PART I

THE YEAR IN REVIEW

CHAPTER 1: U.S.-CHINA ECONOMIC AND TRADE RELATIONS (YEAR IN REVIEW)

Abstract

China's economy grew in 2024, albeit at a much slower pace than it did pre-pandemic. Chinese officials have introduced stimulus measures throughout the year, including a series of announcements in September and October that will likely provide a short-term boost to economic growth. While the latest stimulus round has the potential to be among the largest China has passed to deal with the current crisis, the measures are insufficient in scale compared to the scope of China's economic challenges, and their long-term impact is questionable. The fallout from the property sector collapse continues to be China's largest domestic economic headwind and a source of weakness for local government finances and consumer spending. Officials are focused on mitigating systemic economic risks and achieving a controlled deflation of the property bubble rather than reversing the sector's decline. Although Chinese policymakers have repeatedly stated their intention to increase the contributions of services and consumption to economic growth, in reality, China has doubled down on a variant of its traditional manufacturing and export model. China has increased government subsidies and targeted supply-side stimulus toward favored industries, especially those involving advanced technology. The Chinese Communist Party's (CCP) prioritization of supply-side policies aims to further strengthen China's manufacturing base and increase its self-sufficiency while simultaneously increasing Party-state control over domestic capital allocation and global supply chains and increasing dependency by other nations. While this strategy has led to China's emergence as a leader in the manufacture and export of goods such as solar panels and electric vehicles (EVs), China's export of excess capacity is leading to increasingly aggressive pushback from China's major trading partners and the imposition of tariffs by the United States, the EU, and others. Concerned about the impact of rising Chinese imports on their own prospects for development, some emerging economies have launched trade investigations or imposed tariffs to protect domestic industries.

Key Findings

- Chinese authorities have reasserted and expanded control over the economy centrally, regionally, and locally. General Secretary

of the CCP Xi Jinping's vision for future economic growth in China is politically driven and differs from Western economic orthodoxy.

- The continuing slowdown in economic expansion has led to greater reliance on specific growth drivers, allocating capital to those targeted sectors and exporting excess capacity to sustain growth.
- China continues to rely on manufacturing and exports to drive growth while also trying to move up the value chain to produce and export high-technology goods. This growth strategy assumes the rest of the world will continue to absorb China's excess capacity at the expense of their own domestic manufacturing and technology sectors.
- China has pivoted from an emphasis on aggregate gross domestic product (GDP) growth to a strategy that targets "higher quality" production in emerging technologies. China hopes that becoming a dominant producer of high-tech goods will allow it to sidestep systemic economic problems and enhance its overall global economic position and national power.
- Substantial risks remain in the property sector, which have already had serious ramifications for the Chinese economy. The CCP introduced new support measures for the property sector in 2024 and helped local government financing vehicles (LGFVs) refinance maturing debt. However, the scale of unfinished housing and the large amount of local and regional government debt far exceeds the amount of capital allocated for financial support. These issues may weigh down economic performance in the near future as households await delivery of apartments for which they have made substantial down payments and developer bond defaults reverberate through the financial sector.
- While Chinese data measuring youth unemployment have shown recent improvement, China's college-educated youth are growing more pessimistic about their personal financial situation as they continue to enter a workforce that prioritizes manufacturing jobs they do not want and focuses on skills they do not have. A combination of slowing growth post-pandemic and targeted policy crackdowns have weakened some consumer technologies and other service sectors that previously employed a large majority of youths. To the extent that the CCP's societal legitimacy is based on delivering economic growth and opportunity, the increase in youth unemployment has called that into question.
- The CCP has directed state-owned banks and asset managers to intervene to prop up the stock market and issue credit to state-owned enterprises (SOEs) and regional and local governments on favorable terms. As long as these measures remain a common practice, Chinese households will remain skeptical of passive long-term domestic investment opportunities as a way to generate wealth, forcing them to save a larger share of their income. Uncertainty regarding Chinese investment opportunities dampens China's attempts to bolster consumption.

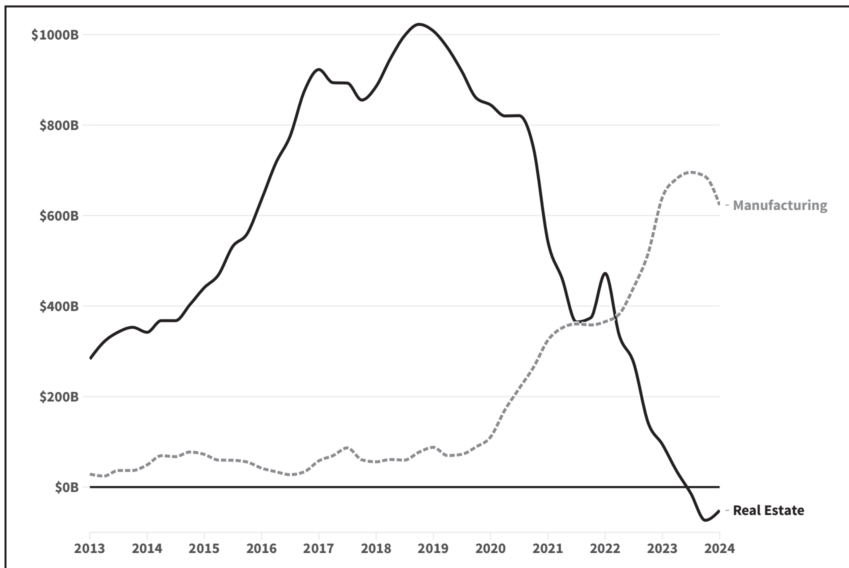
Introduction

China has renewed its strategy of relying on export-oriented manufacturing as a primary driver of growth, expanding exports to encompass traditional goods and advanced technologies. Chinese officials believe new investments in advanced technology will also mitigate potential disruptions brought about by a more hostile geopolitical environment while simultaneously revitalizing China's productivity growth, which has slowed dramatically over the past decade. The United States, EU, and other trade partners have taken steps to address China's unfair trade practices that they deem to be market-distorting; however, the CCP has not been willing to manage the economy consistent with its obligations under the WTO. As longstanding trading partners take actions to counter these challenges, China has deepened its close relationships with adversarial countries, including Russia. This section examines key developments and trends in China's domestic economy and external economic relations, including U.S.-China bilateral relations and other key relationships.

China's Domestic Macroeconomic Outlook

As China seeks to deleverage and manage challenges posed by the property sector, its leaders are faced with two broad pathways to drive the country's economy: double down on the traditional export-led economic growth model they have long pursued or shift the economy structurally toward stronger household consumption as the new primary driver of economic expansion.[1] Over the past year, China has decisively shown that it will continue its traditional growth path.

Figure 1: Year-over-Year Change in Chinese Loans by Sector, Q1 2013–Q1 2024



Source: People's Bank of China, "*China Loan: Manufacturing, China Loan: Real Estate* [2013–2024]," via CEIC database.

China's focus on manufacturing stems from a long tradition of economic planning that emphasizes industrial production and infrastructure development to promote growth, facilitate economic modernization, and ensure Party control over the economy. Chinese officials have built a system predicated on low consumption and high savings where capital can be funneled by government-controlled banks into investments in sectors prioritized by the Party.[2] In this model, household consumption is at odds with Xi's goals of strengthening the Party and making China the dominant industrial and technological superpower.[3] Putting an increased portion of the nation's wealth in the hands of ordinary citizens could decrease the Party's control over economic resources, which is core to its ability to exert power through its authoritarian hierarchy.* A system based on investment-led growth reinforces the political status quo by preserving the Party's grip on the economy. Overinvestment makes China's industrial base dependent on cheap financing to survive. Because this financing is overwhelmingly managed by state banks, Chinese businesses are subservient to Party interests.[4]

An increasingly hostile geopolitical environment, in which other countries have implemented export controls and pursued de-risking, has also motivated China to double down on this approach.[5] Through increased investments in manufacturing, Xi hopes to make the Chinese economy more self-sufficient while simultaneously increasing the control China exerts over global supply chains.[6] Top Chinese officials believe industrial security sits at the core of China's stability.[7] Though a reorientation toward consumption could revitalize overall GDP growth, Chinese leaders have long believed a slowdown was inevitable.[8] Nonetheless, they appear willing to accept slower growth in exchange for increased Party control.[9]

Traditional Growth Drivers

Manufacturing

Chinese officials have reemphasized manufacturing as the central pillar of the country's economic growth and are attempting to supplement their dominance of commodified manufactured goods with new, advanced technological products. China has structured its economy to dominate global manufacturing. In 2022, value-added manufacturing contributed around 27 percent of China's GDP, the highest percentage among any large economy.† [10] Given that China's GDP is the second largest in the world, this means that by 2022, the most recent year with available data, China accounted for 30 percent of the world total of value-added manufacturing.‡ [11] China's share of value-added manufacturing dwarfs its 18 percent share of global GDP; following China's policy

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* For more on how the Chinese Party-state exercises control, see U.S.-China Economic and Security Review Commission, Chapter 1, "CCP Decision-Making and Xi Jinping's Centralization of Authority," in *2022 Annual Report to Congress*, November 2022, 25–120.

† Manufacturing contributed 24 percent of South Korea's GDP, 19 percent of Germany's GDP, 19 percent of Japan's GDP, and 11 percent of U.S. GDP as of most recent data in either 2022 or 2023. World Bank, "Manufacturing, Value Added (% of GDP) [2022–2023]."

‡ In 2023, China's manufacturing trade surplus was higher than Germany and Japan's combined surplus during their respective peaks from 1970 to 1980, indicating that China increasingly dominates global manufacturing output at the expense of its trade partners. Brad W. Setser, Michael Weilandt, and Volkmar Baur, "China's Record Manufacturing Surplus," *Council on Foreign Relations*, March 10, 2024.

shifts to support new manufacturers, this share is likely trending higher.[12]

However, in 2022, Chinese consumers only accounted for 13 percent of global consumption.[13] Instead, China continues to be heavily reliant on external demand and global willingness to absorb its manufacturing surplus. With Chinese demand insufficient to absorb the country's excess of cars, appliances, and other products, about 45 percent of China's manufacturing output is being exported abroad.[14]

Chinese policymakers are increasing export-oriented manufacturing, with particular emphasis now on higher-technology products. Building upon industrial and innovation policies such as Made in China 2025, the Innovation-Driven Development Strategy, and the 14th Five-Year Plan, in September 2023 Xi called upon the nation to develop "new quality productive forces," allowing for China to "guide the development of strategic emerging industries and future industries."[15] He echoed this message again in December 2023 at the annual Central Economic Work Conference, which sets the national agenda for the country's economy and its financial sector.[16] The slogan also featured prominently during the March 2024 meeting of the National People's Congress and in the CCP Central Committee's Third Plenum in July 2024.[17] In practice, the phrase has been interpreted to mean a reemphasis on manufacturing, particularly in clean energy and other "future industries," to offset the economic drag caused by the collapse of the country's housing bubble.* [18]

Chinese lending to the manufacturing sector, which was already experiencing rapid growth following China's pandemic export boom, has matched this rhetoric. From 2020 to 2023, Chinese industrial lending grew at an average 24.2 percent year-over-year.[19] This is more than four times faster than the four years prior to COVID-19, when it grew an average of 5.2 percent.† [20] In Q1 2024, this amounted to $623 billion in new loans to the sector from the previous year.[21] Exports are surging as well. From 2019 to 2023, Chinese manufacturing exports grew 40.5 percent.[22] In comparison, global trade grew by 24.5 percent over that same time period.[23] This growth has been driven in part by what Chinese officials call the "new three sectors": solar panels, lithium-ion batteries, and EVs.[24] From 2019 to 2023, exports for each have grown 77 percent, 399 percent, and 7,690 per-

*The official list of "future industries" published by China's Ministry of Industry and Information Technology in January 2024 spans several broad fields such as manufacturing, information, materials, energy, space, and health but also mentions specific items such as humanoid robots, nanomanufacturing, quantum computing, nuclear fusion, hydrogen energy, exploration of the moon and Mars, deep-sea mining, and genetic technologies. *Xinhua*, "China Releases Full Text of Government Work Report," March 13, 2024; China's Ministry of Industry and Information Technology, *MIIT and Seven Other Departments' Opinions on the Implementation of Promoting Innovation and the Development of Future Industries* (工业和信息化部等七部门关于推动未来产业创新发展的实施意见), January 29, 2024. Translation.

†In comparison, over the same time period, loan growth toward services and real estate were much more muted at 11.8 percent and 4.4 percent, respectively. However, not all this industrial lending is going toward new productive capacity. Researchers at Rhodium Group reported that this credit growth has been inflated by lending to local government-related entities and financial speculation. They have shown that the share of loans to manufacturing companies in overall new industrial credit declined to 63 percent in the fourth quarter of 2023, down from 80 percent in early 2020. Even though this is a sign of weak credit demand in the sector, lending is still elevated and policymakers are also leaning on other avenues to ensure financing reaches industries covered by the "new productive forces." People's Bank of China, "*China: Financial Institutions: Property Loans, China: Fin Inst: Med/Long Term [MLT] Service Sector Loans*," via Haver Analytics; *Bloomberg*, "China's Surging Industrial Loans Aren't Going to Its Factories," May 7, 2024.

cent, respectively.*[25] Even with these export surges, the country's production capacity and potential future exports are more worrying for China's trading partners.[26] China now has the capacity to manufacture half of the world's 80 million new vehicles, and by 2030 its production capacity could climb to three-fourths of projected global production.[27] China has also built enough solar panel factories and battery production plants to be the sole supplier of global demand.[28] There is little expectation this will change. China accounted for 75 percent of global investments in clean technology manufacturing in 2023 and 85 percent in 2022.[29] Bloomberg Economics projects that high-tech sectors will contribute 22.7 percent of China's GDP by 2026, almost double the 11.9 percent they comprised in 2017.†[30]

Simultaneously, China is trying to maintain its dominance of more traditional manufacturing industries. During the May 2023 annual meeting of a top economic policymaking body, General Secretary Xi laid out plans for a "modernized industrial system" while also retaining and upgrading traditional industries.[31] Combined with new overcapacity fears relating to China's "new three sectors," countries are increasingly concerned that the wide range of surging exports are reminiscent of the "China Shock" that happened in the years following its entry into the WTO.‡[32] Indeed, China's traditional exports are surging, with Chinese global steel exports nearing their 2015 peaks in terms of volume.[33]

China's focus on producing a wide spectrum of manufactured goods impacts the global trading ecosystem in several ways, dominating not only at the macro level but also at the product level. A group of scholars showed that China was the world's dominant producer (defined as producing more than 50 percent of global exports within a product category) of six times as many products as the United States, Japan, or any other country and twice the number of products for the EU considered as a whole.§[34] Chinese dominance is significant because it means China is currently irreplaceable for a large set of goods on international markets. China's role in supply chains also creates dependencies that give China alarming leverage over its buyers, and potentially over foreign governments, and puts its competitors at a disadvantage.[35] Furthermore, there are hardly any goods China does not make and export to some extent, even in sectors where it is not the dominant producer.¶ While China has long emphasized manufacturing and exports as a growth strategy, China now justifies its efforts in part as a reaction to its ongoing

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*Photovoltaics were defined as HS 854143, lithium-ion batteries were defined as HS 850760, and EVs were defined as HS 870380.

†High-tech sectors are defined here as EVs, batteries, solar panels, medicine, advanced equipment, IT/communications equipment and services, and research and development. For additional background, see Chapter 3, "U.S.-China Competition in Emerging Technologies."

‡The term "China Shock" was popularized by a seminal paper published in 2016 by economists David H. Autor, David Dorn, and Gordon H. Hanson, who argued that a flood of Chinese exports replaced domestic manufacturers in the United States, creating localized but highly negative impacts on import competing regions across the country. David H. Autor, David Dorn, and Gordon H. Hanson, "The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade," *Annual Review of Economics* 8 (2016): 205–240.

§Products were defined at the six-digit level of the Harmonized System, which distinguishes over 5,000 different products. Sebastien Jean et al., "Dominance on World Markets: The China Conundrum," *CEPII*, December 2023.

¶While the previous analysis was done at the six-digit level of the Harmonized System, when researcher Andrew Batson looked at the four-digit level, he found zero exports from China in fewer than 50 of the possible 1,241 product categories. Andrew Batson, "China Wants Those Low-End Industries after All," *Tangled Woof*, October 3, 2023.

trade conflicts with the West and its fears over future sanctions.[36] Former People's Bank of China (PBOC) official Yu Yongding explains, saying, "Re-emphasizing the importance of comprehensiveness is a reaction to the new geopolitical reality.... [China] should be able to quickly launch or increase production of critical goods, as needed."[37] Chinese officials hope broad-based productive capacity will insulate the Chinese economy against disruptions if its companies are blocked from importing from advanced industrialized countries, while market dominance will make it irreplaceable in key nodes at every level in the global supply chain, giving it economic and potential political leverage.

