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PROVIDING CHINA INSIGHT SINCE 1982

Presentation

China's Stimulus Package - And Its Effects

For:



**Austrian Trade Commission
in China**

September 18th, 2009

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Agenda

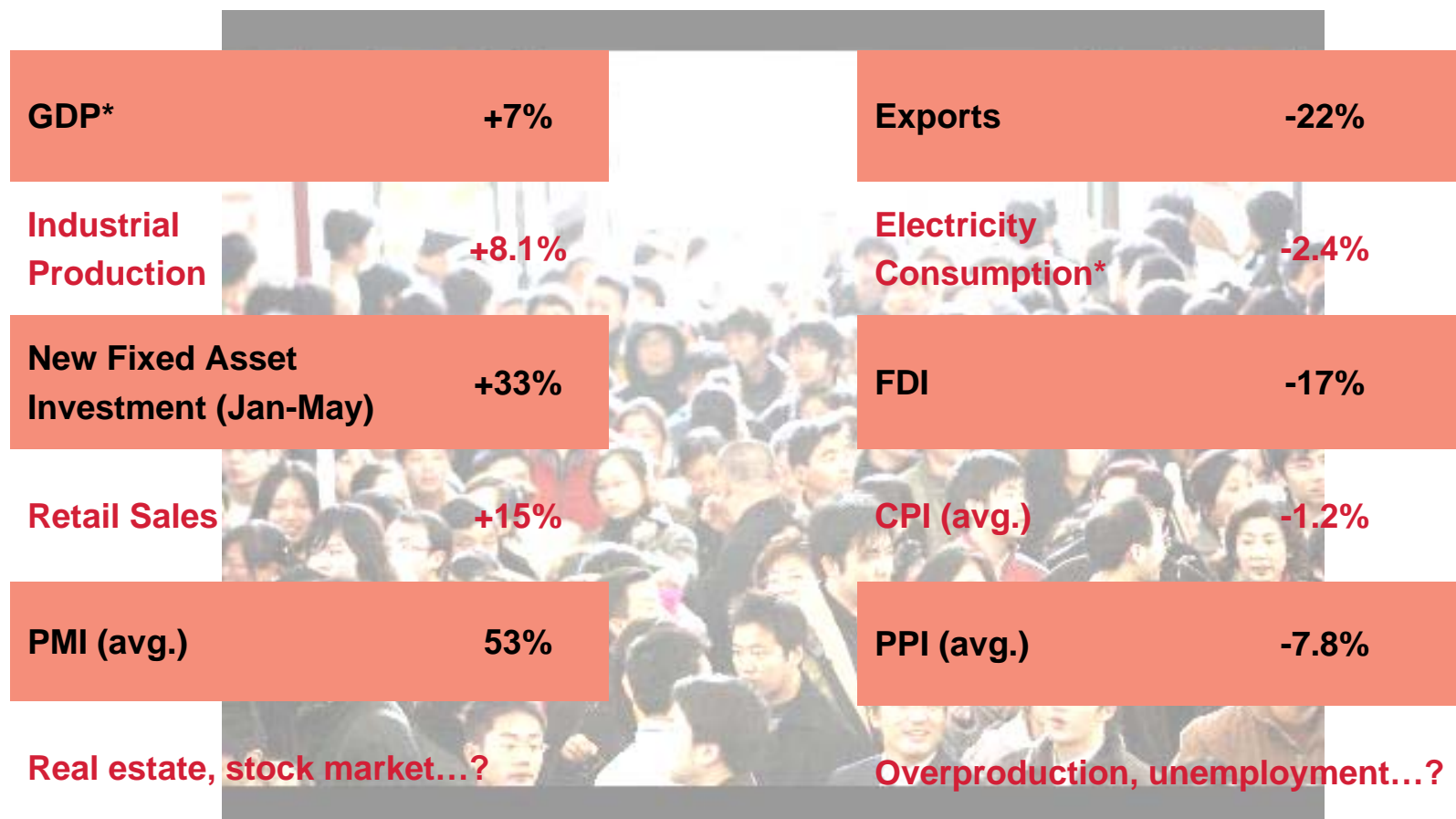
Section	Time
Macroeconomic Development	5 mins
Stimulus Package and the Impact	10 mins
FIE Benefit	5 mins
Snapshot: Pearl River Delta	5 mins
Q & A	

Macroeconomic Development (Jan- Aug '09)

The stimulus package has revived the economy via increased fixed asset investment – but is this growth sustainable?

