

2025 China Outlook

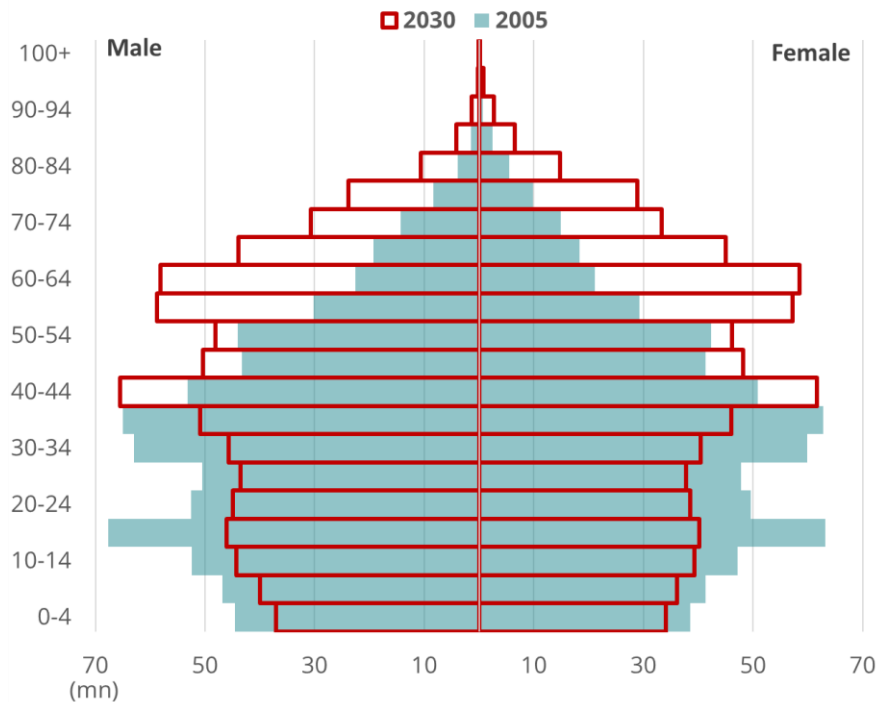
2025Q1



China: Politics & overall strategic direction

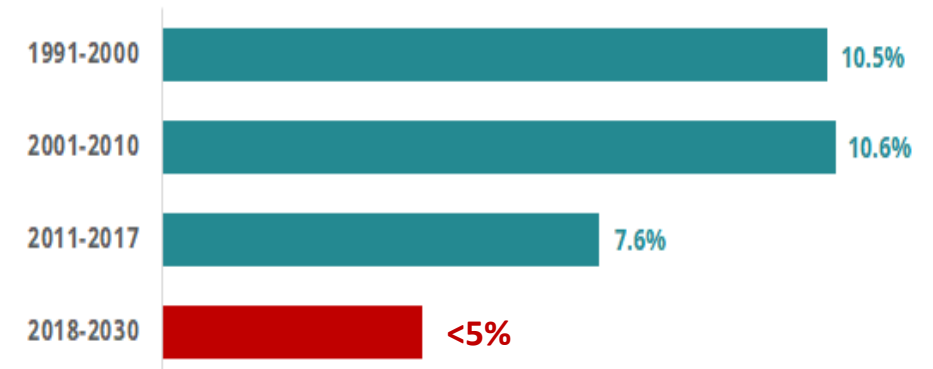
Structural changes in growth pattern

1. The economic catch-up process of China has been spectacular, fueled by a unique combination of the one-child policy, massive capital spending and clear strategy of international integration
2. It is by construction unsustainable at a similar pace, with a combination of structural headwinds:
 - Demographics has turned from a boom-factor to a massive constraint on growth
 - Capital accumulation has reached a peak with declining efficiency and problems of misallocation
 - Productivity gains are in part affected by geopolitical tensions and constraints on access to technology.



China – Age pyramids, 2005, 2030

China – Shifts in LT growth potential, (y/y, %)



Source: TAC ECONOMICS Datalab

China: Politics & overall strategic direction

Reminder of geopolitics and implication of Trump's election

1. US-China strategic rivalry is not dependent on leadership, though leadership does make a change in process and engagement during unavoidable tensions.
2. Most critical points for China are access to technology and military catch-up, more than threats of trade war, though market access difficulties in the US would come at a delicate time for cyclical management.
3. Promised tariffs of 60% on all Chinese goods looks more like a bargaining argument, including because China has substantial buffers as well as retaliation tools.
4. Trump's election suggests that "show of strength" will be the operating modality of contained confrontation, accelerating China's trade, corporate, and diplomatic reordering.

