



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

January 2011



Economic Spotlight:

Farewell to Cult of GDP Growth:

China Lowers GDP Growth Target

On the Annual Meeting of China's Economy held in Beijing on 15 January 2010, ranking officials of Shenzhen, Shijiazhuang, and Tianjin revealed local GDP growth targets for the twelfth five-year period (2011-2015), all of which are lower than growth rates in the past five years. With the beginning of local "two conferences", People's Congress and People's Political Consultative Conference, in January, government work reports for 2011 have been released. Beijing and Shanghai, the two largest cities in China, have attached greater importance on economy restructuring than GDP growth in their government work reports. As a matter of fact, they have lowered annual GDP growth target in the next five years to around 8%.

Devaluation of GDP Growth

Cult of GDP growth has been in existence for a long period of time since China's economic reformation in late 1970s based on the gist that development is the absolute principle. A few years ago, GDP growth was the most important, if not the only, measurement of government performance. However, GDP alone only represents economy scale, and balances between economic and social development and other many social issues are not covered. Excessive emphasis on GDP growth leads to short-sighted focus on short-term economic growth while neglect of economic structure optimization, which could greatly undermine social prospect and welfare in the long term.

In the twelfth five-year period, China will take more quality rather than quantity of GDP growth into consideration. With the ongoing development of China's society, more public services are demanded from the government, and these demands are mainly on social aspects rather than economic aspects. In the next five years, job creation is expected to take place of GDP growth as the most important measurement of government performance. Other new items will be added too, such as consumption ratio, government pension expenditure, affordable housing, and compulsory education.

Economic Restructuring Prompted by Circumstances

The twelfth five-year period (2011-2015) is viewed as the strategic turning point between the past 30 years since China's economic reformation and the next 30 years. In the next five years, China is expected to make great efforts to promote domestic demand and consumption, boost technology innovation, and increase priority of people's livelihood. With the changing economic environment worldwide, global economy will probably encounter challenges such as slower growth, structural adjustment, and more intensive competition. In those scenarios, foreign markets for Chinese products will shrink and China will be forced to adjust economic structure and expand domestic demand.

On the economic hand, China is vexed with lopsided domestic and foreign demand, unbalanced con-



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sumption and investment, great environment and natural resource pressure, and unsustainable international trade mode. Further growth of China's economy requires extensive adjustments in demand structure, industry structure, urban-rural structure, and regional structure. On the social hand, many social issues require solutions or reforms, such as employment, social security, education, medical care, housing, income distribution, and environmental protection.

International and historic experiences indicate that a nation in transition from middle income to high income is vulnerable to "middle income trap", which leads to long-term economic stagnation. In order to circumvent this trap, China has to reform its economic and social structure and grow more independent from international trade.

Life Insurance Carriers Industry in China: Regional Firms Intensify Competition; Investment Scope of Insurance Fund is Expanded

During the eleventh five year period, Life Insurance Carriers Industry in China maintained rapid annualized growth rate of 32.5%, with life insurance premium income increasing from \$51.8 billion in 2006 to \$159.5 billion in 2010. In 2010, promoted by the strong recovery of China's economy, growth of premium income in Life Insurance Carriers Industry in China rebounded with a rate of 32.9% after the adjustment of product adjustment, which was over 20 percentages higher than that in 2009.

During this period, the number of life insurance carriers increased steadily from 46 in 2006 to 62 in 2010. In the next five years, the number of industry enterprises will still increase stably. According to public information, China Insurance Regulatory Commission has received over 100 applications for the establishment of insurance companies, most of which are raised by regional governments and large enterprises. As a result, it is expected that regional life insurance carriers will increase rapidly. This will intensify competition with national enterprises in regional markets and influence industry landscape.

During the second half of 2010, China Insurance Regulatory Commission issued Provisional Regulations on the Management of the Use of Insurance Funds, Provisional Regulations on the Real Estate Investment by Insurance Funds and Provisional Regulations on Equity Investment by Insurance Funds. According to these regulations, insurance companies that meet relevant requirements can invest in real estate and equity, which will expand investment scope of investment funds, increase investment return and improve industry profitability level.

Key Statistics of in China, 2010*

Indicator	Value	Year-on-year Growth (%)
Revenue (USD Billion)	159.5	32.9
Assets (USD Billion)	442.5	19.7
Enterprise Number (Unit)	62	5.1

Source: CIRC, ACMR Industry Research

Major Life Insurance Carriers in China

Company Name	Market Share (%)
China Life Insurance Company Limited	31.9
Ping An Insurance (Group) Company of China, Ltd.	15.1
New China Life Co., Ltd.	9.0
China Pacific Insurance (Group) Co., Ltd.	8.8
Taikang Life Insurance Co., Ltd.	8.3

Source: CIRC, ACMR Industry Research

Beer Manufacturing in China:

Solid Growth in 2010

Output and Sales Revenue Increased Steadily

In the first 11 months of 2010, the output of China's beer has accumulated 42.40 billion liters, up by 6.5% than 2009. The output of beer is forecast to total 44.80 billion liters for the whole year in 2010. China will be the largest beer manufacturer in the world in nine successive years since 2002.

