

CHINA'S SLOW CONSUMPTION AND THE INTERNATIONAL TRADE BARRIERS: IMPLICATIONS FOR THE EXPORT-LED MODEL OF ECONOMIC GROWTH

Ayesha A. Malik and Jugnoo Aijaz*

Abstract

China's export-led framework is experiencing internal and external challenges. Domestically, consumption has soared since early 2023, while the escalating trade barriers from the West have intensified challenges to export- and production-driven growth. Overreliance on exports and investment highlights the need for sustainable consumption at home and a stable trade regime abroad; however, in recent years, China has countered difficulties in both realms. While the binary of internal and external challenges is affecting the growth strategy, it can be an opportunity to catalyse the change China's economy needs for sustainable growth. It is to be evaluated whether the intersection of an internal consumption slump and an external trade barrier can induce a change towards a more sustainable model for China's economy. Therefore, this paper will discuss these two factors and analyse their potential implications for China's export-led economic growth model.

Keywords: Slow-Consumption, International Trade Barriers, Economic Growth, Export-led Economic Model.

Introduction

China's economy has steadily grown to become the world's second-largest. The initial policies that opened up its economy from a socialist character to an open market in a global capitalist and neoliberal governance system showcased a two-pronged strategy. The domestic economy was supported at both the rural and urban levels, while industry was established to expand the export base. A mechanism for production, consumption, and export was developed, and the incoming administrations worked to advance and modernise this strategy. A significant support for this model was China's ascension to the World Trade Organisation (WTO) in 2001. After the People's Republic of China (PRC) became a member of the WTO, it was expected to be a responsible global economic partner, and its economy would open further, integrating deeply into the existing system.

*Ayesha A. Malik is Regional Officer, Special Investment Facilitation Council (SIFC), Islamabad. Jugnoo Aijaz is PhD Scholar, Department of Defense and Strategic Studies, Quaid-e-Azam University (QAU), Islamabad. The author can be reached at jugnooaijaz19@gmail.com.

However, the PRC maintains the traditional socialist state-market equation, which is often criticised for its state interventions. With an internally weak liberal model, Western economic counterparts claim that China has benefited unequally and unfairly from the international trade regime. Unfair state subsidies support its exports, and it uses low-price dumping in global markets, complicating the competitive environment for other participants. To counter the PRC's irregularities in the global trade regime, the United States of America (the U.S.A.) and European partners have launched a trade war against China since 2017. These trade barriers are hurting China's economic model, and after the COVID-19-induced economic slowdown, a consumption scare is complicating the challenges the Chinese economy faces.

In this scenario, an interaction between two challenges, an internal and an external one, is to be evaluated for its implications. While these present a significant challenge to China's economic model, they can also be seen as an opportunity for change. The economic growth strategy that has relied on exports for the past four decades has developed an unsustainable pattern of growth. To achieve a resilient and sustainable model, it is often argued that China should adopt a policy to ensure a balance between production and consumption. A sustainable economy in the world's second-largest economy will benefit the existing economic governance system while strengthening domestic frameworks. Several past opportunities were expected to bring this change, but it has not yet materialised. Therefore, this paper evaluates whether the consumption slump, in combination with trade difficulties, is likely to change.

To investigate this research question, the paper follows an embedded data-intersection methodology. It presents two major elements as data sets: China's continued consumption slump and policy responses from 2023-2024, as well as international trade barriers from 2017 to 2024. Analysing these two data sets, the analysis evaluates the implications of the intersection of a domestic and an international factor for the Chinese economy. The outlined implications guide whether China can experience a significant policy shift in light of current developments.

Low Consumption

Low consumption is a persistent problem in China. The country's accession to the WTO in 2000 and the leadership's strategy to transition from investment to consumption in 2006 were expected to induce the demand, but the challenge persists.¹

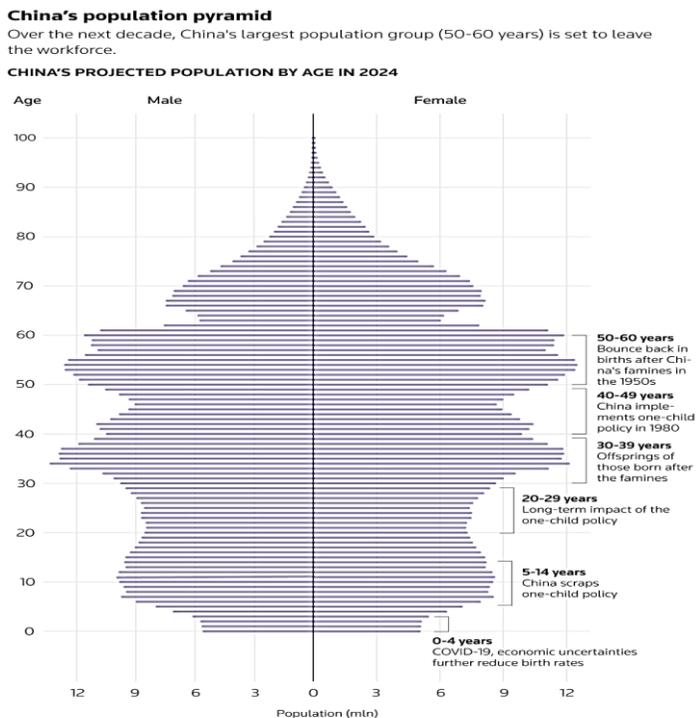
The resolution of the issue has been a prominent agenda item for reforms and restructuring, but a holistic policy measure is yet to be achieved. Prime Minister Wen Jiabao emphasised these transitions and reforms in the National People's Congress in 2006.² Known as the 'Wen Jiabao Phenomenon,' his more market-oriented reform was proposed in the decade preceding President Xi Jinping's political and economic reforms.³ However, the new regime's reforms and restructuring focused more on the development of the state and less on market mechanisms.

