CHINA'S ECONOMY MANIFESTS THE SAME WEAKNESSES AS THE US ECONOMY.

Like the US economy propped up on AI and consumer spending by the rich, the Chinese economy is propped up by AI and exports. Like the US economy where consumer spending is under threat as capital gains evaporate so the Chinese economy is under threat as exports face a weakening global economy. This article has more up to date data than that found in the USA.

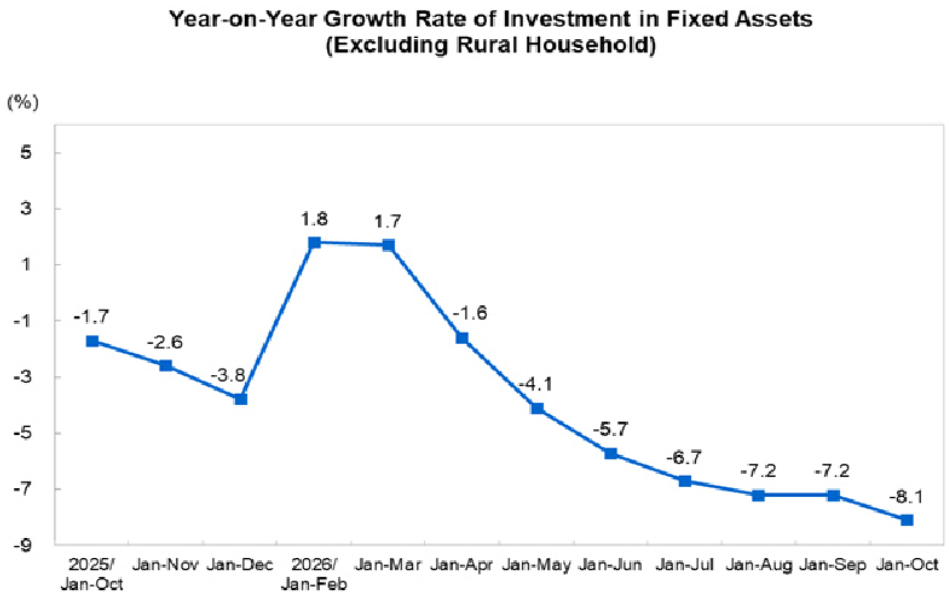
I will begin with the meeting of the three most powerful leaders in Shenzhen, a clean and vibrant city which had Trump's tongue hanging out in envy. Many have compared this meeting to the Yalta meeting towards the end of WW2. No doubt this view was swayed by the Communique put out after the meeting which was designed to show them as statesmen grappling with global problems in the form of the UN, nuclear weapons and the oil industry, while also grappling with personal problems in the form of criminal prosecutions. This view is wrong. Yalta represented 3 victorious allies who were winning on the western, eastern and Pacific fronts. Today, China and Russia are victorious allies, while the US, despite Trump's staged handshakes, is an adversary losing on the Ukrainian and Iranian fronts.

It was nothing more than public political theatre designed to fool the masses. The war in Ukraine and Iran continues and is even being extended in the case of Ukraine. The communique testifies to how much Trump has been weakened by the mid-terms, forced to be conciliatory. No doubt this has offended the neo-cons, the China hardliners, who will reassert themselves when the Democrats rule the new Congress beginning in January. They will mount a last desperate attempt to break China economically, in the year when China's indigenously produced EUV Lithography machine finally goes into production closing the last major technical chokepoint.

Chinese data.

Let us begin with the adrenaline which fuels economies - investment. As Graph 1 shows, investment continues to weaken dragged down by real estate investment and no longer supported by manufacturing investment, due to weakness in the consumer facing sectors, highlighted by the weakness in retail sales found in Graph 2.

