Flash Economics

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Is the Chinese economy performing well, or is it experiencing difficulties?

From China, we are receiving both positive and negative economic signals:

- Positive developments include technological progress—particularly in renewable energy, batteries and electric vehicles, artificial intelligence, and semiconductors—as well as a dominant position in rare earths and their refining;
- Negative developments concern the broader economy: weak growth in consumption and investment, demographic aging and limited social protection, a real estate crisis, a strong dependence on exports, and low capacity utilization in industry.

In reality, there are two Chinas: the technology sector, which is making remarkable progress, and the rest of the economy, where many sectors are experiencing significant difficulties.

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Positive developments in the Chinese economy

The first piece of good news for the Chinese economy is **the rapid and impressive development of new technologies**. China accounts for 46% of global installed wind power capacity, and in 2024 it made investments representing 65% of global onshore wind investment and 50% of offshore wind investment. In the same year, China represented 59% of the global photovoltaic market and held 73% of the world's installed photovoltaic capacity. **China's dominant position in renewable electricity generation** is therefore clear.

In addition, China holds 67% of global electric battery production capacity and accounts for 60% of global electric vehicle sales, with 51% of cars sold in China being electric. China has successfully integrated the electric vehicle production chain, from the extraction of minerals (such as cobalt, lithium, and copper) to battery manufacturing and vehicle assembly.

Artificial intelligence is also developing rapidly in China. The country produces 15 of the world's 40 AI models and employs 18% of experienced researchers in the field. According to the Bruegel institute, between 2019 and 2023 China generated 1,300 breakthrough innovations in artificial intelligence, compared with 1,850 in the United States and 520 in the European Union.

Overall, China's technological level is now comparable to that of the United States. In 2023, spending on research and development reached $723 billion (PPP) in China, compared with $784 billion (PPP) in the United States. In the same year, China awarded 42,000 doctoral degrees in science, technology, engineering, and mathematics, while the United States awarded 28,000. The level of Chinese students in science is now very close to that of their American counterparts, as shown by the STEM education excellence indicator developed by the Center for Excellence in Education.

The key positive development for the Chinese economy is therefore the very rapid and substantial expansion of new technologies.

Negative developments in the Chinese economy

The negative developments affecting the Chinese economy are numerous. First, **economic growth is slowing** (**Chart 1**), accompanied by stagnating investment—with the investment rate declining steadily (**Chart 2**)—and weak growth in consumption (**Chart 3**).

Chart 1
China: Real GDP (Y/Y as %)

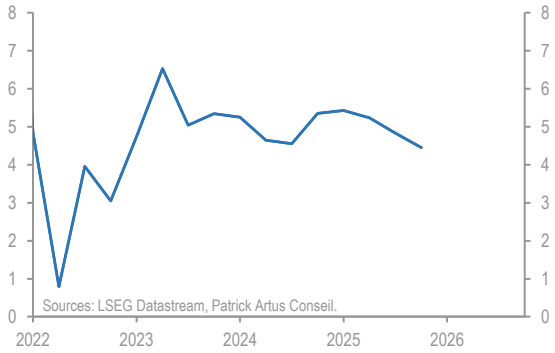


Chart 2
China: Gross fixed capital formation (as % of nominal GDP)

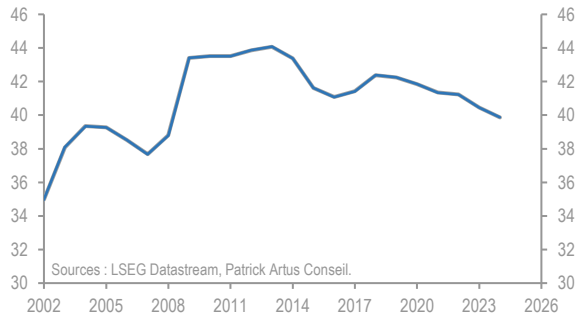


Chart 3
China : Retail sales (in value terms, Y/Y as %)



Economic growth is largely driven by the expansion of exports (**Chart 4**). However, this dynamic is threatened by the tariffs imposed by the United States on imports from China, as well as by the increasingly restrictive stance of European Union countries toward imports originating from China (**Chart 5**).

