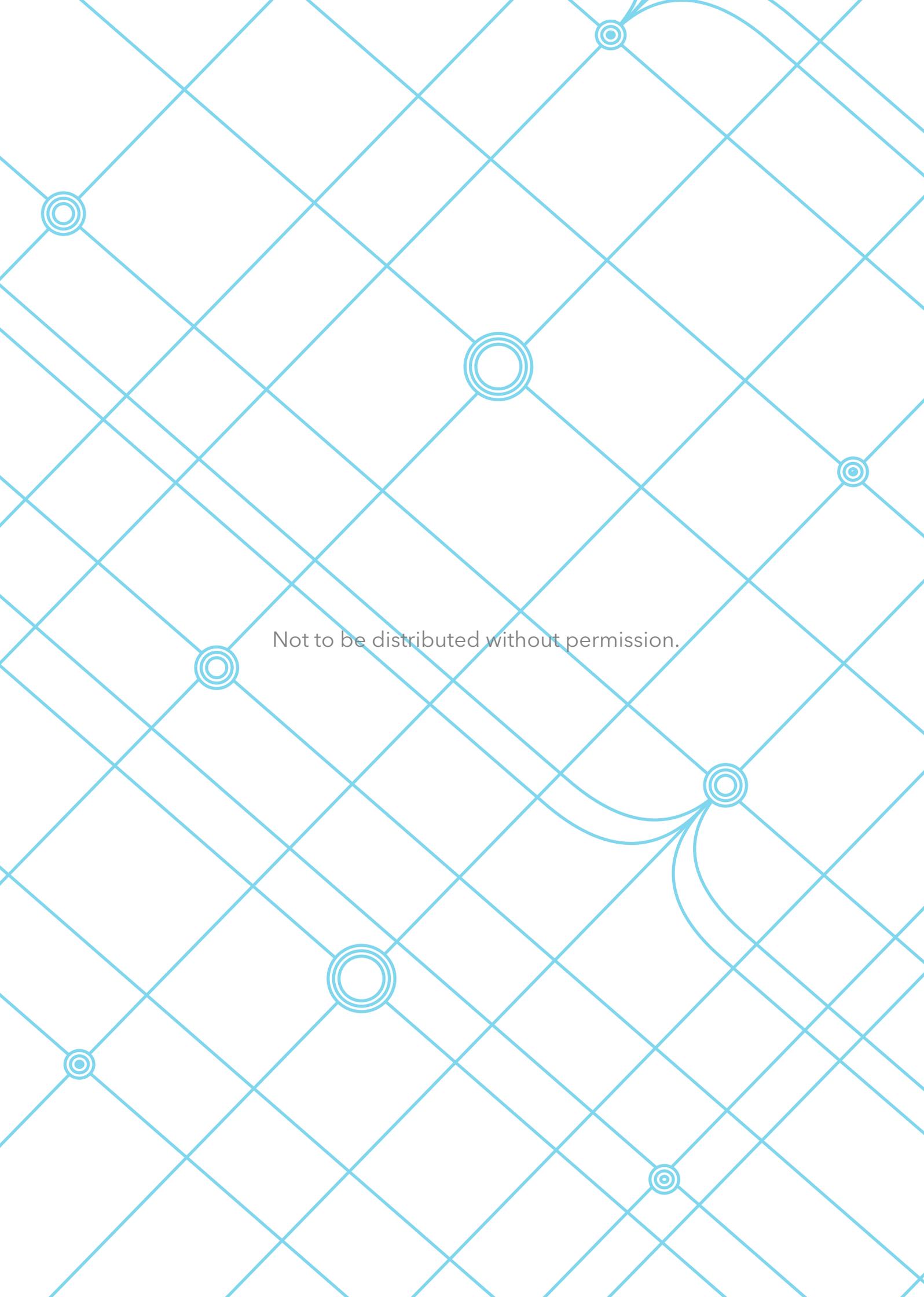


# China Overtakes the US as the World's Largest Economy

Impact on Industries and  
Consumers Worldwide



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**CHINA OVERTAKES  
THE US AS THE  
WORLD'S LARGEST  
ECONOMY:  
IMPACT ON INDUSTRIES  
AND CONSUMERS  
WORLDWIDE**

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# INTRODUCTION



2014 is a landmark year for the world economy, one when the dominance of the USA appears to be over as China becomes the world's largest economy. China and the USA may be economic rivals, but beyond the headline figures, divergent trends in both countries are apparent. Everything from living standards, consumption patterns, the business environment, productivity, retail and travel markets differ in China from the USA.

Yet similarities are there—income inequality is an issue in both countries. Both countries are leaders in the development of renewable energy technologies, manufacturing production and, less auspiciously, pollution.

The real draw for consumer goods companies is China's huge population and the rapidly growing incomes of its consumers, whereas in the USA the overall size of the consumer market and the affluence of its shoppers continue to entice businesses operating in the consumer goods arena.

Taken together, the two economies play a crucial role in driving global growth. A strong China in conjunction with a strong USA, whichever is nominally the larger of the two, is central to a stable, well-functioning global economy. The two countries together account for 1-in-3 dollars spent globally, thus a well-researched China strategy, along with a carefully considered USA strategy, is crucial to success.

This paper draws upon the expertise of Euromonitor's analysts across a wide range of industry sectors as well as the insights of our economic, demographic, social, consumer trends and business environment specialists. We see that in technology, China's large population is gradually beginning to fulfil its mobile potential, as government programmes, rising incomes and greater affordability of both services and devices continue to drive revenues. In online retail, we explore the local essence of the Chinese shopping experience. And in automotive, beer and the personal accessories markets we learn that China overtook the USA long ago.

We hope this paper provides a glimpse into both markets and gives a flavour of the complexities of doing business in each. We believe that a thorough understanding of the market and the socio-economic backdrop of a country is crucial to success and have confidence that our analysis provides you with a competitive edge, wherever in the world you operate.

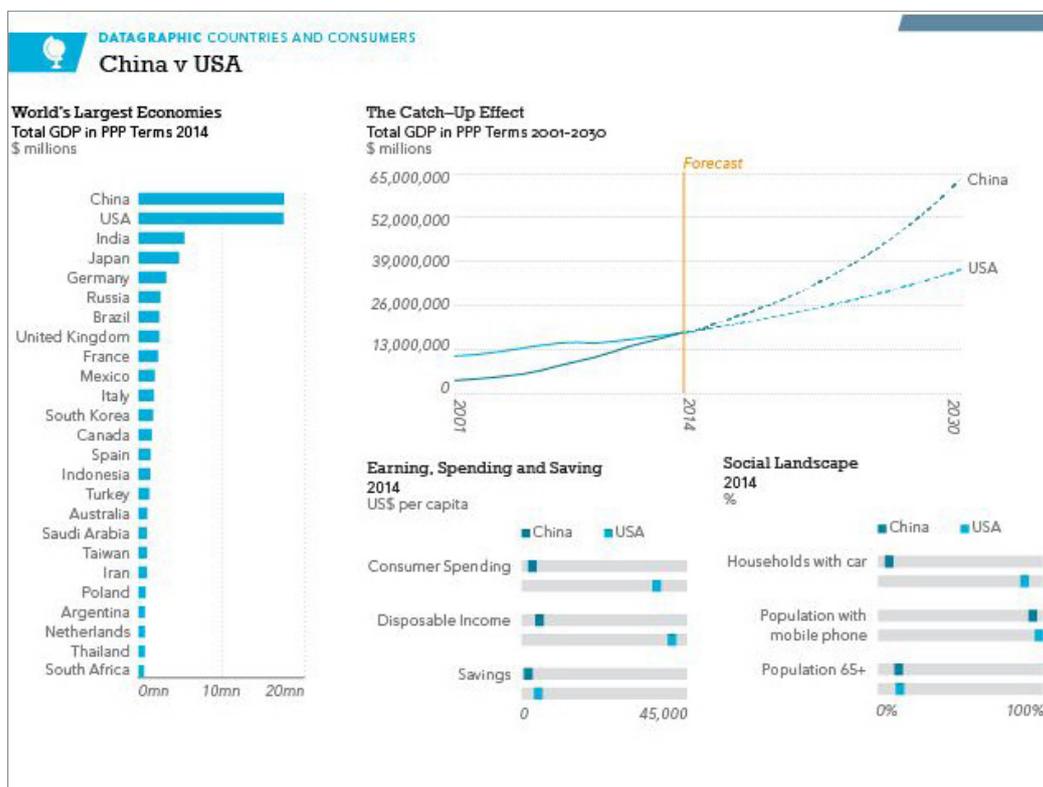
Sarah Boumphrey

Head of Strategic, Economic and Consumer Insight

[@SarahBoumphrey](#)

# CHINA IS BIGGER, BUT IS IT STRONGER?

## Datagraphic | 17 June 2014 China vs. USA: China Is Bigger, but Is It Stronger?



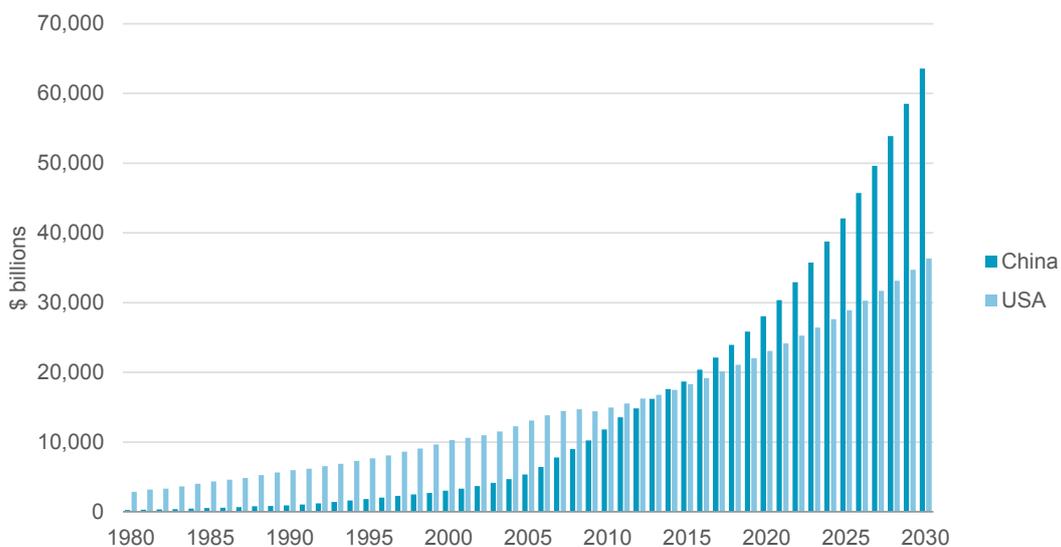
An economic milestone occurs this year as China overtakes the USA to become the world's largest economy in purchase power parity, or PPP terms. Beneath this headline there remain important differences between the two countries with China significantly lagging in key indicators including income and consumer expenditure. In terms of savings, the difference between the two countries is notably narrower - indicative of China's entrenched household savings habit and the more relaxed attitude to credit in the USA.

# A BATTLE OF ECONOMIC EQUALS?



This year China will overtake the USA to become the world's largest economy in PPP terms. Whilst this is a major milestone, it doesn't tell the whole story of the two economies. China may be the largest in absolute terms but the USA retains its pre-eminence in key areas. Above all, there are sharp contrasts between the two countries, as shown in the graphic below.

**Total GDP in PPP terms in China and the USA: 1980-2030**



Source: Euromonitor International from national statistics/Eurostat/OECD/UN/IMF  
Note: Data from 2014 are forecast

## China overtakes in size...

As you would expect with an emerging market, in growth terms China has outpaced the USA consistently for decades and this is expected to continue into the future. In practical terms, this means that in the same time it took the USA economy to double in size (1986–2013) the Chinese economy grew 12-fold.

The two countries combined account for 37.5% of global real GDP growth in the

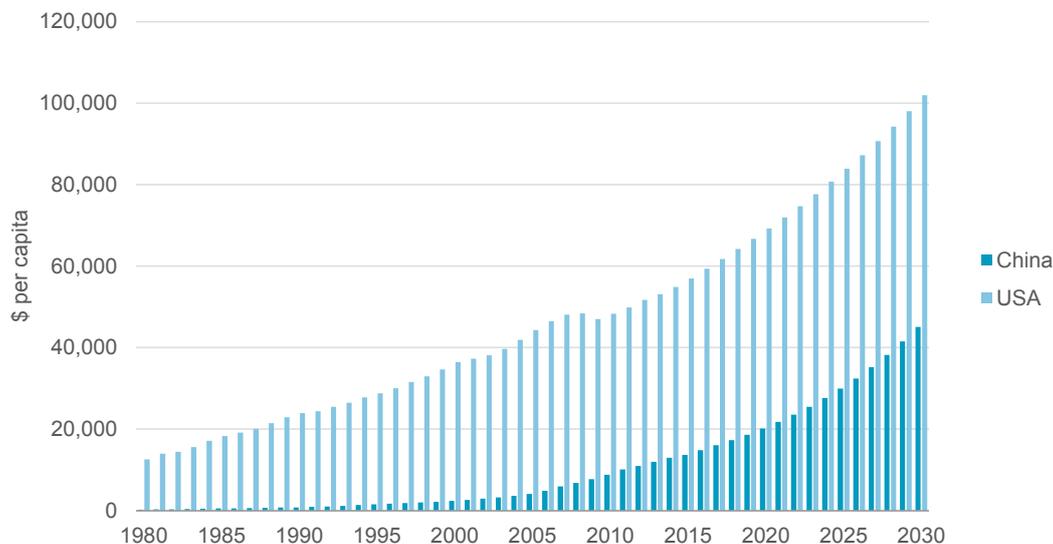
years leading up to 2030. Between 2013 and 2030, China will add USA\$18,026 billion in GDP, the equivalent of another Western Europe, and the USA USA\$8,658 billion in 2013 prices.

