The
China Compass
July 2009

A country in figures
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

Source: IMF; China Statistical Yearbook; THE BEIJING AXIS Analysis
CHINA IS ONE OF THE WORLD’S OLDEST CIVILISATIONS, WITH RECORDS DATING BACK MORE THAN 4,000 YEARS

- First dynasty described in ancient historical records
- Establishment of Chinese dynastic system
- Bronze age
- Production of a corpus of influential literature, i.e. Classic of Changes (I-Ching) and the oldest known history of China
- Warring States period (453-221): Consolidation of feudal system; proliferation of iron works; spread of philosophies of Confucianism and Taoism; publication of Sun Tzu’s Art of War
- Commencement of Silk Road trade route; interaction with Roman Empire
- Official adoption of Confucianism
- 105 BC: Invention of paper-making technology
- Buddhism first introduced to China
- Life of China’s famous historian Sima Qian (145-87)
- Period of civil war and disunity, yet great advances made in medicine, astronomy, mathematics and cartography, as well as a flourishing of poetry, calligraphy, painting and music

Source: Various; THE BEIJING AXIS Analysis
PRE-MODERN CHINA’S SOCIAL, LEGAL AND ECONOMIC SYSTEMS EVOLVED OVER CENTURIES

- Regarded as high point in history of Chinese civilization
- Golden age of Chinese literature and art; renowned for leisure activities like archery, hunting, polo, football, cockfighting, etc.
- Strong Chinese maritime presence in places like Persian Gulf, Red Sea, Arabia, Egypt and East Africa
- Briefly interrupted by the Second Zhou dynasty (690-705) ruled by China’s only female emperor, Wu Zetian

- China under Mongol rule; society of rich cultural diversity and extensive interchange with West Asian and European societies
- First recorded European travels to China, notably by Marco Polo
- World's largest foreign trade port at Quanzhou

- Return to ethnic Han (Chinese) rule
- 1406-1420: Forbidden City constructed in Beijing
- 1405-1433: Admiral Zheng He undertakes 7 voyages, reaching Africa and more than 30 countries
- Commercial interaction with Portuguese and Dutch traders from 16th century; appearance of Western missionaries in China

- Extended period of stable dynastic rule in the 17th/18th centuries
- Serious threat of Christian Taiping rebellion in 19th century
- Increasing presence of foreign powers in China; rapid growth of Chinese population; Dynasty weakened by Opium Wars, Boxer Rebellion (1899-1901)

**Source:** Various; THE BEIJING AXIS Analysis
CHINA’S RECENT HISTORY ILLUSTRATES A BROAD-BASED TRANSFORMATION THAT PAVED THE WAY FOR THE RISE OF CHINA AS AN ECONOMIC SUPERPOWER

MODERN CHINA

1949
1954
1959
1964
1969
1974
1979
1984
1989
1994
1999
2004
2009
2014

1953: First Five Year Plan released
1950-1952: Land Reform
1958-1960: The Great Leap Forward
1969: First atomic bomb successfully detonated
1966-1976: Cultural Revolution
1970: First satellite launched
1974: Reform and opening up initiated by Deng Xiaoping
1978: Daya Bay Nuclear Power Station commences operations
1993: Daya Bay Nuclear Power Station commences operations
1999: Macau transfer of sovereignty to China
1997: Hong Kong transfer of sovereignty to China
2001: China joins the WTO
2008: Beijing Olympic Games
2009: China set to overtake Japan as world’s second-largest economy
2010: Shanghai World Expo
2008: China overtakes Germany as world’s third-largest economy
2009: Macau transfer of sovereignty to China

Source: Various; THE BEIJING AXIS Analysis
AGENDA

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History
Country Profile
China Economic Indicators
International Comparison
Conclusions
Implications
About THE BEIJING AXIS
Disclaimer
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

Source: CIA World Factbook; THE BEIJING AXIS Analysis
China has 56 ethnic groups, of which the Han ethnic group accounts for 91% of the total population.

**China Facts and Figures 2008**

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

Source: CIA World Factbook; China Statistical Yearbook; China Monthly Economic Indicators; MOFCOM; THE BEIJING AXIS Analysis
THE COMMUNIST PARTY OF CHINA (CPC) REMAINS THE DOMINANT FORCE IN GOVERNMENT

<table>
<thead>
<tr>
<th>Type of Government</th>
<th>Socialist republic (or ‘people’s democratic dictatorship’ as defined by PRC constitution)</th>
</tr>
</thead>
</table>
| Branches of Government | Executive - President, Premier, Vice President, State Council  
Legislative - Unicameral National People's Congress  
Judicial - Supreme People’s Court, Local People's Courts, Special People’s Courts |
| 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) |

Source: CIA World Factbook; US Dept. of State Background Notes; THE BEIJING AXIS Analysis
THE FOUNDING OF THE PRC IN 1949 ESTABLISHED A LEGAL SYSTEM INFLUENCED BY SOVIET PRINCIPLES

<table>
<thead>
<tr>
<th>Legal System</th>
<th>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</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flag</td>
<td>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</td>
</tr>
<tr>
<td>International Organisation Participation</td>
<td>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</td>
</tr>
</tbody>
</table>