GTA Index of sensitivity to loss of US market access

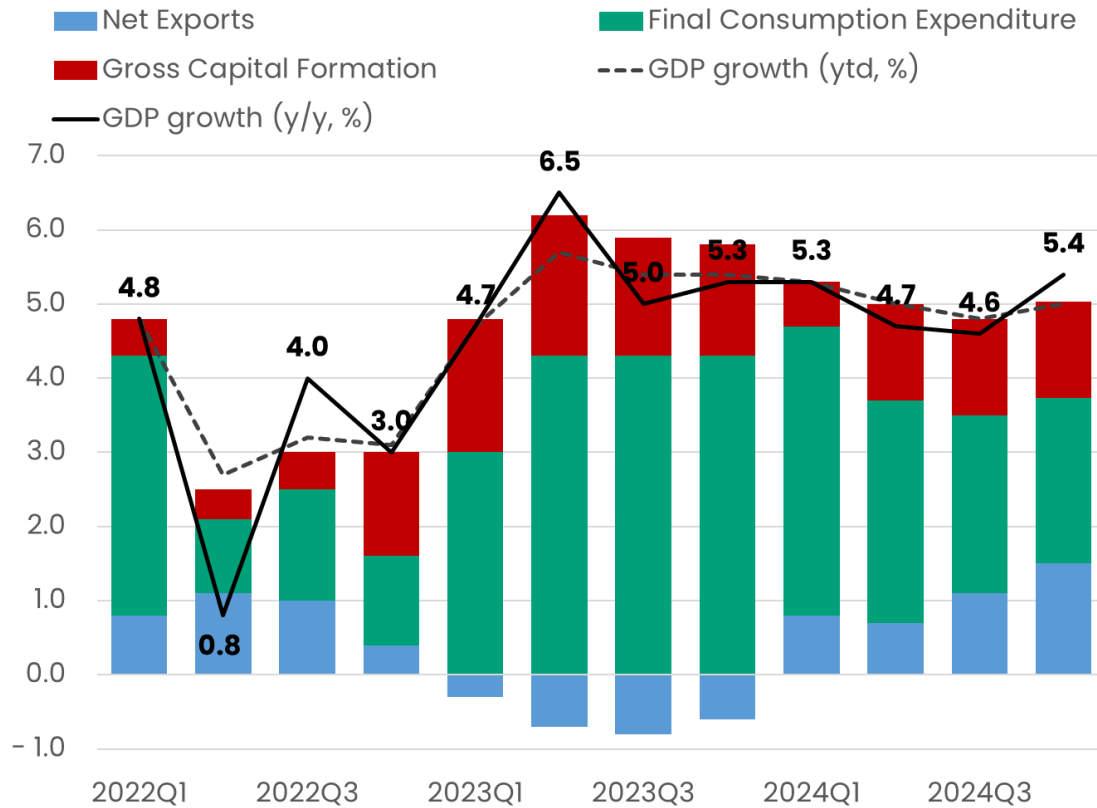
Trading partner	Exports to USA 2022, \$billion	Exports to US as percent of national exports, 2022	Total national exports as a percent of national GDP, 2022	Annual export growth rate to non-US market (2012-22) (%)	Year when lost US market access is fully replaced (assuming continued growth to non-US markets grows)
China	575.69	16.02	20.10	6.52	2027
China, Hong Kong SAR	4.93	0.81	170.10	2.19	2025
Colombia	19.40	34.09	16.48	0.68	2086
France	59.09	9.56	22.25	0.81	2037
Germany	150.41	8.92	41.30	1.69	2030
India	90.99	20.10	13.50	3.86	2030
Indonesia	37.26	12.76	22.14	4.05	2028
Philippines	16.88	21.38	19.52	3.96	2031
Rep. of Korea	120.86	17.68	40.84	1.46	2038

