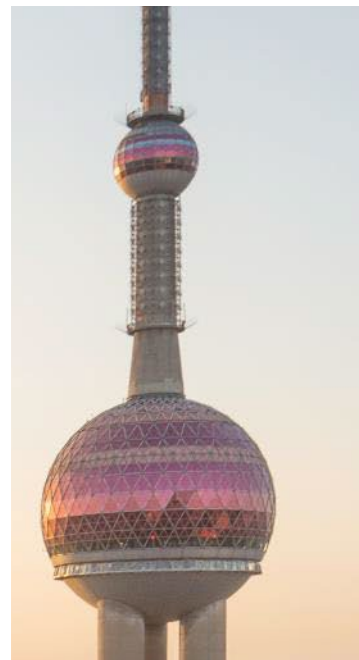
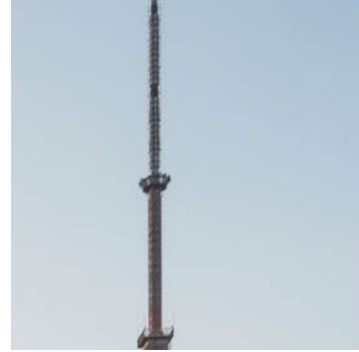


China Economic Quarterly Q3 2022

China's GDP increased by 3.9% in Q3 and 3% in the first three quarters. Economic recovery remains under pressure amid COVID-19 control policies in Q4.

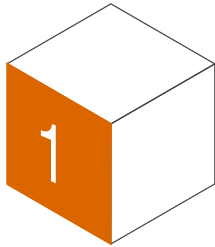
November 2022

Major economic indicators p2/ Policy updates p11/ Hot topic analysis p13



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Major economic indicators

China's economic recovery significantly improved in the third quarter compared to Q2. GDP increased by 3.9% in Q3 year-on-year (YoY) while it was 0.4% in Q2. However, the COVID-19 control policies might pose a challenge for the domestic economy in Q4.

On a quarterly basis, GDP also increased by 3.9%, comparatively it contracted by 2.6% in Q2. Total GDP reached 87.03 tn yuan by Q3, increasing by 3% YoY increase.

As a result, it is almost certain that China's target annual growth rate of 5.5% is out of reach. If the current COVID-19 situation in China and economic slowdown across the world continue till the end of the year, it might be difficult to see more than 3% growth in 2022.

On the other hand, while many countries are facing high inflation, and some suffer energy shortages, China still managed to maintain economic stability. Once COVID-19 control policies ease, the economy is expected to stage a rapid recovery in 2023.

Additionally, slower economic growth has translated into dramatic impacts on the employment market, especially for the groups of self-employed and flexibly-employed, as well as fresh college graduates, and migrant workers.

The total number of self-employed or individual businesses (with average number of 2.68 employees and mainly operate in retail, accommodation and catering, and resident services) is slightly more than 100 mn and the flexibly-employed group is around 200 mn according to the 2021 year end data.

By the end of Q3, the national urban surveyed unemployment remained at 5.6%. In September, the unemployment rate was 5.5%, slightly less than April. The unemployment rate for the 25 to 59 age group was less severe, increasing to 4.7% from 4.5% in June.

However, the employment situation for migrant workers and college graduates did not see much improvement in Q3, with September unemployment rate among migrant workers standing at 5.5%. By the end of Q3, a total of 182.7 mn rural workers had migrated for work. The unemployment rate for the 16 to 24 age group remained high but improved to 17.9% from 19.3% in June. Meanwhile, the urban surveyed unemployment rate in 31 major cities remained at 5.8% in September.

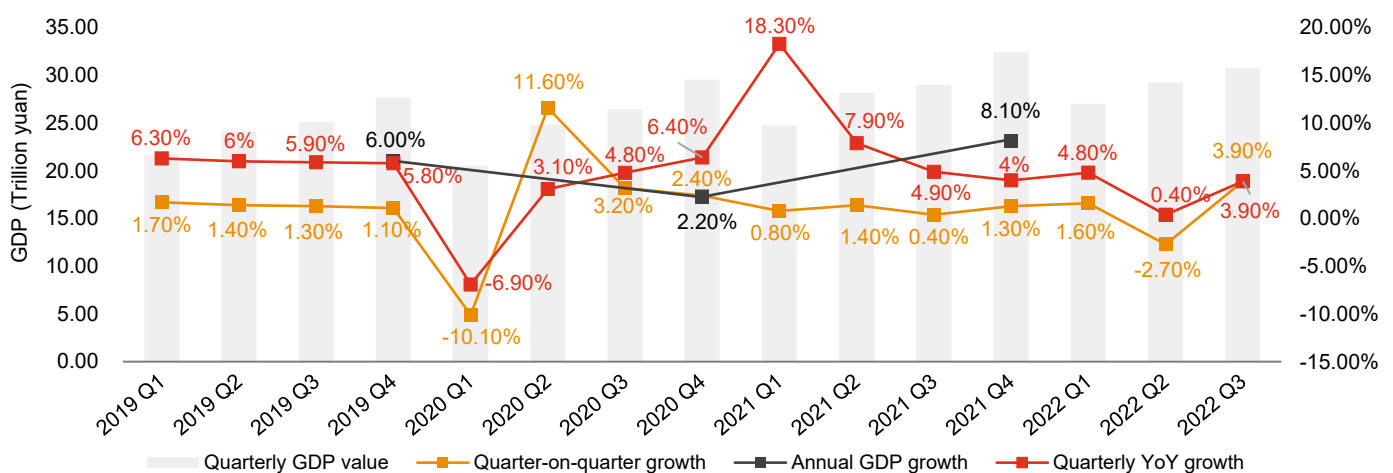
Lastly, as the downturn of the global economy has been worse than previously forecasted, China will face a more challenging external environment in the rest of 2022 and 2023.

More specifically, the International Monetary Fund (IMF) predicted that global economic growth will decline from 6% in 2021 to 3.2% in 2022 and 2.7% in 2023. The causes of slowdown include the COVID-19 pandemic, the war in Ukraine, inflation, as well as tightening financial conditions, among other factors.

In 2022, sea changes took place in the world. The pandemic has been lasting for three years, coupled with geopolitical tensions highlighted by the Russia-Ukraine conflict, energy crisis in Europe, soaring global inflation, and financial market turbulence- all these factors combined to disrupt the pace of global economic recovery. Last but not least, the global climate is nothing close to normal as seen by recent extreme weather events. Many people are worried about the future of the world.

IMF expects that China's GDP growth will reach 4.4% in 2023. Given a relatively low base in 2022, upcoming reopening effects, strengthening of domestic circulation within the economy, and expected reform measures by the new administration after a reshuffling of key officials (a new premier to be in place early next year), it is still possible for the Chinese economy to return to 6% growth next year.

Quarterly GDP values and quarterly and annual GDP growth rate



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

In the first three quarters, the outputs of the primary, secondary and tertiary industries were 5.48, 35.02 and 46.53 tn yuan respectively. The corresponding growth rates were 4.2%, 3.9% and 2.3% YoY. Economic contributions of the primary, secondary and tertiary industries to GDP growth were 6.29%, 40.24%, 53.47% respectively.

More specifically in Q3, national GDP reached 30.76 tn – the outputs of the primary, secondary and tertiary industries were 2.56, 12.16, and 16.04 tn yuan respectively. The growth rates of the primary, secondary and tertiary industries (services) were 3.4% and 5.2% and 3.2%.

As a result, the primary, secondary and tertiary industries accounted for 8.34%, 39.51%, and 52.15% respectively of total GDP in Q3.

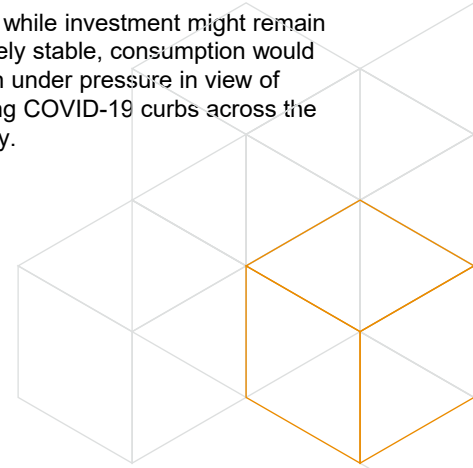
In the first three quarters, consumer demand continued to recover on the back of supportive policies promoting consumption and stabilising growth. As a result, final consumption expenditure contributed 52.4% to economic growth boosting GDP growth by 2.1 percentage points.

In the first three quarters, gross capital formation boosted economic growth by 0.8% and contributed 26.7% to growth. With the continuous rollout of measures to stabilise the domestic economy, the construction of major projects has accelerated, and the scale of investment has continued to expand.

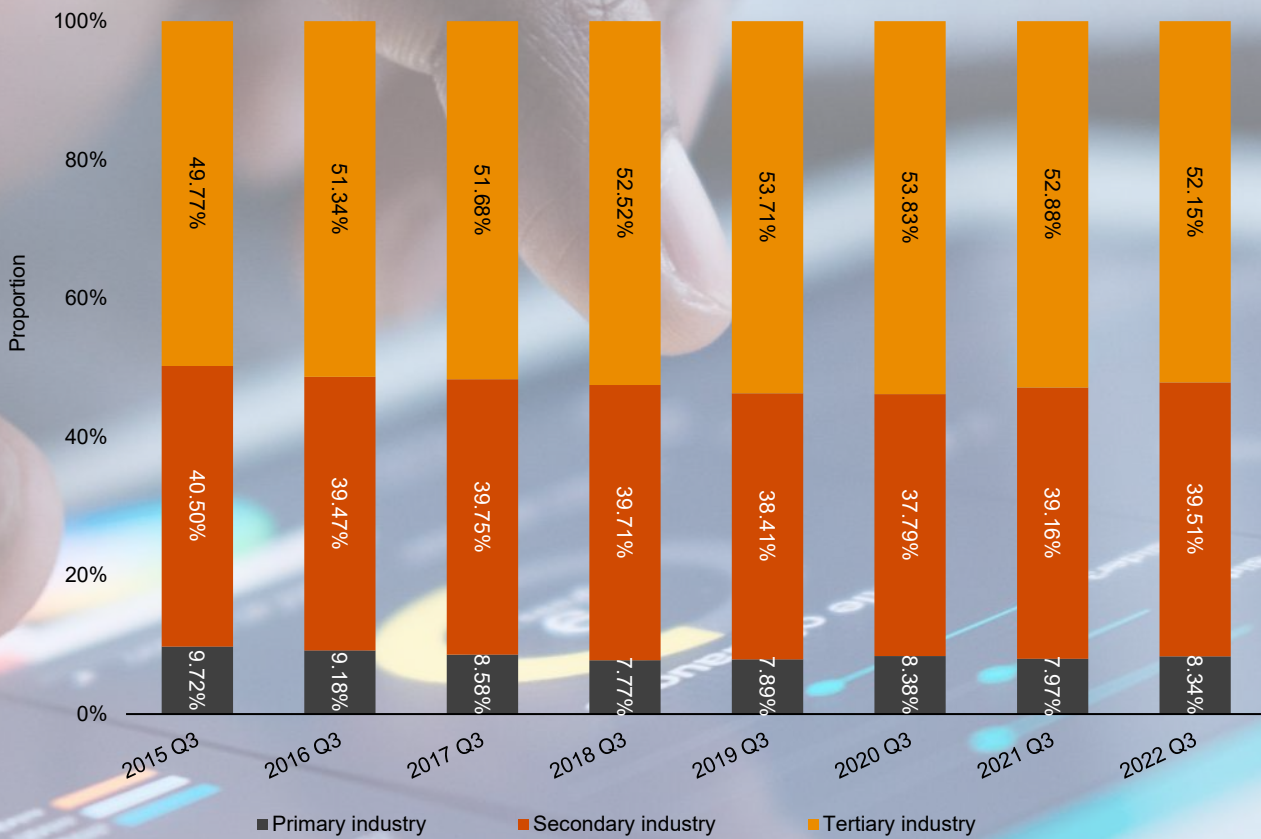
Net exports also grew rapidly. In the first three quarters, net exports of goods and services contributed 32% to economic growth, and 1% to GDP growth. In the third quarter, net export

of goods and services contributed 27.4% to economic growth and 1.1% to GDP growth. As global economic growth declined and international demand for Chinese goods would also fall, China's export may slow down considerably in Q4.

In Q4, while investment might remain relatively stable, consumption would remain under pressure in view of ongoing COVID-19 curbs across the country.



GDP composition



Total fixed asset investment reached 42.14 tn yuan in the first three quarters, increasing 5.9% YoY. This is a combined result of promoting investment coordination mechanisms for major projects, policy-based development of financial instruments, as well as the issuance of special local government bonds to support the implementation of those projects.

On a month-on-month basis, fixed asset investment rose by 0.53% in September. In Q3, fixed asset investment rose 5.7% YoY, which was 1.5 percentage points higher than that of the second quarter.

For Q4, strong policy support will continue to drive the steady growth of fixed asset investment, which is more resilient to the impacts of COVID-19.

More specifically, **by ownership**, private investment reached 23.2 tn yuan in the first three quarters, increasing by 2% and accounting for 55.1% of total investment. Comparatively, the growth of private investment reduced again in Q3. In contrast, state-owned investment rose by 10.6% in the first three quarters, which is much higher than private investment.

Furthermore, fixed asset investment from Hong Kong SAR-, Macao SAR- and Taiwan-owned companies increased by 3.8% in first three quarters, which is also much lesser rate than in H1. Fixed investment of foreign-owned enterprises continued to decline by 2.9%.

Fixed investment of domestic-owned companies, including state-owned and private enterprises, as well as collective enterprises and limited liability companies, among others, went up by 6.2%, which is at par with H1.

By sector, fixed asset investment of the primary, secondary and tertiary industry increased by 1.6%, 11%, and 3.9% in the first three quarters to 1.06 tn, 13.21 tn and 27.87 tn yuan respectively.

By industry, within the secondary industry, the industrial sector went up 11.1%. Investment in mining increased by 8.2%, while investment in the production and supply of electricity, gas and water rose by 17.8% in the first three quarters.

Fixed asset investment in the manufacturing sector rose by 10.1%. Within the manufacturing sector, investment in the electrical machinery and equipment manufacturing grew by 39.5%; wine, beverage and refined tea manufacturing by 34.5%; chemical fiber manufacturing by 32%; and textile, clothing and apparel industries by 30.8%. This is demonstrative of the strengths of China's manufacturing sector remains in restoring confidence about the economic outlook. However, as global GDP growth in 2023 is forecasted to be further slow down in 2022, the growing trend of manufacturing investment might see a setback in Q4.

In the tertiary industry, infrastructure investment increased by 8.6%. Within which, investments in water conservancy management increased by 15.5%, public facilities management by 12.8% and information transmission industry by 12.2%..

Real estate investment, as one of the three key areas of fixed asset investment apart from manufacturing and infrastructure, contracted by 8% (5.4% reduction in H1) in the first three quarters.

On the other hand, several other industries registered an increase of approximately 20% to 30% in fixed asset investment in H1, including:

- Manufacturing of computers, communications and other electronic equipment (19.9%);
- Healthcare and social work (29.9%);
- Manufacturing of chemical materials and chemical products (19.3%).

Lastly, fixed asset investment in high-tech industries increased by 20.2% in the first three quarters. Of which, investment in the manufacturing of electronic and communication equipment, and medical equipment and instrumentation, grew by 28.8% and by 26.5% respectively.

Fixed Asset Investment



Total real estate investment

contracted by 8% YoY in the first three quarters, which is much worse than 5.4% in H1, reaching 10.36 tn yuan and accounting for 24.6% of total fixed asset investment (25.1% in H1, 26.5% in Q1 2022; 27.1% in 2021).

The turmoil in the property market added to the list of China's biggest economic challenges, while it is still tackling the pandemic. The strict macro control policies on property are being adjusted further by local governments. To improve the financing conditions in the housing market, the People's Bank of China, together with relevant departments, adopted the "three arrows" policy combination from the three channels of credit, bond and equity to support the financing of private developers. More than one tn yuan of rescue funds has been announced to directly support real estate enterprises.

More specifically, total real estate investment of residential buildings decreased by 7.5% in the first three quarters (6.4% in 2021) to 7.86 tn yuan, accounting for 75.6% of total real estate investment.

In addition to investment, nearly all of the other major indicators continued to see negative performance in the first three quarters. Floor space of commercial housing ready for sale (including residential and commercial buildings), was the exception, increasing 8.1% YoY, but at the expense of rising housing inventory.

More specifically, the national housing climate index has declined to a historic low of 94.86% in September.

The total sales value of all properties reached 9.94 tn yuan, a decrease of 26.3% YoY in the first three quarters. Among all properties, sales of residential properties reduced by 28.6%. Besides, the sales area of commercial housing was 1.01 bn square meters, down 22.2% YoY.

In September, the prices of newly built properties in tier one cities of Beijing, Shanghai, Guangzhou and Shenzhen increased by 2.7% YoY. At the same time, prices of resale residential properties increased by 1.2%.

On the other hand, housing prices of cities in other tiers declined. In tier two cities, prices of newly built properties declined by 1.2% YoY in September while prices of resale properties decreased by 3%. In tier three cities, prices of newly built and resale properties fell by 3.8% and 4.5% respectively.

In the first three quarters, the funds for real estate development enterprises reached 11.43 tn yuan, a contraction of 24.5% YoY.

More specifically, 4.06 tn yuan was generated from self-raised funds, a 14.1% YoY decrease. Deposits and prepayments accounted for 3.73 tn yuan, a 34.1% decrease. Personal mortgage loans and domestic bank loans contributed 1.84 and 1.37 tn yuan, registering a decrease of 23.7% and

27.2% respectively. Furthermore, in the first three quarters, many indicators declined:

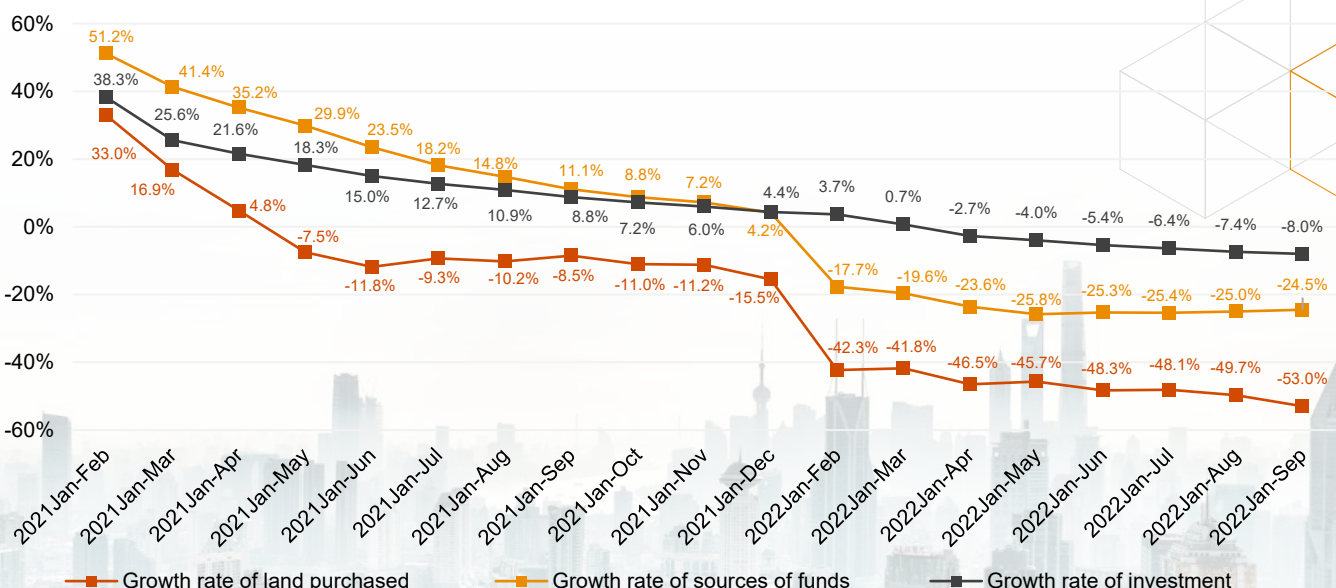
- Total value of land transactions (final amount of transactions of land use rights by the developers) shrank by 46.2% to 502 bn yuan (2021: 2.8% increase to 1.78 tn yuan).
- Land acquisition area, also known as volume of land purchased, contracted by 53% (2021: 15.5% decrease).
- Floor space of buildings, including residential and commercial buildings, at the start of construction decreased by 38% (2021: 11.4% decrease); residential space decreased by 38.7%.

Additionally, in the first three quarters:

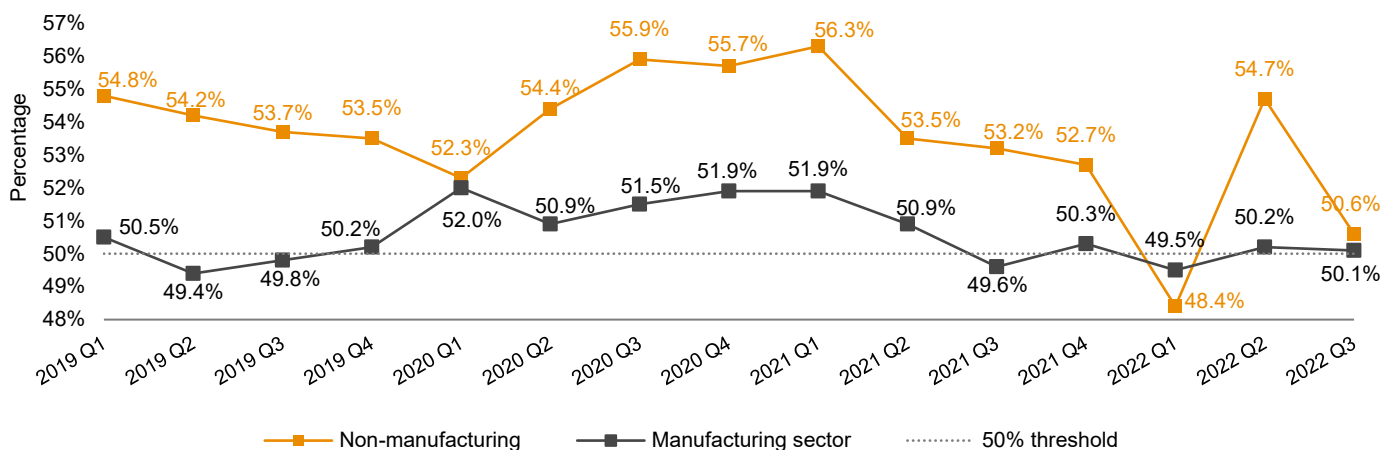
- Floor space of completed residential buildings reduced by 19.9% (2021: 11.2% increase).
- Total floor space of residential buildings sold reduced by 25.7% (2021: 1.9% increase).
- Floor space under construction also decreased by 5.3% (2021: 5.2% increase).

