



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

December 2010



Economic Spotlight:

2010 China Central Economic Work Conference:

Tone Set for Monetary Policies in 2011

The three-day Central Economic Work Conference that started on December 10 set the tone for macroeconomic policies in 2011: proactive, sound, prudent, and flexible. The key point is to balance smooth and fast economic development, economic structure adjustment, and inflation expectation management.

Diversion of Monetary Policies

With rising consumer price index (CPI) in the past several months and mounting pressure of price increase, inflation has emerged as a major issue for economic development in China. The People's Bank of China announced on December 25 that benchmark interest rate of financial institutions would increase by 0.25% since 26 December 2010. This is another major adjustment in monetary policies in 2010 after six times of rising reserve ratio and a previous interest rate increase, which demonstrated policymakers' determination to fight explosive liquidity and rising inflation.

The 2010 Central Economic Work Conference attaches great importance on stabilizing general price level. Monthly CP increased by 5.1% in November 2010, a record high in the past 28 months. Average CPI in the first 11 months of 2010 rose by 3.2% from the same period in 2009, a level higher than the aim of 3% in the beginning of the year. CPI is expected to decline slightly in December, though still higher than 4%. Inflation pressure is expected to stay heavy in 2011.

This current wave of inflation appears to be caused by rising food price, but ultimately it is a monetary phenomenon and a result of excessive liquidity. By the end of November 2010, M2 money stock had amounted to over \$10 trillion, the highest in the world. Therefore, in order to stabilize price level and battle inflation, ultra-loose monetary must be contained so that both enterprises and individuals can have proper expectations to reduce speculation and panic buying.

Recovering Economy to Withstand Interest Hike

Monetary policies in China tend to accomplish dual goals of economic growth and mild inflation. Under the circumstances of uncertain economic prospects, the central bank is very prudent to implement tight monetary policies. Current economic statistics show that China's economy is steadily recovering.

Several economic indicators, such as PMI (purchase management index), industrial added value, fixed assets investment, consumption demand, and international trade volume, were on increasing trend in November. This alleviates central bank's concern over the adverse impact of rising interest rate on domestic economy. PMI in China had been increasing for four consecutive months to reach 55.2% in November. Furthermore, PMI has been higher than 50% (indicating economic expansion) for 21 straight months since March 2009, showing strong growth momentum of manufacturing industries in China.



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After the “\$586 billion investment package” coming to an end in 2010, local investment planned for “the twelfth five-year” is expected to drive solid growth in fixed assets investment. Regarding domestic consumer demand, total retail sales in the first 11 months of 2010 totaled \$2.08 trillion, 18.4% up from the same period in 2009. Due to recovery in major developed economies, China’ s exports increased grew sharply by 34.9% in November from the same period of 2009 to hit a historical high of \$153.3 billion.

Sewage Treatment, Processing and Recycling Industry in China: Great Potential Market

Groundwater pollution in China is still serious

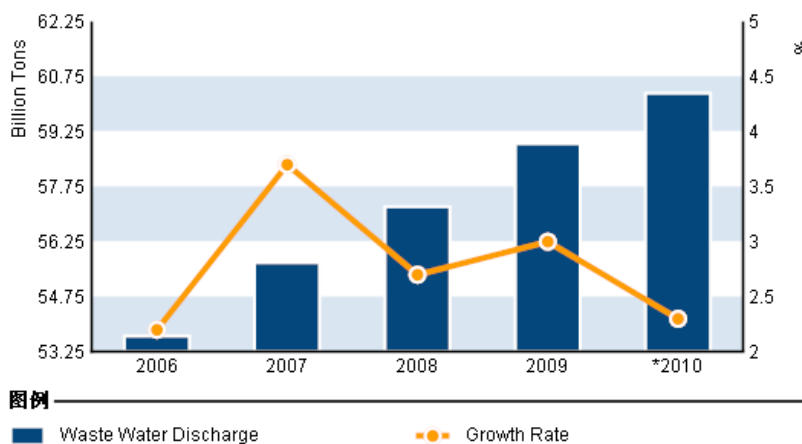
According to *the State of Environment in China in 2009* (issued by Ministry of Environment Protection, PRC), the pollution of groundwater in China is still very serious. Among the 408 water quality monitoring sections of 203 rivers from seven major water systems, Grade I -III accounted for 57.3%, while Grade IV-V and worse than Grade V accounted for 24.3% and 18.4%, respectively, in 2009. Yangtze River and Pearl River water systems showed overall good water quality. Songhua River and Huaihe River water systems were light-polluted. Yellow River and Liaohe River water systems were medium-polluted. Haihe River water system was heavy-polluted.

In addition, among 26 lake water quality monitoring sections, 3.9% of which satisfied Grade II water quality criteria, 19.2% satisfied Grade III criteria. Grade IV water quality lakes accounted for 23.1%, while Grade V water quality lakes accounted for 19.2%. About 34.6% of lakes had water quality worse than Grade V. The main pollution indicators for lakes are Total Nitrogen (TN) and Total Phosphorus (TP).

