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The Incredible Resilience of the Chinese Economy

EXPLAINER – JULY 2025

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Foreword

Institut Montaigne regularly delves into Chinese macroeconomic trends, which are essential to our understanding of power relations. This 2025 edition comes at a moment of heightened trade tensions between Washington and Beijing, with Europe proving unable to make its voice heard in this uninhibited duopoly.

We are seeing the remarkable resilience of the Chinese economy, which has stayed on course despite headwinds: domestically, persistent difficulties in the real estate sector and weak consumption; externally, tariff pressures from the United States. China, skillful and determined, is managing to push back the Trump administration on tariffs; redirecting a significant share of its exports to the European Union, ASEAN, Russia, and African countries, and continuing to move upmarket industrially. It is now competing with European factories on high value-added products, not hesitating to manipulate our dependencies on critical components to its advantage.

This analysis enlightens us about Europe's options as an economic power: about the ambition we need to redefine, about the passivity we must urgently abandon, and about the defensive and offensive instruments still at our disposal—notably a trade deficit of some 300 billion euros with China that represents an unduly ignored lever.

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A long-time professor at France's National Institute of Oriental Languages and Civilisations (INALCO) and Sciences Po, he created Centre Asie at the Paris-based Institut français des relations internationales (1985-2005) and Asia Centre in 2005. In 1995 he co-founded the European committee of the Council for Security Cooperation in the Asia-Pacific (CSCAP), which he co-chaired until 2008. He is a graduate of the *École normale supérieure* (Paris), where he majored in history, and was a postgraduate student at Harvard University.

His last published books are *Les mots de Xi Jinping*, Dalloz, 2021 and *China at the Gates: A New Power Audit of EU-China relations* (with Abigaël Vasselier), Odile Jacob, 2018.

For Institut Montaigne, he recently authored the following policy papers: *[Scenarios] - China 2035: The Chances of Success* (January 2025, with Pierre Pinhas), *Europe Needs a Systemic Response to China's Car Offensive* (April 2024), *Making European Economic Security a Reality* (March 2024), *China's Disappointing Economic Figures and the Crisis of Confidence* (September 2023), *Cross-border Data Flows: the Choices for Europe* (April 2023, with Viviana Zhu).

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One can be convinced of the intrinsic strengths of a hybrid industrial economy, without clear boundaries between public and private, constantly mobilized toward innovation at the expense of individual income. In a hybrid industrial economy, one can also downplay some of the official statistics, which are subject to manipulation by local authorities eager to meet their targets. Even so, the declared strength of the Chinese economy is surprising at a time when the US administration is declaring a pause (whether lasting or not) in its tariff offensive.

“Incredible resilience”: The premise behind this US tariff offensive was to drive a wedge into exports, which had become the primary driver of Chinese growth.[1] It was obvious that the massive decoupling resulting from 145 percent tariffs would first harm Chinese producers, exporters, and supply chains before reaching and hitting, at least 45 days later, the shelves of US stores and the wallets of US consumers. On the other hand, it seemed equally obvious that US resilience, while not guaranteed politically in view of the mid-term elections in November 2026, would in any case exceed China's threshold of resistance.

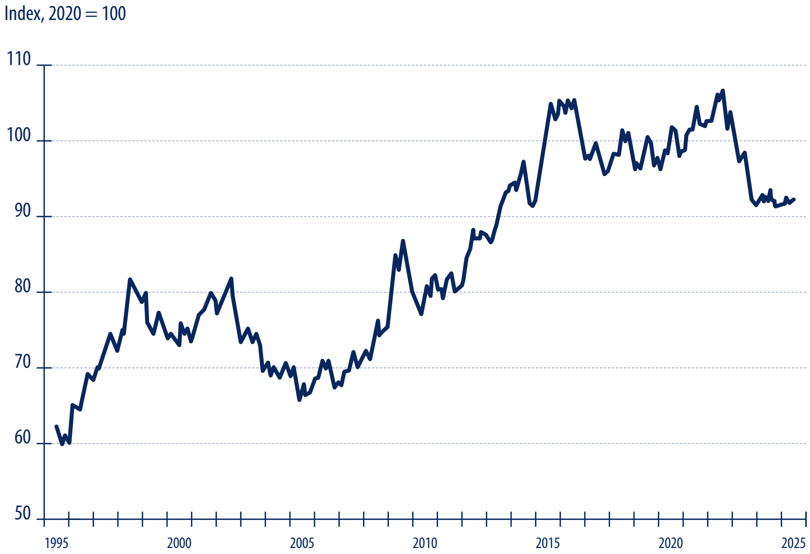
[1] *Daniel H. Rosen, Logan Wright, Jeremy Smith, Matthew Mingey and Rogan Quin, “After the Fall: China's Economy in 2025”, Rhodium Group, December 31, 2024, https://rhg.com/research/after-the-fall-chinas-economy-in-2025/.*

1 Upholding the Export Position

However, this was not the case: Only 40 days passed between the escalation of *"Liberation Day"* on April 2 and the Sino-US agreement on May 12 suspending the announced measures. This was enough to disrupt the maritime logistics of Chinese exports, starting with the ports. It was enough to weaken certain producers who did not have an immediate backup plan. But it was not enough to cause a shock to China's growth, nor to reach, if not the ports of the United States' West Coast, then at least supermarket shelves. President Donald Trump called off the showdown before it even reached the heart of the US economy. At that point, it had not caused any serious damage to the Chinese economy. But why?

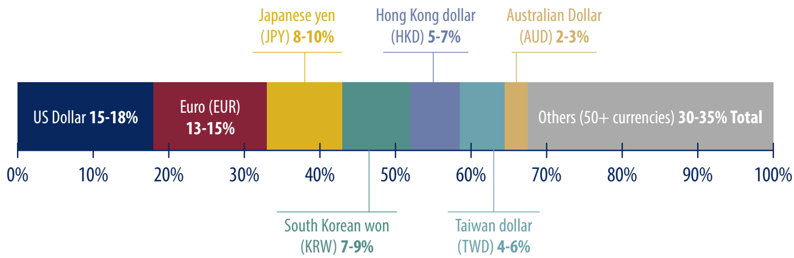
First, the current situation with price and exchange rate fluctuations has helped both China and the United States. For the United States, the fall in oil prices is delaying the inflationary impact of decoupling. In China, the devaluation of the dollar, to which the renminbi remains pegged in a crawling peg (or sliding parity), led to a two-week decline in the Chinese currency against the euro (-6 percent), the Japanese yen (-5.8 percent) and the Korean won (-4.8 percent). Contrary to what is sometimes reported, China did not want to intensify the conflict through a deliberate devaluation nor did it need to. Only public intervention has enabled the renminbi to recover since then.

Figure 1 • Real exchange rate of the Chinese renminbi against a basket of currencies



Source: Bank for International Settlements.

Figure 2 • Breakdown of the Bank for International Settlements' currency basket



Note: The sum of the figures is greater than 100 percent because the currency shares are approximations.

Source: Bank for International Settlements.

