No. 25/055 – 4 March 2025

CHINE – Growth is a “positive surprise”, but serious questions remain

- **China has released fourth-quarter and full-year 2024 growth figures and announced that its 5% target has been met. The consensus of economists, who were not expecting such a performance, found these numbers – even thought they were positive – “surprising”.**
- **While China achieving its growth target is nothing new, the slowdown in a number of sectors (e.g. real estate and consumer goods) and the deflationary trend in the economy suggest that the reported growth number may be overstated.**
- **Worries over the strength and, above all, the sustainability of China’s economic model have not faded. There is also growing doubt about the transparency and credibility of China’s statistical machinery.**
- **Lastly, 2025 will necessarily be affected by changes in the US-China relationship, which is currently the leading driver of uncertainty.**

The last quarter saved the year...

A clear acceleration of growth in the last quarter was necessary to reach the annual target of 5%. And that's what apparently happened: after a third quarter at 4.6%, growth reached 5.4%, when the consensus saw it more around 5%. How can it be explained?

China, champion of foreign trade

The first “surprise” was industrial production, up 6.2% in December after increasing by 5.4% in November, and in particular manufacturing production, buoyed by solar panels, the transport sector (notably cars and spares) and household goods. It seems that, in anticipation of the first tariff hikes and restrictions on free trade more generally, **US firms have built up significant inventories, leading to a 16% surge in Chinese exports to the US in December.**

Foreign trade thus boosted industrial production and made a positive contribution to 2024 growth, adding 1.5 percentage points (pp) – a level not seen (excluding the post-pandemic recovery of 2021) since 2006. **China’s trade surplus reached an all-time high of nearly $1 trillion in 2024**, by far the largest surplus ever recorded by any country. Main factors explaining this performance are:

- ✓ **An increase in exports,** which expanded by 7.1% in value year-on-year in 2024, **exceeding $3.5 trillion**. A very strong performance, given that Chinese producer prices have been contracting since January 2023, and the yuan is evolving at a low level against the dollar, a trend that has further accelerated since the re-election of Donald Trump. Chinese performance is even more impressive: in volume, Chinese exports increased by 12% over the year, a pace much faster than that of world trade (3%). This means that **China has probably further increased its market share in world trade**, particularly with the countries of the "global south" – those of ASEAN in the lead. China is now the leading trading partner of around 150 countries.
- ✓ **Sluggish imports.** The latter increased by 1.1% in value over the year 2024, despite the depreciation of the yuan, which could have resulted in more inflationary pressures, especially on raw materials massively imported by China (oil, agricultural products, metals), whose prices are denominated in dollars. **This gap between imports and exports reflects the weakness of Chinese domestic demand.**

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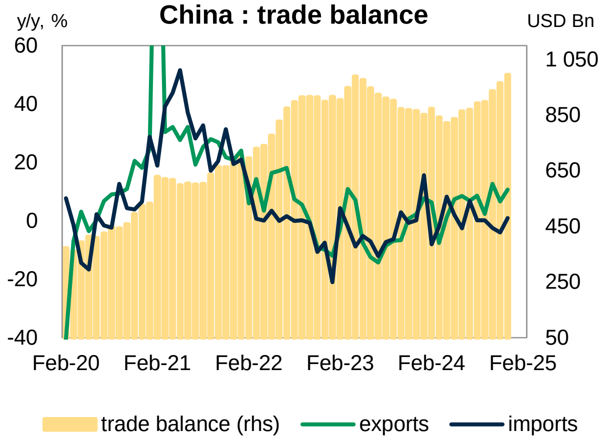
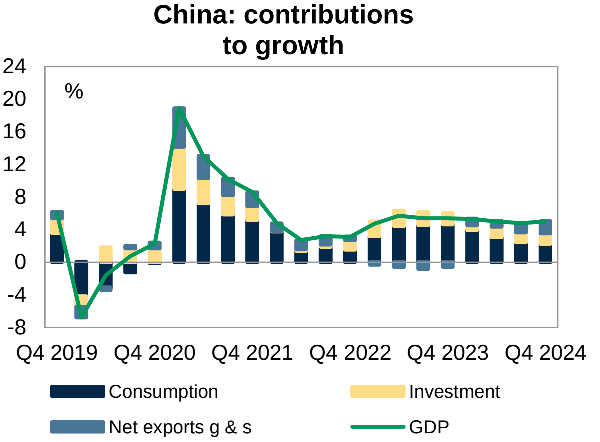


Sources: Chinese customs, Crédit Agricole S.A/ECO



Sources: national

The state to the rescue?

The publication of the fourth quarter and 2024 data was also an opportunity for the Chinese authorities to emphasize **that efforts to support – monetary and budgetary – activity were beginning to bear fruit.** It must be said that, taking note of the slowdown in growth observed in the first half of the year, the State has multiplied announcements to revive the confidence of consumers and investors. In December, the last meeting of the Politburo concluded **with a commitment from the authorities to implement a "more proactive" fiscal policy and a "moderately loose" monetary policy**. This very unusual vocabulary testifies to a real change of tone on the part of the authorities, and to a recognition of the existence of certain structural factors hindering the economy, starting with the weakness of consumption. This communiqué has not yet translated into new support measures; these should rather be unveiled in early March, during the parliamentary sessions. They will be added to a set of provisions which, according to the authorities, have therefore put China back on the rails of growth and explain the performance of the last quarter.