Chart 4
China: Exports to World (Y/Y, as %)

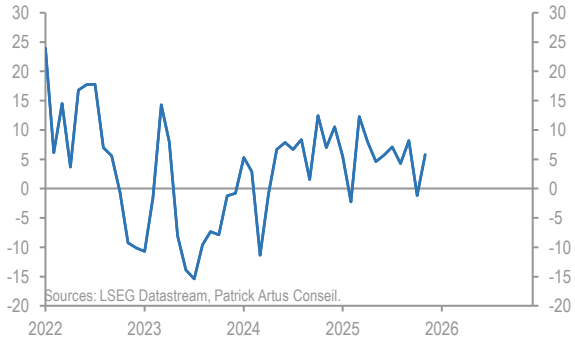
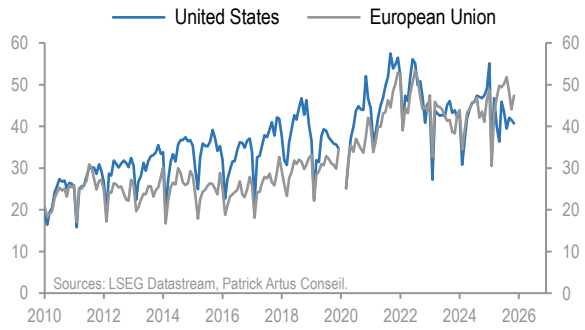


Chart 5
China: Exports to United States and to European Union (Monthly, USD bn)



The Chinese economy is also affected by **the presence of industrial overcapacity** (**Chart 6**), which explains **the decline in consumer prices and, even more markedly, in producer prices** (**Chart 7**).

Chart 6
China: Capacity utilization for manufacturing (as %)

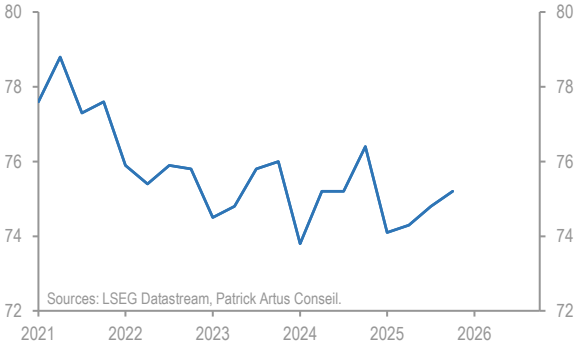
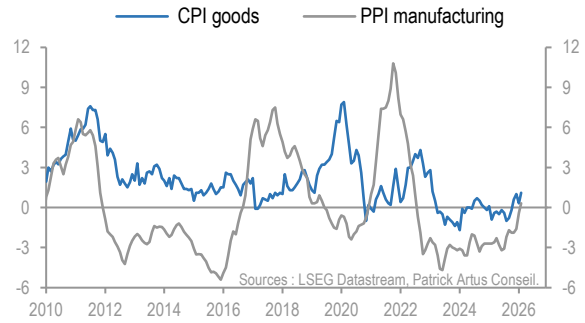


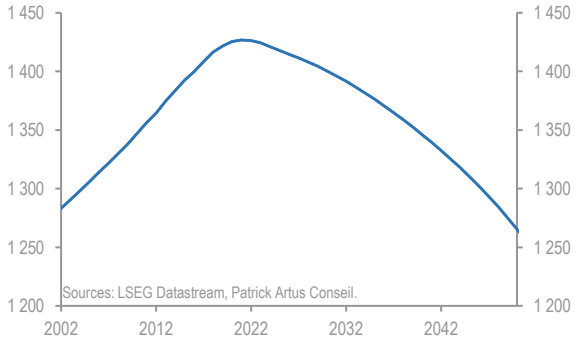
Chart 7
China: Consumer price index of goods and producer price index for manufacturing (Y/Y as %)



The weakness of domestic demand can be attributed to several factors, including:

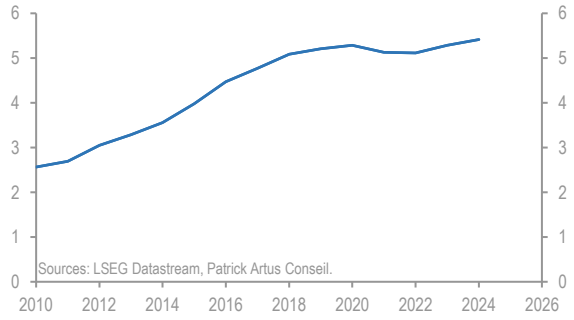
- **the decline in the population (Chart 8)**;

