



COFACE

2023 COUNTRY RISK

CONFERENCE

18 MAY 2023, HONG KONG





CHINA'S REOPENING BRINGS RELIEF BUT DIFFICULT ECONOMIC TRANSITION AHEAD

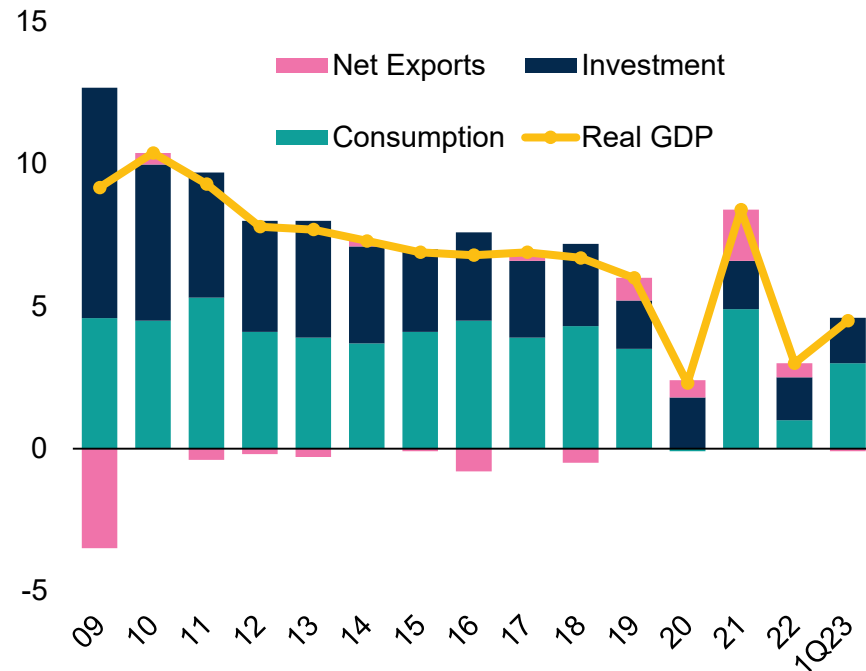
BERNARD AW

CHIEF ECONOMIST, ASIA PACIFIC, COFACE

THREE HORSE CARRIAGES OF CHINA'S GROWTH

EXPORT DRAG IN 2023

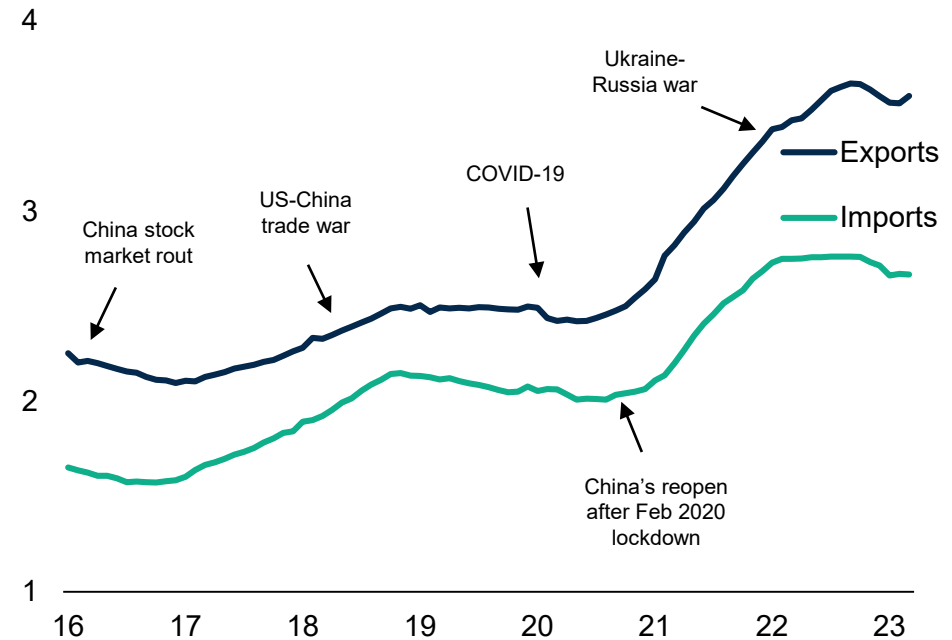
Net exports help drive GDP over past four years
% y/y or percentage points



