ASIA PERSPECTIVE

China Economic Update Report

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This Issue

Weak growth performance but the outlook for 2014 is stable

China's fourth quarter GDP growth rate was 7.7%, decreasing by 0.1 percentage point compared to the third quarter. For the full year 2013, GDP grew by 7.7%. Fixed asset investment was volatile and saw a year-on-year decline in growth. Full year 2013 consumption grew at a much slower pace, when compared to 2012, but recovered slightly at the end of the year. Foreign trade also experienced quite substantial volatility, especially due to abnormal expansion in the first four months, which was predicated on false exports to Hong Kong.

Prior to end of June, monetary policy was relatively loose. However, the interbank lending rate and other interest rates increased substantially, causing liquidity in the financial system to dry up; in the short-term rates eased downward, but trended back up toward the end of the year.

In 2014, it is expected that the government will introduce a series of reform measures, and GDP will continue to grow at a slightly slower pace of 7.6%. ODI continued to grow in 2013, and the gap between ODI and FDI became more narrow. Investment from the non-financial sectors in Russia, the US, Australia and Southeast Asia grew faster than in other regions.

12 new free-trade zones following in Shanghai's footsteps

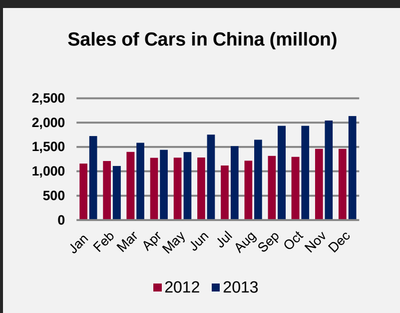
Following the launch of Shanghai's new free trade zone (FTZ) five months ago, the Chinese central government has agreed in principle to approve an additional 12 FTZs, giving them similar special statuses as the one in Shanghai.

The 12 new FTZs would include Guangdong, which has been lobbying the central government by highlighting its economic ties with Hong Kong, and Tianjin. FTZs are also planned for Zhejiang's Zhoushan, which consists of several islands with a focus on the shipping business; Qingdao, an important port city; Chengdu, a southwestern business hub; Wuhan, capital of central Hubei province; and Hangzhou, where e-commerce giant Alibaba is based.

Due to different stages of economic and infrastructure development, not all the zones will have the same pace of development. Nevertheless, it indicates that China's leadership are serious about moving towards a more market oriented economy, as was the main theme of the reform package presented in November 2013.

Car sales grew rapidly during the last quarter in 2013

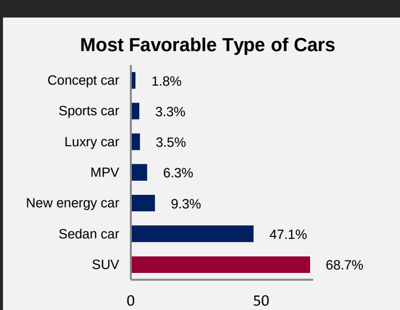
Car sales increased by 40% in Q4, reaching 6.1 million vehicles, according to the Chinese Automotive Industry Association.



Source: http://www.auto-stats.org.cn/

However, from January to November the imported vehicles sales were 1.07 million , showing only 2.2% growth compared to 2012. This comparably weak development can be attributed to a general macroeconomic uncertainty resulting in a more cautious consumer behavior.

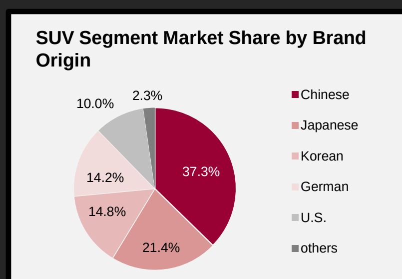
According to a survey conducted during the 11th Guangzhou automotive show in 2013, the SUV cars have become the most popular vehicle model in China.



Source: http://www.auto-stats.org.cn

68.7% of the respondents would prefer a SUV vehicle, while sedan cars ranked second, accounting for 47.1%. Interestingly, new energy car was ranked third with 9.3% of the respondents.

Domestic SUV market demand continued its steady growth during 2013, with total sales reaching 2.76 million vehicles, an increase of 54.4% year-on-year. About 1 million of these SUVs came from Chinese brands, representing a 37.3% market share. Moreover, Japanese brands are maintaining their strong market position within the SUV segment, with a 21.4% market share.



