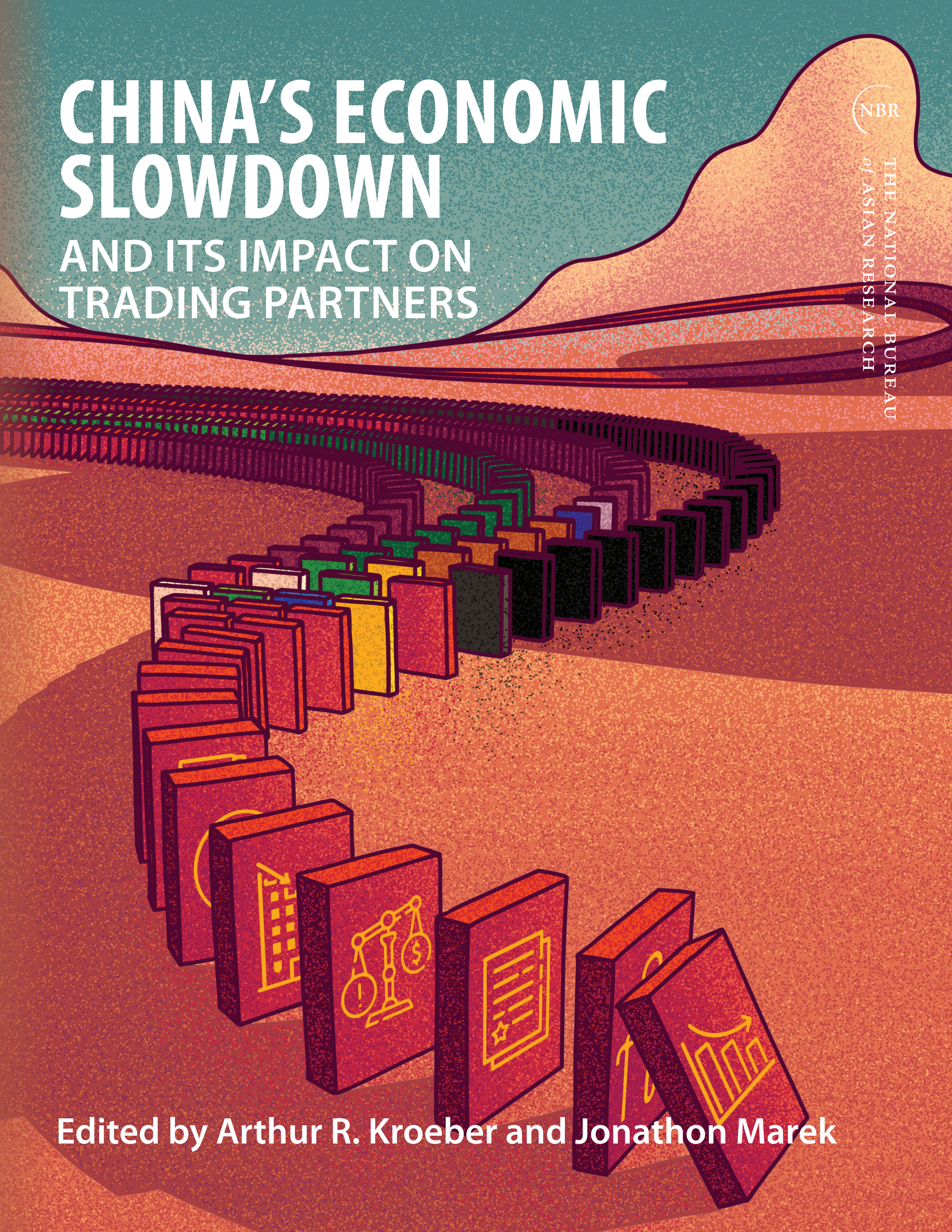
CHINA'S ECONOMIC SLOWDOWN

AND ITS IMPACT ON TRADING PARTNERS



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Edited by Arthur R. Kroeber and Jonathon Marek

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NBR SPECIAL REPORT #118 | JUNE 2025

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FOREWORD

Over the four decades from the beginning of reform and opening in 1978 to the last year before the Covid-19 pandemic in 2019, the economy of the People's Republic of China (PRC) was defined by rapid expansion. GDP growth exceeded 10% in fifteen of those years and only dropped below 5% twice. Neither global economic events, such as the 1997 Asian financial crisis and the 2008 global recession, nor domestic political or policy shifts seemed capable of knocking the PRC economy off its trajectory. This growth pattern, and in particular an infrastructure- and investment-driven growth model designed to fuel a boom in manufacturing exports, fundamentally reshaped the global economy and upended supply chains as companies around the world relocated manufacturing operations to the PRC. This came to be known as the "China shock."

While the scale of the impact was massive globally, its particular manifestations varied based on the nature of each country's economic relationship with the PRC. For commodity exporters like Brazil and Indonesia, rapid growth in Chinese demand led to higher prices and windfall profits. For manufacturing sectors across the industrialized world, however, competition from Chinese firms—which often gained an advantage through expansive state subsidies, questionable labor practices, and intellectual property theft—made the China shock a uniquely disruptive experience. For many developing countries, the rate of growth suggested that the so-called China model might be an example worth following, with closer political and economic alignment with the PRC providing not only access to investment or development finance but also a set of economic policies to emulate.

Over the past several years, however, a new China shock is manifesting—an epochal development that will similarly reshape how the PRC's economic interlocutors engage with the country. Like the first China shock, the fundamental cause of the shift can be found in the rate and pattern of Chinese economic growth. Unlike the first shock, however, this one is the result of meaningfully slower growth. A 5% growth rate, which had been the bare minimum one could have expected for 40 years, now represents an ambitious target for the country's leadership. The imperative to understand the causes of this economic slowdown, analyze its trajectory, and examine its implications for China's trade and investment partners around the world is the motivating factor behind this study.

The first chapter analyzes the numerous factors driving this slowdown. Some are immutable: the natural tendency of growth to slow as a country develops and matures economically, the decline of growth engines such as infrastructure and housing, and a deteriorating demographic situation. Others, however, are driven by a pattern of government policy decisions over the past decade—ranging from short-term macroeconomic management to longer-term strategic choices—that have undermined or deprioritized economic growth.

Of course, China's economy is not collapsing. However, given its scale, the rate of its slowdown, and the changes in its growth model, previous approaches to economic engagement with the PRC, many of which are characterized by disproportionate levels of reliance on the country as a market or source of supply, are no longer viable. Despite PRC efforts to advance a misleading set of narratives regarding the value of economic engagement, as discussed in the second chapter, the data presented in this report tells a different story. Recognizing the immense implications of this reality for countries and companies that have aligned their economic strategies with a Chinese economic trajectory that no longer exists, this report ultimately seeks to understand the impacts of China's slowdown on countries that engage with the PRC through trade, investment, and other economic channels and to provide guidance for these actors on how to restructure their engagement to align with the new reality.

Our analysis proceeds both quantitatively and qualitatively, seeking first to map out the likely path of the PRC's slowing economy—a topic covered in both chapters 1 and 3—and then to examine the specific channels through which this slowdown will affect other countries. That examination proceeds from both the top down, through identifying a series of high-level impacts that will be felt by various types of economies, and from the bottom up, through conducting five country-specific case studies that provide tangible evidence of cross-country trends and assess the implications for countries seeking to re-evaluate their models of economic engagement with China. The countries selected as case studies—Brazil, Germany, Indonesia, Nigeria, and Paraguay—are intended to be diverse and representative of a variety of different approaches to trade and investment relations with China. This ensures that the report's analysis and policy implications are useful for not only the five countries but also the dozens of others that are similarly situated.

This project would not have been possible without the diligent efforts of the project team under the guidance of Principal Investigator Arthur Kroeber, whose knowledge of the PRC economy knows no bounds. AidData, in particular through the contributions of Ana Horigoshi and Rodney Knight, has been a perfect partner, providing a robust empirical foundation and unparalleled analytical rigor to strengthen the project's conclusions. The regional expertise of Ana and Rod, as well as Bryan Burgess and Jonathan Solis, was similarly instrumental to the project's case studies. NBR Nonresident Fellow David Gitter eagerly and deftly undertook the monumental task of condensing the entire apparatus of PRC propagandizing and narrative-crafting around its economy and international economic engagement into a single, cohesive chapter. And finally, I am immensely grateful to the rest of the NBR team—Doug Strub and Alison Szalwinski for their leadership and vision, Fern Hinrix for her research support, and Josh Ziemkowski for his editorial expertise.

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China's Slowing Economic Growth: Causes and Impacts

Arthur R. Kroeber

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EXECUTIVE SUMMARY

This chapter analyzes China's economic slowdown and considers the implications of the country's growth trajectory for its trade and investment partners.

MAIN ARGUMENT

Over the past decade, China has seen a steady decline in its real GDP growth rate. This rate has declined from an average of 10% in 1980–2012 to around 7% in the seven years preceding the Covid-19 pandemic (2013–19) and to less than 5% in the years since China exited the pandemic. Many independent forecasts suggest that the Chinese economy will continue to slow in the coming years. The International Monetary Fund, for instance, projects that the country's real growth rate could slow to around 3% by 2030. China's economic slowdown results from a mix of structural factors (such as demographics and the exhaustion of returns from infrastructure spending) and policy choices related to both long-term development strategy and short-term macroeconomic management. Under current policy conditions, China will probably record 4%–5% real GDP growth in 2025–26, falling to 3%–4% thereafter. There is little chance of macro policy becoming dramatically more stimulative. Deflationary pressure will likely persist, resulting from both the impact of the property sector collapse and the government's policies of increasing the supply of manufactured goods while doing little to support aggregate demand. As a result, nominal growth will not be much stronger than real growth.

POLICY IMPLICATIONS

- Sluggish growth will not prevent China's manufacturing sector from thriving, particularly given the government's industrial policies and the country's rising share in global export markets. Protectionist efforts to reduce the flow of Chinese exports in global markets will struggle to reverse this trend.
- China could achieve much stronger growth results with a more stimulative policy mix, including greater support for the property sector; interest rate cuts and currency depreciation; more fiscal spending to boost aggregate demand; and service-sector deregulation.
- China's investment and trade partners will need to contend with an economy whose demand for imports is sluggish and increasingly skewed away from manufactures toward commodities and other inputs, while the country's exports are increasingly competitive on global markets. Successful responses will require tapping into China's shifting patterns of commodity demand and extracting maximum advantage from its outbound direct investment flows.

Over the past decade China has seen a steady decline in its real GDP growth rate. This rate has declined from an average of 10% in 1980–2012 to around 7% in the seven years preceding the Covid-19 pandemic (2013–19) and to less than 5% in the years since China exited the pandemic. Many independent forecasts suggest that China's economy will continue to slow in the coming years. The International Monetary Fund, for instance, projects that the real growth rate could slow to around 3% by 2030.[1]

This chapter examines the sources of China's economic slowdown, presents policy choices that could improve or degrade China's growth prospects, comments on the trajectory of the country's economic policy, and analyzes changes in the composition of growth. It then concludes by discussing the implications of China's growth trajectory for the country's trade and investment partners, which will be examined in more detail in chapter 3 of this report.

Causes of China's Slowing Growth: Structural Factors

In the first two decades of this century, China was considered a "miracle economy." The Chinese economy grew at an average rate of over 10% until 2012 and at a slower, but still very respectable, rate of around 7% until the onset of the Covid-19 pandemic in 2020.[2] In 2021, China had the pandemic largely under control, while the rest of the world struggled with rolling lockdowns. As a result, its two-year average growth rate in 2020–21 (slightly over 5%) was among the world's strongest. In 2022, however, the tables turned and China's economy ground to a virtual standstill under pressure from the fast-spreading Omicron variant of Covid-19 and the collapse of the property market, while most other economies returned to normal. In the years since emerging from the pandemic, China's growth has been much weaker than expected, and the country has struggled to hit its target of 5% real growth. Weak growth, combined with deflationary pressure and high debt levels, has led to much speculation that China is headed for a repeat of Japan's zero-growth "lost decade" of the 1990s.

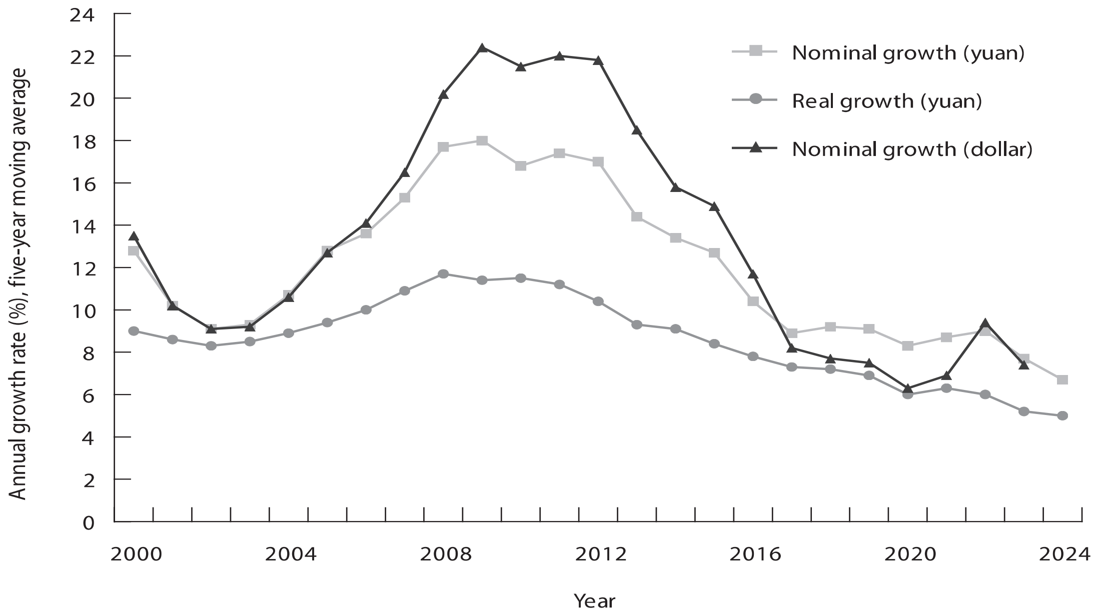
China's economic slowdown is real and permanent, and even more striking when looking at measures other than the real (constant-price) GDP growth rate (see **Figure 1**). The country's trend rate in real growth has indeed decelerated from a peak of around 12% in the early 2000s to around 5% in 2024. The slowdown in nominal growth has been even more dramatic, from a peak of around 18% in 2005–10 to just over 4% in 2024. When nominal growth is converted into U.S. dollars—taking account of exchange-rate movements—the downshift is even more dramatic, falling from a peak rate of over 20% to under 5%. This trend has been persistent over more than a decade, suggesting that deep structural forces are at play, in addition to the shorter-term buffets of the pandemic and property crashes.

We can divide the sources of China's slowdown into two broad categories: (1) structural factors, such as the country's stage of development and demographics, and (2) policy reasons relating to the government's long-term development aims and short-term macroeconomic management.

1 International Monetary Fund, "People's Republic of China: 2024 Article IV Consultation," IMF Country Report, no. 24/258, August 2024, https://www.imf.org/en/Publications/CR/Issues/2024/08/01/Peoples-Republic-of-China-2024-Article-IV-Consultation-Press-Release-Staff-Report-and-552803. Some private-sector estimates are even more pessimistic. See, for example, Roland Rajah and Alyssa Leng, "Revising Down the Rise of China," Lowy Institute, March 14, 2022, https://www.lowyinstitute.org/publications/revising-down-rise-china.

2 Unless otherwise noted, macroeconomic figures for this report are drawn from World Bank, World Development Indicators, https://databank.worldbank.org/source/world-development-indicators); IMF, World Economic Outlook, https://www.imf.org/en/Publications/SPROLLs/world-economic-outlook-databases; and China's National Bureau of Statistics, accessed via the CEIC database, available at https://www.ceicdata.com/en.

FIGURE 1 China's GDP slowdown in three measures



SOURCE: National Bureau of Statistics, accessed via the CEIC database, https://www.ceicdata.com/en; and World Bank, World Development Indicators, https://databank.worldbank.org/source/world-development-indicators.

This breakdown is inevitably arbitrary—structural factors are also affected by policy decisions—but still useful in helping understand both the nature of the slowdown and the potential impact of different policy choices on China's growth trajectory. The main structural factors are the natural tendency of high-growth developing economies to slow down as they get richer; the exhaustion of growth potential in housing and infrastructure, which powered much of China's growth in the first two decades of the twentieth century; and demographic decline.

A significant part of China's growth slowdown is simply the natural and unavoidable consequence of getting richer. When a country is relatively poor, it can generate huge productivity gains, and hence rapid economic growth, by yoking its low-wage labor force to modern technology.[3] As the country grows richer, the big gains achieved by moving workers from low-productivity jobs (e.g., in traditional agriculture) to high-productivity ones (e.g., in export manufacturing) run out, and growth slows as it needs to come more from hard-won improvements in efficiency and technology.

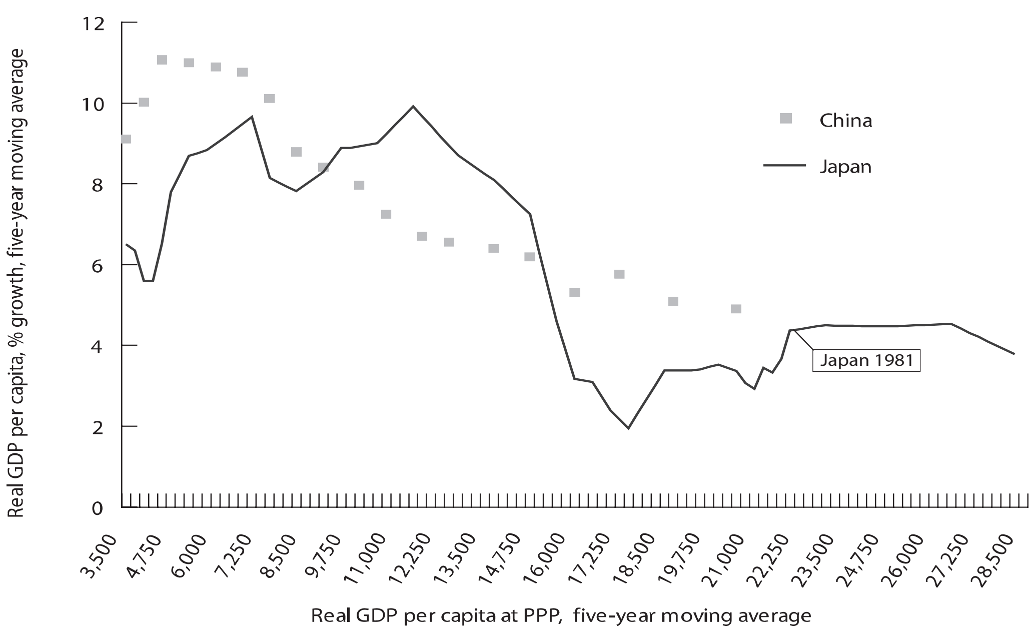
China's economic trajectory closely resembles that of its East Asian neighbors—Japan, South Korea, and Taiwan—all of which enjoyed long periods of 8%–10% growth, followed by significant decelerations. In the decade after they hit China's current income level (about $20,000 per person at purchasing power parity), Taiwan's per-capita real GDP growth averaged 6.5%, South Korea's

[3] Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge: Harvard University Press, 1962).

5.5%, and Japan's slightly over 4%.[4] At a first approximation, China's trajectory over the next decade is likely to follow that of Japan in the 1980s (see **Figure 2**) rather than the higher-growth paths of its smaller neighbors. The reason is simply that South Korea and Taiwan, as relatively small countries, could rely very heavily on exports to power their growth. Although China is a big exporter that runs a large trade surplus, as a large continental economy its ability to increase the export share of GDP is constrained. South Korea's export-to-GDP ratio was around 30% in the 1980s and 1990s and rose to over 35% in the 2000s. China's export ratio, conversely, peaked at 35% in 2006–7 and then fell after the global financial crisis, as the country turned more to domestic demand (see **Figure 3**). Its reliance on exports increased again in the early 2020s with a government campaign to shift capital into technology-intensive manufacturing. Even so, the export-to-GDP ratio rose only slightly. Export-led manufacturing will continue to be a key part of China's development strategy, and Chinese firms will expand their share of global markets. But it is unlikely that exports alone can generate a major reacceleration of growth in a $18 trillion economy.[5]

The second structural factor is the exhaustion of infrastructure and housing, which were major drivers of growth in the first two decades of the 21st century. This factor is linked to a slowdown in the rate of urbanization (see **Figure 4**). The urban population share rose from 19% in 1980 to 50% in 2010—in absolute terms, from 191 million to 670 million. By 2024, the urban population

FIGURE 2 Comparison of China's growth (1990–2023) with Japan (1955–93)

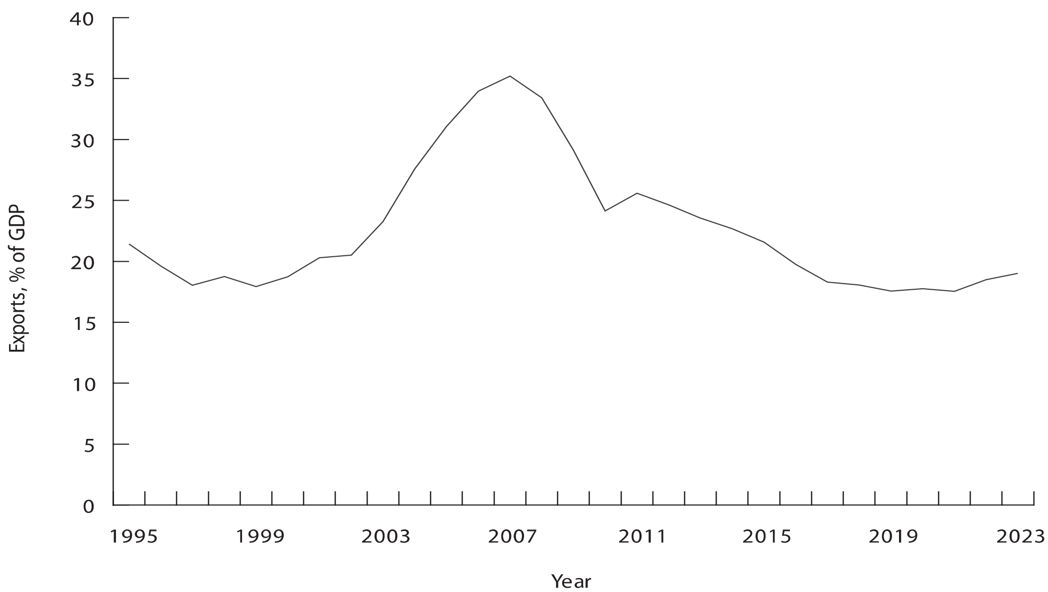


SOURCE: World Bank, World Development Indicators; and Penn World Table.

[4] These figures are all based on purchasing power parity. The figures for Japan are from the Penn World Table, and those for China are from the IMF's World Economic Outlook.

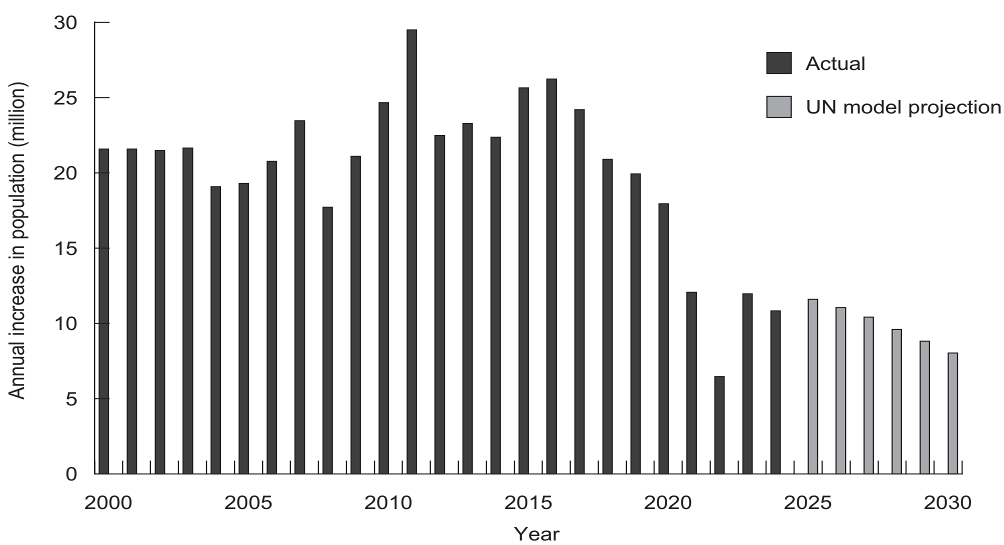
[5] Data on export/GDP ratios is from the World Bank, World Development Indicators, https://databank.worldbank.org/source/world-development-indicators. The IMF's 2024 Article IV Consultation projects a decline in China's export/GDP ratio.

FIGURE 3 China's export/GDP ratio, 1995–2023



SOURCE: National Bureau of Statistics, accessed via the CEIC database.

FIGURE 4 Rate of urbanization, 2000–2030



SOURCE: National Bureau of Statistics, accessed via the CEIC database; and UN Population Division, World Population Prospects 2024.

had risen to 944 million, or 67% of the national total. In other words, from the 1980s until the late 2010s, China's urban population grew by around 20 million per year. Since 2020, however, the country has added only around 10 million new urbanites per year, and urban population growth is expected to decline further in the coming years. New urban residents are important drivers of demand not just for housing but for all the goods and services that power a modern economy. As urban population growth slows, so too will the economy.

In the late 1990s, the government deregulated the urban housing market, setting off a construction frenzy that saw household fixed investment—in essence, housing purchases—soar from about 6% of GDP in the late 1990s to a peak of 16% in 2013.[6] Economists generally estimate that including indirect effects (among other effects, the stimulus of steel, cement, and other heavy industries and purchases of household furnishings), the real estate sector accounted for 25%–30% of GDP during the 2010s.[7]

State-led infrastructure spending was first boosted in the late 1990s with the issuance of special bonds to finance expressway construction and other projects. It continued in the 2000s with the rapid buildout of ports, telecom and power networks, and other infrastructure required to support the manufacturing boom that followed China's entry into the World Trade Organization in 2001. Spending on infrastructure received another massive push in 2009–10, when in response to the global financial crisis the government pumped a stimulus of roughly 15% of two-year GDP into housing and infrastructure projects, financed largely by local governments raising loans against their land holdings.[8]

Much of this investment was needed: in the early 2000s, China suffered from severe shortages of housing and infrastructure. The economic return on investment for the early infrastructure and housing projects was extremely high. Yet, over the next two decades China went from shortage to glut. Housing starts went from severely lagging the growth in urban population to overshooting it. After peaking in 2013, household investment in housing steadily declined to about 12% of GDP in 2020. Since then, it has fallen to around half that as the result of tight policy controls, which are discussed in the next section.[9] Meanwhile the buildout of massive—and increasingly underutilized—road, railway, and power systems meant that by the late 2010s the marginal economic benefit of new infrastructure projects approached zero. Despite these diminishing returns, central and local governments continue to have strong incentives to invest in infrastructure: such investments are the main tool for providing support to the economy during cyclical downturns.

The third structural factor is the reversal of the "demographic dividend." The simple account of the economic impact of demographics is that economies tend to grow more quickly when the working-age cohort (defined as ages 15–64) rises as a share of the total population and grow more slowly when the working-age share shrinks: the demographic dividend, followed by demographic drag.[10] The reality is a bit more nuanced. India, for instance, has persistently grown more slowly

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6 Andrew Batson and Xiaoxi Zhang, "Timing the Property Downturn," Gavekal Dragonomics, September 5, 2024, https://research.gavekal.com/article/timing-the-property-downturn.

7 Kenneth Rogoff and Yuanchen Wang, "China's Real Estate Challenge," *Finance and Development Magazine*, December 2024, https://www.imf.org/en/Publications/fandd/issues/2024/12/chinas-real-estate-challenge-kenneth-rogoff.

8 Victor Shih, "Big Rock Candy Mountain," *China Economic Quarterly* 14, no. 2 (2010): 26–32.

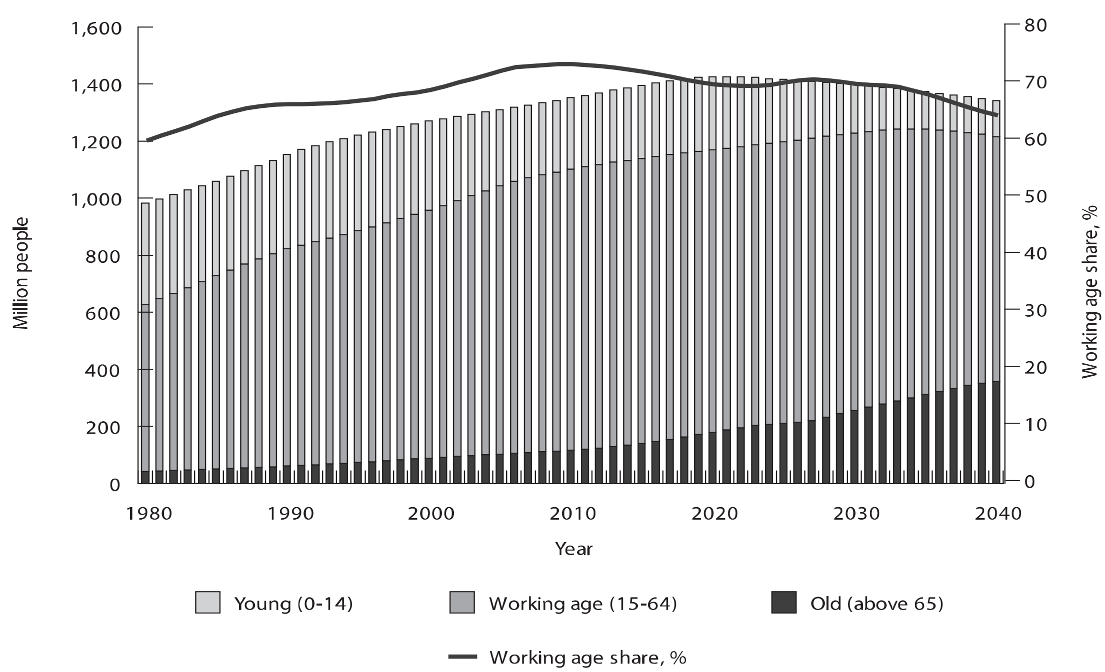
9 Batson and Zhang, "Timing the Property Downturn."

10 David E. Bloom, David Canning, and Jaypee Sevilla, *The Demographic Dividend: New Perspectives on the Economic Consequences of Population Change* (Santa Monica: RAND Corporation, 2003), https://www.rand.org/pubs/monograph_reports/MR1274.

than China, despite enjoying a similar demographic dividend. Demographers—including the inventor of the term "demographic dividend"—have tempered their claims about the malign economic effects of aging populations, noting that much of the impact can be offset by delaying retirement ages and other policy interventions.[11]

Nonetheless, there is little doubt that demography has shifted from a positive to a negative factor for China (see **Figure 5**). Between 1980 and 2010, the working-age cohort's share of the population rose from 59% to 73% (in absolute terms, from 600 million people to nearly 1 billion). China's average growth during those three decades was about 10% a year. Since 2010, the working-age share has fallen to 69%, and this has coincided with a fall in the average growth rate to 7% in the 2010s and about 5% in the 2020s. In the late 2020s, this decline in the working-age share will accelerate, and by 2045 (at the latest) it will be back to its 1980 figure of 59%. In absolute terms, the working-age population will be about 800 million, roughly midway between its 1980 level and the 2010 peak. Furthermore, the population share of retirement-age people is inexorably rising, from about 5% in 1980 to 15% in 2025 and 30% by midcentury. By then, the ratio of working-age people to retirees will be roughly the same as it is in Japan today. As the supply of productive workers shrinks, and the proportion of retirees requiring pension and healthcare assistance grows, economy-wide productivity growth, and hence GDP growth, can be expected to slow. Most of this demographic decline would have happened anyway, as it has in every other industrial economy.

FIGURE 5 China's aging population, 1980–2040



SOURCE: UN Population Division, World Population Prospects 2024.

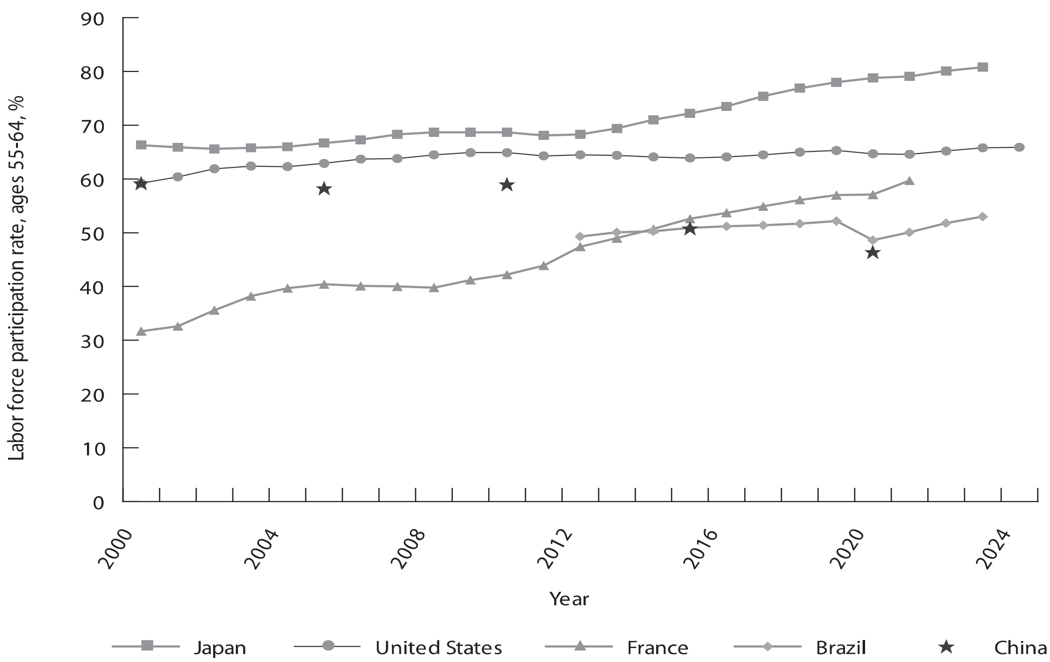
NOTE: Data represents the medium-fertility projection.

[11] Bloom et al., *The Demographic Dividend*.

But the decline was probably intensified by Beijing's reluctance to loosen restrictions on childbirth, which were fully abolished only in 2021.

Just how much economic slowing will be driven by demographic drag, however, is unclear. Recent research by the originators of the demographic dividend idea has found that countries can offset up to half of the loss in growth due to demographic drag as citizens extend their productive years by living longer and healthier lives.[12] On top of this, China's working-age population is very inefficiently deployed. Labor-force participation for those 50 and up is far lower in China than in most member economies of the Organisation for Economic Co-operation and Development (OECD) (see **Figure 6**). Restrictions on mobility through the *hukou* (residence permit) system prevent workers from moving to cities, where there is most demand for their skills. Over-regulation of services leads to an excess of low-productivity workers in state-controlled industries and an artificial suppression of higher-productivity employment in the private sector. There is thus plenty of potential policy space for China to offset demographic drag by eliminating barriers to employment for those in their 50s and 60s, boosting labor efficiency through abolishing the

FIGURE 6 China's labor force participation compared with other countries, 2000–2024



SOURCE: International Labour Organization; China data estimated from census data in National Bureau of Statistics, accessed via the CEIC database; and Arthur Kroeber and Ernan Cui, "How to Fight The Demographic Drag," Gavekal Dragonomics, Research Note, February 28, 2024.

12 Rainer Kotschy and David Bloom, "Economic Prospects in the Face of Population Ageing," Centre for Economic Policy Research, VoxEU, October 22, 2023, https://cepr.org/voxeu/columns/economic-growth-prospects-face-population-ageing.

remaining barriers to labor mobility, and deregulating service sectors.[13] At the same time, there is a significant risk that the demographic drag could have an outsized impact if compounded by policy inflexibility.

Causes of China's Slowing Growth: Policy Factors

The factors we have considered so far are all structural and basically unavoidable, although policy can sometimes mitigate or exacerbate their impacts on growth (especially when it comes to demographics and other structural factors that affect productivity). But policy choices by the government not related to structural economic trends have also played a role in China's economic slowdown, especially since 2020. Some of these policies are "strategic," in that they relate to a deliberate, long-run development strategy. At the other end of the spectrum are more "tactical" policies relating to short-term management of the economic cycle. In practice, it is not easy to distinguish neatly between the two, since all policies harbor both short- and long-term effects. But we can identify a linked set of policies that have tended to put downward pressure on growth over the past decade or more. Moving roughly from the more strategic to the more tactical these are the following:

- Reduced emphasis on market-oriented reforms and increased reliance on state guidance, starting around 2008.
- Efforts to constrain the growth of credit and reduce financial risk, beginning in late 2016.
- Efforts to forcibly shift capital away from real estate, infrastructure, and consumer services and toward technology-intensive manufacturing, accelerating after 2020.
- A crackdown on consumer-facing internet platforms in 2021–23.
- The maintenance of relatively tight monetary and fiscal policies in the post-pandemic period of 2023–24, adjusted with a careful economic support package announced in October 2024.

Market Reforms vs. State Guidance

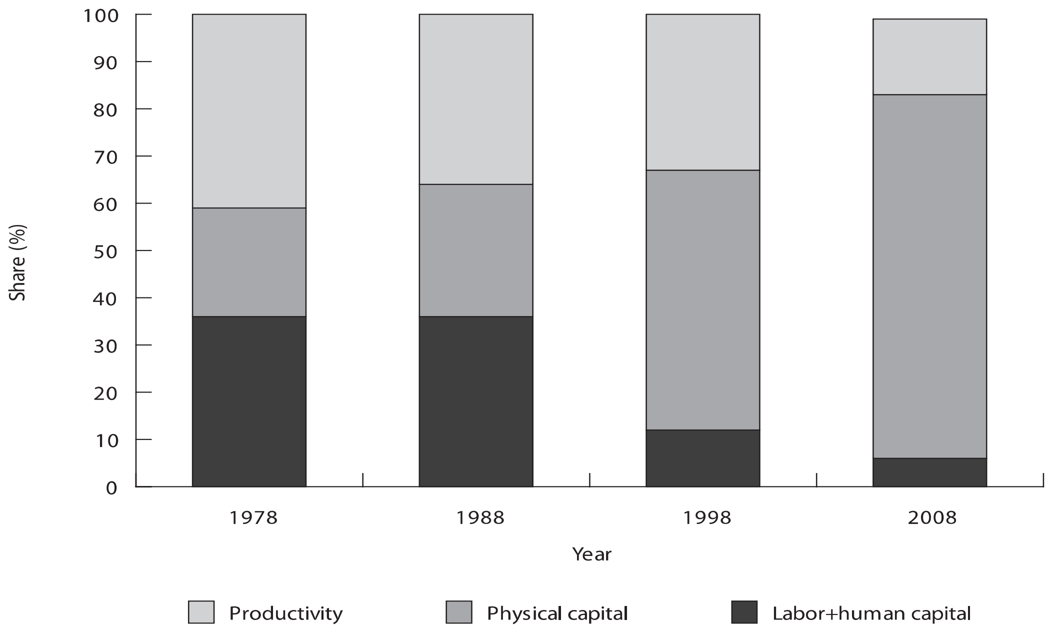
A story commonly told about China is that the last two decades have seen a shift from a broadly pro-market orientation to a policy mix that puts more emphasis on state guidance.[14] An alleged consequence of this shift is that productivity growth has fallen for three basic reasons. First, pro-market policies give more space to private firms, which consistently earn a higher rate of return on capital (i.e., are more productive) than state firms.[15] Policies that constrain the private sector or favor the state sector therefore probably reduce productivity growth (see **Figure 7**). Second, there is evidence that much of China's rapid productivity growth in the past came from "creative destruction" in the business sector: less efficient firms going out of business while more efficient firms thrive. It appears that the rate of creative destruction has gone down (i.e., inefficient firms

[13] Arthur Kroeber and Ernan Cui, "How to Fight the Demographic Drag," Gavekal Dragonomics, February 28, 2024.

[14] Barry Naughton, "Grand Steerage as the New Paradigm for State-Economy Relations," in *CPC Futures: The New Era of Socialism with Chinese Characteristics*, ed. Frank N. Pieke and Bert Hofman (Singapore: NUS Press, 2022), https://epress.nus.edu.sg/cpcfutures.

[15] David Dollar and Shang-jin Wei, "Das (Wasted) Kapital: Firm Ownership and Investment Efficiency in China," National Bureau of Economic Research, Working Paper, no. 13103, May 2007, https://www.nber.org/system/files/working_papers/w13103/w13103.pdf.

FIGURE 7 Factor contributions to annual GDP growth



SOURCE: Adapted from Roland Rajah and Alyssa Leng, "Revising Down the Rise of China," Lowy Institute, March 14, 2022; and Richard Herd, "Estimating Capital Formation and Capital Stock by Economic Sector in China: The Implications for Productivity Growth," World Bank, Policy Research Working Paper, no. 9317, July 2020, 25.

are surviving longer thanks to various forms of state support).[16] Finally, the increase of the state's role in the economy has led to an increase in the share of capital spending going to infrastructure, which has produced declining returns, and a decrease in the share going to business investment, which is more likely to underpin future productivity gains.

There is almost certainly some truth in this narrative. In particular, it is clear that in the late 2010s housing and infrastructure increased their share of fixed investment at the expense of business investment. Up to around 2010, roughly half of fixed investment was in the business sector. But in 2015–19 that share fell to one-third, while the infrastructure and housing share rose to two-thirds (see **Figure 8**).[17]

We need to be cautious, however, about how much of China's slowing growth can be pinned on a decline in productivity supposedly driven by more state-centric policies. For one thing, productivity growth has slowed in virtually every economy in the world since around 2005, for reasons that are not well understood.[18] It is likely that China's productivity slowdown is both for

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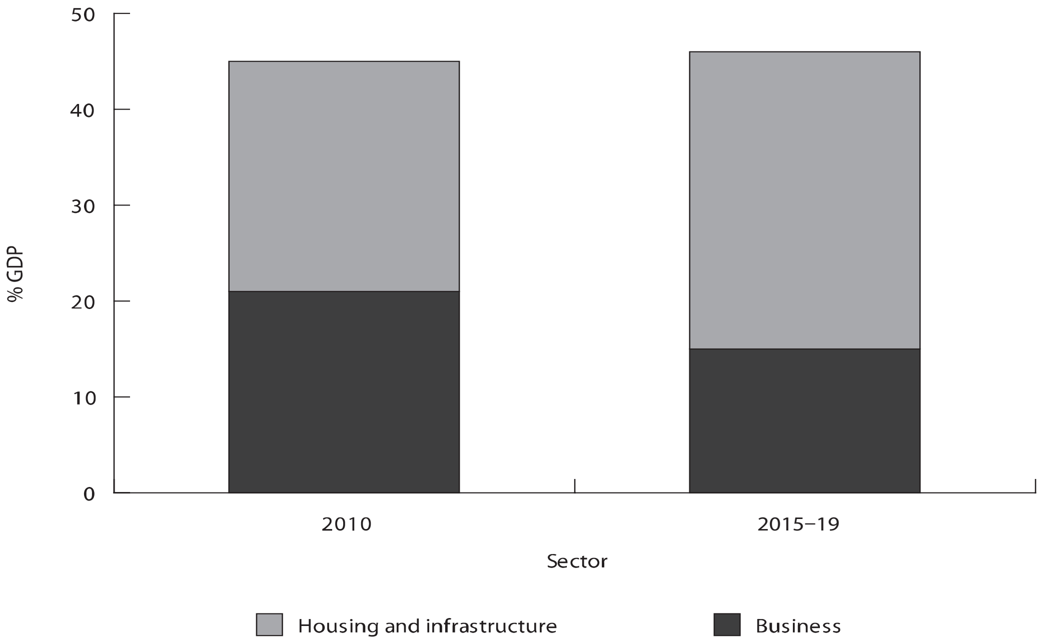
16 Loren Brandt et al., "China's Productivity Slowdown and Future Growth Potential," World Bank, Policy Research Working Paper, no. 9298, June 2020, https://openknowledge.worldbank.org/handle/10986/33993.

