



THE BEIJING AXIS

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The
China Compass
July 2009

A country in figures



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Foreword

In the same manner that a compass highlights the cardinal points of north, south, east, and west, The China Compass is intended to serve as a navigational instrument for determining China's position and direction in the context of the world's economic landscape. As such, by closely examining China's relevance, importance and progressive integration with the world economy, The China Compass is a knowledge tool for executives with a China agenda.

The growth of China's economy is without precedent and its rise has been a unique and complex experience – requiring the adoption of a customised and dedicated planning approach. Although many MNCs are already active in China, access to reliable information and channels of strategic knowledge are not always easy to come by and are, more often than not, the product of a long-term investment in research, analysis and strategic thinking. It is against this background that this publication aims to make a modest contribution as a desk reference.

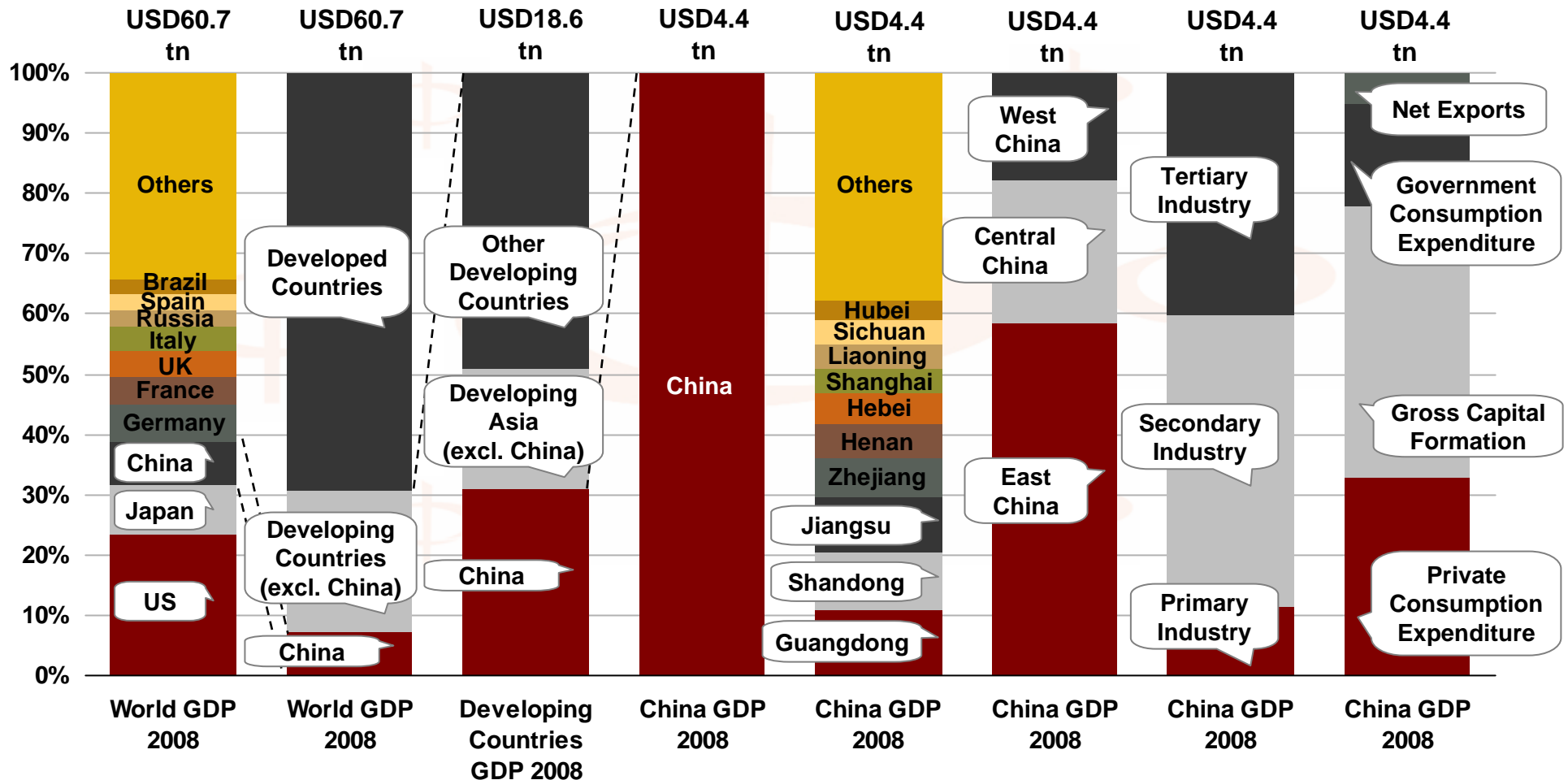
The China Compass, in presentation format, outlines China's past and present, combining basic country data with a detailed analysis of a wide range of macroeconomic and social information. It offers a concise, yet reasonably comprehensive, high-level picture of the ever-changing and evolving Chinese landscape.

We trust that The China Compass will be useful for those that are in a planning process, and that it will shed light on the past development and future prospects of an engrossing, ongoing and uniquely Chinese story of human development.

As always, we welcome all feedback.

Kobus van der Wath
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A HIGH LEVEL VIEW OF CHINA'S KEY ECONOMIC CHARACTERISTICS AND ITS CURRENT GLOBAL POSITION





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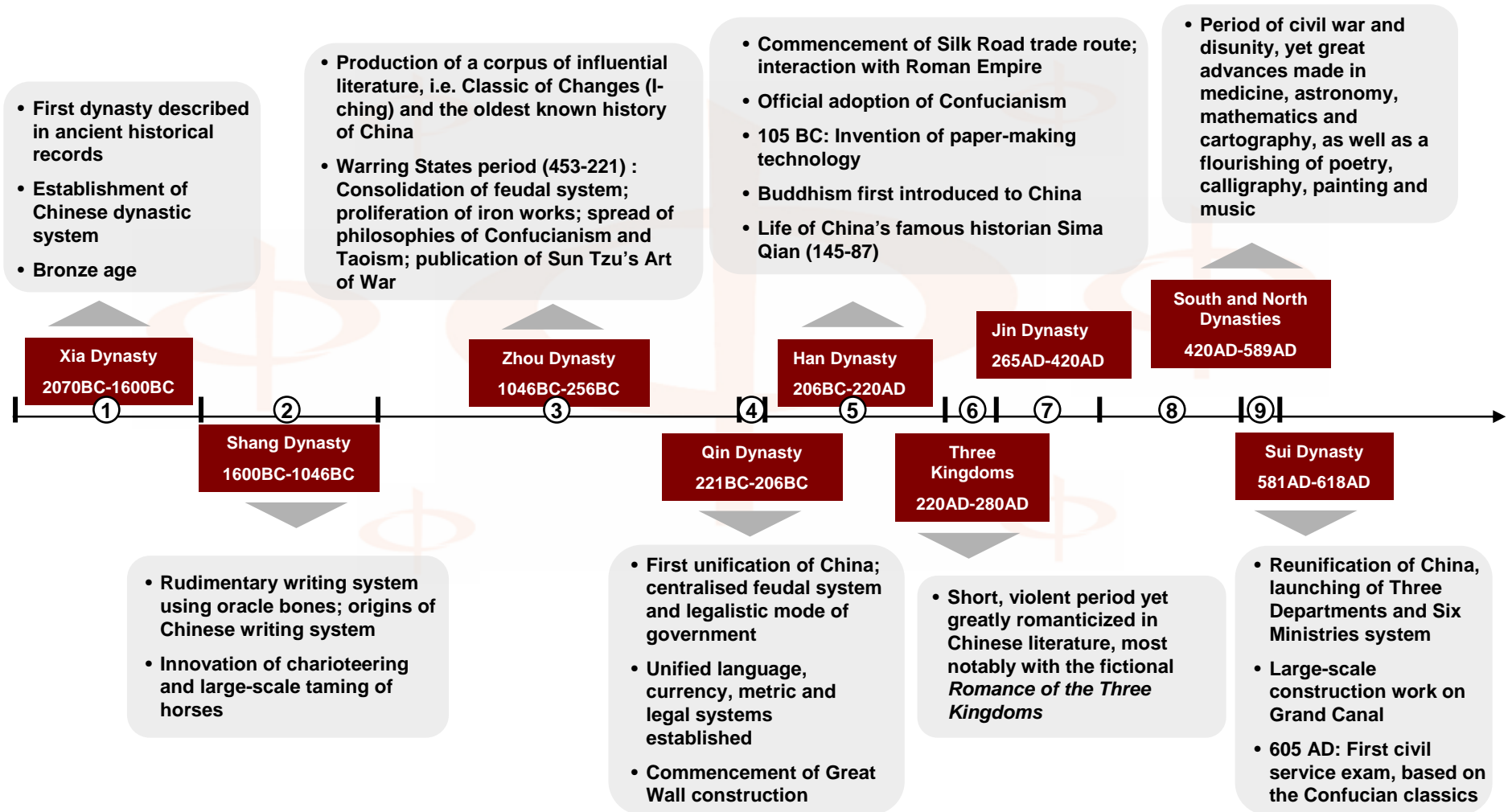
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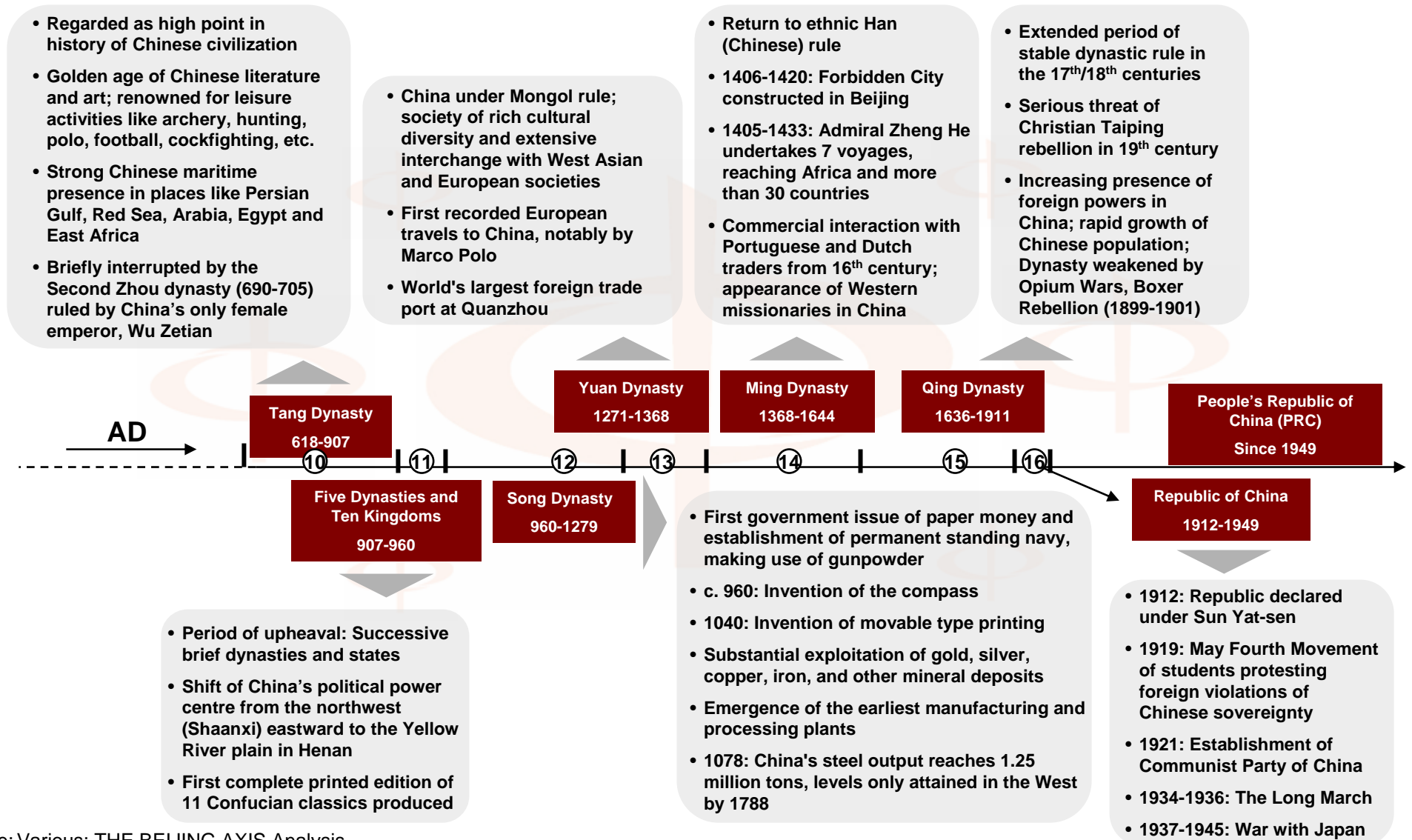
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CHINA IS ONE OF THE WORLD'S OLDEST CIVILISATIONS, WITH RECORDS DATING BACK MORE THAN 4,000 YEARS

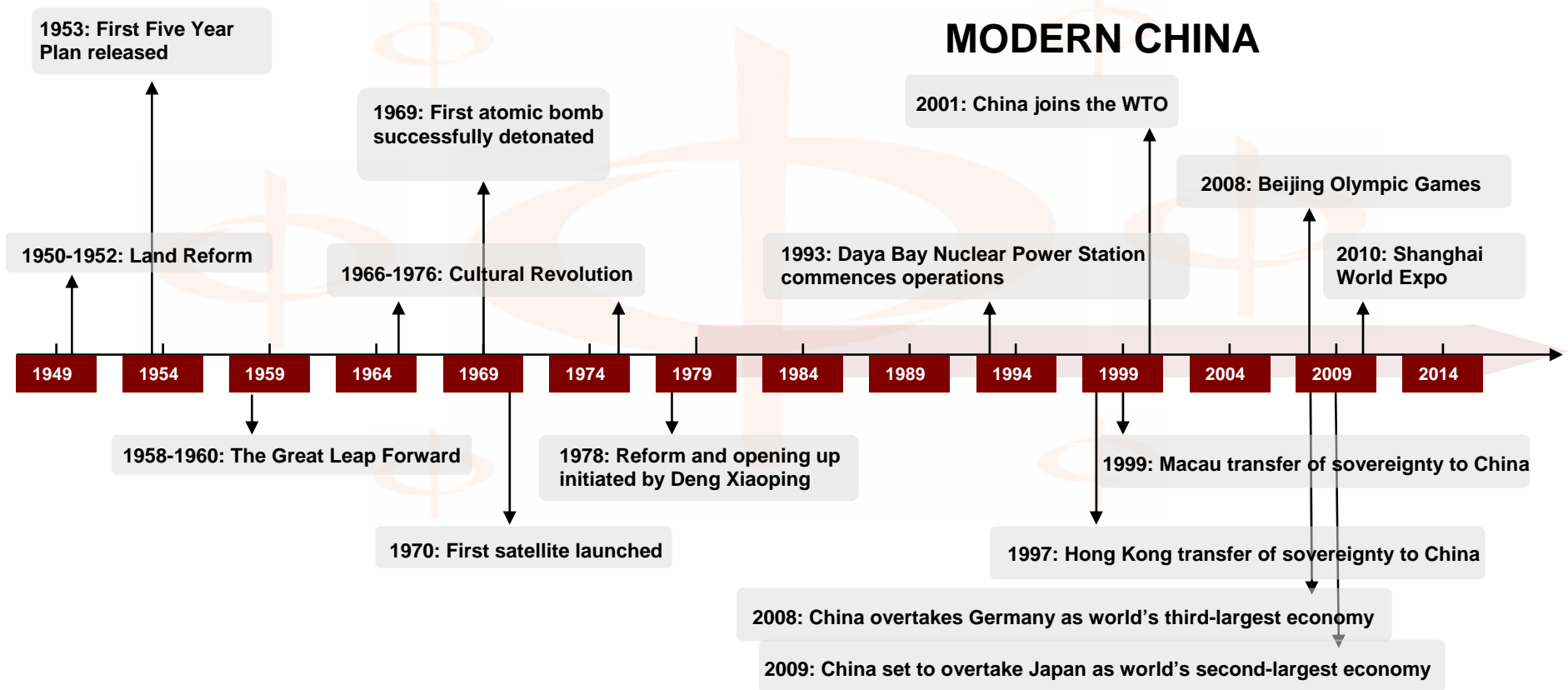


PRE-MODERN CHINA'S SOCIAL, LEGAL AND ECONOMIC SYSTEMS EVOLVED OVER CENTURIES





CHINA'S RECENT HISTORY ILLUSTRATES A BROAD-BASED TRANSFORMATION THAT PAVED THE WAY FOR THE RISE OF CHINA AS AN ECONOMIC SUPERPOWER





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CHINA IS THE WORLD'S THIRD-LARGEST COUNTRY BY LAND MASS

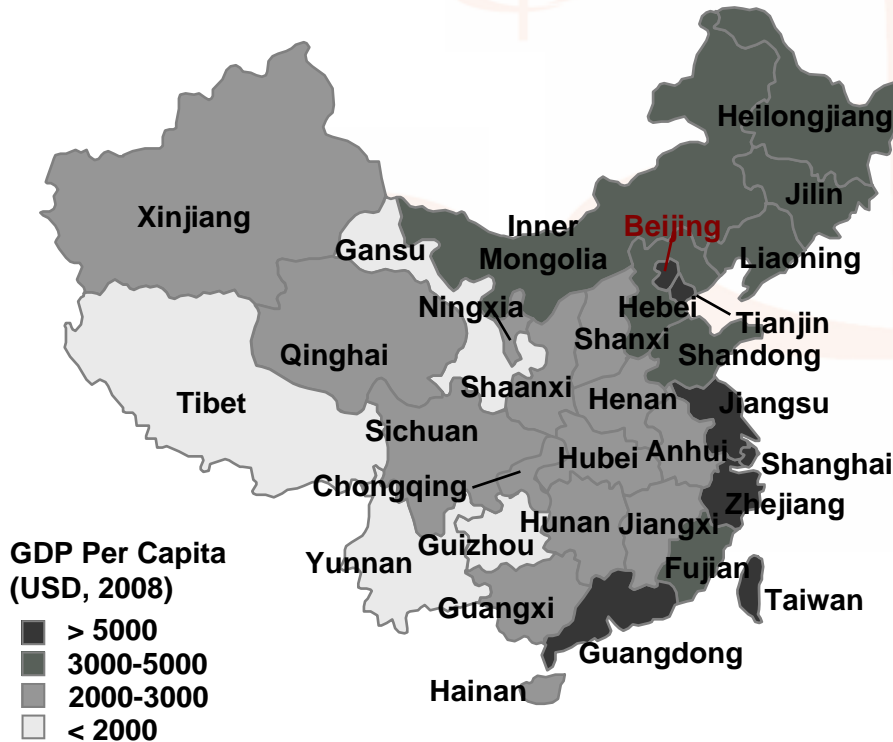
The country's size and location afford it a strategic advantage in trade, natural resources and international relations

People's Republic of China	
Area	9,596,960 sq. km.
Location and Boundaries	35°00' N, 105°00' E Eastern Asia, bordering the East China Sea, Korea Bay, Yellow Sea, and South China Sea Shares 22,117 kilometres of land boundaries with 14 other countries
Cities	Capital: Beijing Other major cities: Shanghai, Tianjin, Shenyang, Wuhan, Guangzhou, Chongqing, Harbin and Chengdu
Terrain	Plains, deltas, and hills in the east; mountains, high plateaus and deserts in the west
Climate	Tropical in the south to sub-arctic in the north





CHINA HAS 56 ETHNIC GROUPS, OF WHICH THE HAN ETHNIC GROUP ACCOUNTS FOR 91% OF THE TOTAL POPULATION



China Facts and Figures 2008

Population	1.33 bn
Nationality	Chinese
Ethnic Groups	Han Chinese (91.5%), Zhuang, Manchu, Hui, Miao, Uygur, Yi, Mongolian, Tibetan, Buyi, Korean, and other (8.5%)
Religions	Officially atheist, Buddhism, Taoism, Islam, Christianity, and Catholicism
Language	Mandarin (Putonghua), many local dialects
Labour Force	807.7 mn
GDP Nominal	USD4,327 bn
GDP Growth Rate	9%
GDP Per Capita	USD3,258
Exports	USD1,428.5 bn
Imports	USD1,133.1 bn
Forex Reserves	USD1,946 bn
Currency	Renminbi (Chinese yuan)
Time	GMT + 8hrs



THE COMMUNIST PARTY OF CHINA (CPC) REMAINS THE DOMINANT FORCE IN GOVERNMENT

Type of Government	Socialist republic (or 'people's democratic dictatorship' as defined by PRC constitution)
Branches of Government	<p>Executive - President, Premier, Vice President, State Council</p> <p>Legislative - Unicameral National People's Congress</p> <p>Judicial - Supreme People's Court, Local People's Courts, Special People's Courts</p>
Administrative Divisions	23 provinces; 5 autonomous regions; 4 municipalities directly under the State Council
Political Parties	Chinese Communist Party, 70.8 million members; 8 minor parties under Communist Party supervision
Constitution	4 December 1982
Independence	221 BC (unification under the Qin or Ch'in Dynasty); 1 January 1912 (Qing or Ch'ing Dynasty replaced by the Republic of China); 1 October 1949 (People's Republic of China established)
National Holiday	Anniversary of the founding of the People's Republic of China, 1 October (1949)



THE FOUNDING OF THE PRC IN 1949 ESTABLISHED A LEGAL SYSTEM INFLUENCED BY SOVIET PRINCIPLES

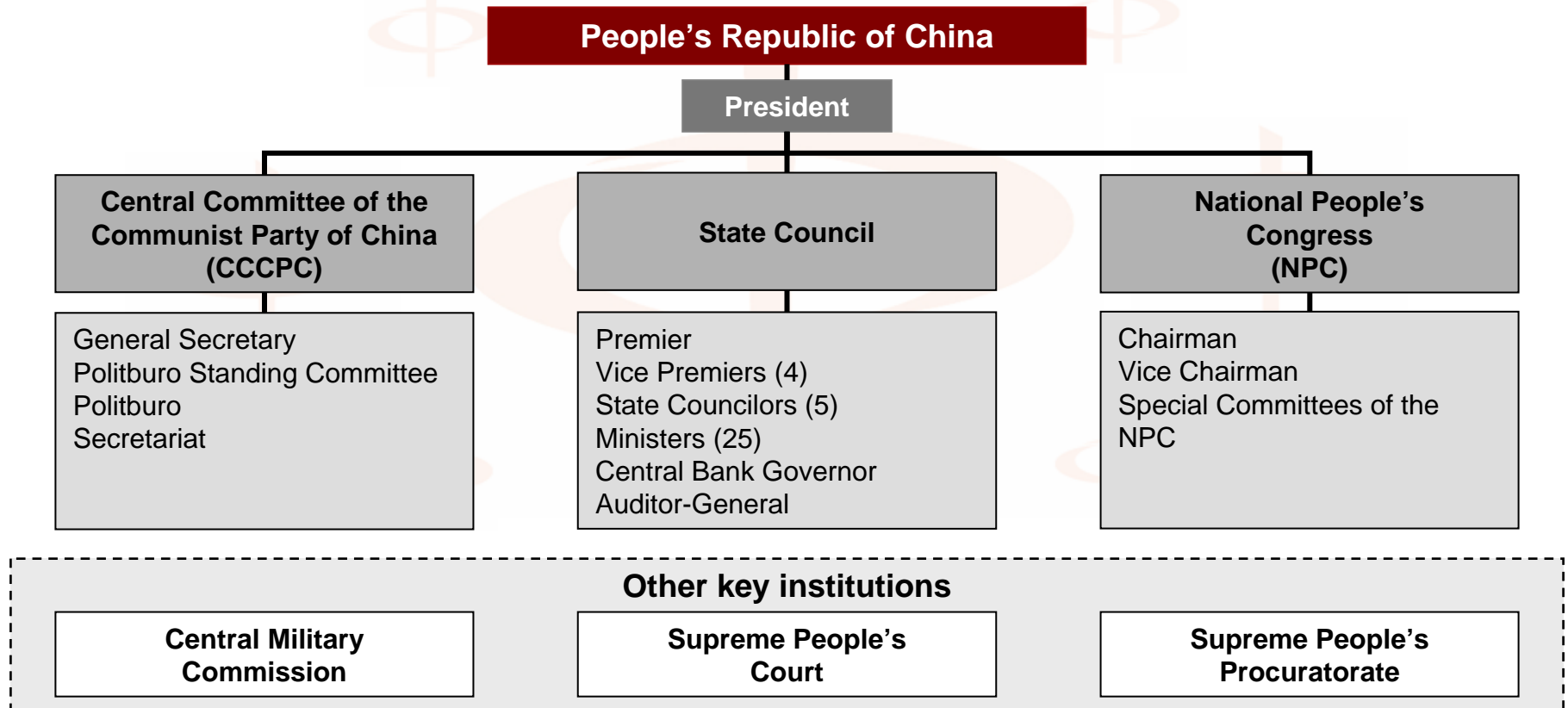
<p>Legal System</p>	<p>Based on civil law system; derived from Soviet and continental civil code legal principles. Legislature retains power to interpret statutes; constitution ambiguous on judicial review of legislation and has not accepted compulsory International Court of Justice jurisdiction</p>
<p>Flag</p>	<p>Red with a large yellow five-pointed star and four smaller yellow five-pointed stars (arranged in a vertical arc toward the middle of the flag) in the upper hoist-side corner</p>
<p>International Organisation Participation</p>	<p>ADB, AfDB (nonregional members), APEC, APT, Arctic Council (observer), ARF, ASEAN (dialogue partner), BIS, CDB, EAS, FAO, G-20, G-24 (observer), G-77, IAEA, IBRD, ICAO, ICC, ICRM, IDA, IFAD, IFC, IFRCs, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM (observer), IPU, ISO, ITSO, ITU, LAIA (observer), MIGA, MINURSO, MONUC, NAM (observer), NSG, OAS (observer), OPCW, PCA, PIF (partner), SAARC (observer), SCO, UN, UN Security Council, UNAMID, UNCTAD, UNESCO, UNHCR, UNIDO, UNIFIL, UNITAR, UNMIL, UNMIS, UNMIT, UNOCI, UNTSO, UNWTO, UPU, WCO, WFTU, WHO, WIPO, WMO, WTO, ZC</p>



POLITICAL POWER IN CHINA HAS BECOME LESS PERSONAL AND MORE INSTITUTIONAL

The primary organs of state power - the NPC, the President and the State Council - are largely made up of party members

High-Level View of China's Political System





THE POLITBURO STANDING COMMITTEE IS THE HIGHEST AND MOST POWERFUL DECISION-MAKING BODY IN CHINA

Politburo Standing Committee of the Communist Party of China (2009)

Order	Name	Party Positions	State Positions
1	Hu Jintao	General Secretary of the Central Committee, Chairman of the CPC Central Military Commission	President of the People's Republic of China, and Chairman of the PRC Central Military Commission
2	Wu Bangguo	-	Chairman of the Standing Committee of the National People's Congress
3	Wen Jiabao	-	Premier of the State Council
4	Jia Qinglin	-	Chairman of the People's Political Consultative Conference
5	Li Changchun	-	-
6	Xi Jinping	Principal of the Central Party School. Top-ranked member of the Secretariat of the Communist Party of China Central Committee	Vice President of the People's Republic of China
7	Li Keqiang	-	First Vice-Premier of the State Council
8	He Guoqiang	Secretary of the Central Commission for Discipline Inspection	-
9	Zhou Yongkang	Secretary of the Political and Legislative Affairs Committee	-



VARIOUS FACTORS IDENTIFY CHINA AS ONE OF THE WORLD'S MOST SIGNIFICANT COUNTRIES

700,000	Engineers graduate annually from schools in China
53,000	RMB is the average cost of a license plate in Shanghai
40,000	Cabs drive around Shanghai daily
30,000	Chinese MBA students were expected to graduate in 2008. The number in 1998 was 0
649.7	Million mobile phones were in circulation in China in 2008
500	Coal-fired power plants to be built in China by the next decade
160	Cities in China with populations that exceed 1 million. There are 9 in the US and just 2 in the UK
97	New airports to be built in the next 12 years, bringing the total number to 244 by 2020
80	Percent of the world's zippers are produced in the factories of Qiaotou city in Zhejiang Province
80	Percent of the world's toys are made in China, in more than 10,000 toy factories
70	Percent of the world's pirated goods come from China
50	Percent of the world's pork is eaten in China
34	Children are born every minute in China
30	Percent of Chinese adults live with their parents
30	Nuclear power plants currently being built in China
6.3	Million passenger cars are registered in China. The number in 2004 was 2.4 million
5.7	Million students graduated from Chinese universities in 2007. The number in 1977 was 270,000
5	Million Chinese are estimated to visit ski resorts this year. Ten years ago, only 500 people in China could ski
1.8	Is the average number of credit cards owned by a person in Shanghai



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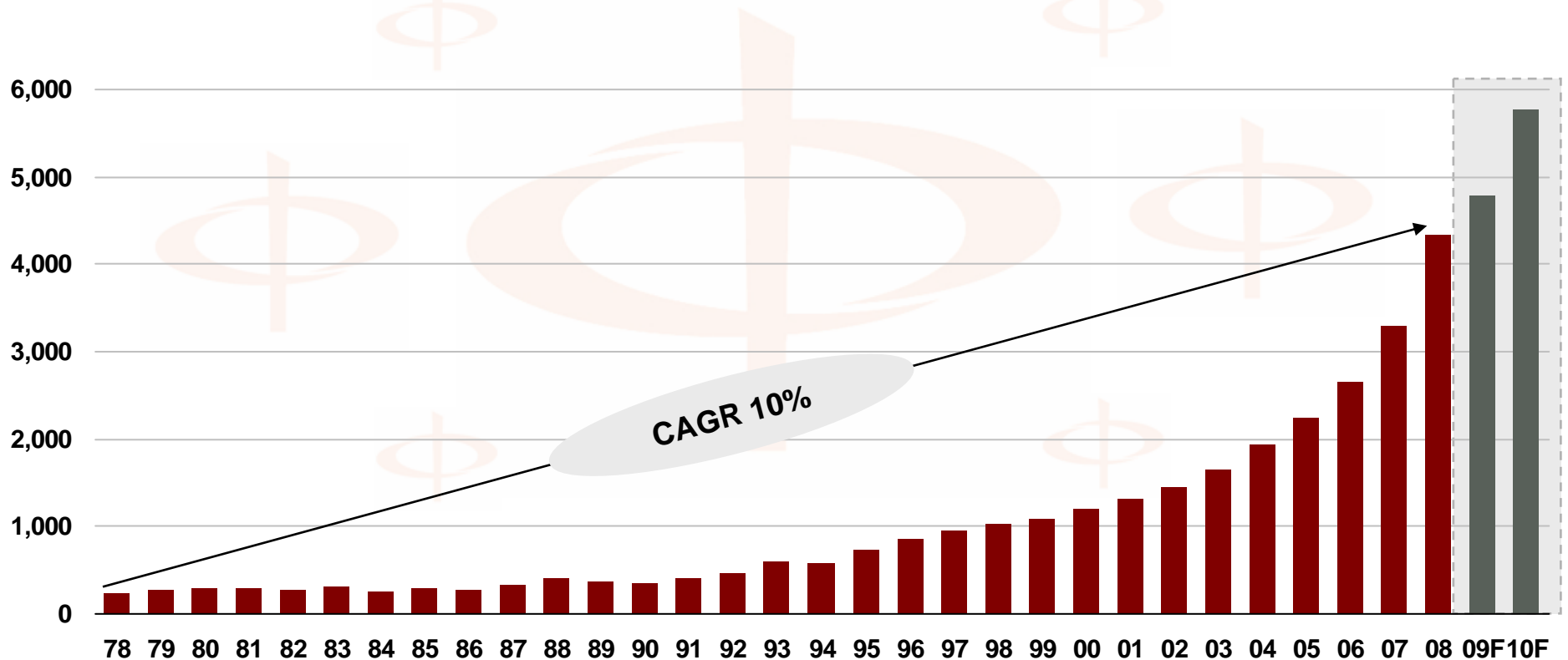
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CHINA'S ECONOMY HAS GROWN TREMENDOUSLY, BECOMING THE THIRD-LARGEST ECONOMY IN THE WORLD

In 2008, China's GDP reached USD4.4 trillion, which is 4 times its 1998 level (USD1 trillion). From 1978, it grew at a CAGR of 10%

Nominal GDP (USD bn, 1978-2010F)



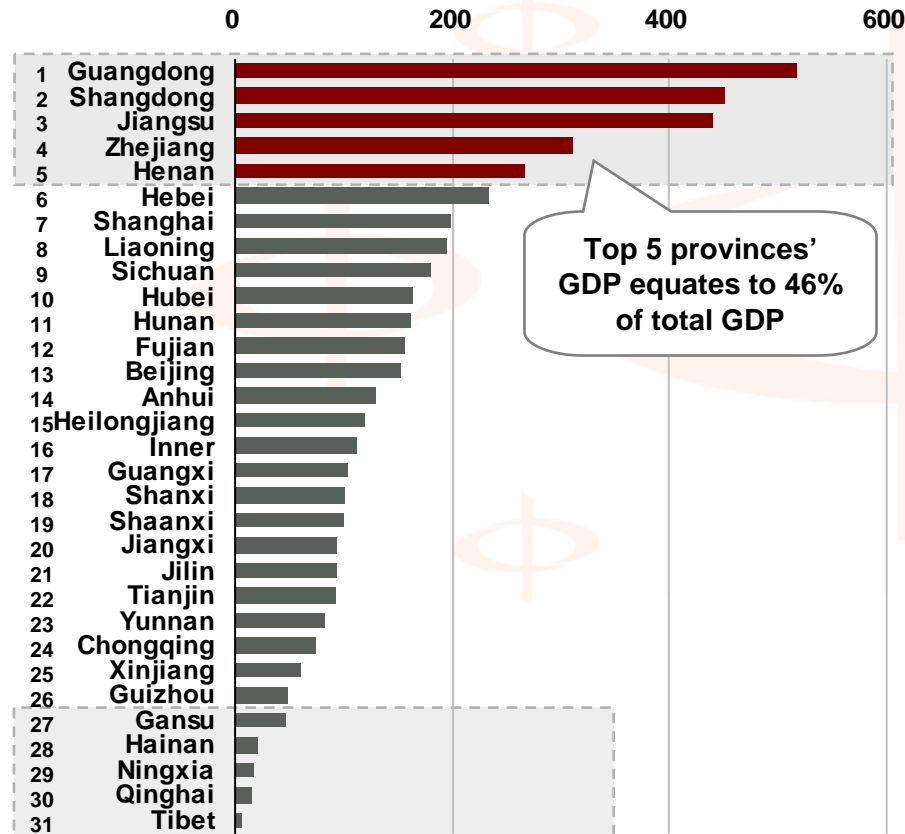
Note: GDP is calculated at current prices
 CAGR: compound annual growth rate

Source: China Statistical Yearbook; China Monthly Economic Indicators; THE BEIJING AXIS Analysis

CHINA HAS A LARGE GDP BUT IT IS HIGHLY CONCENTRATED IN A FEW PROVINCES NEAR THE COAST

The top 5 provinces of Guangdong, Shandong, Jiangsu, Zhejiang, and Henan account for roughly 46% of GDP

GDP by Province (USD bn, 2008)



Top 5 provinces' GDP equates to 46% of total GDP



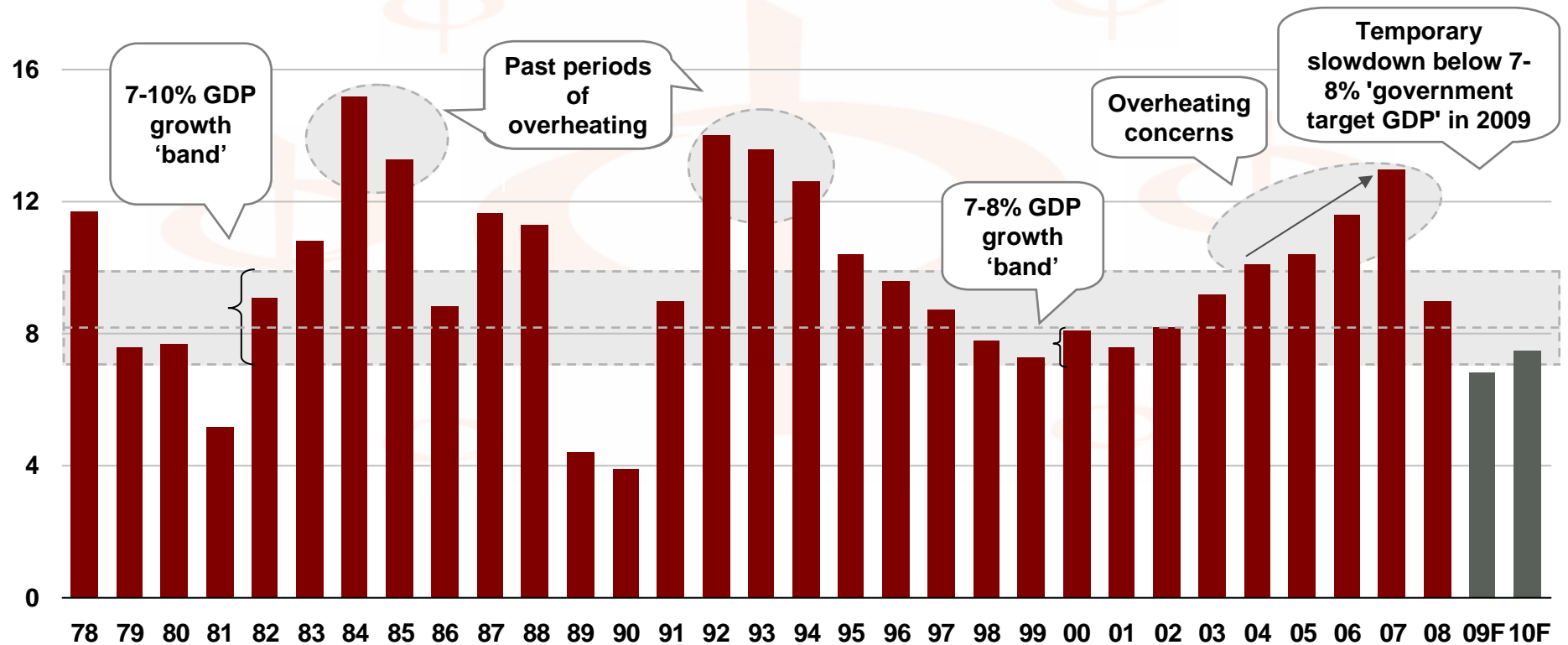
Note: GDP is calculated at current prices
 Source: China Monthly Indicators; THE BEIJING AXIS Analysis



WE FORECAST GDP GROWTH RATES OF APPROXIMATELY 7% IN 2009 AND 7.5% IN 2010

The current cool-down period has been exacerbated by the global financial crisis; hence, GDP is projected to fall well below the average growth band in 2009

China Nominal GDP Growth Rate (% y-o-y, 1978-2010F)

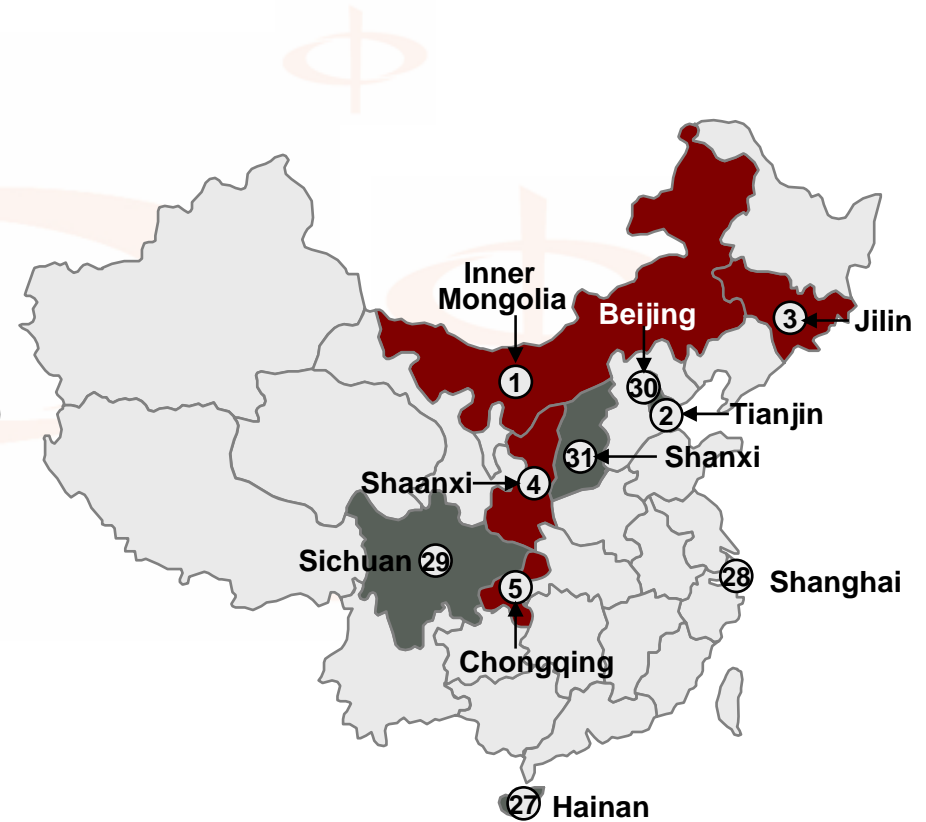
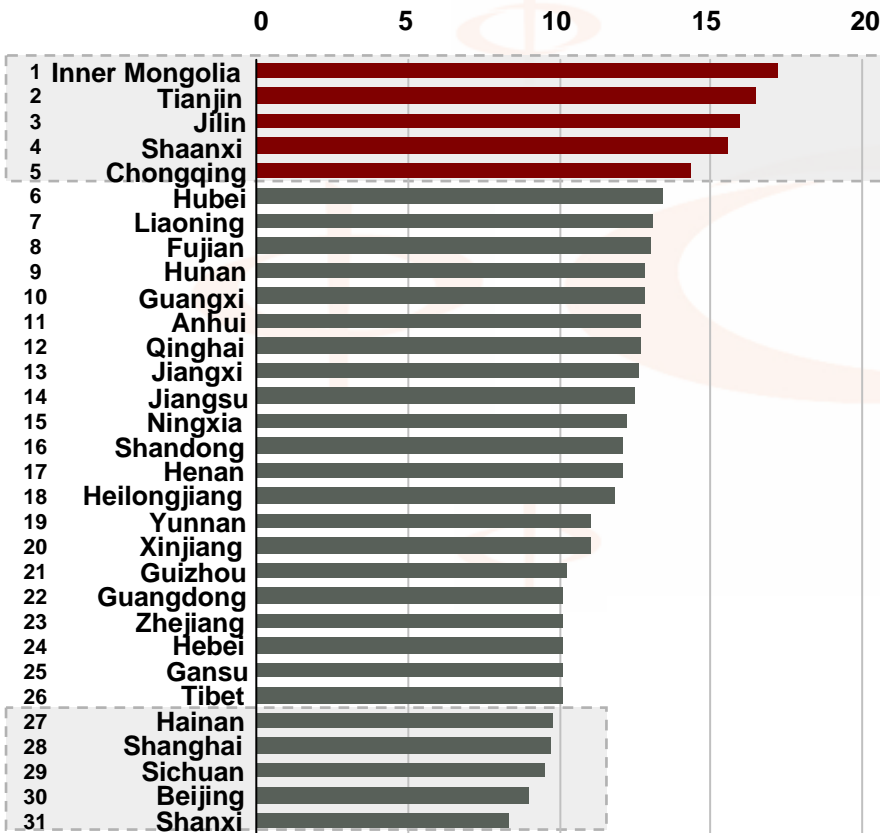




ALTHOUGH GDP IS CONCENTRATED IN THE EAST, THE CENTRAL PROVINCES HAVE THE HIGHEST GDP GROWTH RATES

This illustrates the central government's plan to develop the central and western regions of the country

GDP Growth Rate by Province (% , 2008)

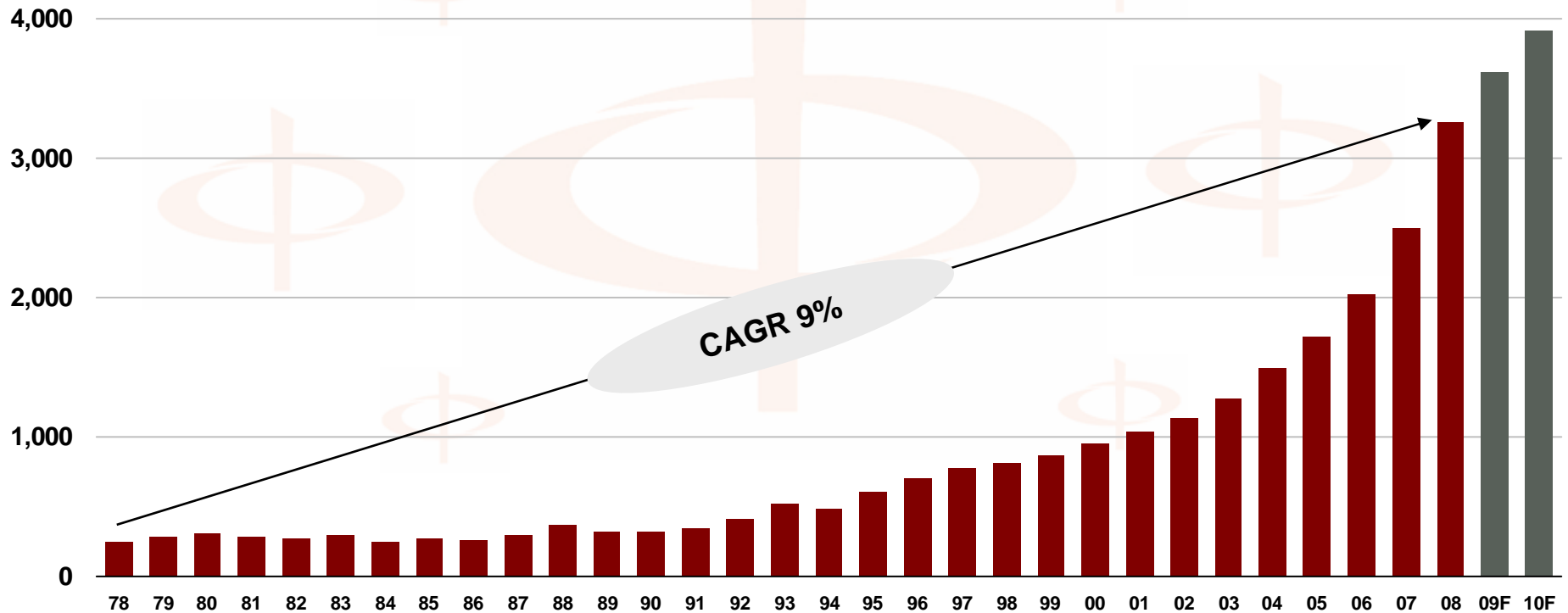




CHINA'S GDP PER CAPITA HAS GROWN CONSIDERABLY IN THE LAST 30 YEARS

In 2008, China's GDP per capita reached USD3,258, which represents a CAGR of 9% over the last 30 years

GDP Per Capita (USD, 1978-2010F)



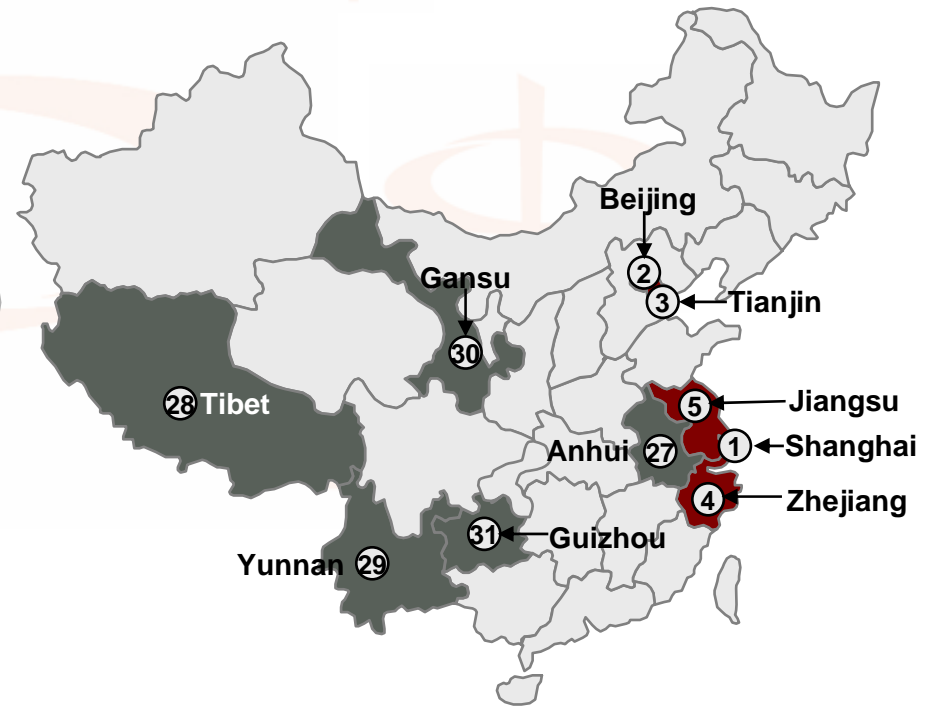
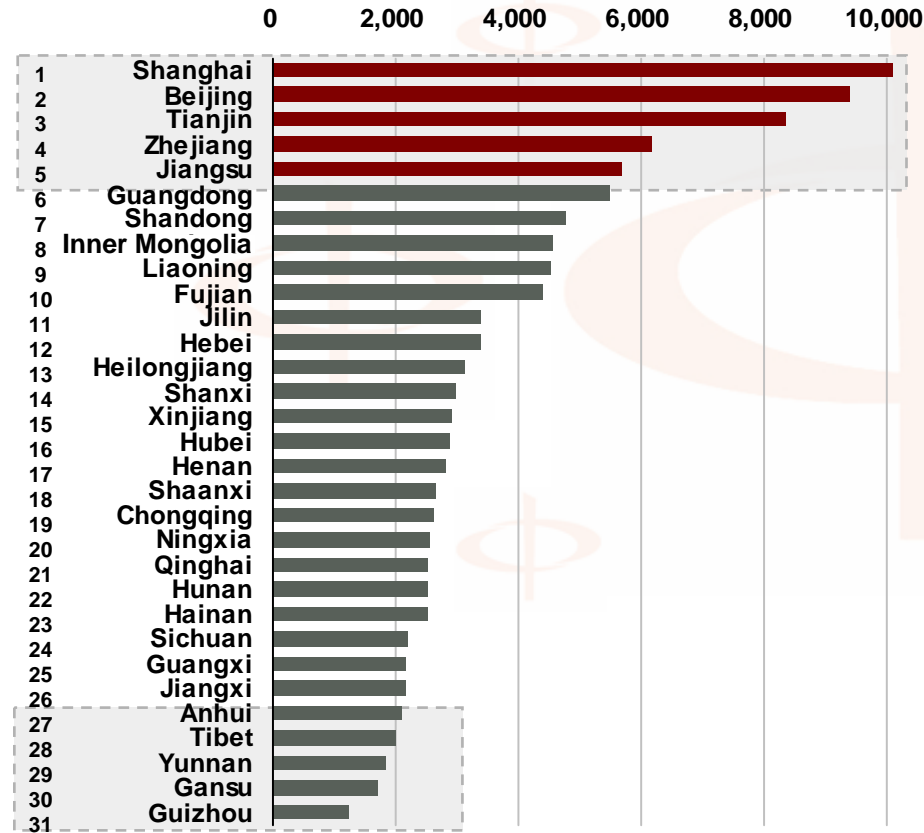
Note: GDP is calculated at current prices
 Source: China Statistical Yearbook; National Bureau of Statistics of China; THE BEIJING AXIS Analysis



THE PROVINCES WITH THE HIGHEST GDP PER CAPITA ARE LOCATED IN EASTERN CHINA

The lowest GDP per capita is found in Central and Western China

GDP Per Capita by Province (USD, 2008)

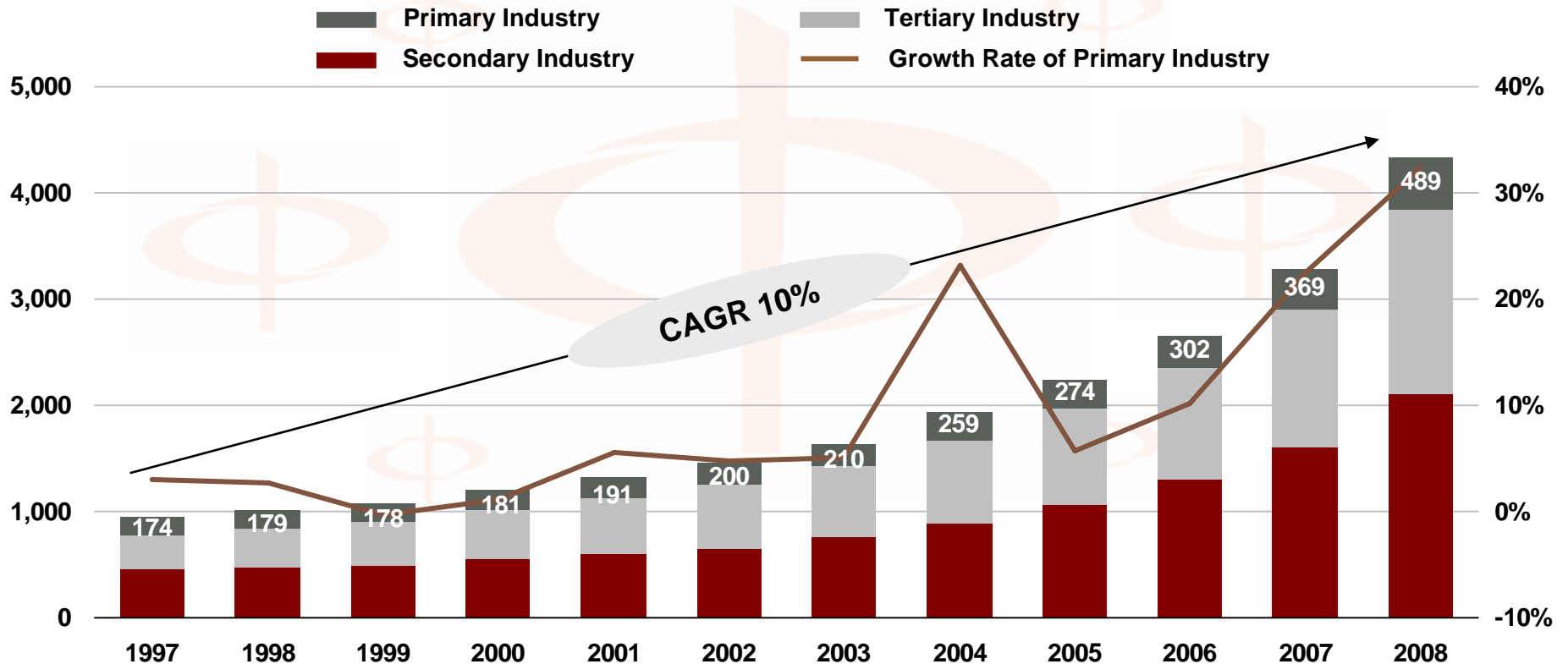




PRIMARY INDUSTRY CONSTITUTES ROUGHLY 11% OF GDP

China's primary industry grew at a CAGR of 10%
 from 1997, and contributed USD489 billion to total GDP in 2008

Composition of GDP by Sector (USD bn, 1997-2008)



