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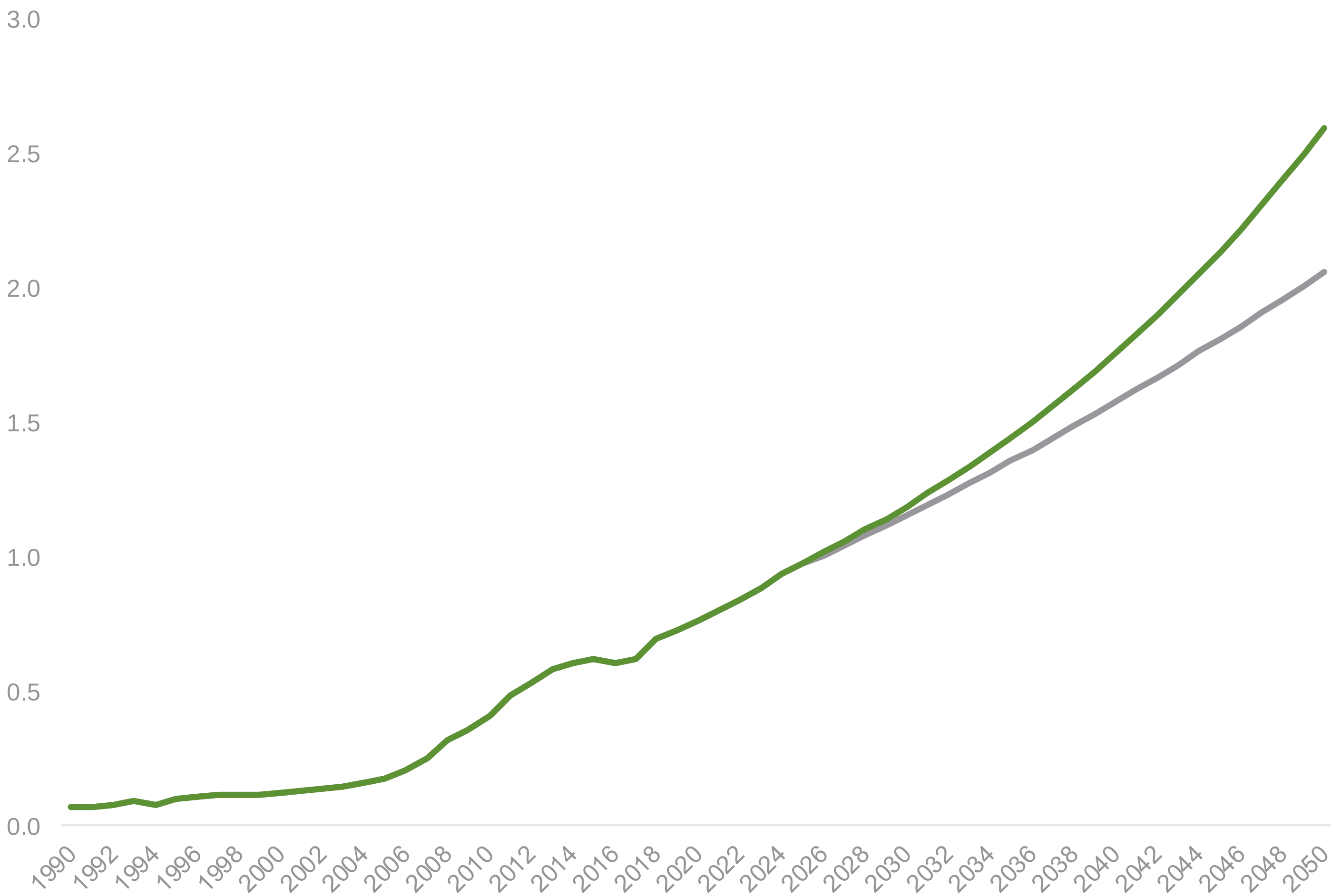
China Outlook

Jan Dehn, Global Head of Research

China is set to be 2-2.5 times larger than US by 2050

Ratio of China USD GDP to US USD GDP – scenarios (assuming constant exchange rates)



Scenario 1:

China and US GDP projections are based on a constant population ratio and trends in real GDP growth rates in line with the past 43 years (1980-2023 using IMF data and forecasts)

Scenario 2:

China and US GDP projections are based on a constant population ratio and trends in real GDP growth rates based on IMF's projections for 2018-2023

Source: IMF forecasts up to 2023. Ashmore projections from 2024 to 2050.

