

What are they looking at?



AFP

# The Economist

OCTOBER 14th-20th 2017

Trump's war on red tape

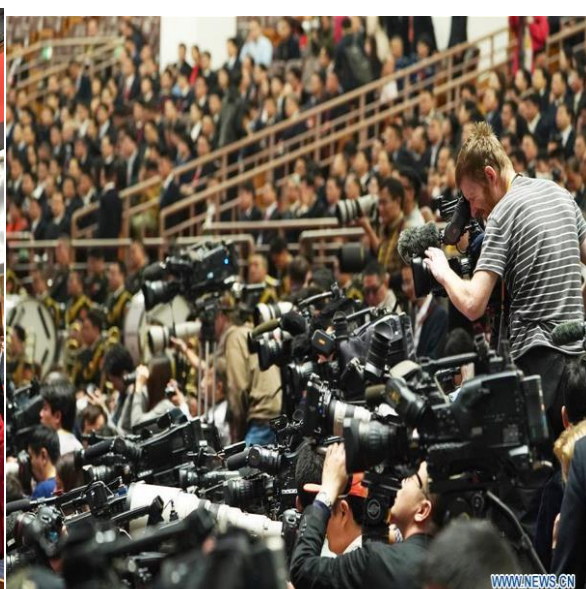
Battlefield medicine on the streets

What the free-speech debate gets wrong

Mate selection: mother knows best

## The world's most powerful man









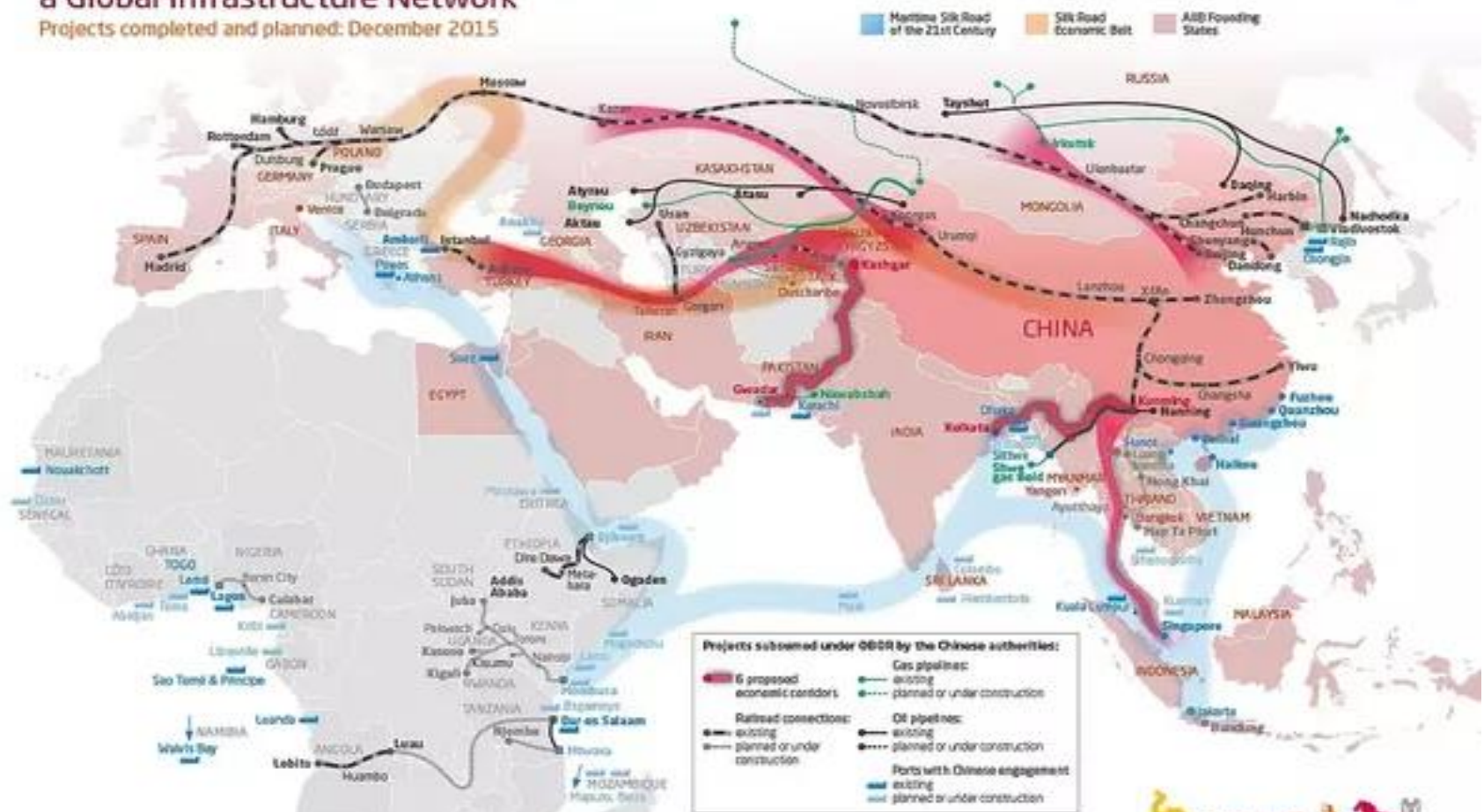
# Yi dai, yi lu



## MERICS China Mapping

# One Belt, One Road: With the Silk Road Initiative, China Aims to Build a Global Infrastructure Network

Projects completed and planned: December 2015

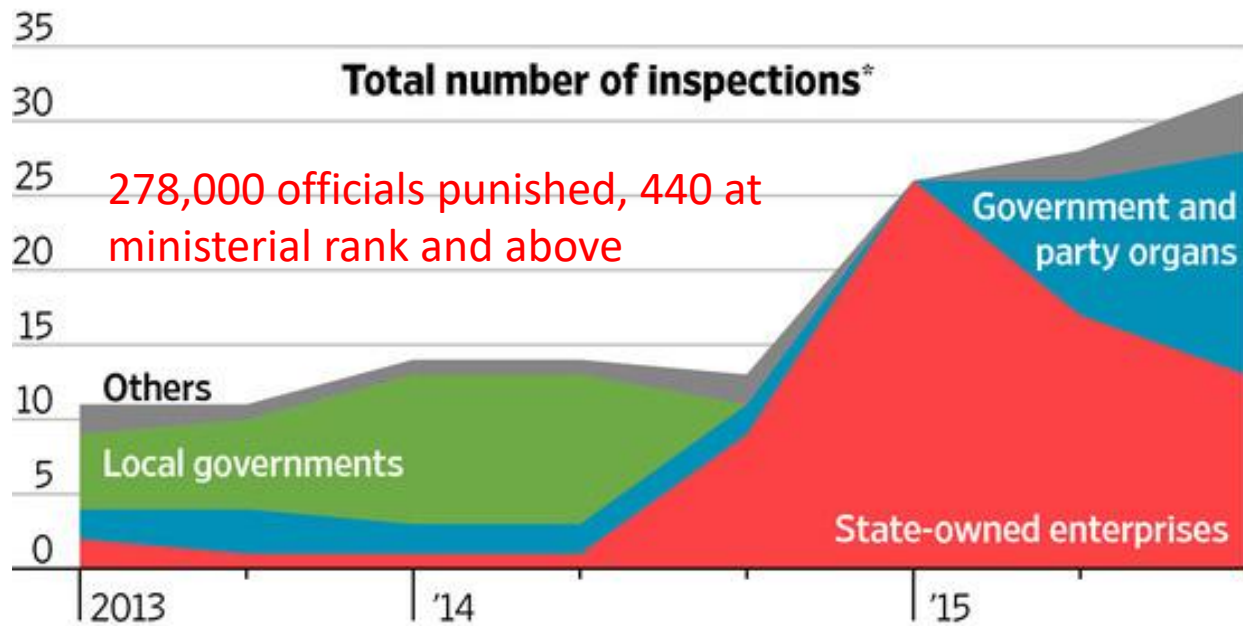






## Rising Scrutiny

China's Central Communist Party inspections by institution

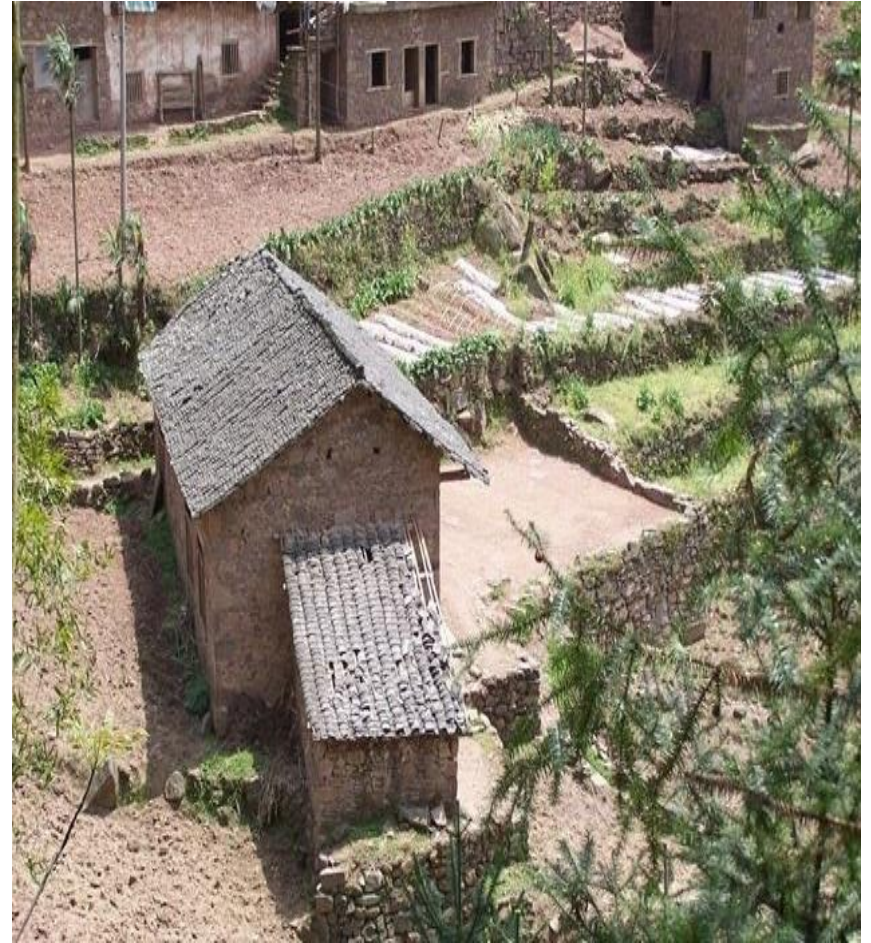
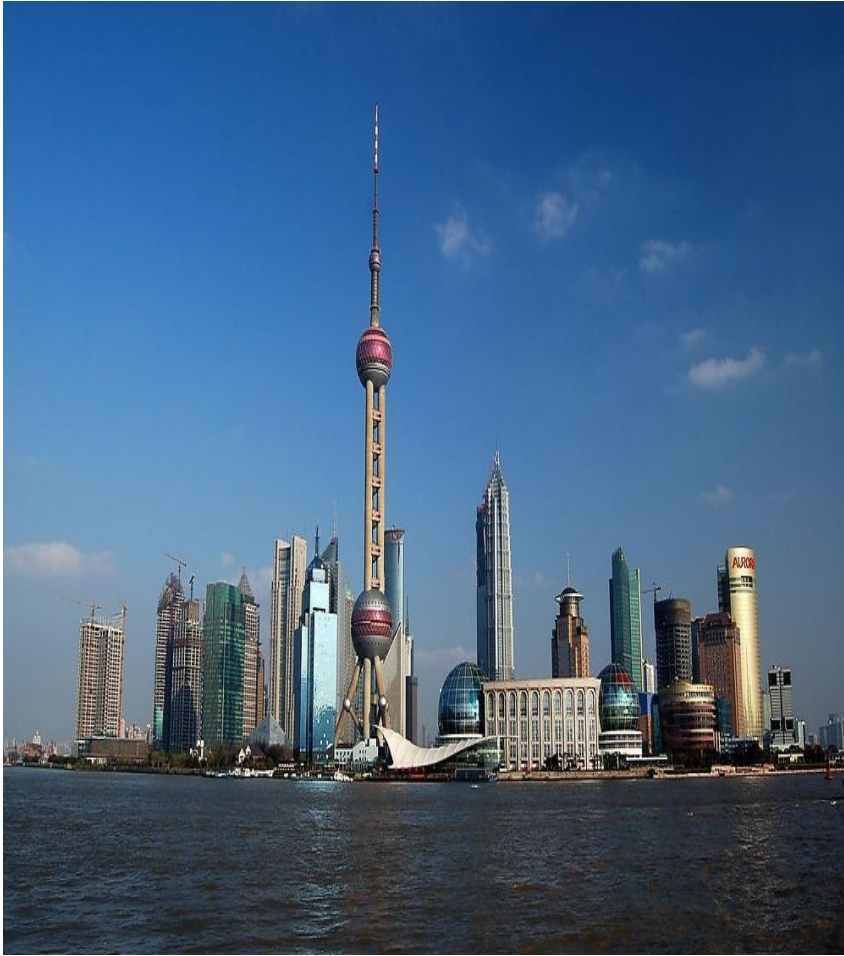


\* There have been eight rounds of inspections since 2013.

Source: Eurasia Group

THE WALL STREET JOURNAL.


# This is China. Which one ?



# And this is Shanghai. Which one?



# China in the very long run

- 1500-1820 25-35 % of World GDP
- 1840/50- 1950 catastrophic decline
- 1978  meteoric rise
- (“we did in 40 years what you did in 400 years”, Yu Hua)



# 世界地图 MAP OF THE WORLD

(中英对照)

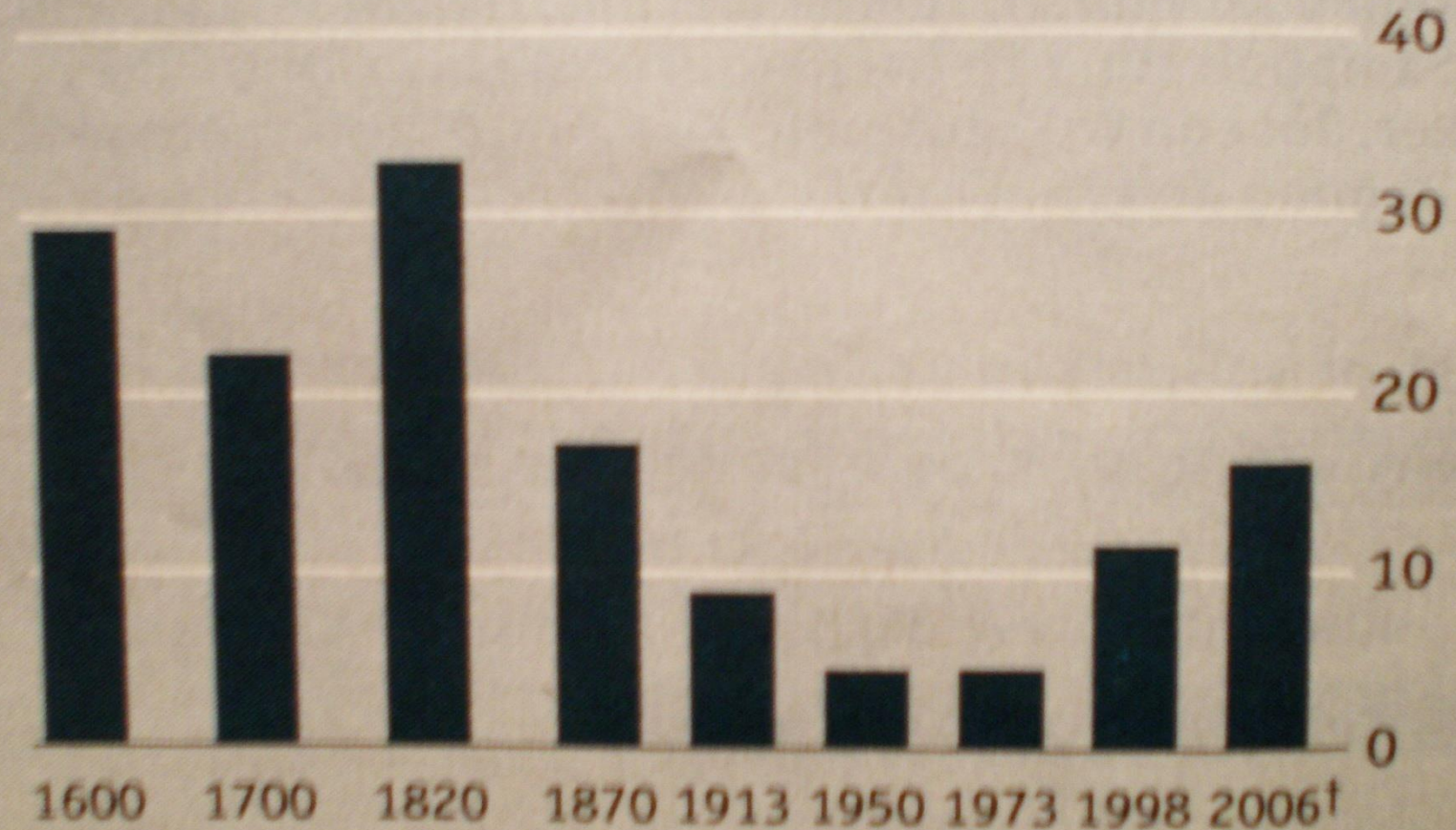


图例  
Legend

等差分纬线多圆锥投影  
比例尺 1:33,000,000

# A once and future giant

China's share of world GDP\*, %



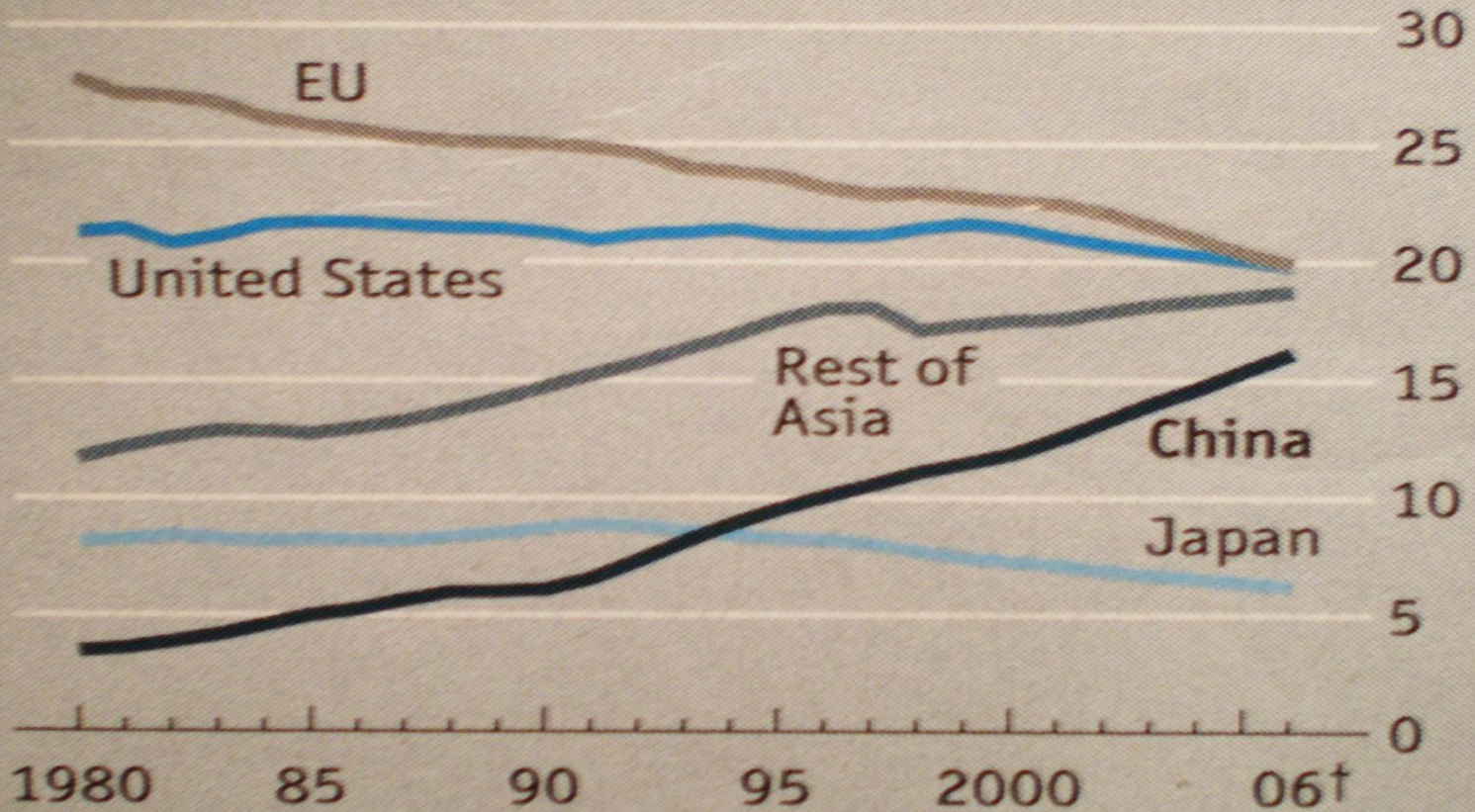
Sources: "The World Economy"  
by Angus Maddison; IMF

