



IHS ECONOMICS & COUNTRY RISK

IHS Financial Seminar

The Road to Growth

Dealing with China's Overcapacity:
A Five-Year Outlook

19 April 2016 | Tuesday | Hong Kong

China Regional Service

China's Economic Transition: Separating Fact from Fiction

April 2016

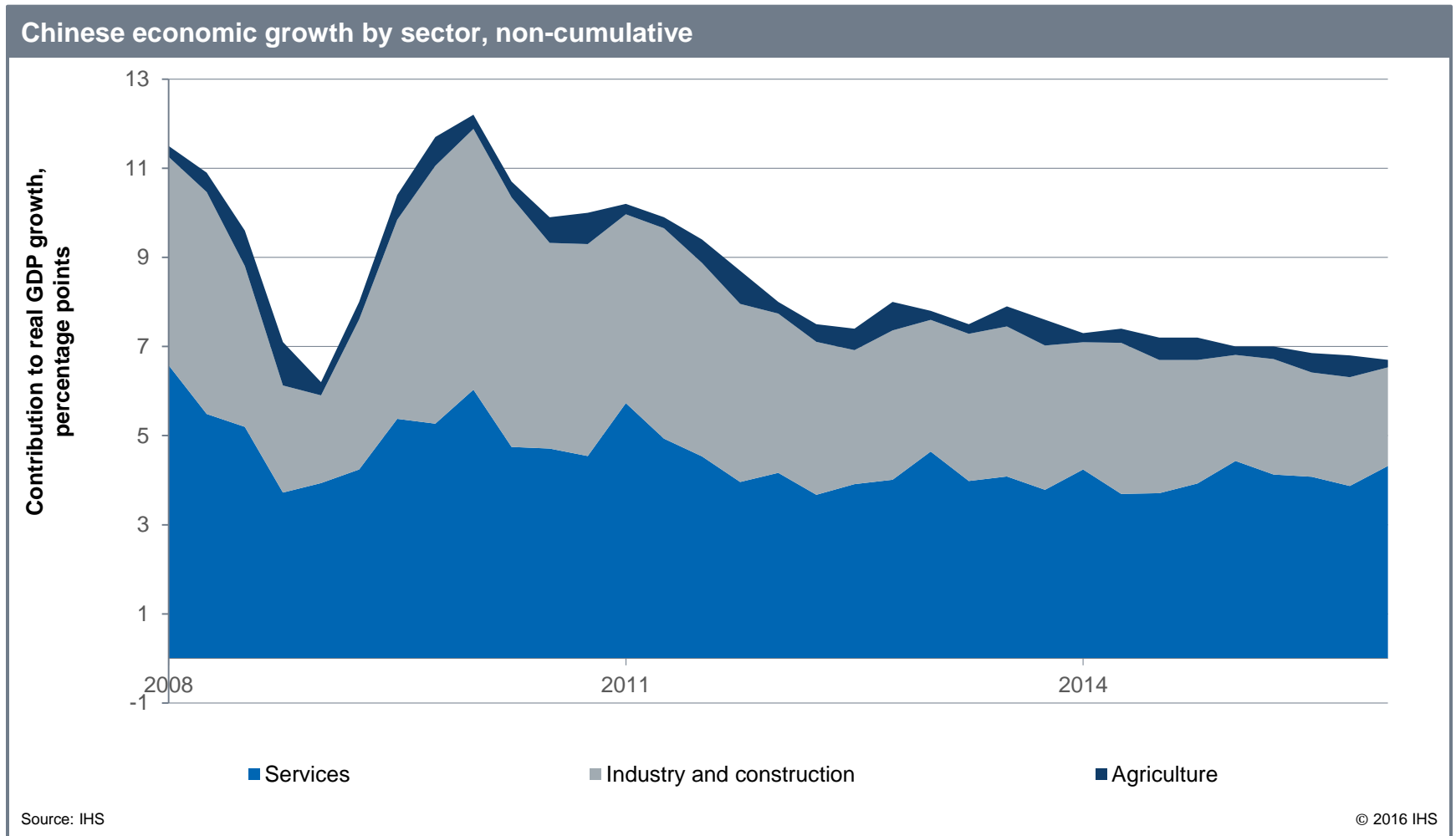
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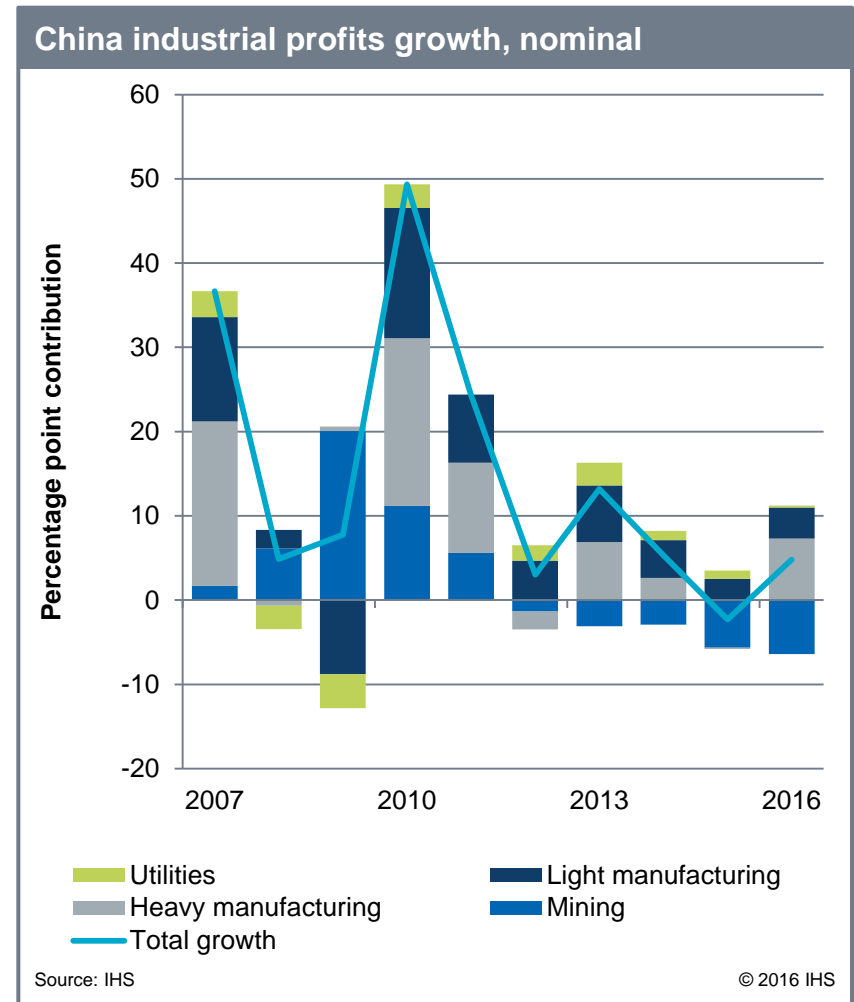
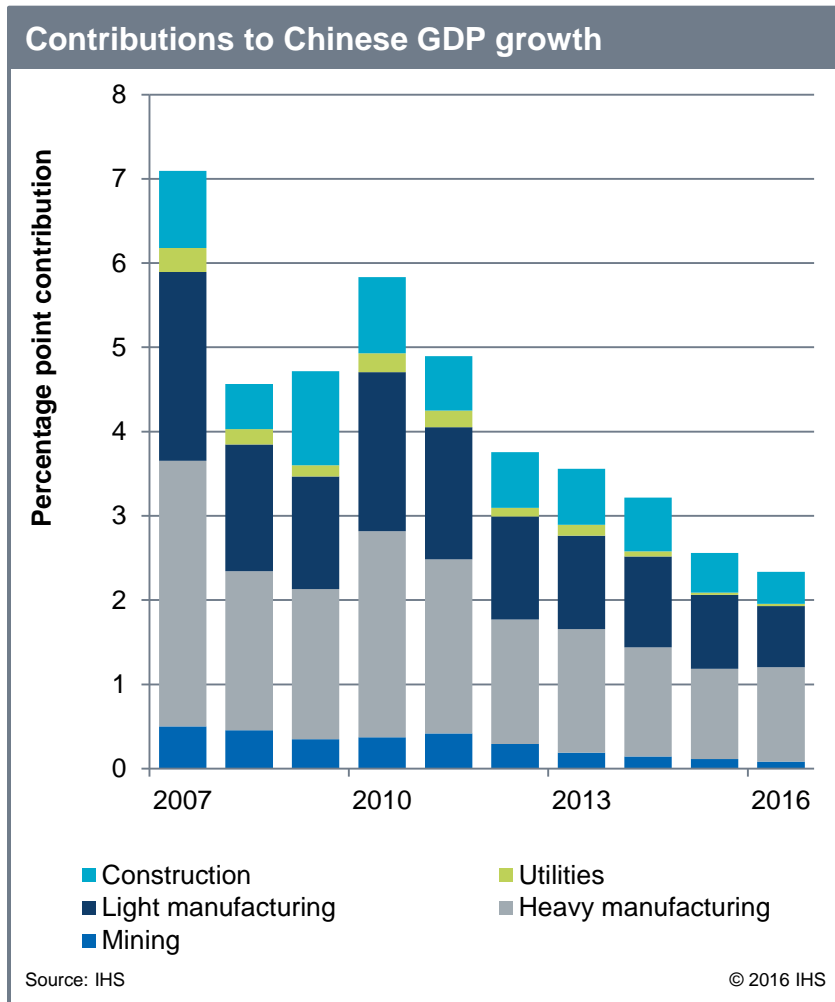


