China: New growth drivers, new opportunities

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Economics
China

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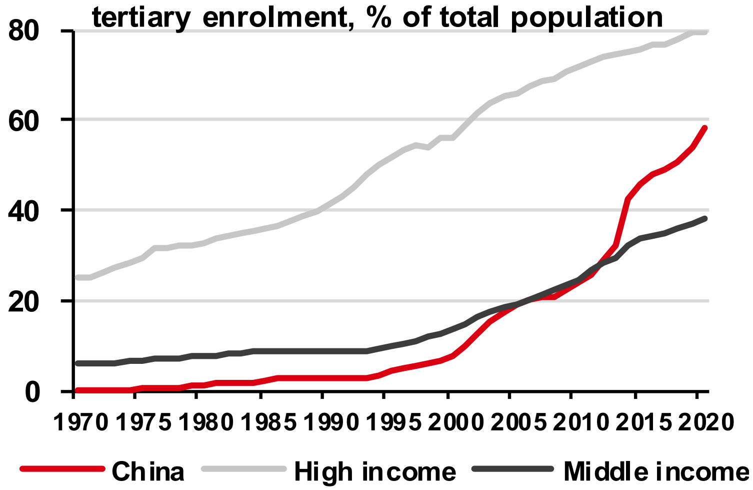
20th Party Congress

- Economic growth key to realising China's long-term goals:
  - 2020-35: basically achieving modern socialism
  - 2035-50: building a great modern socialist country that is "prosperous, strong, democratic, culturally advanced, harmonious, and beautiful"
- New central task: "advancing the rejuvenation of the Chinese nation on all fronts through a Chinese path to modernisation"
- New growth drivers: innovation, manufacturing upgrading, green development, domestic consumption

Manufacturing upgrading to be supported by structural factors

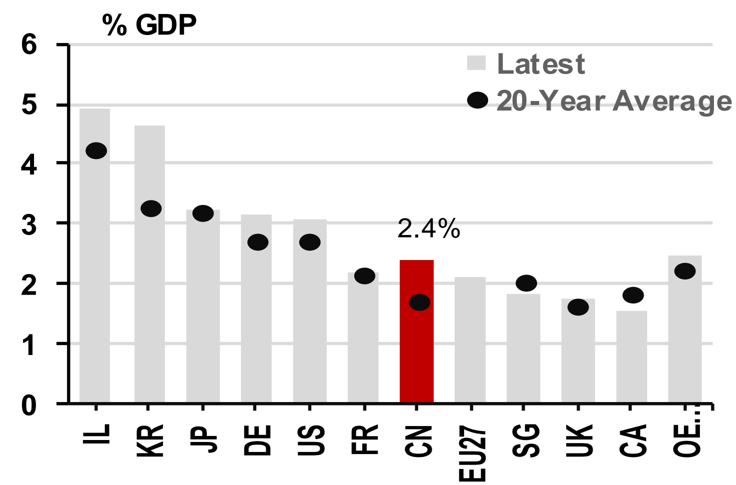
- Investment in medium and high-tech manufacturing has been accelerating to over double-digit CAGR growth in recent months and should grow by over 12% annually over the next five years vs. around 4.5% in the past five years
- Improving innovation capacity, supported by 4m STEM graduates each year and Beijing's technology push, should continue to drive the industrial upgrading
- Manufacturing investment growth will likely reach double digits in 2022 (vs. a c5% 2-year CAGR 2020-21)

China's skilled workforce is expanding, boosted by 10m university graduates per year…



Source: World Bank, HSBC. Gross enrolment ratio is the ratio of total enrolment, regardless of age, to the population of the age group that officially corresponds to the level of education shown.

China's R&D spending intensity is on par with advanced economies

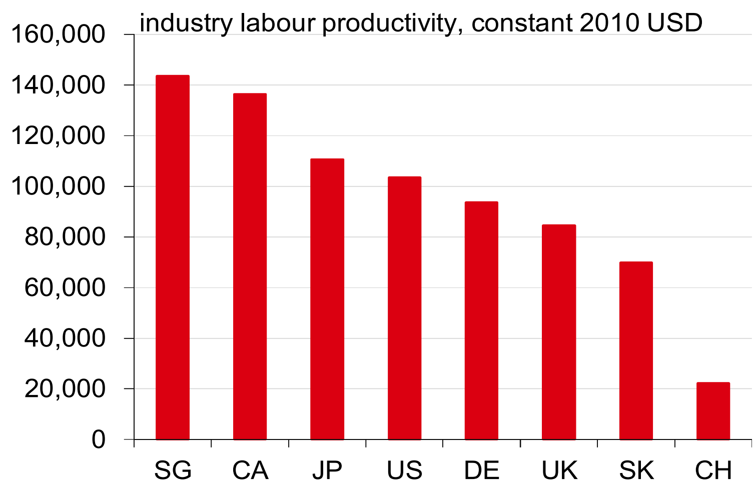


Source: OECD, HSBC
Country code is based on two letter ISO codes; data is for 2019 except for China which is for 2020.

