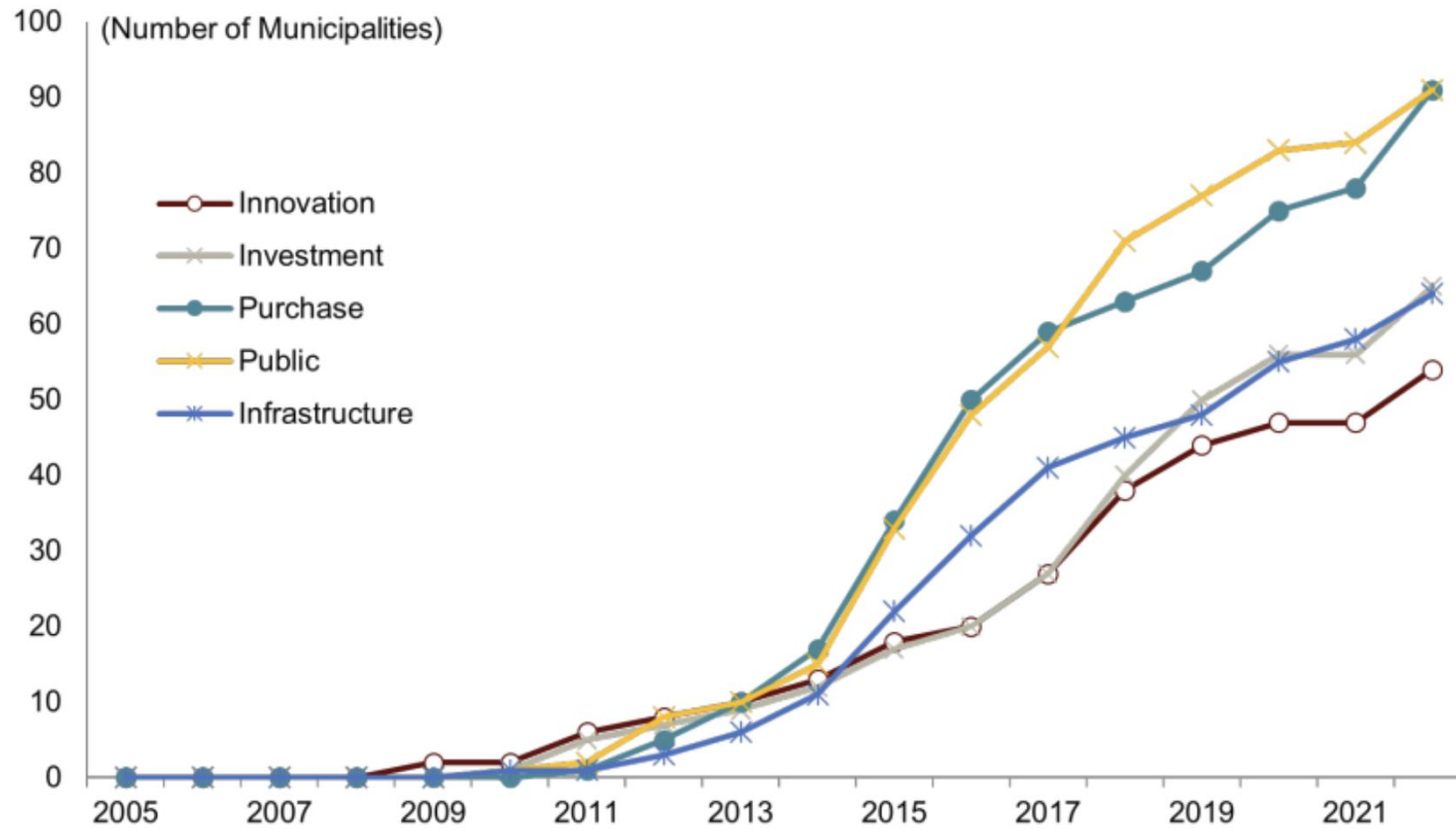
2005



Solar Patent Distribution at City Level: 2019

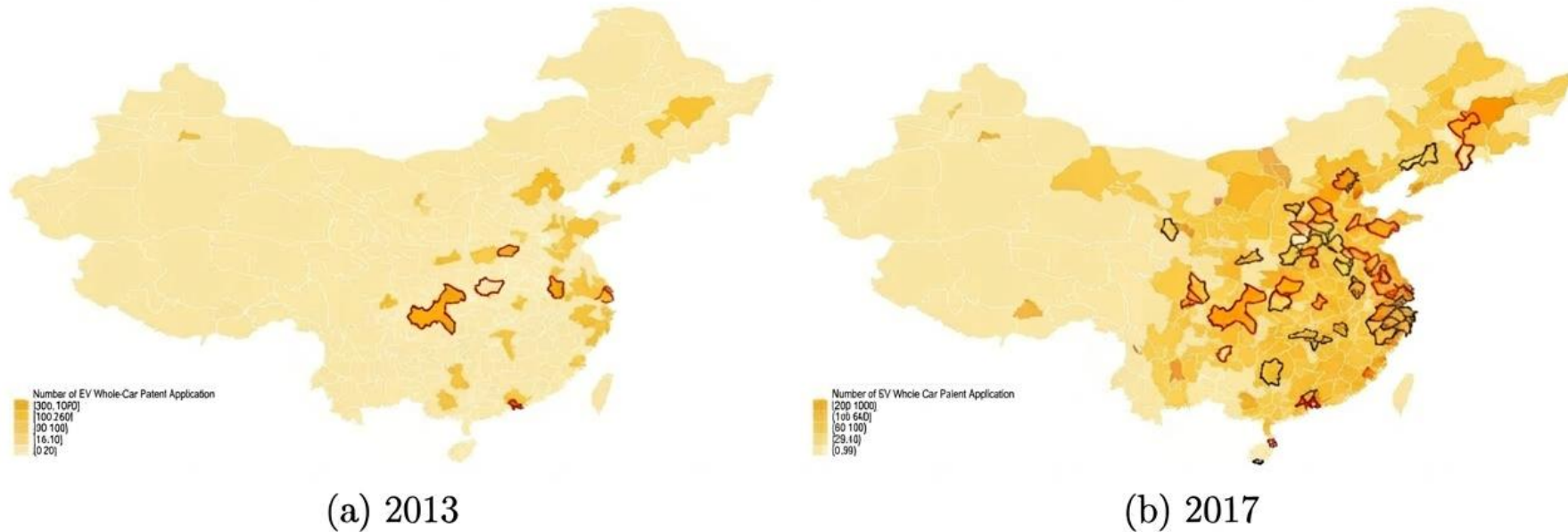


EV Industrial Policy



EV: Geographical Distribution of EV Infrastructure Subsidy

Patent Distribution at City Level



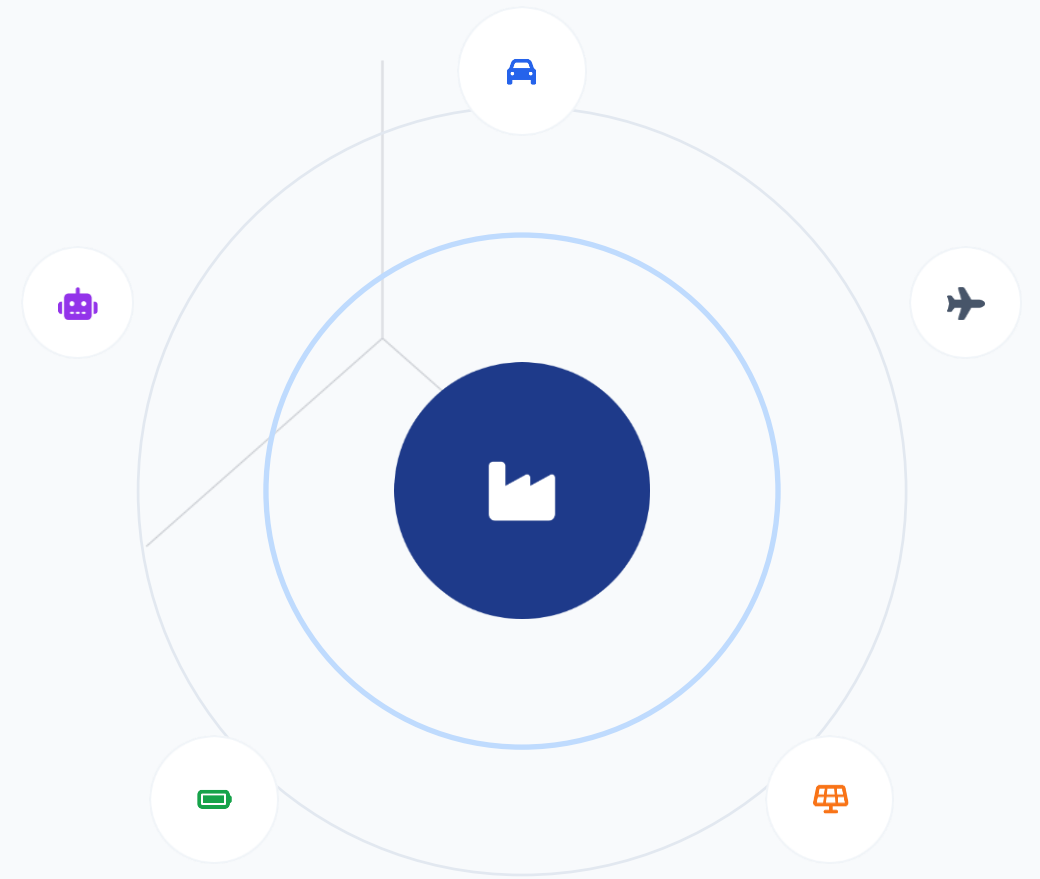
Geographical Distribution of EV Infrastructure subsidy

2. Innovation Ecosystem

Manufacturing Innovation Flywheel

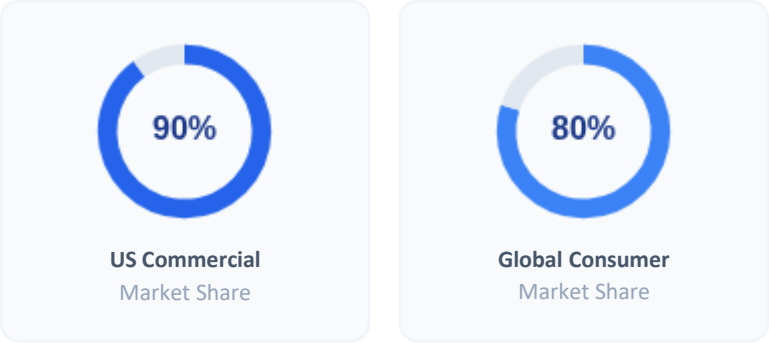
How China's cross-industry capabilities compound advantage across EVs, batteries, solar PV, drones, robotics, and heavy industry.

Innovation flywheel: self-reinforcing technological ecosystems. Once the system starts spinning, innovation accelerates because each component strengthens the others.



Shenzhen Hardware Ecosystem & DJI: Innovation Through Proximity

DJI Global Market Dominance



Innovation accelerates when **design, prototyping, and manufacturing exist within the same ecosystem**, allowing ideas to move from concept to product faster than anywhere else in the world.

