



Institute for International Monetary Affairs

THE CHINESE ECONOMY IN TRANSITION

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Council on Foreign Relations

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1. Status of the Chinese Economy: 3 snapshots

2. Structural Challenges: 4Ds

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1. Status of the Chinese Economy

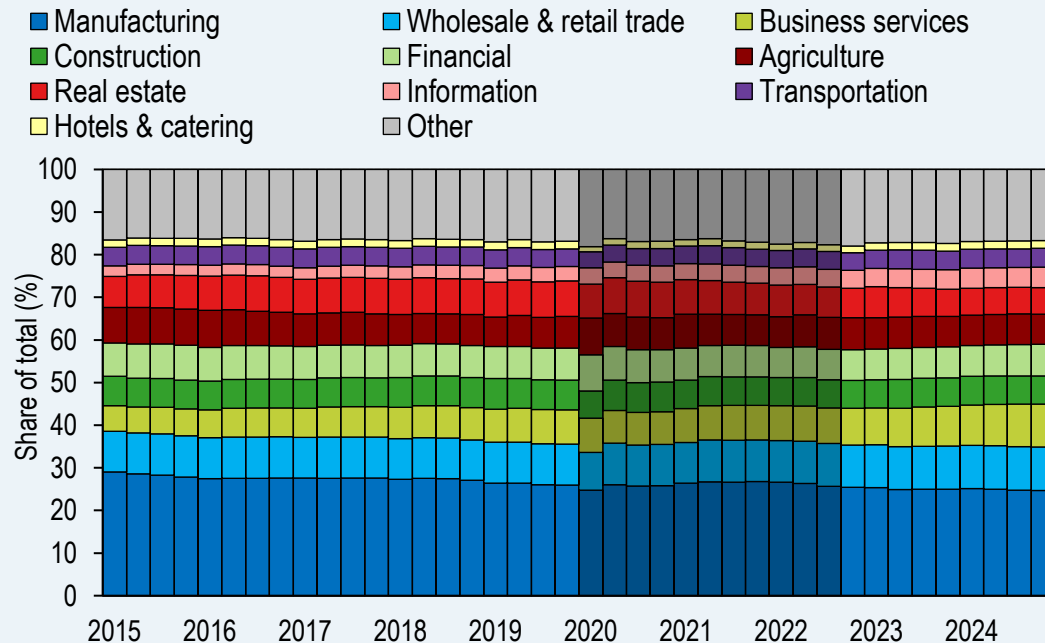
3 snapshots

Status of the Chinese Economy:

Manufacturing remains nearly a quarter of the Chinese economy whereas real estate has declined.

Manufacturing remains nearly one quarter of the Chinese economy whereas real estate has declined.

Chinese GDP by industry expenditure, share of total, quarterly

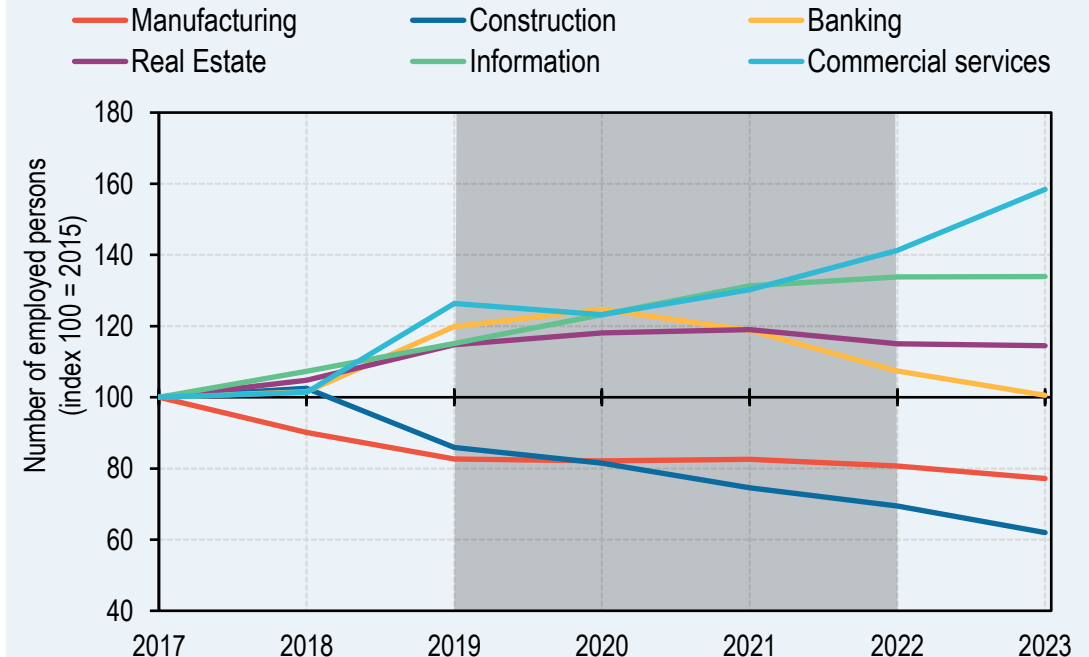


Notes: Other is difference between total GDP and the sum of breakout series. Shading indicates period of zero-COVID policy lockdowns in China.

Sources: China National Bureau of Statistics, Zongyuan Zoe Liu

Employment in manufacturing, construction, real estate, and banking has declined.

Urban enterprise (qiye) employment, index (100=2017), annual level



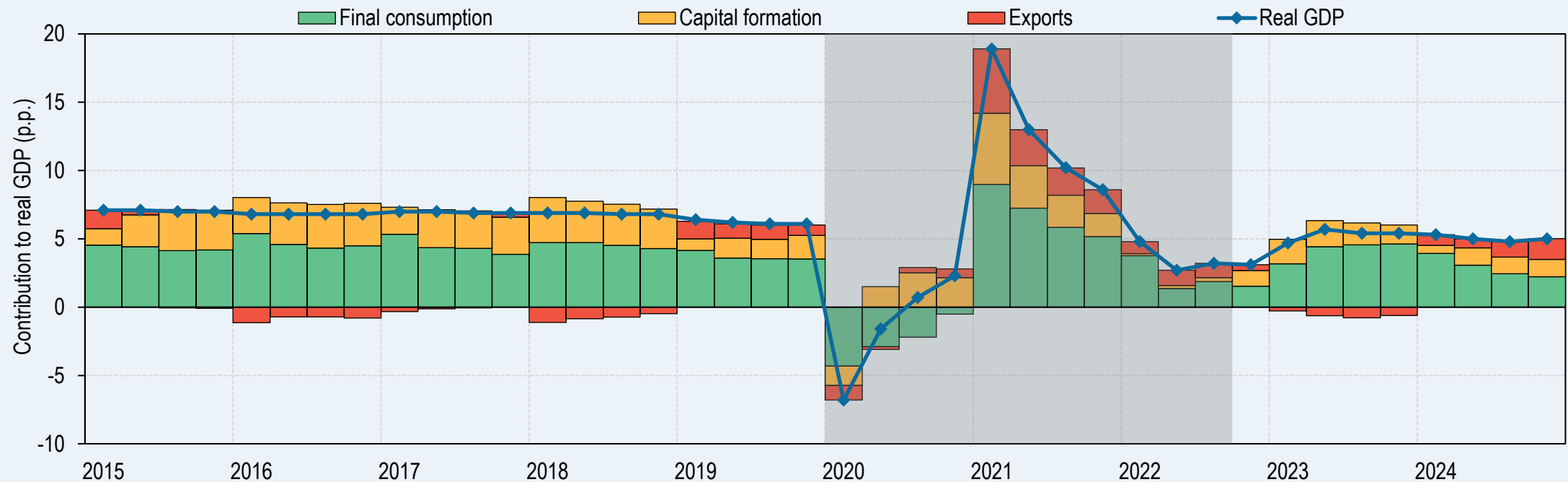
Notes: Enterprise (qiye) employment includes state-owned enterprises and some, but not all, private enterprises. Shading indicates period of zero-COVID policy lockdowns in China.

Sources: China National Bureau of Statistics, Zongyuan Zoe Liu

Status of the Chinese Economy: Export dependent amid weak domestic consumption

China cranks up the export machine when consumption wanes

Contributions to real GDP, percentage points, quarterly



Notes: Real GDP is year-over-year growth by quarter. Shading indicates period of zero-COVID policy lockdowns in China.

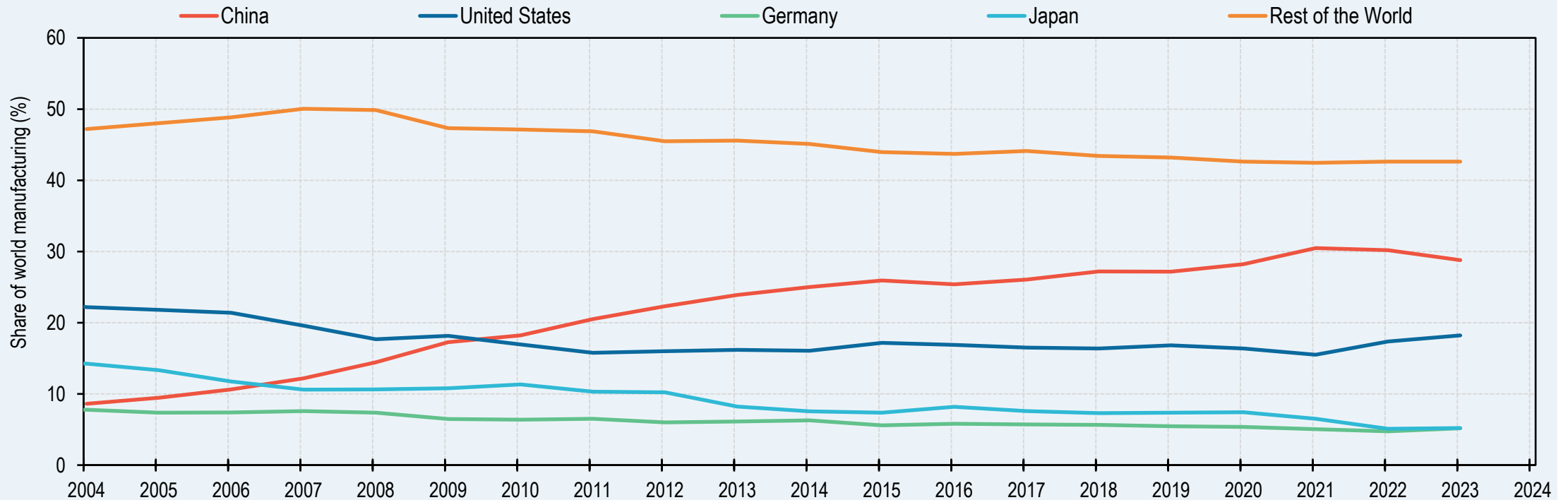
Sources: China National Bureau of Statistics, Zongyuan Zoe Liu

Status of the Chinese Economy:

China dominates global manufacturing: its manufacturing share of the world is bigger than the United States, Germany, and Japan combined.

The U.S. and China comprise almost half of global manufacturing, but China's share is almost two times of that of the U.S.

Manufacturing value added by country, share of world, annual level



Notes: Shares are country manufacturing value added total in nominal U.S. dollars divided by world total.

Sources: World Bank Development Indicators, Bureau of Economic Analysis, Cabinet Office of Japan, Zongyuan Zoe Liu

2. Structural Challenges

4 Ds

Debt

Demand

Demographics

De-coupling (De-risking)

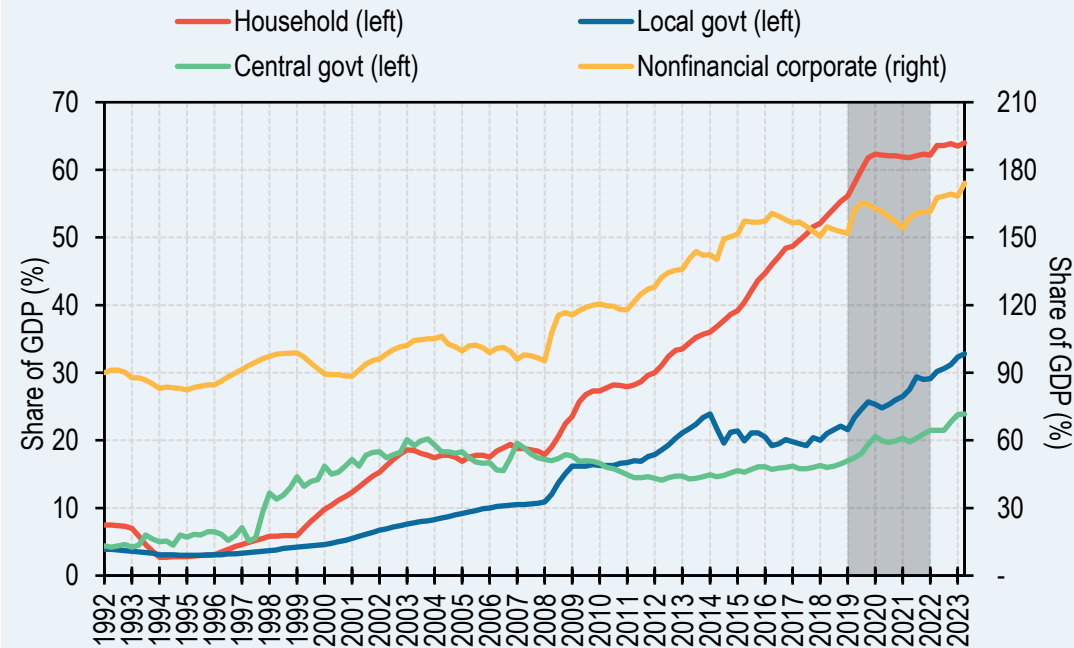
→ Deflation?

