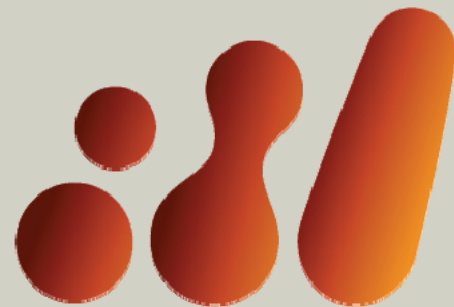




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Clinton Dines – President BHP Billiton China
July / August 2006



China is a domestic demand story driven by six drivers

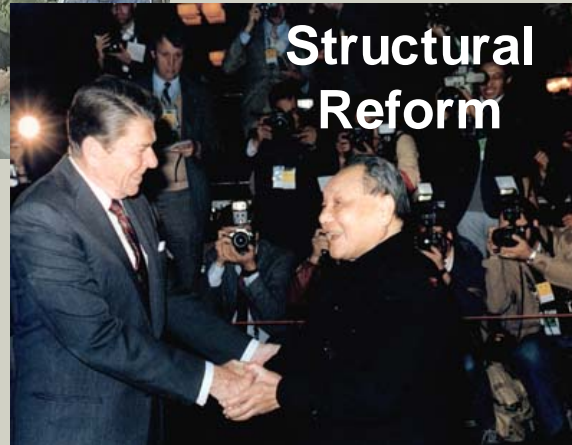
Housing



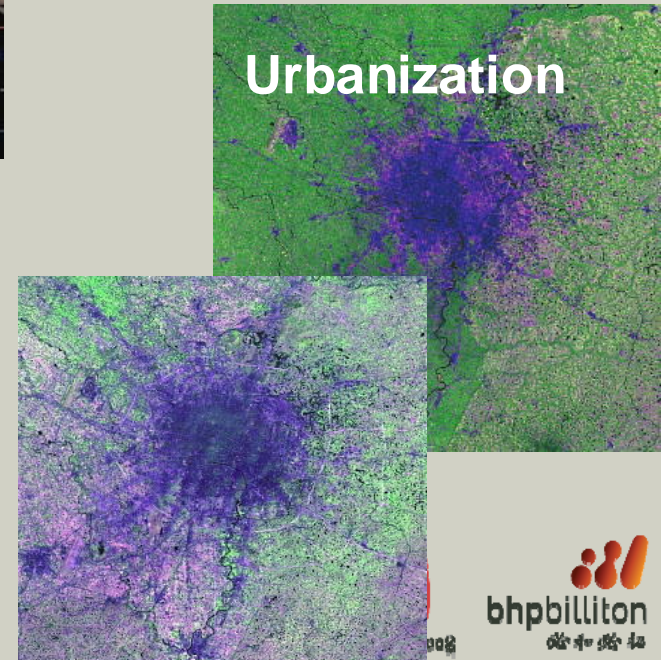
Wealth



Structural Reform



Urbanization



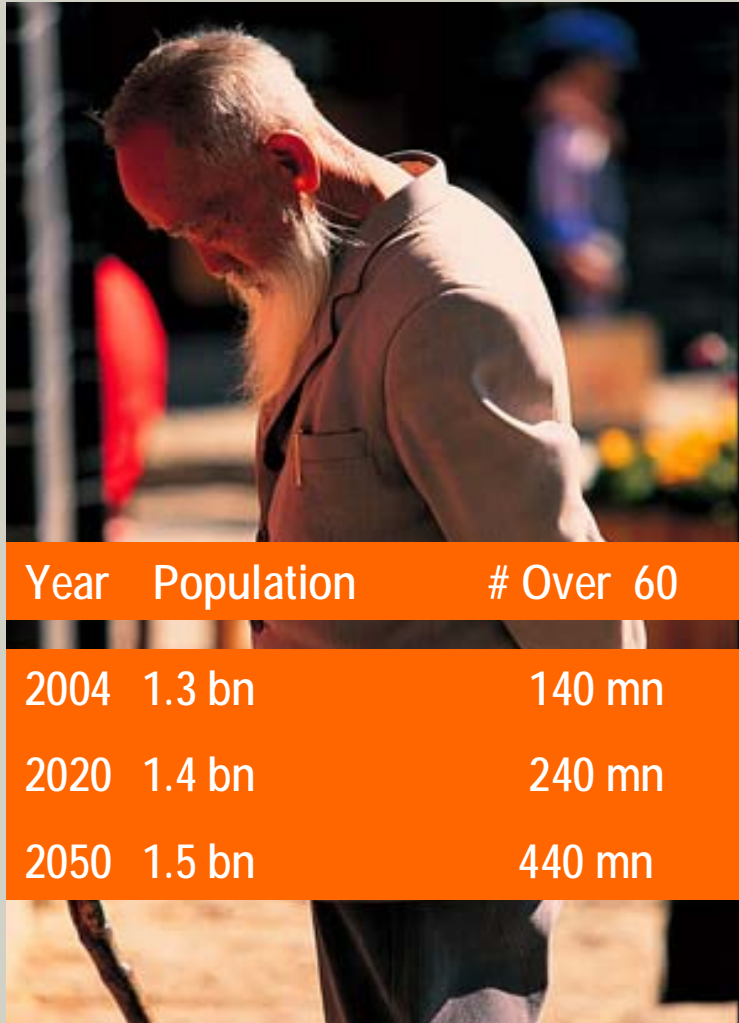
Rural Reform



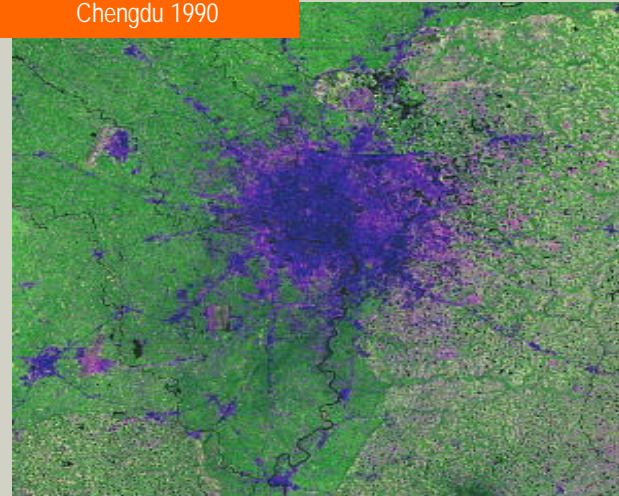
Manufacturing



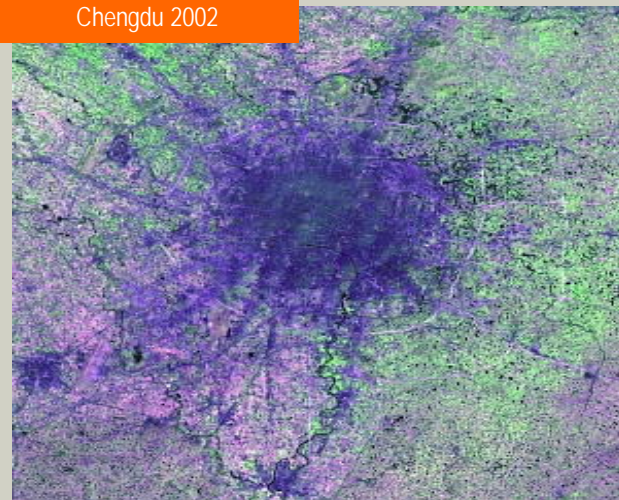
Demographics – aging and urbanizing



Chengdu 1990



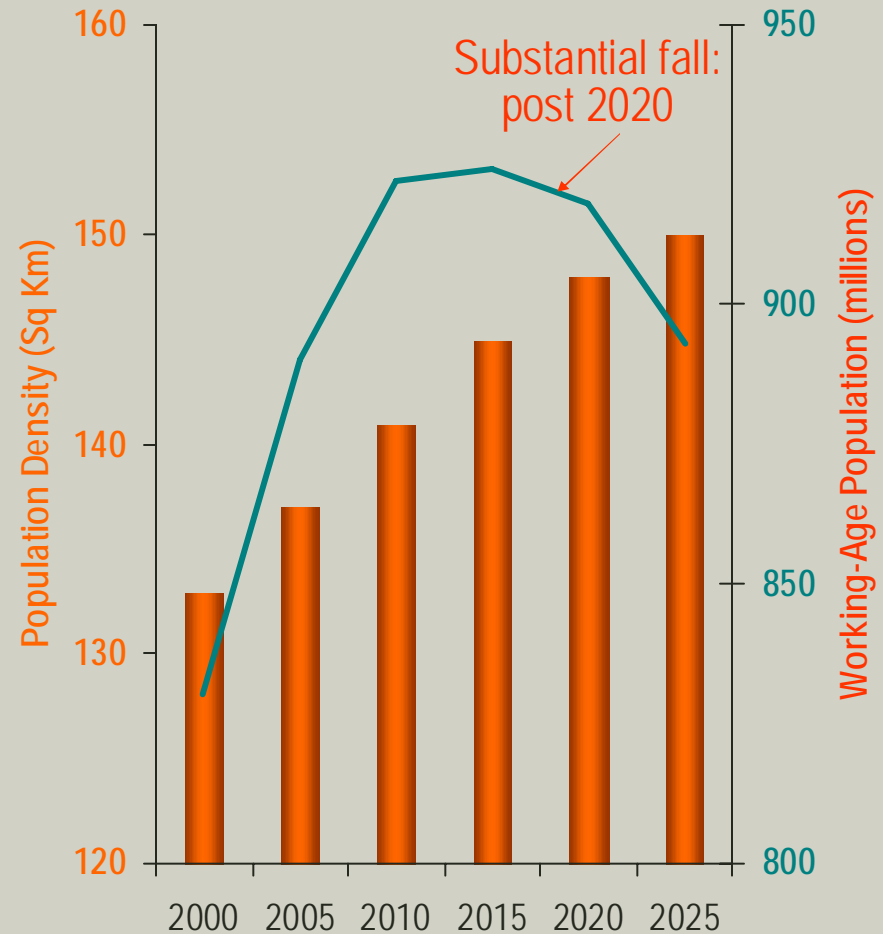
Chengdu 2002



