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UNCOVERING DIVERGENCE:

China's End-Use Energy Demand Amid the Transition from Old to New Economy

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CONTENTS

KEY POINTS

- A major transition is underway moving from an economy relying on resource extraction for heavy industry and real estate, associated with high coal and oil consumption, to one oriented towards services, innovation and advanced manufacturing — in particular in cleaner energies supply chains — with a shift toward electricity and natural gas.

- Wind and solar continue their expansion both because costs keep declining as a result of growing investment in manufacturing along their supply chains and because of the implementation of supporting mechanisms and policies.

- The role of coal is shifting to feedstock applications, in particular chemical-processing purposes, with a diminishing role as a fuel.

- Oil demand seems to have peaked in 2023, as passenger cars and lighter vehicles are massively electrified and heavy-duty trucks are increasingly running on electricity or LNG.

- The expansion of the power grid is driven mainly by high-tech manufacturing, AI-driven data centers and EV charging-swapping services.

- Natural gas remains important for residential use, transport, and power (as backup for renewable sources) while industrial users have started shifting toward lower-cost alternatives such as coal and biomass.

INTRODUCTION

China's evolving end-use energy consumption structure has consistently mirrored the broader transformation of its economic model. Since the start of the 13th Five-Year Plan (2016–2020), China's economy has entered a gear-shifting phase, marked by a noticeably accelerated transition from traditional to emerging growth drivers. The "old economy" — driven by heavy infrastructure and real estate — is characterized by high energy intensity and a reliance on direct fossil fuel consumption. In contrast, the "new economy" — ed by modern services and advanced manufacturing — relies primarily on electricity at the end-use level. This structural realignment underpins the multi-decade trends in China's end-use energy consumption mix, as illustrated in Figure 1.

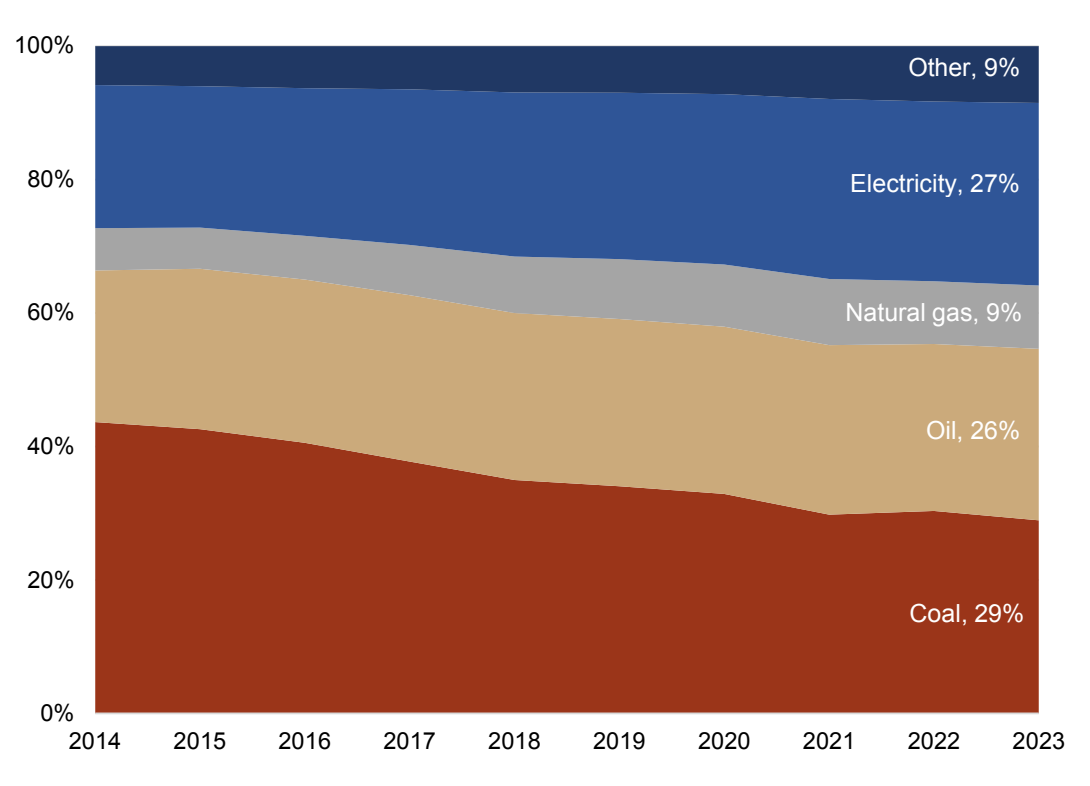

Figure 1: Share of China's end-use energy consumption by source, 2014–2023

Source: National Bureau of Statistics of China (NBS), CICC Global Institute

Accelerating transition toward the new economy

Since 2015, alongside the full-scale advancement of supply-side structural reforms, the Chinese government has rolled out a suite of policies to advance the transition towards the new economy and foster innovation-driven emerging industries. The contribution of new growth engines to economic expansion has climbed year after year. Meanwhile, the scope for growth through technological upgrading in traditional industries has begun to narrow, and capacity rationalization has further reduced the scale of legacy production, diminishing the contribution of traditional sectors to GDP growth.

Amid this transition, economic growth has witnessed a divergence across different sectors. As illustrated in Figure 2, during the 14th Five-Year Plan period (2021–2025), the added value of the "Three New" economy (see explanation below Figure 2) has expanded rapidly, showing remarkable resilience despite episodic disruptions from the pandemic and geopolitical tensions. By 2025, new drivers accounted for 18.39% of GDP, signaling an irreversible shift from factor-driven expansion to innovation-led growth.