→ Japanification?

Debt

Household debt has mostly flatlined since the pandemic.

Debt by debtor as share of GDP, quarterly level

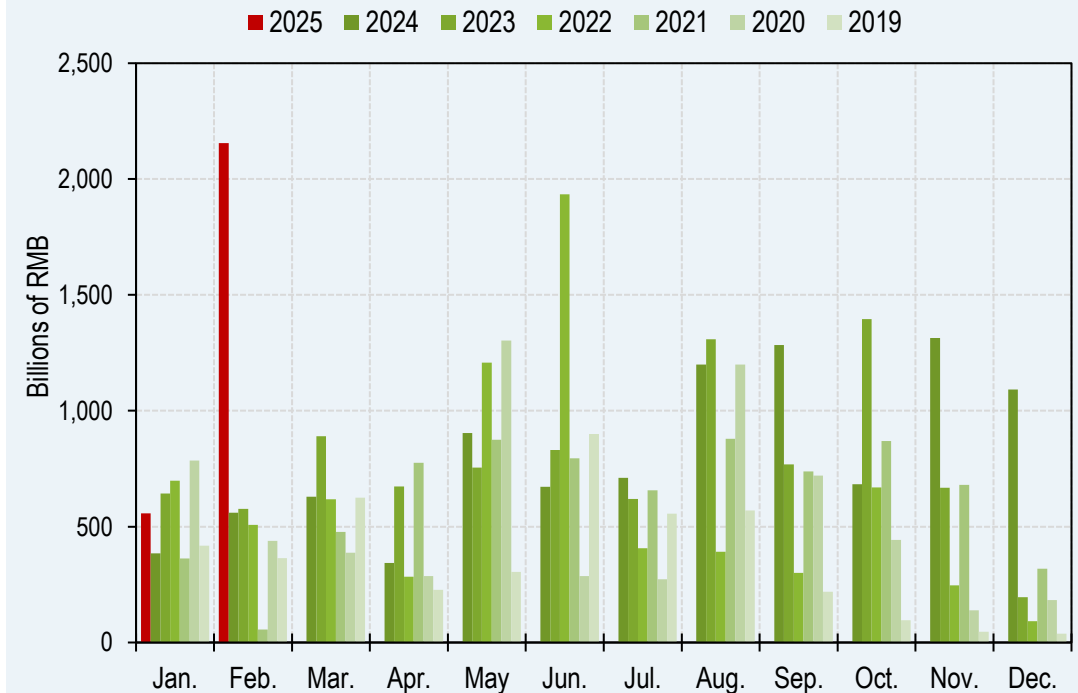


Notes: Household debt includes consumer and household business loans. Local government debt includes local debt and other debt of local governments. Shading indicates period of zero-COVID policy lockdowns in China.

Sources: Center for National Balance Sheets (CNBS), Zongyuan Zoe Liu

Local governments have sharply increased the pace of debt issuance in the first two months of 2025.

Local government bond issuances, billions of RMB, monthly flow, data as Feb. 24.



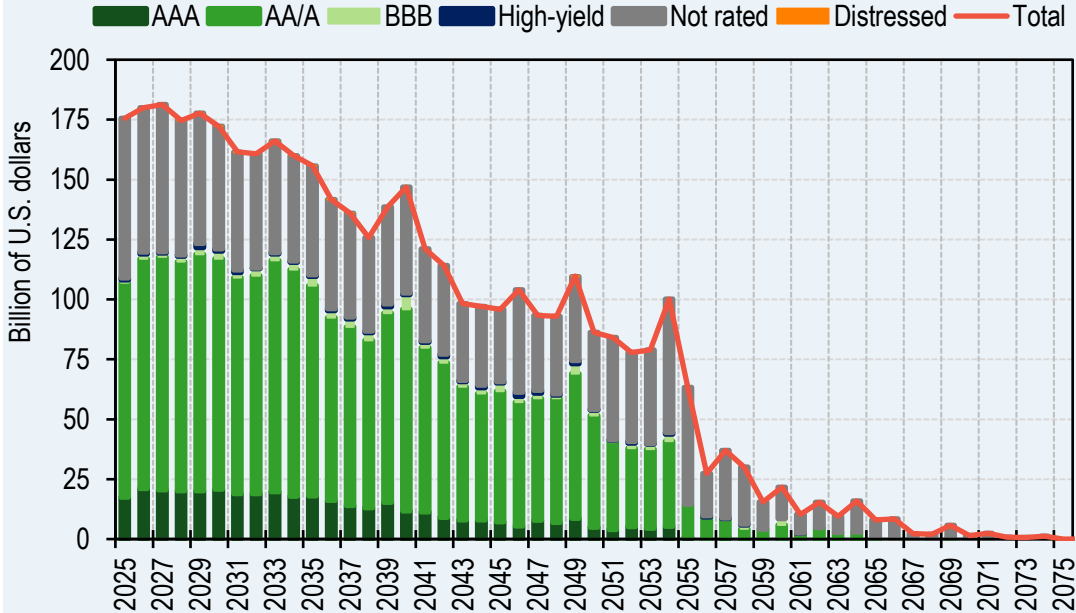
Notes: February 2025 data are month-to-date as of Feb. 24, 2025.

Sources: China Central Depository & Clearing Co., Bloomberg Financial LP, Zongyuan Zoe Liu

Debt

Local governments' maturity profile calls for a lot of refinancing activities.

Local government bonds by maturity, billions of U.S. dollars, as of Feb. 25, 2025

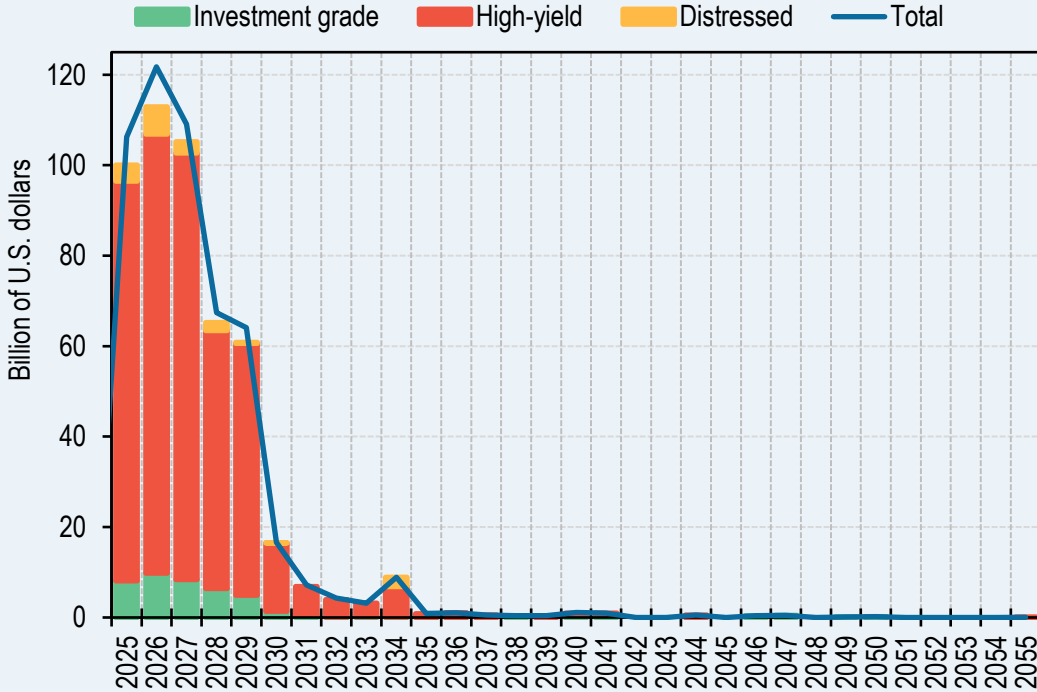


Notes: Data includes active bonds issued by a local government affiliated entity in China. The credit rating is the Bloomberg composite rating. Not rated indicates that no major credit rating agency, including those in China, rated the issue.

Sources: Bloomberg Financial LP, Zongyuan Zoe Liu

China's real estate companies will face refinancing challenges

Real estate company bonds by maturity, billions of U.S. dollars, as of Feb. 25, 2025



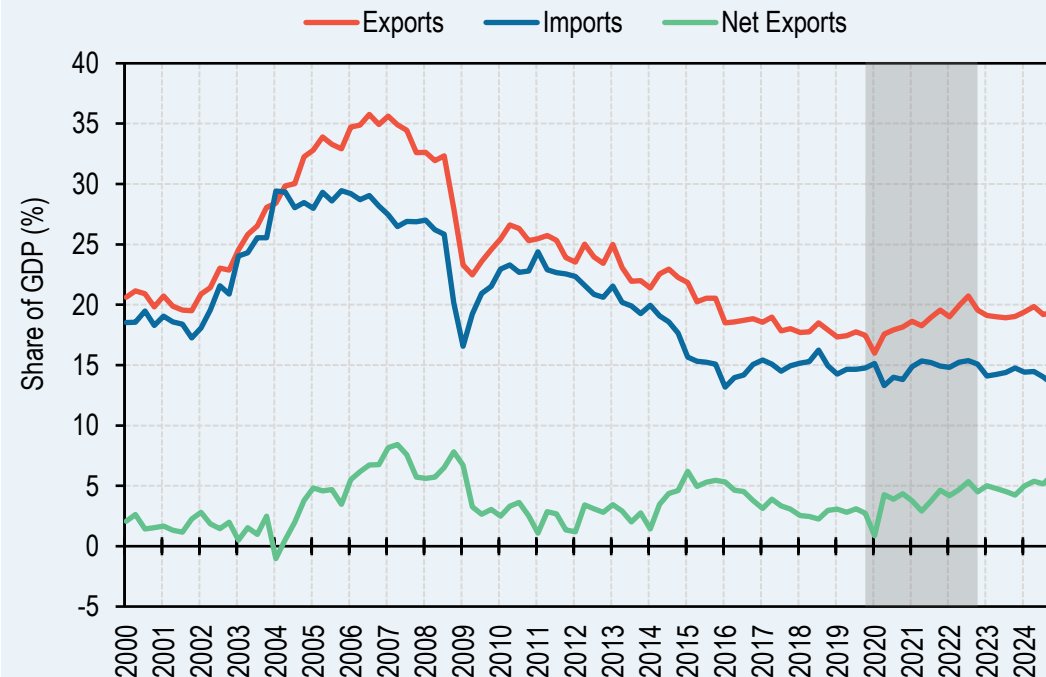
Notes: Data includes active bonds with a Chinese issuer in the real estate sector. The credit rating is determined by the Bloomberg Issuer Default Risk Model.

Sources: Bloomberg Financial LP, Zongyuan Zoe Liu

Demand: External

The Chinese economy is more reliant on exports since the pandemic

Chinese trade in goods, share of GDP, quarterly flow

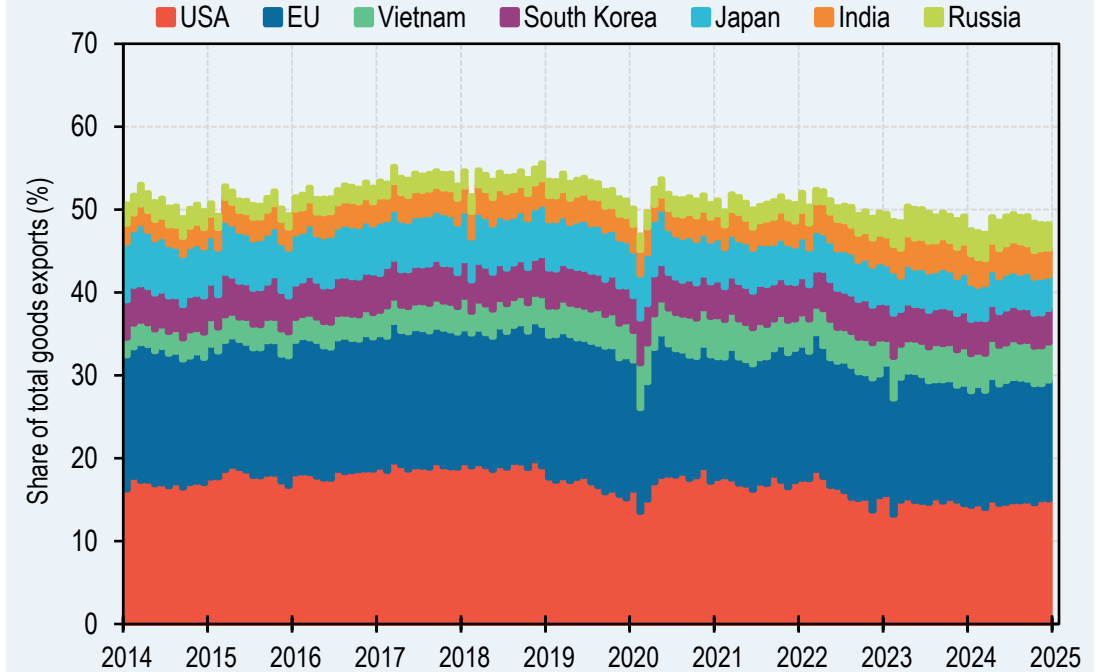


Notes: Seasonally adjusted quarterly flow of goods and GDP level in nominal U.S. dollars. Does not include trade in services. Shading indicates period of zero-COVID policy lockdowns.

