

China 2015: China's Political and Economic Prospects

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Put China in the Right Context

- Political China?
- Economic China?
- Civilian China?
- Military China?
- Politics with Chinese characteristics.

What Is the Dominant Feature of China?

- 2013:
 - More political than economic;
 - Anti-corruption was the key;
- 2014:
 - More political than economic;
 - Intensifying anti-corruption;
- 2015:
 - Anti-corruption (and political re-consolidation) remains the dominant feature;
 - Political China still outweigh Economic China.

China in 2014

- **China's GDP in 2014:**
 - Rmb63.64 Trillion;
 - Above US\$10 Trillion for the first time (using official exchange rate);
 - GDP growth at 7.4%;
 - GDP growth at the lowest in China since 1990;
 - GDP growth highest among major economies in the world.

China in 2014

– **China's FDI:**

- Outbound FDI: US\$140 Billion;
- Inbound FDI: US\$120 Billion;
- Net Outbound FDI: US\$20 Billion;
- China becoming a net exporter of FDI for the first time in modern history;

– **Chinese travelers going abroad: 110 million travelers.**

The New Normal

- What is the New Normal?
- Is it mainly the slowing down of the GDP growth rate, e.g. the new 2015 target of 7%?
- Or does it involve a new growth model of China?
- Does it involve continued reform both in the political and economic spheres?
- Is it a pre-determined paradigm, or is it an evolving concept, ever ready to embrace new elements whenever they come along?
- Is it a reactive, crisis management tool, or is it a proactive, self-initiated new strategy?

The 4 Comprehensives

- **Comprehensively** building a moderately prosperous country;
- **Comprehensively** deepening reform;
- **Comprehensively** promoting ruling the country by law;
- **Comprehensively** ruling the party by strict rules.

What Will Happen in China in 2015?

- **Xi Jinping on the rapid rise:**
 - Consolidating power in the military; party; government; SOEs; etc.;
 - Fast becoming a paramount leader;
 - On the way to become a real “emperor”;
 - State visit to Russia in May;
 - State visit to the USA in September;
 - Official visit to the United Nations in September;
- **Celebrating the 70th anniversary of the victories of the Second World War:**
 - China taking up a leadership role as a defender of the victory legacies of the Second World War;
 - Military parade on September 3, 2015.

One Belt and One Road

- **One Belt:** The Silk Road Economic Belt;
- **One Road:** the 21st Century Maritime Silk Road;
 - Looking at Eurasia in a new light;
 - 53 countries (or more) along the One Belt and One Road;
 - From 20 neighboring countries (14 land neighbors + 6 sea neighbors) to about 66 neighbors (or more);
 - Focusing on improving infrastructure and connectivity in a comprehensive manner;
 - New financial institutions to promote its success: AIIB; Silk Road Fund; China-ASEAN Fund; BRICS Development Bank; etc.
 - What are the energy implications?

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AIIB

- China has singled-handedly lined up 57 countries to join AIIB, despite strong opposition by USA;
- All the ten ASEAN countries;
- Many other Asian countries;
- Many European countries, including all the Western European countries and all the Nordic countries;
- Egypt, South Africa and Brazil also joined
- 4 of the G-7 countries joined, including UK, Germany, France and Italy.
- Major exceptions: USA, Japan, Canada. (Japan and Canada expected to join before end of June.)
- At last minute, USA sent a presidential envoy (Secretary of Treasury Jacob Lew) to Beijing and changed from “opposition” to “cooperation” re AIIB.
- Formal launch of AIIB before end of 2015.
- Total registered capital of AIIB at US\$100 Billion.



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The Focus of AIIB

- Infrastructure and connectivity in Asia;
- Broadly defined;
- Including energy infrastructure and connectivity.

From China to Global China

- High-speed railways;
- Infrastructure;
- Connectivity;
- China and the Middle East;
- China and Africa;
- China and Latin America;
- China and OECD countries;
- Chinese outbound FDI;
- Chinese tourism abroad;
- Chinese students abroad;
- China happy for other countries to free-ride on China!

Evacuation From Yeman

- Starting on March 26, the Saudi-led coalition forces started air strikes against targeted areas in Yeman.
- Chinese naval ships evacuated from Yeman to Djibouti 571 Chinese nationals and 233 foreign nationals (from Canada, Egypt, Ethiopia, Germany, India, Ireland, Italy, Poland, Pakistan (171), Romania, Singapore, UK and Yeman).
- On April 6, the US government acknowledged that it was unable to evacuate the American citizens in Yeman and asked them to evacuate from Yeman by boarding foreign ships
- Many Americans criticized the US government for its failure to evacuate American citizens from Yeman.
- This is the first time in modern history that the Chinese naval ships evacuated foreign nationals from a war zone.