\*At purchasing -power parity  
†Estimate

# Coming up in the world

1

Share of world GDP\*, % of total



Source: IMF

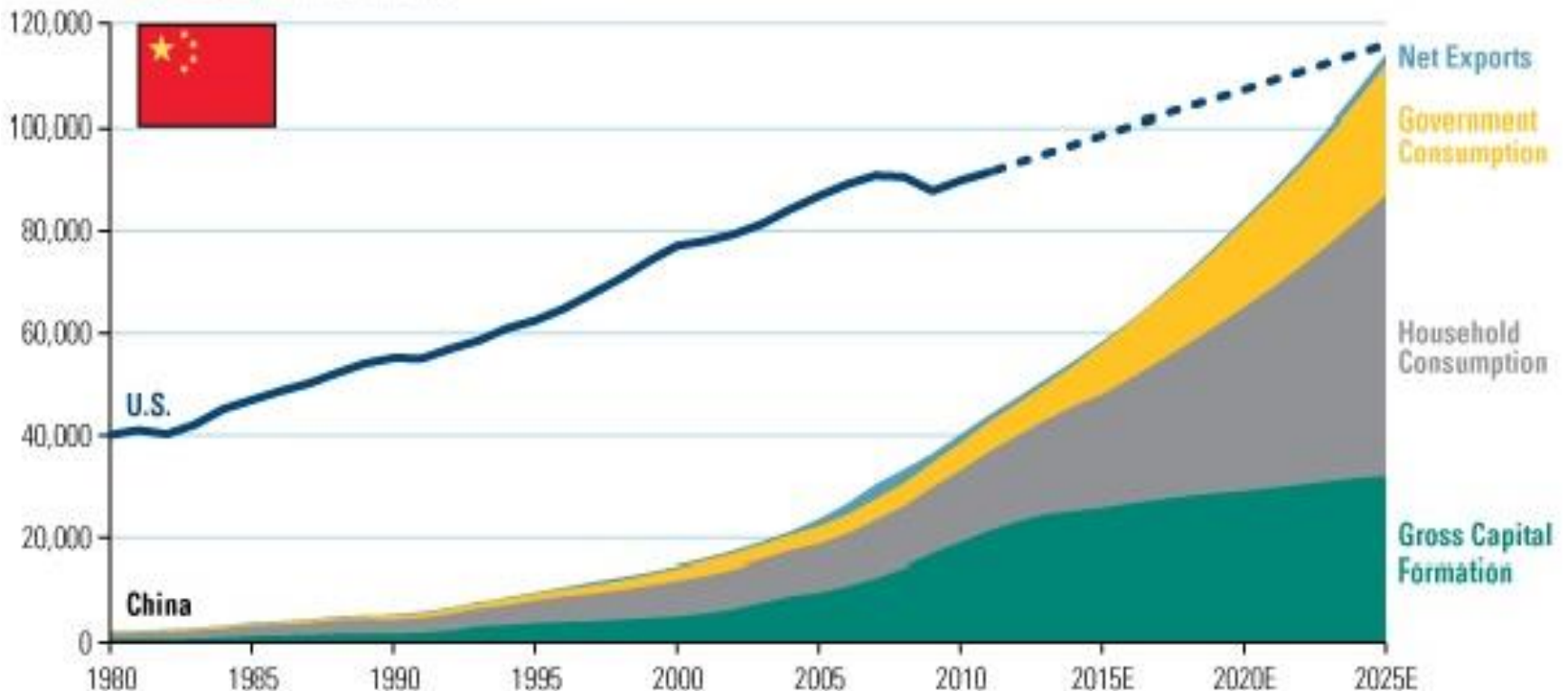
\*At purchasing-power parity †Estimate



# Catching up USA

## China GDP Will Almost Equal U.S. GDP by 2025

Real GDP by Output, in RMB billions



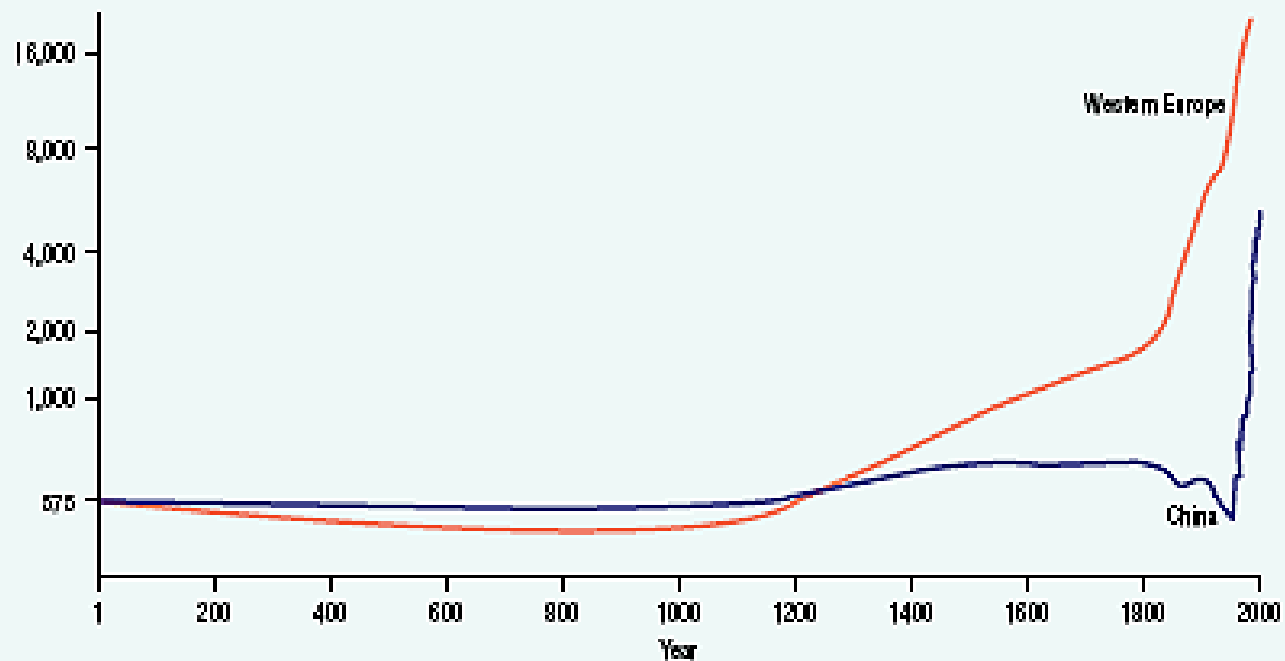
Note: GDP in real 2010 Rmb terms.

Source: CEIC, China NBS, Jefferies estimates

Chart 1

### GDP per Capita: China and Western Europe, 1–1998 A.D.

2002 dollars



SOURCES: Maddison, Angus (2001), *The World Economy: A Millennial Perspective*, Organization for Economic Cooperation and Development, p. 42; authors' calculations.

# The Architect of new China



"Planning and market forces are not the essential difference between socialism and capitalism. A planned economy is not the definition of socialism, because there is planning under capitalism; the market economy happens under socialism, too. Planning and market forces are both ways of controlling economic activity"

# Deng's most famous quotations

- It doesn't matter if a cat is black or white, so long as it catches mice
- Poverty is not socialism. To be rich is glorious
- To get rich is glorious
- Let some people get rich first

# The steps to change China

- 
- **1978-84** reform of agriculture sector and of its limited productivity (new allocation of labor force) In October 1984, a dual price system was introduced as a measure to promote market economy. An official price coexisted with the emergence of a market price in non-official markets, typically in agriculture produce.
- **1979** Special Economic Zones (Xiamen, Shantou, Shenzhen, Zhuhai)
- **1984** Tianjin, Beihai, Shanghai, Jiang Zhou
- **1984-88** intervention in urban industrial sector: prices and wages liberalization- the firm can keep the profits and pay taxes on their revenues – the Open Door Policy for international investors: Free Zones

# The steps to change China

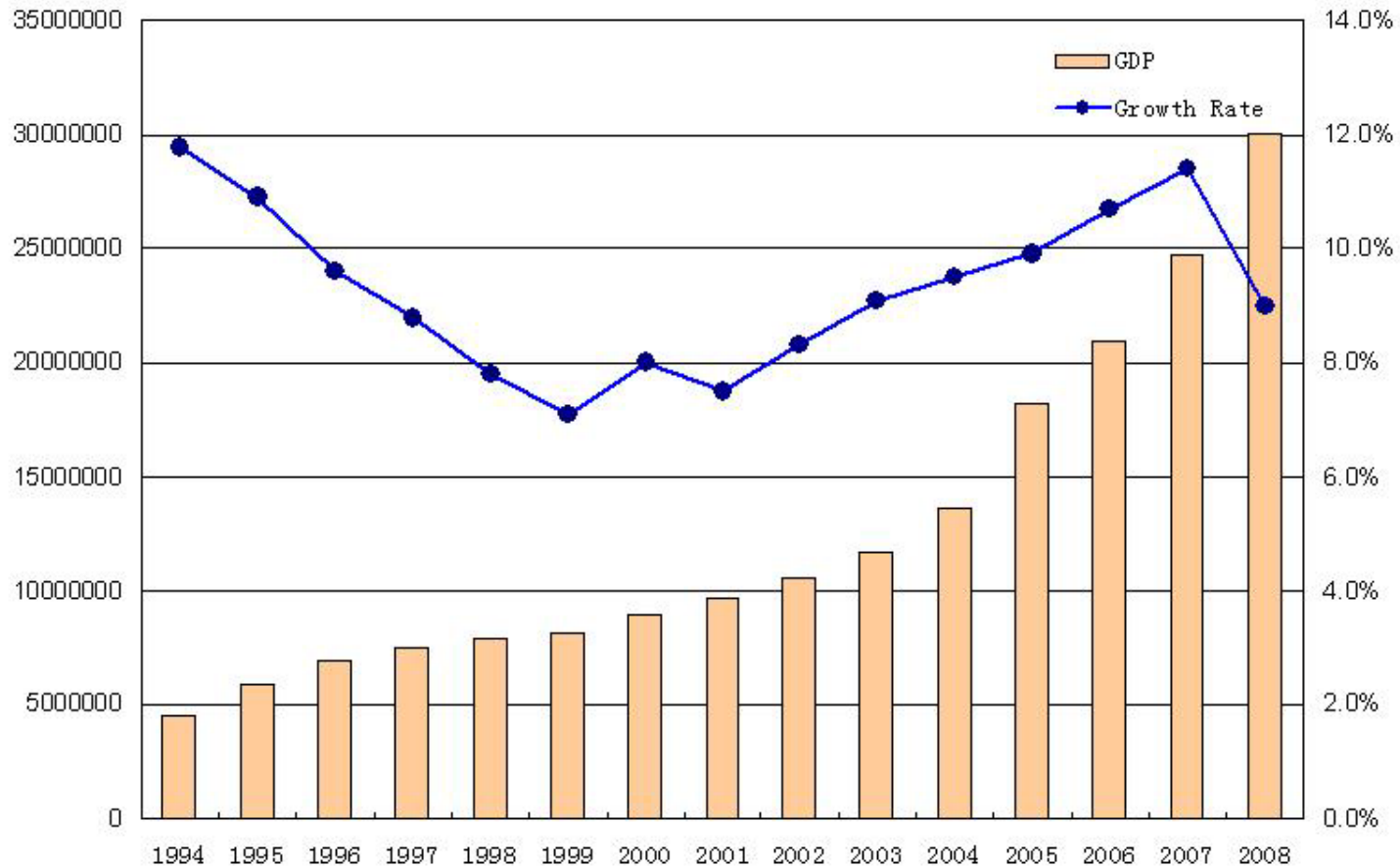
- **1988-91** and **1992-97** all sectors of Chinese economy are involved
- In 1992 the Congress of CCP affirmed
  - 1) market economy is not incompatible with socialism
  - 2) the private ownerships in industrial sector is permitted
- **2001** Go global policy: China entry in WTO



# Changing China and the CCP

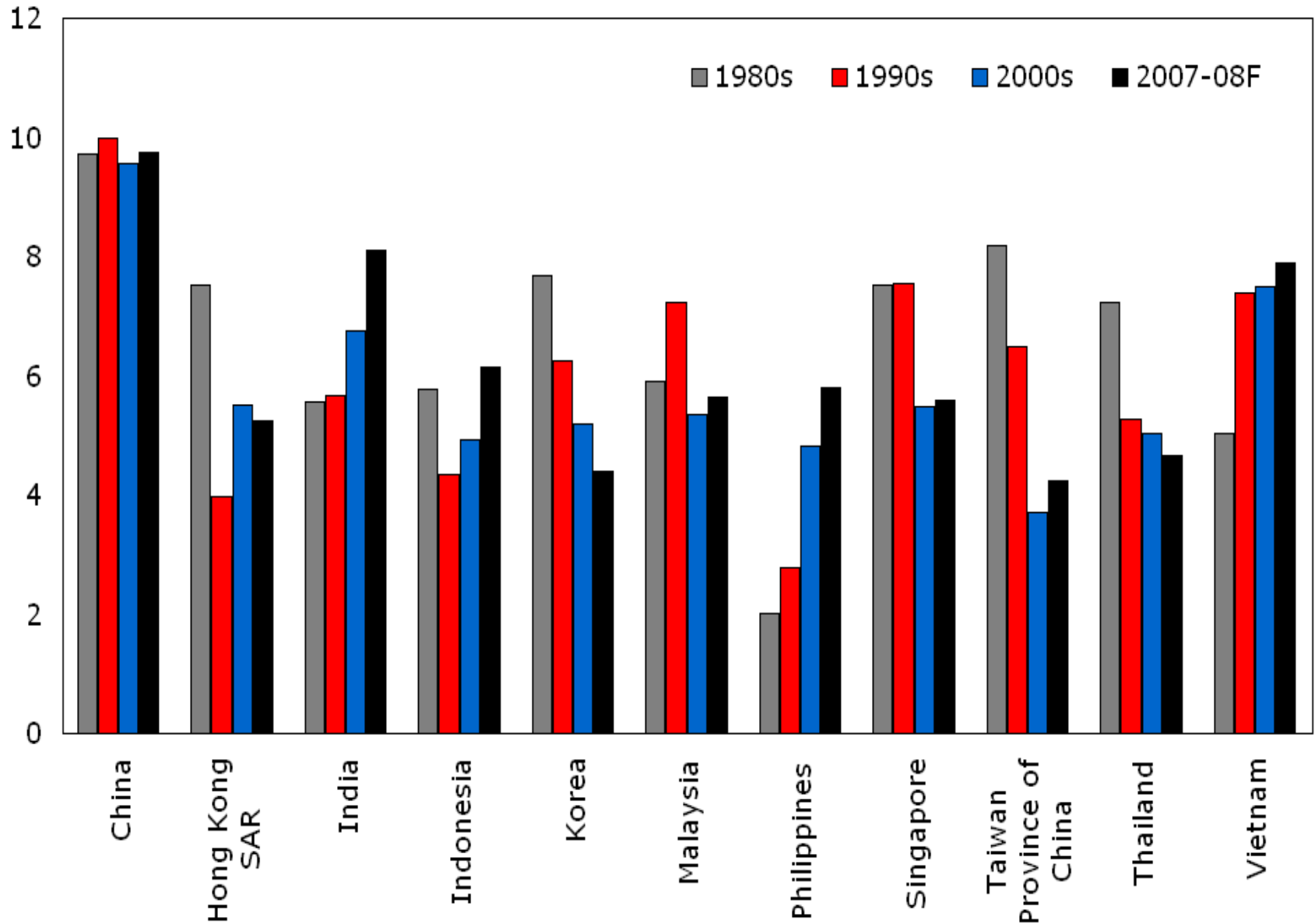
- 1921-2002 the statute of the CCP said that the party “represents the vanguard of the working class”
- 2002: the party “represents the vanguard of the Chinese people”

# China GDP Growth, 1994-2008





# Comparing China GDP growth



# Transition economies

Country	Starting Transition	GDP pc (USD)			Crescita GDP per capita (%)		Crescita GDP (yoy avg %)	
		1993	2000	2006	1993-06	2000-06	1993-06	2000-06
Bulgaria	1991	526	1581	3995	660	153	0.86	5.4
<b>China</b>	<b>1978</b>	<b>517</b>	<b>946</b>	<b>2001</b>	<b>287</b>	<b>112</b>	<b>9.98</b>	<b>9.6</b>
Croatia	1990	2358	4206	9558	305	127	3.55	4.5
Czech Republic	1991	3552	5521	13848	290	151	3.01	4.0
Hungary	1992	3724	4692	11340	205	142	3.68	4.4
Poland	1991	2346	4455	8890	279	100	4.59	3.7
Romania	1992	1148	1676	5633	391	236	3.04	5.5
Russia	1992	1237	1768	6856	454	288	1.49	6.8
Slovak Republic	1990	2519	3781	10158	303	169	4.74	4.6
Slovenia	1990	12423	11400	18610	50	63	4.04	3.8
Turkey	1991	3019	2995	5408	79	81	4.14	5.2
Ukraine	1990	568	639	2274	301	256	-0.90	7.4

# Still a developing country ?

TABELLA 1.3

Peso dei settori nel PIL cinese (percentuale)

---

	Agricoltura	Industria	Servizi
1978	28,1	48,2	23,7
1980	30,1	48,5	21,4
1985	28,4	43,1	28,5
1990	27,0	41,6	31,3
1995	19,8	47,2	33,1
2000	14,8	45,9	39,3
2005	12,5	47,3	40,3

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Fonte: Datastream.

