

China Insights

AI-Led Resilience Buys Time, but Structural Challenges Persist

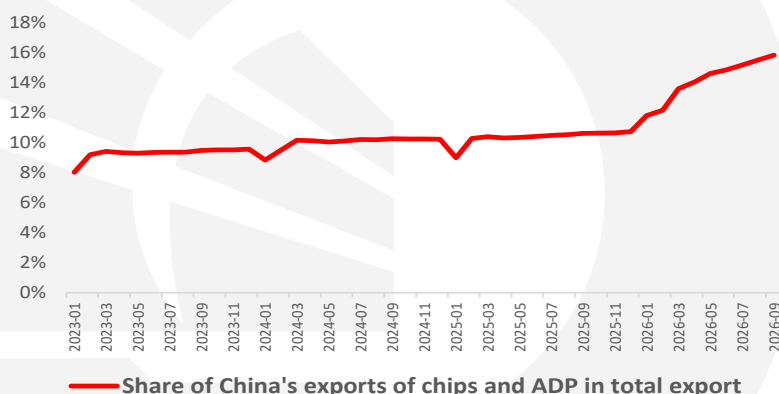
- **AI-led growth continues to underpin China's economic resilience.** We maintain our full-year 2026 GDP growth forecast at 4.6%, with stronger external demand and stepped-up fiscal support keeping China on track to achieve its growth target.
- **Domestic demand remains the weak link, with investment weakness extending beyond property.** More concerningly, private investment excluding property declined by 6.7% YoY, reflecting weak business confidence and persistent concerns over the operating environment.
- **AI has bought China time, but structural reforms will be critical for sustainable growth in 2027.** Reviving private investment, rebuilding household confidence and addressing structural constraints will be key to achieving a more balanced and sustainable growth model.

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China's economic growth reaccelerated to 4.5% YoY in 3Q26 from 4.3% in 2Q26, demonstrating resilience despite rising energy prices. This brought GDP growth in the first three quarters of 2026 to 4.6%, within the government's full-year target range of 4.5–5.0%. The resilience of China's economy has been underpinned by robust exports and the growing contribution of the AI economy, which have helped offset the continued downturn in property investment and subdued household spending. According to preliminary estimates from the National Bureau of Statistics (NBS), new growth drivers, including advanced manufacturing, the digital and intelligent economy, and modern services, contributed more than 40% of China's economic growth in the first three quarters of 2026.

AI-related demand remained a major engine of export growth. Exports of AI-related intermediate goods, including integrated circuits and automatic data processing equipment, surged by 80.8% YoY in the first three quarters of 2026. Their share of China's total exports rose sharply to 15.8%, from 10.7% in 2025, highlighting China's growing exposure to the global AI investment cycle.

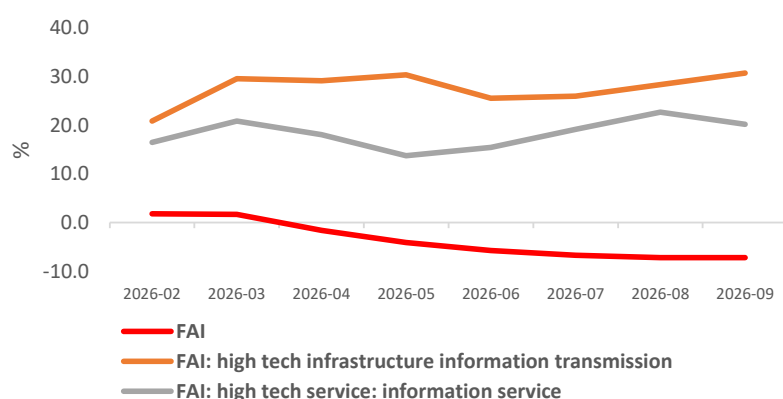
Chart 1: Share of China's exports of chips and ADP in total export rose further



Source: Wind, OCBC Group

The strength of the AI economy was also evident in domestic investment, despite the broader contraction in fixed asset investment. In the first nine months of 2026, investment in information transmission increased by 30.8% YoY, while investment in high-tech information services rose by 20.2% YoY. This divergence suggests that AI-related infrastructure and digital services continued to attract investment even as traditional sectors faced mounting pressure.