Mixed Indicators for Recovery...

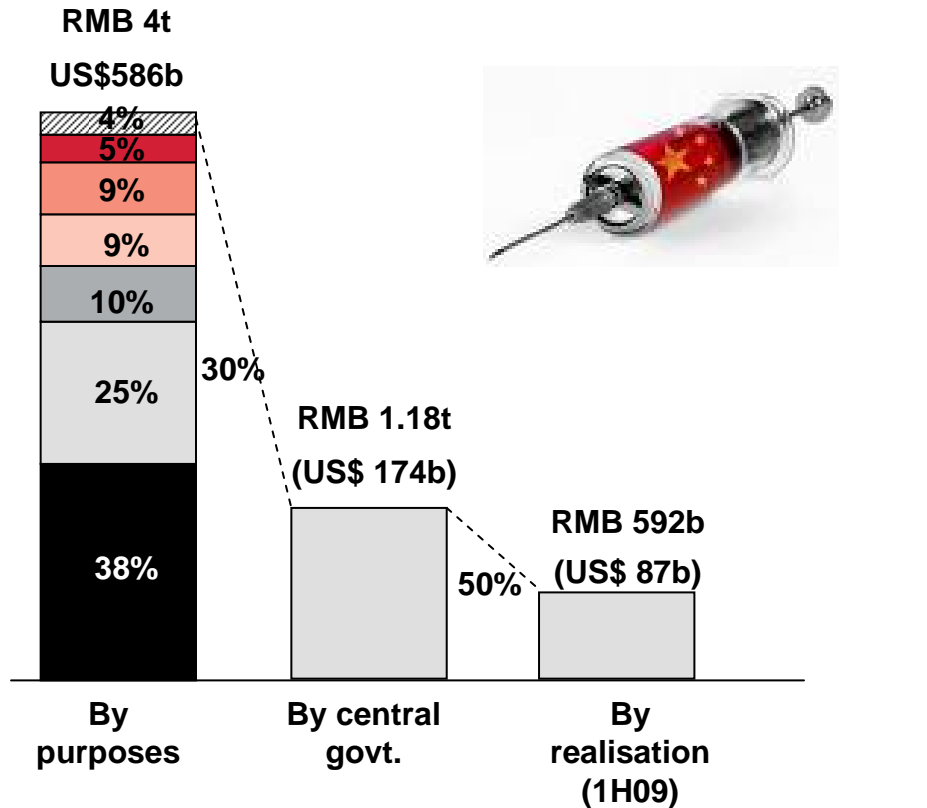
... and Recession



Stimulus Package Revisited

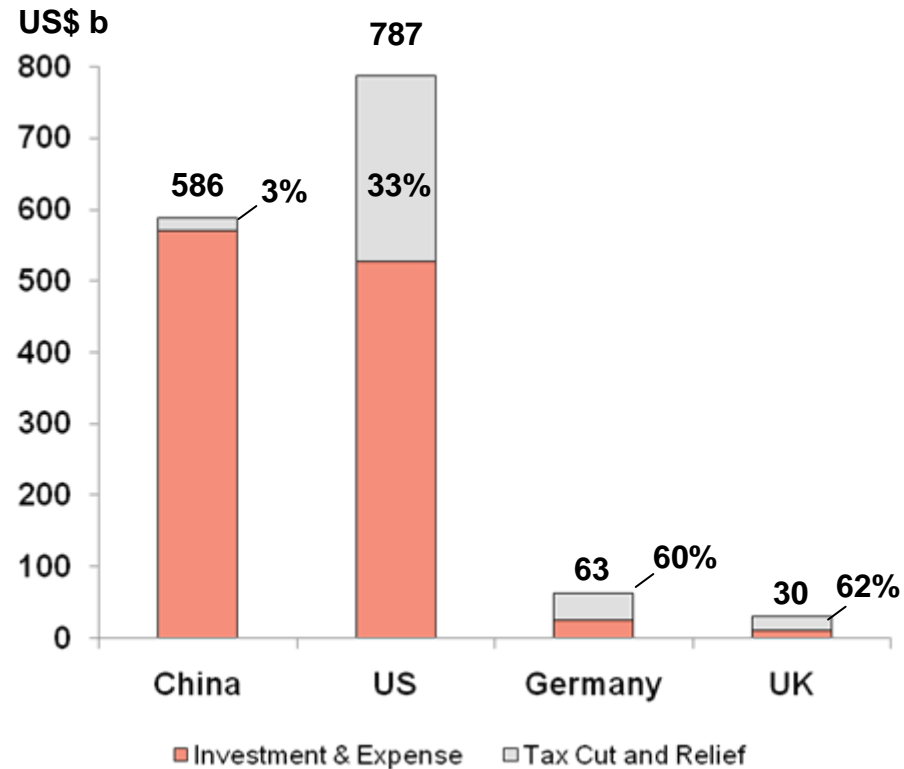
While the central government has fulfilled its commitments so far, the big questions are where the remaining funds will come from ...