17 Richard Herd, "Estimating Capital Formation and Capital Stock by Economic Sector in China: The Implications for Productivity Growth," World Bank, Policy Research Working Paper, no. 9317, July 2020, 25, https://openknowledge.worldbank.org/handle/10986/34126.

18 See, for instance, Georg Erber, Ulrich Fritsche, and Patrick Christian Harms, "The Global Productivity Slowdown: Diagnosis, Causes and Remedies," Intereconomics, January/February 2017, https://www.intereconomics.eu/contents/year/2017/number/1/article/the-global-productivity-slowdown-diagnosis-causes-and-remedies.html; and Alistair Dieppe, ed., *Global Productivity: Trends, Drivers, and Policies* (Washington, D.C.: World Bank, 2021).

FIGURE 8 Investment in business and infrastructure as a share of GDP



SOURCE: Adapted from Rajah and Leng, "Revising Down The Rise of China"; and Herd, "Estimating Capital Formation and Capital Stock by Economic Sector in China."

reasons that are specific to China and for reasons that are more global in nature. For another thing, while economists agree that productivity (more precisely, total factor productivity) is the most important driver of long-term economic growth, they do not agree on what causes productivity or even how to measure it consistently.[19] The basic problem is that there is no standard method for deciding where additions to capital end and productivity begins. This is an especially large problem for China, which has a very high rate of capital formation (consistently above 40% of GDP) and a statistical system that is heavily biased toward the measurement of physical capital.

Controlling Financial Risk and Limiting Debt

The second key policy choice with a major impact on growth is the effort to control debt and financial risk. Up until the 2008–9 financial crisis, China's gross debt (borrowing by the government, households, and nonfinancial corporations) was relatively stable, and not excessively high, at less than 150% of GDP. In the following decade, though, debt rose dramatically. The main reason was that, in response to the financial crisis, the government launched a debt-financed fiscal stimulus program totaling around 15% of aggregate GDP from late 2008 through 2010.[20] One of the main mechanisms was local governments' use of special-purpose companies to borrow

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19 For a good explanation of the problems with measuring productivity, see John G. Fernald, Robert Inklaar, and Dimitrije Ruzic, "The Productivity Slowdown in Advanced Economies: Common Shocks or Common Trends?" Federal Reserve Bank of San Francisco, February 1, 2023, https://www.frbsf.org/research-and-insights/publications/working-papers/2023/02/the-productivity-slowdown-in-advanced-economies-common-shocks-or-common-trends.

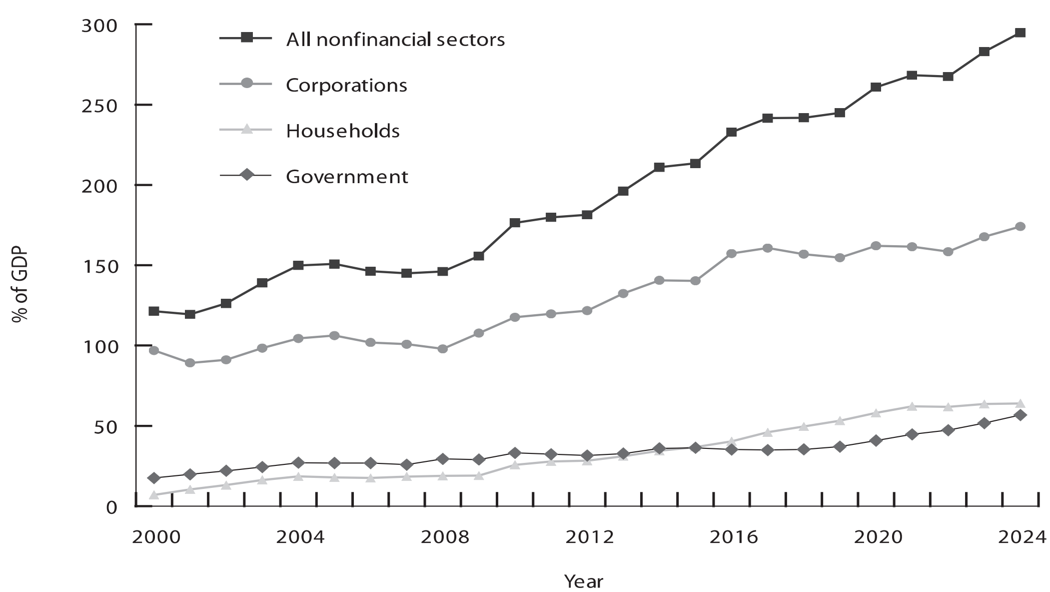
20 Shih, "Big Rock Candy Mountain."

against the land assets that they controlled (local-government financing vehicles, or LGFVs). Local governments used these borrowed funds to build infrastructure (thereby exacerbating the structural decline in the contribution of infrastructure to growth), help state enterprises buy assets, and cover regular operating expenses.

Although local governments were the main culprits, there were other drivers of debt. Financial deregulation between 2009 and 2017 made it much easier for companies and households to borrow, using increasingly complicated structures involving a plethora of non-bank lenders (so-called shadow banking). The long property boom resulted in a big rise in both mortgages and loans to property developers. As a result, gross debt had risen to about 250% of GDP by 2017 (see **Figure 9**). The risk that this debt buildup will trigger a dramatic financial crisis is low. Because almost all the debt is issued by local banks in local currency, foreign creditors cannot prompt a crisis by calling in their loans. Moreover, with the government controlling all of the lenders and many of the borrowers, no group of domestic private actors is big enough to set off a crisis. And the systemically important banks back their loans with a huge pool of low-risk deposits, made possible because of the high national savings rate (around 44% of GDP) and tight capital controls that make it very hard for Chinese citizens to move their money abroad.[21]

Nonetheless, there is significant risk that excessive debt, used largely to finance low-productivity investments, will be a long-term drag on China's growth potential. Hence, this factor is closer to the strategic than the tactical end of the policy spectrum. The government is well

FIGURE 9 Debt as a share of GDP, 2000–2024



SOURCE: Chinese Academy of Social Sciences, Center for National Balance Sheets of Institutions for Finance and Development, accessed via the CEIC database.

[21] "China Gross Saving Rate," CEIC database, https://www.ceicdata.com/en/indicator/china/gross-savings-rate.

aware of this risk, which is why efforts to control the buildup of debt have been a constant feature of Xi Jinping's time in office. In 2013–15, local governments were allowed to borrow directly for the first time. The hope was that they would refinance their LGFV debt at lower rates and slow down their debt accumulation; instead, they refinanced and kept borrowing through LGFVs. In 2015–17, the government launched a campaign to reduce debt and excess capacity in heavy industry ("supply-side structural reform"). This was largely successful, and Chinese companies running real businesses in competitive sectors generally do not have unusually high debt levels.[22] In the official debt breakdown shown in Figure 8, over half of the nation's gross debt is classified as "corporate." Yet, this includes a large amount of LGFV debt, which is technically corporate—because the borrowers are companies not government entities—but in reality is disguised local government debt.

Starting in 2017, the government launched a "financial de-risking" campaign in order to eliminate risky shadow banking and make it harder for companies and households to pile up debt. This campaign was also successful, although at some cost. Private companies, which are largely shut out of the formal banking system, lost access to a key source of credit, and arguably the recentralization of credit creation in the big state-owned banks made capital allocation more risk-averse and less efficient.[23] The re-regulation of finance almost certainly improved financial stability, but it might have had a negative impact on China's economic growth.

Despite all these efforts, debt has continued to grow and now stands at around 300% of China's GDP according to official data.[24] The root cause is that many local governments do not have enough revenue sources to fund their operating and capital expenditures—especially since the collapse of the property market, which is discussed later—and transfers from the central government do not fully cover the shortfall. As a result, local governments resort to borrowing to make up their deficits. The solution is comprehensive fiscal reform that would enable localities to match expenditures with revenues, but there is no imminent prospect of such reform taking place. Instead, local governments are going through another round of refinancing, swapping out old debts for new ones with lower interest rates and longer repayment terms.

The debt problem impedes growth in two ways. First, the large stock of debt financing low-return investments means that less money is available to finance high-return projects. Second, the desire to prevent debt levels from rising much more means that the government is reluctant to engage in strong monetary or fiscal stimulus to boost the economy when it is weak—as was the case in 2023–24.

Crushing the Property Sector and Shifting Capital to High-Tech Manufacturing

The third major set of policies affecting China's growth trajectory is the government's drive to reallocate capital away from real estate and toward technology-intensive manufacturing. High-tech manufacturing has long been a focus of Chinese industrial policy, but this focus has intensified in the last decade, essentially for two reasons. First, the government recognized that

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[22] Thomas Gatley, "The Promise and Peril of Industrial Policy," Gavekal Dragonomics, August 21, 2024, https://research.gavekal.com/content/the-promise-and-peril-of-industrial-policy. The average debt-to-equity ratio of all listed nonfinancial firms in China fell from 65% in 2013 to 52% in 2023. Excluding real estate firms, the decline in this leverage ratio was steeper, from 62% to 47%. Both state and private firms saw roughly comparable declines.

[23] Nicholas R. Lardy, *The State Strikes Back: The End of Economic Reform in China?* (Washington, D.C.: Peterson Institute for International Economics, 2019).

[24] China Academy of Social Sciences, Center for National Balance Sheets of Institutions for Finance and Development, accessed via CEIC database.

the infrastructure and property boom was structurally running out of steam, that a new growth engine was required, and that this new engine should rely mainly on innovation and higher total factor productivity rather than on endless inputs of capital.[25] Second, the 2018–19 trade war with the United States and the subsequent U.S. imposition of tight sanctions and technology export controls cemented the leadership's belief that China needed to become self-sufficient in key technologies.

A decisive moment in this shift occurred in August 2020, when Beijing issued the "three red lines" policy requiring that property developers drastically reduce their debt and instructing banks to curtail credit to developers.[26] This policy can be seen both as an extension of the financial de-risking campaign (because it aimed to reduce property-related debt) and as a move in the capital-reallocation strategy (because it freed up banks to lend more to high-tech manufacturing). The three red lines precipitated a collapse in the national property market. Over the next three years, housing sales fell by half, and the number of new houses under construction fell by over 60%. Most property market indicators began to stabilize in late 2024, but the majority of private (and even some state-owned) developers were still in financial distress. The real estate sector will probably not return to growth until 2026 or 2027—a trend that will inevitably constrain GDP growth, given the sector's significant share of GDP, as was discussed earlier.

The property crash has produced numerous spillover effects—notably, lower demand for heavy industrial products and their commodity inputs and a hit to consumer confidence (discussed later). The impact on heavy industry, though substantial, was actually not quite as dramatic as might have been expected, given the large role of housing in the demand for materials. One reason was continued government support for infrastructure investment, despite diminishing returns. Another was rising reliance on export markets, reflecting the disparate channels through which slowing growth can affect trade and investment partners (discussed later). Steel exports, for instance, doubled from 54 million tons in 2020 to 110 million tons in 2024. China exported about 40% more steel than either Japan or the United States produced in that year.[27]

These efforts to force China into a hard tech–oriented growth track have had a dramatic impact on the composition of the country's economy. Their ultimate effect on growth is somewhat less clear. The effort to reallocate capital away from property and into manufacturing has succeeded: the volume of new loans to industry rose eightfold between 2019 and 2023, from 590 billion renminbi to 4.8 trillion renminbi (or from \$85 billion to \$670 billion) (see **Figure 10**).[28] The success of Chinese high-tech manufacturing is now globally evident—and keenly felt by trading partners—through China's huge exports of electric cars and batteries and massive increases in semiconductor production. Meanwhile, household investment in property has shriveled back to approximately its pre-2000 level.[29] On the whole, the most likely outcome of the industrial policy–led growth model is for sectoral success in many of the targeted high-tech industries, but also for significantly

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25 Central Committee of the Communist Party of China and the State Council of the People's Republic of China, "Outline of the National Innovation-Driven Development Strategy," May 19, 2016, trans. Center for Security and Emerging Technology, https://cset.georgetown.edu/publication/outline-of-the-national-innovation-driven-development-strategy.

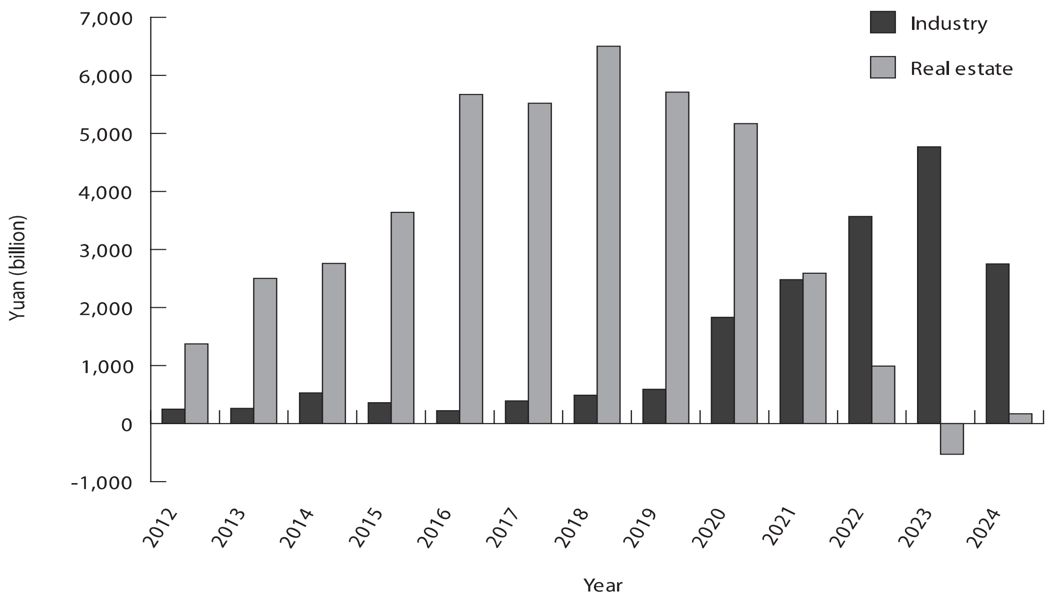
26 "What China's Three Red Lines Mean for Property Firms," Bloomberg, October 8, 2020, https://www.bloomberg.com/news/articles/2020-10-08/what-china-s-three-red-lines-mean-for-property-firms-quicktake.

27 Jing Zhang, "China's Steel Exports Face Rising Trade Barriers as Antidumping Cases Surge," S&P Global, February 25, 2025, https://www.spglobal.com/commodity-insights/en/news-research/latest-news/metals/022525-chinas-steel-exports-face-rising-trade-barriers-as-antidumping-cases-surge.

28 Data is from China's National Bureau of Statistics, accessed via CEIC database.

29 Batson and Zhang, "Timing The Property Downturn."

FIGURE 10 Bank lending shift from property to industry (net new medium-/long-term bank loans by sector)



SOURCE: National Bureau of Statistics, accessed via the CEIC database.

weaker growth than would be possible under a more demand-focused strategy. The basic reason is that it is not obvious how successes in high-tech production will create spillovers driving higher productivity and wages in services, which account for the majority of employment and all net new job creation.[30]

Internet Crackdown and Declining Private-Sector Confidence

Another policy move executed at around the same time as the three red lines was a severe crackdown on internet companies that began in November 2020 with the cancellation of the initial public offering of Ant Group, a financial-technology spinoff of the e-commerce behemoth Alibaba. After the cancellation, restrictive policies engulfed most of China's top internet firms for about two years. The end result of the campaign was that all internet firms were subjected to much tighter regulation, effective prohibitions on certain business activities (such as fintech or online healthcare), and strict controls on collecting, storing, and monetizing data as well as on these firms' ability to operate internationally.

The internet crackdown had several motivations: a desire to control the financial and social risks posed by unregulated growth in the sector, a desire to prevent internet firms and their founders from becoming alternative sources of political power, and the perceived privilege of investments in hard technologies like semiconductors, industrial automation, and green technology over consumer services. The latter perception was based on the theory that long-term growth in

30 Arthur R. Kroeber, "The 'Venture Capital State': Implications for China's Growth," in *Not Just Another Cold War: The Global Implications of the U.S.-China Rivalry*, ed. Bård Nikolas Vik Steen (New York: Oxford University Press, 2025), 75–100.

productivity comes more from the these technologies than from consumer services, despite the fact that the less state-influenced, consumer-focused service sector has generally outperformed in terms of returns on capital.

While the tighter internet policy affected a minuscule proportion of Chinese private companies, some of the largest and most internationally prominent companies were among those affected.[31] The signaling effect was clear: the kind of freewheeling entrepreneurship that had led to the spectacular growth and innovation in China's internet sector in the preceding two decades would no longer be tolerated. Instead, future growth in high technology would focus on the hardware sectors that were favored by government industrial policy and posed no risk of social destabilization.

This signaling effect doubtless contributed to the sustained downturn in private-sector business and consumer confidence that has plagued the economy since early 2022. Several other factors depressed confidence. Covid-19 lockdowns swept the country in 2022, and unlike in the United States and Europe, people who lost incomes or jobs received no support from the government. As a result, precautionary saving rose and did not fall much after Covid-19 restrictions were lifted at the end of the year. The property crash not only eroded the main store of wealth for households but also hurt small business owners, who often relied on their homes or other property assets to raise loans. Many small businesses had already been hurt by the crackdown on shadow banking. The slowdown of consumer spending meant that consumer-facing businesses were reluctant to invest and hire new employees. This led to a self-reinforcing growth-slowing cycle, as households cut back on spending because they were pessimistic about their employment prospects.

Fiscal and Monetary Policy Stances

To summarize, over the past decade—and especially since 2020—China's leadership has undertaken a suite of strategic policies designed to increase the state's control over the economy, reduce debt and financial risk, and remake the Chinese economy as one driven mainly by technology-intensive manufacturing rather than investment in infrastructure and real estate. The stated intention of these measures was to put economic growth on a more sustainable footing and to boost total factor productivity. (Whether the policies are likely to succeed in achieving these goals is another matter, discussed in the next section.)

In the short run, however, the overall impact of this policy package has been to reduce economic growth. The basic problem is that the real estate sector directly and indirectly accounted for more than a quarter of China's economy; hence, cutting it in half created a massive hole in aggregate demand, which no amount of manufacturing investment could fill.[32] Normally, governments respond to shortfalls in aggregate demand by launching stimulus through monetary policy (lower interest rates) or fiscal policy (more government spending). Until the autumn of 2024, China's government was reluctant to do either. Why was this the case?

The basic reason seems to be that Xi Jinping and his top economic officials believed that a short-term hit to growth is the price to pay for the strategic reorientation of the economy. Their apparent conviction is that long-term growth is driven by investments in the right technology, and that

[31] Tianlei Huang and Nicholas R. Lardy, "Is the Sky Really Falling for Private Firms in China?" Peterson Institute for International Economics, October 14, 2021, https://www.piie.com/blogs/china-economic-watch/sky-really-falling-private-firms-china.

[32] Gerard DiPippo, "Focus on the New Economy, Not the Old: Why China's Economic Slowdown Understates Gains," RAND Corporation, February 18, 2025, https://www.rand.org/pubs/commentary/2025/02/focus-on-the-new-economy-not-the-old-why-chinas-economic.html.

aggregate demand will eventually pick up once enough of those investments pay off. Short-term efforts to boost demand do not contribute to growth in the long run, and could even create more problems by adding to China's already high debt level.[33]

Nonetheless, by the late summer of 2024, it had become clear that the economy was slowing sharply, and deflationary pressures were deepening. In response, the government in October launched an economic stabilization package, including fiscal and monetary stimulus and measures to support the property and stock markets. Rollout of the program was done in stages, with many of the fiscal measures not being implemented until the release of the 2025 budget at the National People's Congress in March 2025.[34] Yet, the measures already were having a modest positive effect in the fourth quarter of 2024: retail spending and industrial production had risen significantly, property sales stabilized (at very low levels), and economy-wide deflation fell slightly. At the National People's Congress the government set a real GDP growth target of "around 5%" for 2025 and stepped up its rhetoric in support of boosting consumer demand. China will probably achieve 4.5%–5% real growth in 2025. Policy statements since October 2024 have made it clear that the government will add stimulus as needed to achieve the target, and various projections reflect that likely outcome.[35] Significant additional stimulus will be needed to offset the negative effect of the additional tariffs imposed on Chinese goods by the Trump administration, which will suppress export growth.[36]

However, this stabilization masks substantial problems. Thanks to persistent deflation, nominal growth in China will be weaker than real growth. The downdrafts in consumer and business confidence are unlikely to be corrected soon. The strategic policy direction of focusing on industrial policy as a driver of growth will probably stay in place, ensuring a deflationary bias. The structural factors driving slower GDP growth are thus not going away. In fact, over the next several years, China's economy will continue to decelerate.

Note on U.S. Tariff Policy

The above analysis was completed before the Trump administration's tariff announcements of April 2025 that raised tariffs on Chinese imports to over 100%, which subsequently were reduced to around 40% under a temporary agreement reached on May 12.[37] If these tariffs stay in place or are increased again, China's GDP growth in 2025 will probably be reduced by between 0.5 and 2 percentage points (depending on the actual tariff level), unless the government unleashes

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33 Lingling Wei, "China Isn't Planning a 'Bazooka' Stimulus—at Least Not This Year," *Wall Street Journal*, November 4, 2024. https://www.wsj.com/world/china/china-isnt-planning-a-bazooka-stimulusat-least-not-this-year-5250ad6e?page=2

34 Key elements of the package included interest rate cuts, new or increased funding lines from the People's Bank of China to support the purchase of stocks and unsold property, a pledge to issue 10 trillion renminbi in new central government bonds to refinance local government debt and recapitalize the major banks, a target of increasing the central government's deficit spending starting in 2025, various programs to support the property market, and subsidies to encourage both businesses and households to upgrade old appliances and equipment.

35 See, for example, "China Sets Bullish Growth Goal of about 5%, Despite U.S. Tariffs," Bloomberg, March 5, 2025; and OECD, *OECD Economic Outlook, Interim Report March 2025: Steering through Uncertainty* (Paris: OECD Publishing, 2025), https://www.oecd.org/en/publications/oecd-economic-outlook-interim-report-march-2025_89af4857-en.html.

36 As of the time of writing in May 2025, U.S. tariffs on most Chinese imports stood at approximately 40%, comprising a 10%–11% effective tariff rate resulting from tariffs imposed in 2018–23, a new 10% baseline tariff applied to all U.S. imports, and an additional 20% tariff ostensibly in retaliation for China's failure to control the export of fentanyl precursor chemicals.

37 Daisuke Wakabayashi, Amy Chang Chien, and Alan Rappeport, "U.S. and China Agree to Temporarily Slash Tariffs in Bid to Defuse Trade War," *New York Times*, May 12, 2025, https://www.nytimes.com/2025/05/12/business/china-us-tariffs.html. Estimates of the effective tariff rate on Chinese imports after the Geneva agreement range from 33% to 51%; the actual tariff regime is now so complex that a precise figure is hard to calculate. See "State of U.S. Tariffs: May 12, 2025," Budget Lab at Yale, https://budgetlab.yale.edu/research/state-us-tariffs-may-12-2025; Chad P. Bown, "U.S.-China Trade War Tariffs: An Up-to-Date Chart," Peterson Institute of International Economics, May 14, 2025, https://www.piie.com/research/piie-charts/2019/us-china-trade-war-tariffs-date-chart; and Arendse Huld, "Breaking Down the U.S.-China Trade Tariffs: What's in Effect Now?" China Briefing, May 23, 2025, https://www.china-briefing.com/news/us-china-tariff-rates-2025.

additional fiscal and monetary stimulus. Because of concerns about debt sustainability, the government will likely compromise by providing additional stimulus, while also accepting lower growth. Assuming that the tariffs remain in place beyond the short term, China will probably adjust its policy to enhance the focus on promoting domestic demand and cultivating new export markets for its manufacturers. Given its large internal market and strong comparative advantage in manufacturing, China should be able to weather the trade war storm—especially with all of its competitors in Asia also being subject to high U.S. tariffs. If these tariffs persist in the long run, Chinese growth rates will be somewhat lower than described in this chapter, but so will the growth of most other countries in the world. China's growth will still decelerate, but it is possible that growth will be driven more by demand from domestic consumption than by industrial policy–led investment. If so, this would be marginally positive for most of China's trade partners.

Assessment and Conclusions

China's economy is slowing for a wide range of structural and policy reasons, and continued deceleration is likely to occur throughout the 2020s. Xi Jinping and his advisers now see the government's central economic management task as building up the nation's technological capacities, not maximizing growth. Because of this strong supply-side policy bias, disinflationary pressure will be persistent. Although consumer price inflation hovered just above zero in 2023–24, the broadest measure of economy-wide inflation, the GDP deflator, was negative for seven straight quarters through the end of 2024.

Deceleration, however, is not synonymous with disaster. China's economy is still by a wide margin the world's second-largest, with a GDP of roughly $18 trillion, and despite some misplaced concerns, it is unlikely to replicate Japan's experience of a zero-growth "lost decade."[38] Even if its average real growth slows to 3% over the next decade, as long as the exchange rate stays stable, China will contribute more than twice as much to global GDP growth over the decade as India, which is expected to grow at least twice as fast.[39]

The comparison with 1990s Japan is worth a closer look. There are some superficial similarities: both countries experienced a huge property market collapse, had high debt levels, and experienced sustained deflation. But the differences are more salient. The Japanese asset price bubble of the 1980s was severe: the prices of both land and equities rose sixfold between 1980 and 1989.[40] This necessitated a correspondingly large collapse in asset prices (around 80%) after 1990. China has suffered no such asset bubble: domestic equity prices rose by just 15% in the 2010s, and the official index of new urban housing prices rose by just 65%.[41] Its property sector had a problem of severe overbuilding, but not of wildly inflated prices. The other critical difference is that in Japan banks

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38 This concern has been frequently aired in the media since 2023. See, for instance, "Does China Face a Lost Decade," *Economist*, September 10, 2023, https://www.economist.com/finance-and-economics/2023/09/10/does-china-face-a-lost-decade.

39 China's 2024 GDP was $18.8 trillion at current exchange rates; India's was $3.9 trillion. If China's real GDP grows at an average of 3.5% starting in 2025, and India's grows at 7%, then (ignoring exchange rate movements) China will add $7.7 trillion to GDP over the next decade, while India will add $3.77 trillion. Data is from World Bank, World Development Indicators.

40 Shuichi Uemura and Takeshi Kimura, "Japanese Share Prices," Bank for International Settlements, BIS Conference Papers, no. 5, March 1998, http://bis.org/publ/confp05g.pdf.

41 China's data, which is an average of 70 cities, understates the rapid price appreciation of housing in the most desirable cities such as Beijing, Shanghai, and Shenzhen. But BIS data on home prices, which tries to create a standardized measure across countries, reports that prices in China rose 54% from the beginning of 2010 to the peak in mid-2021. By contrast, home prices rose by 128% in Japan in the decade before the 1991 peak and by 149% in the United States in the decade before the 2006 peak. "Residential Property Prices," BIS, Data Portal, https://data.bis.org/topics/RPP.

and industrial companies owned shares in each other, and the underlying value of these shares was heavily determined by land values.[42] Thus, when inflated land values collapsed, both corporations and banks were caught together in a classic debt-deflation spiral in which everyone tries to sell assets at once to pay down debt, but the resulting fall in asset prices perversely causes the real value of debt to rise rather than fall.[43] In China, cross-shareholdings of this type are prohibited (precisely because of the lessons from Japan), and the exposure of the large systemically important banks to property developers is relatively small.

The result is that in contrast with the unified balance-sheet collapse that Japan suffered, China's problem is fragmented. Property developers, many local governments, and some state enterprises have big debt problems, whereas much of the productive corporate sector does not, and the banking system as a whole is still able to expand the total supply of credit. China's property and debt problems are very serious and will take more time to resolve, but they do not fundamentally constrain the nation's ability to keep investing in productive new assets.

The base case, therefore, is that China's economy continues to grow, but at a slower rate than in the past. The most likely trajectory over the next decade is a continued deceleration from the current real growth rate of 4%–5% to 3%–4%, followed by stabilization. Slower growth will be accompanied by persistent deflationary pressure, which China could export to the rest of the world through lower prices of manufactured goods. For the rest of the world, therefore, the key variable for gauging China's impact is not the speed of its growth but the changes in its composition. With respect to this point, the most important findings are the following:

- Despite much talk over the past decade—most recently through discussions of "dual circulation"—there is no sign that China's economy is fundamentally "rebalancing" from investment-led to consumption-led growth. Its policy clearly supports a continued high investment ratio of around 40% of GDP.
- However, the focus of investment is shifting away from property and infrastructure to technology-intensive manufacturing.
- This policy focus will keep the manufacturing share of GDP relatively high (probably above 20%) for some years to come. However, China is not immune to the natural tendency of economies to become more service-oriented as they grow richer. The service sector has, since the early 2010s, accounted for all net new job creation. As the service sector's share of GDP continues to grow, the trend rate of economic growth will fall, since as a general rule it is harder to generate rapid productivity gains in services than in manufacturing.
- Reliance on external demand will remain at least as high as it is today and could grow. The question is how much of this external demand will be tapped by exports, and how much by Chinese companies internationalizing their operations and setting up production bases overseas.

China could certainly achieve a higher growth rate through a different policy mix. More growth-friendly policies would include a greater emphasis on domestic demand, deregulation of the service sector to push up productivity across the widest swath of workers, and comprehensive fiscal and financial reforms to boost capital efficiency. However, such a comprehensive change in policy direction is improbable under the current leadership, although piecemeal reform efforts

42 Uemura and Kimura, "Japanese Share Prices."

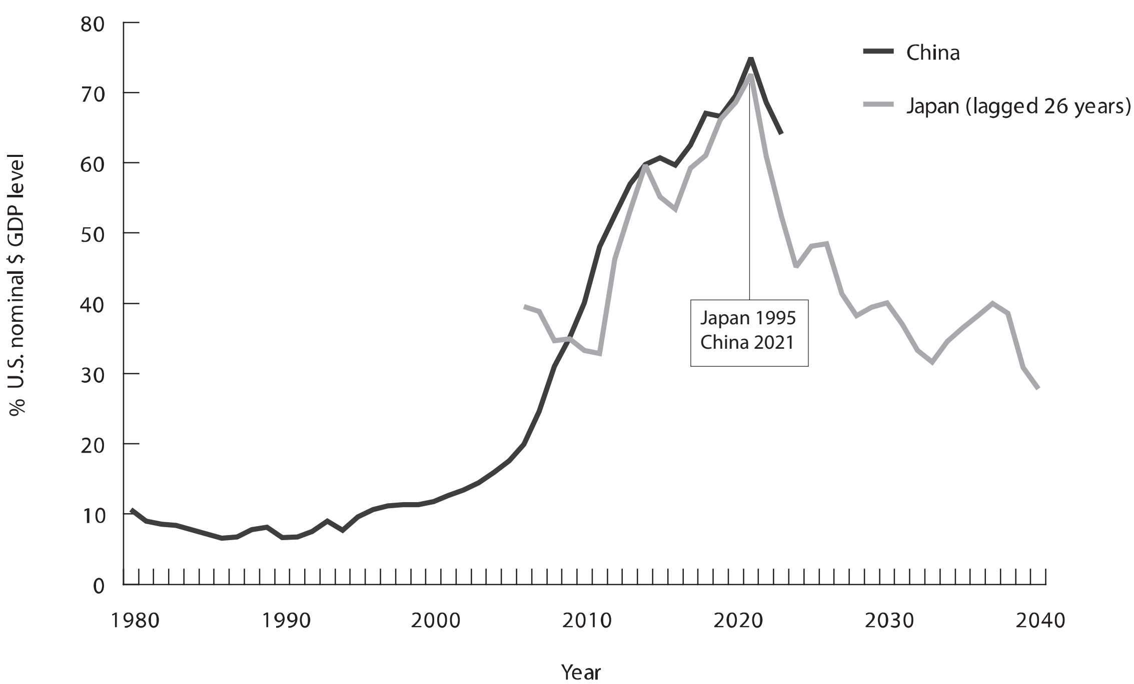
43 Irving Fisher, "The Debt-Deflation Theory of Great Depressions," *Econometrica* 1, no. 4 (1933): 337–57, https://fraser.stlouisfed.org/files/docs/meltzer/fisdeb33.pdf

are possible. The industrial policy–led growth model that began to be articulated with the Made in China 2025 plan in 2015 is now firmly entrenched throughout the Chinese system, and the political urgency of prioritizing technological development and self-sufficiency over GDP growth was cemented by the deterioration of relations with the United States over two successive U.S. administrations of different parties in 2017–24.

On the other hand, the broad-based economic stabilization package launched in the autumn of 2024 shows the limits of the leadership's tolerance for a weak economy. Although debt levels are high, the central government still has significant spare capacity to mobilize resources to support growth if it feels that the need is urgent enough. It would therefore be unwise to bet on China's growth falling much below the 3%–4% range in the coming decade. The cost of maintaining this spare capacity, however, is a high wall of capital controls to ensure that savings stay inside the country rather than leaking out through capital flight. This will constrain China's ability to internationalize its currency or underwrite large-scale non-dollar international payment systems.

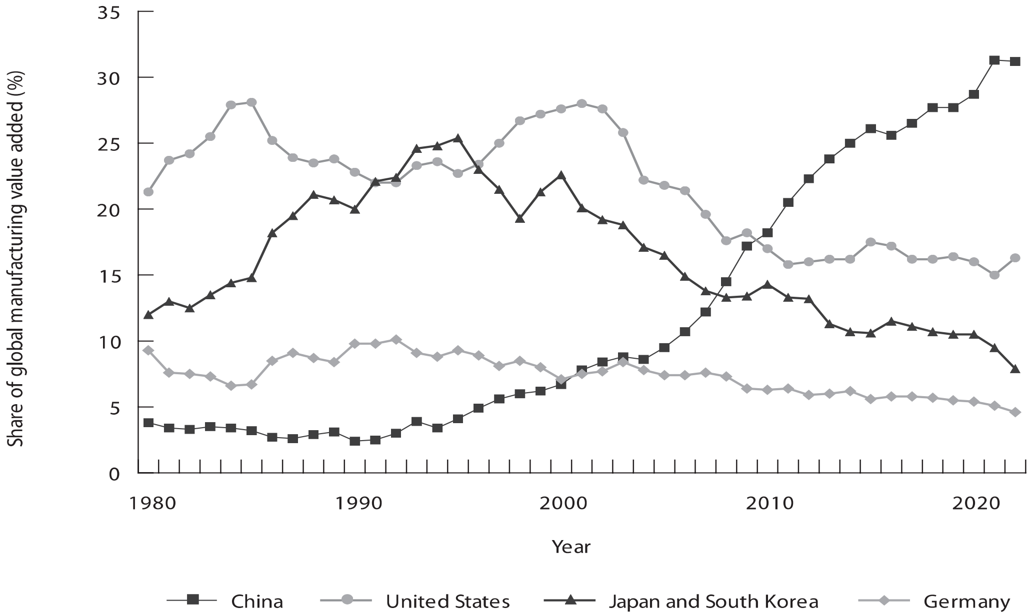
China's economic outlook over the next decade can be described in two pictures. The first shows that on its new, slower growth trajectory China is unlikely to overtake the United States as the world's biggest economy, though it is equally unlikely to follow Japan's relative decline after 1995 (see **Figure 11**). Hence, while China will continue to play a central role in the global economy, it will fall short of playing a dominant one. As the second picture shows, however, China's position as the world's biggest manufacturing power is secure and is unlikely to erode even as its growth slows (see **Figure 12**). Chinese industry enjoys economies of scale, a competitive domestic market that enables rapid innovation (as illustrated by the sudden emergence of Chinese companies as

FIGURE 11 Comparison of China's and Japan's nominal GDP as percentage of U.S. nominal GDP



SOURCE: International Monetary Fund, World Economic Outlook Database, https://www.imf.org/en/Publications/SPROLLs/world-economic-outlook-databases.

FIGURE 12 Comparison of China's share of global manufacturing added with other countries,1980–2022



SOURCE: World Bank, World Development Indicators.

global leaders in electric vehicle and battery technology), a large pool of well-trained and relatively low-cost labor, and ample government support. Efforts to stem the tide of Chinese-manufactured exports through protectionism, or to force reshoring or nearshoring of supply chains away from China, might succeed in a few targeted sectors but are unlikely to diminish the global market share of Chinese industrial companies. What they could do is accelerate the pace of globalization by Chinese firms, so that a greater proportion of those market-share gains come from localized production in other countries rather than exports from China. The economic challenge for the rest of the world, then, will be to maximize the benefits from a China that is growing more slowly but playing a more active role in global supply chains.

China's International Economic Narratives in an Age of Slowing Growth

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EXECUTIVE SUMMARY

This chapter analyzes China's international messaging strategy for economic engagement amid domestic economic slowdown, low consumer spending, and eroding foreign investor confidence.

MAIN ARGUMENT

As China faces an economic contraction and declining foreign investor confidence, Beijing seeks to reinject positivity into its economic image through external narratives that project strength, market liberalization, and support for globalization. China's international economic narratives are a facet of its broader set of economic challenges and subsequent engagement strategies with foreign stakeholders. Five central narratives support China's economic objectives: (1) attracting foreign investment, (2) convincing foreign investors of China's greater reform and liberalization, (3) advancing China's intellectual property and market access rights, (4) countering foreign de-risking efforts, and (5) navigating foreign trade barriers and technology restrictions. Beijing's information operators use targeted messaging techniques to encourage favorable trade positions from foreign stakeholders while dissuading unwanted policies. Such increasingly asymmetrical trade practices, however, will likely undermine Beijing's messaging as it seeks to counter international calls for the diversification of supply chains.

POLICY IMPLICATIONS

- Despite growing trade frictions and international economists' recommendations for China to transition to a consumer-driven economy, its policies signal that the country is unlikely to meaningfully liberalize its market in the near term as it doubles down on its export-led growth model. Nonetheless, Beijing's official messaging to foreign investors aims to disavow criticisms surrounding trade deficits, low consumer confidence, and supply chain risks.
- China's carefully curated narratives surrounding its asserted world-class business environment, embrace of intellectual property rights, and promotion of the rule of law work to conceal the unequal treatment of foreign firms competing in the Chinese market. Foreign stakeholders who buy into these narratives in the pursuit of profitability may ultimately provide one-sided contributions to China's technological, talent, and supply chain ecosystems.
- Due to Beijing's apparent unwillingness to abandon its export-led growth model, trade frictions will continue for the foreseeable future and likely induce protectionist policies globally to rebalance trade and reduce reliance on China. Beijing will find it increasingly challenging to convince foreign trade partners of the win-win nature of economic engagement as trade deficits widen.

China's international narratives about its economy play a key (albeit difficult to measure) role in ensuring that foreign countries and companies remain open to providing the capital, resources, talent, and market access on which the country's continued economic health depends. These narratives are grounded in authoritative Chinese Communist Party (CCP) documents that are then tailored to the interests and sensibilities of their targeted foreign audiences. This chapter seeks to examine the strategies employed by Beijing to advance China's economic engagement interests with foreign stakeholders.

While the messaging techniques utilized by Beijing share commonalities with generalized norms of diplomacy and communication, their effectiveness stems from deliberate, audience-specific deployment to achieve their desired policy outcomes through consistent messaging across authoritative publications, diplomatic channels, and official statements. Beijing's overarching public diplomacy objective is to guide global opinion and monopolize discourse on China abroad. In the realm of economic engagement, this involves a two-pronged approach of amplifying positive stories that highlight the success of China's economic model while suppressing competing economic narratives that Beijing sees as hostile to its agenda.[1]

Beijing's communication techniques have grown increasingly sophisticated. Once central leadership establishes key talking points or slogans, they are enshrined in party orthodoxy upon dissemination in National Party Congress documents, five-year plans, Central Economic Work Conferences, and the CCP's official mouthpieces, such as the *People's Daily*.[2] In addition to tasking official messengers from channels such as the Ministry of Foreign Affairs (MFA) and the Ministry of Commerce (MOFCOM) with the repeated dissemination of these slogans, Beijing has become increasingly adept at expanding China's messaging in local media outlets abroad—a strategy it refers to as "borrowing mouths."[3] As of 2022, it had established over four hundred content-sharing partnerships with local media organizations.[4] This approach effectively masks the Chinese government's role while leveraging local media credibility, often leaving citizens unaware that they are consuming curated content.

Beijing's economic messaging coherence proves most convincing when grounded in the partial truths and genuine concerns that resonate with foreign actors economically invested in the Chinese market, either by addressing their anxieties or by appealing to profit-driven aspirations. China's external-facing rhetorical strategy is specifically designed to exploit historical engagement strategies toward Beijing, which presupposed that supporting Chinese economic development would translate into democratic reforms and peaceful integration into the international system—an expectation that ultimately proved unfounded.[5] Nonetheless, Beijing's messengers still seek to exploit this diminishing expectation by curating an image of sustained market liberalization that fosters a welcoming environment to foreign investment.

Beijing's task is more difficult than it was a decade ago due to factors such as the challenges in recovering from the Covid-19 pandemic, heightened criticisms surrounding intellectual

1 Katja Drinhausen et al., "Image Control: How China Struggles for Discourse Power," Mercator Institute for China Studies (MERICS), September 2023, https://www.stiftung-mercator.de/content/uploads/2024/07/MERICS-Report_Image-Control.pdf.

2 Wu Guoguang, "Command Communication: The Politics of Editorial Formulation in the People's Daily," *China Quarterly* 137 (1994): 194–211.

3 Drinhausen et al., "Image Control."

4 Samantha Custer, "Minutes and Transcript: Quarterly Public Meeting on Understanding the PRC's Approach to Public Diplomacy," U.S. Advisory Commission on Public Diplomacy, January 16, 2025, 5, https://www.state.gov/wp-content/uploads/2025/02/ACPD-January-2025-QM-Transcript-Final.pdf.

