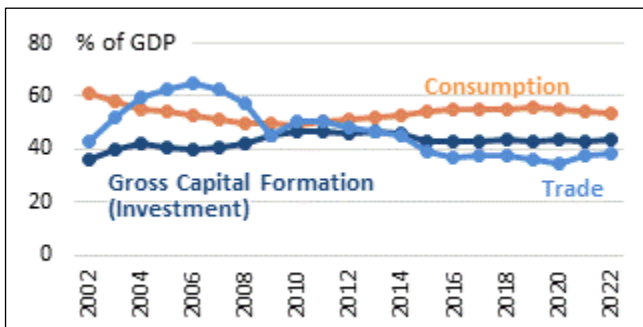




# China’s Economy: Current Trends and Issues

In 2023, the People’s Republic of China (PRC or China) emerged from two years of “zero-COVID” policies that significantly curtailed its domestic and global economic activity. Weak domestic demand, a decline in domestic and foreign confidence in China’s market, and persistent systemic debt pressures, particularly in the property market, continue to constrain the government’s efforts to jumpstart growth. In 2022, China relied on investment and exports to achieve a gross domestic product (GDP) growth rate of 3%, well below initial government and international projections. Many economists contend that China will experience similar growth rates going forward as the economic returns of China’s traditional growth model diminish and as the economy faces other constraints, such as an aging population. The government is targeting 5% GDP growth in 2023. The International Monetary Fund (IMF) projects that China’s economy could grow by 4.5% to 5% in 2023, particularly if Beijing were to adopt economic reforms and stimulus measures that could increase domestic consumption.

**Figure 1. Composition of China’s Economy**



**Source:** CRS with data from the World Bank and China’s National Bureau of Statistics (NBS).

**Note:** Gross capital formation consists of outlays on additions to the fixed assets of the economy plus net changes in inventories levels.

## Efforts to Boost and Rebalance Growth

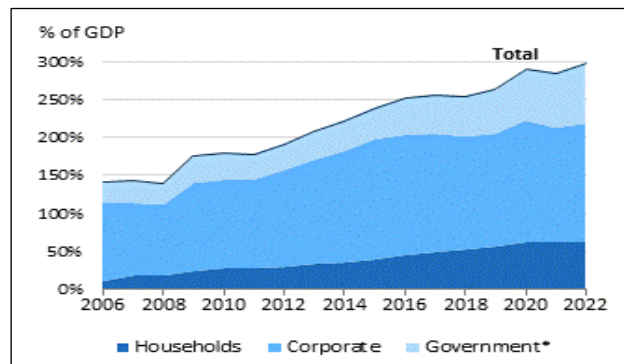
PRC leaders have been reluctant to adopt major economic stimulus measures to boost falling household consumption as they try to deleverage the economy, reduce debt levels, and contain market risks (Figure 1). In 2022, the PRC government used targeted measures to boost growth such as value added tax (VAT) rebates for exports and tax incentives for research and technology. In 2023, the government has sought narrow efforts to boost domestic consumption and confidence in China’s private sector. In July 2023, the government announced consumer financing for purchases of electric vehicles (EVs) and consumer electronics, sectors facing overcapacity. China’s economic planning agency concurrently announced opportunities for private firms to invest in transportation, clean energy, infrastructure, advanced manufacturing, and agricultural projects. These efforts may prove insufficient to expand domestic demand, and, if economic sluggishness continues,

the government may be forced to resort to bolder support measures before the end of 2023.

## Systemic Economic Challenges

China faces economic challenges that predate the pandemic, including slowing domestic growth, rising labor costs, trade pressures including U.S. tariffs, consumer uncertainty, and rising corporate and government debt levels. China’s total non-financial debt—household, corporate, and government—reached 297% of GDP in 2022 (Figure 2), with most debt held by private firms and provincial and local governments. China’s strict “zero-COVID” lockdowns exacerbated these issues. Local governments and firms have relied heavily on debt (bank loans and bond issuances) to spur economic activity via fixed-asset investment as consumer spending has lagged. Data from the People’s Bank of China indicates that bank loan issuance rose 8.8% year-on-year in August 2023, and China’s central government finalized plans to allow local governments to issue special-purpose bonds totaling approximately RMB 3.8 trillion (\$519 billion) in September 2023.

**Figure 2. Nonfinancial Debt as Share of China’s GDP**



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

**Notes:** \*Government debt in nominal value. Comparable U.S. debt was 255.6% of GDP in 2022.

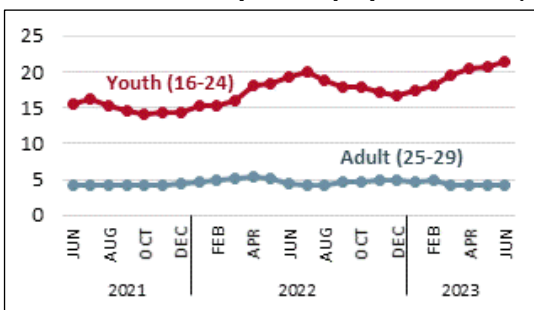
In 2016, the PRC government initiated a campaign to rein in debt accrued by banks, local governments, and unauthorized lending. The effort included scrutiny of overseas investments and curtailment of certain state firms such as HNA Group. The government restructured these firms’ debt and aligned investments with state goals, established state trusteeship, and transferred assets to state investors. In 2018, Xi Jinping pledged to tackle financial risk as one of “three tough battles.” The campaign led to several bank bailouts in 2019, but defaults fell in 2020 due to pandemic stimulus and laxer rules. Local government balance sheets further deteriorated with the burden of pandemic mitigation efforts and initial stimulus programs falling almost entirely on local governments.

