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Updated December 20, 2024

China's Economy: Current Trends and Issues

The International Monetary Fund (IMF) assesses that the People's Republic of China's (PRC's or China's) real gross domestic product (GDP) grew by 5.2% in 2023 and projects 5.0% real GDP growth in 2024. This growth is unbalanced, with supply much higher than domestic demand. The World Bank says that soft domestic demand, weak domestic and foreign business confidence, "tepid" productivity growth, and systemic debt, among other issues, could constrain PRC future growth prospects. Some economists contend that the economic returns of China's growth model, which has emphasized government investment and exports, is diminishing. These elements still appear to feature in China's current economic policies, however.

The PRC government is seeking to reduce debt and boost growth and productivity by investing in innovation, education, digital infrastructure, advanced manufacturing, and emerging technologies. It is also pursuing state-led industrial policies to advance its economic and technology development goals. Such statist approaches can distort markets and incentivize production well above what China can absorb domestically. As products supported by PRC industrial policies come to market, China appears to be looking to foreign markets for growth. China's share of global manufacturing output was about 30% as of 2022, highlighting the potential influence of PRC production and export policies on U.S. and global markets. Some in Congress and the Biden Administration have expressed concerns that PRC industrial policies and related subsidies are fueling PRC export expansion in sectors such as electric vehicles (EVs), semiconductors, solar energy, and steel.

Economic Policies and Efforts to Boost Growth

In July 2024, the Third Plenum of the Communist Party of China (CPC) Central Committee focused on economic policies through 2035 to advance "Chinese-style modernization," a term referring to China's approach to economic development. The Plenum's decision affirmed 14th Five-Year Plan (FYP) (2021-2025) priorities (see **text box**). It featured plans to develop the digital economy and service sector; to deepen capital markets and securitize intellectual property; and to internationalize China's currency, the *renminbi* (RMB) and develop a digital RMB and PRC cross-border payment system. It mentioned plans for commodity trading platforms and global distribution centers; a pilot to extend rural land contracts by 30 years; household registration reforms to benefit rural migrants living in urban areas; and an expansion of how local government funds can be spent. At a May 2024 forum, China's leader Xi Jinping called for "resolutely dismantling institutional barriers hindering Chinese-style modernization." CPC policy debates include how to boost economic growth (particularly lagging consumer spending) and productivity; address income inequalities; and reform national-local government tax-revenue sharing.

PRC leaders appear reluctant to adopt broad stimulus to boost domestic consumption as they try to reduce debt levels. They have pursued narrow stimulus measures and government-led fixed asset investment in manufacturing to boost growth. Such measures include value-added tax export rebates, tax incentives for technology and research, and expanded financing for programs that promote a "buy back" of old appliances and EVs for new purchases. In December 2024, the annual Central Economic Work Conference of senior PRC leaders reiterated support for PRC industrial and science and technology policies to promote "high quality" growth, called for "moderately loose" monetary policy, and announced proactive fiscal policies aimed at boosting growth and stabilizing employment, prices, and China's balance of payments. The conference emphasized "buy back" programs to boost consumption. Other economic measures taken in 2024 include

- **March:** The PRC government said it would issue up to $539 billion in local government special purpose bonds, to pay off local government debt and support projects.
- **May:** The central bank announced $41.4 billion to convert unsold housing into subsidized housing. The Finance Ministry pledged to issue $138 billion in ultra-long-term special sovereign bonds through November 2024 to support 14th FYP (2021-2025) priorities.
- **July:** The central bank cut its one-year medium-term lending rate by 20 basis points to 2.3%.
- **August:** The State Council announced stimulus programs to boost domestic consumption in services.

The 14th Five-Year Plan (FYP) (2021-2025)

The 14th FYP prioritizes research, education, finance, and technology, and calls for $1.4 trillion in investment in digital infrastructure. It emphasizes self-reliance and indigenous innovation while sustaining access to U.S. and other foreign markets, technology, capital, and research to advance PRC goals. It prioritizes self-sufficiency in energy and agriculture (biotechnology, genetic resources, and seed technology), and calls for China to lead in setting global trade rules and technical standards. It promotes China's extraterritorial reach, and pursuit of global acceptance of PRC judicial rulings on intellectual property and technology pricing and PRC antitrust actions.

Manufacturing Investment and Excess Capacity

To boost growth, in 2020 Xi revived a "dual circulation" policy, last used during the 2009 global financial crisis, to expand production while promoting exports. While global industry contracted in 2009, the PRC government used dual circulation to fund production in 13 manufacturing industries, generating excess capacity that China then exported to global markets. Amid weak domestic demand, PRC government investment in manufacturing is fueling deflation, stressing corporate margins, and expanding production beyond what China can absorb. Fixed-asset investment in manufacturing grew by 9.3% in the first ten months of 2024, while investment climbed over the same period in 2023 in the following sectors: rail, shipping, and aerospace (+33%); non-ferrous metals smelting and processing (+25.9%) metal products (+15.8%); and information technology (+13.2%). In 2024, the PRC government announced a third investment phase ($47.5 billion over five years) of its semiconductor fund. Some economists assert PRC industrial policies that fuel PRC exports are distorting global markets in sectors such as semiconductors, EVs, solar, and steel. China is projected to comprise almost half of all new global capacity in mature semiconductors (e.g., 28 nanometer and above) anticipated to be online from 2024-2029. Some say overcapacity in China's EV market is driving down factory utilization rates, prices, and firms' margins and estimate that China could face a surplus of 20 million EVs by 2025.

