

THE CHINESE ECONOMY SHOWS SIGNS OF RESILIENCE

My previous two articles focused on the United Kingdom of America or the US under Trump. It dealt with Biden's legacy and Trumps options. This article investigates the current data for China and the outlook for its economy in the face of escalating Trump tariffs and embargoes.

The world is witnessing a titanic struggle between the two economic superpowers, on the one side a rising China and on the other a failing US. In the case of the former the goal is to move towards a multi-polar free-trade world, and on the other to preserve a tariff ringed unipolar world. The outcome will be decisive for world history.

The ongoing economic struggle which may or may not end in a military conflict will depend on technical advances made by each country. If China is to succeed there is only one route open to it, it must achieve technical supremacy, overtaking then relegating the previous champion, the USA. It has no choice, the US has made it clear that there is only one seat at the head of the table.

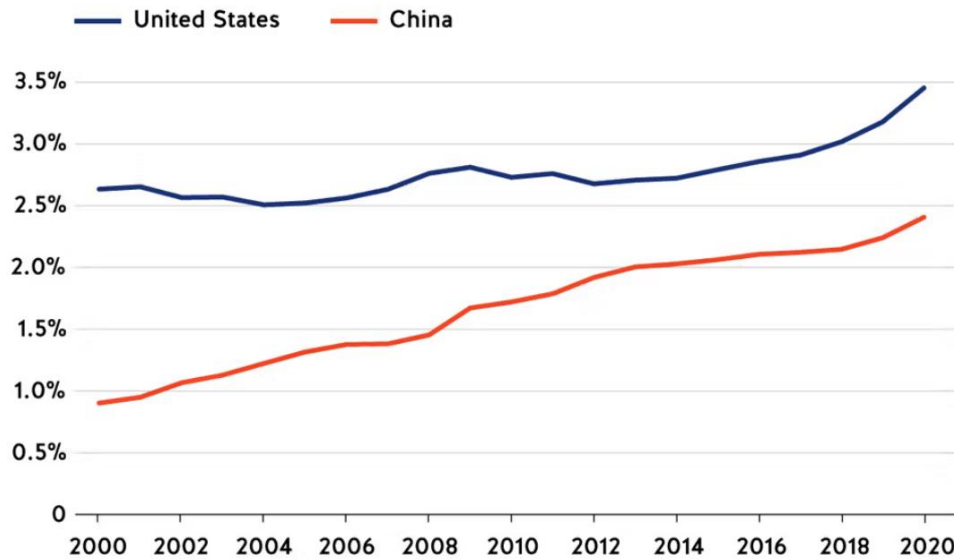
Is this happening? The answer is, yes. According to the authoritative Australian Strategic Policy Institute (ASPI) with its latest 2024 [Critical Technology Tracker](#), China has now overtaken the USA and its lead is growing: ***"China's lead continues to grow: China has strengthened its global research lead in the past year and is currently leading in 57 of 64 critical technologies. This is an increase from 52 technologies last year,"*** (their emphasis).

This equates to 89% of key technologies. Interestingly in its 2024 report ASPI acknowledges the advances China has made in chip production. But even in the remaining 7 industries, the US is being challenged for pole position, for example in small satellite launches, machine learning and atomic clocks. China's lead compares to the period pre the financial crisis in 2008 when the US dominated the field occupying first place in 60 out of the 64 industries. Between them China and the USA are the frontrunners outpacing the EU. When combined, the EU holds only two pole positions and is second in 30 industries putting it at a distinct competitive disadvantage compared to the two leading powers.

And Chinese R&D investment, the driver of the improvement in the technique of production and innovative products continues to power ahead. [This report](#) summarises the growth in R&D expenditures: *"According to preliminary estimates, China's total expenditure on research and experimental development (R&D) exceeded 3.6 trillion yuan in 2024, registering 3.6130 trillion yuan, an increase of 8.3 percent over the previous year; the R&D investment intensity reached 2.68 percent, an increase of 0.1 percentage point over the previous year. The investment in basic research climbed 10.5 percent from 2023 to 249.7 billion yuan, which accounted for 6.91 percent of the total R&D expenditure, marking an increase of 0.14 percentage point."*

As the graph below shows, Chinese Research & Development is still lower as a [share of GDP compared to the USA](#), though as *Deep Seek* has shown, Chinese research yields more bang for the buck. In addition R&D in China is more organised, centralised and there is less overlap between competing entities.

