JESA INVESTMENT & MANAGEMENT CO. LTD.

NEWSLETTER

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NEWS FROM JESA! The Second Economy

By Saro Capozzoli, Founder and GM of JESA Investment & Management Co., Ltd

When the data of 2009 GDP were released everybody wondered whether China had overcome Japan as second economy of the World. The results failed to meet these expectations and Japan kept its position. However it was generally believed that China would soon overcome Japan. This happened in the 2nd quarter of 2010.

For those who are still sceptical about China, it is important to understand that it's impossible to ignore this country and the potentialities that it offers to the other economies.

Unfortunately many enterprises in Europe and in South America (for instance) still believe the world turns around the Old Continent and they even do not consider the opportunities arisen from other markets, especially China.

China shall be an important target for many industries and companies considering that its internal market is developing at an incredible pace. It is worth saying that it is still a developing country with huge differences among itself that may represent also an incredible source of unexploited opportunities.

China is aware all the eyes of the world are pointed toward its economy and it is aware of the power it can exercise outside and inside its borders.

China is more and more selecting the players of its market in order to ensure the improvement of its overall economic system and of its companies. After several missions abroad searching for new technologies and new partners, China is heading to bet on and develop innovative industries, such as green energies, new construction technologies and cutting edge production systems: it is not anymore the time of powered-by-hands assembling lines, automation helps to standardize but also to improve the quality. Those foreign companies that understand such situation may have a lot to do in China, while those that still believe China is only the factory of the World, will face sooner or later with a tough reality: Chinese companies able to compete as peer on the internal and foreign markets.

ITALIAN VERSION

Quando vennero pubblicati i dati relativi alla crescitadel PIL del 2009, molti si chiesero se la Cina avrebbe superato il Giappone come seconda economia mondiale. Allora le aspettative furono disattese, ma era risaputo che prima o poi la Cina avrebbe superato il Giappone. Infatti il sorpasso è stato confermato con i risultati del secondo trimestre 2010.

Per coloro ancora scettici, è importante comprendere che il mercato cinese non può più essere ignorato, come anche le potenzialità che questo Paese offre alle altre economie.

Sfortunatamente diverse imprese europee e sud americane ancora oggi credono che il mondo giri intorno al Vecchio Continente e non prendono nemmeno in considerazione le opportunità che emergono da altri mercati, in particolare la Cina.

La Cina dovrebbe essere un target importante per molte imprese e settori considerando il ritmo impressionante di crescita del suo mercato interno. Essendo ancora un paese in via di sviluppo presenta enormi divari interni, che però possono rappresentare un'incredibile fonte di possibilità da sfruttare.

La Cina di oggi è comunque consapevole del fatto che gli occhi del mondo siano puntati verso la sua economia ed è consapevole del potere che può esercitare dentro e fuori i propri confini. Pertanto è sempre più attenta nella selezioe dei players di mercato in modo da assicurare lo sviluppo della propria economia e delle proprie imprese. Dopo diverse missioni all'estero alla ricerca di nuovi partner e tecnologie, la Cina è pronto a scommettere e sviluppare settori innovativi, quail energie rinnovabili, nuove tecniche di sviluppo urbano e sistemi di produzione all'avanguardia: è finito anche in Cina il tempo delle catene di montaggio tutte a mano, la automazione aiuta a standardizzare ma anche ad aumentare la qualità.

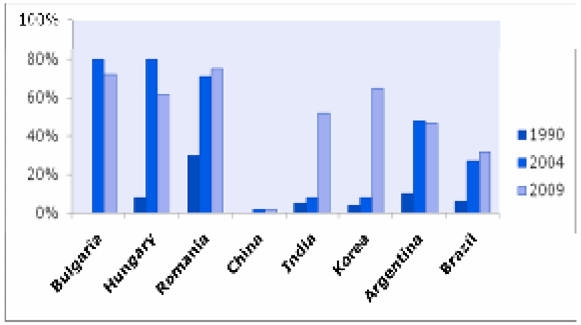
Quelle imprese straniere che saranno in grado di capire la situazione attuale, potranno fare molto in Cina, mentre quelli che ancora credono che la Cina sia la fabbrica del mondo si troveranno prima o poi a fare i conti con una realtà difficile: imprese cinesi sempre più capaci di competere alla pari sia sul mercato interno che su quelli esteri.

