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Greater China – Week in Review

Highlights: resilient export outlook

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It was a busy week last week, marked not only by a renewed rise in market volatility but also by a series of closely watched speeches from world leaders at Davos. Among them, the remarks by Canadian Prime Minister Mark Carney stood out. Carney framed today's geopolitical landscape with stark realism, arguing that "we are in the midst of a rupture, not a transition." Perhaps the most quotable line from his speech was: "If we're not at the table, we're on the menu."

Beyond the soundbites, however, the most important takeaway in my view was Carney's articulation of what he described as a "double-P" framework — **principled and pragmatic**. He characterised Canada's approach as values-based realism: principled in its commitment to sovereignty, human rights, and territorial integrity, yet pragmatic in recognising that progress is often incremental and that not all partners share the same values.

This shift toward pragmatism among mid-sized developed economies could mark a gradual departure from Cold War-style binary thinking. If sustained, such a recalibration would be constructive for China, particularly in reducing ideological frictions in economic and diplomatic engagement.

China has already emerged as a popular destination for senior foreign leaders at the start of the year. Following Carney's successful visit to Beijing, leaders from the UK and Germany are reportedly scheduled to visit China in the coming month. Improving China-Europe relations could therefore remain an important tailwind for China's export growth in 2026.

In addition, deepening economic integration between China and ASEAN will continue to be the source of resilience for China's export. China's trade surplus with ASEAN-6 economies—Singapore, Malaysia, Indonesia, Thailand, Vietnam, and the Philippines—in machinery, mechanical appliances, and electrical equipment (HS Codes 84 and 85) surged to US$133.9 billion in 2025, accounting for 12.4% of China's record total trade surplus. This represents a striking reversal from the pre-2019 period, when China still ran a trade deficit with ASEAN-6 in these categories. Notably, the inflection point aligns closely with the onset of the first U.S.–China trade war in 2018, which triggered a major reshuffling of global supply chains.

Prior to 2018, China imported large volumes of electronic components and intermediate goods from ASEAN—particularly from Malaysia, Singapore, and Thailand—while exporting finished products primarily to advanced economies. The trade war disrupted this equilibrium. Rising tariffs, export controls, and geopolitical uncertainty forced multinational firms to reconfigure production networks, accelerating the "China+1" strategy and shifting downstream assembly and labour-intensive manufacturing to ASEAN economies.

However, post-2019 data clearly shows that supply-chain relocation did not translate into industrial decoupling from China. Instead, it led to a vertical re-integration of Asian production, with China moving decisively upstream. As final assembly migrated to ASEAN, China increasingly entrenched itself as the dominant supplier of capital goods, industrial machinery, electrical equipment, power systems, batteries, and key electronic components—precisely those captured under HS84 and HS85.

In short, China no longer needs to export final goods to "win" the trade war. Instead, it can export tools—industrial capacity, machinery, and systems—to ASEAN. Given the stronger-than-expected depth of China–ASEAN integration, we expect China's export growth to remain resilient in 2026, expanding by around 3% despite a still-challenging global trade environment.

China's GDP growth moderated to 4.5% YoY in 4Q, easing from 4.8% YoY in 3Q, broadly in line with market expectations. For full-year 2025, the economy expanded by 5.0% YoY, meeting the government's target of "around 5%" growth. While the headline numbers were largely unsurprising, a closer look at the composition of growth reveals three notable surprises in 2025—one positive and two negative.

On the upside, net exports contributed around 1.6 percentage points to overall GDP growth in 2025, accounting for roughly one-third of total expansion, and once again emerged as a key stabilising force for the economy.

On the downside, growth deceleration was primarily driven by weaker investment activity. This reflects the ongoing correction in property investment, alongside a simultaneous softening in infrastructure and manufacturing investment.

A second negative surprise lies in persistent disinflationary pressures. The GDP deflator has remained in negative territory for 11 consecutive quarters, with no clear signs of bottoming out—marking the longest disinflationary streak in China's modern history.

Overall, these three surprises in 2025—resilient external demand, but weaker investment and entrenched disinflation—are likely to extend into 2026. Supported by still-robust exports, we expect growth to re-accelerate modestly to around 4.7% YoY in 1Q26. However, on a full-year basis, China's GDP growth is likely to slow from 5.0% in 2025 to around 4.7–4.8% in 2026, constrained by sluggish investment and lingering balance-sheet adjustment.

In Hong Kong, headline and underlying CPI (netting out the effect of all government's one-off relief measures) in Hong Kong rose by faster pace of 1.4% YoY and 1.2% YoY respectively in December 2025 (1.2% YoY and 1.0% YoY in November). For 2025 as a whole, inflation stayed mild at 1.4%, in line with our forecast.

