



China's Economy: Current Trends and Issues

The government of the People's Republic of China (PRC or China) is targeting China's per capita gross domestic product (GDP) to reach that of a middle-income developed country by 2035. Several factors—slowing growth, an aging population, local government debt, a reliance on fixed-asset investment, overcapacity in manufacturing, and global trade frictions—may constrain China's ability to reach its economic goals. While the PRC government reports that China's real GDP grew 5% in 2025, some economists say actual growth was 2% to 3% (**text box**).

China's growth is unbalanced after decades of policies to boost supply that did not concurrently incentivize domestic demand. According to the International Monetary Fund (IMF), PRC debt-financed investment and weak domestic demand have led to PRC domestic and external imbalances. The World Bank argues that soft domestic demand, weak domestic and foreign business confidence, "tepid" productivity growth, and systemic debt, among other issues, constrain PRC growth prospects. Some economists say that the economic returns of China's growth model—which emphasizes government investment and exports—are diminishing, and recommend fiscal stimulus to boost domestic consumption. PRC economic policies still emphasize government investment and exports, however.

At the same time that it faces such structural impediments, the PRC government is seeking to boost economic growth and productivity by investing in science and technology (S&T), education, digital infrastructure, and advanced manufacturing. PRC leaders are pursuing these objectives through state-led industrial policies which can distort markets and incentivize production well above what China can absorb domestically. As products supported by PRC industrial policies come to market, China is relying on exports for growth. China's share of global manufacturing output was about 29% as of 2023, highlighting the potential effects of PRC production and exports on global markets. The IMF assesses that the high volume of PRC exports is creating adverse spillover effects and destabilizing the global economy. PRC industrial policies are fueling China's export expansion in electric vehicles (EVs), solar energy, semiconductors, steel, and other sectors.

Economic Priorities

China's 15th Five-Year Plan for National Economic and Social Development (FYP) (2026-2030) reinforces "indigenous" innovation as the core driver of China's development. It calls for reducing China's reliance on foreign S&T and building China's global leadership in strategic and emerging sectors. Key priorities include

- Boosting PRC capabilities in areas in which China depends on the United States, Europe, and Japan (e.g., aircraft; agriculture; advanced equipment; energy; gas turbines; and semiconductors);

- Upgrading legacy industries (e.g., steel, petrochemicals, and shipbuilding), and boosting advanced manufacturing with breakthroughs in materials and equipment, and the industrial use of artificial intelligence (AI) and robotics;
- Developing PRC-controlled global supply chains, and promoting e-commerce and services exports;
- Boosting China's research and development capabilities;
- Digitalizing China's economy (with the digital economy to reach 12.5% of China's GDP by 2030); and
- Deepening China's capital markets and internationalizing China's currency, the *renminbi*.

PRC leaders also are continuing to expand the role of state capital and state-owned firms in the economy and the role of the party in PRC firms. They have elevated the role of state planning while looking to PRC firms to advance S&T goals. They are seeking to position China to set global trade rules and technical standards and are developing China's national economic security toolkit and an unconventional use of antitrust, technical standards, investment, and intellectual property (IP) tools to help PRC firms expand globally. See CRS In Focus IF13204, *China's 15th Five-Year Plan: S&T and Economic Priorities*.

China's Economy: Key Indicators

Population: 1.4 billion people

Nominal Gross Domestic Product (GDP): \$19.4 trillion (8% agriculture, 38% industry, 54% services); about 17% of global nominal GDP; 2nd largest global economy after the United States (U.S. nominal GDP is \$30.6 trillion)

Nominal GDP Growth: 5% (2025); 4.5%-5% (2026 target)

Per Capita GDP: \$13,800 (U.S. per capita GDP is \$94,930)

Overall Unemployment Rate: 5.4%

Youth Unemployment Rate (ages 15-24): 15.8%

Main Industries: Autos, chemicals, machinery/equipment, electronics, technology, digital services, construction, real estate, e-commerce, digital services, energy, and mining

Energy Mix (consumption): Coal (53%); oil and gas (27%); and renewables/nuclear (20%) (target to reach 25% by 2030)

Goods Trade: \$6.4 trillion (\$3.8 trillion in exports; \$2.6 trillion in imports, \$1.2 trillion trade surplus); exports are 18% of GDP; 31% of exports are high-technology

Gross Capital Formation (investment in long-term production capacity as % of GDP): 43% (U.S. is 22%)

R&D (spending as % of GDP): 2.8% (U.S. is 3.4%)

Foreign Direct Investment (FDI) Flows: \$104.7 billion (inbound) and \$174.4 billion (outbound)

Foreign Exchange Reserves: \$3.34 trillion (March 2026)

