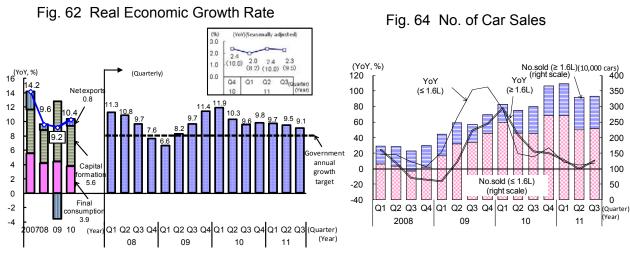
Chapter 2, Section 3. Asian Economies ~ China: Internal Demand Focused Expansion ~

- Real Economic Growth Rate: Over 9% growth year on year. Exceeding the 8% target. (Fig. 62)
 - > Fixed asset investments are growing fast. Within this, real estate investment is generally growing by over 30% (Fig. 63). Consumption is growing slowly, but is steady (Fig. 64).
 - > Both exports and imports set new records in the two quarters April-June and July-September, 2011. Trade balance is generally in surplus. (Fig. 65)
- Expansion of yuan denominated transactions (Fig. 66):
 - > In August 2011, yuan denominated trade settlements became possible throughout China. In October, also removed prohibition on yuan denominated direct investment in China.



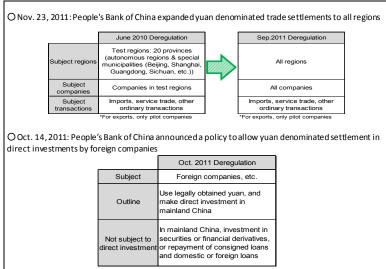
(Year on Year, %))

(Year)

Fig. 65 Exports, Imports, Trade Balance 6,000 Trade balance **Exports** 4,000 2,000 0 -2.000 -4,000Imports -6.000

01 Q2 Q3 Q4|Q1 Q2 Q3 Q4|Q1 Q2 Q3 Q4|Q1 Q2 Q3 Q4|Q1 Q2 Q3|(Quarter)

Fig. 66 Deregulation of Cross-border Transactions



(100 million yuan)

8,000

7,000

6,000

5,000

4.000

3,000

2,000

1,000

Year on Year Investment

(right scale)

Fig. 63 Real Estate Development Investment

2010

^{1.} Made by National Bureau of Statistics of China

^{2.} In Nov. 2011 real estate development investment, statistics on land purchase expenses were changed

^{3.} This Bureau only publishes cumulative data, thus monthly data are tentative calculations by the Cabinet Office.

Chapter 2, Section 3. Asian Economies ~ Risks Faced by China (1): Higher Prices of Goods and Real Estate ~

- Consumer Price Index: High rate, far above the 4% government target. In 2011, this was led by higher food prices for pork, etc. (Fig. 67).
- Real Estate Prices: Repeated price suppression policies are steadily relieving upward pressure on prices, but they remain high. (Figures 68 & 69)
- Tight Monetary Policy Continues:
 - ➤ In 2011, rose the deposit reserve ratio 6 times, and policy interest rate 3 times (Fig. 70). As a result, the money supply growth rate slowed, but there was an increase in fundraising by methods except new bank loans, and in short term fund inflows from foreign countries (Figures 71 & 72). Financial tightening is not demonstrating sufficient effects.

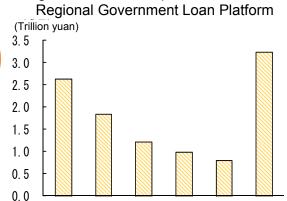
Fig. 67 Food Prices Fig. 71 Balance of Fund Raising (Year on Year, %) Other than New Bank Loans Fig. 69 Real Estate Price Levels (Index 2002 = 100) 70 (Real Estate Prices / Annual Revenues) 7.000 → (Quarterly) Consignment loans 55 6,000 Multiple 27.9 30 40 Seafood Corp. 2010 5.000 Eggş 24 7 bonds 25 25 2006 4,000 Trust loans Bank underwritten Non-financial 20 10 15.8 16.5 3,000 corporate shares -5 15 2,000 -20 10 1,000 -35 5 |1 4 7 10 |1 4 7 10 |1 4 7 10 |1 4 7 10 (Month) Q2 2003 04 09 2008 (Year) 2011 Beijing Shanghai Shenzhen average Fig. 70 Deposit Reserve Ratio & Policy Fig. 68 Newly Built Housing Sales Prices Fig. 72 Foreign Funds Flow into China (%) Interest Rates (No. of city) (70 Major Cities, Year on Year) 8 22 (100 million yuan) June 14 Foreign currency funds 21 Deposit reserve ratio 7,000 balance increase (Overall) Foreign currency funds balance increase (large financial institutions)-6,000 trade surplus + direct investment in China 21.5% (October, right scale) 5,000 (in blue) 50 6 4.000 19 Flat 3.000 Rise 40 July 6 5 18 2,000 Standard loan interest raté 1,000 30 (1 year maturity): 6.56% 4 Standard deposit interest -1.00020 3.50% (October) 16 January 2011 -2,000 3 1Q 2Q 3Q 4Q 1Q 2Q 3Q 4Q 1Q 2Q 3Q 4Q 1Q 2Q 3Q Real estate price 10 15 suppression policy July 6 implemented 14 (Month) 1234567891**0112**1234567891**0112**1234567891**0112**1234567891**0** 4 7 10 (Month) 4 7 10 1 4 7 10 1 4 7 10 1 4 7 10 2008 2010 2009 (Year) 2006 10