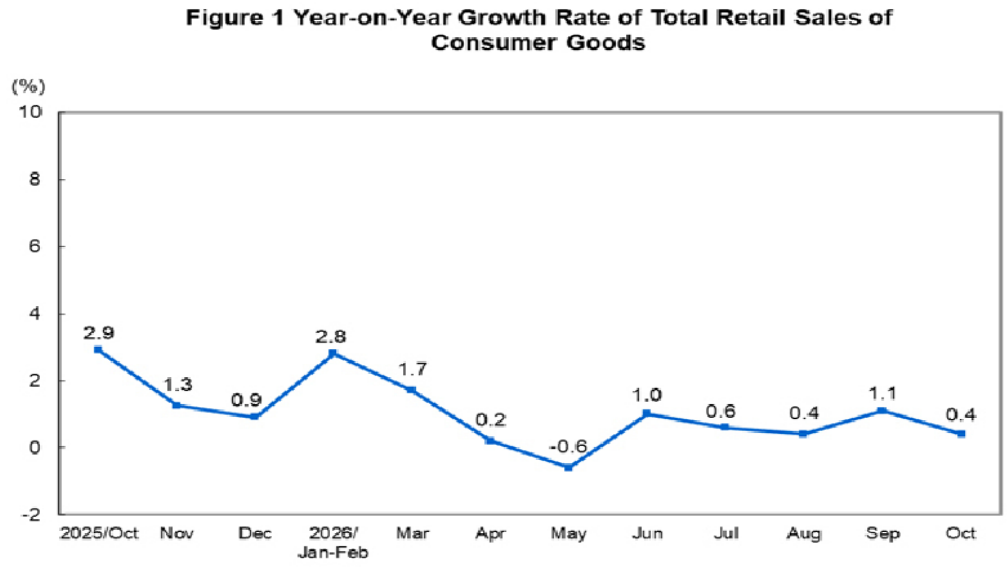
Graph 1.



"*The investment in the secondary industry was 14,233.3 billion yuan, down 3.6%; The investment in infrastructure (see Annotation 1 for details of statistical scope) decreased by 5.1% year on year. Specifically, the investment in information transmission increased by 32.0%, and computer equipment investment rose by 9.9%. From January to October 2026, non-governmental investment in fixed assets decreased by 11.4% year on year.*" (The secondary sector represents the goods producing sector)

Manufacturing investment fell by 2.9% dragged down by consumer goods production. Education investment fell by 15.7% and healthcare investment by 14.1% in this 'socialist paradise'. China's dual circuit is failing; while export sales continue strong, internal sales remain weak.

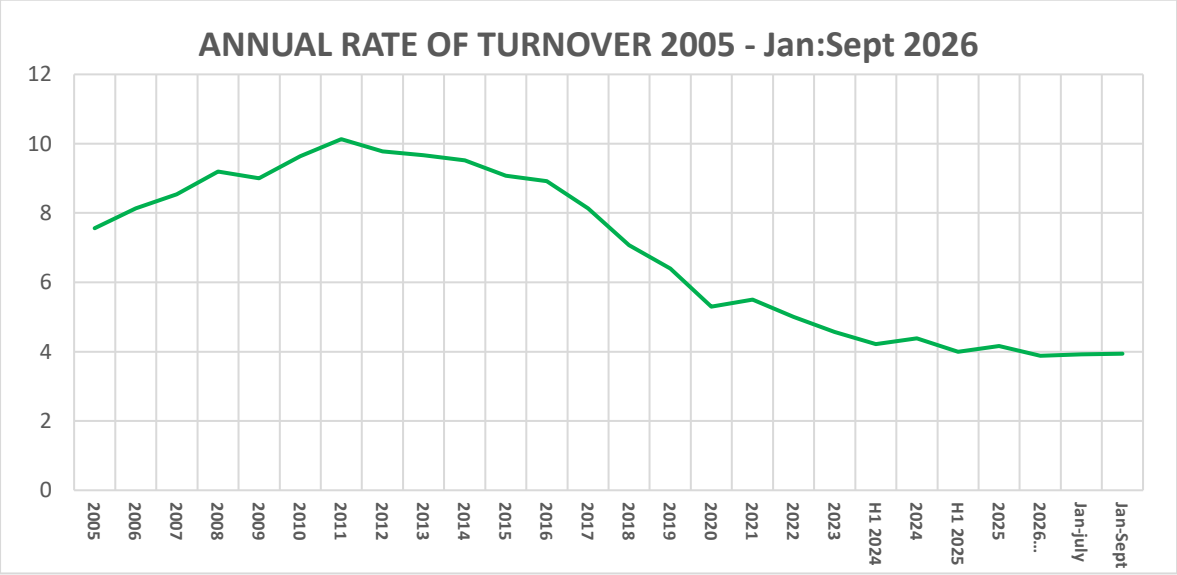
Graph 2.



