China: The Untapped Freighter Market

A China – USA perspective

Marco Bloemen,
YDL Management Consultants

E: marco@ydl.nl
T: +31-3465-64244
Scope of this presentation

- Macro-economic figures
- China - USA Air Cargo Developments
- Sector Analysis
- Regional Differences
- Conclusions
China's role in world the economy is growing with roughly the same people.


<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>world population</td>
<td>20.9%</td>
<td>20.6%</td>
<td>20.3%</td>
</tr>
<tr>
<td>GDP (market exchange rates)</td>
<td>3.2%</td>
<td>4.0%</td>
<td>4.2%</td>
</tr>
<tr>
<td>GDP (at PPP)</td>
<td>10.6%</td>
<td>12.6%</td>
<td>15.2%</td>
</tr>
<tr>
<td>world exports</td>
<td>3.4%</td>
<td>5.2%</td>
<td>7.9%</td>
</tr>
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Source: EIU
China is the 4th US trading partner...

Top 10 U.S. trading partner countries in Q1 2003

January - March 2003. Source: U.S. Census Bureau
...but with the largest trade deficit for the USA

Top five countries with which the U.S. has a trade deficit (first three months of 2003)

<table>
<thead>
<tr>
<th>Country</th>
<th>Trade Deficit (in $US millions)</th>
</tr>
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<tbody>
<tr>
<td>China</td>
<td>-24,670.34</td>
</tr>
<tr>
<td>Japan</td>
<td>-24,670.34</td>
</tr>
<tr>
<td>Canada</td>
<td>-16,366.69</td>
</tr>
<tr>
<td>Mexico</td>
<td>-14,490.72</td>
</tr>
<tr>
<td>Germany</td>
<td>-10,841.40</td>
</tr>
<tr>
<td></td>
<td>-8,563.44</td>
</tr>
</tbody>
</table>

January - March 2003. Source: U.S. Census Bureau
First 3 months of 2003 trade deficit larger than full year 1993

U.S. trade balance with China 1985-2003

January - March 2003. Source: U.S. Census Bureau
Average hourly earnings in the U.S. are 22 times higher than in China.

U.S. versus China hourly wage comparison 1998-2001

In $US per hour

1998 1999 2000 2001

12.79 13.17 13.62 14.15

Source: Bureau of Labor Statistics and The Economist
US GDP (using PPP) per capita only 8 times higher than China’s

Per capita GDP (PPP) comparison for 2002

Source: CIA World Fact Book
FDI substantial and consistent, primarily deployed in manufacturing

Total realized FDI in China 1983-2002

Source: Department of Commerce
USA accounts for roughly 30% of China air exports...

China air exports to the world in 2001 in tons

Source: YDL Trade Database
...but, only caters for 16% of Chinese air imports

China air import from the world in 2001 in tons

Source: YDL Trade Database
Imbalance between Europe and China is 2,5 to 1 westbound...

Europe - China air trade in tons 1997-2002

Source: YDL Trade Database
...while USA - China air trade imbalance is close to 7 to 1

USA - China air trade from 1994-2002 in tons

Source: YDL Trade Database
Chinese air exports to USA pick up strongly, while imports stay flat

China air trade with USA from January 2000 until July 2003 per quarter in tons

Source: YDL Trade Database
LAX, SFO, CHI & NYC primary growth markets for US imports

US air imports from China per destination US region from 1994-2002

Source: YDL Trade Database
Market exhibits seasonal peaks in October & November and troughs through January-March

USA - China trade per month in 2000-2002 in air tons

Source: YDL Trade Database
Consumer and fashion goods and high tech are largest and fastest growing air export commodities

Top 4 commodities from China to USA by air in tons from January 2000 to July 2003 per quarter

Source: YDL Trade Database
80% of US air exports to China are production-related

US exports to China per major commodity type from 1994-2002

Source: YDL Trade Database
### Regional Differences: Income

- Income gap East ($4,000) vs West ($200)
- China Salaries difference between Hong Kong and Mainland China (US$)

<table>
<thead>
<tr>
<th></th>
<th>Hong Kong</th>
<th>Mainland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head of Government</td>
<td>34,807</td>
<td>266</td>
</tr>
<tr>
<td>Professor</td>
<td>16,287</td>
<td>453</td>
</tr>
<tr>
<td>CEO</td>
<td>15,975</td>
<td>2,865</td>
</tr>
<tr>
<td>Controller</td>
<td>11,022</td>
<td>2,457</td>
</tr>
<tr>
<td>Manufacturing Director</td>
<td>10,150</td>
<td>1,866</td>
</tr>
<tr>
<td>Sales Director</td>
<td>8,454</td>
<td>1,524</td>
</tr>
<tr>
<td>Systems Engineer</td>
<td>3,774</td>
<td>746</td>
</tr>
</tbody>
</table>

Source: Asiaweek Salaries Survey 2000
New regional markets emerging along the coastline
China: Air Trade with USA, Air Cargo tons, 2002

Source: YDL Analysis
Some vehicle production moving westbound, but limited

Production facilities of international vehicle manufacturers in China

Source: Austrade
Conclusions: China – USA freighter market: untapped?

- China black cat, white cat strategy does not benefit US air export trade (Europe is!)
- Imbalance air trade will even expand as Chinese exports rise
- Seasonality effects enlarge in absolute terms
- Fashion and High tech expected to keep showing strong growth
- Shanghai catchment area will grow faster than rest of China
- New regional export markets on the rise
"If you don’t go to the tiger’s cave, how can you catch the tiger’s son"

Chinese proverb