

The Deloitte logo, consisting of the word "Deloitte" in a bold, blue, sans-serif font, followed by a small green dot.

德勤

To Embrace China's Transformation

XU Sitao
Chief Economist, Deloitte China

Moscow, Russia
November 26, 2015



To transform China's economy and to replicate its success elsewhere

1

> New normal is about sustainable growth

2

> China needs external market for its transformation

3

> China's transformation will also benefit many countries

4

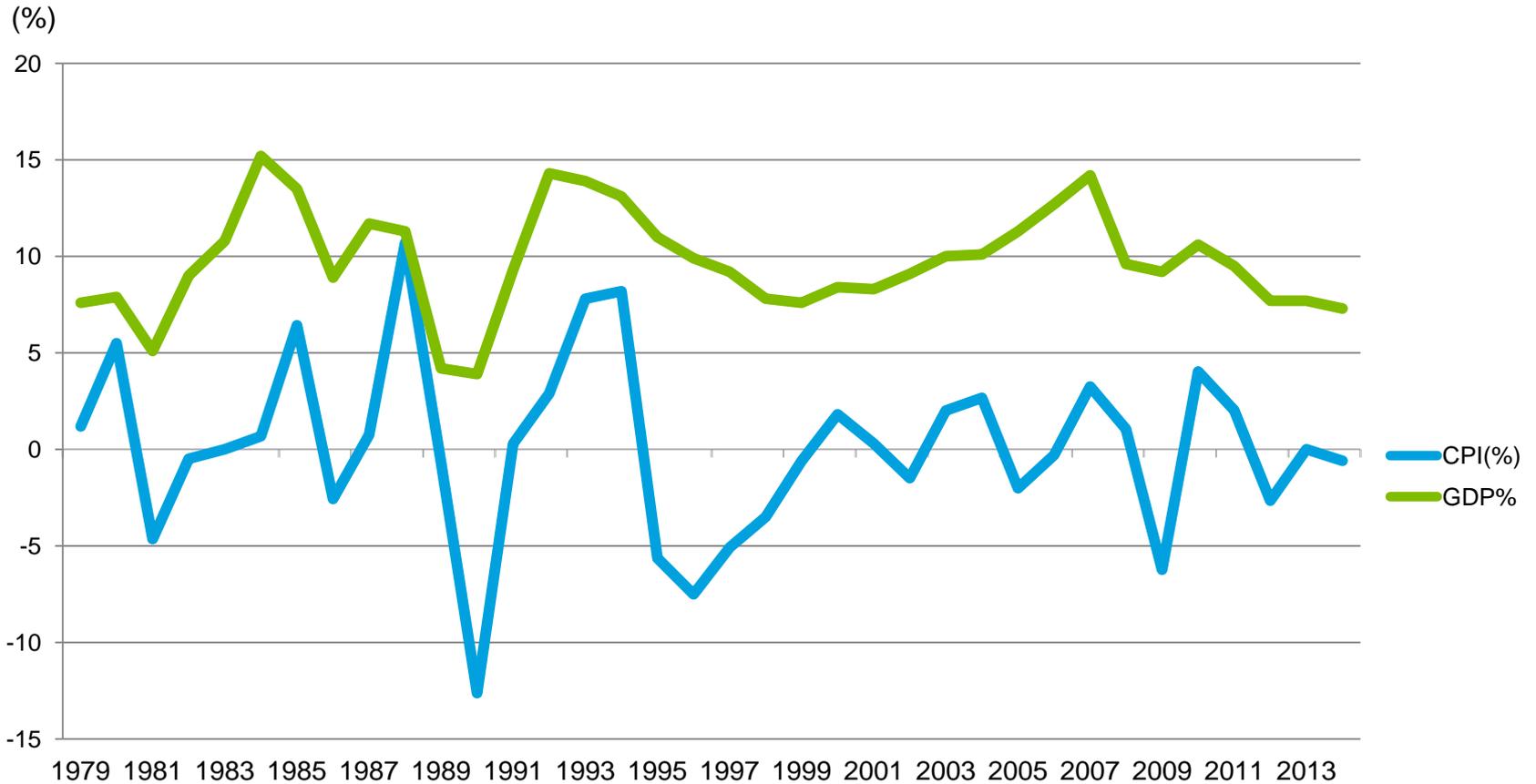
> What do China want?

