

www.pwc.com.au

Australian International Education Conference

China: Danger, Crisis or Opportunity?

October 2016

Danger — 危险
Crisis — 危机
Opportunity — 机会

pwc

Our future is Asia

1

PwC economic modeling is predicting that 4 of the world's 5 largest economies in PPP terms will be in Asia by 2030

2

The rise of China, fuelled by a fast growing and technologically enabled middle class, has rapidly changed global supply chains. Billions of new consumers will join the middle class in Asia in the coming decade

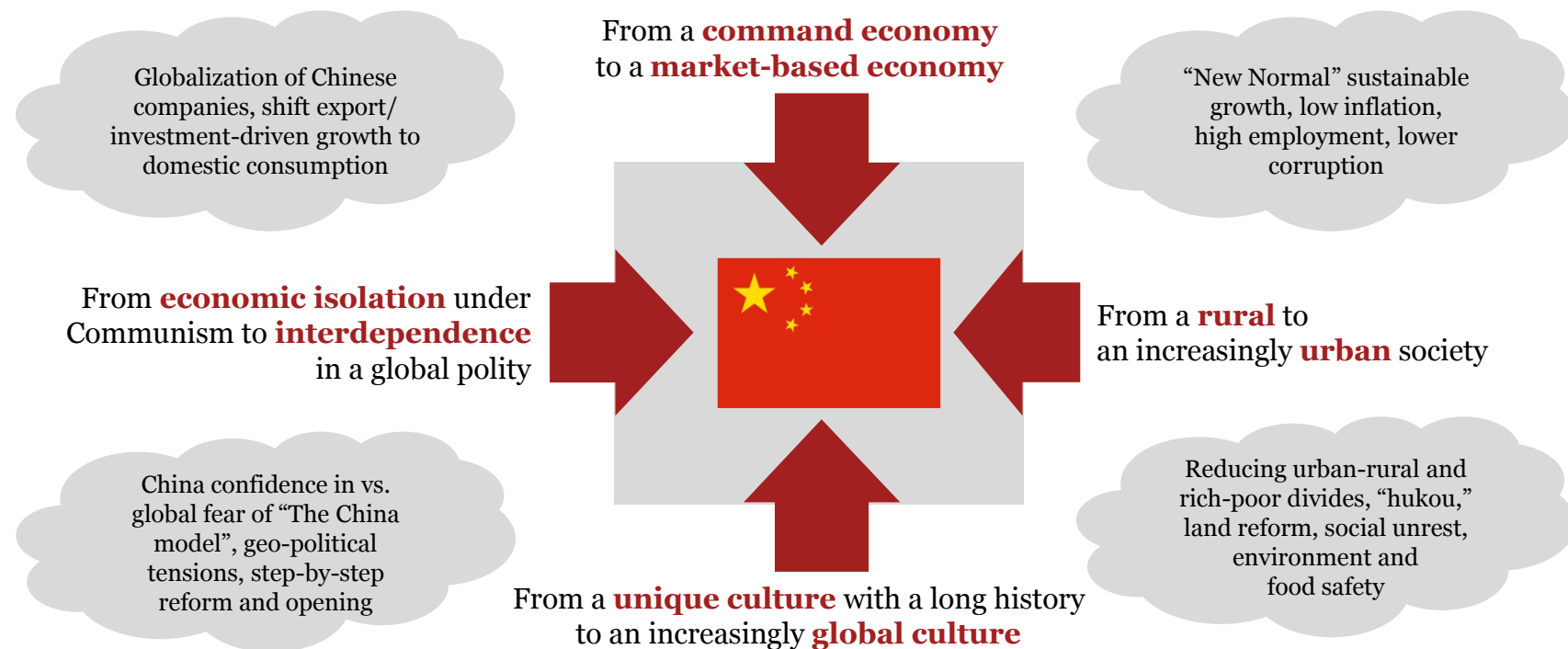
3

Australia owes much of its recent economic prosperity to our rich endowment of natural resources coupled with a close proximity to Asia – assets we can not rely on alone to guarantee prosperity in the coming decades