Added to that is the constant deflation in China for the past three years. It accelerated, particularly for producer prices, in Q1 2025 (-2.3 percent year-on-year) and again in May (-2.7 percent).[2] Compared with global inflation,[3] these prices have almost returned to 2019 levels (+1.6 percent) and have fallen sharply since 2023 (-7.7 percent). By comparison, the US producer price index rose by 24.4 percent between 2019 and April 2025;[4] while the French index rose by 10.8 percent over the same period.[5]

In other words, between 2023 and April 2025, Chinese industrial competitiveness increased by around 32 percent compared to that of the United States and by 18 percent compared to that of France.

This brings us to the **second major factor** explaining China's resilience: **the continued strength of exports other than those to the United States**.

This is due to the **remarkable adaptability and flexibility of the entire Chinese supply chain:** from production to distribution abroad, including transportation logistics. This is a model of flexibility and cost reduction that certain companies, such as Renault, are trying to replicate and emulate to a certain extent.[6]

[2] *"2025年4月份工业生产者出厂价格同比下降2.7%" [In April 2025, Producer Prices Fell by 2.7% Year-on-Year], National Bureau of Statistics of China, May 10, 2025, https://www.stats.gov.cn/sj/zxfb/202505/t20250510_1959770.html.*

[3] *"Inflation, Consumer Prices (% Annual)," World Bank, 2025, https://donnees.banquemondiale.org/indicateur/FP.CPI.TOTL.ZG?view=chart.*

[4] *"Producer Price Indexes," Bureau of Labor Statistics, 2025, https://www.bls.gov/ppi/.*

[5] *[In March 2025, French Industrial Production Prices Fell by 1.1% Over One Month and by 0.3% Over One Year], National Institute of Statistics and Economic Studies, April 30, 2025, https://www.insee.fr/fr/statistiques/8566219.*

[6] *Olivier Ubertalli,[Renault's Industrial Flexibility Is its Strength Against the Chinese], Le Point, May 27, 2025, https://www.lepoint.fr/economie/renault-dans-les-coulisses-de-la-revolution-industrielle-4-0-du-constructeur-27-05-2025-2590666_28.php.*

The rollercoaster ride and rapid diversification of exports before, during, and after the 40-days customs dispute with the United States are testament to this Chinese flexibility. After falling by 17 percent in January and February, compared to the previous two months, exports rebounded by 12.4 percent in March[7] and remained at +4.8 percent in May![8] In April—a month fraught with danger due to the virtual shutdown of the supply chain to the United States—they still rose slightly by 8.1 percent in absolute terms.[9]

The 90-days customs pause decreed by Donald Trump on May 2 signaled a new rebound. According to US sources, **freight bookings from China to the United States jumped 300 percent in the second week of May**, and some major importers had undoubtedly anticipated the move as soon as negotiations began in Geneva.[10] We can expect that, despite the customs surcharges still in place (+10 percent for all countries, +20 percent on account of fentanyl, +25 percent on certain products covered by Section 301, +25 to 50 percent on steel and aluminum), direct US imports will increase again until August 15 and after the end of the agreed 90-days pause, due to both American and Chinese operators. In April and May, they fell by 20 percent and 35 percent respectively—a logical consequence of the halt in shipments.

[7] *"2025年3月全国进出口总值表（美元值）" [Table of Total Imports and Exports for March 2025 (in US Dollars)], General Administration of Customs of the People's Republic of China, April 14, 2025, http://www.customs.gov.cn/customs/302249/zfxxgk/2799825/302274/302275/6462438/index.html.*

[8] *"前5个月我国货物贸易进出口增长2.5%" [My Country's Imports and Exports of Goods Increased by 2.5% in the First Five Months], General Administration of Customs of the People's Republic of China, June 9, 2025, http://www.customs.gov.cn/customs/xwfb34/302425/6560798/index.html.*

[9] *"前4个月我国货物贸易进出口增长2.4%" [In the First Four Months, China's Import and Export of Goods Grew by 2.4%], General Administration of Customs of the People's Republic of China, May 9, 2025, http://www.customs.gov.cn/customs/xwfb34/302425/6502399/index.html.*

[10] *Shannon Pettypiece, "U.S. Companies Surge Shipments from China Following Tariff Pause", NBC News, May 16, 2025, https://www.nbcnews.com/politics/economics/us-companies-surge-shipments-china-tariff-pause-rcna207076.*

This "yo-yo" effect linked to the ups and downs of the Trump administration must be put into perspective with the explosion of Chinese exports to the rest of the world. This undoubtedly includes transit through third countries to the US market. However, **we would be wrong to limit ourselves to the re-routing of sales to the European Union**, even if this shift was a proven fact during Trump's first term following the customs surcharges already imposed on Chinese imports. Transshipments, false labels of origin, and shell companies are long-standing practices. The detours via Vietnam or Mexico are the best known, but transit countries to the United States also include South Korea, Singapore, Indonesia, Belgium, and Poland, and as of recently the Baltic states. Within these increasing exports, it is therefore **difficult to distinguish the share of direct sales from immediate re-exports**.

Toward Southeast Asia-ASEAN countries, China's trade surplus has increased 2.5-fold between 2019 and 2024, reaching 190 billion dollars (182.4 billion euros at the average exchange rate in February 2025).[11] Anecdotally, **entire sections of the furniture and textile industries have been devastated:** In Indonesia, 250,000 textile workers were laid off between 2022 and 2024, and the country's leading textile company, Sritex, a subcontractor for Uniqlo, Zara, and H&M, went bankrupt in early 2025. Similar losses are occurring in Thailand and Malaysia in the furniture and household goods industries. In the words of a Chinese furniture exporter, "for a given product, there are no lowest prices, only lower prices."[12] In the higher-end market, Chinese electric vehicles are replacing Japanese vehicles in Southeast Asian markets. The reasons for this are tax exemptions for Chinese exporters, parallel imports—particularly in Indonesia—and unlimited price cuts by Chinese producers.

[11] *"Sritex, Indonesia's Largest Textile Firm, To Shut Down Factories on Saturday", Jakarta Globe, February 28, 2025, https://jakartaglobe.id/business/sritex-indonesias-largest-textile-firm-to-shut-down-factories-on-saturday.*

[12] *"Cheap Chinese Goods Are Flooding South-East Asia. Can the Region Turn the Tide?", The Straits Times, February 28, 2025, https://www.straitstimes.com/asia/se-asia/cheap-chinese-goods-are-flooding-south-east-asia-its-manufacturers-are-fighting-back.*

As can be seen, it is therefore extremely **difficult to separate the real decline in production costs**, caused by robotization and large-scale standardization, from reduced margins and sales at a loss, or **illegal and tolerated practices in the transport of products abroad**. In this second category, giant distribution platforms such as Shein, Temu and Taobao take the lion's share due to customs exemptions for low-value parcels and the practical impossibility of checking them. Chinese economists also believe that, beyond the issue of costs, manufacturing based on artificial intelligence and automation will enable China to remain the global manufacturing center of gravity.[13]

The **consequences vary depending on the economy:** For high-labor-cost countries that have already lost most of their low-end industries, Chinese e-commerce is destroying competing distributors, both physical and virtual. On the other hand, in less developed countries where labor-intensive industries still exist, these are under threat, including in Europe's neighborhood.