Graph 1. (Share of GDP)



Since a red swan called *Deep Seek* swam up the Hudson River and stepped onto Wall Street, it more than any other previous event, has brought the emergence of Chinese technical excellence to the attention of US speculators and investors. What had previously been cruising unnoticed now appeared threatening and unavoidable. Since *Deep Seek* invaded New York something interesting has occurred. The US stock markets which up to then had been powering ahead suddenly found themselves struggling while the Chinese stock markets which had been struggling now found themselves upward bound. More specifically the Hang Seng Tech Index, which tracks the 30 largest Chinese tech groups is up 25% from it lows and is now in bull territory.

Graph 2.

SSE Composite Index



Graph 3.

Nasdaq Composite

19,504.80 ↑ 2.18% +416.70 1M

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1D 5D 1M 6M YTD 1Y 5Y MAX



The view that share prices encapsulate the totality of economic information is widespread. I do not subscribe to this view, but if it were true, diverging share prices expresses the information that the US is no longer top dog, and that its efforts to suppress Chinese progress is increasingly failing.

The latest Chinese economic data.

The Chinese Authorities reviewing 2024 appear to be satisfied with the progress made by the National Economy. *[“In 2024, in face of the complicated and severe environment with increasing external pressures and internal difficulties, under the strong leadership of the Central Committee of the Communist Party of China \(CPC\) with Comrade Xi Jinping at its core, all regions and departments strictly implemented the decisions and arrangements made by the CPC Central Committee and the State Council, adhered to the general principle of seeking progress while maintaining stability, fully and faithfully applied the new development philosophy on all fronts, accelerated efforts to foster a new pattern of development, and pursued high-quality development in solid steps. As a result, the national economy was generally stable with steady progress and new achievements were made in high-quality development. Particularly, with a package of incremental policies being timely rolled out, the social confidence was effectively bolstered and the economy recovered remarkably. The major targets and tasks of economic and social development were achieved successfully.”](#)* Ahh, the Xi Motive or should we say Stalinist voluntarism, alongside the Profit Motive, makes for an unbeatable multiplier, or not.

As the report goes on to say, GDP grew by 5.0% over 2024, industrial production grew by 5.8% while High Tech production rose 8.9%. *“The investment in fixed assets was up by 7.2 percent with the investment in real estate development deducted. Specifically, the investment in infrastructure went up by 4.4 percent, manufacturing up by 9.2 percent,”* and *“Deducting the investment in real estate development, the private investment grew by 6.0 percent.”* *“In 2024, the urban surveyed unemployment rate averaged 5.1 percent,*

