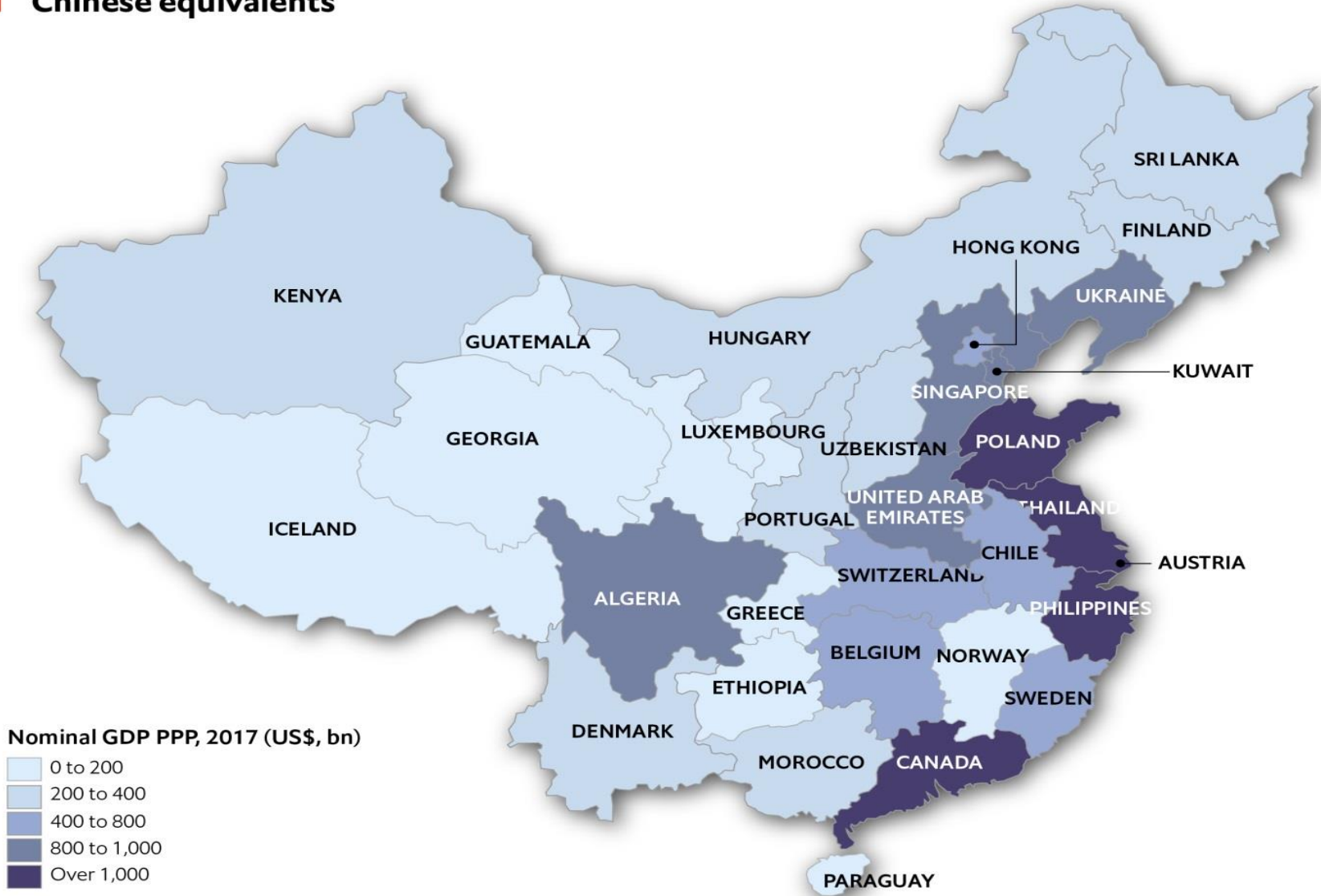# China: Where's the growth?

Rachel Morarjee, Director, ECN Beijing

For Finnish Embassy

October 2019

The Economist | CORPORATE NETWORK

Chinese equivalents

SRI LANKA

FINLAND

HONG KONG

KENYA

UKRAINE

KUWAIT

GUATEMALA

HUNGARY

SINGAPORE

POLAND

LUXEMBOURG

GEORGIA

UZBEKISTAN

UNITED ARAB
EMIRATES

THAILAND

PORTUGAL

ICELAND

CHILE

AUSTRIA

SWITZERLAND

ALGERIA

PHILIPPINES

GREECE

BELGIUM

NORWAY

BELGIUM

ETHIOPIA

SWEDEN

DENMARK

MOROCCO

CANADA

PARAGUAY

Nominal GDP PPP, 2017 (US$, bn)

- 0 to 200
- 200 to 400
- 400 to 800
- 800 to 1,000
- Over 1,000

Source: The Economist Intelligence Unit

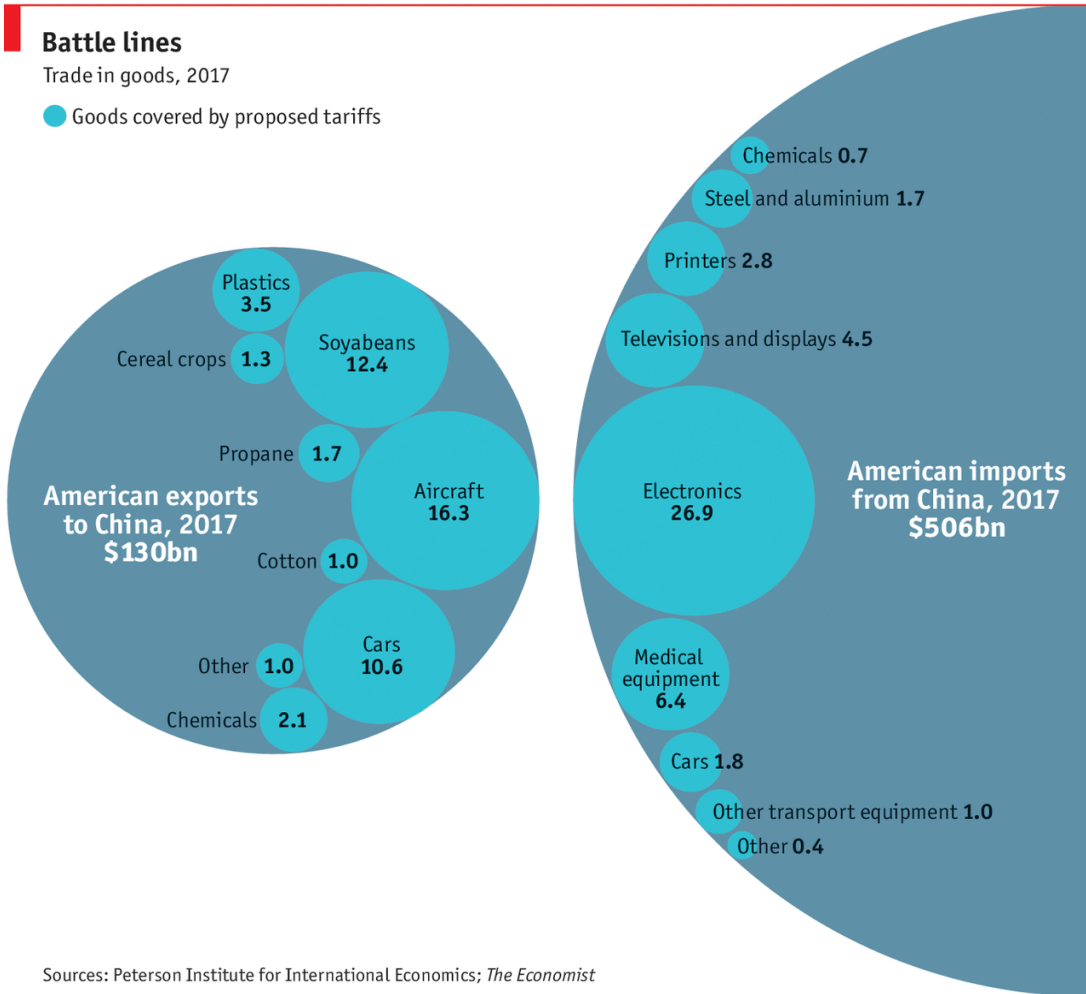The Economist | CORPORATE NETWORK

The dispute is about technology as much as tariffs

The US is concerned about losing its position at the technology frontier

Battle lines
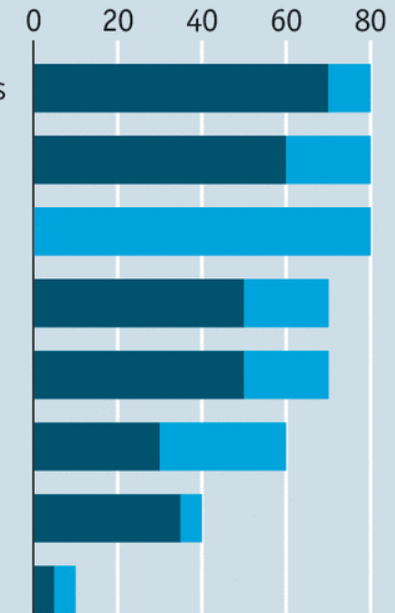Trade in goods, 2017

● Goods covered by proposed tariffs

American exports to China, 2017 $130bn
- Plastics 3.5
- Soyabeans 12.4
- Cereal crops 1.3
- Propane 1.7
- Aircraft 16.3
- Cotton 1.0
- Other 1.0
- Cars 10.6
- Chemicals 2.1

American imports from China, 2017 $506bn
- Chemicals 0.7
- Steel and aluminium 1.7
- Printers 2.8
- Televisions and displays 4.5
- Electronics 26.9
- Medical equipment 6.4
- Cars 1.8
- Other transport equipment 1.0
- Other 0.4

Sources: Peterson Institute for International Economics; *The Economist*

Economist.com

Dominant ambitions
Chinese companies' domestic market-share target, %   ■ 2020   ■ 2025

- New-energy vehicles
- High-tech ship components
- New and renewable energy equipment
- High-performance medical devices
- Industrial robots
- Large tractors and harvesters
- Mobile-phone chips
- Wide-body aircraft

Source: Mercator Institute for China Studies

Economist.com

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Trump started a trend by using trade as a weapon

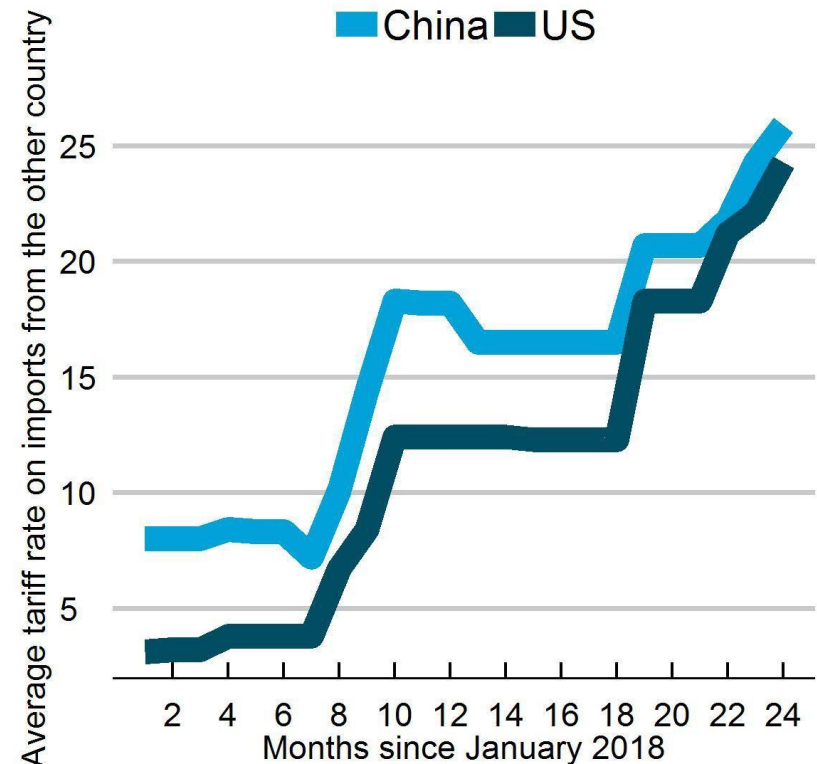The underlying battle over technology will increasingly move to the forefront