President Xi emphasised state-led investments supporting the export-led model of economic growth. A more aggressive attempt in this regard came in the form of curbs on the real estate and private sectors during President Xi's second term.⁴ Private finance and private enterprises received less attention, and autonomous provincial governments have been more inclined toward state-led finance than toward private finance.

State institutions, such as local governments and state banks, lent funds to the infrastructure industry, diverting capital from household consumption. The tied-up wealth in the housing sector has not only created challenges for consumers but has also burdened lending bodies that turn to the state for help. The central government's policies favour them by rescheduling the loan terms.⁵ In the previous year, when the Chinese economy experienced a sharp slump over three quarters of 2023, Xi's administration focused on restructuring loans and payments for state agencies rather than strengthening the private sector. State-led institutions under provincial administration favoured state banks and state investment and construction companies, resulting in an upward growth trend in the real estate sector.⁶ However, the real estate sector managed by private finance and enterprises did not receive sufficient support from the provincial governments. Consumption and public demand require a free-market policy environment, since free production, not state-led investment, amplifies consumption rates. However, in the case of President Xi's reforms, an emphasis on a state-led economy is evident. Consumption and demand can enhance supply if government spending prioritises industrial growth and if consumers have readily available finance, but in China, government spending prioritises the real estate sector. An underdeveloped private sector constrains financial inflows.

Several other factors at home also fuel unsustainable economic growth and low consumption trends. The absence of an encompassing and holistic social safety net, the declining demographic trend, and the real estate crisis are among the significant factors. Although several household welfare programs are available in China, new challenges have emerged, including declining population growth, historical and cultural legacies of the One Child Policy, and relational aspects of economic programs in which a social networking mechanism based on personal relations prevails over an organic liberal market mechanism. The decades-long family planning schemes encouraged families to save for later, discouraging spending. Confidence in having a family support system at the governance level will likely encourage consumption.⁷ The One Child Policy is also responsible for the demographic challenges, and a shrinking population promotes low consumption. The group of people aged 39-40 years is the consumer class that is the major investor in real estate, household commodities, and vehicles. Once this generation passes its prime period, the next generation that will replace them in a decade will be in their 20s, which will affect household consumption.

Figure 1: China’s Population Pyramid⁸



Sources: United Nations Population Division
 Kripa Jayaram and Sumanta Sen • Jan. 17, 2024 | REUTERS

Source: Authors Own Compilation

In a trickle-down effect, the real estate crisis has also influenced the low consumption patterns. The housing market faced a short-term cash-flow challenge, and the issue was further intensified by a crackdown on the sector by President Xi’s administration.⁹

Policy Responses to Low Consumption in 2024

The current administration’s rebalancing policies for social and economic reforms could not induce robust domestic consumption. The slump of 2023 prompted specific policy measures, but the outcomes were weak, and the second quarter of 2024 saw a slowdown in economic growth after the first quarter of recovery. The figure for the first quarter was 5.3%, which dropped to 4.7% in the second quarter, as ineffective and cautious policies could not sustain steady growth.¹⁰ The failure to reignite consumer confidence remained a prominent agenda item across policy areas, but the current Politburo is keen to enhance the state's and government's role and interventions.¹¹ A crucial assessment from last year’s July plenum was an insistence on improving private participation. However, the focus of policy in this year’s Third Plenum is not on private finance or enterprises.

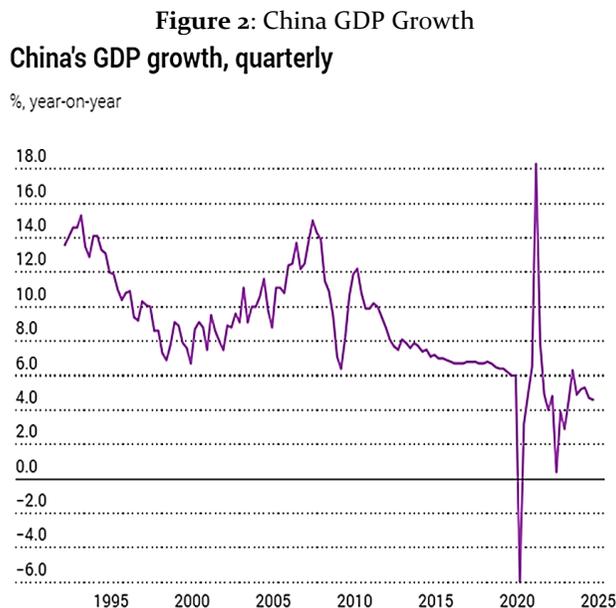
The prominent terminologies, since the usability of terminology has been significant in the past plenums, as the 1979 plenums echoed 'opening up and reforms' and 1993 Third Plenum announced a shift towards 'socialist market economy', are the 'Chinese style modernisation', 'opening up and reform', and 'high-quality development' for this year's Plenum.¹² Among all these, high-quality development is further explained in policy news and white papers as part of an agenda to boost technological innovation.¹³

A recent white paper on energy transition outlines 'China's path of Energy Transition in the New Era, Promoting Green Energy Consumption, Moving Faster to Build a New Energy Supply System, Developing New Quality Productive Forces in the Energy Sector, Modernising Energy Governance, and Contributing to a global Community of 'Shared Future' as core areas for economic development and reforms. The documents emphasise a high-development, technology-driven, and innovation-supportive economic agenda, with the involvement of the state ensured. The looming consumption crisis was expected to shift the focus towards private finance and entrepreneurial trends. Still, an emphasis on high development targets for the energy sector under state-led enterprises remains prominent. It will only strengthen the enterprises the state supports, since the government supports high-quality development, and intensive industrial growth is to be continued.

