

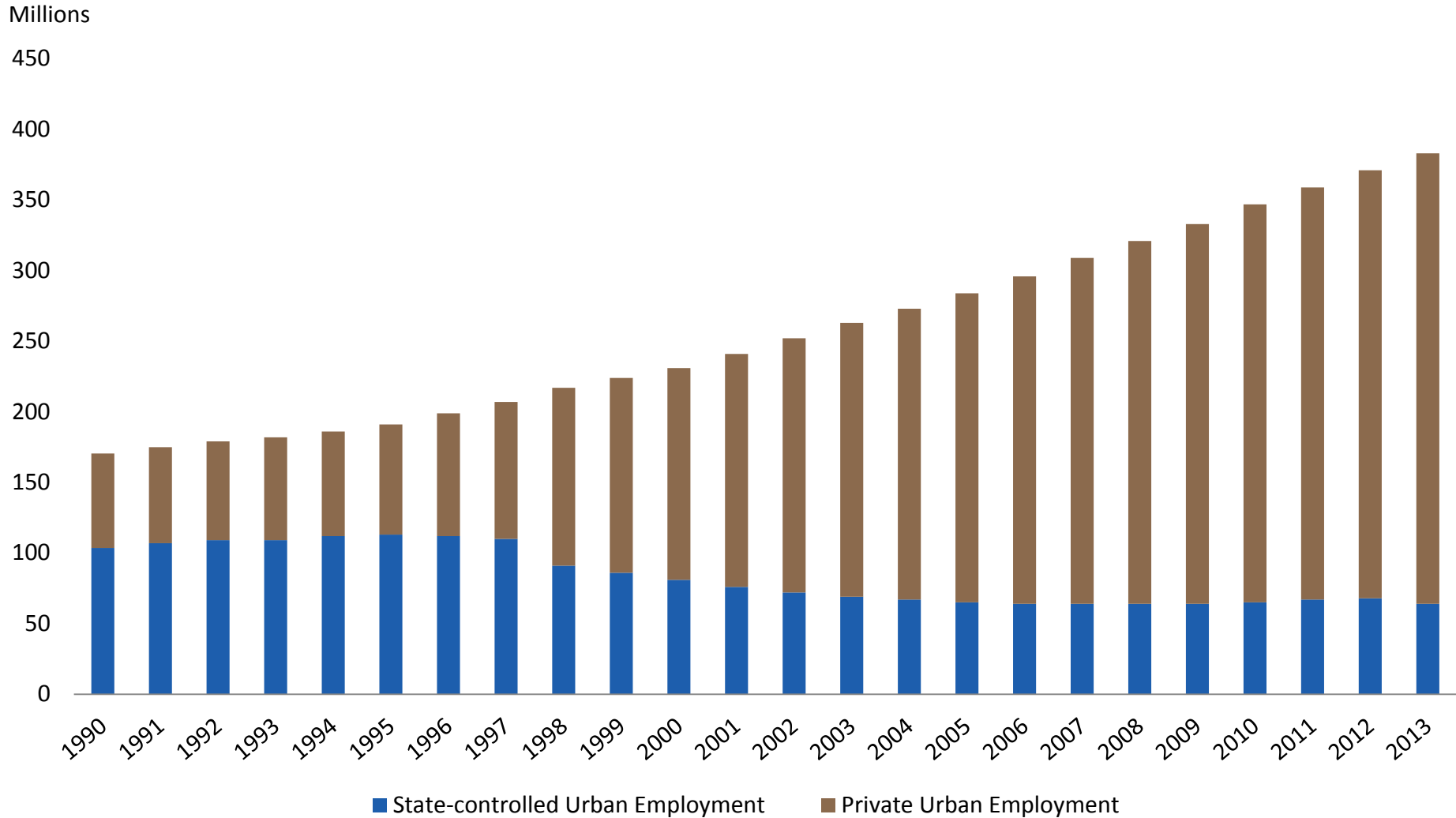


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