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# China's Low Consumption Problem and Subsequent Economic Slowdown: Understanding the Investment-led Model of Growth

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**Abstract**

*The Chinese economy has encountered an economic slump since the first quarter of the year 2023. Numerous assessments and theories became commonplace prompting the study of the causes and implications of this evolving crisis. Amidst investigations, an investment-oriented model of growth appears to be a commonplace for analysts. Their propositions often promote and imply that the causes of the slowdown in consumption are an outcome of this model. Drawing on a descriptive methodology, this research aims to detail and critically study the contrasting viewpoints of investment model of economic growth by Chinese and Western theorists. It seeks to elucidate the underlying factors that have contributed to the economic consumption slump in China. Discerning whether the Chinese or Western perspective answers the fundamental inquiry of how a rapidly growing economy encountered such a radical slowdown, it explores the intricacies of the Chinese economy and drivers of the current downturn in consumption.*

**Keywords:** *Chinese Economy, Economic Growth, Chinese Economic Model, Housing Crisis, Consumption Slump.*

## 1. Introduction:

### 1.1. The Case of Low Consumption in China in 2023:

China experienced an economic slowdown in the COVID-19 years, most significant since its opening up era. The second-largest economy in the world and Asian economic giant announced hope for economic recovery at the end of the year 2022 by ending the lockdown and the global economy expected high demand from the country. The prices of oil and raw materials rose in anticipation when Chinese Premier Le Kiang predicted an ambitious growth of GDP at 5% that had fallen to 3% during the recurring pandemic in the year 2022 (Zhang and Cash, 2013). In 2023, the economic growth of China was expected to rescue the global economy from the ongoing global economic crisis caused due to COVID-19 and the first quarter showed normalization of economic activity with the services industry reaching its goals but from the second quarter, optimism began to diffuse. One of the indicative trends in this regard is the low consumption levels, domestically. The pandemic wary people of China are not willing to spend and therefore the retail sales rate fell in comparison to the household savings.

However Chinese sources did not highlight this slowdown in media and policy papers, initially, but a recurring emphasis on policy to improve demand and consumption in State Council and Politburo meetings of June and July and the growth data shared by the National Bureau of Statistics, it became noticeable that the Chinese policymakers realized the economic slowdown issue (CGTN, 2023).

The State Council Meeting in June presided over by Premier Li Keqiang stipulated a slowdown in global trade and investment trends and its direct impacts on Chinese economic recovery. Although he mentioned in the convening statement that China is generally recovering and improving later an emphasis on policies for ‘expanding effective demand’ along with other three key policies; increasing macroeconomic policy networks, improving the real economy, and, diffusing risks in key areas, informs the need felt by the administration to work on creating demand among masses who are consuming less.

The data shared by the National Bureau of Statistics, China in July showed a significant decline in GDP growth rate, retail sales rates, and exports by China.

### 1.2.Month-on-Month Growth Rate of Other Indicators

Table 1

| | Value Added of Industrial Enterprises above Designated Size (%) | Investment in Fixed Assets (Excluding Rural Households) (%) | Total Retail Sales of Consumer Goods (%) |
|---|---|---|---|
| June 2022 | 0.91 | 0.75 | 2.56 |
| July 2022 | 0.31 | 0.27 | 1.27 |
| August 2022 | 0.24 | 0.45 | -0.96 |
| September 2022 | 0.83 | 1.30 | 0.18 |
| October 2022 | 0.21 | -0.54 | -0.90 |
| November 2022 | -0.24 | -0.43 | -0.69 |
| December 2022 | 0.06 | 1.33 | -0.85 |
| January 2023 | 0.31 | 1.62 | 0.05 |
| February 2023 | 0.27 | -0.38 | 1.21 |
| March 2023 | 0.51 | 0.11 | 0.23 |
| April 2023 | -0.23 | -0.84 | 0.27 |
| May 2023 | 0.63 | 0.27 | 0.39 |
| June 2023 | 0.68 | 0.39 | 0.23 |

With regards to the proposed policies by the Premier, real economic growth was aimed at resolving the issue arising from steady industrial production. Since export-led production continued, it was realized that investment in fixed assets such as housing and land ownership and retail sales of consumer goods decreased. In an investment-led growth model, concerns over stagnation prompted a response towards improving investment policies. Instead, a response towards liberalizing private investment and consumption-led growth was expected since a major role is blamed on state-led investment, and therefore there is a need for supporting consumption and not investment.