China has invested in the clean-tech industry, providing heavy subsidies to SOEs working in the clean energy sector.¹⁴ Although half of the country's carbon emissions come from the SOEs, these enterprises remain the major actors in renewable energy. The deep web of SOEs in this sector extends from government to regulators and stakeholders.¹⁵ The main component of the clean energy program begins with SOEs as the power producers in China. The two annual meetings in China in 2024, the National People's Congress (NPC) and the Chinese People's Consultative Conference, run for approximately two weeks and feature a legislative agenda detailing progress and new laws across different departments. In the NPC, as per its local budget report, state-owned capital operation budget revenue accounts for 592.5% of the total. A gap in the expenditure and general public budget for this state-owned capital is also highlighted in this report, with expenses totalling 328.2 billion yuan and the general public budget totalling 275 billion yuan.¹⁶ The revenue and expenditure policy coordination is reiterated because of this gap.

To understand the gap between expenditure and revenue, the investment portfolios of SOEs across sectors should be considered. The recorded number of investments in these enterprises has risen to 1 trillion yuan in 2024.¹⁷ The number reflects an emphasis on the high-tech sector, rising to 38% of total investment compared with 2023, when it was 32%. While general public spending remains at 275 billion yuan, the rising expenditures of SoEs at 1 trillion yuan present a clear gap between state and public spending. String stimulus from the policy circles is needed to recover consumption, and such policies were introduced in the early quarters of 2024. However, there is a need for more effective policies that can contribute to sustainable growth.

Serious policy to reflect the economy through aggressive monetary or fiscal reforms is needed. The year-on-year economic growth rate shows that the expected outcomes have not yet been achieved, as depicted in the figure below.¹⁸



Source: Authors Own Compilation

The reforms and policies are often expected to achieve a sustained growth rate by balancing production and consumption policies. However, in 2024, the focus of policy has been more on industrial growth. The two meetings of 2024 worked to draw a clear policy for emerging strategic industries. The centrally managed SoEs are encouraged to invest in strategic and technological advancements. Such emphasis will increase the income of SoEs, and among them, centrally controlled SoEs will account for 35% of the income share. This increase will encourage people and policymakers to take an interest in new developments and artificial intelligence-driven industries.¹⁹ The imbalance is likely to persist.

These internal policy choices not only affect China's low consumption pattern but also influence the consumption choices of China's economic partners. PRC's heavy investment in the clean energy industry showed remarkable investment figures in the solar power projects. Chinese companies control 80% of the industry's value-added chain.²⁰ Its economic partners in the global South are most likely to engage in further economic activity with it in exchange for these energy resources. Along with the energy sector, PRC's emphasis on the tech industry is also expected to expand its influence over its partners' technical choices. Therefore, the internal economic imbalance of consumption and production in China is not only impacting its internal trade and economic model but also has implications for its partners and the regional and global economic regimes.

International Trade Barriers

As a fundamental aspect of the global economy, international trade faces barriers today. Several trade restrictions are erected by the West, hindering the movement of goods and services across borders. The major factors that have contributed to this trend of barriers are the finalisation of preferential trade agreements, the WTO's inability to maintain a free trade regime, and changes in the trade behaviour of traditional players, who have adopted illiberal protectionist policies. Along with these factors, the assumption is that trade benefits are unequally distributed, with some international partners gaining more while contributing less, which is why there should be no further liberalisation.²¹ China's ascension as a liberal trade partner after joining the WTO is the focus of Western criticism. Becoming the world's largest export partner and the largest recipient of Foreign Direct Investment (FDI) became possible due to the liberal trade regime.

Along with liberalisation, globalisation also benefited China in international trade. Its regional trade policies benefited from the global supply chain and financial regimes. Such interactions occurred at the intersection of the liberal trade model and the investment-led growth framework, where the two frameworks supplemented each other. An increase in its global exports' share from 4% in 2001 to 14% in 2022 is an outcome of such interaction. The competitive manufacturing technique supplemented by cheap labour, a diverse industrial base, and a technical workforce, was adopted to gain an edge in regional trade. The early regional competition emerged as a threat to the regional partners, but the PRC's accession to the WTO played a vital role in resolving this threat perception. Regional partners improved their trade relations with China, as its industrially advanced neighbours traded consumer goods and intermediary machinery.²² This developed a pattern of export growth by the PRC in the region and around the globe. The imports of machinery from neighbours were further processed for export globally, making China a global export base for Southeast Asia.