Sources: General Administration of Customs, Zongyuan Zoe Liu

About half of China's goods exports go to seven markets

Chinese exports of goods by destination, largest trading partners, share of total



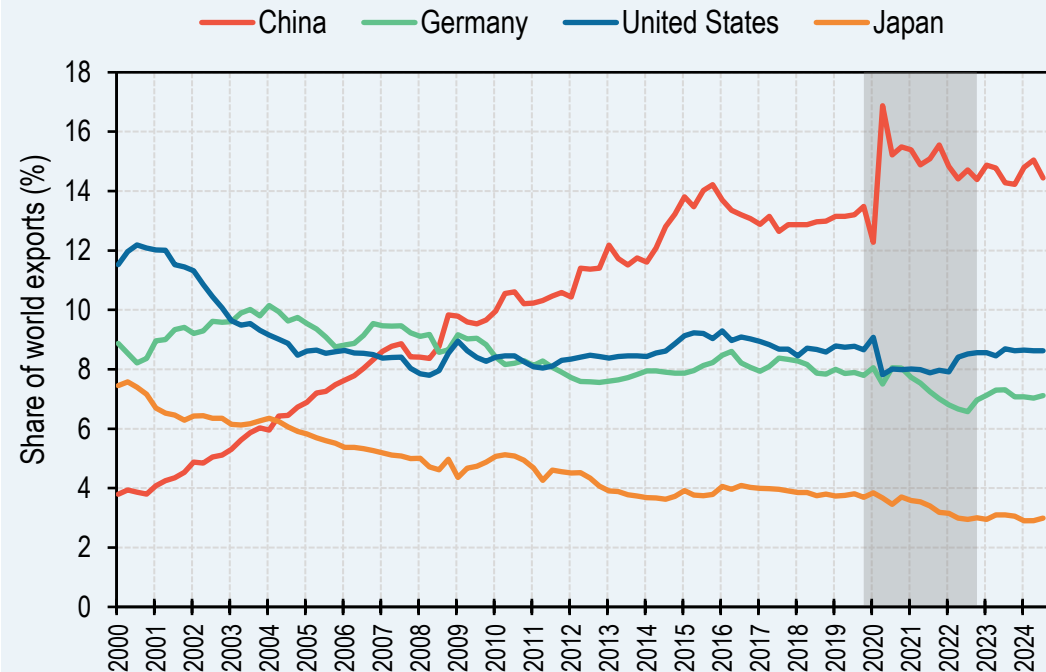
Notes: Does not include trade in services. Shares are destination country totals divided by world total, excluding Hong Kong.

Sources: General Administration of Customs, Zongyuan Zoe Liu

Demand: External

China seized export market share during the COVID-19 pandemic

Exports of goods by source country, share of world, monthly level

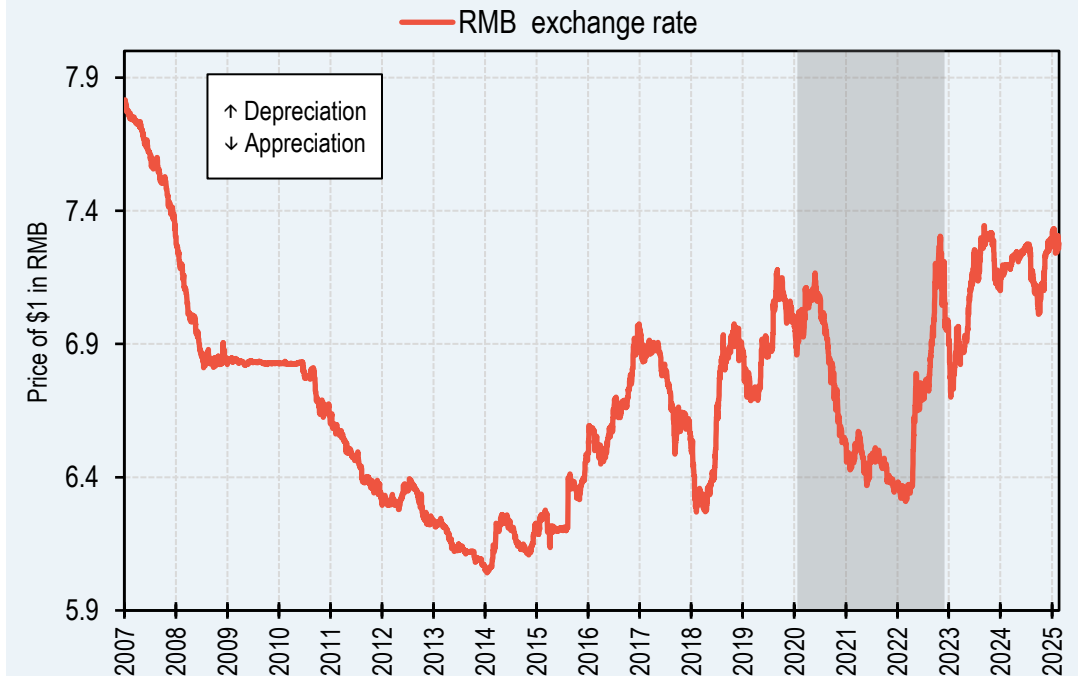


Notes: Shares are calculated by World Bank. Shading indicates period of zero-COVID policy lockdowns in China.

Sources: World Bank Development Indicators, Zongyuan Zoe Liu

A historically cheap RMB against the U.S. dollar helps drive exports

RMB exchange rate against the U.S. dollar, daily



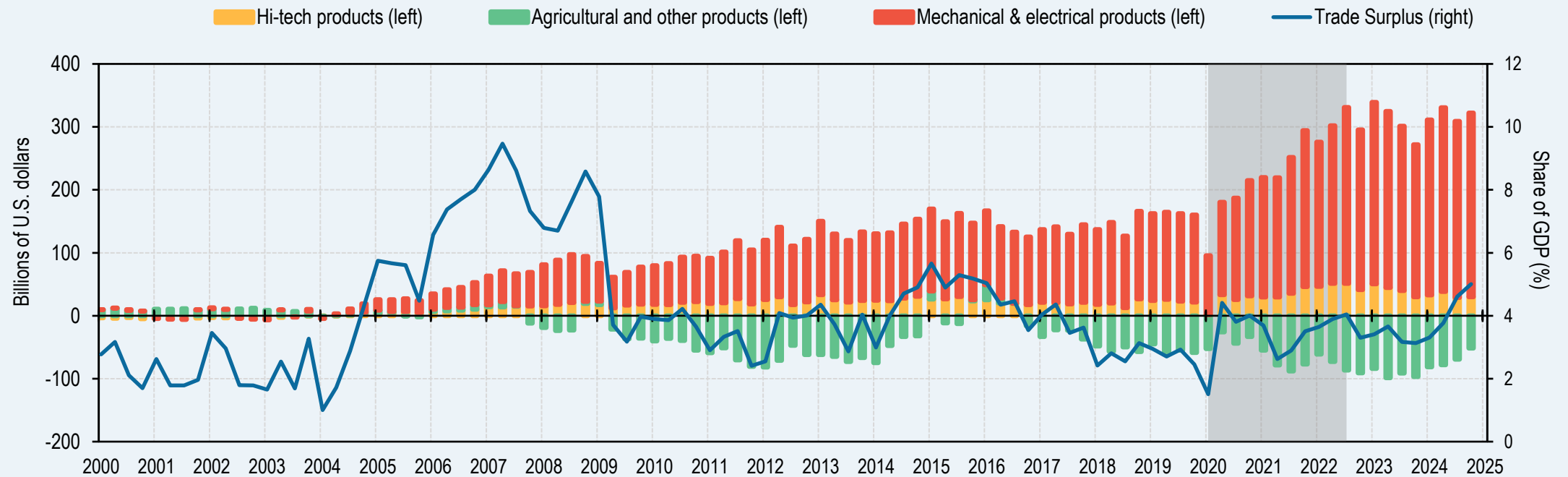
Notes: Higher (lower) values indicate a weaker (stronger) RMB against the U.S. dollar. Shading indicates period of zero-COVID policy lockdowns.

Sources: Bloomberg Financial LP, Zongyuan Zoe Liu

Demand: External

Hi-tech products are still a small part of China's export machine

Trade surplus by type of goods, U.S. dollars & share of GDP, quarterly flow



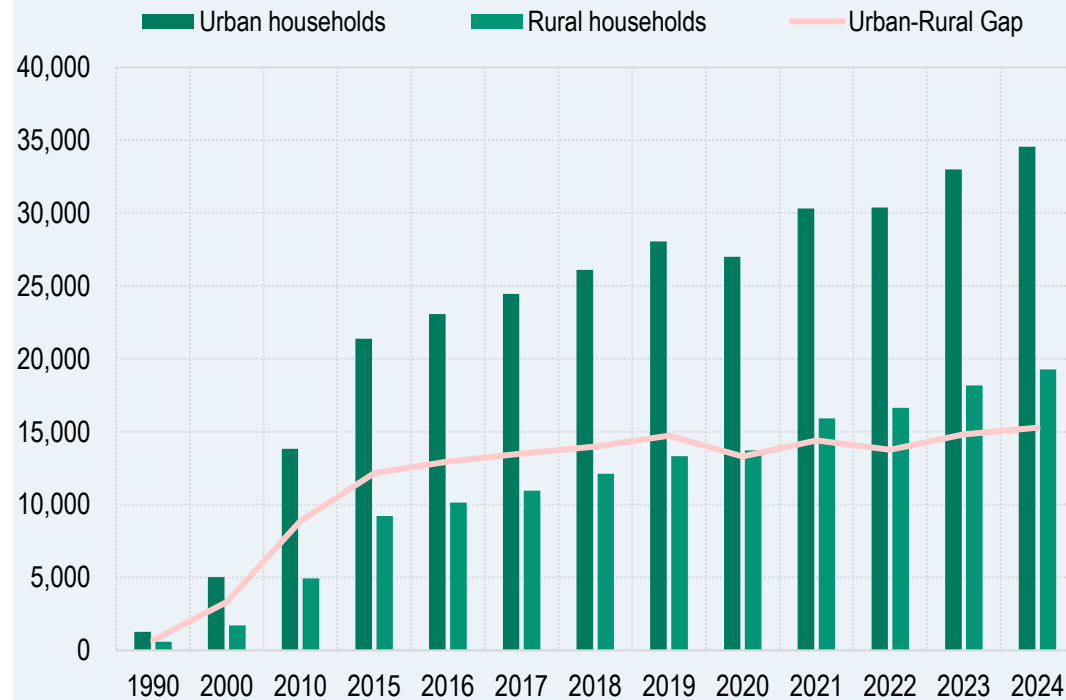
Notes: Hi-tech goods include advanced materials, aerospace, biotechnology, computer integrated manufacturing, computers and telecommunications, electric vehicles, life sciences technology, opto-electronics, and other technologies. Mechanical & electrical includes metal products, machinery, electrical & electronic products, transportation equipment, instruments and other products.

Sources: General Administration of Customs, Zongyan Zoe Liu

Demand: Internal

China's urban-rural consumption gap has flattened.

