



The China Playbook

7 Charts that explain what the latest economic data from China means for companies with exposure to China

Global – Q3/2026

August 2026



Background

We regularly reach out to leading businesses and institutions and try to understand their orientations, concerns and interests.

This document presents an outcome of a similar assessment conducted over 2025/26 with a focus on the evolution of the Chinese economy and what does it forebode for manufacturers and businesses with exposure to China



Management Summary

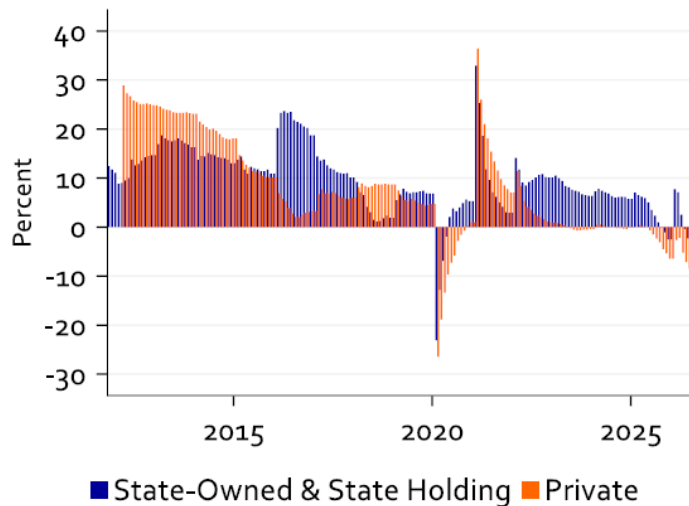
- Private investment has undergone a structural slowdown: Growth in private-sector investment has fallen from approximately 27–29% in 2012 to around zero by 2023–24, before becoming negative more recently. This suggests a significant erosion of the private-sector investment momentum that previously underpinned China's growth model. State-owned investment initially provided an important counterweight: As private investment weakened, particularly around 2016–17, SOE and state-holding investment accelerated. This allowed public-sector capital expenditure to partially compensate for declining private investment and helped sustain China's broader investment-led economic model for longer.
- COVID temporarily distorted the underlying trajectory: Both investment series collapsed to roughly –20% to –25% around 2020, followed by an exceptional rebound in 2021. Private investment briefly reached approximately 36–37% growth, but the document attributes much of this surge to pandemic-related base effects rather than a sustainable improvement in investment fundamentals. The post-pandemic recovery exposed a widening private–state divergence: During much of 2022–25, SOE investment remained positive at approximately mid-to-high single-digit rates, whereas private investment progressively approached zero. This indicates that state investment increasingly carried the burden of maintaining capital formation as private businesses became more cautious. The latest development is more concerning because both engines are weakening: Into 2026, private and SOE investment had moved below zero. The investment story is therefore shifting from private-sector weakness offset by the state towards broader-based investment weakness, potentially reducing an important historical pillar of Chinese growth.
- Structurally, China retains considerable economic firepower despite weaker near-term momentum: Its exceptionally high national savings rate—around 43% of GDP in the broader source material—provides a deep domestic pool of capital capable of funding industrial upgrading, infrastructure and strategic technologies. At the same time, relatively subdued household consumption represents both a structural weakness and a potentially significant source of future growth. If policy can progressively redirect income and savings towards household consumption, China could develop a stronger domestic demand engine while retaining its formidable manufacturing base. The opportunity is therefore less about restoring the previous investment-led model and more about converting financial capacity into productive investment and greater consumption..
- Companies should move from managing "China exposure" to managing a portfolio of China dependencies: This means arguing for greater selectivity, mapping their exposure, identifying where China provides a difficult-to-replicate competitive advantage and where concentration creates vulnerability. Investment decisions should correspondingly be calibrated, while critical supply chains should incorporate China+1 alternatives and contingency capacity. The objective should be to retain access to China's scale and capabilities while building sufficient strategic optionality should economic conditions deteriorate further

“China remains indispensable to global manufacturing, but its shifting growth model demands greater selectivity—balancing market opportunity and technological strength against rising supply-chain and geopolitical risks.”