5 Aaron L. Friedberg, *Getting China Wrong* (Cambridge: Polity Press, 2022).

property (IP) theft, pressure from advanced democracies to reduce dependency on the Chinese supply chain, and rising tariffs and technology export controls. Perhaps most obviously, the CCP regime's many external-oriented messengers can only demur on China's failure to appreciably boost domestic demand, which has been hampered by the government's unwillingness to implement meaningful policies to spur this shift, as detailed in chapter 1 of this report.[6] Messengers regularly understate the weakness in domestic demand and continue to play into foreign firms' hopes for China's grand domestic market.

In its internal and external promulgations, the Xi Jinping regime has consistently emphasized the importance of developing "new productive forces" that rely less on labor-intensive manufacturing and leverage new technologies to improve efficiency under a "new growth model."[7] To achieve the advanced industrialization and innovation levels sought by the regime as part of this model, foreign inputs remain critical in everything from semiconductors and artificial intelligence (AI) to operating systems and advanced manufacturing equipment. Moreover, another closely related goal is facilitating new sources of foreign technical know-how to reduce China's reliance on foreign "chokepoint" technologies as soon as possible—a concern exacerbated by U.S. president Donald Trump's second term.[8]

As alluded to above, foreign observers have noted Beijing's 14th Five-Year Plan prioritized a strategic shift toward technological self-sufficiency and resiliency-building measures that bolster China against disruptions in global supply chains. Its rhetoric reflects these goals. Although Beijing today continues to benefit from comparative advantages in technology-intensive manufacturing, technical talent, and economies of scale, it must work harder to make sure that foreign stakeholders believe they can tap into these advantages. Foreign concerns regarding IP protection, new risks stemming from geopolitical competition, and China's drive for self-reliance must be addressed satisfactorily, if not directly. Beijing's narratives, therefore, have also promoted the enhanced rule of law and protection of economic stakeholder rights, as well as the removal of structural barriers to international trade and investment.[9]

The imperative of China's "dual circulation" strategy presents unique challenges. By advancing an economic model where the Chinese economy features two growth engines—one focused domestically and the other externally—Beijing makes clear that domestic self-reliance is to be complemented by increased Chinese export dominance (an objective that is reinforced by the aforementioned weaknesses in domestic consumer demand). The result is a nonreciprocal approach by design, felt by China's trade partners at home (via trade imbalances, dumping, and other unfair trade practices) and within China (via a lack of market access and an unequal playing field). In this light, the issue of how external narratives navigate these nonreciprocal engagements is worthy of study.

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6 Michael Pettis, "Why Is It So Hard for China to Boost Domestic Demand?" Carnegie China, July 31, 2024, https://carnegieendowment.org/posts/2024/07/why-is-it-so-hard-for-china-to-boost-domestic-demand?lang=en.

7 Xi Jinping, "中国共产党第二十次全国代表大会报告" [Report of the 20th National Congress of the Communist Party of China], October 16, 2022; Xi Jinping and Li Keqiang, "2020年中央经济工作会议公报" [Communiqué of the Central Economic Work Conference 2020], December 18, 2020; Xi Jinping and Li Keqiang, "2021年中央经济工作会议公报" [Communiqué of the Central Economic Work Conference 2021], December 10, 2021; Xi Jinping and Li Keqiang, "2022年中央经济工作会议公报" [Communiqué of the Central Economic Work Conference 2022], December 16, 2022; Xi Jinping and Li Qiang, "2023年中央经济工作会议公报" [Communiqué of the Central Economic Work Conference 2023], October 31, 2023; and Xi Jinping and Li Qiang, "2024年中央经济工作会议公报" [Communiqué of the Central Economic Work Conference 2024], December 12, 2024.

8 19th Central Committee of the Chinese Communist Party, "中华人民共和国国民经济和社会发展第十四个五年规划和2035年远景目标纲要" [Outline of the 14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Long-Term Objectives for 2035], March 12, 2021.

9 19th Central Committee of the Chinese Communist Party, "第十四个五年规划"; and Xi, "中国共产党第二十次全国代表大会报告."

China's increasingly domestically oriented direction also drives the CCP regime's defensive rhetorical emphasis on principled, win-win engagement with the world economy. Beijing's international narratives thus declare China's outward embrace of globalization and economic integration with every region and contrast it with Washington's agenda, which is portrayed as self-centered and short-sighted. These narratives advertise China's pursuit of integration through the Belt and Road Initiative (BRI), despite recent rhetoric signaling that investment is scaling down to "small but beautiful" BRI projects, and showcase Beijing as a champion of free trade in global bodies and groupings.[10]

What follows is an analysis of five broad external narratives that serve to facilitate five core imperatives of the Chinese economy: (1) narratives aimed at attracting foreign investment and trade, (2) domestic and international narratives for reform and liberalization, (3) narratives about intellectual property rights (IPR), fair market access, and rule of law, (4) trade dependency strategies and narratives against de-risking/decoupling, and (5) narratives regarding navigating global trade barriers and tech restrictions. These narrative-centered sections explain how the propaganda and information operators of the People's Republic of China (PRC)—here defined as all CCP regime messengers tasked with communicating politically driven statements to advance regime goals—utilize specific techniques and even specific phrases in order to adaptively incentivize desired foreign actions while dissuading unwanted policies.

Beijing employs three primary rhetorical tactics in its economic messaging abroad. First, "strategic redirection" pivots or deflects conversations away from criticism toward topics that present China more favorably. Second, "cherry-picking" involves citing carefully selected statistics—often through "borrowed" foreign expertise to bolster credibility—while ignoring broader economic context. Third, "selective omissions" rhetorically misrepresent China's economic statecraft by highlighting only minor sectors that portray the country's industrial policy in a positive light, while concealing less flattering aspects. International observers may be struck by the simplicity of the tactics outlined in this chapter and the transparent attempts to distort and co-opt international economic norms, but there need not be anything mysterious or complex in Beijing's economic narratives to effectively sell its circumstantial needs. This chapter concludes with an overview of these techniques and a brief assessment of their efficacy.

Narratives Aimed at Attracting Foreign Investment and Trade

As China's economic slowdown continues, the government faces a critical imperative to project confidence in the country's economic trajectory as part of broader efforts to incentivize foreign investment and trade—which it views as necessary components of an effective solution to address China's growth challenges. Following the Covid-19 pandemic, these challenges come at a pivotal time as the country adapts to what it acknowledges as a "new normal"—a period described as

10 "实打实、沉甸甸的成就——习近平总书记出席第三次"一带一路"建设座谈会侧记" [Real and Significant Achievements: A Side Note of General Secretary Xi Jinping's Attendance at the Third Symposium on the Construction of the Belt and Road Initiative], Xinhua, November 21, 2021, http://www.news.cn/politics/leaders/2021-11/21/c_1128084028.htm; Xi Jinping, "Building an Open, Inclusive and Interconnected World for Common Development," Third Belt and Road Forum for International Cooperation, October 18, 2023, http://www.beltandroadforum.org/english/n101/2023/1018/c124-1175.html; and Wang Hao and Chang Qin, "开创共建'一带一路'更加光明的未来——习近平总书记在第四次'一带一路'建设工作座谈会上的重要讲话引发与会人员热烈反响" [Creating a Brighter Future for the Joint Construction of the Belt and Road Initiative——General Secretary Xi Jinping's Important Speech at the Fourth Symposium on the Construction of the Belt and Road Initiative Aroused Enthusiastic Responses from the Participants], *People's Daily*, December 3, 2024, http://paper.people.com.cn/rmrb/pc/content/202412/03/content_30032576.html.

slower, but more sustainable, "high-quality" growth amid a complex global environment.[11] Despite its recognition of these challenges, the PRC's economic narratives continue to promote the country's growing domestic market as a primary incentive to attract foreign capital. Beijing presents a *prima facie* plausible case for this narrative. Its commitment to economic revitalization is repeatedly demonstrated in policy priorities and economic messaging present in the CCP's Central Economic Work Conference, where boosting domestic consumption consistently emerges as a fundamental objective.[12] This focus was further reinforced on February 21, 2025, when Premier Li Qiang convened a State Council study session specifically aimed at identifying and implementing measures to enhance consumer spending.[13]

However, official messaging on domestic consumption belies a broader strategic challenge facing the Chinese economy. Over the past decade, China has maintained a notably low consumption rate as a percentage of its GDP—a persistent concern highlighted by international economists and discussed in detail in chapter 1. In response to international media ringing the alarm bell—often eroding foreign investors' confidence in the Chinese market—Beijing has developed a two-pronged messaging strategy disseminated for foreign audiences. First, it emphasizes concrete steps to transition toward a more consumer-driven economy. Second, it works to counter what Xinhua's English media has characterized as the "consumption crisis" myth shared overseas.[14] The ultimate goal of this message is to portray China as a dynamic economy with a "prosperous and thriving" Chinese consumer market (中国消费市场的红火兴旺) that remains an attractive destination for global investment and imports.

First, to assuage foreign investors' concerns, Beijing communicates that its consumer spending issue is already under control through effective central government management. One key way it conveys this message is by highlighting a few selective economic policies that qualify as stimulus measures while deliberately omitting reference to its lack of stimulus in more consequential sectors.[15] For example, *China Daily*, one of Beijing's English-language party mouthpieces, identifies the lack of domestic demand perceived by economists and foreign investors as stemming from a "problem of income distribution," emphasizing the need to direct more income from corporations to consumers.[16] In this spirit, Beijing has touted to foreign audiences through State Council press conferences that it is cutting mortgage rates by 0.5% and issuing 300 billion yuan in government

11 Hu Jintao, "中国共产党第十八次全国代表大会报告" [Report of the 18th National Congress of the Communist Party of China], November 8, 2012.

12 19th Central Committee of the Chinese Communist Party, "第十四个五年规划"; Xi and Li, "2020年中央经济工作会议"; Xi and Li, "2021年中央经济工作会议"; Xi and Li, "2022年中央经济工作会议"; Xi and Li, "2023年中央经济工作会议"; and Xi and Li, "2024年中央经济工作会议."

13 "李强主持国务院第十二次专题学习" [Li Qiang Presided over the 12th Special Study of the State Council], Xinhua, February 20, 2025, http://www.news.cn/politics/leaders/20250220/bcb5466cdd0e4373a1df26b5fcb91340/c.html.

14 "Why China's Pro-Consumption Policies Are Not Meant to Be Effervescent Tablets," Xinhua, November 13, 2024, https://english.news.cn/20241113/9a9c23569815411b9f37ced4aeec9036/c.html; and Daniel Zipser, "Robust Growth Dispels Myths about China's Consumption," *China Daily*, November 25, 2024, https://www.chinadaily.com.cn/a/202411/25/WS6743da82a310f1265a1cf604.html.

15 Zhu Chao and Lu Junyu, "外交部：中国消费市场红火兴旺反映各界对中国经济发展信心提升" [Ministry of Foreign Affairs: The Booming Chinese Consumer Market Reflects the Growing Confidence of all Sectors in China's Economic Development], Xinhua, February 13, 2025, http://www.news.cn/world/20250213/3eb9b3c899c443d89dbed95c8e5f76f2/c.html.

16 Xu Gao, "Better Income Distribution Can Create Demand," *China Daily*, September 11, 2023, https://www.chinadaily.com.cn/a/202309/11/WS64fe645aa310d2dce4bb5012.html; Wang Ke and Ou Yangjie, "上半年最终消费支出对经济增长的贡献率达到77.2%消费对经济拉动作用逐步增强（年中经济观察）" [Final Consumption Expenditure Contributed 77.2% to Economic Growth in the First Half of the Year the Role of Consumption in Driving the Economy has Gradually Increased (Midyear Economic Observation)], *People's Daily*, July 27, 2023, http://paper.people.com.cn/rmrb/html/2023-07/27/nw.D110000renmrb_20230727_3-01.htm; and Lin Zhaomu, "增强消费对经济发展的基础性作用（人民要论）" [Enhance the Fundamental Role of Consumption in Economic Development (People's Opinion)], *People's Daily*, October 18, 2023, http://paper.people.com.cn/rmrb/html/2023-10/18/nw.D110000renmrb_20231018_1-13.htm.

bonds to facilitate the adoption of advanced industrial and consumer technology.[17] While these stimulus measures are designed to incentivize trade-ins to promote greater consumption, in practice they offer a negligible economic impact and fail to provide the direct income support experts say is necessary to drive broader demand. Notably, both former U.S. Treasury secretary Janet Yellen and International Monetary Fund chief economist Pierre-Olivier Gourinchas made the case in October 2024 that Beijing's current stimulus measures are not enough to boost domestic demand and absorb excess production—an argument supported by the analysis provided in chapters 1 and 3 of this report.[18] Policy responses from the central government still fall short of the meaningful structural reforms that international observers have suggested are necessary to reinvigorate household consumption. For example, essays published by both the *Financial Times* and Rhodium Group have urged measures that include addressing China's rural-urban divide, allocating significant fiscal reserves into social welfare and financial stabilization, and implementing a comprehensive fiscal overhaul.[19]

To attract foreign investment, official messaging also portrays China as encouraging a consumer-driven economy that is making strides to expand its imports, selectively highlighting a few industries where this holds true.[20] For example, Chinese vice-premier Ding Xuexiang at Davos 2025 told the world, "We don't seek trade surplus; we want to import more competitive quality products and services to promote balanced trade."[21] Complementing this international narrative, Chinese media emphasizes that China is the "world's second-largest importer…accounting for 10.6 percent of global imports."[22] Official messengers suggest that Beijing is pushing favorable policies for foreign goods to China while cherry-picking annual statistics that show import increases in select sectors such as wine, fruits, clothing, computer parts, electronic components, and manufacturing equipment.[23]

Yet many of these imports, especially the ones with the highest increases, are often in areas where China is specifically seeking foreign technical expertise or has no real domestic alternative.[24] For example, Beijing deliberately increased its imports of computer and electronic components before semiconductor export controls took effect and in anticipation of more stringent measures to come. Beijing highlights temporary increases in electronics imports as evidence of its commitment to addressing trade imbalances with other nations. However, these import surges are narrow

17 "China Unveils Fresh Stimulus to Boost High-Quality Economic Development," Xinhua, September 24, 2024, https://english.news.cn/20240924/7688723503874eb59f5fe4d5690940a3/c.html; State Council of the People's Republic of China (PRC), "3000亿元国家支持！四部门喊你领更新换新补贴" [300 Billion Yuan in National Support! Four Departments Are Calling on You to Receive the Renewal Subsidy], July 26, 2024, https://www.gov.cn/zhengce/202407/content_6964480.htm; and Wang Keju, "Renewals, Trade-ins Unlock Investment, Consumption," *China Daily*, October 28, 2024, https://www.chinadaily.com.cn/a/202410/28/WS671ee1c2a310f1265a1c9e5a_2.html.

18 David Lawder, "China's Stimulus Measures Not Enough, Yellen and IMF Chief Economist Say," Reuters, October 22, 2024, https://www.reuters.com/markets/asia/imf-chief-economist-says-lack-domestic-demand-fuels-chinas-export-growth-2024-10-22.

19 Camille Boullenois et al., "How Can China Boost Consumption?" Rhodium Group, February 10, 2025, https://rhg.com/research/how-can-china-boost-consumption; and Haohsiang Ko, "China Government Spending on Citizens Lags Behind Economic Peers," *Financial Times*, February 22, 2025, https://www.ft.com/content/75f97747-53f4-4447-8c14-8a078bdc8750.

20 Zhu Chao and Lu Junyu, "外交部:中国消费市场红火兴旺反映各界对中国经济发展信心提升" [Ministry of Foreign Affairs: The Booming Chinese Consumer Market Reflects the Growing Confidence of All Sectors in China's Economic Development], Xinhua, February 14, 2025, http://paper.people.com.cn/rmrb/pc/content/202502/14/content_30056638.html.

21 Ding Xuexiang, "Davos 2025: Special Address by Ding Xuexiang, Vice-Premier of the People's Republic of China," World Economic Forum, January 21, 2025, https://www.weforum.org/stories/2025/01/davos-2025-special-address-ding-xuexiang-vice-premier-china.

22 Zhang Yiyi, "China's Expanding Imports Boost Global Economic Growth Momentum: Report," *Global Times*, November 3, 2024, https://www.globaltimes.cn/page/202411/1322370.shtml.

23 "Update: China's Foreign Trade Hits New High in 2024," Xinhua, January 13, 2025, https://english.news.cn/20250113/ae26ef8f105841fc847245555f4b8ad7/c.html; and Fan Feifei, "Consumers Pull Out All Stops for High-Quality, Foreign Brands," *China Daily*, September 16, 2024, https://epaper.chinadaily.com.cn/a/202409/16/WS66e77dada310b6be0c6572fe.html.

24 19th Central Committee of the Chinese Communist Party, "第十四个五年规划."

in scope, chiefly serving China's national interests tied to obtaining "chokehold technologies" rather than being emblematic of genuine trade diversification across multiple sectors.[25] Beijing's external narratives generalize from these anecdotes to foster positive foreign investor sentiment in preferred strategic industries. Foreign investors who buy into these narratives in the pursuit of profitability may ultimately provide one-sided contributions to China's technological, talent, and supply chain ecosystems.

Alongside arguments about sufficient stimulus measures and increased imports, official messaging in some cases downright rejects the premise that there is any problem with consumer spending by suggesting that domestic consumption of foreign brands is currently enjoying an unprecedented high. Serving as a rebuttal to international economists, MFA spokespeople consistently communicate that China's consumer market is more "prosperous and thriving" than ever before and provides "opportunities for countries around the world."[26] However, the anecdotal data points used focus on China's 2025 Spring Festival—a time similar to the end-of-year holiday season in the United States—reflecting a seasonal uptick in consumer spending that does not accurately represent year-round consumption trends.[27]

To push back against allegations of lagging consumption, CCP mouthpieces also cherry-pick select industries, such as cosmetics and skincare products, to highlight consumption of imports, but they fail to address broader concerns in the market like stagnant growth, low consumer confidence, and declining imports.[28] China has more explicit, albeit conflicting, external narratives on such consumption. For example, two *China Daily* articles highlight increased demand for foreign brands, whereas another article contradicts them, stating that "young consumers no longer blindly pursue foreign brands and instead prefer local brands."[29] These contradictory narratives showcase the PRC's balancing act between projecting national confidence in Chinese products and enticing foreign brands to further invest in the Chinese market.

In summary, through selective omissions, misrepresentations, and anecdotal cherry-picking, Beijing's messaging on its lagging consumer market primarily communicates three narratives, each marked by a significant gap between rhetoric and reality. First, the central government argues that it is implementing sufficient stimulus measures to revitalize consumer confidence. In practice, most international economists (including Arthur Kroeber in chapter 1) believe these incremental measures fall short of the systemic reform needed to reverse China's household consumption slump. Second, Beijing implies it is broadly expanding imports in all sectors to

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25 "Commerce Strengthens Export Controls to Restrict China's Capability to Produce Advanced Semiconductors for Military Applications," U.S. Department of Commerce, Bureau of Industry and Security, Press Release, December 2, 2024, https://www.bis.gov/press-release/commerce-strengthens-export-controls-restrict-chinas-capability-produce-advanced-semiconductors-military; Yuki Furukawa, "Japan Tightens Export Controls on More Chip and Quantum Tech," Bloomberg, April 26, 2024, https://www.bloomberg.com/news/articles/2024-04-26/japan-tightens-export-controls-on-more-chip-and-quantum-tech; "Netherlands to Expand Export Controls on Semiconductor Equipment," Reuters, January 15, 2025, https://www.reuters.com/technology/netherlands-expand-export-controls-semiconductor-equipment-2025-01-15; Gregory C. Allen, Emily Benson, and Margot Putnam, "Japan and the Netherlands Announce Plans for New Export Controls on Semiconductor Equipment," Center for Strategic and International Studies (CSIS), April 10, 2023, https://www.csis.org/analysis/japan-and-netherlands-announce-plans-new-export-controls-semiconductor-equipment; and Ben Jiang, "China's 2024 Chip Imports Surged 10.4% to US$385 Billion amid Tighter U.S. Tech Sanctions," *South China Morning Post*, January 13, 2025, https://www.scmp.com/tech/tech-trends/article/3294570/chinas-2024-chip-imports-surged-104-us385-billion-amid-tighter-us-tech-sanctions.

26 Guo Jiakun, "2025年2月13日外交部发言人郭嘉昆主持例行记者会" [Foreign Ministry Spokesperson Guo Jiakun's Regular Press Conference on February 13, 2025], Ministry of Foreign Affairs (PRC), February 13, 2025, https://www.mfa.gov.cn/fyrbt_673021/202502/t20250213_11554463.shtml.

27 Ibid.

28 Fan, "Consumers Pull Out All Stops"; and Logan Wright et al., "No Quick Fixes: China's Long-Term Consumption Growth," Rhodium Group, July 18, 2024, https://rhg.com/research/no-quick-fixes-chinas-long-term-consumption-growth.

29 Fan, "Consumers Pull Out All Stops"; Zipser, "Robust Growth Dispels Myths"; and Guan Lixin, "The Young Lead New Trends in Consumption Market," *China Daily*, January 4, 2024, https://www.chinadaily.com.cn/a/202401/04/WS6595e97aa3105f21a507a6a4.html.

encourage a new economic growth model that drives higher consumer confidence and provides foreign firms more opportunities. However, the overall increase in imports is limited to specific sectors such as "chokehold technologies," and, more crucially, these import statistics remain severely imbalanced relative to China's surge in exports.[30] This reflects a strategy that is a feature—not a bug—of China's current export-led growth model. Finally, Beijing's third talking point attempts to dismiss household consumption concerns entirely, claiming that negative reports are merely a product of foreign exaggeration. Under even minimal scrutiny, however, this last argument loses credibility by contradicting the raison d'être of China's first two narratives. These narratives both accept the premise that consumer spending is low and aim to prove to foreign investors that sufficient measures are being taken to address this issue and its impact on foreign investors and imports into China.

Market Access: Narratives for Reform and Liberalization

The PRC's messengers understand that many of the country's economic hardships are partly due to it "spooking" foreign investors from considering the Chinese market, and thus they actively seek to counter this idea.[31] Concerns about future market access, unfair competition, and an authoritarian legal system that operates on an ad hoc basis combine with the overall economic slowdown to plague investor confidence. Beijing's recently revised Anti-Espionage Law, along with its expanded definition of "national security," has been cited in crackdowns on foreign firms such as the Mintz Group, increasing the perceived political risk for businesses operating in China.[32] These issues all contribute to the growing perception that the Chinese economy may no longer offer the same promising opportunities as before and that, in fact, such opportunities are dwindling.

To combat these perceptions, the chief task of Beijing's information operators is to reinject positivity into the PRC's economic image by communicating that the economy will continue to open up in more sectors and undergo greater free-market reforms to smooth the path for foreign investors.[33] Indeed, the Chinese economy benefits tremendously from foreign investors and firms holding out hope for a liberalized economy with fewer barriers to entry, as this perception largely informs investment practices that can contribute to China's long-term economic health and achieve key strategic objectives. To this end, authoritative messaging repeatedly employs the following slogan: "China's door won't close, but will only open wider and wider" (中国开放的大门不会关闭，只会越开越大). Similar to official pledges to "comprehensively deepen reform and opening" or declarations that "China is open for business," this rhetorical formulation aims

30 Keith Bradsher, "China's Trade Surplus Reaches a Record of Nearly $1 Trillion," *New York Times*, January 12, 2025, https://www.nytimes.com/2025/01/12/business/china-trade-surplus.html.

31 Alexander Chipman Koty, "How to Understand China's Common Prosperity Policy," China Briefing, March 21, 2022, https://www.china-briefing.com/news/china-common-prosperity-what-does-it-mean-for-foreign-investors.

32 Joe McDonald, "Foreign Companies in China Face Growing Scrutiny, Pressure," Associated Press, April 28, 2023, https://apnews.com/article/china-foreign-business-corruption-investigation-technology-113adfa55788aabb11896d8b059b32bc; Antoni Slodkowski and Liz Lee, "China Frees Mintz Staff in Move to Soothe Foreign Sentiment," Reuters, March 24, 2025, https://www.reuters.com/world/china/china-releases-mintz-employees-after-two-year-detention-company-says-2025-03-25; and "中华人民共和国反间谍法" [Anti-Espionage Law of the People's Republic of China], Standing Committee of the National People's Congress (PRC), April 26, 2023, https://flk.npc.gov.cn/detail2.html?ZmY4MDgxODE4N2FhMzJmOTAxODdiZDJlNDQwYjA1MmE%3D.

33 Xi and Li, "2024年中央经济工作会议."

to communicate continuity and stability to bolster the confidence of foreign investors.[34] Its prominence and intentionality are evidenced by Xi Jinping's direct use of the slogan during a 20th Party Congress press conference and its recent appearance in Vice Premier Ding Xuexiang's 2025 Davos speech.[35] Not surprisingly, this narrative typically appears during periods of low investor confidence, such as at the tail end of the Covid-19 lockdowns, with the PRC explicitly framing it as a rebuttal to skeptics of the Chinese market.[36] Through this narrative, among other official talking points, Beijing aims to present three key themes to demonstrate that China is adequately addressing the concerns of foreign firms by hosting a welcoming business environment.

First, a prominent feature of Beijing's messaging is to pair the slogan with examples of anecdotal piecemeal openings in key sectors, serving as evidence that China is indeed becoming friendlier to foreign enterprises. This carefully curated presentation aims to portray a consistent trajectory of liberalization. For example, the PRC's ambassador to the United States, Xie Feng, stated that, "on one hand, [China's] door is opening wider…. On the other hand, the barriers to foreign enterprises are decreasing."[37] To support this claim, he highlighted Beijing's new policy that has "lifted all restrictions on foreign investment in manufacturing" while also reducing restrictions on China's "negative list"—a selection of economic sectors barred from foreign investment. However, relaxing foreign investments on manufacturing serves the country's interest to embed itself further in global supply chains, acquire foreign technology and manufacturing processes, expand its dominance in manufacturing output, and continue its focus on long-term competitive gains—all of which raise concern abroad.[38] Lifting these restrictions on manufacturing also selectively omits other sectors in the Chinese economy that still face severe restrictions on market access. Thus, this policy does not necessarily improve investors' access to unrestricted domestic operation and unimpeded profitability.

Second, official messaging selectively cherry-picks success stories to misrepresent market access for foreign companies. For example, Beijing highlights the profitability of early movers such as McDonald's and Starbucks, implying that if they could penetrate the Chinese market, other foreign firms can take advantage of the same opportunities.[39] In manufacturing, China

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34 20th Central Committee of the Chinese Communist Party, "Full Text: Resolution of CPC Central Committee on Further Deepening Reform Comprehensively to Advance Chinese Modernization," July 18, 2024, https://english.www.gov.cn/policies/latestreleases/202407/21/content_WS669d0255c6d0868f4e8e94f8.html; Xi Jinping, "Comprehensively Deepening Reform and Opening Up to Give Greater Impetus to Chinese Modernization," *Qiushi Journal*, no. 10 (2024), http://en.qstheory.cn/2024-07/17/c_1005577.htm; 20th Central Committee of the Chinese Communist Party, "中共中央关于进一步全面深化改革 推进中国式现代化的决定" [Decision of the CPC Central Committee on Further Comprehensively Deepening Reform and Promoting Modernization with Chinese Characteristics], July 18, 2024, http://paper.people.com.cn/rmrb/html/2024-07/22/nw.D110000renmrb_20240722_2-01.htm; Meaghan Tobin, "In China's Words, It's Open for Business. In Actions, Not So Much," *Washington Post*, May 23, 2023, https://www.washingtonpost.com/world/2023/05/23/china-investment-us-wang-wentao; and Antoni Slodkowski, "Chinese Premier Li Calls for Global Cooperation, Says China Open for Business," Reuters, January 16, 2024, https://www.reuters.com/world/asia-pacific/chinas-premier-li-address-davos-its-economy-struggles-2024-01-16.

35 "China to Open Wider to the World: Xi," Xinhua, October 23, 2023, https://english.news.cn/20221023/e9828e1505a14676a15383e3b30635f4/c.html; Xi Jinping, "习近平:中国开放的大门只会越开越大" [Xi Jinping: China's Door of Opening Up Will Only Open Wider and Wider], Caixin, May 18, 2022, https://china.caixin.com/2022-05-18/101887034.htm; Du Haitao and Luo Shanshan, "开放的大门越开越大（奋进新征程 建功新时代·伟大变革）" [The Open Door Is Opening Wider and Wider (Strive for a New Journey and Make Contributions to the New Era and Great Reform)], *People's Daily*, April 6, 2022, https://www.moj.gov.cn/pub/sfbgw/zwgkztzl/2022zt/20220311fjxzc/20220311fjxzc_wdbg/202204/t20220406_452179.html; and Ding, "Davos 2025."

36 Gao Xingwei, "Reform and Opening-Up to Economic Miracle," *China Daily*, October 19, 2022, https://www.chinadaily.com.cn/a/202210/19/WS634f37e3a310fd2b29e7d394.html.

37 Xie Feng, "中国驻美大使谢锋:中国将以更高水平开放提供市场新机遇" [Chinese Ambassador to the United States Xie Feng: China Will Provide New Market Opportunities with a Higher Level of Openness], Embassy of the PRC in the United States of America, August 28, 2024, http://us.china-embassy.gov.cn/dshd/202408/t20240828_11480302.htm.

38 Bradsher, "China's Trade Surplus."

39 Gao, "Reform and Opening-Up to Economic Miracle."

similarly touts General Electric, BP, Siemens, and Tesla as success stories.[40] In the case of Tesla, however, Beijing granted the company selective market access to induce a "catfish effect"—the introduction of a large competitor to foster domestic know-how, nurture talents, and invigorate China's domestic electric vehicle sector.[41] Crucially, Tesla's selective access does not represent structural openness in the Chinese market, and other foreign firms are unlikely to obtain the same privileges. Nonetheless, Beijing's international narrative showcases Tesla as evidence of an increasingly welcoming business environment for foreign firms rather than more accurately as a strategic exception to China's broad market restrictions.

Third, PRC media and embassy statements deliberately redirect discourse on foreign market access to focus on "equal" or "fair" competition.[42] In practice, Beijing's interpretation of these terms is used as a cover for its protectionist policies. For example, a *People's Daily* commentary explicitly outlines the PRC's extensive negative lists as "a powerful safeguard" for domestic markets.[43] When communicating to foreign audiences, however, Beijing's messaging avoids addressing a fundamental imbalance: the PRC preserves significant barriers against foreign investors, while its companies enjoy relatively open access to international markets. This narrative shifts the focus away from the country's structural market barriers, redirecting attention through positive messaging about a "world-class business environment that is market-oriented, law-based, and internationalized"—all defined on Beijing's terms.[44]

The result of this narrative of fair competition can be seen in examples such as Apple Pay, which was barred from entering China until 2016, when market dominance by domestic alternatives like WeChat Pay and Alipay had already been established.[45] Similarly, all digital card payments in China were processed by the domestic payment network UnionPay until 2019. Some restrictions were then eased, but UnionPay was already deeply entrenched in the Chinese market.[46] It was only in mid-2023 that most restrictions on digital payments with foreign payment networks like Visa and MasterCard were lifted for foreign card holders.[47] These cases highlight China's "fair competition" narrative as coded language for protectionist policies. They further show China's strategic opening-up as benefiting domestic firms and putting foreign firms at a systemic disadvantage—contradicting China's public messaging about competitive neutrality.

In summary, three primary arguments reflect Beijing's efforts to persuade foreign investors that China offers a stable, liberalized market with a modicum of policy continuity trending

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40 Xua Ping, "Tesla's 'Catfish Effect' and China's 10-Million-Unit Milestone in NEV Production," *People's Daily*, December 4, 2024, http://en.people.cn/n3/2024/1204/c90000-20249994.html; "Tesla's Shanghai Energy Storage Megafactory Begins Trial Production," Xinhua, January 1, 2025, https://english.news.cn/20250101/1b6dc0cdcc8f46768b4c1a5c4151c17e/c.html; and He Yin, "为世界能源转型贡献中国力量" [Contributing China's Strength to the World's Energy Transformation], *People's Daily*, August 21, 2024, http://paper.people.com.cn/rmrb/html/2024-08/31/nw.D110000renmrb_20240831_2-03.htm.

41 Xua, "Tesla's 'Catfish Effect.'"

42 Zhong Wenxing and Liang Jun, "China Eyes New Rules on Fair Competition Reviews to Ensure Level Playing Field," Xinhua, June 21, 2024, https://english.news.cn/20240621/4cc5240a1ebd4f3eb70ab7a712da8ad8/c.html; and Liu Zhiqiang and Ding Yiting, "中央层面首次专门就完善市场准入制度建设出台政策文件，放宽准入限制，激发市场潜力活力" [For the First Time, the Central Government has Issued a Policy Document Specifically on Improving the Market Access System, Relax Access Restrictions and Stimulate Market Potential and Vitality], *People's Daily*, August 31, 2024, http://paper.people.com.cn/rmrb/html/2024-08/31/nw.D110000renmrb_20240831_2-02.htm.

43 Li Xinping, "'一单列尽'让市场准入更公平（人民时评）" ["One List of All" Makes Market Access More Fair (People's Commentary)], *People's Daily*, September 6, 2024, http://paper.people.com.cn/rmrb/html/2024-09/06/nw.D110000renmrb_20240906_2-11.htm.

44 Xi, "中国共产党第二十次全国代表大会报告."

45 Shu Zhang and Paul Carsten, "Apple Pay to Go Live in China on February 18," Reuters, February 16, 2016, https://www.reuters.com/article/technology/apple-pay-to-go-live-in-china-on-february-18-idUSKCN0VP1AQ.

46 Laura He, "Visa and Mastercard Can Now Be Used on China's Biggest Payment Apps," CNN, July 21, 2023, https://www.cnn.com/2023/07/21/tech/china-alipay-wechat-pay-international-credit-cards-intl-hnk/index.html.

47 Ibid.

toward openness. First, Beijing selectively identifies limited piecemeal openings to demonstrate that the Chinese economy is on a trajectory that is friendlier to foreign firms. Second, official propaganda highlights the success stories of foreign firms to disprove allegations of limited market access. Third, Beijing's messaging masks the protectionist nature of its policies by framing them as only ensuring fair competition with domestic competitors, which is openly interpreted and determined by Chinese authorities.

Intellectual Property Rights and Rule of Law Narratives

Improving IPR and the rule of law in China is critical for Beijing to signal to foreign investors that China's market is a safe place to invest. Foreign investors have increasingly been concerned about forced IP transfers and the general lack of transparency in China's legal system. On the surface Beijing's domestic policy pushes for greater enforcement and improvement of IP laws and better implementation of the rule of law in the marketplace.[48] However, when diving deeper into external narratives surrounding China's regulatory environment, contradictions appear that further fuel foreign investors' concerns.

To push back against foreign criticisms about China's regulatory environment, Beijing makes two central claims. First, Beijing proclaims it safeguards IPR but opposes what it defines as "IPR hegemony." Second, it argues that China's business environment "ensure[s] national treatment" for foreign firms, yet it still exercises the right to safeguard its own "rule of law" interests.[49] Both of these narratives are briefly discussed below.

China "Opposes IPR Hegemony"

Beijing's narratives abroad focus on promoting an image that "China is fully involved in global IPR governance," supports the World Intellectual Property Organization, and provides "equal IPR protection" to both domestic and foreign enterprises.[50] At the same time, official messaging identifies a clear caveat in the form of strategic redirection. Beijing claims that China "opposes IPR hegemony" (抵制知识产权霸权), which it defines as developed countries leveraging their IP to limit, slow, or otherwise harm other countries' right to development.[51] The shift from IP protection to the goal of establishing new international IPR rules that "uphold all countries' legitimate right to development" is a diversion that intentionally distracts from the IP issue at hand.[52] Moreover, by promoting the "right to development," Beijing is potentially laying the groundwork for a shift in international IPR governance from full IP protection to an engineered acquiescence where

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48 19th Central Committee of the Chinese Communist Party, "第十四个五年规划. "

49 "Qin Gang Meets with Director General of the World Intellectual Property Organization Daren Tang," Ministry of Foreign Affairs (PRC), April 28, 2023, https://www.fmprc.gov.cn/eng./wjbzhd/202304/t20230429_11069018.html; Zhang Ming, "Ambassador Zhang Ming: A High-Standard China-EU Investment Agreement to Help Recover through Certainty, Sustainability and Multilateralism," Mission of the PRC to the European Union, January 1, 2021, http://eu.china-mission.gov.cn/eng/mh/202101/t20210113_8203783.htm; and Ministry of Foreign Affairs Party Committee (PRC), "努力开创外交战线涉外法治工作新局面" [Strive to Create a New Situation in Foreign-Related Rule of Law Work on the Diplomatic Front], August 12, 2024, https://www.mfa.gov.cn/wjbxw_new/202408/t20240812_11469485.shtml.

50 Lin Jian, "Foreign Ministry Spokesperson Lin Jian's Regular Press Conference on July 30, 2024," Embassy of the PRC in the United States of America, July 30, 2024, http://us.china-embassy.gov.cn/eng/lcbt/wjbfyrbt/202407/t20240730_11463380.htm.

51 "Qin Gang Meets with Director General of the World Intellectual Property Organization"; and Gao Xiaomei, "我国知识产权战略亟需前瞻性布局" [My Country's Intellectual Property Strategy Urgently Needs Forward-Looking Layout], *People's Tribune*, no. Z2 (2020): 6–7, http://paper.people.com.cn/rmlt/html/2020-04/28/content_1986811.htm.

52 "Qin Gang Meets with Director General of the World Intellectual Property Organization."

China and others have de facto cover to forcibly transfer IP to domestic businesses as it serves their developmental interest.

This dichotomy in rhetoric highlights Beijing's delicate balancing act in assuring foreign inventors that China respects IP while also alluding to Beijing's moral justification for continuing its policy of forced technology transfers. China even attempts to address IP theft by holding State Council press briefings on its "iron fist" campaign to root out bad actors, including IP infringers.[53] However, its crackdowns selectively omit and fail to address forced technology transfers—a core concern for foreign companies when conducting business with China.[54] To showcase its willingness to engage on IP issues, Beijing professes to adhere to the Scientific and Technology Agreement between the United States and China. China highlights how the 2024 updated agreement has new "strict regulatory clauses in place that address such concerns as trade secrets and intellectual property."[55] However, this agreement selectively addresses U.S.-China government-funded and -facilitated scientific and technological cooperation and omits commercial IP issues.

Despite the narrow scope and selective omissions of its crackdowns on IP infringement, Beijing goes further in its international narratives on IP. CGTN and the *Global Times*, for example, explicitly highlight China's "products with independent intellectual property rights" in articles about the 135th and 136th Canton Fairs in 2024.[56] The goal is to emphasize China's innovation, market competitiveness, and surge in IP filings to prove to the world that the country is an IP power. However, while China is signaling greater acceptance of IPR, its enforcement primarily focuses on protecting Chinese IP over equal treatment of all IP abroad.

Foreign-Related Rule of Law

Internationally, Beijing promotes its "national treatment" and "foreign-related rule of law" (涉外法治) policies as key implementations of reform.[57] National treatment, as promoted by China's State Council and European Union mission, purports to ensure equal legal and regulatory treatment for both domestic and foreign enterprises and investors.[58] While national treatment is a widely used international legal concept and a foundational trade principle of the World Trade Organization (WTO), the PRC only applies the concept to the few sectors where foreign firms and investors already have market access. Beijing's related rhetoric is therefore a form of

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53 Li Lei, "Senior Official Reiterates Pledge to Safeguard IP," *China Daily*, April 28, 2024, https://www.chinadaily.com.cn/a/202404/27/WS662c4259a31082fc043c4563.html; "Official: China Addresses Foreign Enterprises' IP Concerns," Xinhua, November 29, 2024, https://english.news.cn/20241129/6203d2d7061d4eb2b877a62f31b41990/c.html; and "China Expands IP Protection Network to 75 Centers," Xinhua, December 2, 2024, https://english.news.cn/20241202/9a2fc26dac66469989d8c38ea99818e6/c.html.

54 Office of the U.S. Trade Representative, "Four-Year Review of Actions Taken in the Section 301 Investigation: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation," May 14, 2024, https://ustr.gov/sites/default/files/05.13.2024%20Executive%20Summary%20of%20Four%20Year%20Review%20of%20China%20Tech%20Transfer%20Section%20301%20(Final).pdf.

55 "Renewal of China-U.S. STA Indicates Potential for Collaboration," *Global Times*, December 15, 2024, https://www.globaltimes.cn/page/202412/1325112.shtml; and "Benefits of Science Cooperation Clear to All," *China Daily*, December 24, 2023, https://www.chinadaily.com.cn/a/202312/24/WS65881102a31040ac301a939d.html.

56 Liu Chunsheng, "135th Canton Fair to Boost China's Foreign Trade," CGTN, April 17, 2024, https://news.cgtn.com/news/2024-04-17/135th-Canton-Fair-to-boost-China-s-foreign-trade-1sRVfaNbkFa/p.html; and Chi Jingyi, "136th Canton Fair Concludes, Showing Vitality of China's Foreign Trade through Diversity, Inclusiveness," *Global Times*, November 4, 2024, https://www.globaltimes.cn/page/202411/1322431.shtml.

57 Zhang, "Ambassador Zhang Ming"; and "Xi Stresses Development of Foreign-Related Legal System," Xinhua, November 28, 2023, https://english.www.gov.cn/news/202311/28/content_WS65658e5dc6d0868f4e8e1b37.html.

58 "China to Ensure National Treatment for Foreign-Funded Enterprises," Xinhua, March 5, 2024, https://english.www.gov.cn/news/202403/05/content_WS65e67ff2c6d0868f4e8e4a8e.htmlhttps://english.www.gov.cn/news/202403/05/content_WS65e67ff2c6d0868f4e8e4a8e.html; and Zhang, "Ambassador Zhang Ming."

selective omission.[59] For example, the 2024 Negative List heavily restricts and regulates foreign investment and market access into agriculture, media, education, financial services, transportation and logistics, information technology services, and other sectors of the Chinese economy.[60] These restrictions result in China's conditional use of true national treatment and thus violate this core principle of the WTO.[61] Furthermore, Beijing's frequent use of national treatment in its messaging simply does not equate to the broad market liberalization that it rhetorically implies.

The Ministry of Justice highlights foreign-related rule of law as the path forward to bring Chinese law closer to foreign and international law, arguing that it will foster a better cross-border legal environment for greater economic integration with the world.[62] The aim is to assure foreign investors that China will continue to align with global economic norms. However, at its core, foreign-related rule of law also reinforces state control over foreign actors and is domestically viewed as a tool to combat foreign influence and promote Beijing's legal interests abroad.[63] First, Beijing's rhetoric strategically avoids international oversight and leaves room for China to challenge international rules and norms by including language ensuring the protection of "national sovereignty, security, and development interests"—as it does with IPR when claiming that "IPR hegemony" undermines countries' rights to development.[64] Second, the rhetoric surrounding the term "foreign-related rule of law" focuses on training more globalized legal professionals to help Beijing influence international law and better navigate foreign trade and technology restrictions (as will be discussed further below).[65] Third, in tandem with the growing application of national security concepts in China and other laws such as the Anti–Foreign Sanctions Law, foreign-related rule of law is part of a larger mechanism to counter external legal pressures.[66]

Related to this last point, prominent Chinese legal scholar Huo Zhengxin has described foreign-related rule of law as including both offensive and defensive elements to safeguard China's interests.[67] According to his explanation, the concept is offensive in that it seeks to assert "China's interests beyond its borders," while it is defensive in its ability to "[block] other countries' attempts

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59 "China to Ensure National Treatment for Foreign-Funded Enterprises"; Zhang, "Ambassador Zhang Ming"; and "Understanding the WTO: Basics, Principles of the Trading System," WTO, 2025, https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm.

