

THE WAVERLEY SERIES

CHINA

An Insight of Investment, Trade and Economy

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For Advisory & Partnership

LORD WAVERLEY

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CHINA — AT A GLANCE

Capital	Beijing
2025 growth	The economy expanded 5% for the full year, meeting the government's official 'around 5%' target, but growth slowed to 4.5% in the fourth quarter, the slowest quarterly pace since late 2022; quarterly growth had already decelerated from 5.3% in Q1 to 4.7% in Q2 before recovering to 4.8% in Q3
Record trade surplus	China posted a record trade surplus of USD 1.2 trillion in 2025, as strong exports to markets outside the US compensated for weak domestic consumer spending and business investment; exports to the US specifically fell 20% for the year following renewed tariff increases
The Trump-Xi truce	The two presidents met in South Korea on 30 October 2025 and agreed to extend a truce in their tariff dispute, easing pressure on Chinese exports; China demonstrated leverage over rare earth minerals during the negotiations as a means of pushing back on proposed trade restrictions
The 15th Five-Year Plan	The Communist Party Central Committee approved a proposal for China's next Five-Year Plan (2026-2030) in late October 2025, calling for upgrades to traditional industries including metals, chemicals and textiles alongside growth in emerging industries such as new energy; a final version with specific targets and budgets was expected for National People's Congress approval in March 2026
Diverging 2026 growth forecasts	Goldman Sachs raised its 2026-2027 GDP forecasts to well above consensus, citing 5-6% projected annual export growth and the new Five-Year Plan's broad government backing; other forecasters are notably more conservative, with Deutsche Bank projecting approximately 4.5% growth for 2026
A widening tariff threat beyond the United States	Countries across Europe and Latin America are threatening their own tariff barriers over concerns that China's export-driven growth model is stifling their domestic industries; Mexico has already raised import duties, and the EU has threatened to follow, with one chief China economist warning that 'a tighter squeeze will be seen' if more economies follow suit
Structural domestic challenges	China continues to confront what has been described as an 'epic' property market crisis, weak consumer demand, high youth unemployment, and a wave of manufacturers relocating away from the country following three years of zero-COVID restrictions and successive rounds of US tariffs and restrictions
A stated strategic pivot toward domestic consumption	President Xi Jinping has directly framed expanding domestic demand as 'not just a quick fix' but 'a strategic move' intended to reduce China's reliance on exports and investment as primary growth drivers
US tariff-revenue legal development	In February 2026, the US Supreme Court struck down the IEEPA-based tariffs affecting Chinese and other imports, requiring the return of the resulting revenue, plus interest, to importers, a significant legal development directly shaping the tariff regime's structure
Governing framework	President Xi Jinping, General Secretary of the Communist Party of China

China's economy delivered a genuinely resilient 5% growth rate in 2025 and a record \$1.2 trillion trade surplus, achieved largely by redirecting exports away from a 20%-lower US market toward the rest of the world, even as fourth-quarter growth slowed to its weakest pace since late 2022. A newly agreed Trump-Xi tariff truce and an ambitious new Five-Year Plan have produced a notably bullish Goldman Sachs forecast for 2026-27, but this sits alongside more conservative consensus estimates and a genuinely important new risk: countries across Europe and Latin America are now threatening their own tariffs specifically to counter China's export-driven model, even as serious domestic structural challenges, including an acknowledged property crisis and weak consumer demand, persist. Investors should read China as an economy whose export-redirection strategy has proven resilient so far, but whose sustainability now depends on a genuinely wider set of trading partners than the US alone.

1. INVESTMENT & FDI

The newly approved 15th Five-Year Plan has produced a notably bullish Goldman Sachs investment outlook, even as manufacturers relocating away from China following years of pandemic restrictions and tariffs represent a genuine, ongoing investment-climate headwind.

The Communist Party Central Committee approved a proposal for China's 15th Five-Year Plan, covering 2026-2030, in late October 2025, calling for upgrades to traditional industries including metals, chemicals and textiles alongside growth in emerging industries such as new energy; Goldman Sachs Research credited the plan's broad-based government support, from logistics to financing, for raising its own real GDP forecasts for 2026 and 2027 to well above consensus, alongside a projected 5-6% annual growth rate in exports. However, three years of zero-COVID restrictions combined with successive rounds of US tariffs and restrictions have prompted many manufacturers to relocate production away from China and have spooked foreign investors more broadly, a structural headwind distinct from the near-term trade and stimulus dynamics.

- **A specific, credible institutional endorsement of China's industrial-policy direction:** Goldman Sachs' explicit above-consensus forecast revision, directly tied to the Five-Year Plan's government-backed support mechanisms, represents a concrete, sourced vote of confidence from a major international financial institution.
- **A specific, quantified export-growth projection underpinning this bullish case:** the 5-6% annual export growth figure provides investors a concrete, testable benchmark against which China's actual 2026-27 trade performance can be measured.
- **A genuine, ongoing structural investment-climate concern predating and distinct from current trade dynamics:** the direct citation of manufacturer relocation and spooked foreign investors represents a longer-running structural headwind that near-term tariff truces or stimulus measures alone may not fully reverse.

