

CHINA'S FDI TRENDS, POLICY RESPONSE AND ASEAN OUTREACH

Annual Competitiveness Analysis on
Greater China Economies

Editors: Liu Jingting Banh Thi Hang Yi Xin

**China's FDI Trends, Policy
Response and ASEAN Outreach:
Annual Competitiveness Analysis
on Greater China Economies**

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About ACI

The Asia Competitiveness Institute (ACI) was established in August 2006 as a Research Centre at the Lee Kuan Yew School of Public Policy (LKYSPP), National University of Singapore (NUS). It aims to build intellectual leadership and network for understanding and developing competitiveness and sustainable growth in Asia. ACI seeks to contribute to the enhancement of inclusive growth, living standards and institutional governance through competitiveness research on sub-national economies in Asia. It identifies mitigating issues and challenges for potential public policy interventions through close collaboration with regional governments, business corporations, policy think tanks and academics. ACI's three key research pillars include (I) competitiveness analysis at the level of sub-national economies, (II) emerging sustainable development landscape in 16 Asia economies, and (III) Asia's long-term growth strategies and public policy analysis.

ACI's value propositions can be encapsulated in its acronym:

Analytical inputs to initiate policies for policy-makers and business leaders in Asia

Capacity building to improve productivity and efficiency

Intellectual leadership to create pragmatic models of competitiveness and inclusive growth

Vision and Mission

- ACI's over-arching vision is to build up its research credibility with policy impact, contributing as a professional, world-class think-tank.
- ACI's mission is to establish our niche as a leading policy think-tank by identifying development trends, opportunities and challenges among Asian economies and business corporations.
- ACI endeavours to articulate sound recommendations, promote discussion and shape research agenda in the arena of public policy among Asian governments.
- ACI undertakes evidence-based analysis of public policy issues and decisions, in order to provide an assessment of their effectiveness as well as their economic and societal impact.

Preface

This twelfth edition of the Greater China Competitiveness Research Series, produced by the Asia Competitiveness Institute (ACI) at the Lee Kuan Yew School of Public Policy, National University of Singapore, continues our tradition of providing rigorous, data-driven analysis of competitiveness at the sub-national level within Greater China. As one of ACI's flagship projects, the book offers valuable insights into the economic complexities of China, including its evolving growth patterns and external economic engagements.

In 2024, China's economy achieved a growth rate of 5%, precisely meeting the official target but indicating a slight slowdown from the previous year's performance. This growth was predominantly driven by a robust improvement in the growth of net exports, which turned positive early in the year and surged to 20% by the year-end. Notably, exports to the ASEAN region played a critical role, highlighting its growing importance as a destination market that supports China's economic growth.

Despite these gains, challenges persist. Throughout the year, other major components of GDP exhibited significant weaknesses. Retail sales growth was tepid, investment struggled amid a sluggish real estate market, inward FDI continued its decline, and fiscal stimulus was insufficient to drive higher economic growth.

Beyond the economic activities within its border, China's resurgent outward FDI has emerged as a significant trend. Chinese companies are increasingly focusing their investments on the ASEAN region while scaling back in advanced economies like the EU and the US. These investments often target high-tech sectors such as the semiconductors sector and motor vehicle sector. They are crucial for China's integration into global supply chains and have significant impacts on the ecosystems of the host countries. The policy chapter of this book offers a detailed analysis of this trend and provides a quantitative assessment of recent changes in China's FDI policy.

Understanding competitiveness and the dynamics of China's external trade and investment with the rest of Asia is crucial for identifying new growth opportunities and fostering a sustainable ecosystem that benefits the entire region. I am confident that this publication will deepen our understanding of China's sub-national economies and provide valuable insights for policymakers, further enriching the discourse on regional economic dynamics.

Professor Paul Cheung
Director, Asia Competitiveness Institute
Lee Kuan Yew School of Public Policy
National University of Singapore

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Executive Summary

In 2024, China's economy expanded by 5%, hitting the official growth target precisely, but this figure also signals a slowdown from the previous year's rate. The primary driver of this growth was a significant improvement in net exports, which shifted into positive territory early in the year and strengthened considerably by year-end. Notably, exports to the ASEAN region played a critical role in this surge. Chapter 1 offers a detailed account of these macroeconomic trends and policy implications.

Chapter 2 spotlights Hubei as the province with the most significant gains in overall competitiveness, climbing from 17th to 12th place within one year. This rise is attributed to a strong economic recovery after the initial severe downturn caused by the COVID-19 lockdown. It also identifies Guangdong as the most competitive economy over the last decade, leading in Government Policies and Fiscal Sustainability, Financial Deepening and Business Efficiency and Physical Infrastructure. Meanwhile, Tibet has consistently been ranked last since the year 2000. However, the *What-if* simulation suggests that raising Tibet's 20% weakest indicators to the national average could elevate its ranking from 34th to 18th.

The competitiveness analysis in Chapter 3 is conducted at the regional level. The Eastern Coastal Area ranked highest in all environments and in seven out of 11 sub-environments. Hong Kong, Macau and Taiwan topped the ranking in the remaining four sub-environments, while Northeastern China has remained in the last position since 2014.

Chapter 4 examines recent FDI trends in China, addressing both the government's policy responses and the strategic shifts in outward FDI towards ASEAN. The decline in inward FDI, particularly pronounced in strategic sectors, mainly stems from reductions by the United States, Germany and South Korea. In response, the Chinese Government has offered generous incentives to foreign investments in selected industries. While these policies have had some positive effects, their impact has been short-lived, as weakening domestic demand has limited their effectiveness.

