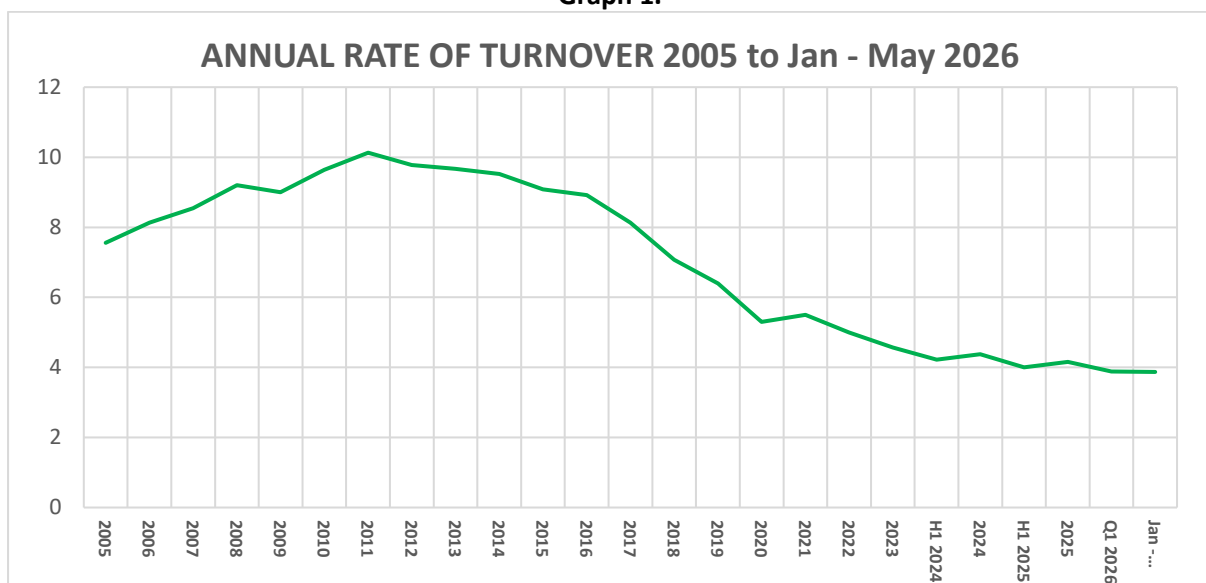


IS THE CHINESE ECONOMY IN TROUBLE?

The picture is mixed but concerning. Though investment and profits have picked up a closer examination shows how one sided these metrics are. In this sense, the Chinese economy exhibits the same features as the US narrow based growth, in similar but also other areas.

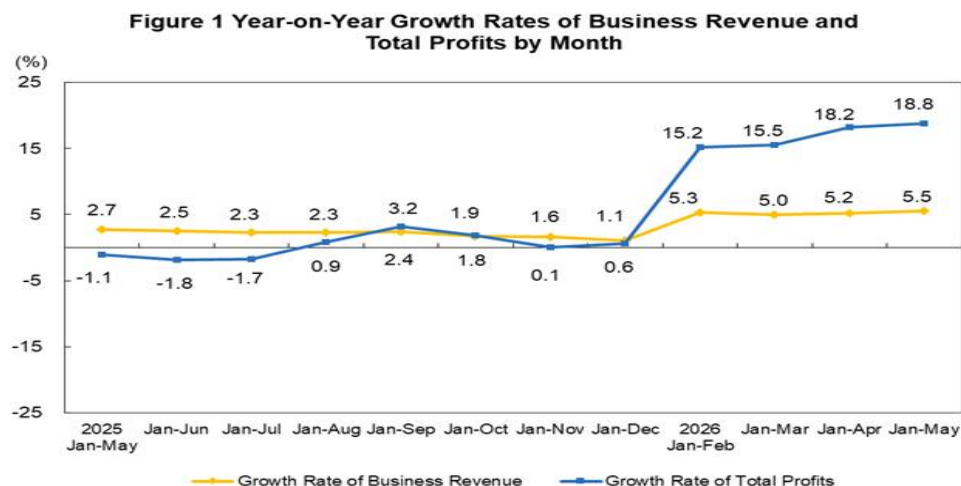
We begin as always with the rate of turnover as the primary indicator of general market conditions in China. It remains at all times low dragged down by extended payment periods. Extended payment periods always represent overproduction relative to demand as well as tight credit conditions. Trade credit is far and away the largest element of credit, exceeding credit from banks including mortgages and credit to governments in the form of government bonds. It is also credit which needs to be renewed multiple times a year, in this case every 94 days on average given a current rate of turnover of 3.87. It is for this reason that Marx viewed the failure of trade credit, when the moment cash became king (Cash on Delivery) as the onset of the financial crisis.

