



China: The Untapped Freighter Market

A China – USA perspective

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Scope of this presentation

- Macro-economic figures
- China - USA Air Cargo Developments
- Sector Analysis
- Regional Differences
- Conclusions

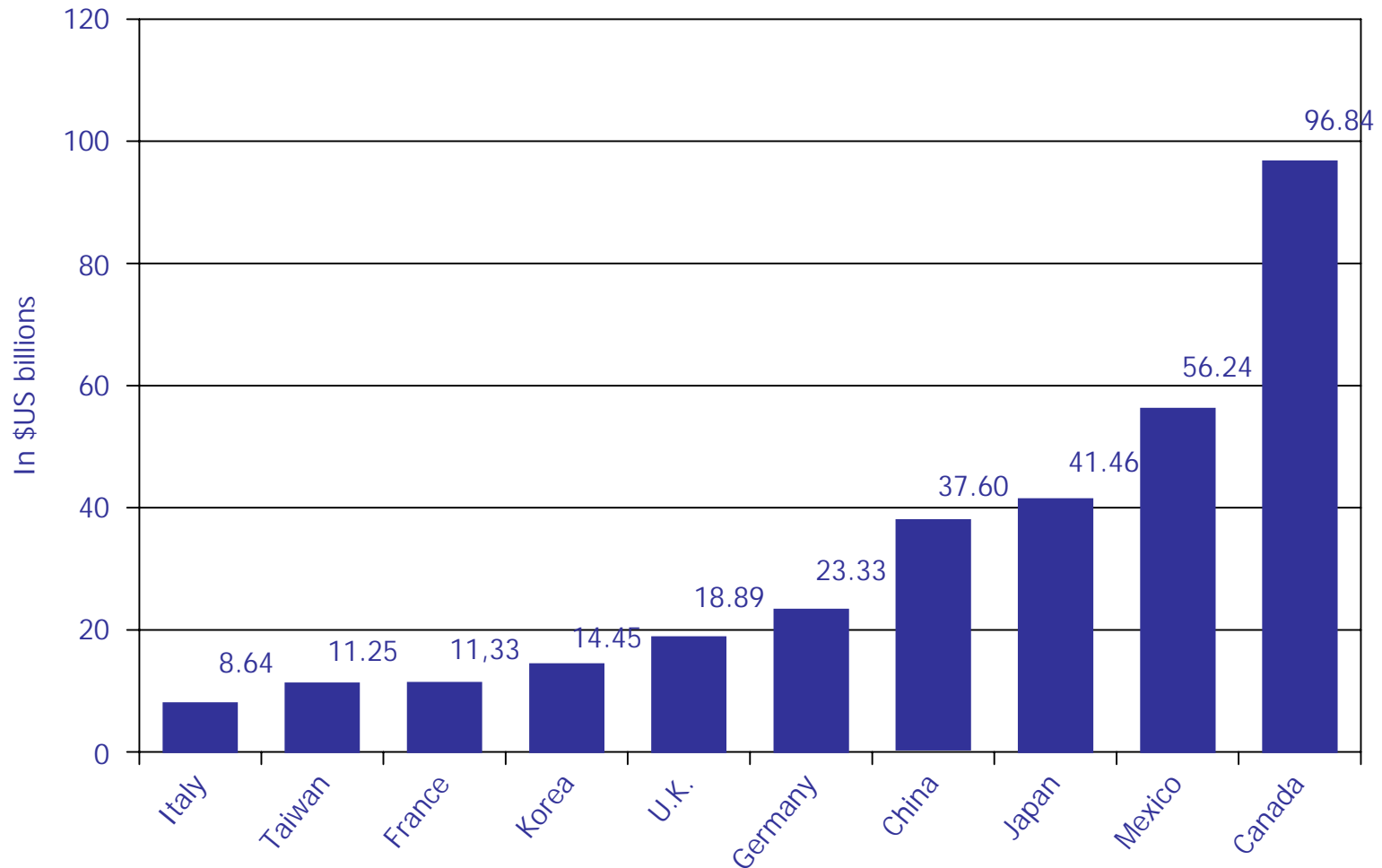
China's role in world the economy is growing
with roughly the same people

Macro-economic shares in population, GDP and
world exports for 1998, 2002 and estimated for
2007

| | 1998 | 2002 | 2007 |
|-----------------------------|-------|-------|-------|
| world population | 20.9% | 20.6% | 20.3% |
| GDP (market exchange rates) | 3.2% | 4.0% | 4.2% |
| GDP (at PPP) | 10.6% | 12.6% | 15.2% |
| world exports | 3.4% | 5.2% | 7.9% |

China is the 4th US trading partner...

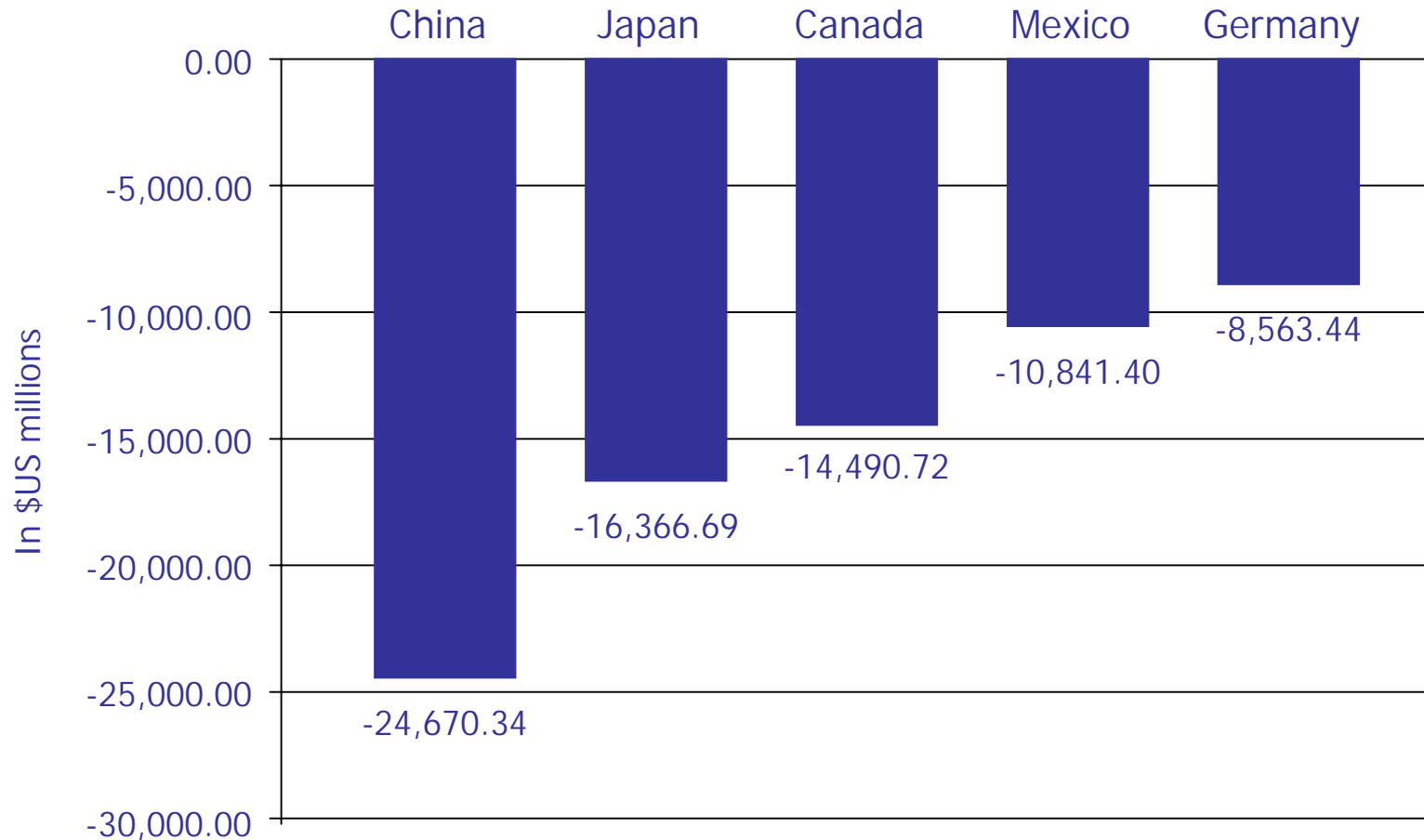
Top 10 U.S. trading partner countries in Q1 2003