60 Development and Reform Commission (PRC), "外商投资准入特别管理措施(负面清单)(2024年版)" [Special Administrative Measures for Foreign Investment Access (Negative List) (2024 Edition)], https://www.ndrc.gov.cn/xxgk/zcfb/fzggwl/202409/P020240907514493057643.pdf.

61 "Understanding the WTO."

62 Zhu Jian, "人民日报整版探讨:加强涉外法治建设" [People's Daily Discusses in Full Page: Strengthening the Construction of Foreign-Related Rule of Law], *People's Daily*, March 29, 2024, https://www.moj.gov.cn/pub/sfbgw/zwgkztzl/xxxcgcxjpfzsx/fzsxyw/202403/t20240329_496767.html; and Cao Yin, "Experts: Strong Foreign-Related Rule of Law Vital," *China Daily*, December 6, 2023, https://www.chinadaily.com.cn/a/202312/06/WS656fc93ea31090682a5f1a20.html.

63 Huo Zhengxin, "霍政欣:我国法域外适用体系之构建——以统筹推进国内法治和涉外法治为视域" [Huo Zhengxin: The Construction of My Country's Extraterritorial Application System of Law—from the Perspective of Coordinating the Promotion of Domestic Rule of Law and Foreign-Related Rule of Law], *China Law Review*, no. 1 (2022), https://fzzfyjy.cupl.edu.cn/info/1036/15178.htm.

64 Zhu, "加强涉外法治建设"; and Cao, "Experts: Strong Foreign-Related Rule of Law Vital."

65 Cao Yin and Li Shangyi, "Key Role of Law Societies Highlighted," *China Daily*, January 11, 2025, https://www.chinadaily.com.cn/a/202501/11/WS6781a449a310f1265a1da358.html; Huo Zhengxin, "涉外法治的法理意涵与建设路径" [Legal Implications and Construction Paths of Foreign-Related Rule of Law], *Guangming Daily*, January 5, 2024, https://news.gmw.cn/2024-01/05/content_37072144.htm; "努力开创外交战线涉外法治工作新局面" [Strive to Create a New Situation in Foreign-Related Rule of Law Work on the Diplomatic Front], Ministry of Foreign Affairs (PRC), August 12, 2024, https://www.mfa.gov.cn/wjbxw_new/202408/t20240812_11469485.shtml; and Ding Xiamin, "以高质效检察履职推进高水平涉外法治" [Promoting High-Level Foreign-Related Rule of Law through High-Quality and Efficient Procuratorial Performance], *Procuratorial Daily*, January 22, 2025, https://newspaper.jcrb.com/2025/20250122/20250122_003/20250122_003_1.htm.

66 29th Meeting of the Standing Committee of the Thirteenth National People's Congress, "中华人民共和国反外国制裁法" [Anti–Foreign Sanctions Law of the People's Republic of China], State Council (PRC), June 10, 2021, https://www.gov.cn/xinwen/2021-06/11/content_5616935.htm.

67 U.S.-China Economic and Security Review Commission, "2023 Annual Report to Congress," November 2023, chap. 2, section 1, 181–84, https://www.uscc.gov/sites/default/files/2023-11/Chapter_2_Section_1--Chinas_Increasingly_Global_Legal_Reach.pdf; and Ding, "推进高水平涉外法治."

to assert longarm jurisdiction against Chinese entities," affirming that foreign-related rule of law is focused on countering external legal pressures and projecting influence abroad.[68] In light of these alternative goals, foreign-related rule of law does not promote an independent judiciary—which the concept of rule of law inherently implies to international audiences. It is also less focused on fostering greater economic and legal integration and more concerned with leveraging international and foreign law to increase Beijing's influence and to protect its firms abroad.

In sum, Beijing's international narratives on IPR and the rule of law aim to present China as offering a friendly environment for foreign businesses. However, official messaging frequently obscures important policy discrepancies by selectively omitting details and employing rhetorical shifts to concepts that sanction its actual practices. China promotes itself as providing equal IPR protection, supporting global IPR governance, and cracking down on IP theft.[69] At the same time, it staunchly opposes what it presents as IPR hegemony and justifies policies that force companies to transfer IP and technology as needed to facilitate development.[70] China's rhetoric about the rule of law focuses on advancing its international influence rather than genuinely protecting foreign businesses, with no full implementation of true national treatment or shift toward accepting international legal norms.[71] By not addressing foreign investors' questions about IPR, Beijing only adds to their concerns about the Chinese market.

Trade Dependency Strategies and Narratives against De-risking/Decoupling

In the 14th Five-Year Plan, China outlined its strategy for economic growth through the dual-circulation policy, emphasizing domestic self-reliance while also bolstering its dominance in global exports.[72] However, Beijing has encountered serious headwinds in convincing the rest of the world that dependency on Chinese exports is in their best interests, especially following the Covid-19 pandemic when countries re-evaluated the risks associated with relying on China's manufacturing supply chain for critical goods. In 2023, Ursula von der Leyen, the president of the European Commission, introduced the term "de-risking." Since then, a number of like-minded countries have adopted the phrase to describe a strategy of reducing economic dependence on China.[73] Beijing has argued that de-risking is simply a cover for the West's real intentions—"decoupling" or "de-Sinicization"—to impede China's rightful path to development.[74] To oppose

[68] U.S.-China Economic and Security Review Commission, "2023 Annual Report to Congress," 181–84; and Ding, "推进高水平涉外法治."

[69] Lin Jian, "Foreign Ministry Spokesperson Lin Jian's Regular Press Conference on July 30, 2024," Ministry of Foreign Affairs (PRC), July 30, 2024, http://us.china-embassy.gov.cn/eng/lcbt/wjbfyrbt/202407/t20240730_11463380.htm.

[70] "Qin Gang Meets with Director General of the World Intellectual Property Organization."

[71] Xi Jinping, "中国共产党第十九次全国代表大会报告" [Report of the 19th National Congress of the Communist Party of China], October 18, 2017; Xi, "中国共产党第二十次全国代表大会报告"; Xi and Li, "2022年中央经济工作会议"; and Xi and Li, "2023年中央经济工作会议. "

[72] 19th Central Committee of the Chinese Communist Party, "第十四个五年规划."

[73] Ursula von der Leyen, "Speech by President von der Leyen on EU-China Relations to the Mercator Institute for China Studies and the European Policy Centre," European Commission, March 29, 2023, https://ec.europa.eu/commission/presscorner/detail/%E2%80%8Cen/speech_23_2063.

[74] Xie Feng, "中国驻美大使谢锋: 不能用'去风险'脱钩'打掩护" [Chinese Ambassador to the United States Xie Feng: "De-risking" Cannot Be Used as a Cover for "Decoupling"], Embassy of the PRC in the United States of America, June 7, 2023, http://us.china-embassy.gov.cn/dshd/202306/t20230608_11091414.htm; Zhang Jiadong, "美国'去风险'的本质与动机" [The Nature and Motives of U.S. "De-risking"], *People's Tribune*, no. 4 (2024): 83–87, http://paper.people.com.cn/rmlt/html/2024-02/26/content_26055409.htm; Qiang Jianxin, "国际观察: 美国对华'去风险化'本身是巨大风险" [International Observation: U.S. "De-risking" China Is a Huge Risk in Itself], *People's Daily*, August 8, 2023, http://world.people.com.cn/n1/2023/0808/c1002-40052616.html; and Zhong Sheng, "相向而行，共同落实好'旧金山愿景'" [Working Together to Implement the "San Francisco Vision"], *People's Daily*, March 2, 2024, http://paper.people.com.cn/rmrb/html/2024-03/02/nw.D110000renmrb_20240302_1-03.htm.

this trend, its authoritative messaging has consistently pushed two counter-narratives, presented as slogans broadcast across Chinese media, diplomacy, and high-ranking official statements. These are designed to convince the PRC's largest trade partners to rethink their approach of moving away from the Chinese market.

"China Is an Opportunity, Not a Risk"

"China is an opportunity, not a risk" (中国是机遇，不是风险) is Beijing's main rhetorical formulation for dissuading countries from diversifying their trade relations away from the Chinese economy.[75] The slogan positively reframes the de-risking debate by portraying China's vast and open market as a win-win proposition for the global economy without truly engaging with allegations of Chinese market risks. In particular, Beijing frequently pairs this slogan with other statements intended to signal that the Chinese market is more open than ever before and convince advanced Western nations that maintaining trade relations with the PRC is the best and only avenue available to sustained economic growth.[76] As Foreign Minister Wang Yi once emphasized in an address intended to discourage the U.S. business community from economic decoupling, "the advanced supply chain and labor force in China are just irreplaceable."[77]

However, this narrative deliberately sidesteps two key policy rationales for de-risking. The first is national security vulnerabilities arising from linking critical dual-use technologies (such as semiconductors) to the Chinese market. The second pertains to economic coercion based on Beijing's demonstrated willingness to leverage economic linkages and export controls on rare earth minerals to coerce external actors into favorable policy positions.[78] China has employed economic coercion in several notable instances: orchestrating a state-directed boycott of Korean companies such as Lotte when South Korea installed a Terminal High Altitude Area Defense system, implementing a robust and targeted tariff campaign against Australia following Canberra's criticisms of China's Covid-19 response, and imposing trade restrictions on Lithuanian goods after Lithuania upgraded its commercial ties with Taiwan, just to name a few.

Instead of addressing economic security concerns raised by foreign trade partners, Beijing's narrative deliberately redirects the discussion away from risks associated with dependency on the Chinese market and inverts the argument toward potential dangers created by the de-risking policies themselves.[79] The first purported danger is the disruption of a globalized supply chain, which would harm the international economy. For example, Foreign Ministry spokesperson Wang Wenbin has stated that "China is an opportunity, not a risk," and suggested that the real

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75 Li Qiang, "Davos 2024: Special Address by H.E. Li Qiang, Premier of the State Council of the People's Republic of China," World Economic Forum, January 17, 2024, https://www.weforum.org/stories/2024/01/li-qiang-china-special-address-davos-2024; and Huan Yuping, "不合作是最大的风险 不发展是最大的不安全" [Lack of Cooperation Is the Biggest Risk and Lack of Development Is the Biggest Insecurity], *Peoples' Daily*, July 5, 2023, http://paper.people.com.cn/rmrb/html/2023-07/05/nw.D110000renmrb_20230705_1-15.htm.

76 Wang Cong, "China 'Irreplaceable' in Global Supply Chain," *Global Times*, February 19, 2020, https://www.globaltimes.cn/content/1180142.shtml; and Qi Mei, "亓玫大使在'新闻报'发表'中国是机遇不是风险'署名文章" [Ambassador Qi Mei Published an Article Titled "China Is an Opportunity, Not a Risk" in Die Presse], Embassy of the PRC in Austria, July 12, 2023, http://at.china-embassy.gov.cn/chn/sgxw/202312/t20231201_11192603.htm.

77 Wang Yi, "Vision and Conviction Will Take China-U.S. Relations Forward," Ministry of Foreign Affairs (PRC), September 24, 2019, https://www.mfa.gov.cn/eng/xw/zyjh/202405/t20240530_11341329.html.

78 Rules Committee Majority and Minority Staff, "Examining China's Coercive Economic Tactics," U.S. House of Representatives Rules Committee, May 10, 2023, https://www.congress.gov/118/meeting/house/115789/documents/HHRG-118-RU00-20230510-SD118.pdf; and Gracelin Baskaran, "What China's Ban on Rare Earths Processing Technology Exports Means," CSIS, January 8, 2024, https://www.csis.org/analysis/what-chinas-ban-rare-earths-processing-technology-exports-means.

79 Wang Wenbin, "2023年7月13日外交部发言人汪文斌主持例行记者会" [Foreign Ministry Spokesperson Wang Wenbin's Regular Press Conference on July 13, 2023], Ministry of Foreign Affairs (PRC), July 13, 2023, http://us.china-embassy.gov.cn/lcbt/wjbfyrbt/202307/t20230713_11112793.htm

threat to global stability stems from reduced cooperation, economic stagnation, and "political bloc confrontation"—a driver traceable to supply chain disruption and economic decoupling policies. The PRC minister for economic and trade affairs, Peng Gang, employed a similar rhetorical tactic in a statement to the EU, arguing that it is "lack of cooperation that poses the greatest risk, and the lack of development that poses the greatest insecurity."[80] These coordinated communications reflect China's broader strategy to maintain its position in global supply chains while minimizing discussion of the security concerns that originally prompted calls for de-risking.

The second message that Chinese officials emphasize when arguing against de-risking is the danger of countries blindly following the United States. To undermine the credibility of the de-risking strategy, they suggest that U.S. actions are unilaterally driving global economic de-risking efforts in order to contain China. But this narrative omits the fact that the EU initially devised the de-risking policy framework.[81] For instance, at the 2024 Munich Security Conference, Foreign Minister Wang Yi claimed that "Europe has a more rational understanding of China…. Facts have proved and will continue to prove that China is an opportunity rather than a risk for Europe."[82] By implying that European policymakers take a more pragmatic view than their American counterparts, this narrative attempts to drive a wedge between the United States and the EU.[83] With policy rifts emerging between American and European officials on issues such as the Ukraine war and trade policy under the Trump administration, Chinese messengers likely perceive a strategic window of opportunity to reinforce their narrative of U.S.-EU division.[84]

"Decoupling/De-risking Is an Exercise in Futility"

"Decoupling/de-risking is an exercise in futility" ("脱钩断链/去风险"没有出路) is another narrative often repeated in state media such as the *People's Daily* or transmitted from other authoritative messengers. Similar to the previous messaging strategy, Beijing avoids directly addressing supply chain and security vulnerabilities raised by countries advocating for de-risking and instead strategically redirects the de-risking debate primarily to the issue of feasibility. This narrative has two central features.

First, it emphasizes that Europe and the United States' decoupling strategy is simply impossible due to the entrenched structure of the global economy.[85] The narrative suggests that global integration is the norm of 21st-century economics, and any country trying to move away from the Chinese market is attempting to rewrite history or run "against the trend of our times." This exercise is ultimately a futile one that will isolate countries from the international economy.[86] Moreover, this narrative not only claims that interdependence is a permanent feature of global trade, but warns that there is no alternative to China's economy of scale, cheap goods,

80 Peng, "The Essence of China-EU Trade and Economic Relations."

81 Zhong Sheng, "美方滥用单边贸易措施是一错再错" [The U.S. Is Making One Mistake after Another by Abusing Unilateral Trade Measures], *People's Daily*, April 24, 2024, http://paper.people.com.cn/rmrb/html/2024-04/24/nw.D110000renmrb_20240424_2-03.htm.

82 Wang Yi, "For Europe, China Is an Opportunity, Not a Risk, and a Partner, Not a Competitor," Embassy of the PRC in the United States of America, April 1, 2024, http://us.china-embassy.gov.cn/eng/zgyw/202404/t20240403_11276053.htm.

83 Zhang, "美国'去风险'的本质与动机."

84 Chris Giles, "Trump Amplifies the Transatlantic Economic Divergence," *Financial Times*, February 6, 2025, https://www.ft.com/content/d8aaf83b-f307-4efe-b564-9309fe8ecf21.

85 Zhang, "美国'去风险'的本质与动机."

86 Ibid.; and Yu Dunhai, "Ambassador Yu Dunhai Publishes a Signed Article Titled 'No Country Can Prosper in Isolation' on Times of Malta," Embassy of the PRC in the Republic of Malta, July 20, 2023, http://mt.china-embassy.gov.cn/eng/sgxw/202307/t20230720_11115951.htm.

and manufacturing expertise.[87] For example, in order to discredit the notion that India can be substituted for China, an editorial in the *China Daily* argues that "Chinese supplies remain crucial for India's manufacturing sector."[88] Consequently, despite U.S. companies' attempts to move manufacturing from China to India, the U.S. supply chain remains functionally still linked to the Chinese market. While there may be a fair degree of truth to this argument, it avoids the nuanced geostrategic rationales for such friend-shoring. The main considerations include securing a reliable supply chain during crisis scenarios and maintaining an ample buffer against the economic vulnerabilities associated with trade wars, sanctions, and geopolitical conflicts.

The second feature of this argument is that de-risking will often backfire by harming the country attempting to exit the Chinese market. Wang Yi echoed this sentiment during his keynote speech at the Munich Security Conference, asserting that "those who attempt to shut China out in the name of de-risking will make a historical mistake."[89] Another example of this argument comes from a *China Daily* article that examines the issue of the United States revoking its permanent normal trade relations with the PRC. Cherry-picking data points from the Peterson Institute of International Economics, the article explicitly claims that if the Trump administration were to follow through with this move, "the U.S. could be the main victim" because of the subsequent GDP loss and rise in inflation affecting the average American consumer.[90] A *People's Daily* article similarly argues that countries attempting to de-risk will ultimately be worse off due to the issue of defectors. Moreover, it claims that within the Western camp, some independent-minded nations that forgo the de-risking strategy will benefit from greater market share in China, while those that blindly follow will experience an economic downturn as they isolate themselves from the global supply chain.[91] Again, there is truth to the assertion that de-risking from China will cause some economic pain. By exclusively focusing on this effect and downplaying the original motivations for de-risking, Beijing attempts to strike a chord with foreign audiences that most directly plays on their fears.

In summary, through strategically redirecting the discussion away from security rationales, cherry-picking statistics, and distorting de-risking arguments, Beijing's messaging against de-risking centers on four claims: (1) the Chinese market offers a win-win opportunity for growth with no alternative due to its unique economy of scale, (2) the havoc brought about by economic decoupling and supply chain disruption is the real risk to the global economy, (3) de-risking is a plot to contain China that serves U.S. rather than global interests, and (4) any efforts to disengage from the Chinese market are futile and self-defeating. These rhetorical strategies are aimed at maintaining the PRC's global dominance in supply chains and undermining the logic behind de-risking.

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87 Wang Yi, "Western Politicians' 'De-Risking' Approach toward China Is Increasingly Being Proven Detrimental," *Global Times*, January 12, 2024, https://www.globaltimes.cn/page/202401/1305285.shtml.

88 "'De-Risking' Efforts and Exercise in Futility: China Daily Editorial," *China Daily*, September 4, 2024.

89 Wang Yi, "A Staunch Force for Stability in a Turbulent World—Keynote Speech by H.E. Wang Yi at the 60th Munich Security Conference Conversation with China," General Consulate of the PRC in Munich, February 17, 2024, http://munich.china-consulate.gov.cn/ger/xwdt/202402/t20240223_11248719.htm.

90 He Weiwen, "World Economy Damaged: U.S. Could Be the Main Victim," *China Daily*, December 31, 2024, https://www.chinadaily.com.cn/a/202412/31/WS6773a0b7a310f1265a1d8539.html.

91 Zhang, "美国'去风险'的本质与动机."

Narratives about Navigating Global Trade Barriers and Tech Restrictions

In the 14th Five-Year Plan, the PRC laid out a vision for advancing domestic technological innovation and self-sufficiency, specifically through investing heavily in critical chokepoint technologies such as semiconductors while absorbing foreign technology and expertise. Furthermore, in the 14th Five-Year-Plan, as well as in the communiques from the 2020 and 2021 Central Economic Work Conferences, the PRC outlined the importance of "stabilizing foreign trade [and] ensuring the stability of industrial and supply chains" for its continued economic growth.[92]

However, Beijing's economic statecraft objectives were significantly complicated by restrictions implemented by the United States and several U.S. partners that targeted China's technological ambitions—most notably by barring the export of advanced chips to the country.[93] To navigate its increasingly challenging external environment, China sees one of the primary tasks of its information operations as disrupting the U.S.-led coalition of trade and technology restrictions that hinder its rightful path to development.[94] To push this agenda, authoritative messaging primarily promotes the following slogan: "Protectionism leads nowhere, a trade war has no winners" (保护主义没有出路，贸易战没有赢家). The slogan has appeared in Ding Xuexiang's 2025 Davos speech and Wang Yi's 2025 Munich Security Council speech, as well as in various statements from the MFA and MOFCOM.[95] Another widely cited variant comes from Xi Jinping, who stated that "pursuing protectionism is like locking oneself in a dark room. While wind and rain may be kept outside, that dark room will also block light and air."[96] This slogan, along with Beijing's broader official messaging, aims to communicate two key themes.

First, it redirects and inverts accusations of Chinese protectionism toward the United States, characterizing U.S. policies as protectionist and harmful to the global economy while positioning China as a champion of globalization and economic integration. To this end, Beijing portrays U.S. trade and technology restrictions as emblematic of an "America first" agenda that is hostile to the free market, protectionist, and harmful to other countries' right to development. One such case of this rhetorical tactic includes Beijing's response to a 2024 report from the U.S. Trade Representative that highlighted China's anti-market practices that harm the commercial interests of foreign firms.[97] In response, the MOFCOM deflected the discussion away from its anti-market

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92 19th Central Committee of the Chinese Communist Party, "第十四个五年规划"; Xi and Li, "2020年中央经济工作会议"; and Xi and Li, "2021年中央经济工作会议."

93 Ana Swanson, "Biden Targets China's Chip Industry with Wider Trade Bans," *New York Times*, December 2, 2024, https://www.nytimes.com/2024/12/02/business/economy/biden-china-chips-exports.html.

94 Zhang, "美国'去风险'的本质与动机."

95 Ding Xuexiang, "坚守多边主义正道促进开放包容发展" [Adhere to the Right Path of Multilateralism and Promote Open and Inclusive Development], World Economic Forum, January 21, 2025, https://www.fmprc.gov.cn/web/zyxw/202501/t20250121_11542159.shtml; Mao Ning, "毛宁:保护主义没有出路,贸易战没有赢家" [Mao Ning: There Is No Way Out for Protectionism, and There Are No Winners in the Trade War], Ministry of Foreign Affairs (PRC), video, January 22, 2025, https://www.mfa.gov.cn/web/sp_683685/wjbfyrlxjzh_683691/202501/t20250122_11543042.shtml; Wang Yi, "王毅在第61届慕尼黑安全会议'中国专场'上的主旨讲话（全文）" [Wang Yi's Keynote Speech at the 61st Munich Security Conference "China Session" (Full Text)], Munich Security Conference, February 14, 2025, https://www.fmprc.gov.cn/wjbzhd/202502/t20250215_11555652.shtml; and Li Keqiang, "李克强在第八届中国—中东欧国家经贸论坛上的致辞（全文）" [Li Keqiang's Speech at the 8th China-CEEC Economic and Trade Forum (Full Text)], Ministry of Foreign Affairs (PRC), July 8, 2018, https://www.mfa.gov.cn/web/gjhdq_676201/gjhdqzz_681964/sgwyh_682446/zyjh_682456/201807/t20180708_9385197.shtml.

96 Xi Jinping, "Xi at Davos: Key Quotes That Win Over Global Elites," Xinhua, January 17, 2017, http://www.xinhuanet.com/english/2017-01/17/c_135991128.htm.

97 Office of the U.S. Trade Representative, "2024 National Trade Estimate Report on Foreign Trade Barriers," March 19, 2024, https://ustr.gov/sites/default/files/2024%20NTE%20Report.pdf.

practices by issuing its own bilingual report accusing Washington of an America-first agenda that abuses tariffs and export controls in violation of WTO rules.[98]

Similarly, China's MFA and MOFCOM messaging consistently presents U.S. technology restrictions and trade policies—including the Inflation Reduction Act and the CHIPS and Science Act—as proof of the United States' unilateralism and protectionism.[99] They claim that "rising protectionism [and] blocked trade routes" undermine "the international economic and trade order," constituting the primary threat to the world's economic recovery.[100] In contrast, Beijing portrays Chinese exports as the key driver of global trade following the Covid-19 pandemic.[101]

This rosy description of PRC trade policy selectively omits concerns raised by other nations regarding Chinese industrial overcapacity, supply chain dominance, and nonreciprocal trade practices. For example, the EU implemented targeted tariffs toward Chinese electric vehicles due to overcapacity concerns.[102] Japan and the Netherlands implemented semiconductor export controls similar to U.S. restrictions, aiming to protect national security and IP.[103] Indonesia restricted nickel mining by Chinese companies and enacted import duties over nylon-film dumping by China and other countries.[104] Brazil imposed tariffs on iron, steel, fiber-optic cables, and other goods in response to Chinese dumping.[105] These cases demonstrate widespread, multiparty concerns over China's trade practices and export-driven growth model. Yet Beijing's official messaging consistently aims to either downplay these concerns or frame them exclusively as U.S.-led efforts to contain China's development.[106]

Second, like Beijing's broader argument against decoupling, its official messaging communicates that trade and technology restrictions are self-defeating. Foreign Minister Wang has argued that U.S. trade barriers and technology restrictions "will not stop China's development and rejuvenation, but will only spur the 1.4 billion Chinese people to forge ahead with greater determination."[107] Serving as another recent example, official messaging contends that the success

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98 "2024 Report on WTO Compliance of the United States," Ministry of Commerce (PRC), September 2024, https://sms.mofcom.gov.cn/cms_files/filemanager/676898164/attach/20249/7e465a3c4b3c4f11be09a3a4f6d09916.pdf; and Liu Yang, "商务部回应美发布'2024年外国贸易壁垒评估报告'" [The Ministry of Commerce Responded to the U.S. Release of the "2024 Foreign Trade Barriers Assessment Report"], Xinhua, April 3, 2024, http://www.news.cn/fortune/20240402/263822eeb542486da509c3ee79e864a0/c.html.

99 "外交部发言人就美国总统拜登签署对华投资限制行政令答记者问" [Foreign Ministry Spokesperson Replies to Questions Regarding U.S. President Biden's Signing of an Executive Order Restricting Investment in China], *People's Daily*, August 11, 2023, http://paper.people.com.cn/rmrb/html/2023-08/11/nw.D110000renmrb_20230811_3-03.htm; and "商务部新闻发言人就近期美系列涉华贸易限制措施发表谈话" [Ministry of Commerce Spokesperson Made a Statement on the Recent Series of U.S. Trade Restrictions on China], Ministry of Commerce (PRC), January 15, 2025, https://www.mofcom.gov.cn/xwfb/xwfyrth/art/2025/art_946873b612c444cd97fbd97ade4a0d04.html; and Zhang, "美国'去风险'的本质与动机."

100 Yan Yu, "三季度全球货物贸易保持复苏态势" [Global Trade in Goods Maintained Recovery in the Third Quarter], *People's Daily*, September 26, 2024, http://paper.people.com.cn/rmrbhwb/html/2024-09/26/content_26082938.htm.

101 Ibid.; and Bradsher, "China's Trade Surplus."

102 Ryan Featherston, "Slamming the Brakes: The EU Votes to Impose Tariffs on Chinese EVs," CSIS, December 16, 2024, https://www.csis.org/blogs/trustee-china-hand/slamming-brakes-eu-votes-impose-tariffs-chinese-evs.

103 Gregory C. Allen, Emily Benson, and Margot Putnam, "Japan and the Netherlands Announce Plans for New Export Controls on Semiconductor Equipment," CSIS, April 10, 2023, https://www.csis.org/analysis/japan-and-netherlands-announce-plans-new-export-controls-semiconductor-equipment.

104 "Indonesia to Impose Anti-Dumping Import Duty for Nylon Film from China, Thailand, Taiwan," Reuters, March 12, 2025, https://www.reuters.com/markets/commodities/indonesia-impose-anti-dumping-import-duty-nylon-film-china-thailand-taiwan-2025-03-12; and A. Anantha Lakshmi, "Indonesia Moves to Reduce Chinese Ownership of Nickel Projects," *Financial Times*, July 26, 2024, https://www.ft.com/content/0f8e2fe8-c7cb-4d6a-9436-1cb1806af4e0.

105 Igor Patrick, "Brazil Imposes New Tariffs on Imports from China in Bid to Fight Dumping," *South China Morning Post*, October 19, 2024, https://www.scmp.com/news/china/diplomacy/article/3283014/brazil-imposes-new-tariffs-imports-china-bid-fight-dumping.

106 Annabelle Liang, "U.S.-China Chip War: Netherlands Moves to Restrict Some Tech Exports," BBC, March 9, 2023, https://www.bbc.com/news/business-64897794.

107 "Wang Yi: Unilateralism and Protectionism Are Bound to Be Crushed by the Wheels of History," Embassy of the PRC in the United States of America, May 15, 2024, http://us.china-embassy.gov.cn/eng/zgyw/202405/t20240515_11305137.htm.

of DeepSeek, the Chinese AI startup, is proof that U.S. technology restrictions will only compel Chinese engineers to train AI models "more effectively" and competitively.[108]

Furthermore, official mouthpieces such as the MFA and China's embassy to the United States highlight the adverse effects trade barriers will have on American consumers and companies. In one example, they cherry-pick and leverage foreign commentary from 2021 that claims that "92.4% of the cost of the tariffs has been borne by American companies and consumers," alluding to an annual increase of $1,300 in household expenditures, according to a Moody's Investment Service report.[109] Beijing goes on to cite statistics from the U.S.-China Business Council to claim that U.S. tariffs on China have caused an estimated loss of 250,000 American jobs.[110] By drawing on the credibility of these foreign statistics, Beijing attempts to argue that any trade and technology barriers placed on China are self-defeating even according to international experts.

In summary, this narrative against trade barriers and technology restrictions aims to portray the transgressor—usually the United States—as the real protectionist country acting unilaterally while positioning China as a rule-abiding leader in global trade. Furthermore, official messaging suggests that any trade or technology restrictions imposed on China will backfire and ultimately strengthen its position. These narratives serve the strategic purpose of preserving the PRC's role in global supply chains, facilitating technology acquisition through absorbing foreign expertise, and redirecting scrutiny away from Beijing's nonreciprocal trade practices and violations of the WTO's founding principles.

Conclusion

This chapter has sought to explore the narratives Beijing employs in order to protect China's interests in topics ranging from investment and market access to IP, trade dependency and de-risking, reform, and liberalization, as well as trade and technology restrictions. While Beijing frames widespread coverage of these issues as a byproduct of geopolitical competition with the United States, the PRC's economic practices affect all foreign stakeholders. Many actors—such as some member countries of the Association of Southeast Asian Nations, Japan, the Netherlands, the EU, Brazil, and India—have raised similar concerns over Beijing's export-driven growth model.[111]

To address these international trade frictions, Beijing tasks its information operators with a two-pronged strategy of broadcasting the win-win nature of economic integration with the Chinese market while suppressing critical coverage of the PRC's policies. The techniques used to deliver these messages are probably familiar to even casual observers of diplomacy. There is nothing special

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108 Hua Xia, "China's AI Advances Thwart U.S. Suppression Policy," Xinhua, January 25, 2025, https://english.news.cn/20250125/9f892a203a7043ec985858603b7cd200/c.html.

109 "China Resilient Against External Shocks, Vice Commerce Minister Says amid U.S. 60% Potential Tariff Threat," *Global Times*, November 22, 2024, https://www.globaltimes.cn/page/202411/1323585.shtml; Guo Jiakun, "2025年1月16日外交部发言人郭嘉昆主持例行记者会" [Foreign Ministry Spokesperson Guo Jiakun's Regular Press Conference on January 16, 2025], Ministry of Foreign Affairs (PRC), January 16, 2025, https://www.mfa.gov.cn/fyrbt_673021/202501/t20250116_11536633.shtml; Wang Wenbin, "2024年4月23日外交部发言人汪文斌主持例行记者会" [Foreign Ministry Spokesperson Wang Wenbin's Regular Press Conference on April 23, 2024], Ministry of Foreign Affairs (PRC), April 23, 2024, https://www.mfa.gov.cn/wjdt_674879/fyrbt_674889/202404/t20240423_11287839.shtml; and "Tariffs on China Shouldn't Be Used as a Political 'Sticky Note' for Washington's Convenience: Global Times Editorial," *Global Times*, August 22, 2024, https://www.globaltimes.cn/page/202408/1318767.shtml.

110 Qin Gang, "Great Changes, Great Horizon, Great Vision—China and the U.S. Must Find the Right Way to Get Along in the New Era," Embassy of the PRC in the United States of America, July 27, 2022, http://us.china-embassy.gov.cn/eng/dshd/202208/t20220824_10750348.htm; and "The U.S.-China Economic Relationship," U.S.-China Business Council, January 2021, https://www.uschina.org/articles/the-us-china-economic-relationship.

111 Brendan Kelly and Shay Wester, "ASEAN Caught Between China's Export Surge and Global De-risking," Asia Society, February 17, 2025, https://asiasociety.org/policy-institute/asean-caught-between-chinas-export-surge-and-global-de-risking.

about strategic redirection, selective omission, cherry-picking, or other tactics used by Beijing to distort international economic norms. Instead, it is the careful employment of these tactics in various situations and to select audiences that facilitates China's desired economic outcomes and reveals a sophisticated operation that keeps party newspaper editors, career diplomats, and top leaders all on message. This consistency and unity of message is most persuasive when it relies on truths and half-truths of significant concern to foreign entities deeply invested in the Chinese economy because they either threaten foreign fears or play on foreign hopes. Indeed, the use of external rhetoric to influence in this fashion aligns with scholarship showing that Beijing's broader external policies were crafted to take advantage of the West's engagement strategy toward China. This strategy had supported China's economic development on the bet that it would lead to the country's adoption of democratic norms and peaceful integration into the U.S.-led international order.[112] This clearly did not happen.

More recently, Beijing's narratives frequently highlight the PRC's endorsement of globalization and free-trade principles in contrast with the United States' apparent shift toward protectionism. Such messaging may prove to be especially salient given the United States' "reciprocal tariff" policy announced on April 2, 2025. While Beijing will likely continue to employ the rhetorical tactics and slogans outlined in this chapter to position itself as the champion of global trade, its fundamental dual-circulation strategy will remain a unique challenge for its overall economic engagement narrative. As recent reports reflect that Beijing has little interest in abandoning its export-heavy growth model, China's economic partners will bear the brunt of the country's nonreciprocal trade practices.[113] How Beijing's information operators navigate these nonreciprocal engagements—and subsequent international pushback—is worthy of further study.

[112] See, for example, Friedberg, *Getting China Wrong*.

[113] Bradsher, "China's Trade Surplus."

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The Trajectory and Implications of China's Economic Slowdown

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EXECUTIVE SUMMARY

This chapter explores the implications of China's economic slowdown for the country's trade and investment partners, highlighting broad takeaways from the nature of the slowdown as well as common trends from this report's five case studies.

MAIN ARGUMENT

The impacts of China's economic slowdown are complex and operate across a number of trade and investment channels, posing policy challenges for a wide range of countries. The shift in China's growth model will have adverse impacts on both commodity and manufacturing exporters.

POLICY IMPLICATIONS

- As China broadens its manufacturing base, it will be increasingly difficult for countries to protect their manufacturing sectors, let alone to maintain or increase their exports of manufactured goods into China. Protectionist policy measures might not be enough to effectively reverse this trend, although the rearrangement of global supply chains is likely to accelerate due to worsening trade relations between China and partners such as the U.S.
- Chinese demand for traditional commodities (e.g., oil, coal, iron, and ore) will continue to decline as infrastructure and housing are less central to China's growth model. Demand for new commodities (e.g., lithium, nickel, and cobalt) will not likely result in the same price spikes and, therefore, will not necessarily benefit commodity exporters in the same way as previous commodity booms driven by China.
- Because of the above factors, across a wide range of countries, diversifying trading partners beyond China is a critical recommendation to mitigate economic exposure to the impacts of the country's economic slowdown.
- China's strict capital controls, designed to stabilize its highly leveraged financial system and control its exchange rate, will remain tight to mitigate the risk of a domestic financial crisis. Because of these restrictions and the fact that China continues to run a trade surplus, direct investment and outbound FDI will continue, in line with official strategic objectives. Recipient countries should note this report's finding of minimal evidence that these flows meaningfully contribute to domestic growth.

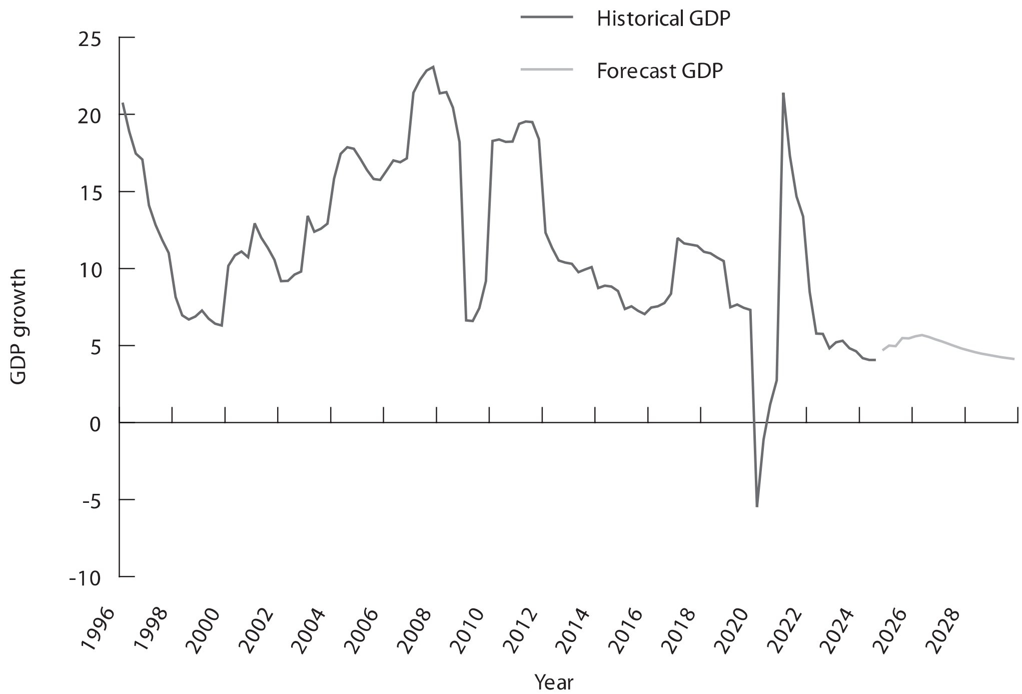
This report's first chapter examined the long-term trends of Chinese economic growth. The time frame considered began with the period of elevated growth (roughly 10% per year), continuing up to 2012. This period was followed by lower growth in the mid to late 2010s and even lower growth after the onset of the Covid-19 pandemic. Our descriptive analysis of structural and policy trends shaping China's economic landscape suggests that the country's future growth could continue to slow to or below 4% in the near future. The analysis considered a number of economic, social, political, and demographic factors to generate this expectation of future growth. However, to complement this analysis with direct econometric modeling, we jointly modeled interactions of key factors and past trends of economic growth with each other. Vector autoregressive (VAR) models are a type of econometric model in which each variable is expressed as a function of its own past values and the past values of other relevant variables, with all the equations estimated jointly. This method allows us to forecast the future values of all variables in the system. The outputs of such models can increase understanding of the possible economic trajectories of China in the near term based on a set of assumptions and validate the analysis derived from structural and policy trends.

In our VAR model for China, the forecast of GDP growth from the last quarter of 2024 forward five years displays a modest increase followed by a gradual decline (see **Figure 1**).[1] At its peak, the forecast estimates that China's GDP growth will reach 5.7%. The lowest rate of growth (4.1%) occurs at the end of the forecast. The GDP growth levels in this forecast mirror the findings from the descriptive analysis in chapter 1 that growth will decline over time. While the values of the VAR model do not drop quite as low as the 3%–4% range expected from the descriptive analysis, these results show the same general pattern of decline. Moreover, the extended time horizons that can be considered through the descriptive analysis suggest that structural and policy factors could compound to extend the decline in growth rates after 2029 (the end of the period examined by the model).

Having analyzed the trajectory of this slowdown, this report now examines the implications for countries with trade and financial linkages with China. While broad implications can be drawn from the overall trajectory of the slowdown—for instance, that the shifting growth model will generally hurt traditional commodity exporters, while the continued competitiveness of Chinese manufacturing will affect countries that seek to protect or develop their own sectors—to more fully understand the implications of the slowdown, we examined its effects through case studies of five countries with varied characteristics and economic relations with China (see **Table 1**). The characteristics of these countries vary sufficiently to provide examples of how the key implications could be applied to the economies of other countries in similar situations. The case studies cover four regions: Africa, Southeast Asia, Europe, and Latin America. Three of the five countries (Indonesia, Nigeria, and Brazil) have over 200 million people, putting them in the top ten countries in the world for population, according to 2025 data from the U.S. Census Bureau. Germany is also a relatively large country, with over 80 million people. Paraguay is the smallest of the countries, with only 6.8 million people. The countries also cover a range of income levels, with one being high-income (Germany), one being lower–middle income (Nigeria), and the remaining

[1] The model is based on quarterly data from the first quarter of 1995 through the third quarter of 2024 and includes measures of inflation, interbank interest rates, and trade with the United States along with GDP growth. Additionally, the model includes shocks for the outbreak of the Covid-19 pandemic in 2020 and the imposition of U.S. tariffs on China in 2018. In the forecast period, we added an additional shock in the second quarter of 2025 for new tariffs. Due to the limited number of time periods for analysis, VAR models can only have a limited number of covariates, especially since the autoregressive characteristic of such models effectively increases the number of variables.

FIGURE 1 Historical GDP growth and forecast of quarterly GDP growth for China



SOURCE: Calculations based on authors' VAR model.

TABLE 1 Characteristics of case study countries

Country	Region	Population (2023)	Income group	Chinese trade balance	China's largest import from country	Diplomatic relations with the PRC
Brazil	Latin America	211.1 million	Upper middle income	Net importer from Brazil	Raw materials	Recognized the PRC in 1974
Germany	Europe	83.3 million	High income	Net importer from Germany	Capital goods	Recognized the PRC in 1972
Indonesia	Southeast Asia	281.2 million	Upper middle income	Net importer from Indonesia	Intermediate goods	Recognized the PRC in 1950
Nigeria	Africa	227.8 million	Lower middle income	Net exporter to Nigeria	Raw materials	Recognized the PRC in 1971
Paraguay	Latin America	6.8 million	Upper middle income	Net exporter to Paraguay	Raw materials	No recognition of the PRC

SOURCE: Data for population is from the World Bank databank; information on income group is from World Bank; information on trade balance is from UN Comtrade database; information on largest import is from World Integrated Trade Solution database; and information on diplomatic relations is from Wikipedia.

three falling within the upper–middle income range. The countries include both a country with a net outflow of foreign direct investment to China (Germany) as well as recipients of Chinese development finance. In terms of trade, China is a net importer from three of the countries (Brazil, Germany, and Indonesia) and a net exporter to the other two countries (Nigeria and Paraguay). The product group with the largest imports to China is raw materials for three of the countries (Brazil, Nigeria, and Paraguay), intermediate goods for Indonesia, and capital goods for Germany. Four of the five countries have long-established diplomatic relations with the People's Republic of China (PRC). The exception is Paraguay, providing an example of how the Chinese economy interacts with a country that does not formally recognize the PRC and therefore maintains minimal overall direct trade volumes.