Since stabilising economic growth is a top priority in Q4 and in 2023, while many sectors have been seriously hit by repercussions of the COVID-19 control policy, China may not have many options available other than to further adjust some of the macro control policies on the property market.

Growth rates in real estate



Purchasing Managers' Index



China's **Purchasing Managers' Index (PMI)** for the manufacturing sector was 49%, 49.4%, and 50.1% in July, August, and September respectively. It is still relatively weak due to the resurgence of COVID-19 cases across the country. In September, as the stimulus package to stabilise the economy continued to take effect and the impact of the hot weather receded, the business climate has improved for the manufacturing sector with the PMI returning to the expansion zone of above 50%.

In September, the manufacturing sector entered the traditional peak season, with enterprises' production activity picking up, supporting an increase of the production index to 51.5%, up 1.7 percentage points from the previous month and back in the expansion zone.

At the same time, in order to meet production needs, enterprises accelerated the purchase of raw materials, lifting the purchase quantity index to 50.2%.

Besides manufacturing PMI, the non-manufacturing business activity index and the composite PMI output index were 50.6% and 50.9% respectively in September (54.7% and 54.1% in June), both above the critical point of 50% for four consecutive months.

As COVID-19 cases are still spreading in many provinces, pandemic prevention and control measures might further impact the PMI readings in Q4.

More specifically, in September, among the 13 sub- and related-indices of manufacturing PMIs, nine were lower than 50%. Meanwhile, among the five

key subindices that form the manufacturing PMI, the production index was above the critical point of 50%, while the new order index, raw material inventory index, employment index and supplier delivery time index were all below 50%.

Among the 13 sub- and related-indices of manufacturing PMIs, in September, similar with June, the three indices with the highest readings were the expected production and business activities index (53.4%, 1.1% higher than the previous month, indicating a pick-up in sentiment among manufacturers), production index (51.5%), purchase price of main raw materials index (51.3%).

In September, the three indices with the lowest readings were the open orders index (44.1%), new export orders index (47%) and producer price index (47.1%).

In terms of industries, in September, the production index of food, wine and beverage, refined tea, medicine, non-metallic mineral products, ferrous metal smelting and processing, general equipment manufacturing and other industries all rose to 54% or above.

PMI for large, medium-sized companies, and small businesses were all relatively weak compare to historical average.

PMI for large enterprises, once dropping below 50% in July, increased to 51.1% in September. PMI for medium-sized companies went down to 49.7%, up 0.8 percentage points from the previous month. Meanwhile, PMI for small businesses continued to remain in contraction zone at 48.8%, up 0.7 percentage points from the previous month.

The **non-manufacturing PMI** returned above the critical point in Q3. In September, the non-manufacturing business activity index was 50.6%, down 2% from the previous month, indicating an overall slowdown of the non-manufacturing sector.

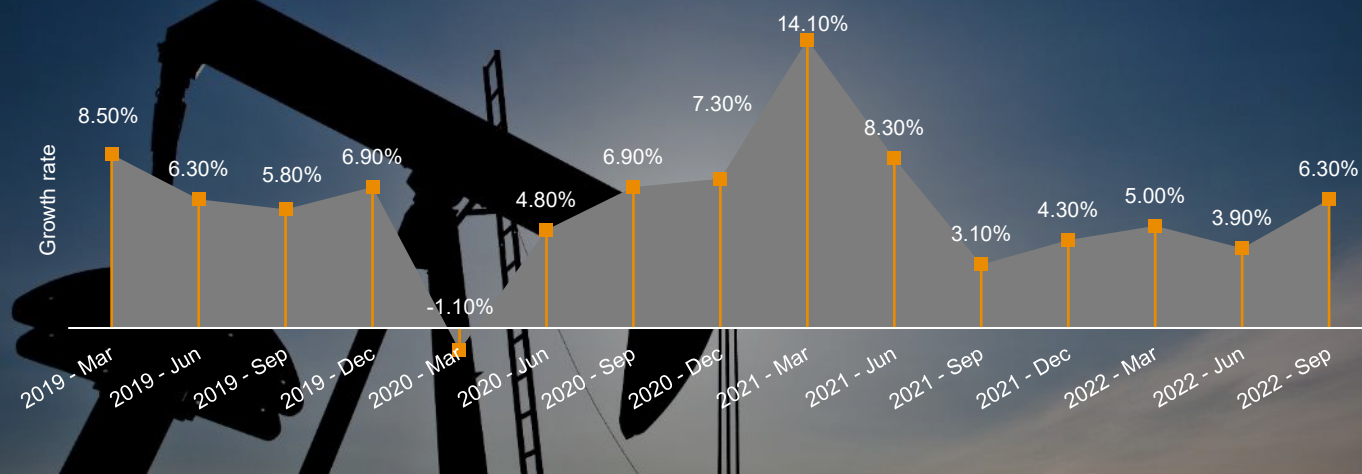
The service sector showed slight contraction. In September, affected by COVID-19, the business activity index of the service sector dropped to 48.9%, 3% lower than that of the previous month, indicating a weakening service sector. Among the 10 sub- indices, only three were above 50%, including business activity index (50.6%), input price index (50%), and business activities expectation index (57.1%).

The business activity index for the service sector was 48.9% in September, down 3% from the previous month.

By sector, the index of business activity in producer services continued to be in expansion territory. The construction business activity index was 60.2%, up 3.7% from the previous month. The business activity index of postal service, telecommunication, radio, television and satellite transmission service, monetary and financial service industries were all above 60%.

The consumer services business activity index fell into contraction territory as COVID-led disruption caused a - downturn in the services sector in September. Retail, air transport, accommodation, catering and residential services fell considerably to 45% or lower.

Industrial Added Values



Growth of **Industrial Added Values** for companies over designated size rose by 3.9% (in real growth rate after deducting price factors) YoY in the first three quarters, as industrial chains and supply chains recovered steadily. It increased by 4.8% in Q3 and was 4.1% higher than Q2. In September, industrial added values went up 6.3% YoY, an increase of 0.84 percentage points month-on-month.

In Q3, the **Utilisation Rate of National Industrial Capacity** was 75.6%, up 0.5% compared to Q2. Among them, capacity of equipment manufacturing and consumer goods manufacturing were 77.3% and 75%, respectively, up 1.7 and 0.6 percentage points from Q2. Among the 41 industrial categories, 25 industries showed a rise in capacity utilisation.

In the first three quarters, the total profit of industrial enterprises above designated size was 6.24 tn yuan, down 2.3% YoY. Meanwhile, total revenues of these companies rose by 8.2%, reaching 100.17 tn yuan.

More specifically, in September, the added value of the mining industry grew 9.2% YoY while manufacturing grew 6.4%. The production and supply of electricity, heat, gas and water grew 2.9%. In the first three quarter, these figures increased by 8.5%, 3.2%, and 5.6% YoY respectively.

Among the 20 sectors assessed by the National Bureau of Statistics, the industry added values of seven sectors reduced. Three of these had close to 10% growth including:

- Coal mining and washing (10.4%);

- Electrical machinery and equipment manufacturing (11.4%);
- Computer, communication and other electronic equipment (9.5%).

Furthermore, according to the China Association of Automobile Manufacturers (CAAM), car output and sales in the first nine months increased by 7.4% and 4.4% (decreased by 3.7% and 6.6% in H1) YoY to 19.63 and 19.47 mn units respectively. The growth rate was 2.6% and 2.7% higher than that of the first eight months. Among them, the rapid growth of monthly production and sales in the third quarter helped stabilise and fuelled the recovery of the industry.

Since late May, a series of policies have been introduced to stabilise growth and promote consumption. Among them, the policy of reducing purchase tax for small-engine cars by half has greatly stimulated the ailing automobile market. From June to September, the automobile market continued to rise and maintain a relatively high growth rate, reaching the highest level in the same period of the past three years.

The production and sales of new energy vehicles hit a record high, with automobile exports also performing well. From January to September, the production and sales of new energy vehicles reached 4.72 mn and 4.57 mn, respectively, up 1.2 times and 1.1 times YoY, with a market share of 23.5%. As a result, China's new-energy vehicle sales is expected to reach 5.5 mn in 2022, up more than 56% YoY, according to CAAM's forecast.

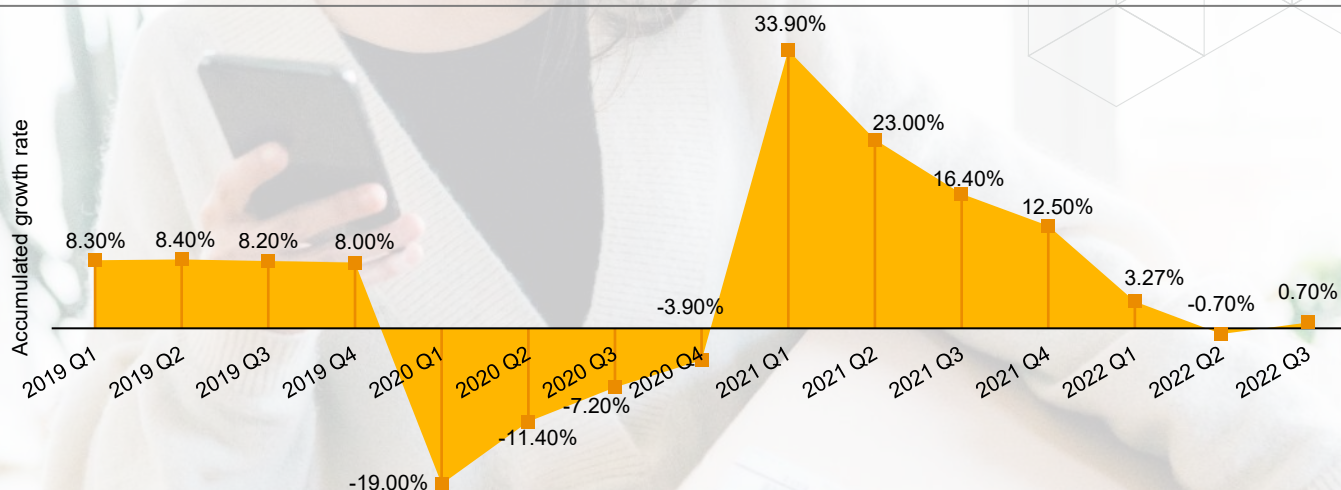
Automobile exports reached 2.12 mn units, up 55.5% YoY, exceeding the annual export volume of 2.01 mn in 2021, with Mexico being the core incremental market in the first nine months.

By ownership, while total profit for all industrial companies over designated size decreased by 2.3% YoY in the first three quarters, only profits of SOE went up,

- Profits of state-owned enterprises (SOEs) increased by 3.8% to 2.09 tn yuan;
- Profits of foreign-owned enterprises (including Hong Kong SAR, Macao SAR and Taiwan) decreased by 9.3% to 1.48 tn yuan;
- Profits of joint-stock enterprises decreased by 0.4% to 4.56 tn yuan;
- Profits of private companies decreased by 8.1% to 1.7 tn yuan.

Lastly, **by industry**, In the first three quarters, the profits of the equipment manufacturing increased by 0.6% YoY, accounting for 31.5% of all industries above designated size. Profits of the production and supply of electricity, heat, gas and water increased by 4.9%, among which the power industry saw an 11.4% increase in profits, driven by rising demand for electricity and falling coal prices. Under the influence of high commodity prices, mining profits maintained a relatively high growth. Mining profits rose 76%, coal mining by 88.8%, and oil and gas extraction by 1.12 times. The above industries are mostly dominated by SOEs.

Retail Sales of Consumer Goods



Total retail sales of consumer goods increased by 0.7% YoY to 32.03 tn yuan in the first three quarters. The COVID-19 pandemic was still the biggest threat for consumption. By quarter, the third quarter grew by 3.5%, compared to a 4.6% fall in the second quarter and a 3.3% growth in the first quarter. Consumption in the third quarter recovered from a low of the second quarter, but remained relatively weak.

The consumer market has seen wild fluctuation due to the resurgence of COVID-19 cases. On a monthly basis, it maintained rapid growth at the beginning of the year, only to fall to a low in April before gradually recovering after June. Sales growth slowed again in September.

In the first three quarters, retail sales of urban consumer goods reached 27.78 tn yuan, up 0.7%, and rural consumer goods edged up 0.9% to 4.26 tn yuan.

Zooming in the types of consumption in the first three quarters, retail sales of goods reached 28.91 tn yuan, up 1.3% YoY, while catering revenue reached 3.12 tn yuan, down 4.6% YoY. In September, total retail sales of consumer goods increased 2.5% YoY, 2.9% lower than that in August. Among them, the retail sales of goods increased by 3%, 2.1% lower than that in the previous month. Catering revenue fell 1.7% after rising 8.4% in August.

Out of the 16 retail categories, five recorded negative growth in the first three quarters. In September, market contraction extended to seven categories. Categories with negative growth in the first three quarters include catering (-4.6%); clothing, shoes, hats and textile (-4%); furniture (-8.4%); and cosmetics (-2.7%).

Furthermore, sales of supermarkets, convenience stores, specialty shops, and exclusive shops grew by 4%, 4.9%, 5.1%, and 0.7% YoY respectively in the first three quarters, while sales of department stores decreased by 6.3%.

National online retail sales went up 4% to reach 9.59 tn yuan in the first three quarters. Online retail sales of physical goods rose by 6.1% to 8.24 tn yuan, accounting for 25.7% of total retail sales of goods. Among online retail sales of physical goods, the sales of food, clothing and daily necessities increased by 15.6%, 4.7% and 5.2% respectively.

The ramifications of the COVID-19 pandemic is likely to weigh on consumer market in Q4, hindering the recovery of catering and small and micro trading companies. The consumer market would continue to recover, albeit a relatively weak foundation for recover, should consumption-boosting policies succeed in increasing people's willingness and ability to consume.

Per capita disposable nominal income rose to 27,650 yuan in the first three quarters, an increase of 5.3% YoY. After deducting price factors, it was growing 3.2% YoY in real terms, on the strength of a series of policies aimed at ensuring stable employment and people's livelihood.

For the following data, nominal growth rates are represented on a YoY basis unless specified otherwise.

For urban residents, the average income rose by 4.3% to reach 37,482 yuan. In the meantime, the average income of rural residents grew 6.4% to 14,600 yuan. The growth of rural residents' income was mainly supported by infrastructure investment and major project construction (thereby creating

employment opportunities for rural workers), as well as bumper grain harvest in the summer months, increasing corn and wheat prices, and rising pork and egg prices.

Besides, according to a national monitoring survey of migrant workers, the number of active worker in the rural labor force at the end of the third quarter was 182.7 mn, basically unchanged from the same period last year. The average monthly income of migrant workers was 4,586 yuan, an increase of 3% over the same period last year, or a minor growth after deducting price factors.

By source of income, wage income continues to grow. Wage income continued to grow, since government continued to step up assistance to enterprises to maintain overall stability in employment, creating favorable conditions for wage-based income growth. Thanks to the increase in basic pension for urban and rural residents, the per capita pension for urban and rural residents increased by 8.4% over the same period last year.

On the other hand, in the first three quarters, per capita consumption expenditure reached 17,878 yuan, up 3.5% (or 1.5% after deducting price factors,). Per capita consumption expenditure of urban residents was 22,385 yuan, up 1.8%, (or down 0.2% in real terms). Meanwhile for rural residents, per capita consumption expenditure reached 11,896 yuan, up 4.3%.

If the spread of COVID-19 still maintains at high levels in Q4, both income and consumption expenditure would not see much improvement, and as a result, dampening total retail sales.

China's **total imports and exports** increased by 9.9% in the first three quarters YoY to 31.11 tn yuan. Similar to H1, it registered the highest growth among the major economic indicators, amid the ongoing pandemic and the abrupt slowdown of global economic growth.

More specifically, exports increased by 13.8% to 17.67 tn yuan, while imports increased by 5.2% to 13.44 tn yuan. The trade surplus increased by 53.7% to 4.23 tn yuan or around US\$645 bn.

In September, the import and export value was 3.81 tn yuan, up 8.3%. Of which, export value made up 2.19 tn yuan, up 10.7%; Imports reached 1.62 tn yuan, up 5.2%; The trade surplus increased by 29.9% to 574 bn yuan. In US dollar terms, the value of imports and exports in September was US\$561 bn, up 3.4%, and growth rate diminished as a result of yuan depreciating against the US dollar in the period.

Looking into Q4 and 2023, the forecasted slowdown in global GDP growth is compared to 2022 will inevitably translate into weaker demand, affecting China's foreign trade.

By product, in the first three quarters, the import and export of mechanical and electrical products reached 10.04 tn yuan, up 10% and accounting for 56.8% of China's foreign trade. The General Administration of Customs did not hold a news conference because of the 20th CPC National Congress, but instead released some import and export data that it rarely discloses. More specifically, export of,

- automatic data processing equipment and its components were 1.18 tn yuan, up 1.9%;
- mobile phone reached 672 bn yuan, up 7.8%;
- surprisingly, automobiles totalled 260 bn yuan, up 67.1%.

During the same period, exports of labor-intensive products reached 3.19 tn yuan, up 12.7% and accounting for 18% of total exports. Among them,

- clothing and clothing accessories were 881 bn yuan, up 11.1%;
- textile products reached 747 bn yuan, up 9.7%;
- plastic products reached 526 yuan, up 14.5%.

In addition, the export of steel was 51.21 mn tons, down 3.4%; 35.45 mn tons of refined oil, down 27.6%; 17.27 mn tons of fertilizer, a decrease of 33.8%.

In terms of imports, iron ore imports fell along with prices, while imports of crude oil, coal, natural gas and soybeans fell amid rising prices. More specifically, imports of:

- iron ore reached 823 mn tons, down 2.3% (price down 29.7%) with total value of 669 bn yuan;
- crude oil were 370 mn tons, down 4.3% (price up 55.1%), with total value of 1,779 bn yuan;
- 201 mn tons of coal, down 12.7% with a price increase of 66.2% and total value of 199 bn yuan;
- 81.16 mn tons of natural gas, down 9.5% with a price increase of 60.7% and total value of 325 bn yuan;
- soybeans were 69.04 mn tons, down 6.6% with a price increase of 25.8% and total value of 305 bn.

The import of mechanical and electrical products stood at 5.2 tn yuan, down 3.8%. Among them, there were 417 bn integrated circuits, down 12.8%, with a total value of 2.07 tn yuan, up 2.6%; The number of automobiles (including chassis) stood at 671,000, down 11%, with a value of 270 bn yuan, down 0.2%.

By geography, according to the General Customs Administration, in the first three quarters, trade values with

ASEAN, EU, the US, South Korea, reached 4.7, 4.23, 3.8, and 1.81 tn yuan respectively.

These trade figures grew by 15.2% (ASEAN), 9% (EU), and 8% (US) , and 7.1% (South Korea) in the first three quarter. The trade surplus with ASEAN was 754 bn yuan, surging by 93.4%. The trade surplus with the EU increased by 58.8% to 1.39 tn yuan. The trade surplus with the US increased moderately by 14.2% to 2.07 tn yuan. The trade deficit with South Korea narrowed by 34.2% to 207 bn yuan.

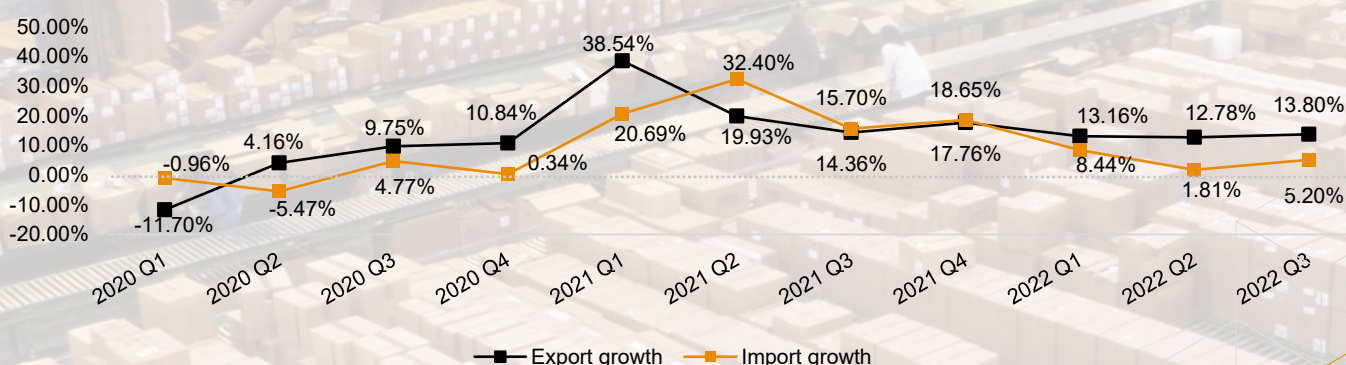
During the same period, China's total imports and exports to countries and regions along the Belt and Road reached 10.04 tn yuan, up 20.7%. Of which, export was 5.7 tn yuan, up by 21.2% while imports reached 4.34 tn yuan, up 20%.

By ownership, imports and exports of private enterprises grew rapidly and their proportion of total trade increased. In the first three quarters, import and export of private enterprises reached 15.62 tn yuan, an increase of 14.5%, accounting for 50.2% of China's total foreign trade, which is 2% higher than the same period last year. The export was 10.61 tn yuan, up 19.5%, accounting for 60% of the total export value. Imports reached 5.01 tn yuan, up 5.4%, accounting for 37.3% of the total.

