

The Impact of the Global Financial Crisis on Emerging Markets

- *The Case of China*



Hua YU

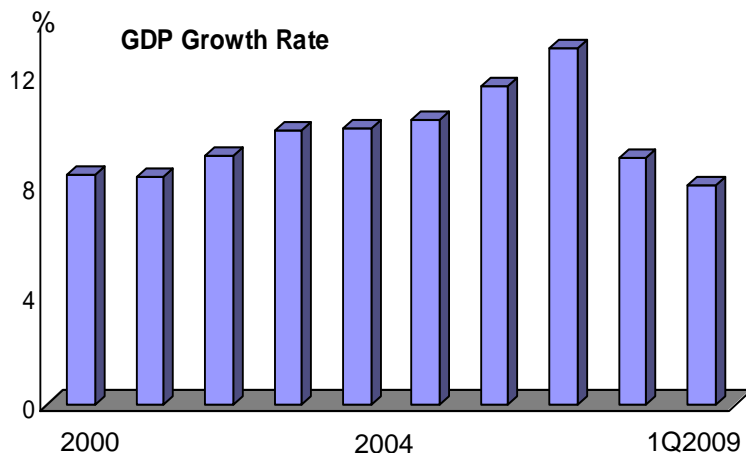
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China: An Emerging Transitional Economy

- A Rapid Growing Economy with High Saving Rates
- GDP Growth Drivers
- Increasing Dependence on External Demand

China: An Emerging Transitional Economy

China: A Rapid Growing Economy

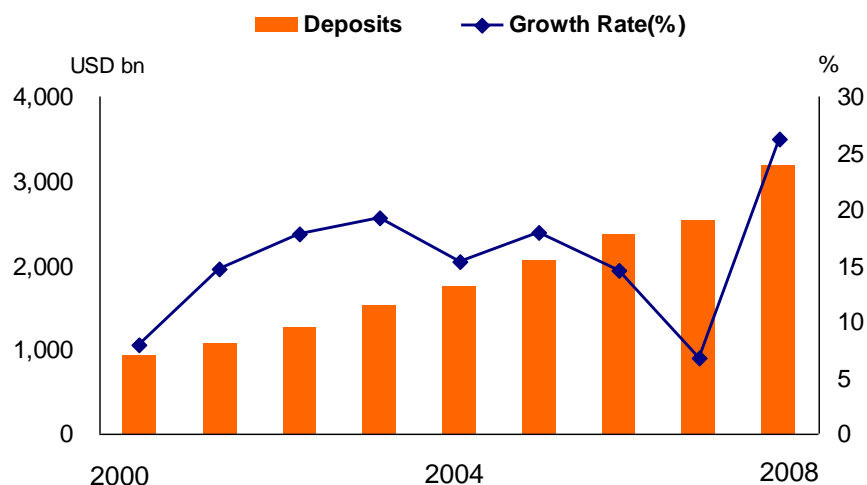


Source: Wind, Morgan Stanley Huaxin,

Growth Has Been Financed by Savings

- The economy of China has been growing at 9% on average for the past decade
- 2008 GDP of RMB 30 trillion (USD 4.4 trillion), US\$3380 per capita
- The growth has been financed mainly by domestic savings which increased at a high speed

