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Beijing's Big Problem: A Shrinking Economy

BY JON EMONT

By most standards, China's economy has never been stronger. Its exporters have powered the country to a \$1.2 trillion surplus with the world. It is the global leader in strategically important industries such as electric vehicles, solar panels, shipbuilding and humanoid robots.

Yet, by one important measure, China's global heft is shrinking. In dollar terms, China's gross domestic product, as a share of the global economy, peaked in 2021 at around 19%, when it grew to be around three quarters of the size of the U.S. economy. Many economists predicted China's growth would eventually make its economy bigger than that of the U.S.

Instead China's share of the pie has decreased, ending 2025 at around 17% of the global economy. It is now less than two-thirds the size of the U.S. economy, according to International Monetary Fund data.

Beijing continues to post growth figures that easily exceed developed countries. Although China's government has projected lower growth for 2026 than any year since the early 1990s, it still expects to grow at 4.5-5% in real terms, double the typical rate of the U.S. over the past decade.

But a combination of do-

mestic deflation, which reduces the value of goods in the economy, and a weak yuan has zapped the relative size of China's economy as measured in dollar terms. So even though China's economy has been producing more goods than ever, the dollar value of what it makes has been stagnant.

"It puts a big dent in the narrative of China being the rising power globally," said Mark Williams, chief Asia economist at Capital Economics.

The shift is about more than economics. For China, growing economic clout is a point of pride and a sign of geopolitical strength.

There are different ways to measure the size of a nation's economy. Measuring it in dollars assesses China's overall weight in the global marketplace. Another method, purchasing power parity, shows how much Chinese can purchase at home. According to this yardstick, China's economy far exceeds the U.S.

A different measure is to compare economies using dollars from a fixed point in time, thus eliminating the effects of inflation. By that gauge, China is growing consistently.

But economists often compare the size of economies using present-day dollars because the dollar is the currency of international trade and a measure of actual buying power globally. That makes China's shrinking share of the global economy worrying for global businesses, whose investments in China bring home less in dollar terms now.

When China's relative weight began declining several years ago, companies were caught out.

In a 2016 speech in Beijing, Pablo Isla, chairman of Spanish retailer Inditex, the parent company of Zara, declared that "China is the number one priority." From 2010 to 2018, Inditex averaged roughly a new store opening in China every week. By 2018, it had nearly 600 outlets in mainland China.

But soon China's economy faced challenges. A generally weaker yuan after 2015 made sales earned in yuan less valuable when converted into euros or dollars. Moreover, the onset of deflation and competition from homegrown

brands have made competing in China a slog for Western brands.

“Everybody wanted to get into China because there was this perception that it was this hugely growing market,” Williams said. “But if it’s not growing in dollar terms and dollars is what you’re earning if you’re the foreign firm trying to sell to China, then that re--ally undercuts that narrative.”

From 2018 to 2026, Inditex reduced its store count in mainland China by around 80%. Now, sales in the Americas, and even in Spain, exceed sales in the region dubbed “Asia and rest of the world.”

In a statement, Inditex said it has embraced e-commerce opportunities in China, and has opened some large stores there recently.

China’s economic situation echoes the economic trajectory of Japan, which grew to be nearly three-quarters of the U.S. economy in 1995, but has since fallen to less than 15% of the U.S., as a weak yen and deflation eroded the country’s buying power. Japan remains economically influential, but it isn’t the global juggernaut it was in the 1980s and 1990s. -Note

It is far from clear that China will continue on the same path as Japan. Still, China’s stagnant dollar economy is at the heart of many of its most trenchant problems.

Fierce competition at home that is driving prices and profits lower is pushing many Chinese companies to export instead of selling domestically. The weakness of the yuan also means they earn more selling their goods in dollars or euros. The result has been a huge export push that has overwhelmed foreign manufacturers who can’t compete with the flood of Chinese goods, straining trade relationships. -Note

Last month, the IMF wrote that China’s real exchange depreciation was contributing to strong exports and said the government should promote consumption at home. A separate IMF post noted that growth has been “increasingly dependent on external demand.” Chinese exports surged 22% in the first two months of the year.

China’s government has promised recently to push consumption at home, which could potentially boost inflation and expand the size of the economy in dollar terms.

Some economists see signs that China is turning a corner. The yuan has been strengthening against the dollar in recent months, which could mean that China’s share of the global economy, denominated in dollars, may be set for a rebound this year. Starting in 2026, the IMF projects China’s share of the global economy will start growing again, though at a very slow pace.

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