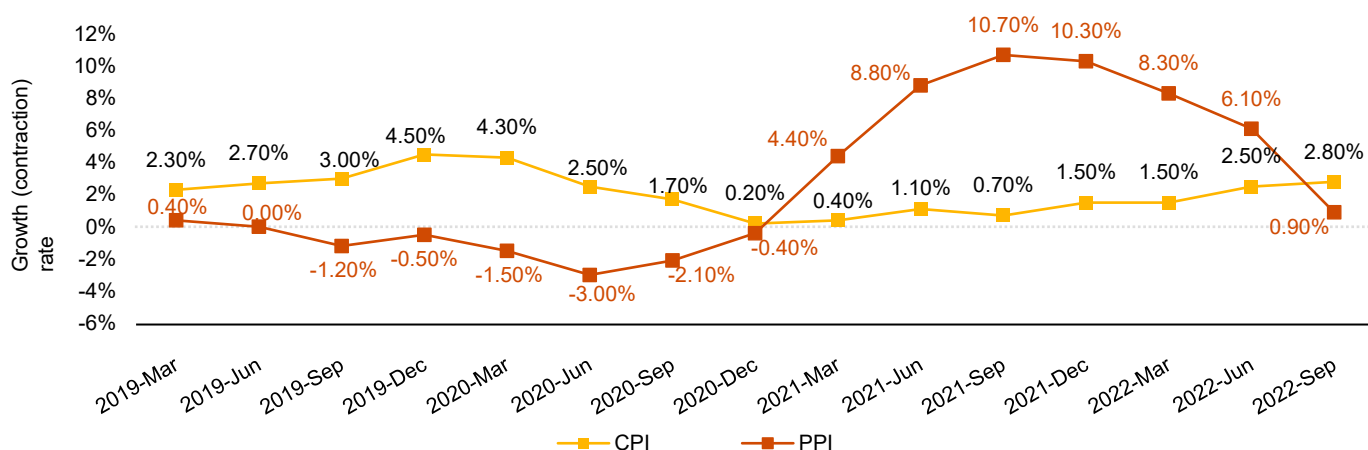
During the same period, the import and export of foreign-invested enterprises reached 10.42 tn yuan, up by 2%, accounting for 33.5% of China's total foreign trade. Of which, export stood at 5.63 tn yuan, up 5.6% and imports was down by 1.8% to 4.79 tn yuan.

Imports and exports of state-owned enterprises reached 5.02 tn yuan, up 15.1%, accounting for 16.1% of the country's total foreign trade. Of which, export was up by 10.8% to 1.41 tn yuan, while imports increased by 16.9% to 3.61 tn yuan.

Quarterly Balance of Trade



Producer Price Index and Consumer Price Index



In the first three quarters, prices in the consumer sector rose modestly, while the growth of prices in the production sector declined.

The growth of **Producer Price Index (PPI)** gradually eased. In the first three quarters, PPI rose 5.9% YoY, 1.8% lower than in H1. It rose 8.7% in Q1, 6.8% in Q2 and 2.5% in Q3, with growth rate falling quarter by quarter.

By month, PPI growth slowed from 9.1% YoY in January to 6.1% in June, after which the pace of decline accelerated with the growth rate of PPI falling to 4.2% and 2.3%, respectively in July and August. In September, PPI rose 0.9%, down 1.4% and 0.5% lower than the previous two months, pointing to a moderate trend of decline.

Furthermore, there were multiple factors contributing to the decline in PPI growth. In addition to the comparatively high base of the same period last year, it is also influenced by three other factors. First, steady progress has been made to stabilise supply and prices by the government. Second, the import price pressure has eased with the sharp fluctuation of international commodity prices (for instance, since June, the decline in international commodity prices has led to lower price increases in domestic oil and natural gas, chemical raw materials and chemical manufacturing industries). Third, market demand in certain industries was still weak, as impacted by COVID-19 and reduced investment in real estate development.

Among the subindices of PPI for manufactured goods, the price for means of production increased by 7.4% in the first three quarter. The growth rate was 2.5 percentage points lower than in the first half year. To some extent, the less-than-expected price increase in means of production has alleviated the cost pressure faced by middle and downstream enterprises.

Among which, the prices of mining, raw material and processing industries increased by 33.4%, 16.7% and 4.9% respectively. In June, producer prices for mining rose by 24.9%, raw materials by 13.8% and processing industries by 3.1%. The growth rate was 8.5, 2.9 and 1.8 percentage points lower than that of the first half year.

On the other hand, PPI for consumer goods remained under pressure and only increased by 1.3% in the first three quarters. Food prices went up 2.3%, clothing up 1.6% and general daily necessities up 1.6%.

In September, the prices of international crude oil and other bulk commodities continued to fall. As the demand from some industries picked up, prices of industrial goods were moderately trending downward. On a year-on-year basis, PPI rose 0.9%, 1.4% lower than the previous month. The price of means of production increased by 0.6% and the price of consumer goods by 1.8%. Prices rose in 30 of the 40 industrial sectors surveyed, down two from the previous month.

More specifically, the PPI for manufactured goods of the following sectors increased by around 10% YoY in the first three quarters:

- Mining (24.9%); raw materials (12.4%)
- Mining and washing of coal (30.5%);
- Petroleum and natural gas extraction (43.1%);
- Processing of petroleum, coking, processing of nucleus fuel (29.5%);
- Manufacturing of chemical raw material and chemical products (12.5%);
- Production and distribution of gas (17.1%).

The **Consumer Price Index (CPI)** increased by 2.8% in September YoY and 2% in the first three quarters, still much lower than the official target of around 3%.

More specifically, In the first three quarters, CPI rose by 2% which was 0.3 percentage points higher than that in the first half year. It rose 1.1% in the first quarter, 2.3% in the second and 2.6% in the third. In July, due to high temperatures and rising pork prices, CPI growth rate increased to 2.7% YoY. In August, the decline in international oil prices and the pandemic-induced reduction in consumer demand for services resulted in a 2.5% fall in the CPI falling. In September, CPI growth expanded to 2.8% due to seasonal factors.

In the first three quarters, food prices rose 2% YoY, contributing about 0.36% to the CPI increase. The prices of some fresh food products rose by 13.5%, with fresh fruits, vegetables, and potatoes up by 8.7%, 8.7% and 6.3%, respectively, contributing to the CPI by 0.48 percentage points.

The prices of edible vegetable oil and flour rose by 6.7% and 6%, respectively, due to persistently high international grain prices. Since July, pork prices have started to rise YoY, but in the first three quarters, they still fell by 18% on average dragging down the CPI by about 0.30 percentage points.

In the first three quarters, energy prices rose considerably by 13.2% YoY, 0.8 percentage points lower than in H1, contributing about 0.93 percentage points to CPI increase and accounting for over 40% of the total CPI increase. Among them, gasoline, diesel and LPG prices rose 24.8%, 27.1% and 22.4% respectively, with a combined effect of boosting the CPI by about 0.86 percentage points. The prices of coal for residential use and natural gas for vehicle use remained relatively high, up 6.9% and 5.5% respectively.

2 Policy updates

Growth of aggregate financing to the real economy increased by 10.6% in the first three quarters.

According to the People's Bank of China (PBoC), in order to support economic growth, it is essential to stabilise the growth of total credit, reduce financing costs for enterprises, and provide strong support to key sectors and industries affected by COVID-19. The total aggregate financing to the real economy (AFRE) increased by 27.77 tn yuan in the first three quarters, 3.01 tn yuan more than the same period last year.

M2 money supply, which includes cash, checking deposits, and easily convertible near money, and AFRE, increased by 12.2% (3.8% higher than the same period last year) and 10.6% YoY respectively. Total M2 and AFRE reached 263 and 341 tn yuan by the end of Q3.

For AFRE, the balance of RMB loans reached 209 tn yuan, up 11.1%. More specifically, total RMB loans to the real economy increased by 17.89 tn yuan, 1.06 tn yuan more YoY, accounting for 61.5% of AFRE in the first three quarters.

Among which, household loans increased by 3.41 tn yuan, of which

short-term loans and medium- and long-term loans increased by 1.09 tn yuan and 2.32 tn yuan respectively.

Loans to enterprises and public institutions increased by 14.48 tn yuan in the first three quarters, of which short-term loans increased by 3.28 tn yuan, and medium- and long-term loans by 8.65 tn yuan and bill financing by 2.5 tn yuan.

Net financing of government bonds reached 5.91 tn yuan, an increase of 1.5 tn yuan YoY.

For enterprise direct financing, net corporate bond financing increased by 2.2 tn yuan, an increase of 241 bn yuan YoY. Equity financing of non-financial enterprises reached 874 bn yuan in the first three quarters.

By the end of Q3, foreign currency loans to the real economy reached 2.18 tn yuan, down 7.1% YoY.

The balance of entrusted loans stood at 11.21 tn yuan, up 2.6%. The balance of trust loans reached 3.86 tn yuan, down 24.8%.

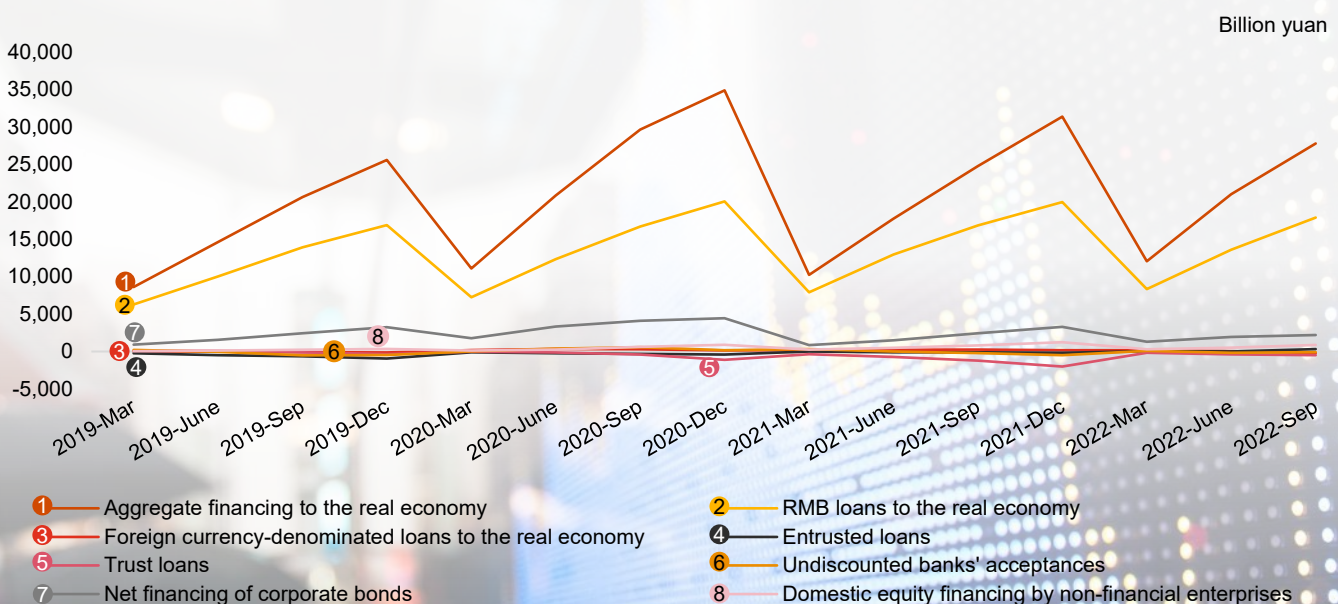
The balance of undiscounted bank acceptances was 2.92 tn yuan, down 11.2%.

Total outstanding corporate bonds increased 7.7% to 31.49 tn yuan. Outstanding government bonds reached 58.98 tn yuan, up 16.9%. Total outstanding domestic stock of non-financial enterprises expanded by 14% to 10.34 tn yuan.

In terms of loan structure, 61.5% of AFRE was RMB-denominated loan by the end of first three quarters, while foreign currency loans to the real economy accounted for 0.6% of AFRE; the entrusted loan for 3.3%; the trust loans for 1.1%; the undiscounted bank acceptance for 0.9%; corporate bonds for 9.2%; government bonds for 17.3% and domestic stock of non-financial enterprises for 3% of AFRE.

Finally, the economic outlook for Q4 is still fragile. PoBC will provide stronger support to the real economy, while stabilising employment and prices. It will focus on supporting infrastructure development, and equipment upgrading in the manufacturing. PBoC will also take steps to stimulate housing demand, guide commercial banks to provide financing, and promote steady and sound development of the real estate market.

Aggregate financing to the real economy (flows)



Source: Wind

Fiscal revenue decreased by 6.6% while fiscal spending grew by 6.2%.

In the first three quarters, fiscal revenue dropped by 6.6% YoY to 15.32 tn yuan, as a result of slower growth caused by renewed COVID-19 outbreaks, according to the Ministry of Finance. Excluding value-added tax credit refunds, fiscal revenue grew by 4.1%. Meanwhile, the national public budget expenditure increased by 6.2% to 19.04 tn yuan.

More specifically, in terms of fiscal revenue, Central Government revenue declined by 8.6% to 6.99 tn yuan while local government revenue decreased by 4.9% to 8.32 tn yuan. However, those figures registered an increase of 3% and 5.2% respectively, when value-added tax credit refunds are excluded.

National tax revenue reduced by 11.6% YoY to 12.44 tn yuan in the first three quarter, or an increase of 1% excluding value-added tax credit refunds. Non-tax revenue increased by 23.5% to 2.88 tn yuan.

As economic recovery is slower than expected, it is unlikely to see any increase of fiscal revenue in Q4.

Among the 13 major sources of tax revenue, seven decreased in the first three quarters. The top five sources of tax revenue include:

- Value-added tax revenue: reduced by 33.4% to 3.33 tn yuan; a 2% increase after deducting value-added tax credit refunds;
- Enterprise income tax revenue: grew by 2.1% to 3.64 tn yuan;
- Domestic consumption tax revenue: grew by 7.3% to 1.31 tn yuan;
- Value-added tax and consumption tax revenues on imported goods:

amounted to 1.53 tn yuan with an increase of 11.3%; customs duties totalled 216 bn yuan, down 3% from the same period last year.

- Personal income tax: grew by 9.1% to 1.14 tn yuan.

Total growth of real estate-related tax revenue continued to fall in the first three quarters. Tax revenue from land ownership decreased by 27.1% to 440 bn yuan. Land value-added tax revenue shrank by 8.9% to 517 bn yuan. Property tax and urban land use tax revenues increased by 12.8% and 8% respectively to 242 and 160 bn yuan. Farmland occupation tax revenue went up 26.3% to 106 bn yuan.

In the first three quarters, the national public budget expenditure reached 19.04 tn yuan with a 6.2% YoY growth. The Central Government's expenditure increased by 7% to 2.5 tn yuan. Local government expenditure grew 6.1% to 16.54 tn yuan. Other major items contributing to fiscal expenditure included:

- 2.85 tn yuan on social security and employment (6.9% YoY increase);
- 2.84 tn yuan on education (5.7% increase);
- 1.59 tn yuan on agriculture, forestry and water conservancy (5% increase);
- 1.43 tn yuan on urban and rural communities including administration, public facilities, planning, environmental sanitation, etc. (0.8% decrease);
- 1.63 tn yuan on healthcare and sanitation (10.7% increase);
- 889 bn yuan on transportation (6.5% increase).

Expenses on debt interest payments increased by 7.2% to 822 bn yuan. Spending on science and technology increased by 14% to 652 bn yuan, while spending on energy conservation and environmental protection decreased by 2.5% to 263 bn yuan. Spending on culture, tourism, sports and media was 258 bn yuan, down 1.7% from the same period last year.

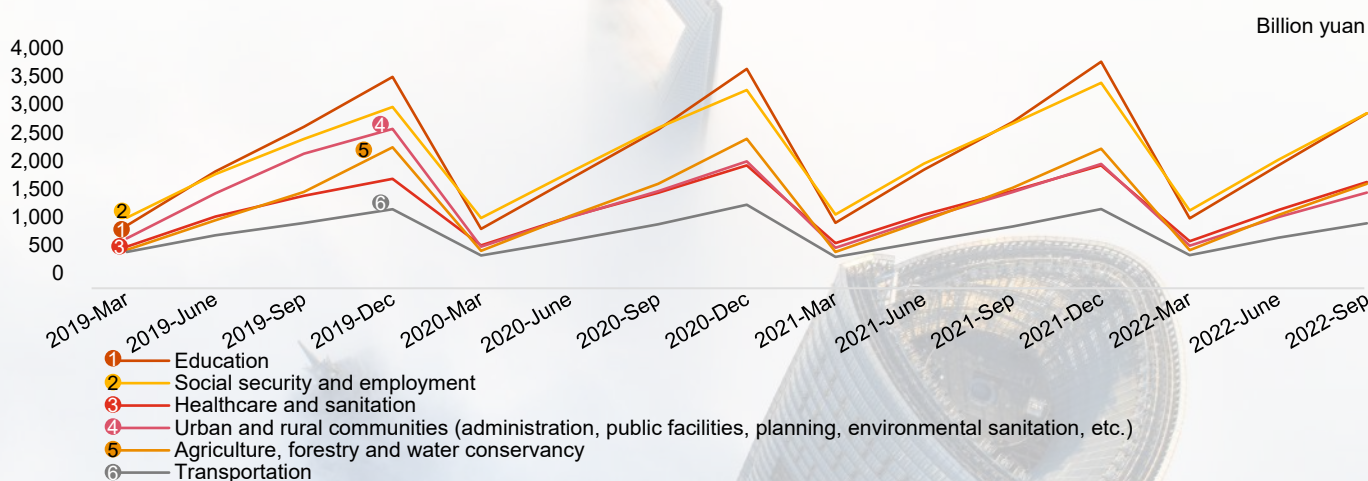
The growth of government funds continued to fall in Q3. It contracted by 24.8% in the first three quarters to 4.59 tn yuan. Out of which, local government funds reached 4.23 tn yuan after a decrease of 26.4% -- 3.85 tn yuan was obtained from the transfer of state-owned land use rights, a 28.3% YoY reduction. Central Government funds rose by 5.7% to 331 bn yuan.

In contrast, the spending of government funds increased by 12.5% to 8.03 tn yuan.

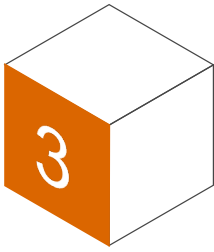
Out of which, 7.67 tn yuan was spent by local governments, an increase of 10.6%. Spending on the transfer of state-owned land use rights contracted by 15.2% to 4.36 tn yuan. Spending by the Central Government increased by 76.3% YoY, reaching 356 bn yuan.

Lastly, the implementation of large-scale value-added tax credit refunds played a key role in assisting enterprises and stabilising the economy. State-owned, private and foreign companies shall be treated equally. China will continue to implement such measure, and at the same time increase tax rebate for small and micro businesses, as well as individual businesses (self-employed) to protect employment and people's livelihood.

General public budget expenditure



Source: Wind



What does the 20th National Congress of the CPC mean for China's economy?

The 20th National Congress of the Communist Party of China (CPC) took place in Beijing from 16 to 22 October. During which, the party's top leaders were elected and major issues settled. The Congress stressed that building a well-rounded modern socialist country is a great and arduous undertaking. Xi Jinping, the re-elected general secretary for the 20th Central Committee of the CPC, and chairman of the Central Military Commission said, 'we'll be steadfast in deepening reform and opening up across the board, and in pursuing high-quality development', while also highlighting that a prosperous China will create many more opportunities for the world. Just as China cannot develop in isolation from the world, the world needs China for its development.

So what are the highlights of the Congress and the report? What does the 20th National Congress mean for China's economy?





■ Highlights of the 20th National Congress

The agenda for the week-long event was finalised during the October 15th preparatory meeting. It mostly includes the following:

- Hear and examine the report of the 19th Central Committee.
- Examine the work report of the 19th Central Commission for Discipline Inspection (CCDI).
- Deliberate and adopting the Amendment to the Constitution of the Communist Party of China.
- Elect the 20th Central Committee.
- Elect the 20th CCDI.

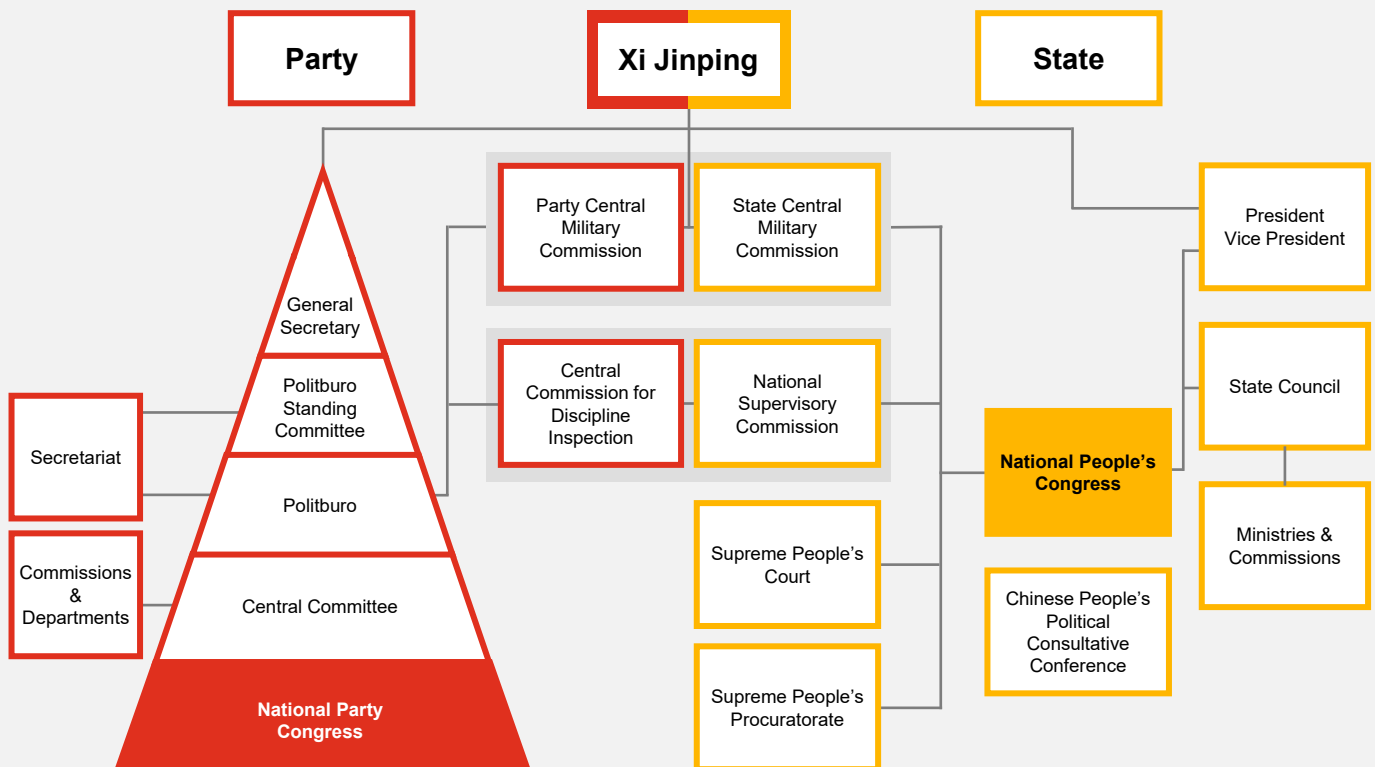
2,296 deputies attended the Congress, representing over 4.9mn primary-level Party organisations and 96mn Party members. After the draft report of the 19th Central Committee was issued, over 4,700 people were asked for their opinion.