Restructuring during China's economic slowdown

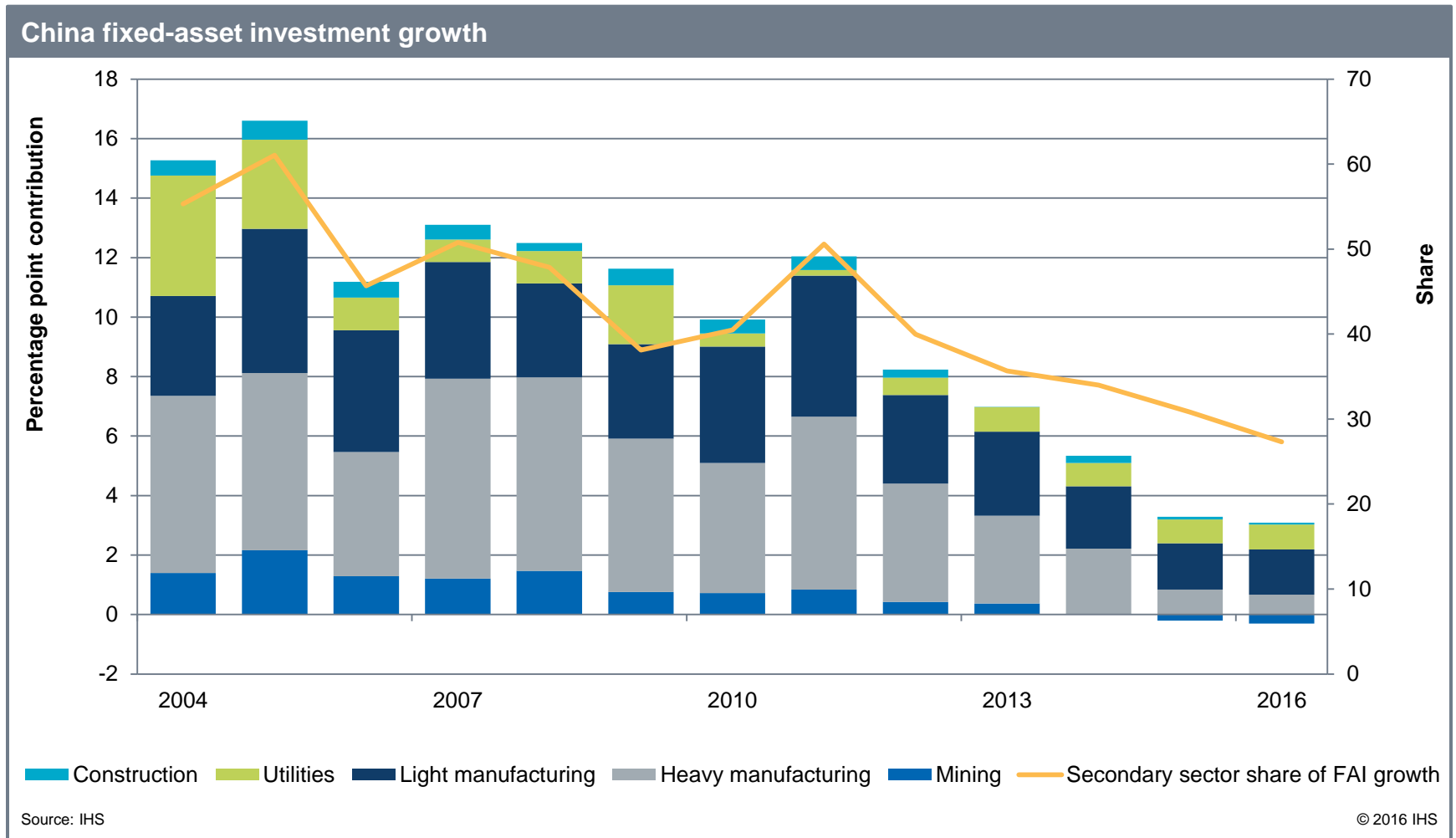
Slowing growth concentrated in China's traditional industrial and construction sectors



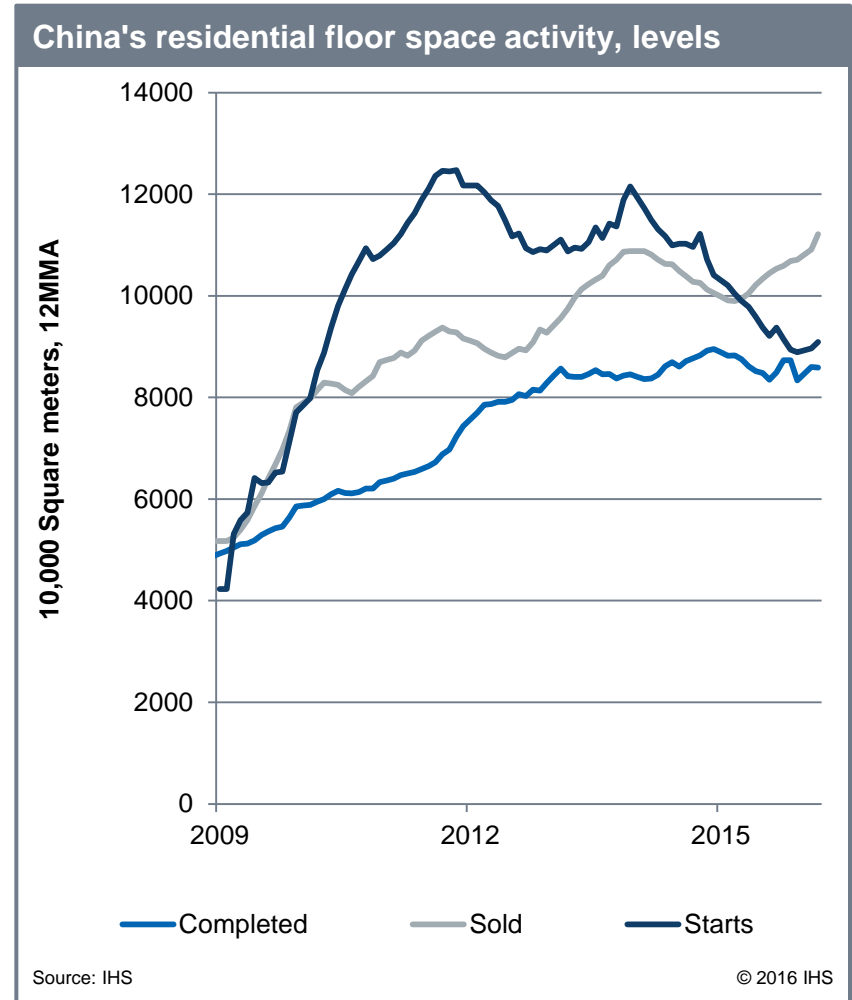
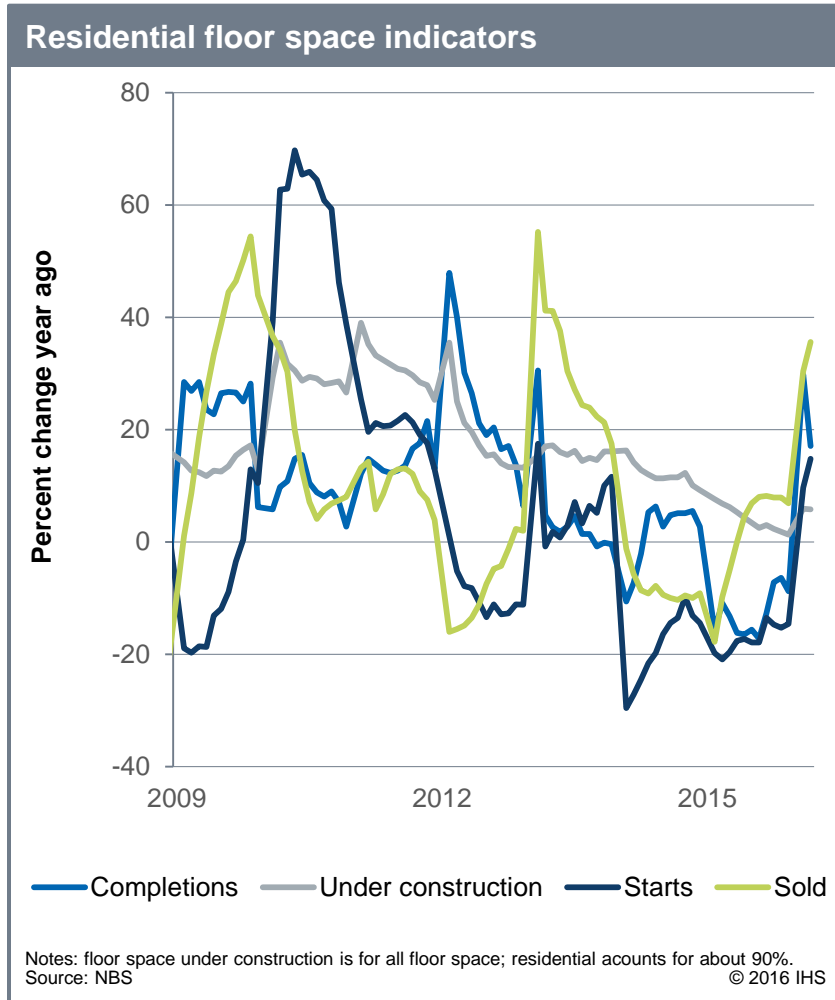
Industrial sector output and profit growth mismatch reveals distortions in state-led industries



