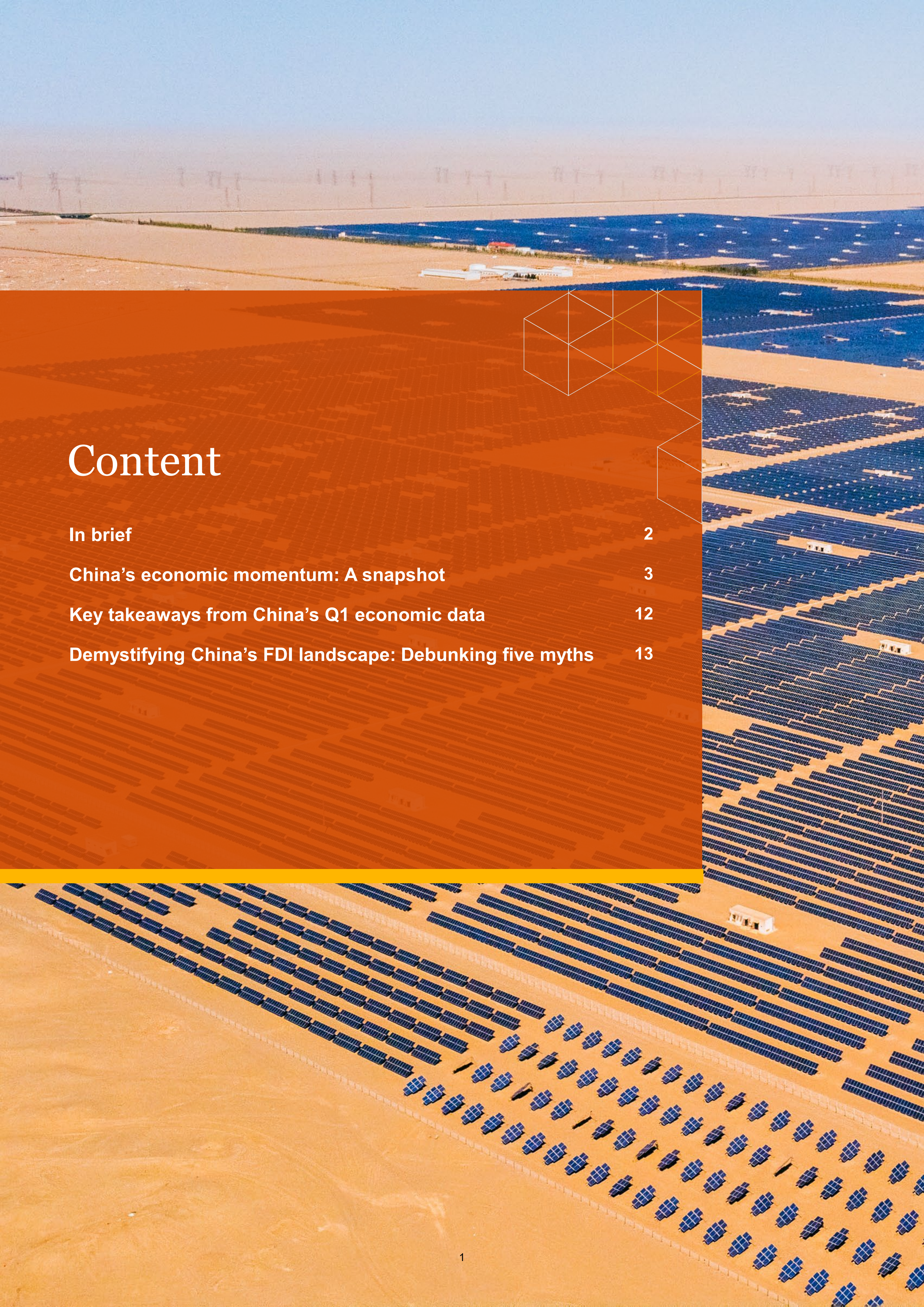
China Economic Quarterly Q1 2024

China's factory boom fuels optimism for economic recovery

June 2024



Content

In brief

China's economic momentum: A snapshot

- In Q1, China's GDP grew by 5.3% YoY, setting the stage for the economy to achieve its official 5% target.
- Amid a surge in manufacturing, China's industrial output grew by 6.1%, with high-tech manufacturing leading the way at 7.5%.
- Retail sales of services grew by 10.0%, outpacing the 4.0% growth rate for goods.
- Exports rose by 4.9%, propelled by a 6.8% increase in mechanical and electrical products.
- In March, the official manufacturing PMI rose to 50.8 due to heightened production and new orders; however, it remains to be seen whether the expansion will continue amid uncertain export prospects.

Demystifying China's FDI landscape: Debunking five myths

- Debunking myth #1: Foreign companies are not leaving China—various factors are reshaping the FDI landscape.
- Debunking myth #2: China is solely a world's factory? Foreign companies are increasingly tapping into China's vast domestic service industry.
- Debunking myth #3: China's FDI strategy has evolved beyond cheap labour to focus on high-tech sectors.
- Debunking myth #4: Is FDI still relevant for China's economy? Foreign companies contribute significantly through valuable technological spillovers.
- Debunking myth #5: Discriminatory policies deter FDI? China's FDI policies are more open than commonly perceived.

China’s economic momentum: A snapshot

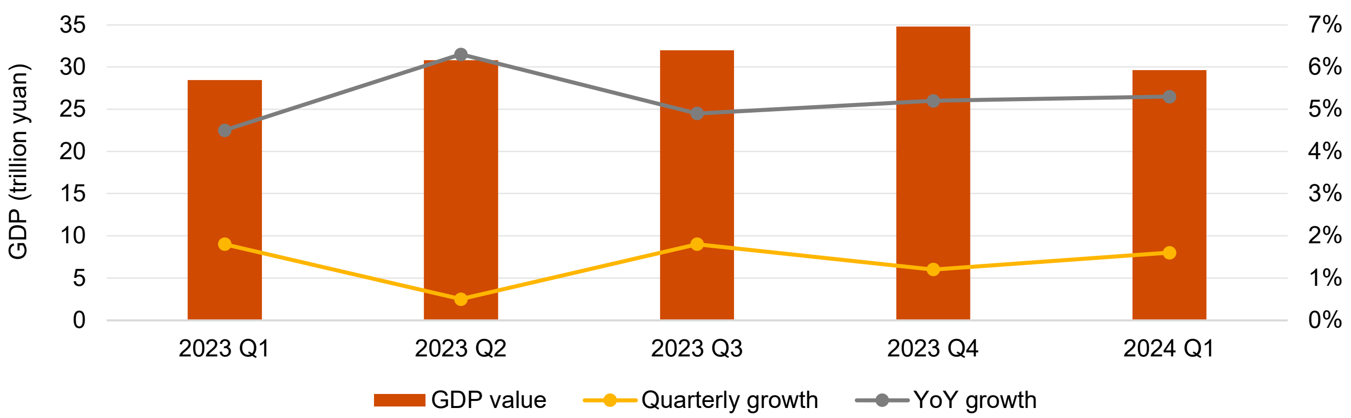
In the first quarter of 2024, real GDP expanded by an impressive 5.3% year-on-year.

GDP

China’s economy has kicked off the year on a positive note. In the first quarter of 2024, real GDP expanded by 5.3% compared to the same quarter in the previous year. This growth rate surpassed the 5.2% year-over-year growth recorded in the previous quarter, setting the stage for the economy to achieve its official target of approximately 5% for the entire year.

Investment and manufacturing activities showed robust momentum, serving as the primary catalyst for growth. The value added from the secondary industry, encompassing manufacturing, construction, and mining, surged by 6%. Meanwhile, the tertiary industry (service sector) also expanded, albeit at a slightly more moderate pace of 5% compared to the previous quarter’s growth of 5.3%.

Quarterly GDP values and quarterly and annual GDP growth rate



Source of data: Unless otherwise stated, economic data are from the National Bureau of Statistics, Wind and financial data from the People's Bank of China.