By 2020, the urban population is expected to triple, but the working age population will be in decline

China's Urban Population		
Total Urban Population (Millions)		
2005	2010	2020
532	658	970
Urban Growth (Millions)		
2005-2009	2010-2019	Total
123	315	438

Urbanisation growth = size of US + Japan together



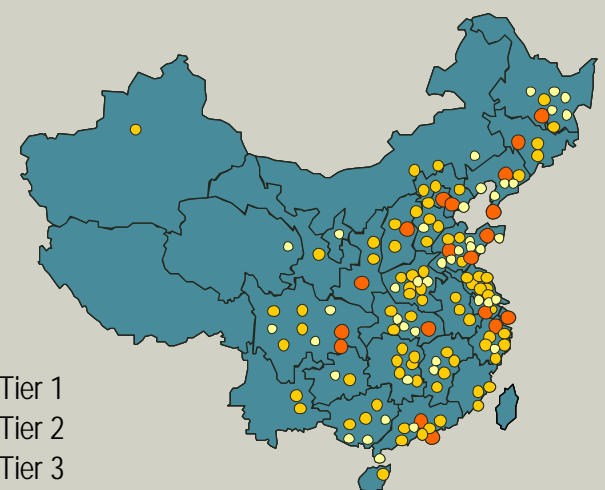
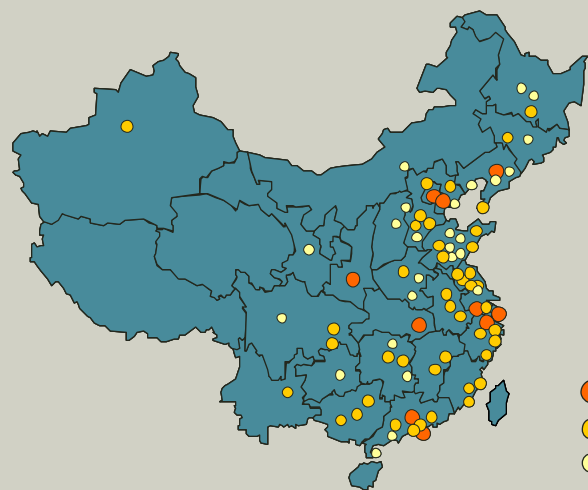
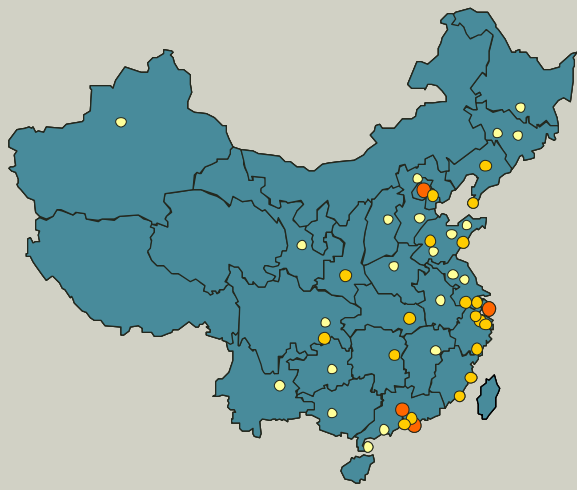
Urbanization is expected to lead to strong city development but the quality of that growth is likely to be uneven.

China's tiered city structure:

Today: 45 tier 1-3 cities

2010: 86 tier 1-3 cities

2020: 147 tier 1-3 cities



- Tier 1
- Tier 2
- Tier 3

Total Urban Population (millions):

