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CMB International Global Markets | Macro Research | Economic Perspectives

China Economy

Rebalancing remains challenging

China's exports of goods in 2025 demonstrated resilience amid global challenges, with the 5.5% growth exceeding our forecasts, driven by enhanced ties with non-US economies and supply chain rerouting through intermediaries. Manufacturing sector expanded through innovation and upgrading, with a significant rise of high-tech exports like integrated circuits, motor vehicles and medical equipment, while traditional sectors like garments and toys declined. Imports stagnated at zero growth, widening the trade surplus to a record US$1.19trn (estimated 6.1% of GDP), constrained by weak demand and overcapacity pressure in the domestic market. China's GDP growth slowed post-3Q25, dipping below 5% for at least two quarters, with further deceleration expected in 1Q26. Policymakers may respond with additional policy stimulus. Deflation could mildly ease as commodity prices rise. We expect growth of exports of goods to slow from 5.5% in 2025 to 3.5% in 2026 while growth of imports of goods to rebound from 0% in 2025 to 2%. However, economic rebalancing remains elusive, contrasting China's high consumer savings rates, excess supply capacity, deflationary pressure, trade surplus and low interest rates with the US' low consumer savings rates, inadequate supply capacity, inflationary pressure, trade deficit and high interest rates. Fundamental economic and social reforms are needed but challenging. Market implications hinge on China's policy focus: aggressive rebalancing could boost reflation expectations, bond yields, RMB, and stocks especially in cyclical sectors and consumer goods & services; limited economic rebalancing may yield milder gains, favouring tech sectors.

- **China's exports remained robust amid destination diversification and global supply chain rerouting.** China's exports of goods rose 5.5% in 2025, surpassing our forecast of 5.2%. Exports to the US slumped 20% amid ongoing China-US decoupling in trade and supply chains. However, demand from most other advanced economies was strong, with China's exports to the EU, UK, Japan and Australia growing by 8.4%, 7.8%, 3.5% and 7.9% YoY, respectively. This resilience was supported by stable economic growth and stubbornly high prices in those markets as well as by significant price advantages of Chinese goods. Exports to most developing economies grew even faster, fuelled by their rapid economic expansion, accelerating industrialisation and increasing processing trade. In 2025, China's exports to ASEAN, Africa, Latin America and India grew by 13.4%, 25.8%, 7.4% and 12.8%, respectively. China continued to strengthen ties with these developing economies while partially decoupling from the US. Meanwhile, global supply chains evolved to adapt to the China-US tensions with key intermediaries (such as super connectors like Vietnam and Mexico) acting as buffers to mitigate the negative impacts on global economy and China's exports.
- **China's manufacturing sector continued to expand with accelerated innovation and upgrading.** China's exports of traditional labour-intensive goods such as garment, toys, travel goods & bags, furniture, and lamps & lighting fixtures declined 5%, 12.7%, 13.5%, 6.1% and 12.4% respectively in 2025. Cell phone exports also experienced a sharp decline by 9.4% as the US and Japanese companies continued to diversify their supply chains away from China. However, exports of integrated circuits, motor vehicles, ships, general equipment and medical equipment showed resilience, growing 26.9%, 21.4%, 26.7%, 6.1% and 6%, respectively. These industries have been seeing rapid technology innovation and product upgrades.
- **Imports showed mild improvement but remained weaker than exports.** China's imports of goods registered zero growth in 2025, outperforming our

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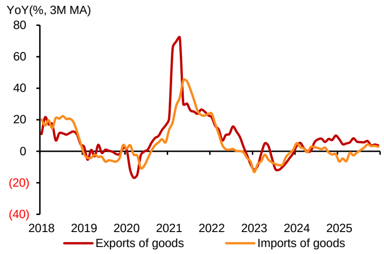
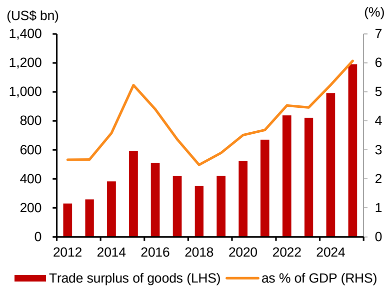