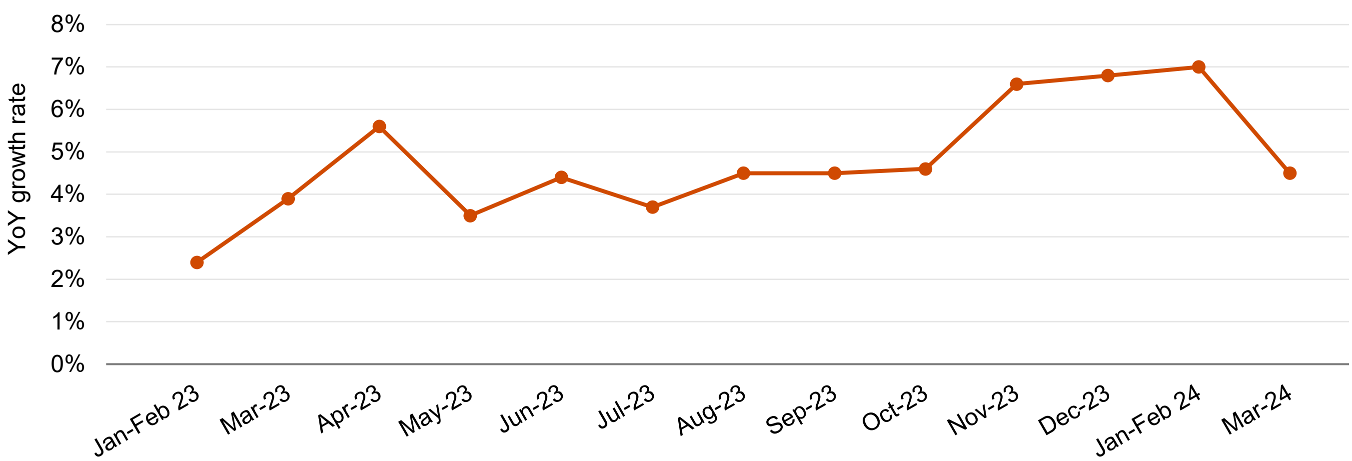
High-tech manufacturing outpaced the overall sector, growing by 7.5%, representing a 2.6 percentage point improvement compared to the previous quarter.

Industrial output

On the supply side, China's industrial production exhibited robust growth in the first quarter of 2024, surging by 6.1% year-over-year. In the first two months of the year, there was a strong 7.0% expansion in industrial production. However, in March, year-over-year industrial output growth slowed slightly to 4.5%.

China's strong industrial growth is primarily driven by its manufacturing sector. Through the first quarter, the value added in manufacturing increased by a 6.7%. Notably, high-tech manufacturing outpaced the overall sector, growing by 7.5%—a solid 2.6 percentage point increase compared to the fourth quarter of 2023. Key contributors to this surge include the production of electric vehicle charging facilities, 3D printing devices, and electronic components, which saw year-on-year growth rates of 41.7%, 40.6%, and 39.5%, respectively.

Industrial output



Retail sales of services surged by 10.0% year-on-year through the first quarter, continuing to outpace spending on goods.

Retail sales

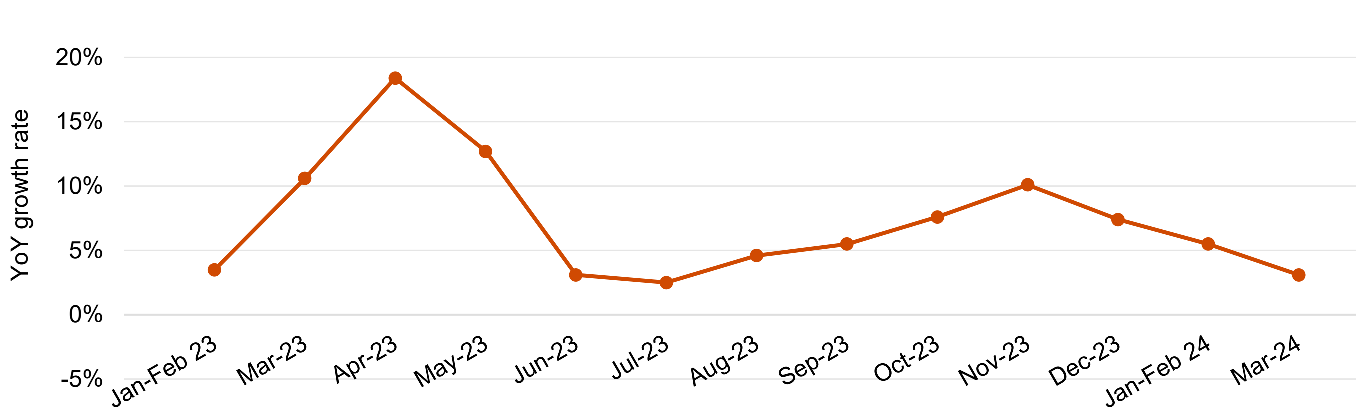
On the demand side, domestic consumption exhibited a subdued trend during the first quarter, with retail sales growing modestly at 4.7%. Retail sales further decelerated to 3.1% in March, down from the 5.5% recorded in the January-February period.

Consumer spending on services continued to outpace that on goods. In the first quarter, retail sales of services surged by 10.0% year on year, surpassing the 4.0% growth rate for retail sales of goods. Notable highlights include the catering sector, which saw a 10.8% year-over-year growth. Meanwhile, nationwide revenue from commercial performances experienced an impressive year-on-year increase of 116.87%. Furthermore, traveller numbers and tourism-related revenue reached new highs during the eight-day Spring Festival holiday, soaring by 34.3% and 47.3%, respectively—both figures outperforming pre-pandemic levels in 2019.

Meanwhile, retail sales of sports and recreational goods, along with communication equipment, remain another bright spot, posting impressive gains of 14.2% and 13.2%, respectively.

Looking ahead, policy measures—such as trade-in programmes for automobiles and home appliances—are expected to provide a much-needed boost to consumption.

Retail sales of consumer goods



Consumer Price Index (CPI) and Producer Price Index (PPI)

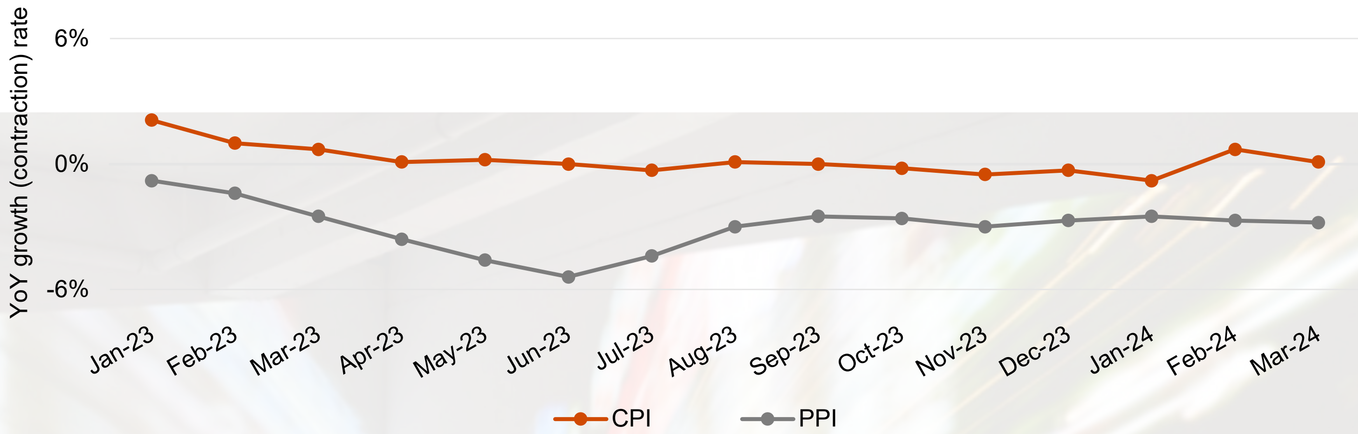
In January, consumer prices witnessed a year-over-year decline of 0.8%. However, February brought a timely reversal, as prices rose by 0.7%, marking the first gain in six months. The momentum continued into March, albeit at a more moderate pace, as the Consumer Price Index (CPI) edged up by a mere 0.1%.

The recent fluctuations in CPI may be attributed to seasonal factors. Following the Spring Festival holidays, demand for food services decreased, impacting overall prices. Notably, the core CPI, which excludes food and energy prices, rose by 0.6% in March.

On the other hand, producer prices have faced persistent downward pressure. In March, they fell by 2.8% year-on-year, widening the decline observed in both February (2.7%) and January (2.5%). This trend of declining prices has now extended over a year and a half.