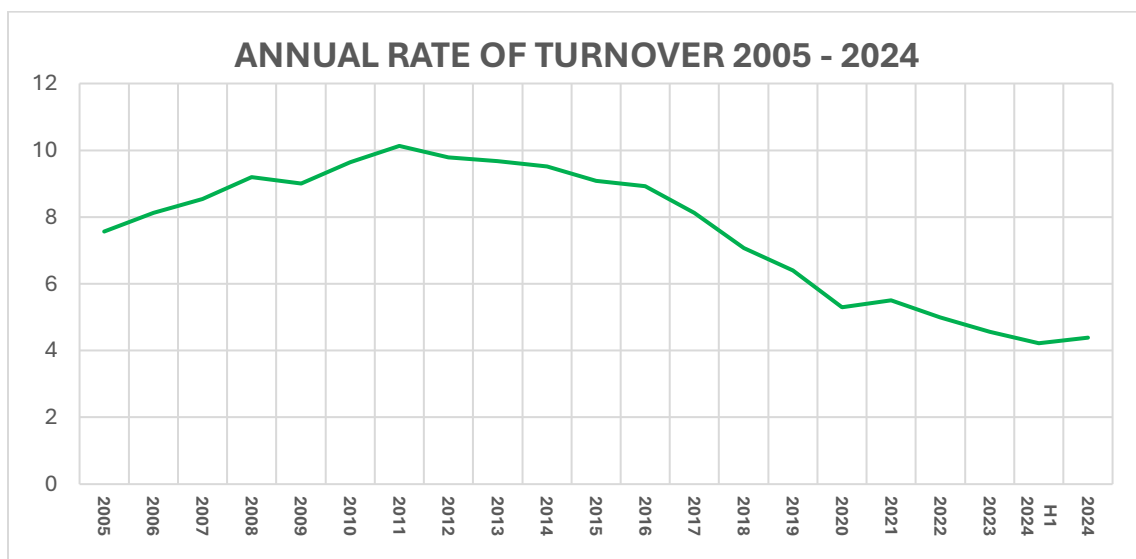
0.1 percentage points lower than that of the previous year.” Real per Capita Income it states rose by 5.1% but this is a meaningless figure because it is simply National Income divided by population, so if GDP rose by 5% so similarly would National Income when depreciation is deducted. However in [another report](#) a breakdown between wages and profits forming the National Income is found. “According to the source of income, in 2024, the per capita income from wages and salaries of residents nationwide was 23,327 yuan, an increase of 5.8 percent, accounting for 56.5 percent of the per capita disposable income; the per capita net business income was 6,908 yuan, an increase of 5.6 percent, accounting for 16.7 percent of the per capita disposable income; the per capita net income from properties was 3,435 yuan, an increase of 2.2 percent, accounting for 8.3 percent of per capita disposable income; the per capita net income from transfer was 7,644 yuan, an increase of 5.3 percent, accounting for 18.5 percent of the per capita disposable income.” Thus wages and salaries grew by 5.8% though the share of National Income held by workers at 56.5% is no different to the advanced capitalist countries. I find the net business income rise of 5.6% to be inflated given the 3.3% fall in industrial profits which is the biggest component of business income. And if it is inflated, then suspicion must fall on wage growth as well.

Finally, the report concludes with a sting in its tail. “However, we must be aware that the adverse effects brought by external environment are increasing, the domestic demands are insufficient, some enterprises have difficulties in production and operation, and the economy is still facing difficulties and challenges. At the next stage, we must take Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era as the guideline,” Whenever the Stalinists resort to exhorting the ‘subjective will’ rather than objective real world solutions, you know the economy is facing strong headwinds.

Digging deeper into the data.

We will begin with the rate of turnover. There was a definite improvement in H2 2024.

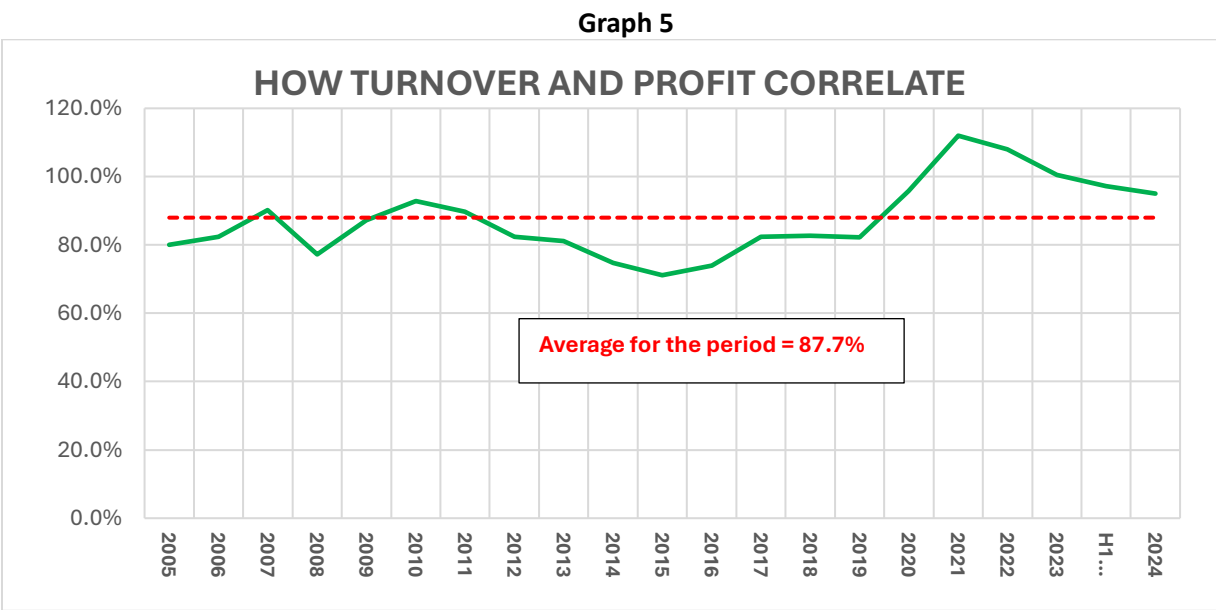
Graph 4.