5

> Implications for investors

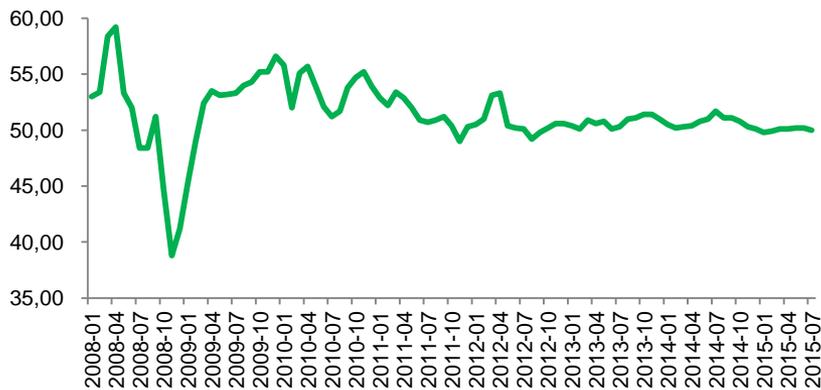
China's New Normal

China's growth dynamics since "opening & reform" era



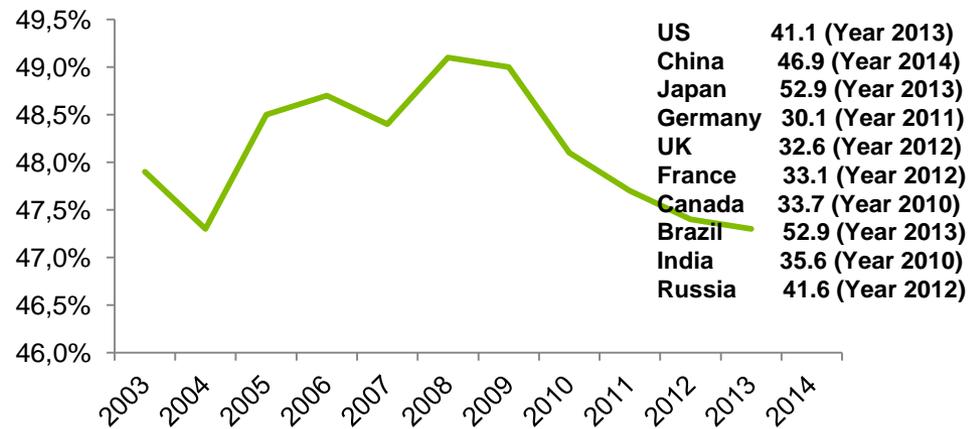
“Rebalancing” will take place on many fronts

Manufacturing PMI



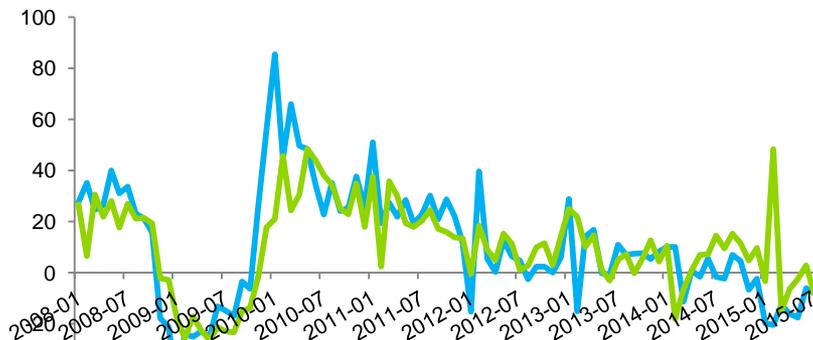
— China Manufacturing PMI

Gini coefficient



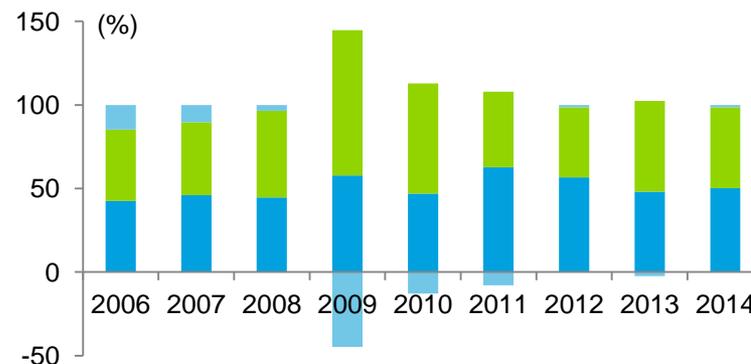
— Gini Index

Trade



— y-o-y growth of gross import value (%)
— y-o-y growth of gross export value (%)

GDP Growth Composition

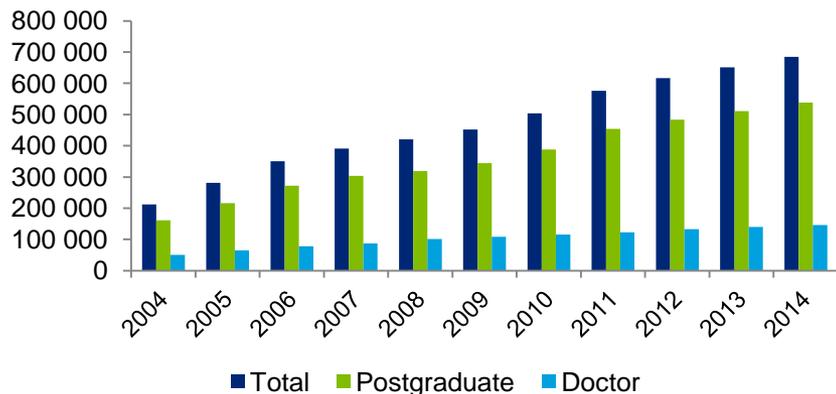


■ Financial consumption expenditure
■ Gross capital formation
■ Net exports of goods and services