The combination of these CPI and PPI figures, along with recent retail sales data, highlights the ongoing fragility in domestic demand, emphasising the need for additional actions aimed at strengthening consumer spending.

Producer price index and consumer price index



During Q1, exports increased by 4.9% in RMB terms, with mechanical and electrical products expanding by 6.8%—accounting for a substantial 59.2% of the total export value.

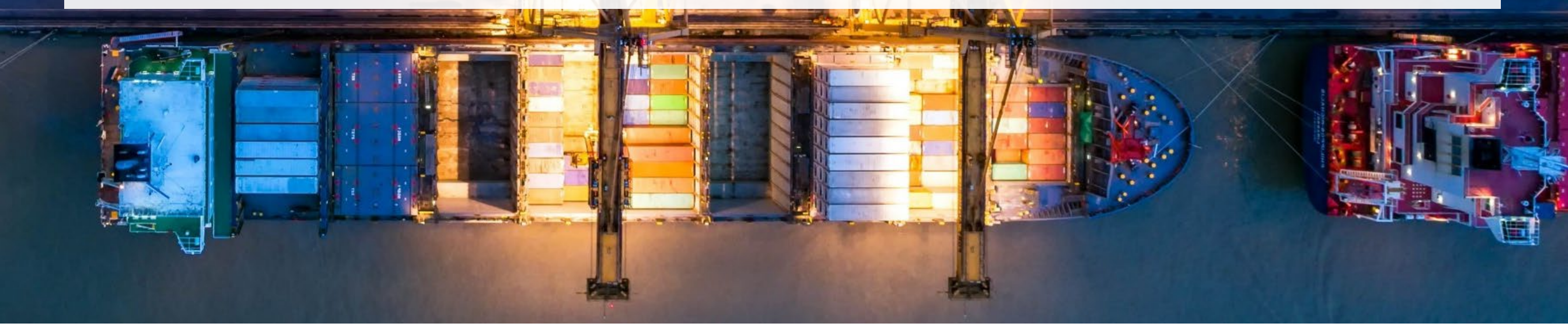
Trade

During the first quarter, the total value of exports surged by 4.9% in RMB terms. Notably, mechanical and electrical products played a pivotal role, expanding by 6.8%. These categories accounted for a substantial 59.2% of the total export value. In USD terms, exports increased by 1.5%. In the January-February period, China's exports grew by 7.1% year-on-year, a significant improvement from the modest 2.3% rise observed in December, on the back of heightened external demand for machinery and electronic goods.

However, March witnessed a setback, with exports declining by 7.5% compared to the same month last year. The pullback can be partly attributed to a challenging base comparison, due to the high benchmark set by the surge in exports seen in the same period last year. Additionally, Chinese exporters reduced prices to stay competitive, leading to a decline in the overall value of exports despite experiencing a surge in volumes.

In stark contrast, China's imports followed a more stable trajectory. The total import value increased by 5.0% in RMB terms during the first quarter. In USD terms, imports grew by 1.5%. Specifically, imports rose by 3.5% in the January-February period, a notable improvement compared to the meagre 0.2% growth seen last December. However, March saw a slight dip, with imports slipping by 1.9% year-on-year. These relatively stable import figures, which aligned with the broader economic indicators such as retail sales and the CPI, emphasising the prevailing sluggishness in domestic demand.

As the electronics sector experiences a cyclical recovery, trade tensions escalate. The recent imposition of US tariffs on Chinese imports specifically targets strategic sectors, including electric vehicles, batteries, and solar panels. Meanwhile, the EU's investigation into China's EV imports is nearing completion. These developments may impact China's near-term export prospects for high-tech goods.



Exports and imports

> Manufacturing investment rose by 9.9% year-on-year, while infrastructure investment increased by 6.5%.

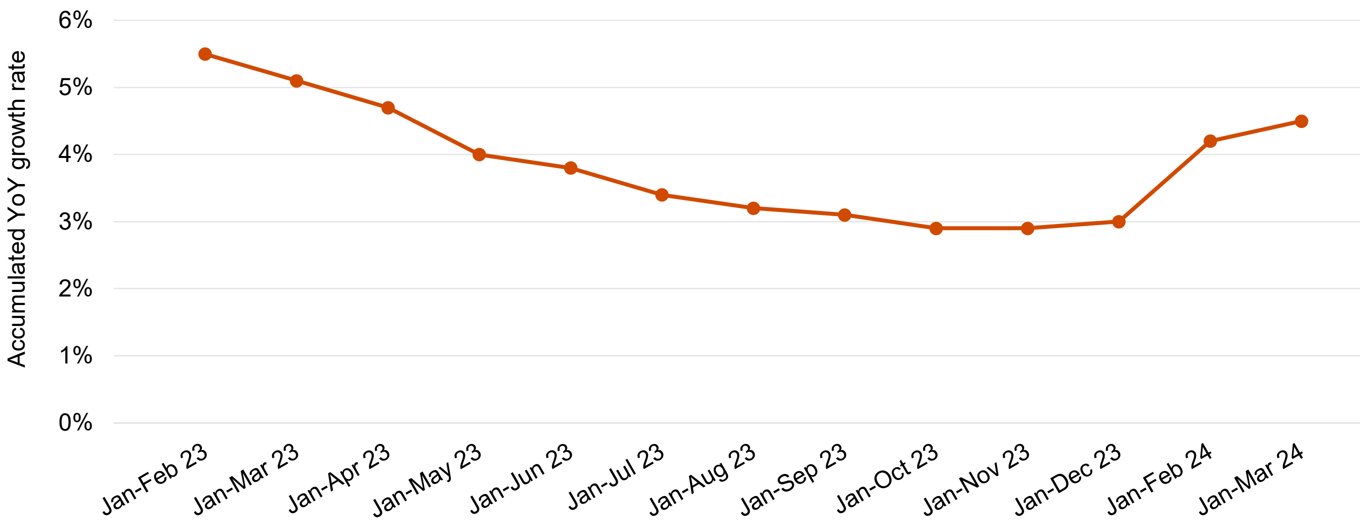
Fixed asset investment

In the first quarter of the year, fixed asset investment grew by 4.5% year over year. The government's rollout of fiscal stimulus measures aimed at boosting infrastructure spending met with success, with infrastructure investment increasing by 6.5% YoY. Meanwhile, manufacturing investment rose by 9.9% from a year earlier, in line with policymakers' focus on strategic manufacturing sectors.

Public investment took the lead, growing by 7.8% year over year. However, private investment remained muted , showing only a slight increase of 0.5%. This accentuates the importance of restoring confidence among private investors.

Looking ahead, the expansionary fiscal policy outlined in the Government Work Report suggests that public investment will continue to drive growth. The government's utilisation of additional fiscal resources from the RMB 1 trillion ultra-long special government bonds is expected to further accelerate public investment. Additionally, ongoing efforts to ease financing for private enterprises, as reiterated during the Two Sessions, should stabilise and gradually improve private investment throughout the year.

Fixed asset investment



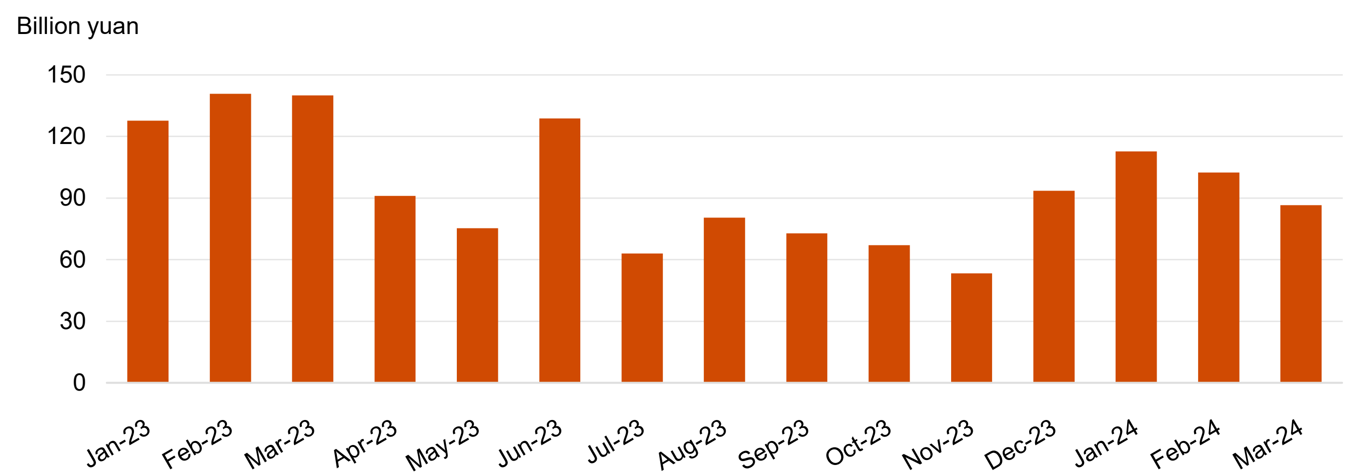
Foreign direct investment (FDI)

In the first quarter of this year, FDI in China experienced a notable decline of 26.1% compared to the same period last year. This decrease can be partly attributed to the high base established during the same period in the previous year. However, there is a silver lining: FDI rebounded significantly from the preceding quarter, rising by an impressive 41% quarter over quarter, accompanied by the surge of 20.7% year-on-year in the number of foreign-invested enterprises.