Source: NBS, Coface

*Net exports = exports of goods and services less imports of goods and services

China goods export growth slows amid weaker global demand
\$ trillions, 12-month trailing sum

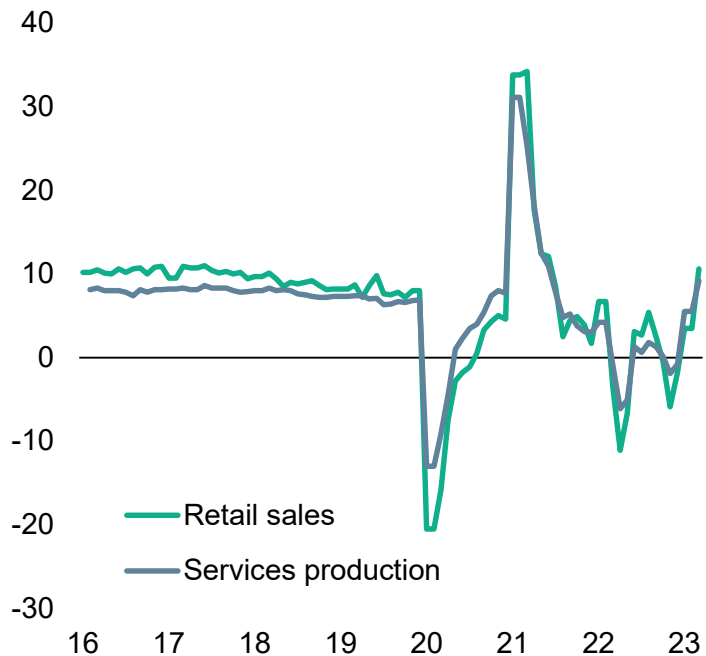


Source: China Customs, Coface

THREE HORSE CARRIAGES OF CHINA'S GROWTH

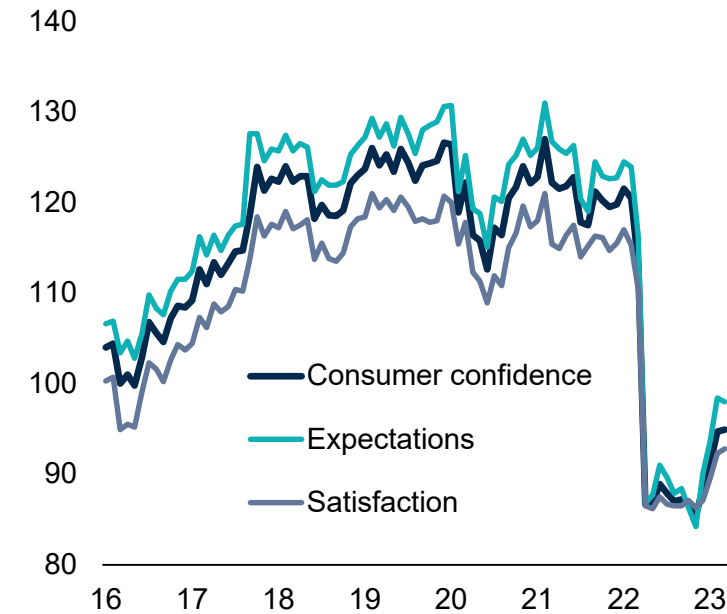
CONSUMPTION RECOVERY SOLID BUT MOMENTUM MAY PETER OFF

China retail sales and services output
% y-o-y



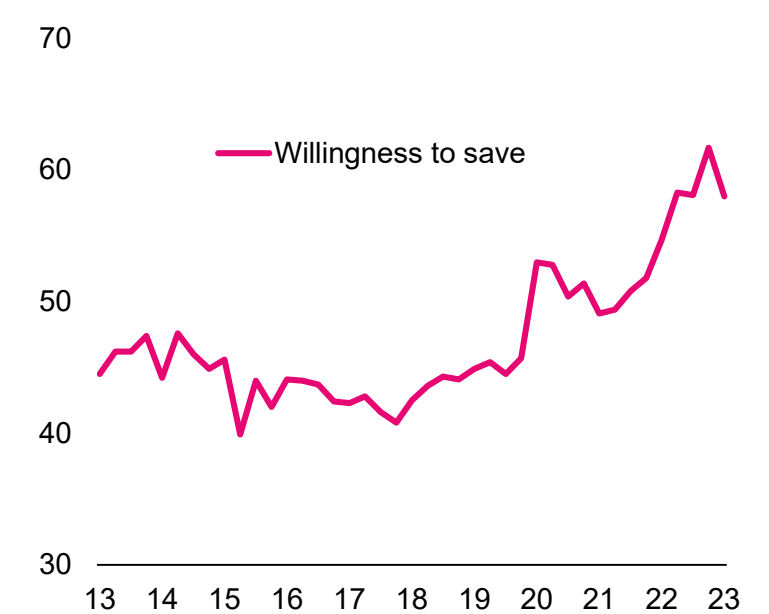
