China in 2013: Domestic Developments, Global Implications

Presented by:

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Summary

- A significant slowdown, but recovery gaining strength
- Demand & employment holding up
- Looser monetary conditions should support investment
- Long-term growth downshifting, but still plenty fast
- Little progress to date in reducing dependence on investment and manufacturing
- Less misaligned, but RMB still has room to appreciate
- Liberalizing interest rates should spur SME lending and bond market financing
- Is U.S. willing/able to attract more Chinese investment?
A significant slowdown, but recovery gaining strength

Source: National Bureau of Statistics of China
Demand & Employment Holding Up
Real Per Capita Income (Wages/Consumption Proxy)

Source: National Bureau of Statistics of China
Looser monetary conditions should support investment
Downshifting, but still plenty fast

Past Double Digit Growth Unsustainable

Future growth to decline over time

Current Account Surplus Declining...For Now
% GDP, IMF Forecast

Source: IMF
More Progress in Reducing Dependence on Exports Than Investment

Source: National Bureau of Statistics of China
Manufacturing Continues to Grow Faster Than Services

Real GDP Growth

Source: National Bureau of Statistics of China
More Private Sector Investment Will Sustain Productivity Growth
Return on Assets 2008-2010

Source: National Bureau of Statistics of China
Ongoing Leadership Transition Increases Policy Uncertainty

**The Party**
- Politburo Standing Committee (7 members)
  1. Xi Jinping
  2. Li Keqiang
  3. Zhang Dejiang
  4. Yu Zhengsheng
  5. Liu Yunsheng
  6. Wang Qishan
  7. Zhang Gaoli
- The Politburo (7 Standing Committee Members above + 18)
- Central Committee (205 members and 171 alternate members)
  Secretariat: Xi Jinping
- Party Congress (2000+ members)
  Meets once every 5 years
- Provincial-level Party Secretaries (33)

**The Government**
- State Council
  (new leaders will start in March)
  - State Council Cabinet (10 members)
    - Premier: Li Keqiang (?)
    - Executive Vice Premier: Zhang Gaoli (?)
    - Other Vice Premiers: (3) ?
    - State Councilors: (5) ?
- Ministers/Bureau Heads (40)
  - NDRC (National Development and Reform Commission) Chairman: ?
  - PBOC Governor: ?
  - Minister of Finance: ?
  - CBRC (China Banking Regulatory Commission) Chairman: Shang Fulin (current)
  - CSRC (China Securities Regulatory Commission) Chairman: Guo Shuqing (current)
  - CIRC (China Insurance Regulatory Commission) Chairman: Xiang Junbo (current)
- National People’s Congress (approximately 3,000 members)
  Meets annually
- Provincial-level Governors (33)

**The Military**
- Central Military Commission
  Chairman: Xi Jinping
  Vice Chairmen: Fan Changlong & Xu Qiliang
  And 8 members
- People’s Liberation Army (PLA)
- People’s Armed Police (PAP)

Source: TCW Emerging Markets Research
Less Misaligned, but RMB Still Has Room To Appreciate

Source: CFETS (China Foreign Exchange Trading System)
While Low Wage Assemblers Moving Offshore
Chinese Competitiveness Still Strong

Chinese Merchandise Exports Market Share of Global Imports (ex-China)

RMB Appreciation Expectations Have Resumed

Source: CFETS (China Foreign Exchange Trading System), Bloomberg,
Cutting Guaranteed Lending Should Spur
SME Lending and Bond Market Financing

Source: PBOC, TCW Emerging Markets Research
Large Increase in Bond Issuance by Corporates, Policy Banks, Local Govts
RMB Trillions

Source: China Bond
...But China’s Financial Markets Remain Largely Closed
FDI Regulatory Restrictiveness Index
Financial Services
(Closed = 1; Open = 0)

Source: OECD
Is U.S. Willing/Able to Attract More Chinese Investment?

ODI USD Billions

Source: Ministry of Commerce
Biography

- David joined TCW in June 2012 from the U.S. Treasury Department, where he was Senior Coordinator for China Affairs and the U.S.-China Strategic and Economic Dialogue. While at Treasury, he also served as Minister Counselor for Financial Affairs at the U.S. Embassy in Beijing and Deputy Assistant Secretary for Latin America, Asia, Africa and the Middle East. Mr. Loevinger was previously an economist for the International Monetary Fund and also worked in the office of the IMF’s U.S. Executive Director. He started his career in the Office of the U.S. Trade Representative, the Senate Banking Committee, and the U.S. Commerce Department.

- He earned a Masters in Public Policy from Harvard University’s Kennedy School of Government and a BA in Economics from Dartmouth College.