Hearing on "China's Current Economy: Implications for Investors and Supply Chains"
August 21, 2023
Opening Statement of Commissioner Robin Cleveland

Welcome to the seventh hearing of the U.S.-China Economic and Security Review Commission's 2023 Annual Report cycle. Many of us who have watched China for years appreciate that the magnitude of the economic challenges China must address are not new -- rather they have been worsening for years and were amplified by COVID and the poor policy choices made during the pandemic. Notwithstanding the CCP's public push for Chinese households and nonstate businesses to drive the recovery in 2023, house-hold consumption has been cautious, government lending practices continue to favor unproductive state-owned enterprises over higher performing non-state sector, in most cities property prices have plunged, and business confidence has eroded as deflation set in.

Two years ago, we reported on the rising concerns related to debt and demographics. Those challenges are intensifying. Over the past decade China's banking sector has grown from $9 trillion to a staggering $56 trillion in assets. By the end of 2022, China's debt to GDP ratio exceeded 297%, more than double what it was in 2008. This unprecedented expansion in credit largely flowed into a building boom that contributed roughly 30% of GDP. More troubling in terms of economic stability and political confidence in the CCP, roughly 70% of household wealth is tied up in the real estate sector which experienced across the board significant declines in sales, starts, and land purchased for building.

China cannot sustain the policy approach of credit expansion nor will it be able to continue to shield unproductive entities from default. After twenty years of relying on debt-fueled stimulus, China confronts twin challenges of lacking viable infrastructure projects sufficient to stimulate growth and developers and local governments over-burdened with debt. Whether local governments and the opaque funding vehicles they create to raise money are stable and sustainable is in doubt. A recent report indicated 43 LGFVs failed to redeem maturing commercial paper. Was this due to lack of investor confidence?

Adding to these significant challenges, by mid-2023 China's official youth unemployment rate had soared above 21 percent, at which point the Party-state abruptly stopped releasing the data. Although transparency into China's economic data is vanishing, the country's economic weakness is now far too pronounced for the CCP to hide. For years we talked about shadow lending as a challenge – now the problem is shadow data. International investors cannot have confidence in buying stock on US exchanges or directly investing in China if data are inadequate, misleading, over-stated, censored or withheld.

Our witnesses today have deep and diverse expertise researching China's domestic economy and supply chain policies. I am pleased that four of our five witnesses have not previously testified before the Commission and bring forward new perspectives on core elements and outcomes of China's economic model and the risks created for the United States. I will now hand it over to my co-chair for the hearing, Commissioner Glas.