China’s Economic Slowdown: A Superpower Stalling?

China was once widely considered to be the country that would dethrone the US as the world premier economic superpower. However, after decades of double-digit expansion, China’s economy is experiencing a marked slowdown. Under the leadership of Deng Xiaoping, in 1978 the Chinese Communist Party ushered in a wave of market-based reforms which revolutionised the economy and ignited rapid growth within the country. The current state of the Chinese economy is a far cry from this.

China’s era of rapid growth has cooled, decelerating from over 14% in 2007 to 3% in 2022 (the slowest rate in decades) due to China’s zero-covid policy. Official figures suggested a growth recovery to around 5% in 2023 but some analysts speculate actual growth was markedly lower (around 2.5%). The reduction in trend growth reflects the structural issues facing the economy: a real estate crisis, falling foreign direct investment, an aging population and rising local government debt.

One of the most prominent drags on China’s economic performance is the real estate downturn the country is facing, following the burst of the property sector bubble. At its peak, the property and real estate sector contributed nearly a third of GDP. The boom collapsed following China’s tightening of credit which exposed debt-ridden developers. Evergrande, once the largest real estate developer in the world, defaulted on its debt in 2021 fuelling a liquidity crisis in the sector as well as leaving hundreds of projects unfinished. Estimates vary, but the country has roughly 60 million unsold homes which will take around 4 years to sell without government aid. This extensive oversupply has placed downward pressure on property prices, with house prices having fallen since the industry collapsed. House prices declined roughly 6% in 2024. This brings with it wider implications for the economy, eroding household wealth in a country where houses are a primary store of value. Since the start of the real estate crisis the sector has increasingly been propped up by the state, with state-backed developers having acquired more land than private developers for each of the last three years. Most economists acknowledge that reinvigorating growth cannot happen without first stabilising real estate, but a comprehensive plan to save the industry is yet to materialise.

The foreign direct investment that drove much of China’s growth has slowed dramatically in recent years (falling roughly 30% in 2024) due to geopolitical uncertainty and the growing desire to diversify supply chains. Many multinational corporations are now pursuing ‘China+1’ strategies, adding alternative production bases in countries like Vietnam, India and others to reduce dependence on China. The trade war started by President Trump in his first term contributed significantly to this supply chain reorientation and the tariffs currently being weaponised by Trump are likely to exacerbate this. The aim of these ‘China+1’ strategies is to de-risk supply chains from China, which will limit company exposure to tariffs, recent regulatory crackdowns by the CCP and the risk of China invading Taiwan and a subsequent war.

Alongside the economic struggles plaguing China’s economy, the country continued to undergo demographic issues, with China recording its third consecutive year of population decline in 2024. Last year was the year of the dragon and as usual this led to a boost in birth rates but despite this being the first rise in births since 2016, it failed to overcome the downward population pressure. The declining population is the legacy of the one-child policy introduced in 1979 and has had profound consequences for the Chinese economy. The country faces a shrinking working age population, greater pressure on labour productivity and a rising dependent population. Hence, China’s demographic policies have shifted dramatically since the one-child policy, with the country now using subsidies, tax breaks and persuasion techniques, such as cold calling married women, to encourage couples to have more children. Policymakers are also pursuing automation and robotics to maintain productivity and compensate for the declining workforce.

Moving forward from China's troubled present, what does the future of the Chinese economy look like? The country faces an arduous recovery path in the immediate future. The short-term outlook will be determined by property stabilisation efforts, the direction of consumer sentiment and the impact of Trump's trade war. However, China's history is riddled with crises that they have overcome so it would be foolish to disregard their capability to recover from their current economic challenges. China is still capable of producing innovative companies which have a global impact. This is evidenced by Deepseek's newest AI model which achieved a quality of output similar to US large language models but with apparently far less capital expenditure. This led to a historical fall in the value of Nvidia, leading to shares falling 17%, erasing $589 billion of its market value. This highlights China's ability to still have global impacts despite a slowdown. For the world, China's economic trajectory will have profound implications. A thriving China could be a source of innovation, markets, and stability in global growth, whereas a struggling China could export deflation, geopolitical tension, and uncertainty. As of now, China stands at a crossroads between revitalisation and stagnation, and the coming few years may well set the course for decades ahead.