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Investor Presentation | Asia Pacific

China's Next Industrial Revolution

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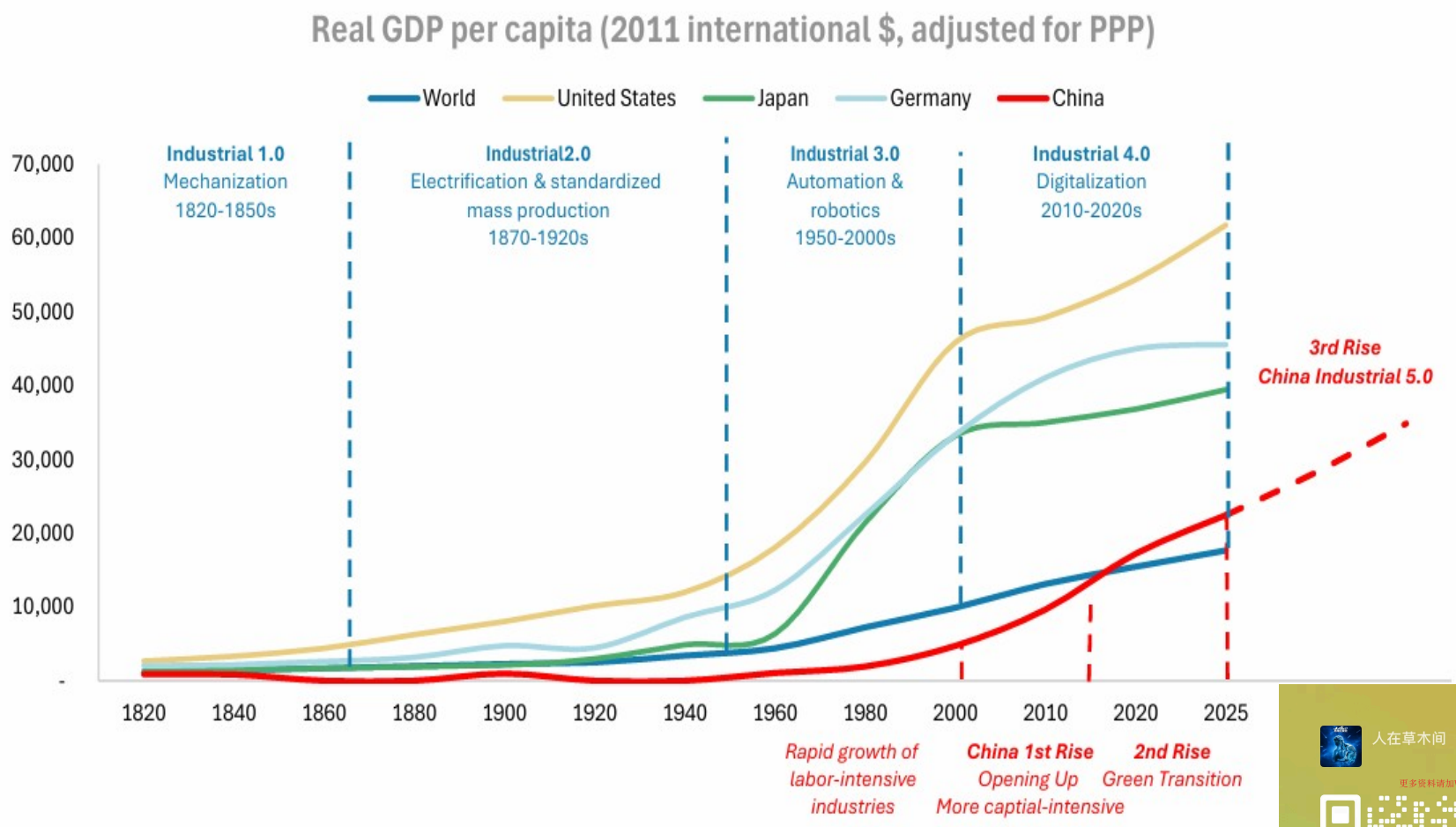
Jenny Zheng, CFA

