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China Pressured to Cut Export Dependence in U.S. Trade Talks

July 26, 2025
— Categories: Economics

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China's export-heavy economy is facing renewed scrutiny as top officials from the United States and China gather for trade talks in Stockholm. The discussions, led by U.S. Treasury Secretary Scott Bessent, are expected to address China's longstanding reliance on exports and its role in global overcapacity, particularly in key sectors like steel and electric vehicles.

While both countries hope to ease trade tensions, realignment of China's economic model remains a complex, long-term challenge.

The United States has urged China to scale back what it views as excessive industrial output that disrupts fair global competition, and to encourage domestic consumer spending as a more stable driver of growth.. Bessent emphasized that China's share of global manufacturing exports, at nearly 30%, is unsustainable and likely to draw continued criticism. "It can't get any bigger, and it should probably shrink," he told CNBC, highlighting the need for a structural shift in China's economic priorities.

This is not a new issue. Chinese officials have acknowledged domestic problems tied to weak consumer demand and industrial overcapacity for years. However, progress has been uneven. Consumer spending accounted for approximately 39.9% of China's GDP in 2024, compared with nearly 70% in the United States and around 54% in Japan. Economists argue that China's economy remains heavily reliant on government-backed production and infrastructure investment.

One of the key criticisms from Western nations, including the European Union, involves government subsidies that allow Chinese firms to flood global markets with underpriced goods. This has triggered political and economic backlash, particularly in the high-tech and electric vehicle markets. The European Union recently cited such subsidies to justify tariffs on Chinese electric vehicles, a move mirrored by growing concern in the United States.

Complicating the situation is China's ongoing struggle with deflation, falling prices driven by intense domestic competition and price wars. These conditions discourage investment, slow wage growth, and further suppress consumer spending. In response, Beijing has offered rebates and subsidies for trade-ins on vehicles and appliances, but economists argue deeper reforms are needed.

Experts suggest that building a more consumer-driven economy will require expansion of social welfare systems, including pensions and healthcare, to reduce household saving rates. Yan Se of Peking University's Guanghua School of Management warned that deflation could become a long-term problem if social protections are not improved. "Chinese people deserve a better life," he stated during a recent forum.

China is emphasizing self-reliance, especially in semiconductors and advanced technology, through industrial policy moves aimed at reducing reliance on Western inputs. However, overinvestment in high-tech sectors could repeat the same overcapacity problems seen in solar, wind, and electric vehicle production.

Beijing now faces a critical test: whether it can coordinate economic policies to reduce inefficiencies and promote sustainable domestic demand. As trade negotiations unfold, both nations will be watching closely to see if rhetoric is followed by meaningful reform