World Financial Crisis: The Chinese Perspective

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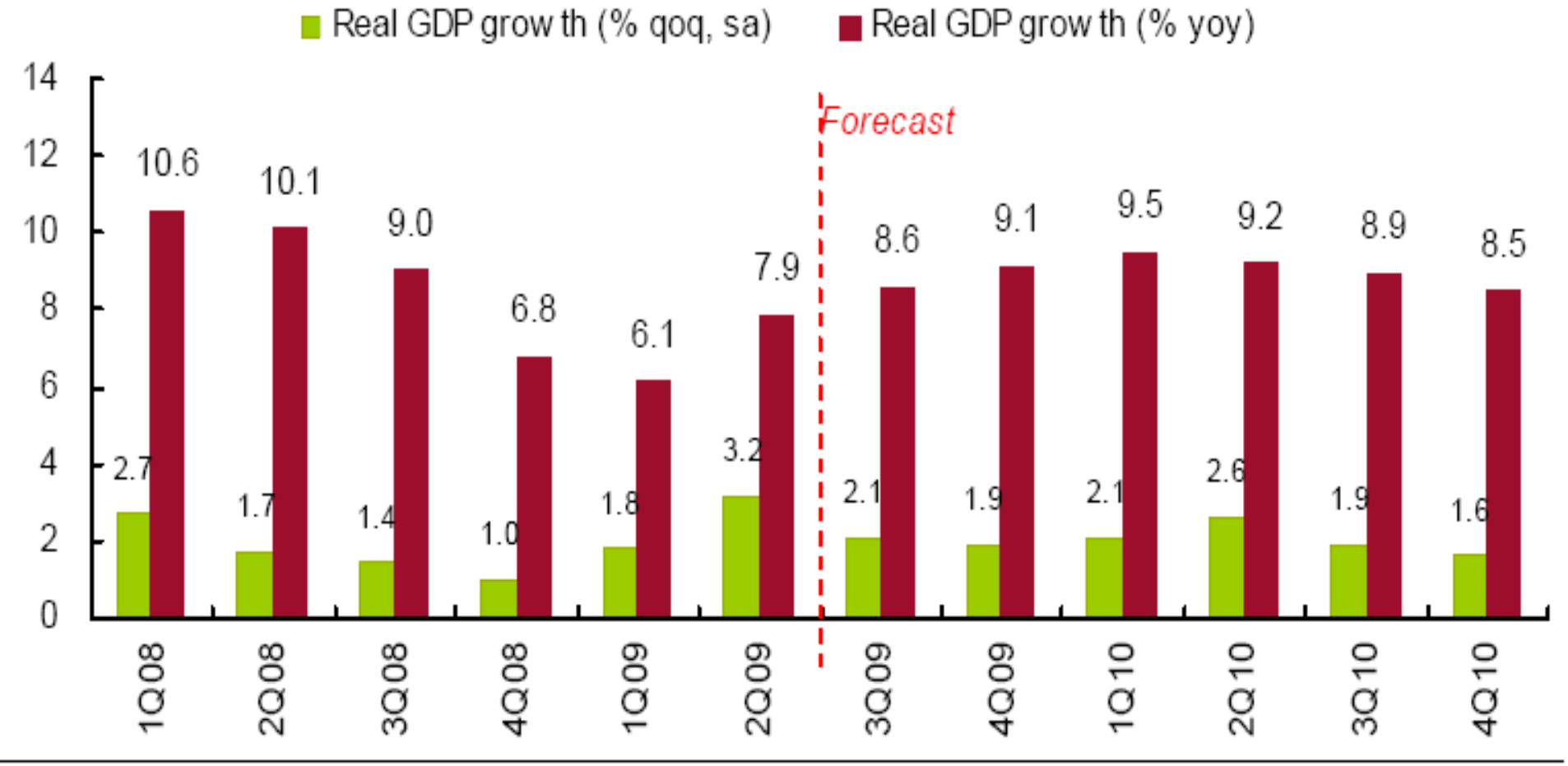
Outline

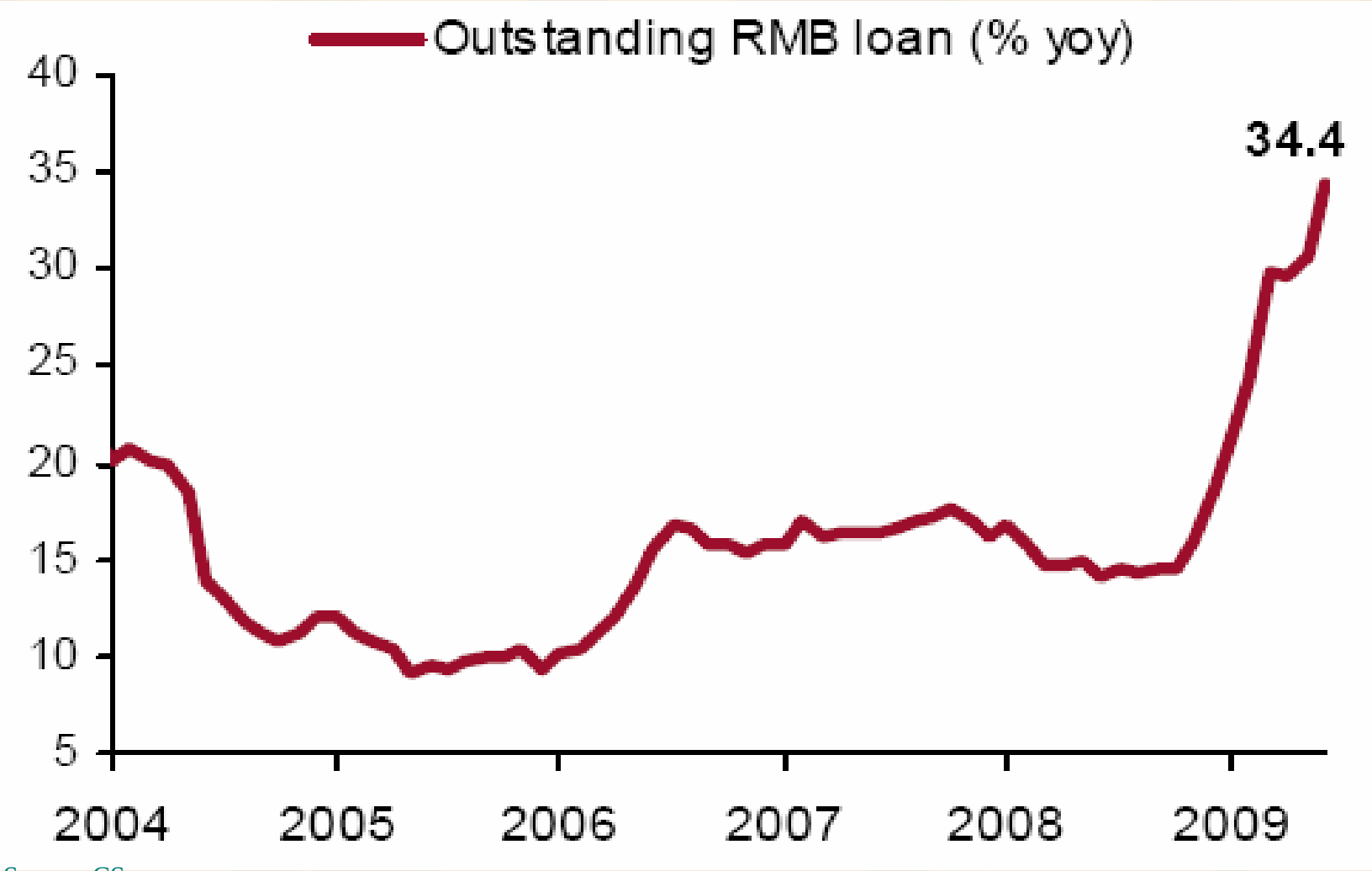
- How is China doing during the financial crisis?
- Why is China's economy so resilient?
- What area should China improve?
- What impact may China's growth have on the world economy, especially Brazil?
- Outlook

