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Japan Research Institute

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Topics *Loss-making firms are on the rise in China's growth sectors*

In China, the number of companies operating in the red is increasing. And the rise is particularly striking in growth sectors. One factor behind the increase is the intense competition among firms, which has led to a situation in which only the strongest thrive. Another is that many next-generation growth companies, despite being viewed as having great potential, are losing money.

■ Loss-making firms are on the rise in growth sectors

In recent years, the number of companies in China's growth sectors that are operating in the red has increased markedly. The share of loss-making firms in all listed firms (below, "loss-making-firm ratio") rose sharply from 9.6% in 2019 to 26.9% in 2025. Looking at the industry distribution of loss-making firms, from 2019 to 2022, the ratio increased mainly in non-manufacturing sectors such as real estate and accommodation and eating/drinking services, reflecting the property market downturn and strict stay-at-home measures implemented to curb the spread of COVID-19. Later, from 2022 to 2025, the loss-making-firm ratio surged in information/communications equipment and electronic parts/devices; general, production, and commercial machinery; electrical machinery; and chemicals. These four sectors alone accounted for around 60% of the overall increase.

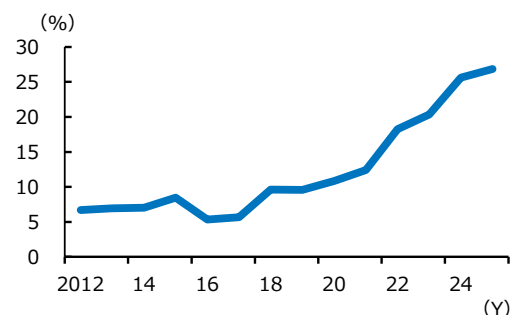
They are the principal growth sectors in Chinese manufacturing. This is evidenced by the fact that the growth rates of value added in all four sectors exceed the average for Chinese manufacturing. Many of the high-tech manufacturing industries that the Chinese government has prioritized for development are included in these sectors. For example, 5G base stations and semiconductors fall under information/communications equipment and electronic parts/devices. And robots fall under general, production, and commercial machinery. Meanwhile, solar cells and batteries fall under electrical machinery, and biopharmaceuticals and organic chemical materials fall under chemicals.

Looking at recent developments in the manufacturing of information/communications equipment and electronic parts/devices, the global communications standard began shifting from 4G (LTE) to 5G services in around 2019, and ChatGPT was released in November 2022. These developments have provided tailwinds for the growth of the sector. Recently, as it has become clear that ordinary consumers and companies can make use of AI services on a daily basis, demand for AI-related devices and semiconductors, as well as data centers, has soared. In this environment, many firms are focusing on strengthening development, manufacturing, and sales, and the sector's value added has continued to increase, rising from 780 billion yuan in 2022 to 910 billion yuan in 2025. Yet over the same period, the number of loss-making firms increased from 113 to 198, and the loss-making-firm ratio jumped from 17.2% to 30.1%.

■ Competition among companies means only the strongest thrive

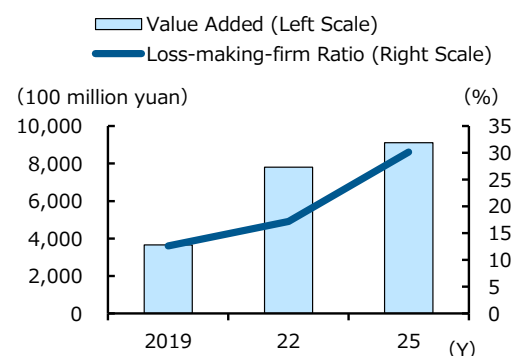
One reason loss-making firms are increasing despite operating in growth sectors is the intense competition among companies. The fight for market share has led to overheated investment competition

<China's Loss-making-firm Ratio>



Source: Prepared by JRI based on data from Wind
Note: Financial data from listed firms

<Value Added and Loss-making-firm Ratio>



Source: Prepared by JRI based on data from Wind
Note: Financial data from listed firms in information/communications equipment and electronic parts/devices manufacturing

and price competition. In information/communications equipment and electronic parts/devices manufacturing, the rate of growth of non-current assets from 2022 to 2025 (+35.4%) far exceeded the growth rate of value added (+16.9%). This indicates that supply capacity is expanding faster than demand. In addition, the consumer price index (CPI) increased by just 0.4% over the same period. Service prices rose 2.2%, reflecting wage increases, while goods prices fell 0.7% due to excess supply in manufacturing. Information/communications equipment prices decreased by 3.5%, larger than the drop for goods overall.