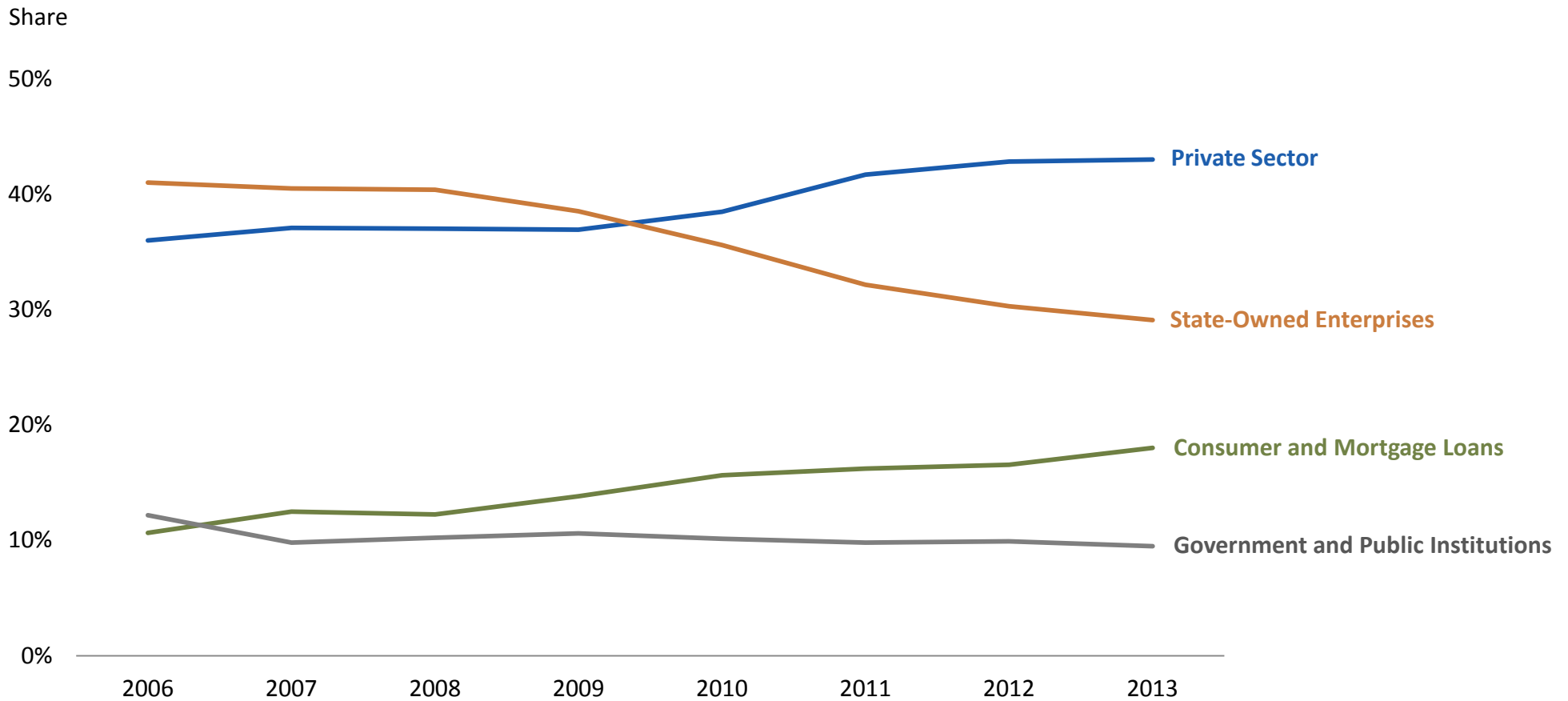
Mistake 1: Underestimating the Dominant Role of the Private Sector