Building on this, Chapter 4 then explores China's strategic promotion of outward FDI towards the ASEAN region in recent years. Driven by heightened geoeconomic uncertainties, this strategy acknowledges ASEAN countries as crucial connectors within global supply chains. In response to these challenges, companies in China's major economic hubs, such as the Guangdong Delta and Yangtze Delta provinces, have become the primary sources of Chinese FDI into ASEAN and have significantly increased their investments in the region. These provinces are increasingly channeling their investments into key sectors such as the motor vehicles sector and semiconductors sector, seeking stability and growth opportunities in Southeast Asia.

Overall, the book reveals sustained sub-national disparities in economic competitiveness within China and underscores the challenges and opportunities faced by China's regions in the context of an evolving global economic landscape.

Acknowledgements

This year, *China's FDI Trends, Policy Responses, and ASEAN Outreach: Annual Competitiveness Analysis on Greater China Economies* was implemented by Guo Meiling, Lu Weilin and Lian Huiyuan under the advice of Dr Liu Jingting, Dr Banh Thi Hang and Dr Yi Xin.

In this book, we have updated previous sub-national and regional competitiveness studies with the latest available data. Our comprehensive approach to measuring competitiveness takes into account different factors that collectively shape the ability of a nation or region to achieve substantial and inclusive economic development over a sustained period of time. Furthermore, we focus on the dynamics of inward and outward FDI in China, paying special attention to the country's policy responses to the decline in inward FDI and the growing significance of China's outward FDI in ASEAN.

This book would not have been possible without the support of our research and administrative colleagues. In particular, we would like to extend our sincere thanks to a competent and dedicated administrative team at ACI, including Cai Jiao Tracy, Po Lai Yin Lyne, Nur Atiqah Binte Rahmat and Dewi Jelina Ayu Binte Johari.

We would also like to show our appreciation for the contributions from ACI Director Professor Paul Cheung and the research staff – Dr Liang Zixuan, Dr Zhang Yuqing, Tan Kway Guan, Ng Wee Yang, Yan Bowen, Akshaya Balaji, Riddhimaa Gupta, Huang Yijia, Brendan Lee Juan Xin, Miranda Lu, Christy Wong Ka Ying and Scarlet Xu Ni.

We place on record our appreciation for the encouragement we have received from Professor Danny Quah (Dean), Professor Kanti Prasad Bajpai (Vice Dean, Research and Development), Kadir Suzaina (Vice Dean, Academic Affairs), Francesco Mancini (Vice Dean, Executive Education) and other colleagues in the Lee Kuan Yew School of Public Policy, National University of Singapore.

List of Abbreviations

5G	The Fifth Generation of Wireless Communications Technologies
ACI	Asia Competitiveness Institute
ACFTA	ASEAN-China Free Trade Area
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
CCI	Consumer Confidence Index
CHIPS	Creating Helpful Incentives to Produce Semiconductors
CIC	China's Census Industry Classification
COVID-19	Coronavirus Disease 2019
CPI	Consumer Price Index
CPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
DID	Difference-in-Differences
EU	European Union
EV	Electric Vehicle
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GRDP	Gross Regional Domestic Product
GRP	Gross Regional Product
GSCPI	Global Supply Chain Pressure Index
GTA	Global Trade Alert
HS	Harmonised System
ICT	Information and Communications Technology
IFDI	Inward Foreign Direct Investment
ISIC	International Standard Industrial Classification of All Economic Activities
IMD	Institute for Management Development
LKYSP	Lee Kuan Yew School of Public Policy
MNCs	Multinational Corporations
NAICS	North American Industry Classification System
NUS	National University of Singapore
OFDI	Outward Foreign Direct Investment
R&D	Research and Development
RMB	Renminbi
ROW	Rest of the World
RSVI	"Ranked" Standardised Value of Indicator
SD	Standard Deviation
SVI	Standardised Value of Indicator
TCE	Tons of Coal Equivalent
US	United States
USD	United States Dollar
WTO	World Trade Organization

List of Economies

	Name of Economies in English	Name of Economies in Chinese
1	Anhui	安徽
2	Beijing	北京
3	Chongqing	重庆
4	Fujian	福建
5	Gansu	甘肃
6	Guangdong	广东
7	Guangxi	广西
8	Guizhou	贵州
9	Hainan	海南
10	Hebei	河北
11	Heilongjiang	黑龙江
12	Henan	河南
13	Hong Kong	香港
14	Hubei	湖北
15	Hunan	湖南
16	Inner Mongolia	内蒙古
17	Jiangsu	江苏
18	Jiangxi	江西
19	Jilin	吉林
20	Liaoning	辽宁
21	Macau	澳门
22	Ningxia	宁夏
23	Qinghai	青海
24	Shaanxi	陕西
25	Shandong	山东
26	Shanghai	上海
27	Shanxi	山西
28	Sichuan	四川
29	Taiwan	台湾
30	Tianjin	天津
31	Tibet	西藏
32	Xinjiang	新疆
33	Yunnan	云南
34	Zhejiang	浙江