GDPGrowth



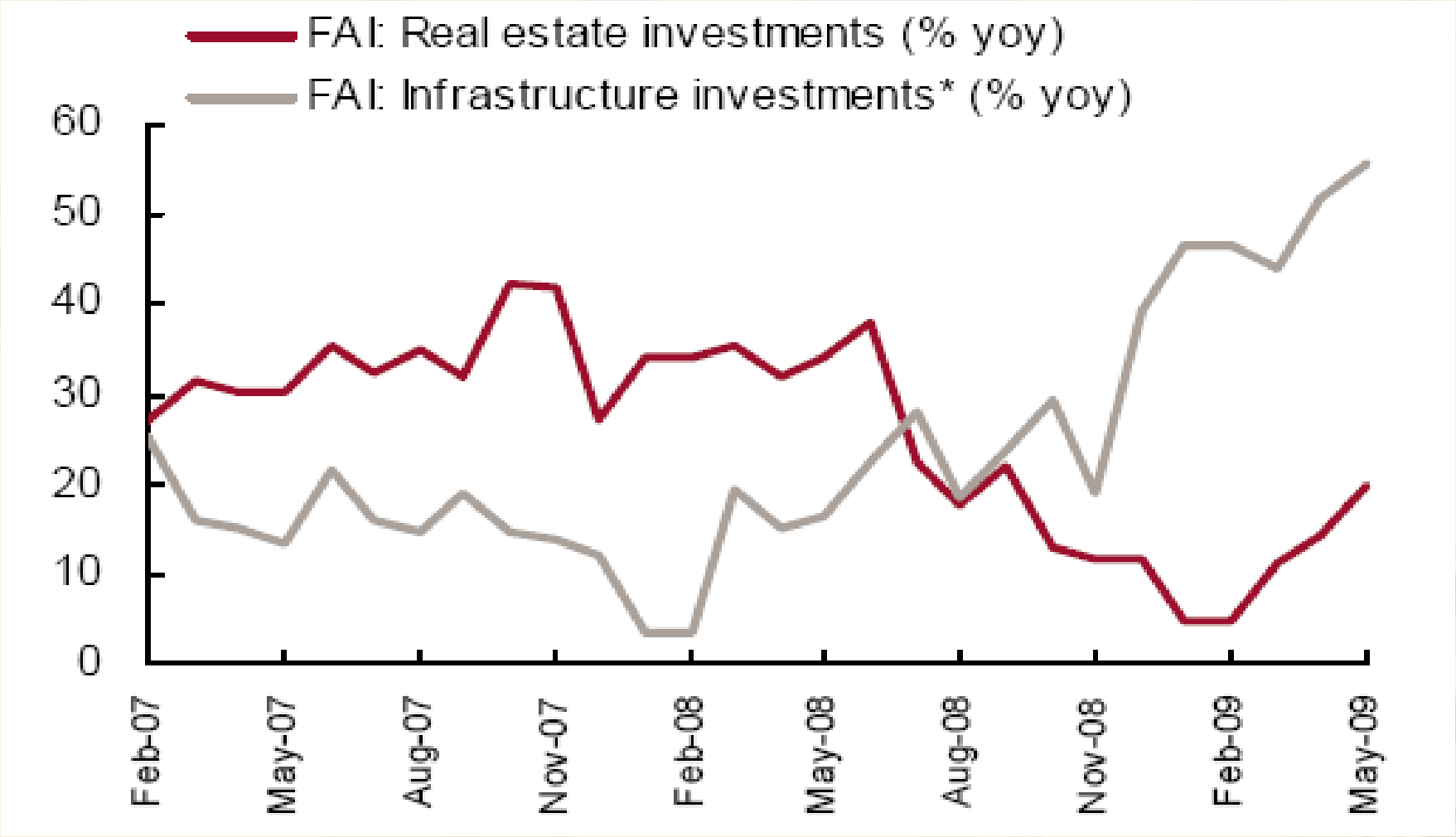
Source: NBS, Credit Suisse estimates

Unprecedented growth lending



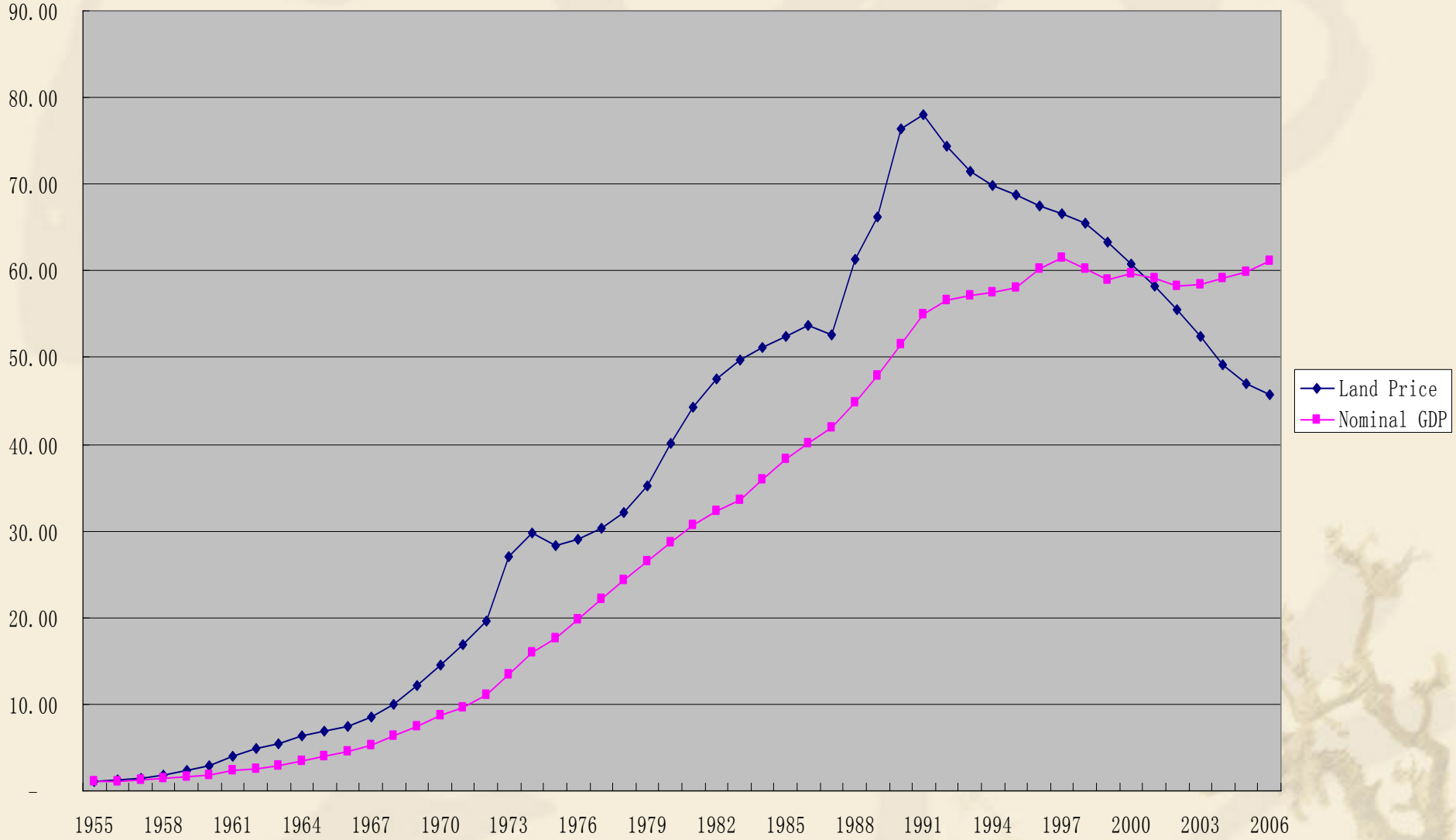
Source: CS

Huge real estate and infrastructure investment