Source: CIA World Factbook; THE BEIJING AXIS Analysis
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

People’s Republic of China

- President
  - Central Committee of the Communist Party of China (CCCPC)
    - General Secretary
    - Politburo Standing Committee
    - Politburo
    - Secretariat
  - State Council
    - Premier
    - Vice Premiers (4)
    - State Councilors (5)
    - Ministers (25)
    - Central Bank Governor
    - Auditor-General
  - National People’s Congress (NPC)
    - Chairman
    - Vice Chairman
    - Special Committees of the NPC

Other key institutions

- Central Military Commission
- Supreme People’s Court
- Supreme People’s Procuratorate

Source: CIA World Factbook; US Dept. of State Background Notes; THE BEIJING AXIS Analysis
THE POLITBURO STANDING COMMITTEE IS THE HIGHEST AND MOST POWERFUL DECISION-MAKING BODY IN CHINA

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

Source: CIA World Factbook; US Dept. of State Background Notes; THE BEIJING AXIS Analysis
## VARIOUS FACTORS IDENTIFY CHINA AS ONE OF THE WORLD’S MOST SIGNIFICANT COUNTRIES

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

Source: Various; THE BEIJING AXIS Analysis
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)

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.

Source: World Bank; China Statistical Abstract; OECD; THE BEIJING AXIS Analysis
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.

Source: China Monthly Indicators; THE BEIJING AXIS Analysis
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.
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)

Source: Various; THE BEIJING AXIS Analysis
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)

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


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)


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%.

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)

% of Province GDP

100%

Provinces in central and western China have higher capital formation rates.

Coastal provinces are responsible for a significant amount of capital formation.

Size of the bubble represents % of total.

Source: China Statistical Yearbook; THE BEIJING AXIS Analysis
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)

Source: China Monthly Economic Indicators; THE BEIJING AXIS Analysis
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)

Source: CEIC Data; THE BEIJING AXIS Analysis
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
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.

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

Source: China Statistical Yearbook; China Monthly Economic Indicators; THE BEIJING AXIS Analysis
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 population\(^1\), employed persons and income per capita.

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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 as 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)

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

Total Imports = USD956 bn
- Japan 133.9
- S. Korea 103.8
- USA 69.5
- Germany 45.4
- Malaysia 28.7
- Australia 25.8
- Philippines 23.1
- Thailand 22.7
- Russia 19.7
- Brazil 18.3

Source: UN Comtrade; THE BEIJING AXIS Analysis

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)

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

- US 13.9%
- Germany 4.3%
- Japan 10.9%
- South Korea 7.4%
- Hong Kong SAR 9.1%
- USA 302.6
- Japan 236.0
- HK. SAR 197.2
- S. Korea 159.9
- Germany 94.1
- Russia 48.2
- Singapore 47.1
- Malaysia 46.4
- Netherlands 46.3
- Australia 43.8

China’s Total Trade with the World = USD2,174 bn
Total Exports = USD1,218 bn
Total Imports = USD956 bn

Source: UN Comtrade; THE BEIJING AXIS Analysis
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)

China’s Trade Surplus = USD262 bn

HK, SAR  171.6
US  163.6
Netherlands  36.5
UK  23.9
UAE  14.0
Malaysia -11.0
Angola -11.7
Philippines -15.6
Japan -31.9
S. Korea -47.7

Source: UN Comtrade; THE BEIJING AXIS Analysis
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)

Source: China Customs; THE BEIJING AXIS Analysis
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 consumption\(^1\) as the primary drivers of GDP.

---

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

Source: China Monthly Economic Indicators; THE BEIJING AXIS Analysis
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)

Source: China Statistical Yearbook; THE BEIJING AXIS Analysis
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)

Source: China Statistical Yearbook; THE BEIJING AXIS Analysis
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)

- Top 5 provinces - 36.8%
- Remaining provinces - 61.4%
- Not classified by region - 1.8%

Source: China Statistical Yearbook; THE BEIJING AXIS Analysis
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)

Source: China Statistical Yearbook; THE BEIJING AXIS Analysis
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)

Source: MOFCOM; THE BEIJING AXIS Analysis
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)

Top 5 provinces account for 56.8% of China’s total FDI

Source: China Statistical Yearbook; THE BEIJING AXIS Analysis
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)

Source: China Statistical Yearbook; THE BEIJING AXIS Analysis
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)

Source: IMF; MOFCOM; THE BEIJING AXIS Analysis
China’s Outward FDI Stock by Region (2007)

China’s total cumulative outward FDI stock for 2007 amounted to USD117.9 bn

Source: MOFCOM; THE BEIJING AXIS Analysis
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)

Top 5 provinces’ OFDI account for 50%

The remaining of provinces’ OFDI account for 50%

Tibet has no reported OFDI

Source: MOFCOM; THE BEIJING AXIS Analysis
CHINA’S OFDI COVERS MANY SECTORS BUT THERE IS A DISPROPORTIONATE FOCUS ON CERTAIN SECTORS

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

- Overheating and overinvestment
- Commodity and Food Price Pressures
- Deflation and overcapacity

Consumer Price Index by Province (2008)

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.