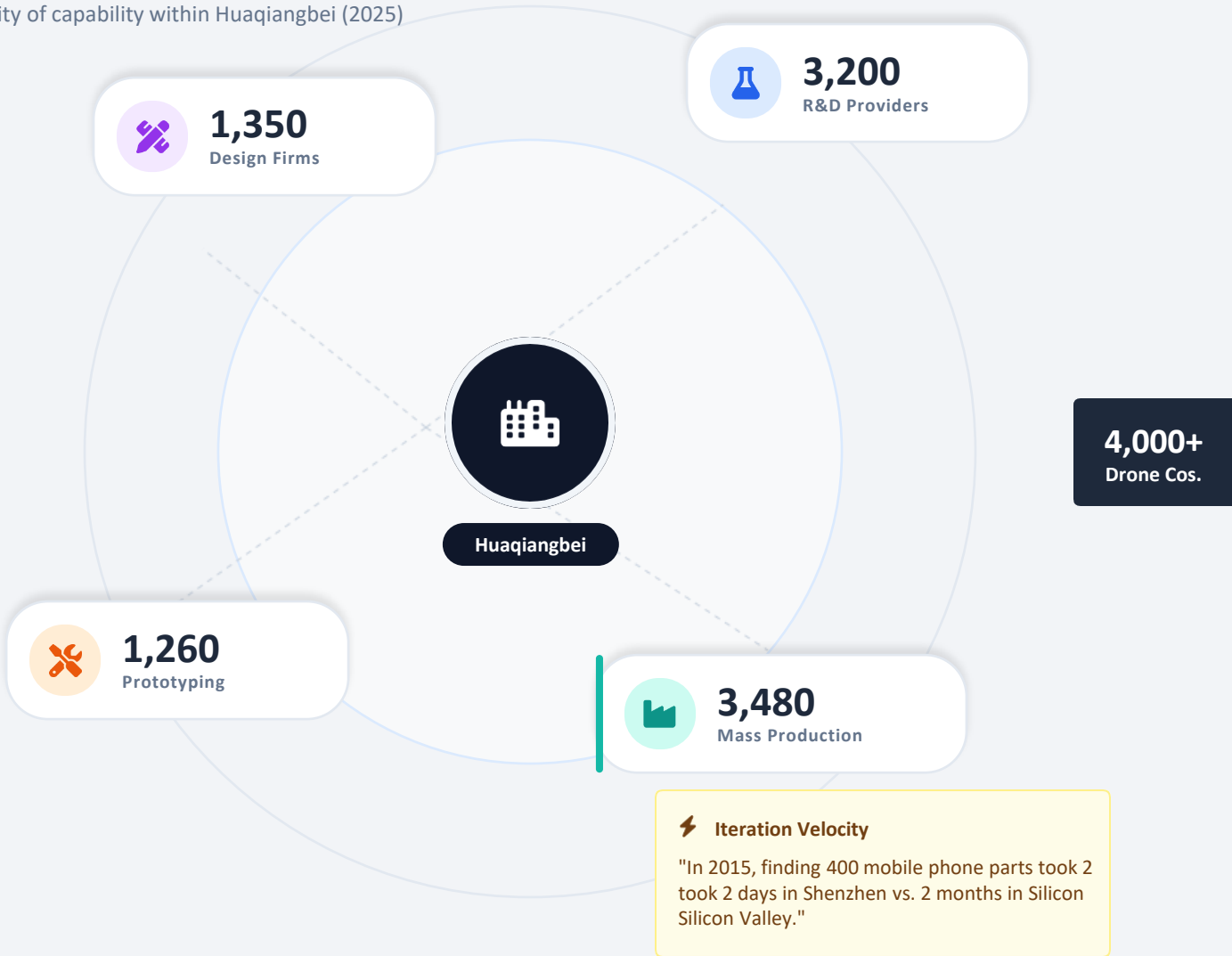
Technological Spillovers:

Livox Spinout
LiDAR tech incubated within DJI now powers autonomous vehicles & robotics.

2023 Drone Economy
610k Flights 77 Routes

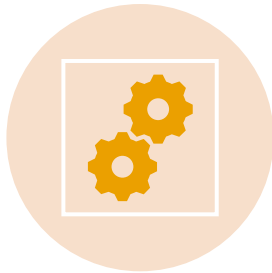
The 1-Kilometer Hardware Flywheel

Density of capability within Huaqiangbei (2025)



US vs China

	United States	China
Core strength	Breakthrough innovation	System integration
Mechanism	Research → invention	Production → iteration
Advantage	Frontier science	Scale + speed
Structure	Firm-led	Ecosystem-led
Weakness	Slow deployment	Bottlenecks at frontier
Outcome	Invents first	Improves faster



ADVANTAGE IN MANUFACTURING
CAPACITY + SCALE+ LEADING
EDGE TECHNOLOGY



INNOVATION = EMBEDDED IN
PRODUCTION



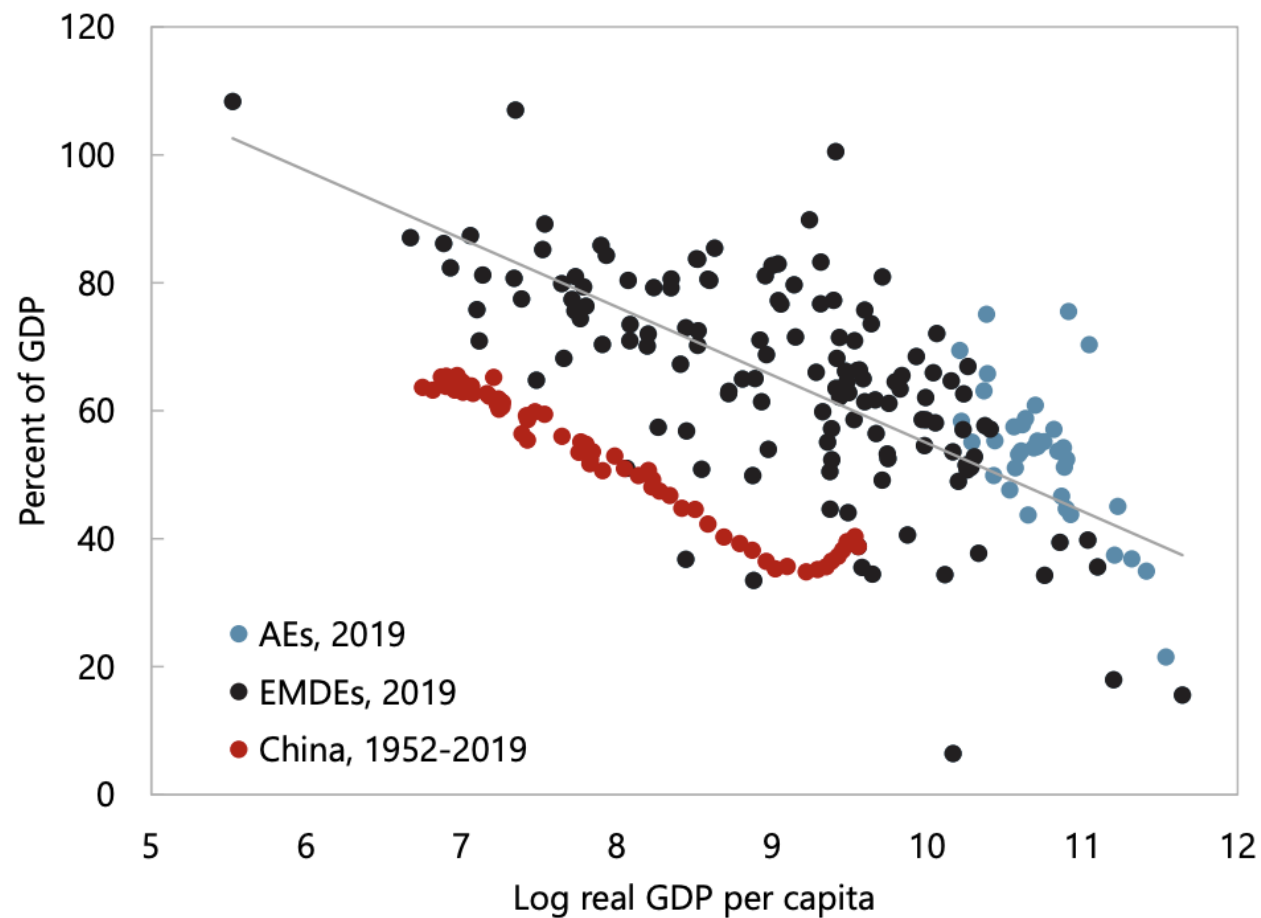
ECOSYSTEM COMPETITION
MEANS CHINA DOESN'T NEED TO
WIN EVERY FRONTIER
TECHNOLOGY



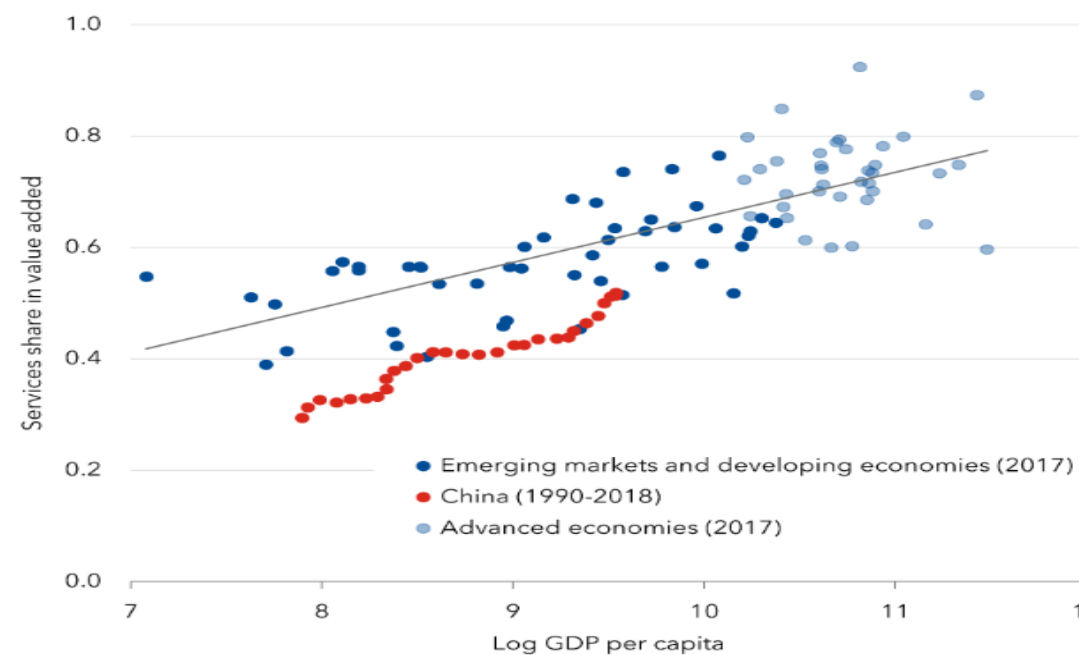
SPEED, COST, INNOVATION,
RESILIENCE (AUTONOMY)

3. Fallacies

(a) Consumption



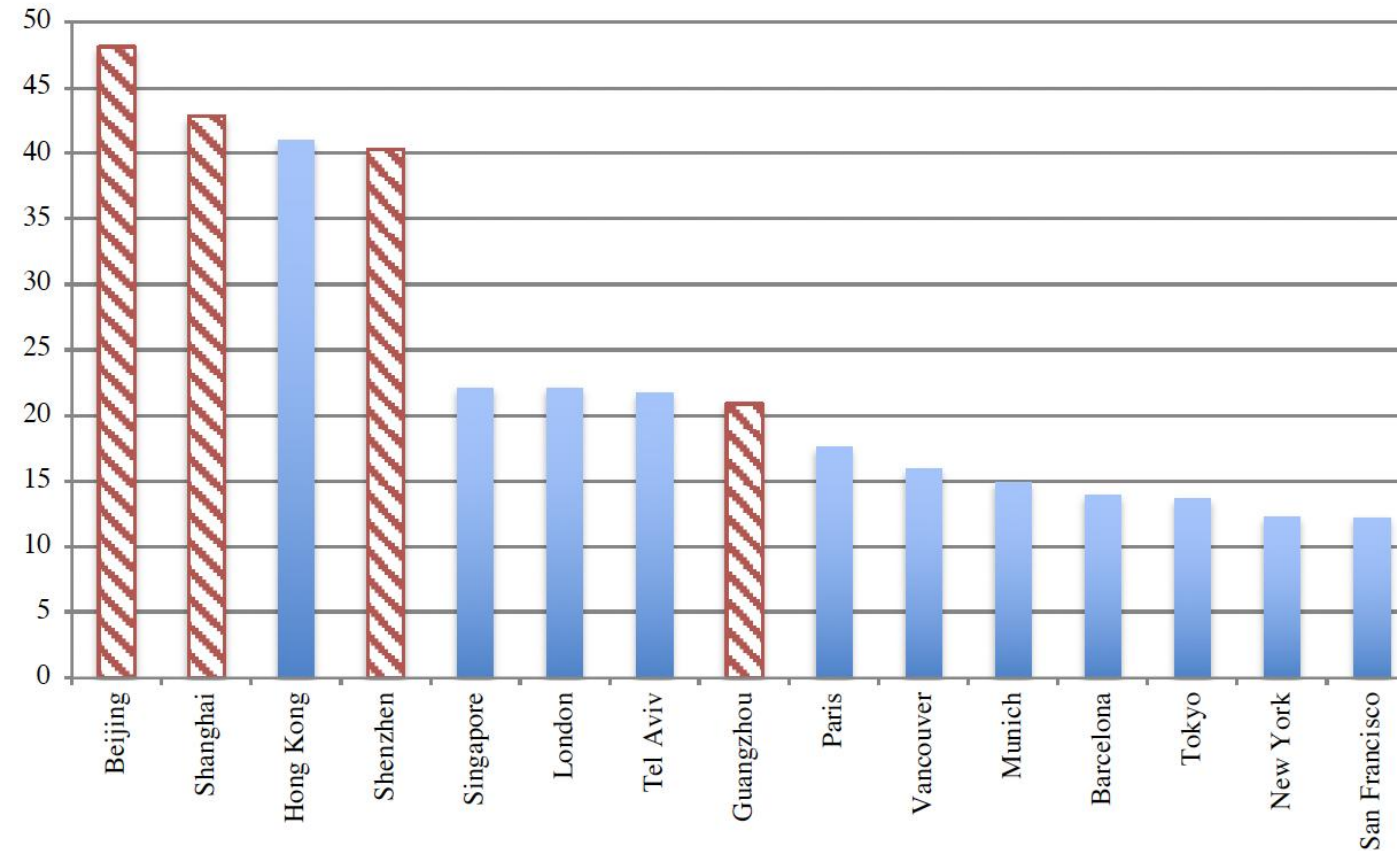
China's service sector is smaller than comparable economies



Source: IMF staff calculations.

