

Enterprising China

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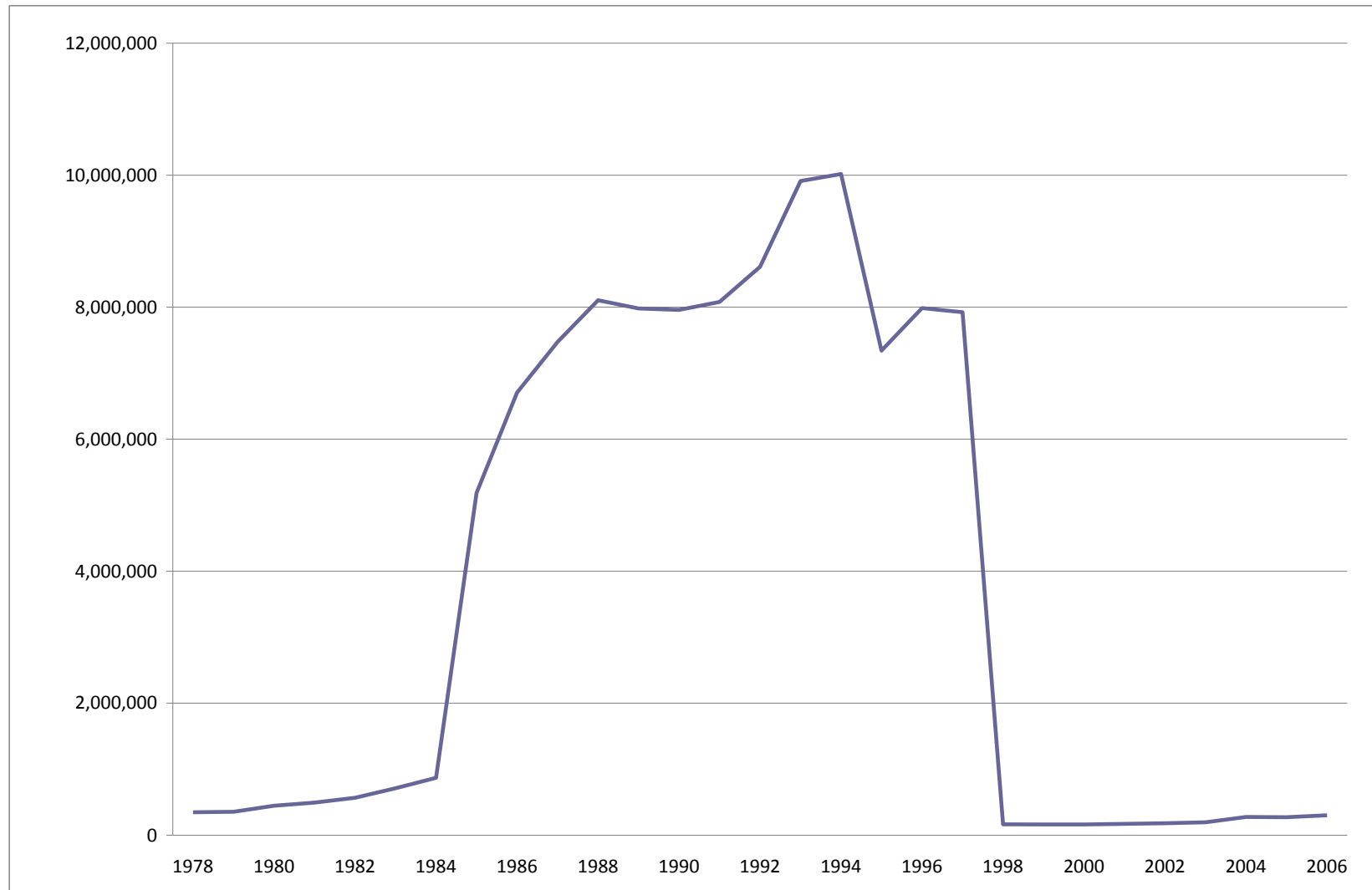
Business, Economic & Legal Reforms Since 1979