Waster water discharge keeps increasing

In 2009, the waste water discharge reached 58.9 billion tons, up 3% from 2008. Industrial waste water discharge was 23.44 billion tons in the year, down 3.1% year on year. Living consumption waste water discharge reached 35.48 billion tons, up 7.5% from 2008. In 2010, the total waste water discharge is expected to continue increasing, amounting to 60.30 billion tons.

Waste Water Discharge in China, 2006-2010



Source: Ministry of Environment Protection

Increasing investment for sewage treatment

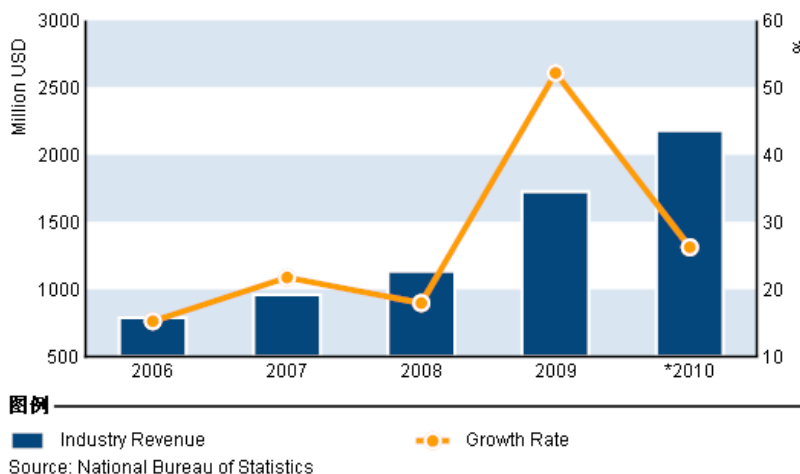
However, the government has been engaged in sewage treatment for years. In 2003, the government investment in sewage treatment was \$1.06 billion. In 2008, \$3.70 billion was invested in sewage treatment, representing an annualized growth rate of 28.5% since 2003. In 2009, this investment is expected to reach \$5.03 billion.

According to Ministry of Housing and Urban-Rural Development, PRC, by the end of 2010 (the end of "Eleven-Fifth Plan" period), 1) all cities and designated towns in China should construct urban sewage treatment facilities; 2) the sewage treatment rate in major cities including provincial capital cities should reach 80%, the rate for minor cities should be between 60% and 70%, and for prefectures it should reach 60%; 3) newly increased disposal capacity of sewage should reach 45 million tons; 4) utilization rate of recycled water in water shortage cities should reach over 20%; 5) the newly increased reusing quantity of reclaimed water should reach 3.5 billion m3.

Rapid growth in industry revenue

In 2009, the Sewage Treatment, Processing and Recycling Industry in China generated total revenue of \$1.73 billion (in current prices), representing an annualized growth rate of 24.3% since 2004. In 2010, industry revenue is expected to continue increasing to \$2.18 billion, up 26.3% from 2009.

Industry Revenue of Sewage Treatment, Processing and Recycling in China, 2006-2010

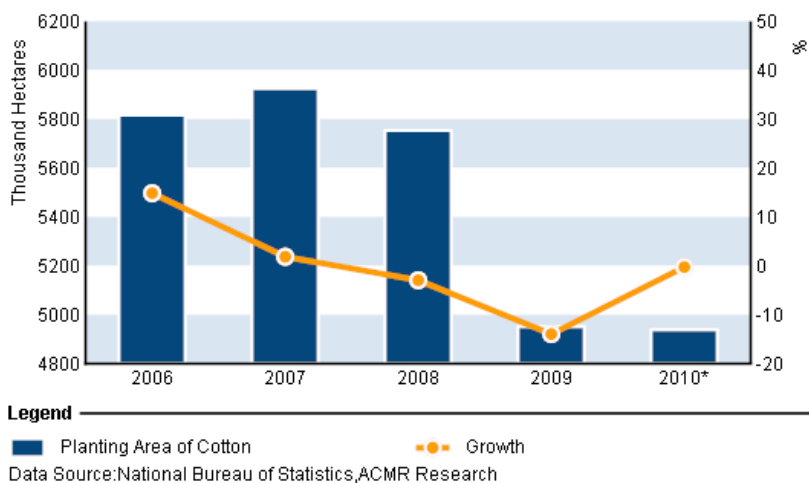


Cotton Farming in China:

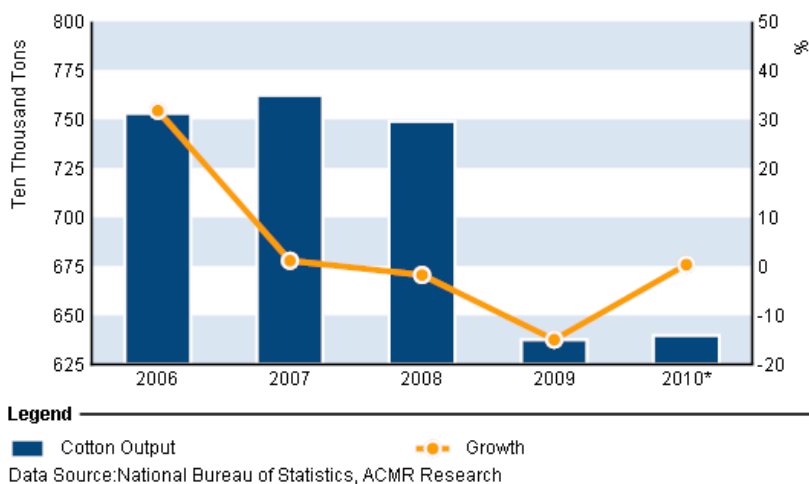
The Planting Area Expected to Grow in 2011