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Chapter 1

Introduction

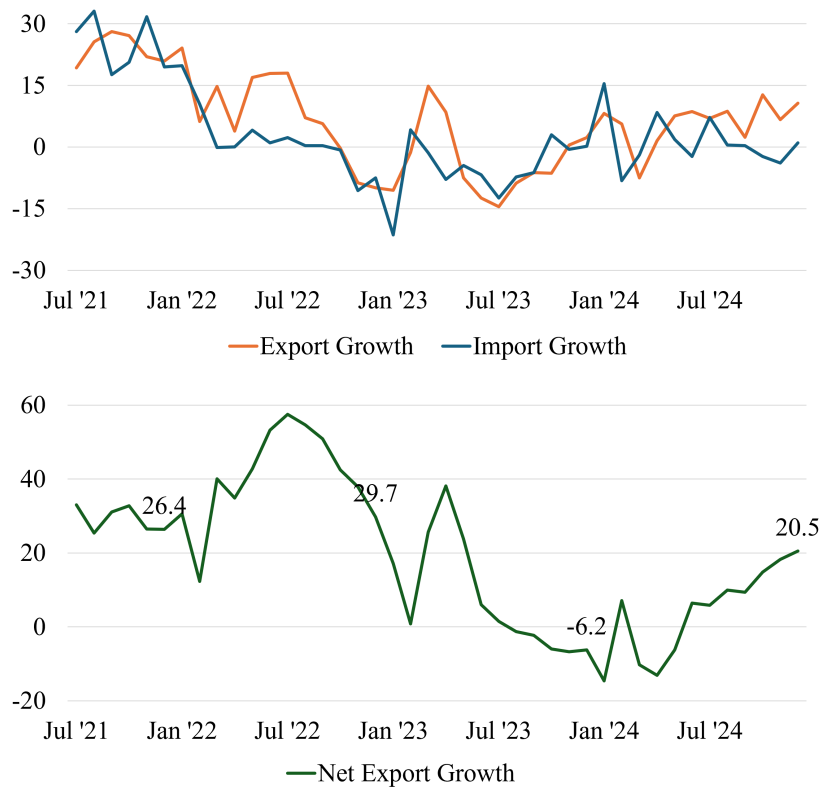
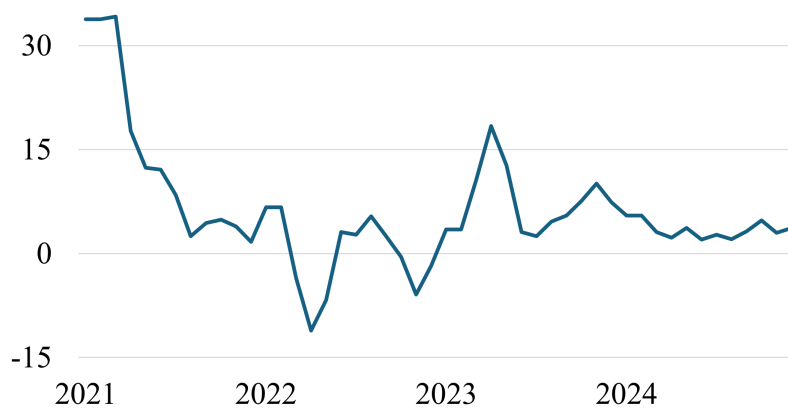
Lian Huiyuan and Yi Xin

1.1 China in 2024: Subdued Growth, Pivot to Exports

In 2024, the Chinese economy grew by 5%, exactly meeting the official growth target. Despite achieving this target, underlying weaknesses in growth were apparent, primarily because this objective was only reached due to an unexpectedly strong performance in the last quarter (Caixin Global, 2025). In addition, the growth rate was lower than that of the previous year.

Two factors shaped this growth pattern. First, net exports recovered from the previous year's lows, demonstrating increasingly stronger growth in the second half of the year. This recovery was the principal reason China achieved its 5% growth target. As illustrated in Figure 1.1, international trade rebounded from its January 2023 nadir. Notably, export growth turned positive at the start of 2024, significantly improving the trade balance. The growth in net exports, a vital component in GDP accounting, turned positive in July 2024 and achieved a solid year-on-year growth rate of 20.5% by year's end, substantially exceeding the official GDP growth target.

Second, weakness in domestic demand, particularly consumption, has dragged the stellar performance in net exports and contributed to subdued growth. As illustrated in Figure 1.2, retail sales growth—a proxy for consumer spending—remained weak throughout 2024, consistently falling below the GDP growth rate of 5%. This consumption weakness is primarily driven by significant negative wealth effects from falling house prices (The Straits Times, 2024) and cautious spending habits exacerbated by ongoing economic uncertainties following the prolonged COVID-19 lockdowns (Reuters, 2024d).

Figure 1.1: Growth in Exports, Imports, and Net Exports (YoY %)**Figure 1.2:** Retail Sales Growth (YoY %)

Source: ACI calculations based on data from the National Bureau of Statistics of China.

These two factors together suggest that China is increasingly dependent on net ex-

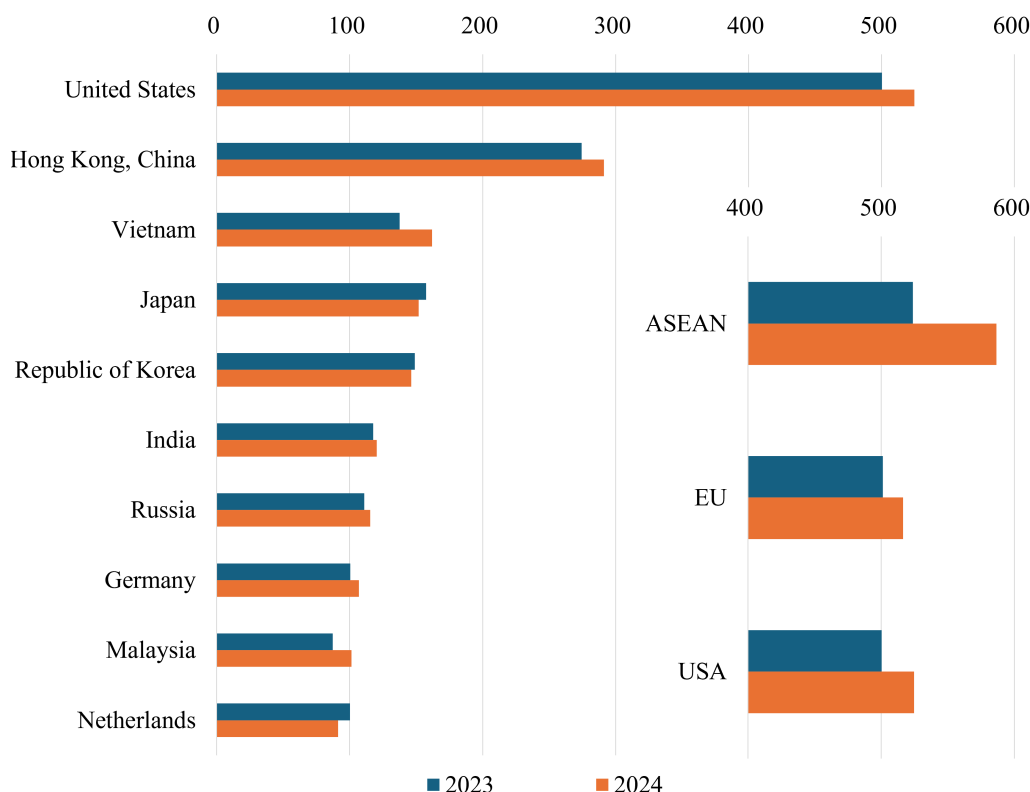
ports to achieve its growth targets. Figure 1.3 presents a breakdown of GDP growth by component over the years. The figure indicates that consumption experienced negative growth in 2022, a consequence of China's COVID-19 lockdown measures. As the lockdown measures eased, consumption began to recover, but net exports faced significant challenges due to the global tightening of monetary policy (CNN, 2023). This trend shifted in 2024, where the share of consumption began to decline while net exports started to recover and eventually became the engine of economic growth, buoyed by improving external conditions (Reuters, 2024a).