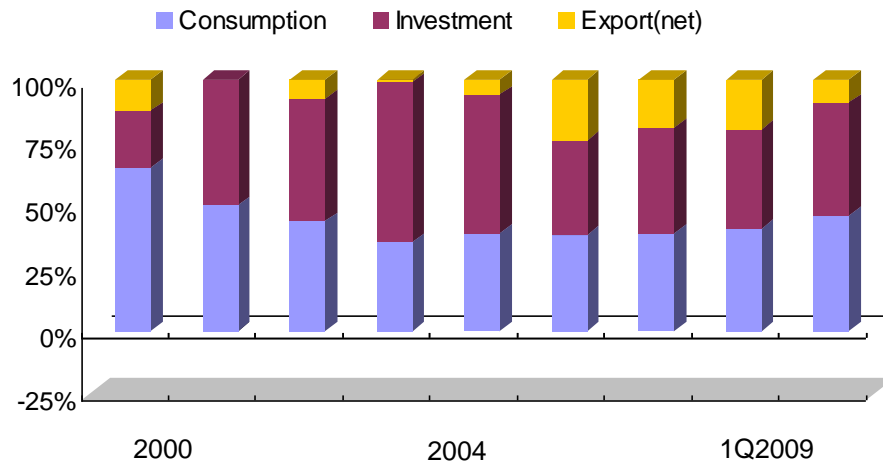
Savings Kept Increasing at a High Speed



Source: Wind, Morgan Stanley Huaxin,

China: An Emerging Transitional Economy

GDP Growth Driver Composition

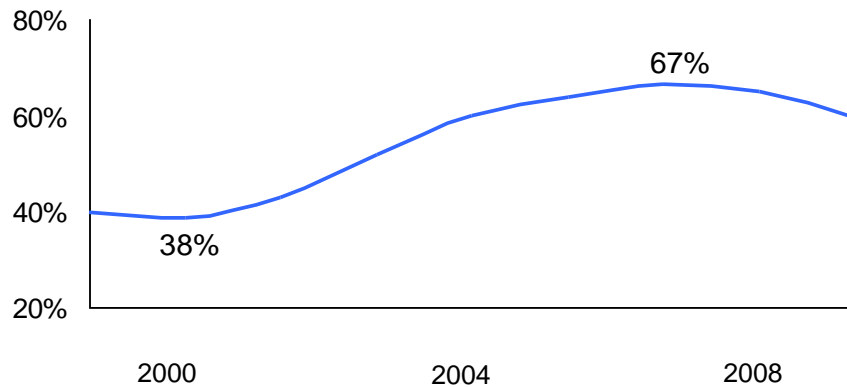


Source: Wind, Morgan Stanley Huaxin,

Major Drivers of GDP Growth

- The investment has been the main driver for the GDP growth
- Consumptions and Exports have increased contributions to GDP growth

An Increasingly Opened Economy



Source: Wind, Morgan Stanley Huaxin,

Increasing Dependence on External Demand

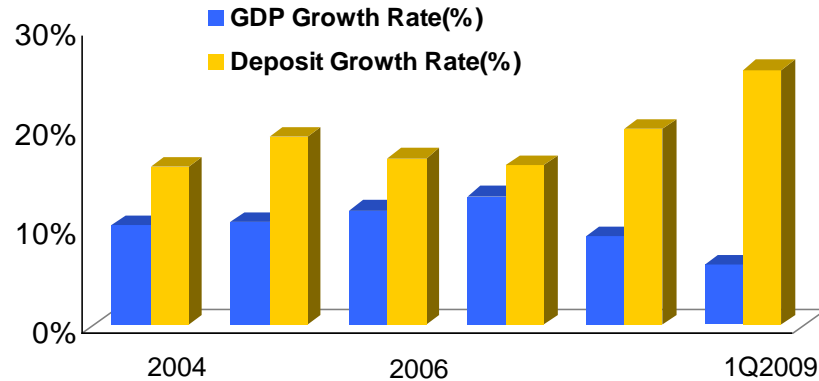
- Around two-thirds of China's economy is linked to global business

Banking, Finance and Capital Market

- Banking Sector Has Been Sound and Stable
- Huge Reserves Ensure Supply of Liquidity
- A-Share Market: Relying on Domestic Fund Flows

Banking, Finance and Capital Market

Deposits Have Grown with GDP

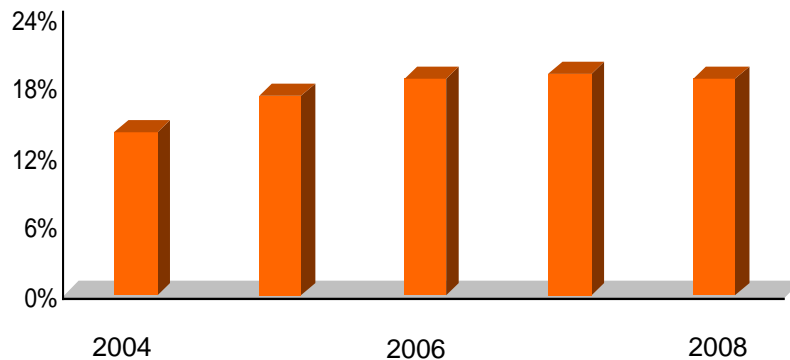


Source: Wind, Morgan Stanley Huaxin,

Banking Sector Sound and Stable

- Bank deposits grow rapidly, with an even higher growth rate than GDP
- Bank capital is growing and kept sufficiently high

