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A major crisis in China will be very difficult to avoid

China's population is ageing considerably and will continue to do so in the future.

This ageing weakens domestic demand and leads to low capacity utilisation rates, but using a mercantilist strategy (supporting growth through exports) is no longer possible because of the protectionist measures taken by other countries (United States, Europe). As a result, China will first experience a growth crisis.

Furthermore, the ageing of the population means that there will be structurally more sellers than buyers of assets: this leads to predict a property crisis and a crisis in the equity market; the fall in property prices and stock prices will amplify the economic crisis by pushing households to save and reduce their consumption.

Finally, if China is experiencing an economic crisis, a property crisis and a stock market crisis at the same time, it is also likely that it will experience a political and social crisis, with the disappearance of growth and the reduction of wealth eroding the acceptability of the political regime.

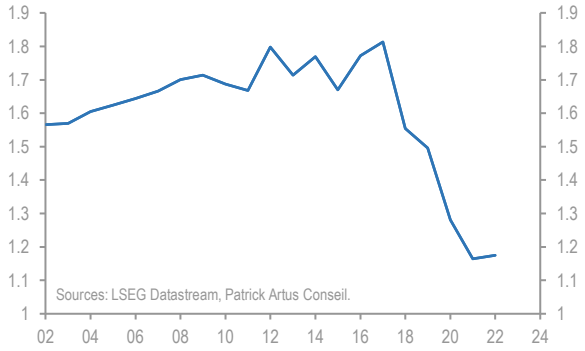
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Aging population in China, weakening domestic demand

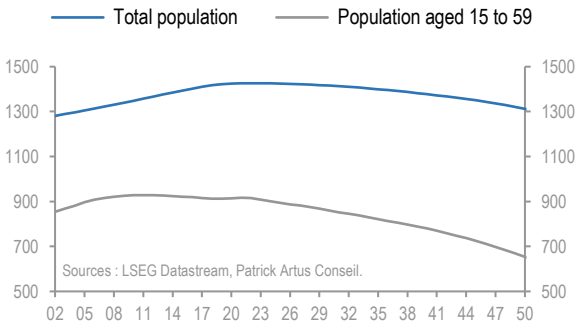
The fertility rate in China has fallen significantly and is now barely above 1 (**Chart 1**).

Chart 1
China: Fertility rate (biths per woman)



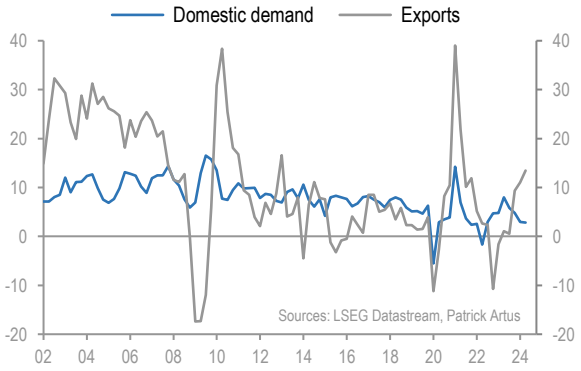
The total population, and even more the working-age population, will therefore decline significantly in the future (**Chart 2**).

Chart 2
China: Total population and population aged 15 to 59
(in millions of inhabitants)



The decline in China's population, amplified by the slowdown in labor productivity, leads to **a decrease in incomes and domestic demand (Chart 3).**

Chart 3
China: Domestic demand and exports (in volume terms, Y/Y as %)

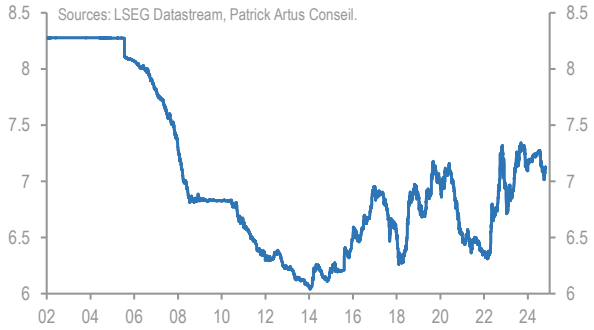


Policies to support domestic demand (housing, consumption) **would be ineffective** due to the low disposable income that can be spent and the high propensity of Chinese households to save.

No Mercantilist Strategy

It could be considered that China might substitute a policy of supporting domestic demand with **a mercantilist policy of supporting exports** (with a depreciation of the exchange rate, **Chart 4**, and export subsidies).

Chart 4
China: Exchange rate against the dollar
(USD 1 = RMB...)



However, **despite the excess of domestic capacities** (the capacity utilization rate is 75.1% in the entire industry in the third quarter of 2024, 73.2% in the automotive industry, 77.9% in ICT (Information and Communication Technologies), 73.8% in the pharmaceutical industry), **it is unlikely that this mercantilist strategy will be effective.**

Indeed, the **United States and the European Union are increasingly protecting themselves against exports from China**. The United States imposes tariffs on imports from China of 100% on electric vehicles, 50% on solar cells, semiconductors, and medical products, 25% on steel, aluminum, electric batteries, critical minerals, and port cranes; the European Union imposes tariffs on Chinese electric vehicles of 17% to 38%, 24% on polyethylene. **The expectation is an increase in protection in the United States and Europe against Chinese products**, particularly due to the risk posed to the American and European industries by the existence of significant overcapacities in China, and thus increasing difficulty for China to export to the United States and the European Union.

Real estate and stock market crisis

Another consequence of China's rapid demographic aging will be that **there will structurally be far more sellers than buyers of real estate and stocks** (retirees are sellers and young people are buyers).

This imbalance creates the risk of a real estate and stock market crisis in China, with a collapse in prices (**Charts 5a/5b**).

Chart 5A
China: House prices (Y/Y as %)



Chart 5B
China: Shanghaï Stock Exchange A Share
(01.01.2002 = 100)



The real estate and stock market crises will exacerbate the economic crisis by leading to a decrease in household demand and an increase in household savings in response to their declining wealth.

In addition, retail sales growth in China has slowed from an 11% year-on-year increase at the end of 2015 to a 3.2% year-on-year increase in September 2024 (Chart 6).

Chart 6
China: Retail sales (in value terms, Y/Y as %)



Summary: The Risk of a Political and Social Crisis in China

If China, due to very rapid demographic aging, experiences a loss of growth (with a decline in domestic demand unable to be offset by an increase in external demand due to the protectionist measures taken by the United States and Europe) and a real estate and stock market crisis (due to the drop in demand for housing and stocks), there is a fear that China will also experience a political and social crisis. This is due to the loss of acceptability by the public of political and social constraints (social score, censorship, etc..) if growth becomes weak and the Chinese suffer losses in their assets.

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