Economist

Jenny.L.Zheng@morganstanley.com +852 3963-4015

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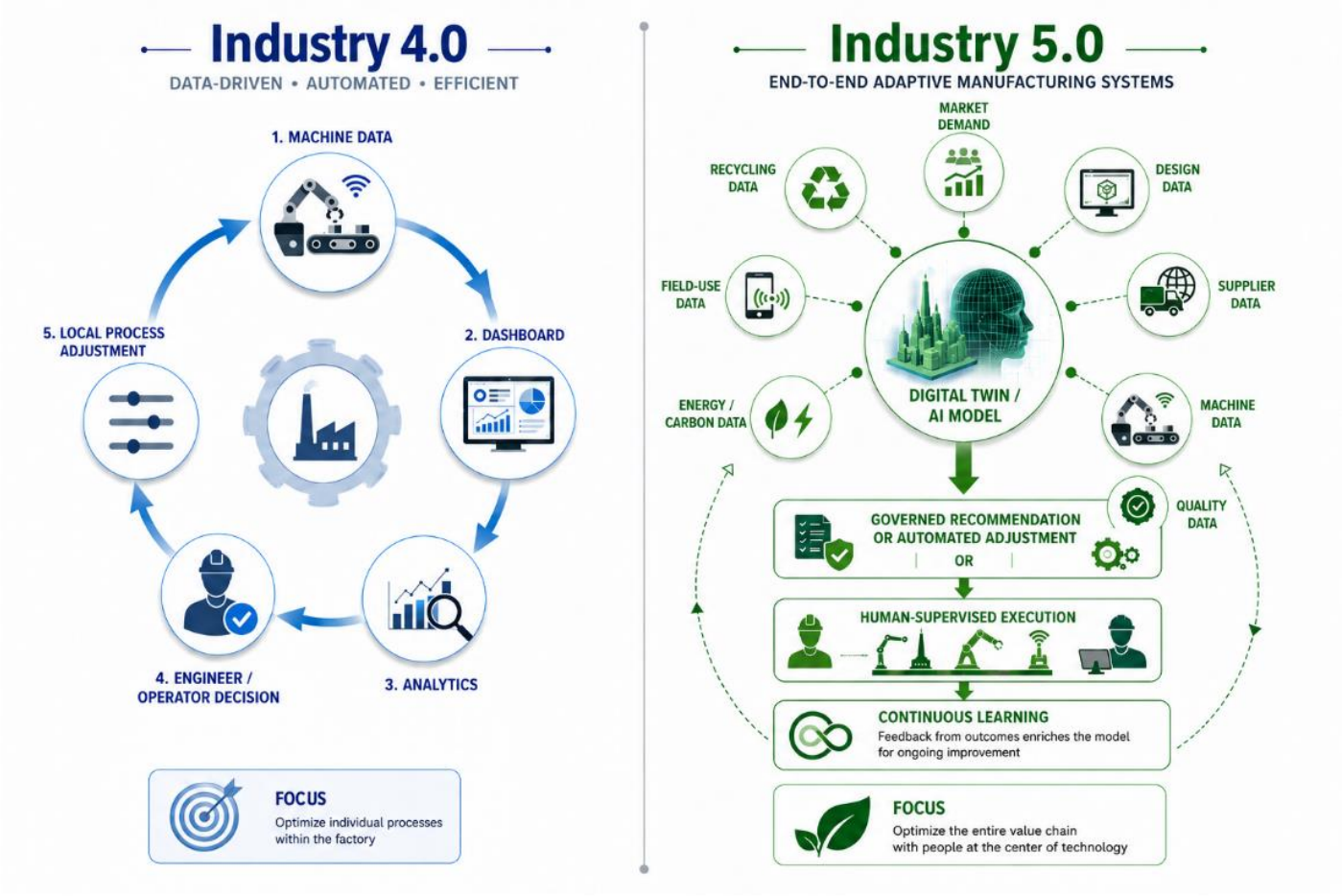
China Appears Poised to Rise Again with Industry 5.0



Source: Madison Project Data, IMF, Morgan Stanley Research estimates.

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Manufacturing Workflow: From Automated to Adaptive



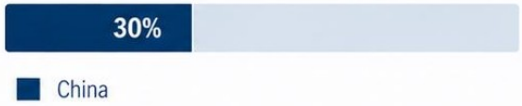
Source: Morgan Stanley Research. For more details, kindly see China's Emerging Frontiers: China's Next Industrial Revolution (9 Sep 2026)

Why Is China Uniquely Positioned to Lead?

1 The largest addressable manufacturing base

China accounts for **~30%** of global manufacturing value-added and is the only economy covering all traditional and emerging categories in the UN industrial classification.

Share of global manufacturing value-added
%, 2024



1	economy covering all UN industrial categories
41	headline industrial categories
207	categories
666	subcategories

An unusually broad set of real-world applications and cross-industry learning opportunities.