During the national congress, several major reports and/or documents were delivered, reviewed, discussed and approved. The newly elected 20th Central Committee came into power with 205 members and 171 alternate members along with 133 members of the 20th CCDI.

The following morning, the 20th CPC Central Committee re-elected Xi Jinping as the general secretary in its first plenary session, along with seven members of the Standing Committee of the Political Bureau (Standing Committee), the Party's top leadership. Xi Jinping was also re-elected as the chairman of the Central Military Commission, the top military body of the CPC. With this, Xi Jinping will continue to serve as the head of both the CPC and Chinese army.

As the CPC is the ruling party in China, members of the Standing Committee are expected to take up the key roles, similar to a cabinet of ministers, during next year's National People's Congress (NPC) and Chinese People's Political Consultative Conference (CPPCC), the Two Sessions. These roles include State President, Premier of the State Council (the government) and Chairman of the National People's Congress (national legislature), Chairman of the CPPCC National Committee, among others.

China's Party & government organisation chart



Among the documents presented, the Report of the 19th Central Committee, presented by Xi Jinping to the congress, is the most significant in terms of economic development. Most of the other documents address either the political (party governance), discipline inspection or personnel arrangements, such as the resolution for an amendment to the Constitution of the CPC and the resolution on the work report of 19th CCDI, among others.

Additionally, the 20th National Congress' resolution on the Revised Constitution of the Communist Party of China is another important document. The amendment addresses economic development and includes the following:

- **China is moving toward its second centenary goal of building a great modern socialist country in all respects.** China will become a prosperous, strong, democratic, culturally advanced, harmonious and beautiful country by 2049, the 100
- **Promoting the great rejuvenation of the Chinese nation through a Chinese path to modernisation.** The country will leverage a socialist system with Chinese characteristics including a basic socialist economic system with a socialist market economy. Public ownership plays a key role while various other forms of ownership develop together. Labour-based distribution is also prominent and coexists with multiple modes of distribution.
- **Gradually realising common prosperity for the people while leveraging the new development stage, and implementing its concept of innovation, co-ordination, green development, opening up and sharing.** The country will accelerate the creation of a new development pattern for the dual circulation strategy with the

domestic cycle as the key node, and the domestic and international cycles reinforcing each other. The country will promote high-quality development and give full play to the role of human resources as the primary resource. The nation will also promote the development of the national economy that is of higher quality, more efficient, fairer, more sustainable and safer.

- **The strategic plan for building a great modern socialist country in all respects is a two-step approach.** From 2020 to 2035, the country will achieve socialist modernisation. Then, from 2035 to the middle of the century, China will develop into a prosperous, democratic, civilised, harmonious and beautiful modern socialist power.





■ Summary of the 20th CPC National Congress report

The Report of the 19th Central Committee is one of the most important reports for the 20th National Congress. The 20th National Congress of the CPC adopted the Report of the 19th Central Committee during the closing session of the Congress, hereinafter referred to as the report.

The full report contains over 32,500 Chinese characters, and delegates

received a 72-pages printed version. Xi Jinping presented the key points of the report during the opening session. The opening session started at 10 am with the report delivery lasting for an hour and 50 minutes. Comparatively, the opening session of the 19th National Congress began at 9 am with the report delivery lasting over three hours.

Keeping in line with the 19th National Congress, the theme of the Congress this year followed the same line of thought, 'Hold high the great banner of socialism with Chinese characteristics and strive in unity to build a modern socialist country in all respects'.

| CPC National Congress | Reported by | Date | No. of words | Theme |
|-----------------------|-------------|-------------------|--------------|--|
| 12th | Hu Yaobang | 1 September 1982 | 31,629 | Comprehensively creating a new situation of socialist |
| 13th | Zhao Ziyang | 25 October 1987 | 23,061 | Advancing along the road of socialism with Chinese characteristics |
| 14th | Jiang Zemin | 12 October 1992 | 26,280 | Accelerating the pace of reform and modernisation, and seizing greater victory in the cause of socialism with Chinese characteristics |
| 15th | Jiang zemin | 12 September 1997 | 28,330 | Hold high the great banner of Deng Xiaoping Theory, and pushing the cause of building socialism with Chinese characteristics into the 21st century in a comprehensive manner |
| 16th | Jiang zemin | 8 November 2002 | 28,127 | Building a modern socialist country in all respects, and creating a new situation for the cause of socialism with Chinese characteristics |
| 17th | Hu Jintao | 15 October 2007 | 28,002 | Holding high the great banner of socialism with Chinese characteristics, and struggling for a new victory in building a moderately prosperous society |
| 18th | Hu Jintao | 8 November 2012 | 29,106 | Steadfastly advancing along the road of socialism with Chinese characteristics, and striving to build a moderately prosperous society in all aspects |
| 19th | Xi Jinping | 18 October 2017 | 32,501 | Successfully building a moderately prosperous society in an all-round way, and making all-out efforts to build a great modern socialist country |
| 20th | Xi Jinping | 16 October 2022 | 32,500 | Hold high the great banner of socialism with Chinese characteristics and strive in unity to build a modern socialist country in all respects |



The report includes the following 15 chapters:

- 1) The work of the past five years and the great changes in the first decade of the new era
- 2) A new frontier in adapting Marxism to the Chinese context and the needs of the times
- 3) The new journey of the new era: Missions and tasks of the communist party of China
- 4) Accelerating the creation of a new development pattern and pursuing high-quality development
- 5) Invigorating China through science and education and developing a strong workforce for the modernisation drive

- 6) Advancing whole-process people's democracy and ensuring that the people run the country
- 7) Exercising law-based governance on all fronts and advancing the rule of law in China
- 8) Building cultural confidence and strength and securing new successes in developing socialist culture
- 9) Improving the people's wellbeing and raising quality of life
- 10) Pursuing green development and promoting harmony between humanity and nature
- 11) Modernising China's national security system and capacity and safeguarding national security and social stability

- 12) Achieving the centenary goal of the people's liberation army and further modernising national defense and the military
- 13) Upholding and improving the policy of one country, two systems and promoting national reunification
- 14) Promoting world peace and development and building a human community with a shared future
- 15) Exercising full and rigorous self-governance and advancing the great new project of party building in the new era

Key themes of each chapter



| | |
|---|--|
| 1) Great changes in the new era | 9) People's wellbeing and quality of life |
| 2) Adapting Marxism to the Chinese context | 10) Green development, harmony between humanity and nature |
| 3) The new journey of the new era | 11) National security system and security and social stability |
| 4) New development pattern and high-quality development | 12) Modernising national defense and the military |
| 5) Science, education and workforce | 13) One country, two systems and reunification |
| 6) Whole-process people's democracy | 14) World peace and a shared future |
| 7) Law-based governance on rule of law | 15) Self-governance and party building |
| 8) Cultural confidence and socialist culture | |

Ten most frequently used words in the Report

In the report, there are a number of key terms that appeared frequently; 'development' appeared the most,

Development
237 times

The other words make up the top ten most frequently used words in the report include

People
177 times

Security
91 times

Modernisation
83 times

Reform
51 times

Education
49 times

Ethnic
46 times

Technology
43 times

**Re-
unification**
41 times

New era
39 times



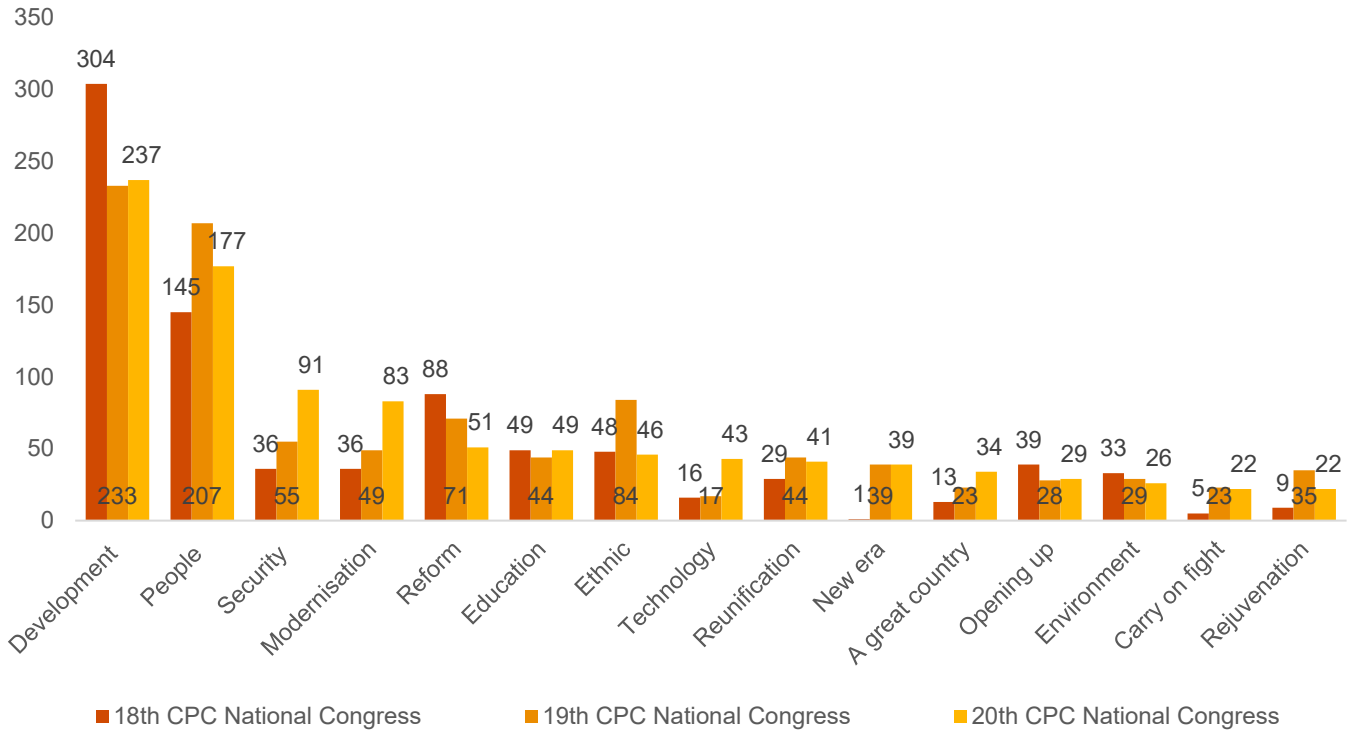
In comparison, the key terms most frequently used in the reports of the 18th and 19th National Congress were quite different. While 'development' and 'people' were the two most frequently used terms in the 18th and 19th National Congress, the rankings of

many of the other high-frequency words have varied since. More specifically, 'reform' was third in terms of the of the 18th report and fourth in terms of the 19th report, but this year, it dropped to the fifth position with 'security' (91) and 'modernisation' overtaking it.

Frequency of keywords in the last three CPC National Congress Reports

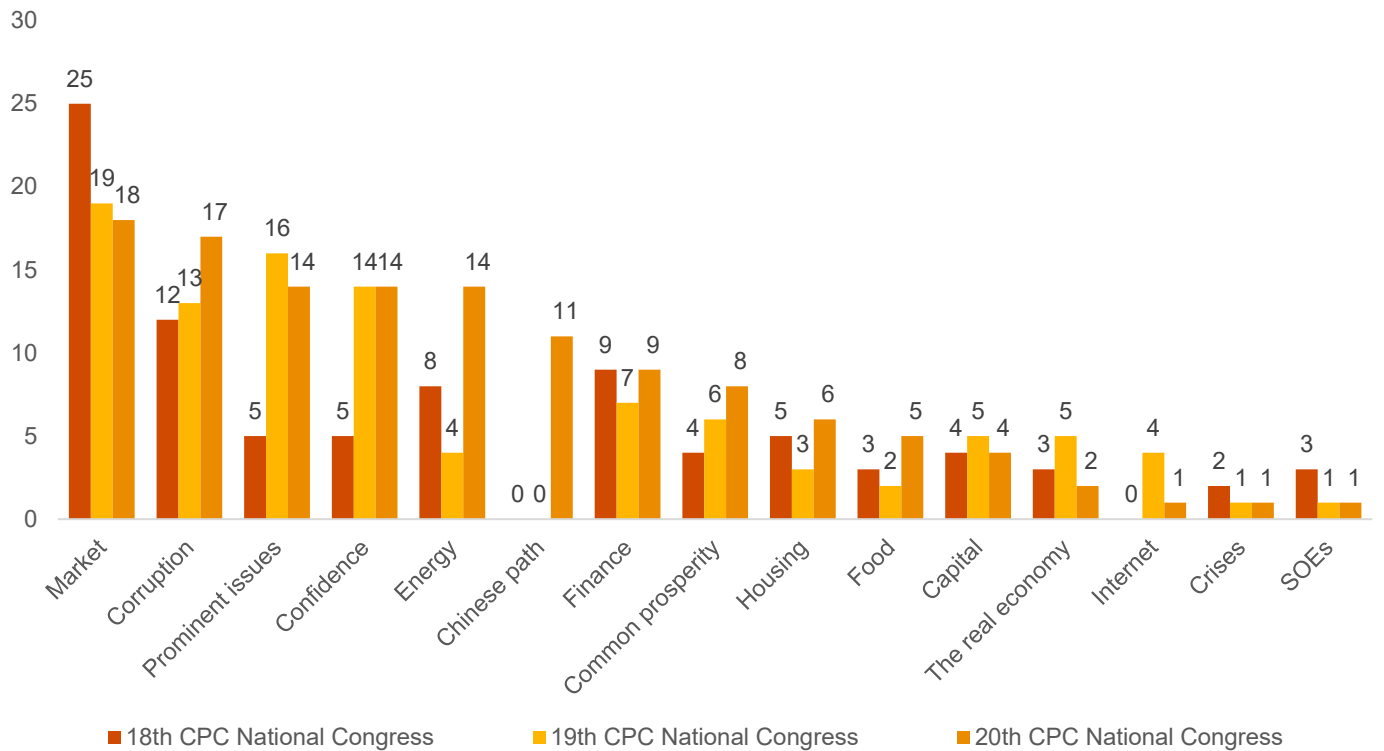
| Keywords | 18th/2012 | 19th/2017 | 20th/2022 | Change in the last decade |
|-----------------|-----------|-----------|-----------|---------------------------|
| Development | 304 | 233 | 237 | -67 |
| People | 145 | 207 | 177 | 32 |
| Security | 36 | 55 | 91 | 55 |
| Modernisation | 36 | 49 | 83 | 47 |
| Reform | 88 | 71 | 51 | -37 |
| Education | 49 | 44 | 49 | 0 |
| Ethnic | 48 | 84 | 46 | -2 |
| Technology | 16 | 17 | 43 | 27 |
| Reunification | 29 | 44 | 41 | 12 |
| New era | 1 | 39 | 39 | 38 |
| A great country | 13 | 23 | 34 | 21 |
| Opening up | 39 | 28 | 29 | -10 |
| Environment | 33 | 29 | 26 | -7 |
| Fight | 5 | 23 | 22 | 17 |
| Rejuvenation | 9 | 35 | 22 | 13 |

Frequency of keywords in the last three CPC National Congress Reports (1/2)



Source: zgtrend

Frequency of keywords in the last three CPC National Congress Reports (2/2)



Source: zgtrend



■ What are the implications for China's economy?

1) Development is still the top priority and GDP per capita will reach the level of moderately developed countries by 2035.

Ahead of the Congress, there were some concerns that China might deprioritise economic growth. However, these concerns were unfounded as the development goal for 2035 was reinforced within the two-step strategic plan of building a great modern socialist country in all respects. The first step focuses on achieving socialist modernisation by 2035. One of the key measurements of this modernisation is the extent to

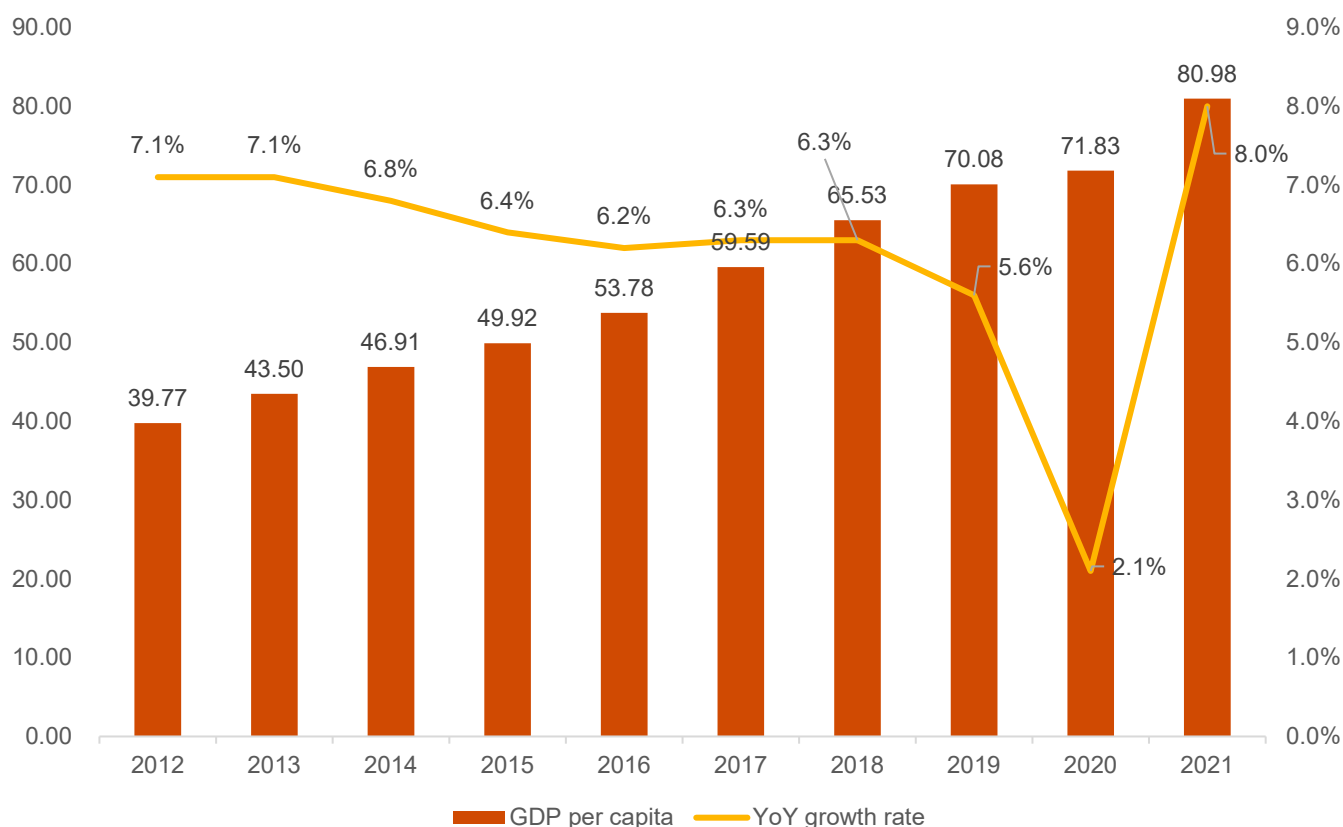
which China transforms into a developed economy. During this transformation, GDP per capita is expected to reach the level of moderately developed countries.

The second part of the strategy is to 'build China into a great modern socialist country that is prosperous, strong, democratic, culturally advanced, harmonious, and beautiful from 2035 through the middle of this century'.

Earlier in 2020, during the four-day fifth plenary session, the 19th Central Committee formulated the

14th Five-Year Plan (2021-2025) for National Economic and Social Development and the Long-Range Objectives Through the Year 2035. According to the plan, GDP per capita is expected to double from US\$10,262 in 2019 to at least US\$25,000 US dollars in 2035 (China Economic Quarterly Q3, 2020). China's per capita GDP exceeded 80,000 yuan in 2021, which increased from US\$6,300 to over US\$12,500 in 10 years.