The **use of free trade zones promoted by China** (Tangier in Morocco, El Qantara in Egypt) **is helping to reinforce this comparative advantage**. As a result, even for well-known brands, fabrics and fibers are most often sourced in China. Between March 2024 and March 2025, Chinese exports to Egypt and Morocco increased by 20 percent and 25 percent respectively. Remarkably, Turkish textile companies prefer to relocate to El Qantara, despite an agreement granting Turkish goods direct access to the European market! In 2024, 6,000 Turkish companies in the textile sector closed their doors as a result of the rebound, and the number of jobs lost in this sector has risen to 250,000 since 2020.[14]

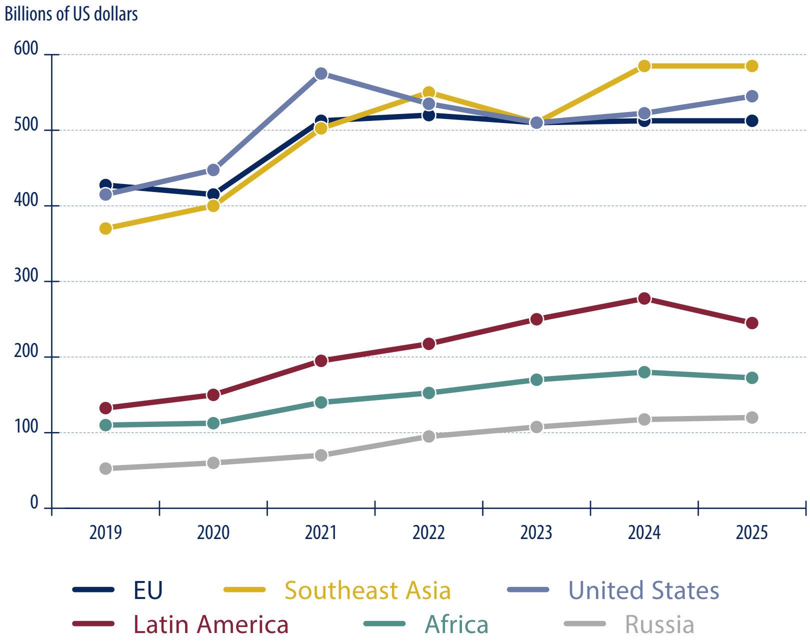
[13] *Zhai Dongsheng, "能否终结数百年产业转移史，这是人工智能的一场"大考"» [Artificial Intelligence Faces A 'Decisive Test': Is It Possible to End Centuries of Industrial Relocation?], Guancha, April 28, 2025, https:/www.guancha.cn/DiDongSheng/2025_04_28_773874_s.shtml.*

[14] *William Sellars, "Textile Companies in Turkey Move to Egypt to Compete", Arabian Gulf Business Insight, April 4, 2025, https://www.agbi.com/manufacturing/2025/04/textile-companies-in-turkey-move-to-egypt-to-compete/.*

The trend is the same for finished textiles and footwear, whose sales abroad are declining: In 2024, Turkey experienced its third consecutive year of devaluation of the Turkish lira.

Overall, and particularly for manufactured goods, **two underlying trends stand out. The first is the emergence of ASEAN as a destination equivalent in scale to the United States and the European Union. The second is the even more significant rise, in relative terms, of African countries and Russia in particular**.

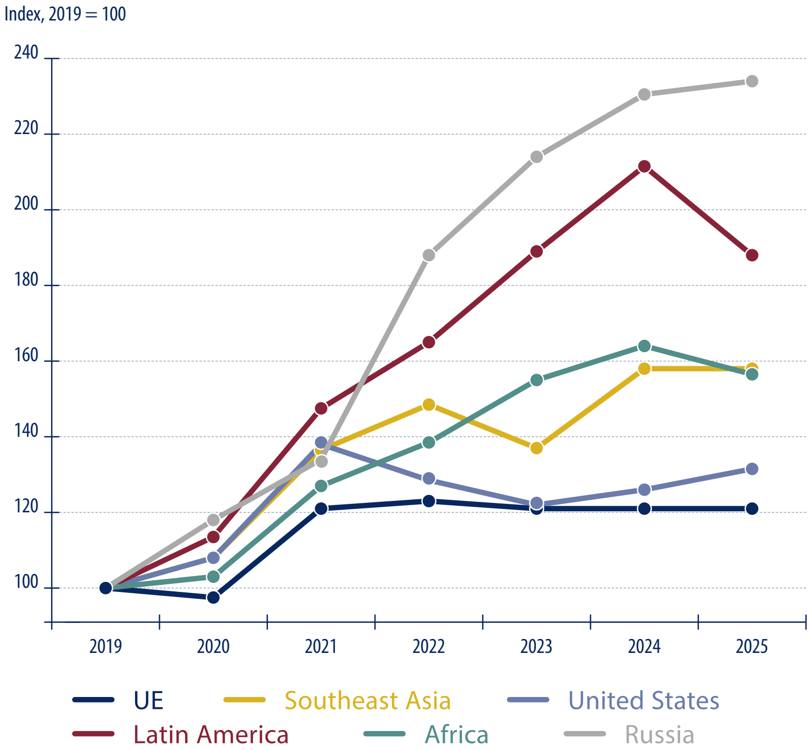
Figure 3 • Chinese exports of manufactured goods by trading partner between 2019 and 2025 (projections)



Note: Data for 2025 is extrapolated from the January-April 2025 period.

Source: General Administration of Customs of the People's Republic of China.

Figure 4 • Relative changes in Chinese exports of manufactured goods by trading partner between 2019 and 2025 (projections)



Note: Data for 2025 is extrapolated from the January-April 2025 period.

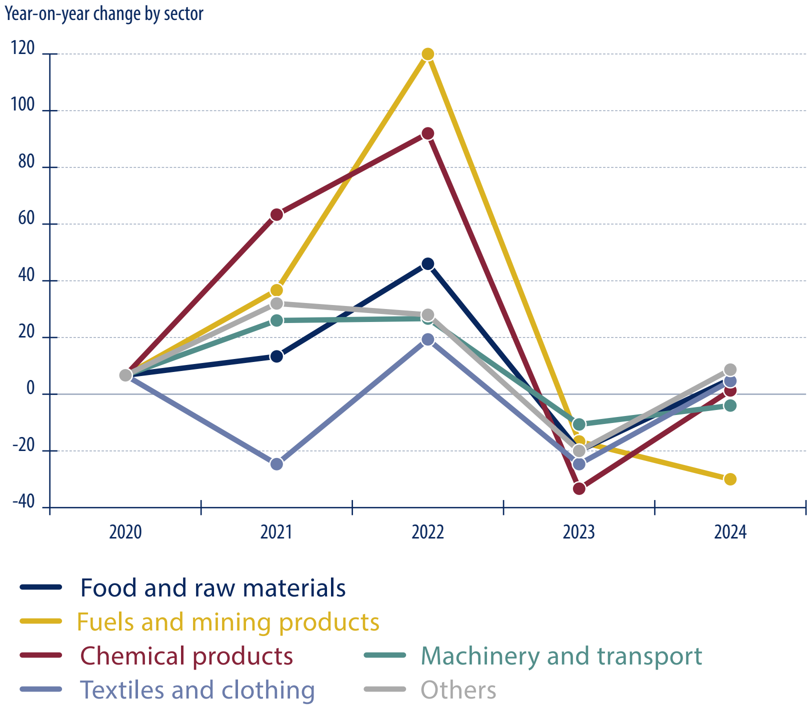
Source: General Administration of Customs of the People's Republic of China.

