

Made in China 2025

China-Italy Chamber of Commerce

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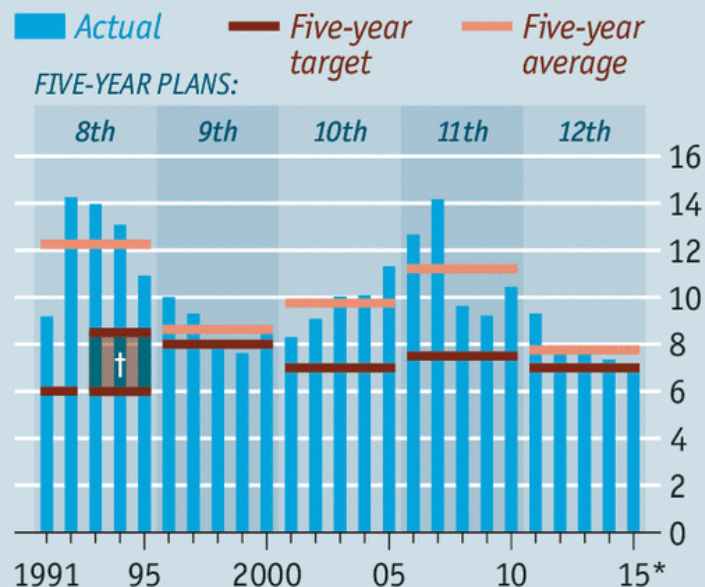
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Modest goals

China's GDP, % increase on a year earlier



Sources: National Bureau of Statistics; Thomson Reuters; IMF *Forecast †Revised up from 6.0 to 8.5

Economist.com

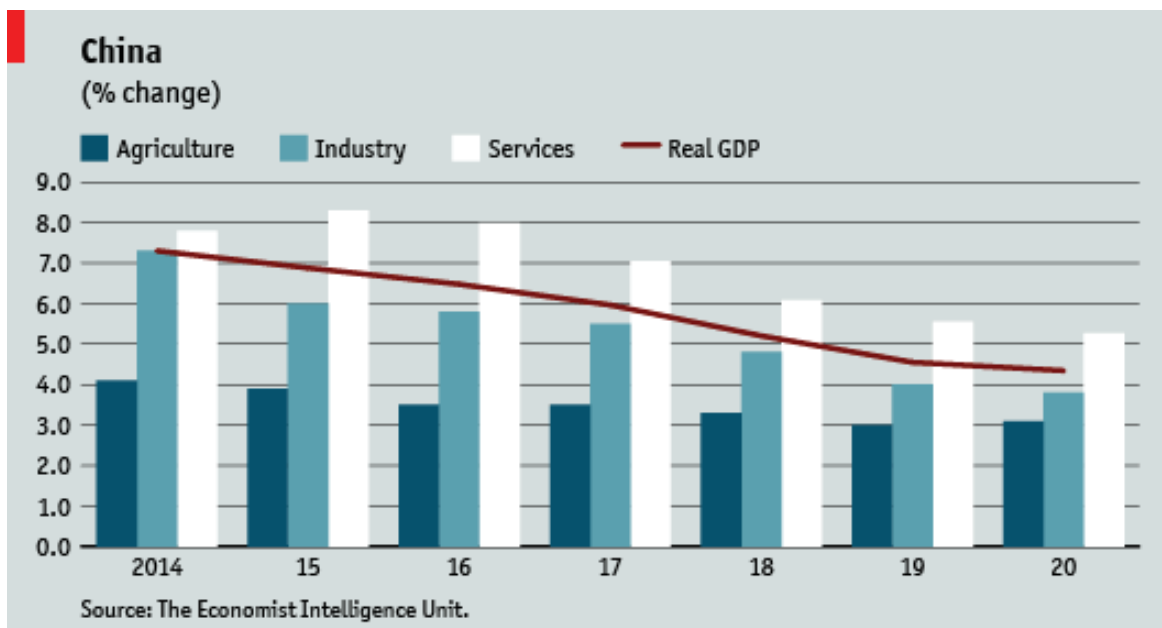
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China: growth must slow to avoid hard landing



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New worries about competence



- Property market weakness
- Overcapacity in many manufacturing sectors
- Corporate debt
- SOE reforms
- Expensive wage costs
- Government pursuing “60 Decisions” Reform Agenda
- Anti-corruption crackdown
- Anti-Monopoly Law fallout
- Stock market intervention (again)
- What is with the RMB?