As the selection of the fittest through competition among companies has progressed, profits have become concentrated at a small number of highly competitive firms. The share of profits earned by the top 1% of firms in information/communications equipment and electronic parts/devices manufacturing rose sharply from 24.0% in 2022 to 43.3% in 2025. Leading companies are simultaneously establishing positions as both "domestic champions" and "global champions."

■ **Next-generation growth companies are viewed as having great potential even though they are losing money**

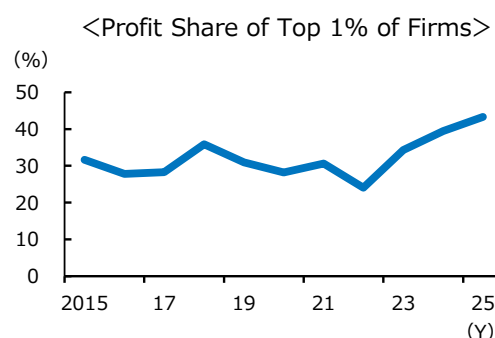
However, loss-making firms cannot simply be lumped together and labeled as losers. Globally, investors have shown increasing interest recently in companies with high growth potential even if they are operating in the red, and China has a considerable number of such firms.

In information/communications equipment and electronic parts/devices manufacturing, one out of every two loss-making firms is a company attracting strong investor interest. The Shanghai Composite Index rose 28.5% from 3,089 points at the beginning of 2023 to 3,969 points at the end of 2025. 20 of the 198 loss-making firms in 2025 were not yet listed in 2023, and if these are excluded, there were 178 companies operating in the red as of 2025. Of these 178 firms, 96 (53.9%) saw stock-price increases over the period 2023-2025 that exceeded the rise in the Shanghai Composite Index.

One characteristic of these 96 companies with strong relative stock-price performance is their active investment in R&D and intangible assets. Their average R&D intensity (R&D investment / sales) in 2022 was 9.6%, and their ratio of intangible assets to value added stood at 60.5%. Intangible assets include computer software, patents, copyrights, and relationships with customers and suppliers. In contrast, the 82 loss-making firms with weak relative stock-price performance had an R&D intensity of only 6.5% and an intangible-asset-to-value-added ratio of just 38.9%.

As the above has shown, the increase in loss-making firms in China's growth sectors is notable, and the factors behind it include not only the selection of the fittest as a result of competition among companies but also the emergence of next-generation growth firms that are viewed as having great potential.

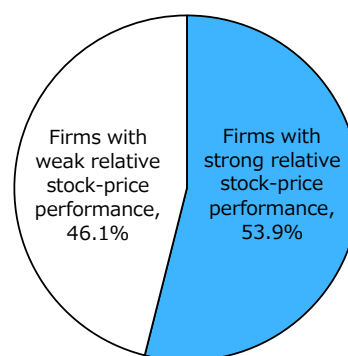
(Shinichi Seki)



Source: Prepared by JRI based on data from Wind

Note: Financial data from listed firms in information/communications equipment and electronic parts/devices manufacturing

<Distribution of Loss-making Firms Based on Relative Stock-price Performance>



Source: Prepared by JRI based on data from Wind

Note: Financial data from listed firms in information/communications equipment and electronic parts/devices manufacturing

Topics *Climate change heightens the risk of growth stagnation in Asia*

Climate change could elevate the risk of economic growth flatlining in the ASEAN zone and India by causing labor productivity growth and capital accumulation to stall. To mitigate or avert such a scenario, establishing a business environment and institutions that promote "adaptation investment" by both the public and private sectors is an urgent task.