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
- Land Transaction Price Index
- Renting Price Index of Houses

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)

Source: China Monthly Economic Indicators; THE BEIJING AXIS Analysis
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

Source: CEIC Data; THE BEIJING AXIS Analysis
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)

Source: China Statistical Yearbook; THE BEIJING AXIS Analysis
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

Source: China Statistical Yearbook; THE BEIJING AXIS Analysis
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

Source: China Statistical Yearbook; THE BEIJING AXIS Analysis
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)

Source: China Statistical Yearbook; The People’s Bank of China; THE BEIJING AXIS Analysis
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%.

Source: China Statistical Yearbook; The People’s Bank of China; THE BEIJING AXIS Analysis
THE SHANGHAI AND SHENZHEN STOCK EXCHANGES HAVE THE 6th AND 20th LARGEST MARKET VALUES IN THE WORLD

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Market Value, USD bn</th>
<th>Number of Listed Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>525.8</td>
<td>646</td>
</tr>
<tr>
<td></td>
<td>463.1</td>
<td>715</td>
</tr>
<tr>
<td></td>
<td>513.0</td>
<td>780</td>
</tr>
<tr>
<td></td>
<td>447.7</td>
<td>837</td>
</tr>
<tr>
<td></td>
<td>395.9</td>
<td>834</td>
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<tr>
<td></td>
<td>1,121.5</td>
<td>842</td>
</tr>
<tr>
<td></td>
<td>4,302.2</td>
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<td></td>
<td>1,746.8</td>
<td>864</td>
</tr>
<tr>
<td></td>
<td>2,069.9</td>
<td>864</td>
</tr>
</tbody>
</table>

1. As of May 2009

Source: China Statistical Yearbook; China Monthly Economic Indicators; World Federation of Exchanges; THE BEIJING AXIS Analysis
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)

<table>
<thead>
<tr>
<th>Year</th>
<th>Average P/E Ratio</th>
<th>Total Turnover USD bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>37.7</td>
<td>274</td>
</tr>
<tr>
<td>2002</td>
<td>34.4</td>
<td>205</td>
</tr>
<tr>
<td>2003</td>
<td>36.5</td>
<td>252</td>
</tr>
<tr>
<td>2004</td>
<td>24.2</td>
<td>320</td>
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<tr>
<td>2005</td>
<td>16.3</td>
<td>235</td>
</tr>
<tr>
<td>2006</td>
<td>33.3</td>
<td>725</td>
</tr>
<tr>
<td>2007</td>
<td>59.2</td>
<td>4,017</td>
</tr>
<tr>
<td>2008</td>
<td>14.9</td>
<td>2,597</td>
</tr>
<tr>
<td>2009</td>
<td>24.2</td>
<td>1,691</td>
</tr>
</tbody>
</table>

Shenzhen Stock Exchange (2001- May 2009)

<table>
<thead>
<tr>
<th>Year</th>
<th>Average P/E Ratio</th>
<th>Total Turnover USD bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>39.8</td>
<td>188</td>
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<tr>
<td>2002</td>
<td>37.0</td>
<td>133</td>
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<tr>
<td>2003</td>
<td>36.2</td>
<td>136</td>
</tr>
<tr>
<td>2004</td>
<td>24.6</td>
<td>192</td>
</tr>
<tr>
<td>2005</td>
<td>16.4</td>
<td>152</td>
</tr>
<tr>
<td>2006</td>
<td>32.7</td>
<td>410</td>
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<tr>
<td>2007</td>
<td>69.7</td>
<td>2,040</td>
</tr>
<tr>
<td>2008</td>
<td>16.7</td>
<td>1,248</td>
</tr>
<tr>
<td>2009</td>
<td>32.1</td>
<td>933</td>
</tr>
</tbody>
</table>

Source: China Statistical Yearbook; China Monthly Economic Indicators; Shanghai Stock Exchange; Shenzhen Stock Exchange; www.sina.com.cn; THE BEIJING AXIS Analysis
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)

Lowest level since 2000, caused by the slowing of ‘hot money’ inflows.

Source: China Statistical Yearbook; China Monthly Economic Indicators; THE BEIJING AXIS Analysis
THE CHINESE RENMINBI (RMB) HAS APPRECIATED BY 18% AGAINST THE USD SINCE CHINA AMENDED ITS EXCHANGE RATE POLICY IN 2005

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

Children born during the boom of the mid-80’s will soon enter childbearing age

Source: National Bureau of Statistics of China; THE BEIJING AXIS Analysis
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: 83.6 mn (67.6%)
- 15-64: 320.6 mn (25.7%)
- 65 and over: 109.6 mn (8.2%)

1998 (Total Population - 1.2 bn)

- 0-14: 843.4 mn (67.6%)
- 15-64: 966.8 mn (72.8%)
- 65 and over: 320.6 mn (25.7%)

2008 (Total Population - 1.3 bn)

Source: National Bureau of Statistics of China; THE BEIJING AXIS Analysis
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)

Source: China Statistical Yearbook; THE BEIJING AXIS Analysis
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)

Source: China Statistical Yearbook; THE BEIJING AXIS Analysis
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)

Source: China Statistical Yearbook; THE BEIJING AXIS Analysis
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)

Source: National Statistics Database; THE BEIJING AXIS Analysis
PEOPLE IN CHINA ARE GRADUALLY SPENDING RELATIVELY LESS ON FOOD, DUE TO INCREASING INCOME LEVELS

The downward trend of Engel’s coefficient 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.