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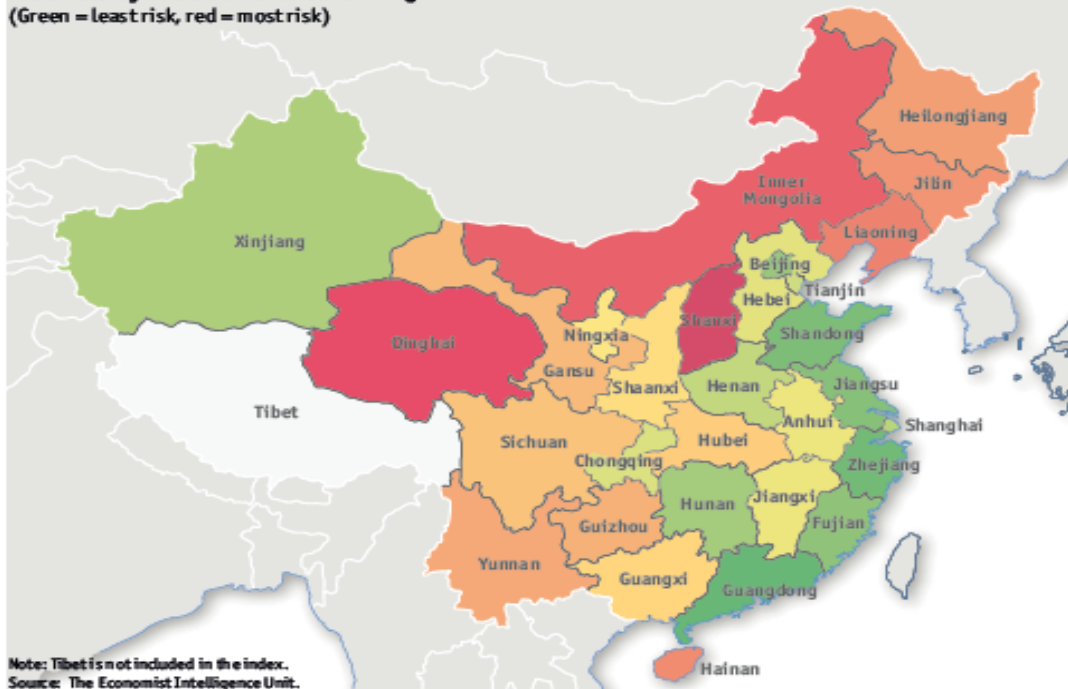
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Buoyant SW China, but hard times in Liaoning



