

China 2011: The Decade Ahead – Opportunities for Growth



— A Presentation for the Pacific Council on International Policy

December 2010

Strictly Private & Confidential



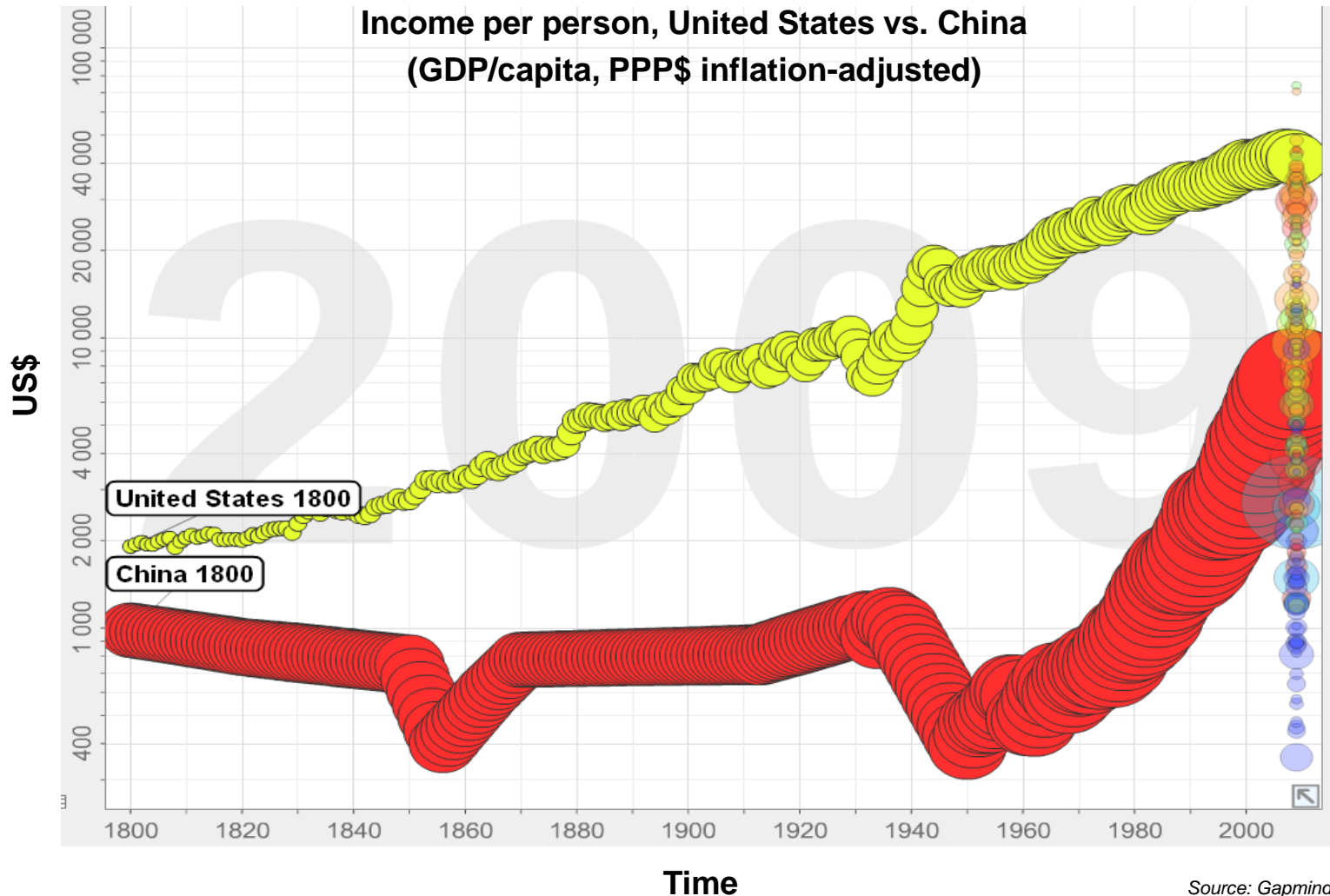
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Since 1981

China Today

China Tomorrow

China: Historically Unprecedented Growth

- China's GDP grew by 10.3% in 2010, reaching US\$6 trillion (RMB 39.8 trillion).
- China's economy is growing at faster rate and on a greater scale than ever before seen in world history. Since 1980, China has lifted 300 million people out of poverty.



What is Driving Growth in China?