# Again: still a developing country ?

## GDP composition by expenditure (2007)

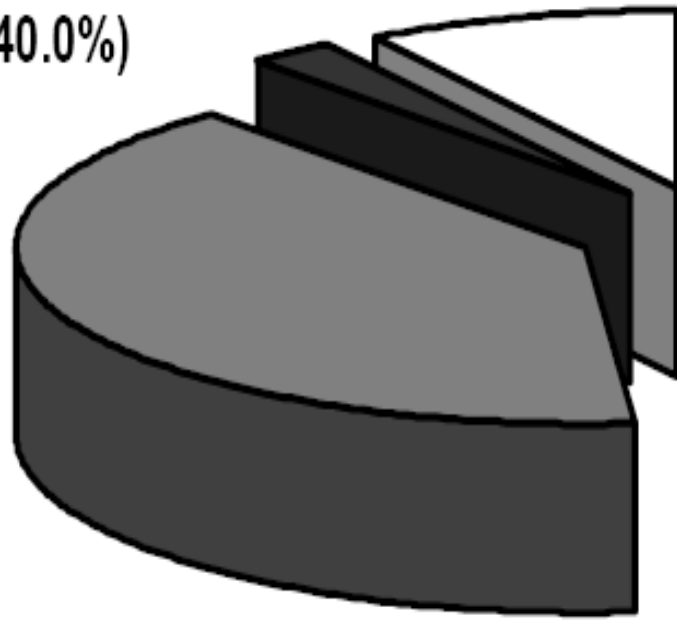
% of nominal GDP

Fixed capital  
formation  
(40.0%)

Change in  
inventories  
(2.4%)

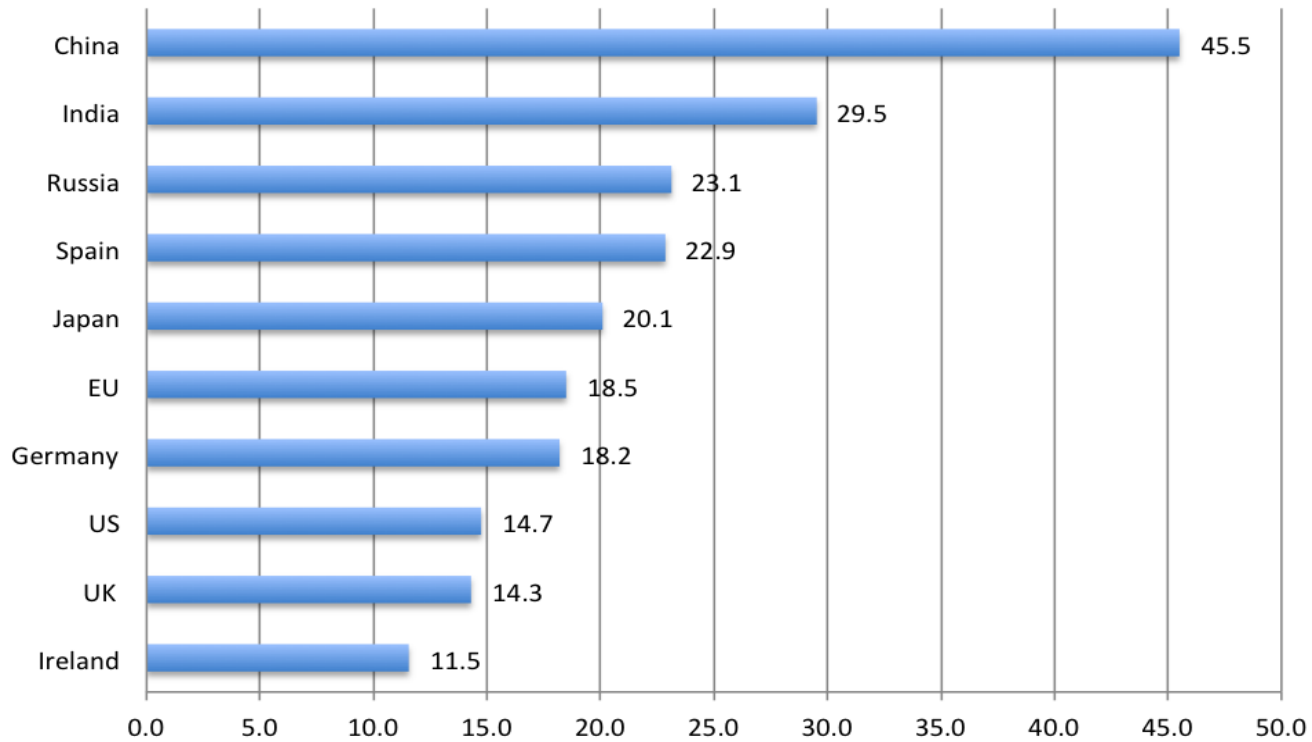
Net exports  
(8.9%)

Household  
consumption (35.4%)



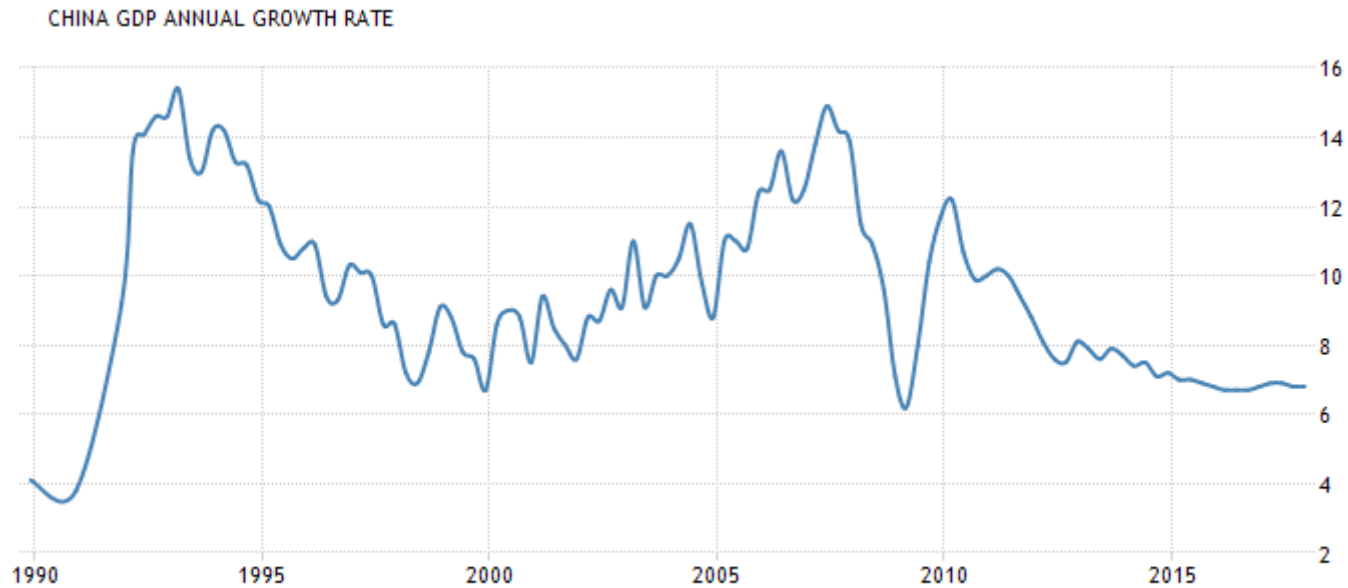
Government consumption (13.3%)

## Gross Fixed Capital Formation % of GDP



www.economicshelp.org | Source: World Bank. 2011

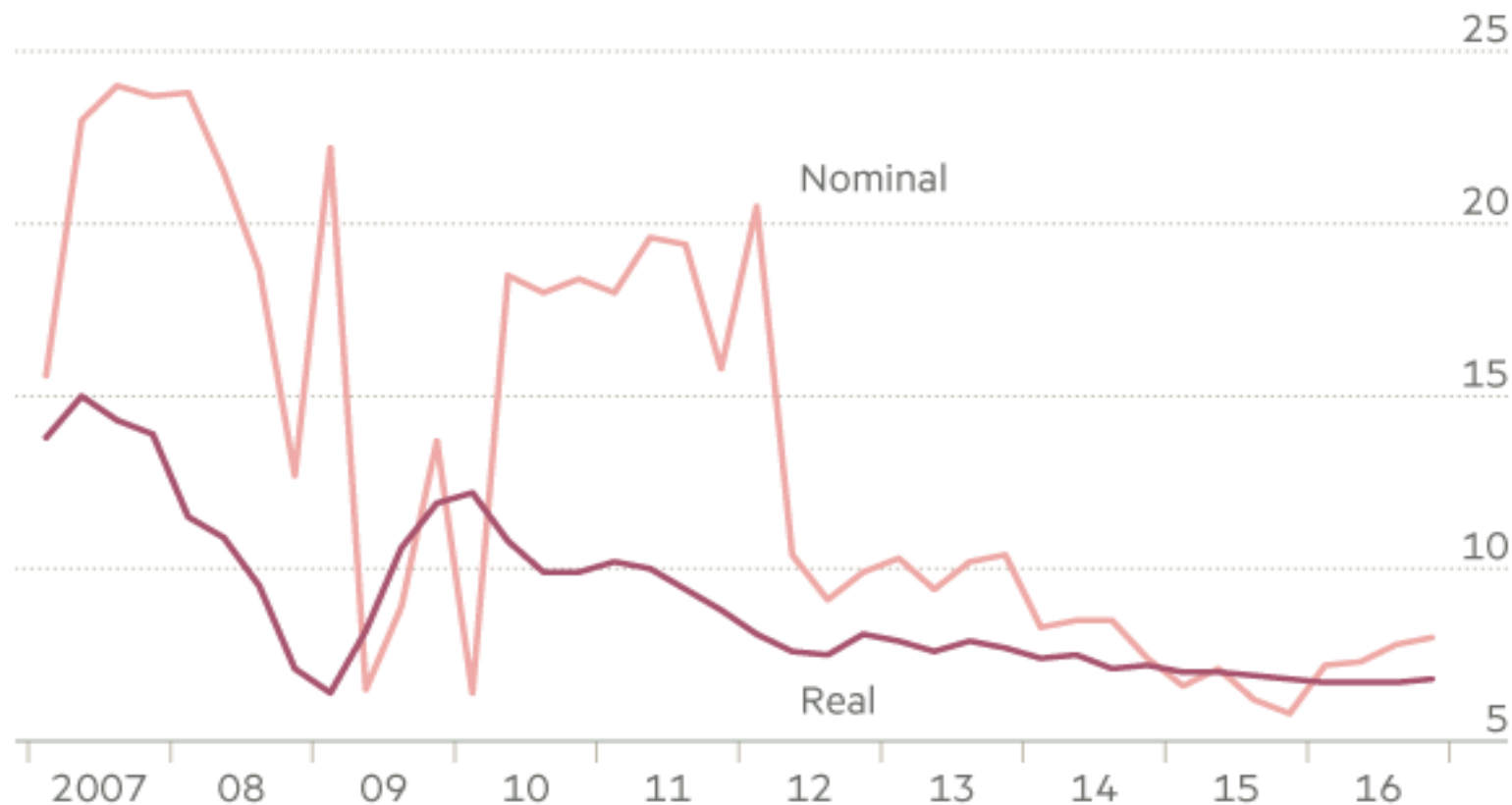
# Chinese GDP Growth 1990-2017



SOURCE: TRADINGECONOMICS.COM | NATIONAL BUREAU OF STATISTICS OF CHINA

# Some things has started to change

China GDP growth  
Annual % change, quarterly

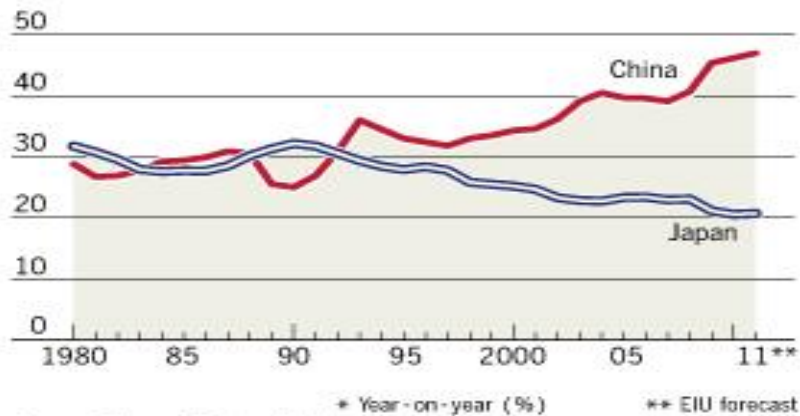


Sources: National Bureau of Statistics; CEIC

# Different ways to watch to the probelm

## Investment share of GDP

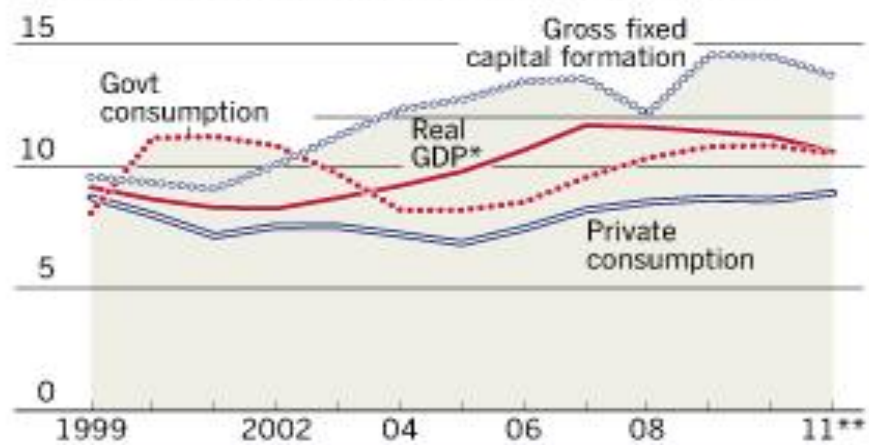
Gross fixed capital formation as a % of GDP



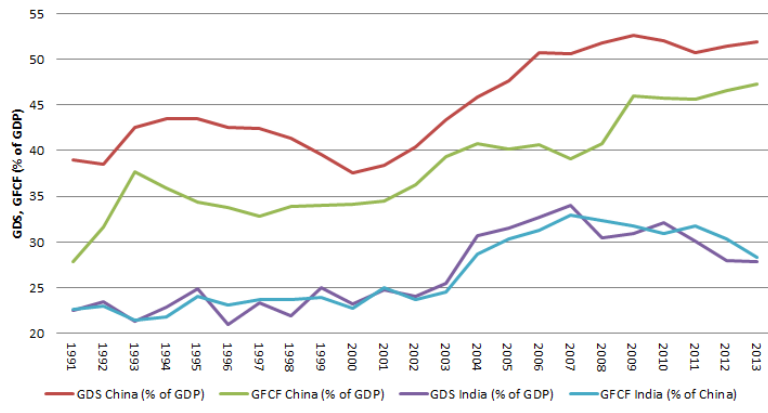
Sources: Thomson Reuters Datastream; EIU

## Growth in China's GDP and components

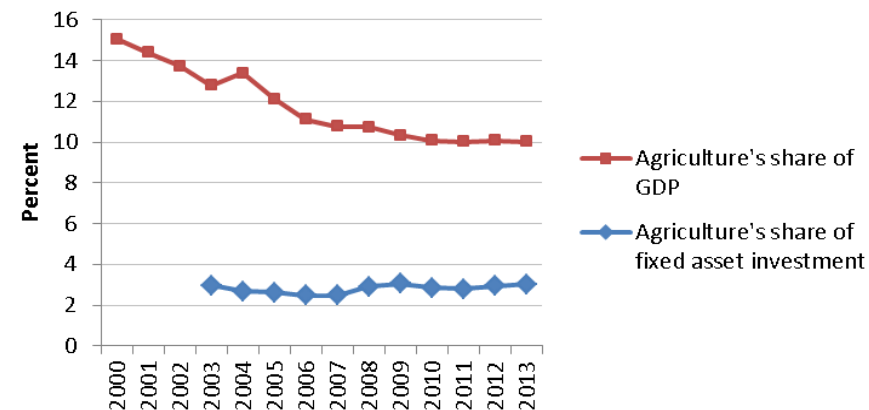
Average annual real growth over previous five years (%)



