中国平安 PING AN
保险·银行·投资

The China Opportunity in the Post-Crisis Era

Louis Cheung
Group President

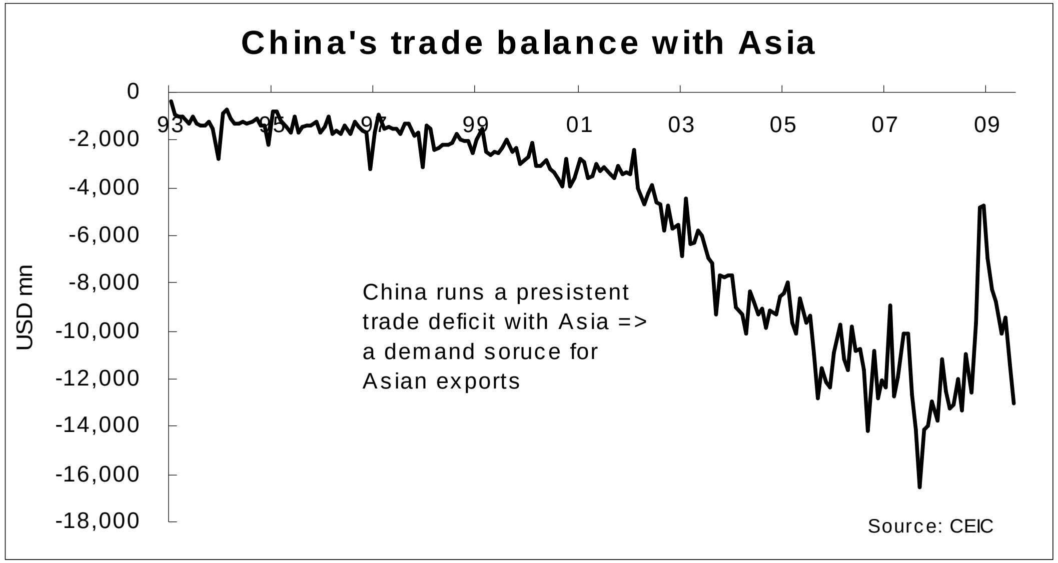
The China Opportunity in the Post-Crisis Era

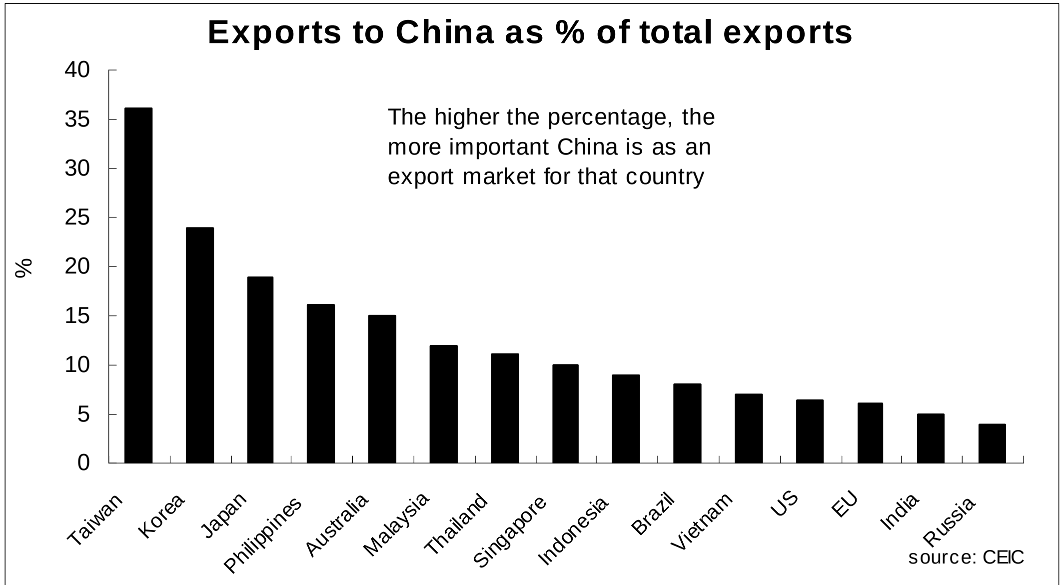
- China's structural growth quality has started improving. The success of any structural shift in China's growth model will provide a strong underpinning for Chinese asset values and investment returns in the long-term.
- With a large, urbanising population that is growing rich, financial liberalisation will help unleash huge consumption power in the years to come, giving rise to significant investment opportunities.
- Beijing's continued effort to liberalise the domestic financial sector will present huge opportunities not only for boosting the country's growth but also for improving investment efficiency and development.
- Internationalising the RMB would raise demand for RMB asset and could potentially cause shock waves to the global economy and financial markets. However the final impact will depend on China's overall economic policy which is likely to be a long-term process with gradual and constrained impact on the global markets.