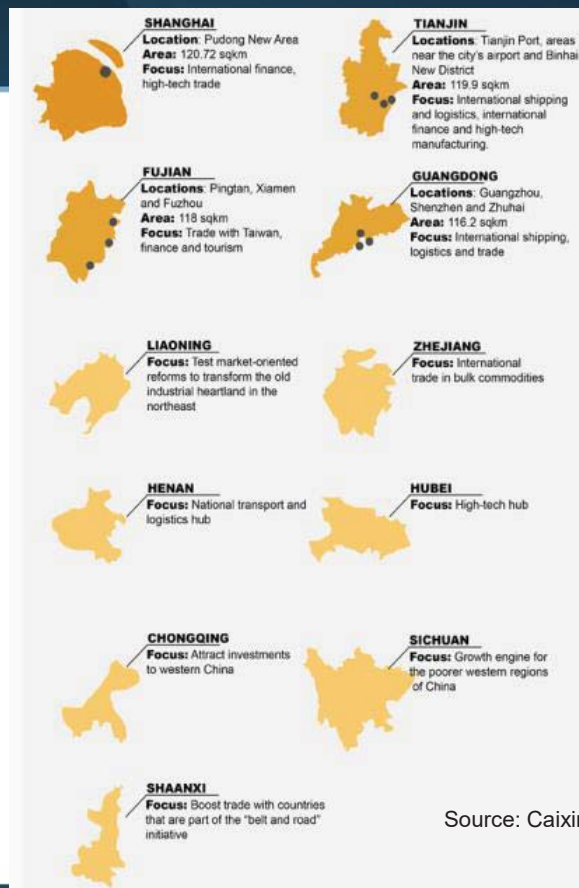
Provincial credit risk

Provinces by overall credit risk ranking
(Green = least risk, red = most risk)



New FTZs, same problem

- Slow pace of reform
- “Enclave” economies as pilot programs
- Special pleading from regions



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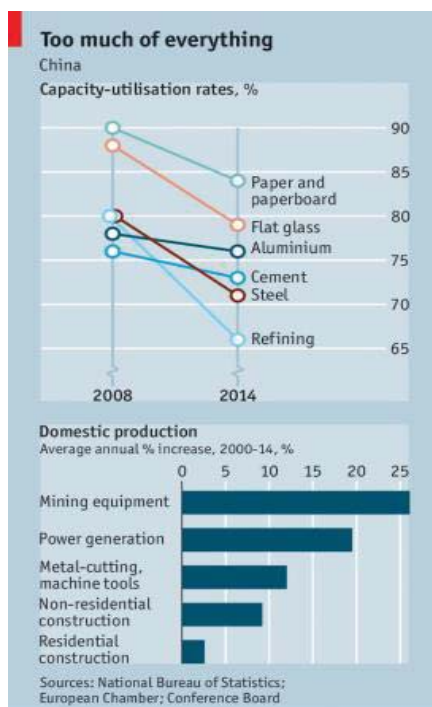
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China's duality - zombies vs. robots



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SEIs vs “Made in China 2025” Ten Key Industries vs Circular Economy

	SEI	Made in China 2025	Circular Economy
1	Energy Saving & Environmental Protection	Energy Saving & Clean-Energy Vehicles	Coal
2	New Energy	Power Equipment	Power
3	Bio-technology	Biomedical & High Performance Medical Devices	Steel
4	New Materials	New Materials	Textile
5	Next Generation IT	Next Generation IT	Nonferrous Metals
6	Clean-Energy Vehicles	Advanced Rail Transportation Equipment	Petroleum & Petrochemicals
7	High End Manufacturing	Advanced CNC Machine Tools & Robots	Chemicals
8		Agricultural Machinery	Food
9		Aerospace Equipment	Building Materials
10		Marine Engineering Equipment & High-tech Ship	Paper

Source: State Council

13th Five Year Plan

Five-year plan select economic development targets

	12th five-year plan target (2011–15)	2011–15 (actual)	13th five-year plan target (2016–20)
Nominal GDP	Rmb55.8trn	Rmb67.7trn	>Rmb92.7trn
Annual real GDP growth	7%	7.8%	>6.5%
Tertiary sector as a proportion of GDP	47%	50.5%	56%
Urbanisation rate	51.5%	56.1%	>60%
Urban household registration (hukou) rate	n/a	39.9%	45%
Urban job creation	45m	64m	50m
Construction of affordable housing units	36m	27m	n/a
R&D spending as a proportion of GDP	2.2%	2.1%	2.5%
Reduction in carbon emissions per unit of GDP	17%	20%	18%
Reduction in energy consumption per unit of GDP	16%	18.2%	15%
Farmland reserves (mu)	1.82bn	1.86bn	1.86bn
Forest coverage rate	21.66%	21.66%	23.04%

Note: 1 mu is equivalent to 666.7 sq metres

Source: Xinhua News Agency.