## Gross Domestic Savings and Gross Fixed Capital Formation (% of GDP), China Vs India (1991-2013)



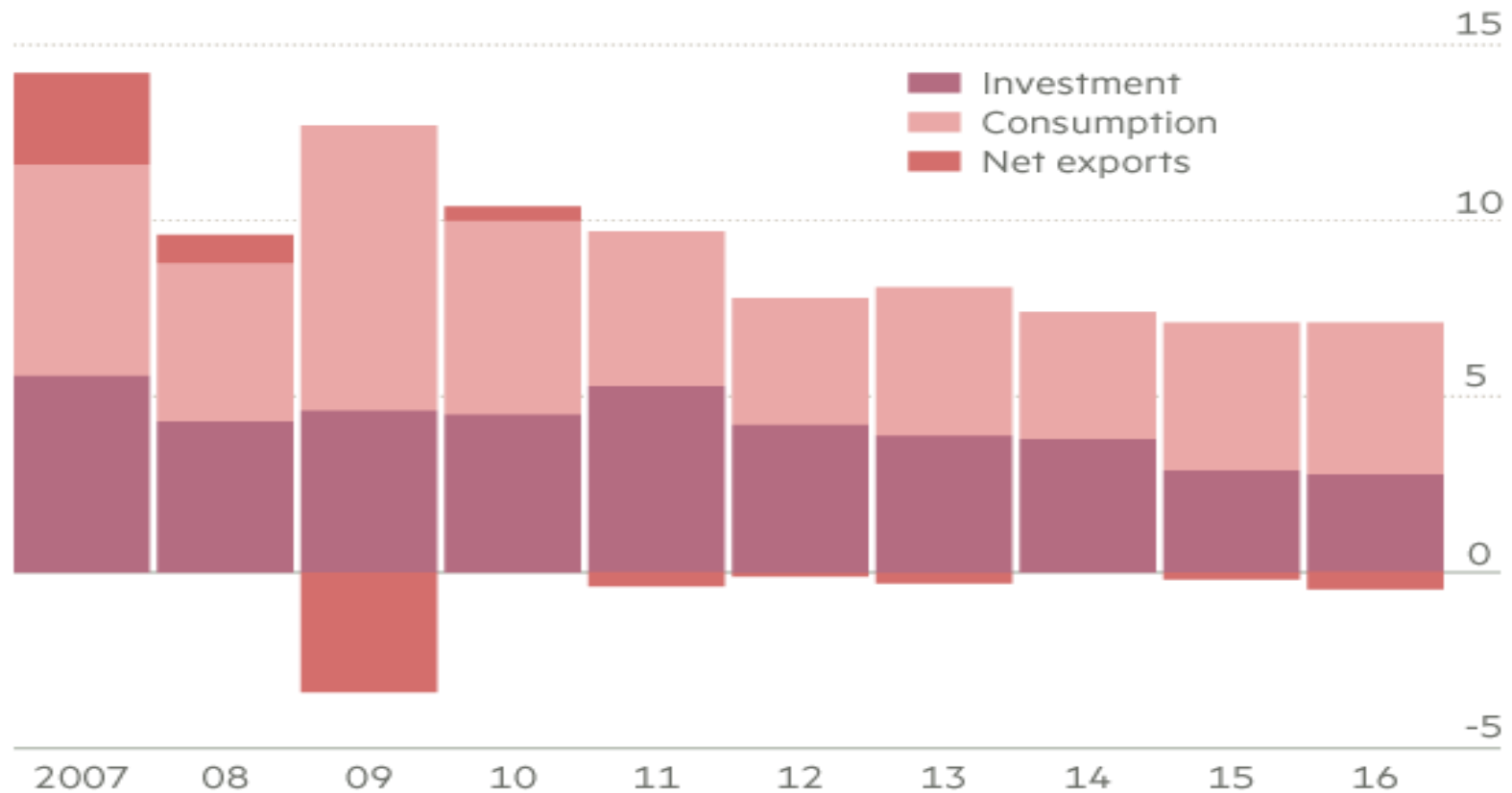
## Agriculture's share of China's fixed asset investment is less than its share of GDP





# Something is really changing

Composition of China GDP growth  
Percentage points

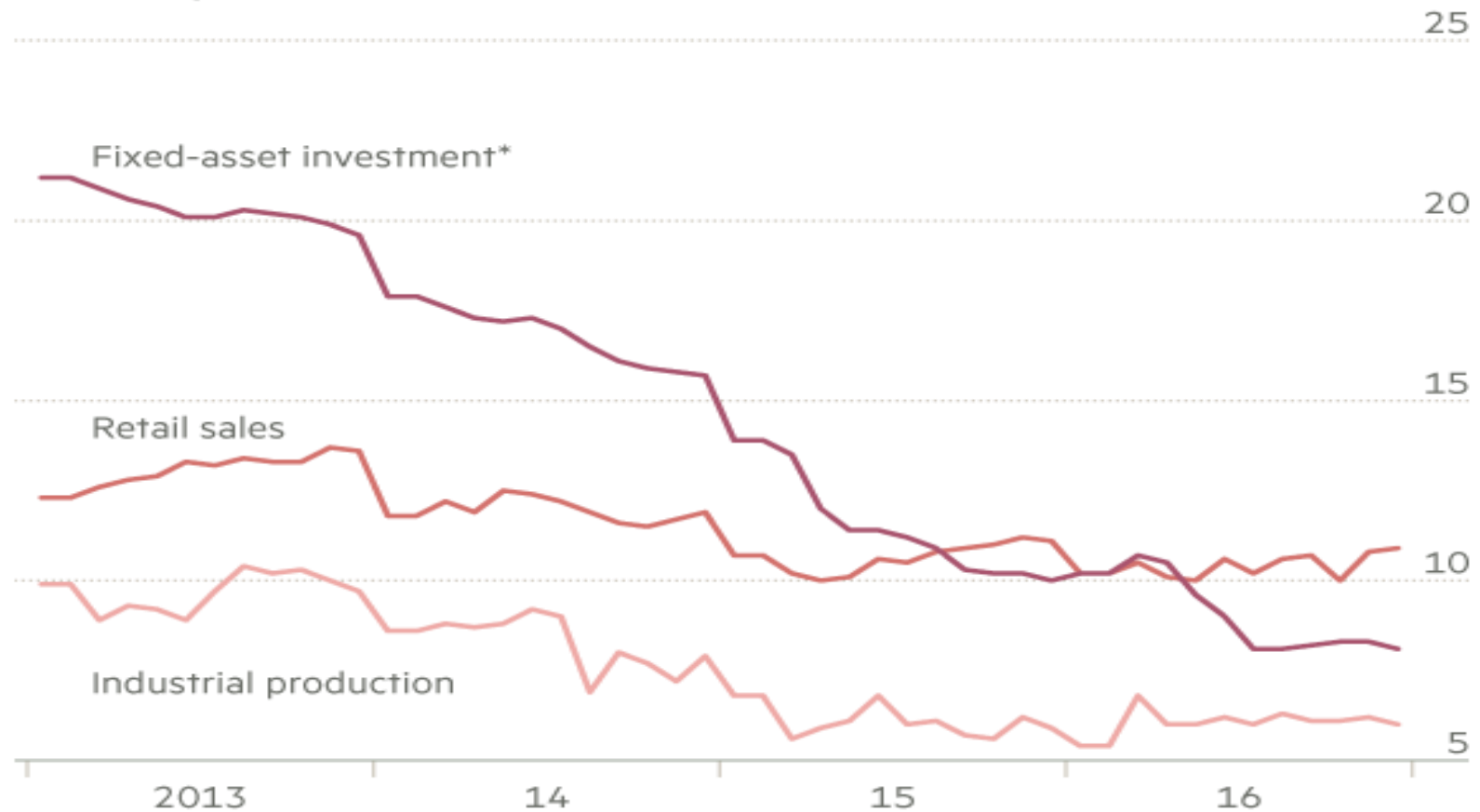


Sources: National Bureau of Statistics; CEIC

# Retail sales vs. fixed investments

## China key activity indicators

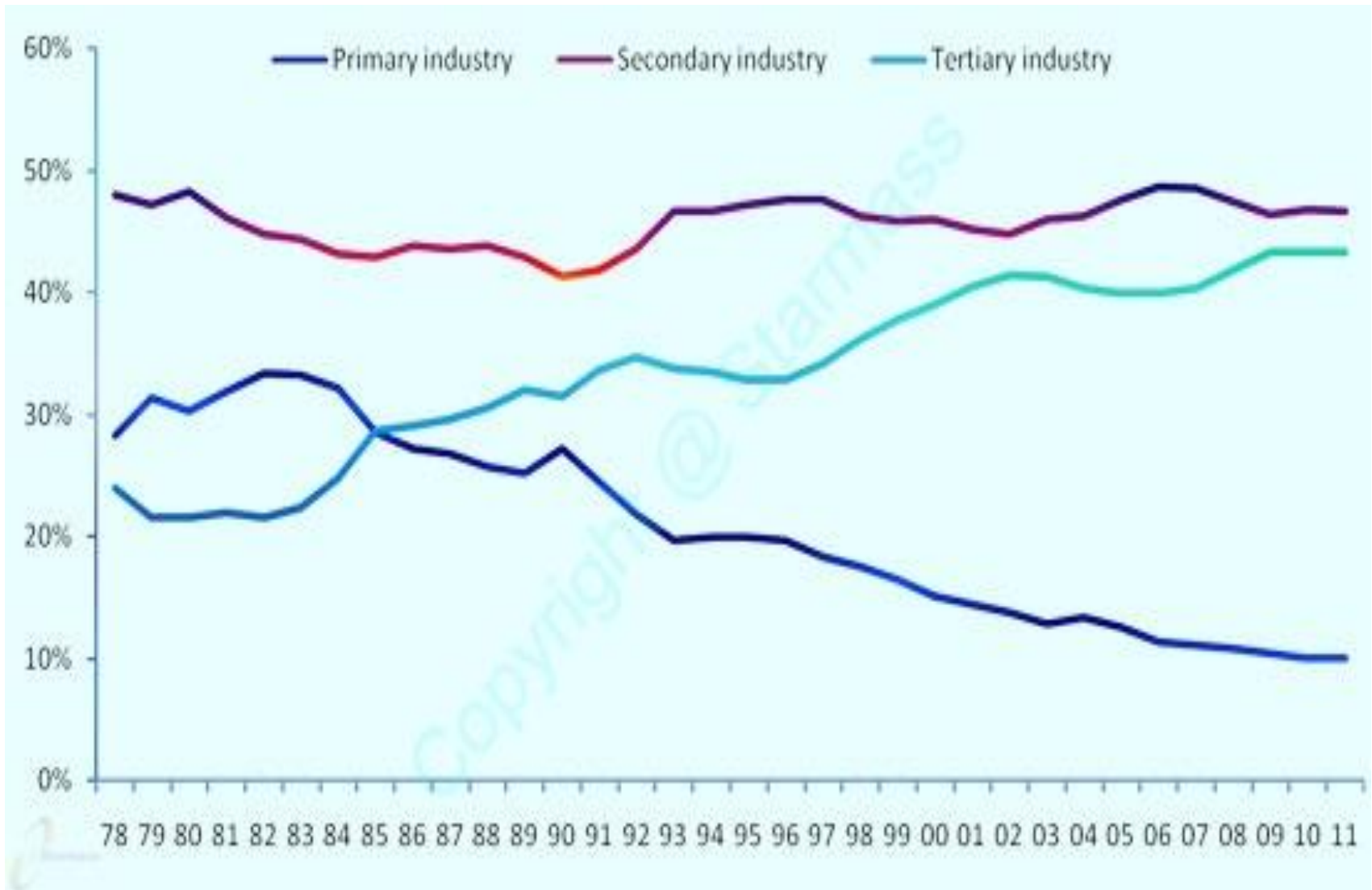
Annual % growth, monthly



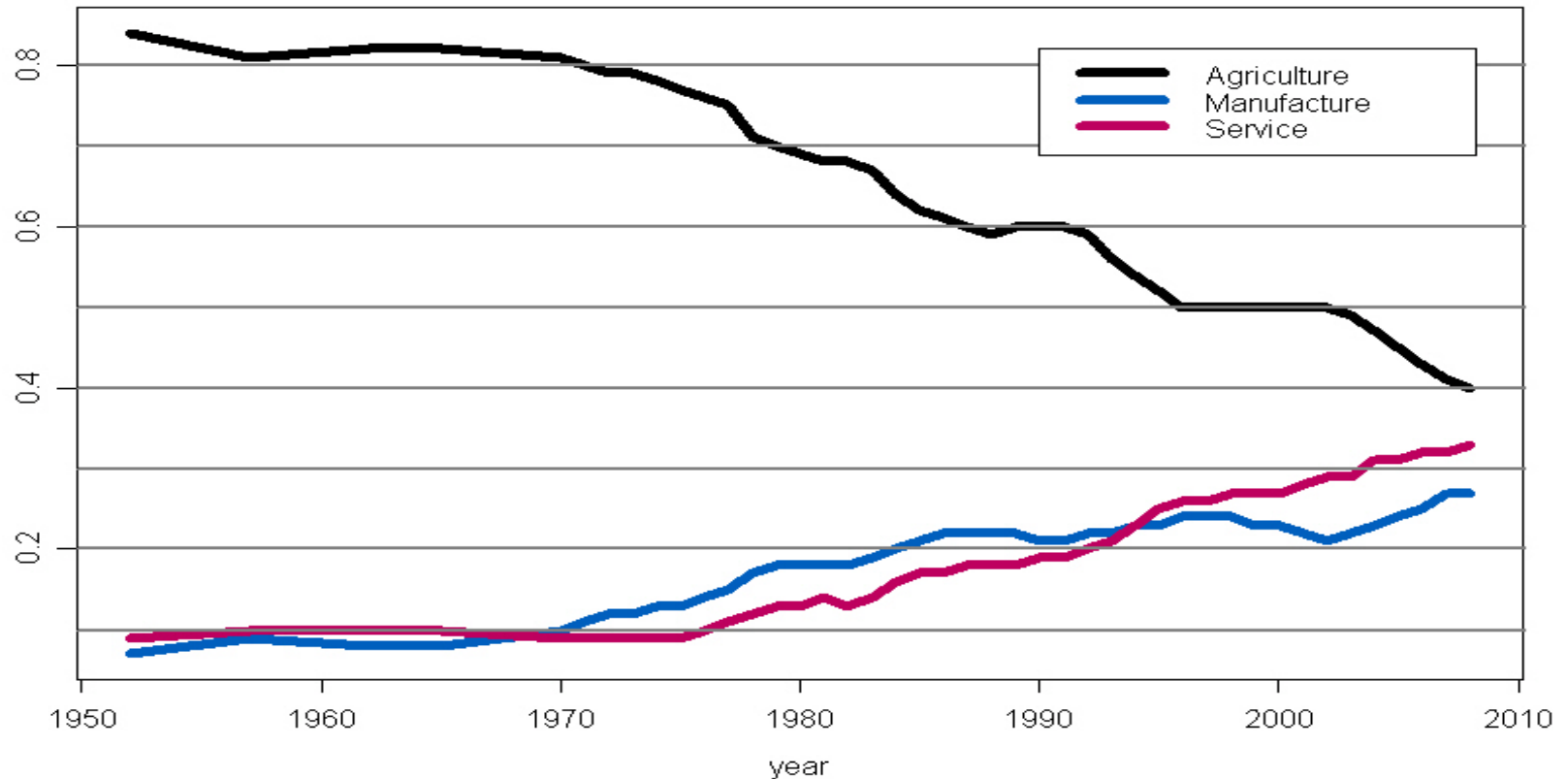
\*Year to date

Sources: National Bureau of Statistics; CEIC

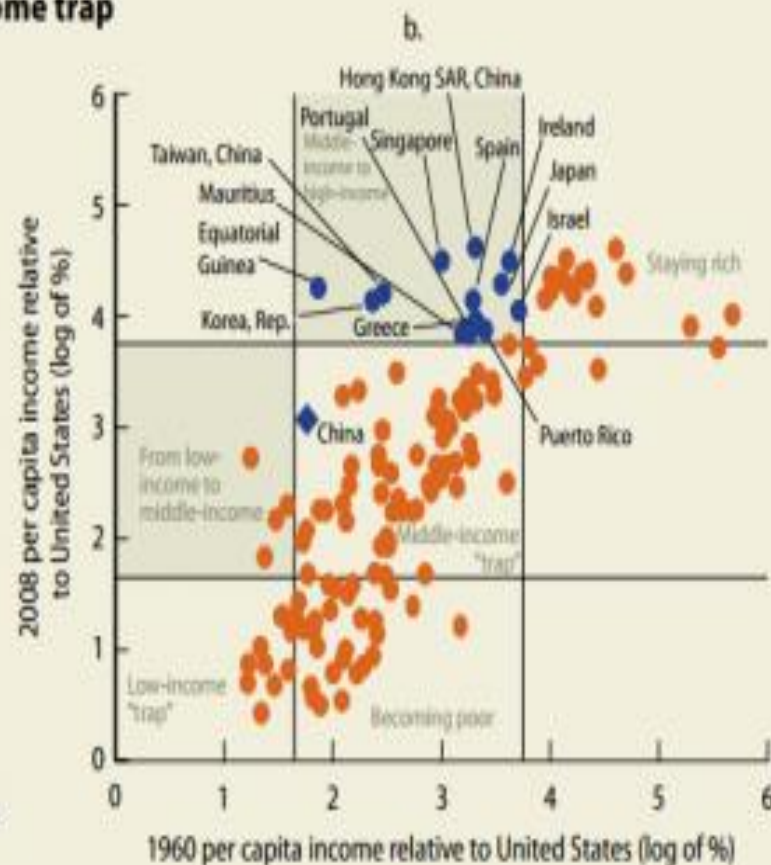
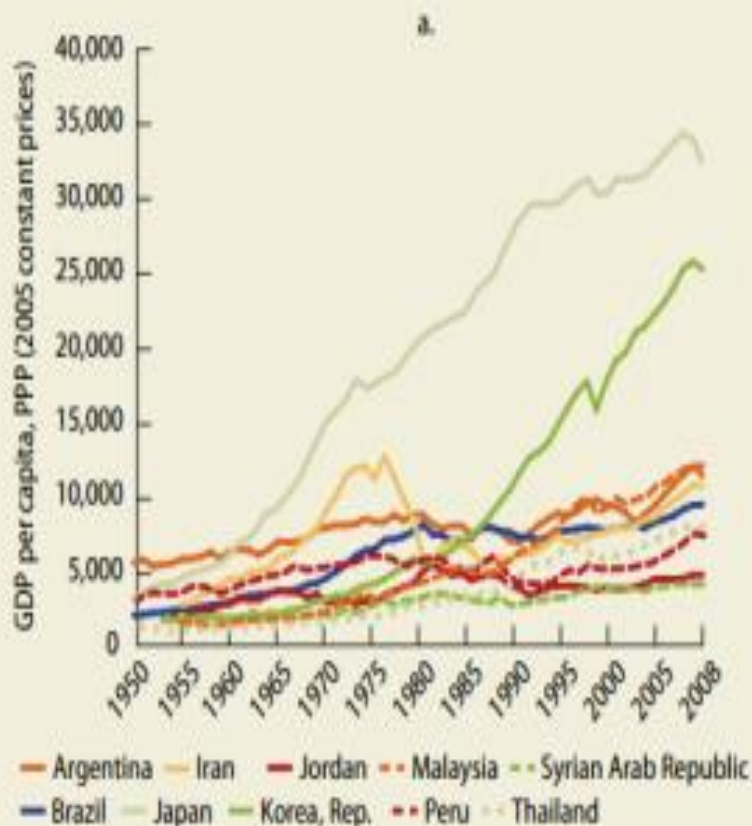
# Contributing to GDP



# Employment distribution in the different sectors



**Box 1 Figure Few countries escape the middle-income trap**



Source: Heston, Summers, and Aten 2011.

Source: Maddison database.