Chapter 2, Section 3. Asian Economies

- ~ Risks Faced by China (2): Real Estate Development Investment & Regional Government Finance ~
- Regional governments, real estate developers and banks have mutually close relationships in real estate development (Fig. 73). If real estate prices fall and real estate development slows, chain effects may appear.
 - ➤ Regional Governments: Amidst ongoing financing shortages, the profits derived by transferring land use rights, which can be obtained when developing new real estate, are used to repay funds borrowed for existing real estate development projects. If real estate development slows, fund repayment problems may occur. Regional government debt balances are growing (Fig. 74), and regional government loan platforms established for fundraising have over 40% of debt redemption deadlines concentrated in 2011 and 2012 (Fig. 75). Thus caution is needed.
 - > Real Estate Developers: Possibility that this will bring worse business results and greater debt repayment burdens.
 - > Banks: Loans to real estate developers are increasing (Fig. 76). Possibility of late repayments from regional governments and real estate developers, which would increase non-performing loans.

Fig. 73 Real Estate Development Relationships Recover land & Residents. land use rights Regional enterprises government etc. Compensate Land use rights transfer payment Invest & establish Land Regional use rights government loan platform Loan Develop Real estate Bank developer Loan Develop

Fig. 74 Regional Governments Claims Outstanding (Trillion yuan) (%)(Regional government loan platform) 12 70 60 YoY (right scale) 10 50 Regional 8 government 40 6 30 (Other) 20 2 10 0 2007 80 09 10 (Year)



13

14

15

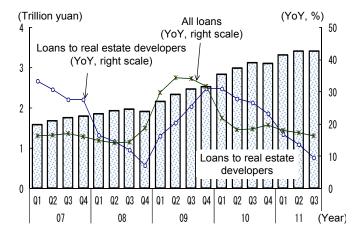
12

2011

16~ (Year)

Fig. 75 Debt Redemption Deadlines for

Fig. 76 Bank Loans to Real Estate Developers



Chapter 2, Section 3. Asian Economies ~ Risks Faced by China (3): Income Disparity Still Unsolved ~

- Remarkable Disparities between Eastern and Western Regions:
 - Eastern regions have about 40% of China's population concentrated in almost 10% of its land, generating about 50% of China's GDP. Western regions comprise 70% of China's land, but have less than 30% of its population, and only 20% of GDP.
 - > Regions with high ratios of secondary and tertiary industry businesses are concentrated in Eastern regions, with high per capita GDP. (Fig. 78)
- Western Regions have Large Urban/Rural Disparities (Fig. 79):
 - ➤ Low per capita GDP Western regions have relatively high urban/rural income disparities.

Fig. 77 Four Main Regional Classifications Seen on Mainland China Map

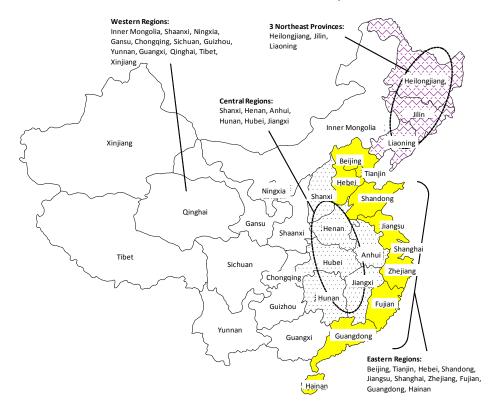


Fig. 78 Economic Development & Industrialization

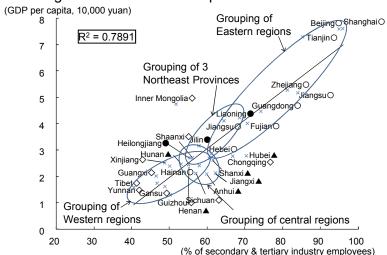


Fig. 79 Economic Development & Income Disparities (Urban per capita disposable income / rural per capita net revenues) Urban & Rural Disparities