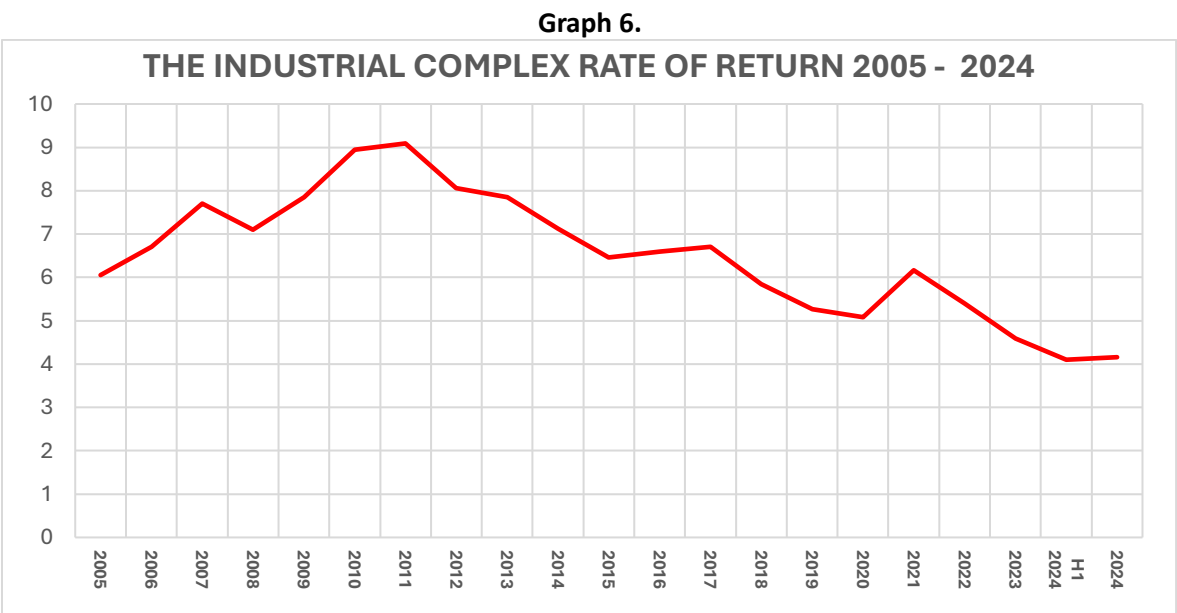
We note the rate of turnover remains depressed despite a recent improvement in December. This is primarily due to the length of sales payments, always a sign of weakness in the market leading to issues

of liquidity. In 2024 the [payment period](#) increased by 3.9 days to 64.1 days. As long as the payment period fails to reduce significantly it reveals a stagnant market contributing to economic weakness and confirming the economy has yet to shrug off the legacy of the burst property bubble. And of course, as long as turnover is decelerated it weighs down on the rate of profit because it takes longer to realise profits on the one hand while more working capital is needed to tide firms over while they wait for payment.

The correlation between the two rates is strong as the graph below demonstrates.