"In October, the retail sales of consumer goods in urban areas reached 4,009.8 billion yuan, up by 0.2% year on year." Motor vehicles were down 15.5% showing how important export markets are.

Due to weak market conditions the annual rate of turnover continues to languish at around 4.

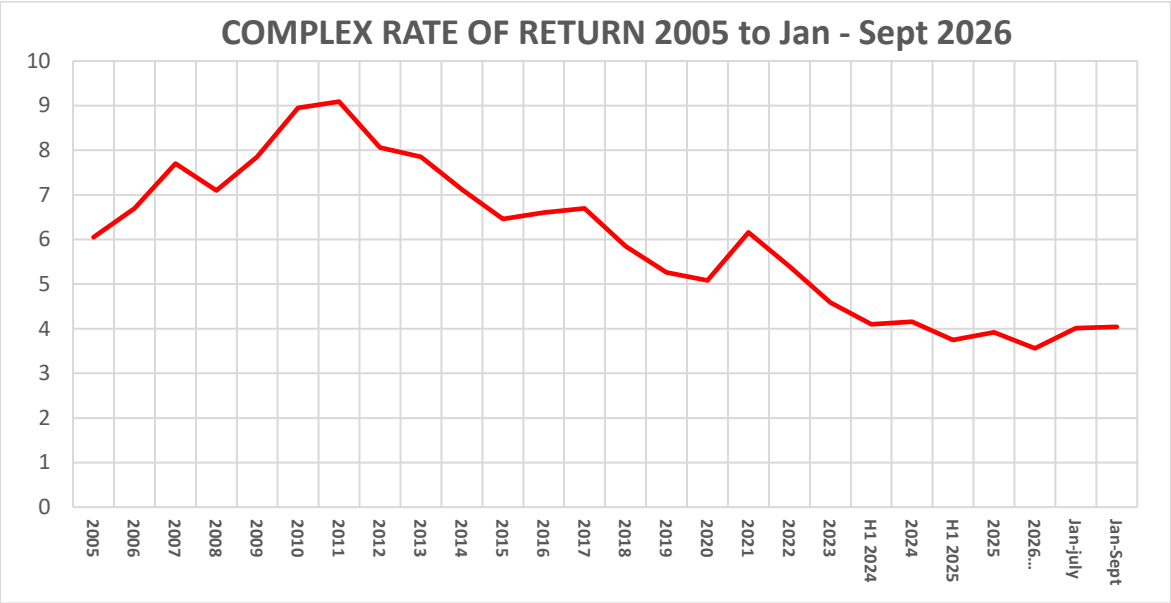
Graph 3.