Chart 2: Investment in information sector remains strong



Source: Wind, OCBC Group

Looking ahead, robust export growth should translate into a larger contribution from net exports to GDP growth in 2H26 compared with 1H26. We expect export growth to remain above 20% YoY in 4Q26, supported by resilient AI-related demand, although the sustainability of recent gains in certain export categories warrants close monitoring. On the domestic front, faster fiscal spending, together with the Ministry of Finance's plan to mobilise RMB550bn in unused local government debt quotas, should provide additional support to economic activity.

Taken together, strong external demand and stepped-up fiscal support should keep China on track to achieve its full-year growth target. We maintain our 2026 GDP growth forecast at 4.6%.

However, with the annual growth target increasingly within reach, **the more important question is shifting from whether China can meet its 2026 growth target to whether it can successfully transition from traditional growth engines to a more sustainable growth model.** Beneath the headline resilience, the divergence between external and domestic demand remains pronounced.

Domestic demand remains the missing piece

China's consumption recovery remains lacklustre, despite domestic demand accounting for 46.7% of China's economic growth in the first three quarters. Recent indicators suggest that households remain cautious about spending and taking on additional debt.

During the National Day Golden Week holiday, average spending per domestic trip declined by approximately 1.9% YoY to a four-year low, despite an increase in overall travel volumes. This points to a continued preference for more value-conscious spending among households.

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Meanwhile, household credit demand remained subdued, highlighting the continued reluctance to take on additional leverage. Short-term household loans contracted by RMB90bn in September, RMB232.1bn lower than a year earlier, pointing to weak consumer confidence and borrowing appetite. Medium- and long-term household loans returned to positive territory at RMB87.4bn but remained RMB162.6bn below the year-earlier level, suggesting that the recovery in housing-related credit demand remains fragile.

Overall, households have yet to respond meaningfully to recent policy support, underscoring the challenges of reviving consumption through incremental stimulus alone.

Investment weakness extends beyond property

With household consumption unlikely to deliver a meaningful acceleration in the near term, investment has become increasingly important in supporting domestic demand. However, the latest data suggest that investment itself is facing broadening headwinds.

China's fixed asset investment contracted by 7.2% YoY in the first three quarters of 2026, compared with a decline of 5.7% in 1H26. Property investment remained a major drag, falling by 20.6% YoY over the same period.

More concerning, the weakness has extended beyond the property sector to both infrastructure and private investment.

Infrastructure investment declined by 4.2% YoY in the first three quarters, reflecting a combination of deliberate policy adjustments aimed at improving investment efficiency and a relative shortage of high-quality projects. To some extent, this slowdown reflects the challenges associated with China's transition from traditional infrastructure-led growth towards investment in new productive capacity.

Nevertheless, we expect infrastructure investment to recover modestly in 4Q26 as project implementation accelerates and fiscal support gains traction.

On the project front, major infrastructure initiatives under the "Six Networks" framework, including computing, energy and water networks, are gradually moving from the preparatory stage into construction. Meanwhile, projects previously in the pipeline at the local government level are expected to enter a phase of accelerated implementation.

