

The electro-state era:
from Made in China to Powered,
Designed & Financed by China?

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Allianz Research

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Executive Summary



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- China as the world's first electro-state: a critical provider and blueprint for the world on clean-tech.** China has established itself as a global frontrunner in the clean-tech industry, channeling the majority of its record investments into renewables. Projections indicate that China could double its power generation from renewables within the next five years, displacing fossil fuels within electricity supply. Massive investments have also positioned China as the global leader in clean energy related industrial products, accounting for 60% of global manufacturing capacity in solar, wind and battery technologies. Despite overcapacity concerns, China's clean energy developments have helped to drive down prices of key climate technologies (e.g. -80% in solar photovoltaic module in the past decade), enabling developing economies (such as in South and Southeast Asia and East Africa) to leapfrog directly into renewables. While challenges remain, China's clean-tech leadership demonstrates that the energy transition can be both ambitious and achievable when backed by coordinated policy, innovation and international collaboration.
- But as China prepares its next five-year plan (2026-2030), its economic model faces multiple threats, from the ever-fragmenting global order to the domestic threat (or reality) of Japanification.** Following the 4th Plenum in Beijing on 20-23 October, a proposal for the 15th five-year plan (2026-2030) has been released, mostly highlighting policy continuity, with priority given to "scientific and technological self-reliance" and some focus on building "a robust domestic market". But what worked in the past may not be enough to address the clouds looming over China's economic outlook in the years ahead. First is the risk of its export shocks turning into export traps: Since 2018, China's export prowess has moved decisively up the value chain into high-tech and green sectors, and it has also managed to cut reliance on foreign inputs for its manufacturing, achieving near-sovereignty in strategic sectors such as power generation equipment, high-end rail and agricultural technology. Even if the US and China reach a trade deal, the global order is changing, with more protectionist measures, industrial policies and shifts in global supply chains, potentially turning the economy's heavy dependence on global trade into a trap. At the same time, declining demographics threaten the foundations of sustained private consumption growth, while youth unemployment undermines middle-class formation and spending capacity. The property downturn's wealth destruction also weighs heavily on consumer confidence and consumption: we estimate that more than RMB3trn of household spending (equivalent to more than 2% of 2024 GDP) has been foregone since 2021.

- Two policy pillars should be in focus. First, innovation and AI as growth multipliers: lifting productivity by banking on China's innovation potential (ranked 10th globally) and its co-leadership with the US in the global AI race.** Total factor productivity growth in China has been gradually declining in the past years. In this context, Chinese authorities are likely to continue focusing policy efforts on R&D and innovation. China's innovation capacity has made consistent gains, with the country entering the global top 10 in 2025 on WIPO's Global Innovation Index, up from 29 in 2015. Meanwhile, China and the US are neck and neck at the front of the global AI race: China leads in research scale, industrial ecosystem depth and extensive rare earth production, while the US retains clear advantages in capital intensity and technological infrastructure. Innovation and AI could help lift productivity, especially in manufacturing sectors such as chemicals, food processing, metals and mining, electrical machinery & equipment, wood and furniture, textiles and communication equipment, computers & other electronic equipment. In these sectors, we find that a +10% increase in R&D intensity would raise productivity by +7% on average.
- Second, rebalancing towards domestic demand: giving jobs, time, income and confidence to consumers.** Boosting household consumption requires restoring consumer confidence to free up high saving rates and Chinese authorities are likely to continue focusing on stemming the property downturn. Each -1% further decline in housing prices could reduce private consumption by around 0.2% of GDP. We estimate that RMB2trn of funding (nearly 2% of GDP) is likely needed for the government to help bringing the level of housing inventories to more sustainable levels. However, rebalancing towards domestic demand will also require giving jobs, time and income to consumers. Pairing AI-related and technology upgrades with targeted service-sector incentives can help maximizing employment gains and solidifying China's transition from a manufacturing powerhouse to a balanced, more service and consumption-led economy. Additionally, productivity gains, could, in theory, enable workers to work less while supporting higher living standards and domestic demand. China's average annual hours worked per person currently stands 40% higher than in other major economies. While this would require significant cultural change, we estimate that if China's working hours converged to the major-economy average and assuming productivity gains in line with the past decade, an additional 4.8pps of GDP in extra private consumption could be unlocked in the coming decade. In the meantime, a higher share of GDP provided to households would also be helpful: If China were to raise its household disposable-income share in GDP from the current 58% towards the 70-75% range observed in advanced economies, private consumption could rise by around 10pps of GDP.
- The RMB's next phase: the property downturn as a financial turning point?** While there is no indication yet of a systemic financial crisis, the property downturn is materially affecting several critical funding channels, household wealth and investor confidence. The number of defaults and debt restructurings in the China property sector has surged over the past three years, while the pace of restructuring has been very slow and current valuations continue to

reflect weak market expectations. The property slump and successive developer defaults have eroded confidence in domestic assets, contributing to portfolio outflows as investors reassess China's risk profile. In this context, continued policy efforts to open and deepen Chinese capital markets may be even more necessary. Authorities consider banking on China's economic strengths to use green finance, external trade in commodity and technology as spearheads of RMB internationalization. While the global use of the RMB is still a very long way behind the USD, China seems to be pursuing the unorthodox approach of wanting to become a reserve currency provider, without full capital account convertibility. China's aggressive gold accumulation since 2023 serves as a strategic complement to RMB internationalization, with a de facto gold-associated RMB seemingly in the making.

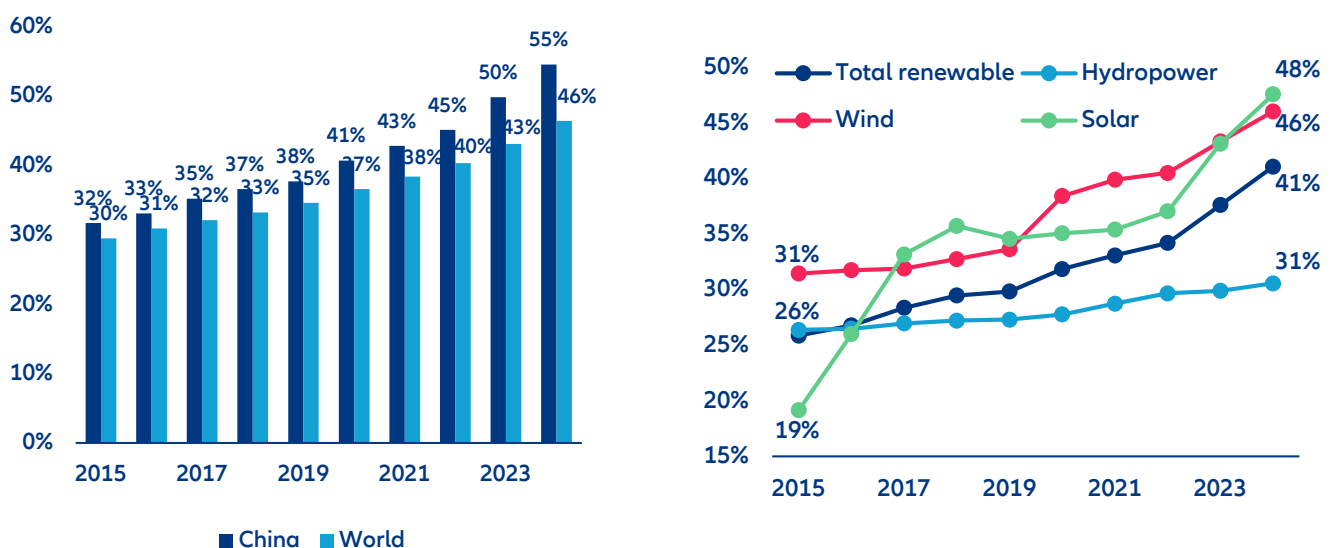


China as the world's first electro-state and a critical provider to the world

China has established itself as a global frontrunner in the clean-tech industry, channeling the majority of its record investments into renewables. Projections indicate that China could double its power generation from renewables within the next five years. As of 2025, China accounts for 27% of global energy investments, spending around USD893bn or 4.6% of its GDP on the energy sector. Around 70% of the investments went to clean-energy sources, with solar (USD204bn; 32%), wind (USD105bn; 16%) and grids (USD89bn; 14%) constituting the main components. Given these sizeable investments, China is the largest clean energy investor, accounting for 41% of total renewable investments. Investment trends and cost reductions have led to a boom in renewable capacity expansion in China's domestic market. This strategic focus has enabled China to build the largest renewable

energy capacity on the planet, accounting for roughly 40% of global installed capacity in 2024. Over the past decade, China has undergone a remarkable and efficient technological shift, rapidly scaling up its clean-energy production. As a result, the share of renewables in China's electricity generation jumped from 24% to 30% over the past decade. Recent International Energy Agency (IEA) projections suggest that by 2030, 71.5% of the country's current electricity supply could be covered by renewables. This expansion would significantly displace fossil fuels, even as total electricity consumption continues to grow, raising the share of low-carbon electricity to an estimated 40–45% of total supply.

Figure 1: Share of renewable in total electricity capacity / Share of China in global renewable capacity



Sources: IRENA, Allianz Research

Figure 2: Change in power generation capacity in China (in MW)

	2015	Average annual 2024 change
Coal	900.093	1247.045 4%
Natural gas	66.033	108.14 6%
Oil	4.342	2.097 -6%
Fossil (n.s.)	9.424	41.228 30%
Nuclear	27.17	60.83 10%
Wind	131.048	521.266 17%
Solar	48.853	904.19 41%
Hydropower	296.5	377.26 3%
Pumped storage	23.03	58.69 11%
Other	2.703	15.241 22%

Sources: IRENA, Allianz Research

Massive public and private investments, combined with strategic central planning, subsidies and rapid innovation, have positioned China as the global leader in manufacturing of clean energy and related industrial products. The resulting economies of scale and cost reductions have driven down the price of key technologies worldwide. Today, China accounts for over 60% of global manufacturing capacity in solar, wind, and battery technologies – including roughly 80% of total solar manufacturing capacity. In international trade, China represented about 40% of value-weighted solar exports and 53% of global battery exports in 2023. Beyond energy, China has also started to integrate renewables and electricity capabilities at the industrial level, with some tangible success in automotive, for instance, where China has a global technology lead in the EV segment.