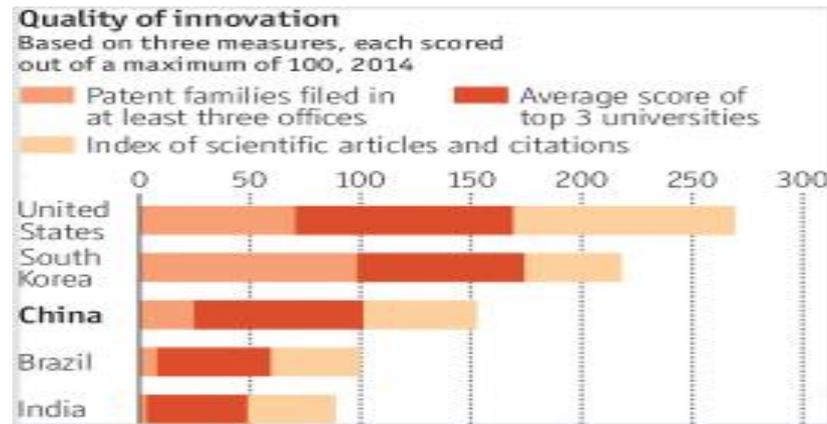
China's goal is to move away from "Middle-income Trap"

- Strong emphasis on education
- Investment in R&D & infrastructure
- To sustain China's opening through various trade initiatives
- Institutional reform

