ASIA PERSPECTIVE

China Economic Update Report

Issue 01 May 2015

This Issue

Weak growth in 2014 and challenges to come in 2015

China's GDP growth rate in the fourth quarter was 7.3%, maintaining same growth as in the third quarter. The total growth rate throughout 2014 was 7.4%, decreasing 0.3 percent from 2013. This is below the official target of 7.5% and the lowest growth rate the Chinese economy has seen in 24 years, . The outlook for 2015 is uncertain as China is facing housing glut, high debts and overcapacity in many industries. It is necessary for China to maintain at least a growth level of 7.0% to be able to maintain current level of employment.

The annual growth of fixed asset investment decreased from 19.6 percent to 15.7 percent in 2014, just below the forecast of 15.8 percent. The main reason for this decline was the cooling real estate market. Industrial output grew by 8.3 percent, down 1.4 percent from the previous year, and retail sales grew by 12 percent year-on-year, which is 1.1 percent lower than 2013 growth rate.

China #1 destination for FDI in 2014

China was the number one destination for foreign direct investment in 2014, passing the US, This despite the slowdown in the Chinese economy. The Chinese mainland attracted $128 billion FDI in 2014, followed by Hong Kong with $111 billion, US with $86 billion, Singapore with $81 billion and Brazil with $62 billion.

There has especially been an increase in the service sector, and a significant lower growth in manufacturing. In manufacturing, investment into high tech is growing while labor intensive FDI has been declining. Chinas inbound FDI grew by 1.7 percent in 2014, which is considerable lower then the growth of 5.3 percent on 2013.

The keyword is “New Normal”

The Central Economic Work Conference was held in Beijing in December, and not surprisingly on top of the agenda was the new economic era China will be facing in the years to come. Highlights from the conference included topics such as performance in 2014 and world economy, but most importantly the “new normal” and reforms in 2015. The “new normal” China is facing means an end to the years of two digit growth driven by government investment and exports, and the new model will have to be much more reliant on domestic consumption and services.

Xinhua, the official press agency of the Chinese central government defines the new normal as “a shift from high speed growth to a medium to high one, a shift from focusing on quantity and speed to quality and efficiency in growth model, a shift from stressing production expansion to improving current production, and a shift from growth being driven by conventional engines to increasingly driven by new ones”.

New economic reforms will be very high on the agenda for 2015. Leaders including President Xi Jingping and Li Keqiang stressed that China is facing a big downward pressure and that there are many challenges to come, announcing the government will target nine areas for reform efforts in 2015. The areas include; the capital market, market access for private banks, the administrative approval process, investment (especially in private sector), pricing, monopolies, franchising, government purchasing and outbound investment.

Several of the reforms announced at the conference – privatizing the financial sector, accelerating the administrative approval process and encouraging investment – is already being experimented with in the Shanghai Free Trade Zone, which is expected to be expanded to include Tianjin, Guangdong and Fujian shortly, and will be an important step in the implementation of the reforms.

As a final note at the conference the government announced its increasing goal to go global, promising to encourage Chinese companies to invest overseas and expand operations in foreign countries. In addition, the government will continue to promote the Yuan as a major international currency.

Significant slowdown in the real estate market

China's real estate investment continued to grow in 2014 but at a much slower pace than the previous year. China’s real estate investment grew by 10.5 percent year-on-year reaching US$1.55 trillion, according to the National Bureau of Statistics. This is a 9.3 percent decline from 2013.

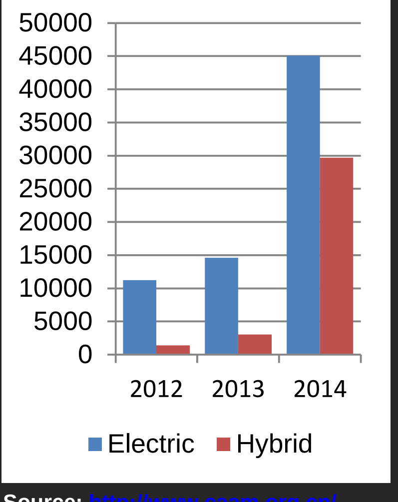
Investment in residential buildings accounted for 67.7 percent of total investment, which is an increase of 9.3 percent from 2013. Property developers purchased 14 percent less land in 2014 and new construction dropped by 10.7 percent.