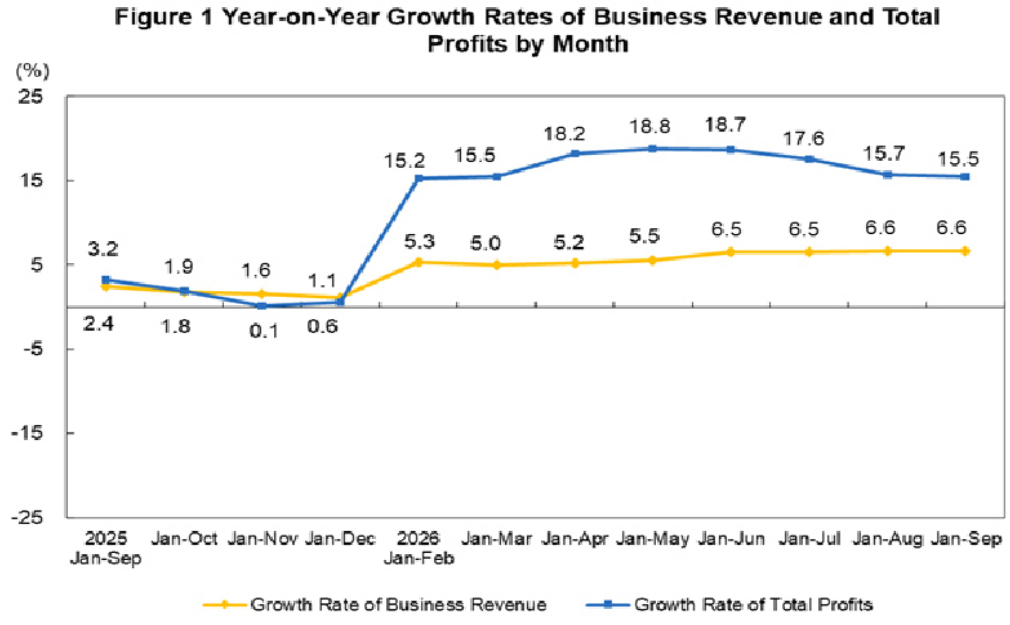
The rate of turnover, or what is the same thing the circuit of capital. is the best indicator of general market conditions. A deceleration in the rate represents a fall in demand and raises the requirement for more working capital in the form of additional trade credit or bank credit. The slow rate of turnover always stresses the banking sector as loans are not used to generate more value but to preserve existing value. Currently the average circulating period is nearly 93 days. (My calculations for turnover and the rate of return can be found on the attached post 'Chinese Industrial Profits up to Q3 2026'.)

In the context of a decelerated rate of turnover the rate of profit struggles because it takes longer for profits to be realised, longer for surplus value to be converted into cash (revenue). However, there has been a bit of an uptick in profits due to AI, but the rate remains range bound over the last three years, unlike the USA. The growth in the mass of profits can be seen in Graph 5.

Graph 4.



Graph 5.



Profit growth slowed to 14.4% in September from an annual growth of 15.5%. Graph 5 shows a declining trend in profit growth. At best China has stabilised the decline in the Complex Rate of profit. Here is a summary of the sectorial profit growth or fall. Note the sparkling performance of the electronic sector which I have highlighted. The other rising sectors benefited from the Iran war. On the other hand, profits fell in the key auto sector.

"*From January to September, the profits of main industries were as follows:* ***the profit of the manufacture of computers, communication equipment and other electronic equipment increased by 103.8% year on year****, that of the smelting and pressing of non-ferrous metals increased by 79.7%, that of the mining and washing of coal increased by 57.0%, that of the manufacture of raw chemical materials and chemical products increased by 49.2%, that of the extraction of petroleum and natural gas increased by 21.3%, that of the textile industry increased by 7.2%, that of the manufacture of general-purpose machinery increased by 1.9%, that of the manufacture of special-purpose machinery decreased by 1.3%, that of the manufacture of electrical machinery and apparatus decreased by 5.9%, that of the processing of food from agricultural and sideline products decreased by 17.3%, that of the production and supply of electricity and heat power decreased by 17.9%,* ***that of the manufacture of automobiles decreased by 22.8%,*** *that of the manufacture of non-metallic mineral products decreased by 46.9%, that of the smelting and pressing of ferrous metals decreased by 73.3%, and the processing of petroleum, coal and other fuels turned from loss to profit."*

Time to analyse exports. The destination of Chinese exports can be seen in the table below. Export growth to the West is much weaker than to ASEAN, while Africa is growing faster than Latin America.