Though it is unlikely that China alone can save the post –crisis world

- Chinese consumption accounts for 36% GDP only (but it is almost 70% in the US)
- A fall in US consumption = 5% of GDP would require a rise in Chinese consumption = 17% of China’s GDP to offset => Chinese consumption would have to grow 40% a year
- Oil demand is marginal demand source: 7.5mn bpd vs 49.2 mn bpd in the developed world; if world demand falls 1%, Chinese demand needs to rise 6.6% to offset

Continued rise in Chinese demand has very positive regional impact



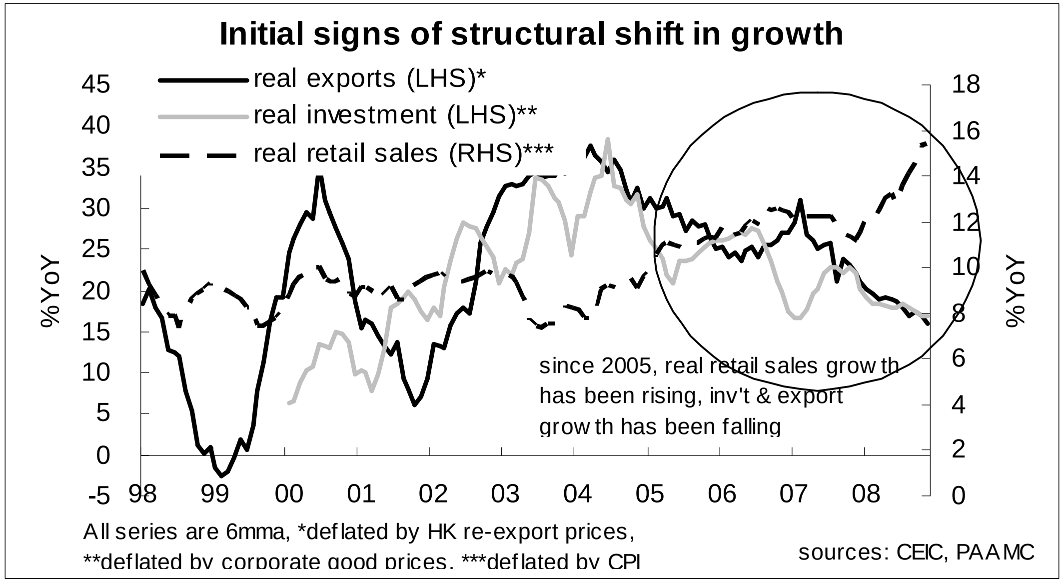


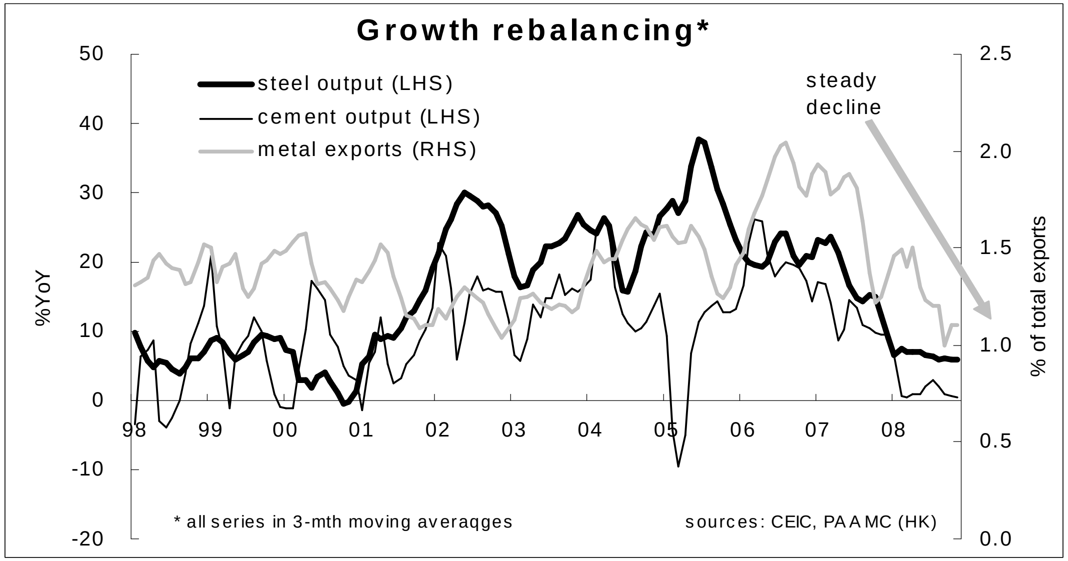
- China's persistent trade deficit with Asia => it's a big demand source for Asian products
- Chinese demand for commodities benefits primary and capital goods producers
- In Asia, Taiwan, Korea and Japan benefit the most from China trade