We are starting to see structural weakness in the investment thesis for China

Fig 1. State Owned Enterprises (SOE) and Private companies' investments (2012-H1/2026)



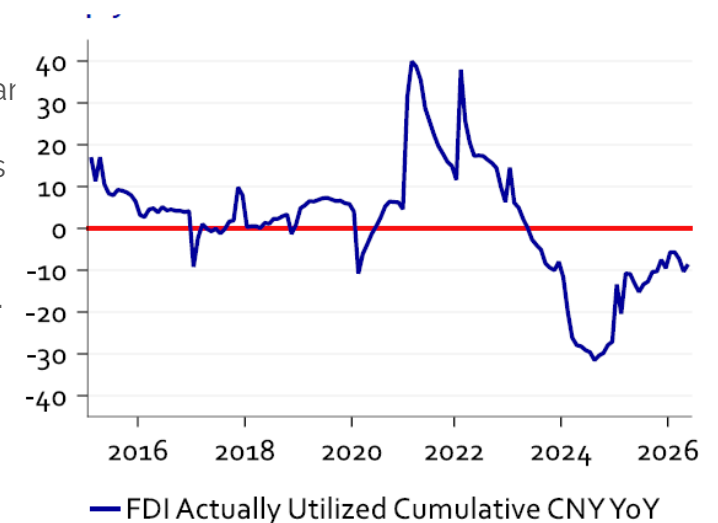
- The central story is convergence through deterioration. In the early part of the chart, private investment was growing at roughly 20–30%, substantially faster than state-sector investment. That private-sector advantage steadily disappears over time.
- Thereafter private investment underwent larger structural slowdown. From roughly 27–29% in 2012, private investment growth trended downward to around zero by 2023–24 and became negative toward the end of the series. In the same period State Owned Enterprises (SOE) investment initially acted as a counterweight. We see this as around 2016–17, state-owned/state-holding investment accelerates while private investment falls sharply. This created a period in which state investment appeared to compensate for weakening private-sector capital expenditure.
- Thereafter, COVID created a major discontinuity. Around 2020, both series collapsed to approximately –20% to –25%, followed by an exceptionally sharp rebound in 2021. The rebound peaks—especially the private-sector spike to roughly 36–37%—reflected the pandemic/base effects rather than a sustained acceleration.
- The post-pandemic divergence is particularly important. After normalization, SOE investment remained positive at roughly mid-to-high single-digit rates for much of 2022–25, whereas for the same period private investment fell toward zero.
- For the last 12 months or so and into 2026, Private investment crossed below zero and appeared to deteriorate to around –8.5%, while SOE investment also crossed into negative territory at –2.3%.
- Thus earlier, SOEs provided some offset to declining private investment, but as we speak SOE investment growth is also losing momentum, meaning that both major sources of investment are weakening simultaneously. Bottom line is that data suggests a transition from rapid private-sector-led investment growth with state-sector-supported investment to a broad-based investment weakness.



This is coupled with emerging weakness in the FDI story – on the momentum front, if not in absolute terms

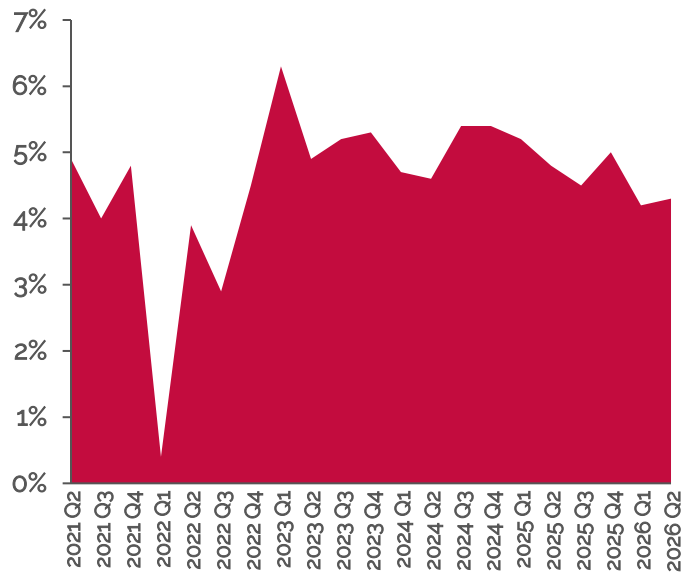
- Before 2020, FDI growth had generally remained positive but moderate. From roughly 2015–2019, cumulative utilized FDI had mostly grown at single-digit rates, although there had been several brief periods of contraction.
- It had fallen sharply during the initial COVID shock in 2020, temporarily reaching around -10% year-on-year before recovering rapidly. A very strong rebound had occurred during 2021–22, when cumulative FDI growth had briefly approached 40%, although this unusually high growth had partly reflected base effects following the pandemic disruption.
- The post-pandemic surge had subsequently faded. During 2022 and early 2023, FDI growth had slowed substantially from its earlier peaks, eventually approaching zero. By 2023, FDI had moved into contraction. The series had crossed below the zero-growth line and continued to deteriorate through 2024. The contraction had become particularly severe during 2024. By the second half of that year, cumulative FDI had fallen by roughly 25–30% year-on-year, representing the weakest period shown in the chart.
- After the 2024 trough, conditions had improved somewhat during 2025 and early 2026. The contraction had narrowed from approximately -30% to around -5% to -10%. However, FDI had remained below the previous year's level, meaning that the improvement represented a slower rate of decline rather than a return to growth.
- Thus, we seem to be seeing a structural reversal in China's inward FDI momentum. Following exceptionally strong growth in 2021–22, FDI had progressively weakened, turned negative during 2023, and experienced a particularly severe contraction during 2024. Although the rate of decline had moderated afterward, FDI had remained negative through the latest observations, indicating that foreign investment had not yet returned to sustained growth.