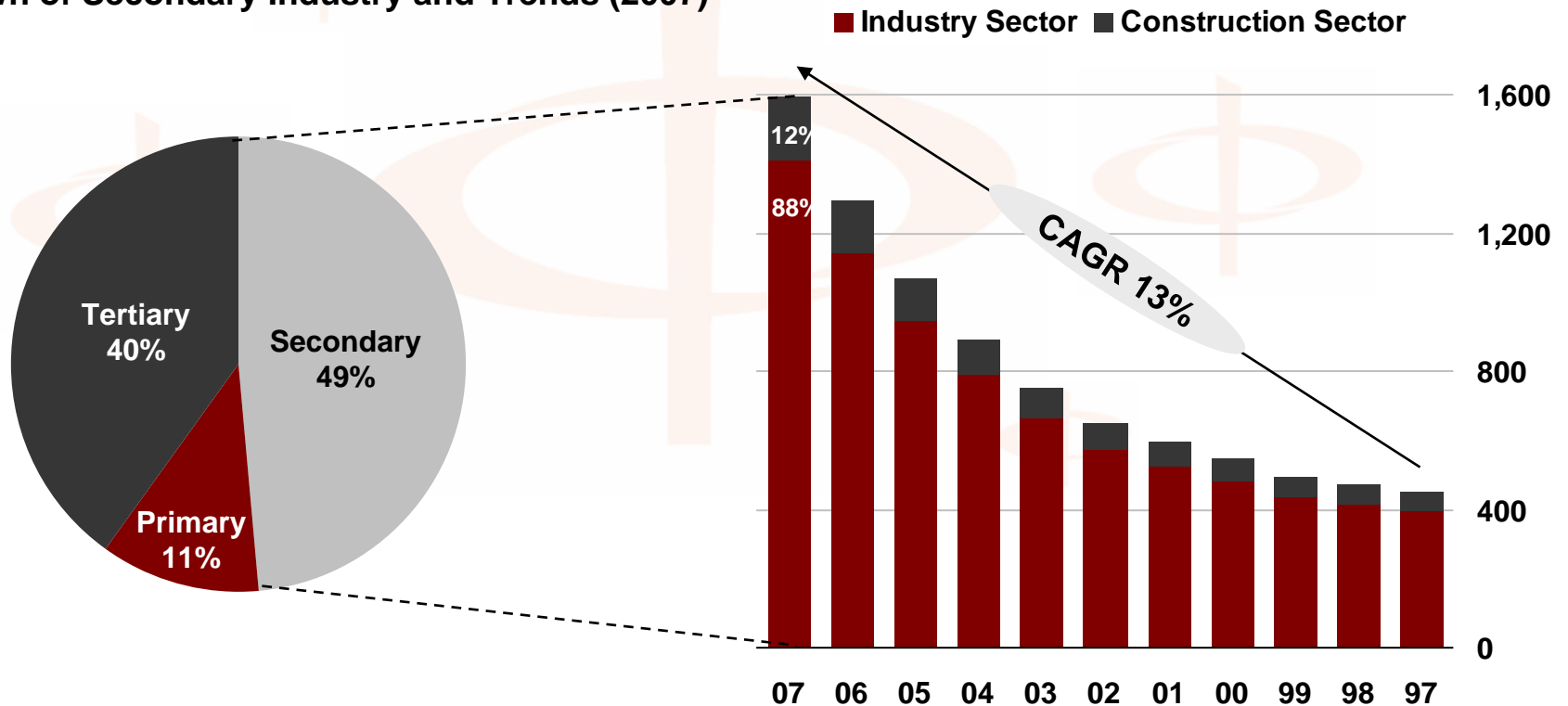


SECONDARY INDUSTRY IS THE LARGEST CONTRIBUTOR TO GDP, MAKING UP 49%

China's secondary industry grew at a CAGR of 13% from 1997 to 2007, and contributed USD1.59 trillion to GDP in 2007, of which 88% came from manufacturing

Value-Add of Secondary Industry (at current prices, USD bn, 1997-2007)

Breakdown of Secondary Industry and Trends (2007)



Note: CAGR is calculated for the last 10 years
 Source: China Statistical Yearbook; THE BEIJING AXIS Analysis

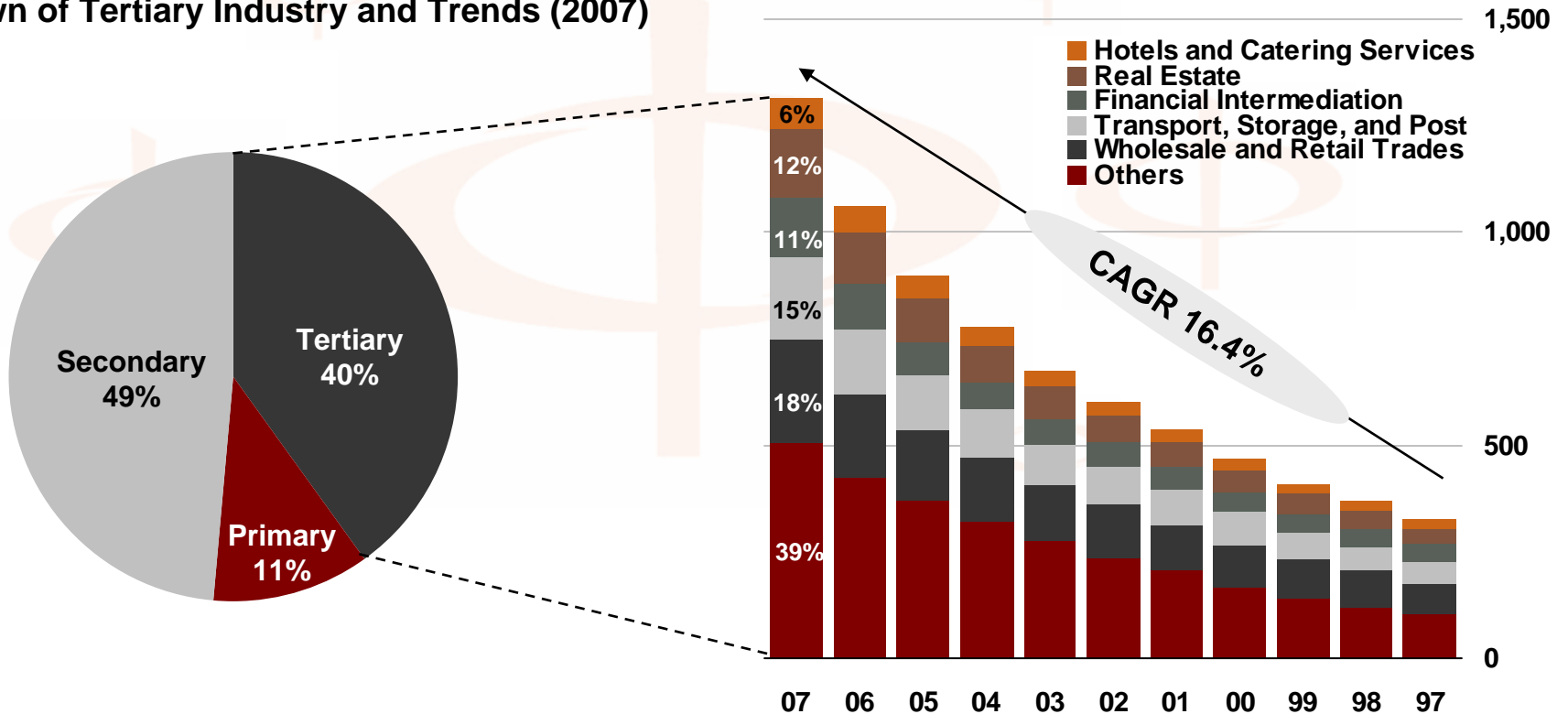


TERTIARY INDUSTRY IS THE SECOND-LARGEST CONTRIBUTOR TO GDP, MAKING UP 40%

China's tertiary industry grew at a CAGR of 16.4% from 1997 to 2007, and contributed USD1.31 trillion to GDP in 2007

Value-Add of Tertiary Industry (at current prices, USD bn, 1997-2007)

Breakdown of Tertiary Industry and Trends (2007)



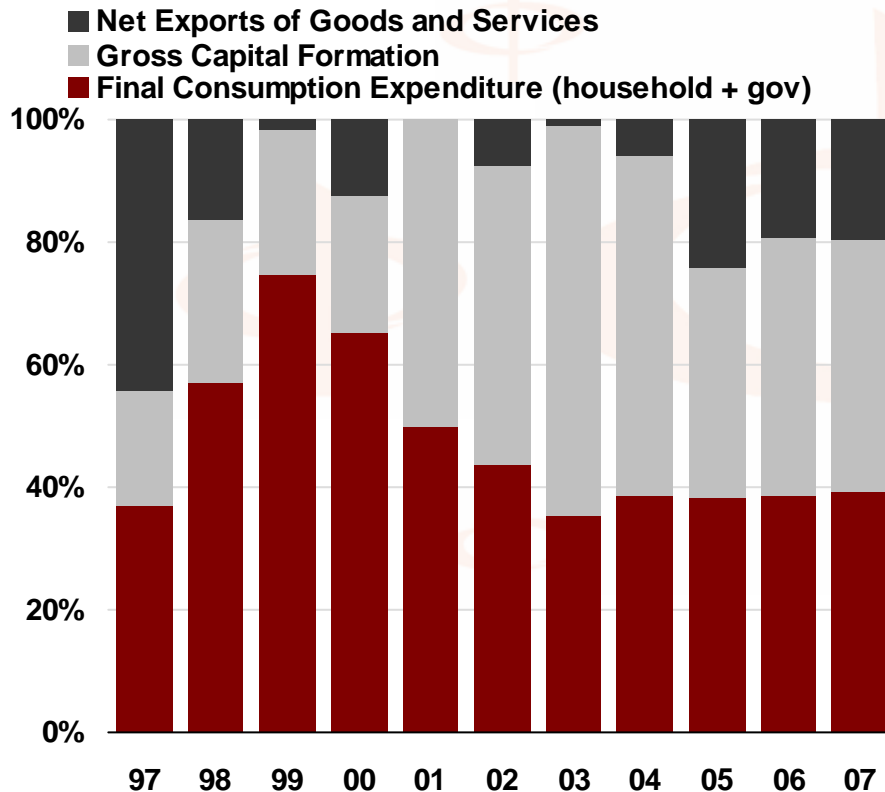
Note: CAGR is calculated for the last 10 years
 Source: China Statistical Yearbook; THE BEIJING AXIS Analysis



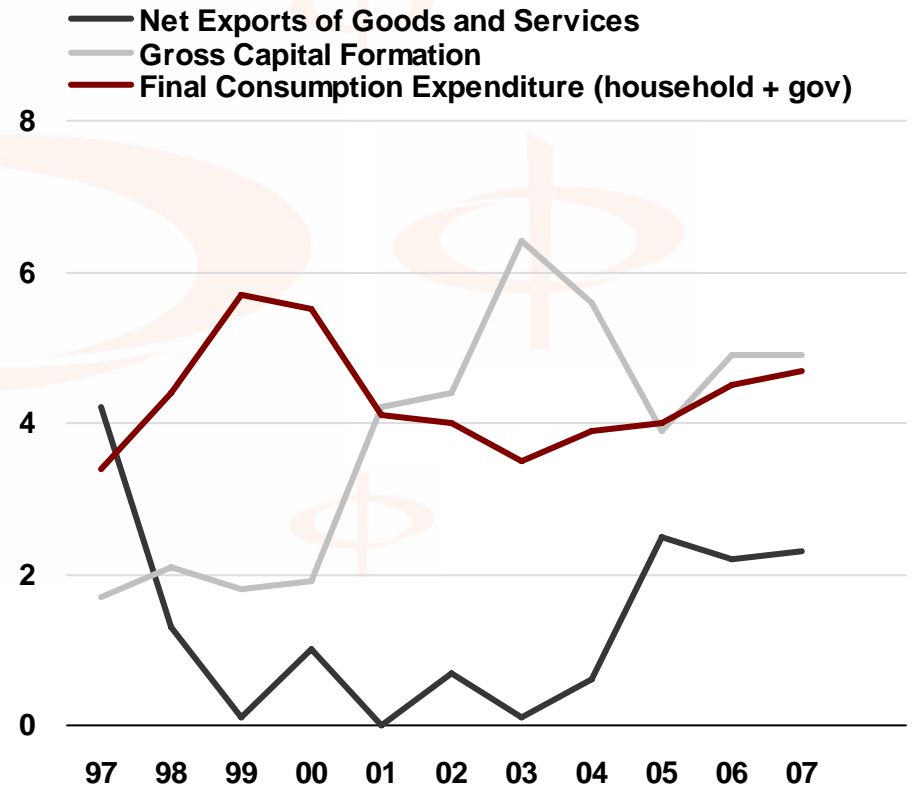
GROSS CAPITAL FORMATION AND FINAL CONSUMPTION EXPENDITURE ARE THE MAIN COMPONENTS OF CHINA'S GDP

In 2007, final consumption and gross capital formation each contributed 40% to GDP while net exports contributed 20%

Contribution/Share of the three Components of GDP Growth (1997-2007)



Contribution to the Growth of GDP (Percentage Points, 1997-2007)



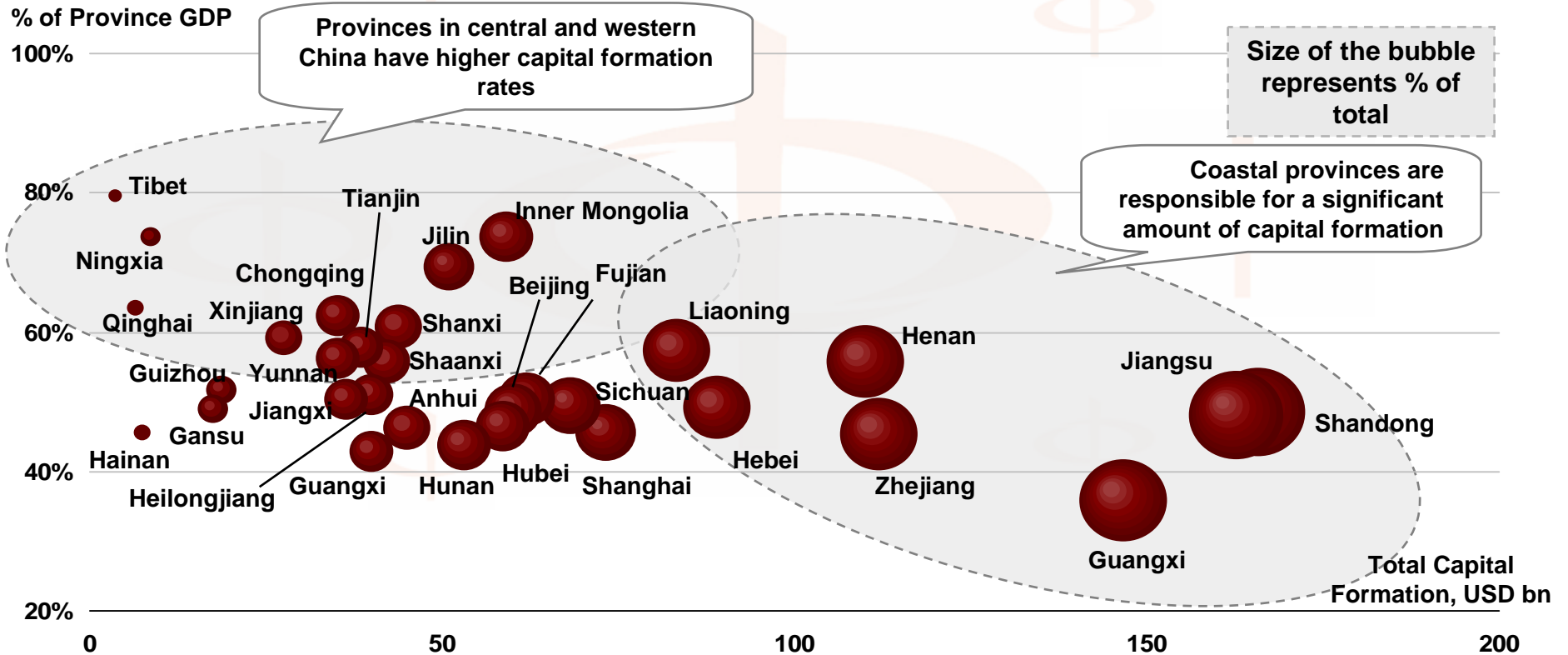
Note: The three components of GDP by expenditure approach are final consumption expenditure (composed of household and government consumption), gross capital formation and net exports of goods and services.

Source: China Statistical Yearbook; THE BEIJING AXIS Analysis

CHINA'S GROSS CAPITAL FORMATION IS CONCENTRATED IN THE MORE DEVELOPED REGIONS

In 2007, China's top 5 provinces by annual gross capital formation accounted for 40% of the national total

China's Gross Capital Formation (2007)

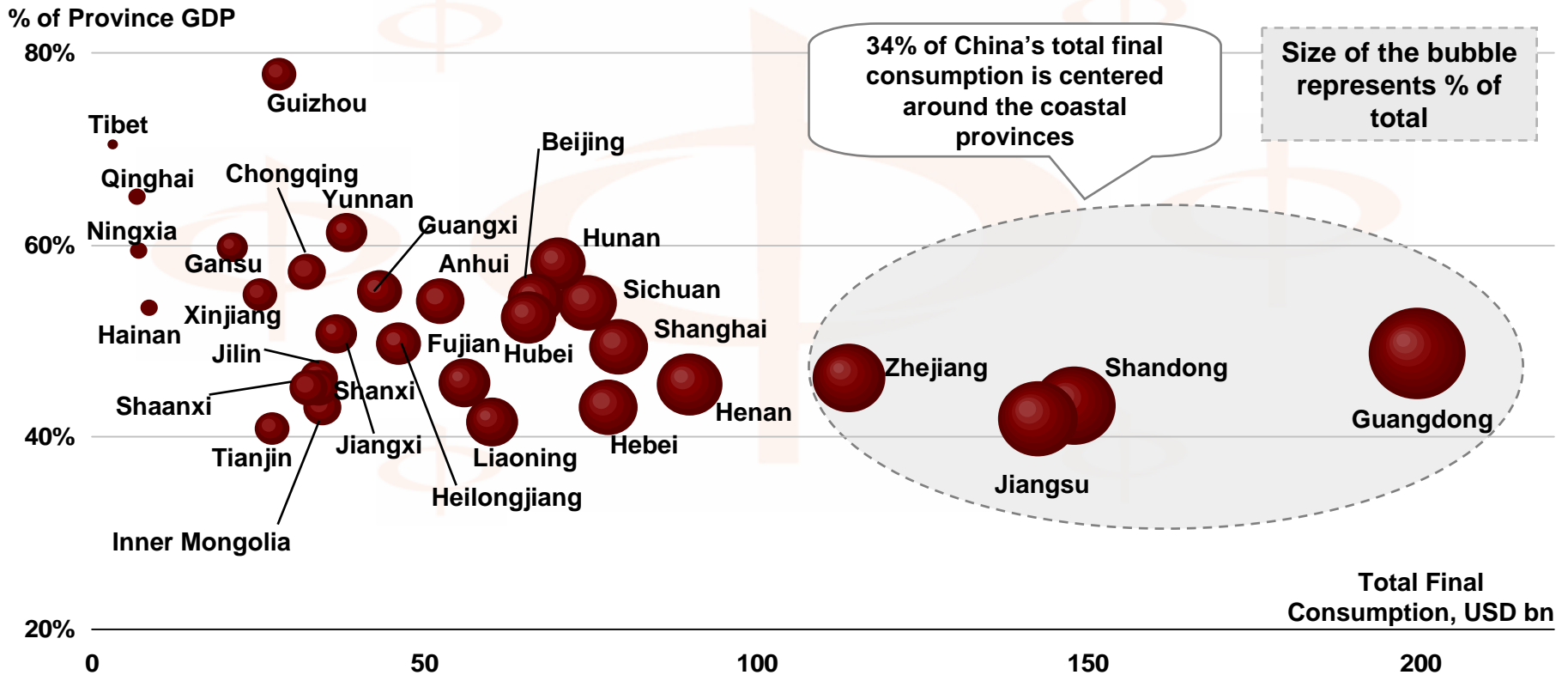




THE LARGEST SHARE OF CHINA'S FINAL CONSUMPTION TAKES PLACE IN THE COASTAL PROVINCES

In 2007, Shandong, Guangdong, Jiangsu and Zhejiang were responsible for 34% of China's total annual final consumption

China's Final Consumption (2007)



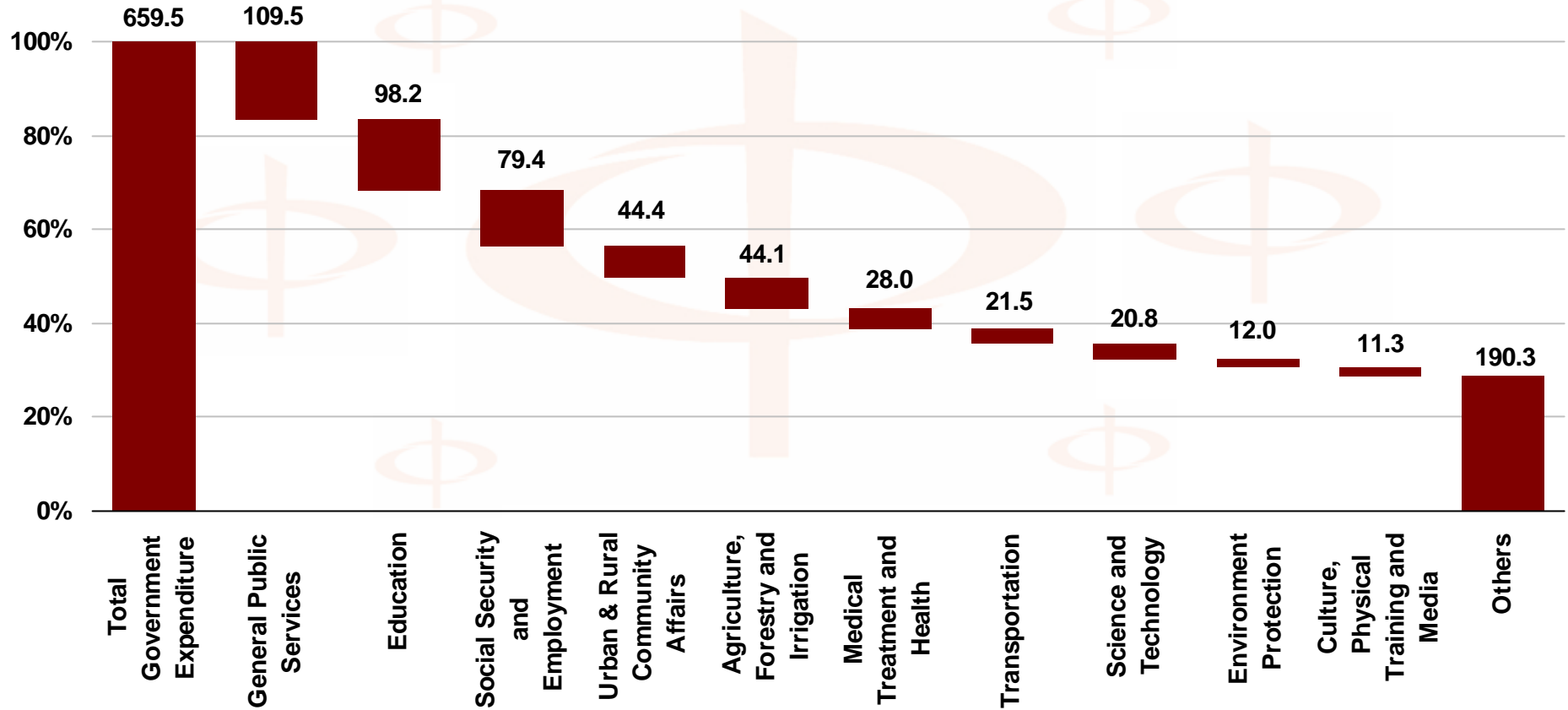
Note: Final Consumption = Private Household Consumption + Government Consumption
 Source: China Statistical Yearbook; THE BEIJING AXIS Analysis



GOVERNMENT EXPENDITURE IS MOSTLY AIMED AT IMPROVING THE QUALITY OF LIFE OF THE POPULATION

In 2008, 55% of government expenditure was focused on public services, education, social security, employment and community affairs

Government Expenditure Breakdown (USD bn, Jan-Nov 2008)

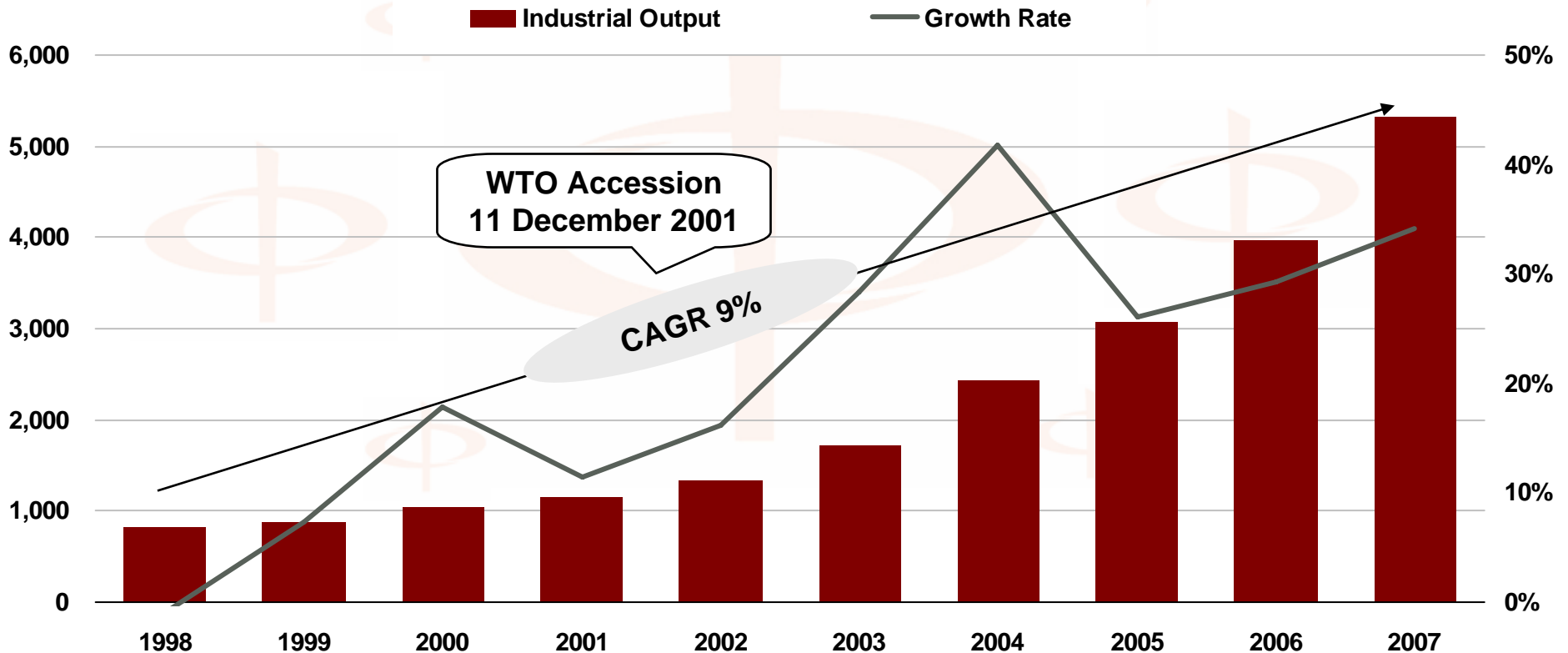




CHINA'S INDUSTRIAL OUTPUT GROWTH ACCELERATED WITH ACCESSION TO THE WTO IN 2001

Since then, a large number of foreign companies have established a manufacturing base in China, driving gross industrial output up at a CAGR of 9% from 1998 - 2007

Gross Industrial Output (USD mn, 1998-2007)

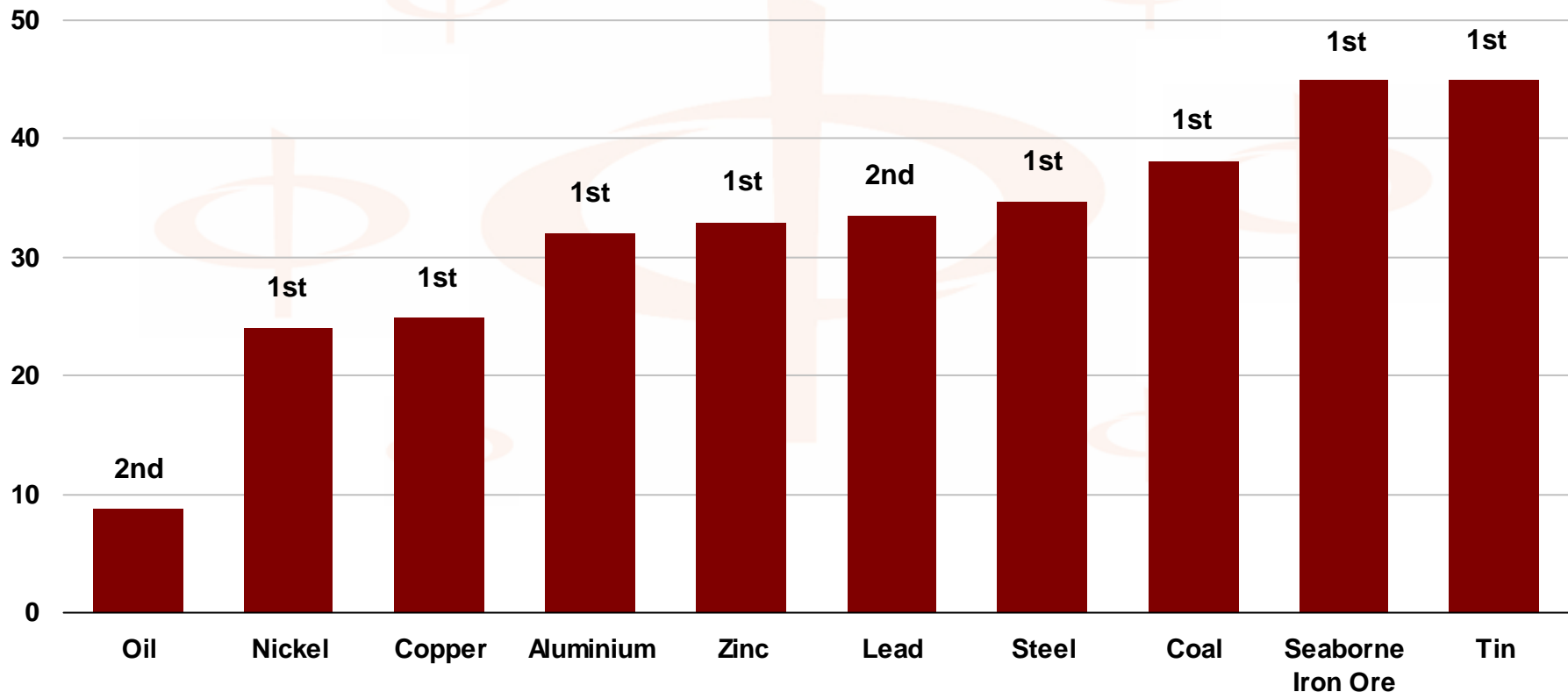




CHINA IS THE WORLD'S LEADING CONSUMER OF SEVERAL RESOURCES

Rapid modernisation, industrialisation and urbanisation are the key drivers of the trend, which is unlikely to recede anytime soon

China's Share of the World's Consumption of Selected Resources (% , World Ranking, 2008)



Note: The percentages for Zinc, Lead and Tin are for 2007
 Source: WBMS; Barlow Jonker; IEA; BP; Macquarie; THE BEIJING AXIS Analysis



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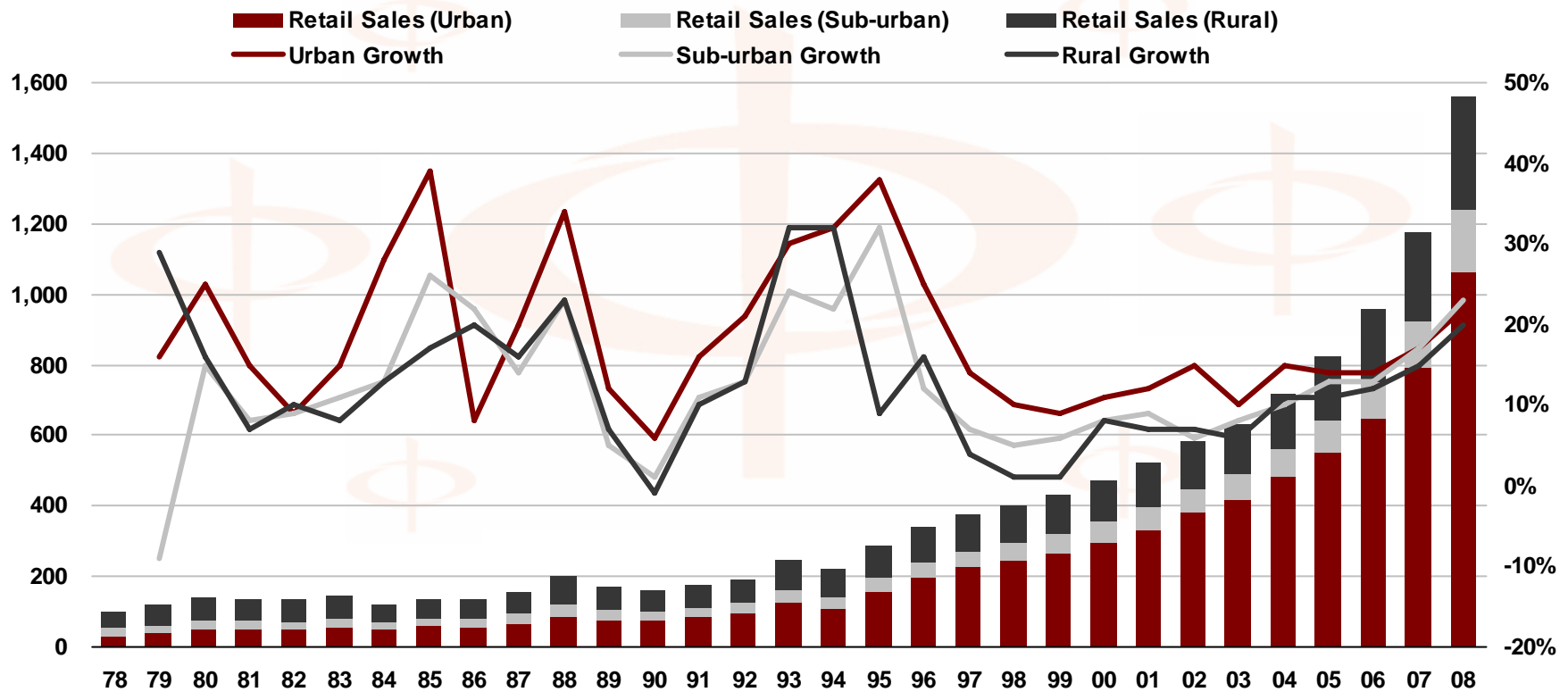
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REFLECTING CHINA'S DEVELOPMENT, PERSONAL CONSUMPTION HAS BEEN ON THE RISE (I)

Whereas retail sales were quite volatile in the 1980s and 1990s, there has been substantial, stable growth in the current decade

Annual Retail Sales and Growth Rate by Administrative Level (USD bn¹, 1978-2008)



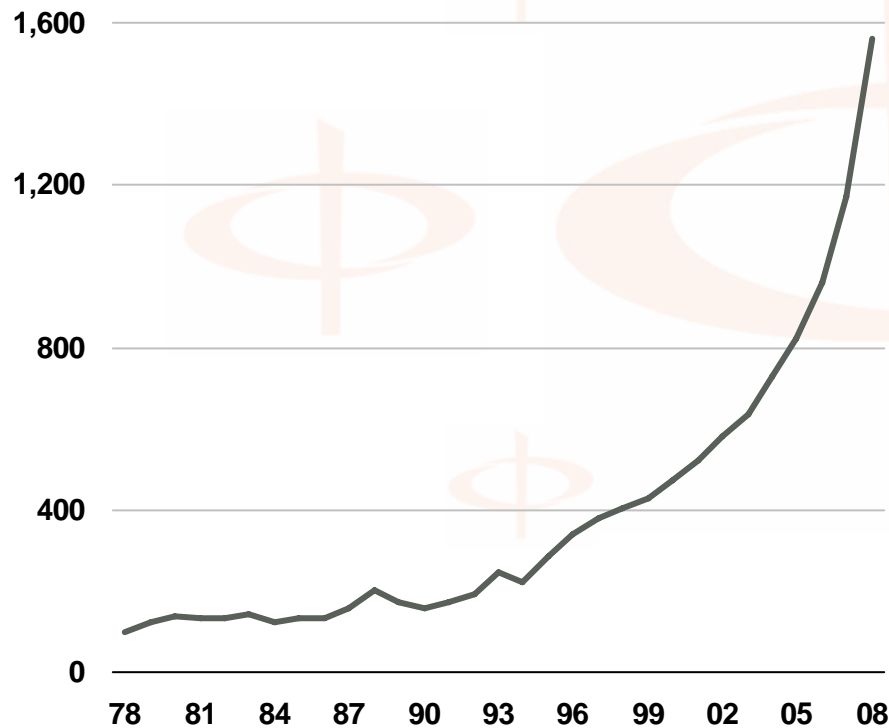
1. Figures converted from RMB to USD using the average exchange rate for the respective years; however, the growth rate does not factor in exchange rate fluctuations
 Source: China Statistical Yearbook; China Monthly Economic Indicators; THE BEIJING AXIS Analysis



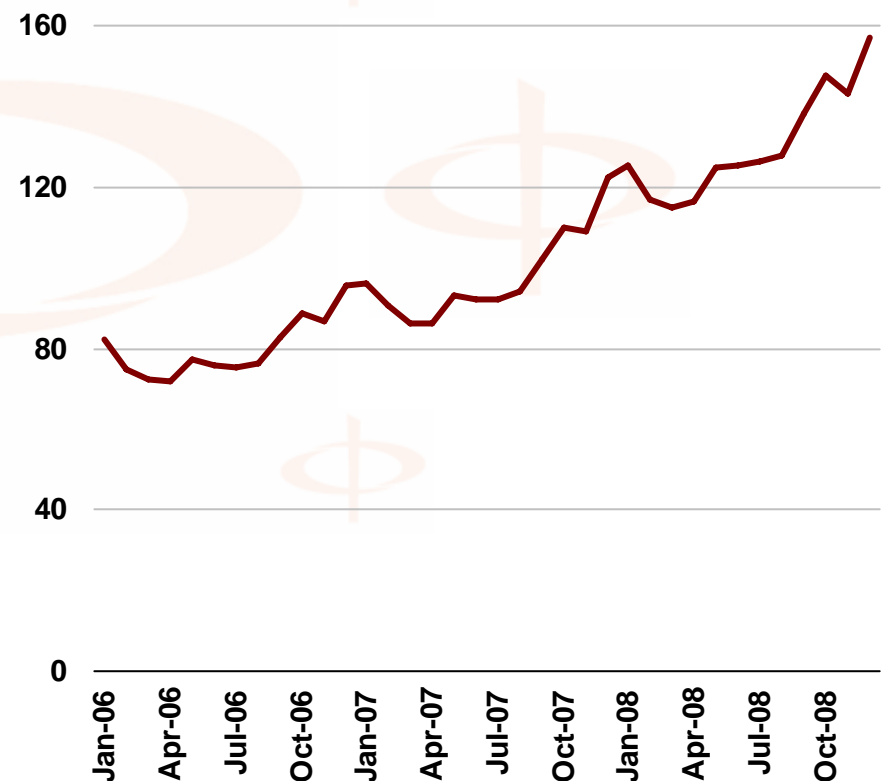
REFLECTING CHINA'S DEVELOPMENT, PERSONAL CONSUMPTION HAS BEEN ON THE RISE (II)

The sustained growth in retail sales reflects China's development and the consequent increase in the purchasing power of the population

Annual Retail Sales (USD bn, 1978-2008)



Monthly Retail Sales (USD bn, 2006-2008)

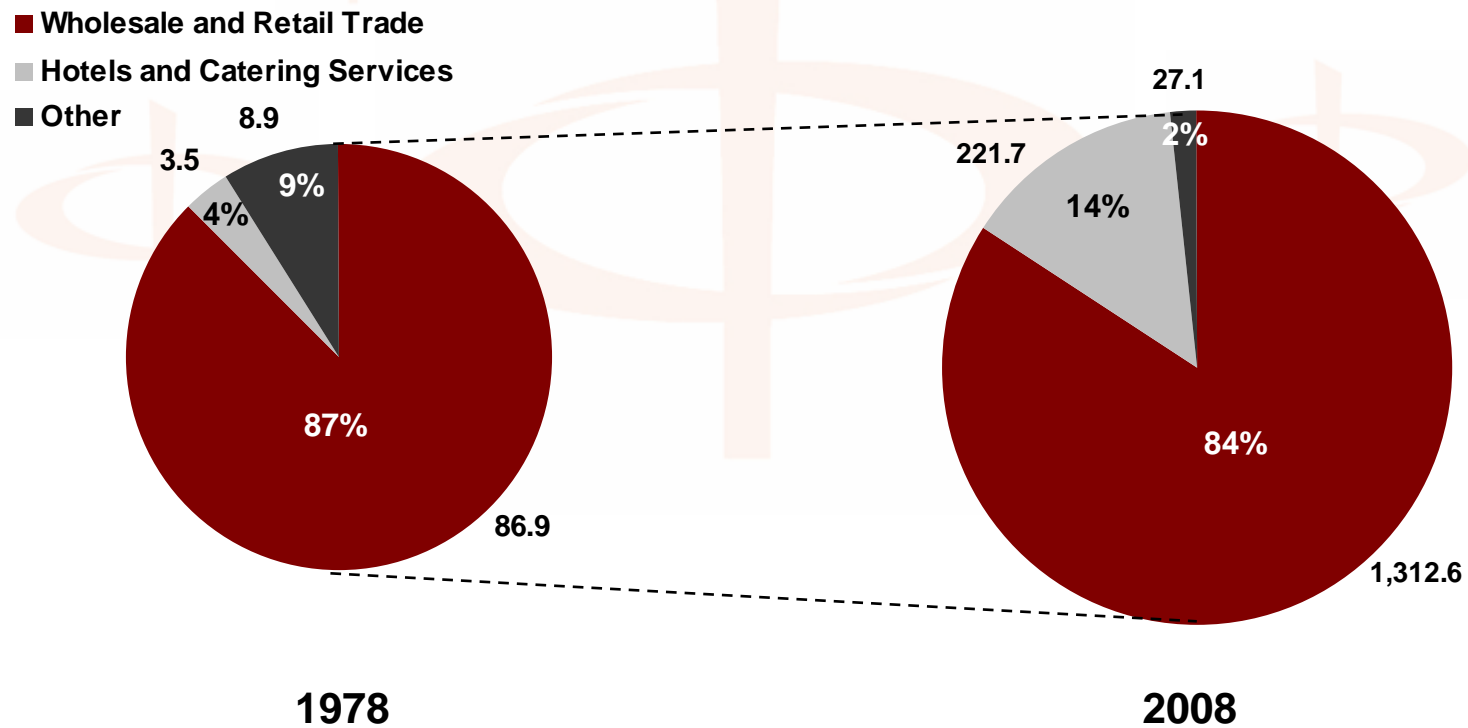




REFLECTING CHINA'S DEVELOPMENT, PERSONAL CONSUMPTION HAS BEEN ON THE RISE (III)

Wholesale and retail trade continue to dominate retail sales; however, hotels and catering services have seen considerable growth in the past 30 years

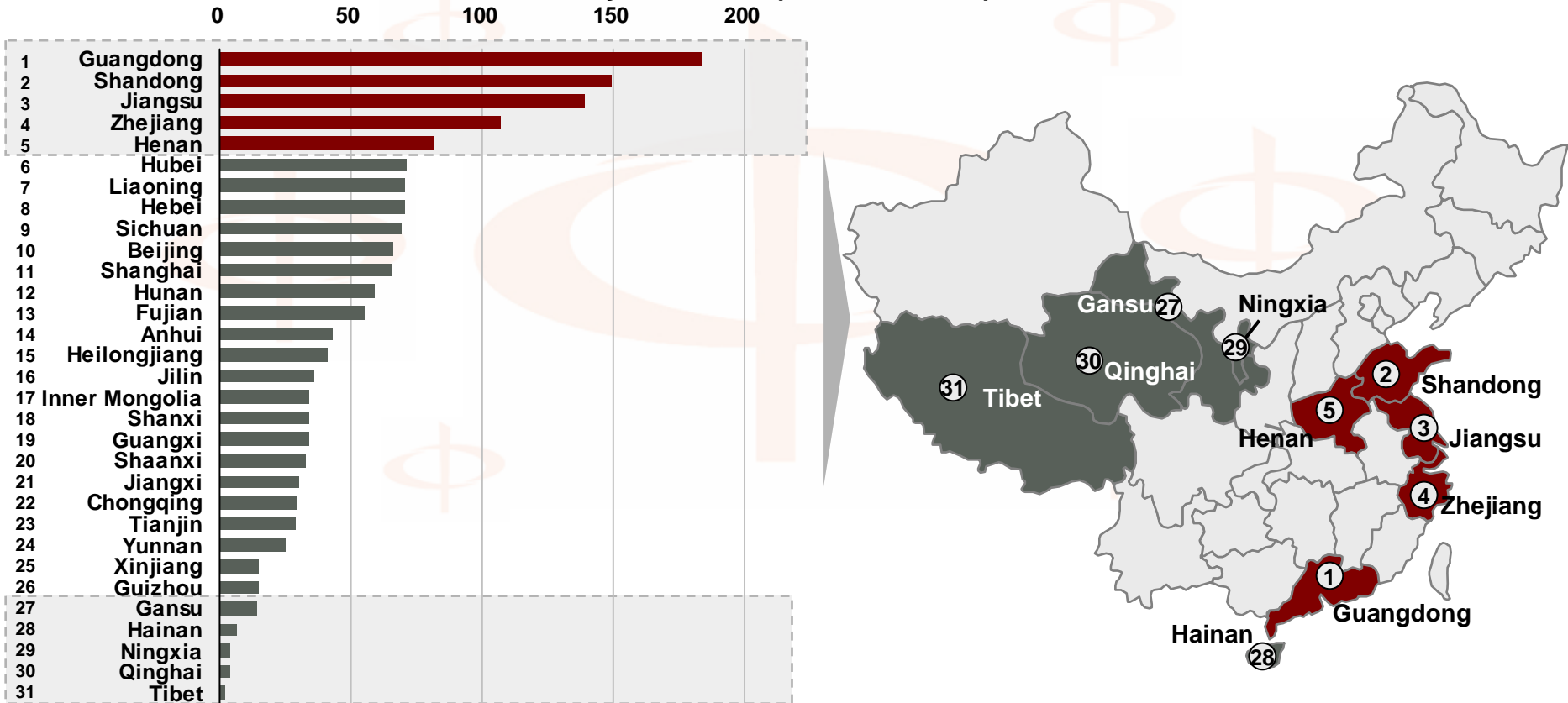
Annual Retail Sales of Consumer Goods by Sub-sector (USD bn, 1978 vs. 2008)



THE MAJORITY OF RETAIL SALES ARE CONCENTRATED IN THE EASTERN COASTAL PROVINCES

Unsurprisingly, the top 5 provinces in terms of retail sales are also the leading provinces in terms of population¹, employed persons and income per capita

Total Retail Sales of Consumer Goods by Province (USD bn, 2008)



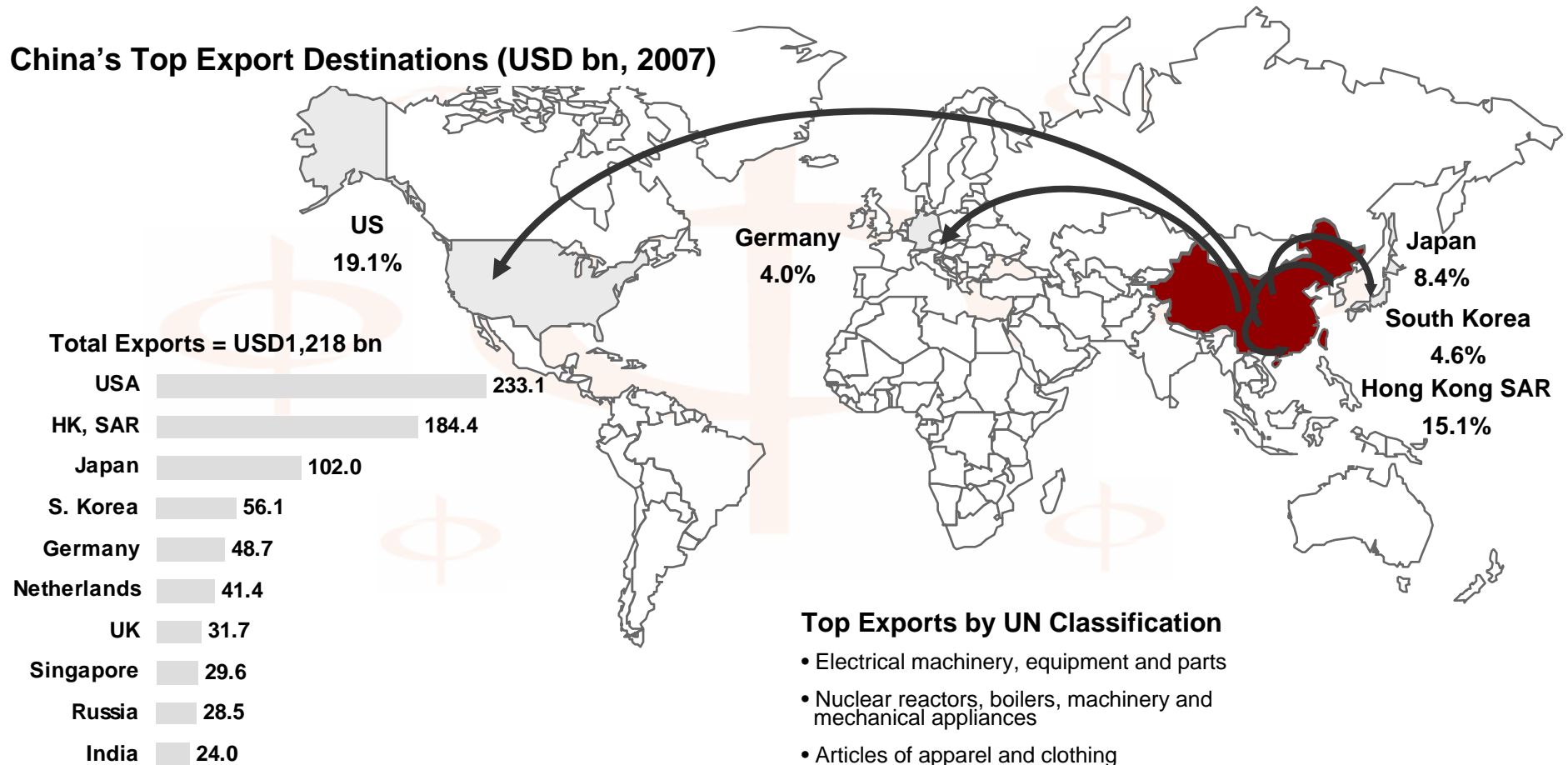
1. The top 5 provinces in terms of population does not include Zhejiang, but does include the four other provinces
 Source: China Statistical Yearbook; THE BEIJING AXIS Analysis



51% OF CHINA'S EXPORTS ARE DESTINED FOR THE US, HONG KONG, JAPAN, SOUTH KOREA, AND GERMANY

The US and Hong Kong¹ are China's main export destinations

China's Top Export Destinations (USD bn, 2007)



Top Exports by UN Classification

- Electrical machinery, equipment and parts
- Nuclear reactors, boilers, machinery and mechanical appliances
- Articles of apparel and clothing

1. Hong Kong is admittedly used a gateway to the rest of the world
 Source: UN Comtrade; THE BEIJING AXIS Analysis



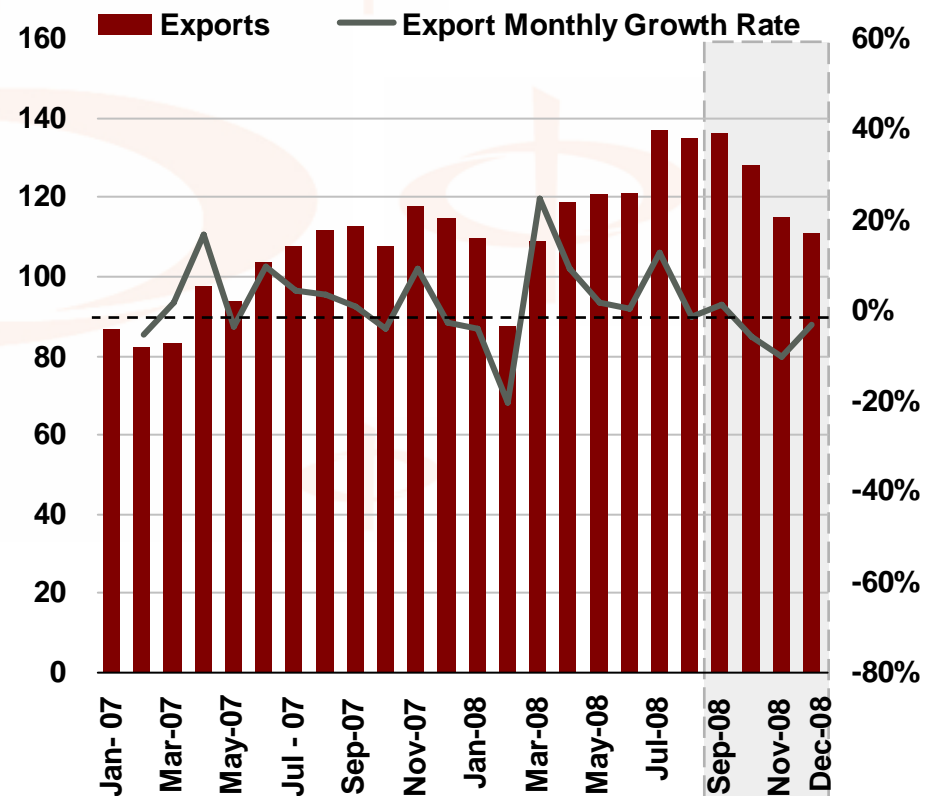
CHINA'S EXPORTS EXPERIENCED RAPID GROWTH FOLLOWING THE COUNTRY'S ACCESSION TO THE WTO

The global financial crisis, however, has sharply affected China's exports

Annual Exports (USD bn, 1997-2008)



Monthly Exports (USD bn, 2007-2008)

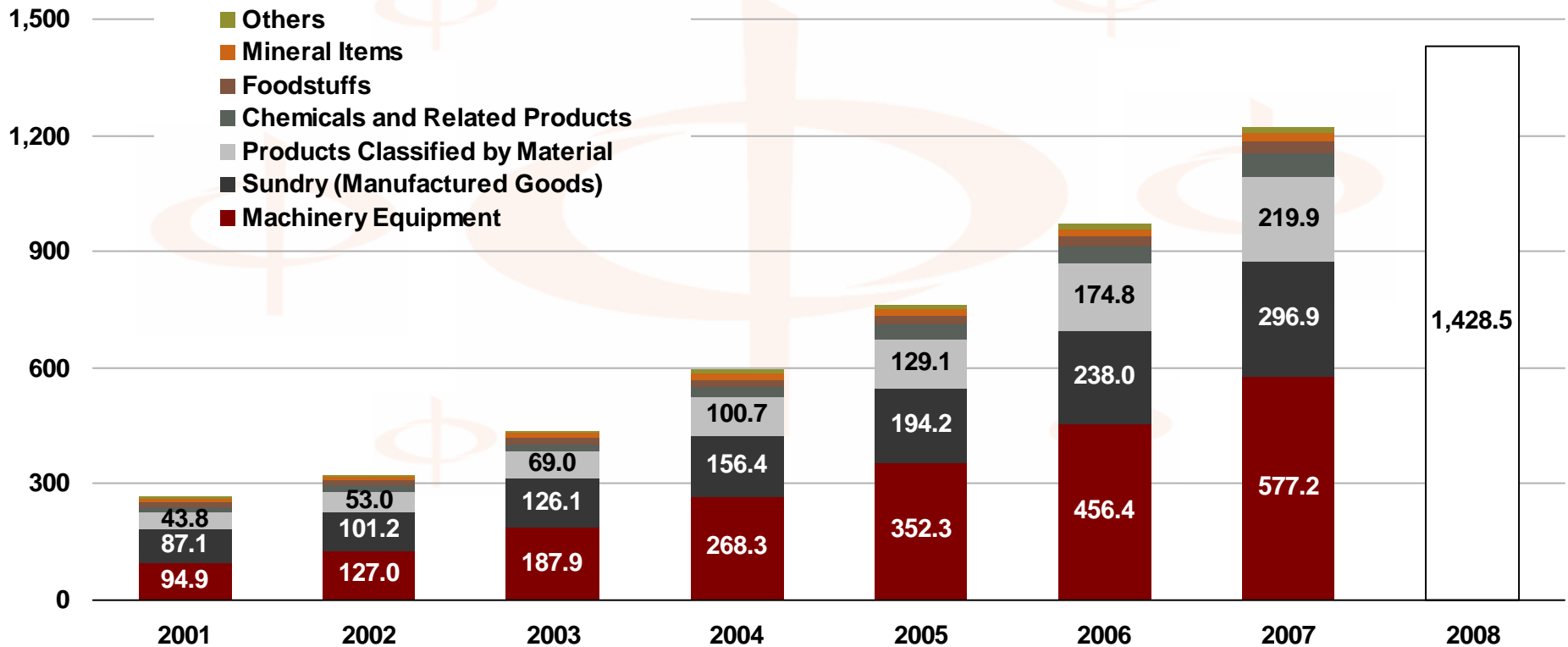




COMMONLY REGARDED AS THE WORLD'S FACTORY FLOOR, CHINA IS KNOWN FOR ITS COMPETITIVE PRODUCTS

This is supported by the fact that the bulk of the country's exports are manufactured goods

