

## China: Strategic Choices in a Changing Century



**Claire Huang**

Senior EM Macro  
Strategist, Amundi  
Investment Institute



**Alessia Berardi**

Head of EM Macro  
Strategy, Amundi  
Investment Institute



**Aidan Yao**

Senior Investment  
Strategist, Asia, Amundi  
Investment Institute

- **The changing century:** Back in 2017, President Xi assessed, “the world is undergoing momentous changes of a scale unseen in a century”. Eight years on, the newly released draft 15th Five-Year Plan (FYP) asserts these changes have only intensified. In the years since Trump first took office, China has evolved from cautious engagement to an assertive deployment of its strategic levers — a confidence underlined by the recent Trump–Xi encounter, where the real bargaining power lay in Beijing’s control of critical resources. Driven by the changing geopolitical landscape and competition with the US, China has made conscious strategic choices that prioritise better preparedness for external shocks – a mandate that has profound impacts for macro policymaking.
- **From growth maximisation to resilience building:** The core of the 15th FYP is a continuous strategic reset toward national resilience. The Plan’s top priorities – self-reliance in key technologies and supply chains, and the development of innovative ecosystems – represent an explicit response to rising protectionism and geopolitical frictions. At the same time, elevating consumption as a principal growth engine reflects a long-running shift toward more balanced, demand-driven growth. None of this should be surprising given how the world has changed since the last FYP. The real question is: can China pull off this feat, delivering ambitious goals amid stiff internal and external headwinds.
- **Short-term policy stays the course:** As a long-term development plan, the FYP is unlikely to affect how counter-cyclical policies are manoeuvred in the coming months. With the economy on track to meet this year’s growth target, the desire to keep some policy dry powder for next year is high. We think Beijing will continue to provide “just enough” support to keep the economic engine chugging along, heading into 2026.
- **Ramifications for markets:** Major breakthroughs in AI, innovative drugs and advanced manufacturing have fuelled a strong rally this year, putting Chinese equities back on global investors’ radar. If the 15th FYP delivers on making China an innovation leader, these sectors could see further upside on strong earnings revisions and valuation re-rating. However, the FYP’s clear prioritisation of industry over household demand means the lagged consumption recovery could persist, tempering prospects for consumer-facing sectors. This, combined with caution towards “old China” - particularly real estate and its supply chains - leaves our overall market stance neutral. Government bond yields may stay range-bound as major monetary easing is postponed until next year. The CNY/USD may have more room to appreciate given expected US dollar weakness and a (possible) structural yuan revaluation.

### China-US: an extended trade truce agreed

**China and the US have agreed on a one-year pause in their trade war**, signalling a willingness to manage risks. While both remain committed to enhancing their own supply-chain and technology autonomy, this “ceasefire” should not be interpreted as a strategic reset; rather, it’s a pragmatic step towards coexistence.

Besides rolling back recent tit-for-tat measures introduced after the September Madrid talks, the US halved the 20% fentanyl tariffs in exchange for China resuming purchases of soyabeans (see Table 1 on the next page). The US will suspend the implementation of the 50% Affiliates Rule, which would have extended its Entity List and Military End Users List to more than 20,000 Chinese companies<sup>1</sup>. In return, China will roll back its retaliatory export controls for rare earths, and start to issue general licenses for the export of critical materials.

An easing of tensions was in the cards, as complete decoupling suits neither side. Yet neither party is likely to give up its strategic levers (chips for the US, rare earths for China), which keeps uncertainty high despite the agreement, as competition between the two superpowers continues.