The sale of commercial buildings declined by 7.6 percent and more than 620 million square meters stood unsold by the end of the year, which is 490 million square meters increase from 2013.

.

Rapid growth in sale of New Energy Vehicles in 2014

After several years with disappointing sales for new energy cars (NEV) in China, 2014 has proven to possibly be the breakthrough year for the plug-in cars. In total there was sold 74,763 hybrid and electric cars in china, which is more then a 320% increase compared to 2013. Of the total 74,763 plug-in cars sold in 2014, 45,048 were electric vehicles and 29,715 were of the hybrid variety.



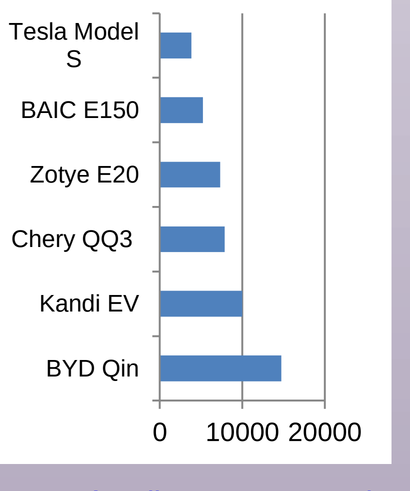
Source: http://www.caam.org.cn/

The reason for this sudden increase in sales would by the most part be the incentives introduced by the Chinese government in 2014 hoping to deal with the heavy air pollution and to decrease its oil imports. Several steps have been taken to increase the sales, including offering free license plates worth $15,000 in many cities, no taxes and no wait to register. In August 2014 the Chinese government also announced they would offer additional tax breaks when buying certain approved new energy vehicles made by Chinese automakers. Currently, buyers of fully electric cars are eligible for up to a total of 60,000RMB, while buyers of hybrid plug-in cars are eligible for up to 35,000RMB. By 2020, the goal is to have 5 million new energy cars in China, but the progress towards this goal has been very slow.

The biggest challenge China has been facing when it comes to the implementation of the plug-in cars is the lack of supportive infrastructure. Many car owners in China do not have access to their own garage and many apartment complexes don't allow people to charge the plug-in cars. This makes it difficult to rely on an electric car when there are too few public charging stations. But hoping to boost sales, the Chinese government recently announced they are investing 100 billion RMB to improve the infrastructure and appeal of buying plug-in cars.

BYD big winner of China NEV market in 2014

Chinese manufacturer of New Energy Vehicles, BYD, dominated the Chinese market in 2014. Of the total 74,763 plug-in cars sold, 14,747 was BYD's new model BYD Qin. The older BYD model E6 made seventh place with 3,560 units, making it the only producer having two models into the top ten. In second place was the Kandi EV model with 10,022 units, and down from first place in 2013 the Chery QQ3 with 7,866 units. The only foreign brand making the top ten sold models was the Tesla Model S, which sold a total number of 3,831 units.



Source: http://www.caam.org.cn/

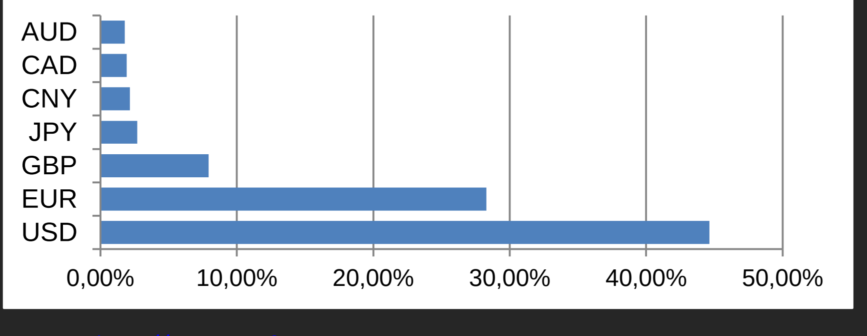
RMB ranked #5 in international payments

The Chinese currency is currently the fifth most common currency used for international payments according to SWIFT (Society for Worldwide Interbank Financial Telecommunication), recently having passed the Canadian and Australian dollar. This represents another step forward in the Chinese governments wish to establish the Renminbi as a major global currency.