## ...But lags in living standards

In GDP (PPP) per capita terms, China still ranks way below the USA. In fact, in a ranking of 183 countries, China is in 75th place. Even in 2030, per capita GDP in PPP terms in China will remain at less than half that of the USA.

In terms of living standards, China still has a long way to go and these numbers are what really matter to the average person. In addition, the spoils of economic growth have not been distributed evenly and income inequality is a real challenge for the Chinese government. Yet, income inequality is an issue that both countries have in common. For instance, since 2008, the disposable income of a middle-income household in the USA has fallen whilst that of a high income (decile 10) household has increased dramatically. In China all income levels have seen growth, but the low income households are overwhelmingly in rural areas leading to an urban-rural divide.

### GDP per capita in PPP terms in China and the USA: 1980-2030



Source: Euromonitor International from national statistics/Eurostat/OECD/UN/IMF

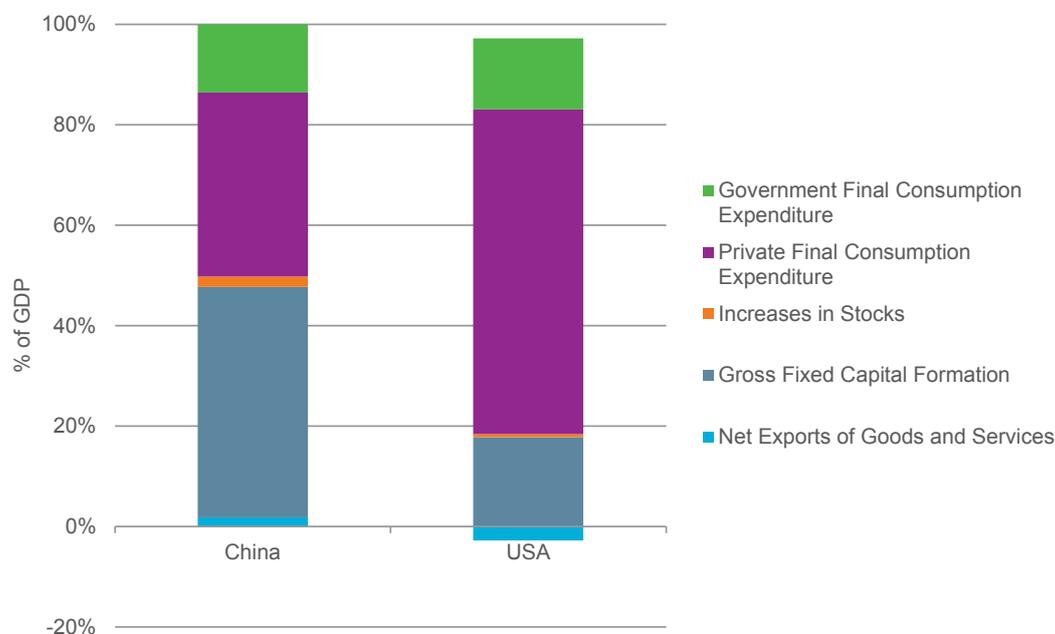
Note: Data from 2014 are forecast

## Consumption vs. investment

The structure of the two economies is also quite different. In 2014, private consumption will account for an estimated 68.3% of GDP in the USA, compared to just 37.2% in China. Chinese growth has been driven by investment, whereas in the USA private consumption has been the driver. A point of similarity is that both countries have seen debt-fuelled growth.

An unbalanced economy, whether it be weighted towards consumption or investment, or fuelled by debt, is open to risk. Too much emphasis on consumption could lead to pressure on the trade balance and inflationary pressures, whereas if investment is not directed to where it's needed it could be wasted entirely, place pressure on inflation or create bubbles.

### GDP by Usage in China and the USA: 2013



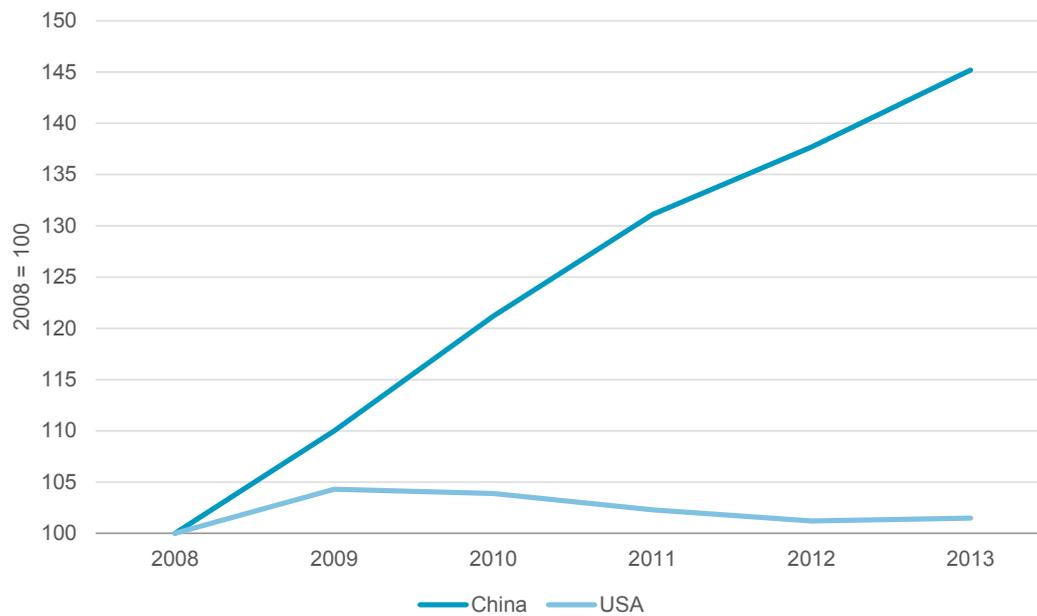
Source: Euromonitor International from national statistics/Eurostat/OECD/UN/IMF

## Structurally sound?

Agriculture remains an important sector in China, contributing 10.0% to GDP in 2013 whereas in the USA it is 1.0%. Productivity is much higher in the USA, however with only 1.4% of the employed population working in agriculture in the same year, compared to 32.6% in China. USA farms tend to be large-scale businesses whereas in China many farms are traditional and small-scale. The Chinese government aims to modernise farming, seeing a better-functioning agricultural sector as a tool to combat rising rural-urban inequality and to quell potential unrest.

Another interesting point of difference is manufacturing. In China, manufacturing accounts for a far larger proportion of the economy at 30.0%, whereas in the USA it is 13.2%. Yet since 2010, manufacturing has been expanding in importance in the USA while in China it is declining, having peaked at 32.9% in 2007. The USA manufacturing sector is benefiting from the reshoring trend driven by low energy costs and the subdued growth of labour costs, whereas the Chinese manufacturing sector is suffering from increasing costs and skills shortages.

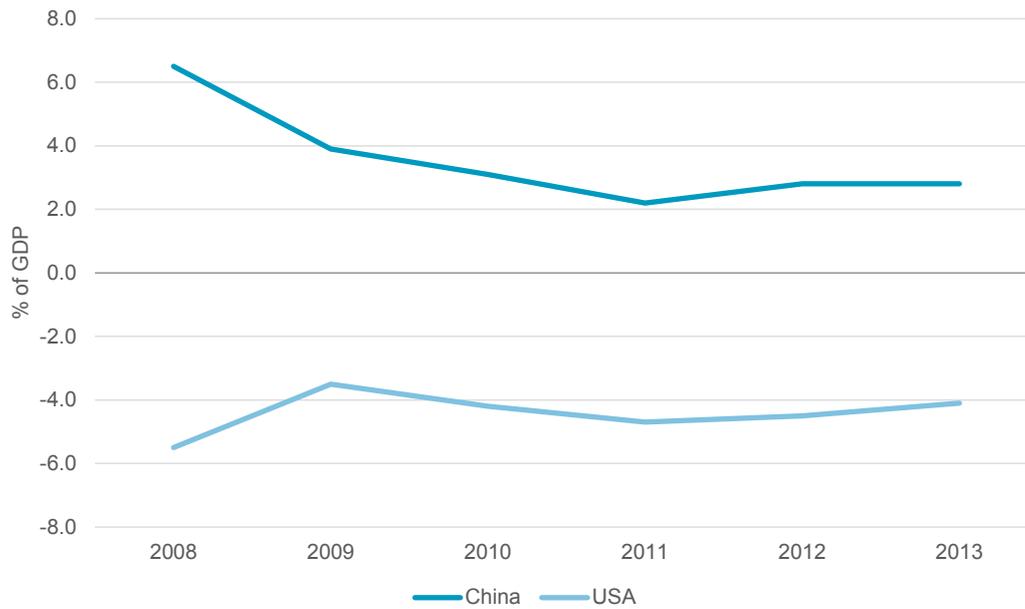
### Real Growth in Wages in Manufacturing in China and the USA: 2008-2013



Source: Euromonitor International from International Labour Organisation (ILO)/Eurostat/national statistics

## Balancing trade

Finally, the external sector also reveals huge differences. China's trade balance has been in surplus every year since 1994, whereas the USA has been in deficit since before 1977. Looking at trends over time however, the balance of trade is slowing converging with the trade deficit in the USA shrinking whilst China's trade surplus also shrinks.

**The Balance of Trade in China and the USA: 2008-2013**

Source: Euromonitor International from national statistics/OECD/IMF

## Twin drivers of global growth

China and the USA may be economic rivals, and China may just take the lead this year in terms of the overall size of the economy, but beyond the headline figures underlying contrasts are more apparent.

Taken together, the two economies play a crucial role in driving global growth and a strong China in conjunction with a strong USA, whichever is nominally the larger of the two, is central to stable and sound global growth.

Sarah Boumphrey

Head of Strategic, Economic and Consumer Insight

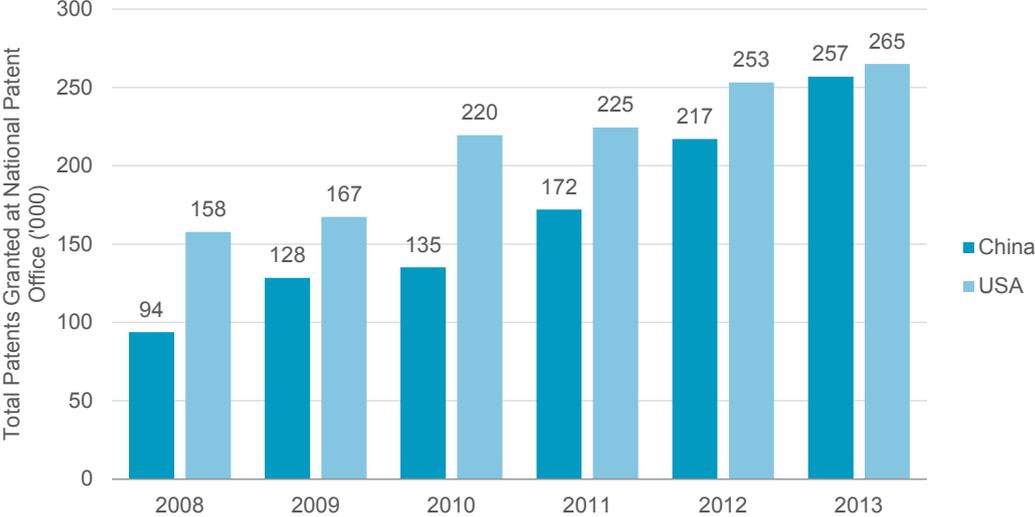
[@SarahBoumphrey](#)

# BUSINESS ENVIRONMENT CREDENTIALS



While China might be ready to surpass the USA in PPP terms, the USA still far outpaces China when it comes to Ease of Doing Business rankings and labour productivity. Research and development (R&D) however is one area where China is rapidly gaining ground. Despite this, there is little real contest between the two countries in terms of quality of the business environment. The real draw for consumer goods companies is China's population size and rapidly growing consumer affluence, and firms investing there instead of the USA do so despite, not because of its business environment.