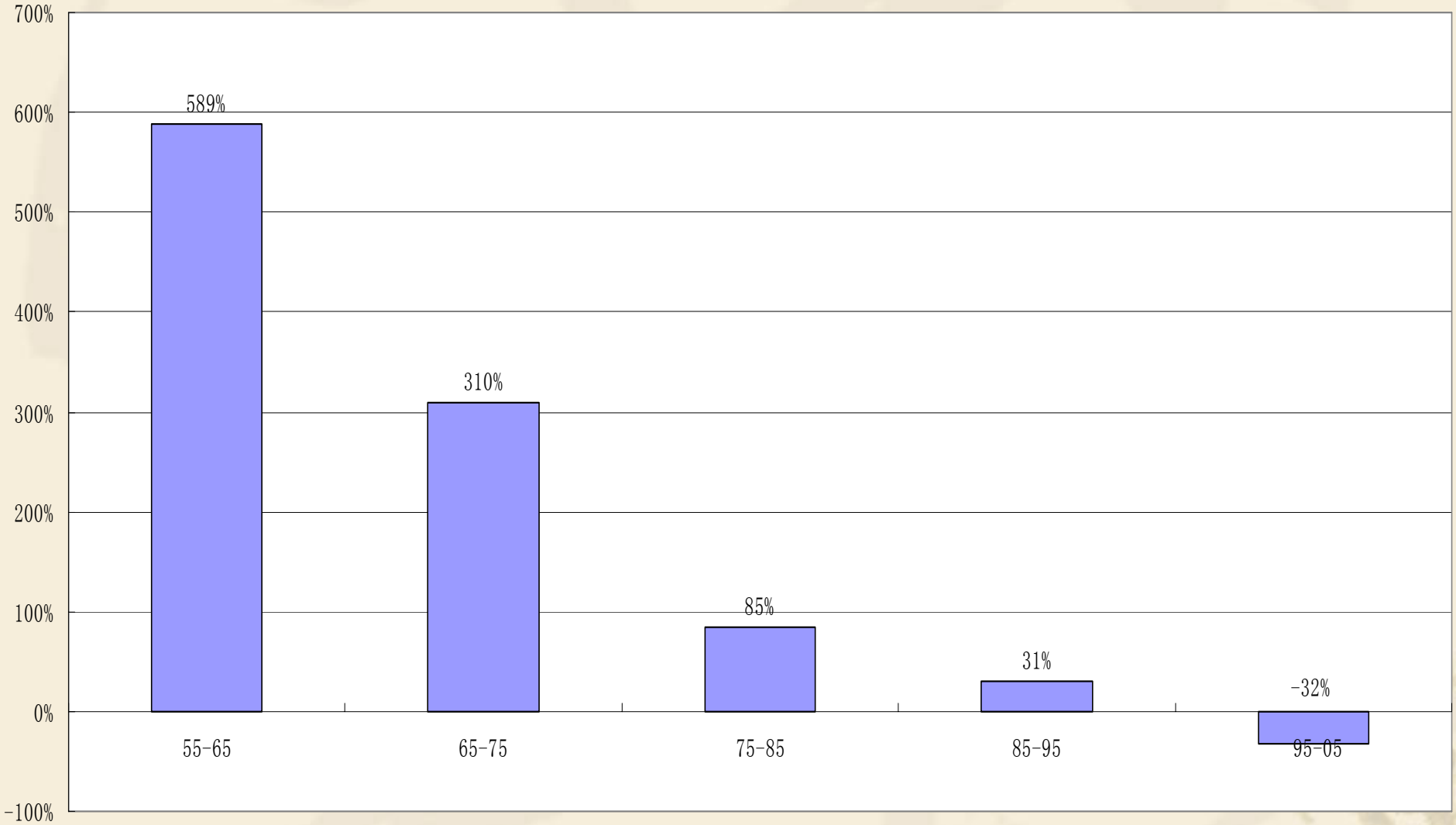
Source: CS

Japan Land Price Appreciation and Nominal GDP(1955=1)



Source: Japan Statistical Yearbook

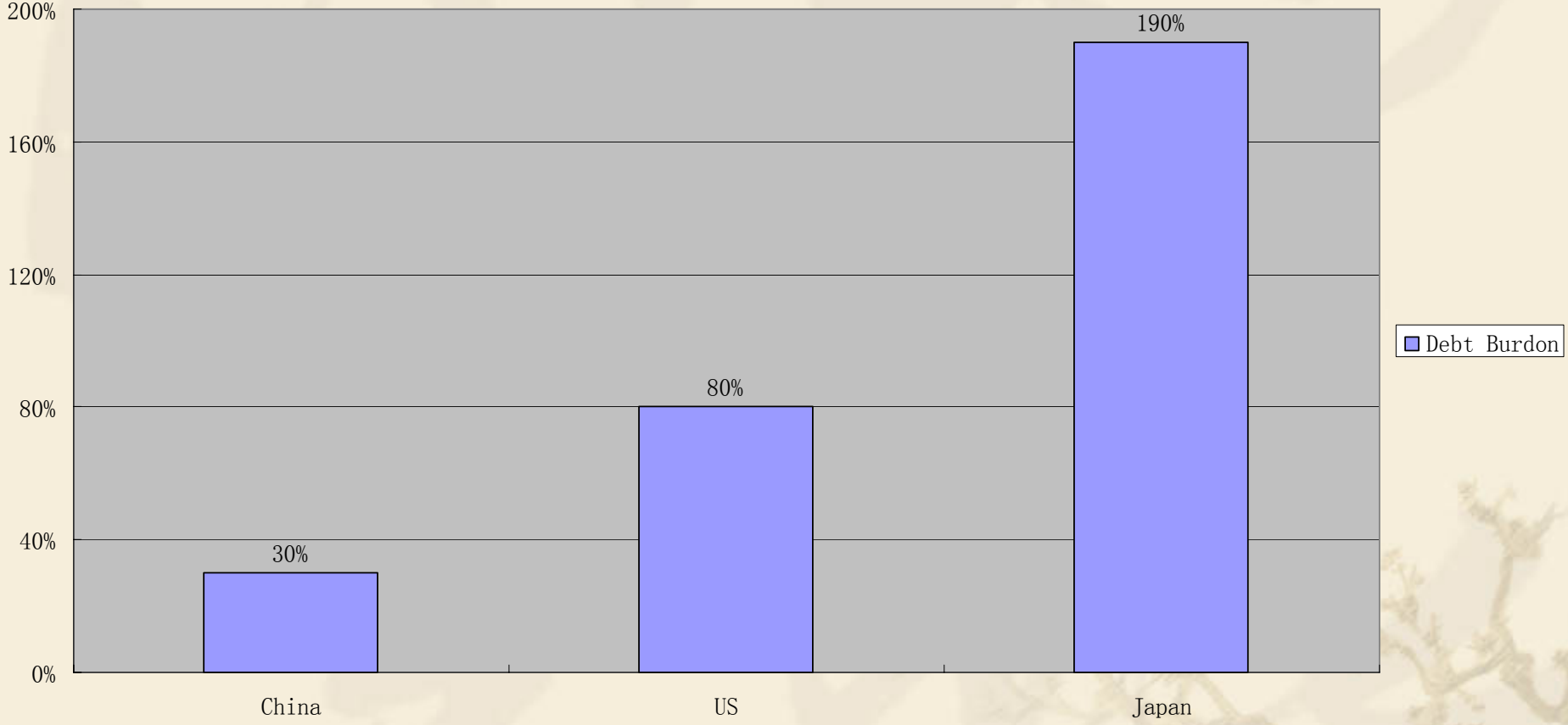
Japanese Land Price Appreciation by Decades