Table 1. (one hundred million CNY)

Destination	Value	yoy increase
European Union	37,132.9	12.4%
ASEAN	48,472.1	25.0%
Hong Kong	27,687.7	43.9%
Russia	7,496.8	27.4%
India	9,638.7	20.0%
Latin America	19,663.7	11.6%
Africa	15,414.4	18.9%
USA	27,098.3	7.3%
TOTAL	**259,866.3**	**17.6%**

And as can be seen below in Table 2, when analysing the breakdown of exports, lower valued consumer goods exports are now only a fifth the size of the more advanced exports. From being the traditional supplier of consumer goods China is now a high-end competitor.

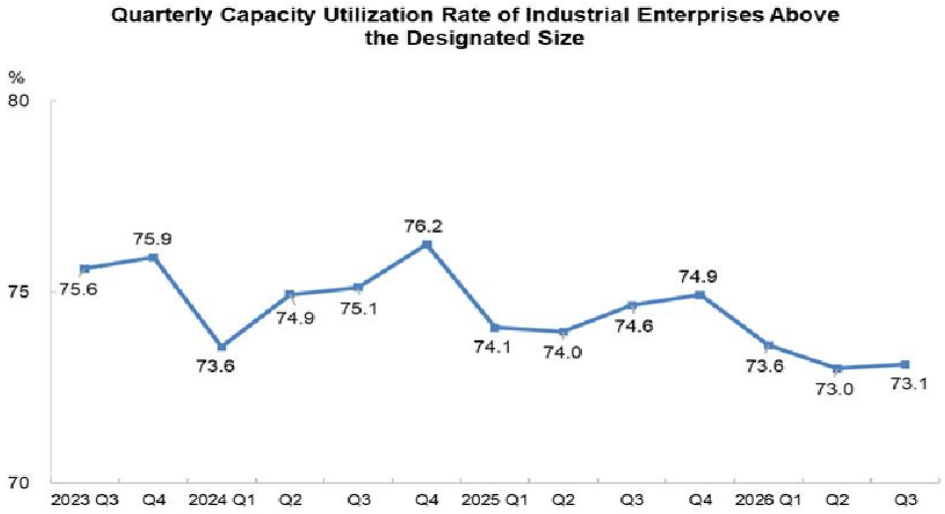
Table 2 (US Dollars)

High Tech Products	354,211,439
Motor Vehicles	119,104,697
Mechanical & Electrical Products	1,202,497,143
Consumer Goods	307,042,000

China like the USA is heavily indebted. The CCP whose political rule is brittle and whose legitimacy depends on economic growth cannot afford recessions. But recessions are not optional they are part of the physiology of capitalism. They are needed to restore profitability, they are needed to purge excess debt, and they are needed to curb overproduction. The CCP has usurped the market in this instance curbing market forces and managing down excesses while supporting the economy. All they have achieved is to substitute a lingering or chronic long-term decline for a short or acute correction, which is clearly more painful politically. But as the saying goes, no pain no gain, which sums up recessions followed by recovery.

Graph 1 and the collapse in investment is testimony to the absence of the pruning of capital. Despite the fall in investment, Capacity Utilisation continues to be weak. Capacity Utilisation acts as a proxy for the presence of excess capital. In manufacturing, Capacity Utilisation stood at 73.3% which was close to the average. In comparison the current Capacity Utilisation in the market driven USA is 76.2%, down from the historical average of 79.4%

Graph 6.



Once upon a time investment drove the Chinese economy. Now it holds it back. Once upon a time investment represented over 40% of GDP, by 2027 it will have fallen into the 20-30% range, no higher than found in some competitor nations. Western economists who encouraged the CCP to change the direction of the Chinese economy from investment to consumption have had their wish fulfilled, but by default, at least half of it, investment is collapsing. As for the other half, consumption, it is lagging, and so it should in an economy where less well-off consumers must save, because the Chinese welfare net is absent. Shamefully, it is at the same level as Kazakhstan measured against GDP. If the CCP wants to stimulate consumption it needs to create a welfare state not a poor state.

