

# Chinese Economy



by  
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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
- 2<sup>nd</sup> 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





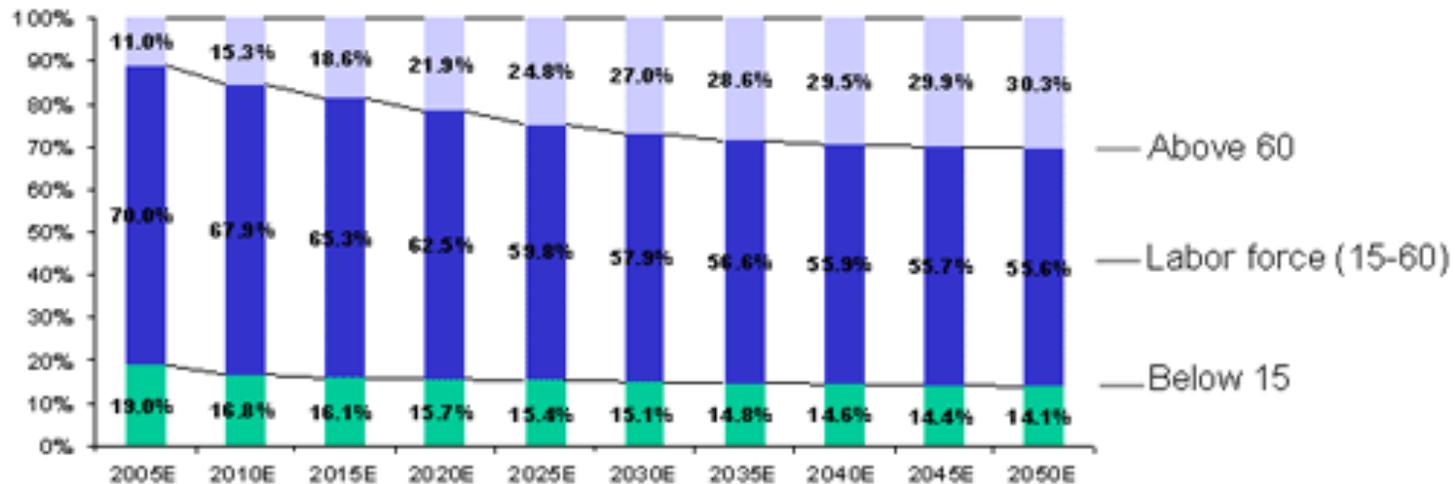
# Labor Force

- **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

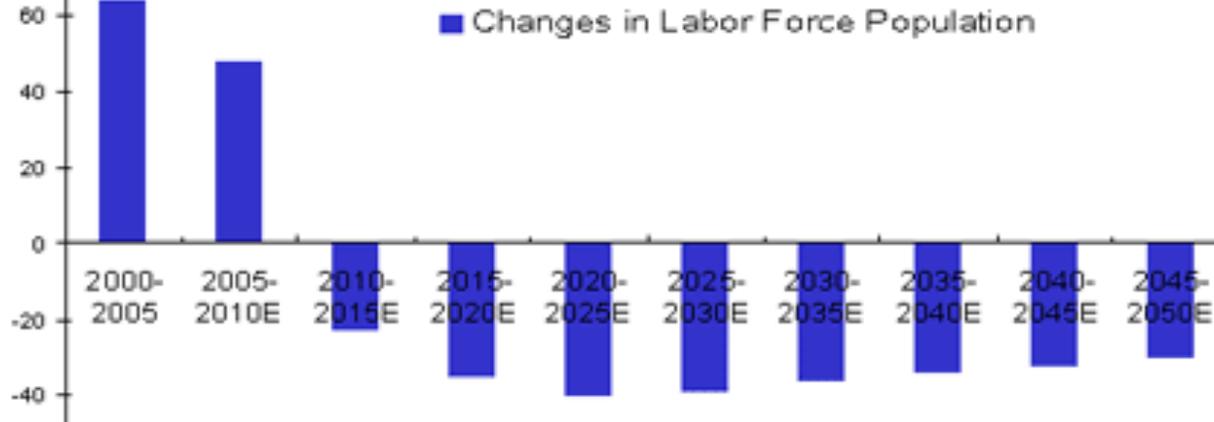


# Labor Force Forecast

## Age Structure Prediction, 2005-2050E



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





# Industry in China

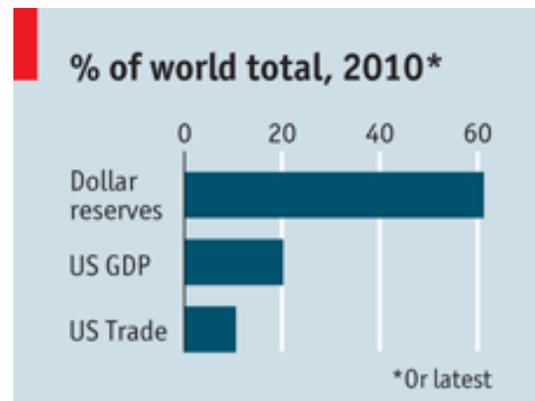
- Industry accounts for 46.8% of China's GDP