China's clean energy developments have helped to drive down prices of key climate technologies, enabling developing economies to leapfrog directly into renewables. But there are also growing signs of oversupply for battery and solar manufacturing capacity, which even exceed demand in net-zero scenarios. Through large economies of scale, deep industrial integration and aggressive innovation, China has made renewable production more affordable. The over -80% deed

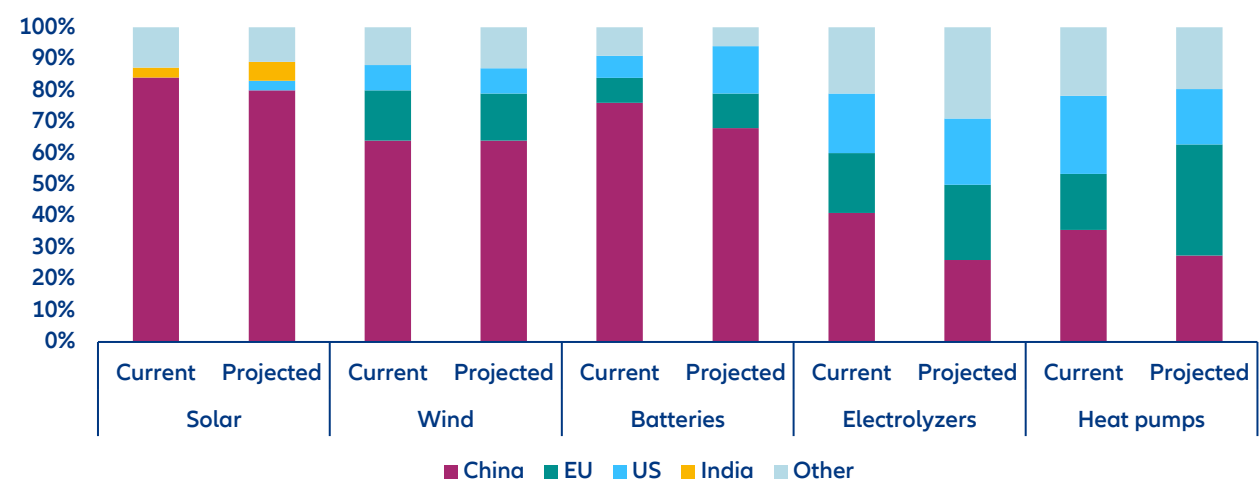
drawdown of solar photovoltaic (PV) module prices in the past decade is a good example. On the one hand, low prices are putting pressure on domestic profit margins, leading to potential consolidation and financial stress among smaller producers. Domestically, the mismatch between production capacity and installation demand risks creating idle assets and inefficient capital allocation. Internationally, it has sparked concerns especially in developed markets about market distortions and trade tensions as excess output is increasingly directed toward export markets¹. On the other hand, lower global prices for clean technologies have made them more accessible and easier to plug-in to the economy for a greater number of countries, redefining global investment patterns and enabling developing economies to leapfrog directly into renewables. Countries such as Pakistan, Indonesia and Kenya have adopted Chinese solar, battery and hydro technologies. In fact, several big infrastructure projects like the Quaid-e-Azam Solar Park in Pakistan or the Garissa Solar Power Plant in Kenya – the largest solar capability built in South Asia and East Africa, respectively – were supported by China. Beyond costs, China is also sharing its expertise and exporting its know-how outside borders, hitting two birds with one stone by spreading its influence outside and filling order books for an industry suffering overcapacity (solar & wind equipment-makers).

¹ See [BNEF](#) for batteries and [EMBER](#) (p. 45) for solar

China offers a blueprint for the world on clean-tech. The acceleration of the clean-tech industry in China reflects both state-driven policy coordination and significant private sector engagement, serving as a blueprint for other nations that are moving towards a less fossil-dependent model (like Brazil or South Africa). The combination of industrial policy, infrastructure investment and international cooperation could be replicated not only in emerging economies but also in regions like Europe

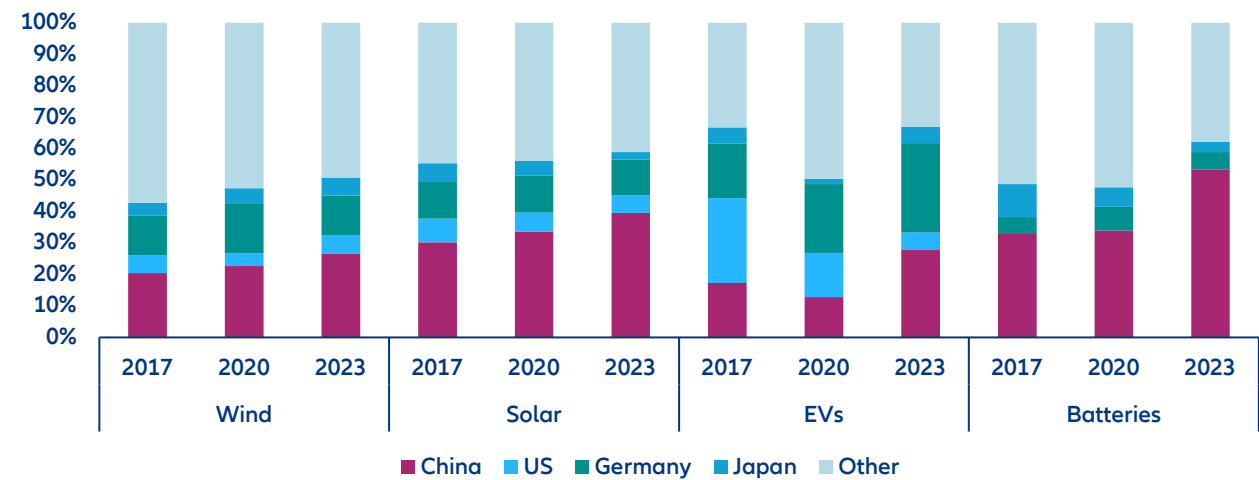
that are struggling to transition effectively and quickly – seeking to decarbonize without sacrificing development. While challenges remain, China’s clean-tech leadership demonstrates that the energy transition can be both ambitious and achievable when backed by coordinated policy, innovation and international collaboration.

Figure 3: Current and projected geographical concentration for manufacturing capacity for key clean- energy technologies, 2022-2030



Source: IEA

Figure 4: Value-based export concentration in key transition products (in %)



Sources: UN Comtrade, Allianz Research

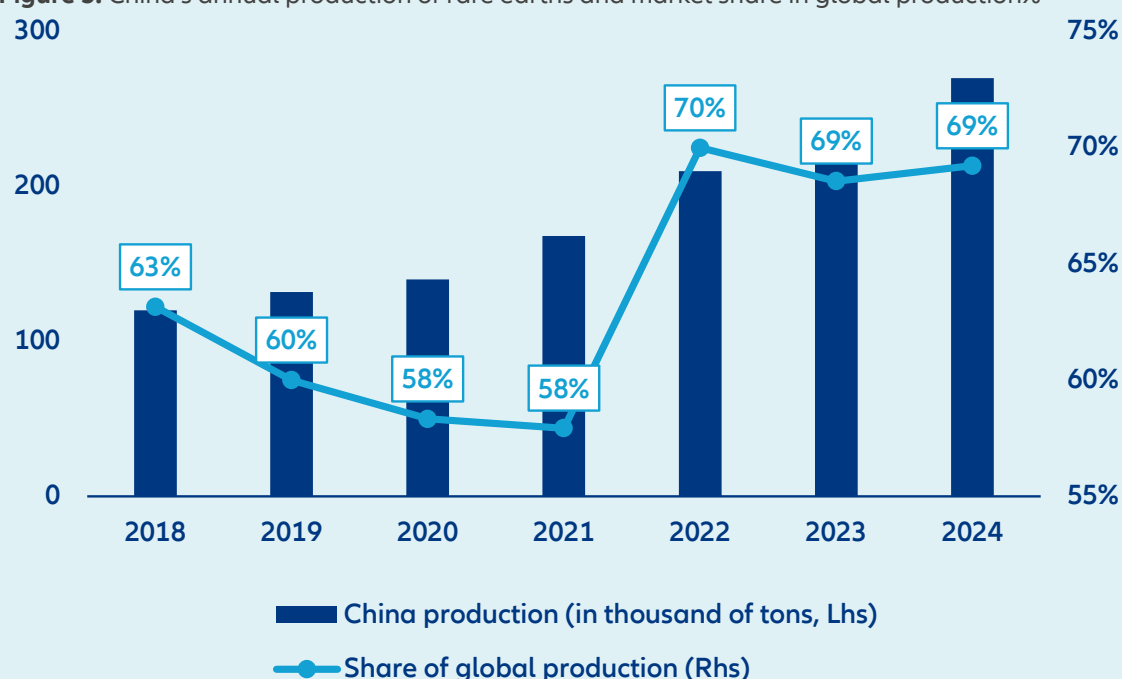
Box : China has the “rare earth ” ace in its hand

No digitalization would be possible without rare earths... The rare in rare earths refers to the complexity of the refining process and the limited availability of substitutes, rather than the level of reserves themselves, which are quite elevated: around 100mn tons based on most recent estimations. The importance of rare earths has significantly increased over the past years, alongside the gradual “greenification” of developed economies and an increasing usage of EVs, as well as the digital revamping and automatization of manufacturing processes and consumer services, which relies on electronic devices dependent on rare earth magnets.

...and there would be no rare earths without China. Holding between 40-50% of global reserves and processing almost 70% of global production of rare earths since 2022, China has a strong grip on the global supply chain. By investing massively and early in rare-earth refinery capacity to leverage its own resources and control the entire value chain of production, China has almost a full monopoly in the rare-earth refinery industry (around 90% of global activity). China thus has an ace up its sleeve as it can influence the delivery pace of rare-earth production – and, as a result the level of global production of EVs, smartphones, solar panels or optical lasers. It could also decide to favor one trade partner over another one.

Thanks to this edge, China uses rare earths as leverage to retaliate or bargain in trade talks to alleviate sanctions addressed by the US and Europe and does not hesitate to use “national security” arguments to justify export control. In April, the tightening of foreign exports via a mandatory licensing scheme led to an over -35% contraction of export value between May and July compared to 2024. When the rules were eased following an agreement with the US in July, exports jumped by +400% over August-September. Against this backdrop, governments in North America and Europe are implementing efforts to develop domestic production of rare earth magnets (US) and/or developing further recycling (Europe) and technology alternatives (rare earth magnet-free battery) to offset a deficit of resources. But it will take time before these efforts can substitute Chinese production in quantity and quality. Thus, China has a key advantage in terms of the balance of power as political leaders of Western economies will be forced to work hand in hand with China – or at least negotiate mutual interest deals – to reach their green and digital transition targets.

Figure 5: China’s annual production of rare earths and market share in global production%



Sources: US Geological survey (2025), Allianz Research



The perils: from export traps to Japanification

As China prepares its next five-year plan (2026-2030), its economic model faces multiple threats, from the ever-fragmenting global order to the domestic threat (or reality) of Japanification. Following the 4th Plenum in Beijing on 20-23 October, a proposal for the 15th five-year plan (2026-2030) has been released, mostly highlighting policy continuity, with priority given to “scientific and technological self-reliance” and some focus on building “a robust domestic market”. But what worked in the past may

not be enough to address the clouds looming over China’s economic outlook in the years ahead. We estimate that China’s potential growth is likely to decline to +3.6% on average over 2031-2040, from +4.6% over 2021-2030 and +7% over 2011-2020.

China amid global fragmentation: export shocks or export traps?

