



China Economic Quarterly Q2 2024

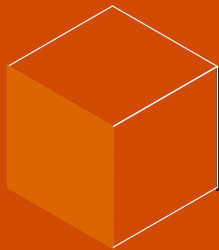
September 2024



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In Brief



China's Economic Momentum: Key Takeaways from Q2 Data and Second-Half Outlook

In the second quarter, China's GDP grew by 4.7% year-over-year, down from 5.3% in the first quarter, resulting in a 5% growth for the first half of the year. This aligns with the annual target.

- **Uneven recovery:** Robust factory activity and exports drove growth, but a property downturn and weak consumer spending weighed it down.
- **High-tech sector growth:** The high-tech sector continued to outpace the overall economy, highlighting China's focus on high-quality development.
- **Policy support:** Policymakers have reaffirmed the 5% growth target, signalling increased government support and fiscal stimulus amid escalating trade tensions.
- **Anticipated measures:** Expected measures include expanded trade-in programmes and efforts to stabilise the property sector.

Topic in Focus: New Quality Productive Forces

New quality productive forces have emerged as a central theme. These forces drive policies for sustainable growth through technology, innovation, and green development while addressing structural challenges. This strategic approach emphasises five pillars:

1. **Technological innovation:** Technological innovation serves as the cornerstone of China's strategic pivot. The country ramps up research and development to achieve scientific breakthroughs.
2. **Emerging and future industries:** Cutting-edge technologies foster emerging and future industries, such as artificial intelligence and quantum technology.
3. **Upgrading traditional industries:** Upgrading traditional industries through digitalisation and green transformation remains a key driver of productivity gains.
4. **Institutional reforms:** Institutional reforms enhance resource allocation. This aligns with the 'two unwaveringly' principle for coordinated development of state-owned and private sectors.
5. **Opening-up:** China's opening-up leverages foreign direct investment to foster knowledge spillovers and outward direct investment to elevate its position in the global value chain.




Key Takeaways from Q2 Economic Data

China's GDP expanded by 5% in the first half of the year, hitting its official target. However, a deceleration in the second quarter's economic growth has put policymakers under pressure to ramp up stimulus measures. This is crucial to ensure the economy meets its full-year growth target of around 5%. While China's economy is on a recovery path, structural imbalances persist, with growth still heavily reliant on factory activity and foreign demand. Despite falling factory prices and tepid consumer prices, industrial output has posted robust growth. Additionally, a cyclical upswing in global trade has so far helped counterbalance sluggish domestic consumption.

China's economic drivers are also shifting. On the one hand, the prolonged downturn in the property sector continues to weigh on both fixed asset investment and consumer spending. On the other hand, investments in manufacturing and infrastructure have helped offset the softness in the housing market. However, private and foreign investments lag behind state-led investments, underscoring the need to further bolster investor confidence.

China's pivot toward high-quality development continues unabated. The high-tech sector remains a bright spot, with industrial production and investment in high-tech sectors outpacing the overall economy. While loan demand from households and corporations remains tepid, financing activity in high-tech sectors is holding up well.



Second-Half Outlook: Policy Directions and Government Support

Looking ahead, Chinese leaders' recent reaffirmation of achieving the official growth target of 5% during the Third Plenum signals that more government support is on the horizon. Throughout the second half of the year, policy interventions will be necessary to mitigate potential risks. Escalating trade tensions are casting a shadow over the export outlook, as China's major trade partners impose tariffs on Chinese goods. In response, China's policymakers have pledged to expedite fiscal stimulus to boost domestic demand, a commitment made at the recent conclusion of the Politburo meeting.

Equipment upgrade programmes launched in the first half of the year have bolstered equipment manufacturers, and policymakers have recently unveiled a new round of targeted measures to stimulate consumer spending through trade-in programmes. Specifically, China has allocated RMB300 billion in ultra-long special government bonds to fund the expansion of these programmes. Importantly, policy measures aimed at enhancing consumption are primarily focused on strategic sectors, including automobiles and equipment, aligning with China's industrial policy to cultivate new productive forces.

Additionally, China will likely accelerate its deployment of the proceeds from the RMB1 trillion ultra-long sovereign bonds for investment in infrastructure and manufacturing. Policymakers are also expected to continue rolling out supportive measures to stabilise the property sector.

As China pledges to coordinate its fiscal and monetary policy, the PBOC has moved to further ease monetary policy and cut rates while the government issues ultra-long sovereign bonds. However, the stimulus will likely be just enough to ensure the economy meets its official growth target, falling short of a bazooka-type stimulus. Given the geopolitical uncertainty surrounding the upcoming US election, policymakers may opt to keep their fiscal powder dry.

China's Economic Momentum: A Snapshot

GDP

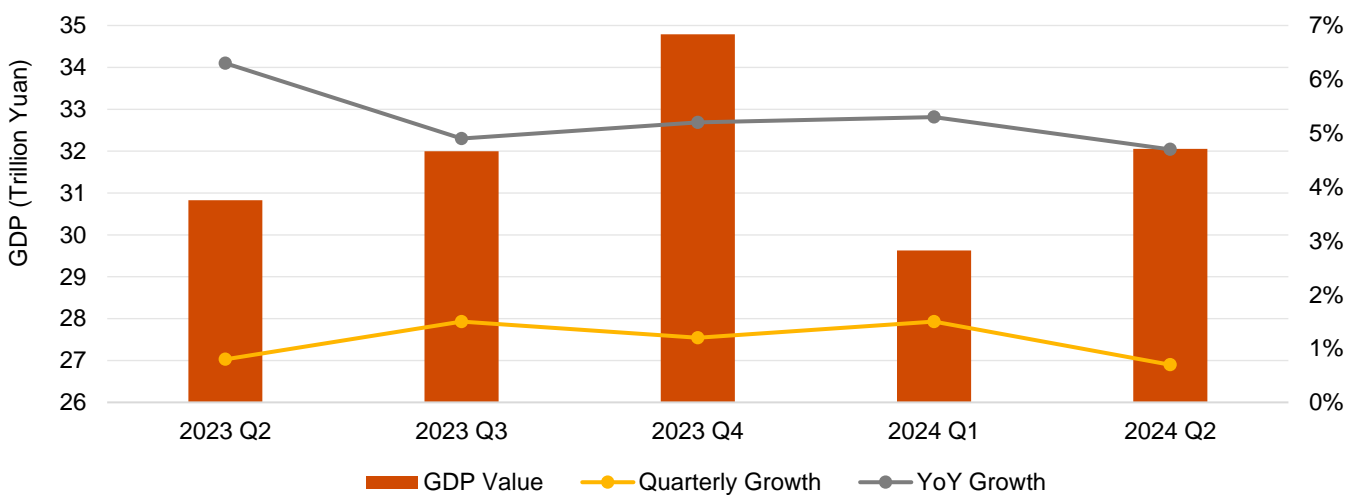
In Q2, China's GDP expanded by 4.7% YoY, slowing from the 5.3% growth recorded in Q1. This brings the GDP growth for the first half of the year to 5%, aligning with China's annual growth target.

While the economy continues its recovery, the trajectory remains uneven. The growth engine is primarily fuelled by robust factory activity, buoyant exports, and sustained manufacturing investment. Yet, the drag from a lingering