Latest announcements would cover 98% of Chinese exports to US by year-end, as well as virtually all US exports to China (not aircraft, pharma, semiconductors)

China-US escalation from here is in tech, investment, financial and security areas: where pain will last

USMCA still not ratified, and autos from EU and Japan at risk: auto tariffs would signal a global trade war, but likely just a negotiation tactic for free-trade agreements

WTO dispute settlement mechanism to cease to function in December
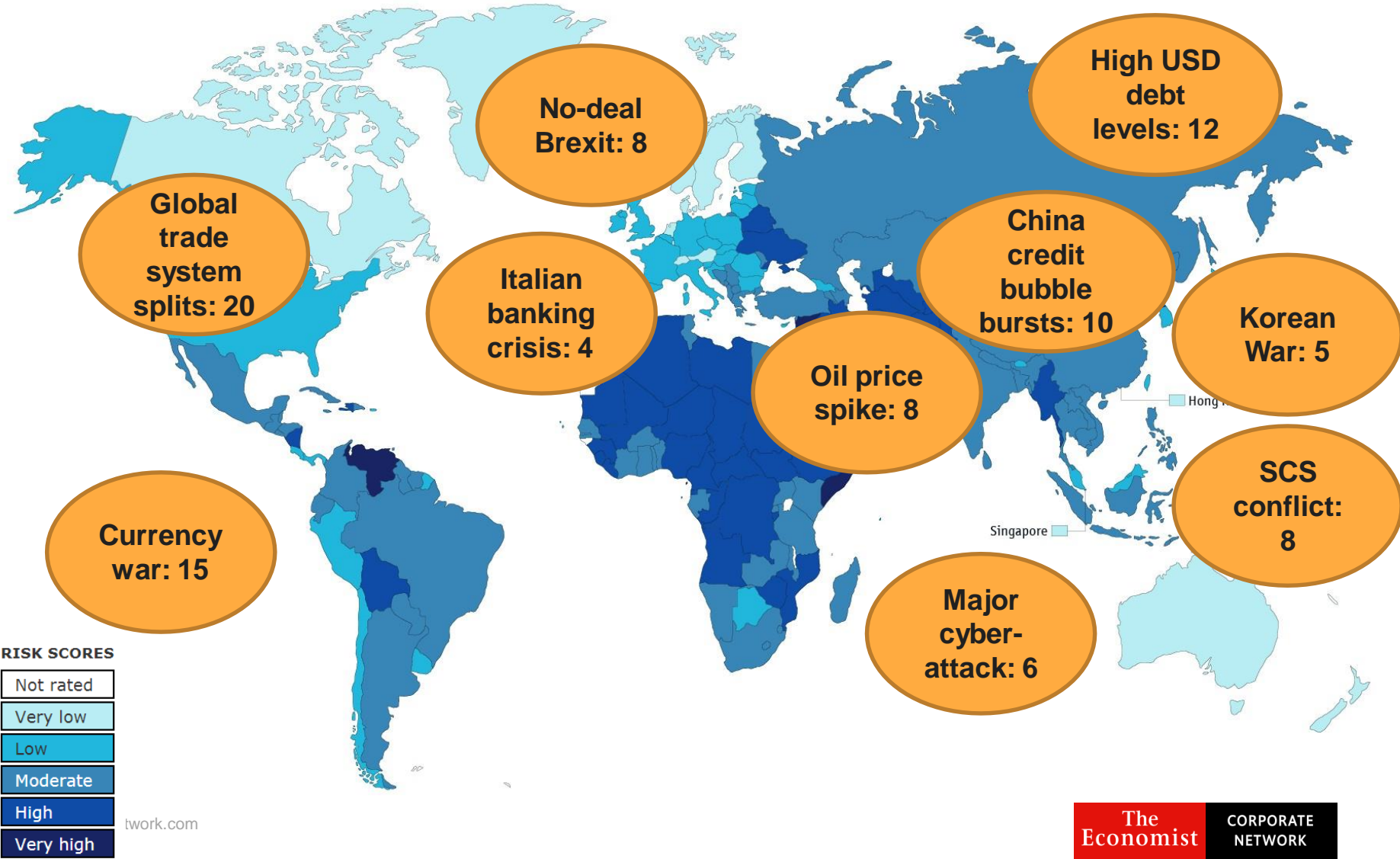
Bright spots: CPTPP, Latin America

China ■ US

Average tariff rate on imports from the other country

Months since January 2018

Source: Chad Bown, PIIE

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Trade war exposure in China

Provincial economic vulnerability to the US-China trade war
(exports as % of GDP, 2017)

Low: 0–5%
Medium-low: 6–10%
Medium: 11–15%
Medium-high: 15–20%
High: Above 20%

Heilongjiang
Inner Mongolia
Jilin
Liaoning
Xinjiang
Beijing
Hebei
Tianjin
Shanxi
Shandong
Qinghai
Ningxia
Gansu
Shaanxi
Henan
Jiangsu
Anhui
Shanghai
Tibet
Sichuan
Hubei
Chongqing
Zhejiang
Jiangxi
Hunan
Fujian
Guizhou
Yunnan
Guangxi
Guangdong
Hainan

Source: The Economist Intelligence Unit.

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A split in the global trading system is our top risk

Currency wars, USD debt and a China slowdown are also on our mind

High USD debt levels: 12

No-deal Brexit: 8

Global trade system splits: 20

Italian banking crisis: 4

China credit bubble bursts: 10

Korean War: 5

Oil price spike: 8

SCS conflict: 8

Currency war: 15

Major cyber-attack: 6

Hong

Singapore

RISK SCORES

Not rated
Very low
Low
Moderate
High
Very high

twork.com

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The Economy: Structural weakness

Growth is falling, but from a much higher base

Growth is slower in percentage term but is coming from a much higher growth, so there are still growing markets for foreign companies to tap.
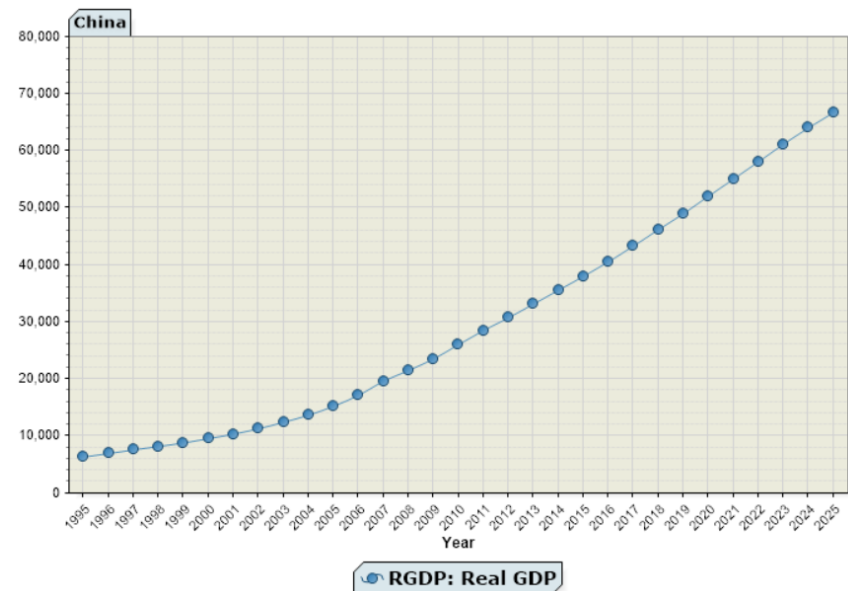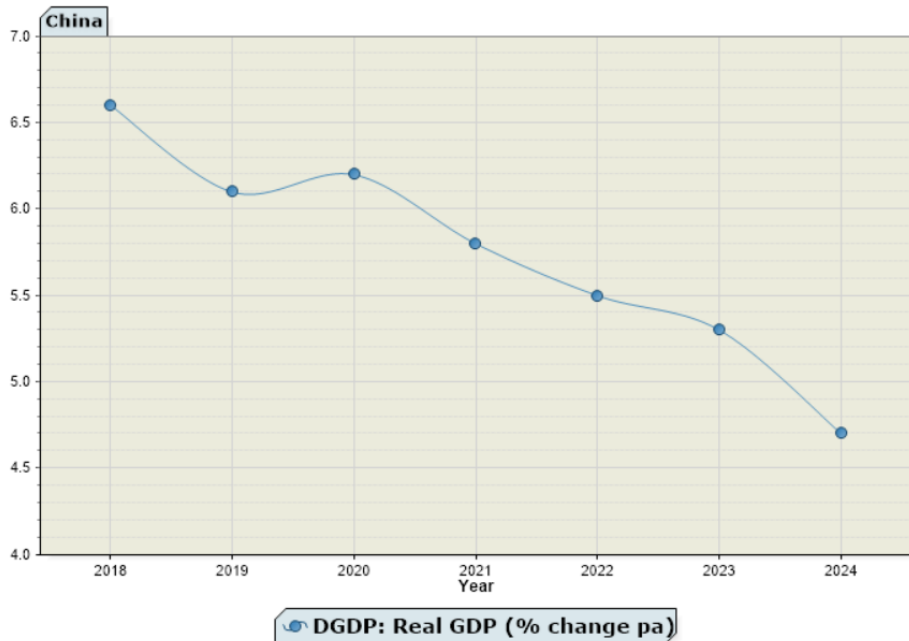
Trade war less of a threat to growth than SOEs

For private and foreign firms, China's economy is not a level playing field.