Source: PRC National Bureau of Statistics and public reports

Fiscal Stimulus

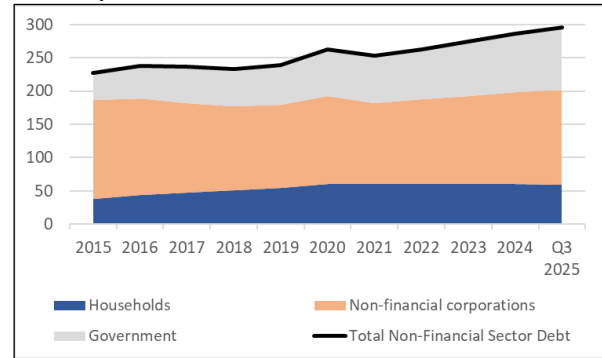
PRC leaders have refrained from adopting broad stimulus measures advocated by many economists to boost domestic consumption, partly in an effort to reduce debt levels. PRC leaders instead have used narrow stimulus measures and government fixed asset investment in manufacturing to boost growth. Such measures have included extending tax incentives for technology and research, value-added tax export rebates, and financing for the “buy back” of EVs and appliances for new purchases.

At the Central Economic Work Conference in late 2025, PRC leaders set a 2026 “proactive” fiscal policy that is to boost investment in key industries while exercising “austerity” regarding local government debt. They set a “moderately loose” monetary policy which may allow for interest rate cuts or a lowering of the reserve or deposit levels that banks are required to meet.

The 2026 Government Work Report (GWR) again set an annual fiscal deficit target of 4% of GDP. China's broader fiscal deficit, which includes off-budget support, is projected to be higher at 9.2% of GDP in 2026. (Off-budget support includes special bonds and funds for infrastructure and strategic industries). 2026 fiscal allocations include

- \$644.7 billion in local-government bonds to fund major projects, reduce debt, and increase fiscal transfers;
- \$190.5 billion in long-term bonds of which \$117.2 billion is for strategic and infrastructure goals; \$29.3 billion is for large-scale manufacturing equipment upgrades; and \$36.6 billion is for consumer goods trade-in programs (down from \$44 billion in 2025);
- \$14.7 billion for consumer financing; and
- a 7% annual increase in government spending for R&D, defense, and foreign affairs.

Figure 1. China's Debt in Non-Financial Sectors (as a % of GDP)



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

Notes: Government debt in nominal value. Comparable U.S. total non-financial debt as of Q4 2025 was about 257% of GDP.

China's Debt Levels

China's debt in the non-financial sectors—household, corporate, and government—reached 296% of GDP in the third quarter of 2025 (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. China also has faced defaults by property developers tied to local governments. Income from debt-financed 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 options to advance PRC leader Xi Jinping's stated goals to reduce debt and his “common prosperity” policy that aims to address economic inequality in part by offering more affordable housing.

“Supply Side” Growth

China is sustaining a production-based “dual circulation” policy that aims to create demand by increasing supply. This approach already has contributed to China's industrial overcapacity and dependence on exports. Amid weak domestic demand, the government is investing in export-oriented manufacturing industries while trying to restrict production in other industries to address deflationary pressures and what it defines as “involution” or “excessive pricing competition.” PRC fixed-asset investment in manufacturing grew by 0.6% in 2025 over 2024 (after rising 9.2% in 2024 over 2023) with investment up in autos (+12%); machinery (+6%); and rail/shipping/aerospace (+18%). With the 15th FYP's focus on advanced equipment, PRC policies are financing industrial equipment upgrades.

Trade

China's trade with the world in 2025 rose 3.8% over 2024 to reach \$6.36 trillion. China's global trade surplus rose to \$1.2 trillion with exports up 6.1% over 2024. Government policies and an undervalued RMB contributed to the increase. While PRC light industry exports fell, exports in high-value sectors such as electronics rose as did wind turbines (+49%), EV batteries (+26%), industrial robots (+49%), and machinery/tools (+20%). PRC exports to the United States fell 20% but exports to other countries rose. See CRS In Focus IF11284, *U.S.-China Trade Relations*.

Currency

The PRC central bank sets a narrow band within which the RMB can trade through daily guidance to PRC banks. It can set the RMB's daily rate well above or below the market rate. PRC state banks typically back government efforts to set a particular RMB value by buying or selling RMB, U.S. dollars, and foreign assets. The RMB is facing market pressures to appreciate in part due to a large global trade surplus and a weakening U.S. dollar. The IMF is pressing China to revalue the RMB to stabilize global markets and trade, arguing that China's export-led growth and trade surplus is unsustainable for the global economy. In early 2026, the IMF estimated that the RMB was undervalued by 16%. The 2026 GWR said the RMB would be "generally stable" at an "adaptive, balanced level" in a sign China may go slowly on any revaluation. China is on the Treasury

Department's watch list for currency practices, including for its failure to publish exchange rate intervention data.

Issues for Congress

Among its options, Congress could consider whether to

- Address PRC industrial subsidies and the role of the PRC state in the economy and in PRC firms;
- Address the ways in which PRC investments in the United States and third countries may distort markets;
- Explore joint trade or other policy actions with top trading partners vis-à-vis China; or
- Assess aggregate U.S. exposure to the PRC economy.

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