China's unfinished pivot: The next phase of reforms

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Key takeaways

1 The 15th five-year plan (FYP) aims to move away from traditional growth drivers such as real estate and exports, focusing instead on high-value-added manufacturing and boosting domestic consumption.

2 China is set to transition from being a technology follower to becoming a global leader in critical industries, with an emphasis on innovation-driven economic growth.

3 Industries aligned with China's strategic priorities are likely to benefit from strong policy support and increased investment, and should be able to defend profit margins by exporting to countries within China's sphere of influence.

4 Key sectors expected to prosper include renewable energy, electric vehicles, semiconductors, quantum computing, and advanced manufacturing.

5 Despite these opportunities, challenges remain, particularly in the property sector, which has already adversely impacted consumer confidence and domestic economic stability. More accommodative measures are needed to address these risks.

6 The 15th FYP is expected to establish an average GDP growth target of 4.5–5.0%, aligning with China's objective to double its per capita GDP by 2035. This is lower than the growth rates of the past decade but remains ambitious considering the structural challenges and economic rebalancing.

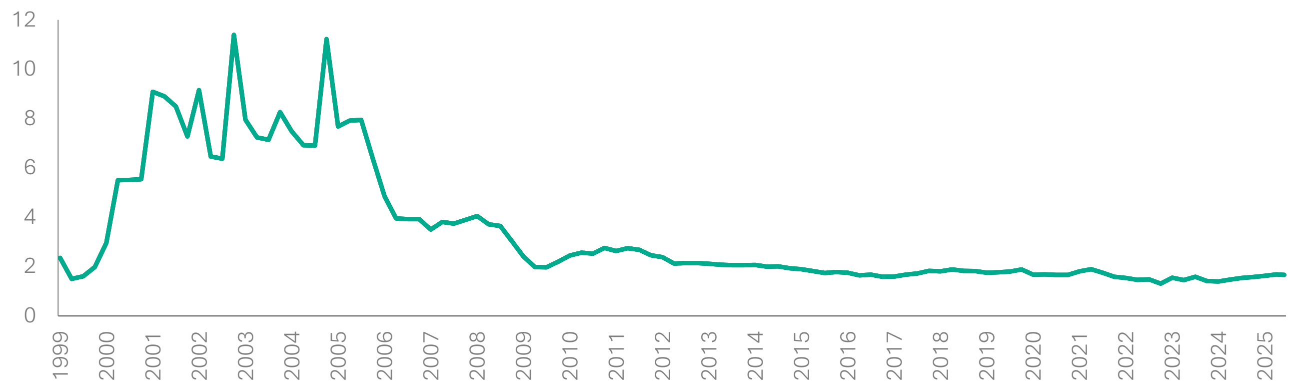
Assessing the achievements and shortcomings of China's policies

2025 represents a significant milestone for China, marking the conclusion of two landmark initiatives: the 'Made in China 2025' (MIC 2025) strategy and the 14th five-year plan. Launched in 2015, MIC 2025 is widely recognised as a transformative policy that shifted China onto a new trajectory, aligning with President Xi Jinping's vision of 'innovation-driven modernisation' (*创新驱动现代化*). This marked a departure from the 'scientific development' (*科学发展*) approach championed by Hu Jintao during his leadership from 2002 to 2012, and which was formally enshrined in China's constitution in 2007. More significantly, MIC 2025 also played an unintended role in driving a broader shift in the global economic order, moving away from multilateralism towards a more multipolar framework.

MIC 2025 aimed to reduce China's reliance on foreign technology, foster domestic innovation, and establish global leadership in critical strategic industries such as robotics, semiconductors, and new energy vehicles (NEVs). While China's industrial policies have historically included measures such as mandating joint ventures and intellectual property transfers from foreign investors since 1979, MIC 2025 marked a notable shift by explicitly focusing on high-tech sectors. The strategy outlined specific objectives to achieve global market shares in these advanced industries, positioning China as a direct competitor to established players in the developed world.