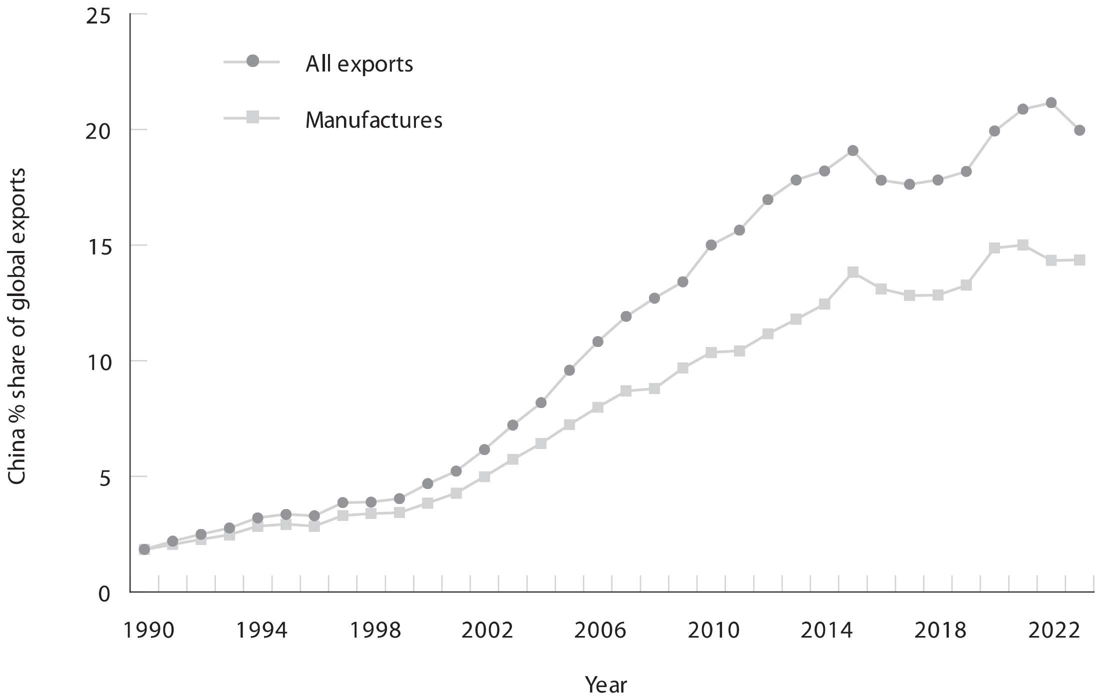
We can define four major implications of China's economic slowdown for the country's trade and investment partners. These implications derive in part from the overall changes in growth rates; however, inasmuch as the Chinese economy is still growing, many of the effects on partners depend more on changes in the composition of growth, which affect China's demand for imports and the volume and competitiveness of exports, as well as changing financial flows. The remainder of this chapter assesses these impacts both generally and for various types of economies (e.g., developing commodity exporters and advanced industrial economies, among others). In the latter case, our analysis draws heavily on the findings of the five country-specific case studies that follow this chapter.

Implications of China's Economic Slowdown

The first major impact is that as China broadens its manufacturing base, it will be ever more difficult for countries to increase their exports of manufactured goods to China (see **Figure 2** for an overview of China's global share of these exports). This is already a significant problem for Germany and other advanced industrial economies that in past years had relied heavily on such exports. Furthermore, China's comparative advantages in manufacturing (e.g., economies of scale, abundant labor, and strong infrastructure), paired with persistent government subsidies and support, mean that manufacturers in most countries will find it ever harder to compete with the "China price" at home or in third markets. This creates a serious challenge for lower-income countries hoping to develop through the traditional route of export manufacturing, as is discussed in several of this report's case studies. As is noted in the case study of Nigeria, for instance, the kind of "China shock" that affected the country's previously sizable textile industry is likely to persist. In the case of Indonesia, efforts to move up the value chain from raw materials to manufactured goods will face challenges, and even strong policy steps to promote this goal might not be fully effective.

Second, protectionist efforts to curb Chinese imports—such as the aforementioned Indonesian policy measures—will continue to grow in countries that wish to retain or establish a substantial share of industry in their production structure. But it will be very hard for such protectionism to be effective, given China's massive comparative advantage, as well as the growing willingness of Chinese companies to internationalize their operations to avoid the impacts of tariffs and

FIGURE 2 China's share of global exports



SOURCE: International Monetary Fund; and World Trade Organization (WTO).

other restrictions.[2] Most countries will be forced into a strategy of using protectionist policies not to block China's entry into their markets but to compel Chinese companies to invest directly and serve these markets through local production. Indeed, many of the Indonesian measures mentioned above are intended to encourage local production and processing, but not necessarily to preclude the involvement of Chinese companies.

A related factor is that the rearrangement of global supply chains is likely to accelerate due to worsening trade relations between the United States and China. The precise outcome of the trade war is impossible to predict, but U.S. tariffs on Chinese imports will likely settle at a rate significantly higher than the 10% weighted average effective rate in 2024, as well as higher than U.S. tariffs on other countries.[3] As a result, incentives will rise for Chinese manufacturers to ship U.S.-bound goods through third countries to lower their exposure to tariffs. This could take the form of simple transshipment, or it could involve relocation of production or final assembly, in which case trade flows would be accompanied by investment flows.

This rearrangement of supply chains was visible in the aftermath of the U.S.-China trade war during the first Trump administration. U.S. tariffs on many Chinese products rose dramatically,

[2] Much research shows that the U.S. trade war of 2018–19 rearranged patterns of global trade but had little impact on overall trade balances. It thus was ineffective at sparking reindustrialization in the United States. See, for example, Pinelopi K. Goldberg and Tristan Reed, "Growing Threats to Global Trade," *Finance and Development Magazine*, June 2023, https://www.imf.org/en/Publications/fandd/issues/2023/06/growing-threats-to-global-trade-goldberg-reed; and Jeongmin Song et al., "Geopolitics and the Geometry of Global Trade," McKinsey Global Institute, Report, January 2024, https://www.mckinsey.com/mgi/our-research/geopolitics-and-the-geometry-of-global-trade.

[3] The weighted average effective tariff rate is simply tariff revenue on China divided by the value of imports from China. This was 10.3% in 2024. See "The Impact of U.S. Tariffs on China: Three Scenarios," Economist Intelligence Unit, December 17, 2024, https://www.eiu.com/n/the-impact-of-us-tariffs-on-china-three-scenarios. This differs from the statutory rates on products, which were in many cases much higher.

while tariffs on other countries remained largely unchanged. A number of entrepot countries saw outsized increases in both imports from China and exports to the United States in 2017–24: Vietnam, Thailand, Cambodia, and Singapore in Asia; Belgium, Poland, Hungary, and Turkey in Europe; and Mexico in North America. Collectively, between 2017 and 2024, these countries saw imports from China rise 119% and exports to the United States rise 86%. The figures for the rest of the world were 50% and 29%, respectively. During the same period the entrepot countries raised their share of total Chinese exports from 11% to 16%, and their share of U.S. imports from 19% to 26% (see **Table 2**).[4] These increases in trade flows reflect both tariff avoidance and the natural tendency of Chinese companies to internationalize their production (and hence flows of intermediate goods) as they mature.

The key question is thus which countries are best placed to capture spillover benefits from the gradual relocation of Chinese manufacturing capacity around the world. The crucial issue here is not the quantity of new investment but the quality. Countries will need to focus relentlessly on ensuring that these investments create local employment, supply chains, and technology transfer, rather than simply creating Chinese enclaves. Vietnam and Indonesia are examples of countries that have put Chinese investment to good use in upgrading their economies: Indonesia by moving up the value chain in commodity-processing, and Vietnam by becoming an important hub of electronics production (see **Figure 3**). As is discussed in the case studies, many countries that have received Chinese investments in other contexts—such as infrastructure or commodities—have struggled to translate these into sustainable, long-term growth. In particular the Nigerian

TABLE 2 Estimated transshipment of Chinese exports to the United States via entrepot countries

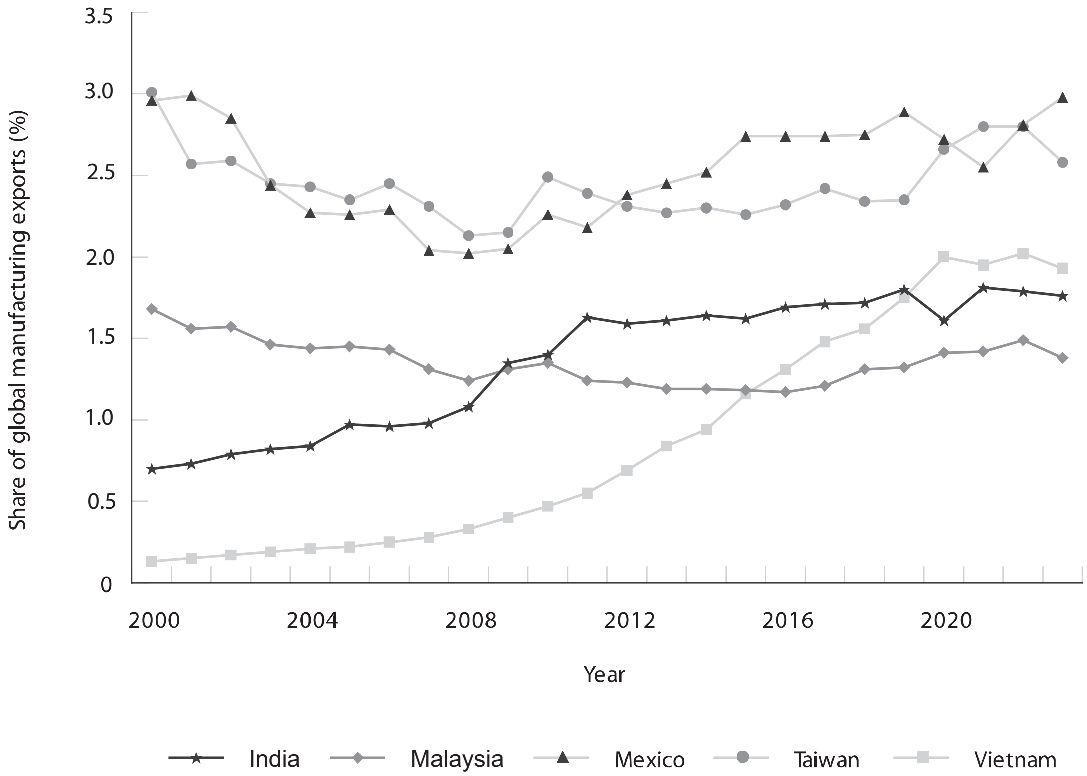
Imports from China	2017 ($ bn)	2024 ($ bn)	2017–24 increase (%)
Entrepot countries	254	556	119%
Rest of world	2,011	3,023	50%
Entrepot countries' share of total Chinese exports	11%	16%	–
Exports to the United States	**2017 ($ bn)**	**2024 ($ bn)**	**2017–24 increase (%)**
Entrepot countries	448	831	86%
Rest of world	1,871	2,416	29%
Entrepot countries' share of total U.S. imports	19%	26%	–

SOURCE: Thomas Gatley, "Reforging Supply Chains, Again," Gavekal Research, April 29, 2025.

NOTE: The entrepot countries are Belgium, Cambodia, Hungary, Mexico, Poland, Singapore, Thailand, Turkey, and Vietnam.

[4] Thomas Gatley, "Reforging Supply Chains, Again," Gavekal Research, April 29, 2025, https://research.gavekal.com/article/reforging-supply-chains-again.

FIGURE 3 Share of global manufacturing exports for select countries



SOURCE: WTO.

and Indonesian case studies—which look primarily at commodity investments—provide salutary lessons for these kinds of countries: develop a strategic plan for the relevant sector before investments begin, learn from the experience of countries such as Vietnam that have already experienced a similar influx, and be wary of the risks that overcapacity could drive down prices and limit the economic benefits derived from production.

Third, the structure of China's demand for global commodities is changing. Most significantly, the de-emphasis on domestic infrastructure and housing construction in favor of technology-intensive industries, especially in renewable energy, means that resource demand will shift from commodities crucial to the old economy (oil, coal, and iron ore) to those important for the new economy, notably copper and minerals related to battery production (particularly lithium, nickel, and cobalt). Yet, crucially, in these new mineral markets China will not replicate the impact it had on the iron-ore market, where its burgeoning steel demand led to a tenfold increase in global prices between 2000 and 2010 and sustained high prices thereafter. Production of traditional metal ores such as iron and copper is dominated by European, North American, and Australian mining companies, which in the face of rising Chinese demand stayed relatively disciplined in bringing on new supply to keep prices high. The case study of Indonesia provides additional detail on how the global trends affected that country and its exports to China—creating growth during the 2010s that is not likely to be replicated. In new specialty minerals, Chinese companies dominate global production: between 2018 and 2021, they accounted for about two-thirds of global lithium production acquisitions (largely in Latin America); over a longer period, they bought up 60% of global cobalt supply (mainly in Africa). Chinese miners rapidly expanded production of both minerals, causing prices to crash by over 50% after a short-lived boom.[5]

Indonesia pioneered a strategy to address this problem: as is discussed in detail in the case study, in 2019 it banned exports of raw nickel ore, requiring buyers (mainly from China) to set up processing facilities in Indonesia. The result was a huge influx of Chinese nickel-processing capacity to process Indonesian ore into battery-grade nickel.[6] After yet another a short boom, the battery-grade nickel price fell by two-thirds in 2022. The low-cost, high-efficiency Chinese producers in Indonesia survived and the net impact for the Indonesian economy was positive, but nickel producers in many other countries were forced to scale back or go out of business. The lesson is that mineral-rich countries cannot take the long-term consistency of the benefits of Chinese demand for granted; instead, they need to carefully construct investment regimes to turn potential benefits into sustainable realities.

This changing demand outlook for commodities is also affecting the sectoral targeting of China's overseas investments. While the broad picture is discussed in more detail below, countries such as Brazil and Indonesia have seen declines in inbound Chinese development financial investment into their energy sectors from peaks in the mid-2010s. This suggests that commodity exporters not only may no longer see the price increases that they had become accustomed to but also may not see the same level of Chinese investment.

The fourth and final implication relates to China's evolving position in global financial flows. China punches well below its economic weight in the world of finance. It accounts for around 18% of global GDP, 33% of world manufacturing production, and 40%–50% of global demand for energy and many physical commodities. But while it is also a major provider of FDI, generally ranking second behind the United States, it accounts for less than 2% of global portfolio capital flows—a figure that has not significantly risen in the last decade.

The reason is that, in order to protect the stability of its highly leveraged financial system and control its exchange rate, China maintains by far the tightest capital controls of any industrial economy. These controls were tightened in 2015–16 in response to strong capital outflows, and they have been tightened again in recent years as weak economic growth has boosted the incentive for Chinese to move capital out of the country.

China will not materially relax controls on outbound portfolio investment in the next decade. It needs to keep the large pool of domestic savings locked up at home to finance its industrial policies and, as noted above, give itself additional breathing room to ensure that the country's high debt levels do not pose significant risks of a financial crisis. For the same reason, there is not much chance that China will succeed in making the renminbi a widely used international currency or the anchor of a non-dollar international payment system. To achieve those goals, it would need to dismantle capital controls and create deep and reliable financial markets that international holders of renminbi could easily access.

China will, however, continue to be an important source of FDI and official financing flows, and its capacities in this regard will not be significantly constrained by its slowing economy. So long as China continues to run large current account surpluses—the average in 2021–24 was $370 billion a year, underpinned by even larger trade surpluses—it will have large flows of income that must be

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5 Tom Miller, "How China Killed the Battery Metals Market," Gavekal Research, April 1, 2024, https://research.gavekal.com/article/how-china-killed-the-battery-metals-market.

6 Isabelle Huber, "Indonesia's Nickel Industrial Strategy," Center for Strategic and International Studies, December 8, 2021, https://www.csis.org/analysis/indonesias-nickel-industrial-strategy.

invested abroad. Because its capital flows effectively prohibit private-sector portfolio investment, these foreign investments must take the form of official reserve accumulation (purchases of U.S. Treasuries or similar low-risk instruments), direct investment, or development finance and other official financial flows.

China saw a boom of outward investment from 2013 to 2017, partly through private activity and partly through infrastructure and resource extraction investments under the Belt and Road Initiative (BRI). Private outward FDI was severely curbed by tighter capital controls in 2016, and BRI investments were reined in after 2017 because too many projects delivered poor returns, were enmeshed in corruption, or generated political backlash. The pandemic years of 2020–22 saw a further decline in international project loans and investments. During that period, most of China's outward financing was emergency lending that refinanced unprofitable BRI projects.[7]

Since 2023, however, China's outbound project investments have recovered. Its total international direct project and construction investments averaged $112 billion a year in 2023–24, up from an average of $90 billion during the pandemic. This is well below the hectic pace of 2013–17, when Chinese spending on such projects was around $200 billion a year, but it is noteworthy that these flows increased even as China's domestic economy was slowing.[8] The likely future trajectory is that these investments will continue to grow at a moderate pace and will reflect both official strategic objectives and the desire of Chinese companies to globalize their operations.

Cross-Country Themes

These implications and the country-specific impacts identified in the individual case studies could greatly alter the growth trajectories of the five countries examined, as well as other similarly situated countries. Moreover, the micro-level impacts—whether affecting export-dependent or import-competing sectors, localities dependent on Chinese investment or development finance, or other economic actors—could be even more pronounced. In response to these implications, countries would be prudent to take actions to reduce or mitigate the impacts of the slowdown on their economies. Each of the case studies considers policy options for how the specific countries can respond to the slowdown. Two cross-country themes emerge from the recommendations, which could apply across countries with different characteristics defining their economic relationship with China beyond the five countries examined in detail.

The first theme is the importance of countries diversifying their trading partners. Diversification enables a country to shift exports to other markets if a slowdown reduces Chinese demand for the country's exports, thereby reducing the impact. Diversification can also reduce the impact of China switching to more local production to replace imports from abroad as part of its effort to promote self-sufficiency. The recommendations for diversification of trade do not imply that the case study countries have undiversified trade flows; indeed, all of them have a diverse set of trading partners, but tend to rely on China for specific parts of their trade or even most of their trade, making them vulnerable to fluctuations in the Chinese economy.

The three countries with a bilateral trade surplus (Brazil, Germany, and Indonesia) have large volumes of exports to China, making them particularly vulnerable to slowdowns in the

7 Bradley C. Parks et al., "Belt and Road Reboot: Beijing's Bid to De-risk Its Global Infrastructure Initiative," AidData, William & Mary, November 2023, https://www.aiddata.org/publications/belt-and-road-reboot.

8 American Enterprise Institute, China Global Investment Tracker, http://aei.org/china-global-investment-tracker.

Chinese economy. Since 1992, China has imported over $1.2 trillion in goods from Brazil. The volume of trade has increased almost exponentially, resulting in Brazil becoming increasingly dependent on this trade. In the case of Germany, China historically imported mostly capital goods. Even as its economy decelerates, China will continue to require capital goods for its manufacturing sector. But over time it has proved more capable of producing its own capital goods, which reduces the need for German capital goods. The case of Indonesia presents an example where a country has made inroads to self-sufficiency but still maintains a level of export dependence on China. At the start of the trading relationship, China mainly imported raw materials from Indonesia, but over time trade between the countries shifted toward China importing more intermediate goods. This shift was partly due to Indonesia banning the export of raw nickel, which forced China to invest in nickel processing in Indonesia, thereby transferring the capacity to Indonesia. However, the overproduction of Chinese processing plants led to a drop in the price of nickel, resulting in lower returns. As the Indonesian case suggests, reducing reliance on exports to the PRC is difficult and will require targeted policies to not only strengthen domestic industries but also reshape trade flows.

Nigeria, by contrast, is far more reliant on imports than exports. Even with a slowdown, China's strong manufacturing sector will produce most of the consumer goods Nigerians buy. The problem for Nigeria is generating enough capital through exports—either to China or to other countries—to pay for these consumer goods. Expansion of exports to China specifically would make Nigeria more vulnerable to fluctuations in the Chinese economy, which makes expanding exports to other countries more attractive. Already exports to Europe far exceed those to China. Nigeria will fare better by increasing the number of countries to which it exports petroleum and other products rather than relying on exports to China.

Unlike the other case study countries, Paraguay recognizes Taiwan and does not have diplomatic relations with the PRC. Therefore, it has much lower levels of trade with the PRC, making its economy relatively less vulnerable to slowdowns in the Chinese economy. Paraguay, however, could be indirectly vulnerable to China's economic fluctuations through Brazil. Due to its export dependence on China, Brazil's economy could be greatly affected by a slowdown in the Chinese economy. A slowdown in the Brazilian economy in turn would hurt Paraguay because Brazil is the largest recipient of Paraguayan exports—reflecting the fact that the impacts of China's slowdown percolate through a variety of channels. To reduce this vulnerability, Paraguay should pursue a strategy of diversification of trade beyond Brazil.

The second theme is for countries to align financial investments related to China with their own national interests rather than Chinese interests. In the case of Germany, more FDI goes to China than from China to Germany. This leaves German businesses and investments exposed to potential downside risks such as weak Chinese demand and a stiffening competitive environment. In response, countries like Germany should ensure that their entities that invest in China are aware of the state of the Chinese economy and attempt to structure incentives for businesses to ensure that investments benefit Germany's interests at large. For instance, simply producing more cars in China does not necessarily benefit the German economy if those cars are sold for declining prices in a market increasingly dominated by Chinese manufacturers. Close examination of the benefits of FDI will help Germany guide businesses to productively invest in the PRC in order to benefit Germany.

In the other four case studies, the primary direction of investment is from China to the country. These countries should focus China's current and future investments toward their national interests. For current investments, countries can review the terms and, where feasible, renegotiate agreements to be more favorable, taking into consideration the changing economic landscape. This is particularly important for investments that are linked to infrastructure or other projects that ultimately facilitate exports back to China. The countries can also learn about what works and what does not work from existing agreements and then apply these lessons in negotiating future agreements. Indonesia is a special case where its agreement with China led to building Indonesian capacity in nickel processing. Other countries should follow this example by seeking agreements with China that build domestic capacity and allow them to move up the value chain.

Conclusion

Overall, the impacts of China's economic slowdown on its trade and investment partners will be highly heterogeneous, varying based on the magnitude of the overall relationship, the composition of the country's imports from and exports to China, the existence of significant commodity flows or export-dependent sectors, financial linkages, and other factors. As seen in the Paraguayan case, while a smaller set of economic linkages with China shields countries from the direct effects, the slowdown will continue to reverberate throughout the global economy over the years to come. This chapter has attempted to present a quantitative description of the likely trajectory of China's economic slowdown, drawing on the factors outlined in this report's first chapter and supplementing that analysis. This analysis serves as the basis for the five case studies that follow as well as a broader analysis of the slowdown's implications for China's trading partners. The case study countries' economies and economic relationships with China provide salutary lessons for other similarly situated countries.

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What China's Economic Slowdown Means for Key Countries: Case Studies

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This chapter presents five case studies analyzing the implications of a slowdown in the domestic economy of the People's Republic of China (PRC) for a diverse set of countries: Brazil, Germany, Indonesia, Nigeria, and Paraguay. These countries were selected to cover a range of geographic regions, levels of economic development, and engagement with the PRC. By investigating these representative cases, this chapter highlights the different channels through which the effects of a Chinese economic slowdown would unfold globally.

Each case evaluates the patterns of economic interdependence with the PRC, assesses the vulnerabilities resulting from reduced Chinese demand and investments, and considers policy options for governments to navigate the slowdown. Collectively, the case studies provide a framework for understanding the global ramifications of a Chinese economic slowdown and offer policymakers guidance to mitigate risks and leverage new opportunities.

Brazil

Ana Horigoshi and Jonathan Solis

Brazil occupies a complex position in the global landscape. As Latin America's largest country by population and GDP, it wields significant regional influence. Yet, it also faces external dependencies. Through its membership in the BRICS grouping, Brazil has strengthened ties with the PRC, envisioning a future aligned with countries outside the G-7 and challenging the dominance of the U.S. dollar.[1] Recent additions to the coalition, such as Iran, further signal an alignment among countries seeking to counter Western dominance. This reinforces Brazil's pivot toward multipolarity. The Brazilian economy supports a population of 211 million, with a GDP per capita of $9,258 in 2023 (in constant 2015 U.S. dollars).[2] Its population has grown steadily since 2000, with projections indicating continued expansion in population and economic output.[3] In 2023, Brazil's overall Human Development Index was 0.76 (on a 0 to 1 scale), which qualifies as "high human development."[4] As it stands, Brazil's economic potential remains largely unrealized.

Brazil recognized the PRC in 1974 after decades of diplomatic relations with the Republic of China (or Taiwan), aligning with a wave of similar decisions by other nations.[5] In 1993, it became the first Latin American country that the PRC recognized as a "strategic partner."[6] Relations with Beijing have remained strong, with trade becoming the foundation of the partnership, leading

1 In 2023, at a BRICS conference in Johannesburg, Brazilian president Luiz Inácio Lula da Silva called for the BRICS nations to consider a common currency to shield them from fluctuations in the U.S. dollar. See Rachel Savage, "Explainer: What Is a BRICS Currency and Is the U.S. Dollar in Trouble?" Reuters, August 24, 2023, https://www.reuters.com/markets/currencies/what-is-brics-currency-is-us-dollar-trouble-2024-12-17. While no serious plans are in place, this proposal reflects the group's growing unease with their economies' dependence on the U.S. dollar. The BRICS originally comprised Brazil, Russia, India, China, and South Africa, but the grouping has expanded to include Egypt, Ethiopia, Indonesia, Iran, and the United Arab Emirates.

2 World Bank, World Development Indicators, https://databank.worldbank.org/source/world-development-indicators.

3 Ibid. The Brazilian government predicts a 2.5% increase in GDP for 2025. "Brazil's Government Forecasts 2.6% GDP Growth in 2025, Inflation to Hit 3.3%," Reuters, August 30, 2024, https://www.reuters.com/world/americas/brazils-government-forecasts-26-gdp-growth-2025-inflation-hit-33-2024-08-31. The population should continue to rise until at least 2040. See Luiz Bello, "Brazil's Population Will Stop Growing in 2041," Agência de Notícias IBGE, August 22, 2024, https://agenciadenoticias.ibge.gov.br/en/agencia-news/2184-news-agency/news/41065-populacao-do-pais-vai-parar-de-crescer-em-2041.

4 The Human Development Index measures a country's overall development by examining life expectancy at birth, mean years of schooling, expected years of schooling, and gross national income per capita. UN Development Programme, *Human Development Report 2023–24: Breaking the Gridlock—Reimagining Cooperation in a Polarized World* (New York: UNDP, 2024), https://hdr.undp.org/system/files/documents/global-report-document/hdr2023-24reporten.pdf.

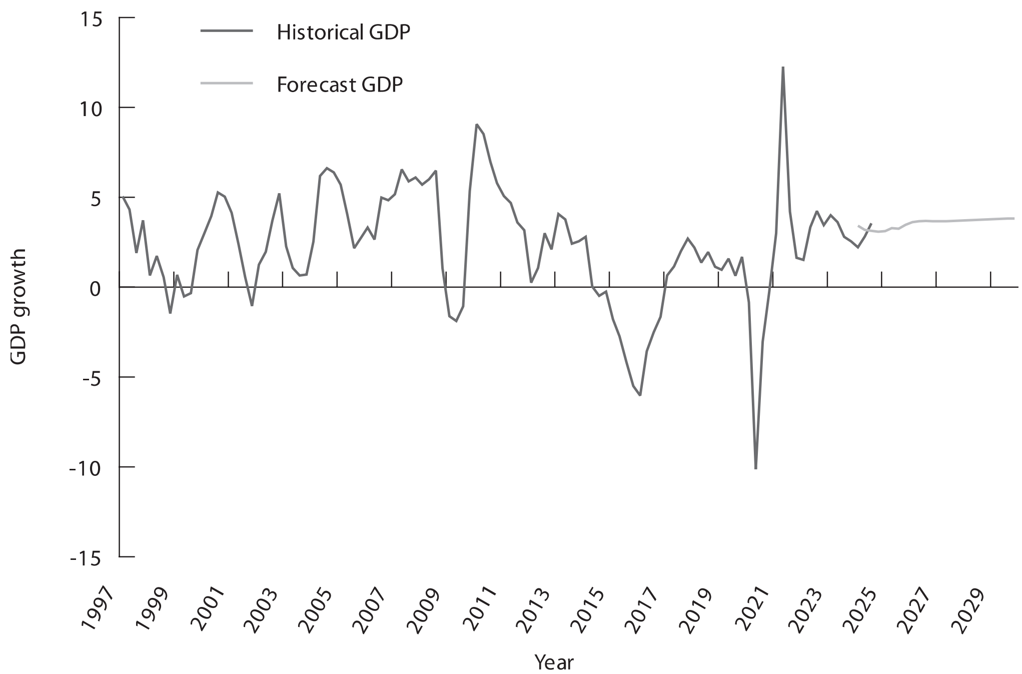
5 Thomas J. Shattuck, "The Race to Zero?: China's Poaching of Taiwan's Diplomatic Allies," *Orbis* 64, no. 2 (2020): 337.

6 Rhys Jenkins, "China and Brazil: Economic Impacts of a Growing Relationship," *Journal of Current Chinese Affairs* 41, no. 1 (2012): 22.

to Brazil's invitation to join the BRICS in the 2000s.[7] However, as of October 2024, Brazil has declined to join the PRC's Belt and Road Initiative (BRI)—a global infrastructure and investment strategy designed to enhance connectivity and trade routes across Asia, Africa, and Latin America.[8] While it is possible that the holdout is a signal of Brazil's unwillingness to explicitly align itself with the PRC, the decision most likely relates to the limited benefits of joining, coupled with the country's long-standing policy of nonalignment. Brazil already receives nearly half of the investment directed to the region, suggesting that signaling alignment by joining BRI is not necessary to enhance access to Chinese capital.[9]

Since 1992, Brazil's economy has experienced significant fluctuations. Periods of robust growth in the early 2000s were followed by contractions during the global financial crisis and the political and economic crises of the mid-2010s, which included a recession, the impeachment of President Dilma Rousseff, and U.S. tariffs on steel and aluminum (see **Figure 1**). A sharp decline of GDP

FIGURE 1 Brazil's quarterly GDP growth over time (1997–2023) and five-year projection (2024–29)



SOURCE: Instituto de Pesquisa Econômica Aplicada (IPEA).

NOTE: The GDP forecast was produced with a vector autoregressive model. Data in the figure is Brazil's quarterly data.

7 Harold Trinkunas argues that the BRICS essentially formalized the already existing cooperation between Brazil and China. See Harold Trinkunas, "Testing the Limits of China and Brazil's Partnership," Brookings Institution, July 20, 2020, https://www.brookings.edu/articles/testing-the-limits-of-china-and-brazils-partnership.

8 Celso Amorim, President Lula's special presidential adviser on international affairs, told media that Brazil wishes to strengthen its economic relationship with China but is more interested in "synergies" than signing a sweeping agreement. Cobus van Staden, "Brazil's BRI Rejection a Setback for China," China-Global South Project, October 30, 2024, https://chinaglobalsouth.com/2024/10/30/brazils-bri-rejection-a-setback-for-china.

9 Jorge Heine, "Brazil's Non-Signing on to China's BRI: Much Ado About Nothing?" China-Global South Project, November 11, 2024, https://chinaglobalsouth.com/analysis/brazils-non-signing-on-to-chinas-bri-much-ado-about-nothing.

growth in 2020 reflects the negative impact of the Covid-19 pandemic. Overall, recent history suggests that Brazil's economy is indeed exposed to external shocks—similar to what it would face from a slowdown of the PRC economy. Post-pandemic recovery has been uneven, with growth strongly rebounding briefly before stabilizing at lower, though positive, levels. The "forecast GDP" line in Figure 1 represents the GDP growth forecast generated by AidData's model, which includes variables for tariff and pandemic shocks that directly affect Brazil's growth potential. The forecasts suggest that Brazil will experience an initial shock and dip in growth but sustain positive economic growth, albeit without significant improvement.[10] This projection underscores the challenges facing the country in maintaining long-term economic momentum amid global uncertainties and domestic structural issues.

Our analysis focuses on two major economic inputs that link the PRC to Brazil: trade and development financing. While foreign direct investment is another significant channel—amounting to approximately $73.3 billion across 264 confirmed projects in Brazil between 2007 and 2023—FDI is not included in our analysis due to issues with data quality and availability.[11]

The remainder of this case study examines the potential impact of the PRC's economic slowdown on Brazil by first exploring how shifts in the PRC's domestic demand could influence Brazil's economic performance, including its trade dynamics and investment flows, and then identifying vulnerable sectors and potential mitigating responses. We find that Brazil is substantially vulnerable to changes in the Chinese economy due to its dependence on commodity exports. The case study concludes with policy options for Brazil to navigate these challenges effectively.

The PRC's Trade with Brazil

Brazil's bilateral trade with the PRC has undergone remarkable growth since the 1990s (see **Figure 2**). Cumulatively, between 1992 and 2023 the PRC exported $648.3 billion worth of goods to Brazil, while importing $1.215 trillion worth of goods from Brazil, resulting in a total trade value of $1.864 trillion over this period.[12] During this time, Brazil consistently maintained a trade surplus with the PRC each year, underscoring its role as a critical supplier of raw materials and commodities that fueled the economic growth of the PRC in its infrastructure- and investment-driven era. Brazil's large trade surplus with the PRC also highlights the latter's reliance on high-value exports such as soybeans, iron ore, and crude petroleum.[13] This dynamic has consistently driven bilateral trade and allows Brazil to maintain a more balanced economic relationship than other countries that are heavily dependent on what the PRC imports from them. While this trade deficit, from Beijing's perspective, is not inherently harmful—offering access to affordable inputs that boost domestic productivity—it could create vulnerabilities for the PRC. The PRC might view a persistent deficit as making the country overly reliant on foreign goods, weakening its domestic industries, and threatening the goal of self-sufficiency, which was discussed in chapter 1. In response, Beijing might seek to boost exports or curb reliance on key imports, particularly

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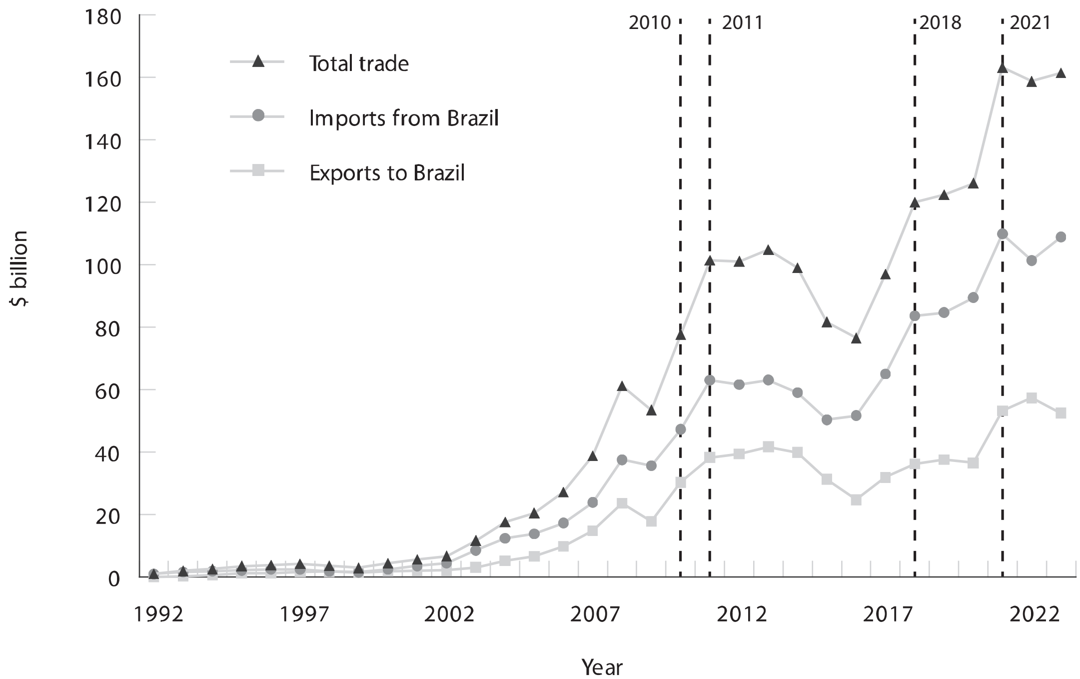
10 Our calculations use a post-estimation impulse response function to project, based on AidData's model, that a two-period shock would occur following a PRC economic slowdown, with stabilization beginning in the third year.

11 Tulio Cariello, "Chinese Investments in Brazil 2023: New Trends in Green Energy and Sustainable Partnerships," China-Brazil Business Council, 2024, https://www.cebc.org.br/download/14517/?tmstv=1733322992.

12 UN Comtrade database, https://comtradeplus.un.org; and World Integrated Trade Solution (WITS) database, https://wits.worldbank.org.

13 Observatory of Economic Complexity (OEC), "Brazil," https://oec.world/en/profile/country/bra.

FIGURE 2 Brazil-PRC trade over time, 1992–2023 (with significant years)



SOURCE: UN Comtrade database.

commodities. Beyond these policy factors, Brazil is also highly vulnerable to changes in Chinese demand, given that the PRC is responsible for over a quarter of Brazilian exports.[14]

The total value of trade between Brazil and the PRC has experienced exponential growth, especially since the early 2000s, as seen in Figure 2. Years with significant spikes in trade activity include 2010, which was the year following Brazil's entry into the BRICS, as well as 2011, 2018, and 2021. Notably, total trade peaked at $163.2 billion in 2021, driven by Brazil's robust export performance. Overall, increasing trade with the PRC has coincided for Brazil with some periods of economic expansion, such as in the 2000s, but also periods of low to negative growth in which its trade with the PRC still increased.

While Figures 1 and 2 show the general trend of Brazil-PRC trade, they do not tell the story of the sectors driving these numbers. **Table 1** further breaks down trade flows by stage of production and product sector for the entire period from 1992 to 2022, for 2010, and for 2021.[15] The table highlights the PRC's reliance on Brazil for energy and other commodities. The raw materials category consistently tops both overall imports and total trade flows. When broken down by sector, minerals are the top sector in total trade and in what the PRC imports from Brazil, while fuels consistently come in third. Capital goods—equipment and machinery used to produce other goods—are consistently the top export from the PRC to Brazil.

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[14] WITS database.

[15] We selected the years 2010 and 2021 for two reasons: first, they are two of the four banner years in Figure 2 and bookend this set of years; second, they illustrate how the top sectors evolved over a decade of rapid expansion in trade relations.

TABLE 1 Top Brazil-PRC trade sectors by exports, imports, and total trade

Trade flows (cumulative, 1992–2022)		
Total	Stage	Raw materials
	Sector	(1) Minerals, (2) vegetable, (3) fuels
Exports	Stage	Capital goods
	Sector	(1) Machinery and electronics, (2) chemicals, (3) miscellaneous
Imports	Stage	Raw materials
	Sector	(1) Minerals, (2) vegetable, (3) fuels
Trade flows (2010)		
Total	Stage	Raw materials
	Sector	(1) Minerals, (2) machinery and electronics, (3) vegetable
Exports	Stage	Capital goods
	Sector	(1) Machinery and electronics, (2) miscellaneous, (3) textiles and clothing
Imports	Stage	Raw materials
	Sector	(1) Minerals, (2) vegetable, (3) fuels
Trade flows (2021)		
Total	Stage	Raw materials
	Sector	(1) Minerals, (2) vegetable, (3) machinery and electronics
Exports	Stage	Capital goods
	Sector	(1) Machinery and electronics, (2) chemicals, (3) miscellaneous
Imports	Stage	Raw materials
	Sector	(1) Minerals, (2) vegetable, (3) fuels

SOURCE: World Integrated Trade Solution (WITS) database.

NOTE: Imports refer to PRC imports from Brazil, and exports refer to PRC exports to Brazil. Stage refers to stages of production (capital goods, consumer goods, intermediate goods, or raw materials), and sector refers to the specific sector of the product.

A slowdown in the PRC's economy could disrupt this dynamic. Declining industrial and consumer demand may reduce its imports of raw materials for energy, which are Brazil's primary exports to the PRC. This shift could pose challenges for Brazil, as the PRC's evolving growth model dampens demand for other major Brazilian exports like iron ore. Around 60% of Brazil's iron ore exports go to the PRC, making it the top destination and Brazil's second-largest export to the PRC, behind only soybeans.[16] With the PRC moving away from an infrastructure-heavy growth economy (see chapter 1), Brazil will need to navigate a shifting trade landscape where its traditional commodity exports may play a diminished role. This could in turn narrow the country's trade surplus or even result in a trade deficit, diminishing the benefits Brazil currently enjoys from its

[16] In 2023, Brazil was the world's second-largest exporter of iron ore, shipping approximately $34 billion worth of the material. China alone imported $20.6 billion from Brazil that same year. OEC, "Brazil."

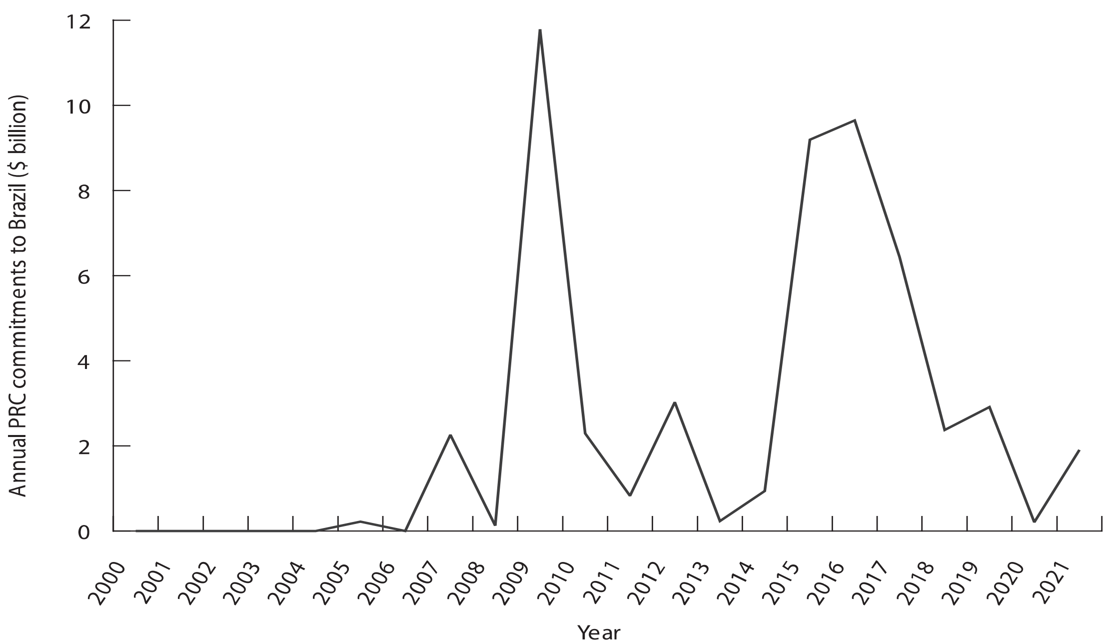
balanced economic position. This could further expose the Brazilian economy to future external shocks, such as supply chain disruptions or geopolitical tensions with key trade partners.