Structural changes underway

- Government's RMB4 trn stimulus policy boosts private sector investment and consumption => benefits domestic consumption
- Strategic policy shifts from growth quantity to growth quality
- Improving social welfare net and spending programmes help unleash consumption power

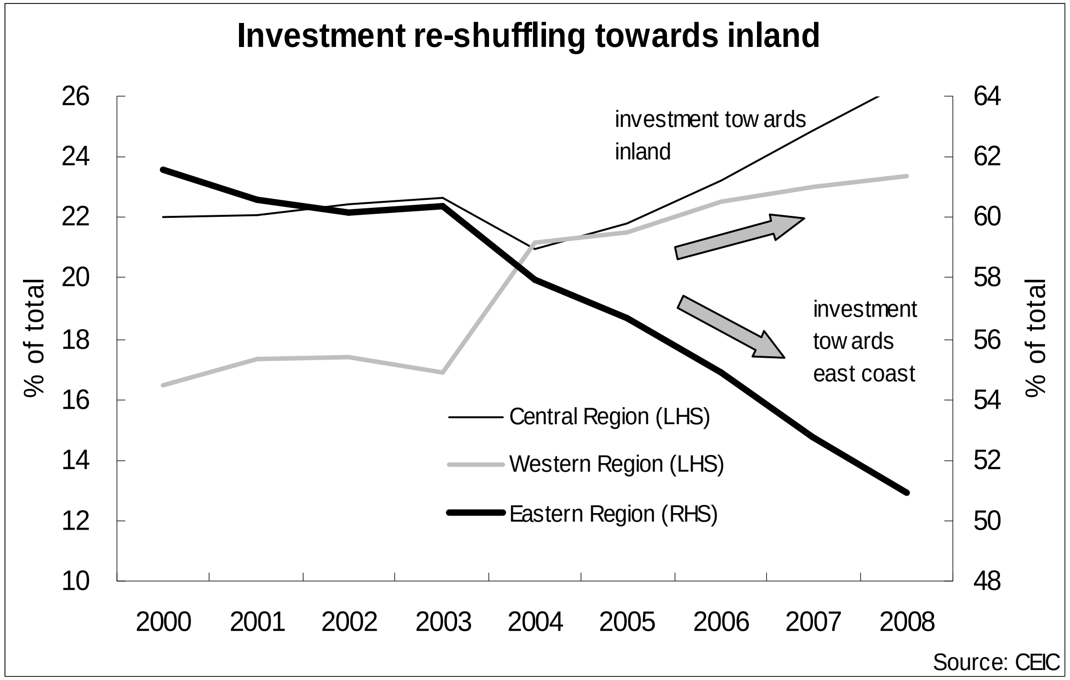
Growth re-balancing





- China's growth structure might have started to shift => less export and investment growth but more consumption
- To boost consumption: policies to facilitate urbanisation, improve social safety net, shift income distribution
- Growth of export industries with excess capacity and significant environment damages has been falling