Stimulus Package



- Infrastructure
- Post-quake reconstruction
- Public housing
- Industry upgrading
- Rural infrastructure
- Environment/ energy saving
- ▨ Social welfare

International Stimulus Allocation



Relative to GDP	China	US	Germany	UK
	13%	6%	1.7%	1.1%

Stimulus Package's Impact

... and what its total effect will be.

Positive

- Infrastructure Investment
- “Green” Economy
- Pilot Rural Pension System and Health Care System Reform Program
- Resilient Retail Sales

Negative

- Excessive Liquidity
- Asset Bubbles Due to Abuse of Easy Credit
- No Structural Reform
- Re-nationalisation
- Lower Profitability of Corporations
- Overcapacity / Resource Waste
- “Buy China”



FIE Benefit 1/2 – Case Studies

To date it seems that only large FIEs have benefited directly from the stimulus package...

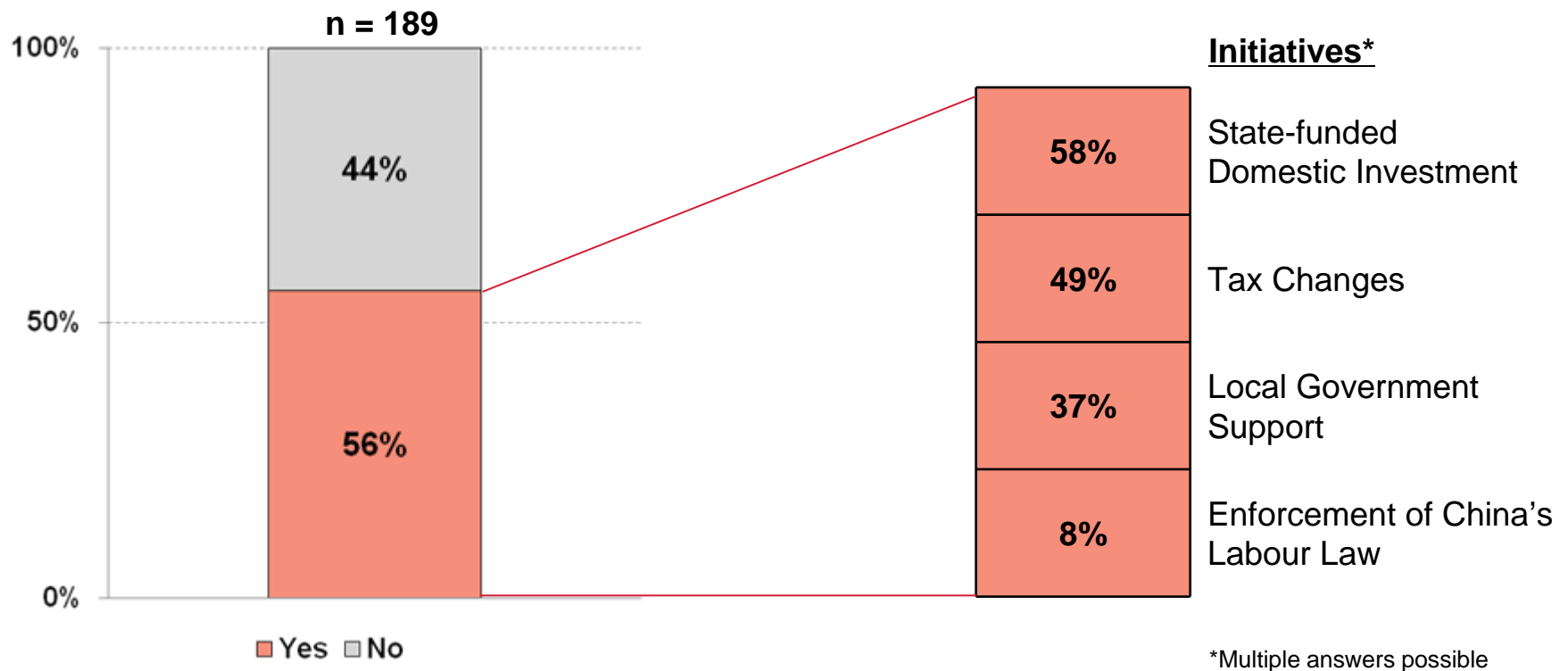
	Automotive	Petro-chemical & Chemical	Equipment Manufacturers
Macro Policies and Investment	<ul style="list-style-type: none"> ▪ Tax cut for small cars; purchase subsidies in rural areas; trade-ins ▪ Subsidies for E-vehicle and component mf 	<ul style="list-style-type: none"> ▪ Focus on expansion and upgrading of refining ▪ Push development of specialty chemicals 	<ul style="list-style-type: none"> ▪ Localise mf (clean-energy, ultra-high voltage grids and to develop technology by funding R&D) ▪ Railway investments doubled y-o-y to US\$14b
Example Beneficiaries	<ul style="list-style-type: none"> ▪ VW ▪ GM 	<ul style="list-style-type: none"> ▪ BASF ▪ BP 	<ul style="list-style-type: none"> ▪ Siemens ▪ Caterpillar