Fig 2. FDI Story over the last 10 years



China's GDP growth story is rationalizing – momentum seems to be weakening

Fig 3. GDP growth rate (Q2/2021- Q2/2026)

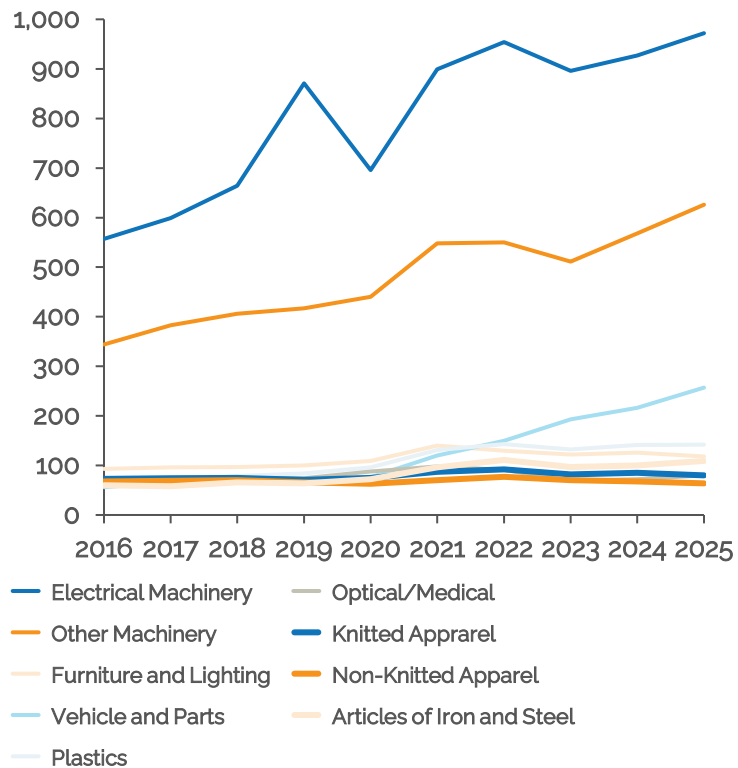


- 2021–22 had been highly volatile. Growth had initially been close to 8%, before slowing dramatically. The most severe weakness had occurred around Q2 2022, when GDP growth fell to approximately zero. This period had coincided with major COVID-related restrictions.
- A strong reopening rebound had followed. Growth had accelerated to above 6% in Q2 2023, although part of that increase had reflected favorable base effects rather than a permanent increase in China's underlying growth rate.
- Growth had subsequently settled around 5%. From the second half of 2023 through early 2025, GDP growth had generally fluctuated in a relatively narrow 4.5–5.5% range. This represented considerably greater stability than in 2021–23. However, the underlying trend had remained relatively weak. The economy had struggled to generate sustained growth materially above 5%. The acceleration at the end of 2024 had not developed into a stronger growth cycle.
- Growth had weakened again during 2025. According to the chart, the rate had gradually moved from above 5% toward approximately 4.5%. The latest movement was particularly noteworthy. After a temporary improvement toward 5% around early 2026, growth had fallen again to approximately 4–4.5% in the latest observation.
- The above chart when read in conjunction with the previous two charts suggests a fairly-consistent story around weakening private investment coupled with FDI contraction and eventual softening of state-owned investment is leading to some loss of momentum on the GDP. The important distinction was that China had not entered an outright GDP contraction. Output had continued to grow at roughly 4–5%. Rather, the evidence suggested that the economy had experienced a persistent loss of growth momentum, alongside particularly pronounced weakness in private and foreign investment.



China's export mix is shifting unmistakably towards higher engineering content, stronger embedded IP and greater value add

Fig 4. China's export composition over 2016-2025, (USD Bn)



China's export structure showed a clear shift toward higher-value manufactured and IP-intensive goods between 2016 and 2025. Electrical machinery and other machinery remained overwhelmingly dominant. Together, these categories demonstrated China's continuing strength as a global manufacturing hub. Despite periodic disruptions, particularly around the pandemic, exports of sophisticated manufactured products expanded substantially, suggesting that China's export competitiveness had increasingly rested on industrial scale, supply-chain depth and technological manufacturing rather than traditional low-cost goods.

