and it can be calculated by dividing the investment rate by GDP growth. A lower number is better because less investment is needed per unit increase in GDP.

China's low ratio implies relatively little investment is needed to generate relatively high rates of growth. It suggests that, at the macro level, China's capital is fairly well allocated.

Q: What are some of the risks that should be addressed to ensure China's sustained development?

A: I think the number one risk is probably the very rapid growth in indebtedness since the 2009 financial crisis. As a percent of GDP, China's indebtedness is not "off the charts" when compared with the other G20 countries, but its growth has been very fast and that is cause for concern.

The government fully understands that, which is why it has set a goal of 5 percent growth this year. At the beginning of the year, many observers thought it would be easy to hit 5 percent. What the government was telling people was that it was not going to support a high GDP growth rate through additional government spending or spending by government entities, which would only further raise the debt.

I think the high leverage of property developers is of particular concern. In 2020, the government implemented the "three red lines policy," which was intended to keep the growth of debt of property developers in line with the strength of their balance sheets. I think it was very smart policy. Unfortunately, since the pandemic, property sales have fallen dramatically and the financial difficulties of developers have become more acute.

Q: What do you think of the "decoupling rhetoric" used by some US politicians?

A: I think the deterioration in China-US relations is truly unfortunate. I think what we have been witnessing is the US using China as a scapegoat for its own domestic problems.

There has been an increase in income disparity in the US, which has hit those at the bottom of the distribution hardest. Between 1980 and 2022, the real wages of those with a high school education have fallen by 10 percent. Among the OECD countries, the US stands out with a relatively high rate of poverty. This is because the US aversion to taxation keeps government revenue low and prevents significant income re-distribution and the provision of basic social services.

When Donald Trump announced his candidacy for president in 2015, he famously put it this way: "Sadly, the American dream is dead." Trump was able to galvanize disillusioned segments of American society by telling them that "… there are no jobs because China has our jobs."

It has been very unfortunate that the US has chosen this confrontational path because decoupling, or reducing trade and investment with China, has been very expensive for the average American. Even though there have been some job losses, trade with China has been hugely beneficial for the US.

A study by Jaravel and Sager shows that more intensive trade with China between 2000 and 2007 increased each US household's annual purchasing power by US$1,500. Across the whole economy, the purchasing power of US consumers rose by US$411,464 for each displaced job, the annual salary of which averaged US$40,000. The authors' findings imply that the overall gains to US consumers through lower prices were more than enough to compensate all US workers who lost their jobs due to increased competition from China.

I hope we can find ways to bring China and the US closer again. I think one very encouraging possibility is the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. China has already applied to join. Becoming part of the bloc would give China a great opportunity to demonstrate that a socialist market economy can be consistent with fair trade.

Q: What can the government do to create more jobs for new graduates?

A: I think it is very difficult to get into the labor market for your first job. One possibility is for the government to provide internships so that young people can gain experience. Getting on-the-job experience is very valuable.

I also think that many educated, recent college graduates are somewhat immobile. For example, they come to first-tier cities and attend good schools. Upon graduation, it may be difficult to find work in those cities, but maybe there are jobs elsewhere in the country. The recent graduates may be reluctant to leave first-tier cities. So, I think there should be ways to encourage them to go where they are needed, gain experience first, then come back if they want.

More positive policies to boost market, economy expected

Huang Yixuan

IN a follow-up to the set of measures announced at the weekend to revive China's capital market, analysts are expecting more positive policies that will further boost the market and the economy.

In a bid to stimulate the capital market and bolster investor confidence, the Ministry of Finance and the State Taxation Administration of China announced a reduction in stamp duty on securities transactions. The move, which took effect from Monday, is expected to have a positive impact on the market and pave the way for further positive policies.

Historically, reductions in stamp duty rate have yielded positive outcomes, and this recent adjustment is no exception.

Following the announcement, market sentiment saw a significant boost. The combined turnover on the Shanghai and Shenzhen stock exchanges exceeded 1.1 trillion yuan (US$150.92 billion) on the first trading day after the announcement, and it surpassed 1 trillion yuan again on the second day. The Shanghai Composite Index and the Shenzhen Component Index both saw bigger gains on Tuesday, up 1.2 percent and 2.17 percent, respectively.

The stamp duty cut comes at a crucial time for China's economy. Against the backdrop of significant fiscal pressures, the introduction of this policy demonstrates the government's clear intention to reduce fiscal revenue while injecting vitality into the market.

China currently boasts over 220 million individual investors, accounting for 99.76 percent of the total market participants. Halving the stamp duty will directly benefit a wide range of investors, particularly small and medium-sized ones, which is expected to increase their willingness to engage in trading activities.

Zhao Xijun, co-chairman of the China Capital Market Research Institute at Renmin University of China, believed that lowering the stamp duty will benefit small and medium-sized investors.

In addition to the stamp duty cut, the China Securities Regulatory Commission released a series of policy measures. These measures, including optimizing initial public offering and refinancing supervision arrangements, further regulating share reduction behavior, and adjusting the financing margin ratio of stock exchanges, aim to create a more favorable investment and financing cycle and inject confidence into the market.

The reduction of the minimum ratio of margin financing from 100 percent to 80 percent, for example, will come into effect after the closing bell on September 8.

China Galaxy Securities said in a note that this package of policies was mainly aimed at effectively utilizing existing market funds to inject vitality into the market and boost investor confidence, and complement other policies in order to restore the overall macroeconomic endogenous growth momentum, especially amid limited incremental funds. "It is worth noting that the current policies primarily target existing funds, and it is expected that more policies will be introduced in future to attract new funds."

On further supportive measures for the Chinese economy, Wang Tao, chief China economist of UBS, said it is foreseeable that fiscal policies will be strengthened.

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