2 An Inexorable Move Upmarket

But a third trend is emerging, perhaps even more structural in macroeconomic terms: The **concentration of Chinese exports in high value-added mechanical and electrical industries**. Admittedly, Chinese exports continue to dominate the global market for toys, furniture, and electronics—with the rise of e-commerce following Covid—but exports of lithium batteries, electric vehicles, and solar panel components account for 60 percent of the increase in Chinese exports since 2022. In Europe, starting from a non-existent base, the increase in sales of electric vehicles is the most spectacular.[15]

[15] *Jack Ewing, "How Chinese Carmakers Doubled Their Share of the European Market," The New York Times, June 18, 2025, https://www.nytimes.com/2025/06/18/business/china-byd-cars-europe.html.*

Figure 5 • Growth index of EU imports from China by sector (2020-2024)



Source: National Bureau of Statistics.

Often known only anecdotally, **these data must be understood in their entirety, as they explain the resilience of a Chinese economy driven by exports**. This fact is significant for China's economic policy: Even if dependence on exports is too high and even if domestic consumption is not growing fast enough to restore balance, there is no real obligation on the Party-state to carry out the structural adjustments recommended by most economists outside (and often inside) the country.

Added to this is another factor: **China is becoming indispensable in an increasing number of links in the supply chain**, from raw materials to components for finished products and innovative products.[16] What is unprecedented is that Chinese industry and logistics are forcing their entrance into high-tech markets without abandoning labor-intensive sectors, but sometimes revolutionizing them.

China's dominance in almost every niche of the energy transition is well known: From rare metals—and primarily their processing—to solar panels, wind turbines, high-voltage pylons, batteries, and nuclear power plants. The price war raging China is creating, in the electric car sector for example, **an offer that would make any international competition impossible, even with very high customs surcharges**. According to the latest news, the price of BYD's Dolphin model, a basic electric vehicle sold for around 25,000 euros in Europe,[17] has fallen to 6,800 euros in China.[18]

The automotive industry is a mature industry, even if electrification is renewing it. A more complex example is that of nuclear power plants, where China has a head start—well beyond the number of plants under construction. This lead is due to economies of scale and modular construction. Not only is China currently building 27 reactors, or 46 percent of new reactors worldwide, and not counting the 10 additional reactors announced in April 2025,[19] but a total of more than 150 reactors are planned by 2035.

[16] *"How China Reduces Nuclear Reactor Costs," Energynews, August 26, 2024, https://energynews.pro/en/how-china-reduces-nuclear-reactor-costs/.*

[17] *Chris Chilton, "China's $10K Seagull Becomes the $26K Dolphin Surf For Europe," Carscoops, May 21, 2025, https://www.carscoops.com/2025/05/chinas-10k-seagull-turns-into-the-26k-dolphin-surf-for-europe/.*

[18] *Gloria Li, "Chinese EV Shares Tumble as BYD Sparks 'Rat Race' Price War Fears," Financial Times, May 26, 2025, https://www.ft.com/content/74958651-ec86-4a07-a743-502445f54553.*

[19] *"Reactor Status Reports – Under Construction," International Atomic Energy Agency, June 16, 2025, https://pris.iaea.org/PRIS/worldstatistics/UnderConstructionReactorsByCountry.aspx.*

Added to this are delays and costs that are incomparable with those of Western manufacturers. **The average construction time for a reactor is six years in China**, compared with eight to nine for the fastest Korean projects (in the United Arab Emirates on a greenfield site with no legal obstacles),[20] 15 for the latest AP-1000 reactors built in the United States,[21] not to mention the first French EPRs. China even hopes to reduce this timeframe to five years, and only South Korea has a shorter target of three years. China also benefits from construction costs per kilowatt per year that are significantly lower than those of its Russian, American, and French competitors, thanks to substantial low-interest public loans and VAT refunds.[22]

Its **industrial capacity—including the risk of domestic "overproduction" leading to a flood of exports—is growing**. The next sector to be affected could be semiconductors, to varying degrees depending on the level of sophistication. For older generation chips *(legacy chips)*, which are between 10 and 28 nanometers in size, China accounted for 31 percent of global production capacity in 2023, a share that is expected to reach 40 percent by 2030 with 44 foundry projects underway. For power conductors and capacitors alone, China has already reached the 35 percent mark.

The new data centers springing up around the world to serve artificial intelligence also require a large number of power transformers, which are made from grain-oriented electrical steel (AEGO). **China produces 50 percent of these transformers, its ninth largest export, and 46 percent of AEGO**.[23] In April 2025, it immediately included these special steels in its retaliatory customs measures.

[20] *"Reactor Database Search / United Arab Emirates / Barakah 4," World Nuclear Association, 2025, https://world-nuclear.org/nuclear-reactor-database/details/Barakah-4?utm.*

[21] *Koroush Shirvan, "2024 Total Cost Projection of Next AP1000," Center for Advanced Nuclear Energy Systems, July 2024, https://web.mit.edu/kshirvan/www/research/ANP201%20TR%20CANES.pdf?utm.*

[22] *This construction cost per kilowatt per year is approximately €2,200 to €2,600 in China, compared to €4,900 (a figure that will undoubtedly be revised upwards in 2025) for the Rosatom power plants proposed by Russia to Hungary, from €7,300 to €9,100 in the United States, and up to €15,000 in the admittedly special case of Flamanville in France.*

For 5-nanometer chips, the current technological frontier, SMIC has developed a model that does not require ultraviolet lithography, which is subject to US export bans. It hopes to reach 5 percent of global capacity by 2027[24]—sufficient to meet the needs of AI and mid-range Chinese mobile phones. SMIC had announced some time ago that it was also making progress on 3-nanometer chips.[25] As part of the next five-year plan (2026-2031), particular emphasis should also be placed on chip production equipment. In 2024, China was only meeting 13.6 percent of its needs, but this percentage is expected to rise to 20 percent by 2027.

Returning to the automotive sector, and more specifically to autonomous vehicles, **in the field of lidars**—which are also essential for drones and autonomous deliveries—**companies** with vertically integrated production **are already managing to incorporate this equipment into mass-market products**. These companies include giants such as DJI (drones), BYD (automotive) and Huawei, as well as more specialized companies such as Hesai and Robosense, whose production costs are 50 to 70 percent lower than those of their Western competitors. According to Qiu Chunchao, CEO of Robosense, the unit cost of the company's latest automotive lidars has fallen from 120,000 to 3,200 renminbi (14,600 to 390 euros) in four years[26]—several other companies, including BYD, even hope to break the 1,000 renminbi limit (126 euros).