As a result, under MIC 2025, China expanded government control over technological sectors and implemented discriminatory industrial policies that favoured domestic companies. International critics, particularly in the US and Europe, argued that this approach tilted the playing field in the favour of Chinese firms, distorting global markets and resulting in overcapacity, which could – and indeed eventually did – stoke heightened economic tensions. Concerns were also raised about the potential long-term costs to China's own economic growth, resulting in capital misallocation and declining returns on assets.

CHINA: RETURN ON ASSETS (ROA) HAS LEVELLED OFF SINCE THE 2010S



Source(s): Bloomberg Professional L.P., UBP

The geopolitical implications of MIC 2025 became evident when it provoked a strong reaction from the United States. Alarmed by the competitive threat posed by China's industrial ambitions, in 2018, Trump administration conducted a Section 301 investigation under the 1974 Trade Act, labelling MIC 2025 as discriminatory. This investigation laid the groundwork for the imposition of sweeping tariffs, further escalating tensions between the two superpowers. The Biden administration kept these tariffs in place, and Section 301 continues to provide the legal foundation for the US Trade Representative (USTR) to impose tariffs today, driving performances across global markets and underscoring the policy's far-reaching global impact.

In response to international criticism, China downplayed the significance of the strategy. By 2019, references to MIC 2025 had largely disappeared from official policy speeches, sparking speculation that the initiative had been abandoned. However, its core objectives remained intact, with Beijing quietly intensifying its focus on industrial policies. A prime example of this is the 14th FYP, which spans 2020–2025 and which was drafted against the backdrop of worsening US–China relations and the Covid-19 pandemic.

While the plan avoids the terminology associated with MIC 2025, the emphasis on self-sufficiency became even more pronounced under the 'Dual Circulation' strategy (双循环), which was introduced in May 2020 during a Politburo Standing Committee meeting and later emerged as the central framework of the 14th FYP. The internal circulation component of the strategy focuses on expanding domestic demand to drive supply, promoting technologies and industrial upgrades across critical value chains, and encouraging Chinese consumers to prioritise locally produced goods and services. Simultaneously, the external circulation component aims to expand China's role in global trade by leveraging its position as a leading exporter, attracting foreign investment in domestic industries, and deepening economic ties through multilateral initiatives such as the Belt and Road Initiative (BRI).

Despite these efforts, the results of MIC 2025 have been admittedly mixed. On the one hand, China has successfully reduced its reliance on imports in certain areas and emerged as a global leader in industries like NEVs and low-carbon technologies. However, the country remains dependent on foreign imports for cutting-edge technologies, particularly in advanced semiconductors and biomedicine. While significant technological progress has been made, achieving full self-sufficiency and global leadership remains a painful challenge, and the next decade will be critical for addressing these gaps.

OVERVIEW OF MAIN 'MADE IN CHINA 2025' STRATEGY TARGETS

Industry	Market Share Target	Status
New energy vehicles	80% domestic market share by 2025; 80% market share for key systems	Fully achieved
Power-generating equipment	80% domestic company market share for new energy and renewable energy equipment and energy storage by 2025	Fully achieved
Aviation equipment and systems	30% market share for domestic aircraft equipment, 50% for general aviation by 2025	Partly achieved
Industrial robots	70% market share for robots and key components by 2025	Partly achieved
Intelligent manufacturing core information equipment	60% domestic market for industrial information security products by 2025	Partly achieved
Intelligent vehicles	50% domestic company market share by 2020	Partly achieved
Operating system and industrial software	40% domestic market share for industrial cloud by 2020, 30% for low-to-mid-end industrial software	Partly achieved
Aerospace equipment	80% independent supply rate by 2025	Not achieved
Aircraft	10% of domestic market by 2025	Not achieved
Energy-saving vehicles	50% of domestic market share by 2025, 80% localisation by 2025	Not achieved
High-end CNC machine tools	80% market share for high-end tools by 2025	Not achieved
High-tech ships	80% independent supply rate by 2025	Not achieved
Ocean engineering equipment	50% domestic market share by 2025	Not achieved

Source(s): State Council, Xinhua News and UBP

The 14th FYP set out 20 main indicators across five categories, including economic development, innovation, people's well-being, green development, and food and energy security. Overall, 15 of these indicators were on track or even ahead of schedule, while five were lagging behind expectations by October 2025. The goals that have not yet been achieved belong to the people's well-being and green development categories, which may require further efforts by the Chinese government in the years ahead.