China’s first export shock (2001–2016) was triggered by its accession to the World Trade Organization in December 2001, which unlocked unprecedented integration into global value chains and fueled manufacturing-led growth. In 2001, China accounted for just 4.3% of world goods exports; by 2009, it had become the world’s largest exporter and by 2016, its share had climbed to over 12% – a threefold rise in under 15 years. This export surge was initially driven by low-value-added, labor-intensive sectors (textiles, footwear, toys and basic electronics) where processing trade (imports of intermediate inputs for

re-export) accounted for more than half of total exports in the early 2000s. Buoyed by tariff reductions (average industrial tariffs fell from 18.5% in 1998 to 8.9% by 2004) and streamlined customs procedures, coastal provinces and special economic zones became production hubs, supplying multinational firms with cost-efficient assembly and packaging services. Cheap financing, export tax rebates and CNY undervaluation further amplified China’s price competitiveness, compressing global manufacturing costs and compelling Western firms to shift production

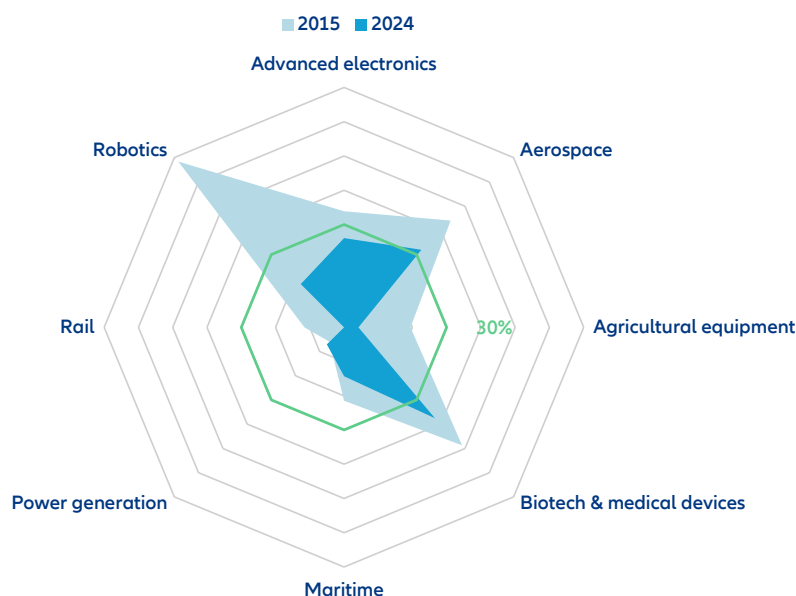
eastward. By 2016, with the share of processing trade declining to roughly one-third, as domestic value-added rose, China's export basket had graduated to include medium-tech machinery, consumer electronics and automotive parts – laying the groundwork for its second export shock in higher-value sectors.

While expanding its global footprint, China has also cut reliance on foreign suppliers over the past decade.

Launched in 2015, the “Made in China 2025” plan aimed to expand domestic capacity in higher-value industries and support an innovation-driven economy. This established the base for subsequent leadership in global value chains. We measure dependence as the share of HS6 lines where imports are at least twice exports, and we track progress against a less than 30% foreign reliance per sector benchmark, derived from the plan's target to achieve 70% self-sufficiency for core components. On this basis,

China has cut reliance across six of the sectors analyzed², achieving near-sovereignty in power-generation equipment (6% in 2024), high-end rail (0%) and agricultural technology (4%). In maritime engineering, starting from a relatively strong base, dependency was cut from 21% to 14%. In parallel, China has gained export shares in many of the same HS6 lines, signaling a shift from import substitution toward a larger presence in global markets. Two areas remain vulnerable: progress has been more marginal in biomedicine (38% in 2024 from 42% in 2015) and aerospace engineering (32% vs. 44%), where foreign inputs are still important despite policy support. Taken together, the evidence points beyond a mere catch-up with foreign competitors, towards the country's willingness to support domestic productivity and innovation and put itself in a global dominant and self-sustained position in high-technology sectors.

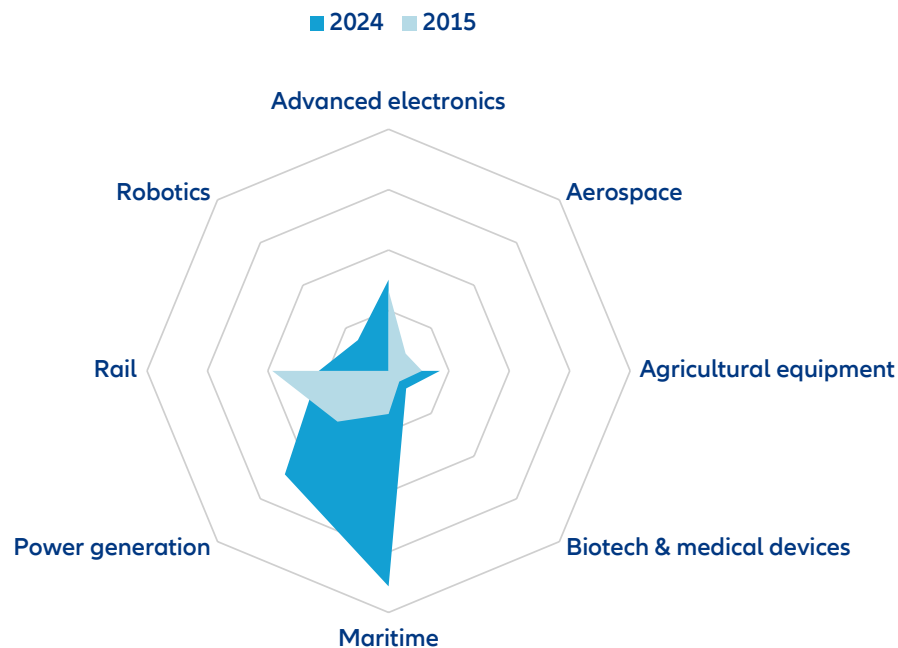
Figure 6: Share of products where China imports twice as much as it exports, by key sector (axis from 0 to 70% – the smaller the area, the smaller the foreign dependency)



Sources: UN Comtrade, CEPII, Rhodium Group, Allianz Research

² The “Made in China 2025” plan names ten priority sectors. We exclude “new materials” and “energy-saving & new energy vehicles”, as they do not map to a unique, non-overlapping HS6 set of codes. Including them would introduce attribution and double-counting bias in our HS-based indicators.

Figure 7: Share of products where China holds at least 30% global market share, by key sector (axis from 0 to 40% – the smaller the area, the less dominant globally)



Sources: UN Comtrade, CEPII, Rhodium Group, Allianz Research

China's second export shock (2018–present) has seen its export prowess move decisively up the value chain into high-tech and green sectors, even as advanced economies deploy policies to reduce reliance on Chinese suppliers. Between 2018 and 2024, China's high-tech manufactured exports – including computers, telecom equipment and electronic components – grew at a compound annual rate of nearly +10%, raising their share of total goods exports from 36% to 43%. Simultaneously, green-technology exports – solar panels, lithium-ion batteries and electric vehicles – soared over +15% annually, accounting for 8% of exports by 2024 versus just 2% in 2016, reflecting Beijing's targeted industrial policies, such as the Dual Circulation Strategy and "Made in China 2025". Focusing on the latter, we find that China clearly managed to increase its global footprint in the key sectors targeted by the plan: Based on HS6 product-level exports data for eight out of the ten targeted high-technology sectors, the share of products where China holds at least 30% of global market share increased from 9% in 2015 to 13% in 2024. Progress has been especially visible for products in maritime engineering (from 7% to 36%), power-generation equipment (from 12% to 24%) and robotics (from 0% to 7%).

Are the export shocks becoming export traps? In recent years, the US has imposed additional tariffs on Chinese solar cells and electric vehicles (EVs) under Section 301 and the Inflation Reduction Act's content requirements. Following the US "Liberation Day" reciprocal tariffs, China is now among the countries facing the highest effective tariff rates in the US. At the same time, the EU's Critical Raw Materials Act and Chips Act incentivize friendshoring to diversify supply chains. Similarly, Japan, South Korea and ASEAN economies have signed trade agreements to attract the relocation of medium- and high-tech production. Even if the US and China reach a trade deal, the global order is changing, with more protectionist measures, industrial policies and shifts in global supply chains, potentially turning the economy's heavy dependence on global trade into a trap.

Domestic threats: declining demographics, unemployment and weak confidence

While pursuing AI-led innovation to lift productivity, China should also address the multiple pressures that domestic demand is facing, including declining demographics, which threaten the foundations of sustained consumption growth. China's population declined for the third consecutive year in 2024, falling by 1.39mn to 1.408bn, accelerating a demographic reversal that poses fundamental challenges to domestic demand expansion. The working-age population (those aged 16 to 59) decreased to 858mn in 2024, representing 60.9% of total population compared to 61.3% the previous year, while those aged over 60 reached 310.3mn. This shift reflects the lagged effects of the one-child policy implemented from 1979 to 2015, which created a fertility collapse that remains resistant to reversal: the birth rate stood at just 6.77 per 1,000 people in 2024, barely above the 6.39 recorded in 2023. UN projections paint a stark long-term picture: China's population could fall to 1.26bn by 2050 and plummet to just 633mn by 2100, with those over 60 comprising 52% of the population, compared to less than 8% under age 15. Already for the 2031-2040 decade, we estimate that the decline in the labor force is contributing negatively to China's potential growth by -0.6pp, compared to -0.4pp in the 2021-2030, -0.3pp in 2011-2020 and +1.0pp in 2001-2010. The demographic headwinds create a vicious cycle: fewer young workers mean weaker income growth, which constrains household formation and consumer spending, which in turn reduces economic opportunities that might encourage larger families – exactly the "Japanification" trap that policymakers hope to avoid.

Youth unemployment undermines middle-class formation and spending capacity. China's urban youth unemployment rate for those aged 16 to 24 (excluding students) surged to 18.9% in August 2025 (before slightly declining to 17.7% in September), the highest level since the methodology revision in December 2023 and up sharply from 14.5% in June. This spike coincides with a record 12.2mn university graduates entering the job market in summer 2025, confronting an economy where traditional growth sectors like real estate and manufacturing have weakened and where there exists a persistent mismatch between graduates' education levels and available positions. Even the 25-29 age cohort faces elevated unemployment at 7.2% in September 2025, nearly double the 3.9% rate for workers aged 30-59, suggesting employment difficulties persist beyond initial job searches. The youth unemployment issue directly threatens the formation of a stable middle class that could

drive consumption-led growth in the long run. Middle-class households in China prioritize education spending, property ownership and discretionary consumption on travel and services, but these aspirations require steady income trajectories. Chinese authorities have responded with job-placement initiatives and extended graduate employment campaigns, but these measures risk addressing symptoms rather than structural causes. The deeper challenge is that China's innovation-intensive growth model demands highly skilled workers yet produces more graduates than the economy can absorb at appropriate skill levels: a paradox that AI and automation may exacerbate rather than resolve if deployment destroys middle-skill jobs faster than it creates high-skill alternatives.