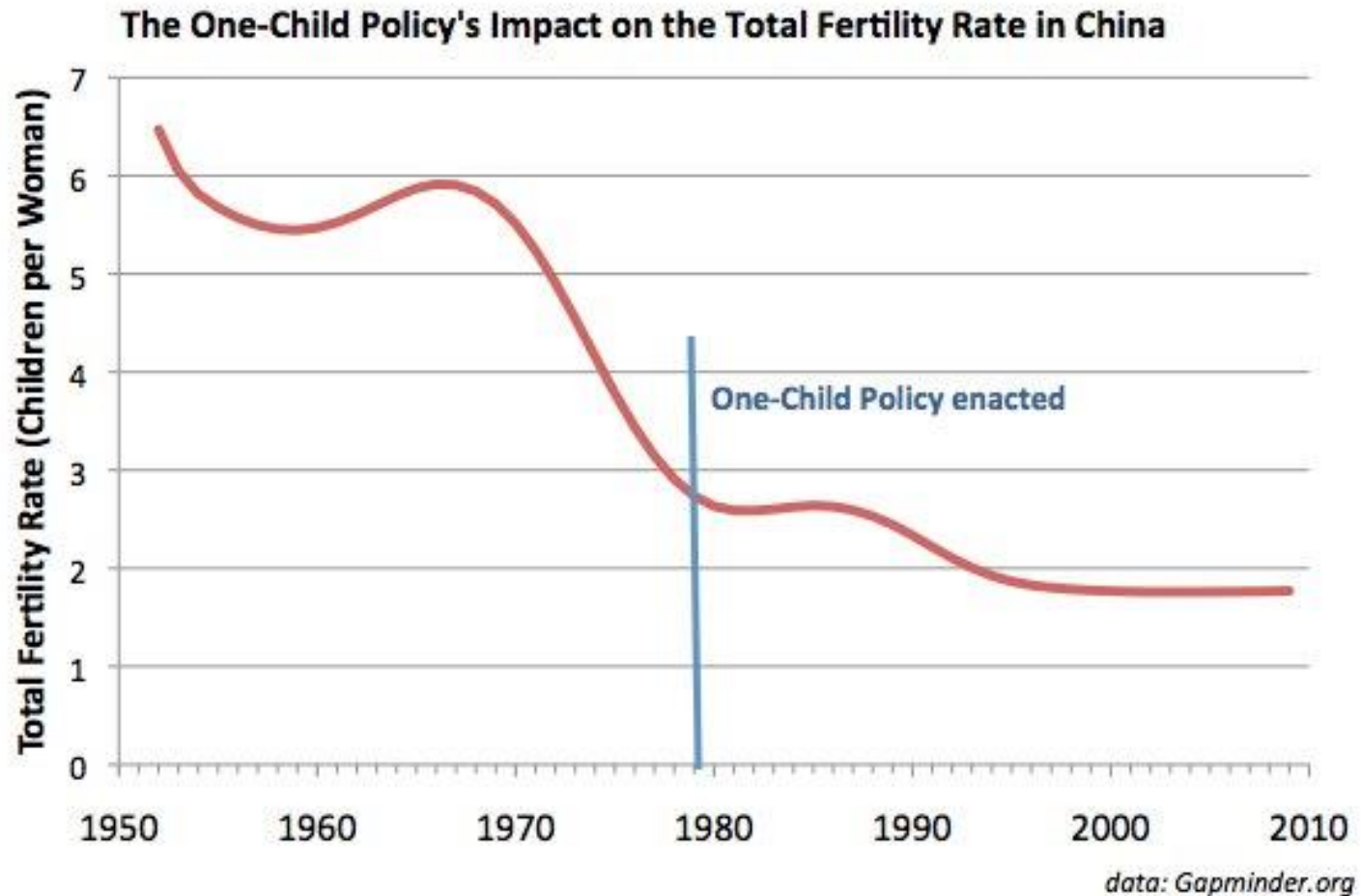
a. The term "middle-income trap" was first defined in Gill, Kharas, and others (2007). "Middle income economies" are defined in accordance with classifications by income group as given in: <http://data.worldbank.org/about/country-classifications>.

b. In today's increasingly globalized world, escaping the middle-income trap may be even more difficult (Eeckhout and Jovanovic 2007).

### Age structure (latest available)

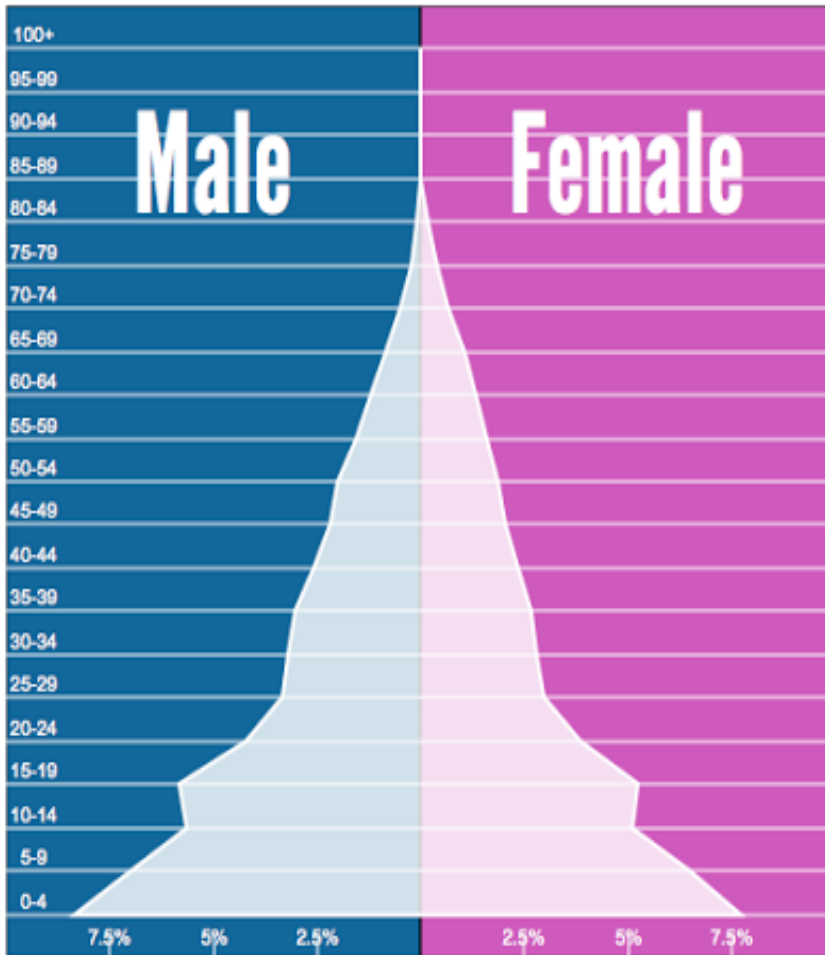
	Population by age			Elders for each 10 working-age population	Median age
	0-14	14-65	65+		
China	20.4	71.7	7.9	1.1	33.2
<b>India</b>	<b>32.1</b>	<b>62.7</b>	<b>5.3</b>	<b>0.8</b>	<b>24.8</b>
South Korea	20.0	71.0	9.0	1.3	35.8
Indonesia	28.3	66.2	5.5	0.8	26.9
Malaysia	32.4	63.0	4.6	0.7	24.4
Philippines	35.1	61.0	3.9	0.6	22.7
Thailand	23.8	69.1	7.1	1.0	32.4
Vietnam	29.5	65.0	5.4	0.8	26.4
Bulgaria	13.8	69.1	17.1	2.5	40.9
Croatia	16.0	67.1	16.9	2.5	40.6
Czech Republic	14.9	71.1	14.0	2.0	39.5
Hungary	15.6	68.8	15.6	2.3	38.9
Poland	16.7	70.2	13.1	1.9	37.3
Romania	15.9	69.4	14.7	2.1	36.9
Russia	14.6	71.1	14.4	2.0	38.2
Slovakia	17.1	71.2	11.7	1.6	36.0
Slovenia	14.4	70.3	15.3	2.2	41.0
Turkey	28.6	63.6	7.8	1.2	28.6
Ukraine	14.0	69.6	16.3	2.3	39.2

# One-child policy: short and long term trends

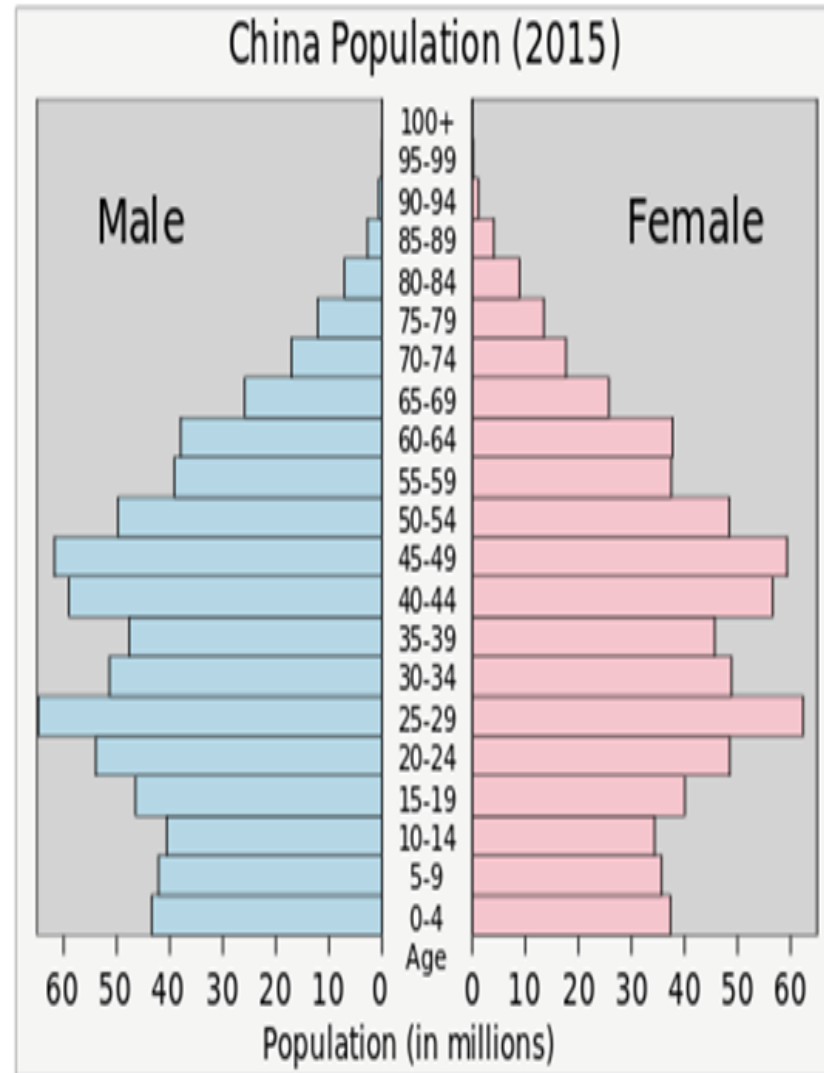


# Comparing the past with the present

## China Population (1970)



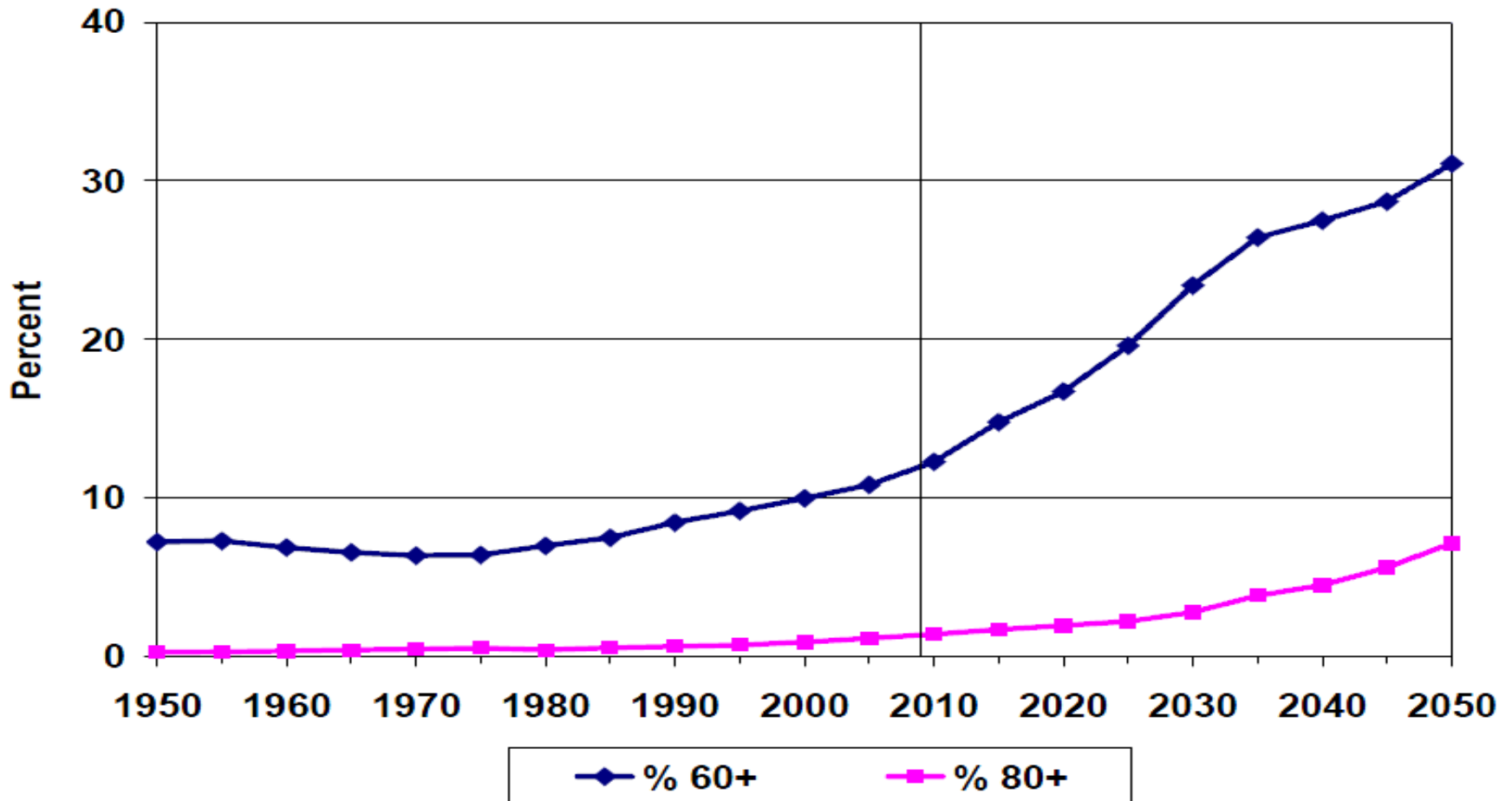
## China Population (2015)



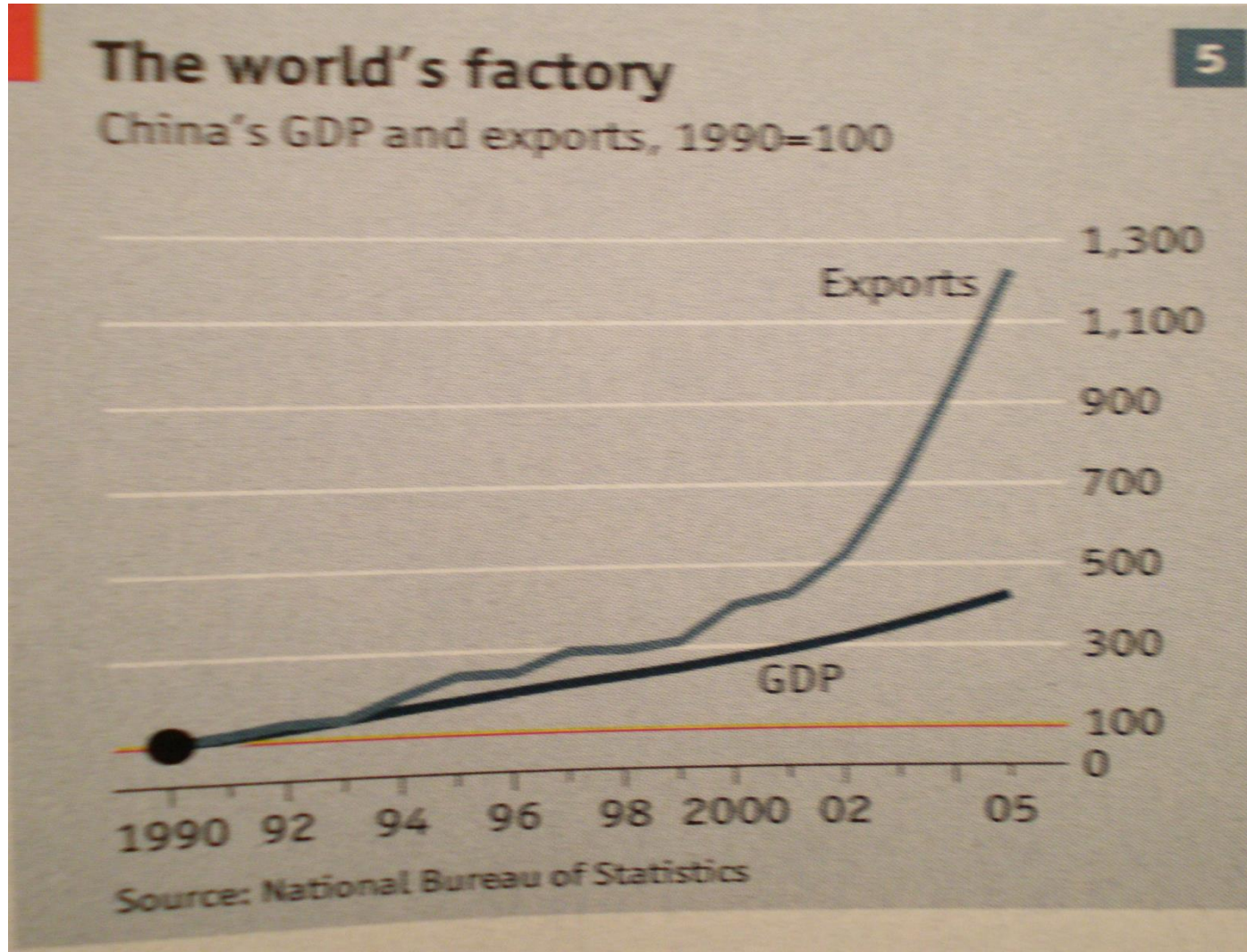


# Forecasts for the future

Chinese citizens over the age of 65 will soar to 219 million in 2030 and grow to make up a quarter of China's entire population by 2050



