

China in the Age of the Dragon

Exciting Opportunities
Daunting Challenges

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‘Let China sleep – for when she awakes,
she will shake the World.’

- Napoleon

- *Highest income per head and technology leader until 15th Century*
- *33% of the World's GDP in 1820*
- *Fallen to < 5% by 1950*

An exciting overview

- **Largest steel producer** ($2 \times USA$); yet demands 30% of world steel; 50% of world's cement; 30% of world's coal; tops Japan in oil consumption
- **GDP US\$ 1.4 trillion** (*doubles every 6 yrs for two decades*); overtook Italy 2001, to overtake France 2004, UK 2005, Germany 2007, Japan 2016 and USA 2041 (*Goldman Sachs 2003*)
- Second largest **Foreign Currency Reserve** (*US400b*)
- World's **largest FDI recipient** (*overtaking USA*) (*UNCTAD, Sept 2004*)

MegaTrends: Factory of the World

- 90% Western World's toys; 2/3 world's photocopiers, microwaves, DVD players & shoes; 1/2 digital cameras; 33% world's air-conditioners; 25% world's refrigerators; 2/5 personal computers
- 2nd largest electronics producer after Japan; more laptops than any other nation
- 40% exports are machinery and transport
- 30% industrial output and 50% export contributed by FDI

MegaTrends: Middle-Class consumers

- **Per capita GDP** – US\$1,000; 100 million earn US\$2,000 or more (*PRD, YRD, Bohai and other coastal conurbations*)
- **Embracing modern lifestyle** with growing demand for branded products – Starbucks, IKEA, Kentucky, Carrefour, B & Q
- **Largest mobile phone population** – 250 million handsets
- 2 million vehicles sold in 2003. World's **4th largest car market** – VW sold more cars in China than in Germany
- **Motorways** increased from 500 km to 30,000 km in 12 years
- **Market size** US\$500 b expanding at about 9% p.a.; at 8% p.a. income growth with unchanged income distribution, by 2020, over 100 m household income ~ average Western Europe

MegaTrends: Infrastructure & urbanisation

- Three Gorges Dam
- Yangtze - Yellow River Link (*US 60b in 3 stages over 50 yrs*)
- West-East Oil/Gas pipeline
- West-East electric power line
- Tsinghai-Tibet Railway
- Beijing **Olympics** (2008) & Shanghai **Expo** (2010)
- Increasing **regional development** (*Pan-PRD, Yangtze River conurbation + Bohai area*)
- Metamorphosis of towns into cities (e.g. Shenzhen) and cities into megapolis (*e.g. Chongqing*). *PRD to become 70% urbanised by 2010*
- 500 million to be moved from countryside to cities in next 17 years

MegaTrends: Outward Investment

- **US\$10b** - 6600 enterprises in 160 countries
- Energy & Mineral **resources**
- Global **network** (*e.g. Haier – Manhattan; Sinochem – 115 companies in 30 countries*)
- Overseas **production bases** (*e.g. Konka TV – Mexico, India & Indonesia*)

MegaTrends: Regionalisation and Globalisation

- **Trade liberalisation** : *Weighted average tariff decreased from 42% (1997) to 6% (post WTO entry); 22.3% to 3.6% for primary commodities. Non-tariff barrier decreased from 32.5% (1996) to 21.6% (2001)*
- By 2007-8, **import** expected to reach US\$1000b **outpacing exports** (*same level only by 2020*); 1995-2001, import of office machinery 6 fold and microcircuits 9 fold; Yr to Oct 2003, Asia's imports to China increased 43.8%; Jan to July 2003, Japan + 43.8%; South Korea +53.3% (*Greater China now Korea's top export destination, instead of US*); Taiwan + 28.7%
- **Trade** 75% and **FDI** 36% of GDP (Japan – 32% & 2%)
- Forging **regional trade blocks**: ASEAN +1 and +2 (*East Asia intra-trade (15% p.a.) 2 x growth rate of EU intra-trade and world exports*)
- **World container port throughput**: HK, Singapore, Shanghai, Shenzhen, Pusan, Kaohsiung, LA, Rotterdam)
- **RMB** locked into the US economic system (*with Japan as the two leading investors in US Bond market*)

High growth sustainable?

- 13% US imports (Japan's peak 22% in 1986)
- GDP per capita (PPP) only 1/8 of US; even to quadruple by 2020 at 7.2% p.a., only 1/2 of US by 2040
- Impact on price & availability of natural resources (China's GDP > US\$ 40 trillion ?)

