

Panoramic View of the Chinese Economy

This overview explains the main challenges and driving forces shaping China's economy. It is based on analyses from Chinese local sources, economists and media publications in China and abroad. These trends affect not only businesses and investors but also the daily lives of ordinary citizens in China.

I. Main Challenges China Is Facing

Slower Economic Growth

China's economy is expanding at a slower pace—**around 4–5% a year**—and rebalancing its old model heavily focused on manufacturing and exporting (external circulation) with a model driven by domestic spending, services and technological innovation (internal circulation). However, this change is uneven, and many people and companies are cautious about spending money. Growth will continue, but more slowly and not evenly. Companies will face longer profit cycles while consumers have become less reactive to short-term price fluctuations.

Problems in the Property Market and Local Government Debt

China's property market, once a key growth engine, has gone through a prolonged downturn marked by **unsold homes, falling prices, and heavy debts among major developers**. Companies like **Evergrande (collapsed)** and **Country Garden (under debt restructuring)** borrowed heavily during the boom years and now struggle to repay loans and complete projects, triggering defaults and investor losses. This has weakened public confidence in real estate—the main store of household wealth—and made banks more cautious about lending, leading to lower housing demand and stalled construction.

At the same time, **local governments that relied on land sales for revenue** face severe budget shortfalls as property transactions have declined. With limited funds for public works or debt repayment, new projects have slowed, local spending has fallen, and job losses have mounted, especially in smaller cities dependent on real estate. The sector's deep ties to industries such as steel, cement, and home goods have created **wider ripple effects across the economy**, highlighting the urgent need for China to diversify growth toward **consumption, technology, and services**.

Weak Household Spending and Deflationary Pressures

People are **saving more** and **spending less**, worried about job security and housing costs that remain high relative to incomes—especially in major cities. Meanwhile, prices for many goods continue to fall, which may seem positive but actually discourages new investment. As a result, retailers and service providers struggle to grow, and prices will likely remain under pressure as households continue to save rather than spend.

Industrial Overcapacity

Factories are producing more **electric vehicles, steel, and solar panels** than the market can absorb, driving down profits and fueling trade tensions as Chinese firms seek to export excess capacity. While domestic and global demand for some green technologies remains strong, margins are tightening. Some industries may face consolidation, closures, or increased government intervention. To adapt, China must shift its focus from sheer output toward higher quality, innovation, and efficiency.

Technology Dependence and Supply Chain Constraints

Export restrictions on advanced semiconductors and manufacturing equipment from the U.S. and its allies have exposed China's reliance on foreign technology. Beijing is investing heavily to build its own innovation base, but developing competitive local alternatives will take time and significant resources. In the short term, key sectors may experience slower progress as they adapt to these external constraints.

Aging Population and Low Birthrate

China faces one of its most serious long-term challenges: a rapidly **aging population** coupled with a **declining birthrate**. The number of newborns has fallen sharply since 2017, despite the end of the one-child policy and new family incentives. This demographic shift is shrinking the labor force and increasing the financial burden of supporting the elderly. As wages rise, firms are relying more on automation, robotics, and artificial intelligence to sustain productivity. China's demographic trends will shape its economy and society for decades to come.

Youth Unemployment

Youth unemployment in China has become a serious and persistent problem, revealing deep structural weaknesses in the economy. Joblessness among those aged 16 to 24 exceeded **20%** in 2023, prompting the government to suspend the publication of youth unemployment data in 2023 due to its sensitivity. As of September 2025, the unemployment rate was 17.7%. A key cause is the **mismatch between education and labor demand**: millions of university graduates enter the workforce each year aspiring to high-skilled, well-paid positions in technology, finance, or government, but these sectors cannot absorb them all. Meanwhile, traditional industries such as construction, manufacturing, and real estate are slowing, cutting entry-level opportunities. Many young people also reject low-paying or unstable service jobs, leading to **"involuntary inactivity,"** where they remain at home or work temporary gigs while waiting for better options.

Tense International Relations

Trade tensions with the United States and growing friction with Europe are reshaping the global economic system—especially in high-tech and green sectors—leading to stricter export controls and new tariffs. In response, Chinese companies are diversifying markets toward Asia, Africa, and Latin America, while global supply chains continue to shift toward Southeast Asia.

Policy Uncertainty and Limited Transparency

Government priorities in China can change quickly—sometimes emphasizing growth, other times national security or social stability—depending on the situation. These shifts can rapidly alter regulations, business conditions, and investment approvals. Transparency also remains limited, as official data are often delayed or incomplete. Consequently, domestic and foreign companies must stay alert and flexible, closely monitoring policy trends to manage risks from sudden regulatory or market shifts. Doing business in China therefore requires constant adaptability and awareness.

II. Main Drivers of Future Growth

Modern Manufacturing and New Technologies

China's industrial strategy seeks to move its economy up the global value chain by focusing on **high-tech and innovation-driven industries**. The aim is to build a **modern manufacturing base** capable of producing **advanced semiconductors, aerospace, renewable energy systems, and smart industrial equipment**—sectors with high value and strategic importance. Massive investments are being directed toward **artificial intelligence, robotics, and digital technologies** to enhance productivity and global competitiveness. As this high-tech ecosystem expands, demand for **advanced materials, precision components, and high-performance electronics** will continue to rise. While maintaining its strength in low-cost manufacturing, China is accelerating its shift toward **high-tech and innovation-led production**, creating new opportunities for both domestic and foreign suppliers.