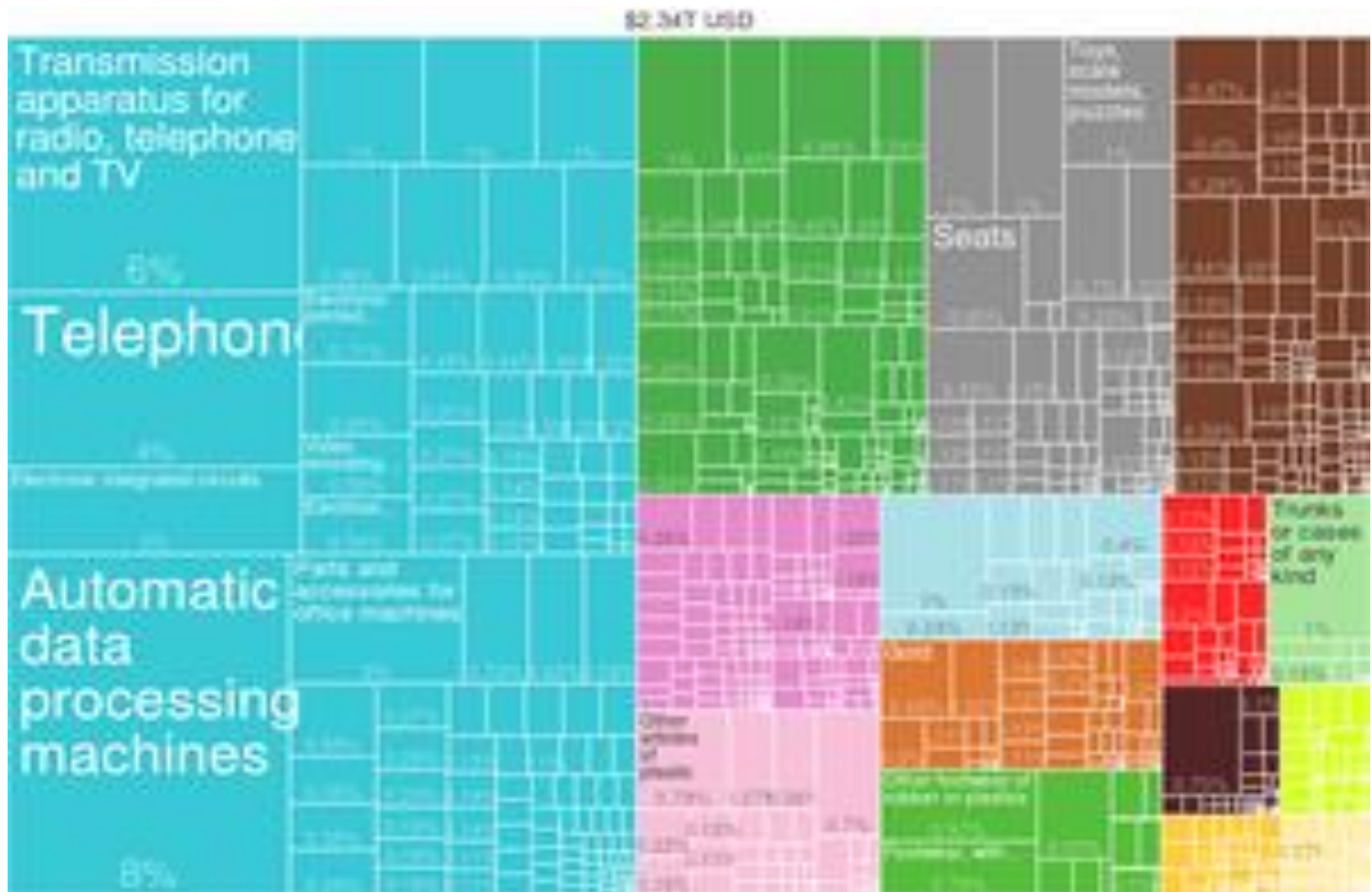
# The export booming: like the 30 glorious ?



# Running for the leadership



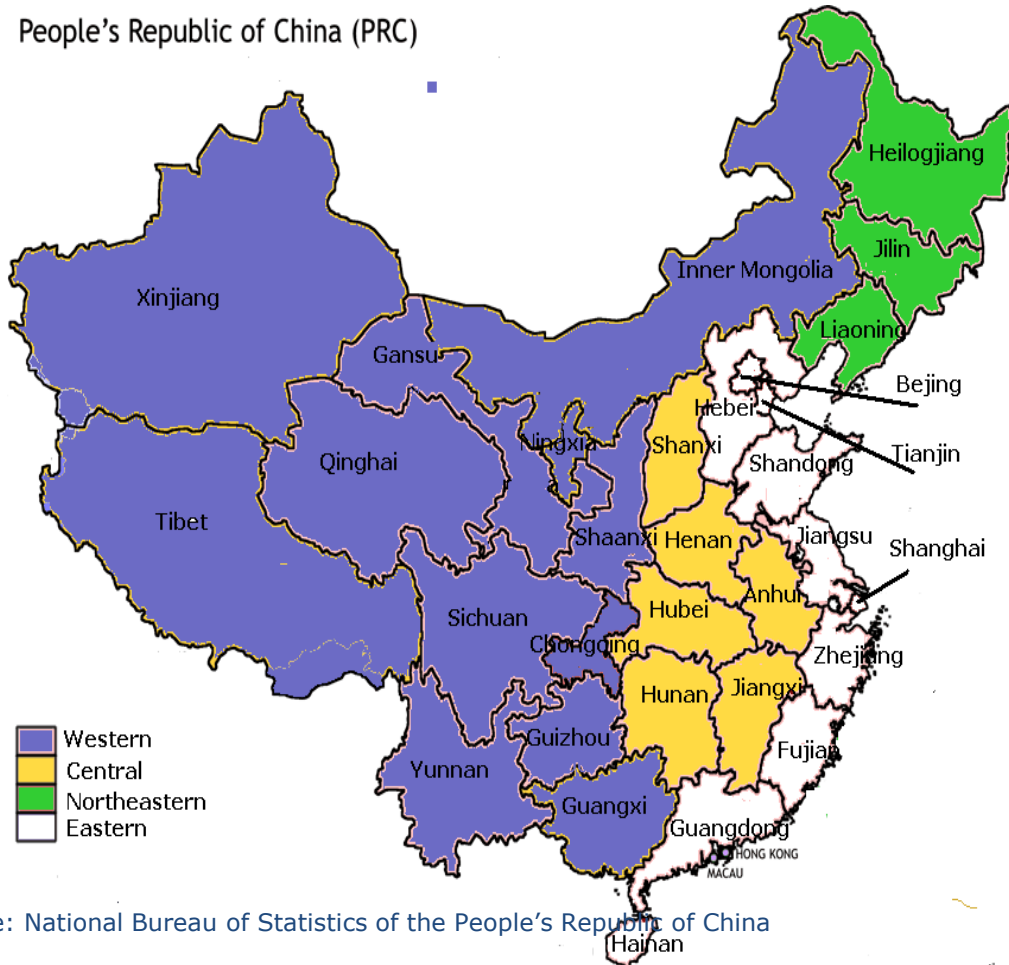
# Chinese exports by sectors (2014)



# The party is not for everywhere



# Prosperous and less prosperous regions



Regional Distribution (% of the total)		
	GDP	Population
Central	19	27
Eastern	56	36
Northeastern	9	8
Western	17	28

Household		
	Consumption	Total Saving
Central	21	18
Eastern	51	54
Northeastern	8	10
Western	20	18

Regional Distribution (% of the total)		
	Number of Enterprise	Industrial GDP
Central	18	18
Eastern	63	58
Northeastern	7	9
Western	12	15

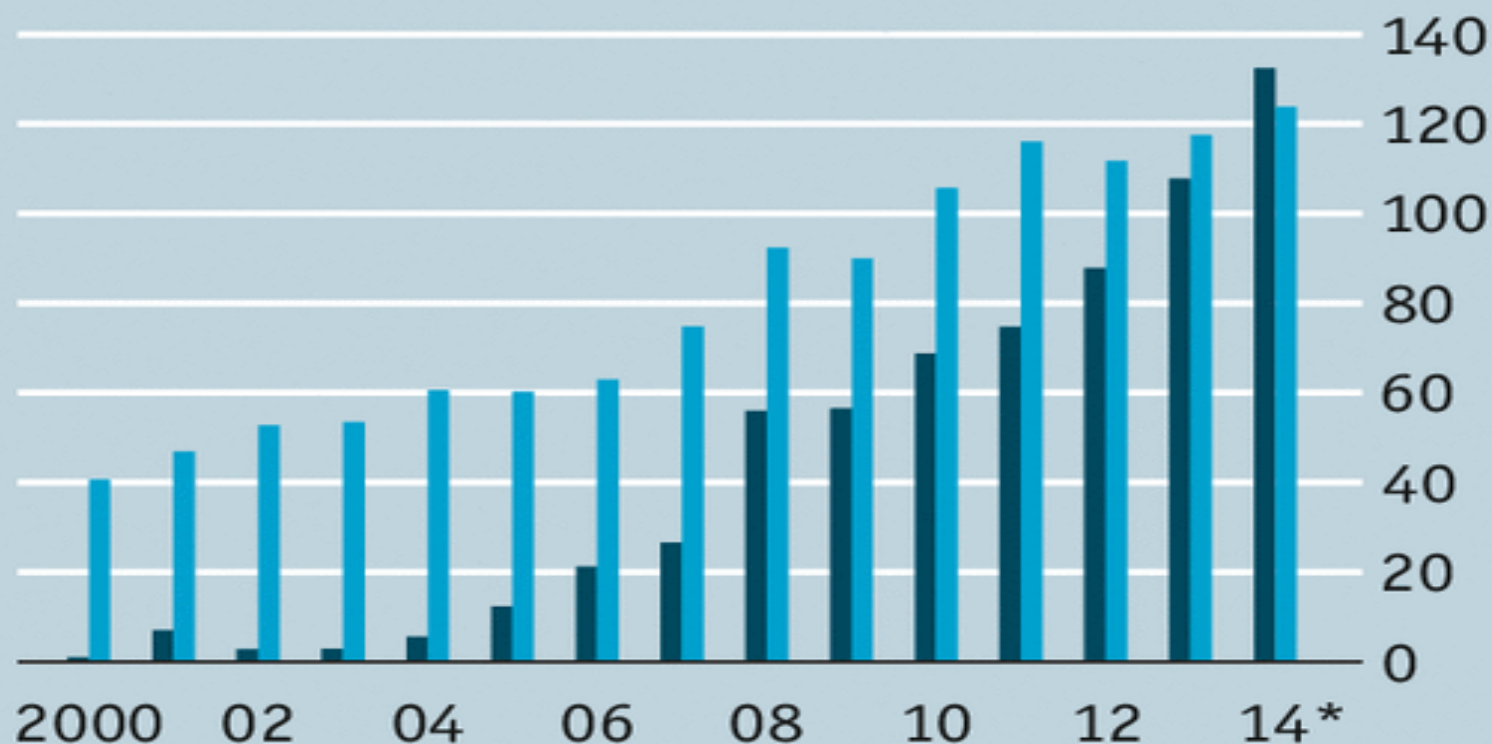
Capital Formation		
	Tertiary GDP	Capital Formation
Central	17	18
Eastern	57	54
Northeastern	8	8
Western	17	20

Source: National Bureau of Statistics of the People's Republic of China

## The out and in club

China's direct investment flows, \$bn

Outward Inward



Sources: Centre for China & Globalisation;  
National Bureau of Statistics

\*Forecast

Table 13 Globalization and FDI: outward stock of FDI, 1990 and 2009 (\$ billion)

	1990	2009
<i>Developed economies</i>	1,942	16,010
of which:		
• USA	732	4,303
• UK	229	1,652
• Germany	152	1,378
• France	112	1,720
• Netherlands	107	851
• Australia	31	344
• Denmark	7	216
<i>Developing and transition economies</i>	145	2,691
of which:		
• Singapore <sup>a</sup>	8	213
• Russia	negl.	249
• Taiwan <sup>a</sup>	30	181
• Brazil	41	158
• China	4	230
• India	negl.	(76) <sup>b</sup>
		77

<sup>a</sup> The World Bank categorizes both Singapore and Taiwan as high-income economies.

<sup>b</sup> Excluding Hong Kong and Macao; 67 per cent of China's outward stock of FDI is in Hong Kong and Macao (S&B, 2009: tables 17–20).

Source: UNCTAD, 2010, Annex.



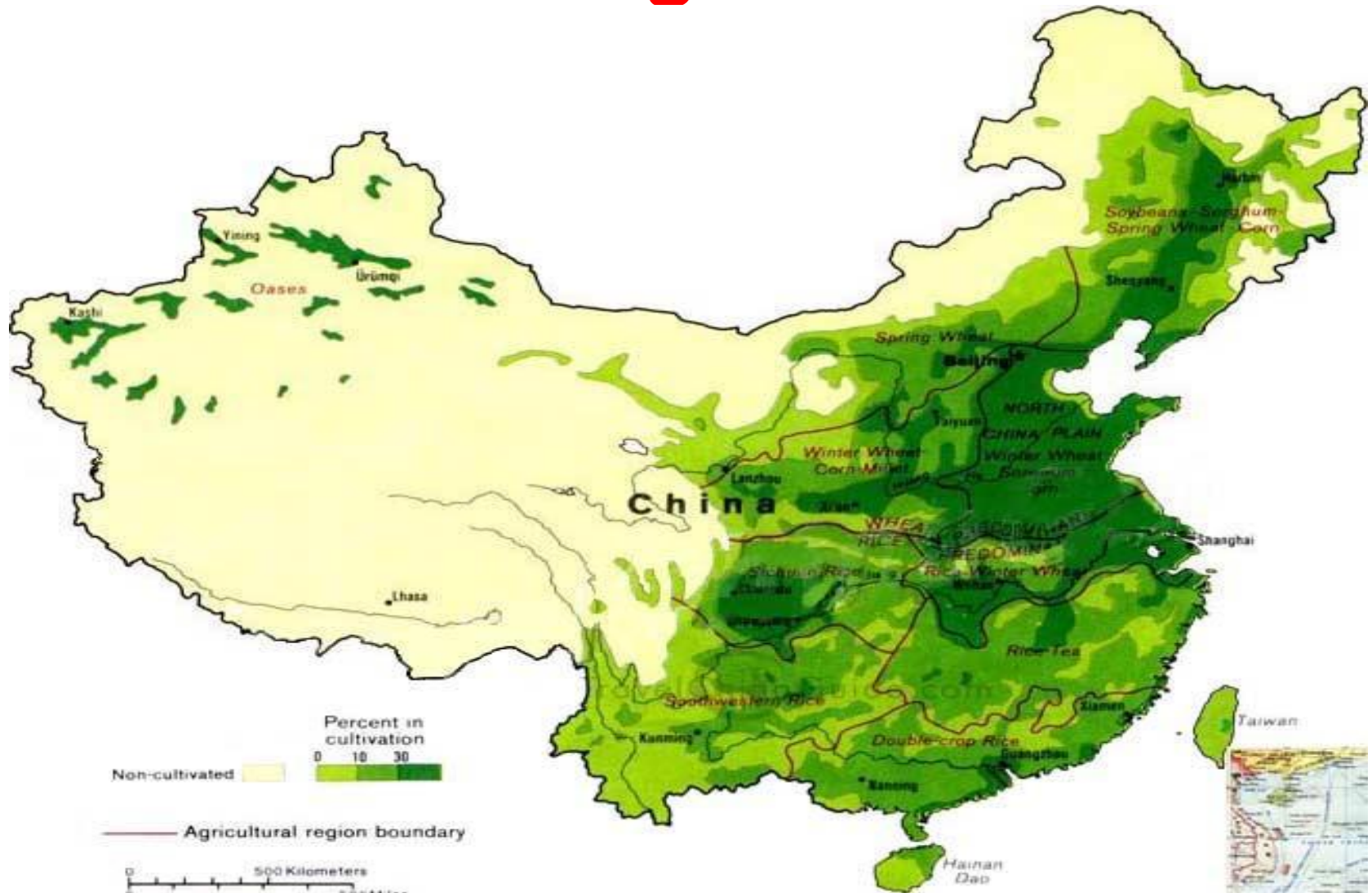
Table 14 Distribution of China's outward stock of FDI, 2009  
(\$ billion)

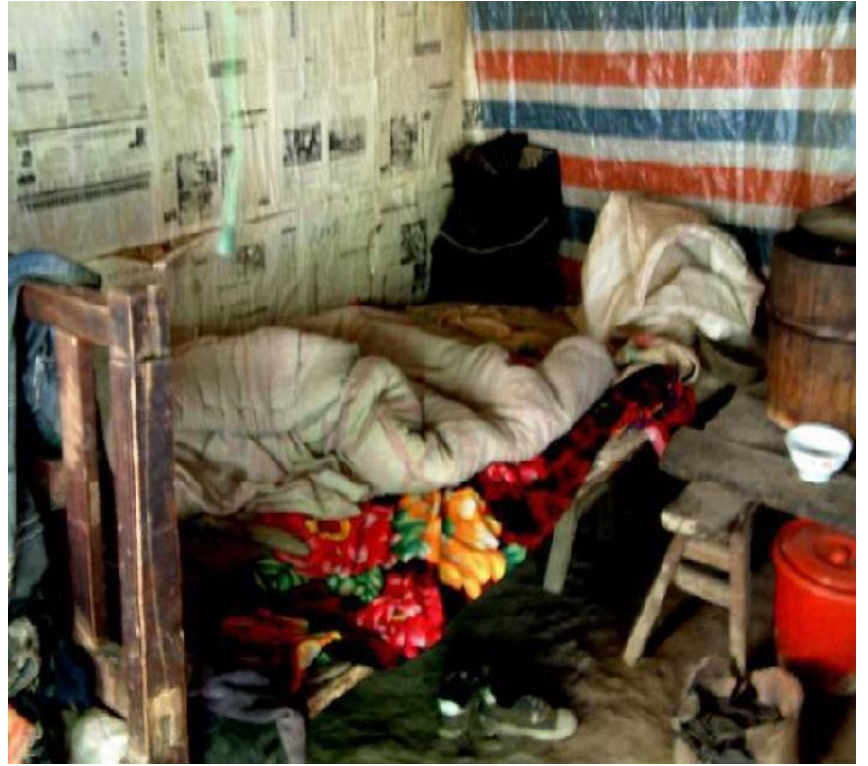
<i>Region/country</i>	<i>\$ billion</i>	<i>%</i>
Total	245.8	100
of which:		
• Hong Kong/Macao	166.3	67.7
• Africa	9.3	3.8
• Latin America	30.6	12.4
of which:		
• Cayman Islands	13.6	5.5
• Virgin Islands	15.1	6.1
High-income countries <sup>a</sup>	27.1	11.0
of which:		
Europe	8.7	3.5
• France	0.2	negl.
• Germany	1.1	0.4
• UK	1.0	0.4
North America	5.2	2.1
• USA	3.3	1.3
Japan	0.7	0.3
Singapore	4.9	2.0
Korea	1.2	0.5
Oceania	6.4	2.6

<sup>a</sup> Excluding Hong Kong.

Source: SSB, 2010: 257.