2 A rapidly intelligent deployment base

China has the world's largest industrial-robot installed base and has rapidly increased automation and digital adoption, providing a solid foundation for AI to move from isolated pilots toward system-level optimization.

Smart factory development in China
By early 2025

>30,000	>1,200	>230
Basic-level smart factories	Advanced-level smart factories	Excellence-level smart factories

Deep physical-digital infrastructure
By end-2025

>4.83mn	2.9bn
5G base stations	Mobile-IoT terminal users

One of the world's most developed industrial digital infrastructures.

3 Policy is shifting from "digital factory" to "industrial agent"

China's 2026 "AI+ Manufacturing" program targets more AI adoption in manufacturing by 2027, with a focus on the data, model, agent and ecosystem layers required for an industrial operating system.

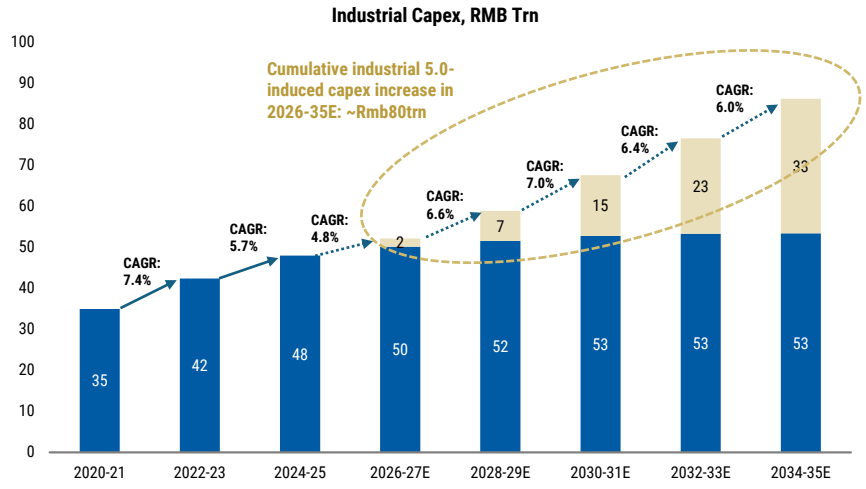
Key 2027 targets

- **3–5** general-purpose models deeply deployed in manufacturing
- **1,000** high-level industrial agents
- **100** high-quality industrial datasets
- **500** representative application scenarios
- **2–3** globally influential ecosystem-leading companies

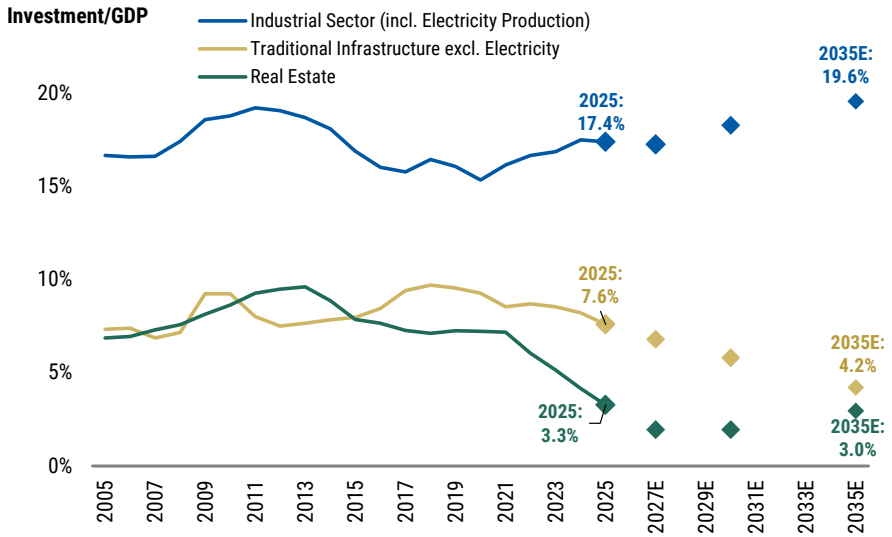
Source: Haver, Government website, Morgan Stanley Research. For more details, kindly see China's Emerging Frontiers: China's Next Industrial Revolution (9 Sep 2026)

Industry 5.0: A Long Capex Supercycle

Unlocking US$12trn additional industrial capex over next decade, though with a slow start…