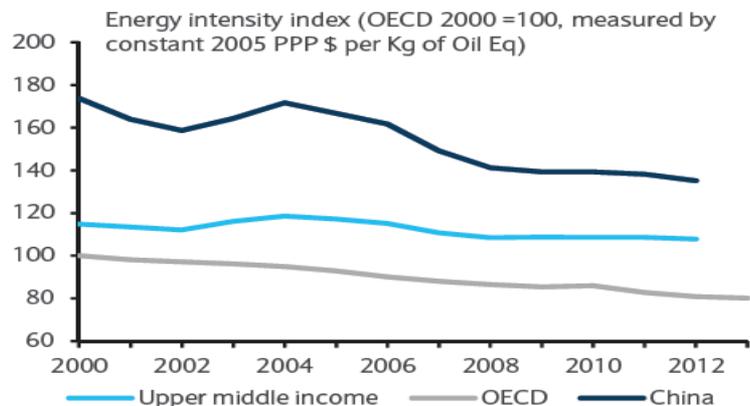
Upgrade Human Capital



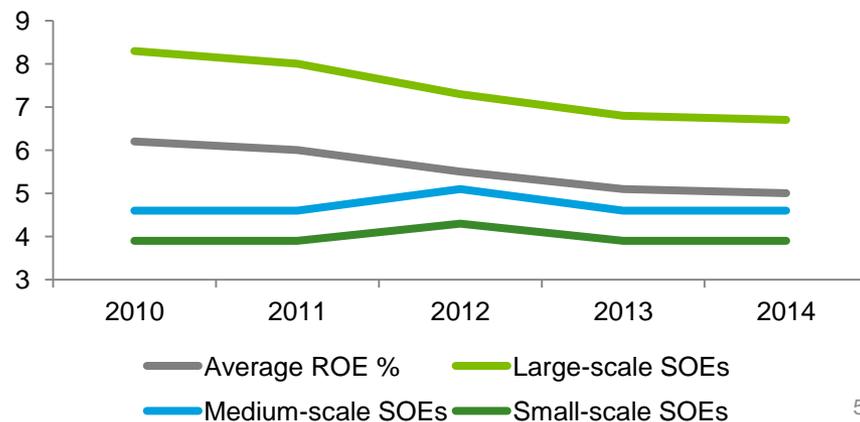
Innovation



Green Economy

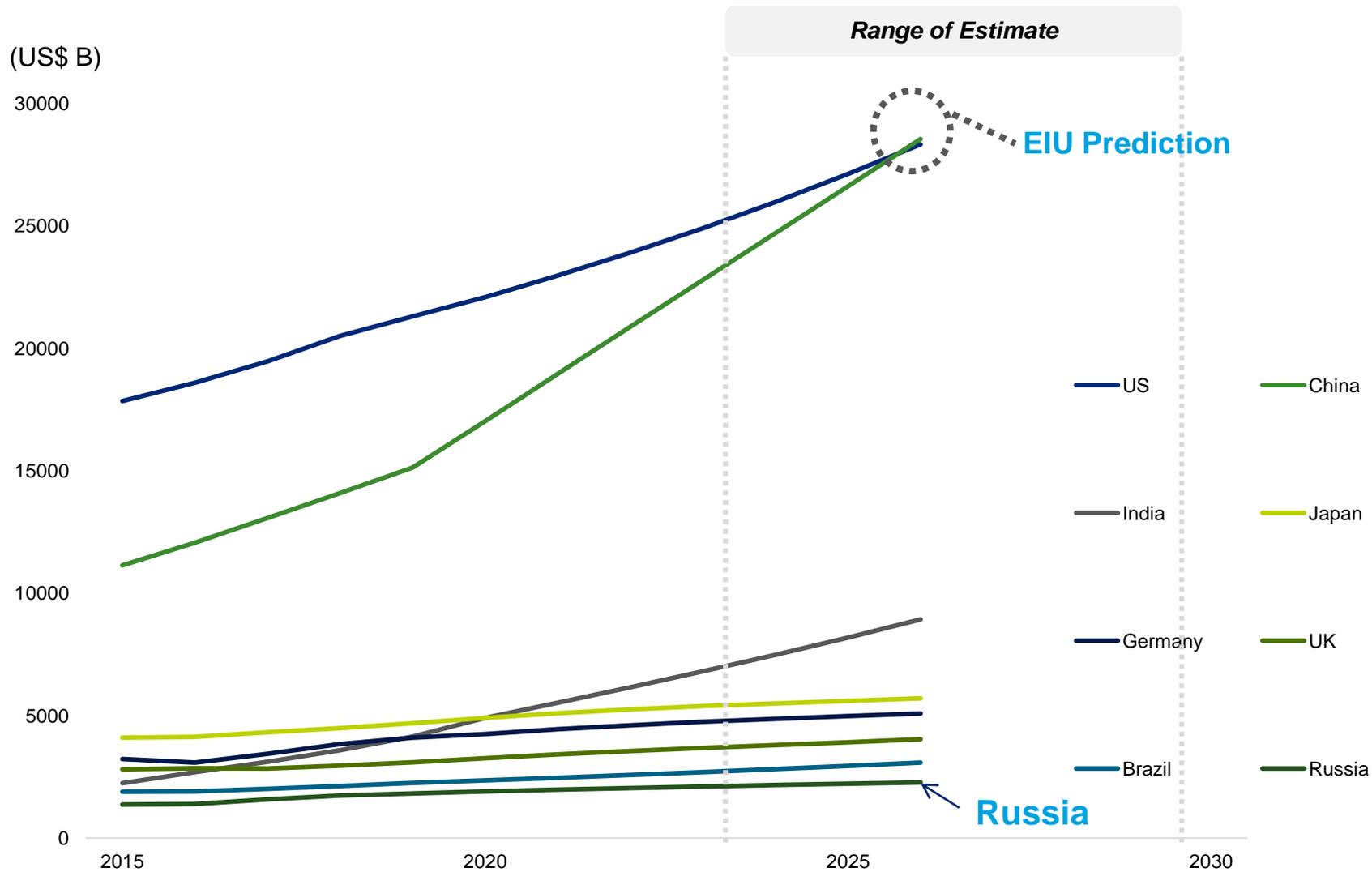


SOE Reform



China will become the largest economy

Nominal GDP



Source: EIU prediction

Reform and Opening occurred when the economy "was about to collapse"