The property downturn's wealth destruction also weighs heavily on consumer confidence and consumption: We estimate that more than RMB3trn of household spending (equivalent to more than 2% of 2024 GDP) has been foregone since 2021. Consumer confidence in China remains near historic lows despite marginal improvements in 2025 (consumer confidence index at 88 on average so far this year, compared with a pre-pandemic long-term average of 110), with the property market's sustained stress creating a negative wealth effect that suppresses household spending. Before the property downturn started in 2021, housing comprised approximately 70% of average household wealth in China, making the sector's multi-year correction profoundly damaging to perceived wealth and confidence. With property prices falling around -20% in the secondary market and around -10% in the primary market from 2021 peaks, we estimate that China's property downturn has already erased around RMB60trn in Chinese household wealth, equivalent to nearly half of 2024 GDP. Standard wealth elasticity to private consumption suggests that more than RMB3trn of household spending, equivalent to more than 2% of 2024 GDP, has been foregone since 2021. At this stage, there is no sign of a turnaround: While top-tier cities have seen temporary improvements following mortgage rate cuts, reduced down-payment requirements and relaxed purchase restrictions introduced in September 2024, these measures have largely released pent-up demand rather than generating a sustained recovery – lower-tier cities with more pronounced supply-demand imbalances remain weak.



The policy pillars: AI-led productivity and domestic rebalancing

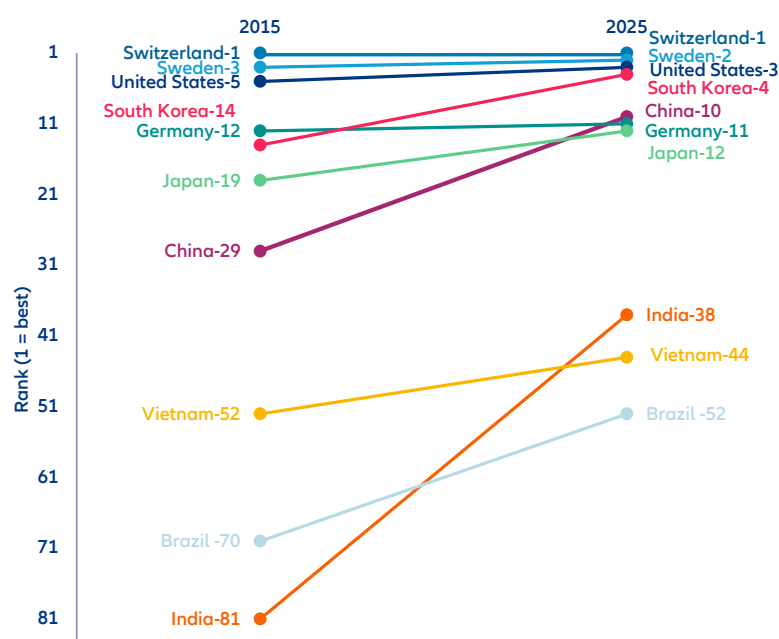
Innovation and AI as growth multipliers

China's innovation capacity has made consistent gains, with the country entering the global top ten in 2025 on WIPO's Global Innovation Index, up from 29 in 2015.

China overtook Germany (11th), while Switzerland (1st), Sweden (2nd) and the US (3rd) continue to hold the lead globally. The Global Innovation Index (GII) benchmarks 139 economies across 80 indicators, spanning innovation inputs (R&D, education, finance, business environment) and innovation outputs (patents, high-tech exports), capturing both invention and adoption. China outperforms expectations given the level of its GDP per capita, ranking first among upper-middle-income economies and with results driven more by outputs than inputs, demonstrating that investment is translating into measurable innovation. Its ecosystem combines rapid university expansion and deeper industry R&D as it hosts 24 of the world's top 100 innovation clusters (versus 22 in the US), signaling a growing concentration of firms and talent. More notably, the environment is increasingly business-driven, with China ranking second for business-financed R&D (vs. US 5th) and late-stage VC deals (vs. US 1st), alongside a strong presence of top corporate R&D investors (ranking 3rd, vs. US 1st).

China and the US are neck and neck at the front of the global AI race – for now. The data reveal a striking balance of complementary strengths at this stage. China leads in research scale and industrial ecosystem depth: it accounts for more than half of the world's AI researchers, nearly a quarter of total AI publications and

an impressive 70% of global AI patents. While the quality of AI publications is not as high as in the US, it scores more than decently. China's large research base and extensive rare earth production (around 69% of global mine output) also reinforce its upstream control over key AI-enabling materials. By contrast, the US retains clear advantages in capital intensity and technological infrastructure: it commands about 62% of private investment in AI and nearly half of global computing capacity generated by datacenters. These advantages are underpinned by the sheer financial power of its hyperscalers and a dynamic private equity and venture capital market – roughly 58% of the USD150bn invested by venture funds in the US in 2025 targeted the GenAI segment. This capital momentum translates into the world's largest pipeline of datacenter expansion, at around 91 GW, or close to 75% of planned global capacity additions. These structural advantages, paired with stronger performance in highly cited publications and cutting-edge chip production, sustain the US edge in technological execution. Europe, meanwhile, shows middling results across all categories, with no singular domain of dominance. This highlights Europe's challenge to translate relatively strong public R&D into scalable innovation or private capital attraction. Overall, the global AI race is becoming a dual contest between China's scale-driven innovation and the US capital- and technology-driven model, leaving Europe increasingly peripheral.

Figure 8: Global Innovation Index ranking, 2015 vs. 2025

Sources: Global Innovation Index Database WIPO, Allianz Research

Figure 9: Key components in the global AI race, comparison between China, the US and Europe

	Concept	Indicator	Unit	China	US	Europe
Research	Research talent	Number of AI researchers	as share of global proxy (2024)	51%	16%	28%
	Research quantity	Number of AI publications	as share of global total (2023)	23%	9%	21%
	Research quality	AI publication citations	Number of highly cited publications in top 100 (2023)	34	50	12
Funding	Patents	Granted AI patents	as share of global total (2023)	70%	14%	3%
	Public funding	Government R&D spending	as share of global proxy (2023)	20%	24%	23%
	Private funding	Stock of private investment	as share of global total (2024)	16%	62%	11%
Infrastructure	Computing capacity	Computing capacity generated by datacenters	as share of global total (H1 2025)	9%	47%	12%
	Grid capacities	Data center electricity consumption	Projected 2030 as % of 2024 power generation capacities	2.7%	9.3%	3.0%
	Rare earths	Mine production	as share of global total (2024)	69%	12%	0%
Critical components	Cutting-edge chips	Gross value-added output (Logic10-22nm)	as share of global total (2022)	6%	28%	13%
	Adoption	AI adaptation readiness	Implementation of generative AI in firms	19%	24%	7%

Note: for the number of AI researchers and government R&D spending, we took EU-27 as a proxy for Europe.

Sources: Stanford HAI, OECD, Cushman & Wakefield, Enerdata, IEA, US Geological Survey, SEMI, SAS, Allianz Research

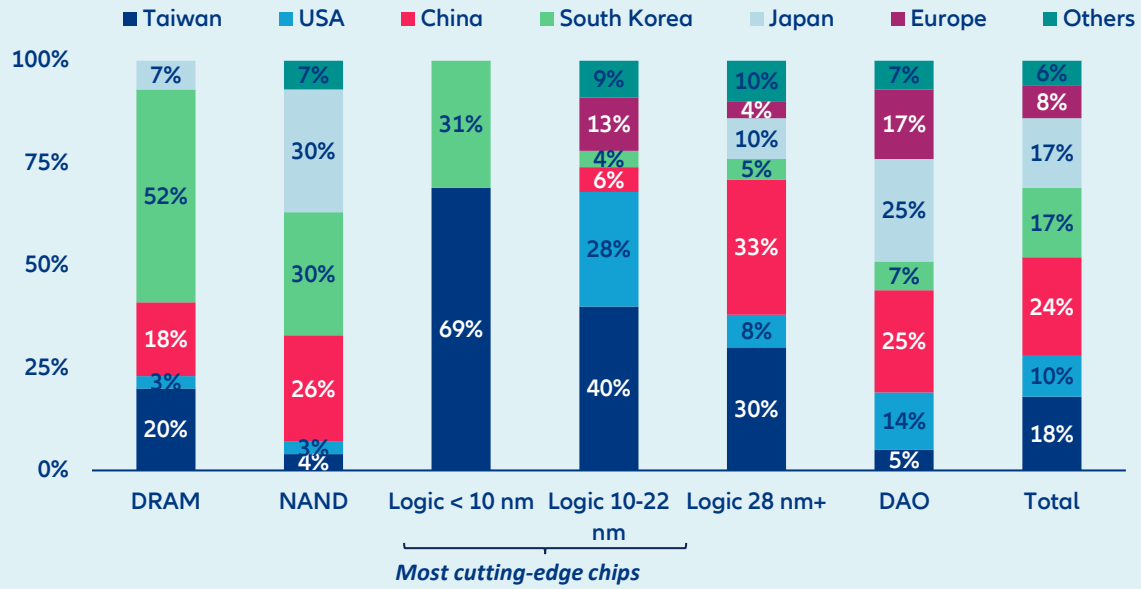
Box : The semiconductor sector – China wants to step up, amidst geopolitical tensions and the AI boom

Over the past decade, China has managed to upgrade its semiconductor industry. Historically, China specialized in low- to mid-end chips (above 28nm), mainly used in consumer electronics – such as smartphones, PCs and household devices – of which around 35% are manufactured in China. Under this strategy, China focused more on scale rather than sophistication. A first technology shift occurred over the past decade, under the impulse of the rapid development and internationalization of national champions in the computer, telecom and, more recently, the automobile sectors. Pursuing its strategy to work domestically to limit external reliance, China upgraded its semiconductor branch and invested into more advanced chip capacity (10-22nm segment), but nothing comparable with the US and Taiwan, which produce over two-thirds of this category of chips.

China is now pursuing another strategic transformation, from manufacturing hub to technology hub, driven by both geopolitical pressures and a broader ambition to ascend the global value chain. Another step is under way, and this time mostly driven by external forces: first trade tensions and second the AI boom. Amid escalating trade tensions with the US since 2017 and Europe's new strategy of de-risking from China since the pandemic, we observe a broad reshaping of trade connections, resulting in a weaker direct footprint of China's manufacturing in these markets. Additionally, the US and Europe are trying to restrict China's access to advanced technology via export bans and license schemes, which could threaten to limit China's exposure to AI-related growth potential.