Source: China Statistical Yearbook; THE BEIJING AXIS Analysis
ATHOUGH 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 (%)

<table>
<thead>
<tr>
<th>Years</th>
<th>1985</th>
<th>1995</th>
<th>2005</th>
<th>2015</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Households (mn)</td>
<td>66</td>
<td>109</td>
<td>191</td>
<td>280</td>
<td>373</td>
</tr>
</tbody>
</table>

### Share of Total Urban Disposable Income (%)

<table>
<thead>
<tr>
<th>Years</th>
<th>1985</th>
<th>1995</th>
<th>2005</th>
<th>2015</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income (USD)</td>
<td>66</td>
<td>109</td>
<td>191</td>
<td>280</td>
<td>373</td>
</tr>
</tbody>
</table>

#### Segments by Annual Income

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Affluent (&gt;USD25,000)</td>
<td>1.3</td>
<td>1.8</td>
<td>5.6</td>
<td>21.2</td>
<td>59.4</td>
</tr>
<tr>
<td>Mass Affluent (USD12,500-USD25,000)</td>
<td>2</td>
<td>13.6</td>
<td>24.2</td>
<td>27.6</td>
<td>51.1</td>
</tr>
<tr>
<td>Upper Middle Class (USD5,100-USD12,500)</td>
<td>7.4</td>
<td>15.4</td>
<td>38.6</td>
<td>19.8</td>
<td>19.4</td>
</tr>
<tr>
<td>Lower Middle Class (USD3,200-USD5,100)</td>
<td>6.9</td>
<td>16.7</td>
<td>50.5</td>
<td>10.2</td>
<td>9.9</td>
</tr>
<tr>
<td>Poor (≦USD3,200)</td>
<td>19.4</td>
<td>17</td>
<td>26</td>
<td>26</td>
<td>26</td>
</tr>
</tbody>
</table>

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)

Source: China Statistical Yearbook; THE BEIJING AXIS Analysis
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)

The US economy is the world's largest, reaching USD14.26 tn in 2008.

World GDP in 2008 was USD 60.7 tn.

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

Source: China Statistical Yearbook; IMF; THE BEIJING AXIS Analysis
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)

Source: IMF; THE BEIJING AXIS Analysis
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)

Source: IMF; THE BEIJING AXIS Analysis
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)

Source: IMF; National Bureau of Statistics of China; THE BEIJING AXIS Analysis
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
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)

Exports
2,000
1,500
1,000
500
0
0
20
40
60
80
100
120
140
US
Germany
China
Japan
Belgium
Malaysia
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.
Source: IMF; THE BEIJING AXIS Analysis
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.

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

<table>
<thead>
<tr>
<th>Commodities</th>
<th>As a % of world total</th>
</tr>
</thead>
<tbody>
<tr>
<td>85 Electrical machinery and equipment</td>
<td>19.6%</td>
</tr>
<tr>
<td>84 Nuclear reactors, boilers, machinery and</td>
<td>9.7%</td>
</tr>
<tr>
<td>mechanical appliances</td>
<td></td>
</tr>
<tr>
<td>61 Articles of apparel and clothing</td>
<td>9.5%</td>
</tr>
<tr>
<td>accessories (knitted)</td>
<td></td>
</tr>
<tr>
<td>62 Articles of apparel and clothing</td>
<td>8.8%</td>
</tr>
<tr>
<td>accessories (not knitted)</td>
<td></td>
</tr>
<tr>
<td>72 Iron and steel</td>
<td>8.7%</td>
</tr>
<tr>
<td>90 Optical, photographic, and cinematographic</td>
<td>7.1%</td>
</tr>
<tr>
<td>and measuring equipment</td>
<td></td>
</tr>
<tr>
<td>73 Articles of iron and steel</td>
<td>6.4%</td>
</tr>
<tr>
<td>94 Furniture, incl. bedding, mattresses and</td>
<td>3.4%</td>
</tr>
<tr>
<td>mattress supports</td>
<td></td>
</tr>
<tr>
<td>87 Vehicles, other than railway or tramway</td>
<td>3.1%</td>
</tr>
<tr>
<td>rolling stock, and parts</td>
<td></td>
</tr>
<tr>
<td>93 Toys, games and sporting equipment</td>
<td>2.4%</td>
</tr>
<tr>
<td>Other</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

Source: UN Comtrade Database; THE BEIJING AXIS Analysis
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

Top 20 World Exporters of Power Generation

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

Total : USD 1,218bn

- 85 Electrical machinery and equipment (25%)
- 84 Nuclear reactors, boilers, machinery and mechanical appliances (19%)
- 61 Articles of apparel and clothing accessories (knitted) (5%)
- 62 Articles of apparel and clothing accessories (not knitted) (4%)
- 72 Iron and steel (3%)
- 90 Optical, photographic and cinematographic, measuring equipment (3%)
- 73 Articles of iron and steel (3%)
- 94 Furniture, incl. bedding, mattresses and mattress supports (3%)
- 87 Vehicles, other than railway or tramway rolling stock, and parts (2%)
- 95 Toys, games and sporting equipment (31%)
- Other

