



China's WTO Accession – from an Investment Perspective

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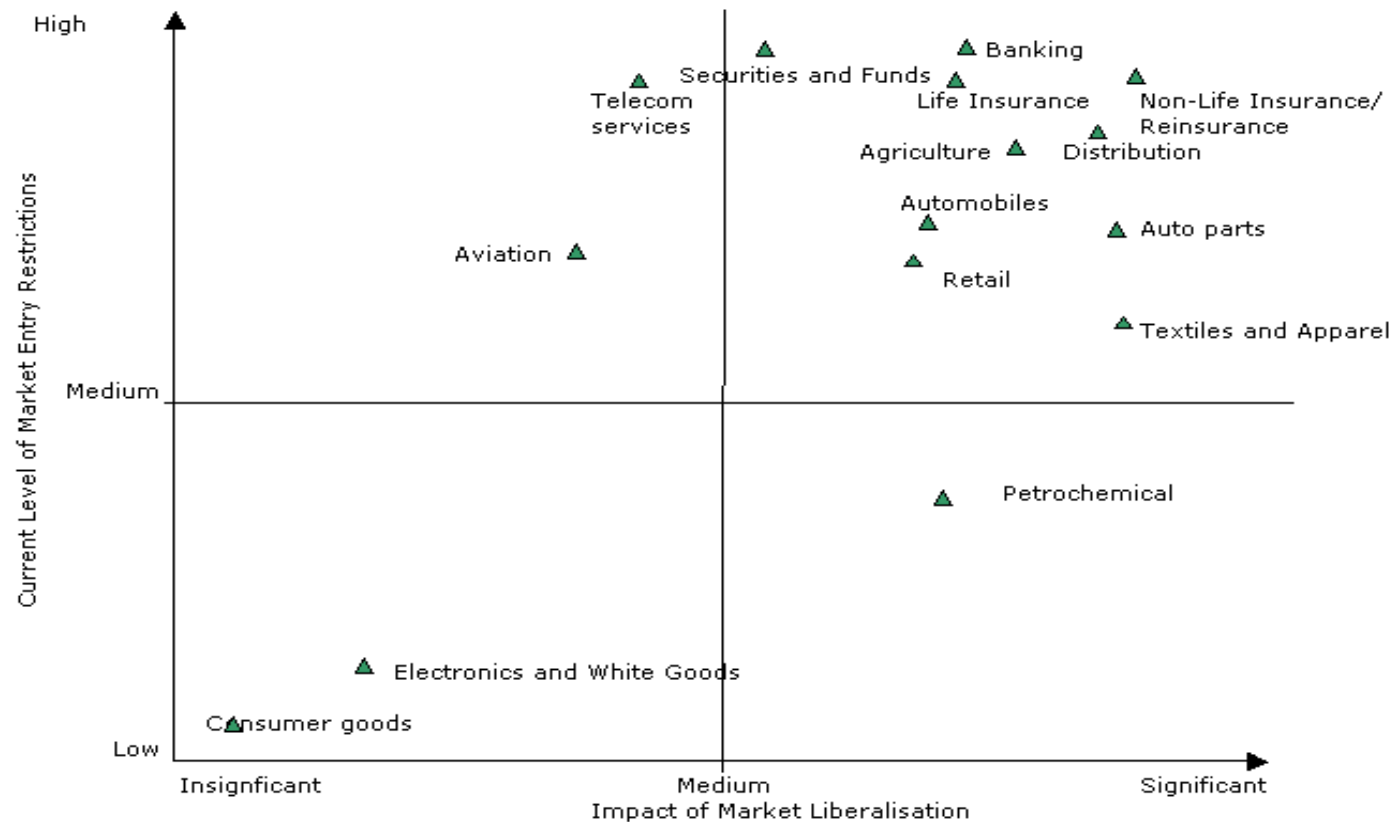


2 Key Aspects in the WTO Agreement

- 1) Market liberalization and improved access for foreign direct investment
- 2) Tariff reduction and the phasing out of quotas