- Rising Incomes
- Rapid Urbanization
- Infrastructure Development
- Middle Class Consumers
- Education



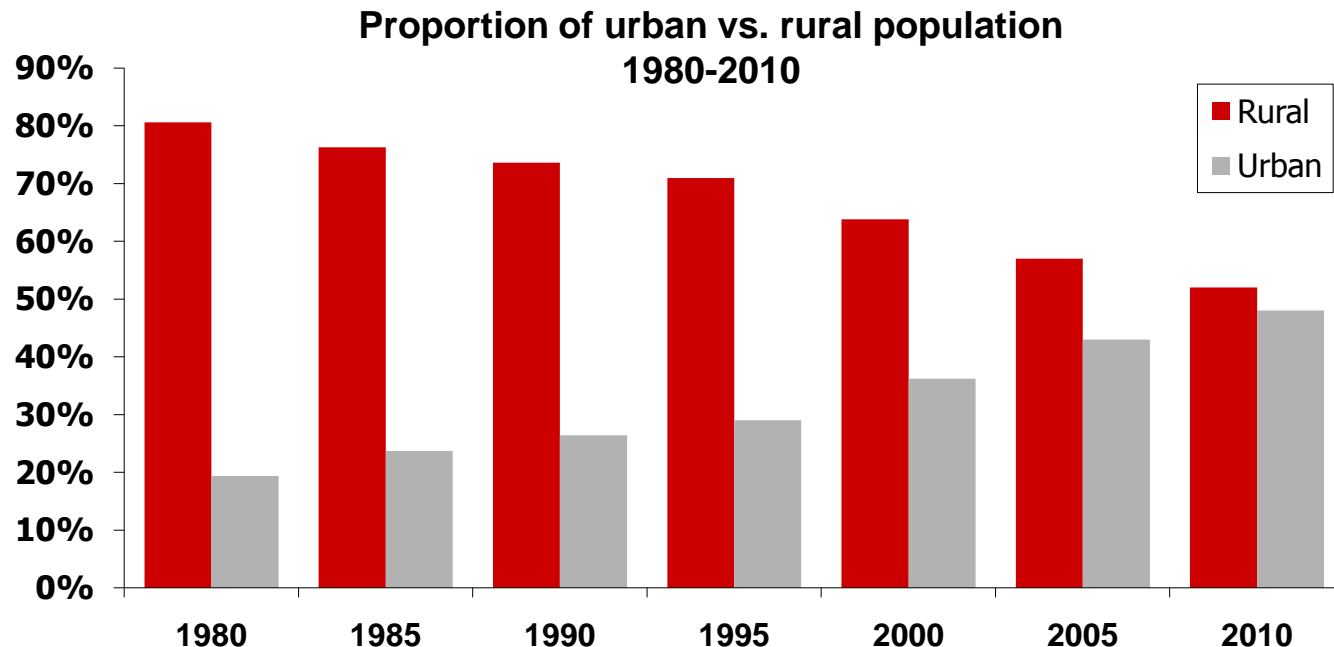
These factors will serve as the growth engine for the further expansion of China's consumer-driven economy

Urbanizing Rapidly, on a Breathtaking Scale

By 2025*:

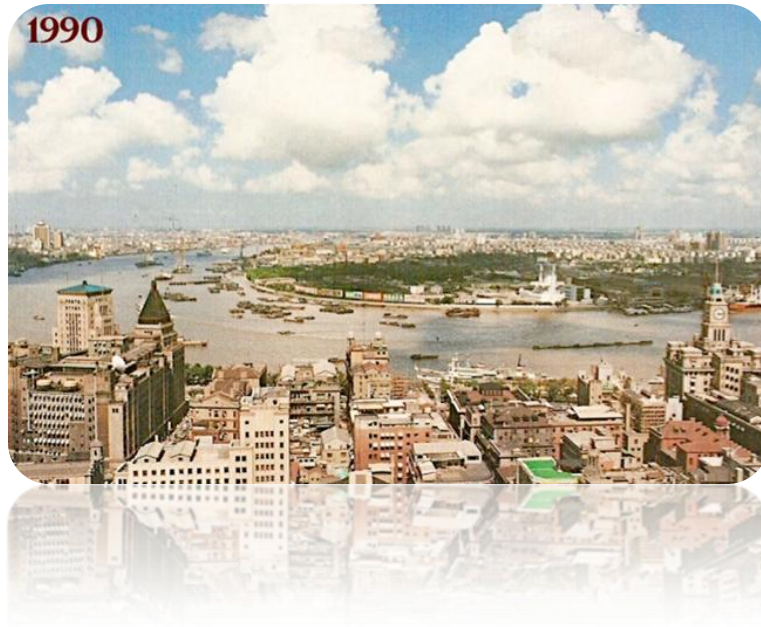
- 1 billion people will live in China's cities
- China's urban population will grow by more than the entire population of the US, at a rate of 10 million people per year

