Prospects

No. 25/219 – 17 July 2025

CHINA – Facing the business cycle: when planning meets doubt

- China's growth continues to slow, despite an official target of 5% for 2025, against **a backdrop of concerns about the balance of growth factors**, which are increasingly shifting towards an industrial economy focused on exports, **far from the promises of "qualitative" growth driven by domestic demand and consumption**. For the first time, the GDP deflator has turned positive, lowering nominal growth to around 3.5%. **With the end of a cycle of exceptional growth and the United States calling globalisation into question, the entire Chinese model of a planned economy is faltering.**
- **This deflation is a consequence, not a cause, of deep imbalances**: demographics, industrial overcapacity, the real estate crisis and dependence on exports. **It is problematic because it weighs on China's potential growth through several channels**: lower corporate profitability and reduced capacity to finance innovation, weak consumption and a wait-and-see attitude towards investment. One of the major challenges for the authorities will also be to develop financial tools capable of capturing the long-term savings of an ageing population, replacing the real estate sector, which has played this role until now, in a deflationary environment of low interest rates.
- **The intensity of competition in the economy should not obscure the fact that the Chinese production model remains closely linked to the state apparatus.** It is the state's action that is at the heart of the success of certain sectors (particularly in the "new productive forces") by mobilising all instruments of support for businesses (the banking sector, non-tariff barriers, direct and indirect subsidies), particularly through the actions of local authorities. However, these interventions distort the Chinese economy by favouring supply over consumption, allowing too many unproductive companies to survive and supporting a system of corporate financing with opaque and sometimes arbitrary rules.
- **While China has prepared for a new trade war with the United States and has serious leverage (or retaliatory measures) at its disposal, this does not mean that it will be able to completely avoid the impact on its economy.** Two major risks could materialise. The first, and most obvious, is **a decline in Chinese exports to the United States**, whether direct or indirect (increased control over origin and Chinese value-added limiting circumvention practices), which would have an impact on industrial production and employment. The second is **the continuation of the technology blockade strategy** initiated under the first Trump administration, accentuated by the Biden administration in sectors where China is still far from the technological frontier and therefore dependent on foreign technologies (semiconductors, advanced medical equipment and aerospace).
- **The acceleration of the energy transition is a reality responding to three imperatives**: an **ecological and political** imperative, as pollution levels have caused health scandals with high social costs; a **geopolitical** imperative, in order to reduce dependence on hydrocarbon imports, particularly from the Middle East, an unstable region with ongoing security ties to the United States; and, of course, an economic imperative, as the "new productive forces" identified are mainly linked to the transition. However, the latter is also hampered by the continuing race for growth in China, despite official statements on the need to move to a more qualitative model. The question of the sustainability of these assets arises, with a high risk of seeing a proliferation of "stranded assets".
- While China continues to impress in terms of manufacturing and its ability to catch up in certain

Sophie WIEVIORKA
sophie.wieviorka@credit-agricole-sa.fr

strategic sectors, **the question of how its model will evolve remains a question mark**, reinforced by the ongoing opacity surrounding its statistical system and, of course, **the state of its leader Xi Jinping**, whose succession also remains a black box.

Building growth: what figures, what contributions?

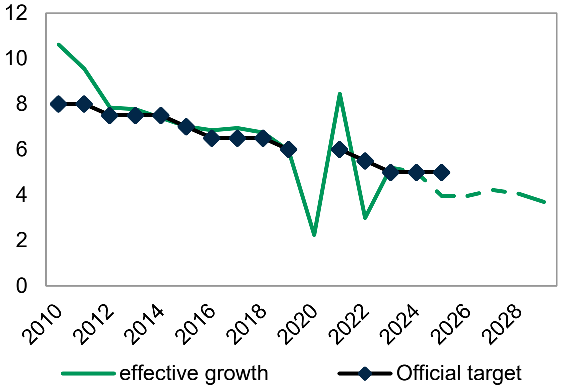
The debate surrounding the reliability of Chinese statistics is not new, but has resurfaced with renewed vigour since Covid-19. The removal or modification of the methodology used to calculate certain indicators – such as youth unemployment, but also many sub-indicators of sectoral production or related to the real estate sector – has reinforced the impression of **a "statistical black box" surrounding China**. A representative example is the number of defaults on the non-sovereign bond market, which has fallen significantly over the past year, even though many companies are in difficulty. This suggests that the authorities prefer to resolve problems upstream rather than engage in restructuring procedures, which are still rather vague.

The target of "around 5%" growth announced in March for 2025, as for 2024, is **currently above consensus expectations, which are more in the range of 4% to 4.5%.** Beyond the raw figure, which is ultimately of only relative importance, it is the change in the distribution of contributions that raises questions. In fact, Covid-19 has accentuated **structural imbalances in the Chinese economy, particularly between supply and demand, investment and consumption**. By choosing to roll out policies to support supply during the pandemic and then the economic slowdown, the authorities have distorted the relationship between the various contributors to growth. Activity indicators reflect this distortion: **retail sales are growing on average more slowly than GDP, while industrial production and exports continue to accelerate more sharply.** The change in the contribution of foreign trade to growth is striking. At 2.1 percentage points (pp) in the first quarter of 2025, it reached a historic high (excluding Covid), reflecting China's undisputed dominance of global manufacturing, although temporary effects (anticipation of US tariffs, which had caused a sharp rise in exports at the beginning of the year) should not be forgotten.

However, the momentum of investment needs to be monitored: while the real estate crisis had led to a shift in investment from real estate to manufacturing, the tide now seems to be turning. This trend could, however, be temporary and reflect a wait-and-see attitude linked to the trade negotiations between China and the United States. Above all, the government could step up its support for the economy in the coming months *through* bond issues aimed at financing new infrastructure projects in particular.