What Will Happen in China in 2015?

- Political China still trumps Economic China;
- Anti-corruption campaign intensifies in the military and the SOEs, and may affect Shanghai and other key regions;
- Final assault on the remaining remnants of resistance or non-cooperation in various circles of power;
- The New “Emperor” pushes beyond the point of no return in terms of consolidating his control of the military, the party, the government, and the SOEs;

What Will Happen in China in 2015?

- The Military Parade on September 3, 2015 to celebrate the 70th anniversary of the Victory of the War of Resistance Against Japanese Aggression (and the Victory of the Second World War in general).
- The New Normal will remain the mantra on the economic front, resulting in GDP growth hovering around 7%;
- 2015 becomes a year of major transition in China.

China Beyond 2015

- **Transition from “Political China” to “Economic China”:**
 - Most likely starting in 2016;
 - Chinese economy finding a new direction and less emphasis on the “New Normal”;
 - Education reform;
 - Healthcare reform;
 - Tackling environmental challenges;
 - Improving productivity and efficiency as a result of fast-improving infrastructure and connectivity;
 - Innovation and creativity becoming more important;
 - From Made-in-China to Designed-in-China;
 - The internet revolution continues to remake China in multiple ways
 - China going global;
 - Etc.

China in the Coming Decade

- China at the center of the world stage.
- China as the largest economy in the world.
- China as the leading champion of free trade.
- Rmb becomes a global reserve currency.
- China settles major imports in Rmb.
- Rebalancing of power between China and USA.

China in the Coming Decade

- China going increasingly global.
- The new US visa policy for China will be followed by many other countries.
- The USA comes to terms with China being the largest economy in the world, and learns to engage China as such.
- The USA may export oil and gas to China.
- The first shipment of LNG may be on its way to China.
- China will have greater energy efficiency and less pollution.
- China will have greater democracy and transparency, and better governance and rule of law than today.
- China in 2021: the First Centennial (the founding of CPC);
- China in 2049: the Second Centennial (the founding of PRC).

Implications for Global O&G

- Energy will become more strategic and geopolitical;
- China emerges as a net winner (relative to either the US or Russia);
- Russia will go east, and more so in the future;
- China will provide a major stabilizing effect in the global energy sector, providing long-term, large, steady and increasing demand for O&G;
- Politics and geopolitics aside, major O&G producing countries will do so in their own benefit to lock up such demand from China.

Energy Highlights in 2014

- **Total Energy Consumption:** 3.85 Billion tons of standard coal (y.o.y. increase of 2.7%);
- **Crude Oil:**
 - Total consumption: 518 Million tons;
 - Y.o.Y increase: 2.8% (w/o considering increase in oil reserves);
 - Total net import: 308 Million tons;
 - Dependence on import: 59.5%;
 - As a percentage of the total energy consumption: 18.5%;
- **Natural Gas:**
 - Total consumption: 180 Billion cubic meters;
 - Y.o.Y increase: 7.4%;
 - Total net import: 59 Billion cubic meters;
 - Dependence on import: 32.2%;
 - As a percentage of the total energy consumption: 6.3%
- **Coal:**
 - Total consumption: 24.6 Billion tons;
 - Y.o.Y increase: -0.5% (first decrease since 2000).

Pipelines

- China-Kazak oil pipelines: 30 Million tons;
- China-Central Asia gas pipelines: 30 Billion cubic meters;
- China-Russia oil pipelines (East): 15 Million tons;
- China-Myanmar oil pipelines: 22 Million tons;
- China Myanmar gas pipelines: 12 Billion cubic meters;

- China-Russia gas pipelines (West): planned at 30 Billion cubic meters;
- China-Russia gas pipelines (East): planned at 38 Billion cubic meters;
- Etc.

Price of Oil

- **The Sweet Side:**
 - A drop in oil price by each US dollar means a saving of US\$2.1 Billion;
 - A drop in oil price by US\$50 would mean a saving of US\$105 Billion;
- **The Bitter Side:**
 - Much of China's imported oil is the equity oil from Chinese investment in various oil projects abroad. Their revenue and profit suffer accordingly;
 - Most of the Chinese investments in major oil projects in recent years are now out of money;
 - A damp on Chinese eagerness to investment in overseas oil projects?

Being Philosophical About Oil Price

- You have to be philosophical about the price of oil;
- If you cannot control the oil price, you have to go along with it;
- Securing availability of oil is more important than guessing at the price of oil;
- Ironically, China's strength and as well as fragility as far as oil is concerned is that it has the largest demand for oil.
- Oil is long-term. The short-term volatility of oil price will be balanced off by the long-term supply and demand considerations.
- Oil should be a commodity, not a geopolitical or ideological weapon.

Thank you!

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