September 2026

Ninety One

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Investing for a world of change

Beyond AI: the growth engines transforming China

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Key takeaways

- Growth momentum is building across the Chinese economy, not solely in technology-linked sectors.
- We see opportunities for equity investors to align with China's ongoing structural transformation.
- Key growth themes we have identified include: strong consumer brands, innovation and import substitution, the energy transition, and reform of state-owned-enterprises.

Away from the AI-dominated headlines, growth momentum is building across the Chinese economy – offering selective investors the potential to drive returns over the quarters and years ahead. Our all-China investment universe comprises over 7,000 equities, including A shares (RMB-denominated), B shares (foreign currency-denominated), and Hong Kong and US listed securities. While AI will affect almost all of the business models of these companies, this exciting technology is far from the only structural transformation story impacting the opportunity set. We have identified investment themes across sectors that are reshaping China's economy, as outlined below.

Strong consumer brands

Chinese companies have spent years building their brand and value propositions, while also enhancing quality. Consequently, Chinese consumers are increasingly recognising homegrown brands for their innovation, reliability and local relevance, leading to a shift in wallet share towards domestic players. The efforts of these brands to become domestic champions have accelerated since the pandemic, particularly as international trade tensions have intensified. Across consumer sectors from beauty to electrical appliances, Chinese businesses are competing on quality and brand strength against their Western equivalents.

Chinese income growth has softened over the past 12 months, weighing on headline consumer sentiment, and households continue to accumulate excess savings. This is a potential near-term headwind for consumer sectors. However, Chinese authorities are determined to do something about this. In July, the country unveiled its first standalone five-year plan focused specifically on this area. It includes measures to boost consumption of services and higher-value items, strengthen the welfare safety net to counter the precautionary mindset of Chinese consumers, and stimulate inbound tourism. The aim is that a buoyant retail market will in time become a major growth engine of the economy.

Taking a longer-term view, the growth prospects of consumer businesses are underpinned by the continued expansion of the ranks of middle- and affluent-class consumers, who are forecast to reach 40% of the population by 2030[1]. At the same time, some currently mainly domestic consumer brands are quietly gaining market share globally.

Innovation and import substitution

A related structural growth theme is China's accelerating push towards technological self-sufficiency (in AI and beyond). Through higher investment in research & development (R&D) to promote domestic innovation, China aims to further reduce reliance on foreign technologies. China's R&D spending relative to the size of its economy has been steadily increasing and is now approaching levels in developed economies[2]. Total Chinese R&D investment was approximately RMB 4 trillion yuan (c.US$570 billion) in 2025, some 2.8% of GDP.

1. Source: Boston Consulting Group, 2023.
2. China's National Bureau of Statistics, World Bank; data pulled August 2026.

The impact on sectors such as biotech and healthcare, where China has transitioned from a global manufacturer to a leader in treatment innovation, is evident. In 2018, China accounted for about 8% of innovative healthcare products in the global pipeline; that figure is now 30%, not far behind the US's 36%[3]. Also in 2025, China approved 76 innovative drugs, while the total value of out-licensing deals – whereby the licensee acquires the legal rights to develop, manufacture and market a drug – exceeded US$130 billion[4].

Figure 1: Global share of innovative healthcare products

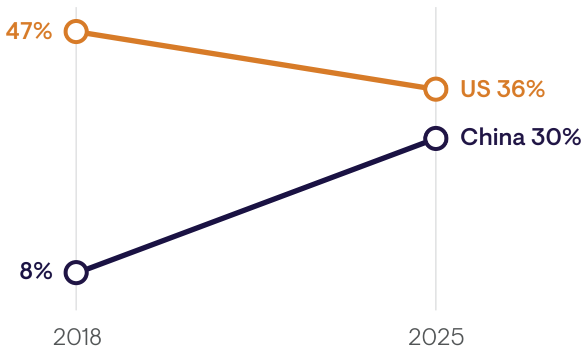
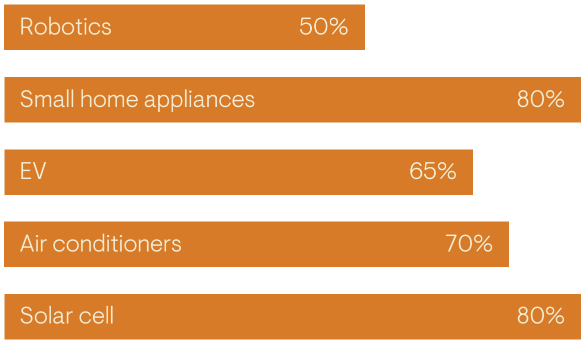


Figure 2: China's global share in advanced manufacturing sectors



Sources: IDG Capital Analysis; OECD, CapIQ.

