

China

What Lies Ahead for the Economy?



China lowers its annual economic growth target to a sub-par 4.5-5% for 2026, the lowest level since 1991, preferring continuity over change.

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Beijing has lowered its annual economic growth target to a sub-par 4.5% to 5% for 2026, the lowest level since 1991, preferring continuity over change, although the world's second-largest economy races ahead of its rivals in the high-tech and renewables race.

China faces growing headwinds at home and abroad, amid a weak domestic demand and the ongoing military conflict in the Middle East and rising tensions in South America, amidst sudden war-mongering by the United States, the latter posing a grave risk to China's strategic investments in these regions. Surprisingly, Beijing has chosen not to announce any stimulus to re-

vive domestic demand amidst the worst property crisis. Instead, the focus is on making the country self-reliant in the high-tech arena, including artificial intelligence (AI) and robotics.

These readings, however, risk missing the wood for the trees.

Myths about financial stimulus for China

The gut reaction of most Western economists and government policy wonks to an economic downturn is to go for stimulus as a remedy. It's like a doctor's first thought of pills to treat ailments. This default thinking fails to understand that China, as an ancient civilization, is traditionally prone to taking a more ho-

listic and longer-term remedy, in medicine, economics or statecraft. What are the root causes of the slowing economy? Externally, there are unprecedented challenges where global trade rules, economic relations and supply and value chains are upended by indiscriminate tariff wars and America's imperialist assertive-ness. Domestically, China is trying to manage crippling demographics, overhangs of a massive burst of property bubble, persistent youth unemployment, "economic involution" (hyper-competitive price-wars with rapidly diminishing returns), lingering heavy local government

debt, social and regional disparity, remaining corruption in high places, and America's chokeholds over key semiconductor chips. To overcome these huge interlocking challenges, simple economic stimulus cannot be a panacea.

China's two centenary goals

In the face of massive headwinds, Beijing appears reasonably confident in steering its economy to achieve goals over its 15th Five-Year Plan (2026-2030), a halfway milestone towards its entrenched national ambition to realize the nation's second centenary goal of national renaissance.

To purge the spectre of a "century of humiliation" when the Middle Kingdom, which had dominated the ancient world for millennia, succumbed to foreign invasion and humiliating territorial concessions, the People's Republic of China has enshrined in its Constitution the two centenary goals.

The first, the hundredth anniversary of the founding of the Chinese Communist Party, whereby the country should achieve a "moderately well-off" economy, was essentially realized in 2021, including successfully lifting some 800 million people out of poverty.

The second centenary goal is to "build a modern socialist country that is prosperous, strong, democratic, culturally advanced and harmonious" by 2049, the hundredth anniversary of the founding of the People's Republic of China. In other words, China's renaissance is to recover the nation's place in the sun as a strong, respected, advanced, harmonious socialist state on par with a medium-level developed country.

Economically, the year 2035 represents a key threshold target of doubling the nation's 2002 per capita gross domestic product (GDP). On the basis of China's current economic and technological data, this is reachable with an annual growth rate of about 4.5%. Hence, Beijing's somewhat sub-par 4.5% to 5% economic growth target for 2026 is a sensible and satisfactory target to avoid overplaying its hand in the face of unprecedented headwinds, both domestic and external. Yet, China is

determined to embrace its well-rehearsed refrain of "unprecedented challenges and opportunities not seen in a hundred years".

What then are the key characteristics lying ahead for China's economy?

Technological advance and resilience

Over the coming five years, Beijing hopes to scale the commanding heights in AI and other technological and digital transformations characteristic of the 21st Century Fourth and Fifth Industrial Revolutions, including AI-human interface, humanoids, robotics, quan-



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tum computing, biomedicine, and hydrogen and fusion energies.

China's technological ambitions are built on solid grounds rather than slogans. A leader in *The Economist* of June 12, 2024 reveals some game-changing realities. From 2022, China had surpassed both America and the European Union (EU) in the number of high-impact peer-reviewed scientific papers, according to data from Clarivate, a science analytics company, topping citations in material science, chemistry, engineering, computer science, environment and ecology, agricultural science, physics and mathematics.

The US and EU still retain top slots in molecular biology, space science, neuroscience, clinical medicine, and immunology. However, the areas where America and Europe still hold the lead seem unlikely to last for long. For ex-

ample, China is growing impressively in biological and health sciences. China now contributes around 40% of the world's research papers on AI, compared with around 10% for America and 15% for the EU and Britain combined. In areas like computer vision and robotics, China has a significant lead in research publications.

There are now six Chinese universities or institutions in the world's top ten, and seven according to the Nature Index. Tsinghua is considered the number one science and technology university in the world. China excels in applied research, for example, in perovskite solar panels, producing more patents than any other country, helped by its unparalleled industrial base.