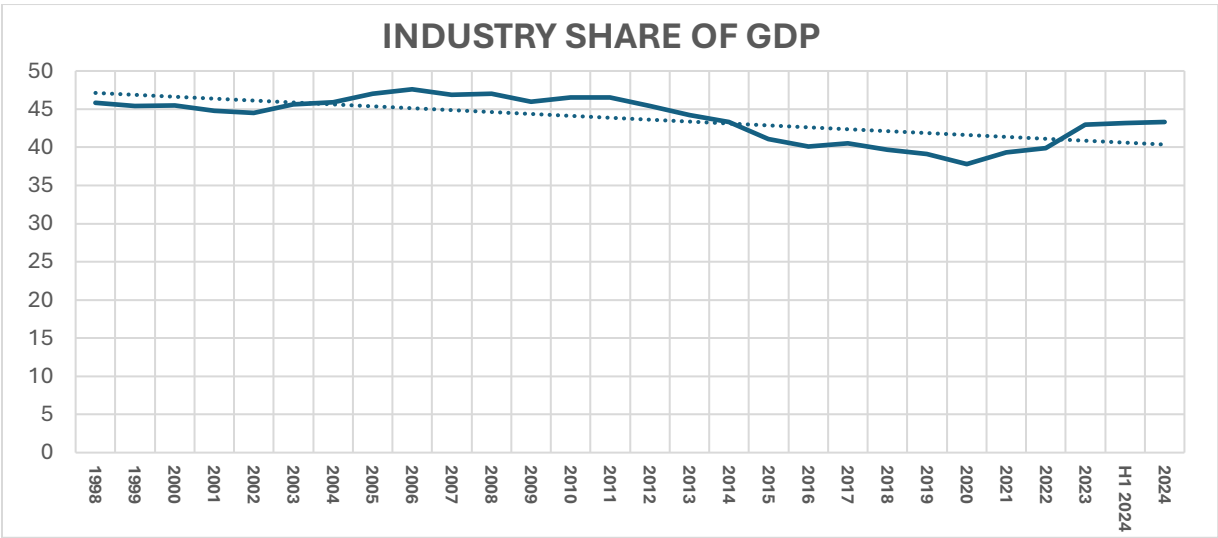


The Complex Rate of Return is plotted below. To remind the reader, the word ‘Complex’ denotes the inclusion of some financial assets as well as inventory in the calculation of the rate of return. ‘Complex’ distinguishes it from the normal rate of return. We note that while the fall has stabilised, it remains at a twenty year low, and it is only half that of 2011, its all-time high. (Profits increased yoy in December.)



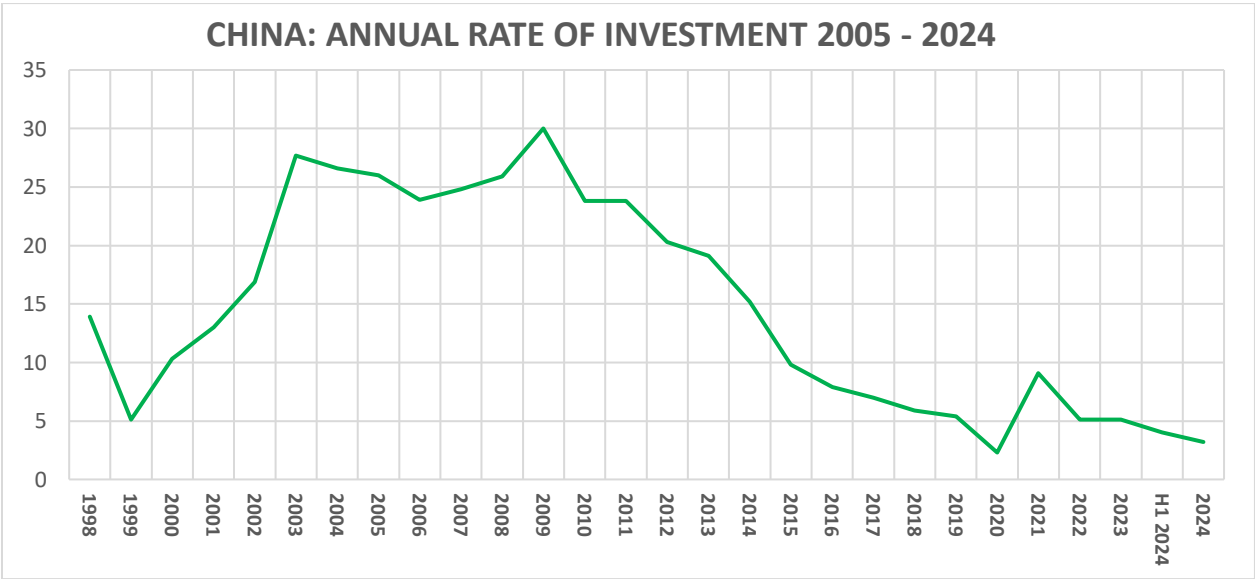
As an aside how does the industrial data compare to non-financial Corporations in the USA in terms of GDP? Because US data includes its service sector, it is a tenth larger at 50.6% (2023). But given China’s bigger industrial base they are proximate. No de-industrialisation is visible, if anything the opposite. As China invests more in high value production, and this high value production grows, so will industry’s share.