That being said, it is important to avoid overstating the direct impact of a slowdown in the PRC economy on Brazil's GDP growth. The increase of trade between the two countries has not consistently translated into higher economic growth in Brazil. Instead, Brazil has experienced substantial fluctuations in growth, particularly in the 2010s, despite consistent growth in trade with the PRC. Furthermore, given the size of the PRC's economy, even a depressed growth rate would still result in a substantial increase in global demand.

The PRC's Development Finance in Brazil

Overall and sectoral perspectives. Since 2000, the PRC has committed approximately $54 billion in development financing to Brazil (see **Figures 3** and **4**).[17] Chinese investments have been heavily concentrated in a few key sectors (**Figure 5**), and nearly 98% of this financing is in the form of debt (i.e., loans with interest rates approaching market rates) as opposed to aid (i.e., grants or loans at no interest or low interest rates).[18] The sector of industry, mining, and construction accounts for the largest share, totaling $28.1 billion, or 51.6% of the PRC's development finance commitments

FIGURE 3 PRC development finance to Brazil over time, 2000–2021



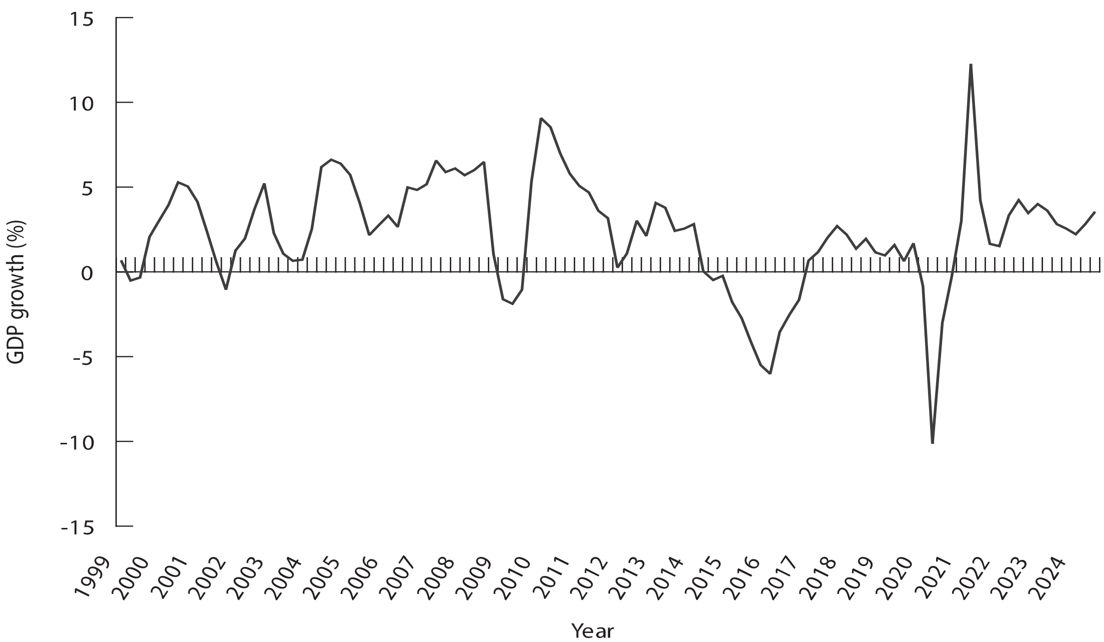
SOURCE: AidData.

[17] Samantha Custer et al., "Tracking Chinese Development Finance: An Application of AidData's TUFF 3.0 Methodology," AidData, William & Mary, 2023, https://www.aiddata.org/data/aiddatas-global-chinese-development-finance-dataset-version-3-0; and Axel Dreher, *Banking on Beijing: The Aims and Impacts of China's Overseas Development Program* (Cambridge: Cambridge University Press, 2022).

[18] We consider two types of PRC state-directed development finance: official development assistance (ODA), which are grants and no- or low-interest loans; and other official flows (OOF), which are loans and other debt instruments approaching market rates. A vague category exists when the data generators cannot clearly differentiate between ODA and OOF.

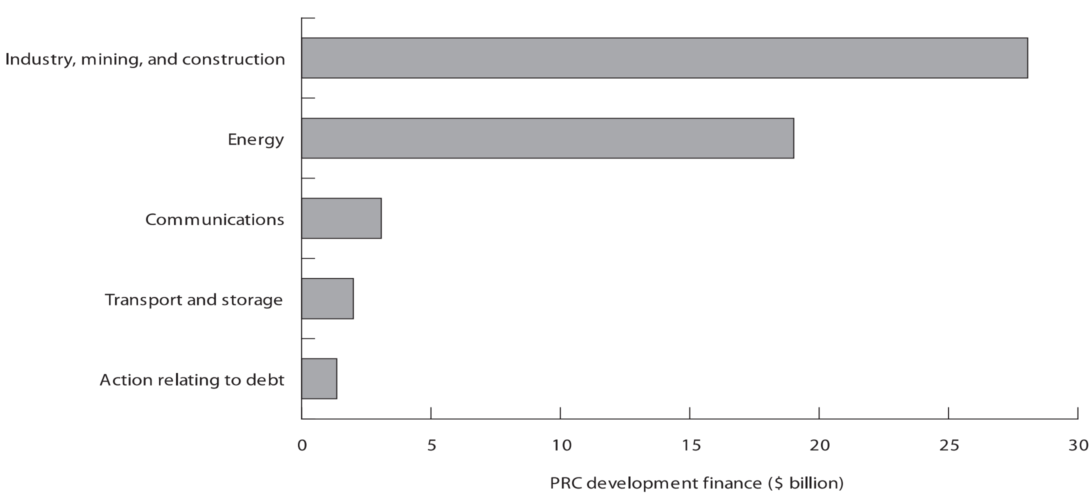
in Brazil. Within this sector, Rio de Janeiro leads other states with $16.1 billion in investments—nearly 60% of all mining projects—while Goiás ranks second at $2.7 billion. Notably, the PRC owns two niobium (columbium) mines in Goiás. Niobium is a resource critical for strengthening steel, producing jet engine superalloys, developing superconducting magnets for advanced technologies,

FIGURE 4 Brazil's quarterly GDP change



SOURCE: IPEA.

FIGURE 5 Top 5 sectors for PRC development finance to Brazil



SOURCE: AidData.

and enhancing the stability of electronic capacitors—applications that certainly fit with the PRC's strategy of pursuing a high-tech growth strategy centered on hard technology.

Energy is the second-largest recipient of the PRC's development financing in Brazil, accounting for approximately 35% of total commitments, or $19 billion.[19] The state of Rio Grande do Norte, located in Brazil's northeast, is the top destination for these investments, attracting $11.7 billion. This includes one major deal between Petrobras and the China Development Bank (CDB) in 2016, where an over $10 billion line of credit was provided in two $5.75 billion tranches to help Petrobras manage its debt obligations.[20]

Investments in communications and transport and storage, the third- and fourth-largest recipient sectors, respectively, further underscore the PRC's strategic emphasis on telecommunications, resource extraction, and infrastructure critical to its global supply chain and energy security goals. For example, in 2009 the CDB provided loans of $450 million and $750 million to Telemar Norte Leste SA to purchase telecommunications equipment and services from Huawei.[21] Similarly, in 2015 the CDB issued a $673 million loan for the same purpose. In 2018, it extended yet another loan of $4.2 million to Telemar Norte Leste SA, although the terms and purpose remain unclear.

The top two sectors—industry, mining, and construction, followed by energy—are particularly vulnerable as Beijing seeks to target its investments more precisely. The compositional changes in the PRC's economy that were discussed in chapter 1 suggest a decrease in the need for those inputs. Furthermore, despite Brazil's substantial known reserves of critical minerals, the country might not be able to rely on the PRC's investment to mine them, as it has done with iron ore.

Temporal trends in investment and economic growth. Over time, PRC investments in financial development trends reveal a marked increase in activity after the global financial crisis in 2008 (see **Figure 6**). Overall PRC development finance surged sharply in 2009 and coincides with Brazil's entrance to the BRICS grouping, aligning with the country's efforts to attract foreign capital for large-scale projects. Sectorally, the biggest project driving the spike comes from the industry, mining, and construction sector—namely a $10.5 billion line of credit provided by the CDB to Petrobras for oil exploration in the Santos Basin.[22] The years 2016 and 2017 marked significant milestones in Brazil's energy sector, featuring major projects such as a $1.2 billion overseas investment loan from the Industrial and Commercial Bank of China to facilitate CTG Brazil's acquisition of the Ilha Solteira and Jupiá hydropower dams.[23] In 2017 the Bank of China participated in a $145.8 million syndicated buyer's credit loan as part of a larger project to construct a 292-megawatt solar power plant in Ribeira do Piauí, located in Brazil's northeastern state of Piauí.[24] Construction began in July 2016, and the plant became operational in September 2017. After the dramatic increase from 2015 to 2017, growth in the energy sector continued, albeit at a slower pace, as seen in Figure 6. Meanwhile, investments in communications and transport have remained relatively modest by comparison, with incremental growth over time.

[19] Custer et al., "Tracking Chinese Development Finance."

[20] Ibid. Values for specific projects are in 2021 constant U.S. dollars.

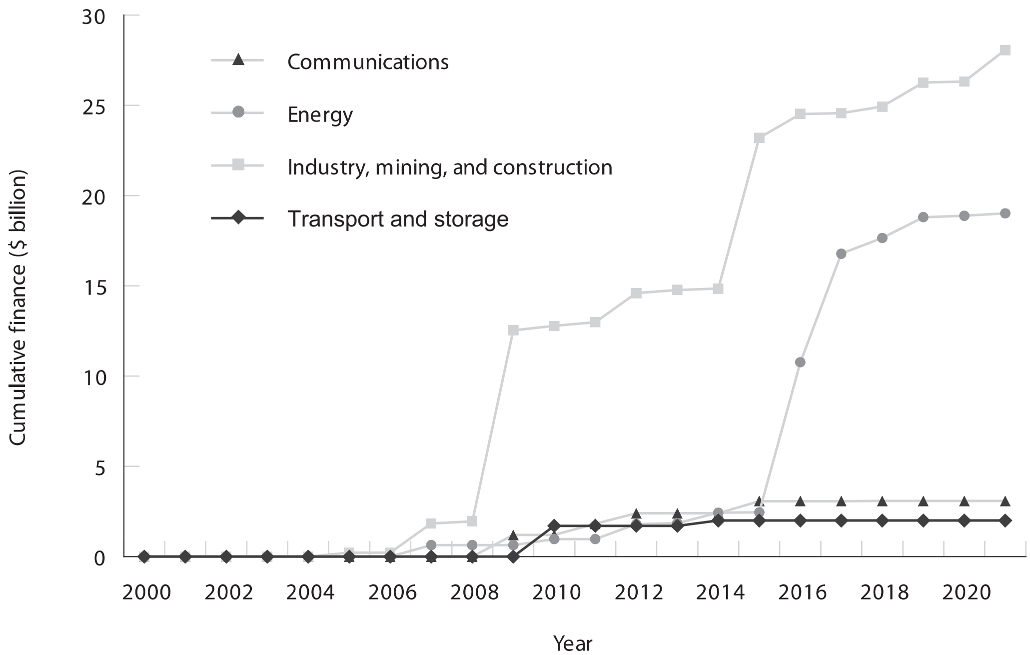
[21] Ibid.

[22] Ibid.

[23] Ibid. CTG Brazil is a subsidiary of China Three Gorges Corporation.

[24] Ibid.

FIGURE 6 PRC development finance to Brazil by sector (cumulative), 2000–2021



SOURCE: AidData.

Interestingly, the relationship between PRC development finance and Brazil's GDP growth reveals a more complex dynamic (see **Figure 7**). While some periods of high investment coincide with economic growth, the overall trend suggests a negative association, whereby higher PRC financing aligns with slower GDP growth. This pattern underscores the influence of broader macroeconomic factors, which appear to play a more decisive role in shaping Brazil's economic performance.

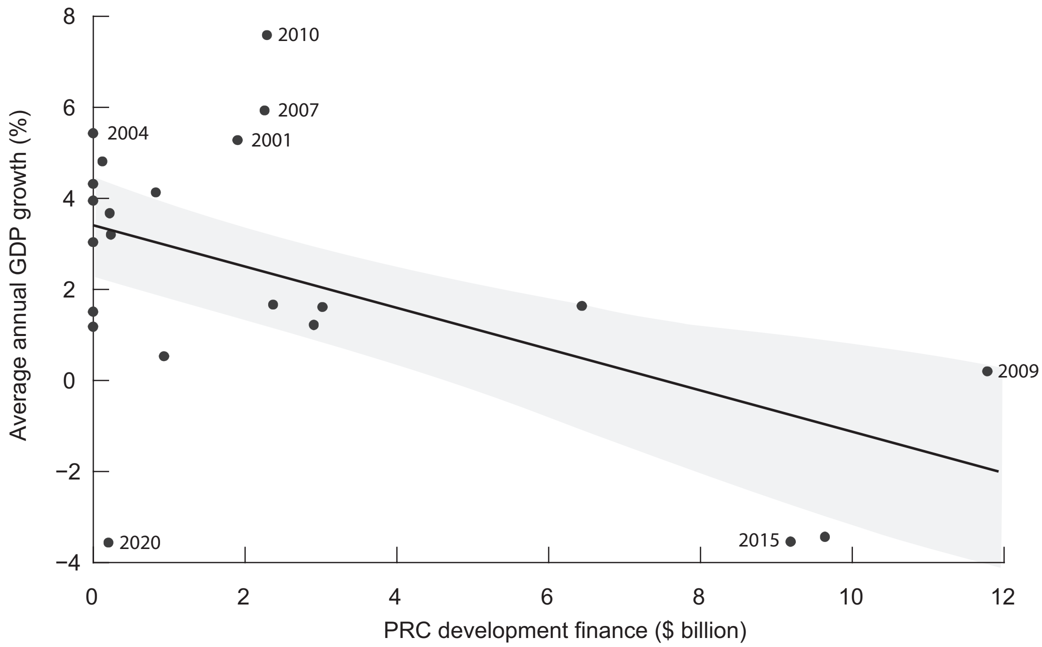
Implications of the PRC's Economic Slowdown for Brazil

The PRC's domestic economic slowdown could disrupt Brazil's access to development financing for at least three reasons. First, since most PRC development assistance comes in the form of loans, a reduction in new financing or refinancing could strain ongoing projects, as well as hinder the initiation or expansion of others, in key sectors like energy and mining. As of 2021, Brazil was the seventh-largest recipient of PRC development finance among low- and middle-income countries.[25] That makes it particularly vulnerable to future slowdowns. Additionally, repayment obligations could become more challenging if Brazil's economic growth slows in parallel, increasing the risk of financial distress to the borrower. Reduced Chinese demand for Brazilian exports like soybeans and iron ore could further exacerbate debt-servicing pressures and strain Brazil's economy.

Second, the PRC's efforts to reduce indebtedness across its economy could have an impact on Brazil as a top receiver of PRC FDI by constraining debt-laden Chinese firms, limiting their ability

[25] Custer et al., "Tracking Chinese Development Finance."

FIGURE 7 PRC development finance to Brazil over time and Brazil's annual GDP change



SOURCE: Data on PRC development financing is from AidData; and data on GDP growth is from IPEA.

NOTE: Band represents 90% confidence interval.

to sustain or expand overseas investments.[26] For example, HNA Group invested aggressively in Brazil's aviation sector in the mid-2010s, acquiring a 23.7% stake of the airline Azul in 2015 and 30% of the Rio de Janeiro–Galeão International Airport in 2017.[27] However, HNA Group accumulated over $96.25 billion in debt by 2018.[28] Subsequently, it shifted quickly from aggressive global expansion to asset sales once Beijing emphasized domestic debt reduction.[29]

A third, related reason is the PRC's policy of capital controls aimed at curbing private FDI along with curbing BRI projects that underperformed—those seen as being marred by corruption, provoking political backlash, or yielding disappointing financial results (discussed in more detail in chapter 1). As with Beijing's push to reduce indebtedness, capital controls could affect Brazil due to the substantial FDI it receives from the PRC. BYD, a Chinese battery and electric vehicle manufacturer, began constructing a factory in the northeastern state of Bahia in 2024, where

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[26] Chapter 1 of this report details the factors contributing to the PRC's debt-to-GDP buildup and Beijing's subsequent efforts to stem it.

[27] "China's HNA Group to Buy 23.7% in Azul Brazilian Airlines for $450 Million," Reuters, November 24, 2025, https://www.reuters.com/article/business/environment/chinas-hna-group-to-buy-237-pct-in-azul-brazilian-airlines-for-450-mln-idUSB9N13E007; and "China's HNA Buys Odebrecht Stake in Rio Airport for $19 Million," Reuters, July 13, 2017, https://www.reuters.com/article/world/americas/chinas-hna-buys-odebrecht-stake-in-rio-airport-for-19-million-idUSKBN19Y2LH.

[28] "HNA Group Trims Debt Nearly 11 Pct, or $11.6 Bln, in First Half," Reuters, September 1, 2018, https://www.reuters.com/article/us-china-hna-debt/hna-group-trims-debt-nearly-11-percent-or-11-6-billion-in-first-half-idUSKCN1LH36A.

[29] "Hainan Airlines Sells Remaining Stake in Brazil's Azul for $306 million," Reuters, August 10, 2018, https://www.reuters.com/article/us-hainan-airlines-azul-stake/hainan-airlines-sells-remaining-stake-in-brazils-azul-for-306-million-idUSKBN1KV0UX.

163 Chinese nationals were found to be working in conditions compared to "slavery."[30] A Chinese company, Jinjiang Group, was contracted to build the factory for BYD. As a result, Brazilian officials halted the $484.2 million project to build the electric vehicle factory in early 2025.[31]

Policy Options

Brazil's economic engagements with the PRC, especially through trade and development financing, increase its vulnerability to the PRC's own economic performance. Declining energy demand or reduced flows of development finance from the PRC could affect the course of Brazil's growth plan and pose significant risks to the country's economic stability. This vulnerability underscores the importance of diversifying Brazil's export markets and reducing over-reliance on a single trading partner. By addressing these challenges, Brazil can improve its economic diversity and build resilience against future global and domestic uncertainties. To mitigate domestic consequences of a Chinese economic slowdown, Brazil could consider the following policy options:

- *Diversify export markets and reduce over-reliance on a single trading partner*. When possible, Brazil should pursue trade agreements with other major markets, including India, Southeast Asia, and Africa. Expanding export opportunities can help the country stabilize its economy against shocks stemming from the PRC's economic fluctuations. Brazil's export market is currently heavily concentrated in the PRC, making it particularly vulnerable to fluctuations in the Chinese economy.
- *Strengthen domestic financial, regulatory, and governance frameworks*. Brazil should foster a stable, attractive investment environment by reforming regulations, offering tax incentives, and improving infrastructure to attract a broader range of investors and reduce reliance on Chinese development finance. With PRC financing playing a central role in Brazil's development and emerging signs that the Chinese economy is slowing down, Brazil must ensure that future investment supports high-quality, sustainable growth. Strengthening democratic institutions and curbing corruption would also facilitate access to loans and investments from Western institutions that emphasize governance and transparency, diversifying Brazil's financial partnerships and reducing exposure to external risks.
- *Leverage existing ties to renegotiate more favorable loan terms with the PRC*. Nearly 98% of Brazil's development finance comes in the form of debt, with interest rates approaching market rates. Lower rates on financial development projects would reduce Brazil's debt-servicing costs, freeing up fiscal space to counterbalance the negative effects of the PRC's economic slowdown with fiscal policy measures. This helps ensure that critical infrastructure, energy, and mining development projects continue without placing additional financial strain on the Brazilian economy during a period of global uncertainty. By lowering the burden of repayment, Brazil can better maintain stability even if new funding flows from the PRC diminish.

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30 "China's BYD Starts Construction on Manufacturing Complex in Brazil," Reuters, March 6, 2024, https://www.reuters.com/business/autos-transportation/chinas-byd-starts-construction-manufacturing-complex-brazil-2024-03-06; and Annabelle Liang, "Brazil Shuts BYD Factory Site over 'Slavery' Conditions," BBC News, December 15, 2024, https://www.bbc.com/news/articles/c8xj9jp57r2o.

31 Naiara Galarraga Gortázar, "BYD in Brazil: From the Company's Triumphant Arrival to a Scandal Involving 'Slavery-Like' Working Conditions," El País (English edition), January 11, 2025, https://english.elpais.com/international/2025-01-11/byd-in-brazil-from-the-companys-triumphant-arrival-to-a-scandal-involving-slavery-like-working-conditions.html.

Germany

Ana Horigoshi and Rodney Knight

Germany holds a central position in the world economy. It is the third-largest economy after the United States and the PRC and the largest economy in the European Union.[32] In current dollar terms, Germany's 2023 GDP of $4.5 trillion and GDP per capita of $54,000 give the country substantial economic power at both the national and individual levels. While the PRC has a much larger GDP ($17.8 trillion), it has a lower GDP per capita ($12,000). The differential in GDP per capita could play into how the PRC's economic slowdown affects Germany. The lower labor costs in the PRC could continue to make its manufacturing sector highly competitive (see chapter 1), potentially continuing to attract German foreign direct investment. In 2021, German FDI stocks in the PRC reached $118 billion.[33] Combined with lower labor costs, the PRC has almost 17 times the population of Germany, which gives it an enormous pool of labor to expand manufacturing even amid slowing economic growth.[34] It will, however, be difficult for German firms to exit their investments due to the PRC's tight capital controls.

Nonetheless, Germany faces a possible weakness in an environment of slowing Chinese economic growth. As a net exporter to the PRC, Germany could see its economy take a hit from lower exports, particularly in the automobile sector. While most vehicles from German automakers sold in the PRC are made locally there, many models are still imported from Germany. As noted in chapter 1 of this report, the PRC's efforts to expand its high-tech manufacturing and promote self-sufficiency in strategic technologies and industries make the components of German exports particularly vulnerable.

Outside of economic factors, global politics could determine the impact of the PRC's economic slowdown on the German economy. Russia's invasion of Ukraine and the PRC's support to Russia prompted a turning point in Germany-Russia relations that affected Germany's relations with the PRC.[35] Since the invasion, businesses in Germany have reduced reliance on Chinese parts for products through diversification to manufacturers in other countries.[36] Such diversification can make these companies more resilient to supply-chain issues relating to Chinese inputs. But it also increases the risk that German companies that have invested in the PRC's manufacturing sector may see shrinking export markets back to Germany.

Even with its size and strength, the German economy has experienced several downturns stemming from slowdowns in key trading partners, reflecting its exposure to external shocks. The global financial crisis in 2008 and the Covid-19 pandemic in 2020 were the two most notable shocks, as seen in a graph of quarterly GDP growth from the end of 1999 through 2024 (see **Figure 8**). The euro area crisis that started for other EU countries in 2009 had a delayed effect on Germany, which first recovered from the 2008 global financial crisis and then did not succumb to the euro area crisis until after 2010. Researchers have highlighted a number of weaknesses in

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32 World Bank, World Development Indicators, https://data.worldbank.org/indicator/SP.POP.TOTL.

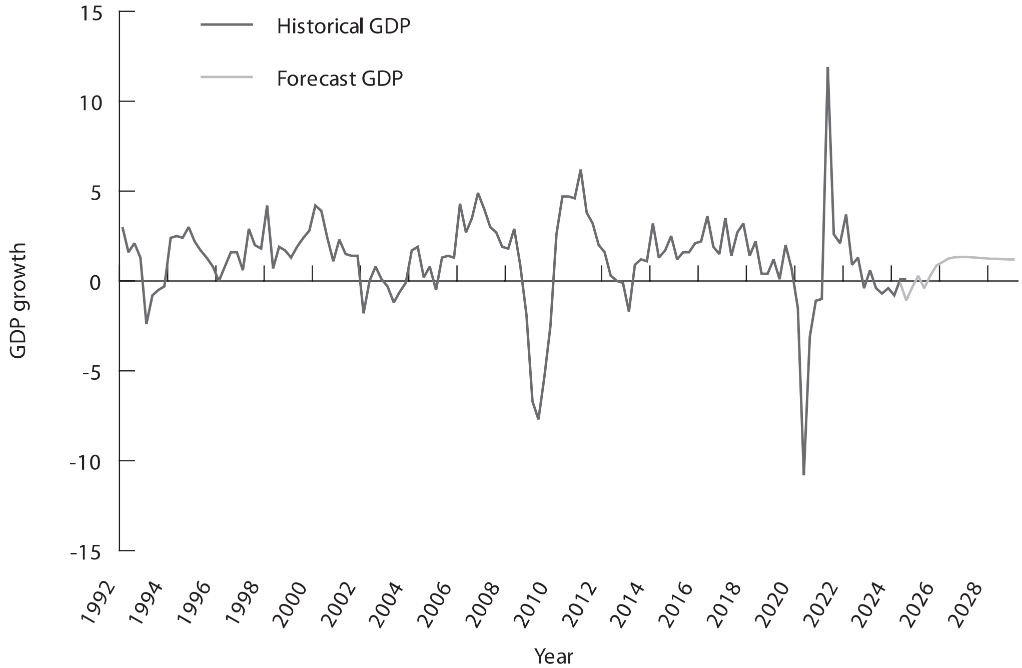
33 The 2021 FDI statistic from Deutsche Bundesbank (2024) of 99.4 billion euros was converted to U.S. dollars with the average 2021 exchange rate from the European Central Bank.

34 In 2023 the population of China was 1.4 billion, whereas the population of Germany was only 83.8 million.

35 Sebastian Biba, "Germany's Triangular Relations with the United States and China in the Era of the Zeitenwende," *German Politics* 33, no. 3 (2024): 435–62.

36 Andreas Baur and Lisandra Flach, "Zeitenwende in German-Chinese Trade Relations? Evidence from German Firms," ifo Institute, EconPol Policy Brief, no. 57, April 2024, https://www.ifo.de/en/econpol/publications/2024/working-paper/zeitenwende-german-chinese-trade-relations-evidence-german-firm.

FIGURE 8 Germany's quarterly GDP growth over time (1999–2024) and five-year projection (2024–29)



SOURCE: Federal Statistical Office of Germany.

NOTE: The GDP forecast was produced with a vector autoregressive model.

existing policies that have persisted after the euro area crisis, suggesting continued vulnerability to external shocks.[37]

Germany is already experiencing a decline in GDP, which may be seen as starting with Russia's invasion of Ukraine in 2022, following a large rebound in the economy after the Covid-19 pandemic. Yet, higher energy prices resulting from the war in Ukraine might not be the only factor slowing the German economy. Analysts and economists suggest that high interest rates; external competition; an aging population, which reduces the size of the labor force; overdependence on exports, including those to the PRC; and weak growth in productivity also play a role.[38]

The economic downturns of the past and the current economic crisis suggest that the PRC's economic slowdown would either be neutral or contribute to a further slowdown in Germany's economy. Our forecast for GDP growth from 2024 to 2029 shows an immediate decline in GDP growth, followed by a temporary rebound and a flattening of growth, as seen in

[37] See, for example, Kirsty Huges, "European Politics and the Euro Crisis: Ten Failures," Friends of Europe, Policy Paper, November 2011, https://www.friendsofeurope.org/wp/wp-content/uploads/2019/07/European-Politics-and-the-Euro-Crisis-Ten-Failures.pdf.

[38] See, for example, Maria Martinez, "Germany in Deep Economic Crisis, BDI Industrial Lobby Group Says," Reuters, January 28, 2025, https://www.reuters.com/markets/europe/germany-is-deep-economic-crisis-says-bdi-industrial-lobby-2025-01-28; and Jumana Saleheen, "Germany's Economic Woes Beyond the Energy Crisis," Vanguard, December 24, 2024, https://corporate.vanguard.com/content/corporatesite/us/en/corp/vemo/germany-economic-woes-go-beyond-energy-crisis.html.

Figure 8.[39] While the model does not simply show a continued downward trend, it does suggest that an economic shock from a slowdown in the PRC economy will produce lower growth than otherwise would be expected.

The PRC's Trade with Germany

As expected for the size and diversity of its economy, Germany has very active trade with the PRC (see **Figure 9**). Over time the country has maintained a trade surplus—or at worst a limited trade deficit—making it an outlier among the PRC's largest trading partners. During the period from 1992 to 2008, Germany fluctuated between having a slightly positive or slightly negative trade balance with the PRC. Starting in 2009, it consistently maintained a positive trade balance for over a decade. After 2021, however, both exports from and imports to the PRC began to plummet. This decline in trade could be in part a consequence of Russia's invasion of Ukraine. The PRC's support for Russia, combined with Germany's opposition to the invasion, led to a cooling of relations between Germany and the PRC, which might have slowed down trade. Declining bilateral trade could have a negative effect on Germany's GDP growth, even before accounting for the effect of the slowdown in the PRC's economy. It may, therefore, be difficult to know if the current deceleration of the German economy is primarily due to a slowing Chinese economy or other factors—whether related to the bilateral relationship or outside it.

39 In addition to Germany's GDP growth, our vector autoregressive model incorporates data on the PRC's GDP growth, interest rates, inflation, and shocks due to tariffs and the Covid-19 pandemic. Achim Truger, "Austerity in the Euro Area: The Sad State of Economic Policy in Germany and the EU," *European Journal of Economics and Economic Policies: Intervention* 10, no. 2 (2013): 158–74.

FIGURE 9 Germany-PRC trade over time, 1992–2023 (with significant years)

SOURCE: UN Comtrade database.

PRC imports from Germany do not focus on raw materials, as is often the case for countries less developed than Germany, nor do they focus mainly on consumer goods. They instead focus on capital goods (see **Table 2**). The share of capital goods, however, has been decreasing. In 1992, consumer goods accounted for 14% of PRC imports from Germany, rising gradually to 31% by 2022, while throughout the period from 1992 to 2022 over half of the PRC's imports from Germany were capital goods.[40] In particular, from 1992 to 2009, capital goods accounted for over 60% of the PRC's imports from Germany, but they gradually declined to around 50% by 2022.

TABLE 2 Top Germany-PRC trade sectors by exports, imports, and total trade

Trade flows (cumulative, 1992–2022)		
Total	Stage	Capital goods
	Sector	(1) Machinery and electronics, (2) transportation, (3) miscellaneous
Exports	Stage	Capital goods
	Sector	(1) Machinery and electronics, (2) miscellaneous, (3) textiles and clothing
Imports	Stage	Capital goods
	Sector	(1) Machinery and electronics, (2) transportation, (3) chemicals
Trade flows (2010)		
Total	Stage	Capital goods
	Sector	(1) Machinery and electronics, (2) transportation, (3) miscellaneous
Exports	Stage	Capital goods
	Sector	(1) Machinery and electronics, (2) textiles and clothing, (3) miscellaneous
Imports	Stage	Capital goods
	Sector	(1) Machinery and electronics, (2) transportation, (3) miscellaneous
Trade flows (2021)		
Total	Stage	Capital goods
	Sector	(1) Machinery and electronics, (2) transportation (3) miscellaneous
Exports	Stage	Capital goods
	Sector	(1) Machinery and electronics, (2) miscellaneous, (3) textiles and clothing
Imports	Stage	Capital goods
	Sector	(1) Machinery and electronics, (2) transportation, (3) chemicals

SOURCE: WITS database.

NOTE: Imports refer to PRC imports from Germany, and exports refer to PRC exports to Germany. Stage refers to stages of production (capital goods, consumer goods, intermediate goods, or raw materials), and sector refers to the specific sector of the product.

[40] WITS database.

Why should a focus on capital goods over consumer goods matter? In terms of trade stability, capital goods will be less prone to changing consumer preferences or the weak consumer demand identified as a major factor driving the PRC's slowdown. Trade in capital goods will have a level of stability not found in consumer goods for this reason. Capital goods are, however, subject to the level of demand for production, which could be reduced during an economic slowdown. The continued strength of Chinese manufacturing exports, even in times of economic slowdown, could thereby prop up the demand for the capital goods required to produce those consumer goods.

Yet, the stabilizing effect of a strong Chinese manufacturing sector on demand for imports of German capital goods could be countered by other factors. As the Chinese industry matures, the PRC will produce more of the capital goods it requires domestically, thereby reducing demand for German capital goods. The growth of manufacturing in the PRC, as well as the level of manufacturing, can affect the demand for capital goods. New or expanded production that is part of growth will require higher levels of capital goods than existing manufacturing. If the level of manufacturing remains stable, but growth is limited, there will be less demand for capital goods than during a high-growth period.

Other factors that could change PRC demand for German capital good are the globalization of Chinese manufacturing, shifts of trade to other countries due to tariff or non-tariff barriers on Chinese imports, or even other countries becoming more competitive. If some Chinese manufacturing moves to other countries, will the Chinese joint ventures or subsidiaries in those countries be as motivated to import capital goods from Germany? The success of German firms selling capital goods to these countries will depend in part on how established Germany's trade and business relationships are with them.

While the foregoing analysis has focused on capital goods, it is important to note that certain sectors of the German economy that rely on exports of consumer goods to the PRC are substantially vulnerable to fluctuations in the Chinese economy. For example, the PRC represents a large share of global sales of luxury brands such as Porsche and Adidas.[41]

Bilateral Investment Flows

Alongside their robust trade relationship, the PRC and Germany actively invest in the other's economy. Despite the PRC's strict capital controls following major outflows around 2015, Germany has contributed much more foreign direct investment and foreign portfolio investment (FPI) to the PRC than the PRC has to Germany (see **Figure 10**).[42] Examining the stocks of FDI since 2010, Germany started with around $48 billion in combined FDI and FPI. Germany expanded its investment in the PRC to $119 billion by 2022. FDI from Germany ranged from $43 billion in 2010 to $95 billion in 2022, with a peak of $118 billion in 2021. The PRC's FDI in Germany, on the other hand, declined to less than $6 billion by 2022. The trend for PRC FDI in Germany did not include portfolio investment because of the tight capital controls that restrict outbound portfolio investment from the PRC, as noted in chapter 1.[43]

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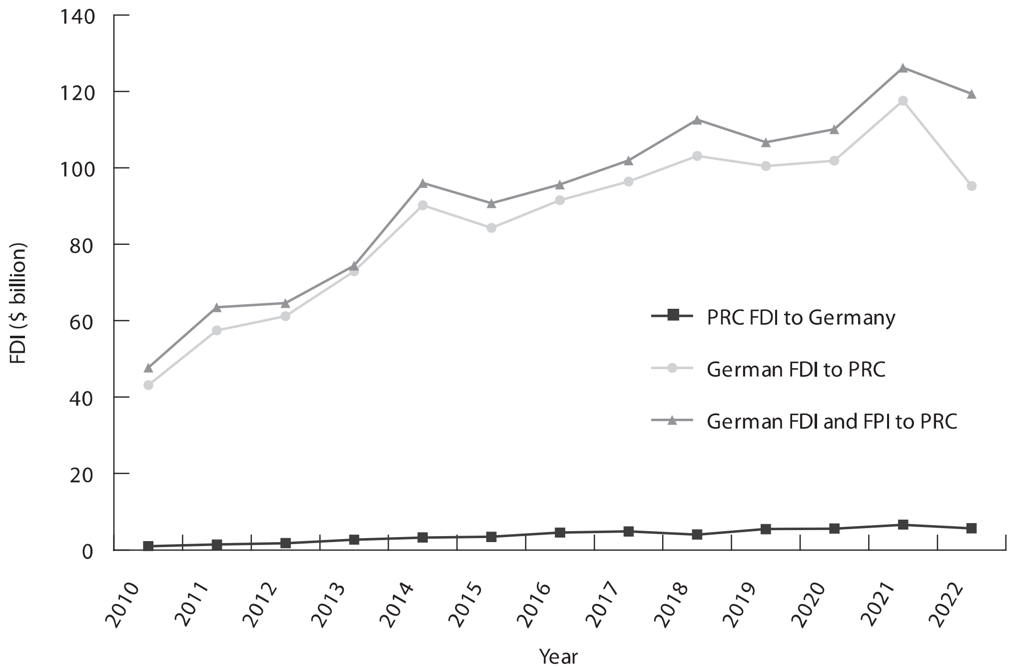
41 "German Carmakers Most Exposed to Chinese Counter-Tariffs," Reuters, June 13, 2024, https://www.reuters.com/business/autos-transportation/european-carmakers-exposed-any-chinese-retaliation-eu-tariffs-2024-06-13; and "Share of Adidas Retail Sales by Region Worldwide in 2024," Statista, https://www.statista.com/statistics/531733/share-of-adidas-retail-sales-by-region.

42 In foreign portfolio investment the investor invests in a portfolio of stocks, bonds, and other securities without having a role in the management of the foreign businesses in the portfolio.

43 Deutsche Bundesbank database, available at https://www.bundesbank.de/dynamic/action/en/statistics/time-series-databases/time-series-databases/745582/745582?listId=www_sesbop_aw3_2_2c1__t_s1&tsId=BBFFDIPV.A.DI.DE.CN.S1.IMC.LE.NI.FA.D.F.ALL.EUR.I.V._X._T._Z&dateSelect=2022.

FIGURE 10 Germany-PRC FDI over time, 2010–22



SOURCE: Deutsche Bundesbank.

How might this relatively high level of FDI from Germany to the PRC affect the former's broader economic fortunes?[44] The degree to which the German economy is dependent on returns from this FDI will influence the effect on German GDP. The level of FDI, while seemingly high, represents less than 3% of Germany's GDP, which is over $4 trillion annually. Profits that German investors received from FDI in 2021 were estimated to be only $18 billion, which is less than 1% of GDP.[45] Given the low levels of FDI and related profits relative to GDP, as well as the challenges in increasing FDI due to fears that investments are difficult to exit because of the PRC's tight capital controls, it seems unlikely that a reduction in FDI from Germany will have much effect on the GDP of Germany.

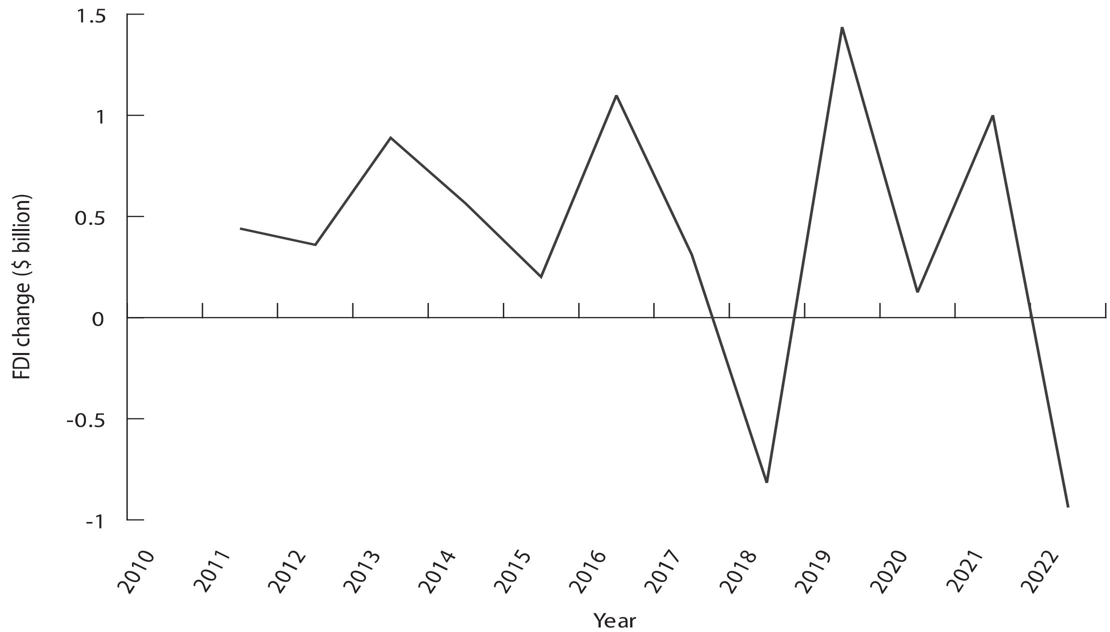
The first step in assessing whether FDI from or to the PRC can influence German GDP is to view the change in FDI along with the change in GDP (see **Figures 11**, **12**, and **13**). The annual change in FDI reflects new inputs to FDI minus divestments. This net change accounts for the total investment/divestment in the year and is what would be expected to influence the GDP.[46] In the case of FDI from the PRC to Germany and FDI from Germany to the PRC, the pattern of the change in FDI does not clearly mirror the pattern of the quarterly change in GDP. To test whether either type of FDI is correlated with changes in GDP, regression models were run to evaluate the

44 To simplify the discussion here and below, the term FDI refers to FDI and FPI combined.

45 Cora Jungbluth, "Profits of German Investors in China—a First Empirical Stocktaking," Bertelsmann Stiftung, 2023, https://www.bertelsmann-stiftung.de/en/publications/publication/did/profits-of-german-investors-in-china-a-first-empirical-stocktaking.

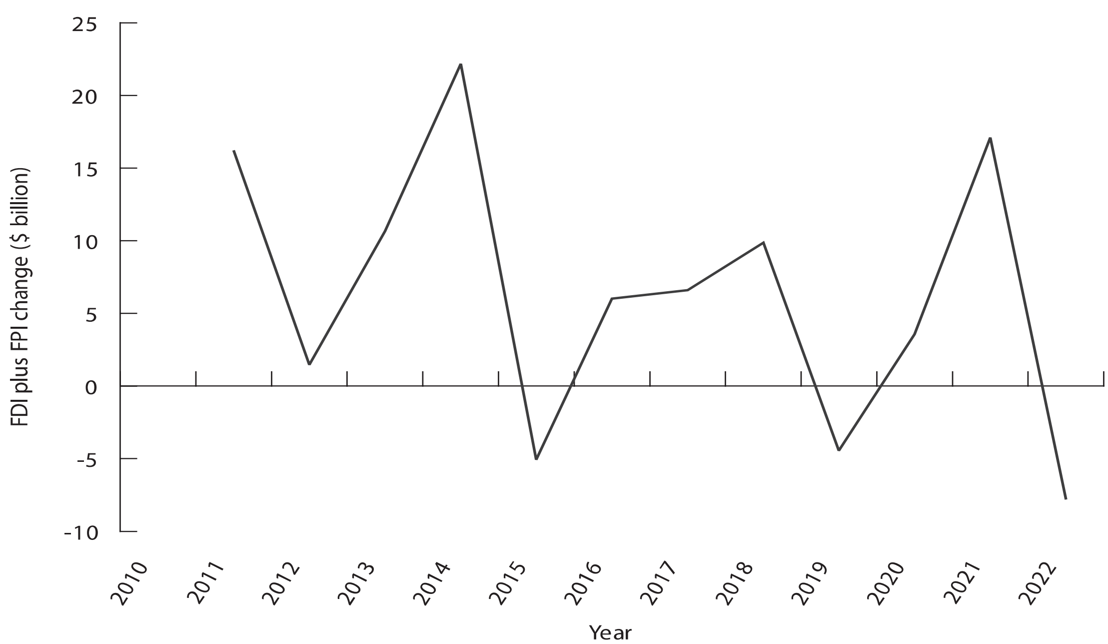
46 The stock of FDI could also be seen as a measure of the potential effect on GDP, but this assumes that those holding on to the investment will participate in corporate decision-making in a manner to influence the profitability of the investment. Instead, the change in the stock reflects the change (increase or decrease) in the working capital for the company receiving the investment, which can directly contribute to the success of the business.

