Australian International Education Conference

China: Danger, Crisis or Opportunity?

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October 2016
**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”

- From a command economy to a market-based economy
- From economic isolation under Communist to interdependence in a global polity
- From unique culture with a long history to an increasingly global culture
- “New Normal” sustainable growth, low inflation, high employment, lower corruption
- From rural to an increasingly urban society
- Reducing urban-rural and rich-poor divides, “hukou,” land reform, social unrest, environment and food safety

Globalization of Chinese companies, shift export/investment-driven growth to domestic consumption
The overall economy is slowing – but is cycling on an increasingly larger base

GDP and Growth, Constant 2015 Price

“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**

<table>
<thead>
<tr>
<th>Year</th>
<th>Urban Per-capita Disposable Income (RMB)</th>
<th>Rural Per-capita Disposable Income (RMB)</th>
<th>GDP Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>5,919</td>
<td>2,250</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>6,977</td>
<td>2,650</td>
<td>10.6%</td>
</tr>
<tr>
<td>2012</td>
<td>7,917</td>
<td>3,050</td>
<td>9.5%</td>
</tr>
<tr>
<td>2013</td>
<td>8,896</td>
<td>3,450</td>
<td>7.7%</td>
</tr>
<tr>
<td>2014</td>
<td>10,489</td>
<td>3,850</td>
<td>7.3%</td>
</tr>
<tr>
<td>2015</td>
<td>11,422</td>
<td>4,250</td>
<td>6.9%</td>
</tr>
</tbody>
</table>

$\text{Source: National Bureau of Statistics of the People's Republic of China}$

PwC
The two-track economy

The slowdown has been concentrated in industry and construction
Nominal change in value-added by sector

Source: Gavekal data/Macrobond
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
China’s level of debt is approaching danger levels

Debt has increased from c150% to c250% of GDP in 8 years

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

GDP growth target
~4% ~7%
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
- 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

### 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

### Innovation

Thank you!

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