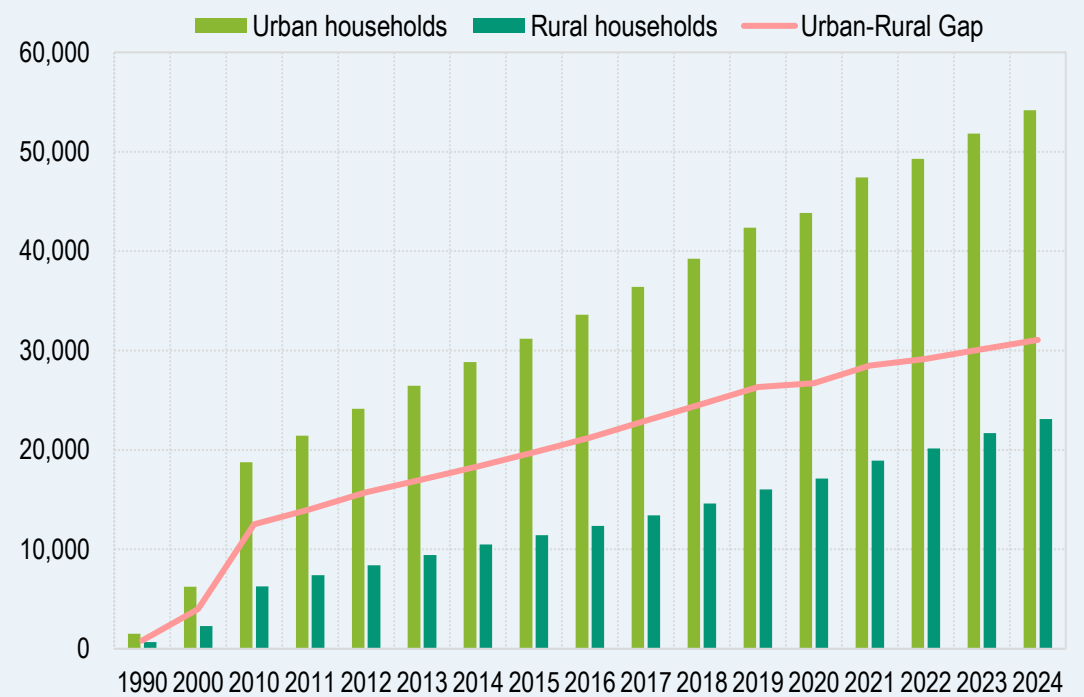
Average annual per capita consumption expenditure of urban and rural households in China from 1990 to 2024 (in yuan)



Source: National Bureau of Statistics of China, Zongyuan Zoe Liu

China's urban-rural income gap has widened.

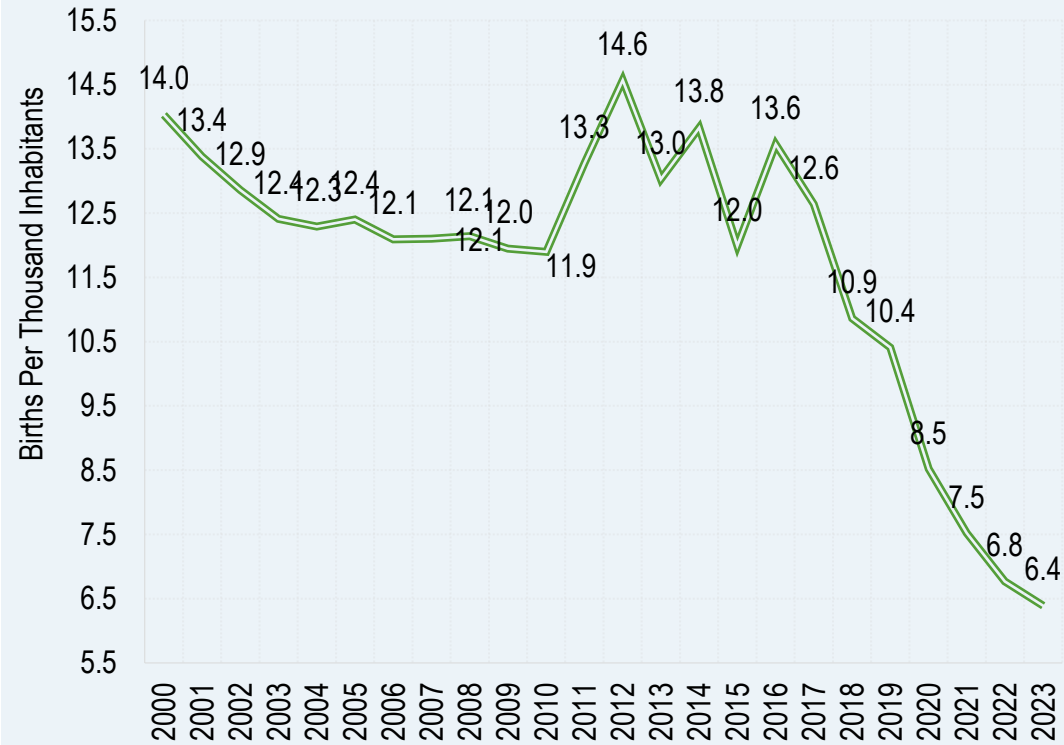
Average annual per capita disposable income of urban and rural households in China from 1990 to 2024 (in yuan)



Source: National Bureau of Statistics of China, Zongyuan Zoe Liu

Demographics

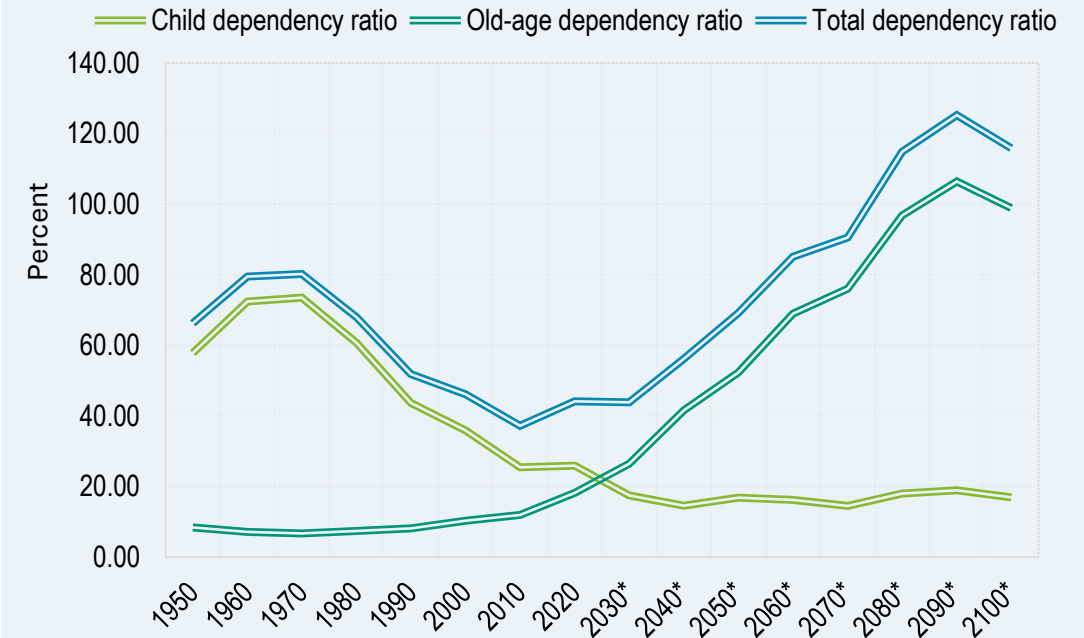
China's birthrate has been declining for almost a decade.



Source: China National Bureau of Statistics

China's expanding aging population places greater burden on its working age population.

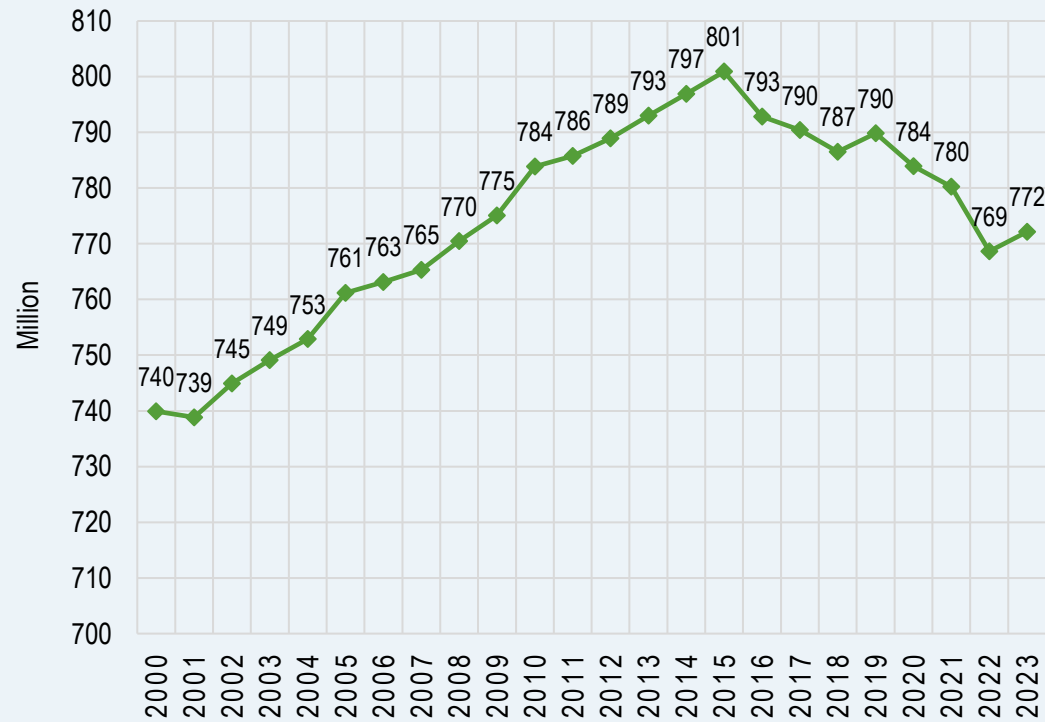
Dependency ratio, mainland China only.



Source: United Nations Department of Economic and Social Affairs (UN DESA); China National Bureau of Statistics, Zongyuan Zou Liu

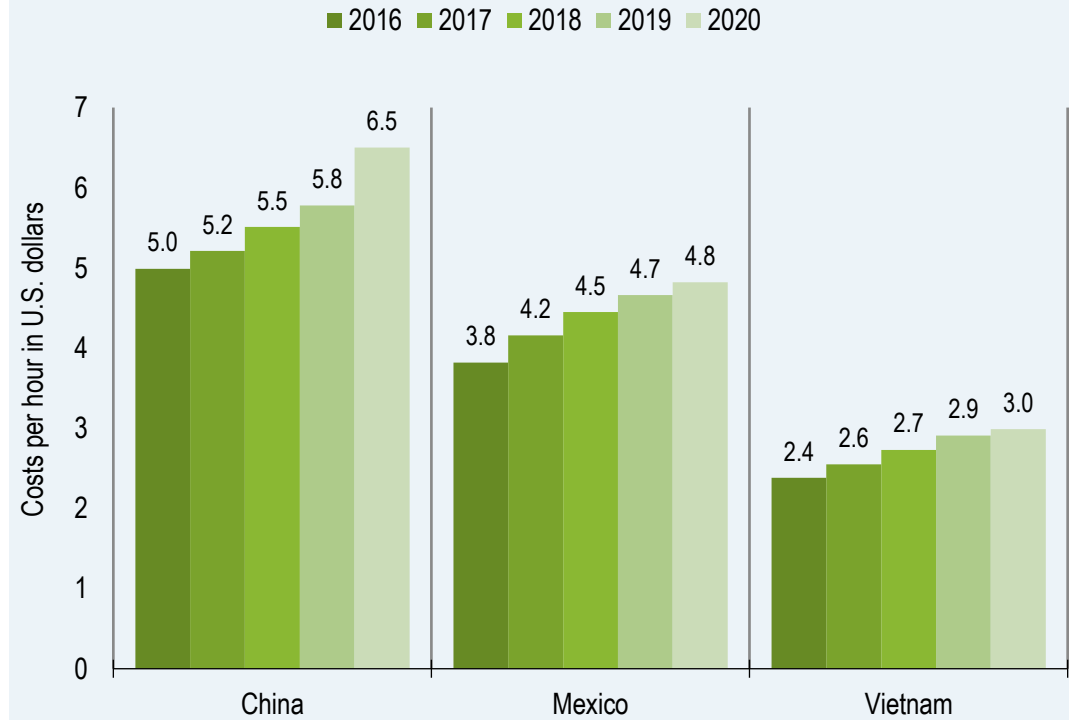
Demographics

China's labor force has shown a general decreasing trend over the recent decade.