Graph 1.



Despite the rate of turnover being in a trough [the annual increase in profits](#) accelerated.

Graph 2.



However, the sources of this profit growth as in the US, but with variations, remained narrowly based as this table taken from the official profit report published by the National Bureau of Statistics of China shows. Profit growth in major sectors was limited to non-ferrous metals, chemicals and of course the electronic industry, the single biggest sector. These three sectors represent nearly 30% of turnover and profits. (They are highlighted in yellow in Table 3 below.)

On the other hand, in line with falling retail sales, those sectors closely aligned with retail all saw profits drop. They are highlighted in green. And finally, and critically, we see stagnation in the production of electricity which only grew by 1.1% despite the voracious appetite of the blossoming data centres.

Table 3 Key Financial Indicators of Industrial Enterprises above the Designated Size from January to May in 2026 (By Industry)

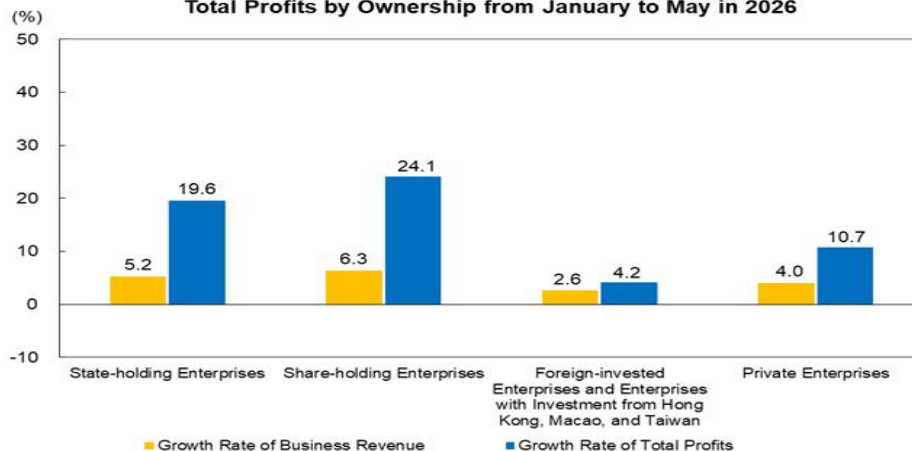
Industry	Business Revenue		Operating Costs		Total Profits	
	Amount	Growth Rate Y/Y	Amount	Growth Rate Y/Y	Amount	Growth Rate Y/Y
	(100 million yuan)	(%)	(100 million yuan)	(%)	(100 million yuan)	(%)
Total	565506.8	5.5	480386.2	4.7	31439.6	18.8
Mining and washing of coal	11177.5	6.7	7836.3	2.9	1689.1	33.5
Extraction of petroleum and natural gas	5443.4	12.3	2832.9	9.6	1796.5	17.2
Mining and processing of ferrous metal ores	1785.3	-6.8	1403.9	-8.5	208.3	15.9
Mining and processing of non-ferrous metal ores	2208.9	36.7	1020.0	10.5	924.9	93.9
Mining and processing of non-metal ores	1163.7	-8.9	832.0	-7.9	141.9	15.1
Professional and support activities for mining	756.0	-13.7	706.6	-13.3	34.4	162.6
Mining of other ores	1.1	-8.3	0.8	-11.1	0.1	0.0
Processing of food from agricultural and sideline products	20754.2	3.0	19259.9	3.2	399.3	-13.3
Manufacture of foods	9147.2	5.5	7170.4	5.3	728.0	4.8
Manufacture of liquor, beverages and refined tea	5834.8	-7.2	3760.9	-5.6	953.2	-15.6
Manufacture of tobacco	7183.4	-1.8	1932.7	-1.2	986.0	-5.3
Textile industry	8705.3	0.8	7764.6	0.4	233.8	11.7