The Chinese banking system: Outriding the Red Dragon

The traditional stereotype displaying the Chinese banking system as extremely closed and protectionist seems not to be confirmed by the recent trends, given the rising number of mid and big sized banks constantly opting to bet on the Chinese financial market, since the last couple of decades. According to the latest official data, the number of foreign branches operating in China should reach the sizeable number of 200 units, mainly located in the focal points and along the coastal sites of the mainland. The main foreign players base their business on activities like retail to high-end consumers, foreign currency lending services and transactions on the foreign exchange market. Hence, the recent regulatory reforms, eased by the institution of CBRC (Chinese Banking Regulatory Commission), appointed to carry out tasks related to banking supervision according to a “three pillar” supervisory approach, has widen the spectrum of activities theoretically exercisable by foreign operators. China’s admission to WTO has undoubtedly played a crucial role in this process of rationalization and opening of the market. To give some concrete examples; first, since 2002 the number of Chinese cities that can host foreign banks providing business in the domestic currency (RMB hereinafter) has been substantially increased; since the year after, and thanks to CBRC’s innovative policies, the cited operators can provide services in RMB even to Chinese firms; lastly, international and qualified strategic investors are strongly encouraged to take part into investments activities in the continent focused on restructuring and reforming. With reference to the decision of planning a possible entry in China, this turns out to be definitely a remarkable note: should the aim of the investment be scarcely related to the preliminary and prompt evaluation of strategic opportunities, and rather justified solely by speculative intents addressing a short term financial return and the sole increase of the market share, the forecasted opportunity would be relentlessly snuffed out, almost “burned” by the Chinese Dragon’s blow.

“ An under crowded market” : current opportunities

Additional topics related to the gradual opening up of the Chinese market are easily visible in some trends as multi-polarization and the higher integration on a regional basis. The investing opportunities for those interested in getting a stake in the market are further corroborated by the spillover effects deriving from the 2008-2009 USD 586bn stimulus plan. The Chinese Government’s opening strategy, introduced in 2001, will surely drive to new focal steps in the liberalization process: already in 2009, China counted up 6 foreign banks allowed to supply credit cards and the estimates are said to rise sharply in the coming years. Another big chance relies on the development -say, desirable development -of a more efficient technical and managerial know- how of the stock market, recently pointed by the Government as a binding and essential engine for the domestic economy. The graph below confirms how the Chinese market is under crowded in terms of foreign investments from a cross comparison with other economies, either comparable in size and growth rate or in terms of foreign attractiveness.



Thus far, in China Mainland there are only two registered stock markets (Shanghai and Shenzhen), considerably backward and not efficient if compared to the US and Japanese standards. Consequently, collaborating plans aiming at transferring expertise on matters like complex structured products, included credit derivatives, are warmly suggested, in a field still too under considered and developed in China. Conversely, its limited capability to leverage its own financial means, given the significant actual and foreseeable growth of the country, will pose the urge of a higher recourse to foreign capital. This trend further uphold our position according to which an active and direct stake in China, surely embodies a top possibility for those “privileged interlocutors” asked to play as interface with the Chinese institutions to set up joint investment and programs and collaborations with future foreign clients. Together with the declared and well-known intent of the Chinese vertices to build the cited opening up process around a stable financial and banking system, the positive impulses of the increased presence of foreign entities are traceable in the improved quality of corporate governance, risk management and operative management practices. Not to mention the critical advantages of taxation: recent policies have uniformed to 25% the income tax, which in turn definitely shows a wider room for collaboration with the outside.

The Chinese market attractiveness is largely confirmed by the conspicuous number of branches opened by foreign banks in China: in May, this year, HSBC had 22 branches and 76 sub-branches, Citybank 9 branches, 22 sub-branches and one Representative Office in Xiamen, ABN AMRO 5 branches and 9 sub-branches, Credit Agricole 5 and Deutsche Bank 4 branches and more than 500 employees spread across the Mainland. Due to our experience, and provided the results historically achieved by the numerous foreign operators in China, it seems rather inapt putting too much emphasis on a stereotyped view of a bound and repressed local and overprotected banking system. On the contrary, it looks rather quite convenient to approach the market with a cautious and constructive conduct, more mid run oriented, even considering that only 10 years ago the Chinese banking system was about to collapse and that a number of openings are being carried out, modulated by the suspicious and worried feelings provoked by the western banking and financial systems.