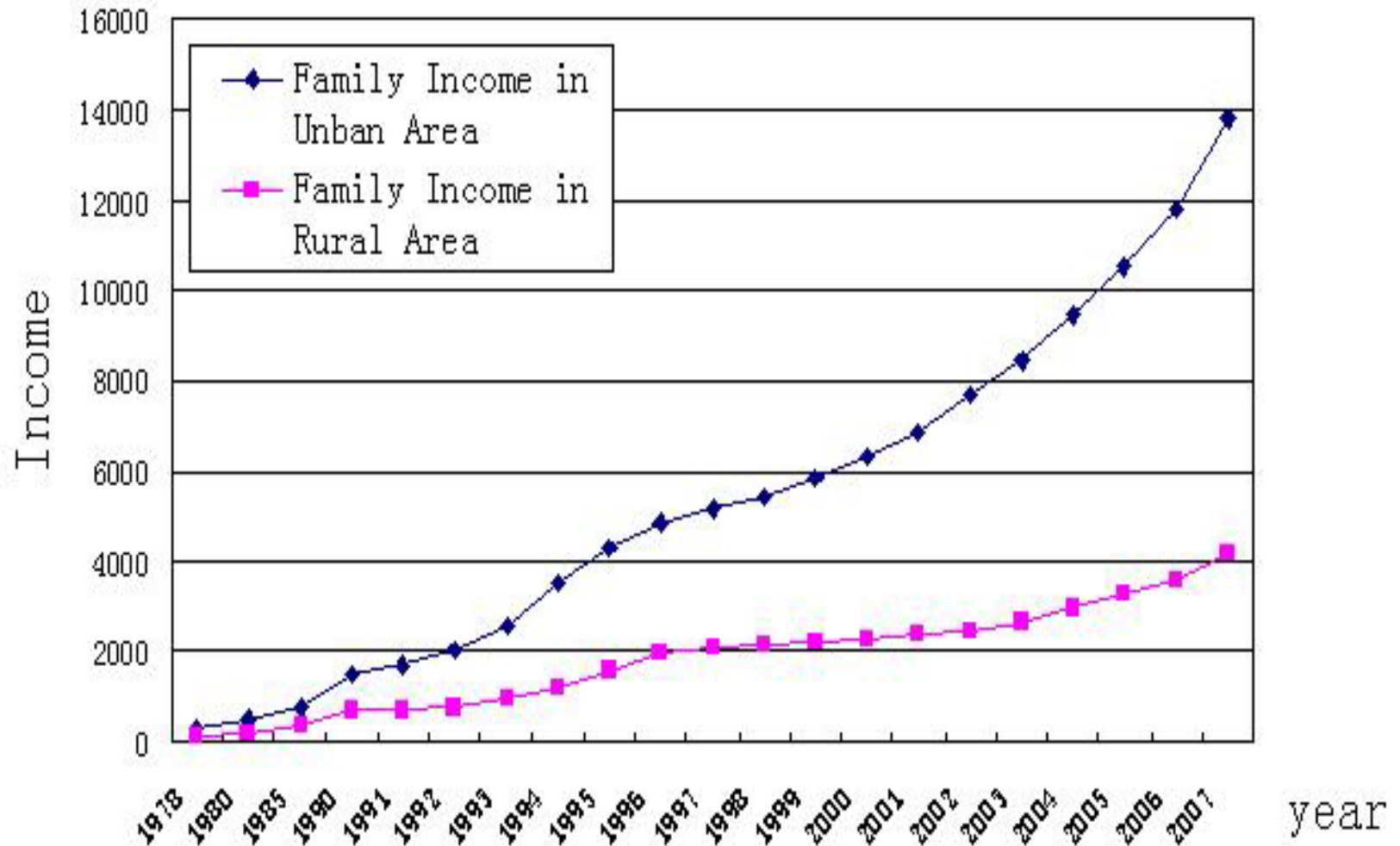
# China's agriculture





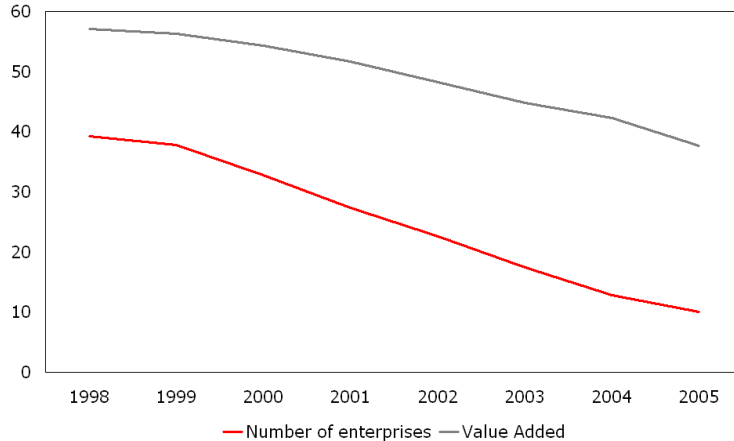


# Rural areas vs. urban areas

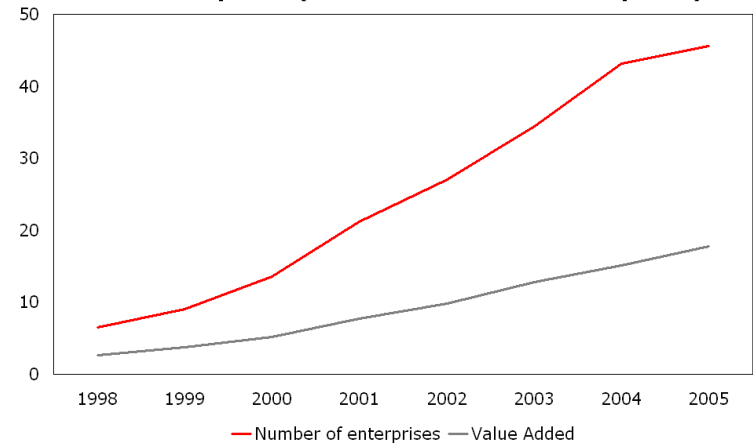


# Chinese Big Business

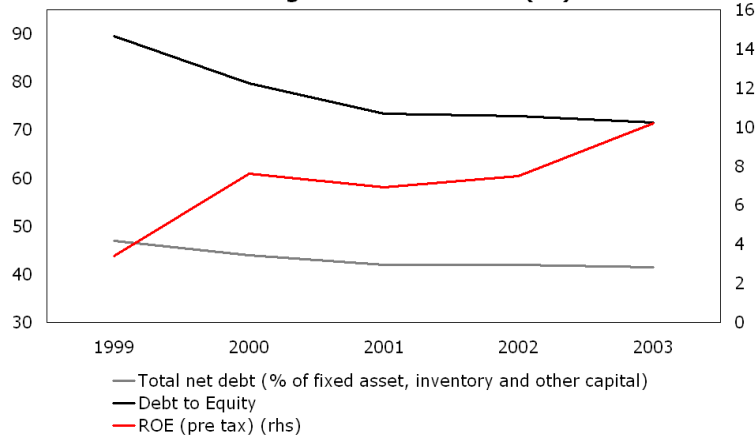
**State Enterprises (% of total Industrial Enterprises)**



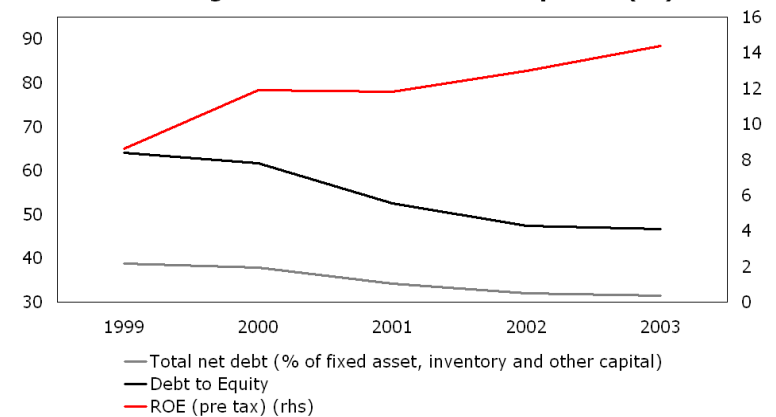
**Private Enterprises (% of total Industrial Enterprises)**



**Financing Indicators of SOE (%)**



**Financing Indicators of Private Companies (%)**



# The Universe of SOE

- 2006: 119.254 firms  
37,75 million employees  
39 Trillion assets

## Central government

22.589 firms

16,96 million people

14,8 trillion assets

## Local governments

96.672 firms

20,79 million people

16,65 trillion assets

# State Asset Supervision Administration Commission (SASAC)

- 16.373 firms
- 11,04 million employees
- 12,2 trillion assets
- Industry 6.610 firms
- Commerce 2.226 firms
- Other 7.537 firms



# SASAC's deep restructuring

- 1992: 76 million employees
- 2002: 50 million employees
- End of “iron rice bowl” (life employment)
- 1998-2002: Chinese government to eliminate industrial ministry and the State Asset Management Bureau
- In 2003 SASAC did not exactly how many firms was owing

- Mid-1990's profits of SOE = 0,6 of GDP
- 2000: profits of SOE = 10% of GDP
- 2007: profits of SOE = 4,2 % of GDP
- 9 firms contribute to 69% of of total profits
- (China Mobile; China Telecom; Bao Shan Steel; Shenhua Coal; Chinalco; State electricity and gas; 3 oil companies)

# Modernization via stock exchange

- Sinopec (oil) and CNPC (petrochemical) set up a controlled company where they put the most attractive assets: listed at New York and Hong Kong Stock Exchange
- Bubble effects: 2% shares of Petrochina = 8,9 billion \$ - 100% more than Exxon

# SOE and China national security

- Full control in national security, natural resources and natural monopolies (defence sector, electricity, oil, telecom, coal, civil aviation and transportation)
- Control over a number of technologically key point enterprises (steel, electronics, machine building, etc.)

# The new strategies for SOE

- 1) national strategic sectors
- 2) sectors where the state is already competitive or can play a catalytic role
- 3) few firms with potential international competitiveness
- 4) firms focused in core business

- 1) reaching market leadership (rank 1-3 or closing down)
- 2) structured leadership: no monopolies
- for instance: telecom 3 companies
- defense 2 big firms
- 3) restructuring capital market – increasing self-financing
- 4) diversification process via integration
- For instance: steel trader Sinosteel to acquire iron ore, chrome, nickel, uranium overseas, but it still does not own any steel plant

LOCATION OF  
CHINESE  
COMPANIES  
LISTED IN THE  
*FORTUNE*  
GLOBAL 500



# Chinese acquisitions

Table 1: Chinese acquisitions in Europe: Largest deals since January 2015

Target	Buyer	Seller	%	Location	Industry	Value (estimate)	Date
<b>Syngenta</b>	ChemChina	<b>Listed</b>	100 <i>offer</i>	Switzerland	Agricultural chemistry	€ 40 bn	2016 02
<b>Pirelli</b>	ChemChina	<b>Listed</b>	100	Italy	Automotive supplier	€ 7.1 bn	2015 11
<b>Swissport</b>	HNA Group	<b>Private Equity: PAI</b>	100	Switzerland	Airport services	€ 2.6 bn	2015 08
<b>Avolon Holdings</b>	HNA Group	<b>Listed (87% Private Equity)</b>	100	Ireland	Aircraft leasing	€ 2.3 bn	2015 08
<b>Tnuva</b>	Bright Foods	<b>Private Equity: Apex &amp; others</b>	56	Israel	Dairy	€ 2.2 bn	2015 01
<b>RF Power unit of NXP</b>	Jinyin Investment	<b>Corporate (NXP)</b>	100	Netherlands	Semi-conductors	€ 1.6 bn	2015 11
<b>EEW Energy from Waste</b>	Beijing Enterprise	<b>Private equity: EQT</b>	100	Germany	Waste recycling	€ 1.4 bn	2016 02
<b>Opera Software</b>	Qihoo 360, Kunlun & PE	<b>Listed</b>	100 <i>offer</i>	Norway	e-commerce	€ 1.4 bn	2016 02
<b>WMF</b>	Haier	<b>Private Equity: KKR and Fiba</b>	100 <i>bid</i>	Germany	Household goods	Expected € 1.4 bn	2016 03
<b>Madrileña Red de Gas</b>	Gingko Tree (jointly with PGGM & EDF)	<b>Private Equity: Morgan Stanley Investments</b>	100	Spain	Utilities	€ 1.3 bn	2015 04
<b>Groupe Du Louvre</b>	Jinjiang Hotels	<b>Private Equity: Starwood</b>	100	France	Hotels	€ 1.2 bn	2015 01
<b>Infront Sports &amp; Media</b>	Dalian Wanda	<b>Private Equity: Bridgepoint</b>	68.2	Switzerland	Sports marketing	€ 1.1 bn	2015 02
<b>Punch powertrain</b>	Yinyi Investment	<b>Private Equity: Grmv &amp; others</b>	100	Belgium	Automotive supplier	€ 1.0 bn	015 02
<b>Club Med</b>	Fosun	<b>Listed</b>	100	France	Tourism	€ 939 m	2015 01
<b>KraussMaffei Machines</b>	ChemChina & P.E.	<b>Private equity: Onex</b>	100	Germany	Machine tools	€ 925 m	2016 01



# China's weak points

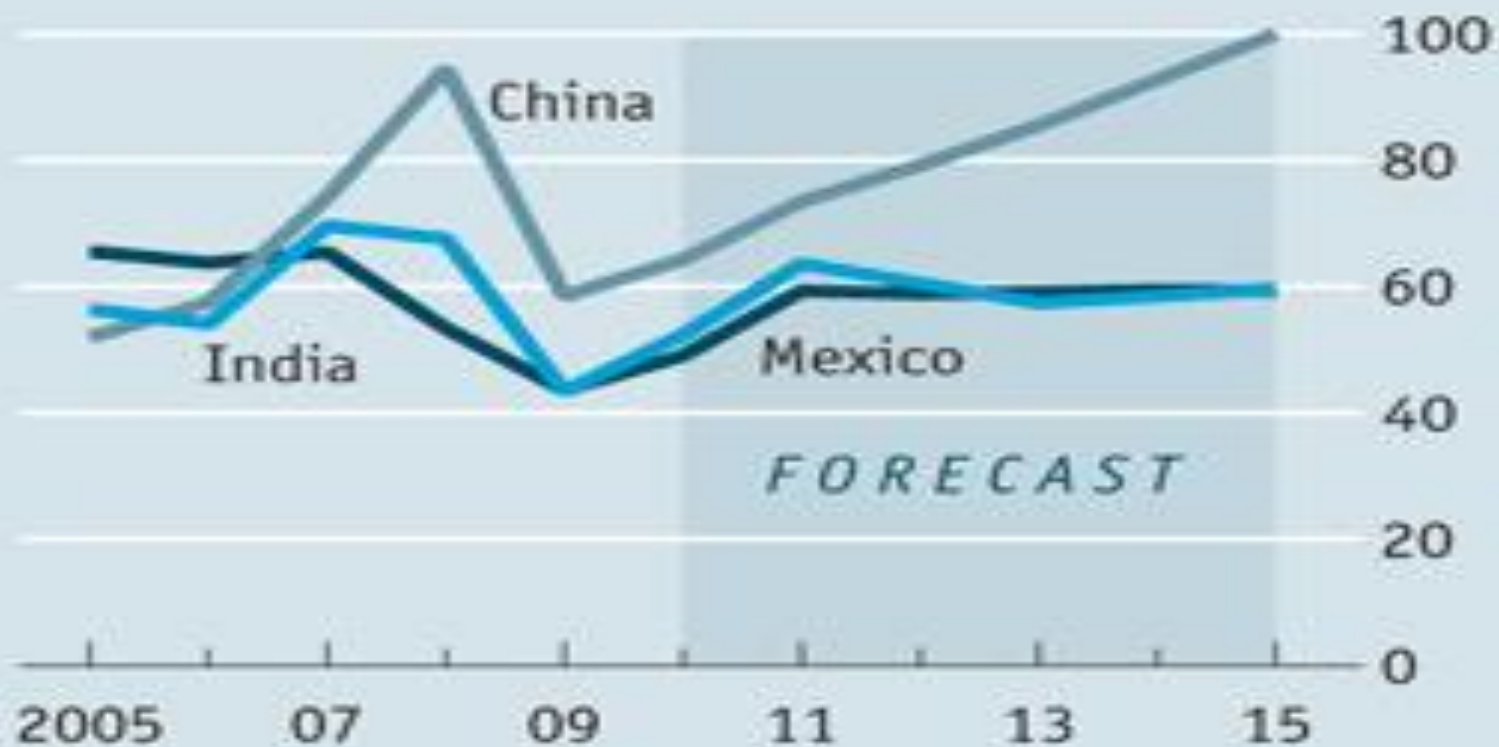
- The 9 big players have only 3,6 % of China exports
- Foreign invested firms have 60%
- High tech: foreign invested firms have 87%
- Defensive - not offensive – national champions

