

REVIEW OF THE CHINESE ECONOMY IN Q1 AT THE START OF THE IRAN WAR.

There has now been sufficient official data released by the National Bureau of Statistics of China to prepare an estimate of the performance of the Chinese economy one month into the war in Iran. Some effects of the war are noticeable in terms of investment and exports.

We will begin with the one bright spot, [foreign trade](#). Data is available up to April. We see strong growth in exports and stronger growth in imports still leaving a healthy surplus equal to 5.5% of GDP for the first quarter. (Yuan 1.85 trillion divided by Yuan 33.42 trillion). See the attached spreadsheet (China Trade Surplus 2026) for the growth in itemised exports. Electronics and cars stand out but so does fertilizer exports as China seeks to compensate for the blockaded Straits of Hormuz. There is even a rise in energy exports.

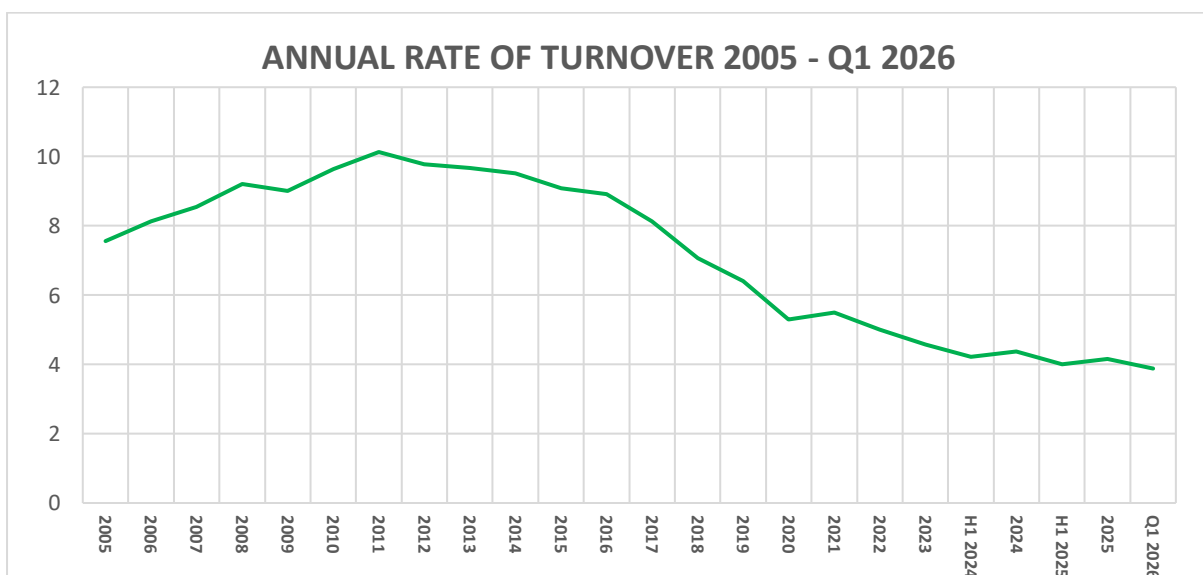
	Jan - April	April only
Exports yoy	11.3%	9.8%
Imports	20.0%	20.6%
Balance	+24,308.5 Yuan	+ 5,856.9

When we examine, as we do further down, the weak growth of investment, retail and the like, it is hard to account for the [5% GDP growth](#) in the first quarter of 2026 despite the trade surplus, which while positive, represents only 5.5% of GDP.

As usual we begin with the three fundamental indicators, turnover, profits and investment, the first being the pulse, the second being the authorisation and the third being the driver of economic activity. All three remain weak though profits perked up month on month in March.