Manufacture of textile, wearing apparel and accessories	3933.0	-3.8	3317.7	-4.4	102.8	-11.4
Manufacture of leather, fur, feather and related products and footwear	2678.3	-3.8	2319.6	-3.6	88.9	-18.7
Processing of timber, manufacture of wood, bamboo, rattan, palm and straw products	2542.7	-15.1	2337.9	-14.9	47.4	-29.4
Manufacture of furniture	2125.8	-10.9	1771.3	-10.5	32.6	-58.4
Manufacture of paper and paper products	5669.3	3.5	5001.8	3.2	158.5	23.5
Printing and reproduction of recording media	2434.2	-1.8	2030.1	-1.8	103.7	-14.7
Manufacture of articles for culture, education, arts and crafts, sport and entertainment activities	5030.3	-3.1	4424.2	-3.5	147.1	-7.4
Processing of petroleum, coal and other fuels	22088.1	2.8	18337.7	-1.0	436.0	(Note 1)
Manufacture of raw chemical materials and chemical products	39067.4	8.9	33265.5	6.4	2471.4	71.6
Manufacture of medicines	9445.7	-1.5	5496.2	-0.7	1290.5	-1.3
Manufacture of chemical fibers	4170.9	0.3	3758.6	-2.7	173.9	136.9
Manufacture of rubber and plastic products	12297.9	1.6	10379.3	0.9	579.2	-1.4
Manufacture of non-metallic mineral products	15668.5	-10.7	13487.1	-10.3	252.8	-48.9
Smelting and pressing of ferrous metals	30328.5	-2.0	28936.2	-1.8	181.7	-37.4
Smelting and pressing of non-ferrous metals	45478.4	21.9	41896.2	19.0	2609.4	117.1
Manufacture of metal products	18719.4	1.9	16680.4	2.3	496.0	-12.4
Manufacture of general-purpose machinery	20365.4	4.0	16573.7	3.8	1261.3	-0.2

Manufacture of special-purpose machinery	15070.3	5.3	11792.3	5.4	867.8	-5.5
Manufacture of automobiles	42096.0	1.4	37396.6	2.3	1439.5	-19.8
Manufacture of railway, ship, aerospace and other transport equipment	7021.3	10.5	5812.5	10.3	549.2	5.2
Manufacture of electrical machinery and apparatus	47575.2	8.4	41396.0	9.2	1934.0	-13.7
Manufacture of computers, communication equipment and other electronic equipment	75224.4	17.1	64194.6	13.9	4219.7	103.9
Manufacture of measuring instruments and machinery	4171.5	5.9	3099.8	5.9	323.2	-4.9
Other manufacture	848.7	4.9	696.8	5.0	43.8	-5.6
Utilization of waste resources	4629.0	2.3	4389.7	0.9	108.6	103.4
Repair service of metal products, machinery and equipment	1151.7	13.2	987.1	14.3	66.1	11.1
Production and supply of electricity and heat power	39907.2	1.1	35607.6	1.9	2834.5	-4.1
Production and supply of gas	9784.3	0.6	9147.9	0.3	376.3	9.0
Production and supply of water	1822.9	-3.0	1330.8	-3.0	148.4	-2.4

In addition, the source of profits has changed recently. Profits which were growing more strongly in the private sector have subsided, overtaken by profit growth in the state sector.