Export Commodity Composition¹ (USD bn, 2001-2008)



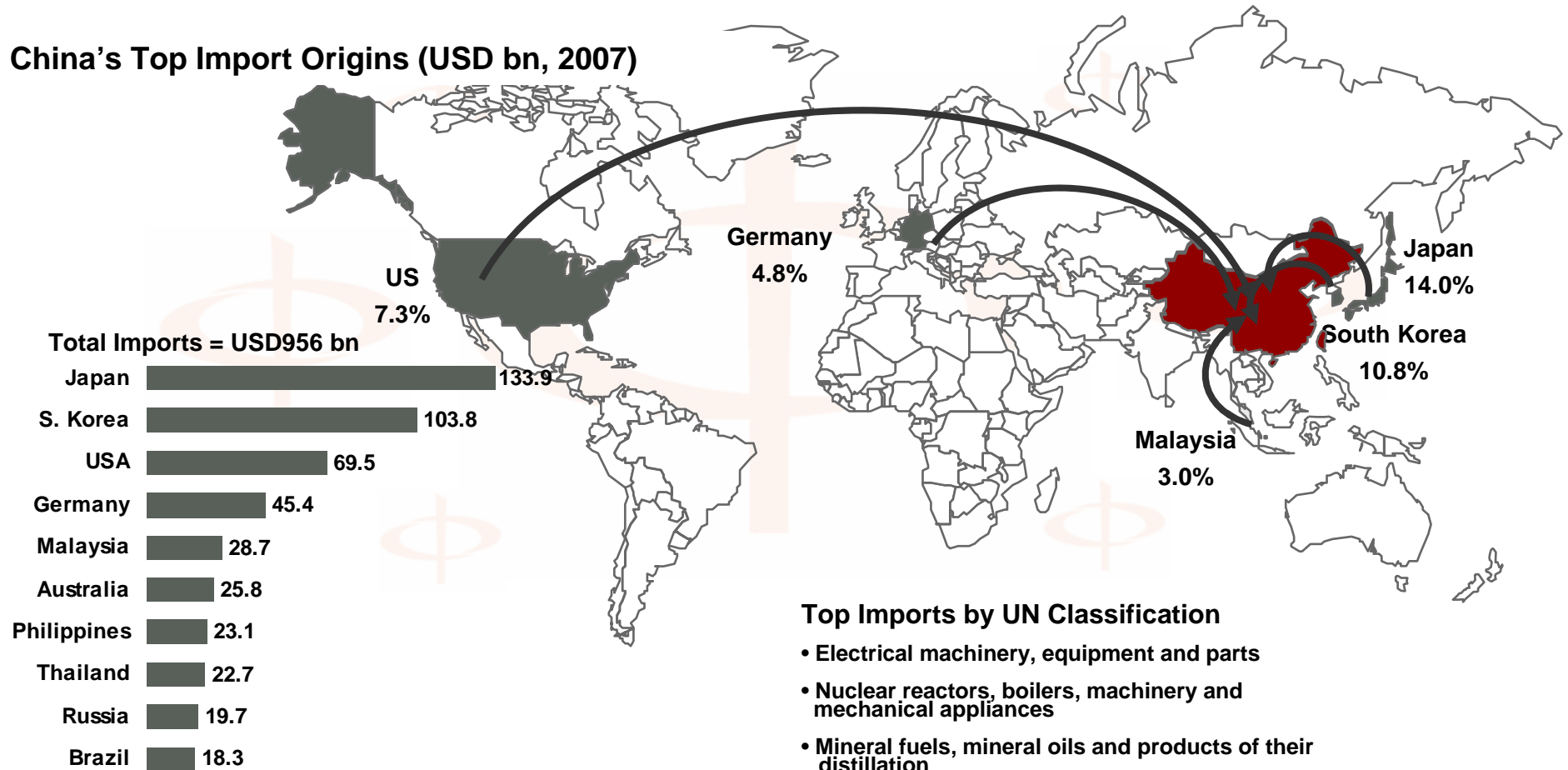
1. SITC Classification System
 Source: MOFCOM; THE BEIJING AXIS Analysis



40% OF CHINA'S IMPORTS COME FROM JAPAN, SOUTH KOREA, THE US, GERMANY, AND MALAYSIA

In 2007, Japan and South Korea were the top suppliers, accounting for 25% of China's total imports

China's Top Import Origins (USD bn, 2007)



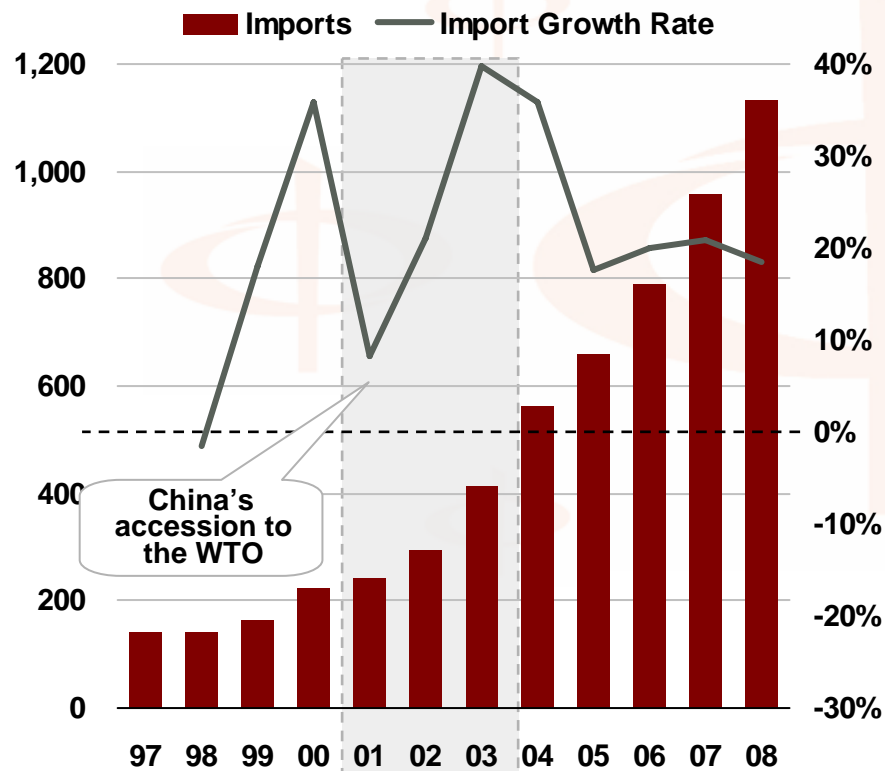
Top Imports by UN Classification

- Electrical machinery, equipment and parts
- Nuclear reactors, boilers, machinery and mechanical appliances
- Mineral fuels, mineral oils and products of their distillation

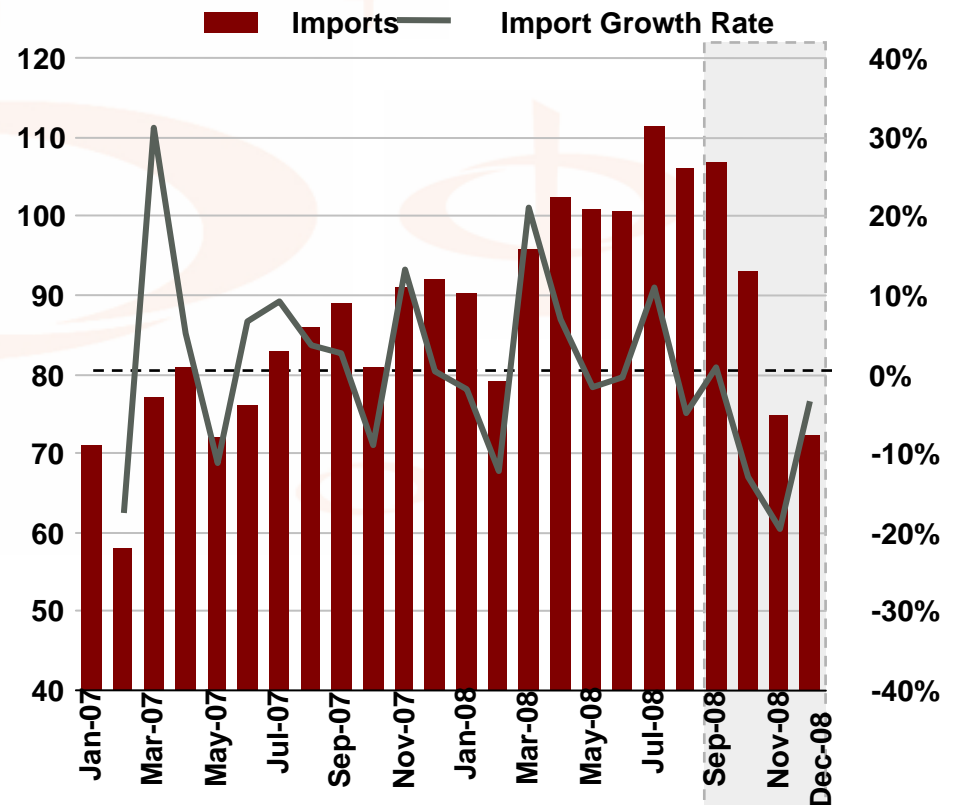
CHINA'S IMPORTS EXPERIENCED RAPID GROWTH AFTER THE COUNTRY'S ACCESSION TO THE WTO

Imports registered a peak annual growth of 40% before stabilising at around 20%; the latter part of 2008 saw plunging imports due to the global crisis

Annual Imports (USD bn, 1997-2008)



Monthly Imports (USD bn, 2007-2008)

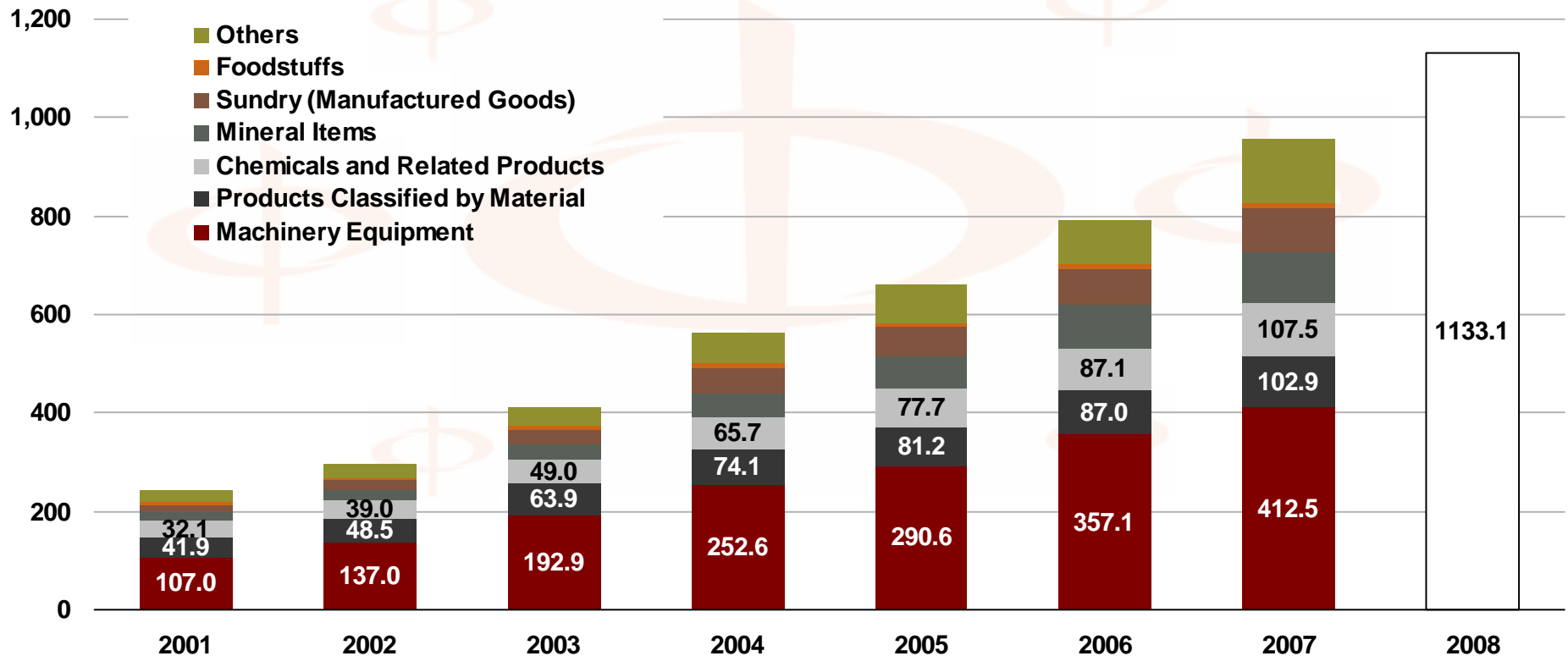




AS AN ECONOMIC SUPERPOWER WITH AN AMBITIOUS DEVELOPMENT PLAN, CHINA NEEDS IMPORTED GOODS

The majority of these imports are machinery equipment, chemicals and related products, as well as, of course, minerals

Import Commodity Composition¹ (USD bn, 2001-2008)



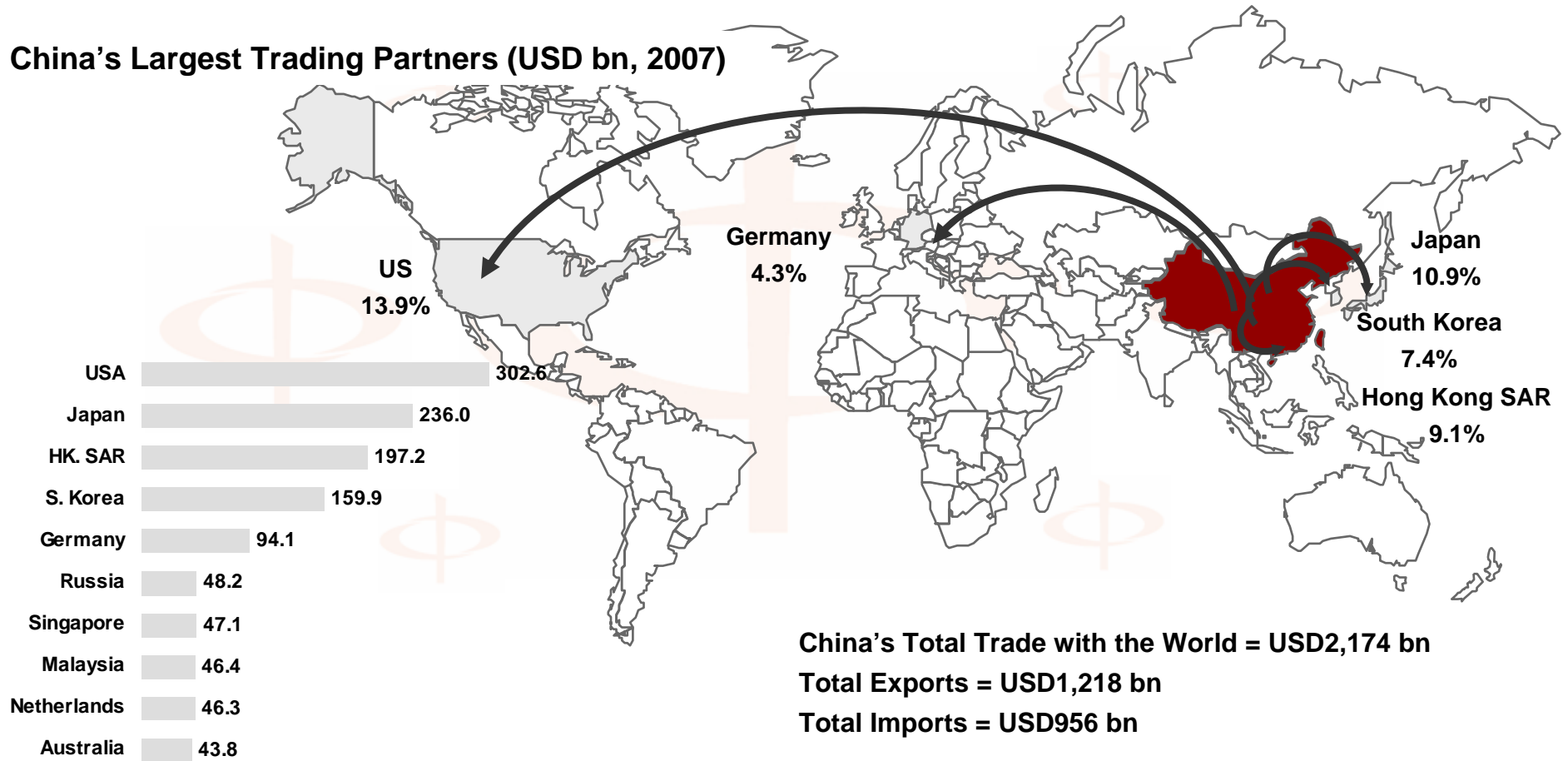
1. SITC Classification System
 Source: MOFCOM; THE BEIJING AXIS Analysis



45% OF CHINA'S TOTAL TRADE IS WITH THE US, JAPAN, HONG KONG, SOUTH KOREA, AND GERMANY

The US accounted for USD302 bn in 2007

China's Largest Trading Partners (USD bn, 2007)

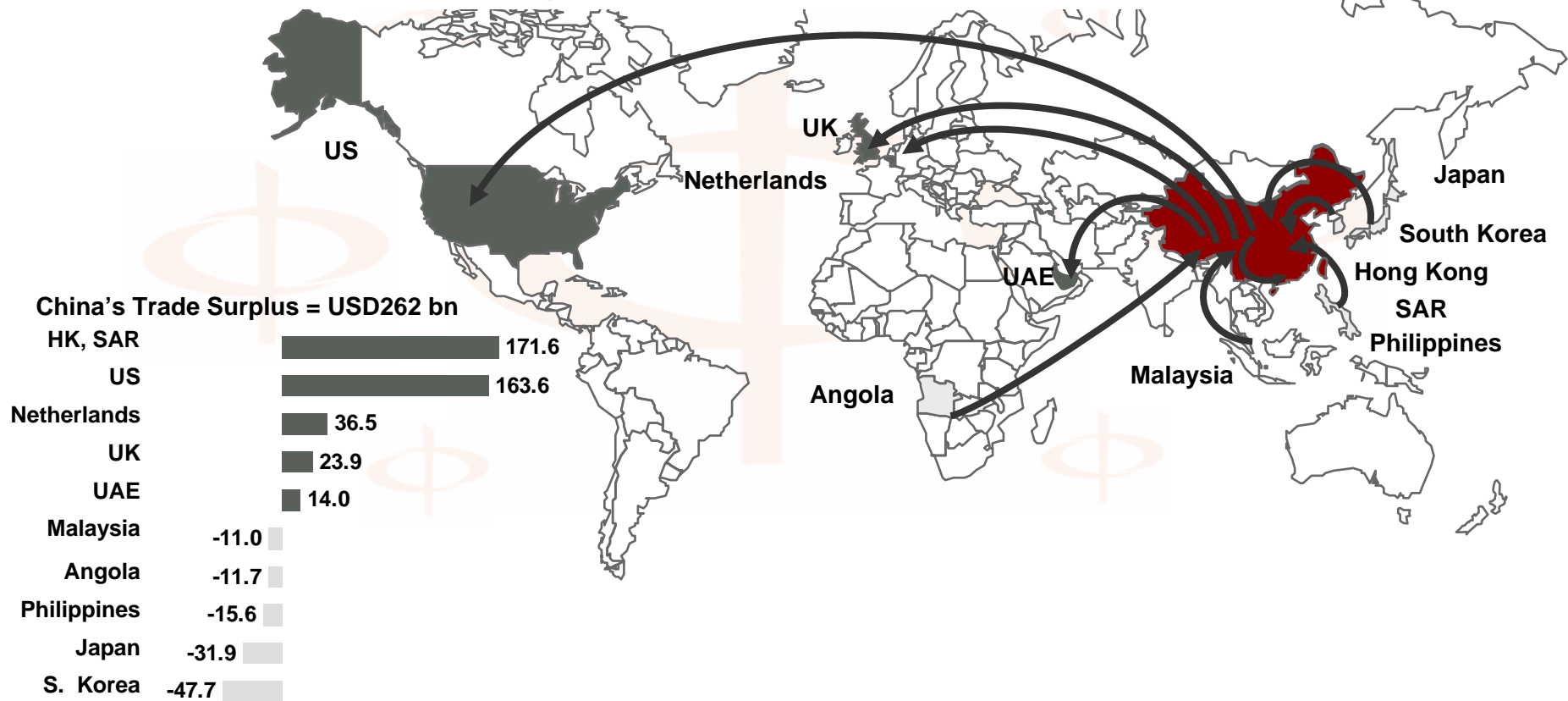




CHINA HAS A LARGE TRADE SURPLUS WITH HONG KONG & THE US, WHILE IT HAS A TRADE DEFICIT WITH S. KOREA & JAPAN

The larger share of China's trade deficit is centered in Asia Pacific

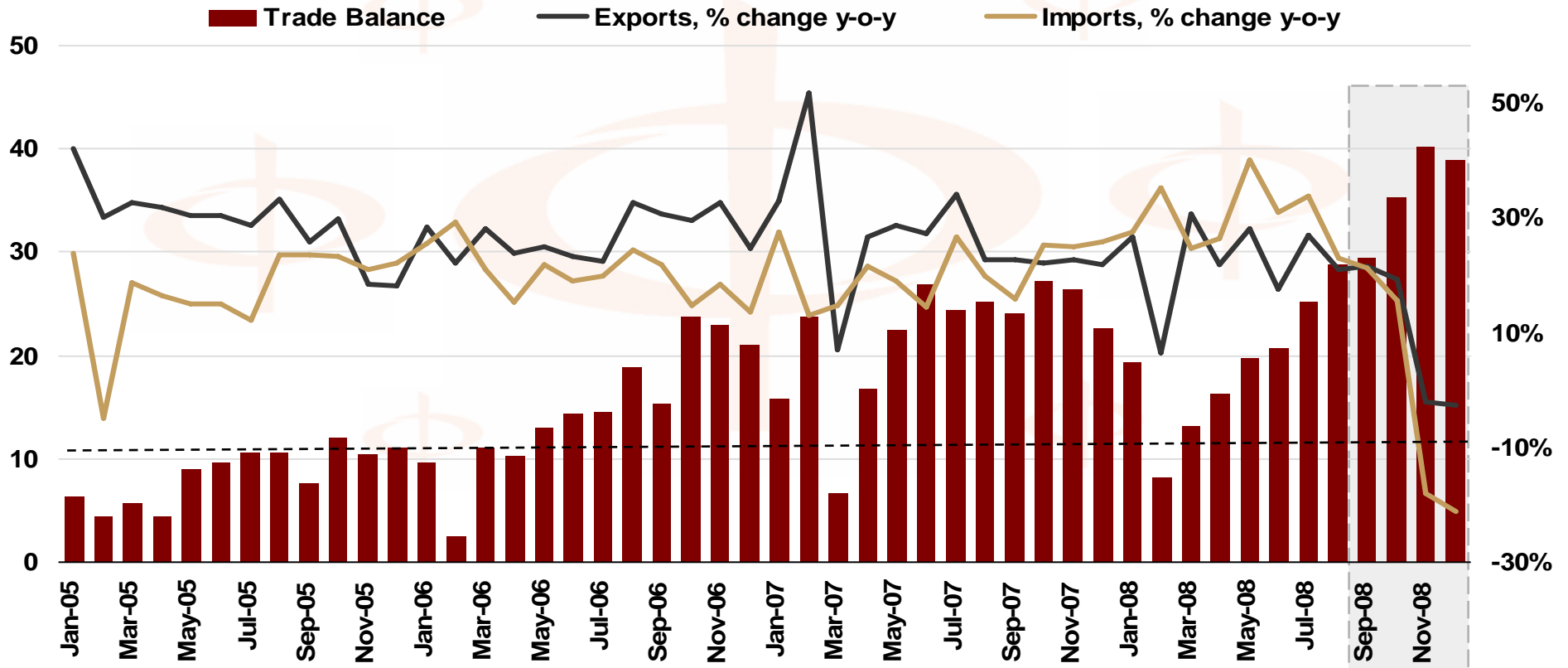
China's Trade Balance with the 5 Largest Surplus and Deficit Countries (USD bn, 2007)



DEC 08's TRADE SURPLUS OF USD39 BN WAS THE SECOND-HIGHEST EVER AFTER NOV 08's USD40.1 BN

This surprising figure, at the 'height' of the global crisis, was the result of plummeting imports that greatly exceeded the drop in exports

China's Monthly Trade Balance (USD bn, 2005-2008)



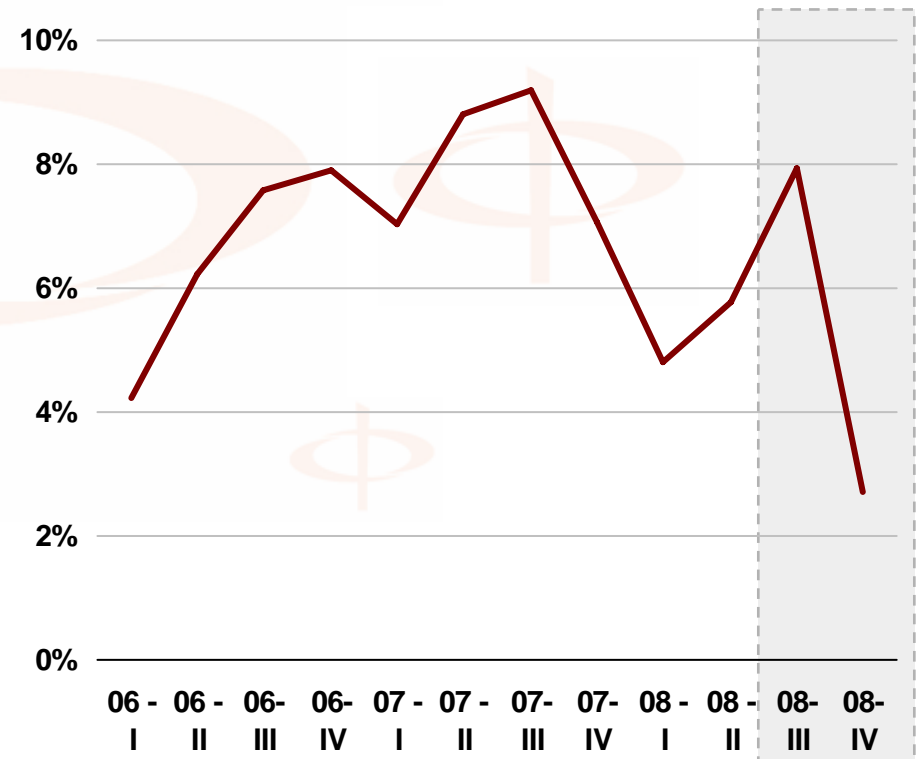
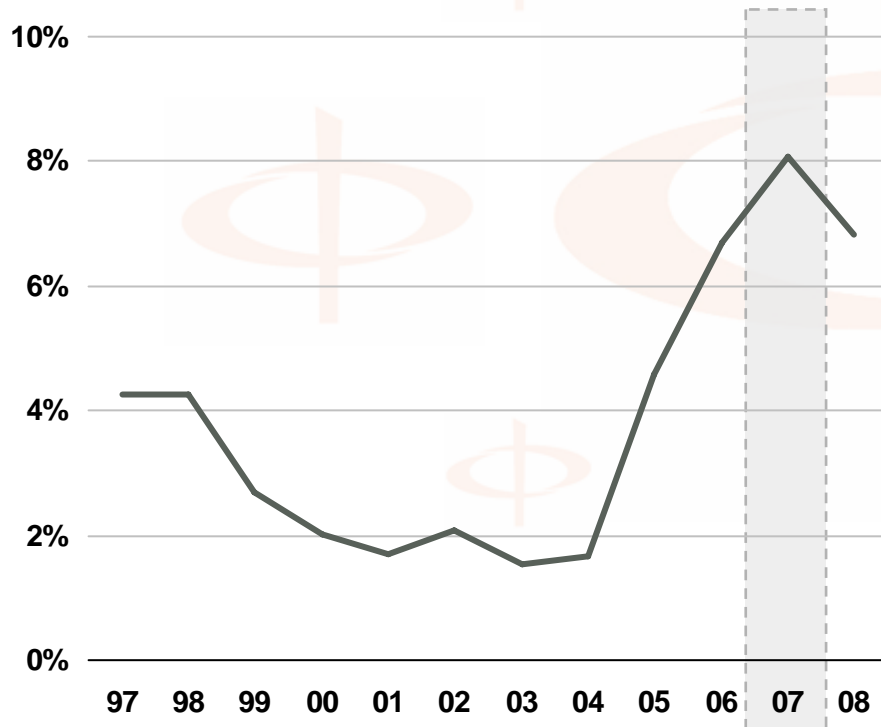


AS AN ELEMENT OF GDP, CHINA'S TRADE SURPLUS PEAKED AT AROUND 8% IN 2007

However, the current environment caused China's trade to plunge in late 2008, leaving fixed investment and total consumption¹ as the primary drivers of GDP

Net Exports / GDP Annual (1997-2008)

Net Exports / GDP Quarterly (2006-2008)



1. Total Consumption = Private Household Consumption + Government Consumption
 Source: China Statistical Yearbook; China Monthly Economic Indicators; THE BEIJING AXIS Analysis

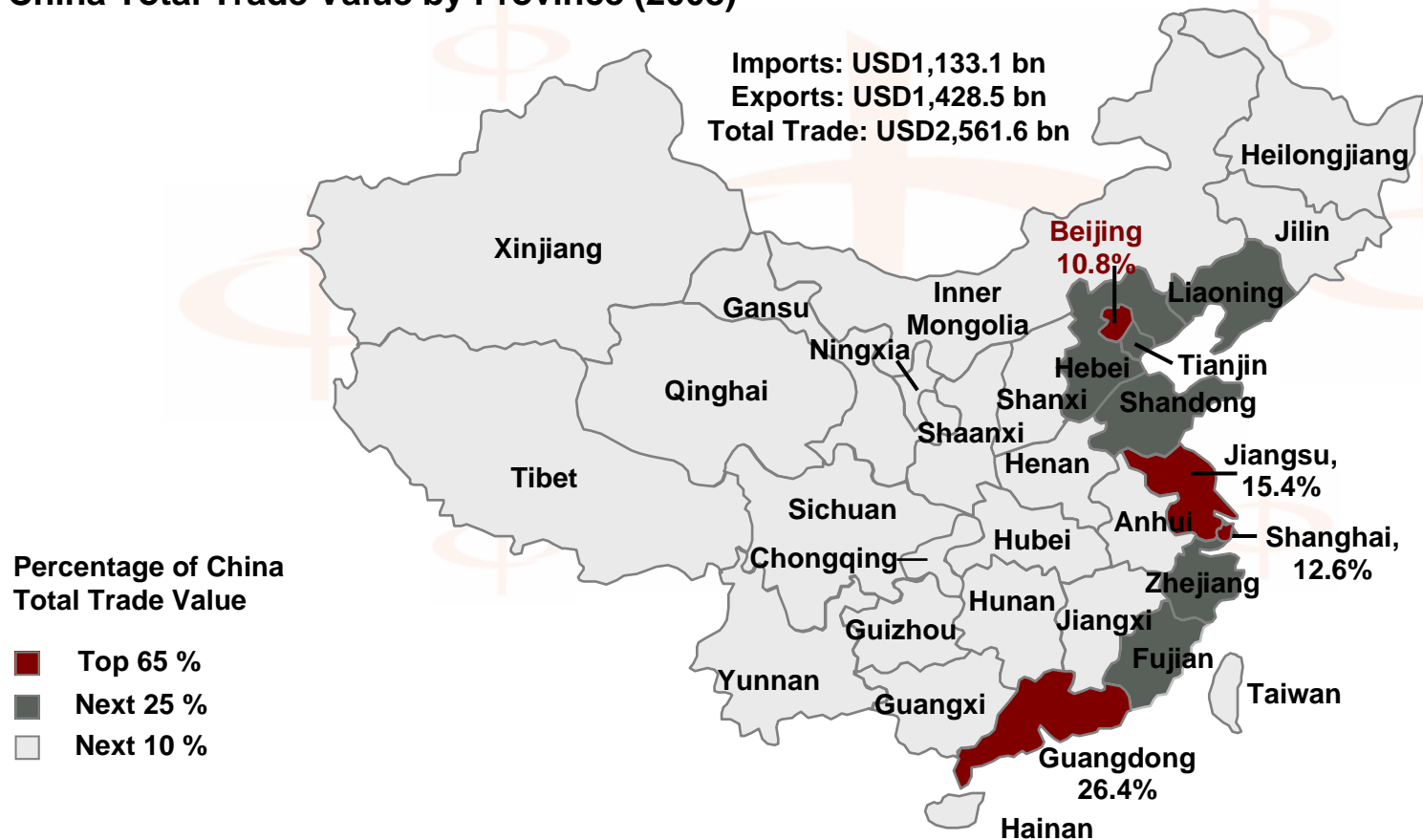


90% OF CHINA'S TOTAL INTERNATIONAL TRADE VALUE IS CONCENTRATED IN 9 PROVINCES

These coastal areas also have the highest GDP, GDP per capita, retail sales, fixed asset investment, FDI, and personal income

China Total Trade Value by Province (2008)

Imports: USD1,133.1 bn
 Exports: USD1,428.5 bn
 Total Trade: USD2,561.6 bn



Percentage of China Total Trade Value

- Top 65 %
- Next 25 %
- Next 10 %



■ ■ ■ ■ ■ ■ ■ ■

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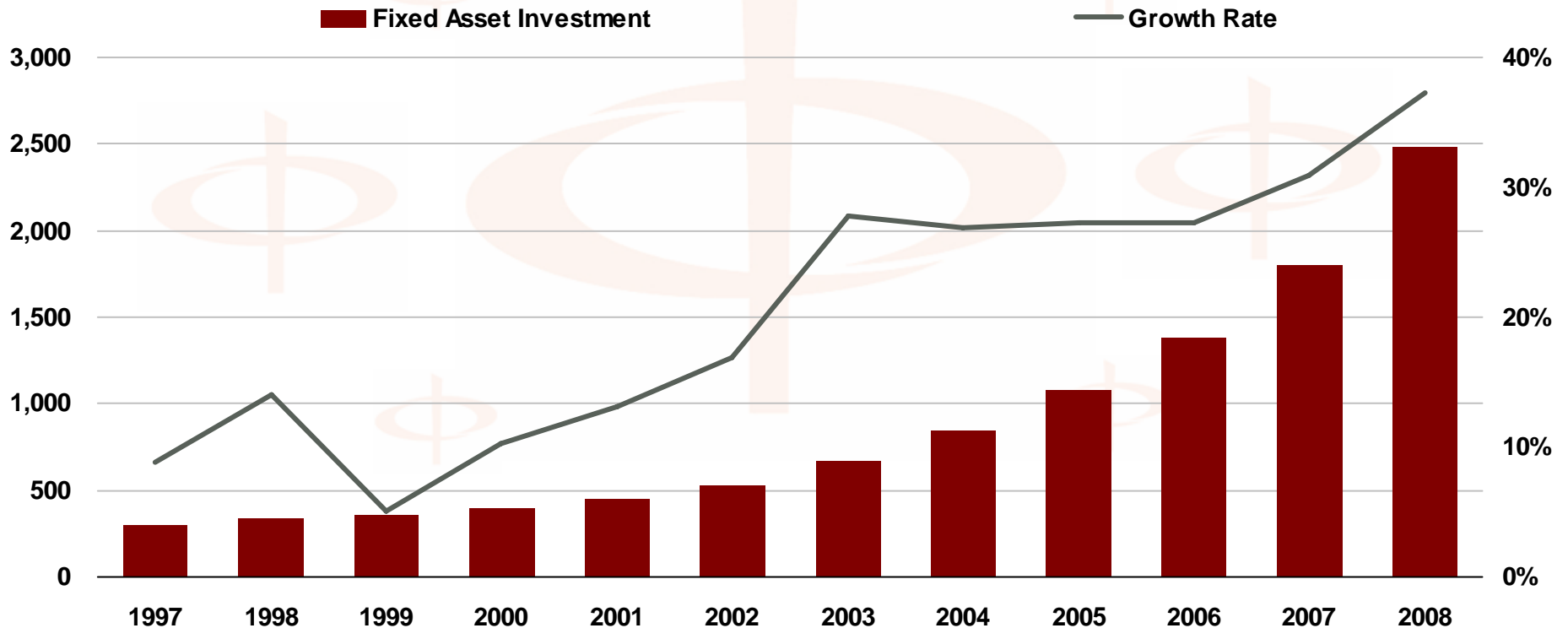
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CHINA'S FIXED ASSET INVESTMENT HAS BEEN GROWING AT AN INCREASING PACE SINCE 1999

China has depended heavily on investment for its economic growth

Fixed Asset Investment (USD bn, 1997-2008)

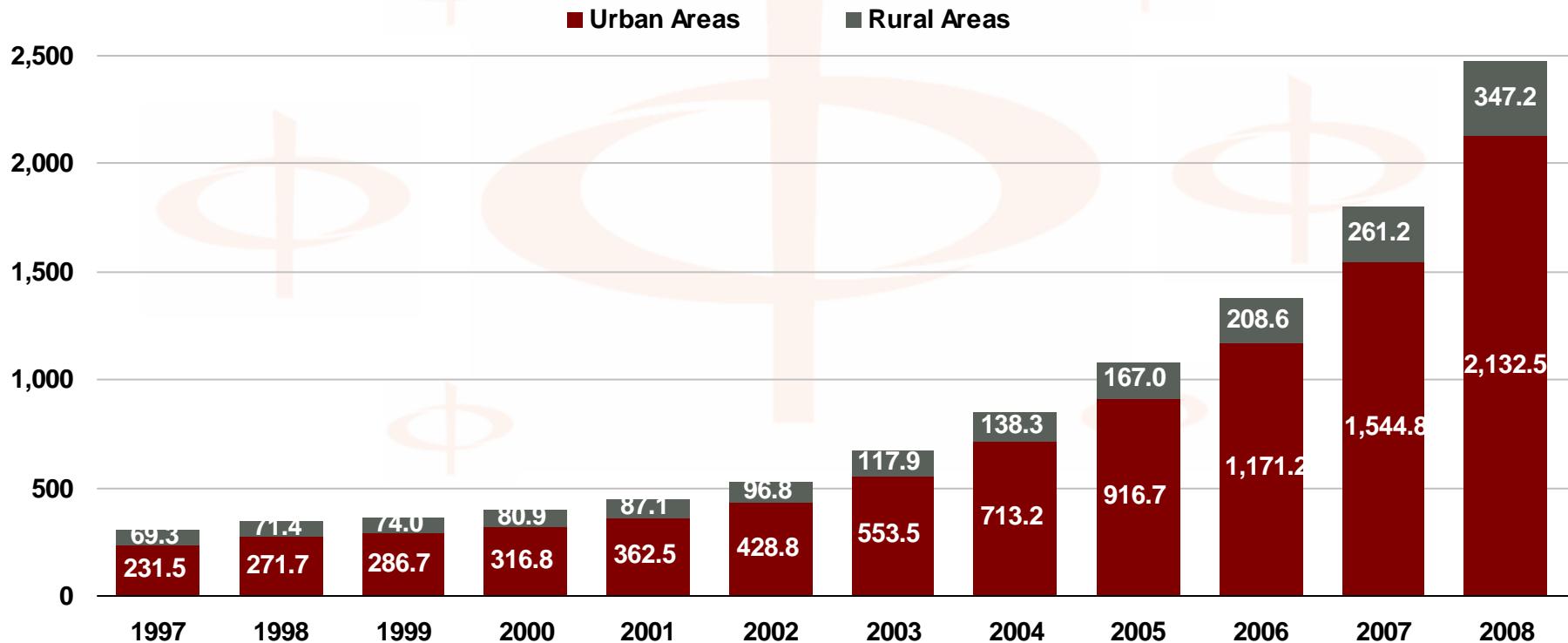




MORE THAN 80% OF CHINA'S FIXED ASSET INVESTMENT HAS BEEN IN URBAN AREAS

In 2008, China's total fixed asset investment was USD2,479 bn;
 of which 86% was invested in urban areas

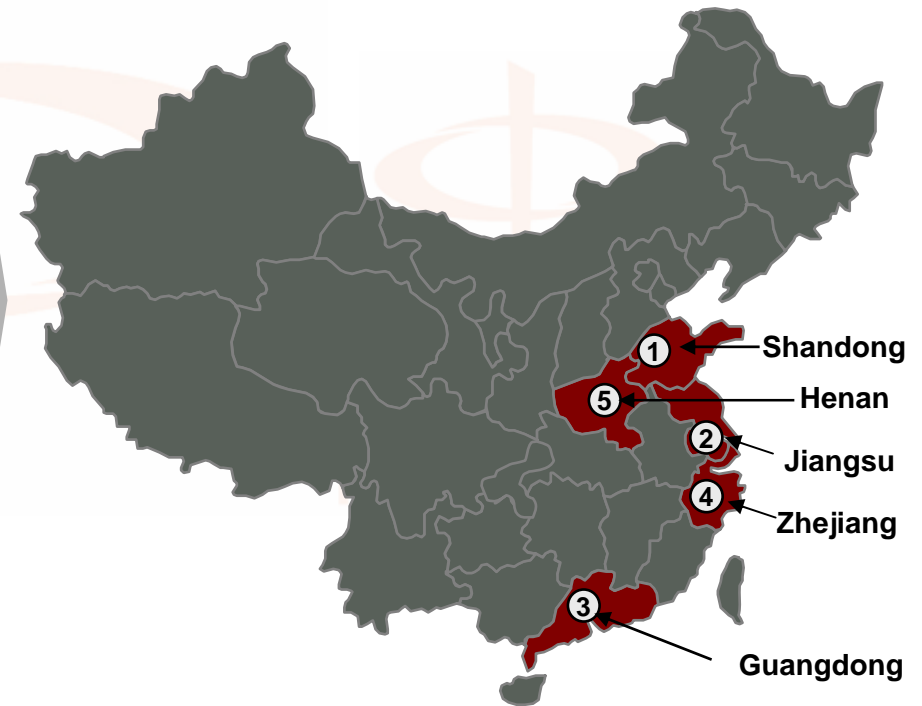
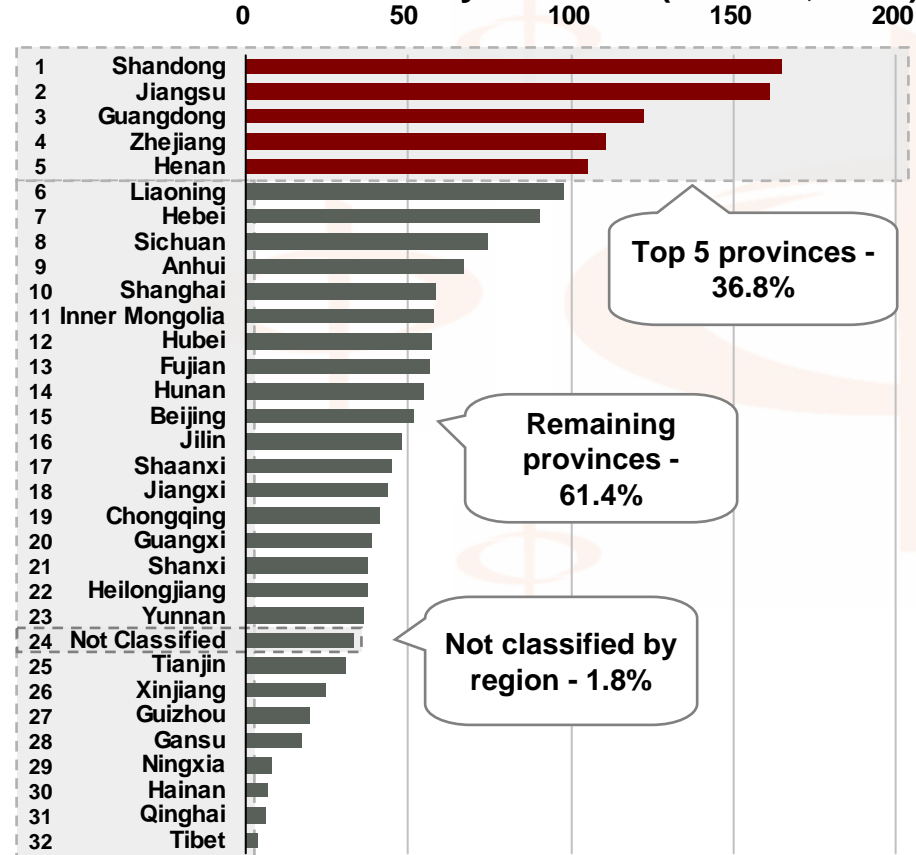
Total Investment in Urban and Rural Areas (USD bn, 1997-2008)



CHINA'S FIXED ASSET INVESTMENT IS PRIMARILY FOCUSED ON THE COASTAL PROVINCES

China's coastal provinces have greater demand for fixed asset investment in order to develop their economies

Fixed Asset Investment by Province (USD bn, 2007)

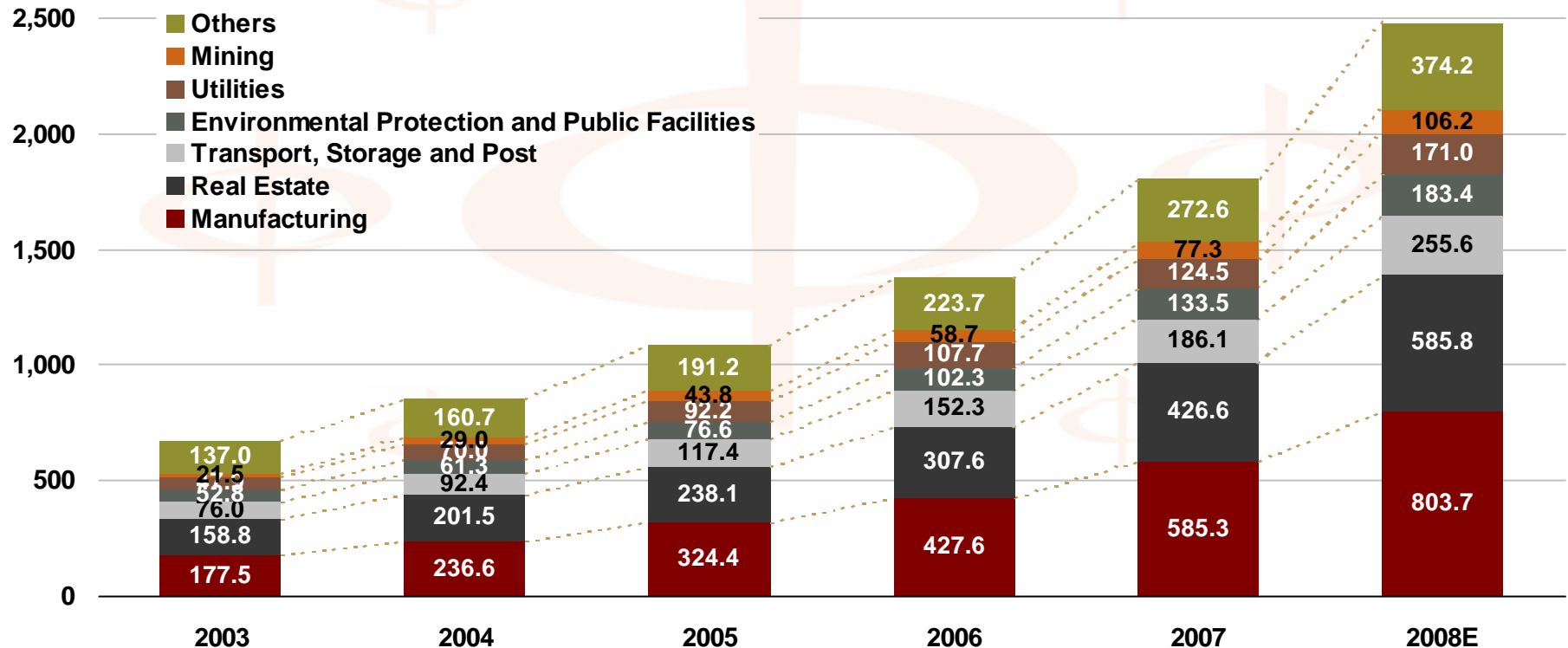




MANUFACTURING AND REAL ESTATE HAVE BEEN THE TOP TWO SECTORS FOR ATTRACTING FIXED ASSET INVESTMENT

China's ongoing industrialisation has prompted an increasing amount of investment in some sectors, especially manufacturing

Fixed Asset Investment by Sector (USD bn, 2003-2008E)

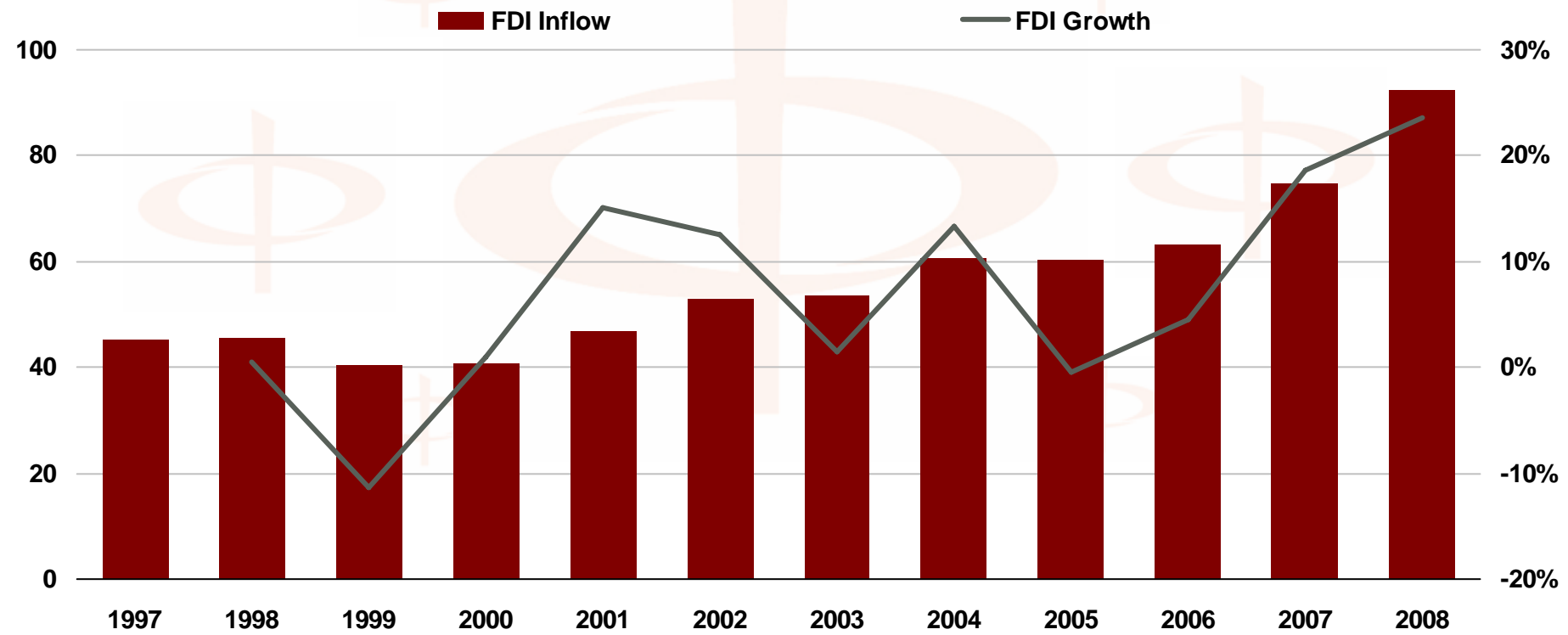




FDI FLOWS INTO CHINA HAVE BEEN GROWING STEADILY FOR THE LAST DECADE

China's low manufacturing costs, large market potential and attractive investment environment are key factors in attracting FDI

FDI Inflow (USD bn, 1997-2008)

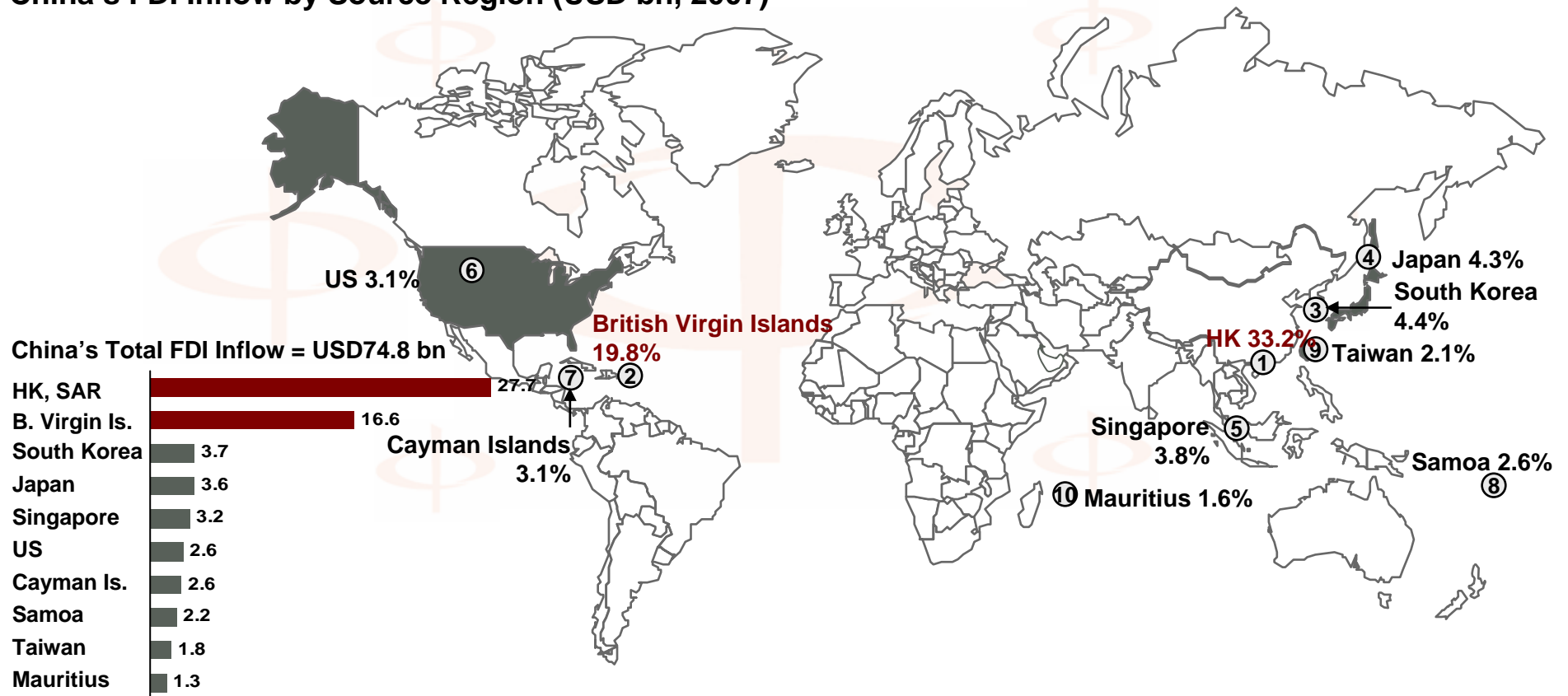


Note: FDI = foreign direct investment
 Source: IMF; MOFCOM; THE BEIJING AXIS Analysis

OFFSHORE FINANCIAL CENTRES HAVE BEEN THE TOP 'SOURCES' OF FDI FOR CHINA

In 2007, 78% of China's FDI came from 10 countries, but the true countries of origin are hidden by the use of HK, BVI, Cayman Islands, Mauritius, etc.