[23] *"China Grain Oriented Electrical Steel Market Size & Outlook," Horizon Grand View Research, 2025, https://www.grandviewresearch.com/horizon/outlook/grain-oriented-electrical-steel-market/china.*

[24] *"自制！华为和中芯国际再合作5nm芯片" [Self-Made! Huawei and SMIC Collaborate Again on 5nm Chip], CEPEM, April 30, 2025, https://www.cepem.com.cn/news/detail/4973?utm.*

[25] *Tomshardware报道, 据可靠信息来源, 中芯国际在开发3nm工艺技术 [According to Tomshardware, Reliable Sources Indicate that SMIC is Developing 3-Nanometer Manufacturing Technology], Design & Reuse China, December 22, 2023, https://www.design-reuse-china.com/news/202312129/?utm.*

[26] *"激光雷达苦陷价格战：不把价格打下来，就只能被抛弃?" "Laser Radar Caught in a Price War: Without Lowering Prices, Will it Be Abandoned?", JRJ, June 7, 2024, https://m.jrj.com.cn/madapter/auto/2024/06/07072840937497.shtml?utm.*

From all of the above, we can expect **a new commercial shockwave for the global automotive industry**—electric powertrains, on-board computing and autonomous vehicles— **and more generally for all connected objects**.

China's preeminent position in certain technological and innovative niches is widely recognized, perhaps too much so, according to a report by an eminent Australian research center.[27] According to the Australian Strategic Policy Institute, China, which was at the forefront of three of the 64 technologies studied between 2003 and 2007, dominated 57 of them in 2023. However, while it currently excels in integrating complex technologies into specific products, it remains dependent on crucial components that are imported, transferred or appropriated by other means. Another center, this time American, still ranks the United States in first place and has upgraded its assessment of European capabilities, although these remain below those of China.[28]

The **question of restrictions on technology exports** to China—in addition to those on natural resources, for which China has built and diversified its global portfolio—therefore arises. **It is all the more pressing from the perspective of economic security** and risks to national security. If sanctions were imposed on China, for example following an international crisis, it would also be the ability of the United States and its partners, whether compelled or not, to prevent China from accessing these resources that would be called into question. **What would then resemble a blockade would be a global shock of a magnitude equivalent to a decoupling of Chinese exports**. In terms of technology and skills transfers, it is possible that the international strategies of some Western companies have already reached a point of no return.

[27] *Jennifer Wong Leung, Stephan Robin, and Danielle Cave, "ASPI's Two-Decade Critical Technology Tracker: The Rewards of Long-Term Research Investment", Australian Strategic Policy Institute, August 28, 2024, https://www.aspi.org.au/report/aspis-two-decade-critical-technology-tracker-the-rewards-of-long-term-research-investment/.*

[28] *"Critical and Emerging Technologies Index", Harvard Kennedy School's Belfer Center for Science and International Affairs, June 5, 2025, https://www.belfercenter.org/critical-emerging-tech-index.*

Limiting or halting these transfers to China would only delay certain upgrades, but would not prevent them.

Only the interruption of trade, a blockade of critical materials or equipment, and major financial sanctions depriving China of access to its own reserves would have a real impact. The experience of sanctions against Russia is only partially conclusive. And it seems clear that the current strategy of the US administration—if it is indeed a strategy and not the result of successive choices—of waging an all-out trade war while trying to force its partners into alignment, further reduces the chances of success of such a strategy.

From the perspective of China's response to Donald Trump's offensive, it is easier to understand that, **beyond marginal adjustments**—support for demand for certain goods, increased credit easing to resolve the financial crisis of local governments, measures in favor of the rural or migrant population—, **Xi Jinping's policy remains unchanged. When there is a relaxation, it is in relation to a punitive measure recently taken:** This is the case despite French efforts, cognac exports to China,[29] and European negotiations to obtain rare earth quotas. Relief from a global rare earth export ban is being negotiated bilaterally and one-by-one with trade partners.

However, the overall trade results for May 2025, in dollars, show an acceleration in sales to Europe: To France (+24.1 percent year-on-year), Germany (+21.5 percent), and the Netherlands (+7.1 percent).[30] Exports to the European Union as a whole and to ASEAN increased by +12 percent and +14.8 percent, offsetting the temporary decline of more than 30 percent in direct exports to the United States.

[29] *"France Says Talks with China Failed to Solve Cognac Dispute," Reuters, May 16, 2025, https://www.reuters.com/world/china/lombard-says-france-china-trade-talks-failed-find-solution-cognac-dispute-2025-05-15/.*

[30] *"前5个月我国货物贸易进出口增长2.5%" [In the First Five Months of this Year, China's Total Import and Export of Goods Grew by 2.5%], General Administration of Customs of the People's Republic of China, May 9, 2025, http://www.customs.gov.cn/customs/302249/zfxxgk/2799825/302274/302275/6560977/index.html pour 2025.*

Indeed, **priority support for innovation in the manufacturing system and for public enterprises** continues, as does the maintenance of approximate parity between the renminbi and the dollar. Attention is therefore focused on the restrictions, a global measure that then allows China to grant authorizations on a case-by-case basis, imposed by China on exports of rare earths and products incorporating them.

Conversely, with regard to US restrictions on exports of critical technologies, the focus is particularly on semiconductors. In the first five months of 2025, **Chinese exports in the mechanical and electrical industries** increased by +9.3 percent year-on-year and **accounted for 60 percent of total exports**. In addition, so-called private Chinese companies are increasing their share much faster (+8 percent) than foreign-owned companies (+2.3 percent).[31] It is likely that these figures, expressed in renminbi, would be even more impressive in terms of volume.

However, the fact remains that a **new escalation of US tariffs and/or the implementation of European measures**, which the Trump administration seems to want in exchange for a tariff truce, **could weaken the economic and employment situation in China in the short term**. These hypotheses should therefore also be explored based on the current state of the Chinese economy.

[31] *Ibid.*

3 Structural Imbalances: How Serious Are They Today?

According to Zhang Jun, director of the China Economic Research Center at Fudan University,[32] it is the **persistent momentum of exports that has offset the vulnerabilities of the domestic economy**. This momentum could be increasingly counteracted by China's partners as it creates a global imbalance.

Leaving aside the "exports" parameter, what are the current weaknesses of the Chinese economy? What remedies is the Chinese government trying to implement? Given the trade and technology standoff with the United States, **it is indeed the short-term vulnerabilities that should be prioritized**. Other weaknesses, such as demographic decline, the climate crisis, and the slowdown in innovation caught up in an ideological and nationalist straitjacket, are very real, but these are longer-term factors.[33]

With a few exceptions, economic indicators for the first quarter of 2025 were less negative than the forecasts made by foreign observers[34]—and more in line with the official target of GDP growth of "around 5 percent" in 2025, as in 2024. The 5.4 percent year-on-year growth was undoubtedly boosted by export expectations. Most indicators thus anticipated a decline in exports.[35]

[32] *Zhang Jun, "Looking Forward to Stabilizing the Stock and Property Markets and Increasing Residents' Income", Fudan Development Institute, March 5, 2025, https://fddi.fudan.edu.cn/fc/08/c18965a719880/page.htm?utm.*

[33] *François Godement and Pierre Pinhas, "[Scenarios] – China 2035: The Chances of Success," Institut Montaigne, January 2025, https://www.institutmontaigne.org/publications/scenarios-chine-2035-un-succes-sans-entraves.*

