



5 Minutes for Business

Is China Slowing Down or Charging Ahead?

Nov. 11, 2014

In recent weeks, we've seen many stories in the media about a major slowdown in China. As Canada's second largest trading partner with \$70 billion per year in bilateral trade, it could have a big impact here at home. Should we be worried or is China charging ahead?

Official figures show China growing at around 7.3%, a decline when you consider that for the 20 years up to 2007, the country's average real GDP was rising by an average of 11% per year. But that's OK. China's economy is now US\$9 trillion, so that 7.5% increase is on a much larger pie and is a much bigger boost to the global economy. The growth is also more balanced, shifting away from investment and export dependence towards a more broad-based expansion of consumption, thanks to rising wages.

Are there vulnerabilities in China? Certainly, China has high debt levels, but the banks are well capitalized and with \$4 trillion in foreign exchange reserves, there is more than enough of a safety cushion to weather any downturn. China also has soaring real estate prices and areas that are overbuilt. But don't forget that two million people per month move from rural areas to the cities. This means that China has to add the equivalent of three New York Cities every year to keep up with the rise in urban dwellers. China's government has been trying to clamp down on rising home prices by raising mortgage rates and downpayment requirements, although they've eased off recently.

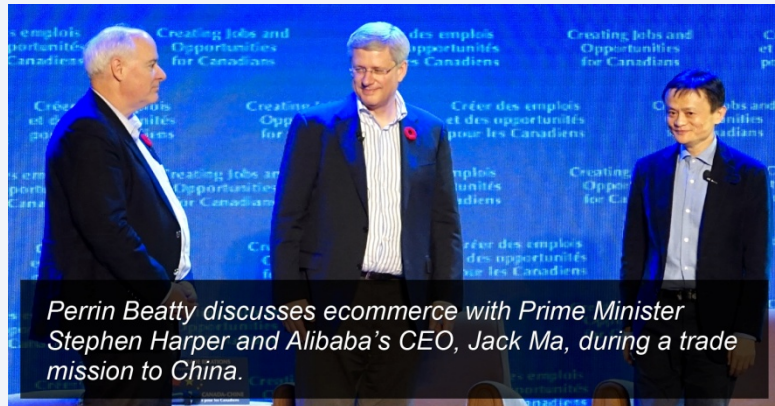
A consumer revolution is underway.

So what does it all mean for business? China's economy is changing dramatically but growth will remain over 7% for the foreseeable future. More importantly a consumer revolution is underway. Each year, almost 30 million people, a population roughly the size of Canada, join the Chinese middle class. And they love to spend online.

In 2013, China surpassed the U.S. as the world's largest ecommerce market. By 2015, KPMG is forecasting that China's ecommerce transactions could reach USD 540

billion, roughly 10% of total retail transactions. By 2020, the firm estimates that China's ecommerce market will be larger than those of the U.S., Britain, Japan, Germany and France combined.

Here at the Canadian Chamber of Commerce, we've been lobbying hard to establish a renminbi trading hub right here in Canada to make it easier to do business in China's currency. Last week in Hangzhou, our President, Perrin Beatty, and the Prime Minister of Canada met with Jack Ma, the head of Alibaba, to talk about boosting trade.



Perrin Beatty discusses ecommerce with Prime Minister Stephen Harper and Alibaba's CEO, Jack Ma, during a trade mission to China.

What is Alibaba? It's only the world's largest ecommerce company, roughly twice the size of Amazon. Alibaba's transactions last year totaled nearly \$250 billion, compared with \$116 billion for Amazon. Every second, Alibaba handles an average of 500 orders, worth more than \$9,000. Ecommerce is the best way to penetrate the Chinese consumer market because it's more developed and trusted than the traditional bricks and mortar retail networks. Mr. Ma often says that "in the U.S., ecommerce is dessert. But in China, it's the main course."

It's time to feast. Canadian companies looking to list their products on Alibaba should click [here](#).

For more information, please contact :

Hendrik Brakel, Senior Director, Economic, Financial & Tax Policy, 613.238.4000 (284) | hbrakel@chamber.ca