Source: Wind, CMBIGM

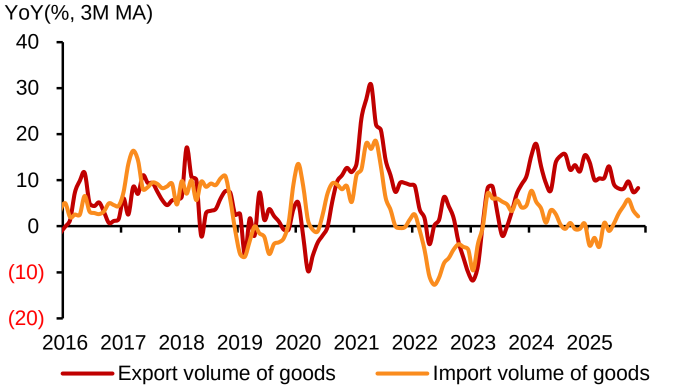


Source: Wind, CMBIGM

forecast of -0.5%. However, import growth lagged far behind exports, pushing the trade surplus to a record high of US$1.19trn (about 6.1% of GDP). Weak domestic demand, deflationary pressure, self-dependence initiatives, significant price advantages of domestic supplies and increasing technology control by advanced economies continued to constrain imports. Specifically, import volumes of steel products dropped 21.4% amid slumping property development and a sharp slowdown in traditional infrastructure investment. Auto import volume declined 23.5%, continuing a downward trend from 2022 as domestic suppliers increasingly dominated the market. Conversely, with the rise of domestic auto makers and strong auto exports, rubber import volumes jumped 29.3%. Machine tool imports also saw a strong recovery, thanks to accelerating automation and robotization. Trends in raw material imports were mixed: volumes of grain, coal and natural gas declined while those of soybean, iron ore, copper ore and crude oil increased.

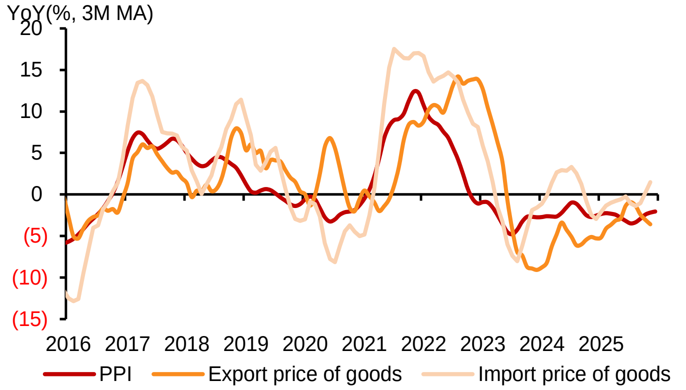
- **Economic rebalancing remains challenging.** China and the US exhibit contrasting economic imbalances like a mirror image. China features high household savings rates, weak consumer demand, excess supply capacity, deflationary pressures, trade surplus, net capital outflows and low interest rates, while the US has overheated consumer demand, low household savings rates, inadequate supply capacity, inflationary pressure, trade deficit, net capital inflows and high interest rates. Both countries face high fiscal deficits, yet China's fiscal resources disproportionately support local governments and enterprises for fixed asset investment, whereas US fiscal funds mainly bolster households for consumption spending. To rebalance, China needs to lower household savings rates, boost consumption, reduce supply capacity & industrial capex, and redirect fiscal support from local governments and enterprises to households and consumers. The US needs to increase household savings rates, expand supply capacity & industrial capex, and shift fiscal priorities from households and consumers to enterprises. These changes require fundamental structural reforms or even economic and social institutional shifts, which are difficult to implement. In the short term, China may introduce moderate stimulus for property and consumption sectors along with anti-involution ("反内卷") measures to defy deflation. Deflation could mildly ease as commodity prices rebound. But broader economic imbalances are likely to persist without deeper reforms. China's appetite for fixed investment stimulus and industrial expansion might remain. In the face of the recent slowdown in manufacturing investment, likely driven by the anti-involution policy signal, policymakers are reverting to stimulating its growth, a move that we believe could exacerbate involution and deflationary pressure in the future.
- **Market implications.** China's economic growth has slowed since 3Q25, as the property stimulus, trade-in subsidies for durables, and the front-loading of exports created high bases and exhausted future demand. GDP growth remained below 5% for two consecutive quarters and is likely to slow further in 1Q26. With the GDP growth target for 2026 still set at 5%, policymakers face mounting pressure to introduce additional stimulus measures in 1Q26. We anticipate the central bank will cut the RRR by 50bps and the LPRs by 10bps. The Ministry of Finance may also roll out moderate stimulus for the property and consumption sectors. The scale and focus of these policies will be critical for China's bond, stock and FX markets. If policymakers prioritize economic rebalancing through aggressive stimulus for property and consumption, combined with strong capacity reductions across most industries, we could see a robust rally in reflation expectations, bond yields, RMB exchange rates, earnings guidance and stocks—particularly in cyclical sectors and consumer goods and services. Conversely, if the emphasis remains on technological innovation and fixed asset investment, any rallies in reflation expectations, bond yields, RMB exchange rates, earning guidance and stocks would likely be more subdued, with technology stocks continuing to outperform.