Investment in fixed assets began soaring since the largest real estate business in China, Evergrande, defaulted in 2021(BBC, 2023). It was a year after China introduced new rules to control the loans owed by real estate developers. ‘The ‘three red lines’ policy, as it was called, was aimed at cooling down the overheated property market by regulating debt-to-cash, debt-to-asset, and asset-to-liability ratios (Aljazeera, 2023). Being the world’s largest indebted company, it expanded its real estate as a futuristic project by acquiring a loan of 300 billion US dollars. The investments it received from the people of China in the property sector were planned to service the debts, but the constrained construction on the launched projects created a blockage of further investment, and the rising interest rates resulted in the default of the company. The crisis of investment also created fear of further payments, and consumption levels decreased subsequently.

The second area where a decline in retail rates happened is credited to low consumption in one of the most productive industries in China: services. Before July's data was shared, it was reported that the service industry, which showed growth in the first quarter, slowed steadily, bringing the services production index (ISP) to 6.8% in June, which was down by 4.9% from April and May's SPI. The retail trade revenue of household appliances and consumer electronics for July 2023 reached 72.61 compared to 80.81 on July 22, 74.07% on July 21, and 68.84% on July 20, showing a year-on-year decline (Slota, 2023).

To deal with the challenge of low consumption in various industries, policymakers in China during the Politburo's Central Committee's meeting in July 2023 recognized the need for recovering household consumption as the key driver of growth. A big stimulus to recover from the crisis was expected, but a concrete consumer-based policy to achieve this goal was not announced. It was expected that the subsidy for the producer would continue when, for real economic growth, a subsidy for the consumer was suggested by the economists (Reuters, 2023). The Chinese news agency Xinhua reported that it was acknowledged in the meeting that the Chinese economy is facing significant challenges that arise from insufficient demand at home (Reuters, 2023).

Providing solutions to the problem after the meeting involved managing the issue of the consumption slump, and for that, the Central Bank of China undertook deflationary policy measures. Cutting interest rates and lowering commodity prices were adopted to ease consumer spending. The sustained low levels of prices after the cuts in interest rates posed the risk of a downward trend for economic activity. The lowered production in cases of low incentives for industry diverted to consumption can lead to less industrial activity, encouraging unemployment among the people. Therefore, an enhanced deflationary policy resulted in the loss of the economic recovery that the post-COVID economic growth of the first two quarters had generated.

Among such a plethora of causes and justifications for the crisis, it is unsettled which of the answers justifies the crisis the best. In this regard, a presentation of an overview of China's economic model through eras and an analysis of this model by two prominent analysts, Michael Pettis and Adam Posen, are presented.

## 2. China's Economic Models

### 2.1. Michael Pettis's Model:

Michael Pettis, a renowned analyst of China's political economy, presents the economic model of China as a configuration of a liberalized and state-managed economy where imbalances between investment and consumption prevail. An overreliance on exports due to the overcapacity of some industries is a direct outcome of this investment-led model. A reduction in dependence on investment is required as a reform policy, but the reality of reforms is otherwise. A re-focusing mechanism to make it a consumption-led model is required to ensure a more sustainable economy. If Chinese policymakers do not succeed in introducing reforms for re-structuring the economy, the risk of sustainability and governance will emerge. A sustainable model of the economy would be one where the gross domestic product (GDP) is an aggregation of balanced economic activity and not a GDP of debt-induced investment bias. In an economy not managed positively, there can be risks to economic governance. As China's economic model under a decentralized local government (LG) structure is experiencing now, it will become inevitable. His assessments are proving true in the case of China's debt crisis and debt-trap discourses. The debt trap that China's global infrastructural plans are claimed to be posing is considered a case of inexperience and mismanagement by Pettis.