The persistent growth path, supplemented by global market access, a shift in the trade balance from the West to China, dominance in global supply chains, and technological superiority, has developed the China-West binary and competition. In response to China's growing economic influence, Western participants in the global trade regime have introduced trade wars and tariffs. The strategy of countering a prominent trade partner will have implications for the existing system. Therefore, this section will elaborate on how Western partners are imposing trade barriers, the possible implications for the global trade regime, and how this will affect China's export-led growth model.

Trade Barriers by the US

China-US trade relations have experienced several eras. From a strategy of containing socialism in the Cold War years to a policy of engagement during China's opening-up years, and to competition since 2017, the relationship has endured transitions. The last and most significant transition in this research occurred during the presidency of Donald Trump, when the U.S.A. engaged in an economic war with China. The policy of competition is guiding this trade war and has a two-pronged strategy: imposing tariffs and launching a technology war against the Chinese high-tech firms.²³ The trade barriers were imposed on China under the Trump administration, invoking Section 232 of the Trade Expansion Act of 1962 and the Trade Act of 1974.²⁴ Chinese imports were worth billions of dollars, and the tariffs hurt both Chinese producers and American consumers. Often termed a techonomic war, it marked the onset of a period of mutual constraint between the two largest global economic powers. The early tariffs imposed by the U.S.A. were on steel, electronics, and furniture.

After President Trump, President Joe Biden continued the policy of competition and increased the rate of existing tariffs. The new administration in the Oval Office increased import duties on key strategic industries, including Electric Vehicles (EVs), solar panels, and semiconductors.²⁵ The announcement was made upon the recommendation of the U.S. Trade Representative (USTR), after the statutory review of Section 301 of the Trade Act of 1974.²⁶ The tariffs imposed by the Biden administration are worth \$18 billion. Most of the previous tariffs under Sections 301 and 232 remained in effect, with a few increasing in rate.²⁷ Existing tariffs on steel and aluminium, which rose to 25%, were imposed to protect the U.S. steel industry from Chinese overcapacity.²⁸

The second part of the strategy for competition and the protection of the domestic industry involved restrictions on technical imports. In 2019, the U.S. administration placed Huawei on the US trade restriction list.²⁹ The tradition continued in the Biden administration, and a bill in the Senate that would require TikTok to divest from its Chinese parent company, ByteDance, or face a ban within the United States, was passed.³⁰ Such policies were met with retaliatory measures from China, with significant global implications. The punitive legislation continued, and a 25% tariff increase was approved.³¹ Chinese semiconductors are expected to increase by 50% by 2025—the increased tariffs on lithium-ion batteries accounted for up to \$13bn of total imports. The highest tariffs were imposed on electric vehicles, which increased up to 100% from August 2024.³² Additionally, a notable hike in tariffs on solar cells was observed, increasing from 25% to 50%.³³ In addition to increasing tariffs, the Biden administration introduced new tariffs because some categories were initially not subject to duties. The USTR investigated China's shipping and shipbuilding measures in 2024. Hence, under Section 301, tariffs were imposed on ships-to-shore cranes.³⁴ The tariff rate on ships-to-shore cranes was increased from 0% to 25% in 2024.³⁵

A similar tariff rate was observed in new categories such as natural graphite, permanent magnets, and other critical minerals. However, for medical products such as syringes and needles, a considerable increase was observed. The US imposed a tariff rate of about 50%, from 0%, portraying its strategy to support domestic industries.³⁶ The Figure below summarises the product categories and their tariffs.

Figure 3: US Tariff Modifications on Chinese Imports (May 2024)³⁷

Category	Tariff
Battery parts	Increase from 7.5% to 25%
Electric vehicles	Increase from 25% to 100%
Facemasks	Increase from 0 – 7.5% to 25%
Lithium-ion EV batteries	Increase from 7.5% to 25%
Lithium-ion non-EV batteries	Increase from 7.5% to 25%
Medical gloves	Increase from 0 – 7.5% to 25%
Natural graphite	Increase from 0% to 25%
Other critical minerals	Increase from 0% to 25%
Permanent magnets	Increase from 0% to 25%
Semiconductors	Increase from 25% to 50%
Ship-to-shore cranes	Increase from 0% to 25%
Solar cells (whether or not assembled into modules)	Increase from 25% to 50%
Steel and aluminum products	Increase from 0 – 7.5% to 25%
Syringes and needles	Increase from 0% to 50%

Source: Authors Own Compilation

Other than imposing tariffs and targeting Chinese technical companies, President Biden focused on a new tactic to check China's economic growth, aligning with partners. The Biden administration has coalesced with allies around the concept of "de-risking" Western economies from China.³⁸ The traditional global partners, the U.S.A. and the Europeans, have recently joined hands to compete with China in 2023, and the European Union has also announced the imposition of tariffs against China.³⁹

Trade Barriers from Europe

The transatlantic partners, the U.S.A. and Europe, did not agree with each other at the beginning of the trade wars of 2017, as the two disputed steel and aluminium prices, imports of these products into the U.S., and faced difficulties in their trade relationship under the President Trump administration. However, since 2023, when the EU suspended retaliatory tariffs until December 31, and the U.S.A. replaced section 232 with a quota system, trade relations have been expected to ease. The European Union (EU), which has a trade relationship worth 739 billion US\$ (in 2023),⁴⁰ has a history of tariffs against China. The policy has aimed to address trade imbalances and unfair competition, and to protect its industries from Chinese goods in the past.