China Roadmap

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Vision: Transition from export-led to consumption-led growth

Adjust growth model to deleveraging and QE in developed economies and diminishing labour supply in China

Build political support

Persuade domestic vested interest groups to change

Encourage consumption

Consumption has major upside potential due to 49% savings rate; social safety nets, better savings options

Facilitate transmission of monetary policy

Liberate interest rates & develop yield curves

Develop domestic institutional investor base

Reform pensions, mutual funds and banks

Supportive for government bonds, 'price discovery' for muni/corporate bonds

To facilitate greater domestic demand without inflation

Raise productivity

Supply-side reforms to improve competitiveness

Reform markets, SOEs, the judiciary & innovate

Slower growth in short term, sustained long term growth potential

'Biggest bang' in history to finance

Liberate capital account

Reduce turbulence through foreign central bank and institutional participation

Internationalise RMB and expand RQFII

Medium term RMB appreciation and global infrastructure investment

China's non-debt problem

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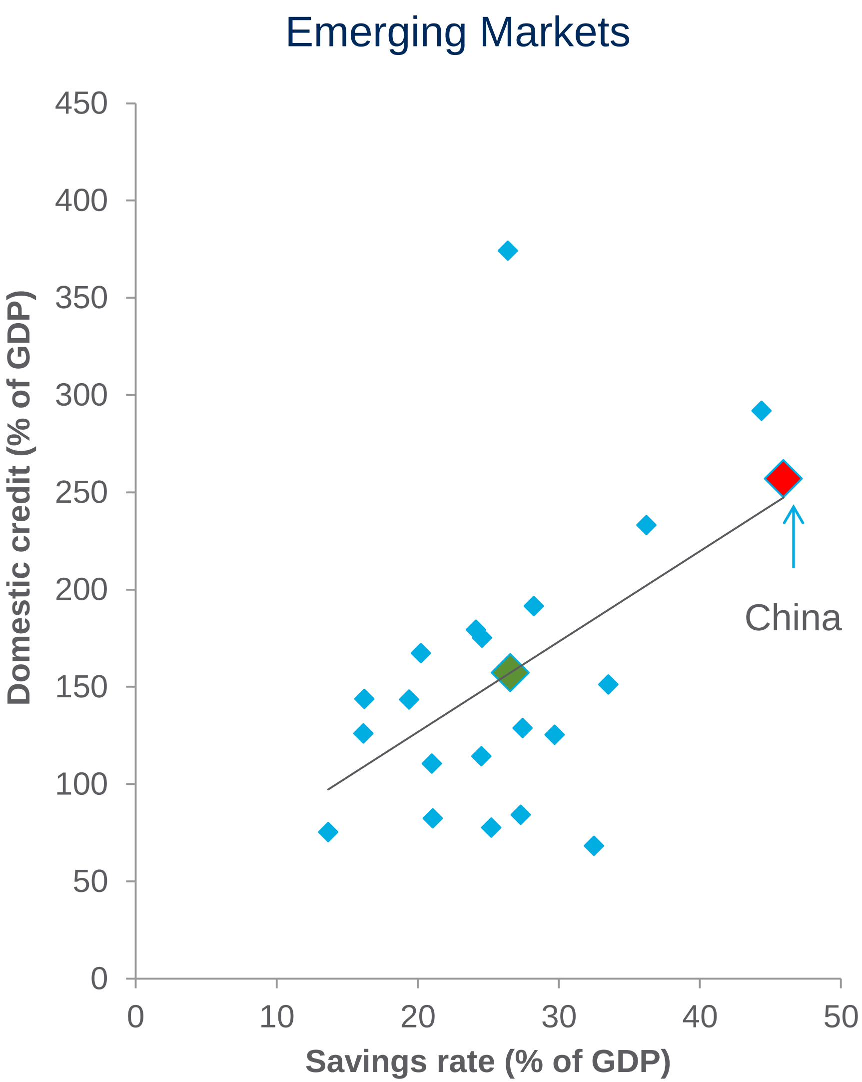
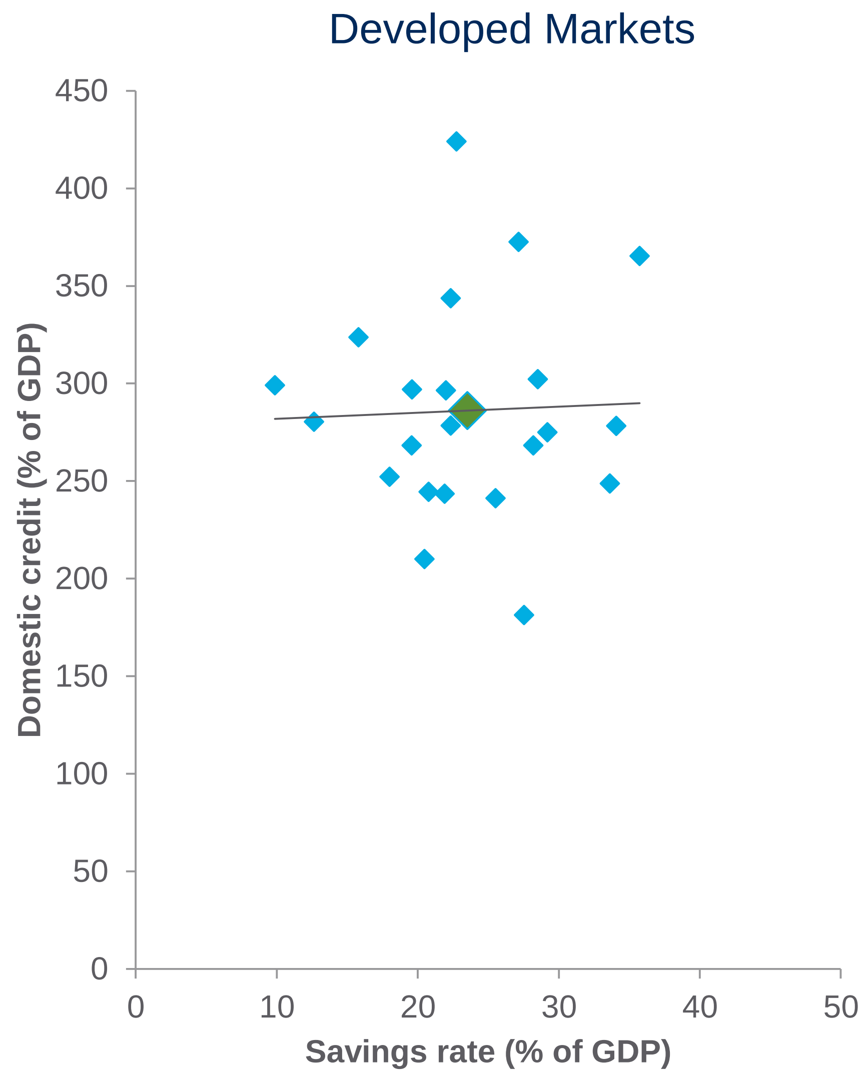
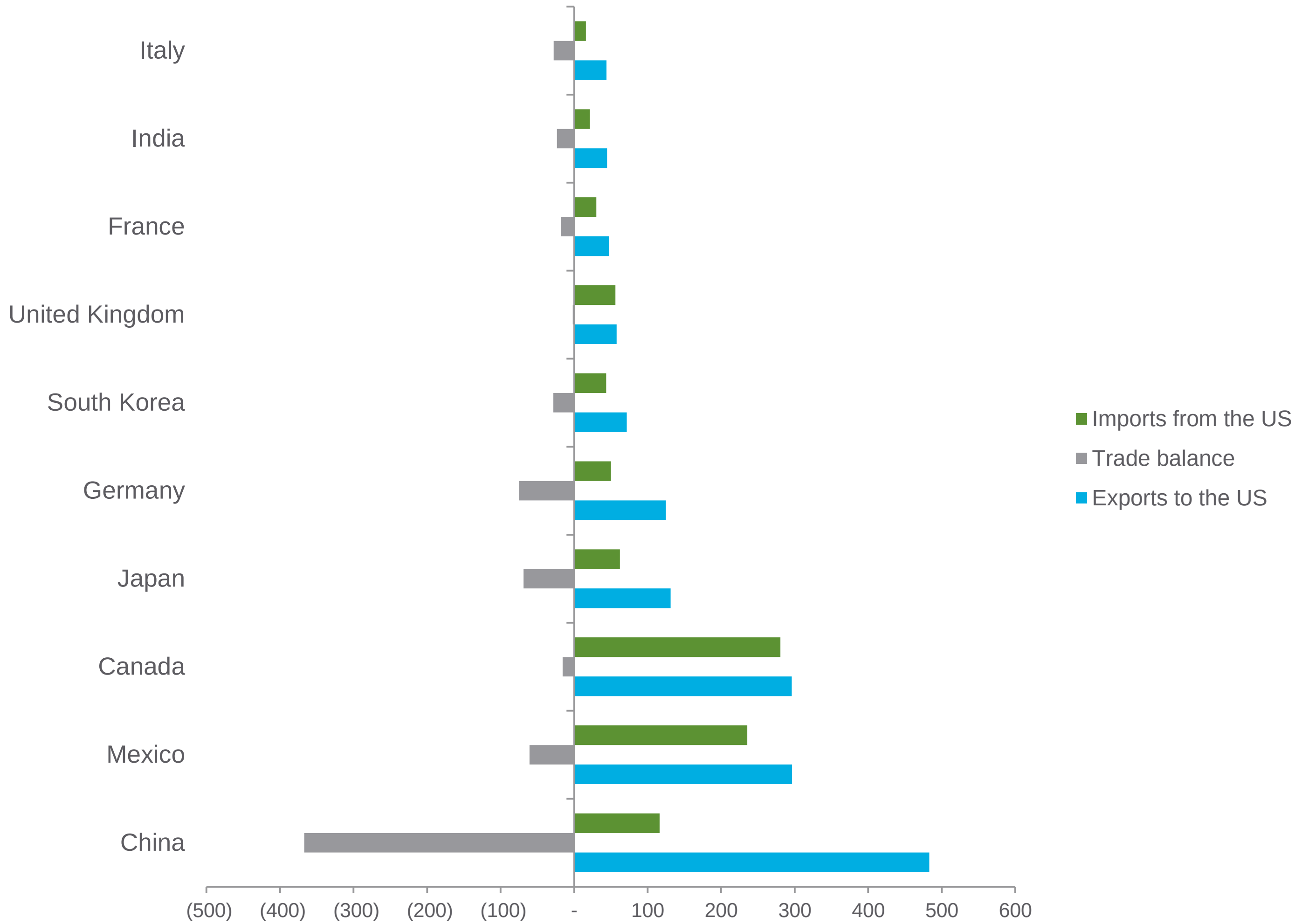