January - March 2003. Source: U.S. Census Bureau

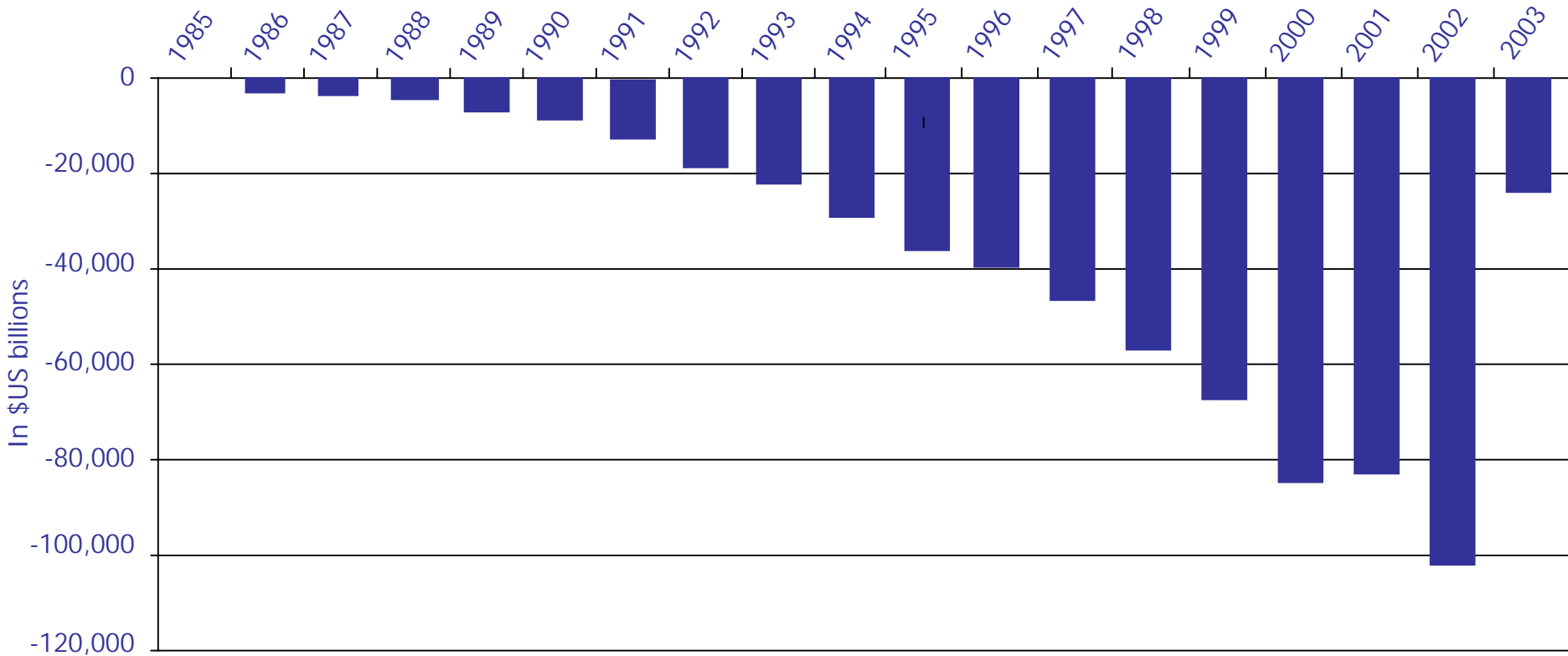
...but with the largest trade deficit for the USA