On the monetary front, the PBoC has proceeded with several cuts in its main rates (reserve requirement ratio, seven-day rate) in order to inject liquidity into the banking system. However, the pace of credit production has continued to decelerate, reflecting the lack of dynamism in the real estate market. Each 50-basis point (bp) cut in the reserve requirement ratio unlocks approximately $140 billion. Taking note of the blockage in the real estate sector, the central bank also lowered the mortgage rate, on new loans and the stock, to give households purchasing power, by releasing approximately $20 billion on interest payments. Finally, it has committed to financing a fund (endowed with $45 billion) to allow certain public companies or local authorities to directly buy vacant housing, to transform them into affordable housing, so as to absorb part of the stock of housing for sale or unoccupied.

For the moment, however, **China is approaching a situation of "liquidity trap",** in which the central bank is no longer able to stimulate the economy through its monetary policy. Well known to the Japanese, the liquidity trap is dangerous because it causes deflation and wait-and-see behaviour that blocks the real economy. Above all, it is difficult to get out of it, because the liquidity trap is a largely self-fulfilling and self-sustaining phenomenon, based above all on the expectations of agents, and therefore reflecting their loss of confidence. Despite the relative success of the monetary easing operated since 2024, **the central bank has indicated that it wishes to continue with rate cuts in 2025**.

On the fiscal front, the Chinese State has embarked on a – gradual, and necessarily slow – overhaul of its debt dynamics. The latter was largely driven by provinces and local authorities. Since the major tax reform of 1994, it is the central State that levied most of the taxes, but the provinces and other local authorities that bore the burden of the debt, with the prohibition to issue it. **However, this system has led to abuses**: local authorities have multiplied the sales of land to real estate developers, because this was their only source of direct revenue. A form of infrastructure race has developed between the provinces, also in competition to attract companies and investments, and to reach, or even surpass their own growth target. To finance themselves, local authorities have therefore called on LGFVs (Local Government Finance Vehicle), ad-hoc financing structures created to raise bond debt and finance large infrastructure projects. The opacity of this system, the question of guarantees and the role of the central State, the multiplication of these platforms (more than 12,000 are still active), and the growing debt outside the central State are today leading the authorities to rethink this system**.**

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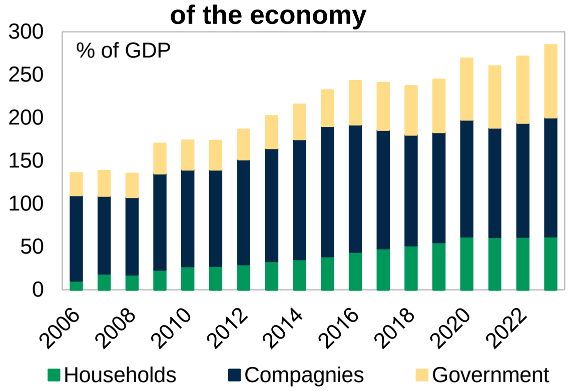
In early November, the authorities announced a plan of RMB 10 tn (approximately $1.4 trillion) to bail out the coffers of local governments. This is not entirely about issuing new debt, but rather a vast swap program, authorizing the provinces to issue securities to buy back those issued by the LGFVs and spread over three years. This should allow to start putting a little transparency in the financial system, by restructuring some financial institutions (small rural banks in particular), even if the task is still long: the debt of the provinces amounts to $7 trillion according to the IMF....

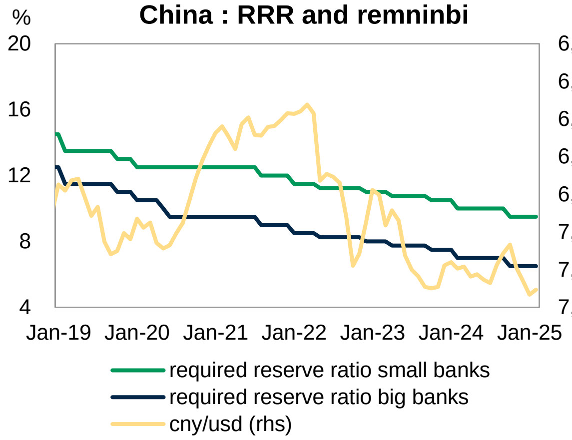
Cumulatively, these measures are far from negligible, it should also be added that the State has expanded its consumer subsidy program by including new goods: televisions, telephones, tablets, but also household equipment (microwave ovens, dishwashers, rice cookers), in addition to programs for vehicles (thermal or electric). Households are thus encouraged to renew this equipment – largely produced in China – thanks to State aid, which seeks to support consumption. The scale of the support plan, which amounts in total to approximately 10% of Chinese GDP (but spread over three years), **seems almost disproportionate compared to the displayed trajectory of Chinese growth**: when the authorities unveil it during the third quarter of 2024, growth has fallen below the target of 5%, but has not moved away from it so much. Even at the time of Covid, while official growth decelerated much more sharply (2.3% in 2020), support for the economy had not been so strong. The amounts announced, which must moreover still be supplemented by new measures, revive doubts and questions about the real level of growth and its breakdown.

