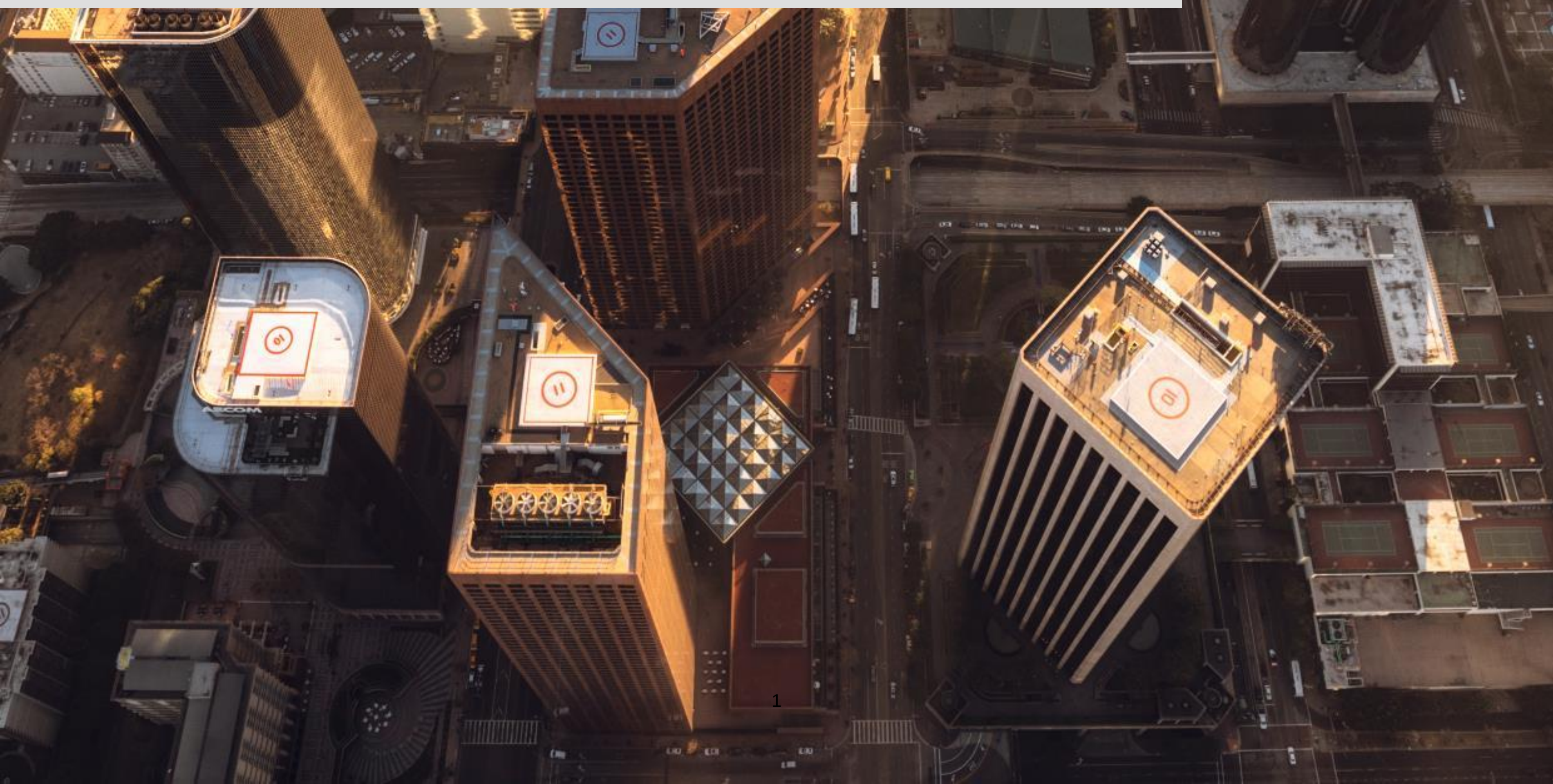
China Economic Quarterly Q4 2024 and Two Sessions 2025

April 2025

Content



In Brief

Key Takeaways from Q4 Economic Data

- **Q4 Rebound:** China's GDP grew 5.4% year-on-year in Q4 2024, lifting full-year growth to 5.0% and meeting the annual target. Industrial output, services, and retail sales accelerated, with the Manufacturing PMI signalling expansion.
- **Exports Surge:** Net exports drove 30% of GDP growth—a high share echoing past peaks. Exports surged as firms frontloaded shipments ahead of the US transition, lifting the trade surplus to nearly $1 trillion. However, escalating global trade tensions suggest exports are unlikely to remain a key growth driver going forward.
- **Policy and Property Focus:** Stimulus measures target domestic demand, with the revival of consumption closely tied to stabilising the property market. Late-year signs of stabilization suggest the sector may be nearing a bottom.
- **Investment Drivers:** Manufacturing and high-tech sectors thrived, though property sector weakness weighed on fixed asset investment. Looking ahead, stimulus measures and high-tech expansion are expected to boost confidence and spur growth.

Topic in Focus: China's Two Sessions 2025

- **Growth Target Anchors 2025:** China aims to achieve 5% GDP growth, concluding the 14th Five-Year Plan while advancing towards its 2035 goal of doubling GDP. This ambition is supported by a record-high 4% deficit-to-GDP ratio and RMB 11.86 trillion in bonds, including RMB 1.3 trillion in ultra-long-term bonds, despite global headwinds.
- **Policy Shift to Consumption:** A pivot to domestic demand takes center stage, underpinned by a 30-point action plan designed to boost spending through income growth, a RMB 300 billion trade-in programme, and improved social safety nets.
- **Innovation Fuels Transformation:** Investments in biomanufacturing, quantum technology, and AI are underpinned by a RMB 1 trillion venture fund to foster startups and reinforce China's technological leadership. The AI Plus initiative also accelerates industrial upgrades and modernization.
- **Openness Meets Reform:** High-level opening up seeks to counter trade barriers by expanding service sector access for foreign investment. Structural reforms aim to bolster private enterprises and allocate consumption tax revenues to local governments.
- **Geopolitical Resilience:** Policies from the Two Sessions equip the government to navigate risks from geopolitical tensions, leveraging fiscal firepower and structural reforms to safeguard growth against global uncertainties.

Key Takeaways from Q4 Economic Data

China's economic growth slowed in Q2 and Q3 of 2024, but a robust policy response since September turned the tide. Q4 GDP grew 5.4% year-on-year, up 0.8 points from Q3, lifting full-year growth to 5.0% and hitting the annual target. Industrial output, services, and retail sales accelerated, while the Manufacturing PMI climbed above 50 from October, signalling expansion.

However, imbalances linger: industrial output outstripped retail sales, reflecting reliance on external demand to offset weak domestic consumption. Exports surged late in 2024—driven partly by firms frontloading shipments ahead of the US presidential transition—with net exports contributing 30% to GDP growth, the largest share since 1997, and pushing the trade surplus to nearly $1 trillion.

Looking ahead, reviving domestic consumption is vital. Low inflation (0.2%) and tepid import growth (1.0%) signal persistent weak demand, while looming US and EU tariffs may force exporters to pivot inward, heightening price pressures as falling prices squeeze profits. Policy stimulus aims to counteract this, with its effectiveness hinging on the scale, speed, and execution of these measures.

Stabilizing the property sector—a key to unlocking consumption via the wealth effect—is a growing priority. Property investment plunged 10.6% in 2024, the steepest drop since 2020, but showed late-year signs of leveling off. Home prices continued to decline, but at a slower pace, buoyed by Beijing's measures like lower mortgage rates and relaxed buying rules, which have modestly lifted sentiment without sparking a full recovery.

Fixed asset investment (FAI) slowed to 3.2% growth by December, weighed down by property weakness, while manufacturing investment rose a solid 9.2%, led by high-tech sectors growing 8.0% year-on-year. This outperformance highlights a structural pivot towards advanced industries. Public investment climbed 5.7%, but private investment slipped 0.1% year-on-year, signalling caution amid profit declines and job losses. Together, economy-wide stimulus and private-sector-specific policies are poised to rebuild confidence and lift private investment in 2025, harnessing high-tech momentum to navigate global and domestic challenges.

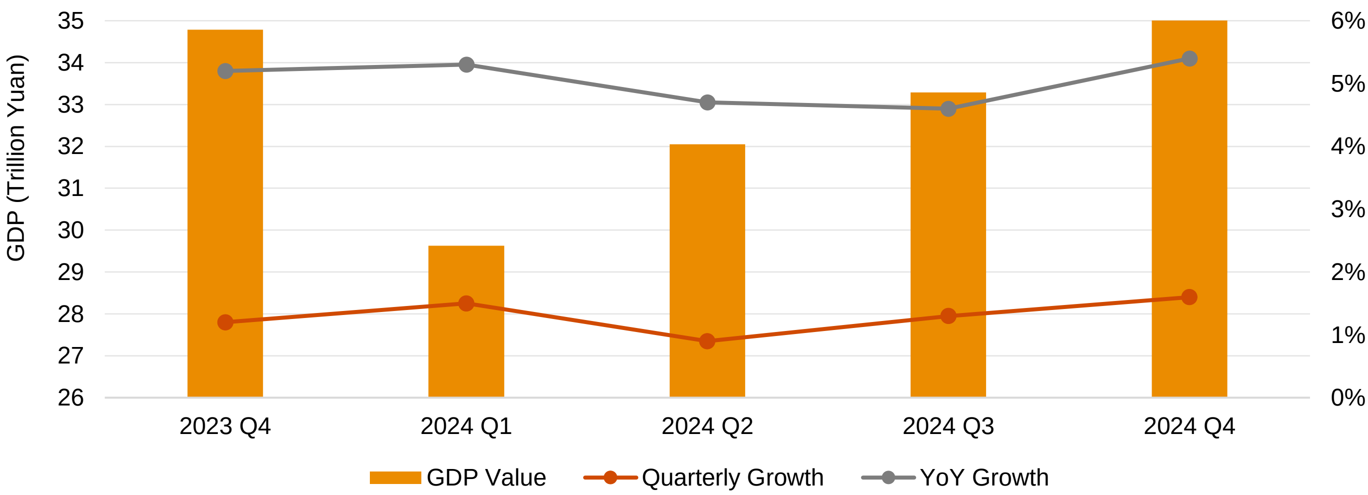
China's Economic Momentum: A Snapshot

GDP

China's economy displayed stronger momentum in the fourth quarter of 2024, with GDP rising by 5.4% year-on-year. Manufacturing growth accelerated notably to 6.2% in Q4, up from 5% in Q3, driven by improved external demand. The service sector also showed significant progress, growing by 5.8% in Q4 compared to 4.8% in Q3. Among key service industries, financial services expanded by 6.5%, while IT services led the way with a remarkable 9.6% growth.