**Total Patents Granted in China and USA National Patent Offices: 2008-2013 '000**



Source: Euromonitor from trade sources/national statistics

## **Expenditure on Research and Development: China catching up**

While the quality of China's patents and research and development has been called into question by many, there is little doubt that in terms of sheer numbers, research and development and patents are an area where China is beginning to gain ground rapidly on the USA. Total patent grants at its national patents office stood at 256,943 in 2013, up sharply from 93,706 in 2008 and catching up with 264,960 granted in the USA at its national patents office. China has been open about its desire to become a world leader in innovation, stating a goal of becoming an innovation-driven economy by 2020 in its five year plan in 2013. China spent 2.1% of its total GDP on R&D in 2013, up significantly from 1.5% in 2008, and comparing favourably with 2.9% in the USA in 2013, which increased only a fraction from 2.8% in 2008.

## **Ease of Doing Business: the USA leads comfortably**

China seems far less concerned with making its business environment more accessible to foreign investors than it is with becoming a self-sufficient innovation driver and consequently has done relatively little to close the wide gap between itself and the USA in terms of the quality of its business environment. The figures speak for themselves. For the overall Ease of Doing Business ranking in 2014, China stood in 96th place out of a total of 189 countries, compared with 4th for the USA. In fact, China's ranking has actually worsened from 78th place in 2010 out of 183 countries. There is much work to be done to clean up its notoriously complex business procedures with 4 of the 10 sub-categories of Doing Business ranking over 100 in 2014. Construction permits was the worst at 185th, while enforcing contracts was its best at 19th.

The USA performs relatively well across the board with eight of its sub-categories ranking under 30th position in Doing Business 2014. Paying taxes was its weak link at 64th, due to a rather high total tax rate of 46.3% of total profits. In getting credit it was 3rd globally according to Doing Business 2014. Credit is easy to obtain in the USA, thanks to its universal private bureau coverage.

## **China has bigger issues with corruption**

Corruption is an issue in China, and it ranked poorly at 80th out of 177 countries in Transparency International's Corruption Perceptions Index 2013.

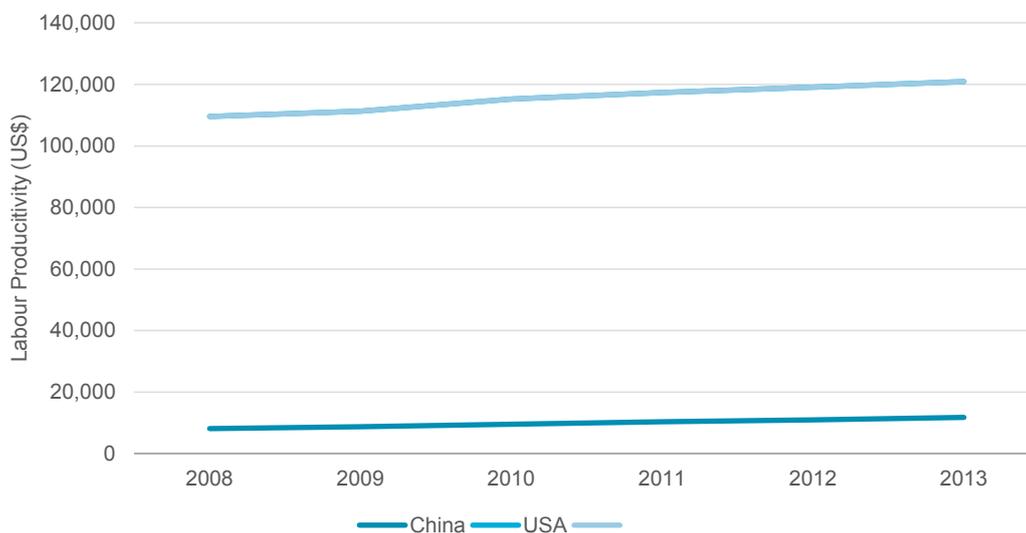
The USA ranked 19th in 2013, unchanged from its ranking in 2012 out of 176 countries. China recently made some public gestures to try to reduce lavish government spending, as president Xi Jinping clamped down on excessive spending by public officials at the end of 2012. In the long term, this could go some way to narrowing the gap. However at a fundamental level, while the USA is far from being free from corruption, China's lack of democracy and freedom of speech make corruption far more of an issue than the USA.

## Productivity: USA more than nine times higher than China

China has to become more self-sufficient. It has been trying to shift away from low cost manufacturing towards more skilled work, and in the long term this will help to raise its labour productivity, which is measured as GDP per person employed. Currently however, its productivity of USA\$11,753 in 2013 was in stark contrast to the USA's USA\$109,115 in the same year. The main reason behind the difference is that 32.6% of China's total employed population worked in the labour intensive, low productivity sectors of agriculture, hunting, forestry and fishing in 2013, compared with just 1.4% in the USA, which is a much more service based economy.

### Labour Productivity in China and the USA: 2008-2013

GDP per person employed



Source: Euromonitor International from International Labour Organisation (ILO)/Eurostat/national statistics

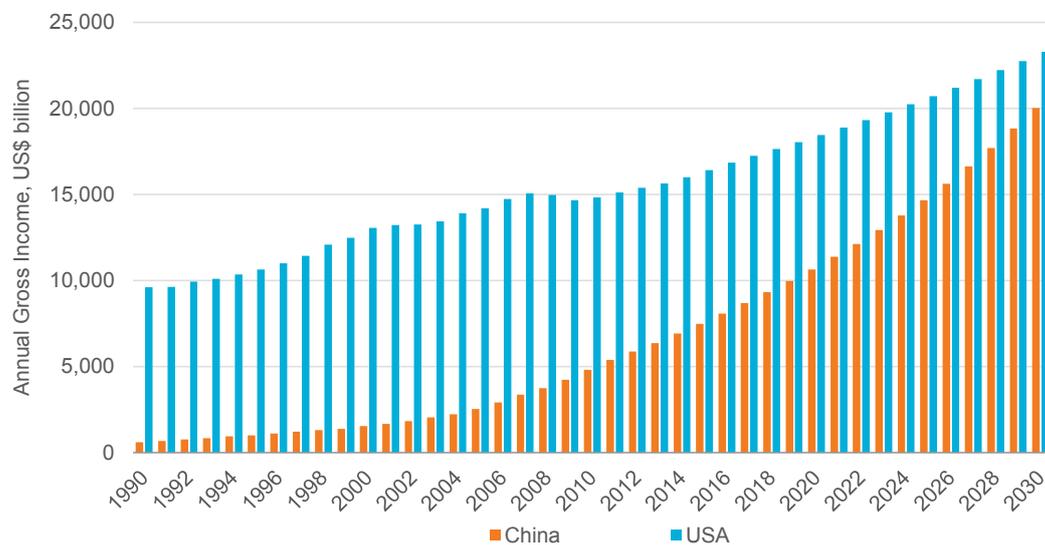
Carrie Lennard  
Business Environment Manager

# CHINA LAGS IN CONSUMER SPENDING



When comparing income and consumer expenditure levels of the two countries, China and the USA are still worlds apart. Although both countries are faced with high levels of income inequality, which can impact businesses' efforts to expand in both markets, there are many extreme contrasts between the two countries in terms of consumer income, savings and expenditure. To consumer goods businesses, the stark contrasts in incomes and savings mean that China is still a significantly smaller consumer market with less spending capacity when compared to the USA.

## Annual Gross Income in China and the USA: 1990-2030



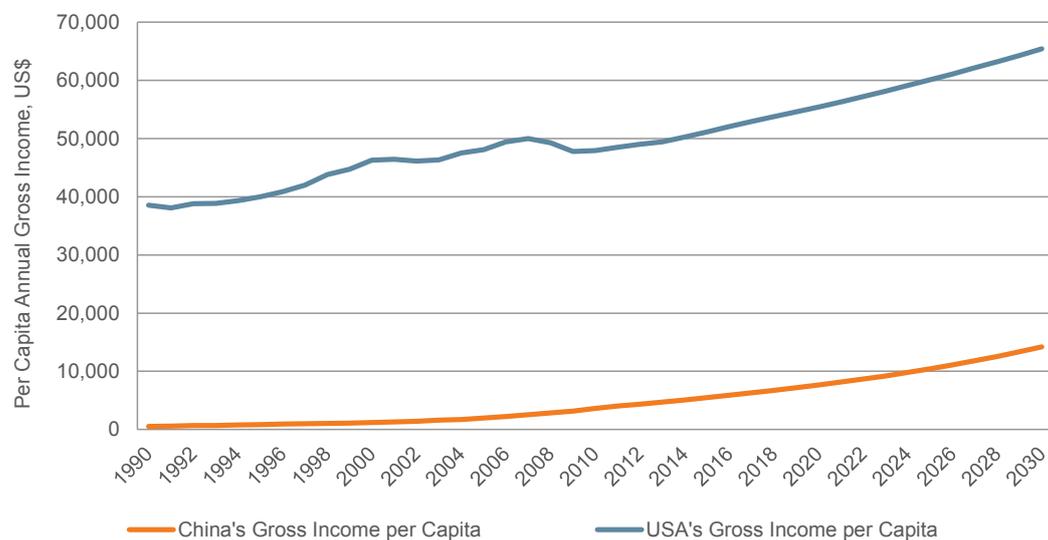
Source: Euromonitor International from national statistics

Note: Data are in 2013 prices, fixed exchange rates. Data for 2014-2030 are forecasts.

# Amazing differences in average incomes and savings

Although the growth in China's total gross income over the past decades has been very impressive, China is still lagging far behind the USA in terms of per capita gross income. To international businesses, this per capita income indicator matters most because it reflects consumers' purchasing power. By 2030, Euromonitor forecasts that per capita gross income level in the USA will still be 4.6 times higher than that of China, although this will be a significantly narrower gap compared to 2013 when the USA's per capita gross income was 10.5 times higher than that of China.

## Per Capita Real Annual Gross Income in China and the USA: 1990-2030

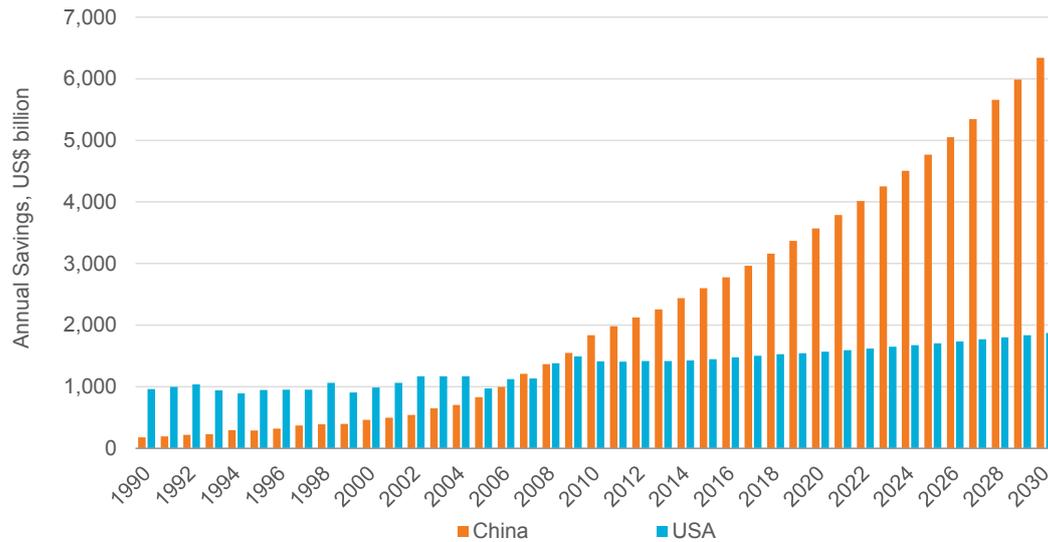


Source: Euromonitor International from national statistics

Note: Data are in 2013 prices, fixed exchange rates; Data for 2014-2030 are forecasts.

China's per capita gross income was 10.5 times lower than that of the USA in 2013, so it is remarkable that China's per capita savings in the same year was only 2.7 times less than the USA. Confident with the country's rapid economic expansion over the past decades, Chinese consumers have increasingly embraced consumer credit, yet collectively they are, and will still be, a nation of savers. China's savings ratio is forecast to remain high, at 35.7% of disposable income in 2030, compared to 10.0% in the USA in the same year. More impressively, China's total savings of USA\$6.3 trillion in 2030 will be 3.4 times higher than the USA, which will be a significantly wider gap compared to 2013 when China's total savings was 1.6 times higher than the USA's total savings.

### Annual Savings in China and the USA: 1990-2030



Source: Euromonitor International from national statistics

Note: Data are in 2013 prices, fixed exchange rates; Data for 2014-2030 are forecasts

## Income inequality as a common issue

Reflected by the Gini index – a standard economic measure of income inequality with index scores varying between 0% (representing perfect equality, with all people receiving the same income) and 100% (implying absolute inequality with only one person receiving all the income), income inequality levels are comparable between China (47.3% in 2013) and the USA (47.7% in 2013) and are relatively high by international standards. High levels of income inequality can hamper middle class expansion as well as polarise the consumer market into effectively two markets – one of high spenders and the other of low-income consumers. In the period through to 2030, China is expected to see falling inequality thanks to the country's income distribution reforms while the level of income inequality in the USA will steadily rise.