GTA Flags for being targeted by US

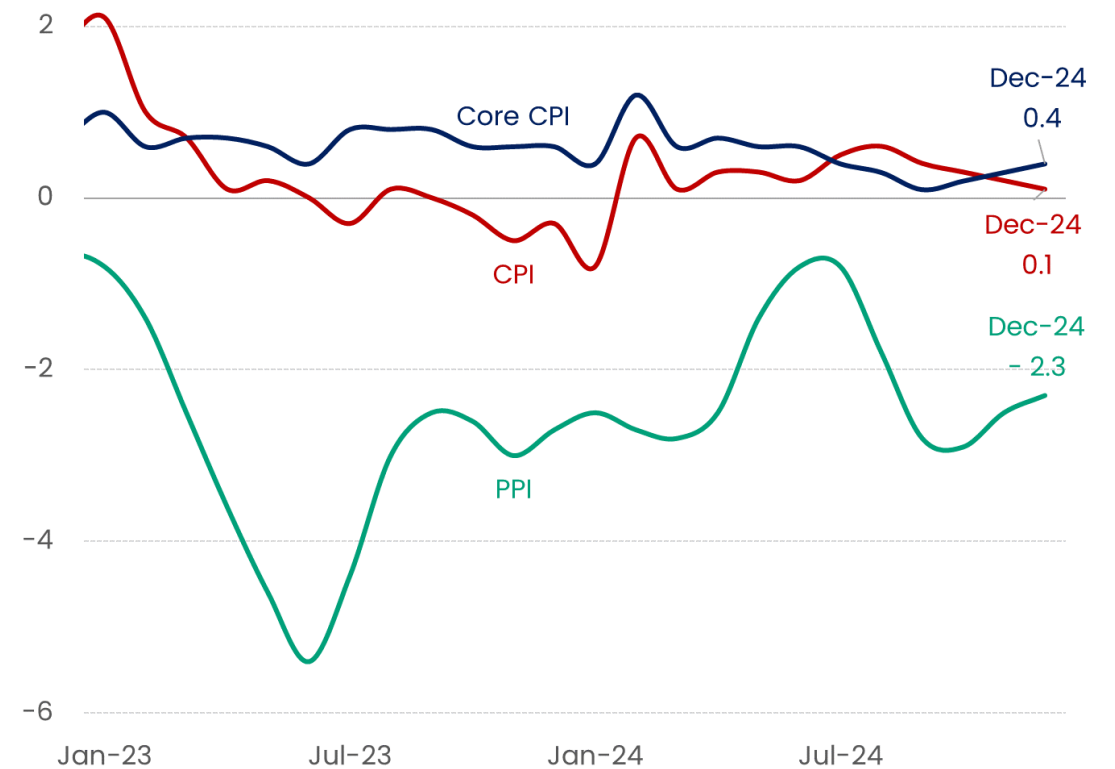


China: stabilisation in domestic activity

China: Contributions to GDP Growth (%, cumulative)