**2.2.Adam Posen's Model**

Adam Posen, a political economist of global standing and an expert on the Chinese economy explains the slowdown as an outcome of authoritarian rule, where state intervention has weakened the opportunities for the private sector and therefore sustainable growth is not possible (Posen, 2023). His emphasis on extreme intervention by the state is contested by Michael Pettis, who maintains that it is not the state-led model of growth but rather an investment-led model in which LGs are favored by the state-owned banks for financial services.
The two views appear similar initially, but a deeper study informs how Posen's views lament all policies as supporting state intervention, whereas the Pettis model explains how the economy is overheated by low consumption and high investment levels. The state in China initially followed a dual-track policy as a hybrid model, but through various regimes, state intervention has transitioned towards a more liberalized economy. Such a transition has structured the institutional framework for economic activity, and instead of re-structuring the economy on the basis of claims for change from the state-intervention model, China needs to work on re-focusing its approach within established institutions; change from investment to consumption is one such proposed re-focusing.

**3. An Overview of China's Investment-Led Growth Model:**

**3.1.Constrained Private Business: The Early Phase**

Since the opening-up era, private investment has been exposed to several challenges as compared to investment by the public sector through the state-owned enterprises (SOEs) of China.

With Deng Xioaping's economic reforms and the decentralization plans even before his term in office, investment and industry were designated areas for the local and provincial governments. The central government allocated some share of the profits and taxes from investment and industry to the LGs, and therefore the decentralized local governments were encouraged by the incentive to develop industrial zones and economic parks and designed the investment policies overall. While LGs in a decentralized system supported the development of bureaucratically efficient and more competitive administrations, the system countered inter-regional strife, unbalanced regional economic growth, and unequal environmental and financial conditions as challenges for economic growth. Some of the regions developed special economic zones (SEZs) more rapidly and efficiently, while others experienced delays. The first four SEZs were created in the southeastern coastal belt of China in Shenzhen, Zhuhai, and Shantou in Guangdong and Xiamen in Fujian provinces. While these zones have significantly contributed to the economic growth of China, the SOEs received better financial and regulatory support, and entrepreneurship remained a secondary agenda.

**3.2.Second and Third Quarter of Economic Reforms: Pragmatism**

The private economy and finance developed after the 1990s, when, under President Jiang Zemin, a practical opening up of the Chinese economy happened. The stalled economy due to the collectivization of economic processes and policies experienced stagnation, resulting in riots against the state in the late 1980s. In the early 1990s, President Zeming looked towards the market to organize the economy, and it pushed China's way to the World Trade Organization (WTO) (Chang, 2014). However, the challenges that private business faced even after the second generation of opening up rulers in China, the difficulty of accessing financial help and loans from the state banks as the local government after their decentralization invested heavily in infrastructure development by taking loans from the state bank. The trend has continued since then.

Data on the financing patterns of the 1990s reported by the International Monetary Fund revealed how private businesses were kept out of the financing nets by the central and state banks. In these trends, a mechanism of self-financing remained prominent in private business and investment ventures. Although internal funding is a normal practice for a small enterprise, when it grows in size, the expansion of financing sources is a prerequisite practice. Gaining access to the public equity and debt markets is an essential step in the cycle of growth, but China's private equity market was not very well established by the early 2000s, as it grew after 2010. The lack of an organized equity market deprived small and medium enterprises (SMEs) of debt services, while working capital was available to the SOEs in early 2000 (Gregory, Tenev, Wagle, 2000) .