As a % of world total:
- Germany: 14.7%
- China: 13.9%
- USA: 12.1%
- Japan: 8.5%
- Italy: 6.5%
- Netherland: 4.5%
- UK: 4.3%
- France: 4.2%
- Singapore: 3.1%
- HK, SAR: 2.7%
- S. Korea: 2.6%
- Belgium: 2.1%
- Canada: 2.0%
- Austria: 1.8%
- Thailand: 1.7%
- Sweden: 1.6%
- Switzerland: 1.6%
- Czech Rep.: 1.5%
- Spain: 1.3%
- Ireland: 1.2%

Source: UN Comtrade Database; THE BEIJING AXIS Analysis
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

<table>
<thead>
<tr>
<th>Country</th>
<th>Export Value (USD bn)</th>
<th>% of World Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>44.8%</td>
<td>44.8%</td>
</tr>
<tr>
<td>HK, SAR</td>
<td>10.5%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Italy</td>
<td>6.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Turkey</td>
<td>5.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Germany</td>
<td>4.5%</td>
<td>4.5%</td>
</tr>
<tr>
<td>France</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Belgium</td>
<td>2.8%</td>
<td>2.8%</td>
</tr>
<tr>
<td>UK</td>
<td>1.9%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.8%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Spain</td>
<td>1.8%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Portugal</td>
<td>1.7%</td>
<td>1.7%</td>
</tr>
<tr>
<td>USA</td>
<td>1.5%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Thailand</td>
<td>1.5%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Denmark</td>
<td>1.2%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Singapore</td>
<td>0.9%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Romania</td>
<td>0.8%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Austria</td>
<td>0.8%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Guatemala</td>
<td>0.7%</td>
<td>0.7%</td>
</tr>
<tr>
<td>S. Korea</td>
<td>0.7%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Greece</td>
<td>0.7%</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

Source: UN Comtrade Database; THE BEIJING AXIS Analysis
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

Top 20 World Exporters of Un-knitted Articles of Apparel (USD bn, 2007)

China’s Top 10 Export Commodities 2007 (HS Code)

<table>
<thead>
<tr>
<th>Total: USD 1,218bn</th>
<th>As a % of world total</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%</td>
<td>China</td>
</tr>
<tr>
<td>19%</td>
<td>Italy</td>
</tr>
<tr>
<td>5%</td>
<td>HK, SAR</td>
</tr>
<tr>
<td>4%</td>
<td>Germany</td>
</tr>
<tr>
<td>3%</td>
<td>France</td>
</tr>
<tr>
<td>3%</td>
<td>Turkey</td>
</tr>
<tr>
<td>3%</td>
<td>Belgium</td>
</tr>
<tr>
<td>3%</td>
<td>Spain</td>
</tr>
<tr>
<td>2%</td>
<td>Romania</td>
</tr>
<tr>
<td>31%</td>
<td>UK</td>
</tr>
<tr>
<td>3%</td>
<td>Netherlands</td>
</tr>
<tr>
<td>3%</td>
<td>Denmark</td>
</tr>
<tr>
<td>3%</td>
<td>Poland</td>
</tr>
<tr>
<td>3%</td>
<td>USA</td>
</tr>
<tr>
<td>3%</td>
<td>Thailand</td>
</tr>
<tr>
<td>2%</td>
<td>Austria</td>
</tr>
<tr>
<td>3%</td>
<td>Switzerland</td>
</tr>
<tr>
<td>3%</td>
<td>Portugal</td>
</tr>
<tr>
<td>3%</td>
<td>Bulgaria</td>
</tr>
<tr>
<td>2%</td>
<td>Czech Rep.</td>
</tr>
</tbody>
</table>

Source: UN Comtrade Database; THE BEIJING AXIS Analysis
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