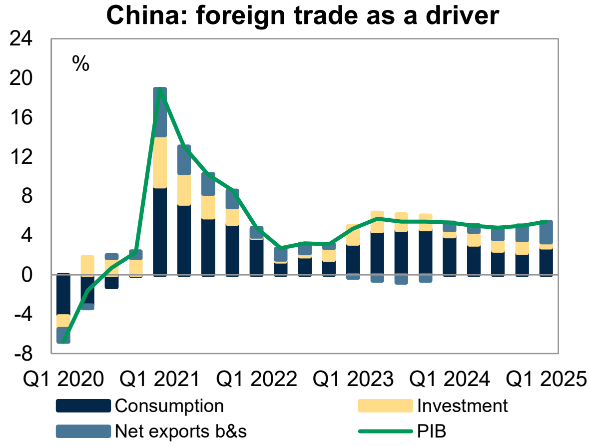
As for consumption, its weakness is reflected in inflation figures, which have not exceeded 1% year-on-year since February 2024. This is a worrying phenomenon, reflecting the deep imbalances in the Chinese economy.

China: the consensus doesn't believe in the 5%



Sources: IMF, Crédit Agricole S.A/ECO

China: foreign trade as a driver



Sources: national

Sophie WIEVIORKA
sophie.wieviorka@credit-agricole-sa.fr

Deflation sets in, what is the symptom?

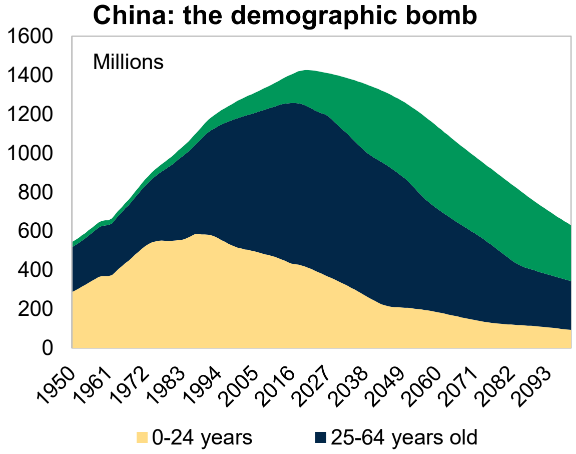
Deflation is not a cause but a consequence of structural imbalances in the Chinese economy. Initially downplayed or even denied by the Chinese authorities, it is now reflected in growth forecasts, which for the first time include **a positive GDP deflator**. The latter is around 0.5 pp for the authorities, but in reality closer to 1.5 pp. This means that with a real growth target of 5%, nominal growth is around 3.5%, but above all that this forecast anchors expectations in a zone oscillating between deflation and disinflation. What underlying trends does deflation reflect?

The first – and most problematic – is linked to China's demographic situation. With a declining population (since 2015 for the working population, since 2022 for the total population), China, like the rest of North Asia, is experiencing an intense birth rate crisis to which it has yet to find a real solution. The latest United Nations scenario anticipates a dramatic decline in population, from 1.4 billion to 0.6 billion by 2100, with a parallel acceleration in ageing. The proportion of people aged over 65 is expected to rise from 15% to 40% by 2070. This demographic trajectory, unprecedented in its speed on a global scale, is the result of the one-child policy imposed between 1979 and 2015, which established a family model that is very difficult to change. It poses **three major challenges** in the medium and long term, **for which the authorities still seem ill-prepared:**

- ✓ A decline in consumption, which being inversely correlated with age;
- ✓ Financing ageing, in terms of healthcare and pensions;
- ✓ China's overall economic catch-up in terms of GDP per capita, since working people by definition have higher incomes than those who are not working.

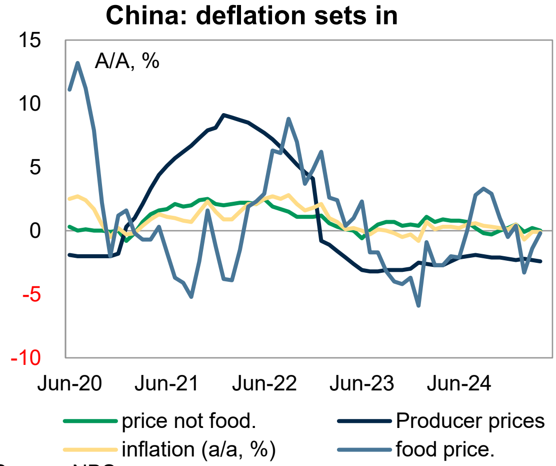
China has taken tentative steps towards pension reform, announcing an extension of the contribution period and a change in the minimum retirement age[1]. But the authorities know that this is a sensitive issue, as it also conflicts with a family structure in which grandparents often take care of their grandchildren, particularly in migrant worker families where parents leave to work in a city where they do not have a residence permit. **The existence of *the hukou,* an internal passport that theoretically prevents workers from settling freely,** particularly in large cities, is regularly called into question, as it partly explains the tendency of households to build up precautionary savings to pay for services that are theoretically free (education, healthcare) but to which they do not have access as migrant workers. **The release of some of these accumulated savings is therefore closely linked to the issue of access to public services** – and their quality – and the development of social safety nets (unemployment, sickness, retirement). The relaxation of *the hukou system* is an even broader issue, which also includes the question of property ownership.

China: the demographic bomb



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

China: deflation sets in



Source: NBS

[1] The contribution period will increase from 15 to 20 years and the minimum retirement age from 60 to 63 for men and from 55 to 58 for women.

Sophie WIEVIORKA
sophie.wieviorka@credit-agricole-sa.fr

The second root cause of deflation is, of course, the real estate crisis that has been affecting the Chinese economy since 2021. Despite some slight signs of stabilisation in early 2025, the Chinese real estate market remains in difficulty, both in terms of prices and activity. In May 2025, housing starts were around 25% of their all-time high, and transactions were at 50%. The effects of the measures announced in September[2] therefore quickly faded. **The market also remains marked by strong regional disparities,** with large cities (Tier 1 and Tier 2) still subject to strong demographic pressures, where prices and transactions are stable or even picking up, and third-tier cities and beyond, where the crisis is still far from over.