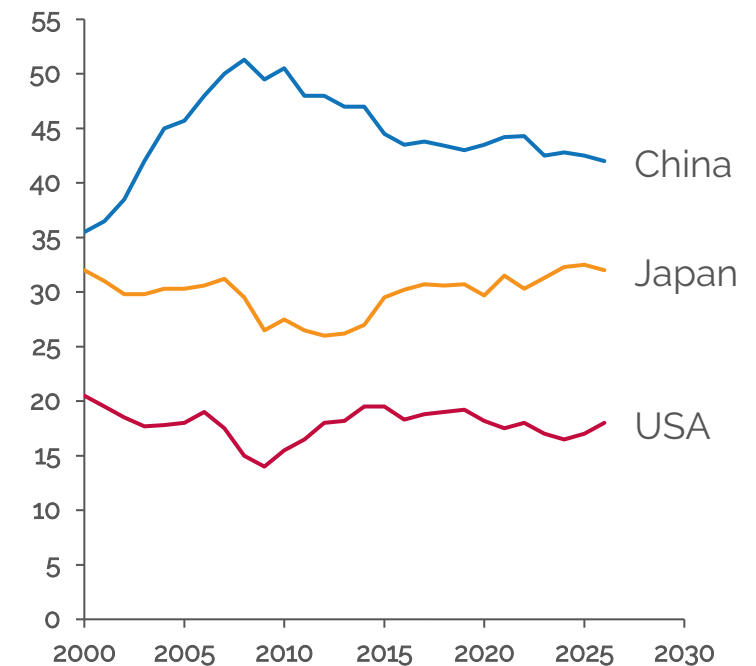
- The most striking transformation occurred in vehicles and automotive parts, more than quadrupling over the 10-year period. Growth accelerated particularly after 2020, with exports indicating the emergence of EVs and associated supply chains—as a major new pillar of Chinese exports.
- In contrast, traditional consumer and labor-intensive exports showed considerably weaker momentum. Knitted apparel increased only modestly while non-knitted apparel actually declined. Furniture and lighting similarly peaked in 2021 before falling thereafter. These trends suggested that China's comparative advantage had gradually shifted away from traditional labor-intensive manufacturing as production costs increased and lower-value manufacturing capacity migrated toward other Asian economies.
- Overall, the data conveys a message of structural upgrading rather than simple export expansion. China's export engine had become increasingly concentrated around electronics, machinery, automobiles and industrial products, while apparel and other traditional manufactured exports had stagnated or declined. Articles of iron and steel also increased from \$60bn to \$109bn, supporting this industrial-export orientation. The resulting export mix suggested that China had increasingly competed with advanced manufacturing economies in global markets, while simultaneously retaining enormous scale in conventional manufacturing—a combination that had strengthened its position across global industrial supply chains.



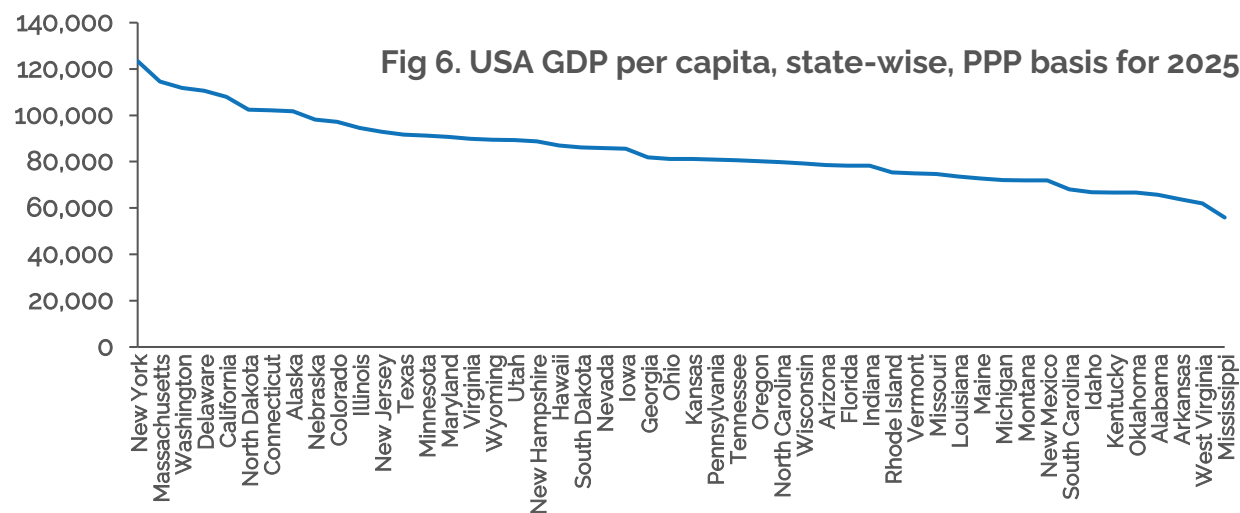
China's high savings model has helped sustain investment but has deepened structural imbalances and export dependence

