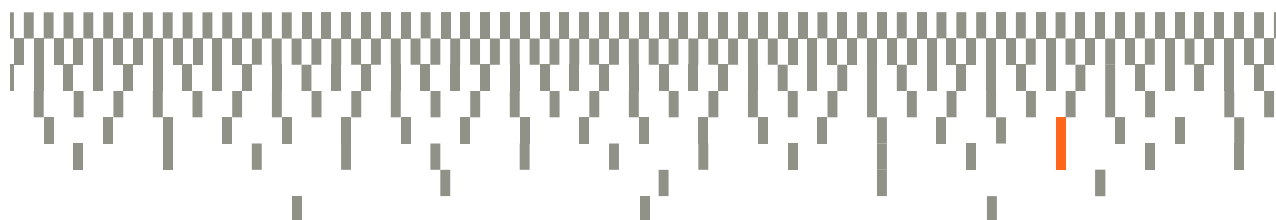




## China's role in the global economy



### China update

After an exceptionally strong third quarter, Chinese equities saw a modest pullback in October. Recent macroeconomic indicators point to some softening in China's economy. Exports unexpectedly contracted by 1.1% year-on-year, marking their first decline since February, as companies awaited the outcome of the Xi-Trump summit. Despite these short-term pressures, full-year GDP growth remains on track to meet the government's target of "around 5 percent," and further large-scale stimulus appears unlikely unless the economy experiences a material negative shock.

- The MSCI China and MSCI China A Onshore indices declined by 3.8% and 0.2%, respectively.
- Retail sales remained subdued and property sales softened across major cities.
- Industrial profits fell 5.5% year-on-year – the largest decline since June – partially unwinding the double-digit growth recorded in August and September.

In previous cycles, such a macro backdrop would have weighed heavily on risk assets. This year, however, equity performance has remained strong, supported by ample liquidity, and renewed confidence in China's technological advancements. Domestic institutional inflows have continued steadily. More importantly, breakthroughs in AI, biotech, and other fields have bolstered investor sentiment with the emergence of DeepSeek as a credible frontier-AI competitor acting as a blueprint for how investors view China's long-term competitiveness in advanced technology.

Insights from Professor Richard Baldwin

During our recent two-week research trip to China, we met with academics, policymakers, and industry leaders. These conversations formed part of a broader set of insights we shared during our recent webinar, Unboxing China's Consumer Brands Boom, where we discussed the rapid evolution of China's consumer and innovation landscape. (The replay is available [here](#)). There are many insights to share in the coming months ranging from unpacking China's lead in manufacturing to artificial intelligence and robotics.

One of the most thought-provoking discussions came from Professor Richard Baldwin, Professor of International Economics at IMD Business School in Lausanne and a leading global authority on international trade and globalisation.

Baldwin's central theme was China's evolving position in the world economy: from manufacturing superpower to architect of global supply chains, and increasingly towards a knowledge- and services-driven economic future.

The Great Convergence: China's manufacturing Supremacy

China's rise remains one of the defining economic shifts of the last three decades. The country now produces more manufactured goods than the next eight largest countries combined, a milestone that underscores profound changes in global production networks.



Retail, property, and industrial data point to a moderate cooling in activity.



China remains on track to meet its GDP target.



Breakthroughs in AI and biotech continue to bolster investor confidence.

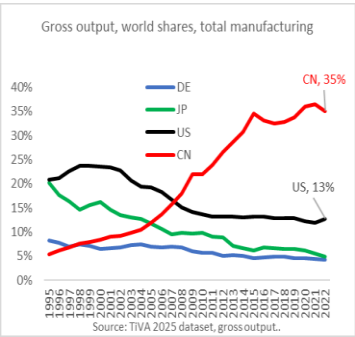
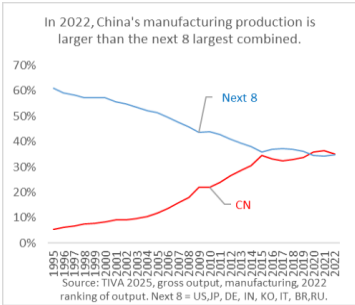
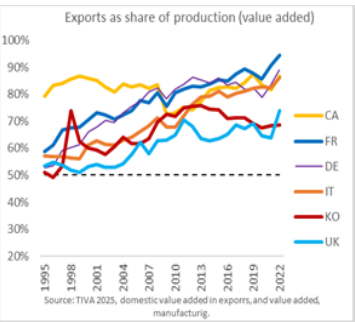
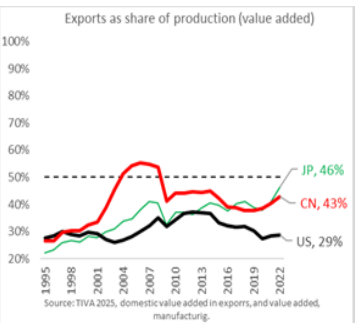


Figure: World production shares, manufacturing

A key misconception, highlighted by Baldwin, is the belief that China's dominance relies on exports. In reality, China is now less export-dependent than many developed economies, including the United Kingdom. Its domestic market has grown so large that it now absorbs the majority of what it produces. This structural transformation explains why China has been far more resilient to trade tensions than many policymakers anticipated.