Source: CEIC Data

Most Bank Loans Now to Private Firms

STOCK OF BANK LOANS



Sources: People's Bank of China, CEIC, MICM estimates

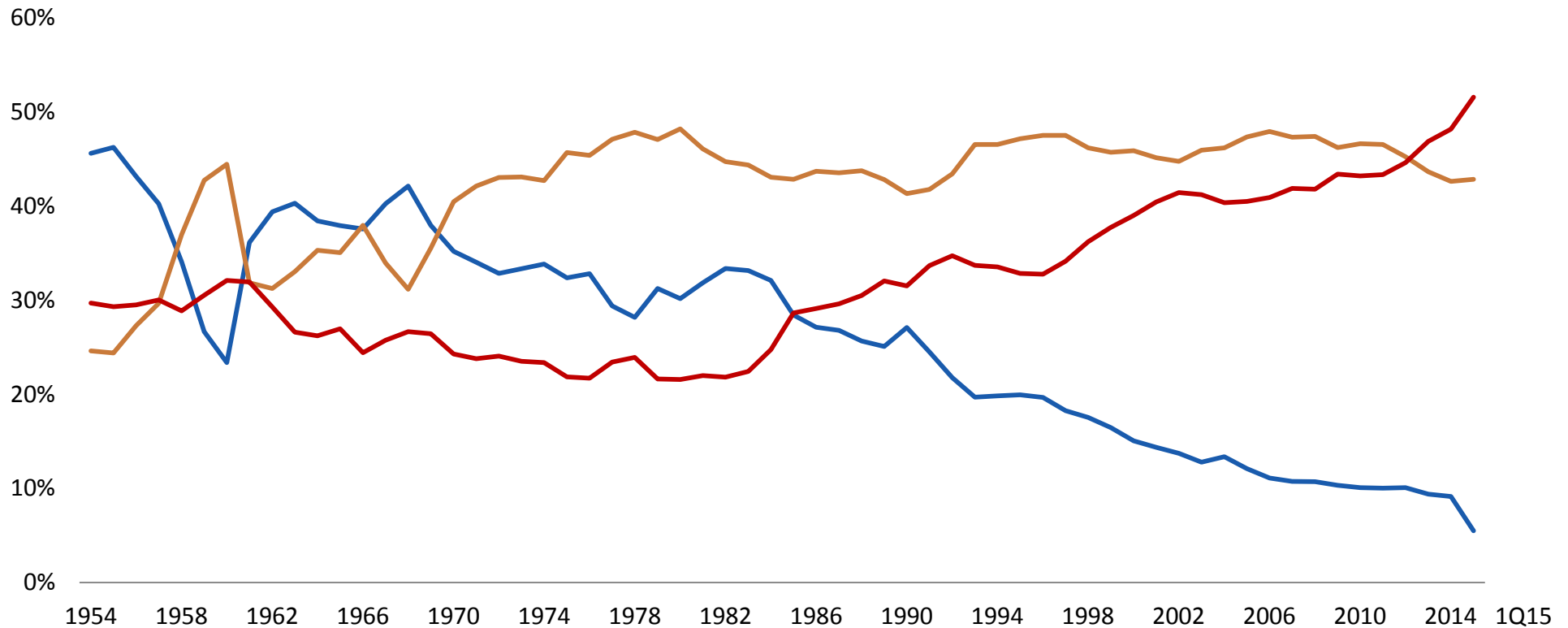
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Mistake 2: Not Recognizing that Rebalancing is Well Underway