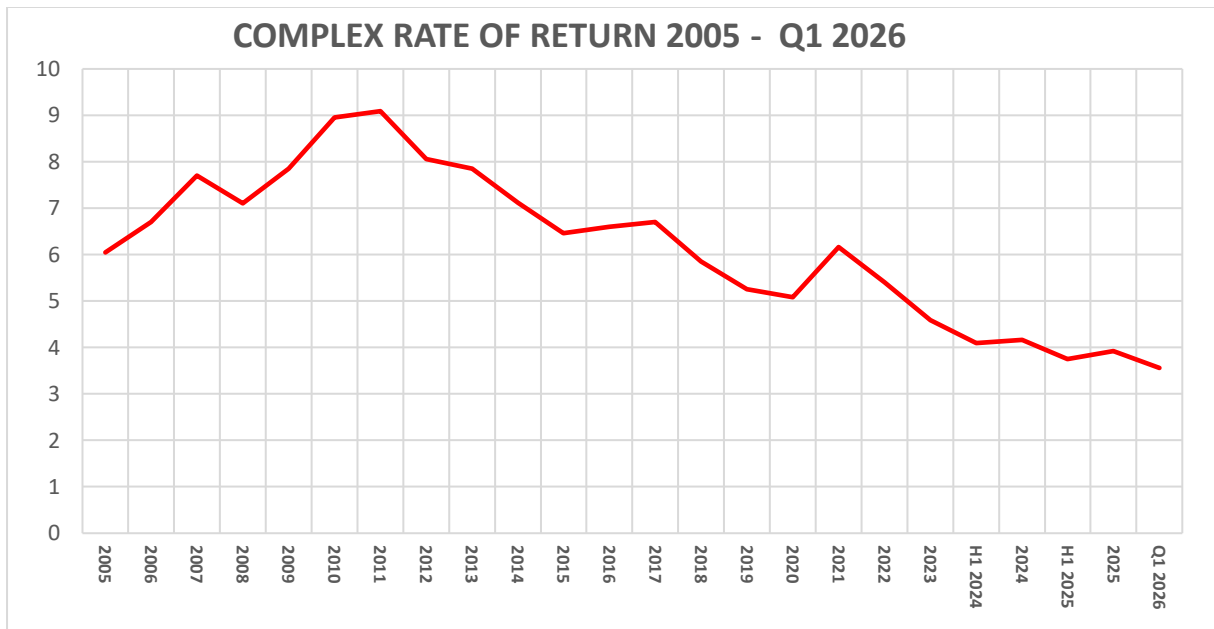
The rate of turnover remained sluggish. As the accompanying report on profitability (Chinese industrial profits Q1 2026) shows, the slowdown in turnover is primarily due to delayed payments. The average collection period for accounts receivable was 72.6 days, a year-on-year increase of 1.3 days. It was higher in the crucial private sector. For manufacturing it was 74.6 days. Given the profit margin in manufacturing of only 4.3% that is a heavy financial burden to carry.

Graph 1.



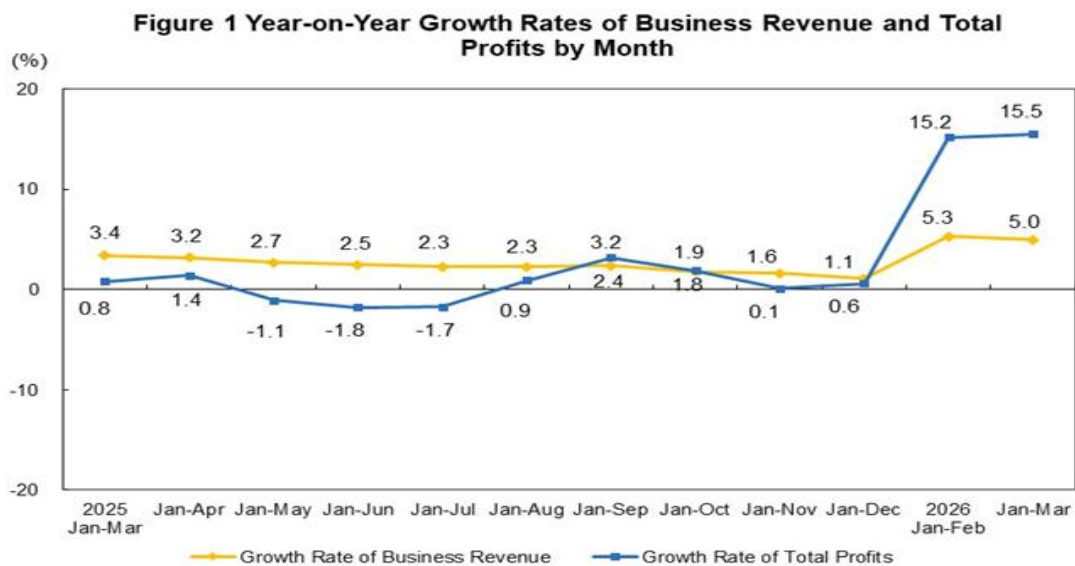
A decelerating rate of turnover always impacts the rate of profit. The rate of profit which measures profits against capital is affected by periods of turnover which lengthen because the pulse of profits is delayed, while more working capital is needed to provide liquidity until profits are realised. Thus, a sluggish rate of turnover is strongly associated with a relative fall in the rate of profit. In Graph 2 the rate of profit is represented by the Complex Rate of Return, a metric which includes financial assets which the Bureau lumps in with fixed assets plus inventories. Thus, this return, below 4% currently, should not be compared to Western Rates of Return which are higher because they omit financial assets plus inventories.