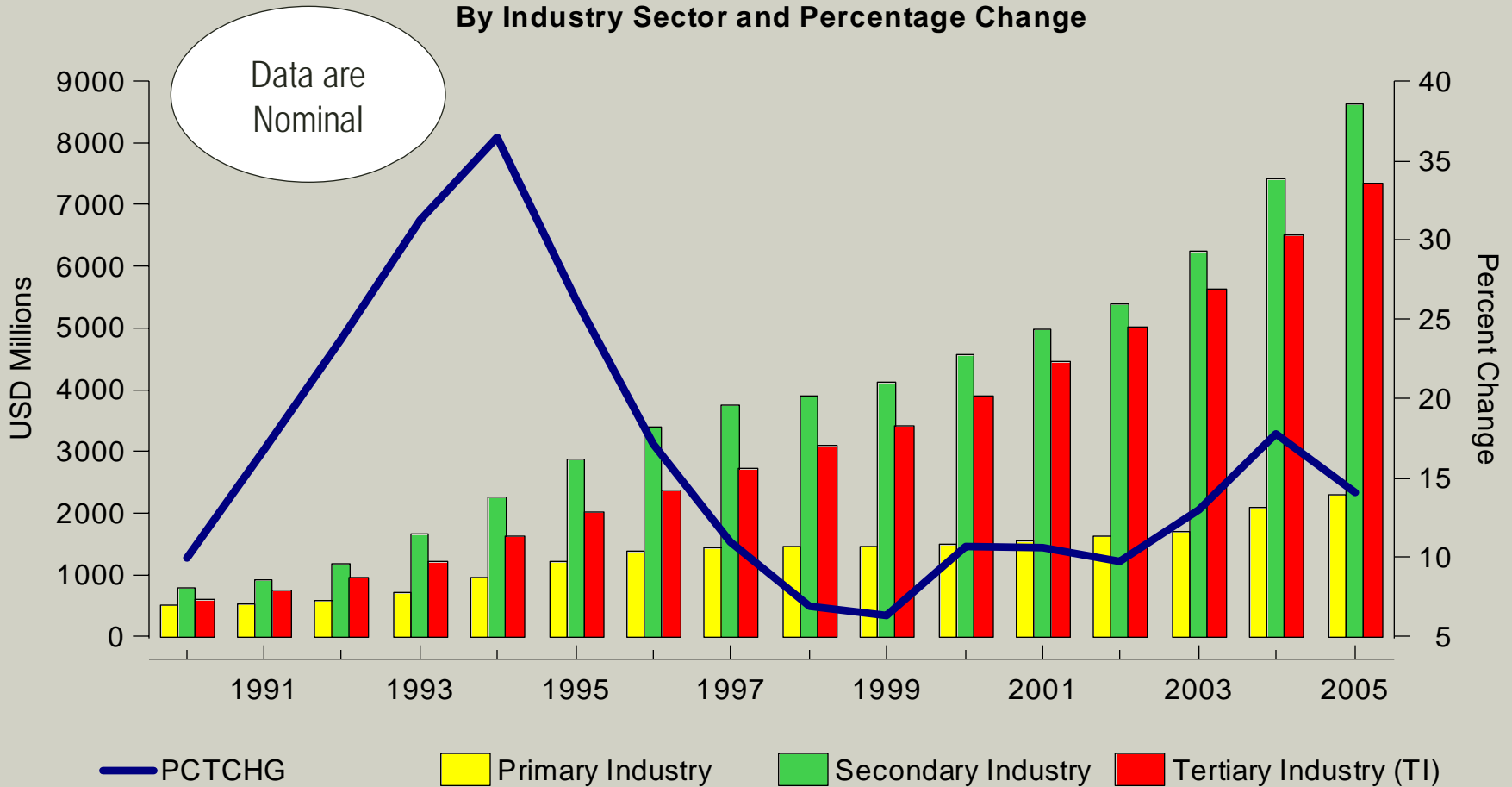
532

658

970

China's economy is deep and well-distributed

**Gross Domestic Product
By Industry Sector and Percentage Change**



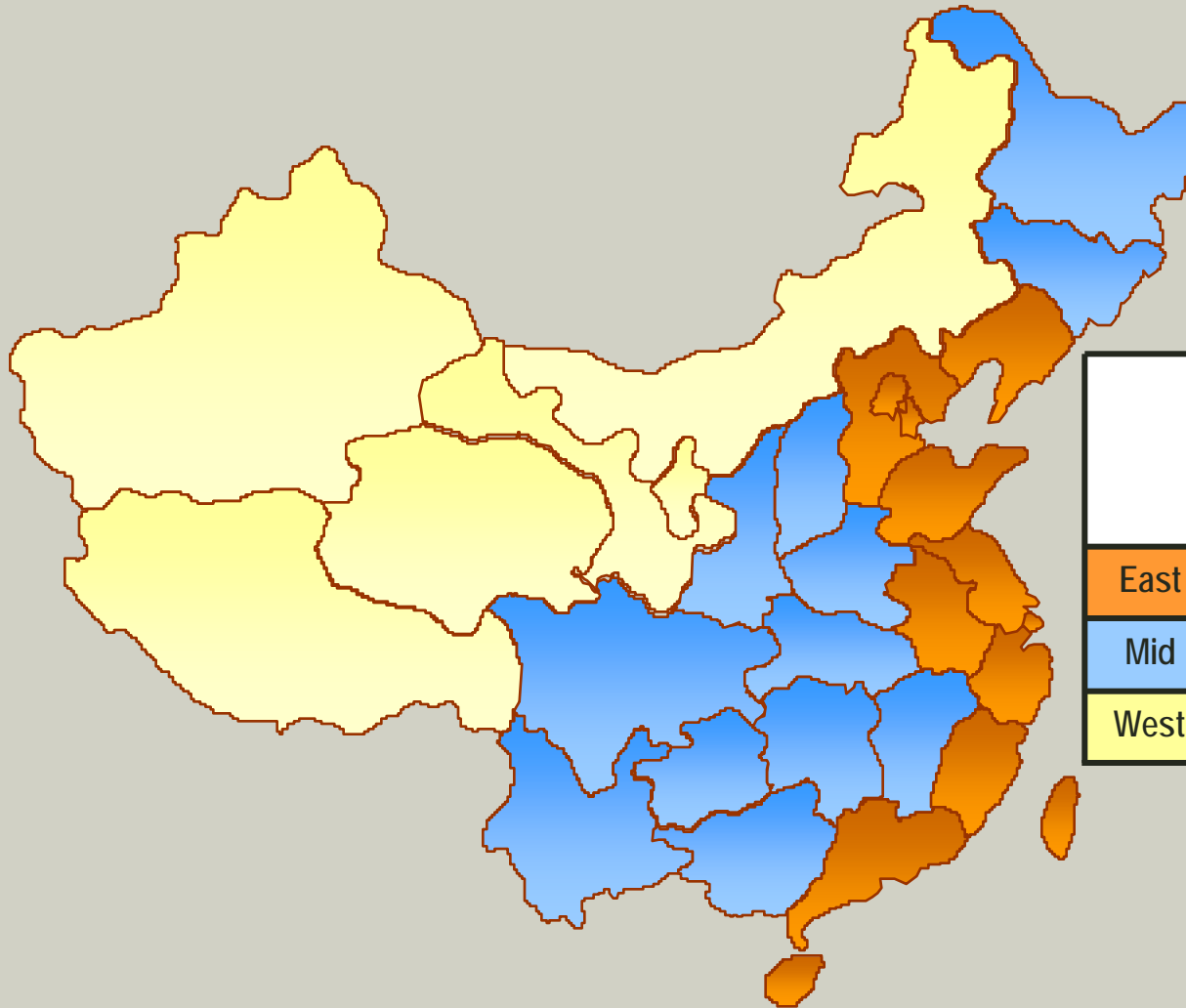
Data: CEIC

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But economic growth still concentrated in the east



	Pop. (million)	GDP per capita (USD)	GDP Share(%)
East	482	2117	58
Mid	711	767	39
West	40	380	3

China Driving Global Growth: China's share of global consumption, 2004

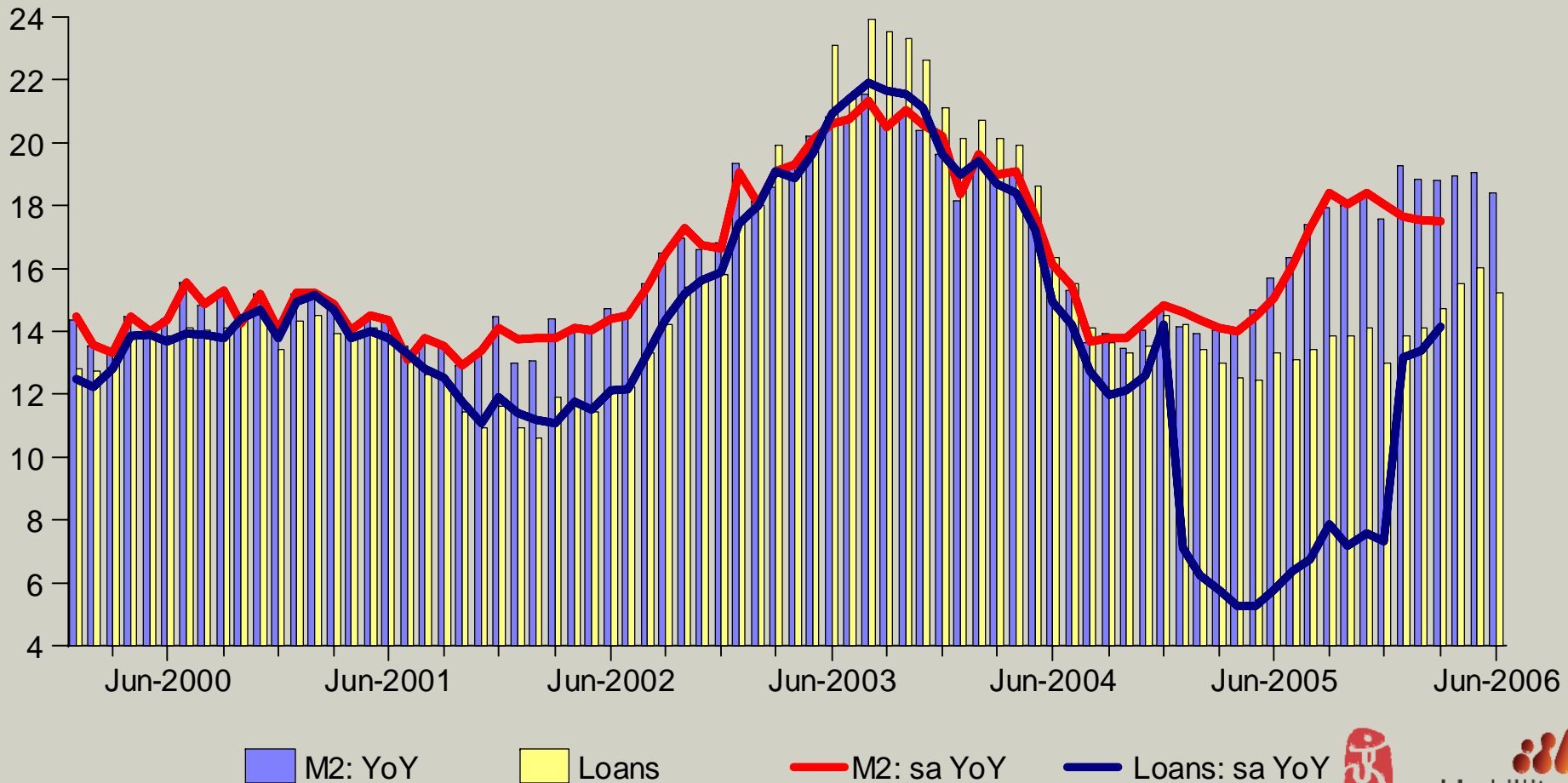
	World rank, 2005	Percentage world consumption, 2005
Oil	2	9
Aluminium	2	22
Iron Ore	1	41
Nickel	2	16
Copper	1	22
Steel	1	31
Coal	1	37
Nuclear	11	2
Alumina	1	20

Data: BP Statistical Review of World Energy, IISI, World Bank, UN Comtrade database