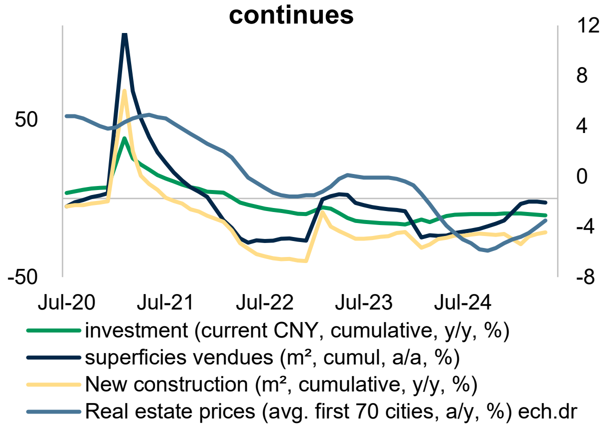
Past experiences of real estate crises in other countries indicate that they last on average six years, with price corrections of around 30%. Applied to China, this model would suggest that the crisis will end in late 2027, with an additional 10% decline in prices, which have already contracted by 20%. **However, China is not a "classic" case of a real estate crisis,** as its origins are not to be found in household over-indebtedness but in developers and a model that has favoured construction projects that are sometimes below the break-even point and left millions of homes vacant.

The economic policy response from the authorities has therefore been more cautious and gradual, for three main reasons. The first is that **the market downturn was accelerated by deliberate choices made by the regulator** to put an end to developer over-indebtedness and the speculative bubble. The second is that **China has learned the lessons** of **the massive stimulus plans of the past** (2008-2009 and 2015-2016) and their impact on the debt of the state, public enterprises and local authorities, whether official or unofficial through the development of shadow banking. The measures implemented have therefore been both more targeted and, above all, focused on supporting the rest of the economy, particularly investment in the manufacturing sector, which has been identified as capable of taking over from real estate and construction as the engine of growth. Finally, **external geopolitical and monetary constraints (**restrictive US monetary policy, appreciation of the dollar and pressure on the stability of the yuan) ultimately convinced the authorities to adopt a gradual approach and, above all, to maintain room for manoeuvre to deal with a more severe economic downturn if necessary.

However, the authorities have ensured that price corrections are not too severe, in order to avoid a significant wealth effect, given that 70% of household wealth is invested in the sector. The end of the crisis now raises several questions:

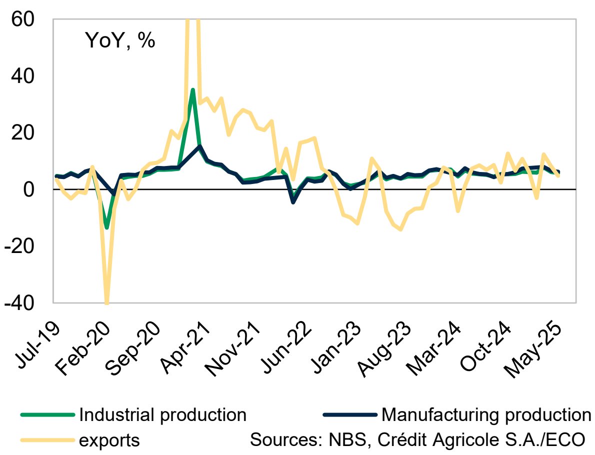
- ✓ What is the landing level in terms of transaction volume and housing starts? While it seems clear that the market will never return to its 2020 level, the question is where it will settle. This will depend in part on hukou reform, which could accelerate urbanisation, particularly around Tier 3 cities.
- ✓ How can Chinese savings continue to be captured? The real estate sector was an ideal tool for capturing long-term savings, as financial savings solutions are still underdeveloped and there is strong demand, particularly from pension funds. Here again, the guidelines Data from public authorities, particularly on pensions, will be crucial in helping to develop new solutions. Without other options, the property market could once again attract available savings once the price decline phase is over, even if the regulatory authorities are likely to monitor it closely to limit speculative behaviour.

China: the real estate crisis continues



Sources: NBS, Crédit Agricole S.A/ECO

China: industrial production



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

[2] Lower interest rates on new and existing loans, lower reserve requirements, creation of a fund for local authorities to buy vacant homes.

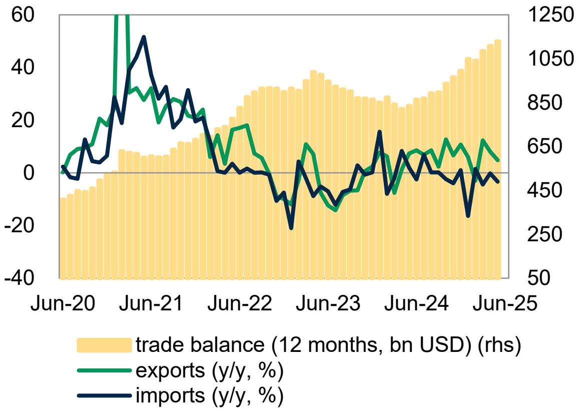
Sophie WIEVIORKA
sophie.wieviorka@credit-agricole-sa.fr

- ✓ How can we continue to attract Chinese savings? The real estate sector was an ideal vehicle for attracting long-term savings, given that financial savings solutions are still underdeveloped and there is strong demand, particularly from pension funds. Here again, the direction taken by the government, particularly with regard to pensions, will be crucial in helping to develop new solutions. Without any other option, the real estate market could once again attract available savings once the price decline phase is over, even if the regulatory authorities are likely to monitor it closely to limit speculative behaviour.

