The Great Fall of Communist China

China's economy is rapidly approaching the point of no return.

Shipping containers stacked during the sunset at Nanjing port in eastern Jiangsu Province, China, on Jan. 4, 2024. STR/AFP via Getty Images

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5/30/2025 Updated: 5/30/2025

Commentary

China's economy is on the edge of disaster. Macro forces are deconstructing its economic development faster than most realize or even understand.

What's more, China's economic fall can no longer be hidden by official statistics or claims by Chinese Communist Party (CCP) leader Xi Jinping, or fixed overnight by a decree from the sole leader of China.

The economic picture is far from promising.

Questionable GDP

For example, China's GDP growth rates, which have been celebrated by the CCP and economists around the world as proof of the viability of the state-capitalism model, have been false for at least a decade. Even in recent years, when Europe and the United States have struggled to achieve a 2 percent growth rate, Beijing routinely reports GDP growth in the 5 percent range, as late as the first quarter of 2025.

How Is That Possible?

Consider that China's real estate industry, which was up to 30 percent of its economy, continues to collapse. Home prices have continued to fall for more than 22 months in a row.

Europe, China's second-largest trading partner, has flatlined. Trade with the United States, China's largest export market, has declined since 2018, when it was 21.6 percent of total U.S. imports, down to 13.4 percent in 2024. Going forward, tariffs are likely to accelerate that decline.

In an export-led economy, if your top two trading partners are negative or neutral, where is the growth coming from?

That's what researchers at the University of Chicago are wondering. They speculate that China's actual GDP could be as much as 60 percent less than the official reports.

Statics, the Graft Economy, and Macro Forces

The truth is that growth rate and other official statistics coming out of China are simply not credible. From unemployment and wages to population, Beijing's official façade of a thriving China that it successfully told the world for decades, is not only slipping, it's in shreds. Clearly, in an economic system based on political allegiance and payoffs instead of market forces, fudging the numbers comes with the territory and is critical to political legitimacy for the CCP.

But beyond graft, theft, and fake statistics, China faces four key macro forces that are driving its economy into the ground: deflation, devaluation, depressed demand, and depopulation. None exists solely by themselves, but rather, overlap with each other, often compounding the impact of each.

Deflation's Downward Spiral

For instance, as noted above, the crashing real estate sector is a big cause of falling prices, but it's not the only one. Workers protesting for unpaid wages means less money and lower domestic consumption. Couple that with China's overproduction problem, and the fall in demand relative to supply is even greater.

As these economic conditions persist, domestic consumption shrinks even more, and consumer fear and cynicism grow. Even state subsidies to boost consumer spending aren't working as well as hoped.

Devaluation, Depressed Demand, and Denial

When deflation occurs, the relative value of money should increase, because lower prices mean more buying power. But China is seeing the value of the yuan fall, due in part to stimulus from the People's Bank of China. Stimulus has been successful in the past to varying degrees, but so far, it hasn't been enough.

Again, overproduction by factories—and in the real estate sector—isn't the solution it's been in the past. Both sectors produce more than the market demands, driving prices down and squeezing corporate profits and wages.

Stimulus policies devalue the currency, which makes things less affordable for Chinese consumers, even as prices continue to fall. In short, prices are falling, corporate profits are going away, and the value of the national currency is diminishing.

How long Chinese consumers can endure these conditions and how long CCP policymakers can live in denial remains to be seen.

Depopulation Trend Is a Big Deal

The practice of statistical inflation is endemic in China, and that goes for population numbers as well. Provinces and local governments report higher populations to gain more money for education, pensions, and other benefits from the central government.

Some estimates put its population at less than 1.3 billion. Other estimates say that China's population is considerably lower, but are difficult to verify.

Whatever the true population is, the impact of China's rapid and irreversible population decline is staggering.

Despite the recent pro-pregnancy policy of the CCP, Chinese culture has evolved. Its aging population and young women's uninterest in starting a family negate Beijing's "pro-family" policy. Add in falling incomes, lower marriage rates, fewer women of childbearing age, and virtually no immigration, and China's depopulation problem paints a dark economic picture for the very near future.

How can household consumption rise when the real number of consumers is declining?

No Way Out

China's economy will continue to slow down, burdened by an aging population and a decreasing workforce. It's in a tremendous bind of falling wages, high unemployment, currency devaluation, and a rapidly aging population, making the Chinese market even more vulnerable and less viable going forward.

How will the CCP raise consumer demand and income? The answer is it can't.

Foreign investors and businesses are already fleeing China in record numbers. That isn't about to change as conditions continue to deteriorate. The CCP already controls more of the economy today than ever before, but has no real answers.

China's economic meltdown is real, comprehensive, irreversible, and dangerous.

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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