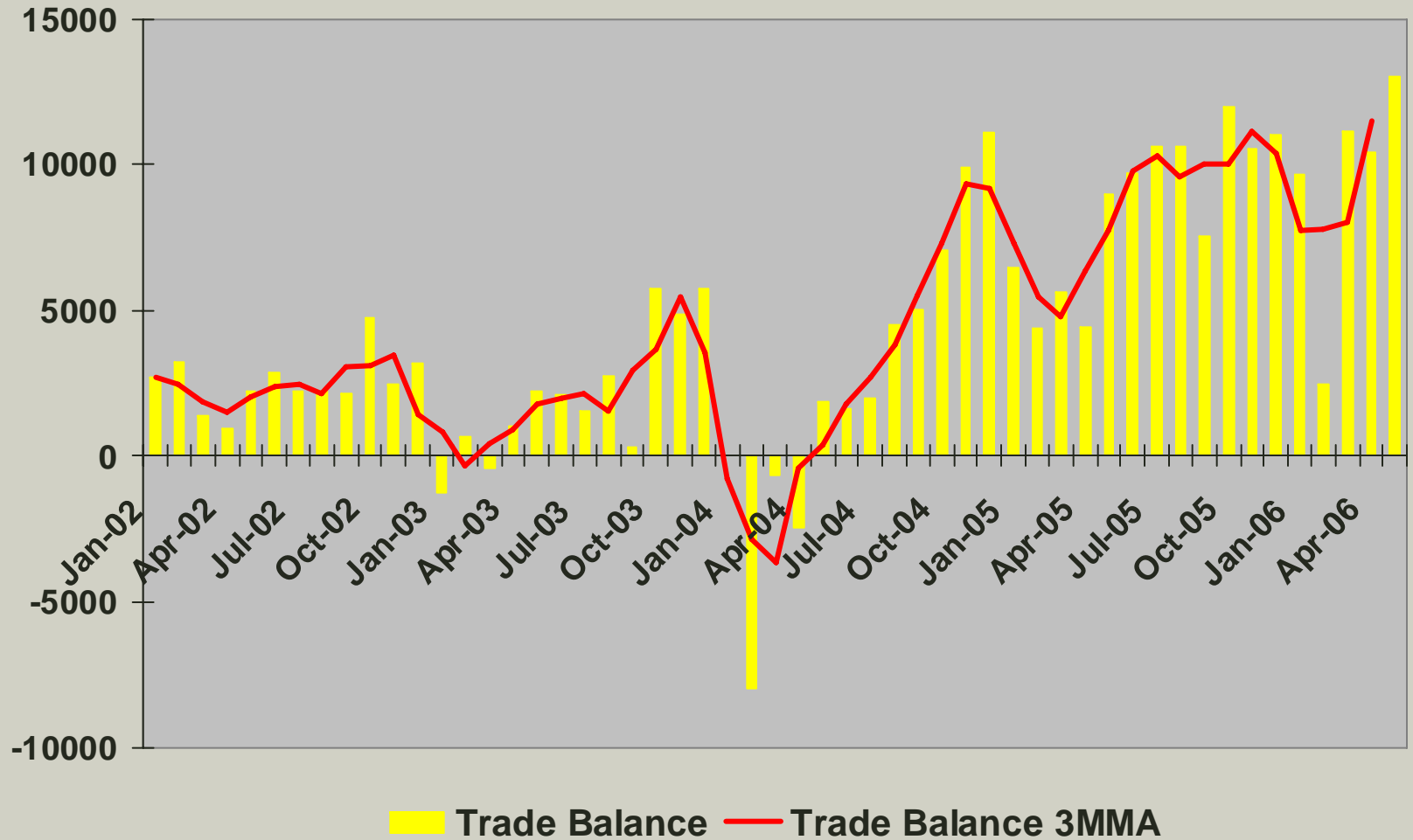


Money supply and loan growth

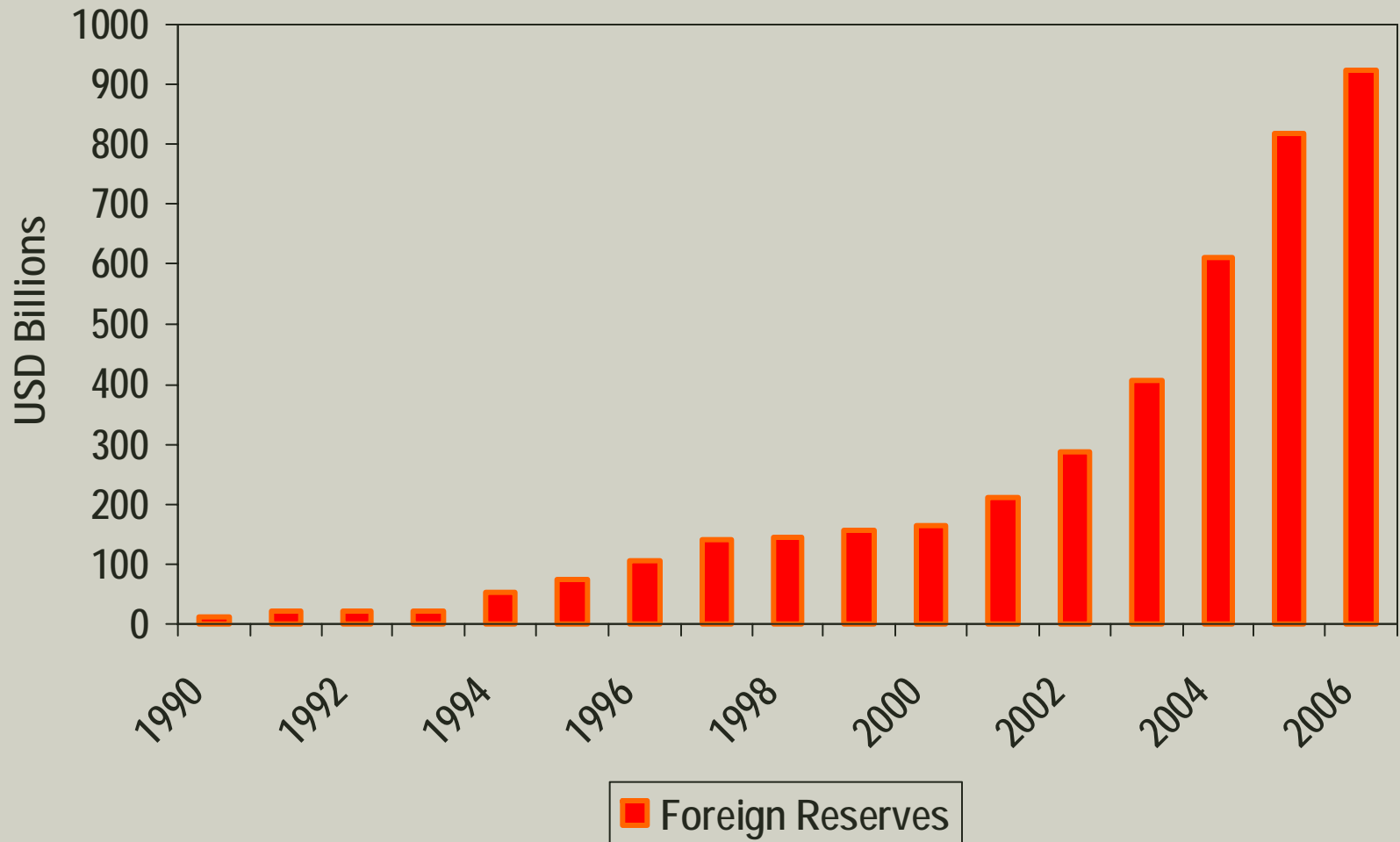
Money Supply and Financial Institution Loan Growth
Change YoY, sa = seasonally adjusted