FIE Benefit 2/2 – Companies' Reaction

... which our recent survey confirmed: the majority of FIEs expect to benefit from the stimulus package only indirectly.

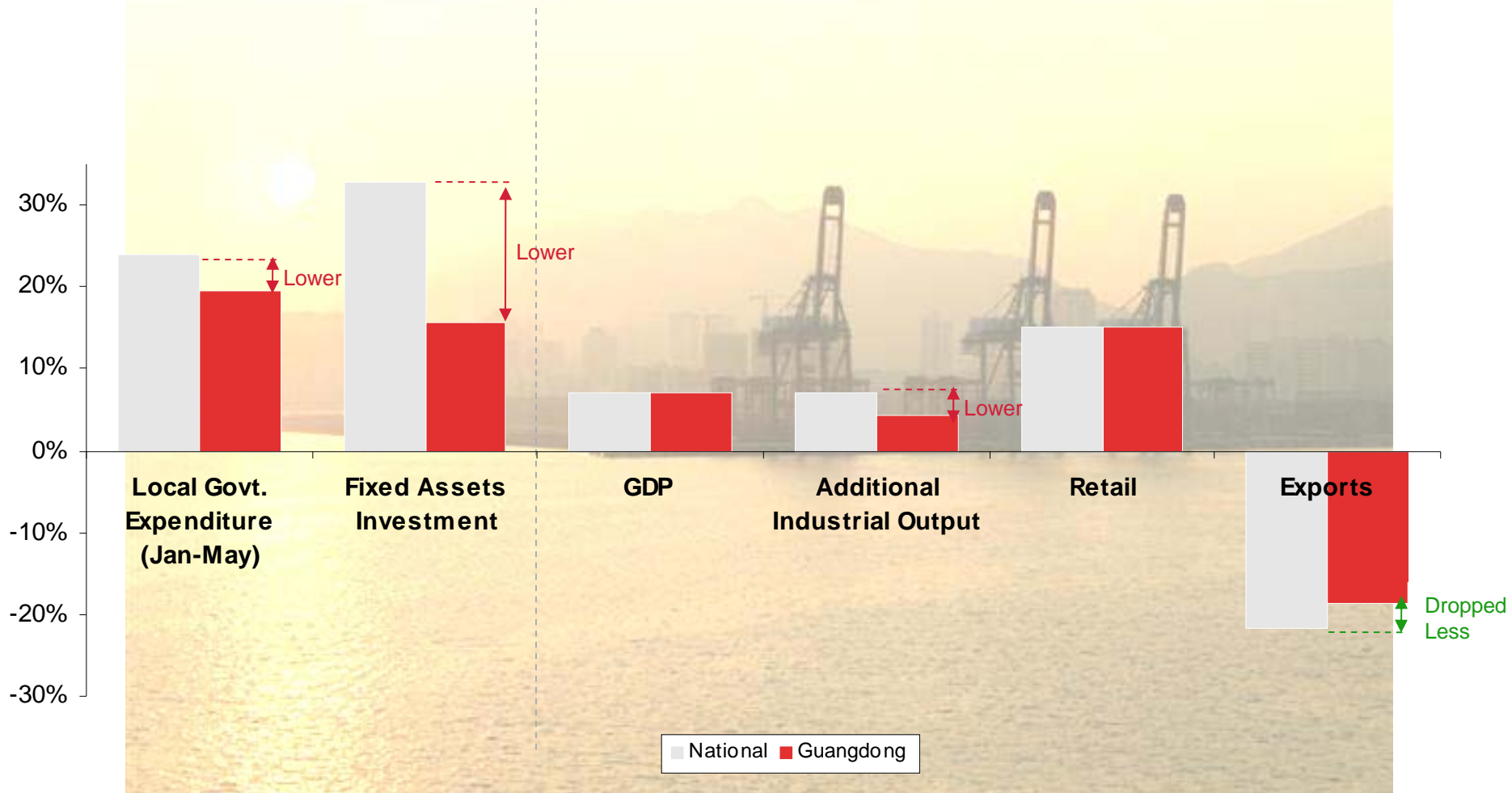
“From which government initiatives do you expect to benefit?”



