Goldman Sachs Exchanges

China's Economy: Reasons for Optimism

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Allison Nathan: This year, one of the biggest concerns for investors around the world has been the potential for a renewed trade war between the US and China. So what's the state of trade negotiations between the two countries? And should last week's summit give investors a measure of relief? I'm Allison Nathan, and this is Goldman Sachs Exchanges.

Today, I'm speaking with my colleague Hui Shan, chief China economist in Goldman Sachs Research, to talk about the implications of the recent talks for tariffs, restrictions for exports, and more broadly, China's economic growth. Hui, welcome back to Exchanges.

Hui Shan: Thanks for having me.

Allison Nathan: So Hui, China has borne the brunt of US tariffs. They've definitely been in the crosshairs. Yet exports and I would say growth have been exceptionally resilient. Why is that? Are the tariffs just not working?

Hui Shan: Good question. Chinese exports indeed have been very resilient. After last year's 13% growth in export volume, this year, looking at the data, Chinese exports volume is on track for another 8% growth. So if you look at the detailed categories, it's not like the Chinese exports are immune to any kind of tariff impact. In fact, for categories like toys, footwear, garment, where it's labor intensive and the margins are relatively thin, when you add tariffs, you do see large declines and sometimes double-digit and more-than-double-digit declines in the exports of these categories.

So to us, the 30% US additional tariffs are having an active impact on Chinese exports. However, we're also seeing ever since 2020 there are structural trends in a lot of the high-tech manufacturing sectors. Chinese exports of chips, semiconductors, auto, auto parts, they are growing steadily despite the fact that US has imposed tariffs. So that trend is carrying us toward this very resilient export-driven growth that we are observing.

The other point to make is that trade is very fluid. When you have bilateral tariffs, it's not going to be completely effective in slowing down or forcing exports to decline because trade can be rerouted and redirected through other countries. And the most pronounced example happened in April this year when we saw Chinese exports to the US down 20-30% in a single month. Chinese exports to ASEAN countries jumped 20% in the same month. So that's clear evidence that that rerouting was happening.

So between the structural trends in Chinese manufacturing competitiveness in these high-tech sectors and rerouting and the supply chain responses, we're seeing a super resilient Chinese export picture this year.

Allison Nathan: And is that rerouting tariff evasion? Do some of those goods end up coming to the US? Or you've just really changed where these goods are flowing to and who's consuming them?

Hui Shan: I think it's both. When it comes to trade and looking at trade data, it's not zero and one. It's somewhere in between. We did find evidence, category by category in months when Chinese exports of this product to the US dropped, you also see Chinese exports of the same product to ASEAN countries increase. And ASEAN exports of the same product to the US increased in the same month or following month.

But at the same time, Chinese exporters have been diversifying their trade destinations over the past few years, ever since the first trade war in 2018-2019. You are seeing Chinese export share in a lot of these emerging markets gradually rising, and I don't think that's necessarily driven by rerouting. That's ongoing long before President Trump took office. So I think both are happening. Perhaps more rerouting happened after Liberation Day and when you had triple-digit tariffs added on Chinese products.

Allison Nathan: So we've now had this Trump-Xi meeting, which deescalates trade tensions between China and the US, so what are your key takeaways about that meeting last week? How substantial are the agreements? And how does that affect the export picture ahead?

Hui Shan: Yes, on October 30th, President Trump and President Xi met in South Korea. The details of the meeting or the agreement, we're still learning about because the White House fact sheet versus the Commerce Department of China official release, they are emphasizing slightly different things. So we shall see what exactly was agreed upon and how the implementation of the agreement will be going forward.

But to me, this is very important in a couple of aspects. One is that I think this is, for the first time, China is positioned more as an equal to the US. Remember during the first trade war, at least the market perception is always US imposing something on China. China was just on the receiving end. Versus this statement, if you look at the Ministry of Commerce statement, it has number one US take off fentanyl tariff and therefore China is pausing the rate or removing that retaliation. Number two, US is pausing that 50% subsidiary rule on the export controls of semiconductors, and therefore China is postponing the export controls of rare earth. And number three, the US will postpone the port fees, and China will do the same.

So this is very equal in the sense that US versus China, when it comes to trade tensions and retaliations, China is no longer in the position just receiving export controls and higher tariffs. Instead, China has a leverage that it can use to force the other side to postpone or pause these restrictions and tariffs. I think this is the first time, and this is a very important signal to the market.

And the second reason why I say this is very important is that, think about around the time President Trump was elected and the market was worried about President Trump imposing 60% tariffs on China and 10% tariffs on the rest of the world. The belief was that China will be facing much higher tariffs than any other country. But fast forward, the Trump-Xi meeting resulted in a 10% cut to the tariffs on Chinese products. This is highly unusual. If you look at how much tariffs have been added on China so far this year, it's 20% now. So if in the scenario next year before Trump comes to China and another 10% of the fentanyl-related tariff gets taken off then China only faces 10% tariff. That's lower than other countries such as Japan or South Korea or ASEAN countries. So this is a very important signal that, even though the plan was to have a higher tariff on China because of the retaliation instrument or leverage China has, perhaps US will no longer be able to impose higher tariffs on China. And that is why we're more constructive on Chinese exports and thinking that could drive China growth higher going forward.

Allison Nathan: But we have seen this back and forth between US and China before, so what gives you conviction that this trade truce is going to prove to be more lasting?

Hui Shan: To be clear, as I mentioned, that we don't know all the details and the fact that both sides, you look at official releases, there are slight differences or different emphases, suggests that there could be hiccups or flare-ups down the road if there is a misconception about what the other side promised do. So I don't think it's going to be a smooth path going forward and nothing can go wrong.