Source: http://www.cbuauto.com.cn/

However, the strong growth of the automotive industry in China do come with a hefty price tag as the continuously rising number of cars on the streets fuel on already serious congestions and air pollution. In order to solve the problem, the government has stated their intentions to step up their efforts in supporting the development of the electric car industry during coming years. The latest announcement from the central authorities to advance the use of electric cars included a geographic extension of current subsidiaries and policies, taking the total number of cities and regions involved to 40.

Ford's 2013 sales in China surged 49.3%

Ford recently announced their 2013 global car sales numbers, showing a 12% growth year-on-year, reaching 6.33 million sold cars. Not surprisingly, the Chinese market was the key driver behind this growth, fortifying China's importance for the global automotive industry.

Owing to the strong performance in China, the Asian markets became the fastest growing markets for Ford. The US-based company sold 935,813 vehicles in China, an increase of 49.3% compared to 2012.

BAIC to launch high-end electric car in China

BAIC (Beijing Automotive Industry Corporation) will speed up the R&D within new energy vehicles, an area of increasingly strategic importance for this state-owned enterprise. Now BAIC has launched the E150EV electric car, and recently acquired 25% of Atieva, a US company focused on researching, developing and producing power systems for electric cars.

Through this platform, they intend to develop and launch a high-end electric car, which if all goes well, will be among the first electric cars in this segment in China.

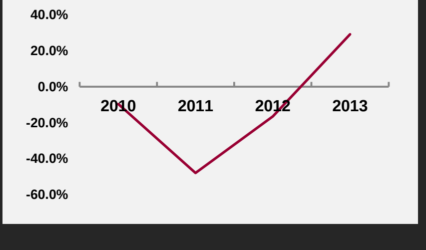
BAIC's chairman Xu Heyi said, in conjunction with announcing their cooperation with Atieva, that the market for pure electric vehicles has potential but will face huge challenges in future, and in order to gain a competitive advantage, companies must strive to be technology leaders by prioritizing and streamlining their R&D activities within this field.

China's evolving cleantech market bear further growth potential

As smog levels in many cities across the country hit hazardous levels in December, the pressure on the government to step-up their actions to address the underlying problems increased further. In Shanghai, concentration of tiny, harmful PM 2.5 particles reached 602.5 mg per cubic meter which was the highest level since recording of the data began, and even beyond the index which ends at 500 mg per cubic meter.

In response, authorities decided on a new plan involving both a warning system for Shanghai's air pollution and a detailed action plan to at least short term reduce pollution levels. As one rapid measure, Shanghai's government banned fireworks and reduced government vehicle traffic by 30%.

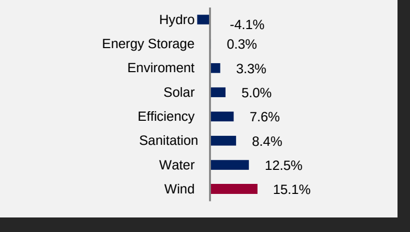
In light of these circumstances, it is not a surprise that China's demand for cleantech solutions and technology continuous to grow, especially during Q4 2013. The *China CleanTech Index*, which represents China's largest cleantech companies, rose by 6.5% in Q4 and gained 29.2% on a full year perspective, while the Chinese economy as a whole experienced the weakest growth since 1999 during the same period.



***China CleanTech Index* Yearly Performance**

The global headcount of public cleantech companies stands at 512,500, up 12% from last year. China, with over half the global headcount, was the main source of this growth, led by expansions in the solar and wind segments.

Despite challenging market conditions, key indicators show signs of improvement in the cleantech sector. A view on the industry's sub-sectors reveals that water and wind has been growing with the highest rates.



Sub-sector Performance in Q4 2013

According to a recent survey by *Venrock* regarding the key challenges in operating a cleantech business in China, the protection of intellectual property (IP) tops the list. This is no surprise – tales of IP infringements in the country are common, with the most blatant example being the outright theft of US company American Superconductor's wind turbine software.

IP issues aside, survey respondents have a more positive view on market accessibility, largely due to strong government support (preferential tax rate of 15%) and with a relatively large pool of available capital, the appetite for capital-intensive projects is greater than in most developing countries.

China CleanTech Index

The *China CleanTech Index* provides a holistic measure of the performance of Chinese cleantech companies that are listed on stock exchanges around the world. The Index incorporates the complete cleantech industry including all sub-sectors such as biogas, water or waste management to mention a few.

With 151 companies included in the index, representing a combined market capitalization of over CNY 980 billion (US$ 160 billion), the *China CleanTech Index* presents an aggregated picture of the Chinese cleantech industry in a single measure.

