

The Largest Bailout in Human History Is Still Running

China's economy is often described as a miracle. It is better understood as a permanent rescue operation—one that mainstream economists would dispute calling a bailout, but whose mechanics are hard to read any other way. The world mistakes motion for strength. The question is how long it keeps mistaking a balance sheet for a boom.

For two decades, the standard description of China's economic rise has leaned on words like “miracle,” “superpower,” and “unstoppable.” Those are reasonable words for a country that grew its GDP from \$1.2 trillion to roughly \$18 trillion in a single generation. They are less reasonable once you look closely at how the growth was financed.

China built the world's second-largest economy in large part by lending money to itself to build things it did not need, paying the workers in a currency they cannot freely spend abroad, rolling over the resulting debt indefinitely, and counting the activity as growth. By any conventional measure this is an impressive feat of mobilization. The argument of this essay is that it is not, in the ordinary sense, a self-sustaining market economy—and that the distinction matters more than the headline GDP figure suggests.

Call it what the structure implies: a state-engineered rescue operation of historic scale. Reasonable economists will object that every modern economy runs on credit creation and state direction, and that “bailout” is a polemical label for what is really industrial policy. Fair enough—readers should weigh that objection. But unlike an ordinary stimulus, this one has no obvious exit, because unwinding it would trigger the very losses it was built to postpone.

I. How a Rescue Operation Becomes an Economy

The mechanism is not complicated. It mainly requires not looking at it too hard.

Local-government financing vehicles—LGFVs, Beijing's preferred instrument for off-balance-sheet borrowing—issue debt to state banks. The state banks, which are not permitted to recognize losses in any meaningful way, accept it. The LGFVs use the proceeds to fund construction: highways to cities with little traffic, airports serving thin routes, residential towers in municipalities whose populations are shrinking. The contractors are state-owned enterprises; they employ workers; the workers are paid in renminbi; the renminbi cannot leave the country without permission; and the banks roll the LGFV debt over when it matures. GDP rises because the spending occurred.

At no point in this loop does a market set a clearing price. At no point does a private investor voluntarily price the risk. At no point does repayment impose the discipline that distinguishes lending from transfer. What results is less

investment in the ordinary sense than the circulation of state-created money through state-controlled channels to fund state-directed activity—whose principal measured output is the GDP figure used to justify the next round.

Economists have a neutral term for the underlying dynamic: the soft budget constraint, first formalized by János Kornai to describe socialist enterprises that never face the threat of failure. Critics of the Chinese model argue it has been running, in effect, since the mid-1990s, and that stopping it would force the recognition of losses the financial system is structurally unready to absorb. The scale is real either way. On the IMF's augmented measure, China's total nonfinancial-sector debt now exceeds 300 percent of GDP¹; the country's own National Institution for Finance and Development put the macro-leverage ratio at a record 287.8 percent at the end of 2023, rising toward 296 percent through 2024². These are not the balance-sheet ratios usually associated with an economic miracle.

II. The International Version: A Stimulus Loop With Flags On It

The Belt and Road Initiative can be read as the same domestic loop, exported—with a host government added in the middle and a ribbon-cutting at the end.

China lends the money. Chinese SOEs build the project. Chinese workers are paid in renminbi, much of which returns to China. The host country receives the infrastructure—sometimes useful, sometimes a port without ships or a railway between places with little need to be connected—and a debt it may struggle to service from any plausible revenue stream. When trouble comes, the debt is typically restructured rather than written off, because recognizing a default would mean recognizing a loss.

Critics of BRI argue that comparatively little net value leaves China in these deals: the host gets infrastructure of uncertain return and a debt obligation of certain size, while China gets a strategic relationship and the ability to call the arrangement development assistance. The transparency problem is documented. Horn, Reinhart, and Trebesch find that roughly half of China's lending to developing countries goes unreported in standard international statistics—“hidden debts” often collateralized against commodity flows and structured to stay outside conventional creditor-disclosure frameworks³.

¹International Monetary Fund, *People's Republic of China: 2024 Article IV Consultation* (2024). On the IMF's “augmented” definition—which folds in off-budget local-government borrowing—China's general-government debt is roughly 124 percent of GDP and total nonfinancial-sector debt exceeds 300 percent.

²National Institution for Finance and Development (NIFD), reported in Caixin, “China's Debt-to-GDP Ratio Climbs to Record 287.8% in 2023” (Jan. 27, 2024). The ratio rose further to roughly 296 percent by mid-2024.

³Sebastian Horn, Carmen M. Reinhart & Christoph Trebesch, “China's Overseas Lending,” *Journal of International Economics* 133 (2021): 103539. The authors find roughly half of China's lending to developing countries goes unreported to the IMF and World Bank. See also their “Hidden Defaults,” *AEA Papers and Proceedings* 112 (2022): 531-35.

Defenders counter that BRI has built genuinely needed infrastructure across the developing world; readers should note that both can be partly true.