Figure 1: China's export and import volume growth



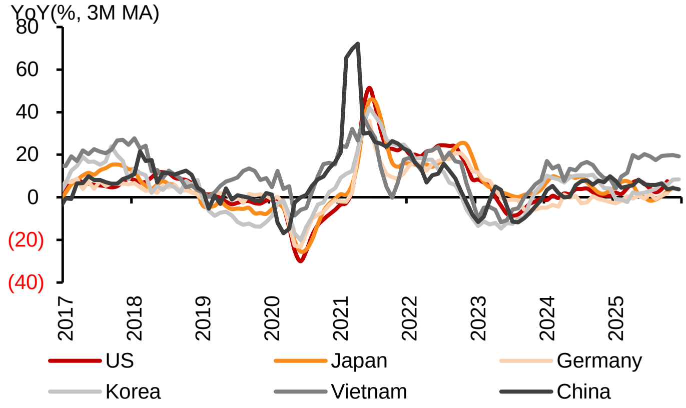
Source: Wind, CMBIGM

Figure 2: China's export and import price growth



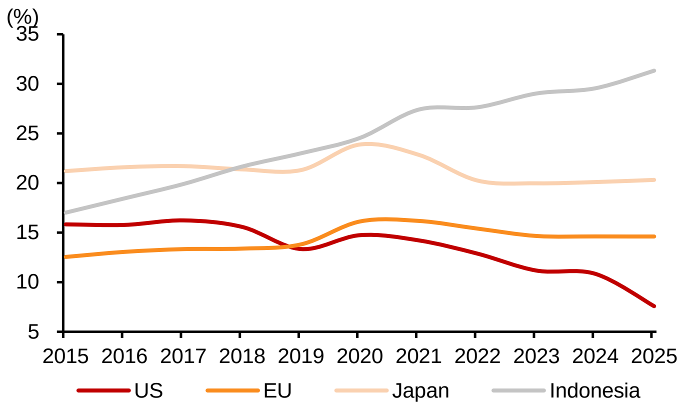
Source: Wind, CMBIGM

Figure 3: Export value growth by country



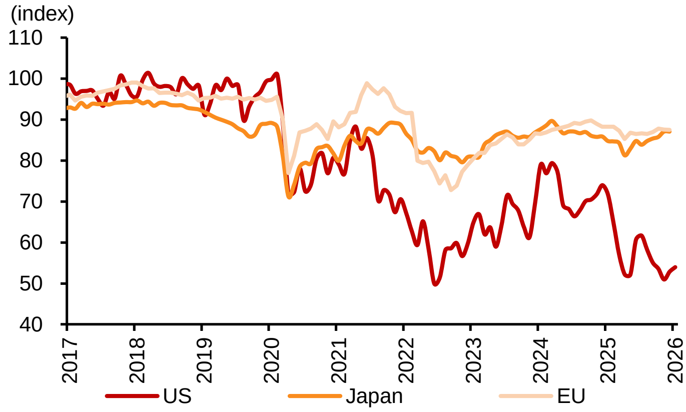
Source: Wind, CMBIGM

Figure 4: Imports from China as % of total imports



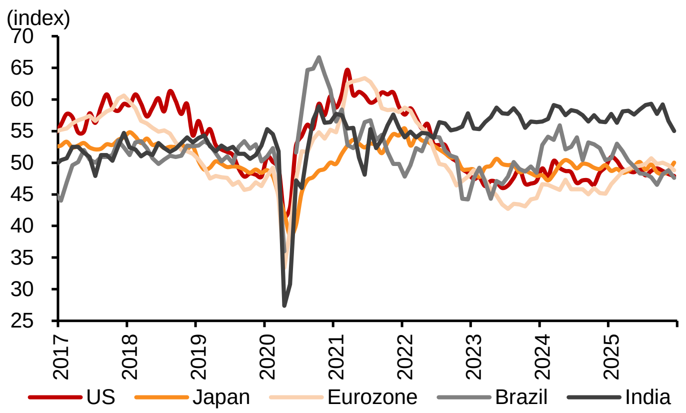
Source: Wind, CMBIGM

Figure 5: Consumer confidence index by country



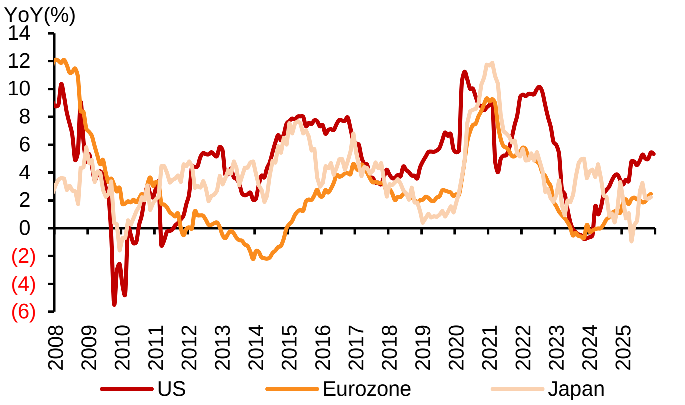
Source: Wind, CMBIGM

Figure 6: Manufacturing PMI by country



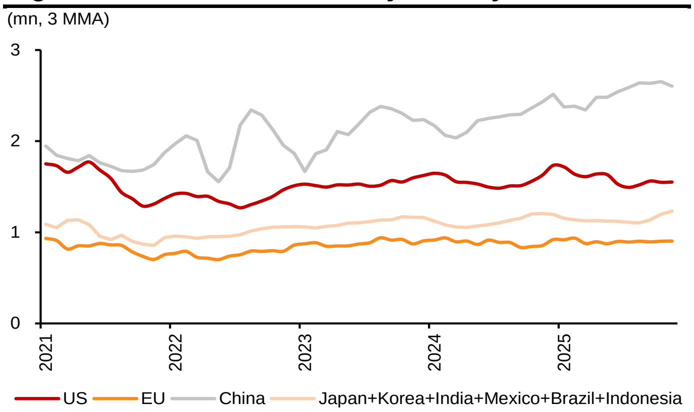
Source: Wind, CMBIGM

Figure 7: Credit growth by country



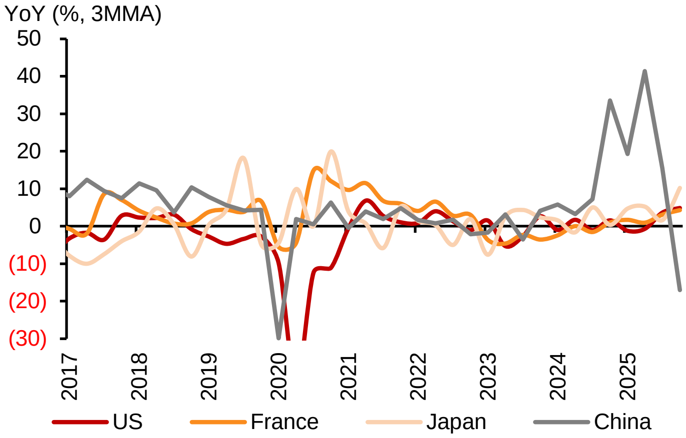
Source: Wind, CMBIGM

Figure 8: Auto sales volume by country