- Reform & transformation
- Outlook
- Re-balancing China & the world

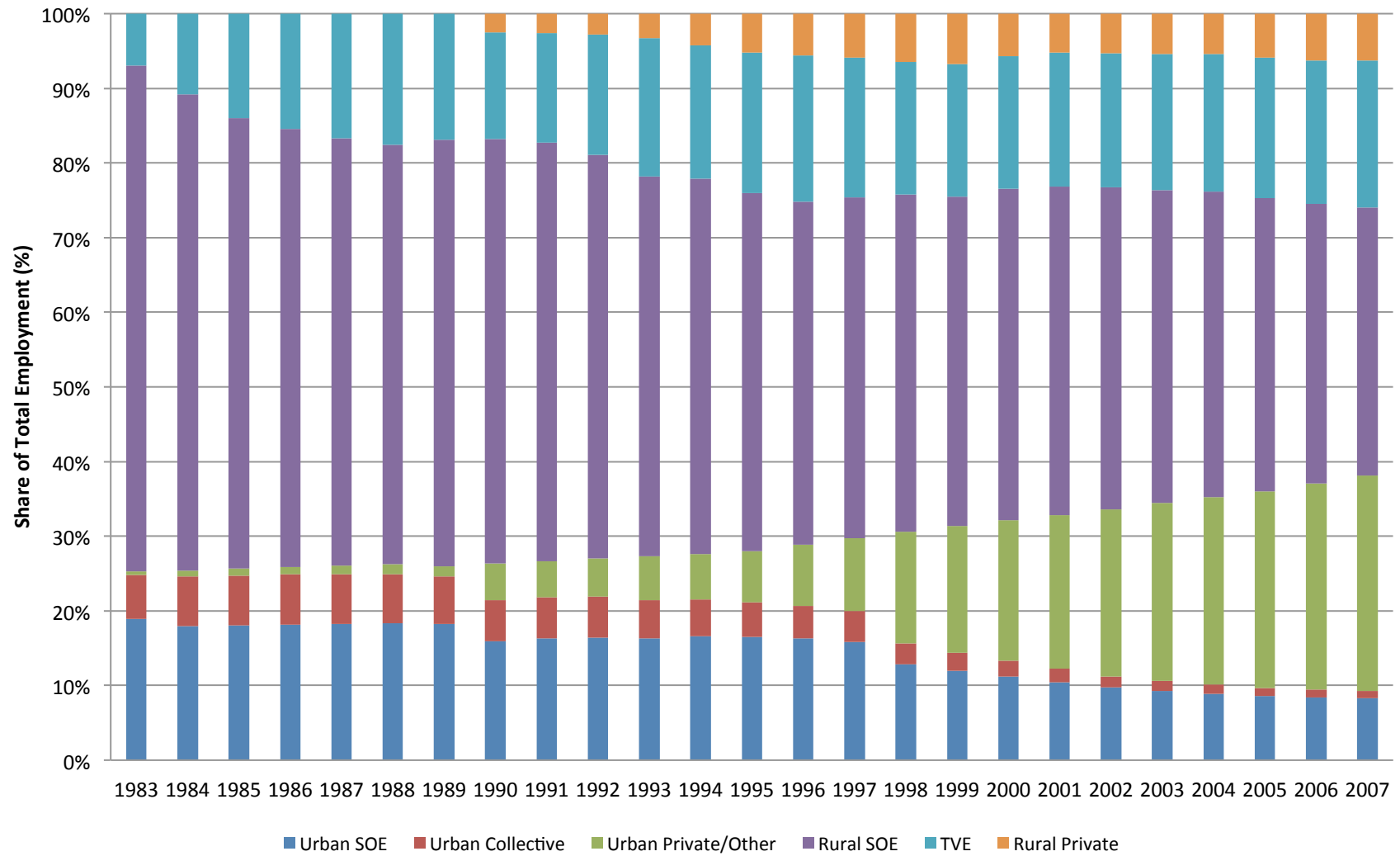
Rule of law & GDP growth



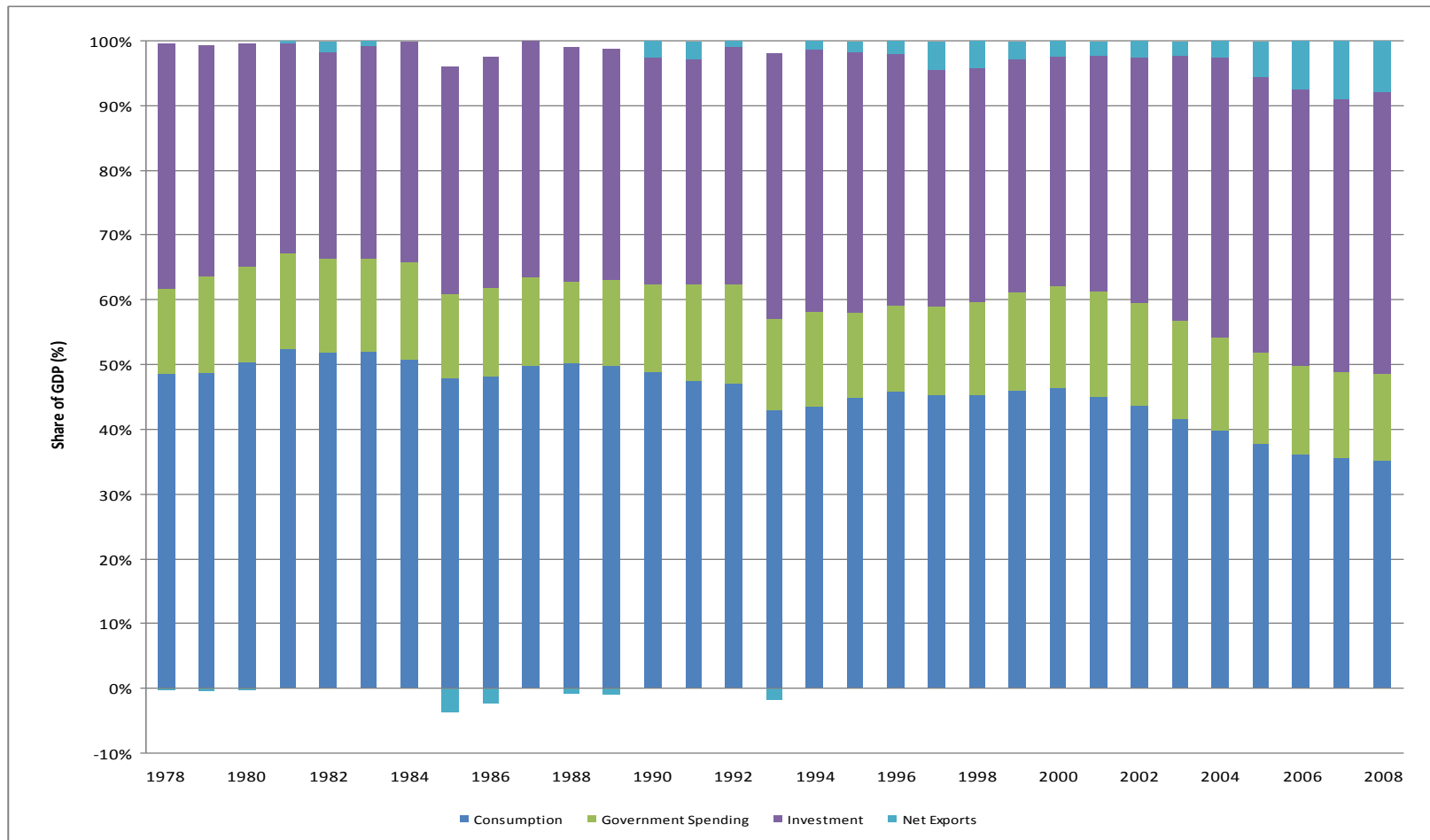
State-owned enterprises



Employment by sector

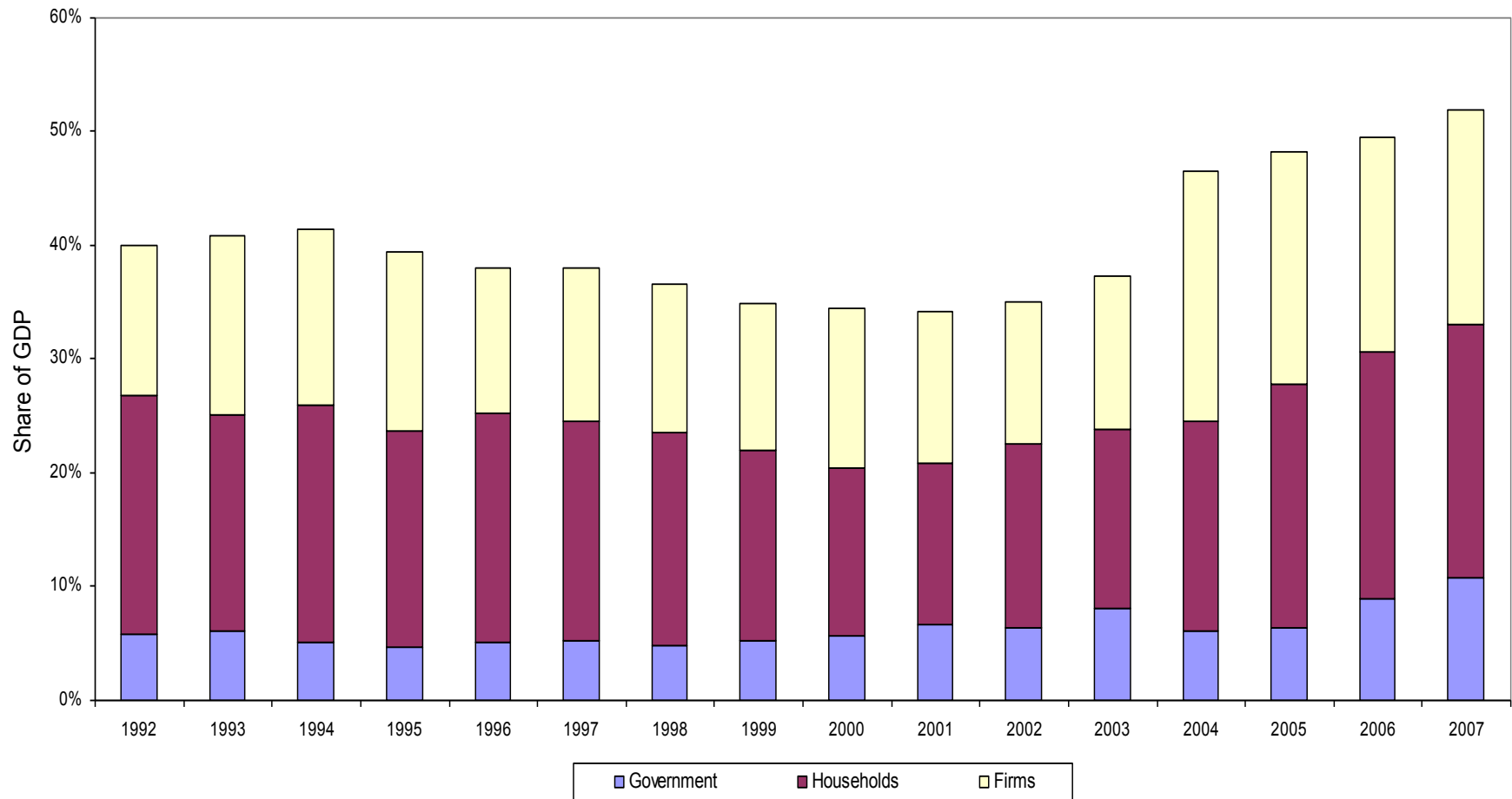


Falling consumption



Source: China NBS

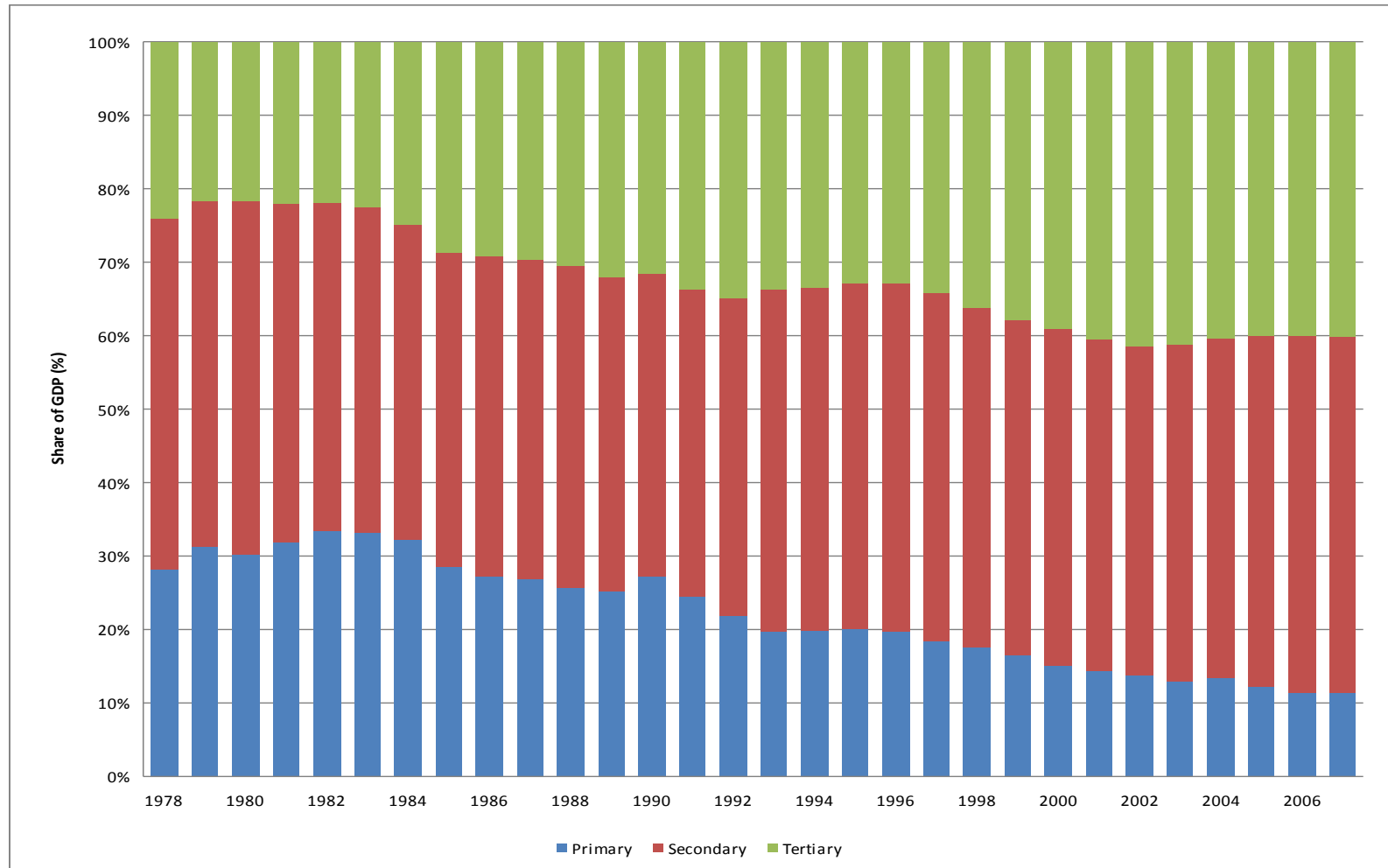
Rising savings



Bolstering consumption/reducing savings

- Households: income growth and pre-cautionary savings motives
- Firms:
 - SOEs: dividends and taxation
 - Private firms: interest rate reform, reducing extent of financial repression, “going global”
- Government: establish a welfare state

Re-industrialization & services



Source: China NBS

Institutional reform

- Opportunity to focus on institutional foundations of the market, including promoting urbanisation, income growth and liberalise demand.
- Services sector development very positive:
 - Allow China to continue industrialising
 - Strategy is to attract foreign expertise to learn and offer a way into the Chinese market