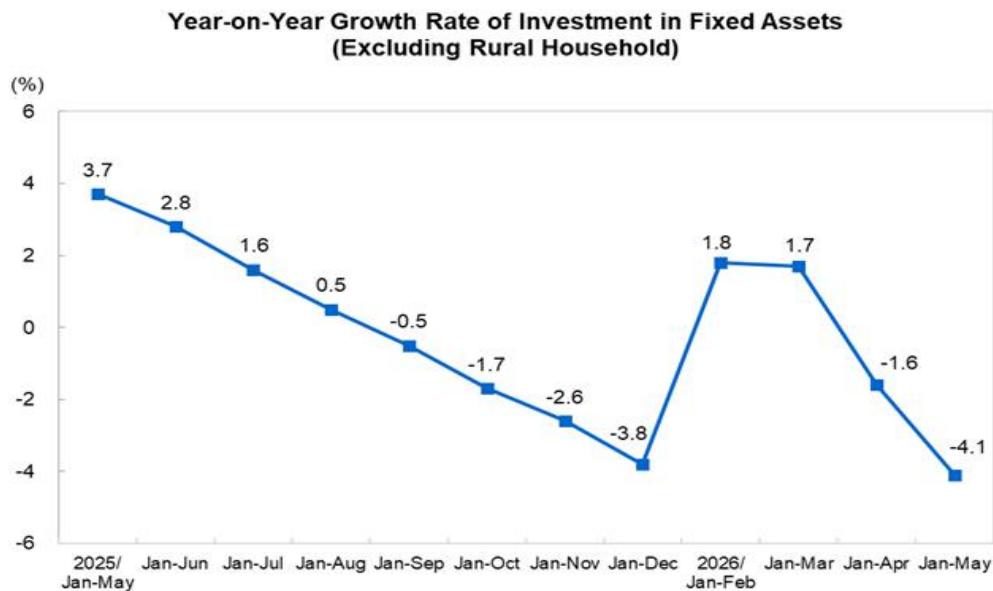
Graph 3 Figure 3 Year-on-Year Growth Rates of Business Revenue and Total Profits by Ownership from January to May in 2026



Further confirmation of the narrow-based profits, [is the fall in overall investment](#). “By industry, the investment in the primary industry was 388.7 billion yuan, a year-on-year increase of 5.9%; the

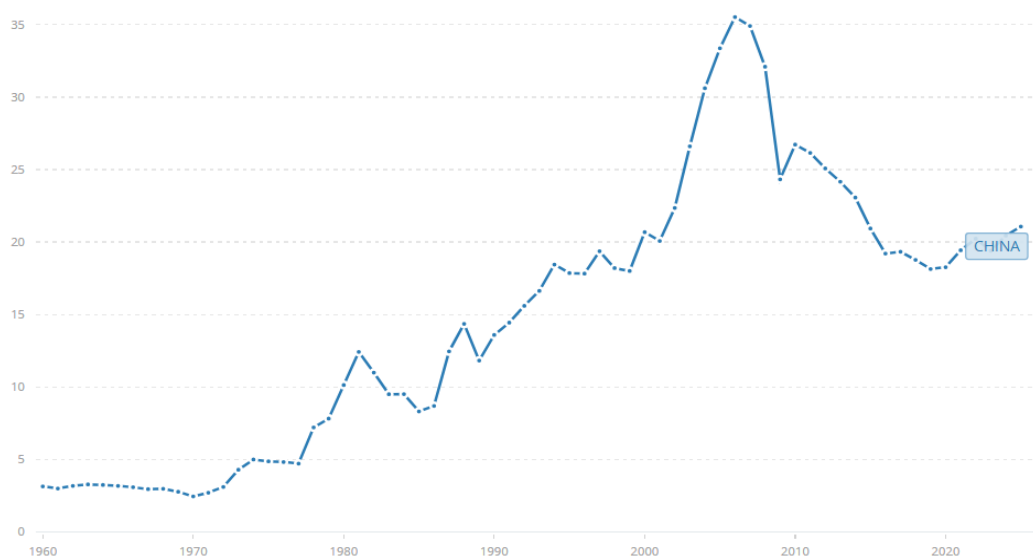
investment in the **secondary industry was 6,498.9 billion yuan, up 0.1%**; and the investment in the tertiary industry was 10,963.6 billion yuan, down 6.8%.” (My emphasis) Secondary industry is the heart of the Chinese economy including manufacturing where investment was actually down by 0.4%. Manufacturing investment would have fallen even further, were it not for the 6.7% rise in investment in the electronic sector (like in the USA).