Source: NBS, Coface

China consumer confidence remain weak
Index



Source: NBS

Most urban depositors still aim to save
%

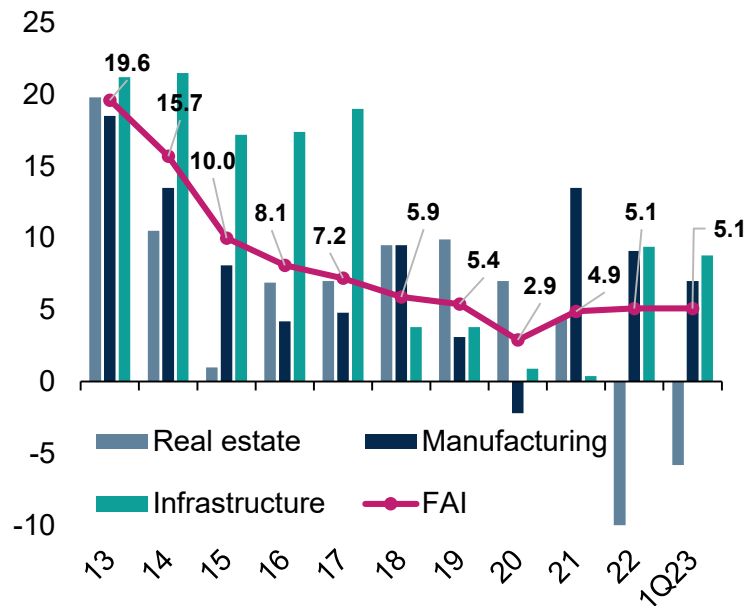


Source: PBOC

THREE HORSE CARRIAGES OF CHINA'S GROWTH

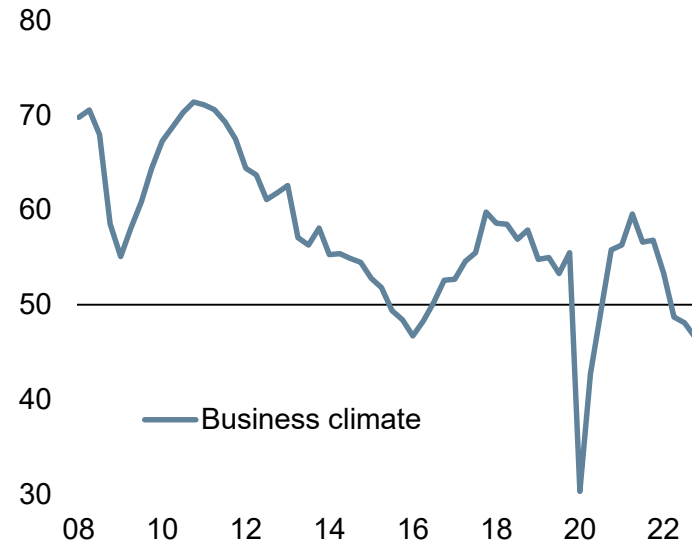
INVESTMENT GROWTH DEPENDENT ON INFRA SPENDING

Infrastructure to be main driver of FAI growth
% y-o-y



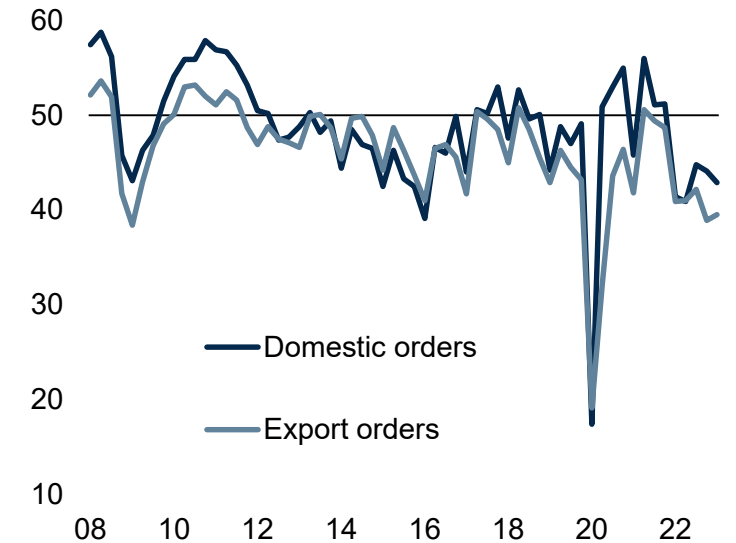
Source: NBS
FAI – Fixed Asset Investment (urban areas)