SHARE OF GDP BY PRODUCTION APPROACH

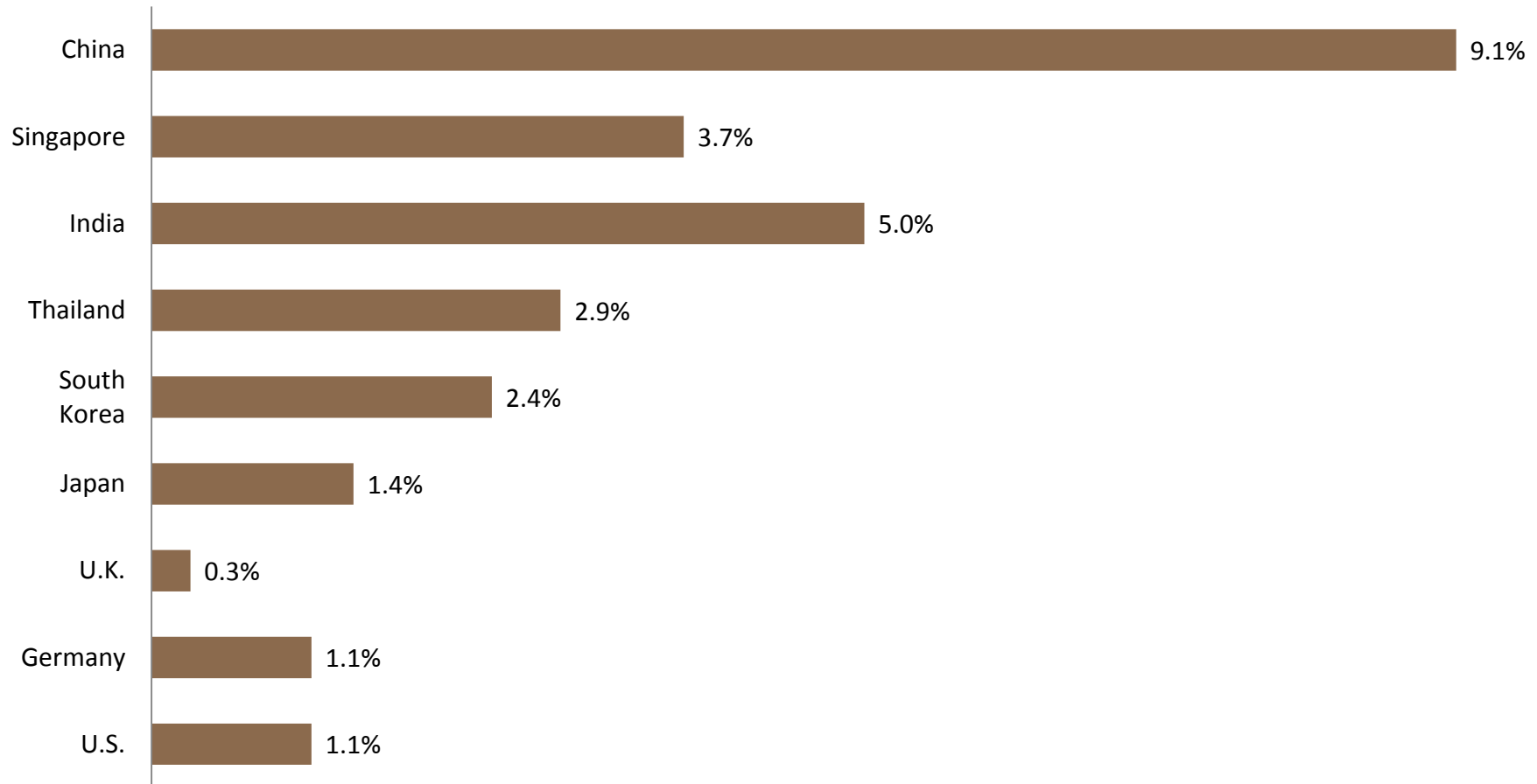
Share of GDP



- Primary industry refers to agriculture, forestry, animal husbandry and fishery and services in support of these industries
- Secondary industry refers to mining and quarrying, manufacturing, production and supply of electricity, water and gas, and construction
- Tertiary industry refers to all other economic activities not included in the primary or secondary industries, including real estate, finance, wholesale and retail, transportation and other service industries

Source: CEIC

Mistake 3: Underestimating Chinese Consumers



■ Real Annual Consumption Growth on Average between 2009 to 2013 (YoY)

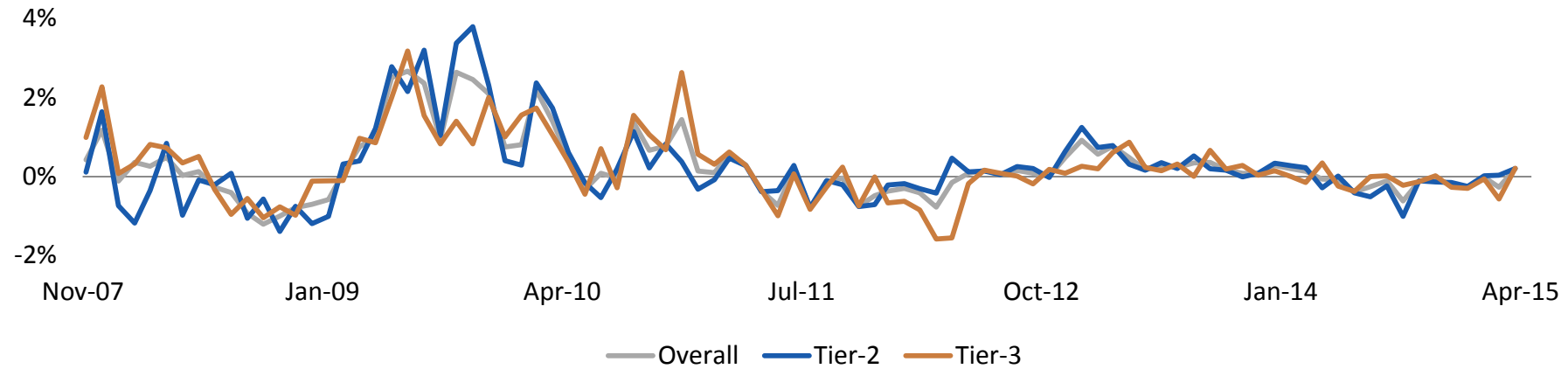
Sources: CEIC, International Monetary Fund (IMF) estimates