GDP per capita in China (Unit: thousands)



Source: National Bureau of Statistics, Wind

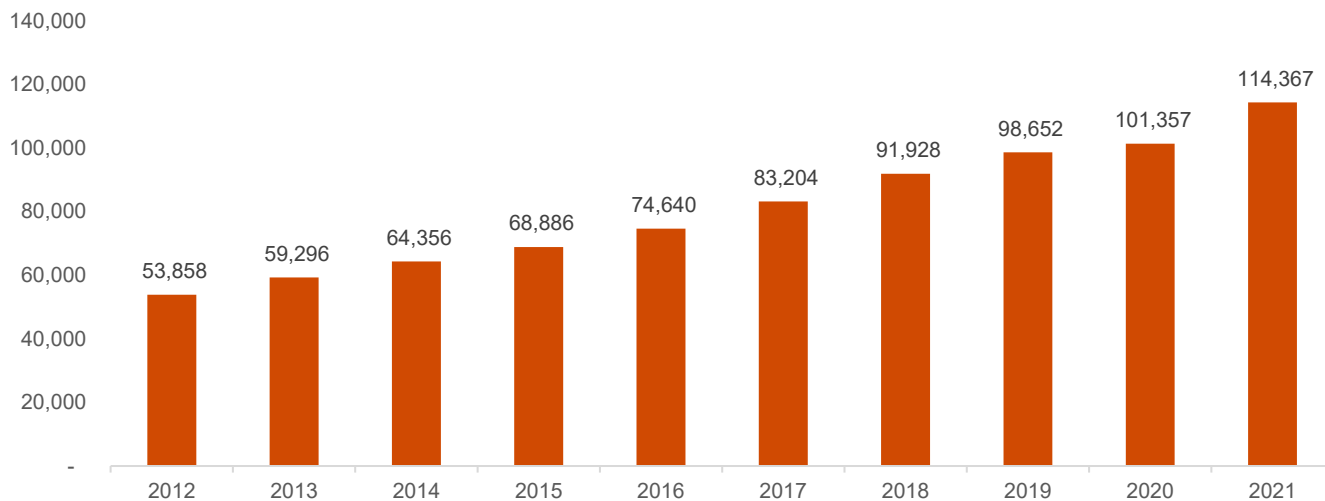


Achieving socialist modernisation also implies that China will become an innovation-driven economy in 2035 and achieve breakthroughs in core technologies, greatly improving national strengths. China will develop its soft power in the areas of culture, education, talent and sports.

Since the 18th National Congress in 2012, when Xi came into power, China's economic growth reached new heights. From 2013 to 2021, China's GDP grew at an average annual rate of 6.6%, higher than the global average of 2.6% and the 3.7% average for developing economies in the same period. In 2021, at constant prices, it is 1.8 times that of

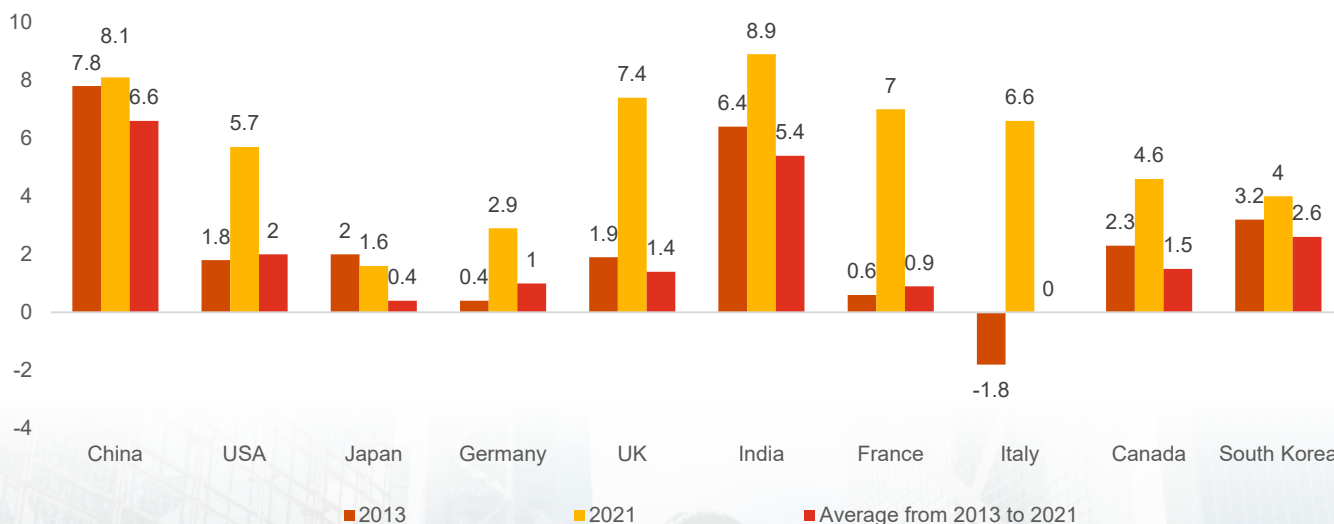
2012. In 2014, 2016, 2017, 2018 and 2020, the total GDP surpassed the 60, 70, 80, 90 and 100 trillion yuan marks successively, from 54th in 2012. In 2021, GDP exceeded 110tn yuan, reaching 114.4tn yuan.

China GDP from 2012 to 2021 (Unit: billions)



Source: National Bureau of Statistics, Wind

Economic growth rate of the top 10 economies (Unit: %)

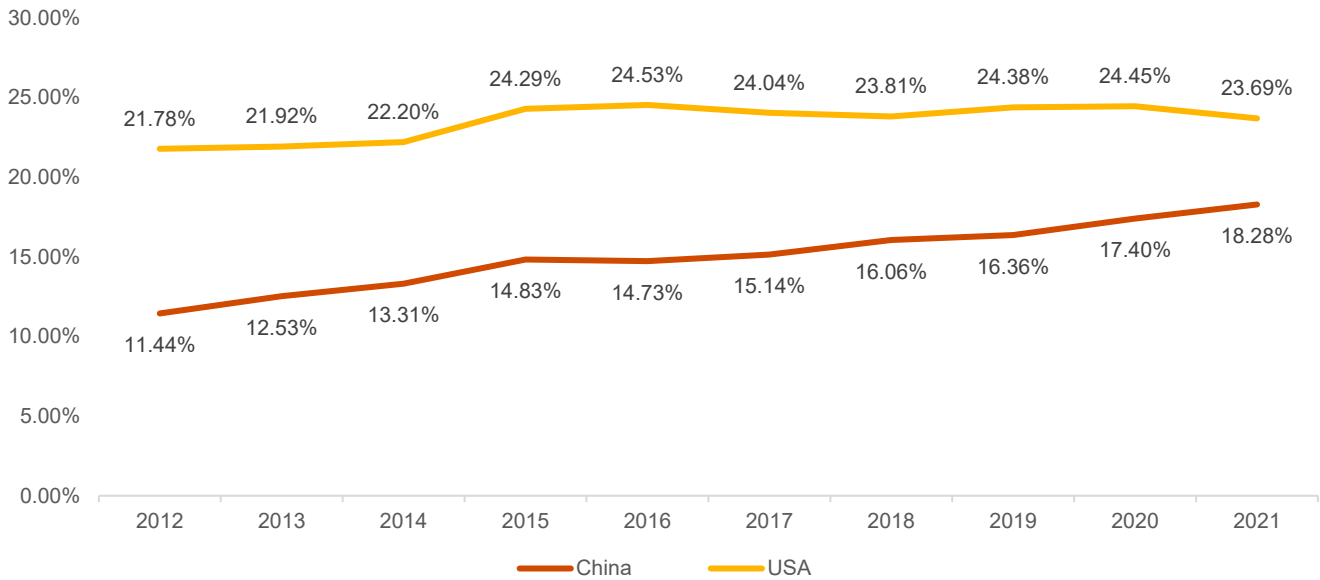


Source: World Bank

By the end of 2021, China's GDP reached 17.7 tn US dollars, more than 18% of the global GDP and 77% of the economic size of the US (23tn US dollars in 2021). Despite the COVID-19

crisis, China's GDP per capita grew to 12,551 US dollars (80,976 yuan), nearly reaching the level of a high-income economy.

China and the US: share of global GDP (Unit: %)



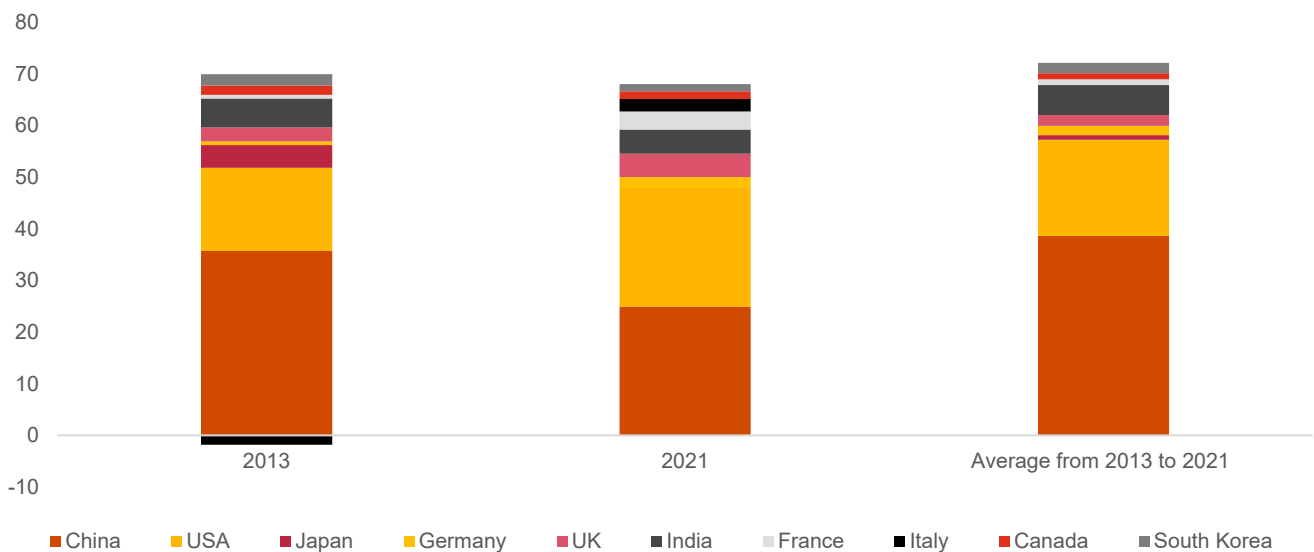
Source: National Bureau of Statistics, Wind

China's contribution to the global economy is rising steadily. Based on the average annual exchange rate, China's economy accounted for 18.5% of the world's economy in 2021, up 7.2

percentage points from 2012, ranking second. From 2013 to 2021, China's average contribution to the world's economic growth reached 38.6 percent, higher than the combined contribution of

the G7 countries. This made the country the driving force for world economic growth, according to the World Bank.

Contribution rate to the global economic growth rate by key countries (Unit: %)



Source: World Bank

Finally, as the report emphasised, building an all-rounded modern socialist country is a difficult task. To facilitate

this, China will continue to focus on economic development, deepening reform and opening up.

2) China will continue to build a high-standard socialist market economy, create a new development pattern and pursue high-quality development.

The report stated 'China must, first and foremost, pursue high-quality development. Development is the top priority in governing and rejuvenating China. Without solid material and technological foundations, we cannot build a great modern socialist country in all respects'.

In order to create a new development pattern and pursue high-quality development, the report addressed four aspects, including:

- Building a high-standard socialist market economy
- Modernising the industrial system
- Advancing rural revitalisation across the board
- Promoting coordinated regional development
- Promoting high-standard opening up

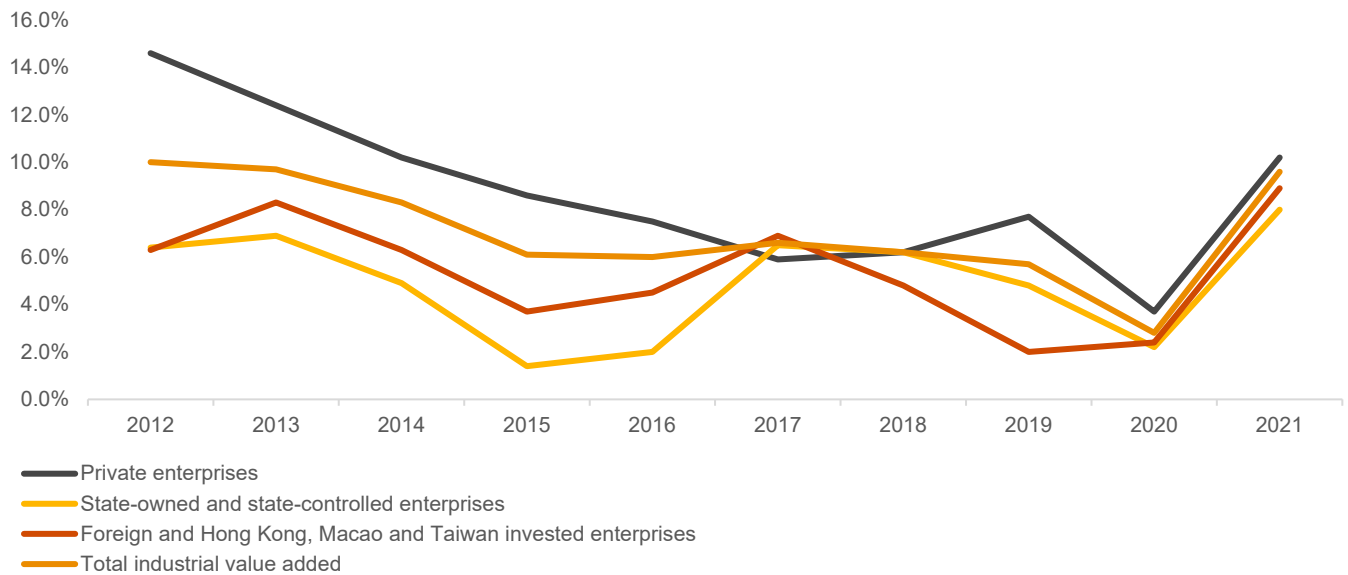
By building a high-standard socialist market economy, state-owned enterprises, as well as private and foreign-owned enterprises will continue to thrive in China.

It is almost a national consensus that China's economic miracle and accomplishment in the past four decades was mainly a result of pursuing a market economy, as well as reforming the pure socialist economy (planned economy) to open up to the rest of world, especially developed economies.

Since the 18th National Congress, China formulated and implemented a series of policies to ensure the common development of local economies under diverse forms of ownership. As the business environment continued to improve, the reform of state-owned enterprises saw remarkable results, the private sector was revitalised, and foreign investment and foreign trade continued to grow. Policies to support, mostly privately-owned, individual, small and micro businesses have been effective, enabling their rapid growth.

In key sectors and industries, those that affect the national economy, people's livelihood and public services, the state-owned businesses remain leaders. For instance, in 2021, total profits of state-owned industrial enterprises above a designated size reached 2.3tn yuan, a 50.0% increase from 2012 with an average annual growth of 4.6%. By the end of 2021, the net assets of state-owned industrial enterprises above a designated size reached 22.2tn yuan, a 84.0% increase from 2012 with an average annual growth of 7.0%. Since 2012, state-owned enterprises exited some industries and as a result, the total assets of state-owned enterprises from these industries has reduced.

Annual aggregate growth rate of industrial enterprises above a designated size in China (Unit: %)



Source: National Bureau of Statistics

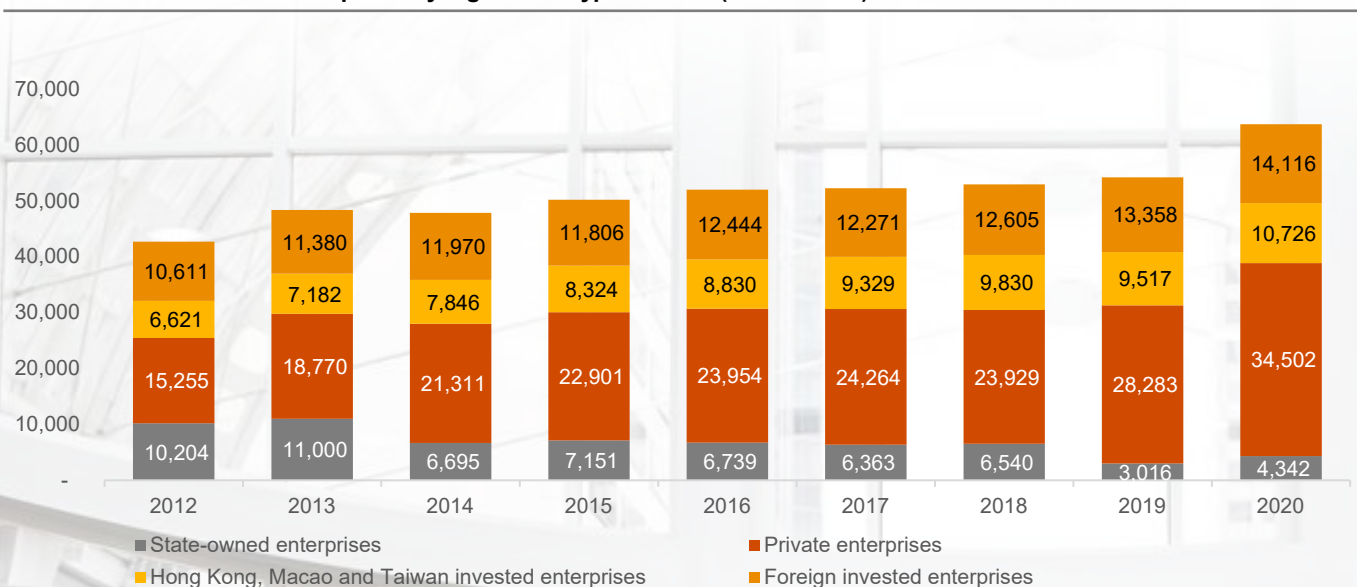
At the same time, the private sector has grown stronger with significantly improved profitability and employability. Through a series of policies, including tax and fee cuts, individual, small and micro businesses received targeted support. The private economy has grown exponentially, increased profitability and created more jobs. Within which, small and medium-sized enterprises have grown rapidly.

The importance of the private economy in China can't be denied, with the sector associated with the number of '56789', as they contribute more than 50% of tax revenue, 60% of GDP, 70% of technological innovation, 80% of urban employment and make up 90% of enterprises in the country.

More specifically, from 2013 to 2021, the aggregate value of private industrial enterprises above a designated size

grew at an average annual rate of 8.0%. In 2021, the total profits of private industrial enterprises above a designated size reached 2.9tn yuan, an increase of 44.4% from 2012, with an average annual growth of 4.2%. In the same year, 35.82mn people were employed by private industrial enterprises above a designated size, 14.7% more than 2012, accounting for 48.1% of those employed in industries above a designated size.

Total assets of industrial enterprises by registration type in China (Unit: billions)



Source: National Bureau of Statistics, Wind

In 2021, the total profits of small and medium-sized industrial enterprises above a designated size reached 4.7tn yuan, a 26.7% increase from 2012 with an average annual growth of 2.7%. The total profit of small and medium-sized industrial enterprises and large private industrial enterprises above a designated size added up to 7.6tn yuan, 3.3 times more than the total profits of

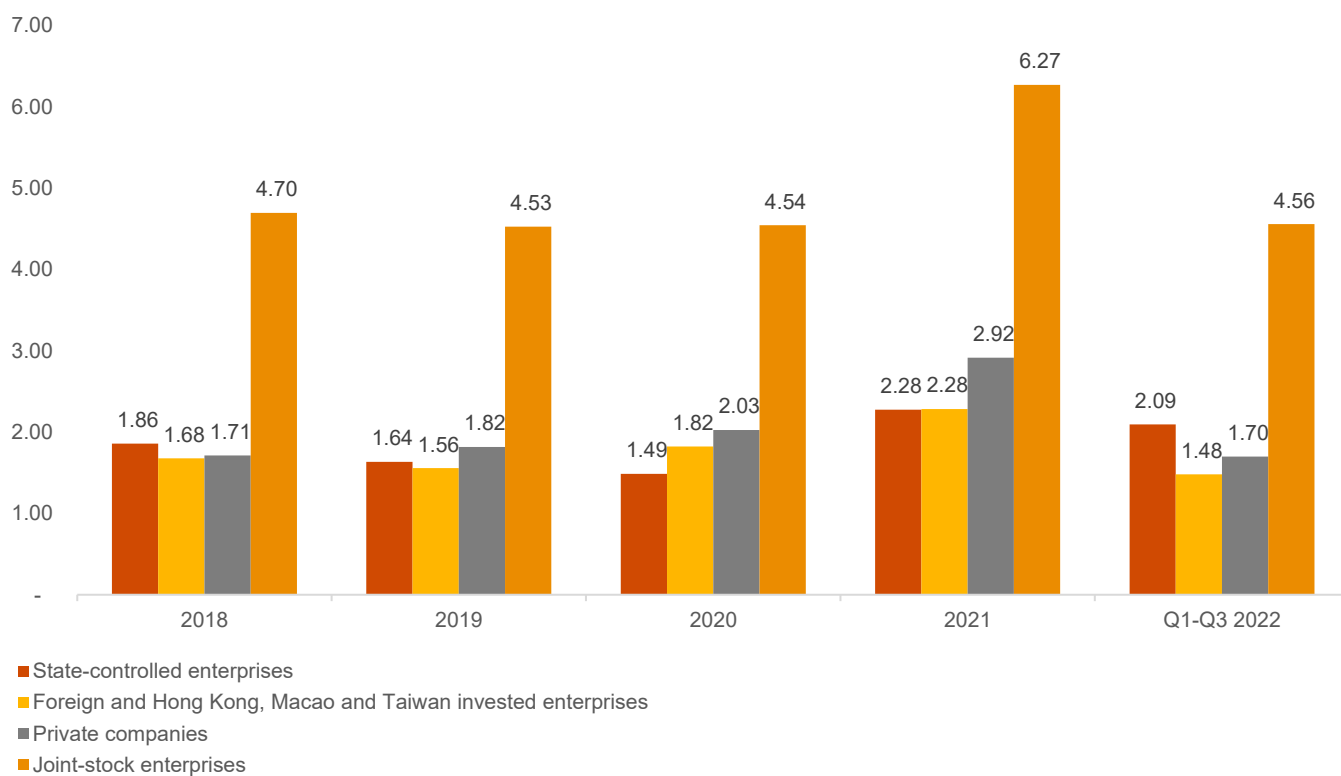
state-owned industrial enterprises. This figure does not include small and medium-sized private industrial enterprises below a designated size, with an annual income of less than 20mn yuan from their primary business.