# The end of cheap labor



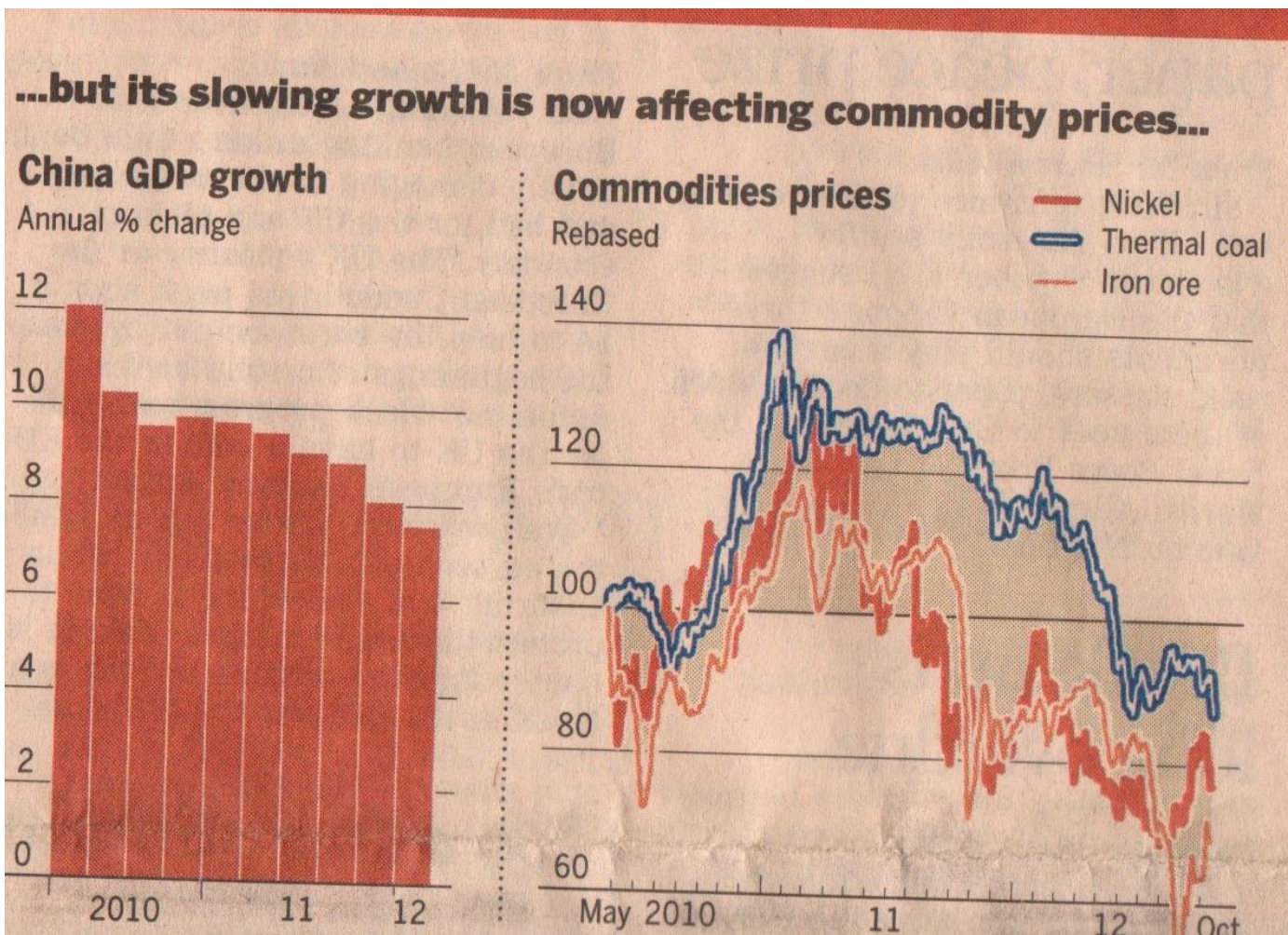
## A shopper's nightmare

Manufacturing Outsourcing Cost Index  
% of US cost



Source: AlixPartners

# Global economy and China 1



# Global economy and China 2



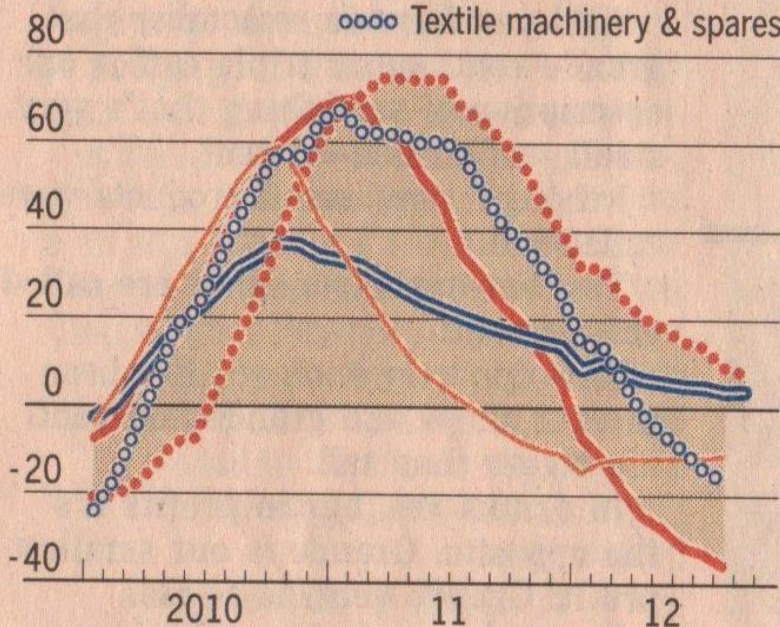
# Global economy and China 3

Meanwhile, growth of machinery imports is slowing...

## China imports

Rolling 12-month sum  
Annual % change

- Construction and mining machinery
- Machinery and electronic products
- Machine tools
- Parts of automatic data-processing equipment
- ○ ○ ○ Textile machinery & spares



## Share of exports to China 2011 (%)

- Office machines and automatic data-processing equipment
- Electrical machinery, apparatus and appliances



# Global economy and China 4



# Back to Shanghai

- «If I am not mistaken, in our country private business contribute 40% of GDP. In our Shanghai SOE create nearly 80% of Shanghai's GDP. Who upholds socialism most rigorously ? Who else if it's not Shanghai ?»
- (attributed to Chen Liangyu, Party secretary in Shanghai, 2002-06, sentenced in 2008 to 18 years in jail for corruption)



# Some initial autocritical approach ?



- Wen Jia Bao

«There are structural problems in China's economy which cause unsteady, unbalanced, uncoordinated and unsustainable development»  
(February 2007)

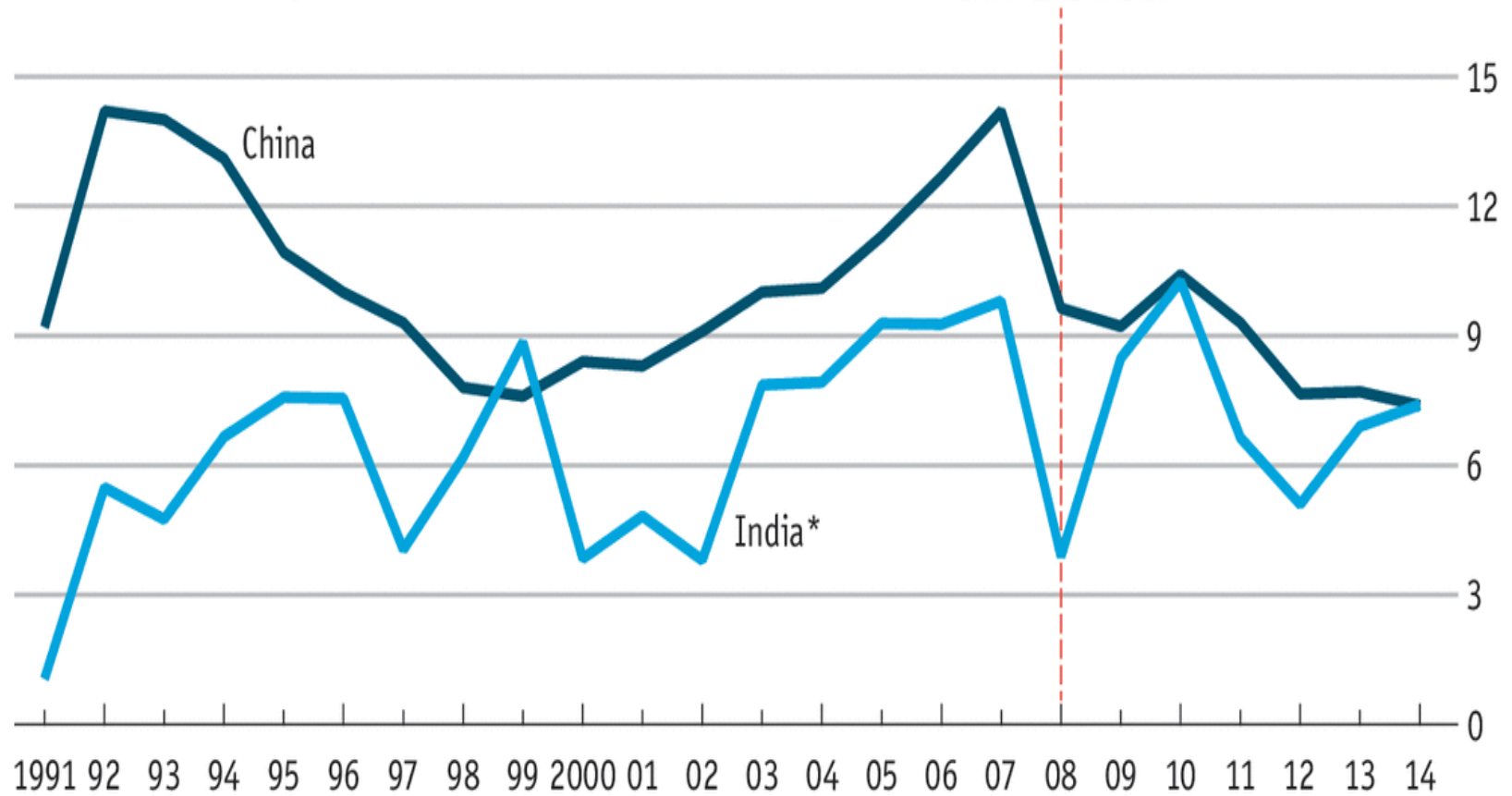
# It's the politics, stupid !

- «The reform in China has come to a critical stage. Without the success of a political structural reform, it is impossible for us to fully institute economic and structural reforms. The gain we have made in reform and development may be lost, new problem that have cropped up in China's society cannot fundamentally be resolved and such historical tragedy as the Cultural Revolution may happen again»

(Wen Jia Bao, March 2012)

# Worth trumpeting about

GDP, % increase on a year earlier

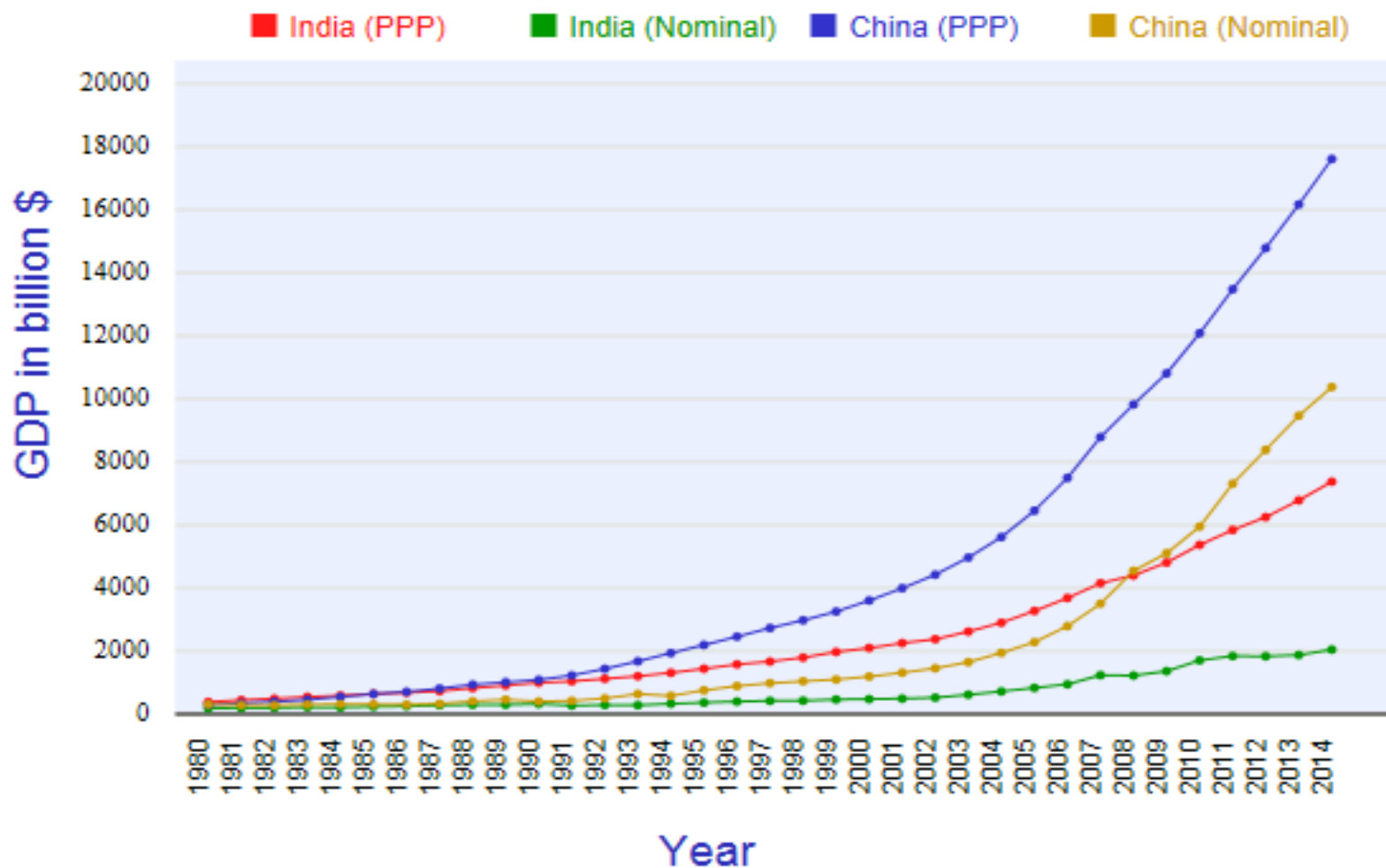


Sources: IMF; national sources

\*Fiscal years ending March, 2011-12 base year from 2012 onwards

# A closer comparison

## India vs China GDP

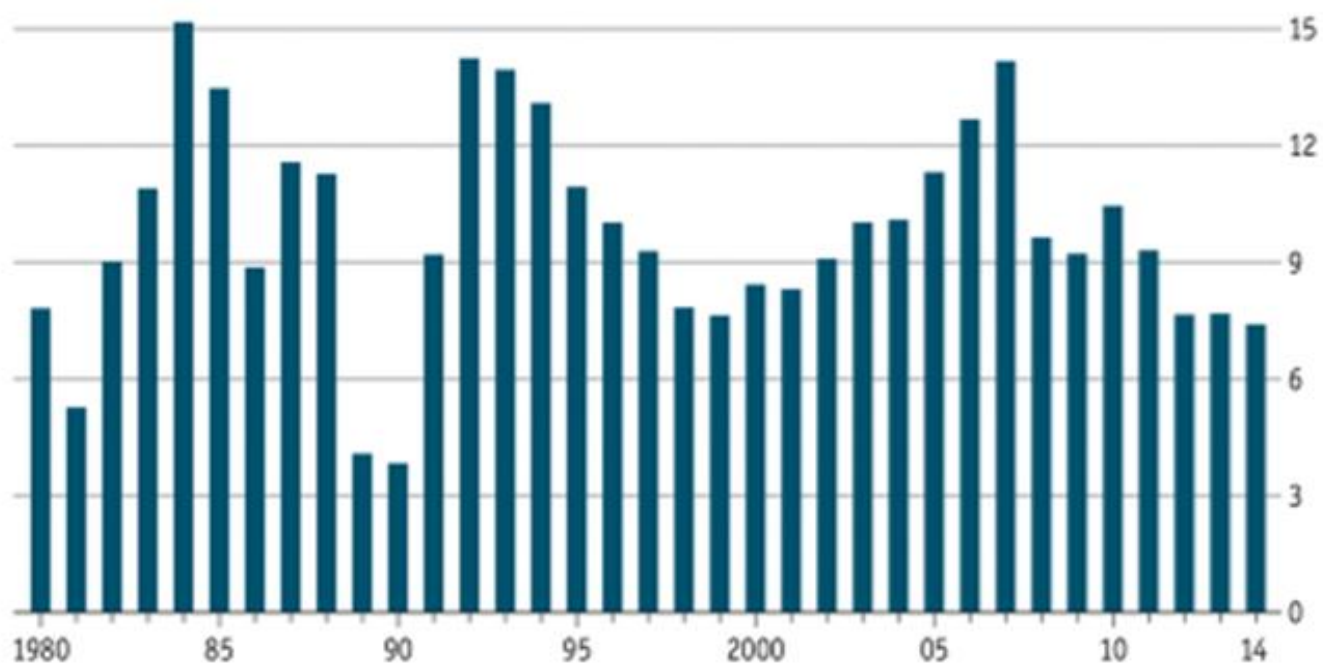


# Voluntary or involuntary errors?



## China's GDP

% increase on a year earlier

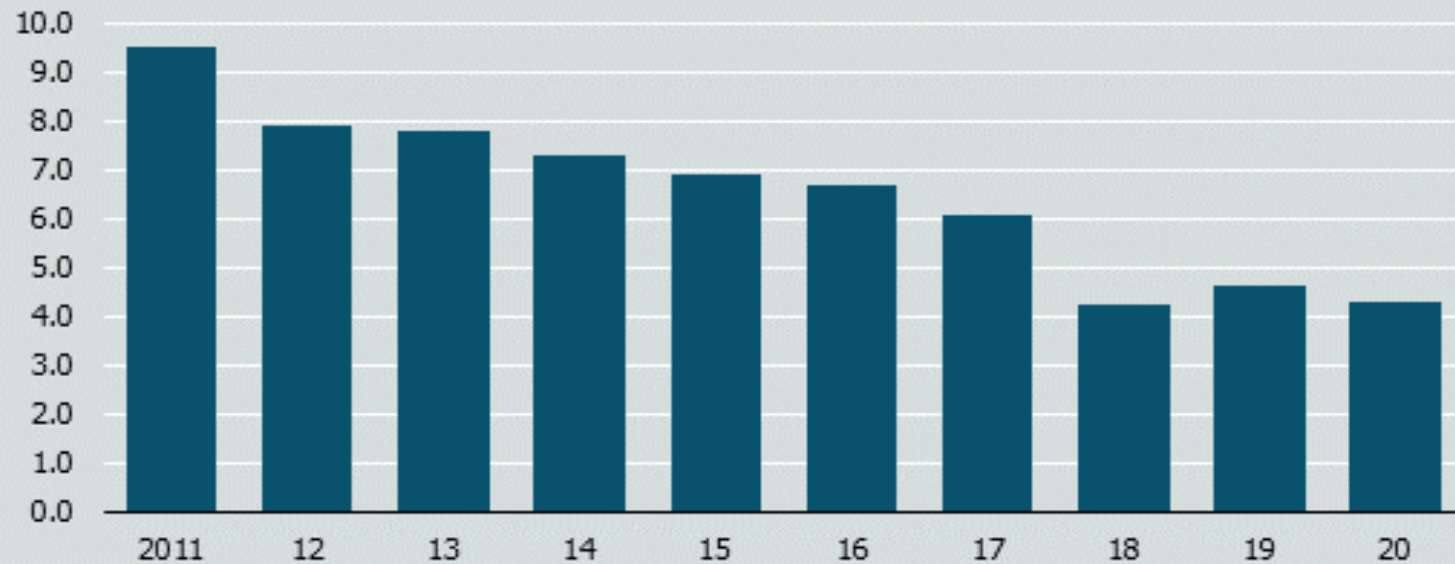


Sources: Haver Analytics; National Bureau of Statistics

# A new “normality”?

## Real GDP growth

(%, change)



Sources: The Economist Intelligence Unit; National Bureau of Statistics.

# Economic and political strategies

- One Belt One Road
- Trade Agreements
- Asian Infrastructure Development Bank
  
- From hard authoritarianism to ...
- 1) neo-totalitarianism
- 2) Hard Authoritarianism
- 3) Soft Authoritarianism
- 4) Semi-Democracy



# See you in Beijing...



**This is not a submarine**