[34] *"How to Predict China's Economic Performance for 2025: A Sectoral Approach," Carnegie Endowment for International Peace, May 21, 2025, https://carnegieendowment.org/posts/2025/05/how-to-predict-chinas-economic-performance-for-2025?lang=en.*

[35] *"前5个月我国货物贸易进出口增长2.5%" [In the First Five Months of this Year, China's Total Import and Export of Goods Grew by 2.5%], General Administration of Customs of the People's Republic of China, May 9, 2025, http://www.customs.gov.cn/customs/302249/zfxxgk/2799825/302274/302275/6560977/index.html.*

Several **domestic indicators** are again favorable in May: Industrial value-added remains up 5.8 percent year-on-year,[36] and retail sales are accelerating to 6.4 percent.[37] This contrasts sharply with price indices, which fell again in May, by 0.1 percent[38] for retail sales and 3.3 percent for producer prices,[39] this is the 39th consecutive month of decline for the latter index. Manufacturing purchasing indices remain neutral—around 50, but with a slight decline according to the financial magazine *Caixin*,[40] while official statistics indicate a stable situation. Only one index is consistently and genuinely in the red: New home sales, down 3.8 percent year-on-year in May.[41] Another surprising official statistic is urban unemployment, which, after rising to 5.3 percent in the first quarter of 2025, fell to 5.2 percent in May,[42] with an even more notable decline in the unemployment rate for 16-24 year olds, excluding students, to 14.9 percent in May.[43]

[36] *"2025年5月份规模以上工业增加值增长5.8%" [5.8% Growth in Industrial Value-Added for Large-Scale Enterprises in May 2025], National Bureau of Statistics of China, June 16, 2025, https://www.stats.gov.cn/sj/zxfb/202506/t20250616_1960172.html.*

[37] *"2025年5月份社会消费品零售总额增长6.4%" [Total Retail Sales of Consumer Goods Rose 6.4% in May 2025], National Bureau of Statistics of China, June 16, 2025, https://www.stats.gov.cn/sj/zxfb/202506/t20250616_1960169.html.*

[38] *"2025年5月份居民消费价格同比下降0.1%" [In May 2025, Consumer Prices Fell by 0.1% Compared to the Previous Year], National Bureau of Statistics of China, June 9, 2025, https://www.stats.gov.cn/sj/zxfb/202506/t20250609_1960094.html.*

[39] *"2025年5月份工业生产者出厂价格同比下降3.3%" [In May 2025, Producer Prices Fell by 3.3% Compared to the Previous Year], National Bureau of Statistics of China, June 9, 2025, https://www.stats.gov.cn/sj/zxfb/202506/t20250609_1960093.html.*

[40] *"Plunge in Overseas Demand Hits China Manufacturing, Caixin PMI Shows," Caixin Global, June 3, 2025, https://www.caixinglobal.com/2025-06-03/plunge-in-overseas-demand-hits-china-manufacturing-caixin-pmi-shows-102325874.html.*

[41] *"2025年1—5月份全国房地产市场基本情况" [General Situation of the National Real Estate Market from January to May 2025], National Bureau of Statistics of China, June 16, 2025, https://www.stats.gov.cn/sj/zxfb/202506/t20250616_1960170.html.*

[42] *"5月份国民经济运行总体平稳、稳中有进" [In May, the National Economy Remained Stable and Progressive Overall], National Bureau of Statistics of China, June 16, 2025, https://www.stats.gov.cn/sj/zxfb/202506/t20250616_1960173.html.*

[43] *"全国城镇不包含在校生的16—24岁劳动力失业率(%)" [National Urban Unemployment Rate for People Aged 16-24, Excluding Students], National Bureau of Statistics of China, June 16, 2025, https://data.stats.gov.cn/easyquery.htm?cn=A01.*

Foreign exchange reserves continued to rise (very) slightly, by 0.1 percent to 3,285 billion dollars (2,858 billion euros) in May, as did gold reserves for the seventh consecutive month.[44] Given the size of the trade surplus, despite the decline in Chinese tourism abroad since Covid, lower foreign direct investment in China, and floating capital outflows this trend is hardly surprising. There is **no real indication of a shift in dollar reserves toward other currencies**, contrary to rumors that circulated during the crisis days of April.

What is important in the figures above is the indecisive nature of the trend, as a sharp decline due to trade events should have occurred. In the past, Chinese actors (households, businesses, etc.) have previously expressed their concerns through a crisis in consumption or investment. This was the case during the Asian financial crisis of 1998, and with the invasion of Ukraine in 2022, which itself followed the coronavirus pandemic. This is not the case this time. We must therefore be wary of interpretations based on anecdotes from a financial elite whose business interests have often been linked to politics.[45]

The Chinese elites have every reason to be wary of Xi Jinping's fight against the risks of the formation of a structured liberal class: measures against private education, to control access to information or to ensure the unchallenged preeminence of the Communist Party in all companies, Chinese and foreign, state-owned and private, are directly aimed at this category of the population. **However, there has been no significant emigration of Chinese scientists**, even though access to laboratories often requires training abroad followed by a return to China.

[44] *"官方储备资产（2025年)" [Official Reserve Assets (2025)], State Administration of Foreign Exchange, June 7, 2025, https://www.safe.gov.cn/safe/2025/0206/25745.html.*

[45] *See various comments on the influx of Chinese citizens investing in Tokyo, following Singapore and Hong Kong in the 1990s.*

Moreover, Chinese household savings were already so high that it is difficult to imagine them increasing further. After peaking at 35 percent in 2020 and then 34 percent in 2022, the savings rate is now fluctuating around 31-32 percent. The real estate crisis is primarily affecting sales of new homes, particularly outside the megacities of Beijing, Shanghai, Guangzhou, Tianjin, and Chongqing, meaning that **developers and local governments are the most directly impacted**.

In addition to real estate, lower demand for vehicles, particularly electric vehicles, is almost certain to herald the next major sectoral crisis. With the price war intensifying in May 2025 around 100 carmakers among the major manufacturers—and the local governments that have supported them—will be facing bankruptcy.[46]

This uncertain picture, which is far from bleak in the short term, **is the result of real shifts in official economic policy** and, at the same time, continued spending and credit restraint compared to the changes hoped for by observers. Many stimulus measures will only have an impact in terms of volume in the second half of the year. Their implementation will also depend on a further intensification of the trade conflict with the United States, which remains highly possible.

In June 2025, however, **Sino-US trade relations seemed to be heading toward a new lull. Should this be the case, Xi Jinping will have won on all fronts:** exports at all costs, and a stabilized relation with China's third largest trading partner but most important strategic partner: the United States.

[46] *"5月份国民经济运行总体平稳、稳中有进" [The National Economy Remained Generally Stable and Steady with Progress in May], National Bureau of Statistics of China, June 16, 2025, https://www.stats.gov.cn/sj/zxfb/202506/t20250616_1960173.html.*

4 The Shift in Economic Policy (and Its Limits)

The real estate crisis, the weak consumption relative to investment and exports, and the youth unemployment have been topics of debate in China for years. **Was a stimulus package needed or should demand be supported?**

In the first case, would support go to innovative sectors promising strong growth, including for the coming era of demographic decline? Or should credit and subsidies also be directed toward sectors in difficulty, often old and state-owned industries that are traditional sources of mass employment?