Graph 2.



This depressed rate of return in the first quarter disguises the improvement in the mass of profits in Q1. The 15.5% growth rate in Q1 2026 compares to only 3.4% in Q1 2025.

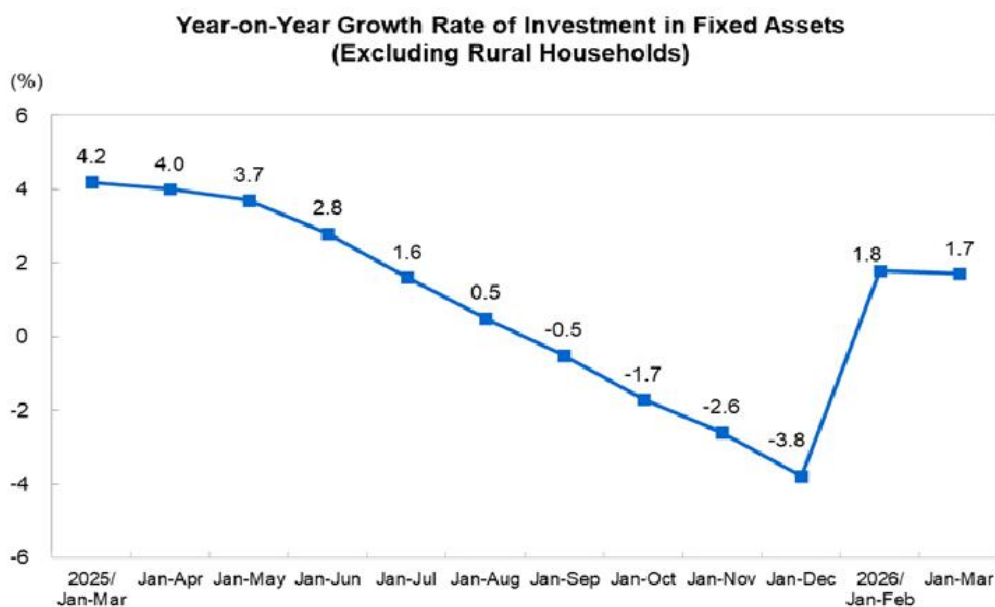
Graph 3.



Most of the growth in profits came from the private sector rather than the state sector. This indicates that the likely driver of this growth was the electronics industry, as in the USA. Whether this growth rate will be sustained cannot be answered with any degree of certainty yet. It may or may not be a turning point. What can be said with certainty is that this growth in profits was insufficient to cause the rate of return to rebound.

Associated with a weak rate of return is a weak rate of investment. [Investment returned to growth](#) in Q1 2026, but at 1.7%. it was still half the figure of 4.2% in year Q1 2025. One of the reasons was a 15% rise in mining and agricultural investment, as well as storage, all due to the war in Iran. On the other hand, there was a slowdown in the investment of special machinery and computers, aka Hi-tech on which exports depend.

Graph 4.