OVERVIEW OF MAIN TARGETS UNDER THE 14TH FIVE-YEAR PLAN

Category	Indicator	2020	Target	Actual	Progress
Economic Development	GDP Growth	2.30%	~5.0%	5.5%	Fully achieved
	Labour Productivity Growth	2.50%	>GDP growth	6.0%	Fully achieved
	Urbanisation Rate	60.6%	65.0%	67.0%	Fully achieved
Innovation Drive	National R&D Expenditure		>7% annually	10.3%	Fully achieved
	Number of High-Value Patents (/10,000 people)	6.3	12.0	15.3	Fully achieved
	GDP Share of Value-Add of Digital Economy Core Industries	7.80%	10.0%	10.0%	Fully achieved
People's Livelihood	Growth in Average Resident's Disposable Income	2.10%	In line with GDP growth	5.5%	Fully achieved
	Urban Unemployment Rate	5.2%	<5.5%	5.3%	Fully achieved
	Average Years of Education of Working-Age Population	10.8	11.3	11.2	Not achieved
	Number of Licensed (Assistant) Physicians (/1,000 People)	2.9	3.2	3.4	Fully achieved
	Basic Pension Insurance Participation Rate	91.0%	95.0%	95.0%	Fully achieved
	Number of Childcare Centre Places for Children Under Age 3 (/1,000 People)	1.8	4.5	4.1	Not achieved
	Average Life Expectancy (years)	77.3	78.3	79.0	Fully achieved
Green Ecology	Reduced Energy Consumption (/Unit of GDP)		13.5%	11.6%	Not achieved
	Reduced Carbon dioxide Emissions (/Unit of GDP)		18.0%	7.81%	Not achieved
	Percentage of Days with Good Air Quality in Cities at or Above Prefecture-level	87.0%	87.5%	87.0%	Not achieved
	Percentage of the Quality of Surface Water at or Above Class III	83.4%	85.0%	90.4%	Fully achieved
	Forest Coverage Rate	23.2%	24.1%	>25.0%	Fully achieved
Security & Safety	Overall Grain Production Capacity (million tons)		>650	>750	Fully achieved
	Overall Energy Production Capacity (billion tons of coal equivalent)		> 4.6	5.0	Fully achieved

Source(s): State Council, Xinhua News and UBP

Past performance is not a guide to current or future results. Any forecast, projection or target, where provided, is indicative only and is not guaranteed in any way.

Unfinished pivot: seeking technological leadership amid economic rebalancing

The 20th Central Committee of the Communist Party of China (CPC) held its fourth plenum in Beijing on 20–23 October. The primary objective of this meeting was to deliberate on a draft proposal that will guide the formulation of the country's forthcoming 15th FYP spanning 2026–2030. Following the conclusion of the plenum, a high-level proposal was released on 28 October, accompanied by an explanatory speech from President Xi Jinping, in which he outlined the rationale behind it.

It is important to note that this meeting represents a significant step in the planning process but does not yet constitute a detailed action plan. The finalised outline of the 15th FYP will be unveiled at the National People's Congress (NPC) in March 2026, where it will be formally approved by the country's legislature. Subsequently, individual ministries will develop sector-specific plans aligned with the national strategy. As is customary, the current document outlines broad goals but defers the inclusion of specific numerical targets to the finalised draft. Additionally, the plenum does not address short-term economic issues, which will instead be discussed at the Central Economic Work Conference (CEWC), expected to take place in December. The CEWC will set the direction for fiscal and monetary policy for 2026 and provide an indication of the growth target, which is anticipated to remain 'within a reasonable range.'