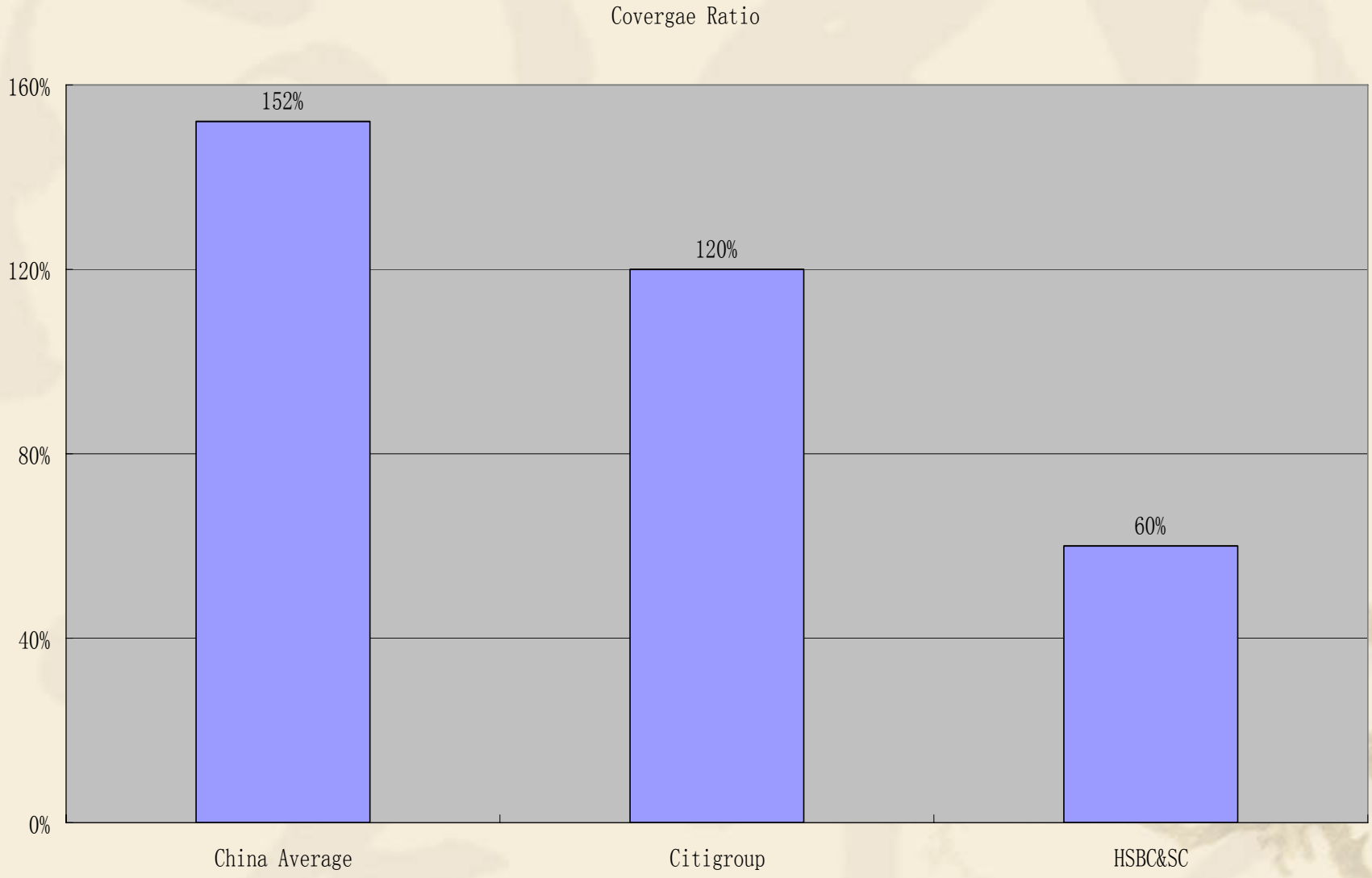
Unique Strength

- Strong fiscal condition of the central government
- Banks in strong financial health
- ICBC ($257B) vs. Citigroup ($14.5B)
- Potential demand remain high