Daunting challenges

- **Unemployment** (*8 m jobs at 7% GDP growth v 12 – 15 m jobs required; 30 m city unemployed; 150 m peasant floating urban job seekers & 200 m under-employed*)
- **Non-performing loans** (*officially 20% but Standard & Poor estimate about 45%; total loans ballooned to 145% GDP; 4 big state banks control 60% of all banking assets*)
- **Non-competitive SOEs** (*2/3 of total credit but only 1/3 of GDP*)
- **Heavy government liabilities v still low tax intake** (*unfunded social welfare obligations hidden by SOEs; government revenue only 17% GDP (10.7% in 1995)*)
- **Over-investment & over-supply** (*90% manufactured products*)(*China's National Statistics Bureau*)
- **Weakly regulated and under-developed stock market** (*only 36% GDP v HK (+400%), Singapore (+ 200%), Taiwan (+130%) and India (50%)*)
- **Polarised development** (*city v countryside; inland v coastal; eastern v western; SOEs v private; lack of natural resources (oil, base metals, power, water)*)
- **Bilateral trade imbalance with US and EU** (*protectionism, demand for RMB to appreciate*)
- **Rampant corruption** (*Widespread reported cases; RMB 80,000 single box of moon cakes; ~£3,000 range Cartier watches*)
- **Environmental degradation** (*desertification, draughts*)
- **The Taiwan issue**

National development strategy

- **Pan-PRD** (*Quangtung, Quangxi, Fujian, Hainan, Jiangxi, Hunan, Guizhou, Sichuan, Yunnan; 9 + 2 (HK + Macau); manufacturing powerhouse led by HK & Quangzhou*)
- **YRD** (*Yangtze River conurbations inc Bohai, led by Shanghai; spearheading inland economic expansion*)
- Transforming the competitiveness of the **North-East** (*with many SOEs*)
- Developing the **Central Provinces** through greater regional coordination
- Developing the **Western Region**

Pan-PRD (9+2)

- 1/3 of **population**, 1/5 of **land**
- 2003 collective GDP US\$630 b (**40% of total output**) (*Forecast to exceed US\$1,000 b by 2010 and US\$2,000 b by 2020*) *At least comparable to the 10-nation ASEAN.*
- **Coordinated** transport infrastructure, facilitated movement of people, goods, capital and information
- Springboard for a **China-ASEAN Free Trade Zone**
- Already 120,000 **HK businesses** in 9 provinces with US\$ 150b invested (mainly Quangtung) (*cross-border vehicular traffic from 34,000 to 140,000 daily by 2020; pedestrian flow from 350,000 to 800,000 p.a. by 2020; Mainland visitors 50 million p.a. by 2030*)
- HK to spearhead the **provision of services**: financial expertise, logistics, business professions, product & brand development, international networking, and infrastructural development

The HK Advantage

- **One Country, Two Systems**
- 5th largest **foreign currency reserve** (US\$118 b)
- GDP US\$164 (~ Norway); **GDP per capita** US\$ 24,000
- **Rule of law** & fully independent judiciary
- One of the **safest** cities in the world
- Clean and transparent government with **level playing field**
- Consistently voted the world's **freest economy**
- Low & simple **taxation** (17.5% Profits Tax)
- Sophisticated and **cosmopolitan lifestyle**
- Efficient **internationalised** services
- Hard working and **efficient labour force**
- **One-stop platform for Mainland China** (*CEPA; Individual Travel Scheme; HK-Macau-Zhuhai Bridge; RMB-based banking services; Pan-PRD 9 + 2*)
- 40 million overseas **Chinese diaspora**
- **Robust recovery** (*encouraging growth & unemployment level; public expenditure to reduce to 17% GDP and budget deficit to be eliminated by 2008; stabilised property market*)
- **Limited, evolving democracy** (*54% (1.78 million) voted in latest election; new moderate democrats and a few anti-establishment mavericks balanced by strong support for pro-business and non 'anti- Beijing' representation*)

Signs of China's improved governance

- The uneducated '**Scorpion & the Frog**' reading
- Ideology to consensus on **Economic Reform & Openness**
- **More rational decision making** process
- Lowered average age and higher educational standards in the **Politburo and Party Central Committee**
- Pattern of **orderly succession**
- Positive **4th Generation New Leadership** :
 - (a) More **professionalism and accountability**
 - (b) Adherence to **Constitution and legal processes**
 - (c) Constitutional recognition of **private ownership & The Three Represents**
 - (d) **Monitoring** by the NPC & the NPCC and the local media
 - (e) More visits to the **grassroots**
 - (f) More open **government communications**
 - (g) More proactive fight against **corruption**
 - (h) **Reducing wasteful officialdom** e.g. Bedaihe summer retreats and airport greetings
 - (i) Proactive and responsible **international politics**
 - (j) Greater **international respectability** e.g. economic success; Olympics, Expo

Thank you