PBOC Entrepreneur survey
Diffusion index



Source: PBOC

PBOC Entrepreneur survey
Diffusion index

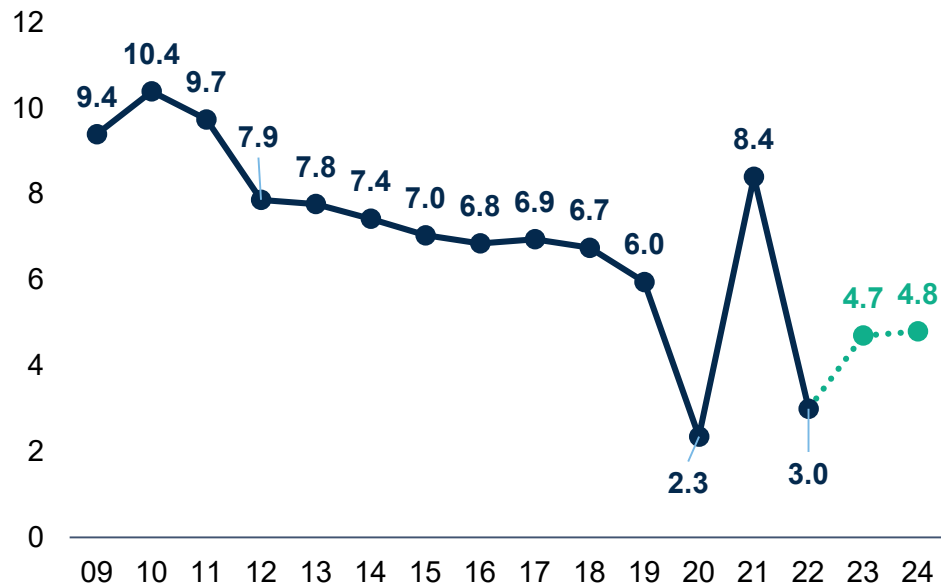


Source: PBOC

CHINA'S 2023 GROWTH FACES PRESSURES SCARRING EFFECTS OF THE 3-YEAR PANDEMIC

Coface's China GDP growth forecast

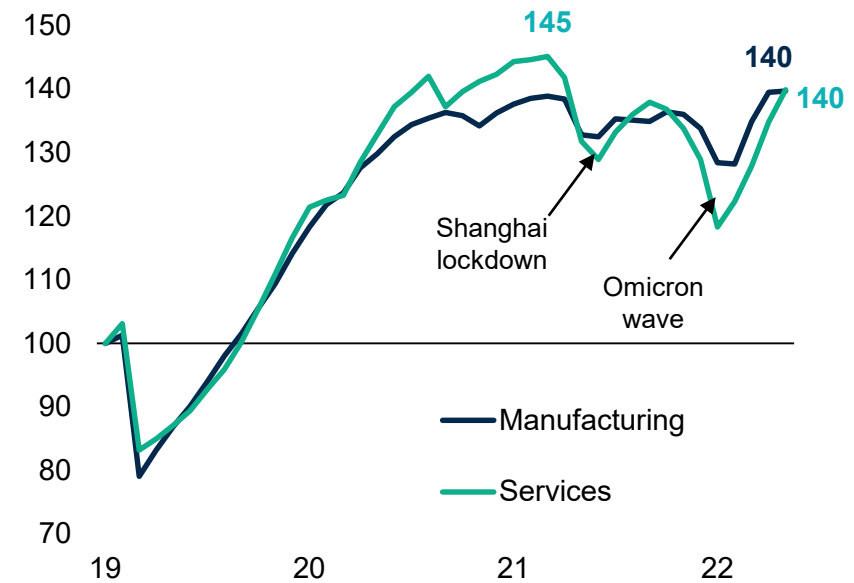
Annual average, %



Source: NBS, Coface

PMI signal robust services rebound, but manufacturing stalls

Output/Activity monthly changes, sa, Dec 2019 = 100



Source: NBS, Coface

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FOR TRADE

A large, dark globe of the Earth is positioned on the left side of the frame, resting on a dark, textured rock. The globe is partially illuminated from the right, showing the continents of North and South America. The background is a dramatic sky at sunset or sunrise, with a bright sun low on the horizon, casting a golden glow and creating long, horizontal rays of light through a layer of clouds. The sky transitions from a deep blue at the top to a warm orange and yellow near the horizon.