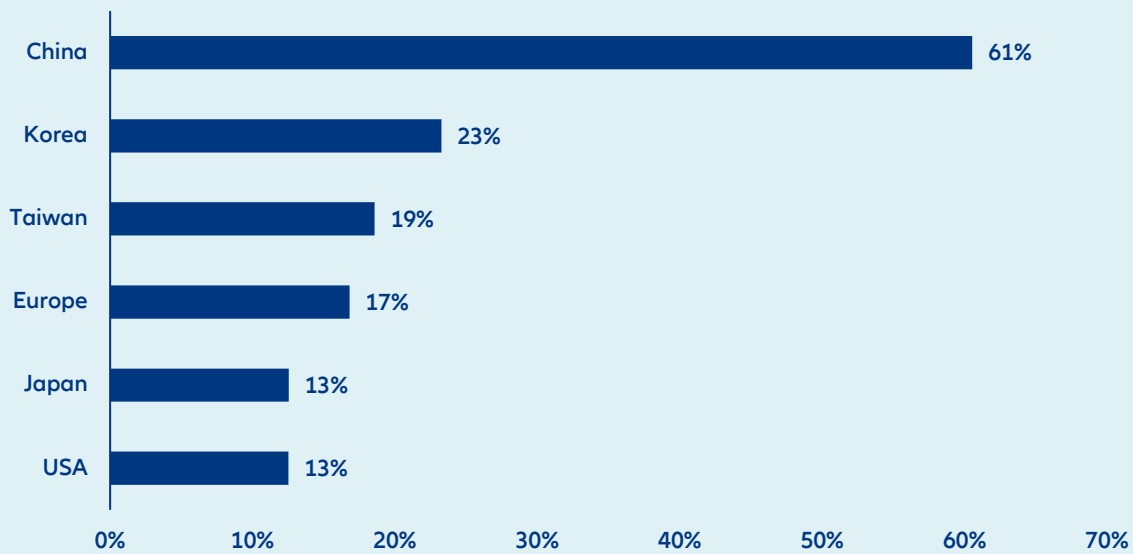
China is multiplying efforts to deal with isolation threats, but it will take years to narrow the current technology gap to the US when it comes to the most advanced chips. In 2024, through its National Integrated Circuit Fund, China launched a third cycle of investment amounting to nearly RMB350bn – as much as the sum of the two former cycles deployed over the past decade – focusing specifically on advanced semiconductor and equipment. At the private level, since the pandemic, over 60% of revenue generated by the industry is reinvested into infrastructure, staff expansion or R&D, a share 3x higher than South Korean and Taiwanese peers that both currently lead AI-type chip businesses, and almost 5x higher than US peers that currently offer the most powerful chips on the market, thanks to technology lead in design and conception. Several projects of in-house AI-type chips have been launched by large Chinese tech firms to contest the US lead, but it will take years to narrow the ongoing technology gap. Despite a strategical reorientation of resources to develop higher-value semiconductors, China does not yet have enough capacity at the domestic level to compete in the ongoing race for AI leadership (currently assessed through the level of prospective computing capacity generated by data center fleets) with strictly internal solutions. This explains the strong interest in the Taiwanese industry and its well-recognized expertise in the most advanced chips (3nm and below). Contrary to the US, which multiplied partnerships in recent years and facilitated the access of Taiwanese foundries on its soil, China cannot enjoy the same benefits due to historical political tensions with Taiwan. The semiconductor industry has gained a renewed geopolitical status as it is the cornerstone of the ongoing global digital and automation transformation. It will remain a key priority for Chinese government, and accordingly influence future economic, trade and even potentially political decisions.

Figure 10: Gross added-value output across semiconductor categories per geographical breakdown



Sources: SEMI, Allianz Research.

Figure 11: Average capital expenditure ratio of semiconductor firms, period 2021-2025



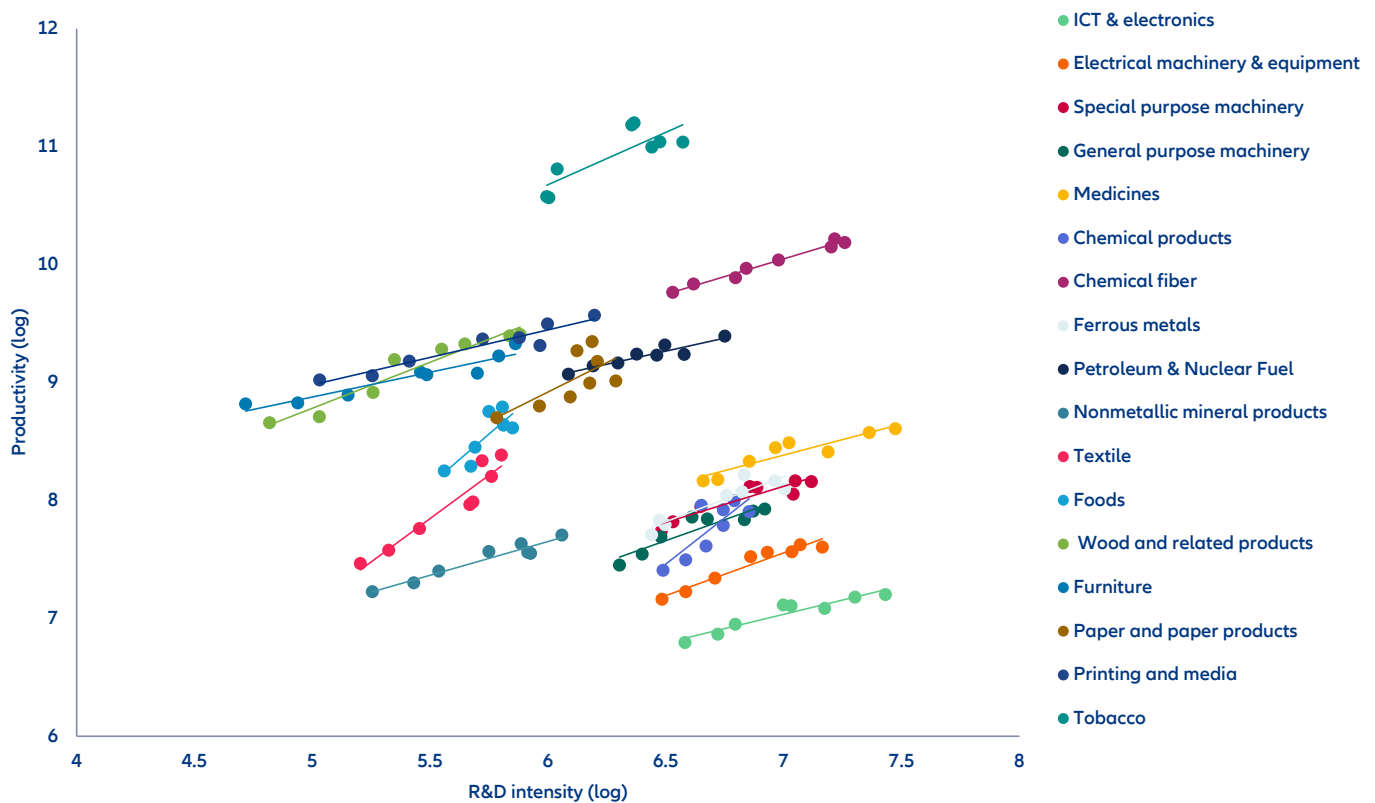
Data as of H1 2025.

Sources: LSEG Datastream, Allianz Research.

Innovation as the way to lift productivity. Total factor productivity growth in China has been gradually declining in the past years. We estimate that the contribution to potential growth declined from 2.4pps in 2001-2010 to 1.8pps in 2011-2020, and it is likely to reach 1.4pp over 2021-2030. Data from the Penn World Tables show that average yearly growth rate of total factor productivity exceeded +4% in the 2000s, exceeded +2% in the 2010s and reached +1.7% on average between 2000 and 2023. Academic literature and data suggest that innovation can help in lifting productivity. A granular analysis of sectoral data reveals that the correlation between R&D intensity and productivity is strongest in manufacturing sectors such as chemicals, food processing, metals and mining, electrical machinery & equipment, wood and furniture, textiles and communication equipment, computers & other electronic equipment. In these sectors, a +10% increase in R&D intensity would raise productivity by +7% on average. In contrast, sectors such as utilities display no strong

relationship between innovation metrics and productivity outcomes – their performance is likely more largely driven by regulatory frameworks, capital allocation and fixed-asset investment cycles, rather than by technological progress. This divergence highlights the need for sector-tailored innovation policies: while manufacturing benefits from direct R&D support and technology diffusion, service and infrastructure sectors may require institutional reforms and efficiency incentives instead. Overall, sustaining productivity growth in China’s next phase of development will depend on strengthening the translation of innovation inputs (R&D, digital adoption and human capital) into measurable efficiency gains, particularly in medium-tech manufacturing sectors, which still account for the bulk of employment and value added.

Figure 12: R&D intensity vs. productivity, by industrial sectors and since 2015



Sources: National Bureau of Statistics of China, Allianz Research

Rebalancing towards domestic demand: giving jobs, time, income and confidence to consumers

Giving jobs to consumers: China's AI-driven education and training reforms can simultaneously create millions of new jobs and catalyze the growth of China's underdeveloped service sector. In 2025, China mandated AI education at all levels of education: not only universities, but throughout secondary and even primary schooling, with specific requirements to integrate AI content in thousands of micro-majors, new teaching modules and vocational centers. By embedding AI tools, Chinese authorities aim to equip 25mn students annually with skills in semiconductors, robotics, biotech and related fields, generating teaching, support and R&D roles at local education institutions, private training centers and edtech firms. Beyond high-tech pathways, AI integration into adult retraining programs can address the mismatch between graduate qualifications and market needs, reducing youth unemployment and channeling talent into emerging service industries, particularly personal services such as elder-care, healthcare, childcare and hospitality, where labor shortages persist. The personal services sector currently accounts for only 8.2% of China's GDP and employs 13% of the workforce, versus over 20% in advanced economies. Expanding this segment would absorb displaced workers from manufacturing and real estate while boosting domestic consumption through higher household incomes and improved social welfare. Moreover, AI-powered platforms for telemedicine, smart eldercare facilities and on-demand home services can create roles ranging from data annotation and system maintenance to customer support and specialized caregiving. Such developments not only address demographic headwinds by providing care for an ageing population but also foster a deeper middle class. As policymakers calibrate the "AI for jobs" initiative, pairing technological upgrades with targeted service-sector incentives (such as tax breaks for care-service start-ups and AI research grants, etc.) will be essential to maximize employment gains and solidify China's transition from a manufacturing powerhouse to a balanced, consumption-led economy.

Giving time to consumers: China's productivity gains could, in theory, enable workers to work less while supporting higher living standards and domestic demand. The average annual hours worked per person in China reached 2328 in 2023, around 40% higher than in other major economies (1,657 on average across the US, Japan, South Korea, Germany, France, Sweden and Brazil). In theory, sustaining productivity growth could free up substantial time for workers to become consumers. To quantify this potential, we estimate how much private consumption could be unlocked if China's working hours converged to the major-economy average (a decline of 671 hours per person per year), assuming hourly productivity rises enough to keep annual incomes stable – and a significant cultural shift takes place. Using China's labor income share of 56% of GDP and a medium marginal propensity to consume (MPC) of 0.6, our analysis suggests an additional 9.6pps of GDP in potential private consumption, equivalent to roughly RMB13trn. Of course, these figures hinge on important assumptions, the key one being that hourly productivity rises by about +40%, so that reduced hours do not erode incomes. To put this figure into context, historical data show that productivity in China rose by +44% between 2005 and 2015, +26% between 2010 and 2020 and +25% between 2013 and 2023 (latest data available). With a hypothesis of +20% in productivity gains (and MPC still at 0.6), our analysis suggests an additional 4.8pps of GDP in potential private consumption. In practice, the translation of time into spending depends on the distribution of productivity gains, wage pass-through and households' saving behavior, etc. Moreover, higher leisure time may not fully translate into higher monetary consumption, as some of it may be absorbed as non-market leisure or informal activities. Still, the exercise underscores that sustaining productivity growth could unlock a major domestic-demand dividend by allowing Chinese households to consume more – and live better – without sacrificing output.