Expanding global trade and investment to foster technology catch up

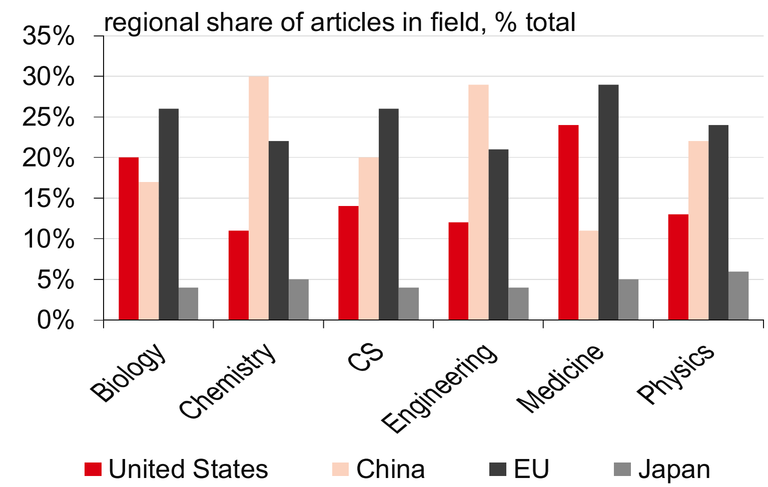
- China's labour productivity gap highlights room for technology to catch up. Rather than reinventing the wheel, China should deepen trade and investment ties to lift technology growth.
- Structural reforms based on competitive neutrality and strengthening intellectual property (IP) rights protection will help China to close FTAs with developed countries (e.g. EU, CPTPP).
- Opening up the domestic market, such as offering more services, will draw more countries to China.

China's labour productivity still has room to grow and catch up



Source: World Bank, HSBC; 2017 data, CA – Canada, US- United States, UK – United Kingdom, SG – Singapore, DE – Germany, SK – South Korea, JP –Japan, CH – mainland China