The EU often imposed anti-dumping duties on China and accused Chinese producers of dumping materials at artificially low prices, highlighting the role of the Chinese state in intervention. In 2022, the European Commission imposed tariffs on specific iron and steel fasteners. These anti-dumping duties ranged from 22.1% to 86.5%.⁴¹ The objective behind imposing tariffs on fasteners is to re-establish a level playing field by removing the unfair competition caused by price dumping, so that EU producers can compete in the EU market on an equal footing with imported goods.

Recently, EU-China trade relations have faced strain due to the imposition of tariffs on China's burgeoning industry and the most significant international competition for traditional EU producers, the electric vehicle industry. China's EV industry is accused of receiving state support in the form of subsidies that increase its potential to sell in European markets at lower prices.⁴² The EU suspects the unfair subsidies and calls for an investigation. In the past, state interventions were often criticised by Western analysts. David Shambaugh argues that state intervention and an imbalance in the state-market relation are the significant reasons behind China-West trade disruptions.⁴³

The EU's tariffs against Chinese EVs will be damaging for the new export and investment regime in China. The latter has recently unveiled the policy on high technological innovation and development, emphasising that China will enhance its industrial and production base in the specialised technological sector.⁴⁴ The "new quality productive forces," as President Xi Jinping terms them, are aimed at promoting the development of new technologies and future industries. To achieve this new goal, China has identified areas for future research. These are manufacturing, next-generation communications and information, the development of advanced materials such as high-performance carbon fibres and advanced semiconductors, upgrading the energy industry, and advancing the cutting-edge health industry. The products it aims to develop now are listed as humanoid robots, quantum computers, enhanced quantum displays, brain-computer interfaces, 6G networks, ultra-large-scale new intelligent computing centres, the third generation of the internet, high-end cultural and tourism equipment, advanced and efficient aviation equipment, and deep resource exploration.⁴⁵ With these new commitments and an aggressive production and industrial development policy, trade barriers are expected to prompt a strong response from China.

The EU partners are responding to China's new policy by imposing new tariffs. The European Commission has decided to impose tariffs on Battery Electric Vehicles (BEVs) from China, ranging from 27.4% to 48.1%.⁴⁶ The details of the tariffs imposed on EVs are summarised in the table below. The tariffs are imposed on China, as it is alleged to benefit from unfair subsidies, resulting in economic injury to EU BEV producers.

Figure 4: Tariffs imposed on EVs

Tesla	drop from 9% to 7.8%,
BYD	remains 17.4%
Geely	drop from 19.9%; to 18.8%
SAIC	drop 37.6% to 35.3%

Source: “Chinese-made EVs account for around 25 percent of the European market, with Beijing exporting 430,000 such vehicles to the continent in 2023”⁴⁷

The increasing trade tensions among the three global economic partners will not only affect their respective economic models but also be detrimental to the existing international trade regime. In this equation, China's economic model and its global economic participation are significant, as it is a rapidly developing economy with global economic implications. In this regard, it is important to assess whether the world's second-largest economy can maintain its export- and investment-led model of economic growth. It will be examined in the next section.

China's Response to the Barriers

China has faced a multitude of trade barriers, posing a significant challenge to Chinese business and the export-led model of growth. The Chinese enterprises that relied on production and exports have experienced a slowdown in their rapid global expansion, which has implications for China's economic growth.⁴⁸ China's response to these difficulties is two-pronged: external and internal efforts. It is trying to recover from trade losses through indirect and alternative global markets and to improve self-sufficiency through internally developed, energy- and technology-efficient production mechanisms.

De-Chinafying

China has successfully sought avenues to maintain a trade surplus. It is actively pursuing a strategy of indirect trade through trade partners other than the U.S.A. and Europe. Significant data show that Mexico is one of the indirect market access points for the PRC. The inflow of Chinese capital and the growing trade volume indicate Mexico's intricate position between two great powers. Chinese trade with Mexico totalled US\$ 100.2 billion in 2023, and its exports to Mexico were significantly higher in 2024. These exports are primarily of vehicles.⁴⁹ Many experts view the growing trade between China and Mexico as a backdoor entry into the U.S.A. by China.

Currently, Mexico is China's second-largest trading partner after the U.S.A., while it remains a gateway to North America. China uses the near-shoring between Mexico and the U.S.A. efficiently, taking advantage of labour rates, developed infrastructure, and the legal network of trade agreements. Along with Mexico, China has also relocated its business to countries such as Vietnam and Serbia since 2018. According to public information, a Chinese manufacturer of bike parts, HI Corp, relocated its production unit to Vietnam and openly stated that Western tariffs compelled it to do so.⁵⁰ Such responses highlight how China is de-chinafying its domestic investors to safeguard against trade barriers.

Advance Development

While relocating Chinese industry abroad to trade products with not made in China labels, the country has also developed a strategy to reduce its dependence on Western trade. An era of advanced manufacturing is planned for the upcoming years, as a recent policy paper on energy transition highlighted.⁵¹ Since 2018 when President Xi Jinping announced the "whole-nation approach" to minimize country's dependence on the imports of essential technology, PRC has increased investment in the technology sector as it is critical for strategic influence.⁵² As per data from 2023, China spends 35% of its imports expenditure for mechanical and electrical; products, 23% on high technology products, 18% on commodity imports, 10% on agricultural products, 3% on miscellaneous imports and 2% on medicinal and pharmaceutical imports.⁵³

The highest-spending area is the electrical and mechanical sector, and this is why PRC is strategising to reduce its dependence on technology exports. Home production requires the energy sector's efficiency. As the world's largest investor in the energy sector, with 676 bn US\$ in 2023, China has made building global energy infrastructure a primary agenda item. It will not only enhance its global economic and energy influence but also reduce its domestic dependence on energy imports. China has reformed its energy production sector and improved its supply capacity under its energy security strategy. By saving up to 1.4 billion tons of coal-fired power and reducing carbon emissions by 3 billion tons, it has become the world's largest investor in the energy transition. In working toward alternative energy resources, the focus has remained on playing a more responsible role as a global economic power while reducing external dependence.⁵⁴ Such a change is termed as high-quality development in the Chinese policy episteme. It is aimed at providing assurances for the country's sustained development while reducing reliance on imports amid trade wars.