Heavy state subsidization has been central to China's control of both emerging and existing industries. Conservative estimates from the Kiel Institute suggest that in 2019, Chinese industrial subsidies amounted to $242 billion (renminbi [RMB] 1.8 trillion).*[38] This is at least three to four times and up to nine times higher than in the major EU and Organisation for Economic Co-operation and Development (OECD) countries.[39] More recent data looking at some of the industries championed by China's "new productive forces" suggest direct government subsidies for some of the dominant Chinese manufacturers of green technology products could be significantly higher.[40] These estimates of direct government subsidies fail to quantify additional support measures such as access to subsidized inputs, preferential access to critical raw materials, forced technology transfers, the strategic use of public procurement, lack of foreign competition in the domestic market, and the preferential treatment of domestic firms in administrative procedures.[41]

Overall, in 2023, China's manufacturing trade surplus with the EU as a share of the EU's GDP increased by 0.5 percentage points, and its surplus with the United States remained flat as a share of U.S. GDP.[42] Emerging markets have had to absorb the brunt of China's surplus. China's manufacturing trade surplus with ASEAN more than doubled between 2019 and 2023, rising from 3 percent to 6 percent of the region's GDP.[43] China's surplus with Mexico reached 3.8 percent of Mexico's GDP in 2023, up from 2.7 percent in 2019.[44] (For a discussion of transshipment issues, see Chapter 4, "Unsafe and Unregulated Chinese Consumer Goods: Challenges in Enforcing Import Regulations and Laws.") This has galvanized some governments into action as well. After Chinese imports took nearly 20 percent of Brazil's domestic market share of steel, Brazil's Ministry of Development, Industry, Trade, and Services introduced import quotas and raised import taxes to 25 percent on 11 rolled steel products to protect domestic producers.[45] A number of other countries have followed suit, including India, Chile, Mexico, Indonesia, and South Africa.[46]

Property Sector

Chinese officials see the need to reduce leverage and excess investment in the property sector but are constrained from acting too aggressively due to the trillions of dollars in household wealth invested in real estate. Policy makers appear content to allow the sector to decline steadily while mitigating sys-

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*Unless noted otherwise, this section uses the following exchange rate throughout: $1 = RMB 7.25.

temic financial risk as the sector resets. China's real estate sector has been a central pillar of its economy since the late 1990s, with sectoral growth consistently exceeding the country's GDP growth.[47] Because of this growth, some estimates suggest the sector could account for 29 percent of the country's overall GDP, more than double that of most other countries.*[48] Rapid growth, however, attracted speculation. A lack of alternative savings options meant Chinese households began to pour their massive savings into the housing market.[49] Real estate development as a share of all fixed asset investment climbed from 18 percent in 1999 to 27 percent in 2021.†[50] Real estate comprises around 70 percent of Chinese household wealth.‡[51] Just before the bubble deflated, a considerable share of the 16 billion square feet of purchased residential property was speculative investments rather than real demand.[52] Further, these properties were often presold and paid in full in advance—no deposits or down payments.[53] This generated a broad-based affordability crisis, with average sales prices rising almost 350 percent from 2006 to 2021, causing prices to become considerably higher relative to incomes.[54]

Simultaneously, Chinese developers have long been reliant on debt to sustain their activities. The sector's business model was characterized by rapid project turnover, quick sales, and high leverage.[55] As a result, the country's developers had a debt-to-asset ratio far higher than their peers in other major real estate markets like the United States or Japan.[56] Recent economic downturns exacerbated these trends. In response to economic crises in 2008, 2012, and 2015, Chinese policymakers stimulated the economy by extending credit to the non-financial private sector.[57] Utilizing this stimulus, the average debt-to-asset ratio of Chinese real estate developers rose from around 72 percent in 2008 to more than 80 percent by 2021.§[58]

In August 2020, the PBOC and the Ministry of Housing and Urban-Rural Development directed representatives from the largest private and state-owned companies in the sector to reduce their leverage.[59] The set of policies became known as the "three red lines."¶ Chinese officials intended the policy to prevent developers

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*This is a contested value with estimates and the methodologies used to derive them ranging widely. Economists Kenneth Rogoff of Harvard and Yuanchen Yang of the International Monetary Fund (IMF) estimate the sector to be 28.7 percent of the economy, a widely cited figure; economists at the Asian Development Bank (ADB) estimate it to be closer to 15.4 percent; and economists at Goldman Sachs, an investment bank, estimated its value to be 23 percent. Regardless, the share of the property sector in China's GDP is large. *Economist*, "Measuring the Universe's Most Important Sector," November 26, 2021.

†As a share of overall GDP, investment in real estate development climbed from about 4 percent in 1999 to a peak of 14.8 percent in 2014. By 2021, it had fallen to 12.8 percent. Tianlei Huang, "Why China's Housing Policies Have Failed," *Peterson Institute for International Economics*, June 2023, 22.

‡Estimates put the 2012 share of housing in urban wealth at 78.7 percent and rural wealth at 60.9 percent. Including land and housing raised the share to 81.3 percent of rural wealth. In comparison, this is more than double the average U.S. household, which holds an estimated 36 percent of total wealth in real estate. Briana Sullivan, Donald Hays, and Neil Bennett, "The Wealth of Households: 2021," *United States Census Bureau*, June 2023, 4; Yu Xie and Yongai Jin, "Household Wealth in China," *Chinese Sociological Review*, 47:3 (2015): 203–229.

§Debt was even more concentrated within China's largest property developers. The five largest developers measured by revenue and debt ratio at the end of 2020 were China Evergrande (84.77 percent), Country Garden (87.25 percent), Vanke (81.28 percent), Zhongnan (86.54 percent), and Sunac (83.96 percent). Tianlei Huang, "Why China's Housing Policies Have Failed," *Peterson Institute for International Economics*, June 2023, 5.

¶The "three red lines" criteria to which developers must adhere are (1) a liability-to-asset ratio less than 70 percent, (2) net debt not exceeding equity, and (3) enough cash on hand to cover short-term borrowing. Developers who meet all three criteria are allowed to increase their overall debt by at most 15 percent annually. If a developer breaches one red line, it is allowed to grow its debt by 10 percent annually. If a developer breaches two red lines, it is allowed to grow its debt

from incurring additional debt until they reduced their liabilities to more sustainable levels.[60] In December 2020, regulators further tightened lending rules and imposed caps on banks' exposure to property developer loans and mortgages.*[61] Policymakers hoped this would force the deeply indebted sector to deleverage while also limiting the financial sector's exposure to the property sector, avoiding potential systemic risks.†[62] Although regulators likely expected some pain from these reforms, they miscalibrated their impact, which was amplified by China's Zero-COVID lockdowns.[63]

In 2021, real estate developers across the country began defaulting on their debt.[64] By 2022, the entire sector was in a deep recession. Across the country, real estate investment and property sales fell by 9 percent and 27 percent, respectively, compared to 2021.[65] This drop in cash flow caused a 17 percent decrease in housing completions and a nearly 40 percent decline in housing starts.[66] The year 2022 was the sector's worst since China's nationwide housing market was created in 1998.

Falling property values and investment losses have destroyed trillions in household wealth, particularly for the middle class, who were supposed to galvanize the shift to consumption-led growth.[67] This demographic has instead scaled back consumption across the board in the absence of stronger policy support for the property sector.[68] Fallout from the property sector also spilled over into the banking sector, impacting trusts and wealth management products that had concentrated investments in property under the misconception that housing values would only rise.[69] Many individual investors who put their savings into the funds have not received their principal back, much less the outsized returns they hoped for at inception.[70]

While the sector has begun to stabilize, it still remains the largest drag on Chinese growth. In the first seven months of 2024, China's housing sales and investment for new housing projects fell by 18.6 percent and 10.2 percent, respectively, compared with the same period in 2023.[71] China still faces a surplus of unfinished homes. At the end of 2023, Nomura Securities, a Japanese financial firm, estimated that there were 20 million units of presold homes that still need to be finished and would require $440 billion in funding to complete.‡[72] Under the guidance of the country's regulators, Chinese developers have devoted a greater portion of their remaining resources to completing presold unfinished projects.

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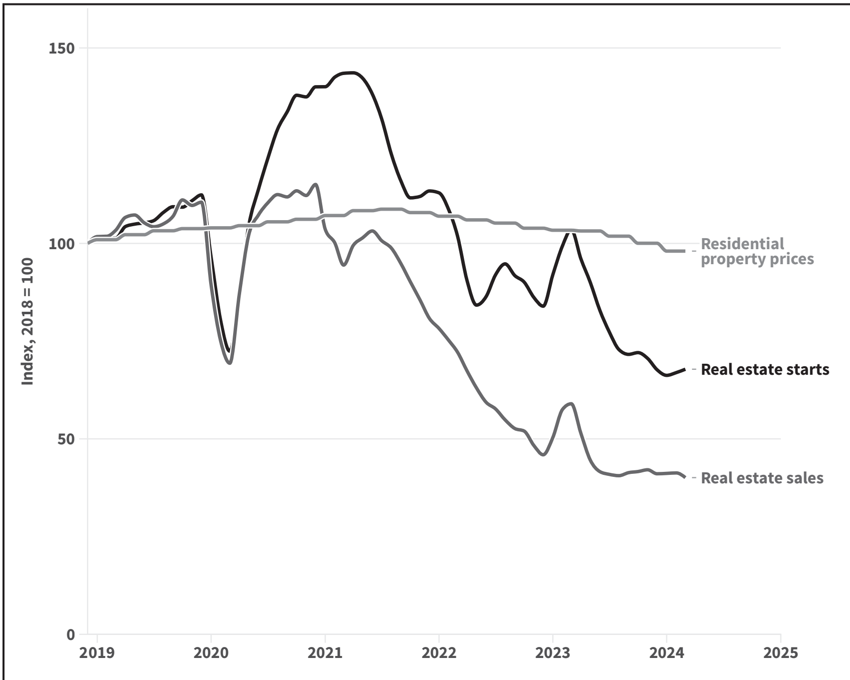
by 5 percent annually. If all three red lines are breached, the developer is not allowed to incur any new debt. UBS Asset Management, "China's Three Red Lines: Opportunities in China Real Estate," January 11, 2021.

*The rule required China's largest state-owned banks to reduce loan exposure to property developers to 40 percent or less in their total loan balance and mortgage lending to 32.5 percent or less. Smaller banks faced stricter requirements and lower caps on the allowed exposures to developer loans and mortgages. All lenders that exceeded the caps when they were imposed were allowed a grace period of up to four years to meet these requirements. Tianlei Huang, "Why China's Housing Policies Have Failed," *Peterson Institute for International Economics*, June 2023, 13.

†Real estate loans—including property developer loans and household mortgages—as a share of all loan balances in the Chinese banking sector grew from less than 20 percent in 2011 to more than 27 percent in 2021. This growth was often concentrated within specific banks. Importantly, the non-performing loan (NPL) ratio for property developer loans across the banking sector increased nearly threefold from 2013 to 2019 to around 6 percent. Tianlei Huang, "Why China's Housing Policies Have Failed," *Peterson Institute for International Economics*, June 2023, 5.

‡Others, like Goldman Sachs, estimate the value to be even higher, calculating that Chinese developers need $553 billion to complete housing they presold to buyers and then failed to finish. Lulu Yilun Chen and Tom Hancock, "China's Private Builders Face $553 Billion Gap to Complete Homes," *Bloomberg*, April 14, 2024.

Figure 2: China's Residential Real Estate Sector, Prices, Sales, Starts, 2019–2024



Note: Sales and starts are adjusted with a three-month rolling average. Residential property prices are a quarterly data series.
Source: China's National Bureau of Statistics, "*New Residential Sales, New Residential Starts* [2019–2024]," via Haver Analytics; Bank for International Settlements, "*Residential Property Prices for China* [2019–2024]," via Federal Reserve Economic Data.

In 2024, Chinese officials focused on targeted policies that support demand and address the supply glut. As early as 2023, Chinese cities had taken the lead in reducing local barriers to home purchases, which they continued to do through 2024 in the form of relaxed credit requirements for first-time homebuyers and lower down payment requirements.[73] In early 2024, the Chinese government began designating a "whitelist" of in-progress housing projects whose developers would be allowed to apply for bank loans in order to complete and deliver housing to owners.[74] The program is available even to developers who have already defaulted on existing loans.[75] In May 2024, the government announced a long-awaited rescue package. Policymakers at the central level made available $42 billion (RMB 305 billion) in central bank funding to help government-backed firms buy excess inventory.[76]

The scale, however, is likely insufficient.[77] Goldman Sachs estimates it would cost $1.1 trillion (RMB 7.7 trillion) to lower the country's housing supply to its 2018 levels.*[78] This amounts to 25 times the size of the rescue fund. Chinese markets recognized the fund's inadequate size, and prices have continued to fall. Month-

* Goldman's calculations are based on the assumption that local governments and state companies can purchase inventory at 50 percent of market prices.

over-month new home prices, excluding state-subsidized housing, slid 0.58 percent in April 2024, while the value of existing homes dropped a further 0.94 percent.* [79] Both were the steepest declines in a decade.[80] As of the first half of 2024, Chinese housing prices have experienced a total decline of 13 percent from their 2021 peak levels.[81]

Because such a large portion of household wealth is held as real estate, adjustments in the property sector have weakened consumer sentiment.[82] Investment also continues to fall, dropping nearly 10 percent year-over-year in April 2024 as businesses, investors, and individual households continue to view the sector with skepticism.[83]

Geographic misallocation of housing has exacerbated China's housing crisis. Unlike China's broader housing market, its four largest cities—Beijing, Shanghai, Guangzhou, and Shenzhen—face deep undersupply issues, generating a broader affordability crisis.† From 2002 to 2022, average prices for these cities have risen nine-fold.‡ [84] This has implications for the country's societal makeup and labor market. The difficulty of purchasing property has contributed to a lower marriage rate because of the social expectation that men should own a home before marriage.[85] Lower marriage rates are likely to exacerbate China's looming demographic crisis, as an aging population saves for retirement instead of spending. High costs also constrain local labor markets, crowding out young professionals from China's most innovative and economically dynamic cities.[86] In contrast, China's real estate overcapacity is concentrated in its smaller cities in the interior of the country.§ From 2010 to 2021, those cities, referred to by Chinese statisticians as tier three cities, contributed around 78 percent of the country's total housing stock, despite only hosting around 66 percent of China's urban population.[87] Those cities have been hardest hit by the market correction; real estate prices in tier three cities dropped nearly 20 percent between early 2021 and mid-2022.[88]

In 2024, a number of substantial impediments to recovery—including additional bankruptcies, local government financial stress, and declining growth—remain unresolved. While more than 50 Chinese developers have defaulted on their

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*Since their peak in Q3 2021, aggregate housing prices have declined 12.4 percent through Q1 2024. Bank for International Settlements, "*Real Residential Property Prices for China*," via Federal Reserve Economic Data.

†Chinese cites can be classified by a tier system that groups similar cities based on their economic size, population, and political administration. The National Bureau of Statistics of China, in its statistics on real estate activities, covers 70 large and medium-sized major cities across China and divides them into three tiers. First-tier cities are Beijing, Shanghai, Guangzhou, and Shenzhen. Second-tier cities are Tianjin, Shijiazhuang, Taiyuan, Hohhot, Shenyang, Dalian, Changchun, Harbin, Nanjing, Hangzhou, Ningbo, Hefei, Fuzhou, Xiamen, Nanchang, Jinan, Qingdao, Zhengzhou, Wuhan, Changsha, Nanning, Haikou, Chongqing, Chengdu, Guiyang, Kunming, Xi'an, Lanzhou, Xining, Yinchuan, and Urumqi. Third-tier cities are Tangshan, Qinhuangdao, Baotou, Dandong, Jinzhou, Jilin, Mudanjiang, Wuxi, Xuzhou, Yangzhou, Wenzhou, Jinhua, Bengbu, Anqing, Quanzhou, Jiujiang, Ganzhou, Yantai, Jining, Luoyang, Pingdingshan, Yichang, Xiangyang, Yueyang, Changde, Shaoguan, Zhanjiang, Huizhou, Guilin, Beihai, Sanya, Luzhou, Nanchong, Zunyi, and Dali. Affordability is defined using the average home-price-to-income ratio, which divides the average home price by the median household income. In 2024, major Chinese cities' price-to-income ratios were: Shanghai—47.9; Beijing—33.7; Shenzhen—33.7; and Guangzhou—33. In comparison, major U.S. cities' price-to-income ratios were: New York—11; San Francisco—7.1; and Los Angeles—5.2. Numbeo, "Property Prices Index by City 2024."

‡Excluding these tier one cities, Chinese real estate prices have risen 576 percent. China's National Bureau of Statistics, "*Residential Prices By City*," via CEIC database.

§This primarily refers to China's tier three cities.

debts since 2021, many developers have become nonviable and are only avoiding bankruptcy because of policy interventions that have compelled their lenders to delay recognizing their bad loans.[89] If unresolved, this could eventually spill over, further weakening real estate prices and bank balance sheets.