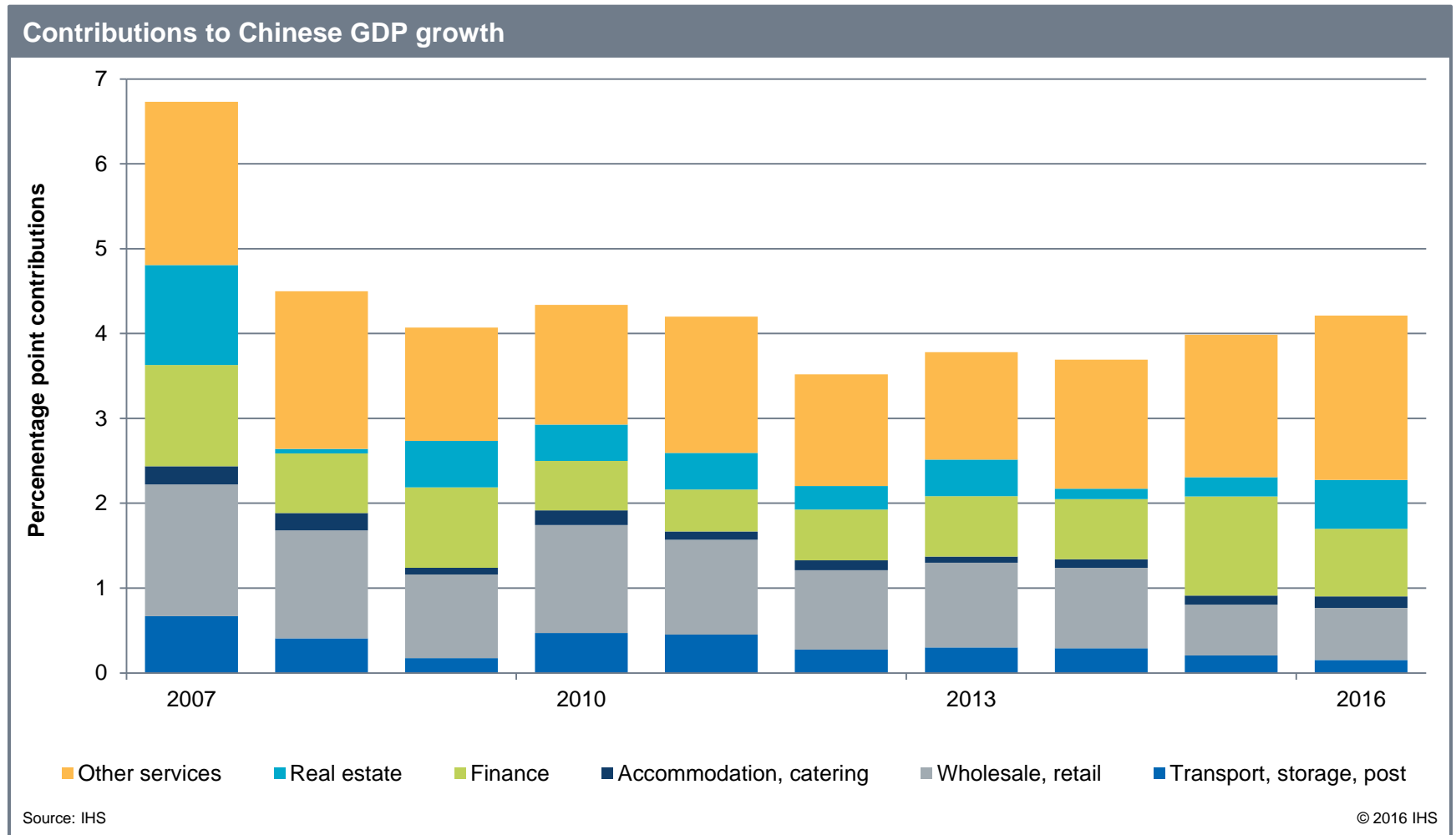
Investment in underperforming traditional sectors slowed markedly since 2011