- China has over 120 cities with populations of over 1 million
- By 2015, 51.5% of the population will be urban, and 400 million people (69% of urban households) will be middle class

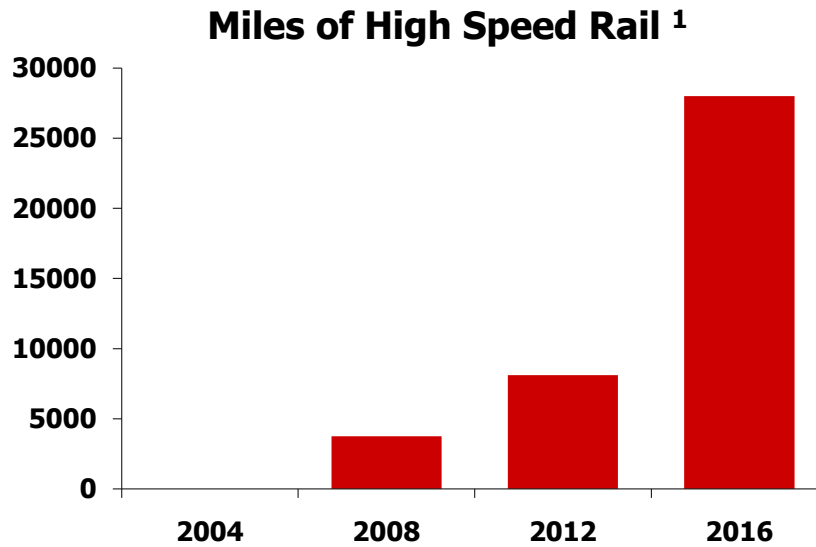


Urban Development is Keeping Pace

The Pudong Skyline



Rapid Infrastructure Development



High-speed trains, trains with an average speed of 120 mph (200 km/h) or higher, **consume 1/6 the energy of cars, and carbon emissions are almost zero ¹**

China's speed record:
258.9 mph (9/30/2010) ²

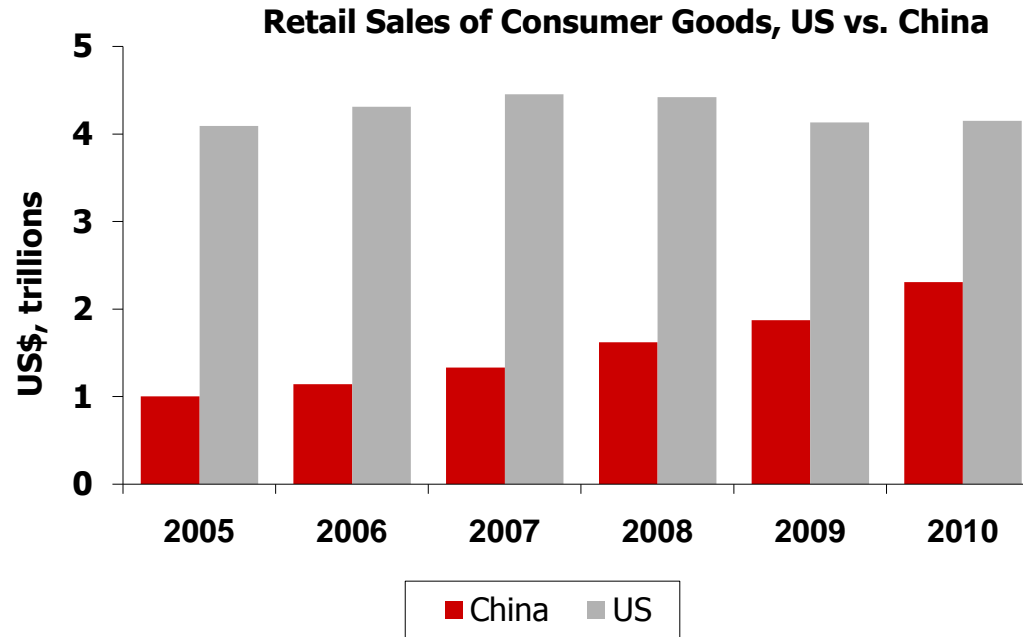
China already has...