China's scientific advance was earlier demonstrated by its successful Chang'e-6 robotic spacecraft in humans' first mission to bring back samples from the hard-to-reach far side of the Moon. More recently, its accomplishments in building and operating its own space station, the Tiangong, with multiple manned relay manned-missions, despite being excluded from the US-led International Space Station from the very start (while including Russia).

When it comes to basic, curiosity-driven research (rather than applied), China is still playing catch-up—the country publishes far fewer papers than America in the two most prestigious science journals, *Nature* and *Science*. America still spends around 50% more on basic research. However, China is spearheading applied research and experimental development in quantum technologies, AI, semiconductors, neuroscience, genetics and biotechnology, regenerative medicine, and exploration of "frontier areas" like deep space, deep oceans and Earth's poles.

China's universities pay staff bonuses—estimated at an average of \$44,000 each, and up to a whopping \$165,000—if they publish in high-impact international journals. Between 2000 and 2019, more than 6 million Chinese students left the country to study abroad. However, since the late 2000s, more scientists have been returning to the country than leaving,

partly attracted by state-of-the-art equipped labs in China and partly pushed by increasing suspicion and discrimination in Western countries. China now employs more researchers than both America and the entire EU.

The Economist piece tallies with recent findings of the Australian Strategic Policy Institute (ASPI). China is leading in 37 of the 44 critical technologies, often producing more than five times as much high-impact research as its closest competitor, the US. Among the categories of critical technologies, China dominates in all the subsectors in artificial materials and manufacturing; energy and environment; and sensing, timing and navigation, with a substantial lead in all other categories.

These observations are supported by China's vast scientific manpower pool, according to George Town University's Centre for Security and Emerging Technology (CSET). Chinese universities are producing more than 77,000 STEM PhDs per year compared to approximately 40,000 in the US. Excluding international students, Chinese STEM PhD graduates would outnumber their US counterparts more than three-to-one. Additionally, in recent years, a host of prominent Chinese scientists, technology experts and researchers are returning to China from the US and other Western countries to assume prestigious and well-funded

professorships or leading positions in various institutions, thanks in part to Western anti-China paranoia and academic research restrictions.

How far is China succeeding in breaking-free from America's semiconductor stranglehold?

China has made significant strides in semiconductor self-reliance, with domestic chip-making equipment usage rising to 35% by late 2025. While lagging about five years behind global leaders in high-volume cutting-edge (sub-7nm) logic production, China is accelerating breakthroughs in 7nm-capable manufacturing, AI design, and emerging lithography technologies. China has achieved notable success in legacy and mature nodes (28nm and above). In advanced nodes, companies like SMIC are narrowing the gap, with efforts focused on 7nm and even 5nm-class production. The share of domestic semiconductor equipment in China rose sharply to 35% by the end of 2025, up from 25% in 2024, exceeding some expectations. Chinese companies are excelling in AI chip design, with some new, non-traditional approaches (e.g., photonics) showing potential for high performance. Reports indicate China has built a prototype extreme ultraviolet (EUV) machine and developed crucial components like tandem-type high-energy hydrogen ion implanters. Despite progress, China still relies on foreign suppliers for the most cutting-edge, high-volume logic and advanced memory chips. China remains several years behind top global competitors like TSMC. Beijing has invested over \$150 bn to build the required technological ecosystem, yet struggles with low yield rates for advanced chips compared to international peers. US-led restrictions on advanced tools (EUV/DUV) continue to hinder the rapid development of advanced, small-node chips. However,



China is leapfrogging from merely “catching up” to pursuing independent, alternative pathways, such as 3D stacking and chip-lets, to circumvent advanced lithography limitations. Additionally, apart from high-end semiconductor chips, a broader range of cutting-edge technological businesses is being driven by giants like Huawei as well as nimble innovators like DeepSeek (AI), BYD and Zeekr (EVs), DJI (drones), Unitree and DeepRobotics (robotics), as well as Momenta (autonomous driving).

Beijing's 15th Five-Year Plan

Following the recently-concluded “Two Sessions” – National People's Congress (NPC) and Chinese People's Political Consultative Conference (CPPCC), China is pivoting towards a more pragmatic, sustainable economic model for the 15th Five-Year Plan period (2026-2030), prioritizing “quality” over high-speed growth. The following are some key takeaways:

- A realistic moderate growth rate of 4.5-5% with no large-scale stimulus would serve the purpose of doubling China's GDP by 2035 with quality-driven sustainable growth instead of high-speed growth at all costs.
- New Quality Productive Forces (NQPFs) translating into significant investment and policy support to attain the commanding heights of technologies and innovations characteristic of the digital age of the 4th and 5th Industrial Revolutions, defining the 21st century.
- Growing world's largest (lower) middle-class from some 700 million to 800 million over the period 2026-

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30 with policies to promote consumption-led growth and to ameliorate worsening demographics, including 250 billion yuan in ultra-long special treasury bonds to support trade-in programs for consumer goods (automobiles, home appliances); boosting personal income and the social security system including healthcare, childcare, and educational subsidies, expanding domestic purchasing power and financially incentivizing childbearing to combat worsening demographics.