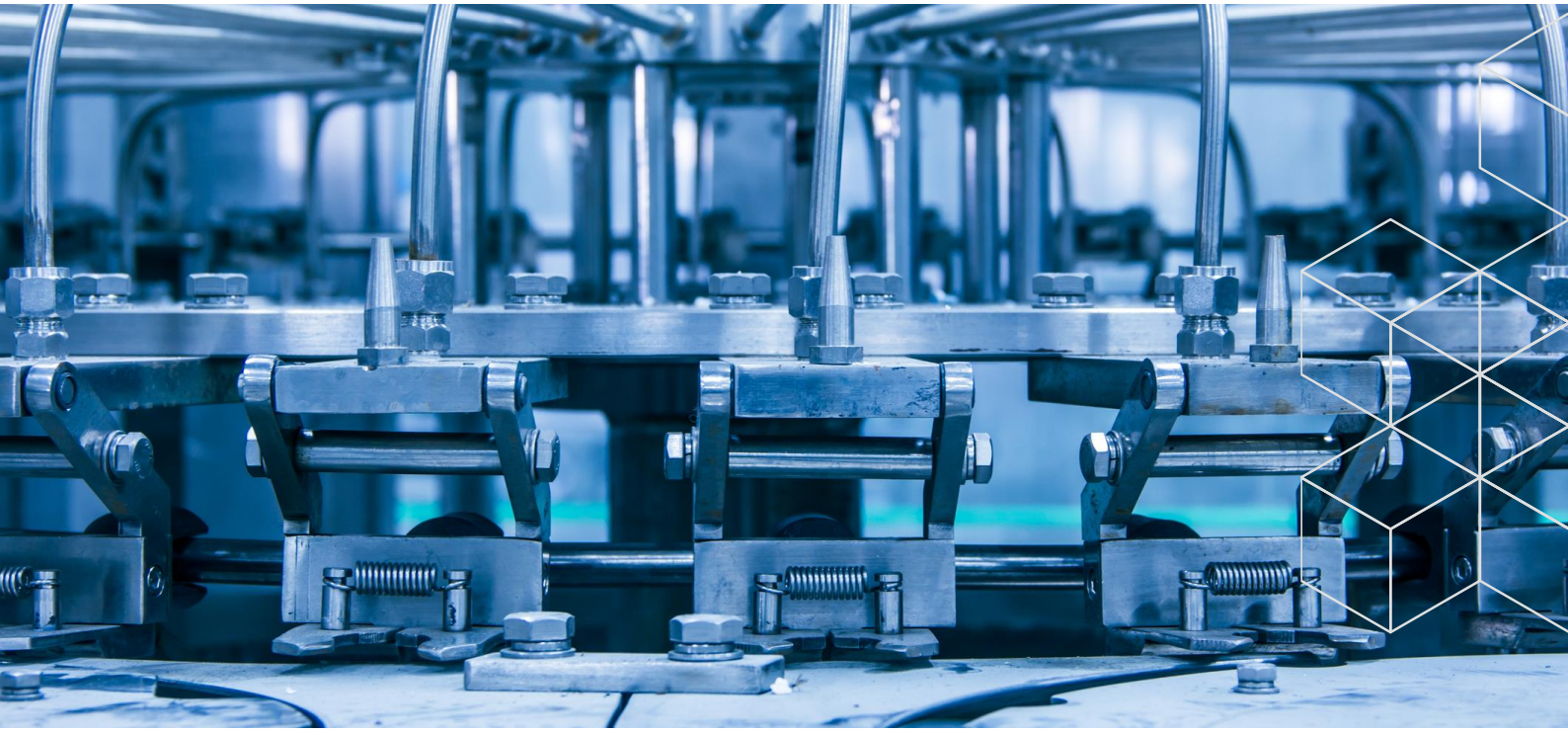
property downturn and tepid consumer spending continues to cloud the broader economic outlook.

The secondary sector has served as the primary growth driver, with a 5.6% increase. The high-tech manufacturing sector, in particular, saw an 8.7% rise in value added. However, the tertiary sector's growth slowed to 4.2% in Q2 from 5% in Q1, indicating potential weakening in consumer demand for services. The information transmission, software, and IT services sectors have been a bright spot, growing by 10.2% in Q2 after a robust 13.7% expansion Q1.

Quarterly GDP Values and Quarterly and Annual GDP Growth Rate



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

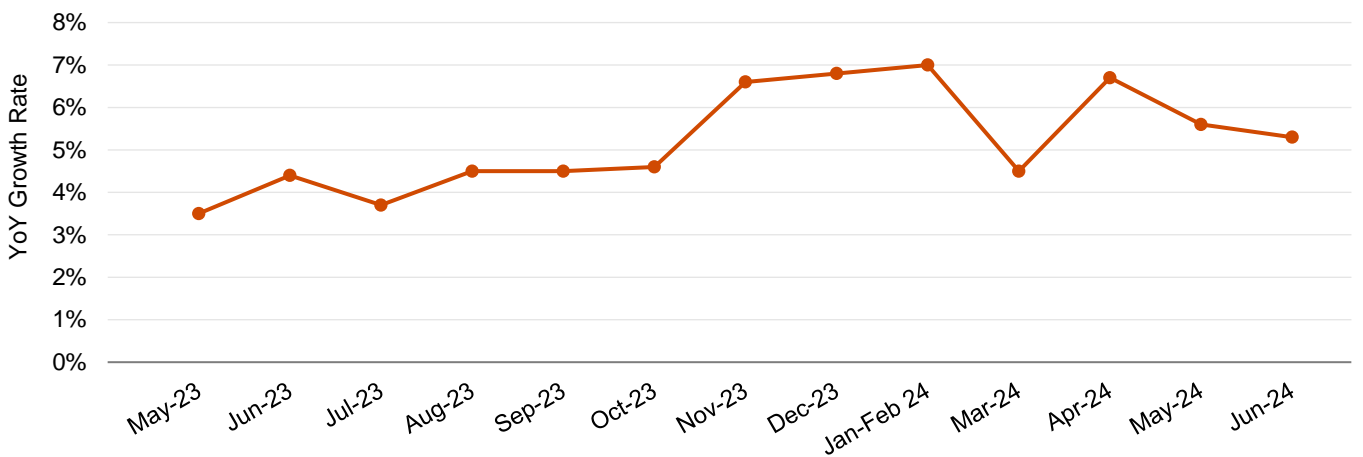


Industrial Output

Industrial output grew by 6.7% in April and 5.6% in May from a year ago. The momentum continued into June, albeit at a slower pace, with industrial production expanding by 5.3%. The high-tech manufacturing sector continued to outperform, registering 8.8% growth in June.

In the first half of the year, industrial output saw a rise of 6% YoY. In line with the government's emphasis on high-quality development, the high-tech manufacturing industry experienced an 8.7% growth, making up 15.8% of the total industrial output. Digital and green technologies have emerged as key growth drivers. Notably, the production of service robots (22.8%), smartphones (11.8%), and new energy vehicles (34.3%) has exceeded the overall growth rate.

Industrial Output



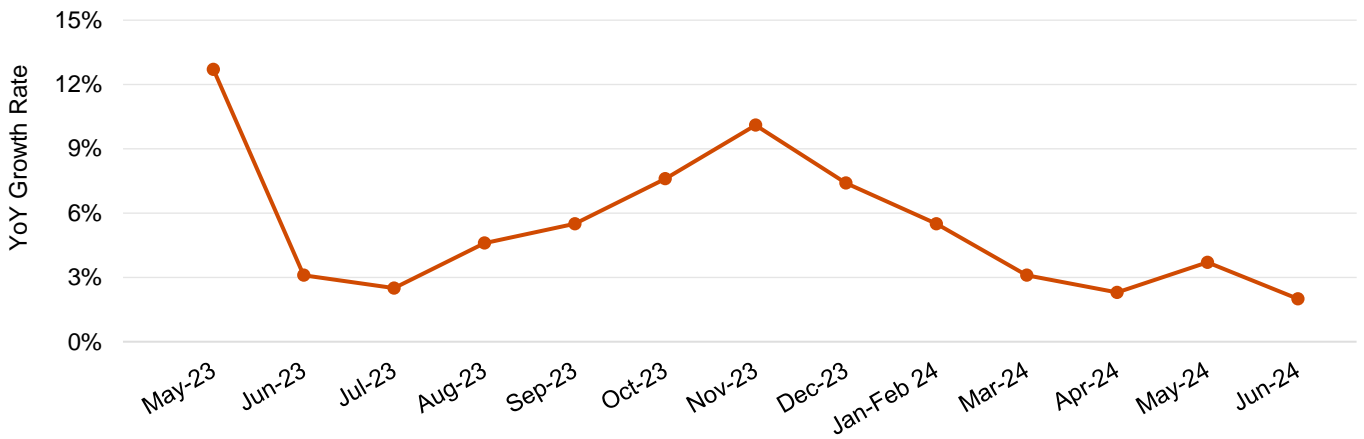
Retail Sales

Retail sales growth reached a new post-pandemic low of 2% YoY in June. The auto (-6.2%), household appliances (-7.6%), and cosmetics (-14.6%) subcategories were among the biggest drags on retail sales, indicating a diminishing impact of trade-in policies on boosting sales in the auto and household appliance sectors. Service consumption still outpaced goods consumption. In the catering sector (5.4%),

growth surpassed double the headline rate. However, the sports & recreation (-1.5%) category took an unexpected hit after strong growth for the last few months.

For the first half of the year, retail sales grew by 3.7% YoY. Indicating an ongoing shift in consumer spending patterns, the catering sector (7.9%) and sports and recreational articles (11.2%) have outpaced overall growth during the first six months.

Retail Sales of Consumer Goods

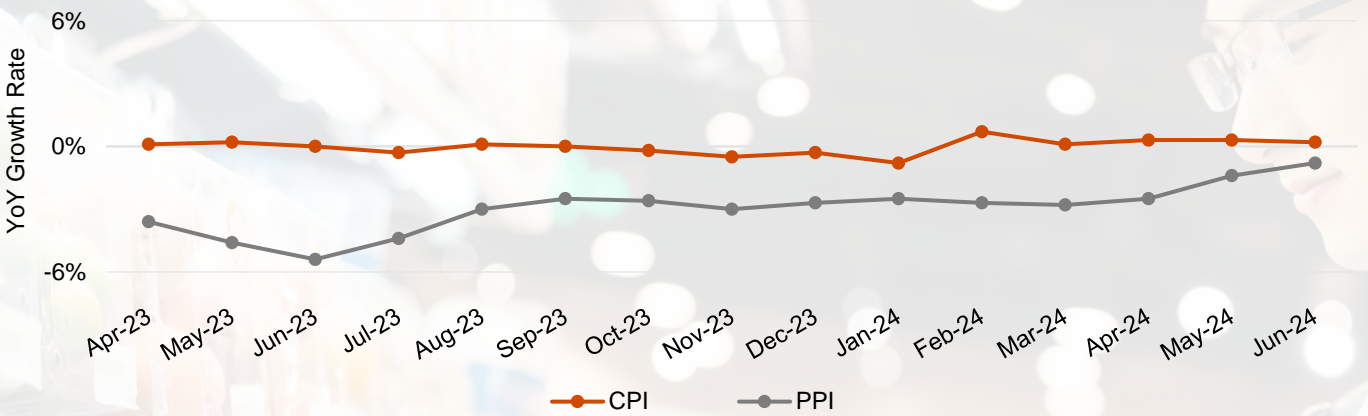


Consumer Price Index (CPI) and Producer Price Index (PPI)

Aligned with soft consumer spending, consumer prices rose by just 0.3% YoY in both April and May, before slowing further to 0.2% YoY in June. Core inflation, excluding food and energy, increased by 0.6% YoY in June. On a month-on-month basis, consumer prices fell in June across most major categories, except for residence and healthcare, indicating continued disinflationary pressure in the near future.