Share of industrial profits by enterprise type
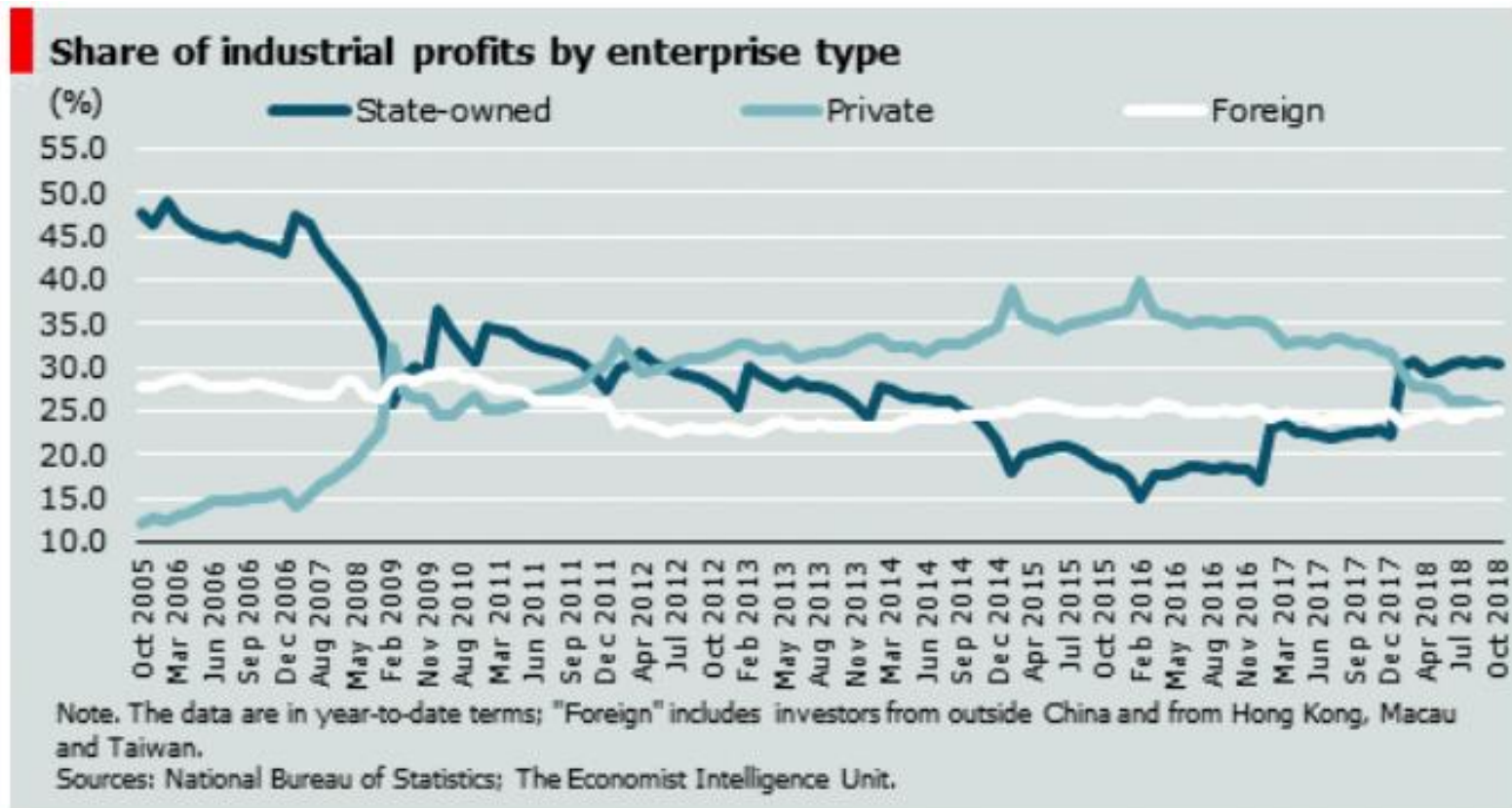
Crisis watch: international comparisons

The steep acceleration in Chinese debt shows reflects how hard it is to manage risk when debt grows that fast. Credit chains are complex and difficult to pin down

No boom without a bust

Private non-financial sector credit as % of GDP

Demographics: opportunity and risk

Labour force will stabilise, then fall fast post 2025
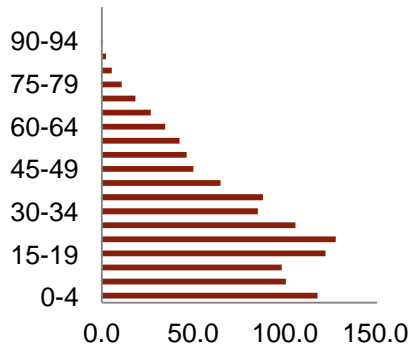
Labour force (15-64 years)

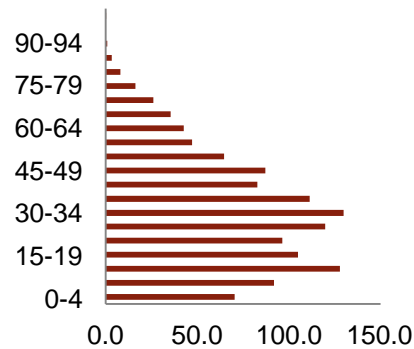Legend: Labour force (m); LHS — Change in labour force (%); RHS
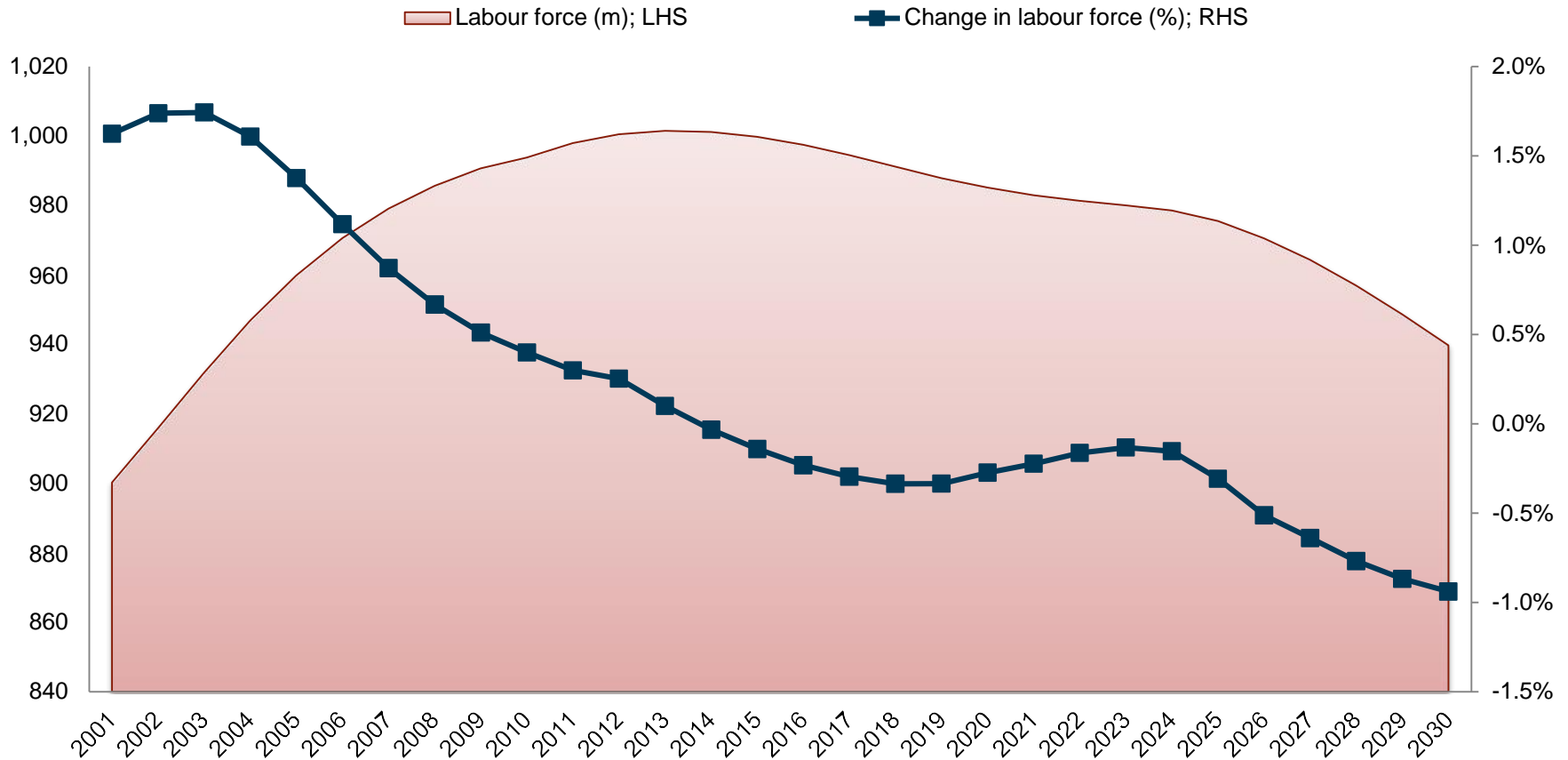
Source: EIU

China's demographic dividend is over

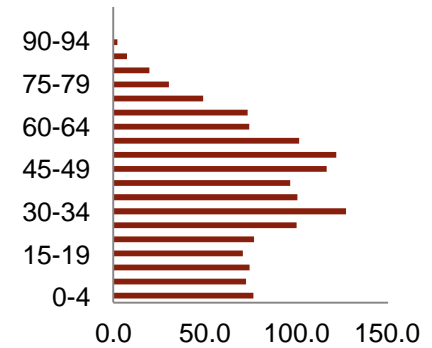Rapid ageing means that by 2030 China's population structure is likely to be similar to that of today's Japan
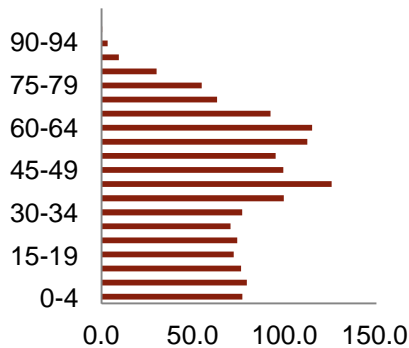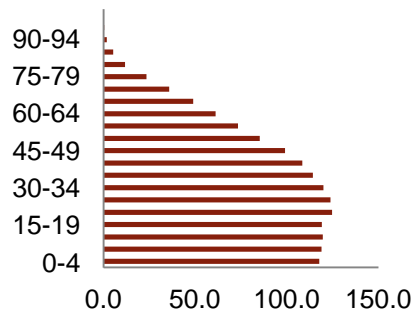

Population of 1990 (m)

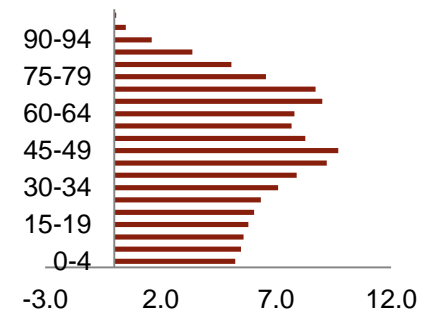**Population of 2000 (m)**

Population of 2020 (m)

Population of 2030 (m)

India Population in 2030 (m)

Japan Population in 2018 (m)

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Ageing from a regional perspective

Ageing by province

■ Increase in ageing population 2018-2030;LHS   ■ Number of population age 65+ in 2018; LHS

