

Speech at the Sentient Annual Dinner
By Mr QIN Ming, Vice President,
State Development and Investment Corporation of China (SDIC)
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Ladies and Gentlemen,

Good evening! I am very pleased to be invited to the Sentient Annual Meeting and have the opportunity to make new friends and share information and ideas.

We are from the State Development and Investment Corporation of China (SDIC), a Beijing-based major corporation under the direct jurisdiction of the central government. I would like to take this opportunity to share with you information about the SDIC and my views on China's economy today and trends for its future development.

SDIC was founded in May 1995 as an investment holding company with funding from the Chinese central government. Its mandate includes: make investment in basic, key and high-tech industries in accordance with the national economic development strategy, industrial policies and plans for regional economic development; improve the efficiency of its investment and maintain and increase the value of national assets. As a state-owned investment holding company, SDIC adopts the following basic model of operation: guided by the business concept of staged equity holdings, it makes equity investments, and manages, operates and exits those investments. During the process, it earns dividends from the investments and proceeds from their exits, thus achieving value increase and development.

SDIC has made much headway since its inception nine years ago. It now has five wholly-owned subsidiaries: SDIC Electric Power Company, SDIC Coal Company, SDIC Communications Company, SDIC Venture Capital Investment Company, and SDIC Asset Management Company. In addition, SDIC has two investment departments: Department of Automobile Parts Investment and Department of Financial Investment. As at the end of 2003, SDIC had an equity interest or a controlling shareholding in 270 enterprises. Its total assets were RMB 76.8 billion and shareholders' equity RMB 23 billion. SDIC made a profit of RMB 1.48 billion in 2003, ranking the first among all state-owned investment companies.

Thanks to its development in the last nine years, SDIC has set up a business framework with four major sections: industrial investment, financial investment, investment consultancy and asset management.

SDIC's major industrial investments cover basic and resources industries such as electricity generation, coal mining, port construction and fertilizer production. Other areas of investment include auto parts and components, electronics, biology and pharmaceuticals and high-tech agricultural products. SDIC has invested in power stations with a total capacity of 16GW, which include the Guangdong Pumped Storage Power Station (4.8GW), the largest of its kind in the world, and the Ertan Hydraulic Power Station (3.3GW) in Sichuan Province, the largest hydraulic power station which has been completed and in operation in China. The largest in the future will be the Three Gorges Power Station which is still being built. The Chinese government has recently authorized the Ertan Power as the company responsible for the development of the whole Yalong River valley, with a planned capacity of 28GW, thus making it the Chinese version of the Tennessee Valley Authority (TVA). SDIC's invested power capacity is well poised to reach 45GW in ten years. In coal production, SDIC's controlled coal mines have a combined annual capacity of 14 million tons. SDIC's Xinji Coal Mine in Huainan Region of Anhui Province in eastern China

(with an existing annual capacity of 8 million tons and another 8 million tons under construction) will become one of China's largest coal production bases. In ten years, SDIC's invested coal mines will reach an annual capacity of 50 million tons. In port construction, SDIC has made investment in 184 coastal and river ports, of which 35 are nation-wide or regional transportation hubs.

Within just five years into financial investment, SDIC has become a shareholder of four major securities companies, two mutual funds and one bank. Recently SDIC has acquired a trust company and plans to use it as a platform to move into other areas of the financial industry. Our objective is to expand SDIC's role in the financial industry by providing direct financial services to customers and eventually become one of the leading financial holding companies.

This year SDIC has acquired a consulting firm and has begun to move into the consulting business. This consulting firm was already one of the renowned engineering consulting firms before acquisition, providing services to a number of large infrastructure projects. Now this company is beginning to provide advisory services on investment and management as part of SDIC.

SDIC's fourth area of business is asset management with the following mandate: managing businesses and non-core projects which are less likely to become first-rate operations, with the aim to increase the value of the assets and seek opportunities to liquidate them; disposing non-performing assets accumulated from past investment activities. Thanks to the successful experience that SDIC has in dealing with non-performing assets, the Chinese government plans to entrust SDIC with part of the non-performing assets carried over from past investments made by the government.

SDIC operates in the four areas of business in a way that is mutually reinforcing. Industrial investment, for instance, provides support to financial investment with cashflow. Financial investment, in turn, provides industrial investment with a channel for financing from the capital market. The consulting business, on the other hand, provides its service to industrial investment and other areas of business which helps improve the performance of the investments. Finally, asset management helps with decisions on investment withdrawal and disposal of assets in some industrial investment projects.

