

Global Risk Watch Newsletter

Concerns for Brexit Reveals some Weaknesses in the Japanese Economy, etc.

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3.Highlight of Indicator for this Month

Looking at State-owned Enterprise Reforms from Fixed Asset Investment (Toshikazu Kumagai, Senior Staff, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

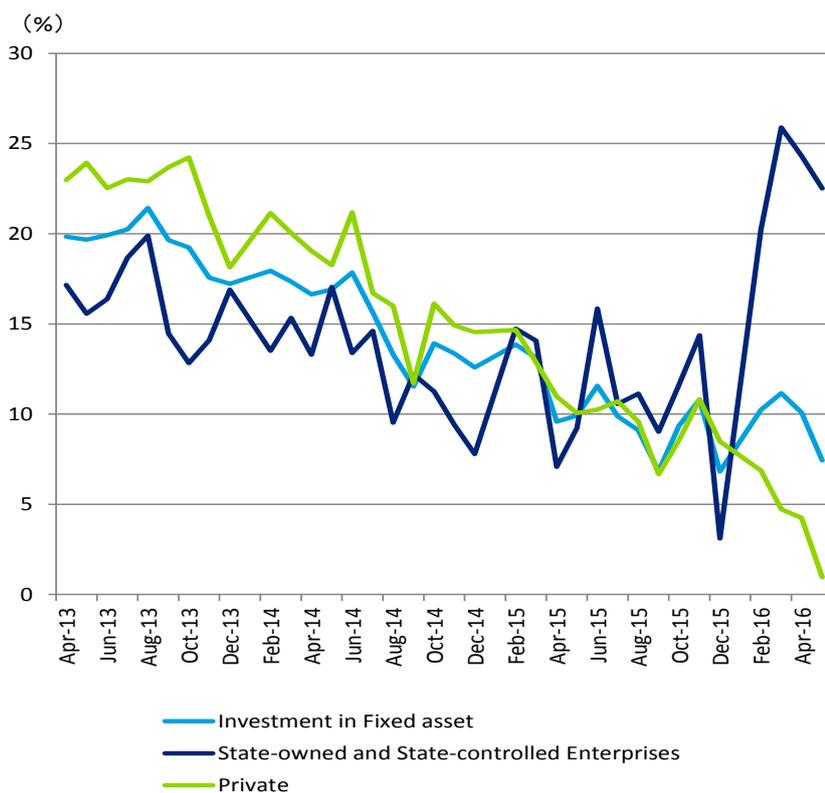
In China, the year-on-year growth of fixed asset investments (year-to-date of total amount) in May fell below 10% for the first time since December 2000. Looking at it more closely, it is worth noting that state-owned enterprises (SOEs) faced with excess capacity problems have now expanding their investments.

Chart 1 illustrates the total year-on-year fixed asset investments. In recent years, both the private sector and state-owned enterprises saw downward trends on fixed asset investment growth. However, the investment by the SOEs has surged significantly since the financial market turmoil at the beginning of this year.

In addition, Chart 2 illustrates investments by the private sector by industry; the overall growth rate shows a clear downward trend (also includes Tertiary Industry, thus not only limited to iron/steel industry). Therefore, although the

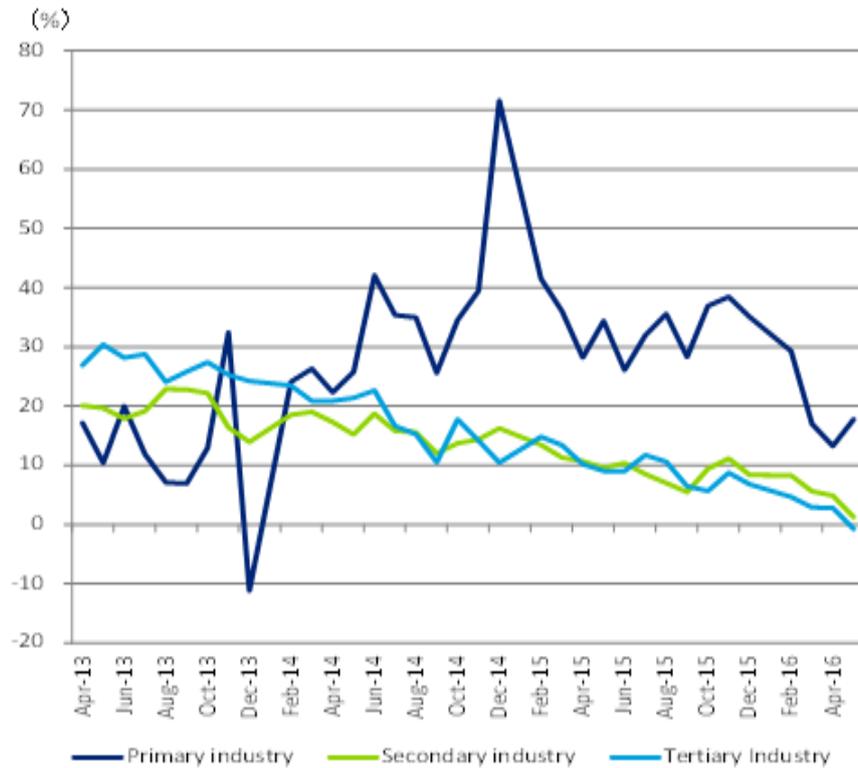
overall growth figure a single digit growth rate year-on-year basis with sluggish investment figures from the private sectors, a major of the growth is underpinned by the SOEs investments. For the Chinese government to maintain the real growth rate of 6.5% -7% in 2016, it would be difficult to overlook a sharp decline in investments (accounting for approximately 40% of direct contributions to the growth in GDP in 2015). Chinese government must also carefully consider these facts when pushing forward the reforms on its state-owned enterprise.

Chart 1. Investment in Fixed Asset (YoY)



Source: National Bureau of Statistics of China

Chart 2. Private Sector Investment in Fixed Asset (YoY)



Source: National Bureau of Statistics of China

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