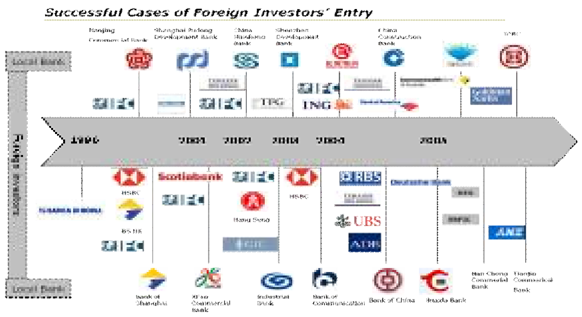
Conclusion: Be here and be ready

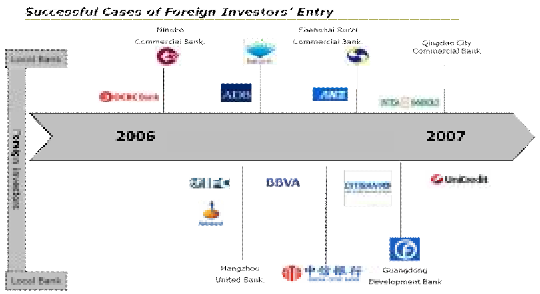
Therefore, the preferred approach in China is to be chosen and evaluated on a contingent basis, also considering the related type of business of the foreign institution in its home market.

The current equity stake ownership for the shares of capital held by a foreign bank in a Chinese one, fixed at 20%, does not represent a real burden, and therefore can be overcome; however, what should be stressed is that the typical approach used for investing in the Eastern Europe, is not replicable in China Mainland. Opting to count on the expert consultancy of a leading company actively involved and operating in the Chinese market since more than a decade, with a consolidated and strongly established relationships with crucial entities at every level of the society, would definitely facilitate the proper target identification for the acquisition of a minority stake (2-5%) among the Chinese banks, that will eventually provide the chance to enter China, gain local expertise and knowledge, train one's own workforce.

To sum up, this will prevent any company wishing to enter the Chinese market from being caught unprepared once, as easily foreseeable, the financial system will further disclose itself to the western winds. Those who are not in China, will be surely kicked out of it even farer and kept stuck outside, those already present with one or two feet in China, will likely have more chances to grow afterwards and better control the market of the world future leaders.

Jesa is constantly monitoring the Chinese banking system and thanks to the extensive network developed in almost 20 years, is able to conduct a in-depth analysis and to support foreign banks in the definition of the best strategy and approach to China market.





NOTE: The above diagrams indicate the operations of foreign banks in China in the last 15 years.

Toward Sustainable Architecture

China housing industry has been experiencing a strong development in the last years not only in quantity but also in quality, but compared with the developed countries, the actual situation in China can not longer support the extensive housing production. Considering current construction stage, land, building materials resources, energy and other factors, it is necessary to promote energy-saving, environmentally friendly residential building to modernize the housing industry.

Housing construction situation facing many problems

More than half of China's existing residential structures will be demolished and rebuilt in the coming 20 years, according to a senior researcher from the Ministry of Housing and Urban-Rural Development. In Shanghai it has been announce that most of the buildings constructed between 1949 to 1979 will be destroyed and the process will continue step by step with the replacement of all building built before 1999.

Both experts and industry watchers have questioned the rapid speed of demolition and reconstruction, suggesting poor building practices and a lack of consistent urban planning, along with a blind pursuit of economic gain on the part of developers, are the real reasons for the relatively short lifespan of buildings.

The World Bank estimates that nearly half of the world's new building construction will be in China by 2015. Another forecast said that China will build a massive 40 billion square feet floor area over the next 20 years adding up to 50,000 new skyscrapers. Energy consumption by buildings in China grew from 10% of the national total in 1970s to 20% in 2006 and is estimated to shoot up to 35% by 2020.

In 2005, Shanghai constructed more building space than exists in all the office buildings of New York City. Every month, China adds urban infrastructure equal to that found in Houston, Texas, simply to keep up with the rate of urbanization. The fact is that this orgy of construction has largely been without doubt non-green. The accent has been on volume, rather than quality or sustainability.