In the second case, that of demand support, should it include a bailout of the real estate sector, including through incentives to buy and public buybacks of available housing? Or should-it favor the option of easing credit for developers? A transfer of revenue from the central budget and a reorientation of credit toward local governments suffering significant revenue losses could even be considered. Above all, what about income redistribution in a society that has become one of the most unequal in the world?[47]

The **Asia program at Institut Montaigne has followed the various phases of these debates:** from the bursting of the real estate bubble in 2022, coinciding with the renewal of lockdown measures against the coronavirus and the invasion of Ukraine, to the beginning of 2025 with the anticipation of Donald Trump's policy toward China.[48] These debates have been revived at times, notably by Chinese economists,[49] and stifled at other times, mainly by public decision.

[47] *"Income Inequality: Gini Coefficient," Our World in Data, April 14, 2025, https://ourworldindata.org/grapher/economic-inequality-gini-index.*

The priorities and refusals clearly expressed by Xi Jinping weigh heavily in the balance, with his statements taking the form of directives. These include the *fatwa* against housing designed for speculation rather than for living, the injunctions against the "laziness" and welfare dependency of Western societies, the priority given to innovation and the industries of the future, and the absolute imperative of national security, including avoiding any financial dependence on foreign countries. These priorities have outweighed the ambiguous goal of achieving a "moderately prosperous society" or slogans about "shared prosperity".

In concrete terms, introduced under Hu Jintao and Wen Jiabao, **universal pensions remained very small outside the cities**, less than a tenth of urban pensions, urban residence permits *(hukou)* were never abolished, and the creation of a specific property tax, announced in October 2021,[50] has remained at the project stage. The revival of consumption has been limited to vouchers for certain products and subsidies for electric vehicles. The 180° turn that Xi Jinping made at the end of 2023 by

[48] *François Godement, "Xi Jinping As An Ordoliberal: China's Margins For Growth in 2022," Institut Montaigne, February 2022, https://www.institutmontaigne.org/en/publications/xi-jinping-ordoliberal-chinas-margins-growth-2022; François Godement, "China's Change of Economic Model: Not So Fast!," Institut Montaigne, June 2022, https://www.institutmontaigne.org/en/publications/chinas-change-economic-model-not-so-fast; François Godement, "China's Disappointing Economic Figures and the Crisis of Confidence," Institut Montaigne, September 2023, https://www.institutmontaigne.org/en/publications/chinas-disappointing-economic-figures-and-crisis-confidence; François Godement, Pierre Pinhas, Philippe Aguinier, and Viviana Zhu, "China Trends #18 – Searching for Growth Engines Via Innovation," Institut Montaigne, December 20, 2023, https://www.institutmontaigne.org/en/expressions/china-trends-18-searching-growth-engines-innovation; Philippe Aguignier, "China's Property Bubble: Who Will Pay?," Institut Montaigne, July 11, 2023, https://www.institutmontaigne.org/en/expressions/chinas-property-bubble-who-will-pay; Philippe Aguignier, "Local Government Debt: Adding Pressure to China's Economic Slowdown," Institut Montaigne, September 4, 2024, https://www.institutmontaigne.org/en/expressions/local-governments-debt-china-towards-banking-collapse; Philippe Aguignier, "Économie chinoise : en attendant la relance…" [The Chinese Economy: Waiting for Recovery…], Institut Montaigne, March 28, 2025, https://www.institutmontaigne.org/expressions/economie-chinoise-en-attendant-la-relance.*

[49] *Yu Yongding, "不存在"消费驱动增长", "十五五"应再推类似四万亿的大项目" [There Is No 'Consumption-Driven Growth' the 14th Five-Year Plan Should Relaunch Large-Scale Projects Similar to the 4 Trillion Yuan Stimulus Plan], Guancha, June 10, 2025, https://www.guancha.cn/YuYongDing/2025_06_10_778854.shtml.*

[50] *"全国人民代表大会常务委员会关于授权国务院在部分地区开展房地产税改革试点工作的决定" [Decision of the Standing Committee of the National People's Congress on Authorizing the State Council to Carry out Pilot Projects on Real Estate Tax Reform in Certain Regions], Xinhua, October 23, 2021, http://www.news.cn/2021-10/23/c_1127988515.htm.*

abruptly ending the anti-Covid lockdown has not been repeated since then in other areas.

Nevertheless, the relaxation of budgetary discipline, the opening up of credit, particularly to stem local government losses resulting from the real estate crisis, and selective incentives to consumption have all intensified. The way was paved by Xi Jinping at the Central Economic Work Conference on December 15, 2023,[51] **simply by stating that his top priority was "the recovery and expansion of consumption."**

In March of this year, the government announced an increase in government bonds "at the appropriate time,"[52] but it was more generally its special action plan to stimulate consumption that attracted attention through its desire to increase wages, accelerate government payments to SMEs, and increase minimum incomes and those of rural households.[53] However, the recent publication of the document detailing these public policies could leave a more cautious impression in the absence of significant and binding budgetary commitments.[54]

In April, the National People's Congress passed an emergency **law to promote the private economy**, which also applies to foreign companies. **Its wording does not dispel the impression of arbitrariness on the part of the CPC**, which is the ultimate arbiter of the law, but it does contain elements of protection against untimely initiatives by local authorities, practices often referred to figuratively as "deep-sea fishing" (远洋捕捞).

[51] *Xi Jinping, "当前经济工作的几个重大问题" [Several Important Issues in Current Economic Work], China Finance 40 Forum, February 15, 2023, https://mp.weixin.qq.com/s/X5S4MWcsvSgXpVaSfgbsqg.*

[52] *"中共中央政治局召开会议 分析研究当前经济形势和经济工作 中共中央总书记习近平主持会议" [The Standing Committee of the Political Bureau of the Central Committee of the Communist Party of China Held a Meeting to Analyze the Current Economic Situation and Economic Work. Xi Jinping, General Secretary of the Central Committee of the Communist Party of China, Presided Over the Meeting," Government of the People's Republic of China, April 25, 2025, https://www.gov.cn/yaowen/liebiao/202504/content_7020941.htm.*

[53] *"中共中央办公厅 国务院办公厅印发 "提振消费专项行动方案" [The General Office of the Communist Party of China Central Committee and the General Office of the State Council Issued the 'Special Action Plan to Boost Consumption], Government of the People's Republic of China, March 16, 2025, https://www.gov.cn/zhengce/202503/content_7013808.htm.*

The central bank continued to lower, albeit slowly and to a limited extent,[55] its "reverse repurchase rate," the benchmark rate for most loans to businesses and households, and on May 7 announced a general cut in interest rates.[56] Renewed once, **consumer subsidies** that have supported sales of electric vehicles and household appliances **appear to be less effective in 2025**, with consumers likely waiting for their next renewal or intensification before making purchasing decisions. The **most effective support measures for consumption have been those for travel, restaurants, and tourism** in general, service industries that were previously hard hit by the lockdown.