- China's exceptionally high national savings rate—around 43% of GDP—remained a fundamental structural feature of its economic model. It created an unusually large domestic pool of capital that could be channeled into infrastructure, manufacturing capacity and industrial upgrading. This helped explain how China had sustained investment at a scale difficult for most economies to replicate and supported the rapid development of increasingly capital-intensive sectors.
- However, high savings also reflected the other side of China's structural imbalance: relatively weak domestic consumption. When households, companies and the state collectively saved such a large proportion of national income, a correspondingly smaller share was available for consumption. China's challenge therefore was not a shortage of capital but generating sufficiently productive domestic uses for that capital while simultaneously increasing the role of household consumption as a source of demand.
- This became more consequential as private investment and FDI weakened. Historically, China's savings could be absorbed through rapid property development, infrastructure construction and expansion of industrial capacity. As property investment declined and private-sector investment became more cautious, that absorption mechanism weakened. Continued high savings alongside weaker investment therefore risked creating excess capacity and increasing dependence on manufacturing exports and external demand to sustain production and growth.
- Structurally, this pointed to the central tension in China's growth model: enormous capacity to finance investment but diminishing returns from simply investing more. The policy response increasingly emphasized advanced manufacturing and strategic industries, effectively redirecting capital from property toward industrial upgrading. That could strengthen China's global manufacturing position, but without a larger consumption contribution, it could also intensify overcapacity, export competition and trade tensions—making economic rebalancing increasingly important for sustainable growth.

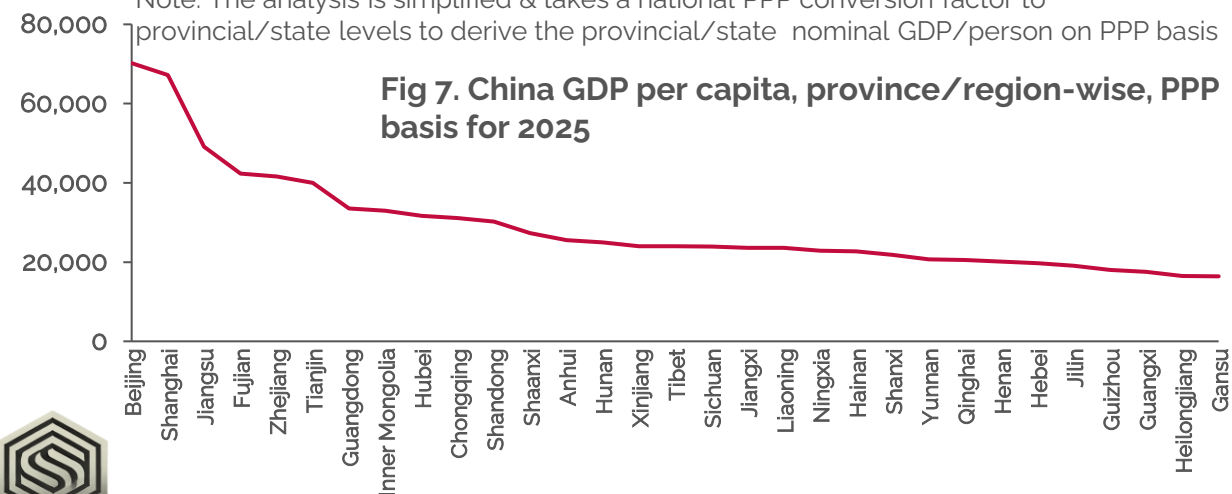
Fig 5. Gross National Savings as a % of GDP



In terms of structural levels, uneven regional prosperity pools are emerging within China; some at par with parts of middle America



Note: The analysis is simplified & takes a national PPP conversion factor to provincial/state levels to derive the provincial/state nominal GDP/person on PPP basis