Under such circumstances, the most competitive actor to acquire capital was the state funding agencies; the LGs utilized it to build infrastructure for economic growth at a much higher and a boom in the construction industry was observed in the 2000s. The investment-led growth was maintained, resulting in a growth rate as high as 7.7 %. Such statistics were encouraging for an economy but the economists emphasized that China is undertaking an investment-led growth pattern that will not be sustainable and should be replaced by consumption-led growth strategies (Chang, 2014). The economic regions of China administered by LGs showed a legacy pattern from the Mao era as they discouraged private finance, and therefore, based on the predictions of regularizing and formally adopting the private finance regime, China was predicted to face the unbalanced trends of local treatments of private finance by the governments.

The challenge of differential treatment by the local governments is related to the bank incentives that are more facilitative towards SOEs than private businesses. Encouraging state banks to lend to SOEs and providing a levy on bad loans deposited with SOEs is one of the reasons behind the problem. Support for the bank by the local governments also serves as an incentive that the private sector lacks.

### 3.3.Regulating Private Business

The regulations for private finance for supporting private business in China are noticeable significantly from the Third Institutional Transformation, bringing private enterprises as the major focus area of economic growth. This period can be marked from China's joining of WTO years onward.

In the year 1999, a constitutional amendment was adopted to acknowledge the importance of the private sector (Garnaut, Song, Yao and Wang, 2012). Since then, the prominent agendas for reforms encouraging private business and finance have been under debate. Establishing genuine market-led mechanisms, a change in social and political systems to reduce the disparities at the entrepreneurial level of SOEs and private enterprises, and a change at the social network levels to mitigate public pressures towards private business are major areas in such debates.

In the second quarter of 2023, the agenda of reforms for private finances and changes in political and social pressures were debated as one of the primary reasons behind the economic slowdown in the country (Bloomberg, 2023).

After the predictions of the economic slowdown in China, the State Council released a white policy paper in July 2023 that emphasized improving the business environment for private enterprises. It detailed how private business is a key factor in attaining Chinese-style socialism for modernization.

As a response to this policy-level commitment, the country adopted some measures at the Politburo meeting in July 2023, and one of these was related to easing the earlier crackdown on the private real estate sector. One of the triggering forces behind the Q2 slump involved this regulatory crackdown on private investment by the state since late 2020 (Liu and Chang, 2023). Ant Financial, the tech arm of Alibaba, one of the most prominent private businesses in China, received a suspension from the government in November 2020. The curb was argued to be launched due to several reasons. Some labelled it as an era of state-led capitalism (Hsueh, 2021) and others named it a digression from market values. Reuters, one of the most active outlets reporting on Chinese economic trends maintained that it was threatening and destabilizing foreign investment in China, resulting in a more fragile economy after COVID-19 (Yao and Crossley. 2021). On the other hand, the official statements claimed the reforms and regulations were part of bringing true market-led growth to the economy (Zhang and Gog, 2023). The key areas for reforms included e-commerce, entertainment, online games, banking, and real estate. The trend continued in 2023 until, in the July meeting, the officials promised to strengthen the private sector and acknowledged its significance.

"*The private economy is a new force to promote Chinese style modernization, an important foundation for high-quality development, and an important force to promote China's comprehensive building of a socialist modern power*.". (Liu and Chang, 2023).

In July, as a reconciliatory effort, the Central Committee of the Communist Party of China (CPC) and the State Council presented a detailed policy titled "Opinions on Promoting the Development and Growth of the Private Economy" (Xinhua, 2023). It is comprised of eight chapters and details the following planned measures:

1. To eliminate barriers to market entry
2. Improving financial policies by developing a risk-sharing mechanism
3. To expedite payments towards small and micro enterprises instead of SOEs
4. Protection for private enterprises' property rights
5. To make private business more transparent for combating corruption
6. Transparency of enterprise-related knowledge for better predictability and stability
7. To establish corporate governance mechanisms within the enterprises
8. To bring technological development to private enterprises
9. To facilitate private business for exploring international markets
10. To centralize party leadership for the economic development of private business.