Analysis and Conclusion

China has been countering a consumption slump since the first quarter of 2023. Weak household spending, non-productive asset holding, ineffective government economic policies, and financial policies of the provincial governments characterise the plunging consumption. A less productive economy at home is exacerbating China's reliance on exports.

A weak internal economic layoff depends on export earnings, but trade restrictions are intensifying economic vulnerabilities for the PRC, with implications for the domestic economy. The intersection of consumption slump and international trade barriers is weakening the global trade regime.

While China is often criticised for weak compliance with the international trade governance system, the violation of the free trade regime by the U.S.A. and the EU through the imposition of tariffs on Chinese imports is equally damaging to the international trade regime. With the new administration taking office, it is expected that a trade war 2.0 will unfold. The WTO says Trump's tariffs on steel broke trade rules. China's consumption slump and trade barriers are two internal and external pressures impacting the country's economic growth model.⁵⁵ Due to a persistent and steep decline in consumption, a policy shift is expected, but there is insufficient evidence to hope for such a change.

At the recent Central Economic Work Conference, President Xi announced that the fundamental trends of long-term economic development will remain the same, along with the indicated continuity in domestic trends; external pressures from trade barriers can pose a real challenge to sustained growth. For this second challenge, China has devised a policy response that includes relocation of its business, nearshoring and de-Chinafying, and economic self-reliance. It is increasing investment in critical technology and energy sectors to maintain its status as an export- and production-led economy. Therefore, the two critical internal and external pressures are not bringing about the change that is hoped for, since the years of its hyper-production. The country needs to change its approach from an export-led economy to a more balanced one that supports both production and consumption.

References

- ¹ Nicholas R. Lardy, "China: Toward a Consumption-Driven Growth Path", Seeking Changes 2016 : 85-111, https://www.worldscientific.com/doi/10.1142/9789814656306_0004?srsIid=AfmBOopIVGW3TlBCLsuytSDdXYGzBoYLR6aXZH_6sHXy7TJP7qycnLlh
- ² Peter Beaumont, "Wen Jiabao puts political reform on China's agenda", The Guardian, August 29, 2010, <https://www.theguardian.com/world/2010/aug/29/wen-jiabao-china-reform>
- ³ Ibid.
- ⁴ Peter Hoskins and Mariko Oi, "Evergrande: Why should I care if China property giant collapses?", BBC, January 29 2024 <https://www.bbc.com/news/business-58579833>
- ⁵ Monetary Policy Analysis Group of the People's Bank of China, "China Monetary Policy Report Q4 2023", February 8, 2024, <http://www.pbc.gov.cn/en/3688229/3688353/3688356/4756453/5330013/2024041610102997035.pdf>
- ⁶ Yawen Chen, "China's growth is buried under great wall of debt", Reuters, September 13, 2023 <https://www.reuters.com/breakingviews/chinas-growth-is-buried-under-great-wall-debt-2023-09-13/>
- ⁷ Zhang Jun, "Why is China's Consumption Rate so Low?," Project Syndicate, July 05, 2024, <https://www.project-syndicate.org/commentary/china-household-consumption-expenditure-is-probably-higher-than-official-figures-by-zhang-jun-2024-07>
- ⁸ Farah Master, "China's ageing population threatens switch to new economic growth model", Reuters, January 18, 2024, <https://www.reuters.com/world/china/chinas-ageing-population-threatens-switch-new-economic-growth-model-2024-01-18/>
- ⁹ Roselyn Hsueh, "Why China May Not Bail Out Evergrande", Foreign Policy, November 1, 2021 <https://foreignpolicy.com/2021/11/01/china-evergrande-bail-out-real-estate/>
- ¹⁰ Elaine Kurtenbach, "China's Economy Slowed Last Quarter as Weak Consumer Demand Dragged on Growth", The Diplomat, July 16, 2024, <https://thediplomat.com/2024/07/chinas-economy-slowed-last-quarter-as-weak-consumer-demand-dragged-on-growth/>
- ¹¹ Dr Yu Jie, "China's third plenum marks a sea change in growth model", Chatham House, July 11, 2024, <https://www.chathamhouse.org/2024/07/chinas-third-plenum-marks-sea-change-growth-model>
- ¹² Nick Frisch, "China's Leaders Just Held a Third Plenum. So What?", Foreign Policy, July 23, 2024, <https://foreignpolicy.com/2024/07/23/china-third-plenum-explained-xi-jinping-economy/>
- ¹³ Xinhua, "China's institutional reforms to underpin development of new quality productive forces", The State Council of People's Republic of China, July 23, 2024, https://english.www.gov.cn/news/202407/23/content_WS669fbo67c6do868f4e8e9641.html
- ¹⁴ Giulia Interesse, "China's New Renewable Energy Plan: Key Insights for Businesses", China Briefing, November 26, 2024 <https://www.china-briefing.com/news/chinas-new-renewable-energy-plan-key-insights-for-businesses/>
- ¹⁵ John Lin and Philippe Benoit, "China's State-Owned Enterprises Hold Keys to Carbon Neutrality", Alliance Bernstein, September 22, 2022, <https://www.alliancebernstein.com/corporate/en/insights/esg-in-action/esg-in-action-chinas-state-owned-enterprises-hold-keys-to-carbon-neutrality.html>
- ¹⁶ Taige Hu, "NPC 2024: Documents and Votes", NPC Observer, March 15, 2024, <https://npcobserver.com/2024/03/china-npc-2024-results-documents/#g13a7f1432be0>
- ¹⁷ Sylvia Ma, "China's state-owned firms splash 1 trillion yuan on emerging hi-tech industries", South China Morning Post, September 6, 2024, https://www.scmp.com/economy/china-economy/article/3277506/chinas-state-owned-firms-splash-1-trillion-yuan-emerging-hi-tech-industries?module=perpetual_scroll_o&pgtype=article
- ¹⁸ Amanda Leein, Xinyi Wuin and Ji Siqi, "After China's slow third-quarter GDP growth, is 2024's economic target still in reach?", South China Morning Post, October 18, 2024, <https://www.scmp.com/economy/economic-indicators/article/3282827/china-gdp-economy-grew-46-third-quarter-blow-annual-target?module=inline&pgtype=article>
- ¹⁹ Dr. Nadia Helmy, "Chinese-style modernization and its path of development and progress", Modern Diplomacy, March 12, 2024, <https://moderndiplomacy.eu/2024/03/12/chinese-style-modernization-and-its-path-of-development-and-progress/>
- ²⁰ Guillermo Abril, "In Africa, China seeks an outlet for its clean technologies", El Pais, September 9, 2024, <https://english.elpais.com/economy-and-business/2024-09-09/in-africa-china-seeks-an-outlet-for-its-clean-technologies.html>