Figure 1.3: Contribution to GDP Growth by Component (%)



Source: ACI calculations based on data from the National Bureau of Statistics of China.

We further break down the change in exports by destination markets. Figure 1.4 shows that the increase in exports is largely due to a rise in exports to ASEAN countries, amounting to an absolute value of \$60 billion USD, while the increases in exports to the EU and the US are relatively modest. Among the ASEAN countries, Vietnam and Malaysia are the largest export destinations for China and are also among the global top 10 destinations for Chinese exports.

Figure 1.4: Exports by Top 10 Destination Markets (Billions USD)

Source: ACI calculations based on data from the General Administration of Customs of China.

These trends indicate a structural shift in the Chinese economy: as domestic demand continues to be relatively weak, net exports have played an increasingly vital role in driving economic growth. Despite trade tensions and rising geopolitical uncertainties, Chinese exports have shown resilience and continued expansion. Our data reveals that this growth in exports is particularly pronounced in sales to ASEAN countries, while growth in exports to the EU and US—partners with whom there are significant trade frictions—remains modest.

This presents a structural challenge for the Chinese economy. In 2024, China managed to offset weak consumption by focusing on recovering exports, particularly by enhancing trade relations with partners such as ASEAN. However, this export-driven growth may not be sustainable indefinitely, as Chinese exports have reached historically high levels relative to global GDP (Rhodium Group, 2024). This prominence has also led to trade frictions with many countries (SCMP, 2024), further complicating the sustainability of this growth model. Ultimately, reviving the economy may require focus on policies that stimulate consumption, especially given the sluggish investment due to weaknesses in the real estate sector (Reuters, 2024b). It remains to be seen what policies the Chinese government will adopt in the future to address these issues.

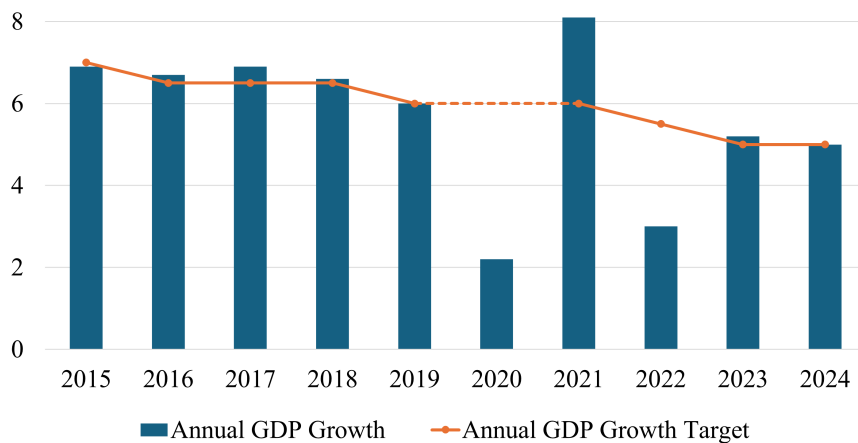
The following sections of this chapter will provide a more detailed macroeconomic

assessment of China in 2024 and discuss its policy implications.