# Younger Chinese consumers spend, but consumer expenditure is still not driving the Chinese economy

Like the USA, China has a booming luxury goods market which became the world's third largest in 2013 behind the USA and Japan. This partly reflects the high level of income inequality in China, and is partly the result of the higher incomes enjoyed by younger Chinese consumers, who are generally more willing to spend on luxury goods as a marker of success. In 2013, people aged 30–34 had the highest average gross income in China whereas the age cohort enjoying the highest average gross income in the USA was 50–54.

Overall, however, Chinese consumers are not spending enough, as seen in the country's high savings ratio and the fact that China's economic growth is mainly investment driven. In 2013, consumer expenditure as a proportion of total GDP was 36.5% in China, compared to 67.1% in the USA. Even by 2030, consumer expenditure will still account for less than a half of the Chinese economy at 40.9% of total GDP, meaning it will still not be a driver of economic growth or support a more balanced economy as the Chinese government had hoped.

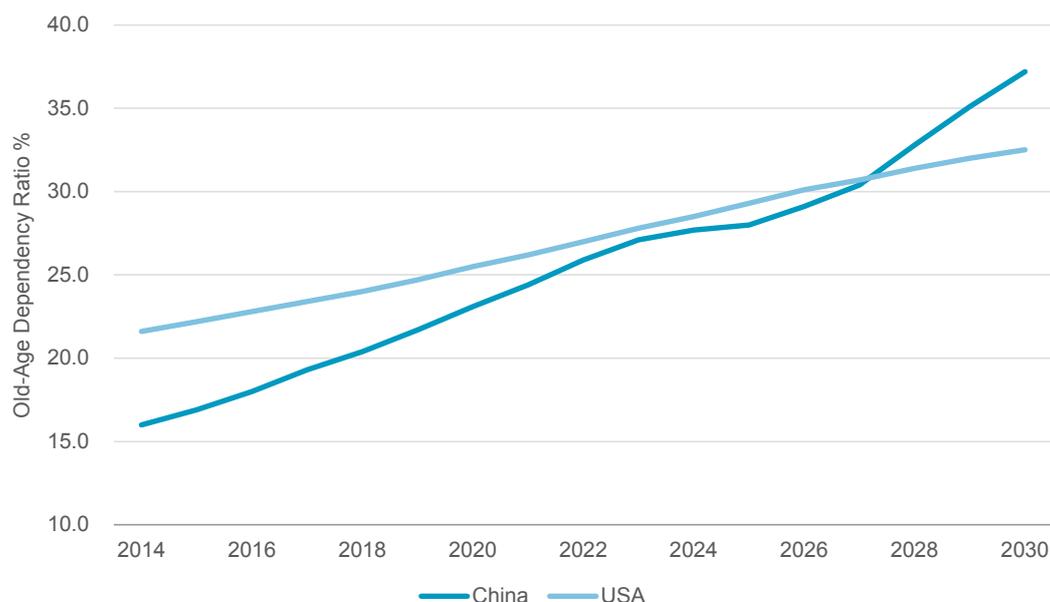
An Hodgson  
Income and Expenditure Manager

# USA RETAINS THE EDGE IN POPULATION TRENDS



Although China's economy is growing, the USA will preserve the competitive edge when it comes to population trends, giving it an advantage that boosts its economy and competitiveness in the long term. China's shifting demographic structure is one of the biggest risks to sustainable economic growth in the medium to long term. Population trends offer vital insights for strategists and marketers interested in consumer market developments as population profiles dictate consumer demand. This is all the more important for the USA, the world's largest consumer market (consumer spend in USA\$ terms), and China, the most populous country globally, where the government aims to rebalance from a manufacturing and export-based economy to one driven by domestic consumption. In line with global demographic trends, both countries are ageing. However, China scores the poorest in most demographic indicators.

## Old-Age Dependency Ratio in China and the USA: 2014-2030



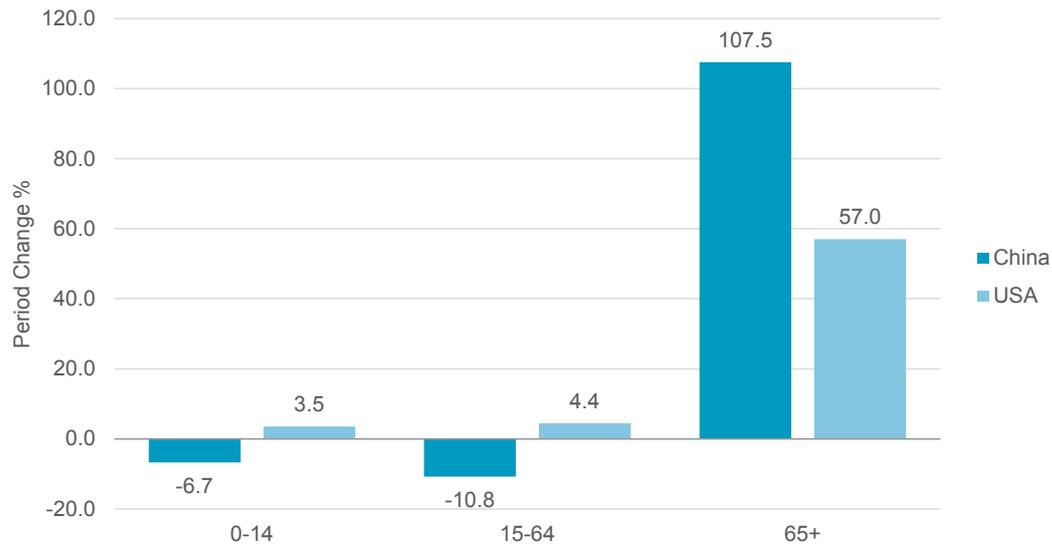
Source: Euromonitor International from national statistics/UN

Note: Indicates the percentage of persons older than 65 per persons aged 15 - 64

# China scores the weakest in population measures

China's unique demographic prospects are a result of the government's one-child policy since 1979, introduced to curb rapid population growth:

- China has the world's largest population but Euromonitor predicts that India will overtake China by 2025. The country's low fertility rate, the number of children that would be born to a woman if she were to live to the end of her childbearing years, dropped from 2.8 in 1977 to 1.2 in 2013, well below the replacement level of 2.1 usually associated with a population being able to replace itself naturally. This compares to a fertility rate of 1.9 in 2013 for the USA, where a large immigrant population and a society that encourages mothers to work has buoyed fertility rates vis-à-vis other developed economies.
- The open immigration policy is boosting USA population growth. Our projections show that the USA population will grow at a steady pace of 0.7% on average per year in 2014–2030, more than double the forecast for advanced economies, while countries such as Japan, Spain and Germany will battle population declines. Concurrently, China will have growth of just 0.2% on average per year, well below the average for emerging and developing countries of 1.1%. Immigration to China is limited with immigrants accounting for just 0.1% of the Chinese population in 2010, according to the World Bank.
- China's median age of 40.3 in 2013 is more comparable to that of an advanced economy and higher than that of the USA of 37.5 years. By 2030, Euromonitor forecasts that the median age will have soared by an extra 6.8 years in China to reach 47.1 compared to 39.9 years in the USA. These factors are increasing the burden on the working-age population needed to support the growing number of elderly. China's surplus of cheap labour has been at the heart of its success in establishing itself as the world's largest manufacturer. However, we predict that the working-age population (aged 15–64) will shrink by 10.8% over 2014–2030 (106.7 million fewer people) while the USA's working-age population will continue to grow by over 4.4%. This will result in less people of working-age paying taxes to care for the elderly. The Chinese old-age dependency ratio, the percentage of persons older than 65 per persons aged 15–64, will overtake the USA in 2028 and will reach 37.2% in 2030.

**Period Change in Population by Age Group in China and USA: 2014-2030**

Source: Euromonitor International from national statistics/UN

- China has two other unique demographic challenges. The one-child policy and a cultural preference for boys have resulted in a severe gender imbalance. In 2013, there were 33.9 million more boys and men in China than girls and women, equivalent to the entire population of Iraq. As these men become ready for family life, there is a risk of a generation of young, unmarried men due to the lack of females in Chinese society. Furthermore, most families in China have a 4:2:1 family structure where one child must support two parents and four grandparents adding an extra dimension to the burden on the labour force.

## The USA wins the demographic race

The USA also faces its own unique demographic conundrum. An open immigration policy does not come without some internal resistance. Analysts predict that the USA will become a “majority minority” population by 2050 as the non-Hispanic white population declines. Additionally, even though the USA population will reach a record of 400 million by 2050, it will lose its place as the world’s third largest population to Nigeria by the same year, according to UN projections.

We also need to put Chinese figures into context. At 1.4 billion in 2030, the population will continue to dwarf the USA and the rest of the world. Its working-age population is declining but at an expected 884.1 million in 2030, this will be more than the total population of Europe combined. Marketers and strategists can prepare for and benefit from changing demographics in both countries by catering towards the rapidly growing number of elderly in China and targeting the increasing diversity of the USA population.

However, the implications of China's population changes are acute because it is experiencing rapid ageing without having reached developed economy status. China is already losing competitiveness because of rising wages and skills shortages; therefore, emerging markets which promise a growing labour pool will become more attractive to investors. If China does not expand its social safety net in terms of pensions and healthcare, this will harm consumer spending prospects and potentially halt the middle class expansion as disposable incomes are diverted to supporting the elderly. This will hinder China's ability to reach advanced economy levels and may even threaten its place as the world's largest economy.

Media Eghbal  
Head of Countries Analysis

# THE TWO BIGGEST ENERGY CONSUMERS



China and the USA share many similarities when it comes to industry, infrastructure and environment. Both countries lead the world in manufacturing production, energy consumption, greenhouse gas emissions and green energy investment. Yet the two countries differ in several ways. China's per capita resource availability is low and thus the country is significantly more dependent on energy imports. At the same time, China is significantly less energy efficient than the USA. Furthermore, China's reliance on energy-intensive manufacturing industries to drive exports and economic growth over the past decades has led to rising carbon dioxide (CO<sub>2</sub>) emissions while the USA is reigning in its emissions. In their efforts to become more energy independent and efficient, China and the USA can together become the driving force in making green energy viable and affordable, with great long-term implications for the global energy market.

## Major Polluters by Share of Global CO<sub>2</sub> Emissions: 2013

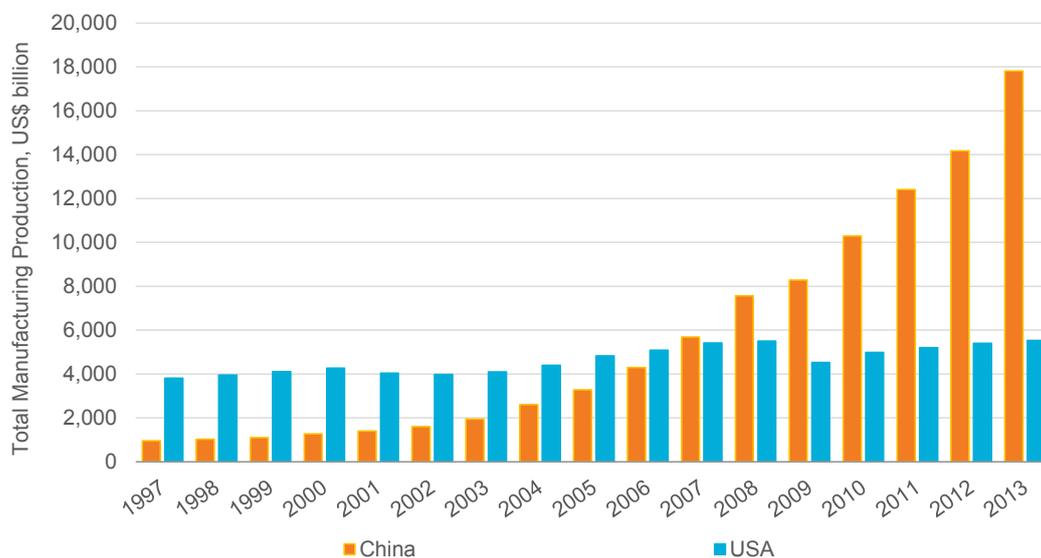


Source: Energy Information Administration of the USA Government, International Energy Annual

## Emerging trend of “reshoring” to the USA, as China’s manufacturing cost rises

China and the USA are the two largest manufacturing economies in the world, yet with a total manufacturing output of USA\$17.8 trillion in 2013, China’s manufacturing production was over three times higher than that of the USA. China’s emergence as the world’s largest producer of manufactured goods has been impressive, with manufacturing production expanding at an average rate of 15.7% per year in real terms between 1997 and 2013 – the fastest growth in the world.