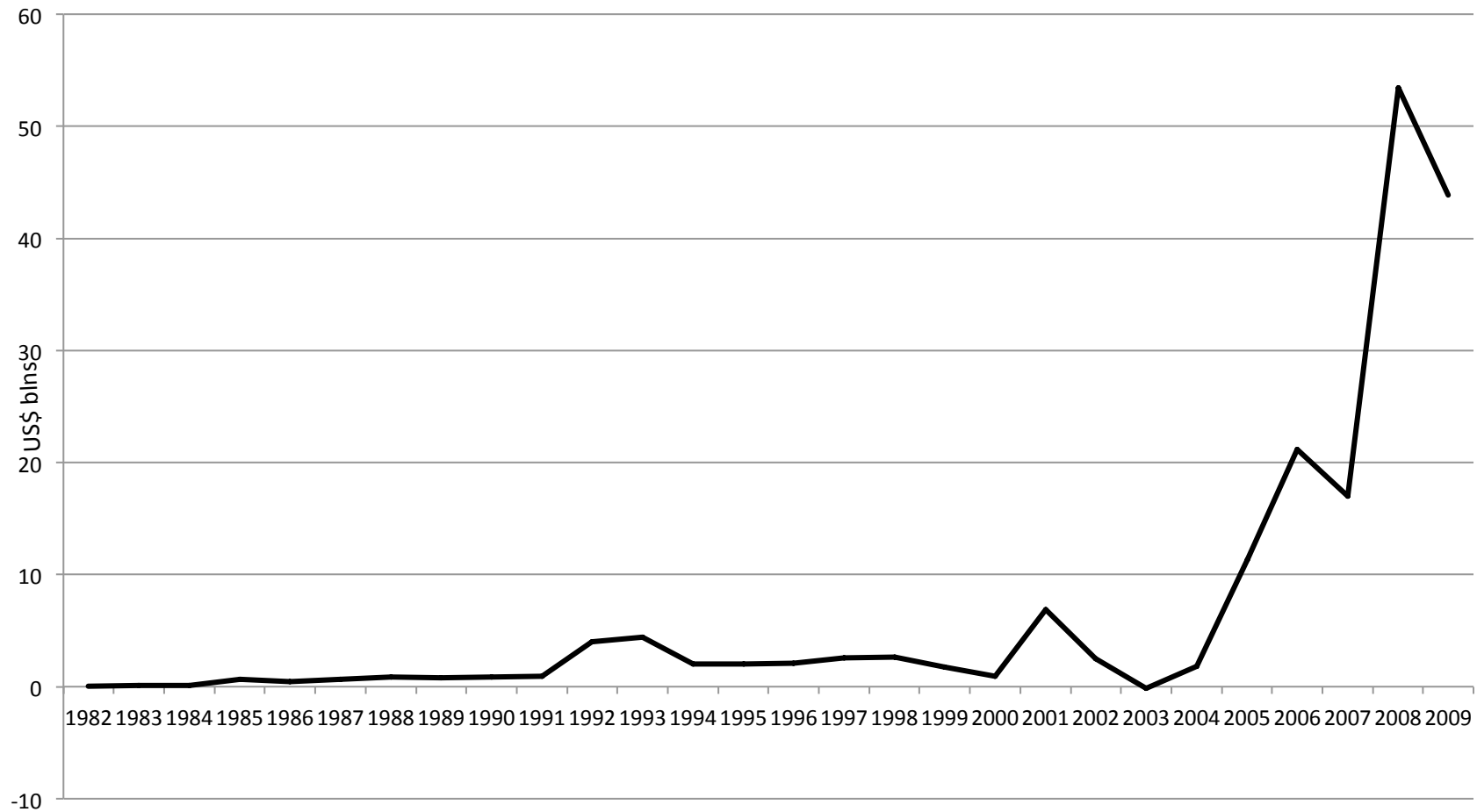
Outlook

- Inflationary risk & potential banking crisis
- Difficult mix of economic policies (fiscal, monetary, exchange rate)
- But, 12th Five Year Plan has right emphasis

The Yuan

- Upsides and downsides to the dollar peg
 - exporter margins & hedging
 - import prices & subsidies
 - inflation/liquidity/rising asset prices, e.g., stock markets and housing
 - revert to 2005 regime?
- Reserve accumulation → global liquidity → but China can also “go global”

Outward FDI



Source: IMF.