Puzzle: High Housing Prices Despite Low Income

This figure shows home price-to-income ratios in Beijing, Shanghai, Hong Kong, Shenzhen, Singapore, Tel Aviv, Guangzhou, Paris, Vancouver, Munich, Barcelona, Tokyo, New York, and San Francisco, respectively.



Source: Numbeo

“Involution”

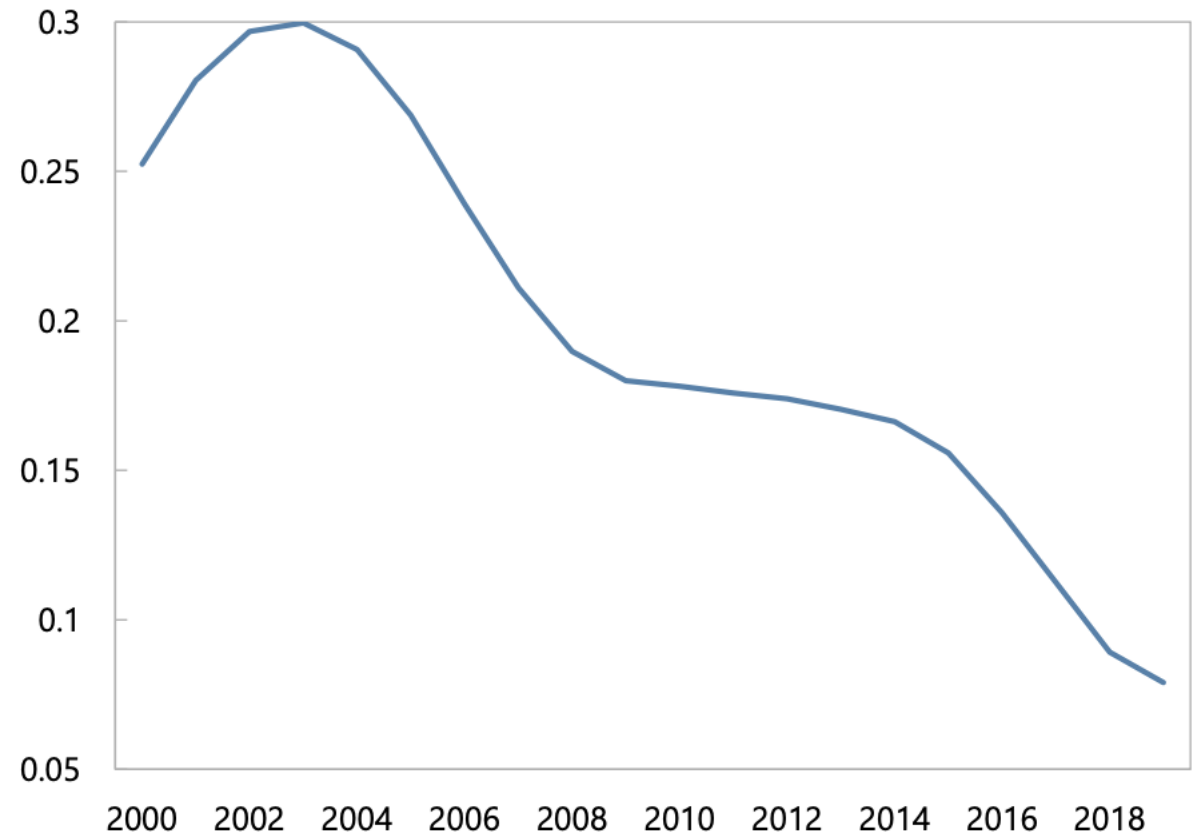
The marginal product of capital in China fell from 23% in 2010 to 14% in 2019 - a drop of nearly 40%

Diminishing Investment Efficiency

Validates Overcapacity Concerns

Debt Sustainability Risk: Lower returns make it harder to service the debt

Involution



Best Performing economy, worst performing stock market

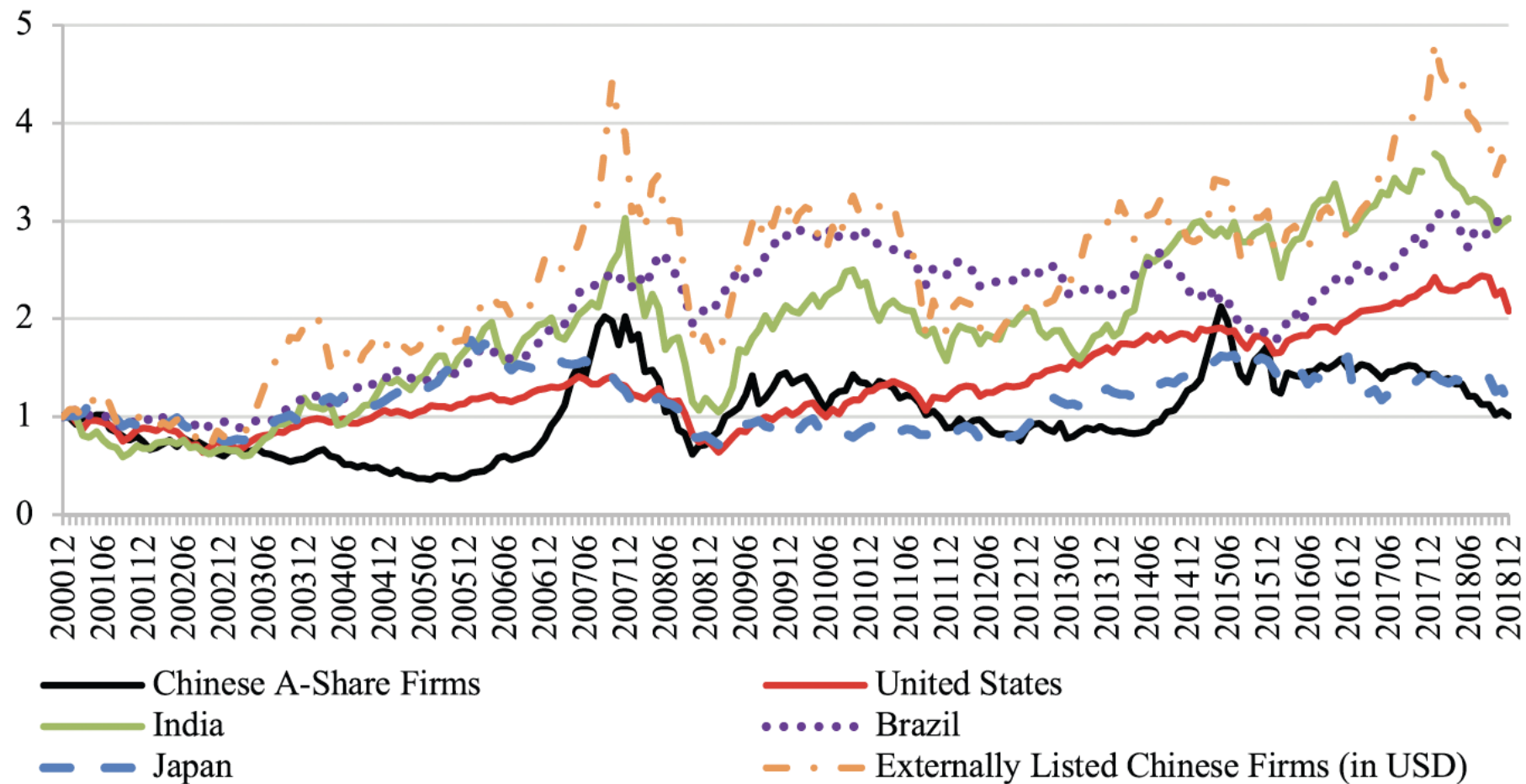
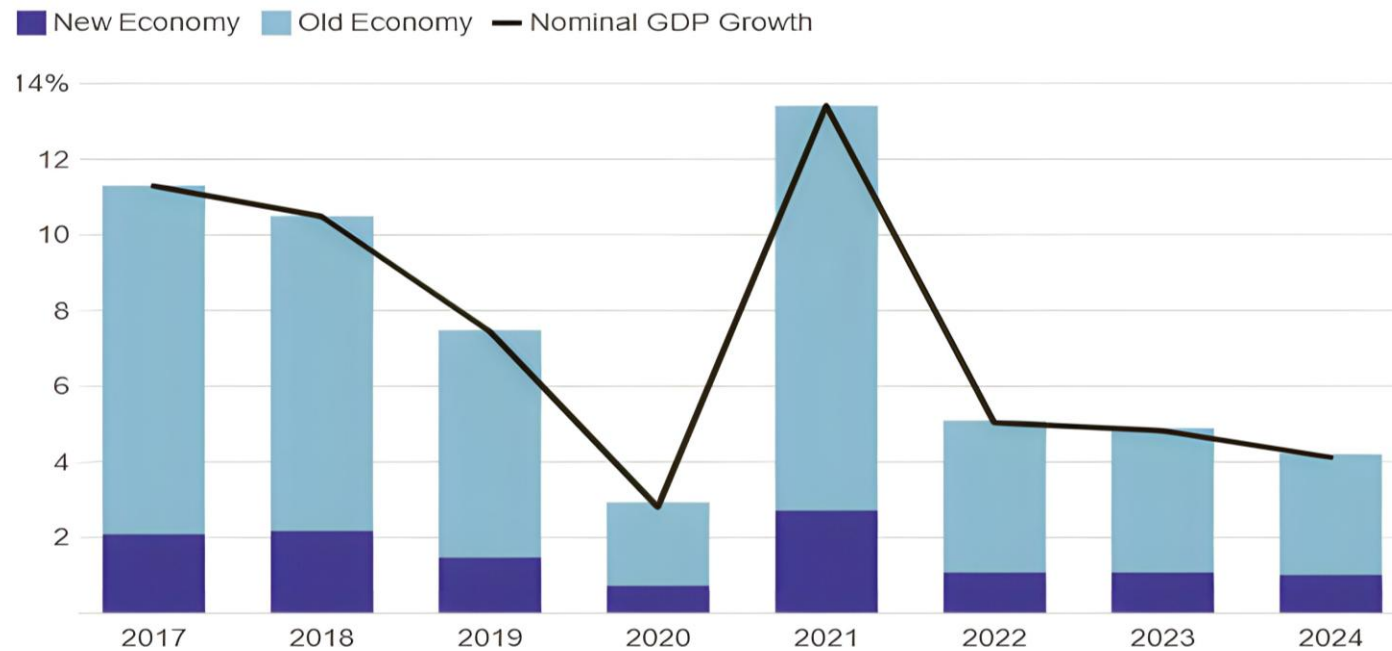


Figure : China's New Economy Contributes Less to Growth Than the Old Economy

Percentage points, year on year



Source: National Bureau of Statistics via CEIC.

Note: "New economy" as defined by the National Bureau of Statistics' "three new" activities value added from new industry, new business, and new business models. "New economy" value added estimated for 2024 based on the 2021–23 trend.