In the first 11 months of 2010, sale revenue of China's beer has totaled \$18.08 billion (current price), up by 10.3% from the same period in 2009. The main reasons behind this industry's growth in recent years include: the sustained economic growth, people's rising consumption capability and changing consumption habits, products adjustments of the beer manufacturers, the stimulation of the foreign enterprises (including Hong Kong, Macau, Taiwan), etc.

Profit Margins Improvement for the Whole Industry

In 2010, the production cost maintained relatively steady. Meanwhile, the beer manufacturers optimized their products structure, and the share of middle-and high-end products ascend to some degree, which promotes price rise of the average unit. Profit margins of the industry increased in the year. In the first 11 months of 2010, this industry has achieved profitability of 7.8%, up from 5.6% in 2009. People's rising consumption capability and upgraded consumption for beer also contribute to the profit margins improvement of the beer manufacturers. In addition, the faster growth of industry revenue than output also reflects the profit margins improvement of this industry.

Further Development of Industry leaders

In 2009, the sales volume of "Snow" brand reached 7.24 billion liters, ranking first in China in five successive years, and ranking first in the world for the first time. After that, in the first three quarters of 2010, sales volume of "Snow" beer has increased by 15% to 7.05 billion liters. The increasing demand for beer is the main reason for the sales volume growth. And the company also further increased its production capacity through purchasing breweries and building new breweries, which also contribute to the growth.

In addition, in the first three quarter of 2010, the operating income and net profit of "Tsing" "Yanjing" also showed a double-digit growth, reflecting further development of the major players within this industry.

Key Statistics of the Beer Manufacturing in China, 2010

Indicator	Value	Year-on-year Growth (%)
Industry Revenue (USD Million)	20190.0	12.6%
Exports (USD Million)	112.2	-0.8%
Imports (USD Million)	57.9	17.9%
Beer Output (Million Liters)	44.8	5.7%

Source: National Bureau of Statistics, China Customs, ACMR

Major Industry Participants List

Company Name
China Resources Snow Breweries
Tsingtao Brewery Pty Ltd.
Beijing Yanjing Beer Group Company
Guangzhou Zhujiang Beer Co., Ltd.
Budweiser (Wuhan) International Beer Co., Ltd.

Source: National Bureau of Statistics, ACMR

Distilled Alcohol Manufacturing in China:

Rapid Growth of Domestic Demand

In 2010, China Distilled Alcohol Manufacturing Industry in China realized rapid growth with the recovery of China's economy. By November 2010, the industry reported industry revenue of \$35.77 billion. As the period before Spring Festival is the traditional peak period of distilled alcohol, domestic demand was expected to continue increasing in the following months. By 2010, industry revenue was expected to total \$39.02 billion, up 27.5% compared with 2009.



Improving Product Prices

Since the government readjusted the tax base of consumption tax on liquor products in August 2009, the tax costs of manufacturers industry were increased and therefore net profit margins decreased significantly. In order to shift the increasing costs, leading companies in the industry started to improve product prices.

Kweichow Mao-tai Group Co., Ltd. announced on December 6th 2009 that the company decided to increase its wholesale product prices by average 13% since January 1st 2010. Major leading companies in the industry followed, such as Sichuan Swellfun Co., Ltd. and Shanxi Xinghuacun Fenjiu Group Co., Ltd. The largest player in the industry, Sichuan Yibin Wuliangye Group Co., Ltd., announced to raise its wholesale product prices by 8.1% to 10.3% since January 16th 2010.

Also, many manufacturers in the industry increased product prices in order to improve market shares and expand production scales. In October 2010, Luzhou Laojiao Group Co., Ltd. increased the prices of its Guojiao 1573 products by almost \$15 per bottle. Another large player, Jiangsu Yanghe Group Co.,

Ltd., announced to increase its product prices by average 5% since October 15th. On December 15th, Kweichow Mao-tai Group Co., Ltd. announced to raise its product prices by average 20% since 2011.

Key Statistics of the Chinese Distilled Alcohol Manufacturing Industry in China, 2010

Indicator	Value	Year-on-year Growth (%)
Industry Revenue (USD Million)	39.02	27.5
Industry Profit (USD Billion)	5.13	25.6
Exports (USD Million)	193.5	51.5
Imports (USD Million)	26.6	52.9
Output Volume (Million Kilolitres)	7.1	18.3

Source: National Bureau of Statistics, China Customs, ACMR

Major Industry Participants List

Company Name
Sichuan Yibin Wuliangye Group Co., Ltd.
Kweichow Mao-tai Group Co., Ltd.
Luzhou Laojiao Group Co., Ltd.
Sichuan Jiannanchun Group Co., Ltd.
Shanxi Xinghuacun Fenjiu Group Co., Ltd.

Source: National Bureau of Statistics, ACMR



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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 January 2011.

Recent reports and reports to be released include:

Published in December 2010:

- 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 January 2011/February 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 December 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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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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