The Chinese currency is growing rapidly on the international market. In the beginning of 2013 the Renminbi was in the top thirteen with a share of 0.63 percent, and at the beginning of 2014 it was in the top eight. And by November 2014 it was within the top five. The US dollar is still clearly the most dominant international currency, making up for 44.6 percent of all global payments, followed by the Euro with 28.3 percent, the British pound with 7.9 percent, Japanese yen with 2.7 percent, and the Chinese Renminbi making up for 2.2 percent of total international payments. The Renminbi has been showing a consistent three digit growth in the past two years, increasing by a total of 321 percent. The overall growth for all currencies in 2014 was 4.4 percent, while the RMB grew by 102 percent.

Breaking into the top five marks an important milestone in the internationalization of the Renminbi, and there is certainly a possibility it will be chosen as a reserve currency at the next IMF review later this year. To achieve reserve currency status China would need to satisfy the economic benchmarks as well as gaining the support of the other 187 member countries.

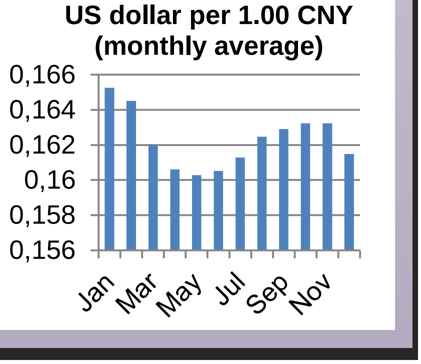
Even if the Renminbi should not make reserve currency this year, making the top five is clearly a testimony that the currency is transitioning from an "emerging" to an "established" payment currency.



Source: http://www.swift.com

Depreciation of the RMB in 2014

In the first two quarters of 2014 the RMB exchange rate against the USD depreciated by 3% to its weakest level of 6.2676, which is its weakest level in almost two years. By the end of June the RMB exchange rate to USD seem to stabilize, and by the end of August the total depreciation of the RMB was 1.5%. But due to the Central Bank cutting the benchmark interest rate this November, the exchange rate depreciated further. By the end of the year the total depreciation of the RMB was 2.4% compared to the end of 2013. Prior to 2014, the RMB have been climbing steadily in value against the dollar, and 2014 did prove to be the first year since 2005 with a significant annual decline.



ASIA PERSPECTIVE

About Asia Perspective

Asia Perspective is an Independent Management Consultancy with global presence and local knowledge. We assist our clients with business advisory regarding Analysis, Strategy and Implementation. Our mission is to turn our clients' Asia business vision into reality and add significant value to your business.

We offer specialist services covering Supply Chain Management, Purchasing, Market Entry, and Financial Advisory. This includes market entry research and strategy sourcing and pricing strategy, M&A advisory, risk management, operational improvements etc.

What differentiates us from our competitors is the knowledge and expertise we have gained after several years in the Asian market. We have experience from a variety of industries and clients including leading international companies from Europe, the US and Asia.

With a highly collaborative team of problem solvers and a passion for excellence we will add value to your business. We work closely with our clients to create and deliver insight, advantage and real impact.

Contact Us

If you have any inquires about our services, please contact any of our offices below:

Shanghai

Suite 2302, 23/F,
Huaihai China Tower
No 885, Renmin Road,
Shanghai 200010
Tel: +86 (0)21 3401 0610
Fax: +86 (0)21 5410 3235
shinfo@asiaperspective.net

Hong Kong

Suite 602, 6/F
Taurus Building
21 A/B Granville Road
Tsimshatsui, Hong Kong
Tel: +85 (0)227 399 698
Fax: +85 (0)227 399 313
hkinfo@asiaperspective.net

New York

12 Desbrosses St
New York, 10013
USA
Tel: +1 212 461 4017
Fax: +1 917 386 2514
nyinfo@asiaperspective.net

San Francisco

60 Corte Patencio
Greenbrae, CA 94904
USA
Tel: +1 415 726 8547
sfinfo@asiaperspective.net

Yangon

Suite 101, 1/F,
Strand Hotel, Annex Building
Yangon, Myanmar
Tel: +95 (0) 1243 377 ext. 1812
Yangoninfo@asiaperspective.net

Stockholm

Östermalmstorg 5,
114 42 Stockholm
Sweden
Tel: +46 (0) 8 410 737 10
Fax: +46 (0) 8 501 096 12
stockholminfo@asiaperspective.net