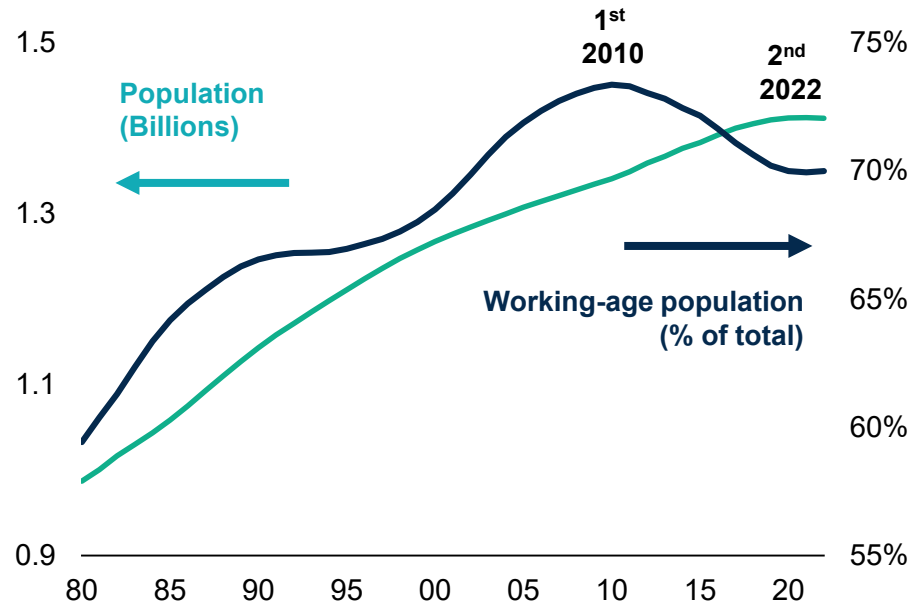
**LONG-TERM
GROWTH CHALLENGES**

SHRINKING WORKFORCE, AGEING POPULATION

REBALANCING TOWARDS CONSUMPTION GAINS NEW URGENCY

China population - two turning points

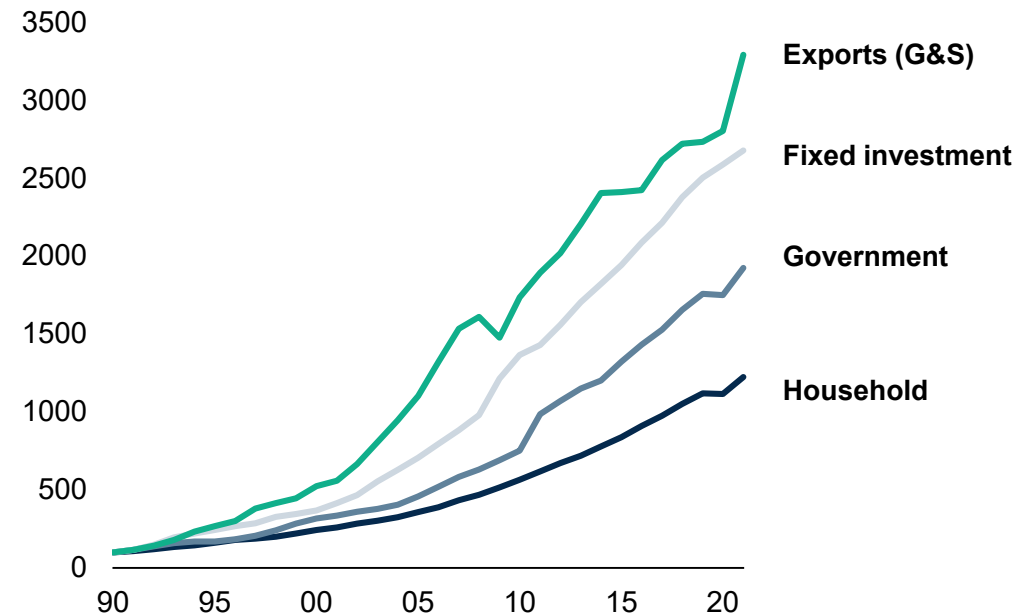
Billions (left); % of total population (right)



Source: NBS, Coface