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

<table>
<thead>
<tr>
<th>Rank</th>
<th>HS Code</th>
<th>Commodity Description</th>
<th>Export USD bn</th>
<th>% of World Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>85</td>
<td>Electrical machinery and equipment</td>
<td>11.1%</td>
<td>11.1%</td>
</tr>
<tr>
<td>2</td>
<td>84</td>
<td>Nuclear reactors, boilers, machinery and mechanical appliances</td>
<td>10.0%</td>
<td>10.0%</td>
</tr>
<tr>
<td>3</td>
<td>61</td>
<td>Articles of apparel and clothing accessories (knitted)</td>
<td>8.4%</td>
<td>8.4%</td>
</tr>
<tr>
<td>4</td>
<td>62</td>
<td>Articles of apparel and clothing accessories (not knitted)</td>
<td>7.2%</td>
<td>7.2%</td>
</tr>
<tr>
<td>5</td>
<td>72</td>
<td>Iron and steel</td>
<td>5.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>6</td>
<td>90</td>
<td>Optical, photographic and cinematographic, measuring equipment</td>
<td>5.7%</td>
<td>5.7%</td>
</tr>
<tr>
<td>7</td>
<td>73</td>
<td>Articles of iron and steel</td>
<td>4.8%</td>
<td>4.8%</td>
</tr>
<tr>
<td>8</td>
<td>2</td>
<td>Furniture, incl. bedding, mattresses and mattress supports</td>
<td>4.7%</td>
<td>4.7%</td>
</tr>
<tr>
<td>9</td>
<td>3</td>
<td>94 Vehicles, other than railway or tramway rolling stock, and parts</td>
<td>4.6%</td>
<td>4.6%</td>
</tr>
<tr>
<td>10</td>
<td>87</td>
<td>Toys, games and sporting equipment</td>
<td>4.1%</td>
<td>4.1%</td>
</tr>
<tr>
<td>11</td>
<td>95</td>
<td>Other</td>
<td>3.4%</td>
<td>3.4%</td>
</tr>
<tr>
<td>12</td>
<td>96</td>
<td>3</td>
<td>2.7%</td>
<td>2.7%</td>
</tr>
<tr>
<td>13</td>
<td>97</td>
<td>3</td>
<td>2.3%</td>
<td>2.3%</td>
</tr>
<tr>
<td>14</td>
<td>98</td>
<td>3</td>
<td>2.2%</td>
<td>2.2%</td>
</tr>
<tr>
<td>15</td>
<td>99</td>
<td>3</td>
<td>2.1%</td>
<td>2.1%</td>
</tr>
<tr>
<td>16</td>
<td>100</td>
<td>3</td>
<td>1.8%</td>
<td>1.8%</td>
</tr>
<tr>
<td>17</td>
<td>101</td>
<td>3</td>
<td>1.7%</td>
<td>1.7%</td>
</tr>
<tr>
<td>18</td>
<td>102</td>
<td>3</td>
<td>1.3%</td>
<td>1.3%</td>
</tr>
<tr>
<td>19</td>
<td>103</td>
<td>3</td>
<td>1.3%</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

Source: UN Comtrade Database; THE BEIJING AXIS Analysis
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.

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

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.

Source: UN Comtrade Database; THE BEIJING AXIS Analysis
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

Top 20 World Importers of Power Generation Equipment (USD bn, 2007)

Total: USD 956bn

- 85 Electrical machinery and equipment: 27%
- 84 Nuclear reactors, boilers, machinery and mechanical appliances: 13%
- 27 Mineral fuels, mineral oils and products of their distillation: 11%
- 90 Optical, photographic and cinematographic, measuring equipment: 7%
- 26 Ores, slag and ash: 6%
- 39 Plastics and articles thereof: 5%
- 29 Organic chemicals: 4%
- 74 Copper and articles thereof: 3%
- 72 Iron and steel: 2%
- 87 Vehicles other than railway or tramway rolling stock, and parts: 20%

Source: UN Comtrade Database; THE BEIJING AXIS Analysis
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

Top 20 World Importers of Mineral Fuel and Oil

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

Total: USD 956bn

- 85 Electrical machinery and equipment: 27%
- 84 Nuclear reactors, boilers, machinery and mechanical appliances: 13%
- 27 Mineral fuels, mineral oils and products of their distillation: 11%
- 90 Optical, photographic and cinematographic, measuring equipment: 7%
- 26 Ores, slag and ash: 6%
- 39 Plastics and articles thereof: 5%
- 29 Organic chemicals: 4%
- 74 Copper and articles thereof: 3%
- 72 Iron and steel: 2%
- 87 Vehicles other than railway or tramway rolling stock, and parts: 20%
- Other

As a % of world total:
- USA: 22.6%
- Japan: 10.5%
- Germany: 6.8%
- China: 6.4%
- S. Korea: 5.9%
- France: 5.0%
- Netherlands: 4.1%
- Italy: 3.7%
- UK: 3.6%
- Spain: 3.5%
- Singapore: 3.2%
- Belgium: 2.9%
- Canada: 2.1%
- Turkey: 2.1%
- Thailand: 1.6%
- Australia: 1.2%
- Sweden: 1.0%
- Poland: 1.0%
- Austria: 0.9%
- S. Africa: 0.9%

Source: UN Comtrade Database; THE BEIJING AXIS Analysis
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.

Source: UN Comtrade Database; THE BEIJING AXIS Analysis
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

China’s Top 20 World Importers of Ores, Slag and Ash (USD bn, 2007)

<table>
<thead>
<tr>
<th>Country</th>
<th>Total (USD bn)</th>
<th>As a % of world total</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>38.2%</td>
<td>38.2%</td>
</tr>
<tr>
<td>Japan</td>
<td>17.9%</td>
<td>17.9%</td>
</tr>
<tr>
<td>S. Korea</td>
<td>6.6%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Germany</td>
<td>5.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Spain</td>
<td>3.4%</td>
<td>3.4%</td>
</tr>
<tr>
<td>UK</td>
<td>2.8%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Belgium</td>
<td>2.6%</td>
<td>2.6%</td>
</tr>
<tr>
<td>USA</td>
<td>2.4%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Finland</td>
<td>2.2%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Canada</td>
<td>2.1%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.8%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Italy</td>
<td>1.8%</td>
<td>1.8%</td>
</tr>
<tr>
<td>France</td>
<td>1.4%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>1.1%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Austria</td>
<td>1.0%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Russia</td>
<td>0.9%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Sweden</td>
<td>0.8%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Chile</td>
<td>0.7%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Poland</td>
<td>0.5%</td>
<td>0.5%</td>
</tr>
</tbody>
</table>