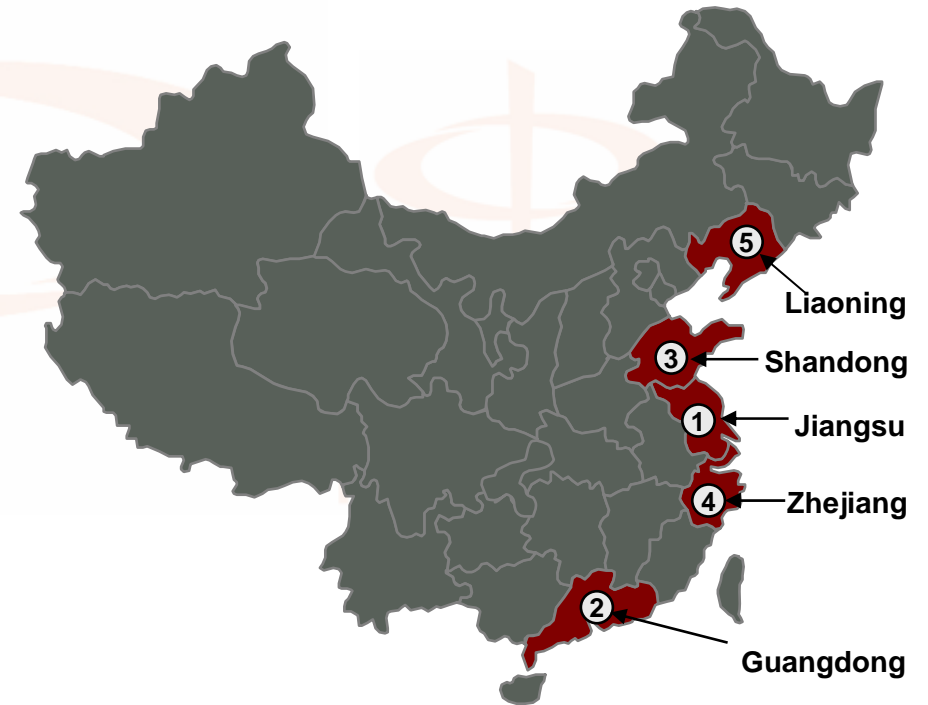
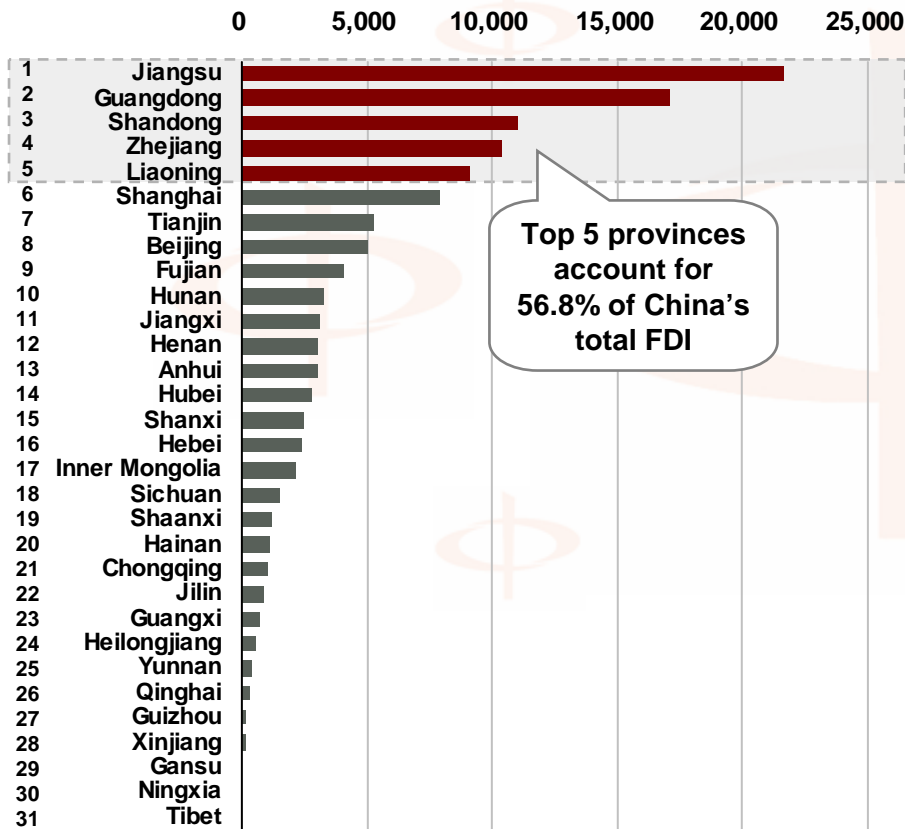
China's FDI Inflow by Source Region (USD bn, 2007)



CHINA'S COASTAL PROVINCES HAVE ATTRACTED SUBSTANTIALLY MORE FDI THAN INLAND PROVINCES

The larger market size, infrastructure and the more attractive nature of the business environment are key elements in attracting FDI to coastal provinces

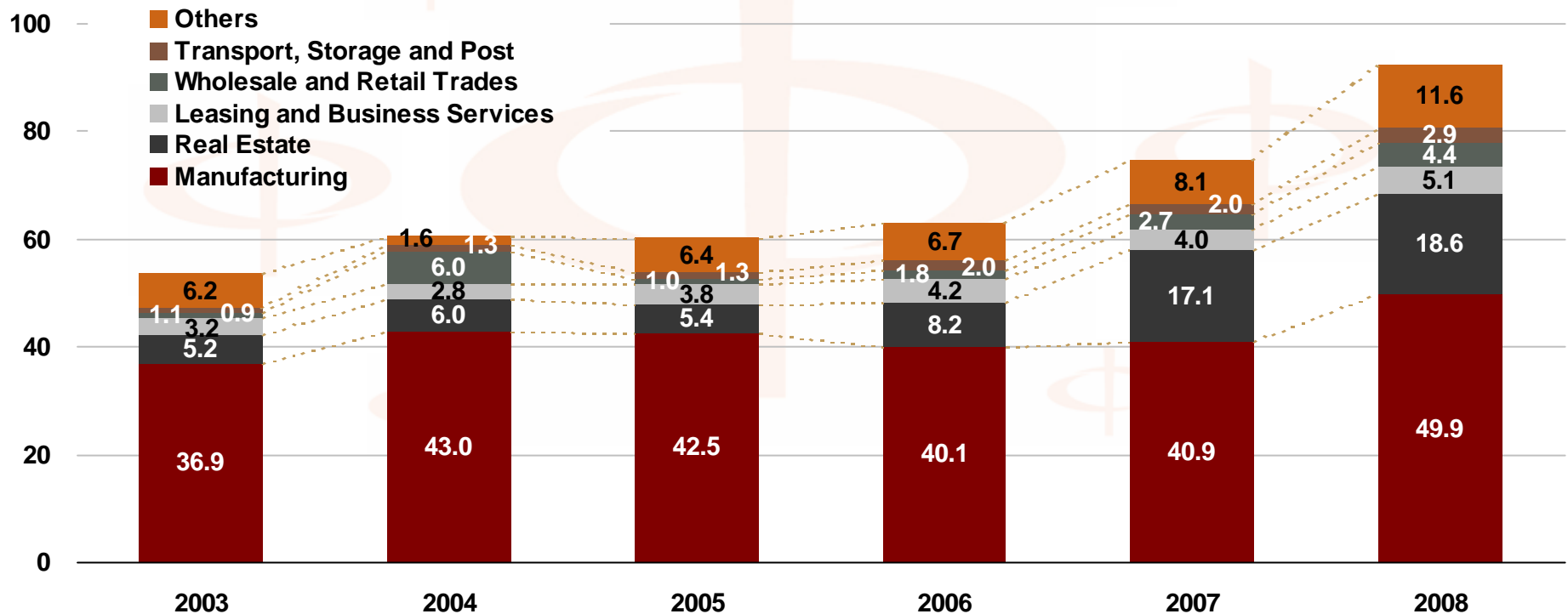
FDI Inflow by Province (USD mn, 2007)



ALMOST HALF OF CHINA'S FDI HAS BEEN INVESTED IN ITS MANUFACTURING SECTOR

This is rooted in the context of China's industrialisation and the perceived status of the country as the world's factory floor

China's FDI Inflow by Sector (USD bn, 2003-2008)

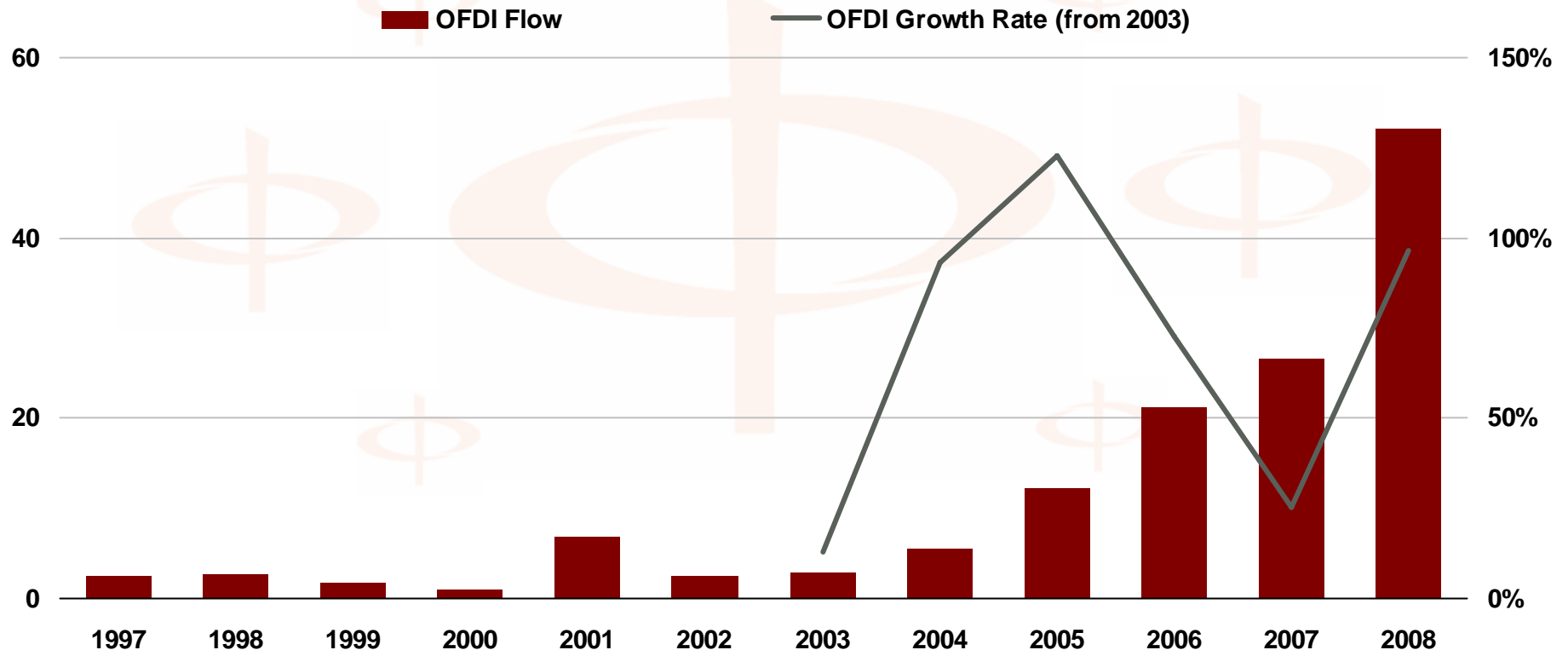




CHINA'S OUTWARD FDI (OFDI) HAS SEEN SHARP GROWTH OVER RECENT YEARS

Over the past 5 years China has become more active in its OFDI activities, driven by its increasing need for new markets, technology and more resources

China Outward FDI Flow (USD bn, 1997-2008)

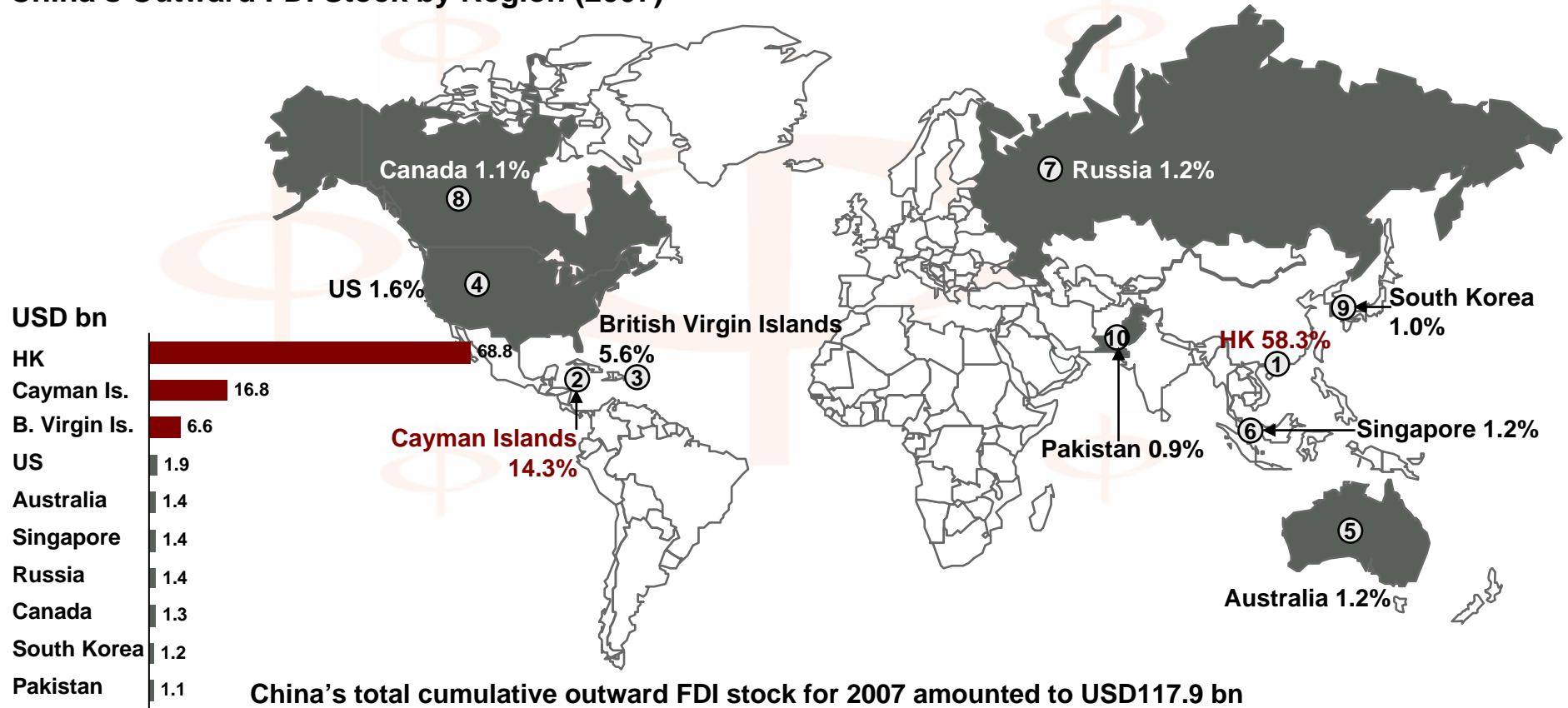




CHINA'S OFDI HAS EXTENDED TO ALL CONTINENTS

Usually via international financial centres such as HK, Cayman Islands and BVI

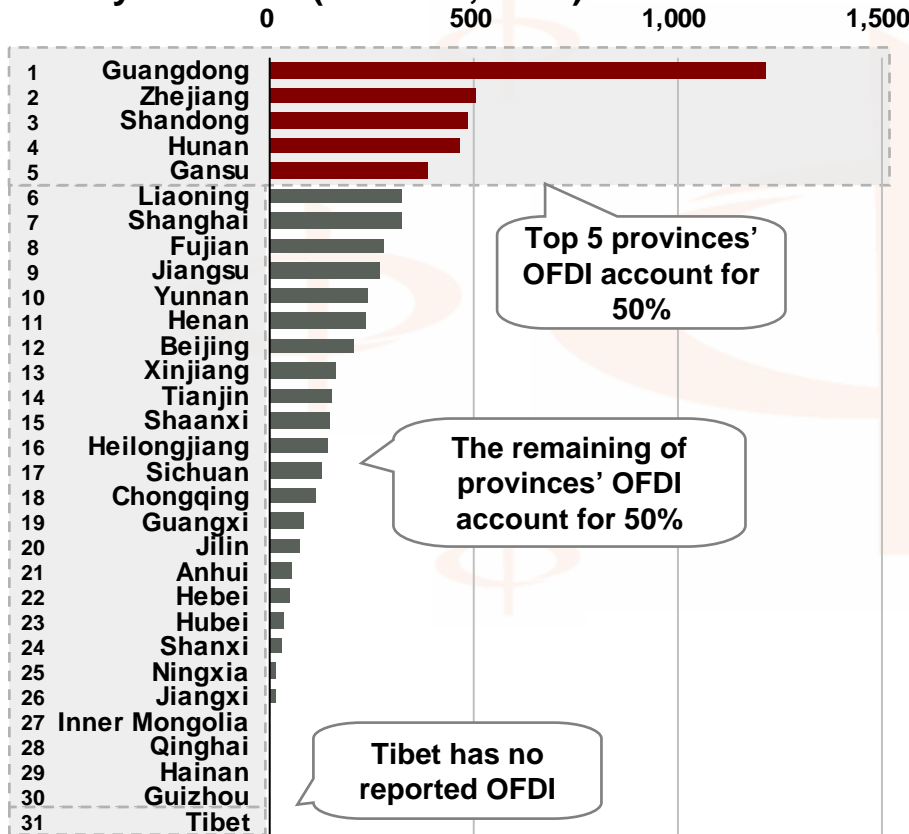
China's Outward FDI Stock by Region (2007)



IN 2008, HALF OF CHINA'S NON-FINANCIAL OFDI CAME FROM FIVE PROVINCES

Unlike with FDI, Chinese sources of OFDI are not restricted to the coastal areas

OFDI by Province (USD mn, 2008)

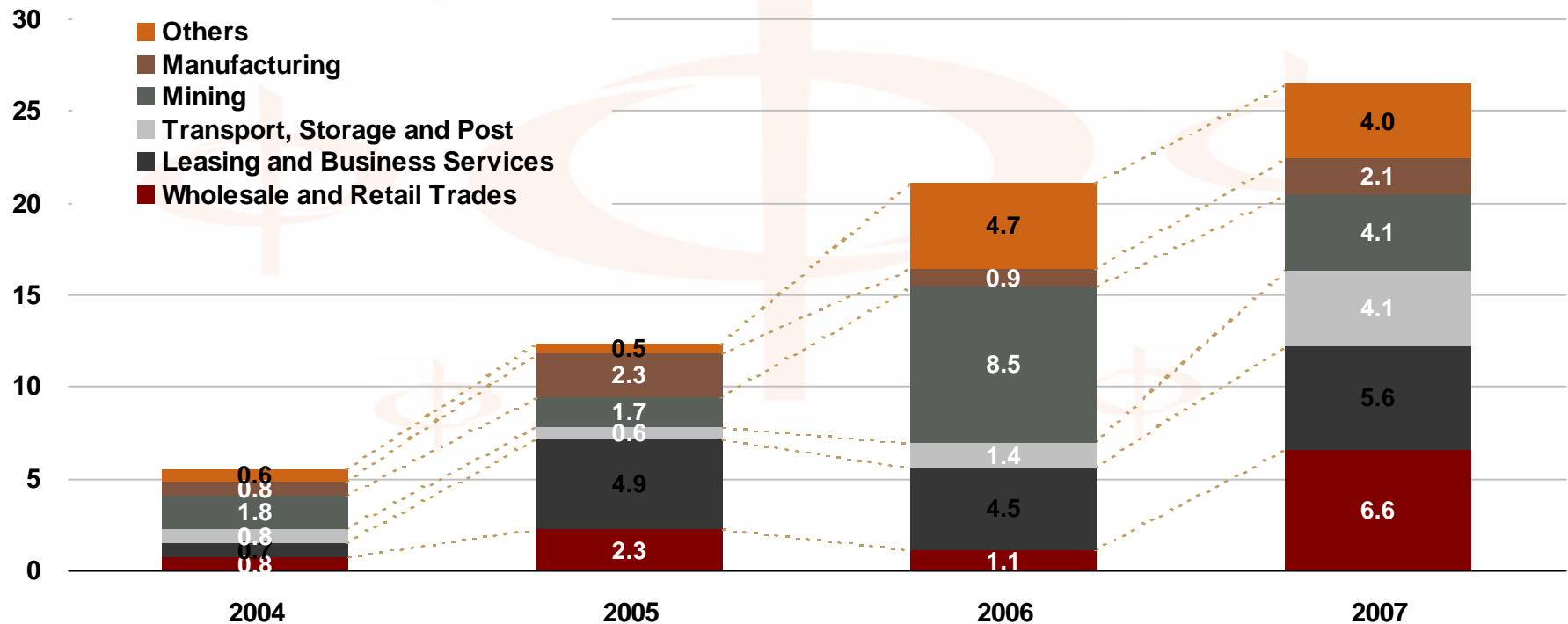




CHINA'S OFDI COVERS MANY SECTORS BUT THERE IS A DISPROPOTIONATE FOCUS ON CERTAIN SECTORS

A substantial portion of China's outward investments are in natural resources, wholesale and retail trades, and manufacturing

China OFDI Flow by Sector (USD bn, 2004-2007)





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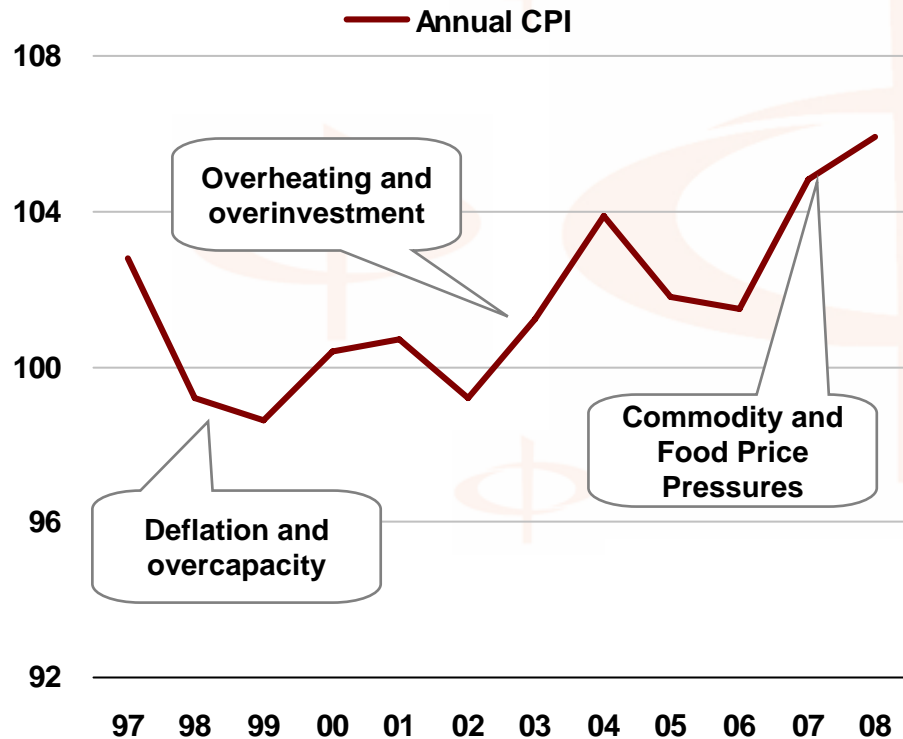
Disclaimer



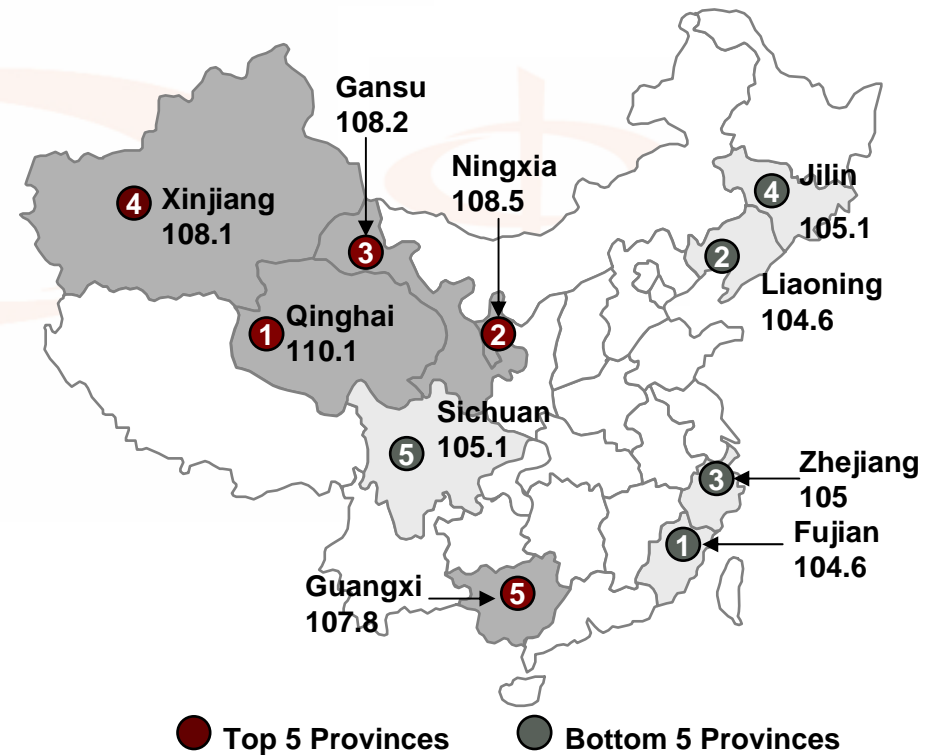
CHINA HAS SEEN PHASES OF INFLATION, DISINFLATION AND DEFLATION OVER THE PAST DECADE

In 2008, the provinces with the highest CPI were concentrated in western China while the provinces with the lowest CPI were concentrated along the coastline

Consumer Price Index Annual (1997-2008)¹



Consumer Price Index by Province (2008)¹



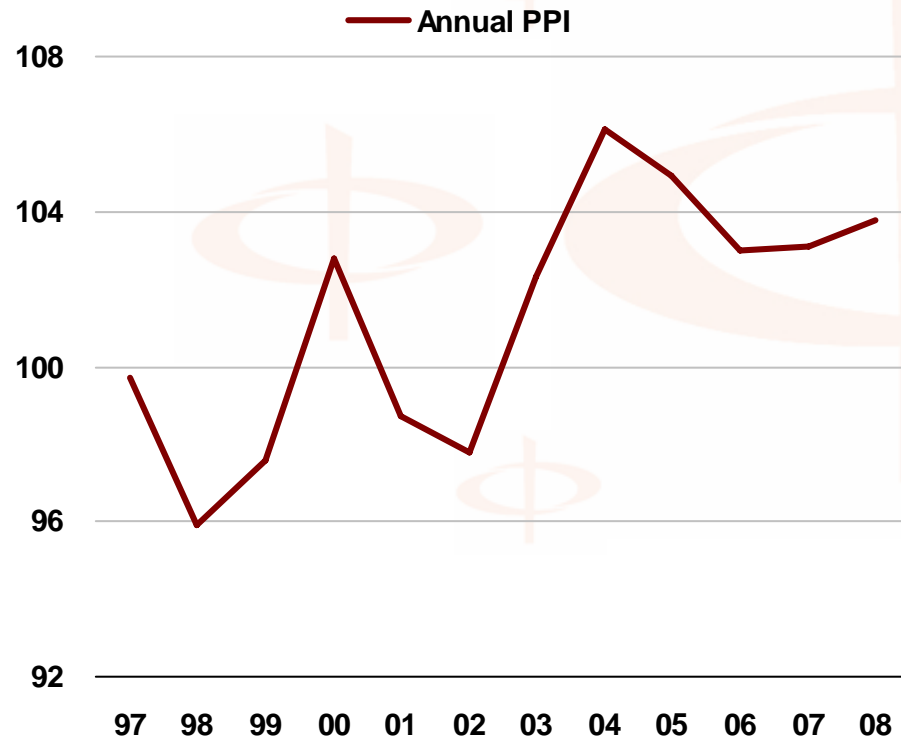
1. Preceding year = 100
 Source: China Statistical Yearbook; China Monthly Economic Indicators; THE BEIJING AXIS Analysis



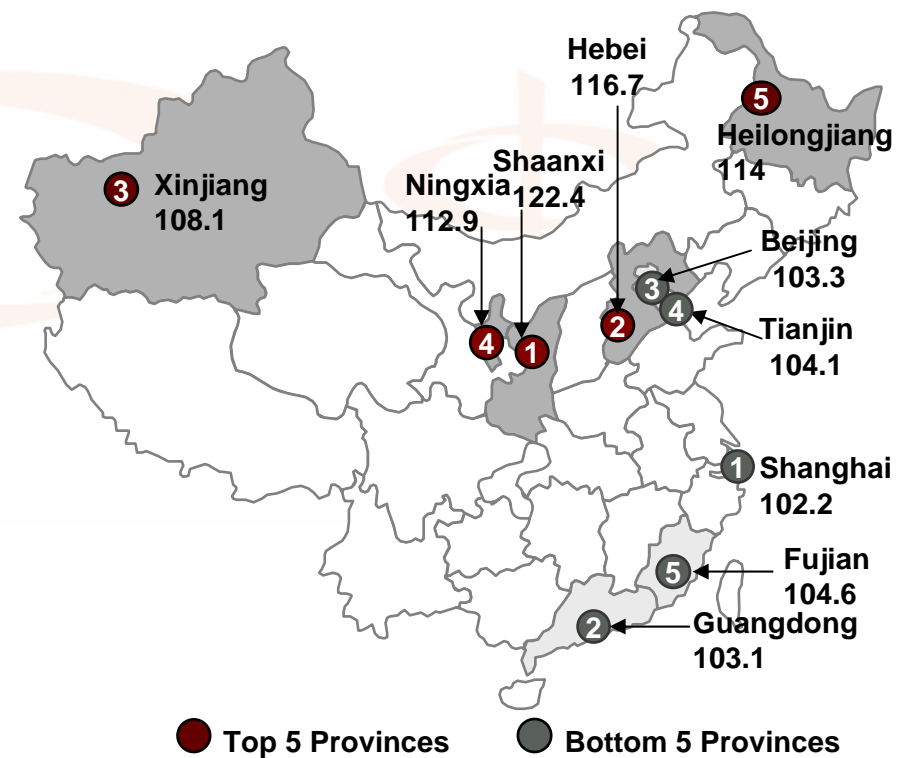
CHINA'S PPI HAS SEEN SIMILAR FLUCTUATIONS IN THE PAST DUE TO THE RISE IN RAW MATERIAL, FUEL AND ENERGY COSTS

In 2008, the provinces with the lowest PPI were the coastal provinces of Shanghai, Fujian, Guangdong, Beijing, and Tianjin

Producer Price Index, Annual (1997-2008)¹



Producer Price Index by Province (2008)¹



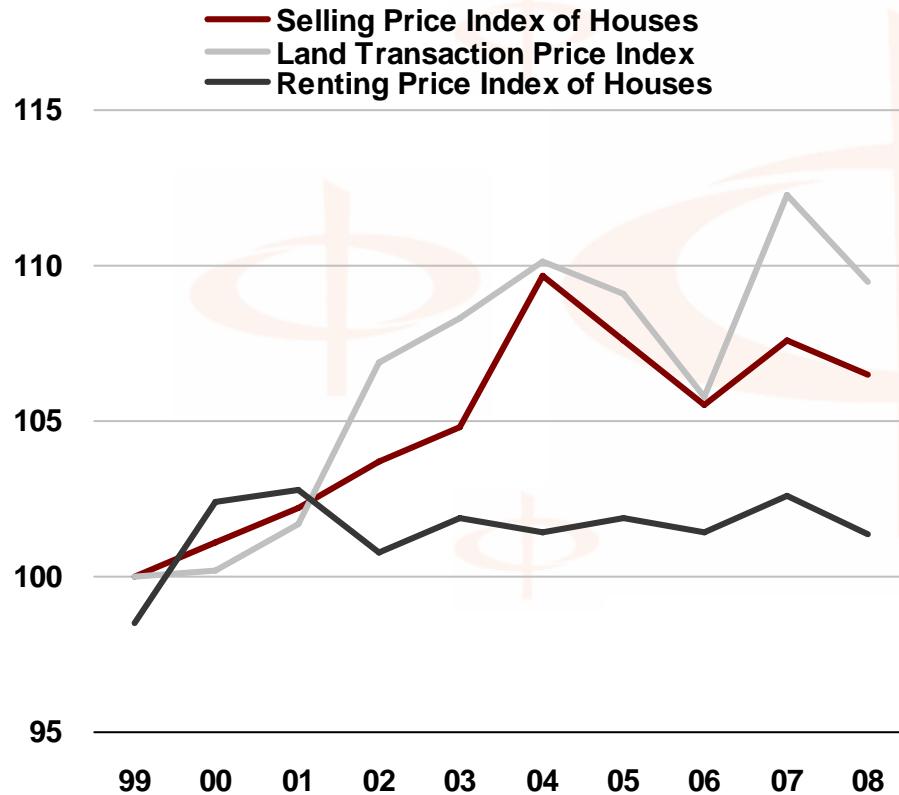
1. Preceding year = 100
 Source: China Statistical Yearbook; Various; THE BEIJING AXIS Analysis



CHINA'S PROPERTY MARKET HAS SEEN DRAMATIC PRICE INCREASES OVER THE PAST DECADE

In 2007, China experienced the highest rise in residential property prices in the world, with prices in major cities doubling from the previous year

Property Price Index, Annual (1999-2008)¹



Selling Price Index of Houses by Province (Q4, 2008)¹



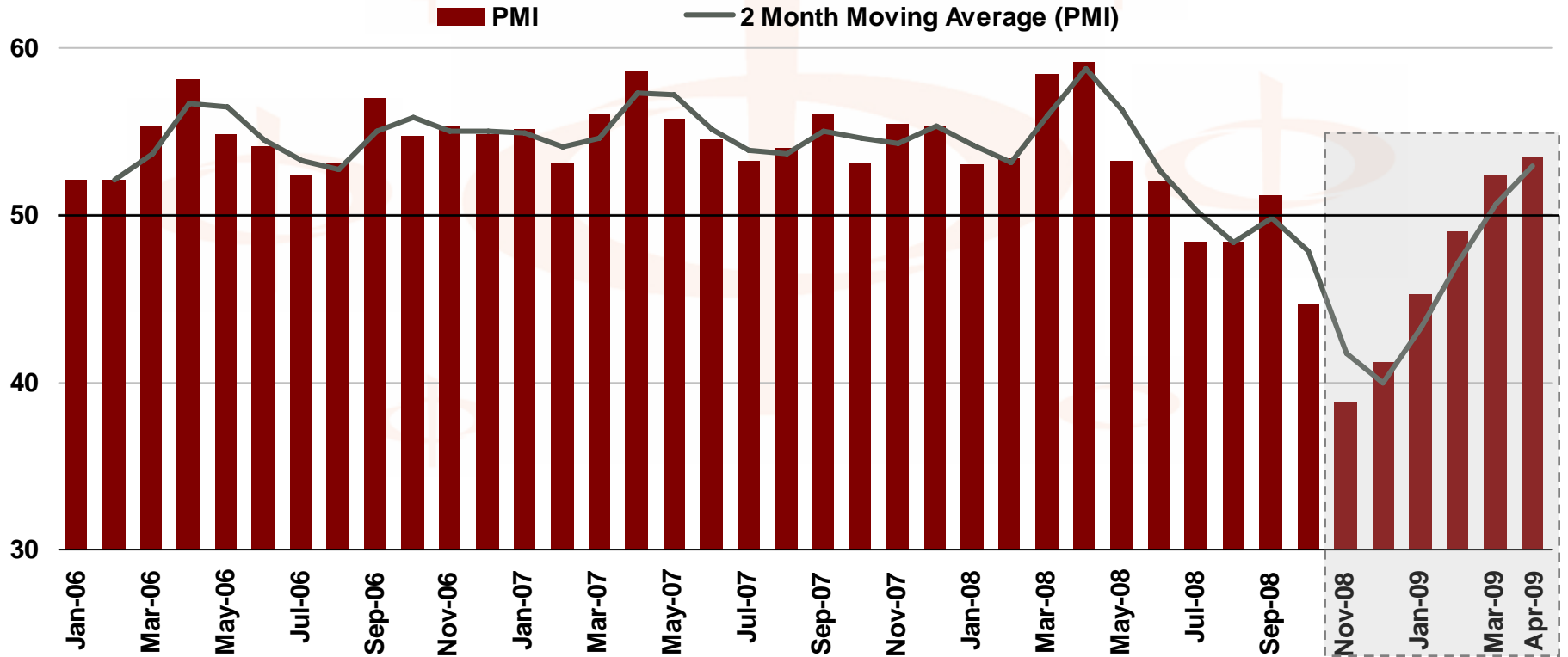
1. Preceding year = 100
 Source: China Statistical Yearbook; THE BEIJING AXIS Analysis



FROM A TROUGH OF 38.8 IN NOV 08, CHINA'S PMI HAS BEEN RISING AND SURPASSED THE 50 BENCHMARK IN MARCH 09

A PMI index of over 50% signals expansion of the manufacturing industry

Purchasing Manager Index of the Manufacturing Industry (2006-Apr 2009)

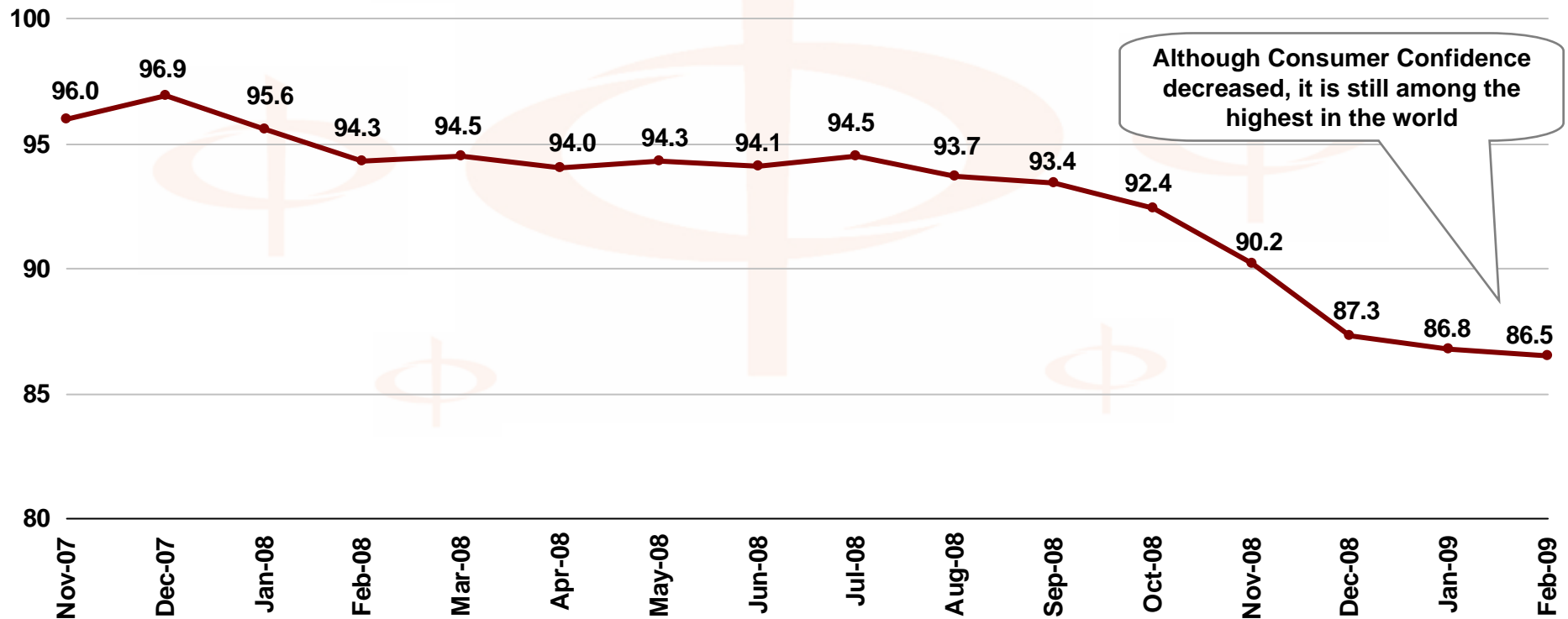




CONSUMER CONFIDENCE IN CHINA HAS SUFFERED AS A RESULT OF THE GLOBAL FINANCIAL CRISIS

The weaker trend is expected to continue well into 2009; however, the effects of the government's stimulus plan should have a positive impact

Consumer Confidence Index (% , Nov 2007-Feb 2009)

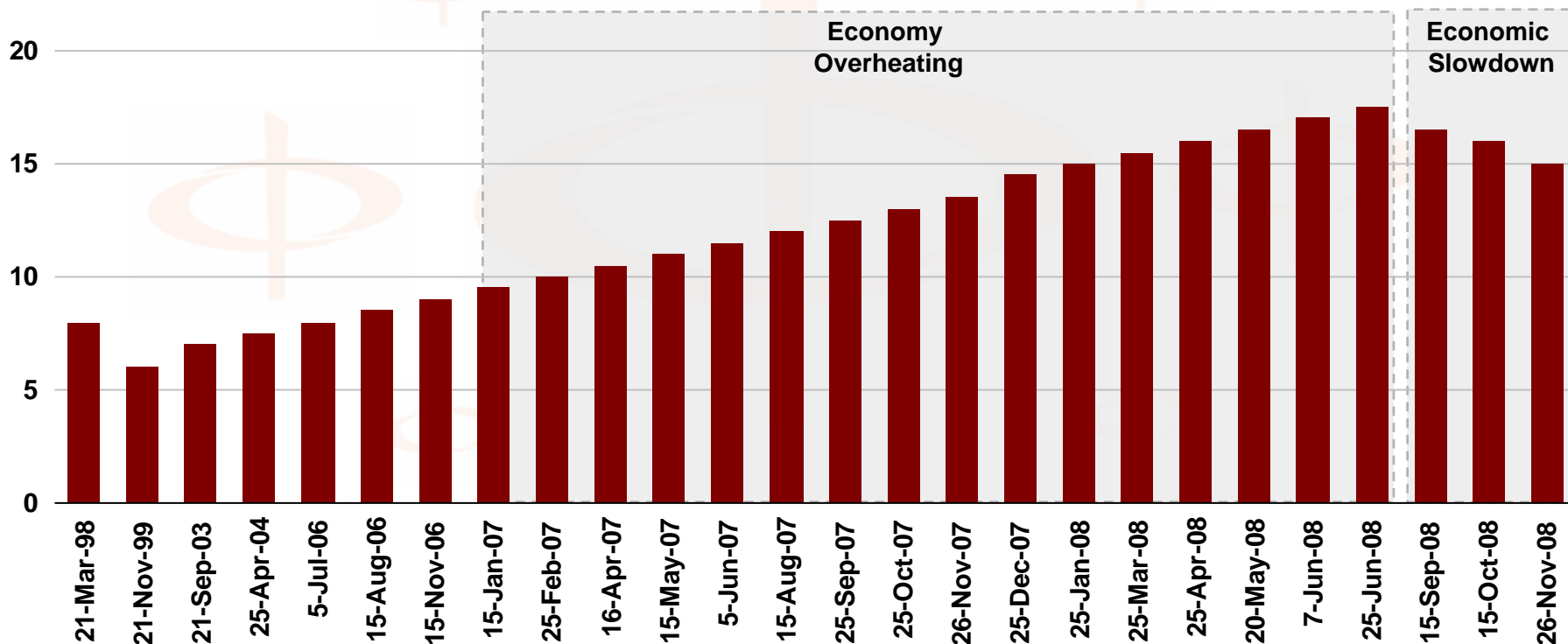




IN MID 2008, CHINA'S MONETARY POLICY CHANGED FROM TIGHT TO MODERATE

Since 2006, the bank reserve ratio has been gradually increased in order to curb excess liquidity and reduce inflationary pressures, but from Sep. 2008 policy has eased considerably

Bank Deposit-Reserve Ratio (%), 1998-2008



Note: Bank Deposit-Reserve Ratio is a standard determined by a central bank. It governs the relationship between the amount of money that banks must keep on hand and the amount that they can lend. By raising and lowering the ratio, the central bank can decrease or increase money supply

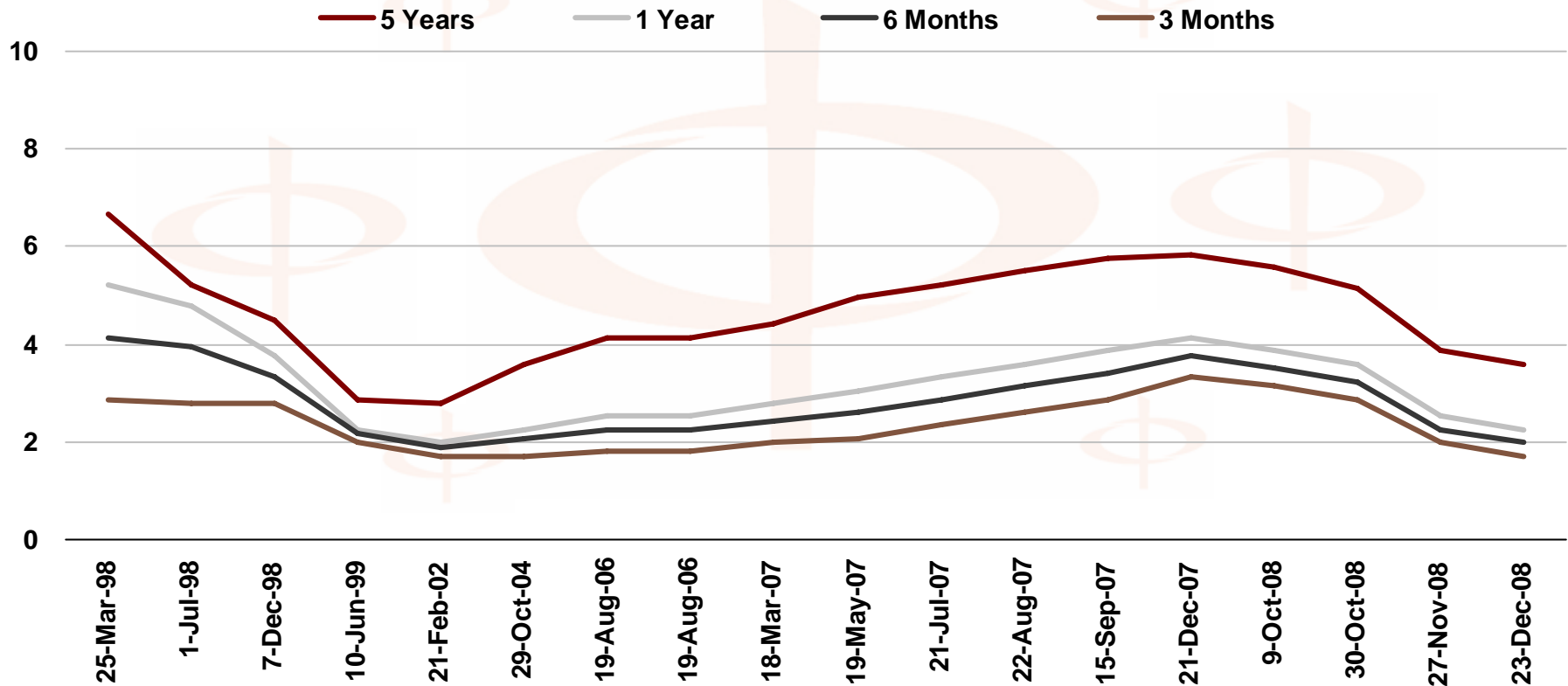
Source: BNET Business Dictionary; THE BEIJING AXIS Analysis



UNTIL THE FINANCIAL CRISIS, MONETARY POLICY WAS AIMED AT PREVENTING THE ECONOMY FROM OVERHEATING

But during 2008 deposit interest rates were lowered as the full extent of the economic slowdown became clear

Deposit Interest Rate (% p.a., 1998-2008)

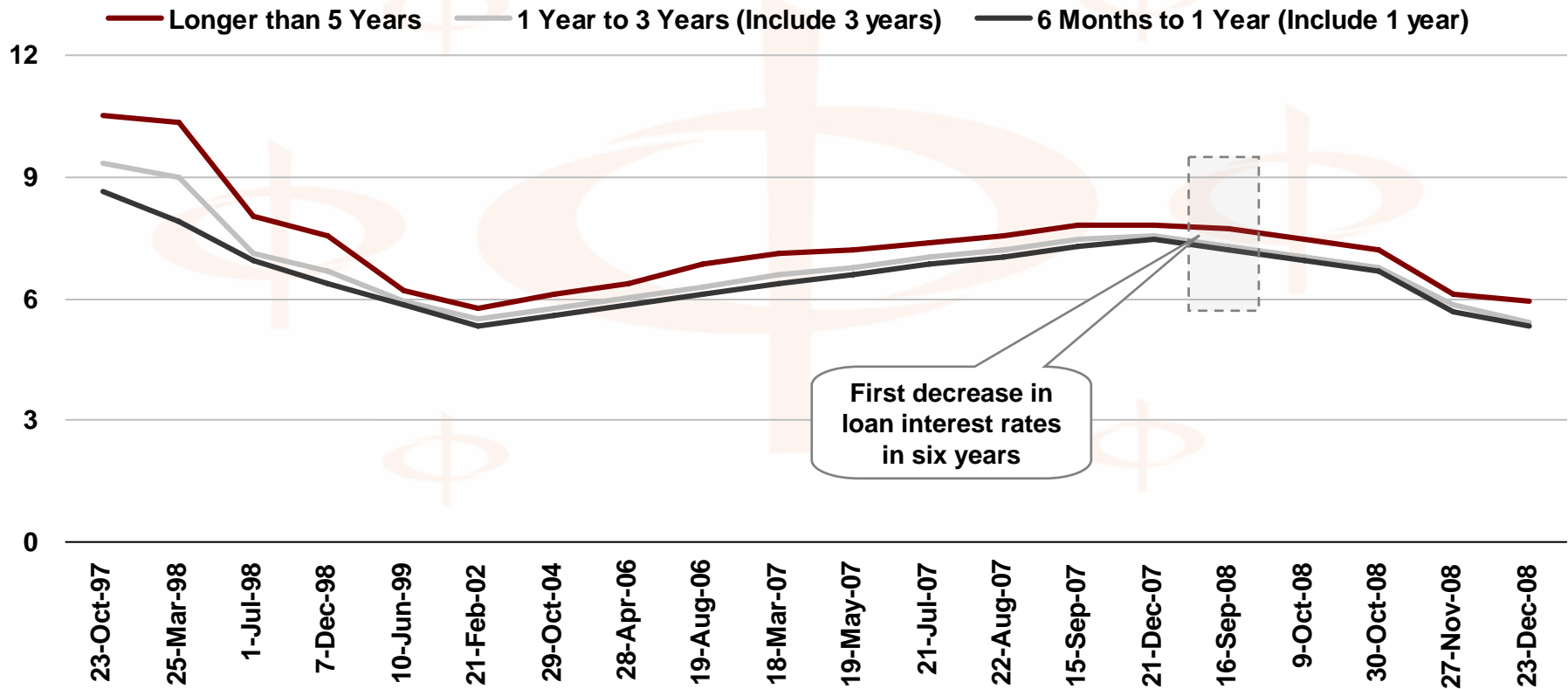




LENDING RATES STARTED TO SHIFT LOWER FOR THE FIRST TIME IN 6 YEARS IN SEPTEMBER 2008

Rates were lowered relatively rapidly since September 2008 as the economic slowdown in Q3 2008 and Q4 2008 unfolded

Loan Interest Rate (% , 1997-2008)



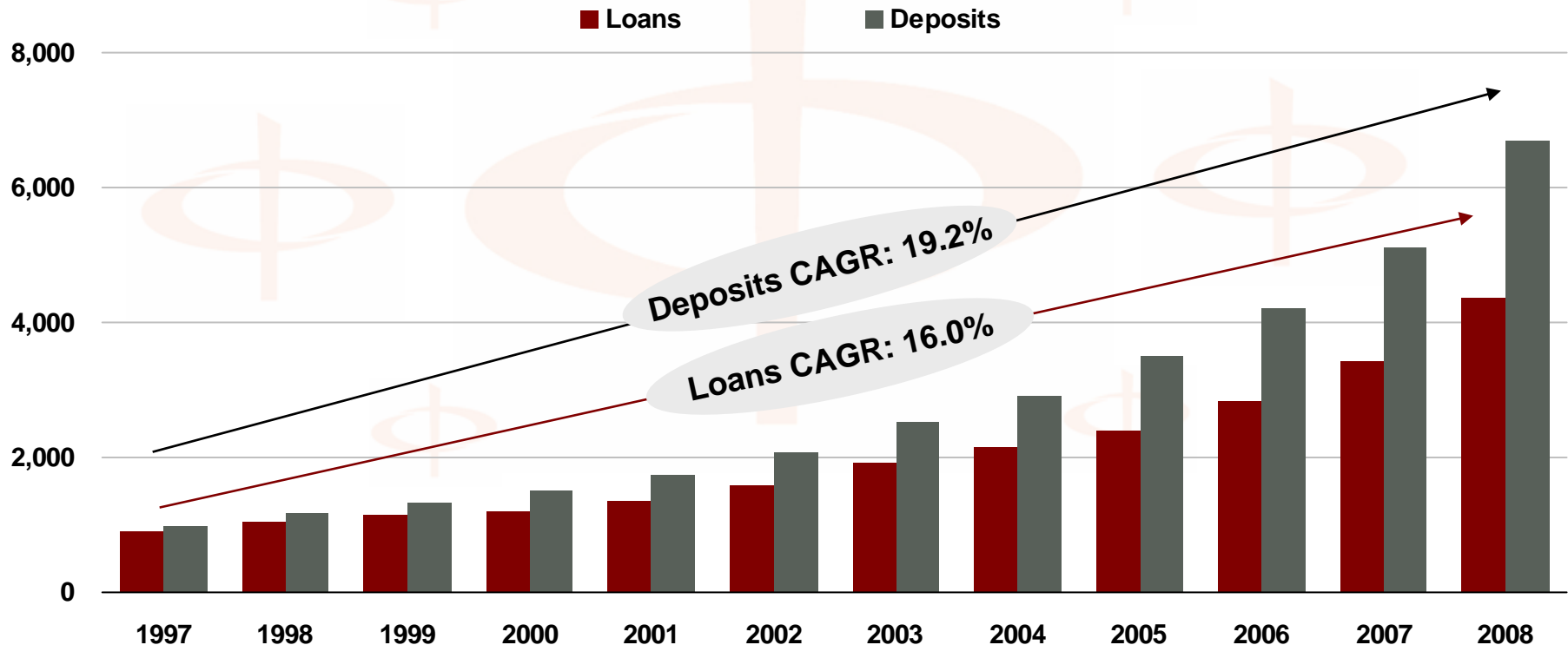
First decrease in loan interest rates in six years



DURING THE PAST 10 YEARS, CHINESE BANK DEPOSITS HAVE BEEN RISING FASTER THAN BANK LENDING

By the end of 2008, China's total deposits amounted to USD6.7 trillion whilst loans stood at USD4.4 trillion

Total Loans and Deposits (USD bn, 1997-2008)

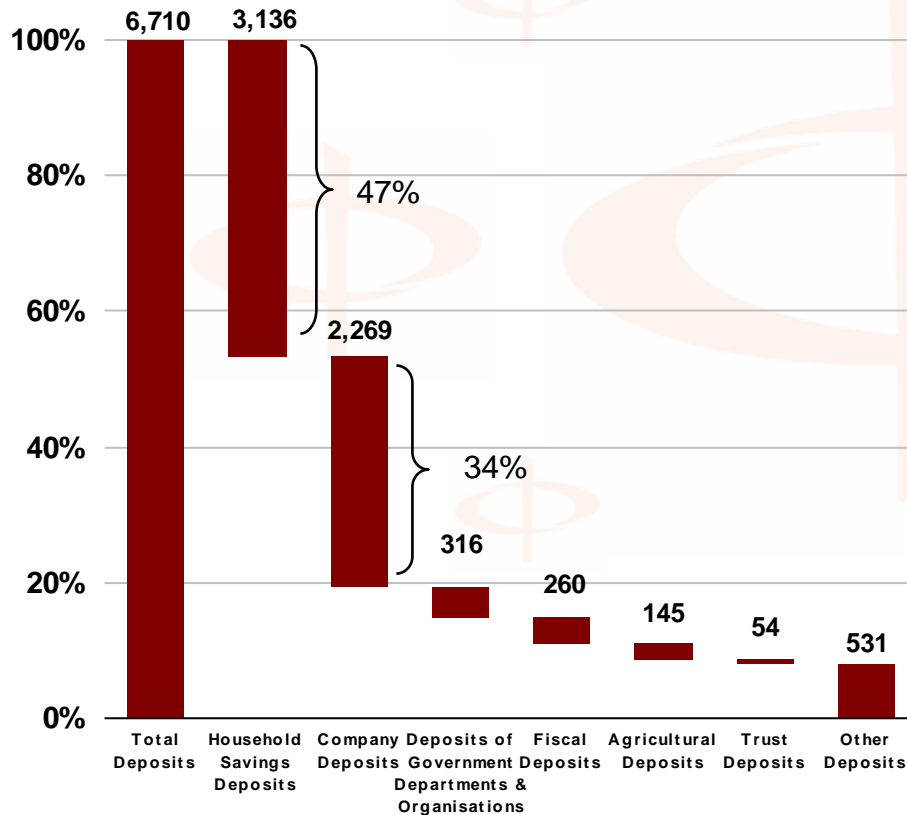




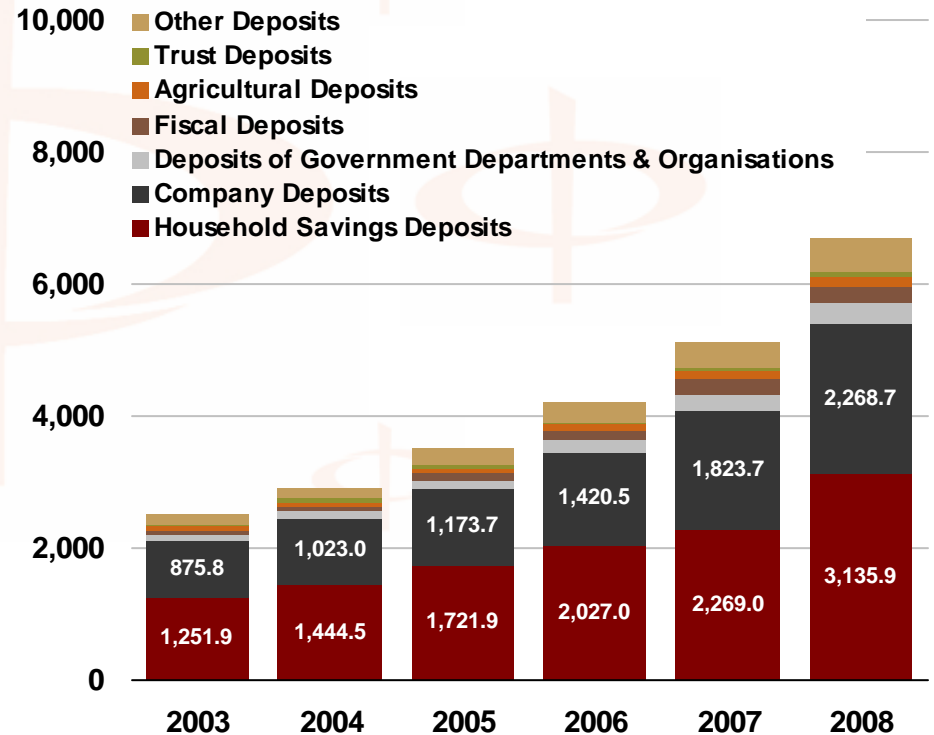
HOUSEHOLD SAVINGS HAVE BEEN THE MAIN DRIVER OF THE HIGH GROWTH IN DEPOSITS

In 2008, household banking deposits accounted for 47% of total deposits, whilst company deposits accounted for 34%