The third source of deflation is weak consumption, which is a result of the first two points and therefore reflects a problem of household confidence. In addition to weighing on medium-term growth prospects, this weakness is problematic because it fuels industrial overcapacity. It explains the continued fall in producer prices, which have been contracting since January 2022, and therefore the need for Chinese companies to turn to exports to sell off surplus production. This slowdown is leading to intense price wars to secure market share, which are beginning to be condemned by the authorities. The CCP has thus reiterated that "companies that cut prices in disorderly competition must be regulated". The sectors targeted are mainly those that make up the "new "productive forces": electric vehicles, solar panels, batteries and e-commerce. The price of a battery has fallen by more than 80%, while the price of a solar module has dropped to less than 7 euro cents per watt. In early July, e-commerce giant Alibaba announced a massive $7 billion subsidy programme for consumers and partner retailers, *via* discount coupons available on shopping platforms.

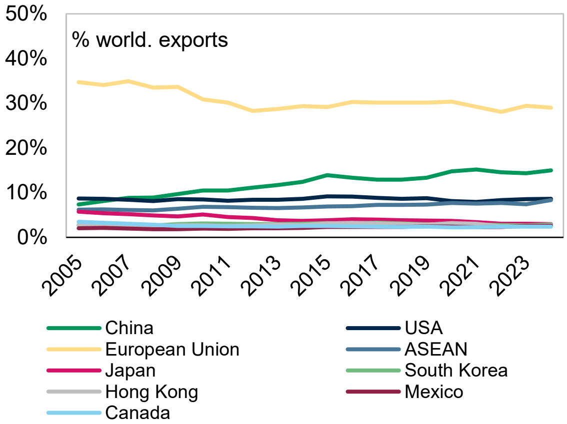
However, Chinese companies' strategy to conquer the rest of the world has paid off, as China has seen its exports continue to grow and its market share increase again since 2022, from 14.5% to 15% of global exports. China's trade surplus has exceeded $1 trillion for several months. In less than five years, China has established itself in the electric vehicle sector (*see box)*, while consolidating its positions in electronics, chemicals and solar energy. It remains to be seen how Chinese companies will react to the new global trading environment, particularly with regard to customs duties.

China: trade balance



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

China: a champion of trade



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

The electric vehicle sector

The automotive sector embodies many of the strengths and weaknesses of the Chinese model. The development of NEVs (new energy vehicles) was identified as one of the priority sectors of the *Made in China* 2025 strategy as early as 2015.

While Chinese car manufacturers had not established themselves on the domestic market, particularly in the high-end segments, **the development of NEVs completely reshuffled the market and led to the emergence of a large number of local players.** The Chinese strategy was based on four pillars: **a policy of massive government subsidies, access to low-cost raw materials that were either unprocessed or minimally processed** (particularly steel and electricity), **the existence of an already extensive network of subcontractors** that had previously served foreign manufacturers based in China, **and control of the battery value chain**, which is central to the sector's development. BYD, now the world's leading manufacturer of electric vehicles, was originally a battery manufacturer and supplier to brands such as Nokia, Samsung and Motorola. Another example is the phone manufacturer Xiaomi, which has also entered the car manufacturing business.

Already the world's largest car market, **China overtook Japan as the leading exporter in 2023**. In 2024, total vehicle exports exceeded $90 billion. More than half of the Chinese market is dominated by domestic manufacturers, and Chinese vehicle imports continue to decline. But the Chinese automotive sector also illustrates the **country's industrial overcapacity problems**. While utilisation rates are still far from their full potential, manufacturers are continuing to develop their electric vehicle production capacity at a slower but still high pace: +2.5 million vehicles in 2025 (compared with +3.2 million in 2024 and +5.2 million in 2023). There is also the question of how to convert combustion engine production lines. Overall (combustion engines + new energy vehicles), China has the capacity to produce 47 million vehicles, with actual production at 30 million, representing a **utilisation rate of 63%.**

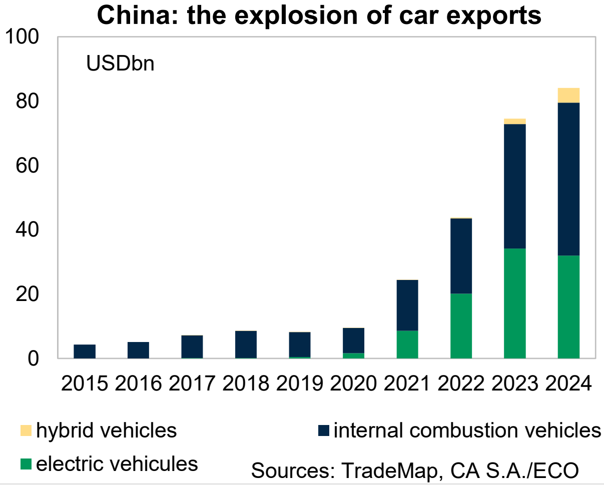
Another characteristic feature of the Chinese model is that **the development of the sector has been largely linked to the government's massive subsidy policy.** The government has used numerous channels, highlighted by European Union investigations: tax exemptions, land acquisition facilities, R&D funding, purchase subsidies, and a wide range of other tools have been mobilised to support the emergence of this market. **Goldman Sachs estimates that government subsidy programmes will enable the sale of 1.7 million additional vehicles in 2024, a figure that could rise to 2.4 million in 2025.**

While the market remains more fragmented and competitive than in developed countries (the top ten manufacturers hold 70% of the market share, compared with 93% in advanced economies[3]), **the market's development reflects the strategy of Chinese manufacturers, who are engaged in intense price wars.** Over one year, prices for models from the leading manufacturers fell by an average of 10%, but by as much as 34% for BYD, with an entry-level electric model priced at less than €7,000. This policy is financed both by lower margins and by efforts to achieve economies of scale and reduce expenditure (headcount and R&D). Chinese manufacturers posted an operating margin of 3.9% in the first quarter of 2025, compared with an average of 7.5% for European manufacturers.

The market has entered a slow consolidation phase, but China still has more than 140 car brands. The authorities have recently issued a series of guidelines, including new CSR standards and a recommendation to reduce supplier payment terms. These measures aim to accelerate market consolidation, particularly *through* mergers and acquisitions. Consolidation should also help **to rationalise the flow of investment for the sector's development**, as increased competition has created a kind of speculative bubble around the industry and led to overinvestment in a context of declining profitability.

