China’s Economy Remains Fragile Entering 2025

Commuters walk by new office towers under construction as they head to work during rush hour in the Central Business District in Beijing on Oct. 18, 2024. Kevin Frayer/Getty Images

By Antonio Graceffo
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Commentary

Chinese leader Xi Jinping misrepresented China's slowing economy, while Premier Li Qiang urged local governments to act, as experts warn that 2025 could be even worse.

Xi's 2025 New Year address spun China's economic performance as a success, emphasizing a 4.9 percent GDP growth rate as "remarkable" compared to other developed nations. However, this framing overlooked the slowing growth from 5.2 percent in 2023 and the stark contrast with the double-digit growth rates of previous decades.

The Chinese Communist Party (CCP) has increasingly relied on state media to reframe economic shortcomings, presenting them as achievements and gaslighting citizens into viewing slowing growth as evidence of effective leadership. This narrative underscores the CCP's growing dependence on nationalism to maintain legitimacy amid a youth unemployment rate exceeding 20 percent and the failure of promised economic interventions in 2024 to revive growth.

Meanwhile, Li, who is responsible for economic policy, adopted a more pragmatic approach. During a visit to Shandong Province earlier this month, he urged local governments to take swift and decisive action to bolster the economy in 2025. He emphasized the need to accelerate policy implementation, advance projects, and deliver tangible results to combat weak domestic demand and external uncertainties.

Li called for expanding trade-in programs to stimulate consumption, increasing subsidies, and broadening the scope of these initiatives. He also emphasized the need to enhance infrastructure for new energy vehicles, including charging and battery-swapping facilities, and to expedite the construction of key projects like sports venues and modern water networks.

Structural issues hinder China's economic recovery despite aggressive measures like a 10 trillion yuan ($1.4 trillion) refinancing program, interest rate cuts, and liquidity injections. Proxy indicators highlight the slowdown: cement output fell by 10.1 percent, diesel demand dropped, and refinery utilization declined by 1.8 percent, all pointing to a slump in manufacturing and construction.

The property sector, a key driver of China's economy, has been in decline since 2021. New construction starts have plummeted by 68 percent from peak levels, while completions are down 26.2 percent. Unsold housing inventory now exceeds two years of demand, with prices continuing to fall.

Property values are projected to decline another 20 percent to 25 percent, further eroding household wealth—70 percent of which is tied to real estate—suppressing consumption and heightening fears of economic stagnation. Weak land sales have significantly reduced local government revenues, curbing investment and slowing the growth of infrastructure-related fixed asset investment to 4.2 percent, down from 5.9 percent the previous year.

Private investment contracted by 0.4 percent. Overall spending growth is just 1 percent, retail sales growth has halved compared to 2023, and online sales on platforms like Jingdong and Alibaba fell by 3 percent. Consumer confidence is at an all-time low, while inflation remains negligible, with the consumer price index rising by only 0.2 percent in November and services inflation at near zero.

Currency markets reflect the general economic instability, with the conversion rate for the U.S. dollar and the Chinese yuan in the offshore market poised to reach 18-year highs above 7.37, potentially reaching 7.50 or higher if conditions deteriorate further.

The industrial sector faces severe overcapacity, with some industries, like solar panels, producing double the global demand. This oversupply has depressed prices, eroded profits, and left many firms reliant on government subsidies. Exports rose by 6.7 percent in value, often seen as a sign of trade growth, but this increase reflects only the total dollar amount, not the quantities or pricing dynamics.

Declining prices for finished goods suggest companies may be selling at lower margins—or even at a loss—to stay competitive or clear inventory. Meanwhile, imports grew by just 2.4 percent, highlighting weak domestic demand and reduced infrastructure investment.

The Rhodium Group estimates that China's actual GDP growth in 2024 was only 2.4 percent to 2.8 percent, far below the official figure of nearly 5 percent. Growth in 2025 is projected to be just 3 percent to 4.5 percent. The group attributes this gap to "authority bias," where the CCP focuses on positive statistics, such as stable employment and GDP growth, as an absolute number, while downplaying issues like falling prices (deflation), slower economic growth, and reduced government spending.

Independent assessments suggest China's GDP has been overstated by as much as three percentage points annually, making its economy potentially 10 percent smaller than reported. Evidence of this slowdown is visible in nominal GDP and consumer price data, with real price growth estimated at negative 2 percent over the past three years, significantly lower than official figures. These discrepancies distort global perceptions and hinder policy planning, obscuring the true extent of China's structural challenges, including a collapsing property sector and unsustainable local government debt, with off-the-book liabilities estimated at between $7 trillion and $11 trillion, posing systemic insolvency risks.

As bleak as 2024 was for China's economy, 2025 could be even worse, owing to three primary concerns: the ongoing property market crisis, deflationary pressures driven by weak consumer confidence, and potential tariff hikes. President-elect Donald Trump has pledged tariffs of up to 60 percent.

The real estate sector, a cornerstone of household wealth, remains in turmoil. Unfinished projects and falling home values have eroded consumer trust, with many wealthy Chinese hoarding cash abroad. While recent stimulus measures could provide some relief—such as mortgage rate cuts intended to benefit 150 million homeowners—a clear path to recovery has yet to emerge.

Analysts usually predict that Chinese New Year or Golden Week spending will help buoy the economy. However, consumer spending during the holidays will likely remain subdued, as it has been for several years. Moreover, China's economic challenges are deeply structural and cannot be resolved with a single week of heightened consumption.

Views expressed in this article are opinions of the author and do not necessarily reflect the views of The Epoch Times.

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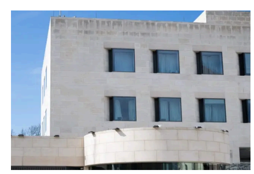

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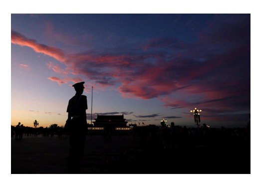

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