

China and the World

Buying

- Commodities
 - Australia
 - Brazil
 - Canada
 - United States
 - Russia
- Effects of high demand: Australia's "cashed-up bogans," Brazil's property boom, Mongolia's wealth effect
- US: the hollowing out of manufacturing: consumer electronics, machine tools, steel
- Europe: The coming end to fast growth in luxury cars, watches, and fashion

Key Suppliers

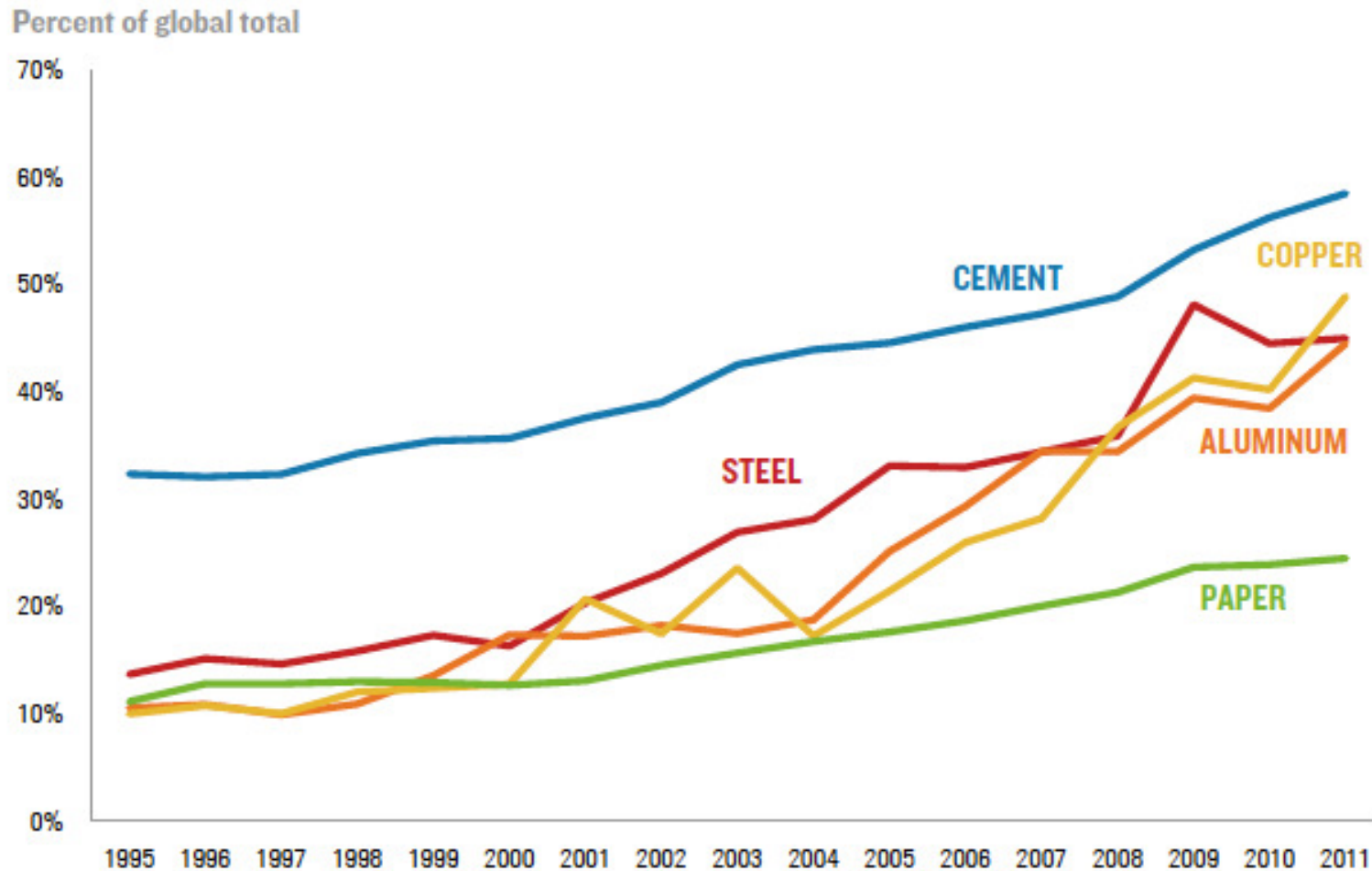
Imports 2012	Amount (bln USD)	Change
Japan	\$177.81	-9%
Korea	\$168.65	4%
HK/Chinese FTZ	\$142.86	17%
U.S.	\$132.89	9%
Taiwan	\$132.18	6%
Germany	\$91.91	-1%
Australia	\$84.56	2%
Malaysia	\$58.30	-6%
Saudi Arabia	\$54.83	11%
Brazil	\$52.30	-0.2%
Total	\$2,048.95	4%