- ²¹ Thomas M. Flaherty and Ronald Rogowski, "Rising Inequality As a Threat to the Liberal International Order", International Organization, April 12, 2021 <https://www.cambridge.org/core/journals/international-organization/article/abs/rising-inequality-as-a-threat-to-the-liberal-international-order/4CDE05DEB3AB076CE338E1AA4A9C8087>
- ²² Sanjaya Lall and Manuel Albaladejo, "China's Competitive Performance: A Threat to East Asian Manufactured Exports?", Elsevier, (2004), 1441-1466, <https://www.sciencedirect.com/science/article/abs/pii/S0305750X04000944?via%3Dihub>
- ²³ Jeremy Diamond, "Trump to aides: 'I want tariffs'", CNN Politics, August 28, 2017, <https://edition.cnn.com/2017/08/28/politics/trump-china-tariffs/index.html>
- ²⁴ Congressional Research Service (CRS), "U.S.-China Trade Relations", December 9, 2024, <https://crsreports.congress.gov/product/pdf/IF/IF1284>
- ²⁵ Hinh T. Dinh, "Behind the New US Tariffs on Chinese Products", Policy Brief, May 2024, https://www.policycenter.ma/sites/default/files/2024-06/PB_28_24%20%28H%20Dinh%29.pdf
- ²⁶ Congressional Research Service (CRS), "U.S.-China Trade Relations", December 9, 2024, <https://crsreports.congress.gov/product/pdf/IF/IF1284>
- ²⁷ Ibid.
- ²⁸ Hinh T. Dinh, "Behind the New US Tariffs on Chinese Products", Policy Brief, May 2024, https://www.policycenter.ma/sites/default/files/2024-06/PB_28_24%20%28H%20Dinh%29.pdf
- ²⁹ Al Jazeera, "US cancels export licences of suppliers to China's Huawei", May 8, 2024 <https://www.aljazeera.com/economy/2024/5/8/us-cancels-export-licenses-of-suppliers-to-chinas-huawei#:~:text=Huawei%20was%20placed%20on%20a,to%20obtain%20licence%20before%20shipping>
- ³⁰ David Shepardson, "US House passes bill to force ByteDance to divest TikTok or face ban", Reuters, March 14, 2024, <https://www.reuters.com/technology/us-house-vote-force-bytedance-divest-tiktok-or-face-ban-2024-03-13/>
- ³¹ Megha Bahree, "Who benefits from US tariffs on Chinese imports? Experts weigh in", Al Jazeera, May 16, 2024, <https://www.aljazeera.com/economy/2024/5/16/who-benefits-from-us-tariffs-on-chinese-imports-experts-weigh-in>
- ³² Larry Elliott, "Biden announces 100% tariff on Chinese-made electric vehicles", The Guardian, 14 May, 2024, <https://www.theguardian.com/business/article/2024/may/14/joe-biden-tariff-chinese-made-electric-vehicles>
- ³³ The White House, "Fact Sheet: President Biden Takes Action to Protect American Workers and Businesses from China's Unfair Trade Practices", May 14, 2024, <https://www.whitehouse.gov/briefing-room/statements-releases/2024/05/14/fact-sheet-president-biden-takes-action-to-protect-american-workers-and-businesses-from-chinas-unfair-trade-practices/#:~:text=The%20tariff%20rate%20on%20semiconductors,investment%20by%20market%20Driven%20ofirms>
- ³⁴ Congressional Research Service (CRS), "U.S.-China Trade Relations", December 9, 2024, <https://crsreports.congress.gov/product/pdf/IF/IF1284>
- ³⁵ The White House, "Fact Sheet: President Biden Takes Action to Protect American Workers and Businesses from China's Unfair Trade Practices", May 14, 2024, <https://www.whitehouse.gov/briefing-room/statements-releases/2024/05/14/fact-sheet-president-biden-takes-action-to-protect-american-workers-and-businesses-from-chinas-unfair-trade-practices/#:~:text=The%20tariff%20rate%20on%20semiconductors,investment%20by%20market%20Driven%20ofirms>
- ³⁶ Ibid.
- ³⁷ Arendse Huld, "US Tariff Increases on Chinese Imports – Implications for Trade and Businesses", China Briefing, May 29, 2024, <https://www.china-briefing.com/news/us-tariff-increases-on-chinese-imports-implications-for-trade-and-businesses/>
- ³⁸ Ryan Hass, "How will Biden and Trump tackle trade with China?", *Brookings*, April 4, 2024 <https://www.brookings.edu/articles/how-will-biden-and-trump-tackle-trade-with-china/>
- ³⁹ Ibid.
- ⁴⁰ Directorate-General for Trade, "EU trade relations with China. Facts, figures and latest developments", European Commission, https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/china_en
- ⁴¹ Directorate-General for Trade, "European Commission imposes anti-dumping measures on fasteners from China", European Commission, 17 February 2022 https://policy.trade.ec.europa.eu/news/commission-imposes-anti-dumping-measures-fasteners-china-2022-02-17_en