Source: China National Bureau of Statistics, Zongyuan Zoe Liu

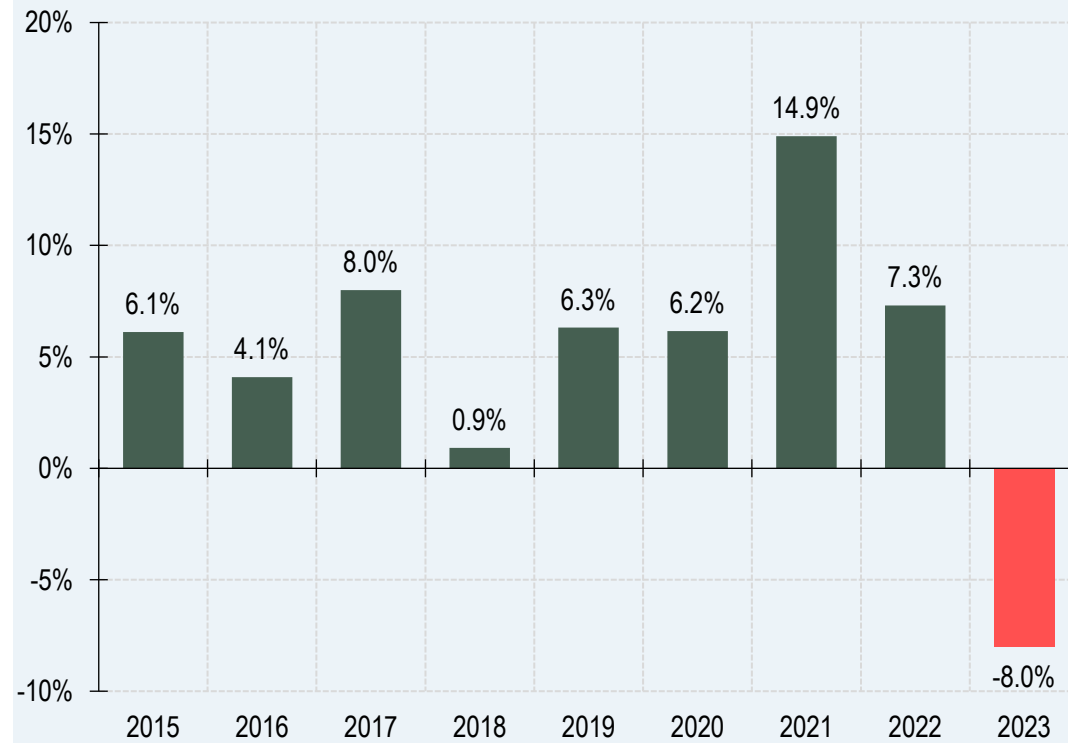
China's per hour labor costs have risen faster and higher compared to competitor manufacturing economies.



Source: Haver, Zongyuan Zoe Liu

Decoupling (De-risking)

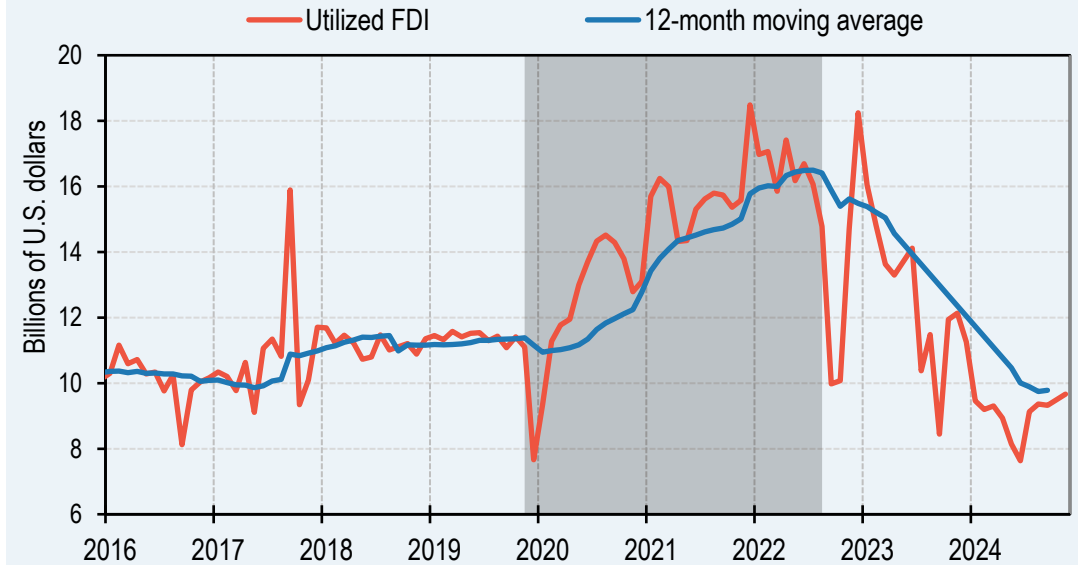
China Inbound Foreign Direct Investment



Sources: Ministry of Commerce, Zongyuan Zoe Liu

Chinese FDI shows some signs of bottoming out in late 2024 but has not recovered to pre-pandemic level.

Utilized foreign direct investment in China, billions of U.S. dollars, seasonally adjusted & 12-month moving average, monthly level



Note: Utilized FDI is foreign investment in China in the forms of cash, physical investment, technology investment, and reinvestment of profits by foreign enterprises. Does not include foreign investment that is under but not yet realized. Shading indicates period of zero-COVID policy lockdowns in China. Sources: Ministry of Commerce, Zongyuan Zoe Liu

Decoupling (De-risking)

Sector	Company
Tech/Web Services	Alphabet/Google
	Apple
	Dell
	HP
	Intel
	LG Electronics
	LinkedIn
	Naver
	Nintendo (Nintendo Switch)
	Quanta Computer
	Samsung
	Sharp
	Sony
	IBM
	Konica Minolta
	Microsoft
	Cloud Software Group
	Airbnb
	Yahoo
Foxconn	

Sector	Company
Fashion/Clothing Retail	Adidas
	Mango
	Old Navy/Gap
	Steve Madden
	UnderAmour
Manufacturing	Hyundai Motor Group
	Panasonic Energy
	Honda
	Nissan
	Mitsubishi Motors
	Nippon Steel
	Stellantis
Taiheiyo Cement	
Consumer Goods	GoPro
	Hasbro
	Stanley Black & Decker
	Daikin Industries
	Sheshido

Notes: The list may not be exhaustive.

Sources: Zongyuan Zoe Liu compiled data from various news outlets

Decoupling (De-risking):

Sector	Company
Legal Services	Cleary, Gottlieb, Steen & Hamilton
	Morgan, Lewis & Bockius
	Paul, Weiss, Rifkind, Wharton & Garrison
	Milbank
	Skadden, Arps, Slate, Meagher & Flom
	Reed Smith
	Dechert
	Morrison & Foerster
	Sidley Austin
	Orrick
	Weil, Gotshal & Manges
	Perkins Coie
	Akin Gump Strauss Hauer & Feld
	Dentons
	Latham & Watkins
Proskauer Rose	

Sector	Company
Financial Services	BlackRock
	Citi
	Sequoia Capital
Media	The New York Times
Research and Consultancy	Forrester Research
	Gallup

Notes: The list may not be exhaustive.

Sources: Zongyuan Zoe Liu compiled data from various news outlets

3. Policy Responses

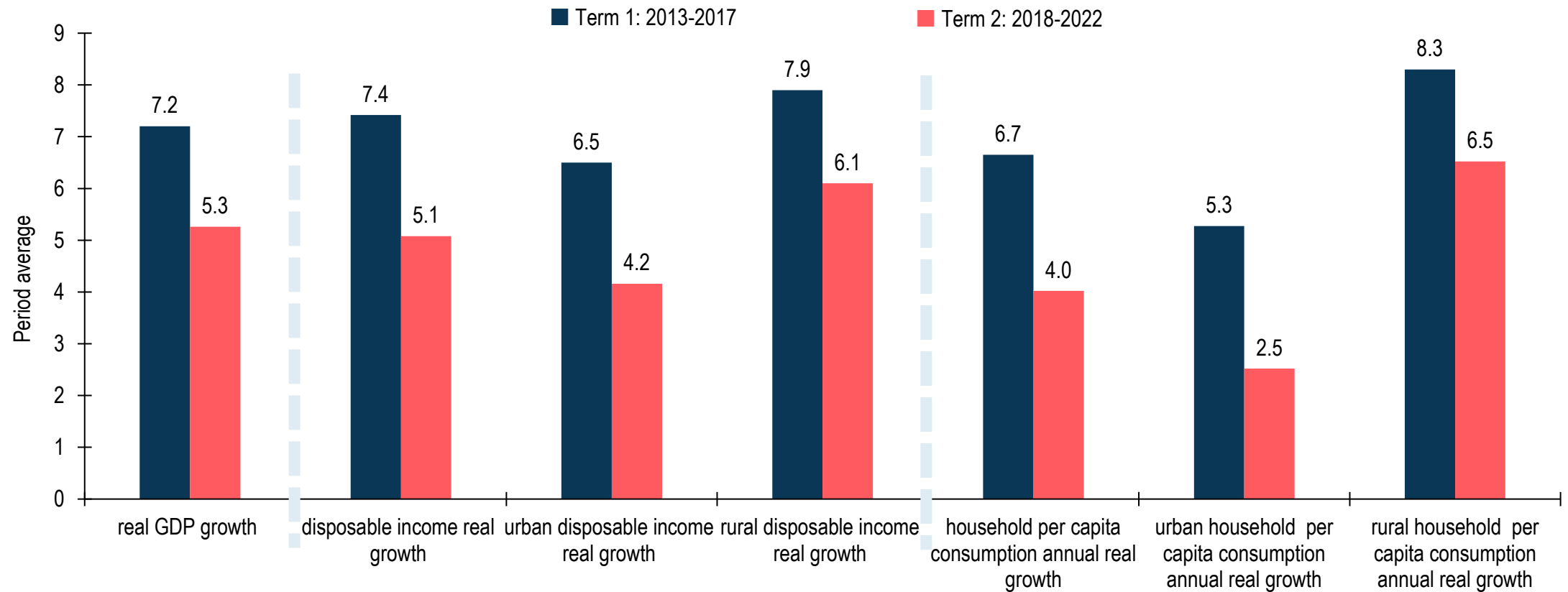
5 areas

1. Boosting domestic consumption and promoting rural vitalization:

Rural growth has been faster than urban and national average despite COVID shock.

Rural development remains a policy priority.

Chinese Household Income and Consumption Conditions During President Xi's First Two Terms in Office

