



北京华通人商用信息有限公司

ALL CHINA MARKETING RESEARCH CO., LTD.

ACMR Newsletter

China Industry and Economic Review

August 2011



Economic Review: U.S. Debt Crisis – China's Foreign Exchange Reserves may Shrink

Since early 2011, U.S. Department of the Treasury informed Congress that the size of U.S. debt will reach the legal limit in near future, and the U.S. government would default for the first time in its history if not increasing this limit as soon as possible. Bipartisan Congress finally made an agreement on raising the nation's limit on borrowing after arduous negotiations. On August 2nd, 2011, U.S. President Barack Obama has signed legislation to increase the U.S. debt ceiling and avoid a financial default. The bill raises the debt limit by up to \$2.4tn from \$14.3tn, and makes savings of at least \$2.1tn in 10 years.

On August 5th, 2011, S&P downgraded long-term U.S. debt from AAA to AA+, the first debt downgrade in U.S. history, and issued a negative outlook. Back in April 2011, S&P had lowered U.S. debt outlook from 'stable' to 'negative', and warned of possibility of downgrading U.S. sovereign credit rating for the first time. On July 14th, S&P again warned to begin to reconsider the U.S. debt rating, and if U.S. government failed to take credible measures to deal with its increasing debt, S&P would cut its rating.

According to U.S. Department of the Treasury, as the largest overseas holder, China held about \$1.16 trillion U.S. debt as of June 2011, which amounted to 36.5% of China's total foreign exchange reserves. Downgrade of U.S. debt is forecast to increase the borrowing costs, which will result in higher bond yields, and

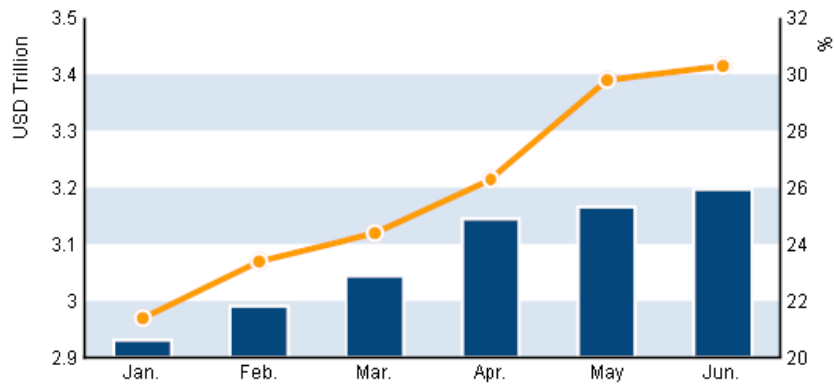
lower prices. If so, China will face loss on its foreign reserves.

In addition, China has the largest foreign exchange reserves in the world. By June 2011, China's foreign exchange reserves totaled 3.20 trillion, which consists of nearly 70% dollar assets. Since the global financial crisis, U.S. government has implemented expansionary monetary policy, which caused depreciation of U.S. dollars. The debt crisis has led to further weak of U.S. dollars.

In August, 2011, China's currency appreciates against the U.S. dollar significantly. The exchange rate of China's Yuan per U.S. dollar has decreased from 6.44 to 6.40 just in four trading days during August 8th and 11th. Since China restarted its foreign exchange regime reform in June 19th, 2010, China's Yuan has appreciated 6.3% against U.S. dollar.

United States is the second largest trading partner of China. As of July 2011, US-China trade volume amounted to \$245.49 billion, accounting for 12.1% of China's total trade volume. However, with the constant appreciation of China's currency against U.S. dollar, export enterprises in China face huge challenges, especially the decreasing price advantages of China-made products. This is expected to continue in the next few years. In addition, declining demand from U.S., appreciation of home currency, increasing trade frictions will further worsen the export environment.