In a positive development, producer prices showed signs of stabilizing. The PPI saw a year-on-year decline of 2.5%, 1.4%, and 0.8% in April, May, and June, respectively. However, producer prices have remained in negative territory since September 2022.

Consumer Price Index and Producer Price Index



Trade

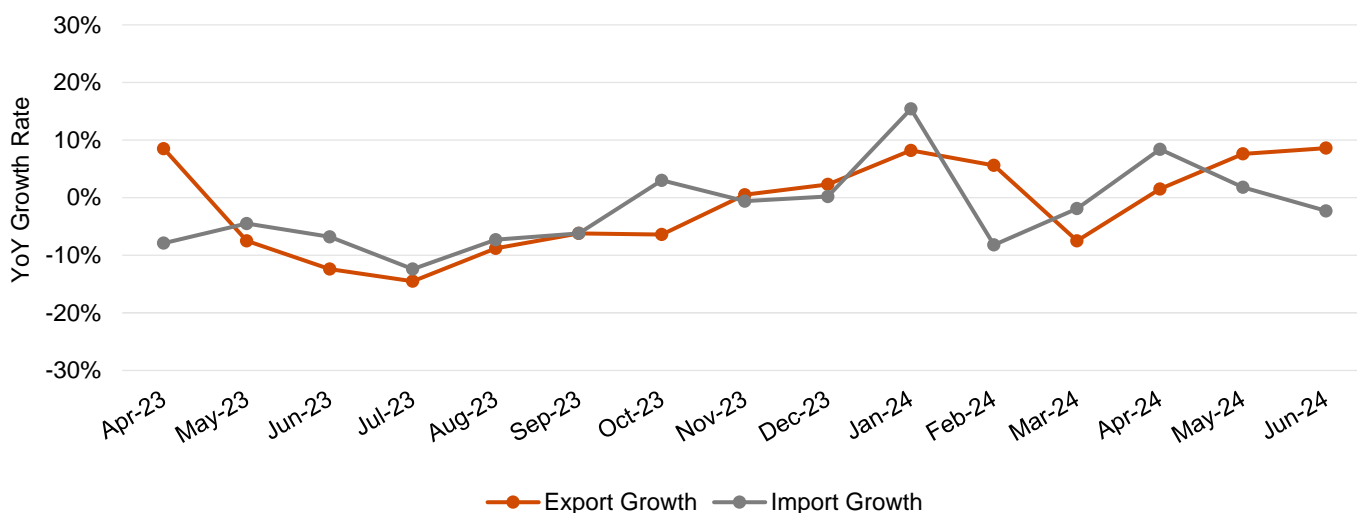
China's exports have experienced a surge, partially fuelled by a cyclical recovery in the global electronics sector. In USD terms, the year-on-year export growth accelerated from 1.5% in April to 7.6% in May, and further increased to 8.6% in June. Through the first half of the year, trade has remained a crucial driver of China's economic growth, helping to offset weak domestic consumption, with a 6.9% YoY increase in RMB terms. The acceleration in June was also partially due to importers front-loading orders in anticipation of the expected tariffs from the US and EU.

Mechanical and electrical products saw an 8.2% rise, making up 58.9% of total exports. Notably, automatic data processing equipment grew by 10.3%, integrated circuits by 25.6%, and autos by 22.2%. ASEAN continues to be China's largest trade partner, followed by the EU and the USA. However, the sustainability of strong export growth is uncertain amid rising protectionism from major trade partners.

On the other hand, import growth has decelerated, with a year-on-year increase of 8.4% in April slowing down to 1.8% in May, measured in USD terms. Import growth further declined by 2.3% year-on-year in June, signalling an ongoing weakness in domestic demand. Despite a substantial uptick in government bond issuance since May, this has not yet spurred higher commodity demand from the construction sector, which is heavily dependent on imports.



Exports and Imports



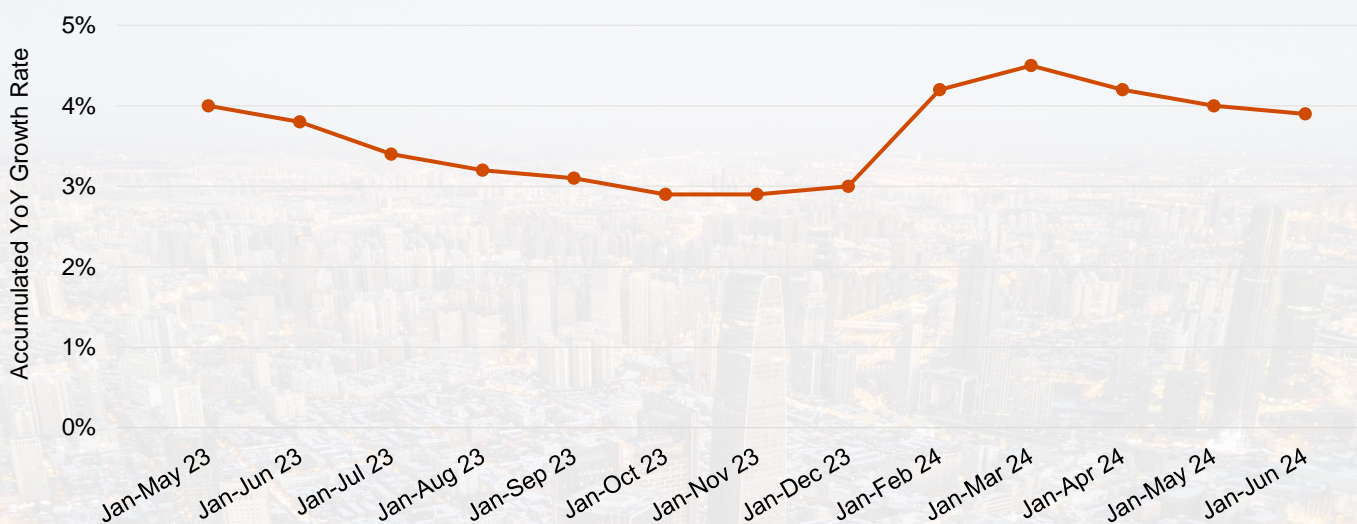
Fixed Asset Investment

Fixed asset investment in China maintained its upward trajectory in the first half of the year, albeit at a slowing pace. From January to June, fixed asset investment registered a 3.9% increase compared to the same period a year ago, marking a deceleration from the 4.5% growth observed in the January-March period. The property sector continued to weigh on growth, but this was counterbalanced by sustained investments in the manufacturing sector and infrastructure. Excluding the property sector, fixed asset investment posted a more robust growth of 8.5% in the first half of the year.

As the government continued to implement the trade-in programmes announced during the Two Sessions, investment in equipment, tools, and instruments witnessed a significant upswing. This sector recorded a year-on-year growth of 17.3% in the first half of the year, contributing an additional 2.1 percentage points to the overall growth in fixed-asset investment.

However, the private sector saw only a marginal growth of 0.1% in fixed asset investment, largely attributed to the challenges faced by the property sector. Despite this, private investment in the manufacturing sector expanded by 11.5%. Additionally, private firms ramped up their infrastructure investments by 5.8%.