Europe



- Chinese consumers buy >60% of Swiss luxury watches
- Luxury sector generally derives 22% of sales globally from Mainland Chinese at home or traveling. China is 14% of global economy. (JP Morgan/Cazenove)
- Burberry, Ferragamo, LVMH, Cartier, Swatch/Harry Winston all depend on China for growth

By 2011, China was consuming almost 40% of the world's copper, iron ore, aluminum, and cement and so was determining prices



Source: Rhodium Group

Australia



The “cashed-up bogan”

- As of 2012, blue-collar workers in Australia earned more than white-collar.
- Av weekly salary in mining: \$2,173
- Housing bubble: 1996-2010, housing prices rose 130%
- Aggressive mortgage practices
- Hyman Minsky’s financing types: hedge, speculative, and Ponzi

Brazil



Brazilian Iron Ore Exports

Year	China	Europe	Japan/Korea	Other	Total	Value (mln USD)
2008	96	79	49	58	282	\$16,538
2009	145	36	33	52	266	\$13,247
2010	153	63	40	55	311	\$28,912
2011	164	63	52	52	331	\$41,817
2012					327	\$30,988

Source: Brazilian Customs

Another property bubble?

- Housing prices nationwide rose 10% in 2012, Rio and Sao Paulo up 20% annually
- Mortgages up 40% CAGR for a decade

Africa



Soft Loans for Energy

- \$40 billion invested through 2010.
- Trade tripled to \$166 bln in 2011
- Infrastructure: Road and bridges in Angola, power stations in Zambia, mass transit in Nigeria, telecommunications in Ethiopia, dam in Ghana.
- July 2012: Hu Jintao pledged another \$20 bln in credit for Africa.

Angola:

Second-biggest oil supplier to China after Venezuela

- China imports 750,000 bpd of Angola's 1.34 mln bpd
- Est. \$12 billion in loans from China since 2004
- China's oil imports from all nations totaled \$200 bln in 2011.

Ghana

- \$3 billion loan from China in 2011 to develop oilfields represented 8% of Ghana's GDP.
- Condition that 60% of work go to Chinese contractors

Mongolia



Mongolia

- Offtake agreements for coal and copper
- Captive to China because of difficult logistics: China purchases 85% of Mongolian exports
- Produce 35% of China's coking coal
- Oyu Tolgoi copper and gold project will contribute 30% of GDP
- As the prices drop, Mongolia's budget has gone into deficit. Promised distributions to citizens cannot be funded. Infrastructure projects on hold.