- 4,300 miles of High Speed Rail, the world's largest network ¹
- 5 of the world's 10 largest cargo ports, and 3 of the top 5 container ports ²
- 127 civil airports (all built within the last 20 years) ³

According to the Twelfth Five Year Plan⁴, by 2015, China will...

- Have a 51,000-mile paved highway network
- Boast 28,000 miles of high speed rail, covering almost all cities with a population of 500,000 or more
- Build 45 new civil airports

Consumer Spending is on the Rise



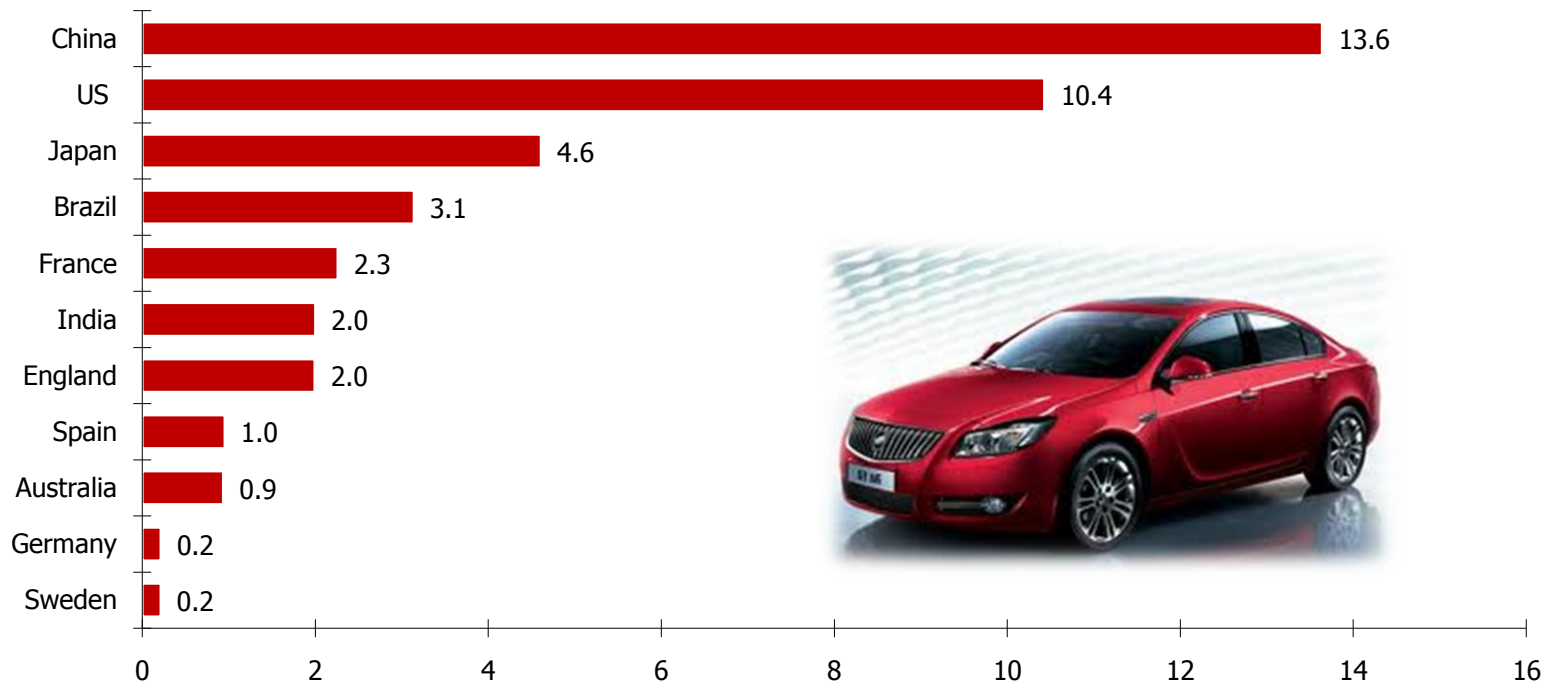
- China is now the second largest economy in the world, and the growth of consumption in China far outpaces that of the world's largest economy (U.S.)
- Consumer spending in China has increased at a CAGR of 15% over the last 5 years
- In 2010, total consumer spending exceeded US\$2.3 trillion, more than double that of 2005
- Spending on big-ticket and luxury items is quickly rising

For Example, Look at Car Sales

- Chinese auto sales hit 16 million units in 2010
- Car sales in China rose 32% in 2010, 33% in 2009, and 48% in 2008
- Still ample room to grow – there are 150 million motorcycle owners who want to buy cars