Snapshot: Pearl River Delta 1/2

In the PRD, it is clear that investment alone cannot counter the drop in exports ...

National vs. PRD Growth (1H09 yoy)



... so that the government has taken a different approach.

Government Actions

Examples

RMB Pilot Program

- Selected Guangzhou, Shenzhen, Zhuhai and Dongguan to settle trade in RMB
- Signed bilateral currency swap agreements with Hong Kong
- Sold RMB bond in Hong Kong

Infrastructure Investment

- Hong Kong – Shenzhen – Guangzhou high speed train project

Industry Restructuring

- JV Fiat and Guangzhou Auto

Company Support

- Canton Fair for domestic buyers

Challenges

- Time-lag for measures to take effect
- Tight funding, e.g. assigned bond quota of only 10% of the planned USD 350 b

Some suggestions...

1. **Figures trustworthy?**
2. **Underlying growth?**
3. **Future of export-driven economy?**
4. **Inflation?**
5. **RMB?**

Who Are We?

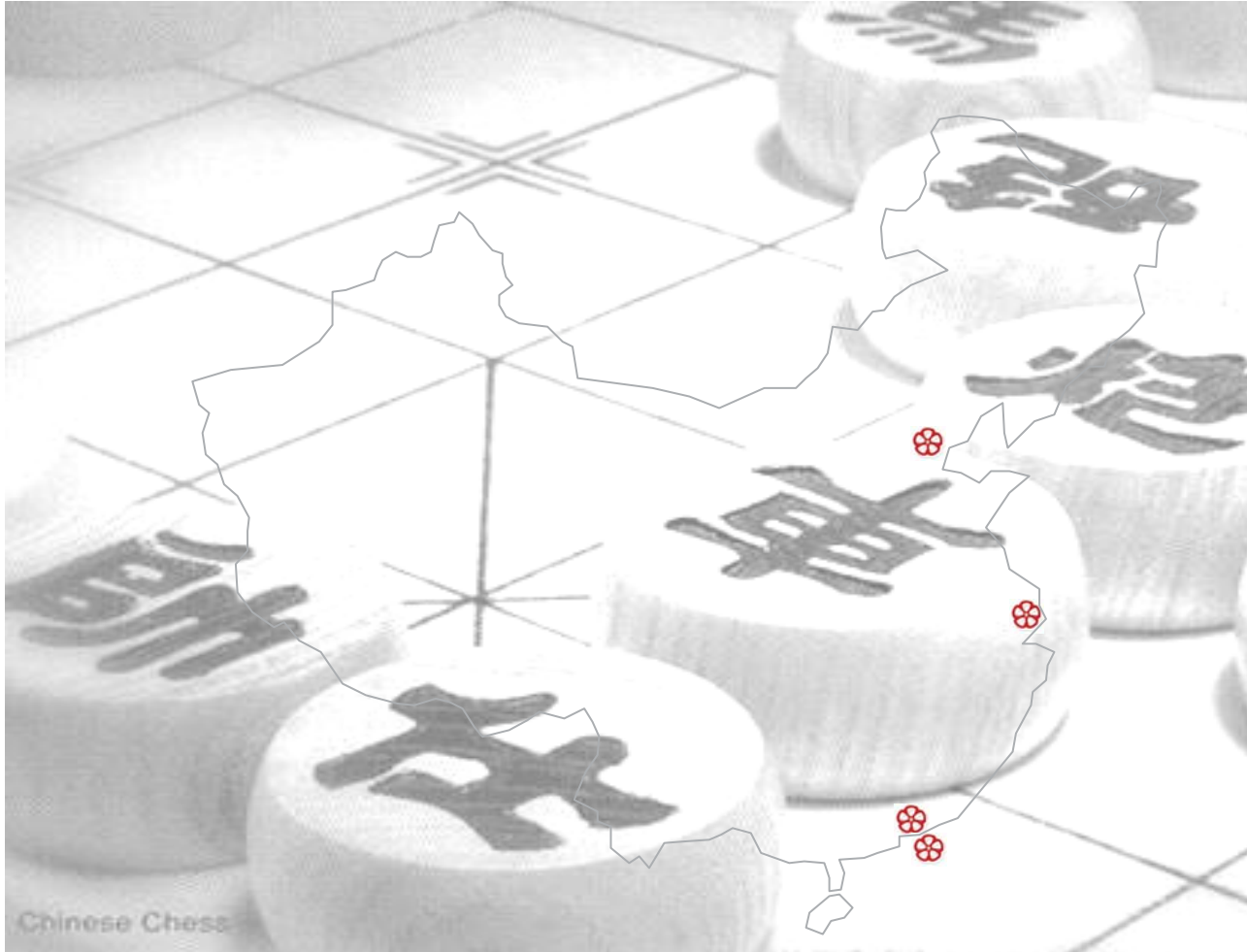
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What Is Your Next Move?

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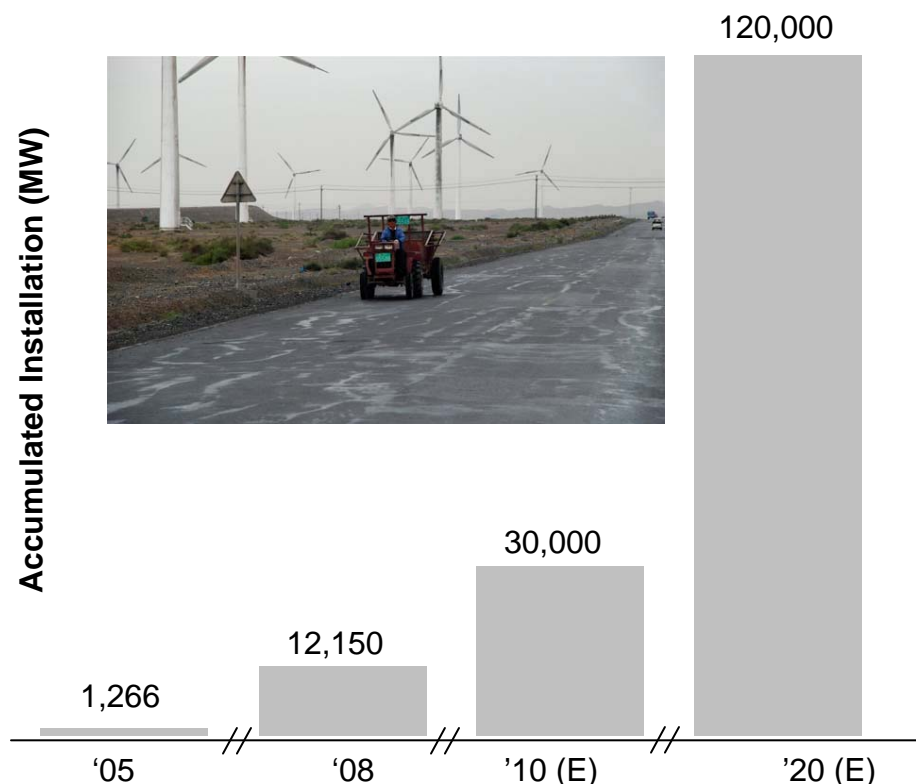
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Appendix – Wind Energy Industry Development

The wind power industry provides opportunities for automation, machinery and chemical manufacturers.