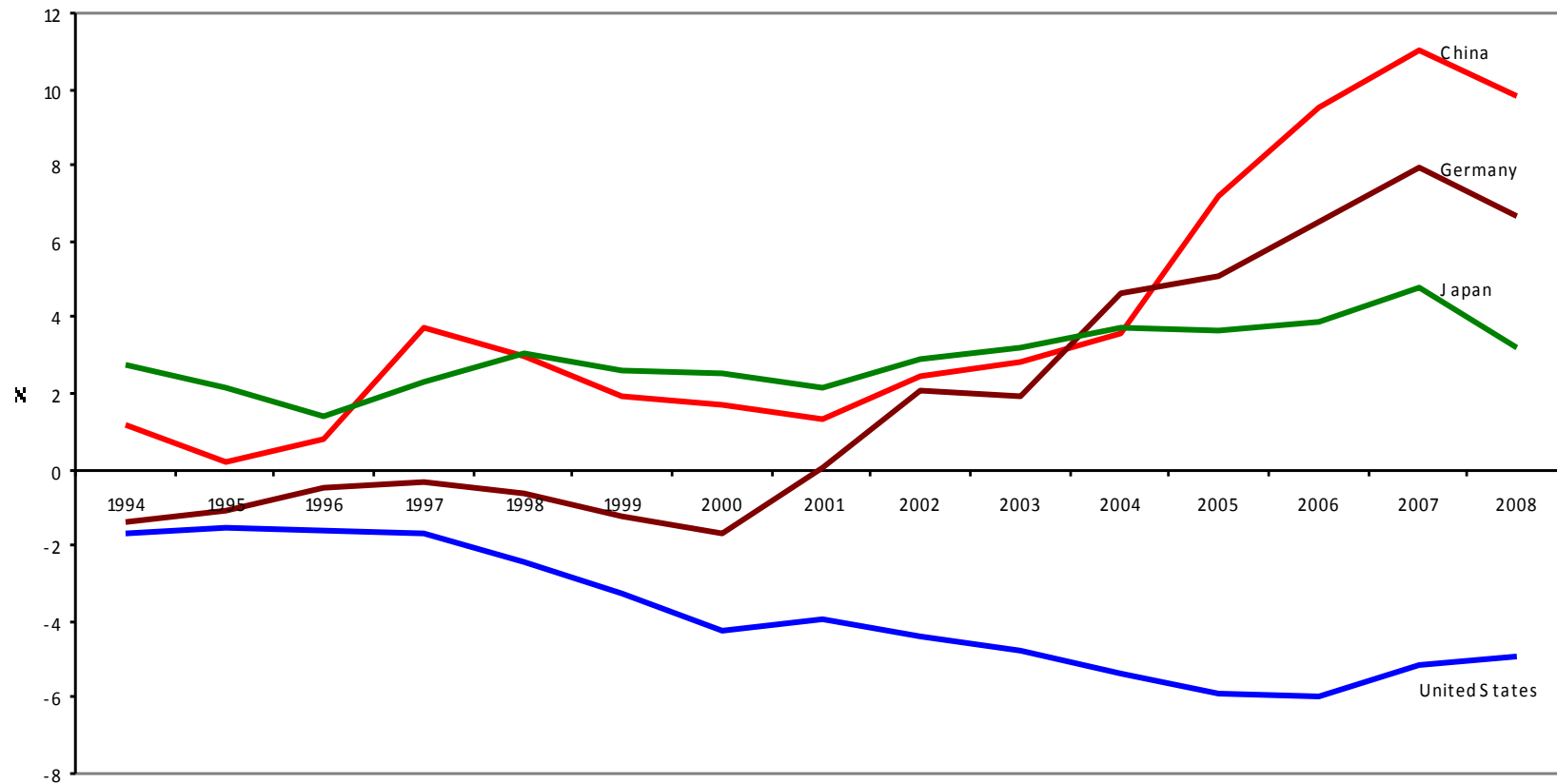
“Going out” policy

- Launched in 2000 and culminated in first commercial outward FDI with TCL and Thomson deal in 2004
- Macroeconomic benefits, including overcoming “middle income country trap.”
- However, backlash exists & there is need to differentiate among state and private firms.

Implications for global imbalances

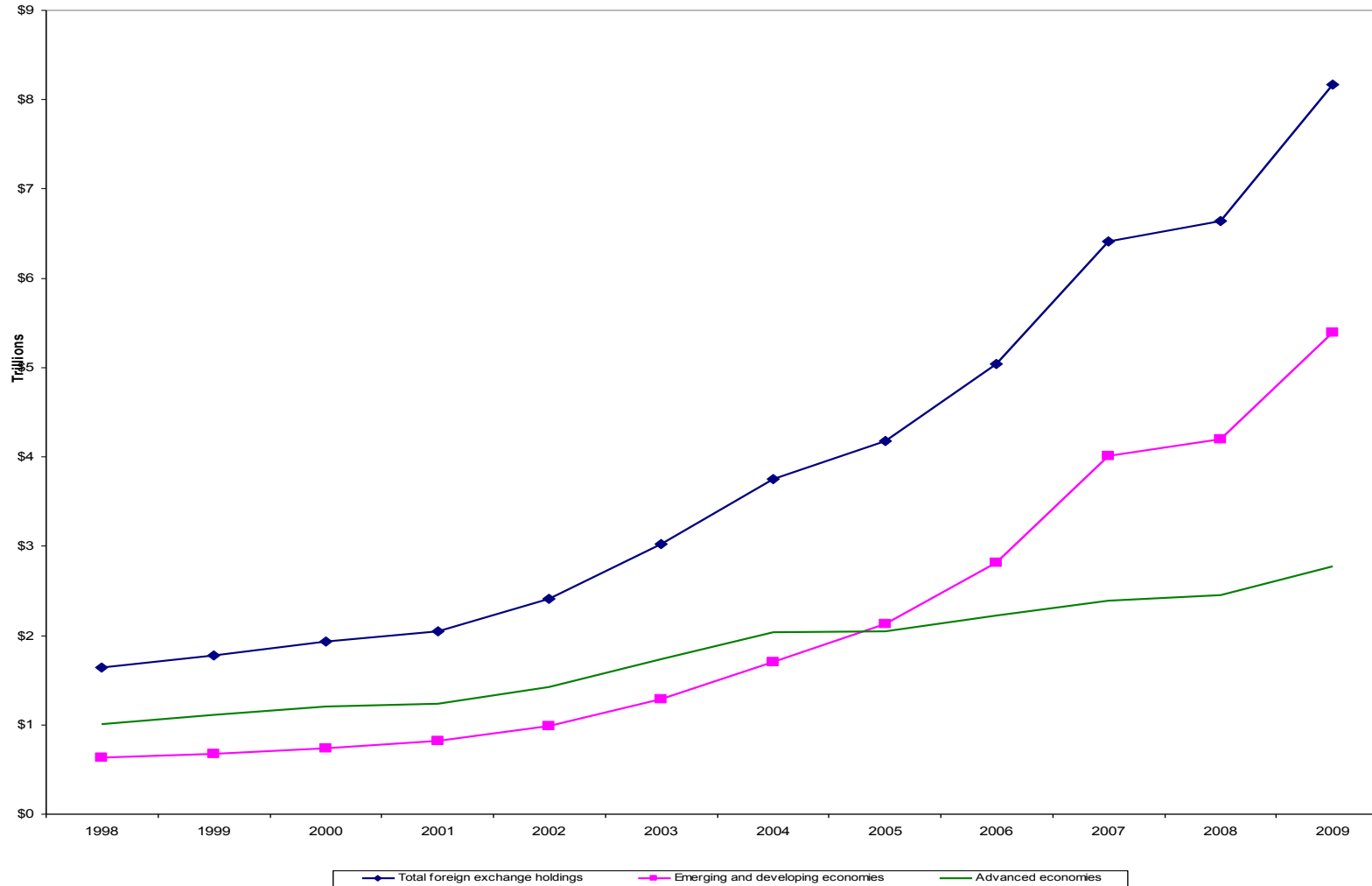
- Already some global re-balancing:
 - China's exports are down and the U.S. trade position has improved.
 - U.S. savings rate is up some four-fold and Chinese consumption is steady.
- Gradual re-balancing is preferable as Western economies issue record levels of debt, and China may well continue its surplus this year.
- But, unlikely to be complete....