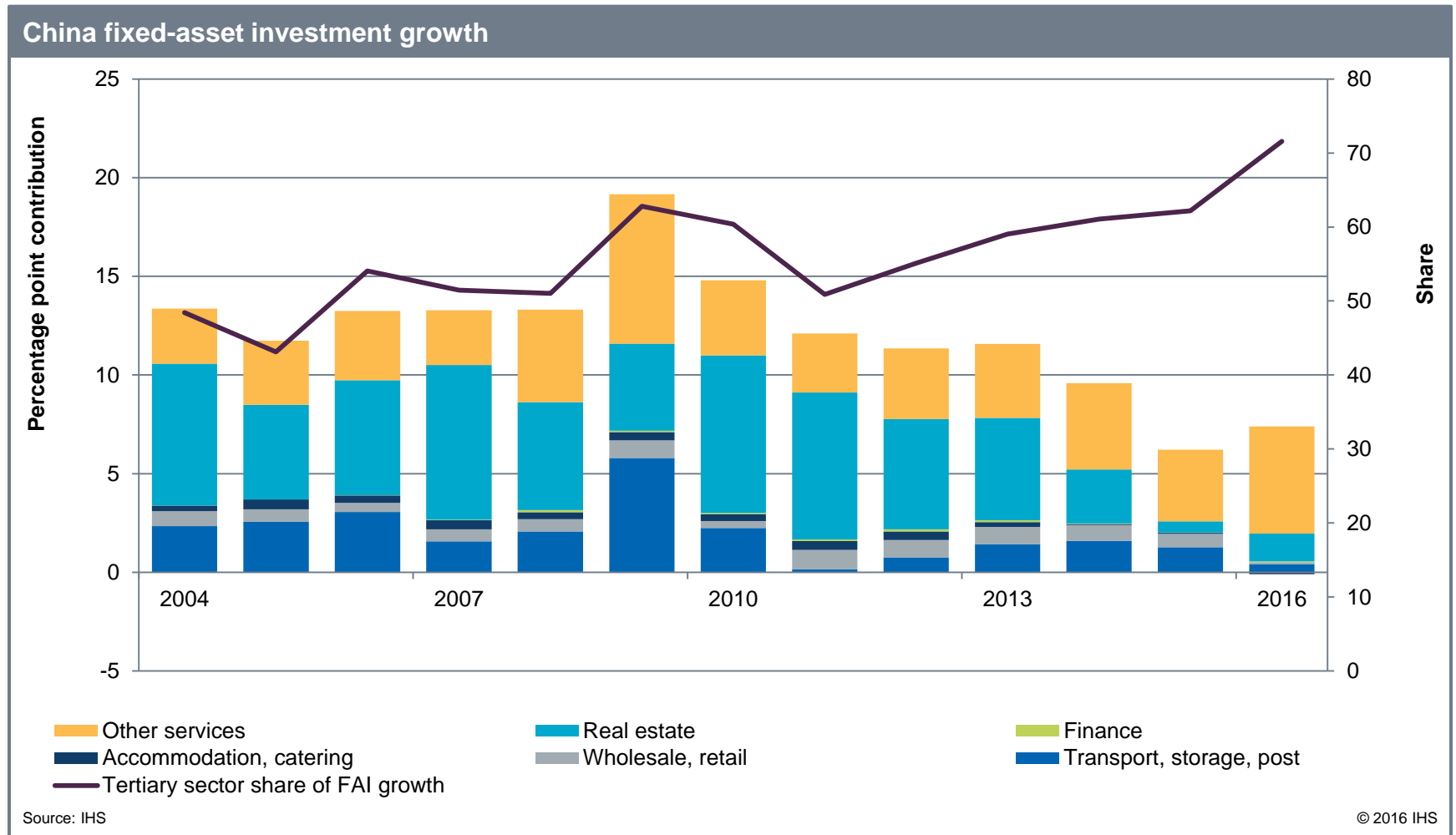
Year on year growth returns for real estate activity, levels data less encouraging to upstream suppliers



China's service sector relatively stable, but not immune to slowdown and restructuring



Slowing service sector investment is primarily due to real estate sector correction