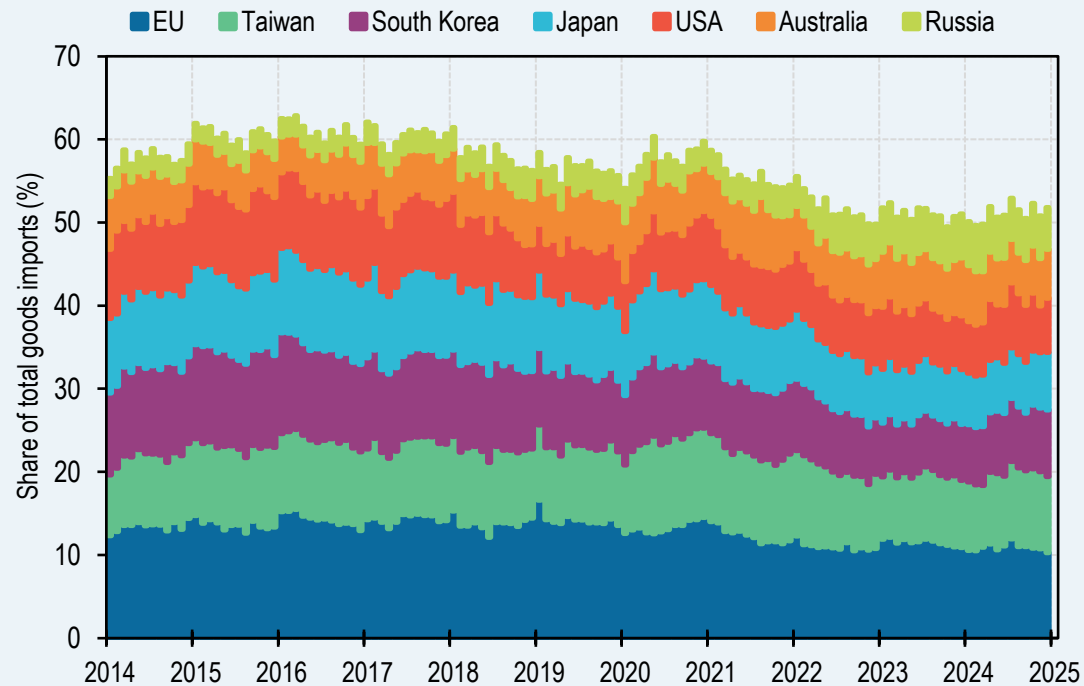


2. Rebalancing trade:

Continue to expand market overseas

About half of China's goods imports come from seven markets

Chinese imports of goods by source, largest trading partners, share of total

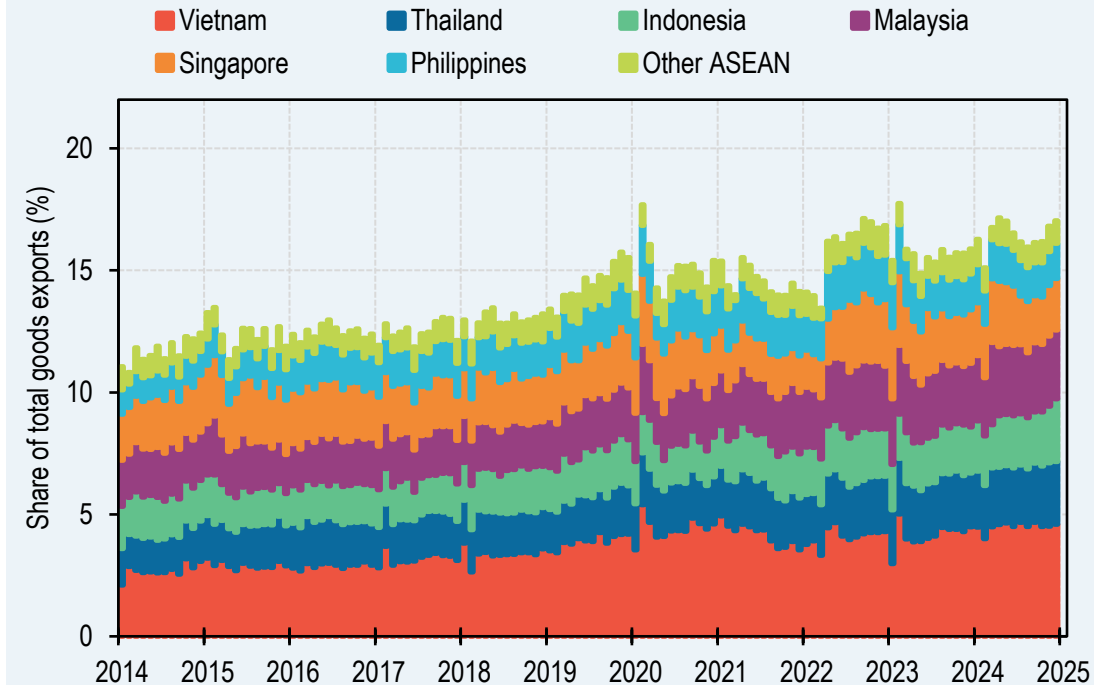


Notes: Does not include trade in services. Shares are source country totals divided by world total, excluding reimports of Chinese goods.

Sources: General Administration of Customs, Zongyuan Zoe Liu

China's export trade with Southeast Asia is deepening

Chinese goods exports by destination, ASEAN countries, share of total, monthly flow



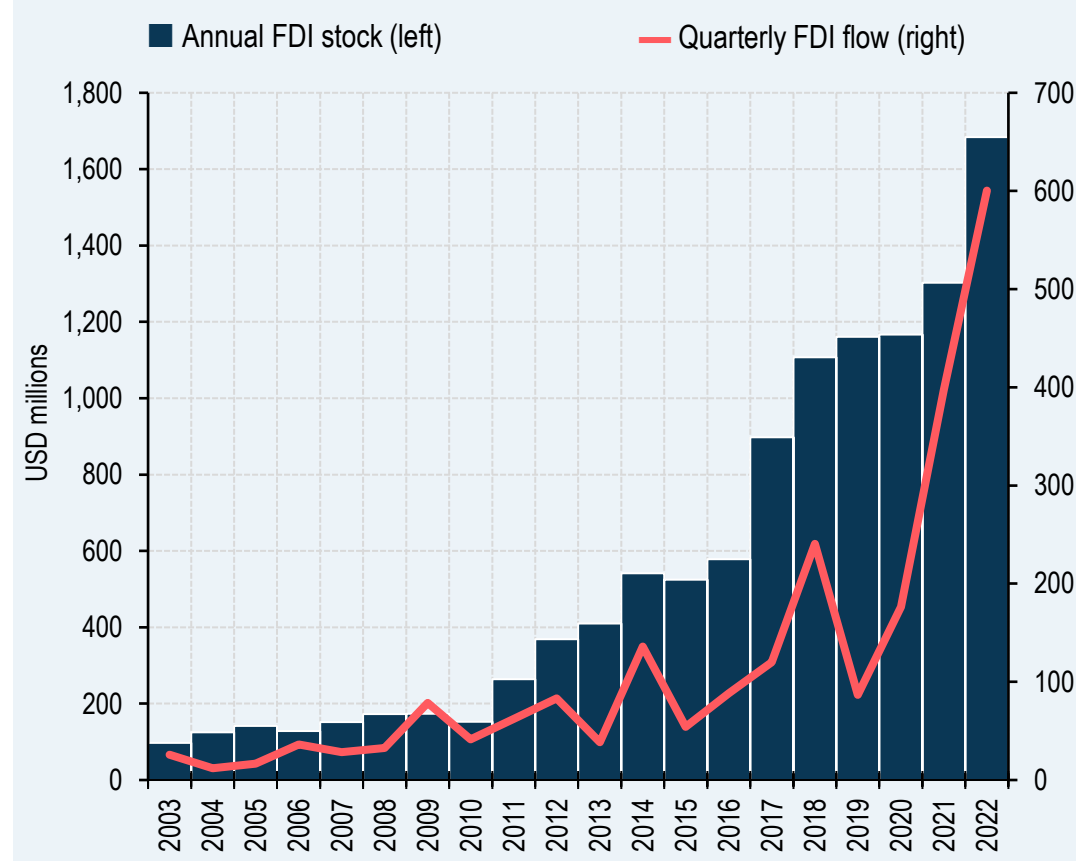
Notes: Seasonally adjusted nominal U.S. dollars. Does not include trade in services. Shares are destination country totals divided by world total.

Sources: General Administration of Customs, Zongyuan Zoe Liu

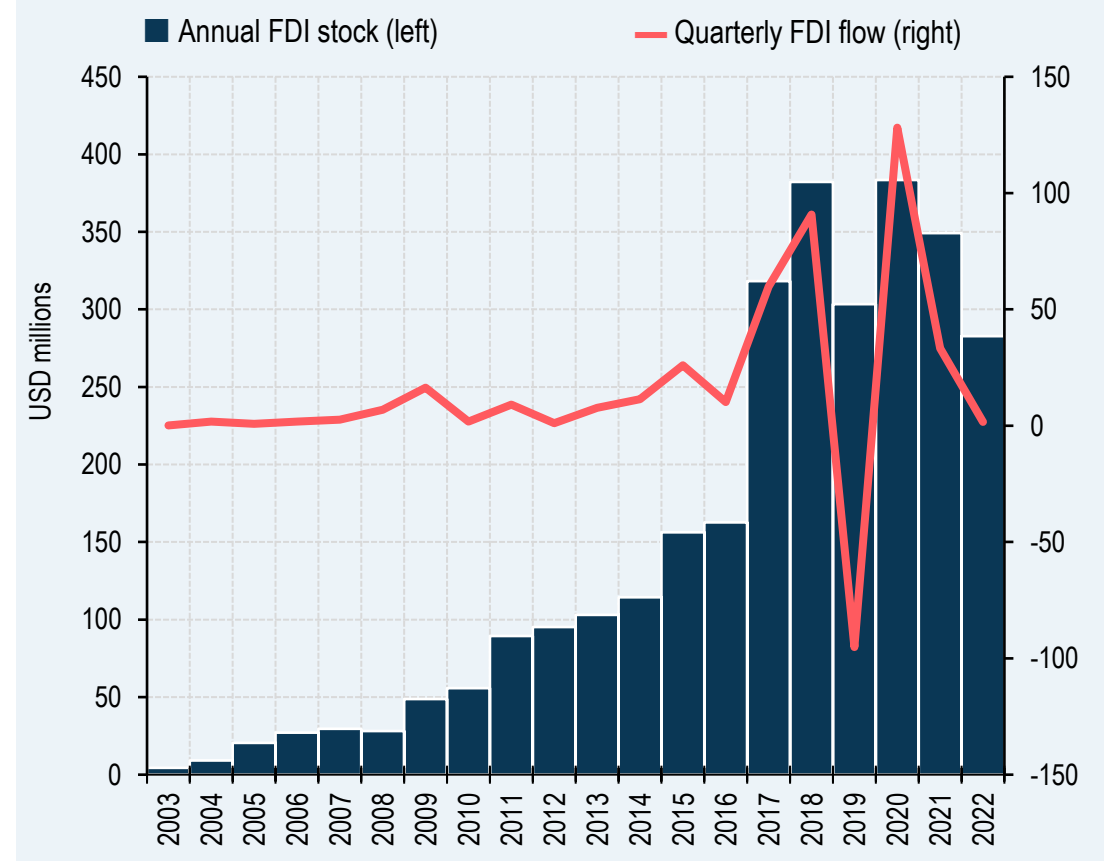
3. Shifting Manufacturing Capacity Overseas:

Mexico and Morocco as two examples of countries with FTAs with the United States and the European Union.

China's Outward Foreign Direct Investment (FDI) in Mexico



China's Outward Foreign Direct Investment (FDI) in Morocco



Notes: Quarterly FDI flow is the net amount of new investment plus reinvested profits less repatriated profits and capital disposals. Annual FDI stock is the end-of-year market value of all existing nonfinancial accumulated FDI. Discrepancies between stock and flow values reflect differences in timing and methodologies of the sources depending on FDI direction.

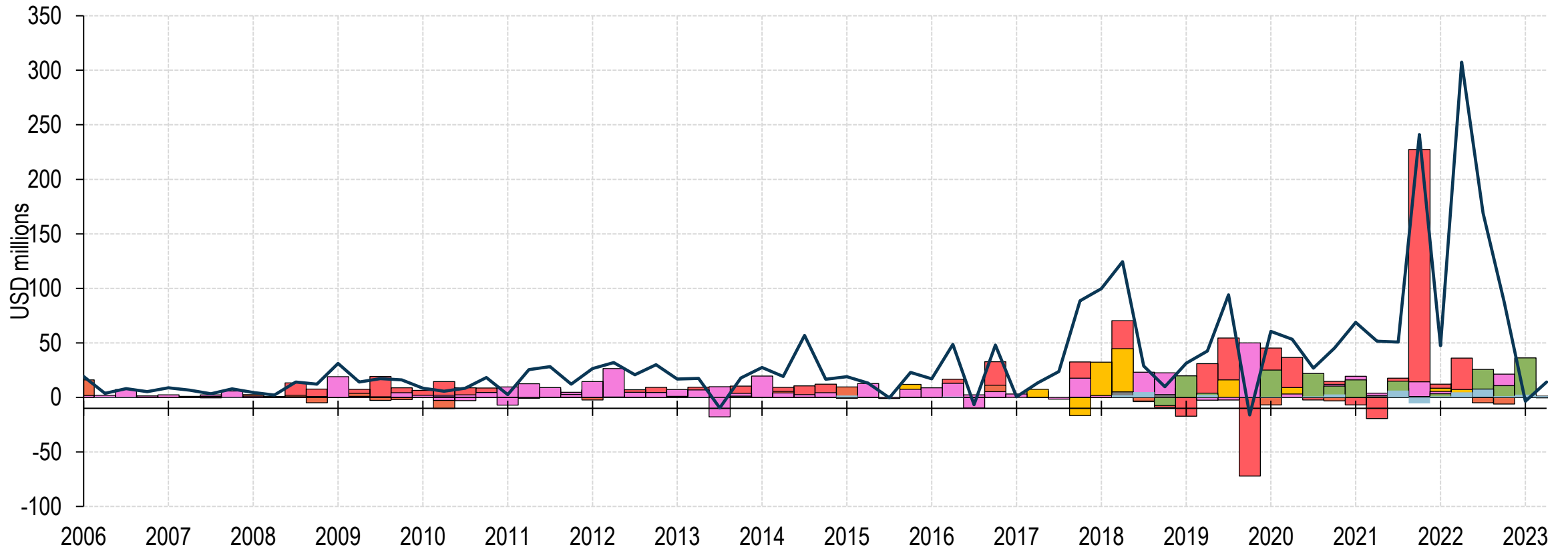
Sources: China National Bureau of Statistics, Secretaría de Economía, Bloomberg Financial LP, Haver, Zongyuan Zoe Liu

3. Shifting Manufacturing Capacity Overseas:

Mexico: China's largest investments into Mexico since the escalation of U.S.-China trade tensions have been in electronics manufacturing

Chinese Quarterly Foreign Direct Investment (FDI) into Mexico by Industry

— Total Chinese FDI ■ Electronics manufacturing ■ Transportation manufacturing ■ Professional services ■ Other manufacturing ■ Wholesale trade
■ Construction & mining ■ Information & finance ■ Other industries



Notes: The sum of FDI by industry does not equal total FDI because some data are missing for reasons of preserving the confidentiality of individual investments.

Sources: Secretaría de Economía

2. Shifting Manufacturing Capacity Overseas:

Morocco: China's largest investments into Morocco since COVID-19 pandemic have been in battery manufacturing.