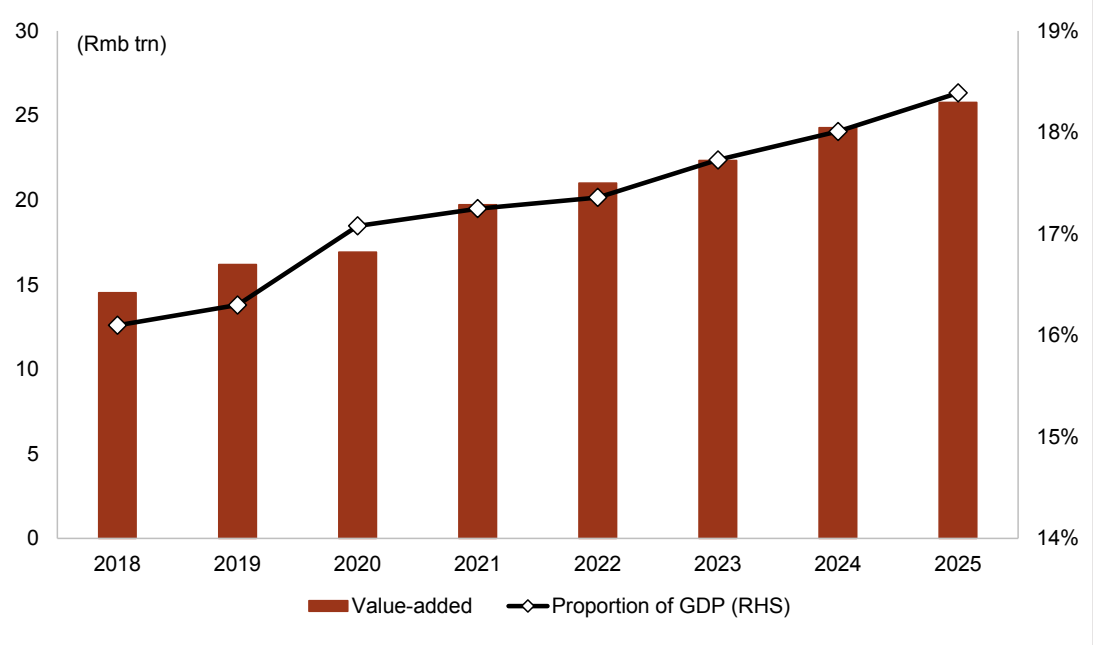

Figure 2: The Added Value of "Three New" Economy and Its Proportion to GDP

Note: The "Three New" Economy is a collection of economic activities with new industries, new business formats, and new business models as the core content. Source: National Bureau of Statistics of China, CICC Global Institute

Fiscal and monetary policies work in tandem to bolster the new economy, and this proactive tilt of funding resources will likely further accelerate the shift between old and new growth drivers. Fiscal spending has shown pronounced divergence between new and old drivers. Expenditure on traditional real estate and resource-extractive projects has contracted steadily, while spending on R&D and green sectors has maintained double-digit growth for an extended period. In 2025, national fiscal spending on R&D grew by 4.8%, significantly outpacing overall fiscal expenditure growth. Meanwhile, spending on energy conservation and environmental protection continued to expand at 6.1% in 2025.[1] During the 14th FYP period, the regular budget for energy conservation and environmental protection has maintained YoY growth of over 6%.

[1] Data sourced from Ministry of Finance of the People's Republic of China (MOF).

Beyond direct fiscal spending, the government has deployed a broad array of instruments — including transfer payments, green/technology special-purpose bonds, special treasury bonds for equipment upgrades, industry guidance funds, loan subsidies, tax incentives, government green procurement, and risk-compensation awards — to sustain support for the new economy.

During the financial cycle downswing, the previous pattern of broad-based credit availability benefiting both new and old economies no longer holds. Aggregate credit constraints, combined with green finance assessment requirements for financial institutions, have driven a gradual withdrawal of funding from the old economy, such as real estate and energy-intensive industries. At the same time, policy tools such as relending facilities have directed credit toward emerging industries including innovative technologies, advanced manufacturing, and new energy. This structural reallocation of credit resources has widened the financing gap between new and old economies. In terms of loan composition, infrastructure, manufacturing, technology, and small or micro enterprise loans together now account for nearly all new incremental lending, while the combined contribution of real estate and consumption loans has fallen from around 60% in 2017 to -13% in 1Q26 — representing a systemic reallocation of credit between the "new" and "old" economies.

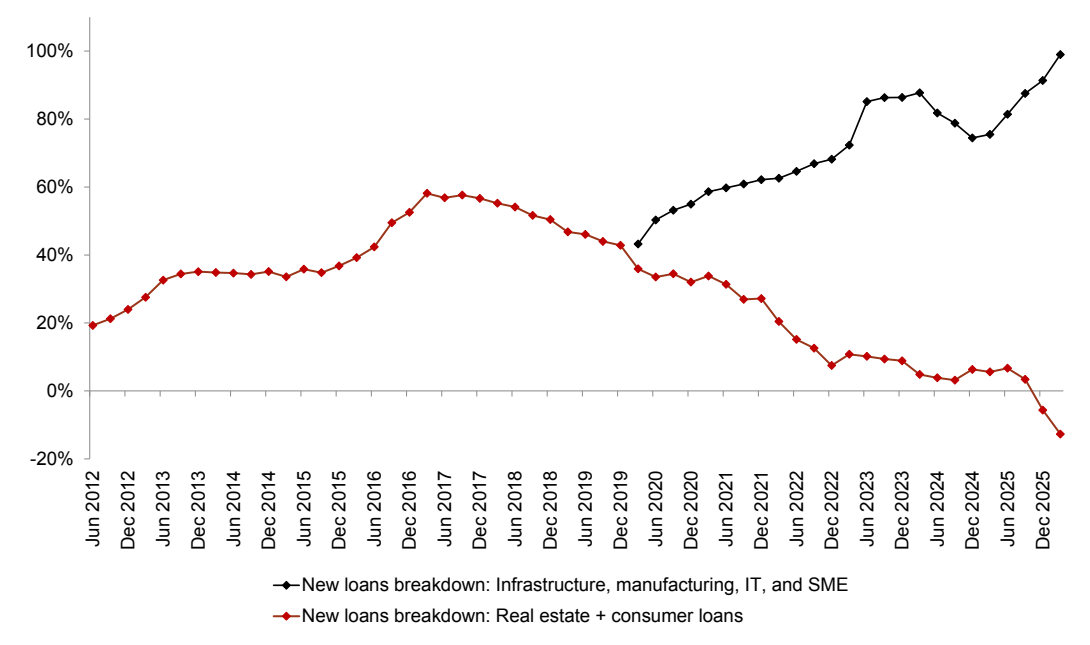

Figure 3: Policy-Supported Sectors Account for Nearly 100% of New Incremental Loans

Source: Wind, PBoC, CICC Global Institute

Industrial restructuring has reshaped the overall landscape of final energy demand, manifesting in lower economy-wide energy intensity and slower energy consumption growth. In the past, economic growth was tightly coupled with production expansion in energy-intensive heavy industries, resulting in elevated energy consumption per unit of GDP. The growth of China's final energy demand was historically closely tied to the real estate and infrastructure cycles. By contrast, the expansion of new-economy sectors—advanced manufacturing, digital computing, new energy supply chains, and modern services—has generated significant new power loads and driven electricity consumption growth. However, these sectors are far less energy-intensive than traditional heavy industries.

