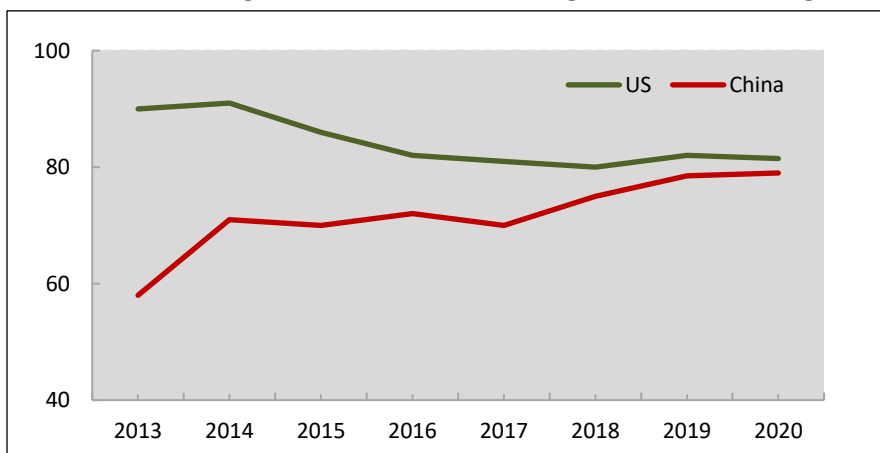


China’s Rising Innovation Edge Provides Unique Opportunities to Inbound Capital for Potential Investment Gains

EXECUTIVE SUMMARY

- China aims to become a **world leader in science and innovation by 2050**. To accomplish this goal, the government has vowed to focus on achieving “major breakthroughs in core technologies,” including **next-generation artificial intelligence (“AI”), integrated circuit (in particular semiconductors), cloud computing, quantum information science, medical device, brain science,** and other key areas by establishing more national laboratories and innovation centers.
- During the last decade, China has **made great strides in innovations with respect to information and communication technologies, especially in internet services, among many other fields**. Led by Huawei, Baidu (9888 HK, BIDU US), Alibaba (9988 HK, BABA US), Tencent (700 HK, TCEHY US), Meituan (3690 HK) and other technology heavyweights, China’s technology capabilities have improved by leaps and bounds within a short span of time. In 2019, China's digital economy reached RMB35.8 trillion (US\$5.5 trillion), accounting for 36.2% of its GDP (the percentage has been more than doubled since 2008)¹. The Chinese government is targeting to have the digital economy to represent about 10% of China's newly added economic output by 2025.
- The Chinese government takes innovation as **one of the key drivers for its future technology development, economic growth and convergence with developed countries**. According to the Bloomberg Innovation Index², which scores economies using factors such as research and development (“R&D”) spending, manufacturing capability, and concentration of high-tech public companies, the innovation gap between the U.S. and China is narrowing. To be more specific, the U.S. ranked ninth on the 2020 list of the world’s most innovative economies, continuing its gradual descent after sitting atop the list in 2013. On the contrary, China has been on the uptrend, rising from the 29th place back in 2013 to the 15th in 2020.

Exhibit A: Bloomberg Innovation Index Showing China is Narrowing the Gap with the U.S.



Source: Bloomberg and Cedrus

¹ China Academy of Information and Communications Technology

² Measures and ranks countries’ overall innovation capacity. Each economy is scored on a 0-100 scale based on the following seven equally-weighted metrics: R&D intensity, manufacturing value-added, productivity, high-tech density, tertiary education efficiency, researcher concentration, and patent activity

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