4

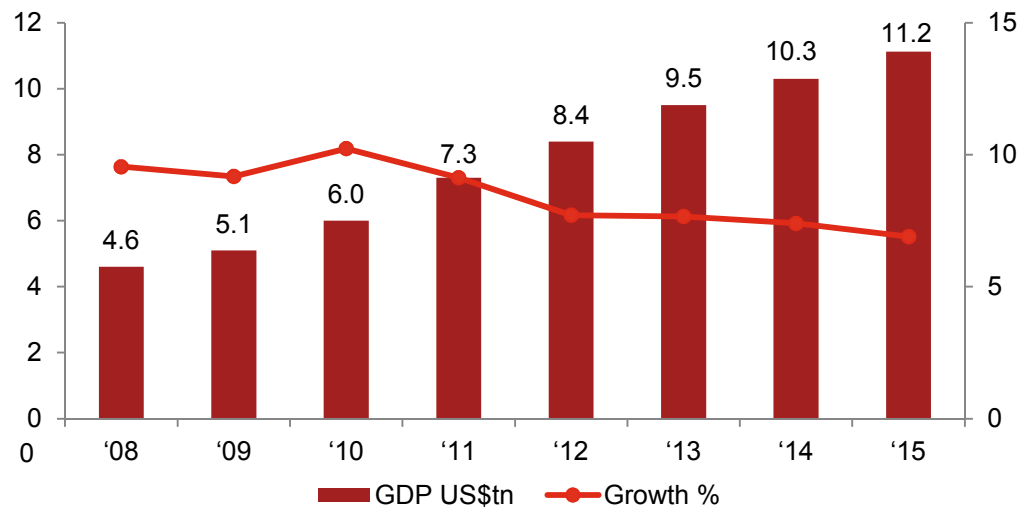
New trade agreements are both an enabler and a response to these changes

Meltdown is unlikely, but China is at an important turning point – “New Normal”



The overall economy is slowing – but is cycling on an increasingly larger base

GDP and Growth, Constant 2015 Price



» GDP growth of '15 over '14 = 2/3 Australia, 1.5x GDP growth in USA «

“*With a larger base, a growth even at 7% will produce an annual increase of more than US\$800bn at current prices, larger than a 10% growth five years ago...*”