■ Heavy-rain and flood damage is becoming increasingly serious in Asia

Huge downpours and floods resulting in human casualties have been a frequent occurrence in Asia in the past several years. Still fresh in the memory is the debris flow that occurred in August this year near the border between Nepal and China, which as of the time of writing has been recognized as a major disaster with thousands dead or missing. And in November of last year, Southeast Asia and South Asia saw record-breaking torrential rains, resulting in numerous casualties, particularly in Indonesia and Sri Lanka.

One factor that heightens the risks of such floods and heavy rains is climate change. As temperatures rise, the amount of water vapor in the atmosphere increases. Therefore, global warming could intensify torrential rainfall. Although such risk is shared across Asia, the way its effects are felt differs by region. Within Asia, the ASEAN zone and India are heavily affected by monsoons (seasonal winds), with many areas experiencing concentrated rainfall during the wet season. In such areas, warming can further intensify monsoon-driven heavy rains, increasing the risks of floods and landslides.

<Major Recent Heavy-rain and Flood Disasters (Asia)>

Date/Location	Details of Damage
July 2024 - India	• Large-scale landslides occurred in the south due to heavy rain. • 298 dead.
September 2024 - Vietnam	• Floods, landslides, and widespread inundation occurred due to a typhoon making landfall in the north and the subsequent prolonged rainfall. • 323 dead, 22 missing.
November 2025 - Indonesia	• Widespread flooding and landslides occurred due to intermittent torrential rains in northern Sumatra. • 1,180 dead, 145 missing.
November 2025 - Sri Lanka	• Widespread flooding and landslides occurred due to heavy rain accompanying a cyclone. • 649 dead, 173 missing.
July 2026 - China	• Large-scale flooding occurred due to heavy rain accompanying a typhoon. • 159 dead and 10 missing in Guangxi Zhuang Autonomous Region.
August 2026 - Nepal / China	• A large-scale debris flow occurred due to glacier collapse. • On the Nepal side, 1,395 dead and 5,130 missing.

Source: Prepared by JRI based on various media reports and announcements

Notes: Human casualties are based on information obtained from media reports, etc. and may have been updated since.

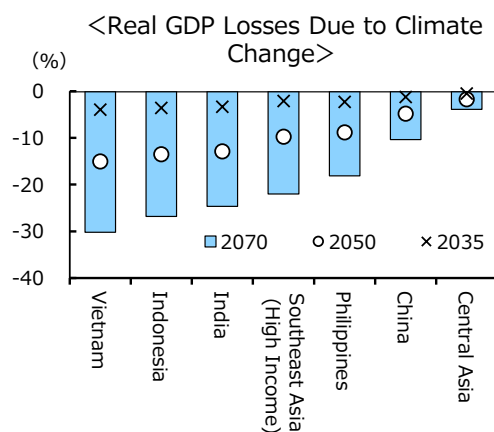
■ Climate change will delay the escape from the "middle-income trap"

Climate change not only results in human casualties by way of natural disasters, but may also undermine the long-term economic growth potential of ASEAN and India through various channels. The Asian Development Bank (ADB) [2024] conducted a quantitative analysis of the extent to which climate change will weigh on Asian economies over the long term. Based on the IPCC's "very high GHG emissions" scenario (SSP5-8.5), the analysis assumes a 4.7°C rise in the Earth's average temperature by 2100 relative to pre-industrial levels, and estimates the difference in real GDP between that and a hypothetical scenario without climate change. The results illustrate the long-term impact on economic growth through declines in labor productivity, stagnation in capital accumulation, and downward pressure on consumption due to sea-level rise, floods, heat waves, and other phenomena caused by climate change.