13th Five Year Plan – environmental clean-up

	12th Five-Year Plan's Targets (Compared to 2010)	12th Five-Year Plan's Achievements (Compared to 2010)	13th Five-Year Plan's Targets (Compared to 2015)
Energy Intensity (Energy Consumption per Unit of GDP)	-16%	-18.2%	-15%
Carbon Intensity (Carbon Emissions per Unit of GDP)	-17%	-20%	-18%
Non-Fossil Fuel Percentage	11.4%	12%	15%
Sulfur Dioxide (SO ₂)	-8%	-18%	-15%
Nitrogen Oxides (NO _x)	-8%	-18.6%	-15%
Ammonia Nitrogen	-10%	-13%	-10%
Chemical Oxygen Demand (COD)	-10%	-12.9%	-10%

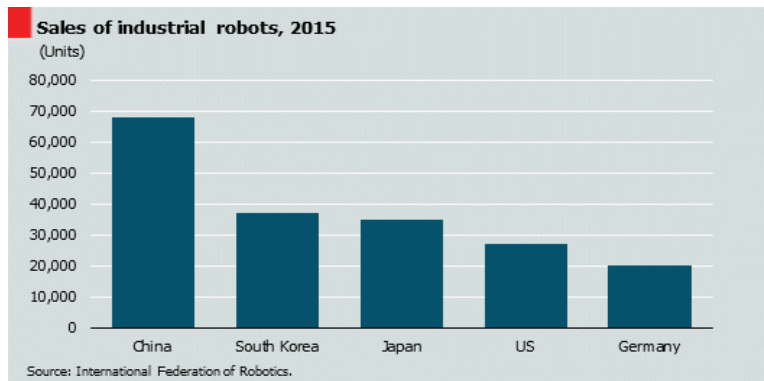
An outdated model



New look to the PRD – now Silicon Delta



广东省机
器人协会



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Plus sized SOEs

New giants emerge

Mergers among centrally managed state-owned enterprises since 2015

Sector	Merged companies	New company
Completed		
Aircraft engines	Sichuan Chengfa Aero Science and Technology, AVIC Aviation Engine Corp & AVIC Aero-Engine Controls	Aero Engine Corporation of China
Nuclear	China Power Investment & State Nuclear Power Technology	State Power Investment Corporation
Rolling stock	China South Locomotive and Rolling Stock & China CNR	China Railway Rolling Stock Corporation
Shipping	China Ocean Shipping & China Shipping	China Cosco Shipping Corporation
Tourism	China National Travel Service & China International Travel Service	China Tourism Group
Approved		
Construction	China National Building Materials Group & China National Materials	
Food	China National Cereals, Oils and Foodstuffs & Chinatex	
Logistics	China Merchants & Sinotrans CSC	
Metals	China Minmetals & China Metallurgical	
Trading	Nam Kwong & Zhuhai Zhenrong	
Rumoured		
Airline cargo	Air China Cargo, China Cargo Airlines & China Southern Cargo	
Airlines	Air China & China Southern Airlines	
Coal	China Shenhua Energy & China National Coal	
Construction	China Railway & China Railway Construction	
Finance	China International Capital & China Investment Securities	
Machinery	China First Heavy Industries & Xinxing Cathay International	
Metals	Aluminium Corporation of China & SPIC	
Oil	China National Petroleum & China Petrochemical	
Power	China Shenhua Energy & China General Nuclear Power	
Property	China Poly Real Estate & Avic Real Estate	
Property	China Overseas Land and Investment & China CITIC Real Estate	
Shipbuilding	China State Shipbuilding & China Shipbuilding Industry	
Steel	Shanghai Baosteel & Wuhan Iron and Steel	
Telecommunications	China Unicom & China Telecom	

Sources: State-owned Assets and Supervision Commission; media reports.