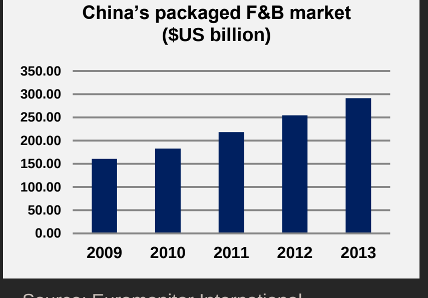
China continuous to attract EU- cleantech firms

The increasing amount of energy needed to fuel China's urbanization has caused serious concerns about carbon emissions and environmental pollution, but also opened up a market for some of the best cleantech companies in Europe. Europe's increasingly ambitious goals to reduce emissions has produced many globally leading cleantech companies, and many of them are now keen to bring their technologies and expertise to China.

China remains one of the most dynamic F&B markets for foreign food manufactures

Just as was the case for the US in the mid-20th century, vast changes in China's culture – notably the increase of women in the workforce and the move from rural to urban settings – are why convenience foods of all types are becoming more popular. When combined with a steady increase in households disposable income, and several domestic food safety scandals, it is not a surprising fact that the Chinese F&B market still represents vast opportunities for overseas F&B producers.

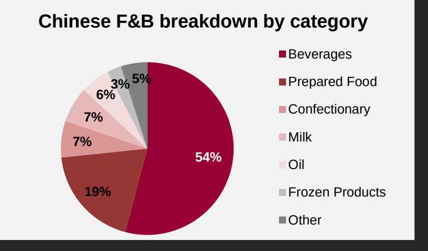
The average annual growth rate of China's packaged F&B market was around 15% during the last five years, reaching an aggregated value of approximately US$ 291 billion as of 2013.



Source: Euromonitor International

In particular, the premium F&B segment remains attractive for foreign brands, with a 15% average annual growth rate for China F&B imports over the last five years. With attractive margins, and a consumer base willing to explore new types of food, importers and specialty food retailers are competing to gain market share by also leveraging new distribution platforms, such as e-commerce, which is becoming increasingly important for food retail.

The biggest fraction of overall F&B imports is represented by beverages, accounting for 55%. In turn, the biggest part of imported beverages is wine.



Source: Asia Perspective Research

According to the IWSR (International Wine and Spirit Research) Forecast Report, the Asia-Pacific region is now the world's fastest-growing wine market. China, in particular, is tipped to lead the way, with its domestic wine consumption expected to have grown by approx. 30% in 2013.

Worth mentioning is also the increasing number of acquisitions of western food producers by their Chinese counterparts. Chinese F&B producers are looking to build up their global market share, acquire technological know-how which can be used in China, and re-establish the consumers' confidence in food safety. The acquisition of the US company Smithfield Foods by Shuanghui International for US$ 4.7l billion in 2013, which created the world's largest pork producer, is only one example.

The value of overseas acquisitions by Chinese F&B companies between 2010 and 2013 was over US$ 9 billion, according to National Australia Bank.

Chinas rising middle class

China's society is changing rapidly. At the heart of the most sweeping social and economic transformation the world has seen is the rise of a powerful new, largely urban, middle class.

China's urban middle-class population alone, if considered as a country, is today larger than the entire population of the U.S. The pace of change has been extraordinary. As recently as 2000, only 4 percent of urban households in China were middle class; by 2012, that share had soared to over two-thirds. And by 2022, China's middle class is expected to number 630 million, or 45% of the entire population.

The average urban Chinese household has seen its annual income per capita rise from US$ 320 in 1990, to US$ 4,300 in 2012. This increase has naturally had great impact on food consumption behavior, which translates into burgeoning opportunities for foreign F&B producers aiming to expand their business in China.

ASIA PERSPECTIVE

About Asia Perspective

Asia Perspective is an Independent Management Consultancy with global presence and local knowledge. We assist our clients with business advisory regarding Analysis, Strategy and Implementation. Our mission is to turn our clients' Asia business vision into reality and add significant value to your business.

We offer specialist services covering Procurement & Supply Chain Management, Organizational Improvement, and Growth & Expansion. We support our clients both on a strategic level, but also ensure sustainable savings and improvements through effective implementation support.

What differentiates us from our competitors is the knowledge and expertise we have gained after several years in the Asian market. We have experience from a variety of industries and clients including leading international companies from Europe, the US and Asia.

With a highly collaborative team of problem solvers and a passion for excellence we will add value to your business. We work closely with our clients to create and deliver insight, advantage and real impact.

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