Auto Sales Volume by Country, 2009

Unit: million autos

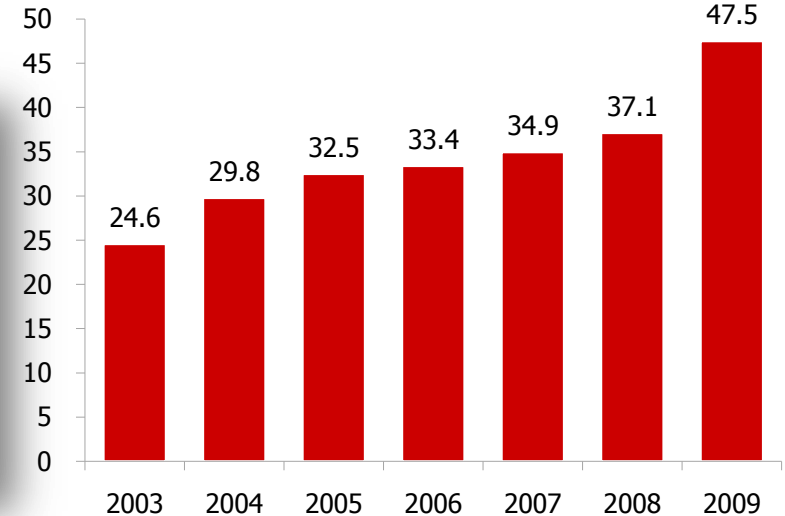


Education is China's Prime Mover



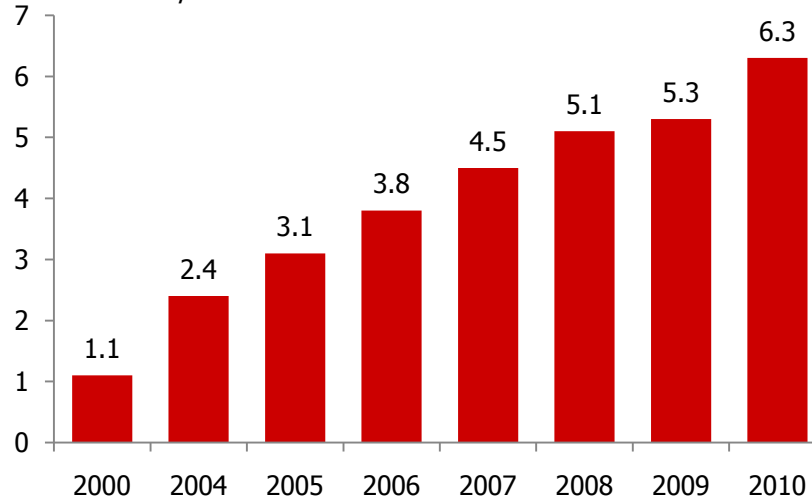
Investment in Education

Unit: US\$ billion



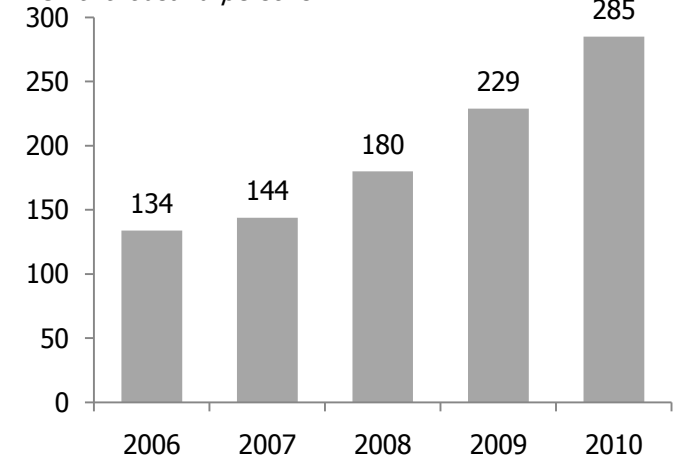
University Graduates

Unit: million persons



Chinese Studying Abroad

Unit: thousand persons



Source: National Bureau of Statistics, Ministry of Education,

China Today

China Tomorrow



Domestic Demand and Urbanization: the Drivers

- Chinese consumption is transforming from food and clothing to housing, health care, fashion, travel, and leisure
- McKinsey has recently estimated that:
 - By 2015, 69% of urban households will be middle class* or 400 million people
 - By 2015, China's middle class will compose 72% of total disposable income or US\$1.22 trillion
 - By 2025, China's private consumption will be US\$4.0 trillion or 45% of GDP
- The spending power of women is expected to increase from US\$180 billion in 2005 to US\$260 billion in 2015