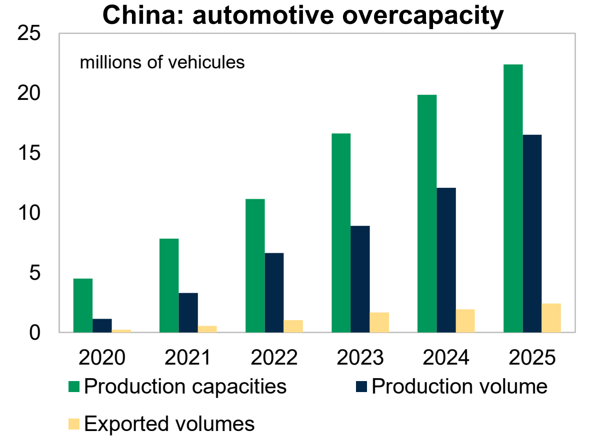
The final challenge for manufacturers is **internationalisation**, at a time when many countries, both emerging and developed, have introduced tariff and non-tariff measures to protect their automotive sector. This challenge also responds to an objective of rebuilding margins, as the state of foreign competition, particularly in the European Union, allows manufacturers to charge higher prices. To avoid customs duties, manufacturers seem ready to relocate part of their production chain outside China, even though there are still many barriers to entry.

China: the explosion of car exports



Sources: TradeMap, CA S.A./ECO

China: automotive overcapacity



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

[3] United States, Japan, Germany, United Kingdom, France and Italy.

Sophie WIEVIORKA
sophie.wieviorka@credit-agricole-sa.fr

An economy undergoing public infusion

Although the authorities have opted for less massive support than in previous downturns, the state's involvement in the economy remains strong. This contributes to the distortion of the model, with the sectors receiving the most support generally becoming the drivers of growth, albeit with the risk of creating bubbles in some cases – as was the case with real estate – and thus leading to a misallocation of capital.

On a tour of the European Union, Chinese Foreign Minister Wang Yi once again justified China's strategy, stating that:

- ✓ Subsidies were not unique to China, and that the European Union and the United States had also provided significant support to their companies, particularly in the field of energy transition.
- ✓ The overcapacity denounced by the rest of the world was necessary to achieve economies of scale and disseminate products and technologies for combating climate change (primarily solar panels, batteries and electric vehicles).

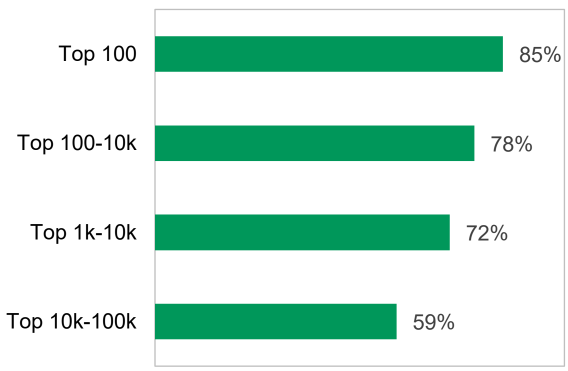
While these two arguments are valid, China remains a player that tends to flout international rules, and has done so since joining the WTO in 2001. Subsidies granted to companies appear particularly unusual, both in terms of their variety and their scale. Direct subsidies exceeded 0.5% of GDP in 2022, on average more than double the OECD average. To this must be added 0.5% of GDP in tax exemptions, as well as all other indirect subsidies. China has also developed a banking and financial system that largely favours its companies and national champions, to the detriment of foreign players. The development of a parallel financing system where rates are lower than market rates for certain companies, particularly public ones, reinforces this impression of opacity and the perception of an environment in which the rules of the game are both unequal and arbitrary. The measures taken by the Chinese government are particularly unusual, both in terms of their variety and scale. Direct subsidies exceeded 0.5% of GDP in 2022, more than double the average for OECD countries. On top of this, there were tax exemptions worth 0.5% of GDP, as well as all other indirect subsidies. China has also developed a banking and financial system that largely favours its companies and national champions, to the detriment of foreign players. The development of a parallel financing system where rates are lower than market rates for certain companies, particularly public ones, reinforces this impression of opacity and the perception of an environment in which the rules of the game are both unequal and arbitrary.

Exacerbated competition between provinces, municipalities and even districts is another factor conducive to the proliferation of business support schemes. Beyond distorting the international playing field, this environment erodes the profitability of capital and keeps zombie companies alive that would otherwise have been eliminated by competition. **While this is sometimes justified on employment grounds, the question of capital use and allocation is crucial, as it partly determines potential growth.** Another frequently used tool is monetary policy, particularly exchange rates, with China regularly accused of undervaluing its currency, especially during economic slowdowns.

China: exchange rate

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

Private companies benefiting from public investment*



Sources: Bai, Chong-En, et al. The rise of state-connected private owners in China, National Bureau of Economic Research

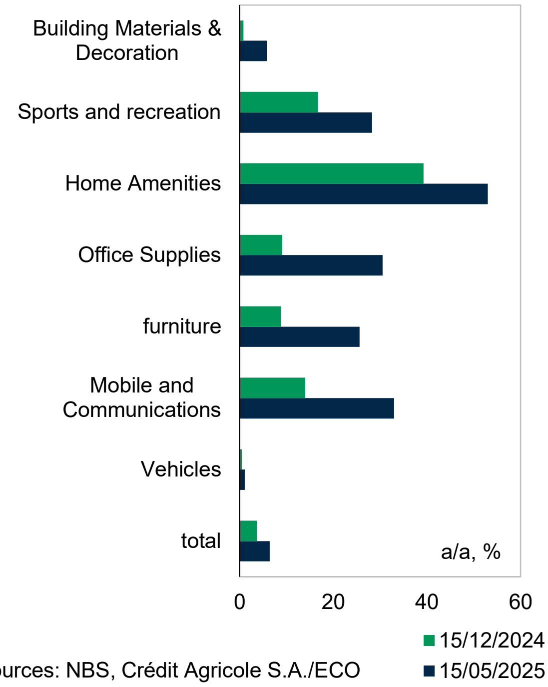
* *A public investment is defined as participation in a joint venture with the State or in a joint venture with another private company which itself holds a joint venture with the State.*