Banks Business Has Been Profitable

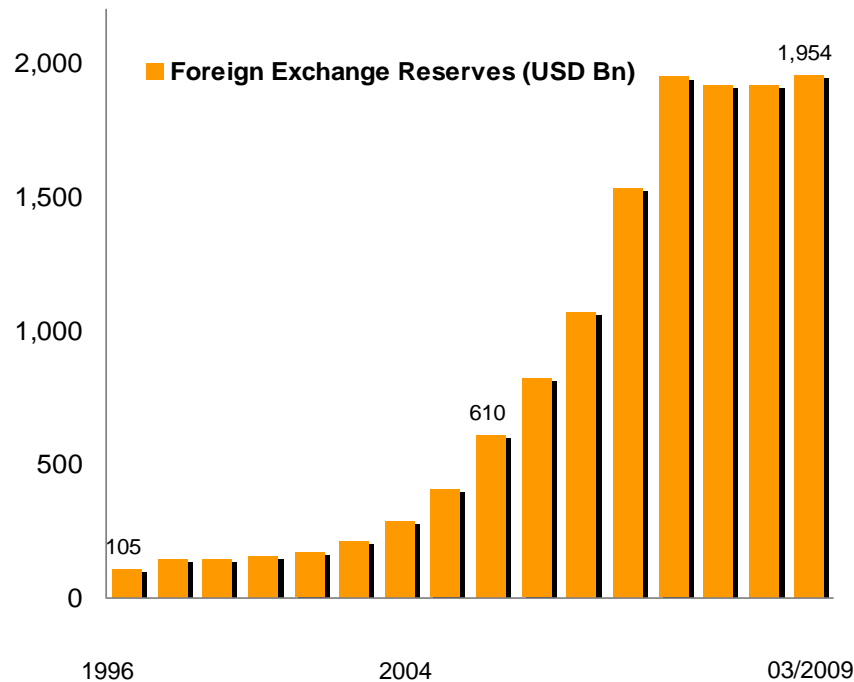


Source: Wind, Morgan Stanley Huaxin,

- As results of banking reform, NPLs ratio dropped from 17% in 2003 to below 5% recently
- Average ROE of listed banks remains above 10%

Banking, Finance and Capital Market

Foreign Revenue/Capital Accumulates Over Time



Huge Reserves Ensure Liquidity

- FDI and surplus of Current Accounts make China a net receiver of offshore capital
- There is no access for portfolio investment of foreign capital with exception of QFII
- The economy and financial system does not rely on short term flows of offshore money
- Foreign Exchange Reserves have increased to nearly USD 2 trillion

Banking, Finance and Capital Market

A-Share Market: Growth Based on Domestic Fund Flows



- Conversion of State Shares made the market more efficient and transparent
- In 2007, domestic IPO 489bn RMB (USD 70bn), overseas IPO USD6.9bn
- QFII and QDII as windows for foreign investors going to A-Shares and domestic investors going offshore
- A-Share market the World's 3rd largest by market capitalization

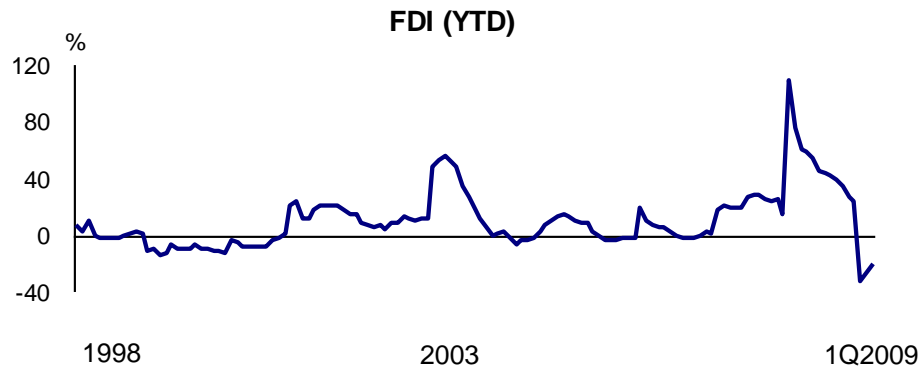
Impacts of Financial Crisis

Due to China A-Share market's limited exposure to the international capital flows and thanks to China's stable and strong financial sector with dynamic reform and development:

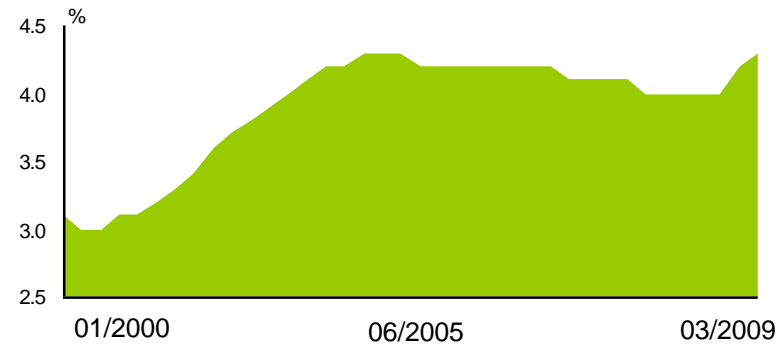
- The direct impact of global financial crisis on A-Share market has been limited
- The indirect impact of the crisis through the performance of the economy, however, has been substantial

Impacts of Financial Crisis

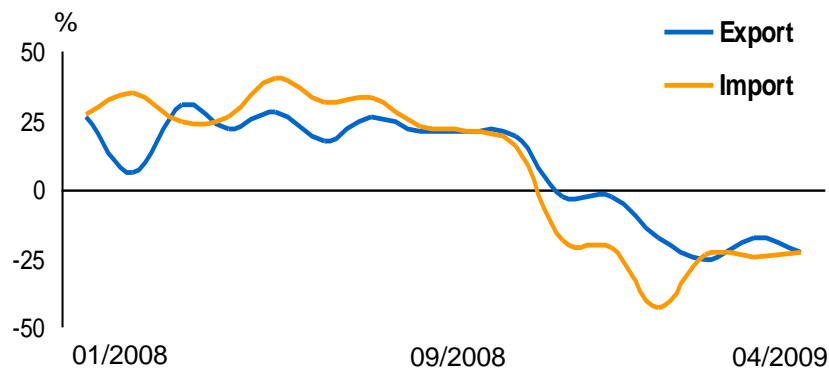
FDI Dropped Over the Past Quarters



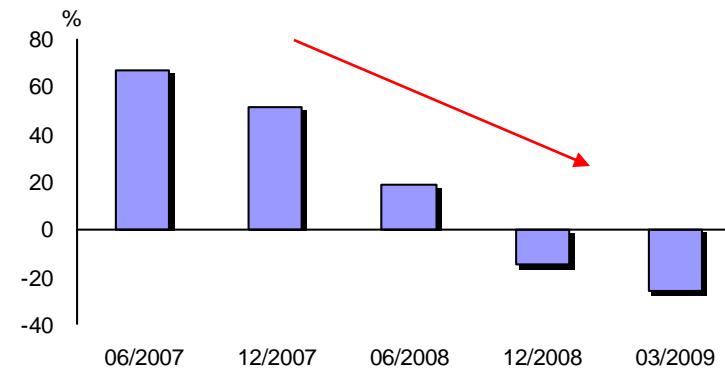
Unemployment Rate Soared



Export Went Down Dramatically



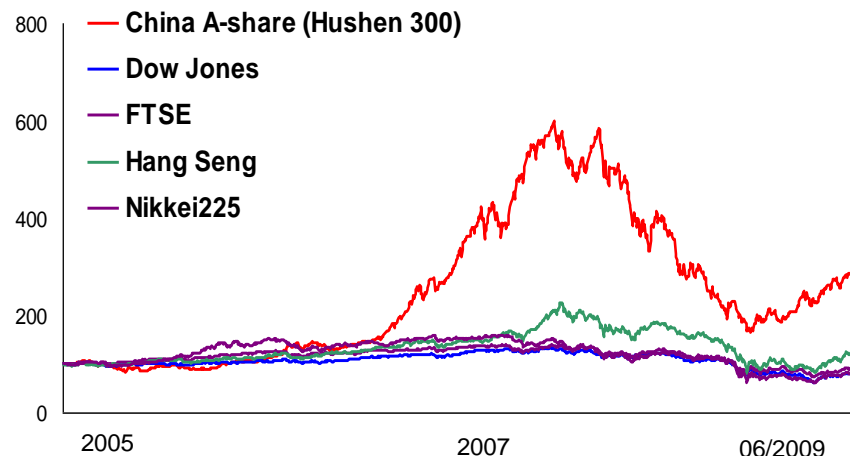
Earnings Growth Rate Declined Sharply



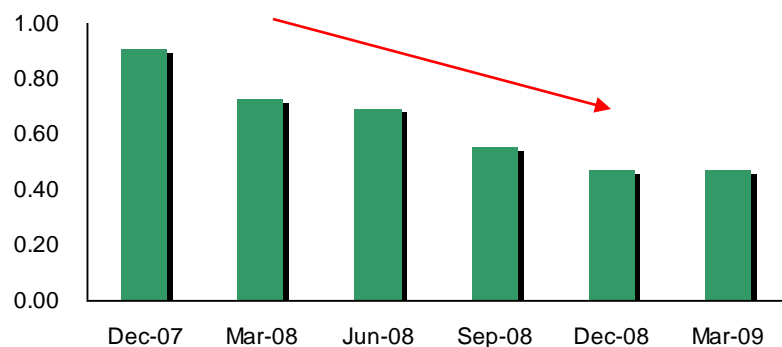
Source: Wind, Morgan Stanley Huaxin,

Impacts of Financial Crisis

Investors Confidence Hit by the Crisis



NAV of QDII Funds Dropped Significantly



Source: Wind, Morgan Stanley Huaxin,

Limited Direct Impacts

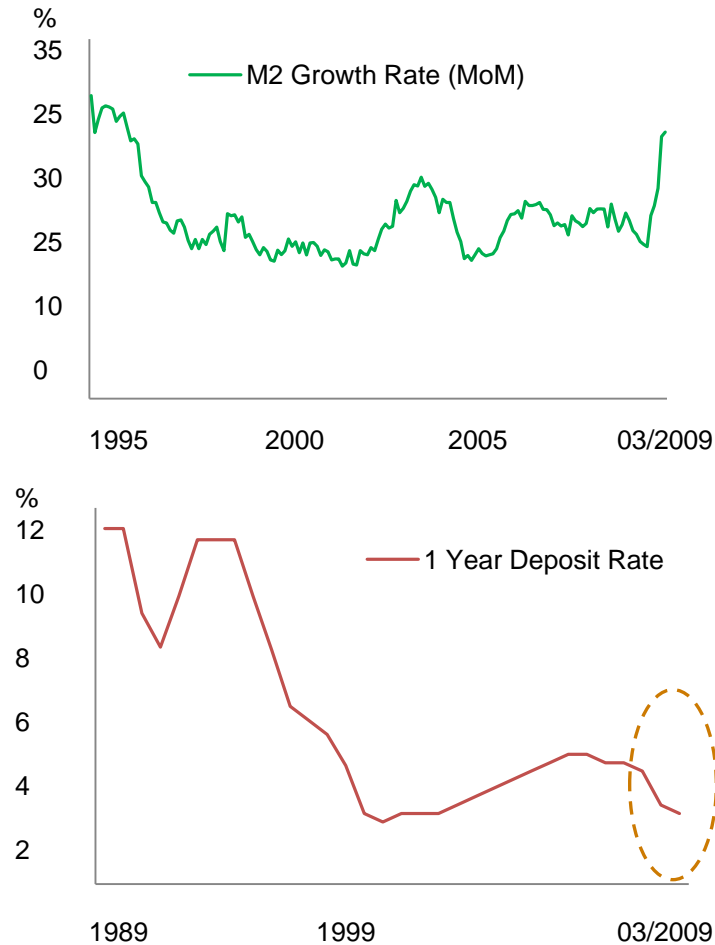
- Local securities institutions do not own stakes of offshore securities players
- They cannot trade on offshore securities and derivatives
- Shanghai SE Index lost nearly 70% from its peak in early 2008
- Investors lost their confidence on both domestic and international markets
- QDII funds incurred losses on their offshore markets investment
- QFII moved funds out of A-Share market during the last quarter of 2008
- Some local institutions (banks, insurance companies) suffered losses on their offshore securities investment

Dealing with The Crisis

- Government Programs to Stimulate the Economy
- Measures by Securities Regulators to stabilize the Market
- Focus on investor Education and Protection

Dealing with the Crisis

Monetary Expansion



Source: Wind, Morgan Stanley Huaxin,

Fiscal Stimulation

- A fiscal stimulus total investment of RMB 4 trillion (USD 580bn) with more to follow
- Tax cuts and fiscal subsidies on certain products and services
- Job creating programs
- Programs of promoting certain industrial sectors