Current Macroeconomic Slowdown

- Growth Drivers are Narrowing
- Weak demand= expectations + wealth shock
- Balance sheet recession
- Transmission problem > stimulus problem: monetary policy loses traction
- Risk appetite, collateral value, and income expectations are weak
- Households, private sector, local governments, banks all constrained
- Now:
 - policy easing → households wait → firms wait → growth stabilizes but doesn't accelerate

4. 15th Five Year Plan

Autonomy as the Core Objective

- 1. Demand → Consumption
 - Consumption is **strategic insulation from external demand shocks**
- 2. Finance → Real estate to Capital markets / RMB
 - Finance is about **control over capital flows and risk pricing**
- 3. Energy → Diversification / electrification
 - Energy autonomy = **reduction of geopolitical vulnerability**
- 4. Technology → indigenous innovation and localization
 - → Technology autonomy is about **owning the bottlenecks**

From Real Estate to Capital Markets

- **Current (2024):**
 - Stock market cap: **~RMB 100 trillion**; GDP: **~RMB 140 trillion**
 - Market cap/GDP ratio: **~70%**; Mature market benchmark: **100–120%**
- **2040 Target:**
 - Expand to **~RMB 400 trillion** market cap
- **Strategic Role:**
 - Channel risk capital into productive services
 - Strengthen household wealth effects
 - Support TFP and high-tech enterprise growth
 - Encourage long-term funds
 - Increase foreign participation

Opportunity: Equity markets will channel saving away from property, support innovation and create significant value in the next 18 months

From Investing in Infrastructure to People

- **Proposed Increase for rural pension**
 - Raise to **RMB 620** within 3 years
 - Raise to **RMB 1,000** within 5 years
- Generate **RMB 8.3 trillion** in new demand
- Boost GDP growth by **0.3–0.5pp**
- Narrow pension gap from **15:1 to 3.5:1**
- Funding Mechanism: Exploring transfer SOE financial capital to pension funds (following 2017 reform transferring 10% equity)
- Opportunity: Healthcare, education, elderly care, services (domestic travel, lifestyle)

Energy Autonomy = Strategic Resilience

- **1. Diversification (Reducing External Vulnerability)**
 - Reduce reliance on maritime chokepoints and imported hydrocarbons
 - Expand Supplier diversity and Overland + regional routes
- **2. Electrification (Shifting the Energy System)**
 - EVs → reduce oil dependence
 - Industrial electrification
 - Grid expansion
 - Shift from importing energy → domestically producing energy

- **3. Building domestic Energy Systems**

- Renewables (solar, wind scale leadership)
- Grid infrastructure (integration, transmission)
- Storage + flexibility
- Control not just energy supply—but **energy delivery**

- **4. Energy transitions are **system transformations****

- Stack matters: energy, technology, manufacturing are tightly linked
- Reduce dependence at every layer simultaneously

- **5. Energy autonomy is the **foundation** of:**

- industrial policy
- AI leadership
- and long-term cost advantage

Generational Shifts



**Post 50's
& 60's**



Post 70's



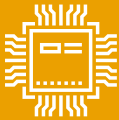
**Post 80's
Buy-a-house
generation**



**Post 90's
Politically
active**



Post 00's



**libeliliberals and
open**



**Materially driven,
less concerned
about political
freedom, safety
and well-being of
children; stability**

**Less driven by
causes, more by
personal, material,
want to be 'middle
class'**

**Consumer, lifestyle,
simple and light**

**Self confidence,
proud of nation,
eager to express,
strong desire to have
social participation**

**Politically
conservative**

Idealistic but realist



Little pink's

**Believe that
country is not
only great but
also powerful**

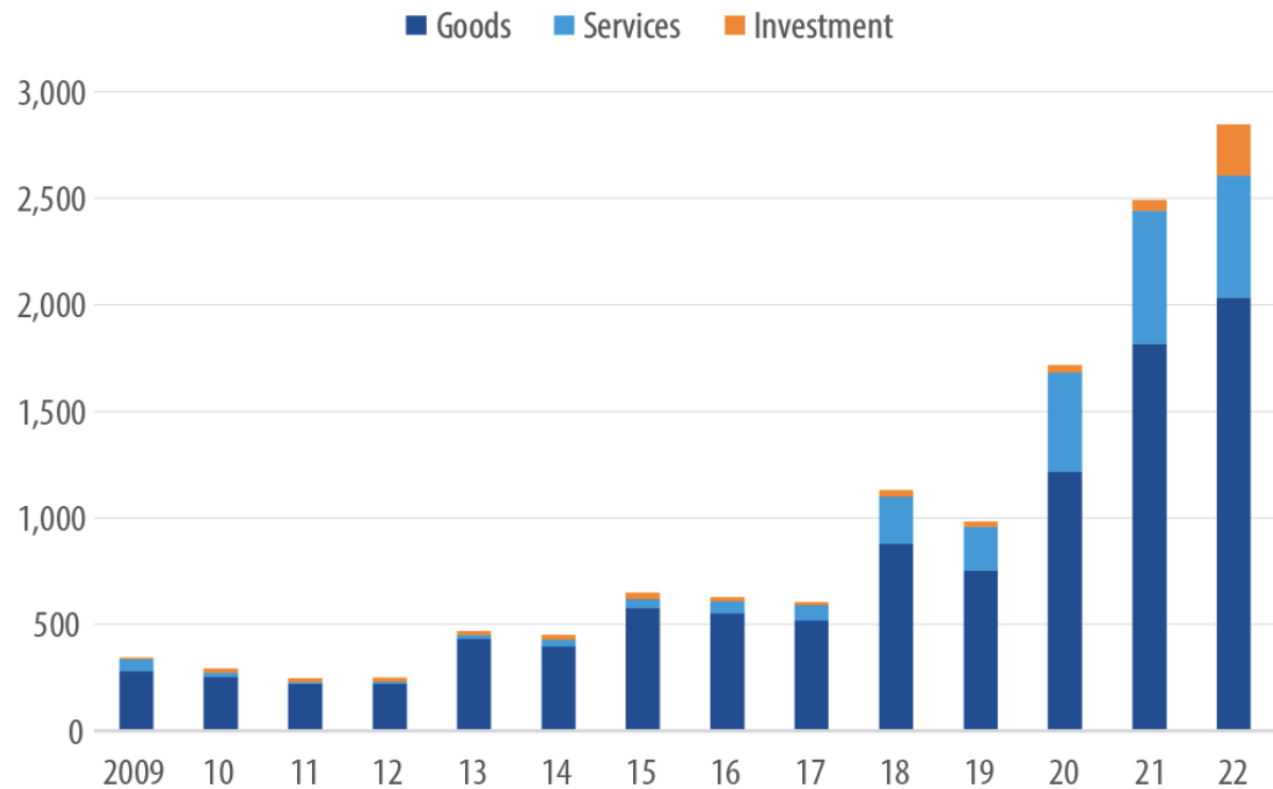
5. China and the World

Restrictions are Rising

Explosion in trade restrictions

After declining during most of the 20th century, restrictions on trade have greatly increased in recent years.

(number of trade restrictions imposed annually worldwide)

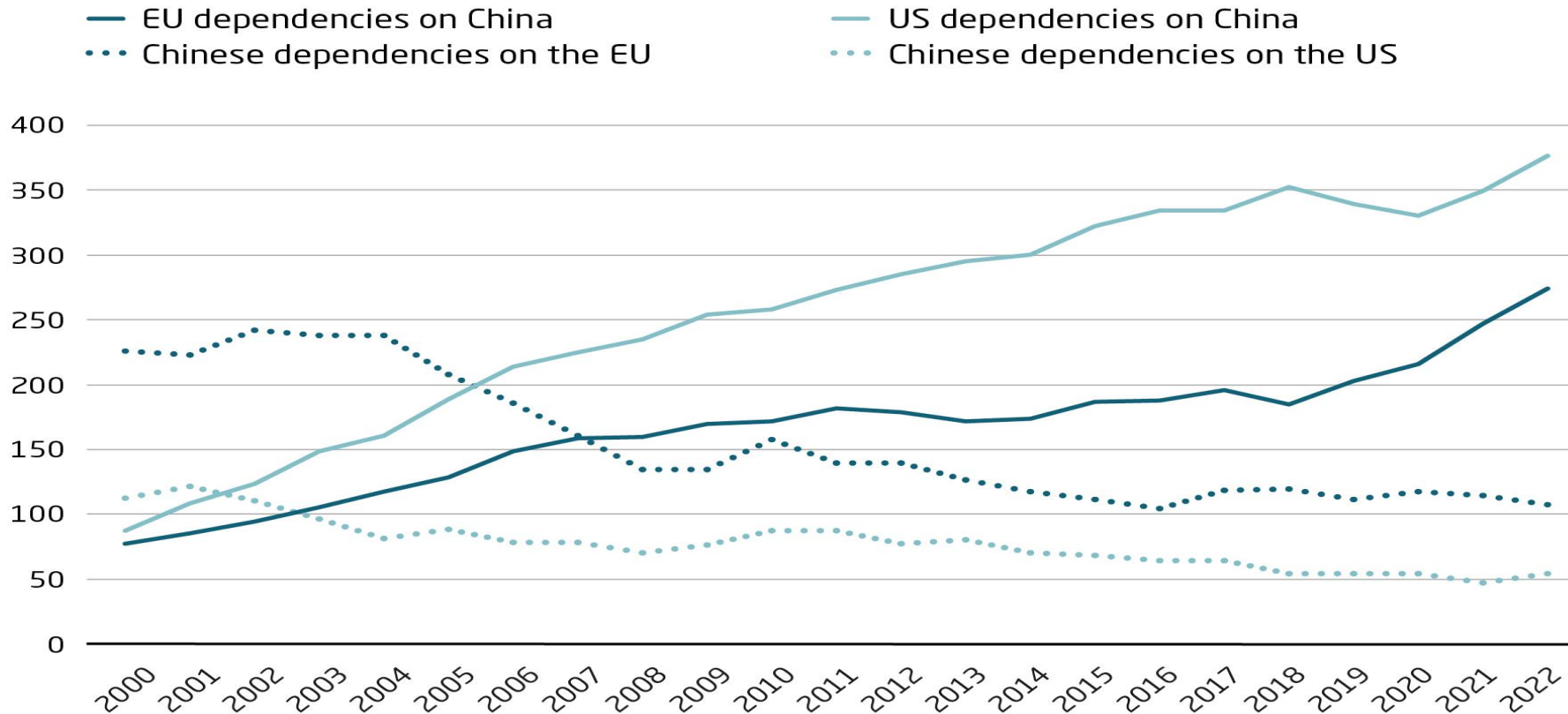


Sources: Global Trade Alert; and IMF staff calculations.

Dependence on China still Rising

Growing imbalances in EU and US interdependencies with China

Dependency by the number of product, excluding the textile sector*

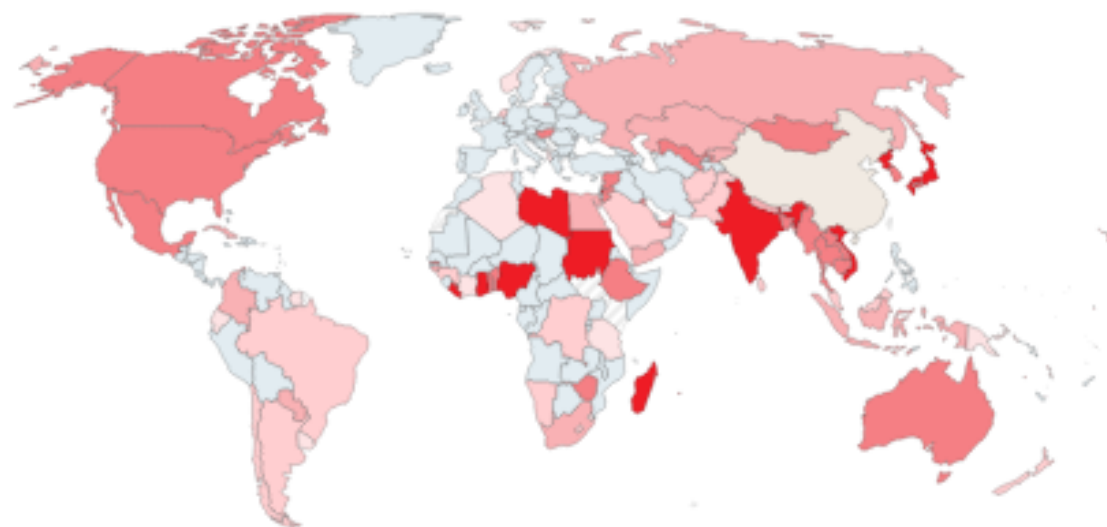


*The textile sector was factored out because it alone accounts for 19 percent of all product categories in the HS6 nomenclature.