After the agenda of reforms was launched, the National Development and Reform Commission (NDRC) issued a policy for implementation titled 'Several Near-Term Measures to Promote the Economic Development of the Private Sector' (Sito, 2023). It is understood that in an economy of investment with a rationale for supply, production is the key, and the growth of private businesses will help achieve this goal better. After the policy announcements, the growth of September showed better figures as industrial output was better than expected. Consumption picked up some pace as retail sales grew in numbers but it is to be analyzed whether this growth in retail sales is an outcome of state-induced capital or an organically market-oriented activity.

The private sector investment that was expected to receive an incentive after the regulations performed lower than before and was recorded to have contributed to 0.6%, lower than before, (White, Yu, Leng, and Lockett, 2023) however, industrial production achieved a 4.5% growth rate. Analyzing this economic growth, two varying views by Michael Pettis and Adam Posen are presented and analyzed here.

### 3.4. Discussion and Analysis on China's Investment-led Economic Model

In an investment-led growth model, the economic slump happened, and from two varying perspectives, the slump is understood. In this regard, Michael Pettis maintains that the Chinese economic model is fundamentally different and cannot be systemically aligned with the rest of the economies in the world. This systemic difference does allow gauge growth with similar tools used for other economies. The most prominent feature of the Chinese economy has been the development through hyper-investment that has continued since the opening-up era, and a centrally planned facilitative economic framework for investment under the principle of gradualism has been in place. Several factors contributed to the model of hyper investment under this governance framework. The centrally planned structure of the economy prioritized long-term strategic investment, and some key industries developed in the process. These included advanced manufacturing and technological progress. The capital for investment in these industries was accumulated by educating the labor on skills and achieving high savings rates. Along with this an export-led growth model targeting foreign direct investments was also initiated and sustained. SOEs remained the major recipients of investment, and therefore, the centrally planned investment was ensured. Michael Pettis is of the view that there is a need to sustain this trend of growth by adopting an evolutionary approach towards institutions (Pettis, 2023).

An overview of the major economic policies that facilitated the investment model is presented here to argue both views objectively. The economic and financial policies attributed to this economic model are presented in Table number 2.

**Table 2: Major Policies of China's Investment Model 1981-2023**

| Reforms Policy | Policy Area | Policy Objective |
|---|---|---|
| Dual Track Pricing System 1981 | Trade and investment | To gradually transition the economy from a centrally planned governance structure to market-led growth model |
| Rural Financial Reforms 1980-2000 | Financial sector | To transition rural population into urbanized citizens and improve financial conditions by an increase in surplus production |
| Reforms in Banking System 1984-1990s | Financial sector | To encourage market-led management of financial sector. |
| Shenzhen Stock Exchange 1990 | Investment sector | To facilitate investors and companies and to organize market on its own pattern. |
| Shanghai Stock Exchange 1990 | Investment sector | To facilitate local and international investors further |
| Reforms of State-Owned-Enterprises (SOEs) 1990 | Investment sector | To make SOEs more competitive and efficient. |
| Expansion of Financial Market 2010 | Investment and trade | To introduce new financial products and instruments for facilitating private financing sector |
| One Belt, One Road Initiative 2013 | Investment and trade | To promote China's financial cooperation across regions |

| | | |
|---|---|---|
| | | and continents |
| Shanghai-Hong Kong Stock Connect 2014 | Investment sector | To establish better coordination for the existing stock exchange system |
| Deposit Insurance System 2015 | Financial sector | To protect depositors and stabilize financial activity |
| Supply-side Structural Reforms 2015 | Investment sector | To facilitate supply side and support industrial policy |
| Yuan Internationalization 2015 | Trade and investment | To promote offshore Yuan market in several financial centers |
| Opinions on Promoting the Development and Growth of the Private Economy 2023 | Investment sector | To support private business and investment |