Figure 13: Gains in private consumption (in pp of GDP), should China's annual hours worked matched the average of other major economies, according to assumptions of marginal propensity to consume and productivity gains

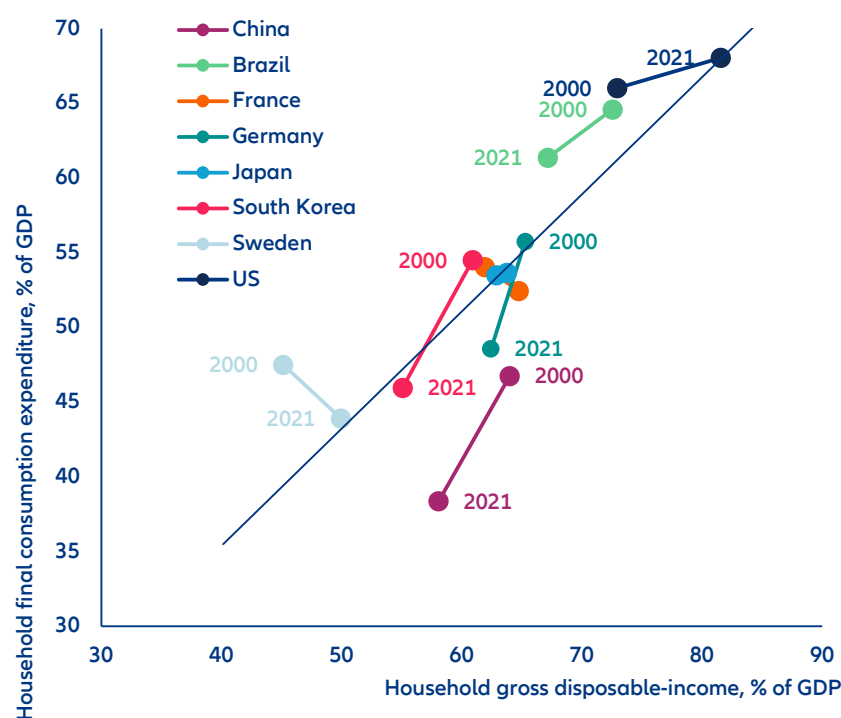
Extra private consumption, in pp of GDP		Marginal propensity to consume				
		0.2	0.4	0.6	0.8	1.0
Productivity gains	10%	0.8	1.6	2.4	3.2	4.0
	20%	1.6	3.2	4.8	6.4	8.0
	30%	2.4	4.8	7.2	9.6	12.0
	40%	3.2	6.4	9.6	12.8	16.0
	50%	4.0	8.0	12.0	16.0	20.0

Sources: national sources, Penn World Tables, Allianz Research

Sharing more income with consumers: China's consumption shortfall stems more from a low household disposable-income share of GDP, than a relatively low labor-income share of GDP.

In 2023, private consumption in China accounted for just 40% of GDP, far below the US (68%), Japan (55%), South Korea (49%) and Germany (50%). Yet China's labor-income share, at around 56% of GDP, is broadly comparable to that of the US and even higher than South Korea's (54%). The gap arises after taxes, social contributions and transfers: Chinese households retain a much smaller post-fiscal share of national income when compared to other major economies in the world. While US households' gross disposable income reached roughly 81% of GDP in 2023, China's has hovered in the 55%-60% range since 2010, down from 66% in the 1990s. Such a phenomenon, where households capture less of national income after redistribution, seems to constrain consumption even when wages rise. Comparative evidence points in that direction: In South Korea, the labor share has remained stable since 1990 (at around 55% of GDP), yet private consumption moderated from 50% to 48% of GDP, as households' disposable-income share in GDP slipped by -10pps since the 1990s, partly reflecting higher taxes and contributions, retained corporate earnings and households' precautionary savings. While this does not seem to be a top policy priority at this stage, if China were

to raise its household disposable-income share in GDP from the current 58% towards the 70-75% range observed in advanced economies, private consumption could rise by around 10pps of GDP. This underscores how one key to unlocking China's consumption potential lies not simply in boosting wages, but in enabling households to retain and spend a larger share of national income.

Figure 14: Household gross disposable income and final consumption expenditure, as shares of GDP (%)

Sources: OECD, World Bank, Allianz Research

Boosting consumer confidence: Beyond jobs and income, boosting household consumption requires restoring consumer confidence to bring down high saving rates.

To that end, we see two major avenues of policy actions that would help to incentivize spending and reduce China's persistent high savings rates: the establishment of a stronger and more inclusive social safety net and policy support to stabilize housing prices. Currently, Chinese households save more than 30% of their disposable income (significantly higher than in advanced economies), in part due to concerns over eldercare, healthcare and childcare expenses. Expanding coverage and improving the quality of social services in these areas would alleviate the precautionary savings motive, empowering families to shift savings into consumption and catalyze domestic demand growth. China's public social spending amounts to roughly 13% of GDP, compared with 19% in the US, 25% in Japan, 27% in Germany and 31% in France. Chinese authorities have recently enacted measures mandating employer contributions to employee benefits, including pensions and health insurance, but enforcement inconsistencies and fears among small businesses about rising costs continue to hamper progress. Local governments may also be facing fiscal constraints to comprehensively expand and strengthen the social safety net. Additionally, the government should and is prioritizing stabilizing the fragile

property market to restore wealth effects that have been a major drag on consumer sentiment. We estimate that current excess housing inventories still amount to 1.6bn square meters, down -40% from the August 2021 peak, but still corresponding to 25 months of sales, creating prolonged downward pressure on prices and wealth perception. Returning to the pre-crisis inventory level of 19 months of sales, based on the current pace of sales, would imply that 389mn square meters of housing inventories will need to be absorbed. Considering the average market housing price and the fact that the government is likely to make the purchases with a discount, absorbing 389mn square meters of housing inventories would require around RMB2trn of funding (nearly 2% of GDP). To accelerate inventory absorption and bolster confidence, policy actions such as targeted homebuyer incentives, construction project completions and easing purchase restrictions are underway. Absorbing this housing surplus is critical: standard wealth elasticity to private consumption suggests that each -1% further decline in housing prices could reduce private consumption by around 0.2% of GDP.



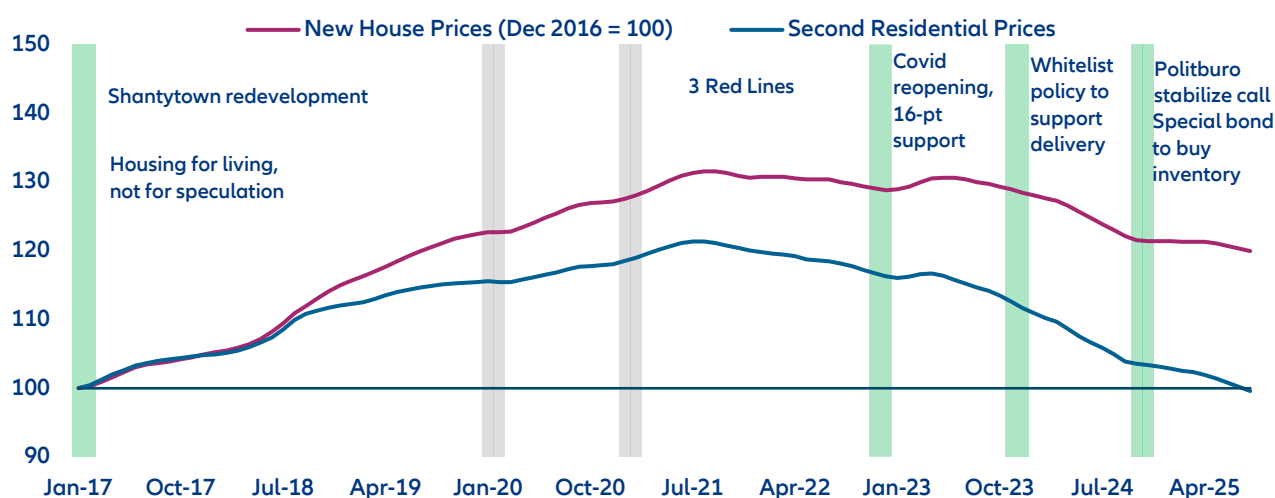
The Renminbi's next phase : from property shock to capital-market opening

The property downturn as a financial turning point

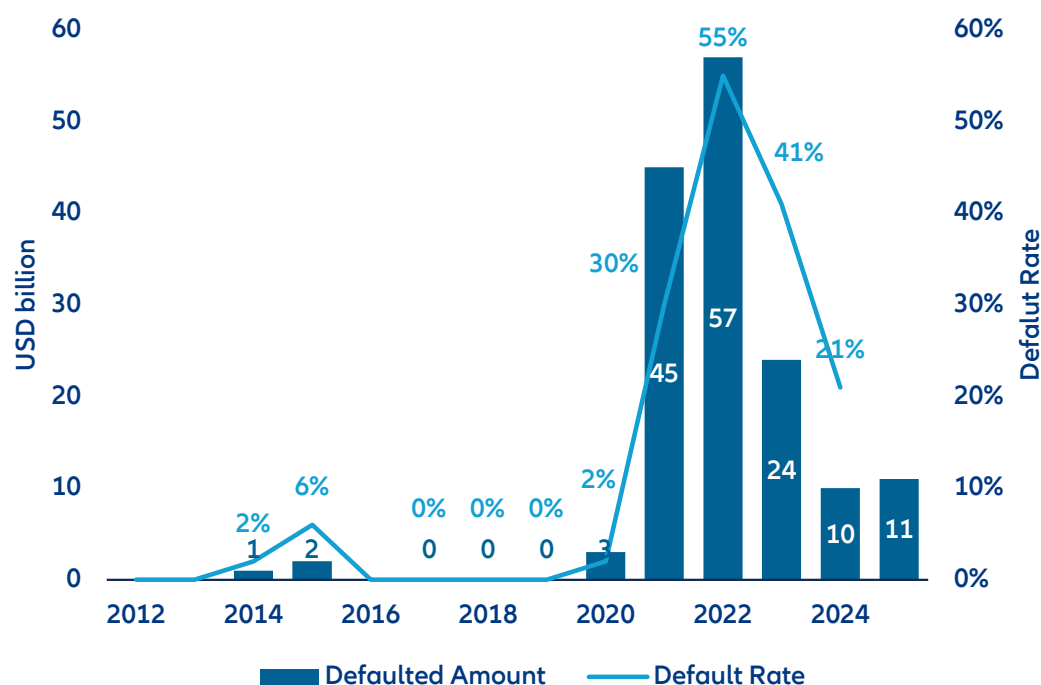
The property sector in China is undergoing a multi-year correction. House price data underscore the depth and persistence of the adjustment. Since the introduction of the “three red lines” policy in 2020 and home price peaks in 2021, new home prices have fallen around -10%, while second-hand home prices have dropped by nearly -20%, returning to levels last seen in 2017. Policy interventions since 2022, such as the 16-point support plan, whitelisting financing for project completion and recent special bond issuance to absorb inventory, have so far only stabilized the pace of decline rather than triggered a rebound. While there is no indication yet of a systemic financial crisis, the property downturn is materially affecting several critical funding channels, household wealth and investor confidence. Local governments, which used to rely more on land-sale revenues (38% of total income in 2021) saw this share fall to 22% by 2024 as land-sales revenue declined from RMB8.7trn in 2021 to RMB4.9trn in 2024.