What is being built?

The rate of growth in China is rapid, and therefore, it is crucial to improve what is being built to ensure some sort of sustainability. Recognizing the importance of 'green buildings,' the government has set ambitious energy targets for the building sector:

- Reduce building energy use in all cities by 50% by 2010 and 65% by 2020 (base year 1980).
- Top 1000 State Owned Enterprises Program aims to improve energy efficiency in the largest SOEs by 2010.
- Retrofit 25% existing public and residential buildings to make them greener by 2020.
- Use solar and other renewable energy sources to power 80 million square meter building space by 2010.
- Launch 200 demonstration and dissemination projects for scaled application of renewable energy on buildings.
- Heat measuring and energy saving retrofit in 150 million square meters in existing buildings in North China.
- Organize 30 projects for low energy consumption and green building demonstration.
- Develop energy saving management and retrofit demonstration for large public buildings

The government plans to achieve the goal by strictly enforcing energy saving standards on new construction and by retrofitting existing public buildings. China Green Building Council, a public-private initiative launched by the Ministry of Construction in 2008, manages the green labeling system announced in 2006 and helps create awareness about green buildings.

The Ministry of Construction also announces plans including large scale application of renewable energy in building projects by tapping into solar energy and by using methane, straw and other alternative energy sources as an energy solution for rural areas. Moreover, to encourage construction of green buildings by tax rebates and financial incentives is also indicated.

Key challenges

China's ambitious green building plans also face a range of challenges. First of all, China does not have the required expertise: the government is trying to overcome this by promoting a number of international cooperation programs with the U.S. and Western European countries which have more developed technology for green buildings. China has also been hosting and attending international green building conferences to stay abreast of global green building developments.

Finding professional project team members and construction contractors in China who can properly implement green projects are big challenges. Though China is strong in energy saving technologies for buildings, it lacks expertise in integrated green building design, which is a relatively new concept that refers not only to the optimization of overall energy performance, but it also focuses on all the aspects of sustainability and maximization of the benefits.

Perceived high cost is another barrier for the development of the green building awareness in China. When a World Business Council for Sustainable Development survey in 2007 asked the real estate developers and building professionals worldwide how much more they thought green buildings cost than normal buildings, the Chinese interviewed said they thought certified green buildings cost 28% more. They were unaware that in China the average extra cost for a LEED certified building has been 3-5% more. This figure is similar to the global average incremental cost for LEED certified buildings.

Lack of contractors, sub-contractors, engineers and supervisors who understand the concept of green buildings, an absence of a reliable supply chain of green materials and products is also an obstacle China needs to overcome.

As of now, the green building industry is in a early stage of development in China, and the green building standards are still developing while international green building standards are not generally recognized in China. But it is commonly believed that China plans to become a leader in the global green building industry, which promises to be worth hundreds of billions of dollars in a few years given the rising concerns over global warming, and can hope to build green buildings for the world after the accomplishment of building green credentials in the near term.

Some examples of existing green buildings in China

Beijing, World Science & Trade Centre: This building uses the benefits of wind scoops for ventilation, glazing for daylight, and external shading for solar control, wind generators for electrical power and solar collection for hot water.

The aim is to achieve a 50% reduction in cooling and ventilation plant and to use 50% less energy than conventional residential hotel or office towers

Beijing, Accord 21 Building: Opened in 2000, the Accord 21 building uses 70% less energy than standard buildings.

Named after the American-Chinese Coalition Organized for Responsible Development in the 21st Century (ACCORD21), the aim is to vastly reduce energy use with only “marginal cost”.

Haikou (Hainan Island), China Tower 1: This building’s oval floor plan exploits the wind to naturally ventilate the interior of the tower.

A wind-powered generator at the top of the building produces electricity to provide water heating and lighting for the main and fire escape stairwells, as well as for emergency lighting.

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Jesa sostiene la causa dei Medici Volontari Italiani ed invita anche voi a donare il 5 per mille.

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si informa che in data 21-22-23 settembre si terrà un’asta di beneficienza il cui ricavato di alcuni lotti sarà devoluto all’Associazione Medici Volontari Italiani.

L’asta si terrà in Via Pitteri 8 a Milano.

Per maggiori informazioni, visitare i siti

www.ponteonline.com, www.medicivolontariitaliani.org.

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