<sup>1</sup> WireScreen Identifies More Than 20,000 Chinese Entities Affected by the US BIS 50 Percent Affiliates Rule (20 Oct 2025)

**Table 1: US – China: key agreements**

<b>Tariff reduction</b>	<ul style="list-style-type: none"> <li>The US will lower the IEEPA “fentanyl” tariffs on Chinese imports from 20% to 10%, effective 10 November 2025, and will maintain its suspension of heightened reciprocal tariffs on imports until 10 November 2026.</li> <li>China will suspend the retaliatory tariffs in place since 4 March 2025. This includes tariffs on a vast swath of US agricultural products: chicken, wheat, corn, cotton, sorghum, soybeans, pork, beef, aquatic products, fruits, vegetables and dairy products.</li> <li>China will purchase 12+ million metric tons (MMT) of US soybeans during the last two months of 2025, 25+ MMT of US soybeans in each of 2026, 2027 and 2028. China will resume purchases of US sorghum and hardwood logs.</li> </ul>
<b>Export controls</b>	<ul style="list-style-type: none"> <li>The US will suspend for one year, starting on 10 November 2025, the implementation of the “Affiliates Rule” (a 50% rule) applicable to the Entity List and Military End User List.</li> <li>China will suspend extraterritorial jurisdiction and a 50% Rule for export controls on rare earth elements and other items that it announced on 9 October 2025.</li> <li>China will issue general licenses valid for exports of rare earths, gallium, germanium, antimony and graphite.</li> </ul>
<b>Port fees</b>	<ul style="list-style-type: none"> <li>The US will suspend for one year, starting on 10 November 2025, implementation of the responsive actions taken pursuant to the Section 301 investigation on China’s Targeting the Maritime, Logistics, and Shipbuilding Sectors for Dominance.</li> <li>China will suspend its retaliations for the same period.</li> </ul>
<b>Other issues</b>	<ul style="list-style-type: none"> <li>Consensus reached on enhancing fentanyl control, resolving individual companies’ cases and investigations.</li> <li>China and the US will continue to work on the TikTok case and other issues.</li> </ul>

Source: Amundi Investment Institute, Chinese Ministry of Commerce, White House, White & Case. Data as of 3 November 2025.

### The 15<sup>th</sup> Five-Year Plan: prepared for the changing century

China’s 4th Plenum concluded on 23 October, followed by the release of the draft 15<sup>th</sup> Five-Year Plan, which sets strategic directions for national development over the next five years. While any numerical targets and policy specifics will only be available after the formal approval of the FYP next March, shifts in strategic priorities are already discernible from the draft Plan. Specifically:

- **Developing a modern industrial system is priority No. 1**, elevated from No. 2 in 2020. This indicates that manufacturing base and supply-side resilience are the undisputed top focus.
- **Science & Tech innovation priority reframed.** The goal shifted from general innovation capacity to strategic autonomy and independence in key technologies. This reflects a stronger emphasis on national security, resilience, and control over critical technology.
- **Domestic market remains No. 3 priority**, though boosting consumption is explicitly highlighted with a pledge to increase the household consumption rate – a direct response to current weak demand.
- **Opening up is raised to No. 5 priority** from No. 9 previously – an encouraging sign that China seeks to deepen integration with the rest of the world.

All in all, the new prioritisation confirms that despite the urgency of acute deflationary pressures and weak demand, self-independent supply chains remain the undisputed most important medium-term goal due to external considerations.

*“China has made modernising industry and technological self-reliance its top priorities – shifting from broad innovation to strategic autonomy in critical tech.”*

### The consequence for macro policy





The prioritisation of strategic autonomy has altered China's macro policy reaction function, forcing geopolitical considerations to constrain traditional economic solutions for domestic challenges.

This is already evident in monetary policy, which only briefly shifted towards a broad easing stance to support domestic demand in September 2024, then retreated to a selective easing stance for most of 2025. **It has essentially become a derivative of US trade policy changes**, with greater monetary easing only in response to larger external shocks. It remains to be seen whether a longer US-China "ceasefire" now would reorient the PBoC back to catering to domestic needs.

*"We anticipate no change to the 'just enough' stimulus approach."*

**Industrial policies are influenced by the decoupling mentality as well.** Despite the anti-involution campaign, the defensive drive to build self-sufficient supply chains could outweigh efforts to revive prices from time to time. Consequently, some degree of excess capacity is acceptable as a necessary price for national resilience.