1.2 A Macroeconomic Overview of China's Economy

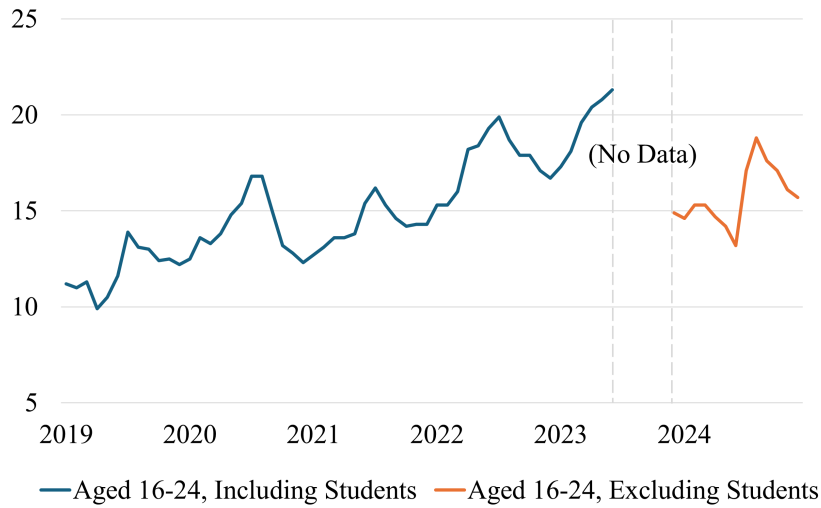
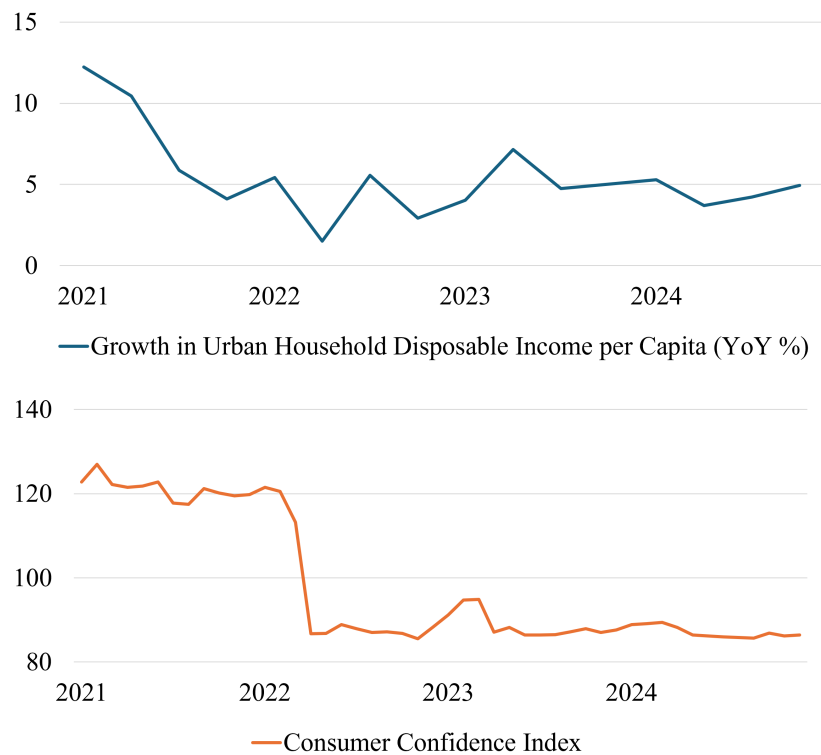
In 2024, China's economy grew by 5% and achieved the official target, largely due to the strong performance of net exports as outlined in the previous section. However, this rate also indicates a slowdown compared to previous years. Figure 1.5 shows that even though China has met its growth targets mostly in the past ten years, the GDP growth rates have been slowing down.

Figure 1.5: GDP Growth Rate and Growth Target (YoY %)



Source: ACI calculations based on data from the National Bureau of Statistics of China and Report on the Work of the Chinese Government (2015-2024).

Turning to the labour market, Figure 1.6 illustrates that the Urban Youth Unemployment Rate remained high at 15% in 2024, even after adjusting for students seeking employment. This persistent labor market weakness has further eroded household incomes and consumer confidence in China. Specifically, as depicted in the top panel of Figure 1.7, household income growth decelerated to 4.4% in 2024. Concurrently, the bottom panel reveals that consumer confidence remained exceedingly low throughout the year. These dynamics—stemming from labour market challenges—have resulted in subdued consumption, which has been a key factor in the overall economic slowdown.

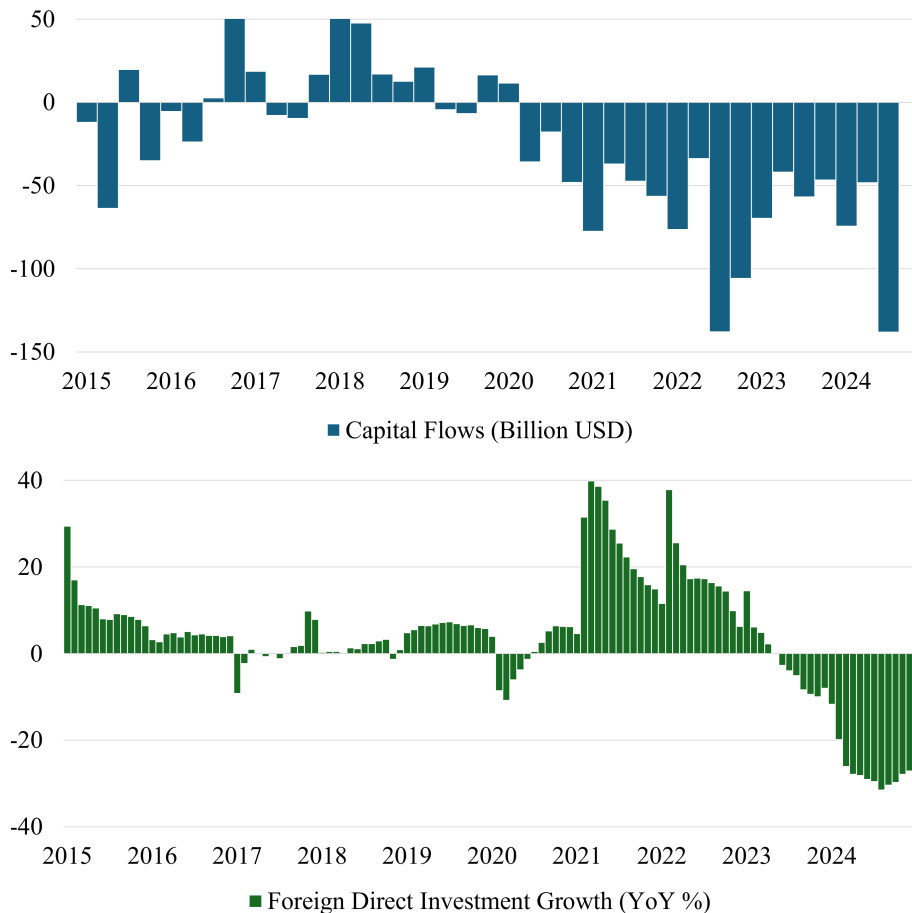
Figure 1.6: Urban Youth Unemployment Rate (%)**Figure 1.7: Household Income and Consumer Confidence Index**

Source: ACI calculations based on data from the National Bureau of Statistics of China.

