

Greater China – Week in Review

Highlights: China as a long term structural winner

China's economic growth reaccelerated to 5% in 1Q26 from 4.5% in 4Q25, coming in above market expectations. Despite the energy shock in March, the economy delivered a solid start to the year, supported primarily by the earlier transmission of macro policy easing, which helped offset still-fragile domestic consumption. For details, you may refer to our report <A solid start> published on April 16.

Looking ahead to 2Q, growth momentum may moderate at the margin. Infrastructure investment could soften as the initial wave of front-loaded fiscal support fades and bond issuance normalizes. In addition, local government debt constraints and weak land sale revenues continue to cap investment appetite. As such, whether infrastructure can remain a reliable growth stabilizer will increasingly depend on stronger central government support.

Against this backdrop, we expect growth to ease to around 4.8% in 2Q. Nevertheless, the economy remains broadly on track to achieve the official 4.5–5% target for the year, and we maintain our full-year growth forecast at 4.7–4.8%.

On monetary policy, the combination of cost-push reflation and a stronger-than-expected start reduces the urgency for near-term easing. That said, we continue to expect a 10bps policy rate cut, likely delayed to 2H26. In my view, ongoing efforts to repair banks' net interest margins will be a key precondition, ultimately creating room for further easing to consolidate growth and buffer against rising external uncertainties.

On trade, the Middle East conflict could once again provide an incremental tailwind for China's exports. First, China may further expand exports of new energy technologies and products to Global South. Second, it may capture a greater share of energy-sensitive industrial value chain relocation from Japan and South Korea. As rising input costs put pressure on petrochemical production in these economies, Chinese firms are likely to accelerate import substitution.

More broadly, any re-rating of China's manufacturing sector is increasingly likely to be driven by the market's reassessment of its comprehensive and reliable supply capabilities. From the pandemic to the Ukraine war, investors have already successively re-evaluated China's delivery reliability and cost competitiveness. In the current Middle East conflict, what the market is beginning to recognize more clearly is China's broader industrial resilience — spanning energy security, substitution capacity, supply chain completeness, and alignment with end-demand.

Other than data, two developments caught my attention last week. First, on 11 April, Saudi Arabia's Ministry of Defense confirmed that Pakistan had deployed

Tommy Xie Dongming
Head of Asia Macro Research

Keung Ching (Cindy)
Hong Kong & Macau Economist

roughly 13,000 troops—equipped with Chinese-origin platforms including fighter jets—to King Abdulaziz Air Base in the Eastern Province under the Strategic Defence Mutual Agreement (SDMA) signed in September 2025. Second, according to Pakistani media reports on 13 April, Islamabad and Beijing are finalising a landmark US\$12bn defence package, including 40 J-35A fifth-generation stealth fighters, six KJ-500 AWACS aircraft, and multiple HQ-19 strategic missile defence systems. Notably, the headline value exceeds Pakistan’s annual defence budget of ~US\$9bn, fuelling speculation that Saudi Arabia could ultimately be the financial backstop.

If validated, this would represent a rare “triple-win” strategic configuration. Saudi Arabia effectively trades capital for security optionality; Pakistan exchanges deployable military capacity for next-generation hardware; and China monetises its defence ecosystem while expanding geopolitical influence and securing hard-currency revenues.

From Saudi Arabia’s perspective, the arrangement is highly rational. It gains access to a deployable Sunni-Muslim expeditionary force backed by the only Islamic nuclear state—a security hedge whose relevance has been underscored by recent Iranian strikes on Saudi energy infrastructure. At the same time, Riyadh remains deeply embedded within the US defence ecosystem, making a wholesale transition to Chinese systems neither feasible nor desirable. Structuring the arrangement through Pakistan allows Saudi Arabia to indirectly access Chinese-calibre deterrence while preserving its core US military architecture—effectively a hedge without overt decoupling.

Pakistan, in turn, upgrades its force structure significantly without bearing the full fiscal burden, accelerating its transition into a more technologically advanced military platform. More importantly, this positions Pakistan as a frontline operator of China’s next-generation defence systems.