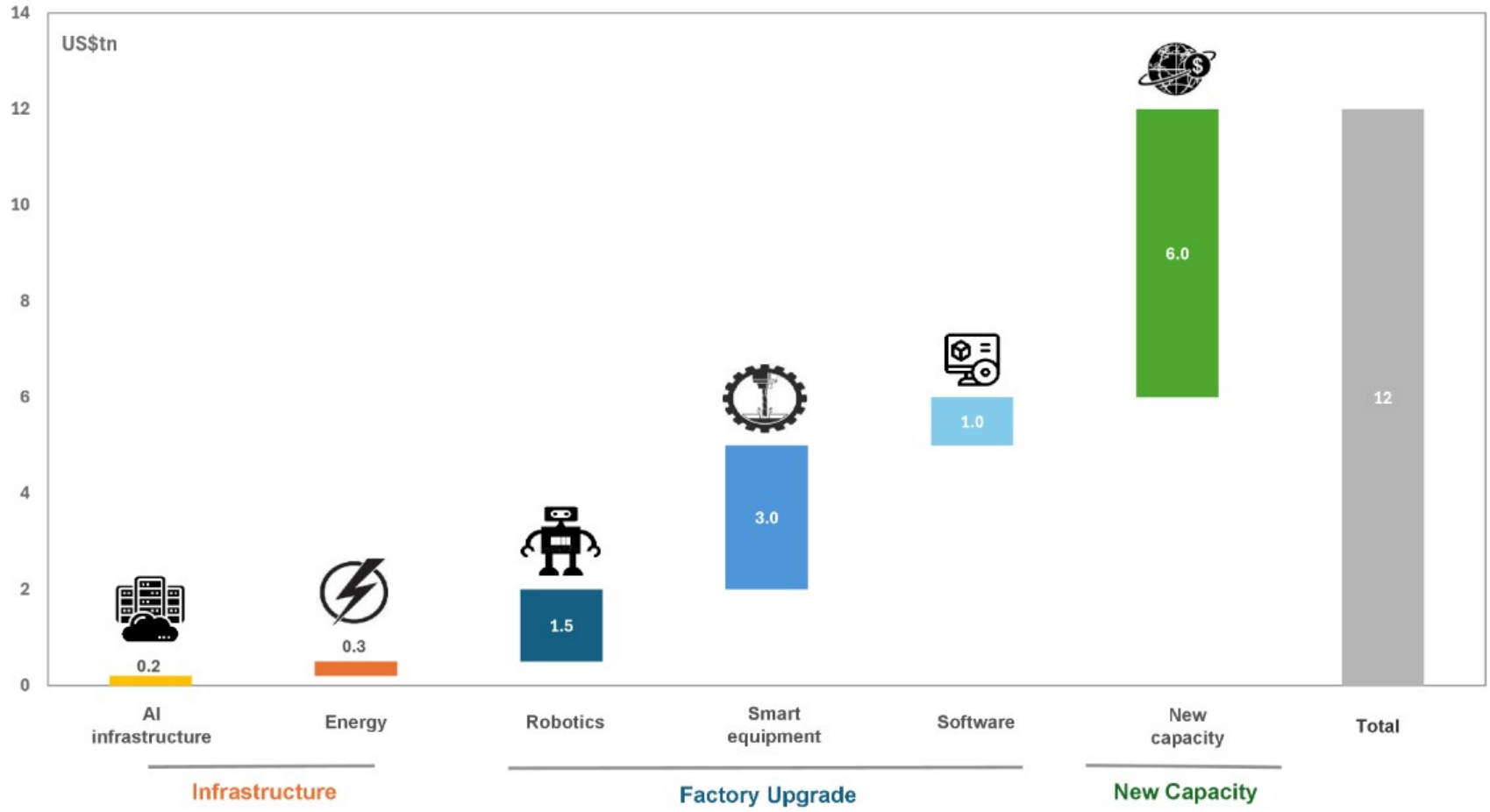


…which would partly offset slower structural capex in property and traditional infrastructure