All of these should reduce the likelihood of large-scale additional easing before year-end, especially as the economy is on track to meet this year's growth goal. That said, the recent weakness in data has not gone completely unnoticed. **Some partial easing has been implemented, just enough to keep the economy chugging along**, including a RMB 500bn stimulus in local government bonds under the statutory debt cap, and an additional RMB 500bn quasi-fiscal lending package in late September.

China		Economy at a glance by Amundi Investment Institute
 EXPORT STRENGTH SUPPORT GROWTH	<b>6.1%</b> <i>Export growth yoy in September</i>	China's overall growth in 2025 has outperformed expectations, thanks primarily to resilient exports. Despite concerns over potential tariff headwinds, accelerated export growth has provided a meaningful cushion to industrial production and offset some of the weakness in domestic demand. The government's "anti-involution" policies – aimed at curbing excessive competition and overcapacity –
 INFLATION	<b>0.0%</b> <i>Amundi forecast for 2025 China average CPI YoY</i>	CPI should bottom out by year end on base effects. The authorities' anti involution drive is discouraging aggressive corporate price cuts, helping PPI to stabilise in the near term. Without a clear rebound in consumer demand, any reflation will be temporary; inflation is likely to ease again in 2026.
 POLICY	<b>RMB 1 trillion</b> <i>Injection on infrastructure projects and household support measures average CPI YoY</i>	Beijing has adopted a "just enough" stimulus – RMB 500bn in new local-government bonds plus RMB 500bn in quasi-fiscal policy-bank lending, totalling about RMB 1trn (~1% of GDP) aimed at infrastructure and targeted household support. With inflation picking up in the near term and a desire to avoid asset-price excesses, the PBoC is
 OUTLOOK	<b>4.4%</b> <i>Amundi forecast for 2026 GDP growth</i>	<p>We expect growth to ease slightly in Q4 as the fiscal boost from the "just enough" measures wanes and structural headwinds in the property sector persist. Anti-involution policies will continue to reshuffle investment, curbing excess capacity but dampening near-term capex. Inflation should get a temporary lift into year-end before easing again in 2026, while policy remains calibrated, as Beijing balances short-term stabilisation with longer-term reform.</p> <p>→ <b>We have upgraded our annual GDP forecasts to 4.9% and 4.4%, respectively, from 4.8% and 4.0% for 2025 and 2026.</b></p>

Source: Amundi Investment Institute, November 2025.

*"Market reaction muted due to lack of surprises and detail."*

### Markets await Beijing to walk the talk

**Market reaction to the fourth Plenum and to the tariff agreement has been muted**, reflecting 1) a lack of major surprises in the FYP proposal; 2) that executing the Plan will take time and is subject to significant uncertainty; 3) the Plenum offers few clues regarding countercyclical policies, which matter more for the near-term economy and financial markets; and 4) the bulk of the Trade Agreement was already priced in after the Bessent-He meeting.

**The Plenum is therefore not a market-moving event** until the FYP is translated into actionable policies. We will get a glimpse into what FYP means next March, when the numerical targets and execution details are released at the National People's Congress. Until then, markets will look elsewhere for direction.