Graph 4.



The only bright spot is exports. [Exports as a share of GDP](#) has risen from 18.1% in 2018 to 21.1% in 2025. In Yuan that is a rise from Yuan 17.6 trillion to ¥ 29.5 trillion a rise in dollars equal to \$1.7 trillion. In the same years imports fell from 18.1% of GDP to 16.9% or by \$0.69 trillion

Graph 4. (Exports % of GDP)



If we add the rise in exports of goods and services to the fall in the imports of goods and services, it amounts to 4.2% of GDP. In terms of dollars comparing when 2025 to 2018 the difference is equivalent

to \$2.38 trillion. One of the reasons is that Chinese exports have increased in value rather than just in volume. China is now focusing on higher value products. *“High-tech and mechanical products dominate, accounting for **58% of total exports**, while electronics alone represent **35%.**”* To service the wave of exports China has built 70% of the world’s automated container terminals.

What this shows is that China remains hyper-competitive and once its *Extreme Ultraviolet Lithography* machine enters serial production, the last major choke point will have been lifted, and from a manufacturing point of view, China will become unassailable. It will no longer have to work around Western sanctions. In the meantime, China will continue to export its overproduction weighing on the rest of the world economy.

In contrast its consumers are inactive. Retail sales, the main indicator of spending, is in the doldrums. *“[Retail sales](#), a key gauge of consumption, slid 0.6% in May, data from the National Bureau of Statistics (NBS) showed, reversing April’s 0.2% rise and below the estimated 0.0% in a Reuters poll. It was the first monthly fall since December 2022.”* So much for ‘dual circulation’, the internal market complimenting the foreign market.

Bank credit too is weak. Bank credit is a forward-looking indicator, and weak credit growth, especially in period of taut trade credit resulting from slow turnovers, spells trouble for the economy. *“[Lending activity](#) remains concentrated in policy-supported sectors—infrastructure, green energy and advanced manufacturing—whilst property-related lending, unsecured consumer credit and SME borrowing remain structurally weak,”* Fitch said. In April New yuan-denominated loans contracted \$1.47 billion (¥10 billion). *[Chinese banks’](#) loan growth is expected to remain sluggish throughout 2026 as retail confidence remains weak, said Morningstar* which is confirmed by the retail data cited above. There have also been [reports of rising defaults](#). This weak credit growth is not new, it began in 2024, partly driven by debt blighting local government finances.

Many Marxists see China as a unique economy, not entirely capitalist. This view does not persist once one enters the front door of Chinese banks. The directors of these banks act as any banker would, lending only if they assess they will be repaid. Like bankers all over the world they do not want to be held accountable for the loss of liquidity should bad debts soar. Thus, when the [Peoples Bank of China](#) sets lending targets, they seek to minimise their risks. Accordingly, they focus their lending on priority areas of the economy knowing government support there improves solvency. Or they buy commercial bills and government paper which circulates debt but does not increase loans. Finally, if they still fall short, they create phantom loans, what is called in the jargon, *quick-lend-and-recover*, and which the government is beginning to crack down on. In sum weak credit growth is a vote of no confidence in the economy.

Conclusion.

The key discussion is the titanic struggle between China and the USA. Which country will prevail? China has the industrial upper hand while the US, with over a century of imperialist accumulation under its belt, has the financial upper hand. The financial upper hand provides current advantages, while the industrial upper hand provides longer term advantages. Financial strength is based on stored value while industrial strength is based on the production of new value. At some point the production of new value surpasses stored value especially when war is involved.

The lingering effect of US imperialism's hold on the world market can be measured by the size of their multi-nationals and the centralisation of capital over decades. This is revealed by [Fortune's Global 500 \(2026\)](#) covering the largest listed companies in the world. The US has 25 of the top 50 while China has only 12. In the top 500 the race is closer China has 124 vs 138 for China. Most of the US corporations produce in every corner of the world market unlike the Chinese. [US corporations employ 44 million workers](#) in plants and offices outside the US which results in 35% of production taking place abroad. China has still to play catch up.