Disparate trade positions remain...



Source: IMF.
Note: % of GDP.

Five-fold growth in reserves



Source: IMF

Re-balancing China & the World

- Short-term volatility: liquidity, inflation and weak global demand
- Longer-term growth: becoming an upper middle income country and the next 30 years

Stability

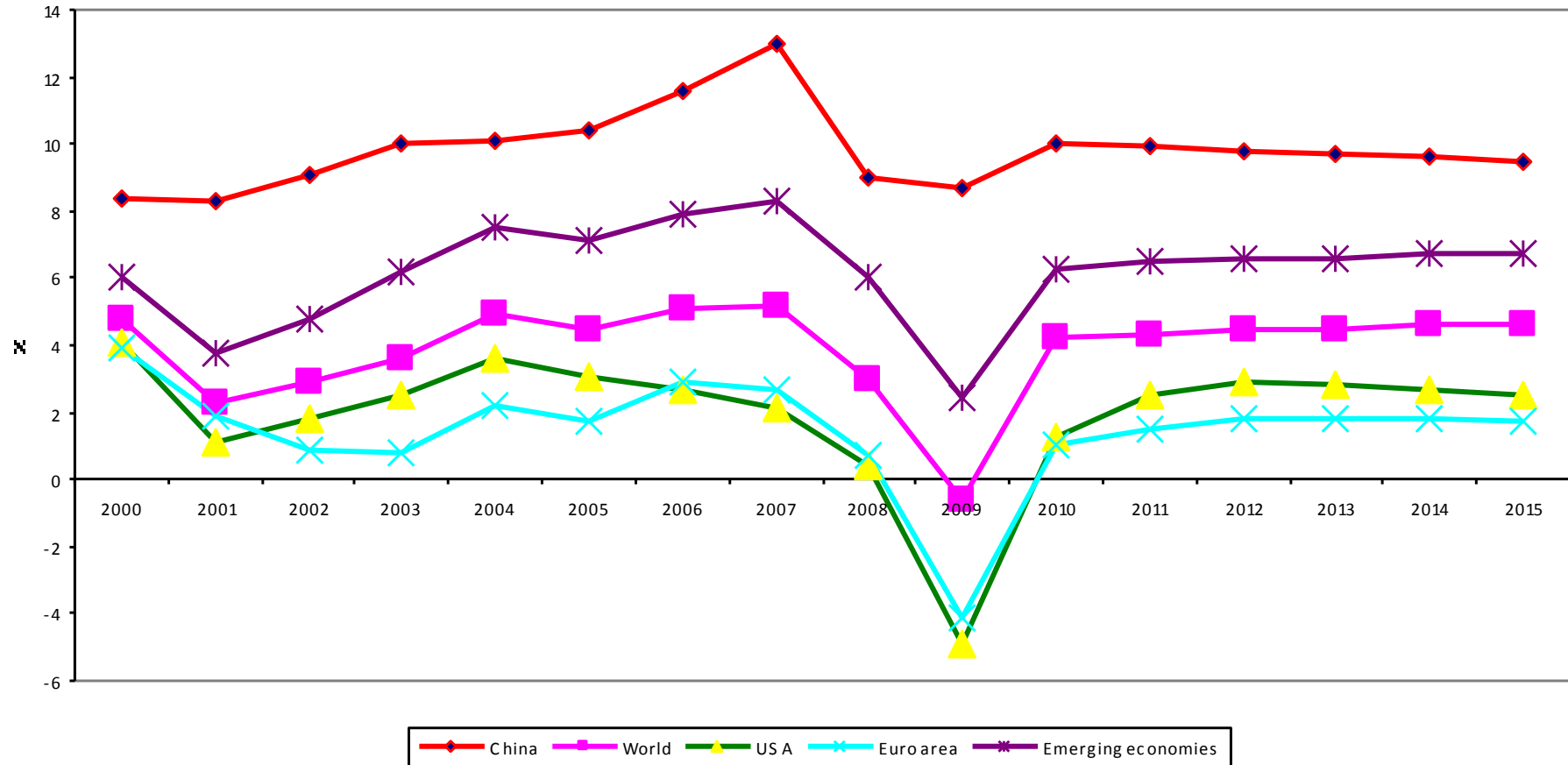
- Liquidity pressures
- Banking sector
- Difficult mix of policies – getting the sequence right!