- The U.S. distribution is comparatively compressed but at a very high level. New York leads at roughly \$123,000 PPP per capita, while even Mississippi, the lowest state, remains around \$56,000. Most states cluster between approximately \$70,000 and \$100,000. The relatively smooth downward slope suggests that economic productivity and income-generating capacity are geographically broad-based, with no dramatic structural break separating the richest states from the rest.
- China displays a much steeper regional development gradient. Beijing and Shanghai stand distinctly above the provincial distribution at roughly \$70,000 and \$67,000 PPP per capita, followed by a sharp decline toward Jiangsu and the prosperous coastal provinces. Most Chinese provinces appear concentrated between roughly \$18,000 and \$35,000. This highlights the exceptional economic intensity of China's leading metropolitan economies and the substantial development gap between coastal/urban growth centers and inland provinces.
- The most striking comparison is the limited overlap between the two distributions. Beijing and Shanghai approach the lower end of the U.S. state range, but virtually all other Chinese provinces remain substantially below it. Even after PPP adjustment—which significantly increases China's relative purchasing-power position—the charts suggest a large productivity and economic-development gap. At the same time, China's leading regions demonstrate that parts of its economy have already moved considerably closer to advanced-economy income levels.



China is not a unidimensional strategic conundrum, companies can engage with it in atleast 6 clear ways

China exposure should no longer be treated as a single strategic issue. Companies may engage with China as a market, a manufacturing and supply base, a source of raw materials, a source of capital, an investment destination, or a technology and development hub. Each exposure carries a different combination of opportunity and risk. China's large regional consumer markets, deep manufacturing ecosystem and increasingly sophisticated export base remain significant advantages. At the same time, weakening private investment, softer FDI momentum, slower GDP growth and growing export dependence point to a more challenging operating environment. The key management question is therefore not whether a company is "exposed to China", but where that exposure sits, how critical it is, and how readily it can be substituted or diversified.

Engagement 1

China as a market

Engagement 2

China as a manufacturing base

Engagement 3

China as a source of raw materials/ inputs

Engagement 4

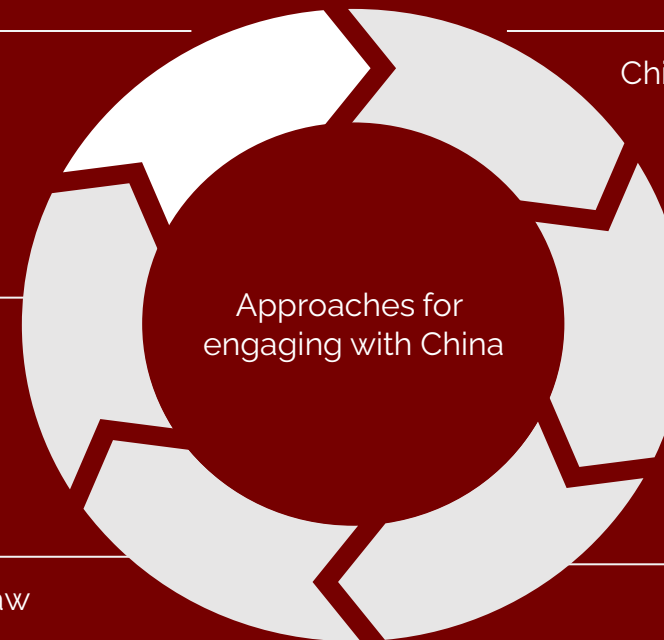
China as a source of investible capital

Engagement 5

China as an investment destination

Engagement 6

China as a technology development hub



For companies exposed to China as a market, the playbook changes to being more granular and localised

Expected outcomes and approach

- **Growth assumptions should become more granular** - China should no longer be modelled using a single GDP-to-revenue relationship. Property-related, mass discretionary and traditional consumer categories may behave quite differently from healthcare, tourism, digital services, premium segments and technology-linked consumption.
- **Local competition is likely to intensify** - Excess manufacturing capacity and weaker domestic demand encourage aggressive pricing. Foreign companies therefore face not merely slower category growth but potentially lower margins and shorter product cycles.
- **The consumption policy shift creates selective upside** - Government policy explicitly prioritises elderly care, childcare, healthcare, tourism, sport, digital consumption and higher-quality services. These areas merit different assumptions from property-dependent consumption.
- **Portfolio strategy should move towards city-, segment- and channel-level economics** - National market-size assumptions conceal significant variation in disposable income, demographics and competitive intensity. China remains a very large consumer market, but companies should expect increasingly uneven demand rather than broad-based growth. China should increasingly be treated as a collection of differentiated regional markets, not a uniform national opportunity.