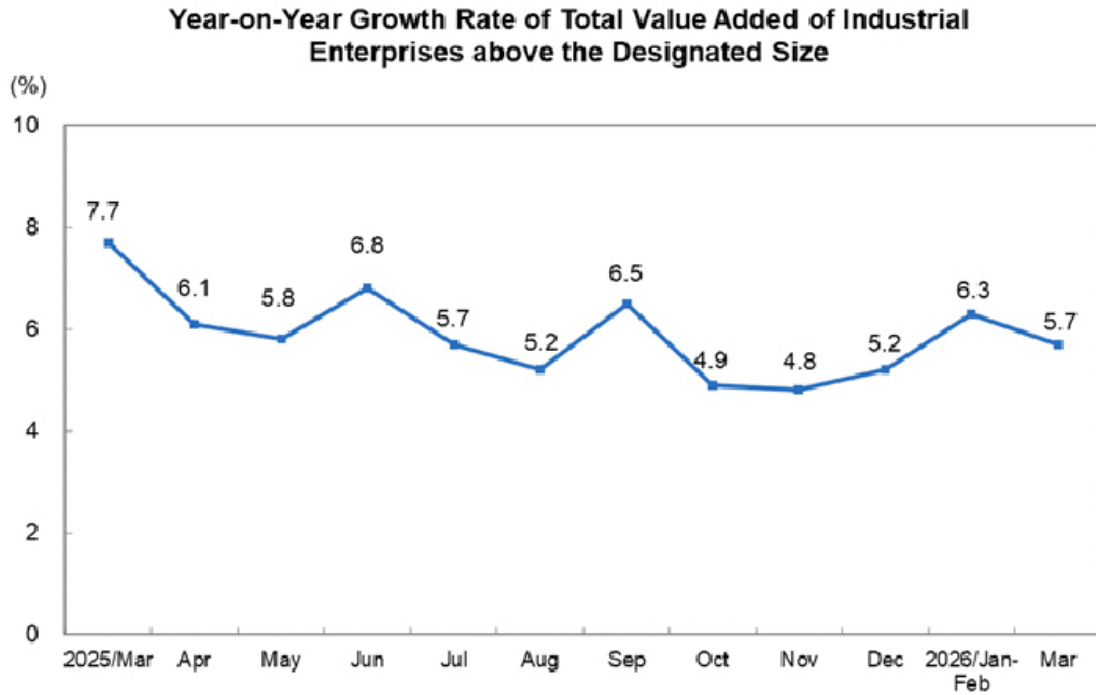
Manufacturing investment which had compensated for the fall in real estate and construction investment a year ago, has itself slowed down and is therefore less supportive. The fall in investment is concentrated in the private sector. Foreign investment was particularly weak. One reason for this could be their failure to compete with Chinese enterprises.

By statistical category of registration	
Of which: Domestic-invested enterprises	2.1
Enterprises funded by investors from Hong Kong, Macao, and Taiwan	-5.0
Foreign-invested enterprises	-6.3

As has happened over the last 6 quarters investment growth fell behind GDP growth. This has two consequences; firstly, investment is no longer a driver of GDP, and secondly, its share of GDP continues to fall. At this rate of decline, within two years, gross investment will be approaching a share of GDP not dissimilar to that found in other mature economies.

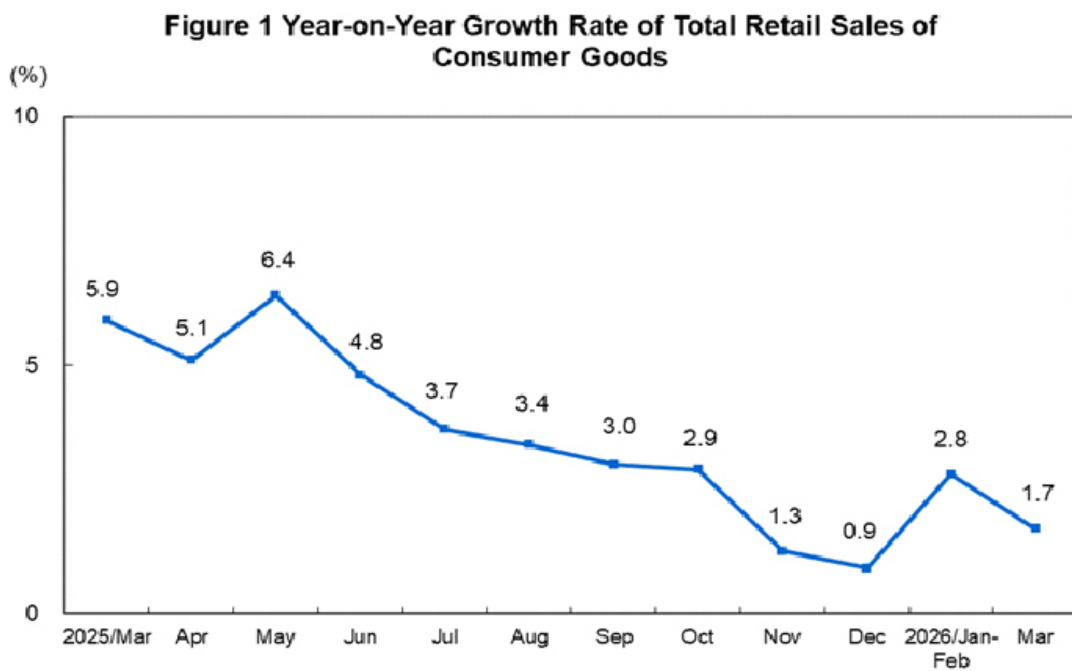
On the other hand, stronger investment outside real estate and construction supported industrial output. Industrial GDP trended at a growth rate above 5%.