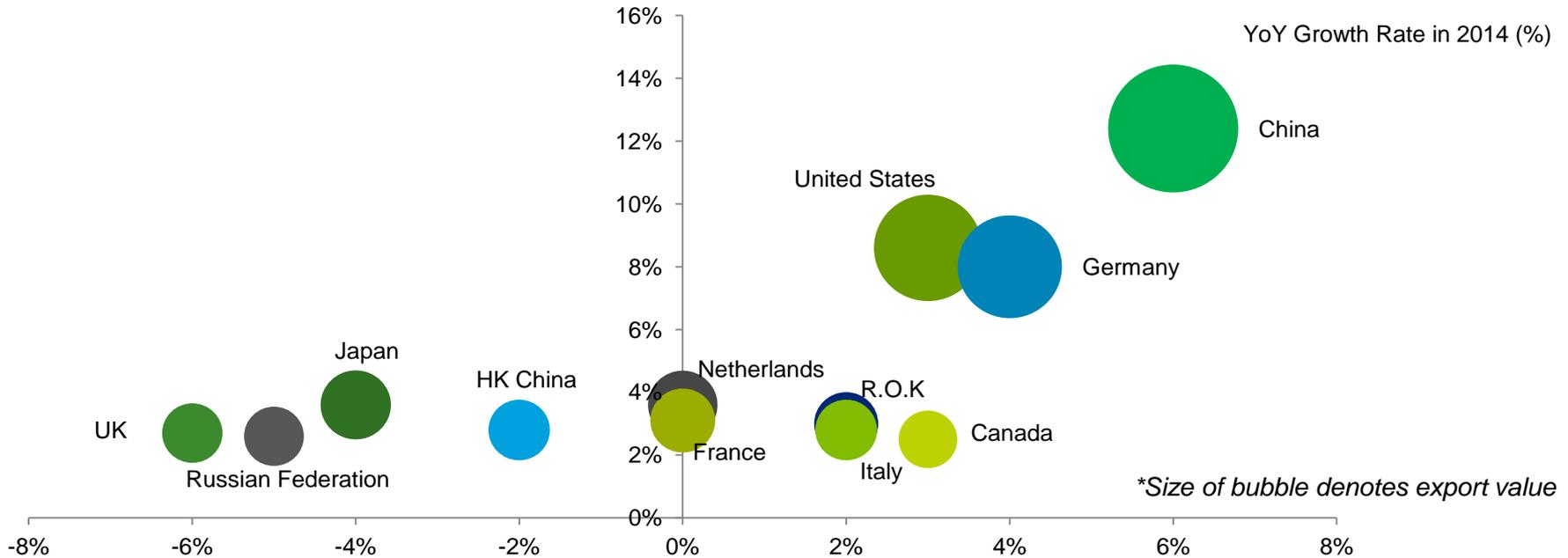
- China's economic miracle is for real
- Government's role since 1978
 - Deng, Jiang, Hu and Xi
 - Merit of pragmatism and gradualism (“No matter whether the cat is white or black so long as it can catch mouse”)
 - Market institutions and legal system with Chinese characteristics (why Singapore is being viewed as a successful model?)
- China cost (labour, land, environment & unlimited external demand)
- What policies could sustain China's economic miracle in future?



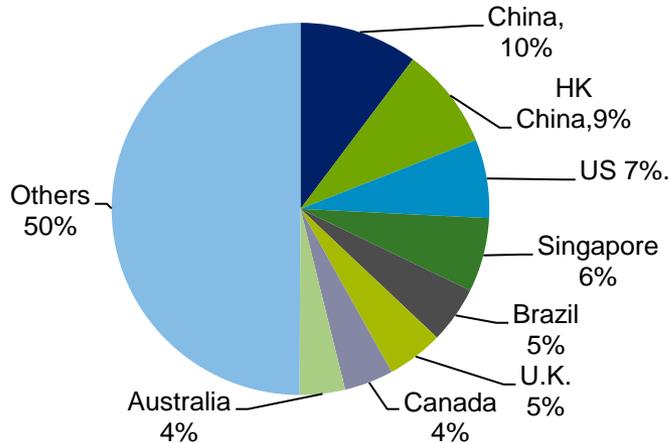
Query - Have China's unique advantages been eroded? Is the system flexible enough?

China - one of the most open economies

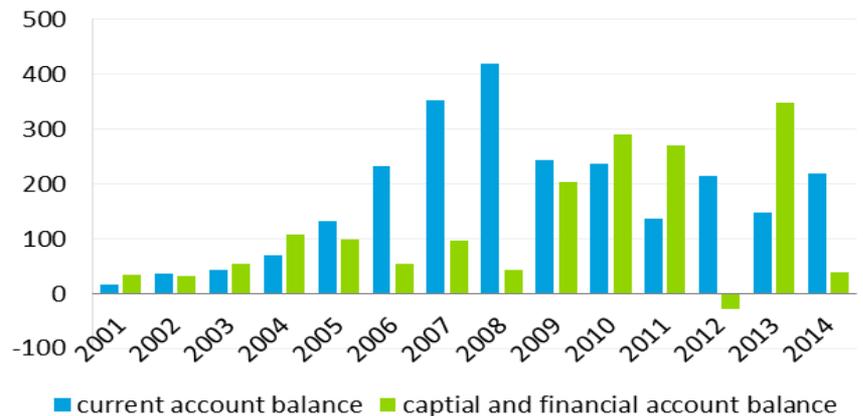
China's Exports: Global Share and Growth Rate