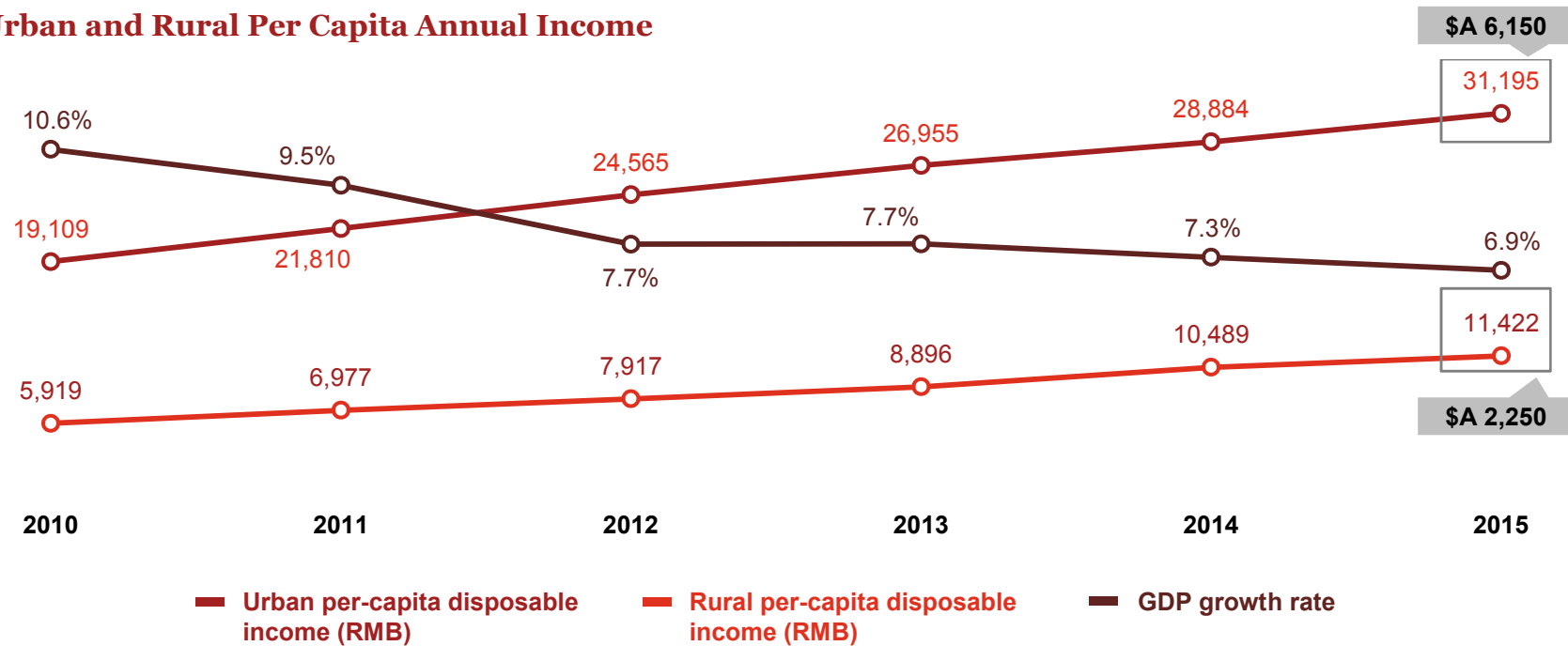
**Premier Li Keqiang,
Davos '15**

Source: Literature research, Strategy & analysis

PwC

Per-capita disposable income continues to increase, boosting consumption prospects