Source: UN Comtrade Database; THE BEIJING AXIS Analysis
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)

<table>
<thead>
<tr>
<th>Country</th>
<th>USD bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td></td>
</tr>
<tr>
<td>HK, SAR</td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td></td>
</tr>
<tr>
<td>Russia</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td></td>
</tr>
<tr>
<td>Switzerland</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td></td>
</tr>
<tr>
<td>Ireland</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td></td>
</tr>
<tr>
<td>Saudi</td>
<td></td>
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<tr>
<td>Singapore</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td></td>
</tr>
</tbody>
</table>

### Top 20 World FDI Outflows (USD bn, 2007)

<table>
<thead>
<tr>
<th>Country</th>
<th>USD bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td></td>
</tr>
<tr>
<td>HK, SAR</td>
<td></td>
</tr>
<tr>
<td>Luxembourg</td>
<td></td>
</tr>
<tr>
<td>Switzerland</td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td></td>
</tr>
<tr>
<td>Russia</td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td></td>
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<tr>
<td>B. Virgin Is.</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td></td>
</tr>
<tr>
<td>Ireland</td>
<td></td>
</tr>
</tbody>
</table>

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.

Source: WIR 2008; THE BEIJING AXIS Analysis
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.

Source: WIR 2008; THE BEIJING AXIS Analysis
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.
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.

Source: WIR 2008; THE BEIJING AXIS Analysis
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)

China
1. State Administration of Foreign Exchange (SAFE)
2. China Investment Corporation (CIC)
3. Central Huijin Investment Corporation
4. Hong Kong Monetary Authority (HKMA)-Exchange Fund

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)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Economy</th>
<th>Fund</th>
<th>Assets under management ($ billion)</th>
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<tr>
<td>1</td>
<td>United Arab Emirates</td>
<td>Abu Dhabi Investment Authority (ADIA)</td>
<td>500–875</td>
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<tr>
<td>2</td>
<td>Norway</td>
<td>Government Pension Fund-Global (GPF-G)</td>
<td>373</td>
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<tr>
<td>3</td>
<td>Singapore</td>
<td>Government of Singapore Investment Corporation (GIC)</td>
<td>330</td>
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<tr>
<td>4</td>
<td>Saudi Arabia</td>
<td>Saudi Arabia Monetary Authority foreign holdings</td>
<td>327</td>
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<td>5</td>
<td>Netherlands</td>
<td>Stichting Pensioenfonds ABP</td>
<td>316</td>
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<tr>
<td>6</td>
<td>China</td>
<td>State Administration of Foreign Exchange (SAFE)</td>
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<td>7</td>
<td>Kuwait</td>
<td>Kuwait Investment Authority (KIA)</td>
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<td>8</td>
<td>United States</td>
<td>California Public Employees’ Retirement System</td>
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<td>9</td>
<td>China</td>
<td>China Investment Corporation (CIC)</td>
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<td>Hong Kong, China</td>
<td>Hong Kong Monetary Authority (HKMA)-Exchange Fund</td>
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<td>11</td>
<td>Singapore</td>
<td>Temasek Holdings</td>
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<td>12</td>
<td>Canada</td>
<td>Caisse de dépôt et placement de Québec</td>
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<td>13</td>
<td>Russian Federation</td>
<td>Oil and Gas Fund (OGF)</td>
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<td>14</td>
<td>China</td>
<td>Central Huijin Investment Corporation</td>
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<td>United Arab Emirates</td>
<td>Investment Corporation of Dubai</td>
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<td>16</td>
<td>Australia</td>
<td>Queensland Investment Corporation (QIC)</td>
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<td>17</td>
<td>Australia</td>
<td>Australian Government Future Fund (AGFF)</td>
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<td>Qatar</td>
<td>Qatar Investment Authority (QIA)</td>
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<td>19</td>
<td>France</td>
<td>Pension Reserve Fund</td>
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<td>Libyan Arab Jamahiriya</td>
<td>Reserve Fund</td>
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<td>Algeria</td>
<td>Revenue Regulation Fund</td>
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<td>United States</td>
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<td>Australia</td>
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<td>Brunei Darussalam</td>
<td>Brunei Investment Agency (BIA)</td>
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<td>Ireland</td>
<td>National Pensions Reserve Fund (NPRF)</td>
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<td>Malaysia</td>
<td>Khazanah Nasional Fund BHD (KNF)</td>
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<td>Saudi Arabia</td>
<td>Kingdom Holding Company</td>
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<td>29</td>
<td>Kazakhstan</td>
<td>Kazakhstan National Fund (NFRK)</td>
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<td>30</td>
<td>Venezuela, Bolivarian Rep. of</td>
<td>National Development Fund (FONDEN)</td>
<td>28</td>
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Source: WIR 2008; THE BEIJING AXIS Analysis
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)

Source: WIR 2008; THE BEIJING AXIS Analysis
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)

Source: CIA World Book 2008; THE BEIJING AXIS Analysis
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)