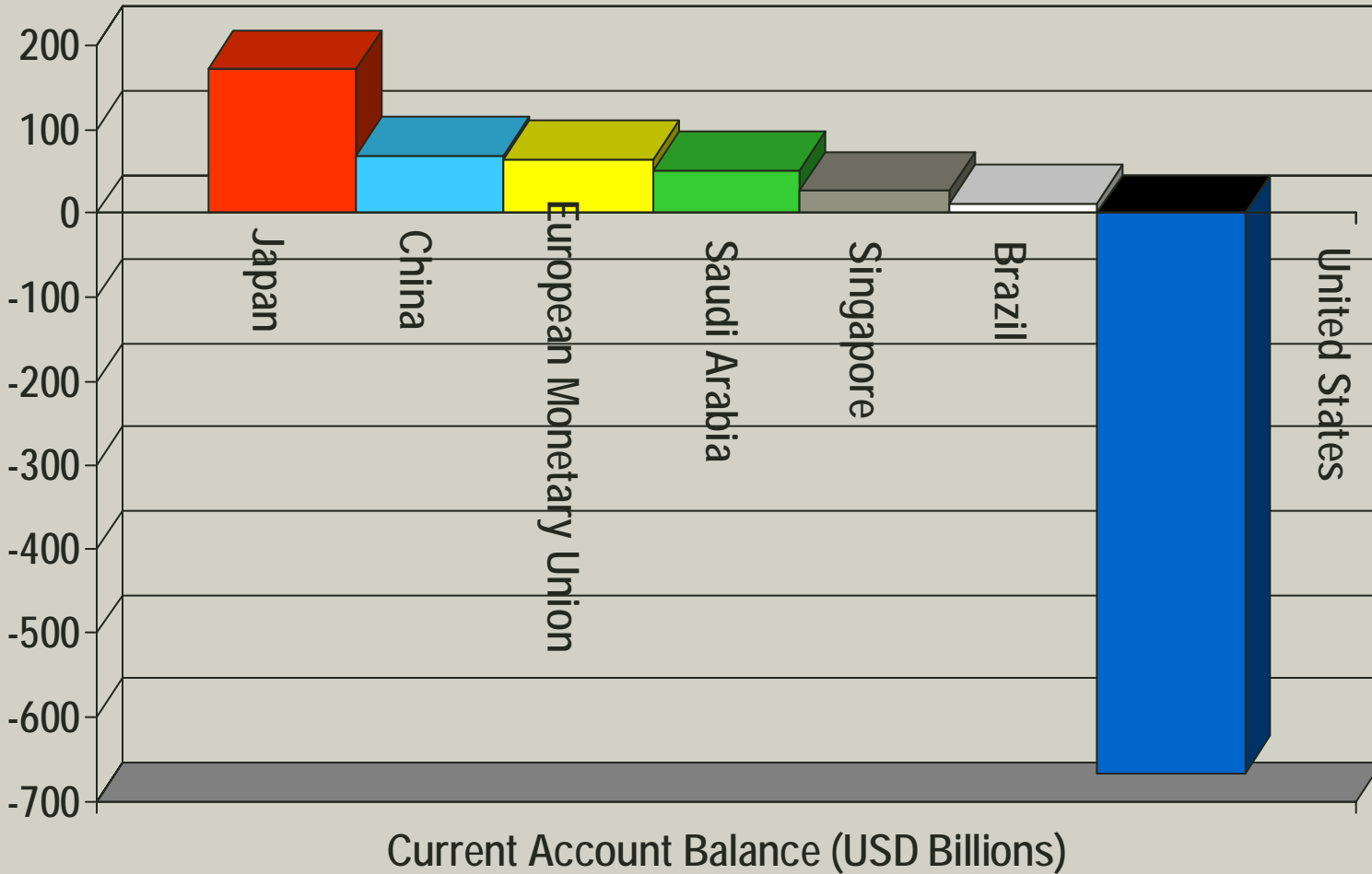
Growth of the trade surplus



Foreign exchange reserves



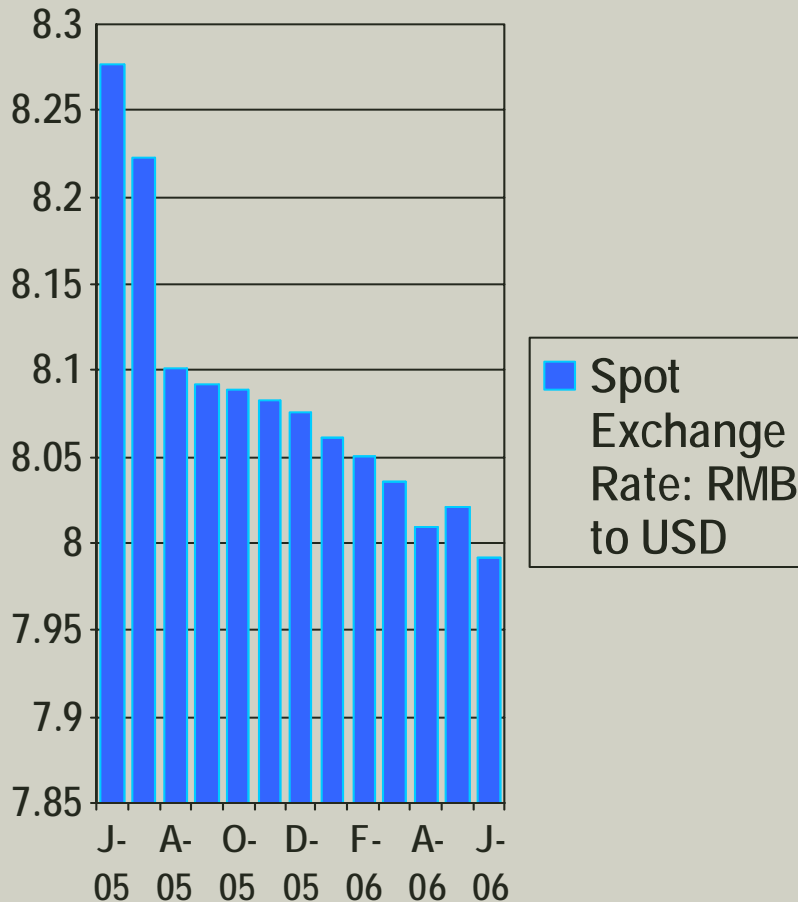
Comparison of current account balances



Data: World Bank

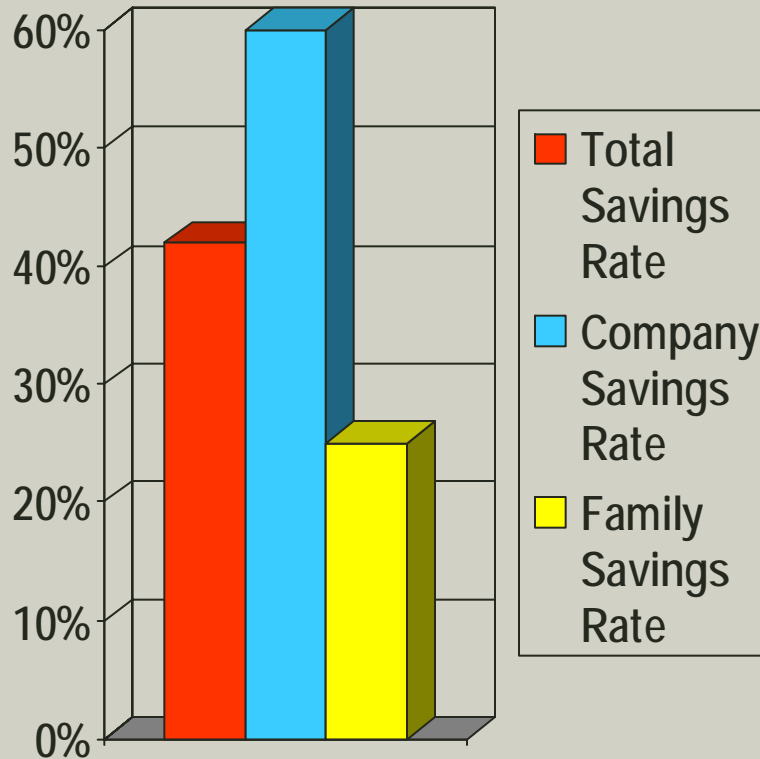


RMB – further revaluation?



- RMB expected to continue appreciating gradually due to:
 - Worries that a rapid revaluation could derail rural income growth
 - Concerns that revaluation could disproportionately hurt small and medium-sized private enterprises
 - Fears that revaluation would negatively affect agricultural exports

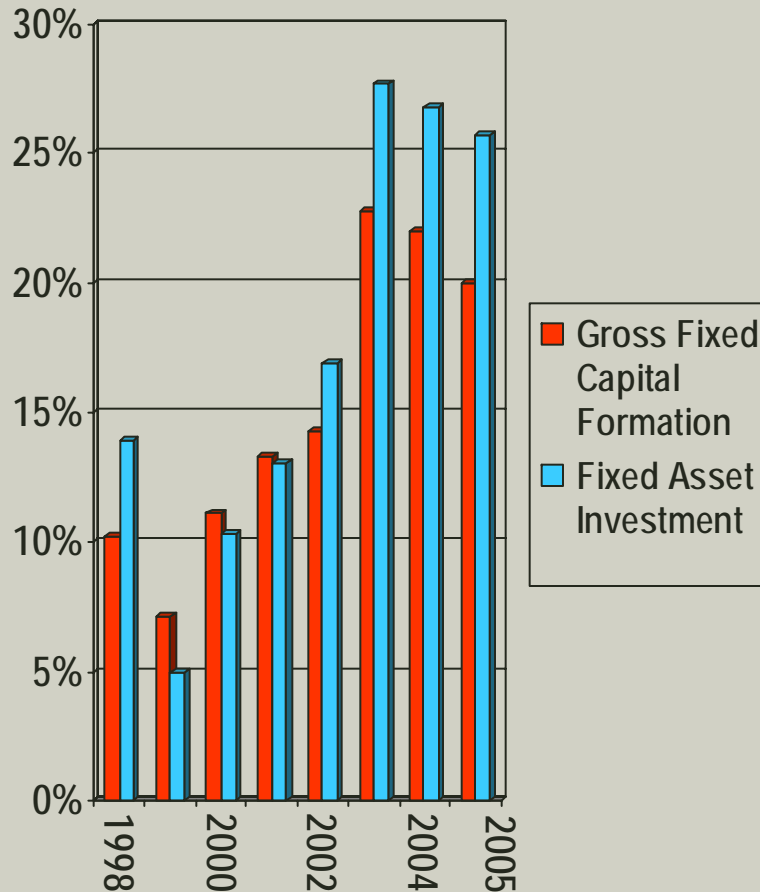
The high savings rate is a function of the limited availability of credit and minimal social safety net rather than an indicator of future consumption



- Though China has a very high overall savings rate (42%), it is worth examining what that means in practical terms:
- Companies save about 60% of income. This is primarily due to the limited availability of bank credit to private firms and high curb market interest rates
- Family savings are about 25% of income. The rate has remained high because of the need to save for education, healthcare, and pensions.