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China's financial rollercoaster



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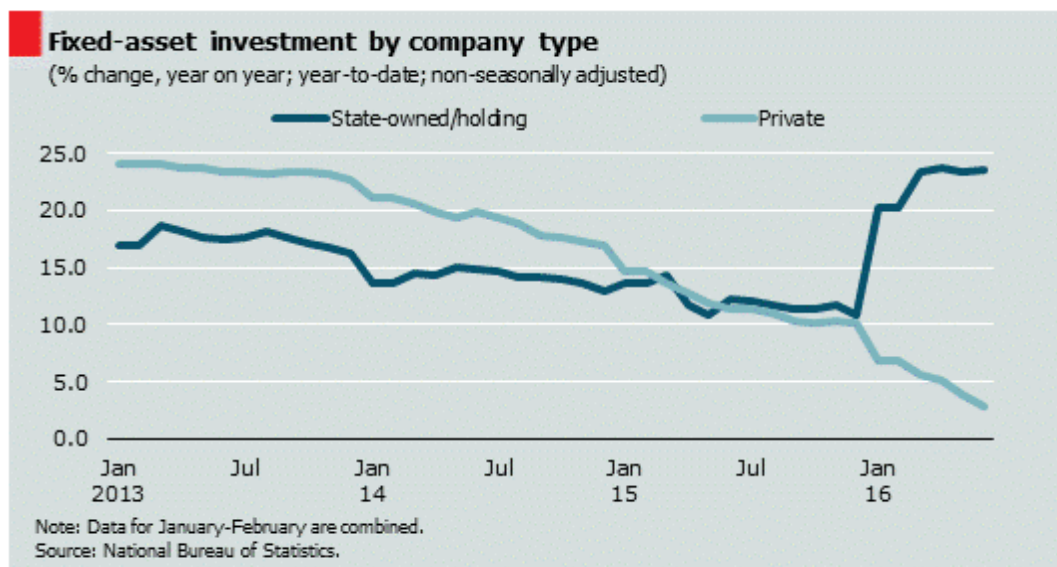
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Loss of confidence? What are companies doing with their cash?



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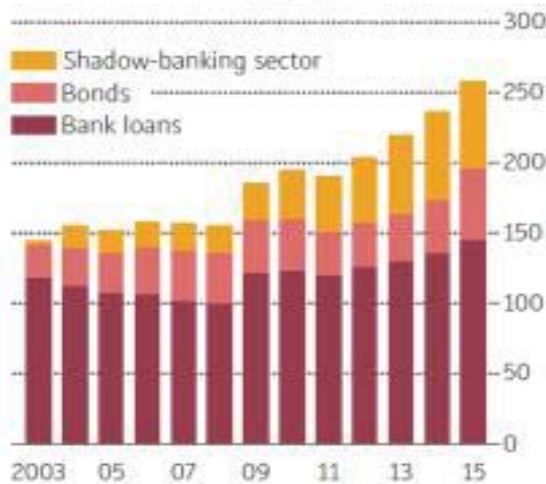
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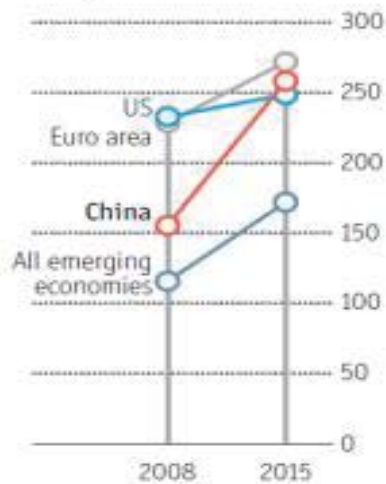
China's credit addiction or is it original sin?