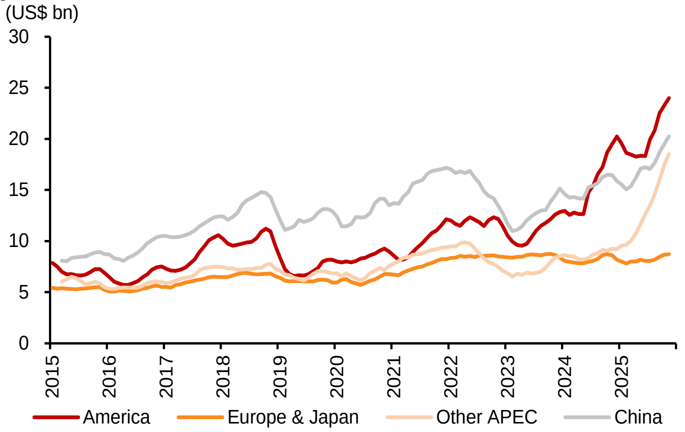
Source: Wind, CMBIGM

Figure 9: Home appliance retail sales growth



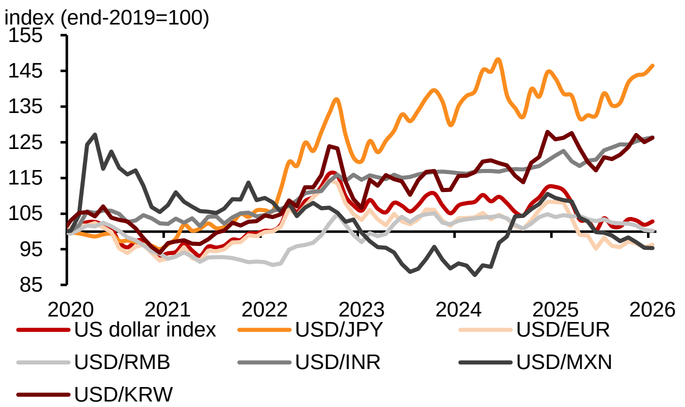
Source: Wind, CMBIGM

Figure 10: Semiconductor sales value by region



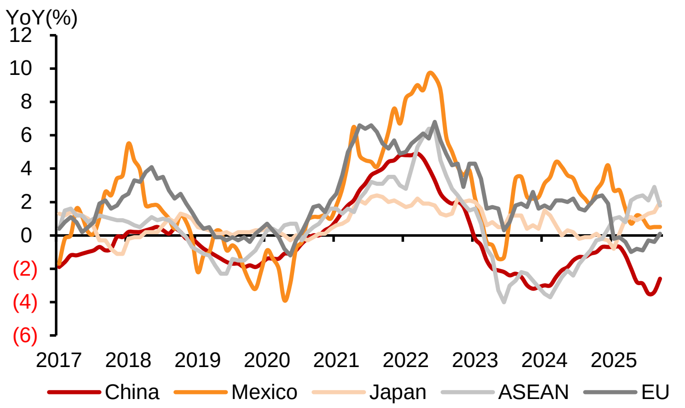
Source: Wind, CMBIGM

Figure 31: FX rates



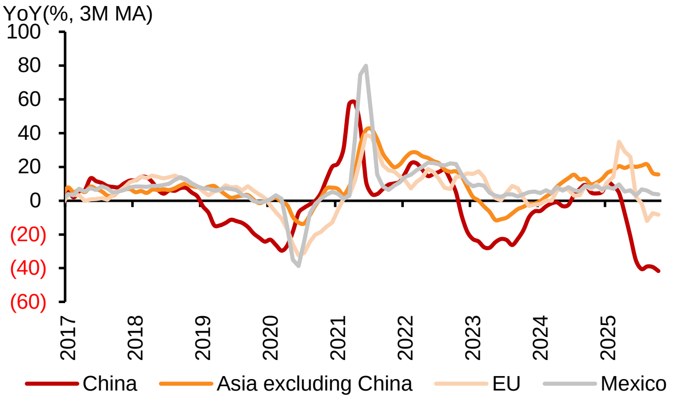
Source: Wind, CMBIGM

Figure 14: US import price growth by source



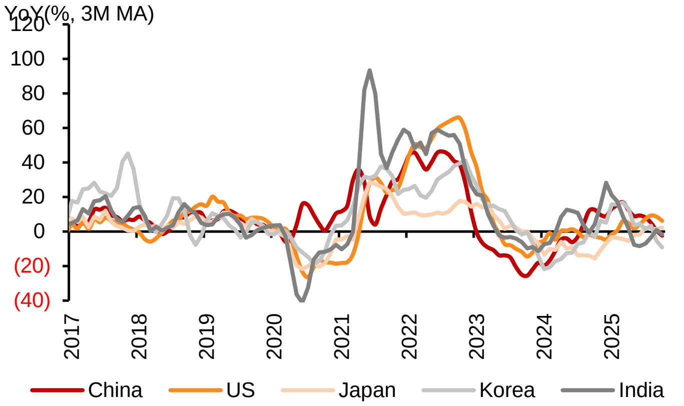
Source: Wind, CMBIGM

Figure 13: Growth of US imports of goods by source



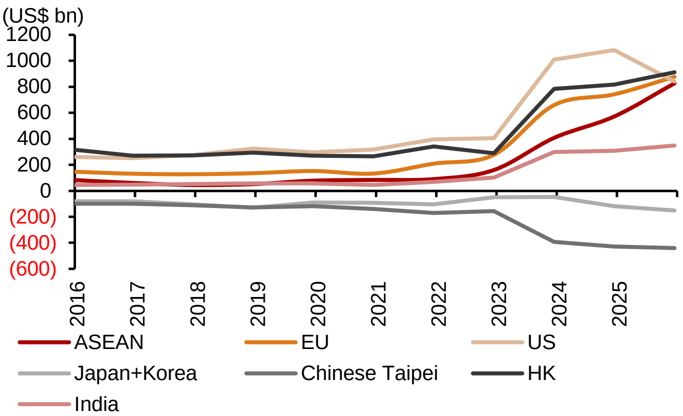
Source: Wind, CMBIGM

Figure 14: Growth of EU imports of goods by country



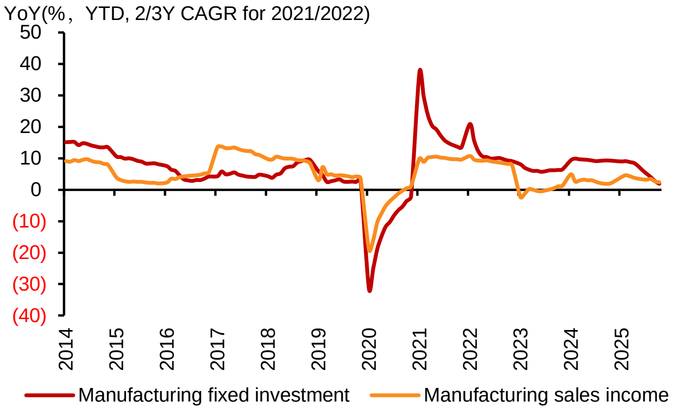
Source: Wind, CMBIGM

Figure 15: China's trade surplus with major partners



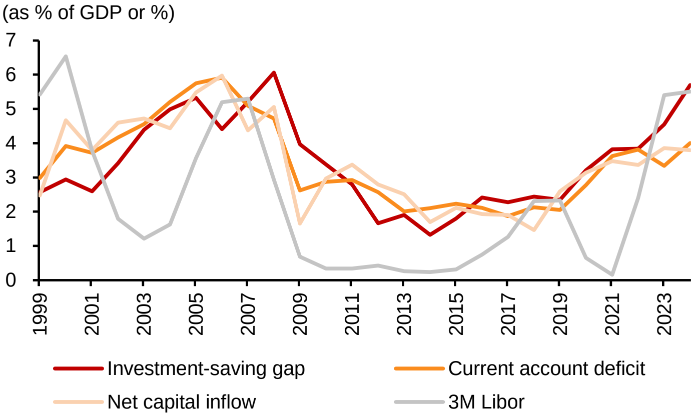
Source: Wind, CMBIGM