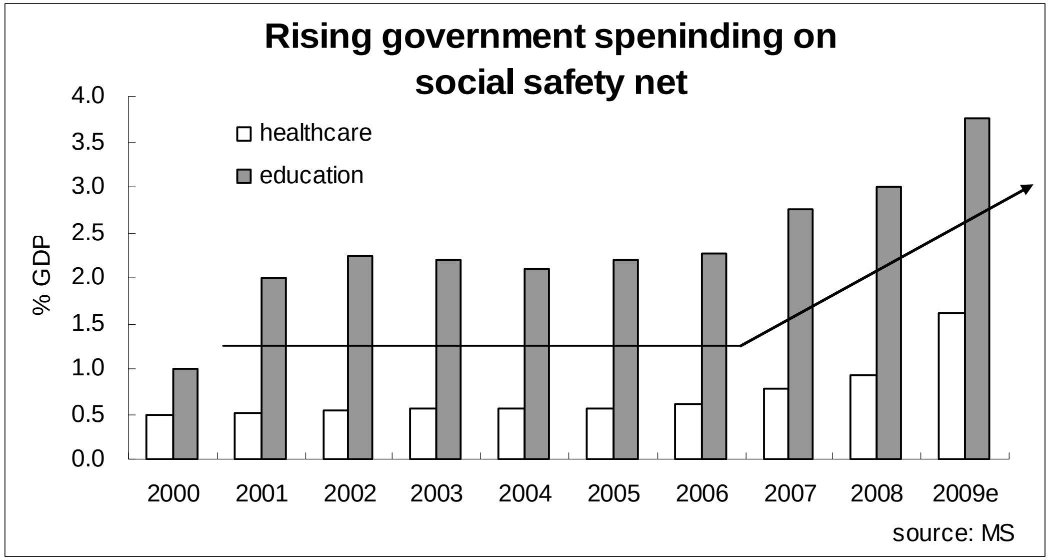
Re-shuffling investment

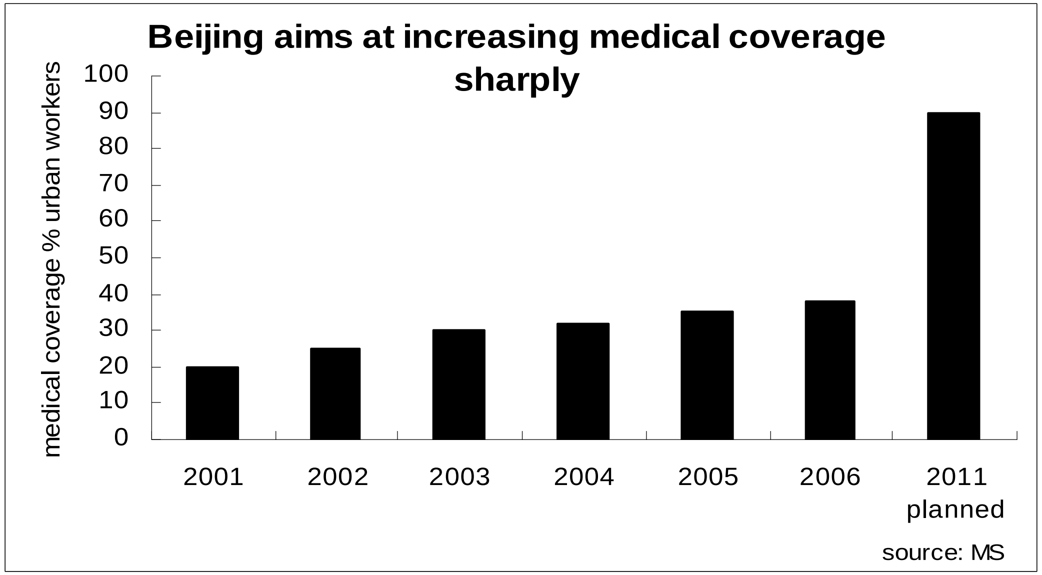


- Investment growth shifts from eastern region towards inland and western region => reflecting a success of government's investment re-shuffling strategy

- These structural trends, if sustained, will provide a strong underpinning for Chinese asset values in the long run