For the full year, China's GDP grew by 5.0%, successfully meeting its annual target of "around 5%." The secondary industry outpaced the tertiary industry, growing by 5.3% compared to 5.0%. Manufacturing played a pivotal role, expanding by 6% for the year, a sharp improvement from the 3.9% growth recorded in 2023.

Quarterly GDP Values and Quarterly and Annual GDP Growth Rate



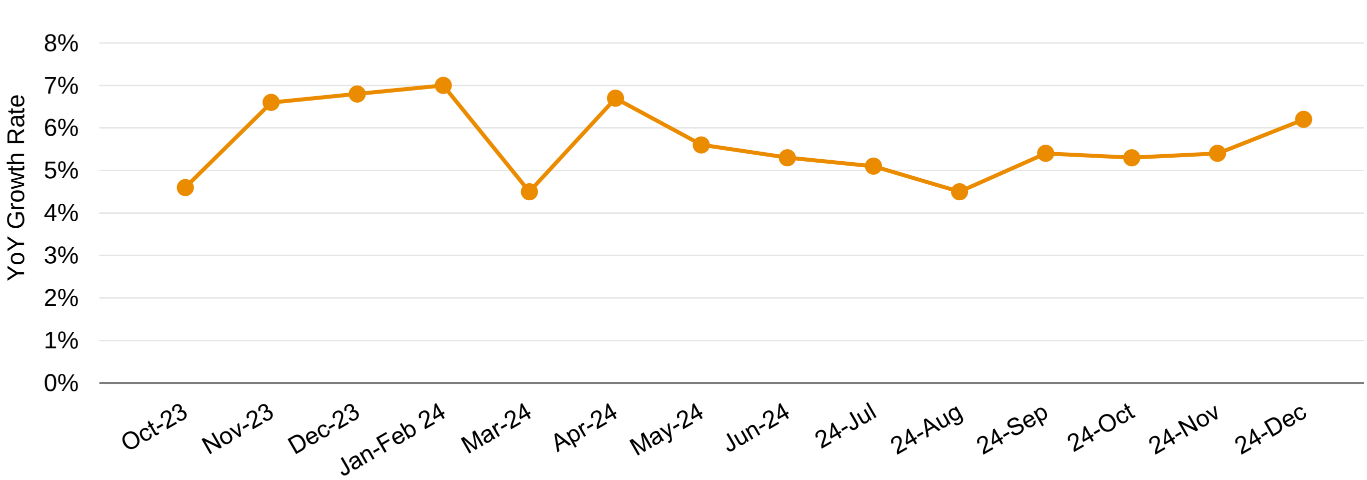
Source: Unless otherwise stated, economic data are from the National Bureau of Statistics of China, the People's Bank of China, and Wind.

Industrial Output

China's industrial sector ended 2024 with its best performance in three years, posting a full-year value-added output growth of 5.8% for enterprises above a designated size—the highest since 2021. Q4 saw a robust 5.7% rise, up 0.7 percentage points from Q3, propelled by equipment manufacturing, which accelerated to 8.1% (a 1.1-point gain over Q3) thanks to government-led equipment upgrade initiatives. Capacity utilization strengthened to 76.2% in Q4, improving by 1.1 points. December capped the year with a 6.2% year-on-year increase—outpacing October's 5.3% and November's 5.4%—led by a 7.4% jump in manufacturing output.

High-tech manufacturing shone, growing 8.9% annually, with standout performers including smart consumer equipment (up 10.9%), smart vehicle equipment (up 25.1%), and smart unmanned aerial vehicles (up 53.5%). Together, high-tech and equipment manufacturing accounted for 16.3% and 34.6% of industrial value-added, cementing their pivotal roles in driving growth.

Industrial Output



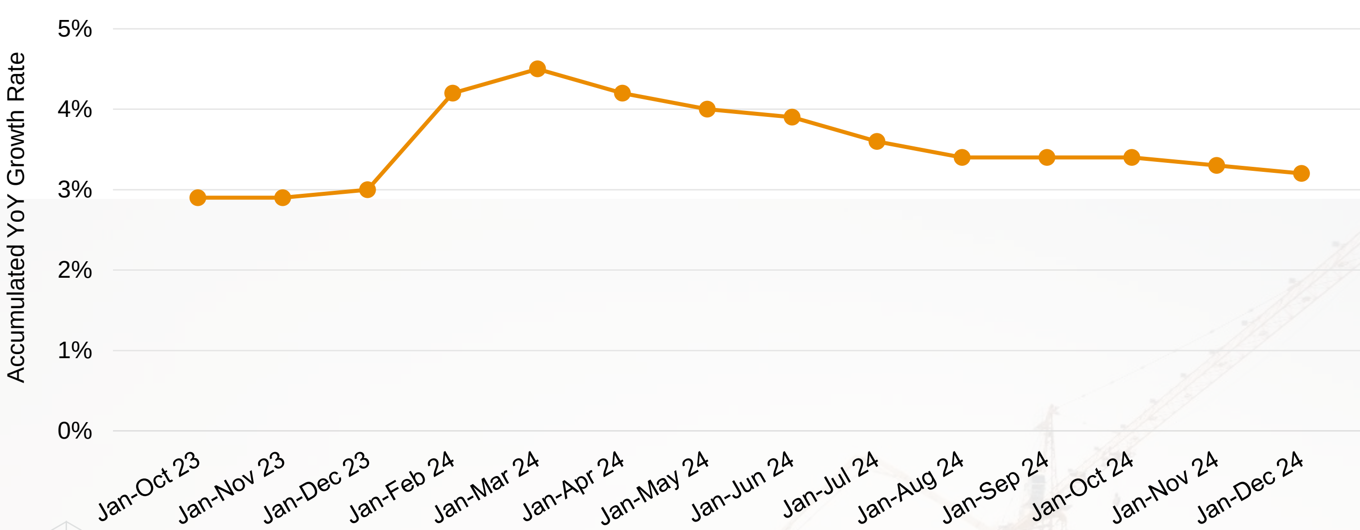
Fixed Asset Investment

China’s 2024 FAI grew modestly but slowed late in the year, rising 3.4% through October, 3.3% through November, and 3.2% through December. Excluding real estate, FAI surged 7.2%, underscoring resilience outside the property sector. Real estate contracted sharply by 10.6%—the steepest drop since early 2020—while manufacturing investment grew 9.2%, driven by high-tech industries (up 8.0% overall, with high-tech manufacturing at 7.0% and services at 10.2%), signalling a shift from property reliance.

Infrastructure investment climbed 4.4%, up 0.3 points from the first three quarters, fueled by government equipment upgrade policies. These policies boosted equipment and tools procurement by 15.7%—9.1 points higher than 2023—contributing 2.2 points to total FAI growth.

Private investment dipped 0.1% but, excluding real estate, rose 6.0%, reflecting strength in non-property sectors.

Fixed Asset Investment

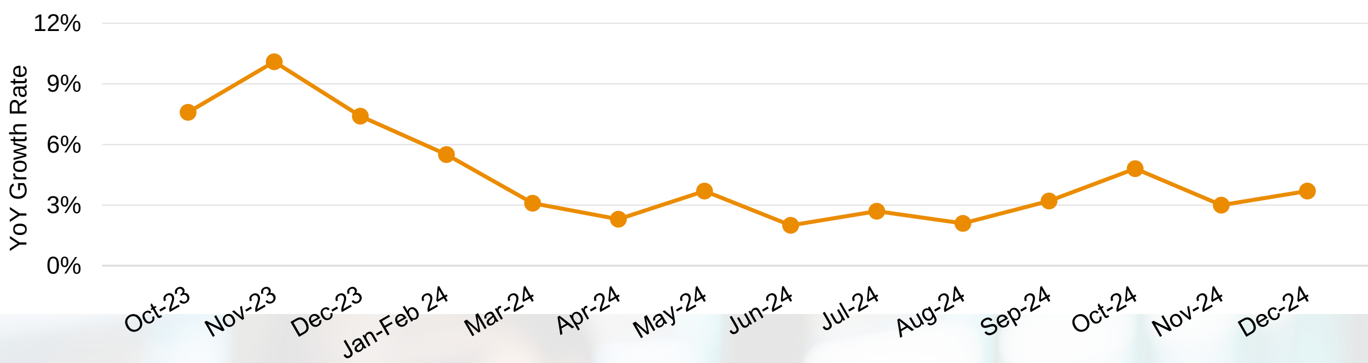


Retail Sales

China's retail sector accelerated in Q4 2024, with sales rising 3.8% year-on-year, up from 2.7% in Q3, driven by targeted government policies and improving consumer confidence. The trade-in initiative, supported by RMB 150 billion in ultra-long-term special bonds, spurred a 12.3% surge in household appliances and audio-video equipment—compared to just 0.5% growth in 2023—while furniture sales grew 3.6%, a 0.8-point increase. Sales of appliances, automobiles, and building materials gained traction, contributing roughly 1 percentage point to Q4's retail growth.