Household consumption grows over the decades but not as fast as exports, investment

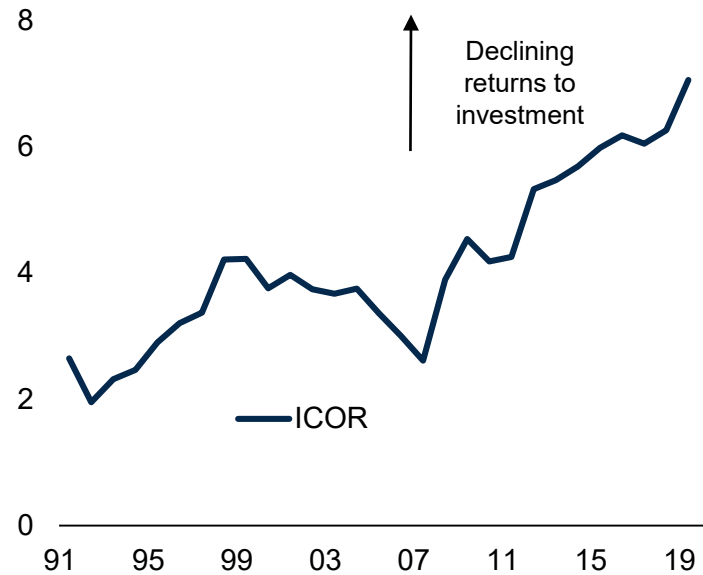
Index (1990:100)



Source: UN data, Coface

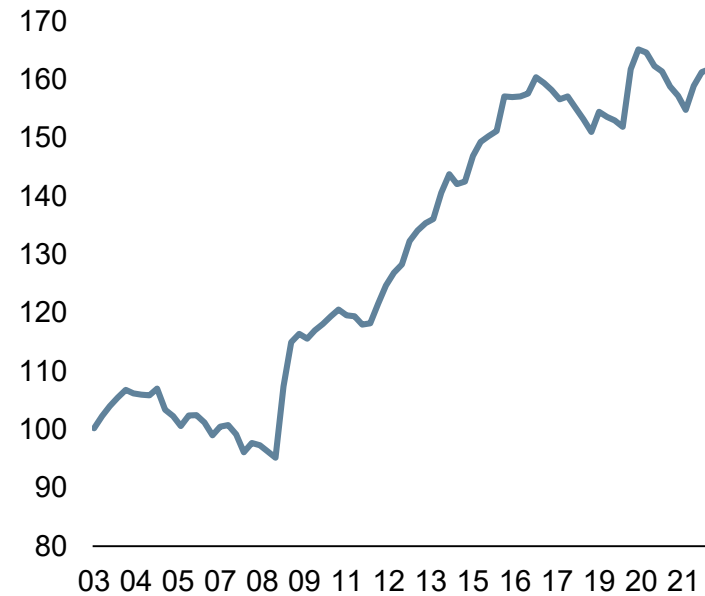
DIMINISHING CAPITAL RETURNS AND HIGH CORPORATE DEBT SOE AND SUPPLY SIDE STRUCTURAL REFORMS