Graph 5.



However, less of this industrial output was consumed unproductively in the form of personal consumption. [Retail sales](#) a vital component of spending remained subdued. The growth rate was only one-third that of the previous year. Clearly *dual circulation*, internal and external consumption, depends more on exports than the growth of the internal market for goods.

Graph 6.



It is interesting to compare Chinese personal consumption patterns to that of the USA. [We have noted previously](#) that half of personal consumption in the USA is carried out by the top 10% of income earners whose spending is influenced by capital gains in the markets particularly the stock markets. The same used to apply to China when the real estate bubble, which became the largest asset class in the world, was roaring ahead. Chinese stock markets could not compensate for the loss of the real estate bubble because they are much smaller than their counterparts in the USA. The market cap of listed shares on the [Shanghai Stock Exchange](#) is only \$9.26 trillion. (The picture does not change very much when we include the Nasdaq cloned [Shenzhen Market](#) with a cap of \$6.83 trillion.) No enterprise is close to \$1 trillion as in the USA. The biggest is around \$300 billion or less than one tenth the market capitalisation of the largest US corporation - Nvidia. In fact, Nvidia on its own is worth nearly half of the 2,105 companies listed on the Shanghai Stock exchange.

Therefore, the capital gains which fuel spending in the USA by the top 10% of income earners is much more subdued in China. This makes spending in China less dynamic but healthier and more durable in the long run.

Commentary & Conclusion.

While the Iran war was only starting to make itself visible in the data, the preceding and longer term outlook for the Chinese economy, like the US and all the other major economies, remains fragile. While there was some improvement in Q1, the three fundamental rates described above express continued weakness. There has been no significant change in trend, despite the positive effect of AI spending. This spending is less ostentatious than in the USA, less over-invested, less oversold, less financialised, less leveraged, more focused, more cost effective, less risky and therefore internationally more competitive than in the USA.

The more organised Chinese model, not the US model, will prevail in the future. In addition, as this [well researched article](#) shows compiled by *Inverteum Capital* which I saw on Michael Robert's Facebook page, Chinese manufacturing is far more advanced than manufacturing in the US. It makes China much more competitive than any of the other major economies. And if there is one law which dominates, it is this, when demand falters it impacts the less competitive economies and corporations harder. It amplifies the differences in competitiveness. For the first time it seems this became clear to Wall Street on Friday when Trump returned empty handed from Beijing. Share prices fell and bonds sold off. Wall Street was forced to reassess its place in the world, and it did not like what it saw, China ascending, the US descending.

That said, the Chinese economy still has its weaknesses. It too is susceptible to shocks. This may explain its ambivalent attitude to Iran. It is more supportive militarily, less so economically, hence its insistence during the recent Presidential Summit that the Straits of Hormuz reopen and that tolls be abandoned. This position is not only dictated by the costs to the Chinese economy but to the harm this causes to those economies which buy Chinese exports.

In this regard, it is important to point to the fissures in BRICS. If BRICS is to survive, China needs to play a more central role including a supportive financial role. It is not enough for China to passively present itself as stable partner in a turbulent world, it needs to sail into the storm. Otherwise, the USA will continue to rule the waves, and not only rule, but to use those financial waves to disrupt nations.

Of course, China has benefited hugely from the wars in the Ukraine and Iran. Indeed, it is the main beneficiary. The US has been humbled without China having to fire a shot. But this shadow war has its limits, and those limits are now being tested as the US seeks to monopolise global energy supplies. What the summit in Beijing revealed is that the world is at an inflection point, China forced to come out of the diplomatic closet and take centre stage. It was no mistake Xi used the Thucydides analogy in front of Trump. It was both an appeal for restraint and a warning that China will not back down.

China is an incipient imperialist nation, one still only latent. But the law of value respects no national border. Xi may sprout dross made up to sound like communism, but in the end he personifies the needs of capital. And as Chinese capital becomes increasingly international both industrial and financial, as Chinese multi-nationals emerge, as foreign investments multiply, so too will the kind of state which is required to supervise and enforce these external sources of surplus value, even if indirectly through supranational agencies, as the US once did under Bretton Woods. Making the *Chinese Nation Great Again* should not be confused with making the world great again. Only an international working-class revolution can do that.

Brian Green, 17th May 2026.

(In follow up articles I will be examining profitability in the US, Germany and Japan whose collective GDPs make up over 60% of global GDP.)