CEO takeaway

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- A. **Defend margin before volume;**
- B. **Localise propositions selectively;**
- C. **Separate structurally attractive demand pools from categories merely benefiting from temporary stimulus.**

”



If exposed to China WIP/components – exposure is not really easily substitutable and requires focused work

- “
- A. Adopt “China + qualified alternative”, rather than indiscriminate decoupling.
 - B. Prioritise diversification according to time-to-recover, switching time and revenue at risk, not procurement spend alone.
- ”

Key test: If Chinese supply stopped for 90 days, which components that are not sourceable from elsewhere would shut an assembly line?

CEO takeaway

Expected outcomes and approach

- China continues to remain exceptionally difficult to replicate or replace as a manufacturing ecosystem – This is so because supplier scale, tooling, engineering capability and logistics networks are often geographically integrated. Diversification therefore carries a real cost. However, the relevant risk is increasingly supply continuity rather than unit price.
- Companies will need to distinguish and have a differentiated strategy across commodity inputs which may be comparatively substitutable but exposed to price and freight volatility vs. specialized WIP/components which may be difficult to replace because of supplier qualification, tooling and process knowledge embedded vs. Technology-intensive components: that are additionally exposed to export-control and technology-security regimes.
- Additionally, China as a country and through private enterprises increasingly controls larger & larger portions of upstream supply of critical raw-materials – this situation may not alleviate itself in the immediate short to mid term. All of this implies China exposure and cost efficiency is not just a source of competitive advantage but in some geo-political situations may also become a business risk. This value chain exposure creates all 4 types of risks - Availability risk, Policy risk, Qualification risk and Price risk



Chinese capital is country specific: welcome in large parts of the world and scorned in others

Expected outcomes and approach

- Chinese capital is likely to receive very different receptions depending on the destination, sector and investor. Many emerging economies continue to welcome Chinese investment where it brings infrastructure, manufacturing capacity, employment or access to Chinese supply chains and markets. Greenfield investment—particularly factories creating local production—may also encounter less resistance than acquisitions of established strategic assets. Conversely, scrutiny has intensified in the US, Europe and several other advanced economies where transactions involve critical infrastructure, semiconductors, AI, telecommunications, energy, sensitive data or strategic resources. Consequently, the relevant distinction is no longer simply between Chinese and non-Chinese capital: authorities increasingly examine the investor's ownership, potential state influence, technology transfer, data access and the strategic importance of the underlying asset. The result can be a substantial difference between the economic attractiveness of Chinese capital and its regulatory executability.
- For companies seeking Chinese capital, this creates **pitfalls that should be assessed before investor selection rather than during transaction approval**. A Chinese investor may offer attractive valuation, patient capital, market access or industrial synergies, yet introduce additional foreign-investment screening, national-security reviews, governance concerns or restrictions on subsequent transactions. Companies should consider whether Chinese ownership could affect eligibility for government contracts, subsidies, customers or partnerships in other jurisdictions, particularly where technology or sensitive supply chains are involved. Capital mobility is another consideration: China's weaker investment and FDI momentum, highlighted in the source document, means firms should not assume that historical availability of Chinese capital will translate into equivalent future deployment. Companies should therefore evaluate source of funds, regulatory approvals, governance rights, geopolitical consequences and exit optionality alongside headline valuation.

“Chinese capital can offer attractive funding and strategic advantages, but its value increasingly depends on whether regulatory scrutiny, geopolitical sensitivities and downstream ownership implications make that capital practically deployable.”



A phase of selective investment into China is commencing with a clear China+1 approach to balance portfolio

CEO takeaway

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- A. Invest for a defined China advantage.
- B. Ring-fence geopolitical exposure
- C. Design data architecture before committing capital.

The opportunity has become more selective, not necessarily smaller ”

CEO takeaway

Expected outcomes and approach

- China remains an important investment destination because of its manufacturing scale, supplier depth, infrastructure and increasingly advanced industrial capabilities. Yet **the investment case is becoming more selective**. The document shows that inward FDI growth deteriorated sharply after the post-pandemic rebound, turning negative from 2023 and remaining below previous-year levels through the latest observations. At the same time, both private and state-sector investment have weakened, suggesting that confidence and returns on incremental capital are under greater pressure. Companies should therefore avoid investing on the assumption that historic rates of Chinese market growth will return automatically.
- New investment should be linked to a specific strategic advantage—such as local market access, proximity to customers, manufacturing capability or technology ecosystems. A phased and modular investment approach, with clear return thresholds and optionality, is preferable to large irreversible commitments based primarily on national growth expectations.
- **China+1 as portfolio insurance**: Companies investing in China should maintain a credible secondary operating or supply base outside the country—not necessarily to replace China, but to preserve optionality and business continuity if tariffs, export controls, geopolitical disruption or regulatory changes constrain China-based operations. This is particularly important as China's growing reliance on exports may invite greater trade friction with major trading partners.

