China’s major shift to services is helping to transform the national economy...

CONTRIBUTION OF MAJOR SECTORS TO CHINA’S GDP

Note: China’s economy is roughly divided into the primary sector (agriculture), the secondary sector (construction, manufacturing), and the tertiary sector (services).


...with a strengthened focus on high-quality consumption focused growth...

CHINA’S DOMESTIC CONSUMPTION CONTRIBUTION TO GDP GROWTH


...driving potential new opportunities across a range of service sectors.

Education businesses
Healthcare
Insurance
Internet based
There has been a huge shift from manufacturing to services in China in recent years, and the economy continues to transition away from growth driven by fixed-asset investment, to consumption-focused growth, particularly through consumer services. This is led by private enterprises that are run with a profit motive and tend to be less capital intensive, unlike the fixed-asset boom, which was dominated by state banks funneling credit into other state-owned entities and property developers.

With the fixed-asset intensity of the economy declining, GDP growth is likely to continue to slow, however the quality of growth is set to improve. A slower rate of GDP should not, in our view, hinder the consumer-facing areas of the economy particularly, as the labor share of GDP increases and because many service industries are still quite nascent.

Consumption-focused growth will spur on tertiary industries that represent a growing share of GDP and dominate the growth contribution. Additionally, policy changes bode well for service sectors, such as education, healthcare, insurance and internet-based businesses.

Rob Marshall-Lee, investment leader emerging markets and Asian equity team, Newton Investment Management, a BNY Mellon company
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