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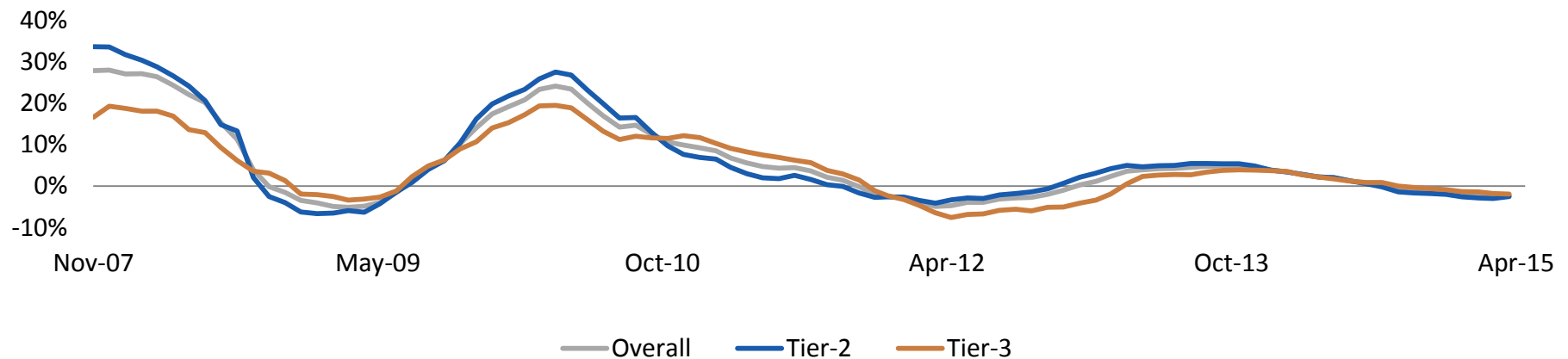
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Mistake 4: Misunderstanding China's Property Market

CLSA NEW HOME PRICES, MoM



CLSA NEW HOME PRICES, YoY

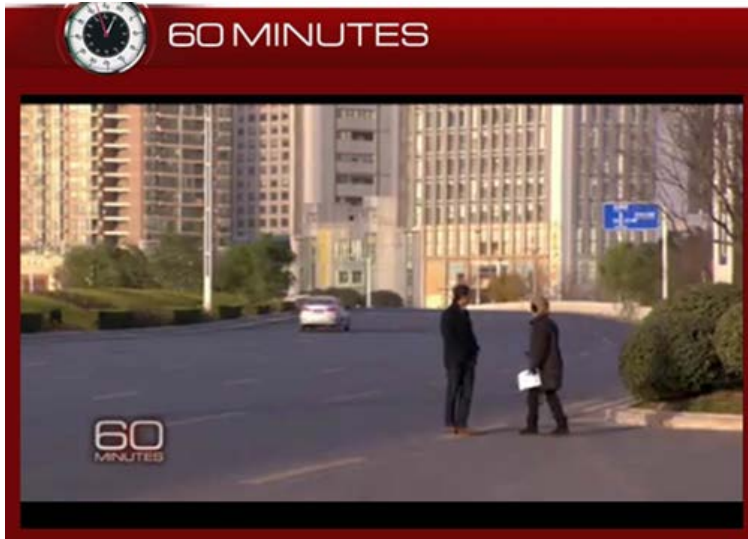


Tier 1 cities: include Beijing, Shanghai, Guangzhou and Shenzhen
 Tier 2 cities: include provincial capital cities, plus Dalian, Qingdao, Ningbo and Xiamen
 Tier 3 cities: all other cities not included in Tier 1 and Tier 2
 Source: CLSA

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Ghostly, or a Different Business Model?