Chart 8
China: Population (in millions of inhabitants)



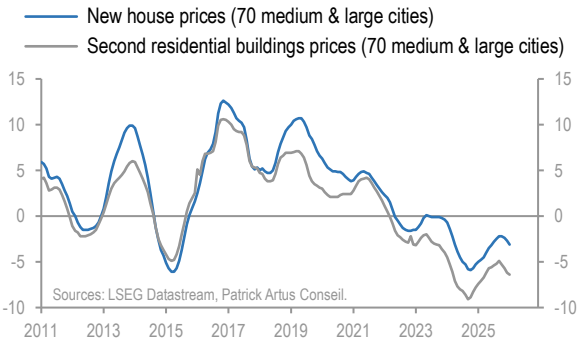
- **the inadequacy of the pension and health insurance systems** (**Chart 9**). In 2023, retirement pensions paid to retirees from the private sector amounted to 3.6% of GDP, pensions paid to former civil servants represented 1.6% of GDP, and pensions paid to rural and urban residents not covered by the urban employee social protection system accounted for 0.4% of GDP.

Chart 9
China: Public pension expenditure
(as % of nominal GDP)



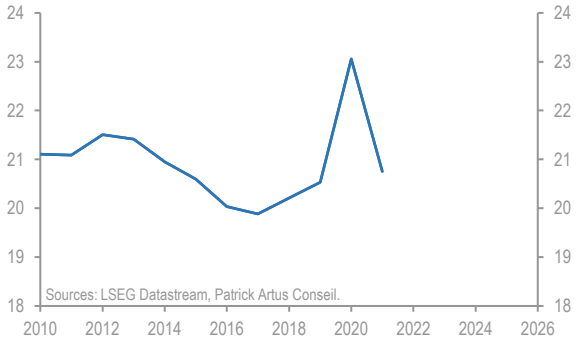
- **the decline in real estate prices** (**Chart 10**), which reduces household wealth;

Chart 10
China: House prices (Y/Y as %)



- weak investment, resulting from the industrial overcapacity mentioned earlier;
- **concerns about the future**, particularly among young people, whose unemployment rate is very high (18.9% in autumn 2025). This uncertainty helps explain the rise in the household saving rate (**Chart 11**).

Chart 11
China: Household savings rate (as % of nominal GDP)



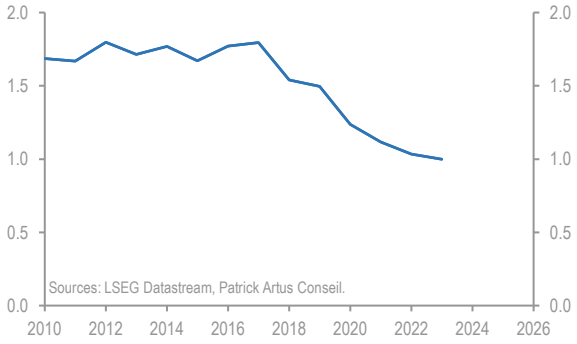
Admittedly, China benefits from an **impressive drive toward automation** (**Table 1**), but this effort cannot fully offset the effects of a declining population, which are intensifying as the fertility rate continues to fall (**Chart 12**).

Table 1: Robots installed per 10,000 employees in the manufacturing industry (2023)

Country	Robots installed per 10,000 employees
South Korea	1012
China	470
Germany	429
Japan	419
United States	295
Italy	228
France	186
Spain	174

Source: World Robotics 2024

Chart 12
China: Fertility rate (births per woman)



Summary: Should we be optimistic or pessimistic about China's future?

We have seen the factors that encourage optimism—particularly the rapid technological development across multiple sectors—and the factors that encourage pessimism, such as demographic aging and weak domestic demand.

China continues to grow due to its automation efforts and the expansion of exports. However, automation cannot fully offset the impending population decline, and China's export capacity may be constrained by import protection policies implemented by the United States and the European Union.

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