China : indebtedness of the economy



Sources: BIS, Crédit Agricole S.A./ECO

China : RRR and remnbi



Sources: PBoC, Crédit Agricole S.A/ECO

… but does not dispel the doubts

When reading Chinese statistics, **therefore, an impression that the model does not completely close remains**. How to reconcile this 5% growth and its composition (contribution of consumption to growth of 2.2 pp; of investment 1.3 pp; of foreign trade 1.5 pp) with the more negative signals sent by other activity data? And above all, why such a mobilization of the authorities to support a growth that is still high? Some inconsistencies can thus be highlighted.

An increasingly unpredictable administrated economy

Firstly, let's not forget that **China remains an administered economy**, whose activity is governed both by a growth target, broken down at each level (State, provinces, municipalities, sector), but also by five-year plans and guidance documents, which set precise objectives in all spheres of the economy. **The fact that the Chinese economy has become so unpredictable**, with such large gaps (negative as well as positive) with the consensus, can be perceived as a governance defect: before the pandemic, the quarterly evolution was extremely linear, and the growth trajectory followed a downward slope (but not alarming: it is perfectly normal for growth to decelerate as GDP increases, it is the very concept of the base effect) which seemed to be controlled by the authorities. **Since Covid, the curve is much more erratic, which gives the impression that the authorities have partly lost control of growth**, even if the annual target is reached at the end of the year. Even if doubts about the reality of Chinese growth figures do not date from Covid, the pandemic has reinforced the image of opacity of the country, on its health management of course, but also on the economic balance sheet. Two Chinese economists, Fu Peng and Gao Shanwen, estimated that Chinese GDP had been overestimated by 10% over the last three years. In addition, studies by the Rhodium group regularly point to doubts about the contributions to growth[1].

[1] After the Fall: China's Economy in 2025 – Rhodium Group

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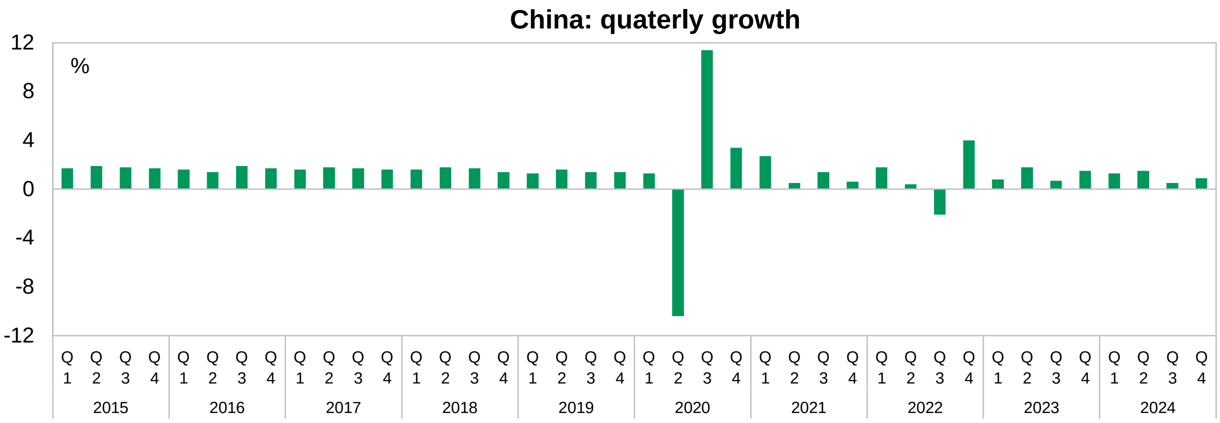
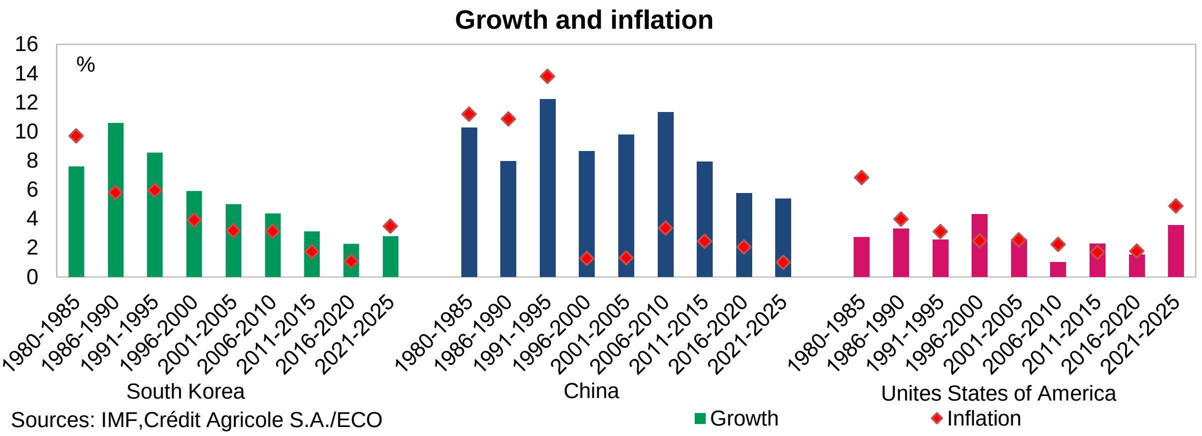