### Total Manufacturing Production in China and the USA: 1997-2013



Source: Euromonitor International from national statistics/UN/OECD

China is one of the top destinations USA and multi-national businesses outsource manufacturing work to take advantage of China’s lower wage costs. In recent years, however, rising wages, labour shortages as a result of the one-child policy, an appreciating renminbi and increasing transportation costs due to high oil prices have started to erode China’s competitive advantage as a low-cost production base. Meanwhile, productivity at USA factories has been rising, leading to a trend, albeit in early stages, of USA businesses either “reshoring” manufacturing back to the USA or “near shoring” it to a closer location such as to Mexico. In the long term, this trend will benefit the USA economy through job creation and rising USA manufactured exports and at the same time stunt manufacturing expansion in China.

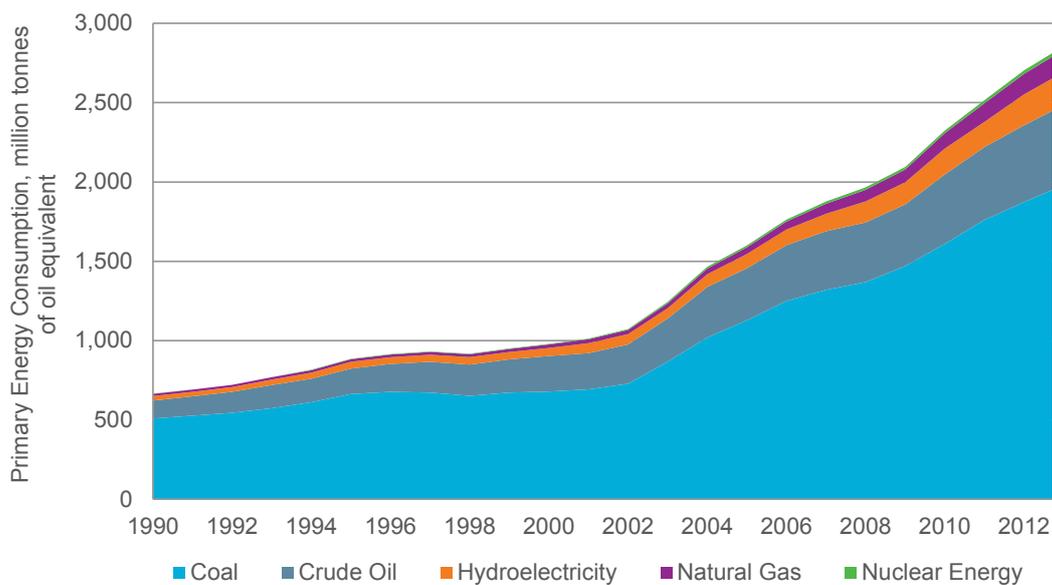
## Both are the world's biggest energy consumers and worst polluters

As the world's two largest manufacturers, China and the USA lead global energy consumption with China overtaking the USA in 2010 to become the world's biggest energy consumer. Consequently, both countries are also the world's worst polluters. In 2013, China accounted for 28.3% of the global CO<sub>2</sub> emissions from the consumption and flaring of fossil fuels, followed by the USA on 16.2%. Energy consumption per capita in China as the world's most populous nation is significantly below the USA level, but an important trend that sets China and the USA apart is that China's total CO<sub>2</sub> emissions have been rising, while the USA is reigning in its emissions.

With China having relied largely on energy-intensive manufacturing industries to drive exports and economic growth, the value of GDP produced per tonne of oil equivalent of energy consumed has been significantly lower in China than in the USA. In 2013, China generated USA\$ 3,275 of GDP per tonne of oil equivalent of energy consumed respectively, compared to USA\$ 7,819 generated by the USA.

Coal makes up the largest share in China's mix of primary energy consumption, with 69.3% of total energy consumption in 2013, although this share has been gradually declining as the country strives to reduce coal consumption. As well as being the world's top coal consumer, accounting for about half of global coal consumption, China is also the world's biggest producer and importer of coal. In the USA, crude oil accounts for the largest share of energy consumption at 37.9% in 2013, followed by natural gas at 30.7% in the same year.

### Primary Energy Consumption by Type in China: 1990-2013



Source: Euromonitor from BP Amoco, BP Statistical Review of World Energy

## Diversifying energy sources to enhance energy security and reduce carbon emissions

Both countries have an all-of-the-above energy strategy that encompasses traditional sources of energy such as coal, oil and gas, renewables such as solar, wind and hydroelectric power, and other unconventional sources such as shale gas extracted via hydraulic fracturing or “fracking.” This strategy aims at enhancing energy security, increasing energy efficiency, sustaining economic development while also reducing carbon emissions and other environmental impacts by shifting towards cleaner energy.

The USA is already a global leader in fracking. Natural gas produced by this technique accounted for over a third of total natural gas produced in the country as of 2013 and is putting the USA on track to become energy independent by 2035. Although natural gas is considered a cleaner energy than coal due to lower carbon dioxide emissions, fracking has sparked public concerns over environmental risks, including potential contamination of groundwater.

In China, the increased availability of shale and other LNG markets is driving the country's aggressive pursuit of natural gas. Euromonitor previously predicted that in the medium term China could rival the USA as a major player in fracking, but in a water-stressed country like China the potential contamination of the water supply could bring the expansion of shale gas production under public scrutiny.

Both China and the USA are leading investors in renewable energy, with China making production of wind power a strategic priority. The sheer scale of the energy markets in both countries present vast investment opportunities, help to foster innovations and technological advances and encourage mass production, which in the medium to long term will contribute to driving down global energy prices. In other words, China and the USA can together be the driving force in making renewable and clean energy viable and affordable in the long term.

An Hodgson

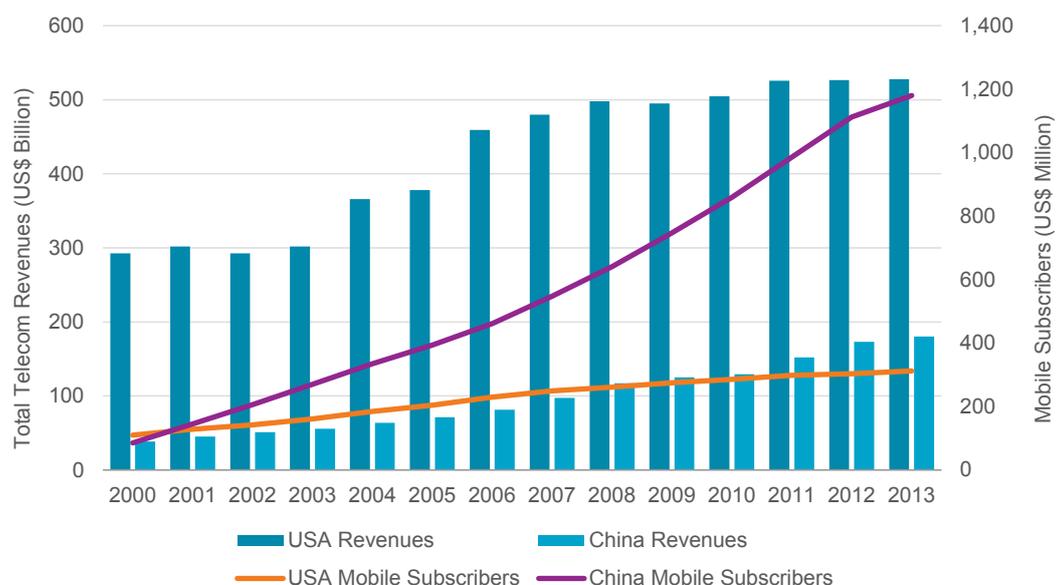
Income and expenditure manager

# MOBILE INFLUENCE MOVES FROM WEST TO EAST



The USA is rapidly losing grip on its long-held title as the world's mobile telephone leader, with China's surging urbanites driving a smartphone revolution that is wresting control of the world's wireless telecom revenues. China is already the largest market for smartphones and mobile telephone subscriptions globally, and by the end of 2014 will also overtake the USA in terms of total mobile revenues. This means that more apps, smartphone brands and m-commerce services will be tailored towards Chinese consumers, with USA firms eager to enter the lucrative market. However, the USA is still well ahead of the Asian superpower in terms of online ad spend and total telecom revenues, suggesting the North American economy remains the world's digital epicentre.

**Telecom Revenues and Mobile Subscribers in the USA and China: 2000-2013**



Sources: Euromonitor International from International Telecommunications Union (ITU)/national statistics

# Asian brands drive Chinese mobile scene ahead while saturated USA market stalls

China's large population is gradually beginning to fulfil its mobile potential, as government programmes, rising incomes and greater affordability of both services and devices continue to drive revenues in the segment. According to trade sources, in 2014 Chinese mobile revenues will reach USA\$87.0 billion, outpacing the USA for the first time, which will see revenues of \$60.0 billion.

## This historic shift will occur due to several factors:

- Asia has seen an evolution of major regional smartphone brands such as Lenovo, Huawei and Samsung, which are better placed to understand the feature and price demands of Chinese consumers. They are now actively expanding distribution channels in the country to serve a growing adoption of smartphones, for which the retail market is projected USA\$55.9 billion in 2013.
- More Chinese consumers are arriving to cities from rural areas, which is increasing earnings due to improved job opportunities and allowing access to better digital connectivity. Demand for and uptake of mobile services is rising. The country's urban population increased by 17.4% while mobile subscriptions rose by 84.1% over 2008–2013.
- With home possession of a mobile phone at 98.3% and mobile broadband penetration of subscriptions at 81.8% in 2013, the USA is a saturated mobile market with little room remaining for growth. By contrast, only 16.0% of Chinese mobile subscribers were connected to the web in 2013, meaning growth opportunities in mobile added-value services such as data plans and m-commerce are much more vibrant.

While the USA gives up ground in the mobile marketplace, it remains the dominant digital force.

China's growth drivers also provide limitations to an improved information and communications technologies landscape, as the country's low telecoms base creates weaker impacts in segments such as digital advertising and online media. By contrast, the USA is able to optimise its digital economy through its tech-savvy and well-connected Internet users.

## Although China is quickly maturing, the USA market is able to more successfully monetise digital services:

- The USA remains the world's leader in digital marketing, as continuous innovations and maturity of the online advertising space enable greater expenditure by brands and businesses on targeting Internet and mobile users. In 2013, USA online ad spend stood at USA\$33.9 billion, well ahead of the USA\$7.9 billion spent in China.
- USA consumers have greater access to digital services, with IPTV, high-speed broadband Internet and Video-on-Demand much more readily available. As a result, operators and providers are able to generate much greater revenues from the consumer market. The USA boasted telecom revenues of USA\$528 billion in 2013, compared to China's USA\$180 billion in 2013.

Nonetheless, success in China is becoming key for both digital vendors and service providers. The influence of the global mobile landscape has already switched from the innovative but saturated USA economy to the more dynamic and populated Chinese marketplace, and continued economic growth in the Asian nation will enable greater digital gains in other segments going forward.

Pavel Marceux

Technology, Communications and Media Analyst

# THE STATE OF INTERNET RETAILING



Much has been written recently about the explosive growth in Chinese e-commerce and the country's imminent rise to become the leader in the global online shopping arena, overtaking the USA in the process when taking consumer-to-consumer sales into account. While strictly comparing revenue levels, the number of internet users and other sterile data is important, it nevertheless provides little insight into the dynamics of the two online shopping environments. It also neglects to offer any level of understanding of the factors that are shaping the significantly different and sometimes contrasting online shopping experiences. Additionally, focusing on sales data tends to overlook the unique shopping attitudes and habits of consumers that drive the respective markets. Indeed, a closer examination of these often unique consumer behaviours can provide a better look and a more insightful comparison of the state of internet retailing in the two countries.

First, it is clear that the considerable differences in internet retail infrastructure in the two countries have had a strong influence on respective online purchasing behaviour. Among these fundamental differences is the prevalence in the Chinese market of the consumer-to-consumer internet retail model with its proliferation of small, independent sellers offering a massive range of products, a result of the success of Alibaba's Taobao and the relatively small proportion of retailer sites. The dominance of this model has led to Chinese consumers typically being far more concerned than USA consumers about the authenticity of the products they buy as well as opportunities for fraud that might be perpetrated by little-known sellers. In the more mature USA online retail market, retailer, manufacturer and brand sites dominate, resulting in

consumers enjoying a suitable level of comfort and trust in the sites they visit.

Due to relatively poor logistics throughout China, from inefficient national delivery services and inadequate warehousing facilities to services and restrictive regulations, Chinese consumers, particularly those in rural areas, tend to place greater value on basic delivery such as schedules being met, collection options and easy returns. In contrast, most USA online buyers, regardless of where they happen to live, tend to take these services for granted and would be surprised if their expectations were not met.