- One thing is clear... Re-orienting towards domestic demand in 12th Five Year Plan

Reforms

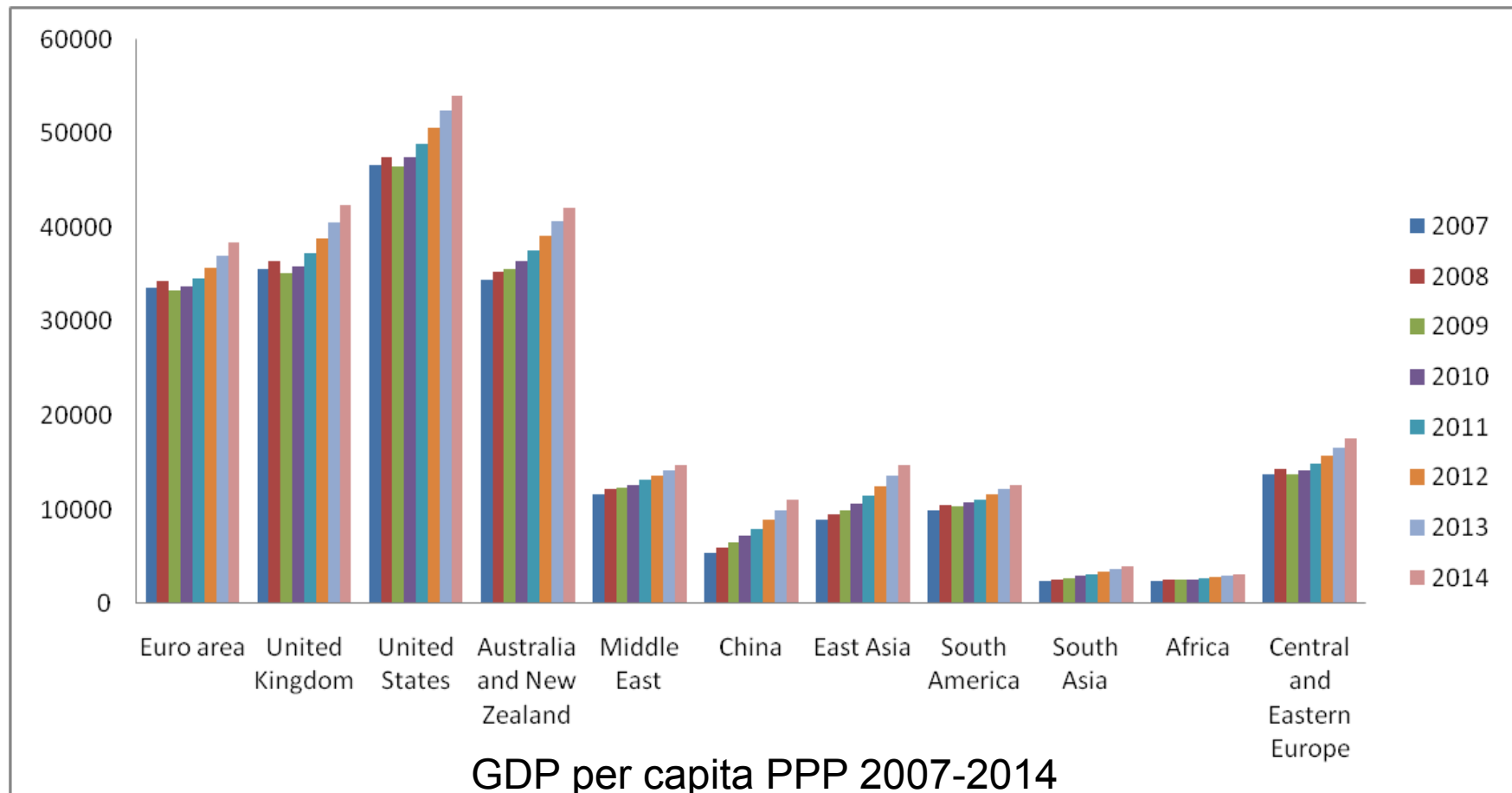
- Global liquidity linked to “reserve currency” effect
- The “internationalisation” of the RMB
- Financial deepening needed

Fastest growing economy



Source: IMF.

But, poorer for some time yet



Source: IMF

An engine nevertheless: The China Effect

- International trade
- Global capital flows
- Global supply and demand for commodities & raw materials
- Generating global growth

How much will China serve as an engine?

- In a limited sense, but...
 - Consumption base is poorer
 - Market access restrictions
 - Institutional instability
- Nevertheless, re-orientation toward domestic demand is promising, including for trade partners ;
 - Asia: market linkages
 - US/EU: technology, services
 - Africa/Australia/Canada/L. America: commodities.

The next 10, 20, 30 years

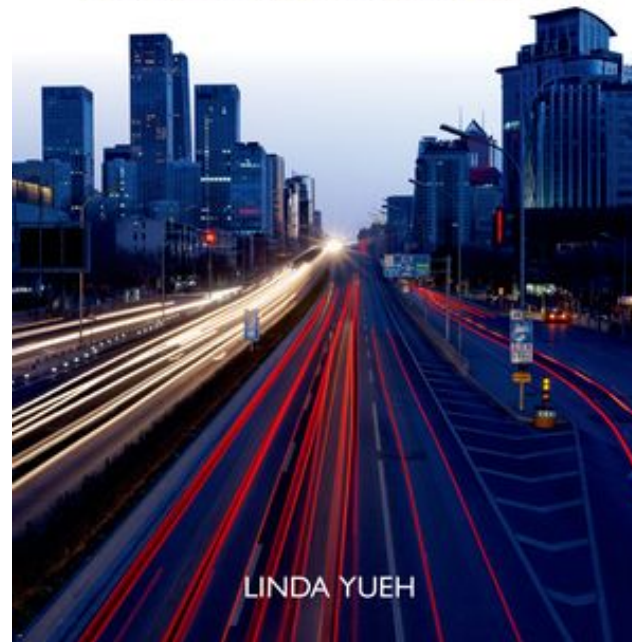
- 2020: Re-structuring the economy
- 2030: Productivity and innovation as growth drivers
- 2040: 2000s legal and regulatory reforms

For more...

OXFORD

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