

China

The next growth chapter

China is entering a more mature phase of economic development, with traditional growth drivers losing strength. Capital accumulation, demographics, property investment and technological catch-up contribute less than in previous decades. Growth is therefore likely to slow further, while future convergence should increasingly rely on productivity, innovation, efficiency gains and better capital allocation.



Benjamín Alonso Castaño

As China moves closer to the global technological frontier, growth is naturally slowing, while population ageing and a shrinking working-age population add further structural pressure. However, this does not imply stagnation. Artificial intelligence (AI), digital applications and continued participation in regional and global trade networks could help sustain growth in a more fragmented global environment.

The 15th Five-Year Plan reflects this strategic shift. Although it does not set an explicit gross domestic product (GDP) growth target for 2026-2030, the objective of doubling 2020 GDP per capita by 2035 is broadly consistent with real GDP growth averaging around 4% over the coming decade. The plan focuses on technology, security and people's livelihoods, combining support for research and development (R&D) and strategic industries with measures to strengthen supply chains and support consumption through better childcare, elderly care and public services. AI is a particularly important cross-cutting priority, with the "AI Plus" initiative aimed at accelerating its adoption across the economy.

China's main macroeconomic imbalance remains the gap between weak domestic demand and strong industrial supply. Household consumption has not yet become a self-sustaining growth engine. It is constrained by the property downturn, subdued confidence, labour-market uncertainty and high precautionary savings.

At the same time, China's supply side is holding strong, with industrial capacity expanding, particularly in new-economy sectors. However, insufficient domestic absorption is driving disinflationary pressures, excess capacity and weak pricing power. Inflation is therefore likely to be subdued in 2027, despite efforts to curb excessive competition, while durable rebalancing will require deeper reforms to income formation, social protections and the consumption environment.

Real estate is still the largest structural drag on domestic demand, weighing on household wealth, confidence, private investment and local-government finances. Despite policy efforts to stabilise the sector and signs of stabilisation in selected cities, the nationwide adjustment runs deep. A durable nationwide recovery has yet to emerge, while the sector's role as a major engine of growth has been structurally diminished. The old property-led growth model is unlikely to return.

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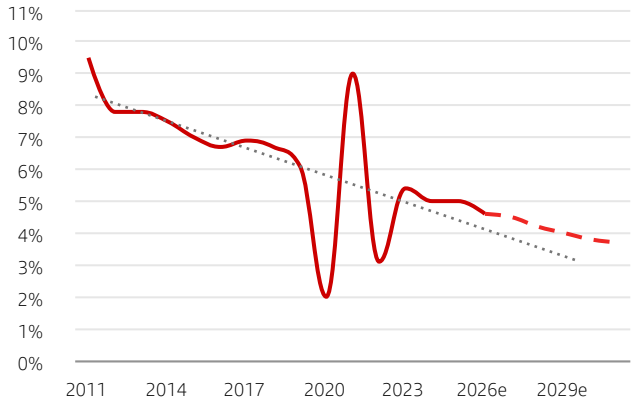
Labour-market conditions are likely to remain uneven, particularly among younger workers, weighing on confidence and precautionary saving. Macroeconomic policy is likely to be supportive, led by fiscal policy, while subdued inflation gives the People's Bank of China (PBoC) room to maintain accommodative conditions, although bank margins and currency stability may favour a gradual approach.

External demand continues to provide key near-term support. Export momentum is increasingly visible in higher-value-added sectors such as electric vehicles (EVs), batteries and solar products. Chinese firms are also diversifying towards Europe, Southeast Asia, Latin America, Africa and other emerging markets. The main risk is a stronger protectionist response abroad, including anti-subsidy investigations, safeguards and tighter scrutiny of transshipment.

Renminbi (RMB) internationalisation is advancing through practical use in trade, funding, investment and liquidity management, supported by Cross-Border Interbank Payment System (CIPS) activity and Panda and Dim Sum bond issuance[1].

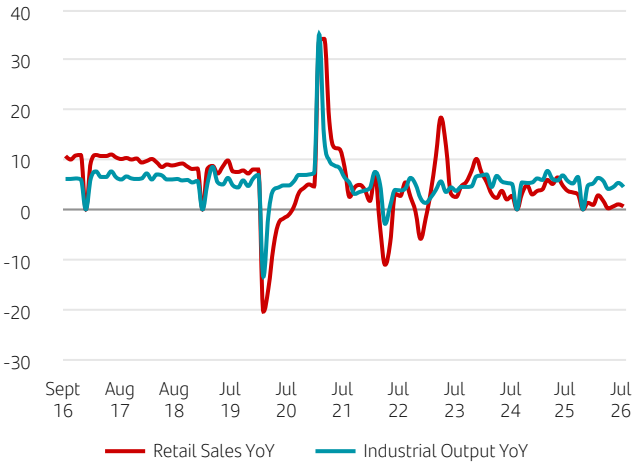
Finally, Middle East tensions add uncertainty through energy, trade and financial channels. China's diversified suppliers, strategic inventories and renewables provide some resilience, but its reliance on imported oil leaves it exposed to prolonged disruptions in the Strait of Hormuz and persistently higher energy prices.