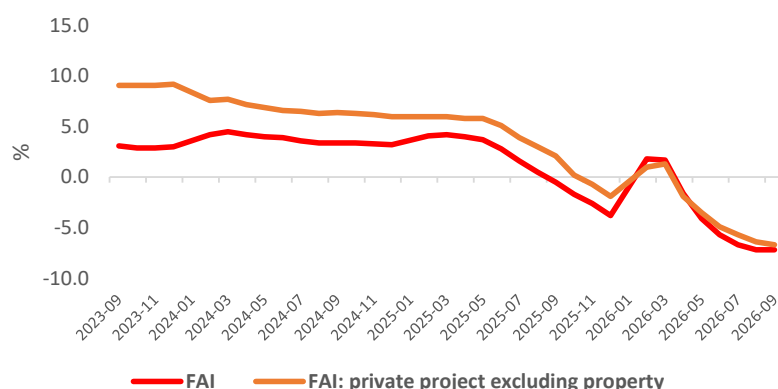
On the funding front, local government special bond issuance is expected to accelerate in 4Q26. Together with the utilisation of unused local government debt quotas and faster deployment of policy-based financial instruments, this should provide additional support to infrastructure spending and help narrow the pace of contraction towards year-end.

The more fundamental challenge, in our view, lies in the continued deterioration in private investment, which reflects persistent concerns about the business operating environment and weak corporate confidence.

Private fixed asset investment contracted by 10.4% YoY in the first three

quarters. Even excluding property investment, private investment declined by 6.7% YoY, underscoring the breadth of the weakness. The contraction suggests that private businesses remain reluctant to commit capital despite ongoing policy efforts to stabilise expectations and promote private sector development.

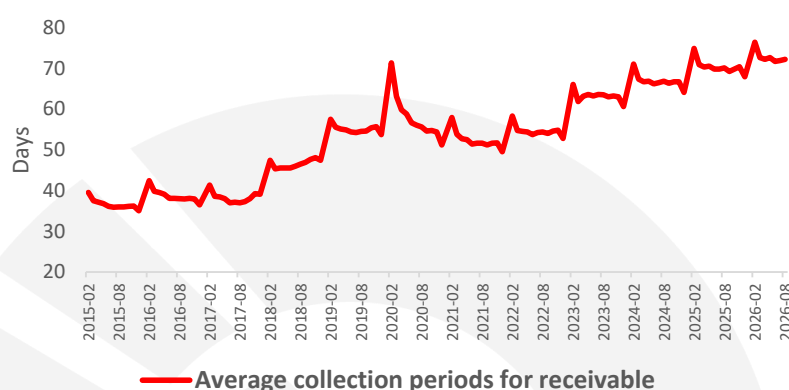
Chart 3: Private investment growth contracted notably as well



Source: Wind, OCBC Group

Corporate cash-flow pressures also remain evident. The average collection period for accounts receivable among industrial enterprises increased to 72.2 days in August from 71.9 days in July, despite efforts to curb involution and address prolonged payment cycles. This suggests that policy initiatives aimed at tackling so-called involution-style competition have yet to translate into a meaningful improvement in corporate operating conditions.

Chart 4: The average collection period for accounts receivable remains high



Source: Wind, OCBC Group

2027: From meeting growth targets to rebuilding growth drivers

The AI boom has provided China with a valuable window of opportunity to restructure its growth model. Strong AI-related exports and investment have helped cushion the economy against weakness in traditional sectors, reducing the immediate pressure for aggressive policy stimulus.

However, this resilience also raises an important question about the sustainability of the current growth model. China's increasing reliance on AI-related external demand leaves it more exposed to fluctuations in the global

technology investment cycle, while weak household consumption and private investment continue to constrain the development of a more balanced domestic growth engine.

For growth to become more sustainable from 2027 onwards, **policy priorities will need to extend beyond near-term stimulus towards rebuilding private sector confidence and strengthening household demand. Improving the business operating environment**, addressing prolonged corporate payment cycles and restoring private investment appetite will be particularly important. At the same time, more effective measures to support household incomes and consumption will be needed to reduce the economy's reliance on external demand and policy-driven investment.

While additional near-term stimulus may help stabilise headline economic indicators, it is unlikely to fundamentally resolve deeper structural challenges, including insufficient consumption, weak business confidence and persistent fiscal pressures on local governments.

Ultimately, AI may have bought China more time, but it cannot substitute for a broader recovery in domestic demand. Whether policymakers can use this window to revive private investment and restore household confidence will be a key determinant of China's growth trajectory in 2027 and beyond.

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