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Monthly Member Briefing

Tuesday, January 15, 2019

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Survey email has been sent on Jan. 11 Friday

Submit before Jan. 16 to enter a lucky draw for premium dining vouchers

2019 WeForShe Conference

Friday, March 1, 2019 (8 AM - 5 PM)
Hyatt on the Bund

Ticket contact: Kelly Deng 62797119 ext.4580
kelly.deng@amcham-shanghai.org

2019 AmCham Ball

Saturday, April 27, 2019
Venue TBA

SAVE THE DATE !

Ticket contact: Kelly Deng 62797119 ext.4580
kelly.deng@amcham-shanghai.org

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2019: A year of cognitive dissonance

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Today we'll cover:

I. Economic prospects
II. The policy response
III. How the trade war fits in
IV. Implications for MNCs
V. A quick recap

A quick summary:

I. 2019 is set to be a much weaker year economically – the slowdown is broad-based, so most industries will be affected

II. The economy should bottom out six to nine months after credit growth bottoms out; credit growth looks set to decelerate through Q1, at least

III. The most remarkable thing about this down cycle has been the relatively subdued policy response

IV. Weaker policy measures mean a longer lag time before the economy is positively impacted

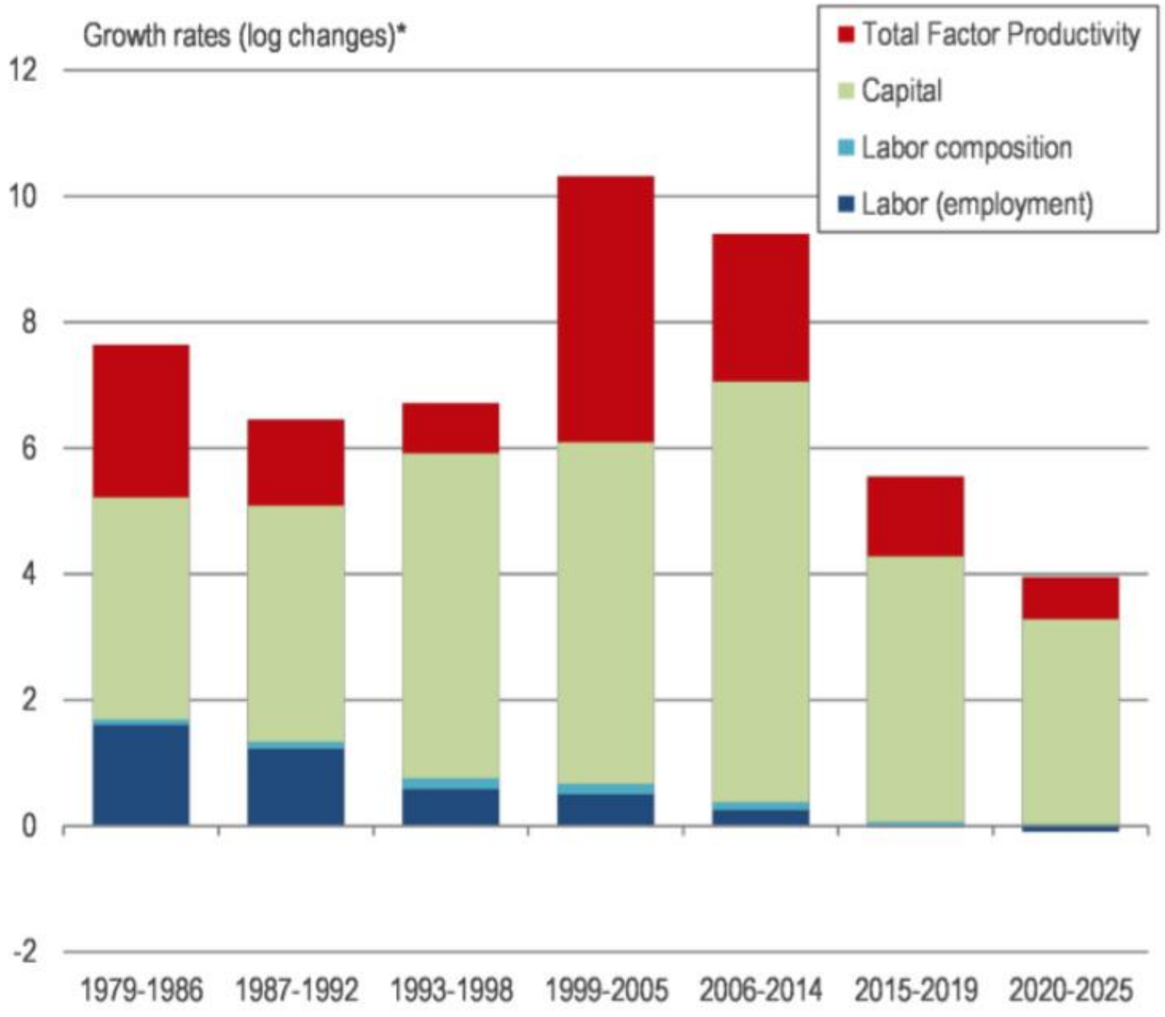
V. But despite the gloom, it's the best time in years to be expanding in China