Industry Development ('05 -'20)

CAGR	'05-'08: 110%	'08-'10: 57%	'10-'20: 15%
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Trends and Implications

- No.2 globally, 23% of newly installed capacity

Drivers

- Growth - only 1.2% of total possible achieved
- Strategic industry in the next 10 years
- Regulation on domestically produced components > 70% for wind turbine mf forces FIEs to invest

Constraints

- Grid connectivity huge challenge
- Over capacity and lack of R&D of turbine mf pushes consolidation
- Variability of wind and stability of power supply

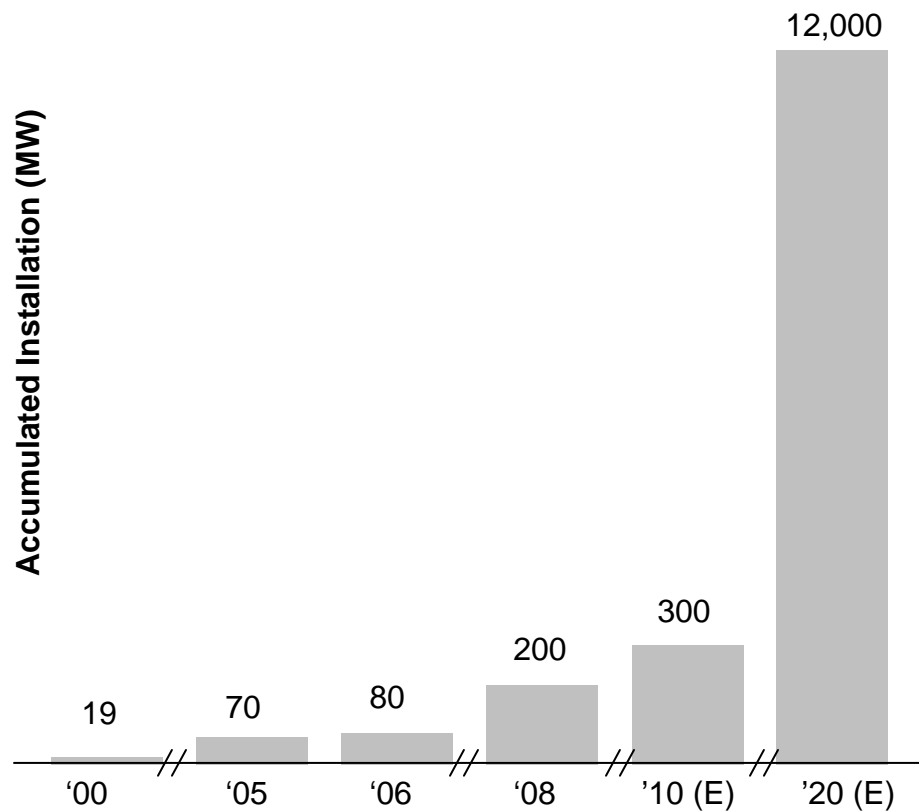


Appendix – Solar Energy Industry Development

Solar energy remains as 2nd priority in the renewable energy plan owing to its strategic role and sustainability.

Industry Development ('00 - '20)

CAGR	'01-'05: 30%	'05-'08: 42%	'08-'20: 43%
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Trends and Implications

- The largest solar cell mfr. country: 26% of global production
- Growth high after '06 driven by fast developed legislative framework and govt. investment on R&D and demonstration proj.
- Drivers
 - Newly released BiPV subsidy
 - Local govt.'s additional favourable treatments and subsidies
- Constraints:
 - Govt. policies not systematically developed compared with developed countries
 - Complicated approval process for renewable energy grid-connected power generation
 - Lack of technology of non-silicon PV commercialisation