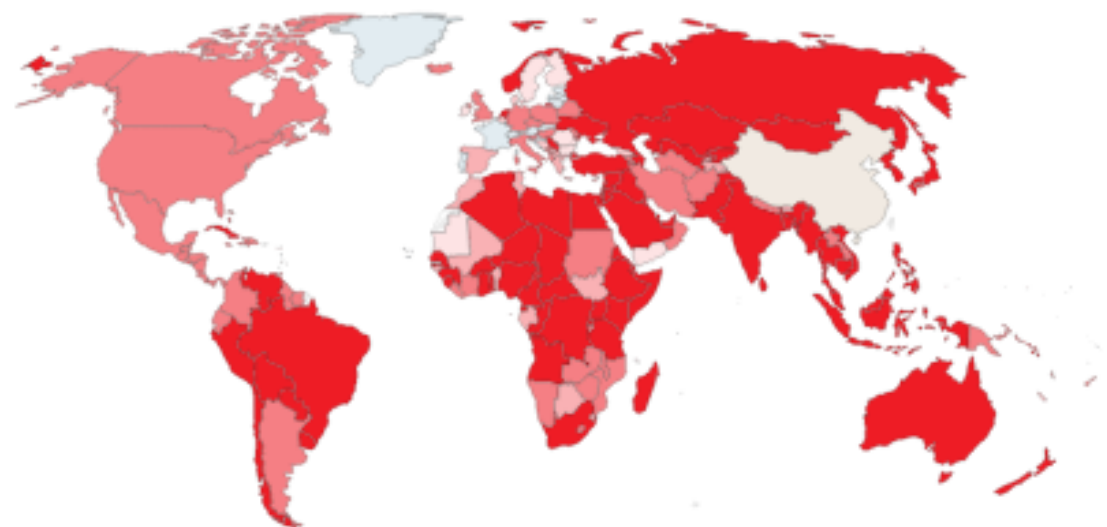
Source: MERICS Trade Dependency Database

China's rank as a source of imports into each country. A rank of 1 means China is that country's largest source of merchandise imports, based on import value.

2004



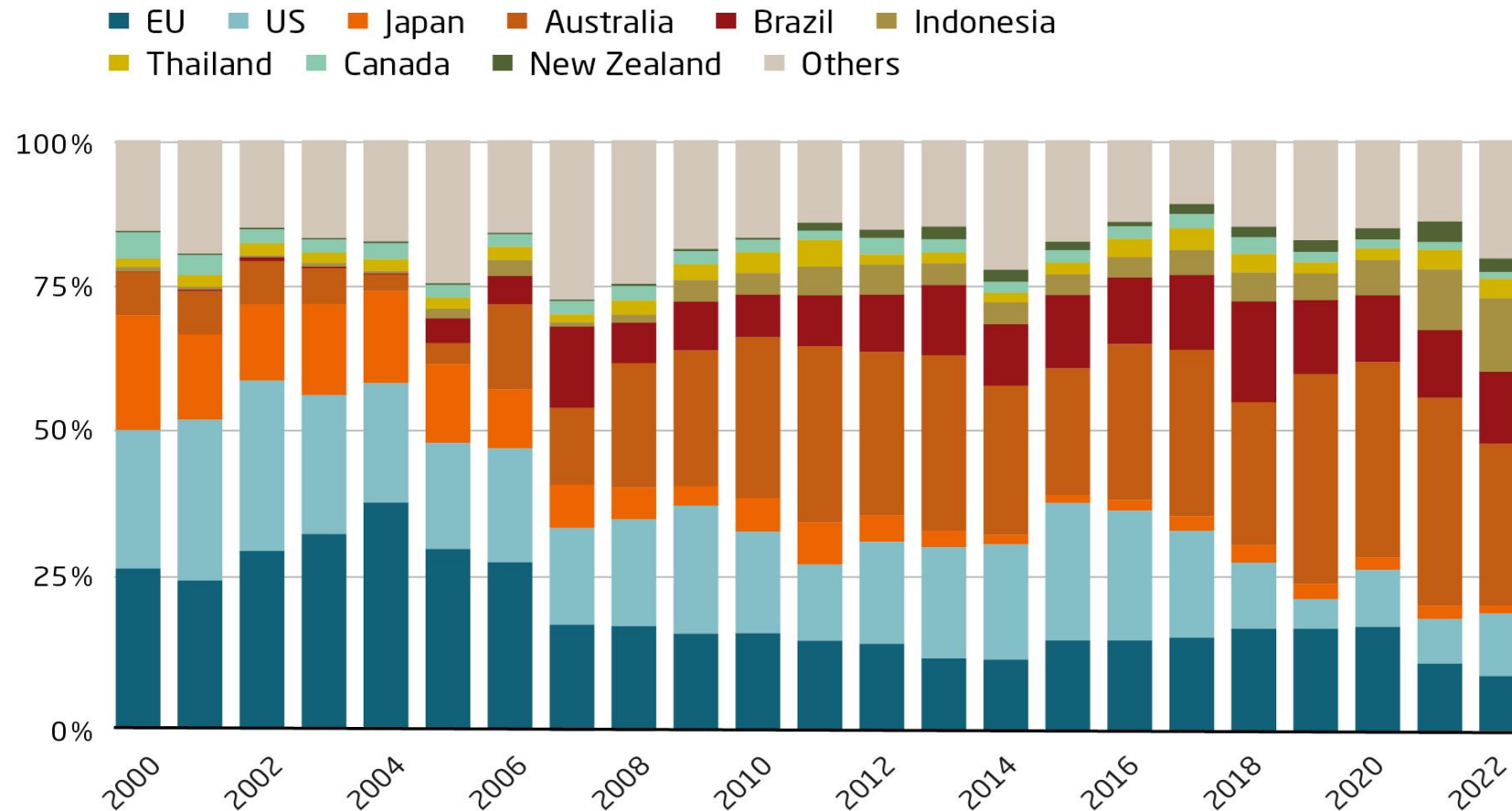
2024



China grew less dependent on the EU, the US and Japan, and more on commodity exporters



Share of Chinese dependency in value by partner



Source: MERICS Trade Dependency Database

Figure 2.5. Trends in the import intensity of production vary for the major economies

Import intensity of production for the major economies, 1995-2020



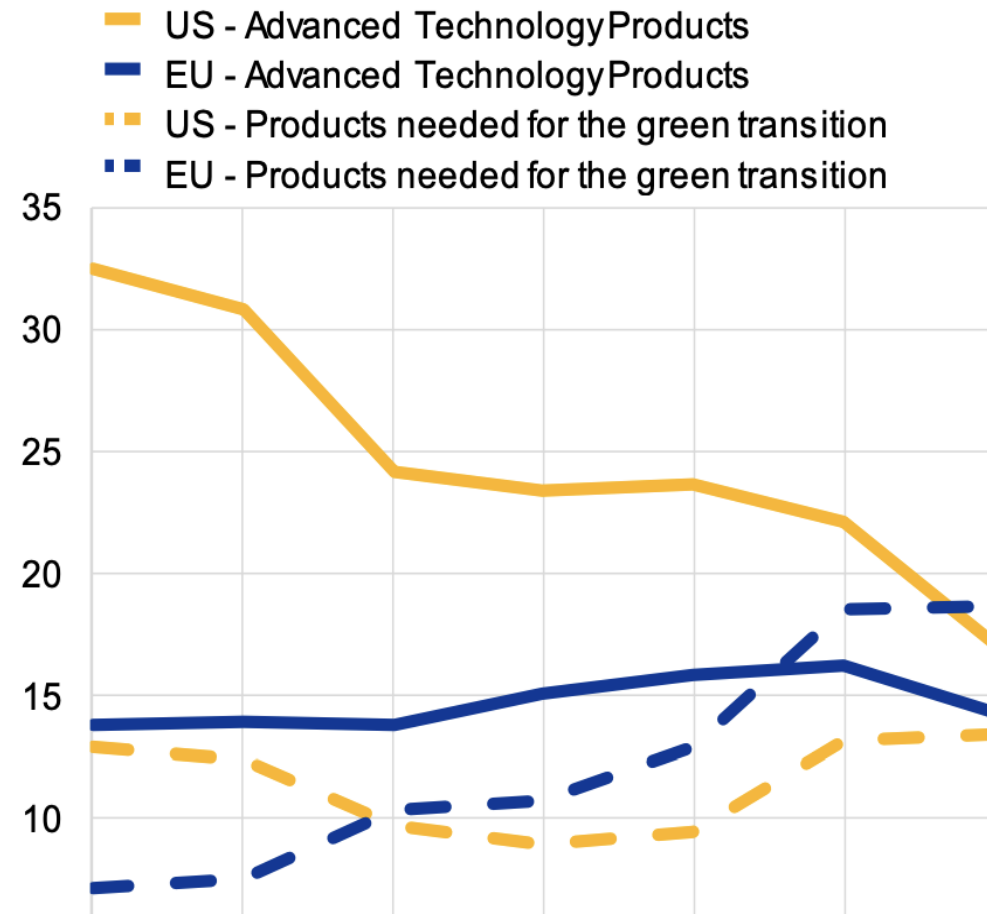
Note: EU27 aggregate is computed treating intra-EU trade as a single economy. Import intensity of global production is computed by adding together all gross imports of intermediate inputs along the value chain before expressing the result as a percentage of gross output.

Source: Based on OECD's Inter-Country Input-Output (ICIO) tables in previous year's prices (OECD, 2024_[16]).

Ongoing reconfiguration of selected trade flows

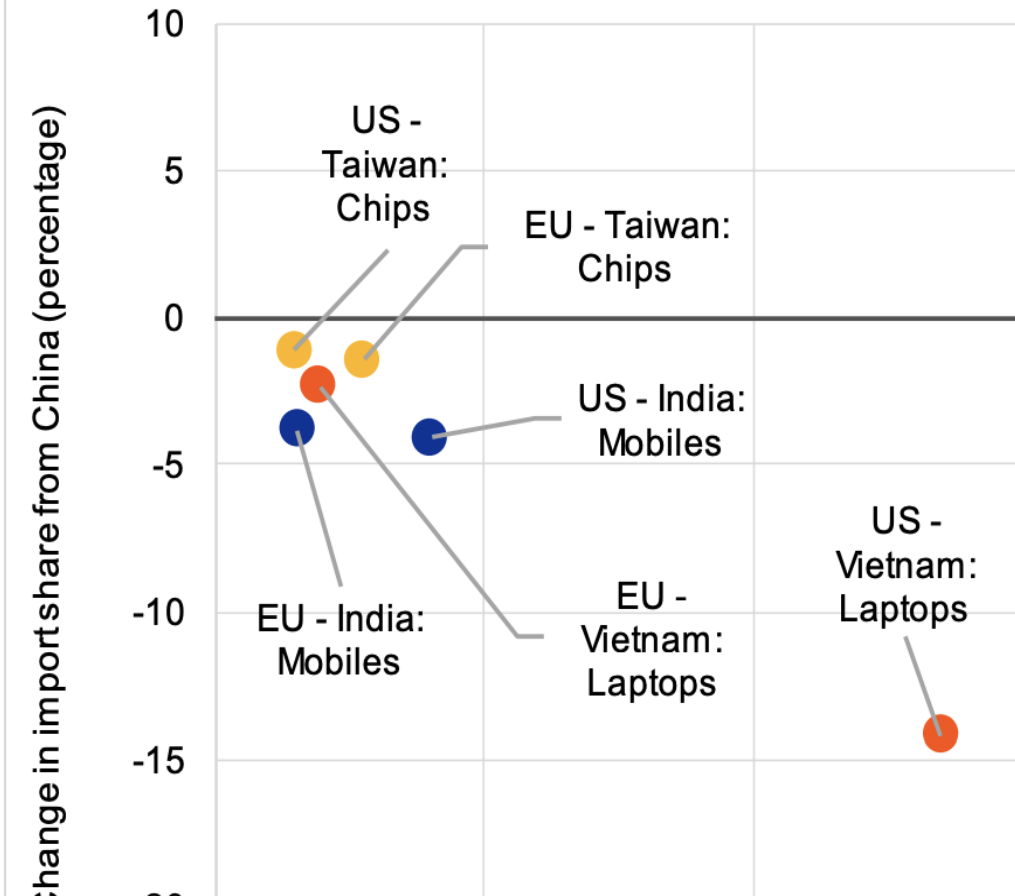
a) Share of imports from China by product category

(percentage)