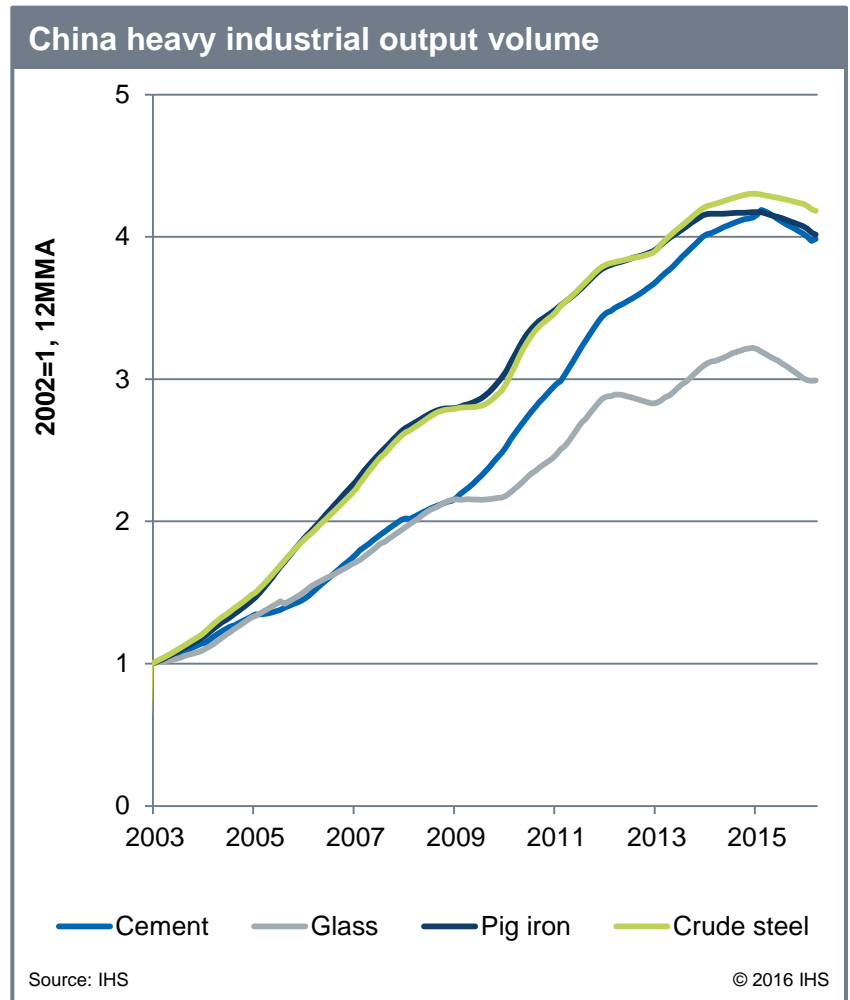
Reform during China's economic slowdown

Reform priority 1: supply side correction

2020 capacity reduction targets:

- **Steel:** cut 150-200 million tonnes, consolidate ownership from 300 to 5 conglomerates by 2025
- **Cement:** cut 200 million tonnes
- **Glass:** cut 200 million cases
- **Coal mining:** cut 700 million tonnes

CNY 100 billion fund established for unemployment during 2016-17 alone, 1.8 million steel and coal sector layoffs confirmed, rumors that layoffs will reach 6 million



Reform priority 2: SOE reform

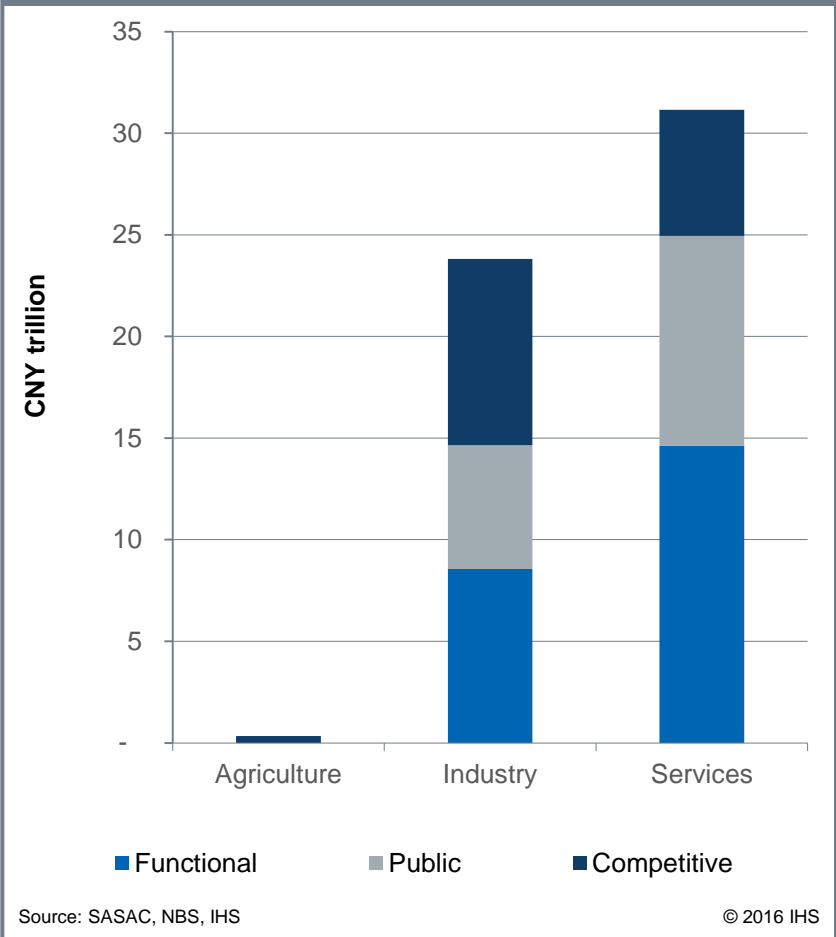
Ownership reform

- **Competitive SOEs** – state takes a absolute minority ownership, exit from SASAC system
- **Public SOEs** – state maintains a relative majority
- **Strategic/“functional” SOEs** – state maintains absolute majority