For the full year, retail sales reached RMB 48.8 trillion, up 3.5%, boosting GDP growth by 2.2 points. Service consumption outpaced goods for the first time, with per capita service spending rising 0.9 points and service retail sales growing 6.2%, reflecting a structural shift towards services as a key economic driver.

Retail Sales of Consumer Goods

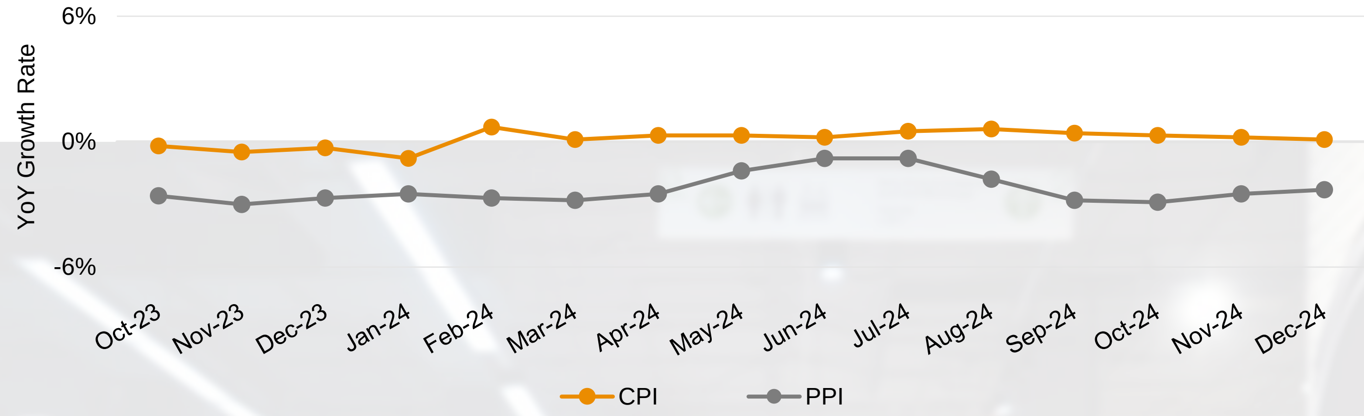


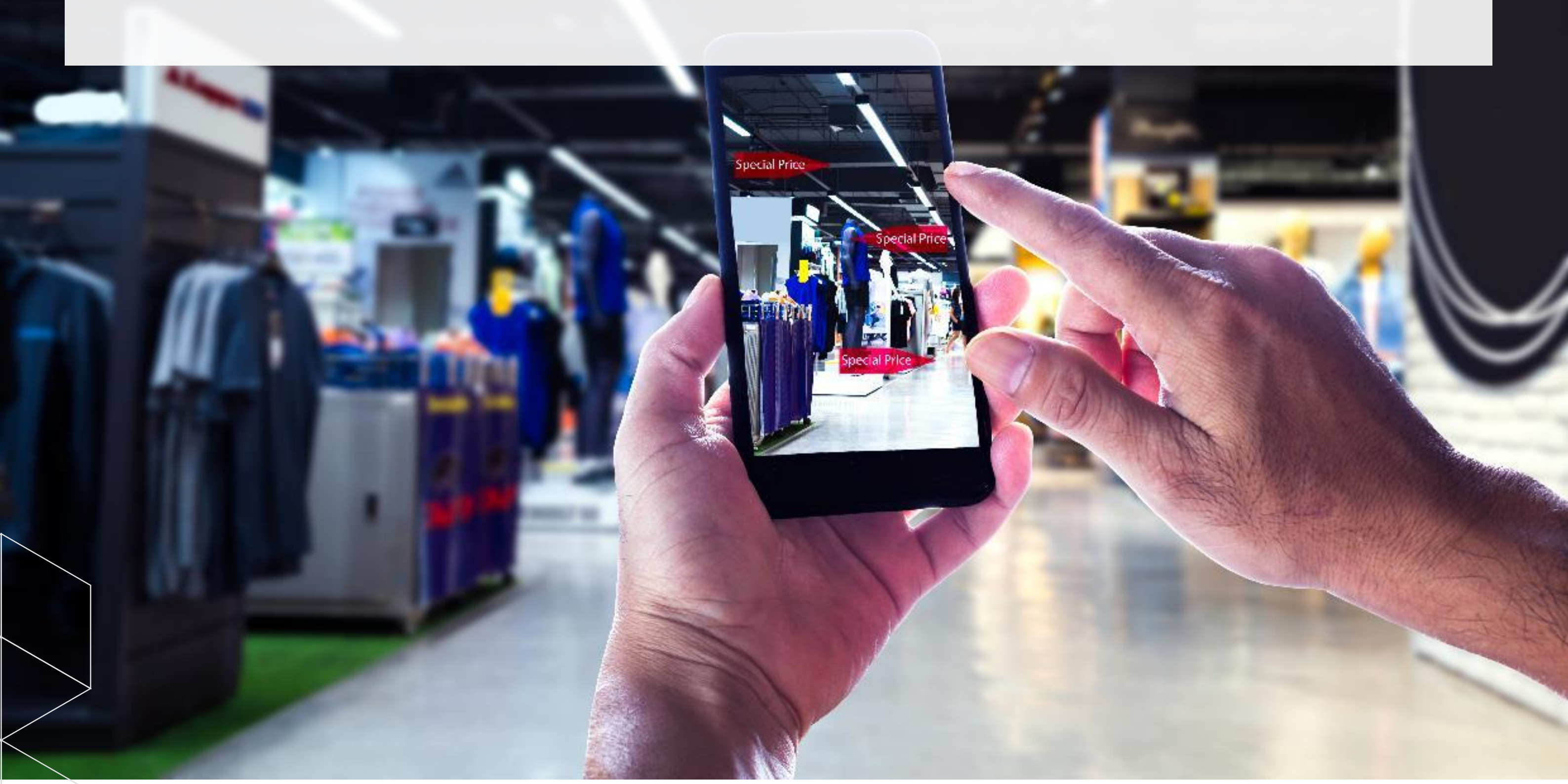
Consumer Price Index (CPI) and Producer Price Index (PPI)

China's 2024 inflation remained subdued, with CPI up just 0.2%—far below the 3% target—due to weak domestic demand and declines in food (-0.6%) and energy (-0.1%) prices. Core CPI, excluding volatile food and energy, rose 0.5%, supported by a 0.7% increase in service prices. In Q4, CPI growth slowed as food prices fell further, though core CPI gained traction, climbing 0.4% in December after three months of consecutive increases.

PPI dropped 2.2% for the year, an improvement from 2023's steeper decline by 0.8 points. Q4 showed signs of stabilization, with declines narrowing to 0.4 points in November and 0.2 in December, though PPI has now fallen for 27 straight months, highlighting persistent industrial price pressures.

Consumer Price Index and Producer Price Index



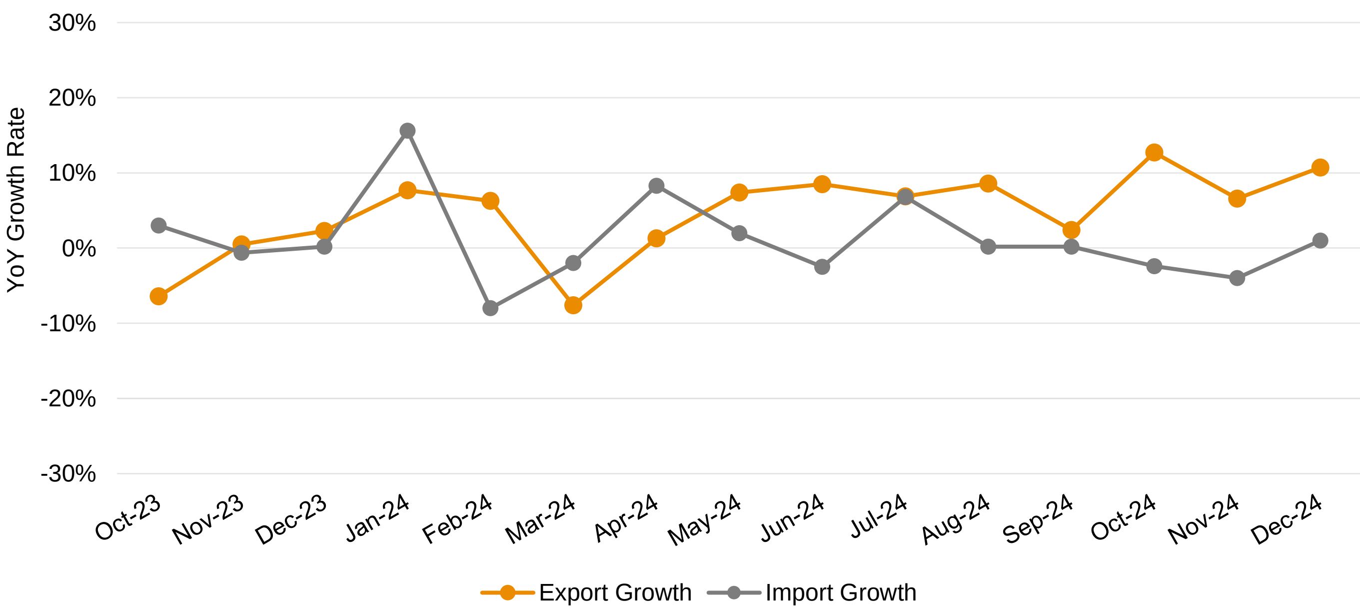


Trade

China’s 2024 trade reached unprecedented levels, with exports up 5.9% to $3.58 trillion and a record trade surplus nearing $1 trillion. Q4 exports grew 12.7% in October, dipped to 6.6% in November, and rebounded to 10.7% in December, boosted by a 15.6% rise to the US—likely due to order front-loading amid trade uncertainties—and an 18.9% jump to ASEAN, China’s top regional partner. Full-year exports to ASEAN rose 12.0%, outstripping overall growth. Electromechanical products, up 8.7% in RMB terms, accounted for 59.4% of exports, with electric vehicles exceeding 2 million units, integrated circuits up 18.7%, flat-panel displays up 18.1%, and ships surging 60.1%.