The shift in economic growth drivers has triggered a structural switch in the sources of energy consumption increments, laying the groundwork for the divergence in energy demand. The growth headroom for coal consumption — historically driven by heavy industrialization, infrastructure, and real estate expansion — is steadily narrowing. Oil demand, driven largely by road transport and petrochemical feedstocks, is approaching its peak as new-energy vehicle penetration continues to rise.[2] Natural gas, benefiting from lower carbon intensity and stable supply characteristics, serves as a clean bridging fuel between high-carbon and low- or zero-carbon energy sources, and is seeing modest growth in industrial fuel substitution, urban heating, and peak-load power generation. Electricity is well-aligned with the energy-use characteristics of new-economy sectors, and has become the primary driver of energy demand growth.

> China's final energy consumption mix is shifting away from conventional sources dominated by coal and oil toward clean sources represented by electricity and natural gas.

Overall, as the transition between new and old growth drivers proceeds, China's final energy consumption mix is shifting away from conventional sources dominated by coal and oil toward clean sources represented by electricity and natural gas. A divergence is set to emerge going forward, although it has not yet materialized.

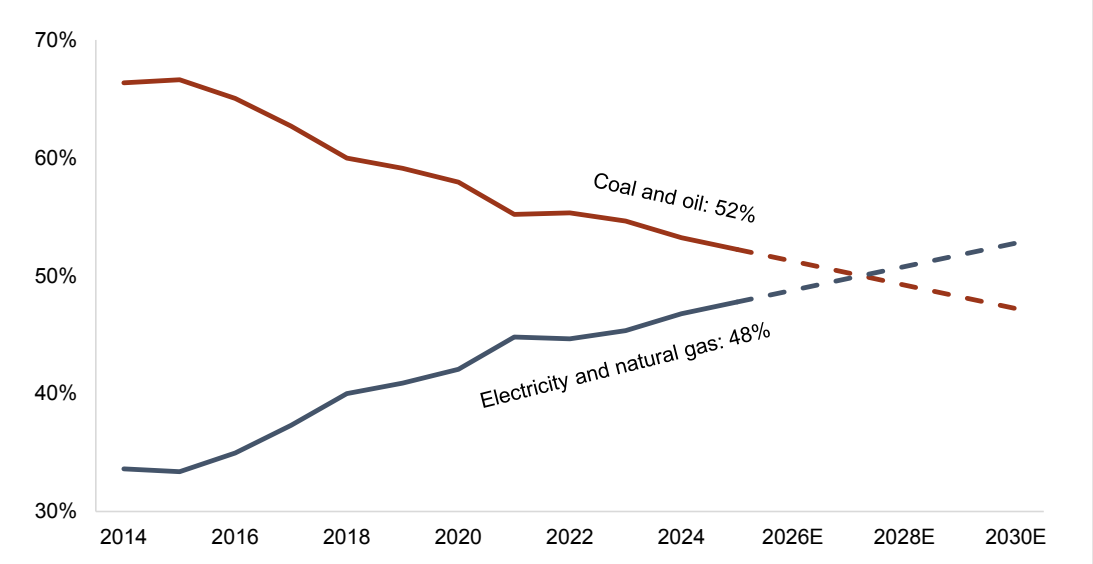

Figure 4: Emerging Divergence in China's Final-Energy Mix

Note: Projections for the post-2024 energy mix are derived based on three-year average growth rates.
Source: NBS, CICC Global Institute

[2] New-energy vehicles (NEVs) include battery electric vehicles (BEVs), plug-in hybrid electric vehicles (PHEVs), and fuel-cell electric vehicles (FCEVs).

Coal consumption nears peak, with growth shifting from fuel use to feedstock

Coal consumption growth continues to slow, and total coal use has entered a plateau phase ahead of its peak. In 2025, over 50% of China's coal consumption was used for power generation. This segment of coal demand is gradually declining, as coal-fired power generation is being displaced by new power sources.

Two trends illustrate this shift. First, new installed capacity additions have slowed notably, with capacity growth rates declining. By 2025, coal power capacity reached approximately 1.26 TW, accounting for just 33% of total installed capacity. Second, the annual utilization hours of coal-fired power units are declining steadily. These trends reflect a broader structural shift in China's power system. The continued expansion of wind and solar is underpinned by rapid declines in renewable generation costs, supported by China's large-scale and increasingly competitive clean-energy manufacturing base, as well as the development of mechanisms to integrate renewable power into the electricity system. As electricity demand continues to grow, rising renewable generation is increasingly meeting incremental demand while reducing the utilization of coal-fired power plants. These developments also provide the basis for more ambitious policy targets. The Chinese government has set a target to raise the share of new energy power generation from 21.7% in 2025 to 30% by 2030.

> The continued expansion of wind and solar is underpinned by rapid declines in renewable generation costs, supported by China's large-scale and increasingly competitive clean-energy manufacturing base, as well as the development of mechanisms to integrate renewable power into the electricity system.

