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Chinese Premier Li Qiang, standing, says China must 'hone our own capabilities to navigate external challenges.'
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China Enters New Era With Weaker Growth

BY HANNAH MIAO

China signaled the world's second-largest economy is entering an era of slower expansion, setting a target for gross domestic product growth of between 4.5% and 5% this year.

It is the lowest target set since at least the 1990s and follows three years in which officials called for growth of "around 5%." If China's economy were to expand at a pace below 5% this year, it would be the slowest growth reported by the country in more than three decades, other than the Covid pandemic years.

China said its GDP grew by 5% in real terms last year, meeting its official target despite a renewed trade war with the U.S.

A lower GDP target for 2026 reflects a level of tolerance for weaker growth as China's economy contends with muted household spending, reduced investment and a real-estate market in the doldrums.

The less ambitious growth target also gives Chinese leaders some room to maneuver the economy through complicated geopolitical terrain—including conflict in the Middle East and the threat of further trade pressure from President Trump—while continuing to pursue Beijing's strategic goal

of technological self-reliance.

Premier Li Qiang, the country's No. 2 leader, in the annual government work report released on Thursday, said China must "hone our own capabilities to navigate external challenges."

With a record \$1.2 trillion trade surplus last year, China's growth has become increasingly reliant on exports, creating a global imbalance that has drawn criticism from its trading partners and global institutions such as the International Monetary Fund. Exports drove China's economic expansion in 2025 to a degree not seen since 1997, according to government data.

Economists inside and outside the country have long called for China to shift its economy to one driven more by consumption and less reliant on its formidable manufacturing and export machine. Such a shift could ease tensions with the rest of the world and give its people greater spending power.

But a significant rebalancing of China's growth model would be difficult to achieve in concert with its longstanding goals of technological and manufacturing dominance.

China is entering the first year of its next five-year economic plan, in which officials have signaled an intent to stick with its current trajectory of solidifying its pre-eminence in advanced manufacturing and attaining technological self-sufficiency from the U.S.-led West.

Over the past five years, successive U.S. administrations have attempted to block China from getting access to leading-edge American technologies, particularly in semiconductors. That has spurred Beijing to enhance its homegrown capabilities. Those efforts have underpinned China's rise in electric vehicles, artificial intelligence, robotics and other leading-edge technologies.

Though China's tech prowess has become the envy of the world, much of its domestic economy has been struggling in a deflationary environment in which overproduction and insufficient demand have spurred a race-to-the-bottom competition that has eroded profits. Consumer and business sentiment has plunged, wage growth has stalled and youth unemployment is flirting with historic highs.

"Stabilization is the top priority," said Yuhan Zhang, principal economist at the Conference Board's China Center.

Li designated boosting domestic demand as the country's top policy objective in 2026 for a second consecutive year and called for efforts to expand investment, an area which suffered an unexpected slowdown last year.

To support its goals, China set a fiscal deficit target of around 4% of GDP, in line with last year's record deficit target, giving policymakers ample room to rev up government spending if needed. In addition to the official fiscal deficit target, officials have other methods to boost government spending.

Notably, Beijing said it would unveil new financing tools to boost investment worth 800 billion yuan, equivalent to roughly \$116 billion.

Meanwhile, the government said it aims to boost defense expenditure by 7.0% this year, compared with the 7.2% increase targeted in 2025, at a time other countries such as the U.S. and many of its global allies, including Japan, plan to ramp up military spending.

On other fronts, it largely held steady. Local governments in China will be allowed to issue 4.4 trillion yuan in specialpurpose bonds, which are used to fund investment projects. Beijing also plans to issue 1.3 trillion yuan worth of ultralong treasury bonds.

China allocated 250 billion yuan in special bonds to continue its consumer goods trade-in program, intended to boost household spending.

—Grace Zhu and Xiao Xiao contributed to this article.

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