-
- ⁴² Reuters, “EU, China close to agreement over EV import tariffs, leading MEP says”, 23 November, 2024 <https://www.reuters.com/business/autos-transportation/eu-china-close-agreement-over-ev-import-tariffs-leading-mep-says-2024-11-22/>
- ⁴³ David Shambaugh, “China’s Soft-Power Push: The Search for Respect”, *Foreign Affairs*, Vol. 94, No. 4, July/August 2015 <https://www.jstor.org/stable/24483821?seq=1>
- ⁴⁴ Arthur R. Kroeber, “Unleashing “new quality productive forces”: China’s strategy for technology-led growth”, 4 June, 2024, <https://www.brookings.edu/articles/unleashing-new-quality-productive-forces-chinas-strategy-for-technology-led-growth/>
- ⁴⁵ The State Council Information Office of the People’s Republic of China, “China’s Energy Transition”, August 2024.
- ⁴⁶ Chris Aylett, “Imposing tariffs on Chinese electric vehicles will make the EU’s transition slower and more expensive”, Chatham House, 13 June 2024, <https://www.chathamhouse.org/2024/06/imposing-tariffs-chinese-electric-vehicles-will-make-eus-transition-slower-and-more>
- ⁴⁷ Jacopo Pastorelli and James Batchik, “The EU’s new tariffs are just the start of the EV trade saga with China”, Atlantic Council, June 26, 2024, <https://www.atlanticcouncil.org/blogs/new-atlanticist/the-eu-new-tariffs-are-just-the-start-of-the-ev-trade-saga-with-china/>
- ⁴⁸ João da Silva, “China’s economic slowdown deepens”, BBC, October 18, 2024, <https://www.bbc.com/news/articles/crr54xoo8570>
- ⁴⁹ Observatory of Economic Complexity, “China- Mexico Trade”, <https://oec.world/en/profile/bilateral-country/chn/partner/mex>
- ⁵⁰ Ryan McMorro, “Chinese Companies Shifting to Other Countries to Avoid US Tariffs”, *Industry Week*, 13 September 2018, <https://www.industryweek.com/the-economy/trade/article/22026325/chinese-companies-shifting-to-other-countries-to-avoid-us-tariffs>
- ⁵¹ Xinhua, “China issues white paper on energy transition”, The State Council The People’s Republics of China, August 29, 2024, https://english.www.gov.cn/news/202408/29/content_WS66d012d3c6d0868f4e8ea52d.html
- ⁵² Francois de Soyres and Dylan Moore, “Assessing China’s Efforts to Increase Self-Reliance”, Board of Governors of the Federal Reserve System, December 23, 2024, <https://www.federalreserve.gov/econres/notes/feds-notes/assessing-chinas-efforts-to-increase-self-reliance-20240202.html>
- ⁵³ Board of Governors of the Federal Reserve System, “Assessing China’s Efforts to Increase Self-Reliance, Accessible Data, Evolution of Chinese imports by sector”, <https://www.federalreserve.gov/econres/notes/feds-notes/assessing-chinas-efforts-to-increase-self-reliance-accessible-20240202.htm#fig3>
- ⁵⁴ Wanyuan Song, “China Briefing 5 September 2024: ‘Energy transition’ white paper; Steel permits ‘paused’; China’s investment in Africa”, *China Briefing*, September 5, 2024, <https://www.carbonbrief.org/china-briefing-5-september-energy-transition-white-paper-steel-permits-paused-chinas-investment-in-africa/>
- ⁵⁵ Natalie Sherman & Jonathan Josephs, “WTO says Trump’s US steel tariffs broke global trade rules”, *BCC*, December 9, 2022, <https://www.bbc.com/news/business-63920063>