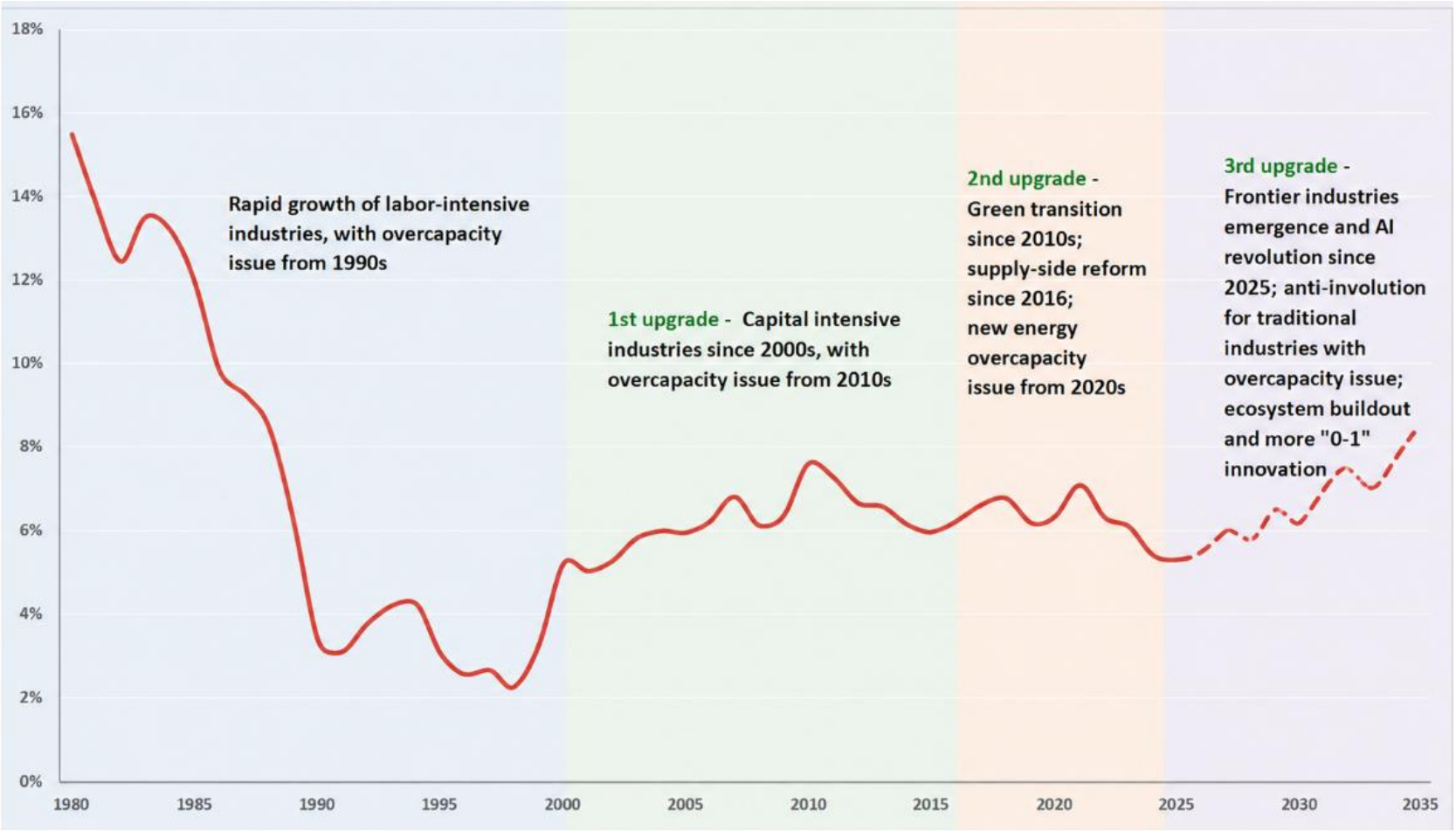
Source: Haver, Morgan Stanley Research (E) estimates

Where to Invest?



Source: Morgan Stanley Research estimates. For more details, kindly see China's Emerging Frontiers: China's Next Industrial Revolution (9 Sep 2026)

