

China, Russia Mongolia – International Forum

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Peter Fuhrman, China First Capital



Flags of Russia, China and Mongolia

- I'm the only one here today who is not a citizen of China, Russia or Mongolia, but I have some knowledge of all three. I first visited the three 35 years ago
- For all three, the progress, improvement over this period so complete, so fast and so positive for ordinary people it is surely beyond anything I or anyone else could have imagined in the early 1980s
- This teaches us to be humble about making predictions. This is a part of the world where miracles can and sometimes do happen
- Let's look ahead, but start by looking backward

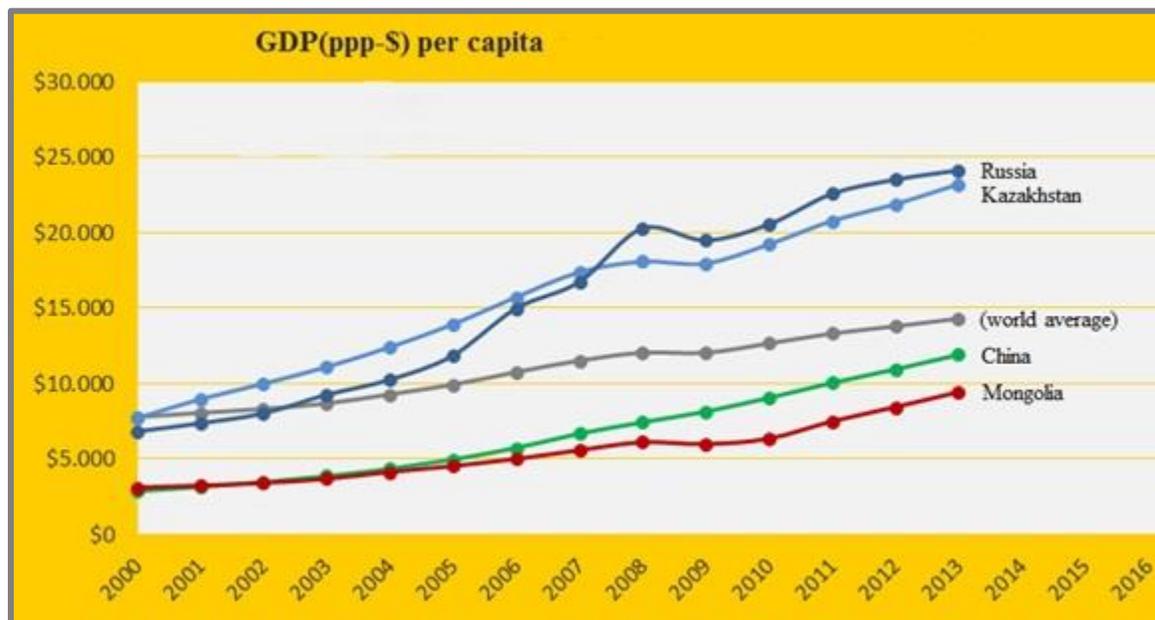


Images from Manzhouli in 1930s, when controlled by the Soviet Union

- Manzhouli's transformation as complete as any place in China, or anywhere in the last 100 years. It passed from Soviet control to Japanese and then to China. It's a beautiful city with energy, optimism. No place in China is better located to take advantage of and profit from the "**One Belt, One Road**" policy
- Manzhouli possesses perhaps the largest reserves among Chinese cities of China's most valuable natural resource – unpolluted and unscarred landscape. I'm sure long into the future, after Chinese have run around the world shopping and sightseeing they will be drawn in ever larger numbers to come as tourists to Manzhouli. Its beauty, clean air are assets guaranteed to continue to grow in value
- As a banker, I can't think of any better, safer investment for the future than Manzhouli tourism. It will do well whatever happens with internet, e-commerce, political policies or the overall Chinese economy



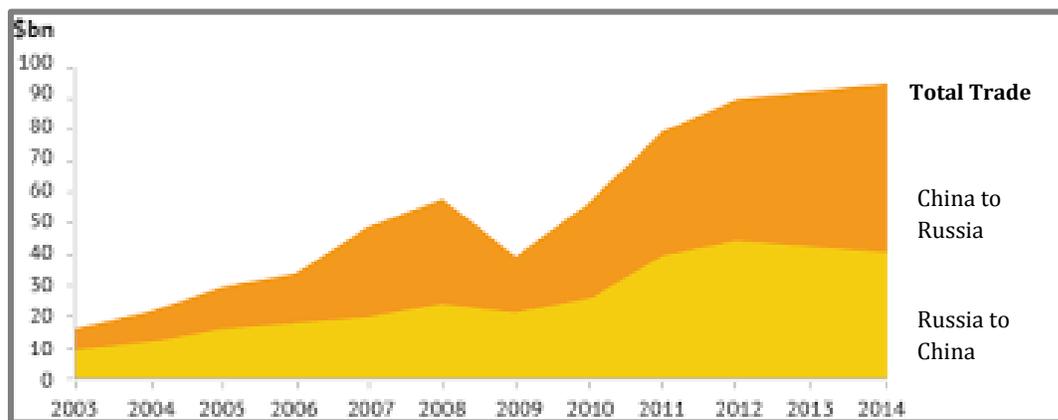
- China's fall was as steep from 1830-1980 as its rise has been over these last 35 years. China is now returning to its appropriate place as one of the world's most important countries, civilizations and economies.
- While the picture for Russia looks far worse, it's important to remember that Russia's fall to 2% of world GDP was caused not only by the failures of Soviet communism but also by the fast rise since 1980s not only of China, but all of Asia