In our view, China is likely to emerge as the long-term structural winner on multiple fronts. First, Pakistan becomes the de facto “launch customer” for China’s stealth fighter export ambitions. A potential forward deployment—particularly in a geopolitically sensitive theatre like the Gulf—would generate real-time operational data and combat validation that no controlled testing environment can replicate, materially strengthening China’s defence export credibility. Second, a Saudi-funded Pakistani J-35A fleet operating on Saudi soil under the SDMA framework effectively constitutes a “proxy insertion” of Chinese airpower into the Arabian Peninsula—without direct Chinese deployment. Third, this model provides China with a scalable pathway to establish a strategic footprint in the Gulf without the political and military costs associated with formal overseas basing—consistent with Beijing’s historically cautious approach toward foreign military presence.

On April 15, the People’s Bank of China (PBoC) and the State Administration of Foreign Exchange (SAFE) jointly issued the Notice on Adjusting Matters Related to Overseas Lending by Banking Financial Institutions (Yinfa [2026] No. 72), introducing two notable changes to the policy framework governing banks’ overseas lending activities. The increase in overseas lending quotas could also support RMB Internationalization in cross-border financing.

Key Events	
Facts	OCBC Opinions
<ul style="list-style-type: none"> On April 15, the People’s Bank of China (PBoC) and the State Administration of Foreign Exchange (SAFE) jointly issued the Notice on Adjusting Matters Related to Overseas Lending by Banking Financial Institutions (Yinfa [2026] No. 72), introducing two notable changes to the policy framework governing banks’ overseas lending activities. 	<ul style="list-style-type: none"> The first adjustment is a meaningful increase in the cap on outstanding overseas lending. For foreign-funded banks operating in China — including wholly foreign-owned banks, Sino-foreign joint venture banks, and domestic branches of foreign banks — the overseas lending leverage ratio was raised from 0.5x to 1.5x, effectively tripling their lending capacity. For the Export-Import Bank of China, the leverage ratio was lifted from 3.0x to 3.5x. At the same time, the minimum approved lending quota was increased from RMB2bn to RMB10bn. The second change is the streamlining of rules for indirect overseas lending. Previously, overseas banks were required to handle such business with reference to Chinese regulatory standards. That requirement has now been removed and replaced with a more pragmatic approach, allowing overseas banks to operate in accordance with the laws and regulations of their local jurisdictions. In our view, this adjustment is both timely and targeted. Against a backdrop of heightened external uncertainty and softer export growth, the latest move should help expand the cross-border lending capacity of both foreign-funded banks and policy banks, thereby strengthening financial support for trade finance, outbound investment, and Belt and Road-related projects. At the margin, the increase in overseas lending quotas could also support RMB Internationalization in cross-border financing. Meanwhile, the “localization” of indirect lending management should reduce cross-jurisdictional frictions, as responsibility for risk management shifts more clearly from prescriptive regulatory requirements toward banks’ own internal control frameworks. Overall, we see this as a targeted easing measure in the cross-border finance space. The core policy intention is clear: to expand the overseas lending capacity of foreign-funded banks and policy banks in response to a more challenging external environment, while also reducing transaction frictions through a more localized and operationally flexible regulatory framework. From a signalling perspective, the tripling of the leverage ratio for foreign-funded banks stands out the most. To us, this sends a fairly clear message that China remains committed to further financial opening and to encouraging deeper foreign participation in cross-border financial intermediation.

Key Economic News	
Facts	OCBC Opinions
<ul style="list-style-type: none"> China’s exports in USD terms moderated 	<ul style="list-style-type: none"> That said, the post-Lunar New Year period typically comes with