The 15th FYP aims to address the shortcomings of the 14th FYP by setting more ambitious objectives; we note a more assertive tone in the communiqué. While the 13th and 14th FYPs focused on achieving self-reliance, the upcoming 15th FYP is expected establish global leadership in critical sectors, particularly in technology. In other words, China aims to transition from being a follower in technological development to becoming a global leader in this domain.

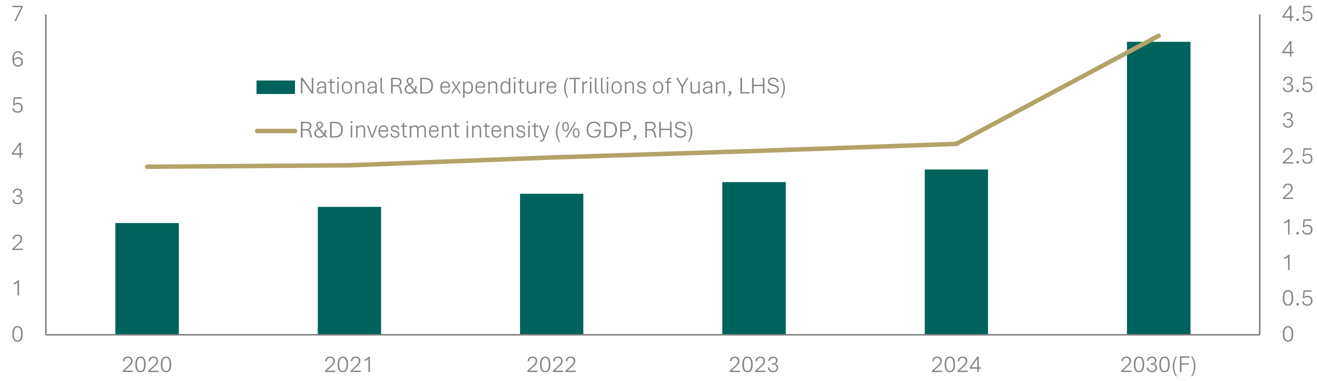
The economic model is also set to shift away from traditional growth drivers such as real estate investment and exports. Instead, greater emphasis will be placed on high-value-added manufacturing and domestic consumption, which are expected to account for a larger share of GDP and help mitigate structural challenges in the real estate sector. To this end, the 15th FYP will promote a 'new development paradigm' centred on bolstering the resilience of the domestic market. Key initiatives include narrowing the rural-urban divide, eliminating regional trade barriers, ensuring smooth economic circulation, and fostering domestic demand. The ultimate goal is to gradually increase the consumption-to-GDP ratio.

Environmental objectives are also anticipated to take a prominent role, addressing the underperformance in this area over the past five years. This renewed focus aligns with the 'new development paradigm' and President Xi Jinping's vision of building an 'ecological civilisation' – a fundamental pillar of the China Dream. The main policy areas are covered in more detail below.

Innovation-driven growth will continue to be the main focus

The 14th FYP emphasises innovation as the core of modern development. Total research & development (R&D) outlays increased by nearly 50% to CNY 3.61 trillion in 2024 (around 2.7% of GDP), reflecting accelerated investment in science and technology. This upward trajectory is expected to intensify in the coming years as China seeks to bolster indigenous innovation and reduce its dependence on foreign inputs, particularly in high-tech sectors. A substantial portion of China's R&D spending is directed towards experimental development, which accounted for 81.26% of the total CNY 3.61 trillion invested in 2024. Key areas of focus for the 15th FYP include semiconductors, artificial intelligence (AI), and quantum computing, all aimed at enhancing the country's technological self-reliance.

CHINA: R&D EXPENDITURE IS EXPECTED TO INCREASE TO ALIGN WITH GLOBAL PEERS BY 2030.