Sources of Deposits (USD bn, 2008)



Sources of Deposits (USD bn, 2003-2008)

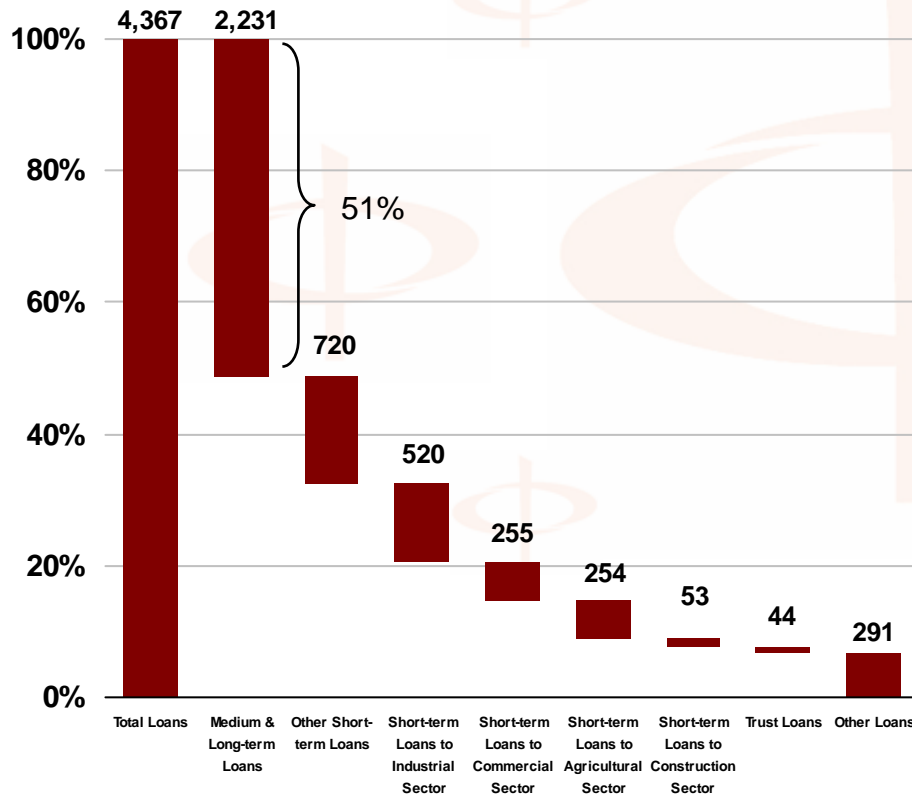




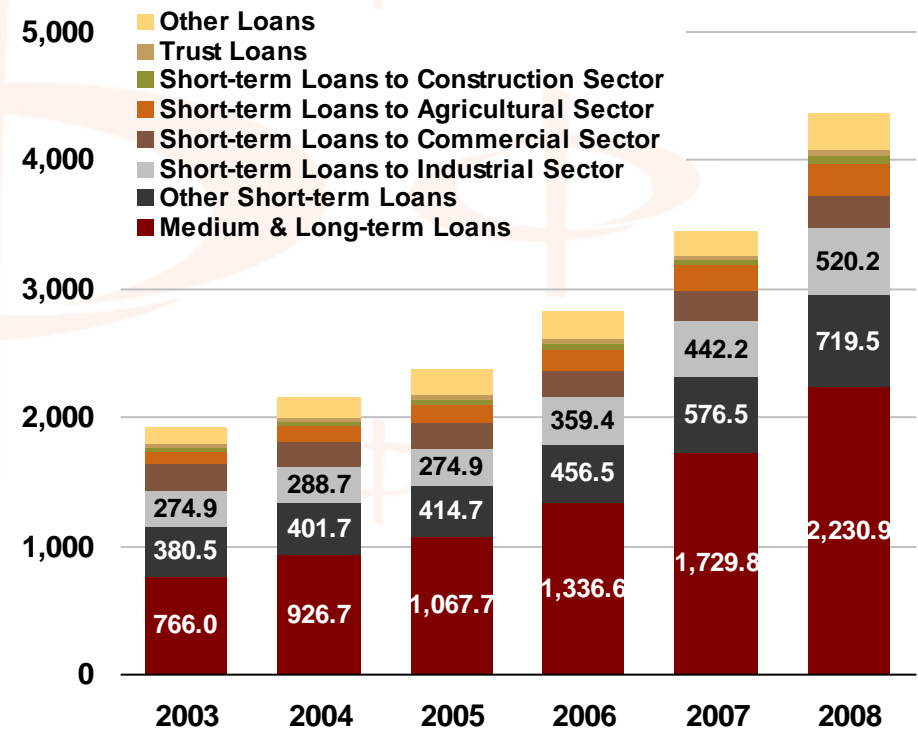
MEDIUM AND LONG-TERM LOANS MAKE UP THE BULK OF TOTAL LOANS

In 2008, medium and long-term loans made up 51% of total loans, while short-term loans made up 41%

Loan Duration (USD bn, 2008)



Loan Duration (USD bn, 2003-2008)

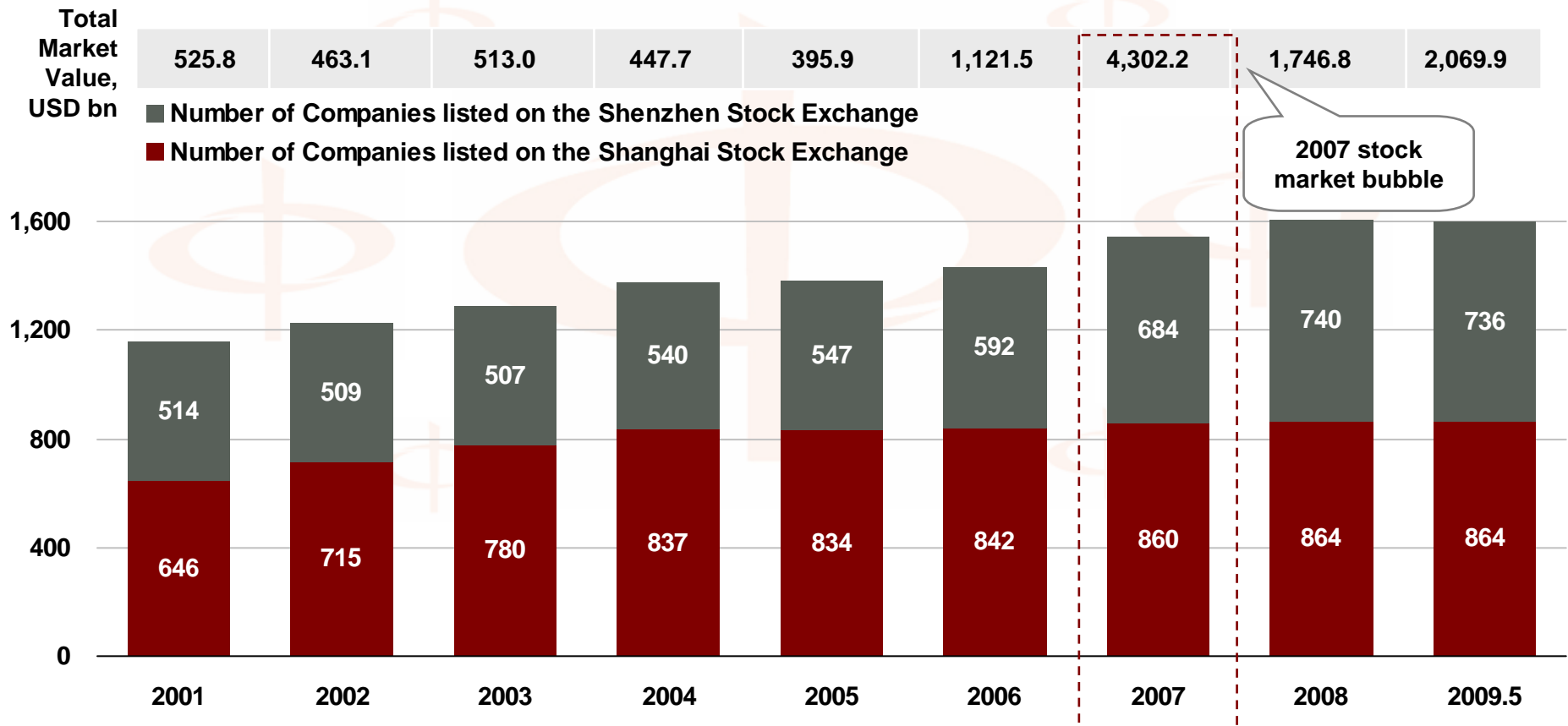




THE SHANGHAI AND SHENZHEN STOCK EXCHANGES HAVE THE 6th AND 20th LARGEST MARKET VALUES IN THE WORLD¹

In 2007, China's total market capitalisation reached USD4 trillion, with 1,544 listed companies and around 72.14 million investors

Number of Listed Companies



1. As of May 2009



THE GLOBAL FINANCIAL CRISIS, ALONG WITH OTHER FACTORS, HAS CAUSED LARGE DECLINES IN FINANCIAL MARKETS

In 2009, however, Chinese stock markets have been recovering at a faster pace compared to their global counterparts

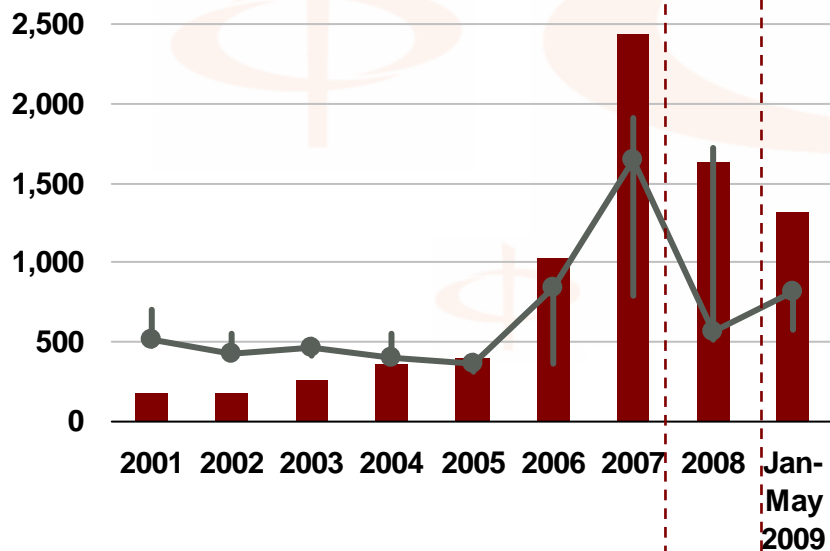
Shanghai Stock Exchange (2001- May 2009)

Average P/E Ratio	37.7	34.4	36.5	24.2	16.3	33.3	59.2	14.9	24.2
Total Turnover USD bn	274	205	252	320	235	725	4,017	2,597	1,691

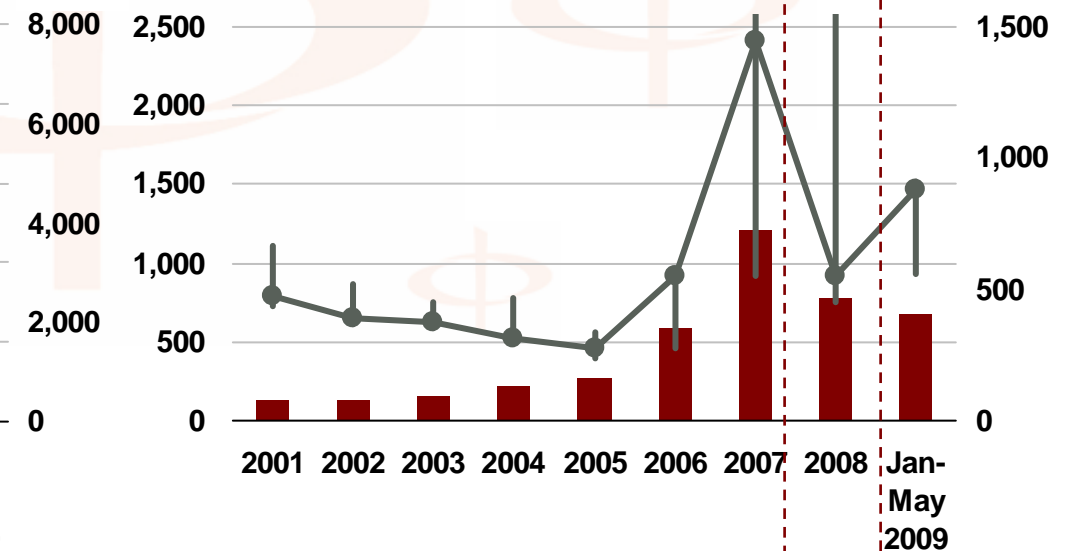
Shenzhen Stock Exchange (2001- May 2009)

Average P/E Ratio	39.8	37.0	36.2	24.6	16.4	32.7	69.7	16.7	32.1
Total Turnover USD bn	188	133	136	192	152	410	2,040	1,248	933

Volume, bn Shares



Price **Volume, bn Shares**

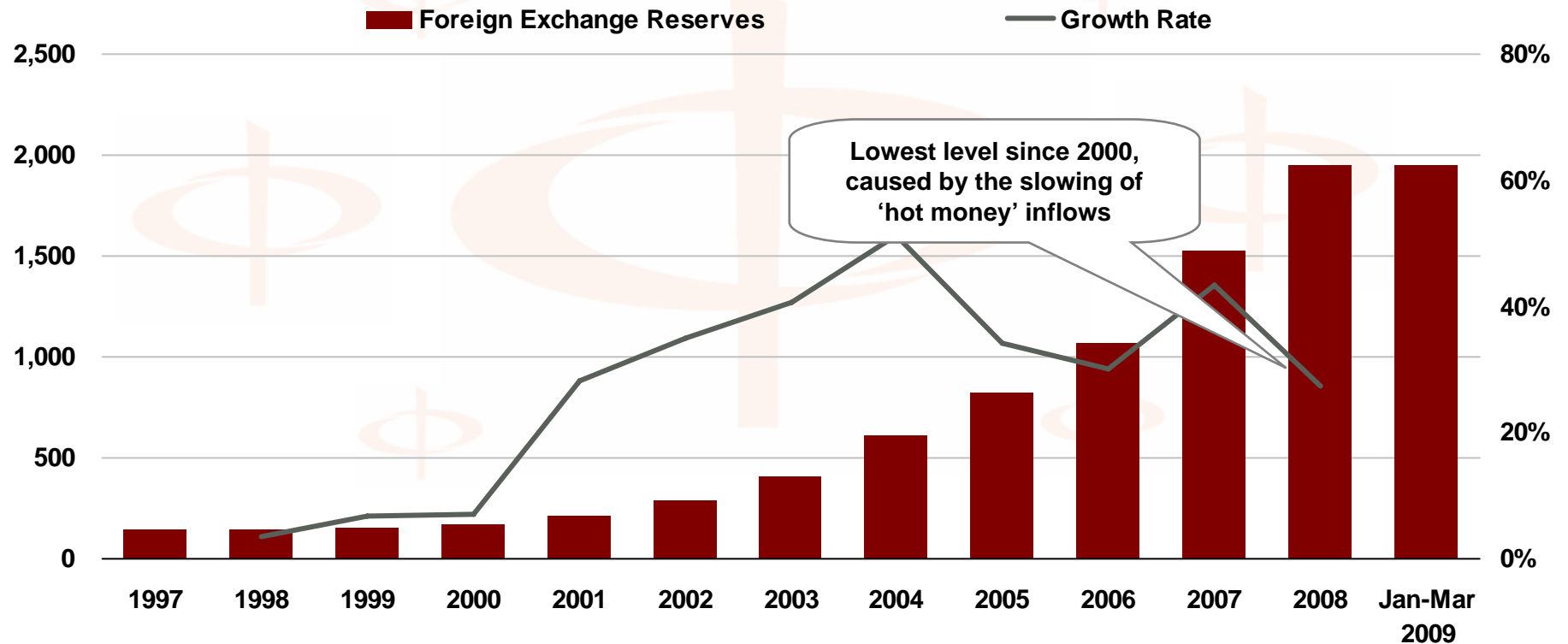




CHINA HAS THE LARGEST FOREIGN EXCHANGE RESERVES IN THE WORLD

In March 2009, China's foreign reserves reached USD1.9 trillion – consisting mainly of US government and institutional bonds

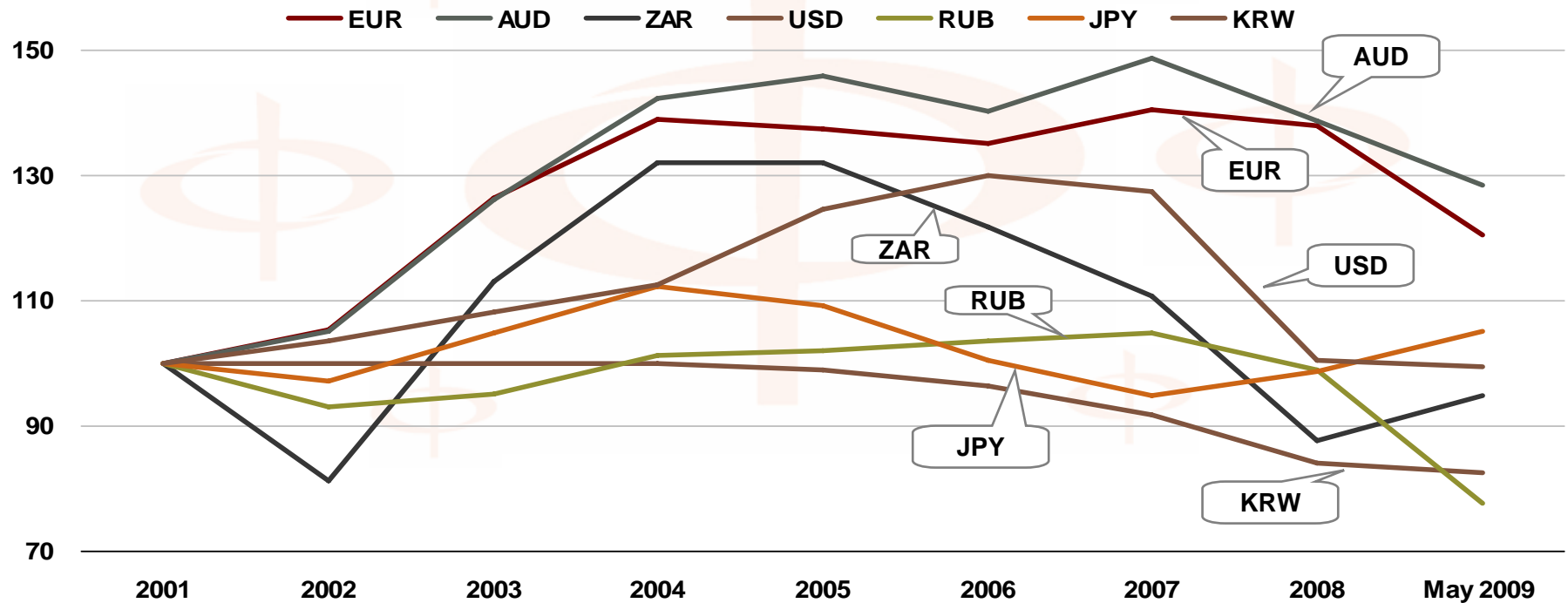
Foreign Exchange Reserves & Annual Growth (USD bn, 1997- March 2009)





THE CHINESE RENMINBI (RMB) HAS APPRECIATED BY 18% AGAINST THE USD SINCE CHINA AMENDED ITS EXCHANGE RATE POLICY IN 2005

Annual RMB Exchange Rate (2001- May 2009)



Note: Index 2001 = 100 (EUR Index 2002=100)
 Source: PBOC; THE BEIJING AXIS Analysis



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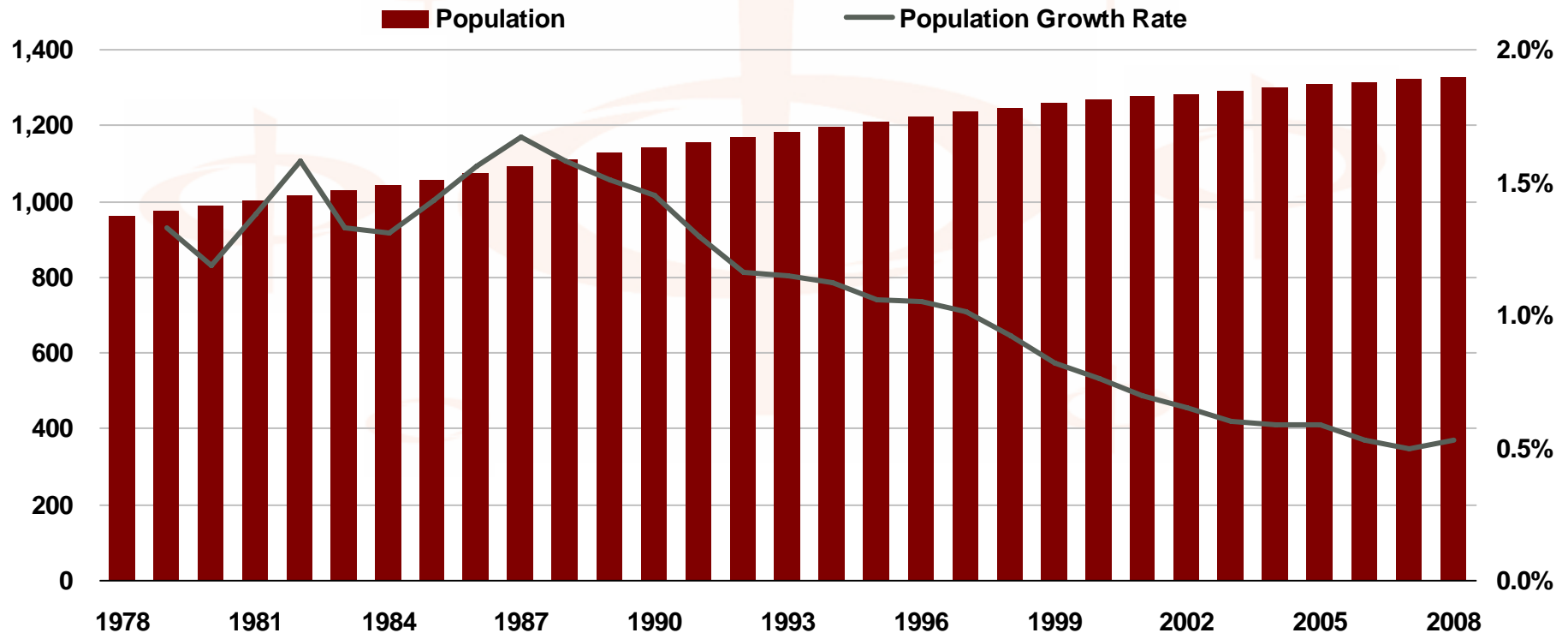
Disclaimer



CHINA'S LARGE POPULATION IS A DEFINING FEATURE OF ITS SOCIETY

With concerns about resource sustainability in mind, the central government's One Child Policy has served to slow the population growth rate to 0.5%

Population Indicators (mn, 1978-2008)

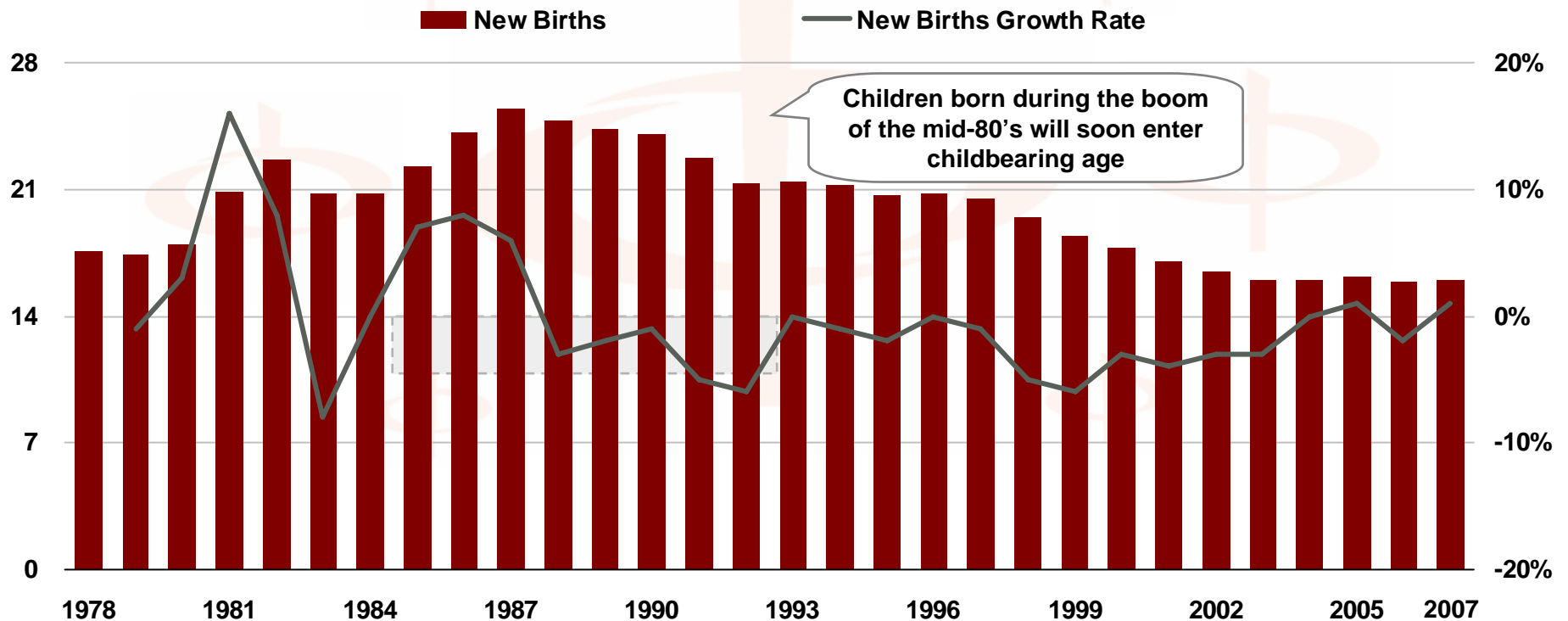




HOWEVER, EVEN WITH FAMILY PLANNING MEASURES, CHINA STILL HAS AROUND 16 MN BIRTHS PER YEAR

Introduced in 1979, the One Child Policy has been a controversial topic

China's Annual Births (mn, 1978-2007)



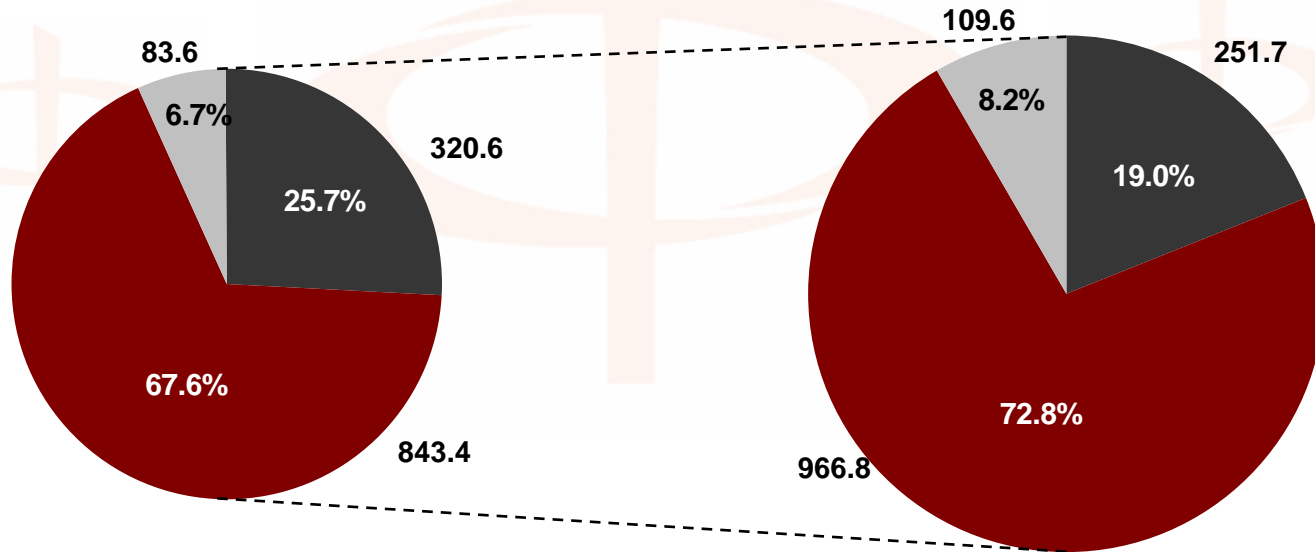


CURRENT DEMOGRAPHICS REVEAL A POPULOUS COUNTRY WITH A RELATIVELY SMALL YOUTH GROUP

China has an aging population, and people 65 and older may potentially make up 25% of the population by 2040 with the continuation of the One Child Policy

Population Breakdown by Age (mn, 1998-2008)

■ 0-14 ■ 15-64 ■ 65 and over



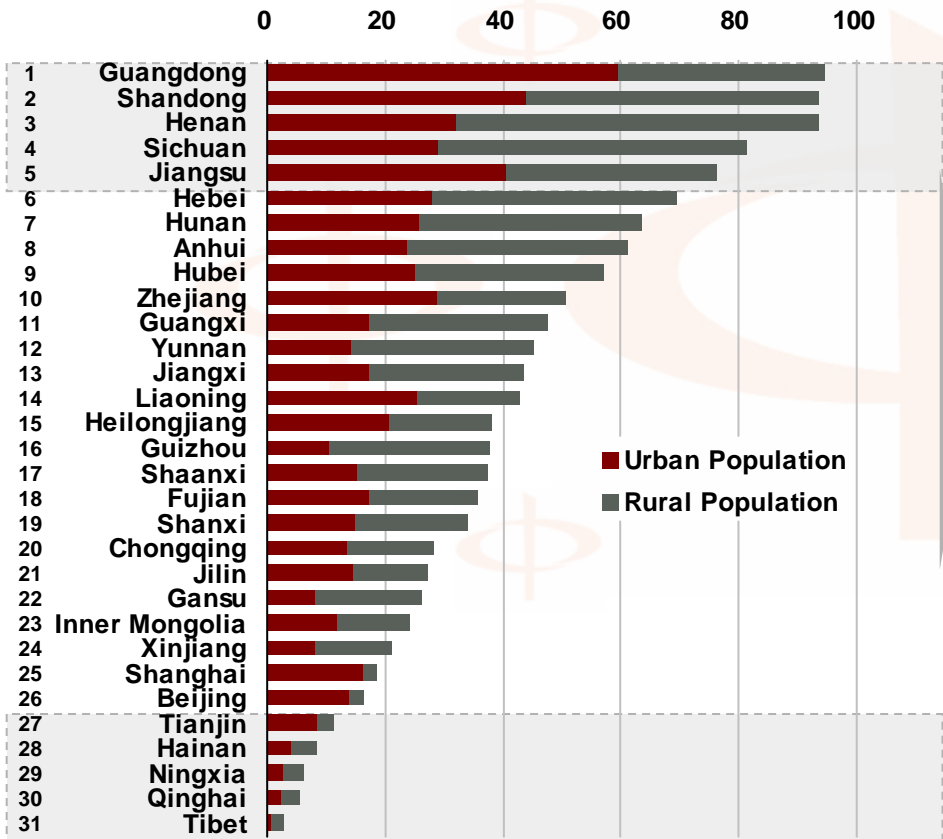
1998 (Total Population - 1.2 bn)

2008 (Total Population - 1.3 bn)

THE MAJORITY OF THE MOST POPULOUS PROVINCES ARE LOCATED IN MORE DEVELOPED AREAS IN EASTERN CHINA

Unsurprisingly, these areas also adjoin the coast or major waterways and have a solid agricultural or manufacturing base

Population by Urban and Rural Residence and Province (mn, 2007)

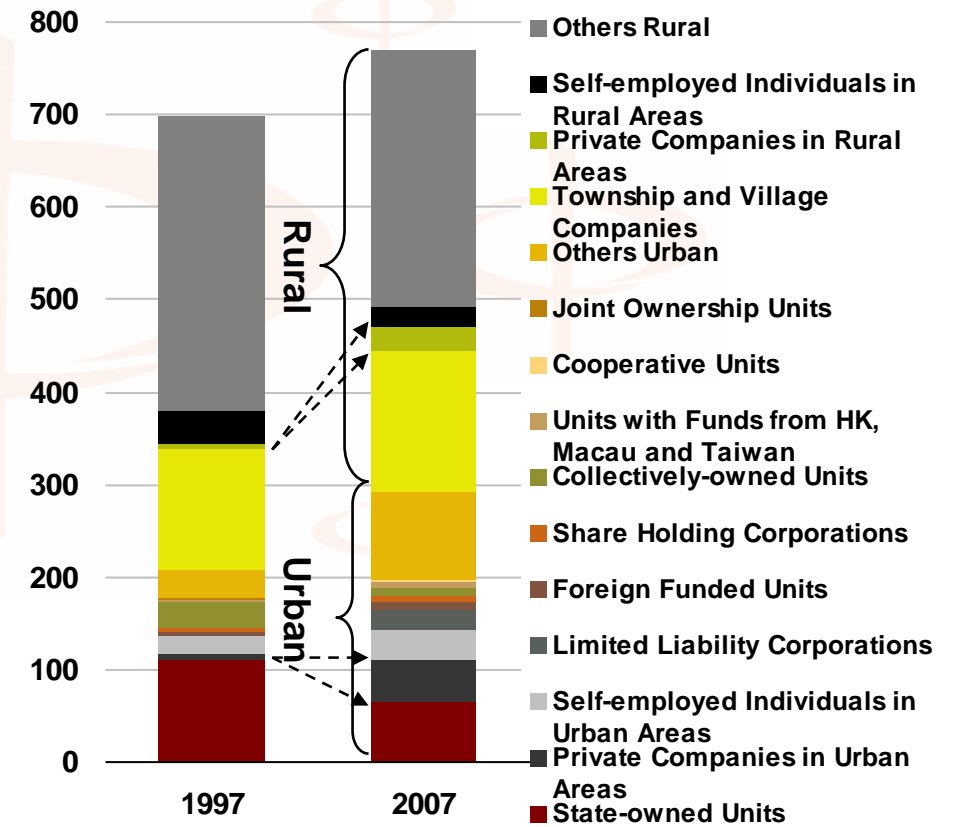
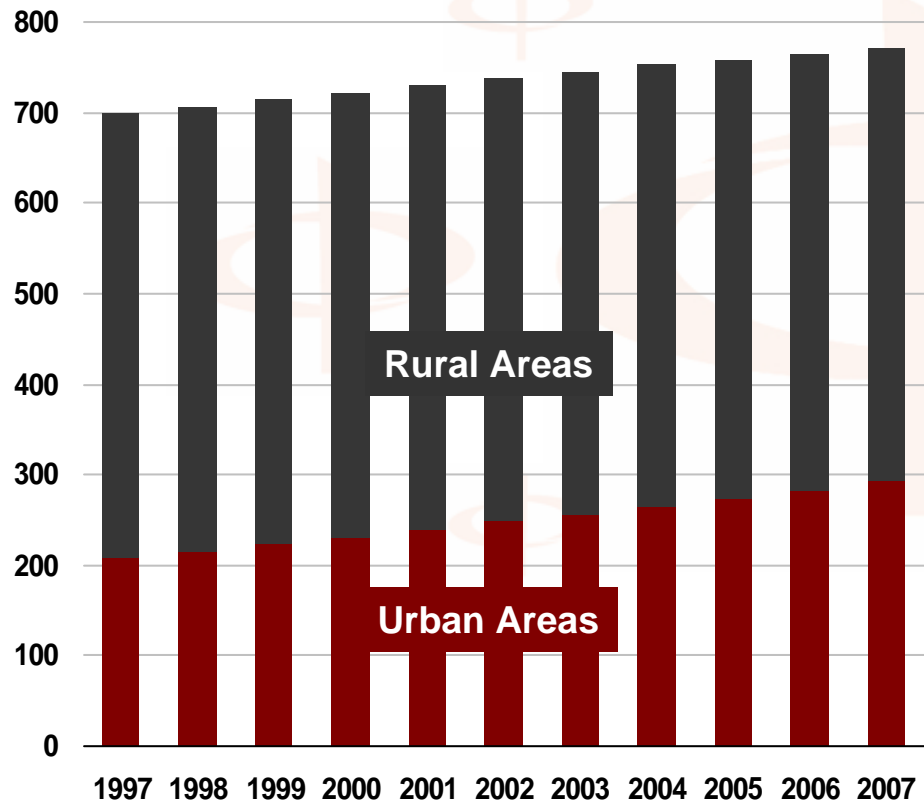


SINCE CHINA'S ACCESSION TO THE WTO, THE COUNTRY HAS SEEN A FASTER-GROWING EMPLOYED POPULATION

There is a clear movement away from state-owned enterprises into private companies in terms of job creation

Number of Employed Persons at Year-end in Urban and Rural Areas (mn, 1997-2007)

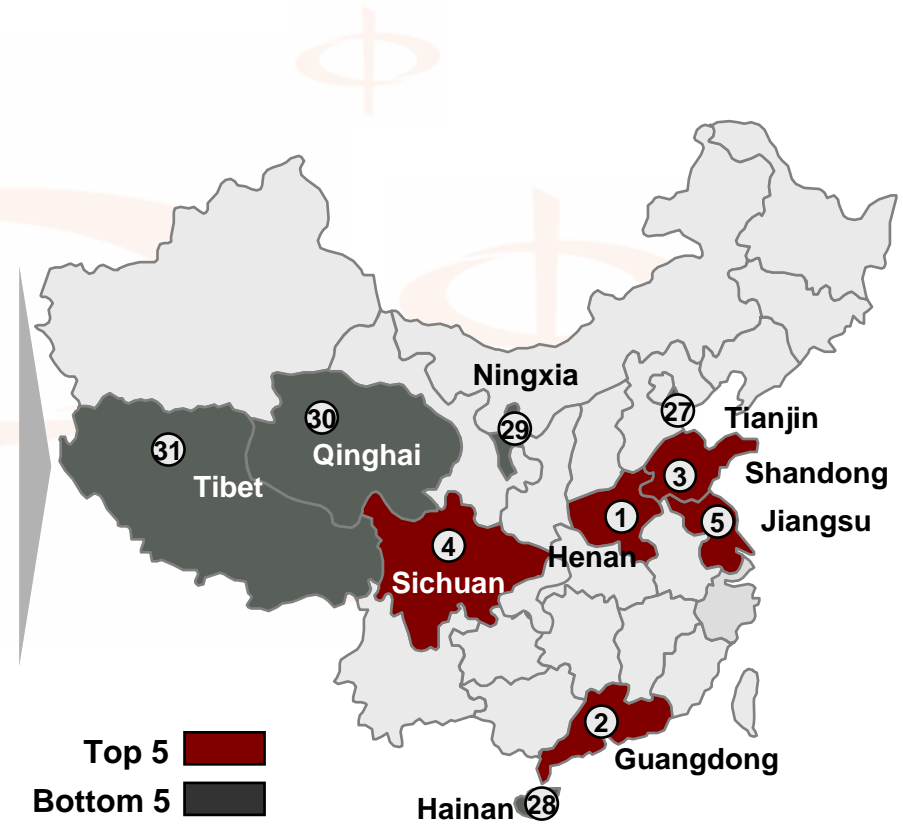
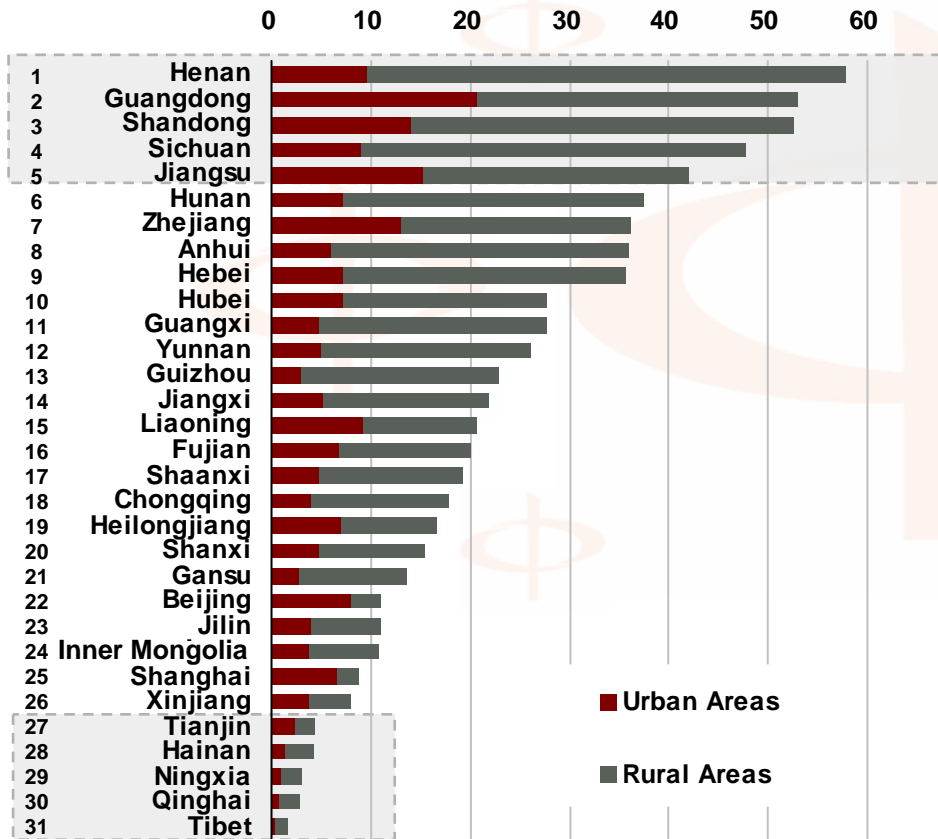
Employee Breakdown in Urban and Rural Areas (mn, 1997 vs. 2007)



PREDICTABLY, THE MORE POPULATED PROVINCES HAVE THE HIGHEST NUMBER OF EMPLOYED PERSONS

The majority of the workforce can be found in townships, villages and private companies, underscoring the country's agricultural and manufacturing roots

Number of Employed Persons by Province (mn, 2007)

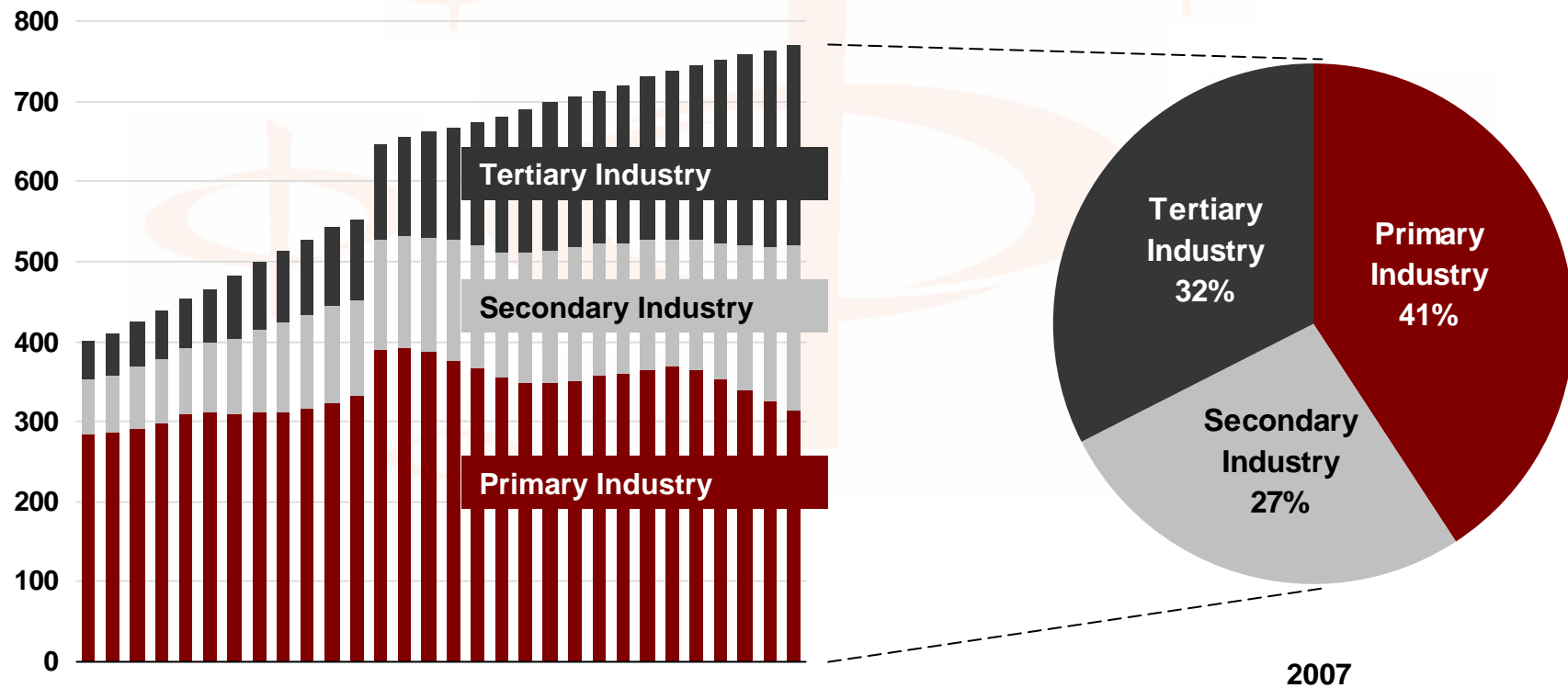




FOLLOWING THE TREND SET BY DEVELOPED COUNTRIES, CHINA IS STEADILY DEVELOPING ITS SERVICES SECTOR

However, a large portion of the population is still employed in the primary and secondary sectors

Total Employed Persons By Sector (mn, 1978-2007)



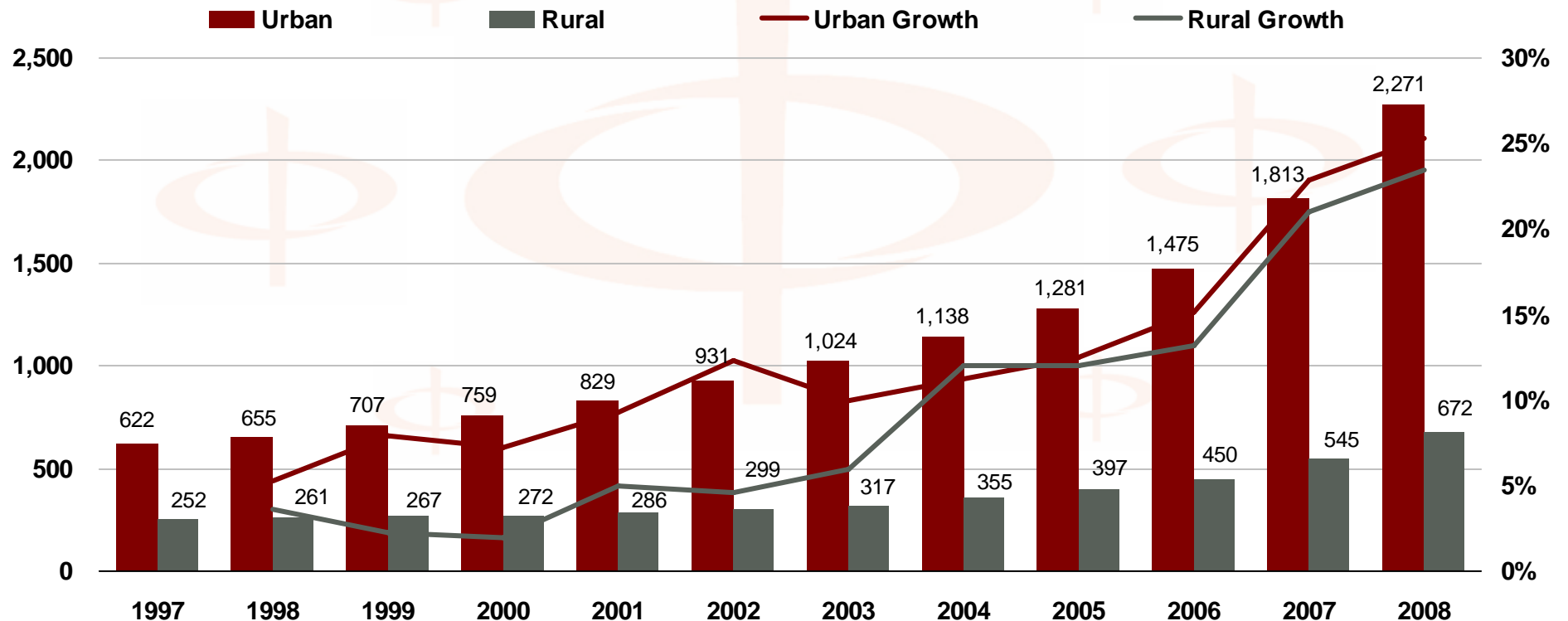
Note: The sizeable gap between the 1989 and 1990 figures is due to the adjustment of urban and rural employed persons subtotals in accordance with the data obtained from the 5th National Population Census

Source: China Statistical Yearbook; THE BEIJING AXIS Analysis

INCOME LEVELS OF URBAN AND RURAL HOUSEHOLDS HAVE BEEN STEADILY INCREASING

Urban households initially saw a higher growth rate than their rural counterparts, but this disparity in growth rates has decreased in recent years

Annual Disposable Income of Urban Households and Net Income of Rural Households Per Capita (USD, 1997-2008)

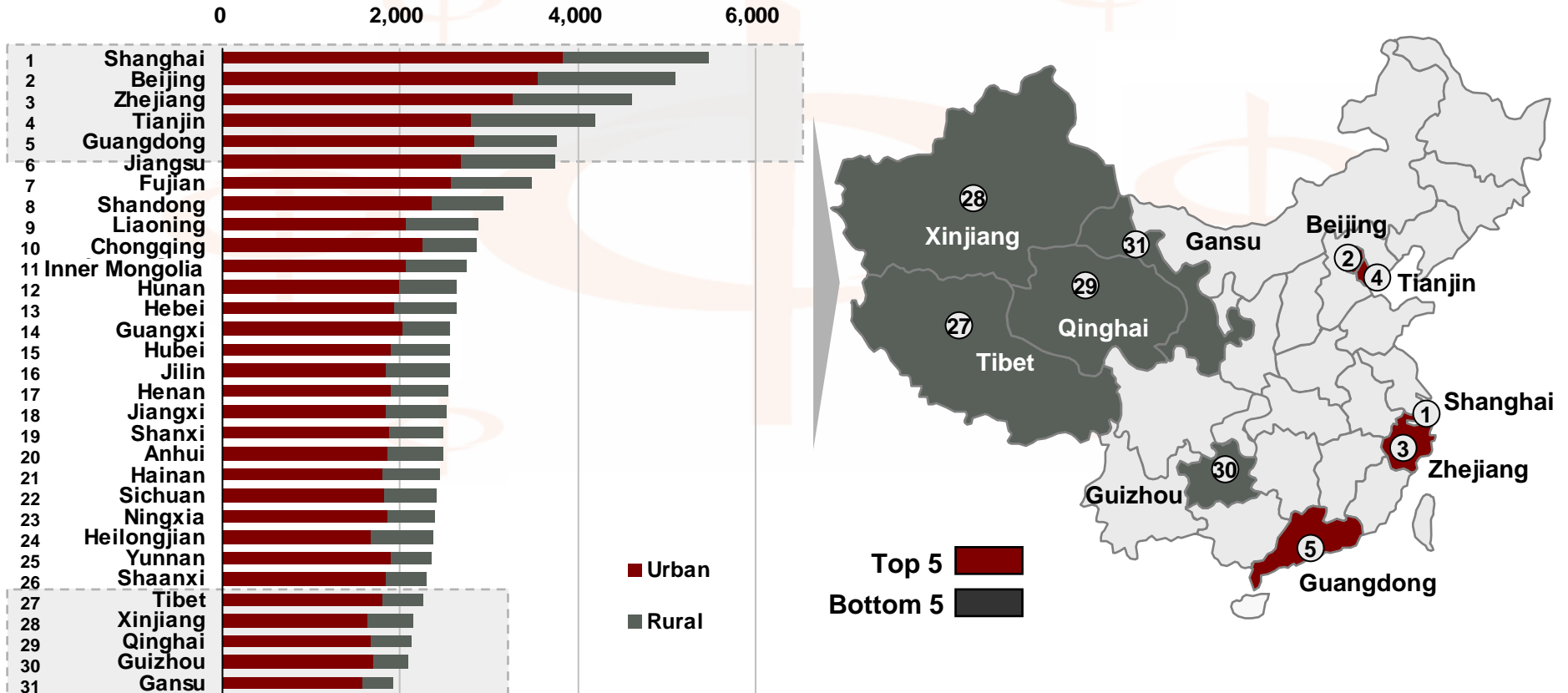


Note: Growth rates are calculated at current prices
 Source: National Statistics Database; THE BEIJING AXIS Analysis

INCOME LEVELS ARE PARTICULARLY HIGH IN THE MORE DEVELOPED EASTERN COASTAL PROVINCES

As the political and commercial capitals of China, Beijing and Shanghai maintain their status as the two most attractive cities in terms of income levels