Imports grew a modest 1.0%, constrained by weak household demand. Net exports contributed 30.3% to GDP growth—the highest share since 1997—offsetting domestic softness with robust foreign demand.

Exports and Imports

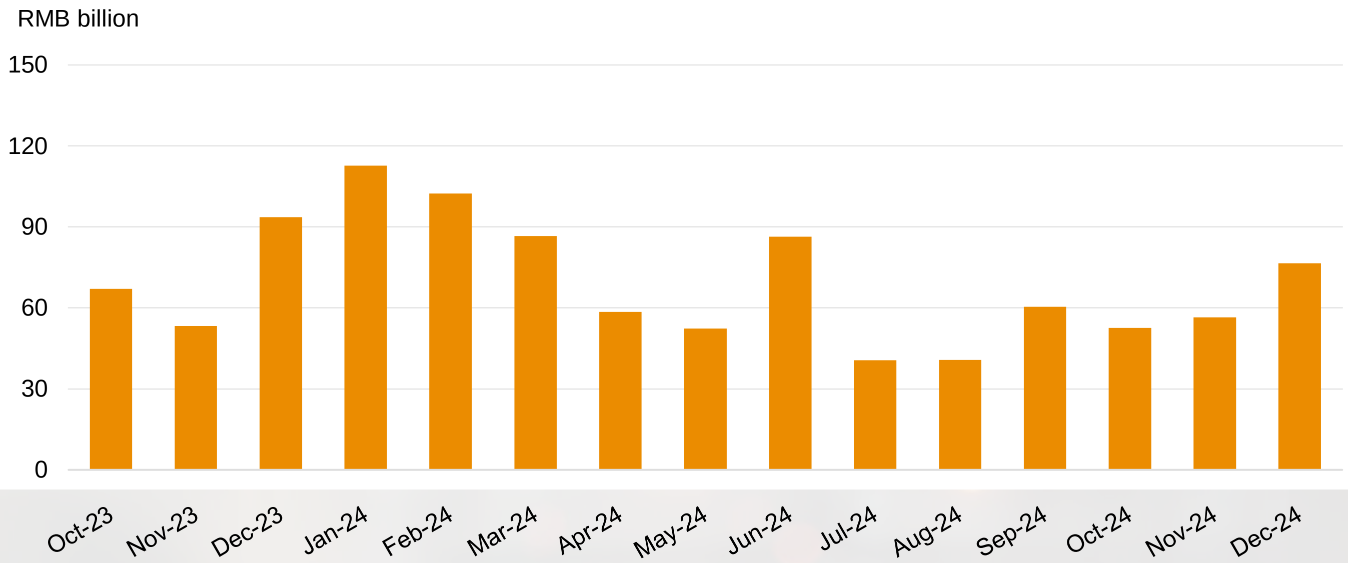


Foreign Direct Investment (FDI)

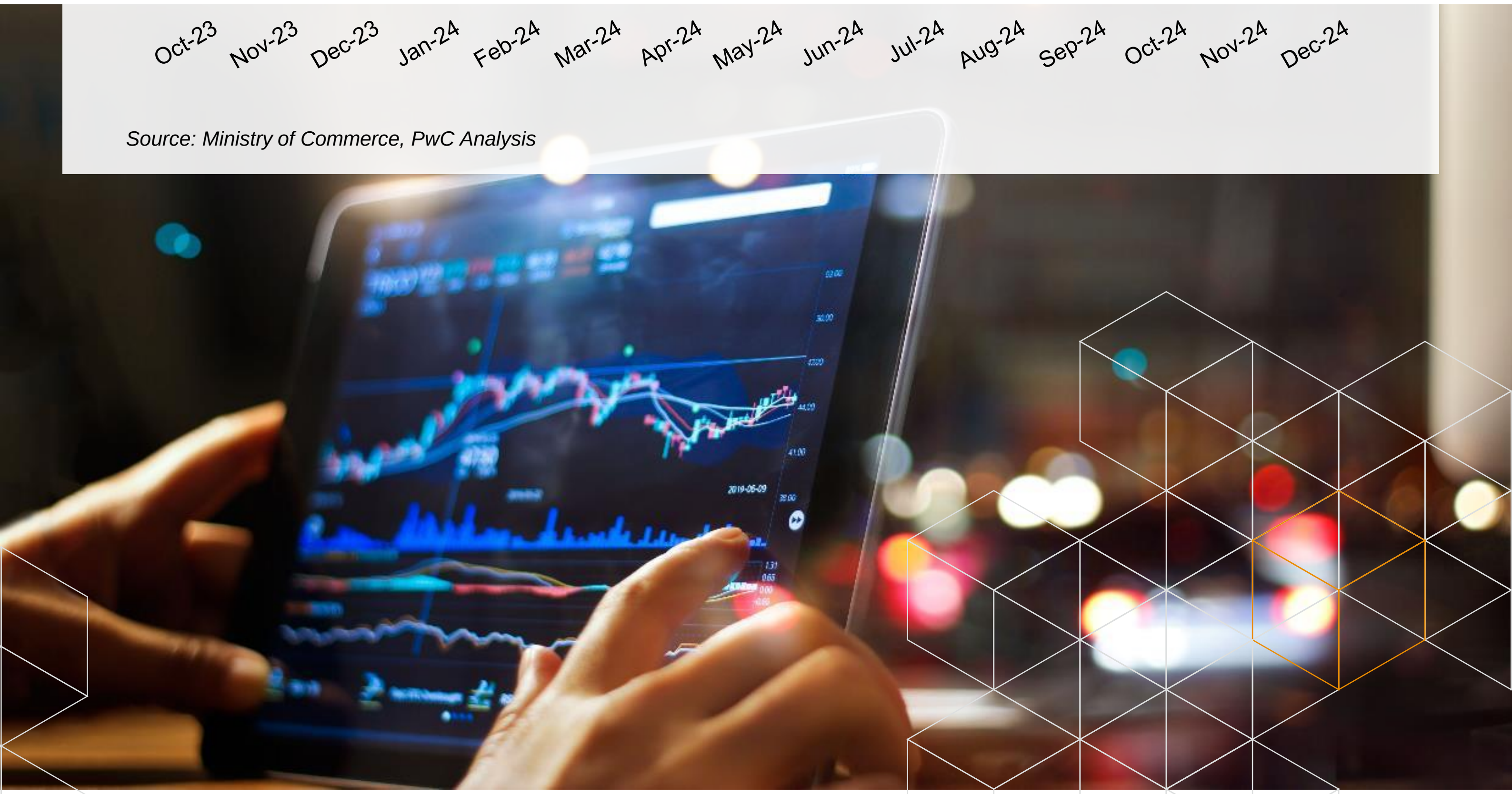
China's FDI in 2024 saw a 27.1% annual drop to RMB 826.25 billion. The decline moderated over the year, from 29.8% through October to 27.9% through November and 27.1% by December, marking four months of improvement. New foreign-invested firms rose 9.9% to 59,080, signalling sustained interest.

Manufacturing FDI totaled RMB 221.21 billion, while services drew RMB 584.56 billion, with high-tech manufacturing at RMB 96.29 billion (11.7% of total FDI). Standout sectors included medical equipment manufacturing (up 98.7%), professional technical services (up 40.8%), and computer equipment manufacturing (up 21.9%).

FDI Inflows



Source: Ministry of Commerce, PwC Analysis

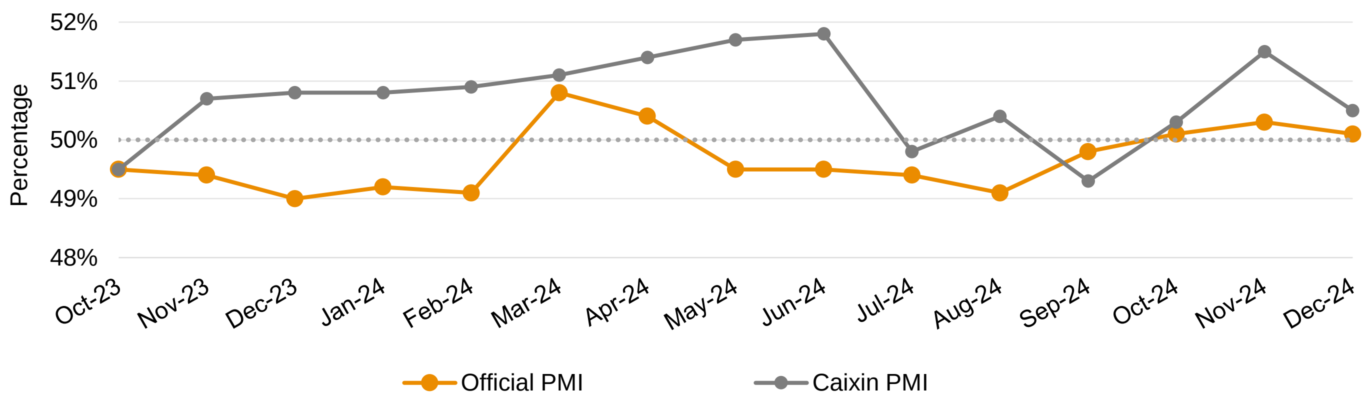


Purchasing Managers Index (PMI)