Fixed Asset Investment



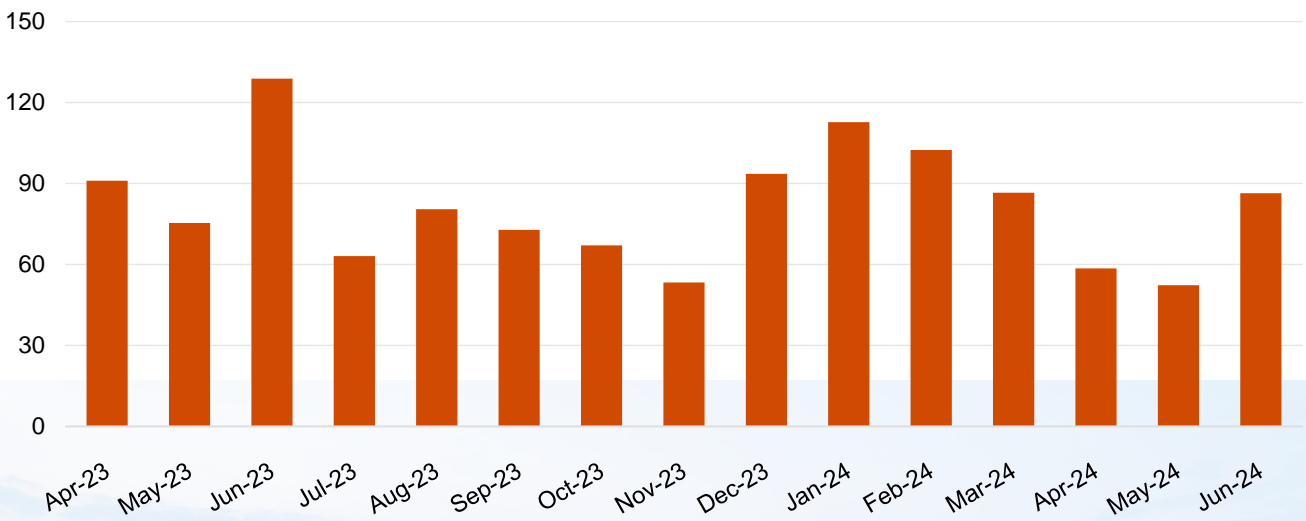
Foreign Direct Investment (FDI)

Data from China's Ministry of Commerce shows that from January to June, the number of foreign-invested firms grew by 14.2%, while the amount of FDI fell by 29.1%. In line with China's renewed focus on high-quality productive forces, investment in the high-tech manufacturing sector accounted for 12.8% of total FDI, marking an increase of 2.4 percentage points. Notably, FDI inflows from Germany and Singapore rose by 18.1% and 10.5%, respectively.



FDI Inflows

RMB billion



Source: Ministry of Commerce, PwC Analysis

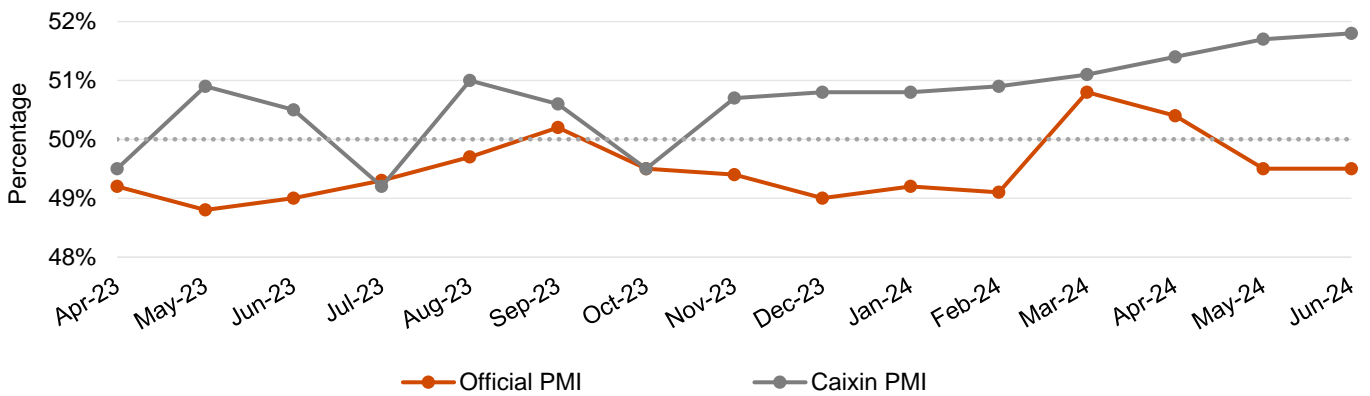


Purchasing Managers Index (PMI)

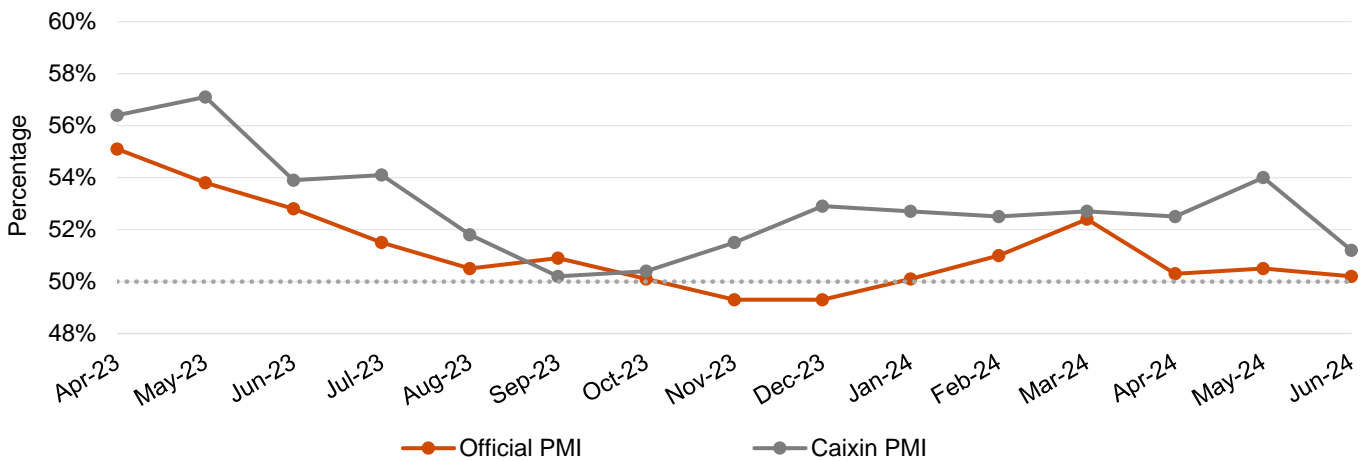
China's manufacturing PMI declined from 50.4 in April to 49.5 in both May and June, indicating a softening business sentiment among the manufacturers surveyed. However, the high-tech manufacturing sector has emerged as a bright spot, rising for the eighth consecutive month to reach 52.3 in June. Further, the equipment manufacturing sector, bolstered by the trade-in programmes for equipment upgrades, has demonstrated resilience with a PMI reading of 51, marking its fourth consecutive month of expansion.

The official nonmanufacturing PMI, which includes both services and construction, remained in the expansion zone but dipped to 50.5 in June from 51.1 in May and 51.2 in April, indicating a deceleration in growth. The subindex for service activity slipped to 50.2 in June, while the construction subindex dropped to 52.3. Service activity was adversely affected by a weakening in capital market services and business activity tied to China's property market. Heavy rainfall in southern China also impeded construction activity, contributing to the sector's slowdown.

Manufacturing PMI



Services PMI



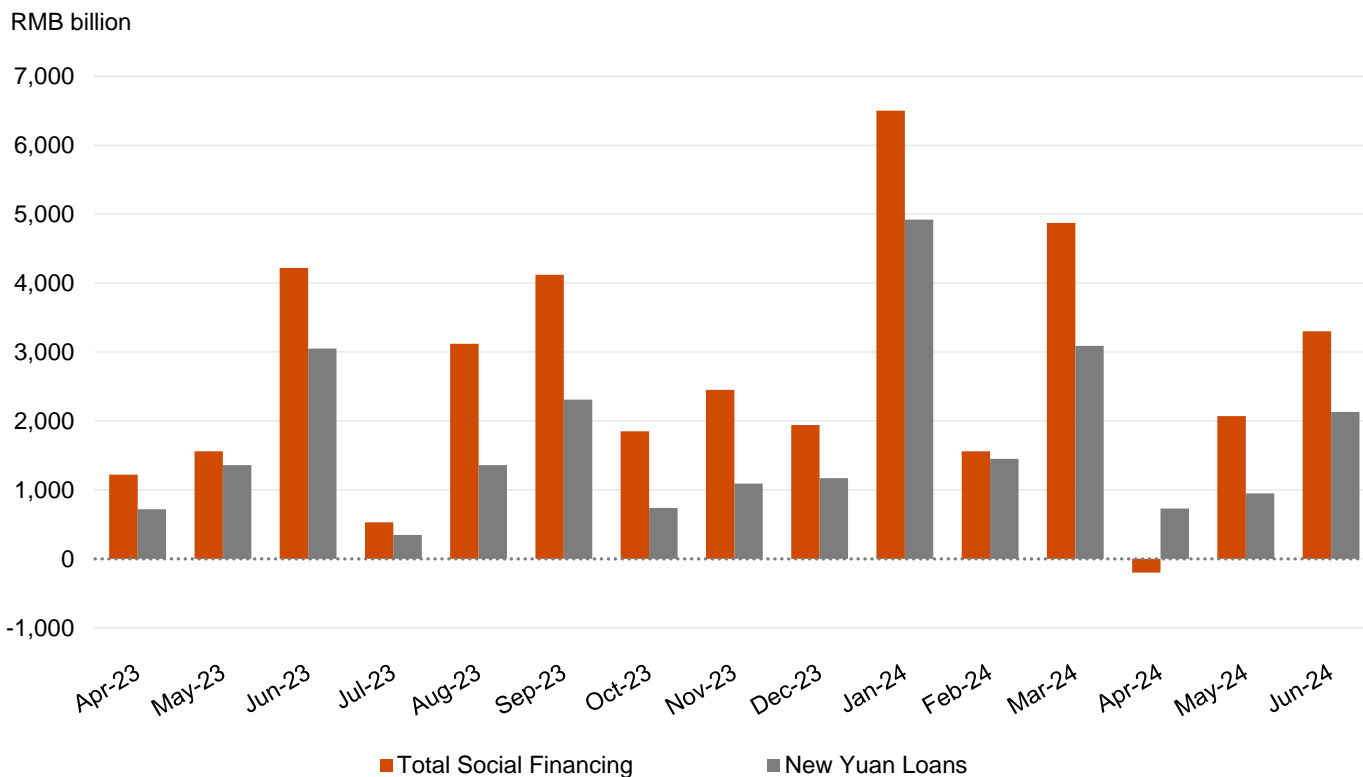
Total Social Financing (TSF) and New Bank Loans