Source: IMF, BIS, Ashmore. Data as of December 2016.

Trade imbalances & trade wars

2015 trade imbalances: Top 10 countries



Source: Ashmore, www.tse.export.gov

Appendices

China is already the biggest market in EM

15 largest EM issuers

Rank	Country	Region	Size		Structure of market			
			USD trn	% of total EM	Local	External	Govt	Corp
1	**China**	**Asia and Pacific**	**11.6**	**48%**	**11.4**	**0.2**	**4.3**	**7.3**
2	Brazil	Latin America and Caribbean	2.3	9%	2.2	0.1	1.6	0.7
3	South Korea	Asia and Pacific	1.9	8%	1.7	0.2	0.6	1.2
4	India	Asia and Pacific	0.9	4%	0.9	0.0	0.9	0.0
5	Mexico	Latin America and Caribbean	0.8	3%	0.5	0.3	0.4	0.4
6	Hong Kong	Asia and Pacific	0.5	2%	0.4	0.0	0.1	0.3
7	Russia	Eastern Europe	0.4	2%	0.3	0.1	0.2	0.3
8	Singapore	Asia and Pacific	0.4	2%	0.3	0.1	0.1	0.3
9	Taiwan	Asia and Pacific	0.4	2%	0.4	0.0	0.2	0.2
10	Malaysia	Asia and Pacific	0.4	2%	0.3	0.0	0.2	0.2
11	Thailand	Asia and Pacific	0.4	2%	0.4	0.0	0.1	0.2
12	Poland	Eastern Europe	0.3	1%	0.3	0.1	0.3	0.1
13	Indonesia	Asia and Pacific	0.3	1%	0.2	0.1	0.2	0.1
14	Turkey	Middle East and Africa	0.3	1%	0.2	0.1	0.2	0.1
15	Argentina	Latin America and Caribbean	0.3	1%	0.2	0.1	0.2	0.1

Source: Ashmore, BIS. "F" indicates Ashmore forecasts.

Debt and the compensation to taking exposure to debt

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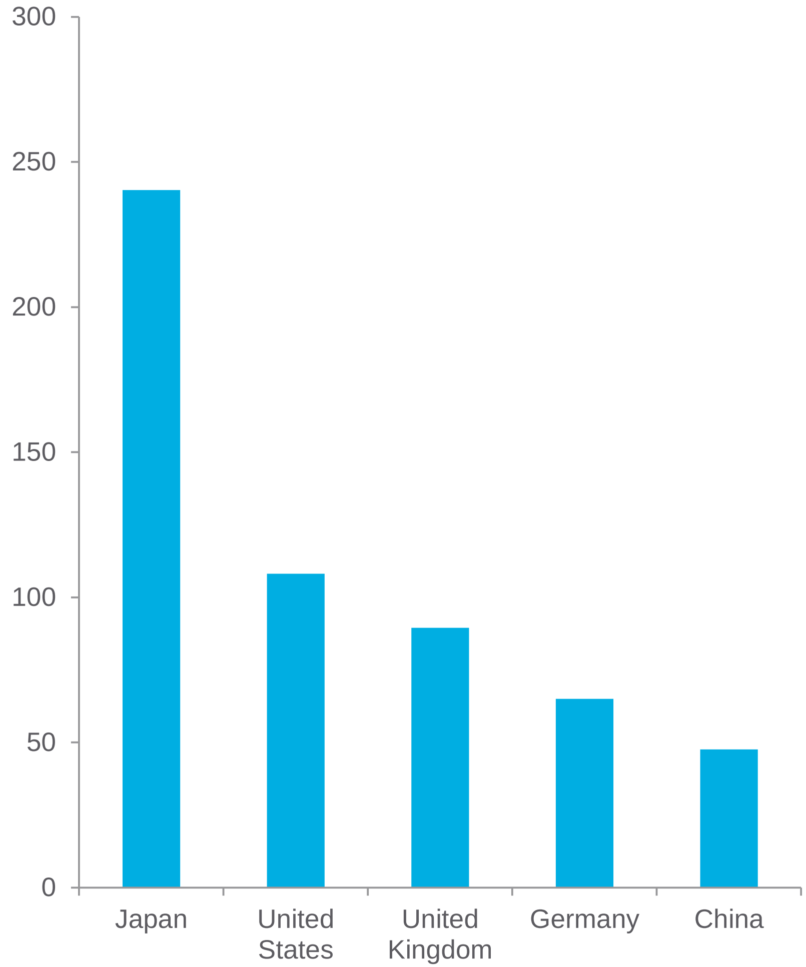
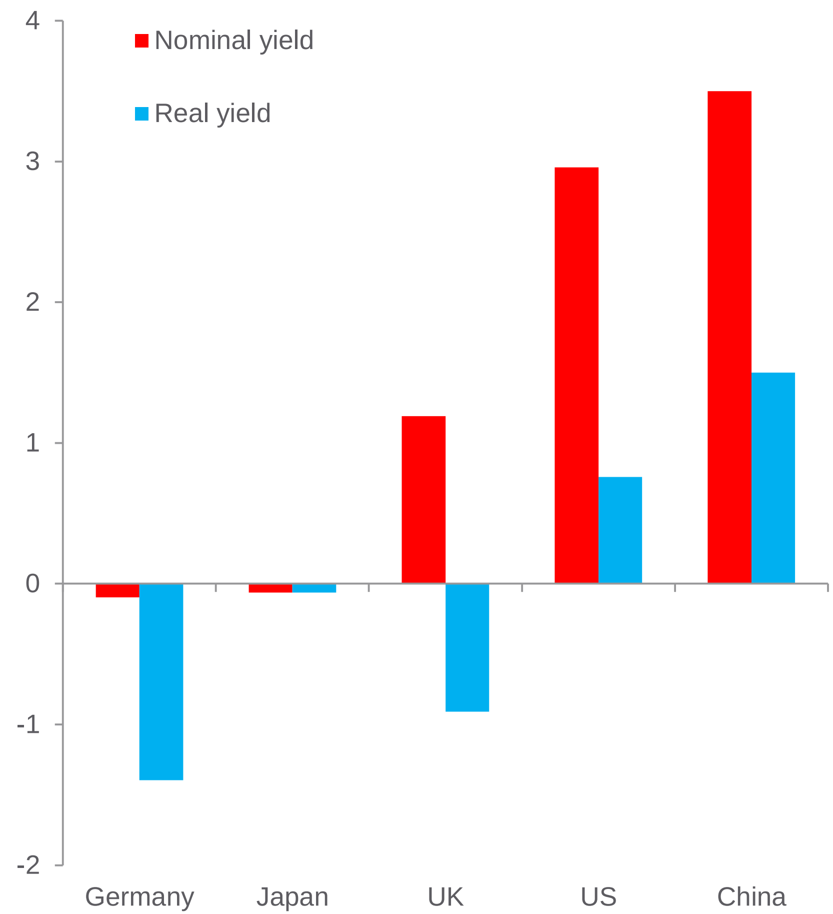
Gross government debt (% of GDP)