- State-run enterprises account for ~46% of industrial output
- Major Industries
  - Mining and ore processing
  - Machinery
  - Cement & Steel (#1)
  - Chemical fertilizers (#1)
  - Transportation
  - Textiles and apparel (#1)
  - Consumer products
  - High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

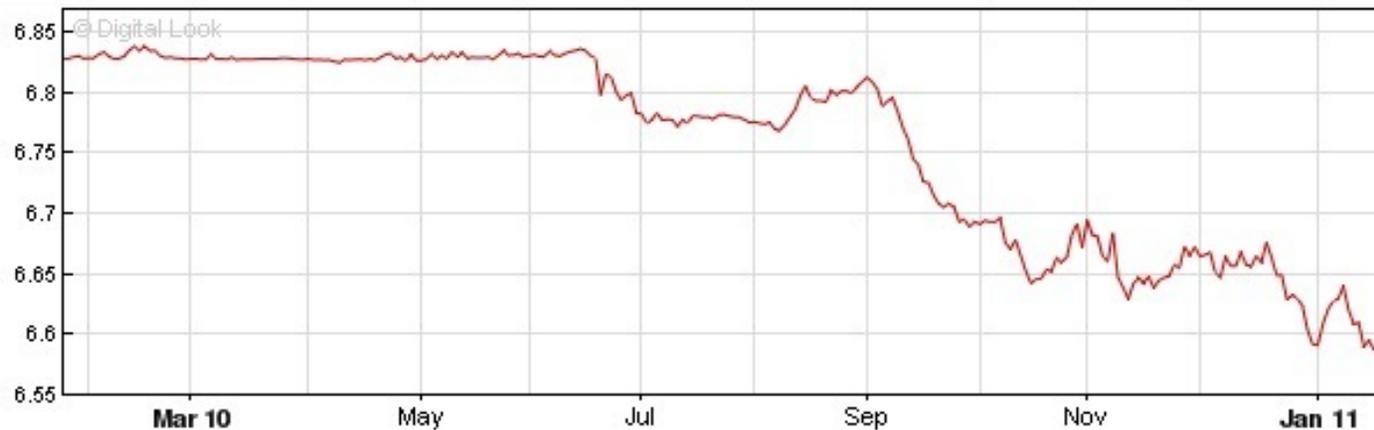




# Sovereign Debt

- 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**





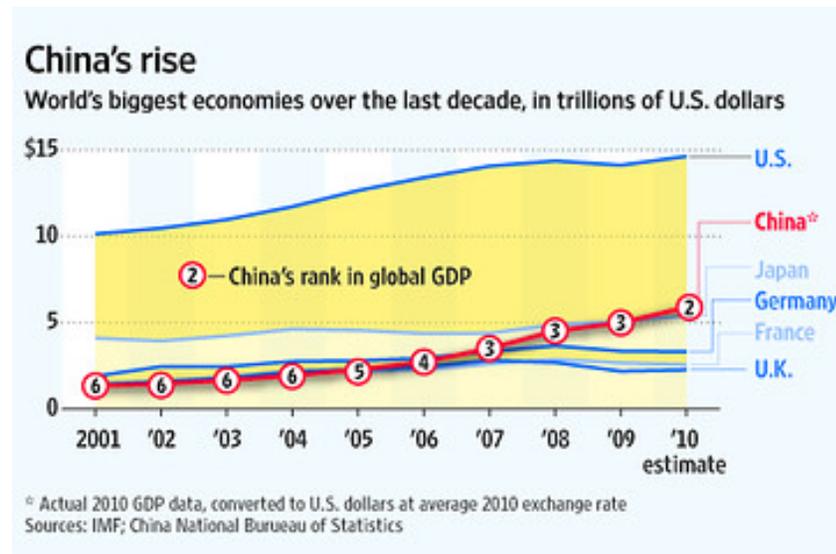
# Investing: Benefits and Challenges

- 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