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



First 3 months of 2003 trade deficit larger than full year 1993

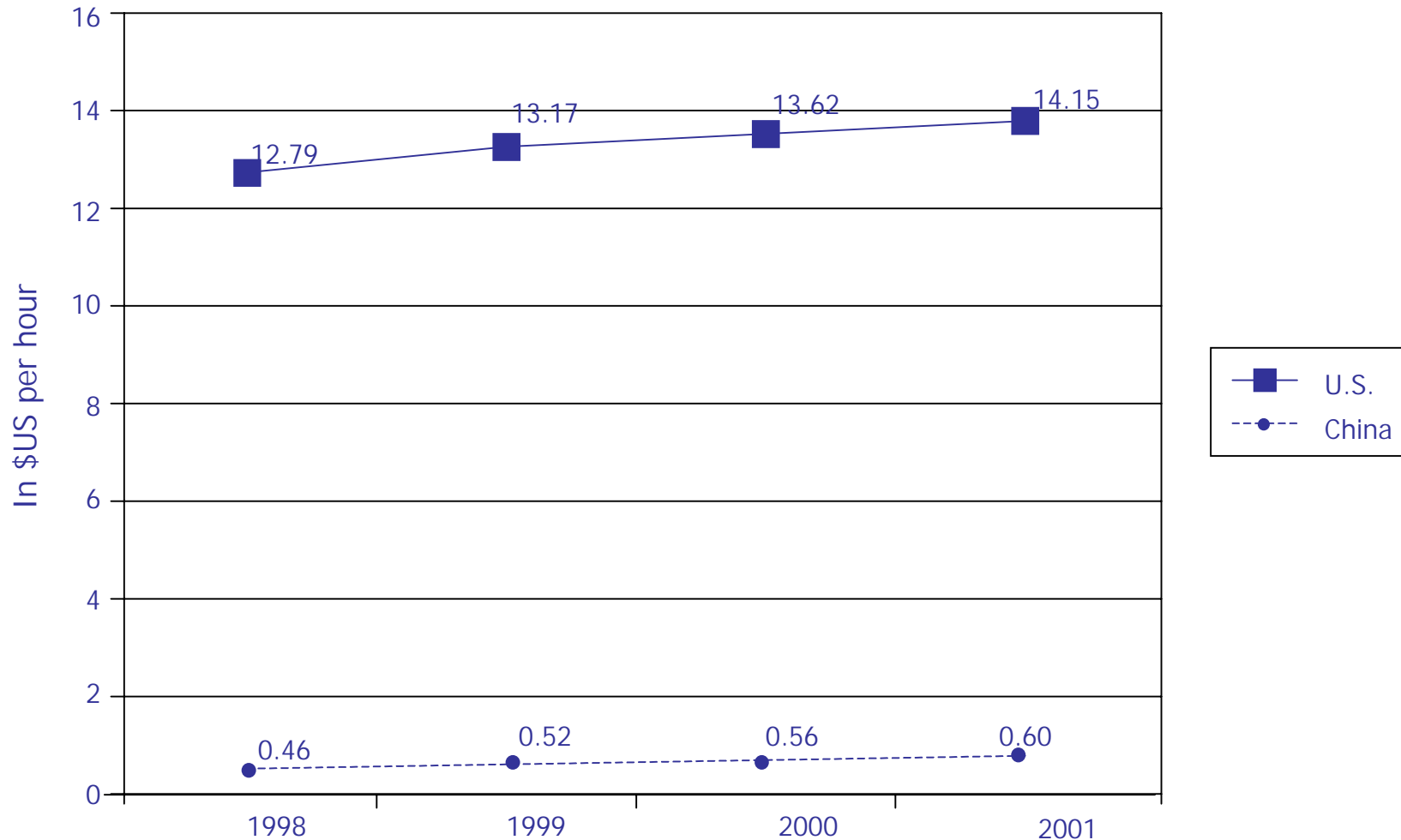
U.S. trade balance with China 1985-2003



January - March 2003. Source: U.S. Census Bureau

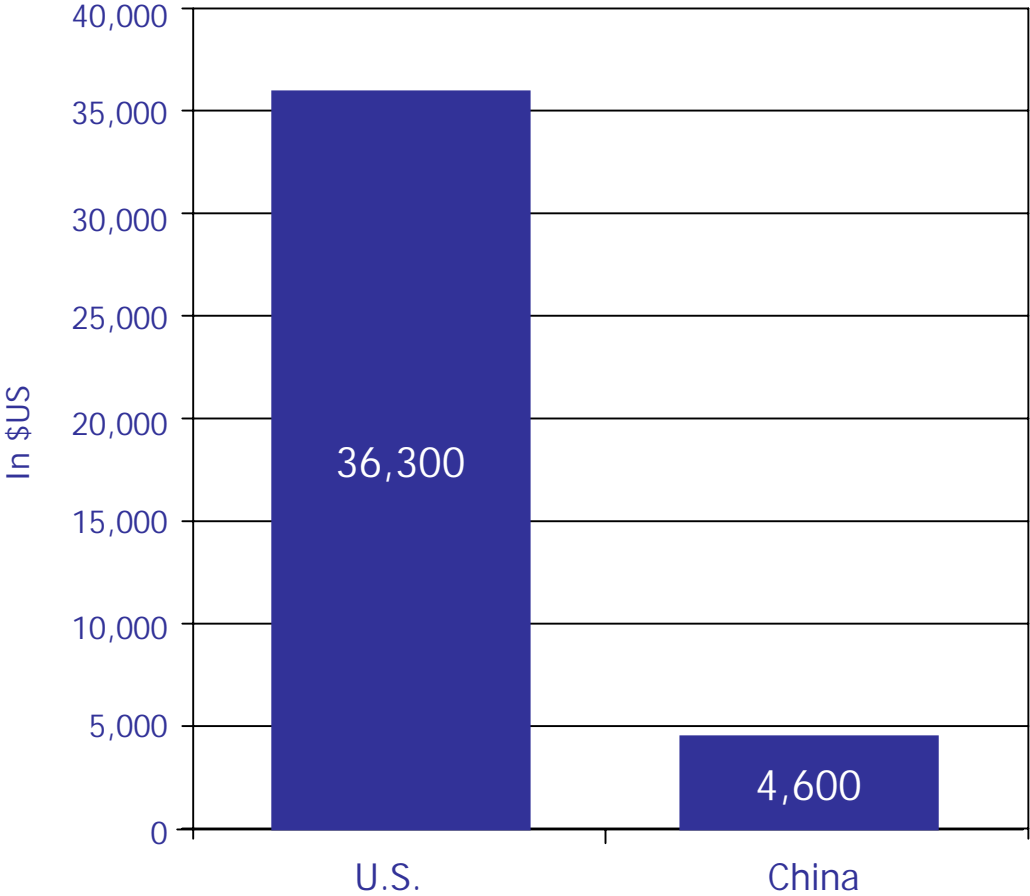
Average hourly earnings in the U.S. are 22 times higher than in China

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



US GDP (using PPP) per capita only 8 times higher than China's

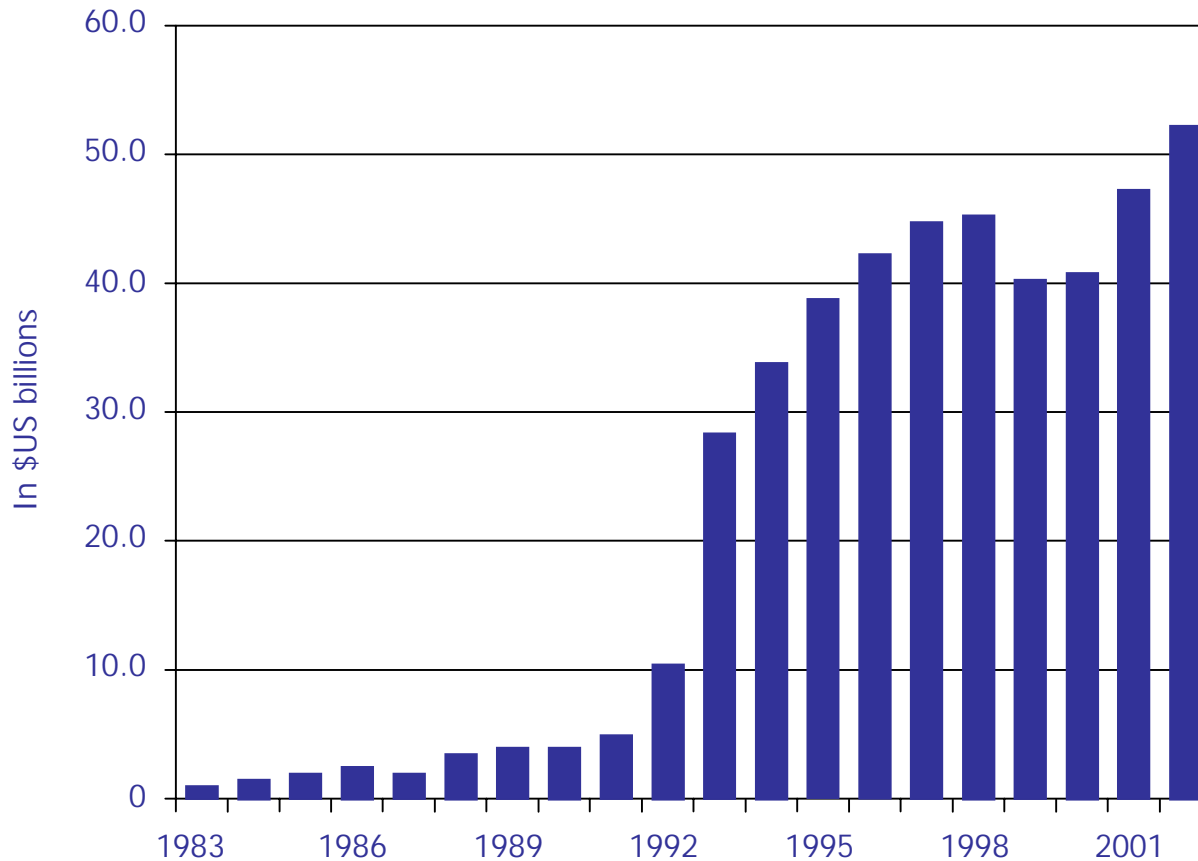
Per capita GDP (PPP) comparison for 2002