In terms of investment, China in 2024 saw a continued outflow of capital and especially in the form of foreign direct investment. Figure 1.8 shows that while capital has

started flowing out of the country since 2023 (top panel), 2024 was especially marked by a huge outflow of FDI (bottom panel). The rapid decline in FDI likely also contributed to the weakness in job market as well as consumer confidence, ultimately hurting GDP growth.

Figure 1.8: Capital Flows and Foreign Direct Investment Growth

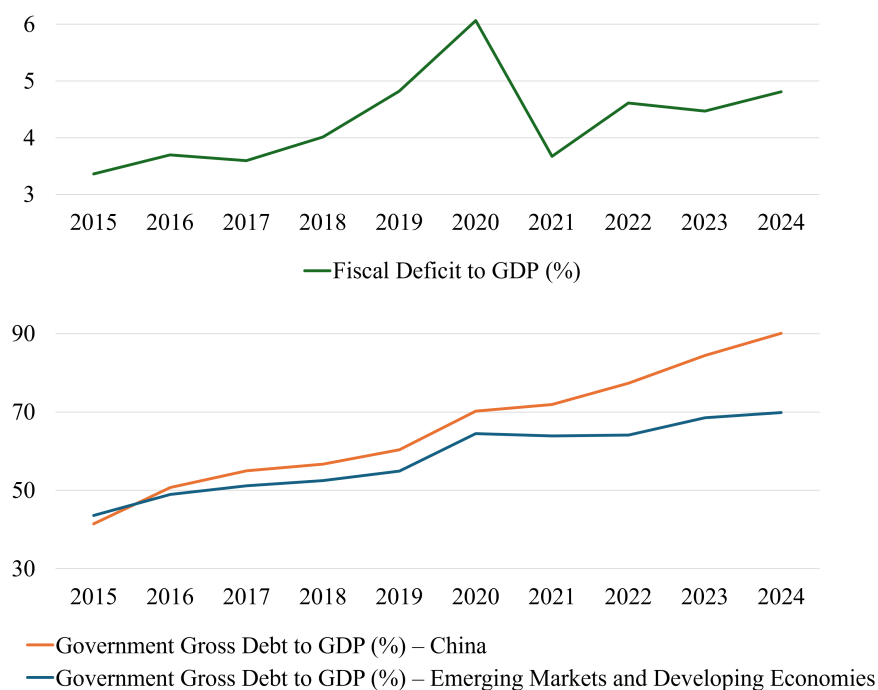


Source: ACI calculations based on data from the State Administration of Foreign Exchange and the Ministry of Commerce, China.

These macroeconomic patterns in 2024 have created significant challenges for China's growth. To counter these headwinds, the Chinese Government has ramped up its spending in an effort to stimulate the economy. As shown in Figure 1.9, the fiscal deficit as a percentage of GDP increased by 0.5 percentage points in 2024. Additionally, China's debt to GDP ratio is considerably larger than its peers in emerging markets and developing economies, with the disparity expanding over time, as illustrated in the bottom panel of the figure. Despite these substantial deficits and debts, market expectations in 2024 indicate that the government's increased expenditures have not been sufficient to effectively stimulate the economy (Reuters, 2024c). Some even contend that a much larger alloca-

tion of fiscal resources, especially for boosting consumption, is essential to counter the economic headwinds, going forward (TIME, 2024).

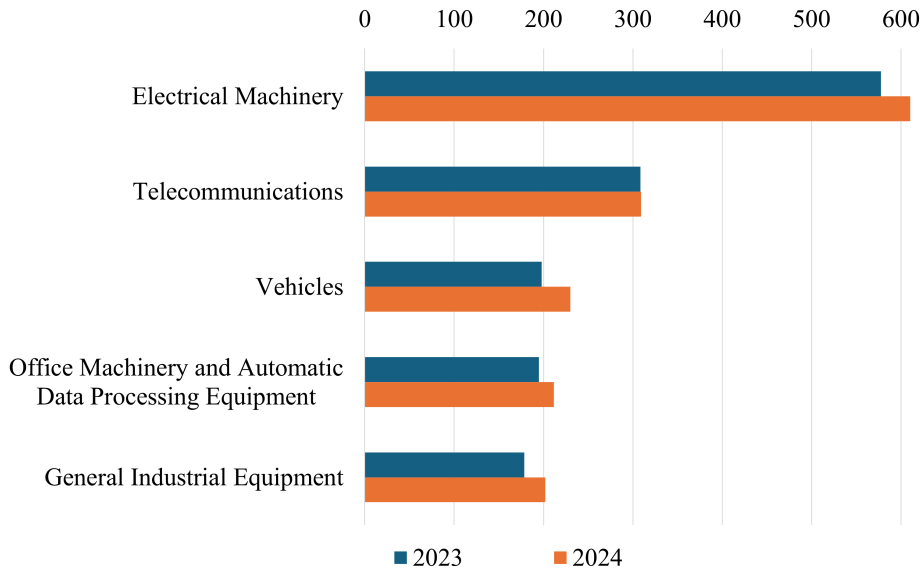
Figure 1.9: Fiscal Deficit and Government Gross Debt