VI. Central leaders are looking to tout big investment deals – and pushing them through

I.
economic prospects

The key backdrop: a structural deceleration

- China is in the midst of a structural growth deceleration
- The key long-term challenge: productivity
- The **demographics** are baked in
- **Investment** must continue to slow
- **Total Factor Productivity:**
    - Catch-up gains are largely exhausted
    - China needs domestic firm-level innovation



Source: The Conference Board

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2019: top-line projections

- We expect three more quarters of cyclical deceleration
- The slowdown is broad-based, so most industries will be affected
- Credit and broader financial conditions will remain tight through H1
- **Weak sentiment** is a driving factor for the private sector and households

Real GDP Growth Projection y/y	
Q4 2018	6.1%
Q1 2019	5.8%
Q2 2019	5.6%
Q3 2019	5.5%
Q4 2019	5.7%

Credit as a leading indicator

- The economy should bottom out six to nine months after credit growth bottoms out
- Credit growth looks set to decelerate through Q1 at least
- You do the math
- Despite growth challenges, “addressing financial risks” is still one of the three top policy priorities for 2019-2021

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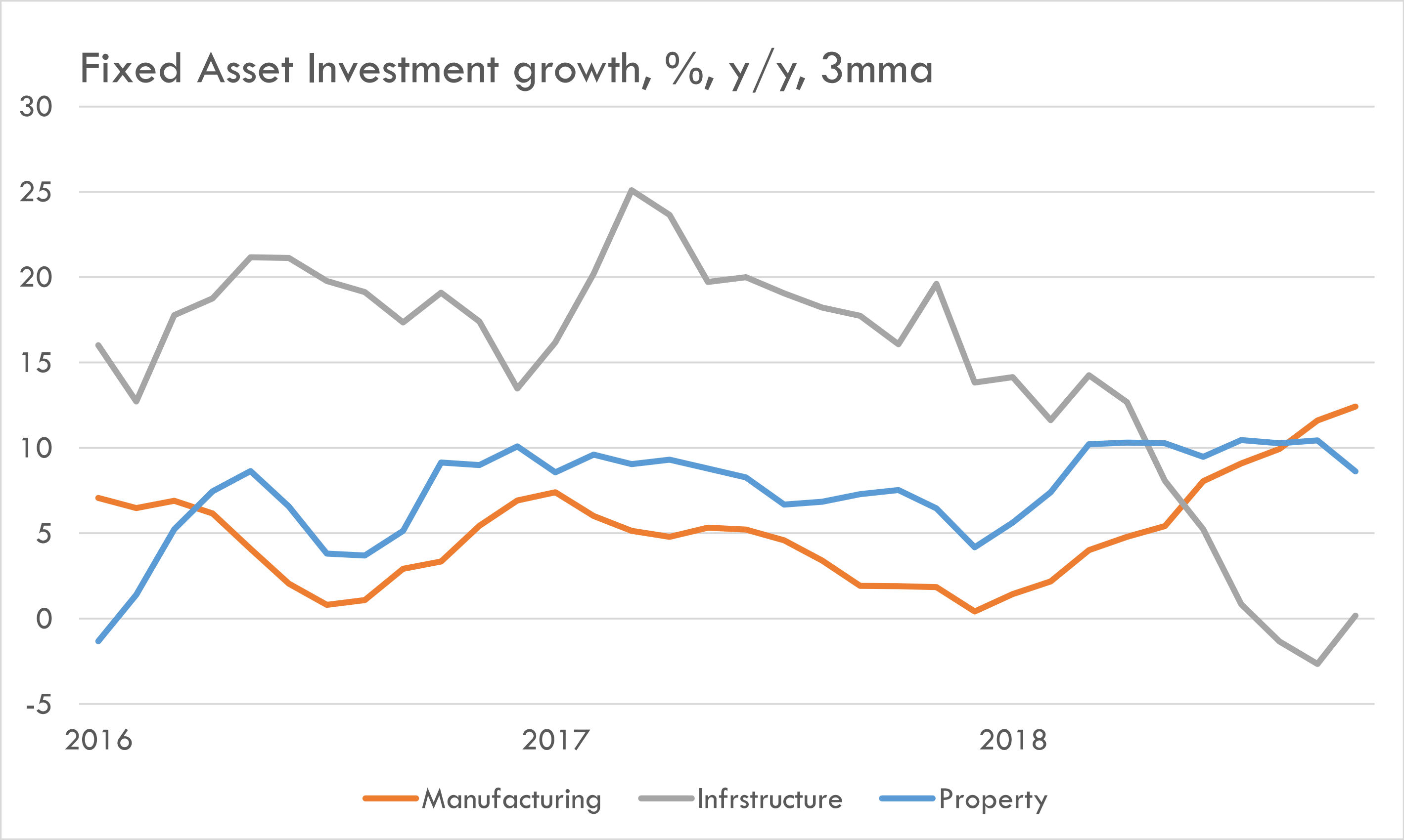
Key areas of concern