Sophie WIEVIORKA
sophie.wieviorka@credit-agricole-sa.fr

The latest example is the subsidy programme set up to support household consumption. Launched in 2024, its budget has already been doubled twice and now stands at 500 billion yuan. More and more goods and services are being included, particularly in the tourism, household equipment (televisions, large household appliances, etc.) and, of course, electric vehicles. The available data show that the programme is effective, with retail sales accelerating significantly in the subsidised goods categories. The question is whether this programme has a real multiplier effect, or whether households are *acting just as deadweight, anticipating purchases that they will have made anyway in the near future.* In this case, the cessation of the programme could have an immediate effect on sales volumes. Finally, while these measures are presented as support for demand, we can, *a fortiori* in the case of China, still see them as support for supply: the products and services chosen are indeed domestic and therefore feed into the order books of Chinese companies. Moreover, households are not entirely free to make their own consumption choices, as the local or national authorities are responsible for selecting the goods and services concerned.

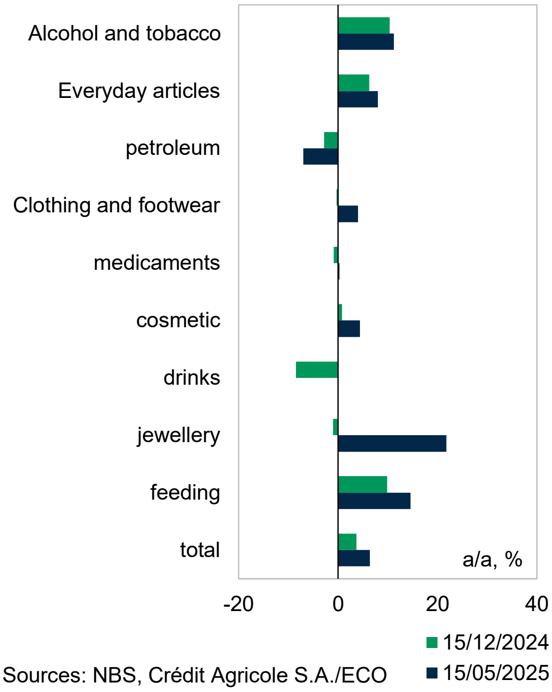
In a context of high uncertainty linked to the intensification of the trade war with the United States, support for domestic companies is therefore more than ever a priority.

China: retail sales, subsidized goods



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

China: retail sales, non-subsidized goods



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

With the United States, the risk is anticipated, but not necessarily controlled

China has been pursuing a policy of strategic autonomy for more than ten years, which has taken many forms:

- ✓ An import substitution policy in the industrial sector, initially through foreign technology transfers, then through massive research and development efforts;
- ✓ Securing supplies in sectors where substitution is impossible (raw materials in particular);
- ✓ Development of a strong export model, driven by the price competitiveness of its companies. The rise of protectionism and tariff and non-tariff barriers, particularly from the main markets for Chinese companies (the European Union and the United States), could undermine the Chinese growth model, especially as it is increasingly dependent on exports.

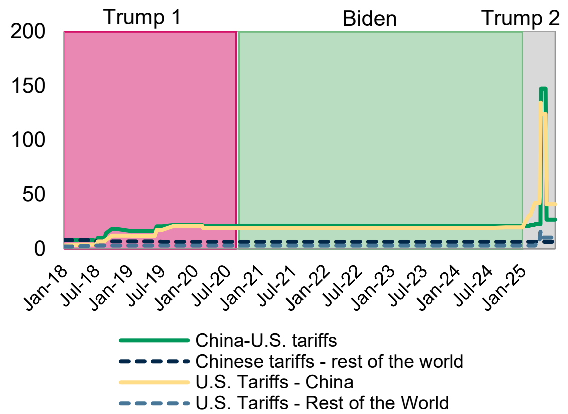
Since the start of the second trade war and the White House's announcement of "reciprocal tariffs," China has adopted an aggressive stance toward the United States, which contrasts sharply with that of the rest of the world, which has so far sought not to escalate but rather to negotiate. How can China's strategy be explained?

The structure of Sino-US trade sheds light on these decisions. Here are some preliminary figures: in 2024, the United States imported $439 billion worth of Chinese goods and exported $131 billion. China's share of US imports/exports was 13%/7%. From China's perspective, the United States accounted for 15% of Chinese exports and

Sophie WIEVIORKA
sophie.wieviorka@credit-agricole-sa.fr

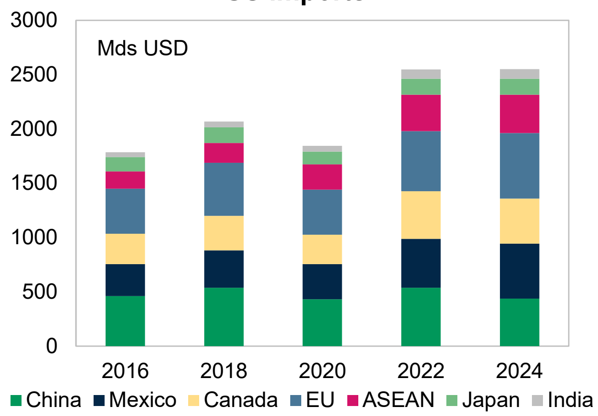
6% of total imports in 2024. Sino-US trade has declined since 2018, both in value and market share, but the use of circumvention countries (Mexico and Vietnam in particular) suggests that the overall level of interdependence between the two economies has in fact declined only slightly.