China's property sector crisis revealed a foundational instability within a central pillar of China's growth model.[90] While Chinese leaders have tried to do just enough to ensure it will not become a systemic risk for the broader economy, spillovers from the cratering real estate sector will constrain local government budgets, disrupt the job market, and dampen confidence across the economy.[91] As the sector shrinks from its peak of around 29 percent of GDP to an estimated 16 percent by 2026, it will continue to be a substantial drag on the country's overall GDP growth.[92]

The deflation of the property sector bubble has negatively impacted the finances of local governments, which had regularly generated between 20 percent and 30 percent of their total income from selling land usage rights to developers between 2012 and 2023.[93] Land sale proceeds and property- and land-related taxes accounted for 37 percent of total fiscal revenue for all local governments in China in 2021.[94] For certain local governments, this reliance has been above 50 percent of total fiscal revenue, meaning the property crisis limits their ability to raise revenues.[95] Local government revenue generated from land sales dropped 23 percent in 2022 and an additional 18 percent in the first 11 months of 2023.*[96] To stabilize local government budgets, transfers from China's central government rose by 18 percent in 2022.[97] Many local governments have become reliant on the central government to stabilize their budgets.[98] For this to change, Chinese officials will need to find new revenue sources or their fiscal obligations will need to be reduced.[99]

Real estate is also one of the primary ways local governments raise and service debt, typically through special-purpose vehicles known as local government financing vehicles (LGFVs).[100] Rapid and lucrative real estate growth has meant that LGFVs have accumulated an estimated $7.5–8.2 trillion in off-balance-sheet debt (RMB 55–60 trillion), equivalent to around 45 percent of China's GDP.[101] There is little to no evidence that Beijing's policies to address these debt issues will have a long-term impact. Falling land prices also mean that local governments and LGFVs will face challenges securing new debt.[102]

Local Government Fiscal Challenges Simmer

LGFVs are taking advantage of refinancing programs and regulatory updates to shift debt around and stabilize balance sheets in ways that may do more to improve optics than to advance genuine structural reform. LGFVs face a record $651 billion (RMB 4.7 trillion) in bond maturities in 2024 that they will either need to either pay off or refinance.†[103] Some local govern-

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*Land sale revenue and land- and property-related taxes as a share of aggregate local government revenue decreased from 37 percent in 2021 to 31 percent in 2022. Tianlei Huang, "Why China's Housing Policies Have Failed," *Peterson Institute for International Economics*, June 2023, 32.

†LGFV bond repayments outpaced new bond issuances from Q4 2023 through Q2 2024, indicating that LGFVs are making progress on deleveraging. Through the first half of 2024, LGFV net financing was about negative $27 billion (RMB 197 billion). *Bloomberg*, "China's $1.6 Trillion LGFV Bond Market Shrinks by Most in Years," July 8, 2024.

ments will likely take advantage of $138 billion (RMB 1 trillion) government bond fund introduced last year to refinance LGFV debt into official provincial government bonds.[104] From the perspective of the central government, the program increases transparency into total debt levels by bringing "off-balance-sheet" LGFV debt onto the books of provincial governments. LGFVs are also refinancing their own "off-balance-sheet" debt, converting non-traditional borrowings into LGFV bonds by taking advantage of a new government bond swap program.* [105] The newly issued bonds have reduced interest rates and longer maturity dates, which will help lower the risk of defaults in the near term.† While bringing the debt back onto balance sheets should help increase transparency and insight into total debt burdens, it may also encourage moral hazard if investors see the rescue measures as proof that the government will not allow these bonds to default.[106] Longer debt maturities also extend fiscal problems into the future rather than addressing the underlying issue of an imbalance between central and local tax receipts and expenditure burdens.[107] In addition to refinancing using regional government funds, local governments are also shifting debt burdens from weaker to stronger LGFVs, cutting expenditures, lowering investment, restructuring private debt, and selling assets to generate funds as LGFV bonds come due.[108] In heavily indebted Guizhou, a state-owned firm provided a guarantee for new bonds issued by a stronger LGFV to repay the debt of a weaker, unrelated LGFV.[109] Together, these actions have contributed to a compression in the risk premium paid on LGFV bonds compared with government bonds, signaling that bond traders have regained some confidence in regional governments to prevent defaults.[110] However, as underlying weaknesses in local government finances remain unresolved, this could be merely a reflection of investors' confidence in the government's unwillingness to allow LGFV defaults.[111]

LGFVs are also using creative accounting techniques to deleverage balance sheets. New accounting regulations promulgated by the Ministry of Finance now allow firms to monetize data as an intangible asset.‡ [112] Since these regulations became effective on January 1, 2024, some LGFVs have classified data collected

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*China's central government maintains tight control over local government debt. In highly indebted regions, only borrowing used to fund projects approved by the State Council or for key development areas like affordable housing is permitted. Local governments are also required to maintain balanced budgets, while LGFVs are not, which led to the rapid increase in LGFV debt. Helen X. H. Bao, Ziyou Wang, and Robert Liangqi Wu, "Understanding Local Government Debt Financing of Infrastructure Projects in China: Evidence Based on Accounting Data from Local Government Financing Vehicles," *Land Use Policy* 136 (2024): 1–17; *Reuters*, "Exclusive: China's Cabinet Curbs Debt Growth in 12 'High Risk' Regions—Sources," October 25, 2023.

†The refinanced bonds also come with new restrictions on use. Proceeds can only be used to repay principal on outstanding debt or to fund any of the so-called "three major projects," which refer to affordable housing, urban village renovation, and dual-use public facilities that can be used for everyday and emergency purposes. They cannot be used to make interest payments. Cheng Siwei et al., "In Depth: Local Governments Struggle to Tackle Mountain of Hidden Debt," *Caixin Global*, March 20, 2024.

‡Firms in the United States also monetize the data they collect, for example by tracking internet browsing history and selling the data to advertisers. U.S. firms are able to use this data as loan collateral by engaging a third-party expert to perform a valuation on the data. However, even in an industry worth billions, firms and lenders struggle to arrive at accurate valuations for their data due to a lack of publicly available information on comparable transactions. In addition, the developed market for personal data in the United States has sparked widespread data privacy concerns. Brian X. Chen, "The Battle for Digital Privacy Is Reshaping the Internet," *New York Times*, June 23, 2023; Douglas B. Laney, "Leveraging Data as Collateral Starts with Knowing Its True Value," *Forbes*, December 23, 2022.

through business operations as a balance sheet asset, including data on public transportation and utilities, with some data already serving as collateral for new loans.[113] Chinese regulators have been working on guidelines for how to value and recognize data on financial statements, but the value of these datasets and the degree to which they can be monetized are difficult to determine.[114] Although the total amount of debt collateralized by data is thus far small, the use of data of uncertain value as collateral shows how desperate LGFVs are to stabilize balance sheets and take out new debt.[115]

New national security laws may threaten the independence of international credit agencies—which have identified the rising debt problems in China—and make it difficult to judge the effectiveness of ongoing property sector reforms. In December 2023, Moody's Ratings changed its outlook of China's A1 credit rating from stable to negative, citing the increasing likelihood that the central government would need to provide financial support for local and regional governments and SOEs due in part to ongoing property sector weakness.[116] In May 2024, Moody's reaffirmed its A1 rating with a negative outlook for China and added that weak consumer and business sentiment continues to weigh on China's economic outlook.* [117] While the ratings action is unlikely to impact China's finances directly, the negative outlook underscores the difficulties China's economy is facing and may impact investor sentiment.† [118]

In response to ratings actions, Chinese state-sponsored media argue that international ratings agencies misunderstand China's economy and that their models are unsuitable for emerging economies in general.[119] By labeling the ratings actions as "a deliberate attempt to undermine ... confidence" in China's economy, Chinese media highlighted the risks for corporations when their objective assessments contradict CCP policy edicts.[120] Prior to the release of its revised credit opinion, Moody's reportedly advised China-based staff to work from home, a possible precaution against a negative reaction from Beijing, which in the past has included corporate raids and detaining local employees.‡ [121] Under tighter national security laws affecting international due diligence firms, domestic investors may be directed to rely more on China's domestic ratings agencies, which were the subject of intense criticism after they failed to identify deficiencies in property developers' financials.[122]

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* Fitch Ratings also changed its outlook on China's sovereign credit rating to negative in April 2024 and maintained its A+ rating, while S&P Global Ratings, the third-largest global credit ratings agency, maintained its assigned stable outlook. *Reuters*, "Fitch Cuts China's Ratings Outlook on Growth Risks," April 10, 2024; *Reuters*, "S&P: No Changes to China Credit Rating, Outlook," December 5, 2023.

† For more on how the CCP considers economic data and public perception of the economy matters of national security, see U.S.-China Economic and Security Review Commission, Chapter 1, Section 1, "U.S.-China Bilateral and China's External Economic and Trade Relations," in *2023 Annual Report to Congress*, November 2023, 55–56.

‡ In 2023, Chinese security officials raided three multinational corporate advisory firms, exacerbating tensions within the international business community. For more on China's crackdown on international due diligence and corporate advisory firms, see "Foreign Multinational Companies Place Lower Priority on Investment in China" later in this chapter.

Lukewarm Policy Support for Alternative Growth Drivers

Chinese Consumption Data Are Contentious

Consumption trends in China are difficult to track due to discrepancies in data. There is reason to suspect that consumption's share of GDP outpaces official Chinese statistics. Some household income earned by wealthy individuals and the benefits of home ownership are likely underreported, as are transfers from the Chinese state to households in the form of education, healthcare, cultural amenities, and food.[123] Some have argued that after properly including these social transfers, household consumption increased its share of GDP by 6 percentage points from 2012 to 2019.[124] However, the growth rate of consumption has likely been overstated in more recent years. In 2022 and 2023, China's National Bureau of Statistics reported that consumption contributions to GDP growth were 0.4 percentage points and 4.3 percentage points, respectively.[125] Analysis by Rhodium Group estimates that the reality was closer to -0.5 percentage points and 2.0 percentage points, respectively, based on a variety of alternative data points.[126] In 2022, retail sales declined, Zero-COVID policies prevented consumers from spending money, household deposits rose, and consumer confidence fell, all factors that would contribute to lower consumption.[127] Similarly, in 2023, households paid down their debt by 13 percent and retail sales growth was weak.[128] Data on retail sales, sometimes used as a proxy for official consumption data, present their own problems. First, retail sales data include some purchases by government agencies, schools, and the military.[129] Second, consumption of services, a growing portion of consumer expenditures, is not captured by retail data.[130] Third, and perhaps most importantly, Chinese statistical authorities have in recent years retroactively amended retail sales data, lowering the base of comparison to present rosier annual growth numbers.[131] Adjustments made to 2019 data were on the scale of tens of billions of dollars.[132] Ongoing revisions to retail sales data, albeit on a smaller scale, make tracking China's consumption trends difficult.[133]

China remains reliant on manufacturing, exports, and the declining property sector because household consumption has not increased as a share of China's GDP.[134] As China's middle class is hit by deteriorating wealth from the property market downturn and China's older generations save for retirement, there are few segments of society left that can drive consumption growth. Key measures of consumption and consumer confidence continue to indicate weakness compared with pre-COVID trends. Stimulus initiatives announced in mid-2023, including a trade-in program for used cars, home renovation programs promoting energy efficiency, and lower prices at tourism locations, have been small in scope and not as effective as hoped.[135] In 2019, year-over-year growth in monthly retail sales of consumer goods was consistently over 7 percent; so far in 2024, the highest monthly figure has been 3.7 percent.[136] Consumption's contribution to GDP growth was lower in the first quar-

ter of 2024 than it was in the last three quarters of 2023 and—excluding the period of the COVID-19 pandemic—has remained in the same range since 2015.[137] Chinese consumers continue to spend less than their U.S. counterparts, driven by a combination of factors, including lower household income, poor domestic investment options, and a weak social safety net.[138] China's consumer confidence index has remained below the 100 level (above which China's consumers would be considered more confident than not) since April 2022.[139] Results from the annual "618" shopping festival exemplified weak consumer sentiment as aggregate e-commerce sales results from the event declined year-over-year for the first time.[140] Although the total number of trips taken during China's 2024 Spring Festival holiday was higher compared with pre-COVID, calculations based on official data indicate that spending per individual trip fell.[141] Reports of falling expenditures for services like after-school music and sports activities demonstrate how far consumer confidence has deteriorated given conventional wisdom that parents were willing to spend more on their children, even if they chose not to spend money on themselves.* [142]

The Chinese government's incremental measures to stimulate consumer spending have failed to address structural impediments to higher consumption and are overshadowed by efforts to promote traditional drivers of growth. While Chinese policymakers have identified consumption growth as a policy priority, stimulus measures thus far have been insufficient to overcome structural impediments that sustain China's high savings rate.† [143] Stimulus efforts for consumer goods have been limited and are further constrained by the large portion of household spending that already goes to services like education,‡ particularly for lower-income families.[144] Because a large portion of family wealth is tied up in real estate, stabilizing the property market will be another key component of restoring consumer confidence.[145] China has been battling deflation, and the lack of direct demand-side stimulus from the government has exacerbated weak consumer sentiment.[146] Some analysts have argued that China's government should use fiscal policy to stimulate consumption, either through direct cash transfers or changes to tax policies and subsidies.[147] So far, the government has resisted calls from economists and investors to institute a cash-trans-

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*According to Chinese economist and former deputy managing director of the International Monetary Fund Zhu Min, China's parents and grandparents are willing to spend more on their children before they attend university. However, once young adults become responsible for their own costs of living, including marriage and housing, spending drops off naturally, exacerbated by intense work schedules and a lack of enticing consumer products targeting their demographic. As a result, as China's birth rate has fallen, overall spending has fallen as well. China's birth rate has fallen from 21 births per 1,000 people in 1985 to just 6.4 births per 1,000 people in 2023. China's population declined for the first time in recent memory in 2022. Lin Qianbing, "Investigation: How Can We Give Consumers the Confidence to Spend? What Influence Does the Changing Real Estate Market Have?" (观察｜如何让消费者有信心消费? 房地产市场变迁有哪些影响?), *Paper*, June 26, 2024. Translation; Jacob Funk Kirkegaard, "China's Population Decline Is Getting Close to Irreversible," *Peterson Institute for International Economics*, January 18, 2024.

†Chinese consumers are largely barred from investing overseas as part of China's strict capital controls, while banks are constrained in what they can offer depositors in interest in part due to low lending rates. Noriyuki Doi, "China's Listed Banks See Interest Margins Fall below Warning Line," *Nikkei Asia*, May 2, 2024; *Bloomberg*, "China Scrutinizes Capital Flows as Online Brokers Pull Apps," May 16, 2023.

‡Even with access to government-funded education, private spending on education still makes up a significant portion of household spending. These expenses include extracurriculars, tutoring, books, food, and higher education. Dezhuang Hu et al., "The High Cost of Education in China," *Stanford Center on China's Economy and Institutions*, April 1, 2024.

fer-style stimulus program.*[148] Furthermore, because of China's high savings rate, policymakers may be limited in their ability to boost the economy through fiscal policy, as excess cash may merely be deposited into bank accounts or used to pay down outstanding debt.[149] Instead, government reforms have focused on stimulating supply—and manufacturing in particular. Signs from recent policy statements indicate that China intends to rely on production and exports as drivers of economic growth, with a continued dearth of support for consumer spending.†[150] (For more on China's production and export-led growth strategy, see Chapter 4, "Unsafe and Unregulated Chinese Consumer Goods: Challenges in Enforcing Import Regulations and Laws.")

Youth Unemployment

Successively larger classes of college graduates are entering a workforce prioritizing jobs they do not want and focusing on skills they do not have. Worsening employment rates nearly two years after the end of China's Zero-COVID measures suggest Chinese youth unemployment is not the result of a lagging recovery but rather a structural mismatch in labor force supply and demand. Official Chinese statistics indicate that the overall urban unemployment rate has improved, returning to pre-pandemic levels.[151] Nonetheless, Chinese youth unemployment‡ continues to worsen. When China entered COVID, its young college graduates, a demographic group that has increased in size by nearly 70 percent since 2012, were primarily employed in service industries, private enterprises, and the gig economy.[152] The share of youth seeking employment in construction or manufacturing was steadily decreasing.[153] As Chinese policymakers fought the pandemic with strict lockdowns, the services sector and its disproportionately younger employees were most harmed.[154] As a result, while China's overall unemployment rate quickly returned to its pre-pandemic average of around 5 percent, Chinese youth unemployment nearly doubled from an average of 10.9 percent in the first half of 2019 to 19.6 percent in the first half of 2023.§[155] In August 2023, as China's youth unemployment rate continued to rise, officials in Beijing temporarily stopped pub-

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* Boosting consumption is a key component to the success of Xi's strategy of "dual circulation," which aims to rebalance China's growth away from exports in order to insulate the Chinese economy from external demand shocks and boost self-reliance. It also emphasizes supply chain diversification and investment in the production of higher-value-added products. For more on "dual circulation," see U.S.-China Economic and Security Review Commission, Chapter 1, Section 1, "The Chinese Commuist Party's Ambitions and Challenges at Its Centennial," in *2021 Annual Report to Congress*, November 2021, 38. China Power Team, "Will the Dual Circulation Strategy Enable China to Compete in a Post-Pandemic World?" *Center for Strategic and International Studies*, December 15, 2021.

