

On the Way Forward for China's Economy

After 40 years of reform and opening up focused on economic development, China has made substantial progress. However, crises are emerging. The economy will face major challenges in coming years. Here are some potential solutions.

How do we measure a country's success? Different metrics lead to different development strategies. Previously, China measured development by GDP size and growth. However, true national success means citizens living well - comfortable housing, good food, freedom and prosperity. Today, Chinese people work desperately for basic necessities, struggling with three major burdens - housing, healthcare, and education - while worrying about rising prices and unemployment. 2018 data shows China's GDP was about 90 trillion yuan, with per capita GDP around 64,300 yuan. Yet most citizens still must work extremely hard. Where did the money go? Why can't people live more comfortably after 40 years of effort by over a billion people?

In early 2019, Chinese state media organized an "Envisioning the Future" summit. Former CICC CEO Zhu Yunlai said:

"Current investment scale is enormous - 175 trillion yuan in ongoing construction projects, using 2016 figures. What does 175 trillion mean? It's about 2.3 times that year's GDP. In 2002 this ratio was 1.1. The current ratio is too high."

China's economic growth relies on three drivers: investment, consumption, and exports. In mid-2017, consumption was 39% of GDP, exports 19%. Investment's impact is massive. Before 2009, manufacturing dominated investment. After 2009, it shifted to civil engineering (real estate, railways, highways, infrastructure). Yet traveling in Western China like Xinjiang and Gansu reveals many empty highways. The government launched the Belt and Road Initiative, lending to African countries to utilize China's infrastructure capacity. This indicates severe overcapacity in infrastructure and related manufacturing industries. To prevent mass unemployment in these sectors, the government keeps launching new projects. But can this continue forever? Do people need so much infrastructure? When will these investments pay off?

Regarding real estate, industry insiders estimate China has built enough housing for the next 20 years. Wikipedia's 2019 global house price-to-income ratios show China at 29.09 (2nd highest of 93 countries) versus USA at 3.58 (90th). Average US house prices are 3.58 times annual income, while Chinese prices are 29 times income. Clearly, Chinese housing affordability is only one-eighth of America's. With such weak demand, China's continued housing expansion will lead to severe oversupply.

The government's single-minded focus on economic development has forgotten its original purpose. Economic development should enable comfortable, prosperous lives - not endless construction, lifelong mortgages, and generations sacrificing themselves for rapid growth. Beyond preventing unemployment, what options exist? China should learn from Western welfare states and establish a basic income system. Western European

welfare provides high citizen income and nearly universal unemployment benefits - not just for citizens but even Middle Eastern war refugees. The previously mentioned 175 trillion yuan would provide 125,000 yuan per person for 1.4 billion people.

The government's investment-driven approach to unemployment created a civil engineering boom, driving up land and housing prices. This forces people to spend most income on housing while other industries struggle. High urban costs from housing prices further burden people's lives.

Assuming the civil engineering sector employs 100 million people, the government's real estate and infrastructure push prevented their unemployment while creating thousands of super-wealthy individuals. However, it burdened hundreds of millions with high mortgages, devalued currency for 1.4 billion people, and caused unemployment in other industries through economic difficulties. Directly providing these 100 million people 20,000 yuan annual unemployment benefits for 10 years would cost only 20 trillion - far less than 2016's 175 trillion infrastructure investment. Over 10 years, these people could rejoin the economy or worst case return to farming without major issues.

After a century of struggle, Chinese people struggle to accept the idea of unearned income. They're used to working hard and can't slow down. Or perhaps top beneficiaries of the current system can't resist the massive financial temptation, keeping policies tilted toward civil engineering. The government also fears social problems from idle people.

Why must people work desperately their whole lives? For thousands of years, ancestors lived and reproduced with simple farming techniques. With centuries of advanced technology and brilliant minds, why can't life be simpler now? People have forgotten why they started working hard. Philosopher Bertrand Russell explained clearly in "In Praise of Idleness." In the West, kings and popes deceived farmers saying they needed nobles and clergy to pray for divine protection. In ancient China, emperors and eunuchs claimed legitimate rule and demanded grain tribute for protection, building lavish palaces and keeping thousands of concubines in peacetime. In the industrial age, capitalists told workers to work hard to avoid unemployment and beat competition, but kept demanding intense work even after achieving monopolistic profits. During WWII, American scientific organization allowed a small workforce to provide basic needs and daily goods for the majority working in frontline war production and logistics.

Modern Western European welfare states prove high benefits are feasible. Some say China's industrial technology is too backward. However, in 1978, while the West was ahead of China, the gap wasn't huge - the whole world was relatively poor compared to today. With rapid information spread and technological development over decades, China's industrial technology now ranks second globally, only behind the US.

Imagine if China's roughly 900 million working-age population (16-59 years, excluding children and retirees) received 2,000 yuan monthly basic income. What would happen?

Many inefficient infrastructure projects could pause, real estate could slow, without worrying about mass

unemployment along the supply chain. Government fiscal pressure would dramatically decrease. Currently, government revenue heavily depends on land sales. It wouldn't need to inflate housing prices, allowing reasonable lower levels. It could reduce money printing. Paper currency never creates value, only dilutes everyone's wealth.

Without mass unemployment concerns, the government could optimize fiscal revenue and spending, using technology to streamline public expenditure.