Source: CIA World Fact Book

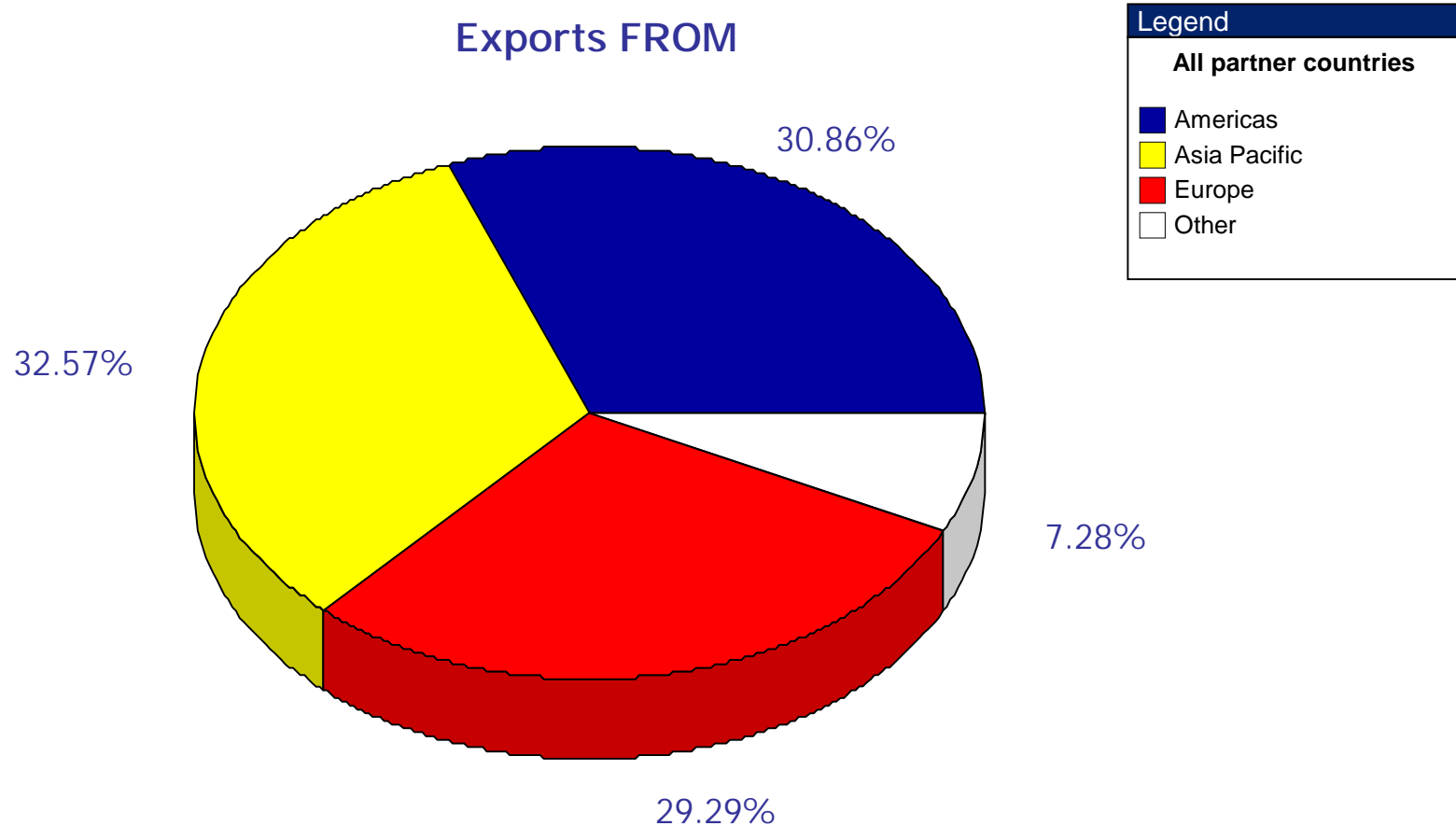
FDI substantial and consistent, primarily deployed in manufacturing

Total realized FDI in China 1983-2002



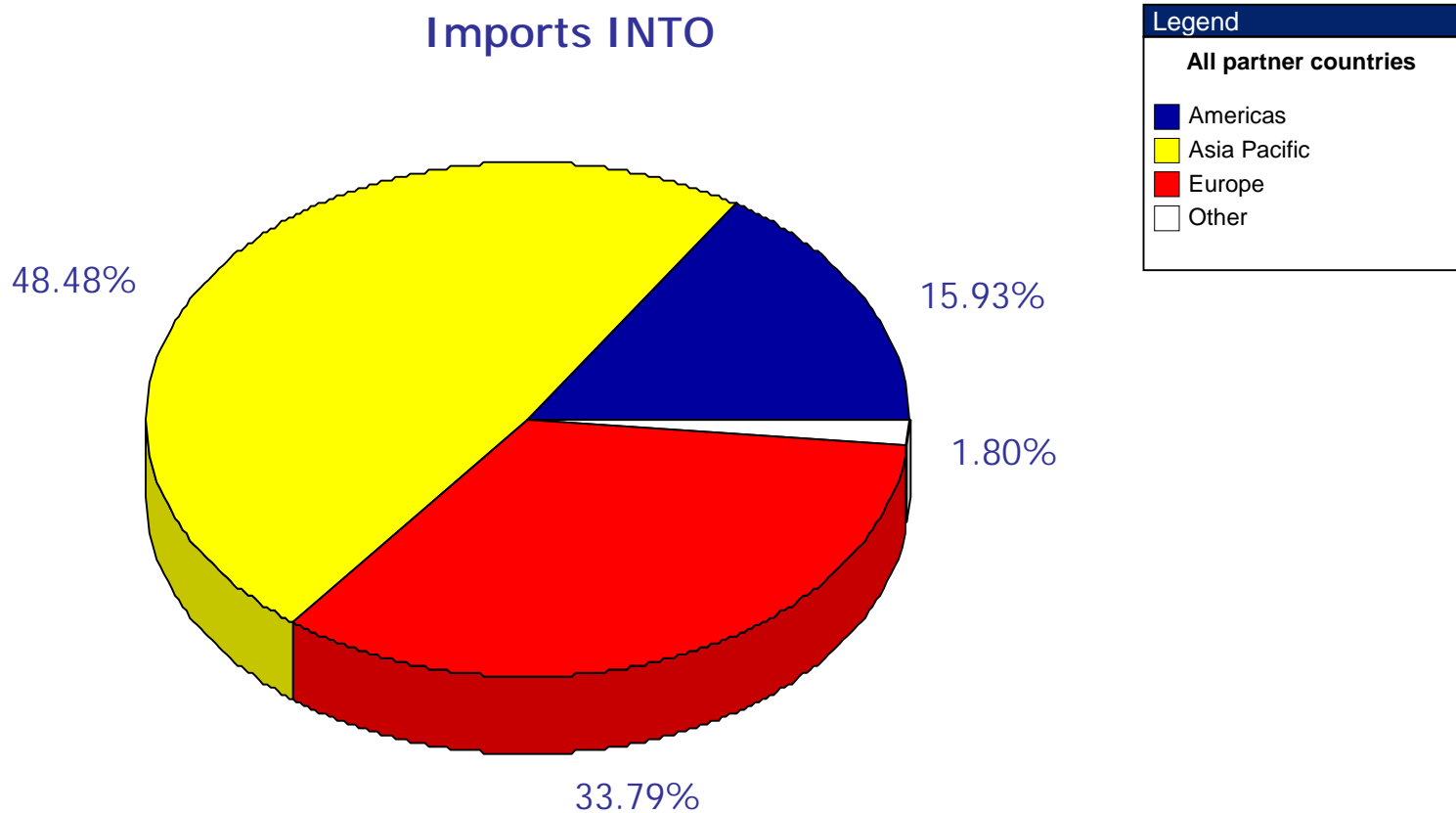
USA accounts for roughly 30% of China air exports...

