

Chinese Economy



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China's Economy at a Glance

	PRC	USA	JAPAN	INDIA
GDP(Nom)				
Trillion	\$5.58	\$14.26	\$5.39	\$1.37
GPD(PPP)				
Trillion	\$10.08	\$14.26	\$4.31	\$3.86
Inflation	4.6%	1.5%	0.1%	8.3%
Food Inflation	9.0%	1.5%	-	16.0%
Central Bank				
Rate	5.8%	0.3%	0.0%	5.5%



Economy Overview

- Publicly traded stocks ~ \$5 trillion
- 2nd Largest producer & consumer of electricity
- \$1.5 trillion exports
 - US 20%
 - Hong Kong 12%
 - Japan 8%
- \$1.3 trillion imports
 - Japan 12%
 - Hong Kong 10%
 - South Korea 9%
 - US 8%



Economic Breakdown

- Evolution from centralized to market orientated
- GDP Growth rate 10.1%
- Breakdown by Industry
 - Agriculture 9.6%
 - Industry 46.8%
 - Services 43.6%
- Exporters margins are 2%
 - Workers demanding higher salaries
 - Better environmental standards





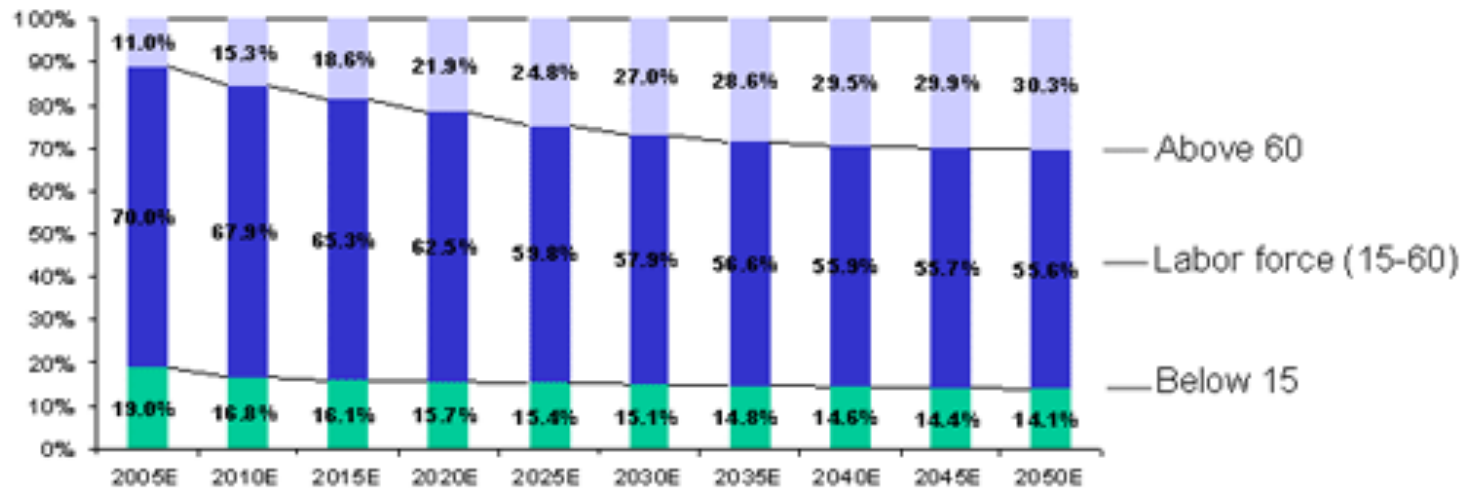
Labor Force

- **Total labor force population: 819.5 million**
 - U.S. labor force population: 154.9 million
- **Unemployment rate: 4.3%**
 - Urban areas only; including migrants would boost total unemployment to ~9%
 - U.S. unemployment rate: 9.7%
- **Labor force by occupation**
 - Agriculture: 39.5%
 - Industry: 27.2%
 - Services: 33.2%
- **Demand better conditions & higher wages**
 - Driving lower margins for businesses
 - Average wage ~ \$300/month

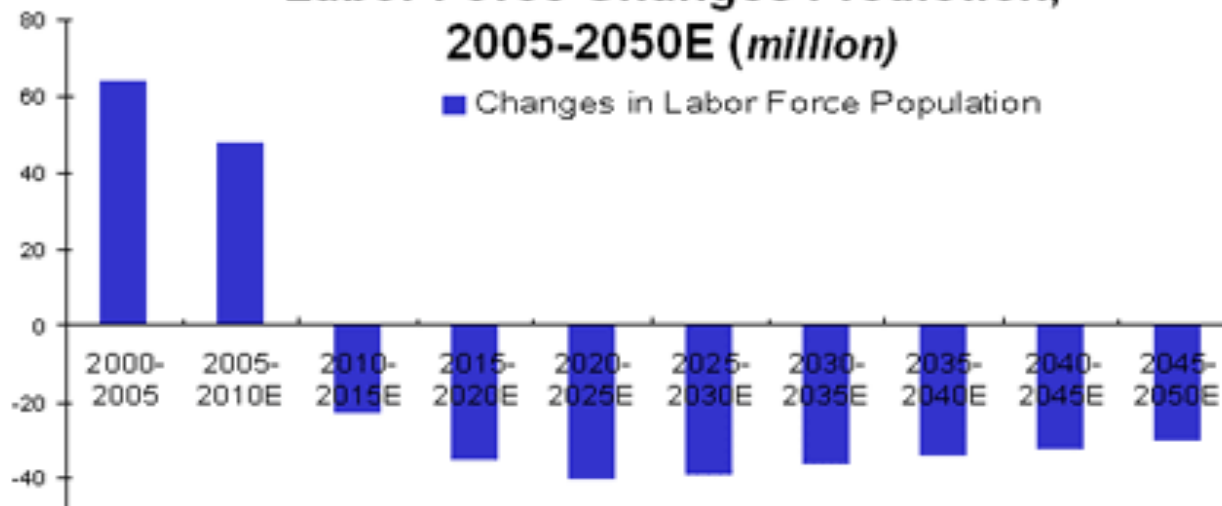


Labor Force Forecast

Age Structure Prediction, 2005-2050E



Labor Force Changes Prediction, 2005-2050E (million)