Graph 7.



The growth in industry’s share reflects the successful emphasis on developing High Tech globally competitive industries as the main driver for the economy. No *Middle Age* economic block here, no stifling of economic potential by the USA to see. However given the continuing crisis in the property sector, which at one stage was by far the biggest asset class in the world, and a subdued industrial rate of profit resulting from weaker sectors, investment growth has decelerated sharply and is now a drag on GDP growth.

Graph 8.

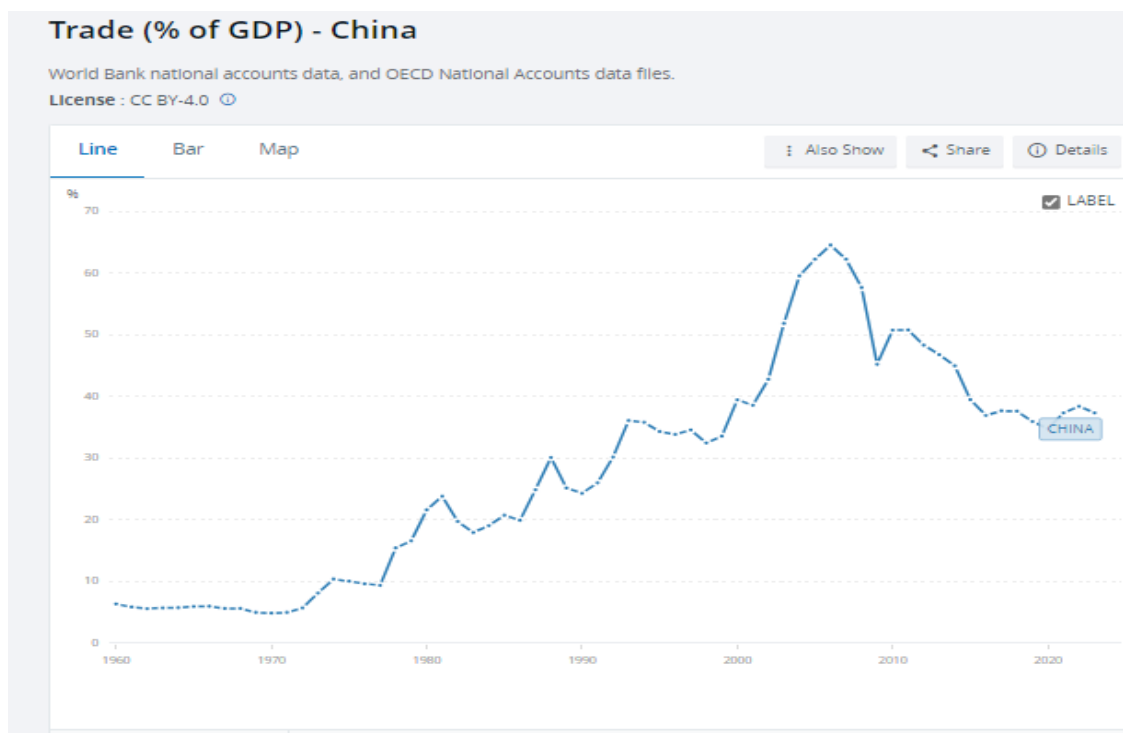


The subdued level of investment is in accord with the issuance of credit and loans. Using the [Peoples Bank of China's](#) Aggregate Financing to the Real Economy (Flow) database, total loans fell from 355799 (hundred million Yuan) in 2023 to 322558 in 2024 a decrease of 9.5% while bad loans rose from 10967 to 13293 an increase of 21%, representing a rise from 3.1% to 4.1% when compared to total loans issued. This fall in lending combined with a rise in the level of bad debts is a negative for the economy and a strong headwind to overall growth.

Diversifying exports.

Despite rumours to the contrary, China remains an open economy for investment and trade. Trade continues to play a large role in its economy. But as the economy has grown and as the internal market has expanded, trade has reduced as a share of GDP back to pre-2008 levels. The spike leading up to 2010 reflects the surge in imports as China embarked on the greatest investment wave in capitalist history.