China air exports to the world in 2001 in tons



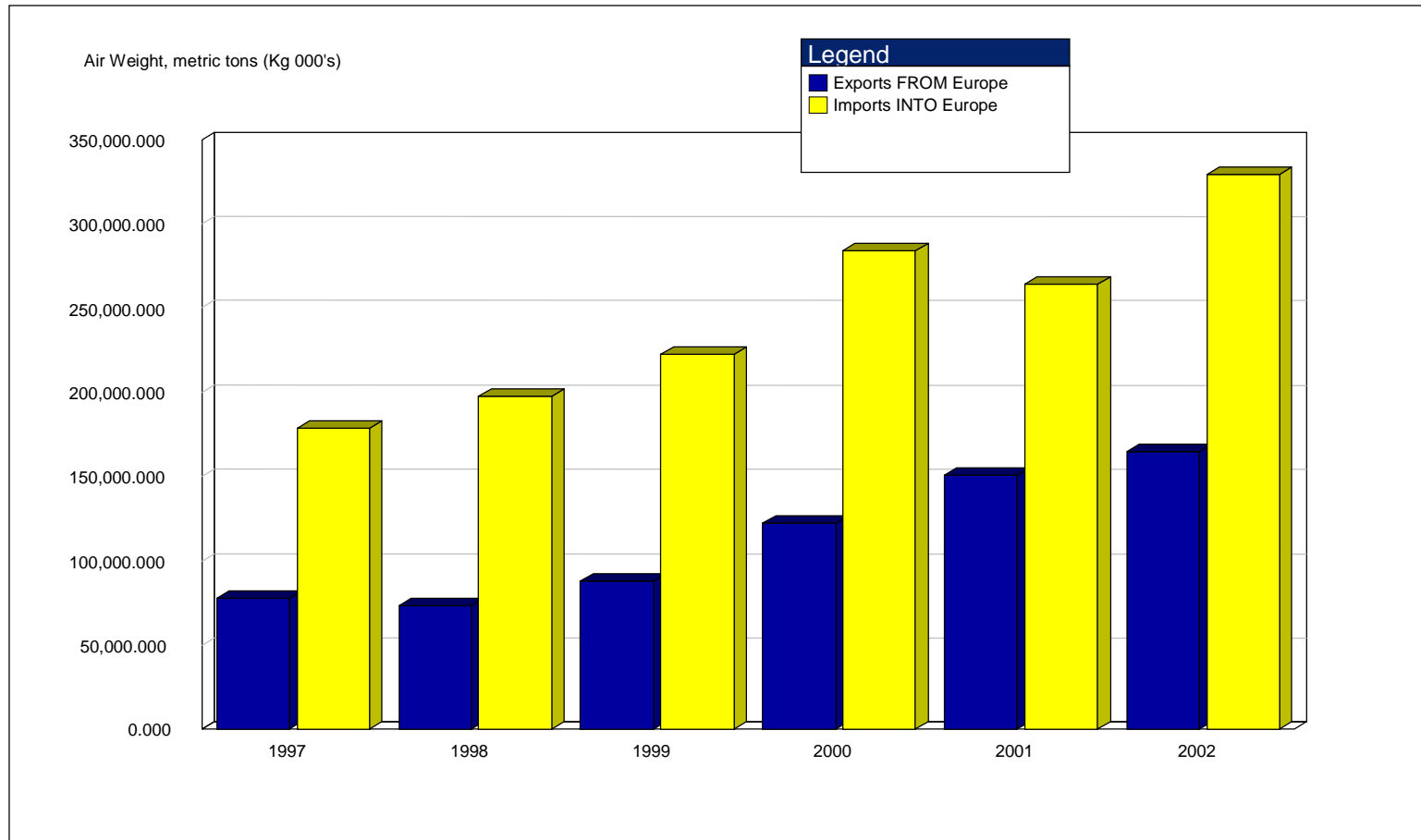
...but, only caters for 16% of Chinese air imports

China air import from the world in 2001 in tons



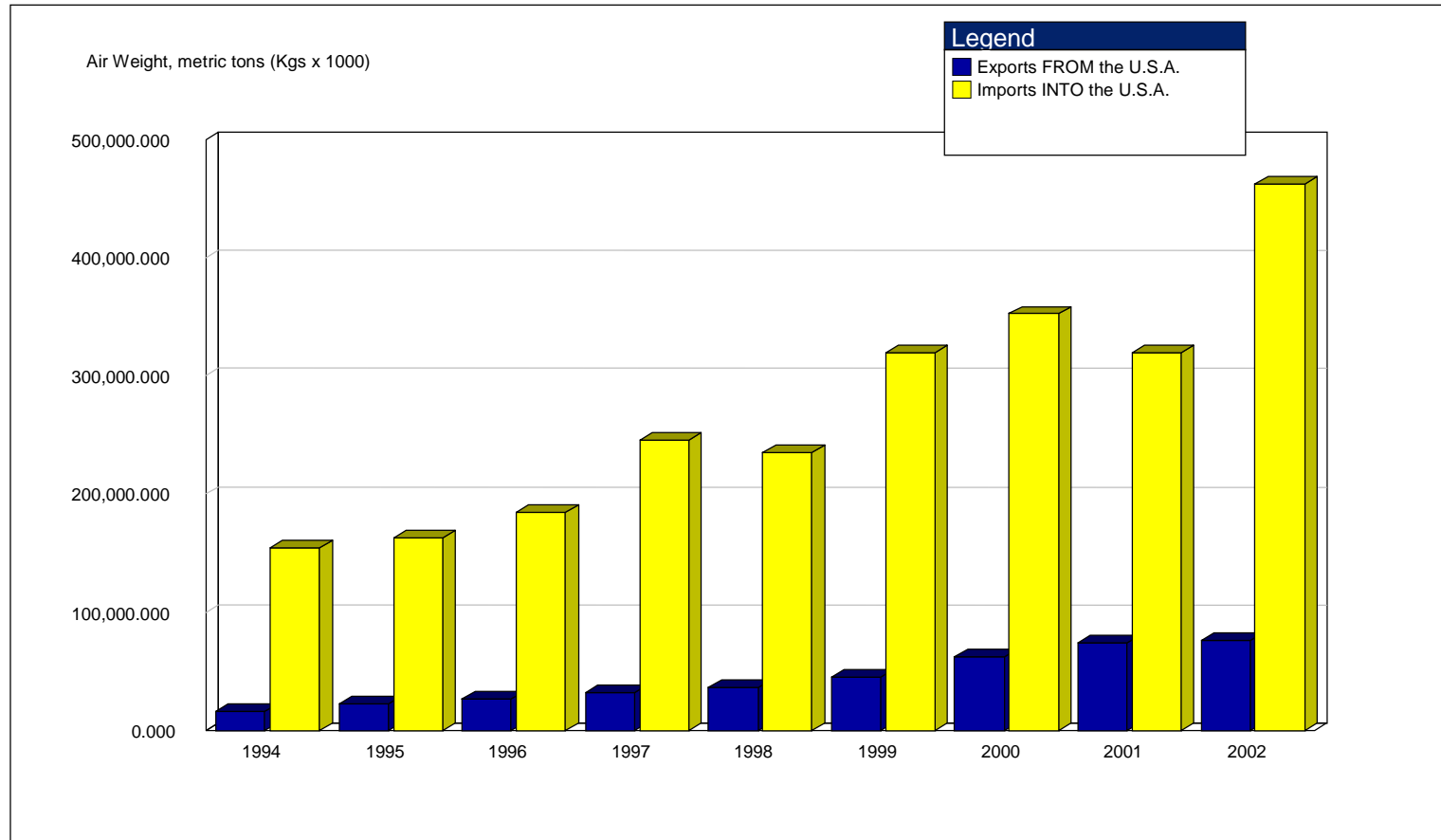
Imbalance between Europe and China is 2,5 to 1 westbound...