Real and nominal 5yr yields



Source: Ashmore, IMF (April 2017), Bloomberg (yields as of 20 August 2018).

China in a EM local currency portfolio

Efficient allocations based on returns in USD terms

		EM	China	Correlation
Since 2004	Return	6.6%	5.4%	11.1%
	Volatility	10.0%	3.8%	
	Efficient weight	13.0%	87.0%	
10 years	Return	6.6%	4.8%	16.1%
	Volatility	10.7%	3.1%	
	Efficient weight	7.0%	93.0%	
5 years	Return	-1.0%	2.9%	24.0%
	Volatility	9.4%	3.3%	
	Efficient weight	0.0%	100.0%	
3 years	Return	5.8%	2.2%	28.6%
	Volatility	9.6%	3.6%	
	Efficient weight	27.0%	73.0%	
1 year	Return	15.9%	10.0%	24.0%
	Volatility	6.9%	3.9%	
	Efficient weight	30.0%	70.0%	

Source: Ashmore, Bloomberg, JP Morgan (data as of March 2018)

Appendix: linked to per capita GDP

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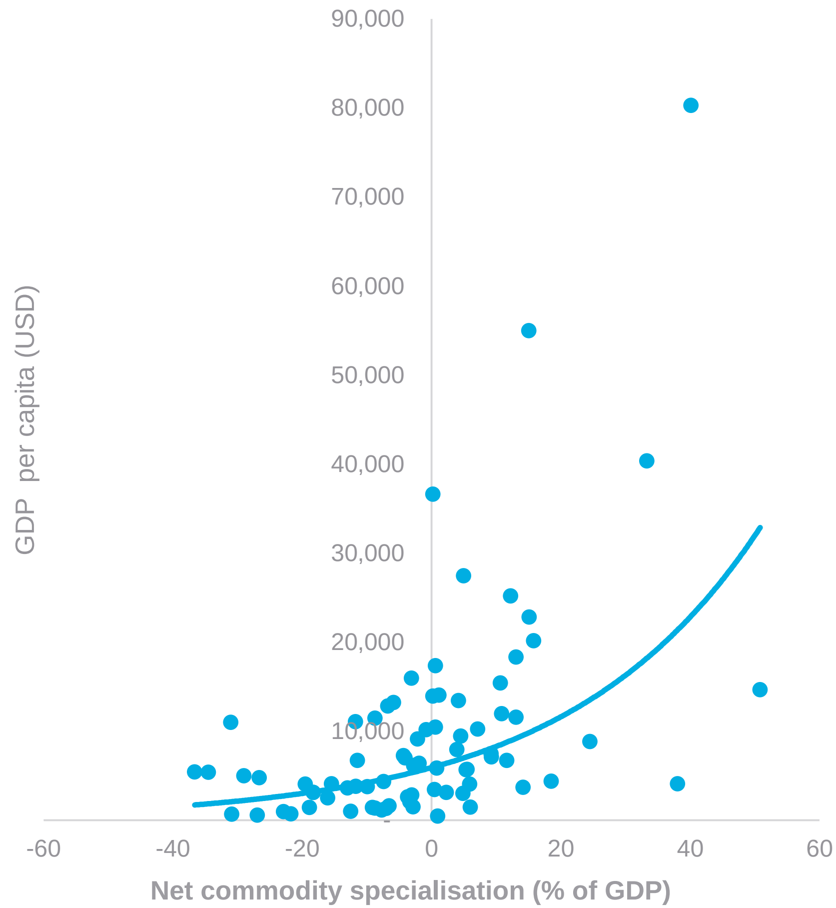
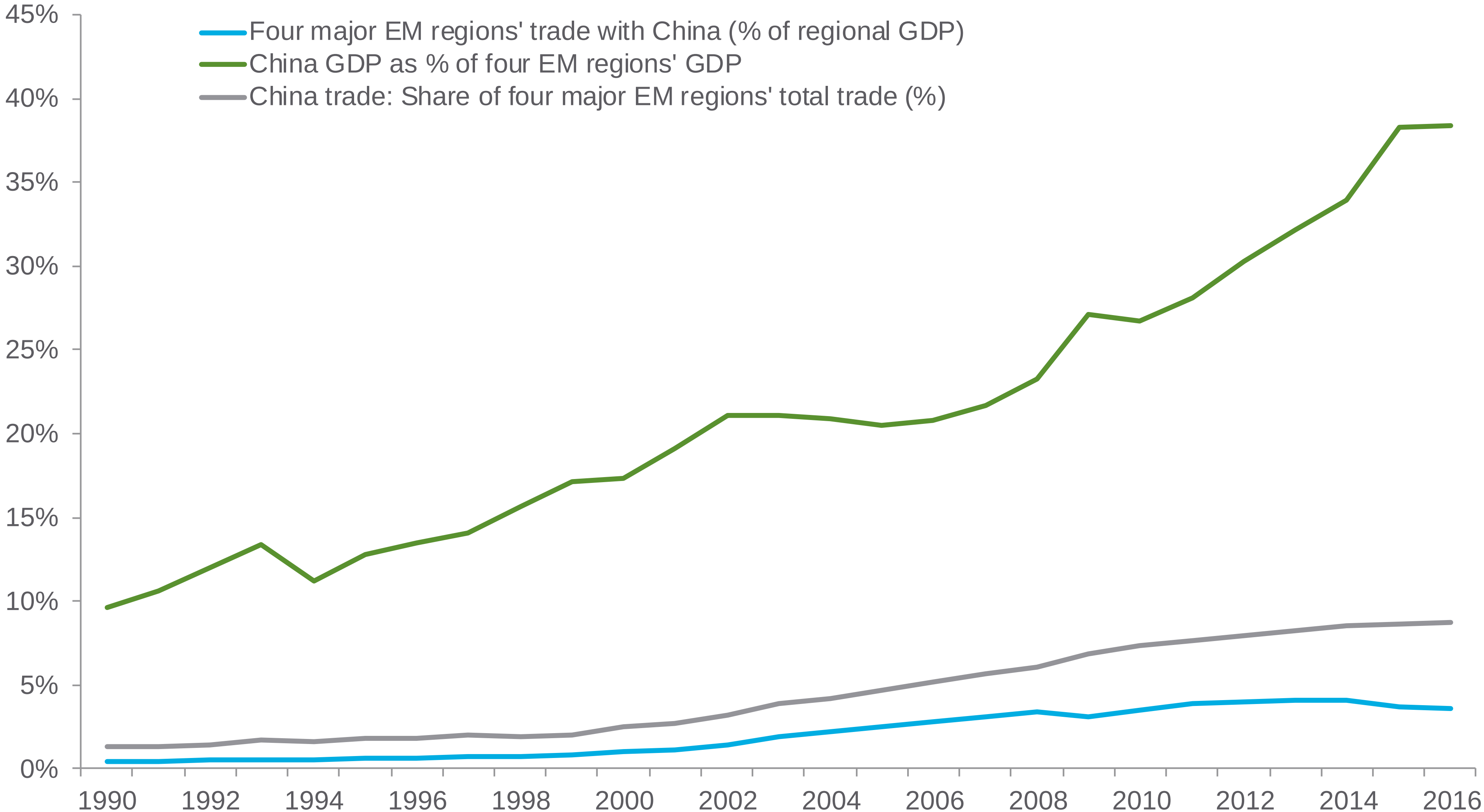
	All commodities	Fuel	Food	Other
All EM countries				
All	**5%**	**2%**	**1%**	**3%**
Asia	-1%	-3%	1%	2%
Eastern Europe	2%	1%	0%	1%
Latin America	6%	0%	3%	3%
Africa	9%	2%	0%	7%
Middle East	10%	13%	-3%	1%
Specialist commodity exporters				
All	**12%**	**7%**	**1%**	**5%**
Asia	17%	1%	-1%	16%
Eastern Europe	21%	20%	0%	1%
Latin America	8%	1%	4%	4%
Africa	10%	2%	0%	7%
Middle East	24%	28%	-3%	2%
Non-specialists				
All	**-5%**	**-5%**	**0%**	**0%**
Asia	-4%	-4%	1%	-1%
Eastern Europe	-3%	-4%	1%	1%
Latin America	-3%	-4%	0%	0%
Africa	-8%	-8%	0%	0%
Middle East	-10%	-7%	-3%	0%