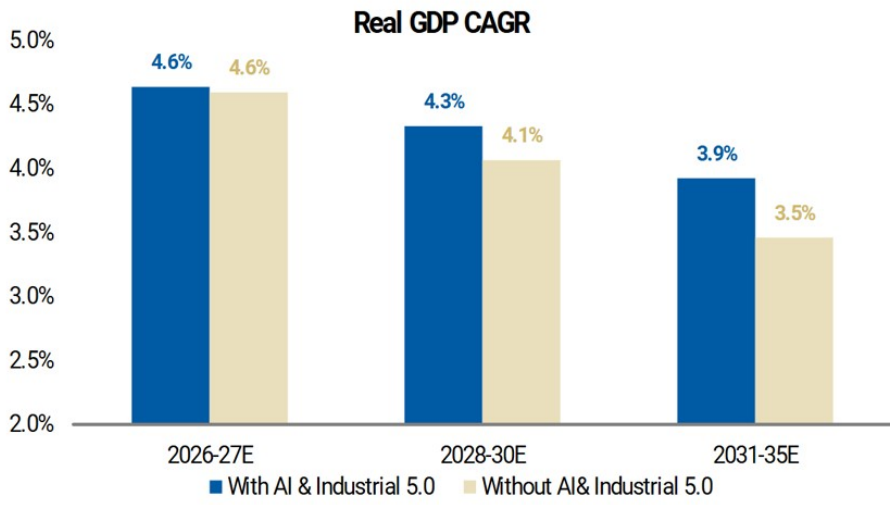
How Could China Benefit #1: Industrial Margin and ROE Recovery



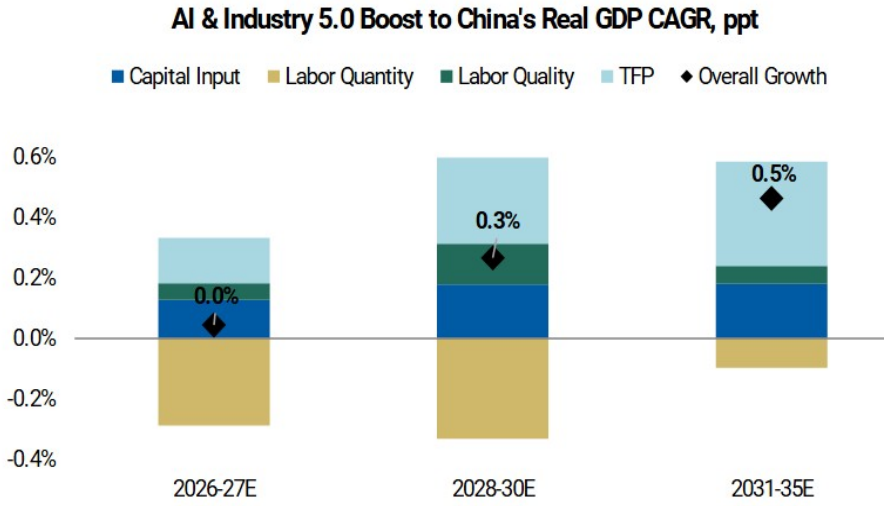
Source: NBS, Morgan Stanley Research estimates

How Could China Benefit #2: A Boost to Potential GDP

J-curve in AI & Industry 5.0 impact on China's potential GDP growth



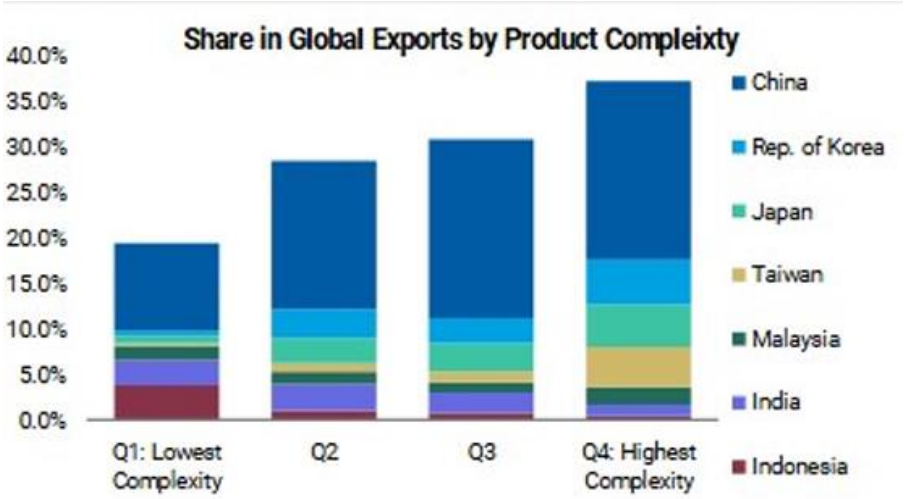
AI & Industry 5.0's boost to capex and productivity improvement to be more notable beyond the near term



