



How to think about the impact of China's economic development in the market?



680m

Chinese people have been brought out of poverty between 1981-2010.

Source: OECD

+44%

China's GDP is expected to grow by 44% between 2015-2020.

Source: IMF forecast

~30%

China contributes approx. 30% of global GDP growth per year.

Source: IMF, World Bank, KPMG analysis

A changing business model



Investment intensive, export-led growth model

transitioning towards



Innovation and consumption focused model

leading to



A more productive economy and a larger middle income group creating more demand for high quality premium goods and services

What is the 13th Five-Year Plan's roadmap to support China's growth?^(a)



1

Implementing 'supply-side structural reform'



- Promote China's industrial restructuring to increase the quality of supply and meet consumers' evolving demands
- Strengthen market-oriented and institutional reforms, and build a level-playing field in the market
- Reduce excess industrial capacity, excess housing inventory, financial leverage and costs, and also correct structural shortcomings

2

Improving the quality and efficiency of growth



- Encourage innovation-dependent growth; raise investment efficiency; and elevate the quality of consumption in order to:
 - Maintain level of growth of no less than 6.5% per year
 - Achieve a more coordinated, innovation-driven mode of development
 - Raise the standard of living across the broader population
 - Strengthen social, cultural and educational fundamentals
 - Improve environmental conditions
 - Develop secure, robust institutions

3

Development should be consistent with five key tenets



- **Innovation:** Develop a system that is conducive to innovation in all aspects
- **Trans-regional and urban rural development:** Better allocate resources among regions and between urban and rural areas
- **Green development:** Ensure the preservation of ecological assets, tackle pollution and address energy efficiency issues
- **Open development:** Develop a close and mutually beneficial relationship between China and the world through more sophisticated approaches to 'opening up' and 'going out'
- **Inclusive development:** Benefits of development to be enjoyed by all citizens

Note: (a) KPMG Global China Practice, The 13th Five-Year Plan – China's Transformation and Integration with the World Economy, <http://kpmg.com/cn/13fyp-report2-en>

'Belt and Road' is a major opportunity for global organizations – what is it?



 Countries included in the 'Belt and Road' Initiative

 Silk Road Economic BELT

 21st Century Maritime Silk ROAD



All countries can be international cooperation partners of the Belt and Road Initiative"

President Xi Jinping, Belt and Road Forum for International Cooperation, 2017/05/14

70+ Countries involved ~65% Global population >30% Global GDP

Objective: Improve infrastructure connectivity to facilitate trade and investment

- ① It will **drive infrastructure development and with it demand for goods and services** necessary for the undertaking of projects – e.g. construction materials, commodities, machinery, financial services, etc
- ② Enhanced policy, infrastructure, trade and people connectivity will lead to the **generation of new markets** along the 'Belt and Road', including in China's western and central regions

Three key underlying factors that will help drive China's growth



- ① **Reforms.** Chinese leadership has shown a strong commitment to continue implementing the important reforms that China needs to achieve a more stable, healthier and higher quality growth
- ② **The Chinese consumer.** Rapid urbanization and expansion of middle classes will lead to an increase in discretionary spending, especially in high-quality products and services
- ③ **Industrial transformation and upgrading.** Economic restructuring is prompting firms in traditional and high value-added sectors to leverage technological advances to increase productivity and competitiveness

Boardroom Questions



- ① What is the **outlook for our current business** in China?
- ② How will the **ongoing economic transition** impact our existing businesses in China: positively and negatively?
- ③ Which **sectors and regions** will provide the greatest opportunities and where are we best placed to take advantage of them? How do we hear of new opportunities?
- ④ What **strategy review** has our business undertaken to assess the opportunities under China's 13th Five-Year Plan?
- ⑤ How does the **value proposition** for our business in China **align** with the economic and social development goals in the 13th Five year Plan?
- ⑥ What **disruptions – technological, regulatory, competitors** – could take place in my industry in China and how would they impact our business? How will my business in China be transformed over the next three years – new technologies, new business/operating models, new processes, new products and services, disruption from existing competitors?
- ⑦ How will **globalization of Chinese companies** – who might be our suppliers, competitors and/or customers – affect our business in China and in our top markets outside China? What can we do about it?
- ⑧ What are the **opportunities for co-operation** between Chinese companies and us in China, our home markets and/or third countries? What are the comparative advantages (e.g. **market knowledge**, technology/experience, track record) that we could bring to such a cooperation?
- ⑨ What does **"Belt & Road"** mean for our group? Are there opportunities for us to supply goods and/or services to "Belt and Road" **infrastructure projects**? How do we access these opportunities?
- ⑩ Which "Belt and Road" markets would be attractive for our group to sell goods and/or services? How and when would we **"enter" these new markets**, and what would the role be for our Chinese business to **manage sales and production operations** in "Belt and Road" regions?
- ⑪ How would various **potential geopolitical outcomes** – e.g., US administration policy towards China, EU policy towards China, North Korea – affect our business in China? What steps have we taken or should we take to **mitigate potential business impact** of these risks?

For further insights: [China CEO Outlook 2017 report](#)

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