Source: Ashmore, UNCTAD, IMF. Data as at 01-May-18.

China in the world

China's share of EM trade



Source: Ashmore, IMF as at end 2016

Central banks control +75% global FX reserves…

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Region	Reserves (USD bn)	% of global reserves	GBI index weight (%)	GBI weighted reserves (USD bn)
World	**11,457**	**100%**		
Emerging Markets	**8,726**	**76%**		
GBI	***2,212***	***19%***	***100%***	***159***
Argentina	62	0.5%	1%	0.5
Brazil	384	3.3%	10%	38.4
Chile	38	0.3%	2%	0.9
Colombia	48	0.4%	7%	3.3
Czech Republic	148	1.3%	4%	5.8
Hungary	27	0.2%	5%	1.3
Indonesia	130	1.1%	10%	12.4
Malaysia	102	0.9%	6%	5.9
Mexico	173	1.5%	10%	16.7
Peru	64	0.6%	3%	1.7
Philippines	82	0.7%	0%	0.2
Poland	108	0.9%	9%	9.6
Romania	45	0.4%	3%	1.3
Russia	443	3.9%	8%	34.3
South Africa	46	0.4%	8%	3.8
Thailand	209	1.8%	8%	16.7
Turkey	89	0.8%	7%	6.4
Uruguay	16	0.1%	0%	0.0
Non-GBI	***6,513***	***57%***		
China	3,140	27.4%		
India	415	3.6%		
Egypt	37	0.3%		
Nigeria	41	0.4%		
Slovakia	1	0.0%		
Other EM	2,880	25.1%		
Developed economies	**2,731**	**24%**		
Japan, Switzerland	1,952	17.0%		
Other	779	6.8%		

Source: Ashmore, IMF, data as of 31-Jan-18.

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