FIGURE 11 PRC FDI to Germany change over time, 2010–22



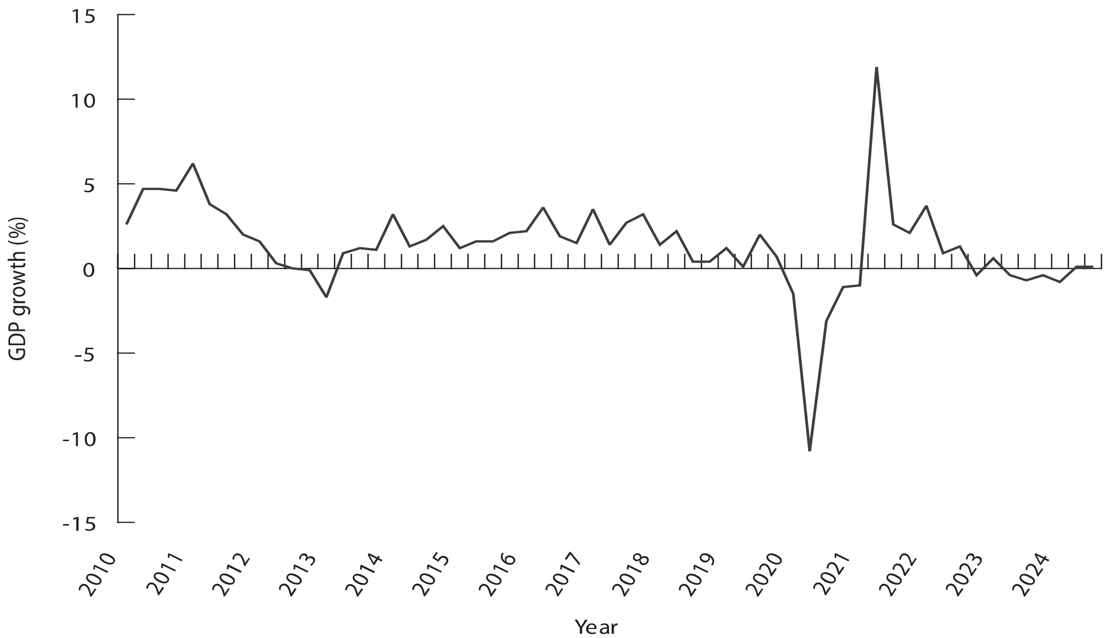
SOURCE: Deutsche Bundesbank.

FIGURE 12 PRC FDI and FPI to Germany change over time, 2010–22



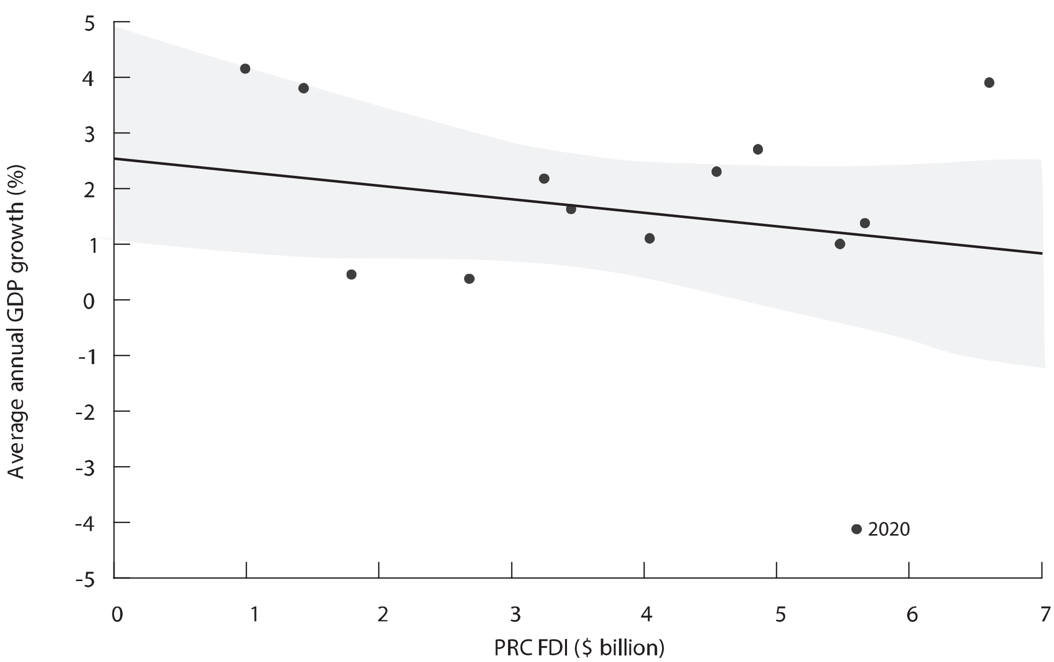
SOURCE: Deutsche Bundesbank.

FIGURE 13 Change in Germany's quarterly GDP



SOURCE: Federal Statistical Office of Germany.

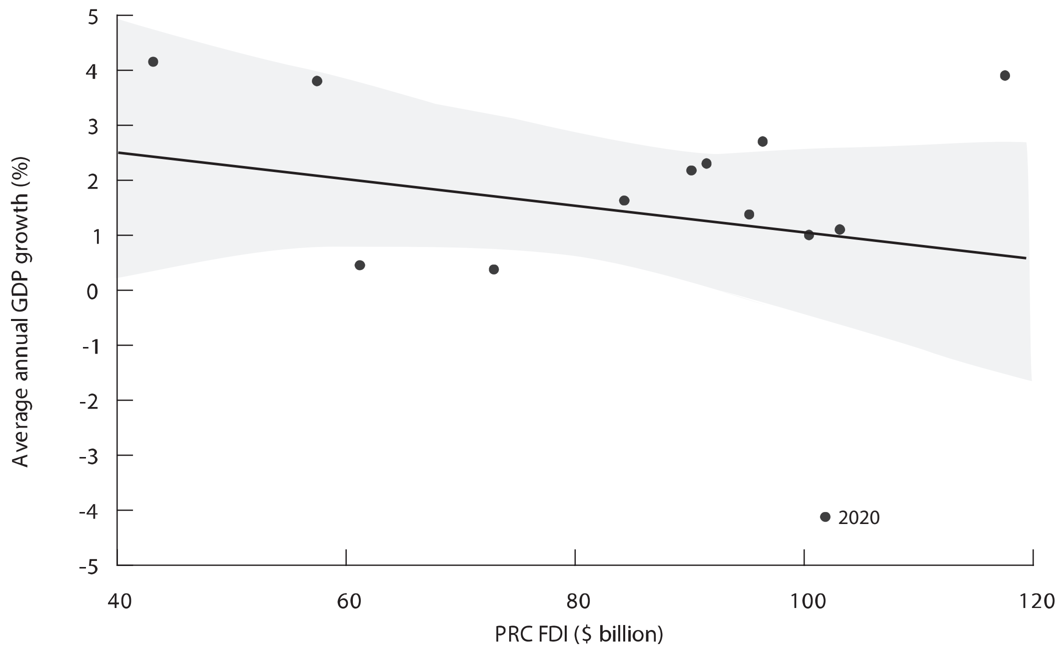
FIGURE 14 PRC FDI to Germany over time and change in Germany's annual GDP



SOURCE: Deutsche Bundesbank; and Federal Statistical Office of Germany.

NOTE: Band represents 90% confidence interval.

FIGURE 15 PRC FDI from Germany over time and Germany's annual GDP change



SOURCE: Deutsche Bundesbank; and Federal Statistical Office of Germany.

NOTE: Band represents 90% confidence interval.

effect of the change in FDI to and from Germany on GDP change. Both models (see **Figures 14** and **15**) did not find a significant effect. In short, neither German investment into the PRC nor PRC investment into Germany particularly matters for German GDP growth. These results are not surprising, given the limited size of FDI relative to the size of Germany's GDP—a phenomenon partly driven by the PRC's capital controls and the limited sample size.

Policy Options

As the third-largest economy in the world, with a highly competitive manufacturing sector and a central role in European and global supply chains, Germany occupies a special position in the global economy. When Germany falters, the rest of Europe is affected and to some extent the rest of the world; similarly, Germany has shown that it is vulnerable to economic downturns stemming from external shocks. The intertwining of the German and PRC economies in terms of trade and investment makes both countries vulnerable to the economic slowdown of the other.

Germany and the PRC depend on each other for capital goods to support their export-oriented economies. In the 1990s, trade was characterized by the PRC exporting consumer goods to and importing capital goods from Germany. Through the 2000s, the PRC gradually caught up to Germany to the point where its exports of capital goods to Germany met or exceeded imports of German capital goods. Germany has become as dependent on capital goods from the PRC as the PRC is dependent on Germany. The story for consumer goods is different. While Germany had been catching up to the PRC on trade of consumer goods, in the last few years the trend has shifted back to the PRC dominating the consumer goods trade. As the PRC's manufacturing base broadens, it will have an advantage to increase exports to Germany, particularly of consumer goods. Exports of consumer goods could be what gives the PRC a long-term trade surplus with Germany. To avoid sustained dependence on the PRC, Germany needs to look for other trade options.

Geopolitical events also are pushing Germany to consider alternatives. After Russia's invasion of Ukraine, Germany re-evaluated its interactions with the PRC as well as with Russia. Some de-risking has occurred,[47] and trade has slowed as German companies have begun to diversify the acquisition of critical resources and the production of products away from the PRC to other countries. Moreover, Germany is currently experiencing its own economic slowdown, irrespective of the PRC. The slowing of the Chinese economy exacerbates these economic woes.

For all these reasons, the resilience of the German economy will, in general, depend on diversification. While Germany will continue the large volume of trade with the PRC and investment in and from the PRC, its current level of dependence on the PRC need not remain fixed. Germany already has very active trading and investment relations with the United States and many other countries in Europe and Asia to draw on for diversification. To reduce its dependence on the PRC, Germany could consider the following policy options:

- *Diversify export and import markets and reduce over-reliance on the PRC*. Germany already has very active trading partnerships with other European countries, the United States, and many other countries globally. Germany should evaluate its trade ecosystem and consider expanding or refocusing efforts to increase its market access and reduce vulnerability to the economic well-being of any one country. Expanded or refocused trading relationships can reduce risks to the supply chain for German industrial production, particularly in the automotive industry, and provide more stable sources for consumer goods.
- *Evaluate and guide FDI with the PRC*. As a larger provider of FDI to the PRC than a recipient, Germany should evaluate the experience of its companies and institutions investing in the PRC. How well have these investments returned value, and what alternatives exist for investment in other markets? What impacts do the PRC's tight capital controls have on German investments, both presently and in the future? Understanding the answers to these questions can help the German government create guidance and policies to protect German investment interests in the PRC.
- *Leverage existing ties within the EU and Europe more broadly to promote economic stability*. Looking more closely at its neighboring countries could improve Germany's relations with them, diversify markets for investment, and improve trading relations. Creating joint strategies and working to curb the economic and political influence of the PRC on Germany and Europe could strengthen cooperation between European countries, thereby increasing political stability and fostering economic growth within the region.

47 Baur and Flach, "Zeitenwende in German-Chinese Trade Relations?"

Indonesia

Bryan Burgess and Ana Horigoshi

While the PRC is by far the largest economy in Asia, Indonesia is an important regional power in Southeast Asia. With a population and an economy twice the size of its neighbors, Indonesia is a leader in the Association of Southeast Asian Nations (ASEAN) and a bellwether for the economy of the region as a whole. On January 7, 2025, the BRICS members formally admitted it to the trade bloc as a full member, reflecting their desire to deepen economic linkages between Indonesia, the PRC, and other members of the bloc. Since the ASEAN-China Free Trade Area (ACFTA) was created, trade flows between Indonesia and the PRC have seen dramatic growth.[48] Meanwhile, Indonesia has sustained an upward trajectory in economic and human development for most of that period, raising important questions about just how much of the country's rise is contingent on the economic links to and growth of its mainland neighbor (see **Figure 16**).

Despite having first established diplomatic relations in 1950, Jakarta and Beijing have had a contentious relationship. The Suharto regime suspended diplomatic recognition of the PRC shortly

FIGURE 16 Indonesia's annual GDP growth over time (1985–2023) and five-year projection (2024–28)

SOURCE: Federal Reserve Economic Data.

NOTE: The GDP forecast was produced with a vector autoregressive model.

[48] "Indonesia and China: How Trade Became a Path to Poverty Reduction," Center for Indonesian Policy Studies, February 10, 2025, https://www.cips-indonesia.org/post/indonesia-and-china-how-trade-became-a-path-to-poverty-reduction.

after wresting power from President Sukarno in 1967, and only resumed diplomatic relations in 1990.[49] Since then, Indonesia has joined a number of multinational initiatives with the PRC, including the Belt and Road Initiative in 2015.

This case study focuses on two major economic channels that link the PRC to Indonesia: trade and development finance. While the PRC's foreign direct investment is another significant channel—amounting to approximately $7.4 billion in realized investment projects in 2023, nearly 15% of total FDI and on par with the total investments from the United States, Canada, and Europe combined[50]—our analysis does not include FDI due to the lack of transparent valuation methods and long-term disaggregated data.

The remainder of this case study analyzes how trade dynamics and investment flows between Indonesia and the PRC could influence the Indonesian economy. We find that Indonesia's raw commodities exports are particularly vulnerable to fluctuations in the PRC's economy, but there are opportunities for Indonesia to protect itself from these fluctuations by seeking new partnerships—either through strengthening trade agreements and reducing trade barriers or by moving up the value chain to produce semi-processed goods that can be exported to advanced economies. Although Indonesia has already shifted its trade with the PRC upward in the value chain, the conclusion suggests additional steps Jakarta could take to reduce its vulnerability to a slowdown in the Chinese economy.

The PRC's Trade with Indonesia

Following the signing of a formal trade agreement in August 1990, trade between the PRC and Indonesia rapidly expanded under the framework of the ACFTA. Cumulatively, between 1992 and 2023 the PRC exported $754.4 billion worth of goods to Indonesia, while importing $703 billion worth of goods, resulting in a total trade value of $1.457 trillion over this period.[51] During this time, Indonesia alternated between a trade surplus and a trade deficit with the PRC several times (see **Figure 17**). It transitioned from a consumer of Chinese capital goods and processed metals during much of the 2010s to an exporter of intermediate goods in the current decade.

Metals, particularly iron, steel, nickel, and copper goods, are one of the key throughlines undergirding this changing relationship. While iron and steel were a leading inbound category in 2022 (amounting to $6.7 billion, or 9% of Indonesia's imports from the PRC), Indonesia exported nearly three times as much back to the PRC ($19.0 billion, or 28% of Indonesia's exports to the PRC).[52] The value of these exports represented an increase of over 27 times from 2010 levels.[53] Crucially, alongside a change in quantity of metal, the quality of metal has shifted as well. In the early 2010s, Indonesia's metal exports were dominated by raw or scrap metals, which are very low-input commodities, with the PRC dominating flows of finished or processed metals. Now, Indonesia is exporting far more semi-finished goods to the PRC, indicating an increasing domestic capacity and decreasing reliance on Chinese processing firms. This is potentially a result of a net-positive strategy on Indonesia's side to move up the value chain by requiring buyers to

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49 Rizal Sukma, "Indonesia-China Relations: The Politics of Re-engagement," *Asian Survey* 49, no. 4 (2009): 591–608.

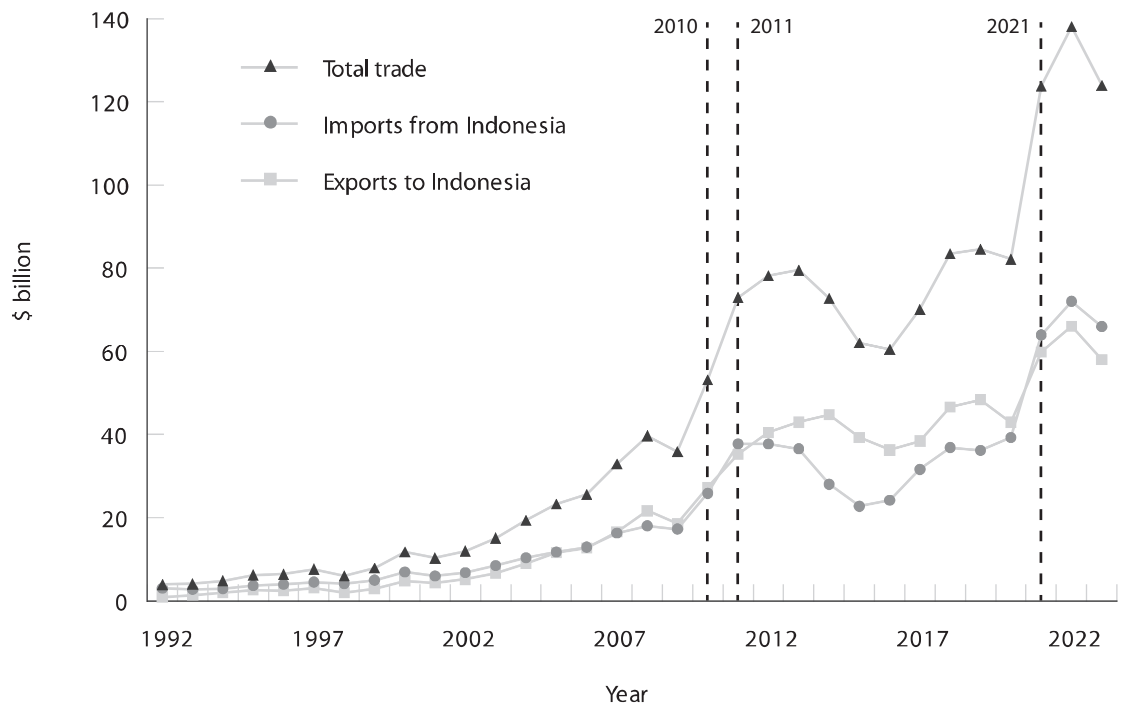
50 This excludes Hong Kong. See BPS-Statistics Indonesia, "Investment Realization Foreign Investment by Country (Million US$), 2024," https://www.bps.go.id/en/statistics-table/2/MTg0MyMy/realisasi-investasi-penanaman-modal-luar-negeri-menurut-negara.html.

51 UN Comtrade database.

52 OEC, "Indonesia," https://oec.world/en/profile/country/idn.

53 WITS database.

FIGURE 17 Indonesia-PRC trade over time, 1992–2023 (with significant years)



SOURCE: UN Comtrade database.

set up processing facilities in the country (see chapter 1 for further discussion). However, it is important to note that the results of the bans on exports of raw minerals have been different for other products. In the case of bauxite, the 2014 export ban led to the PRC replacing imports from Indonesia with new supplies from Guinea and a drastic drop in Indonesian production of bauxite. In the case of nickel, by contrast, the 2020 export ban was quite successful, leading to substantial investment in mineral processing and manufacturing in Indonesia.[54] As the PRC's manufacturing sector is likely to remain highly competitive and self-sufficiency remains a major political goal for the country in spite of its economic slowdown, Indonesia's efforts to move up the value chain in this space could face headwinds. Coupled with slowing growth in the rate of the PRC's demand for commodities due to the decline of infrastructure- and construction-driven growth, Indonesia's metals sector may be further squeezed.

Fuel exports from Indonesia to the PRC are not growing at the same pace and appear to be detaching from the rapid rise seen across other goods. This trend is possibly a reflection of the broader trend in the PRC's economy (discussed in chapter 1) away from the kind of energy-intensive infrastructure-driven growth that led to massive fuel imports. Throughout the past two decades, petroleum and coal exports were a central pillar of the bilateral trading relationship. Indeed, much of the recent reversal in the Indonesian trade deficit (as seen in Figure 17) can be attributed to a $12.7 billion jump in Indonesian fuel exports to the PRC between 2020 and 2021. However, prior to this jump, fuel goods had declined from 35% of Indonesia's PRC-bound exports

[54] Gracelin Baskaran, "Diversifying Investment in Indonesia's Mining Sector," Center for Strategic and International Studies, July 11, 2024, https://www.csis.org/analysis/diversifying-investment-indonesias-mining-sector

to just over 25%. Petroleum exports from Indonesia to the PRC decreased by 6% between 2022 and 2023, and exports of lignite coal and briquettes were down as well.[55] These declines ended a five-year run where coal exports from Indonesia to the PRC more than doubled in value (increasing by 146% and 174%, respectively). The PRC still retains a near monopoly on Indonesian lignite, buying approximately 95% of Indonesia's annual exports. As a result, if demand declines, Indonesia will need to either diversify markets or face contractions. In contrast, semi-processed coal goods such as briquettes have a variety of alternative markets, the largest of which is India. From 2018 to 2023, Indonesia's briquette exports to India grew from \$6.75 billion to \$9.4 billion.[56] Japan, Taiwan, and South Korea are all also leading consumers. As with metal commodities, should an economic slowdown restrict the PRC's appetite for raw lignite, Indonesian producers may have to look to processed exports in related goods to reach other advanced markets across South and East Asia, or face large declines in domestic production, as seen in the case of bauxite.

Key "banner" years in the bilateral trade relationship include 2010 and 2011, following the ACFTA's drawdown of tariffs. Bilateral trade again spiked in 2021, buoyed by fuel exports, as economies reopened during the Covid-19 pandemic. One counterintuitive trend stands out. Indonesia signed onto BRI in March 2015, with much discussion of bolstering trade relations. However, this period aligned with a clear decline of \$19.1 billion in trade volumes between 2014 and 2016 (see Figure 17).[57] This appears to indicate that "trade sweeteners" were not an immediate priority for Beijing as it sought to bring more members of ASEAN into its development initiative, and that the purported economic benefits of BRI are not necessarily found in increased trade volumes.

Table 3 further breaks down trade flows (exports, imports, and total trade) by stage of production and sector of product for the entire period from 1992 to 2022, 2010, and 2021.[58] Capital goods, particularly machine and electric goods, dominate Chinese exports to Indonesia, while fuels consistently lead the countervailing flows. However, as discussed above, increased value-adding processes for metal exports have led to a shift in the total portfolio of Indonesia's exports to the PRC. Raw materials were the leading category of trade in 2010, whereas intermediate goods made up the largest share in 2021.

A downturn in the PRC's economy is likely to reduce demand for raw materials for energy and for intermediate materials for construction and capital goods. In particular, as discussed in chapter 1, this slowdown and the accompanying changes in the PRC's growth model are likely to be particularly hard on commodity imports—with the potential for even "new" commodities such as critical minerals to not see the same sustained price increases that traditional commodities such as oil or iron ore have encountered. In the short term, this could narrow Indonesia's trade surplus or even result in a trade deficit. Indonesia is unlikely to slow down its computer and telecommunication imports, and there are few ready and able alternative sources for these goods. In the medium to long term, however, the disruption to Indonesia's trade balance could accelerate pressure to transition domestic production sectors away from raw and intermediate materials toward technologies and finished consumer goods, as Indonesia and ASEAN pursue

55 OEC, "Indonesia."

56 Ibid.

57 UN Comtrade database.

58 These years have been selected for two reasons: first, they are two of the banner years identified in Figure 17 and bookend this set of years; second, they illustrate how the top sectors evolved over a decade of rapid expansion in Indonesia-PRC trade relations.

higher-value production and resilience against external disruptions. Nonetheless, as noted in chapter 1, the slowdown in the PRC's economy will likely not affect the growing competitiveness of its manufacturing sector—posing significant challenges to countries like Indonesia that seek to move up the value chain. An additional challenge to Indonesia's efforts to move up the value chain is its reliance on non-tariff-measures, which adds up to an average tariff equivalent of 30%, increasing the costs of inputs and potentially hindering Indonesia's ability to transition further away from commodity exports.[59]

TABLE 3 Top Indonesia-PRC trade sectors by exports, imports, and total trade

Trade flows (cumulative, 1992–2022)		
Total	Stage	Intermediate goods
	Sector	(1) Machinery and electronics, (2) fuels, (3) metals
Exports	Stage	Capital goods
	Sector	(1) Machinery and electronics, (2) metals, (3) textiles and clothing
Imports	Stage	Raw materials
	Sector	(1) Fuels, (2) vegetable, (3) metals
Trade flows (2010)		
Total	Stage	Raw materials
	Sector	(1) Machinery and electronics, (2) fuels, (3) vegetable
Exports	Stage	Capital goods
	Sector	(1) Machine and electric goods, (2) textiles and clothing, (3) fuels
Imports	Stage	Raw materials
	Sector	(1) Fuels, (2) vegetable, (3) minerals
Trade flows (2021)		
Total	Stage	Intermediate goods
	Sector	(1) Fuels, (2) machinery and electronics, (3) metals
Exports	Stage	Capital goods
	Sector	(1) Machinery and electronics, (2) metals, (3) chemicals
Imports	Stage	Intermediate goods
	Sector	(1) Fuels, (2) metals, (3) vegetable

SOURCE: WITS database.

NOTE: Imports refer to PRC imports from Indonesia, and exports refer to PRC exports to Indonesia. Stage refers to stages of production (capital goods, consumer goods, intermediate goods, or raw materials), and sector refers to the specific sector of the product.

[59] International Monetary Fund, "Indonesia: Selected Issues," *IMF Staff Country Report*, August 7, 2024.

The PRC's Development Finance in Indonesia

Overall and sectoral perspectives. Since 2000, the PRC has committed approximately $55.2 billion in development financing to Indonesia, with investments heavily concentrated in infrastructure sectors such as energy, industry, and mining (see **Figure 18**).[60] Nearly 89% of this financing is in the form of debt (i.e., loans with interest rates approaching market rates) as opposed to aid (i.e., grants or loans at no interest or low interest rates). The energy sector accounts for the largest share of PRC official development financing, totaling $17.9 billion, or 32% of the PRC's development finance commitments in the country (see **Figure 19**).[61]

Energy was closely followed by the industry, mining, and construction sector, which accounted for 28% of the PRC's official development financing. These sectors are both capital- and material-intensive and benefited from Beijing's desire to divest itself of its foreign currency reserves and excess capacity in construction materials since 2013.[62] Furthermore, many of these projects are focused on expanding Indonesia's domestic production capacity and thereby increasing the PRC's access to high-value or strategic inputs. In 2021, PRC banks committed $686.7 million to two large mineral projects: phase 1 of the Indonesia Lithium Project at Morowali Industrial Park and the Huayou Nickel and Cobalt Project.[63] These projects indicate that Beijing anticipates high-value metals continuing to be at the core of Indonesia's exports, as the PRC seeks to expand its access to

FIGURE 18 PRC development finance to Indonesia over time, 2000–2021

SOURCE: AidData.

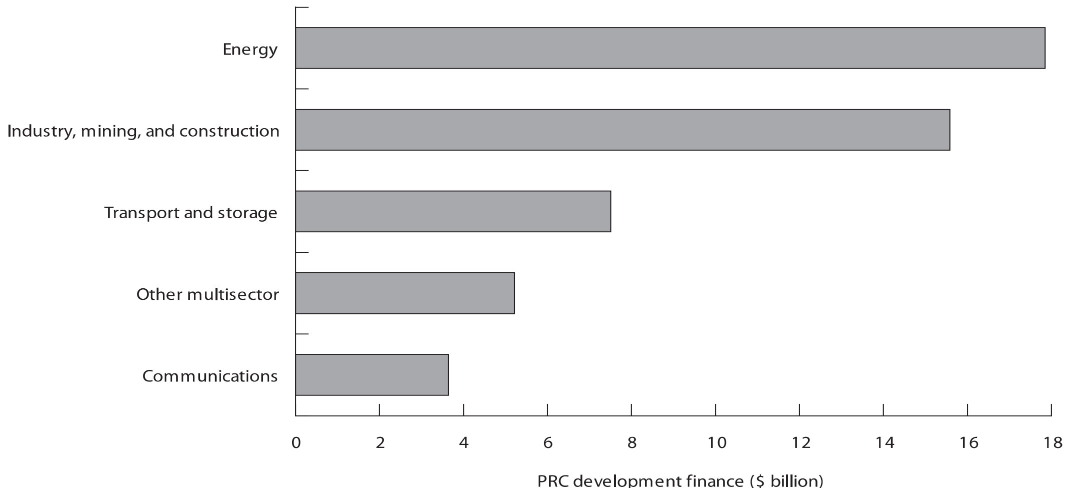
60 Custer et al., "Tracking Chinese Development Finance."

61 Ibid.

62 Bradley C. Parks et al., "Belt and Road Reboot: Beijing's Bid to De-risk Its Global Infrastructure Initiative," AidData, William & Mary, November 2023, https://www.aiddata.org/publications/belt-and-road-reboot.

63 Custer et al., "Tracking Chinese Development Finance."

FIGURE 19 Top 5 sectors for PRC development finance to Indonesia



SOURCE: AidData.

transition and rare earth metals. Since 2015, Indonesia has attracted six major loans investing in transition minerals, collectively worth $3.5 billion.[64]

Investments in transport and storage, the third-largest recipient sector, further underscore the PRC's strategic emphasis on infrastructure critical to its global supply chain goals, as well as potentially expanding access to capital for transformative infrastructure projects. A banner example of these investments is the Jakarta-Bandung high-speed-rail project. The project was originally proposed by the Japan International Cooperation Agency, but the CDB bid on the project and won by promising to implement it in three rather than five years.[65] The project was financed in two loans collectively worth $4 billion with a forty-year maturity, ten-year grace period, 2.00%–3.46% interest rate, and no sovereign guarantees.[66]

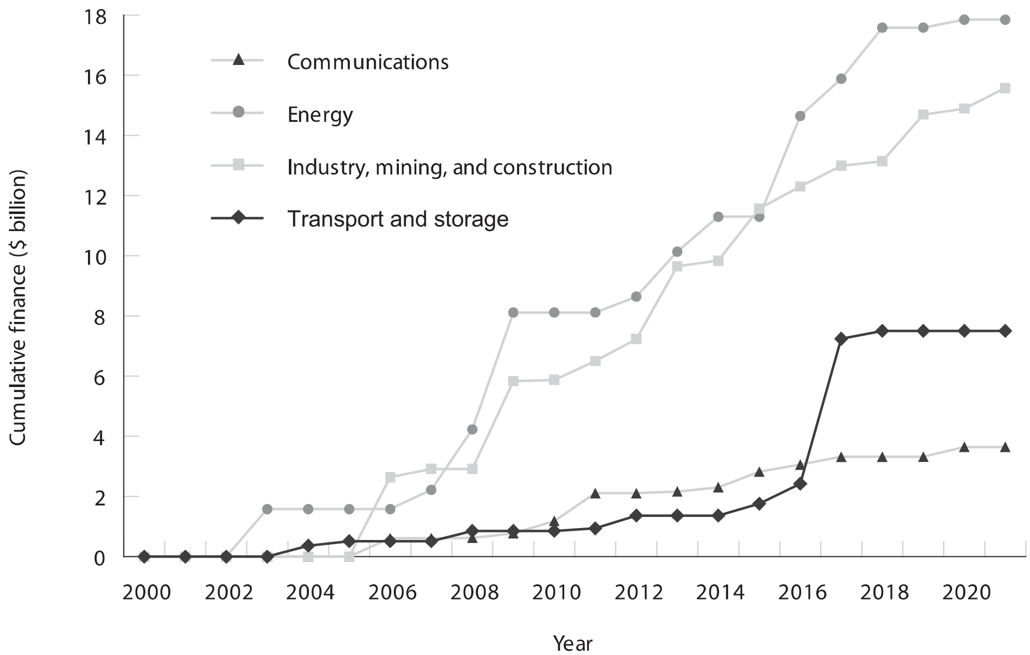
Temporal trends in investment and economic growth. Trends in the PRC's development finance reveal a marked increase in activity after 2006. The growth of investment was by no means steady, however, with peaks in 2009, 2015, 2016, and 2017 (see **Figure 20**). Notably, PRC development finance surged after Indonesia's entrance into BRI, reflecting mutual efforts to mobilize Chinese capital for large-scale projects. Financing increased over four times, from $1.6 billion to $8.7 billion between 2014 and 2015. This is a common trend in the PRC's engagement with some members, where there is increased attention from state-backed investors during the years surrounding BRI memoranda of understanding as an incentive to join the development initiative. Interestingly, however, this spike in investment did not offset the overall declines in trade between Indonesia and the PRC during these years (as seen in Figure 17). Moreover, official finance did not coincide with

64 These are copper, cobalt, nickel, lithium, and rare earth element extraction and processing. Katherine Walsh et al. "Tracking China's Transition Mineral Financing: Methodology and Approach, Version 1.0," AidData, William & Mary, February 2025, https://www.aiddata.org/publications/tracking-chinas-transition-mineral-financing-methodology-and-approach-version-1-0.

65 Custer et al., "Tracking Chinese Development Finance."

66 Ibid.

FIGURE 20 PRC development finance to Indonesia by sector, 2000–2021



SOURCE: AidData.

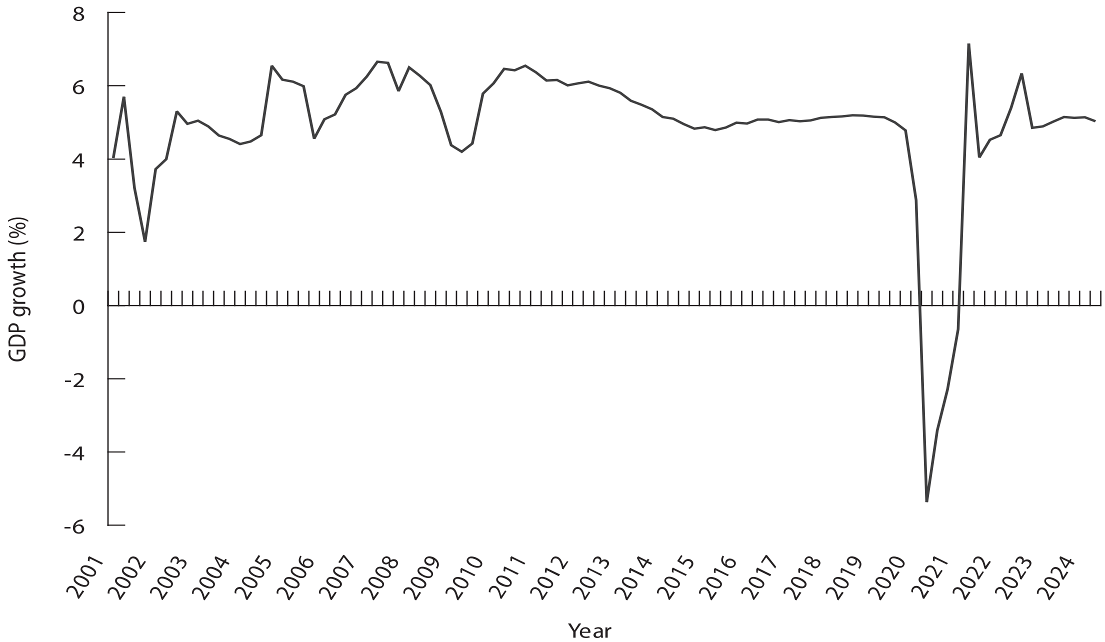
any noticeable changes in Indonesia's quarterly GDP (see **Figure 21**), where the only significant recent shifts have resulted from the global disruptions during the Covid-19 pandemic.

Implications of the PRC's Economic Slowdown for Indonesia

The PRC's domestic economic slowdown could disrupt Indonesia's access to PRC development financing. As of 2021, Indonesia was the sixth-largest recipient of PRC development finance among low- and middle-income countries, giving it a large exposure to slowdowns in these flows, particularly in the sectors of energy and mining. As noted in chapter 1, these flows will likely continue to become more targeted. Between 2018 and 2021, there has already been a noticeable slowdown of new projects in the energy sector. This may still reflect a residual impact of the Covid-19 pandemic, but might also be foreshadowing a move of Chinese development financing away from coal and toward critical minerals, particularly given that this negative trend is not observed in the industry, mining, and construction sector. Given the expectation that as long as the PRC runs a current account surplus there will be continuous flows of income to finance investment abroad, it is reasonable to expect that there will be some reallocation of the sectors of Chinese development financing rather than a drastic reduction in those investments, as discussed in chapter 1.

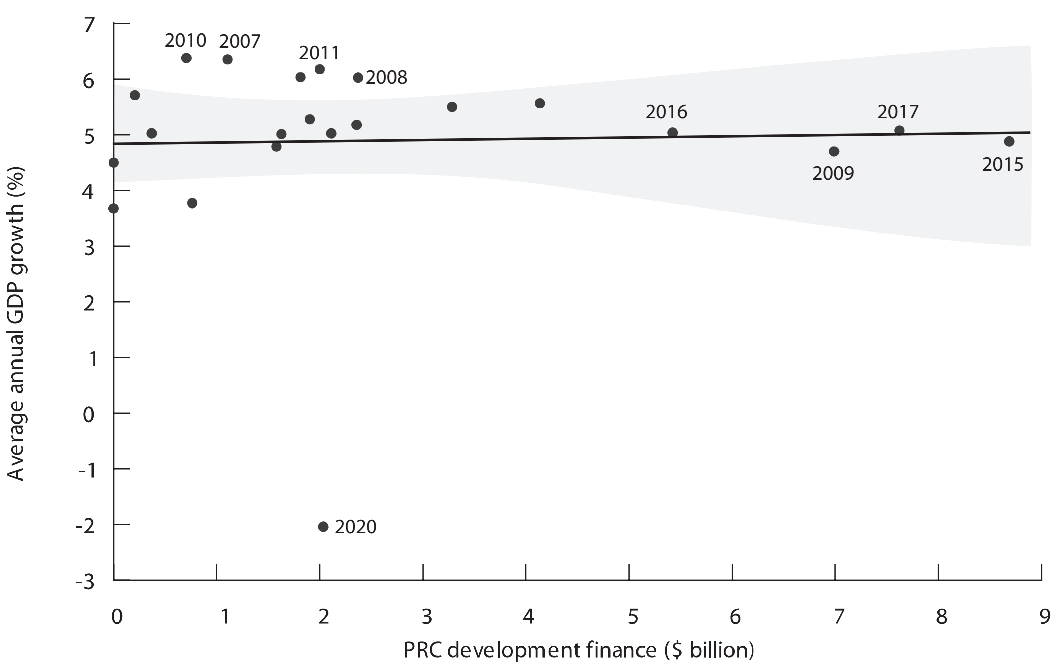
Still, Indonesia's sustained decades of economic growth have come from domestic developments rather than any one international partner. Beijing's growing investments in Indonesia, while they could unlock the potential for specific infrastructure projects or industries, did not on their own increase the country's GDP, nor will a wind down of these projects alone swing it to the negative (see **Figure 22**).

FIGURE 21 Indonesia's quarterly GDP change, 2001–24



SOURCE: World Bank, World Development Indicators.

FIGURE 22 PRC development finance to Indonesia over time and Indonesia's annual GDP change



SOURCE: Data on PRC development financing is from AidData; and Federal Reserve Economic Data.

NOTE: Band represents 90% confidence interval.

Policy Options

The Indonesian economy has close linkages to the PRC economy not only because of geographic proximity, but also due to a series of strategic, economic, and geopolitical factors that make Indonesia attractive to the PRC. Indonesia's geostrategically important location as a crossroads for major trade routes between the Indian Ocean and the Pacific Ocean; its burgeoning middle class, which potentially is a large market for Chinese consumer goods; and its riches of natural resources are all compelling factors for strong engagement from the PRC.

From the Indonesian side, engagement with the PRC economy is double-edged. It provides access to trade, investment, and financing but also exposes Indonesia to vulnerabilities. In particular, the Indonesian economy is substantially reliant on the PRC, which is the destination for nearly a quarter of its exports. While several factors mitigate Indonesia's vulnerability to fluctuations in the PRC economy—such as the country's critical minerals reserves, including the world's largest reserves of nickel and copper as well as substantial reserves of bauxite and tin, and its relatively diverse economy—the following policy measures could help soften the impacts of a negative shock to the Chinese economy:

- *Strengthen regional trade agreements*. Seeking new agreements with regional partners such as Japan and South Korea, as well as with the EU, would diversify Indonesia's export markets and reduce the risks from a Chinese economic downturn by offering alternative markets for semi-processed goods in countries that do not have appropriate infrastructure to import raw materials and do the initial processing locally.
- *Diversify the targets for "old economy" commodities away from the PRC*. Markets for coal and crude palm oil are highly concentrated in India and the PRC, which makes Indonesia highly vulnerable to fluctuations in demand. Exploring new markets such as Africa could mitigate that risk.
- *Continue to seek agreements that favor domestic capacity building*. Indonesia could push for investment regimes that finance construction of the necessary infrastructure for the country to move away from an over-reliance on exports of raw materials to the PRC and toward exports of semi-finished goods to other advanced economies in Asia. This is particularly imperative in the context of the energy transition, as global economies, including the PRC economy, slowly reduce their demand for raw materials such as coal and petroleum in favor of critical minerals. Yet, such a transition requires careful assessment of the quality of the mineral reserves to ensure that the restrictions will lead to greater investment rather than market loss. Although Indonesia's critical minerals sector is already heavily influenced by the PRC, agreements such as the memorandum of understanding signed with the United Kingdom could mitigate Chinese influence.
- *Prepare for rising demand for critical minerals*. Although Indonesia is best known for its large reserves of nickel, copper, bauxite, and tin, it also actively mines other critical minerals such as gold, titanium, and cobalt.[67] Countries, including the PRC, will seek to import these and other critical minerals from Indonesia to fulfill the demand from their growing technology-intensive industries. Indonesia has already developed a partially successful strategy for nickel. Yet, as discussed in chapter 1, even a ban on exports of raw materials does not fully protect the country from some negative effects of Chinese engagement. While Indonesia initially had a positive experience with the PRC's processing of nickel, the price fell as the Chinese plants

[67] Jaewon Chung, "The Mineral Industry of Indonesia," in "Minerals Yearbook 2020–2021: Indonesia," U.S. Geological Survey, January 2025, https://pubs.usgs.gov/myb/vol3/2020-21/myb3-2020-21-indonesia.pdf.

within Indonesia overproduced. Based on this experience and the experience of other countries with critical minerals, Indonesia should develop a comprehensive plan for critical minerals. In particular, it should conduct an assessment of critical minerals reserves and value, ownership of mineral rights and mining companies, extraction and processing, trade, and governance.

- *Reduce trade barriers*. A movement away from exports of raw materials toward exports of manufacturing goods requires cheap inputs. Indonesia has substantially high non-tariff barriers, and targeted reforms are necessary to stimulate growth in its manufacturing sector.

Nigeria

Ana Horigoshi and Rodney Knight

Nigeria has great opportunities but also great challenges for economic growth. Rich in oil, natural gas, coal, and mineral resources, the country has yet to translate the wealth from these resources into an overall high level of well-being for the Nigerian people.[68] Oil continues to be the major source of revenue for government operations, but rather than lift Nigeria out of poverty, oil wealth has created a chronic state of dependence.[69] Instead of providing a basis for growth in other areas, the dominance of oil has discouraged development of other industries and led to dependence on imports of consumer goods, many of which are imported from the PRC.