Despite the overall decline in the country's total FDI, foreign investments within China's manufacturing sector grew by 2.3% year-over-year, reaching RMB 81 billion. Notably, FDI flowed into high-tech manufacturing, registering a 2.2% increase and accounting for 12.5% of total FDI during this period. This growth aligns with the policy priorities outlined in the Government Work Report. In particular, the medical equipment manufacturing sector witnessed an impressive surge of 169.7% in FDI.

Looking ahead, the Chinese government's policy initiatives aimed at boosting foreign investment are expected to play a crucial role. These initiatives, as outlined by the Government Work Report, include the removal of restrictions on FDI in manufacturing industries and the opening up of the telecom and healthcare sectors. These measures will help counterbalance the impact that global supply chain restructuring had on FDI. Furthermore, the continued support provided to the high-tech sector suggests that high-tech FDI will remain a key focus area for foreign investors.

FDI inflows



In March, the official manufacturing PMI increased to 50.8 due to improvements in production and new orders.

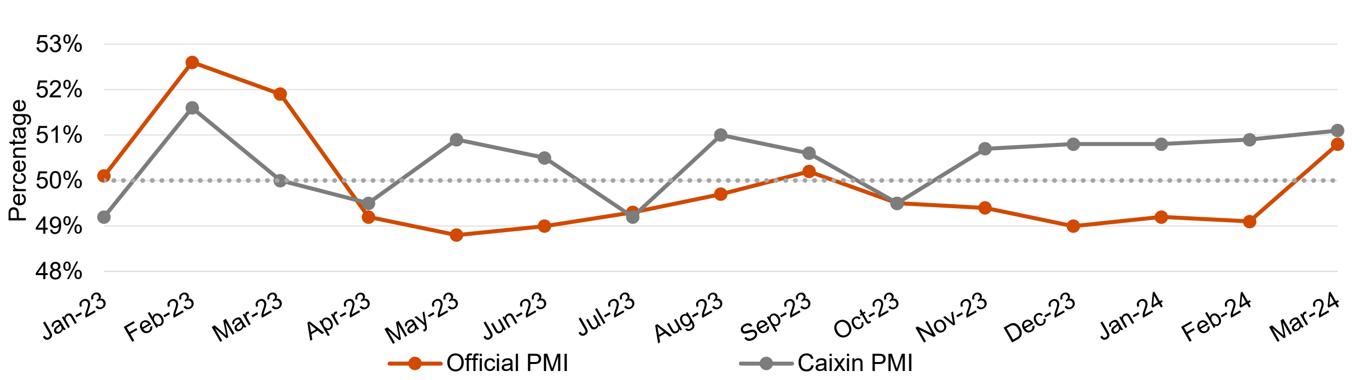
Purchasing managers index (PMI)

During the first quarter of 2024, China's factory activity rebounded, signalling a return to growth. The official manufacturing PMI rose to 50.8 in March, marking the highest level since April 2023. This shift comes after 11 consecutive months of contraction prior to March. The recovery owes much to robust production (52.2) and new order (53) figures. Additionally, the new export order index reached 51.3, the highest in a year, echoing China's improved export data. High-tech manufacturing continues to outperform the overall sector, with a PMI of 53.9, supported by strong production and new order indices both exceeding 55. Meanwhile, firms in consumer goods (51.8) and equipment manufacturing (51.6) experienced solid expansion.

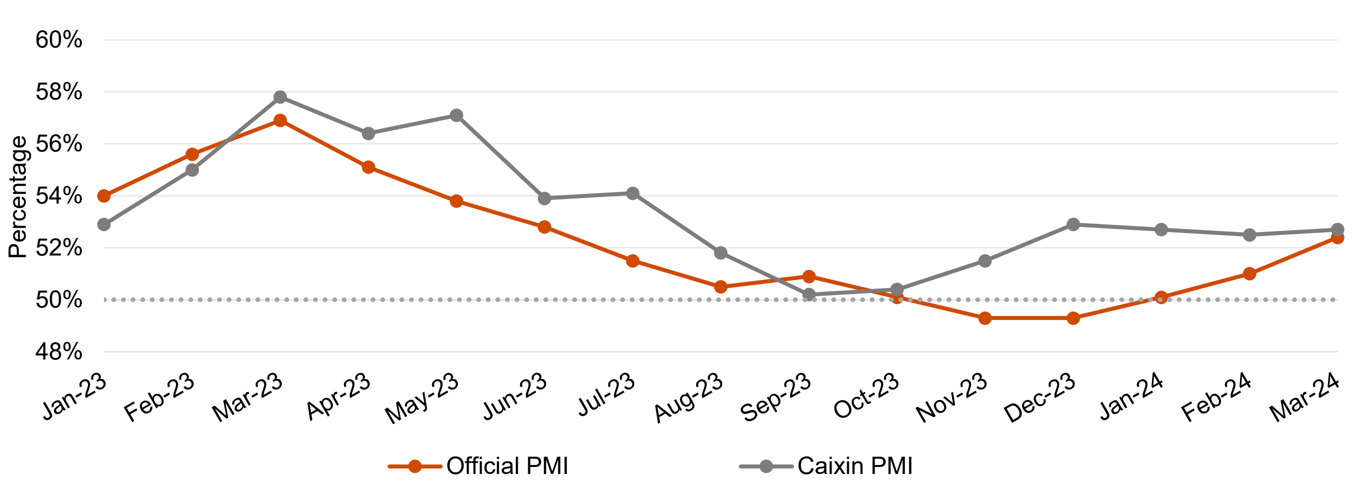
In the non-manufacturing sector, China's service and construction industries maintained their growth momentum. The official non-manufacturing PMI rose to 53 in March, achieving a new high since July 2023. More specifically, construction activity accelerated, with the PMI rising to 56.2 in March from 53.9 in February and 53.5 in January. The service sector PMI surged to 52.4 in March, reaching its highest level since July 2023.

Despite the recent improvements, challenges remain. The recovery in factory activity has yet to translate into higher profit margins for manufacturing firms. The ex-factory price index continued to decline to 47.4 in March and has remained in contraction territory since last October. It remains to be seen if the pickup in new orders will continue, given uncertain export prospects and soft domestic demand. Additionally, the employment index continues to indicate contraction for both manufacturing and non-manufacturing sectors.