Effective tariffs



Sources: PIIE, Crédit Agricole S.A/ECO

US imports

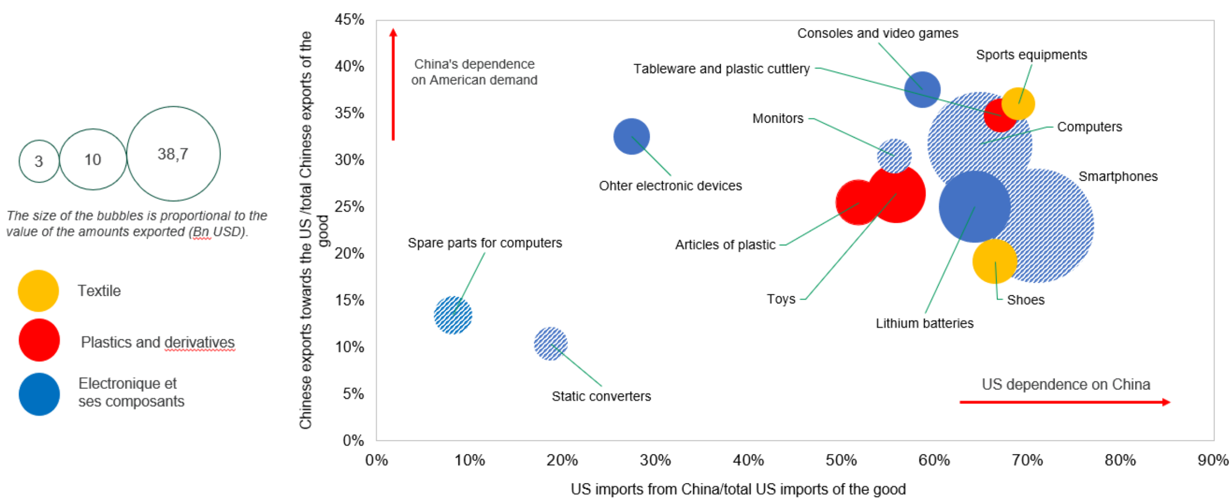


Sources: US customs, Crédit Agricole S.A./ECO

The United States are dependent on China for mass consumer goods (electronic devices, plastic items such as toys, textiles and footwear, sports equipment and furniture), **which are not very capital-intensive but are more labour-intensive**. It seems highly unlikely that these industries will be relocated to the United States, where production costs would be much higher. In the case of the electronics value chain, particularly computers and smartphones, **exemptions were quickly granted by the Trump administration**, as there are no short-term alternatives. The duties would have been passed directly on to end consumers, with an immediate impact on inflation. The exemptions covered around 20% of total US imports from China even before official negotiations began.

Nevertheless, it is likely that **the decoupling efforts undertaken by major US companies in the sector,** led by Apple, will continue, even if it seems unrealistic that a subcontracting network as dense as that offered by China will emerge in Vietnam or India (the two countries most likely to take over production sites), not to mention the quality of logistics, transport infrastructure and connectivity available in China. In recent years, the United States had already begun to diversify its supplies, turning to South Korea and Taiwan for high value-added components and to the rest of Southeast Asia for less technology-intensive products.

USA: exposure to Chinese products

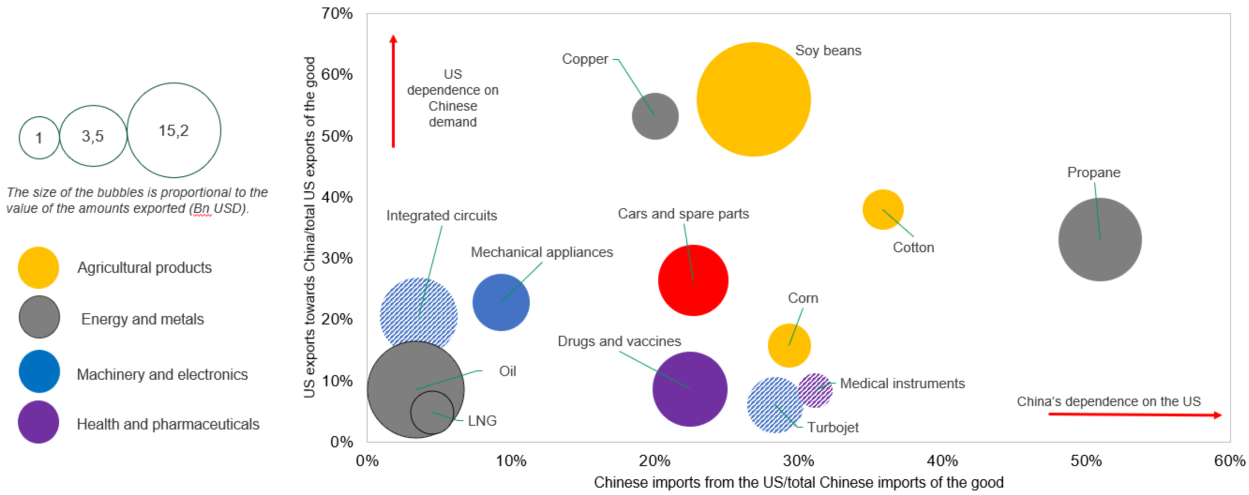


The hatched goods were fully exempted from tariffs
The goods shown in the chart alone represent 37% of total Chinese imports by value to the United States.

Sources: UNComtrade, Crédit Agricole S.A/ECO

On the Chinese side, the exemptions directly affected sectors in which China still lags behind technologically and is currently trying to catch up: semiconductors, aerospace components (aircraft engines in particular) and advanced medical equipment. The rest of Chinese imports from the United States consist mainly agricultural raw materials (soybeans, corn, cotton) and energy (oil, LNG, propane), for which there are many diversification options that China has already begun to explore, particularly with Brazil. The Chinese exemptions therefore covered a much smaller volume, 10% of total imports from the United States.

China: exposure to US products



The hatched goods were fully exempted from tariffs
The goods shown in the chart alone represent 46% of total US imports by value to China.

Sources: UNComtrade, Crédit Agricole S.A/ECO

In the medium term, however, **China would have more to lose from a genuine restructuring of value chains. Its priority was undoubtedly to obtain the best deal**, not in absolute terms but in relative terms. The situation in which China remained alone with 145% additional tariffs, while the rest of the world had returned to 10%, was extremely complicated.