Payment methods used by consumers to pay for their online purchases are also different in the two countries. In the USA, the primary way to pay for products bought online is via credit or debit cards or through payment facilitators such as PayPal. In China, far fewer consumers have credit or debit cards and, even if they did, it would be doubtful if many small, independent online sellers would even accept them for payment. As a result, third-party payments and cash on delivery are still common in China, as is the popular escrow model used by Alibaba's Alipay system.

But beyond these structural factors, many of the unique online shopping habits of Chinese and American consumers stem from how they tend to traditionally approach their personal shopping, regardless of the channel. A recent article in Business Insider magazine observed that while Western consumers, including those in the USA, find the greatest benefit of online shopping to be convenience, "their counterparts in China purchase online primarily to find good value," adding it is "not news that Chinese consumers [are] generally price-sensitive." In contrast, according to A T Kearney, online shoppers in the United States seek competitive prices but they also greatly value "easy payment options, quick delivery and free returns, and top-notch customer service," expecting the same level of service they demand when shopping in brick-and-mortar retail stores.

In terms of the way consumers in both countries glean the internet for product information, Business Insider went on to describe another significant difference: "Chinese consumers prefer a much more comprehensive, even overwhelming, online presentation style while in Western countries it is better to keep the website clean and simple. To be specific, a multi-angle display and informative description of products is extremely important for Chinese online shoppers. Detailed photos and descriptions can effectively mitigate their concern about product quality, and thus make the store trustworthy... Instead of feeling overwhelmed, Chinese consumers like to have a quick overview of

overall collections and access to different categories quickly.”

A further difference between Chinese and American online consumers is the dominance of mobile shopping in China. Recent surveys have revealed that three-quarters of smartphone users in China have said they’ve used their devices to make purchases online compared to around one-quarter of American smartphone users.

Indeed, the strength of mobile shopping in China was highlighted on Singles Day in November 2013 when Alibaba-owned Taobao registered record sales of USA\$5.7 billion in 24 hours. Twenty-five percent of those sales were the result of consumers purchasing products using their mobile devices. In contrast, on Cyber Monday in 2013 in the USA, mobile sales accounted for 17% of total sales, up from around 11% in 2012.

Clearly, relying solely on overall retail sales numbers does not tell the whole story of the competing internet retail environments in China and the USA. Those that do will overlook many of the nuances and details that provide context and, in turn, provide insight into consumer dynamics and expectations. Yes, the Chinese online market is growing faster and—depending on how you measure it—may soon be larger, but many Chinese consumers do not yet benefit from many of the highly developed customer services that make the USA experience so rich and, from a USA consumer point of view, so satisfying. On the other hand, the lack of customer service in China certainly hasn’t slowed growth.

Among the intriguing questions in coming years will be whether the Chinese online shopping experience will evolve and become more ‘American’ or will it remain ‘local’ and somewhat idiosyncratic. The best guess, based on the massive investments now being made by Chinese online businesses to enhance their services, is the former. Observers should also expect to see far more retailer sites serving Chinese online consumers, with significant growth overall in the number of business-to-consumer sites at the expense of consumer-to-consumer sites. Also expect to see significant improvements in logistics and customer services and, in turn, a rise in the expectations of Chinese consumers shopping online. Once these customer enhancements are commonplace in the Chinese online shopping environment, it may be safe to say that, indeed, the biggest online market is the best.

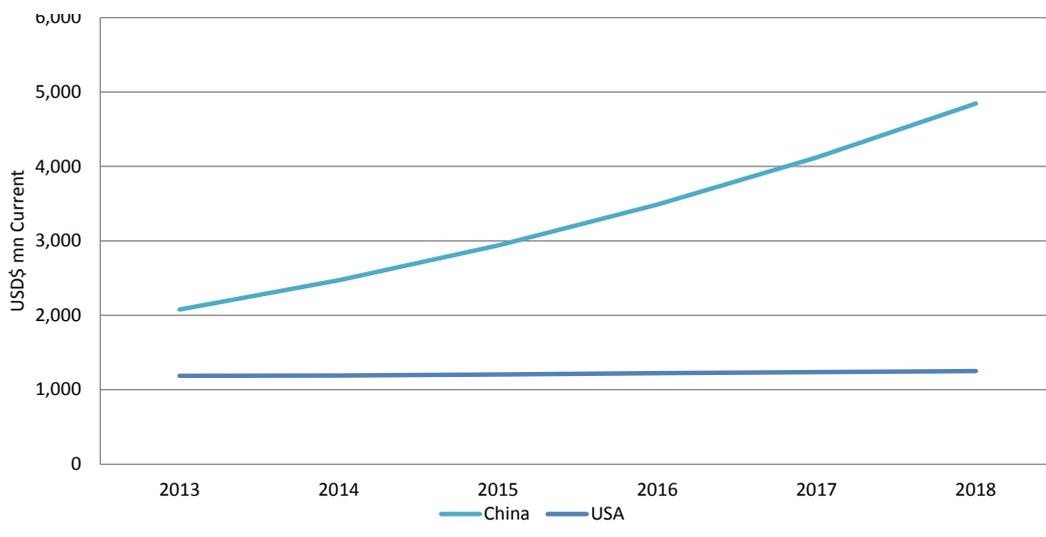
Jennifer Elster  
Consumer Lifestyles Manager

# AT ODDS IN ONLINE GAMES



Globally, online games is forecast to gain more than USA\$6.4 billion in absolute terms over 2013–2018, making it one of the fastest growing categories in video games. However, not all markets will contribute to this growth. In the USA, online games sales have shifted from a subscription payment model to a free-to-play system, hence the country’s weaker forecast. China, however, is anticipated to have strong growth globally in absolute sales over the coming years as online games there have witnessed a move in the opposite direction, from free-to-play to a subscription model.

## Absolute Sales of Online Games in the USA and China, 2013–2018



Source: Euromonitor International

## Free-to-play model becoming a dominant force in the USA

Online games have long been subscription-based in the USA. However, in 2012, many consumers began to see this cost as being far too high due to numerous

free-to-play mobile games and other alternatives. One of the largest online gaming launches of 2011, Star Wars: The Old Republic, was forced to switch to a free-to-play model in November 2012. The game was initially launched as an aggressive competitor to World of Warcraft. Although World of Warcraft is still a dominant player in the online gaming world in the USA, it has been rapidly losing subscribers over the past few years, falling from 12 million in October 2010 to 7.7 million in July 2013. In addition, Square Enix released Final Fantasy XIV: A Realm Reborn in August 2013, a re-launch of sorts of its ill-received Final Fantasy XIV via a subscription pricing model. However, it is very likely that subscription games will face a strong downward trajectory in the foreseeable future.

It also seems likely that nearly all online games may adopt a free-to-play model at some point in the USA. While Activision Blizzard's World of Warcraft still generates a large amount of revenue globally, it has steadily declined as of late. The company has even started to experiment with in-game purchases for real currency in the game, although it has yet to give any indication that it will lift the subscription cost.

## Subscription payment model to stage a revival in China

In China, the subscription model was the predominant method of payment for online games up until around 2005 when most online games adopted free-to-play models, led by local companies including Shanda Interactive Entertainment Ltd and Giant Interactive Group Inc. However, players need to pay if they are to achieve a stronger gaming presence, with this leading to the creation of VIP members paying hefty membership fees in the form of subscriptions.

In China, more online games turning to the subscription payment model can be expected over the forecast period, driven by more gamers willing to pay a premium price for VIP membership. In 2013, Shanda Interactive Entertainment Ltd.'s new version of The Legend of Mir 3, which was previously free to play, will be offered via both free-to-play and subscription payment simultaneously.

Considering its influence among players and digital gaming companies, Shanda's move could lead to a change in the existing payment model in China. The return of subscription payments is expected to boost the size of the online games market in the years to come.

Robert Porter  
Toys and Games Analyst  
[@emi\\_rporter](#)

# CHINA TAKES THE LEAD IN TRAVEL TECHNOLOGY



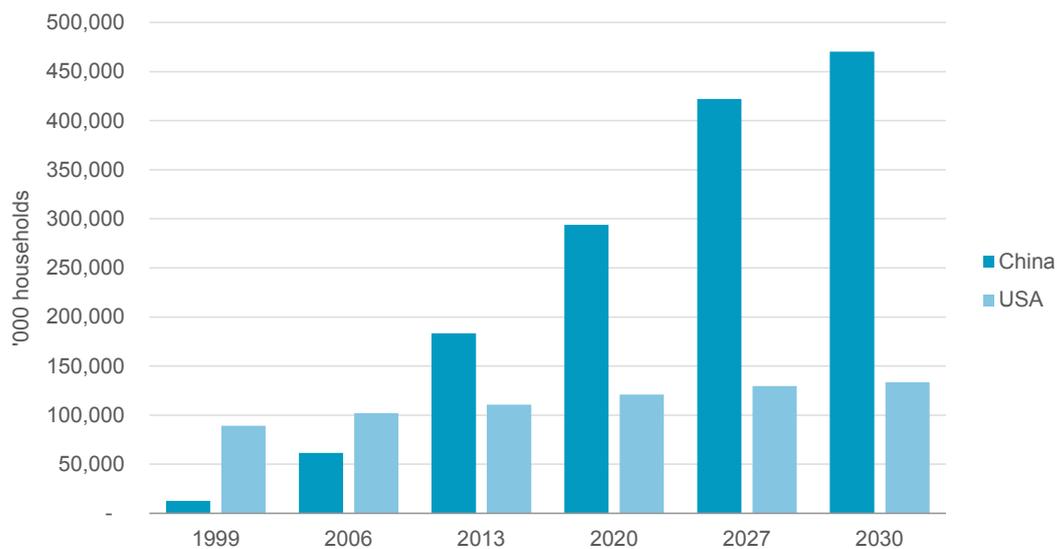
In a world where imitation is the sincerest form of flattery, China has built its economic success on taking existing industries and business models, making them its own and operating them at a lower cost. This investment-led approach has ensured decades of sustained economic growth and now China is expected to overtake the USA and become the world's largest economy by 2016. This new-found global supremacy and self-confidence will transform China into a global trendsetter rather than a follower.

## Middle-class power house

China has experienced phenomenal income growth, whereby annual per capita gross income has doubled every seven years, reaching USA\$4,699 in 2013; however, this is dwarfed by the USA's per capita average of USA\$49,442 as inequalities remain.

In China, the upper-middle class accounted for 40% of Chinese households in 2013 and is expected to rise to almost 90% by 2030, with more than 470 million households earning over USA\$15,000, compared to the USA's 133 million households. The growing power base of Chinese middle-class consumers is having a fundamental effect on the attitudes and purchasing habits of Chinese consumers.

### China vs the USA: Households with an Annual Disposable Income Over USA\$15,000 (PPP) 1999/2030



Source: Euromonitor International

## Meet the new Chinese traveller

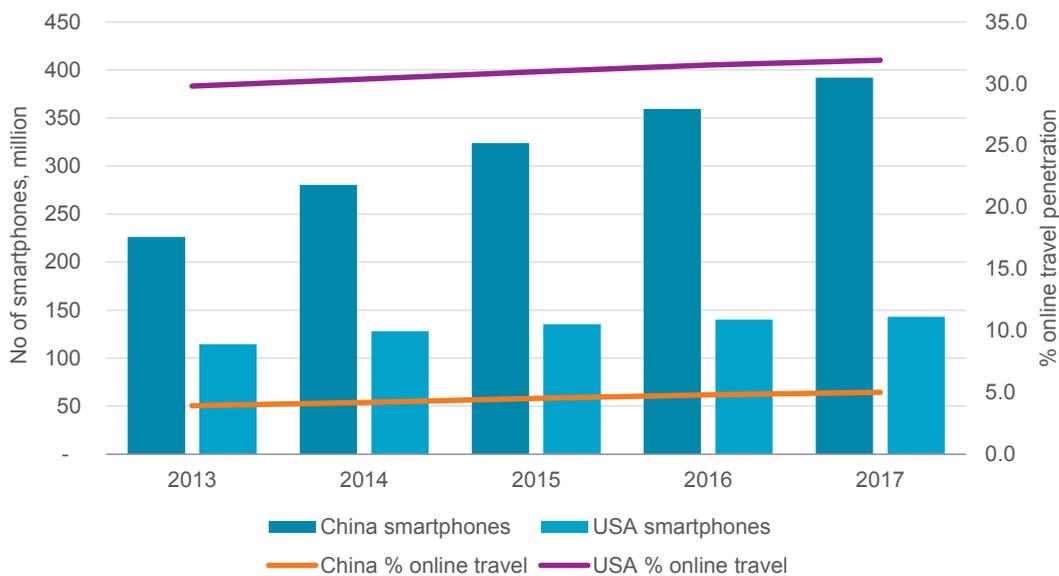
According to David Brooks, President for Coca-Cola - Greater China and Korea Business Unit, middle-class Chinese consumers are brand conscious, with a keen interest in quality, sustainability, health and travel. Thanks to rising income levels and travel, Chinese consumers are becoming more adventurous, demanding and cosmopolitan. A crackdown on corruption has also led to a shift away from conspicuous luxury towards the experiential.