Managerial reform

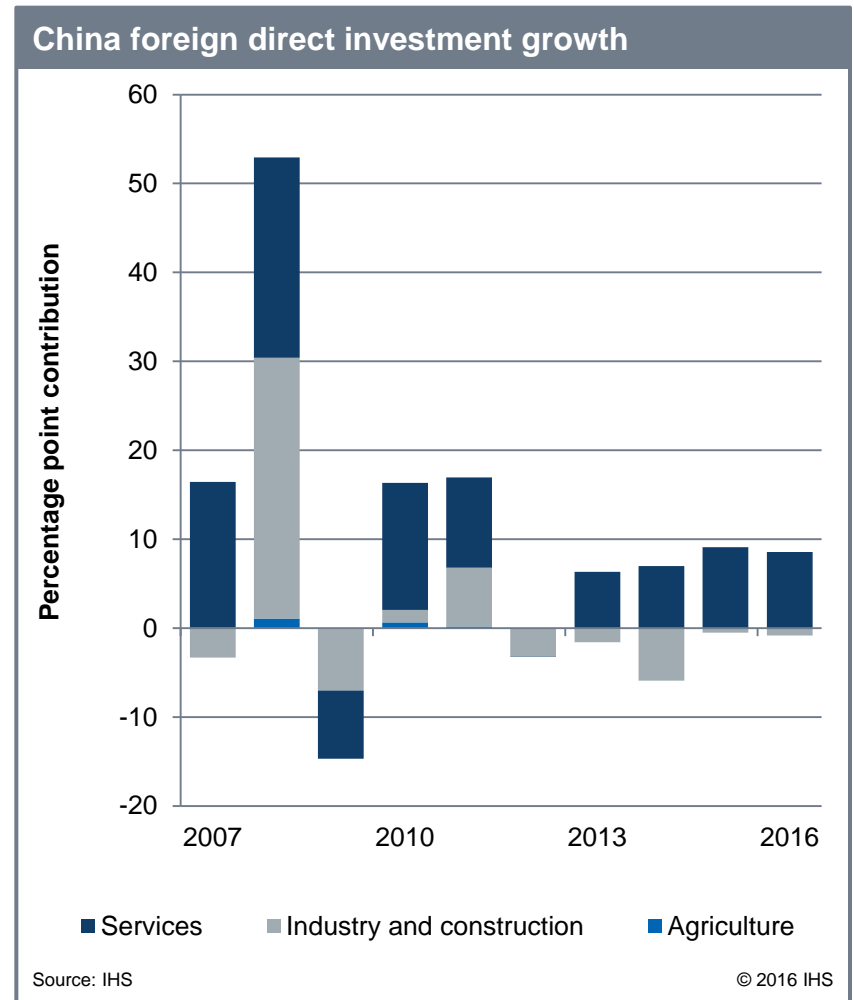
- Professionalize management, increase authority of board, increase linkage between salaries and profitability

China state assets by classification, sector



Reform priority 3: market entry

- Reduce barriers to market entry for private domestic investors
 - 2014 – Company Law Reform
 - 2013-? – central government campaign to reduce approval bottlenecks in Beijing, canceling or delegating to local authorities
 - 2015-17 – transparency campaign at local government level
- Increase foreign investment access
 - 2015 – revised FDI catalog
 - 2014-20 – bilateral trade and investment agreements



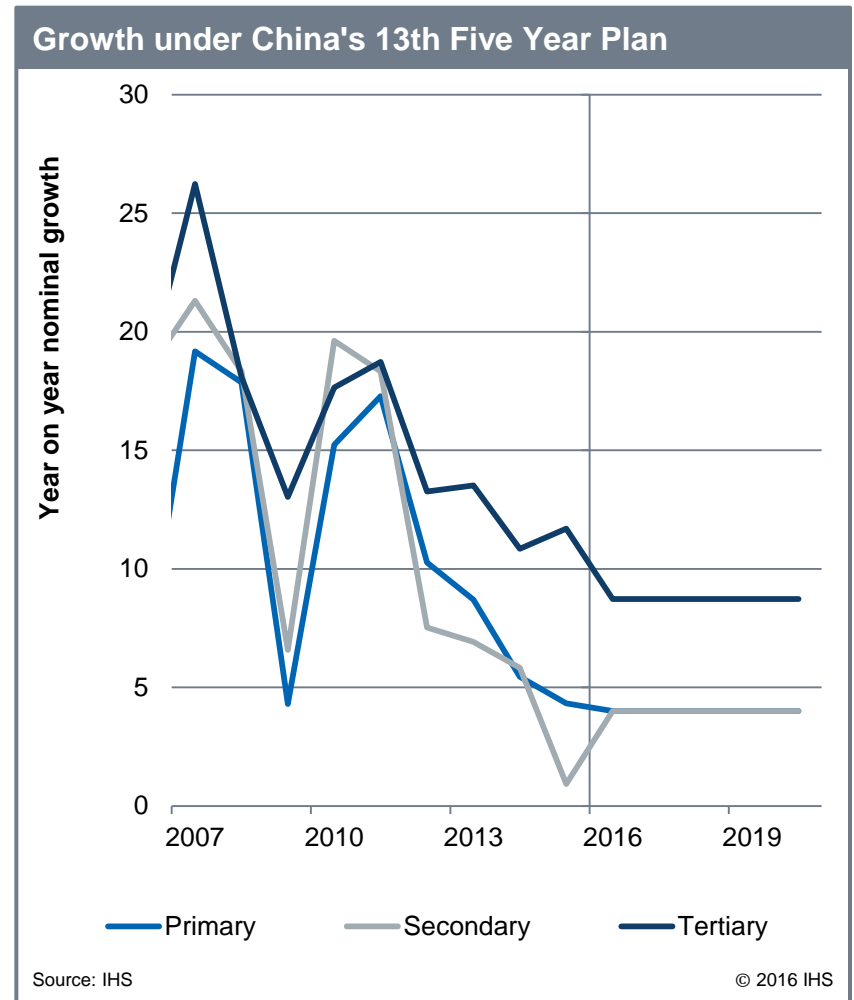
China's 13th Five Year Plan an admission of a weaker growth outlook, shift towards new but small sectors