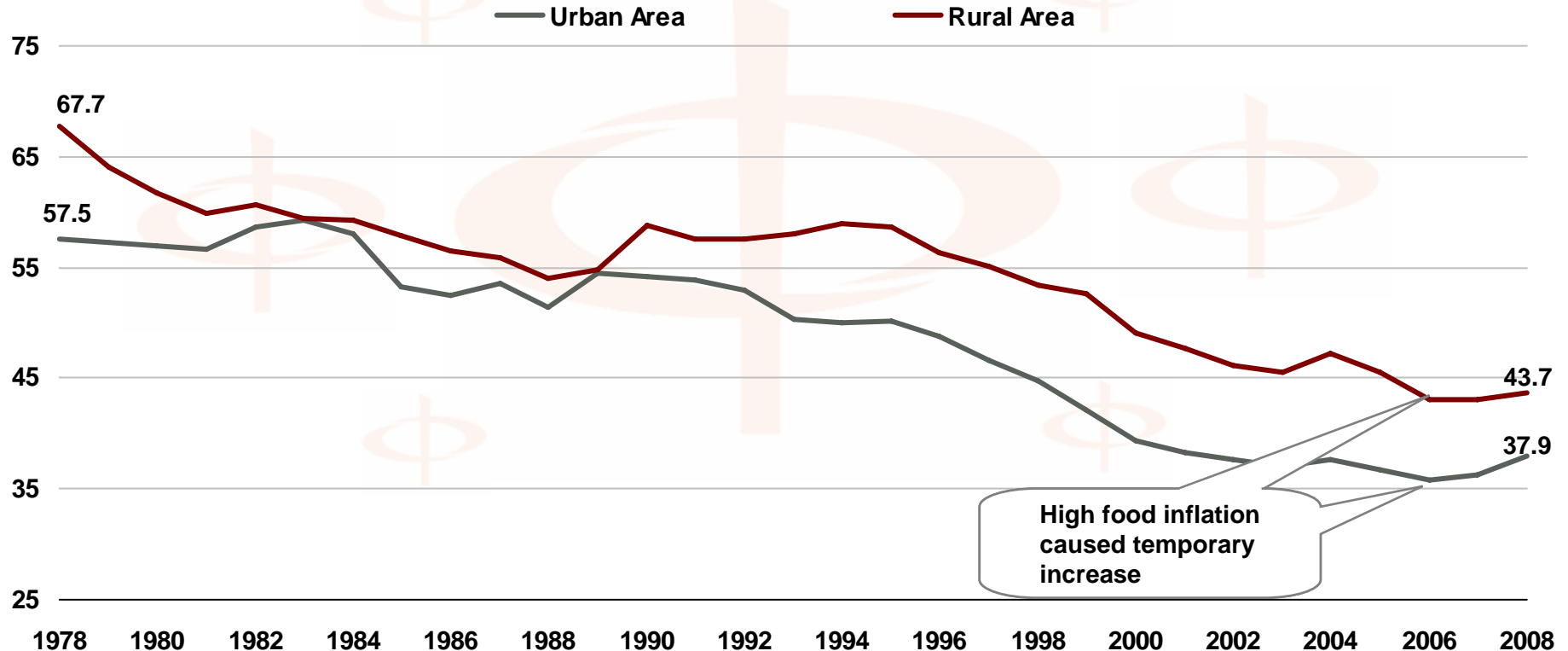
Disposable Income of Urban Households and Income of Rural Households Per Capita by Province (USD, 2008)



PEOPLE IN CHINA ARE GRADUALLY SPENDING RELATIVELY LESS ON FOOD, DUE TO INCREASING INCOME LEVELS

The downward trend of Engel's coefficient¹ is expected to continue as this reflects a progressively higher standard of living

Urban and Rural Engel's Coefficients (% , 1978-2008)



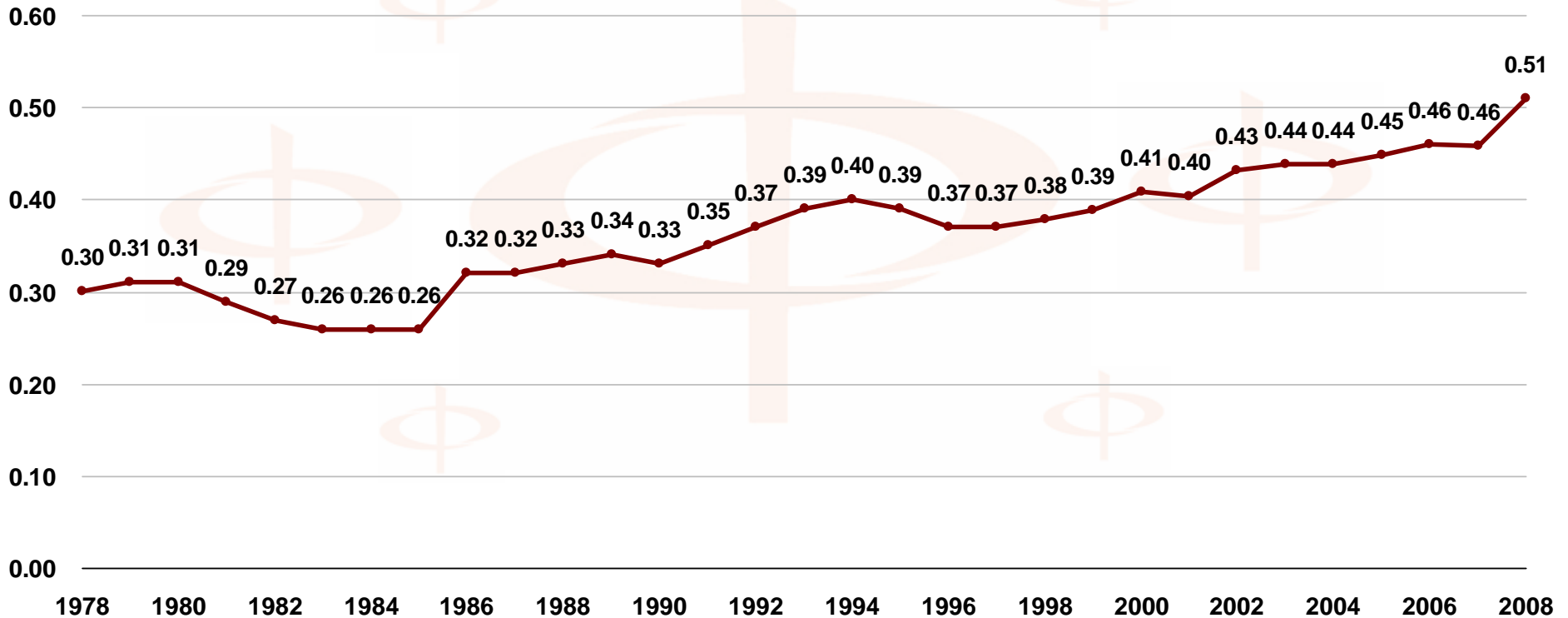
1. Engel's Law states that household expenditure on food, on aggregate, declines as income rises; in other words, the income elasticity of demand for food in the aggregate is less than one and declines towards zero with income growth. A common application of this statistic is to regard it as a reflection of the living standards of a country. Engel's coefficient has an inverse correlation with the standard of living of a country



ALTHOUGH INCOME LEVELS HAVE BEEN INCREASING, THERE IS STILL LARGE INEQUALITY IN THE DISTRIBUTION OF INCOME

The inequality of wealth distribution is particularly striking when the urban-rural divide is examined

Gini Coefficient (1997-2008)



Note: The Gini Coefficient is a measure of statistical dispersion. It is most prominently used as a measure of inequality of income distribution or inequality of wealth distribution. It is defined as a ratio with values between 0 and 1. A low Gini Coefficient indicates more equal income or wealth distribution, while a high Gini Coefficient indicates more unequal distribution

Source: National Statistics Database; THE BEIJING AXIS Analysis

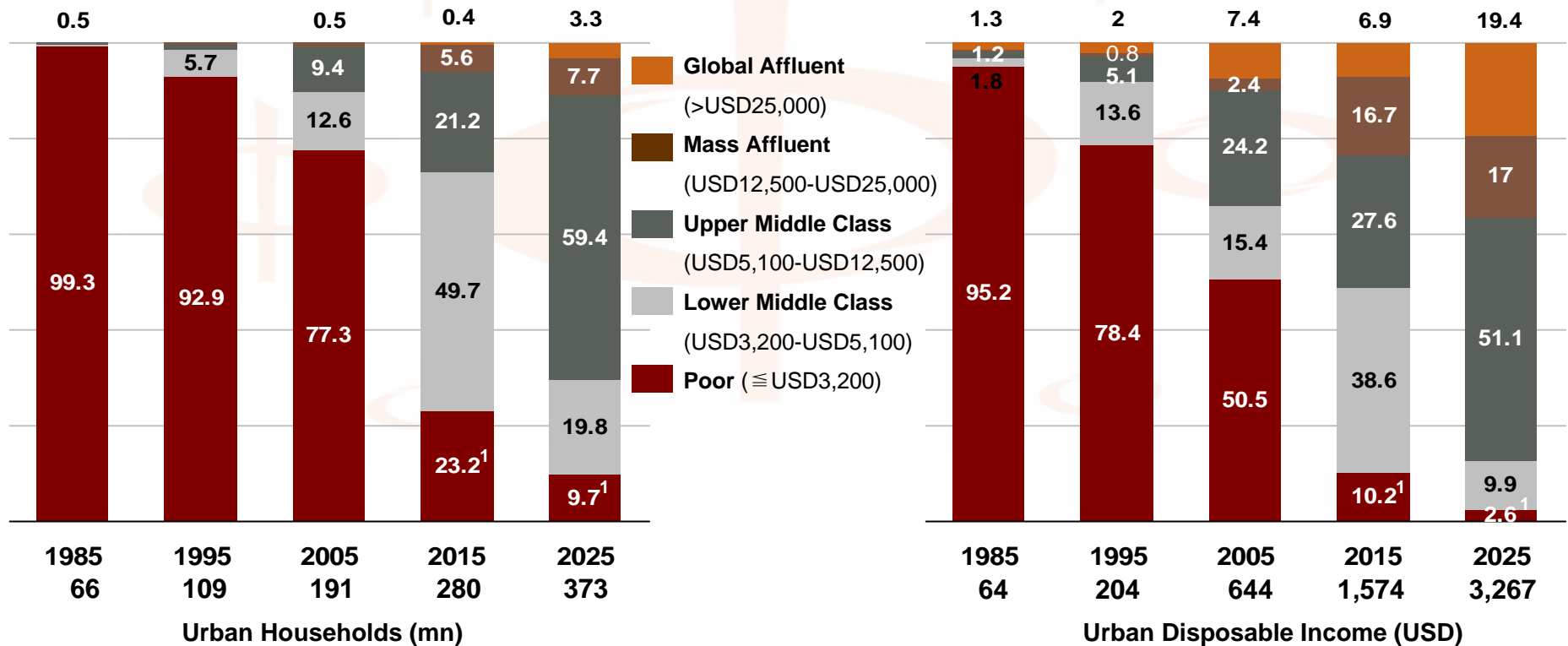
A LARGE MIDDLE CLASS IS DEVELOPING IN CHINA'S URBAN AREAS

In 2025, China will potentially have more than 350 million urban households with a annual disposable income of more than USD3,200

Share of Chinese Urban Households (%)

Share of Total Urban Disposable Income (%)

Segments by Annual Income



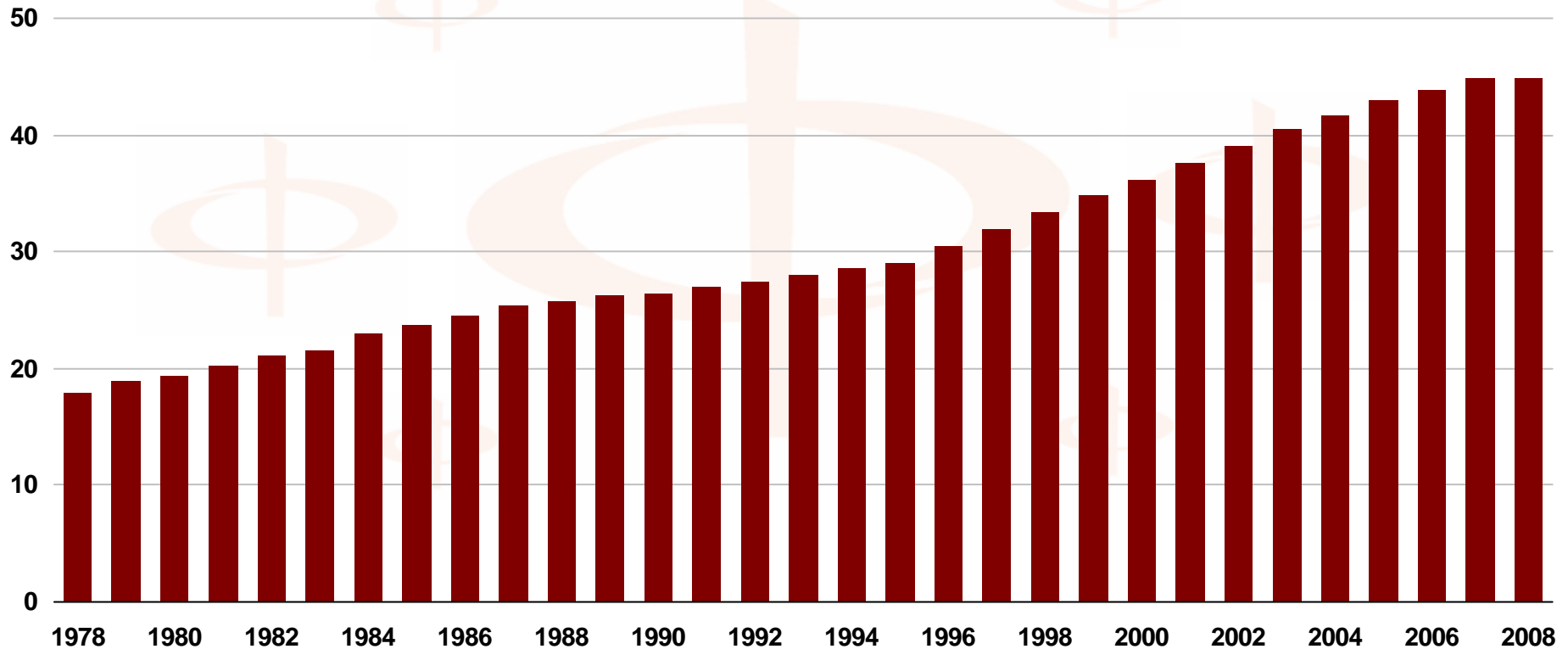
1. Base forecast. Certain figures do not amount to 100% due to the effects of rounding
 Source: National Bureau of Statistics of China; McKinsey Global Institute Analysis; THE BEIJING AXIS Analysis



CHINA'S URBANISATION RATE HAS INCREASED FROM 18% IN 1978 TO 44.9% IN 2008, WITH THE URBAN POPULATION REACHING 595 MILLION

However, China's urbanization rate is currently still lower than the world average (50%)

Urbanisation Rate (% , 1978-2008)





■ ■ ■ ■ ■ ■ ■ ■

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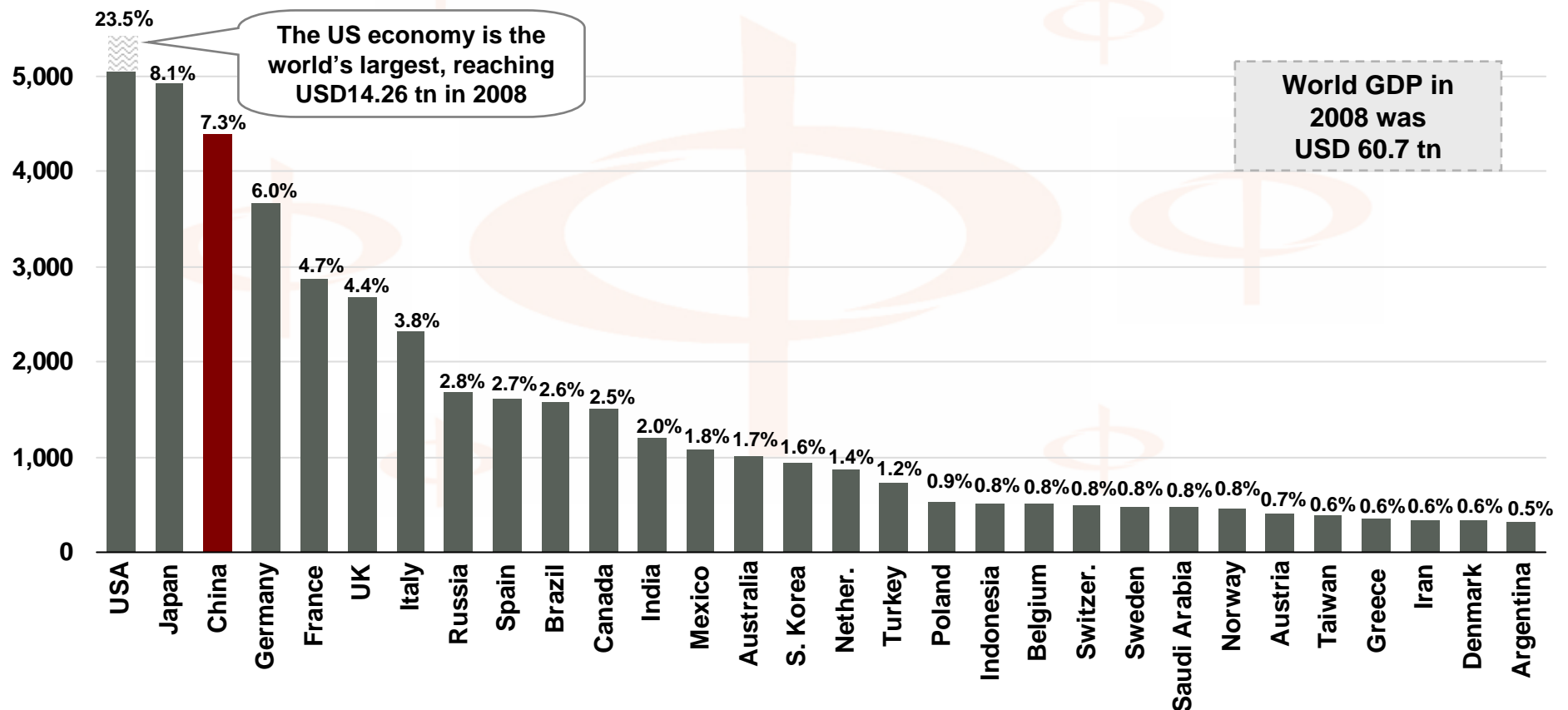
Disclaimer



IN 2008, CHINA WAS THE WORLD'S THIRD-LARGEST ECONOMY

China's GDP amounted to USD4.4 trillion, more than double the size of other developing economies such as Russia, Brazil or India

GDP of Top 30 Economies (USD bn, % of World GDP, 2008)



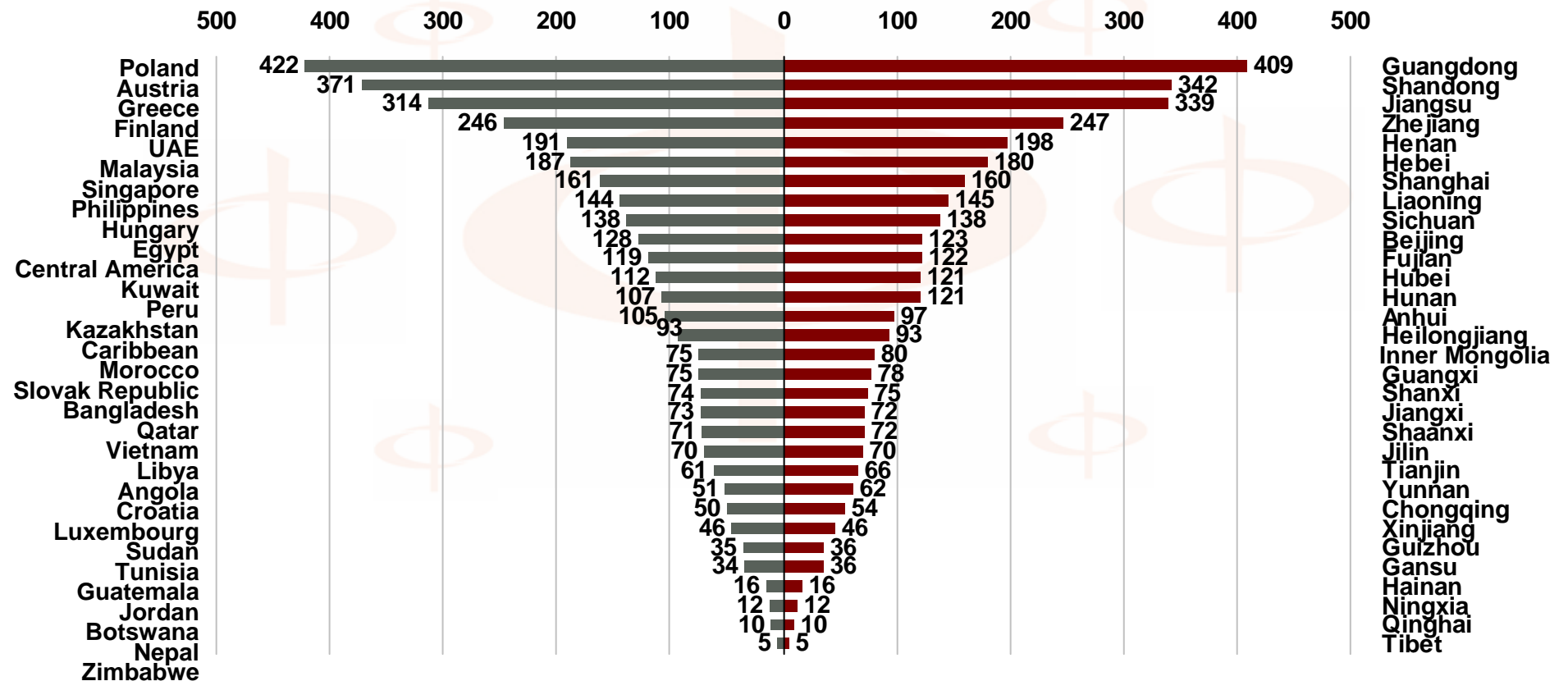
Note: Nether. = Netherlands; Switzer. = Switzerland
 Source: IMF; THE BEIJING AXIS Analysis



SOME CHINESE PROVINCES' GDP ARE THE SAME SIZE AS NATIONAL ECONOMIES IN EUROPE, ASIA, AFRICA, S. AMERICA

For example, the size of the Guangdong economy is larger than that of Austria, Greece and Finland

China GDP by Province Compared with Similar World Economies (USD bn, 2007)

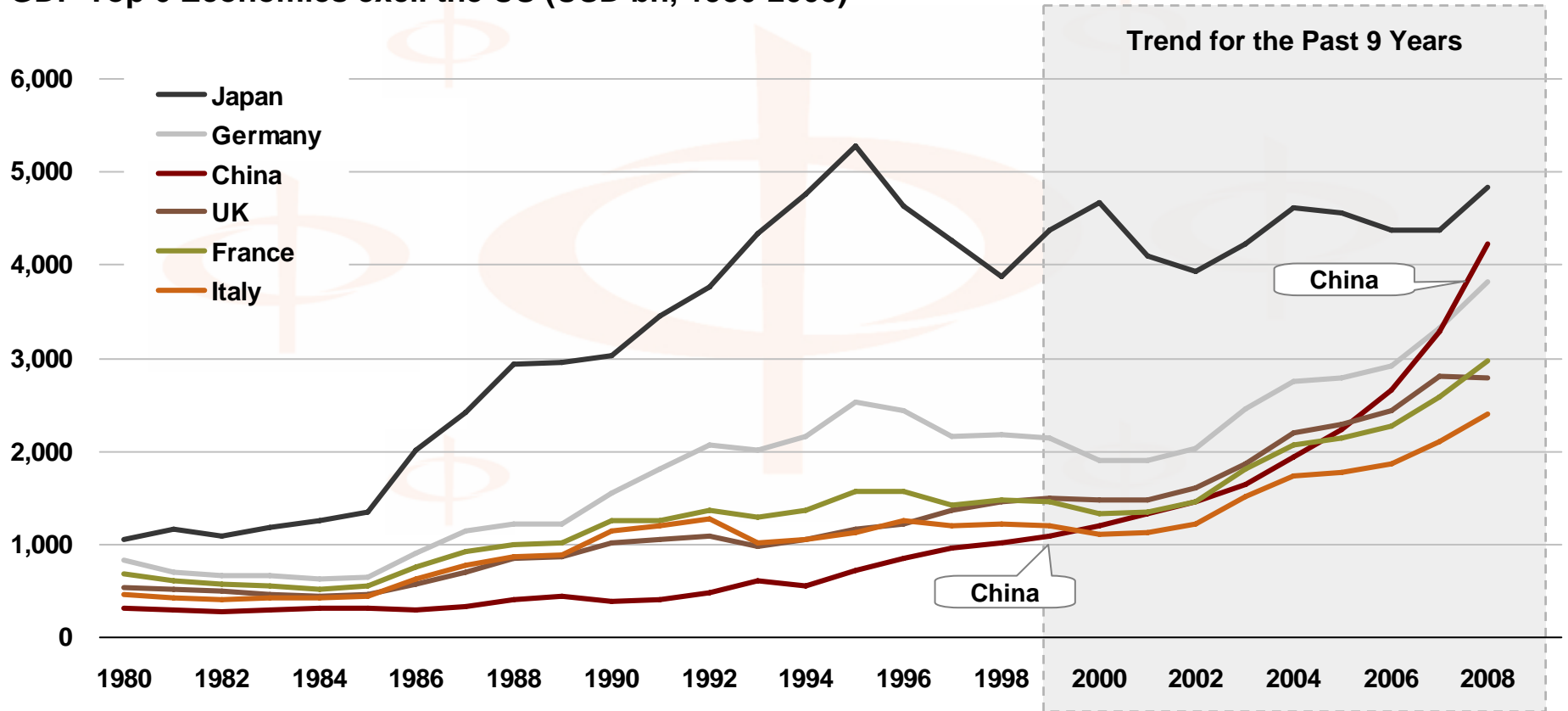




THE SIZE OF CHINA'S ECONOMY HAS SEEN A DRAMATIC INCREASE IN THE PAST 10 YEARS

With a fourfold increase since 1998, China is now the third-largest economy after the US and Japan (but it is likely to overtake Japan within 2 years)

GDP Top 6 Economies excl. the US (USD bn, 1980-2008)





SINCE 1980, CHINA HAS EXPERIENCED AN ANNUAL AVERAGE GDP GROWTH RATE OF 9.91%

Since the country's economic reform, China's growth rate has always been above the world average (3.4%); while the US has grown at 2.85% for the same period

China vs. US, Annual GDP Growth (% y-o-y, 1980-2008)

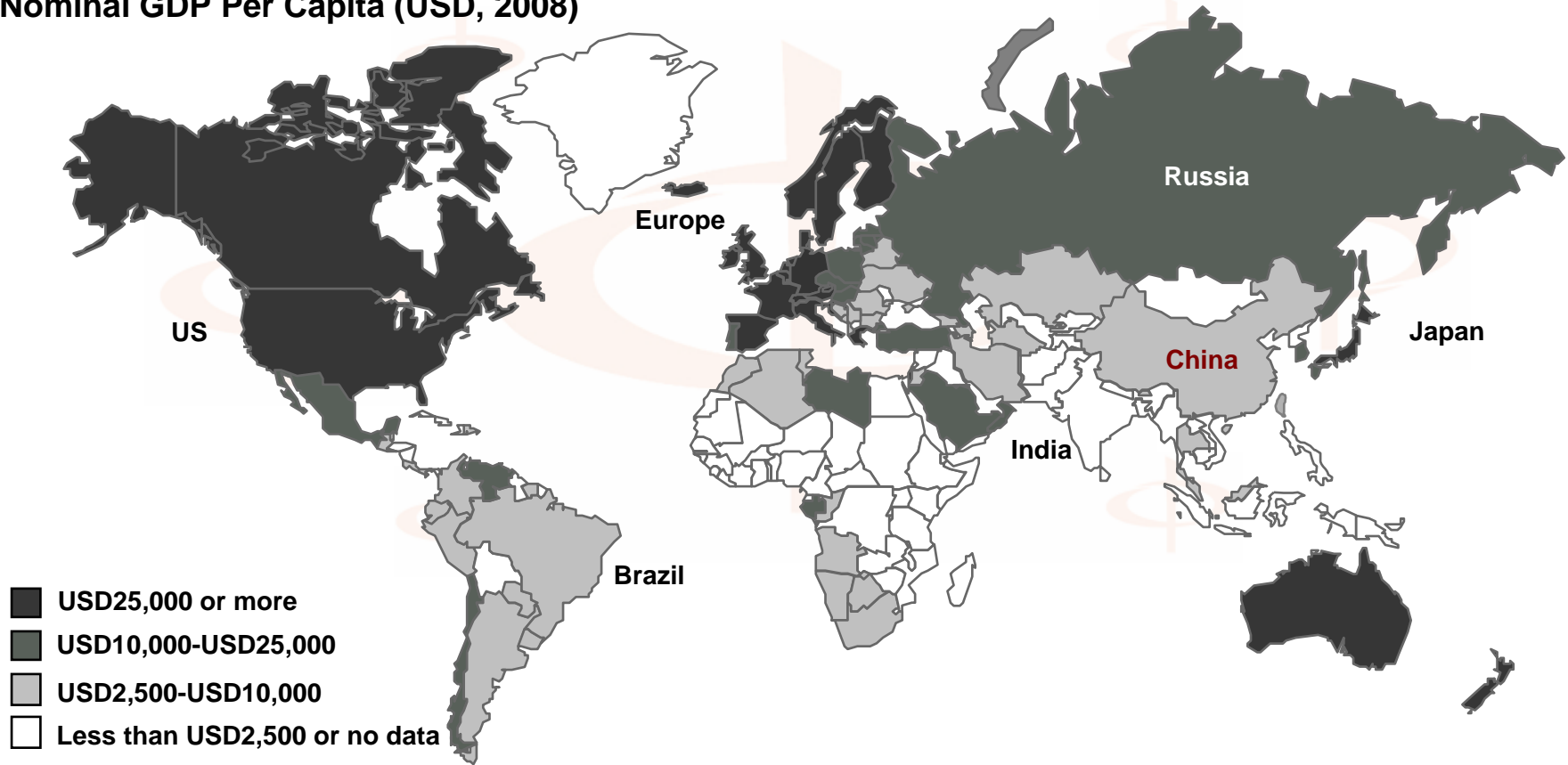




HOWEVER, CHINA'S GDP PER CAPITA IS STILL LOW COMPARED TO THAT OF OTHER ECONOMIES OF SIMILAR SIZE

In 2008, China's GDP per capita reached USD3,258

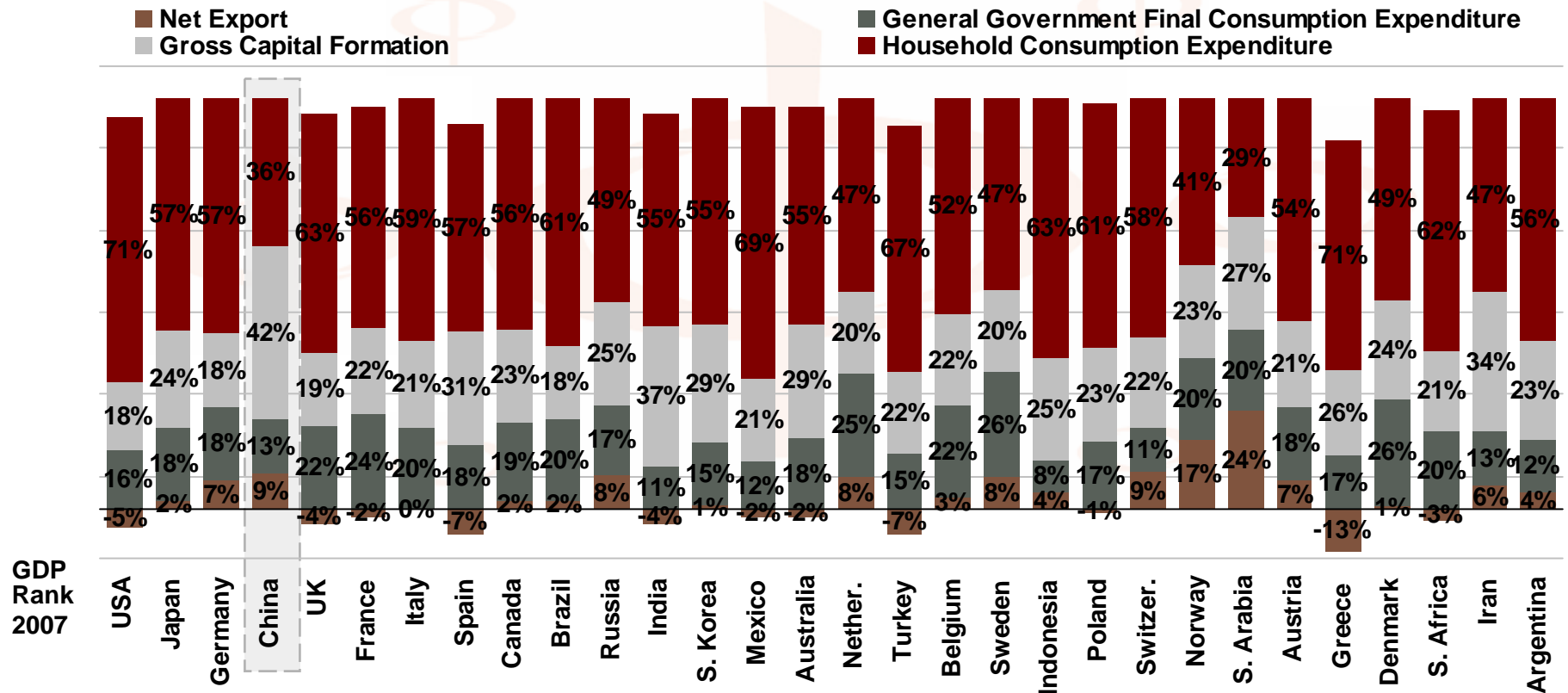
Nominal GDP Per Capita (USD, 2008)



IN CONTRAST TO OTHER MAJOR ECONOMIES, CHINA'S ENGINE OF GROWTH IS GROSS CAPITAL FORMATION

With gross capital formation at 43% of GDP, China's investment/GDP ratio is the highest in the world

Composition of GDP - Expenditure Approach (% , 2007)

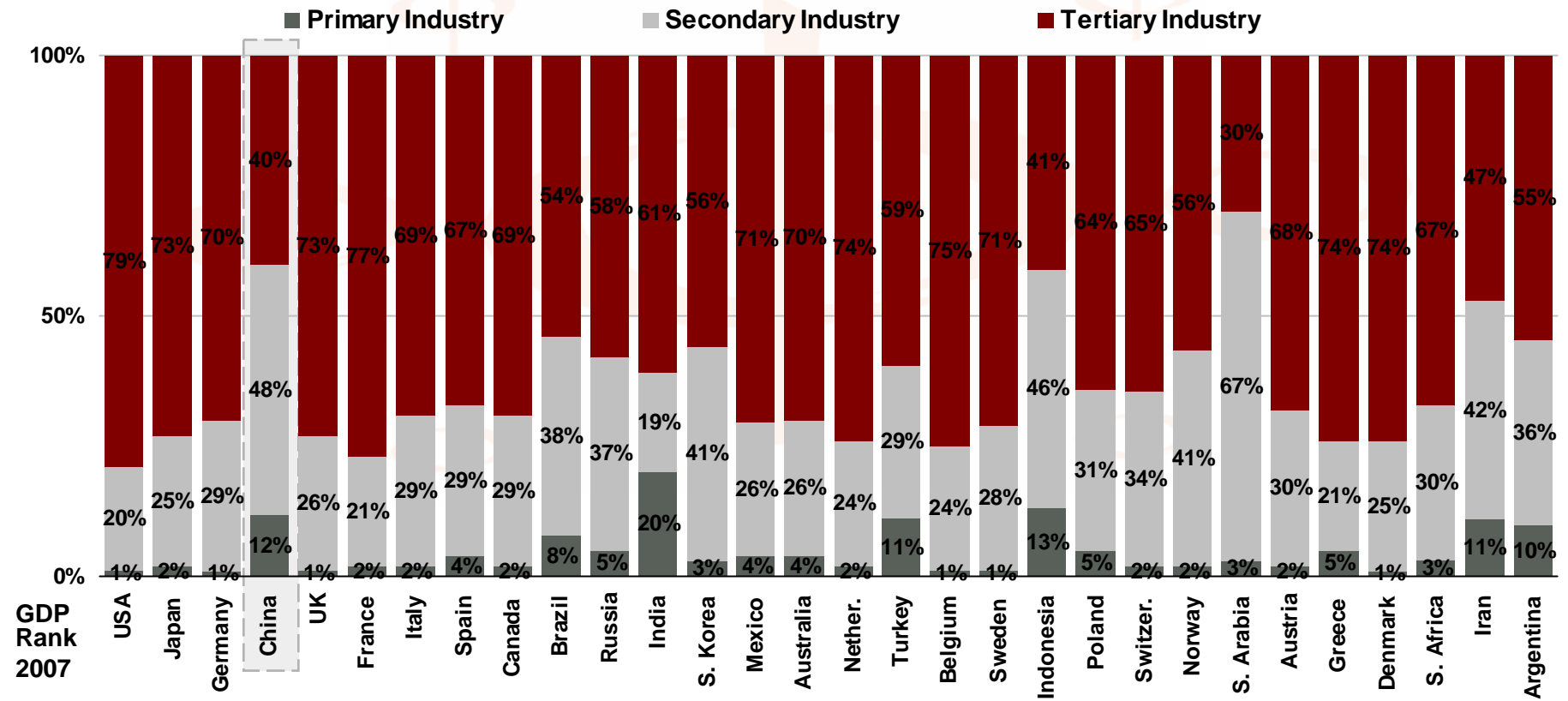


Note: Nether. = Netherlands; Switzer. = Switzerland
 Source: UN Millennium Indicators; THE BEIJING AXIS Analysis



CHINA'S ECONOMY IS DOMINATED BY ITS SECONDARY INDUSTRY, UNLIKE THE ECONOMIES OF OTHER MAJOR NATIONS THAT ARE DRIVEN BY THE SERVICES INDUSTRY

Share of GDP by Industry (% , 2007)



Note: Nether. = Netherlands; Switzer. = Switzerland
 Source: CIA World Factbook; World bank; THE BEIJING AXIS Analysis



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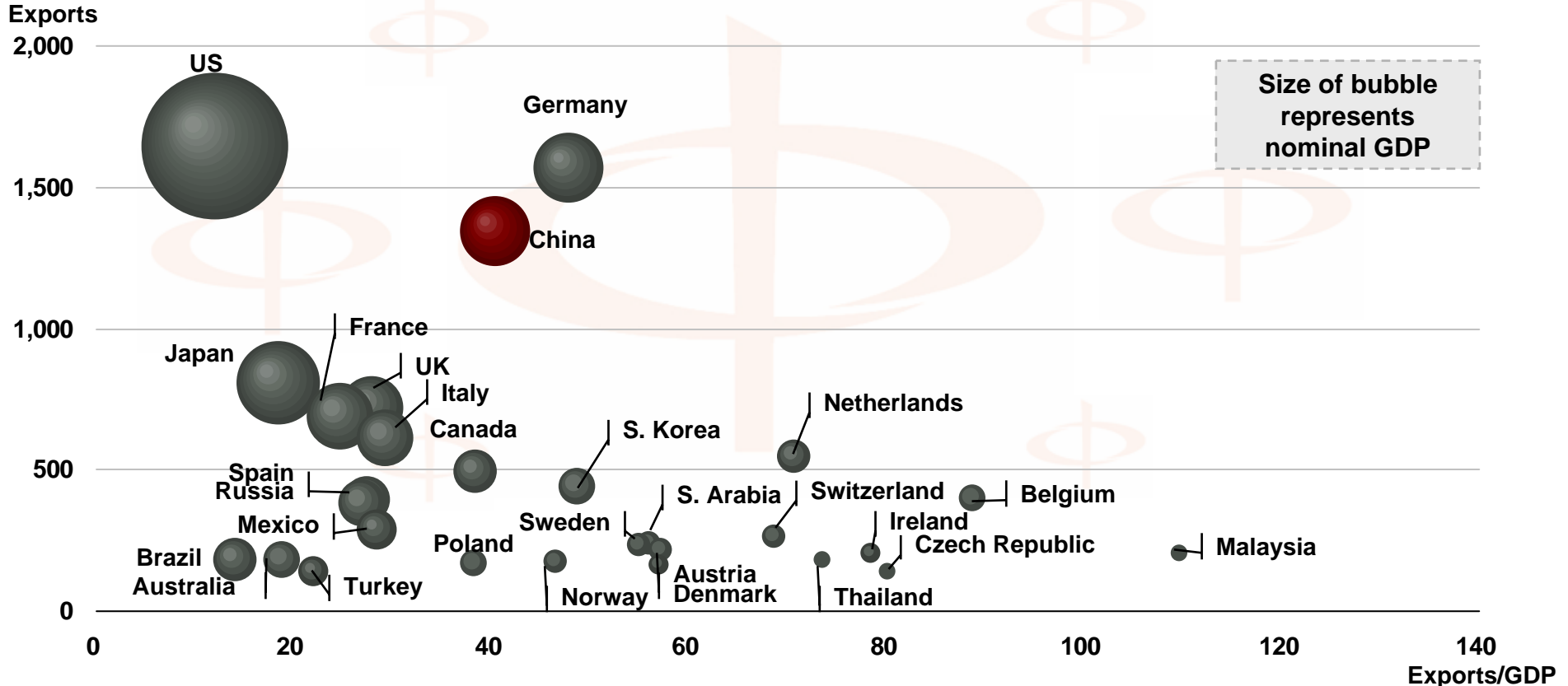
About THE BEIJING AXIS

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IN 2007, CHINA WAS THE WORLD'S THIRD-LARGEST EXPORTER AFTER THE US AND GERMANY

In 2007, China exported a total of USD1,342 bn, about 40% of its GDP, leaving a large gap to the next top exporter, Japan, with exports of USD807 bn

World's Major Exporters (USD bn, 2007)



Note: To make international comparisons, this section utilises China's export figure from the IMF (USD1,342 bn) instead of the one from MOFCOM (USD1,218 bn), which is used in the China Economic Indicators section



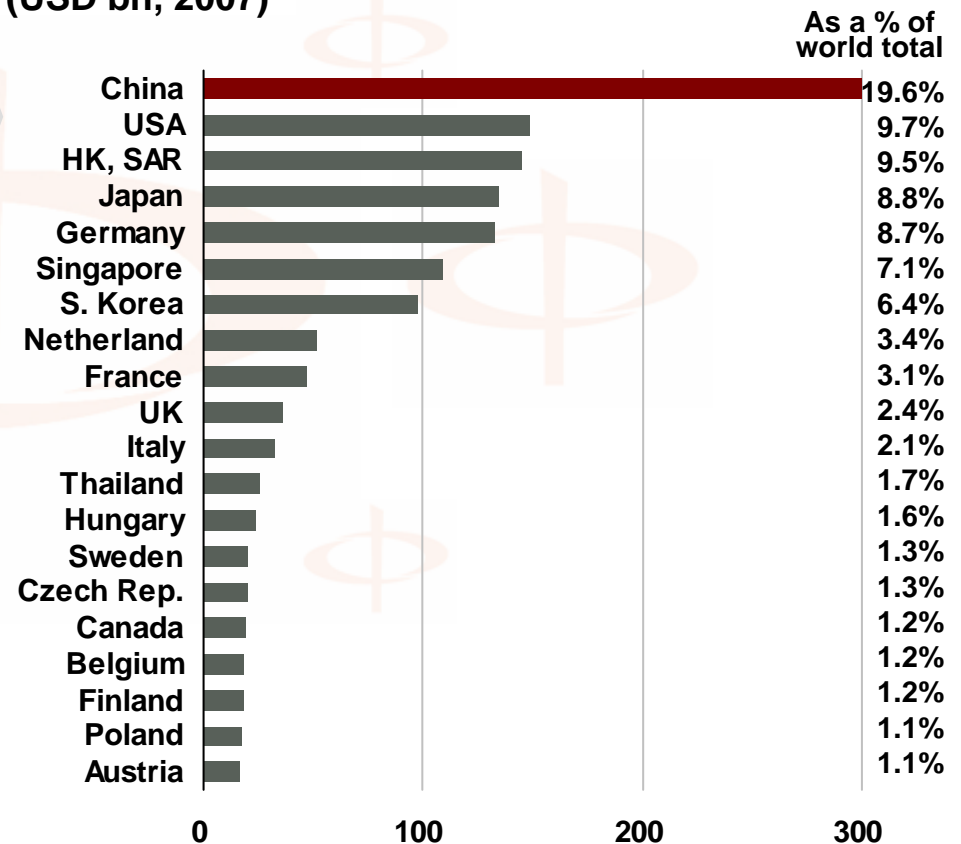
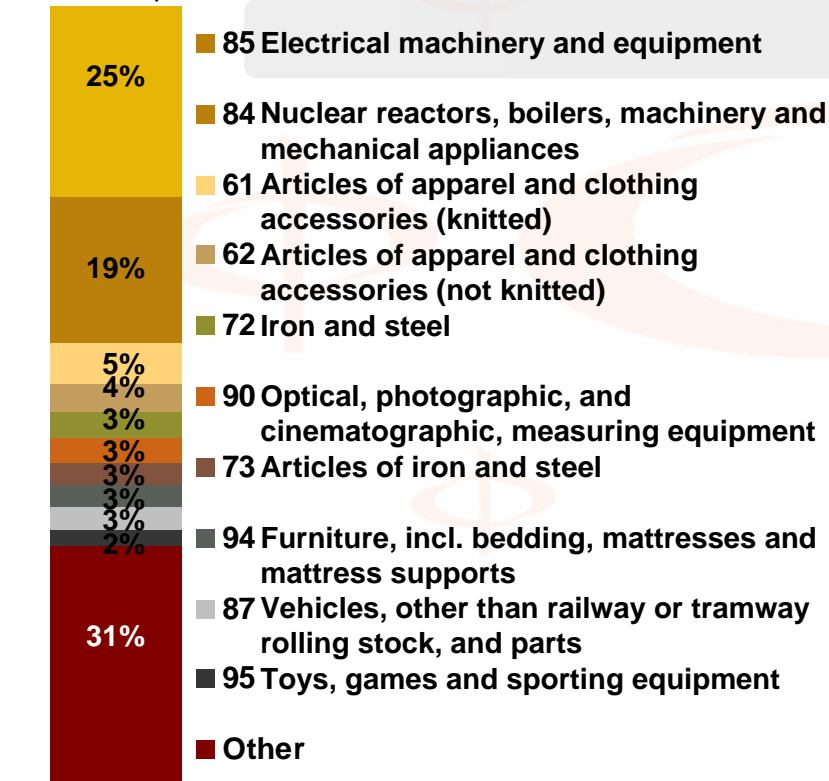
CHINA IS THE WORLD'S LARGEST EXPORTER OF ELECTRICAL MACHINERY AND EQUIPMENT

In 2007, China exported a total of USD300 bn or 19.6% of the world's total electrical machinery and equipment

Top 20 World Exporters of Electrical Machinery

China's Top 10 Export Commodities 2007 (HS Code) (USD bn, 2007)

Total : USD 1,218bn



CHINA IS THE WORLD'S SECOND-LARGEST EXPORTER OF MACHINERY AND MECHANICAL APPLIANCES

In 2007, China exported a total of USD228 bn or 13.9% of the world's power generation equipment





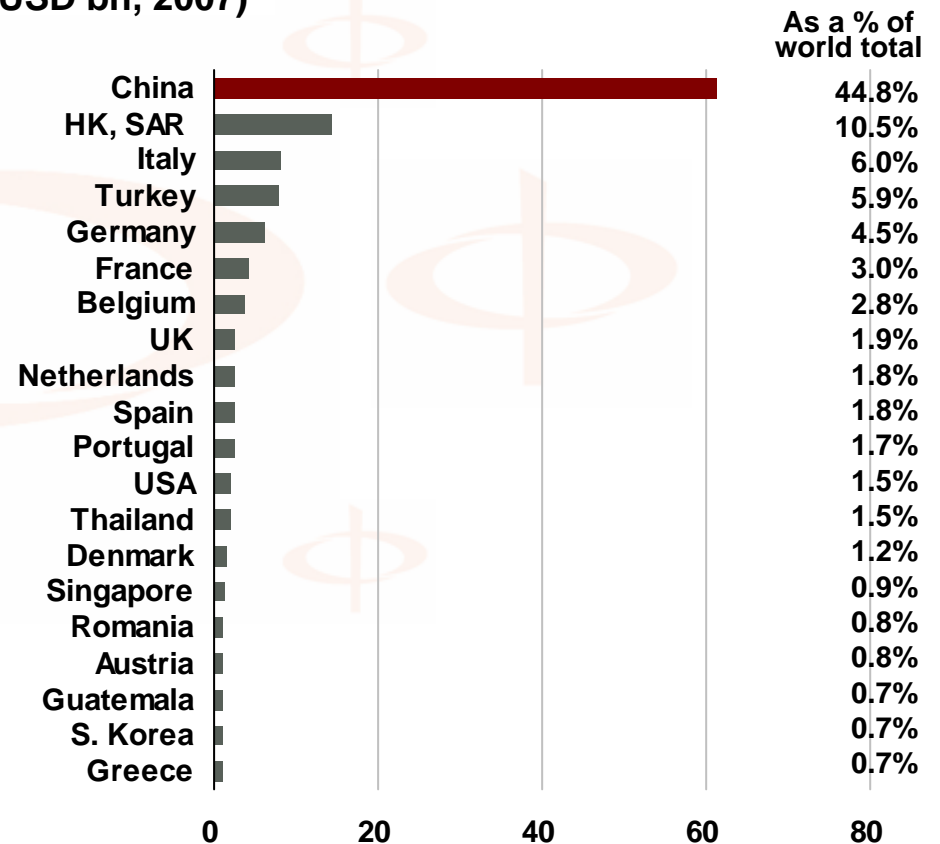
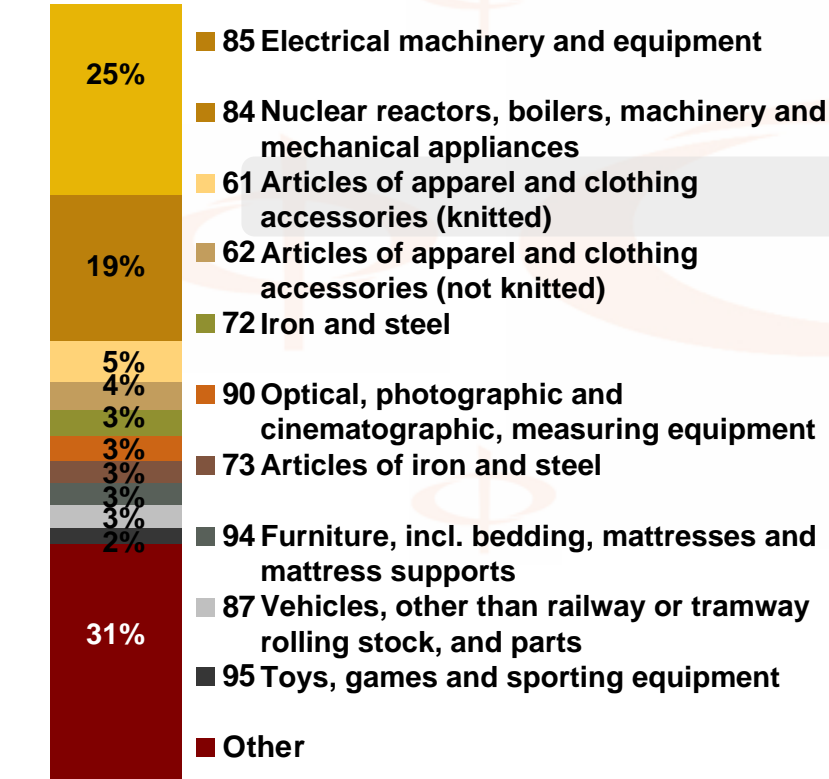
CHINA IS THE WORLD'S LARGEST EXPORTER OF KNITTED ARTICLES OF APPAREL AND CLOTHING ACCESSORIES

In 2007, China exported a total of USD61 bn or 44.8% of the world's knitted apparel and clothing accessories

Top 20 World Exporters of Knitted Articles of Apparel

China's Top 10 Export Commodities 2007 (HS Code) (USD bn, 2007)

Total : USD 1,218bn



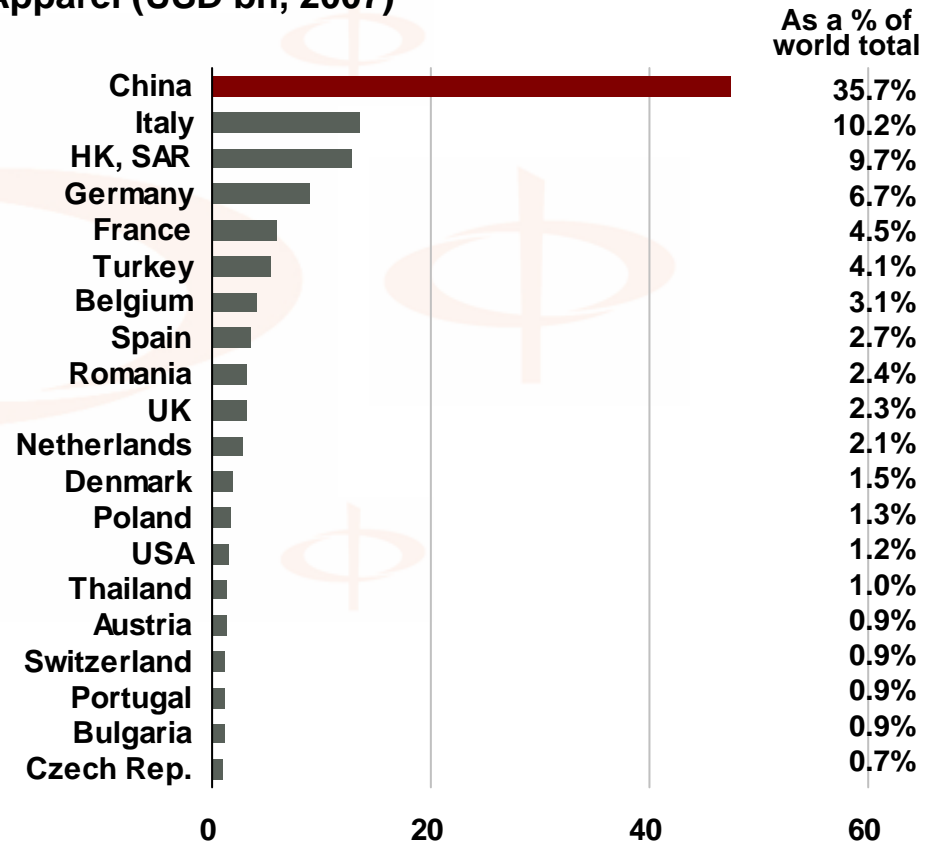
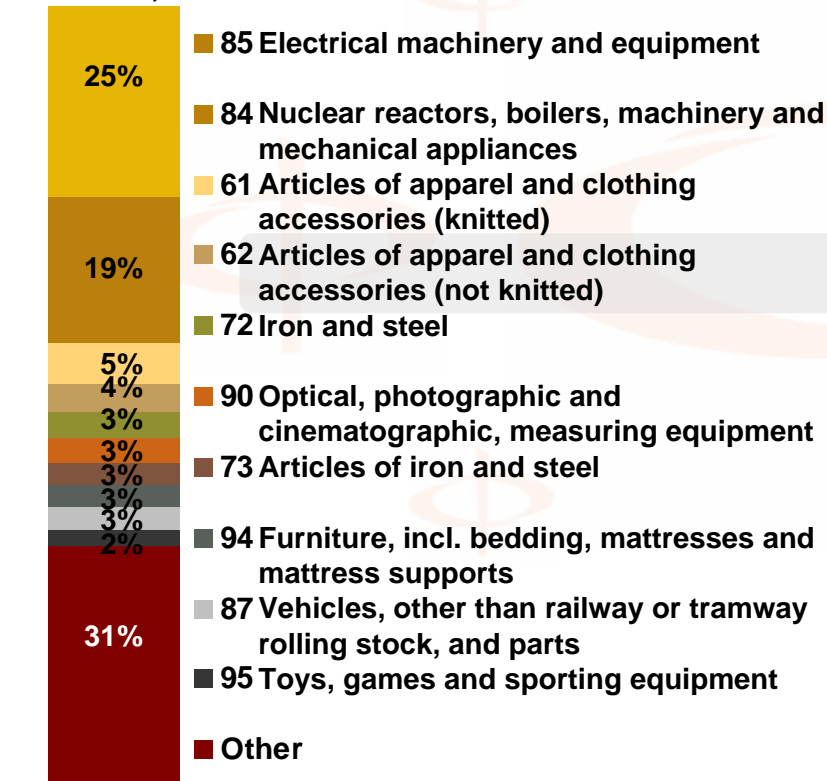


CHINA IS THE WORLD'S LARGEST EXPORTER OF NON-KNITTED ARTICLES OF APPAREL AND CLOTHING ACCESSORIES

In 2007, China exported a total of USD47 bn or 35.7% of the world's non-knitted apparel and clothing accessories

China's Top 10 Export Commodities 2007 (HS Code) **Top 20 World Exporters of Un-knitted Articles of Apparel (USD bn, 2007)**