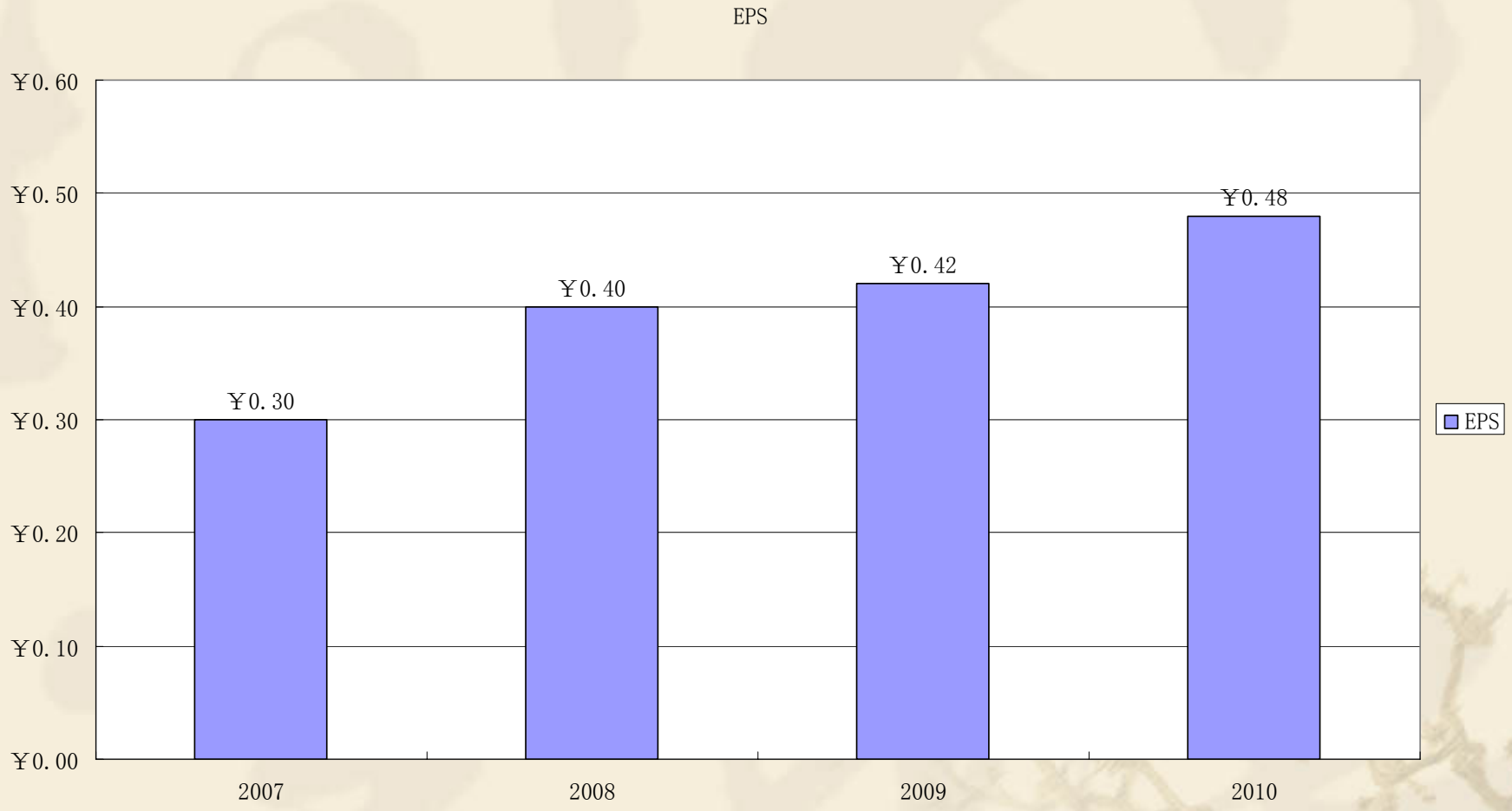
Government Debt Burdon as % of GDP



Coverage Ratio: Loan Loss Reserve/non-performing Loans



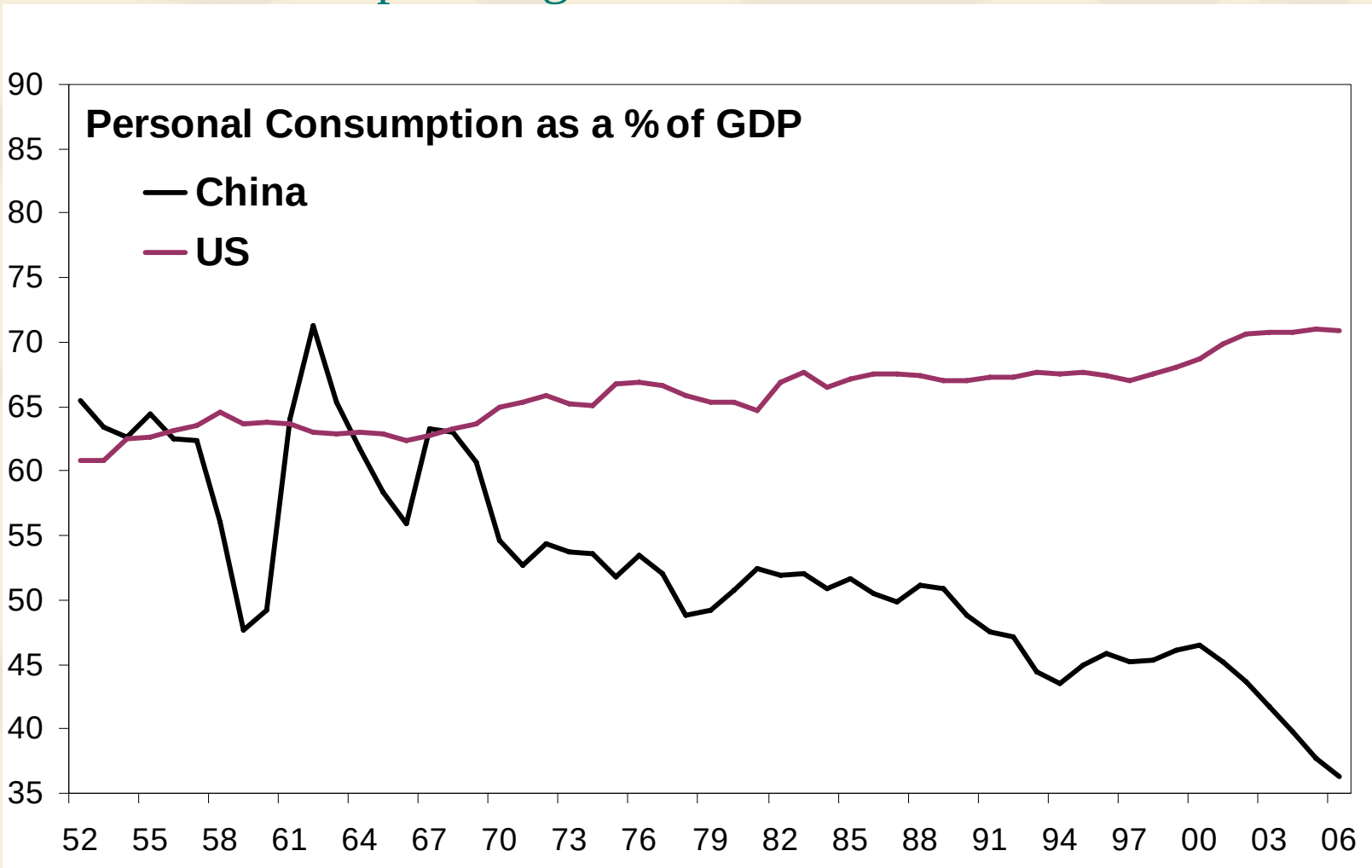
CCB Earnings not affected by the Crisis



Sustainable growth?

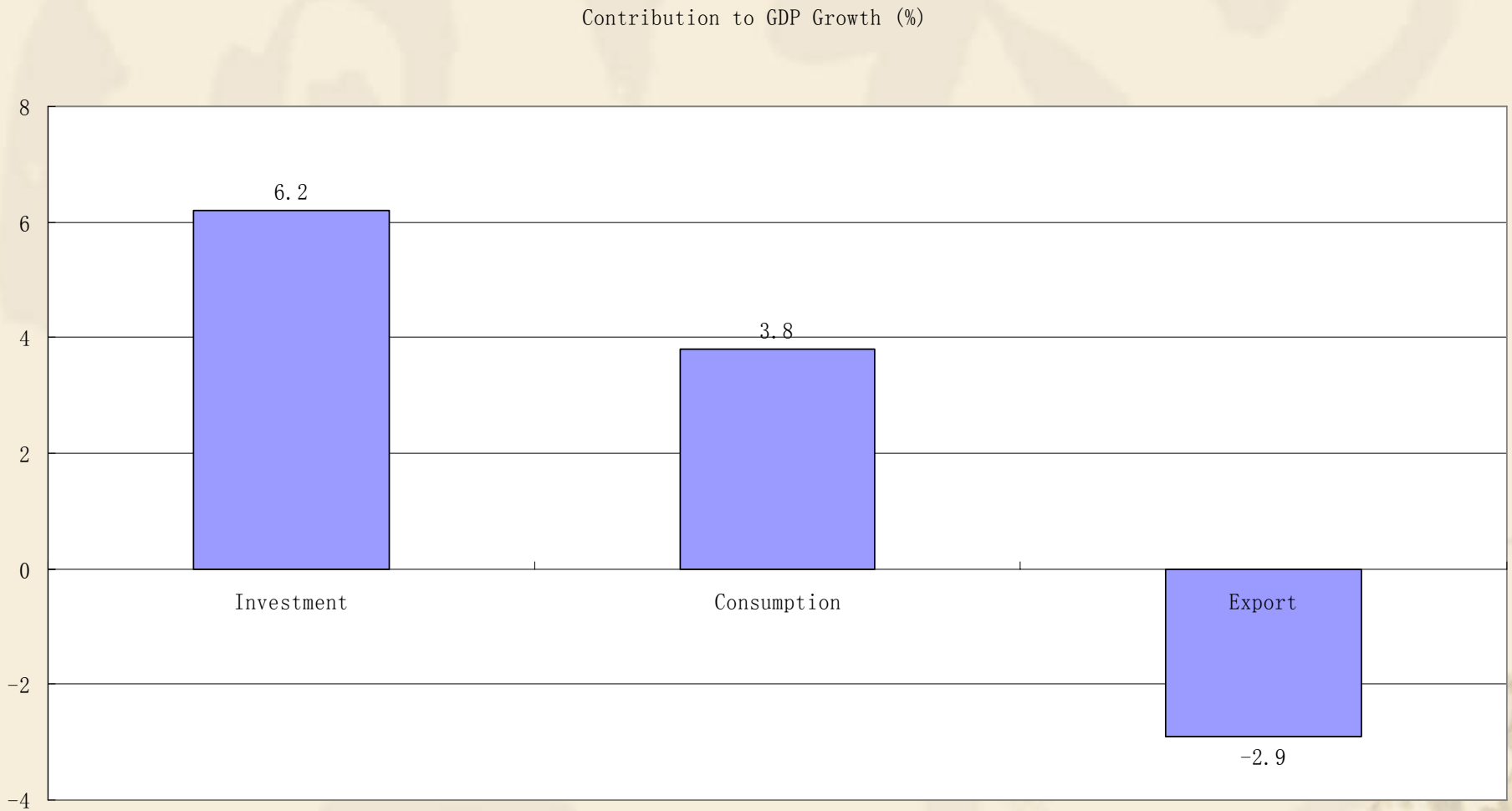
- Unbalanced development
- Falling exports
- Difficult to find a safe place for US$2.13 trillion FX reserves, of which approximately $1.5 Trillion invested in US$ denominated assets (CS).