Sources: NBS, Crédit Agricole S.A./ECO

Growth, inflation, investment, consumption: the inconsistencies

Looking at Chinese data, **the main inconsistency comes from the mismatch between the level of growth and that of inflation**. Every year, however, the authorities announce an inflation target at the same time as the growth target, most often 3%. However, this target has only been reached five times since 2000, when the growth target is reached every year. **It is difficult to find in economic history an example of a country – which is not in a fixed exchange rate regime – having experienced a growth trajectory as strong and stable as that of China since 2000, without this growth generating more inflation.** Comparing the South Korean, Chinese, and American profiles, the weakness of Chinese inflation is striking. Looking at the figures, we understand that before its entry into the WTO (2001), China had to deal with a much higher inflation, on average greater than 10% per year, and that this rate collapsed in the early 2000s. But should we consider that the level of inflation is wanted or suffered?



Sources: IMF,Crédit Agricole S.A./ECO

The weakness of inflation can be seen as wanted by the Chinese authorities, who favour the price competitiveness of the economy. It originates in the wage moderation practiced by Chinese companies – public or private – and by the existence of a vast reservoir of labour fuelled by the rural population and migrant workers. **The conservation of the "hukou"**, internal passport giving access to public services (health, education, retirement) allows to maintain a part of the active population (estimated at 177 million workers, or 22% of the total active population) in a kind of informality. The jobs occupied by migrant workers are unskilled, flexible, less well paid and employers do not pay social security contributions[2].

The Chinese authorities greatly value competition in the economy, particularly in the private sector, and sanction what they consider to be abuses of dominant position or monopolistic positions. This framework also pulls prices down because companies are rather price-taker than price-maker in the markets. In parallel, and even if this may seem contradictory, China remains a planned economy, **which means that the State retains great interventionist power** and can control the evolution of prices. The existence of strategic stocks and reserves (metals, oil,

[2] Les migrations internes, une partie intégrante du modèle économique chinois | Direction générale du Trésor

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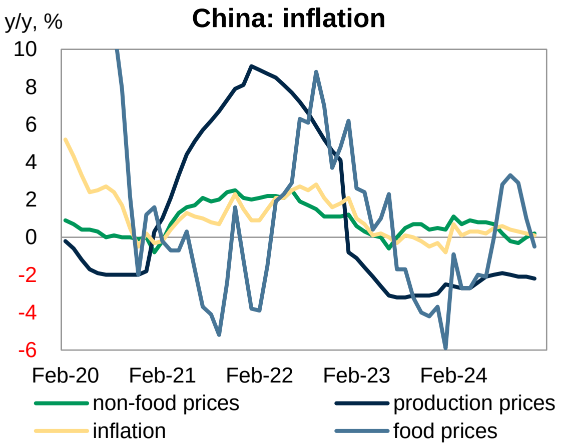
agricultural products) also makes it possible to regulate the prices of certain raw materials, when their price rises too quickly.

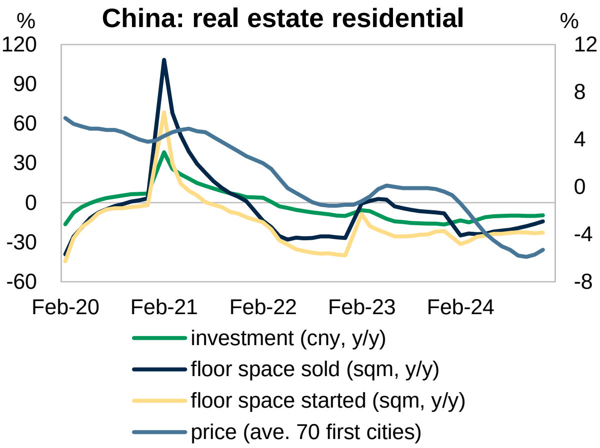
The weakness of Chinese inflation would therefore reflect a strongly growing economy, in which competition plays its role by giving purchasing power back to households, and where the State intervenes to regulate volatile prices, whose evolution is linked to exogenous factors (global demand, weather conditions, animal epidemics). This theory applies especially for the period 2006-2020, on which we see a correlation between the trajectory of growth – which follows an almost perfect diagonal – and that of inflation. On the other hand, the collapse of the price index observed since 2020, and China's entry into a disinflationary, even deflationary zone, signals a loss of control.