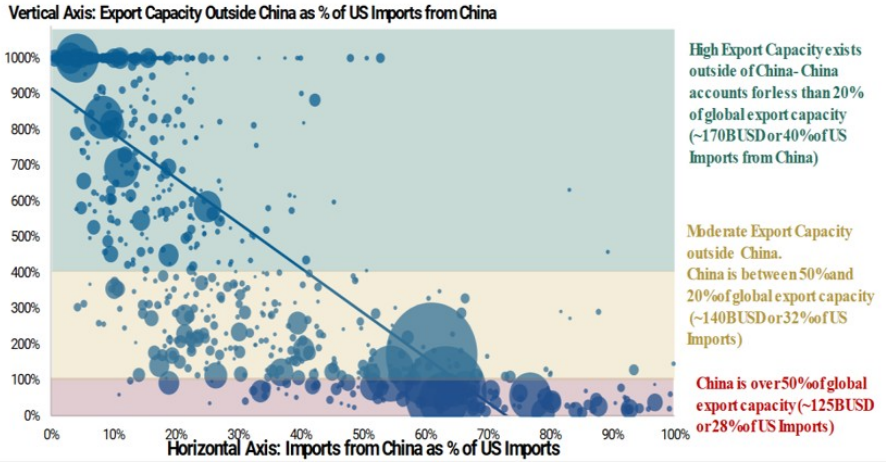
Source: CEIC, Morgan Stanley Research (E) estimates

Supply Chain Diversification Should Not Derail China's Manufacturing Share Gains

China has greater export capacity in high-complexity goods than all other major Asian economies combined



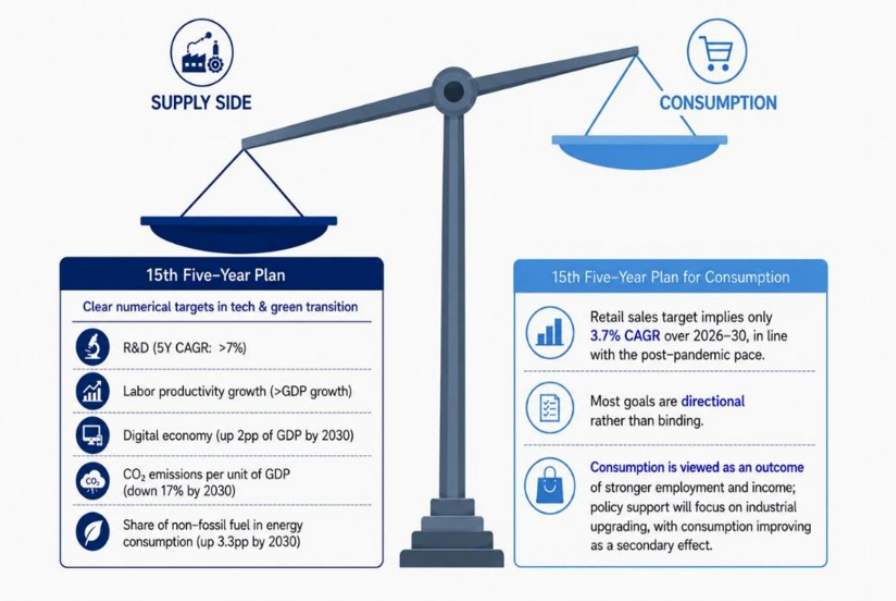
Less than half of US imports from China have alternative production capacity



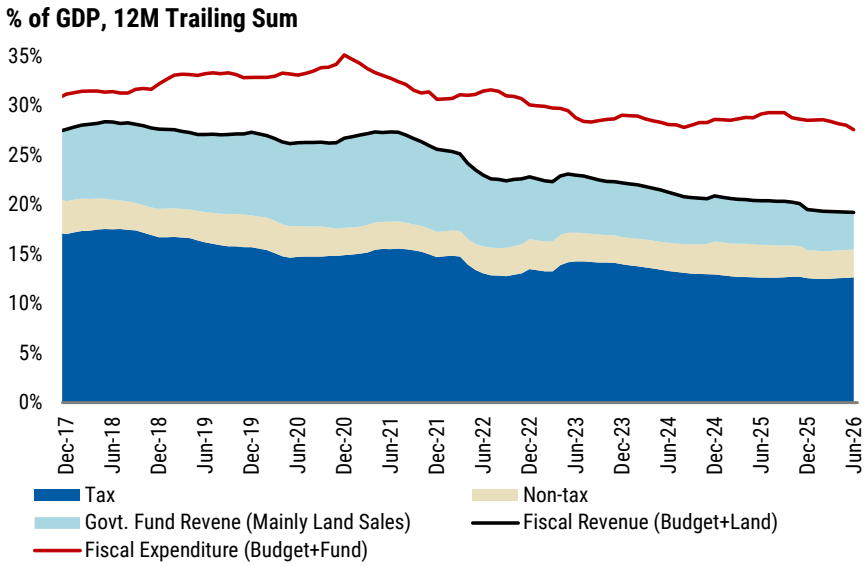
Source: UN Comtrade, Growth Lab at Harvard University, USITC, Morgan Stanley Research