Figure 16: Growth of manufacturing investment in China



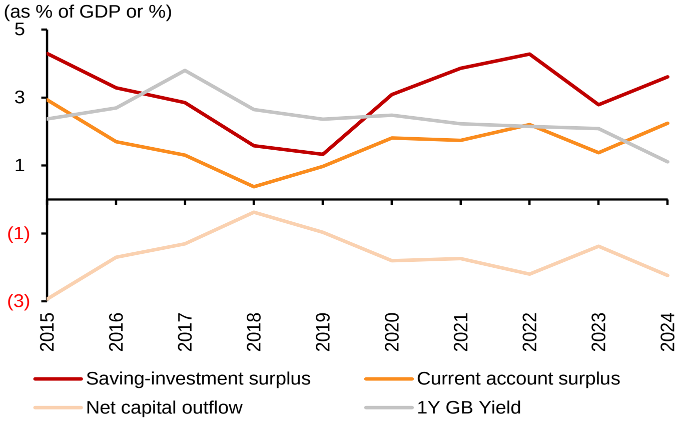
Source: Wind, CMBIGM

Figure 57: US economic imbalance



Source: Wind, CMBIGM

Figure 18: China's economic imbalance



Source: Wind, CMBIGM

Figure 19: China's exports by destination

	YoY Growth (%)									Share (%)					
	2020	2021	2022	2023	2024	2025	Oct	Nov	Dec	2020	2021	2022	2023	2024	2025
World	3.6	29.6	5.6	(4.7)	5.8	5.5	(1.2)	5.9	6.6	100	100	100	100	100	100
ASEAN	6.7	26.1	17.7	(5.0)	12.0	13.4	11.0	8.2	11.1	14.8	14.4	16.0	15.5	16.4	17.6
US	7.9	27.5	1.2	(13.1)	4.9	(20.0)	(25.2)	(28.6)	(30.0)	17.4	17.2	16.4	14.8	14.7	11.1
EU	6.7	32.6	8.6	(10.2)	3.0	8.4	0.9	14.8	11.6	15.1	15.4	15.9	14.8	14.4	14.8
Latin America	(0.8)	52.0	10.6	(2.4)	13.0	7.4	2.1	14.9	9.8	5.8	6.8	7.1	7.3	7.7	7.9