Since 2020, the weakness of inflation appears to be more of an imposed situation. It reflects the lack of domestic demand, which is embodied in household consumption figures. Several factors explain their behaviour. First, the labour market has suffered much more from Covid than official unemployment statistics show, as they do not consider migrant workers. While unemployment is officially stable at a low level (around 5%), the difficulties of young people (whose official unemployment rate is 16%), even graduates, in finding work have been widely reported, and Gao Shanwen estimates that 47 million jobs have been destroyed by the pandemic. Regulatory tightening in the tech sector has also slowed hiring in this sector, which previously absorbed many graduates. In this context, wage moderation seems to be the norm, with the most recent available data indicating that in the third quarter of 2024, starting salaries were down 0.6% compared to 2023. **As a positive signal for purchasing power and consumption**, Chinese authorities have announced a surprise salary increase for all civil servants (including teachers and police officers), totalling about $15 billion. The last general increase had taken place in 2015.

The state of the labour market, the stigma left by the Zero-Covid policy, and of course the situation in the real estate sector **have triggered a crisis of confidence among households**, who have modified their trade-offs between consumption and savings. In recent years, they have preferred to increase their precautionary savings or repay their loans and mortgages in advance. As a result, the - very slow - rebalancing that was taking place between consumption and investment has been interrupted, even though it is necessary for the transition to an endogenous growth model based on domestic demand rather than foreign trade. The severe real estate crisis, from which China is still struggling to emerge more than three years after its onset, feeds deflationary pressures in two ways: directly, through the price channel, and indirectly, through the wealth effect. While transaction volumes and new construction starts are just beginning to stabilize, at a level more than 60% below the 2021 peak, prices continue to fall. Their trajectory is partly controlled by the authorities, who have done everything to operate a gradual adjustment, first through volumes, to avoid too high a shock on household wealth, which is nearly 70% invested in real estate.



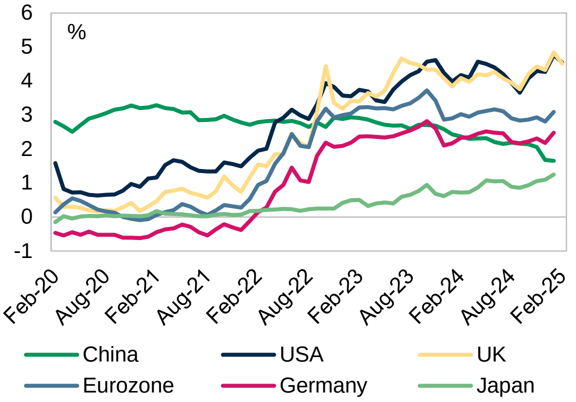
Sources: NBS, Crédit Agricole S.A/ECO



Sources: NBS, Crédit Agricole S.A/ECO

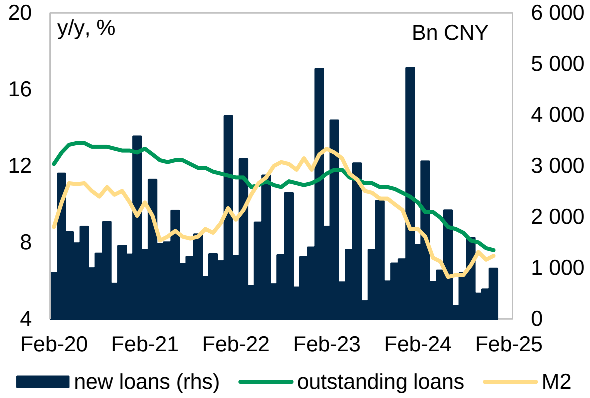
The observed decline in long-term rates on Chinese bonds is another signal reflecting the pessimism of economic agents regarding long-term growth and inflation. The very high savings rate, and the cash injections into the banking system carried out by the central bank, are creating this liquidity trap situation, which has already been mentioned.

10Y rates



Sources: LSEG, Crédit Agricole S.A./ECO

China : crédits and M2



Sources: PBoC, Crédit Agricole S.A/ECO

The real estate crisis affects more than just price levels, and **investment figures also show inconsistency** with the overall economic dynamics. Official statistics indicate a 1.3 percentage point contribution of investment to growth. However, these figures do not align with credit outstanding data, which has been decelerating sharply since 2023, despite liquidity injections by the central bank (notably through lowering reserve requirements), which have not translated into a revival of credit production. On the public investment side, investment apathy is reflected in banks' bond holdings. As authorities have begun regulating financing vehicles (LGFVs), many projects have been put on hold, especially in the most indebted provinces. Data on construction material production (asphalt, cement, steel) and oil consumption in this energy-intensive sector also signal that the real estate crisis is far from over, and public orders have not been sufficient to offset the private sector decline.

While the rest of the private sector, particularly manufacturing, has benefited from investment shifts from real estate, **the state of Chinese companies,** whose profits have declined this year, indicates a challenging business environment and unfavourable conditions for investment. In 2024, 25% of companies reported losses, 40% reported declining profits, and 45% reported decreasing revenues. Even though electric vehicle manufacturers reached new sales records, only two (Li Auto and Aito) were reportedly profitable, indicating that public power is currently supporting part of the Chinese economy.

As Chinese companies could always count on high external demand to absorb excess production capacity not sold domestically, 2025 is shaping up to be full of questions about the commercial environment in which China will now have to operate.

Questions for 2025

The unpredictability of Donald Trump

For China, Donald Trump's return is a potential source of numerous instabilities, which can present both a threat and an opportunity.