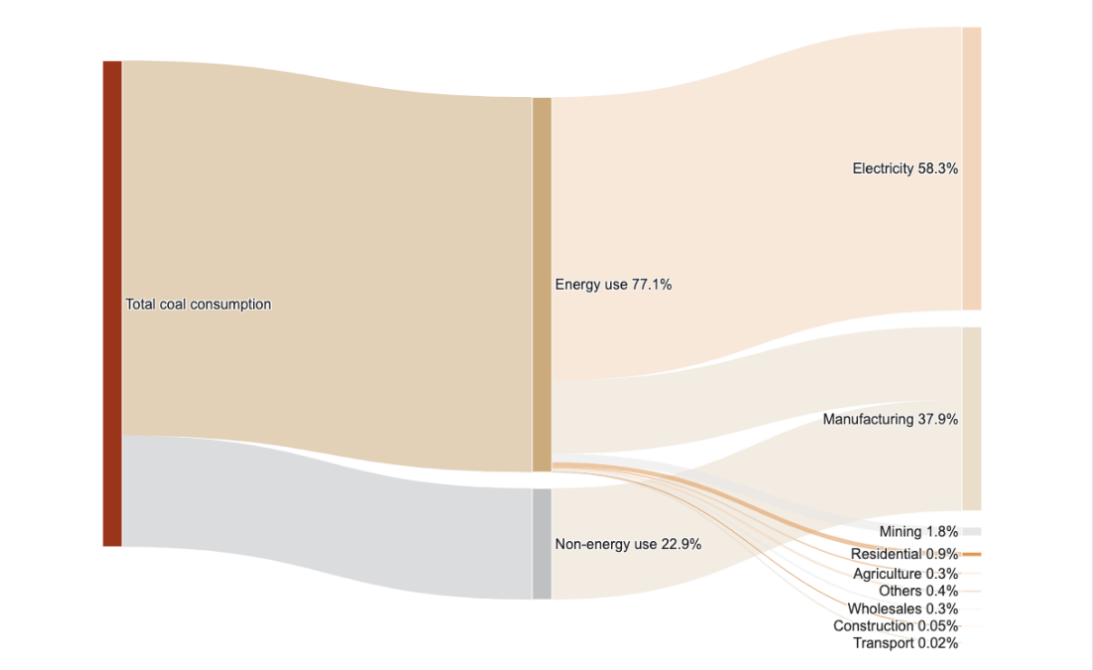

Figure 5: Coal Consumption by Sector in China,2023

Source: NBS, CICC Global Institute

Coal's feedstock applications — rather than fuel-based combustion — have emerged as the primary source of incremental coal demand, with coal for chemical-processing purposes acting as its core growth driver. Since early 2026, conflict in the Middle East has disrupted the global oil supply, pushing oil prices sharply higher. Meanwhile, in China, domestic coal fundamentals have remained relatively loose, driving the coal-oil price ratio down. This decline has restored the profitability of coal-chemical products, particularly in coal-to-olefins and coal-to-ethylene glycol. In 1Q26, coal-chemical operating rates ran at elevated levels, driving coal consumption in chemicals up 17% YoY. In addition, the disruption to Middle East supply has impacted Asia-Pacific chemical supply chains, providing a further boost to external demand for China's coal-chemicals. We estimate that domestic coal consumption in chemicals will grow around 15% in 2026, equivalent to approximately 50 Mt of incremental coal demand.

> Coal's feedstock applications — rather than fuel-based combustion — have emerged as the primary source of incremental coal demand.

NEV substitution and high oil prices push refined oil consumption into a rapid downward cycle

China's consumption of refined oil products appears to have peaked in 2023 and has declined for two consecutive years since then. In 2025, apparent consumption of refined oil products continued its downtrend, at approximately 398 Mt, down 3.6% YoY. The decline in consumption is primarily attributable to the electrification of the transport sector.

> China's consumption of refined oil products appears to have peaked in 2023 and has declined for two consecutive years since then.

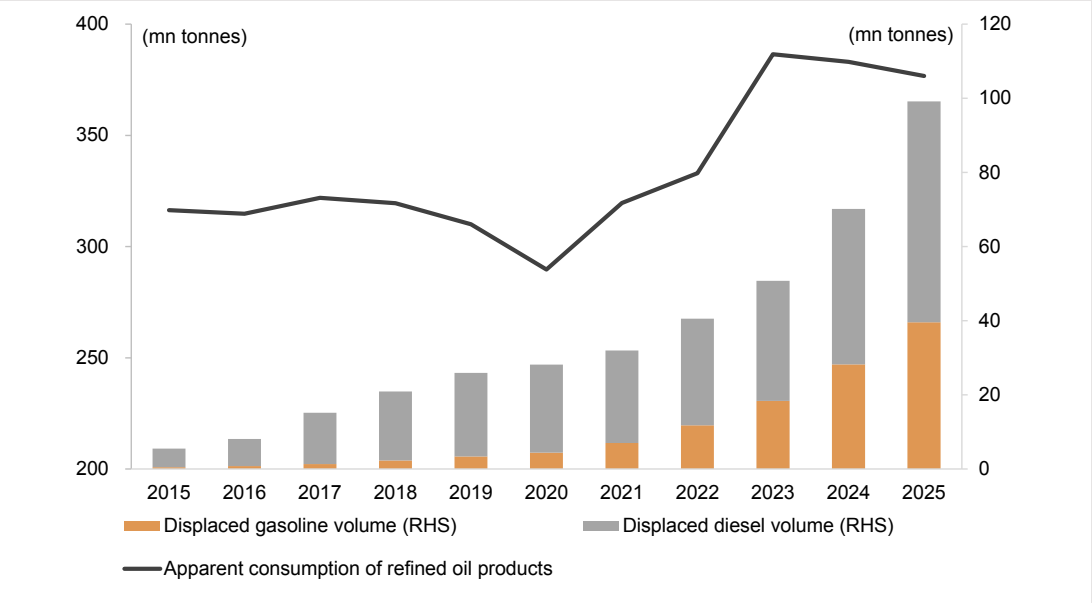

Figure 6: China's Refined Oil Product Consumption Peaked in 2023

Note: Gasoline or diesel displacement refers to the volume of gasoline or diesel demand offset by electricity for battery-electric vehicles. Source: NBS, CICC Global Institute

As the scale-driven advantages of NEVs continue to materialize, gasoline demand has entered a phase of accelerated decline. Currently, NEVs account for 14% of total vehicle stock yet deliver an 18% substitution rate for gasoline consumption. Factors including the gradual phase out of China's NEV purchase subsidies, phased adjustments to preferential purchase tax policies for fuel powered vehicles, and diminishing road access privileges for NEVs in multiple regions have created short term disruptions to sales growth. Nevertheless, NEVs still offer significant operating cost advantages.[3] Coupled with the continuous improvement of charging infrastructure and the phased implementation of internal-combustion engine (ICE) vehicle sales restrictions,[4] multiple factors will likely underpin rising NEV penetration.

[3] According to the IEA, in 2025 the average annual operating cost of a battery electric vehicle (BEV) in China was around US$100–550 (CA$ 139-764), compared with just over US$700 (CA$ 972) for a gasoline internal-combustion vehicle, implying annual running-cost savings of more than US$550 (CA$ 764) on average. The advantage primarily reflects the higher energy efficiency of BEVs and lower electricity costs, particularly for residential charging.

[4] China has not imposed a nationwide ban on new ICE vehicle sales. However, some regions have introduced phased restrictions. For example, Hainan plans to prohibit the sale of new ICE vehicles by 2030, while requiring all newly added and replacement vehicles in the public-service and commercial sectors to use NEVs.