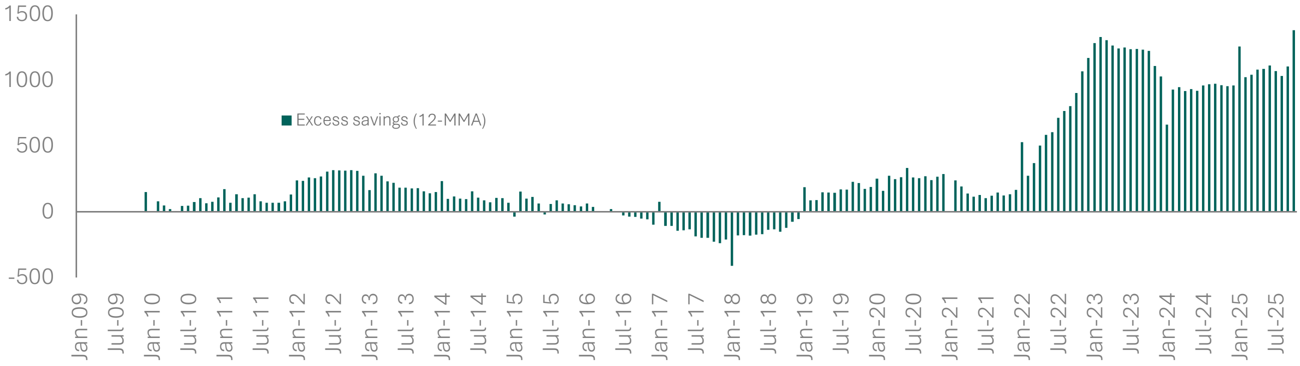
Source(s): NBS, UBP

The Chinese government has also prioritised the expansion of the digital economy, setting a target for the total value added by core digital industries to reach 10% of GDP during the 14th FYP period – a goal successfully achieved by the end of 2024. Looking ahead, the contribution of the digital economy is expected to grow substantially under the forthcoming 15th FYP, helping to offset structural challenges in the real estate sector, which currently accounts for 17% of GDP. This objective highlights the focus on advancing key digital technologies and driving industrial transformation, supported by the development of big-data centres and extensive 5G infrastructure nationwide.

Domestic market resilience denotes a significant step towards rebalancing the economy

Since 2012, China has pursued a strategy of expanding domestic demand, which later became a central focus of the 14th FYP (internal circulation). This prioritised various aspects of consumption, including service consumption, new forms of consumption, and green consumption. But despite these initiatives, boosting consumption has remained a significant challenge, making this area a likely focus of the 15th FYP. While precise data on ‘excess savings' is limited, it is clear that deposits have been growing at a faster rate than loans, particularly following the housing market downturn and the economic disruptions caused by the Covid-19 pandemic. This trend of accumulating savings, if not addressed through timely policy measures, risks becoming a structural feature of China's economy, which could impede the emergence of consumption as a growth driver.