Manufacturing PMI



Services PMI

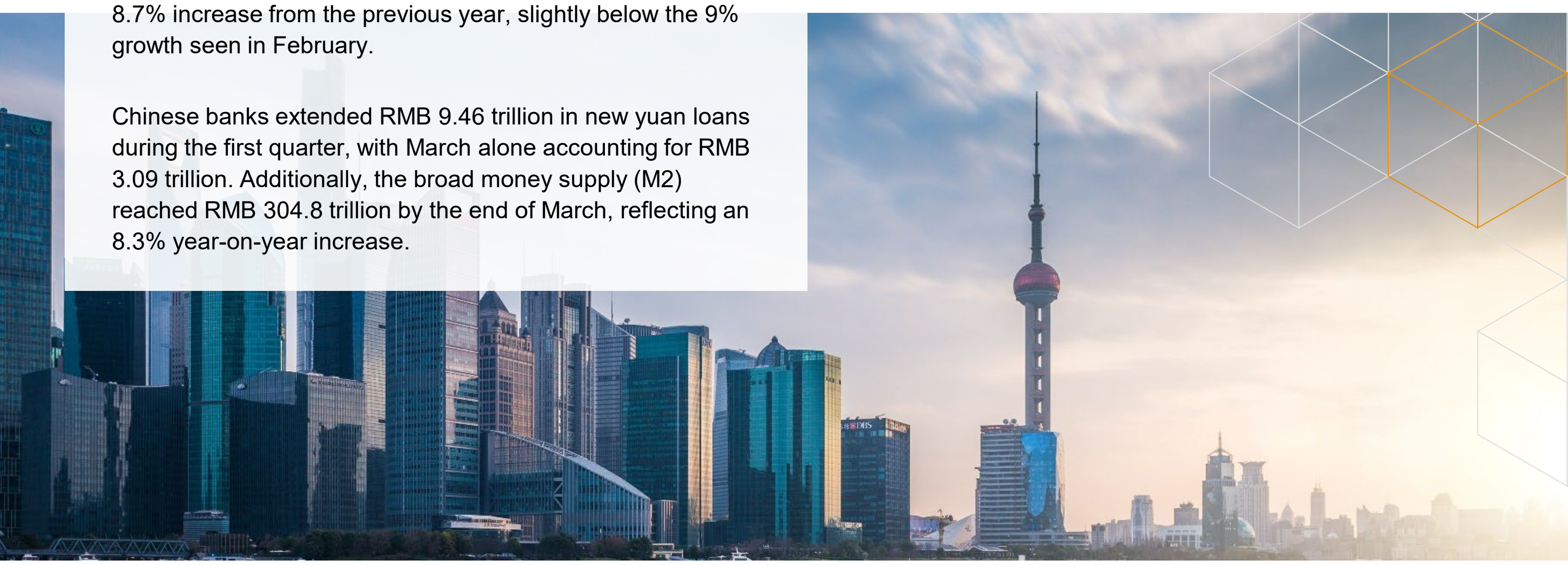


Total social financing and new bank loans

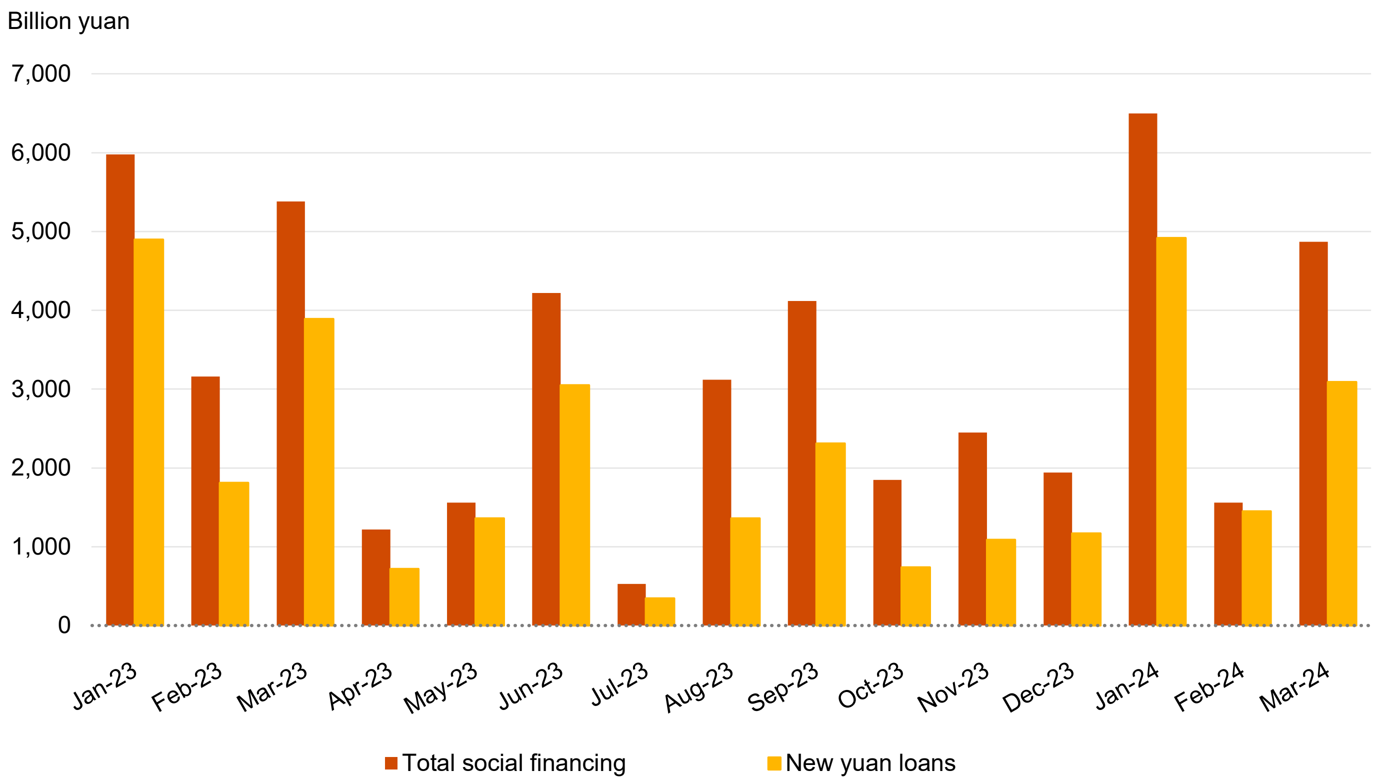
In the first quarter, newly added aggregate social financing in China reached RMB 12.93 trillion, a decline of RMB 1.61 trillion compared to the same period in the previous year. Despite this decrease, the level remains historically high. The decline may be partly due to a less favourable base effect, but it also suggests weakening borrowing demand from households and businesses. China's outstanding social financing at the end of March stood at RMB 390.32 trillion, an 8.7% increase from the previous year, slightly below the 9% growth seen in February.

Chinese banks extended RMB 9.46 trillion in new yuan loans during the first quarter, with March alone accounting for RMB 3.09 trillion. Additionally, the broad money supply (M2) reached RMB 304.8 trillion by the end of March, reflecting an 8.3% year-on-year increase.

The People's Bank of China (PBOC) reduced the required reserve ratio (RRR) by 50 basis points on February 5, injecting RMB 1 trillion of long-term capital into the market. Despite the muted immediate impact on financing activity, the PBOC is likely to continue easing its monetary policy, as hinted in the Government Work Report. Going forward, further RRR cuts and potential adjustments to lending rates are expected to enhance liquidity. Moreover, the government's issuance of ultra-long bonds to support the economy should contribute to increased financing activity.



Credit growth



Key takeaways from China's Q1 economic data

Economic momentum and challenges

China's economy got off to a strong start, clocking robust growth at 5.3% year-on-year in the first quarter of the year. This impressive performance lays the groundwork for achieving the official 5% growth target. The engines driving this growth include a resurgence in factory activity and heightened external demand. However, consumer spending remains lacklustre, and financing activity is easing up, underscoring an uneven pattern of economic recovery.

Manufacturing resurgence and consumer caution

On the supply side, China's manufacturing sector is firing on all cylinders, fuelled by increased industrial output and substantial investments in manufacturing and infrastructure. In March, the manufacturing PMI swung back into positive territory, driven by strong gains in production and export orders. Notably, the high-tech sector remains a standout performer. However, private and foreign investment still lags behind state-led investment.

Despite the manufacturing sector's rebound, consumer demand stayed subdued during Q1, evident in cooling retail sales. Strong export performance has bolstered economic growth, yet the spectre of escalating trade tensions casts uncertainty over external demand, potentially affecting domestic manufacturers. If companies opt for price reductions to maintain competitiveness, this could impact their financial performances and hiring decisions, adding pressure to the recovery of the PPI.

Prospects and coordinated policy support

Looking ahead, the cyclical recovery in the export sector is likely to maintain its momentum, despite heightened foreign trade protectionism in strategic sectors. Consumers will receive a boost from trade-in programs for automobiles and home appliances. Furthermore, as the government launches ultra-long sovereign bond sales, fiscal spending will shift into high gear, further strengthening domestic demand.

As fiscal support gains traction, financing activity is poised to accelerate, given the expected continuation of monetary easing by the PBOC. This coordinated policy approach will play a crucial role in sustaining ongoing investment and driving economic expansion.

