



Breakfast with Ambassador Liu Xiaoming

Wednesday 20 February 2019

KPMG Board Leadership Centre



His Excellency Ambassador Liu Xiaoming joined KPMG's Board Leadership Centre breakfast to share his thoughts on the Chinese economy and specifically what had changed, and what had not, in recent years – as well as the role of the business community in the future of the “Golden Era” between China and the UK. Here we look at some of the key themes arising.

China's external economic environment has changed, but the long-term growth momentum of the Chinese economy has not

Despite the complex and severe external environment caused by weakening driving forces for international trade, increasing turbulence in the global financial market and looming protectionism and unilateralism – not to mention - China-US trade friction taking its toll, China's GDP had reached \$13.6 trillion in 2018; a growth rate of 6.6 percent.

While some people might point to the slowdown of Chinese economy, it should be noted that: the growth rate of 6.6 percent was higher than the 6.5 percent target; and that it is the highest rate of growth among the five biggest economies in the world. Given the size of the Chinese economy, Ambassador Liu considered such growth was amazing.

Ambassador Liu noted that China has the confidence and capability to make sure its economy will grow within the anticipated range. After 70 years since the founding of New China - and following more than 40 years of reform and opening up – the Ambassador felt that the Chinese economy has built a solid foundation, which will ensure the strong resilience and stability in its future growth.

Market entities and growth engines have changed, but the direction of economic restructuring and upgrading has not

As China pursues innovation-driven development, new industries, new products and new business models have flourished.

Ambassador Liu noted that in 2018, the output of new energy vehicles grew by 40.1 percent, optical fibre by 23% and smart television by 18.7 percent.

The Chinese economy is shifting from high-speed to high-quality growth, and its economic structure optimising. More than 6.7 million companies were newly-registered in 2018 – a 10.3 percent increase and averaging 18,400 a day

Services and final consumption expenditure now contribute heavily to economic growth, and China's green economy is also growing - with consumption per unit of GDP down 3.1 percent and the share of clean energy in total energy consumption up by 1.3 percent. The green economy is a big part of China's philosophy. ESG is a key investment criteria for global investors.

Lastly, China has steadied the macro-economic leverage ratio and kept the debt level under control. By the end of 2018, domestic assets of China's banking sector had totalled 261.4 trillion RMB yuan, with the ratio of non-performing loans standing at only 1.89 percent.

The intensity and measures of reform have changed, but China's determination to stay open has not

China is deepening the supply-side structural reform and taking vigorous efforts to tap the potential of domestic consumption. Ambassador Liu noted that China is introducing carefully measured regulation and placing greater emphasis on the rule of law; incentivising entrepreneurs; and building an open and competitive market system.

Yet at the same time, China is still committed to the policy of opening up. Average tariffs have been reduced from 9.8 percent to 7.5 percent in 2018 and, according to the World Bank report on Doing Business 2019, China now ranks the 46th out of 190 economies in the ease of doing business, moving up by 32 places than the previous year.

Ambassador Liu attributes this to a 3 percent increase in foreign investment flowing into China (\$135 billion) despite the Global downward trend, and a 69.8 percent increase in newly set-up foreign business. British investment increased by 150.1 percent.

For those wanting quicker change, Ambassador Liu urged patience. China is much quicker than the UK at some things such as building highways, airports and railways; but it is natural to proceed with caution when charting new territory.

China's role in the global governance has changed, but its resolve to share benefits with the world has not

Ambassador Liu recognised that China and the world economy needed each other to achieve global prosperity.

In recent years, China has played an active role in global governance. At the G20 summit, APEC Economic Leaders' meeting and BRICS summit, China has stood up against protectionism and unilateralism, upheld the rule-based multilateral free trade system firmly, and proposed China's plans and solutions. These have been important in making sure that multilateral dialogues focus on inclusive development and win-win cooperation.

With China the largest contributor to world economic growth for several years – China accounted for nearly 30% of world economic growth in 2018 – Ambassador Liu highlighted the potential of its consumer base and investment opportunities, and the number of jobs created around the world.

The Belt and Road Initiative (BRI), for example, has been good for the whole world by allowing all participating parties to benefit from China's development. By the end of 2018, China had invested \$28.9 billion in countries along the BRI routes, paid \$2 billion in tax to host countries and created 244,000 jobs for the local communities.

Seizing the opportunities

Ambassador Liu outlined three areas where UK business could leverage the opportunities of working with China.

Forge a strong link between China and the UK based on industrial and policy synergies: With similar support for free trade and an open economy, Ambassador Liu saw opportunities for China and the UK to work together to uphold the principles that underpin this system – providing an open and fair environment for business from both countries to operate in.

With China lifting and easing restriction on foreign ownership – and hosting the second International Import Expo later this year – the Ambassador welcomed British companies, their products and services to the Chinese market.

Build a platform for cooperation on the Belt and Road Initiative: Ambassador Liu noted the benefits of the BRI for countries along the routes. He mentioned the second Belt and Road Forum for International Cooperation later this year, and looked forward to the chance to work together with global partners to develop higher standards.

The Ambassador saw great opportunities for China-UK cooperation on BRI. Many countries have long standing relationships with the UK through trade or the commonwealth so UK business have a lot to contribute.

Innovations brought about by the new round of scientific and technological revolution: With scientific and technological change driving significant transformation in industry and society, China and the UK should take steps to invigorate the market and drive innovation.

The Ambassador asked that both China and the UK be prepared to exchange innovation and talent, in order better prepare to take on national and global challenges in future development. He pointed to the 17th China International Talent Exchange Conference later this year - with the UK the only 'country of honour' – as an example.

The keynote speech can be read in full [here](#).

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