Foreign Exchange Reserves in China, Jan. 2011 - Jun. 2011

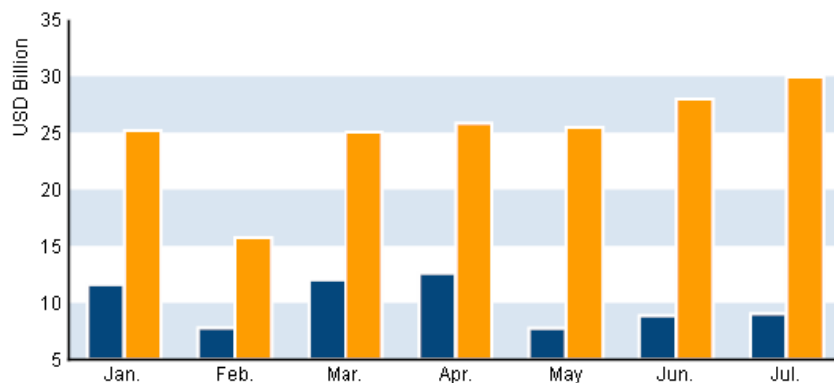


Legend

■ Foreign Exchange Reserves ● YoY Growth

Source: State Administration of Foreign Exchange, ACMR

US-China Trade Volume, Jan. 2011 - Jul. 2011



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■ Import ■ Export

Source: China Customs, ACMR

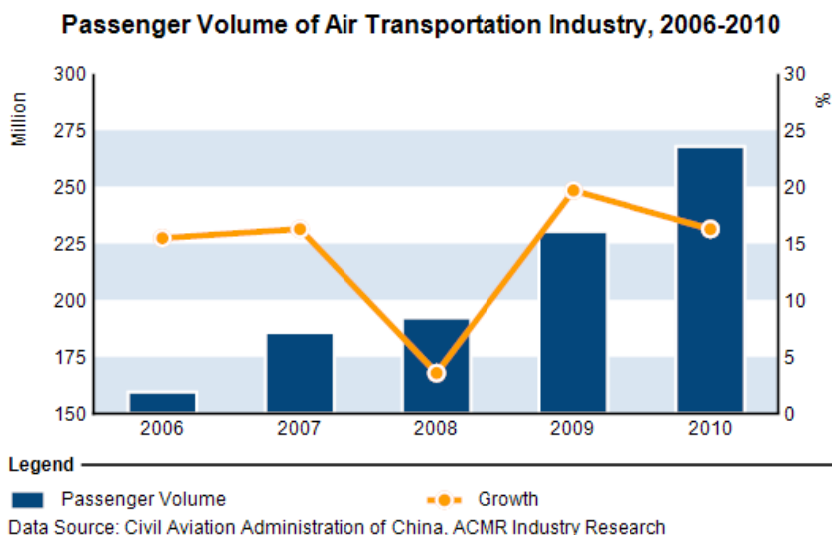
Air Transportation of Passengers in China: Strong Growth under Increasing Pressure

Air Transportation of Passengers industry in China survived the global economic recession with rapid revenue growth amid the last year of the “Eleventh Five-year Plan”. Strong growth of China’s economy was regarded as the primary driver of industry development. Besides, the Shanghai Expo and Guangzhou Asian Games contributed to the passenger volume substantially. ACMR estimated that in 2010, revenue of the industry increased by 37.5% from 2009, to \$67.53 billion.

Surging domestic demand

In 2010, China’s GDP growth rate reached 10.3%, indicating a preferable economic environment. Further, with improvement of people’s living standard which underlies consumption upgrade, demand for air passenger transportation increased considerably in 2010. According to the latest ‘Statistic Bulletin of Civil Aviation Industry Development in 2010’, the Civil Aviation Administration reported 268 million passenger volume of the year, up 16.3% from 2009. Domestic airlines completed 248 million, representing 92.5% of overall volume. It is further estimated to total 300 million in 2011.

In response to the demand from Shanghai Expo and Guangzhou Asian Games, major airline companies raised investment to increase transportation capacity. By the end of 2010, there were 1,597 airplanes and 1,880 scheduled airlines in China.