In 2008, the external debt of the US increased to USD13,642 bn

In 2008, China’s external debt amounted to USD375 bn

Note: Nether. = Netherlands; Switzer. = Switzerland
Source: CIA World Book 2008; Department of U.S. Treasuries; SAFE; THE BEIJING AXIS Analysis
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

Source: CIA World Book 2008; THE BEIJING AXIS Analysis
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 Rate\(^1\) (%, 2007)

- **High rate countries**: Zimbabwe, Haiti, Madagascar, Brazil, STP, Laos, Gambia, Malawi, Kyrgyzstan, Paraguay
- **Medium rate countries**: Greece, Mexico, China, Qatar, Oman, France, Bosnia.
- **Low rate countries**: Czech Rep., Finland, UK, Bahamas, Brunei, Poland, Singapore, Sweden, Switzerland, Japan

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

Source: CIA World Book 2008; THE BEIJING AXIS Analysis
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)

Source: UN Statistics; IMF; THE BEIJING AXIS Analysis
25% OF CHINA’S POPULATION IS OLDER THAN 60 YEARS
The bulk of the Chinese population is currently at a working age
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

<table>
<thead>
<tr>
<th>Country</th>
<th>Urban</th>
<th>Rural</th>
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</thead>
<tbody>
<tr>
<td>USA</td>
<td>82</td>
<td>18</td>
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<tr>
<td>Japan</td>
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<td>Germany</td>
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<td>Canada</td>
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<td>Brazil</td>
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<td>India</td>
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<td>S. Korea</td>
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<td>Mexico</td>
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<td>Austria</td>
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<td>Turkey</td>
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<td>Belgium</td>
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<td>Sweden</td>
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<td>Indonesia</td>
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<td>Poland</td>
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<td>Switzer.</td>
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<td>Norway</td>
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<td>S. Arabia</td>
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<td>S. Africa</td>
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<td>Iran</td>
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<td>8</td>
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<tr>
<td>Argentina</td>
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<td>8</td>
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</tbody>
</table>

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

Source: UN Statistics; IMF; THE BEIJING AXIS Analysis
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
--- | --- | --- | ---
USA | 59 | 48 | 71
Japan | 50 | 56 | 71
Germany | 47 | 63 | 67
China | 57 | 57 | 60
UK | 34 | 41 | 48
France | 46 | 50 | 54
Spain | 51 | 47 | 49
Canada | 45 | 47 | 49
Brazil | 45 | 57 | 56
Russia | 57 | 49 | 56
India | 51 | 32 | 44
S. Korea | 61 | 32 | 54
Mexico | 51 | 32 | 43
Australia | 57 | 39 | 47
Netherla | 46 | 54 | 58
Turkey | 57 | 39 | 48
Belgium | 51 | 32 | 44
Sweden | 46 | 54 | 54
Indonesi | 51 | 32 | 44
Poland | 50 | 54 | 57
Switzerland | 62 | 43 | 58
Norway | 46 | 54 | 54
S. Arabia | 32 | 54 | 56
Austria | 57 | 39 | 47
Greece | 46 | 54 | 54
Denmark | 46 | 54 | 54
S. Africa | 57 | 39 | 49
Iran | 46 | 54 | 54
Argentina | 57 | 39 | 49

Source: UN Statistics; THE BEIJING AXIS Analysis
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)

Source: OECD Factbook 2009; THE BEIJING AXIS Analysis
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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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<th>IMPLICATIONS</th>
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</thead>
<tbody>
<tr>
<td>Selected Macroeconomic Data</td>
<td>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.</td>
</tr>
<tr>
<td>Trade</td>
<td>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.</td>
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<tr>
<td>Investment</td>
<td>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.</td>
</tr>
<tr>
<td>Financial</td>
<td>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’.</td>
</tr>
<tr>
<td>Social</td>
<td>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.</td>
</tr>
</tbody>
</table>
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.
For further information, please visit our English, Chinese, Russian or Spanish websites at www.thebeijingaxis.com, or contact an appropriate office:

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<th>Beijing, China</th>
<th>China Strategy Group</th>
<th>China Sourcing Unit</th>
<th>China Capital Advisors</th>
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<tbody>
<tr>
<td>Cheryl Tang</td>
<td>Javier Cuñat Manager</td>
<td>Diana Wang Manager</td>
<td>Edward Wang Director &amp; GM</td>
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<td><a href="mailto:dianawang@thebeijingaxis.com">dianawang@thebeijingaxis.com</a></td>
<td><a href="mailto:edwardwang@thebeijingaxis.com">edwardwang@thebeijingaxis.com</a></td>
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<tr>
<th>Johannesburg, South Africa</th>
<th>Moscow, Russia/CIS</th>
<th>Perth, Australia</th>
<th>Latin America Desk (Beijing)</th>
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<tbody>
<tr>
<td>Michele (Mitch) Cosani</td>
<td>Lilian Luca, Director: Russia/CIS &amp; Group Corporate Office</td>
<td>Jim Hu Senior Consultant</td>
<td>Javier Cuñat Manager</td>
</tr>
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<tr>
<td>or Jackie Li</td>
<td></td>
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<tr>
<td>Manager:Business Development <a href="mailto:jackieli@thebeijingaxis.com">jackieli@thebeijingaxis.com</a></td>
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