Africa	0.9	29.9	11.2	7.5	3.5	25.8	10.5	27.6	21.8	4.4	4.4	4.6	5.1	5.0	6.0
Japan	(0.4)	16.3	4.4	(8.4)	(3.5)	3.5	(5.7)	4.3	5.3	5.5	4.9	4.9	4.7	4.3	4.2
South Korea	1.4	32.4	9.5	(7.2)	(1.8)	(1.1)	(13.1)	1.9	(0.6)	4.3	4.4	4.6	4.4	4.1	3.8
India	(10.8)	46.2	21.7	0.8	2.4	12.8	6.7	8.0	22.1	2.6	2.9	3.3	3.5	3.4	3.6
Russia	1.7	33.8	12.8	46.9	4.1	(10.4)	(22.7)	(4.9)	3.6	2.0	2.0	2.1	3.3	3.2	2.7
UK	16.3	19.9	(6.1)	(3.4)	1.2	7.8	(5.2)	8.7	13.1	2.8	2.6	2.3	2.3	2.2	2.3
Australia	10.9	24.2	19.0	(5.3)	(4.2)	7.9	5.8	35.8	12.9	2.1	2.0	2.2	2.2	2.0	2.0
Canada	14.0	22.4	4.5	(14.9)	3.0	3.2	(10.1)	4.8	(1.4)	1.6	1.5	1.5	1.3	1.3	1.3
Saudi Arabia	17.7	7.9	25.7	14.5	16.8	-	(16.9)	(5.2)	-	1.1	0.9	1.1	1.3	1.4	1.3
HK China	(2.3)	28.6	(15.0)	(6.3)	6.2	15.5	20.9	18.4	31.3	10.5	10.4	8.4	8.1	8.1	8.9
Chinese Taipei	9.1	30.4	4.2	(16.0)	9.8	11.2	9.8	12.8	11.2	2.3	2.3	2.3	2.0	2.1	2.2