High-speed Trains Come As a Double-edged Sword



ACMR Newsletter

August 2011

From bullet trains to high-speed train, railway transportation thrived in recent years with almost halved travel duration. Although it encountered several accidents in 2011 shortly after it was officially put into use, the popularity of high-speed trains is inevitable in the long run. It is a threat to the air transportation, especially those within 300 miles.

Meanwhile, the speeding railway is expected to shoulder part of transportation pressure for the airlines, especially the heated ones in cities like Beijing, Shanghai and Guangzhou. Therefore, it is to spare more energy and resources of the industry to expand in western areas.

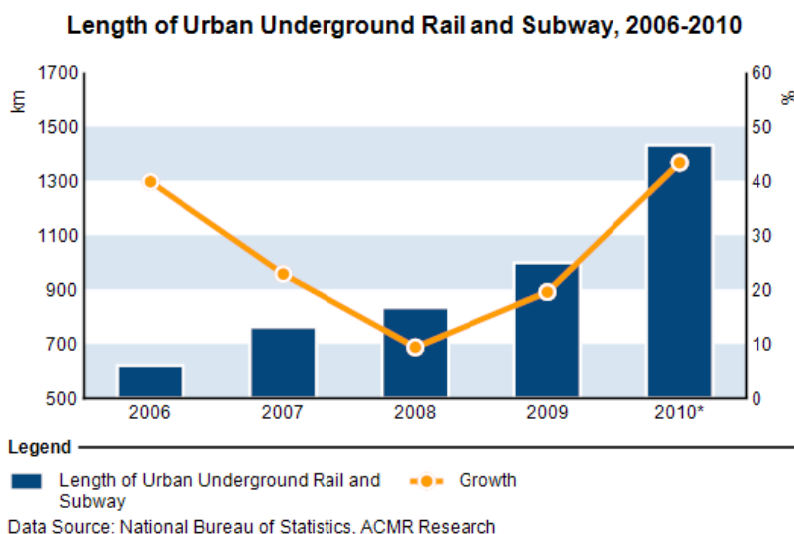
Major Industry Participants List

Company Name
All China Co., Ltd.
China Southern Airlines Co., Ltd.
China Eastern Airlines Co., Ltd.
Hainan Airlines Co., Ltd.
Xiamen Airlines Co., Ltd.

Source: National Bureau of Statistics, ACMR

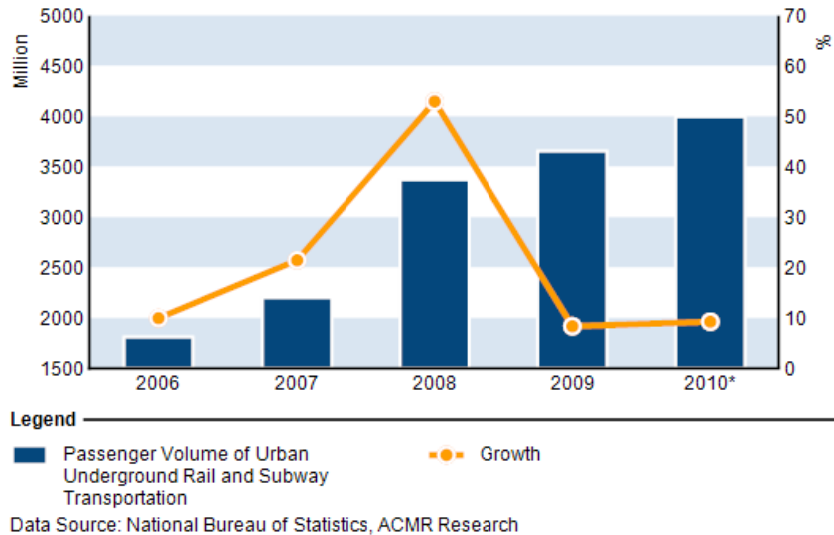
Underground Rail and Subway Transportation in China: Entering its Golden Period of Development

From 2006 to 2010, Underground Rail and Subway Transportation in China developed quickly. The length of Urban Underground Rail and Subway increased from 621.0 kilometers in 2006 to 1432.3 kilometers in 2010, with the annualized growth rate of 26.4%.