Source: IMF

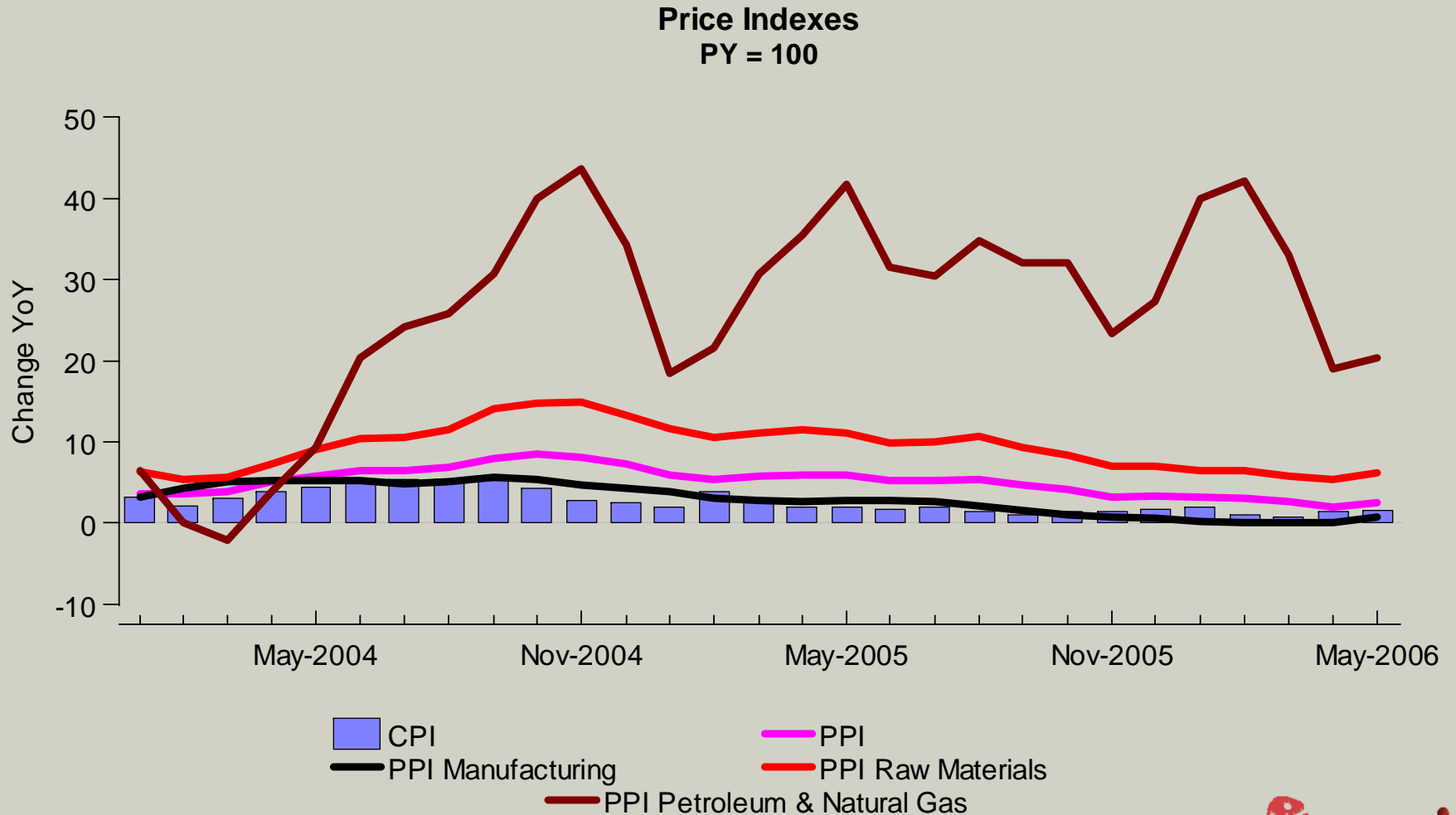
China's high savings rate funds investment – but also speaks to under-developed capital markets



- The FAI series gets a lot of attention but includes the value of land transfers and transfers of used capital
- GFCF calculated according to international practice.
- Increasing unexplained discrepancy once FAI is adjusted for land and used capital.

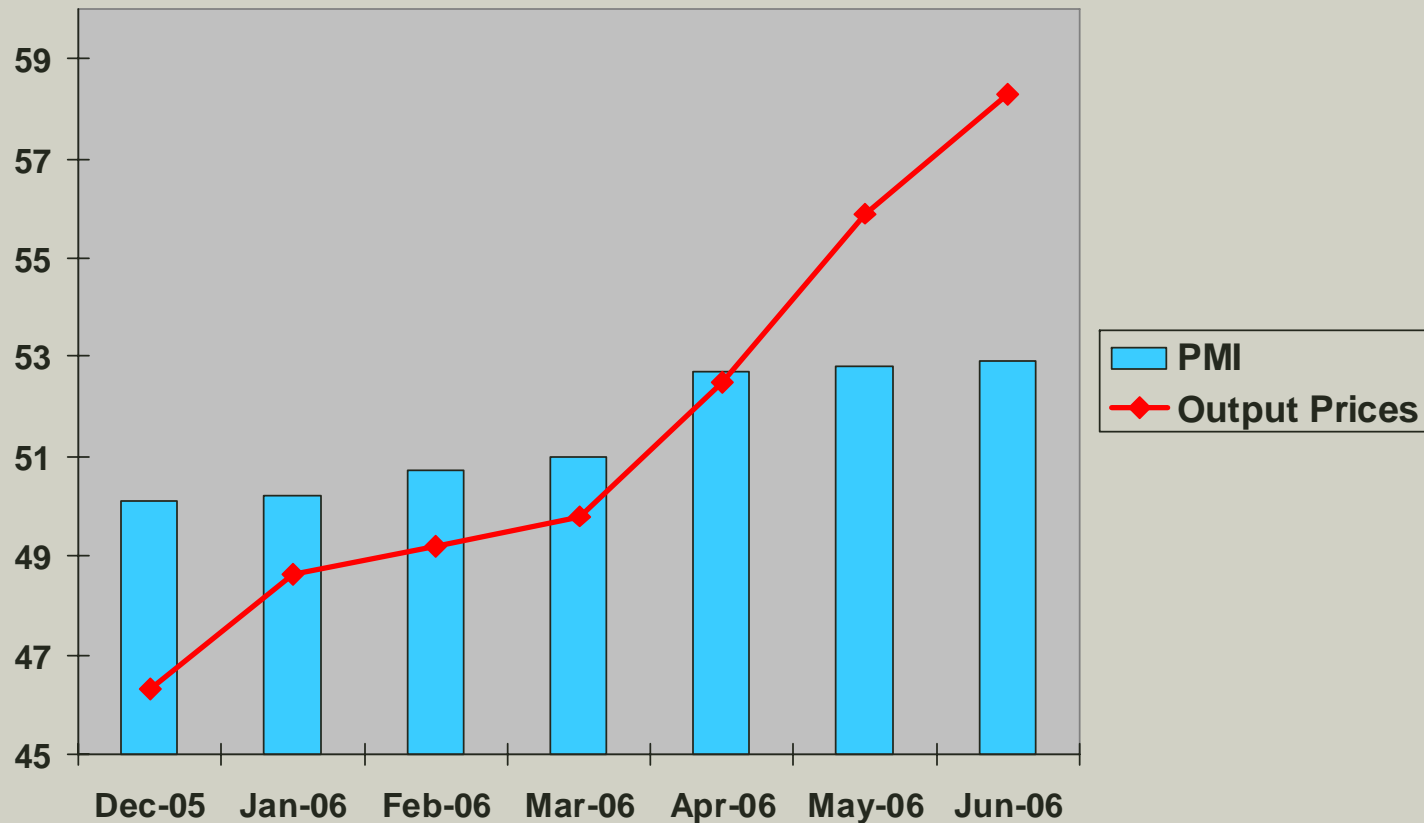
Source: NBS Yearbook, CEIC, BHP Billiton estimates