Trade Tensions

PRC leaders appear concerned about foreign governments' efforts to counter China's industrial policies and export-oriented growth strategy. Official readouts of a May 2024 meeting of senior CPC leaders noted "significantly rising external uncertainties." At a World Economic Forum meeting in June 2024, Premier Li Qiang encouraged countries to "reject bloc confrontation and decoupling, keep industrial and supply chains stable and smooth, and advance trade and investment liberalization and facilitation" to promote global growth. Foreign government efforts in 2024 to counter PRC exports include

- The U.S. Trade Representative extended most tariffs on PRC goods that it has imposed since 2018 under Section 301 of the Trade Act of 1974 and increased tariffs on some PRC goods in response to China "flooding global markets with artificially low-priced exports," (e.g., EVs, EV batteries, medical products, semiconductors, ship to shore cranes, solar cells, and steel and aluminum items).
- The European Union (EU) launched investigations against PRC trade and investment practices in anti-subsidy (EVs), anti-dumping (steel), and procurement (medical devices) areas. In June, the EU announced 21-38% provisional tariffs on PRC EVs.
- Canada imposed 100% tariffs on PRC EVs.

China has retaliated with antidumping investigations on brandy, dairy, and pork (EU); and canola oil (Canada).

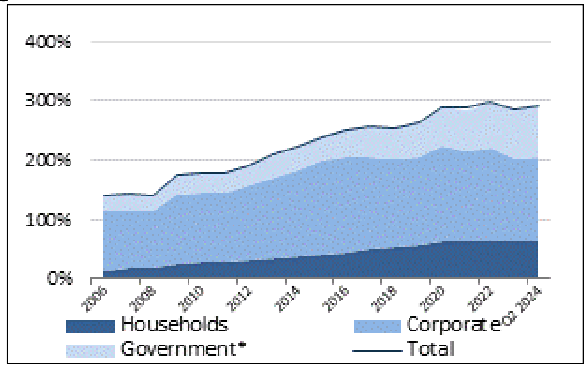
Foreign Business Confidence

After two years of "Zero Covid" restrictions, economic softening in China, PRC political controls, and use of economic coercion, some firms appear to have deemed investing in China to be a more risky prospect. In February 2024, the American Chamber of Commerce said 57% of its firms lack confidence in China's business environment. In 2024, the PRC government has sought to boost market confidence by featuring high profile visits from global business leaders.

Currency

The RMB faces downward pressure from low domestic and international confidence in China's market, a strong U.S. dollar, and a widening gap between U.S. and PRC interest rates. The PRC central bank sets a narrow band within which the RMB can trade through daily guidance to PRC banks. Since August 2023, the central bank has set the RMB's daily rate well above the market rate to stabilize the currency. Some U.S. analysts assess that the PRC is seeking to manage depreciation and slowly devalue the RMB in a controlled manner. PRC state banks have supported the government's efforts to stem the RMB's rapid depreciation by selling U.S. dollars. In September 2023, the central bank decreased the amount of foreign currency deposits it requires PRC banks to hold. China remains on the Treasury Department watch list for currency practices, including its failure to publish exchange rate intervention data.

Figure 1. China's Non-Financial Debt as Share of GDP



Source: CRS, with data from the Bank for International Settlements.

Notes: *Government debt only available in nominal value. Comparable U.S. total non-financial debt as of Q3 2023 was 253% of GDP.

China's Systemic Debt

China's total non-financial debt—household, corporate, and government—reached 311% of GDP in the third quarter of 2023 (**Figure 1**), with most debt held by private firms and provincial and local governments. Local governments and firms have relied on bank loans and bond issuances to spur economic activity via fixed-asset investment as consumer spending has lagged. A 2016 government campaign sought to rein in banking, local government, and corporate debt. In 2018, Xi pledged to tackle financial risk as one of "three tough battles." The government relaxed the campaign during the pandemic and required local governments to fund pandemic mitigation and stimulus programs, which increased their debt burden. China has faced defaults by major property developers tied to local governments. Income from property sales is a main source of local government revenue and property prices are a key factor in firms' valuations and household net worth. This dynamic constrains PRC policy options to advance Xi's stated commitments to reduce debt and his "common prosperity" policy that seeks to address economic inequality.

Issues for Congress

Congress has debated the role of U.S. tariffs to address PRC industrial policies and their effects on trade. Congress also has responded to PRC industrial policies by passing legislation to develop U.S. semiconductor, solar, and EV industries (P.L. 117-167 and P.L. 117-169). Among its options, Congress may consider whether or not to:

- Encourage USTR to initiate a "phase two" Section 301 investigation to address PRC industrial subsidies;
- Explore joint trade actions with the EU and other top trading partners vis-à-vis China; and
- Address PRC overseas investments that may distort markets. PRC firms supported by PRC industrial policies are investing in the U.S. and third markets.

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