<p>sharply to 2.5% YoY in March, from 21.8% previously, while imports surged 27.8% YoY. As a result, the trade surplus narrowed to USD51bn.</p>	<p>sizeable seasonal distortions. In most years, it takes around three weeks after the holiday for work resumption and production activity to fully normalize, which likely exerted some temporary drag on exports this time. This is also broadly consistent with the signal from container throughput data. All in, export performance was broadly in line with expectations.</p> <ul style="list-style-type: none"> By contrast, imports rebounded far more strongly than expected, likely supported by firmer AI-related imports as well as an improving domestic investment cycle. At the product level, imports of mechanical and electrical products improved markedly from the previous month, rising 25.9% YoY. Imports of AI-related products such as integrated circuits also strengthened significantly, up 53.7% YoY. In contrast, despite the sharp rise in oil prices in March, both the value and volume of crude oil imports declined slightly on a YoY basis. Looking ahead to 2Q, we expect exports to remain relatively resilient. Support should come from continued front-loading during the IEEPA tariff window, as well as China’s persistent competitive edge in the “new three” sectors.
<ul style="list-style-type: none"> China’s economic growth reaccelerated to 5% in 1Q26 from 4.5% in 4Q25, coming in above market expectations. 	<ul style="list-style-type: none"> Despite the energy shock in March, the economy delivered a solid start to the year, supported primarily by the earlier transmission of macro policy easing, which helped offset still-fragile domestic consumption. Looking ahead to 2Q, growth momentum may moderate at the margin. Infrastructure investment could soften as the initial wave of front-loaded fiscal support fades and bond issuance normalizes. In addition, local government debt constraints and weak land sale revenues continue to cap investment appetite. As such, whether infrastructure can remain a reliable growth stabilizer will increasingly depend on stronger central government support. Against this backdrop, we expect growth to ease to around 4.8% in 2Q. Nevertheless, the economy remains broadly on track to achieve the official 4.5–5% target for the year, and we maintain our full-year growth forecast at 4.7–4.8%. On monetary policy, the combination of cost-push reflation and a stronger-than-expected start reduces the urgency for near-term easing. That said, we continue to expect a 10bps policy rate cut, likely delayed to 2H26. In my view, ongoing efforts to repair banks’ net interest margins will be a key precondition, ultimately creating room for further easing to consolidate growth and buffer against rising external uncertainties.

Disclaimers

This report is solely for information purposes and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein or to participate in any particular trading or investment strategy. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this report is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this report may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This report may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, it should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. In the event that you choose not to seek advice from a financial adviser, you should consider whether the investment product mentioned herein is suitable for you. Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), Bank of Singapore Limited ("BOS"), OCBC Securities Private Limited ("OSPL") and their respective related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future, interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial or securities related services to such issuers as well as other parties generally. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. There may be conflicts of interest between OCBC Bank, BOS, OSPL or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OCBC Bank and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

The information provided herein may contain projections or other forward looking statements regarding future events or future performance of countries, assets, markets or companies. Actual events or results may differ materially. Past performance figures are not necessarily indicative of future or likely performance.

Privileged / confidential information may be contained in this report. If you are not the addressee indicated in the message enclosing the report (or responsible for delivery of the message to such person), you may not copy or deliver the message and/or report to anyone. Opinions, conclusions and other information in this document that do not relate to the official business of OCBC Bank, BOS, OSPL and their respective connected and associated corporations shall be understood as neither given nor endorsed.

Co.Reg.no.: 193200032W

Additional disclosures and disclaimers applicable only to clients of Bank of Singapore Limited

This material is being made available to you through an arrangement between Bank of Singapore Limited (Co Reg. No.: 197700866R) ("BOS") and Oversea-Chinese Banking Corporation Limited ("OCBC Bank") (Co Reg. No.: 193200032W). BOS and OCBC Bank shall not be responsible or liable for any loss (whether direct, indirect or consequential) that may arise from, or in connection with, any use of or reliance on any information contained in or derived from this material, or any omission from this material, other than where such loss is caused solely by BOS' or OCBC Bank's wilful default or gross negligence.

The DIFC Branch of BOS has not conducted or produced any research contained in this material and is acting solely as a conduit in forwarding it to you.

For BOS clients in the United Kingdom:

This research has been prepared by OCBC Bank and made available to BOS. It is intended solely for informational purposes and does not constitute investment advice, a personal recommendation, or an offer or solicitation to buy or sell any financial instruments. Any payments or non-monetary benefits received or paid will be fully disclosed in accordance with applicable regulations, promptly and transparently, and will not influence the advice or services offered to you. If you would like more information about any inducements received, please contact your Relationship Manager.

Cross Border Disclaimer and Disclosures

Please refer to https://www.bankofsingapore.com/Disclaimers_and_Disclosures.html for cross-border marketing disclaimers and disclosures.