China: Annual GDP growth is slowing



Sources: Datastream (Oxford Economics) and Santander Research.

China: Supply-demand imbalance



Source: Datastream (NBS China).

Macroeconomic forecasts

	2026e	2027e	2028e
GDP growth (%)	4.6	4.5	4.2

Source: Santander Research. Annual average.

[1] CIPS: China's cross-border RMB clearing and settlement system. Panda and Dim Sum Bonds: Onshore and offshore RMB-denominated bonds that support the international use of the renminbi.

China In focus

China's trade reorientation: barriers, changing capacity and strategic dependencies

US tariffs do not create China's trade reorientation; they accelerate and redirect it. China is not simply exporting more or importing less; it is trading differently: pushing outwards in technology-intensive sectors, diversifying geographically and concentrating imports in strategic bottlenecks.

Trade reorientation

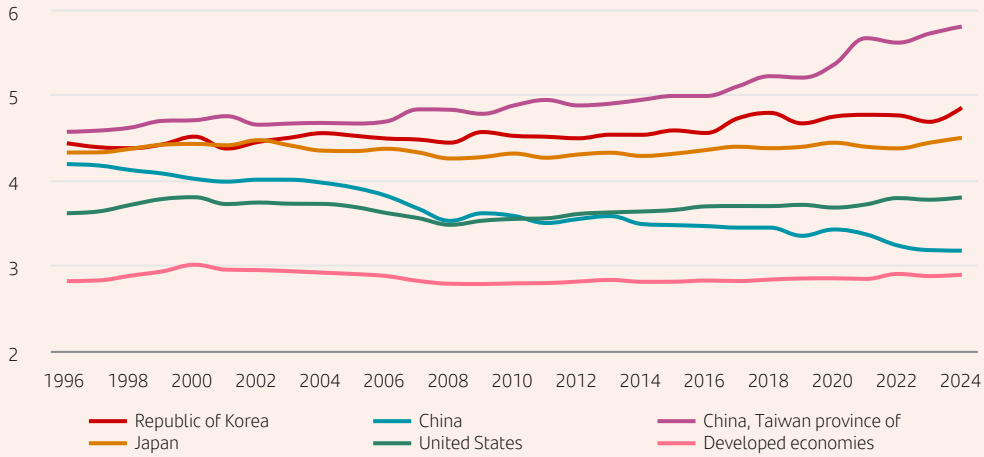
China's trade reorientation will remain a key theme for 2027. It is tempting to frame it mainly as a consequence of US tariffs, but that would be too narrow. Tariffs matter, especially because they restrict access to one of the world's largest high-income consumer markets. Yet the deeper story is structural: China is changing what it exports, where it sells, and what it still needs to import. Three forces are driving this shift: the changing composition of Chinese production, the proliferation of trade barriers and Beijing's pursuit of strategic autonomy.

The first driver is the transformation of China's export base. China is no longer competing mainly in labour-intensive consumer goods. Its export strength is increasingly visible in electric vehicles (EVs), batteries, solar panels, electrical machinery, electronics, capital goods and selected chemicals. This reflects domestic priorities such as electrification, automation, energy security and industrial upgrading, as well as a policy effort to move up the value chain. As a result, China's capacity is also changing in nature. It is no longer only associated with mature sectors such as steel or textiles; it is increasingly present in industries that advanced economies consider strategic.

This does not mean that China's exports are narrowly concentrated. Quite the opposite. The Theil export concentration index[1] suggests that China's export base remains relatively diversified compared with several other Asian manufacturing economies. That matters. The issue is not that China depends on a few export products or markets. Rather, it is that a broad and diversified export base is becoming more competitive in sectors where many economies seek to preserve or build industrial capabilities. The tension is therefore not aggregate concentration, but the changing composition of competition.

[1] UNCTAD's Theil export concentration index measures whether a country's exports are spread across many products and destination markets or concentrated in only a few. Higher values indicate greater concentration; lower values indicate greater diversification. UNCTAD defines developed economies broadly as Northern America and Europe, plus Israel, Japan, the Republic of Korea, Australia and New Zealand.

Theil export concentration index*



(*) Geographical labels follow the underlying statistical sources.

Source: UNCTADstat, Merchandise: Theil concentration indices of exports and imports, annual; UNCTAD classification of developed economies.

Exports redirection

The second driver is rising trade barriers. The US has raised tariffs on Chinese goods in sectors such as EVs, batteries, semiconductors and clean technologies, while the European Union (EU) has introduced countervailing duties on Chinese EVs. Other economies are also reviewing trade measures in sectors such as the automotive industry, steel and clean technologies.