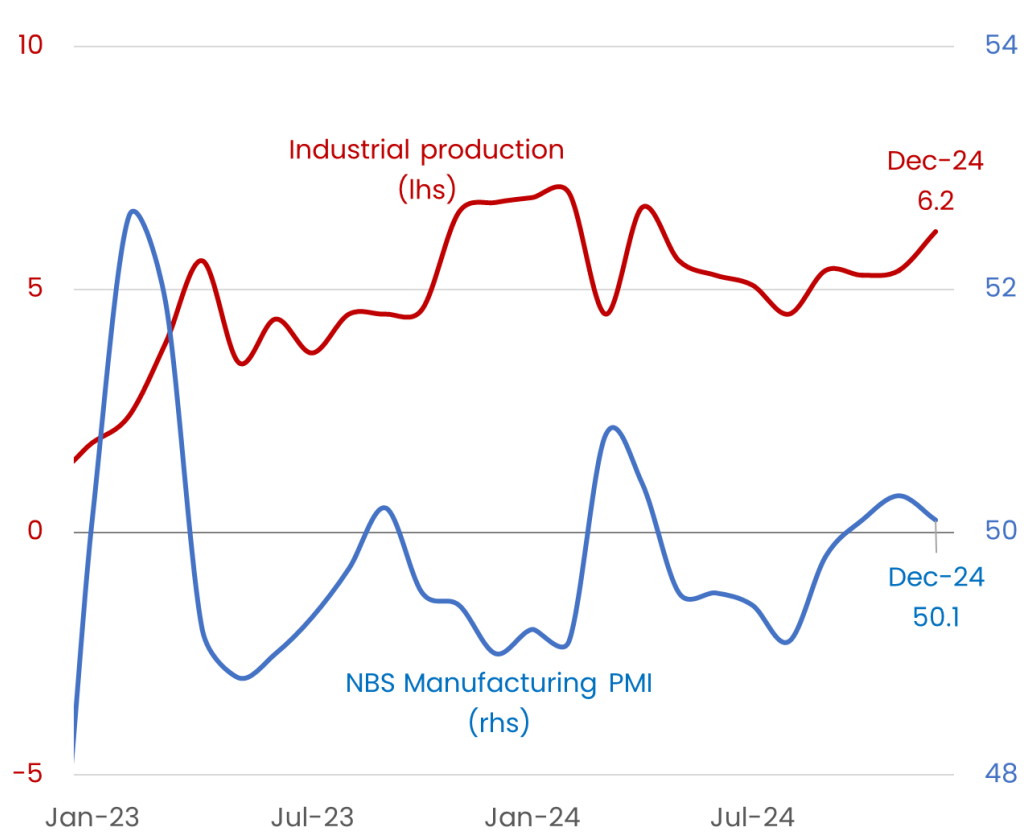


Inflation y/y %

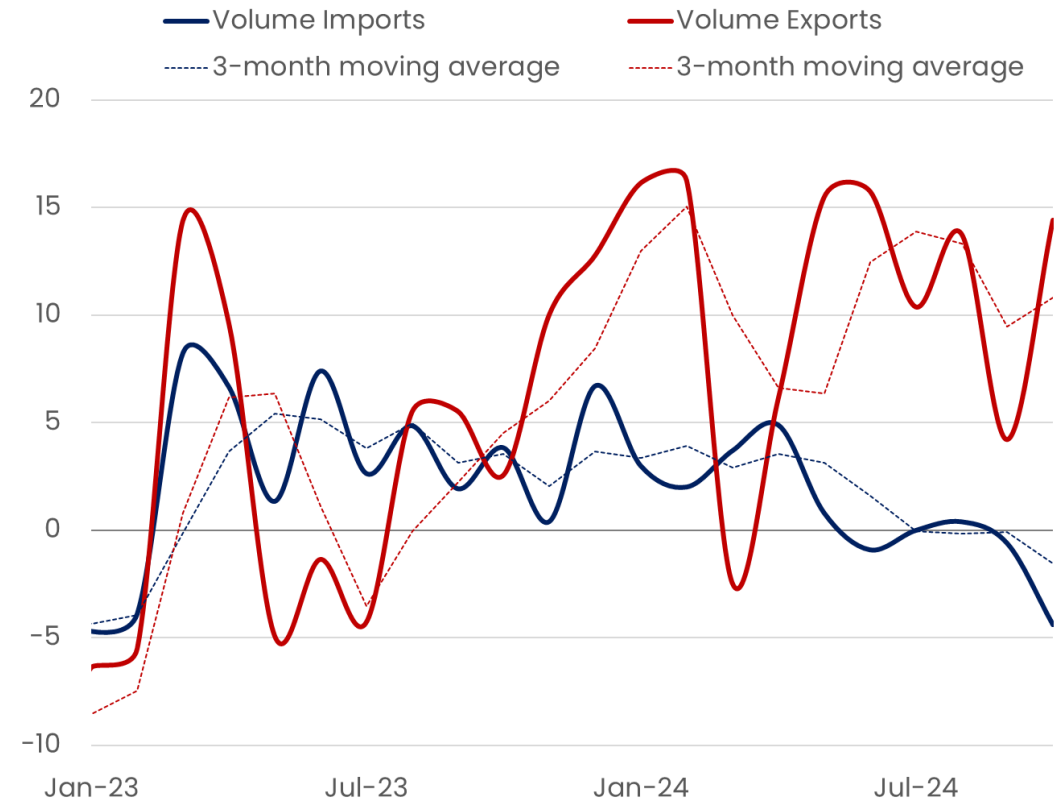


China: Rebound of confidence led by stimulus expectations

China: Industrial production (y/y %) and Manufacturing PMI



Volume Imports and Exports (y/y %)