This fiscal squeeze has curbed local investment capacity and tightened financial conditions. For households, the correction has weakened wealth accumulation and the resulting negative wealth effect has constrained consumption. Importantly, the property slump and successive developer defaults have eroded confidence in domestic assets, contributing to portfolio outflows as investors reassess China's risk profile.

The number of defaults and debt restructurings in China's property sector has surged over the past three years, partly caused by the sector's struggles during the pandemic as well as tighter regulation and credit rules. Since the beginning of 2020, at least 60 Chinese property issuers with more than USD140bn in outstanding dollar bonds have defaulted, which has led to a spike in the default rate for China's high-yield (HY) property sector.

Figure 15: China's housing price indices

Sources: National Bureau of Statistics of China, Allianz Research

Figure 16: Defaults in China's property sector

Sources: JP Morgan, Bloomberg, Allianz Research

The pace of restructuring has been very slow and current valuations continue to reflect weak market expectations and low probability of future cash flows for distressed developers. Slow restructuring is largely due to the prolonged sector downturn, with overall sales remaining subdued: Property sales have declined by -6% y/y in volume terms year-to-date, and home prices have

resumed their decline after some stabilization in Q4 2024 and Q1 2025, following previous policy easing measures. In this context, average bond prices of China's distressed property sector have mostly hovered at a mid-to-high single-digit level since Q4 2023.

Figure 17: Average bond price of Chinese property developers



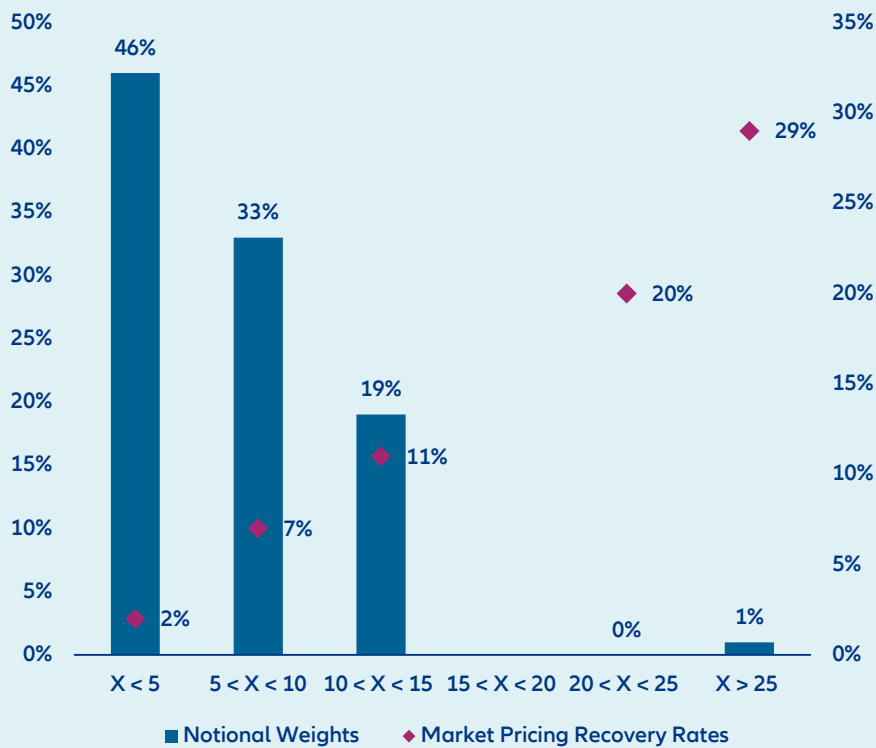
Source: Bloomberg

Box : Focus on property developers in default

Markets continue to price a low probability of recovery for Chinese defaulted property developers. Except for three distressed/defaulted Chinese HY property issuers, the rest are pricing less than 15% recovery rates for their offshore USD bonds. The bucket with the highest number of issuers is those with their average bond price below 5cts. For comparison, the average recovery rate for Asian senior unsecured USD corporate bonds is around 30%.

The key reason for the lack of price recovery is that restructurings do not meaningfully improve capital structures to more sustainable levels. Many of the debt plans proposed by developers have been intended to buy time, relying strongly on maturity extensions. Highly leveraged balance sheets, small equity buffers, off balance sheets and contingent liabilities are key obstacles preventing material deleveraging. By failing to address the level of debt, the issuer effectively kicks the can down the road. This may solve short-term liquidity crunches but does not tackle the bigger solvency problem. Thus, the company's post-restructuring payment ability remains a question. Key elements of restructuring should target deleveraging balance sheets and restoring going concerns. Hence, equitizations, capital injections, new strategic investors and principal haircuts support a more sustainable capital structure.

Figure 18: Distribution of Chinese HY property issuers, according to average bond price



Sources: Morgan Stanley, Allianz Research

Insufficient deleveraging implies the risk of repeat restructurings, which have already happened to several developers and underlined the lack of the restructuring plan viability, despite earlier creditor support. Hence, a successful offshore restructuring is only the first step. To see meaningful price recovery, issuers must also complete restructuring of onshore liabilities, fulfil construction and delivery obligations and normalize operations and cash flow.

Broader recovery is also contingent on a healthier real estate sector. For property developers to genuinely function as going concerns, a recovery in market sentiment and fundamentals is critical, particularly stabilization or gradual appreciation in home prices, in line with inflation. Hence, the government's ability to stabilize the sector and restore consumer confidence is critical to sustaining the recovery in property demand and reducing the risk of further restructurings.

A bifurcated initial recovery is expected to start from the medium-term with the companies that have successfully completed debt restructuring likely to outperform those slower to restructure and still in default. The first cash repayments on restructured bonds typically begin two to three years post effective date. If operations stabilize and payments are made on time, a slight recovery from a single-digit level to a low double-digit level is expected. For the long-term (5y+), for developers that survive and adapt to the new operating environment, recovery levels could reach mid double-digit levels and gradually converge towards par, contingent on the stabilization of home prices and overall sales volume. The strong urbanization drive in China as well as a renewed drive for urban renewal are expected to further support surviving developers in the long run.

China's property crisis is unprecedented, with outcomes remaining highly uncertain. However, meaningful price recovery for China property developers is possible, as evidenced from the past restructurings due to company specific issues with bond prices dropping to low double-digits and showing full price recovery post-restructuring. Private-owned companies that avoided default are another example with price levels at high 90s, showing what a functioning private developer can trade at.

Selective opening and internationalization of the yuan

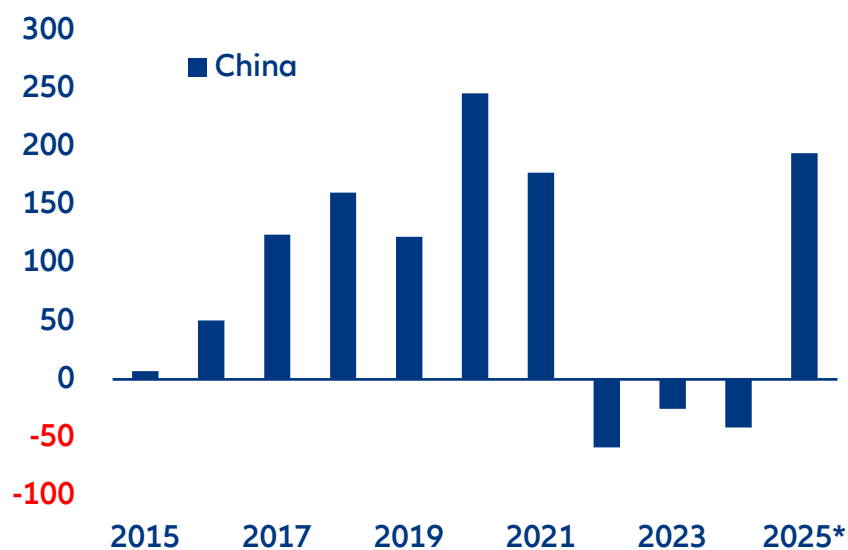
Calibrated openness and deepening of capital markets: continued policy efforts and sequencing of reforms.

China has embarked on a carefully sequenced two-decade journey of capital market liberalization, deploying initiatives such as the Qualified Foreign Institutional Investor (QFII) program in 2002, the Stock Connect in 2014, and Bond Connect in 2017. These reforms have operated through a "learning-by-doing" approach – regulators test controlled openings, monitor outcomes and then expand gradually. The Shanghai-Hong-Kong Stock Connect has proven particularly transformative, with northbound trading surging 26-fold from RMB5.8bn in 2014 to RMB150.1bn in 2024, now accounting for over 10% of total Shanghai and Shenzhen market turnover. Recent enhancements include the 2019 removal of QFII quota limits, the 2020 merger of QFII and RQFII schemes, with expanded asset eligibility to include derivatives, and the scrapping of foreign ownership caps in financial sectors. By the end of 2024, the number of foreign investor licenses through the QFII program had climbed to 861 from just 92 in 2010.

market openness was achieved through Chinese stocks and bonds earning entry into the world's major financial indices since 2018³. Such inclusions unlocked substantial passive investment flows as international funds tracking these indices had to buy Chinese assets to rebalance portfolios. As of March 2025, overseas holdings of Chinese bonds and equities reached approximately RMB7.4trn, reflecting sustained foreign appetite despite domestic headwinds. That said, foreign access to Chinese capital markets remains constrained: foreign investors still hold less than 5% of China's stock market value, derivatives access remains constrained to hedging purposes only, and capital controls continue to limit money movement. The property downturn since 2021 has paradoxically become a catalyst for reform conversations – with traditional wealth channels disrupted and investor confidence dented, policymakers face renewed urgency to deepen capital markets, improve corporate governance standards, and enhance regulatory transparency to channel savings into productive investments.