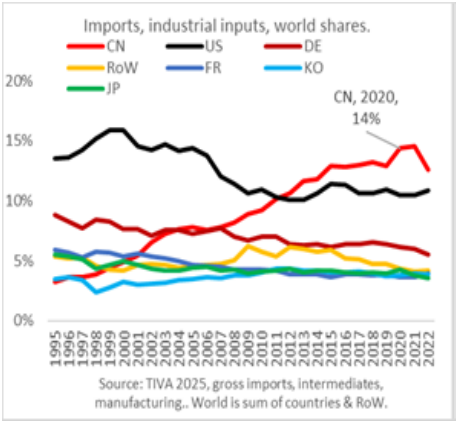
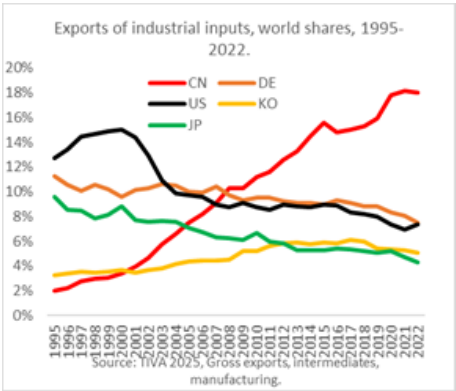


China's rise remains one of the defining economic shifts of the last three decades.

Baldwin argues that the Trump administration underestimated China's degree of self-reliance, giving it an ability to negotiate trade terms in ways that other countries cannot.

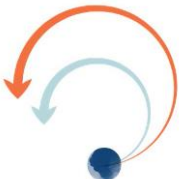
Supply chain superpower: Interdependence not isolation

China is simultaneously the world's largest exporter and importer of industrial inputs, accounting for approximately 18% of global industrial input exports. This dual role reflects China's deep integration into global value chains (GVCs) and its central role in modern production systems.



The China-US relationship is a prime example of asymmetric interdependence. US reliance on Chinese inputs continues to increase, while China's reliance on US inputs is declining.

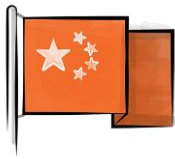
Baldwin emphasises that “attempts to “unscramble the omelette of supply chain integration are unrealistic in the near term. Full decoupling is neither economically viable nor operationally feasible for most industries.



China remains both the largest exporter and importer of industrial inputs.



China is evolving from a value-chain joiner to an architect of global production.



China's maturing industrial ecosystem now exports intermediates and supplies a growing domestic market.

China's relationships with Germany and Japan show similar patterns of integration, reinforcing the idea that supply chain interdependence, not isolation, defines the global economy.

From GVC joiner to GVC builder

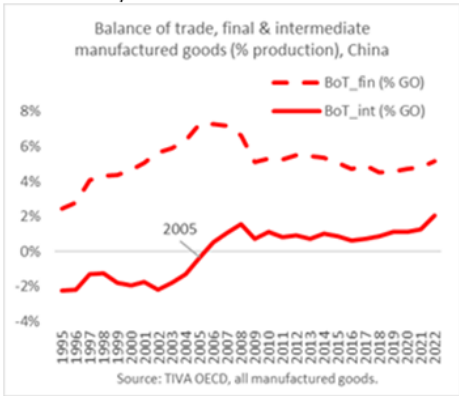
Around 2005, China crossed a critical threshold – from being a joiner of global value chains to becoming a builder of them.

Initially reliant on imported intermediate goods, China now exports intermediate goods at scale and supplies a growing domestic market with finished products. This marks a maturation of its industrial ecosystem and its growing capacity for value creation.

Joining GVCs phase: Importing intermediates to export final



Building GVCs: Intermediates BoT from deficit to surplus



As China continues to reshape global supply chains and advance in strategic industries, understanding these structural shifts will remain essential for navigating the opportunities and risks ahead.

Around 2005, China crossed a critical threshold – from being a joiner of global value chains to becoming a builder of them.