Urban and Rural Per Capita Annual Income

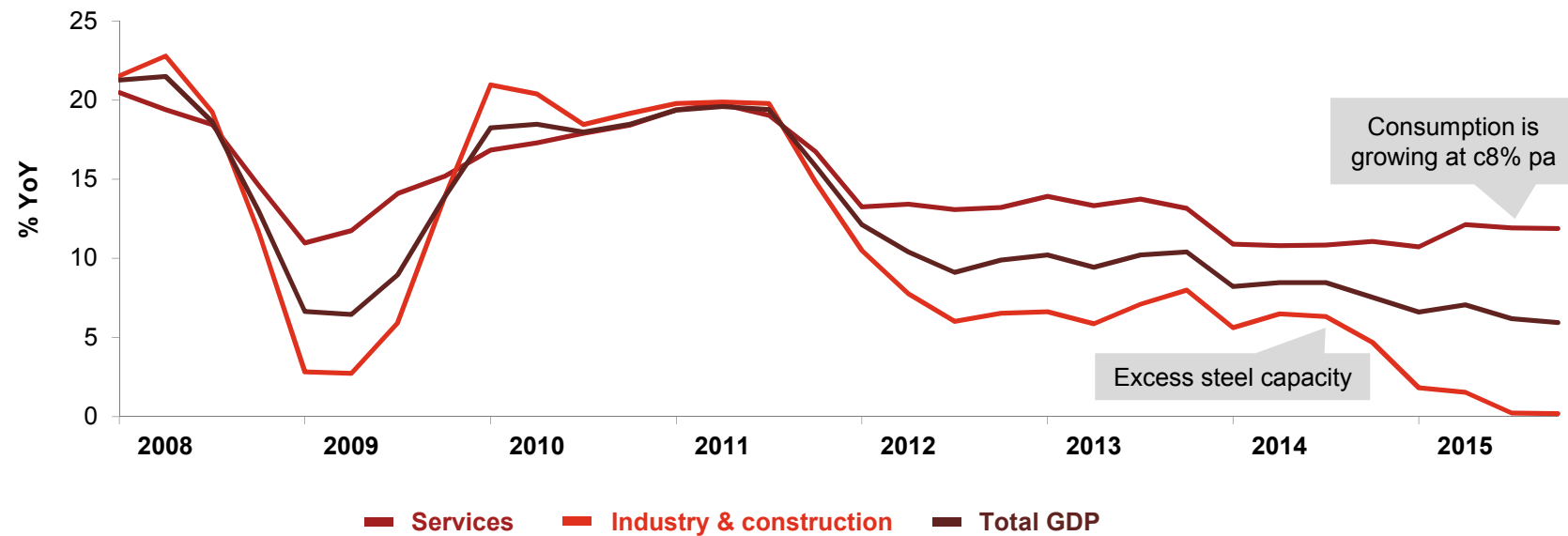


Source: National Bureau of statistics of the People's Republic of China

The two-track economy

The slowdown has been concentrated in industry and construction

Nominal change in value-added by sector



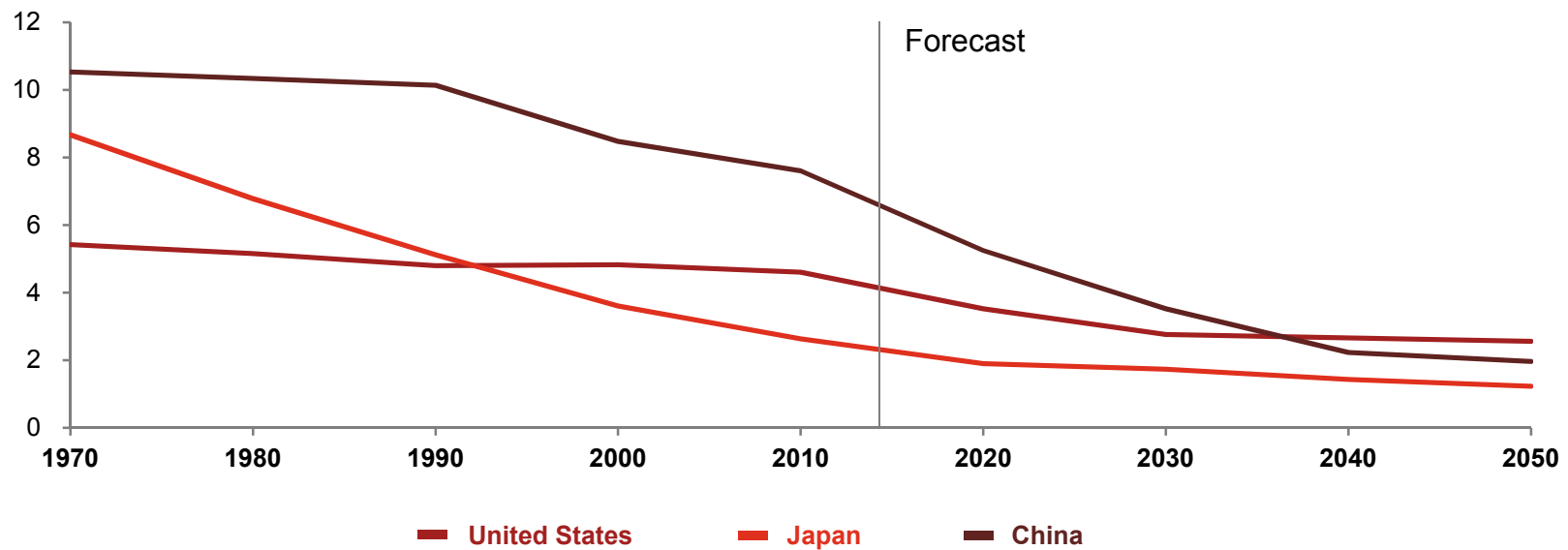
Source: Gavikal data/Macrobond

PwC

The demographics are starting to get ugly. A Japan-like future is possible

China's worker-retiree ratio is heading towards Japan's

Ratio of working age population (15-64) to retirees (65+)