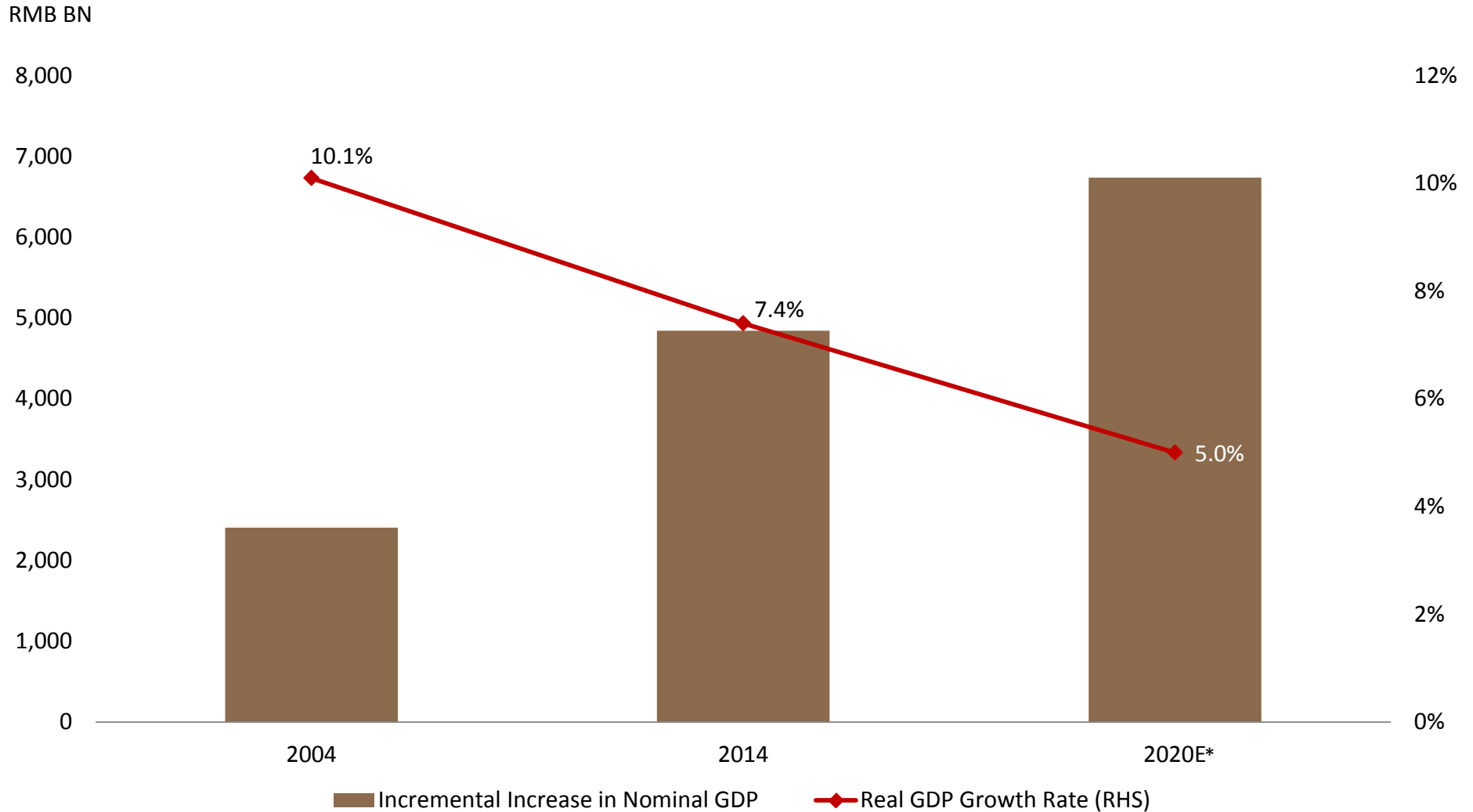


Photos on left from cbsnews.com. Photos on right by MICM. Upper right photo taken in same location as upper left. Lower right photo is not the same location as lower left, but is illustrative of traffic conditions observed in Zhengdong in February 2015.