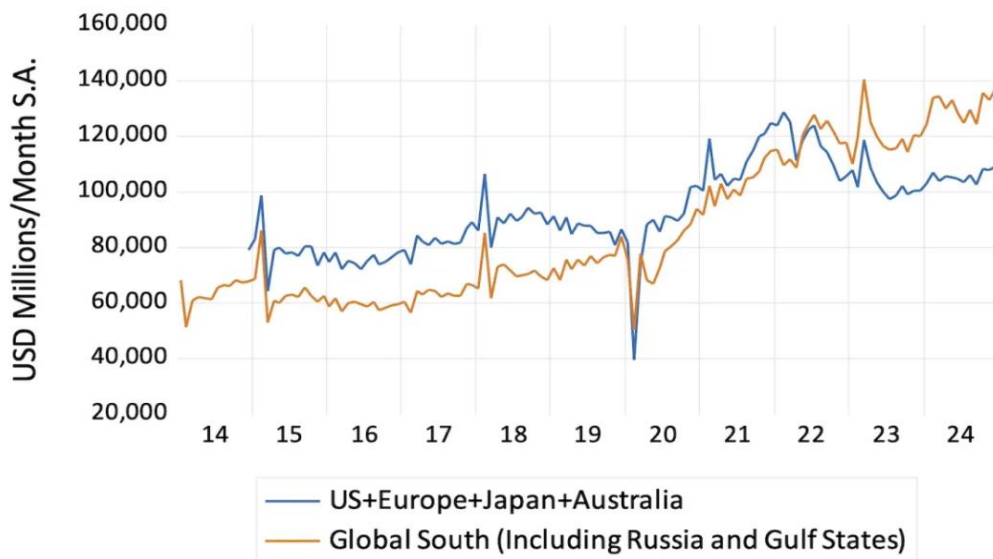
Graph 9.



China remains the world's largest exporter. *"[With 14.2% of the world's exports](#), China has reinforced its status as a leading force, surpassing major players like the EU at **11.6%** and the U.S. at **8.5%**."* (This covers full year 2023) [In 2024](#), China's total goods imports and exports in yuan terms grew by 5 percent year-on-year to reach 43.85 trillion yuan (\$5.99 trillion). Given the mild deflation in prices this 5% can be read as an increase in volumes as well. As this report shows: *"China is the only country in the world that homes all industrial categories listed in the United Nations industrial classification."* (Trump, dream on.) And, more importantly, the report shows how China is moving up the value chain in terms of its exports. For example in 2024 its export of EVs exceeded two million cars for the first time helping make China the largest vehicle exporter in the world.

Graph 10.

China Exports to Global South vs. Developed Markets



Of equal importance is China's diversification of its exports away from previous markets. As the [graph above](#) shows, the Global South together with the Gulf States and Russia are now its main export markets. This trend will only accelerate as BRICS+ expands and matures. China has recently abolished all duties and tariffs on imports from developing countries and with more trade taking place in local currencies, this will further incentivize trade away from Japan, the US and Europe. (It is worth noting that the EU is making overtures to China as I reported previously.)