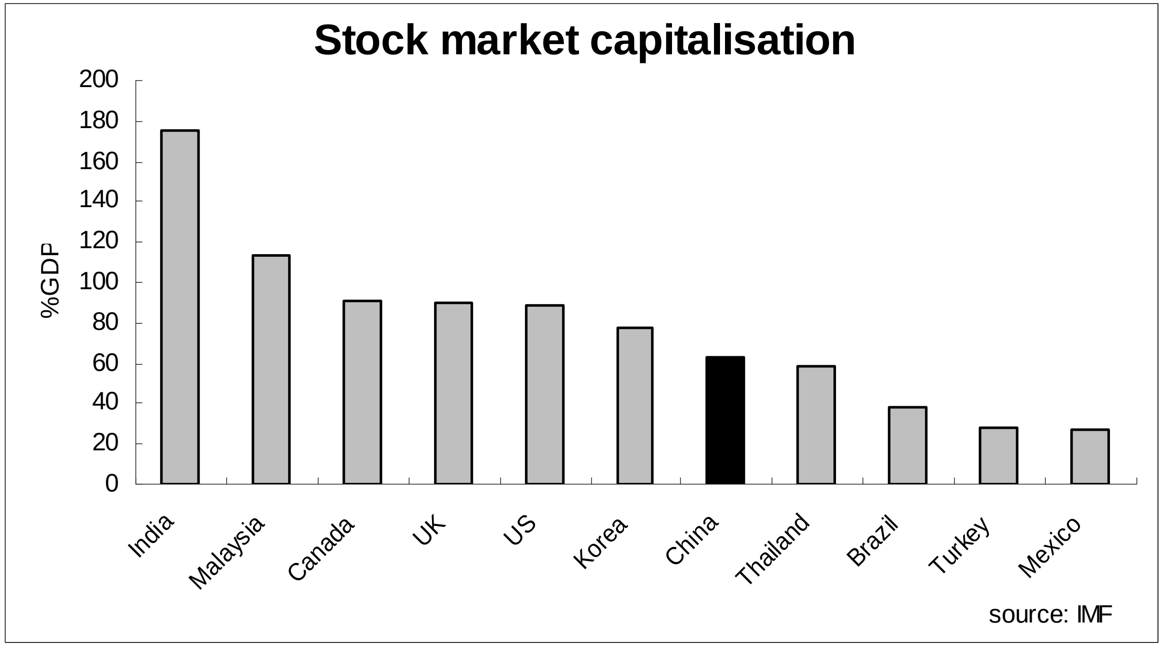
Unleashing consumption power





- Spending on health care and education has been greatly increased since 2006
- The plan of spending RMB850 bn, or 3% of GDP, aims at increasing the medical coverage for at least 90% of the urban workforce by 2011
- Improvement of social safety net will enhance the consumer confidence and spending power

Financial liberalisation



- Efforts to liberalise the financial sector = huge opportunity for boosting economic growth and improving investment efficiency
- Significant room for expansion: China's stock market cap is way smaller than India and Malaysia in proportion
- The introduction of ChiNext in Oct. 09 provides a venture exchange financing platform for SMEs; stock index futures and short-selling expected in 2010 provide hedging tool

RMB internationalisation

- The global financial crisis has presented China an opportunity to accelerate its effort on internationalising the RMB

- The first phase of the plan focuses on expanding the RMB's role in settling cross-border trade

- Successful cross-border trade settlement in RMB implies a growing accumulation of RMB holdings by China's trading partners around the world

- This will create demand for parking these holdings in liquid and safe assets => pressure on accessing the RMB bond market will build

Global impact

In theory:

- Any significant progress in RMB internationalisation would mean a significant shift away from the USD as the world's reserve currency

- This would have huge implications for financial markets beyond exchange rates: potentially forcing a sharp rise in US interest rates, strangling America's corporate bond and mortgage markets, crushing the US economy and sending negative shock waves to the world

In practice:

- This won't happen easily. Even in the medium-term (5 years or more), it is unlikely that China and other central banks can replace the USD in their FX reserves by the SDR, or dilute their USD asset holdings by IMF bonds, gold or other assets in a significant way