To analyze the first policy, it can be seen that it was under the economic reforms by the pragmatists. In the debate over China's reform policies, it is claimed that the reforms were radical in their internal nature and therefore contradicted the real agenda of market liberalization (Chunn, 2023). These reforms inform that the economic model of China transitioned from a state-led model to market-led economy, however, the Chinese rationale of modernization with a socialist character is also claimed with regards to such reforms. The utility and perseverance of those early reforms is continued by President Xi as an emphasis on the socialist character has been reiterated since President Dend Xiaoping's years. The Dual-Track policy allowed for planned and market-led pricing of goods. The local economic development achieved through the Rural Financial Reforms in the 1980s structured a regional development of the economy where the banking and financial products were provided by the state-owned banks, allowing the state to manage the regional economies despite a decentralized plan. However, it can be argued that the preceding banking system reforms, SOE reforms and development of the stock exchange areas supported a truly market-led growth model and therefore the argument that the Chinese economic model followed the socialist character in its entirety will not be correct disapproving Adam Posen's claims. However, a study of the restrictions on private business informs that the overall management was constrained by this factor and contributed towards a socialist character of the growth model. An absence of facilitative units in the form of private financing companies in the early phase and continuing up until 2010, it can be noticed that private finance and services were not supported well under the Chinese model of the economy in the initial period of liberalization (Gregory and Tenev, 2001). It is more of a mixture where some areas such as SOE reforms, banking system reforms and establishing the stock exchange market facilitated the liberalization of the economy while one area of private finance and business remained constrained.

A continuation of this restraint is observed in the third quarter of 2023 and a persistent insistence on the socialist character of the economy remains intact. Such as structure is maintained systematically and the two views on the economic model see it differently. For Michael Pettis, the problem for the real economic growth is the sustained levels of investment by the LGs in fixed assets and continuing this trend would not yield the required results of growing the economy realistically and sustainably. It will only supplement the GDP growth numbers. Stimulating consumption is the way to real economic growth. It is also been misrepresented in past, as, some suggested that consumption can be stimulated through investment in welfare programs such as building infrastructure for health and LGs worked in that direction.

Digressing from the real problem against warnings by the economic analysts, the LGs continued prioritizing massive investment in infrastructure and saw it as a stimulus to amplify the numbers of GDP growth and exports. Such practices did not only deviated from the actual target but also resulted in complimentary issues arising from this malfunctioning of funds. One of the major issues that supplemented the crisis and it arrived from the malfunctioning of investment is the debt crisis in China. Infrastructural and property investments needed massive capital flows that domestic SOE banks provided as financial services. China Construction Bank, Agriculture Bank of China, and Industrial and Commercial Bank of China are among the major lenders. The financing of LGs' infrastructural projects has created a debt crisis for China as the number has increased upto 280% by September 2023 (Chen, 2023). The debt by LGs reached 92 trillion yuan in October 2023. Therefore, the actions to ease this burden are initiated by the government, and a bond pool of 1 trillion yuan to ease the debt burden. Proposed as a new sovereign bond, the equity bond is introduced in October of 2023 to cope with the natural disasters, floods and food damage in the ongoing year but the LGs are demanding to refinance the bonds at an immature stage. This speaks of the desperation of debt-burdened LGs as political participants. If the central government allows the issuance of refinanced bonds to LGs, China remains in a paradoxical situation as Pettis analyzed. If the government provides further services of lending and refinancing to LGs, the suffering private sector will be right to reinforce its belief that the Chinese government favors SOEs and public sector investment, and if it chooses not to refinance the equities, the burden of debt is not going anywhere.