Table *Select Chinese Corporate Investment Deals in Morocco*

Select Chinese Corporate Investment Deals in Morocco (USD millions)

Industry	2016	2019	2020	2022	2023	2024	Total
Automotive components	15	399	387	192	-	-	992
Battery manufacturing	-	-	-	-	9,180	-	9,180
Electric vehicle	101	-	-	-	-	-	101
Industrial park	-	-	350	-	-	-	350
Renewable energy	-	-	-	5	-	262	267
Total	116	399	737	197	9,180	262	10,891

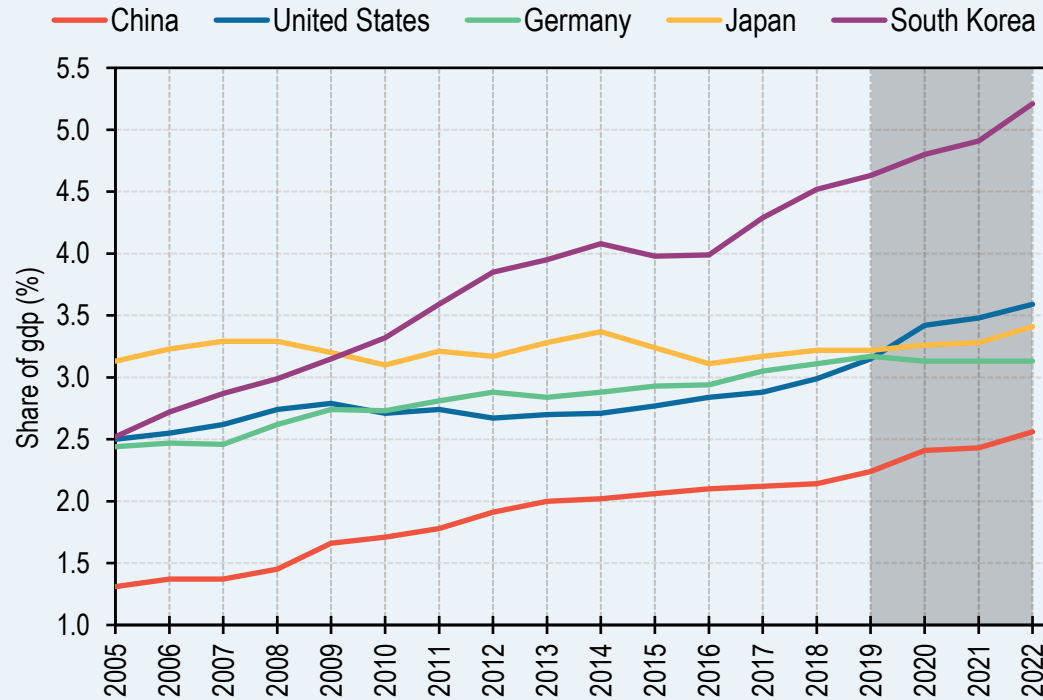
Sources: China National Bureau of Statistics, Office des Changes, Bloomberg Financial LP, Haver

4. China's technology self-sufficiency drive:

China's R&D expenditure has steadily increased over the last decade. The government counts on technology and industrial upgrading to drive growth.

China's economy is still less research intensive than the West.

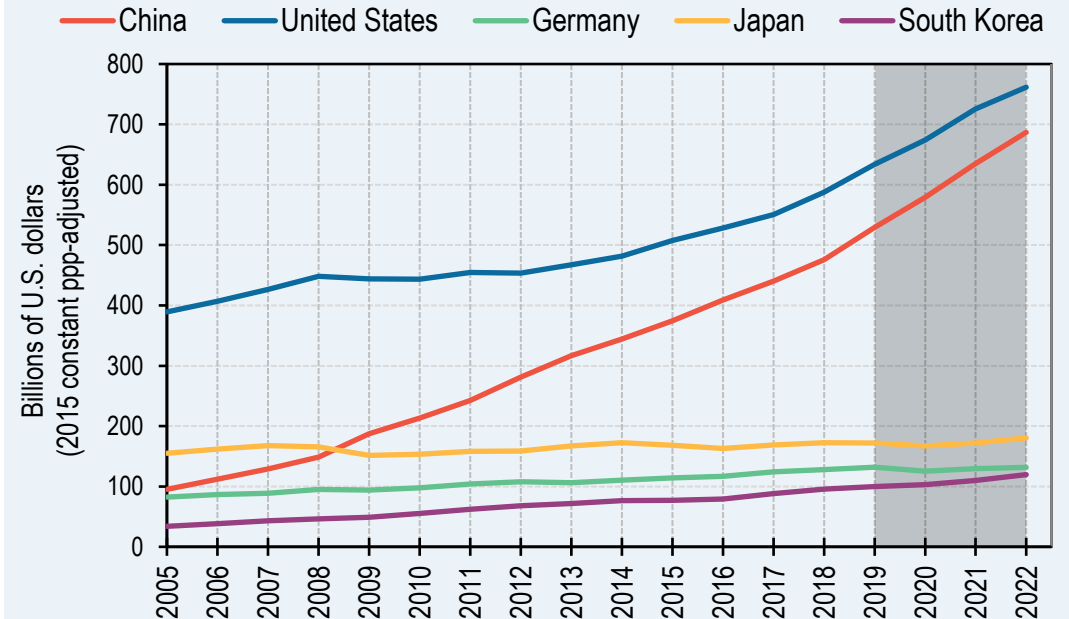
Research & development expenditure, share of GDP, annual level



Notes: Data are gross domestic expenditure on R&D (GERD).
Sources: OECD, Zongyuan Zoe Liu

But China is closing the R&D spending gap with the United States.

Research & development expenditure, billions of U.S. dollars, 2015 constant purchasing price parity adjusted, annual level

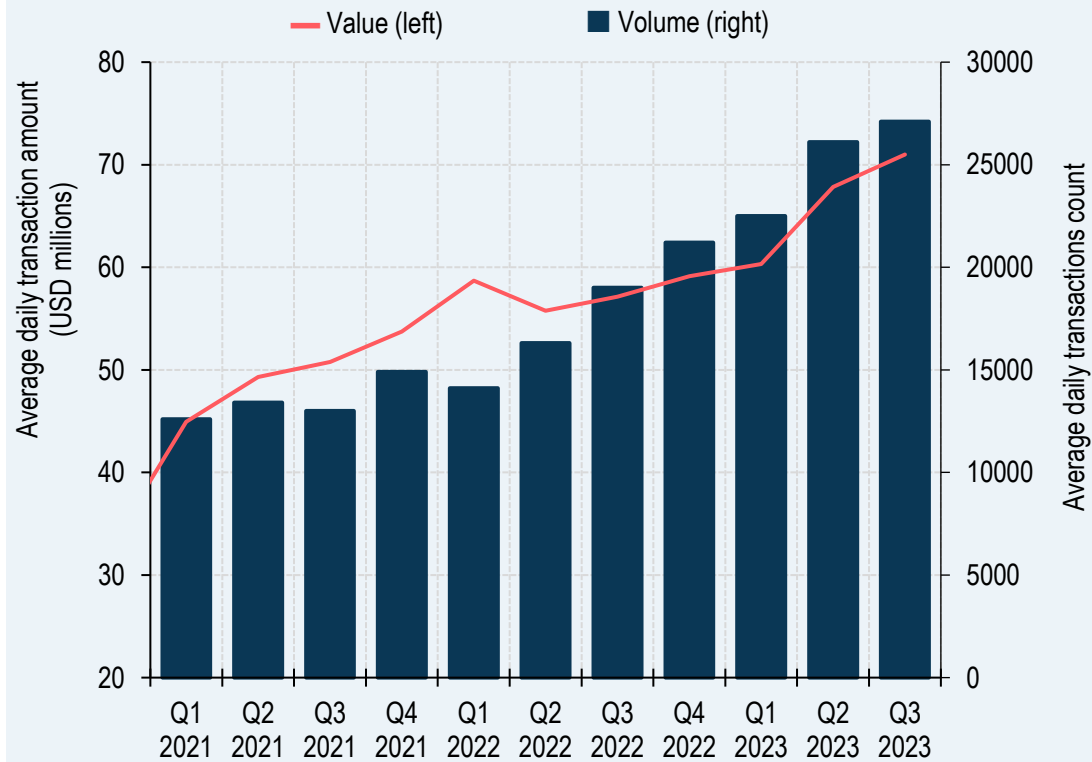


Notes: Data are gross domestic expenditure on R&D (GERD). Price adjustments calculated by the OECD.
Sources: OECD, Zongyuan Zoe Liu

5. Strengthening financial autonomy to reduce financial vulnerabilities:

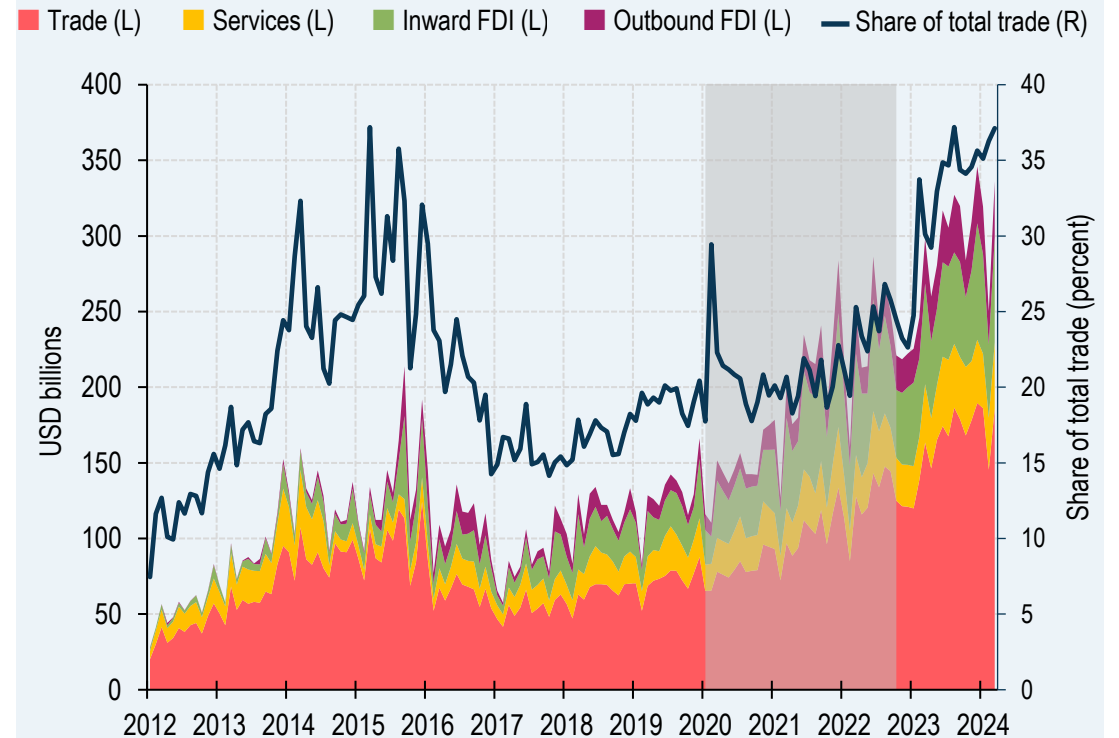
The renminbi-based alternative payment system is steadily growing, and China is making a renewed push to settle as much trade as possible using the renminbi. While these initiatives are de-dollarization in action, they are qualitatively different from trying to dethrone the U.S. dollar.

Cross-Border International Payments System Average Daily Transaction



Sources: People's Bank of China, Zongyuan Zoe Liu

Renminbi Settlement by Type and Share of Total Trade



Notes: Shading indicates the COVID-19 lockdown period.

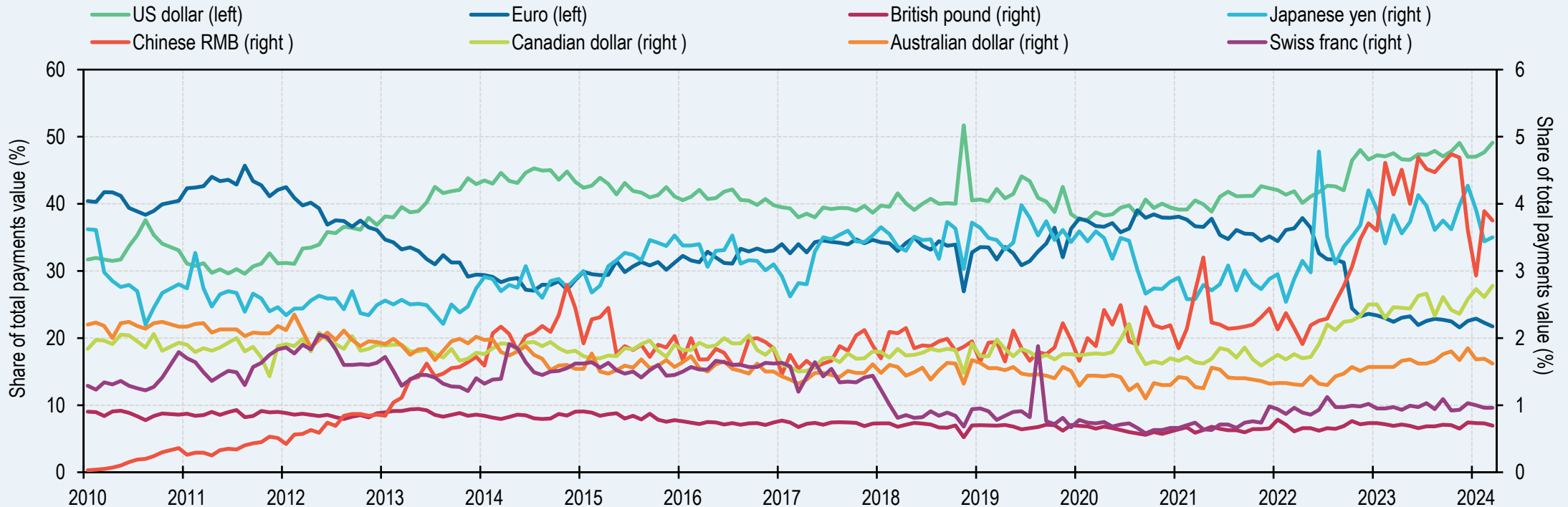
Sources: People's Bank of China, Zongyuan Zoe Liu

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The RMB has gained on the Euro but the Dollar still reigns supreme

Share of SWIFT payment value, global currencies, share of total



Notes: Right axis is 10x the left axis. Data are monthly values for payments both domestic and international made via SWIFT. Excludes erroneous values for August 31, 2011.