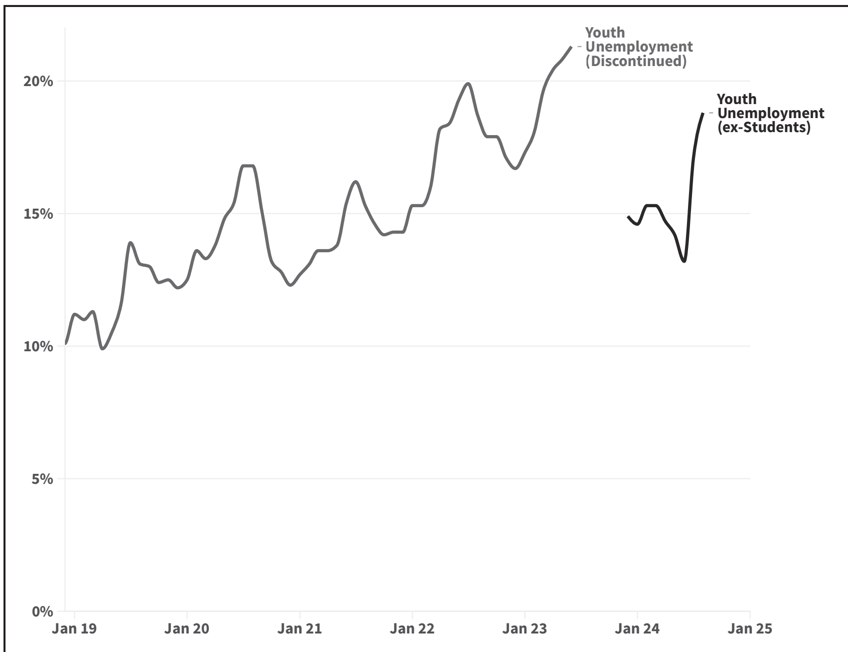
† In July 2024, the CCP held its twice-a-decade Third Plenum to discuss major milestones and set the direction of China's economic policy. The Third Plenum confirmed China would continue to focus on manufacturing and technology as drivers of growth rather than placing more emphasis on household consumption. Rebecca Feng, "China's Long Blueprint for Economy Falls Short on Details, Raising Concerns," *Wall Street Journal*, July 22, 2024; Jude Blanchette et al., "Third Plenum Hot Takes: Skepticism and Concern," *Center for Strategic and International Studies*, July 22, 2024.

‡ Different countries use different definitions for youth unemployment, but China's new definition, revised in January 2024, covers workers aged 16–24 not including students.

§ China's unemployment rate for young university graduates is likely even worse. While China does not release official statistics for the unemployment rate for 16- to 24-year-olds with a university education, analysts have tried to estimate it. Using China's census and its statistical yearbooks, the *Economist* estimated it to be 25.2 percent in 2020, which was 1.8 times the unemployment rate for all young people at the time. *Economist*, "Why So Many Chinese Graduates Cannot Find Work," April 18, 2024.

lishing the data series, citing a need to reassess its methodology.[156] In January 2024, China resumed publication and announced a 14.9 percent jobless rate for December 2023.[157] The drop was primarily because officials implemented a new method that excludes students seeking jobs.* [158] However, even with the new methodology, Chinese youth unemployment remains elevated. By August 2024, China's youth unemployment rate had increased by 3.9 percent since the start of the year to 18.81 percent.[159]

Figure 3: China's Youth Unemployment Rate, 2019–2024



Source: China's National Bureau of Statistics, "*Urban Unemployment Rate: Age 16–24* [2019–2024]," via Haver Analytics.

China's slow economic growth, tech and gig economy crackdowns, and faltering private sector have narrowed opportunities in the areas where most young, educated job hunters are seeking employment. To boost China's recovery from COVID, Chinese officials relied on targeted stimulus toward its property and manufacturing sectors.[160] However, such jobs have traditionally been filled by (internal) migrant workers and do not match the expectations of new college graduates.[161] As a result, despite elevated youth unemployment, Chinese officials are projecting a 30-million-person employment gap by 2025 for major manufacturing industries like automobiles.[162] In 2023, total employment at China's largest tech firms—Baidu, Alibaba, and Tencent—fell by nearly 25,000 jobs or 6.4 percent.[163] Chinese limitations on the pri-

* Notably, the United States, the United Kingdom, and many other countries include young people seeking jobs while studying when calculating their own rates. *Economist*, "Why So Many Chinese Graduates Cannot Find Work," April 18, 2024.

vate education industry have been even more damaging. Estimates suggest China's restrictions may have generated losses of three million jobs, or over 30 percent of those employed in the sector.[164] As China has recovered, private enterprises have also lagged far behind their state-owned counterparts.[165] Because these firms are responsible for around 80 percent of urban employment and 90 percent of new jobs, the employment implications have fallen hardest on China's youth.*[166] However, supply, particularly of college-educated youth, continues to grow. China's Ministry of Education projects that 11.8 million students will graduate by the end of 2024, a 2 percent year-over-year increase.[167]

China's elevated youth unemployment and pessimism toward the labor market are indicative of larger issues afflicting China's labor force. Surveys conducted by Martin K. Whyte, professor of international studies and sociology at Harvard University, and Shen Mingming, director of the Research Center of Contemporary China at Peking University, find that the Chinese populace increasingly views their economic system as arbitrary and unequal, assigning less responsibility to themselves and more to the Chinese system for achieving success. Between 2004 and 2014, those surveyed identified lack of ability, lack of effort, and low education as the main factors that explained poverty in China. In 2023, lack of effort and lack of ability plummeted to the fifth and sixth most prevalent explanations and were replaced by structural factors like "unequal opportunity" (ranked sixth in 2004 and first in 2023) and "unfair economic system" (ranked eighth in 2004 and third in 2023).[168] When asked in 2004 to react to the statement "Whether a person becomes rich or remains poor is their own responsibility," 49 percent of those surveyed agreed; in 2023, that portion fell to 27 percent.[169]

Hard data suggest that, like youth unemployment, this sentiment reflects a disconnect between expectations and the reality of China's job market. China's focus on industrial production has created a labor force in which educational attainment has outpaced an economy that is still predominantly based on manufacturing. While China's Ministry of Human Resources and Social Security estimates that almost half of all manufacturing roles will go unfilled by 2025, Chinese job hunters have focused their efforts elsewhere. For example, in 2023, a record 2.6 million people, many with a master's degree or even a doctorate, applied to take the national civil service exam to compete for only 37,100 entry-level positions.[170] This mismatch cuts across China's economy. Zhaopin.com, a major Chinese recruiting site, estimates that 90 percent of applications go to sectors that provide less than 50 percent of jobs.[171]

China's elderly are facing their own set of employment challenges. An inadequate social safety net means workers must stay in the labor force longer. In 2023, 94 million workers, or 12.8 percent of China's 734-million-person labor force, were older than

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*Estimates suggest around 50–60 percent of urban employed people aged 16–24 worked for private firms during 2013–2020, which was around 20 percentage points higher than prime-age workers. This proportion was significantly higher among vocational college graduates, with nearly 70 percent employed in the private sector. Shuaizhang Feng et al., "A Closer Look at Causes of Youth Unemployment in the People's Republic of China," *ADB Briefs*, June 2023.

60—China's current statutory retirement age for men—up from 8.8 percent in 2020.[172] Chinese leadership is magnifying this trend, and in September 2024 it approved a plan to increase the statutory retirement age for the first time since 1951.* [173]

State Directives Weigh on Domestic Financial Markets

China's non-commercial financial sector has long helped the CCP achieve its economic and policy objectives. State-owned banks provide capital on advantageous terms to SOEs and conduct foreign exchange transactions to support the value of the RMB, while state-affiliated or licensed institutional investors under strong encouragement from the Party-state prop up the stock market via direct purchases. The failure of Chinese domestic markets to provide appealing investment opportunities for everyday people has contributed to both the development of unregulated and risky alternative investments and a high national savings rate. As economic growth has failed to recover since the COVID-19 pandemic, regulators and state-owned financial firms have taken steps to support financial markets, but both domestic and international investors remain skeptical.

Banks Reluctantly Support the Property Sector at the Expense of Private Enterprises

With existing real estate loans constituting a large portion of balance sheet assets and new directives extending credit to viable development projects, China's banks are often unable to deploy capital into more productive sectors of the economy. China's banking sector has significant exposure to the real estate sector, with almost 40 percent of loans related to property.[174] The banking sector's exposure to the property sector makes it likely that the percentage of non-performing assets will rise in 2025, according to forecasts from S&P Global.[175] After years of supporting an expansionary bubble in real estate, Chinese banks have pulled back from lending to the sector following a wave of policy changes and developer defaults; however, banks remain significantly exposed to property sector risks.

Banks have pulled back from lending more broadly as well. China's aggregate financing† shrank month-over-month in April 2024 for the first time since comparable data became available in 2017.[176] Multiple factors contributed to the decline, including less overall refinancing of local and regional government bonds under directives from the central government to deleverage as well as less activity in the shadow banking sector.[177] Household medium- and long-term loans, a proxy measure for mortgages, also showed the greatest contraction on record as fewer new mortgages were taken out than repaid.[178] Under pressure to stimulate economic growth, China's Ministry of Finance responded by announcing it would issue a total

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*The retirement age will be raised from 60 to 63 years old for men. For women in white collar work, it will be raised from 55 to 58 years old. For women in blue collar work, it will be raised from 50 to 55 years old. The changes will come into effect in 2025 and be implemented over a 15-year period. Farah Master, "China Approves Plan to Raise Retirement Age from January 2025," *Reuters*, September 13, 2024.

†Aggregate financing is a broad measure of credit that includes government bond issuance, bank loans to firms and households, and other non-bank financing. *Bloomberg*, "China Credit Shrinks for First Time, Loan Growth Disappoints," May 11, 2024.

of $138 billion (RMB 1 trillion) in special long-term bonds, with the first tranche sold in May 2024.[179] Proceeds from the bonds will be used to fund long-term projects, including transforming excess capacity in the property market into public housing and supporting the development of strategic sectors.[180]

Chinese banks traditionally have granted more credit to SOEs, which carry an implicit guarantee from the government, while underserving small and medium-sized enterprises (SMEs).[181] The Chinese banking sector, led by large state-owned banks, is non-commercial in nature and ultimately backstopped by the government, making widespread bank failures highly unlikely.[182] However, slowing credit growth means banks are lending less to private sector borrowers, despite the private sector in recent years accounting for around 70 percent of jobs and 60 percent of GDP.[183] Other recent regulatory changes have harmed SMEs' access to bank credit by reducing access to a popular short-term financing tool in an effort to support regional bank stability.[184]

The PBOC has reintroduced a COVID-era program to provide relending facilities to banks that have extended credit to SMEs in the tech sector.[185] This follows past efforts by the central government to encourage lending to SMEs through grant programs and other incentives.[186] These programs often fail to spur lending by banks due to the confluence of limits on the interest rates banks can charge SMEs and implicit state guarantees for SOEs.[187]

Chinese policymakers are trying to mitigate systemic risk in the banking sector with a controlled deflation of the property bubble by ensuring viable projects still have access to bank credit while also instituting reforms to strengthen the banking sector. Chinese banks have been directed to lend to a "whitelist" of in-progress housing projects in attempts to reduce the stock of undelivered housing.[188] At the same time, recent regulatory tightening in the banking sector will require banks to recognize more assets as non-performing and set aside larger provisions for these non-performing assets as the government continues its efforts to rehabilitate the property sector. This is in part due to regulations effective by the end of 2025 that will require Chinese banks to recognize all exposure to a particular property developer as non-performing once the developer defaults on over 10 percent of outstanding credit owed to a bank.[189] As of January 2024, banks are also required to internally classify distressed developers as a higher credit risk.* [190]

Stock Market Slide Halted by Government Intervention

Official policy statements and actions by state-backed financial institutions have managed to slow the slide of Chinese stock market indices after years of deteriorating performance.† Major indicators of stock market performance in China rose overall in the first half of 2024 after the Chinese government

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*Internal bank risk ratings determine the amount of capital banks need to set aside for a particular loan, thereby directly impacting banks' return on assets and indirectly affecting the ability to extend capital to other borrowers. Higher-risk ratings require greater capital provisions. Corporate Finance Institute, "Risk-Weighted Assets."

†China's stock market fails to reflect macroeconomic fundamentals. From 2007 to 2023, China's GDP grew from $3.6 trillion to $17.8 trillion. Over the same time period, the Shanghai Composite, a stock market index of all companies traded on the largest stock exchange in China,

stepped in to halt automated trading and directed state-owned firms to buy shares. Under overall poor conditions in the stock market and ongoing regulatory scrutiny, Chinese companies withdrew plans for domestic initial public offerings (IPOs), an ongoing trend from the prior year that has accelerated so far in 2024.[191] Beijing has shown some awareness of the challenges. Beijing replaced the chair of the China Securities Regulatory Commission (CSRC), installing Wu Qing, a seasoned risk executive known as the "broker butcher" for ordering the closure of a quarter of China's securities dealers during his last tenure as head of the CSRC.[192] Market participants also suspect that units of China's sovereign wealth fund, pension funds, insurers, and other state-backed asset management companies have been active in purchasing large volumes of exchange-traded funds (ETFs) in a directed and collective attempt to boost the performance of the stock market.*[193] At the same time, regulators have instituted stricter restrictions on types of trading seen as contributing to volatility and downward pressure on stock prices, including short selling and high-frequency trading by domestic hedge funds and directives to avoid purchases of risky derivatives.[194] Some interventions were direct, with high-frequency trading firms reporting instances of their internet access being suspended and borrowed shares being recalled.[195] While these actions were effective in stemming the fall of Chinese stock indices, they indicate that the government intends to maintain tight control over trading activity rather than encourage more market-driven trading.

More generally, the CCP has clearly articulated its vision for the country's financial sector to subdue profit-seeking behavior in favor of Party ideals. The Central Financial Commission and the Central Financial Work Committee have renewed calls to build a "socialist financial powerhouse" and enact "strict and tough supervision."[196] State conferences and newspapers have promoted a similar ideologically driven market that puts social responsibilities and serving the real economy† above the pursuit of pure profits.[197] The changes extend to individuals in the industry, with employees of domestic financial firms impacted by salary cuts and bonus clawbacks pressured to adhere closely to Party ideology, such as avoiding extravagant displays of wealth.[198]

Simultaneously, Chinese stock markets have become increasingly dominated by state-owned companies. From June 2021 to June 2024, SOEs' share of aggregate market capitalization of China's top 100 listed firms grew from 31.2 percent to 54 percent.‡[199] Over that period, valuations for China's largest non-public

has remained flat. World Bank, "*GDP (Current US$ - China)* [2007–2013]"; Yahoo Finance, "SSE Composite Index [7/1997–8/2024]."

*Similar buying behavior from what is known as China's "national team" could be seen in past periods of poor stock market performance, with large volumes of investments often flowing suddenly into Chinese ETFs. Weilun Soon and Rebecca Feng, "How China Tried to Fix the Stock Market—and Broke the Quants," *Wall Street Journal*, March 13, 2024.

†According to Xi, the real economy includes sectors like manufacturing as well as scientific and technological innovation.

‡Analysts at the Peterson Institute for International Economics define SOEs as companies in which the Chinese state holds 50 percent or more equity ownership and non-public enterprises (NPEs) as those in which the Chinese state holds less than 10 percent equity ownership. They also introduce a third category, mixed-ownership enterprises (MOEs), those in which the Chinese state holds an equity ownership stake between 10 and 50 percent. Tianlei Huang and Nicolas Véron, "The Private Sector Advances in China: The Evolving Ownership Structures of the Largest Companies in the Xi Jinping Era," *Peterson Institute for International Economics*, March 2022, 10.

enterprises have plummeted, while those of SOEs have risen. In June 2021, the market cap of non-public enterprises within China's top 100 listed firms was $4.7 trillion.[200] By June 2024, it had fallen by more than half to $2 trillion.[201] Conversely, over the same period, Chinese SOEs' market cap within China's top 100 listed firms grew from $2.7 trillion to $3.2 trillion.[202]

Against this backdrop, Beijing continued to pursue a number of financial market reforms in 2024 to promote stability and investor confidence in capital markets. High-quality development of capital markets has been a key theme at annual conferences and in regulatory releases. In April 2024, the State Council released a document outlining nine directives that would strengthen supervision, prevent risks, and support the development of China's capital markets.[203] The policies would encourage the availability of a wider array of investment products, including ETFs, while cracking down on market manipulation by financial intermediaries and other actions that violate the law.[204]

In September 2024, Chinese financial authorities introduced additional stimulus measures including interest rate cuts, lower reserve requirements for banks, and support for the property and stock markets.[205] The market reacted positively to the news, with a broad index for the Chinese stock market rising over three percent in one day.[206] Beyond this temporary surge, analysts questioned whether the measures would be sufficient to reverse China's deflationary spiral and achieve the stated 5 percent growth target.[207]

Ongoing RMB Currency Intervention *

In recent years, China's central bank has continued to orchestrate foreign exchange (FX) market interventions that support the value of the Chinese RMB amid market pressures that would otherwise weaken it.† The PBOC has soft-pegged the RMB within a set trading band against the dollar since 2005 (notably the value of the RMB's value continues to fluctuate against a basket of currencies).[208]

As the U.S. Federal Reserve has kept interest rates higher to combat persistent U.S. domestic inflation, the PBOC has resist-

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*The Omnibus Trade and Competitiveness Act of 1988, 22 U.S.C. § 5304(b) requires periodic reporting by the U.S. Department of the Treasury on activities relating to a narrowly defined concept of currency manipulation. From August 2019 to January 2020, the U.S. Department of the Treasury labeled China a currency manipulator under that statute, which requires, among other things, that China's currency manipulation be "for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade." While the Treasury has removed this designation, China does still intervene persistently in currency markets to manage the value of the RMB relative to the U.S. dollar. Alan Rappeport, "U.S. Says China Is No Longer a Currency Manipulator," *New York Times*, January 13, 2020; U.S. Department of the Treasury, *Treasury Designates China as a Currency Manipulator*, August 5, 2019.