Since 2008, the uncertainty of cotton prices and the rising production costs make the farmers' revenue decline and then result in the decrease of the planting area of cotton. In 2008, the planting area of cotton in China decreased to 5.75 million hectares, down by 2.9%. In 2009, it continued to decline by 13.9%. Accordingly, the cotton output in China dropped by 1.7% to 7.49 million tons in 2008. In 2009, mainly due to the big decrease of the planting area of cotton, it continued to decline by 14.9% to 6.5 million tons

The Planting Area of Cotton in China 2006-2010*



Cotton Output in China 2006-2010*





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In 2010, the planting area and output of cotton is basically the same as that in 2009. In 2010, China's textile industry continues to improve and its profit increases greatly, which significantly increases the market demand for cotton and cotton market prices. In addition, the basic formation of inflation expectation and speculation occasion of hot money also increased cotton market prices. The purchasing prices of cotton increased from \$1.2 per kilogram to \$2.1 per kilogram, with the average price being \$1.7 per kilogram. The average price in 2010 is higher 42.7% than the highest price in 2009.

China's cotton growing industry has low level of mechanization. The cotton growing cost is mainly made up of fertilizer costs, labor cost and land using cost. In 2010, the growth rate of cotton growing cost is not higher and the cotton planters get more profit. Therefore, the willingness to grow cotton of farmers in 2011 gets stronger and the planting area of cotton in China in 2011 is expected to increase.

Clothing Retailers in China:

Strong Performance and Rapid Growth Expected in the Future

In the first half of 2010, for the 100 national key large scale retailers, the retail sales of clothing increased by 23.2% than 2009. In June, for the 100 national key large scale retailers, the retail sales increased by 29.2%. Based on statistics from Commerce Department, clothing retail in China further recovered its growth in the second half of the year. Sales of clothing retailers increased by 26.5% in October, representing the highest growth rate in the first 11 months of 2010. Sales revenue of the whole industry is forecast to increase by 14.6% to \$12.66 billion in the year.

As disposable incomes increase and urbanization advance, the development of clothing consumption coincides with the development of the whole economy. In addition, with improvement of domestic consumers' consumption capacity, the consumption for clothing gradually upgraded, and the need for medium and high-end products become increasing expanded.

In recent years, disposable income and consumption capacity of rural citizens have been constantly increasing. In 2009, growth rate of rural consumption surpassed urban consumption for the first time since 1986. In addition, rural citizens' per capital consumption on clothing increased from less than \$1 (current price) in 1983 to over \$20 in 2008, up by 23.9 times. The per capita purchase amount of clothing also increased from 0.7 pieces to 2.7 pieces, up by 2.9 times. Expansion of rural consumption market and improvement of rural consumption level works as important contributor for revenue growth of clothing retail in China.

With the foreign clothing enterprises accelerating their distribution in domestic market, the domestic clothing enterprises have to be faced with more pressure, and the competition will further intensify. The competition of clothing retail is forecast to pay more attention to store environment and product quality in the future.

For clothing retailers in China, online shopping will become more popular in the future. Currently, there have been over 1,000 clothing e-commerce platforms throughout the whole country. Clothing became the first largest category of network trade from 2007. In the first half of 2010, over 140 million users have purchased goods through network, and over 70% of Netizens have purchased clothes through network. E-commerce platform is forecast to play an increasingly important role for clothing retailers in the future.

Urban Consumption in China - 2002 to 2009

Year	Urban Per Capita Consumption (US Dollars)	Urban Per Capita Consumption on Clothing (US Dollars)	Percentage of Clothing Consumption (Percentage)
2002	728.2	50.3	6.91
2003	786.3	55.0	6.99
2004	867.4	59.6	6.88
2005	969.8	70.5	7.26
2006	1091.2	81.1	7.44
2007	1314.4	99.5	7.57
2008	1617.7	167.8	10.37
2009*	1750.8	167.2	9.55

Source: National Bureau of Statistics, ACMR Industry Research

Notes: 2009 data are ACMR estimates

Major Industry Participants List

Company Name
Bestseller Fashion (China) Co., Ltd.
Shanghai Metersbonwe Fashion and Accessories Co., Ltd.
Baleno Holdings Ltd.
Esprit Shanghai Company
Jeanswest Corporation (China)

Source: ACMR Industry Research



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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 December 2010.

Recent reports and reports to be released include:

Published in November 2009:

- 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 December 2010/January 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 November 2010

- 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



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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

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