Source: Wind, CMBIGM

Figure 20: China's exports by product

	YoY(%)									Share (%)					
	2020	2021	2022	2023	2024	2025	Oct	Nov	Dec	2020	2021	2022	2023	2024	2025
Textile Yarn & Related Products	29.2	(5.6)	2.0	(8.3)	5.7	0.5	(9.1)	1.0	(4.2)	5.9	4.3	4.2	4.0	4.0	3.8
Travel Goods & Bags	(24.2)	35.1	28.2	3.9	(3.2)	(13.5)	(25.7)	(19.5)	(13.1)	0.8	0.8	1.0	1.1	1.0	0.8
Garment & Accessories	(6.4)	24.0	3.2	(7.8)	0.3	(5.0)	(16.0)	(10.9)	(10.2)	5.3	5.1	4.9	4.7	4.5	4.0
Toy	7.5	37.7	5.6	(12.2)	(1.7)	(12.7)	(31.0)	(25.6)	(19.5)	1.3	1.4	1.4	1.2	1.1	0.9
Furniture & Parts Thereof	11.8	26.4	(5.3)	(5.2)	5.8	(6.1)	(12.7)	(8.8)	(8.7)	2.3	2.2	2.0	1.9	1.9	1.7
Lamps, Lighting Fixtures & Similar Product	14.3	31.2	(6.1)	(4.6)	(0.1)	(12.4)	(31.0)	(21.3)	(19.8)	1.5	1.5	1.3	1.2	1.2	1.0
Plastic Products	19.6	29.1	9.3	(3.9)	5.4	(1.3)	(9.8)	(3.5)	(2.5)	3.3	2.9	3.0	3.0	3.0	2.8
Steel Products	(15.4)	80.2	18.7	(8.3)	(1.1)	(1.3)	(14.4)	4.3	7.8	1.8	2.4	2.7	2.5	2.3	2.2
Unwrought Aluminum	(14.1)	48.7	33.7	(26.1)	15.2	(3.3)	(7.7)	(10.0)	14.0	0.5	0.6	0.7	0.6	0.6	0.6
Integrated Circuits	14.8	32.0	0.3	(10.1)	17.4	26.8	26.9	34.2	47.7	4.5	4.6	4.3	4.0	4.5	5.4
Ship	(15.3)	26.2	(0.4)	28.6	57.3	26.7	68.4	46.4	25.0	0.7	0.6	0.6	0.8	1.2	1.5
Motor Vehicles	(3.6)	119.2	74.7	69.0	15.5	21.4	34.0	53.0	71.7	0.6	1.0	1.7	3.0	3.3	3.8
Vehicles Parts	(6.2)	33.7	7.4	9.0	6.6	2.5	(11.6)	1.6	(0.8)	2.2	2.3	2.3	2.6	2.6	2.5
General Equipment	7.5	26.4	6.1	1.8	14.3	6.1	(9.1)	4.5	3.4	1.6	1.6	1.6	1.7	1.8	1.8
Automatic Data Processing Equipment	11.6	21.0	(7.5)	(20.4)	9.9	(1.4)	(10.0)	(7.0)	6.0	8.1	7.6	6.7	5.5	5.8	5.4
Fertilizer	(8.3)	73.2	(1.6)	(13.9)	(11.5)	57.9	101.2	40.2	17.0	0.3	0.3	0.3	0.3	0.2	0.4
Ceramic products	0.0	22.3	6.4	(15.4)	(15.6)	(3.2)	(18.3)	(10.7)	(12.3)	1.0	0.9	0.9	0.8	0.6	0.6
Rare earth	(21.9)	90.0	62.8	(28.3)	(36.0)	4.6	42.9	35.0	53.3	0.01	0.02	0.03	0.02	0.01	0.01
Cellphone	0.9	16.6	(2.5)	(2.7)	(3.1)	(9.4)	(16.6)	(12.6)	10.6	4.8	4.4	4.0	4.1	3.8	3.2
Home appliance	23.5	22.3	(13.3)	3.8	14.1	(3.9)	(13.6)	(5.8)	(6.9)	2.6	2.9	2.4	2.6	2.8	2.6
Medical equipment	40.5	11.9	(5.8)	(2.9)	7.1	6.0	(1.0)	9.7	2.0	0.7	0.6	0.5	0.5	0.6	0.6