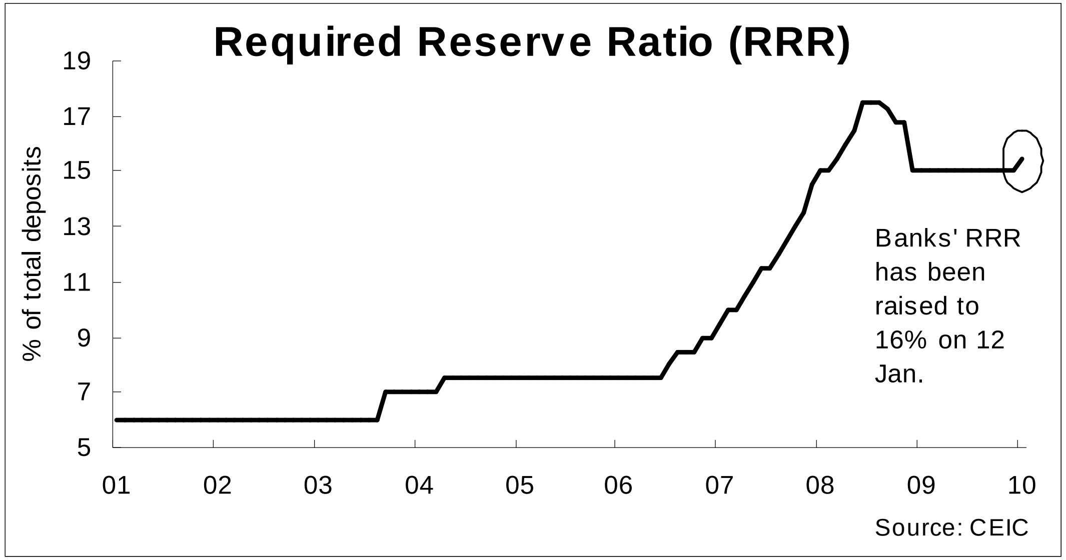
RMB internationalisation impact constrained

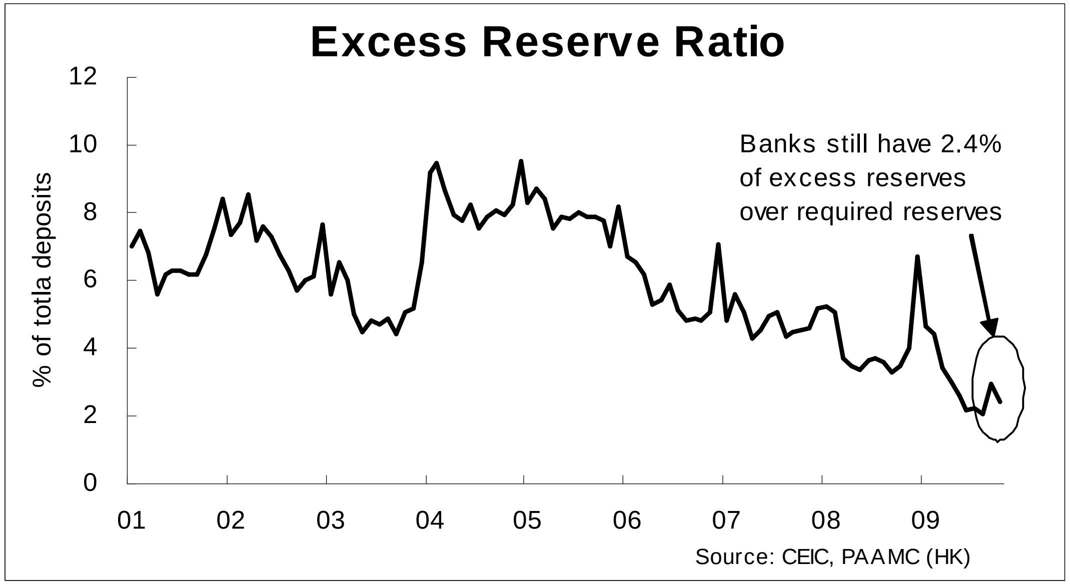
- For the RMB to be truly internationalised, China has to
  - be a large net importer of goods and a net-exporter of capital
  - have a strong financial system to withstand significant capital flows and creditable economic policies to gain international confidence

- The pace and depth of RMB internationalisation remain uncertain (the Japanese example)

- The recent RMB internationalisation effort by Beijing is at a very initial stage. Before full convertibility, the RMB's impact on the world markets will remain constrained.

Recent RRR hike – gradual policy exit





- RRR hike not a surprise, as signs for policy exit are falling in place: inflation and exports are turning, bottle-neck is building in the energy sector
- Policy exit in 3 stages: 1) moral suasion and admin measures to curb lending and investment, 2) RRR hikes and 3) interest rate hikes
- The impact of RRR hike limited: banks still have excess reserves; M2 growth still at almost 30%. All this => no liquidity squeeze