Total : USD 1,218bn





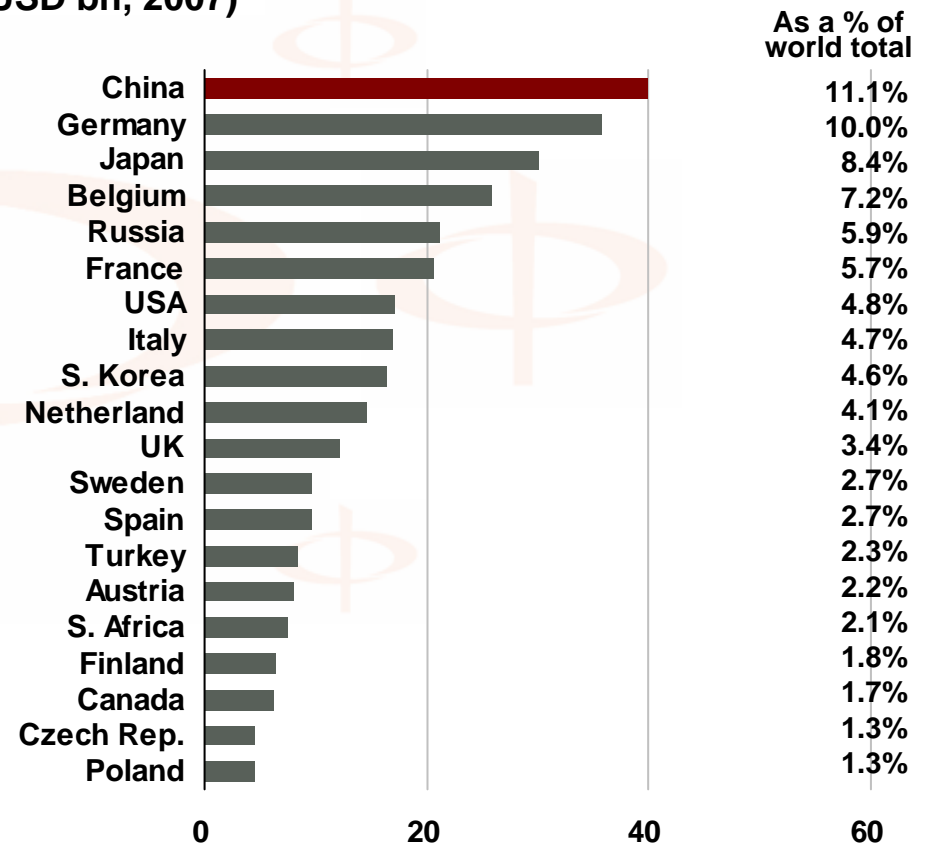
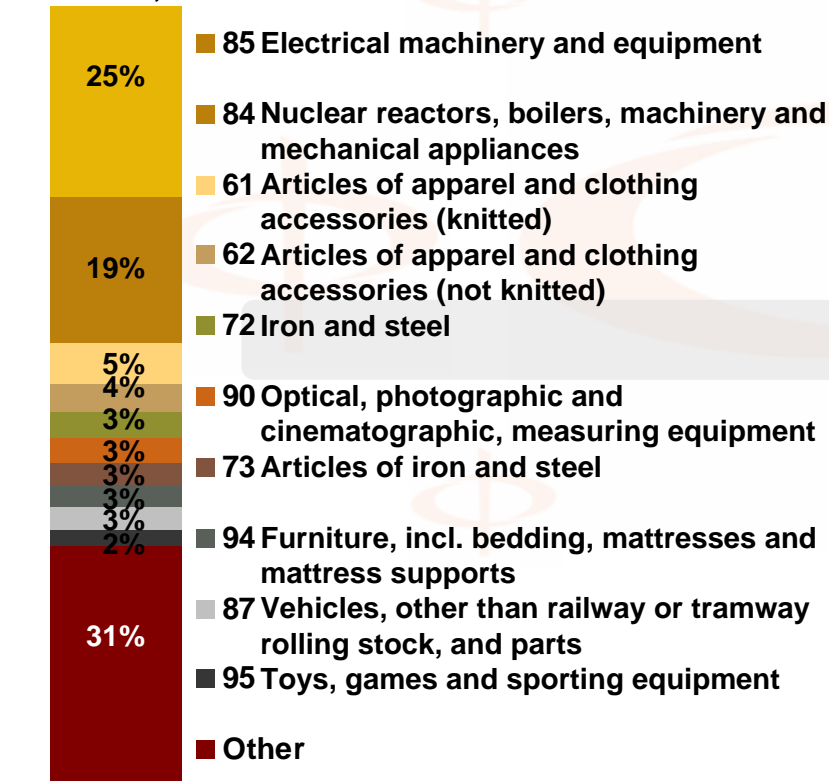
CHINA IS THE WORLD'S LARGEST EXPORTER OF IRON AND STEEL

In 2007, China exported a total of USD40 bn or 11.1% of the world's iron and steel

Top 20 World Exporters of Iron and Steel

China's Top 10 Export Commodities 2007 (HS Code) (USD bn, 2007)

Total : USD 1,218bn

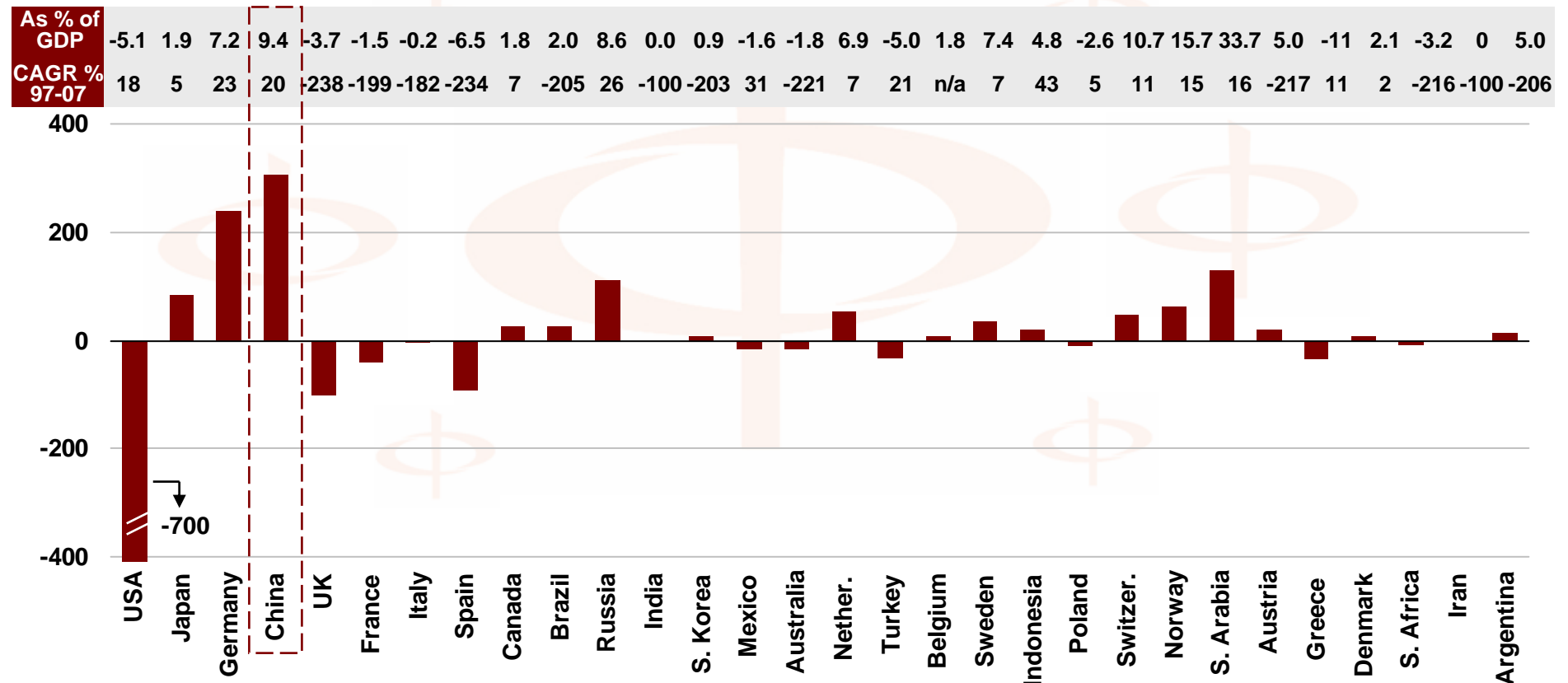




DESPITE NOT BEING THE WORLD'S LARGEST EXPORTER, CHINA HAS THE WORLD'S LARGEST TRADE SURPLUS

In 2007, China's total trade surplus reached USD307 bn, which is 28% higher than that of Germany, the world's largest exporter

Trade Surpluses of the World's Major Economies (USD bn, 2007)



Note: To make international comparisons, this section utilises the China trade surplus figure from the IMF (USD307 bn) instead of the one from MOFCOM (USD352 bn), which is used in the rest of this document

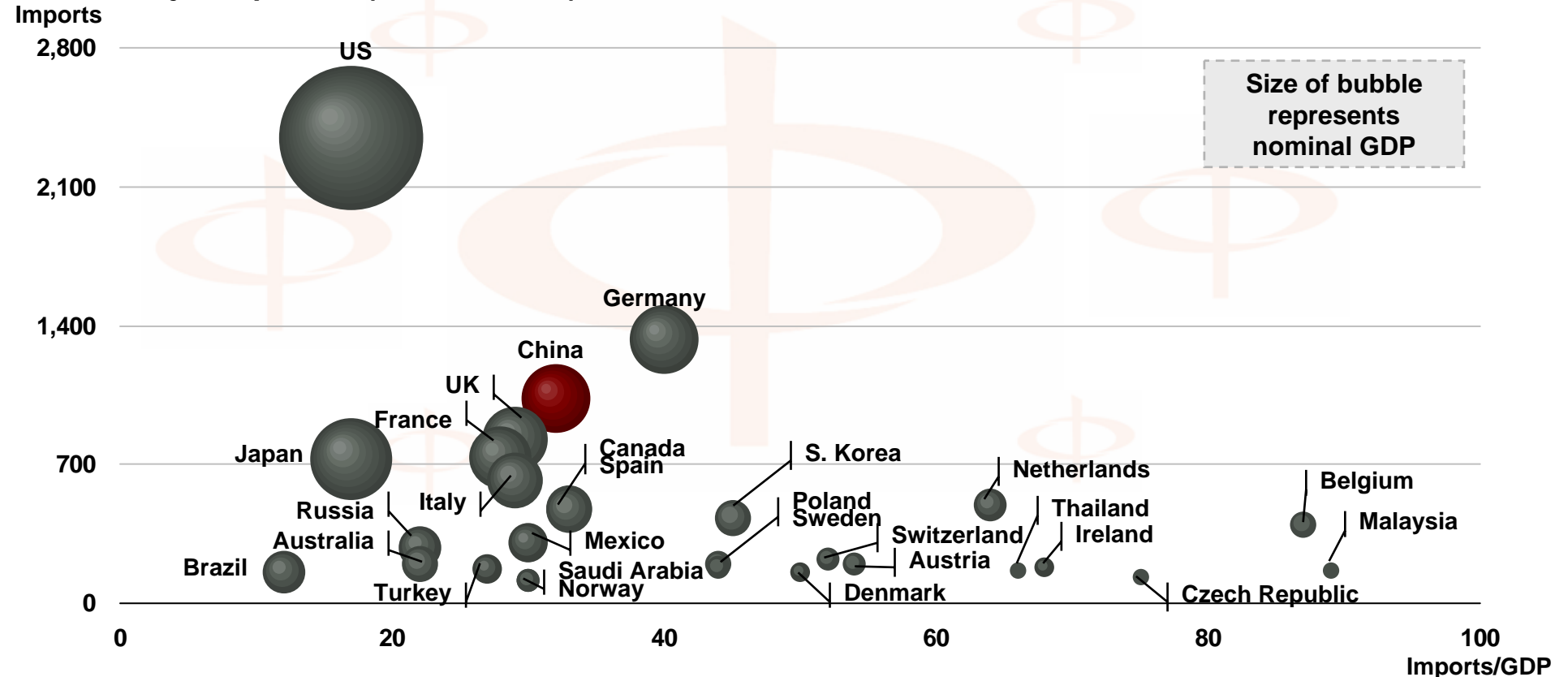
Source: IMF; THE BEIJING AXIS Analysis



IN 2007, CHINA WAS THE WORLD'S THIRD-LARGEST IMPORTER AFTER THE US AND GERMANY

In 2007, China imported a total of USD1,035 bn, about 32% of its GDP

World's Major Importers (USD bn, 2007)



Note: To make international comparisons, this section utilises China's import figure from the IMF (USD1,035 bn) instead of the one from MOFCOM (USD956 bn), which is used in the China Economic Indicators section

Source: IMF; THE BEIJING AXIS Analysis

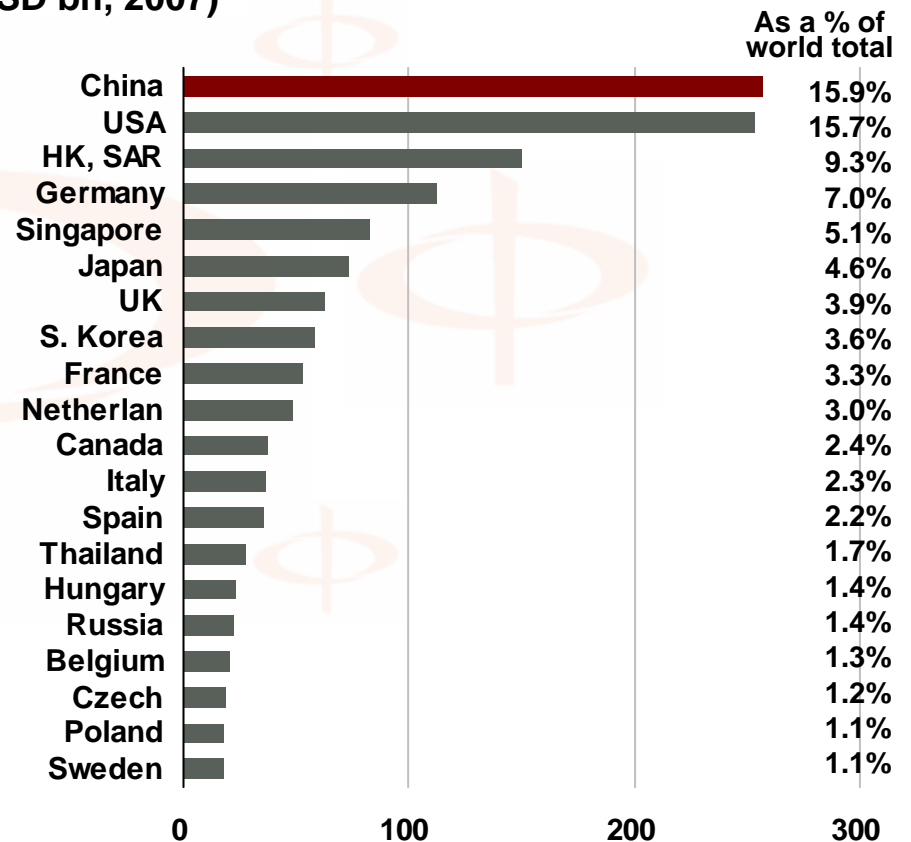
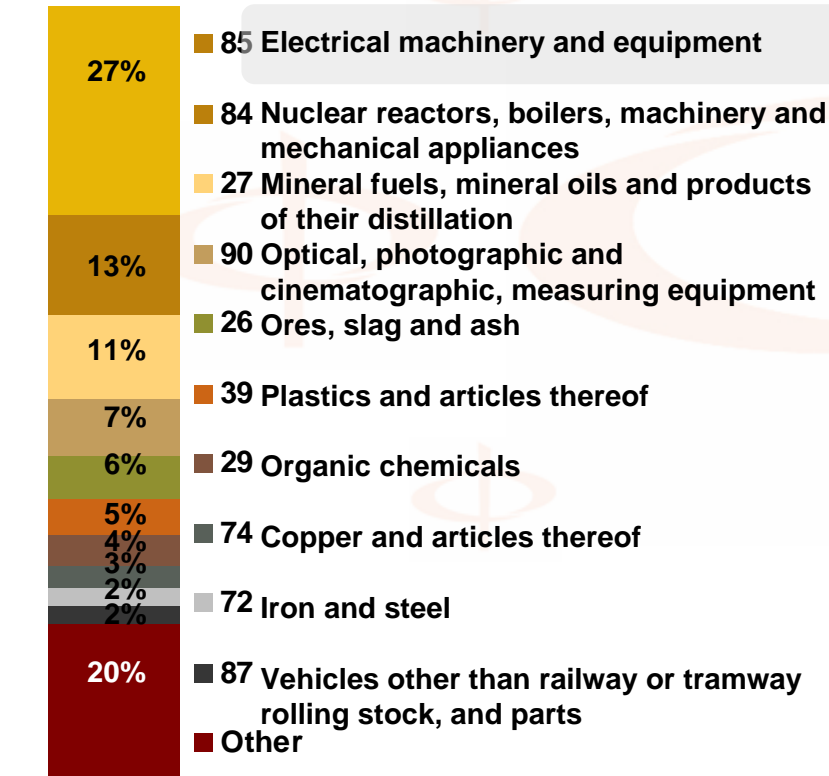
CHINA IS THE WORLD'S LARGEST IMPORTER OF ELECTRICAL MACHINERY AND EQUIPMENT

In 2007, China imported a total of USD257 bn or 15.9% of the world's electrical machinery and equipment

Top 20 World Importers of Electrical Machinery

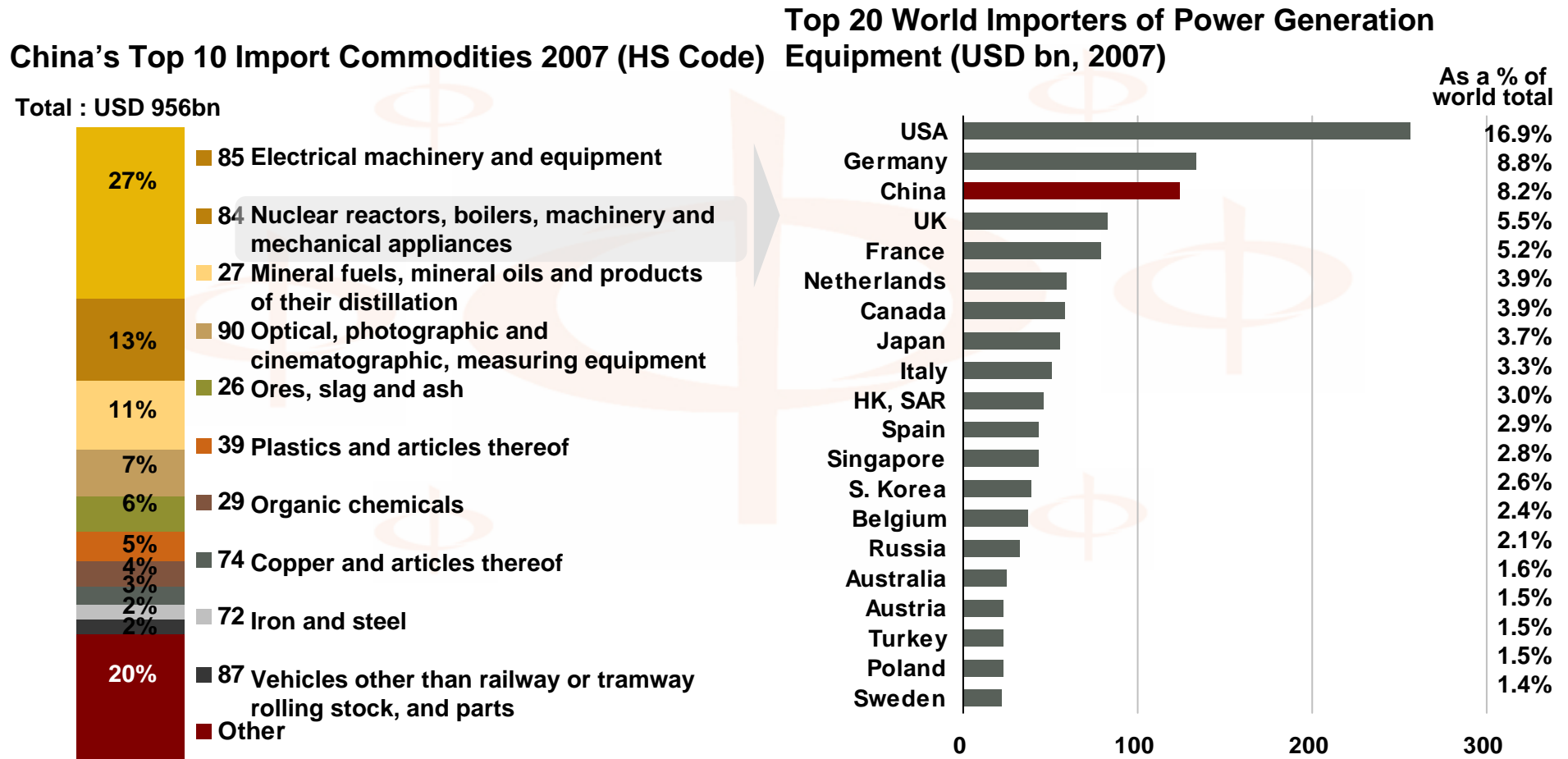
China's Top 10 Import Commodities 2007 (HS Code) (USD bn, 2007)

Total : USD 956bn



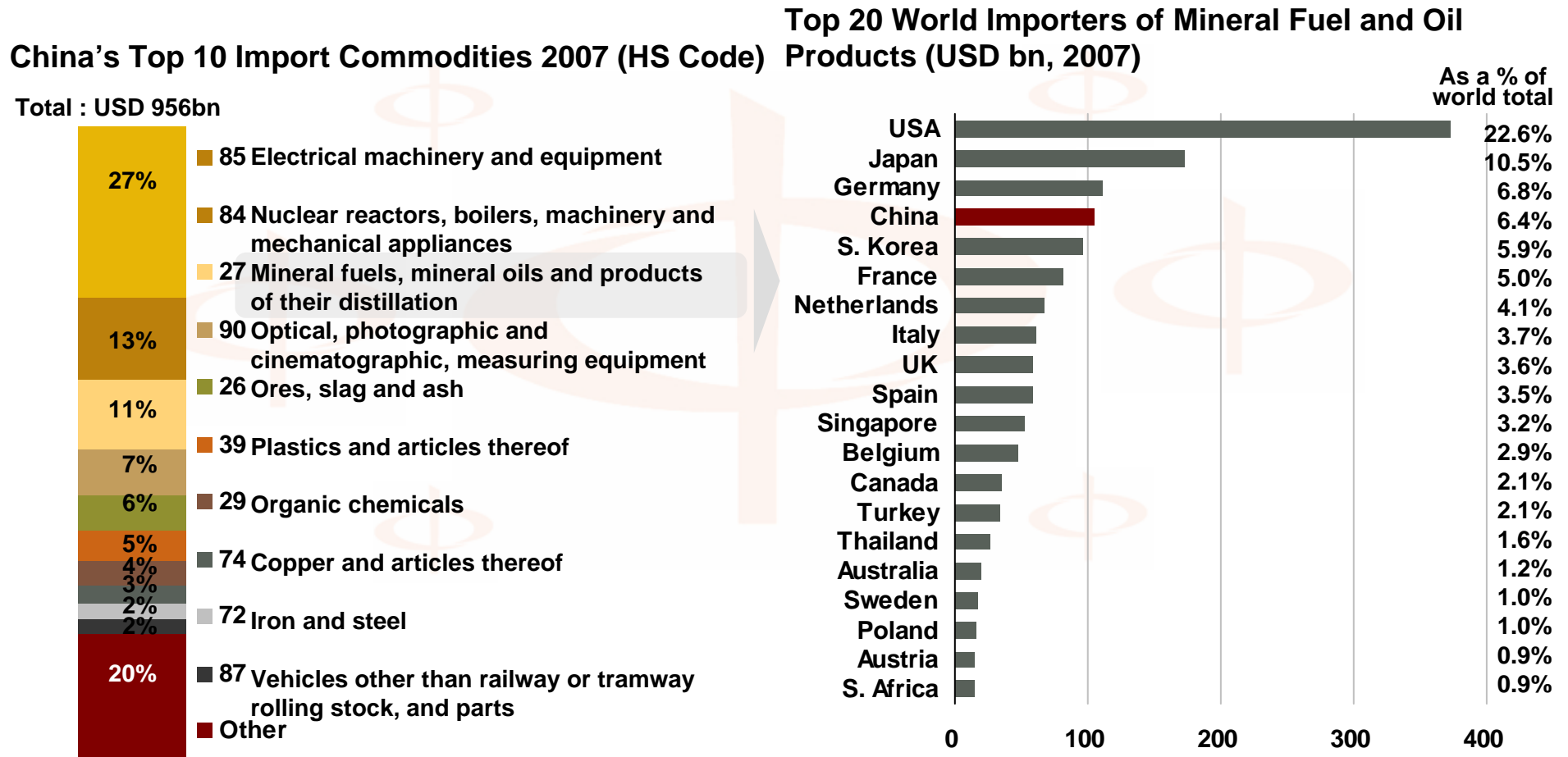
CHINA IS THE WORLD'S THIRD-LARGEST IMPORTER OF MACHINERY AND MECHANICAL APPLIANCES

In 2007, China imported a total of USD124 bn or 8.2% of the world's power generation equipment



CHINA IS THE WORLD'S FOURTH-LARGEST IMPORTER OF MINERAL FUELS, OILS AND PRODUCTS OF THEIR DISTILLATION

In 2007, China imported a total of USD105 bn or 6.4% of the world's mineral fuel and oil products

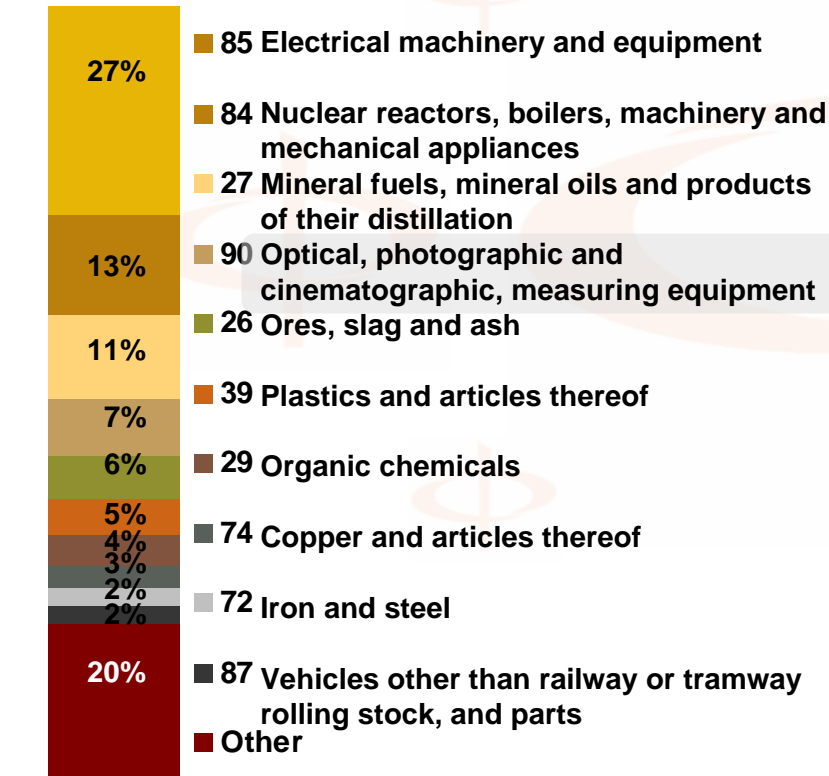


CHINA IS THE WORLD'S LARGEST IMPORTER OF OPTICAL, PHOTOGRAPHIC AND CINEMATOGRAPHIC EQUIPMENT

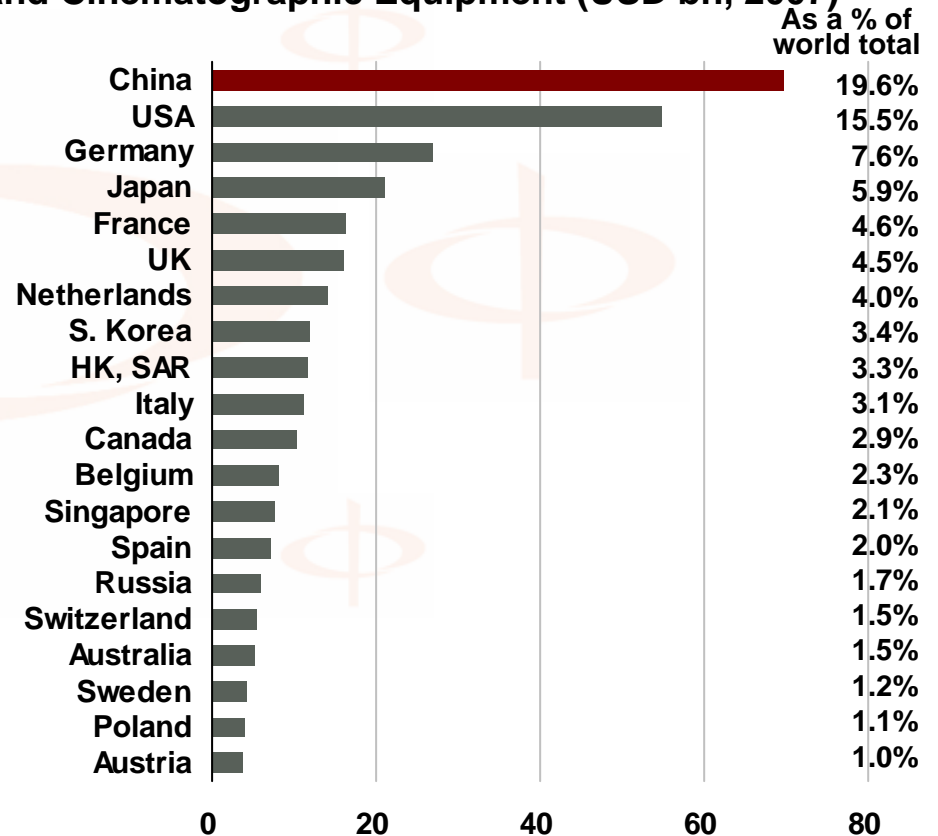
In 2007, China imported a total of USD70 bn or 19.6% of the world's optical, photographic, cinematographic, and measuring equipment

China's Top 10 Import Commodities 2007 (HS Code) and Top 20 World Importers of Optical, Photographic and Cinematographic Equipment (USD bn, 2007)

Total : USD 956bn



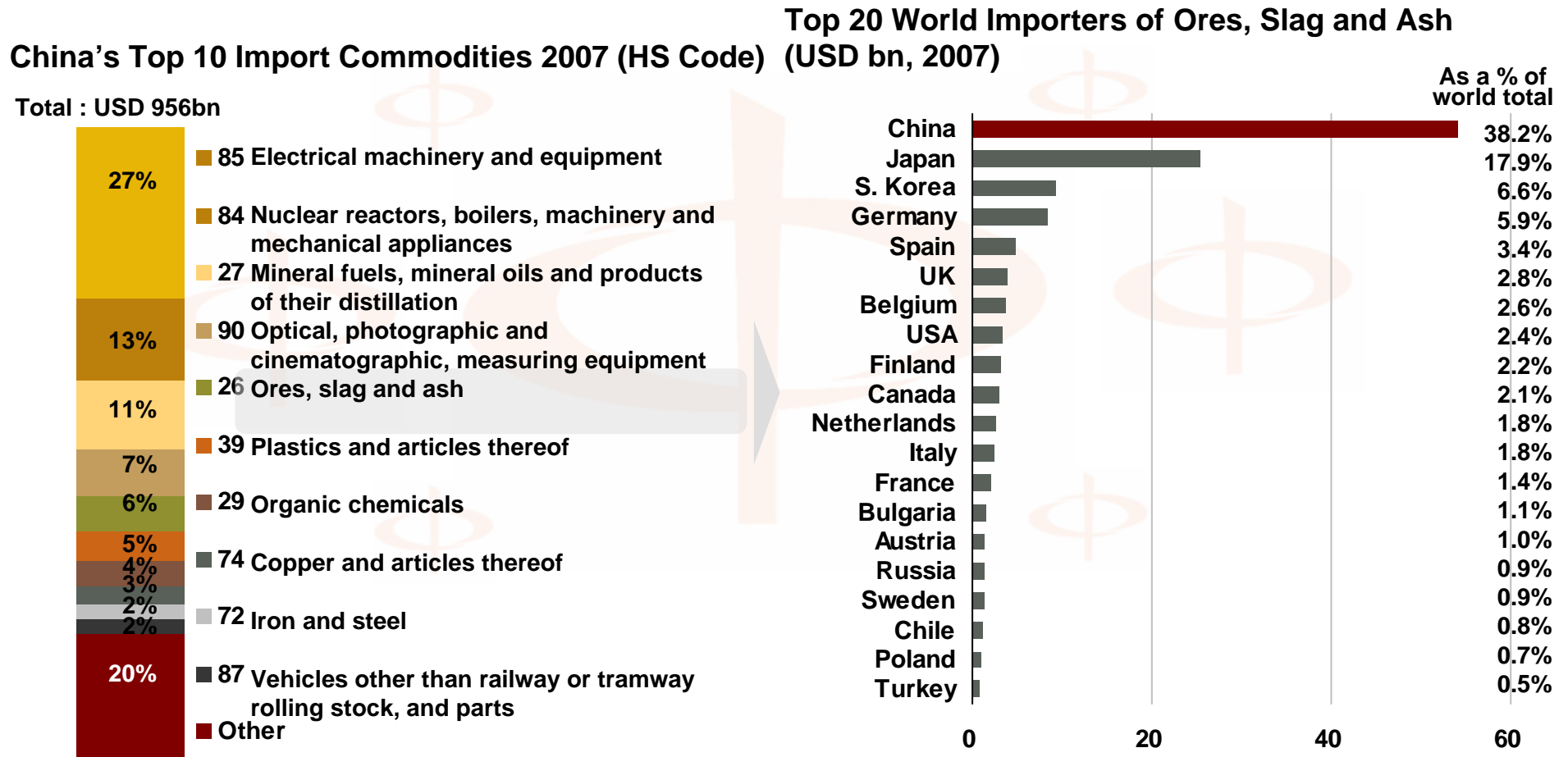
Top 20 World Importers of Optical, Photographic and Cinematographic Equipment (USD bn, 2007)





CHINA IS THE WORLD'S LARGEST IMPORTER OF ORES

In 2007, China imported a total of USD54 bn or 38.2% of the world's ore, slag and ash





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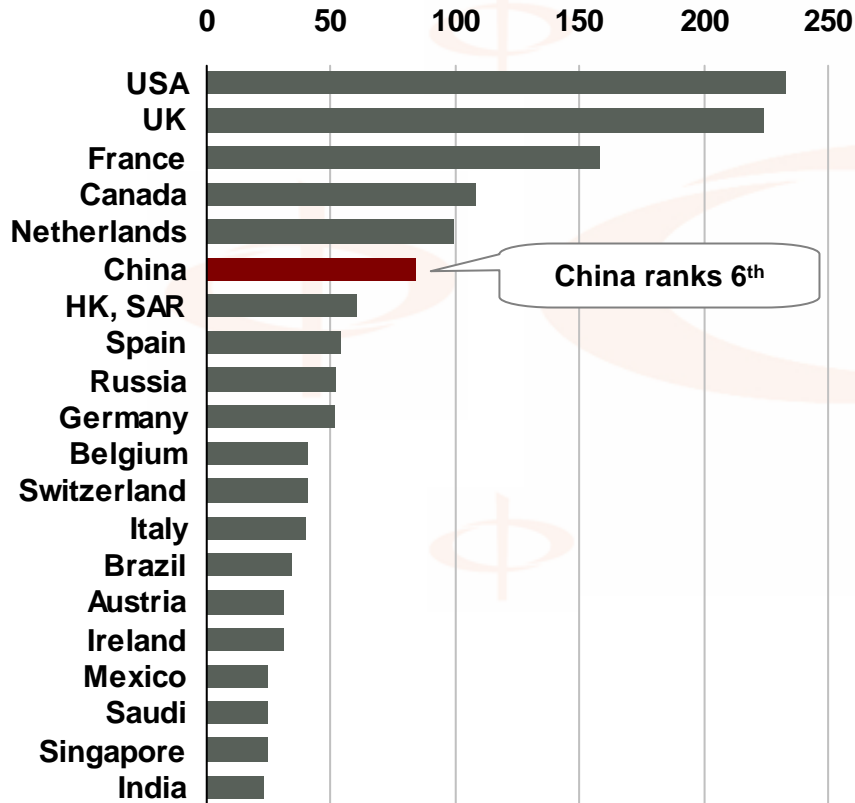
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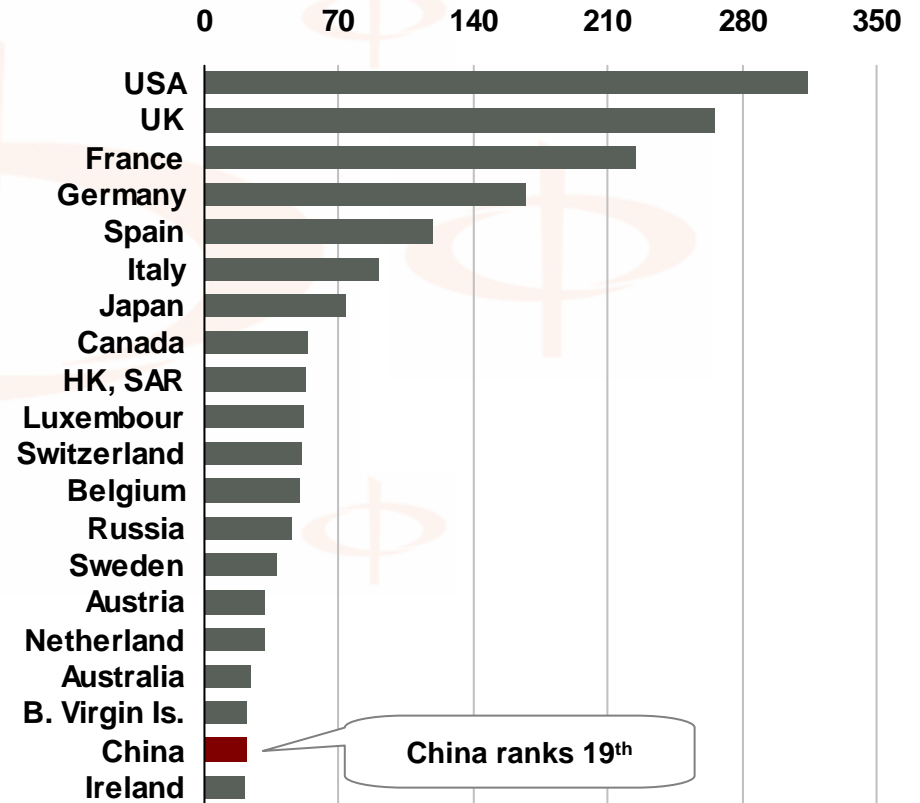
IN 2007, CHINA'S FDI INFLOW WAS SUBSTANTIALLY GREATER THAN ITS FDI OUTFLOW

China ranked 6th in the world in 2007 for FDI inflow with USD83 bn, while it ranked only 19th for OFDI with USD22 bn

Top 20 World FDI Inflows (USD bn, 2007)



Top 20 World FDI Outflows (USD bn, 2007)



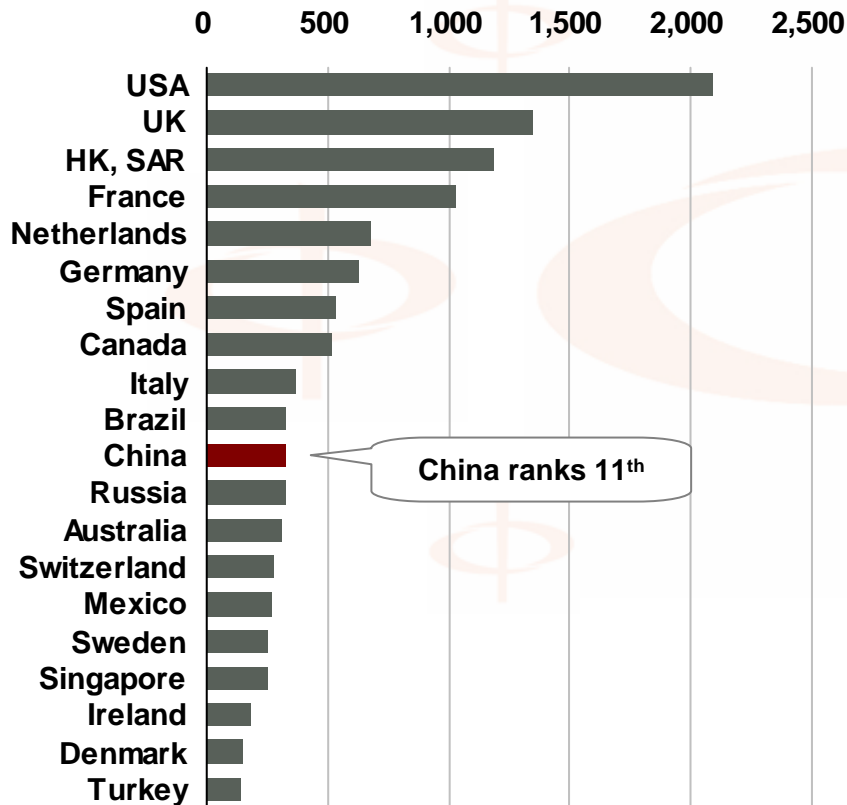
Note: To make international comparisons, this section utilises China's FDI figure (USD83.4 bn) and China's OFDI figure (USD22.4 bn) from the WIR 2008 instead of the MOFCOM figures (USD74.7 bn and USD26.5 bn, respectively) that is used in the China Economic Indicators section



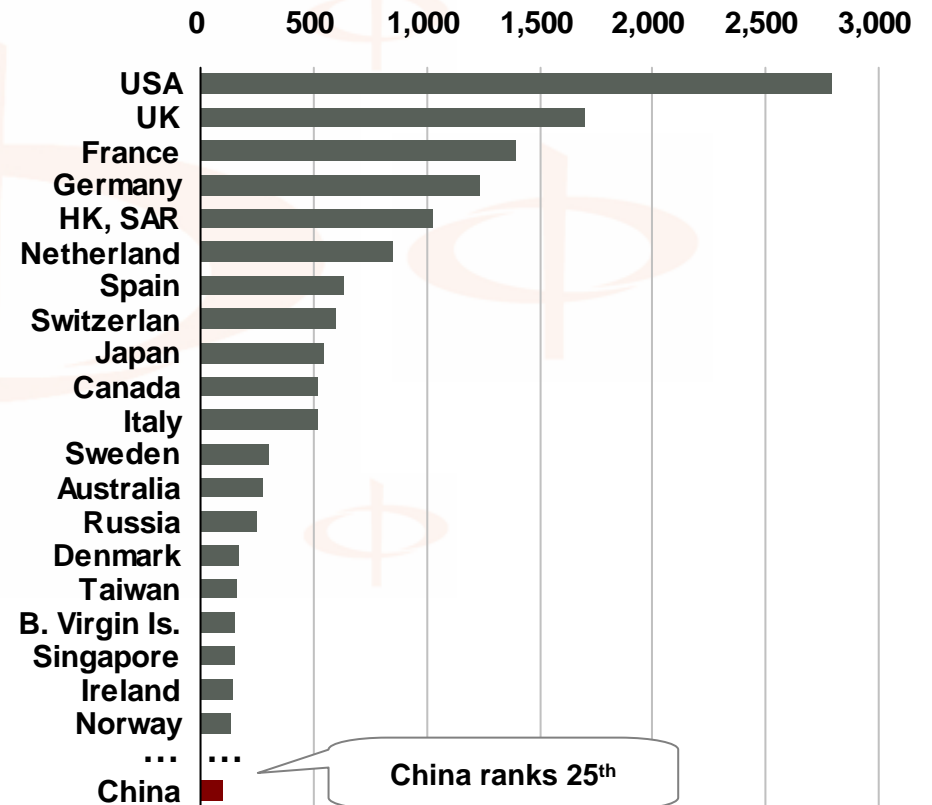
CHINA IS THE SECOND-LARGEST ASIAN RECIPIENT OF FDI STOCK

In 2007, China ranked 11th for FDI stock with USD327 bn, while for OFDI it ranked 25th with USD95 bn

Top 20 World FDI Inward Stock (USD bn, 2007)



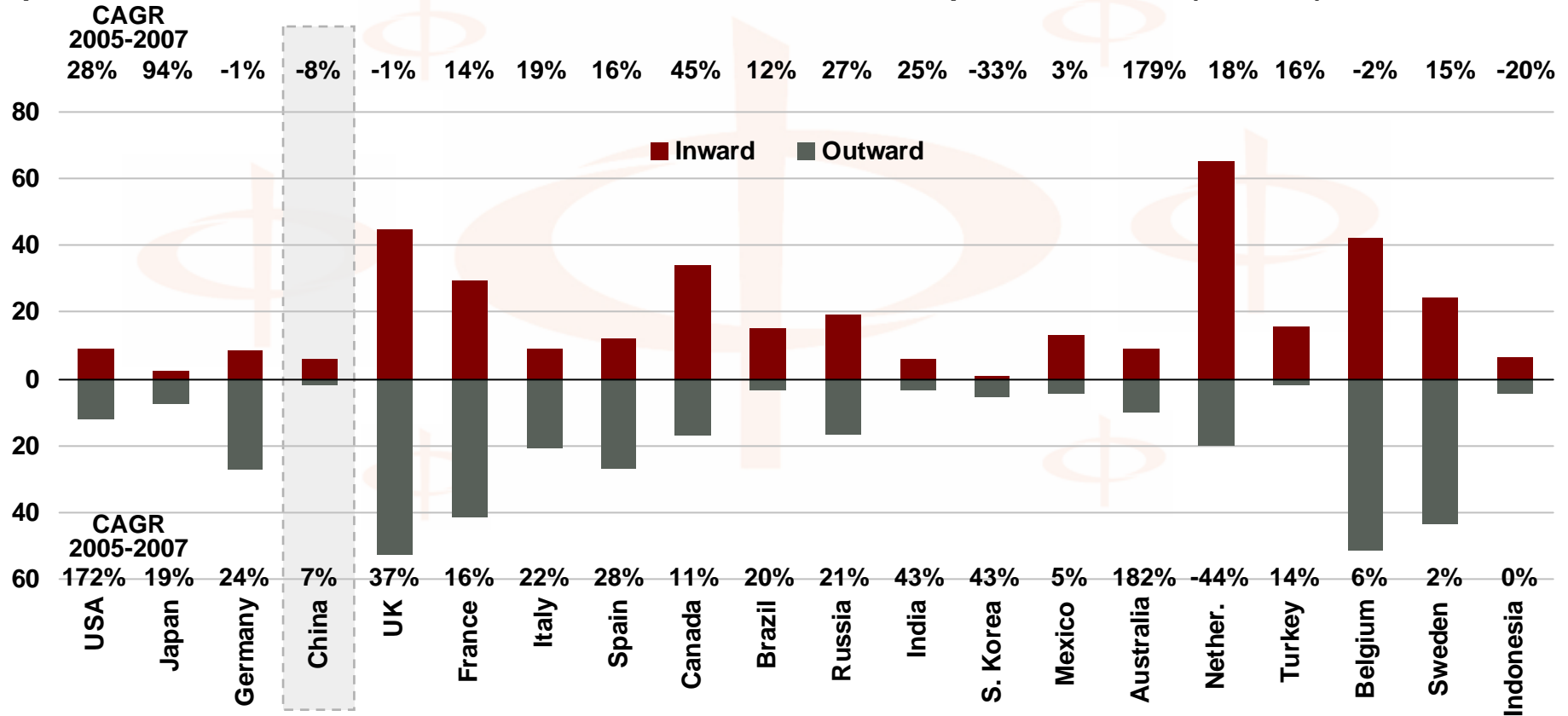
Top 20 World FDI Outward Stock (USD bn, 2007)



IN 2007, BOTH CHINA'S FDI INFLOWS AND OUTFLOWS, AS A PERCENTAGE OF GFCF, WERE RELATIVELY SMALL

In 2005-2007, China's FDI outflows grew faster than its FDI inflows

Top 20 GDP Countries FDI In/Out Flow as a % of Gross Fixed Capital Formation (% , 2007)

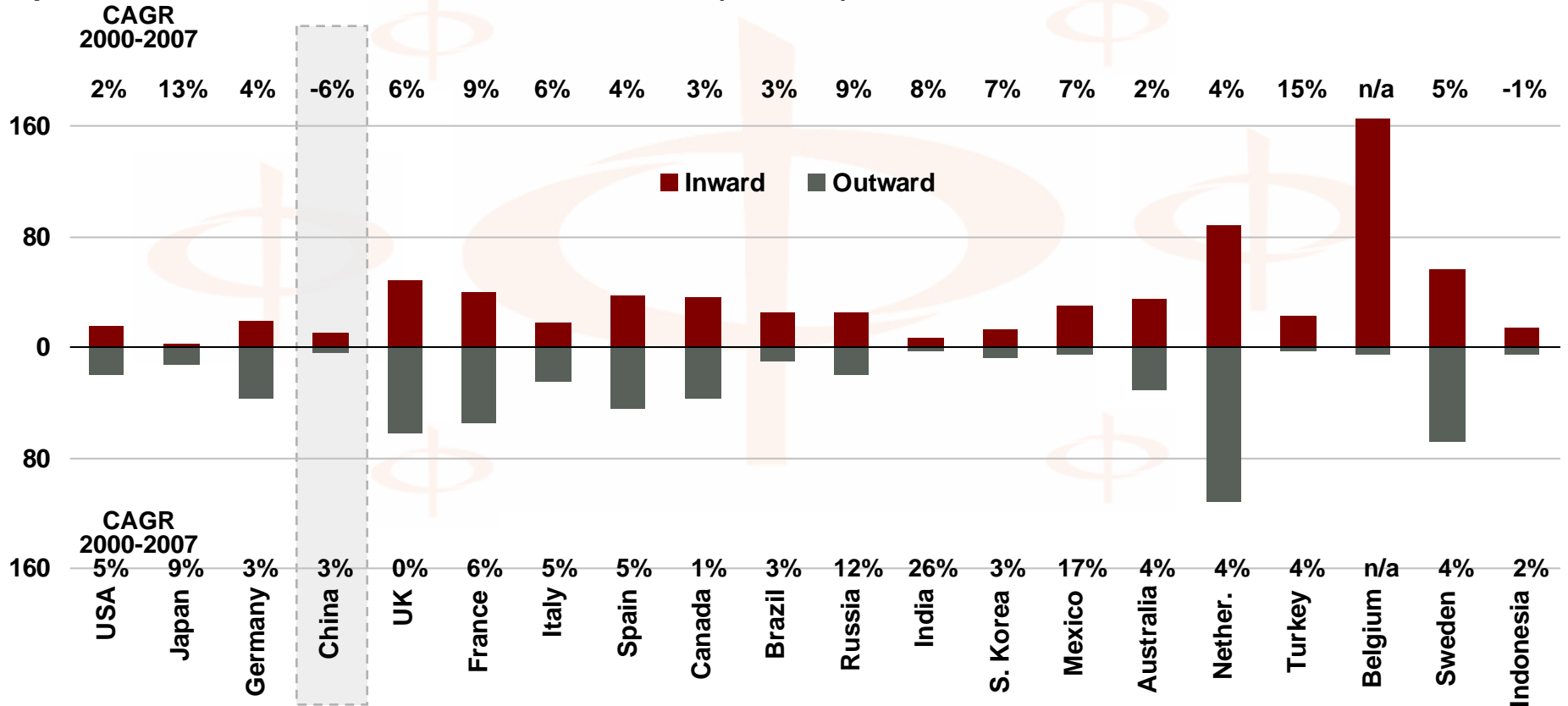


Note: GFCF = Gross Fixed Capital Formation; Nether. = Netherlands
 Source: WIR 2008; THE BEIJING AXIS Analysis

IN 2007, BOTH CHINA'S INWARD AND OUTWARD FDI STOCKS, AS A PERCENTAGE OF GDP, WERE RELATIVELY SMALL

China's small inward and outward FDI stocks, as a percentage of GDP, show substantial potential for growth

Top 20 GDP Countries FDI Stock as a % of GDP (% , 2007)



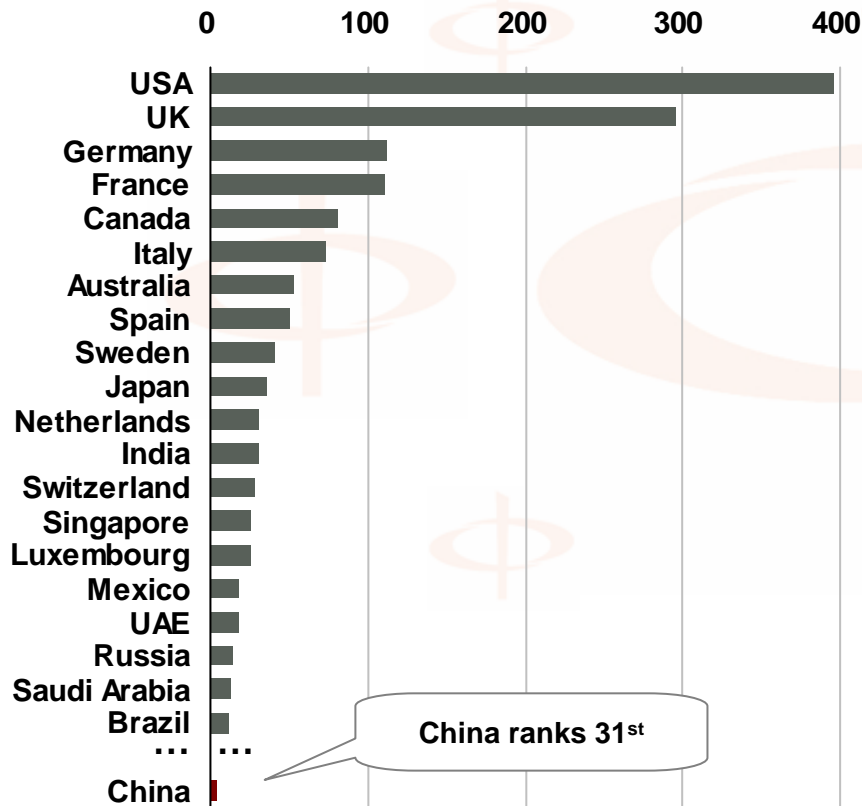
Note: Nether. = Netherlands
 Source: WIR 2008; THE BEIJING AXIS Analysis



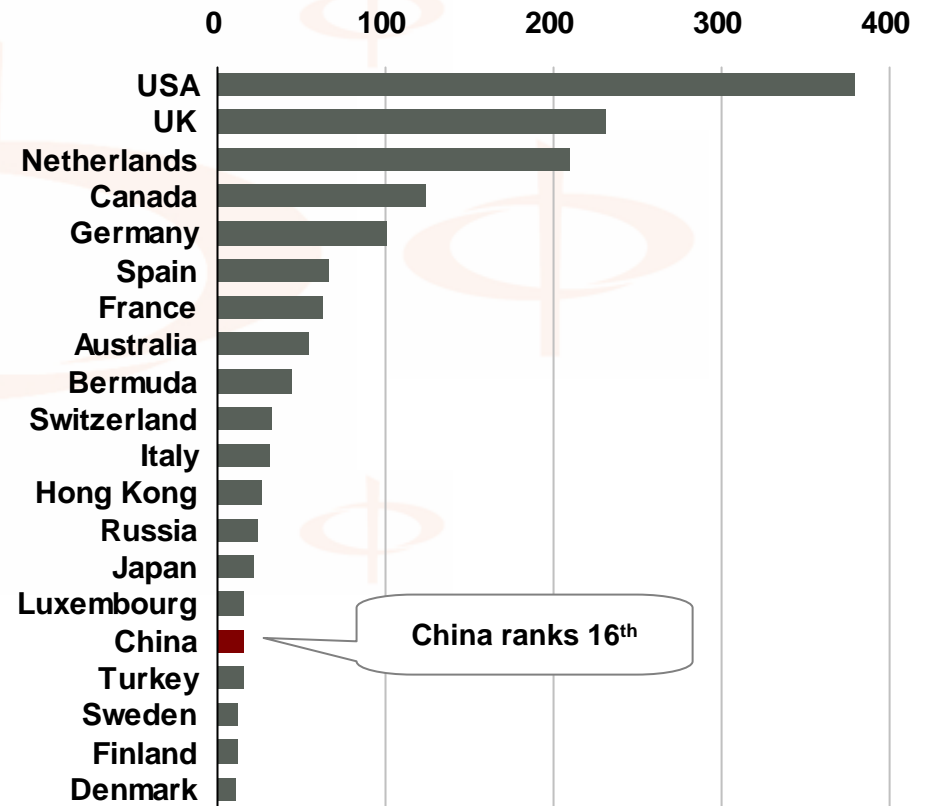
IN TERMS OF VALUE, CHINA'S INTERNATIONAL M&A 'PURCHASES' ARE RANKED MUCH LOWER THAN ITS M&A 'SALES'

China saw its cross-border M&A 'purchases' grow dramatically in 2008. This trend is expected to continue

Value of Cross-Border M&A 'Purchases' for World's Top 20 Countries (USD bn, 2007)