During the first half of the year, China's newly added TSF amounted to RMB18.1 trillion, a decrease of RMB3.45 trillion compared to the same period last year. By the end of June, the outstanding social financing in China had reached a significant RMB395.11 trillion, marking an 8.1% year-on-year increase. In April, China's TSF unexpectedly experienced a downturn, falling by almost RMB200 billion, the first negative reading since October 2005.

In the same period, Chinese banks issued new yuan loans totalling RMB13.27 trillion, a decrease of RMB3.15 trillion from a year ago. Additionally, the broad money supply (M2) had reached RMB305.02 trillion by the end of June, reflecting a 6.2% year-on-year increase.

These figures suggest demand for credit remaining soft among businesses and households. Among the bright spots, medium- and long-term loans to the manufacturing industry increased by 18.1% YoY at the end of June. Aligned with China's pivot toward high-quality development, medium- and long-term loans for high-tech manufacturing industries saw a year-on-year increase of 16.5%.

Credit Growth



Source: People's Bank of China, PwC Analysis



New Quality Productive Forces

What Are New Quality Productive Forces?

“With innovation playing the leading role, new quality productive forces mean advanced productivity that is freed from traditional economic growth mode and productivity development paths, features high-tech, high efficiency and high quality, and comes in line with the new development philosophy”, according to “Xictionary,” an official lexicon of new terms introduced by President Xi. This term was first introduced during Xi’s inspection trip to China’s northeastern Heilongjiang province in September 2023 and reiterated during the Central Economic Work Conference in December. It was noted that “new quality productive forces are driven by revolutionary technological breakthroughs, innovative allocation of production factors, and deep industrial transformation and upgrading”.

During this year’s Two Sessions in China, the concept of “high-quality productive forces” emerged as a central theme, underpinning every significant policy. This concept charts the course towards “high-quality development,” a new phase of sustainable growth fuelled by technology, innovation, and green development. More importantly, it reveals China’s multi-faceted policy approach aimed at steering the economic transformation and tackling long-term structural challenges.

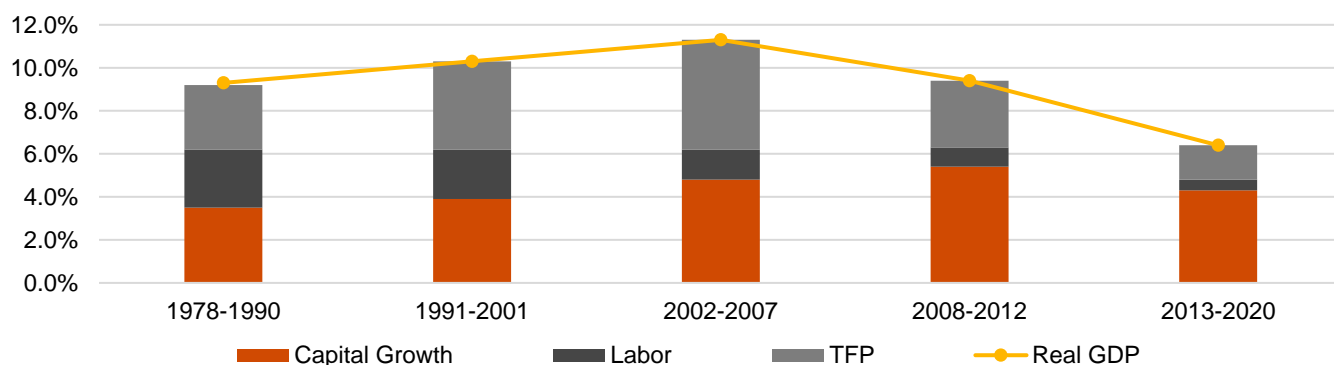


Making Sense of New Quality Productive Forces – An Economic Perspective

China's economy is at an inflection point, shifting from a phase of high-speed growth to a phase of high-quality development. This transition signifies a move from an economic model driven by capital and labour accumulation to one propelled by total factor productivity (TFP). TFP, a key concept in economic growth theories, measures the efficiency of input transformation into output. Its growth is fuelled by technological advancements and efficient resource allocation. Over the past four decades, capital formation and labour growth have been pivotal in China's ascent as a global economic powerhouse. However, this traditional model is losing steam as China faces demographic challenges, including an aging population and a shrinking workforce, coupled with diminishing returns on physical capital investments.

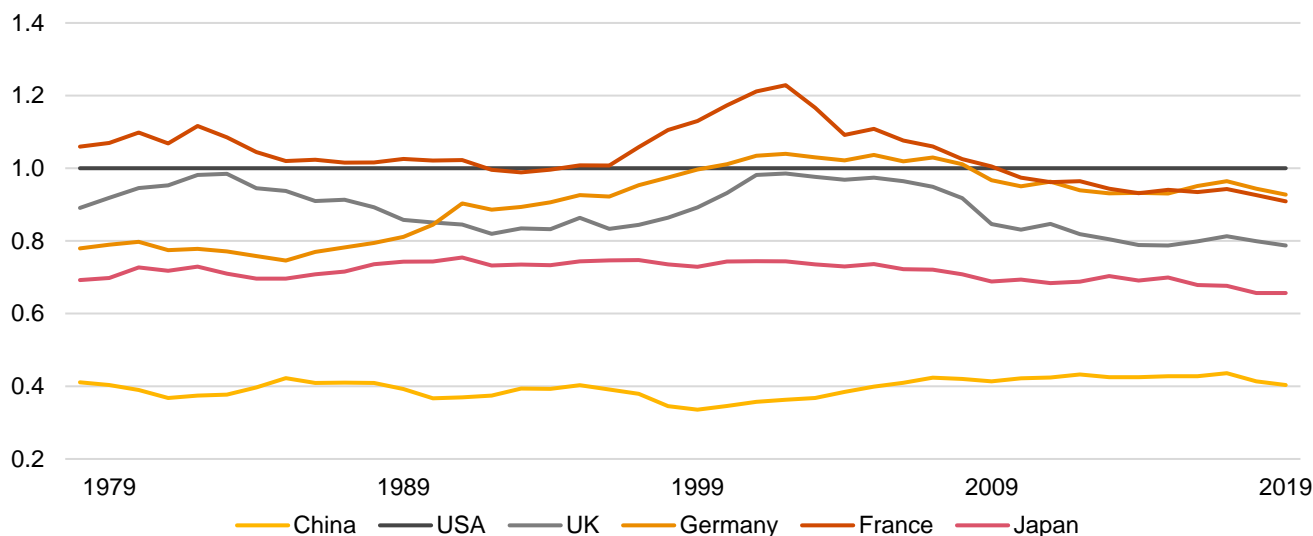
Economic reforms initiated in 1978 have significantly boosted productivity in China. However, post-Global Financial Crisis, China's TFP growth has stagnated, compelling the economy to depend on capital accumulation in infrastructure and real estate, despite their waning effectiveness in driving growth. Notably, China's TFP is approximately half that of OECD countries, highlighting substantial untapped potential for productivity gains. Reigniting productivity growth is crucial for China to achieve sustainable and inclusive growth, underpinned by technological innovation and efficiency. This approach could help China to avoid the middle-income trap and attain moderately developed nation status in terms of per capita GDP by 2035. Given the sheer size of China's economy and the scale of its ongoing transformation, new quality productive forces will undoubtedly shape its economic trajectory for decades to come.

Source of China's Economic Growth



Source: People's Bank of China

Total Factor Productivity (USA=1)



Source: Groningen Growth and Development Centre, PwC Analysis



In our analysis, the transformation of China's economy hinges on five pillars of new quality productive forces poised to drive productivity growth:

1. Advancements in high-tech innovations
2. Pivot toward strategic emerging and future industries
3. Digitalisation and decarbonisation of traditional sectors

4. Implementation of institutional reforms
5. Promotion of high-level opening up

Collectively, these pillars are set to accelerate a strategic shift in China's economic paradigm, steering the nation towards sustainable and inclusive growth amidst a rapidly evolving global landscape.

