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To encourage growth, Xi Jinping offers subsidies for upgrades of business and household equipment.



POLITICAL ECONOMICS

China's Economy Is Clunkers All the Way Down

At this point you have to ask: Is China's economy real anymore? It might seem churlish to raise the question in a week when the economic news out of Beijing sounds so good. Investment was up in the first two months of this year—4.1% year-on-year fixed-asset-investment growth in January-February compared with 3.2% in December. China saw a boost to retail sales, and industrial production is holding up.

On top of all this, the Communist Party on Sunday unveiled a new stimulus plan. Beijing wants to pour more government money into social spending such as child care to free up household resources for other forms of consumption. Following several stimulus bazookas last year—mostly aimed at debt restructuring for local governments—those with sufficient will to believe can discern here an official commitment to economic rebalancing away from export manufacturing and toward domestic consumption.

Yet there's less than meets the eye to all of these purported sources of good news. A large portion of that fixed-asset investment growth is underpinned by Beijing's subsidies for manufacturers to upgrade their equipment. It's an industrial-scale "cash for clunkers"—the Obama-era program in the U.S. that subsidized trade-ins of old cars. This forced upgrading solves the riddle of how manufacturing investment could rise at a rate of 9% year-on-year the first two months of this year, up from 8.3% growth in December despite a looming global trade war.

Beijing is pulling off the same trick with retail sales. This measure of household consumption increased 4% year-over-year in the January-February period, compared with 3.7% year-on-year growth in December. But most of this consumption is driven by a similar cash-for-clunkers program, known as the trade-in scheme. Purchases of household appliances, home-renovation supplies, furniture and other goods covered by the program all far exceeded the average rate of retail sales growth, which means by definition that many other unsubsidized categories grew more slowly.

A particular howler concerns mobile phones, tablets and other telecom gear. Beijing expanded its trade-in policy recently to include these items, and sure enough those sales notched 26% year-on-year growth in January-February. Chinese households consume a growing amount of services, with travel a particular favorite. But when it comes to manufactured goods, you wonder if there's any consumption growth that the government isn't paying for.

Beijing apparently wonders the same thing. The Communist Party leadership earlier this month announced that the government will expand the fiscal deficit to 4% of gross domestic product this year, from 3% last year. China will devote some of this additional debt to financial engineering, as Beijing uses complex debt-swap arrangements (I'll spare you the details) to bring onto the government balance sheet various local-government debts linked to real estate that previously lurked in the shadows.

But a big chunk, perhaps 300 bil--lion yuan (\$41.4 billion), is earmarked for the retail trade-in program, double last year's amount. This week's stimulus announcement, which so far comes without a price tag attached, similarly is premised on the idea that only the government can spur household consumption, and only by handing households fistfuls of cash for various purposes.

Take all this as an admission that Beijing's official GDP growth target of "about 5%" is unobtainable via the organic workings of the quasi-market economy. That leaves President Xi Jinping to pay households to consume in ways that will create Potemkin

Russian price fake info -

GDP growth without any obvious or consistent productivity growth.

fake villages - *

The causes of this economic growth crisis are well-rehearsed. Mr. Xi's smartest decision was his 2020 move to prick China's real-estate balloon, the monumental inflation of property prices that left China reliant for economic growth on an unsustainable credit expansion. His worst economic failure has been not creating a viable alternative to the old property economy.

As the property credit bubble deflated, China needed a spurt of productive private investment and entrepreneurship. Instead the country got Mr. Xi's serial crackdowns on private enterprise and consolidation of economic control in the hands of an increasingly paranoid party-state apparatus.

The net effect is a doubling down on manufacturing and exports—a nearly \$1 trillion trade surplus last year—that are unsustainable and otherwise inexplicable given the growing global hostility to free trade in general and to trade with China in particular. Meanwhile, Beijing feels it must create costly new debt-financed household consumption subsidies to partially replace the debt-financed production subsidies of the old, property-driven regime.

What transforms this from an economics-textbook case study into a political-economy emergency for Beijing is the timing. In addition to the enormous benefits for China's households, a true market-led reorientation toward domestic consumption in recent years might have inoculated China from President Trump's trade wars and a general global environment that remains uncertain.

Instead, Mr. Xi falls back on the export dependence that so irritates trading partners while leaving China's economy as vulnerable as ever to foreign protectionism. Whatever his economic plan originally was, one assumes it wasn't this.

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