China has relative strengths in some S&T fields, but lags behind in others

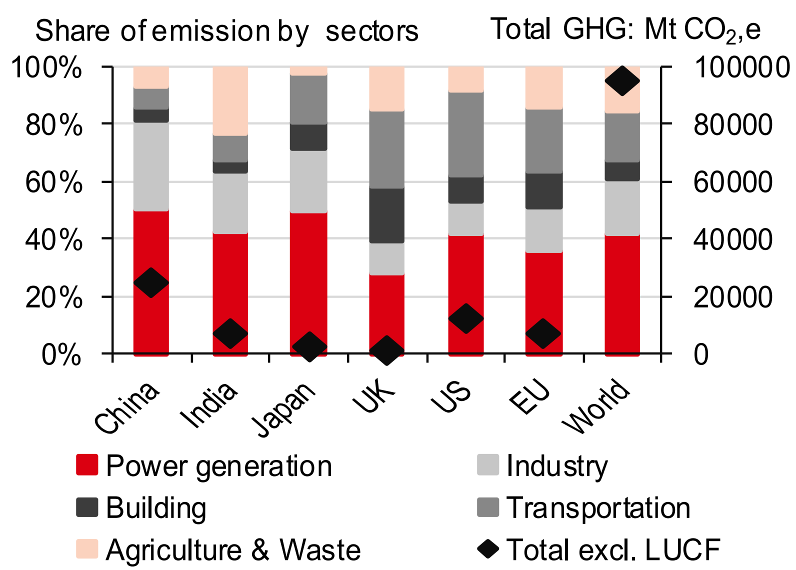


Source: National Science Foundation, HSBC; 2017 data

China's 30/60 climate target

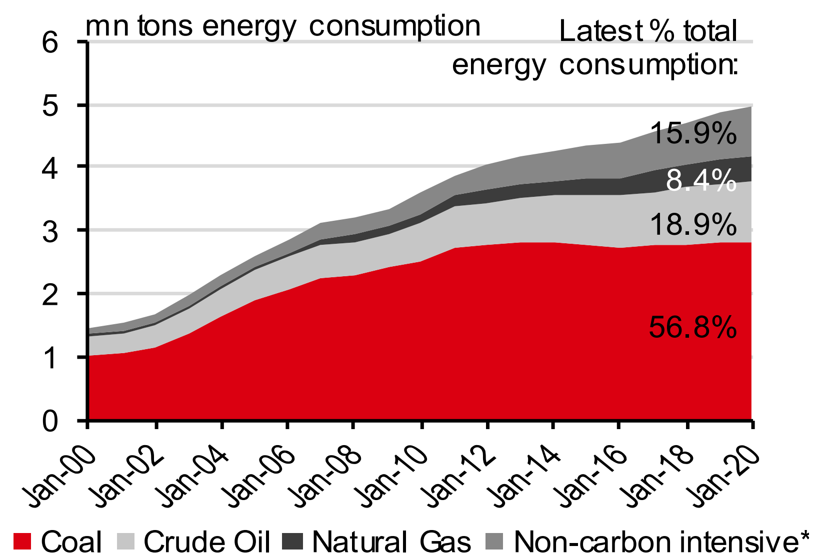
- China is the largest emitter of greenhouse gases (GHGs) in the world, led by power generation and the industrial sectors
- China has committed to its climate target: peak carbon by 2030 and carbon neutrality by 2060

80% of China's GHG emissions come from power generation and industry



Source: CAIT, HSBC. LUCF refers to "land use change and forestry".

…and coal power still makes up the bulk of China's energy consumption



Source: Wind, HSBC; Non-carbon intensive energy includes hydropower, wind power and nuclear power.

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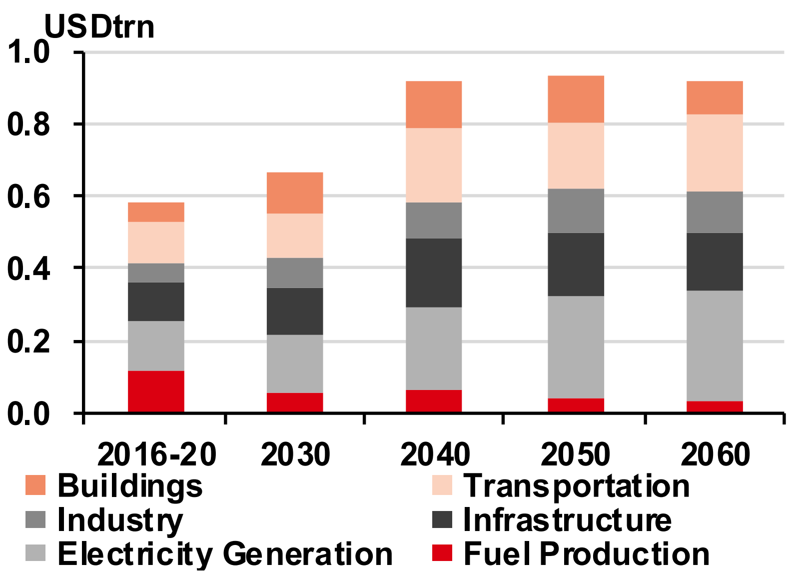
Kick-starting green investment with over 30% growth per year

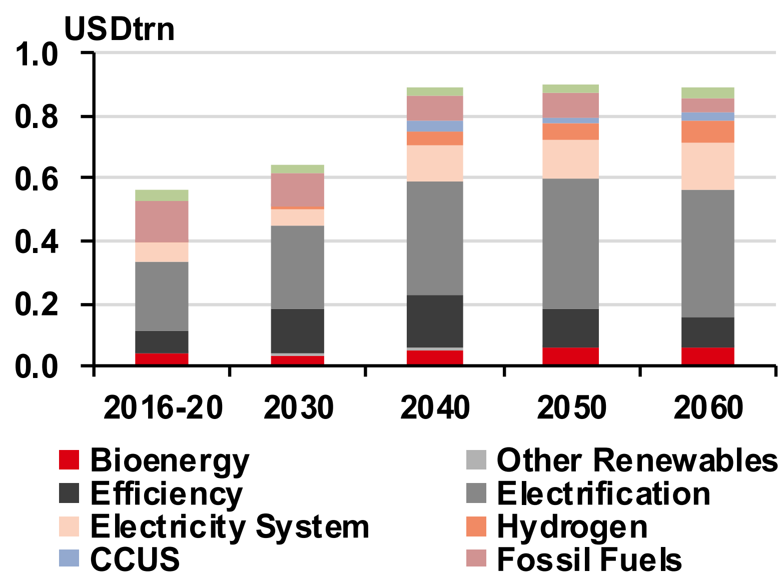
- Various funding sources, including green bond issuance and re-lending facilities, will likely propel green investment to over 30% growth; the International Energy Agency (IEA) estimates China needs to invest more than RMB200trn (equivalent to 200% of GDP in 2020) in the next 40 years to achieve carbon neutrality

