BANK OF COMMUNICATIONS 交通银行 BBM

Macro Monthly Letter

January 2026

China: Outlook for trade and the tech sector

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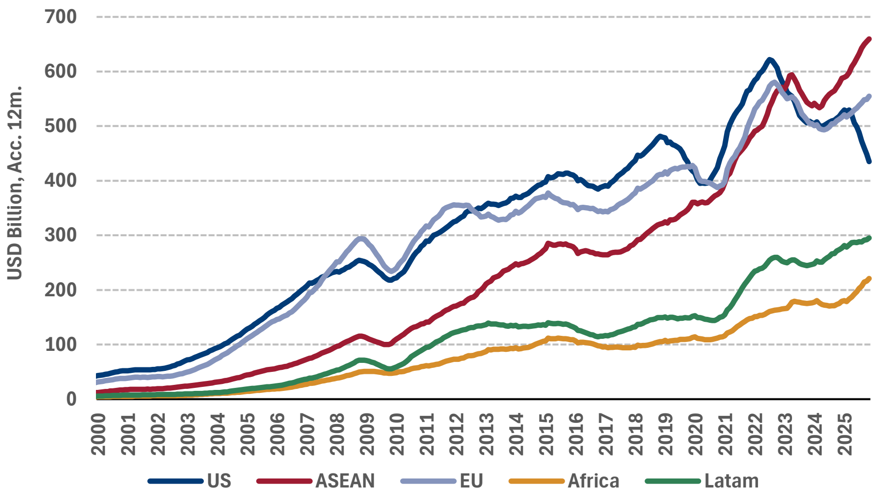
The Chinese economy was surprisingly resilient in 2025 despite the challenging global environment. Hefty trade tariffs imposed by the US on imports from China caused concern but the most adverse prospects for trade and growth outlook failed to materialize. Rapid redirecting of trade routes enabled China to sustain exports by increasing shipments to partners elsewhere, especially in Asia and the European Union (Figure 1).

Figure 1: China - Exports: Main Destinations

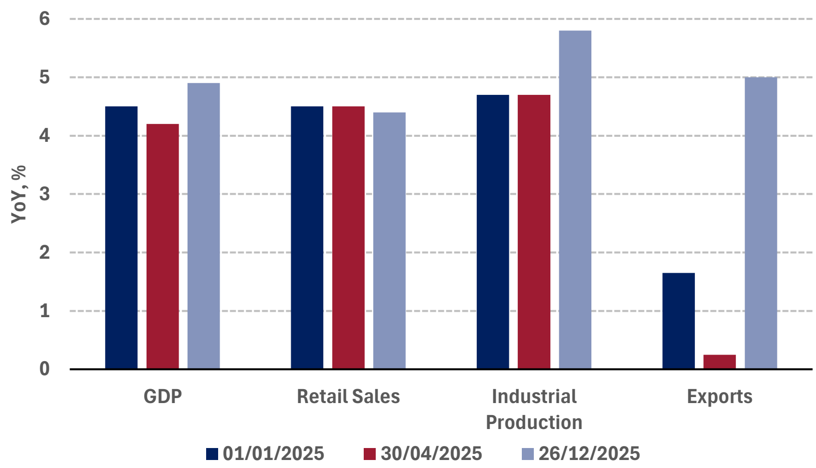


Source: BOCOM BBM, Macrobond, GAC

The dynamism of China's international trade, combined with increased support for domestic demand, including a consumer durables trade-in subsidy program, produced constant surprises in its economic performance (Figure 2).

In the medium term, structural factors should keep China well-positioned in global trade. New markets are constantly opening up to Chinese imports thanks to its lower production costs, while growing Chinese investment abroad creates rising demand for Chinese goods from its companies' foreign subsidiaries. Stimulating high-tech manufacturers, a top strategic priority for the government, will also help China maintain its leading position in global trade via the export of high-value-added products.