China's consumption lags



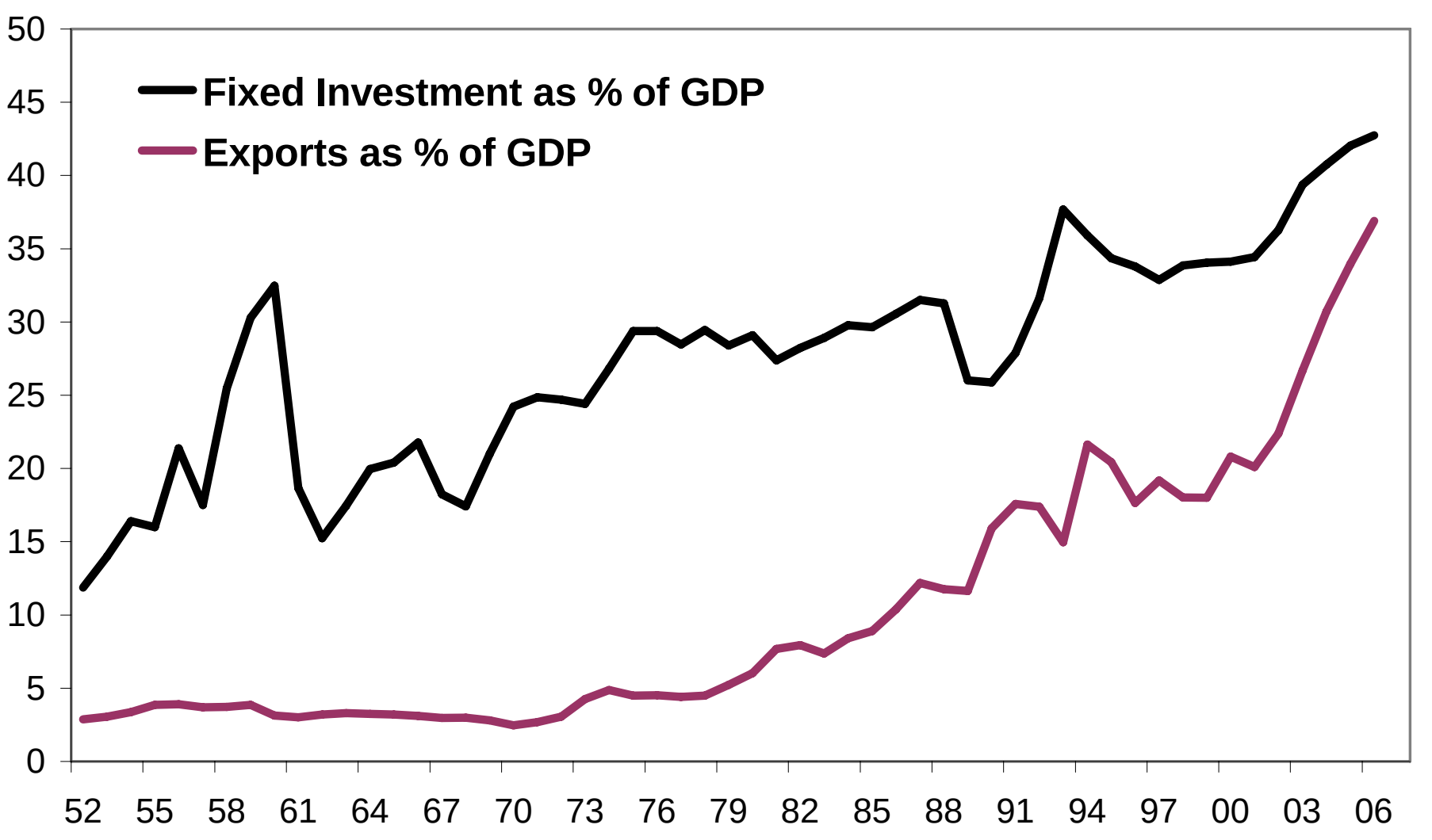
Source: Morgan Stanley

But it is improving a little lately…



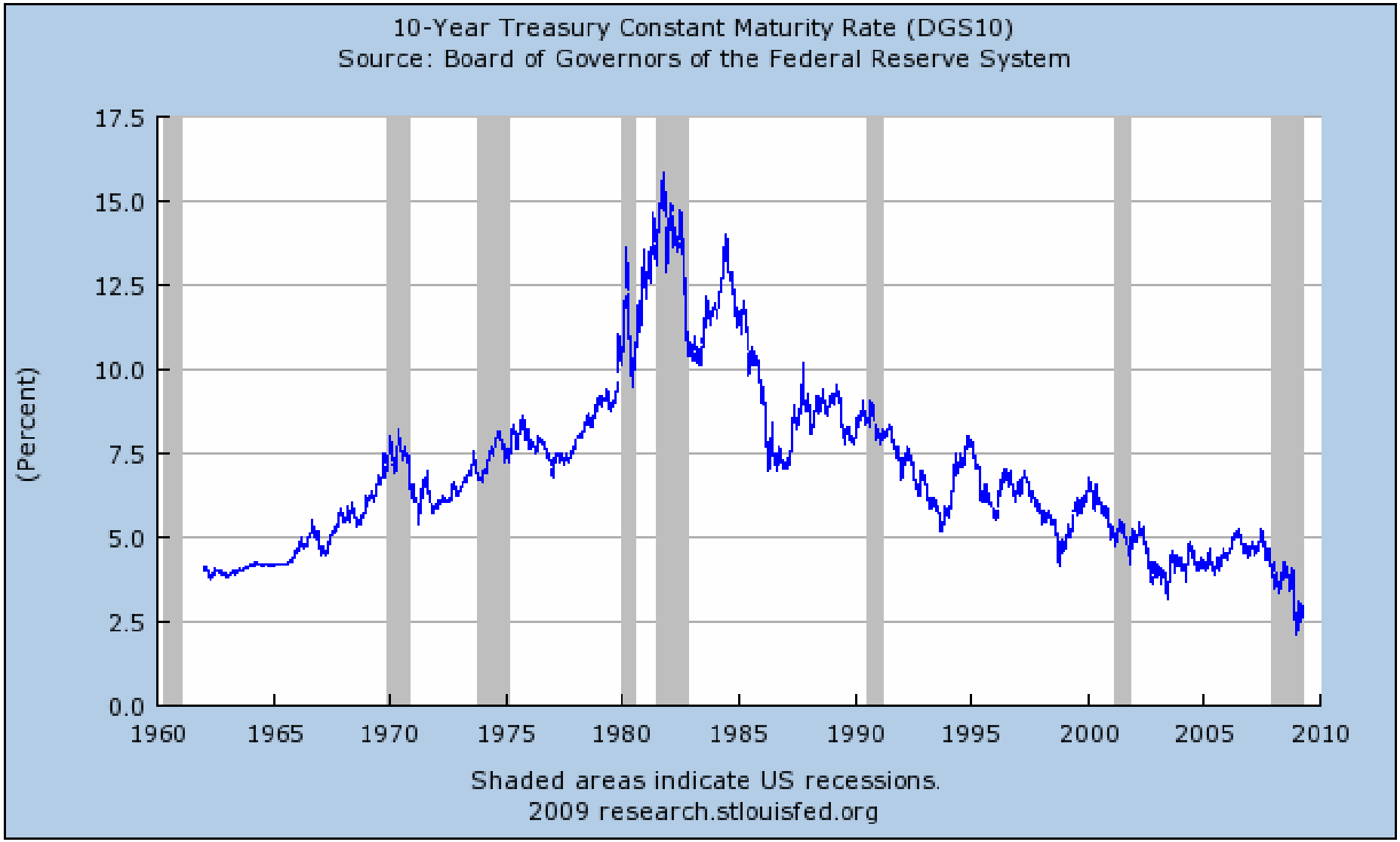
Source: NSB

Nevertheless, investment and export remain major drivers



Source: Morgan Stanley

Inflation expectation and yield on 10 year US treasury bonds



Where should currency reserve go?

Investors have taken money out of stocks, bonds and money market funds to buy safe assets, forcing the yield on short-term Treasury bills down. A lower yield indicates greater concern about the financial system.