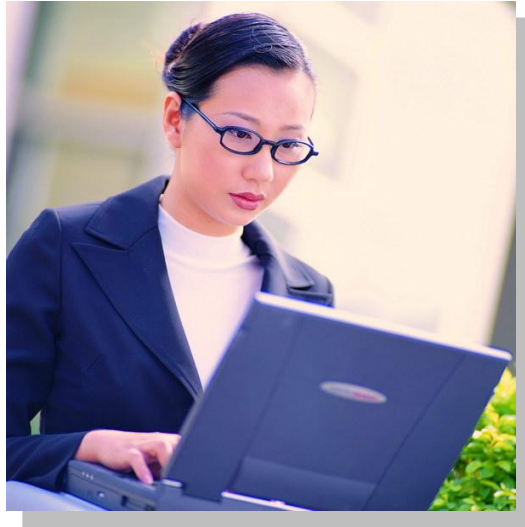


Notes:

* Middle class represents the family with annual household's income between RMB40 to 100 thousand (real 2000 Renminbi). This is defined by McKinsey & Co.

Source: McKinsey & Co., Business Week

Meet Mrs. Wang, the Emerging Middle Class Consumer



Strong Family Ties

- Married at age 30
- Owns a downtown apartment with her husband
- Is planning her next trip to Paris with her family
- 2 year-old son, plans to attend Shanghai American School

International Background

- Born and raised in Shanghai
- Moved to the US for college
- UCLA graduate with a major in Communications
- Returned to China in 1999