Demystifying China's FDI landscape: Debunking five myths

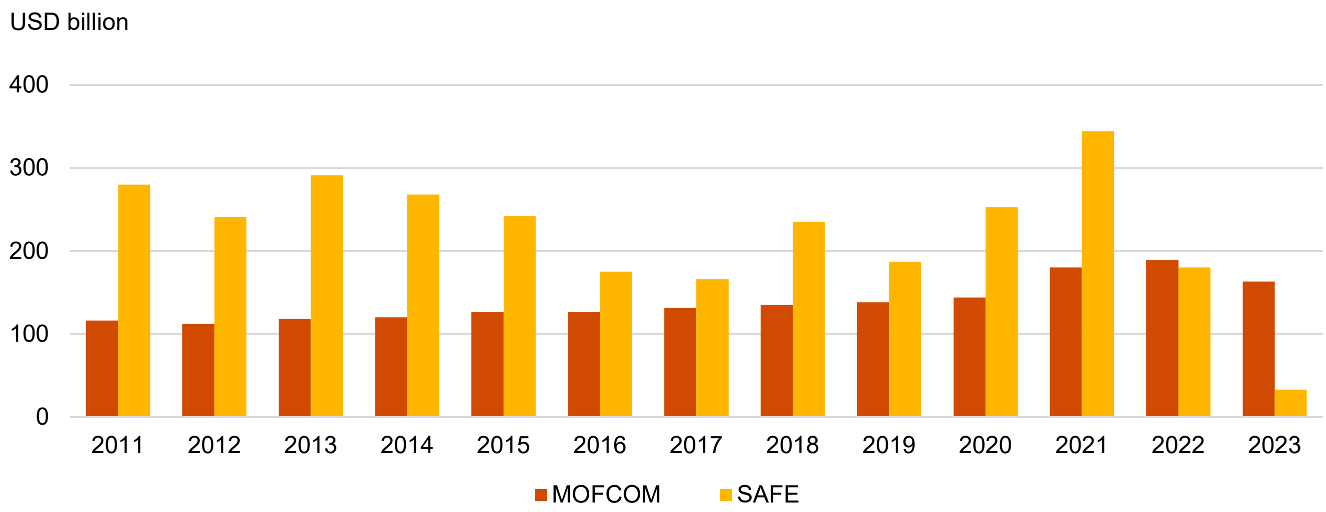
Myth #1: **Foreign companies are fleeing China?**

> Reality: The decline in China's FDI statistics reported by the State Administration of Foreign Exchange (SAFE) is not necessarily indicative of foreign companies leaving the country. Instead, it likely reflects a combination of factors, including reinvestment opportunities and interest rate differentials.

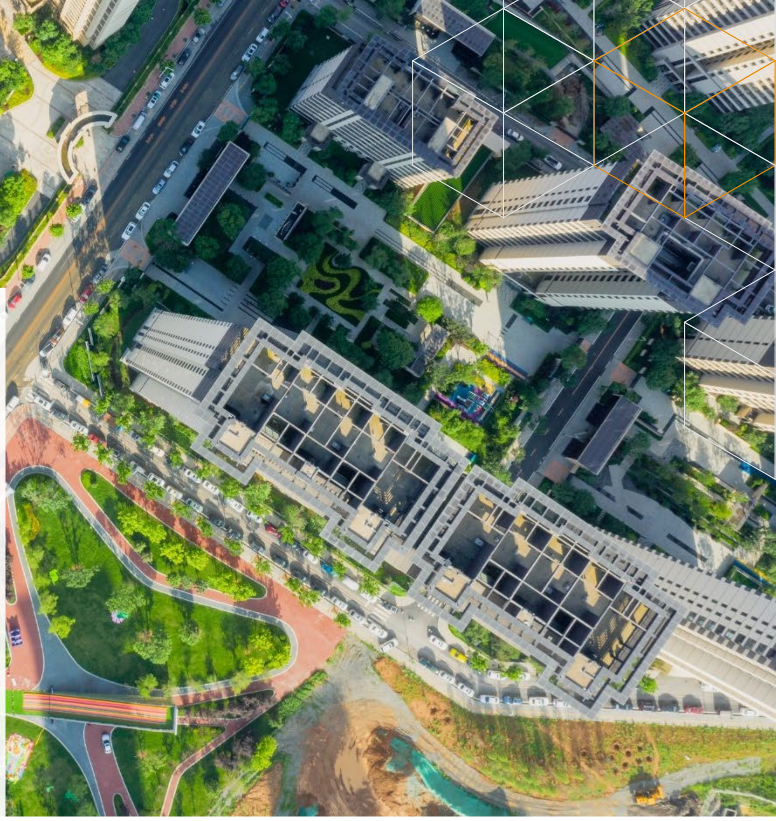
When assessing FDI inflows into China, two key indicators come into play—data from the Ministry of Commerce (MOFCOM) and Balance of Payments (BoP) data from SAFE.

According to MOFCOM, FDI declined by 8% to reach RMB 1.13 trillion in 2023. Despite the decrease, this figure still stands as the third-highest in history, following the levels achieved in 2021 and 2022. Notably, China saw a 39.7% year-on-year surge in the establishment of 53,766 newly foreign-invested enterprises in 2023, surpassing the 2019 count of 40,910. FDI from countries such as France, the United Kingdom, the Netherlands, Switzerland, and Australia also advanced by 84.1%, 81%, 31.5%, 21.4%, and 17.1% year-on-year, respectively.

FDI in China: A tale of two measures



Source: Ministry of Commerce, State Administration of Foreign Exchange



In contrast, SAFE's BoP data indicates a more pronounced 82% decline in inward FDI for 2023. The discrepancy stems from their different methodologies used by the two agencies. While MOFCOM reports gross FDI, SAFE focuses on net FDI, accounting for foreign firms' reinvested earnings and undistributed profits—details not captured by MOFCOM. Furthermore, SAFE includes private equity investments, which MOFCOM excludes from its calculations, and treats reverse investments and transactions among affiliated entities differently.

Considering this analysis, it is clear that SAFE's aggregate measure conceals various factors influencing FDI figures. Beyond straightforward outflows, other key drivers include:

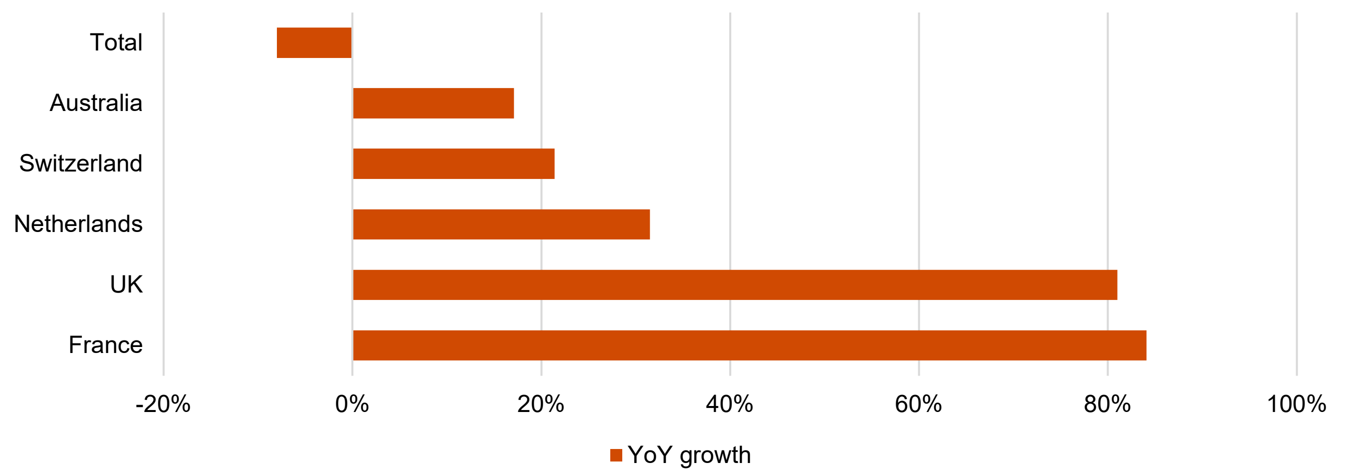
1. Falling profits: Foreign companies grappled with a 6.7% profit decline in 2023, resulting in diminished retained earnings.