China's national debt is currently 104% of GDP. This includes local govt debt which is treated separately in the USA to the Federal Debt. When combining the approximately 2.7 trillion Dollar of local debt in the USA with the Federal Debt, the comparable figure adds up to 134% of GDP. While the US figure is significantly higher, there may be a degree of underreporting of local debt in China. The strain in public finances in China has led the government to widen the net on rich Chinese who avoid taxes especially on their foreign holdings.

In an economy that is struggling outside a few key areas, banking stresses have increased. "*Chinese banks no longer generate organic capital due to lower profitability and asset quality issues," said Alicia Garcia Herrero, Natixis CIB chief economist for APAC & Middle East; and senior economist Gary Ng. "Without government help, the capital adequacy ratio would have fallen in 2024."* This explains in part, the closure of 23% of Chinese banks in the past four years, and on the other hand, to the injection of $70 billion into some of the more solid larger State-owned banks. Even with this safety net the larger state banks remain reluctant to lend despite urging by the government.

Credit money or new loans declined year on year. "*New loans totalled 10.44 trillion yuan in January-August, down from 13.46 trillion yuan in the same period last year, highlighting tepid demand."* Lending to households for consumption was particularly weak due to consumer reluctance to take on debt to finance additional consumption. Household loans fell for four months in a row a record stretch. Total Social Financing the more important figure because it includes the issuance of Bonds, has also continued to fall. In the first ten months up to October, it was down by 2.29 trillion Yuan to 28.61 trillion though September/October reduced the downward trend.

In addition, Chinese stock markets continue to languish below their 2021 highs and are at 52-week lows. This is clearly not a vote of confidence in the future of the economy.

Graph 7.



Interest rates tell the same story with an unchanged central bank rate lasting 18 months now extending to 19 months if we include the decision at this November's meeting of the PBOC.

Conclusion.

The three leaders in Shenzhen, minus one from the EU or Britain, showed their confident even optimistic face. But each statesman sat atop economies that weren't as confident. It was more a case of them needing to lean on each other rather than offering handshakes. The global economy remains delicately poised and vulnerable to missteps. In my previous article I listed the fall in commodity prices. Chinese diplomacy has one objective, smooth the waters, stabilise the world economy to maintain its export markets. Iran has been the victim of this need to minimise conflict. The US, less dependent on the world market has the advantage over the Chinese. It can be more disruptive without harming the national interest as we have seen.

Both China and the USA remain dependent on the AI boom. China is less vulnerable to a downturn in AI. Its companies are less overvalued, it is less over-invested and indebted, its products are more competitive, and the industry is more balanced with an infrastructure able to cope with any expansion. In the long run China will win the AI race despite hardware shortages which have been made worse by Nvidia being barred from supplying chips to companies located outside China but used to provide computing services within China itself. Tencent's President acknowledged this would slow down software advances temporarily in China. And given that it could impact up to 20% of Nvidia's sales, this reliance of Nvidia chips is substantial.

China is the world's factory. It is responsible for a large share of the value produced in the world, though not all of it is realised within China itself. Over the last ten years China has been the dominant driver of global economic growth, at 30%, its share of global growth is three times greater than that provided by the USA. In many ways the world economy remains more dependent on China then the US, while the US with its financial excesses, remains a bigger threat to the world economy.

But this stimulus is waning. With investment declining and personal consumption flat, China will be hard-pressed to maintain a 5% GDP growth rate. Under these internal and external circumstances, competition is bound to increase in international markets, and with-it political tensions between nations, as each seeks to offload their problems onto their competitors. Once again 2027 beckons.

Brian Green, 24th November 2026.