Policy-Driven Economic Rebalancing Remains Calibrated

Overall policy framework to remain supply-centric



Structurally weaker fiscal revenue constrains meaningful counter-cyclical demand support



Source: Government website, MoF, Morgan Stanley Research

Gradual Shift to Lowflation Possible from 2028, but Decisive Reflation Remains Unlikely

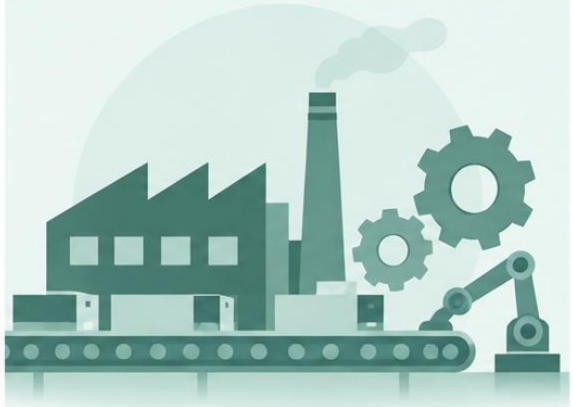
1 Housing market stabilizes in tier 1–2 cities from 2H27

As supply contraction and demand adjustment run their course – ceasing to be a deflationary drag rather than becoming a growth driver.



2 Industrial capacity utilization returns to healthier levels

In the next 2–3 years, but the recovery is likely to be much longer and more gradual than the 2016–17 cycle, given limited consumption/housing stimulus and more pervasive overcapacity problems.



3 Industrial profit margin improves over the medium term

We expect margins to climb toward ~8% by 2035 from ~5% in 2025, driven by a rotation up the value chain, globalization of competitive Chinese leaders, and an economy-wide productivity lift from Industry 5.0.



Source: CEIC, CRIC, Morgan Stanley Research. For more details, kindly see China's Emerging Frontiers: China's Next Industrial Revolution (9 Sep 2026)

Base/Bull/Bear Summary

Scenario	Real GDP Growth (% p.a.)	Inflation	Share in Global Manufacturing GDP, 2035E
Base Case Calibrated rebalancing, continued low-flation ● China enters Industry 5.0 era, powered by policy support + global capex supercycle. ● AI & Industry 5.0 to boost capex and productivity, outweighing AI-induced labor disruptions.	4.6% (2026-27E) 4.3% (2028-30E) 3.9% (2031-35E)	**Low-flation persists** ● GDP deflator to slip from 0.8% in 2026 to 0.2% in 2027 with oil price normalization, but would grind to **0.5–1.0% from 2028** on housing stabilization, reduced excess capacity, and margin improvement under Industrial 5.0.	30%
Bull Case Decisive rebalancing, healthy reflation ● Industrial-AI breakthroughs widen China's edge. ● Stronger domestic demand lift imports, helping ease risk of broader trade tensions.	4.7% (2026-27E) 4.5% (2028-30E) 4.2% (2031-35E)	**A healthy reflation** ● Decisive economic rebalancing to lift GDP deflator from lowflation in 2026–27 toward **1.5–2% over the medium term,** easing debt-deflation pressures and reinforcing private-sector balance-sheet repair.	~33%
Bear Case More entrenched deflation ● Pro-cyclical fiscal tightening and undisciplined AI / robotics overbuild. ● Broader trade frictions with non-US trade partners, given China's increased overcapacity problems and prolonged OFDI restrictions.	4.4% (2026-27E) 4.0% (2028-30E) 3.5% (2031-35E)	**Entrenched deflation** ● Premature fiscal consolidation, undisciplined industrial investment and weaker external market access would reinforce a demand-deflation overcapacity loop, sending GDP deflator to outright deflation from 2027, which would stay at **-0.5% to -1.0% over the medium term.**	~27%

Source: CEIC, Morgan Stanley Research (E) estimates

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