

China. Structure, problems, application

5.0% Real GDP growth 2025 (4.7% H1 2026)	¥140 trn Nominal GDP 2025, ≈\$19.5 trn; 2nd largest	~\$14,000 GNI per head; just under high-income line	~40% Household consumption % of GDP (UK ~61%)	~41% Investment % of GDP; among highest in world
\$1.19 trn Record goods trade surplus 2025	0.0% CPI 2025; producer prices -2.6%	-3.39 m Population fall 2025; 23% aged 60+	~0.46 Gini (official); urban income 2.3× rural	~30% Share of world manufacturing output

STRUCTURE OF THE ECONOMY

	% OF GDP (2025)	% OF JOBS (APPROX.)
Agriculture	6.7	~22
Industry	35.6	~29
Services	57.6	~49

- Farm jobs far exceed farm output → low agricultural productivity; moving workers to cities (Lewis model) drove growth.
- AD mix:** low C, very high I, positive (X-M). Growth led by investment and exports.
- Why saving is high:** thin welfare state, housing and education costs, hukou, low household share of income → *precautionary saving*.
- System:** mixed economy. SOEs dominate banking, energy, telecoms; private firms ≈60% of GDP, 80% of urban jobs.

MAIN INDUSTRIES

- Manufacturing:** ~30% of world output; over half of world steel; electronics, machinery.
- "New three":** EVs, lithium batteries, solar panels. Largest car exporter since 2023 (BYD, CATL).
- Rare earths:** ~90% of world processing; used as trade leverage in 2025.
- High tech:** R&D 2.8% of GDP (2025); chips limited by US export controls.
- Property:** once ~¼ of GDP incl. related activity; investment -17% in 2025.
- Imports:** world's largest importer of crude oil and iron ore; soybeans for feed.

GROWTH STORY: TURNING POINTS

1978 Reform & opening (Deng): command → mixed	1980 Special Economic Zones: FDI, export-led	2001 Joins WTO: export boom, "China shock"	2008 ¥4 trn stimulus: debt build-up begins
2015 Made in China 2025: industrial policy	2018 / 2025 US tariff wars; 2025 US-bound exports -20%	2020-21 "Three red lines" → property crisis; Evergrande	2026 15th Five-Year Plan: target 4.5-5%, tech, consumption

Why growth slowed (≈10% before 2010 → 5%): diminishing returns to investment, shrinking workforce, high debt, property bust.

EIGHT PROBLEMS

PROBLEM	EVIDENCE	SPEC LINK
Property crisis	Investment -17% (2025)	Wealth effect, confidence
Weak consumption	C ~40% of GDP; retail +1.3% H1 2026	AD, APC, multiplier
Deflation / overcapacity	CPI 0.0%, PPI -2.6%	Real debt burden
Ageing	Births 7.9 m vs deaths 11.3 m	LRAS, dependency ratio
Debt	Total ~300% of GDP; local gov't	Public finances
Youth unemployment	~16-19% (16-24 yr olds)	Structural unemployment
Trade tensions	US tariffs; EU EV tariffs	Protectionism, diversion
Environment	Largest CO ₂ emitter; coal >50%	Externalities

INEQUALITY & DEVELOPMENT

- ~800 m out of extreme poverty since 1980 (≈¾ of world reduction).
- Gini rose to ~0.49 (2008), now ~0.46; UK ≈0.33. **Kuznets curve** example.
- Urban ¥56,502 vs rural ¥24,456 per head (2025): ratio 2.3 (3.3 in 2009).
- Hukou** ties services to registration → limits mobility, raises saving.
- Coastal provinces far richer than inland/west.
- Urbanisation 68% (2025), from <20% in 1978.

Middle-income trap? For: R&D, EV leadership, income near high-income line. Against: ageing, debt, state allocation of capital.

CLASSIC CHAINS USING CHINA

- Export-led growth:** exports ↑ → (X-M) ↑ → AD ↑ → factories expand, rural workers move to cities → productivity & LRAS ↑ → but dependence on foreign demand invites tariffs.
- Rebalancing:** better safety net → less precautionary saving → APC ↑ → C ↑ → AD ↑ via multiplier → less reliance on investment and exports.
- Deflation:** weak demand + overcapacity → prices fall → real debt ↑ → firms cut investment and hiring → AD ↓ → further price falls.