†China's preference for a weaker RMB in the early 21st century was driven by its reliance on exports for growth. As China's trade surplus with the United States grew, China prevented its currency from appreciating by intervening in currency markets. This led to vocal pushback from its international trading partners whose own goods were relatively more expensive as a result. Although China still maintains a trade surplus with the United States, this dynamic has since reversed. China now intervenes to prevent the devaluation of the RMB in the face of pressures including weaker economic growth, volatile financial markets, and high U.S. interest rates. Chris Anstey, "The Promise and Peril of China's Strong Yuan Policy," *Bloomberg*, February 3, 2024; Wayne M. Morrison and Marc Labonte, "China's Currency Policy: An Analysis of the Economic Issues," *Congressional Research Service* CRS RS 21625, July 22, 2013.

Ongoing RMB Currency Intervention—*Continued*

ed large cuts to its "benchmark" loan prime rate* to avoid exacerbating depreciation pressure on the RMB.[209] Since July 2023, Chinese officials have regularly set the daily RMB fixing—or reference rate around which the currency is allowed to trade—at a level significantly stronger than market consensus.† Markets have reacted by maintaining exchange rates close to the weak end of the fixed trading band for prolonged periods, and the RMB has experienced depreciation of around 2 percent against the dollar this year.[210] Still, China has favored stability and is reluctant to allow a rapid shift in the exchange rate. Analysts suggest the PBOC is concerned that currency weakness will exacerbate negative sentiment among domestic and foreign investors and spur capital flight.[211] Additionally, at the start of 2024, Xi emphasized "a strong currency" as one of his top priorities to support his plans to strengthen China's status as a financial powerhouse.[212] Xi's speech marked the first time in more than two decades that a Chinese leader used this annual speech at the Central Party School in Beijing to discuss finance, and it has likely encouraged the PBOC to continue to maintain a strong exchange rate.[213]

Explicit steps by Chinese policymakers to support the RMB include verbal guidance to speculators and investors when they view trading activity as a threat to the lower bound of the fixed trading band, the tightening of offshore RMB liquidity, and the lowering of reserve requirements on foreign currency deposits.[214] Despite these efforts, in the first half of 2024, the RMB remained unusually stable close to the weaker end of the RMB trading band. Historically, this has meant the PBOC is maintaining the band through the sale of FX.[215] However, the PBOC's foreign currency balance sheet has moved slightly in the opposite direction, suggesting the bank has not used its own funds to keep the RMB inside the weak edge of the band.[216] This contradiction has led some analysts to suggest the PBOC has instead turned to state-owned banks to actively manage FX markets and support the RMB against further depreciation.[217]

U.S.-China Bilateral Commercial Relations

Bilateral Trade Slows

Total U.S.-China trade continued to be stagnant through the first eight months of 2024 amidst weakening economic conditions, price effects, increased geopolitical tensions, and a rising trend of supply chain diversification. Although U.S. official trade statistics capture only a portion of trade with China, the data indicate a downward shift in the direct flow of goods (see

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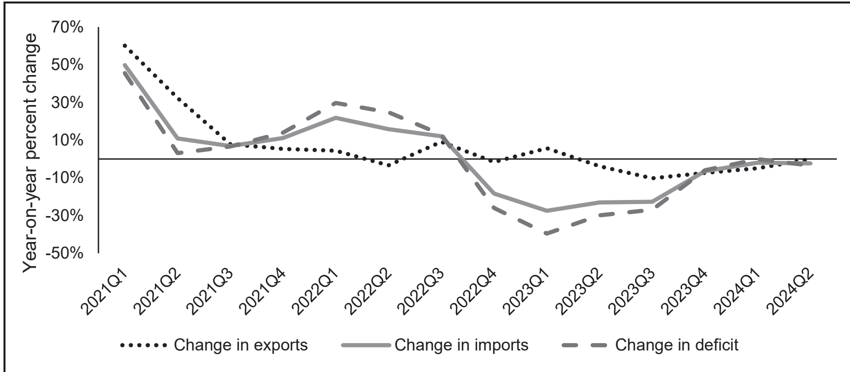
*After the U.S. Federal Reserve cut interest rates by 0.5 percentage points in September 2024, the PBOC also lowered its benchmark interest rate from 1.7 percent to 1.5 percent. Christian Shepherd and Anna Fifield, "China Moves to Boost Ailing Economy with Property, Stimulus Measures," *Washington Post*, September 24, 2024.

†Any reference rate that is significantly stronger or weaker than the market expects is considered a signal from the PBOC on how it wants the currency to move. Allianz Global Investors, "Currency Up, Equities Up," November 24, 2023.

Figure 4). U.S. imports and exports of goods with China reached just $575 billion in 2023, a decrease of 16.8 percent from the year earlier.* [218] While the slowdown continued early in 2024, by August total U.S.-China trade for the year to date was virtually unchanged from the same period in 2023.[219] Weakening Chinese demand for most U.S. exports and stagnant U.S. imports caused the U.S.-China trade deficit to increase slightly.[220] In the first eight months of 2024, the bilateral trade deficit rose to $186 billion, a 2.4 percent increase over the same period in 2023.[221]

The U.S. trade statistics substantially understate the trade deficit with China as tens of billions of dollars of small parcel imports that enter duty free under the de minimis exemption are not incorporated in official U.S. trade estimates.† [222] Trade statistics prepared by China's customs agency, which capture all exports to the United States including de minimis shipments, suggest the scale of mismeasurement in U.S. customs figures. China reported that it exported $506 billion in goods to the United States in 2023, $79 billion more than the United States recorded as imports.[223] (For more on distortions to U.S. trade data caused by tariff avoidance strategies including de minimis entry, see Chapter 4, "Unsafe and Unregulated Chinese Consumer Goods: Challenges in Enforcing Import Regulations and Laws.")

Figure 4: Change in Quarterly U.S. Bilateral Goods Trade with China, Q1 2021–Q2 2024



Source: U.S. Census Bureau, *Trade in Goods with China.*

Imports

Following a sharp decline in 2023, U.S. goods imports from China leveled off in the first eight months of 2024. According to U.S. data, in 2023, the United States imported $427 billion in goods from China, down by over 20 percent from 2022 and falling

*Trade data produced by China's customs agency, which better account for cross-border e-commerce trade than U.S. data, also point toward a fall in the goods trade. In Chinese data, goods exports and imports with the United States fell to $672 billion in 2023, down 11.5 percent from the year prior. China's General Administration of Customs, *Customs Statistics*, July 2024.

†The de minimis exemption, provided under Section 321 of the Tariff Act of 1930, provides duty-free treatment for shipments valued under $800 entering the U.S. market per person, per day. In fiscal year 2023, over one billion de minimis shipments crossed the U.S. border from all origin countries. U.S. Customs and Border Protection, *E-Commerce*.

to the second-lowest import level since 2012, surpassed only by the pandemic-induced slowdown in trade in 2020.[224] Eight months into 2024, U.S. imports from China amounted to $279 billion, increasing by 1.3 percent from 2023.[225] Softening U.S. consumer confidence in the first half of 2024 dragged on imports as growth in household spending slowed in response to concerns about inflation and poor consumer sentiment.[226] U.S. tariffs and bilateral tensions have also prompted some importers to reduce their dependence on Chinese imports and shift to alternative sourcing hubs, contributing to the continued weakness in direct imports from China (see "Supply Chain Diversification from China Is Occurring, but the Extent Remains Unclear" in this section).

In addition, price and exchange rate effects contributed to the decline in import value and relieved some pressure on U.S. inflation.[227] The price of imports from China fell 1.4 percent in August 2024 from a year earlier.* [228] This deflation in price largely reflects overproduction in China, with producers looking to shift a greater share of sales overseas amid weak domestic demand.[229] The price of fabricated metal products, the United States' fifth-largest import category with China, fell 2.1 percent in August 2024 from a year earlier.[230] RMB depreciation further depressed the value of imports from China, as a weaker RMB means Chinese goods are cheaper in dollar-equivalent terms.[231] Nonetheless, the volume of U.S. imports could strengthen into 2025 as consumers and businesses take advantage of reduced prices from China.†

Exports

Overall U.S. exports to China continued to slow in 2024 due in part to persistently weak Chinese consumption. Though U.S. exports of goods in 2023 remained elevated above pre-COVID levels, at $148 billion, the export volume shrunk 4.1 percent from 2022 levels as China's economy remained stagnant after ending its Zero-COVID policies.[232] In the year through August 2024, the flow of goods continued to fall, reflecting the ongoing sluggishness in China's domestic demand.[233] The United States sent $93 billion in goods to China in the first eight months of 2024, down 0.8 percent from the previous year.[234] U.S. exports were boosted by sales of advanced technology products,‡ which grew 33 percent in the year through August 2024, largely due to a resurgence in shipments of U.S. semiconductors and airplane parts, as discussed below.[235] However, export growth was weighed down in other sectors, including agriculture, amid Chinese polices aimed at diversifying away from U.S. products, notably soybeans.[236]

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*Accounting for price effects, the real value of U.S. imports from China increased by 3.4 percent in the year through August 2024 compared to a year earlier. U.S. Census Bureau, *Trade in Goods with China*; U.S. Bureau of Labor Statistics, "*Monthly Import Price Index by Origin for NAICS, All Industries, China, Not Seasonally Adjusted*," October 11, 2024.

†Data on container freight volume suggest this is already taking place. Between January and August 2024, containerized imports to U.S. seaports rose by 15.1 percent year-on-year in weight, despite the more modest 1.3 percent increase in value. This likely reflects an increase in low-value, high-weight products. For instance, China's exports of plastic products have surged in 2024. U.S. Census Bureau, *USA Trade Online*, July 2024; *Bloomberg*, "China's Plastics Boom Is Set to Create Another Trade Headache," July 1, 2024; Lori Ann LaRocco, "Imports from China to the U.S. Are Rising at the Fastest Rate since Last Fall," *CNBC*, April 10, 2024.

‡Advanced technology products are a broad range of high-technology goods, including semiconductors, biotechnology, aerospace, and nuclear technology products. U.S. Census Bureau, *Advanced Technology Product (ATP) Code Descriptions*.

U.S. Shipments of Semiconductors Rebound

U.S. exports to China of non-export-controlled semiconductors expanded at the start of 2024. To curb China's advancements in critical technology, the U.S. Department of Commerce implemented controls on U.S. exports of the most advanced computing chips and advanced semiconductor manufacturing equipment to China in October 2022 and expanded them in October 2023. The controls did not apply to "legacy semiconductors" or less advanced chips used in home appliances, automobiles, and many connected devices. Though exports of semiconductors fell 45.5 percent in 2023, in 2024 the flow of U.S. chips rose sharply.[237] Between January and August 2024, U.S. semiconductor companies exported $5.3 billion in chips to China, an increase of 69 percent from the same period in 2023 but still down from 2022 levels.[238] To comply with U.S. export restrictions, U.S. chip companies such as Intel and NVIDIA have developed AI chips for the China market that have lower performance capabilities.[239] Though these chips underperform relative to the leading-edge AI chips sold to other customers, some Chinese companies have turned to these tuned-down processors given the country's shortage of computing power.[240] The growth in U.S. chip exports at the start of 2024 likely also reflected an uptick in sales of processors to Chinese consumer electronics manufacturers, though this growth may have since slowed as U.S. authorities further restricted sales to Huawei. In May 2024, the Commerce Department revoked export licenses for Intel and Qualcomm that reportedly permitted them to sell smartphone and laptop chips to Huawei.[*][241] (For more on the design of U.S. export control policy toward China, see Chapter 6, "Key Economic Strategies for Leveling the U.S.-China Playing Field.")

China's Aviation Sector Surges Demand for U.S. Components

A post-Zero-COVID rebound in Chinese domestic air travel boosted demand for U.S. planes and aviation components. U.S. exports of civilian aircraft, engines, equipment, and parts grew 65 percent in the first eight months of 2024 relative to the same period in 2023, reaching $7.7 billion.[242] Exports of these products reached their highest volume since the onset of the COVID-19 pandemic as air travel began to revive in China and are on track to exceed 2019 levels.[243] By August 2024, total air passenger traffic rose to 492 million trips, increasing 20 percent over the same period in 2023 and exceeding the pre-pandemic levels of 2019, according to data from the Civil Aviation Administration of (CAAC).[†][244] The increased traffic led to higher demand for parts to maintain China's air fleet, boosting U.S. exports.[245] In addition, China's state-owned aerospace company Commercial Aircraft Corporation of China, Ltd.

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*Just prior to Intel's license being revoked, Huawei launched a new laptop, the Mate X Pro, that ran on Intel's Core Ultra 9 processor, which is capable of running a large language model developed by Huawei. Yifan Yu, "Intel Profit Plunges 85% as AI Chip Sales Fall behind Nvidia and AMD," *Nikkei Asia*, August 2, 2024.

†Though domestic tourism spending stands out as one of the few positive drivers in China's otherwise sluggish consumer spending growth in 2024, travelers have nonetheless remained parsimonious compared to pre-pandemic years. During China's Labor Day holiday in May, spending per traveler had fallen by 11.5 percent compared to 2019. Sophie Yu and Casey Hall, "China May Day Holiday Spending Shows Mixed Picture on Post-COVID Recovery," *Reuters*, May 6, 2024; *Bloomberg*, "China Holiday Spending Rise Shows Consumption Recovery on Track," April 8, 2024.

(COMAC) is expanding production of its C919 narrow-body commercial airliner, which relies on components supplied by multiple U.S. aerospace companies (see textbox).[246]

China's Aviation Industry Remains Dependent on Foreign Suppliers

Despite China's efforts to become self-sufficient in aviation, it remains reliant on U.S. and European aerospace components. China has aimed to develop a domestic civil aviation industry since the 1970s.[247] More recently, in 2014, Xi called on COMAC to "independently develop and manufacture large passenger aircraft as soon as possible," and the Chinese government has since issued many policy documents like the CCP Central Committee and State Council's *Outline for Building a Powerful Transportation Country* that called for "raising the technological level of domestically produced aircraft and engines."[248] Despite these goals (and attempts to access foreign technology through joint ventures and cyberespionage), China has only produced two commercial jet models, and its aviation industry remains reliant on foreign suppliers.[249] For example, the engine used in the C919, COMAC's first "home-grown" narrow-body jet, is produced by a joint venture between U.S. GE Aviation and French Safran.[250] In 2016, COMAC, Chinese defense contractor Aviation Industry Corporation of China (AVIC), and the Beijing municipal government formed the Aero Engine Corporation of China (AECC) to domestically produce an engine for the C919, but that engine has yet to be approved by the CAAC.[251] Even if AECC's engine is approved, it will rely on components sourced from companies in Germany and the United Kingdom.[252] There are no plans to develop a domestic alternative to the GE engine used in COMAC's other commercial model, the ARJ21 regional jet.[253] A 2020 Center for Strategic and International Studies report found that in addition to engines, the C919 is reliant on U.S. and European companies for over 75 percent of its key components, with more recent research indicating components ranging from communications and flight control systems to tires continue to be imported.[254] China's exposure to U.S. and allied suppliers was clear when COMAC ran out of some parts and struggled to meet production targets after being placed on the U.S. Department of Defense's (DOD) Communist Chinese Military Companies list in 2021 (sanctions against COMAC were dropped ten months later when it was not included on the Non-SDN Chinese Military-Industrial Complex Companies List that replaced this DOD list); it was also evident when, in the same year, Canadian and U.S. denial of export licenses for the Pratt & Whitney PW150 engine led to the effective cancelation of China's MA700 aircraft program.[255]

China resumed importing Boeing aircraft after a three-year freeze, but the aerospace company continues to face scrutiny selling into the Chinese market. China suspended most orders and deliveries of Boeing aircraft in 2019 following two fatal crashes involving Boeing's 737 MAX 8, keeping the pause in place through most of

2023 even as other civil aviation bodies recertified the airframe. In December 2023, Chinese regulators approved Boeing's first delivery of a 787 Dreamliner since 2019, though shipments were disrupted shortly thereafter.[256] Chinese regulators again paused approvals between May and July 2024, ostensibly for a regulatory inspection of a component, before permitting further deliveries.[257] The pause coincided with Chinese sanctions issued on May 19, 2024—after the inauguration of Taiwan's President Lai Ching-te—against Boeing's defense unit along with two other U.S. defense firms over arms sales to Taiwan.*[258] Though the sanctions placed no direct restrictions on Boeing's civil aviation unit, China's coercion points toward its willingness to leverage its commercial relationship with the United States as it pursues its geopolitical objectives.