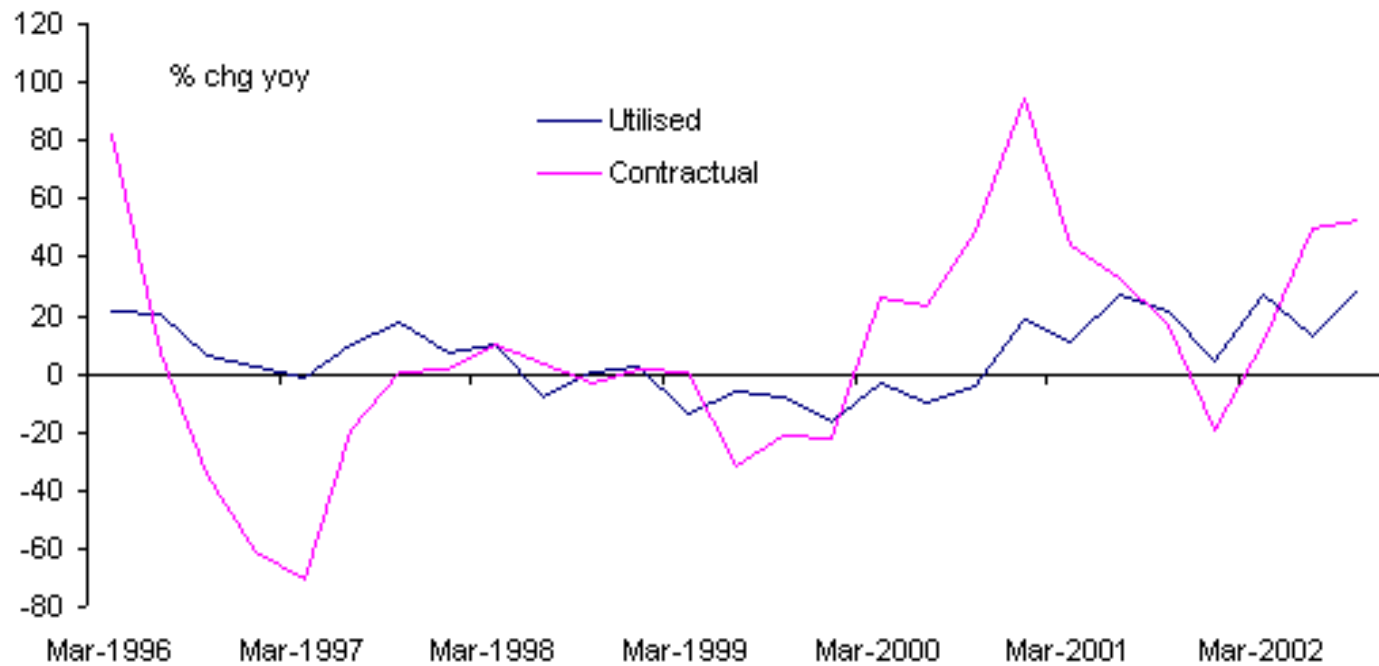


Market Liberalization



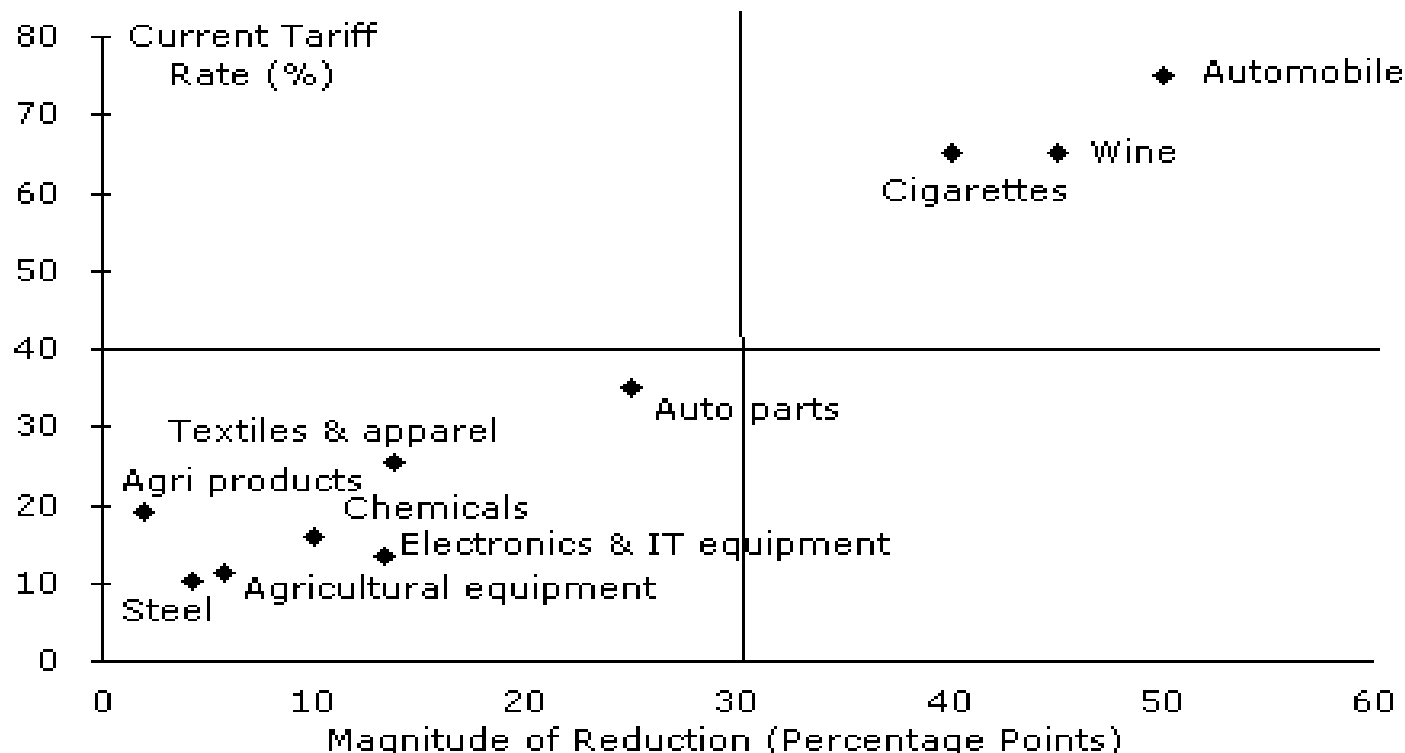
Source: US State Department, US Trade Representative

Improved Access for Foreign Direct Investment into China



Source :CEIC Sept. 2002

Tariff Reduction And Phasing Out Of Quotas



Source: US State Department, US Trade Representative

4 Trends For Investment Consideration

- 1) A more efficient allocation of production factors through increased specialization between China and other Asian countries
- 2) Clustering of manufacturing in China
- 3) Widening income disparity between China's coastal cities and inland cities
- 4) China transforming from a policy driven economy towards a more market driven economy



More Efficient Allocation of Production Factor Through Increased Specialization - China

- China :
 - Growing industries : - apparel, textile, low end electronics, leather & shoes and other light manufacturing
 - Declining industries : - auto parts, petrochemicals and agricultural



More Efficient Allocation of Production Factor Through Increased Specialization – Asia Region

- Korea Taiwan and Singapore : - net beneficiaries through increased export of intermediate and capital goods into China such as high end electronics, equipment, textile ...etc
- Philippines, Thailand, Indonesia and Malaysia : - terms of trade to bias more towards primary goods, such as agricultural products and raw materials, while reducing manufactured goods
- Hong Kong : - increased role in trade and financial intermediation for China



Clustering of Manufacturing in China

- More than an assembly centre
- Development of a full supply chain within China
- Expect to see emergence of local suppliers
- Encourage vertical integration



Widening Income Disparity Between China's Coastal Cities and Inland Cities

	East	Central	West
Foreign trade and investment (2000)			
% of total exports	90.7	5.8	3.5
% of trade balance	82.1	13.7	4.3
% of all FDI	87.8	8.9	3.3
GDP (2000)			
% of GDP from agriculture	12.0	19.2	21.7
Operating surplus as % of GDP	22.0	15.0	14.2
Industrial output (2000)			
% of output from state sector	38.0	67.9	74.2
% of output from foreign-funded companies	35.1	9.3	7.1