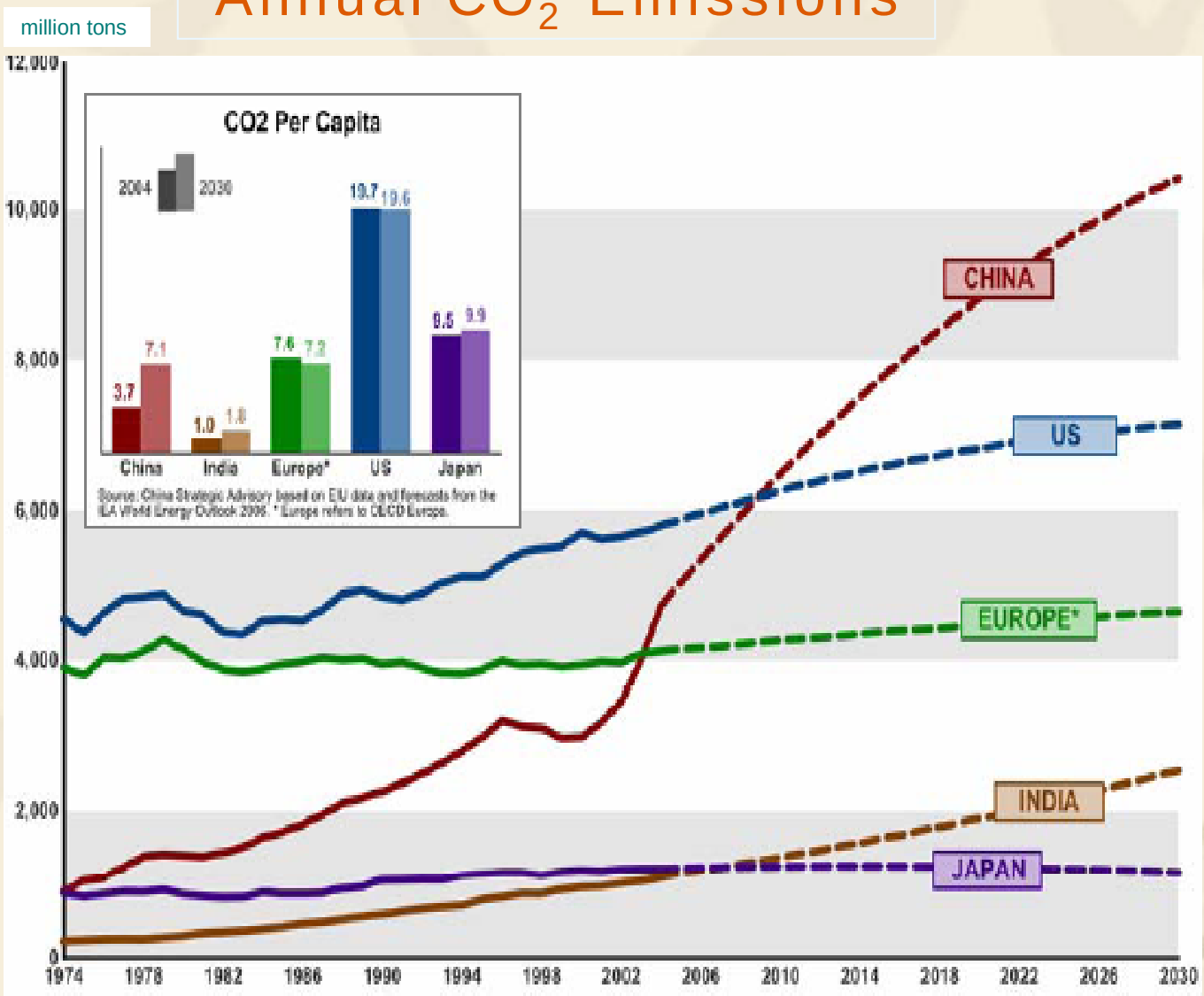
What impact may China's growth have on the world economy, especially Brazil?

- Sustained increase in commodities demand
- Increased CO_2 emission poses environmental challenge
- Huge room for efficiency improvement
- Large potential demand for agricultural goods.