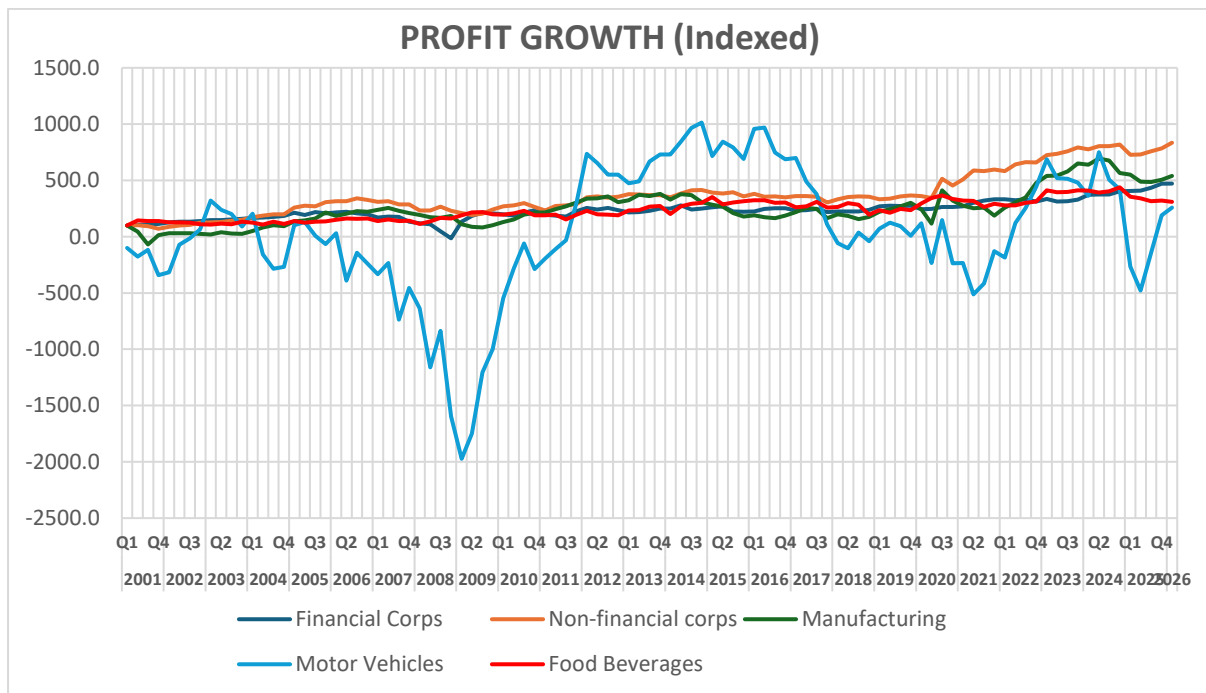
In terms of profit US corporations make three times as much profit but this is mainly due to the concentration of profits in the tech industry as this [remarkable graphic shows](#). And as these Tech corporations grow so too the does gap between US and Chinese corporations, but this may not endure.

Graph 5.