People's Republic of Debt

China's total debt by type, as % of GDP



Debt, as % of GDP

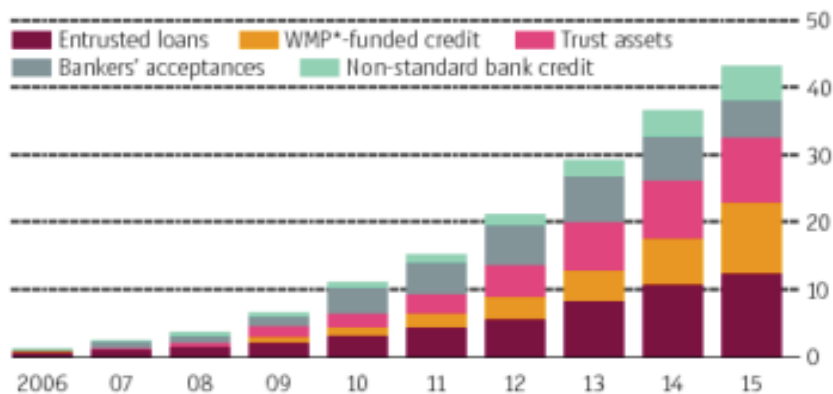


Sources: People's Bank of China; National Bureau of Statistics; ChinaBond; BIS; *The Economist*

How did the shadows get so big?

From minnow to giant

Shadow-banking system, yuan trn



Source: People's Bank of China; Wind Info; *The Economist*

*Wealth-management products

Implications for foreign firms

- **Be cautious on economic growth prospects**
 - Growth will likely fall short of the government's projections
 - There is capacity to stimulate the economy, but this would exacerbate internal imbalances
- **Beware favoured industrial sectors under 13th five-year plan**
 - Subsidies and cheap credit directed at these areas
 - Benefit domestic companies discriminately – and leads to overcapacity/price falls
 - Services/consumer-facing sectors look have brightest prospects, but opportunities might be presented by problems associated with industry – e.g. environmental standards, higher-value added production
- **Policy towards foreign companies unlikely to shift significantly**
 - Continued toughening in regulatory environment
 - FTZs will be rolled out, but unlikely to have a major impact
 - Market access may improve in some areas as China looks for bilateral investment treaties and regional trade agreements
- **Expect more competition from Chinese companies overseas, but this will also bring opportunities**
 - Exporting overcapacity and government-directed ODI lending e.g. “one belt, one road”
 - Nevertheless, opportunities for supplying into these or under AIIB e.g. infrastructure
 - Role to play partnering with Chinese firms unfamiliar with overseas operating environments

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2018 will be a very difficult year

Forecast summary

(% unless otherwise indicated)

	2015 ^a	2016 ^b	2017 ^b	2018 ^b	2019 ^b	2020 ^b
Real GDP growth	6.9	6.6	6.0	4.2	4.6	4.2
Industrial production growth	6.1	6.1	5.5	3.6	3.8	3.6
Gross agricultural production growth	3.9	3.1	2.9	2.7	2.8	3.0
Unemployment rate (av)	4.0	4.2	4.4	5.0	4.6	4.6
Consumer price inflation (av)	1.5	2.3	2.1	1.7	2.0	2.4
Consumer price inflation (end-period)	1.7	2.5	1.9	2.5	2.0	2.4
Short-term interbank rate (end-period)	4.4	4.4	4.1	4.5	4.8	5.2
Government balance (% of GDP)	-3.4	-3.8	-4.2	-4.5	-4.4	-4.3
Exports of goods fob (US\$ bn)	2,142.8	2,018.2	2,073.3	2,139.0	2,186.1	2,291.3
Imports of goods fob (US\$ bn)	1,575.8	1,448.9	1,521.4	1,538.0	1,596.9	1,674.4
Current-account balance (US\$ bn)	330.6	335.9	277.1	257.4	238.3	238.0
Current-account balance (% of GDP)	3.0	3.0	2.4	2.2	1.9	1.7
External debt (end-period; US\$ bn)	958.3 ^c	989.9	1,039.4	1,084.5	1,178.3	1,298.3
Exchange rate Rmb:US\$ (av)	6.23	6.61	6.89	7.07	7.05	6.87
Exchange rate Rmb:US\$ (end-period)	6.49	6.79	6.95	7.19	6.94	6.81
Exchange rate Rmb:¥100 (av)	5.15	6.18	6.63	6.61	6.46	6.32
Exchange rate Rmb:€ (end-period)	7.07	7.44	7.59	8.07	7.87	7.90

^a Actual. ^b Economist Intelligence Unit forecasts. ^c Economist Intelligence Unit estimates.

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