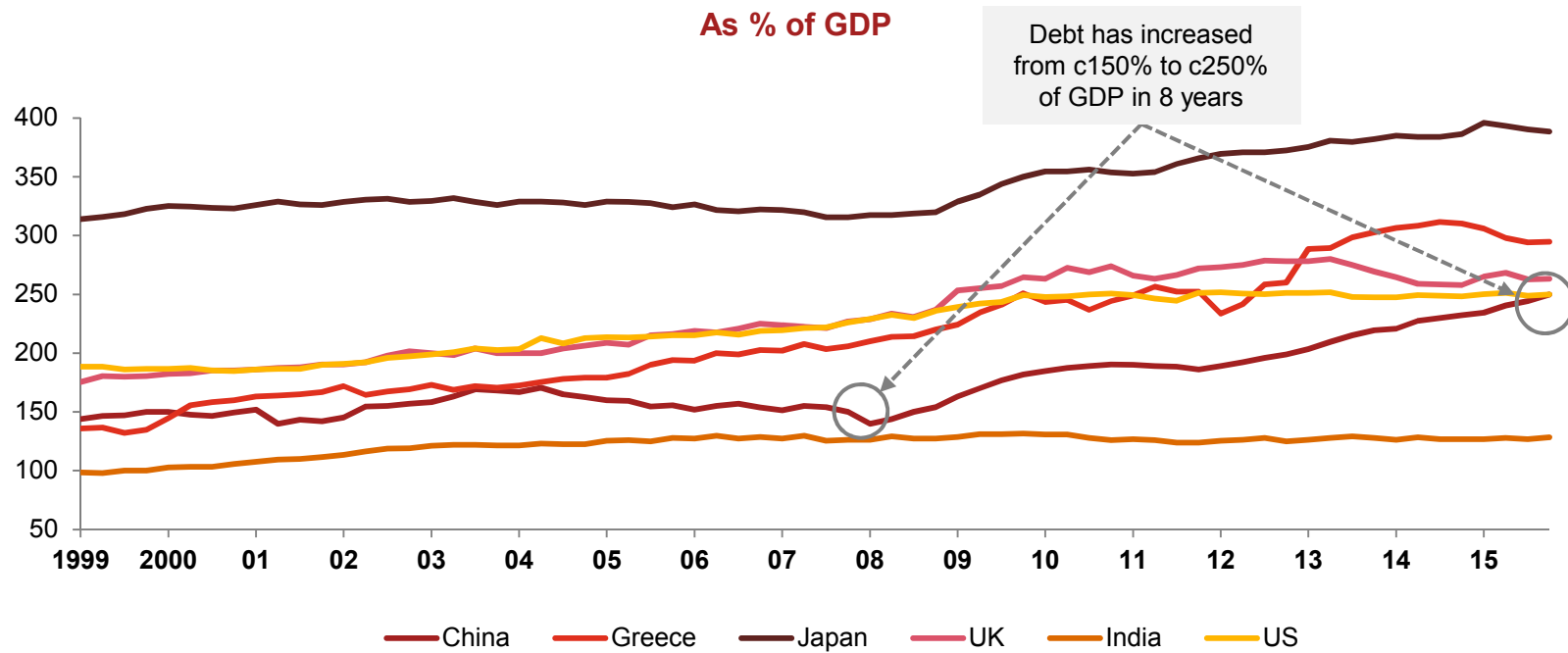


Source: UN Population Prospects/Gavekal

PwC

7

China's level of debt is approaching danger levels



Source: Bank for International Settlements, Financial Times

The real challenge is how to resolve the considerable tension between economic reality and political necessity

“We are crossing the river by feeling for stones.”
Deng Xiaoping

Economic reality

Supply-side

- Supply of surplus farm labor running out
- Low capital efficiency
- Easy catch-up phase essentially over

Demand-side

- Limited export relief
- Domestic consumption and service sector growth unlikely to offset supply-side challenges.



Poor quality growth

- Resource misallocation
- Excessive debt levels
- Environmental challenges
- Growing inequality
- Natural resource requirements
- Geopolitical tensions

Political necessity

Economic/Political

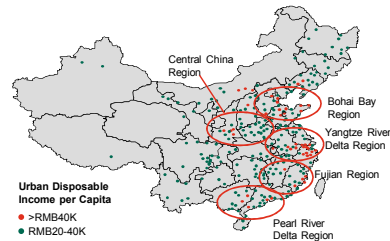
- Avoid sudden loss of competitiveness
- Ensure adequate local government financing
- Overcome vested interests among key stakeholder groups

Social

- Avoid large-scale layoffs and unemployment
- Mitigate rising dissatisfaction among middle class and non-party elite

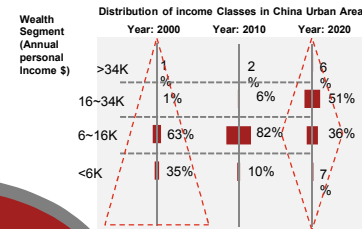
However the long-term fundamentals remain solid

Absolute Size of The Market



- Largest single consumer market
- Still relatively high growth for many years to come

Rising Incomes/Middle Class

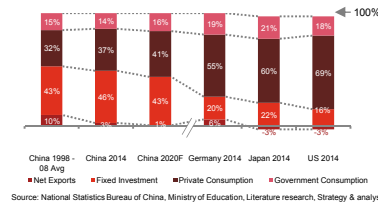


- Demographic shifts
- Rapid urbanization – now ~53%, 65% by 2024
- Rising middle class with higher disposal income than their predecessors

Attractive Long-Term Fundamentals

China Economic Restructuring (GDP)

Promoting More Private Consumption (% of Total GDP)



- Government led restructuring – More quality, consumption led growth
- Spending relatively healthy despite the economic turmoil



- Focus on innovation to move up the value chain, eg high-speed trains, aircraft, nuclear, green
- Rapid acceleration of digital, eg 600M+ on social media
- SOE and financial sector reform

Consumption Led Growth

Innovation

Source: Oxford Economics Database, China Development Research Foundation, National Statistics Bureau of China, Ministry of Education, Literature research, Strategy & analysis

Thank you!



Andrew Parker
Partner, Asia Practice Leader

P: +61 (2) 8266 0218

E: andrew.parker@pwc.com

twitter.com/A_JParker

au.linkedin.com/in/ajparker1



Asia related thought leadership can be found on our Asia Practice website www.pwc.com.au/asia-practice.



www.pwc.com.au

© 2016 PricewaterhouseCoopers. All rights reserved.

PwC refers to the Australian member firm, and may sometimes refer to the PwC network.

Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

At PwC Australia our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with more than 208,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

WL127043828