

Weekly China Insight

Beijing, 17 July 2026

China's H1 GDP growth slows to three-year low, showing a widening domestic-external divide

On 15 July, China's National Bureau of Statistics reported that China's GDP grew 4.7% y/y in the first half of 2026 to RMB 69.57 trillion, the lowest growth rate since the end of 2022. The growth rate is within the government's annual target of 4.5%-5% GDP growth. However, quarterly growth slowed from 5.0% in the first quarter to 4.3% in the second quarter.

H1 growth was increasingly concentrated in services, advanced manufacturing, and exports: with services contributing 66.1% of the H1 economic expansion, and high-tech manufacturing output ring 13.3% y/y in H1. Trade increased 16.9% y/y to RMB 25.47 trillion in H1, supported by 20.1% growth in machinery and electronics exports, and a 39% rise in high-tech exports.

On the contrast, domestic demand remained weak, with fixed-asset investment falling 5.7% y/y, property investment contracting 18% y/y, new-home sales by value declining 13.6% y/y, and total retail sales rising only 1.3% y/y, despite a modest improvement in June. Officials attributed part of the second-quarter slowdown to temporary industrial and external factors, and signaled more targeted and proactive policies to follow, while acknowledging that strong supply and weak demand remain a central imbalance for China's economy.

Despite the slowdown in H1 growth, China remains on course to meet its annual growth target of 4.5%-5%, but its growing dependence on technology-intensive production and foreign demand increases the urgency for policies directed towards restoring household confidence, stabilizing the property downturn, and reviving private investment.

Xi positions China as architect of an alternative global AI order in Shanghai

On 17 July, Chinese President Xi Jinping used his keynote address at the World Artificial Intelligence Conference in Shanghai to present China as a leader in global AI governance and an alternative to the US-led technology order. Xi called for open-source AI development, multilateral rule-setting, and greater tech access for developing countries, warning that unequal access to AI could create "new historical injustices." Xi pledged that over the next five years, China will offer 5,000 AI training opportunities, establish cooperation centers with major Global South organizations, and deploy its Mazu intelligent weather-warning system in 30 countries. His speech followed the creation of the Shanghai-based World AI Cooperation Organization, an intergovernmental body with 29 founding

members that Beijing says will coordinate AI development, governance, and standards setting, while helping developing countries close the AI divide.

At the same time, Xi gave his most extensive warning yet on AI safety, calling for laws, technical monitoring, early-warning systems, and emergency-response mechanisms to keep AI under human control. In his speech, Xi also explicitly opposed the use of national security as a justification for technological blockades.

On the same day, the Chinese government also released plans covering cross-border data flows, affordable computing power, open-source AI models, technical standards, and AI applications in healthcare, education, agriculture, and manufacturing.

Beijing is increasingly converting the growing competitiveness of the Chinese open-source AI development models into diplomatic influence, offering the Global South technology, AI infrastructure, and a voice in rule-setting. However, tensions between China's open-source rhetoric and its own tightening security controls could limit the credibility and reach of its proposed AI governance global order.

Beijing doubles down on its supply-side consumption boost playbook in new sectoral five-year plan

On 13 July, China's macro manager (NDRC) and the commerce ministry (MofCom) published the nation's first-ever stand-alone sectoral five-year plan for expanding consumption, setting a target for retail sales to reach around RMB 60 trillion by 2030. The plan primarily aims to unlock what policymakers view as latent demand, including improving public trust in Chinese products through tighter standards and stronger consumer protection; expanding healthcare, elder care, childcare, education, tourism, and sports services; developing AI-enabled, green and experience-based products; and investing in commercial districts, logistics, charging facilities, digital networks, and county-level retail infrastructure. At the same time, the plan also includes more explicitly redistributive measures, such as adjusting minimum wages, pursuing fuller employment, expanding social insurance coverage, increasing public spending in education, healthcare, elder care, and childcare, and increasing direct consumption voucher support for consumers.

Supply-side upgrading has anchored Beijing's consumption policy since late 2022, while promises to improve wages, welfare, and public services have been repeated for years without producing a sustained household-spending recovery. The latest data underline this policy failure, with real disposable income growing 4.2% y/y in the first half of 2026, but real consumption expenditure rising only 2.7% y/y during the same period.

With regard to consumption, Beijing remains wedded to a supply-side solution for a demand-side problem. Better product quality, smarter appliances, new tourism offerings, and upgraded retail infrastructure may improve the consumption environment, but they will not materially loosen household wallets until employment security, income growth, social protection, and property-tied wealth-valuation improve for average citizens.

KREAB