Source: Wind, CMBIGM

Figure 21: China's imports by product

	Import volume YoY (%)									Import price YoY(%)								
	2020	2021	2022	2023	2024	2025	Oct	Nov	Dec	2020	2021	2022	2023	2024	2025	Oct	Nov	Dec
Grain	28.0	18.1	(10.7)	11.7	(2.3)	(12.5)	11.9	15.4	6.0	(5.4)	26.3	23.7	(9.6)	(13.6)	(3.0)	(3.1)	(5.5)	0.1
Soybean	13.3	(3.8)	(5.6)	11.4	6.5	7.9	17.2	13.4	1.3	(1.3)	40.7	21.2	(10.7)	(16.3)	(11.5)	(5.0)	(5.3)	2.9
Iron ore	9.5	(3.9)	(1.5)	6.6	4.9	1.9	7.2	8.5	6.4	7.2	55.4	(28.6)	(1.6)	(7.1)	(12.0)	8.8	6.8	3.5
Copper ore	(1.0)	7.6	8.0	9.1	2.1	10.8	6.1	12.9	7.3	2.1	44.6	(8.5)	(1.6)	10.8	15.8	22.2	19.8	24.1
Coal	1.5	6.6	(9.2)	61.8	14.4	(20.0)	(9.8)	(19.9)	11.9	(14.8)	65.9	29.7	(23.3)	(14.2)	(25.9)	(19.6)	(19.2)	(10.9)
Crude oil	7.3	(5.4)	(0.9)	11.0	(1.9)	4.6	8.2	4.9	17.0	(32.2)	52.4	42.7	(16.8)	(2.0)	(19.2)	(7.9)	(11.1)	(10.4)
Natual gas	5.3	19.9	(9.9)	9.9	9.9	(5.4)	(7.2)	10.6	16.3	(23.8)	39.8	39.5	(16.4)	(7.9)	(8.6)	(17.1)	(14.3)	(14.4)
Steel products	64.4	(29.5)	(25.9)	(27.6)	(10.9)	(21.4)	(7.4)	6.4	(16.6)	(27.5)	57.9	23.1	2.5	1.9	3.7	(8.6)	(11.9)	10.0
Copper products	34.1	(17.2)	6.2	(6.3)	3.4	(4.3)	(13.7)	(18.9)	(22.0)	(0.9)	45.5	(2.5)	(6.2)	9.8	1.0	8.8	13.0	20.2
Plastics in primary form	10.1	(16.4)	(10.0)	(3.2)	(2.1)	(5.4)	(14.6)	(9.2)	(3.4)	(10.6)	39.4	2.0	(16.7)	(1.1)	(3.1)	(3.0)	(2.2)	(7.1)
Rubber	13.6	(9.4)	8.7	8.0	(8.2)	29.3	1.5	11.3	19.1	(7.2)	26.4	(1.7)	(16.4)	19.8	10.9	(5.2)	(9.2)	(10.6)
Integrated circuits	22.1	16.9	(15.3)	(10.8)	14.6	9.6	5.0	2.2	6.7	(6.1)	5.7	13.5	(5.2)	(3.7)	0.8	5.0	11.5	9.3
Machine tool	18.8	(0.7)	(14.4)	(20.5)	(4.1)	23.2	(44.1)	28.6	(11.8)	(30.8)	25.8	1.5	14.8	(6.5)	(12.1)	71.6	(31.2)	17.6
Auto	(11.4)	0.6	(6.5)	(8.9)	(11.7)	(23.5)	0.0	(33.3)	(57.1)	8.1	14.7	5.7	(3.0)	(5.7)	(10.8)	(16.3)	(11.6)	10.9
Airplane	(35.4)	29.4	(27.3)	12.2	8.2	(14.3)	23.1	27.3	0.0	(30.0)	12.3	13.5	(4.0)	3.1	25.0	(18.6)	48.3	(7.5)
Medcine	(0.6)	3.1	28.8	23.6	4.7	0.6	(20.7)	(13.1)	2.6	4.1	16.5	(25.7)	(12.8)	(4.8)	(9.6)	9.8	14.9	2.7
Beauty cosmetics	3.7	5.2	(11.8)	(14.2)	(9.4)	9.4	(6.2)	3.2	1.9	24.8	17.0	1.8	(6.1)	0.4	(6.7)	(13.1)	(5.7)	6.4

Source: Wind, CMBIGM

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