Europe - China air trade in tons 1997-2002



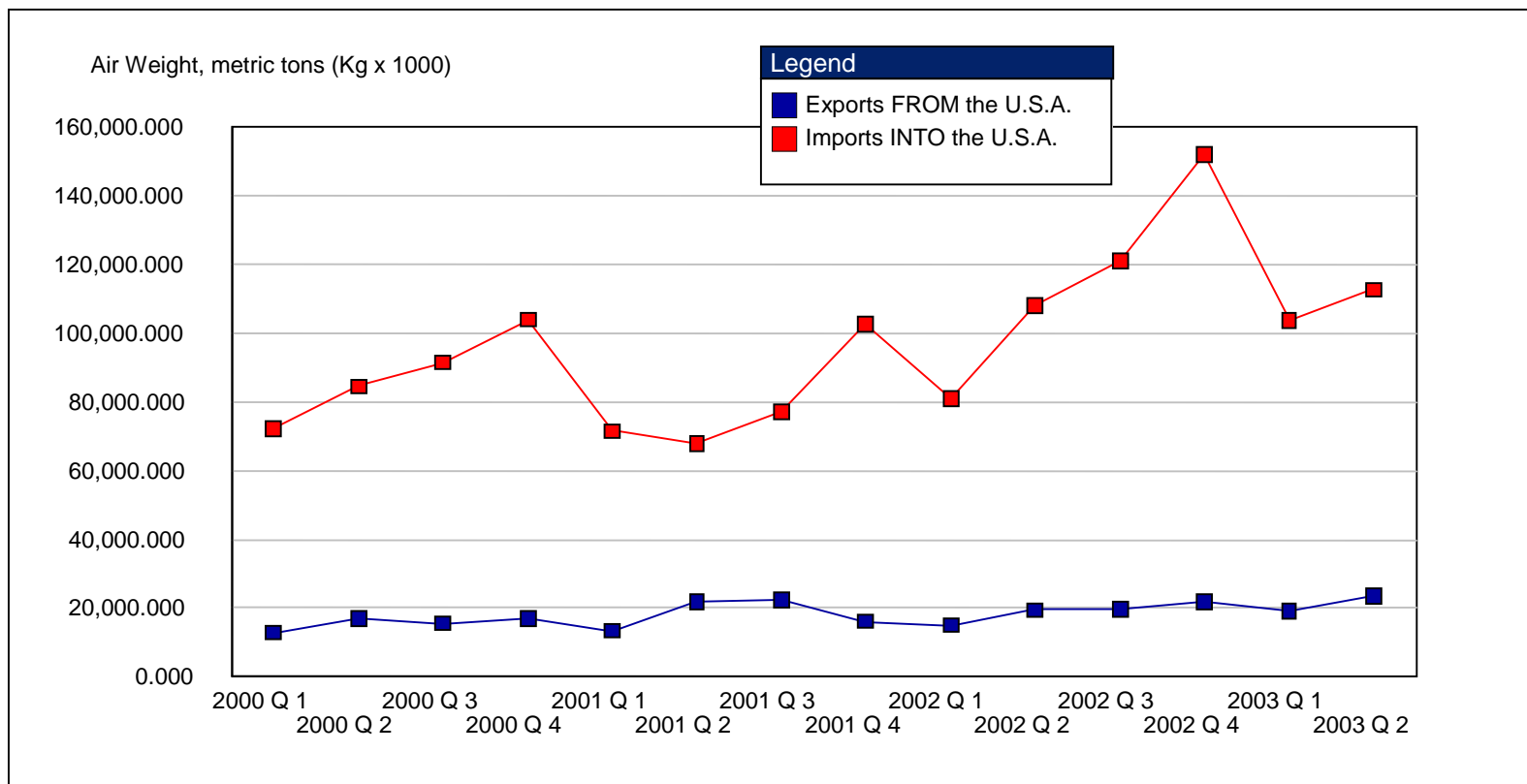
...while USA - China air trade imbalance is close to 7 to 1

USA - China air trade from 1994-2002 in tons



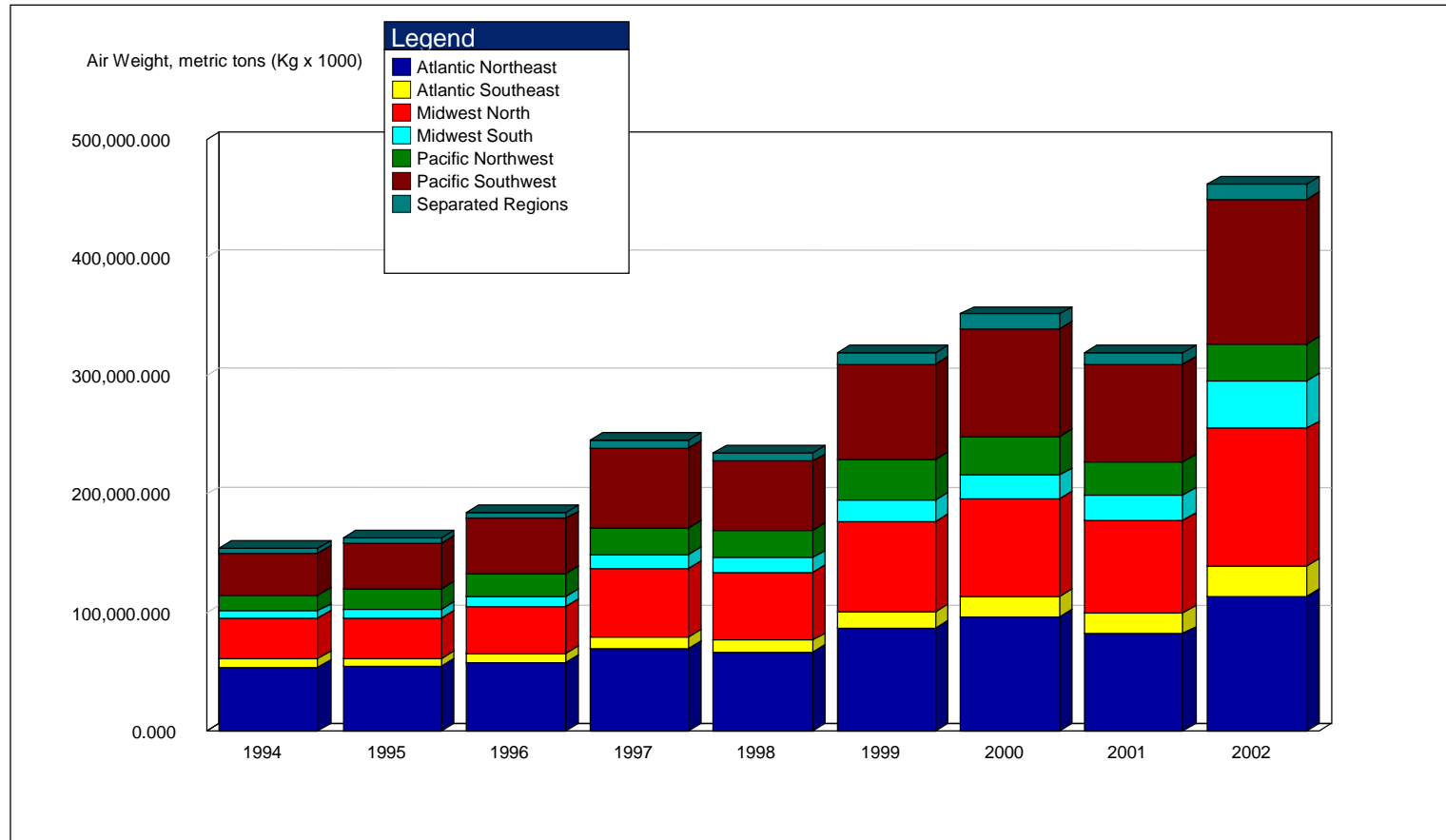
Chinese air exports to USA pick up strongly, while imports stay flat