III. The Currency Question: Theater, or Tipping Point?

China's renminbi-internationalization program is the part of the story most often oversold. The popular argument runs: the yuan is increasingly used in trade, therefore it is becoming a global currency, therefore the dollar's dominance is eroding. Each step sounds plausible; none guarantees the next.

The constraints are structural. The renminbi does not float freely, is not fully convertible on the capital account, and cannot be used to buy global assets at will without navigating a capital-control architecture designed to prevent exactly that. Its international use rests on bilateral arrangements that Beijing negotiates, manages, and can unwind. That is why the yuan's share of global oil settlement has stayed low even as China—the world's largest crude importer—has pushed hard to promote it.

The Saudi case is instructive precisely because it is so often overstated. In June 2024 Riyadh quietly let its decades-old understanding to price oil in dollars lapse without renewal, and it has signaled openness to other currencies. But there is no confirmed, large-scale settlement of Saudi crude in yuan; Saudi Arabia still prices most of its oil in dollars. The reason is practical, not ideological: as S&P Global notes, an exporter that accumulated tens of billions in petroyuan would find them hard to hold, spend, or convert, since the currency is not freely usable outside China⁴. To the extent oil exporters do take yuan and then swap into dollars, they are relying on the very dollar system the arrangement is supposed to displace. The shift is real and worth watching; the claim that it has already dethroned the dollar is not yet supported by the volumes.

Why not simply open the capital account and let the renminbi compete on its merits? Because, critics argue, capital would leave—quickly and in size. The currency would depreciate. Bank assets valued on the assumption of repayment at face value would meet market pricing for the first time. LGFVs would default; SOEs would need recapitalization the budget cannot easily fund. On this view, liberalization is withheld for the same reason an insolvent institution avoids an independent audit: the audit would settle the question. Defenders of Beijing's gradualism reply that any large economy would manage

⁴S&P Global Commodity Insights, “Saudi-China Ties and Renminbi-Based Oil Trade” (2025). In June 2024 Saudi Arabia let its long-standing dollar-pricing understanding lapse without renewal, but as of this writing there is no confirmed large-scale settlement of Saudi crude in yuan; Riyadh continues to price the bulk of its oil in dollars.

capital-account opening cautiously, and that caution is prudence, not concealment. The reader can decide which reading the evidence better fits.

IV. What China Is Genuinely Good At

None of this means China is weak. It means China is strong in ways different from the ways it is usually advertised as strong—and conceding the real strengths makes the rest of the argument more credible, not less.

China's power is positional: it sits at the center of supply chains the global economy depends on, less because it out-engineered everyone than because decades of preferring efficiency over resilience handed those positions to the lowest-cost producer. Its power is coercive: dependencies built through BRI lending, dominance in rare-earth processing, and concentration in pharmaceutical-ingredient production give it leverage over counterparties with no short-term alternative. And its power is logistical: the manufacturing scale is real, the infrastructure works, and the state's coordination capacity is formidable.

What China has not yet demonstrated is the financial depth, institutional trust, and monetary credibility that would let it replace the dollar architecture it is trying to route around. It is, on this reading, the world's most sophisticated dependency-manufacturing machine—but dependency is not the same as prosperity, and a balance sheet that has never been marked to market is not, by itself, a superpower.

V. The Question Worth Asking

The usual framing asks when China will overtake the United States. A better question is how long the world will keep reading a rescue operation as a boom—and how durable that operation can be.

Such arrangements can persist a very long time. Japan's “lost decade” became three. The Soviet Union projected industrial strength for decades before its balance sheet asserted itself. China's version is larger, more sophisticated, and far more integrated into the world economy than either precedent, which cuts both ways: it may prove more resilient, or it may transmit its eventual adjustment more widely. It will not end on a tidy schedule, and it may not end dramatically. It may simply keep absorbing resources, generating statistics, and producing the relationships that make it useful to Beijing.

What it has struggled to produce is the thing a mature economy ultimately runs on: organic household demand strong enough to carry growth without perpetual state credit. It has not built the institutional trust a reserve currency requires, sustained the capital-account openness genuine financial integration requires, or escaped the debt dynamic the soft budget constraint has been compounding since the 1990s. So it continues—rolling the debt, building the projects, paying the workers, counting the activity, and describing the result as a miracle.

The world, then, may be facing less a Chinese superpower than a Chinese balance sheet. Superpowers project force; balance sheets eventually require reconciliation. That reconciliation is the thread to watch in the years ahead—and the real test for Washington is whether it rebuilds its own institutional and industrial competence before the reckoning arrives, rather than assuming the reckoning will arrive on its own. The advantage is not permanent on either side. It has to be earned.

J. Ken Rhodes spent his career in private equity, capital markets, and financial regulation, including service as Chief of Securities for the State of Tennessee and membership on the Regulation D drafting committee. He holds a master's degree in economics. His working papers on Chinese strategic dependency and dollar architecture are available at SSRN ([author page](#)).