Declining returns to investment in China
Incremental Capital Output Ratio (ICOR)



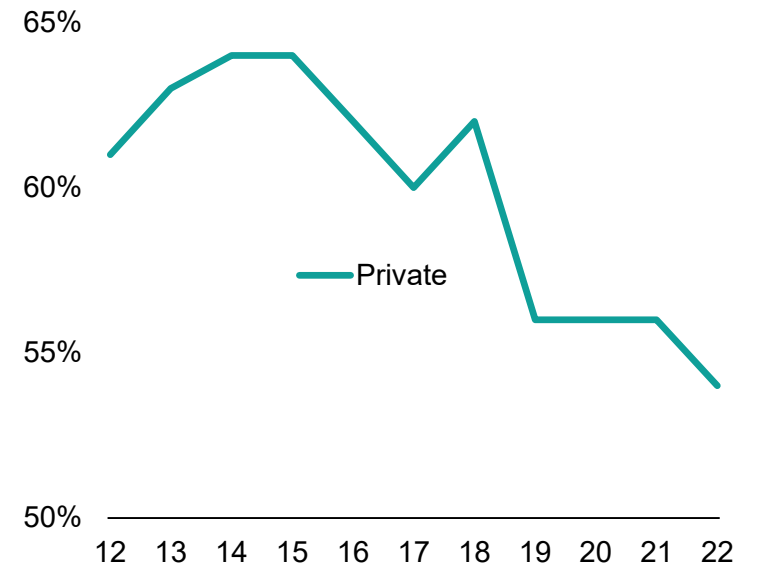
Source: NBS, Coface
ICOR measures how much capital to generate one extra unit of GDP
ICOR = GFCF (% of GDP) / GDP growth rate