As local and provincial fiscal conditions worsened, China faced a series of defaults by its major property developers tied to local governments, most notably China Evergrande Group and Country Garden. Income from property sales is a

main source of local government revenue and a key factor in firms' valuations and household net worth. This constrains policy options, despite Xi Jinping's statements that support reducing debt and his "common prosperity" policy to address growing economic inequality among China's provinces and demographic groups.

China's slowing economy and crackdown on the private sector, including education, real estate, and technology industries, over the past three years has disproportionately affected younger workers. They have also been hit hard by a slowdown in the service sector and by systemic issues, such as a mismatch in the skills and expectations of college graduates and the types of available jobs. In June 2023, China recorded a youth unemployment rate of 21.3% (See **Figure 3**). China's National Bureau of Statistics subsequently said it would stop publishing data on youth unemployment.

**Figure 3. China's Monthly Unemployment Rate (%)**



**Source:** CRS with data from China's National Bureau of Statistics

**Note:** China's real unemployment rates tends to be much higher than the PRC official rates presented in NBS data.

### Trade, Foreign Investment, and Currency

China's goods and services exports rose in 2022 by 7% from 2021, bringing China's global trade surplus to a record \$877.6 billion. Trade grew by 0.4% in the first 7 months of 2023; the external sector has not buffered the economy as it has in other slowdowns. China is looking to boost exports in sectors such as EVs that face overcapacity. A 2018 outbreak of African Swine Fever decimated China's pork herd, and a poor wheat harvest and low soybean yields have elevated the role of trade to fill production gaps. China's coercion of foreign suppliers exacerbated its grain and energy shortfalls in 2021. Since late 2022, China has increased imports of grain, oil, and gas, including from the United States and Russia.

Economic softening in China; business takeaways from China's "zero COVID" policies; China's political and economic tightening and economic coercion; and foreign technology controls on China have fueled a sense of risk in the China market, prompting some firms to migrate parts of supply chains out of China. There have been periods of large capital outflows from China in 2022 and 2023.

Beijing has used the optics of CEO visits and investments in key sectors (e.g., biotechnology and semiconductors) to try to boost market confidence. The government's raid on foreign market research firms and efforts to restrict negative economic commentary, however, have fostered a business chill and raised the sense of China market risks.

China's currency the *renminbi* (RMB) continues to face downward pressures from a low confidence in China's market, a strong U.S. dollar, and widening gap between U.S.

and PRC interest rates. The central bank sets a narrow band within which the RMB can trade through daily guidance to PRC banks. In August 2023, the central bank set the RMB's rate well above the market rate; PRC state banks sought to stem the RMB's depreciation by selling U.S. dollars. In September 2023, China's central bank decreased the amount of foreign currency deposits it requires banks to hold. As of this writing, China remains on the Treasury Department's watch list for currency practices of concern due to its failure to publish exchange rate intervention data.

### PRC's Broad Economic Policy Direction

China's 14th Five-Year Plan (FYP) (2021-2025) emphasizes national development priorities in basic research, education, finance, and technology and calls for \$1.4 trillion in investment over 5 years in digital infrastructure. The FYP emphasizes self-reliance and indigenous innovation while seeking to sustain access to foreign markets, technology, and research. It also promotes China's extraterritorial reach and global acceptance of China's judicial rulings on intellectual property and technology pricing, and antitrust actions.

Xi is advancing a strong state role in the economy and calling for China's leadership in setting global trade rules and technical standards. China has issued a series of national economic security measures since 2020, including an export control law and anti-foreign sanctions law, potentially to counter U.S. policy actions. Beijing is developing a central bank digital currency to influence global finance and e-commerce, diversify from U.S. dollar financing, and evade U.S. sanctions. The 14th FYP prioritizes self-sufficiency and supply chain security in energy and agriculture, including biotechnology, genetic resources, and seeds.

Xi has revived a "dual circulation" policy first used in the 2009 financial crisis. Some experts assess the term refers to boosting consumption, but the term is more complex. It refers to leveraging the dual forces of domestic and global demand, or developing domestic capacity while pursuing openings in global markets. In 2009, the government used this approach to subsidize increased production in 13 industries while global industry contracted, generating excess capacity that China exported to other markets. Currently, sectors that receive similar domestic support that are positioning to export include renewable energy, EVs, and semiconductors.

### Issues for Congress

Congress might consider how China's economic problems may offer an opportunity for the United States to set trade and investment terms that advantage the United States and address China's statist economic practices. As China's growth slows, it is looking to foreign markets to expand and compensate for domestic gaps and weaknesses. China's industrial policies emphasize a goal of self-reliance but seek U.S. technology, research, and capital. Similarly, China is returning to trade partners it recently shunned or coerced, such as Australia. Ongoing efforts by the United States and allies and partners to diversify away from China in this context could increase U.S. options and leverage. Congress also might consider how U.S. ties to China's technology and industrial policies support the development of PRC capabilities, and determine how, if at all, to address these issues in light of growing restrictions and market risks in China.

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