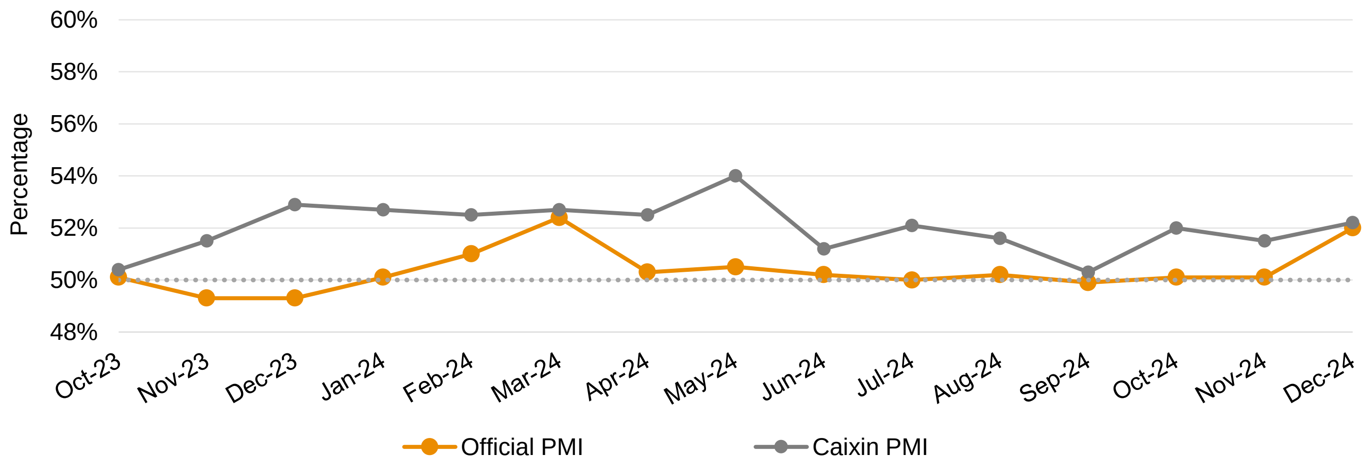
China's Q4 2024 PMI data reflected steady growth in manufacturing and services in the fourth quarter, with 50 marking the line between expansion and contraction. The Manufacturing PMI stayed above this threshold at 50.1 in October, rose to 50.3 in November, and held at 50.1 in December. December sub-indexes showed production, new orders, and supplier delivery times above 50, while raw material inventories and employment fell below. By firm size, large enterprises hit 50.5 and medium ones 50.7, but small enterprises contracted at 48.5. Targeted policies like consumer trade-ins and equipment upgrades boosted consumer goods to 51.4 (up 0.6 points) and kept equipment manufacturing strong at 50.6, expanding for five months.

The Service PMI, steady at 50.1 in October and November, climbed to 52.0 in December, lifted by construction's surge to 53.2 (from 50.4 in October and 49.7 in November). Among 21 sectors, 17 grew, with transport, postal services, telecom, finance, and insurance topping 55.0. Yet, accommodation, catering, and household services stayed below 50, signalling ongoing challenges.

Manufacturing PMI



Services PMI

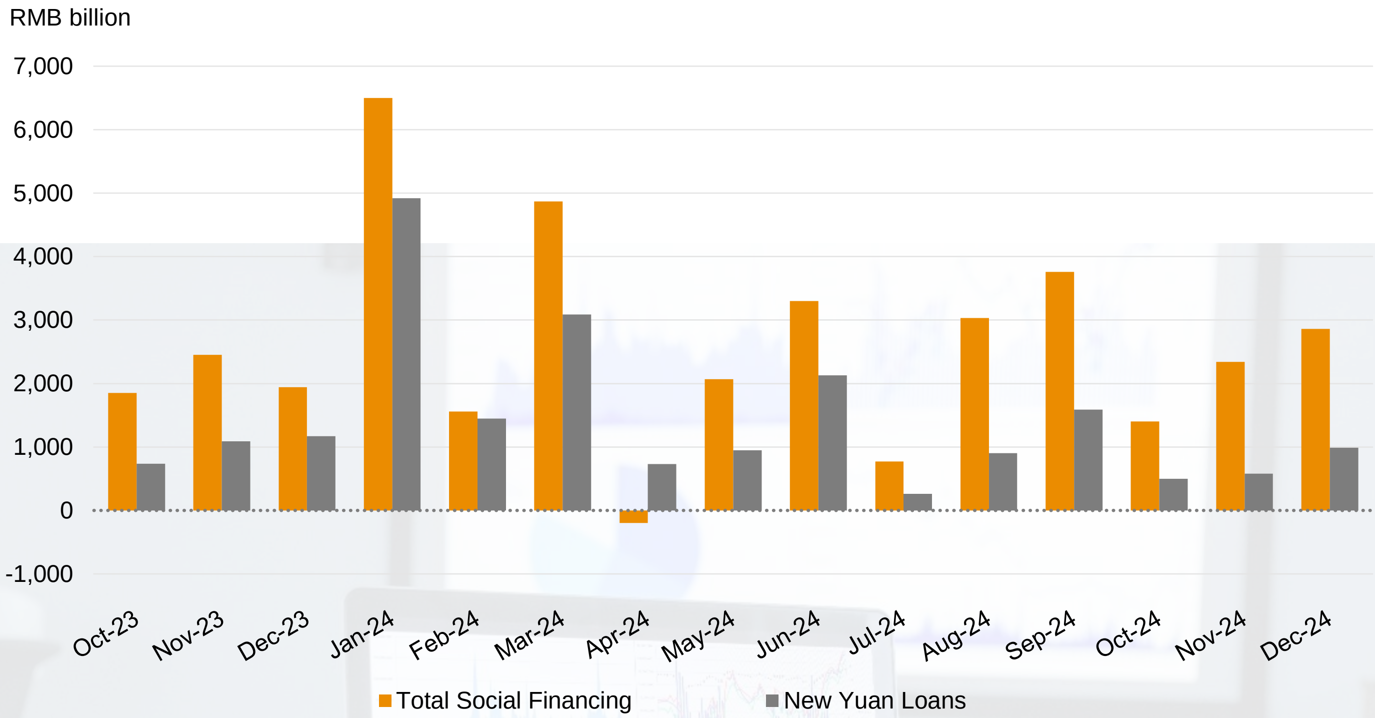


Source: National Bureau of Statistics of China, Caixin, IHS Markit Ltd.

Total Social Financing (TSF) and New Bank Loans

China's credit landscape showed signs of recovery in late 2024, fueled by the government's September stimulus package. New bank loans rose to RMB 990 billion in December, up from RMB 580 billion in November and RMB 500 billion in October. TSF, a broader credit measure including non-bank financing, climbed to RMB 2.86 trillion in December, compared to RMB 2.34 trillion in November and RMB 1.4 trillion in October. M2 money supply grew 7.3% year-on-year to RMB 313.53 trillion by year-end. However, 2024's total new loans fell to RMB 18.09 trillion from RMB 22.75 trillion in 2023, signalling persistent weak demand from businesses and households. Outstanding yuan loans reached RMB 255.68 trillion by December, up 7.6% year-on-year. Meanwhile, loans to small and micro firms remained a bright spot, with a Q4 balance of RMB 81.4 trillion, including RMB 33.3 trillion to firms with credit limits of RMB 10 million or less, surging 14.7% year-on-year, reflecting targeted support for smaller enterprises.

Credit Growth



Source: People's Bank of China, PwC Analysis

China’s Two Sessions 2025

China’s annual “Two Sessions”—the National Committee of the Chinese People’s Political Consultative Conference (CPPCC) and the National People’s Congress (NPC)—concluded on March 11, 2025, providing a clear view of Beijing’s economic priorities for the year ahead. Marking the close of the 14th Five-Year Plan (2021-2025) and laying the foundation for the 15th (2026-2030), the meeting reaffirmed long-term goals while highlighting market opportunities for domestic and foreign stakeholders. With a focus on balancing growth and structural reform, the Two Sessions underscore China’s commitment to robust policy support, creating a dynamic environment for businesses and investors in 2025.

Economic Development Goals and Policy Support

Growth Target

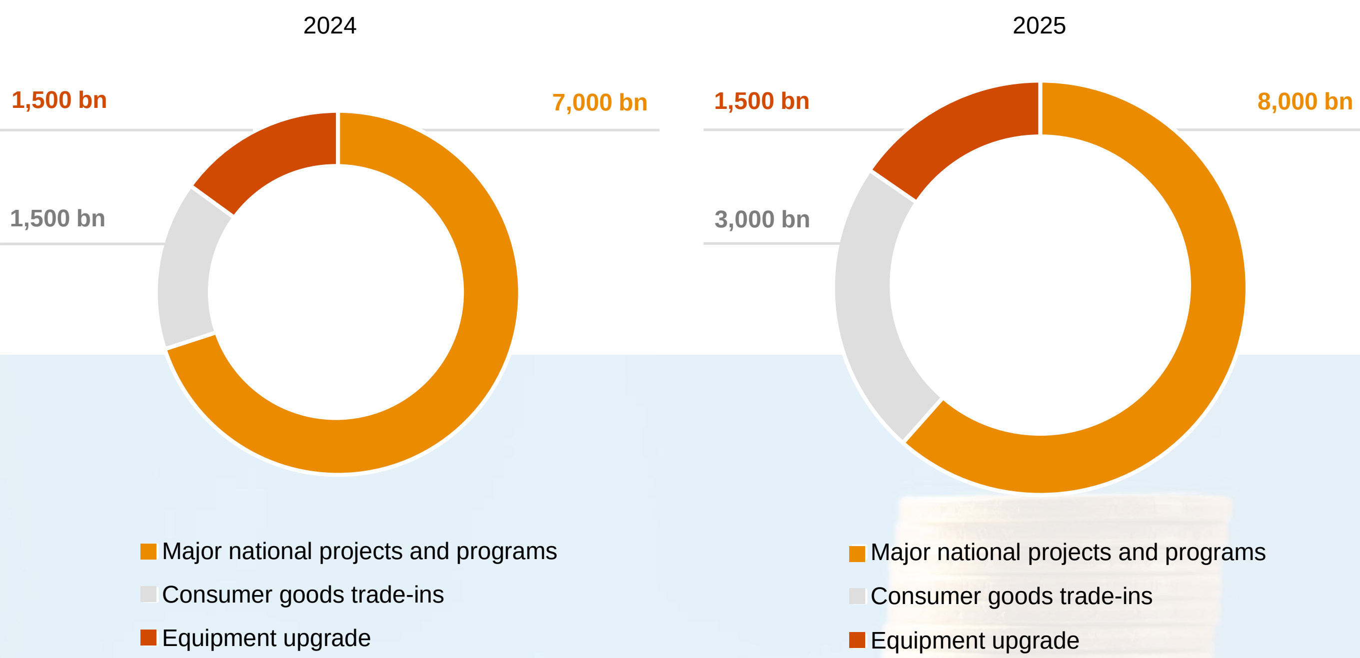
China has set an ambitious GDP growth target of “around 5%” for 2025, aligning with its long-term goal of doubling the economy’s size by 2035 from its 2020 baseline. Despite “increasingly complex” external environment, Premier Li Qiang’s described this as a challenging yet achievable goal, reflecting confidence in sustained policy measures. Urban unemployment is targeted at 5.5%, with over 12 million new jobs planned to align income growth with economic gains, boosting prospects for consumer-focused industries. Meanwhile, the consumer price index (CPI) target was lowered from 3% to 2%, highlighting official concern over price pressures and providing flexibility for monetary easing. Energy consumption per unit of GDP is slated to decline by approximately 3%, reinforcing sustainability commitments amid industrial modernization.