Sources: Society for Worldwide Interbank Financial Telecommunication, Zongyuan Zoe

4. Risks and Outlook



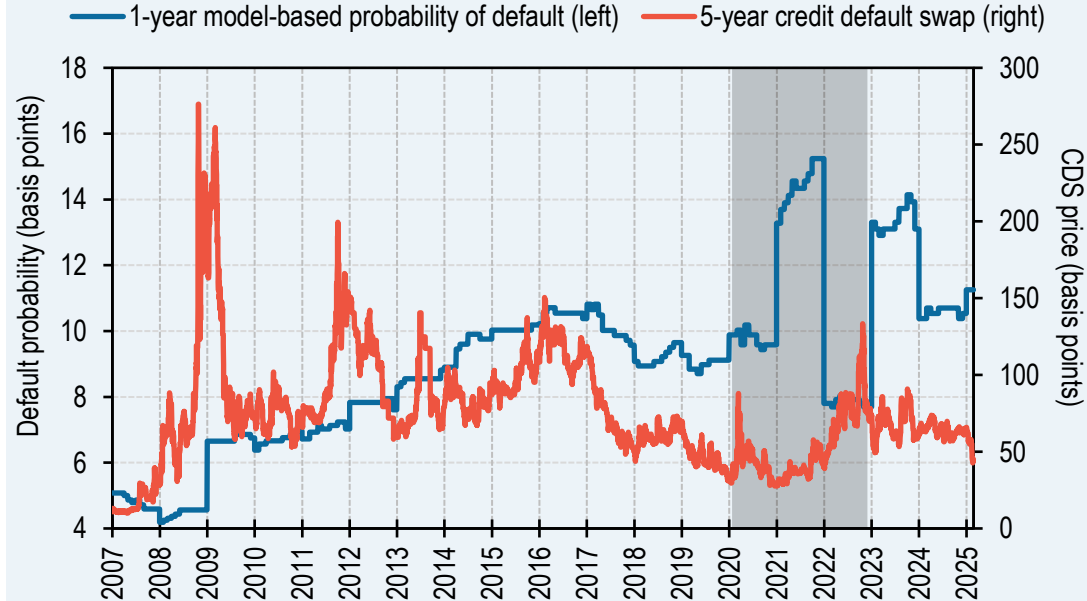
Risks and Outlook

- If trade tension escalates into a new trade war, China is better equipped with tools to cope with tariffs and hit back now than in 2018.
 - If Beijing can leverage rising tariffs to push domestic reform and increase household consumption, it can sustain balanced growth in the long run despite short-term pains.
 - Even so, Beijing's consumption-promotion measures will not sacrifice investment in strategic sectors.
- Most significant challenge to China's continued economic growth in the long run comes at home.
 - Weak domestic household consumption
 - Accelerated industrial consolidation in sectors with excess capacity, potentially leading to rising corporate default among small and medium sized companies
 - Decreasing bank profitability and less willingness to lend to SMEs
 - Growing social tensions exacerbated by economic stagnation amid rising inequality and may force Beijing to retaliate against U.S. restrictive trade and investment measures even if Beijing prefers to de-escalate
- Beijing's biggest challenge in the near-term is restoring policy credibility and market confidence.
 - The Chinese government will likely do more fiscal stimulus in 2025. The PBoC will likely rely more on structural monetary tools to support designated sectors, in addition to cut rate and lower RRR.
 - But if policies fail to help households strengthen balance sheet, then they are unlikely to help boost confidence and consumption.
- Credit downgrade likelihood remains low, but outlook can be negative if policy adjustments fail to address structural woes.

Risks and Outlook

Both market and model indicators show China's default risk holding steady.

China sovereign default risk indicators, basis points, daily level

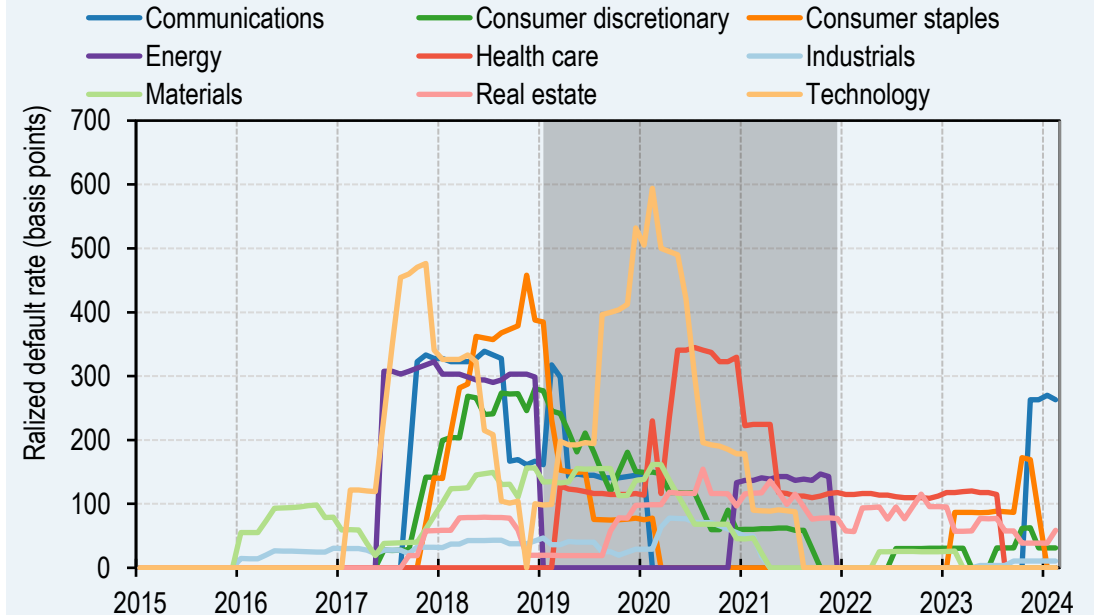


Notes: 1-year probability of default is according to the Bloomberg Sovereign Default Risk Model. Credit default swaps are quoted as the annualized premium paid to insure a bond against default. Shading indicates period of zero-COVID policy lockdowns in China.

Sources: Bloomberg Financial LP, Zongyuan Zoe Liu

Chinese corporate defaults remain far below pandemic-era peaks

Realized corporate default rate based on issuer numbers by sector, basis points, monthly level

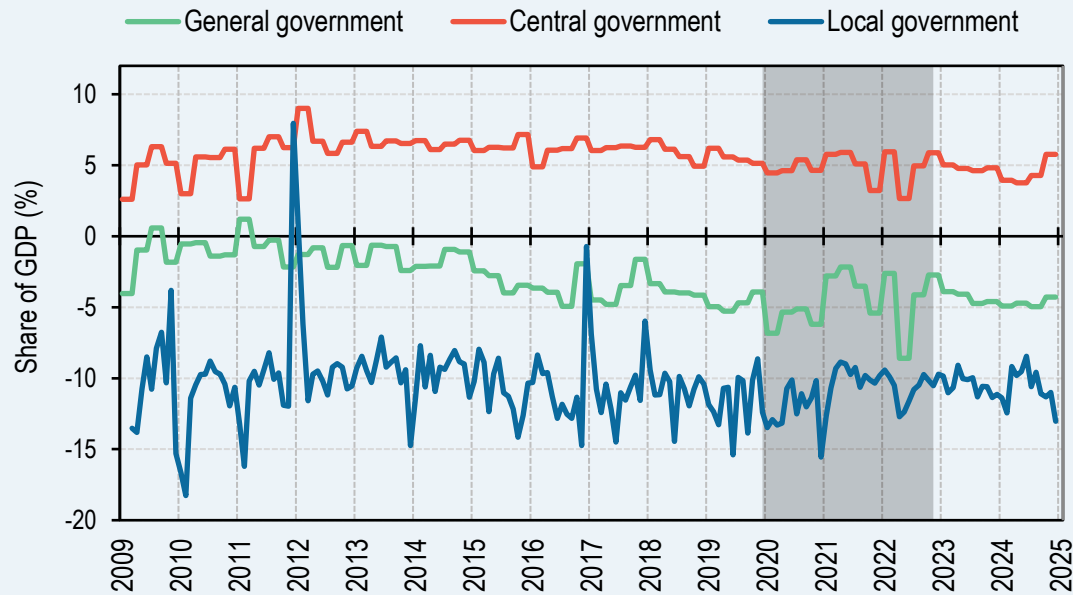


Notes: Default rate is the number of defaulted issuers over the number of total issuers. Shading indicates period of zero-COVID policy lockdowns in China.

Sources: Bloomberg Financial LP, Zongyuan Zoe Liu

China's fiscal position is dragged down by local governments, but the central government's fiscal position is stable and has ample space.

Budget surplus/deficit by level of government, share of GDP, monthly level

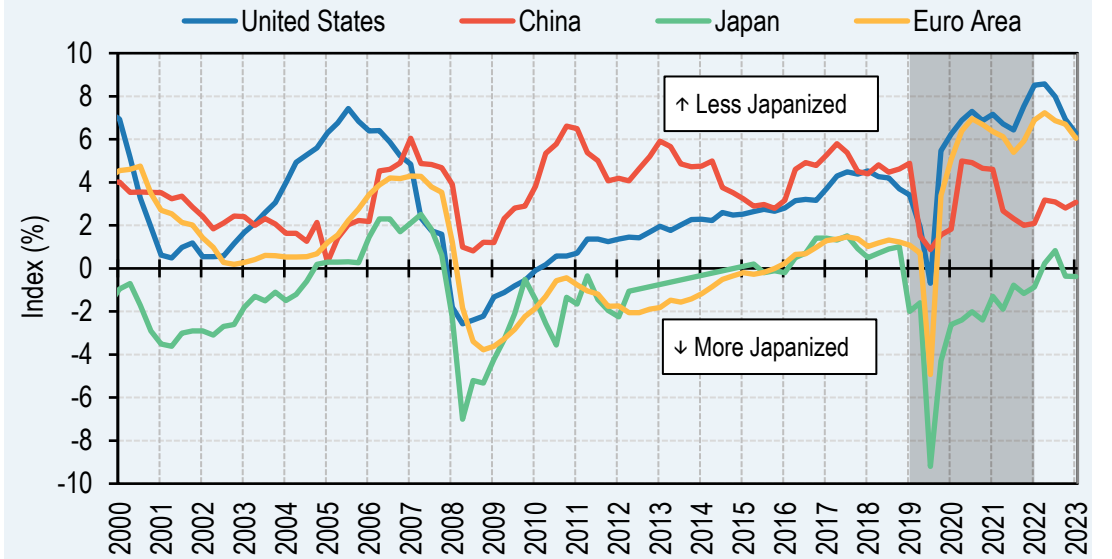


Notes: Local government surplus/deficit is net revenue over national GDP. General and central government data are calculated by the source. Shading indicates period of zero-COVID policy lockdowns in China.

Sources: Ministry of Finance, National Bureau of Statistics, Zongyuan Zoe Liu

China moved closer to Japan during COVID-19 and is still more like Japan than like the United States or Euro Area, but is not Japan.

Japanification index (output gap + policy rate + inflation rate), quarterly level



Notes: Japanification index is the sum of output gap, policy rate, and inflation rate expressed as a percentage. Shading indicates period of zero-COVID policy lockdowns in China.

Sources: China National Bureau of Statistics, People's Bank of China, Japan Cabinet Office, Ministry of Internal Affairs and Communications, Federal Reserve Bank of New York, Bureau of Labor Statistics, European Central Bank, Statistical Office of the European Communities, Zongyuan Zoe Liu

The End. Thank you.

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