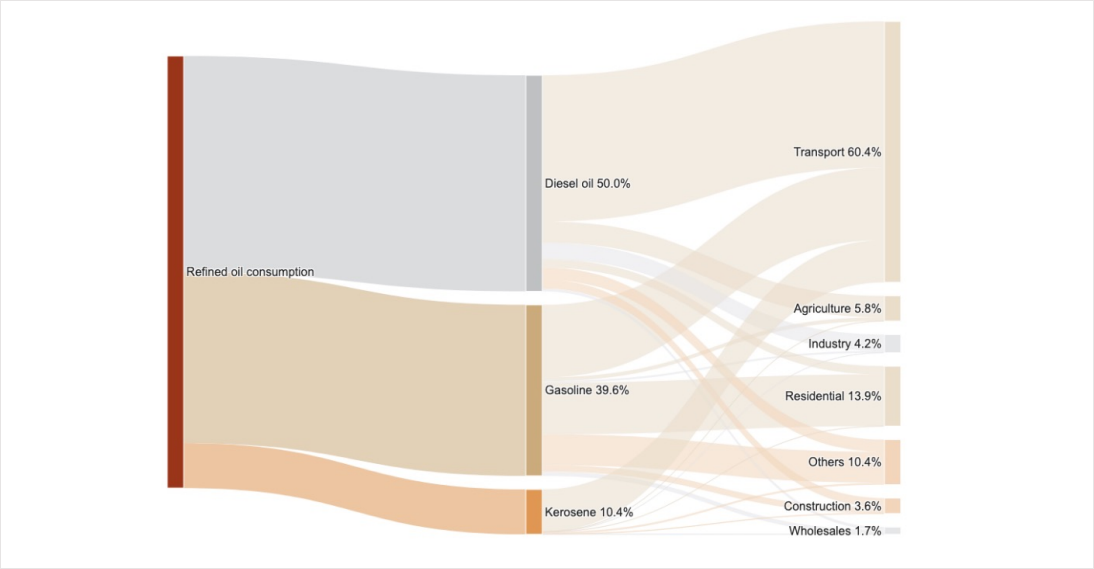

Figure 7: Refined Oil Consumption by Sector in China, 2023

Source: NBS, CICC Global Institute

> New energy heavy-duty trucks now outperform diesel trucks in long-haul applications on a total-cost-of-ownership basis, second only to LNG trucks.

Likewise, diesel consumption will also witness an irreversible structural decline, driven by the scaled deployment of new-energy heavy-duty trucks. As of March 2025, the sales penetration of new-energy heavy-duty trucks reached 20%.[5] This rapid growth was driven by two factors. First, new-energy heavy-duty trucks now outperform diesel trucks in long-haul applications on a total-cost-of-ownership basis, second only to LNG trucks. The CICC Research department estimates that new-energy heavy-duty trucks — benefiting from lower electricity costs and reduced maintenance — can achieve a 20% cost advantage over diesel trucks.[6] Second, China's policy support for new-energy heavy-duty trucks is substantially more generous than that for passenger electric vehicles. Scrappage subsidies can reach up to Rmb140,000 (about CA$28,800) per vehicle nationally, with local supplements pushing the total to as high as Rmb280,000 (about CA$57,700) in some cities (e.g., Shanghai), compared with a Rmb20,000 (about CA$4,000) cap for passenger car trade-ins.

Moreover, new-energy heavy-duty trucks benefit from unlimited purchase-tax relief, whereas passenger EVs are subject to a statutory ceiling on tax savings. In addition, new-energy heavy-duty trucks enjoy exclusive operational privileges, including exemptions from traffic restrictions in high-emission zones and toll discounts (e.g., 10% in Henan). At the strategic level, the government has set national quantitative targets for the first time: new-energy heavy-duty trucks are expected to reach a 40% sales penetration rate and an operating fleet of over 1.6mn units by 2030, compared with the current stock of 384,000 units. Our projection shows that the deployment of new-energy heavy-duty trucks would drive a direct drop of approximately 15% in diesel consumption over the next five years.[7]

[5] Data sourced from China Commercial Vehicle Network (CVWorld), calculated based on national compulsory traffic insurance vehicle registration records.

[6] Although it costs an average of 30% more to buy an electric heavy-duty truck compared with a diesel heavy-duty truck, the former's energy cost per 100km is 50% lower, accompanied by a 5% reduction in taxes.

[7] This 15% reduction refers solely to direct fuel substitution from new-energy heavy-duty truck replacement, and does not represent the overall change in total societal diesel consumption.