Economic Policy

Fiscal Policy

Fiscal policy in 2025 will adopt an expansionary stance, with the budget deficit ratio rising to 4% of GDP—up from 3% in 2024 and the highest in 30 years. Total government bond issuance will reach RMB 11.86 trillion (up RMB 2.9 trillion), including RMB 1.3 trillion in ultra-long-term special treasury bonds. Notable allocations include RMB 300 billion for consumer trade-ins, RMB 200 billion for equipment upgrades, and RMB 800 billion for major national projects and programmes including those aligned with major national strategies and building up security capacity in key areas. Central government budget investment is set at RMB 735 billion, a modest increase from RMB 700 billion in 2024. Additionally, RMB 500 billion in special sovereign bonds will recapitalise state-owned banks, bolstering financial stability and strengthen banks' capacity to support growth. Local government special bonds will climb by RMB 500 billion to RMB 4.4 trillion, funding initiatives like idle land purchases, unsold housing absorption, and clearing arrears to contractors—measures aimed at stabilizing local finances following the recent RMB 10 trillion debt swap last year.

China's ultra-long-term special treasury bonds



Monetary Policy

The 2025 Government Work Report (GWR) introduced a significant shift in monetary policy, moving away from 14 years of “prudent” framing to embrace “moderately loose” settings. The People’s Bank of China (PBoC) expressed readiness to enact timely reductions in the reserve requirement ratio (RRR) and interest rates. These changes aim to ease borrowing costs and encourage credit demand. This supportive stance aligns with fiscal efforts, delivering liquidity to advance growth objectives. The report reaffirmed its focus on maintaining the renminbi exchange rate’s “basic stability at a reasonable and balanced level.”

Policy Flexibility and Outlook

Policymakers have maintained fiscal and monetary flexibility, with officials emphasizing that macroeconomic policy retains ample room to manoeuvre. This policy space to further bolster the economy equips China to reinforce growth and address external challenges effectively.

Targets for Development

- GDP growth: around 5%
- Urban unemployment rate: around 5.5%
- New urban jobs: over 12 million
- CPI: around 2%
- Personal income: in step with economic growth
- A basic equilibrium in the balance of payments
- Energy consumption per unit of GDP: A drop of around 3%
- Continued improvements in the environment.

	2024	2025
GDP	5%	5%
Inflation	3%	2%
Fiscal policy	Appropriately strengthening proactive fiscal policies	More proactive fiscal policy
Deficit (% of GDP)	3%	4%
Special local government bonds	RMB 3.9 tn	RMB 4.4 tn
Ultra-long sovereign bond	RMB 1 tn	RMB 1.3 tn
Monetary policy	Prudent monetary policy	Moderately loose monetary policy

Analysis

China’s 2025 GDP target is ambitious, facing challenges like a prolonged property slump and rising trade tensions, but policymakers remain confident, armed with a strategic roadmap and substantial policy reserves. Mirroring 2024—when late-year measures lifted GDP to 5% after a slow start—China holds ample tools to deploy as needed to meet the target. The 2025 GWR marks a shift: fiscal policy, backed by a record budget deficit, now complements monetary tools. With soft credit demand from households and firms weakening monetary easing, this coordinated approach aims to amplify effectiveness.

Key Themes from China’s 2025 Two Sessions: A Strategic Policy Outlook

The 2025 GWR outlines ten critical tasks, reflecting a comprehensive and strategic economic policy approach. These tasks include boosting consumption, fostering innovation, advancing green development, supporting rural and regional progress, improving livelihoods, mitigating risks, and expanding trade and foreign investment. This wide-ranging agenda demonstrates China’s aim to balance short-term economic stabilization with long-term structural objectives. In this report, we distill these priorities into four key themes: (1) consumption, (2) new quality productive forces, (3) opening up, and (4) structural reforms.

- Consumption and effective investment
- Developing new quality productive forces
- Developing science and innovation
- Accelerating the implementation of landmark reform
- Expand high-level opening up
- Preventing and defusing risks
- Rural revitalization
- Advancing new urbanization and coordinated regional development
- Accelerating the green transition

1. Consumption: Elevating Domestic Demand as a Strategic Priority

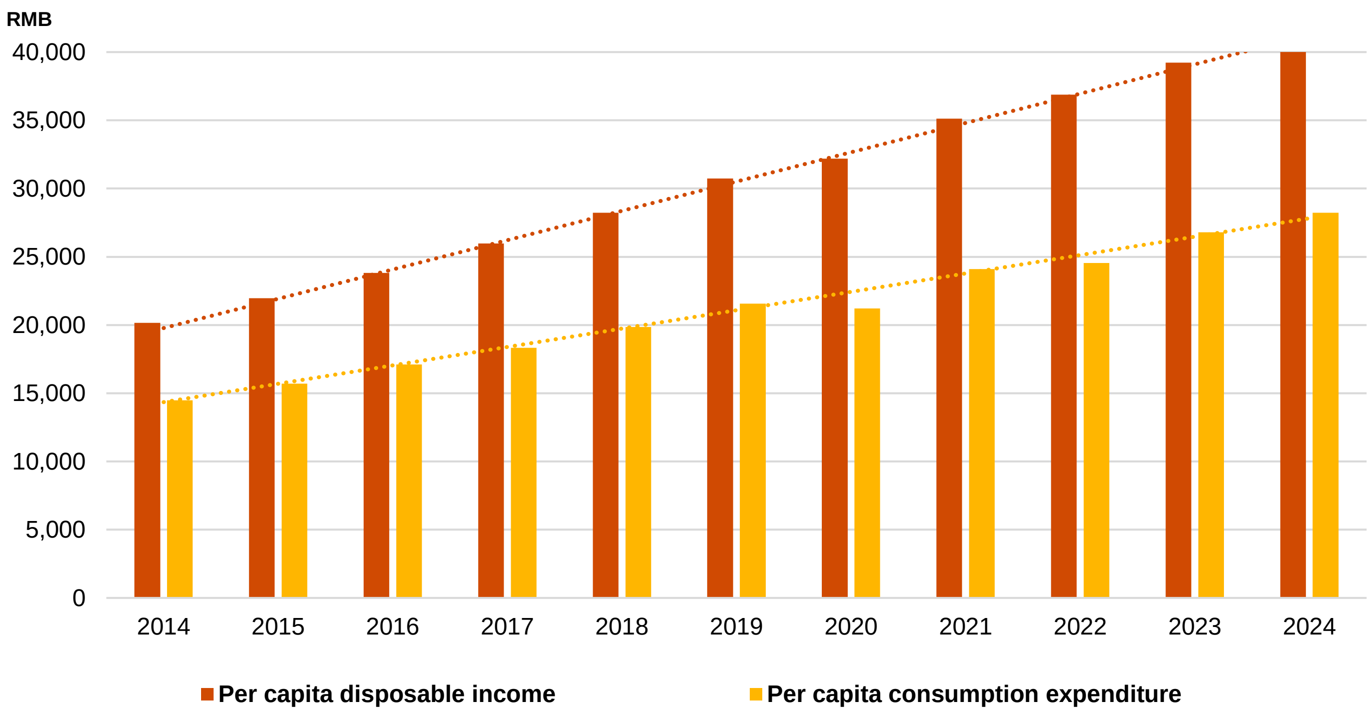
A shift of focus towards consumption stands out in the 2025 GWR, with consumption surpassing even new productive forces as the top priority. This builds on the momentum from the December 2024 Central Economic Work Conference, signalling a clear pivot towards consumer-led growth. Following the Two Sessions, the Central Committee of the Communist Party of China (CPC) and the State Council issued the "Special Action Plan to Boost Consumption," a detailed 30-point framework targeting eight key areas. This multifaceted strategy highlights a strong commitment to increasing both the capacity and willingness of Chinese consumers to spend.

Enhancing Spending Capacity: Income, Wealth, and Credit

At the heart of the consumption plan is a commitment to bolstering consumers' financial capacity. Policymakers are focusing on income growth for urban and rural populations through measures like wage hikes, employment support programmes, and ongoing unemployment insurance policies. For rural residents and farmers, these efforts align with wider rural revitalization goals. The plan also harnesses the "wealth effect" by stabilizing the property and stock markets—essential drivers of consumer confidence.