CHINA: HOUSEHOLDS HAVE BUILT UP SIZABLE EXCESS SAVINGS

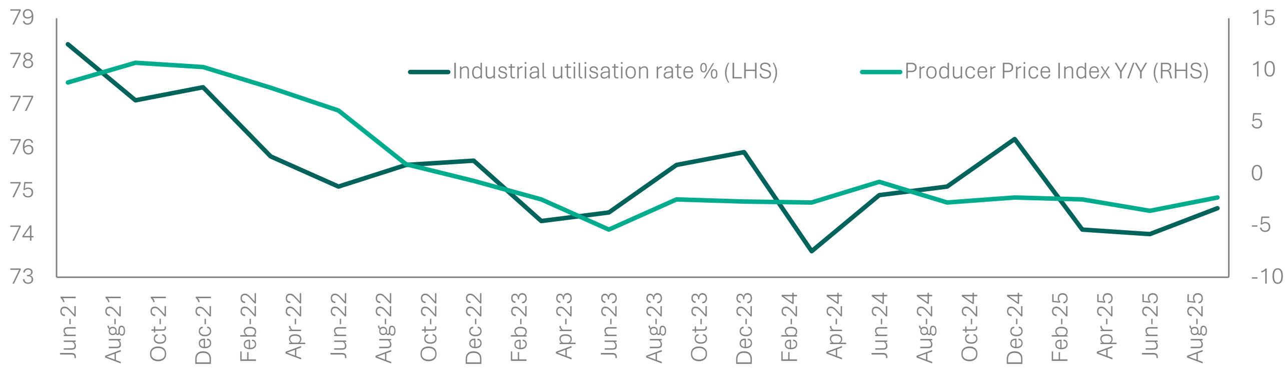


Source(s): PBoC, Bloomberg Professional L.P. and UBP

Admittedly, China has historically maintained a high savings rate, typically ranging from between 45% and 50%, far exceeding global averages. However, factors such as economic uncertainty, a struggling property market, and weak consumer confidence have led Chinese households to become more frugal. Additionally, structural issues – including an ageing population, an insufficient social safety net, wealth inequality, and a fragile labour market – have further encouraged precautionary savings. Currently, China's consumption-to-GDP ratio stands at 39.9%, significantly lower than the 50–60% average for emerging markets and the 60–70% typical of advanced economies. The 15th FYP will aim to gradually increase this ratio over time and is set to redeploy the pool of excess savings in a more productive direction. This can be achieved through fiscal transfers from the central government to local authorities to fund welfare services, particularly in areas that are still lagging behind targets, such as early childhood education, healthcare, and care homes for the elderly. These measures would help to unlock disposable income, especially in inland provinces with lower income levels, where the marginal propensity to consume is higher. Contrary to popular belief, first-tier cities such as Shanghai, Beijing, and Shenzhen do not account for the majority of consumption in China (at only 12%).

Due to state intervention and one-off tax incentives aimed at boosting the consumption of electronics and home appliances, certain sectors of the economy are now grappling with overcapacity, leading to price wars, deflation in upstream prices, and shrinking profit margins. The proposal released on 28 October explicitly acknowledged this challenge, highlighting the need to intensify efforts to tackle 'involution-style' competition (*内卷式"竞争*). During the 15th FYP, the government intends to address these issues by strengthening regulation, improving quality supervision, enhancing anti-monopoly enforcement, reducing logistics costs, eliminating trade barriers, and standardising market practices to resolve inefficiencies in 'economic circulation'. While this is expected to alleviate deflationary pressures and enhance profit margins, progress is likely to be gradual.

CHINA: OVERCAPACITY AND UPSTREAM DEFLATION



Source(s): NBS, Bloomberg Professional L.P. and UBP

Energy transformation and green development

Between 2020 and 2024, China achieved a meaningful reduction in energy intensity, with energy consumption per unit of GDP decreasing by 11.6%. The resulting CO_2 reduction is equivalent to half of the European Union's (EU) annual emissions. However, this progress fell short of the 2020 target of a 13.5% reduction, highlighting the need for further efforts to meet the country's goal to achieve peak emissions by 2030.

At the same time, China has made remarkable strides in the development of NEVs. The national NEV fleet grew from 4.92 million in 2020 to an impressive 31.4 million in 2024, underscoring the country's commitment to the green transition and technological innovation. This has also yielded benefits on the external circulation front: in 2023, China overtook Japan as the world's largest exporter of automobiles, exporting 4.9 million vehicles, the majority of which were NEVs. Building on the success of this policy, we expect that the 15th FYP will continue to prioritise the internationalisation of Chinese clean technologies.

Last, in addition to its energy and transportation advancements, the Chinese government has prioritised the expansion of high-standard farmland to bolster food security while maintaining soil quality. Looking ahead, the government aims to expand this to 90 million hectares by 2030 and upgrade all eligible permanent basic farmland to high-standard farmland by 2035.

Implications for investors

The fourth plenum took place against the backdrop of resilient growth. With Q3 2025 GDP surpassing expectations at 5.2% ytd y/y, the economy is firmly on track to meet its annual growth target of 5.0%, supported by a strong start to the year. As a result, we have revised our 2025 GDP growth forecast upwards from 4.8% to 5.0%. However, the composition of this growth remains uneven. The upside surprise was primarily driven by the supply side, with industrial production exceeding expectations in September, growing by 6.2% ytd y/y. In turn, this has fuelled robust export growth, in spite of tariffs, and increased infrastructure spending.