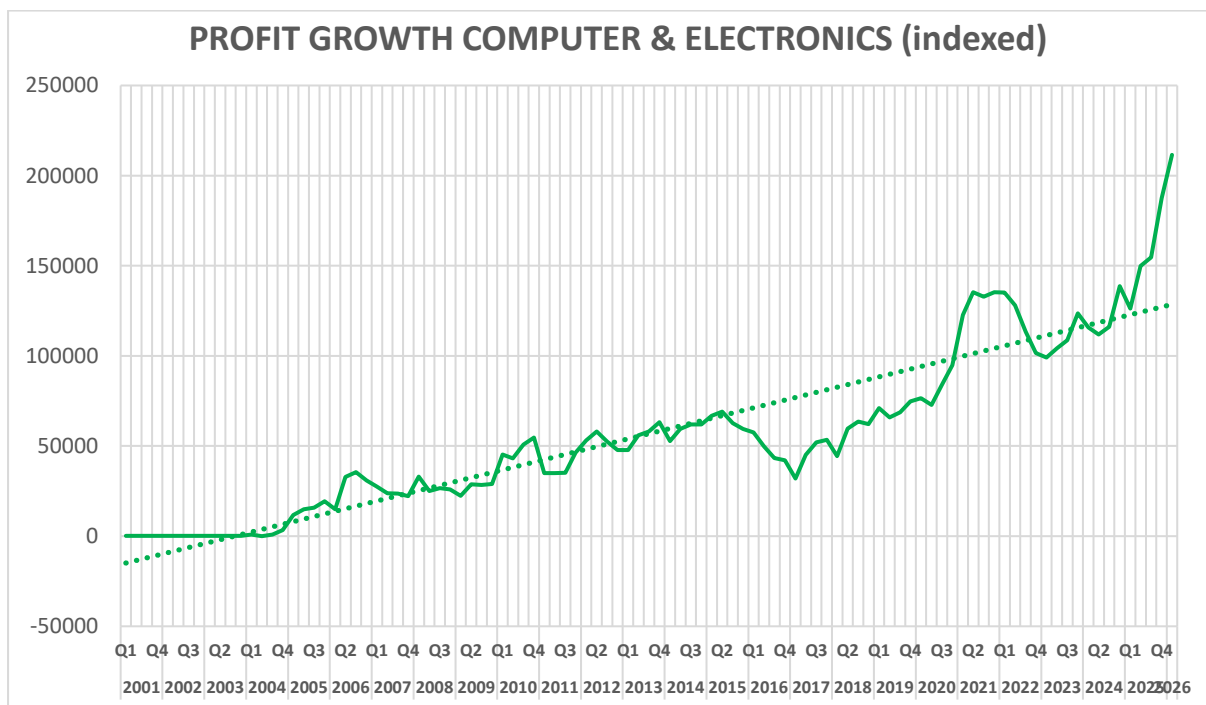


Let's take this further to show how narrowly based these profits in the US are. More so than in China. This can be seen in the two graphs below taken from the data in [NIPA Table 6.16D](#). Both graphs are indexed to show relative growth. Of note is the graph for non-financial corporations which has outgrown financial corporations, or by 8.3x compared to 4.7. But this has been due to only one factor, the growth of profits in the computer and electronic industry whose rocket like performance can be seen in Graph 7. The proof lies in the comparison between durable manufacturing where electronics resides and non-durable. Unlike durable, non-durable profits are well below their recent peak. (Graph 7 is overstated because the base year coincides with the Dotcom crash which wiped out profits until 2004. As a share of non-financial profits, IT profits increased from 3 to 7%.)

Graph 6.



Graph 7.



Returning to the Global 500, [up to one third of profits come from finance](#) and here again the US excels. The US share of the world's financial markets is over 40% or roughly twice that of its GDP. Today's *City on the Hill* is Wall Street. It has attracted over \$22 trillion in foreign 'investment' (if that word can be used). This is over ten times the amount Trump's arm twisting of foreign governments has achieved, or not, which is equal to over a quarter of the market cap of all listed shares on US markets. China cannot match it. And of course, the Dollar remains the world's reserve currency.

Both countries' economies remain fragile though the US seems to be more dynamic. But this may be a false representation as the shimmer of the AI bubble in the US obscures what is happening in the rest of the economy and in shadow banking. But China retains the competitive advantage. Even in AI this is true though this is localised to the software side. For example, 80% of US startups use Chinese open-source models because they are far more cost-effective than US models, to the point that the Whitehouse is actively discussing banning these models in the USA.

In the long run it is the gusher of surplus value which counts. The US enjoys monopoly profits for the time being though this will not endure under the pressure of Chinese competition. By degrees Chinese companies will become true multi-nationals harvesting more surplus value from the rest of the world. As competition intensifies in a stagnant world market, and the oil price is the canary in the coal mine, so Chinese competitive advantages will grow.

With the Straits of Hormuz closed once more, the fragile world economy will be stressed again. At some point confidence in oil supplies will wilt especially now that US strategic reserves are hitting rock bottom, literally. Then there is the upcoming El Nino event. And as looks likely, the fate of the AI bubble will be decided this year. 2026 is looking at becoming a pivotal year, if not a historical one.

Brian Green, 12th July 2026.