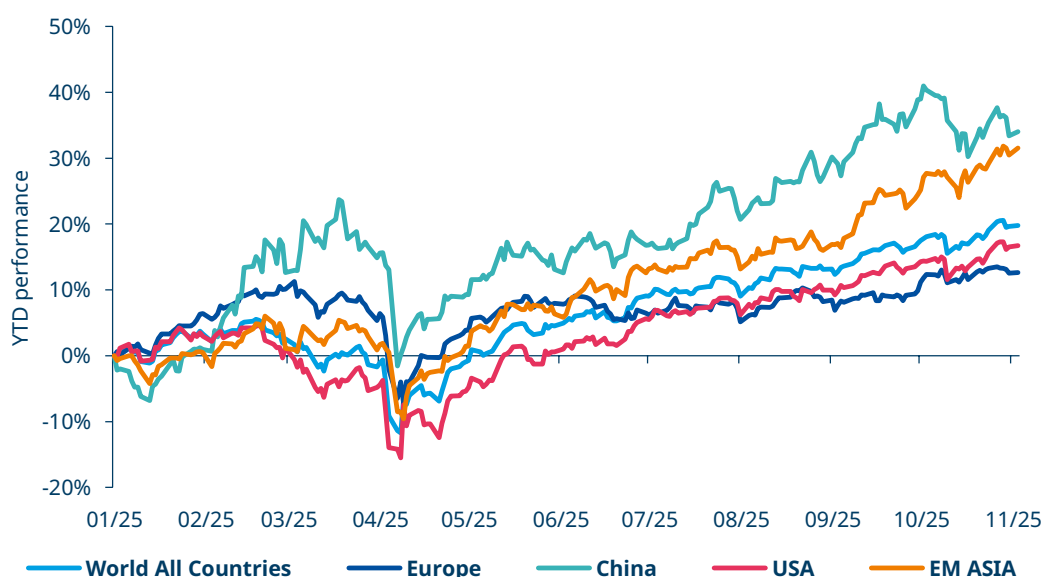
**Our overall stance on Chinese markets, therefore, remains the same.** On equity, major breakthroughs in AI, innovative drugs and advanced manufacturing have fuelled a strong rally this year, putting Chinese equities back on global investors' radar. If the 15<sup>th</sup> FYP delivers on making China an innovation leader, these sectors could see further upside on strong earnings revisions and valuation re-rating. However, **opportunities in these "new China" sectors need to be balanced by caution towards "old China", specifically real estate and its supply chains, leaving our overall market position neutral.**

**Risks on Chinese rates are similarly balanced.** The anti-involution campaign has gained significant fanfare in recent months, even though it was not the highlight at the Plenum. However, policy specifics are still lacking, and their impact on future inflation remains uncertain. Even if it eventually helps to end deflation, **the journey will likely be protracted and arduous.** We doubt this will shift the PBoC's modest easing bias any time soon.

By contrast, **we see more room for the CNY/USD to appreciate.** This reflects both our expectation of further US dollar weakness and yuan strength. On the former, monetary policy easing and eroding credibility of the US dollar – due in part to unsustainable US fiscal position – will present selling pressure to a still overvalued currency. On the flipside, the ultra-competitiveness of Chinese exports and a record trade surplus – despite US tariffs – suggest scope for yuan revaluation. Renewed global interests in Chinese assets could also boost the renminbi's exchange rates, and help Beijing expedite currency internationalisation as part of its high-quality "opening-up" over the coming five years.

*"We keep a neutral stance on Chinese equities, waiting for more detail on the Five-Year plan next March."*

### After the strong rally in Chinese equity, we favour a neutral stance



Source: Amundi Investment Institute, Bloomberg. Data as of 3 November 2025. MSCI indices in local currency. Past performance is no guarantee of future results.

# Amundi Investment Institute

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## Definitions

- **Asset purchase programme (APP):** A type of monetary policy wherein central banks purchase securities from the market to increase money supply and encourage lending and investment.
- **Basis points:** One basis point is a unit of measure equal to one one-hundredth of one percentage point (0.01%).
- **Curve flattening:** An environment in which the difference (spreads) between yields/rates of short-term and long-term bonds of the same credit quality reduces.
- **Curve steepening:** A steepening yield curve may be a result of long-term interest rates rising more than short-term interest rates or short-term rates dropping more than long-term rates.
- **FOMC:** Federal Open Market Committee.
- **PEPP:** Pandemic emergency purchase programme.
- **Quantitative tightening (QT):** QT is a contractionary monetary policy aimed to decrease the liquidity in the economy. It means that a CB reduces the pace of reinvestment of proceeds from maturing government bonds. It also means that the CB may increase interest rates as a tool to curb money supply.
- **Volatility:** A statistical measure of the dispersion of returns for a given security or market index. Usually, the higher the volatility, the riskier the security/market.

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