Figure 2: China - 2025 Growth Forecasts: Key Variables



Source: BOCOM BBM, Bloomberg

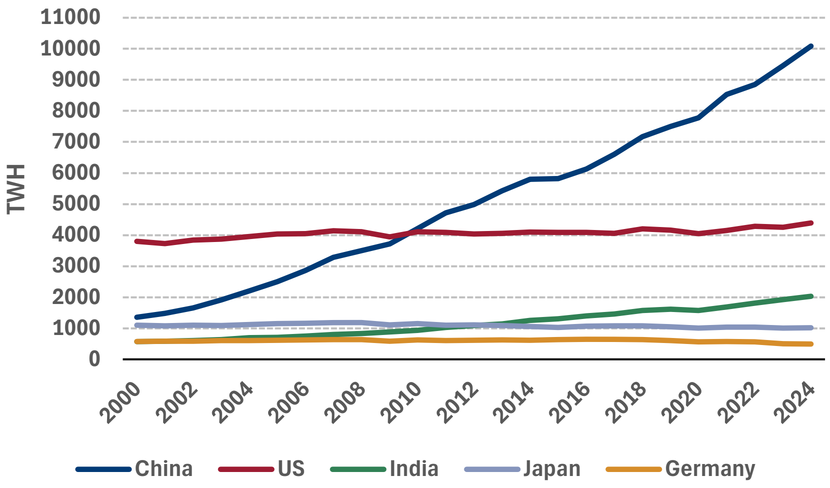
Other structural challenges remain, however. Industrial production continues to grow faster than retail sales, and this leads to deflationary pressure even though the surplus is exported. In addition, adjustment of the property sector is still under way. The government has intensified its endeavors to address these challenges, combating the steep price competition associated with overcapacity and fostering high-tech industry as part of its new economic plan, among other moves.

Moreover, China is becoming a global leader in advanced technology, particularly artificial intelligence (AI). In 2025, world markets were significantly impacted by its large language models (LLM). The startup DeepSeek launched an open-source model with a comparable performance to ChatGPT, and other Chinese open model families, such as Qwen (Alibaba), MiniMax and Kimi (Moonshot), also gained strong traction thanks to quality and efficiency. In parallel, China is becoming a major developer in areas such as humanoid robots, self-driving cars, and internet via satellite. In the years ahead, this trend will boost China's manufacturing sector and exports of AI-linked services. These advances will favor productivity gains and enhance technological self-sufficiency, thanks in no small part to strong government support.

Rapid development of AI and fast-growing compute capacity require vast amounts of energy, and here China is the global leader. It is able to produce far more energy than other major economies (Figure 3) and to increase the power supply without significant adjustments to infrastructure, not to mention its outstanding energy efficiency in semiconductor production. This combination gives China a key advantage in the energy-intensive phase of the race to lead in AI, reinforcing its industrial and technological competitiveness.

Despite China's favorable outlook in trade and the technology sector, domestic consumption will remain a key issue for the dynamics of its long-term economic growth. Thus new stimulus programs, such as more trade-in subsidies for consumers, better retirement pensions, or even income transfers to attempt to boost the birth rate, may prove important, especially if they strengthen consumer confidence.

Figure 3: Electricity Generation - Main Countries



Source: BOCOM BBM, Macrobond, Ember Energy

On the other hand, geopolitical risks still loom large, as negotiations with the US appear to have brought about only a temporary truce rather than a definitive agreement. China's near-monopoly over the global rare earth supply chain will be a key bargaining chip in the negotiations, preventing the US from imposing extreme sanctions on China.

The Chinese economy is expected to continue gradually decelerating in the coming years as the various ongoing adjustments take effect, but foreign trade and the tech sector will continue to assure adequate support, contributing to a favorable global outlook for the emerging economies, especially Brazil, for which China remains an important export destination.

ECONOMIC FORECASTS	2020	2021	2022	2023	2024	2025F	2026F	2027F
GDP Growth (%)	-3.3%	4.8%	3.0%	2.9%	3.4%	2.3%	1.7%	1.8%
Inflation (%)	4.5%	10.1%	5.8%	4.6%	4.8%	4.3%	4.0%	3.6%
Unemployment Rate (eoy ,%)	14.2%	11.1%	7.9%	7.4%	6.2%	5.8%	6.2%	6.8%
Policy Rate (eoy, %)	2.0%	9.3%	13.8%	11.75%	12.3%	15.00%	12.5%	10.50%
External Accounts								
Trade Balance (US$ bn)	36	42	52	92	66	63	70	71
Current Account Balance (US$ bn)	-25	-40	-42	-28	-61	-82	-68	-57
Current Account Balance (% of GDP)	-1.7%	-2.4%	-2.2%	-1.3%	-2.8%	-3.6%	-2.7%	-2.5%
Fiscal Policy								
Central Government Primary Balance (% of GDP)	-9.8%	-0.4%	0.5%	-2.1%	-0.4%	-0.5%	-0.4%	-0.7%
Government Gross Debt (% of GDP)	86.9%	77.3%	71.7%	74.4%	76.1%	80.5%	84.1%	88.2%