New Quality Productive Forces



Breaking Through Core Technological Challenges

China's R&D investment has tripled over the past decade, driving its R&D intensity from 1.91% to 2.55%



Cultivating Emerging and Future Industries

The 14th Five-Year Plan highlights next-gen IT, bio-tech, new energy, new materials, advanced equipment, new-energy vehicles, green tech, aerospace, and marine equipment



Upgrading Traditional Sectors

The modernisation of traditional sectors through digitalisation and green transformation will continue to be a key driver of productivity enhancements



Institutional Reforms

China supports private firms by enhancing resource allocation while strengthening the core competencies of SOEs for them to invest in strategic emerging sectors



Opening-Up

FDI fosters knowledge spillovers, while ODI strengthens and elevates China's position in the global value chain

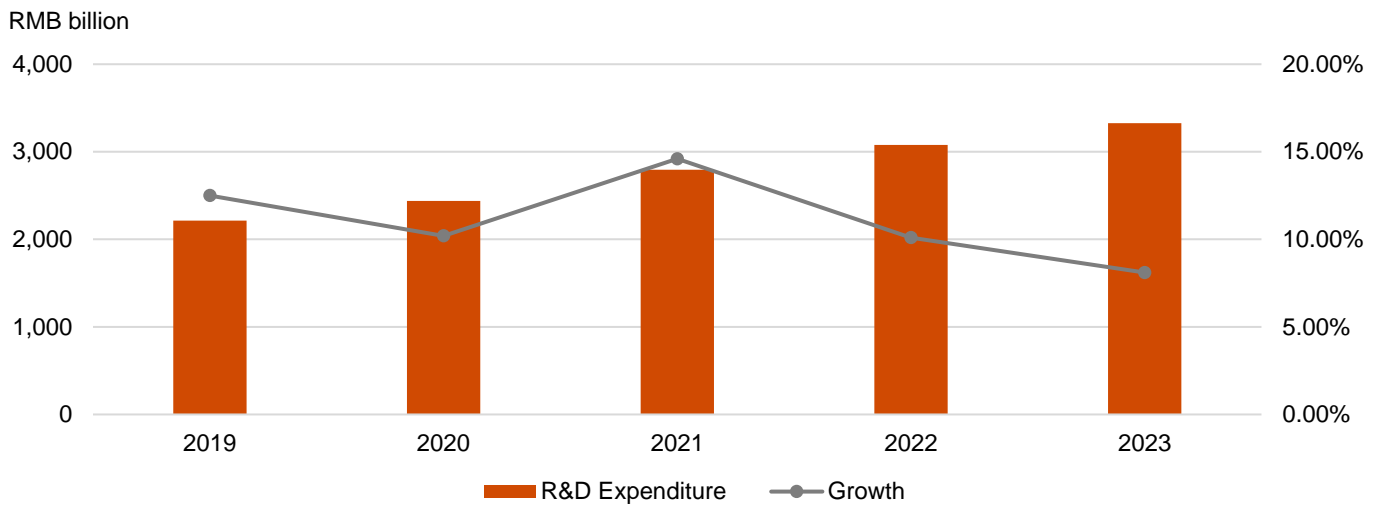
1. Breaking Through Core Technological Challenges

Technological innovation serves as the bedrock of China's strategic pivot towards new quality productive forces. Over the past decade, China's investment in R&D has surged threefold, catapulting its R&D intensity - a metric that gauges R&D expenditure relative to GDP - from 1.91% to 2.55%. In 2023, China's R&D spending continued its upward trajectory, growing by 8.1% to exceed 3.3 trillion yuan. The focus has also shifted, with foundational research now playing an increasingly prominent role, accounting for 6.3% of total R&D spending, up from 4.8%.

Despite these significant strides, there remains considerable room for growth. In terms of R&D intensity, China surpassed the European Union (2.28%) in 2021, but still trails South Korea (4.93%), the United States (3.46%), and Japan (3.3%). This gap underscores the opportunities that lie ahead for China in its quest for technological advancement.

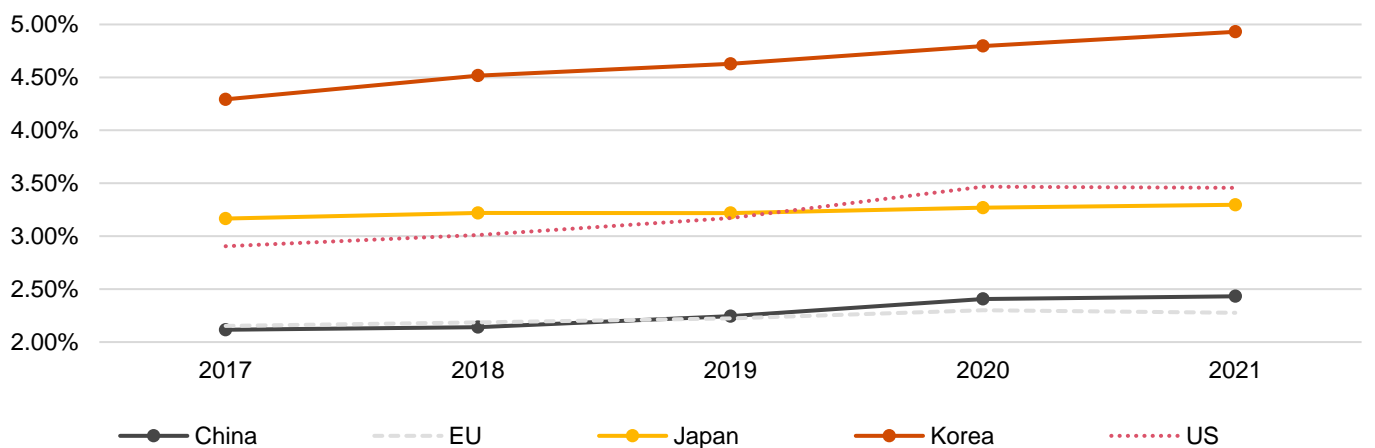
By adopting a "whole nation" approach, China is mobilizing its researchers and businesses, pooling resources to spearhead advancements in core technologies. Addressing "chokepoints", such as the semiconductor industry, aligns with both the country's economic goals and its national security priorities.

China's R&D Spending Hits New High



Source: National Bureau of Statistics of China, World Bank

R&D Spending (% of GDP)



Source: National Bureau of Statistics of China, World Bank

2. Cultivating Strategic Emerging and Future Industries

Sectoral reallocation, a process that enables an economy to shift resources from lower productivity sectors to those with higher productivity, has been a powerful driver of productivity growth in China's economic transformation. China's strategic shift toward emerging and future industries mirrors its earlier transition from agriculture to manufacturing and services, which yielded substantial productivity gains. Today, cutting-edge technologies pave the way for significant leaps in sectors such as artificial intelligence and quantum technology.

The 14th Five-Year Plan (2021-2025) underscores the nation's strategy to diversify the economy by expanding beyond heavy industries and sets an ambitious goal: to boost the contribution of strategic emerging industries from 11.5% of GDP in 2019 to over 17% by 2025. This growth represents a larger slice of an expanding pie, signalling vast opportunities for investors and business ventures. Aligned with this goal, in August 2023, the Ministry of Industry and Information Technology, the Ministry of Science and Technology, the National Energy Administration, and the National Standards Committee jointly issued the "Implementation Plan for New Industry Standardisation Pilot Project (2023-2035)," unveiling an updated roster of key areas that spotlight eight emerging industries and nine future industries.

Emerging Industries

- Next-Generation Information Technology
- New Energy
- New Materials
- Advanced Equipment
- New Energy Vehicles
- Green Technology
- Aerospace
- Marine Equipment



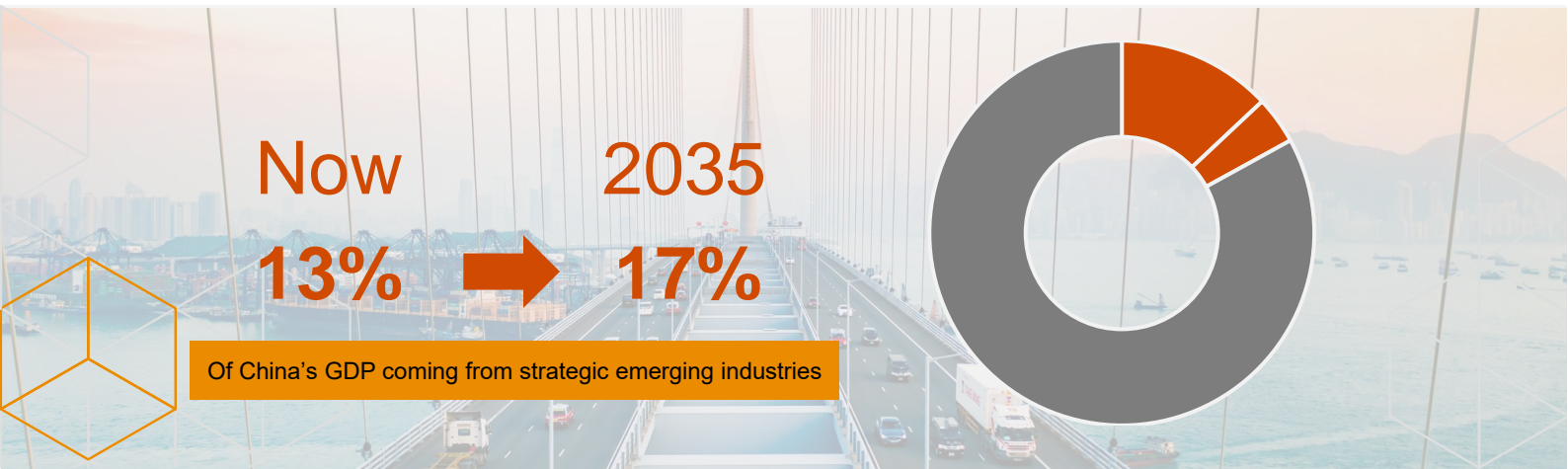
Future Industries

- Metaverse
- Brain-Computer Interface
- Quantum Information
- Humanoid Robots
- Generative Artificial Intelligence
- Biological Manufacturing
- Future Display
- Future Network
- New Energy Storage