▲ 65+ % of population in 2018; RHS
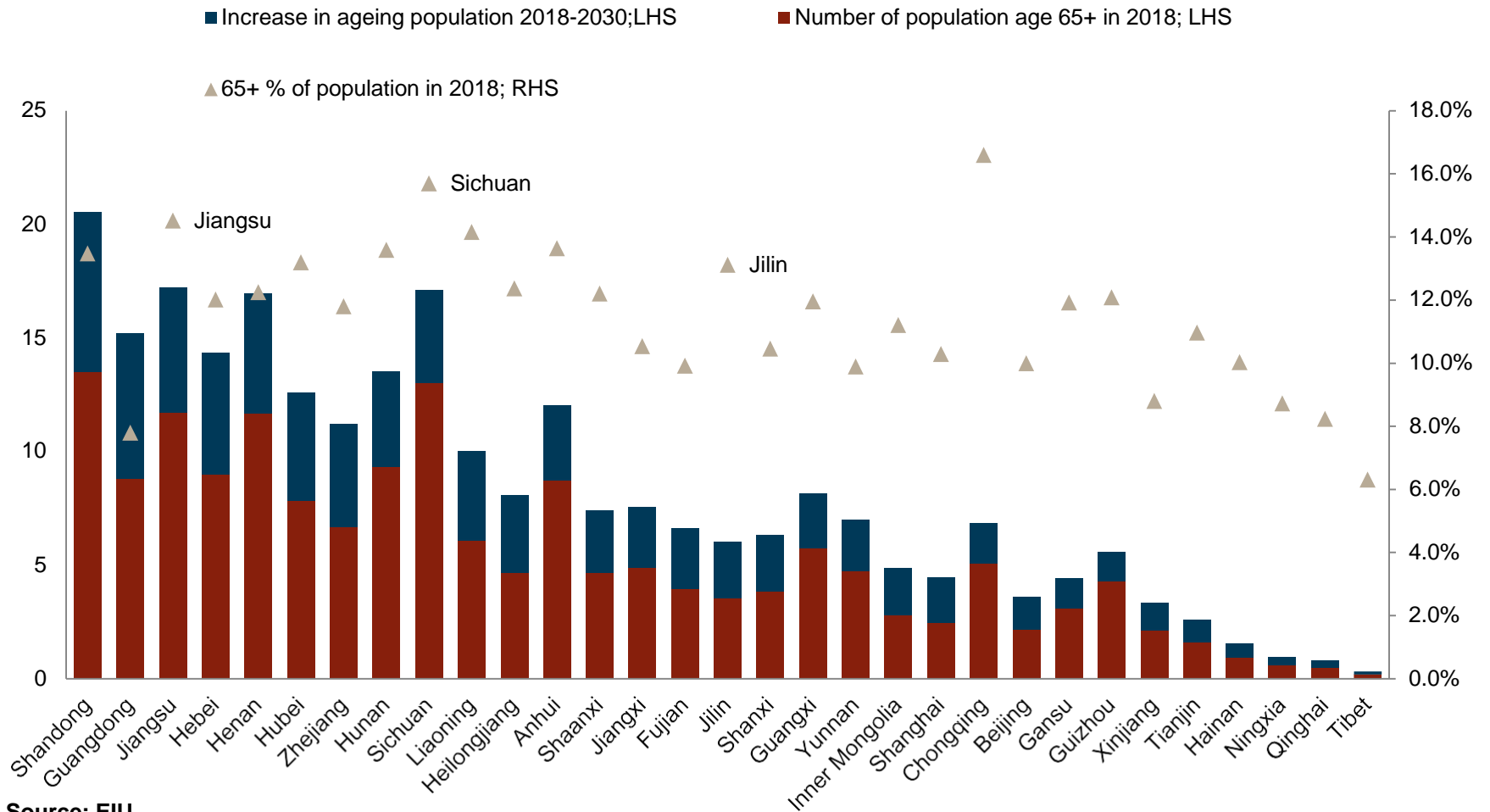
Source: EIU

Regional Rebalancing

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"Continuously narrowing the gap"

习近平：深入理解新发展理念

【字体：大 中 小】 🖨 打印   ⋘ 🟢 🔴 ＋

深入理解新发展理念

习近平

构建连接东中西、贯通南北方的多中心、网络化、
开放式的区域开发格局，不断缩小地区发展差距

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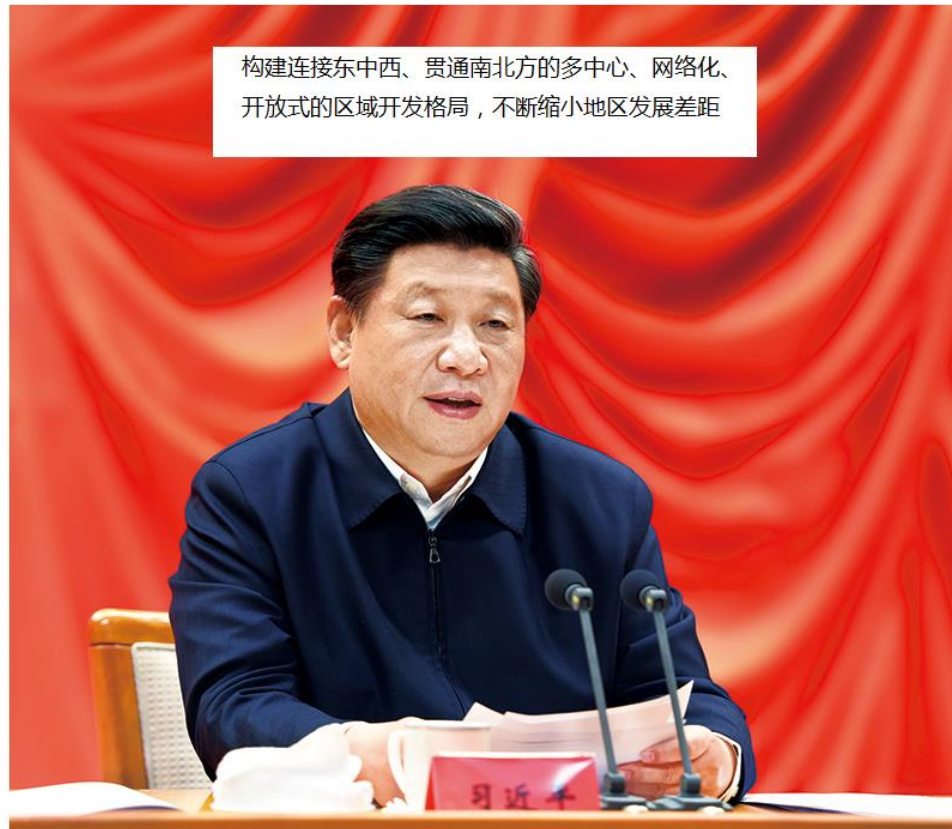
Redrawing the economic map
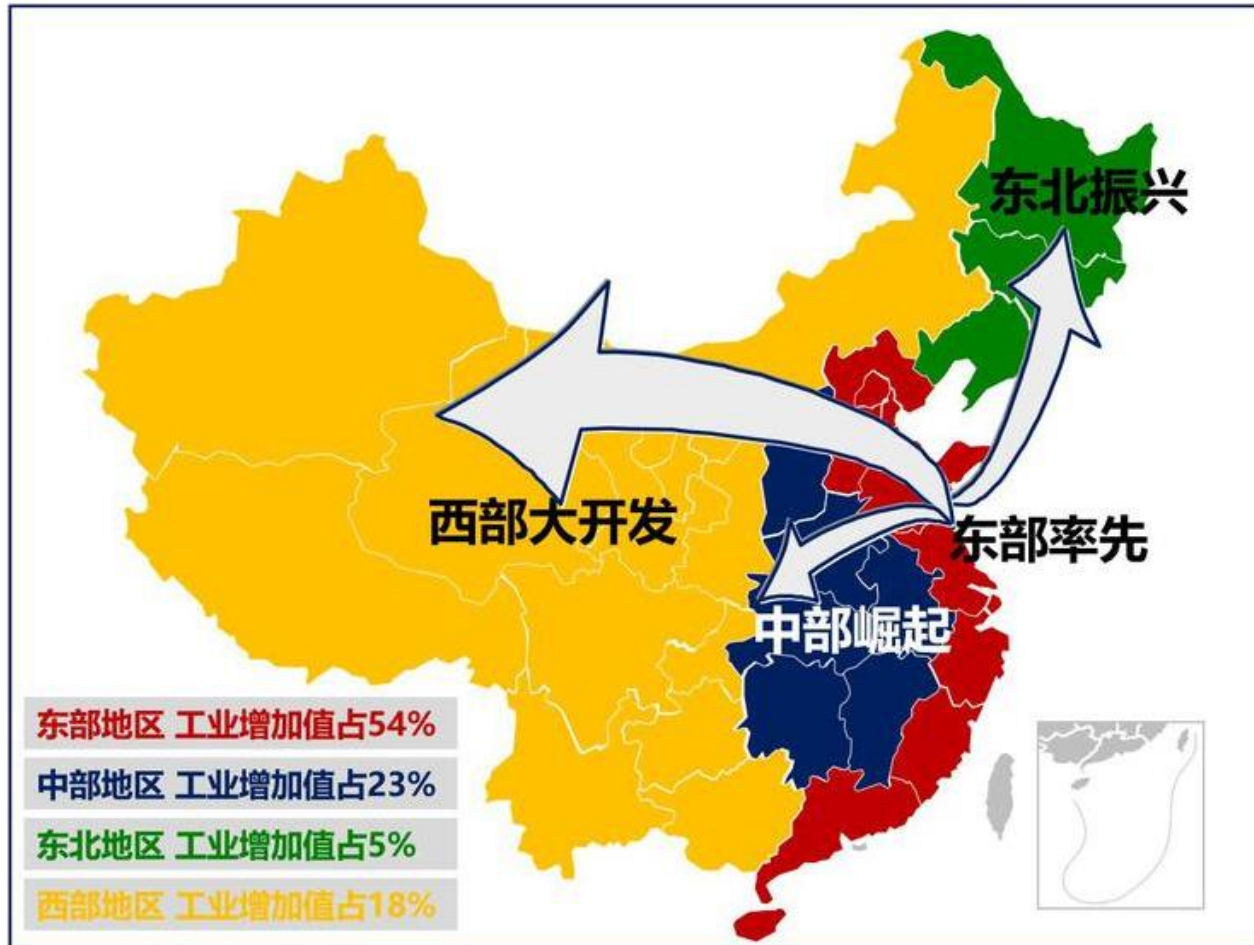
A tale of five regions