For its part, the government continues to support innovation and real estate above all else and has decided on a new wave of support. Central government subsidies to municipalities to renovate and modernize aging urban spaces should not be forgotten either.[57] **More innovative are the measures in favor of the social economy**, announced by Xi Jinping in December 2024, which target the most disadvantaged segments of the population (farmers, migrants to cities, and their children). In the latter areas, support for the education of the poorest is a real social measure, as **migrants without residence permits have to spend a disproportionate share of their income on education**. Similarly, the announced increase in pensions for rural residents is a significant measure.

[54] *"中共中央办公厅 国务院办公厅关于进一步保障和改善民生 着力解决群众急难愁盼的意见" [Opinions of the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council on Further Guaranteeing and Improving People's Livelihood and Resolving Urgent and Difficult Issues Faced by the Masses], Government of the People's Republic of China, June 9, 2025, https://www.gov.cn/zhengce/202506/content_7027015.htm.*

[55] *"2025年5月20日全国银行间同业拆借中心受权公布贷款市场报价利率（LPR）公告" [On May 20, 2025, the National Interbank Funding Center Was Authorized to Announce the Loan Prime Rate (LPR)], People's Bank of China, May 20, 2025, http://www.pbc.gov.cn/zhengcehuobisi/125207/125213/125440/3876551/5714254/index.html.*

[56] *"A Cautious Cut," Gavekal Economics, 7 mai 2025 (private bulletin).*

[57] *"关于开展2025年度中央财政支持实施城市更新行动的通知" [Notice on the Implementation of the 2025 Central Government Financial Support Program for Urban Renewal], Ministry of Finance of the People's Republic of China, April 3, 2025, https://jjs.mof.gov.cn/tongzhigonggao/202504/t20250408_3961566.htm; "超200亿元 城市更新财政补助再纳入20城" [More than 20 billion yuan in tax subsidies for urban renewal will be allocated to 20 new cities], Xinhua, June 5, 2025, http://www.xinhuanet.com/20250605/df7aa1dd438d4893ac68e6615d2ea99b/c.html.*

Overall, **either because China anticipated a retreat by the Trump administration or because it wants to keep its cards close to its chest, we have so far seen only limited support for stimulus**, most of which remains focused on resolving the real estate crisis. Moreover, increased support for domestic demand would only partially offset a significant decline in exports and would generally not concern the same products.

Conclusion

Trade relations between China, the European Union, and the United States have become a vicious triangle, with each side watching for moves that could strengthen or weaken its own position. Given the apparent unpredictability in Washington, this game is far from transparent, as domestic issues and posturing may play a decisive role in US decisions.

China holds a trump card, which is also a weakness. It emerged relatively unscathed, in terms of foreign trade, from the showdown—or bluff, some would say—of "Liberation Day". But those **who export a lot also have a lot to lose**, especially if importers were to gang up against an overly dominant Chinese position. To guard against this risk, China is eliminating all remaining customs barriers for African countries, including for agricultural goods in what looks like an inverted mirror image of US tariff policy.[58]

With an economy that is slowing but far from stalling, **Xi Jinping's China is taking measures**, including social measures, **to cushion a possible new shock**. The scale of the fiscal and credit stimulus announced in stages since December 2024 struck observers, but many of the amounts remain uncertain in practice. Officialy China does not seem to be seeing the urgency of the economic policy change that so many analysts are calling for.

[59] "习近平同刚果（布）总统萨苏分别向中非合作论坛成果落实协调人部长级会议致贺信" *[Xi Jinping and President Sassou of the Republic of the Congo Sent Congratulatory Messages to the Ministerial Meeting of Coordinators Responsible for Implementing the Results of the Forum on China-Central Africa Cooperation], Xinhua, June 11, 2025, http://www.news.cn/20250611/8c221f6f6ecf4821b1d1c42f93317bda/c.html;* "商务部有关负责人解读中国愿通过商签共同发展经济伙伴关系协定落实对53个非洲建交国实施100%税目产品零关税举措" *[Senior Ministry of Commerce Official Interprets China's Willingness to Implement a 100% Tariff Exemption on All Tariff Items for the 53 African Countries with Which it Has Established Diplomatic Relations through the Signing of a Joint Economic Partnership Agreement], Ministry of Commerce of the People's Republic of China, Ministry of Commerce of the People's Republic of China, June 17, 2025, https://www.mofcom.gov.cn/xwfb/sjfzrfb/art/2025/art_4981def7ffce4a5997862ff2b91a74d6.html.*

It is possible that China is anticipating a trade truce with the United States similar to that of January 2020, and that it is confident in its capabilities for economic deterrence. The gamble remains risky, as dependence on exports, after rising sharply since 2019, is not declining. However, **political analysis**, based on economic and financial security, **still prevails over a long-term analysis of growth factors other than innovation and large-scale production**. China is adapting but not changing course.

On the surface, the European Union appears to be the weakest partner in this triangle. With a few exceptions, it does not have the initiative or resources that the United States has in disruptive technologies or in energy and mineral resources. Nor does it have the dominant positions in traditional industries that China is expanding both upwards, with semiconductors and other IT goods, and downwards, with rare earths, which it exploits and processes and over which it has a virtual monopoly. The **United States may first hesitate, but it then takes radical action:** That is the big lesson of Donald Trump's new term. As for China, **its unity of political and state action (and reaction) remains an asset in times of international confrontation**, and widespread discontent is only marginally aggregated.

But the European Union also has assets, in reality stemming from its own weaknesses. Its European governments, sometimes with their backs against the wall in the face of populism, the Russian geopolitical challenge, and the distancing of the United States, see more clearly than ever the vital need to reach internal compromises and present a united front. The difficult question of strategic autonomy—impossible in practice in the short term and entangled with too many priorities—is no longer an unresolvable issue once Europe is effectively alone.

It may even be that, in the event of a tactical trade compromise between Donald Trump and the Chinese leadership, Europe will find itself on the front line on both counts. The shift initiated in Brussels years ago, from a **belief in the pacifying virtues of the single market to the need for industrial rearmament and trade** instruments, will then prove very useful. Member States, which have often feared the loss of national powers, will, on the contrary, have to invest more closely in the Commission and the European Council, regardless of their political color.

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Institut Montaigne welcomes thoughts and ideas on how to address these issues collectively and put forward recommendations which serve the public interest.

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Faced with the US trade offensive and international tensions, the Chinese economy is showing unexpected resilience. China has managed to maintain its industrial competitiveness thanks, among other reasons, to remarkable logistical flexibility, continued deflation, and a favorable exchange rate. Even more surprising, China is rapidly diversifying its export markets, significantly strengthening its trade with ASEAN, Europe, and Africa. At the same time, the Chinese economy is accelerating its move upmarket, now dominating key sectors such as electric batteries, renewable energies, and autonomous vehicles. This hybrid industrial strategy, combining public and private sectors, and supported by constant innovation and intensive automation, is keeping China at the heart of international supply chains. However, the Chinese economy's dependence on exports remains a structural weakness in the short and medium term. This study sheds light on Beijing's strategic choices and emphasizes the inevitable need to strengthen the European Union's internal cohesion in terms of trade defense and industrial rearmament.

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