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China's Economy: Current Trends and Issues

The government of the People's Republic of China (PRC or China) reports that China's real gross domestic product (GDP) grew by 5% in 2024. While the PRC government has sought to restrict negative commentary about China's economy, some PRC and international experts have said that China's GDP growth rate has been lower than officially reported, likely between 2% and 3% in 2024. China's growth is also 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 of China's model still feature in current PRC 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 Trump Administration have expressed concern 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 priorities in the PRC's 14th Five-Year Plan (FYP) (2021-2025), which include developing the digital economy and service sector; deepening capital markets and securing intellectual property; internationalizing China's currency, the *renminbi* (RMB), and developing a digital RMB and PRC cross-border payment system (see **text box**).

Other priorities include establishing commodity trading platforms and global distribution centers; conducting a pilot to extend rural land contracts by 30 years; reforming the household registration system to benefit rural migrants living in urban areas; and expanding 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 instead have pursued narrow stimulus measures and government-led fixed asset investment in manufacturing to boost growth. Such measures have included extending value-added tax export rebates, tax incentives for technology and research, and 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, "moderately loose" monetary policy, and proactive fiscal policies aimed at boosting growth and stabilizing prices, employment, and China's balance of payments. The conference also touted "buy back" programs to boost consumption. Other economic measures in 2024 included

- **March:** The PRC government was to 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. (In 2009, while global industry contracted, the PRC government funded production in 13 PRC industries, generating excess capacity in China that it then exported.) Amid weak domestic demand, PRC government investment in manufacturing is again fueling deflation, stressing corporate margins, and expanding production beyond what China can absorb. PRC fixed-asset investment in manufacturing grew by 9.2% in 2024 over 2023, while investment in 2024 climbed over 2023 in the following sectors: rail, shipping, and aerospace (+34.9%); non-ferrous metals smelting and processing (+24.2%) metal products (+16.6%); and information technology (+12%). 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 in 2025.

Trade Tensions

PRC leaders appear concerned about other countries' efforts to counter the PRC's industrial policies and export-oriented growth strategy. Official readouts of a May 2024 meeting of CPC leaders noted "significantly rising external uncertainties." At a June 2024 World Economic Forum meeting, Premier Li Qiang told 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.

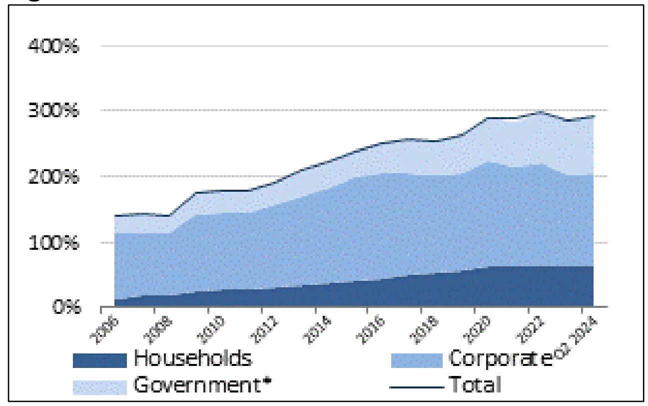
In 2024, the U.S. Trade Representative (USTR) extended most tariffs on PRC goods that it has imposed since 2018 under Section 301 of the Trade Act of 1974 and increased tariffs on some PRC goods in response to China "flooding global markets with artificially low-priced exports" (e.g., EVs, EV batteries, medical products, semiconductors, ship to shore cranes, solar cells, and steel and aluminum items). USTR in December 2024 initiated a Section 301 investigation on China's semiconductor policies and practices, and in January 2025 determined that PRC shipping and shipbuilding practices are "actionable" under Section 301. In February 2025, President Donald J. Trump announced an additional 10% tariff on U.S. imports from China and a withdrawal of *de minimis* treatment for imports from China.

The European Union (EU) has investigated PRC trade and investment practices in anti-subsidy (EVs), anti-dumping (steel), and procurement (medical devices) areas. In June 2024, the EU announced provisional tariffs of 21%-38% on PRC EVs. Canada also imposed 100% tariffs on PRC EVs in 2024. China retaliated with antidumping investigations on brandy, dairy, and pork (EU), and canola oil (Canada); tariffs on certain U.S. imports (e.g., agricultural machinery, autos, coal and liquefied national gas); export controls on some minerals; and investigations of U.S. technology firms.

Currency

The RMB faces downward pressure from low domestic and international confidence in China's market, a strong U.S. dollar, a widening gap between U.S. and PRC interest rates, and U.S. and other countries' tariffs on PRC goods. 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. PRC state banks have supported the government's efforts to stem the RMB's rapid depreciation by selling U.S. dollars. Some U.S. analysts assess that the PRC has been seeking to manage depreciation and slowly devalue the RMB in a controlled manner. Other reports indicate PRC leaders may consider faster RMB depreciation to lower the price of PRC exports in response to U.S. tariffs. China is 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, and in 2018, Xi pledged to tackle financial risk. The PRC government relaxed these efforts 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 goal to reduce debt and his "common prosperity" policy that aims to address economic inequality.

Issues for Congress

Congress is debating the role of U.S. tariffs and their effects on trade and options to address PRC industrial policies. Among its options, Congress might consider whether to:

- Require the Administration to develop a trade strategy that includes an assessment of how U.S. tariffs on China and third countries address PRC practices of concern;
- Encourage USTR to initiate a Section 301 investigation on PRC industrial subsidies;
- Explore joint trade actions with the EU and other top trading partners vis-à-vis China; and
- Address the ways in which PRC investments in the United States and third countries may distort markets.

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