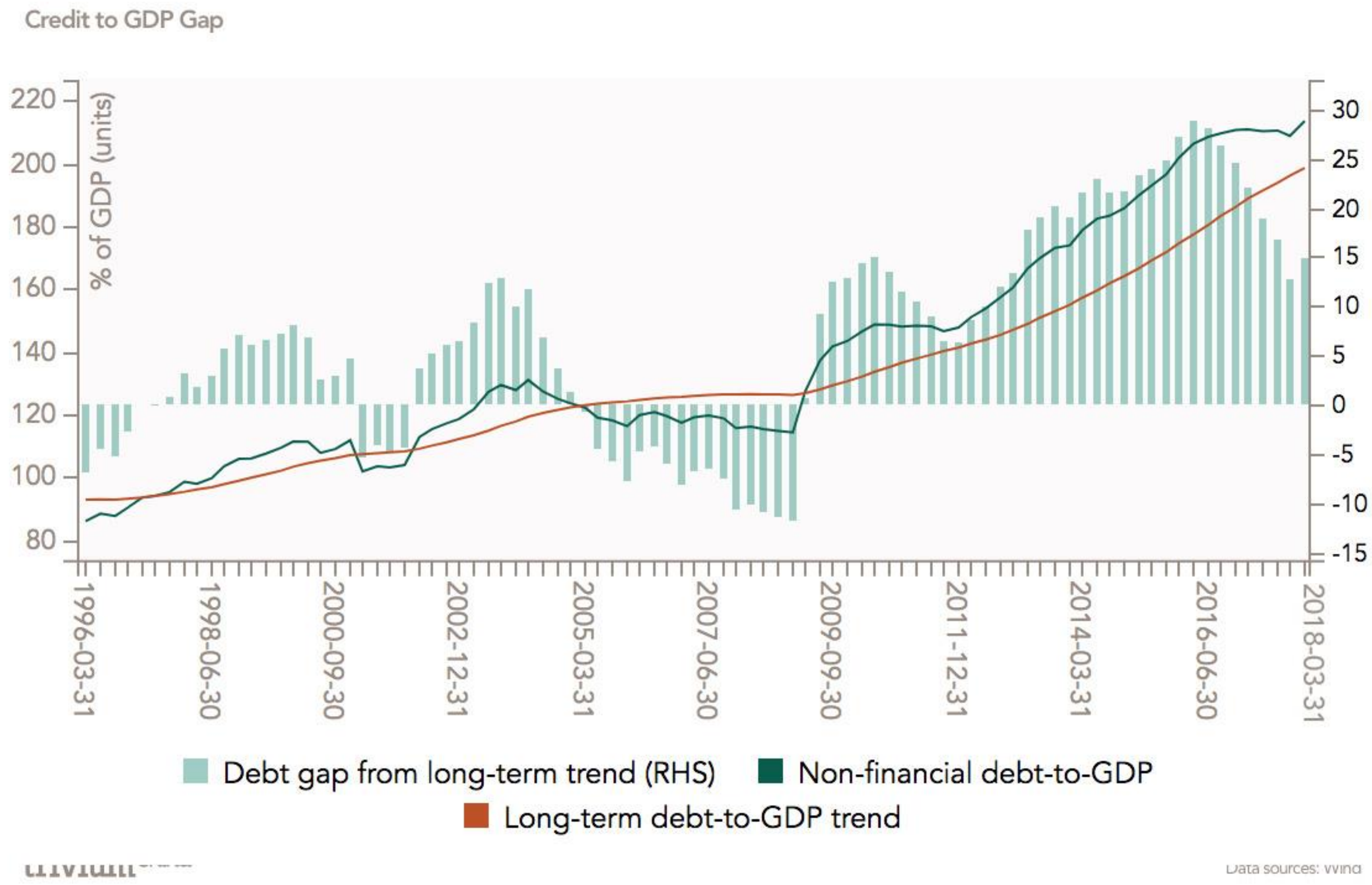
- A laundry list of concerns:
    - Property
    - Autos
    - Trade
    - Manufacturing growth may peak
    - Private companies still struggling
    - Consumption
    - Overall access to financing will remain difficult
    - Employment?



II.
the policy response

The policy reaction

- The most remarkable thing about this down cycle: **the subdued policy response**
- Authorities are loath to give up hard-won gains on de-risking the financial system
- They also face structural realities (like debt) that make traditional policy levers less potent
- Weaker policy measures mean a longer lag time before the economy is positively impacted