Credit to non-financial corporations up sharply after GFC
% of GDP



Source: NIFD

Private holding share in total investment falls since 2015
% of total FAI

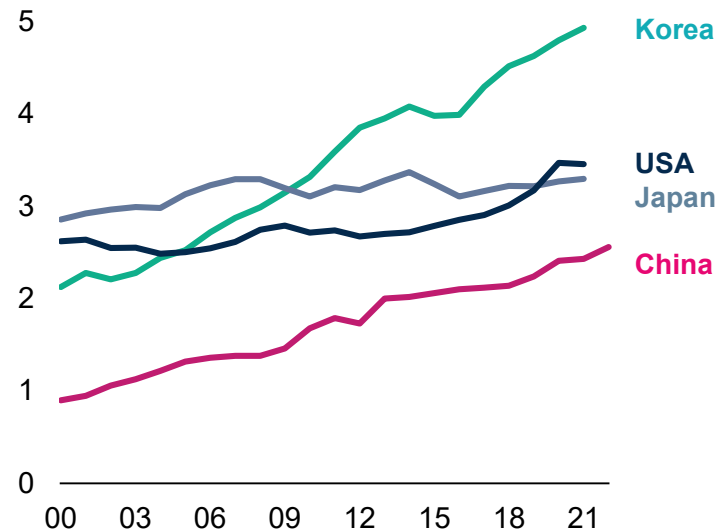


Source: NBS, Coface

PRODUCTIVITY SLOWDOWN

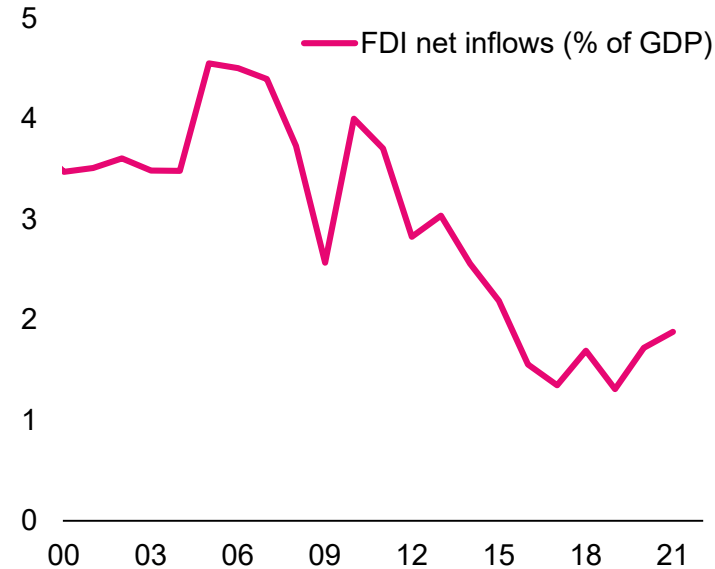
FUTURE TFP GROWTH DEPENDS ON R&D, FDI, LABOUR SHIFT

China's R&D spend rises quickly but still lower than Korea, Japan and USA
% of GDP



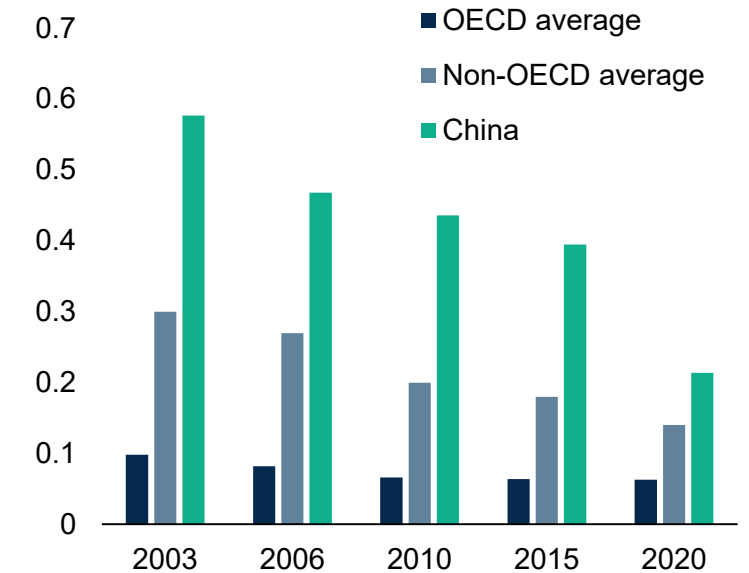
Source: World Bank, SCIO

Falling FDI Net Inflow into China for 20 years
% of GDP



Source: World Bank

FDI Regulatory Restrictiveness Index
Index



Source: OECD, Coface
FDI Index measures statutory restrictions on FDI in 22 economic sectors across 69 countries, looking at foreign equity limitations, screening or approval mechanisms, restrictions on employment of foreigners as key personnel, and operational restrictions.

POLICY PRIORITIES

2024 IS 'THE YEAR OF REFORM'?

STABILISE THE ECONOMY

Neutral fiscal stance
but accommodative
monetary policy.

BOOST CONSUMPTION

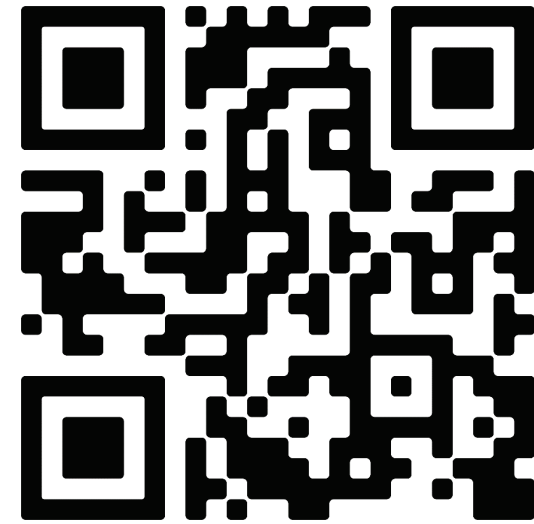
Raise personal income,
improve social safety net,
provide consumption
incentives.

ENHANCE POTENTIAL GROWTH

Reform state-owned
enterprises (SOE), raise
retirement age

**TO GET OUR LATEST
ECONOMIC ANALYSIS**

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THANK YOU

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FOR TRADE

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