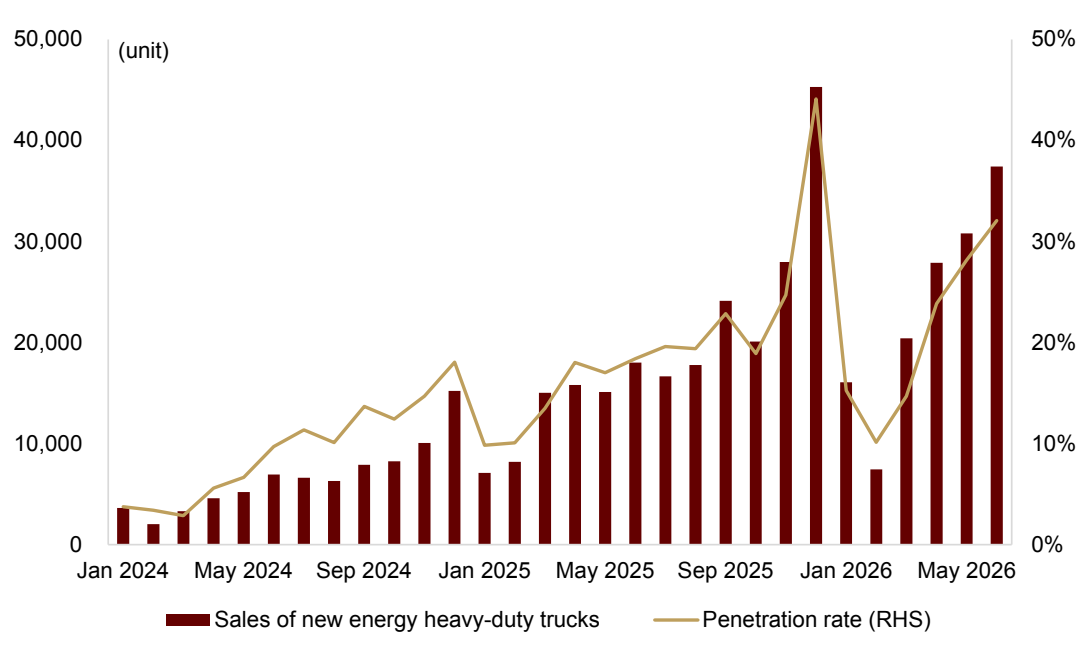

Figure 8: Sales and Penetration Rate of New-Energy Heavy-Duty Trucks in China

Source: China Commercial Vehicle Network, CICC Global Institute

While both gasoline and diesel consumption have entered a downward trajectory, jet fuel continues to grow given its inherent resistance to electrification substitution. In 2025, aviation kerosene consumption reached 40.21 Mt, up 1.3% YoY. The main drivers of this growth are the recovery in international flight routes and expanding air cargo demand. Electrification in aviation is far more challenging than in road transport. In the near term, only modest blending of sustainable aviation fuels (SAF) is feasible, far from fully replacing conventional fossil jet fuel. Fuel efficiency gains from technology upgrades and fleet renewal will only partially offset demand growth, and will not reverse the upward trend in total jet fuel consumption.

Short-term oil price volatility stemming from the Middle East conflict cannot reverse the long-term decline in finished-oil product consumption. Two fundamental factors make a meaningful reversal in China's finished-oil product consumption unlikely: The absolute stock of on-road ICE vehicles and, critically, the marked drop in their real-world usage intensity, namely total travel mileage.

Electricity demand is expected to rise 5% annually, with ai driving one-third of new power use

China's electricity demand remains in a phase of rapid growth, underpinned by its robust energy supply transition and electrification strategy. China boasts the world's largest power grid, with installed capacity 25% higher and annual power generation 40% above the combined level of the US and the EU. Its end-use electrification rate currently stands at approximately 30%, and the National Energy Administration projects the figure will approach 35% by 2030. Driven predominantly by the expansion of new economic sectors, China is expected to see an annual incremental electricity demand of around 600 TWh throughout the 15th FYP (2026–2030), representing an average annual growth rate of 5%.[8]

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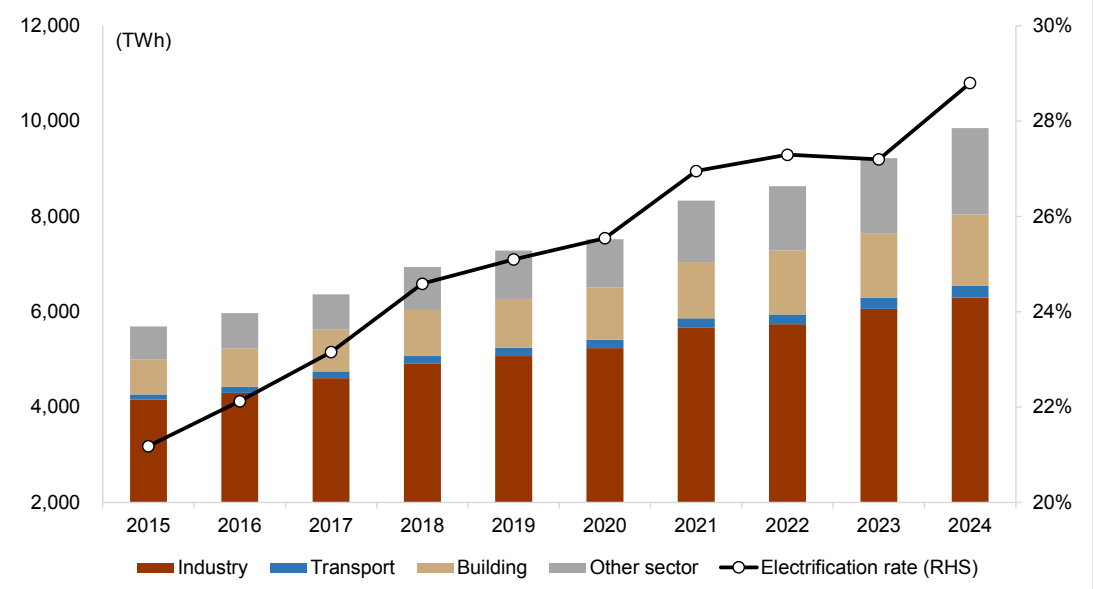

Figure 9: China Electricity Consumption by Sector, 2015–2024

Source: NBS, CICC Global Institute

[8] http://english.scio.gov.cn/pressroom/2026-06/26/content_118569662.html

Zooming in on China's electricity-demand growth, two dimensions merit consideration to decipher its long-term trajectory: absolute electricity-demand increments and growth rates.

From an absolute-volume perspective, the industrial sector accounts for the largest share of incremental electricity demand. In 2025, the industrial sector's incremental electricity demand hit 330 TWh, representing 64% of total power demand growth. Within the industrial sector itself, advanced-technology and equipment manufacturing merits particular attention given its strong growth momentum. During January-July 2026, the industrial sector registered an average year-on-year electricity-consumption growth of 4.7%, while advanced-technology and equipment manufacturing posted a notably higher growth rate of 9.7%.

When assessing growth rates across all sectors, data centers and EV charging-swap services emerge as the fastest-growing segments. Their year-on-year electricity consumption growth reached 43.3% and 55.8% respectively in January-July 2026.[9]

We therefore identify three major drivers that will likely shape the future trajectory of China's electricity consumption, as elaborated in the following analysis.

Driver No.1: Advanced, high-tech manufacturing. This industry represents the largest source of China's electricity consumption, with pronounced structural divergence. High-tech and equipment manufacturing has emerged as the primary growth engine. Fueled by supportive industrial policies, high-tech manufacturing segments including photovoltaics, lithium ion batteries, and semiconductors have maintained robust power consumption expansion. In 2025, electricity demand by high-tech and equipment manufacturing rose by 6.4%, significantly outpacing the overall industrial consumption growth of 3.5%.

> High-tech and equipment manufacturing has emerged as the primary growth engine.

By contrast, traditional energy intensive sectors such as steel, electrolytic aluminum, chemicals, and cements have experienced slower power growth amid capacity regulation, energy saving retrofits, and decelerating legacy economic activity. Supported by resilient export demand and ongoing electrification retrofits, these industries continue to underpin overall industrial electricity consumption. This ongoing structural transformation is rapidly advancing industrial electrification. We estimate that China's industrial electrification rate will reach 35% by 2030, representing a 5ppt increase from 2025.