The Economist

Growing apart

Regional GDP per capita, as a % of south coastal

Underlying cracks 1

China, % of regional GDP

Fiscal deficit

West

North-east

Central

North coastal

South coastal

Source: Wind Info
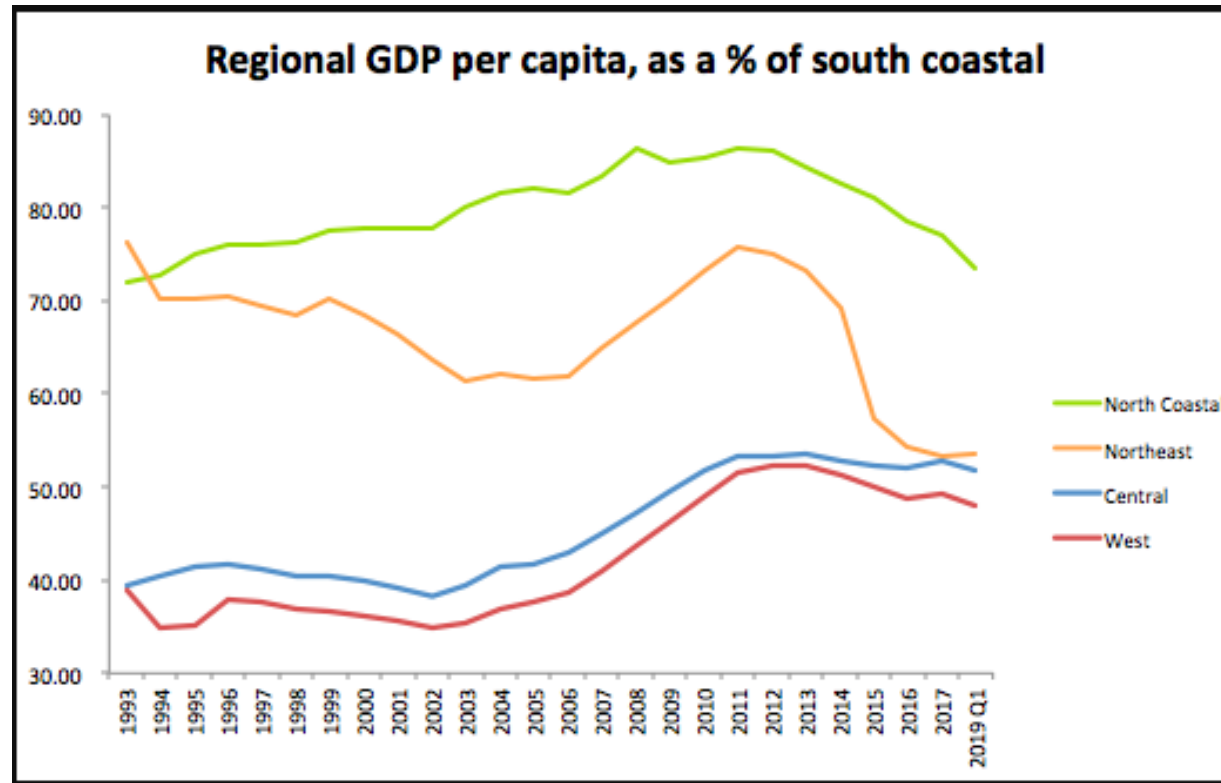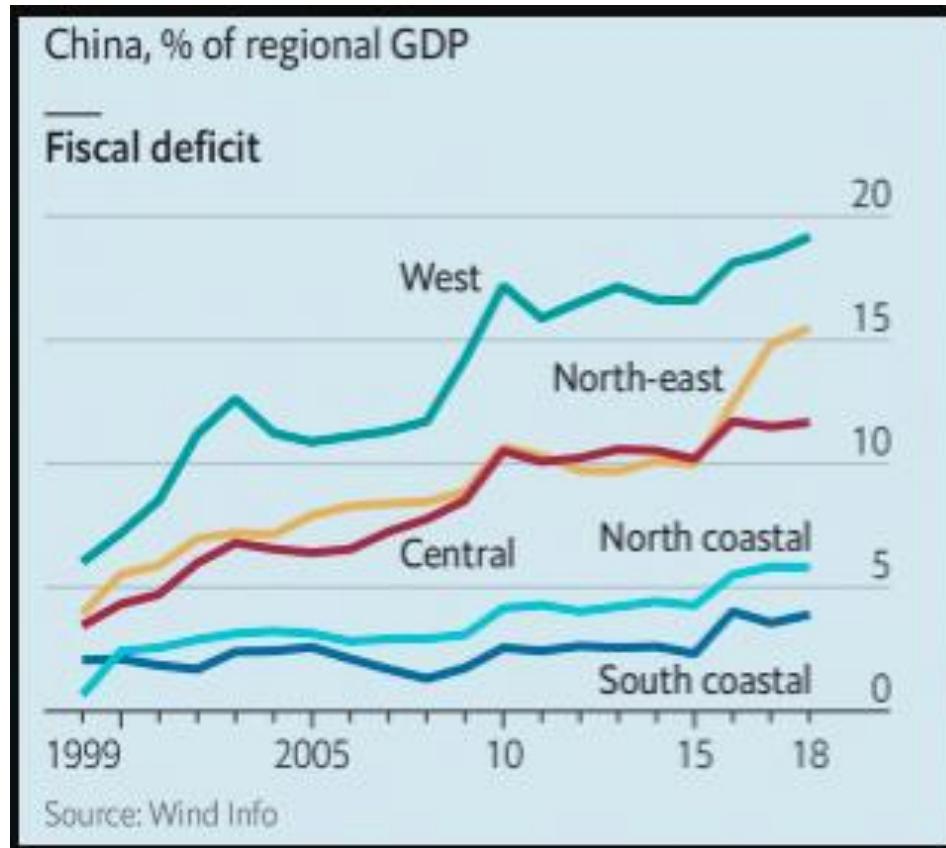
Underlying cracks 2
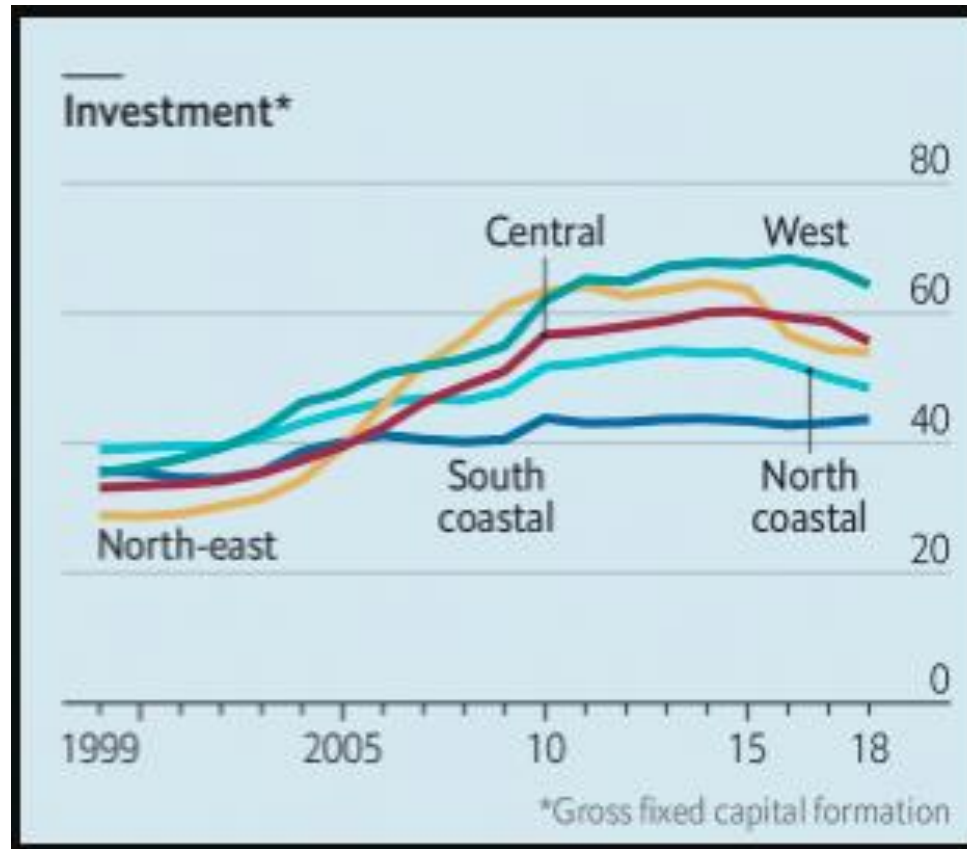
Rebalancing, ready or not

Tertiary sector as % of regional GDP

Seizing the future

China's patent applications by region, 2018

- South coastal
- North coastal
- North-east
- Central
- Western

Demographic deficit

Ages 0-14 as % of regional population

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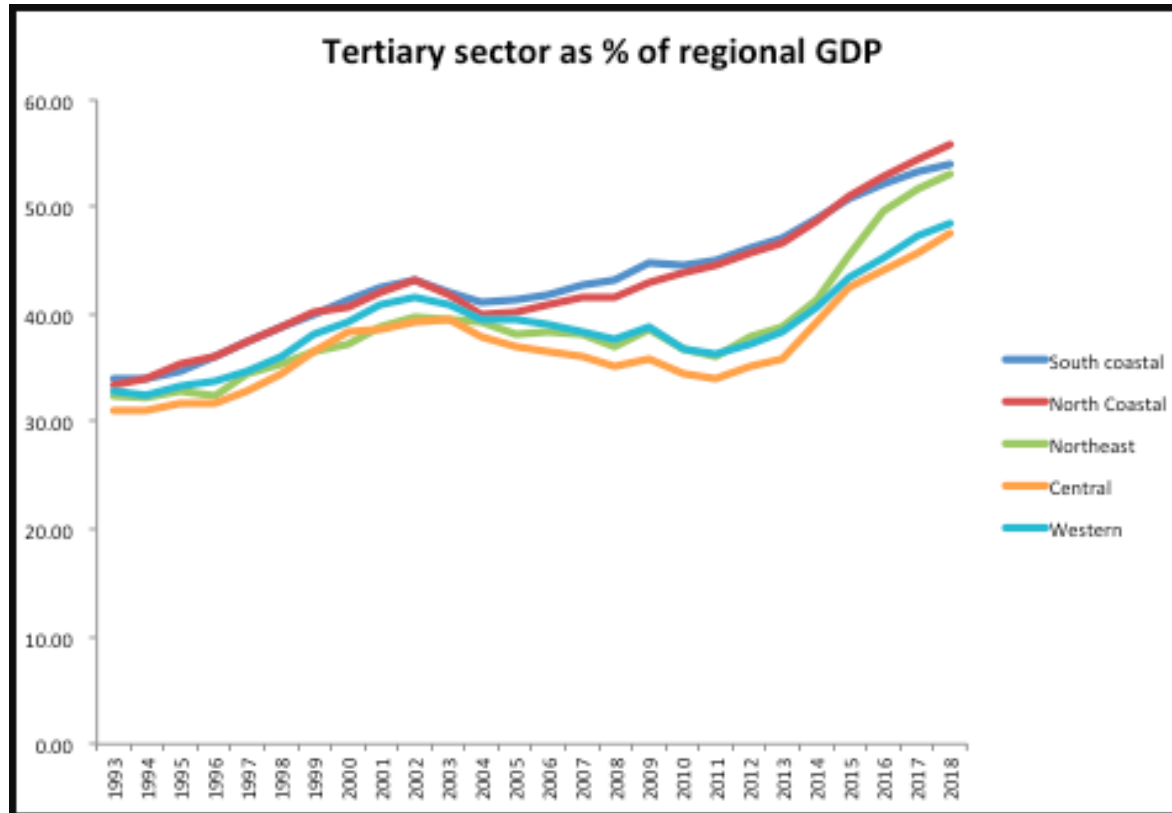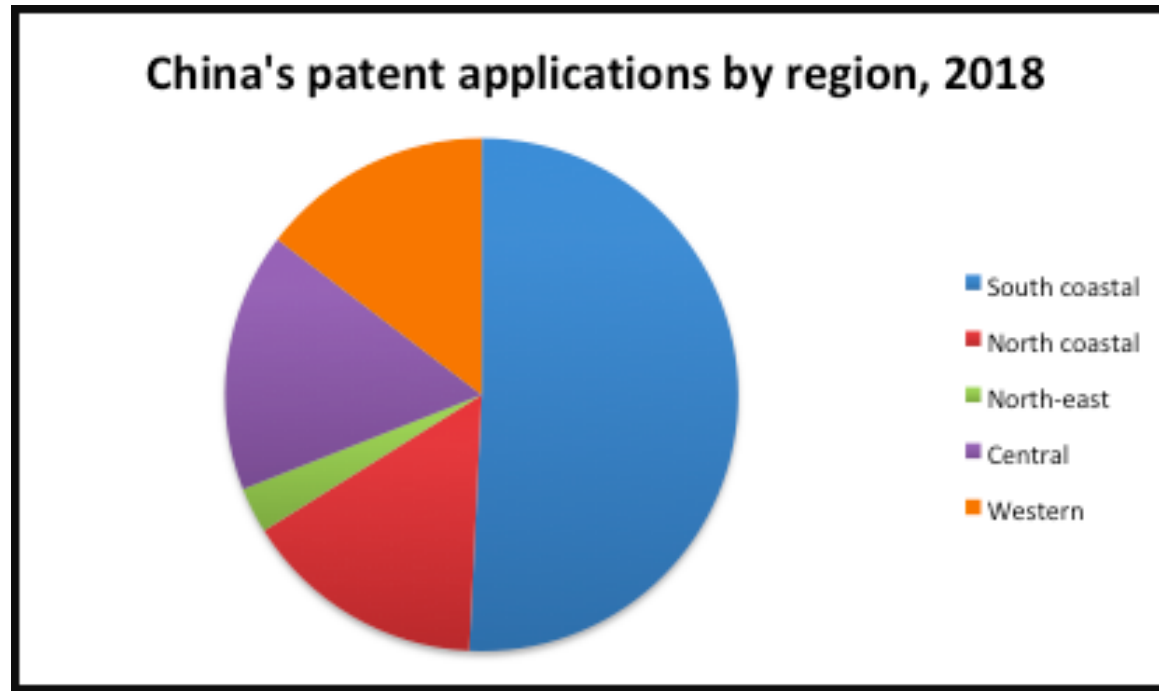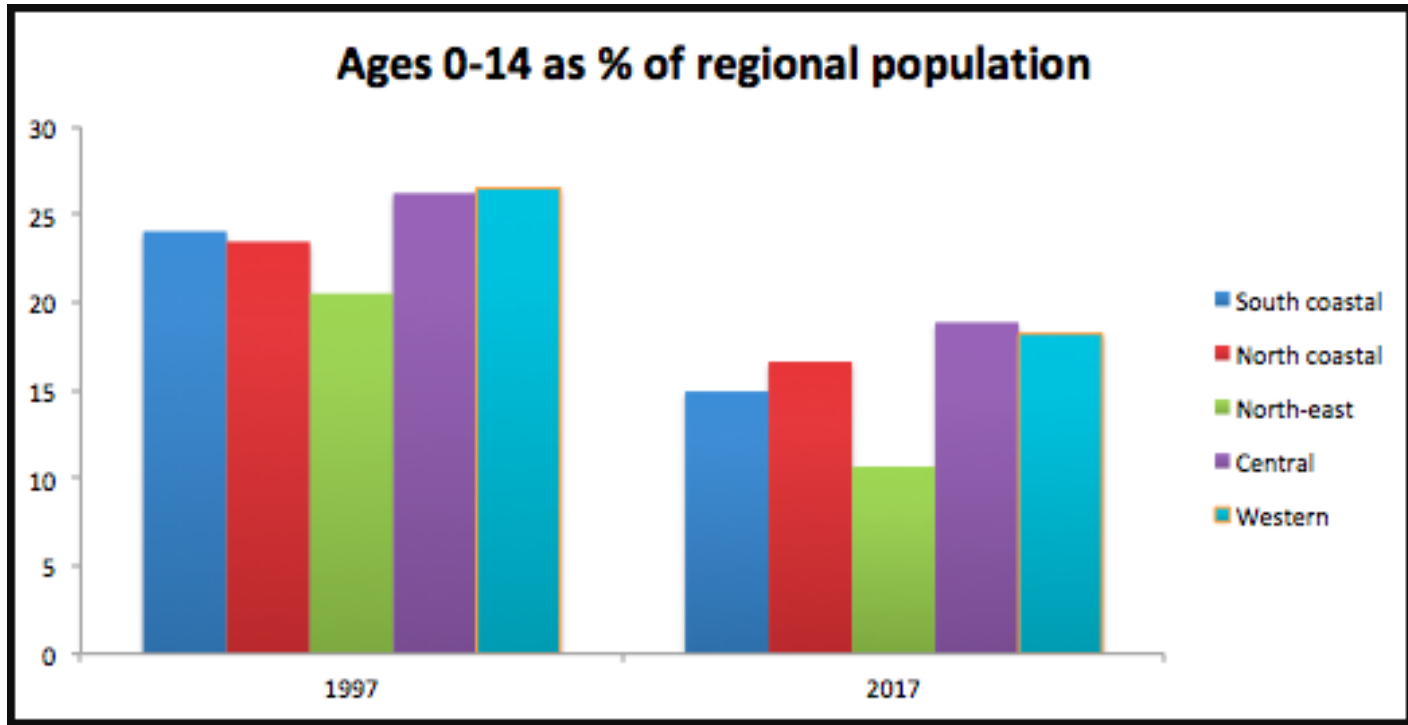
End of migration? Central and western cities rise