China Continues to Reduce Purchases of U.S. Agriculture Goods

U.S. exports of agriculture products to China fell in 2024 as China switched to lower-cost, non-U.S. sources. Though agricultural products continue to be one of the United States' leading exports to China, U.S. agriculture exports fell 15 percent by value year-on-year in the year through August 2024, totaling $13.7 billion.[259] This decline in value partially reflects falling food prices in global commodity markets due to large harvests and weaker demand; the volume of U.S. exports to China dropped at the slower rate of 5 percent by weight.[260] The drop also reflects China's ongoing shift toward alternative suppliers, driven by a desire to reduce dependence on the United States and strengthen its food security. Since 2018, when China responded to U.S. tariffs on Chinese goods with retaliatory duties on many agriculture products and other goods, U.S. producers have lost ground in China's import market.[261] The United States' share of China's agriculture imports by value fell from 19 percent in 2017 to 13 percent in 2023.[262] Much of the U.S. share was taken over by Brazil.[263] Brazil is now China's top overseas supplier for vital crops, including soybeans, which are used as animal feed or converted into edible oils.[264] In the year through August 2024, Brazil supplied 74 percent of China's soybean imports, exporting 3.6 times more than the United States.[265] Nonetheless, the Party-state continues to view China's dependence on imported soybeans as a significant challenge for ensuring China's food security. (For more on Beijing's prioritization of food security, see Chapter 7, "China's New Measures for Control, Mobilization, and Resilience.")

China Uses Its Leverage over Critical Minerals to Retaliate against U.S. Economic Statecraft

China is using its dominance over key minerals to selectively ramp up pressure on supply chains critical to U.S. national security. On July 3, 2023, China announced new export controls on germanium and gallium in response to U.S. technology export controls.[266] It further restricted the export of rare earth processing technologies in December 2023.[267] Nearly half of the world's rare earths resources are mined outside of China, but China current-

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*China's regulatory review of the Boeing 737 Max 8 flight recorder and suspension of deliveries was first reported by Reuters on May 22, 2024. David Shepardson and Allison Lampert, "Boeing Deliveries to China Delayed by State Regulator Review, Source Says," *Reuters*, May 22, 2024.

ly performs almost 90 percent of processing across all rare earths, including 60 percent of germanium and 90 percent of gallium as of 2022.*[268] In August 2024, China announced additional controls on antimony, an element that is critical to a range of applications in the electronics and defense industries.†[269]

Germanium and gallium are both vital minerals for the production of an array of goods, notably semiconductors, solar panels, and EVs.[270] These minerals are primarily recovered as a byproduct of processing bauxite (aluminum) and zinc ores (germanium is also a byproduct of producing coal).[271] The United States has alternative domestic sources of germanium, and the U.S. National Defense Stockpile maintains a germanium reserve, so the controls have primarily impacted the United States' gallium supply.[272] The germanium stockpile is also being supplemented with a DOD program to recycle the mineral, further alleviating constraints.[273]

There is currently no strategic stockpile of gallium, and the United States does not actively produce the mineral. Instead, the United States has been forced to switch to alternative suppliers that are still able to source the mineral from China.[274] Canada, Germany, and Japan have continued to receive some shipments of the mineral, but global supply is tight overall.[275] In the first eight months of 2024, China cut exports by about one-fifth from its 2023 gallium and germanium exports over the same time period.[276] While prices for germanium have risen, they have been overshadowed by gallium's prices, which have more than doubled since Beijing's export controls.[277] If China further restricts exports of these minerals, it could create downstream bottlenecks in global semiconductor production. Notably, Taiwan chip companies, which are integral to semiconductor supply chains, mainly rely on refined gallium and germanium products produced in Japan and Germany, and further controls on these two countries' access to Chinese raw materials could have a cascading effect.[278]

Though the consequences of China's impending controls on antimony are not yet clear, the U.S. defense industry may be able to continue sourcing from other antimony-producing countries. Antimony is used by the defense industry to produce armor-piercing ammunition, night vision goggles, infrared sensors, bullets, and precision optics, and by the electronics industry for semiconductors, cables, and batteries.[279] China does not dominate antimony production to the same extent as some other critical minerals. China is the United States' largest supplier and accounts for 63 percent of U.S. antimony imports.[280] In 2023, China accounted for 48 percent of global production, but rising domestic demand meant most output went to domestic users and the country only accounted for 17.4 percent of global exports.[281] The United States does not mine any antimony domestically and is authorized to stockpile a limited 1,100 tons compared to the 22,000 tons consumed in 2023.[282] In the month following China's August 2024 announcement of the controls, the price of antimony climbed by more than 5 percent to $25,000 per ton, more

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*For more on China's strategy to dominate critical minerals, see Chapter 3, "U.S.-China Competition in Emerging Technologies."

†China's export restrictions took effect on September 15, 2024. Gracelin Baskaran and Meredith Schwartz, "China's Antimony Export Restrictions: The Impact on U.S. National Security," *Center for Strategic and International Studies*, August 20, 2024.

than double its $12,000 price at the end of last year.[283] While a loss of Chinese supply will raise prices, U.S. defense and electronics manufacturers may be able to turn to several smaller producers—such as Belgium, India, and Bolivia—to meet demand.[284]

Supply Chain Diversification from China Is Occurring, but the Extent Remains Unclear

U.S. trade policy since 2017 has helped accelerate a shift in global supply chains away from China. Starting in July 2018, the United States implemented tariffs on roughly two-thirds of Chinese imports following the completion of a Section 301 investigation into Chinese policies related to technology transfer and intellectual property theft.[285] These duties raised the average U.S. tariff on Chinese imports to 19.3 percent at the end of 2020, compared to the 3 percent average for other countries.*[286] The U.S. International Trade Commission estimates that the Section 301 trade action caused U.S. imports to fall by 13 percent between 2018 and 2021 on average in sectors impacted by the tariffs.[287] Alongside other trade actions, these duties contributed to a decline in China's share of U.S. imports, which fell to 13.1 percent of total U.S. imports in the year through August 2024 from 20.9 percent in 2017.[288] In May 2024, the United States announced it would retain existing China Section 301 tariffs and expand them to cover key technology subsectors, including 100 percent tariffs on EVs and 50 percent tariffs on solar cells.[289] (For more on the design and impact of U.S. trade policy toward China, see Chapter 6, "Key Economic Strategies for Leveling the U.S.-China Playing Field.")

An increasing share of U.S. imports came from third countries. As analyzed in a number of recent studies, other foreign suppliers stepped in to supply products where China's share of the U.S. import market declined rapidly.[290] Mexico and Vietnam both increased their shares of U.S. imports by roughly 2 percent—more than any other economy.[291] Between January and August 2024, shipments from Mexico and Vietnam accounted for 15.7 percent and 4 percent of all U.S. imports, respectively.[292] Mexico ostensibly overtook China as the largest supplier to the United States for the first time in 20 years, although this gap may be overstated due to the unaccounted data on U.S. de minimis imports from China.†[293]

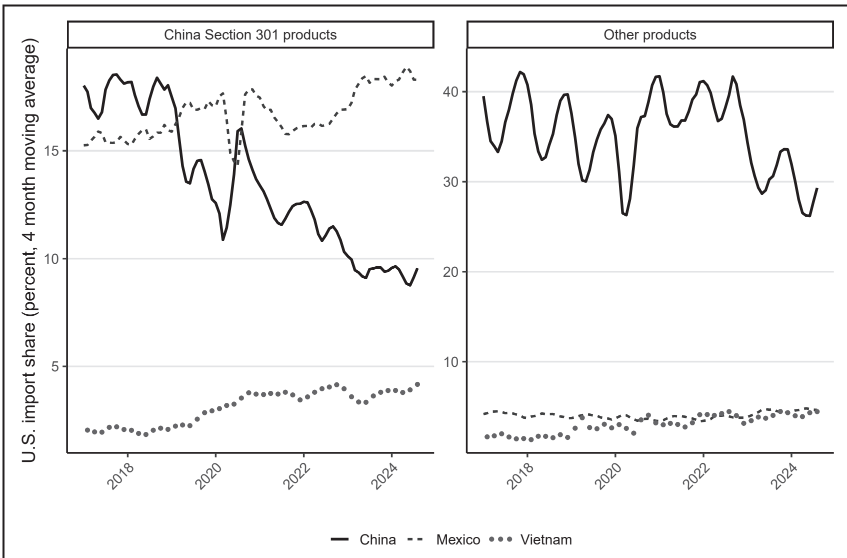
These shifts appear to be largely driven by U.S. trade measures. Mexico and Vietnam ramped up exports to the United States of products impacted by China Section 301 duties, while their exports to the United States of other products not covered by those duties remained steady (see Figure 5). By the end of 2023, Mexico and Vietnam were the source of 21.8 percent of the United States' total imports of products covered by Section 301 duties, up from 17.8

*When including anti-dumping duties imposed by the U.S. Commerce Department, the trade-weighted average tariff rises to 26.7 percent at the end of 2020. Chad P. Bown, "U.S.-China Trade War Tariffs: An Up-to-Date Chart," *Peterson Institute for International Economics*, April 6, 2023; Chad P. Bown, "The U.S.-China Trade War and Phase One Agreement," *Journal of Policy Modeling* 43:4 (2021): 827.

†Between January and July 2024, Mexico exported $291 billion in goods through formal customs channels, compared to $239 billion in imports from China. U.S. Customs and Border Protection estimates that between October 2023 and June 2024, an additional $47.8 billion in imports entered under de minimis from all source countries, the majority of which come from China. U.S. Census Bureau, *USA Trade Online*, October 11, 2024; U.S. Customs and Border Protection, *E-Commerce*, August 22, 2024.

percent at the end of 2017.[294] The Office of the U.S. Trade Representative assesses that imports to the United States of products from China subject to higher Section 301 duties saw more significant declines overall, reflecting how tariffs played a key role in reshaping U.S. trade patterns.[295] However, as Figure 5 shows, over the past two years, imports to the United States of products from China not subject to additional duties have also begun to slow, indicating that a broader diversification of trade away from China may be emerging.* [296]

Figure 5: Mexico and Vietnam Take U.S. Import Share from China within Products Subject to Section 301 Duties, 2017–2024



Note: China Section 301 products refer to the group of products covered by China Section 301 tariff lines. A "China Section 301 product" from Mexico or Vietnam is one that would be subject to a Section 301 duty if it came from China instead.
Source: Various.[297]

Though a portion of U.S.-China trade shifted to other sources, the full reduction in U.S. dependence on Chinese production remains unclear given the presence of Chinese inputs embedded in manufacturing in these economies. Edmund Malesky, professor of political economy and director of the Duke Center for International Development at Duke University, testified that the shift toward Vietnam reflects three broad patterns: "1) the continuation of pre-tariff shifts in production caused by increasing Chinese wages and growing Vietnamese productivity; 2) immediate post-tariff increases in production by existing manufacturers in Vietnam; and 3) post-tariff manufacturing investment and exporting by multinational companies of multiple origins."[298] A group of economists found that countries that increased exports

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*Consumer products make up the bulk of U.S. imports from China that are not subject to Section 301 duties. For more on the risk to U.S. households from China's role in consumer product manufacturing, see Chapter 4, "Unsafe and Unregulated Chinese Consumer Products: Challenges in Enforcing Import Regulations and Laws."

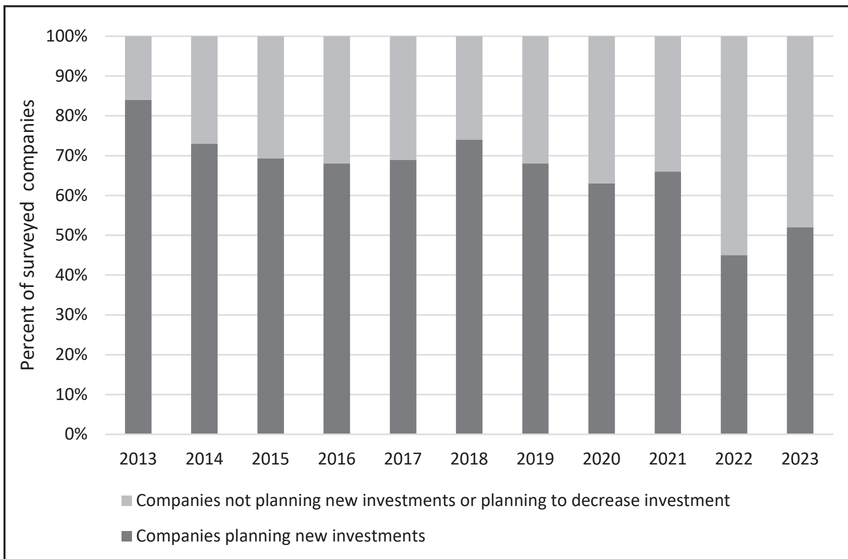
to the United States after 2017 appeared to rely on inputs from China to scale production.[299] Another study found the increase in Mexico's exports to the United States since 2018 was mainly driven by companies with supply chains linked to China and the rest of Asia.*[300] In quantitative terms, China's share of value added embedded in third country exports has increased. In the case of Vietnam's manufacturing sector, intermediate inputs sourced from China accounted for 18.5 percent of the value added in its exports in 2020, up from 15.2 percent in 2017.[301] China's value-added share in Mexico's manufacturing exports rose from 8.1 percent to 9.5 percent over the same period.[302] In addition, some of China's exports likely continue to enter the U.S. via illegal transshipment through a third market. (For more on customs fraud and other illegal trade activities, see Chapter 4, "Unsafe and Unregulated Chinese Consumer Goods: Challenges in Enforcing Import Regulations and Laws.")

Foreign Multinational Companies Place Lower Priority on Investment in China

New foreign direct investment (FDI) in China fell as U.S. and other foreign companies slowed expansion inside China. According to China's Ministry of Commerce, new foreign investment actually utilized in 2023 amounted to $151 billion (RMB 1.1 trillion), down eight percent from the previous year.[303] New FDI continued to slow in 2024, falling 31.5 percent year-on-year in the first eight months of 2024.[304] The sharp decline is consistent with falling interest by U.S. companies. According to an American Chamber of Commerce in China (AmCham China) survey conducted at the end of 2023, just over half of U.S. firms in China planned to expand their investments inside China. Though this number increased slightly over the previous year's 45 percent level, it remains the second-lowest surveyed result in at least a decade (see Figure 6).[305] Businesses cited uncertainties in the U.S.-China economic relationship and concerns about an uncertain Chinese policy environment as their top reasons for avoiding investment expansions.[306] Other foreign multinationals also appeared to slow expansion inside China. According to 2023 survey data collected by the Japan External Trade Organization, less than 30 percent of Japanese businesses are planning to expand inside China, the lowest level in the survey's history.[307]

*These authors used companies' involvement in the Mexican government's maquiladora program to identify participation in global value chains. Companies registered under the maquiladora program can import raw materials and equipment without paying taxes or duties, provided the inputs are used in the production of exports.

Figure 6: Surveyed Investment Plans of U.S. Multinational Enterprises in China, 2013–2023



Note: Each year, AmCham China surveyed leaders of U.S. businesses operating in China about their investment plans for the following year.
Source: American Chamber of Commerce in China, "2024 China Business Climate Survey Report," March 2024, 42; American Chamber of Commerce in China, "2020 China Business Climate Survey Report," March 2020, 33.

China's high-profile efforts to boost inbound investment largely failed to mitigate foreign businesses' concerns about operating in China. In 2023, China's Ministry of Commerce organized a series of events to attract foreign businesses.[308] In March 2024, General Secretary Xi hosted more than a dozen U.S. CEOs for a meeting in Beijing.*[309] The meeting was widely publicized by Chinese state media as China pushed a narrative that it is receptive to foreign business.[310] Xi conveyed to the group that China is committed to reforming and opening up its economy. He called for closer economic ties with the United States.[311] In March 2024, China's State Council also released a 24-point "action plan" that promised various measures to facilitate investment, including a pledge to remove restrictions on additional sectors currently closed to foreign investment, easing restrictions on cross-border data flows, and easing visa requirements for travel.†[312] Many of these pledges reflect previous commitments that China has repeatedly failed to fulfill. For instance, the action plan includes pledges to eliminate discrimination against foreign businesses in government procurement, echo-

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*Numerous analysts and media outlets observed that China carefully managed the delegation and its members. Notably, the group of U.S. CEOs was entirely male. Laura He and Wayne Chang, "China's Xi Meets American CEOs to Boost Confidence in World's Second Largest Economy," *CNN*, March 27, 2024.