2. TRADE & BUSINESS

A record \$1.2 trillion trade surplus, achieved through successful export redirection away from a shrinking US market, now faces a genuinely new and broadening threat as other economies consider their own protective tariffs.

China posted a record trade surplus of \$1.2 trillion in 2025, as strong exports helped compensate for weak domestic consumer spending and business investment; Chinese exports to the US fell 20% for the year following renewed tariff increases, but this decline was offset by increased shipments to the rest of the world. However, soaring imports of Chinese goods are leading other governments to take protective action: countries

across Europe and Latin America are threatening their own tariff barriers over concerns that China's export-driven growth model is stifling their domestic industries, with Mexico having already raised import duties and the EU having threatened to follow. ING's chief Greater China economist Lynn Song directly framed the central question: 'how long this engine of growth can remain the primary driver,' warning that 'should more economies also start ramping up tariffs on China, as Mexico has done and the EU has threatened to do, eventually, a tighter squeeze will be seen.'

- **A genuinely historic trade-surplus achievement despite a significant US-specific export decline:** the record \$1.2 trillion figure, achieved even as US-bound exports fell 20%, demonstrates the scale and effectiveness of China's redirection toward alternative markets.
- **A specific, sourced widening of tariff pressure beyond the US relationship alone:** the direct citation of Mexico's already-implemented duties and the EU's specific threat represents concrete, named evidence that China's export-model challenges are no longer confined to its bilateral US relationship.
- **A direct, credible warning about the sustainability of the export-led growth strategy itself:** Song's explicit framing of the 'primary driver' question, backed by named country-specific examples, provides investors a clear, sourced articulation of the central risk to China's current growth model going forward.

3. MAJOR ECONOMIC DEVELOPMENTS

A genuinely resilient 2025 growth performance, meeting the government's own target, coincided with a notable quarterly deceleration and persistent structural challenges that President Xi has directly acknowledged require strategic, not merely cyclical, solutions.

China's economy expanded 5% for the full year 2025, in line with the government's official 'around 5%' target, but growth slowed to 4.5% in the fourth quarter, the slowest quarterly pace since late 2022, when China was still loosening zero-COVID restrictions; growth had earlier decelerated from 5.3% in the first quarter to 4.7% in the second, below the government's own target for that period, before recovering to 4.8% in the third quarter. President Trump and President Xi met in South Korea on 30 October 2025 and agreed to extend a truce in their tariff dispute, easing pressure on Chinese exports, while China separately demonstrated its leverage over rare earth minerals as a means of pushing back on proposed trade restrictions during the negotiations. Forecasts for 2026 diverge notably: Goldman Sachs has raised its projections well above consensus following the Five-Year Plan's approval, while Deutsche Bank projects a more conservative 4.5%, reflecting genuine disagreement about how much of 2025's export resilience can be sustained. China continues to confront what independent analysis has described as an 'epic' property market crisis, alongside weak consumer demand and high youth unemployment; President Xi has directly stated that expanding domestic demand is 'not just a quick fix' but 'a strategic move,' writing that China 'must face up to difficulties, strengthen our confidence and strive to transform positive factors from all aspects into development results.' Separately, in February 2026, the US Supreme Court struck down the IEEPA-based tariffs that had affected Chinese and other imports, requiring the return of the resulting revenue, plus interest, to importers, a significant legal development directly reshaping the structure of US tariff policy toward China going forward; the Trump administration separately announced up to \$11 billion in subsidies to US farmers affected by trading-partner retaliation, with payments beginning 28 February 2026, echoing a similar \$28 billion programme during Trump's first term.

- **A genuine, target-meeting headline growth figure alongside a specific, notable quarterly deceleration:** the direct contrast between the 5% full-year result and the 4.5% fourth-quarter pace, the slowest since late 2022, represents an honest, sourced signal that momentum weakened meaningfully as the year progressed.
- **A specific, demonstrated strategic leverage point revealed during trade negotiations:** China's use of rare earth minerals leverage during the Trump-Xi talks represents a concrete, sourced illustration of a specific

strategic asset directly shaping the negotiating dynamic, distinct from the truce's broader diplomatic framing.

- **A genuine, significant divergence in credible 2026 growth forecasts:** the gap between Goldman Sachs' above-consensus view and Deutsche Bank's more conservative 4.5% projection reflects real, sourced disagreement among serious institutions about China's near-term trajectory, worth weighing rather than resolving in favour of either view.
- **A direct presidential acknowledgment that current challenges require structural, not merely cyclical, policy responses:** Xi's own explicit 'strategic move' framing, rather than characterising consumption expansion as a temporary stimulus measure, represents a genuine, sourced signal of the government's own assessment of the problem's depth.
- **A significant, specific legal development reshaping the tariff regime's underlying structure:** the Supreme Court's IEEPA ruling and the required revenue return represents a concrete, dated legal constraint on how future US tariff policy toward China can be structured going forward.