By the end of 2010, there are 12 cities in Mainland China, having built and being operating about 50 lines of underground rail and subway, with the length being at about 1,432.3 kilometers. Among which, the length of underground rail and subway in Shanghai, Beijing, Guangzhou, Tianjin and Dalian has reached about 453 kilometers, 337.7 kilometers, 236 kilometers, 71.6 kilometers and 63.5 kilometers, respectively. In addition, some other cities, such as Hangzhou, Xi'an and Suzhou, are building underground rail and subway.

Passenger Volume of Urban Underground Rail and Subway Transportation, 2006-2010



From 2006 to 2010, the passenger volume of this industry increased from 1,816 million to 3,998.5 million, at an average rate of 19.4% per annum. During the same period, the share of passenger volume of urban underground rail and subway transportation in total urban passenger volume increased from 3.9% to 6.0%.

Currently, the State Council has approved the subway construction plans of 28 cities. By 2015, these 28 cities will construct about 100 more lines of underground rail and subway, with total length of around 2,500 kilometers. The urban underground rail and subway transportation in China will enter golden period of development.

Major Industry Participants List

Company Name
Shanghai Shentong Metro Co., Ltd.
Beijing Subway Operation Co., Ltd.
Guangzhou Metro Corporation
Shenzhen Metro Co., Ltd.
Nanjing Metro Co., Ltd.

Source: National Bureau of Statistics, ACMR

Rapid Development of ICT in China

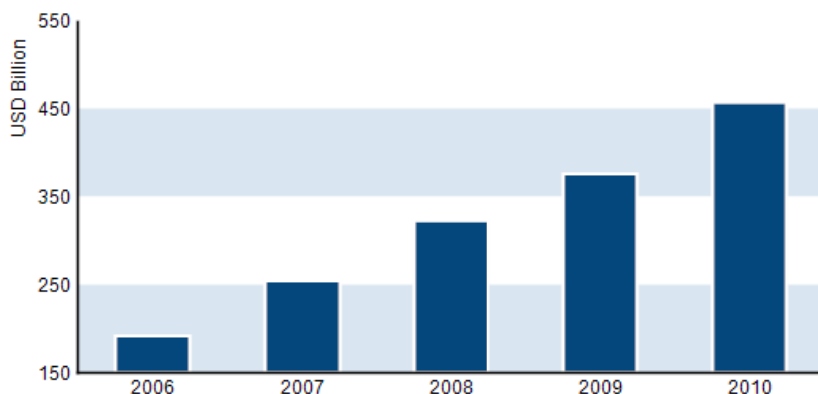
The “12th Five Year Plan” puts forward to support the development of network convergence, industry informationization, Internet of Things, E-government affairs, etc. Under such background, China’s ICT industry will gain greater development in the future.

Rapid Development of Telecommunications Industry

In 2010, the Communications Equipment Manufacturing in China achieved revenue of \$136.6 billion, accounting for 14.9% of the total electronic information industry. Output of China’s mobile phone surpassed 1 billion units in the year, accounting for almost 60% of global output. Currently China has become the main production base of mobile communication terminal in the world.

From 2006 to 2010, total business volume of telecommunications industry increased at an annualized rate of 24.2%, to \$457.2 billion in 2010. Meanwhile, the comprehensive price level of telecommunications kept decreasing in 2010, down by 11.7% from 2009. The main business revenue of telecommunications industry increased at a much slower rate, to \$132.8 billion in 2010.