2. Reinvestment opportunities: Some multinational corporations (MNCs) were less confident about China's economic recovery and as a result sought investment and acquisition prospects elsewhere. Simultaneously, others are leveraging retained earnings to explore investment and acquisition opportunities in regions like Southeast Asia. As companies expand their manufacturing operations in low-cost nations, supply chain restructuring could ultimately drive China toward higher value-added production. This strategic shift aligns with the increasing significance of intermediate goods exports, which constituted 47.3% of China's total exports in 2023. Notably, exports of intermediate goods to RCEP countries experienced a 2.1% growth and contributed to 31.7% of China's intermediate goods exports.

3. Interest Rate Differential: As interest rates diverge between the US and China, companies are likely reevaluating their borrowing strategies. Foreign companies now find fewer incentives to fund Chinese affiliates and subsidiaries with USD-denominated loans. Instead, repatriation becomes an attractive option in a favorable interest rate environment.

In summary, the more pronounced decline in SAFE's gauge does not necessarily signal an exodus of foreign companies from China. Changes in factors like foreign firms' profit rebound and the Federal Reserve's interest rate cuts could lead to a swift reversal of this trend.

Countries witnessing surging FDI into China in 2023



Myth #2:
China's role is limited to factory floors?

> Reality: China, once synonymous with manufacturing, has now become a formidable consumer market. Driven by rising disposable incomes and a burgeoning middle class, foreign companies increasingly invest in China's domestic service industry, positioning the country as both a factory and a consumer powerhouse.

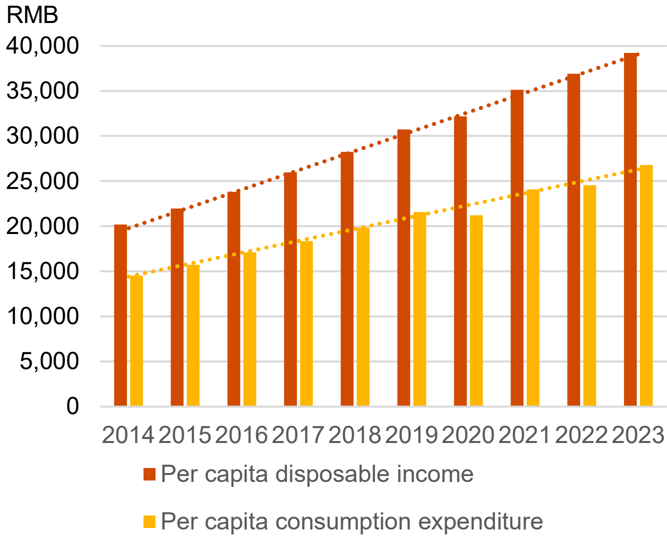
For decades, China has been synonymous with manufacturing prowess, churning out goods for global markets. However, beneath the assembly lines lies a profound transformation: China is now a formidable consumer market that foreign firms cannot afford to overlook.

Over the past decade, China's per capita disposable income has nearly doubled, surging from RMB 20,167 in 2014 to RMB 39,218 in 2023. This remarkable growth has fuelled an insatiable appetite for goods and services among the country's burgeoning middle class.

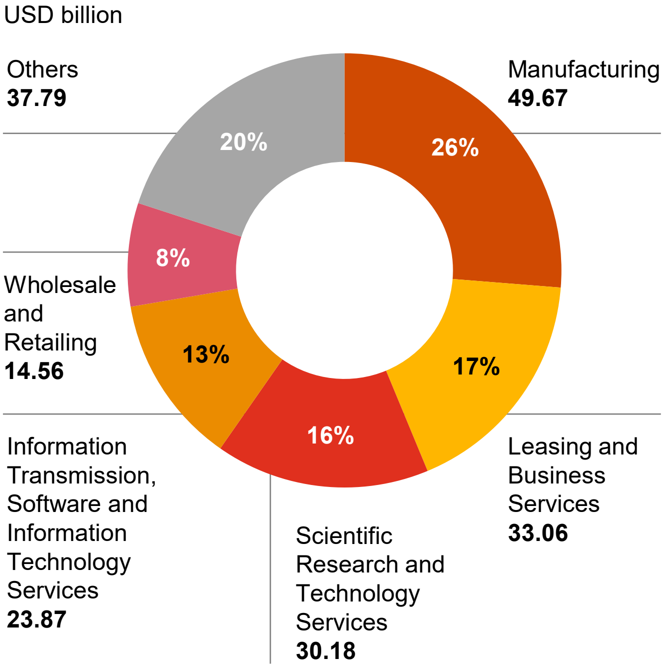
Foreign companies are increasingly drawn to China's domestic service industry. In 2022, the tertiary sector attracted 87.1% of all newly established foreign enterprises. Investment trends mirror this shift, with the share of the tertiary industry in the country's total FDI rising steadily from 64.3% in 2015 to 69.6% in 2022.

Opportunities abound across various service sectors. In 2022, 19.4% of newly established foreign firms ventured into China's leasing and business services industry, contributing 17.5% of the total FDI. Meanwhile, the wholesale and retail sector attracted 28.3% of new foreign entrants, representing 7.7% of total FDI. For multinational corporations, China has emerged as a pivotal revenue centre given the sheer size of its consumer market. Apple, for instance, derives 19% of its total sales from China in 2023. Similarly, Tesla garners a substantial 22.5% of its revenue from the country.

Sustained rise in disposable income drives long-term consumption growth



FDI by sector 2022



Myth #3:
China's FDI strategy is solely based on cheap labour?

> Reality: While China's low-cost labor was a significant factor in attracting FDI in the past, the country has evolved its strategy. China now focuses on attracting investments in high-value sectors, such as advanced manufacturing, research and development, and technology-intensive industries.

Over the years, China's rapid economic growth and rising income have propelled its workers' wages ahead of other developing economies. As a result, companies now seek cheaper labour in other countries like Vietnam, Bangladesh, and India. However, with world-class infrastructure and one of the most comprehensive value chain networks globally, China has emerged as a hotbed of innovation, boasting a vast pool of talented individuals. In 2020, China awarded 1.38 million engineering bachelor's degrees, dwarfing the comparable figure of 197,000 in the US.

Foreign companies are increasingly tapping into China's technological prowess, viewing it as a strategic innovation hub. In 2022, China's scientific and technology services sector accounted for a significant 18.9% of newly established foreign firms, representing 16% of total FDI. Simultaneously, the information transmission, software, and information technology services sector contributed 12.6% of total FDI and attracted 8% of foreign firms entering the Chinese market.

In 2023, despite the general decrease in FDI inflows, China's high-tech manufacturing sector defied the trend by achieving a substantial 6.5% increase in FDI. China's high-tech sector accounts for 37.3% of China's total FDI through the year—a 1.2 percentage point increase from 2022 and a historic milestone. For instance, the medical instrument and equipment manufacturing sector saw a solid 32.1% year-over-year growth, while electronic and communication equipment manufacturing surged by 12.2%.

Latest FDI statistics for 2023

Manufacturing	↓ 1.8%
High-tech manufacturing	↑ 6.5%
Medical instrument & equipment manufacturing	↑ 32.1%
Electronic & communication equipment manufacturing	↑ 12.2%
Service	↓ 13.4%
Science & tech outcome conversion	↑ 8.9%
R&D & design services	↑ 4.1%

Myth #4:
FDI is no longer important for China's economy?

> Reality: Foreign-invested enterprises (FIEs) have significantly shaped China's economic landscape. FIEs remained crucial contributors to China's economy, driving global trade and technological advancements. Their impact extends beyond revenue, influencing local suppliers and upskilling Chinese workers through R&D efforts and innovation.

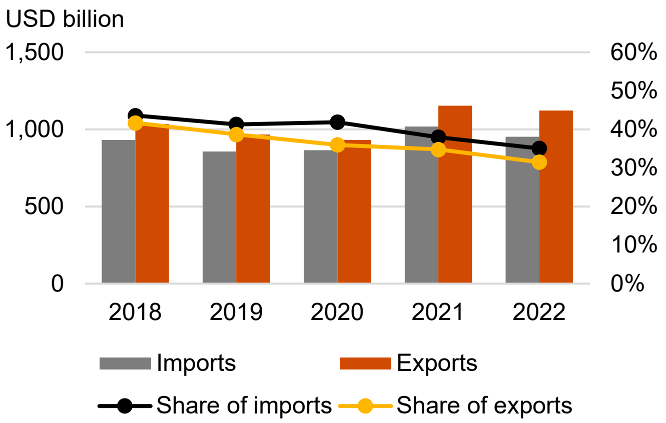
For decades, China has harnessed FDI as a vital catalyst for its economic expansion. As domestic capital accumulates and Chinese enterprises flourish, the proportion of foreign firms in China's economy has steadily waned. Yet, amidst this transformation, the enduring impact of foreign companies—both direct and indirect—remains pivotal.