China and the Global Commodity Consumption

Source: Morgan Stanley

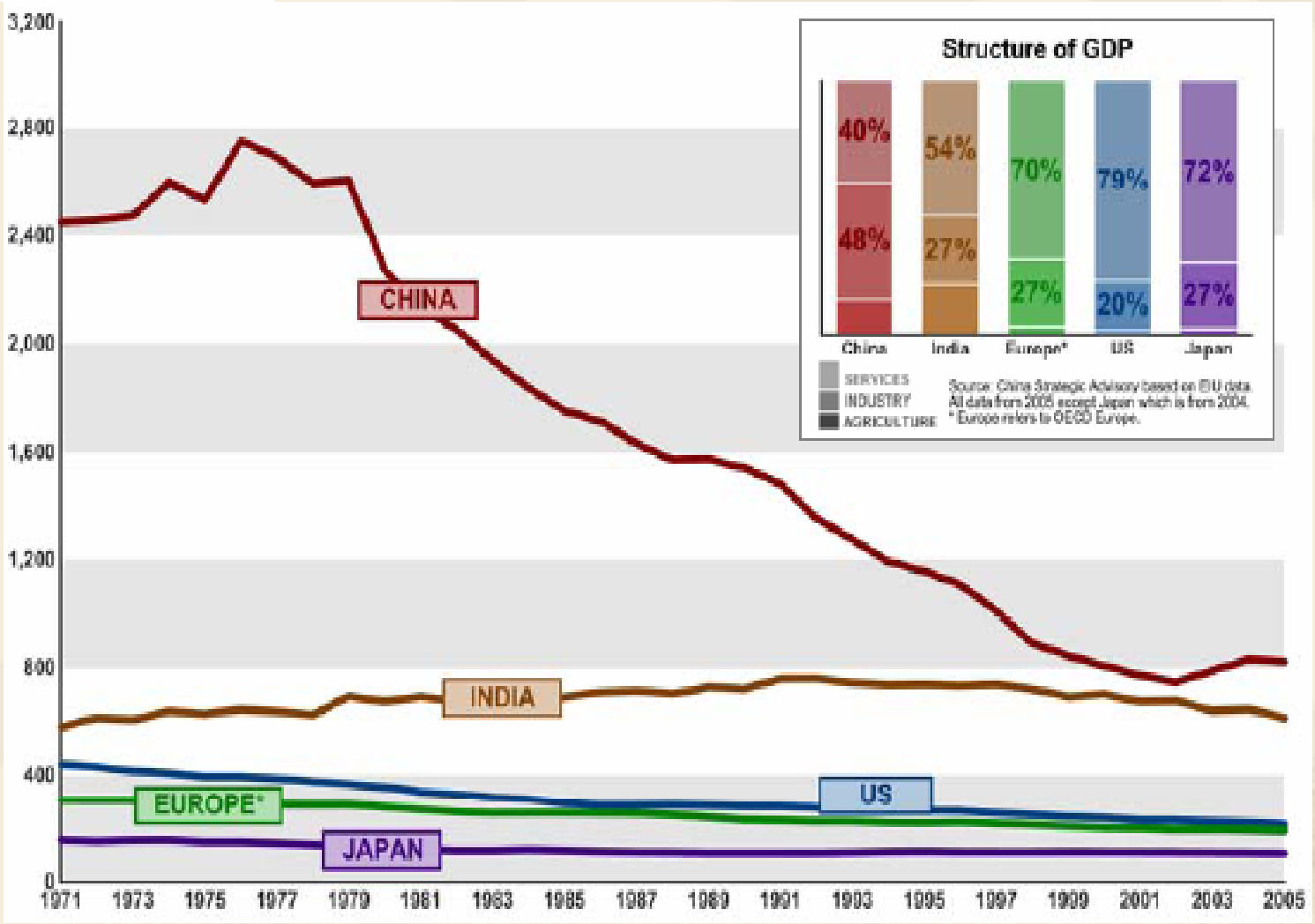
Annual CO_2 Emissions



Source: Morgan Stanley

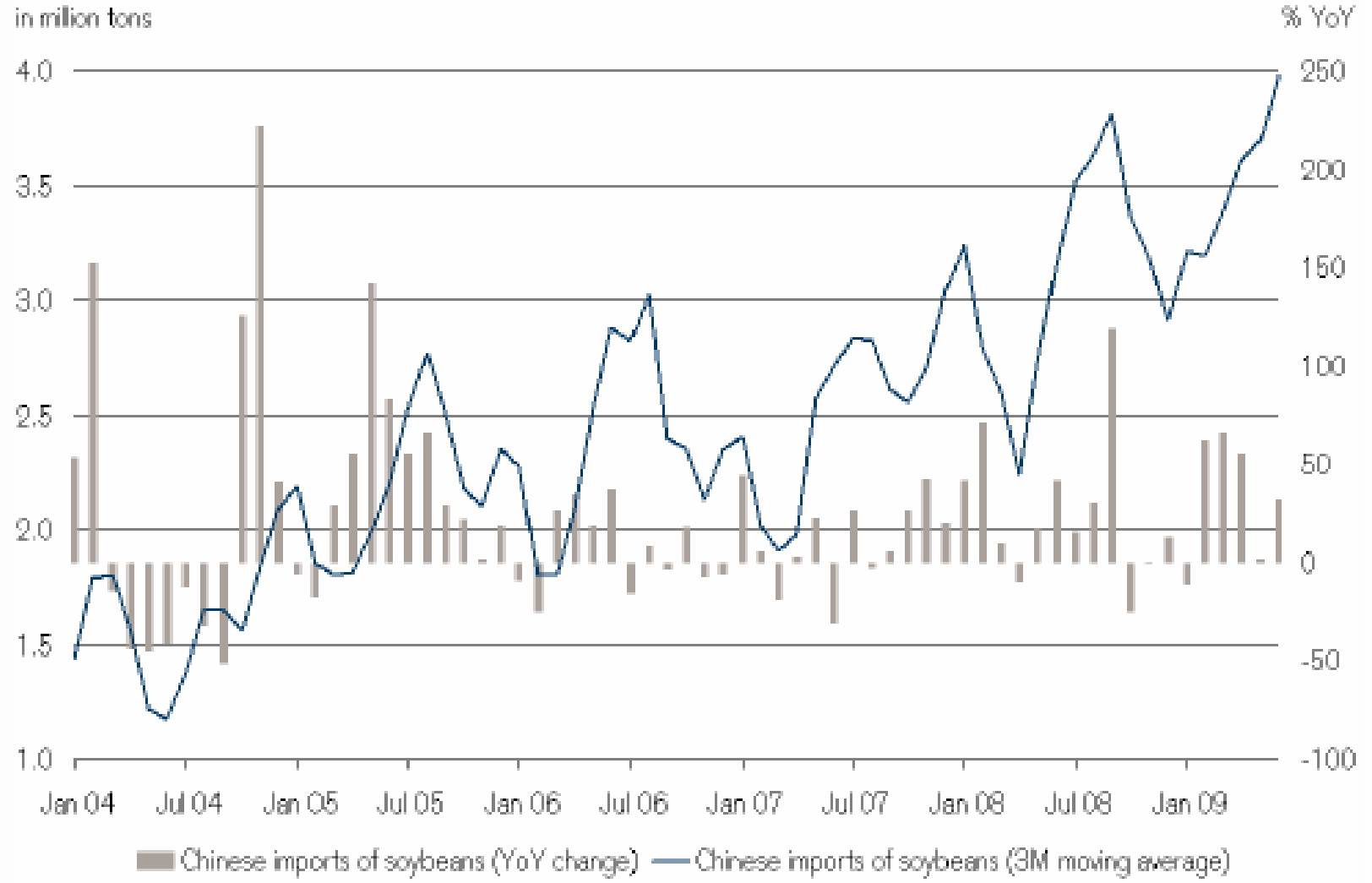
Energy Efficiency

Tons of oil per unit of GDP



Source: Morgan Stanley

Soy: Chinese demand for soybeans remains strong



Source: Bloomberg, Credit Suisse / IDC

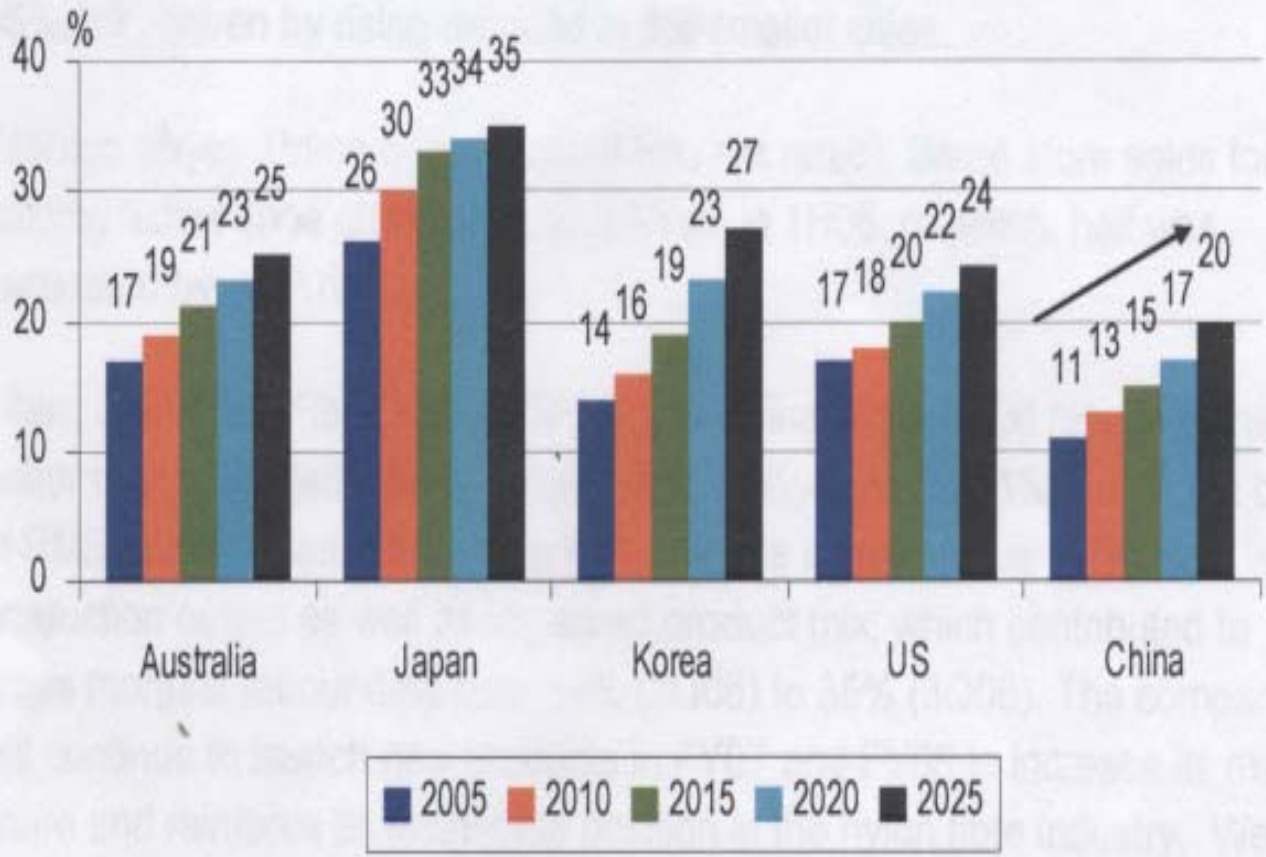
Outlook

- Labor remain competitive
- Still enjoy population dividend
- Crisis has led to strong financial innovation, especially PE
- Strong drive to make money

Chinese Autoworkers earn much less than those in other markets

Source: Alliance-Bernstein

Share of Population over 60



Source: United Nations, Merrill Lynch Research

The Secret of Chinese Success