Reverse migration to inland along with conglomeration in the east

Net migrant inflow (m)
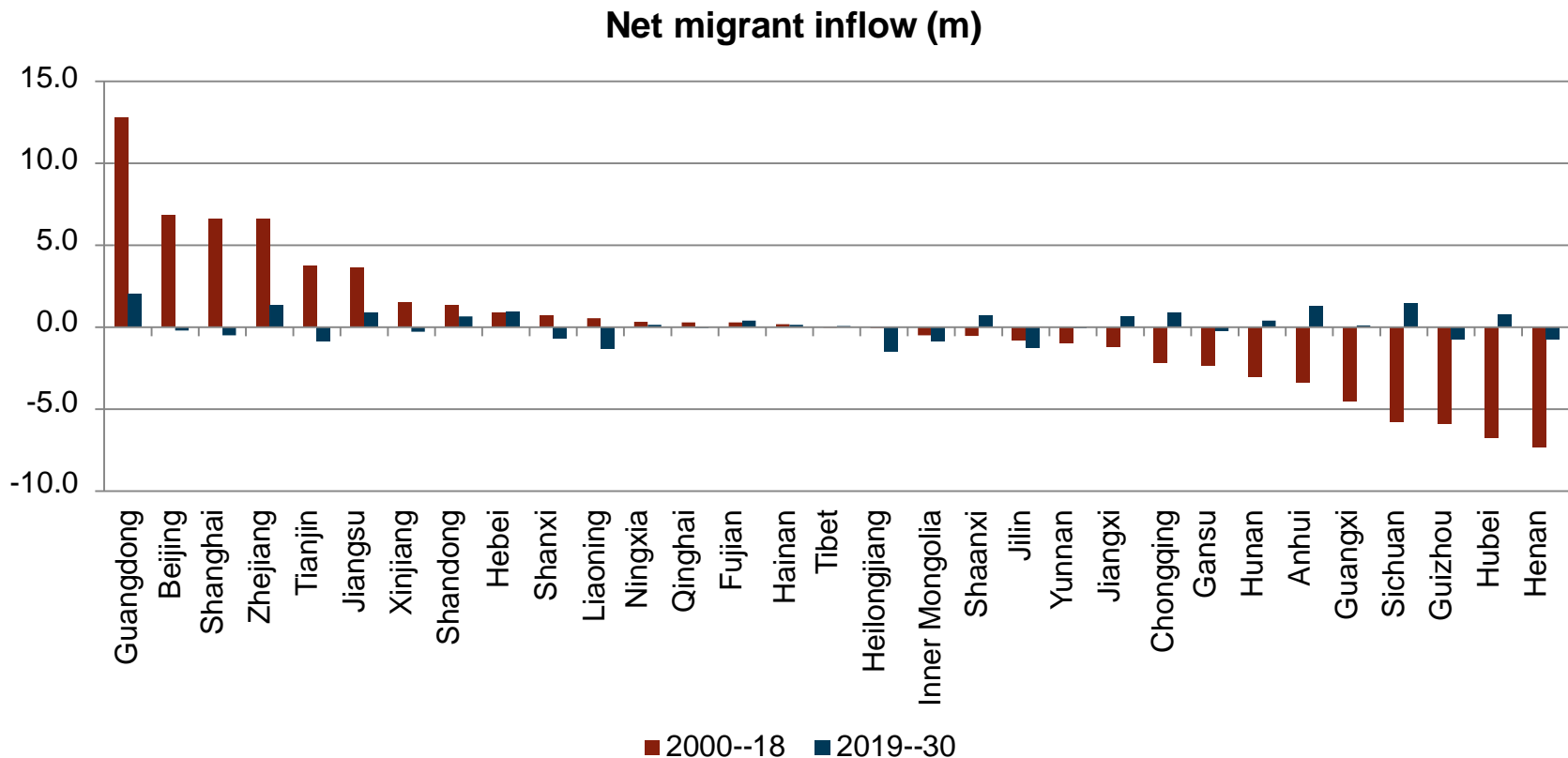
- A less mobile population
- Traditional labour exporters see reverse migration: Anhui, Sichuan, Chongqing, Hubei
- Repopulation in manufacturing centres: Guangdong, Zhejiang, Jiangsu

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Cities of the future

City clusters are an emerging priority

But not all regions are equal

China's city clusters

Urban population, 2017

City cluster

Source: The Economist Intelligence Unit

Big cities draw in population

Transport connections primarily benefit the larger hubs

Hubei intercity transit (connect to Wuhan since 2013)

Population growth 2013-2018

1.5%	**Wuhan** *
0.2%	**Huangshi** *
0.3%	Shiyan
0.2%	Yichang
0.3%	Xiangyang
0.2%	Ezhou
0.1%	Jingmen
0.3%	**Xiaogan** *
-0.3%	Jingzhou
0.1%	**Huanggang** *
0.4%	**Xianning** *
0.2%	Suizhou

* Connect to the transit

Source: EIU

SHAANXI   HENAN   ANHUI

● Shiyan

Xiangfan ●

● Suizhou

HUBEI

CHONGQING   Jingmen ● Xiaogan ●   Huanggang

Yichang ●   **Wuhan**

Jingzhou ●   Ezhou   ●

Xianning ●   Huangshi

HUNAN   JIANGXI

Emerging city rankings

Central and eastern cities have the highest growth potential

Emerging city rankings 2018
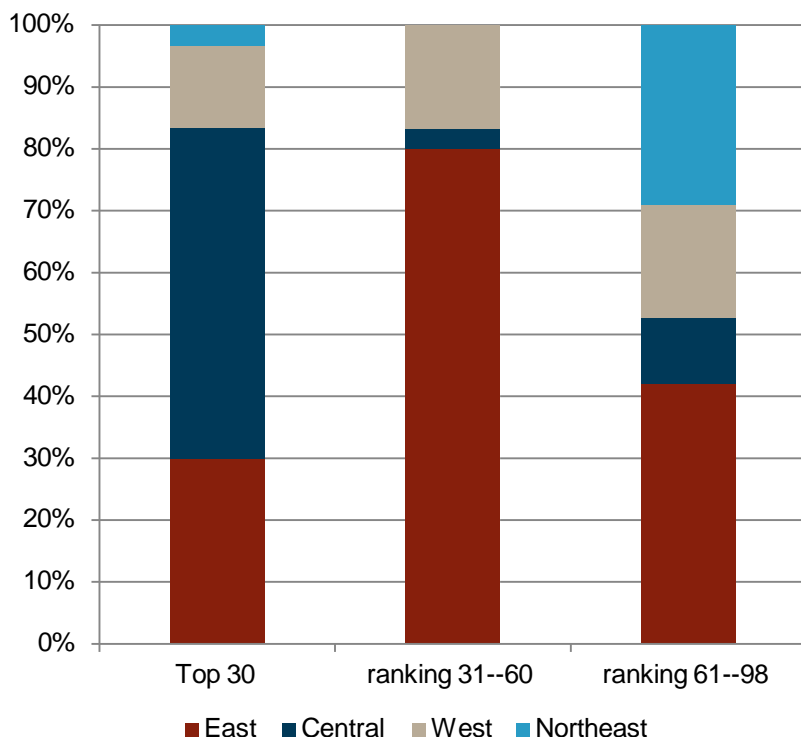
- Index includes 9 growth indicators:
  - GDP, FAI, FDI, Metropolitan built area
  - Metropolitan population, disposable income, urban consumption
  - Fiscal revenue
  - No. of national level development zones

- Full ranking includes 98 prefecture cities (out of 292)
  - Metropolitan population >1m by 2022

Overall growth rankings: top 10

Top 10 are populous cities with lower cost and central policy supports

Rank	Province	City	Tier
1	Anhui	Suzhou	4
2	Hunan	Yueyang	3
3	Henan	Luoyang	3
4	Hubei	Xiangyang	3
5	Hunan	Xiangtan	3
6	Xinjiang	Urumqi	3
7	Jilin	Changchun	2
8	Guizhou	Guiyang	3
9	Shandong	Tai'an	3
10	Henan	Xinxiang	3

- National policies
  - Central Rise, Western Development (BRI), Revitalisation of the Northeast, city clusters

- City expansion
  - FAI, metropolitan population

- Close connections with provincial capital

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Cost advantage of emerging cities