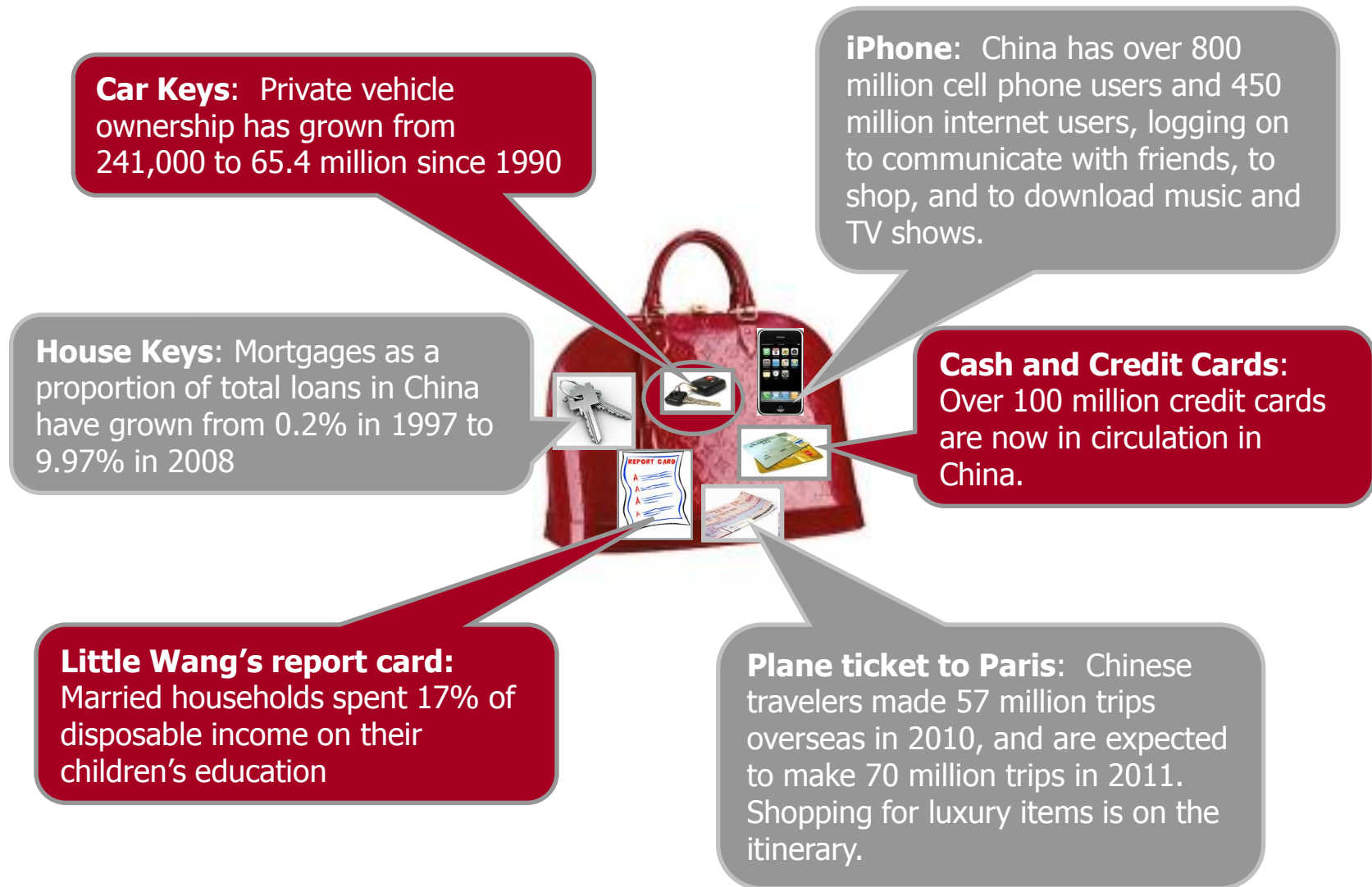
Professional Career Path

- Fluent in Mandarin and English
- Account executive at a large multinational PR firm
- Earns US\$35,000 a year
- Currently up for a big promotion

Financial Power

- Keeps wages in an independent personal account
- Spends 60% of her monthly pay
- Buys family's groceries and apparel
- Loves to shop online
- Splurges on luxury goods

What's inside Mrs. Wang's Purse?

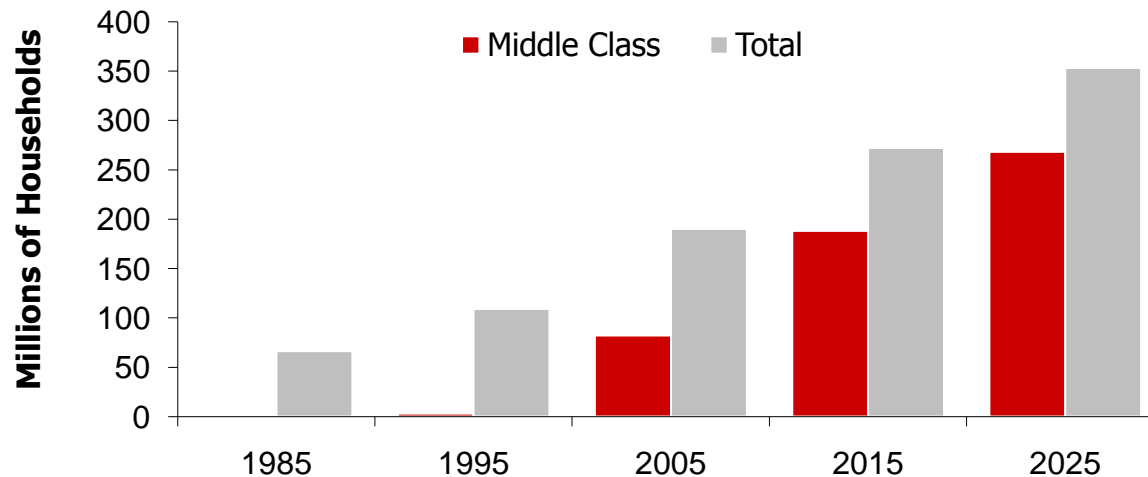


Source: McKinsey & Co., Ernst & Young, KPMG, Nielsen/Trip, Xinhua, China Tourism Academy

“In China, For China”

- Although China has the world's largest population and second largest economy, consumption as a percent of GDP is only 36%--one of the world's lowest
- Surprisingly, in 1985, consumption was 55% of consumption. GDP growth has far outpaced the growth of consumption.
- In the Twelfth Five Year Plan, the government has pledged to increase consumption to 45% of GDP by 2015. China wants to move away from being “the world's factory,” and instead produce things “in China, for China.”

Predicted Rise of Middle Class Urban Households



Industry Consolidation: an Inevitability

- The government wants to promote industry consolidation, because currently there are too many companies in almost every sector. For example, China has:
 - 104,000 textile companies
 - 43,000 telecom and IT companies
 - 15,000 pharmaceuticals companies
 - 265,000 general & special equipments manufacturers
 - 93,000 chemical companies
- Cost of capital is now a crucial factor in determining the success or failure in China's industrial sectors.
 - The government is reigning in bank lending and raising interest rates, which will discourage easy capital and encourage consolidation