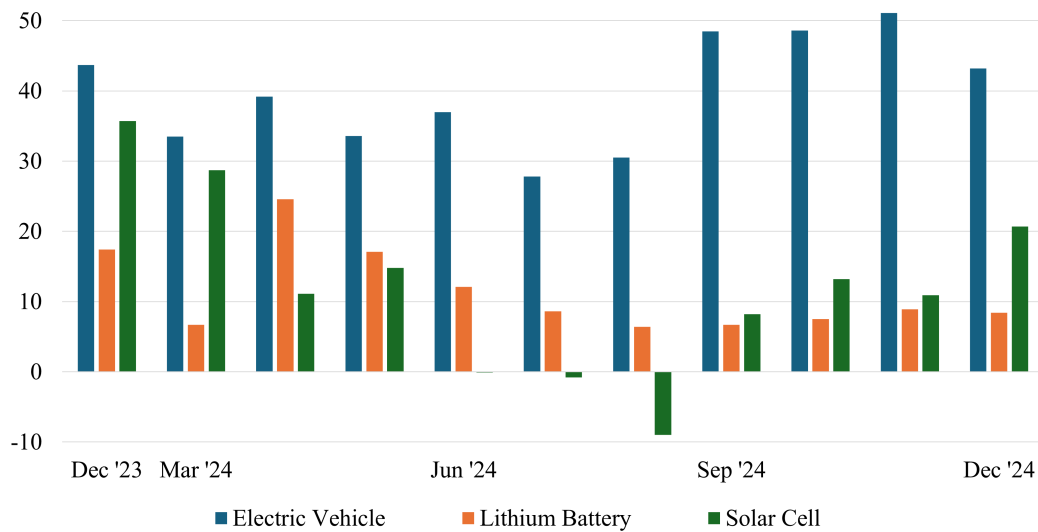
Source: ACI calculations based on data from the Ministry of Finance, China and the International Monetary Fund.

Having considered that the components of consumption, investment, and government expenditure fell short of expectations, the only way to meet the GDP growth target would be if net export growth were unusually strong. We have already demonstrated in the previous section that this was indeed the case. We will now provide a more detailed view of China's external trade and investment.

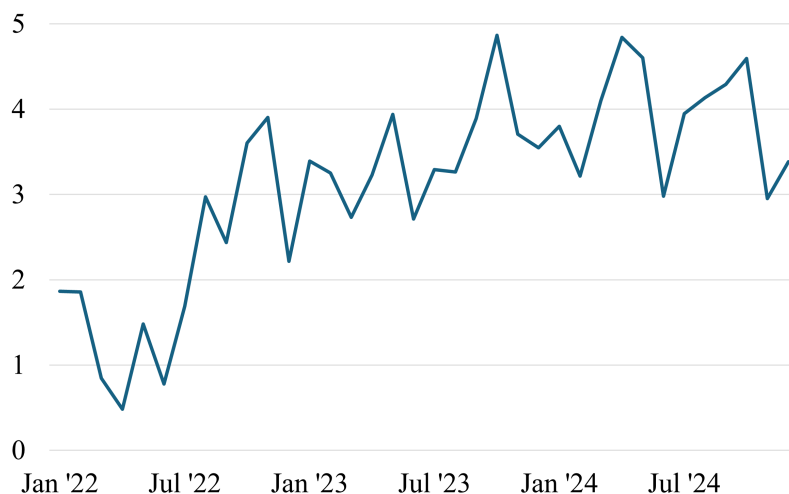
Figure 1.10 details the trade value of China's top five exports in 2023 and 2024, with significant growth noted in sectors such as electrical machinery, automobiles, and industrial equipment. This pattern suggests that China's export growth in 2024 was increasingly fueled by technologically advanced industries. Further highlighting this shift, Figure 1.11 shows output growth in the clean-tech sector, a burgeoning sector that has contributed to 10% of global export growth in recent years (ACI Webinar, 2024). Within this sector, China has demonstrated robust double-digit growth, especially in electric vehicles (EVs), where growth rates have reached 30%. Figure 1.12 shows that EV exports have quadrupled over the past three years, although the growth appears to have plateaued in the second half of 2024.

Figure 1.10: Top Five Exports (Billions USD)

Source: ACI calculations based on data from the General Administration of Customs of China.

Figure 1.11: Output Growth of Key Clean-Tech Products (YoY %)

Source: ACI calculations based on information retrieved from the National Bureau of Statistics of China.

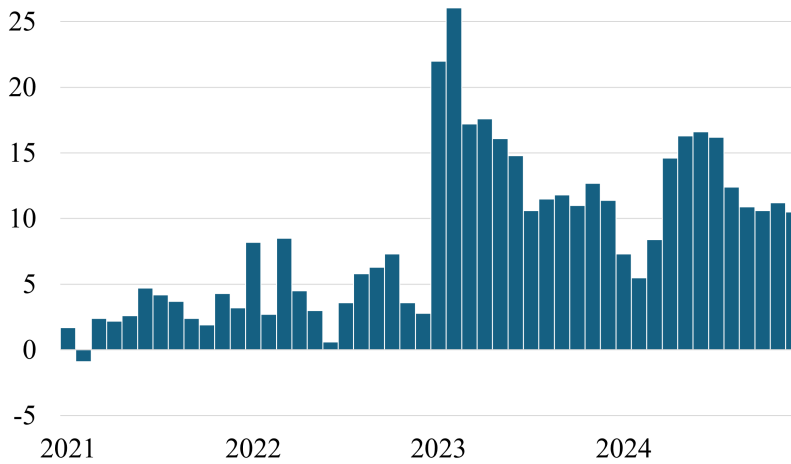
Figure 1.12: Electric Vehicle Exports (Billions USD)

Source: ACI calculations based on data from the General Administration of Customs of China.