A · DATA RECALL (1 MARK EACH)

1. Real GDP growth in 2025: _____
2. Household consumption as % of GDP: _____
3. China's goods trade surplus in 2025: _____
4. Change in population in 2025: _____
5. CPI inflation in 2025: _____
6. Year China joined the WTO: _____
7. Services as % of GDP: _____
8. Official Gini coefficient (approx.): _____

B · MATCH THE PROBLEM TO THE ECONOMIC CONCEPT

CHINA EVIDENCE	LETTER	CONCEPT
1. House prices falling for several years		A. Trade diversion
2. Exports to US –20% but to ASEAN +13%		B. Precautionary saving
3. Weak pensions and healthcare		C. Negative wealth effect
4. Graduates cannot find jobs that match their skills		D. Lewis model / labour transfer
5. Rural workers moving to coastal factories		E. Structural unemployment
6. Producer prices falling, price wars		F. Deflation / excess supply

C · COMPLETE THE CHAINS

1. Falling house prices → _____ → consumption falls → _____ → lower growth.
2. Population ageing → labour supply falls → _____ → _____
3. US tariff on Chinese goods → _____ → _____ → firms seek other markets.

D · EXAM-STYLE QUESTIONS

Extract. In 2025 China's real GDP grew by 5.0%. Retail sales grew by 3.7% while fixed asset investment fell by 3.8% and property investment by 17.2%. Consumer prices were unchanged and producer prices fell by 2.6%. China's goods trade surplus reached a record \$1.19 trillion.

(5 marks) With reference to the extract, explain one reason why China experienced low inflation in 2025.

(8 marks) Examine how a large trade surplus may affect China's economy.

E · PLAN A 25-MARK ANSWER

(25 marks) Evaluate whether an emerging economy such as China should rebalance its economy away from investment and exports towards household consumption.

ARGUMENTS FOR (WITH CHINA EVIDENCE)	ARGUMENTS AGAINST / DIFFICULTIES
OVERALL JUDGMENT: IT DEPENDS ON...	

A · DATA RECALL

1. 5.0%
2. About 40% (accept 38–40%)
3. \$1.19 trillion (accept about \$1.2 trn)
4. Fell by 3.39 million
5. 0.0%
6. 2001
7. 57.6% (accept 57–58%)
8. About 0.46–0.47

B · MATCHING

1 → C · 2 → A · 3 → B · 4 → E · 5 → D · 6 → F

C · CHAINS

1. Household wealth falls (negative wealth effect) / confidence falls → AD falls (smaller multiplier effect).
2. LRAS grows more slowly / shifts left → lower potential growth; also higher dependency ratio and pressure on pensions and public finances.
3. Price of Chinese goods in the US rises → US quantity demanded falls (depends on PED and substitutes).

D · EXAM-STYLE GUIDANCE

5 marks: Define inflation/deflation (1). Identify weak AD from the extract, e.g. fixed asset investment –3.8%, property investment –17.2%, retail sales only +3.7% (1–2). Explain the chain: property slump → negative wealth effect → consumption grows slowly → AD weak → firms cut prices (2). Alternative: overcapacity and price wars → producer prices –2.6% feed into consumer prices. Must use extract data.

8 marks: Knowledge/application: positive (X–M) adds to AD, supports output and jobs in export sectors; build-up of foreign currency reserves; upward pressure on the yuan. Analysis: chain from exports → AD → employment. Evaluation (2 points for full marks): surplus partly reflects weak domestic demand rather than strength; invites tariffs (US 2025, EU on EVs); currency appreciation could reduce competitiveness; reliance on foreign demand is risky.

E · 25-MARK PLAN: POINTS TO LOOK FOR

For rebalancing

- Diminishing returns to investment; debt ~300% of GDP.
- Overcapacity → deflation and price wars.
- Record surplus provokes protectionism.
- Consumption-led growth raises living standards directly.
- Policies: safety net, hukou reform, higher household share of income.

Against / difficulties

- Short-run fall in growth and jobs if investment is cut fast.
- Welfare reform is costly; local governments already indebted.
- Falling house prices weaken confidence, so households may keep saving.
- Extra consumption may leak into imports.
- Industrial policy has built world-leading sectors.

Judgment: rebalancing is necessary in the long run, but the speed and sequence matter. Gradual safety-net and hukou reform paired with temporary support for demand avoids a recession. Compare with Japan after 1990.