Emerging cities mostly have low labour cost

Annual wage in 2018 (,000 Rmb)
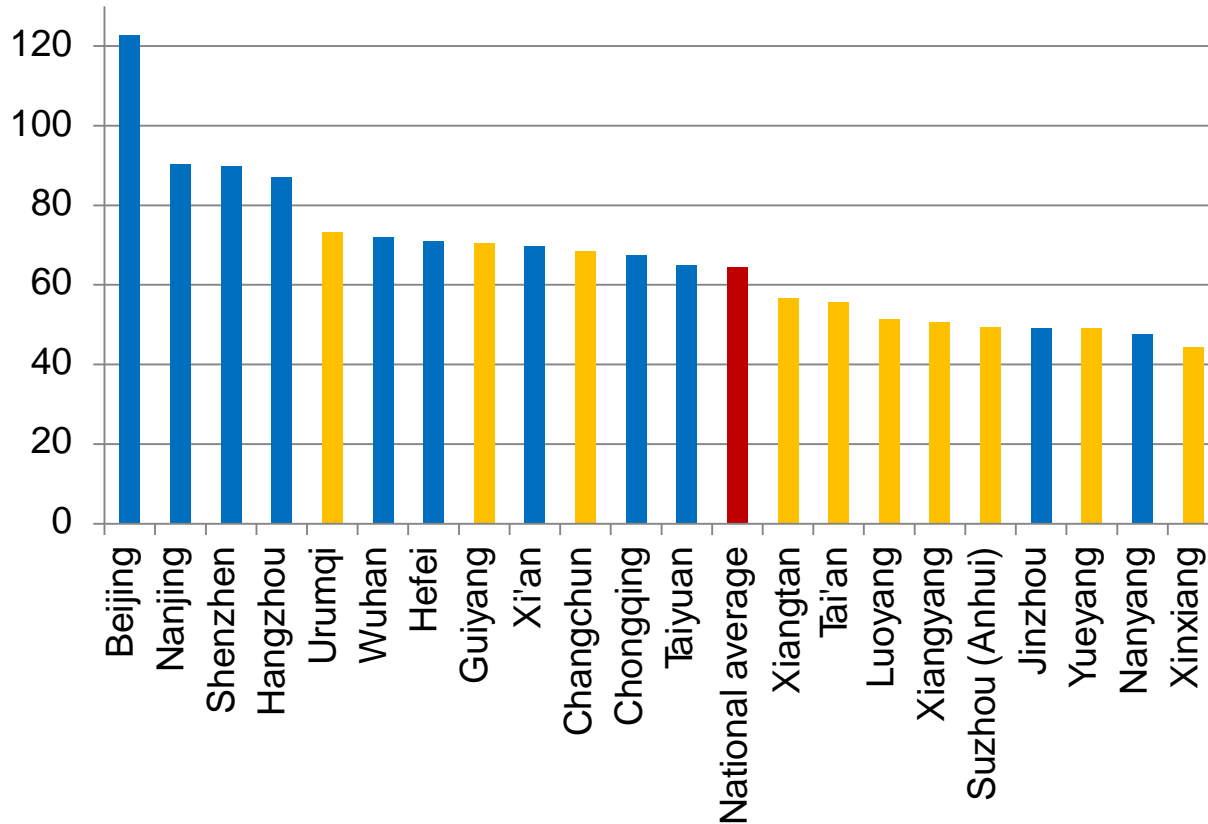
- Urumqi, Guiyang, Changchun have high labour cost but strategic importance

- Most top 10 emerging cities (in yellow) have lower labour cost
  - Industrial transfer

Metropolitan migration inflow will concentrate in tier 4

Urbanisation will continue

Metropolitan net migration inflow (m)

Legend: ■ Tier 1 ■ Tier 2 ■ Tier 3 ■ Tier 4
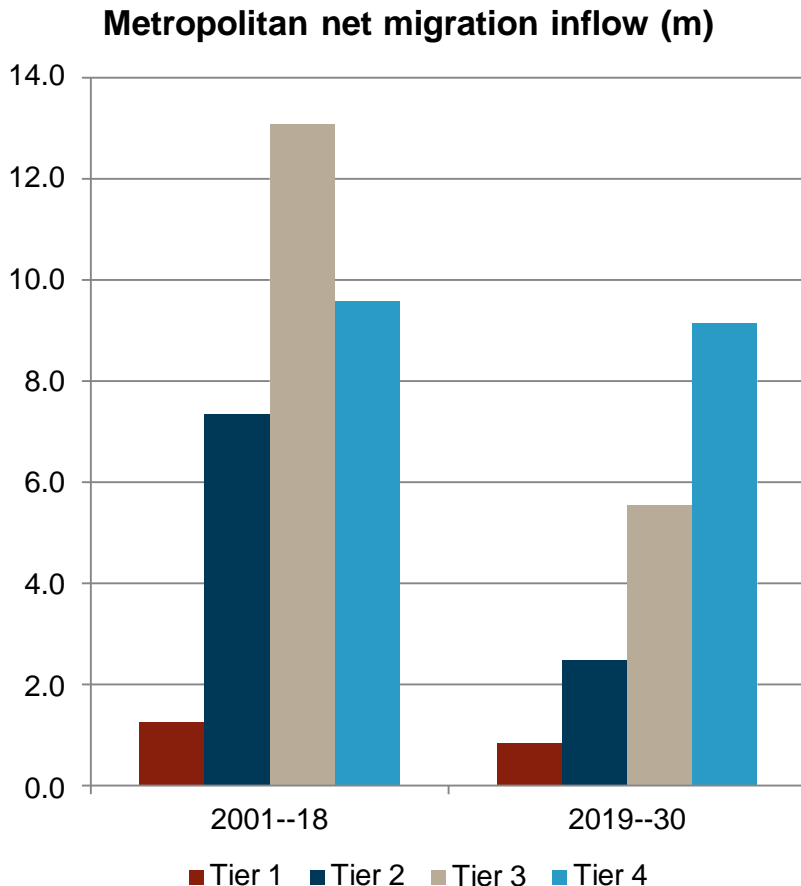
2018	East	Northeast	Central	West
Urbanisation rate	**71%**	**60%**	**55%**	**50%**

- Further urbanisation
    - Move rural residents to cities
    - Official target: 70% by 2030 (59% in 2018)

- Hukou reform in 2019 (NDRC)
    - Metro pop 1m-3m no restriction
    - 3m-5m relax requirements (high-skill workers)
    - >5m increase hukou quota, prioritise long-term residents with long history of social security payment

Sector ranking: economy (liveability)

Sector rankings are snapshots of the city performance: 7 sectors, 42 indicators

The first 20 cities in economy

9 measures on livability:

- Innovation (university, aging)
- Openness (FDI)
- Transportation (rail, population density)
- Job market (services, wage)

Tier 1 cities are different

- Shenzhen: youngest (aging 3.2%>65)
- Beijing oldest: (13.8%)
- Shanghai: open, dense
- Guangzhou: transport

Rank 1 to 10
Rank 11 to 20

Source: The Economist Intelligence Unit

Shenzhen tops the gain in metropolitan population

But is exposed to the trade war

Metropolitan population gain in 2019-30
(m)

Hegang -0.1
Qiqihar -0.1
-0.1 Changchun
-0.1 Fushun
-0.1 Anshan
Beijing 1.2
Shijiazhuang 0.8
Zhengzhou 1.3
0.6 Yantai
0.6 Qingdao
Xi'an 0.9
0.7 Nanjing
Chongqing
Hefei 1.4
Chengdu 1.7
0.6 Suzhou
1.4
0.9 Wuhan
0.7 Ningbo
Changsha 0.8
1.4 Dongguan
1.2 Hangzhou
Guangzhou 1.1
0.6 Xiamen
Nanning 1.0

Increase in population

Decrease in population

1.8 Shenzhen

Foshan 1.2
0.6 Zhongshan

Source: The Economist Intelligence Unit.

Smart cities

China's 5G rollout accelerated amid trade tension

5G pilot cities in China, 2019
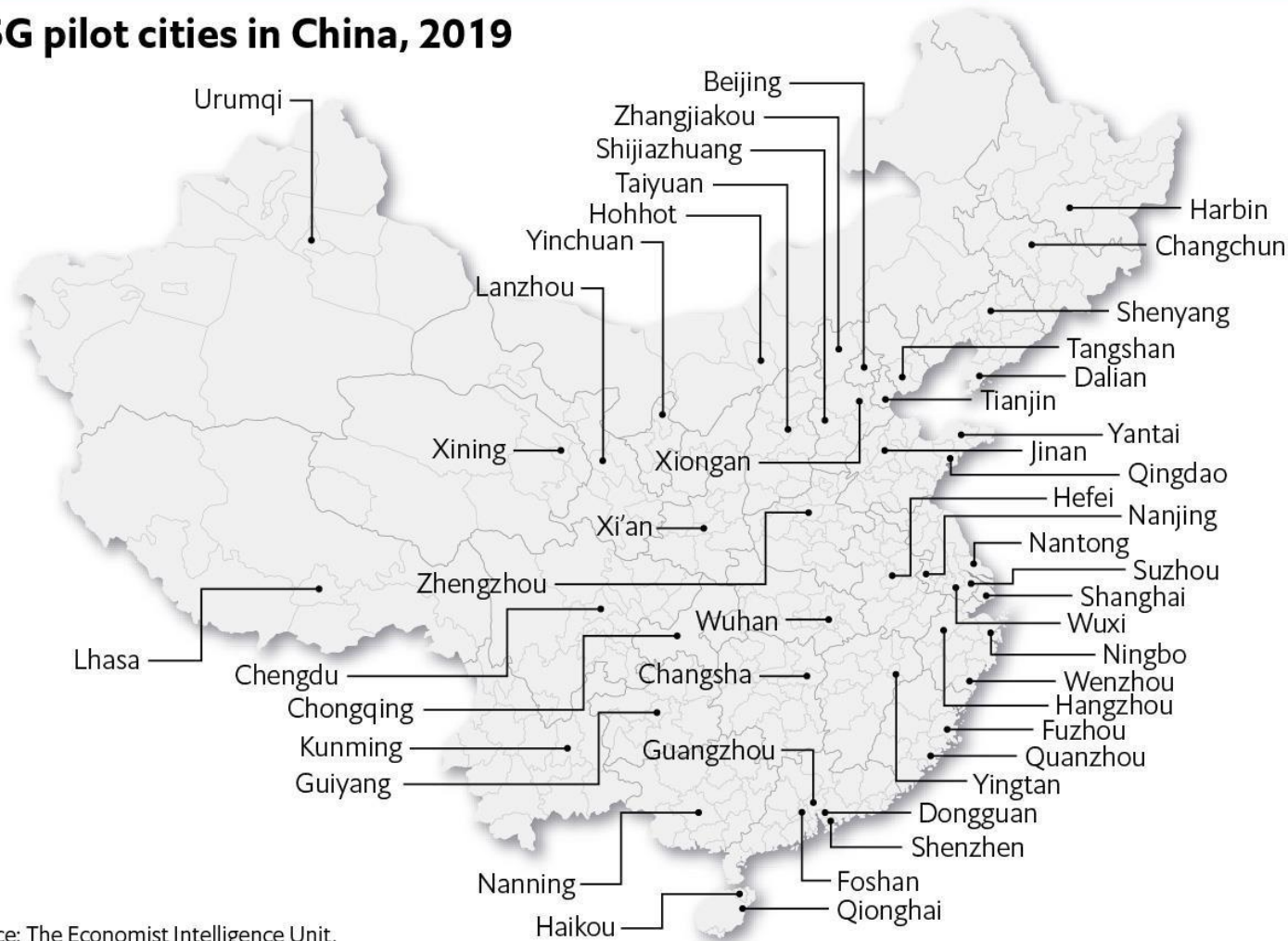
- To commercilise 5G in 2020
  - Issued licenses ahead of schedule

- China Mobile and China Unicom pilot 5G in 40 cities
  - Xiongan
  - Zhangjiakou

- China Telecom has a different set of cities
  - Qionghai (county)
  - Yingtan

Source: The Economist Intelligence Unit.