Green Energy and Environmental Goals

China has pledged to peak carbon emissions by **2030** and achieve **carbon neutrality by 2060**. To meet these targets, it is expanding solar, wind, and hydrogen energy while promoting electric vehicles (EVs) and sustainable construction. This large-scale “green transition” is both an environmental and an economic strategy that resonates globally. It will keep Chinese factories active producing solar panels, batteries, and clean energy equipment—making China a leading supplier of green technologies and reinforcing its role in the global shift toward sustainability.

Measures to Boost Domestic Consumption

China is implementing several policies to increase household spending. The government has expanded subsidy and trade-in programs for appliances and digital goods, offering discounts of around 15–20% to encourage purchases. It is also providing interest-rate subsidies and credit support to make borrowing more affordable for consumers and service-sector businesses. Meanwhile, improvements in healthcare, childcare, and pension systems aim to reduce precautionary savings and strengthen consumer confidence. These initiatives form part of the broader **dual circulation strategy**, which seeks to make domestic demand a central driver of economic growth while raising living standards and expanding the services sector.

Digital Economy and Online Services

China's **digital economy**, broadly defined to include **e-commerce, fintech, data centers, and cloud services**, now accounts for roughly **40% of GDP**, while **core digital industries** represent about **10%**. The ongoing rollout of **5G networks** and advances in **artificial intelligence** are accelerating the rise of "smart industries" such as **autonomous manufacturing, intelligent logistics, telemedicine, and digital finance**. This rapid digital expansion is helping China maintain a **leading position in global technology** and is driving strong demand for **high-performance chips, sensors, and software solutions**. Overall, **digitalization has become a central engine of innovation, competitiveness, and productivity** across nearly all sectors of the Chinese economy.

Policy Response to Youth Unemployment

The Chinese government has made **youth employment a national priority**, integrating it into the strategic framework of the upcoming **15th Five-Year Plan (2026–2030)**. The plan emphasizes "high-quality and full employment," recognizing the growing mismatch between education and labor demand. To address this, Beijing is expanding **vocational education and skills training programs**, aligning university curricula with industry needs, and promoting **education–industry partnerships** to prepare graduates for emerging sectors such as digital technology, renewable energy, and advanced manufacturing. The government is also encouraging entrepreneurship through start-up incentives, training platforms, and easier access to small business loans, aiming to create new career paths for young people beyond traditional employment channels. In addition, authorities are offering **financial incentives and subsidies to firms that hire recent graduates**. The government's goal is not only to reduce short-term unemployment but also to improve **job quality, income stability, and confidence among young workers**.

Belt and Road and Overseas Projects

Through the **Belt and Road Initiative (BRI)**, China continues to invest in infrastructure across Asia, Africa, and Latin America—including railways, highways, ports, power plants, and energy networks. These projects expand China's economic and political influence, open new markets for Chinese goods and technology, and enhance global trade routes. At the same time, the BRI supports China's domestic construction and manufacturing industries by providing overseas outlets for capacity, sustaining employment, and promoting exports of materials and expertise. In this way, the BRI serves both as a global development strategy and a stabilizer for China's economy.

Agriculture and Food Modernization

Beijing is investing in modern agricultural technologies—such as precision farming, automation, and advanced irrigation—to strengthen food security and improve efficiency. The government is also developing food processing industries to add value and reduce import dependence. This modernization will raise productivity, improve food quality, and create rural jobs in logistics, storage, and processing. It will also boost demand for machinery, packaging, and related technologies, supporting both rural revitalization and industrial growth.

Financial and Capital Market Reform

China is working to make financing more accessible for private firms and attract greater foreign investment into its capital markets. Recent measures by the National Financial Regulatory Administration (NFRA) aim to ease credit restrictions and maintain a stable flow of loans to private enterprises. At the same time, reforms to the **Qualified Foreign Institutional Investor (QFII)** and **Renminbi QFII (RQFII)** programs are expanding foreign access to Chinese bonds and stocks. These policies are intended to help strong, innovative companies grow faster through diversified funding channels beyond traditional bank loans. However, domestic and foreign companies must stay alert, closely monitoring policy trends to manage risks from **government intervention for national security reasons**, as well as issues related to **corporate governance, transparency, and investor protection**.

Medium-Term Strategic Framework: Recommendations for the 15th Five-Year Plan

Recently, the Chinese Communist Party Central Committee put forward its “**Recommendations for Formulating the 15th Five-Year Plan for National Economic and Social Development (2026-2030)**” which set out strategic priorities for the next stage. These recommendations emphasise high-quality development, innovation-driven growth, green transformation, strengthening domestic demand, deepening reform, and expanding high-standard opening up. This framework underpins many of the challenges and drivers described above and provides a coherent strategic roadmap that links today’s structural issues to the policy responses and growth opportunities for the years ahead.

Conclusion

China’s economy is entering a new stage—**slower, more complex, yet more mature and innovation-driven**. The era of double-digit growth powered by exports and construction has given way to one centered on **technology, services, and domestic consumption**. Although expansion has moderated to around 4–5% annually, China remains a major global force in manufacturing, renewable energy, and advanced industries. At the same time, it faces **persistent structural challenges** such as high local debt, a fragile property sector, weak consumer confidence, trade tensions, and demographic decline. Balancing these vulnerabilities with its strengths in industrial upgrading, digital transformation, and green development will be crucial to sustaining long-term stability and growth.

The **Communist Party of China (CPC) Central Committee’s recommendations for the 15th Five-Year Plan (2026–2030)** depicts a roadmap to navigate this transition, emphasizing **high-quality development, innovation, green transformation, stronger domestic demand, and deeper reform**. The success of this strategy will determine how effectively China manages its economic rebalancing while strengthening resilience and competitiveness.

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Tokyo, October 29, 2025