United States

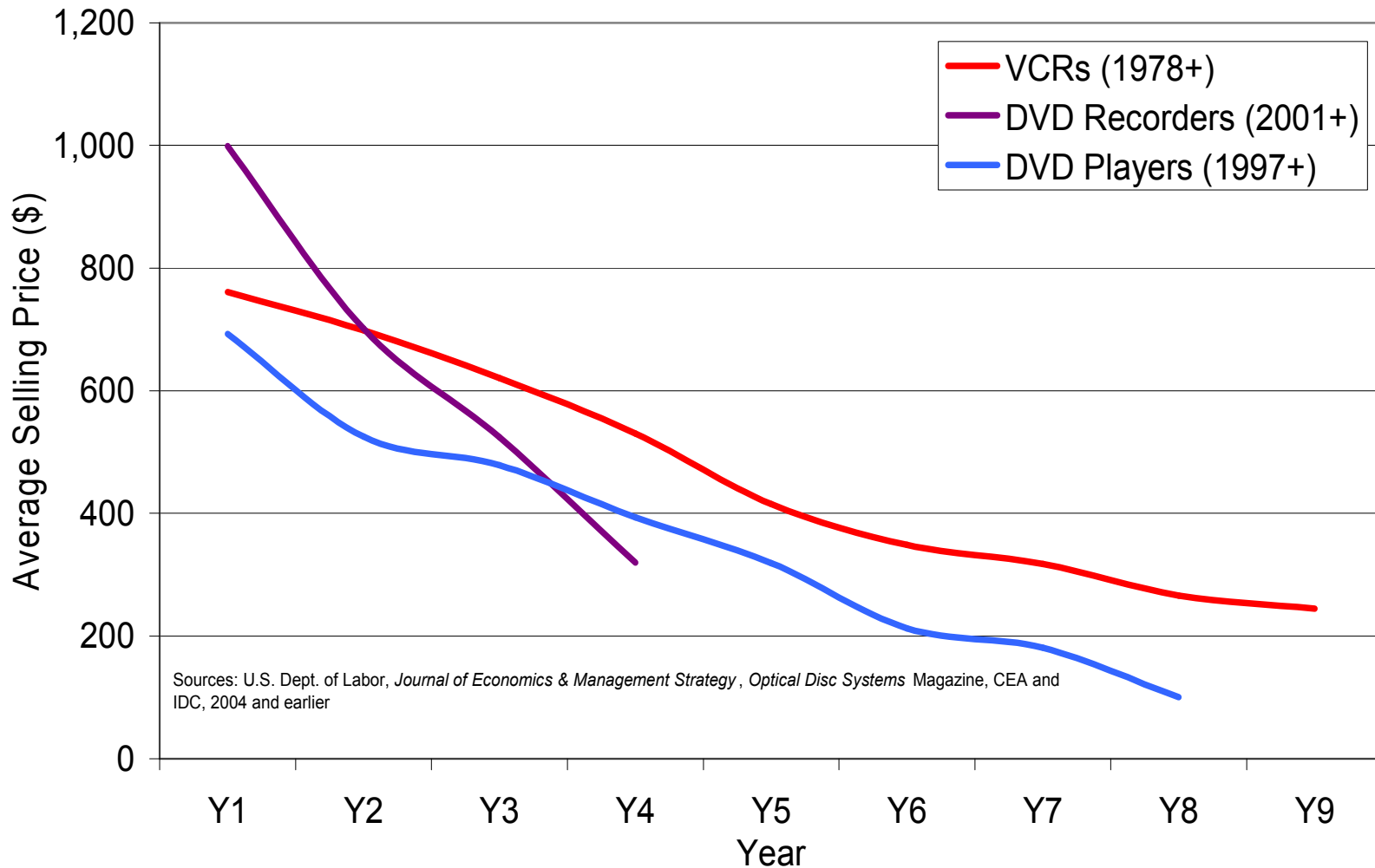
- Agriculture: Exports 35-40 million tons/year of soybeans to China
- Machinery: Cummins, Caterpillar, Schnitzer cutting jobs based on lower demand from China