Yet, challenges remain as foreign exposure to Chinese capital markets remains small. The property downturn could become a catalyst for further reforms. Some degree of international validation of China's capital

Figure 19: China portfolio flows (USD bn)



*Year-to-date until September

Sources: WIND, Allianz Research

³ For example, MSCI EM index in 2018, FTSE Russell GEIS in 2019, Bloomberg Barclays Global Aggregate Bond Index in 2019, JP Morgan GBI-EM Index in 2020.

Green finance as the spearhead of Renminbi internationalization? Leveraging China's soft power through climate capital. China has strategically positioned green finance as a distinctive pathway for Renminbi (RMB or CNY) internationalization, capitalizing on its statuses as one of the world's largest green bond issuers, the largest carbon emitter undergoing transition and the largest manufacturer of cleantech globally. According to the Climate Bonds Initiative's taxonomy, China issued USD69bn in aligned green bonds in 2024⁴, making it the third-largest source globally (after the US at USD85bn and Germany at USD73bn). In parallel, the Belt and Road Initiative (BRI) has become a critical vehicle for exporting RMB-denominated climate finance: in June 2024, the Bank of China issued the first USD940mn sustainability bonds, to finance both green and social projects exclusively for BRI countries, distributed in both USD and RMB. These bonds funded projects from EV battery manufacturing in Hungary to wind power in Uzbekistan and sustainable fisheries in Chile. China's approach leverages its technological and cost advantages in cleantech to create "climate capital diplomacy"⁵. RMB-denominated green bonds offer BRI countries (typically with low credit ratings requiring comparatively higher interest rates) access to cheaper financing (Bank of China's recent sustainability bond carried just 2.82% interest). This strategy addresses the dual challenges of limited private capital mobilization and poor transparency in development loans by channeling funds through bonds with clearer standards, lower default risk, and mandatory disclosure requirements.

The RMB as a settlement currency for commodity and technology trade. RMB-denominated trade settlements have reached unprecedented levels in 2025, driven by structural shifts in both commodity markets and high-tech supply chains that play to China's comparative advantages. In commodity trade, China has leveraged its position as the world's largest importer of raw materials to gradually price strategic goods in RMB. The Shanghai International Energy Exchange's RMB-denominated crude oil futures were launched in 2018 and became the world's third-largest oil futures market by trading volume by 2020, establishing the "Shanghai Oil" benchmark alongside WTI and Brent. Looking forward, battery metals and EV

supply chains present a compelling opportunity for RMB pricing, given China's overwhelming dominance: China controls 75% of global lithium-ion battery production, 70% of cathode capacity, 85% of anode production, 82% of electrolytes and 74% of separators (as of 2022). China imported 44% of global interregional trade in raw and processed battery minerals (nearly 12mn short tons) and exported 58% (almost 11mn short tons) of battery materials, packs, and components in 2023. This "chokepoint" position in the EV value chain, from lithium refining to battery cell assembly, creates natural leverage for RMB settlement. Settling transactions in RMB can help reduce currency risk for Chinese exporters while offering foreign buyers access to RMB financing instruments. In this context, the share of Chinese trade settled in RMB exceeded 40% in September this year (latest data available), up from 20% in 2021. However, an IMF working paper (September 2025) finds that even though RMB invoicing has expanded beyond Asia into Europe and Latin America, only 6.5% of Chinese exports are invoiced in RMB – highlighting a gap between settlement (the currency used for payment) and invoicing (the currency in which prices are set), with the latter mattering more for economic influence because it determines how exchange rate movements affect trade flows. The discrepancy suggests that many transactions may be priced in USD for stability but paid in RMB (due to Chinese policy incentives or financing arrangements), meaning USD exchange rates – not CNY rates – still drive the economics of much of China's trade.

⁴ Despite a -18% decline from 2023's peak, the market demonstrated maturity through improved transparency – 61% of labeled green bonds in 2024 were backed by second-party opinions, signaling closer alignment with international standards.

⁵ In 2023, China's solar and wind energy engagement in BRI countries reached USD7.9bn, representing 28% of total energy engagement – the greenest mix since the initiative's 2013 inception. Hydropower engagement represented an additional USD1.6bn, 6% of total energy engagement.

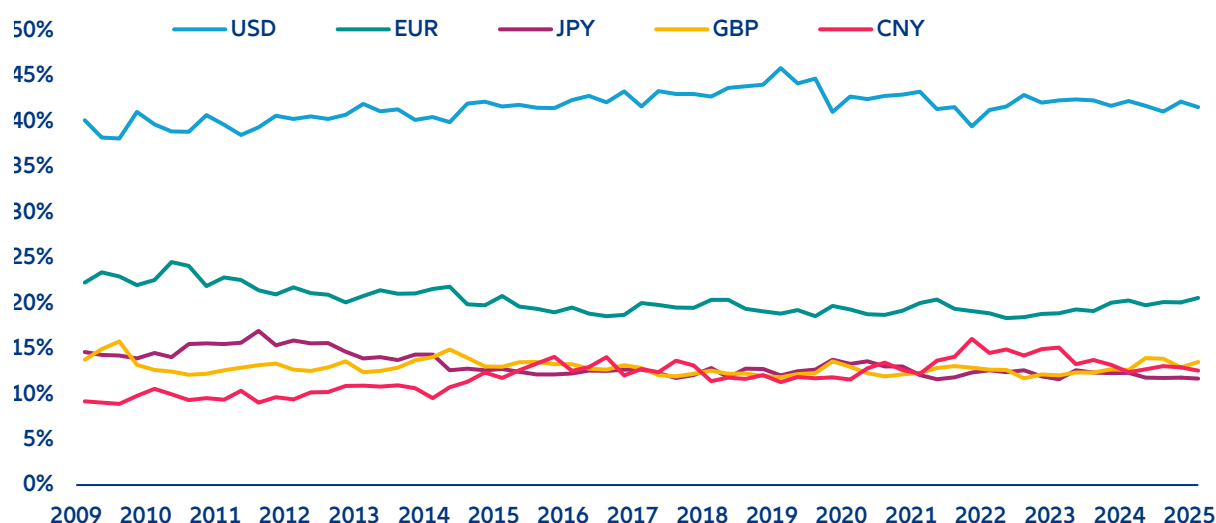
Figure 20: Use of RMB in Chinese trade and in global trade finance

Sources: national statistics, SWIFT, Allianz Research

China as a reserve currency provider: not in the traditional sense

Global use of the RMB is still a very long way behind the USD, at least in the traditional sense, as shown by the Allianz Research Global Currency Index. The index, which aggregates the roles of major currencies across the concepts of economic size, credibility of the economy, internationalization of the currency (e.g. in payments, trade invoicing, financial markets, etc.), convertibility of the currency and presence in global FX reserves, highlights the enduring dominance of the USD. As of 2025, our Global Currency Index for the USD is still well ahead of any other currency: roughly the double the value for the EUR and four times that of the RMB. The Global Currency Index for the RMB seems to have peaked in 2022, having since declined modestly mainly due to weaker performance in the credibility component of the index, in the context of very low inflation that may hamper the perceived attractiveness of the RMB as a store of value. Meanwhile, the USD's strength rests not only on deep and liquid capital markets but also on its institutional credibility and network effects in trade and finance. While the RMB is gradually gaining transactional relevance (particularly within Asia and the Global South), it remains far from rivaling the USD's entrenched dominance in the global monetary system.

China seems to be pursuing the unorthodox approach of wanting to become a reserve currency provider, without full capital account convertibility. China's aggressive gold accumulation since 2023 serves as a strategic complement to RMB internationalization, by building confidence in the currency's stability without requiring full capital account liberalization. The People's Bank of China (PBOC) purchased 225 tons in 2023, 44 tons in 2024 and 21 tons through mid-2025, bringing official reserves to 2,298.5 tons as of Q2 2025, though analysts suspect actual holdings exceed official figures. This buying spree aligns with gold prices surging to record highs above USD3,790/oz in September 2025, reflecting a broader global move by central banks to diversify away from USD assets after the 2022 freezing of USD300bn in Russian reserves. Poland's own gold accumulation (adding 287 tons across 2023-2025 to reach 20% of reserves) illustrates the broader international appeal of such diversification strategies in a fragmenting world. A Chinese policy expert involved in internal discussions told Reuters that China's gold reserves should reach at least 5,000 tons (more than double current holdings), thereby aligning China's monetary weight with its share of global GDP and positioning it as the world's second-largest official gold holder after the US (8,133.5 tons).

Figure 21: Global Currency Index

Source: Allianz Research (for details on the methodology, see “Financial globalization: moving towards a polarized system?”, November 2022)

Beyond reserve accumulation, China is pioneering a novel institutional architecture to internationalize its gold market and extend its monetary influence. The Shanghai Gold Exchange (SGE), established in 2002 and expanded through an International Board in 2014, enable foreign investors to trade RMB-priced gold contracts via Free Trade Zone accounts. The “Shanghai Gold” benchmark has since become a reference price in international markets (with derivatives linked to it listed in the Chicago Mercantile Exchange since 2019), cementing Shanghai’s role as the world’s largest physical gold trading hub, processing 54,000 tons in 2023, or about 75% of global spot turnover. The goal is to court foreign central banks, especially in Southeast Asia and Belt & Road Initiative countries, to store newly purchased gold in SGE-linked custodian warehouses, offering an alternative to Western custody centers, amidst growing concerns over asset security.

The gold strategy complements RMB internationalization in three critical and intertwined ways. First, it provides a tangible store of value backing RMB reserves for countries hesitant to hold large RMB positions due to capital controls. Gold serves as a “bridge asset” that reduces USD dependence without requiring full RMB convertibility. Second, the SGE’s RMB-denominated gold benchmark strengthens China’s pricing power in a globally recognized hard assets, boosting RMB’s credibility in trade invoicing. Third, by offering custody and

settlement infrastructure, China fosters “sticky” bilateral relationships that deepen financial integration and RMB usage in trade and investment flows. In practice, this gold-RMB symbiosis is already visible in several commodity trade agreements, notably in energy and metals, where settlement options allow conversion from RMB receipts into gold via the SGE. This mechanism effectively provides counterparties with a “hard-asset hedge”, increasing comfort with RMB-denominated transactions.

Ultimately, while China has never endorsed a formal gold peg, a de facto gold-associated RMB seems to be in the making, as evidenced by the country’s steady accumulation of gold reserves, the internationalization of the SGE and the rise of RMB-settled commodity trades. This approach recognizes the constraints usually identified by economists that RMB internationalization without full capital account liberalization requires China to provide stable, predictable access to RMB services backed by USD reserves and convertibility mechanisms. Rather than pursuing reserve-currency status through Western-style capital-account openness, China appears to be following a “hard-asset credibility” model, anchoring confidence in the RMB through tangible reserves, commodity convertibility and financial infrastructure that align with a multipolar global system.

A photograph showing a group of diverse hands stacked on a tree branch. The hands are of various skin tones and are positioned in a way that suggests unity and teamwork. The background is a lush green forest with sunlight filtering through the leaves. The text "Our team" is overlaid on the image, with "Our" in white and "team" in yellow.

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