The oil industry has primarily extracted oil and then shipped crude oil to other countries for processing. Until the Dangote refinery was brought online in January 2024, the limited and dated refining capacity in Nigeria fell far short of producing the refined petroleum products required to meet its own demand. Most refined petroleum products had to be imported from other countries. The operation of the Dangote refinery promises to change this and meet all of Nigeria's domestic requirements while also providing a surplus for export.[70]

The high population growth in Nigeria poses one of its most pressing development issues. With a total fertility rate of over 5, the country has grown by 80% from 126 million in 2000 to 228 million in 2023.[71] As Nigeria's population continues to grow at a high rate, this growth will tax resources to feed, house, educate, and create jobs for the growing population. Even the development of the oil industry, with all of its wealth, will not solve these problems.

Amid these challenges, how does Nigeria interact with the PRC? What role does the PRC play in a country like Nigeria? The two countries have long-standing diplomatic relations, having recognized each other in 1971.[72] During this time, they have maintained active trade relations, and development finance has been and continues to be one of the major ways Beijing engages Nigeria. When it was conceived in 2013, the Belt and Road Initiative did not focus on countries in Africa. This changed in September 2018 at the Forum on China-Africa Cooperation (FOCAC) when 22 African countries, including Nigeria, joined the initiative. Since then, Nigeria has received $5.7 billion in development finance from the PRC. Before joining BRI, however, it had already received $9.4 billion in development finance from the PRC starting in 2001—suggesting that joining BRI did not fundamentally change the scale of PRC development finance. A key area of Chinese development finance to Nigeria has been the energy sector, where the PRC has invested $4.8 billion since 2002—60% for natural gas projects. Another means of engagement has been people-to-people interactions, such as Nigerian officials attending the FOCAC summit. Just prior

68 Eugene N. Nweke and Emmanuel Obona Elem, "Oil Wealth Dependence and Poverty in Nigeria," *South East Political Science Review* 1, no. 1 (2017): 37–48; and Eric Kehinde Ogunleye, "Natural Resource Abundance in Nigeria: From Dependance to Development," *Resources Policy* 33, no. 3 (2008): 168–74.

69 Nafi Chinery and Tengi George-Ikoli, "Ending Nigeria's Oil Dependency: Not If, but When…and How," Natural Resource Governance Institute, March 2022, https://resourcegovernance.org/articles/ending-nigerias-oil-dependency-not-if-whenand-how.

70 Kelly Norways, "Refiners Brace for Margin Pain as Nigeria's Dangote Refinery Scales Up," S&P Global, November 22, 2024, https://www.spglobal.com/commodity-insights/en/news-research/latest-news/crude-oil/112224-feature-refiners-brace-for-margin-pain-as-nigerias-dangote-refinery-scales-up.

71 World Bank, World Development Indicators, https://data.worldbank.org/indicator/SP.POP.TOTL.

72 Steven F. Jackson, "Two Distant Giants: China and Nigeria Perceive Each Other," *Journal of European, Middle Eastern, and African Affairs* 1, no. 32 (2019): 40–74, https://www.airuniversity.af.edu/portals/10/jemeaa/journals/volume-01_issue-2/jemeaa_01_2_jackson.pdf.

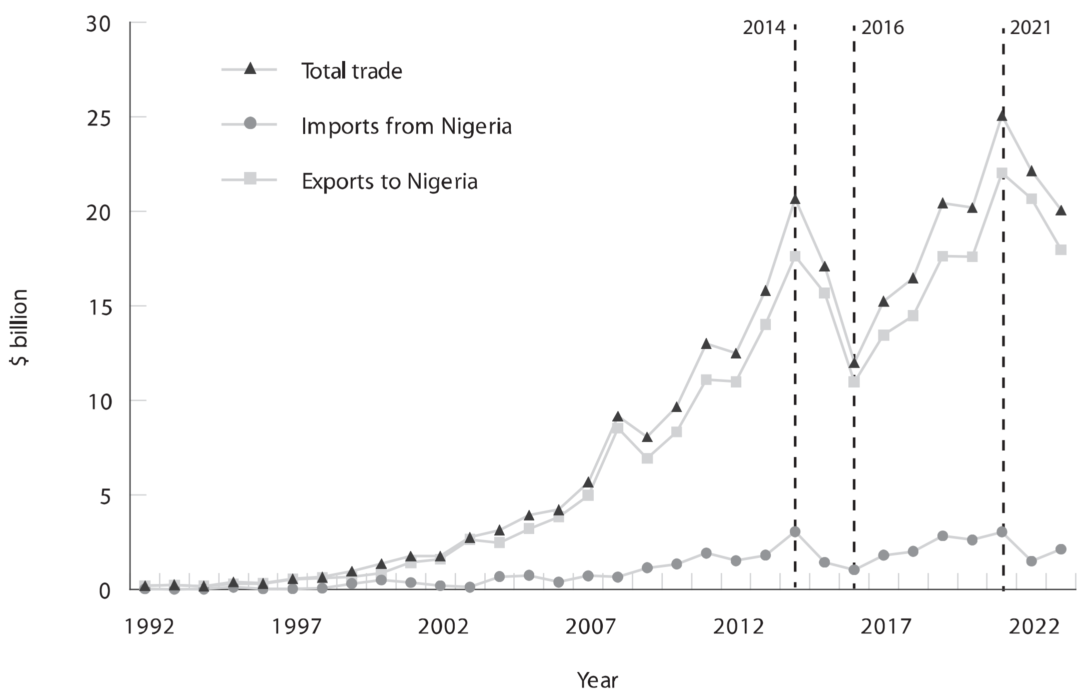
to the 2024 summit, President Bola Tinubu met with President Xi Jinping to discuss investment in Nigeria.[73]

The remainder of this case study focuses on trade and development financing as channels through which a Chinese economic slowdown could have an impact. We find that Nigeria is very dependent on Chinese imports and thus in a vulnerable position because of its continuous trade deficit. Furthermore, Chinese development financing has been growing over time since the early 2000s, while GDP growth has been declining, suggesting that at best there is not a positive correlation between both and at worst there is a negative correlation. The case study concludes with policy options for Nigeria to navigate a deceleration of the Chinese economy.

The PRC's Trade with Nigeria

The story of trade between the PRC and Nigeria is one of dependence. While Chinese imports from Nigeria have generally increased over time, PRC exports to the country in 2023 were over eight times as large as PRC imports, putting Nigeria at a substantial trade deficit with the PRC (see **Figure 23**). In 2022, PRC exports were close to fourteen times as large as PRC imports. Exports from the PRC, however, have not continuously increased. Between 2014 and 2016, exports experienced a 38% drop. This corresponds to a recession in Nigeria that was prompted by

FIGURE 23 Nigeria-PRC trade over time, 1992–2023 (with significant years)



SOURCE: UN Comtrade database.

[73] Felix Onuah and Liz Lee, "China Pledges to Encourage Investment in Nigeria," Reuters, September 3, 2024, https://www.reuters.com/world/nigeria-china-sign-economic-nuclear-energy-pact-2024-09-03.

a drop in oil prices.[74] Surprisingly, exports only declined slightly during the Covid-19 pandemic, followed by a large increase in 2021. That recovery was short-lived due to the recession of 2024.[75] This recession was reportedly caused by economic reforms, reducing subsidies for oil and allowing the currency to float. The reforms have led to high rates of inflation and limited the ability of Nigerians to buy goods from abroad, resulting in a marked decline of exports from the PRC to Nigeria.

Inexpensive Chinese imports have replaced local production in Nigeria, especially in the textile industry, which previously was a large employer of Nigerian labor. In 2021, textiles and clothing was the sector with the largest amount of exports from the PRC to Nigeria (see **Table 4**). Overall, from 1992 to 2022 consumer goods accounted for the largest share of total trade among the stages of production (raw materials, intermediate goods, consumer goods, and capital goods). Consumer goods, however, did not always dominate across this time period. In 2010, capital goods had the largest share. The largest sectors for Chinese exports in 2010 were mechanical and electrical, metals, and plastic or rubber. The dominance of capital goods in 2010 suggests that after 2010 exports of consumer goods accelerated to the point that they had the largest share across time. This suggests an increasing dependence of the Nigerian people on imported consumer goods, which crowds out potential local production.

What vulnerability does the current dominance of Chinese exports of consumer goods pose to Nigeria's economy? In terms of GDP, Nigeria will struggle to develop its manufacturing sector to the degree that Chinese exports of consumer goods suppress local production. As noted in chapter 1, the PRC's economic slowdown is unlikely to slow exports from the country given its large and growing capacity across the manufacturing sector, which more than suffices to cover both domestic production and exports. What is slowing exports is the devaluation of the Nigerian currency, which makes it harder for Nigerians to purchase Chinese goods—a dynamic that could continue to evolve as the PRC manages its currency with an eye toward potential economic friction with larger economies such as the United States and EU.

Across time, raw materials have held the largest share of PRC imports from Nigeria. Fuels and minerals consistently have accounted for the largest sector share. Fuels here represent petroleum products, the bulk of which has been crude oil—reflecting the fact that the PRC's engagement with Nigeria is closely linked to the latter's long-standing over-reliance on oil exports. While the PRC is a large importer of crude oil from Nigeria, European countries together import a much larger share of Nigerian crude oil than the PRC.[76] India and the United States also imported larger shares than the PRC. However, given the globalized nature of oil markets, particularly for refined products, which will be increasingly central to Nigeria's exports going forward, developments in the Chinese economy likely will affect the prices that Nigerian exporters can charge—even if their primary customers are not in the PRC. China's economic slowdown has reduced demand, which has in turn reduced global oil prices.[77] Given the importance of the Chinese economy globally and

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74 Chijioke Ohuocha and Ulf Laessing, "Nigeria's Economy Shrinks in 2016 for First Time in 25 Years," Reuters, February 28, 2017, https://www.reuters.com/article/business/finance/nigerias-economy-shrinks-in-2016-for-first-time-in-25-years-idUSKBN1670U6.

75 Ruth Maclean and Ismail Auwal, "Nigeria Confronts Its Worst Economic Crisis in a Generation," *New York Times*, June 11, 2024, https://www.nytimes.com/2024/06/11/world/africa/nigeria-economy-strike.html.

76 OEC, "Nigeria," https://oec.world/en/profile/country/nga.

77 Ole Hansen, "Chinese Economic Woes Drag Down Crude Oil and Copper," Saxo, September 3, 2024, https://www.home.saxo/content/articles/commodities/chinese-economic-woes-drag-down-crude-oil-and-copper-03092024.

TABLE 4 Top Nigeria-PRC trade sectors by exports, imports, and total trade

Trade flows (cumulative, 1992–2022)		
Total	Stage	Consumer goods
	Sector	(1) Machinery and electronics, (2) textiles and clothing, (3) metals
Exports	Stage	Consumer goods
	Sector	(1) Machinery and electronics, (2) textiles and clothing, (3) metals
Imports	Stage	Raw materials
	Sector	(1) Fuels, (2) minerals, (3) metals
Trade flows (2010)		
Total	Stage	Capital goods
	Sector	(1) Machinery and electronics, (2) metals, (3) fuels
Exports	Stage	Capital goods
	Sector	(1) Machine and electric goods, (2) textiles and clothing, (3) plastic or rubber
Imports	Stage	Raw materials
	Sector	(1) Fuels, (2) minerals, (3) hides and skins
Trade flows (2021)		
Total	Stage	Consumer goods
	Sector	(1) Textiles and clothing, (2) machinery and electronics, (3) metals
Exports	Stage	Capital goods
	Sector	(1) Textiles and clothing, (2) machinery and electronics, (3) metals
Imports	Stage	Raw materials
	Sector	(1) Fuels, (2) minerals, (3) metals

SOURCE: WITS database.

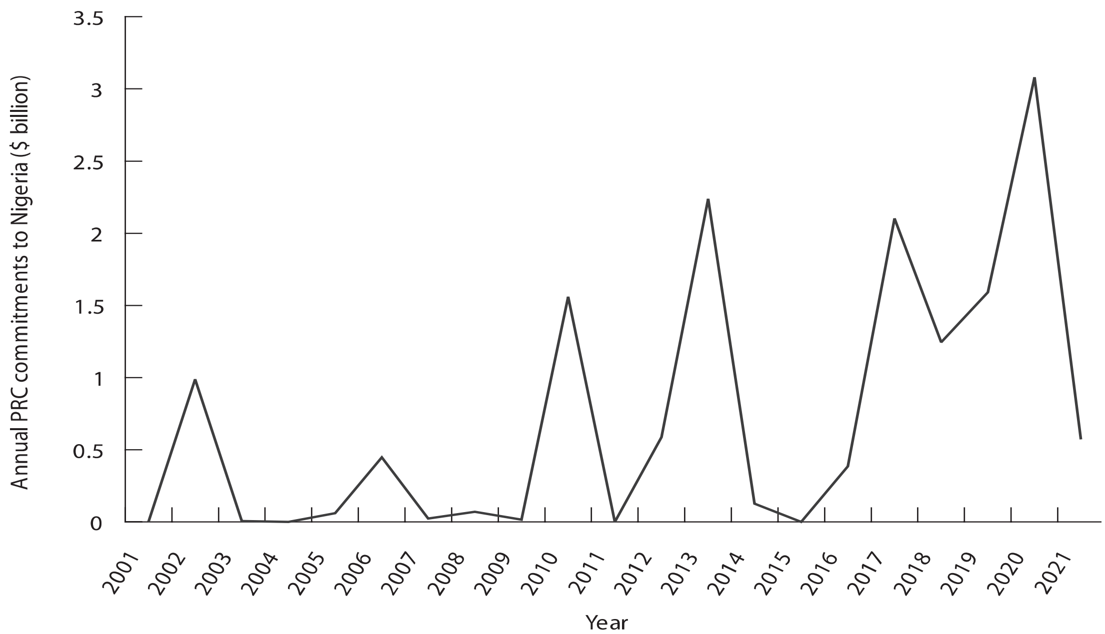
NOTE: Imports refer to PRC imports from Nigeria, and exports refer to PRC exports to Nigeria. Stage refers to stages of production (capital goods, consumer goods, intermediate goods, or raw materials), and sector refers to the specific sector of the product.

Nigeria's own over-reliance on oil exports, the fluctuation of oil prices is likely the main channel through which the Nigerian economy is vulnerable to a domestic economic slowdown in the PRC.

The PRC's Development Finance in Nigeria

Overall and sectoral perspectives. Development finance investments from the PRC to Nigeria began long before Nigeria entered BRI in 2018. Before then, the PRC had invested $9.4 billion, including close to $1 billion in 2002 alone. Since joining BRI in 2018, Nigeria has received an additional $5.7 billion in Chinese investments. How do these investments relate to the country's GDP growth? Over time Chinese investment in Nigeria has generally increased, peaking at $3 billion in 2020 (see **Figure 24**). GDP growth has trended in the opposite direction, with a peak

FIGURE 24 PRC development finance to Nigeria over time, 2000–2021



SOURCE: AidData.

of 14.6% in 2002 and dips below zero in 2016 and 2020 (see **Figure 25**). On the surface, then, it does not seem that Chinese investment has contributed positively to GDP growth.

Ranking PRC development finance by sector reveals how investment can contribute to economic growth in Nigeria (see **Figure 26**). Transport and storage ranks highest, with railway and road projects contributing to economic growth through the movement of people and goods. A deepwater port improvement project can facilitate international trade. Unsurprisingly, energy ranks second. Investments in a natural gas pipeline and a liquified natural gas (LNG) project can spur growth by increasing natural gas exports. Telecommunications projects, ranked third, can enhance business communications, improving corporate functioning and increasing sales.

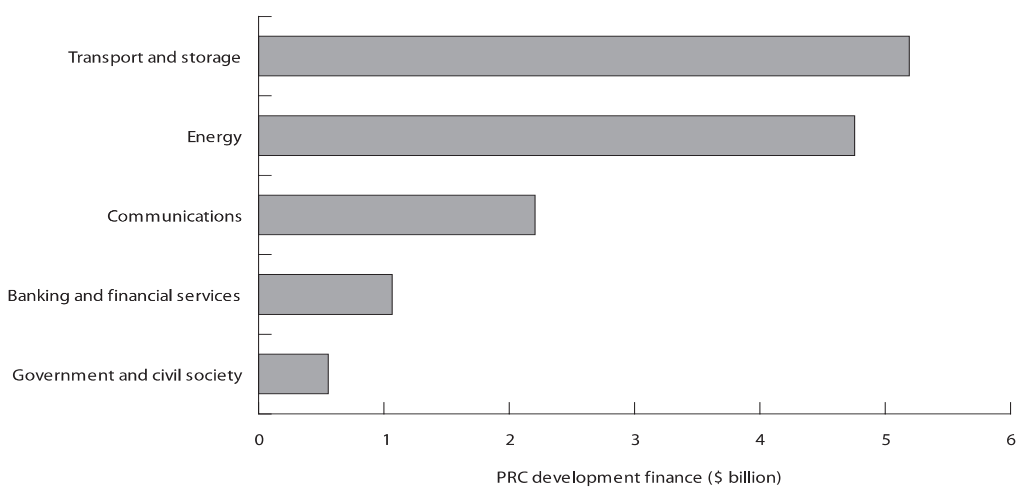
Temporal trends in investment and economic growth. An examination of trends in investments relative to economic growth reveals to what degree Chinese investment contributed to economic growth in Nigeria and could indicate how Chinese investment might stimulate future economic growth (see **Figure 27**). The PRC started investing in energy and communications in 2002. Investments in communications have continued at a relatively regular pace ever since, while energy did not see another investment until 2013. Investments in transport and storage did not begin until 2010, but rapidly exceeded energy and communications. Banking and financial services investments started in 2018. It is not clear whether this is an effect of BRI or the PRC responding to Nigeria's 2016 financial crisis as a means to increase trade. The timing of the bulk of PRC investment does not correspond to the period when Nigeria's growth was the highest, prior to 2010, but rather occurred when the country's growth was slower.

Using a simple regression model to assess the effect of Chinese development finance on Nigeria's GDP growth, we found that Chinese development finance was negatively correlated with GDP growth (see **Figure 28**). That is, as development finance investment increased, GDP declined. However, this relationship was not statistically significant. What is evident, nonetheless, is that there is no clear causal relationship through which PRC development finance investments in Nigeria have promoted economic growth.

FIGURE 25 Nigeria's annual GDP change

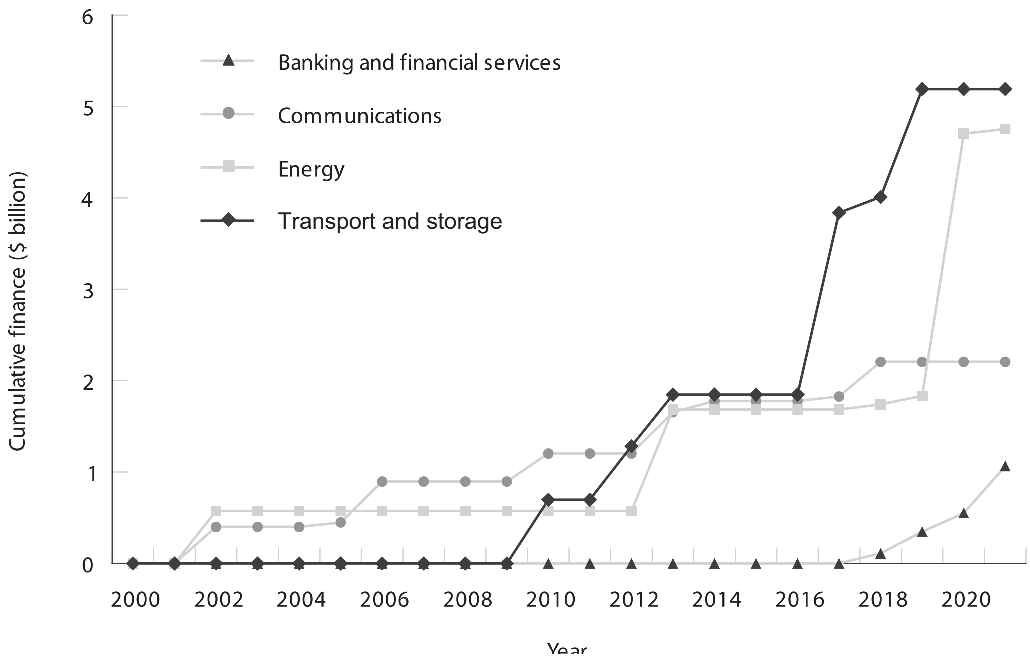
SOURCE: World Bank, World Development Indicators.

FIGURE 26 Top 5 sectors for PRC development finance to Nigeria



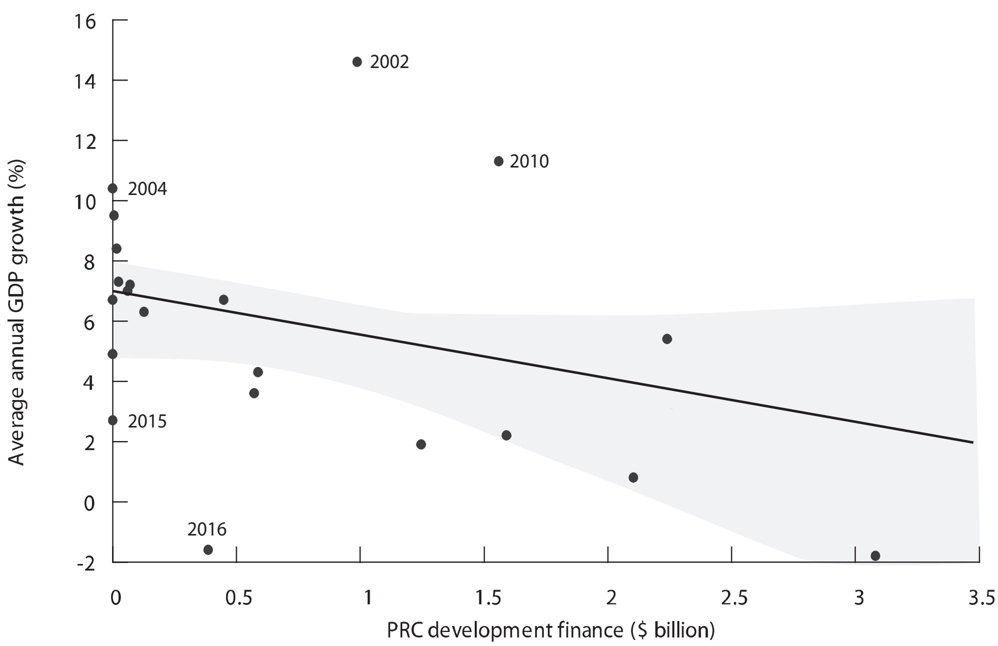
SOURCE: AidData.

FIGURE 27 PRC development finance to Nigeria by sector, 2001–21



SOURCE: AidData.

FIGURE 28 PRC development finance to Nigeria over time and Nigeria's annual GDP change



SOURCE: Data on PRC development financing is from AidData; and data on GDP growth is from World Bank, World Development Indicators.

NOTE: Band represents 90% confidence interval.

Policy Options

Nigeria finds itself in a precarious economic situation at present, and it is not clear that interactions with the PRC are helping the country. The data suggests that Chinese development financing either has no impact on GDP growth or could even have a negative impact, though the longer-term implications are difficult to assess. Nigeria has faced a growing trade deficit with the PRC, and the country's population is also rapidly growing, which implies that GDP growth must reach a higher level to keep up. The opening of the Dangote refinery is a hopeful sign in terms of job creation and reduction in dependence on imports of refined oil. With this increased refining capacity, Nigeria is shifting from being primarily a commodity exporter to becoming an exporter of intermediate and final goods. Oil, however, will not create enough new jobs to meet the needs of the country's growing population. The PRC's economic interactions with Nigeria remain focused on this sector, while other industries, such as textiles, have difficulty competing domestically and internationally with the PRC and other countries.

The four major implications of the PRC's economic slowdown for trade and investment that were presented in chapter 1 will affect Nigeria. First, the PRC's strong manufacturing base will make it difficult for Nigeria to increase exports to the PRC. The country will have to seek ways to pay for Chinese goods other than balancing trade with the PRC. Second, protectionist efforts by Nigeria to reduce Chinese imports will be somewhat ineffective due to the PRC's comparative advantage. Reducing the trade imbalance with the PRC will require other means. Third, the PRC's shift from promoting housing and infrastructure development to technology-intensive industries will reduce demand for oil and increase demand for critical minerals. Nigeria's trade with the PRC will shift in response to these changes in demand. Fourth, despite the PRC's economic slowdown, Chinese outbound investment globally will remain relatively consistent due to its importance to the country's strategic objectives. Given the PRC's emphasis on critical mineral resources, Chinese development finance to Nigeria might even increase.

To move away from its current level of dependence on the PRC, Nigeria should consider the following policy options:

- *Learn from the experience of other countries that liberalized trade*. A number of commodity exporters have shifted their economies away from dependence on commodities and diversified their trading markets. Learning from the experience of those countries can help Nigeria develop its economy in ways that promote growth and make it more resilient to Chinese influence. The cases of Malaysia in the 1960s and India and Indonesia in the 1980s resemble Nigeria today. These countries were primarily commodity exporters with strict controls over trade. When they reformed policies to liberalize trade, FDI from a range of partners dramatically increased.[78]
- *Diversify Nigerian trading markets and reduce debt to the PRC due to trade*. Chinese exports to Nigeria far exceed Nigerian exports to the PRC. The implications from chapter 1 suggest that increasing Nigerian exports to the PRC and implementing protectionist policies to reduce Nigerian imports from the PRC will have a limited effect on this trade imbalance. Additional exports of refined oil to the PRC from the Dangote refinery will also not close this gap. To minimize its debt to the PRC, Nigeria should develop a strategy to diversify trading markets to pay for Chinese imports. The strategy would incorporate policies to expand oil and natural gas exports, increase regional trade, and allow the Nigerian currency (naira) to continue to

[78] Jiaxiong Yao and Yang Liu, "Nigeria: Selected Issues—Diversification of Nigerian Economy," *IMF Country Reports*, February 8, 2021, 16–37, https://www.elibrary.imf.org/view/journals/002/2021/034/002.2021.issue-034-en.xml?rskey=d5YE7Q&result=8.

float while implementing policies to reduce inflation. Nigeria already has diversified trading partners in petroleum. With greater refining capacity, it could further diversify those markets and increase exports of refined petroleum. Current expansion of its capacity to produce LNG will increase Nigerian exports of LNG to Europe and other markets, generating additional revenue to cover trade with the PRC. Increased trade with its partner countries in the Economic Community of West African States could become another means for Nigeria to promote an overall positive trade balance. Industries such as textiles that might not be competitive in the global market could be competitive in this regional market. The recent policy to let the naira float has led to reduced Chinese exports to Nigeria, which has slowed the growth of debt to the PRC.

- *Prepare for rising demand for critical minerals*. Due to the rise of technology-intensive industries, a number of countries will seek to import critical minerals from Nigeria. Nigeria needs a comprehensive plan for critical minerals, including an assessment of critical minerals reserves and value, ownership of mineral rights and mining companies, extraction and processing, trade, and governance. Nigeria should review its existing mining policies and regulations, specifically with respect to critical minerals. In preparation for development of the plan, the country should conduct an assessment of foreign engagement in Nigerian critical minerals, including by the PRC. Nigeria could also learn from the experience of other countries with the PRC's efforts to control the critical minerals industry. The Indonesian strategy shows how even with a ban on exports of raw materials the results of Chinese engagement are mixed. While the PRC's establishment of nickel processing in Indonesia was positive, the subsequent fall in the price of nickel as a result of overproduction at the Chinese plants counteracted the benefits.
- *Review new Chinese development finance and FDI agreements for alignment with Nigerian interests*. Based on the implications discussed in chapter 1 and the assessment of the situation in Nigeria in this case study, Chinese development finance and FDI could increase in Nigeria, particularly in critical minerals, even with the PRC's economic slowdown. Making agreements with the PRC or Chinese companies involves risk. Nigeria can reduce that risk through a review of existing development finance and FDI agreements to develop guidance on what to avoid and how to make these agreements more favorable to Nigerian interests.

Paraguay

Ana Horigoshi and Jonathan Solis

One of only two landlocked countries in South America, Paraguay occupies a unique space in the region. With a population of approximately 6.8 million and a projected 2025 GDP of $44.2 billion, it is dwarfed by neighbors like Brazil and Argentina.[79] In the past two decades, Paraguay has experienced consistent economic growth that helped significantly decrease the poverty rate from nearly half the population in 2003 to 17.6% in 2023.[80]

In addition to being geographically landlocked in South America, Paraguay is also diplomatically isolated, surrounded by countries that recognize the PRC over Taipei. As one of only twelve countries worldwide that do not recognize Beijing, and the largest of these countries by landmass, Paraguay faces a unique diplomatic situation. Nonetheless, President Santiago Peña has vowed to maintain its relations with Taiwan.[81] During a diplomatic meeting with Taiwanese president William Lai in November 2024, Foreign Minister Rubén Lezcano reaffirmed that "the relation[ship] between Paraguay and Taiwan is based on principles and values; democracy, freedom, [and] human rights."[82] The December 2024 expulsion of a low-level PRC diplomat attending a UNESCO meeting in Asunción for allegedly encouraging lawmakers to reconsider ties to Taiwan reinforces this position.[83]

Paraguay's lack of official recognition of the PRC, however, has not prevented economic engagement between the two countries. In both trade and development finance, the PRC's presence in the country is evident to varying degrees. Paraguay has received nearly $76.2 million in PRC development finance since 2000,[84] and the PRC is the largest exporter to Paraguay.[85]

Paraguay's economy has experienced significant fluctuations in recent decades, with periods of steady growth punctuated by contractions during the global financial crisis and domestic economic slowdowns (see **Figure 29**). The early 2010s saw a particularly sharp spike, followed by volatility in subsequent years. A decline in GDP growth in 2020 in part reflects the negative impact of the Covid-19 pandemic, though 2019 saw negative growth as well. The country's post-pandemic recovery has similarly been characterized by substantial volatility. After rebounding in 2021, GDP growth subsided in 2022 and picked up again in 2023. The combination of substantial volatility in annual GDP growth rates in the past few decades and the small sample size (approximately 30 years) led to an unstable forecast model. However, this in itself is still informative in the sense that the volatile projection highlights the challenges Paraguay faces in achieving long-term economic stability amid external pressures and structural constraints.

For the remainder of the case study, we examine two major economic channels linking the PRC to Paraguay: trade and development finance. While FDI also plays a role in Paraguay's economy,

79 World Bank, World Development Indicators.

80 Ibid.

81 "New Paraguay President Stresses South American Country's Ties with Taiwan at Swearing-In Ceremony," Associated Press, August 15, 2023, https://apnews.com/article/paraguay-taiwan-pena-lai-f9ee99e365bff96d6efe543bb4bd1db0.

82 Firstpost, "Paraguay Deports Chinese Envoy over 'Taiwan' and 'Interference,'" YouTube, video, December 6, 2024, https://www.youtube.com/watch?v=B_guslO_G7U.

83 Daniela Desantis, "Paraguay Expels Chinese Envoy over Taiwan 'Interference,'" Reuters, December 6, 2024, https://www.reuters.com/world/americas/paraguay-expels-chinese-envoy-over-interference-domestic-affairs-2024-12-05.

84 Custer et al., "Tracking Chinese Development Finance."

85 UN Comtrade database.

FIGURE 29 Paraguay's yearly GDP growth over time, 1990–2023

SOURCE: World Bank, World Development Indicators.

it remains significantly lower than in other regional countries like Brazil.[86] As a result of that reality, as well as data limitations, our analysis focuses on trade and development finance as key mechanisms of economic engagement between Paraguay and the PRC.

The PRC's Trade with Paraguay

Paraguay's top trading partners are a hodgepodge of global and regional powers in the Americas, Europe, and Asia.[87] Although regional neighbors Brazil, Argentina, and the United States are top partners, Paraguay imports the most from the PRC, which accounts for around 30% of its total share.[88] **Figure 30** illustrates the full trade relationship between Paraguay and the PRC. While the level of imports from Paraguay remains low throughout the sample, Chinese exports to Paraguay have grown significantly since the mid-2000s and continued to rise, with 2010 and 2021 being banner years in the overall trade relationship.

Paraguay relies heavily on imported machinery and electronics to sustain its agriculture-based economy, with the PRC serving as a key supplier (see **Table 5**). As of 2024, Paraguay is the world's largest exporter of organic sugar, third-largest soy exporter, and eighth-largest beef exporter.[89]

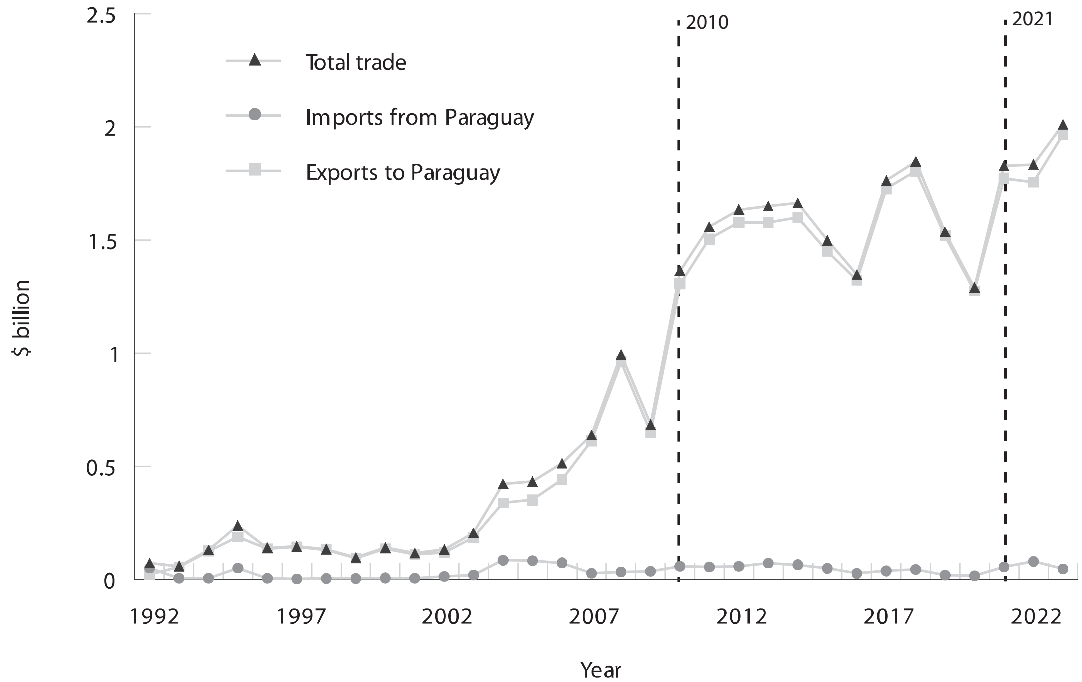
86 In 2023, Paraguay recorded $240.7 million in FDI inflows, compared with Brazil's $64.23 billion. World Bank, World Development Indicators.

87 According to the WITS database, as of 2022, Paraguay's top five export partners are Brazil, Argentina, Chile, Russia, and the United States, while its top five import partners are the PRC, Brazil, the United States, Argentina, and Singapore.

88 WITS database.

89 U.S. International Trade Administration, "Paraguay: Agricultural Sectors," March 5, 2024, https://www.trade.gov/country-commercial-guides/paraguay-agricultural-sectors.

FIGURE 30 Paraguay-PRC trade over time, 1992–2023 (with significant years)



SOURCE: UN Comtrade database.

Given this dependence on food exports, its top imports from the PRC are machinery and electronics, which support agricultural production.

As the PRC is expected to remain highly competitive in manufacturing (see chapter 1), and considering that the Paraguayan economy relies on mostly imports of agricultural machinery from the PRC, Paraguay would be relatively unaffected by the direct shocks of lower demand from a Chinese economic slowdown. Nevertheless, the potential indirect impact is significant, given that its main trading partner—Brazil—is more vulnerable to a PRC slowdown, as discussed in the Brazil case study.

The PRC's Development Finance in Paraguay

Unlike nations that recognize the PRC and receive direct development financing, Paraguay's engagement has largely occurred through indirect channels through ports in Uruguay and Argentina.[90] Surprisingly, there are still several PRC development finance projects in Paraguay (see **Figure 31**). These investments totaling $76.2 million occurred in 2015 and 2018 and have primarily been in two sectors: (1) industry, mining, and construction, and (2) transport and storage.[91] All four projects were committed during former president Horacio Cartes's administration and are co-financed through the Inter-American Development Bank with the China Co-financing Fund for Latin America and the Caribbean as one of the implementing agencies.

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90 Gabriel Cohen, "The South American Election That Has Taiwan Scrambling," *Diplomat*, January 18, 2023, https://thediplomat.com/2023/01/the-south-american-election-that-has-taiwan-scrambling.

91 Custer et al., "Tracking Chinese Development Finance."

TABLE 5 Top Paraguay-PRC trade sectors by exports, imports, and total trade

Trade flows (cumulative, 1992–2022)		
Total	Stage	Capital goods
	Sector	(1) Machinery and electronics, (2) chemicals, (3) plastic or rubber
Exports	Stage	Capital goods
	Sector	(1) Machinery and electronics, (2) chemicals, (3) plastic or rubber
Imports	Stage	(1) Raw materials
	Sector	(1) Hides and skins, (2) textiles and clothing, (3) metals
Trade flows (2010)		
Total	Stage	Capital goods
	Sector	(1) Machinery and electronics, (2) plastic or rubber, (3) transportation
Exports	Stage	Capital goods
	Sector	(1) Machinery and electronics, (2) plastic or rubber, (3) transportation
Imports	Stage	Intermediate goods
	Sector	(1) Hides and skins, (2) wood, (3) metals
Trade flows (2021)		
Total	Stage	Capital goods
	Sector	(1) Machinery and electronics, (2) chemicals, (3) plastic or rubber
Exports	Stage	Capital goods
	Sector	(1) Machinery and electronics, (2) chemicals, (3) plastic or rubber
Imports	Stage	Raw materials
	Long list	(1) Metals, (2) hides and skins, (3) vegetable

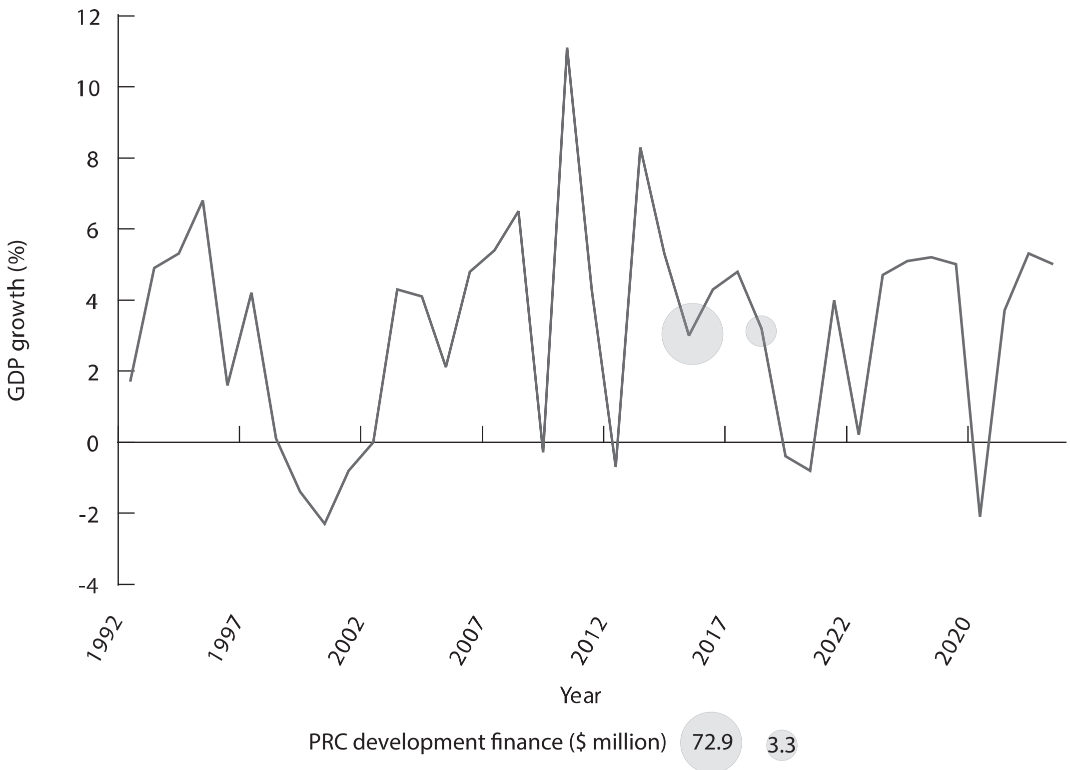
SOURCE: WITS database.

NOTE: Imports refer to PRC imports from Paraguay, and exports refer to PRC exports to Paraguay. Stage refers to stages of production (capital goods, consumer goods, intermediate goods, or raw materials), and sector refers to the specific sector of the product.

Policy Options

Paraguay's minimal economic ties to the PRC limit its exposure to the ripple effects of a Chinese economic slowdown. The choice to maintain recognition of Taiwan, even while the vast majority of Latin American and Caribbean countries recognize the PRC, largely insulates Paraguay from a negative economic shock, which is a significant benefit of its diplomatic stance. Other countries across both the global South and North have taken steps to reduce their reliance on the PRC. One example is the Supply Chain Resilience Initiative, which is a partnership between India, Japan, and Australia aimed at addressing vulnerabilities caused by overdependence on the PRC in global supply chains. Paraguay has largely avoided the need to take these measures. While by percentage

FIGURE 31 Paraguay's GDP growth overlapped with PRC financing (1992–2023)



SOURCE: World Bank, World Development Indicators; and AidData.

its main source of imports is the PRC, the overall volume is relatively small, making these goods more easily substitutable.

As noted above, the indirect impact of a slowdown in the Chinese economy is a more significant concern. Given Brazil's deep trade relationship with the PRC, any contraction in Chinese demand could weaken the Brazilian economy. This not only would reduce its demand for Paraguayan exports like soy and beef but could lower the prices of those commodities, since they are also the main exports from Brazil. The vulnerabilities of its neighbor, therefore, pose a greater risk for Paraguay, due to the close economic ties between the two countries. To mitigate the indirect threat of a Chinese economic slowdown, Paraguay should consider the following policy options:

- *Diversify trade beyond Brazil and Argentina*. Paraguay should expand trade partnerships with other regional and global markets, moving beyond its neighbors and main trade partners Brazil and Argentina, which are still substantially vulnerable to the Chinese economy. Strengthening export agreements and seeking new buyers for key agricultural products would help insulate the country's economy from downturns in trade between the PRC and Paraguay's main trade partners.
- *Strengthen agro-industrial integration*. Paraguay should promote vertical integration and value creation for agricultural products that it already exports, such as soybeans and corn. Moving exports away from raw products and toward higher-value-derived products can have multiple benefits, including higher value addition and increased revenues from exports, job creation, and reduced dependence on raw commodity prices.

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