In short, SDIC has become a strong and influential investment holding company. The company's focus on development and investment has basically reflected the intention of the policies of the Chinese government. It is therefore an ideal window through which to understand China's economic development.

On China's economy today and its future development, I believe basically that China is still in the fast lane of development even after more than 20 years of fast growth. And it is expected to continue to grow at a fast pace in the foreseeable future.

Let's look at some statistics. China started its open-door policy and economic reform in 1978. For 25 years between 1978 and 2003, China's GDP had grown at a compound rate of 9.4% per annum. In 2003, China's GDP reached RMB 11.67 trillion, a 9.1% increase over the previous year, or USD 1.4 trillion at the current exchange rate. Per capita GDP for the first time broke the USD 1,000 mark. China's exports of the year were USD 438.4 billion and imports, USD 412.8 billion, with USD 53.5 billion in FDI. GDP in the first quarter of 2004 increased by 9.7% and industrial output 17.7% compared with the same quarter last year. These figures tell us that China's economy continues to grow at a fast pace.

I believe there are a number of reasons for China's continuing rapid development. They are as follows:

1. China is a huge market in its own right, and the immense internal demand acts as a gigantic engine for its economy. In 2003, domestic consumption and investment grew rapidly, the aggregate retail value of consumer goods reached RMB 4.58 trillion, a 9.1% increase; overall investments in fixed assets totaled RMB 5.51 trillion, a 26.7% increase. In the first quarter of 2004, overall retail value of consumer goods grew 10.7%, while investments in fixed assets went up 43%. Domestic demand, particularly in energy, automobiles and housing, continues to strongly push investment upwards. This internal demand will continue to be the driving force for China's economic growth.

2. Government policies favor long term economic expansion. Development occupies the highest priority and the government has evolved a comprehensive, coordinated and sustainable plan of development. Meanwhile, it continues its active fiscal policies, encouraging growth in the western regions, urban construction and reinvigoration of the North-East's industrial bases. This will all lead to economic growth.

3. Favorable conditions have been created through structural adjustment, particularly in regard to industrial structures. A great deal of forward momentum has been generated through systemic economic reforms and innovations.

4. Rapidly increasing foreign trade and direct foreign investment will also contribute to economic growth.

All these factors will exert a growing influence in the foreseeable future, which is why I maintain that China's economy will continue to expand rapidly.

The government has begun to take appropriate macro measures to curb the initial signs of overheating in certain sectors and areas, such as finance, metals and construction materials, etc. I do not believe these will affect the long term prospects for growth, because such macro adjustments will fine-tune and focus policies to avoid a sudden downturn in all areas. The Chinese government has a great deal of experience in dealing with economic adjustments, and has many means to carry them out, so I would also predict that the overall economy will not be hit by inflation caused by overheating.

Of course, China's economic development is not without constraints. The largest "bottle-neck" is the shortage of certain natural resources, such as fresh water, energy, minerals resources, etc. At this point, supply and demand of energy, transport and certain raw materials are under pressure. Take energy for example, in 2003, electricity generation was 1.9 trillion kilowatt/hours, 15.5% more than the previous year; coal production was 1.667 billion tons, a 15% increase; oil production was 170 million tons, a 1.8% increase. However, this increase was still insufficient for demand. In 2003, there were power outages in more than 20 provinces, cities and prefectures. Coal and oil prices also rose.

In order to maintain stable and relatively fast economic growth, the state has on the one hand decided to increase coal, electricity and oil production. Construction has begun on large scale coal mines and major power centers. In 2004, work has begun on power projects with a total capacity of 40GW, 37GW of which are expected to come on-stream this year. On the other hand, efforts are being stepped up to conserve energy and cut waste. Figures from the first quarter of 2004 show that energy production continues to grow fairly rapidly, power generation is up 15.7% from last year, coal 14.4%. I believe that this momentum in the energy sector will continue and that this is a promising investment area.

The State Development and Investment Corporation is directly under the jurisdiction of the central government and will continue to expand its activities in the all-important energy industry. It will actively pursue opportunities for growth in overseas liquefied natural gas and coal. We are willing to explore with all international investors of vision, capacity and good repute the possibilities of developing together Chinese and overseas resource markets for the benefit of us all.

Thank you!