

China's five-year plan doubles down on hi-tech to counter US threat

Nick Beams
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The latest Chinese five-year plan released earlier this month, and the work report presented to the National People's Congress last week underscore that the economic policy of the Xi Jinping regime is being driven by the threats posed by the US.

The growth target for this year has been set at a range between 4.5 and 5 percent, a downgrade from the target last year of "around 5 percent" and the lowest since 1991.

Critics of the regime's economic policy, both externally and within China have repeatedly declared that the road to higher growth lies in boosting the domestic economy, particularly by lifting consumption spending. This should be done by expanding social service spending and by cleaning up the collapse of the property market which acts as a dead weight on consumers.

But that path has been by and large rejected, apart from some marginal changes, because the focus is on the further development of high tech and artificial intelligence.

The fear is that unless this is done, the US will forge ahead and be in a stronger position to suppress China's economic growth and strengthen its military position against Beijing.

Chinese authorities are well aware, as is everyone else who has examined the documents, that every US military and intelligence institution as well as a range of economic and geo-strategic think tanks have insisted that the subordination of China is an existential question for the US if it is to retain its global dominance.

And it will not have escaped the attention of Beijing that the war against Iran is part of a broader strategy to achieve that objective.

Apart from the threat to oil supplies, the chaos being

unleashed in the Middle East threatens to disrupt what has been a central objective of Beijing, that is, to strengthen its economic and political ties with this region, through increased exports, loans and investments.

Chinese exports to the Middle East grew twice as fast as its exports to the rest of the world in 2025 and its investment is growing faster than anywhere else in the world. According to Dan Wang, China director at the Eurasia Group: "The region is basically considered the biggest growth potential for China."

The five-year plan was framed within the context of what is seen as an existential struggle with the US. It called for the development of new engines of economic growth in high-tech areas.

China would "seize the commanding heights of science and technological development" and seek "decisive breakthroughs in core technologies."

"In the midst of fierce international competition, we must win the strategic initiative," the plan said.

In delivering his work report to the NPC last Thursday, Premier Li Qiang noted the changes in the international situation.

"Geopolitical risks are rising. Global economic momentum remains sluggish, while multilateralism and free trade are under severe threat." It was necessary to "hone our own capabilities to navigate external challenges," he said.

Li acknowledged there are major problems in the domestic economy.

"The transition to new growth drivers is formidable. The imbalance between strong supply and weak demand is acute, market expectations are weak, and there are many risks and hidden dangers in key areas."

Li was referring to stagnant domestic consumption and a surprise fall in investment last year. The property

crisis, which began in 2020, is far from resolved and there is the problem of high local government debt. During the property boom local authorities were able to raise money by selling off land for property development but that road is now largely closed off.

The weakening of the internal economy is reflected in the fact that exports accounted for around one-third of China's 5 percent growth last year, the highest percentage since 1997.

Last year, the Chinese trade surplus hit a record high of \$1.2 trillion and there is no sign of any abatement. Figures for the first two months of this year show that exports rose by 21.8 percent, far exceeding the median forecast of a 7.1 per cent growth. But the export surge contains the danger that China's trading partners will increase protectionist measures.

This is behind the international demand for China to cease promoting economic growth via exports and do more to stimulate the domestic economy. However, that would require the diversion of resources to repairing the property market and boosting consumption. But such is the importance with which high-tech development is regarded, because of the conflict with the US, that there were only minor moves in that direction.

In fact, in one area stimulus was actually cut. Funding for a trade-in program to encourage the swapping of old appliances for new ones was reduced to 250 billion yuan (\$34 billion) from 300 billion yuan.

As a Bloomberg report noted, this was "likely an acknowledgement that the initiative's appeal was fading among residents facing job insecurity and weak wage growth. Their wealth, primarily stored in property, continues to dwindle under a multi-year downturn."

One analyst cited in the report noted: "The shift toward consumption is unlikely to materialise unless the real estate sector is stabilised first."

But the position of the government remains basically unchanged from last year. It said only that it would seek to "stabilise" the housing market but announced no specific measures to do so.

There was virtually no movement on pensions with a commitment to increase the monthly payment by just 20 yuan—the same as the last two years.

Summing up the overall direction of policy, Julian Evans-Pritchard of Capital Economics noted: "Despite

claiming to want to rebalance the economy toward consumption, concrete policy plans to do so remain timid."

The priorities are clear in the five-year plan. Boosting the domestic economy ranks fourth behind building modern industries, achieving technological self-reliance, and digitizing the economy—one place lower than in the previous five-year plan. Developing AI is mentioned 50 times in the 141-page document.

Fred Neumann chief Asia economist at HSBC said: "China's government remains laser-focused on spurring technological breakthroughs and high-tech investment. In part, this is motivated by competition with the United States for control over the technologies of the future."

It is more than "in part" but is the key driving force. The next stage in this conflict will be seen at the meeting between US president Trump and president Xi in Beijing at the end of this month.



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