Underlining the scale of innovation taking place more broadly, China has become the global leader in patent filings, accounting for approximately one-quarter of worldwide applications and granted patents since 2020. In 2024, China contributed almost 50% of applications filed globally (the most recent data available). We expect China's large domestic market and supportive industrial policies to continue providing a fertile environment for technological development, supporting the growth potential of select businesses at the forefront of Chinese and global innovation.

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3. McKinsey, Frost and Sullivan, 2025.
4. Xinhua, 2026.

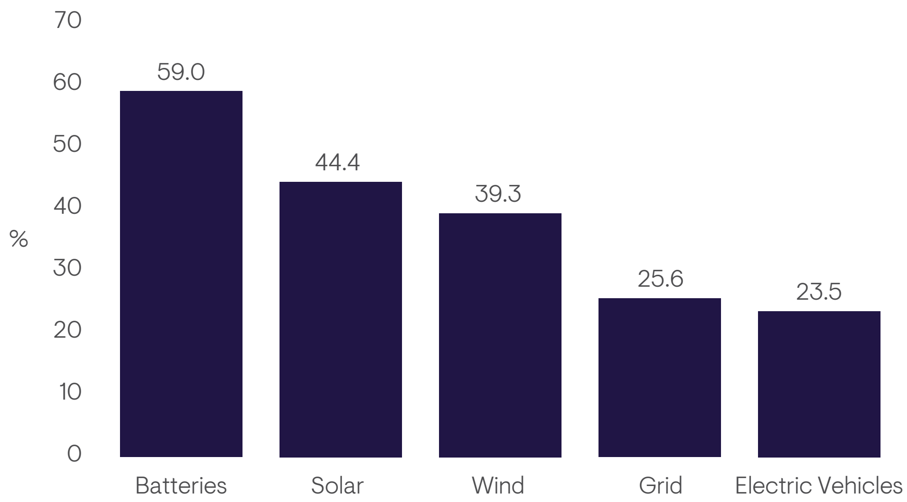
The energy transition

Visitors to Beijing and other major Chinese cities often express astonishment at how far electrification has progressed. As the volume of clean-energy vehicles on the roads highlights, more than half of new cars sold in China are now electric. China accounted for over 90% of global electric truck sales in 2025[5], and the country is the world's largest market for electric two-wheelers, with 7 million sales last year.

At the same time, China's energy mix is transitioning rapidly towards renewables, supported by a pledge to reach peak carbon emissions by 2030 and achieve carbon neutrality by 2060. This shift is underpinned by a robust policy framework and substantial investments in clean-energy infrastructure. By 2060, total renewable energy sources (including hydro, wind, and solar) are projected to account for nearly 80% of capacity, up from 31% in 2015. Meanwhile, the share of coal-fired power is expected to decline from 73% in 2015 to just 19% by 2060.

Beyond electricity generation, China dominates renewable-energy supply chains. We expect clean-tech sectors to benefit from an additional multi-year tailwind as energy security rises up the agendas of governments and institutions.

Figure 3: China's share of global green-tech trade (2024)



Source: UN Comtrade/World Bank WITS, Citi, Ninety One. March 2026.

The shift towards clean energy across transport and generation, combined with the global success of Chinese clean-tech enterprises, presents a broad range of investment opportunities aligned with structurally growing sectors that are benefiting from a supportive policy environment.

5. International Energy Agency, 'Global EV Outlook 2026'.

Reform of state-owned enterprises

State-owned enterprises (SOEs) account for nearly half of the market capitalisation of all Chinese equities (both onshore and offshore) and dominate strategic sectors, including financials, energy, real estate and materials. Many investors have historically been cautious about allocating capital to SOEs, not least because the objectives of the controlling shareholder may not be directly aligned with those of external stakeholders. But excess scepticism could obscure an opportunity, because SOE reform is driving improved efficiency, higher returns and stronger investment potential.

A key turning point came with supply-side reforms initiated in 2015, which have helped lift returns on equity within the Chinese SOE sector. The implementation of profitability-focused performance metrics has reinforced the trend, and in recent years SOE profits have shown sustained improvement. In our view, this more market-driven approach has positioned select SOEs as attractive investment opportunities that have been long overlooked.

An economy on the move

Taken together, these four themes - strong consumer brands, innovation and import substitution, the energy transition and reform of SOEs - point to an economy in transition well beyond the AI revolution. For investors willing to look past the obvious, we believe China's broad and deep equity universe offers diverse opportunities for active investors to capture the powerhouse Asian economy's next phase of growth.

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CS_1027 09/2026 MACS21040