4. MAJOR PROJECTS & INFRASTRUCTURE

The 15th Five-Year Plan's dual focus on upgrading traditional industries and expanding emerging sectors defines China's most significant current national industrial-development framework.

- **Traditional industry upgrades:** the plan's specific focus on metals, chemicals and textiles, described in Section 1, represents a targeted modernisation programme for established industrial sectors.
- **New energy and emerging industry expansion:** alongside traditional-sector upgrades, this represents China's stated priority for developing future growth industries under the new plan.

5. CONFERENCES, FORUMS & EXHIBITIONS

The Trump-Xi summit in South Korea represented the year's single most significant diplomatic and trade-policy engagement shaping China's international economic relationships.

- **Trump-Xi summit, South Korea, 30 October 2025:** described in Section 3, this meeting produced the tariff truce extension and revealed China's rare earth leverage, representing the most consequential bilateral engagement of the period.

6. BUSINESS & INVESTMENT EVENTS

The Communist Party Central Committee plenum's approval of the 15th Five-Year Plan proposal represented the year's most significant formal domestic economic-policy event.

- **Central Committee plenum, late October 2025:** described extensively in Sections 1 and 3, this plenum's approval of the Five-Year Plan proposal represented the central formal policy event shaping China's stated economic direction through 2030.

7. GOVERNMENT & INTERNATIONAL PARTNERSHIPS

A fragile but extended US truce, alongside newly strained relationships with Mexico and the EU over trade-model concerns, define China's most consequential and rapidly evolving current international economic relationships.

- **United States:** the extended tariff truce, described extensively in Section 3, alongside the significant Supreme Court tariff ruling, represents China's most consequential and closely watched bilateral relationship.
- **Mexico:** having already raised import duties specifically in response to Chinese export volumes, described in Section 2, this represents a newly strained trade relationship distinct from the US dynamic.
- **European Union:** the EU's specific threat to impose its own tariffs over China's export model, described in Section 2, represents a further, significant potential relationship strain beyond the US and Mexico.
- **Broader Latin American and European economies:** the wider group of countries considering similar protective measures, described in Section 2, reflects a genuinely broadening set of trade relationships under strain simultaneously.

8. SME & PRIVATE-SECTOR DEVELOPMENTS

Weak consumer demand and high youth unemployment define the central private-sector and household-level challenges facing China's broader economic rebalancing effort.

Weak consumer spending has been directly cited as a factor requiring exports to compensate for domestic demand shortfalls, while high youth unemployment continues alongside the property market crisis as a significant structural constraint on household confidence and private consumption specifically; President Xi's explicit framing of domestic demand expansion as a strategic priority, described in Section 3, directly acknowledges these challenges at the highest level of government.

- **A directly acknowledged consumer-demand weakness shaping the government's own strategic priorities:** the explicit citation of weak spending as requiring export compensation represents a concrete, sourced diagnosis of the private-sector demand-side challenge.
- **Persistent youth unemployment representing a specific, named demographic dimension of the broader structural challenge:** this factor, cited alongside the property crisis, represents a distinct, sourced pressure point relevant to understanding the human dimension of China's current economic adjustment.

9. NEW INVESTMENT OPPORTUNITIES / PROJECTS ANNOUNCED

New energy industry expansion, traditional-sector modernisation under the Five-Year Plan, and continued export-market diversification beyond the US define China's most concretely promoted new investment channels.

- **New energy and emerging industries:** described in Section 4, this represents China's most explicitly prioritised new investment channel under the 15th Five-Year Plan specifically.
- **Traditional industry modernisation:** the specific metals, chemicals and textiles upgrade programme, described in Section 4, represents a further concrete investment channel under the same plan.
- **Continued export-market diversification beyond the US:** building on 2025's successful redirection described in Section 2, further diversification into non-US, non-threatened markets represents an ongoing strategic priority as the Mexico and EU tariff risks develop.

SUMMARY ASSESSMENT

China's economy delivered a genuinely resilient 5% growth rate in 2025 and a record \$1.2 trillion trade surplus, achieved largely by redirecting exports away from a 20%-lower US market toward the rest of the world, even as fourth-quarter growth slowed to its weakest pace since late 2022. A newly agreed Trump-Xi tariff truce and an ambitious new Five-Year Plan have produced a notably bullish Goldman Sachs forecast for 2026-27, but this sits alongside more conservative consensus estimates from institutions such as Deutsche Bank.

A genuinely important new risk has also emerged: countries across Europe and Latin America, including Mexico specifically, are now threatening their own tariffs to counter China's export-driven model, even as serious domestic structural challenges, including an acknowledged property crisis, weak consumer demand and high youth unemployment, persist and require what President Xi himself has called a strategic, not merely cyclical, policy response. Investors should read China as an economy whose export-redirection strategy has proven resilient so far, but whose sustainability now depends on a genuinely wider and more contested set of trading relationships than the US alone.