An examination of the results reveals that in every country/territory, the pushdown effect on real GDP relative to the no-climate-change scenario expands over time, with 2035, 2050, and 2070 each seeing greater impact. The pushdown effect for ASEAN and India is -15.0% to -8.8% in 2050 and -30.2% to

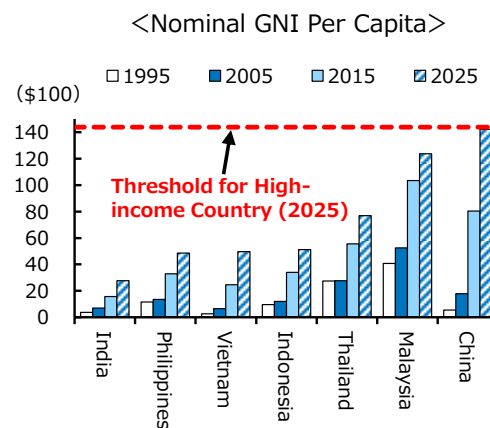
–18.1% in 2070, larger than the effects for China (2050: –4.8%, 2070: –10.3%) and Central Asian countries (2050: –1.7%, 2070: –3.8%). Within Asia, the ASEAN zone and India can be considered regions where the risk of economic stagnation due to climate change is relatively large.

This may make it even more difficult for ASEAN countries and India to escape the "middle-income trap." Although their income levels have risen, they still remain far from high-income status. Indonesia, Malaysia, the Philippines, and Thailand became middle-income countries in the 1990s or earlier, but have still not been able to join the groups of high-income countries. Furthermore, Vietnam and India, which became middle-income countries in the 2000s or later, have yet to enter a high-growth trajectory like China once did. Climate change, by causing labor productivity growth to stall amid rising temperatures and companies to curtail investment due to more frequent disasters, may lead to income growth in the ASEAN zone and India being delayed further.



Source: Prepared by JRI based on estimates from ADB [2024]

Note: "Southeast Asia (high income)" is the total for Brunei, Singapore, Malaysia, and Thailand.



Source: Prepared by JRI based on data from the World Bank

■ Improving the environment to accelerate "adaptation investment" will be important

To alleviate the pushdown effect of climate change on growth, expansion of "adaptation investment" by the public and private sectors is essential. Specifically, this could include improving working environments and promoting measures to lighten workloads and reduce headcounts in order to offset declines in labor productivity caused by rising temperatures, as well as developing infrastructure and strengthening facilities to prevent damage to production equipment from sea-level rise and floods. However, ASEAN and India cannot be said to have sufficiently developed the foundations for public and private promotion of such adaptation investment.

As part of its Global Adaptation Initiative (ND-GAIN), the University of Notre Dame (U.S.) evaluates countries' ability to use investment to achieve climate-change adaptation in the form of a "readiness" score with three components: economic readiness, governance readiness, and social readiness. Respectively, these components assess 1) whether a business environment conducive to adaptation investment by private-sector companies has been put in place, 2) whether the effectiveness of institutions

<ND-GAIN Readiness World Ranking (2024) >

Country	Readiness	Economic	Governance	Social
Singapore	1	2	3	3
South Korea	3	1	30	1
Japan	13	15	16	11
Malaysia	64	50	61	97
Vietnam	84	57	100	85
Indonesia	95	63	107	91
Philippines	111	81	126	115
India	117	113	106	85
Thailand	123	124	111	83

Source: Prepared by JRI based on University of Notre Dame, "ND-GAIN" (2026)

and policies to support private-sector adaptation investment has been secured, and 3) whether tangible and intangible social infrastructure that promotes investment has been established.

Looking at readiness in 2024, ASEAN countries and India generally rank in the middle to lower tiers globally, with a large gap between them and developed countries. Notably, the Philippines, India, and Thailand fall outside the top 100, indicating weak momentum for adaptation investment. Breaking down the scores, problems are especially evident in the economic and governance categories. India and Thailand have particularly low economic readiness, ranking 113th and 124th, respectively, and five countries (Malaysia not included) fall outside the top 100 for governance readiness. Given this situation, to accelerate private-sector adaptation investment, India and Thailand in particular need to move swiftly to improve the financial environment to make it easier to procure necessary funds domestically and internationally, relax regulations to encourage the launch of new businesses, and reform labor markets to enable the smooth securing of human resources. In addition, for Asia as a whole, it will also be important to boost confidence in the institutional factors that enhance application of investment for adaptation by increasing policy stability, ensuring the effectiveness of legal systems, and curbing corruption.

(Tomohiro Hosoi)