China remains the largest FDI recipient in 2014

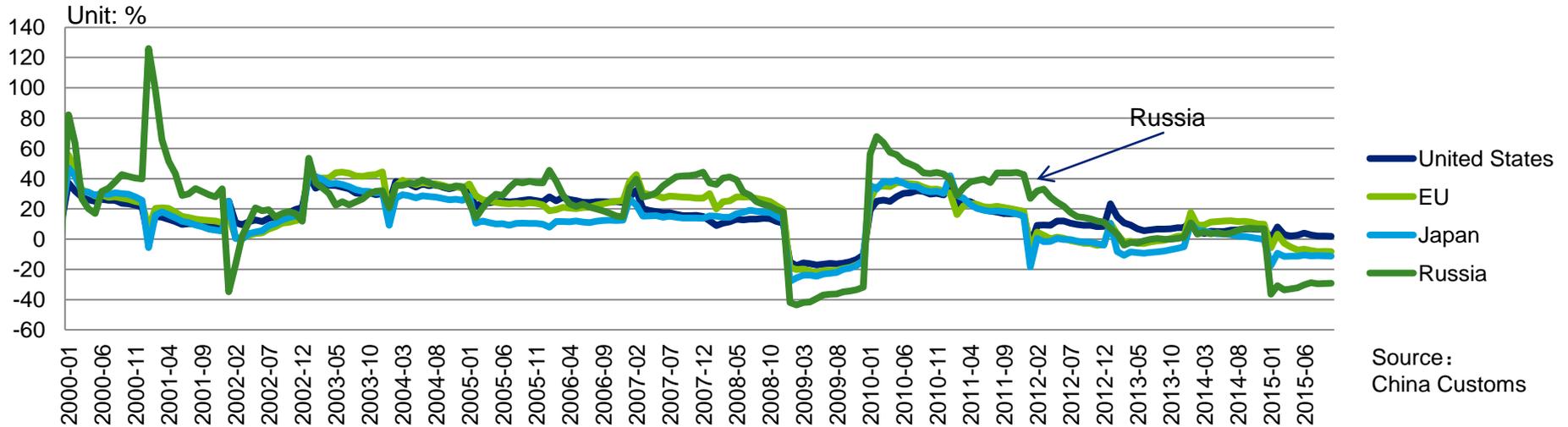


China is the largest provider of global liquidity (current account & capital account balance)



Sino-Russia bilateral trade

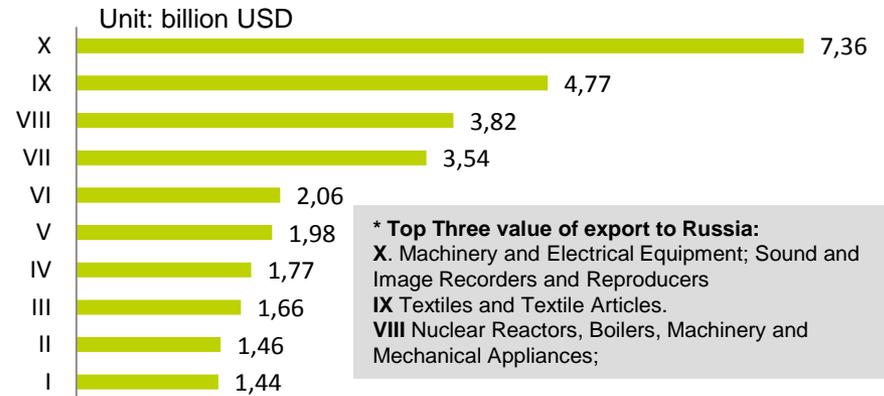
China's bilateral trade growth rate with major countries (YTD, yoy)



China's major imports from Russia (By category, Jan.-Sept. 2015)



China's major exports to Russia (By category, Jan.-Sept. 2015)



The rest seven : **I.** Footwear, Gaiters and the Like; **II.** Miscellaneous Manufactured Articles; **III.** Footwear, Headgear, Umbrellas; Prepared Feathers and Articles Made Therewith; Artificial Flowers; Articles of Human Hair; **IV** Raw Hides and Skins, Leather, Fur Skins Saddlery and Harness; Travel Goods, Handbags and Similar Containers; **V.**Articles of Apparel and Clothing Accessories, not Knitted or Crocheted, **VI** Base Metals and Articles of Base Metal; **VII.**Electrical Machinery and Equipment and Parts Thereof; Sound Recorders and Reproducers, Television Image and Sound Recorders;

The rest seven : **I.** Pulp of Wood; Waste of Paper; Paper and Paperboard and Articles Thereof **II.** Fish and Crustaceans Molluscs and Other Aquatic Invertebrate **III.** Animal products ; **IV** Products of the Chemical or Industries Allied; **V.** Nickel and Articles Thereof , **VI** Wood and Articles of Wood; Wood Charcoal; Wickerwork **I**; **VII.** Wood and Articles of Wood; Wood Charcoal