To further enhance spending power, the government is scaling up the consumer goods trade-in programme, raising its funding from RMB 150 billion to RMB 300 billion, alongside increased personal consumption loan issuance. China's trade-in policy, implemented in 2024, has delivered a remarkable economic boost in just a few months, driving sales exceeding 1.3 trillion yuan across multiple sectors. In the automotive industry, the policy facilitated the trade-in of over 6.8 million old vehicles for new ones, generating approximately 920 billion yuan in sales. The home appliance sector saw over 37 million consumers purchasing more than 62 million units of eight major appliance categories, contributing 270 billion yuan to the economy.

Sustained Rise in Disposable Income Drives Long-Term Consumption Growth



Boosting Willingness to Spend: Livelihoods and the Social Safety Net

Beyond capacity, the plan addresses consumers' willingness to spend by strengthening the social safety net—a key pillar of the GWR's "people-oriented" approach. Major commitments include raising the minimum wage, increasing pension benefits, and expanding medical insurance coverage. Investments in human capital also stand out, with pledges to enhance education, introduce childcare subsidies, and improve elderly care services. By reducing the need for precautionary savings, these measures seek to free up disposable income for discretionary spending.

The emphasis on livelihoods also signals a strategic tilt towards the service sector. Initiatives like promoting work-life balance, reforming the holiday system, and establishing a paid annual leave framework aim to spur service consumption, particularly in tourism and leisure. For example, the "snow and ice" economy, tied to winter sports and tourism, is specifically noted as a growth opportunity.

Emerging Trends: Digital and Inbound Consumption

The action plan also prioritises digital consumption, spotlighting artificial intelligence (AI)-powered products and the "low-altitude economy". These areas showcase China's technological ambitions and its drive to weave innovation into everyday spending. Simultaneously, "inbound" consumption is gaining momentum through expanded unilateral visa-free arrangements, designed to attract foreign visitors and elevate tourism-related activity. In 2024, China welcomed 131.9 million inbound tourists, a 60.8% increase from the previous year, with their total spending reaching $94.2 billion, up 77.8%. Among them, 20.12 million foreigners entered visa-free, a striking 112.3% surge.

Analysis

China increasingly relies on domestic consumption to offset weakening aggregate demand amid global trade tensions and economic uncertainty, which threaten global consumer sentiment. Strengthening domestic demand also helps balance supply and demand, easing price pressures in key sectors. Consumer trade-in programmes, proven effective in 2024, have expanded to include more product categories, enhancing sustainability by diversifying beyond big-ticket items that merely shift future demand. Future iterations could extend to services, where spending has grown robustly—per capita service consumption rose 8.6% annually from 2013 to 2024 (outpacing total consumption growth of 7.1%), hitting 46.1% of total spending in 2024 and contributing 63% to expenditure growth.

Policymakers are prioritizing income growth over cash handouts for sustained consumption gains, complemented by social security spending to lift spending propensity, especially among low-income groups. While recent adjustments to minimum pensions, medical insurance subsidies, and basic healthcare subsidies are modest, they reflect a shift towards a balanced and sustainable long-term approach.

2. New Productive Forces: Pioneering Innovation and Industrial Renewal

In 2024, the GWR spotlighted “new quality productive forces”, elevating its prominence in the national development strategy. This year, the concept remains a cornerstone of China’s 2025 economic vision, embodying a dual commitment to nurturing cutting-edge industries and modernizing traditional sectors.

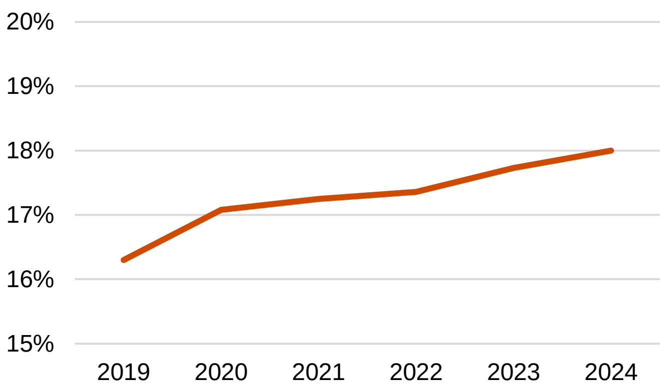
Investing in Emerging and Future Industries

The 2025 GWR pinpointed priority areas set to shape China’s technological frontier: biomanufacturing, quantum technology, embodied AI, and 6G telecommunications. These fields represent the forefront of China’s innovation agenda, aimed at securing leadership in next-generation technologies. To fuel growth, the government has committed to a RMB 1 trillion national venture capital fund, targeting seed-stage and startup companies. This fund features long-term investment cycles, higher risk tolerance, and market-oriented approaches to support technology enterprises. The GWR also prioritises support for “unicorn and gazelle companies”—high-growth, innovative firms—underscoring a dedication to a thriving entrepreneurial ecosystem.

Policy efforts have also included a green channel to streamline issuance and listing processes, as well as improved mechanisms to support listed companies pursuing M&A focused on strategic emerging and future industries. Since September 2024, the market value of A-shares held by medium- and long-term funds has climbed from RMB 14.6 trillion to RMB 17.8 trillion—a 22% rise—while insurance funds and pensions posted net purchases of about RMB 290 billion in the A-share market. These financial inflows strengthen the funding ecosystem for high-growth sectors.

Complementing this, additional measures aim to attract long-term “patient capital” to bolster technology enterprises. Long-term equity investments by insurance funds and pension schemes are encouraged. The initiative emphasises extended evaluation periods for funds, with public funds, state-owned insurance firms, pension and annuity funds planning to adopt evaluation periods of a minimum of three years, and national social security and basic pension funds will have even longer assessment cycles, spanning over five years.

The Added Value of “Three New” Economy % of GDP*



*The "three new" economy is a collection of economic activities with new industries, new business formats and new business models as the core content.

Upgrading Traditional Industries with “AI Plus”

The "AI Plus" initiative emerges as a transformative driver for traditional industries. The GWR stresses accelerating AI integration into high-tech manufacturing and equipment production, which already contribute 16.3% and 34.6% of industrial value added, respectively. The "AI+" strategy, blending digital technology with manufacturing and markets, extends to developing large language models (LLMs) and next-generation intelligent terminals—such as AI-enhanced EVs, mobile phones, computers, robots, and smart manufacturing equipment—aiming to elevate productivity and innovation across industries.

Analysis

In the long run, technology remains the linchpin of China’s economic transformation, steering it past the middle-income trap. While consumption has surged to the top priority—reflected in the 2025 GWR mentioning it 31 times (up from 21 in 2024)—technology’s role hasn’t diminished; it’s mentioned 28 times, up from 26 last year, signalling a doubling down. The inclusion of “gazelles”—fast-growing startups poised to become unicorns—marks its first appearance in the report, addressing concerns over China’s shrinking unicorn pipeline. Meanwhile, AI’s prominence underscores its dual impact: beyond direct investment, integrating AI into traditional manufacturing and services promises outsized productivity gains due to their scale. In particular, China is set to leverage its strengths in rapid, large-scale, cost-effective commercialization to advance in the AI race.

3. Structural Reforms: Strengthening Economic Foundations

The 2025 GWR pursues a multi-faceted strategy for structural reforms, focusing on private sector empowerment, fiscal restructuring, and market efficiency. These reforms are designed to unleash growth potential, improve fiscal sustainability, and foster balanced industrial development.

Supporting Private Sector Growth

The 2025 GWR sends a strong signal to bolster private sector growth, echoing the strong signal sent by President Xi Jinping's February 2025 meeting with business leaders. This commitment is mirrored in the draft Private Economy Promotion Law, which aims to establish a supportive legal framework for private businesses. The law prioritises fair competition, ensuring private economic entities—including foreign firms—enjoy equal access to markets, critical resources, and government procurement opportunities. It also enhances the financing landscape, offering targeted support for private and foreign companies involved in major national projects. Further measures include promoting entrepreneurship, reducing arbitrary regulatory interventions, and resolving overdue payments owed to private firms by government bodies, all geared towards cultivating a robust legal and financial ecosystem.

Consumption Tax Reform

The GWR drives fiscal restructuring by accelerating consumption tax reforms. Premier Li announced that consumption tax revenue would be redirected to local governments, bolstering their fiscal capacity. This policy shift aims to promote regional economic development by providing local authorities with enhanced resources to improve public services and infrastructure. It also aligns with broader economic rebalancing objectives and efforts to stimulate domestic consumption.

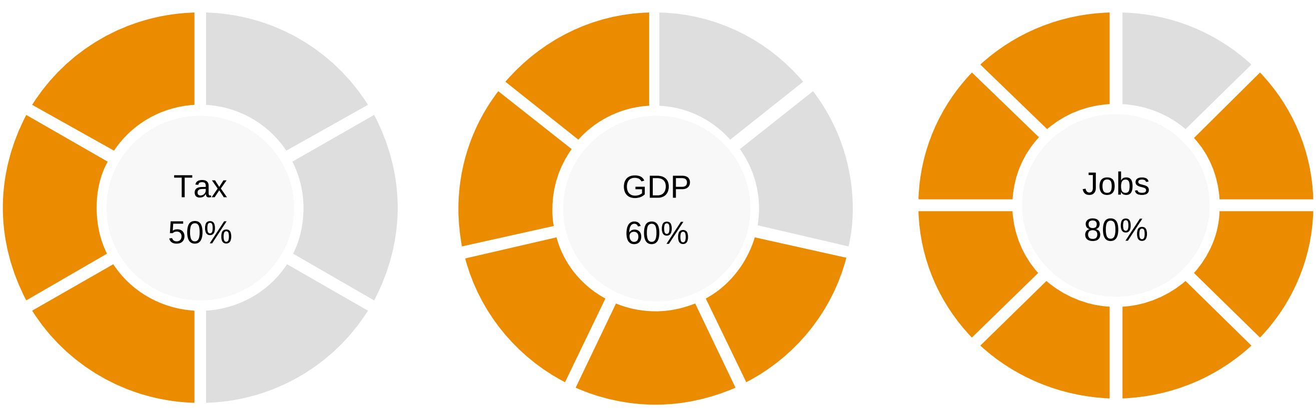
Production Capacity and Competition

The GWR aims to break down local protectionism and market fragmentation, promoting a unified and equitable national market. It pledges to remove barriers to market entry and exit, specifically targeting "rat race competition"—excessive price wars and overcapacity—that hampers efficiency. This strategy tackles production capacity and competitive dynamics through focused efforts, such as cutting steel output and ensuring orderly growth in strategic sectors like electric vehicles and solar energy, highlighting a commitment to sustainable and balanced industrial advancement.