Travel is a core aspect of the new Chinese consumer's lifestyle. In 2013, domestic trips amounted to 2.7 billion in China, vs 1.0 billion in the USA, making it by far the largest domestic tourism market worldwide. In terms of international travel, China is set to overtake the USA in 2014 and knock Germany off the top spot in 2017 to become the largest outbound source market, with 105 million outbound trips. Developing products and services to suit Chinese consumers' tastes is critical for destinations and travel brands to ensure their needs are met.

## Leapfrogging ahead in mobile travel

In both China and the USA, mobile technology is regarded as a force for dynamic growth in the travel industry. Ctrip quotes some 70% of consumers in China used the internet to research destinations and brands in 2013, marginally ahead of the USA where 68% of consumers researched online before travelling according to Google. China already leads the world in terms of smartphone usage, with 226 million smartphones in 2013 and a penetration rate of 80%, compared to 72% in the USA.

### China vs the USA: Number of Smartphones and % Online Travel Sales Penetration 2013-2017



Source: Euromonitor International

Note: Online sales by residents

## Gen Y ahead of the game

Min Fan, Vice Chairman of the Board and President of Ctrip, speaking at the World Travel and Tourism Global Summit, stressed the importance of mobile phones which have changed Chinese society, with 50% of Ctrip's hotel business booked via mobile at peak times. Chenchao Zhuang, Co-Founder and CEO of Qunar, noted that China's Generation Y is moving away from travel agencies that are considered to be unadventurous towards independent online bookings.

China's leading online travel brands, Qunar, Ctrip and eLong, far outweigh their USA counterparts in terms of mobile use as a percentage share of bookings and number of app downloads, demonstrating China's leading position. With talks of Qunar and Ctrip joining forces, their combined hold on travel distribution would consolidate intermediaries' control of bookings, squeezing out direct suppliers.

"Thanks to the expansion of wireless networks, the spread of 3G mobile phone coverage and the affordability of smartphones, Chinese mobile internet users ballooned to 500 million in 2013," according to Michelle Grant, Travel and Tourism Research Manager at Euromonitor International.

**China vs the USA: Mobile Statistics for Leading Online Travel Players**

Brand	Domestic Market	Cumulative App Downloads, million	% Mobile Share of Bookings
Qunar	China	200	32%
Ctrip	China	120	40%
eLong (Expedia)	China	60	40%
Expedia	USA	65	20%
Priceline	USA	40	20%

Source: Euromonitor International from company reports

Notes: Expedia data excludes eLong app downloads; Expedia mobile % shares are projections;

Priceline app downloads refers to estimated www.booking.com app download;

Mobile % share of revenue shown for Qunar and mobile % share of gross bookings shown for Ctrip; all other mobile % shares are shares of bookings

## International rivalry

China is at the intersection of online, social, mobile, luxury, experiential, m- payments trends and, together with its tourism potential, the country will fundamentally impact global travel patterns.

China's influence in the online world is also about to go stratospheric as investors await the Alibaba IPO in the USA this year, worth a potential USA\$15.0 billion, second only to Facebook's IPO valuation. Alibaba has already knocked eBay off the top spot to become the world's largest online marketplace.

The USA vs. China rivalry extends to instant messaging, where Facebook recently snapped up Whatsapp to compete with TenCent's WeChat in 2014. However, WeChat benefits from a payment facility and offers hotel bookings, so it enjoys a head start in mobile payments with greater revenue potential.

With China's big travel tech brands making waves globally, this will shine a light on smaller travel start-ups and catapult China into a trailblazing position that others will follow.

Caroline Bremner  
Global Head of Travel and Tourism Research  
[@CarolineBremner](#)

# CHINA PLAYS CATCH UP IN ONLINE FASHION RETAILING

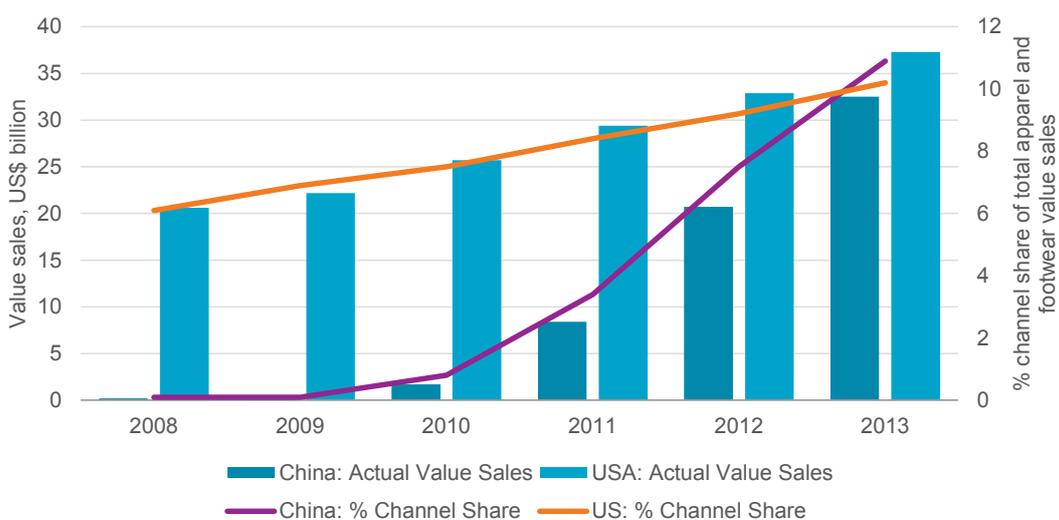


Internet retailing has arguably become a do-or-die strategy for apparel and footwear companies across the world.

The world's largest apparel and footwear markets of China and the USA both lead in terms of online fashion consumption. While the USA maintained its lead, generating a grand total of USA\$ 37 billion in 2013, China has scaled the rankings at a striking pace, leapfrogging from being the 19th largest online market in 2008 to the second in 2013.

But while China is closing the gap on internet retailing penetration, consumer motivations and expectations of the online channel remain significantly different from the States, throwing up differing opportunities and challenges for international brands and retailers.

## China vs. USA: Apparel and Footwear Internet Retailing Sales 2008-2013



Source: Euromonitor International

## Bargain hunting is the key pull factor in China

In China, price savings remains a big pull factor for the online channel, with many e-tailers offering discounts and other promotions. Consumers typically expect prices online to be lower than in-stores. Sluggish domestic economic conditions and the subsequent heightened price sensitivity towards apparel purchasing have reinforced the value proposition of the online channel.

China's annual "Single's Day" has become an online discounting bonanza. In 2013, Alibaba Group Holding Ltd, which operates China's largest online platforms, Taobao and Tmall, achieved sales of USA\$5.8 billion on this single day, as both local and international brands offered heavy promotions.

## Omni-channel takes precedence in the USA

Bargain hunting is still an attractive part of online shopping for USA consumers. This is highlighted by the huge popularity of Cyber Monday, the Monday after Thanksgiving, which has become a phenomenon with retailers offering substantial discounts and promotions. According to Adobe Digital, Cyber Monday sales hit a new high in 2013, growing by 16% over 2012 to reach USA\$2.3 billion.

However, the obsession with bargain hunting is not as pronounced as in emerging markets like China, with the convenience factor taking precedence. As such, the key strategy has not been to be online for the sake of it, but rather to target the omni-channel consumer, who uses a mix of store-based, mobile and desktop channels to make purchases. This explains why even pure-play online retailers, like Bonobos and Nasty Gal, are expanding into the physical realm.

## Social media is integral

An important aspect that unites both Chinese and American online shoppers is their social media fixation.

In China, leading local sites like microblogging platform Sina Weibo and We Chat have become important tools for international brands and retailers to test their market potential and build brand awareness. According to the 2013 Euromonitor International Global Trends Survey, 40% of Chinese respondents participated in microblogging almost every day, compared to just 12% of USA respondents.

In the USA, Instagram has become a fashion industry favourite due to its inherently visual nature. Brands are now trying to monetize the platform. Affordable luxury label Michael Kors released the first Instagram advert in late 2013, while apps like LiketoKnow.it let users shop products featured on Instagram images from key influencers.

## The online revolution continues

Both China and the USA are also set to be the greatest gainers in apparel and footwear internet retailing over 2013–2018, reinforcing their lead over other countries. In both these markets, the channel will be creating new sales rather than cannibalising from other channels.

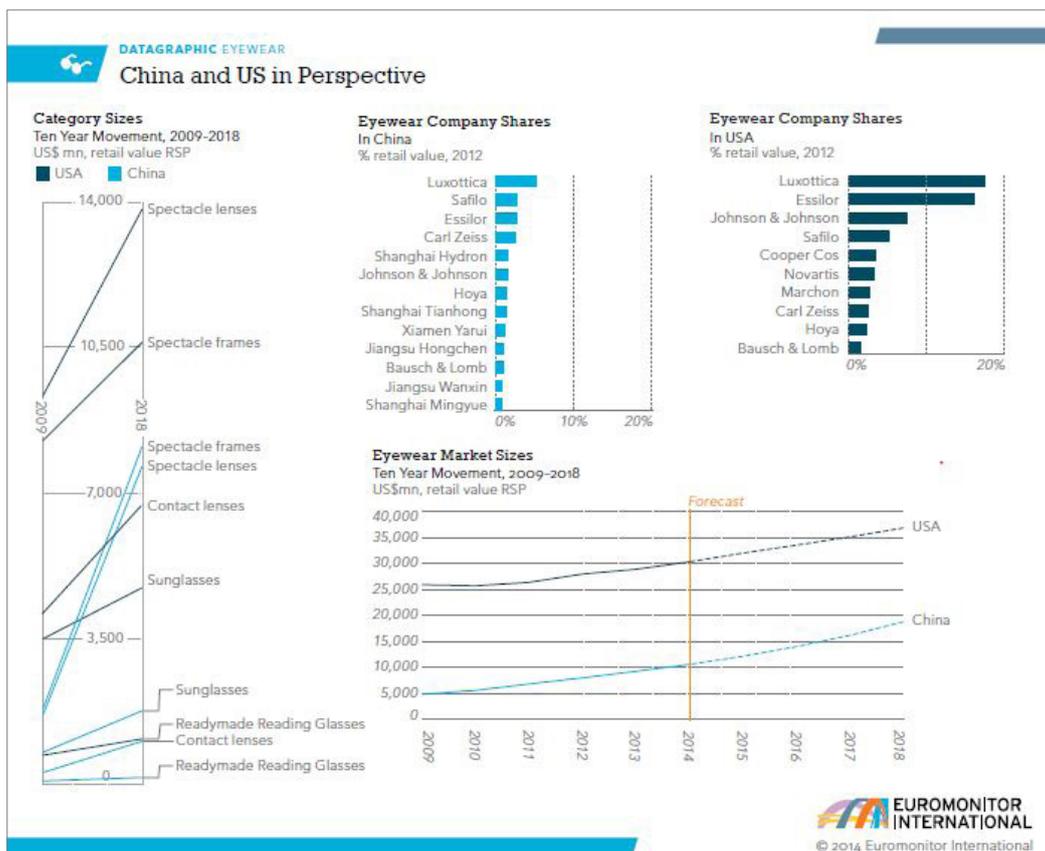
More importantly, while China is set to overtake the USA to become the world's largest apparel and footwear market in 2017, the USA will continue to lead in terms of sales from the online channel. This highlights the fact that internet retailing is still an area of exploration and innovation, providing a strong avenue for growth in mature markets as much as developing ones.

Ashma Kunde

Senior Analyst - Apparel and Footwear

# USA DOMINATES THE EYEWEAR MARKET

## China and US in Perspective



Euromonitor currently estimates the USA eyewear market to be thrice China's eyewear market. This gap is forecast to close between both markets, underpinned by high myopia rates and strong demand for product upgrades amongst the Chinese. Comparing the top performing categories, spectacle frames and spectacle lenses are growing much faster in China than in the USA. It is important to note, however, that barriers to entry are higher in the Chinese market as it is more fragmented and competitive.

# LUXURY DRIVES GROWTH IN PERSONAL ACCESSORIES



Owing to the emergence of several metropolitan cities and the subsequent appetite for luxury purchases in China, the country has been the undoubted growth driver of several accessories brands over the past five years. China overtook the USA to become the largest personal accessories market by value sales in 2011, and since then has grown at a comprehensively faster pace. However, the USA will continue to be the most influential market in the global strategies of most personal accessories players for three major reasons.

## Consumer and marketer maturity

Nearly all personal accessories categories in the USA have a highly evolved pricing structure. As such, the appreciation of private label, mid-priced, affordable luxury and high-end luxury brands is well defined among their respective target audiences. Fossil and JanSport are recognisable examples of mid-priced brands, while Coach and Michael Kors epitomise affordable luxury. On the other hand, most locally-based players in China tend to focus on economically-priced products, while international brands satisfy demand for high-end products. As a result, luxury players Swatch Group, LVMH and Richemont are the biggest international companies in China.