Driver No.2: AI-driven data centers. With the rapid advancement of AI technologies, China's data-center electricity consumption hit a new high of 170 TWh in 2025, accounting for 1.6% of China's total electricity consumption.[10] This share is projected to climb to 6% by 2030, with total electricity consumption reaching 800 TWh. This implies that one-third of annual incremental power demand will be consumed by this sector.

> One-third of annual incremental power demand will be consumed by the AI-driven data centers sector.

[9] All data presented in this and the preceding paragraph are sourced from the National Bureau of Statistics (NBS).

[10] https://peoplesdaily.pdnews.cn/tech/er/30052240858

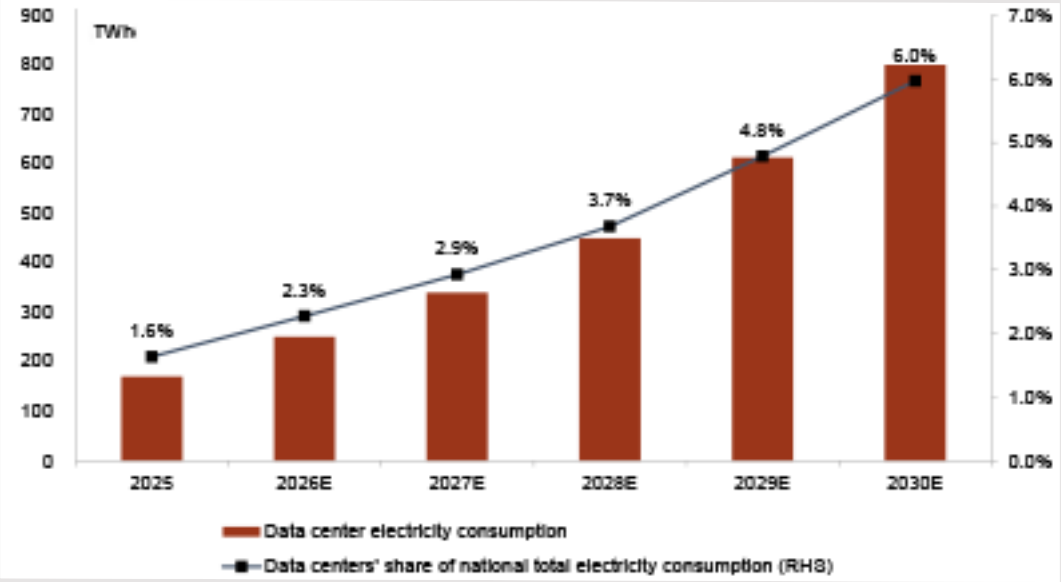

Figure 10: Projected Electricity Consumption of China's Data Centers

Source: National Energy Administration (NEA), CICC Global Institute

Driver No.3: EV charging-swapping services. Driven by the growth of EVs, China has expanded its EV charging infrastructure, which has boosted continuous growth in electricity consumption. By the end of the 14th FYP period, China had 20.09 million charging facilities in place,[11] supporting an average annual growth rate of 60% in electricity consumption for charging-and-swapping services. According to the 15th FYP targets, the number of charging facilities nationwide will exceed 40 million by 2030, which will further accelerate the growth of related electricity demand.[12] According to the IEA's analysis,[13] the share of electricity consumption for EVs in China's total final electricity consumption will rise from 1.2% in 2024 to 3.6% in 2030.

[11] National Energy Administration (NEA, Jan 21, 2026). Total EV charging facilities as of end-2025

[12] NDRC & NEA (Aug 3, 2026), 15th Five-Year Plan for New-Type Power System Development.

[13] IEA (2025), Global EV Outlook 2025, Stated Policies Scenario (STEPS).

Natural gas consumption is entering a low-growth phase

China's natural gas consumption has exited its high-growth era and entered a low-growth phase. During the 12th FYP period (2011-2015), it posted an average annual growth rate of 12.5%, followed by 10.9% over the 13th FYP period, and further declined to 5.7% across the 14th FYP period. In 2025, China's apparent natural-gas consumption stood at roughly 426.5 bcm (about 16.3 EJ), representing a mere 0.1% YoY increase.

> China's natural gas consumption has exited its high-growth era and entered a low-growth phase.

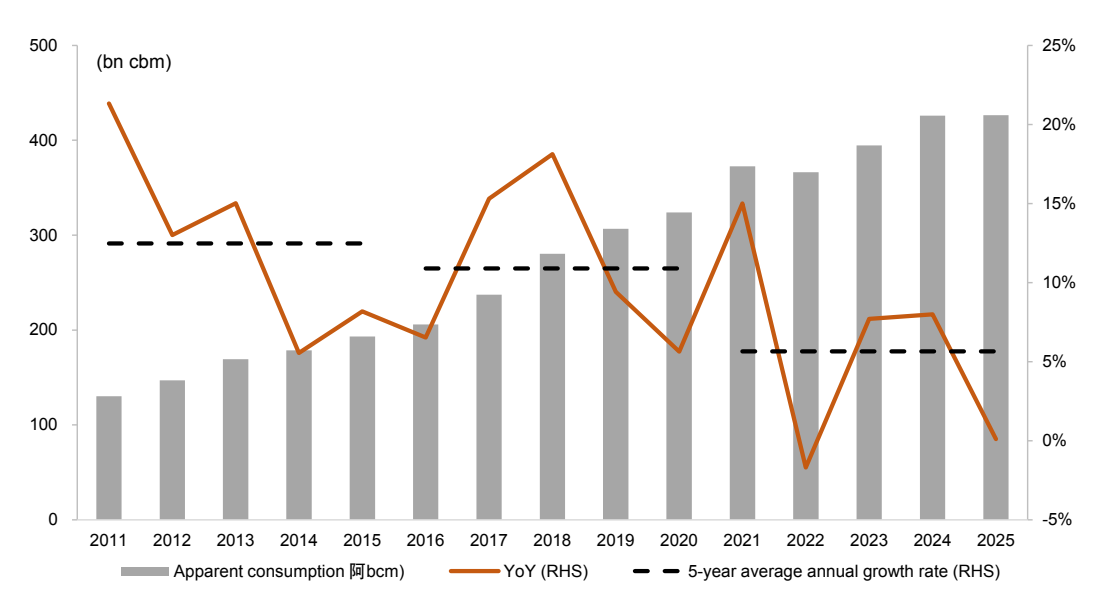

Figure 11: China's Natural Gas Consumption, 2016-2025

Note: Apparent consumption = domestic production + net imports (imports – exports) ± change in inventories.
Source: NBS, CICC Global Institute