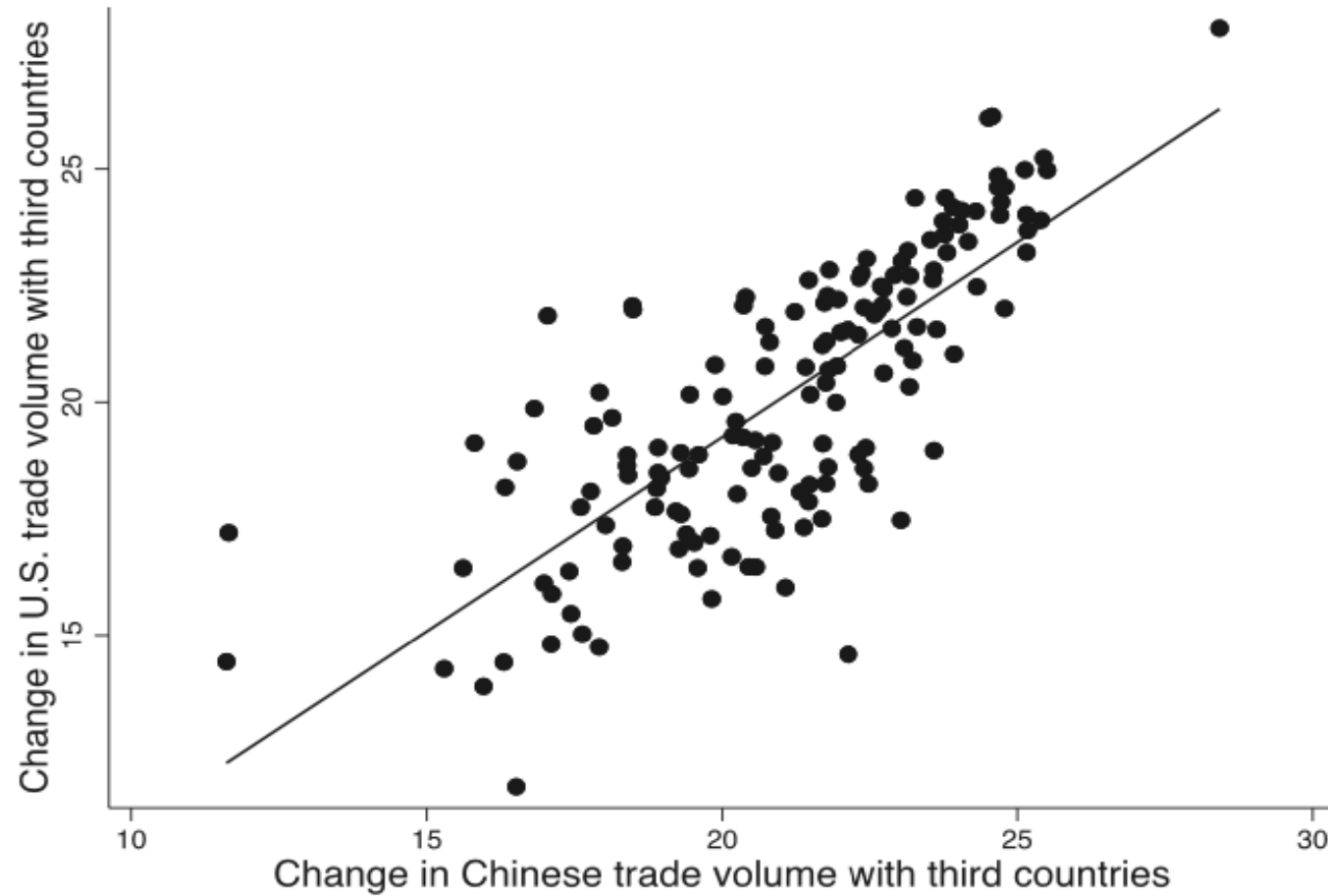


b) Reorientation of imports from China to other partners for EU and United States in selected advanced technological products

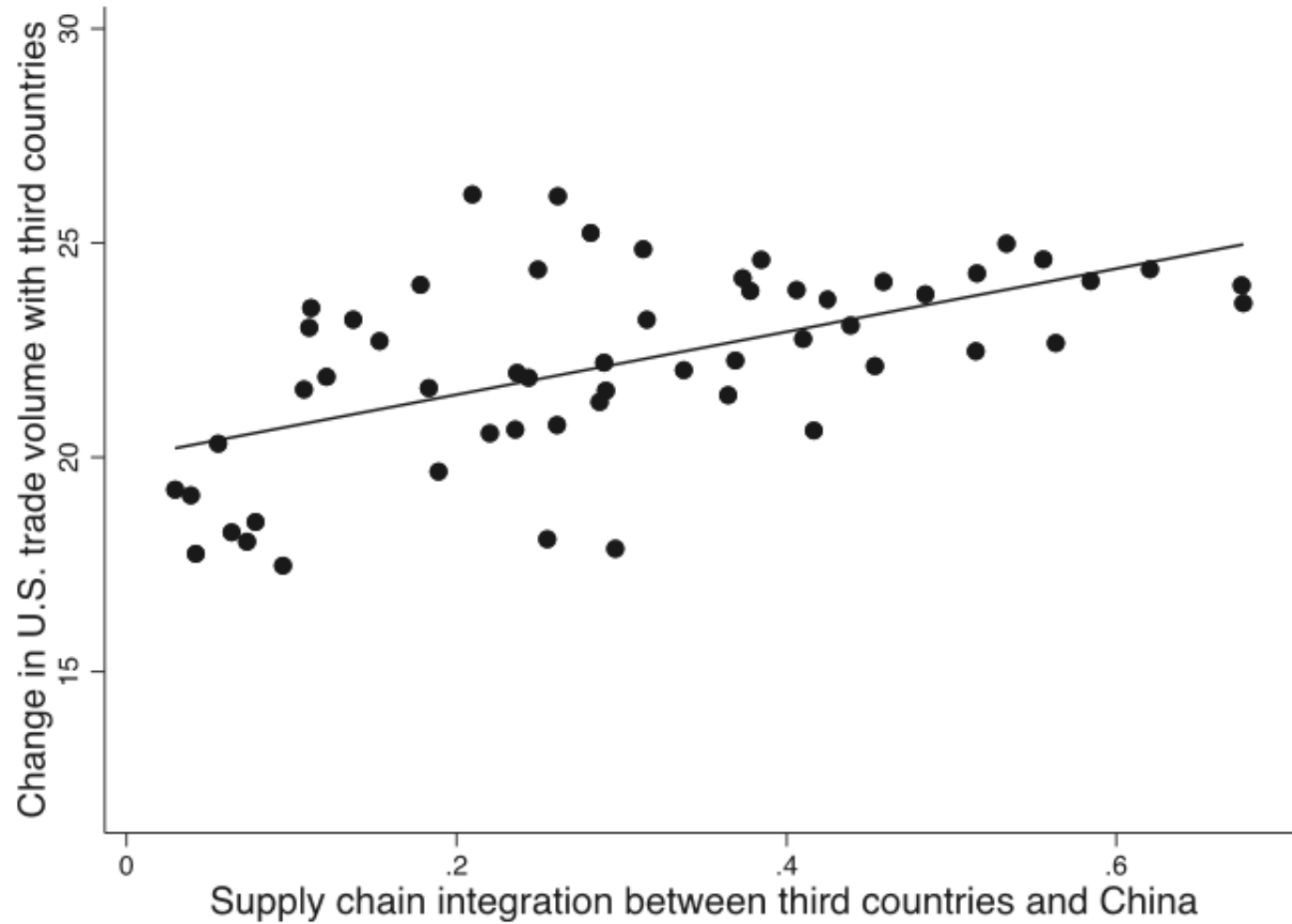
(percentage)



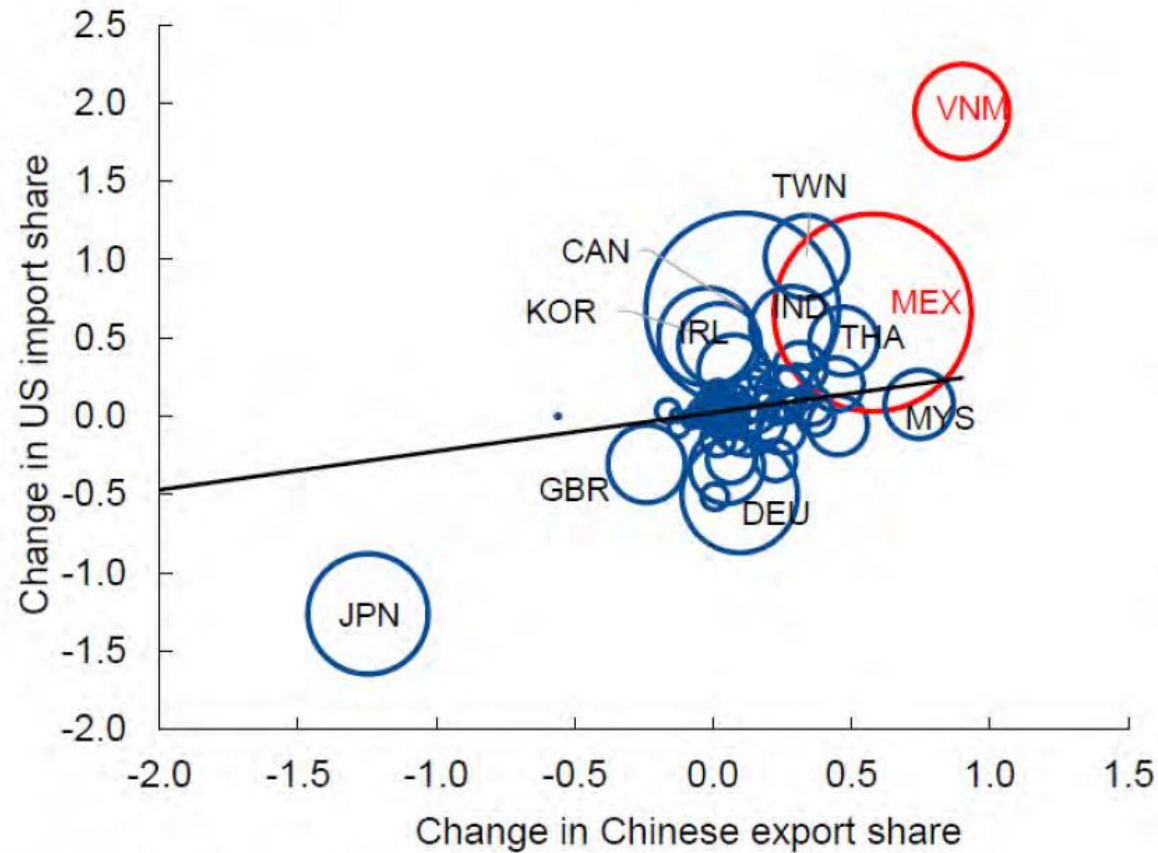
The “Connectors” of US China Trade



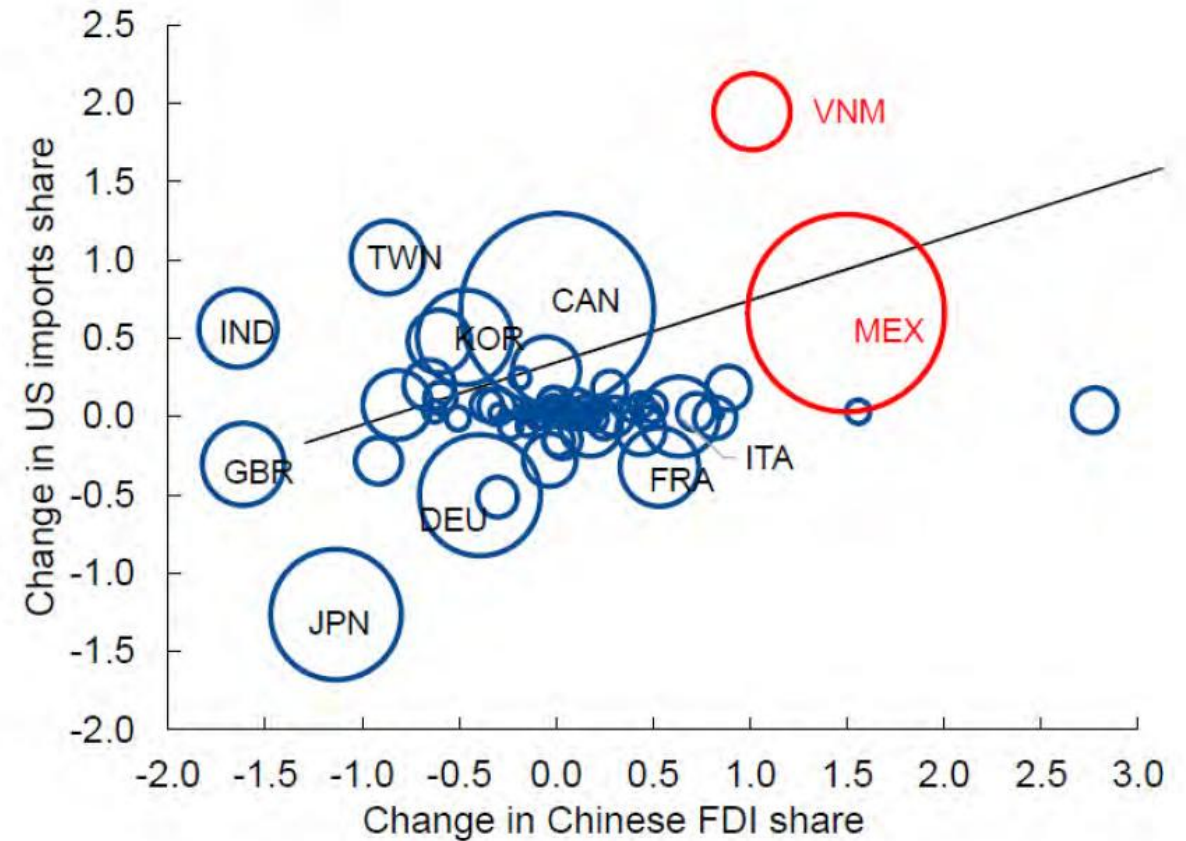
US China Indirect Trade



Change in US import shares vs Chinese export shares
(percentage point)