Hollowing Out

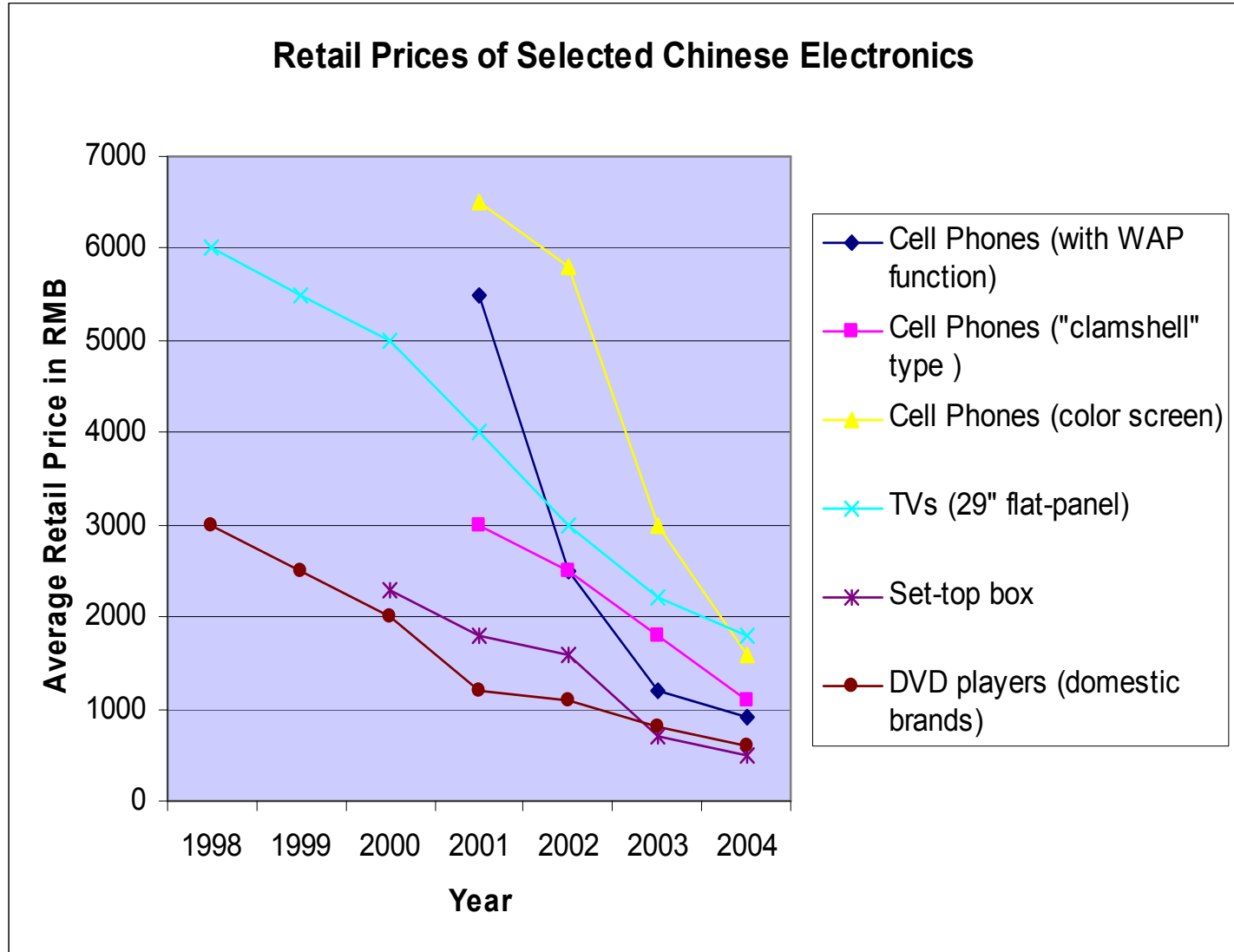
- In 10 years, China has gone from 3-4% to about 10.5% of global trade.
- In everything except auto parts, China gained share of global manufacturing faster than Mexico did through the 1990s—in spite of NAFTA.
- U.S.: machine tools, steel, electronics manufacturing
- Europe: machinery

A manufacturing shift to China, along with steep declines in IC prices, has coincided with dramatic price decreases for almost every product.