†The document pledges to extend the validity of some work visas to two years. China has also eased visa requirements for visiting China as a tourist. Since China reopened its border to tourism in early 2023, China has expanded its visa-free entry program, permitting more tourists to travel to China without first applying for a visa with a Chinese embassy. *Bloomberg*, "China Releases Action Plan to Attract Foreign Investment," March 19, 2024; Deng Zhangyu, "Visa-Free Transit Extended to More Visitors," *China Daily*, November 18, 2023.

ing commitments made in China's 2001 WTO accession agreement that have yet to be fulfilled.*[313]

However, these attempts to attract foreign investment seemed incongruous with China's "anti-espionage" actions and a crackdown on foreign access to information Beijing views as state secrets but some argue is routine financial and economic data. In 2023, Chinese security officials raided the offices of the U.S. due diligence firm Mintz Group and the U.S. corporate advisory Bain & Co.[314] The Mintz Group was accused of conducting "foreign-related statistical investigations" and subjected to a $1.5 million fine by the Beijing Municipal Bureau of Statistics.[315] In February 2024, the bureau increased the fine to roughly $2.2 million.†[316] According to Reuters, Mintz was engaged in due diligence work that included assessing the supply chain presence of Xinjiang forced labor prior to its March 2023 police raid, and Chinese authorities had given due diligence firms warnings about conducting such investigations.‡[317]

U.S. corporate advisory firms have started to restrict their operations inside China following the raids. In November 2023, the U.S. polling and consulting group Gallup reportedly informed its clients that it was closing its offices in China, which mainly provided corporate governance and marketing consulting to Chinese companies.[318] In June 2024, Bain & Co.'s global head Christophe De Vusser announced that the company is refraining from advising certain industries in China.[319] Speaking to the *Financial Times*, he said, "There is a clear set of sensitive industries that are at the heart of discussions from a geopolitical basis. So in these industries we will indeed operate less frequently."[320] China's opaque and unpredictable crackdown on corporate consulting, due diligence, and data collection further narrows the quality and quantity of business intelligence for foreign firms seeking to operate within China's economy. The crackdown not only creates challenges for analyzing the risk associated with business transactions but also increases the difficulty of ensuring that transactions comply with U.S. regulations and laws, including sanctions and export controls (see textbox).[321]

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*On July 4, 2024, China released a separate document setting out a three-year action plan for making government procurement fairer. However, details of how this plan will be implemented and enforced remain vague, particularly at the local level. China's Foreign Investment Law, which was implemented in 2020, states that China will provide fair treatment in the procurement process, but foreign businesses continue to report that Chinese businesses receive preference. Given that the Party-state's other priorities call for reducing dependence on foreign suppliers in key technologies, it is unclear whether China will establish a procurement regime that is genuinely fair in practice. Trivium Markets, "All Equal if Made in China," July 5, 2024; American Chamber of Commerce in China, "2024 American Business in China White Paper," April 2024, 54–56, 68–92.

†The Beijing Municipal Bureau of Statistics stated in its notice of the initial fine that it had been unable to deliver the ruling to Mintz's legal representative. The *Wall Street Journal* notes that it is unclear if Mintz had received either the initial notice or the February 2024 penalty. Chun Han Wong, "China Raises Fines on Mintz Due-Diligence Firm," *Wall Street Journal*, March 12, 2024.

‡Though Reuters was unable to determine if these investigations were related to the crackdown, an article published the subsequent month by Chinese state media highlighted another supply chain risk consultancy in Guangdong as a "typical case" of espionage because it worked with a foreign nongovernmental organization that was investigating forced labor in Xinjiang. *Xinhua*, "On the Case | Beyond the National Borders, Behind the Network… These Activities Endangering National Security Require Vigilance" (拍案｜"国门"之外、网络背后……这些危害国家安全的行为要警惕), April 14, 2023. Translation.

China Adds Significant Risks to Routine Business Activities

Foreign businesses in China find themselves in a bind between complying with U.S. and other applicable rules and avoiding crossing ambiguously defined red lines under China's expanding set of rules and administrative measures. On September 24, 2024, China's Ministry of Commerce announced an investigation into U.S. clothing company PVH Corp., whose brands include Tommy Hilfiger and Calvin Klein, for violations of "principles of normal market transactions" by "discriminating" against products produced in Xinjiang.[322] PVH said in July 2020 that it would cease sourcing from factories and mills in Xinjiang due to forced labor concerns.* [323] Xinjiang was the source of 23 percent of the global supply of cotton in 2020 and 2021.[324] The Chinese government's investigation, which was still ongoing as of October 11, 2024, could result in PVH being added to its "unreliable entity" list† and subjected to fines, restrictions, or other penalties.[325] Though other multinational fashion companies have faced scrutiny in the past over their statements on Xinjiang—in 2021, the Swedish fashion company H&M and several other brands faced an ostensibly grassroots boycott in China after state media drew attention to pledges by these companies to stop sourcing from the region—the latest action against PVH marks an escalation in the Party-state's willingness to utilize its sanction authorities to coerce foreign businesses.[326]

China's National Security Law has also created new risks for businesses. China has expanded the reach of its national security apparatus over the past two years, increasing the risk that foreign businesses face investigations and prosecution for carrying out normal business activities. (For more on legislative changes to China's Counterespionage Law and State Secrets Law, see Chapter 7, "China's New Measures for Control, Mobilization, and Resilience.") The potential for retaliation, coupled with expansive restrictions on foreign access to data and information deemed sensitive by the Party-state, have complicated U.S. businesses' ability to do basic corporate due diligence or to comply with home-market regulations that implicate China.[327] The worsening information environment means U.S. businesses face greater diffi-

*PVH's pledge mirrored moves by other multinational apparel companies to shift their supply chains out of Xinjiang to mitigate the risk of supporting China's forced labor practices as well as to comply with the Uyghur Forced Labor Prevention Act, which took effect in June 2022 and created a rebuttable presumption that products from Xinjiang are made with forced labor and consequently denied entry to the United States. Keith Bradsher and Ana Swanson, "For Companies in China, Pulling Out of Xinjiang Poses 'Messy Dilemma,'" *New York Times*, October 7, 2024; Yasufumi Saito et al., "China Canceled H&M. Every Other Brand Needs to Understand Why," *Bloomberg*, March 14, 2022.

†China's Ministry of Commerce promulgated the Provisions on the Unreliable Entity List in 2020, creating a mechanism to investigate and penalize foreign companies for taking actions perceived as harmful to China's interests. As of October 8, 2024, China has placed five U.S. defense firms on the list for selling military equipment to Taiwan, halting these companies' imports and exports from China, prohibiting investments in China, and barring their senior management from entering China. If added, PVH would be the first U.S. company placed on the list because of its efforts to prevent forced labor in its supply chain. Lester Ross and Kenneth Zhou, "China, the United States, and the Rivalry over the Imposition of Unilateral Trade Sanctions," *WilmerHale*, September 6, 2024; Cari Stinebower, Jacob Harding, and Kai Zhan, "China Adds Additional Entities to the Unreliable Entity List," *Winston and Strawn LLP*, June 11, 2024.

China Adds Significant Risks to Routine Business Activities—*Continued*

culty in meeting their obligations to ensure counterparties in China are not subject to export controls, U.S. investment restrictions, sanctions, the Uyghur Forced Labor Prevention Act, and other requirements under U.S. and other applicable laws.[328]

A growing number of U.S. companies active in China are shifting to sourcing from other countries. According to the AmCham survey, 23 percent of respondents indicated they had begun or were considering relocating manufacturing and/or sourcing out of China.[329] According to the survey, the top three destinations for relocated capacity were other developing economies in Asia, the United States, and Mexico/Canada.[330] This trend was partially driven by increased trade tensions, but geopolitical tensions, uncertainty about the direction of China's domestic policies, and rising manufacturing costs inside China additionally drove importers to find alternatives to China.[331]

Chinese Companies Face Barriers to Listing on U.S. Stock Exchanges

Chinese regulators continue to constrain Chinese companies from listing overseas on U.S. stock exchanges. Just 23 Chinese issuers have listed on a major U.S. stock exchange in the first three quarters of 2024, and the combined initial public offering (IPO) proceeds totaled $1.1 billion.[332] Over 40 percent of this total was raised by one company, the Geely-affiliated EV maker Zeekr. The 2024 deal volume amounts to just a fraction of the listing activity in 2021, just before Chinese regulators clamped down on new overseas listings and increased oversight over Chinese companies' global fundraising activity.* In 2022, China implemented new rules requiring that internet companies seeking to list overseas undergo a cybersecurity review to assess the company's compliance with China's regulations on cross-border data flows.†[333] In 2023, CSRC established a revised approval process for companies going public overseas.[334] Under this new approval mechanism, all companies are required to register their listing with the CSRC, enabling regulators to block any proposed listing that violates China's laws and regulations or poses risks to national security and the CCP.‡ Although the

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*In the first three quarters of 2021, 41 companies went public on major U.S. exchanges and raised $13 billion in funding. This includes the $4.4 billion raised by ride-hailing app Didi Global in its blockbuster IPO. Didi reportedly proceeded with its IPO plans despite objections from the Cybersecurity Administration of China, leading to Chinese regulators freezing all Chinese overseas IPO activity for several months. Based on historical data from an internal version of U.S.-China Economic and Security Review Commission, *Chinese Companies Listed on Major U.S. Stock Exchanges*, January 8, 2024; Michael Hytha and Julia Fioretti, "Meihua Becomes China's First U.S. IPO since Didi Crackdown," *Bloomberg*, February 16, 2022.

†In February 2022, the Cyberspace Administration of China introduced a data security review mechanism for companies seeking to list overseas. The mechanism was made mandatory for Chinese companies that collect personal information on more than one million users. Cyberspace Administration of China, *Cybersecurity Review Measures* (网络安全审查办法), December 28, 2021. Translation.

‡Notably, this review requirement applied to companies listing overseas using variable interest entity (VIE) structures—complex corporate structures that many Chinese issuers used to circumvent restrictions on foreign ownership by granting shareholders contractual claims to control in lieu of actual ownership. Prior to 2023, Chinese companies that listed overseas using a VIE were

CSRC's approval mechanism nominally established rules for companies that align with Beijing's economic priorities to raise capital on foreign markets, the mechanism instead created a regulatory logjam for Chinese companies attempting to list overseas.[335] It remains unclear if Beijing will accelerate approvals for overseas listings on U.S. exchanges. In April 2024, the CSRC pledged to facilitate listings in Hong Kong, likely reflecting a preference among Chinese policymakers for companies to list on exchanges under the ultimate control of Beijing.[336]

Delisted Chinese Issuers Continue to Trade on Over-the-Counter Markets

After delisting their shares from a major U.S. exchange, a number of Chinese companies have continued to access global investors via the more loosely regulated U.S. over-the-counter (OTC) markets. OTC markets have traditionally been available to companies that do not meet the requirements for listing on a major stock exchange.[337] These markets operate through decentralized dealer networks that facilitate private party-to-party exchanges, and issuers face less stringent disclosure requirements compared to a major stock exchange. In particular, the Pink Open Market, an OTC market that is operated by the OTC Markets Group and is the most speculative open market provided by the group, has much looser financial standards or reporting requirements than the major U.S. exchanges.[338] Despite these limitations, some large Chinese companies have moved their listings to OTC markets after removing them from a major U.S. exchange. The biggest of these is Chinese ride-hailing giant Didi Global, which exited the New York Stock Exchange in 2022 under pressure from Chinese regulators.* At the end of June 2024, Didi continued to trade on OTC Pink with a market capitalization of $20 billion, making it the largest company primarily traded off-exchange in the United States.[339] Other companies traded on OTC markets include Luckin Coffee, which was forcibly delisted by the Nasdaq in 2020 following an accounting scandal involving fabricated sales and financial figures, as well as a number of Chinese SOEs that appeared to remove their listings from the main U.S. bourses under direction from China's government in late 2022.[340] Despite the higher risk associated with stocks listed OTC, some U.S. investors continue to trade these shares.[341]

Activity around Chinese stocks in the United States remains muted as U.S. policymakers increase scrutiny of Chinese listings. In November 2023, the Chinese fast-fashion compa-

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not required to register their listings with the CSRC, as the VIE is not considered a Chinese company under China's law.

*Didi reportedly proceeded with its June 2021 IPO on the New York Stock Exchange (NYSE) despite warnings from China's government to delay the listing until it completed a cybersecurity review. Subsequently, the Cybersecurity Administration of China prevented Didi from registering new users, ordered the removal of Didi's apps from Chinese stores, and launched a probe into Didi's alleged violation of China's data laws. One year later, Didi shareholders approved the company's plan to delist from the NYSE. Didi stated that this delisting was a precondition set by the Chinese government for allowing the company to resume user registrations. Cissy Zhou, "Didi to Exit NYSE on June 10 amid Uncertainty about China Restart," *Nikkei Asia*, June 9, 2022.

ny and e-commerce platform operator Shein* reportedly filed to go public in the United States in what would have been the largest U.S. IPO since Uber's 2019 listing, with the company expected to be valued at $66 billion.†[342] However, the planned listing subsequently faced scrutiny from U.S. policymakers over the company's reported use of forced labor in its supply chains.[343] A Bloomberg investigation published in November 2022 cross-referenced climate and weather signatures on cotton fabrics used in clothing from Shein to determine that they originated in Xinjiang, potentially in violation of restrictions on imports from the region under the Uyghur Forced Labor Prevention Act.‡[344] Due to pressure from U.S. lawmakers and regulators, Shein has reportedly shelved its plans to list in the United States, and is instead exploring a listing on the London Stock Exchange.[345] National security concerns have been raised about U.S.-listed Chinese LiDAR company Hesai.§ DOD added Hesai to its list of Chinese military companies in January 2024, although the *Financial Times* reported in August 2024 that DOD had reversed its determination and plans to remove the company from the list.¶[346] At the same time, other Chinese companies have surged on U.S. stock exchanges. Pinduoduo, a major Chinese e-commerce company that operates its eponymous marketplace in China as well as the Temu e-commerce platform outside of China, had seen its market capitalization increase on the Nasdaq by more than 50 percent between January 2023 and June 2024.[347] Despite Temu being subject to U.S. congressional inquiry over links to forced labor, Pinduoduo is one of the two largest Chinese stocks listed in the United States by market capitalization, following Chinese e-platform giant Alibaba.[348] Combined, Alibaba and Pinduoduo accounted for 46 percent of the total market capitalization of all Chinese companies listed on major U.S. exchanges, with their valuations reaching $441 billion at the end of September 2024.[349]

China's External Economic Relations

In 2024, China sought to promote its alternative frameworks for economic development and cooperation in the

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*Shein was founded in China but moved its headquarters to Singapore in 2021. However, the majority of its operations remain in China. *Reuters*, "How China's Shein Became a Fast-Fashion Giant," November 27, 2023.

†Though Shein is formally headquartered in Singapore, it likely would still need approval from Chinese regulators to list overseas given its extensive operations inside China. Shein reportedly approached the Cyberspace Administration of China and CSRC for approval to list overseas following its IPO filing. Nonetheless, Shein has sought to portray itself as a non-Chinese company as it seeks to proceed with its overseas IPO. James Kynge, Sun Yu, and Ryan McMorrow, "Shein Tries to Suppress Chair's Claim That Fashion Retailer Is 'American,'" *Financial Times*, June 14, 2024; Eleanor Olcott et al., "Shein Seeks Chinese Regulators Tacit Approval for U.S. Public Offering," *Financial Times*, February 7, 2024.

‡For more on the risks and challenges to U.S. regulations and laws posed by Chinese e-commerce firms, see Nicholas Kaufman, "Shein, Temu, and Chinese e-Commerce: Data Risks, Sourcing Violations, and Trade Loopholes," *U.S.-China Economic and Security Review Commission*, April 14, 2023.

§Lidar is a remote-sensing technology with emerging and wide-ranging applications, including computer vision, autonomous driving, and satellite-based imaging. Hesai is the global market leader in automotive lidar.

¶DOD is mandated to produce the Chinese military companies list by Section 1260H of the National Defense Authorization Act for FY 2021. Unlike entities on a sanctions list such as the Specially Designated Nationals (SDNs) list, inclusion on the Section 1260H list does not prohibit U.S. investment or many other activities, though Congress created new defense contracting restrictions for companies on the list at the end of 2023. Jingli Jiang et al., "DoD Updates Section 1260H List of Chinese Military Companies Operating Directly or Indirectly in the United States," *Akin*, February 5, 2024.

face of mounting tensions with trade partners wary of Beijing's damaging trade practices. The United States and the EU have each announced tariffs on Chinese-made EVs and other imports that threaten to undercut domestic producers in key industries.* In defiance of the U.S.-led sanctions regime, China continues to offer material support to Russia, acting opportunistically to win energy concessions and promote alternative payment systems. (For further discussion of China's support for Russia's war of aggression in Ukraine, see Chapter 2, "U.S.-China Security and Foreign Affairs (Year in Review).") Meanwhile, China has retooled its flagship Belt and Road Initiative (BRI) to limit its exposure to risk of default. It is again increasing lending throughout the developing world, though this time mainly in the form of emergency rescue loans to bail out indebted countries rather than fund new infrastructure projects.