These changing growth trajectories reflect underlying structural shifts across consumption segments. The industrial sector — which accounts for the largest share of natural gas consumption — has witnessed a gradual deceleration in gas-demand growth in recent years. This is largely driven by economic incentives, as enterprises turn to lower-cost alternatives including coal and biomass. Besides, the driving force for residential coal-to-gas switching has waned. As the second-largest consumption segment, residential gas demand has plateaued. Its rapid growth in the 2010s was driven partly by policies promoting coal-to-gas substitution, particularly after China launched its air-pollution control campaign in 2013 and expanded clean-heating programs in northern China from 2017 onward. Yet with China's urban gas penetration reaching 98.6% in 2024,[15] there are limited remaining households eligible for new gas supply connections, which caps further growth in urban gas consumption.

[14] The conversion factor between bcm and Joules depends on the origin of the natural gas under consideration. For Russian natural gas at 15°C and atmospheric pressure, 1 bcm corresponds in average to 38.2 petajoules of energy. This is the factor we use here.

[15] Data sourced from NBS. Urban gas penetration rate refers to the ratio of gas-connected urban population to total urban population.

In China, gas fired power mainly functions as a flexible regulating resource for power system, rather than a primary power supply source. During the 14th FYP period, cumulative new gas fired installed capacity in China reached 65.79 GW, a 65% increase compared with the start of the planning period. Nevertheless, growth in power generation over the same period lagged markedly behind capacity expansion: by the end of the 14th FYP, gas fired power generation stood at nearly 360TWh, with an increase of only 44.3%. The low operating hours of gas fired units stem from protractedly tight supply in China's natural gas market. Preliminary data shows that higher gas prices driven by the Middle-East conflict led to a 3.3% YoY drop in China's gas-fired power output in April 2026.[16]

LNG-fuelled heavy duty trucks constitute a key source of natural gas demand growth within the transport segment. Cumulative sales of LNG-powered heavy-duty trucks reached 625,000 units during the 14th FYP period, 1.5 times the volume recorded over the 13th FYP period. Nevertheless, their economic viability remains highly sensitive to gas oil price spreads. And LNG-fuelled heavy-duty trucks will also compete against new-energy heavy-duty trucks across differentiated use cases over the longer term. We assess that China's natural gas consumption

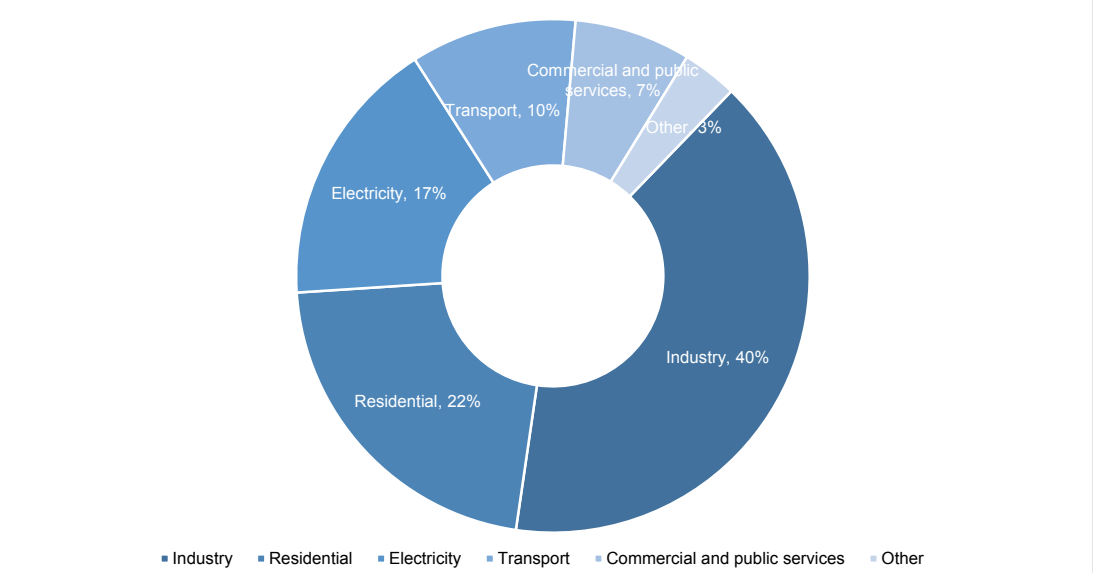

Figure 12: China's Natural-Gas Consumption by Sector, 2025

Source: NBS, CICC Global Institute

is set to go through a period of subdued growth, with supply-side disruptions acting as a key swing factor. The Middle East crisis has represented a major supply shock to global natural gas markets. The temporary loss of nearly 20% of global LNG supply triggered sharp price volatility, lifting Asian gas prices to highs unseen since the 2022-23 energy crisis and forcing adjustments in natural gas demand.[17] Preliminary forecasts indicate that China's natural gas consumption will reach 435 bcm (16.6 EJ) in 2026, representing a YoY growth of roughly 1%.[18] If geopolitical tensions de-escalate, this steep supply decline would be partly offset by restored export volumes from Qatar, as well as rising LNG output from new-build projects in North America and Africa. The global natural gas market is expected to shift toward a looser supply demand balance after 2027.[19] Under such a scenario, China's natural gas demand growth could rebound to around 5% in the later phase of the 15th FYP period. Even so, we see little prospect for a return to double-digit high growth rates for China's natural gas consumption.

[16] Data source from IEA.
[17] Data source from National Energy Administration (NEA).
[18] IEA, Gas Market Report, Q2-2026.

LIST OF ABBREVIATIONS

ABBREVIATION	DEFINITION
1Q26	First quarter of 2026
bcm	Billion cubic meters
CICC	China International Capital Corporation
EJ	Exajoules
EV	Electric vehicles
FYP	Five-year plan
GDP	Gross Domestic Product
GW	Gigawatts
LNG	Liquefied natural gas
NBS	National Bureau of Statistics
NEV	New-energy vehicles
Rmb	Renminbi (Chinese yuan)
TWh	Terawatt-hour
YoY	Year-on-year

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