But at the same time, I do think this meeting was very important. And I think that it tells me the US as of now cannot become self-sufficient on rare earths. So the rare earths leverage is very powerful. At the same time, China is not being able to handle very strict chip restrictions such as the 50% subsidiary rule and a large number of Chinese companies have been put on the entity list. So therefore, China also wants to see a pause or a trade truce so that creates an environment that allows China to continue its developmental plan versus continuing on this path of uncertainty and escalation with the US. We're in a situation where this is beneficial on both sides to stick with the agreement.

Allison Nathan: Interesting. Both sides are going to benefit if this does prove lasting. I hear your point. The other big event last month was the fourth plenum where Chinese leaders drew up the country's next 5-year economic blueprint. What are the key components of the plan? And how has that impacted the bigger picture?

Hui Shan: Right. For the China economists who watch this very closely, we had the fourth plenum communiqué, which is very brief and that's purely focusing on the self-reliance in technology and modern industrial base. And then five days later, we got the full proposal for the 15th 5-year plan. That one has more discussions about consumption.

Some of the encouraging signals would be the government is set to raise the consumption rate or, equivalently, reducing household savings rate in the next five years, making sure income distribution is improved. And they want to promote income growth along with economic growth. So these are all encouraging signals in rebalancing the economy and boosting consumption.

However, our takeaway is still that the top priority is to double down on the industrial system, on the technology self-reliance, and on becoming even more competitive in manufacturing and outcompete global peers gaining global market share. The reason why we think this is the case is that the fourth plenum and the 15th 5-year plan proposal tells you the strategy for Chinese policymakers is that we're going to use technology innovation and manufacturing competitiveness as the catalyst or as a driver of growth. Once that model works, it should generate more corporate profits and tax revenues and jobs. And that would trigger a virtuous cycle of more household income and more consumption. So that's the strategy how China is going to grow out of the past model of just relying on property and infrastructure.

But when you think about that cycle or that virtuous cycle of using technology and manufacturing to grow your economy, the first half of it can happen relatively quickly, right? China has a huge number of talent and a complete industrial system. It's the largest share of the global market in many industries, the upstream, the downstream, the logistics, the government support. The first half we're more confident that we're going to see the progress in the coming years in the Chinese companies' market share globally and Chinese exports in the global market.

But the second half will be more challenging to materialize. Think about if you have high-tech manufacturing and you have dark factories, that doesn't necessarily generate a lot of jobs. And without jobs, you're not going to be seeing significant increases in household income and therefore household consumption. It's unclear how fast the consumption can improve just because exports are strong and high-tech manufacturing is strong. This is where we acknowledge the government desire to boost consumption, but at the end of the day, we think investors will see more Chinese exports as the immediate outcome of this growth model.

Allison Nathan: And if you put together the recent developments between the export resilience and then some of the key takeaways that you talked about on the fourth plenum, you've actually substantially raised your near-term growth forecast for China. So where are you now in terms of your expectations?

Hui Shan: Yeah. Before our upgrade, we were expecting 2026 Chinese growth will be 4.3 and 2027, real GDP growth will be only 4%. We think that without the export resilience or export outperformance, around 4% is where Chinese growth might be the trend growth or the equilibrium growth.

But after the Trump-Xi and the fourth plenum, we raised 2026 to 4.8. We raised 2027 real GDP growth to 4.7. So these are large upward revisions, and I was telling clients that this might be the largest upward revisions to China real GDP that I have seen since I came to Hong Kong in 2019. So it is consistent with the strategy, thinking about what the government wants to do and the environment, the rare earths backdrop and the US-China backdrop, which should allow China to continue exports in the next few years. The combination allowed us to raise our GDP forecast significantly.

Allison Nathan: Noted. A very large increase. We have talked a lot about the focus on the tech categories and the tech sector and how much that's driven a lot of this momentum. But if you think longer term, Hui, there's so much focus on AI. I want to ask you more specifically about it. We've had the DeepSeek model introduced earlier this year. There's more and more developments happening every day. How is that specifically factoring into your medium- to long-term view of the Chinese economy?

Hui Shan: Yeah. After the DeepSeek moment earlier this year, we took a close look at AI and its implications for Chinese economy. And similar to the US where US economists did a deep dive on the AI impact, AI could raise the China growth significantly. We estimated that, if AI is fully adopted by the Chinese economy over the next ten years, then the level GDP would be 8% higher. That's smaller than the 15% higher GDP the US team is estimating for US, but still 8% GDP is a large number.

Right now, the signs we're seeing are encouraging. Companies are investing in AI, and we're seeing more applications, although this is still an exploration period with applications being built and being tried out. But the excitement among businesses and the encouragement and support from the government created this environment where you see capital markets certainly pricing the AI story in Chinese assets. And from an economic point of view, the path is uncertain. We don't know when the application will materialize and precisely how much productivity will be boosted, but this seems a pretty promising direction for China to grow out of its challenges regarding to demographics and regarding to the structural transformation.

And I will also say that, for Chinese policymakers, AI is important. AI is not only one key area of US-China competition, but also in the backdrop of technology-driven growth, this is how China is hoping for its economy to escape the middle-income trap. We've seen other emerging markets stuck in the middle-income trap once your labor costs are too high for these labor-intensive activities, but your innovation is not strong enough to get across the hurdle and get into the developed market. And China is really hoping that AI perhaps provides an opportunity for China to escape that middle-income trap and continue to grow its economy.

Allison Nathan: So AI will remain in focus in China, certainly in the US, and beyond. Thanks so much, Hui, for joining us again.

Hui Shan: Thanks for having me.

Allison Nathan: Thanks for listening to this episode of Goldman Sachs Exchanges, which was recorded on Monday, November 3rd, 2025. I'm Allison Nathan.

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