Manufacturing Price Indexes



Business sentiment improving due to strong demand

Purchasing Manager's Index (Score of 50 or above equals expectation of expansion)

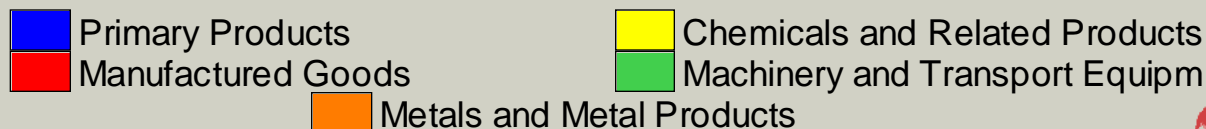
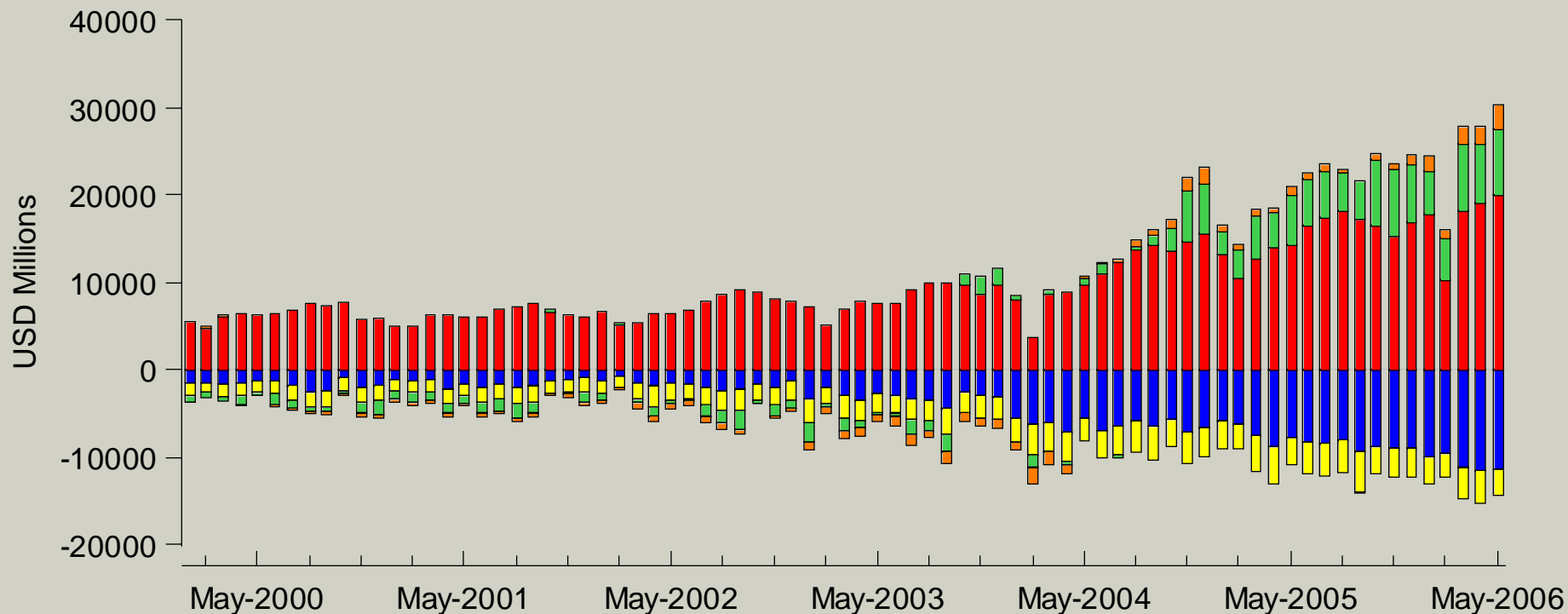


Source: CLSA



China components of trade balance

Components of China's Trade Balance USD Millions



Data: CEIC

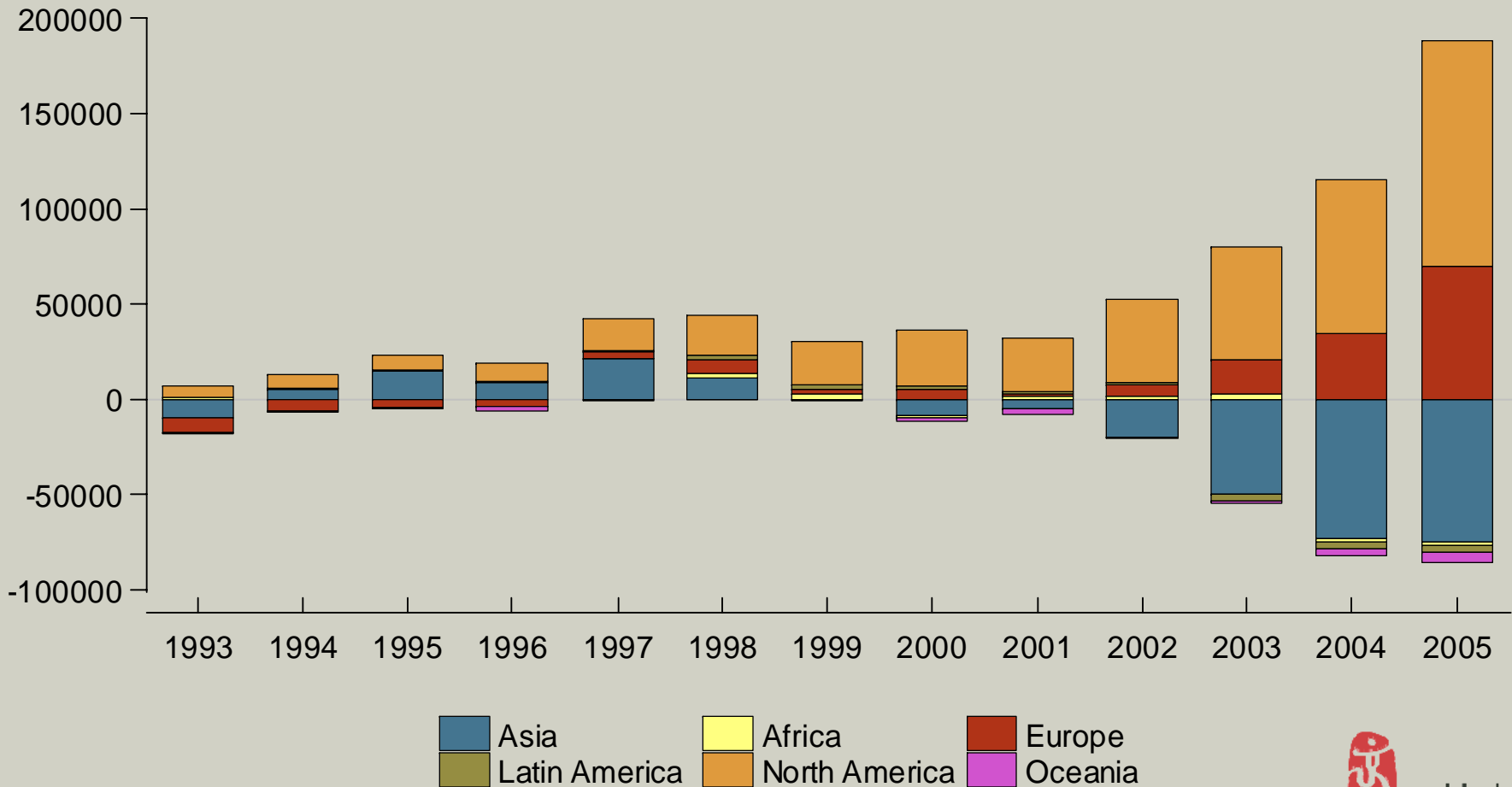
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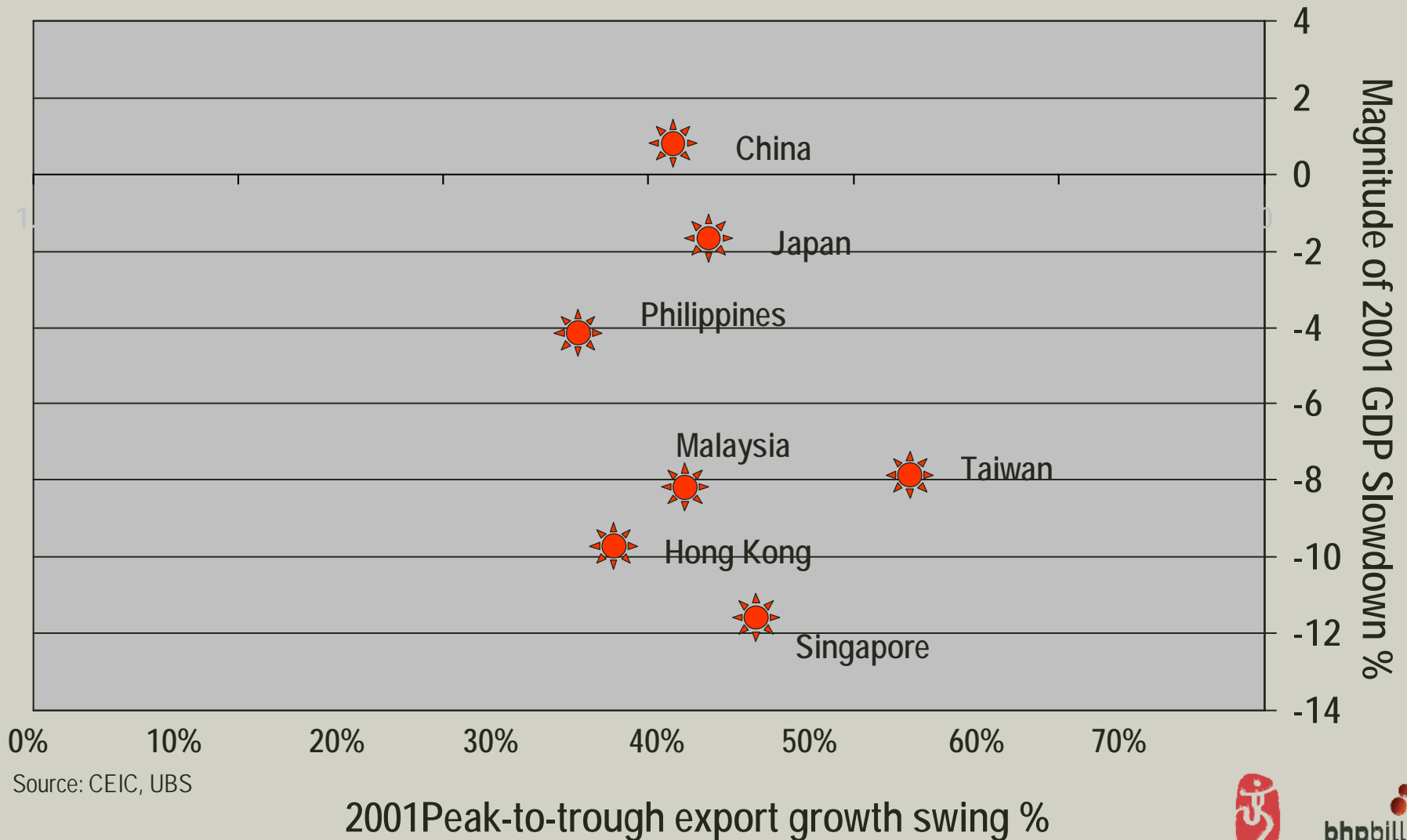