Change in US import shares vs FDI from China
(percentage point)

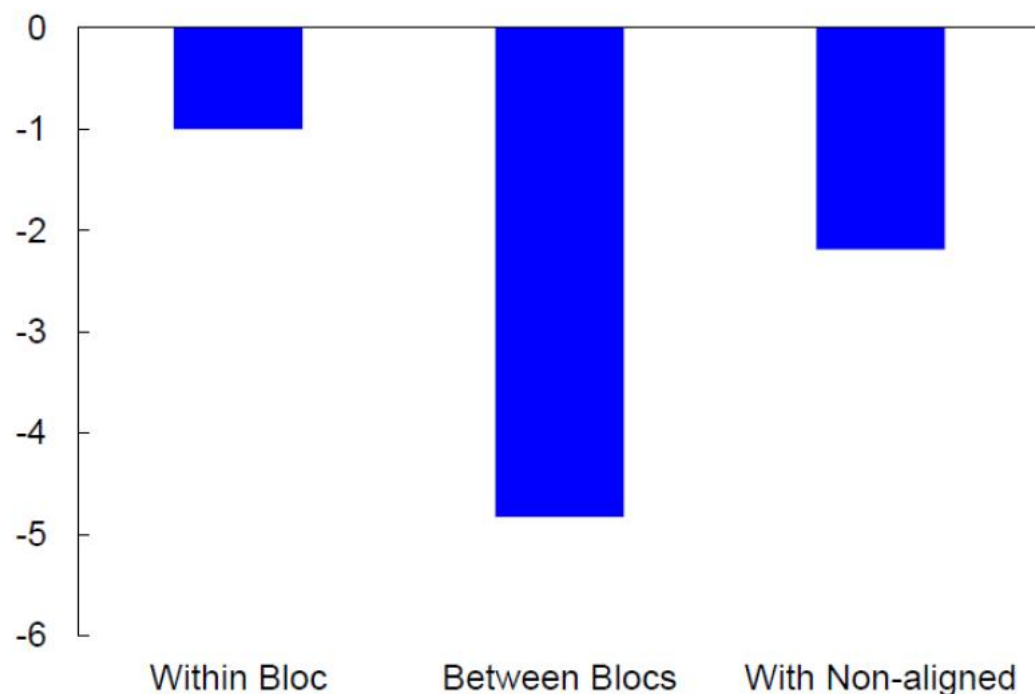


Sources: Trade Data Monitor; fDi Markets; and IMF staff calculations.

Non-Aligned Connectors

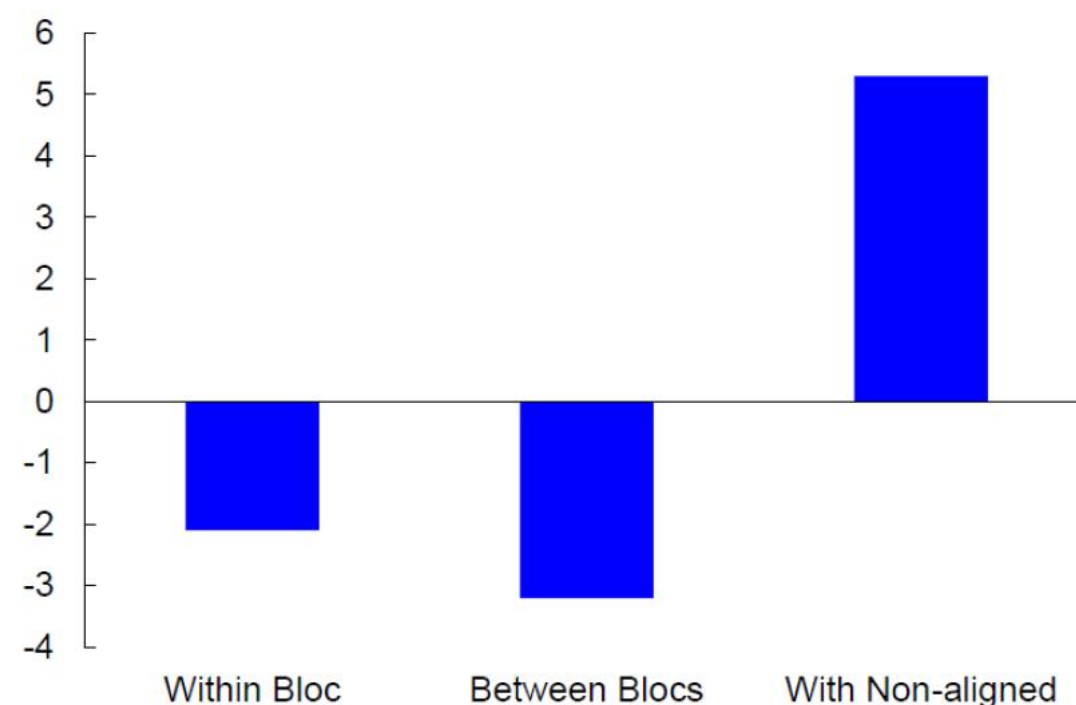
Change in trade growth post war

(percentage points)



Change in FDI shares post war

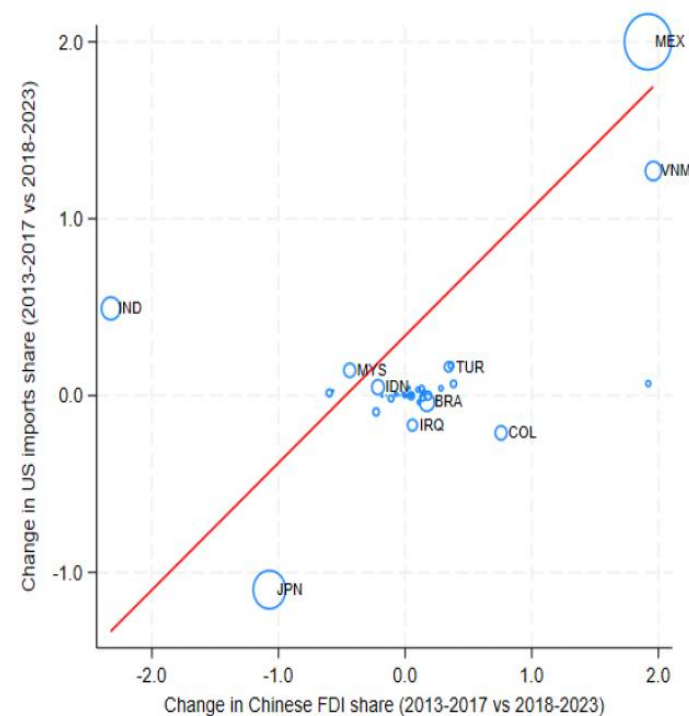
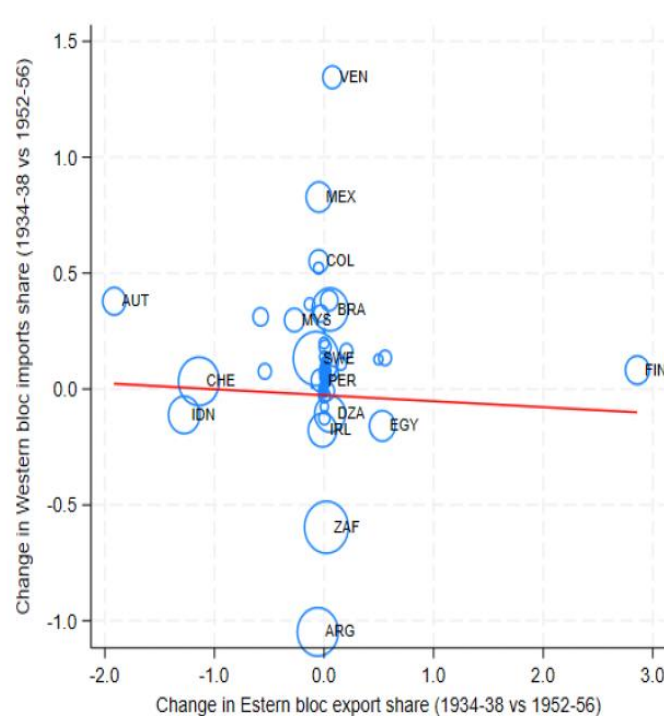
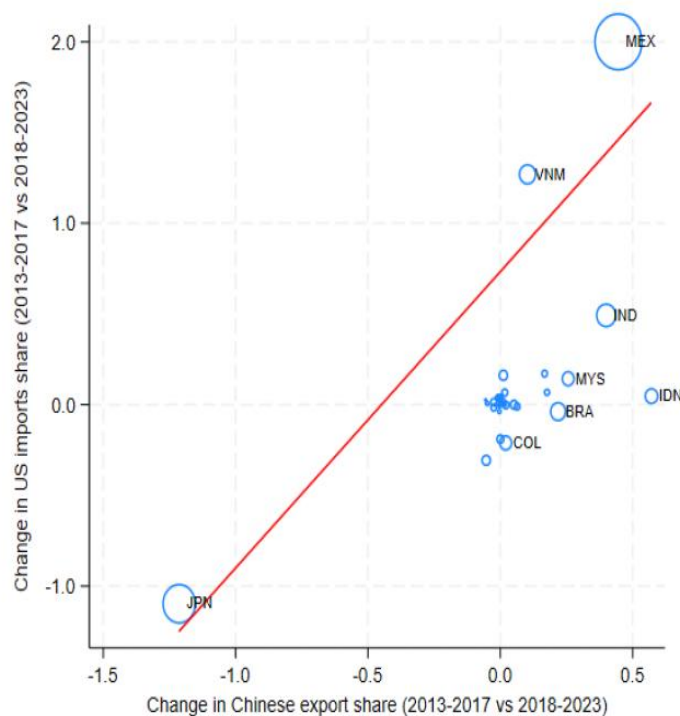
(percentage points)



Sources: fDi Markets; Trade Data Monitor; and IMF staff calculations.