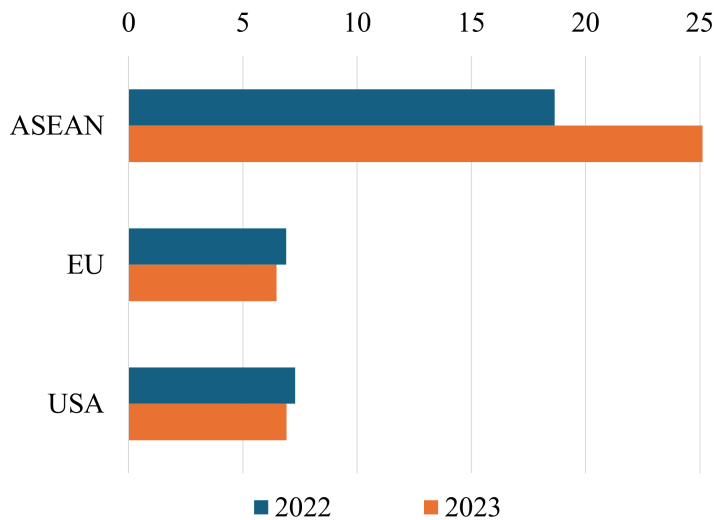
One important emerging trend, not captured by GDP but increasingly significant, is China's outward FDI activities. While GDP provides a measure of economic activity within China, outward FDI expands this view by considering the income earned by Chinese entities overseas. This growth not only highlights China's increasing global economic influence, but also presents significant policy implications for host countries as they navigate the integration of Chinese investments into their economic ecosystem, especially in the context of escalating geopolitical tensions (The Straits Times, 2025).

Figure 1.13 illustrates the outward FDI growth. In particular, it shows that the growth of outward FDI from China began to rise markedly in 2023, continuing with a double-digit growth rate into 2024. This indicates that Chinese companies are intensifying their efforts to expand internationally through investments. In terms of investment destinations, Figure 1.14 reveals that this surge in outward FDI is predominantly directed toward the ASEAN region, while Chinese investments in advanced economies such as the EU and the U.S. have started to retreat. The shift in investment destination could suggest a strategic pivot towards emerging markets in response to heightened geopolitical tensions. As we will discuss in this book, these trends hold significant implications for the ASEAN region.

In summary, while China's economy met expectations in 2024, it also displayed considerable weaknesses across nearly all major GDP components. The primary growth driver this year was the improvement in net exports, particularly due to increased exports to the ASEAN region. Beyond its domestic activities, China is expanding its influence by investing in the ASEAN region, which is crucial for its global supply chain integration and holds significant implications for the host countries. This topic will be explored in greater detail in Chapter 4, by utilising firm-level investment data.

Figure 1.13: Growth of Outward Foreign Direct Investment (YoY %)

Source: ACI calculations based on data from the Ministry of Commerce, China.

Figure 1.14: Outward Foreign Direct Investment by Major Destinations (Billions USD)

Source: ACI calculations based on data from the Ministry of Commerce, China.

1.3 Motivation and Roadmap of the Book

This final section discusses the motivation of this project and delineates the roadmap of the book.

The regional disparity in China is often considered a natural consequence of the varying population distribution, resource allocation and social conditions across the coun-

try. Any policy intervention tackling the uneven economic development across China requires mapping out each region's strengths and weaknesses. However, China's high GDP growth since the late 1970s has often obscured the issue of large regional disparities. In the spirit of highlighting China's sub-national disparities and facilitating sustainable and inclusive growth, ACI has developed a comprehensive methodology and framework for assessing competitiveness at the sub-national level. This methodology is employed not only in this book but also in ACI's prior publications on Greater China, Indonesia, India, and ASEAN. Our work and publications contribute to the literature on regional economic development by concentrating on competitiveness analysis and rankings at the sub-national level, moving beyond the traditional focus on national-level analysis.

Since the release of ACI's inaugural volume on the Greater China economies, the comprehensive competitiveness index has been used to rank the 34 Greater China economies according to various dimensions. ACI aims to provide an annual update, and this updated book includes data from 2000 to 2022, incorporating the latest available information at the time of data collection in 2024.

This book comprises four chapters, with the goal of providing a comprehensive understanding of China's economic development based on the latest available data in the year 2024.

Chapter 1 provides an introduction, outlining macroeconomic trends and policy developments in China for the year 2024, as seen in sections 1.1 and 1.2. It highlights a significant shift in China's economic strategy toward increasing net exports, with a focus on expanding exports to, and investments in the ASEAN region. We contend that this shift was the key factor enabling China to meet its growth objectives. However, we also suggest that reliance on this strategy may prove to be unsustainable over the long term.

Chapter 2 delves into the research methodology employed in this project. Following a literature review on competitiveness, the chapter discusses the research framework that underpins ACI's study of Greater China's competitiveness at the sub-national level. The chapter then provides the overall provincial competitiveness rankings and scores as well as the rankings and scores for four environments: Macroeconomic Stability; Government and Institutional Settings; Financial, Business and Manpower Conditions; and Quality of Life and Infrastructure Development. Furthermore, this chapter employs *What-if* Competitiveness Simulation analysis to provide insights for policy making.

Chapter 3 presents competitiveness rankings and scores for five regions – instead of provinces – in China. Again, both the overall rankings and scores as well as those for the different economic environments and sub-environments are discussed. Finally, this chapter includes a cross-year regional competitiveness analysis, comparing the performance of the different regions over time.

Chapter 4 discusses recent FDI trends in China, highlighting a decline in inward FDI from countries like the USA, Germany, and South Korea, mainly in strategic sectors. In response, China has incentivised foreign investments in selected industries. At the firm level, Chinese outward FDI to ASEAN countries in strategic industries has surged in recent years amid global supply chain reconfiguration and rising geoeconomic uncertainties. The chapter assesses the effectiveness of Chinese policies in attracting FDI and

discusses challenges posed by sluggish domestic demand and the outward shift of firms, which could weigh on future economic development.

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