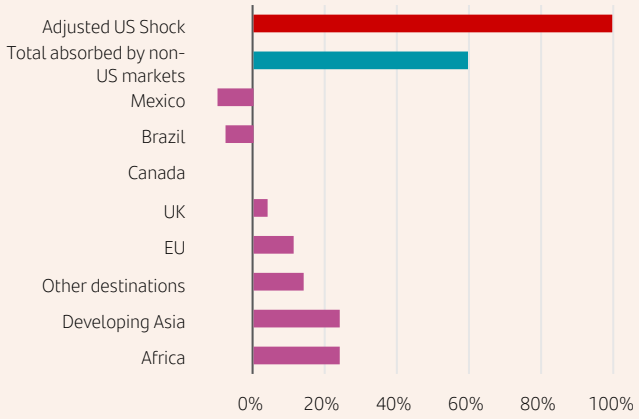
These barriers do not eliminate Chinese capacity; they change its geography. When one market becomes less accessible, Chinese firms have stronger incentives to redirect exports, cut prices, invest abroad or use third countries as production platforms.

To illustrate this shift, we calculate an apparent absorption measure adjusted for preexisting trends[2]. Chinese sales to the US fell by 104.2 billion US dollars in 2025. Relative to their previous trend, the adjusted US shock was 122.3 billion US dollars. Exports to the rest of the world rose 72.8 billion US dollars above trend, equivalent to around 60% of the adjusted US decline. The compensation was therefore significant, but incomplete. Africa and developing Asia each absorbed around one-quarter of the adjusted US shock, while the EU accounted for just above 10%. China's reorientation is therefore not mainly a story of lost US exports being redirected to Europe. It is broader, with emerging markets playing a central role.

[2] Apparent absorption adjusted for trend compares the above-trend increase in China's exports to each destination in 2025 with the above-trend fall in exports to the US. Formally, $A_i=[\Delta X_{i,2025} - \Delta X_{i,2021\text{-}2024}]/[-(\Delta X_{US,2025} - \Delta X_{US,2021\text{-}2024})]$, where $\Delta X_{i,t} = X_{i,t} - X_{i,t-1}$. The indicator is descriptive and should not be interpreted as a causal estimate of tariff diversion.

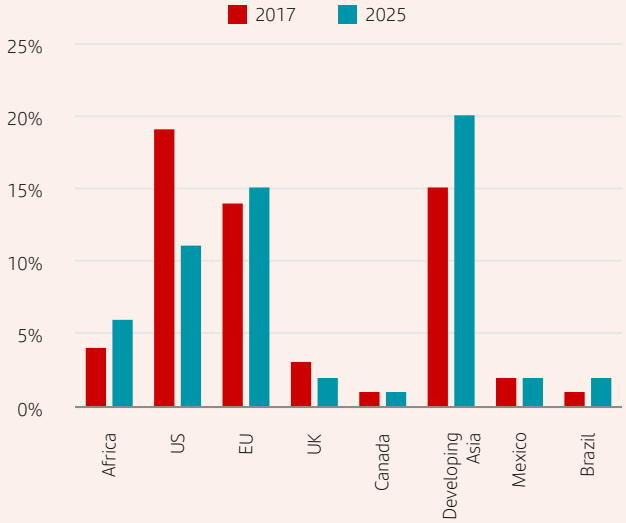
China In focus

China: Apparent absorption of US shock
(% of adjusted US export shock)



Sources: Datastream (IMF Direction of Trade Statistics) and Santander Research calculations.
Note: Apparent absorption: export growth vs. the 2021–24 trend, as a % of the adjusted fall in exports to the US. Negative values indicate below-trend exports.

China: Export reorientation extended beyond the US
(share %)



Sources: Datastream (IMF Direction of Trade Statistics) and Santander Research.

Strategic autonomy

The third driver is strategic autonomy. China's objective is not autarky, but selective self-reliance: reducing vulnerabilities in technology, energy, food and critical materials while preserving access to foreign demand and essential inputs. This is visible in aggregate import intensity. China's real goods imports declined from around 14% of real gross domestic product (GDP) in 2015 to 11% in 2025, suggesting that the economy has become less import-intensive in volume terms. But lower import intensity should not automatically be read as evidence of self-sufficiency.

The more revealing shift is compositional. Using United Nations (UN) Comtrade data, we construct a narrow basket of strategic imports: semiconductors and semiconductor manufacturing equipment, energy products, selected food staples and selected critical industrial materials[3]. This basket increased from 31.6% of China's total goods imports in 2015 to 44.0% in 2024. China is therefore not becoming autarkic. Rather, it is importing more selectively: the imports it still needs may be increasingly concentrated in hard-to-substitute strategic inputs.

[3] The strategic import basket is constructed from UN Comtrade data for China's goods imports from the world, using HS product codes. The basket includes technology goods, HS 8542 and 8486; energy products, HS 2709, 2711 and 2701; selected food staples, HS 1201, 1001 and 1005; and critical industrial materials, HS 2601, 2606, 7403 and 7601. It is expressed as a share of China's total goods imports. The measure captures the concentration of China's import needs in selected strategic inputs; it is not a comprehensive measure of import dependence or self-sufficiency.