The threat is mainly economic. Increasing tariffs on Chinese products is one of Trump's campaign promises. While the Republican line, embodied by new Secretary of State Marco Rubio, is tougher than that of the Democrats, rising protectionism towards China is one of the few bipartisan issues. This means Trump could have full Congressional support to impose his measures. **These could take various forms:** tariff increases, initially an additional 10% in February, 10% more in March and up to 60% if Trump sticks to his program, continuation of export restriction policies on high-tech value-added products, or sanctions on Chinese companies. China is preparing for and expecting these announcements and the hardening of the U.S. position. **It knows it must project itself into the post-"happy globalization" era** that it had benefited from since 2001 and its WTO entry, even though authorities have extended numerous olive branches to the new administration. Vice President Han Zheng attended the inauguration ceremony and had numerous meetings with the new team in charge of trade relations and the Sino-American business community.

Since 2018, authorities have been preparing for "decoupling," embodied in the "dual circulation" strategy, aimed at limiting Chinese dependence on imports while supporting exporting companies. This preparation has taken several forms. Chinese companies have already relocated part of their value chain to third countries, primarily Mexico and Vietnam. International trade statistics clearly show this adaptation: since 2020, the U.S. share of Chinese exports has indeed decreased, from 19.3% in 2020 to 14.6% in 2024. This has affected the bilateral deficit, Trump's battle horse, which has

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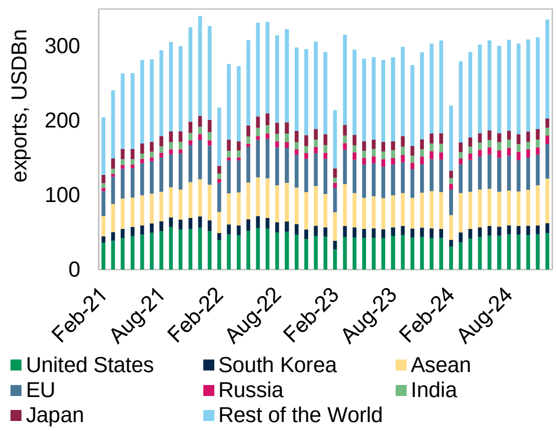
reduced from $418 billion in 2018 to $270 billion in 2024. However, this result is deceptive, as U.S. dependence on Chinese products is far from reduced.

The most striking example is Vietnam, whose foreign trade statistics illustrate this strategy of circumventing U.S. tariffs and sanctions, implemented by both Chinese and international companies. **Between 2018 and 2024, Vietnam's imports from China increased by $78 billion, while Vietnam's exports to the U.S. increased by $72 billion. Vietnam's trade deficit with China widened by $59 billion, while its surplus with the U.S. grew by $70 billion.** Moreover, these new exchanges are mainly concentrated in the same sectors, particularly electronic devices (phones, tablets, screens) for which Vietnam has become a major producer, or rather assembler. Only sectors requiring less added value and intermediate consumption (textiles and furniture) escape Chinese dependence.

The U.S. increasingly perceives Vietnam as a backdoor entry for Chinese goods. The country could therefore end up on Donald Trump's blacklist and face pressure to reduce its Chinese intermediate consumption, under threat of additional restrictions or tariffs, which would directly affect Chinese companies benefiting from this system. **In practice, this kind of control policy is very difficult to implement.** The complexity of value chains means that companies are often unable to trace back beyond one or two levels of subcontracting. And crucially, who would control this import content? Would this control take place at U.S. customs (which do not have nearly enough staff to do so) or at the company level, with a licensing system? But again, who would really monitor, and across the entire chain? However, with an unpredictable Donald Trump, this scenario cannot be ruled out. And even if applied with average effectiveness, these measures would further constrain the Chinese export apparatus.

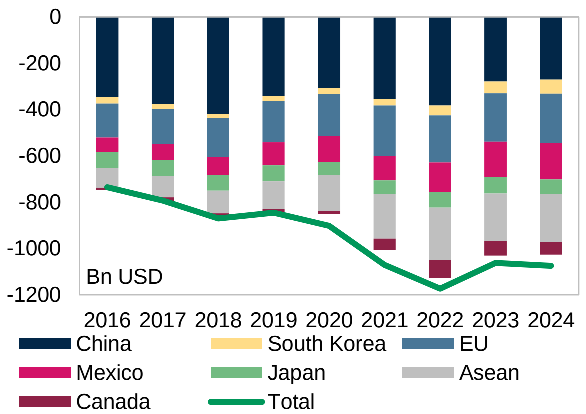
Decoupling has also resulted in massive investments in sectors with certain technological lags, which the U.S. hopes to maintain by controlling exports of American (but not only) companies in strategic sectors such as artificial intelligence, semiconductors, aeronautics, or military equipment. It's difficult to know with certainty where China stands in its catch-up. The country still seems very dependent on the most advanced integrated circuits and semiconductors, which it imports in large quantities from Taiwan and South Korea. However, the presentation of DeepSeek, a Chinese conversational agent reportedly developed with reduced resources and minimal investment, indicates that **China is far from being left behind and is pursuing its strategic autonomy objective.**

China: exports



Sources: Chinese customs, Crédit Agricole S.A./ECO

USA: who dig the trade deficit ?