Dealing with the Crisis

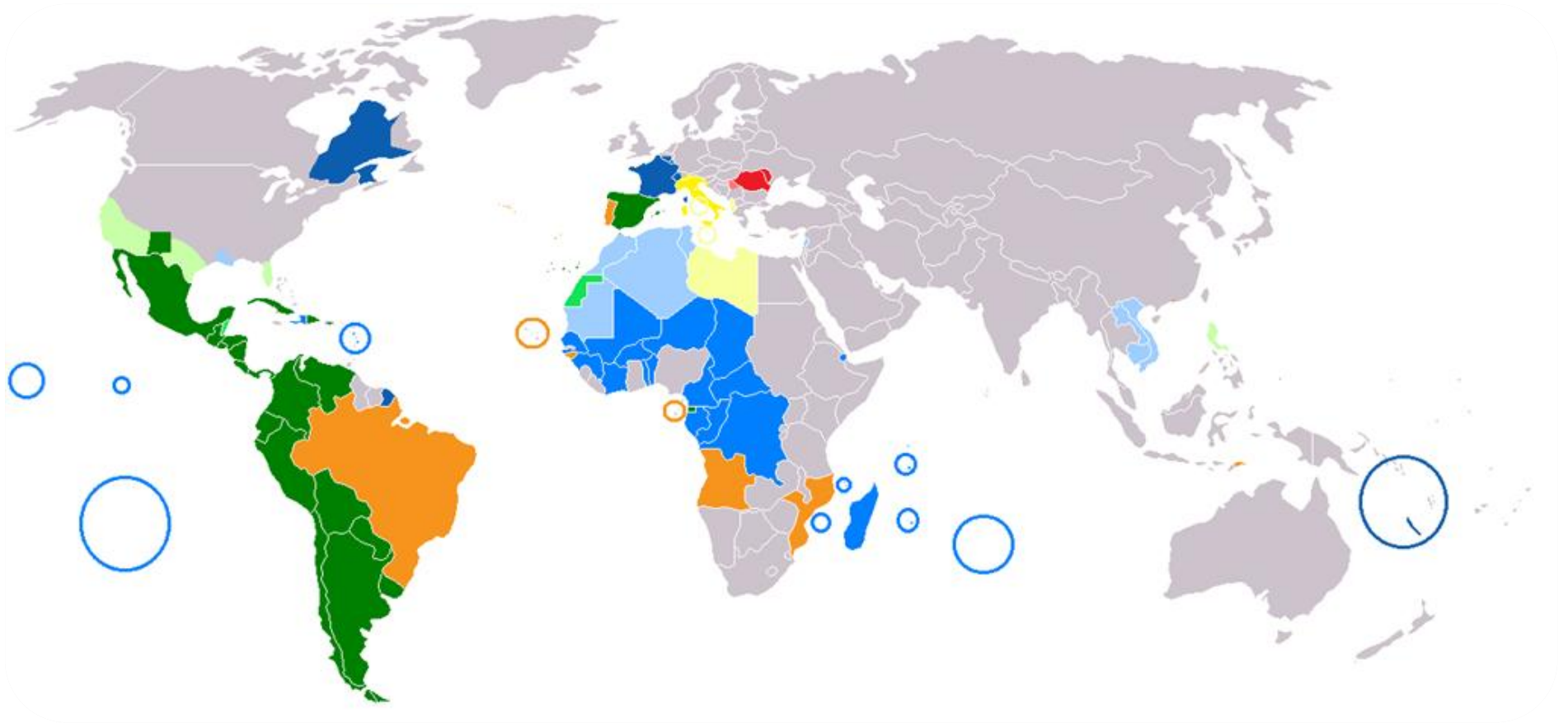
Measures

- 1 Allowing listed companies to buy back their shares
- 2 Encouraging listed companies to pay dividend to investors
- 3 Promoting sustainable financial innovations
- 4 Segregation of clients assets from securities firms proprietary assets
- 5 Promoting KYC rule and reinforcing information disclosure at points of sales

Effectiveness

- 1 Helped to stabilize the market and restore investors confidence
- 2 Leading investors to focus on value investing
- 3 Acceleration of opening a Second-Tier Market with new investment opportunities
- 4 Preventing misappropriation of clients assets, reducing potential investment and liquidity risks
- 5 A more transparent market with more confident clients

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Thank you!