In the first half 2022, the import and export by private enterprises reached 9.82tn yuan, accounting for 49.6% of

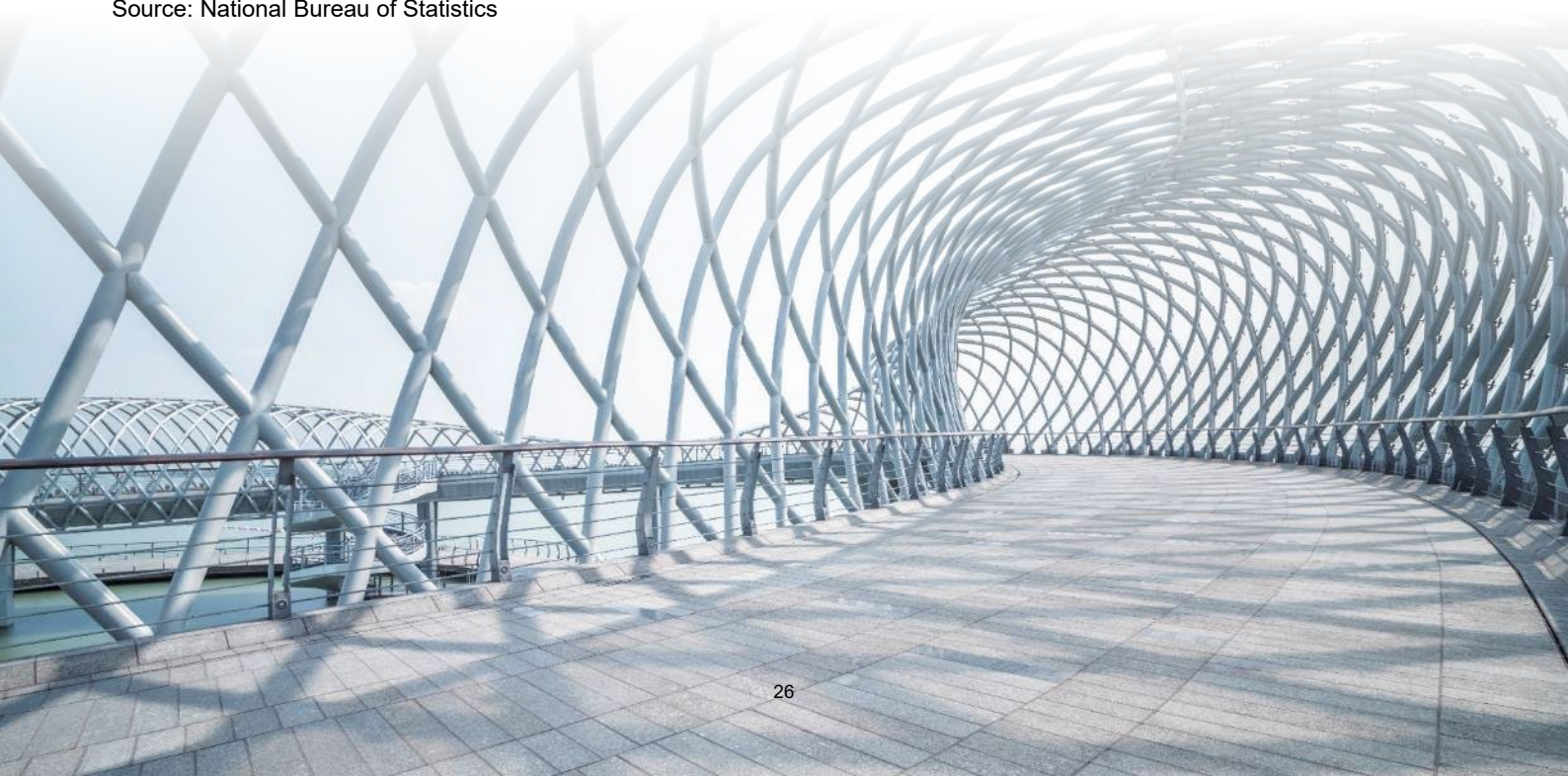
total foreign trade value, 1.9 percentage points higher YoY.

As such, the report stated, 'we will provide an enabling environment for private enterprises, protect their property rights and the rights and interests of entrepreneurs in accordance with the law, and facilitate the growth of the private sector'.

Total profit of Chinese industrial enterprises by registration type (Unit: tn, RMB)



Source: National Bureau of Statistics



Over the years, foreign investment and trade continued to grow, while market integration deepened. In 2021, the total profits of foreign-invested enterprises (FIEs) in the industrial sector, including Hong Kong, Macao and Taiwan above a designated size reached 2.3tn yuan, a 63.6% increase from 2012 with an average annual growth of 5.6%. In 2021, the assets of these enterprises totalled 28.8tn yuan, up 67.2% from 2012, while operating revenue reached 28.8tn yuan, a 29.8% increase from 2012.

In addition to the industrial sector, FIEs made a significant contribution to China's economic success. As such, it comes with no surprise that China will continue to welcome foreign investors from overall the world. In the section on 'promoting high-standard opening up', the report stated, 'We will make appropriate reductions to the negative list for foreign investment, protect the rights and interests of foreign investors in

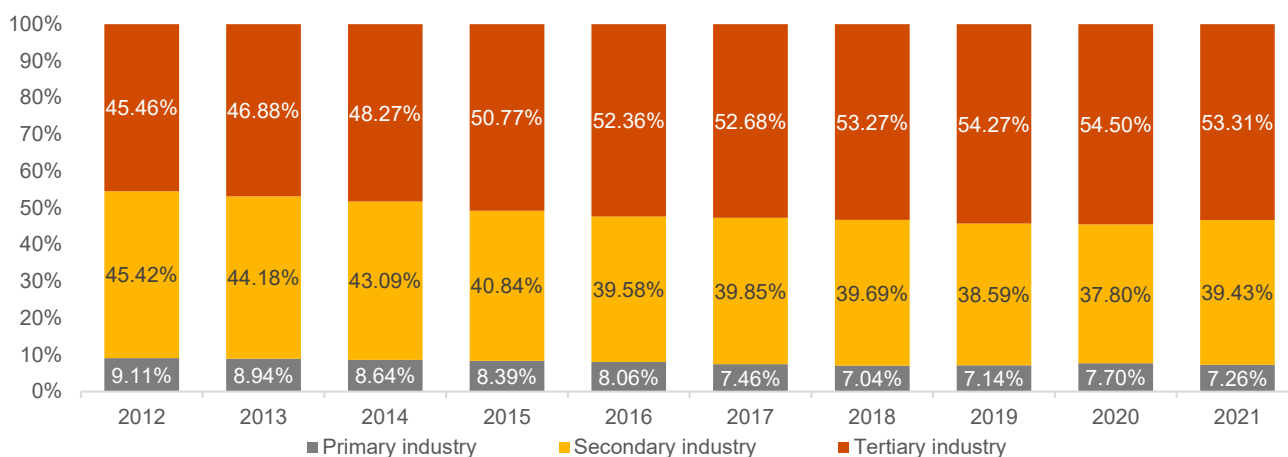
accordance with the law, and foster a world-class business environment that is market-oriented, law-based and internationalised'.

In terms of fostering a new pattern of development, some industries are now innovation-driven, while consumption plays a fundamental role in economic growth.

China is still in the middle of building a modern economic system. The ongoing refinement of the industrial structure lays a solid foundation for a new development pattern. The primary industry, critical for national food security, is the foundation of the national economy. While the secondary industry has gradually developed towards an innovation-driven model, the shift towards the middle- and high-end of the industrial chain is long. Transforming and upgrading key areas of the tertiary industry are still on-going which give strong support to the sustained and healthy development of the national economy.

The composition of the three industries in China's economy was adjusted to 7.3:39.4:53.3 in 2021 from 9.1:45.4:45.5 in 2012. In the future, it is expected that service sector will account for an even larger portion of the total GDP, at the same time, China will continue to regard the real economy (secondary industry) as a vital part. China's economic composition of the three industries will be more similar to that of the developed countries such as Germany, but quite different from the US model.

Annual GDP composition



Source: National Bureau of Statistics, Wind



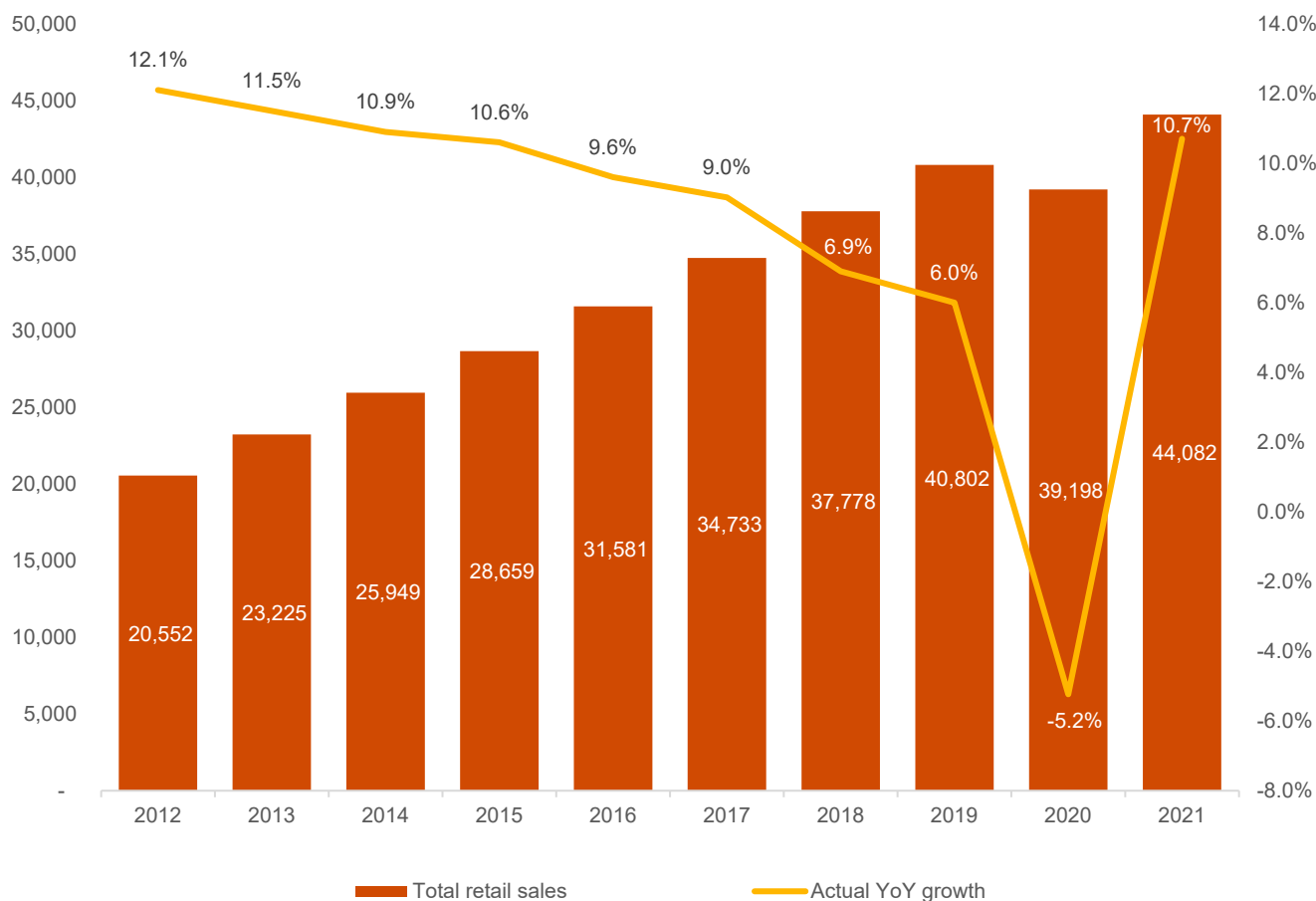
Over the past years, China has built up the whole industrial chain of manufacturing industry. The independent control over the industrial chain and supply chain has been improved, but China still faces many challenges as the international geopolitical landscape gets more intense. In today's world complicated by the current economic situation, no country can develop its economy completely independently.

Furthermore, consumption became the main driving force for economic

growth, and the construction of a new development pattern continued to show results. Since the 18th CPC National Congress, China has thoroughly implemented the strategy of expanding domestic demand, introduced policies and measures to stimulate consumer demand, and made historic achievements in the development of the consumer market. The advantages that came from the sheer size of China's market continued to play out, with consumer market sales steadily expanding.

More specifically, the total retail sales of consumer goods exceeded 30 tn yuan in 2016 and 40 tn yuan in 2019, and reached 44 tn yuan in 2021, and 2.1 times that of 2012. However, as we are still tackling the repercussions of COVID-19 outbreak, consumer confidence has hit a historic low and consumption has remained comparatively weak since 2020.

Annual total retail sales in China (Unit: RMB billion)



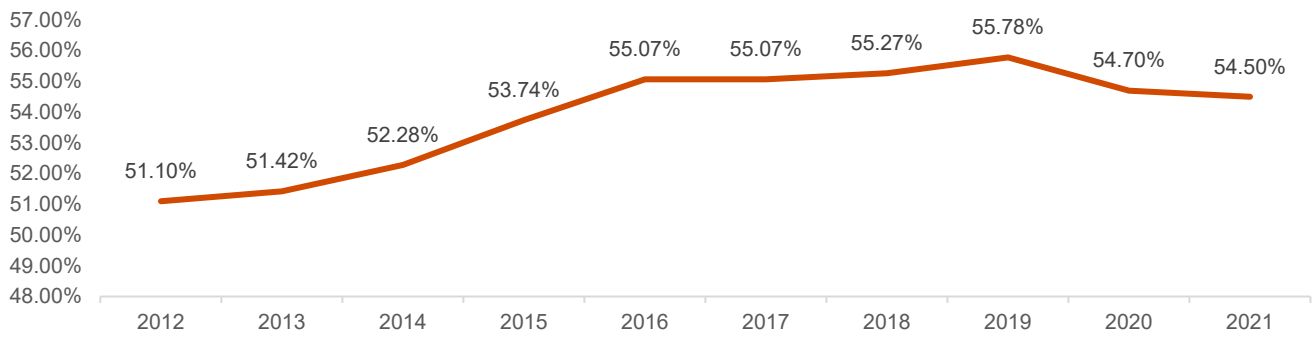
Source: National Bureau of Statistics, Wind

Consumption gradually plays a fundamental role in the country's economic growth. In 2021, the final consumption rate was 54.5%, up 3.4% from 2012. Among the final consumption expenditure figures, personal or household consumption expenditures maintained relatively fast

growth. From 2013 to 2021, household consumption expenditure grew at an average annual rate of more than 9%, accounting for 70% in final consumption expenditure. The annual contribution of final consumption expenditure to economic growth exceeded 50% during this period. In 2021, final consumption

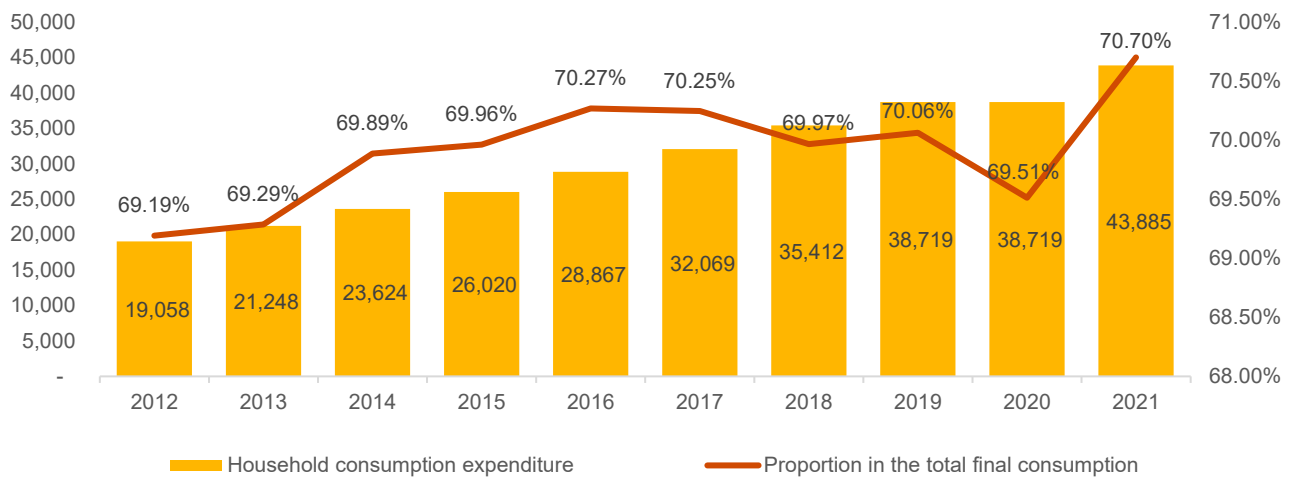
expenditure contributed 65.4% to economic growth, 51.7 percentage points higher than gross capital formation, and was the biggest driver of economic growth. This illustrates one of the key features of a new pattern of development.

Annual final consumption rate in China



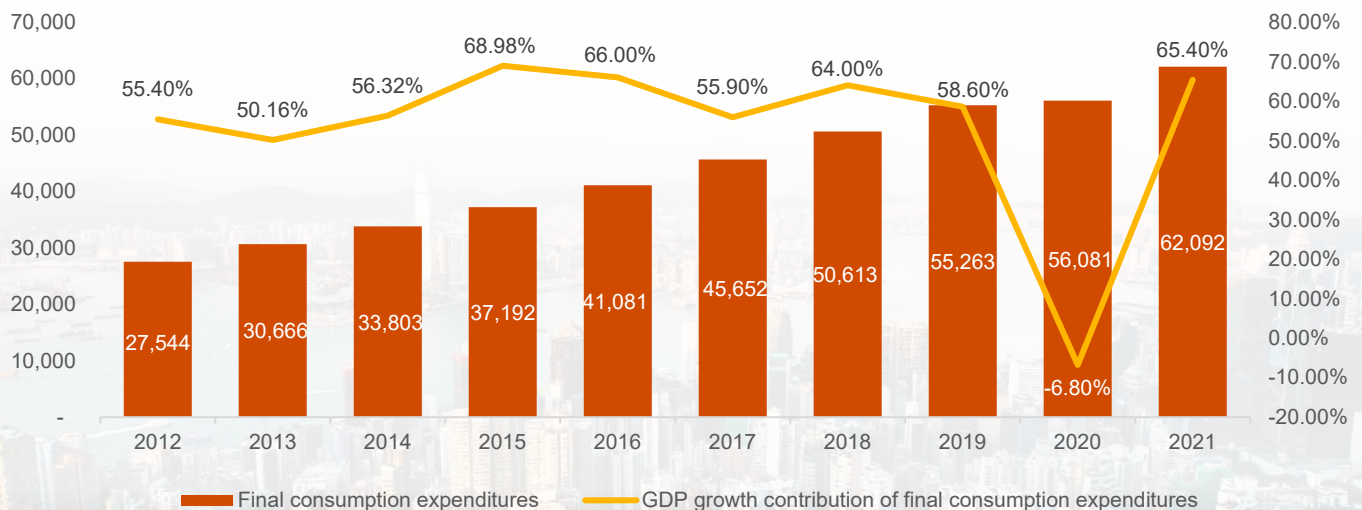
Source: National Bureau of Statistics, Wind

Annual household consumption expenditure in China (Unit: RMB billion)



Source: National Bureau of Statistics, Wind

Annual final consumption expenditures and its GDP growth contribution in China (Unit: RMB billion)



Source: National Bureau of Statistics, Wind

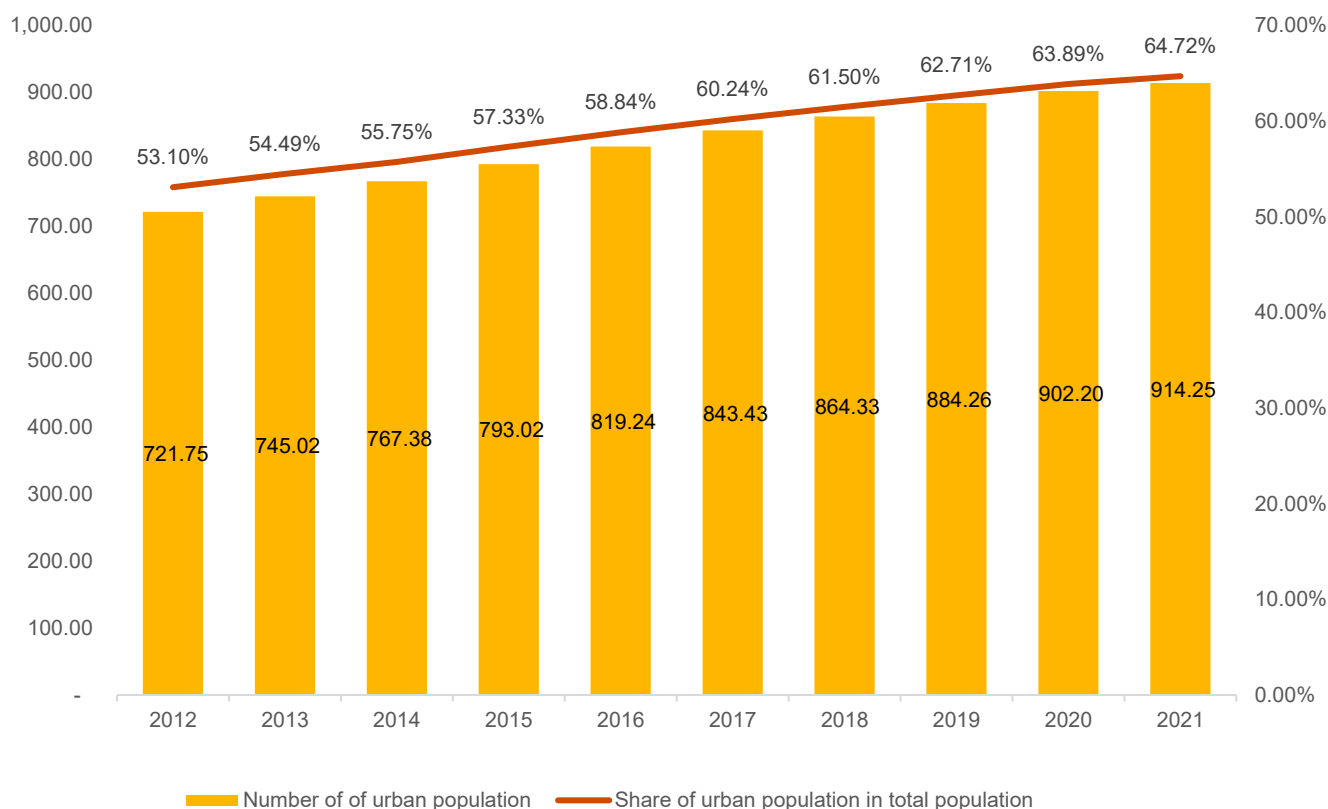
In a bid to pursue high-quality development, China has made dramatic progress in areas such as urbanisation, high-tech manufacturing, and transportation.