Sources: US Customs, Crédit Agricole S.A./ECO

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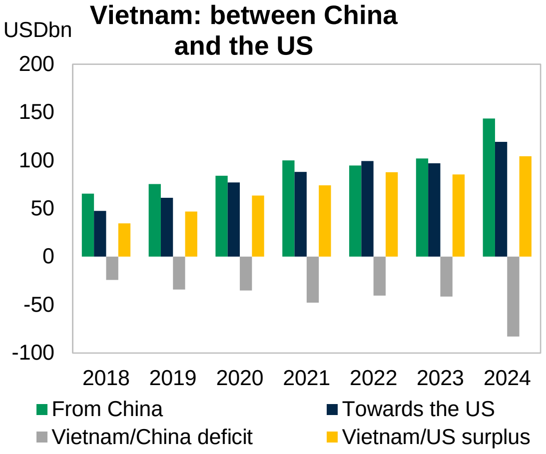
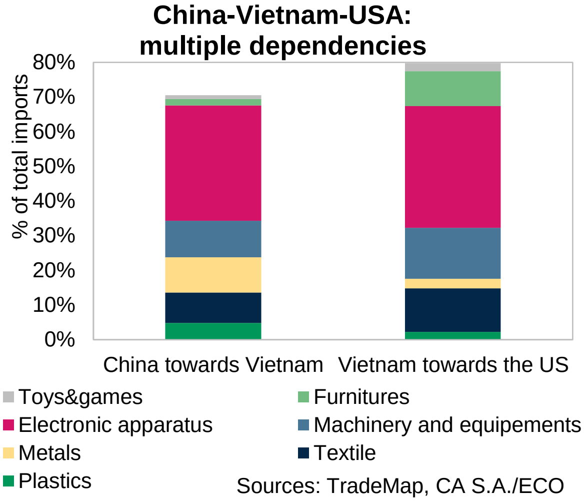


Sources: customs, Crédit Agricole S.A./ECO



Sources: TradeMap, CA S.A./ECO

The opportunity could be found in the geopolitical area, where radical American positions (on Greenland, Panama, or Gaza) tinged with imperialism, as well as disengagement from multilateral (Paris Agreement, WHO, Human Rights Council) or bilateral (dismantling of USAID) architecture could allow China to impose its choices. The vacancy left by the United States could indeed make China the top contributor to certain institutions, starting with the WHO, thus giving it more weight in managing these multilateral structures, which are transmission belts for norms and ideas. **More than ever, China also risks positioning itself as the protector of a "Global South,"** still disorganized and not always fully aligned with Chinese positions, but which American actions against free trade or international aid, on which many countries depend, could help to unite.

For China, what room for manoeuvre?

As we have seen, China has affirmed its willingness to negotiate. This is not incompatible with the latest declarations and measures taken in reaction to the increase in American tariffs. A "super deal," in which Donald Trump would come out winning, is not impossible. The question remains, of course, what China would be willing to put on the table. And how, conversely, it could react in case of an escalation of trade tensions.

For now, the countermeasures taken by China include: 10% tariffs on crude oil, agricultural machinery, large engines; 15% on coal, gas and agricultural products; export controls on certain critical materials; an investigation against Google for anti-competitive practices; restrictions on new American companies. **These announcements appear rather measured and leave the door open for negotiations, with several questions pending**.

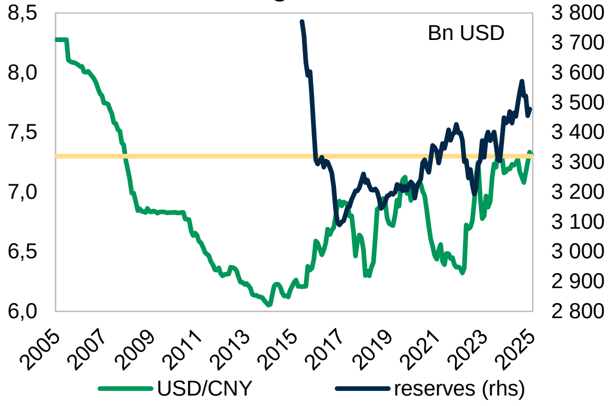
The first for the country will be **how to manage its currency against the dollar**. This issue is complex, as it involves many internal and external trade-offs that sometimes go beyond the economic sphere. **The level of the yuan against the dollar is low. It fluctuates around 7.3,** a level that had not been reached since 2008. The yuan is not the only currency to have depreciated in recent months against a strong dollar, boosted by the result of the American elections and rates that remain high. Added to this monetary **environment is the policy of the Chinese central bank, which has considerably eased since 2023,** and should continue this accommodative line to support activity. The yuan depreciation strategy had already been used during the first Sino-American trade war, particularly between 2018 and 2020. **China could therefore make this choice again, with the risk of being accused by the Trump administration of being a "currency manipulator."** Although it does not automatically lead to sanctions, this designation offers the possibility for the United States to take measures to correct an excessive trade surplus of a third country, without violating WTO rules. Historically, negotiations between the United States and the targeted country, sometimes with IMF intervention, have been sufficient to resolve these disputes.