Looking ahead, pressures from domestic costs and external prices should stay mild, and we pitched full-year inflation at 1.6% for 2026.

Separately, recent data suggest that labour market slack may have reached a near-term peak, although there is still limited evidence of a sustained improvement. The seasonally adjusted headline unemployment rate remained unchanged at 3.8% in October–December 2025, the same as in September–

November 2025. Last year, the unemployment rate averaged at 3.6%, in line with our forecast.

On a non-seasonally-adjusted basis, declines in unemployment rates were broad-based across sectors, with more pronounced improvements observed in the retail, accommodation and food services industry, where the unemployment rate fell to 5.2%.

Nevertheless, hiring sentiment remained cautious and underemployment rate showed little signs of receding. Our full year unemployment rate forecast for 2026 remained at 3.7%.

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▪ China's GDP growth moderated to 4.5% YoY in 4Q, easing from 4.8% YoY in 3Q, broadly in line with market expectations. For full-year 2025, the economy expanded by 5.0% YoY, meeting the government's target of "around 5%" growth.	▪ While the headline numbers were largely unsurprising, a closer look at the composition of growth reveals three notable surprises in 2025—one positive and two negative. ▪ On the upside, net exports contributed around 1.6 percentage points to overall GDP growth in 2025, accounting for roughly one-third of total expansion, and once again emerged as a key stabilising force for the economy. The pace of trade integration between China and ASEAN has exceeded expectations, providing an important structural underpinning for the external sector. Looking ahead, assuming no major global economic shock, we expect China's exports to grow by around 3% in 2026, which should help buffer the economy against an increasingly uncertain external environment. ▪ On the downside, growth deceleration was primarily driven by weaker investment activity. This reflects the ongoing correction in property investment, alongside a simultaneous softening in infrastructure and manufacturing investment. Credit data reinforce this picture: new RMB lending recorded six consecutive months of YoY contraction in 2H25, driven mainly by continued household-sector deleveraging. This dynamic is likely to persist into 2026 and may continue to weigh on property investment and broader domestic demand. ▪ A second negative surprise lies in persistent disinflationary pressures. Although real GDP growth met its target, nominal GDP expanded by only 3.9% YoY in 2025. The GDP deflator has remained in negative territory for 11 consecutive quarters, with no clear signs of bottoming out—marking the longest disinflationary streak in China's modern history. This likely reflects a combination of household deleveraging linked to the housing correction and ongoing "involution-style" competition across parts of the industrial sector. While industrial capacity utilisation improved in 2H25, it still declined to 74.4% in 2025 from 75.0% in 2024. We expect China to enter 2026 with a still-negative GDP deflator, which will continue to weigh on corporate profitability and fiscal revenue growth. ▪ Overall, these three surprises in 2025—resilient external demand, but weaker investment and entrenched disinflation—are likely to extend into 2026. Supported by still-robust exports, we expect growth to re-accelerate modestly to around 4.7% YoY in 1Q26. However, on a full-year basis, China's GDP growth is likely to slow from 5.0% in 2025 to around 4.7–4.8% in 2026, constrained by sluggish investment and lingering balance-sheet adjustment.
▪ Hong Kong: Headline and underlying CPI (netting out the effect of all government's one-off relief measures) rose by faster pace of 1.4% YoY and 1.2% YoY respectively	▪ Breaking down, cost of "transport" (+4.3% YoY) and "miscellaneous services" increased the most, while drags from "durable goods" (-2.6% YoY) and "clothing and footwear" (-1.7% YoY) were alleviated.

in December 2025 (1.2% YoY and 1.0% YoY in November). For 2025 as a whole, inflation stayed mild at 1.4%, in line with our forecast.	▪ Looking ahead, pressures from domestic costs and external prices should stay mild, and we pitched full-year inflation at 1.6% for 2026.
▪ Hong Kong: Recent data suggest that labour market slack may have reached a near-term peak, although there is still limited evidence of a sustained improvement. The seasonally adjusted headline unemployment rate remained unchanged at 3.8% in October–December 2025, the same as in September–November 2025. For the year 2025, the unemployment rate averaged at 3.6%, in line with our forecast.	▪ The number of unemployed persons declined for the fourth consecutive period, to 138k in October–December 2025, alongside declines in the labour force and labour force participation rate, which was at the lowest levels since 2Q 2025. Meanwhile, underemployment rate edged up 0.1 percentage points to 1.7% in October–December 2025. ▪ On a non-seasonally-adjusted basis, declines in unemployment rates were broad-based across sectors, with more pronounced improvements observed in the retail, accommodation and food services industry, where the unemployment rate fell to 5.2%. ▪ Nevertheless, hiring sentiment remained cautious and underemployment rate showed little signs of receding. Our full year unemployment rate forecast for 2026 remained at 3.7%.

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