Following this strategy, the trajectory of China's future industrial development is set to be shaped by the expansion of new quality productive forces, with a particular emphasis on advanced manufacturing. In May 2024, the value added by the equipment manufacturing industry saw a year-on-year increase of 7.5%, while the high-tech manufacturing industry's

value added rose by 10%. China is also making considerable investments in fostering future-oriented industries such as the humanoid robots and quantum information. A government guideline issued in January 2024 indicated that China will support the establishment of a series of incubators and pilot zones for these future industries by 2025.



3. Upgrading Traditional Sectors: Digitalisation and Green Transformation

The upgrading of traditional sectors is poised to remain a key driver of productivity gains in China, particularly through digitalisation and green transformation. Digital and green technologies are not only fast-growing sectors but also key drivers of transforming traditional industries.

Digital technologies have become pivotal drivers of productivity gains across China's traditional sectors. With the country's ongoing efforts to integrate the digital and real economies, the scale of digital industrialisation and industrial digitalisation has surged to RMB9.2 trillion and RMB41 trillion, respectively, representing 18.3% and 81.7% of China's digital economy in 2022¹. In China's burgeoning digital economy,

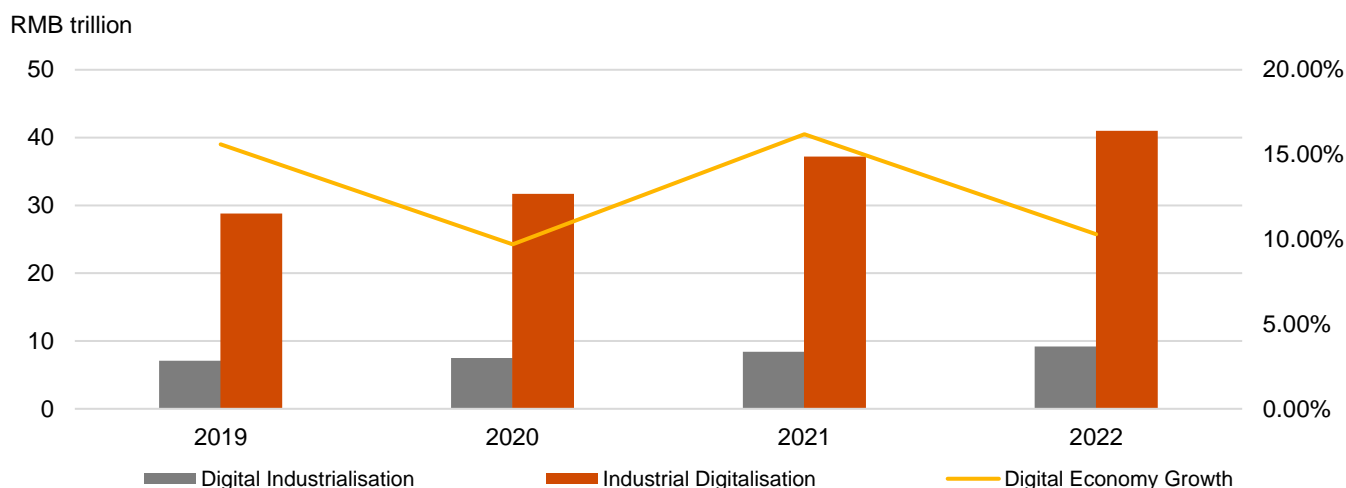
data has emerged as a critical productive factor, enhancing the efficiency of traditional factors. The immense value of data in circulation and transactions, coupled with China's vast data volume, provides a distinct advantage in expanding its digital economy. Leveraging big data, AI, and 5G, traditional sectors are undergoing significant upgrades through smart manufacturing. Notably, the scale of China's intelligent manufacturing equipment industry has exceeded 3.2 trillion yuan. The Three-Year Action Plan (2024-2026) for "Data Elements X" is set to further accelerate digital transformation across 12 key sectors. The plan aims to develop over 300 application scenarios, with a goal of achieving a 20% annual growth rate in the data industry and doubling data transaction volumes. By leveraging data resources, the initiative seeks to advance China's large language models. Additionally, the plan encourages private capital investment in the data industry and supports data businesses in going public and raising funds.

1. Digital Economy Development in China (2023). China Academy of Information and Communications Technology, April 2023.

Meanwhile, China is embarking on a green transformation to decarbonise its traditional sectors. The country has pledged to peak carbon dioxide emissions before 2030 and achieve carbon neutrality before 2060. In February 2024, the central government published a comprehensive policy document to

expedite the green and low-carbon transition of the nation's traditional industries. Notably, more than 800 large Chinese companies, particularly in the ICT, textile, and manufacturing sectors, have set targets to achieve carbon neutrality by 2060².

China's Digital Transformation



Source: China Academy of Information and Communications Technology

Data x Initiative

20% annual growth in the data industry by 2026

12 Sectors to Receive a Boost for Digitalisation

- Industrial Manufacturing
- Agriculture
- Commerce
- Transportation and Logistics
- Financial Services
- Technological Innovation
- Cultural Tourism
- Emergency Management
- Meteorological Service
- Urban Governance
- Healthcare
- Green and Low-Carbon

2. Funding the Green Technology Innovation Pipeline: Lessons from China. World Economic Forum, 8 May 2024.

4. Deepening Institutional Reform

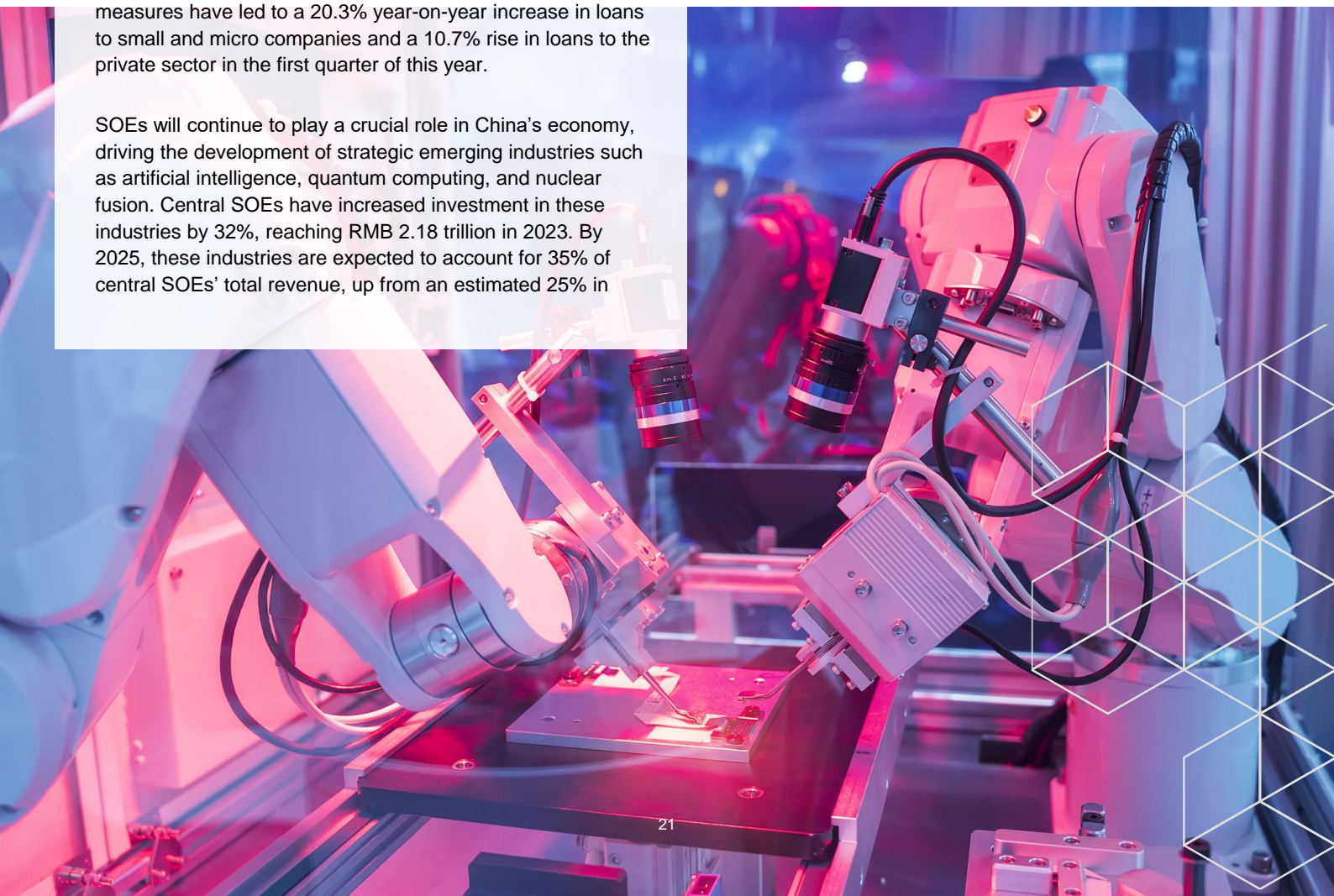
Institutional reforms are pivotal in enhancing TFP, with an emphasis on mechanisms that allocate resources to the most productive firms and enhance production processes to boost firm-level productivity. China's "two unswervingly" principle underscores the dual strategy of consolidating and developing the public sector while encouraging, supporting, and guiding the development of the private sector.