- Technological self-reliance and security in the face of unprecedented geopolitical headwinds, with R&D spending targeted to grow by over 7% annually, focusing on food security, energy security, and supply-chain resilience, both domestic and international.
- Embracing national green transition, aiming for a 17% reduction in carbon dioxide emissions per unit of GDP from 2026-2030, on track to fulfil the nation’s pledges of peak carbon dioxide emissions before 2030 and carbon neutrality before 2060. While coal and other fossil fuels still dominate its power generation, China boasts of the world’s largest installed capacity of wind, solar, and hydropower. The nation added 210 GW of solar in the first half of 2025 alone, with over 80% of global solar panel manufacturing and 60% of wind components, cementing its dominance in clean energy production. By the end of 2025, China achieved a historic milestone in its energy transition, with renewable sources (hydro, wind, solar) comprising approximately 59%–60% of its total installed power capacity. Renewable energy also accounted for over 40% of the nation’s total electricity generation. Apart from climate change considerations, this high proportion of renewable energies underpins China’s energy security in the face of uncertain geopolitical dislocations.
- High-quality housing and stabilizing the housing market, including

Global Growth: 2017-2030

GLOBAL ECONOMY WILL DOUBLE IN SIZE AND REACH

255.0

TRILLION IN TERMS OF GDP AT PPP IN 2030
THIS CORRESPONDS TO

5.5%

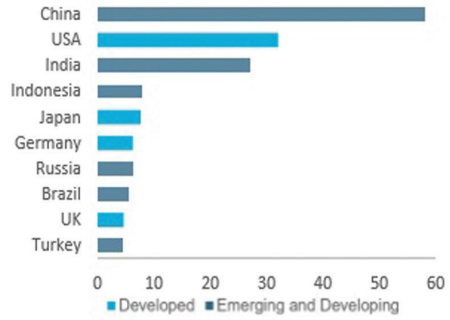
AVERAGE ANNUAL GDP AT PPP GROWTH

75%

WILL COME FROM EMERGING AND DEVELOPING COUNTRIES

Top 10 Economies: 2030

GDP at PPP, trillion international dollars



policies to reduce housing inventory and to stabilize the entire property sector, including helping to shrink local government debt.

- Building a unified national market to combat localized “involution-style” (destructive) competition, dismantling local protectionism and opening up nationwide avenues for business expansion.
- High-level opening-up for foreign investment, covering new quality productive forces: R&D, green energy, environmental protection, and digital economy services; high-tech and manufacturing: advanced equipment manufacturing, new energy vehicles (NEVs), green technologies, and AI-related applications; service industries: value-added telecommunications (including internet data centres), biotechnology, and healthcare services (hospitals/clinics); modern services: education, culture, and sports; finance and logistics: including banking, insurance, legal services, and improved logistics.
- Supporting opening-up policies include national treatment to ensure foreign-invested enterprises (FIEs) receive the same treatment as domestic firms; reducing negative lists: continually removing sectoral foreign investment restrictions; catalogue of encouraged industries to guide foreign capital into high-tech, green, and advanced manufacturing sectors; and regional pilot programs opening-up regions for foreign investments including the greater bay area and the Hainan Free Trade Port.

- Leveraging the Hong Kong and Maco Special Administrative Regions’ One Country Two Systems to help Mainland businesses to go global, promoting Renminbi’s internationalization, including its use as a central bank digital currency (CBDC) for international transactions; growing Hong Kong’s position as an international bullion exchange hub; and its “Northern Metropolis” fusion with Shenzhen as China’s national “silicon valley” attracting global tech talent and financial investments, supported by Hong Kong as the world’s top 3rd financial center and the city with the highest number of leading universities in the world’s top 100 list.

The way forward

China’s exports surged 21.8% to start 2026—the biggest gain in 4 years, reports the *South China Morning Post* of March 10, a taletelling sign of shifts in global trade flows. As the entire world is being ripped apart by indiscriminate tariffs, hot regional wars, supply chain dislocations, and America’s imperialist assertions, while burying heads in the sand about climate change, China is increasingly appearing as a country with a steadier pace of sustainable development and relatively more consistent policies and reliable international relations.

The next five years are likely to be a litmus test on whether and how this perception becomes a widely-accepted reality. ■

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