

## What Drives China's Economic Growth

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The economic growth occurring in China today is astounding. The country has grown at rates of at least 11% for the past couple years, and this growth isn't anticipated to end any time soon.

China has quickly become the largest producer of steel, coal, clothing and toys, with exports to the U.S. alone growing by more than 1,500% in the past decade. With incredible growth like this, China's has become one of the greatest investment opportunities of our time.

Many investors follow the crowd, and listen to the so-called China experts and watch their hard-earned money go up in smoke. Investing in China is much less treacherous and easier to navigate if you know what to look for and what to avoid. It's all about making the right choices and understanding what is truly driving the economic growth in China right now.

### **China's Economic Growth Driver**

Surprising to many of you, I'm sure -- it's not the Beijing Olympics. Sure, the 2008 Summer Games are propelling China into the 21<sup>st</sup> century, but it's not the main driver of growth for this country. The real growth driver is actually the Chinese consumer. There are 1.3 billion people who suddenly have the ability to create personal wealth -- and spend it, too.

China's emerging middle class went from living at subsistence levels to having the means to dine out at least once a week at a mid-priced restaurant in less than 15 years. And along with being able to eat out regularly, the Chinese consumer is also spending money on high-tech gadgets, like cell phones, homes and vacations.



China is a vast country and not every Chinese person in every region is buying the same things or can afford to buy the same things. But in the more affluent regions of China, the consumers' purchasing habits are incredibly similar to the rest of the world.

So there are many things that China needs to better serve and meet its citizens' needs and desires. Just to keep the nation fed, China imports an incredible amount of livestock and poultry, as its farmland has decreased due to significant factory expansion. And this is just one example.

In response to China's growing demand, countries from around the world are seeing an increase in their shipments of raw materials and commodities to China. While China's exports to the U.S. have drastically increased in the past ten years, the U.S.'s exports to China have also risen—up 400%. And the European Union's exports to China have grown by 600%.

One of the greatest investment opportunities of our time, therefore, is "buying what China buys," a topic discussed in depth in my new book, *China Fireworks: How to Make Dramatic Wealth from the Fastest-Growing Economy in the World*. Here's a short excerpt from Chapter 7, "Buying What China Buys":

*...China consumes virtually all of the raw materials that it produces, notably coal, timber and iron ore, yet this is still not enough to satisfy its domestic demand. Despite the fact that China covers a physical area larger than the United States, it is a land of limited resources. Hence, it relies on the rest of the world.*

*China has no choice: It must buy commodities.*

*Therein lies the first opportunity for investors in the China Miracle: buy what China needs. Those businesses and industries that produce the goods China needs will be the sources of lucrative investment opportunities for years to come. The beauty of this strategy is that you can benefit from China's explosive demand for materials and energy, yet not invest directly in a China-based company or find your way to a Chinese exchange. Because commodities are globally traded, those energy, mining and metal companies with a keen understanding of the new China-driven paradigm have been able to return significant value to their shareholders.*

*There are companies within China itself that are worthwhile for investors as they have been granted near-monopoly status by the government and have used their favored positions to reap huge profits from the demand for metals and energy. To get you thinking about where you should be looking for great China plays, let's consider the following:*



- *China has been the world's leading consumer of steel since 2003. It imported an estimated 325 million tons of iron ore in 2006, and nearly 15 percent more than that in 2007.*
- *In the first eight months of 2007, China imported 110.4 million tons of crude oil, a net increase of almost 20 percent from the previous year. During the same period, China's domestic production reached 124.7 million tons, up 1.3 percent from the previous period. China ranks second only to the United States in oil importation.*
- *China is both the world's largest consumer and largest producer of aluminum. Since the year 2000, China has accounted for 67 percent of world demand growth and 72 percent of world production growth. Much of this has gone into new construction.*
- *China has been the world's largest consumer and producer of cement since 1985. It represents more than 40 percent of the world cement production, a figure estimated to be more than six times what the U.S. uses.*
- *China's consumption of beef has jumped 31 percent in the past five years, spurred in part by the introduction of fast-food hamburgers. China is now the world's third-largest producer of beef.*
- *For much of the past four years, China has been building cities the size of Philadelphia at a rate of one every six weeks.*

*These are astounding numbers, and they barely scratch the surface of everything that China is consuming...*



## **Why Now is a Good Time to Invest in China**

China is becoming a mass consumer of practically everything. And there's no better time than now to start investing in companies that are feeding China's needs. Why? The Mainland Chinese stock market bubble has deflated, experiencing practically a 50% correction from the highs seen in October 2007.

Now investing in the Shanghai stock market is practically impossible for foreign investors—especially American investors. But what's important about the move back up in Mainland Chinese companies, is that it is helping the psychology of Chinese stocks and ADRs traded in Hong Kong. Since the lows seen at the end of March, Hong Kong's Hang Seng index has moved up 21%. Any investor can appreciate that two-month jump.

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