Home VCR and DVD Equipment Average Selling Prices
Since Year of Introduction



Subsidies, reverse engineering, direct IP piracy, and government support via soft loans and other means are among the reasons for tumbling prices of consumer electronics, making it hard for Chinese companies with strong R&D to compete.

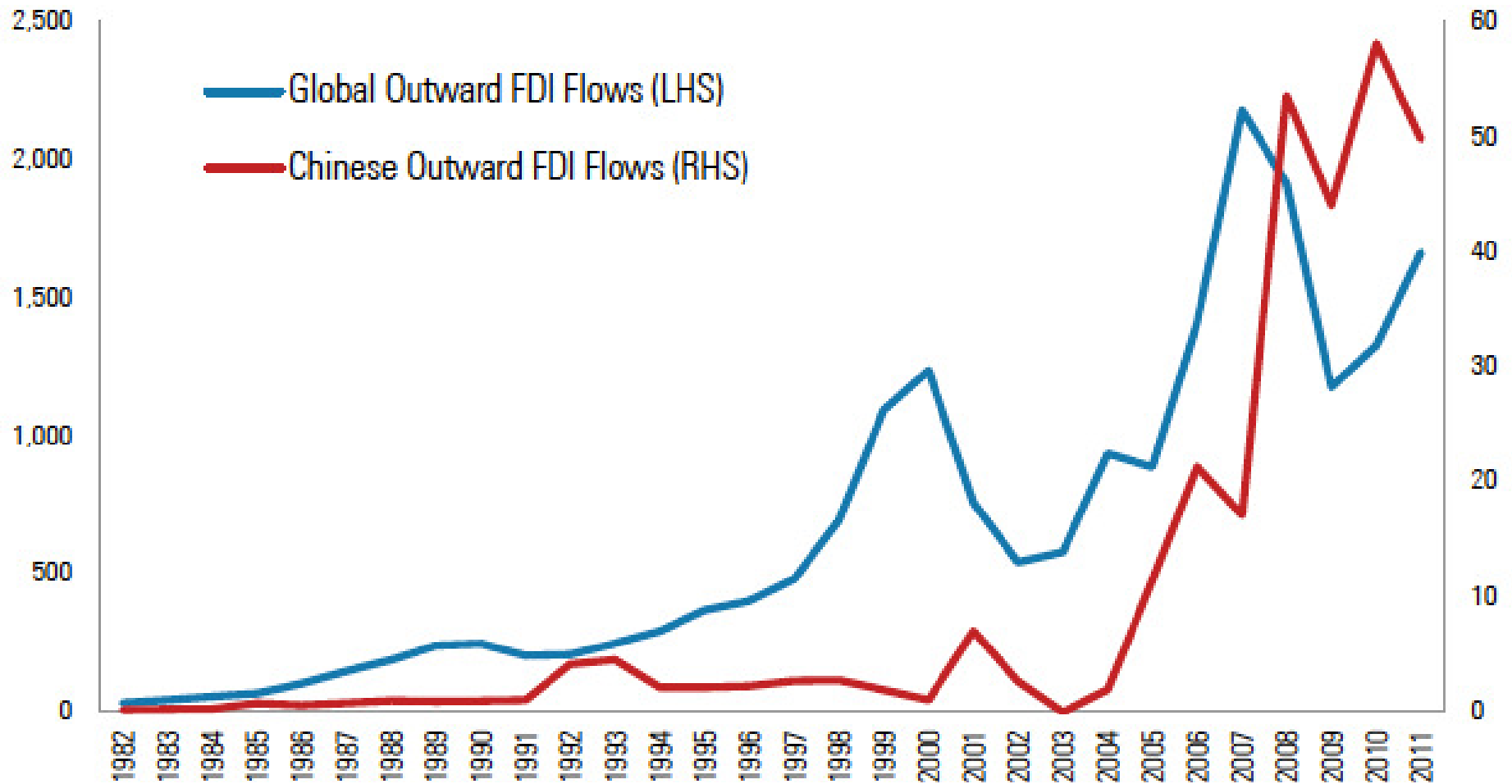


Sources: MFC Insight, CCID, Sina Tech, Sohu Tech, company reports

Selling

Country	Export Value 2012 (bln USD)
United States	\$351.80
Hong Kong/China	\$323.53
Japan	\$151.65
Korea	\$87.68
Germany	\$69.22
Holland	\$58.90
India	\$47.67
United Kingdom	\$46.30
Russian Federation	\$44.06
Singapore	\$40.75
Total	\$2,048.95

Investment



Source: UNCTAD, PBOC, Rhodium Group

The Search for Resources

- Chinese FDI grew 130% annually 2004-2008, slowed in 2009, then reached \$60 billion in 2010 and \$50 billion in 2011.
- Total outward investment stock end 2011: \$364 bln.
Inward: \$1.8 T.
- FDI-to-GDP ratio 5%, far lower than average.

Australia

- Investment of about \$10 bln/year. Peaked in 2008 at \$16 billion, dropped, then recovered to \$9.6 bln in 2010.
- 80% of investment is in mining
- Investment is dominated by a few large corporations.
- Preference for investing in listed companies.

Europe

- Roughly \$10 bln annually
- Principal destinations: France, UK, and Germany

Soft Loans

- Outstanding policy loans from Exim Bank and the China Development Bank: \$1.029 trillion

Venezuela



All about oil

- \$42 billion in lending to the government for oil infrastructure. Requires 430,000 bpd to service debt, at 2012 oil prices.