Industry in China

- Industry accounts for 46.8% of China's GDP
- State-run enterprises account for ~46% of industrial output
- Major Industries
 - Mining and ore processing
 - Machinery
 - Cement & Steel (#1)
 - Chemical fertilizers (#1)
 - Transportation
 - Textiles and apparel (#1)
 - Consumer products
 - High technology





Currency Debate: Dollar vs. Yuan

- Chinese President Hu Jintao: Currency system a “product of the past”
- Continued growth in Chinese economy
- Many countries sell exports for Dollars
- Foreign currencies pegged to dollars

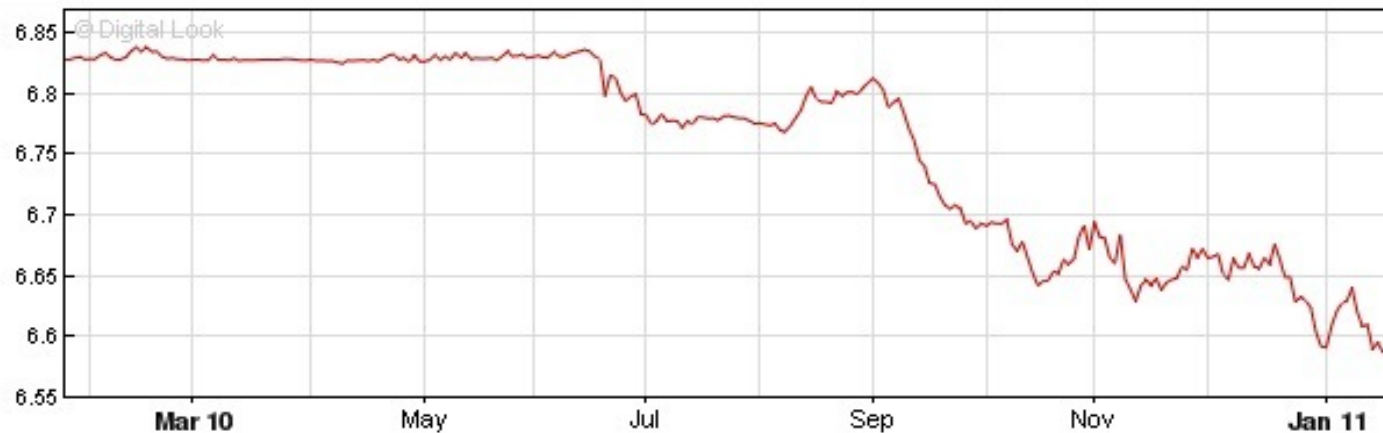




Sovereign Debt

- Owns approximately \$800 billion of U.S. Treasury debt
- Also has interests in Australia, Africa, and Sweden, among others
- Wants interests to be in yuan to avoid depreciating value

United States Dollar - Chinese Yuan





Investing in China

- **Foreign Capital Investment**
 - 1978 requirement for 50% local partnership relaxed now
 - In some sectors, wholly-owned foreign subsidiaries OK
 - Private property enabled in 2007
- **Foreign Financial Investments**
 - Historically not possible (either equity or debt)
 - Bond Market: Opened in 2007 (corporate and bank)
 - Equity: 2011 program lets qualified PE firms invest
- **Examples**





Investing: Benefits and Challenges

- Benefits
 - 400 million moving up to middle class by 2015
 - Apartment sizes doubled from 130 to 260 sq ft
 - Food, Apparel, Household/Personal Products to triple (1.9T renminbi to 7.7T) by 2025
 - Airline Travel, Car Ownership, Luxury Goods up

- Challenges
 - Powerful domestic competition
 - Limitations in power and human capital resources
 - Communist Government limits freedom of market
 - Chinese GAAP very different from US GAAP



Rapid growth may decline in future

- Strong growth has created inflation fears
 - Stock market declined by 3% over high 4 quarter growth
- Economy could be overheating
 - Wages have grown slower than productivity
 - Speed at which labor can migrate from rural agriculture to urban agriculture
 - Speed at which the capital stock can be increased to absorb the available labor supply





Country Growth

Trying to reduce excess liquidity in the market

- Reduce credit growth by punishing banks that lend too much and adding other lending restrictions
- China is expected to raise Required Reserve Ratio by 200 basis points to freeze more than \$210bn of liquidity in the Chinese banking system

Currency value could affect growth

- Raising the value of currency would decrease growth
 - Households would increase consumption as each household would have a higher share of countries GDP
 - Reduce growth but also reduce dependence on foreign investment and trade surplus



Industry Growth

Financial Sector

- Industrial and Commercial Bank of China (ICBC) if approved will own first Chinese financial branch in the US
 - The US has blocked Chinese financial institutions before
 - Opportunity for rapid expansion of financial institutions in US

Agriculture and Livestock

- Excess liquidity and loose credit has allowed China to increase imports agricultural commodities
 - China imported 1.57 million metric tons of corn last year, an 18-fold increase from the prior year
 - Increase in livestock and hog farms with China's increasing appetite for meat
 - Cotton imports also surged, nearly doubling on year to 2.8 million tons in 2010. Sugar imports were up 66% last year