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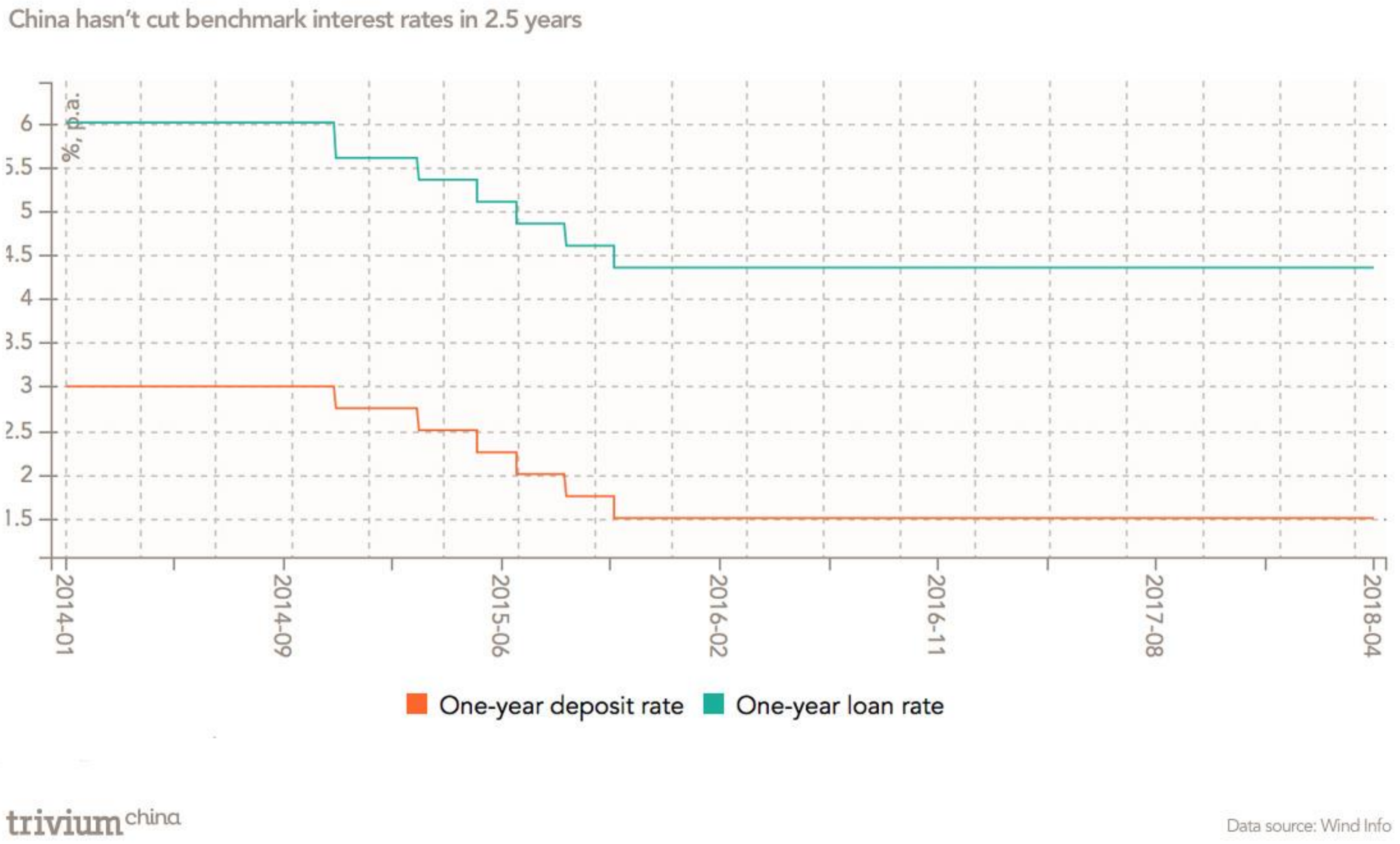
A new kind of policy response

What they won't do:

- Pump up credit and investment
- Unleash to property market
- Let up pressure on local governments
- Purposefully devalue the currency

What they will do:

- Cut taxes and fees for business
- Give incentives to stem unemployment
- Consumer subsidies
- Increase fiscal spending, to an extent



III.
the trade tensions

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Short-term optimism

- A short-term deal on trade looks increasingly likely
- A deal would give policymakers a freer hand to focus on the domestic economy
- But companies should be cautiously optimistic
- If talks fall apart, things will go bad in a hurry

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Don’t call it a trade war

- By now, everyone knows this is about more than trade

- China wants to compete with the US to dominate technologies of the future

- Quietly but persistently seeking to export Chinese technology standards through the Belt and Road Initiative