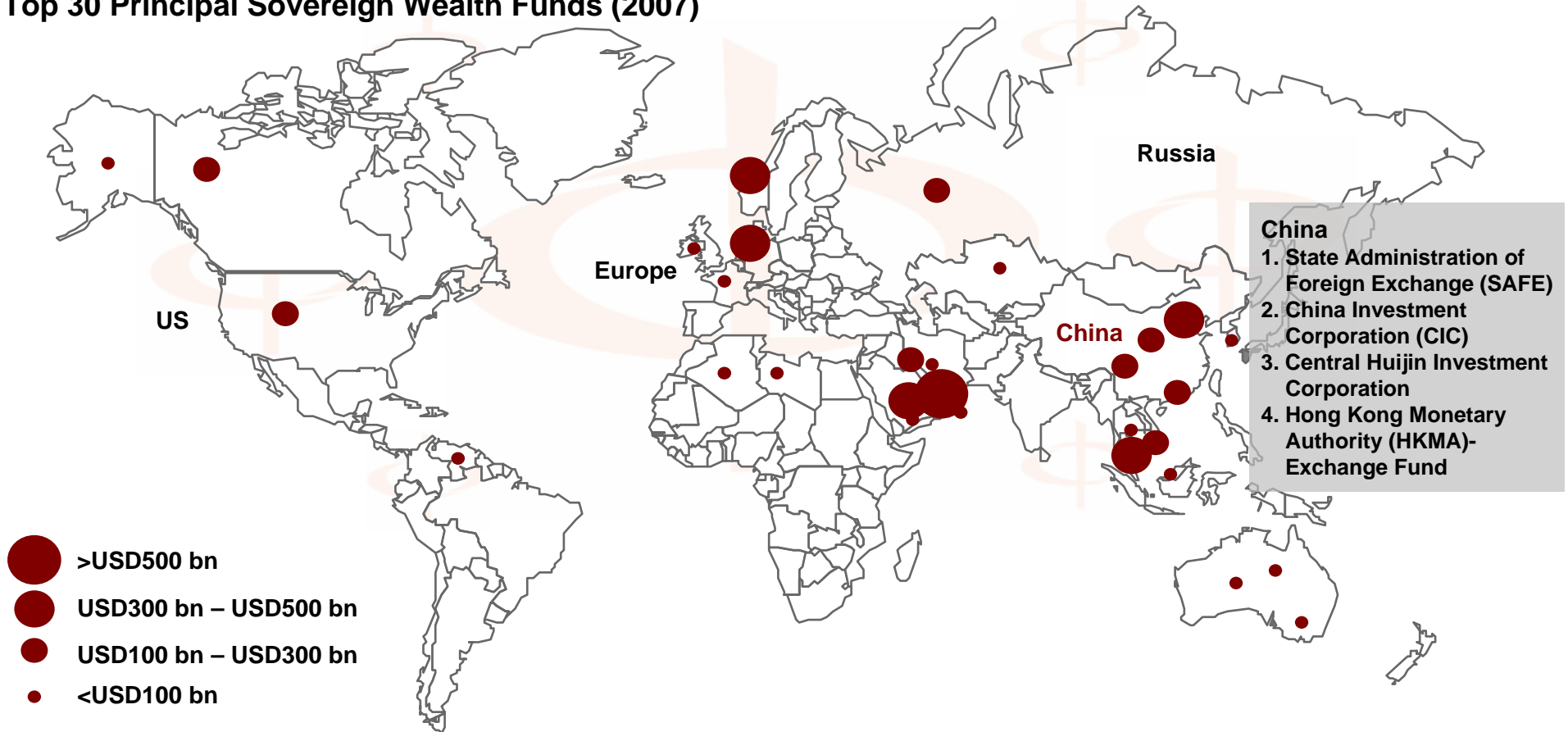
Value of Cross-Border M&A 'Sales' for World's Top 20 Countries (USD bn, 2007)





THE ESTABLISHMENT OF THE CHINA INVESTMENT CORPORATION (CIC) IS IN LINE WITH INCREASING GLOBAL INVESTMENT FLOWS BY SOVEREIGN WEALTH FUNDS

Top 30 Principal Sovereign Wealth Funds (2007)



Note: We provide a breakdown in the next slide
 Source: WIR 2008; THE BEIJING AXIS Analysis



CHINESE SOVEREIGN WEALTH FUNDS, SAFE AND CIC, RANK IN THE WORLD'S TOP 10

Names and Locations of World's Top 30 Sovereign Wealth Funds (2007)

Rank	Economy	Fund	Assets under management (\$ billion)
1	United Arab Emirates	Abu Dhabi Investment Authority (ADIA)	500-875
2	Norway	Government Pension Fund-Global (GPF-G)	373
3	Singapore	Government of Singapore Investment Corporation (GIC)	330
4	Saudi Arabia	Saudi Arabia Monetary Authority foreign holdings	327
5	Netherlands	Stichting Pensioenfond ABP	316
6	China	State Administration of Foreign Exchange (SAFE)	312
7	Kuwait	Kuwait Investment Authority (KIA)	250
8	United States	California Public Employees' Retirement System	237
9	China	China Investment Corporation (CIC)	200
10	Hong Kong, China	Hong Kong Monetary Authority (HKMA)-Exchange Fund	163
11	Singapore	Temasek Holdings	160
12	Canada	Caisse de dépôt et placement de Québec	157
13	Russian Federation	Oil and Gas Fund (OGF)	157
14	China	Central Huijin Investment Corporation	100
15	United Arab Emirates	Investment Corporation of Dubai	82
16	Australia	Queensland Investment Corporation (QIC)	65
17	Australia	Australian Government Future Fund (AGFF)	61
18	Qatar	Qatar Investment Authority (QIA)	60
19	France	Pension Reserve Fund	51
20	Libyan Arab Jamahiriya	Reserve Fund	50
21	Algeria	Revenue Regulation Fund	47
22	United States	Alaska Permanent Fund (APF)	37
23	Australia	Victorian Funds Management Corporation (VFMC)	36
24	Brunei Darussalam	Brunei Investment Agency (BIA)	35
25	Ireland	National Pensions Reserve Fund (NPRF)	31
26	Korea, Republic of	Korea Investment Corporation (KIC)	30
27	Malaysia	Khazanah Nasional Fund BHD (KNF)	26
28	Saudi Arabia	Kingdom Holding Company	25
29	Kazakhstan	Kazakhstan National Fund (NFRK)	23
30	Venezuela, Bolivarian Rep. of	National Development Fund (FONDEN)	28



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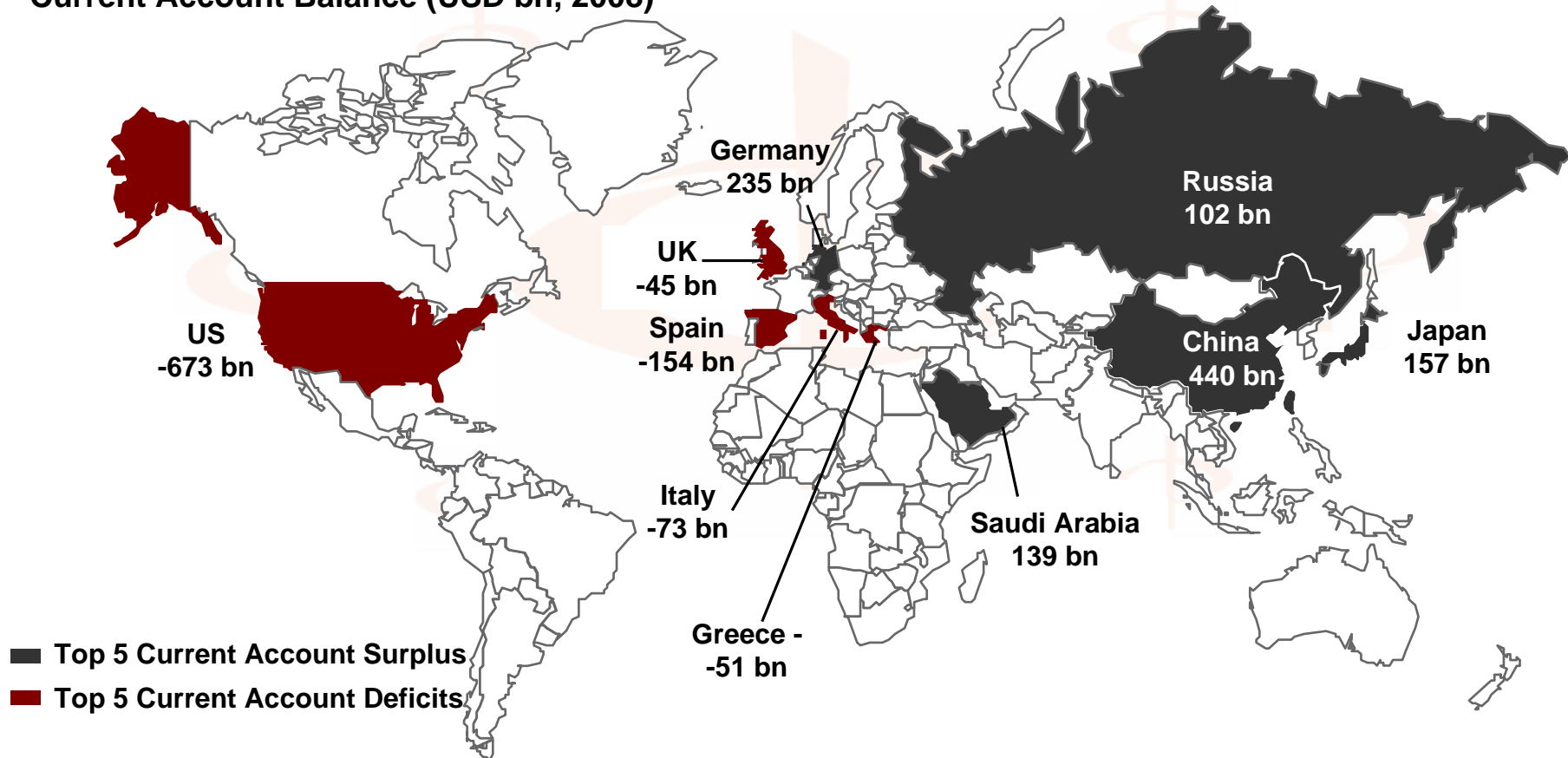
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IN 2008, CHINA HAD THE WORLD'S LARGEST CURRENT ACCOUNT BALANCE WITH USD440 BN Followed by Germany (USD235 bn) and Japan (USD157 bn)

Current Account Balance (USD bn, 2008)

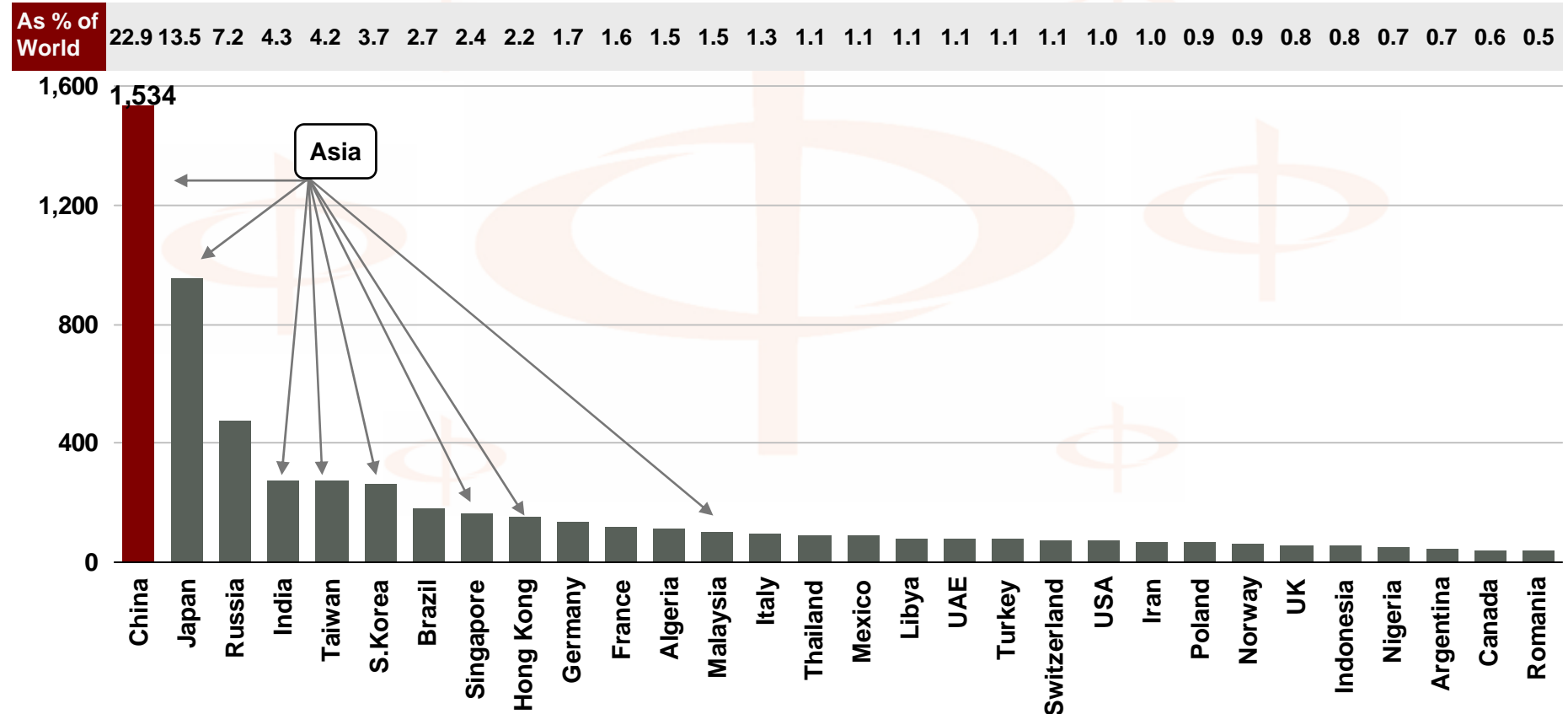




CHINA HAS THE WORLD'S LARGEST FOREIGN EXCHANGE RESERVES

In 2008, China had 22% of the world's total forex reserves with USD1,534 bn, which was 61% higher than the second-largest forex reserve holder, Japan

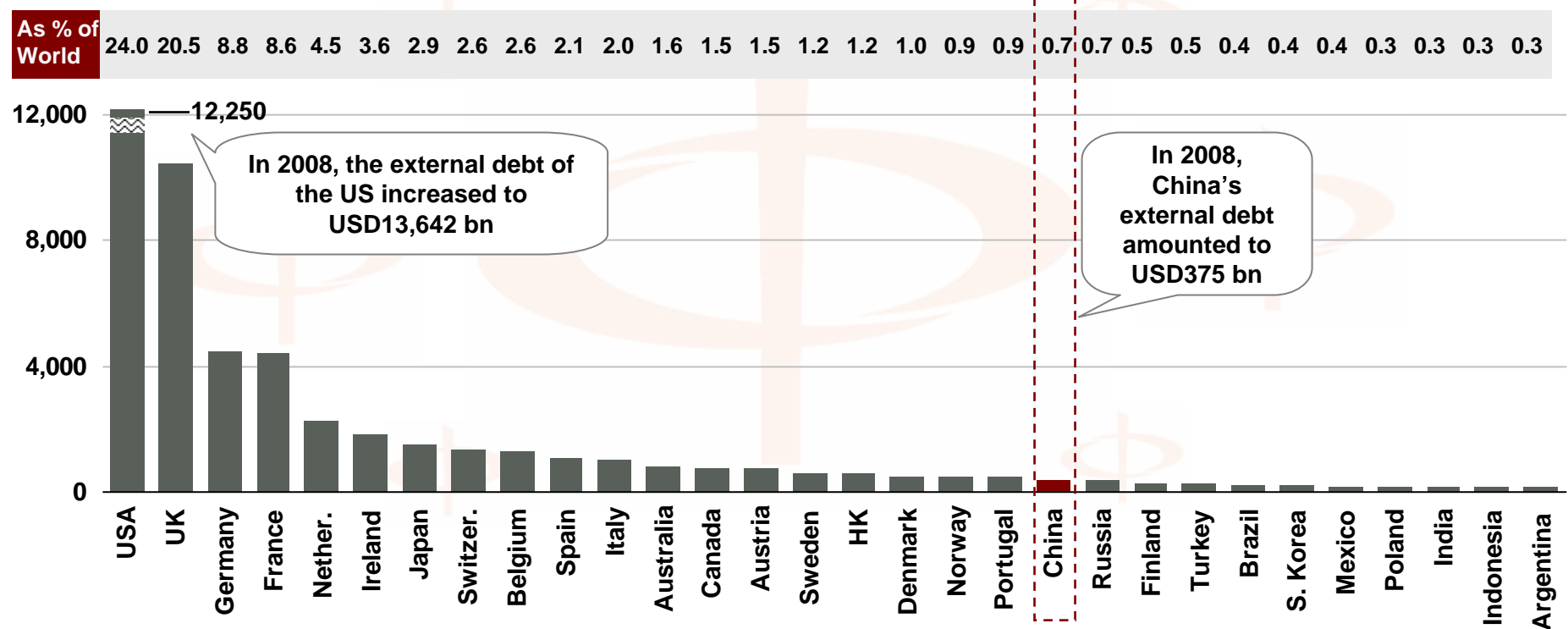
Forex and Gold Reserves of World's Top 30 Countries/Regions (USD bn, 2008)



CHINA'S EXTERNAL DEBT IS RELATIVELY SMALL COMPARED TO OTHER MAJOR ECONOMIES

In 2008, China only accounted for 1% of the world's total external debt with USD375 bn

World's Top 30 Countries' External Debt (USD bn, 2007)

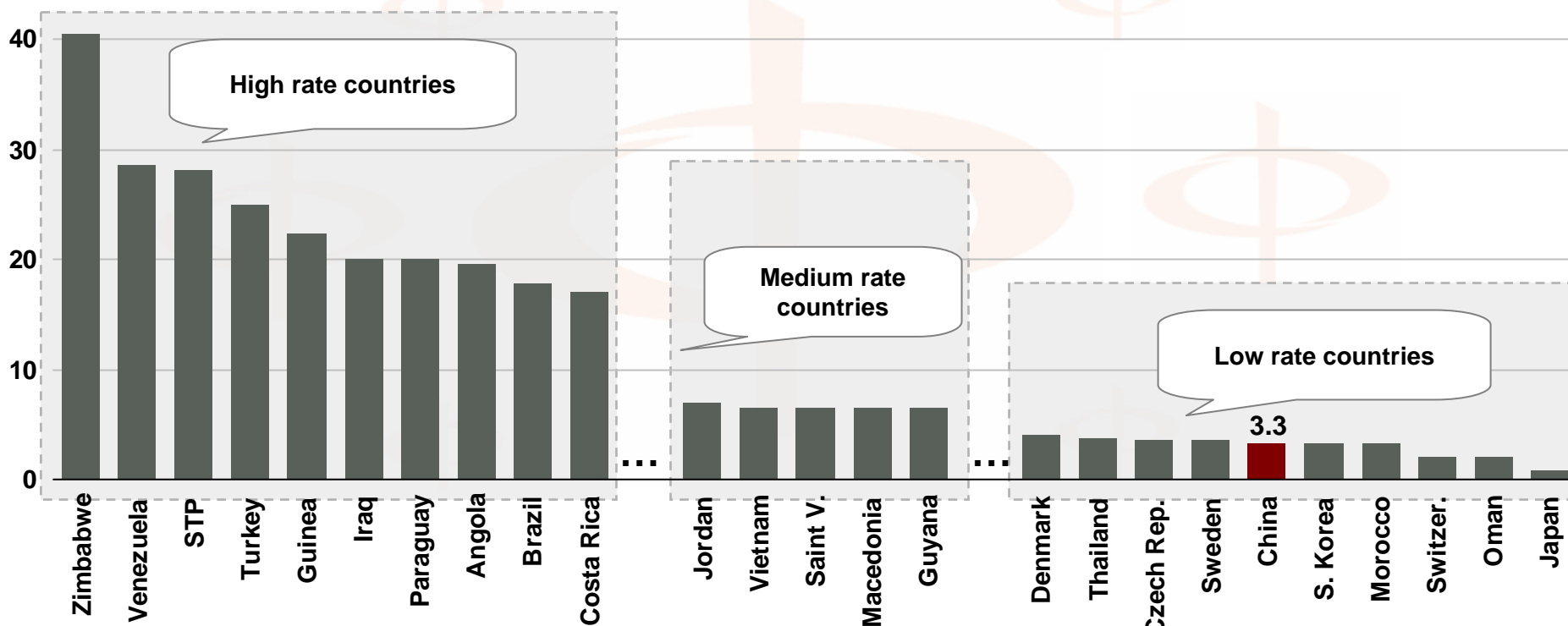




CHINA HAS A RELATIVELY LOW CENTRAL BANK DISCOUNT RATE IN COMPARISON TO ITS GLOBAL PEERS

In 2007, China's discount rate stood at 3.33%, comparable to that of Switzerland, Denmark and Sweden

Central Bank Discount Rate¹ (% , 2007)



1. The interest rate charged by a central bank on loans to its member banks. A change in the discount rate is usually followed by similar changes in the interest rates charged by banks and in money markets

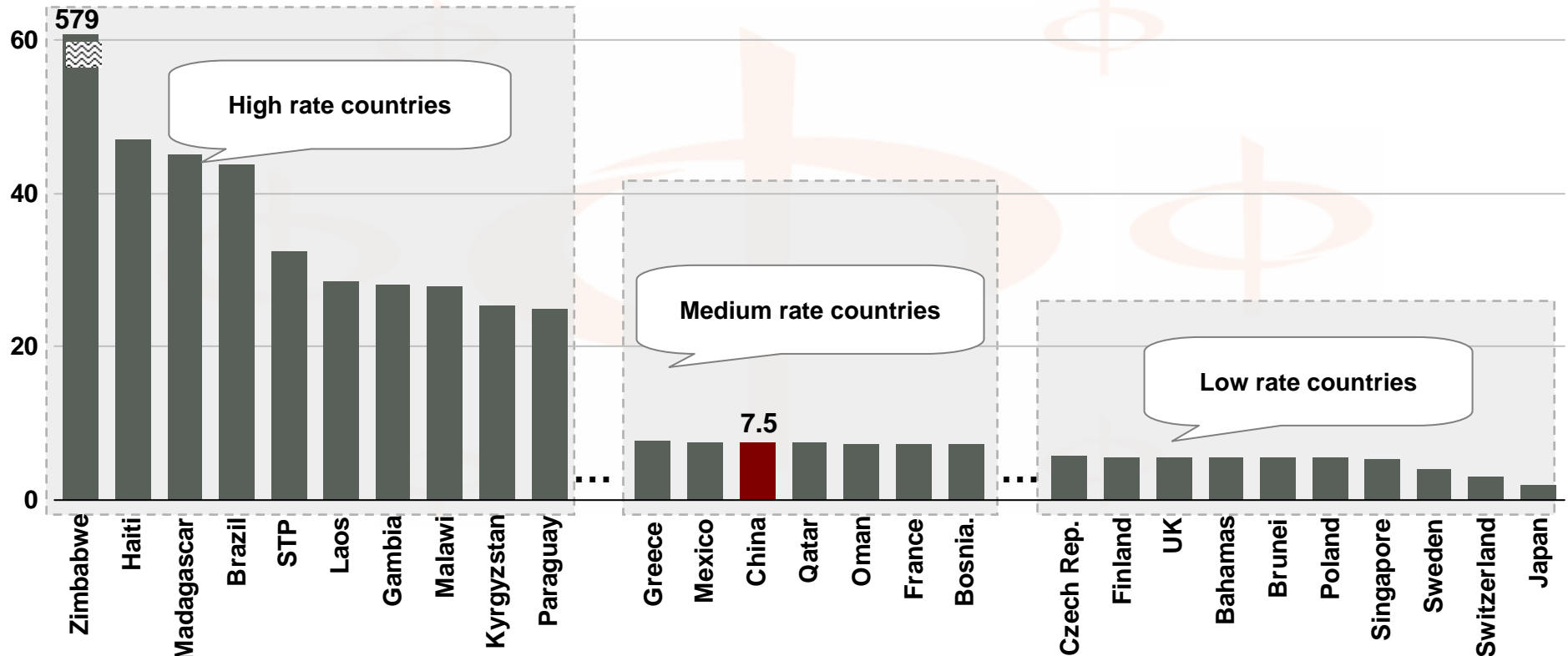
STP: Sao Tome and Principe; Antig.: Antigua and Barbuda; Saint V.: Saint Vincent and the Grenadines; Saint K.: Saint Kitts and Nevis; Czech Rep.: Czech Republic; Switzer.: Switzerland



CHINA ALSO HAS A MODERATE PRIME LENDING RATE COMPARED TO OTHER DEVELOPING ECONOMIES

In 2007, China's prime lending rate was 7.5%, comparable to prime lending rates of either France or Greece

Commercial Bank Prime Lending Rate¹ (% , 2007)



1: Prime Lending Rate: A short-term interest rate quoted by a commercial bank as an indication of the rate being charged on loans to its best commercial customers. Even though banks frequently charge more and sometimes less than the quoted prime rate, it is a benchmark against which other rates are measured. For various reasons, a rising prime rate is generally considered detrimental to security prices

STP: Sao Tome and Principe; Bosnia.: Bosnia and Herzegovina; Czech Rep.: Czech Republic



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Trade Indicators: Domestic & Foreign

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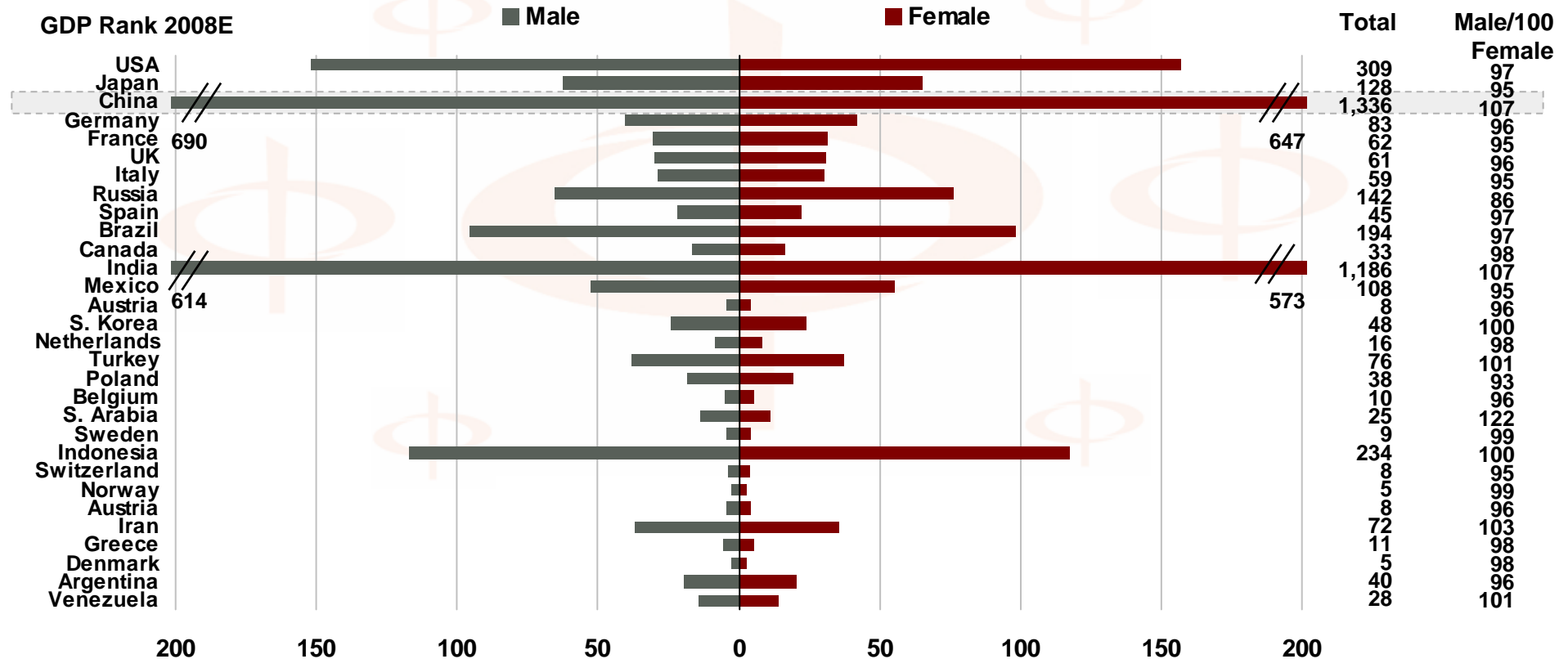
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WITH 1.3 BILLION PEOPLE, CHINA HAS THE WORLD'S LARGEST POPULATION

Along with Saudi Arabia and India, China has one of the largest male to female ratios in the world

Population for Top 30 Countries by GDP (mn, 2008)

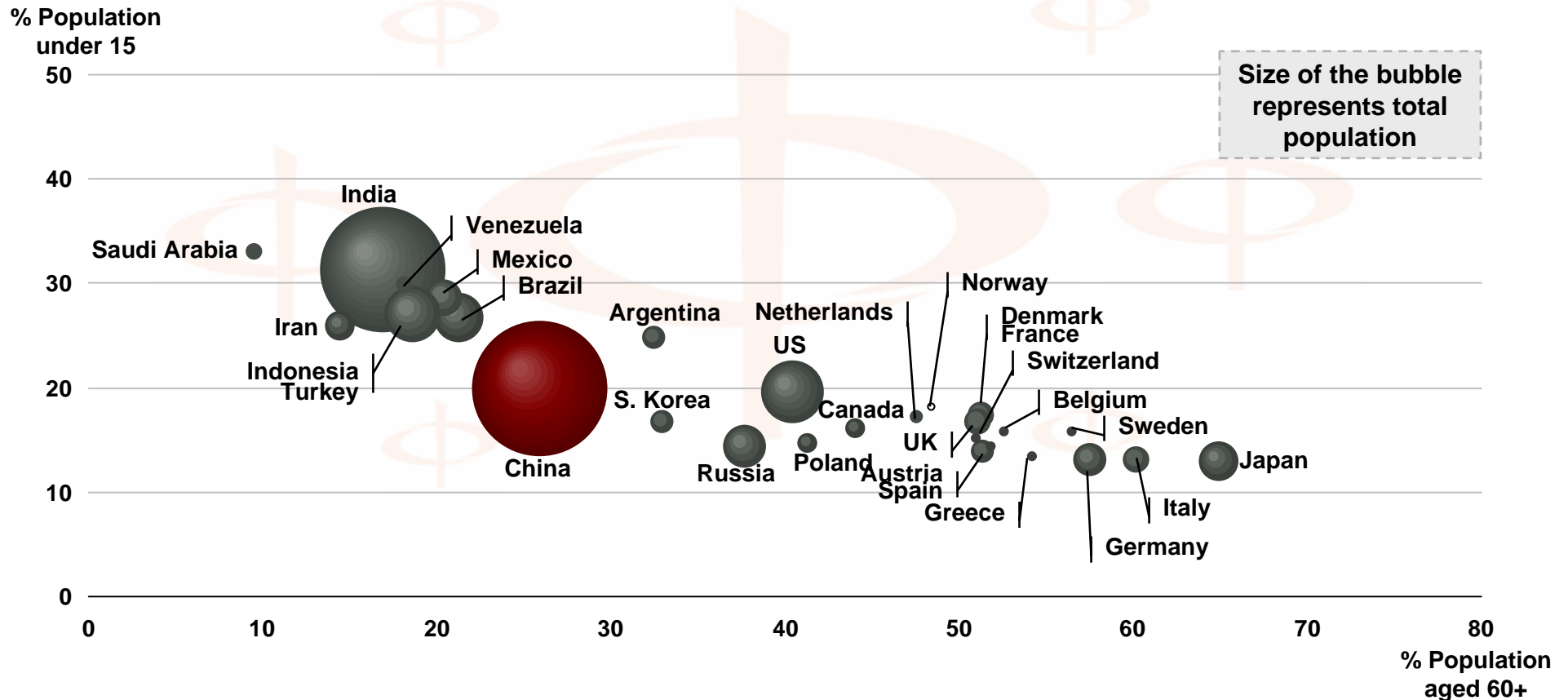




25% OF CHINA'S POPULATION IS OLDER THAN 60 YEARS

The bulk of the Chinese population is currently at a working age

Child and Elderly Population for Selected Countries (% , 2008)





CHINA'S POPULATION HAS BEEN STEADILY MIGRATING TO THE CITIES, RAISING THE URBAN-RURAL POPULATION RATIO

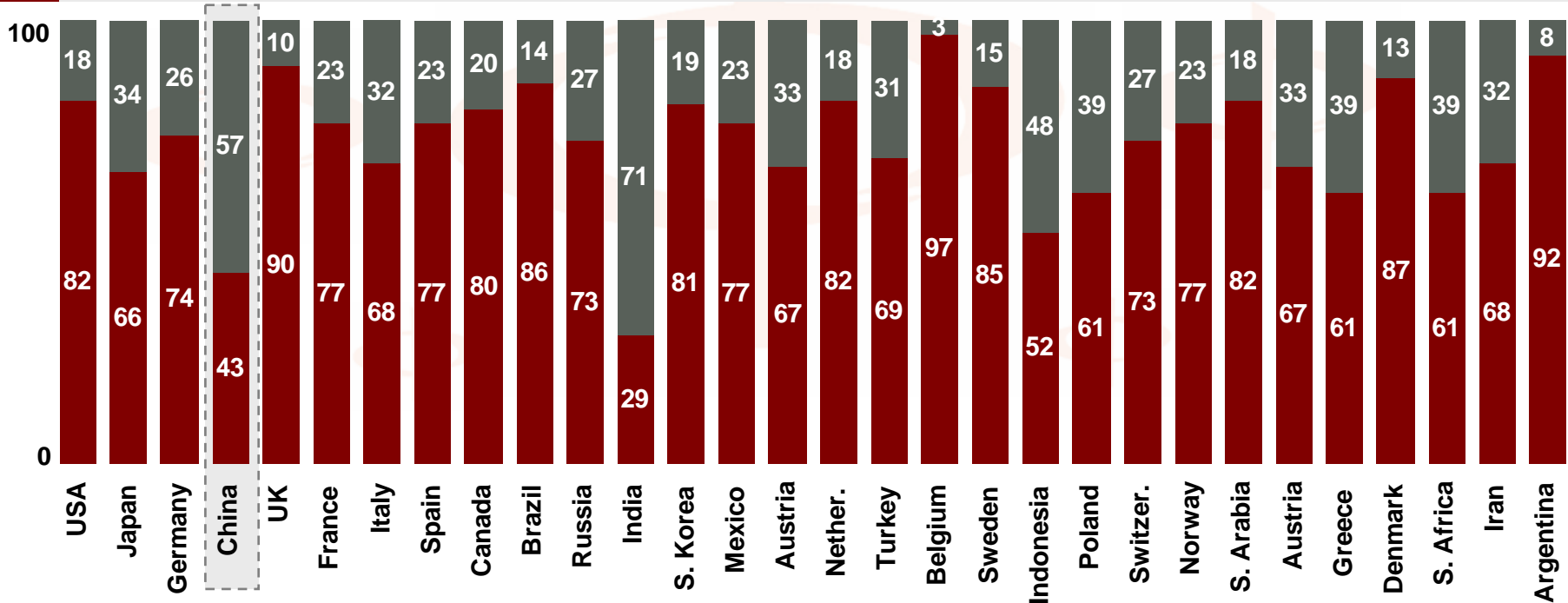
However, the share of the Chinese urban population remains much smaller than that of other economies of similar size

Urban and Rural Population (% , 2007)

Annual Rate of Population Change (%) 2005-2010

■ Urban ■ Rural

Urban	1.3	0.2	0.1	2.7	0.5	0.8	0.4	0.9	1	1.8	-0.5	2.4	0.9	1.5	0.7	0.9	1.9	0.3	0.5	3.3	-0.3	0.5	0.7	2.5	0.7	0.6	0.5	1.4	2.1	1.2
Rural	-0.7	-0.5	-0.4	-1	-0.4	-0.5	-0.3	0.2	0.4	-1.9	-0.4	1.1	-0.6	-0.2	-0.3	-2.7	-0.2	-0.9	0	-1.1	0	0.1	0.3	1.1	-0.3	-0.3	-1.8	-0.7	-0.3	-1.5



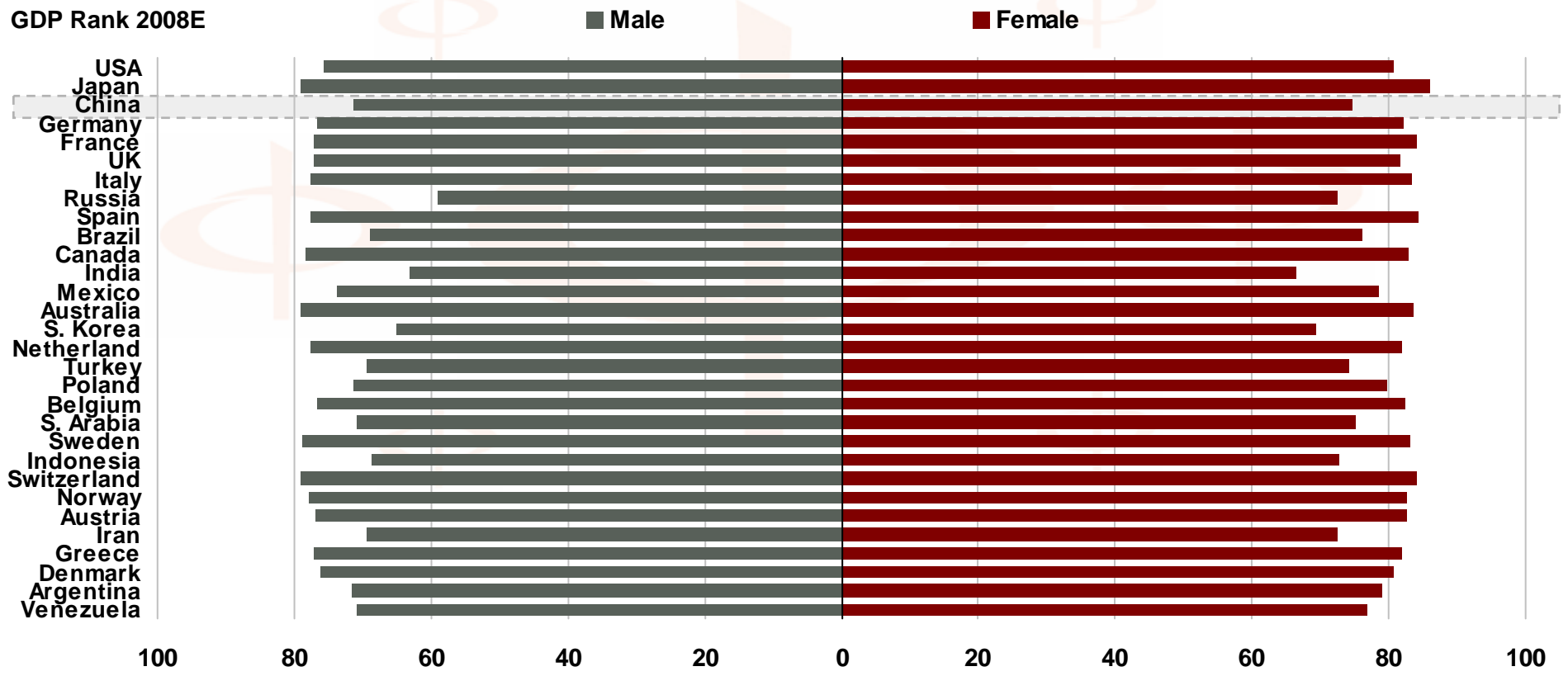
Note: Nether. = Netherlands; Switzer. = Switzerland
 Source: CIA World Factbook; World Bank; THE BEIJING AXIS Analysis



THE AVERAGE LIFE EXPECTANCY IN CHINA IS SLIGHTLY HIGHER THAN IN OTHER LARGE DEVELOPING COUNTRY ECONOMIES

Life Expectancy (years, 2008)

GDP Rank 2008E





CHINA'S ECONOMIC ACTIVITY RATE IS COMPARATIVELY LARGER THAN OTHER DEVELOPED ECONOMIES

Out of the top economies in the world, China has the largest female economic activity rate

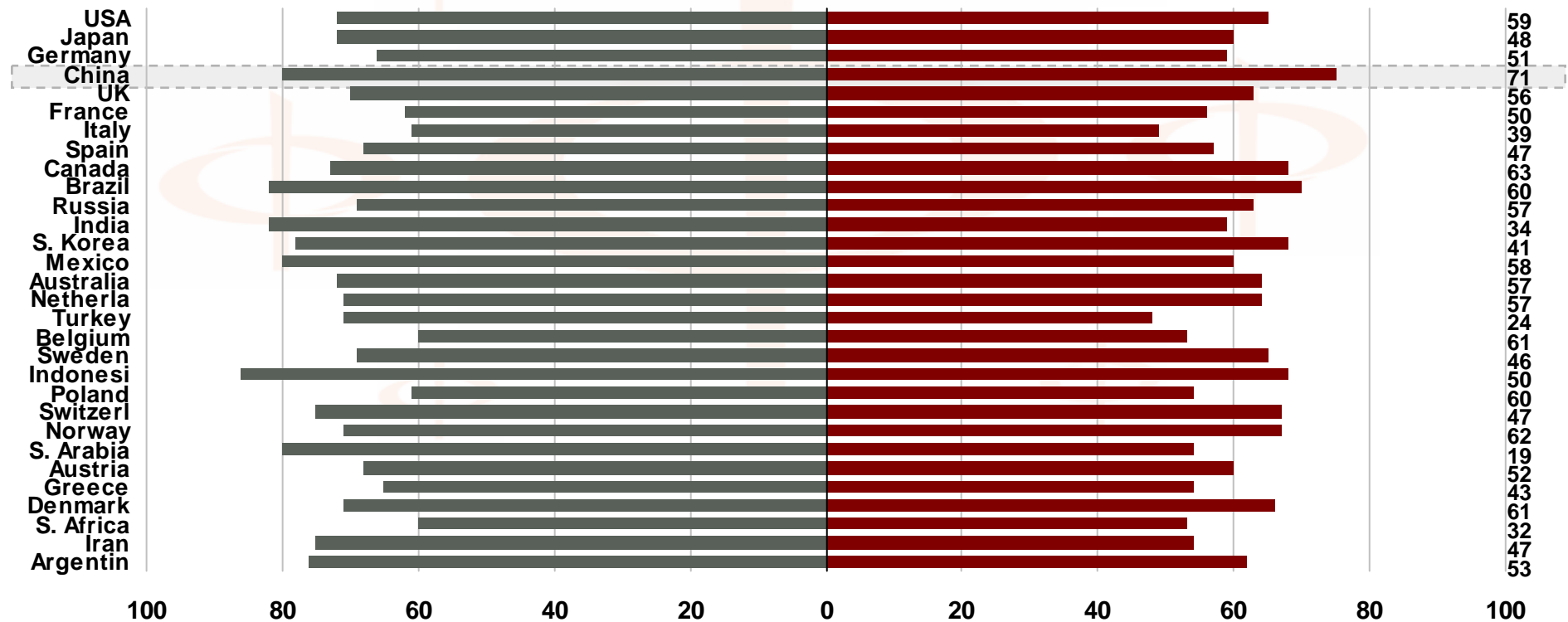
Adult (15+) Economic Activity Rate (% , 2007)

GDP Rank 2007

■ Male

■ Female

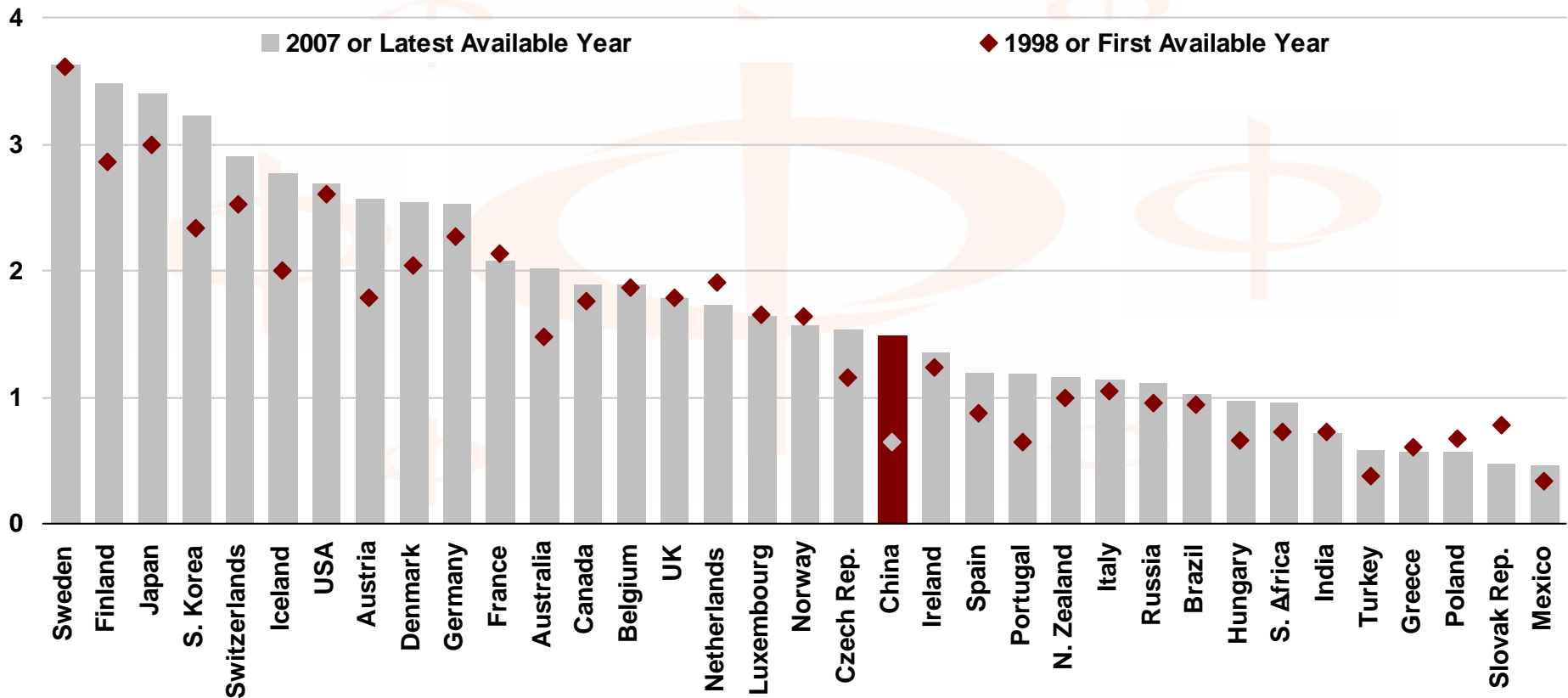
Total



DURING THE LAST TEN YEARS, CHINA AND SOUTH KOREA SHOWED THE LARGEST INCREASE IN R&D EXPENDITURE

This supports the surge of technological advancement and the rapid increase in Chinese living standards

Gross Domestic Expenditure on R&D as a % of GDP (1998-2007)





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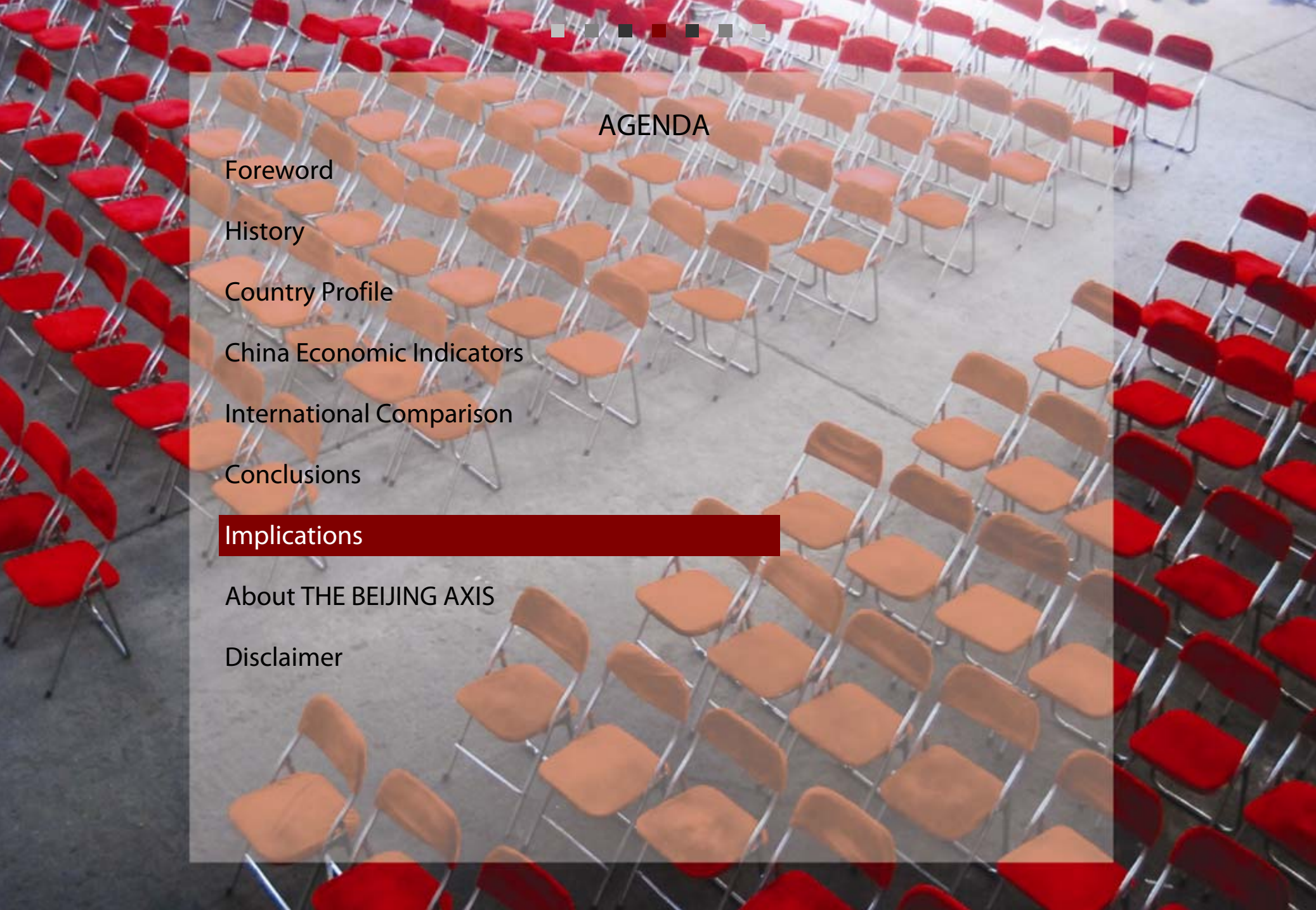
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CONCLUSIONS

INDICATORS	CONCLUSIONS
Selected Macroeconomic Data	China became the world's 3rd-largest economy in 2008, and has experienced a dramatic fourfold increase in the past 10 years. Since its economic reform, China has been growing at 10%, substantially above the world average of 3.4% for the same 30-year period. China's vast GDP is largely concentrated in a few coastal provinces and has been boosted by its secondary industry and industrialisation. Compared to other major economies, China's GDP per capita, consumption expenditure and service industry are still insignificant, providing scope for long term sustained growth
Trade	Mirroring the country's economic growth, China's consumption and retail sales have been on the rise and are mainly concentrated in the eastern provinces. As the world's factory floor, China is the world's third-largest exporter and an undisputed leader in exports of electrical machinery, textiles and steel. Ranked as the world's third-largest importer, China leads the world in imports of electrical machinery & ores and ranks fourth in oil imports. China has, in addition, the world's largest trade surplus. With the global financial crisis unfolding in 2008, China's trade has been significantly affected, causing some concerns. However, it also highlighted the ability of China to fuel its own growth
Investment	China has depended heavily on investment for its economic growth, with the bulk of such investment occurring in urban areas, coastal provinces and in the manufacturing and real estate sectors. Although China is widely known as a leading destination for FDI, it is currently experiencing a fast-paced increase in its OFDI, driven by its increasing need for new markets, technology and resources. Many of China's outward investments are in the natural resources, wholesale, retail, and manufacturing sectors, and are increasingly spanning the globe.
Financial	The Chinese government has been putting monetary and fiscal measures in place in order to assure an adequate response to inflationary cycles over the past 10 years. Bank restructuring and more prudent loan management have created a stable financial sector and the country's two stock markets have become the second largest in the world. Exchange rate reform and management have ensured a consistently stable RMB exchange rate pattern despite ongoing international criticism that the currency is undervalued.

Social	With 1.3 billion people and 16 million new births per year, China has the world's largest population. Mass migration to the cities of eastern China, a growing middle class in urban areas and growing income levels in urban and rural households are particularities that are currently shaping China's social landscape. Compared to other economies of similar size, China still has an extremely low urbanisation rate but a relatively high percentage of the population is active in the labour market. The large population offers many opportunities but also endless challenges
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IMPLICATIONS

INDICATORS	IMPLICATIONS
Selected Macroeconomic Data	Economic forecasts predict China to become the world's largest economy in the next two decades, surpassing both the US and Japan. Japan will be overtaken in the next 2 years. Following a trend of GDP growth well above the world average, China will replicate the economic development of its coastal provinces in the north, centre and western provinces in the central and western regions. This will result in ongoing trade and investment opportunities. China's consumption is expected to play an even greater role as an engine for economic growth, and the service industry is expected to fulfill a larger role in China's economy, while the manufacturing sector is becoming more sophisticated
Trade	China's evolving retail sales trends and data clearly indicate the large potential of its consumption market for domestic as well as international products. As a low cost country, China is expected to further expand its manufacturing base, increase its exports and strengthen the ongoing structural change of its export mix; from low value added (textiles) to high value added products (equipment). As its industrialisation and urbanisation processes continue, it is also likely that China will increase imports of raw materials such as oil and a variety of ores, as well as many manufactured products
Investment	As living standards and production costs increase in China's coastal provinces, more investment opportunities are arising in China's central provinces - in the manufacturing, real estate and other sectors. While there is still substantial scope to attract FDI in such sectors, China's most impressive phenomenon in the investment arena is its outward investment trend. Driven by the need to secure resources to feed its fast growing economy and the expansion of its domestic companies, China will continue to increase its outward investments very significantly, creating many implications
Financial	Although reform over the past decade has been substantial, China's financial markets are still under-developed compared to other economies, offering many service sector opportunities to foreign businesses. Expect a more discerning financial services sector consumer and many opportunities. Years of growing exports and FDI have enabled China to attain the position of having the world's largest foreign exchange reserves, a key stability 'buffer'
Social	China's emerging middle class and growing income levels, in both urban and rural areas, are not only signs of the potential of the Chinese consumption market but also of a growing pool of suitably qualified professionals who will progressively compete in the domestic and international labour markets. Higher education levels and growing urbanisation in central provinces evince the potential to not only foster poverty reduction but to also expand industrialisation while keeping domestic talent in the country



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THE BEIJING AXIS is a cross-border business bridge to/from China in three principal areas: Strategy, Sourcing and Investment.

Since our establishment in 2002, we have successfully worked with many large international and Chinese MNC clients across various sectors and industries, with a core focus on the Chinese mining & resources sector; and the burgeoning industrial, engineering & manufacturing sector. Our work is always cross-border - supporting international firms as they act in unfamiliar territory in China, or supporting Chinese firms as they venture out and 'go global.' We are committed to safety and sustainability, and our solutions emphasise 'actions and transactions.' Our principal office is in Beijing, with additional offices in Hong Kong and international offices in Singapore, Perth, Moscow and Johannesburg.

THE BEIJING AXIS is organised along three synergistic cross-border China businesses: the China Strategy Group, the China Sourcing Unit, and China Capital Advisors:

- The **CHINA STRATEGY GROUP (CSG)** assists CEOs, boards and senior management with their cross-border China strategy formulation and implementation. For international MNCs we are a trusted China strategy advisor and implementation partner; for Chinese MNCs we perform strategic business planning and implementation as they develop global businesses.
- The **CHINA SOURCING UNIT (CSU)** supports international firms as they exploit China's status as a leading global supply base, while at the same time supporting Chinese firms that are looking at global sourcing. The CSU provides a comprehensive range of procurement services across the sphere of supply chain management with a focus on cost savings, quality control and on-time delivery. We emphasise total cost of ownership and holistic project, risk and relationship management.
- **CHINA CAPITAL ADVISORS (CCA)** provides specialised financial advisory services to Chinese firms that are undertaking outbound cross-border investment, or that are vying for international investment. Similarly, we advise international firms that are undertaking investments in China or that are looking to attract strategic capital from China. The focus is on origination activities, but we provide selected execution services across the transaction chain.



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