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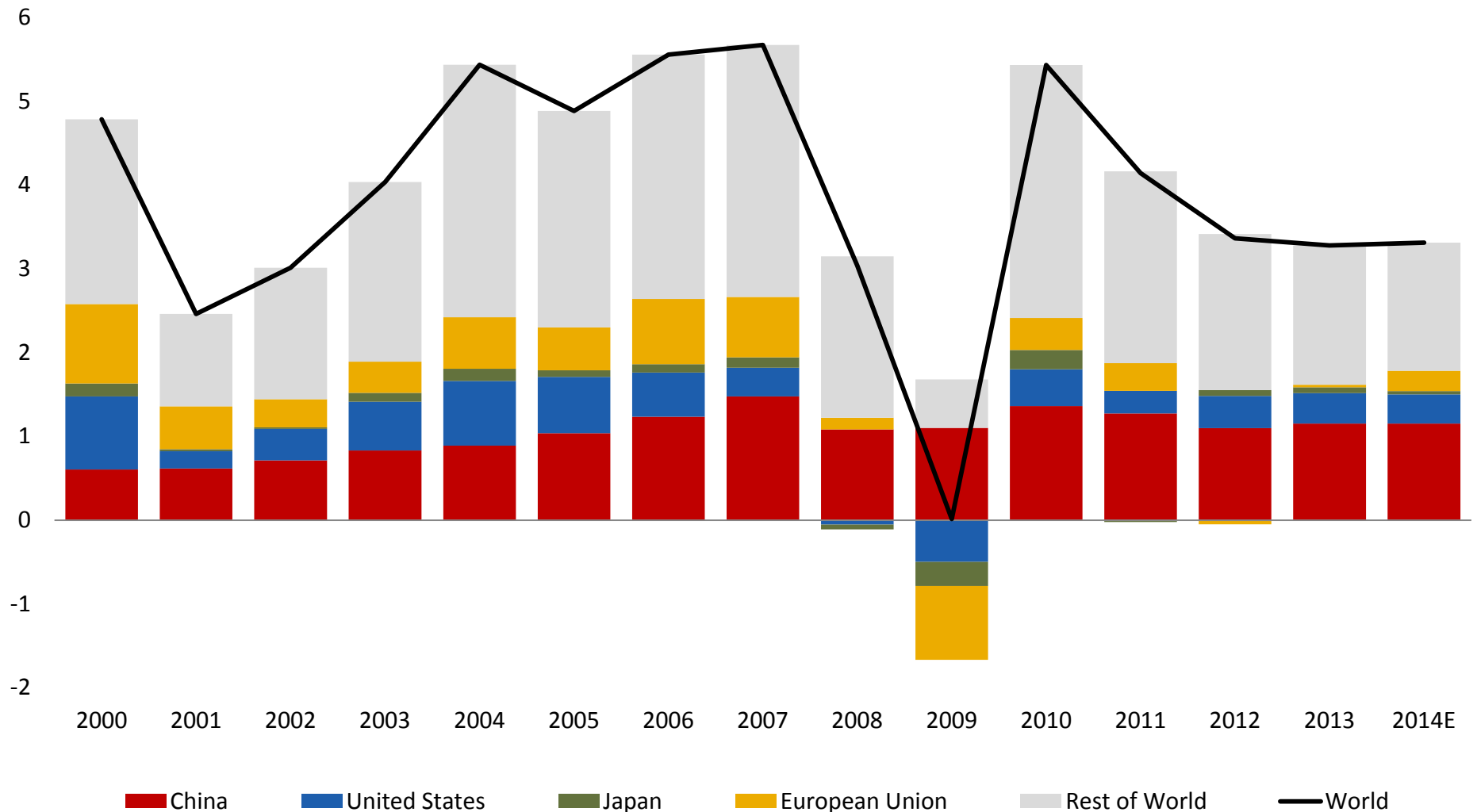
Slower Growth is Inevitable, but Remember the Base



*2020 MICM Estimate
Source: CEIC

China Will Continue to Drive Global Growth

Contribution to Global Growth (percentage points)



Sources: IMF, World Economic Outlook (April 2014); IMF staff calculations

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The Party's Top 5 Mistakes

- ✧ Putting the Party above the law
- ✧ Lack of trusted institutions, and inhibiting the development of civil society
- ✧ Blocking freedom of expression and political dissent
- ✧ Slow to fix China's environmental disaster
- ✧ Overly aggressive approach to neighbors in the South and East China seas



Today's Speaker



ANDY ROTHMAN
Investment Strategist

Andy Rothman is an Investment Strategist at Matthews Asia. He is principally responsible for developing research focused on China's ongoing economic and political developments while also complementing the broader investment team with in-depth analysis on Asia. In addition, Andy plays a key role in communicating to clients and the media the firm's perspectives and latest insights into China and the greater Asia region. Prior to joining Matthews in 2014, Andy spent 14 years as CLSA's China macroeconomic strategist where he conducted analysis into China and delivered his insights to their clients. Previously, Andy spent 17 years in the U.S. Foreign Service, with a diplomatic career focused on China, including as head of the macroeconomics and domestic policy office of the U.S. embassy in Beijing. In total, Andy has lived and worked in China for more than 20 years. He earned an M.A. in public administration from the Lyndon B. Johnson School of Public Affairs and a B.A. from Colgate University. He is a proficient Mandarin speaker.



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