China's Economic Relations with Advanced Economies Come under Strain

Business climate chills between European capitals and Beijing as EU investigation brings about retaliatory tariffs to stem Chinese export of overcapacity. Last year, goods trade between the EU and China declined for the first time in over a decade, down 13.8 percent year-over-year.[350] China still constitutes the largest origin for EU goods imports (20.5 percent of the total) and the third-largest market for EU goods exports (8.8 percent).[351] Yet signs of a potential protracted decline in economic engagement between two of the world's largest economies have emerged. The European Chamber of Commerce in China's most recent annual business confidence survey found only 42 percent of European companies are considering expanding operations in China in 2024, the lowest level on record.[352] Companies cited China's economic slowdown, overcapacity, and regulatory barriers among their top concerns, with 68 percent of those surveyed saying conducting business in China had become more difficult, the highest level on record.[353]

China's unfair trade practices have become a matter of acute concern for European governments. In late 2023, the European Commission launched an investigation into Chinese subsidies for EVs.[354] Despite the decline in total goods trade in 2023, automotive imports from China grew sharply by 36.7 percent year-over-year.[355] Preliminary findings released in June 2024 found EU carmakers were being harmed by unfair Chinese subsidization of their domestic EV value chain.[356] In July, the EU imposed tariffs between 17.4 percent and 37.6 percent on select Chinese automotive makers† on top of the existing 10 percent tariff on all vehicle imports.[357] Beijing has signaled the potential for retaliatory tariffs, which may further

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*In August 2024, Canada also announced it would impose a 100 percent tariff on imports of Chinese EVs and a 25 percent tariff on imported steel and aluminum from China, with the measures taking effect in October 2024. Prime Minister Justin Trudeau referenced China's intentional, state-directed policy of overcapacity as the rationale for the tariffs. Lisa Xing, "Chinese-Made EVs Are Now Subject to a 100% Tariff. What Does This Mean for Canadians?" *CBC News*, October 1, 2024; Promit Mukherjee and Akash Sriram, "Canada to Impose 100% Tariff on Chinese EVs, including Teslas," *Reuters*, August 27, 2024.

†Individual duties by parent company are 17.4 percent for BYD, 19.9 percent for Geely, and 37.6 percent for SAIC Group. For other companies that cooperated with the investigation, the rate is 20.8 percent, and it is 37.6 percent for those that did not cooperate. European Commission, *Commission Imposes Provisional Countervailing Duties on Imports of Battery Electric Vehicles from China while Discussions with China Continue*, July 4, 2024.

exacerbate tensions alongside contributing factors like China's ongoing support for Russia and increasingly brazen attempts to silence dissidents residing in European countries.[358]

Chinese EV companies have moved to offshore manufacturing in a hedge against rising trade tensions. They have found a receptive partner in Hungary, where Chinese battery maker Contemporary Amperex Technology Co., Ltd (CATL) began building Europe's largest battery factory in 2022, and this year BYD announced plans to build its first European EV production facility in the southern city of Szeged.[359] During his May visit to France, Serbia, and Hungary, Xi said during a press event with Hungarian Prime Minister Viktor Orbán that China and Hungary would embark down a "golden path" together, reiterating China's commitment to their comprehensive strategic partnership.[360] Xi's trip and fervent support for Prime Minister Orbán were widely seen as intended to sow division in the EU bloc.*[361]

Emerging Economies Become Increasingly Concerned with Excess Chinese Exports

Chinese exports to emerging economies have drastically grown, straining trade ties and causing certain governments to launch trade investigations and impose tariffs on Chinese imports. As advanced economies implement tariffs, China is shifting exports of manufactured goods to emerging economies, enlarging its bilateral trade surpluses across the developing world. Between 2019 and 2023, China's manufacturing trade surplus with ASEAN more than doubled, rising from $96 billion to $231 billion.[362] Chinese exports to Latin America and the Caribbean are increasing at a rapid pace as well. For example, China's trade surplus with Mexico reached $68 billion in 2023, almost doubling from $35.1 billion in 2019.[363] China is also increasingly offshoring production capacity by building factories in "connector countries" at least in part to circumvent trade restrictions in overseas markets.[364] (For further discussion on issues pertaining to Chinese overseas manufacturing trends, see the section "Chinese State Support for Overseas Manufacturing Likely Perpetuates Economic Distortions" in Chapter 4, "Unsafe and Unregulated Chinese Consumer Goods: Challenges in Enforcing Import Regulations and Laws.") An overreliance on Chinese exports can harm both the local economy and U.S. interests. Emerging market governments may be wary that Chinese companies' local market power could undercut their domestic industries and make certain firms vulnerable to Chinese anticompetitive practices, such as withholding supply or colluding to raise prices.[365] Chinese dominance of supply chains also exposes emerging economies to market disruptions such as pandemic-like external shocks and potential economic coercion.[366]

Emerging market officials have begun to act to protect specific industries through trade investigations and tariffs. In the past year, emerging markets including Argentina, Brazil, India, and Vietnam have launched anti-dumping and anti-subsidy

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*For more on China-EU relations, see U.S.-China Economic and Security Review Commission, Chapter 5, Section 1, "Europe-China Relations: Convergence and Divergence in Transatlantic Cooperation," in *2023 Annual Report to Congress*, November 2023, 524–533.

investigations against China, and Indonesia, Mexico, South Africa, and Turkey have all imposed tariffs on certain Chinese imports.[367] However, rising Chinese imports can create dilemmas for emerging economy officials whose economies are more dependent on China and more vulnerable to potential retaliation than the United States or the EU.[368] To avoid broader disruptions to their trading relationships with China, emerging economies may be forced to impose trade restrictions and other localization policies that could be weaker than required and insufficient to stem the flow of Chinese exports.[369]

China Enhances Economic Support for Russia

Record bilateral trade volumes support Russia's wartime economy, blunting the impact of international sanctions. Total two-way trade between Russia and China reached $240.1 billion in 2023, up 26.3 percent from $190 billion a year earlier and 60.4 percent from 2021 levels, the last full year of data before Russia's invasion of Ukraine.[370] Given that Russia's total trade with the world declined 9.6 percent between 2021 and 2023 from $785.8 billion to $710.2 billion, the Russian economy is increasingly reliant on trade with China to stay afloat.[371] Though Russian President Vladimir Putin praised the level of cooperation and Xi pronounced a "new era" in the "no limits" partnership between their countries during his May visit to Beijing, Moscow may come to resent the asymmetry in the relationship.[372]

China continues to increase purchases of Russian energy exports hit by Western sanctions, leveraging its neighbor's limited options to obtain favorable long-term price concessions. Chinese imports of Russian crude oil were up 17 percent year-over-year through April and now comprise 21 percent of China's total crude imports.[373] Russia surpassed Saudi Arabia as China's top foreign crude oil supplier in 2023.[374] Coal and natural gas exports from Russia to China have both doubled in the time since Russia invaded Ukraine.[375] A point of major interest for Moscow is closing a deal with Beijing on the proposed Power of Siberia 2 pipeline that would carry eastward to China 50 billion cubic meters of natural gas* per year, almost half the natural gas that previously flowed westward from the Yamal Peninsula to European markets.[376] However, Beijing continues to slow-walk the deal, a dynamic that allows Chinese importers to negotiate favorable prices in contracts not only with Russian suppliers but also with suppliers from other countries trepid to lose market share.[377] According to analysis from Columbia University's Center on Global Energy Policy, China would be reliant on piped gas from Russia for 40 percent of its net imports if Power of Siberia 2 came online. This scenario would diminish the need for liquified natural gas shipped by sea from future potential adversaries like the United States and Australia, who may cut off supply and impose a naval blockade if a conflict broke out. On the other hand, building the pipeline would put China's gas imports from Russia on par with the EU's dependency on the eve of the war in Ukraine, a situation of overreliance Beijing has long been reluc-

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*Natural gas accounted for 7.8 percent of China's total energy supply in 2022, compared to 61 percent from coal and 17.9 percent from oil. For more on China's energy mix and reliance on imports, see Chapter 7, "China's New Measures for Control, Mobilization, and Resilience." International Energy Agency, "China."

tant to abide.[378] For the time being, Beijing is unlikely to feel the need to finalize an agreement unless the price is too low to forgo.

Chinese exports and transshipment of dual-use technology and goods have surged, aiding Russia's war effort in Ukraine. Since the invasion of Ukraine in February 2022, the Commerce Department—in coordination with the EU, Japan, and the UK—has maintained and periodically updated the Common High Priority List (CHPL),* a tiered list of dual-use items Russia seeks to acquire for its weapons programs subject to U.S.-led export controls.[379] While no public evidence existed as of October 11, 2024 to show China is providing lethal aid† to Russia, it has substantially increased the sale of items included on the CHPL both directly to Russia and to countries suspected of reexporting to Russia.[380] According to analysis from the Atlantic Council, China's monthly exports of CHPL items increased steadily in the leadup to February 2022, then fell off after the initial imposition of export controls before steadily climbing from July 2022 to higher levels than pre-invasion.[381] These higher levels have been sustained since.[382] In 2023, China exported $4.5 billion of CHPL goods to Russia.[383] In particular, the sale of integrated circuits such as those used in precision-guided munitions increased from a monthly average of $5.3 million in 2021 to $13.7 million in 2023.[384] Even more stark is the rising supply of Computer Numerically Controlled (CNC) machine tools and parts used to manufacture a variety of industrial products including vehicles and weapons, which rose from a monthly average of $7.4 million in 2021 to $66.6 million in 2023.[385]

Beijing Retools Lending as BRI Enters Second Decade

Chinese overseas lending has recovered steadily from pandemic-era lows as Beijing reshapes development financing to mitigate its risk.[386] Lending to foreign countries under China's flagship international development program, BRI, increased 18 percent year-over-year in 2023 to $92.4 billion,‡ a level still well off the annual peak of nearly $120 billion recorded in 2018.[387] A combination of factors led China to pull back BRI lending starting in 2019, among them uncertainty brought on by the COVID-19 pandemic,

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*As of February 23, 2024, there are 50 items included on the Common High Priority List. Tier 1 items of highest concern include a broad range of electronic integrated circuits used in precision-guided weapons systems for which Russia has no domestic production capacity; Tier 2 items include electronic components Russia can produce but prefers to source from the United States and partners and allies; Tier 3.A includes electronic components with a broad range of suppliers; Tier 3.B includes mechanical and other components such as ball and roller bearings, airplane and helicopter parts, optics, navigation equipment, etc.; Tier 4.A includes manufacturing equipment for electronic components; and Tier 4.B includes Computer Numerically Controlled (CNC) machines and components used in mechanical and metal manufacturing. U.S. Department of Commerce, Bureau of Industry and Security, *Common High Priority List*, February 23, 2024.

†The Biden Administration has repeatedly claimed China is providing "nonlethal" support to Russia but disagreed with a claim in March 2024 by the British Defense Secretary that China was supplying lethal aid, saying Washington did not share the assessment. Reid Standish, "U.S. Pushes Back on British Claim That China Sending Lethal Aid to Russia," *Radio Free Europe*, May 23, 2024.

‡By comparison, the United States provided $63.5 billion in official development assistance (ODA) in 2023 and $228.7 billion when combined with private flows of development assistance. Development assistance from the United States often comprises a large grant portion and adheres to high standards regarding transparency, accountability, and participation set forth in international frameworks, in contrast to opaque BRI lending that typically has less favorable terms for the borrower. Organisation for Economic Co-operation and Development, "OECD Data Explorer–DAC1: Flows by Donor (ODA+OOF+Private)"; Kristen A. Cordell, "The Evolving Relationship between the International Development Architecture and China's Belt and Road," *Brookings Institution*, October 2020.

slowing domestic growth, and fears of insolvency of borrower nations struggling to service high levels of sovereign debt.[388] However, the composition of Chinese development lending has changed, with investment deals* making up a greater portion of total lending than construction projects for the first time in 2023.[389] This change in composition reflects both the scaling back of grandiose infrastructure projects that were common early on in BRI as well as a move to provide capital to borrower economies. In his speech during the third BRI Summit in October 2023, Xi painted a picture of moving from large-scale projects to "fine brushstrokes," metaphorically describing many smaller projects.[390]

China moves unilaterally to secure payment from debt-strapped borrower nations, undermining international efforts to alleviate debt burdens. China is now the world's largest official debt collector, with an estimated $1.1 trillion to $1.5 trillion of debt outstanding from foreign borrowers.[391] China has used BRI lending as a strategy to exert leverage over less developed countries and shore up access to key resources like critical minerals, with Chinese SOEs taking up equity stakes in mining operations on five continents.†[392] According to data from William & Mary research lab AidData, 80 percent of China's overseas lending portfolio is to countries in financial distress.[393] Currently, 55 percent of BRI loans to low- and middle-income countries are in their principal repayment period, a figure expected to rise to 75 percent by 2030.[394] Recognizing that its risk management and due diligence practices were lax in the early years of BRI, China has taken a number of steps to mitigate its exposure to potential default on outstanding loans. First, it has dialed up RMB-denominated emergency rescue lending‡ to borrowers to ensure the cash reserves necessary to service debt.[395] The analysis from AidData runs through the end of 2021 and finds that by that time, China had provided 128 emergency rescue loans to 22 debtor countries worth a combined $240 billion.[396] Emergency rescue loans jumped from less than 5 percent of China's overseas lending portfolio to low- and middle-income countries in 2010 to nearly 60 percent by 2022 (see Figure 7).[397] Second, it has aggressively sought to collateralize loans by requiring borrowers to maintain escrow accounts from which China can draw funds in the event of default.[398] Last, it is increasing interest rates for late payment, now set at a maximum 8.7 percent.[399]

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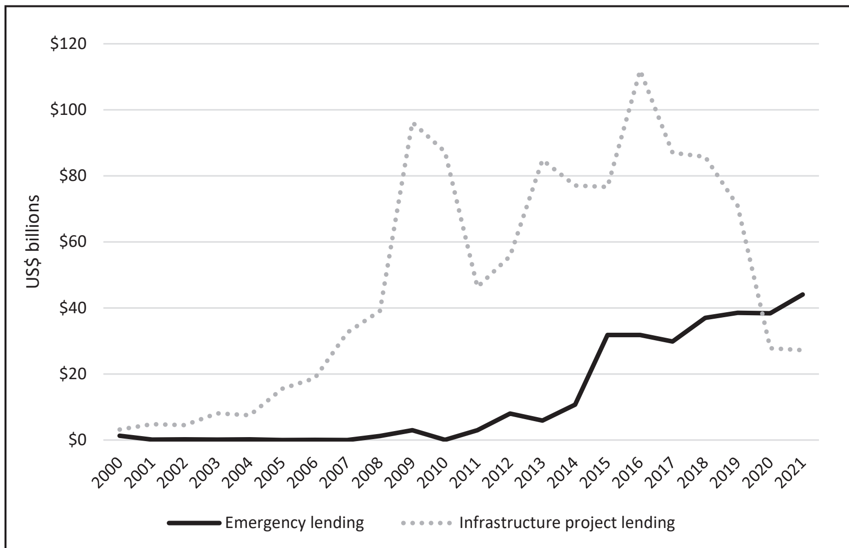
*BRI lending is typically broken out into two subcategories: construction and investment. Construction consists of lending often financed by Chinese state banks to build infrastructure, with a timeline for completion and no implied ownership of the assets. Investment deals are financed by Chinese investors to take an equity stake in an asset, portending an indefinite Chinese presence in the host country. Christoph Dedopil, "China Belt and Road Initiative (BRI) Investment Report 2023," *Griffith University and Fudan University*, February 2024, 2; Derek Scissors, "China's Overseas Investment Starts the Long Climb Back," *American Enterprise Institute*, July 20, 2021.

†For more on China's use of BRI as leverage, see U.S.-China Economic and Security Review Commission, Chapter 3, Section 1, "Belt and Road Initiative," in *2018 Annual Report to Congress*, November 2018, 259–303.

‡Emergency rescue loans typically are provided as balance of payment support by the PBOC to the central banks of debtor countries as a component of debt restructuring. However, there has been a rise in emergency lending from Chinese state banks working with foreign banks to service BRI debt in borrower nations. Keith Bradsher, "China Is Lending Billions to Countries in Financial Trouble," *New York Times*, November 6, 2023; Alex Wooley, "Belt and Road Bailout Lending Reaches Record Levels, Raising Questions about the Future of China's Flagship Global Infrastructure Program," *AidData*, March 27, 2023.

Figure 7: China's Lending to Low- and Middle-Income Economies by Financial Instrument, 2000–2021



Note: Infrastructure project lending is defined by AidData as loans linked to specific investment projects involving construction and other work on physical infrastructure in its database of Chinese overseas lending. Emergency lending includes loans AidData identified as rescue loans, or loans that allowed a sovereign debtor to service its debt, finance general budgetary expenditures, or shore up foreign exchange reserves.

Source: AidData, "Global Chinese Development Finance Dataset, Version 3.0," November 6, 2023.

China's unilateral lending practices undermine international efforts to reduce the debt burden of low- and middle-income countries. An argument has been made that Beijing's efforts to ensure repayment undermine international efforts to alleviate debt burdens of low-income countries, such as the G20 Common Framework for Debt Treatments, in which China agreed to be a participant in 2020.[400] Members of the Paris Club, a group of international countries dedicated to resolving sovereign debt issues in a sustainable manner, are edged out by guaranteed repayment plans that China coerces borrowers to accept, all the while increasing the debt obligation under increasingly burdensome terms.[401] For its part, the United States has stepped up development assistance in recent years and worked with partners and allies to provide alternative options for much-needed infrastructure investment in low- and middle-income countries with transparent terms, such as the U.S. International Development Finance Corporation (DFC) and more recent G7 initiative Partnership for Global Infrastructure and Investment (PGII).[402] From 2014 to 2017, China's development financing was triple that of the United States, and by 2021 it exceeded the United States by only 30 percent.[403]

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