In 2022, large-scale FIEs generated a staggering RMB 28.59 trillion in business revenue—a 1.3% year-on-year increase. These FIEs accounted for 20.7% of the total revenue of industrial enterprises nationwide. However, the profit picture was less rosy, with a 9.5% decline to RMB 2 trillion. Still, FIEs represented 23.8% of overall industrial profits, and their tax revenues remained substantial, contributing 17.6% of total revenue to the national coffers. Moreover, foreign firms played a significant role in China's global trade, driving 31.5% of exports and 35.1% of imports.

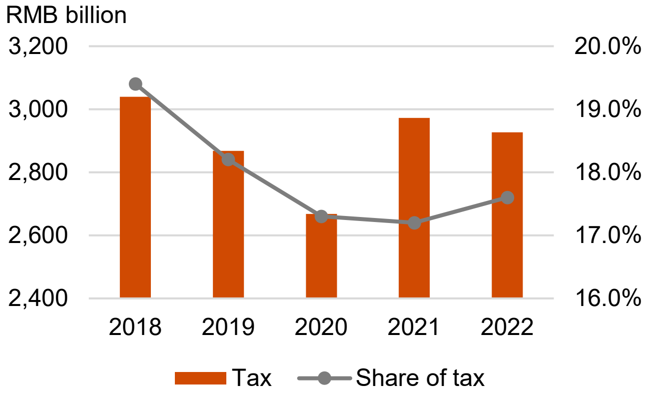
More importantly, FDI has been a catalyst for China's technological ascent. Large companies like Apple have acted as key drivers, creating spillover effects that resonate throughout China's vast industrial ecosystem. For instance, Mainland Chinese suppliers contribute to a third of the factories operated by Apple's top 187 suppliers, in addition to 157 manufacturing contractors. Similarly, Tesla has cultivated close ties with Chinese suppliers, who account for a substantial 40% of its battery supply chain. These foreign firms have played a crucial role in shaping China's supplier ecosystem, which, in turn, supports the growth of local companies within these industries.

Although foreign firms' share of employment dipped below 5%, their impact on upskilling Chinese workers and enhancing human capital was undeniable. From 2012 to 2021, FIEs ramped up R&D efforts, with R&D staff at large FIEs increasing by 20.4% to 716,000. Their R&D investments skyrocketed by 91.5% to RMB 337.74 billion. Notably, invention patents filed by these firms surged by 255.2%, totalling 241,000. For instance, Siemens Technology China serves as the company's premier research arm outside its home country. With a dedicated team of over 300 top-tier innovators, Siemens operates state-of-the-art innovation labs across major Chinese cities, including Beijing, Shanghai, Suzhou, Qingdao, Wuhan, and Wuxi.

Foreign companies' share of total imports and exports



Foreign companies' share of tax revenue



20.4%

R&D staff at large FIEs surged from 595,000 to 716,000—an impressive 20.4% growth.

91.5%

Their R&D investments skyrocketed by 91.5%, reaching RMB337.74 billion.

255.2%

Invention patents filed by these firms surged by 255.2%, totalling 241,000.

Myth #5:
China's FDI policies are discriminatory and deter investment?

> Reality: While there have been concerns about China's FDI policies, they are more open than commonly perceived. The Chinese government has taken steps to broaden market access, facilitate cross-border data exchange, and create a level playing field for foreign investors.

Following the Government Work Report 2024 launched in March, the Chinese State Council has unveiled a comprehensive 24-point strategy aimed at bolstering foreign capital inflows. Dubbed the “Action Plan to Solidly Promote High-Level Opening Up and Enhance Foreign Investment Attraction,” these meticulously crafted measures aim to attract overseas investors. Key measures include broadening market access across critical sectors, ensuring equitable participation for foreign firms in government procurement, and facilitating seamless cross-border data exchange.

Market access

- Shorten negative list, remove restrictions in manufacturing and open telecom and healthcare sectors
- Relax entry thresholds in sci & tech innovation, allow FTZs to choose foreign firms for gene technology projects, and open up information services (app stores) in pilot FTZs
- Expand access of foreign financial institutions to banking and insurance sectors
- Expand business scope of foreign financial institutions in domestic bond market
- Pilot investment programs for qualified foreign limited partners

Appeal for foreign investment

- Encourage foreign investment in advanced manufacturing, modern services, high-tech, energy and environmental sectors, and support basic manufacturing, applicable technologies and consumption in central and western region
- Waive tariffs for imported equipment for reinvestment and offer preferential tax policies for bond investment
- Facilitate financing for foreign-invested projects, issuing RMB bonds, and foreign exchange management
- Guarantee energy use
- Support the central, western, and northeastern regions in undertaking industrial transfers

Fair competition

- Clean up behaviors and policies violating fair competition
- Remove restrictions on tenders and bidding
- Support foreign enterprises to take part in formulation and revision of standards
- Improve administrative law enforcement
- Promote ‘Invest in China’
- Deepen exchanges with foreign institutions, coordinate handling of complaints, ease communication channels, and address issues raised by foreign firms

Flow of innovation factors

- Support foreign firms’ data flow with headquarters
- Facilitate personnel exchanges, including extending visa validity periods and resuming international flights
- Streamline application process for foreigners’ work permits and residence permits
- Support foreign institutions to participate in national R&D programs and sci & tech projects

Align domestic rules

- Strengthen IPR protection
- Improve cross-border data flow
- Promote negotiation and implementation of economic and trade agreements
- Align with international economic and trade rules

Market access expansion

Under the Action Plan, the negative list for foreign investment will be rationalised, reducing restrictions on foreign participation in various sectors. Manufacturing industries are expected to benefit from comprehensive removal of entry barriers, while areas like telecommunications and healthcare will continue to open up. Additionally, foreign financial institutions will find easier access to China's banking and insurance markets, through measures such as allowing qualified foreign insurers to establish or invest in domestic insurance companies and facilitating participation in bond underwriting.

Data flows and business travel

China recognises the importance of data flows for global businesses. The Action Plan supports orderly cross-border data exchange between foreign companies and their headquarters, facilitating research, production, and sales. Additionally, the validity period for visa entry will be extended to two years for foreign enterprise management personnel, technical experts, and their accompanying spouses and minor children. China has also waived visa requirements for several countries in Southeast Asia and Europe such as France and Germany.

A level playing field

The Action Plan has proactively addressed the concerns of foreign-invested companies, aiming for a level playing field. It emphasises timely resolution of any discrimination against foreign investors and irregular law enforcement practices. Additionally, foreign companies' participation in standard-setting processes will be encouraged to reinforce China's commitment to equal treatment for all. Since July 2023, the Ministry of Commerce has instituted a roundtable meeting system for foreign-invested enterprises. These regular gatherings serve as a platform for foreign companies to voice their difficulties and offer suggestions. To date, 17 roundtable meetings have been convened, addressing over 600 challenges raised by foreign enterprises and identifying key foreign investment projects.

Investment in high-tech industries

Aligned with China's economic transformation goals, foreign firms are encouraged to invest in high-tech sectors. Free trade pilot zones in cities like Beijing, Shanghai, and Guangdong will experiment with relaxed foreign investment rules in fields such as genetic diagnostics and treatment technologies. Information services (limited to app stores) will also benefit from better implementation in these zones. The Action Plan also incentivises foreign firms to expand investment in high-tech industries by providing certain policy support for participating in key semiconductor, biomedicine, and high-end equipment projects.

Conclusion

The debunking of these prevailing myths underscores the enduring significance of FDI in China's economic landscape, highlighting the nation's unwavering commitment to attracting global capital. China continues to attract substantial FDI inflows, which plays a pivotal role in propelling economic growth, driving technological advancements, and fostering international trade. Contrary to the stereotype of China as a mere hub for low-cost labour, FDI in China unlocks vast market potential and taps into a skilled workforce. The nation's pivot toward high-tech industries positions it as an innovation hub. Notably, China's policies now embrace a new era of openness, with a concerted effort to expand market access, facilitate seamless data exchange, and level the playing field for foreign enterprises.

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