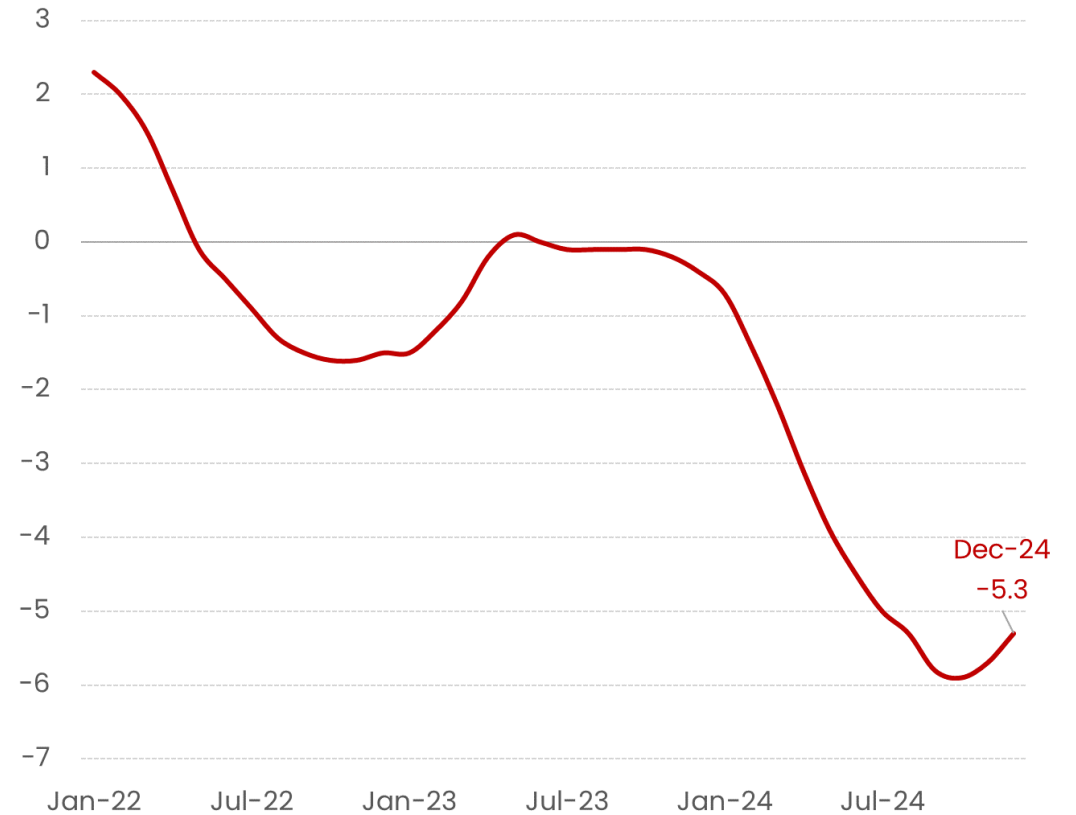


China: real estate sector bottoming out but stabilization unlikely before end-2025/2026

China: Urban Investment in fixed assets (y/y %)

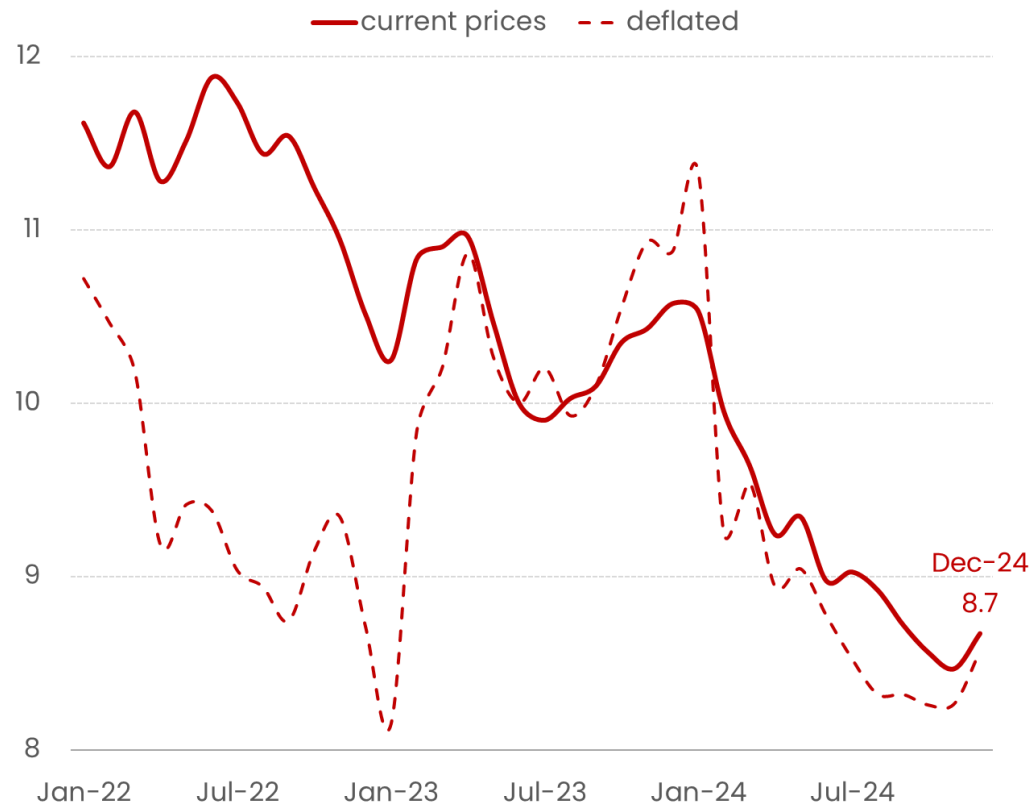


New House Prices - 70 medium & large cities (y/y %)