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



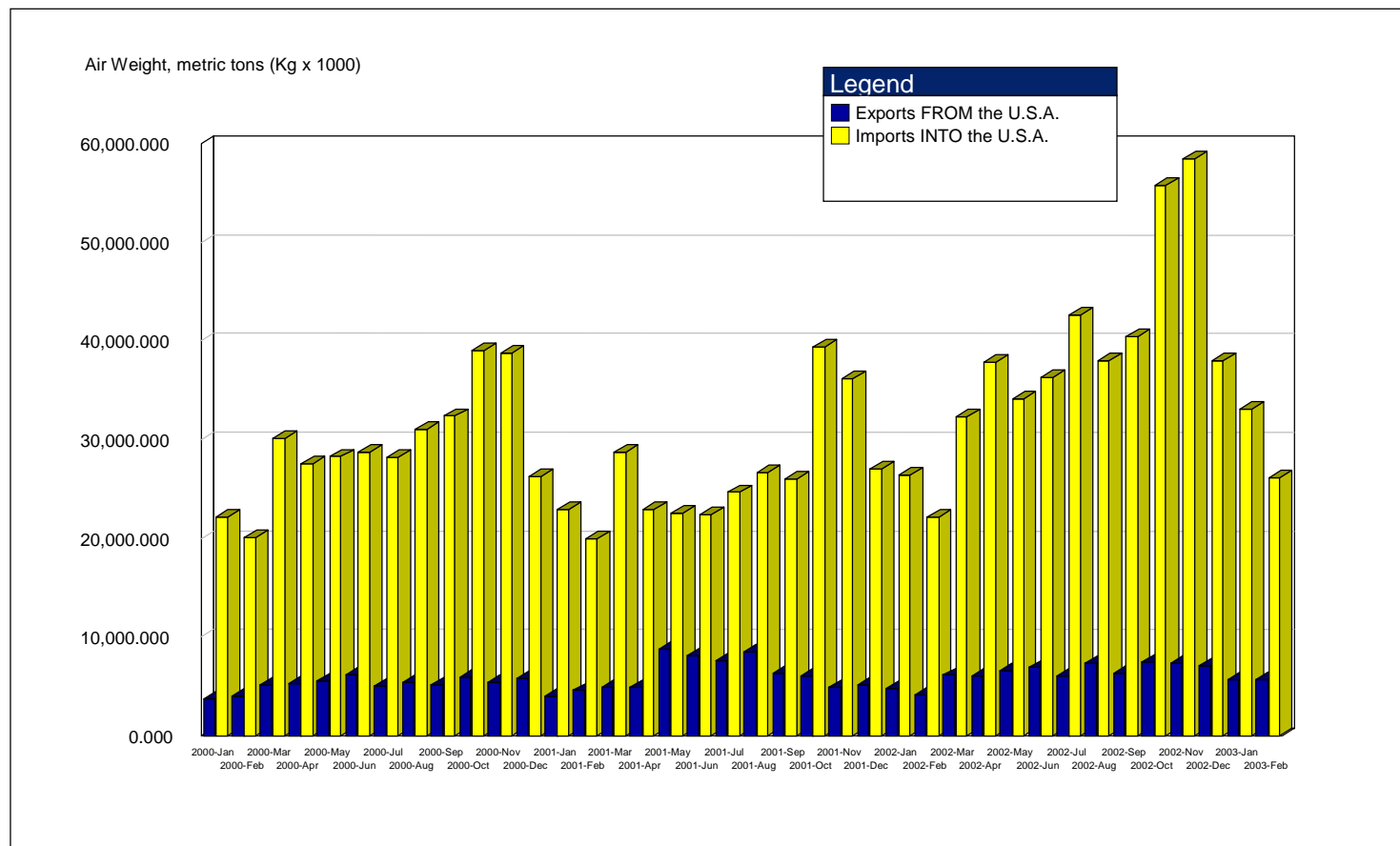
LAX, SFO, CHI & NYC primary growth markets for US imports

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



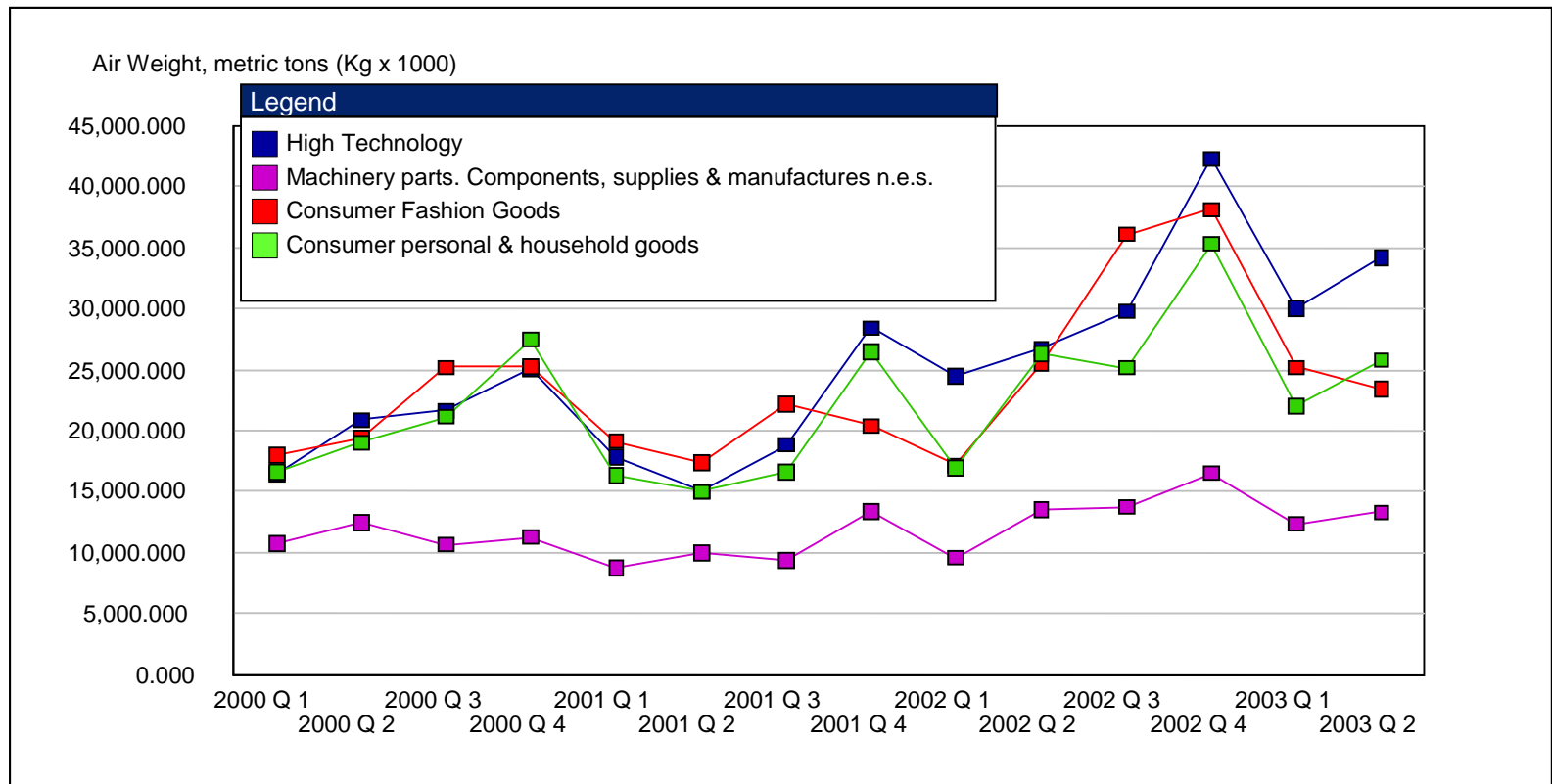
Market exhibits seasonal peaks in October & November and troughs through January-March