Open distribution



China as a technology hub offers strong advantages where innovation depends upon proximity to manufacturing

Expected outcomes and approach

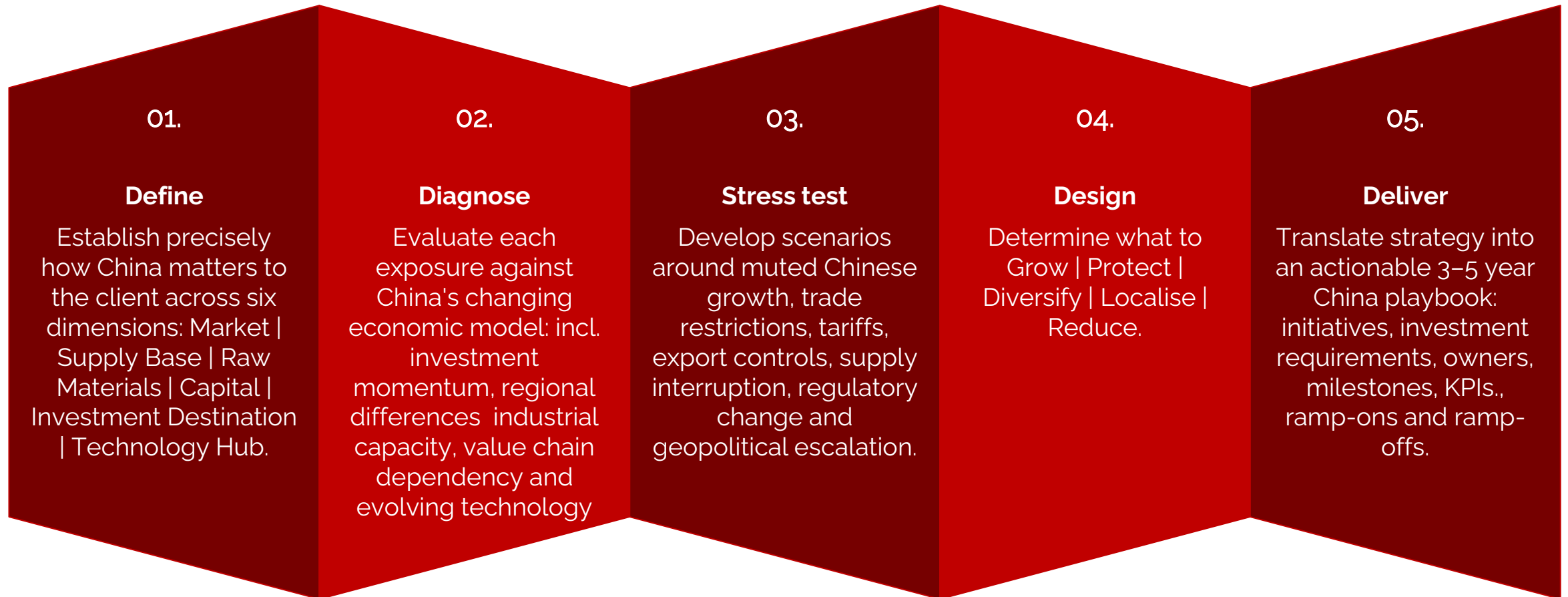
- China increasingly warrants treatment as an innovation ecosystem, not simply a low-cost engineering location. R&D expenditure reached approximately RMB3.93 trillion in 2025, equivalent to 2.80% of GDP, while the information, software and IT-services sector expanded 10.7% year on year in H1/2026. Its principal advantages are particularly strong where innovation depends upon proximity to manufacturing like rapid prototype-to-production cycles, EV, battery and clean-technology ecosystems & Digital and AI applications
- However, the technology environment is increasingly bifurcated. Companies must distinguish technology that can be developed globally from technology that should remain within a China-specific architecture because of data, export-control, IP or national-security considerations. Cross-border data transfers involving important data or large volumes of personal information can trigger security-assessment requirements. This becomes critical since legal recourse to IP infringement can be weakly and unevenly administered in China.
- The result is that companies need a **federated structure to manage technology in China** with clear boundaries between each part

CEO takeaway

- “ **Evolve a federated structure to manage innovation, technology and IP for separation on**
- A. Chinese R&D and innovation for China market**
 - B. Chinese R&D and innovation for global play**
 - C. Alternate global redundancy as backup to China exposure**
- ”



Companies can leverage the 5 step Stonesbury approach when dealing with the China question; **we can assist you on this journey**



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