2026-7-17

China

WSJ Print Edition

The estimate of 4.3% GDP growth is below Beijing's lowest projection—and it's probably far too high.

POLITICAL ECONOMICS

China's Economy Is in Worse Shape Than You Think

You know something is awry in China's economy when not even the Communist Party can claim things are going according to plan. Witness this week's economic- growth data for the most recent quarter, which on closer inspection are shockingly bad.

Beijing's statisticians on Wednesday said the gross domestic product grew 4.3% year-on-year in inflationadjusted terms in the April through June quarter. China's economic data are notoriously prone to fiddling for political purposes. And only this March, the Communist Party set a GDP growth target range of 4.5% to 5% for the year, its most pessimistic since the 1990s.

When that target range was announced, this newspaper's editorial columns observed that it was less a realistic policy goal and more a statement of the highest rate of growth Beijing thought it could plausibly pretend to achieve. Four months later, the party is conceding that even that low target would strain global credulity.

Meanwhile there's accumulating evidence that the country's true GDP growth rate may be zero, or that the economy is in outright recession. Retail sales were a bright spot in the latest data, increasing 1% year-on-year in June, but looking across recent months this measure of domestic household consumption may be stuck in neutral. Measures of investment are in free fall: Fixedasset investment has declined 5.7% year-to-date and real-estate investment is down 18%.

Anecdotal observations also point to a recession. The big one concerns oil. Crude imports in July hit their lowest level in roughly a decade. In theory this could be explained by a drawdown in domestic stockpiles amid continuing disruptions in the Strait of Hormuz, but refinery output also is declining. The problem appears to be demand for energy within China, which is dropping rapidly.

Note

If none of the components that go into the GDP calculation are increasing to any great degree and China isn't consuming energy as a growing economy would, it's fair to wonder whether even the anemic GDP figure announced this week is confected.

Note

Many China watchers seem mostly interested in the shortterm political consequence of this week's poor data. Beijing has provided itself a handy excuse to launch more economic "stimulus" this summer to get back on track for the annual growth target. Stimulus could include some form of monetary easing or an attempt to shower more money on publicworks projects, and perhaps revived subsidies for household consumption of specific items such as mobile phones or washing machines could be extended.

Note

Notably, however, it's hard to find anyone who thinks any of this would launch a durable economic recovery. One reason domestic consumption is dipping is that previous iterations of the consumption subsidy (a trade-in scheme, akin to the Obama-era "cash for clunkers" in the U.S., that rewards replacement of old items) pulled forward in time purchases that households would

Note

have made anyway, without setting in motion a Keynesian virtuous circle of new corporate investment to meet higher demand. As for public works, China has enough and Beijing's more important fiscal priority remains bailing out heavily indebted local governments.

None of these measures would address the two most significant causes of the Chinese slump. Domestic consumption is unlikely to revive until the real-estate market has found its bottom. Until that point, households will continue to experience declines in net worth, which isn't conducive to more optimistic retail spending. Accelerating demographic decline makes all this worse.

That leaves exports. You may have noticed that amid all this domestic doom and gloom, China keeps exporting like gangbusters, with industrial production and export sales among the few bright points in the economic story.

An urgent global political-economy question concerns what China's apparently irreversible slowdown means for the rest of the world, and this is the answer. Absent any other convenient alternative, the Chinese aspire to export their excess domestic capacity rather than risking a debt-deflation spiral at home. You can't blame them for trying. But they're pursuing this strategy in a global political environment much less receptive to Chinese products than at any time in recent decades.

Note

This column sometimes draws comparisons between Japan in the 1990s and China today, but here is a contrast. Whereas the rest of the world mostly made its peace with Japanese exports as that economy slowed, it's unlikely China will benefit from a similar Western change of heart.

Japan's status as a democracy and a reliable American and European ally helped. Xi Jinping increasingly wants to accentuate China's political and strategic rivalries with its trade partners, either to pacify domestic political constituencies or out of sheer communist paranoia or dialectical dogma. How he attempts to square that with his economy's utter dependence on the goodwill of those rivals will determine whether and how China's economy ever returns to a stable growth footing.

By Joseph C. Sternberg