High-quality development comes from various sectors and areas, and rapid urbanisation is one of the many. At the end of 2021, China's

urbanisation rate of permanent residents reached 64.72%, 11.62% higher than that at the end of 2012, with an average annual increase of 1.29% since 2012. Each one percent increase of urbanisation rate means an immigration of 14 million people from rural areas to cities in the country. Urbanisation rate in

developed countries is about 80% and that means China still has more than 15% to catch up with international level, which would generate enormous business opportunities.

Annual number of urban population in China (Unit: per million)



Source: National Bureau of Statistics, Wind

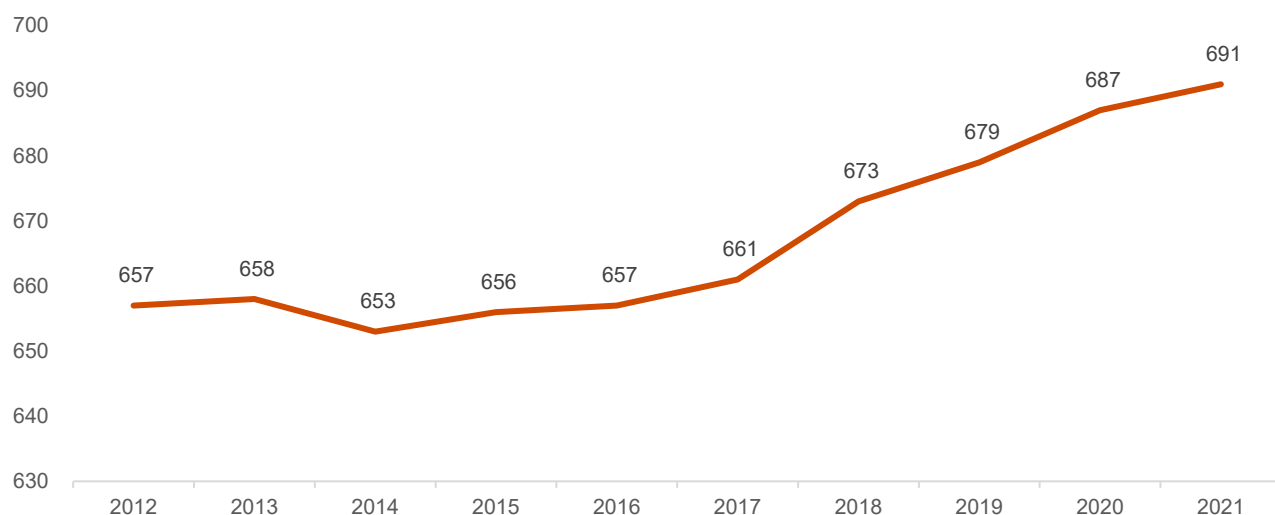
Furthermore, triggered by rapid urbanisation, the number of cities continues to increase. In 2021, the total number of cities reached 691, or 34 more than 2012, according to the National Bureau of Statistics. Among them, 297 are at or above prefecture level (ranked below a province but above a county) and 394 at county level. Based on the size of registered population at the end of 2020, there were

- 96 cities with populations of 1 million to 2 million,
- 46 cities with populations of 2 million to 4 million and,
- 22 cities with populations of more than 4 million.

These categories of cities were 14, 15 and 8 more than those at the end of 2012, respectively. There were 47 cities with a population of less than 500,000 and 86 with a population of 500,000 to 1 million, with both

numbers decreasing by 7 and 22 respectively. Consequently, people are moving out from rural areas and small cities to bigger ones. The integrated development of city cluster has been improved. Central cities, such as municipalities directly under the central government, provincial capitals, major cities, have continuously enhanced their radiation functions. This trend might solidify in the coming years, as urbanisation continues to move forward.

Annual change in the number of cities in China



Source: National Bureau of Statistics, Wind

Special attention has been given to the high-quality development of the real economy, including equipment manufacturing and high-tech manufacturing. In 2021, the added value of the manufacturing industry reached 31.4 trillion yuan, an actual increase of 74.3% over 2012 with an average annual growth rate of 6.4% from 2013 to 2021. At the same time, the added value of equipment manufacturing and high-tech manufacturing grew at an average annual rate of 9.2% and 11.6%, respectively, 2.4% and 4.8% higher than that of manufacturing industries.

Of which, the average annual growth rate of

- aerospace and spacecraft, and equipment manufacturing was 13.7%,
- electronic and communication equipment manufacturing was 13.6%,
- pharmaceutical manufacturing was 11.7%, and
- medical instruments and equipment and instrumentation manufacturing was 10.9%.

In 2021, the added value of equipment manufacturing and high-tech manufacturing accounted for 32.4% and 15.1% of the added value of industries above designated size, up 4.2 and 5.7 percentage points from 2012, respectively. Lastly, China will continue the implementation of the national strategy of 'becoming a strong manufacturer', and push industrial development toward the medium-high end.

Average annual growth of added values by industry classification

| Industry classification | Average YoY (2013-2021) |
|---|-------------------------|
| Manufacturing | 6.40% |
| High-tech manufacturing above the designated size | 11.60% |
| Equipment manufacturing above the designated size | 9.20% |
| Services | 7.40% |

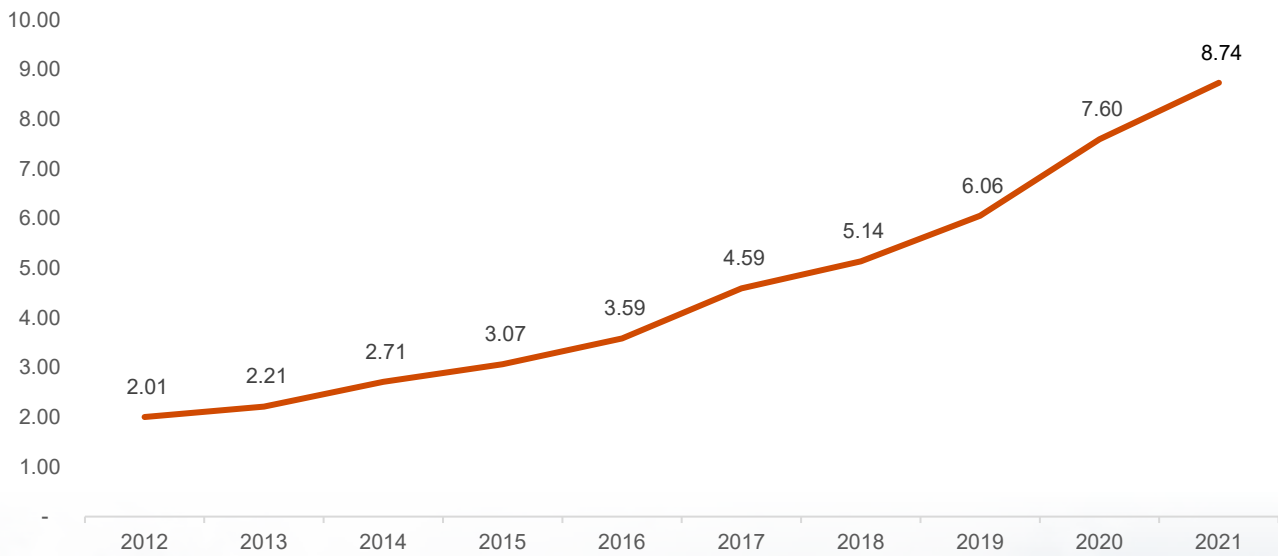
Source: National Bureau of Statistics, Wind

Outstanding achievements in the development of the transportation sector pave the way for high quality development. The comprehensive transport network has been gradually improved with the building of the world's largest high-speed rail network and expressway network. From 2012 to the end of 2021, the length of railway

increased from 98,000 km to 151,000 km. The length of high-speed railways in operation has increased from less than 10,000 km to 40,000 km. The length of highways increased from 4.24 million km to 5.28 mn km, of which the length of expressways increased from 96,000 km to 169,000 km. China also accelerated the building

of modern and efficient urban rail transit in recent years. By the end of 2021, there were 8,736 kilometres of urban rail transit lines in operation across 51 cities, while city dwellers will have access to subway systems.

Operating mileage of urban rail transit in China (Unit: per 1,000 km)



Source: National Bureau of Statistics, Wind



3) China will prioritise science and technology, education, talent, and green development.

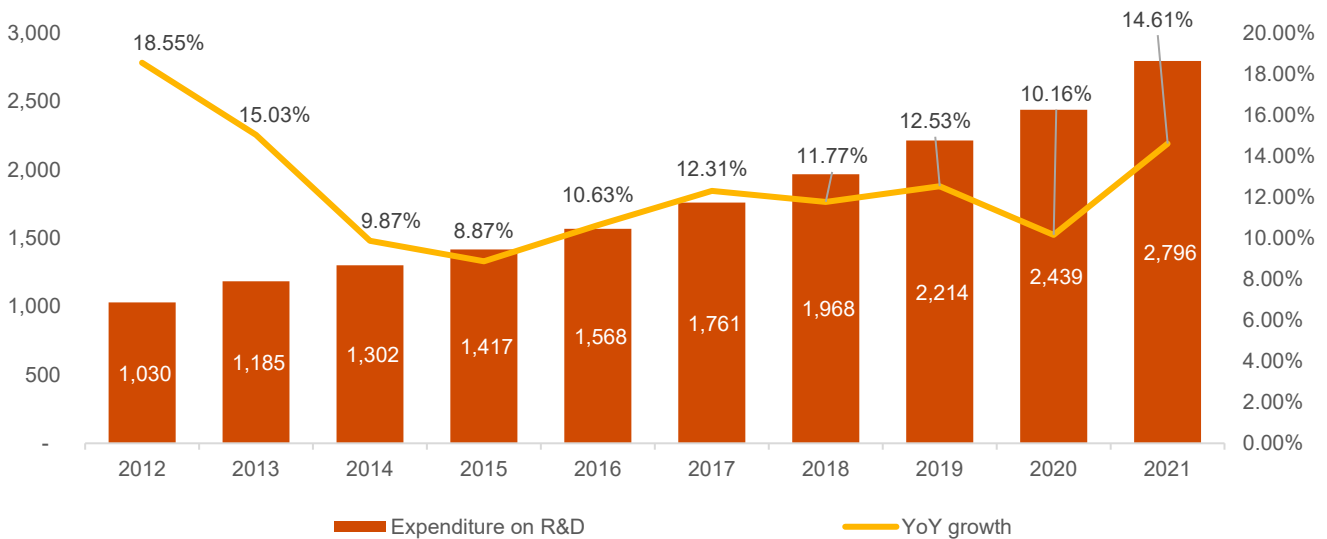
According to the report, 'education, science and technology, and human resources are the foundational and strategic pillars for building a modern socialist country in all respects'. It also emphasised that the country 'must regard science and technology as its primary productive force, talent as its primary resource, and innovation as its primary driver of growth'.

Science and technology are one of the vital strategic pillars for China to transform its economy into an innovation-driven one.

Investment in innovation, as well as science and technology has increased in recent years. China's total experimental research and development (R&D) expenditure surpassed Japan's in 2013, making it the second largest R&D investment country in the world. In 2021, the expenditure on R&D was 2,795.6 bn yuan, 2.7 times that of 2012, with an

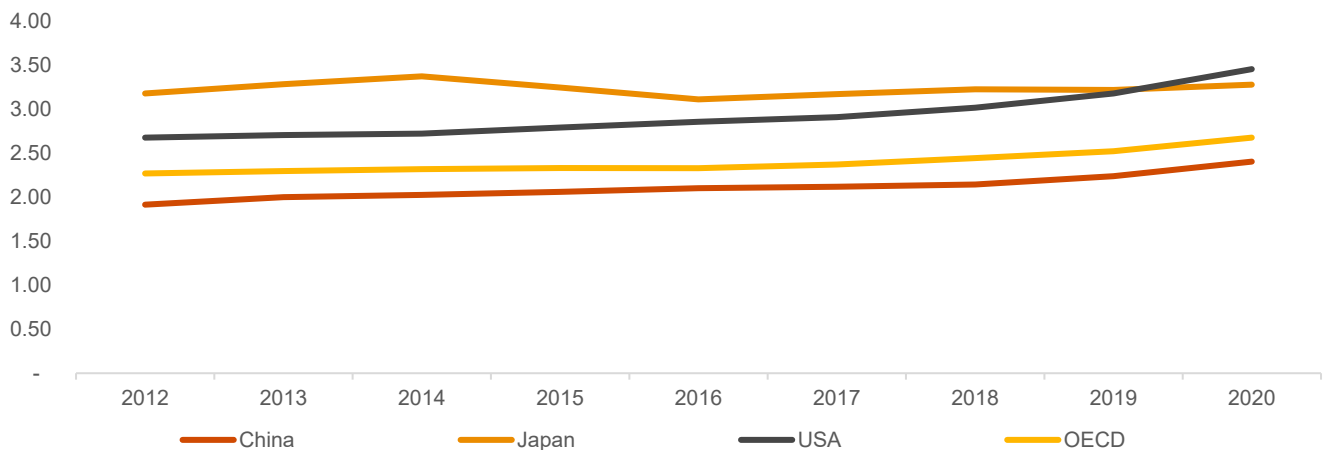
average annual growth of 11.7%. The ratio of R&D expenditure to GDP was 2.44%, 0.53 percentage points higher than in 2012, and close to the pre-pandemic average of 2.47% in OECD countries.

Annual expenditure on R&D in China (Unit: RMB billion)



Source: National Bureau of Statistics, Wind

Annual proportion of gross domestic spending on R&D in GDP by OECD and OECD countries (Unit: %)



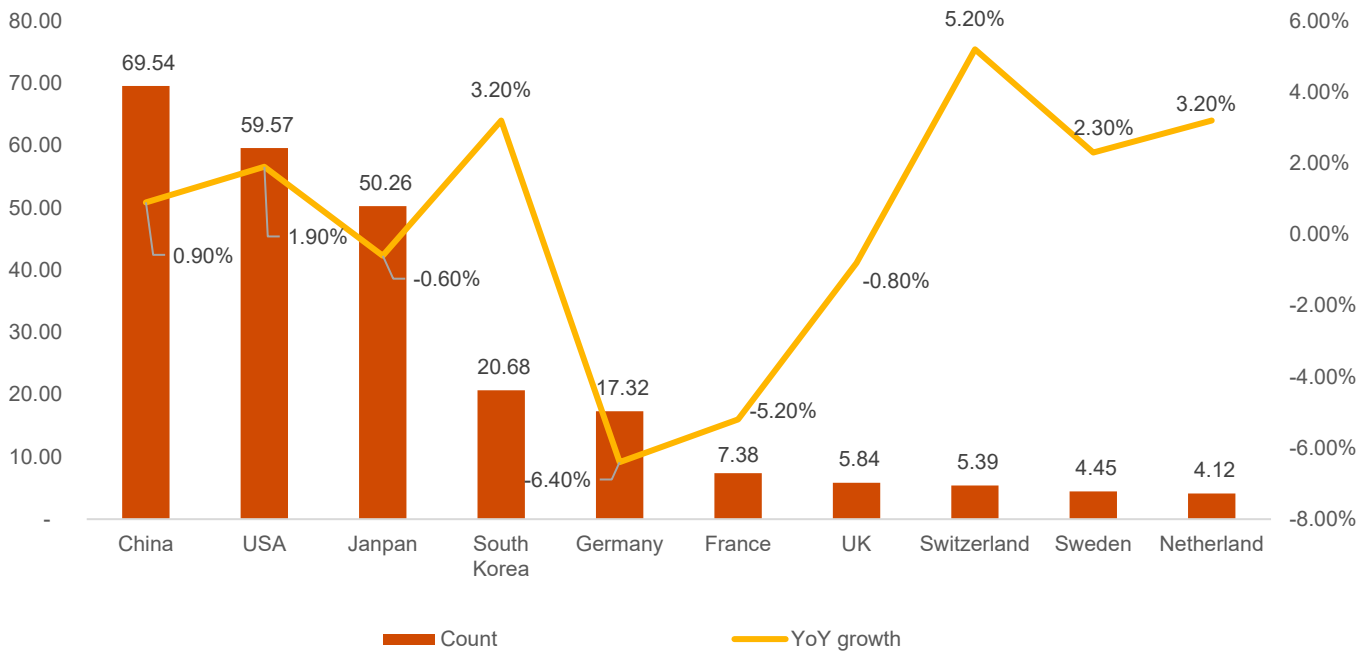
Source: National Bureau of Statistics, Wind

Furthermore, the outputs of innovation are evidently seen, as China's strategic prowess in science and technology is growing faster. For example, the registration and approval of patent applications have increased significantly. In 2021, the

number of patent applications granted at home and abroad reached 4.6 million, an increase of 2.7 times over 2012. Chinese applicants submitted 69,500 international patent applications through PCT, ranking first in the world for three

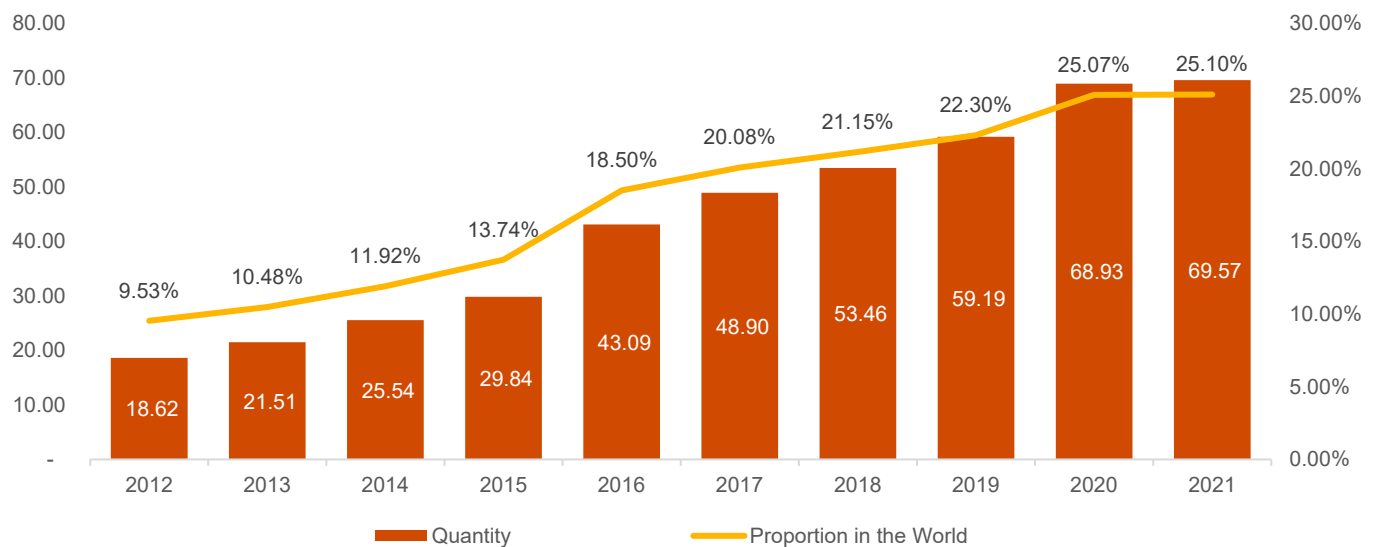
consecutive years. Besides, the World Intellectual Property Organisation (WIPO) report shows that China's ranking in the Global Innovation Index jumped from 34th in 2012 to 11th in 2022.