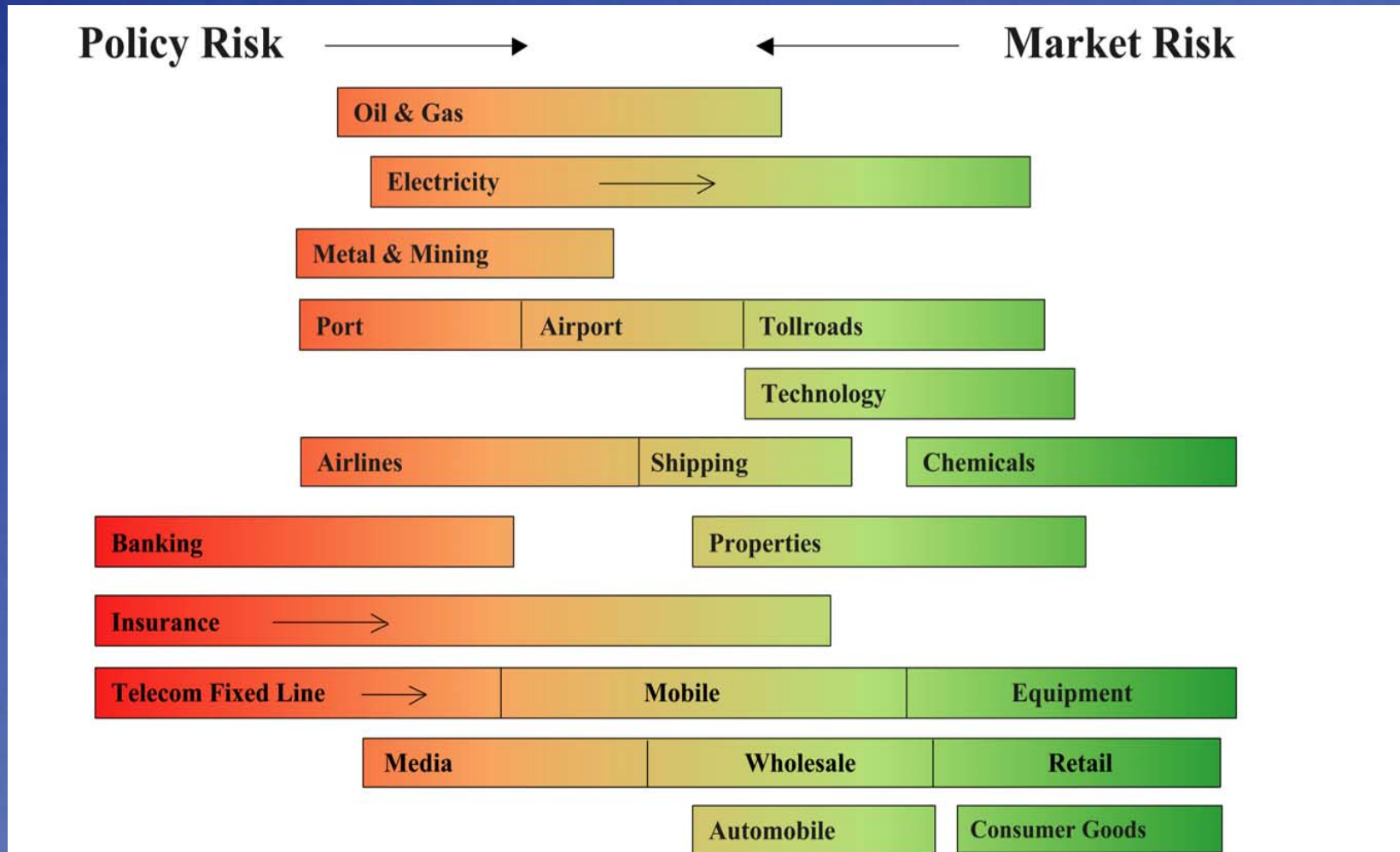
East: Beijing, Tianjin, Hebei, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong, Guangxi & Hainan.

Central: Shanxi, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei & Hunan

West: Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang Source: China State Statistical Bureau



China Transforming to a Market Driven Economy



Length of bars represents magnitude of liberalization over 18 months

Conclusion

- China's WTO accession likely to facilitate the trade flow in the region notably the import of capital goods from the more developed peers and natural resources from the developing neighbours
- Foreign direct investment to accelerate inflow into China for building manufacturing base and tapping domestic consumption
- China to transform further into a market driven economy
- Hong Kong well placed to capitalize on the trade and financial intermediation role for China



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