In education, technology can greatly reduce teaching work and teacher requirements. Using national top teacher videos and automated homework grading software, teachers could shift to university TA-like roles providing limited support and answering questions. This would greatly reduce teaching time and staff needs. Why not?

A 2018 viral article "This Screen May Change Destiny" described two parallel education tracks. Chengdu No.7 High School sent 30+ students to Berkeley and other foreign universities in 2017, 70+ to Tsinghua and Peking Universities, with 90%+ first-tier college admission rate, called "China's top high school." Meanwhile, 248 high schools in poor regions had "leftover" teachers and students from surrounding cities, with some schools having single-digit first-tier college admissions. Live streaming changed this. 200+ schools followed Chengdu No.7's parallel classes via livestream, sharing classes, homework, and tests. Some produced provincial top scorers, others saw college admission rates increase several or ten-fold.

As of 2015, China had 15.39 million full-time teachers across all education levels. 2018 public education spending was 3.2 trillion yuan. Yet K-12 education apps like Yuanfudao and Xiaoyuan Souti, offering video courses and homework help, serve hundreds of millions of students with teams of just thousands of teachers and software engineers. With 3,000 staff at 300,000 yuan annual salary, wages would be 900 million yuan, total operations perhaps 2 billion. For K-12 only - add 8 billion to cover all education levels, totaling 10 billion. This covers courses, though public education also includes school construction, research funding etc., but staff wages are the major expense. Compare market-driven high-tech's 10 billion versus traditional public system's 3.2 trillion - remarkable. So technology reform in public education could dramatically reduce spending.

Why not reform more schools? Perhaps the idea terrifies teachers and education officials. How to handle millions of tech-driven job losses? Without basic income welfare, the government fears using technology to streamline public sectors, often creating redundancy to maintain stability by ensuring everyone has a position.

China's publicly funded employees include: 1) government staff (state organs, party organs, social organizations) and 2) public institution staff (education, healthcare, research, culture etc.). Many positions could be streamlined through technology.

Basic income would have another benefit. Decades of aggressive development created many government-

citizen conflicts, like violent demolitions in real estate development causing social protests, widespread factory pollution issues, and recent financial system oversight gaps leading to P2P business and shadow banking growth defrauding many small investors, triggering various group incidents.

As social resistance increased, China's stability maintenance spending grew rapidly, making China one of the world's highest public security spenders. 2009's 514 billion yuan stability maintenance nearly matched that year's 532.1 billion military spending. This continued until 2015, when military spending of 911.4 billion slightly exceeded stability maintenance of 889.9 billion, the first such occurrence since 2009.

Basic income would inevitably increase citizen wellbeing, allowing dramatic reduction in stability maintenance spending. Reducing to 100 billion would save 800 billion yuan, further decreasing government fiscal pressure.

People might worry everyone would stop working. Not so - Western welfare states still have many workers, just more relaxed with 9-5 schedules and weekends off, like Chinese civil servants. Most people still have consumption desires driving them to work, just choosing easier jobs. More people could pursue artistic and niche interests without worrying about survival. More could work for curiosity, exploring basic science and technology. Scientists like Newton and Einstein changed the world through abundant free time for exploration and thought. People exhausted by survival struggles have no energy to think of other things.

Simple calculation: Urban residents receiving 2,000 yuan monthly basic income (24,000 annual) and rural residents 1,000 yuan (12,000 annual), with 2018 working-age (16-59) population of 530 million urban and 360 million rural residents, equals $530 \times 24,000 + 360 \times 12,000 = 17$ trillion yuan. This uses developed coastal province rates - adjusting for regional price levels would be lower, say 70%, around 12 trillion.

Western welfare states provide nearly universal unemployment benefits. So even if full working population basic income isn't feasible, could China match Western welfare states? Excluding employed people would further reduce costs.

Earlier mentioned 2016 ongoing construction investment was 175 trillion. If government wanted, finding 12 trillion would be easy. Government data shows 2018 national general public budget revenue was 18.3 trillion, spending 22.1 trillion, GDP 91.9 trillion.

These figures show 12 trillion basic income welfare versus 22 trillion public spending seems difficult as additional fiscal expenditure. But it's tiny compared to construction investment. Less construction could fund this welfare. Would citizens prefer more subways, highways, and rising house prices, or monthly basic income providing basic living security?

Raising this issue for discussion today.

Hopefully in coming decades, China can become like Western welfare states - people living comfortably, 80s/90s generations living relatively easily. Not like 60s/70s parent generation emptying lifelong savings for

children's housing while indirectly paying for redundant infrastructure. Looking back, they've exhausted themselves working desperately for decades. They worked so hard hoping children wouldn't have to.

A country is like a company - it can't succeed through constant financing or bank loans, overdrawing the future to hire many employees for unprofitable businesses with no prospects, appearing busy with many people. It must carefully calculate, streamline excess staff, use technology to improve operational efficiency, avoid waste, focus limited funds and human resources effectively, improve investment returns, provide good wages and benefits for fulfilling and happy employees, to develop sustainably.

So China's way forward is implementing basic income welfare, reducing unemployment concerns, pausing low-efficiency infrastructure investment, slowing the bubble-filled oversupplied real estate sector, using technology to streamline education and other public sectors, carefully reducing public spending across the board, shifting focus from economic construction to increasing all citizens' wellbeing.

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