2021 PCT top 10 countries (Unit: per thousand)



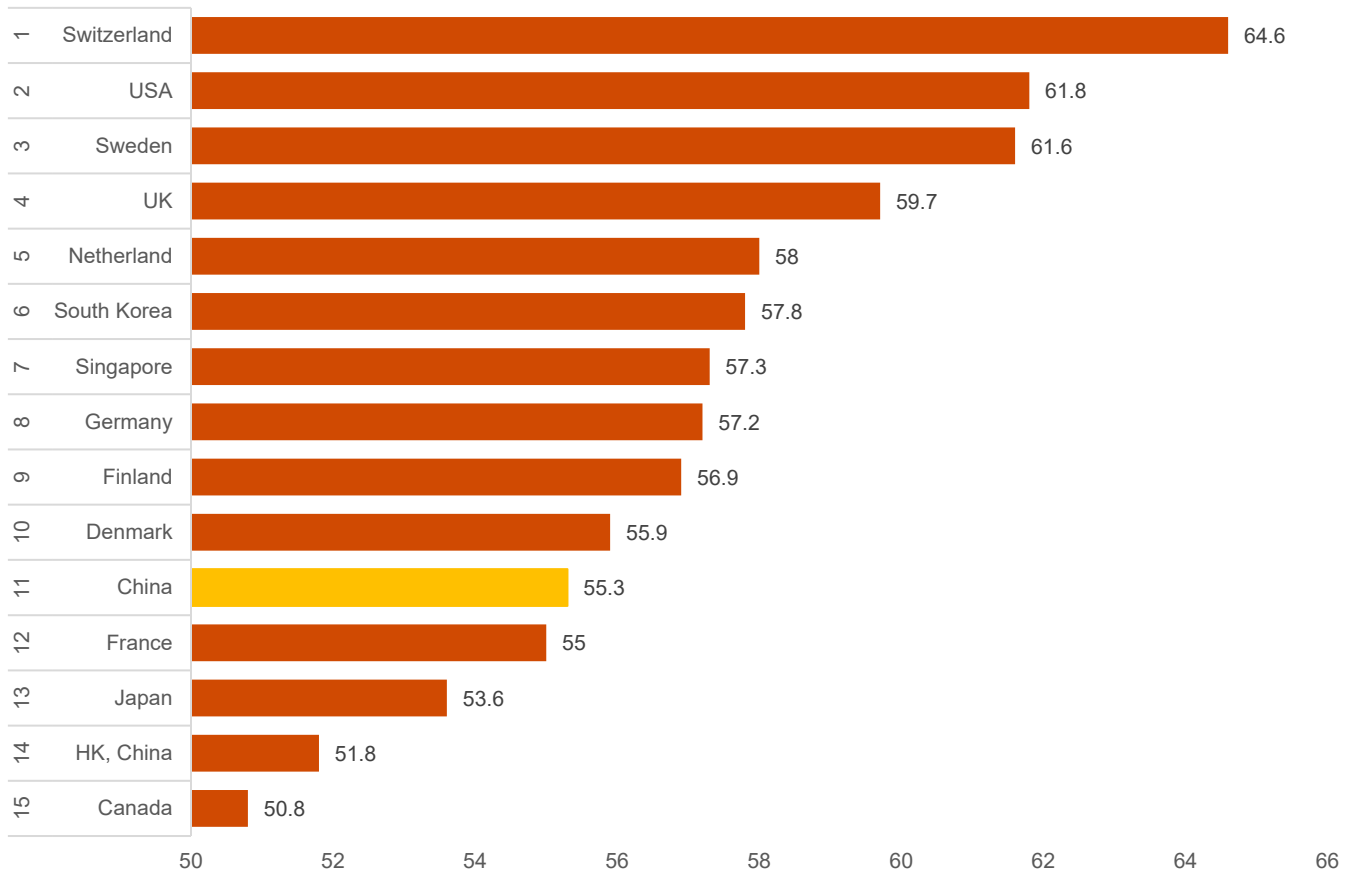
Source: WIPO

Annual PCT patent applications from China (Unit: per thousand)



Source: National Bureau of Statistics, Wind

The 2022 Global Innovation Index ranking by score



Source: World Intellectual Property Organisation

In terms of human resources in the science and education field, China is now home to the largest number of R&D personnel in the world. In 2021, the total number of full-time R&D personnel in China amounted to 5.62 million, up 73.1% from 2012, ranking first in the world for nine consecutive years.

China's quality of academic paper outputs grew dramatically. A total of 97,000 Chinese scientific and

technological papers made their way into the collection of three major international retrieval tools (namely SCI, Science Citation Index, EI, Engineering Index and CPCI-S, Conference Proceedings Citation Index-Science Biostatistics), 2.5 times of that in 2012.

Besides its strength in academic research, China's higher education also reached the world's medium-high level, as university enrollment

rate has increased significantly over the years.

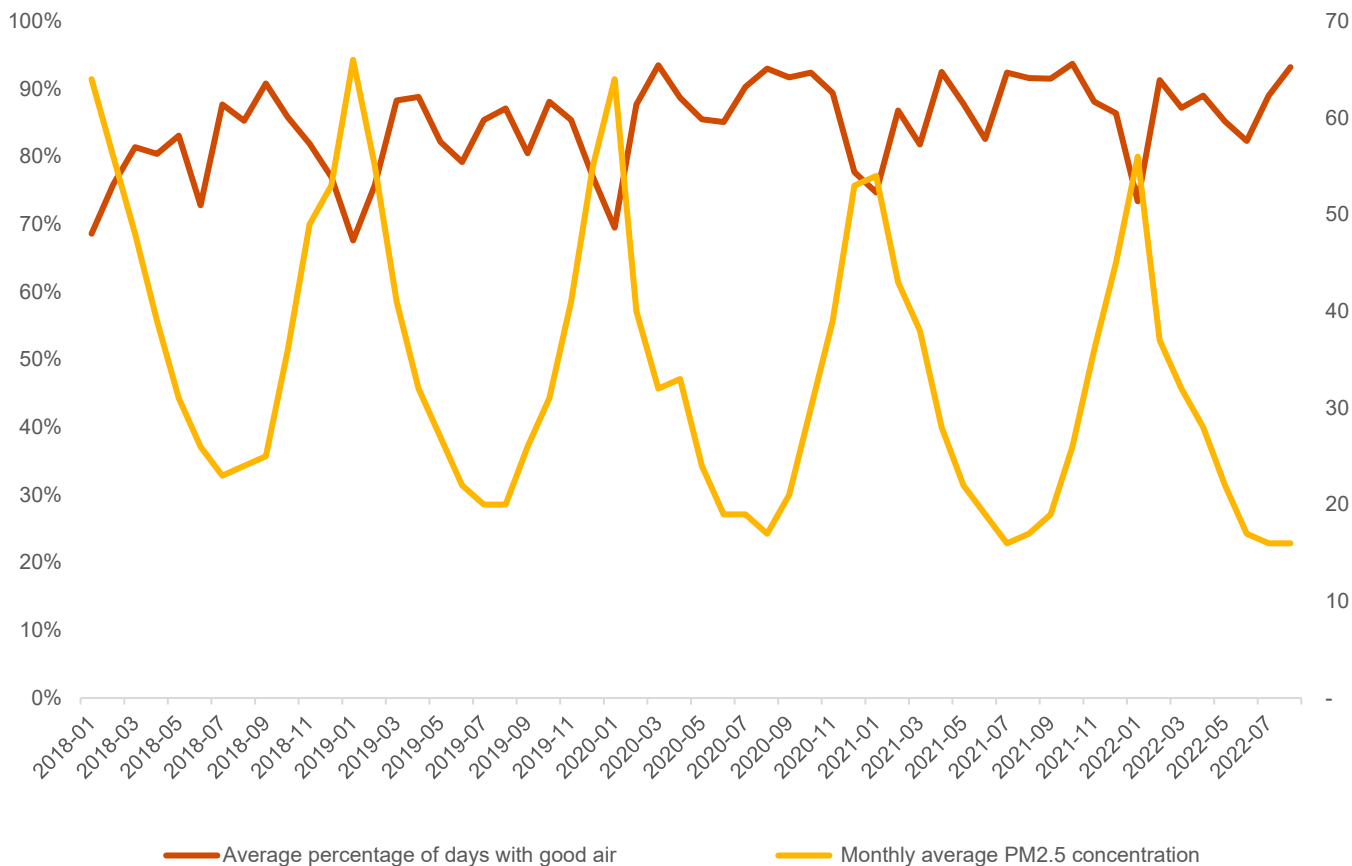
The report also emphasised the country's plan to 'carry out coordinated industrial restructuring, pollution control, ecological conservation, and climate response'. China will also 'cut carbon emissions, expand green and low-carbon development'.

The green development contains four major aspects, such as transition to a model of green development, pollution prevention and control, sustainability in the ecosystems, and peak carbon emissions and carbon neutrality.

China has continuously improved the quality of its ecological environment, gradually advancing along the path of ecological development. More specifically, remarkable progress has been achieved to protect air, waters and soil. For instance, in 2021,

87.5% of the days in cities had good air quality on average, up 6.3% from 2015. The average annual concentration of PM2.5 was 30 micrograms per cubic metre, down 34.8%.

Monthly air quality in 388 cities of China



Source: National Bureau of Statistics, Wind

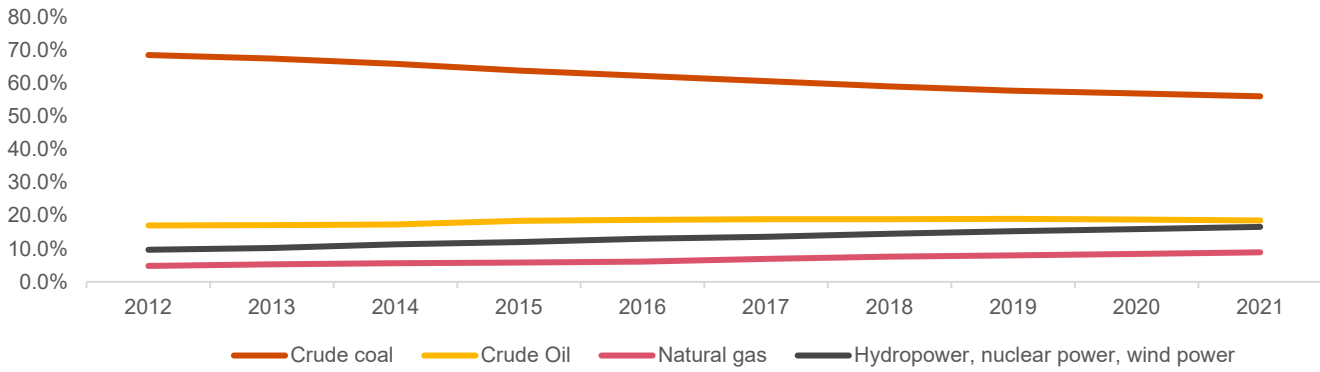
In order to achieve carbon peaking in 2030 and carbon neutrality by 2060, energy production and consumption will need to be transformed to make them clean, low-carbon, safe and efficient. In 2021, clean energy such as natural gas, water, nuclear and solar power accounted for 26.4% of China's total energy production, 11.1 percentage points higher than that in 2012.

China now ranks first in the world in terms of the number of installed hydropower, wind power, solar power and nuclear power plants, and has become a global leader in non-fossil energy. In 2021, China's primary energy production totalled 4.33 billion tons of standard coal, an increase of 23.2% over 2012 with an average annual growth of 2.3%. The output of raw coal was 4.13 bn tons,

an increase of 4.6% over 2012.

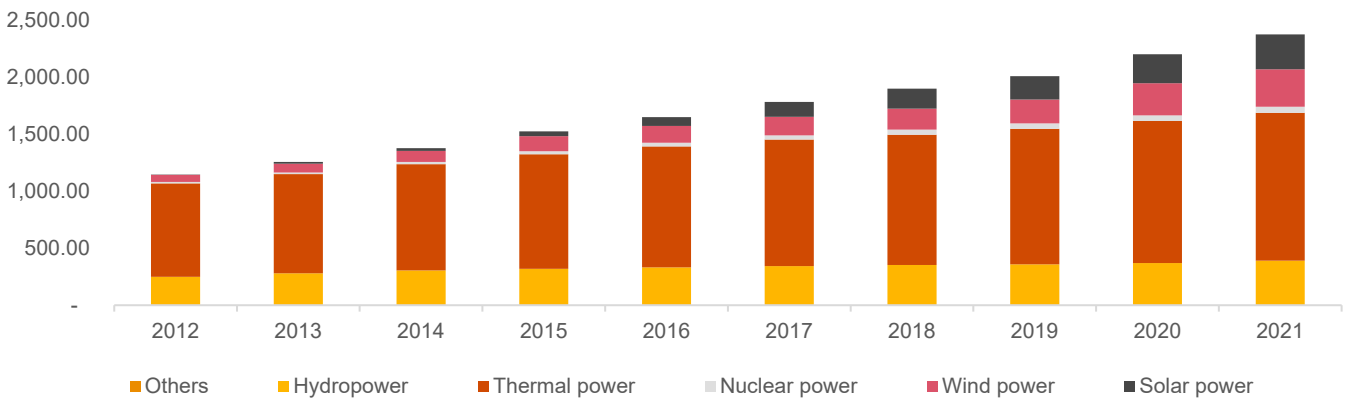
On the other hand, in 2021, natural gas output was 207.6 bn cubic metres, up 87.7%, while crude oil output stood steadily at 19.88 mn tons. China's installed power generation capacity reached 2,376.92 mn kW, up 1.1 times from 2012.

Share of major energy sources in total energy consumption in China



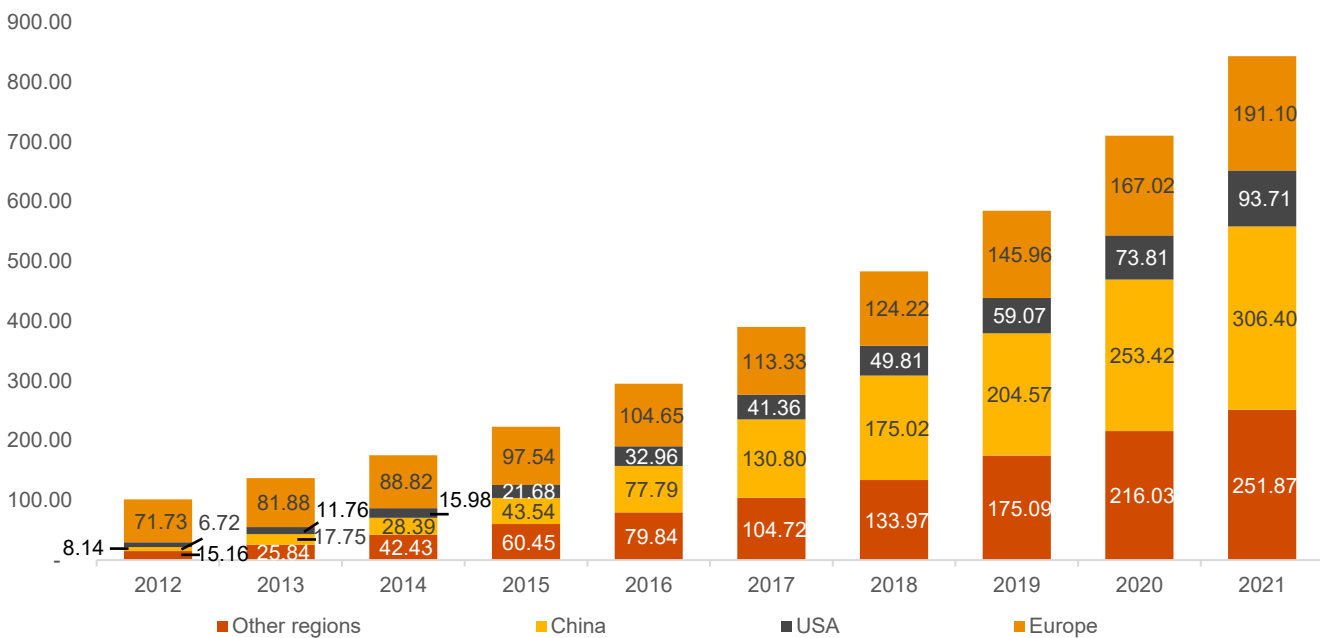
Source: National Bureau of Statistics, Wind

Annual installed capacity of power generation in China (Unit: million kilowatts)



Source: National Bureau of Statistics, Wind

Solar PV installed capacity in the world (Unit: billion watt)



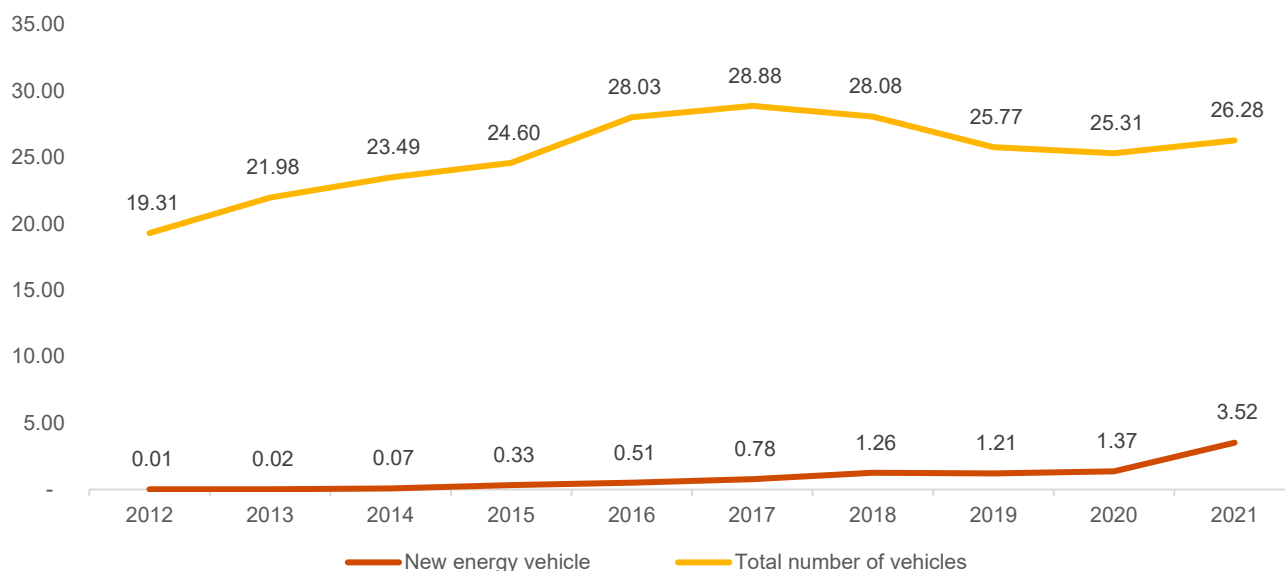
Source: National Bureau of Statistics, Wind

Moreover, a green lifestyle is taking shape in China, and low-carbon travel is becoming more convenient. The green public transport service system has seen continuous improvement. In 2021, the operational length of urban rail transit was about 8,736 km, an increase

of about 3.2 times compared with the end of 2012. The proportion of new energy city buses exceeded 66% and the number of new energy vehicles reached 7.84 mn. The sales of new energy vehicles reached 3.52 mn in 2021, making China the world's largest

market (both production and sales) for new energy vehicles. In 2022, new energy vehicles accounted for one-fifth of total car sales in China, and the annual sales of new energy vehicles is expected to increase by 5.5 mn units this year.

Annual auto sales in China (Unit: per million)

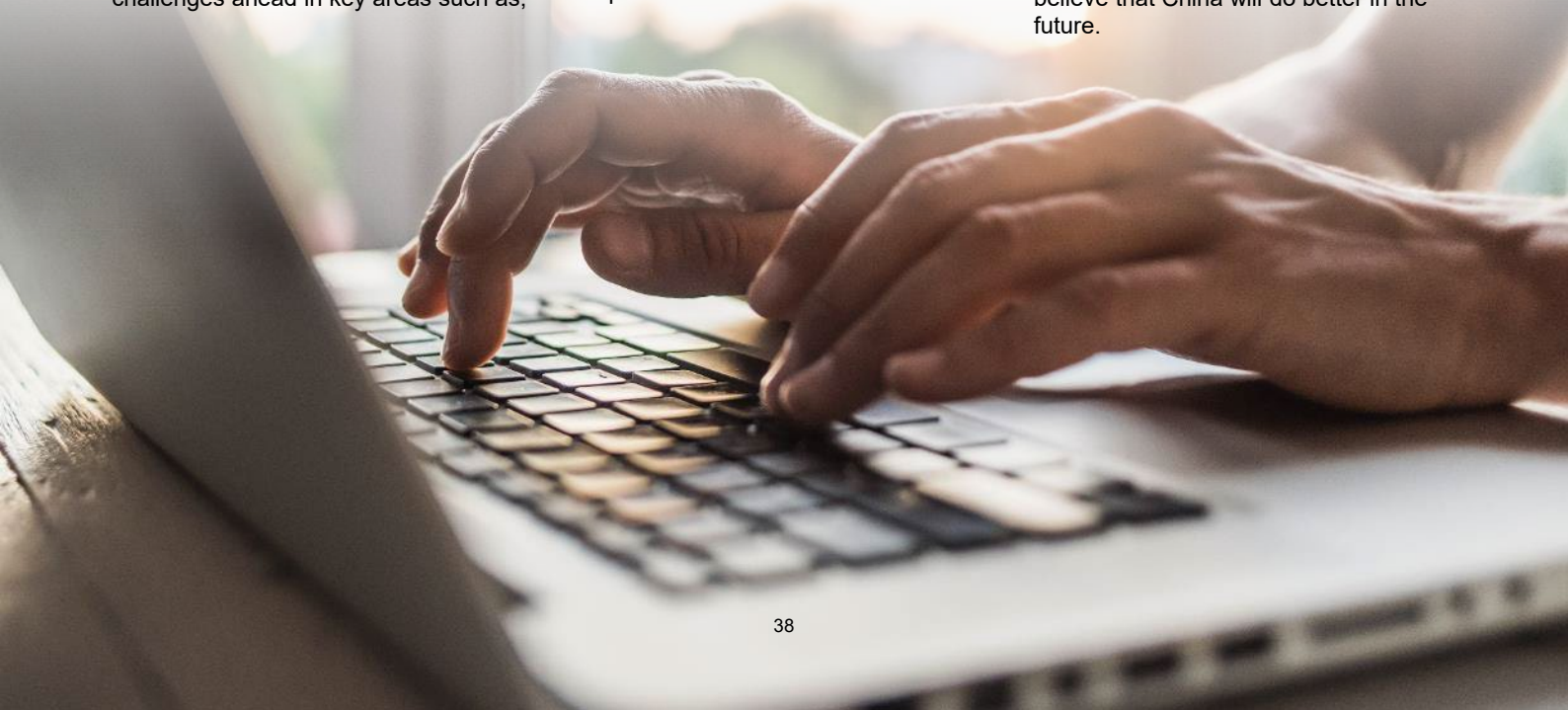


Source: National Bureau of Statistics, Wind

To conclude, as an important meeting held every five years, the economic impacts of the 20th National Congress of the Communist Party of China are bound to be significant and far-reaching. The report outlines the strategic direction of and addresses the vital issues to transforming China into a developed economy by 2035. It is indeed an arduous long journey. China will only be able to achieve its goals, by first overcoming many obstacles and challenges ahead in key areas such as,

- unbalanced development,
- bottlenecks in promoting high-quality development,
- sustainability for innovation of science and technology,
- reliability and security of food, energy, industrial and supply chains,
- income distribution gap,
- ecological and environmental protection.

Other difficulties include employment, education, medical services, childcare, elderly care, and housing. However, it's been only slightly more than 40 years since China has pursued market economy, and integrate itself with the global economy. The extraordinary achievements China has made in the past four decades have underscored tremendous progress for its 1.4 billion people. On the foundation of its past success there is no reason not to believe that China will do better in the future.





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