Understanding the Chinese model of economy is also crucial to dealing with the global response to the slump as Adam Posen represents an international opinion about it. Globally, the slump is presented as an outcome of state intervention and it is widely believed that a state-led economy in China will become the global economic giant and will gain regional economic dominancy. Adam Posen's understanding of the Chinese model of the economy is based on the argument that the economy of an authoritarian state where the people do not resist and a mundane public response to the assertive economic policies has contributed towards the slowdown of the third quarter and he termed it as a long COVID economic performance (Posen, 2018). The extreme intervention by the government has produced a less dynamic economy and the lack of resistance by the private sector has encouraged the Xi's regime to suppress it further. This understanding of the economic model can be argued to be rather convenient and reductionist.

The involvement of the state in the economy as analyzed above through era-based policies reveals an objective view of how a rather hybrid and mixed model of the economy is sustained by most of the policies reflecting a liberal agenda for the economy. It is in the area of private business that China can be accused of pursuing the socialist model. However, this is also questionable as the socialist character of the economy requires a reflection on the economic theory that Adam Posen does not present and just has focused on the constraint that SOEs posed to the truly liberalizing agenda of the domestic economy and its impact on the China-United States of America's relations (Posen, 2018).

He places private investment as the major factor that liberalized the Chinese economy and iterates on a lack of emphasis in President Xi's administration on the private sector as the major cause of the economic problems. "*The bulk of China's astonishing growth has resulted from the liberalization of its private sector. A key part of this private-sector-led growth was profitable* *commercial agreements for the US and other multinationals to transfer production and some technology to Chinese partners and investments."* If this argument is to be believed, the massive economic growth that China achieved through investments by LGs via SOEs would have to be discarded, distorting the reality of growth. As Pettis highlights, LGs' role has provided a sustained growth, however not sustainable but was pursued and achieved the GDP targets.

Another variable that Posen emphasizes is the state intervention to which again Pettis' argument can be consulted which maintains that the government's intervention is not entirely responsible for the slowed growth. It is rather an outcome of decades of policies that, although, supported liberalization, the reforms, as said earlier, are aggressive and assertive. The decentralized planning that made LGs responsible for investment is an endeavor towards liberalization and federalism but the choices that these LGs made by prioritizing fixed asset investments is an organic trend of investment produced without governmental intervention by the center.

The potential reason for the slowdown by both schools is different as Michael Pettis believes that the slowdown is due to the negative trend in consumption and an over-emphasis on investment as the investment-led model was used to develop non-productive fixed assets by the LGs, and, Adam Posen maintains that the slowdown is credited to governmental intervention through SOEs. One might contest that these both conclude similar propositions as investment-led-model of Pettis involves LGs' treatment of priorities towards SOEs, and Posen's claims of state intervention follow similar line of thinking. This criticism shall be countered by presenting a detailed view of policies where investment-led growth appears to be an organically emerging trend in a system that has attempted to bring in a hybrid model. Therefore, claiming economic slowdown to be state intervention would not be entirely justified and rather an investment-led growth model better explains the economic crisis.

## 4. Conclusion

The dissidence of China's investment-oriented model of growth and underemphasized consumption rates is a persistent character of studies on Chinese economic model. SOEs and the investment patterns by the state suggests that the focus of economic model has been investment and consumption. The relative neglect of the private finance and not stimulating the consumption led to imbalance in the economy and the present day economic slump in China is a poignant reminder of this disagreement

The inherent risks in such a model of economy and growth became evident in the second quarter of year 2023. Though the slump was expected to be resolved but a continued adherence to the conventional priority of investments in SOEs and state-led agencies, the disparities widened.

Such persistence predicts the unsustainable and non-adaptable economic approach of China and its growth rates. A thorough study of the causes and implications of the consumption slump of 2023 reveals that an intricate balance between investment and consumption is required for a sustained economy and its growth pattern. Investment is crucial for economic growth and prosperity but efforts needs to stimulate consumption cannot be neglected either. A robust consumer base by facilitating private finance is imperative for sustained growth rates.

Therefore it can be concluded that calibrating a more comprehensive model of economy is required that maintains a balance between investment and consumption. This approach is pivotal for achieving a resilient and sustainable economy in China.

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