- While Russia's share of world gdp have fallen sharply relative to China, per capita income remains more than double China's. People who travel frequently between the two often find this statistic impossible to believe. Living standards seem generally lower in Russia and the infrastructure is far behind that of China
- But, per capita GDP also measures contribution from oil and gas in Russia. More of its GDP is taken out of the ground, and stays in the hands of a small number of companies, mainly all connected to the government. This is not the case in China. Wealth is generated far more broadly and spread far more widely as well

- Mongolia has had its own more quiet economic success story. Though in per capita terms it was passed by China a decade ago, it still is now a much richer place that it has ever been in its history. It has achieved this with a very different approach than China's. Start with the fact the total population, at 3 million, is smaller than each of China's 40 largest cities.
- Mongolia is a country I admire greatly for its culture, history and the steadfast way it preserves its traditional culture. China has sadly lost quite a lot of its ancient traditions. Most Mongolians are still living as their ancestors did, on the land as nomadic herds people
- Mongolians will continue to grow richer in the future without having to sacrifice this way of life. The country's copper and coal exports, mainly to China, will assure that

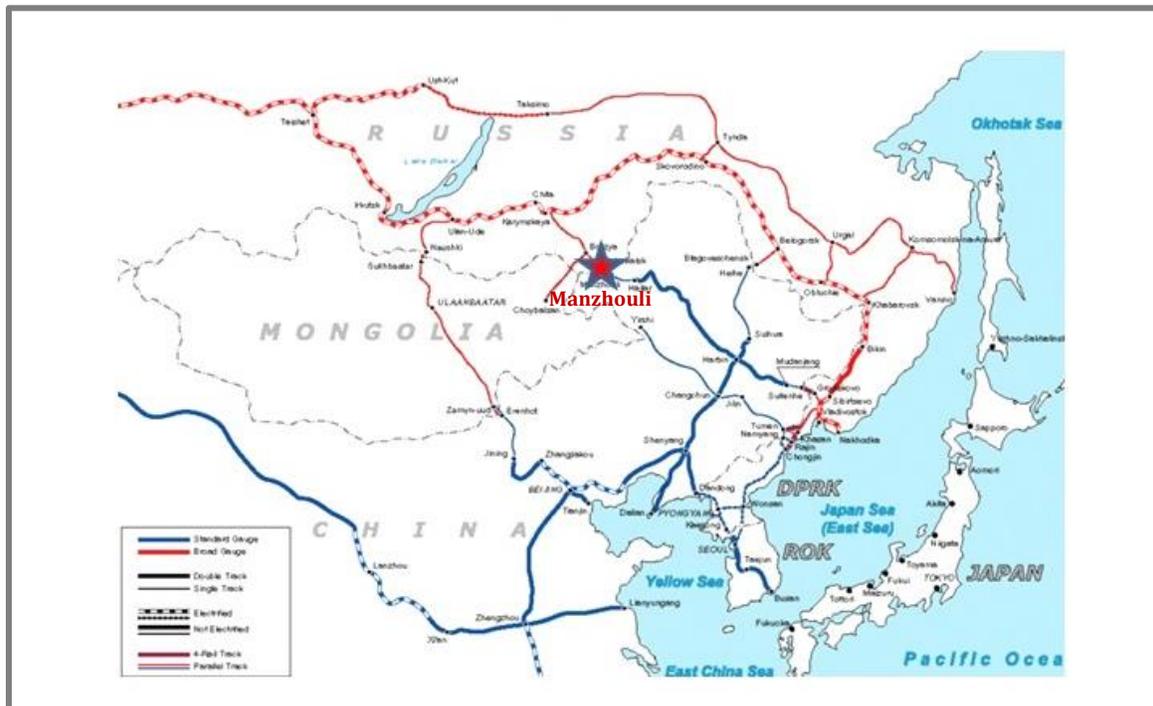
China-Russian Trade



- Trade between China and Russia has grown 7X in last decade. The real number is certainly higher since huge amount of China's exports to Russia move across the border here in Manzhouli in the cars, trucks and suitcases of thousands of Russian and Chinese businessmen bringing Chinese manufactured products and fruit across the busiest border crossing between the two countries

- Growth in trade has begun to slow down in recent years, in part because of economic problems in Russia brought on by falling energy prices and Western sanctions. But, there is still huge potential for expansion. China's trade with Russia is barely half the level of its trade with Germany. A larger trading relationship between Russia and China is necessary for the health of both countries

