



By: Navneeraj Sharma - Arvind Subramanian

# China's model may be in trouble



This has been an era of shocks. In the space of two decades, the world has witnessed globally disruptive wars—from Iraq in the 2000s to Ukraine and **Iran today**—a global financial crisis, a global pandemic, and a rogue American president upending the global order.

Now, yet another potential shock must be addressed: Though few dare to speculate about it publicly, an economic and political perfect storm is bearing down on China.

On the political front, Chinese President **Xi Jinping** has ruthlessly eliminated all potential opposition and centralized power in his own hands.

His decimation of the state, party, provincial, and military leadership has left a trail of bodies and resentment, even if the impenetrability of the Communist Party of China (CPC) makes this difficult to establish definitively.

With blood and revenge hammering in their heads (to paraphrase Shakespeare), numerous humiliated and disgruntled former officials could make Xi's succession, whenever it comes, disorderly.

Cycles of apparent calm leading to chaos are not uncommon in Chinese history.

They are intrinsic to what Francis Fukuyama has called the country's "**Bad Emperor**" problem, with Mao Zedong and Xi representing the bad emperors of the Communist era.

## Structural slowdown

On the economic front, the outlook is mixed, but downside risks are growing. Where some see an all-conquering powerhouse that is marrying technology to mass manufacturing, others see an economy that has been dragged into a structural slowdown by population aging, a prolonged property market slump, rising youth unemployment, and growing hostility to private enterprise.

Making matters worse, the longstanding

source of Chinese dynamism—**exports**—is vulnerable to policy responses from the United States and Europe, which are under immense pressure to address the latest China Shock.

But perhaps even more worrying is China's fraying fiscal capacity.

Warnings about unsustainable public debt are growing louder everywhere, but the situation in China is distinctive, owing to how it manages—or, rather, fails to manage—taxation.

Few states are as successful as China when it comes to surveilling and controlling the population.

But taxes represent a reciprocal bargain with citizens, who accept expropriation as legitimate on the understanding that they will get something in return: stability, public goods, improved standards of living, redistribution, and so forth.

That is why wars and even empires can be lost when a state loses its capacity to tax its citizens.

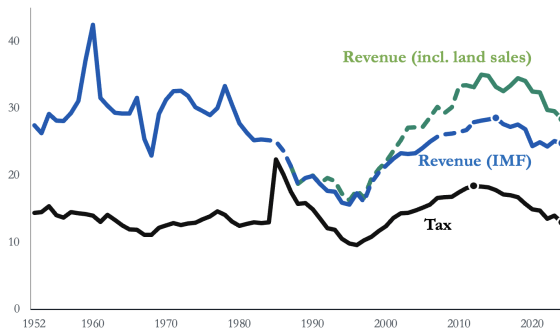
The fate of the Ming and Qing dynasties is telling in this respect. Even discounting for the obvious historical differences, these episodes have faint echoes in developments today.

We recently mapped China's taxes and revenues since 1952. Two features stand out. First, and somewhat surprisingly, the CPC has not presided over a particularly strong fiscal state.

Instead, it has raised a substantial share of resources without explicitly taxing its people.

Until the late 1970s, about half the resources raised came from profits of state-owned enterprises (SOEs); and in the last two decades, about one-sixth (and as much as one-quarter at its peak in 2020) has come from land sales.

China's Revenue and Taxes, 1952-2024  
(% of GDP)



Source: Sharma and Subramanian (forthcoming). Revenue (IMF) includes taxes; social-insurance contributions (1989 to 1997, the funds' total income) and the funds' own income; payments to the budget by state-owned enterprises (SOEs), mostly profits; fees and other non-tax income; government funds other than land sales; and off-budget funds until 2010; less subsidies to loss-making SOEs, 1985 to 2006. Land sales are gross, before costs and data start in 1987. Pre-1985, all SOE profits are included in revenue. Dashed portions denote missing data or possible double-counting.

In other words, China has never managed to raise sufficient sums of money via personal income taxation, even during a period of extraordinary economic vibrancy.

Over the last decade, its tax revenues from the personal income tax averaged just 1.2% of GDP.

Ironically, a communist state ideologically committed to collective ownership of the means of production has had to raise revenue by divesting itself of that most sacred input, land.

Evidently, the CPC can make the Chinese cower in silence, but finds it difficult to reach into their pocketbooks.

## The government grew on nontax revenues

The second and even more relevant finding is that, regardless of how they are measured, revenues and taxes have been declining for about a decade.

For example, taxes (excluding social-insurance contributions) collapsed by nearly six percentage points between 2012 and 2025, from 18.4% of GDP to 12.6%.

These are levels associated with a struggling, lower-middle-income country, not an aspiring superpower.

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It is difficult to say how much of this decline is attributable to growth falling below what headline figures indicate, and how much to weakening enforcement capacity.

Either way, it seems that the government grew so reliant on nontax revenues that it found itself with no options when they dried up.

Whether it can change course and impose taxes on the population very much remains to be seen.

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The Chinese state could find itself triply exposed—to a succession crisis, a weakening economy, and a lack of resources to exercise power domestically and project it externally.

*Even if the Chinese miracle ends with a whimper rather than a bang, the consequences may well be yet another global shock - Xi Jinping*

In short, China's entire growth and fiscal model, along with the social contract between the state and its citizens—coveted stability and material prosperity for restricted freedom and muzzled voice—may be in trouble.

Of course, any warning about China's potential descent into disorder must contend with the CPC's remarkable record of coercive control.

A slow bleed of anemic growth, rising restiveness, and deteriorating services is perhaps likelier.

But even if the Chinese miracle ends with a whimper rather than a bang, the consequences may well be yet another global shock.

Navneeraj Sharma is an energy economist.

Arvind Subramanian is a senior fellow at the

Peterson Institute for International  
Economics.