- Billions to Chinese companies for exports to or investment in Venezuela

Russia

- Russia's biggest trading partner
- About half of Russia's exports are crude oil and natural resources.
- China represents about 25% of world demand for potash. Russia is a major supplier.
- \$25 bln oil-for-loans deal

Foreign Reserves

Month	Amount	Growth	Gold Reserves (mln oz)
May-11	\$3,166.00	29.78%	3389
Jun-11	\$3,197.49	30.28%	3389
Jul-11	\$3,245.28	27.82%	3389
Aug-11	\$3,262.50	28.05%	3389
Sep-11	\$3,201.68	20.90%	3389
Oct-11	\$3,273.80	18.58%	3389
Nov-11	\$3,220.91	16.37%	3389
Dec-11	\$3,181.15	11.73%	3389
Jan-12	\$3,253.63	10.98%	3389
Feb-12	\$3,309.66	10.64%	3389
Mar-12	\$3,304.97	8.55%	3389
Apr-12	\$3,298.91	4.87%	3389
May-12	\$3,206.11	1.27%	3389
Jun-12	\$3,240.01	1.33%	3389
Jul-12	\$3,239.95	-0.16%	3389
Aug-12	\$3,272.90	0.32%	3389
Sep-12	\$3,285.10	2.61%	3389
Oct-12	\$3,287.43	0.42%	3389
Nov-12	\$3,297.67	2.38%	3389
Dec-12	\$3,311.59	4.10%	3389

Exporting capital means importing demand.
-- Michael Pettis, The Great Rebalancing

Competition

- Early 2000s saw China competing for maquiladora business—factories left Mexico and went to China. Will that trend reverse?

Success cases in China's reform generation

Market share:
industrial

Beakert, SAP, IBM, HP, TI, Intel, Cisco, CAT, John Deere, Cummins, EDF, Westinghouse, Emerson Electric

Market share:
consumer

VW, GM, Hyundai, Wal-Mart, Carrefour, IKEA, Unilever, Kimberly-Clark, P&G, Bosch, Coca-Cola, Hermes

Sourcing & IP
protection

Apple, Agilent, Intel, Foxconn/Honhai