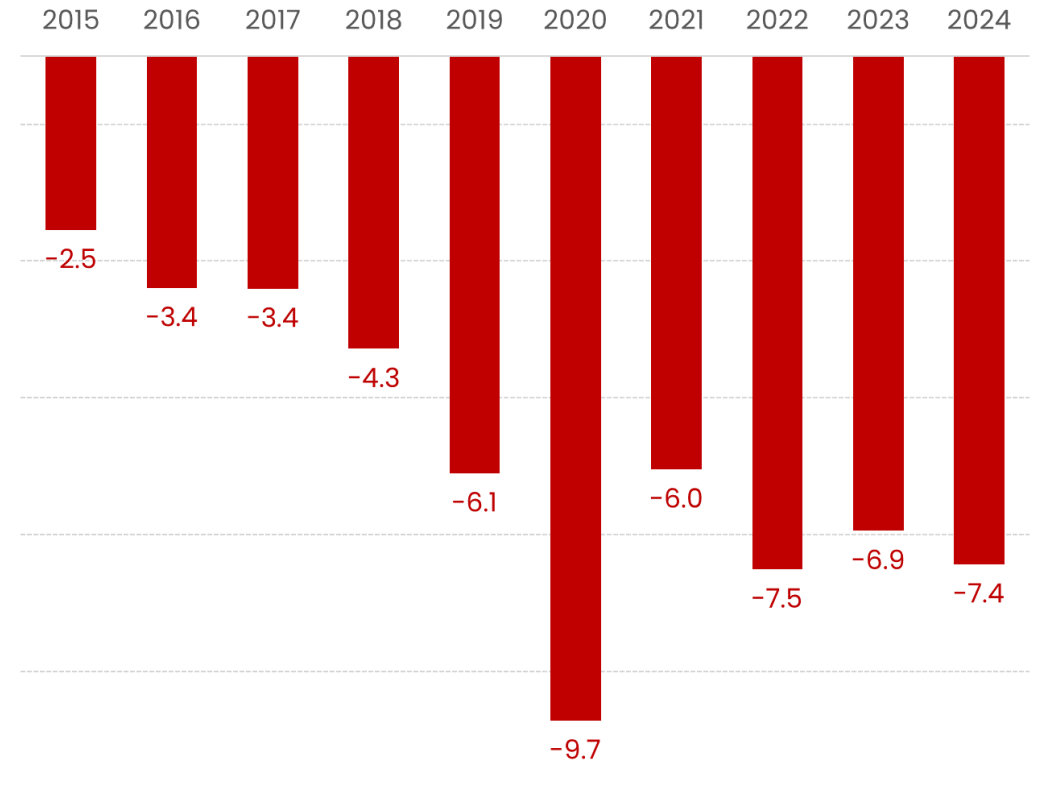


China: financial and fiscal constraints

China: Aggregate Social Financing (y/y %)



General government balance (% of GDP)



- **Political Doctrine Driving Economic Decisions:**

- Xi Jinping's Ideological Focus: Strategic emphasis on self-reliance and geopolitical ambitions, often at the expense of domestic economic rebalancing.
- Tightened Control Over Reforms: Reluctance to implement structural reforms that empower the private sector or stimulate consumption, reflecting a commitment to centralized authority.

- **Focus on Financial Stability Over Broad Growth:**

- RMB 6 trillion in local government debt restructuring prioritizes financial stability over economic stimulation. Stock market interventions and asset stabilization measures aim to maintain short-term confidence rather than broad-based recovery.

- **Structural Challenges Unaddressed:**

- Overcapacity and Inefficiency: Persistent overinvestment in state-favored sectors exacerbates industrial inefficiencies, with limited attention to rebalancing toward consumer-driven growth.
- Weak Domestic Demand: Minimal direct cash transfers, limited to mortgage refinancing and housing market stabilization measures, which fail to restore confidence in long-term financial security.

Any questions?

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