The other incentive is Trump with his three Ts; Terrify friend and foe alike with Tariffs to make the US economy Terrific. Trump is not so much disorganising the world economy as following a scorched earth policy as he seeks to resuscitate the US economy. Against Trump's floundering and flailing and insecurity, China looks increasingly attractive with its commitment to orderly free trade encouraging long term trading relationships.

It is likely that tariffs and reciprocal tariffs will hurt the US more than China. This is already clear in the US farming community. Dismay is growing as China walks away from buying US produce and this is aggravated by Trump's ransacking of USAID, once a big buyer of US produce to feed the world.

Finally, China's use of the dollar is falling as [this report](#) from the Peoples Bank of China for the first 8 months of 2024 shows. *"The People's Bank of China's 2024 report on the internalization of RMB reported that cross-border RMB payments and receipts expanded 21.1 percent year on year to 41.6 trillion yuan (\$5.94 trillion) in the January-August period. According to the report, in the first eight months, cross-border RMB payments and receipts in trade in goods accounted for 26.5 percent of the total settlement of local and foreign currencies in the same period, up from 24.8 percent in 2023. For trade in services, cross-border RMB use increased 22.3 percent year on year to 1.2 trillion yuan, accounting for 31.8 percent of the total"* All it will take is a Dollar Crisis and a loss of confidence, for the Yuan to take its place alongside the Dollar.

The geopolitical situation.

China remains on the periphery, while the US remains at the heart of all the conflicts. Trump has now stabbed the Ukrainians in the back. From being a financier of the war, the US has become a debt collector demanding repayment for all the financial support given to Ukraine so that Trump can provide tax cuts back home for his mates. Talk about walking on the bodies of a million Ukrainians killed on the alter of US imperialism in a vain attempt to overthrow the Russian government.

I suspect this is a bit of ruse. Recall that the invasion of Kursk by the Ukrainians occurred at the height of the conflict between Iran and Israel. I said at the time this was to pre-occupy the Russians and distract them from the Middle East. Now with the Gaza ceasefire on a thread, and with ethnic cleansing centre-stage, something which would undoubtedly provoke Iran, suddenly Trump is proposing immediate negotiations over Ukraine. What better way to pre-occupy the Russians, who have already indicated they will not accept Trump's ceasefire, insisting instead on a comprehensive security settlement.

Whether or not this is a ruse, the damage has been done. With his phone call to Putin and by his words, Trump has done more damage to the Ukrainian army than a thousand Russian artillery pieces could have done. He has demoralised Ukrainian soldiers. *"Why continue fighting, risking our lives, when it will all be over as our main backer has betrayed us"* they will say. Yet another indication of Trump's impulsive and shallow behaviour yielding unintended consequences. Officials in the US State Department, other than the Trump clones, must be grinding their teeth in frustration as Trump wrecks US diplomacy everywhere.

In Palestine, Trump tried to solidify the ceasefire by claiming he would take over the Gaza strip, expel the Palestinians and build a Garden of Eden there. That way he sought to demobilize Israel, for after all, if the US was going to take over Gaza, why fight over it. His Shangri La remains in the balance because no-one took this deal seriously least of all the neighbouring Arab states and Turkey. But it had the unintended consequence of greenlighting the expulsion of the Palestinians from Gaza once more. Should the ceasefire end we could see the Israeli Army not only driving Palestinians like cattle from one side of Gaza to another, but loading them up into trucks to remove them from the area entirely. Such unbearable sights are likely to provoke a regional war because it will provoke and arouse the Muslim populations in the region because it would be intolerable.

No doubt below the surface and away from these two hot spots, the USA is putting in place its ducks to confront China. If these two hot spots are to be calmed down temporarily, this is only being done in order to free up the US to act against its nemesis, China.

Conclusion.

Recent data shows a slight strengthening of the Chinese economy compared to a slight weakening of the US economy. It is too early to say whether this is an inflection point in terms of Chinese turnover and profit. It is clear that while China is not be out of the woods, it certainly has escaped the US axe. It is only a matter of time before the US is forced back economically. *Deep Seek* is a foretaste of what is to come.

Brian Green, 13th February 2025.