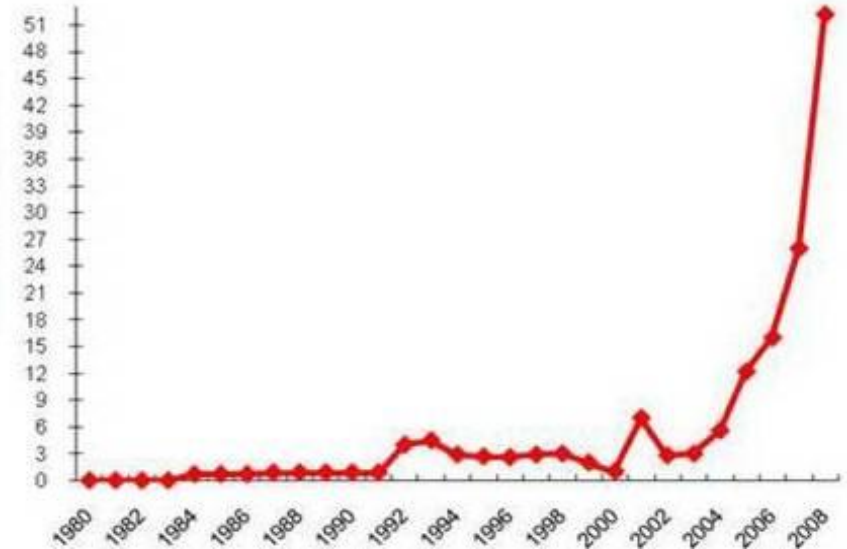
Source: National Bureau of Statistics of China

Outbound Investment is Increasing Sharply

- In 2010, Chinese outbound investment reached \$59 billion, up 36% from 2009,
- Outbound investment has increased 20-fold in the past 8 years, up from less than \$3 billion in 2002

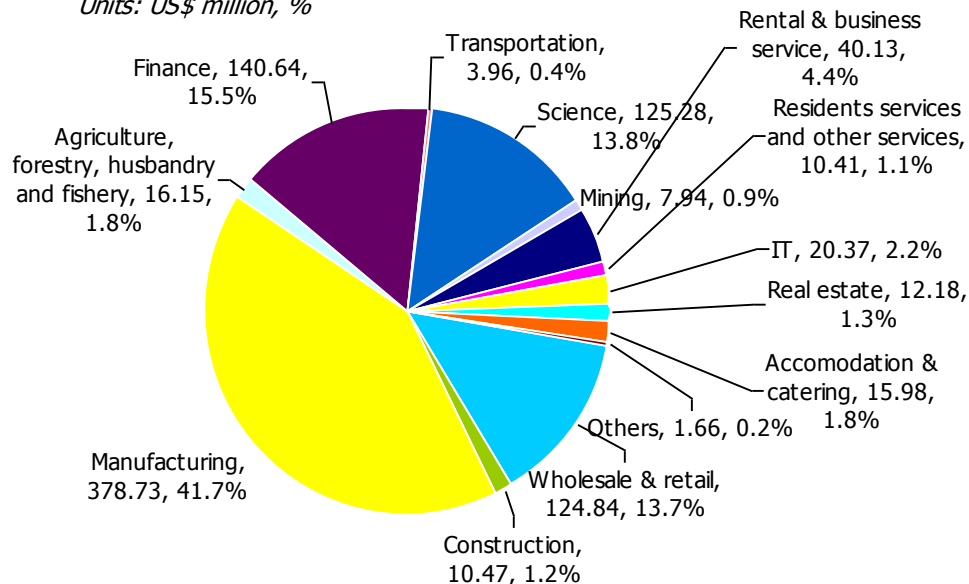
China Outbound Direct Investment

Units: US\$ billion



Breakdown of Chinese Investment in the US, 2009

Units: US\$ million, %



- In 2010, Chinese investment in the US in 2009 reached almost US\$ 5 billion – more than double that of 2009 (US\$ 2.3 billion)
- This trend is expected to continue China's government continues to encourage its "going out" policy

China's Outbound Ambitions

- China wants more outbound investment in the long run, but its tastes are changing as its prowess grows
- Seeking more diversification
 - Different industries
 - Services, such as food, healthcare, broad financial services and education
 - Central SOEs, regional SOEs and private companies
- Willing to make relatively smaller investments
- Agreeing to smaller equity stakes
 - Joint ventures or alliances
- Investment targets are changing from natural resources to:
 - International distribution
 - Advanced technology
 - International branding
- Investments are shifting from 3rd world to 1st world nations
 - Chinese companies want to build global brands (example: Li Ning footwear has been tackling the U.S. market)



Source: EIU 2010



Thank You!

谢谢

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