The U.S. Treasury Department applies this designation to countries engaging in monetary practices deemed unfair, as they confer a commercial advantage and widen the U.S. trade deficit. A country is considered a currency manipulator if it meets three criteria:

- ✓ a trade surplus with the United States exceeding \$15 billion.
- ✓ a current account surplus exceeding 3% of GDP.
- ✓ foreign exchange market interventions exceeding 2% of GDP for at least eight of the last twelve months.

Other factors, such as monetary policy, capital controls, or data transparency, can also be invoked by the U.S. government to justify the designation of currency manipulator. In fact, the final decision is quite discretionary, and a country can be qualified as a currency manipulator without necessarily meeting all three criteria, as was the case for India in 2017. The reason invoked then was the "questionable exchange rate policy" of Modi's government. **If China were to be placed on this list again, it would therefore be exposed to new retaliatory measures.** Hence, some caution in controlling its exchange rate could be in order, at least as long as the door to negotiations is still open, especially since the country has ample foreign exchange reserves to support its currency. **This is, moreover, the position that the central bank seems to have taken, striving to stabilize the yuan around this target rate of 7.3 since the beginning of 2025.** Stabilizing the exchange rate would also give the PBoC more room for manoeuvre to pursue its monetary easing objective, as it would be complicated for it to lower rates during a phase of uncontrolled yuan depreciation.

China: exchange rate and reserves



Sources: PBoC, Crédit Agricole S.A./ECO

Country	Bilateral commercial surplus with the US >15 USDbn	Current account >3% of GDP	Intervention on the forex market >2% of GDP
	2024, USDbn	*2024, % of GDP*	*% of GDP*
China	270	1,4	0,5 à -0,1
Vietnam	113	4,5	1,5
Malaysia	22	2,4	-2,3
Thailand	41	2,2	-0,6
Singapore	-3	19,7	7,1
Indonesia	16	-0,8	0,7

The second option is that of a "super-deal," which could take the form of a new trade agreement between the two countries. The one signed in 2020, in which China committed to increase its imports of American products by $200 billion, did not have the expected effects[3]: in 2024, American exports to China amounted to $131 billion, compared to $125 billion in 20203. **China has even continued its agricultural diversification strategy** by opening its market to other countries: Argentine wheat, Russian pork, Thai poultry, or by limiting its dependence on the United States, particularly for soybeans, corn, and beef4. China could reopen its market more widely to American agricultural or energy products, but the United States produces few goods that interest the Chinese, and especially those that present acceptable price competitiveness. **It should be kept in mind that the American GDP per capita (in purchasing power parity) remains 3.5 times higher than that of China.**

The agreement could also focus **on an increase in Chinese investments in the United States**, in certain targeted sectors where the American bilateral deficit is strongest (electronic devices, auto parts), like what the United States did with Japan in the 1980s, by forcing certain manufacturers (notably Toyota) to develop local factories. **But here again, a price competitiveness problem would quickly arise.** However, Donald Trump was also elected on the promise of controlling inflation. Obviously, he is no stranger to contradictions, but the price level is a very sensitive barometer for the American electorate.

The third option is that of a much more comprehensive negotiation, which would include geopolitical issues (Ukraine, North Korea, Iran, Afghanistan, and of course Taiwan): there are numerous hot topics and points, the potential outcomes are very uncertain, and we will not risk making scenarios or probabilities here. However, this way of negotiating is part of Donald Trump's methods, and it would not be surprising to find these issues mixed with commercial subjects. In their first exchanges, Xi Jinping was clear on four red lines in which a form of American interference will not be tolerated: Taiwan, democracy and human rights, the Chinese system, and China's economic development.

[3] See PIIE analysis, and notably : China bought none of the extra $200 billion of US exports in Trump's trade deal | PIIE

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Conclusion

China presents itself weakened in the face of a provocative and combative Donald Trump. COVID-19 has left deep scars on the economy and society: real estate crisis, household confidence crisis manifesting in domestic demand that is no longer recovering, massive and sometimes ineffective indebtedness of local authorities, revealing the limits of the Chinese tax system. In reality, it is an entire economic system that seems to be reaching its limits today, revealing certain inconsistencies that are difficult to mask. Alongside this, the Chinese manufacturing complex is triumphing and affording itself the luxury of reaching historic surplus levels. All of this is not so paradoxical: China is seeking consumers in the rest of the world who are no longer at home. A dangerous bet in this context of a return to protectionism, led by the United States but gaining most countries, which no longer find their account and understand that cheaper Chinese products do not replace jobs and industrial activity.

In this new world that is taking shape, **China still has the means of its power,** but they require radical and rapid reforms, tackling structural issues specific to the Chinese model: land distribution, free movement of domestic workers, development of safety nets (without falling into the "welfare state" abhorred by Xi Jinping) supported by a tax system that would allow a little more redistribution, in this country where inequalities have exploded. And above all, to reinject confidence into disillusioned households for whom the social contract, at the heart of the regime, is less and less respected.

Completed on February 17, 2025

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Crédit Agricole S.A. — Group Economic Research
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