China's regional potential: consumer market

Lower tier cities as a whole have potential

Retail sales and population, 286 prefectures, 2018 (%)

- First tier
- Second tier
- Third tier
- Fourth tier
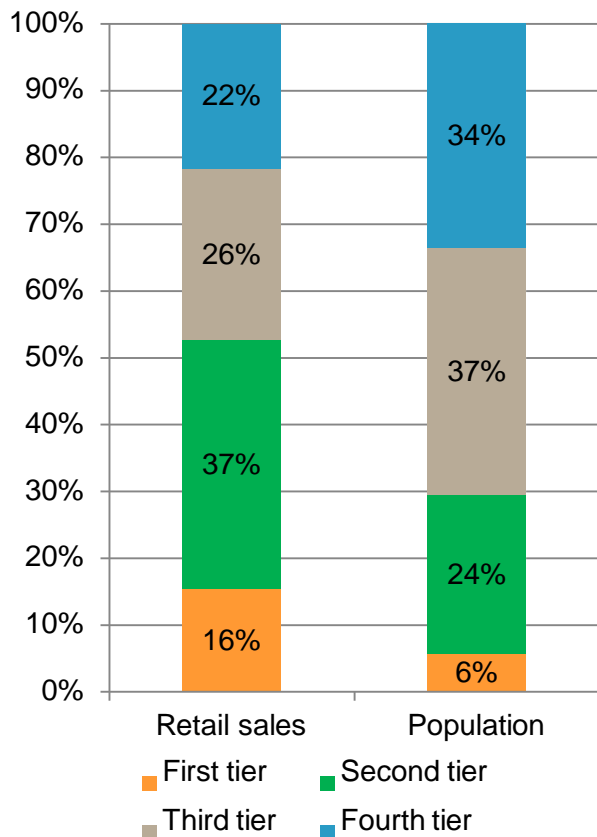
High-income consumers (m)

- 2018
- 2019--30 increase
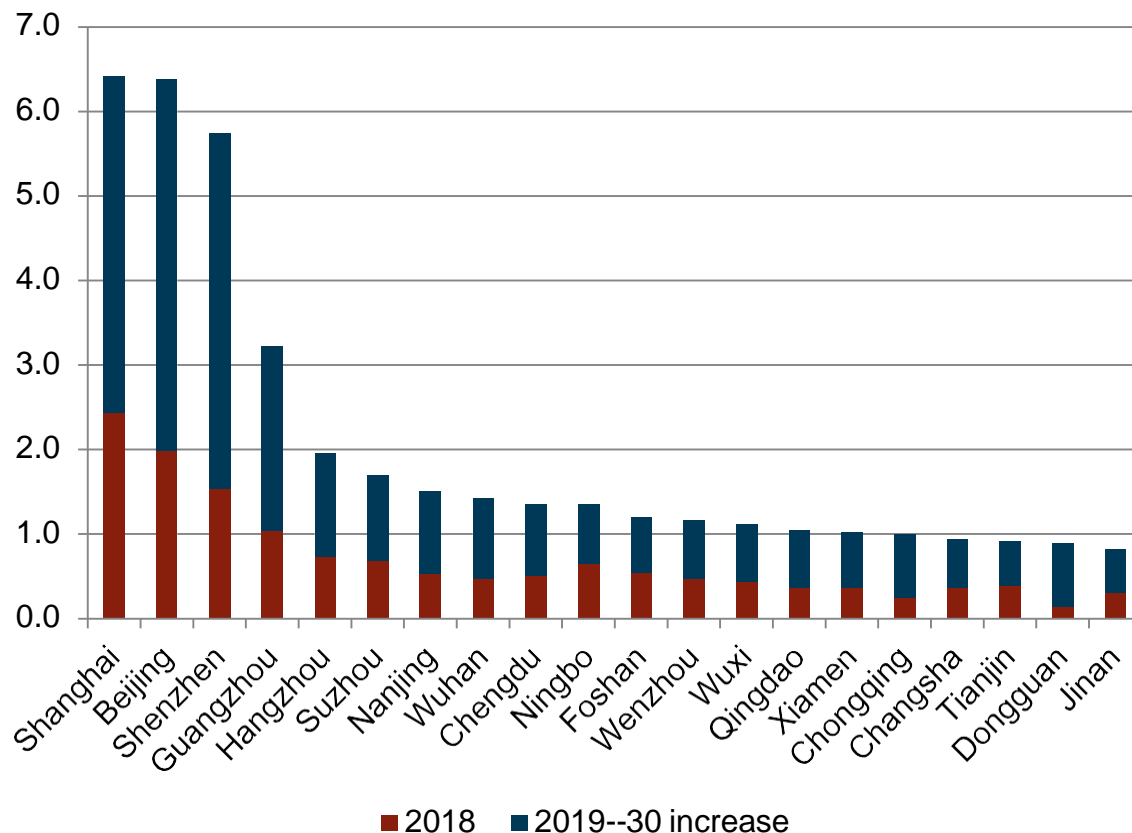
Note. High-income consumers are defined as those with annual disposable income of more than Rmb150,000.

Attract talents

Universities and industries

The first 20 cities in education

Source: The Economist Intelligence Unit

Rank 1 to 10
Rank 11 to 20
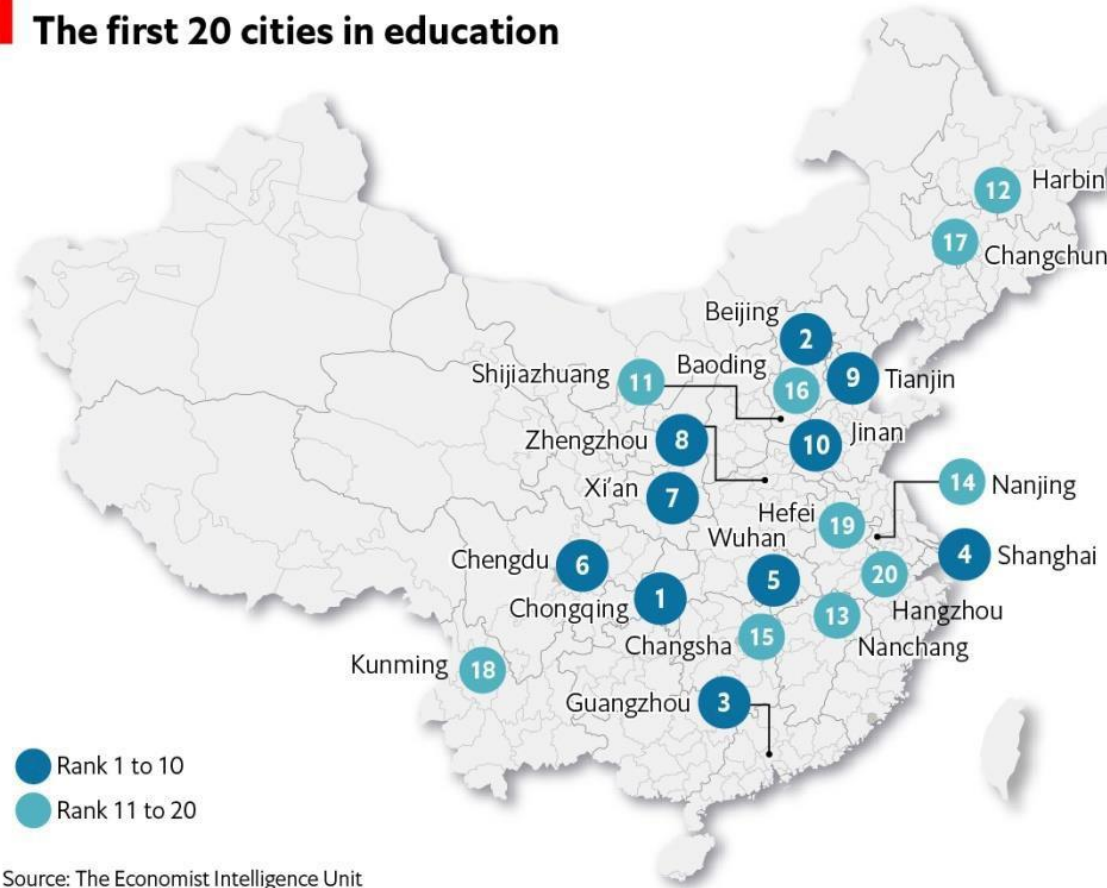
Fierce competition to attract talents

- Hukou
- Housing subsidy
- Startup funds
- Tax breaks for investment

Some inland and northeastern cities have good labour pools

- Lanzhou, Hefei
- Changchun, Shenyang

Greater Bay Area: Ecosystem advantage?

Guangdong has a reliance on low cost labour and low margin assembly

Accounts for 10% of China's GDP. Five clusters by 2022: in electronics, smart home appliances, automotive, green petrochemicals and robotics

Guangdong province's share of national production by industrial good
(% of total; volume terms)

Legend: 2012, 2017

Categories: Televisions, Mobile-phone, Air-conditioners, Integrated circuits, Paper and cardboard, Plate glass, Passenger cars, Washing machines, Automotive, Cement

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

Hong Kong

The Economist | Corporate Network

Clash of the titans or David and Goliath

Competing visions of reality. Jarring for business and China's future

The Economist **CORPORATE NETWORK**

HK: Look beyond the numbers

HK's contribution to GDP misses its vital role for China

Even bigger brother
Hong Kong as % of mainland China

Nominal GDP

Ports, container throughput

1998 2005 10 15 19*

1998 2005 10 17

Sources: IMF; UNCTAD   *Forecast
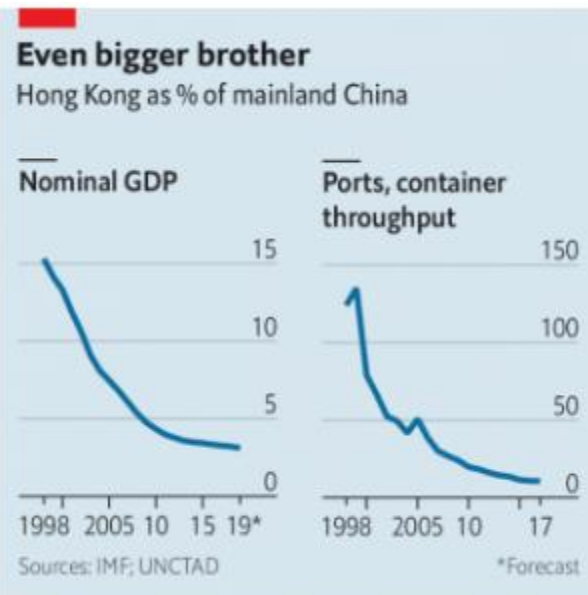
China can remain so closed because Hong Kong's economy is so vital and so open.

The goose that still lays golden eggs

Value of stockmarkets, August 8th 2019, $trn

	0	5	10	15	20	25	30	35
United States								
China								
Japan								
Hong Kong								
Britain								
France								
Canada								
Germany								
India								
Switzerland								

Hong Kong in numbers

	1997	Latest
Mainland China stockmarket value, $bn	118	6,390
Hong Kong stockmarket value, $bn	431	4,940
Total loans by Hong Kong banks, $bn	532	1,277
US dollar and other foreign currency deposits, $bn	155	851
Number of multinational firms with regional HQ*	744	1,333

Sources: Bloomberg; World Federation of Exchanges; Hong Kong government statistics; Shanghai & Shenzhen stock exchanges   *Excl. China

Any questions?