Total Business Volume of Telecommunications, 2006-2010



Data Source: Ministry of Industry and Information Technology, ACMR

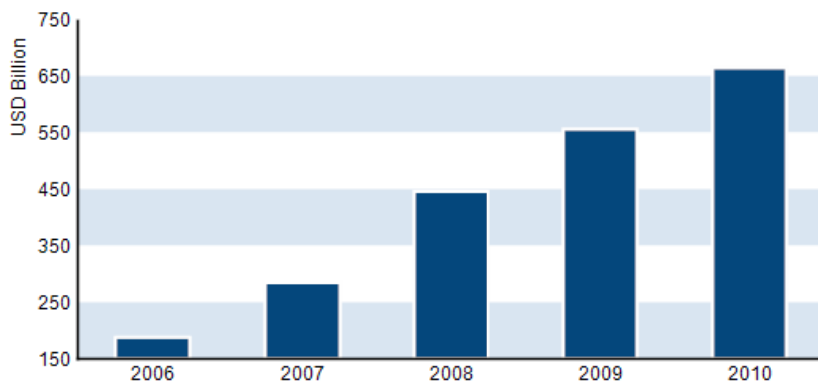
Accelerated Expansion of E-commerce

In 2010, the number of Chinese Netizen increased by 19% to 457 million. The broadband internet users accounted of 98.3% of total, the mobile phone internet users accounted for 66.2, and the rural regions also contributed 27.3% to total. The popularizing rate of internet increased to 34.3% in the year, up from 10.5% in 2006.

E-commerce turnover has experienced dynamic expansion in China, totaling \$664.7 billion in 2010. It is

the same with online shopping turnover. In 2010, online shopping turnover reached \$73.9 billion, up 95% from 2009. The size of online shopping users totaled 161 million, with utilization ratio of 35.1%. Besides, the market size of mobile phone payment is also expected to increase substantially to \$420.2 million in the year, with over 150 million users.

E-commerce Turnover, 2006-2010



Data Source: Ministry of Commerce, ACMR



ACMR Newsletter

August 2011

What's New?

We currently have 177 China industry reports available across 18 economy sectors, and the number of reports is expected to reach 182 by the end of July 2011.

Recent reports and reports to be released include:

Published in July 2011:

- 0330** Poultry Farming in China
- 3421** Metal Cutting Tools Manufacturing in China
- 3761** Aircraft Manufacturing and Repairing in China
- 5110** Inter-urban Railway Transportation of Passengers in China
- 5531** Airports in China
- 7220** Realty Management in China

To be released in August 2011/September 2011:

- 0916** Aluminum Ore Mining in China
- 1320** Pet Food and Animal Feed Manufacturing in China
- 1451** Canned Food Manufacturing in China
- 4062** Bare Printed Circuit Board Manufacturing in China
- 7230** Real Estate Intermediation (Brokers and Agents) in China

Updated in July 2011

- 0790** Support Activities for Oil and Gas Mining in China
- 7440** Advertising Agencies in China
- 8511** General Hospitals in China
- 0810** Iron Ore Mining in China
- 2614** Organic Chemical Material Manufacturing in China
- 1711** Cotton Fabric and Yarn Manufacturing in China
- 3613** Building Construction Equipment Manufacturing in China
- 3070** Plastic Parts Manufacturing in China
- 3931** Wire and Cable Manufacturing in China
- 2411** Stationery and Office Supplies Manufacturing in China
- 6620** Motels in China
- 2421** Sporting Equipment Manufacturing in China
- 6592** Mail-order and Electronic Shopping Operators in China
- 8441** Higher Education in China
- 6020** Internet Services in China
- 4411** Thermal Power Generation in China
- 1440** Liquid Dairy and Dairy Products Manufacturing in China



ACMR Newsletter

August 2011

3711 Rail Transportation Equipment Manufacturing in China

7433 Business Management Consulting Services in China

4042 Computer Network Equipment Manufacturing in China

6930 Securities Investment in China

0610 Coal Mining in China

3726 Automobile Repair Services in China

0221 Timber Logging in China

5320 Underground Rail and Subway Transportation in China

For more reports and information, please visit <http://www.ibisworld.com.cn/>.

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