

FINANCIAL TIMES – 15 DICEMBRE 2025

China's \$1tn trade surplus is a problem for Beijing — and the world

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China's trade surplus hit \$1tn in just the first 11 months of 2025. This ought to be a warning sign to Beijing and the rest of the world. The burgeoning trade surplus dramatically illustrates China's export prowess. Equally, though, it highlights problems with its economy and the government's policies. Beijing's ambitions to portray itself as the defender of the rules-based system of global trade and promote its currency's prominence in international finance will also be thwarted by such a large surplus.

China's growth model is becoming increasingly difficult to sustain. PostCovid, the old playbook of credit-fuelled investment has sustained GDP growth despite a shrinking labour force and anaemic productivity. Weak growth in employment and wages, in tandem with falling property prices and lack of confidence in the government, have curtailed consumption. The resulting imbalance between factory output and domestic consumption leaves exports as the only option.

But China's export push is a bad omen for the global economy. The country has become a drag on worldwide consumer demand growth rather than a locomotive that pulls everyone else along.

High levels of investment, largely accounted for by state-owned enterprises, have not paid dividends in productivity gains or improved corporate profits. The government's bid to rein in high-flying private enterprises, and elevated trade tensions with the US, have damped business confidence and private-sector investment.

Beijing's latest economic assessment seems sanguine — after all, the economy is on track to register close to 5 per cent growth this year. The government clearly wants to rebalance growth and understands what's needed to bolster household consumption and raise productivity. Yet there is little sense of urgency and no clear timeline on concrete policy measures to accomplish these objectives.

Instead, the government is touting its readiness to use macroeconomic stimulus to counter any slowdown in growth. And, as usual, it is trying to fix a problem of its own making through topdown intervention. The recent "anti-involution" policy aims to corral cutthroat competition that has triggered deflation and driven down corporate profits. This won't do much for private sector confidence.

ence and has led to a sudden stall in investment. Lower interest rates and easier credit conditions are unlikely to gain much traction in these circumstances.

The path to rebalancing growth is well Reforms to labour markets, the financial system and fiscal relations between the centre and provinces, along with measures to strengthen the social safety net and bolster private enterprise, are essential. The services sector holds the key in many respects — it could generate better employment growth and also help fix the consumption problem.

Instead, high tariffs on exports to the US have been offset by a surge in exports to other countries. Unfortunately, most of these have struggling manufacturing industries and weak domestic demand, making them reliant on exports for their own growth. Inevitably, much of the world will feel compelled to throw up protectionist barriers against the onslaught of Chinese exports.

Beijing's stout defence of the rules governing global trade rings hollow if it exploits those rules to serve its shortterm objectives while damaging other countries' growth prospects. Arguing that China is not to blame for its companies' phenomenal competitiveness belies the state support for manufacturers and restrictions on foreign exporters gaining full access to its markets.

Moreover, China has sought to use the renminbi's exchange rate as a tool to bolster exports. On a broad trade-weighted basis, the currency has depreciated in value over the past year. It is hard to imagine that, left to itself, a country with a persistently large trade surplus would see currency depreciation.

The central bank ought to stick to its commitment of letting the renminbi float more freely in response to market forces. Any resulting appreciation would curtail China's drag on world growth while giving the renminbi a better shot at increasing its prominence in finance if its value is not seen as tightly controlled by the central bank.

Instead of focusing on headline GDP growth propped up by exports, China needs to fix its economy and rein in its trade surpluses — for its own sake and that of everybody else.