- This could be the beginning of de-globalization

IV.
implications for MNCs

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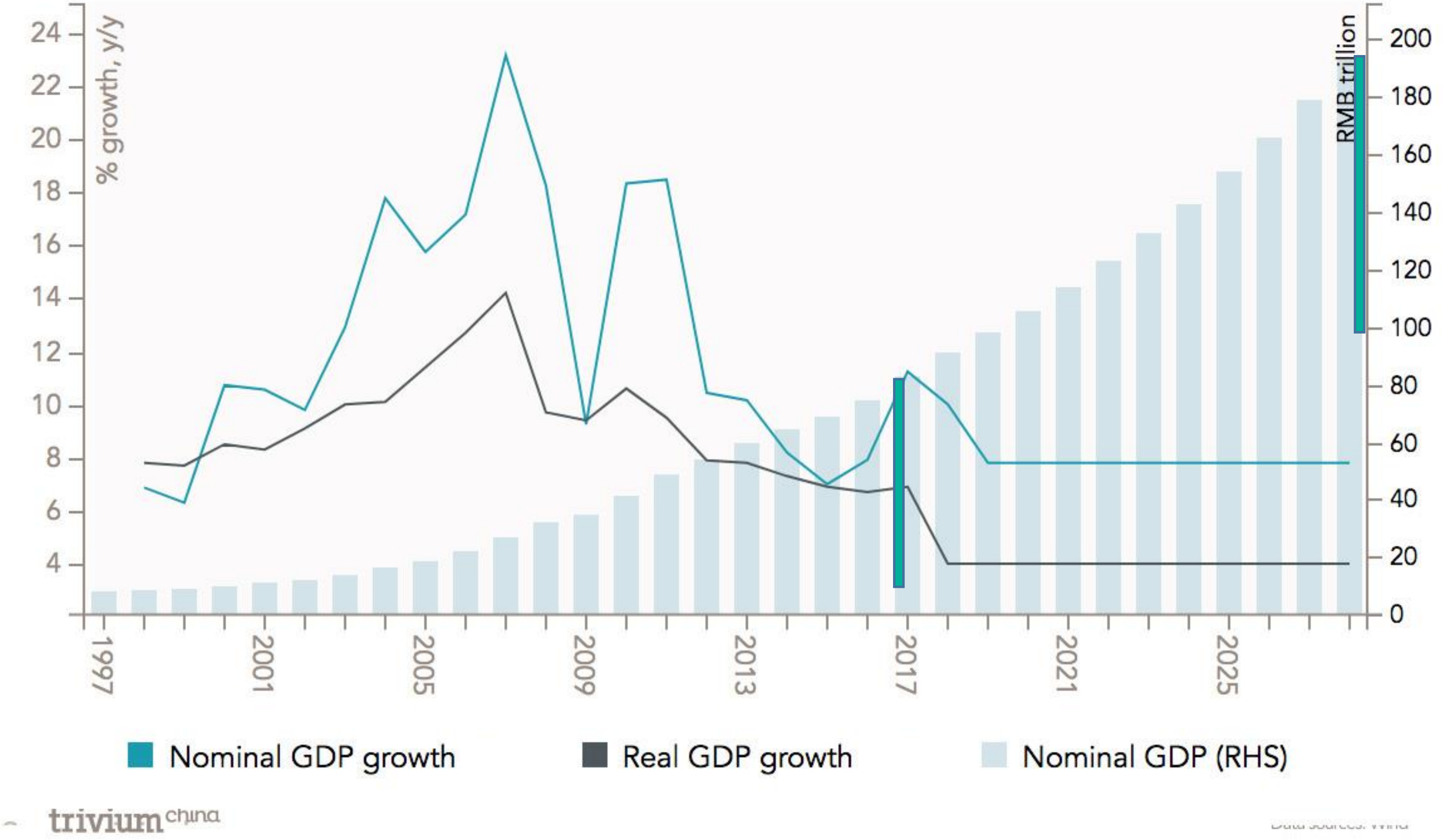
Regulators are becoming more pragmatic

- FDI slowdown has been years in the making
- Regulators are concerned about the FDI numbers and want to change the narrative about China
- FDI increasingly tied to ODI – this is paying dividends for foreign companies and investors

A large economic base still means huge opportunity

- Growth looks set to decelerate to low single-digits in the coming years
- Real GDP growth averaged 9.1% from 1998-2017
- That added RMB 75 trillion to the economy (USD 11 trillion)
- Average real GDP growth of 4% from 2019-2028 would add RMB102 trillion to the economy (USD 15 trillion)



A year of cognitive dissonance

- Despite (or because of) the gloom, it's the best time in years to be expanding in China

- Tougher stance from the US, EU, and others is starting to work

- Central leaders are looking to tout big investment deals – and pushing them through (BMW, Exxon, BASF, Tesla, AXA)

- Local governments have more leeway to give good terms

- Full operational control is on the table

- Gap between ambitions and capability

V.

a quick recap

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Feeling chatty?

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