Growth targets 2016-20 (2011-15 actual):

- Real GDP: 6.5% (7.8%)
- Labor productivity: 6.6% (7.5%)
- Services share: 56% (50.5%)

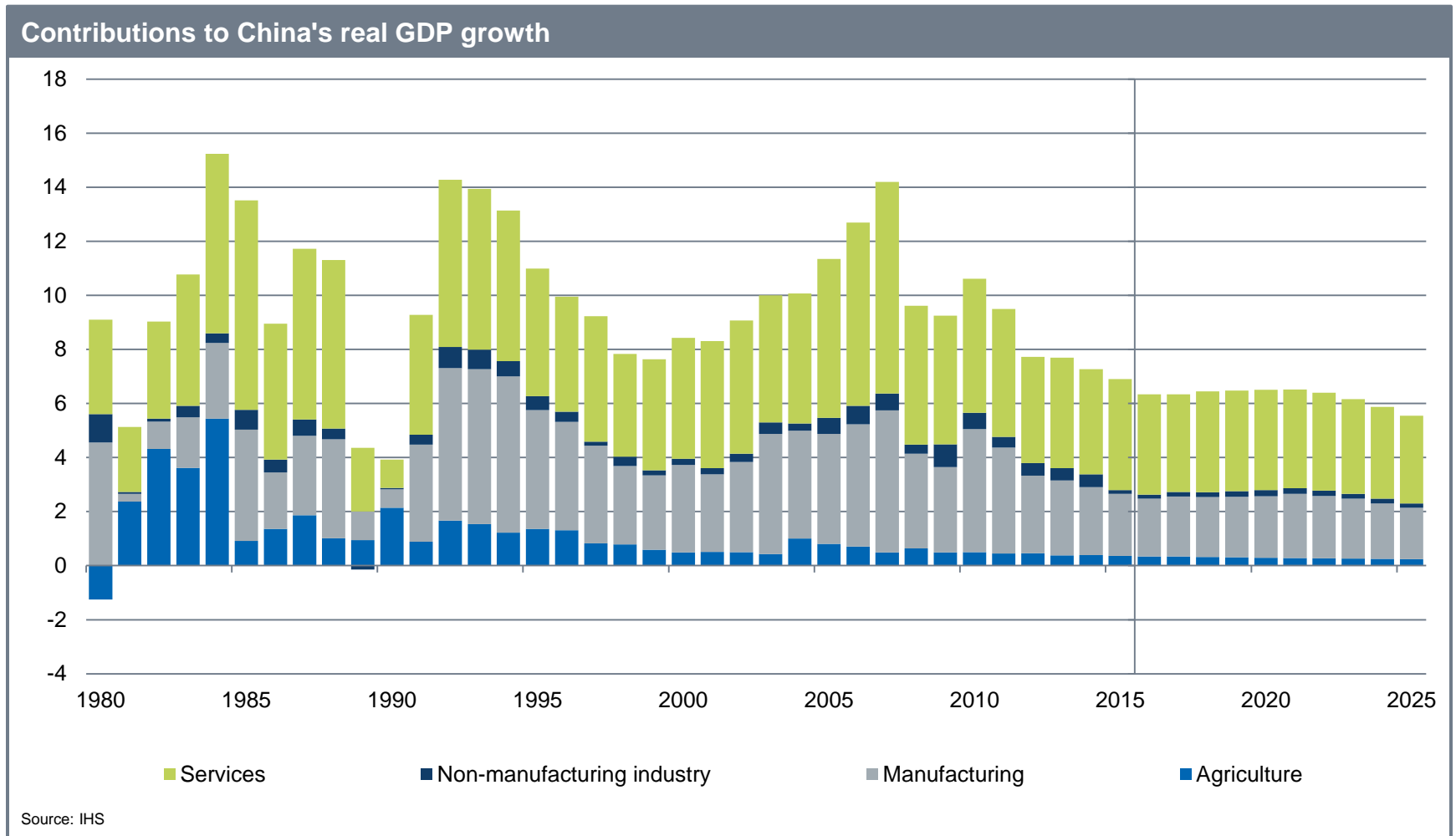
Implied targets:

- Nominal GDP: 6.5% (10.6%)
- Nominal services: 8.7% (13.6%)
- Services share of growth: 70% (60%)



China economic outlook

China economic outlook



Sources

- IHS Country Intelligence

- IHS China Regional Service

Q & A

Thank You

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