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



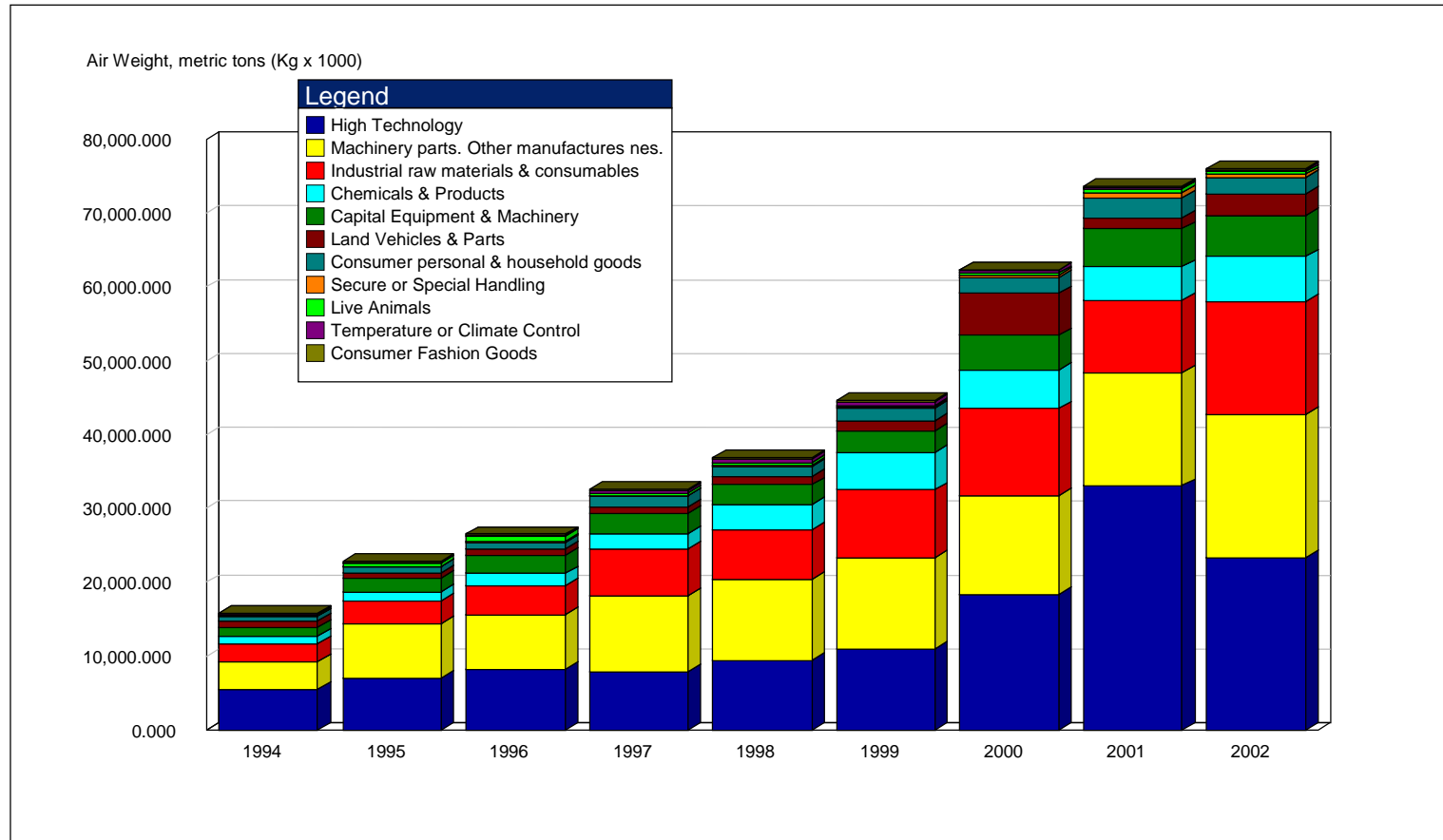
Consumer and fashion goods and high tech are largest and fastest growing air export commodities

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



80% of US air exports to China are production-related

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



Regional Differences: Income

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

| | Hong Kong | Mainland |
|--------------------------|------------------|-----------------|
| – Head of Government | 34,807 | 266 |
| – Professor | 16,287 | 453 |
| – CEO | 15,975 | 2,865 |
| – Controller | 11,022 | 2,457 |
| – Manufacturing Director | 10,150 | 1,866 |
| – Sales Director | 8,454 | 1,524 |
| – Systems Engineer | 3,774 | 746 |

New regional markets emerging along the coastline

China: Air Trade with USA, Air Cargo tons, 2002



① IMPORTS TO CHINA

② EXPORTS FROM CHINA

In thousand tons

○ Less than 5

● 50 to 60

● 5 to 10

● 60 to 70

● 10 to 20

● 70 to 80

● 20 to 30

● 80 to 90

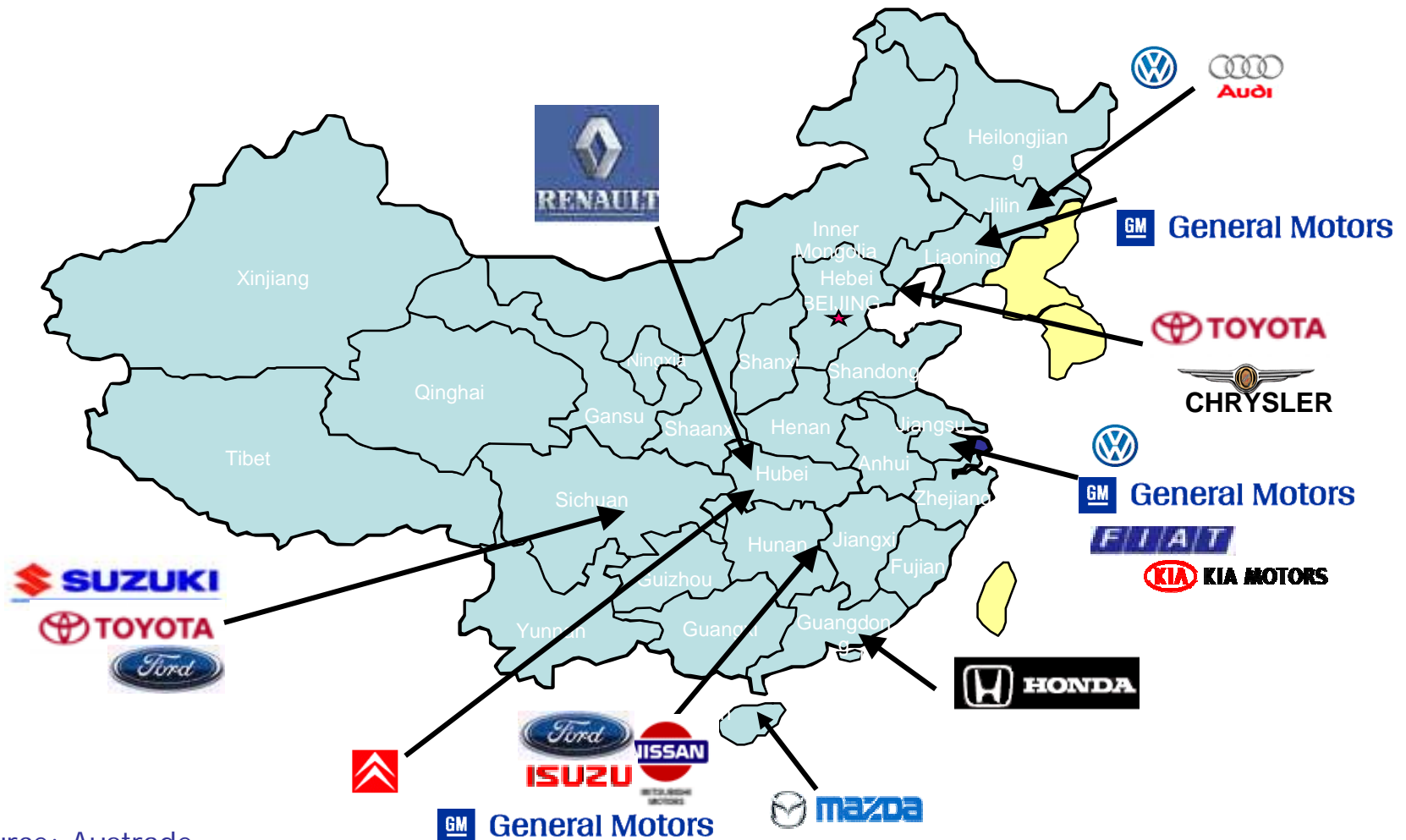
● 30 to 40

● 90 to 100

● 40 to 50

Some vehicle production moving westbound, but limited

Production facilities of international vehicle manufacturers in China



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

不入虎穴，焉得虎子

***“If you don’t go to the tiger’s cave,
how can you catch the tiger’s son”***

Chinese proverb