“Belt and Road Initiative” – replicating China’s growth model

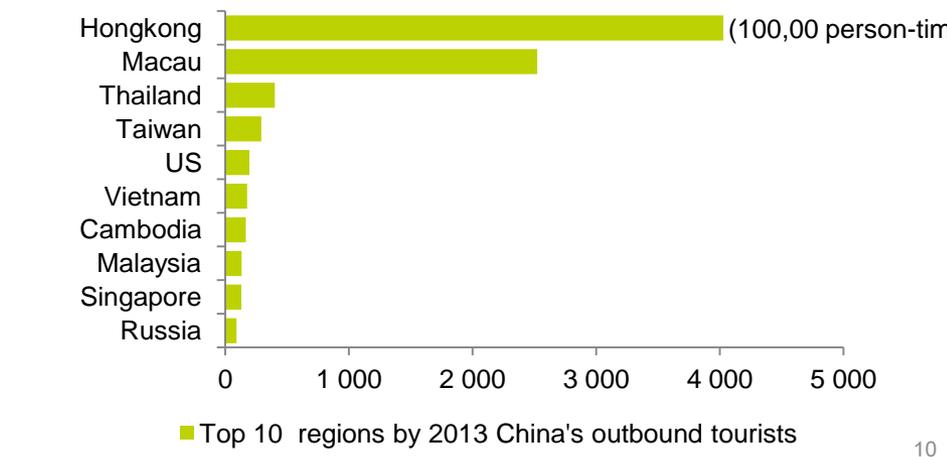
China's trade with central Asian countries



China's tourists to Russia



Top 10 China's outbound tourists (by county and region)



Source: Wind

“One Belt, One Road” will be underpinned by Asia Infrastructure Investment Bank (AIIB)

Vision for the AIIB

- ❑ Focus on infrastructure, HQ in Beijing, Registered capital **US\$ 100 billion with 50% from China**
- ❑ Currently **60 members**, including over 20 Europeans and broad representation from ASEAN, other emerging markets and the Middle East

❖ Contract foreign projects revenue

2014Y:
US\$ 137bn

2015Y:
US\$ 142.4bn



- ❖ Revival of Silk Road — Gross project investment, **US\$ 43 billion**

China

- To broaden the concept of “Made in China”
- China reserves +China invests
- Digest excess capacity in a win-win manner
- Geopolitical strategy

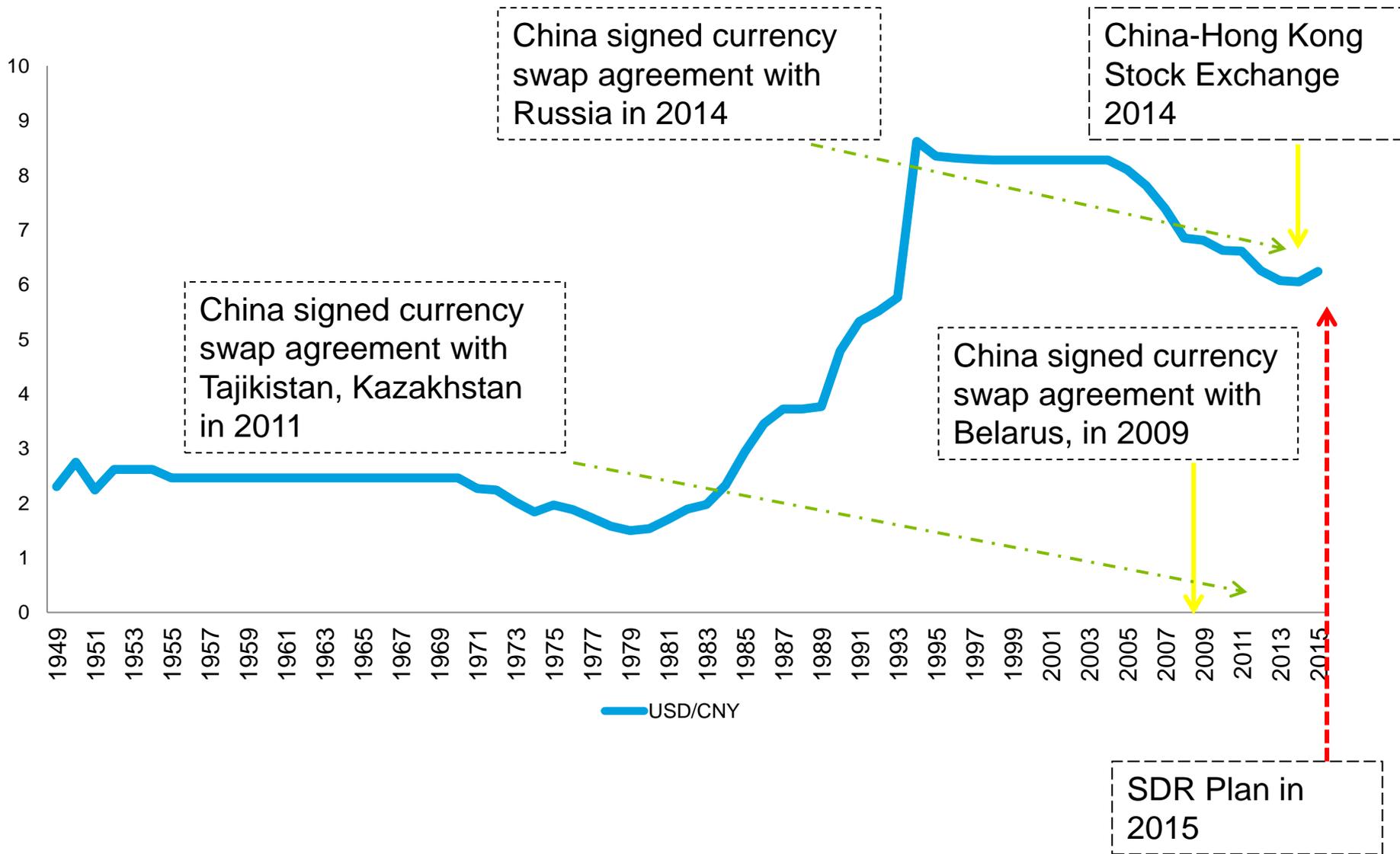
“the Belt and Road”