Annual investment to surpass RMB5trn, on average, between 2020-60…



Source: IEA (2021)

…mostly in electrification and electricity systems



Source: IEA (2021)

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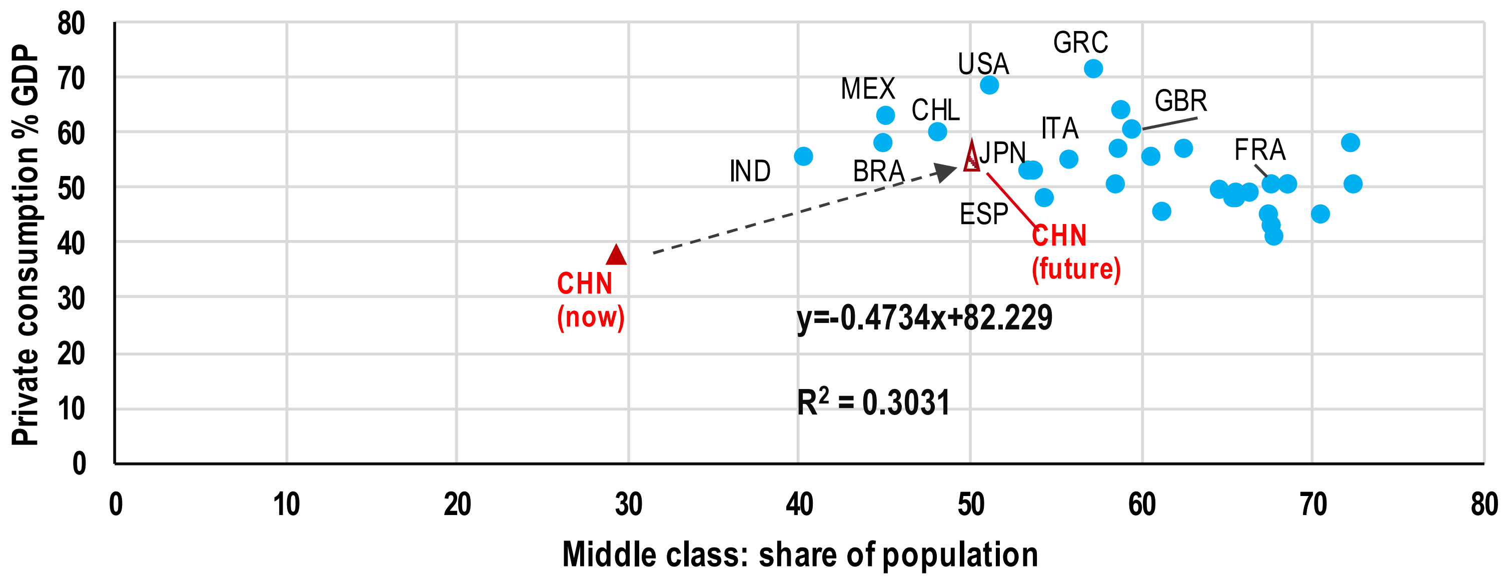
Expanding middle class drives consumption

- Expansion of the middle income group is going to be a secular force for consumption
- Domestic consumption will constitute the third driver, in addition to manufacturing upgrading and green investment, for China's economic growth in the coming years

If China's middle income group expands to 50% of its population by 2030, private consumption may contribute c58% to GDP