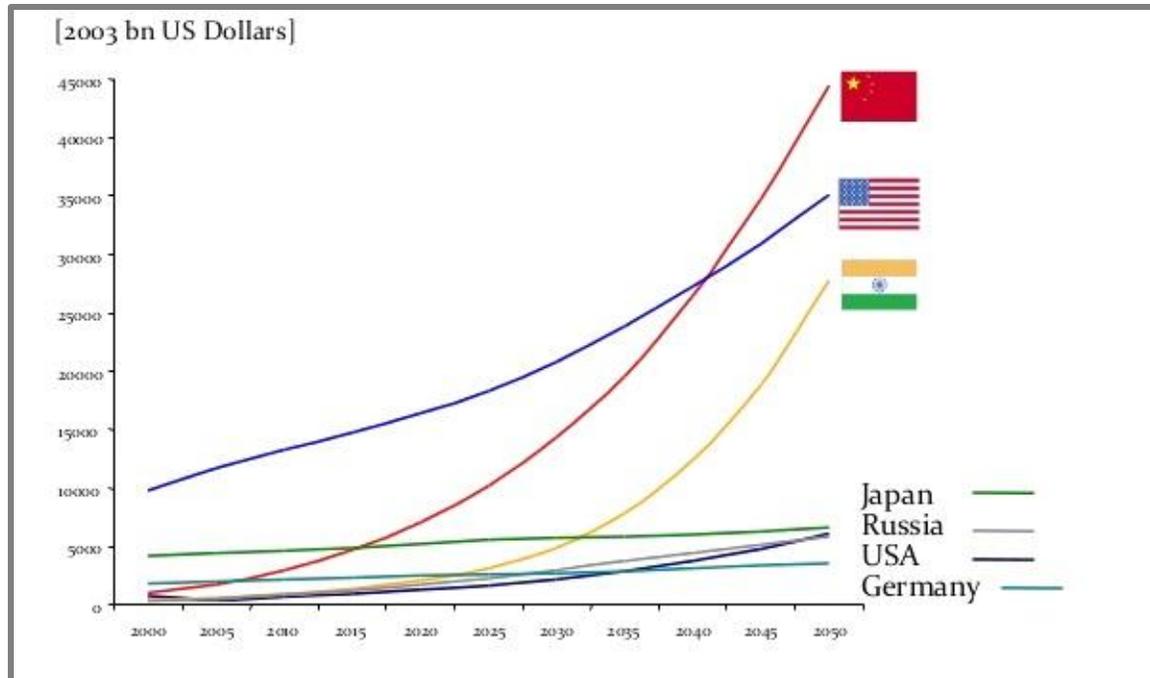
Train Lines Connecting China with Russia and Mongolia



- China's "One Belt, One Road" [OBOR]: we are now two years along since Xi Jinping announced the economic framework, his main policy initiative up to now. Yet the OBOR strategy remains unclear in many key respects – including which countries are included, which products and projects.
- China shares land borders with 14 countries. Two of the three richest are Mongolia and Russia. China also has the most developed transport infrastructure with these two. They are the natural place for OBOR to first become tangible.

- Everywhere else is too poor and poorly connected. Manzhouli is where the world can come to test how well the OBOR policy is being implemented in China.
- We should expect an ever-increasing amount of train and road traffic between China, Russia and Mongolia.
- While OBOR is a core strategic direction for China's future, it may have been created as much out of weakness as strength
- China's exclusion from the [TPP](#) stands to do significant long-term damage to China. OBOR is a consolation prize China created for itself
- China's best option is to gain admittance to TPP. It is a far better economic milieu than OBOR. TPP includes advanced, market economies, the locus of China's trade and investment.
- OBOR is designed to help ameliorate one of China's most pressing current economic challenges: enormous overcapacity in every basic industrial product manufactured domestically. This is causing collapsing margins across much of Chinese industry, particularly in China's state-owned sector
- China needs the backward markets of OBOR to absorb some of the excess steel, basic chemicals, machinery, trains, cars that are all in drastic oversupply
- China cannot absorb this excess domestic capacity. Demand for most is already evaporating, never to return, China is already well along in the transition to a service economy
- China will pay or lend tens of billions of dollars to poorer OBOR countries to finance their imports of these basic Chinese industrial goods. The trade won't likely be very profitable but it will keep jobs and revenues from deteriorating even more sharply

GDP Growth 2000 to 2050



- The road immediately ahead has its bumps and blind spots, but China's long-term economic prospects are I believe still brighter than any other major economy's.
- With the exception of the US, the so-called "First World" will likely continue to sputter, with little if any economic growth. Per capita gdp may rise somewhat in Europe, but only because the population will go on shrinking year after year
- India will do well. Twenty-five years ago, its economy was of similar size to China's. But, China is now almost four times richer. The gap will likely close little, if at all
- In China, the next 35 years will bring new advances and improvements. I look forward to many more opportunities to return to Manzhouli to see how it is taking the lead as a place where China grows more international in focus and where Chinese come to enjoy the beauty of its scenery and warmth of its people