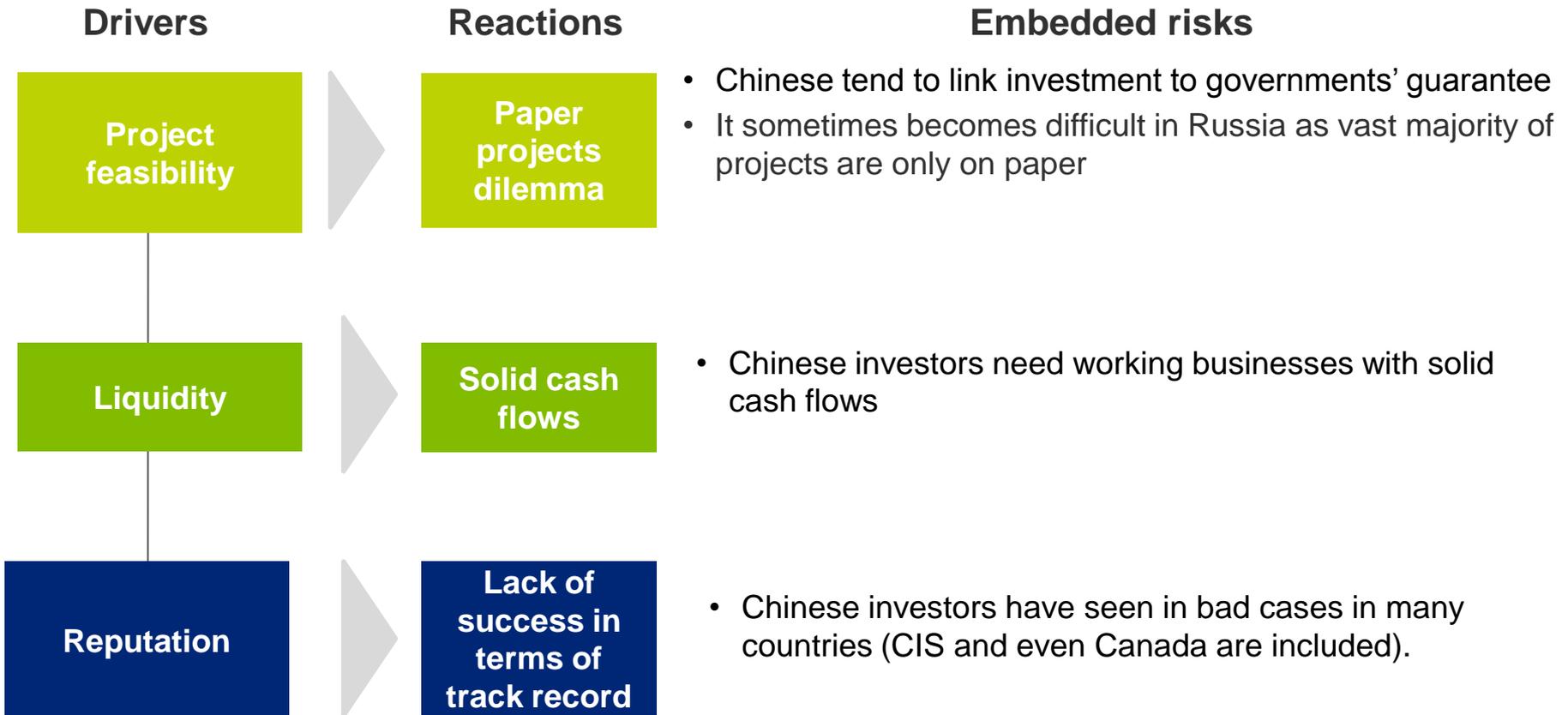
Partners

- Improve Infrastructure
- To promote a more inclusive growth model
- To go beyond infrastructure
- To speed up RMB’s internationalization

China's Long March of internationalizing the RMB



Investment in Russia or Eastern Europe for Chinese companies (lessons)



Implications

China needs a more inclusive growth model in order to achieve the goals



China-Russia could benefit from strategic initiatives such as “the belt and Road”



Russia could take advantage of China's consumption boom & outbound investment