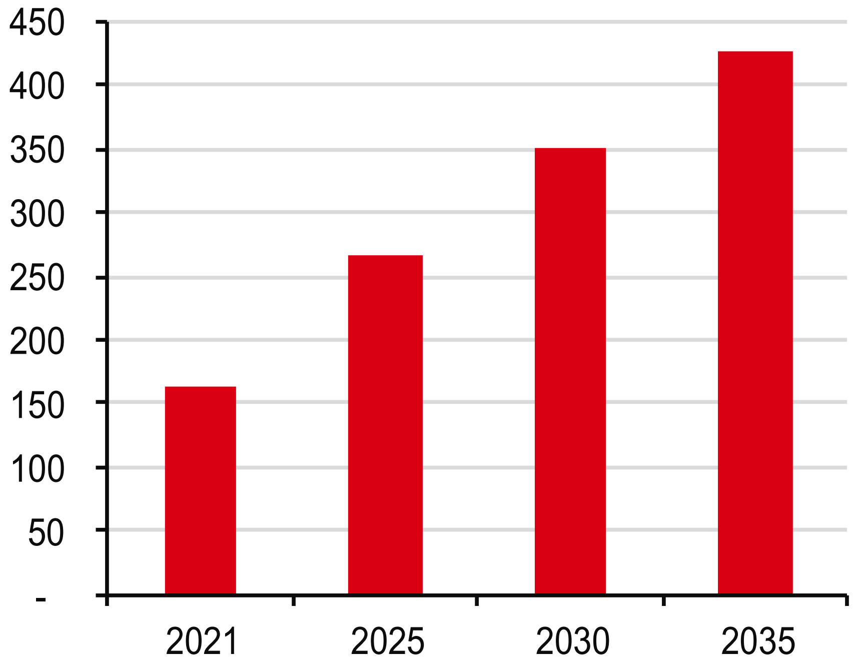


Note: The "middle-income" group is defined by population share with household disposable income between 75% and 200% of the national median. Incomes are disposable incomes, corrected for household size, following OECD (2019). Country codes follow ISO standard

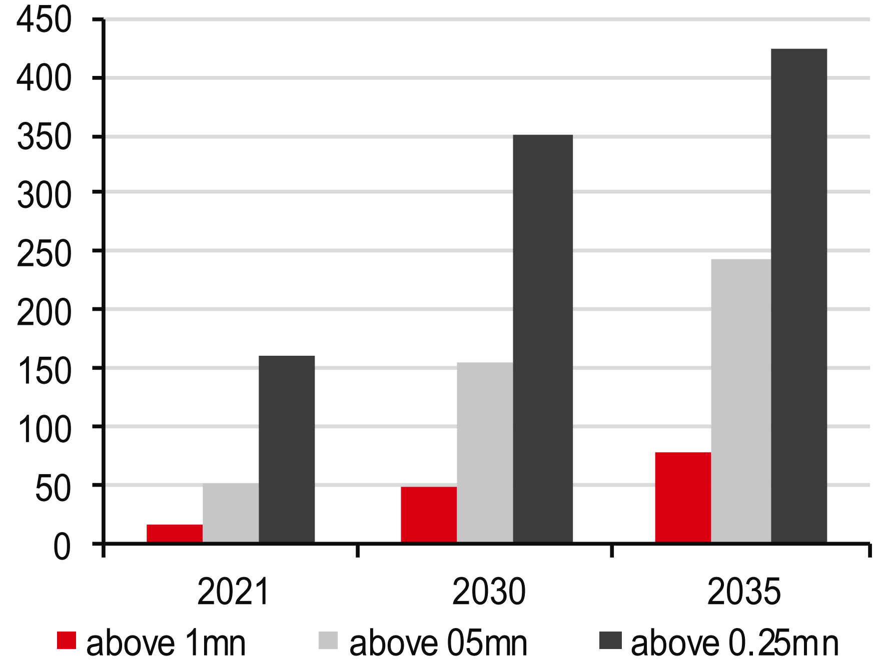
Source: OECD, CEIC, HSBC

Private wealth is projected to continue its fast growth going forward

Number of adults in China with wealth above USD250k (in millions)



Number of adults in China above USD million wealth level (in millions)



Source for both charts: UNU-WIDER, World Income Inequality Database (WIID), World Bank, IMF, United Nations Population Division, HSBC forecasts

Striking a balance between regulation and innovation

- Antitrust regulations to continue with the core aim of boosting competition and innovation, critical for a digital economy.
- Financial regulators have become increasingly concerned about Big Tech: the Fintech Development Plan for 2022-25 aims to promote competition and facilitate the “digital, smart, green, and fair” development of financial services.
- Pro-growth to replace the de-risking mindset; the implementation is likely to be more transparent and better coordinated
  - Agile regulation: Regulation to evolve alongside technology with the aim of changing the behaviour of market participants in order to solve problems
  - Policy coordination: Any policy with a potential significant impact on capital markets should be coordinated with the financial regulatory authorities in advance to maintain stable and consistent expectations

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