China's trade balance with the world

China's Trade Balance with the World USD Millions



Recession in the US doesn't necessarily lead to problems in China

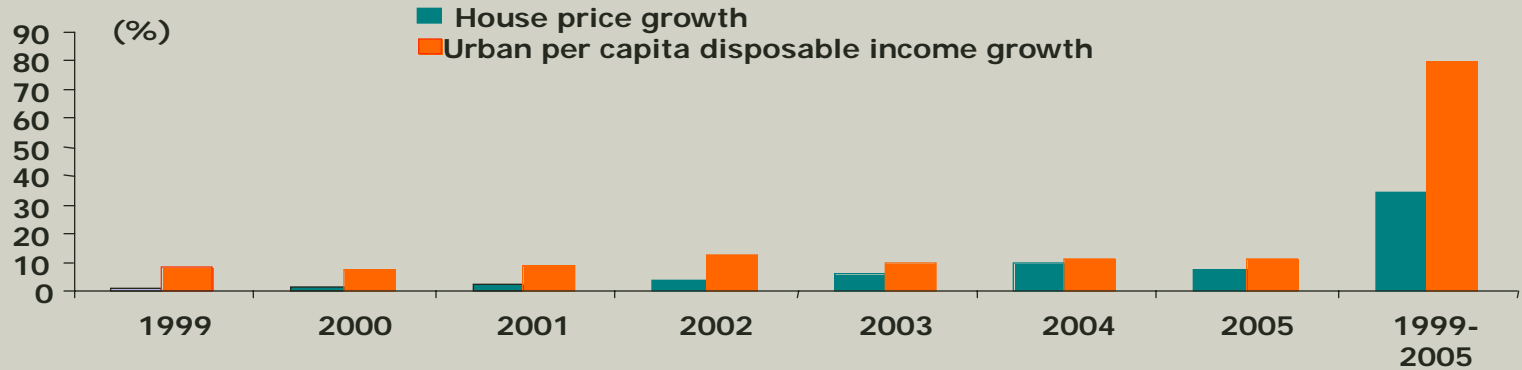


Source: CEIC, UBS

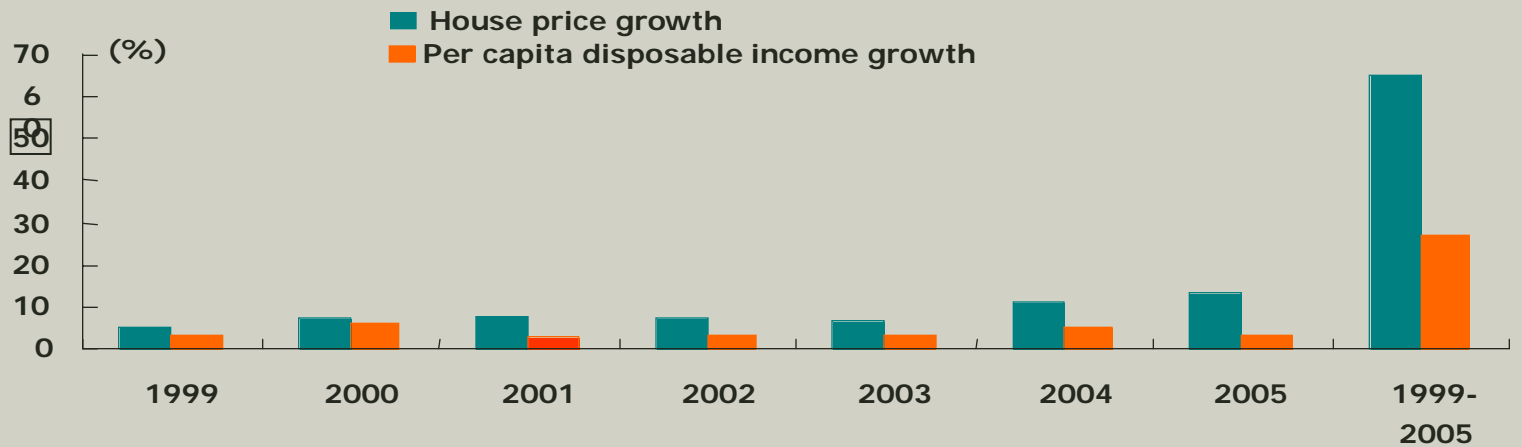


Rising incomes make housing affordable, though there are still not enough low and middle income units

China



U.S.



Data: CLSA



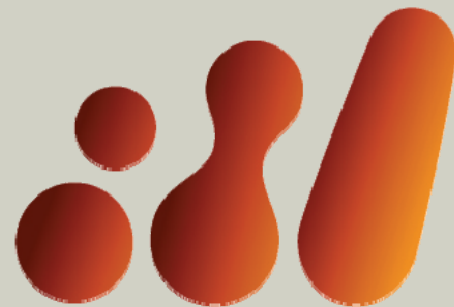
There has been huge progress in bank reform.....

NPLs to total loans	2002	2003	2004	3Q 2005
State-Owned Commercial Banks	25.6%	20.1%	15.6%	10.1%
Bank of China	22.5%	16.3%	5.1%	...
China Construction Bank	15.2%	9.1%	3.9%	...
Industrial & Commercial Bank	24.4%	21.2%	19%	...
Agricultural Bank	36%	30.8%	26.8%	...
Joint Stock Commercial Banks	11.8%	8.1%	5.0%	4.5%
Total	23.2%	17.8%	13.2%	8.7%

Source: IMF, CBRC, Commercial Banks



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