Analysis

Structural reforms remain a key driver of productivity gains and China's economic transition, though implementation is complex. Support for private firms—generating over 50% of tax revenue, 60% of GDP, 80% of urban jobs, and much of technological innovation—signals their critical role. Fiscal reform, building on 2024's 10 trillion yuan debt swap, is set to accelerate, freeing resources for local governments to stimulate the economy. Since the 1994 tax reform, a spending-revenue mismatch persists—local budgets accounted for 54.3% of public revenue but 85.7% of expenditure in 2024—pushing tax changes to incentivise consumption over production. The 2025 GWR emphasises an "exit" mechanism to curb "rat race competition," aligning with a lower CPI target to ease price wars. Policy-driven M&As aim to consolidate industries, boosting capacity utilization, profits, and PPI, enabling firms to invest more in R&D and growth.

Private Sector's Share of China's Economy



4. Opening Up: Reinforcing Global Connectivity Amid Uncertainty

High-level opening up remains a key focus in the 2025 GWR, ranked as the fifth critical task, reflecting a proactive resolve to "actively stabilise" foreign trade and investment amid a changing external landscape. Building on last year's "Invest in China" programme, the GWR calls for "vigorously encouraging" foreign investment and widening access to essential sectors.

Attracting Foreign Investment and Enhancing the Business Environment

The GWR presents a comprehensive strategy to draw foreign capital, aligning with the 2025 Action Plan for Stabilizing Foreign Investment released in February. This plan outlines 20 specific measures across four core areas, including further expanding market access and strengthening investment promotion. A primary emphasis is on broadening the service sector and promoting phased openings in strategic industries, such as telecommunications, healthcare, and education. Additionally, the recently updated Foreign Investment Negative List has removed all restrictions on foreign investment in manufacturing, with plans to further trim listed items to deepen opening-up.

To ensure fairness, the government commits to equal treatment for foreign enterprises in resource access, government procurement, regulatory frameworks, and licensing. Foreign-invested firms will now be allowed to use domestic loans for equity investments. Updated M&A rules and simplified transaction processes further ease foreign investment through M&A channels. These steps aim to strengthen the business environment, aligning with the action plan's focus on equity and accessibility.

A notable feature is the encouragement of reinvestment by foreign firms. The GWR promotes reinvesting profits domestically and fosters collaboration between foreign investors and local enterprises along industrial chains. This approach seeks to deepen integration into China's economy, encouraging sustained commitments from global partners and bolstering industrial resilience.

2025 Action Plan for Stabilizing Foreign Investment

Expand opening-up in an orderly manner

1. Open up telecom, healthcare, and education sectors
2. Lift restrictions on foreign investment in manufacturing
3. Expand opening-up of the services sector
4. Open the biomedicine sector
5. Encourage foreign equity investment

Improve investment promotion

6. Build the "Invest in China" brand
7. Support FIEs' reinvestment
8. Encourage foreign investment in a wider range of industries
9. Remove restrictions on foreign investment companies' access to domestic loans
10. Encourage MNCs to establish investment companies
11. Facilitate M&A by foreign investors
12. Attract investment in key sectors
13. Promote communications on economic policies

Strengthen opening-up platforms

14. Deepen institutional reforms in economic and technological development zones
15. Upgrade pilot free trade zones

Redouble efforts to enhance services

16. Promote the implementation of major and key foreign-invested projects
17. Establish a system of standards for domestic products in government procurement
18. Broaden financing channels for FIEs
19. Facilitate personnel exchange
20. Improve trade facilitation for FIEs

Bolstering Trade and Multilateral Engagement

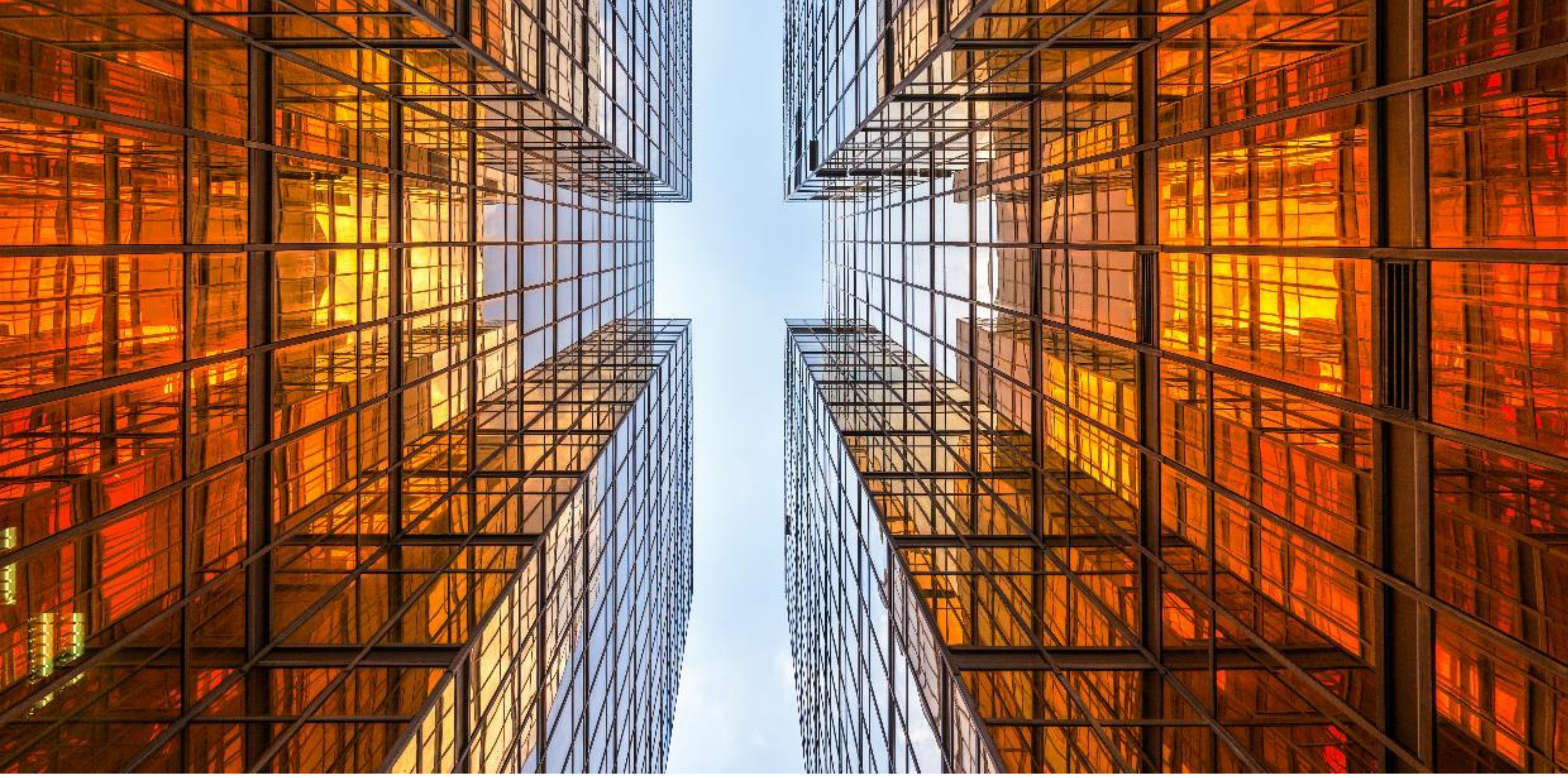
On the trade front, the GWR details strong support for exporters, including expanding cross-border e-commerce, improving logistics, and speeding up the development of overseas warehouses. Export credit insurance and financial services will be enhanced to support outbound trade, with a special emphasis on growing cross-border e-commerce as a key driver. Geographical diversification remains a focus, backed by new and upgraded trade agreements. Major initiatives include the strengthened China-ASEAN Free Trade Area, participation in the Digital Economy Partnership, and engagement with the Trans-Pacific Partnership, all aimed at reinforcing multilateral trade frameworks. The Belt and Road Initiative (BRI) continues as a cornerstone, with renewed efforts to deepen cooperation with partner countries.

Analysis

China now pursues a dual strategy for inbound FDI: attracting fresh capital by opening high-demand sectors like services, while targeting reinvestment from existing foreign firms. Recent FDI data shows a growing gap between MOFCOM and SAFE figures, likely reflecting reduced profit reinvestment by foreign companies in China, which policymakers may counter with additional sweeteners in coming quarters. For outbound investment, BRI nations—Vietnam, Indonesia, Malaysia, and Thailand—remain key destinations. Chinese multinationals strengthen trade ties and global supply chains with emerging economies, also driving China's intermediate goods exports.

Conclusion

The 2025 China Two Sessions underscore a strategic blend of ambition and adaptability, weaving together consumption-driven growth, innovation through new productive forces, structural reforms, and a commitment to global connectivity. These priorities reflect China’s focus on strengthening domestic foundations while enhancing its role in the international economy. For businesses and investors, the policies signal a dynamic environment ripe with opportunities in consumer markets, cutting-edge industries, and collaborative trade networks. As China navigates its economic path forward, these themes offer a roadmap for stakeholders to engage with a rapidly evolving landscape.



Author

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

www.pwccn.com/ceq