In contrast, consumption growth was modest at 4.5% ytd y/y, supported primarily by one-off measures to boost demand such as the trade-in scheme and increased demand for services. Meanwhile, fixed-asset investments declined by -0.5% y/y, marking the first contraction since the Covid-19 pandemic. This downturn is attributed to the property sector, as reflected in the worsening trend of property investment (-13.9% ytd y/y) and the accelerated decline in housing prices (-0.64% m/m).

Although structural challenges persist, particularly in the property sector, investors anticipating immediate cyclical support following the conclusion of the fourth plenum are likely to be disappointed. The focus of the fourth plenum is on strategic, long-term planning rather than short-term economic stimulus. Furthermore, with GDP on track to meet the official growth target, the urgency for additional cyclical measures is reduced.

It is increasingly likely that any significant policy support will be deferred until after the NPC in March, when the official targets for 2026 and the next five years will be unveiled. The upcoming December CEWC may provide some early indications of China's future policy direction; while targeted measures to stabilise the property sector cannot be ruled out, broader support measures are unlikely to materialise in the near term.

Looking ahead, we anticipate that the 15th FYP will set a lower average GDP growth target range of around 4.5–5.0%. This more moderate target aligns with China's larger economic base and reflects its strategic shift towards economic rebalancing, prioritising consumption and high value-added manufacturing. Moreover, a lower growth target is consistent with China's long-term goal of doubling its GDP or per capita income by 2035, relative to 2020 levels, which requires an average annual growth rate of around 4.5%. Nonetheless, we anticipate that the GDP growth target for 2026 will remain at 'around 5.0%', as it is customary for the authorities to front-load growth to ensure the medium-term success of the plan.

In terms of policy settings, fiscal policy is expected to play a more prominent role compared with monetary policy. The People's Bank of China (PBoC) is likely to maintain its approach of implementing an 'effective and targeted' monetary policy. This involves a combination of broad-based tools, such as M2 growth, cuts to the required reserve ratio (RRR) and interest rate adjustments, alongside targeted support through specialised lending facilities aimed at directing credit at priority sectors like technology, green development, and small businesses, while avoiding large-scale, indiscriminate stimulus measures. On the fiscal side, policy is expected to focus on projects such as data centres, power generation, and 5G infrastructure. These projects typically have a lower fiscal multiplier compared with traditional infrastructure investments, resulting in a more modest boost to real GDP.

For equity investors, the current environment presents a combination of challenges and opportunities. The ongoing contraction in the property sector continues to weigh on related industries such as construction and materials. Meanwhile, technology firms have delivered strong performances this year. While earnings growth expectations for the MSCI China have declined over the course of the year, they remain above historical averages and are driven primarily by the larger technology firms. Valuations have also risen, with the MSCI China now trading at 14.5x forward P/E, which is consistent with its 10-year average, although these levels appear relatively 'cheap' compared with global peers.

Although state support for domestic equities is expected to slow following the fourth plenum, investors can look ahead to key events such as the Central Economic Work Conference (CEWC) in December and the National People's Congress (NPC) in March, which could serve as important catalysts for improving market sentiment.

More importantly, China's strategic pivot towards sustainable, high-quality growth under its 15th FYP presents significant opportunities for patient investors. Sectors aligned with the country's long-term priorities, such as renewable energy, electric vehicles, semiconductors, artificial intelligence (AI), quantum computing and advanced manufacturing, are well-placed to benefit from policy support, increased investment, and growing demand for clean energy and innovative technologies in markets where China has increased export market shares in recent years. By focusing on technology and AI-related stocks, investors can capitalise on China's transition to a more innovation-driven and sustainable economy.

Last, it is important to highlight some risks associated with the current strategy. The plan clearly outlines an intention to reduce the significance of the real estate sector in GDP, replacing it with a greater emphasis on the 'new economy'. However, there is a risk that failing to adequately address the challenges in the property sector could undermine domestic demand, as consumer sentiment is indirectly linked to the performance of the real estate sector through wealth effects. This is an area that will likely require further policy adjustments.

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