China's private sector plays a significant role in shaping emerging and future industries. By the end of May 2024, the country had 180.45 million private business entities, comprising 96.4% of all business entities. Notably, the share of private businesses in the scientific research and technical services sector has increased to 94.4%. In the high-tech manufacturing and high-tech services sectors, private firms account for 90.2% and 93.3% of all companies, respectively. Chinese policymakers have committed to institutional reforms that will further enhance the environment for private businesses by improving market access, fair competition and property rights protection. In line with this principle, in November 2023, the PBOC and seven other ministries introduced specific measures to boost financial services for the private economy, focusing on small and medium-sized enterprises in high-tech and low-carbon sectors. These measures have led to a 20.3% year-on-year increase in loans to small and micro companies and a 10.7% rise in loans to the private sector in the first quarter of this year.

SOEs will continue to play a crucial role in China's economy, driving the development of strategic emerging industries such as artificial intelligence, quantum computing, and nuclear fusion. Central SOEs have increased investment in these industries by 32%, reaching RMB 2.18 trillion in 2023. By 2025, these industries are expected to account for 35% of central SOEs' total revenue, up from an estimated 25% in

2023. With substantial technological reserves, a skilled workforce, and robust financial capabilities, SOEs are well-equipped to thrive in sectors requiring significant investment and longer return cycles. In April 2024, a group of central SOEs were selected by the State-owned Assets Supervision and Administration Commission (SASAC) to help cultivate tech unicorns and startups. Local SOEs are also expected to follow suit, focusing on frontier technological innovation and integrating AI with traditional sectors. Additionally, SOEs are urged to expedite digitalisation and smart manufacturing, and to adopt green and low-carbon initiatives.

Central to the reform is the coordinated development of both state-owned and private sectors. China's SASAC has committed to enhancing collaboration between SOEs and private firms as part of its broader SOE reform agenda. Central SOEs are forming equity partnerships, engaging in industrial chain collaborations, and improving supply chains to support private business growth. In the sphere of scientific and technological innovation, SOEs are partnering with private enterprises, universities, and research institutes to achieve major technological breakthroughs. This strategy underscores China's commitment to leveraging the strengths of both public and private entities to drive high-quality development and innovation.



Promoting Coordinated Development of SOEs and Private Enterprises



Capital

- Central SOEs have actively engaged in equity cooperation with private enterprises and other social capital, resulting in investments exceeding 390 billion yuan
- Central SOEs have invested in over 13,000 companies of various types through shareholding



Supply Chain Collaboration

- Central SOEs have lowered procurement thresholds and transaction costs during the procurement process to support the development of private businesses
- Among the more than two million enterprises in the upstream and downstream supply chains directly driven by central SOEs, 96% are private SMEs



Industrial Chains

- Central SOEs have collaborated with upstream and downstream enterprises to strengthen and upgrade weak links in the industrial chains, aiming to extend and solidify these networks
- This initiative has driven the development of over 5,700 business entities, with numerous private enterprises participating



Sci-Tech Innovation

- Central SOEs have established 24 innovation consortia in strategic emerging and future industries, collaborating with private enterprises, universities, and research institutes to tackle key challenges
- These consortia have achieved breakthroughs in the fields of industrial software, industrial mother machines, computing power networks, and new materials

5. Promoting High-Level Opening-up

High-level opening-up that promotes both foreign direct investment (FDI) and outward direct investment (ODI) is another key pillar in accelerating China's development of new quality productive forces.

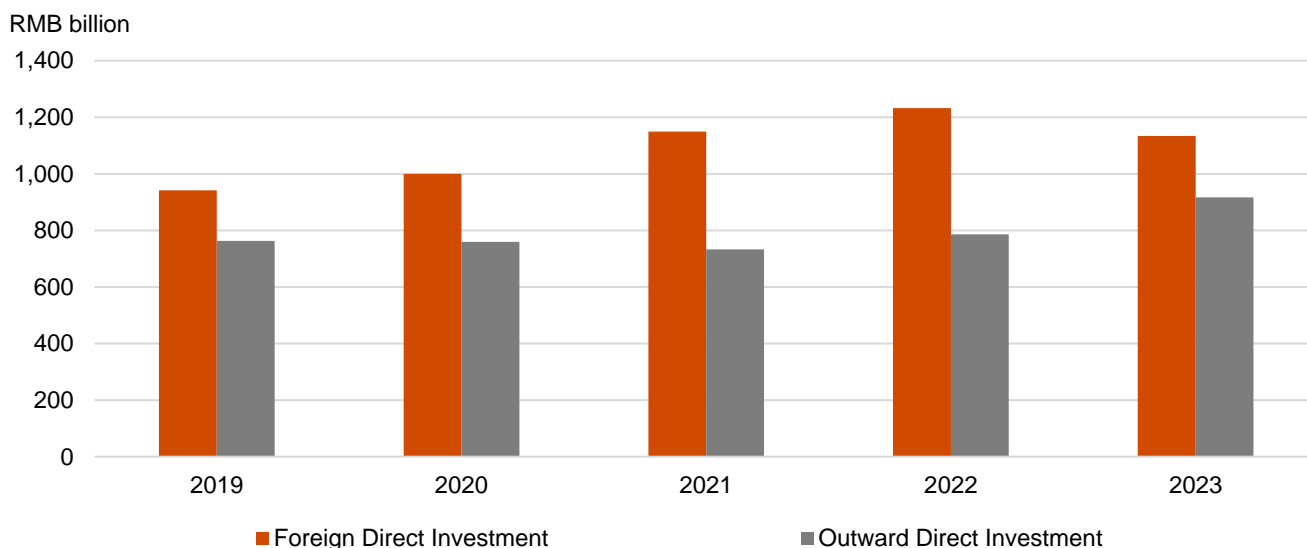
FDI has been a cornerstone of China's economic growth over the past three decades, serving as a vital conduit for both capital and technology. Foreign investors have directly provided the economy with capital and facilitated knowledge spillovers, enabling domestic firms to enhance their competitiveness and productivity. This has fuelled China's rapid economic growth and technological ascent. In particular, foreign companies have been instrumental in constructing China's tech value chain, introducing advanced technologies and business practices, and upskilling the local workforce. In an effort to attract foreign investment, China has initiated a revision of the industry catalogue that encourages foreign investment. This revision emphasises support for advanced manufacturing, modern services, advanced technology, energy conservation, and environmental protection. This move is designed to attract more foreign capital and expertise into these key sectors and stimulate innovation and growth.

Simultaneously, Chinese ODI is helping manufacturers export more technologically intensive intermediate goods and move up the global value chain—a key objective in developing new quality productive forces. China's role as the world's factory has evolved from relying on low-cost labour to featuring a

sophisticated supplier ecosystem producing intermediate goods, such as auto parts and battery cells. As Chinese multinationals invest in local production in emerging economies like ASEAN and Mexico, they drive demand for components, semi-finished goods, and equipment from China. By combining China's intermediate goods with low-cost labour in these regions for final assembly, the finished products are then re-exported to the US and Europe. This approach not only strengthens China's role in the global supply chain but also helps accelerate China's broader transition from a labour-intensive economy to one driven by technology and innovation. It allows Chinese manufacturers to capture a larger share of the global value chain and focus their investments in high-tech manufacturing. In 2023, China's export of intermediate goods rose to RMB11.24 trillion, comprising 47.3% of its total exports.

In conclusion, China's economic transformation strategy hinges on five key pillars. These pillars aim to tackle structural challenges and, crucially, steer the economy towards sustainable, green, and inclusive growth, powered by technology and innovation. This transformation is set to reveal new market opportunities and drive growth in emerging sectors.

Steady Growth in China's FDI and ODI



Source: Ministry of Commerce, PwC Analysis



Author

Jackie Yan
Economist
PwC China
+852 2289 5460
jackie.z.yan@hk.pwc.com



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