As we have seen, only **the Chinese chose to escalate the conflict, while other countries immediately began negotiating without retaliation or with targeted retaliatory measures** (European Union). Isolated by punitive tariffs, China would have found it difficult to convince the rest of the world to present a united front. During his visits to Malaysia, Vietnam and Cambodia, Xi Jinping did not obtain any firm commitment from these countries, despite their proximity, to denounce the American attitude and side with China. The fact that it is moving closer to the tariffs applied to other countries gives it some leverage.

Remaining alone with 145% would have exposed it to mass relocations of production sites. As we have seen since 2018, it is illusory to think that the United States will quickly and simply reduce the Chinese value added content of its imports. Nevertheless, at a time when China is facing a profound rethink of its growth model, with domestic demand still unable to take over from investment and foreign trade as the driving force, losing production sites and therefore jobs and related activity would have been difficult to absorb.

In this respect, the agreement signed between Vietnam and the United States is not good news for China, as Vietnam has agreed that goods considered to be re-exported, i.e. with very little domestic value added, will be taxed at 40%, compared with 20% for the rest. If other countries, notably Mexico and Thailand, which are the main circumvention platforms used by Chinese companies, were to be subject to the same type of conditions, this would probably lead to an acceleration in the relocation of larger parts of value chains, to the detriment of Chinese production sites. It remains to be seen whether and how these measures will be implemented, as controlling value-added content is difficult to measure and requires a significant increase in customs staff. A shift to new areas (Latin America or even the Middle East) cannot be ruled out, even if it would require a much greater investment effort.

In negotiations that went beyond tariff issues, China did not hesitate to use its control over rare earth exports as a weapon to force the United States to back down, exposing itself to the anger of other countries also affected by restrictions, particularly in

Sophie WIEVIORKA
sophie.wieviorka@credit-agricole-sa.fr

the automotive sector, such as Japan and the European Union. There are therefore still many disputes, particularly between China and the European Union (public procurement, medical devices, electric vehicles, agricultural and wine products), while in the short term, Chinese companies will undoubtedly try to regain the market share lost in the United States in the rest of the world, exposing themselves to new barriers from countries keen to protect their domestic markets from Chinese competition deemed unfair.

Conclusion

The imbalances inherited from Covid have shaken some of the pillars of the Chinese economy and exposed its vulnerabilities. The snapshot of growth contributions could suggest a virtual return to the past, to a China that is the ‘world's factory’, as the country now seems to be relying on its export sector due to a lack of sufficient internal drivers. However, this would be to ignore the technological catch-up achieved by China in less than twenty years, which is particularly evident in its unrivalled dominance in transition-related goods, led by electric vehicles and solar panels. Let us not forget that the ‘relocalisation’ movement undertaken by some companies is primarily driven by geopolitical considerations, as China continues to offer an unrivalled logistical environment.

However, these successes should not obscure the profound questions facing the Chinese economy, as reflected in deflation. The demographic time bomb, which appears to be the most urgent challenge and the one least addressed by the authorities, is reflected in all of China's structural issues: the future of the property market, the role of consumption, caring for the ageing population and the evolution of the middle class. What would China be like with 700 million inhabitants? This is a question that remains unanswered but will determine its entire development trajectory.

Consult our last publications

Date	Title	Theme
30/06/2025	Europe – 2025-2026 Scenario: European economies in a waiting and transition phase	Europe
20/06/2025	World – Macro-economic scenario 2025-2026: a nerve-wracking context, some unprecedented resistance	World
19/06/2025	South Korea: does the election of Lee Jae-myung mark the end of the political crisis?	Asia
12/06/2025	Are food supplements really making French people healthier?	Health
05/06/2025	Morocco: we can do it!	Africa & Middle East
22/05/2025	China and the United States: the need for de-escalation	Asia & North America
16/05/2025	Gulf States – Oil: navigating back to basics amid stormy seas	Africa & Middle East
02/05/2025	French deficit and politics: too late to get out of the woods?	France
29/04/2025	France – 2025-2026 Scenario: Growth at a low ebb, amid exceptional global uncertainty	France
29/04/2025	Italy – 2025-2026 Scenario: between a rock and a hard place	Italy
22/04/2025	Spain –2025-2026 Scenario: dynamic growth in an uncertain environment	Europe
17/04/2025	Eurozone – 2025-2026 Scenario: between new divides and new convergences	Europe
17/04/2025	South Korea: what with fires, martial law and trade tariffs, the Year of the Blue Snake has not had the most auspicious start	Asia
04/04/2025	World – 2025-2026 Scenario: place your bets	World
27/03/2025	China: will the change in the authorities' rhetoric be enough to restore confidence?	Asia
20/03/2025	France: Banque de France says slightly lower growth and inflation in 2025 and 2026	France
13/03/2025	Mexico: an economy endangered by US trade tensions	Latin America
06/03/2025	China: is DeepSeek Chinese markets' salvation or death knell?	Asia
05/03/2025	Mexico – An overview of three decades of free trade	Latin America
04/03/2025	China – Growth is a "positive surprise", but serious questions remain	Asia
03/03/2025	Low-code and AI: the revolution in software development	IT
20/02/2025	China: growth is a "positive surprise" but serious questions remain (abridged version)	Asia

Crédit Agricole S.A. — Group Economic Research
12 place des États-Unis - 92127 Montrouge Cedex

Publication manager: Isabelle Job-Bazille
Chief Editor: Armelle Sarda
Information centre: Elisabeth Serreau – **Statistics:** Datalab ECO
Editor: Fabienne Pesty

Contact: *publication.eco@credit-agricole-sa.fr*

Consult Economic Research website and subscribe to our free online publications:
Website: https://etudes-economiques.credit-agricole.com/
iPad: Etudes ECO application available on App store platform
Android: Etudes ECO application available on Google Play platform