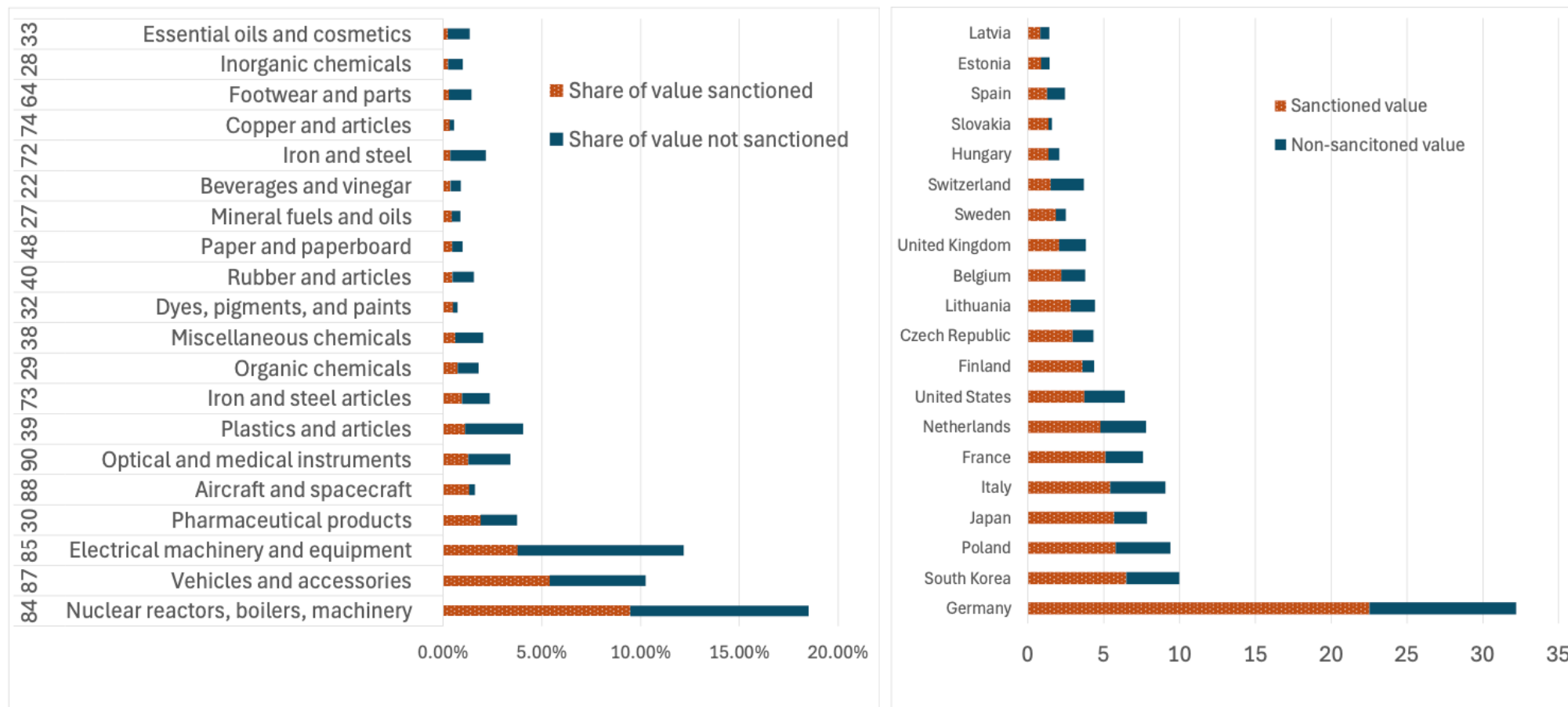
Note: In the right chart, bilateral quarterly growth rates are computed as the difference in log bilateral trade, which are then aggregated using bilateral nominal trade as weights. The chart on the left plots the change in the number of FDI (measured as a share of the total number of FDI) between 2022Q2-2023Q2 and 2018Q1-2022Q1 within and between blocs and with non-aligned countries. In both charts, the hypothetical Western bloc includes US, Europe, Canada, Australia and New Zealand. The hypothetical Eastern bloc comprises Belarus, China, Mali, Nicaragua, Russia, and Syria. The rest of the countries are considered "Non-aligned."

Non-Aligned Connectors



(a) Change in U.S. import shares vs Chinese export shares (b) Change in Western bloc import shares vs Eastern bloc export shares (c) Change in U.S. import shares vs FDI from China

Coalition Strain and Enforcement

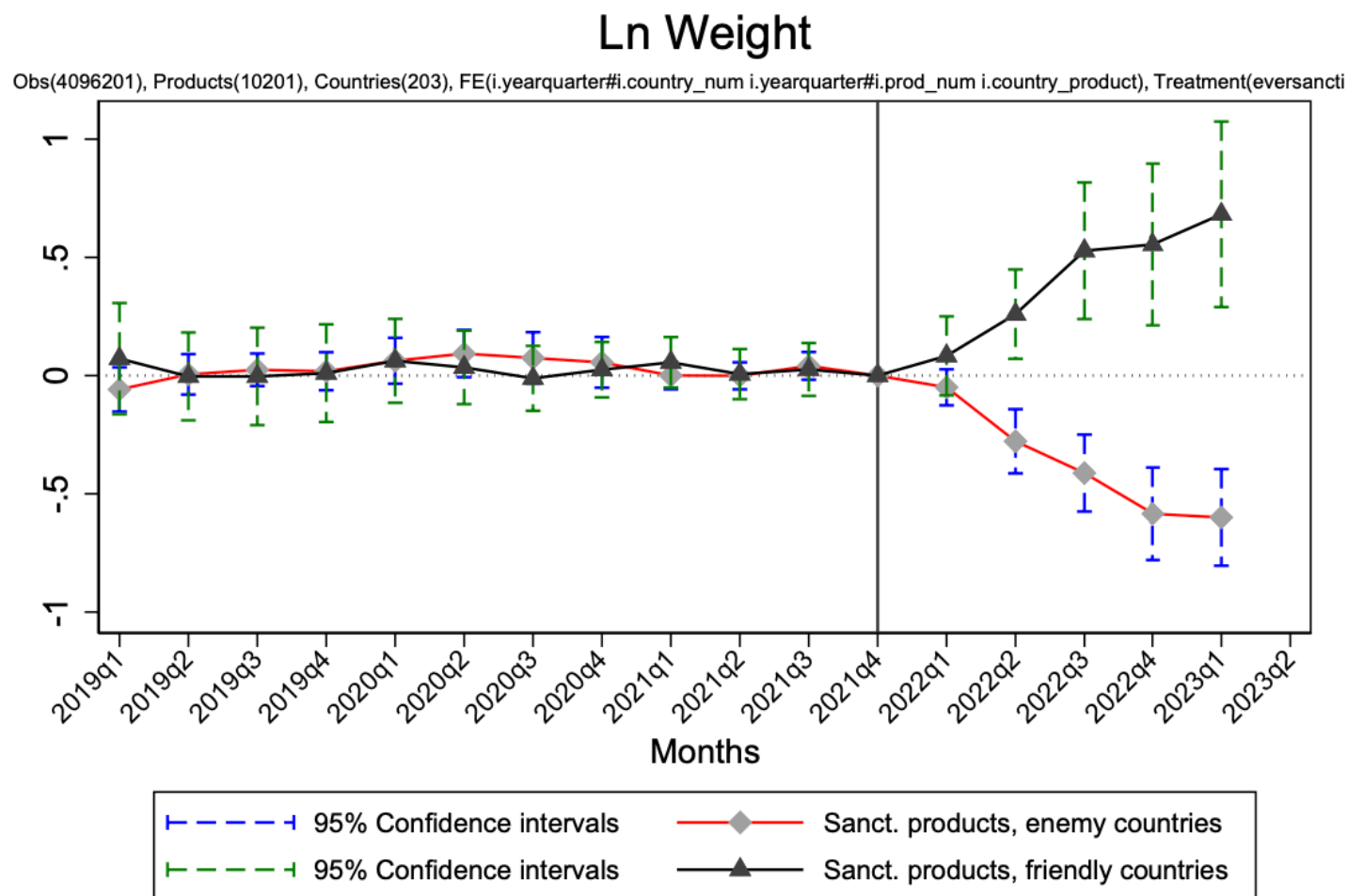


(A) BY PRODUCT (% OF 2021 IMPORTS)

(B) BY COUNTRY (IN \$ BLN)

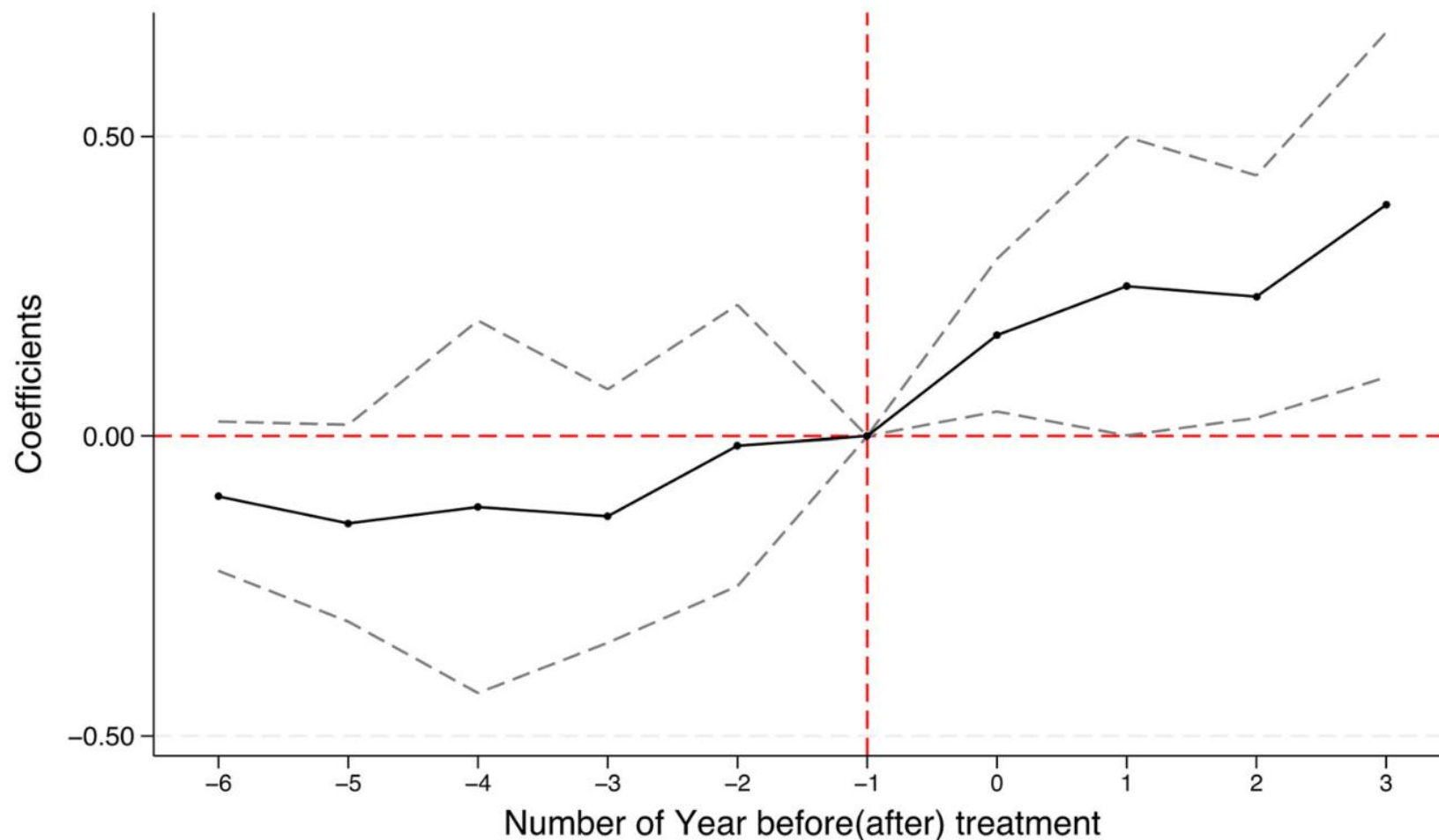
FIGURE 2. VOLUME OF RUSSIAN IMPORTS SANCTIONED

Substitution and Re-routing



Sanctioned products from **sanctioning** / “friendly” vs “neutral” countries [back](#)

Sanctioned Chinese Firms' R&D Intensity Rises



Hu , Yang, Zeng, Zhang (2024).

- 1. China's technology will thrive even as its economy continues to slow and growth drivers narrow
- 2. China's real advantage is increasingly ecosystem density, not low costs
- 3. innovation accelerates when research, engineering, manufacturing, data, suppliers, capital, and deployment all exist in close proximity.
- 4. Globalization has become much more flexible : substituting, rerouting, FDI, digital and more multipolar and regional; partially integrated, fragmented,
- 5. Rather than decoupling, or US China rivalry, the world will be one of overlapping ecosystems, strategic competition, rerouted networks, and partial interdependence.

In that world, scale, resilience, ecosystem density, and the ability to adapt under pressure may matter as much as frontier discovery itself.