## Global leaders' traditional dependence on the USA

Although sales in China for a few global players such as Swarovski and Swatch Group exceed their sales in the USA, the opposite applies for most key players, including LVMH, Richemont, Kering (PPR) and Samsonite. In addition, several globally recognisable brands including Tiffany & Co, Coach and Fossil are based in the USA and are fairly reliant on their home market. In stark comparison, the biggest Chinese brands, including Chow Tai Fook and Lao Feng Xiang, have barely any presence outside China. As such, they are rarely a threat to global players unless they are focusing on long-term prospects within China.

## China's fascination with jewellery

Value sales for personal accessories in China are set to be nearly 50% higher than those in the USA in 2014. However, nearly all of this difference can be accounted for by real jewellery. In the Chinese competitive environment, where jewellery dominates accessories purchases, other categories such as bags and watches have seen relatively little investment from local players. In addition, localised designs and the cultural importance of real jewellery have resulted in international jewellery brands finding it difficult to navigate the Chinese jewellery landscape. The importance of China in global strategies will only grow if the jewellery consumer becomes more informed about international trends and local players in bags and watches are aggressive in marketing their products within China as well as in neighbouring markets.

Sulabh Madhwal

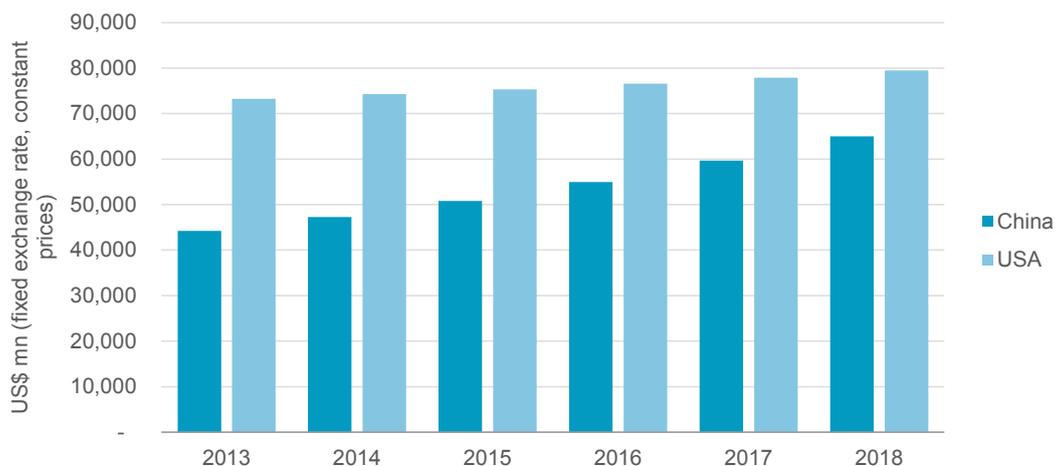
Personal Accessories and Eyewear Analyst

# A TALE OF TWO BEAUTIES



China's booming economy is also seeping through its beauty market. As per Euromonitor forecast, China's beauty market is expected to leap from its current size of USA\$44 billion to USA\$65 billion by 2018, compared to the USA, the world's largest beauty market, which is projected to grow from USA\$74 billion to USA\$79 billion during the same period.

**Beauty Value Sales USA vs China, 2013 to 2018**



Source: Euromonitor International

These growth projections have various investment implications particularly for multinational beauty companies with cross border market operations.

Limitation in resources, by default, implies that these multinationals need to make an investment choice between various market options.

Given the strong growth prospects, China appears to be an obvious choice, but a closer analysis reveals that these numbers only tell part of the story.

## China growth prospects - not a straightforward case

Out of USA\$20 billion growth projection in China, over 60% is expected to come from mass beauty, partly driven by growth in the less developed west and mid China.

It is in this market segmentation that China's prospects seem less encouraging for the foreign multinationals than what the numbers initially indicate.

Consumers in the lower tier of the mass segment, including those in the less developed parts of China, identify with local brands more closely than foreign brands due to greater familiarity since these brands are something they associate with their childhood.

Moreover, local players are now gaining in product sophistication and are able to offer more advanced product features at competitive price points, benefitting from lower taxation rates and more congenial government regulations.

Indigenous manufacturers also have a better understanding of market terrains and thus are able to penetrate into deeper and more remote parts of the market than the foreign multinationals.

Consequently, local players are seen to make great strides in market share gains. Between 2008 and 2013, Inoherb was the second leading brand after Nu Skin in terms of market share gains in skin care with its shares increasing by 160 bps.

## Competitive challenges push some foreign brands out of China

It is no wonder that Garnier and Revlon, both operating in the mass segment and competing with local players, have found it increasingly difficult to operate in China, eventually leading their owners to withdraw brands from what is deemed the most prospective beauty market in the world.

Revlon considered it more worthwhile to invest in its home market, the USA, from which it derives majority of its revenue and L'Oreal, the owner of Garnier, felt it necessary to invest in other brands including L'Oreal Paris and Maybelline in China, which have higher margins, but are also coming under competitive pressures.

## Need for clear market segmentation in China

What the L’Oreal example demonstrates is that to successfully compete in China, manufacturers now feel the need to clearly carve out the market segments in which they intend to operate and they appear to be opting for the premium and the upper tier of the mass segments.

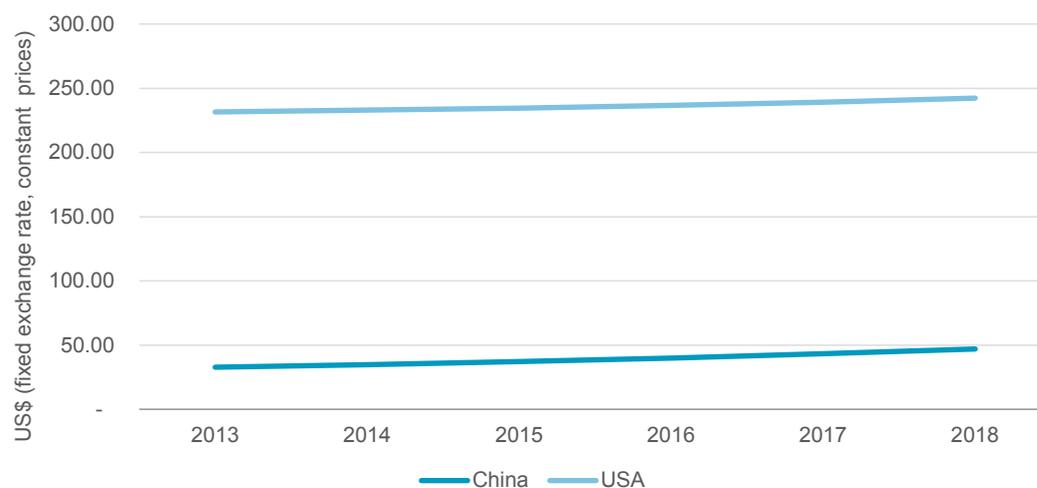
Premium segments are relatively safe as it is harder to emulate the same brand experience, but brands in the upper tier of the mass segment such as L’Oreal Paris and Maybelline need continuous investments in product development to ward off competition from local and regional players.

## The USA more prospective than the macro-economic figures

Price margins on average, however, are higher in the USA as indicated by a much larger beauty per capita spending.

In 2013, beauty per capita spending in the USA, excluding the impact of inflation, equalled USA\$230 compared to China’s USA\$30. By 2018, USA beauty per capita spending is expected to increase to USA\$240, approximately five times higher than China’s projected per capita spending of USA\$50. Despite China’s steep growth, the difference in per capita spending between these two markets will continue to be wide.

### Beauty Per Capita Spending: The US vs China



Source: Euromonitor International

The higher per capita spending indicates that investing in product development is likely to deliver a higher return in the USA than China. In addition to the prospects of benefitting from a higher return on product development, the USA also offers other benefits. The USA's percentage growth forecast of 2% CAGR, compared to 8% CAGR for China between 2013 and 2018, actually translates to a chunky USA\$7 billion growth in value terms.

Furthermore, according to the Ease of Doing Business rankings, the USA ranks number 4, while China is far below at 99 with implications on the cost of doing business.

## What Next?

It is clear that a closer look reveals that the prospects in the USA beauty market are more encouraging than what the macroeconomic figures primarily imply, while China, despite the very lucrative numbers, has numerous inherent challenges.

Nevertheless, the overriding fact is that the USA is a mature market and requires much greater inducements than the relatively fertile Chinese market to drive sales growth.

In the end, the investment decisions will have to rest on a careful balance of cost benefit analysis and a complex structure of a value versus volume sales growth model that needs to take into account more intricate variables in conjunction with the broad macro-economic figures.

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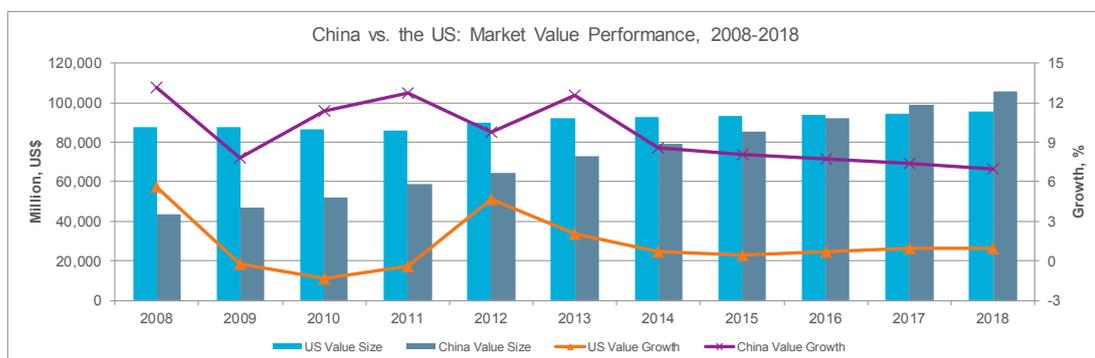
# SHIFTING POWER IN THE BEER MARKET



There is an on-going global economic shift in power from West to East, a phenomenon the beer market began to witness years ago. In 2002, according to Euromonitor International, China overtook the USA to become the leading beer market in terms of volume sales. However, in spite of this achievement, China still has some way to go before it can claim to be the world's biggest beer market by value.

Following years of mid single-digit to low double-digit volume growth rates, the Chinese market boasted a volume size more than twice that of the USA in 2013. Yet, when it comes to value sales, China is yet to reach the dizzy heights of the USA. In 2013, the Chinese beer market was 79% the value size of the USA beer market in fixed USA dollar exchange rate terms, so is not too far off from overtaking it. In fact, Euromonitor International forecasts that by 2017 China's beer market will grow by 45% and thus assume the leading position in value sales terms.

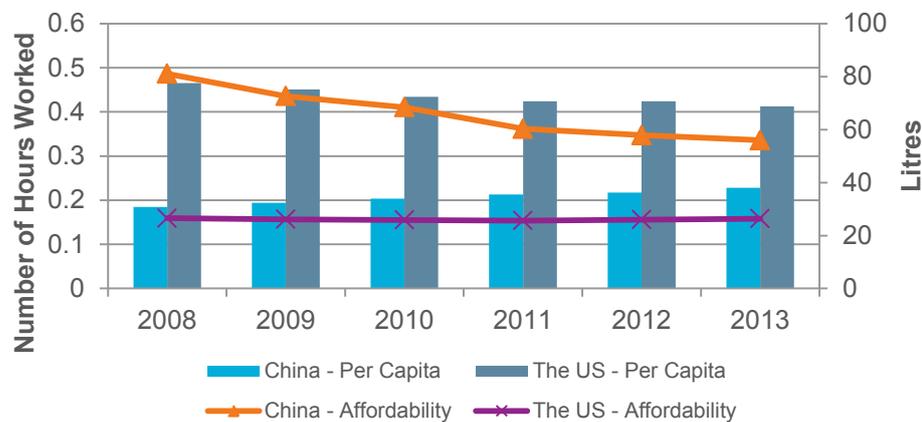
## China vs the US: Market Value Performance, 2008-2018



Source: Euromonitor International

Looking to the future, China derives its potential for further volume and value growth from a range of macroeconomic and demographic factors. Positive volume growth in China is forecast to continue to 2018, significantly aided by a growing legal drinking age population and increasing affordability. When comparing the affordability of a 330ml can or bottle of beer, one observes a converging relationship between the two markets. This degree of affordability, in hours worked, is primarily derived from rising disposable incomes, which are forecast to grow in double-digit terms over 2013–2018. As the legal drinking age population is expected to grow faster in China than in the USA over 2013–2018 in absolute terms, brewers will be capturing prospective demand that has been dormant for years. This will derive from expansion in the consumer base due to demographic and market-related dynamics such as urbanisation and the spread of modern retail channels.

### Price of 330ml Standard Lager in Hours Worked and Volume Consumption Per Capita, 2008-2013

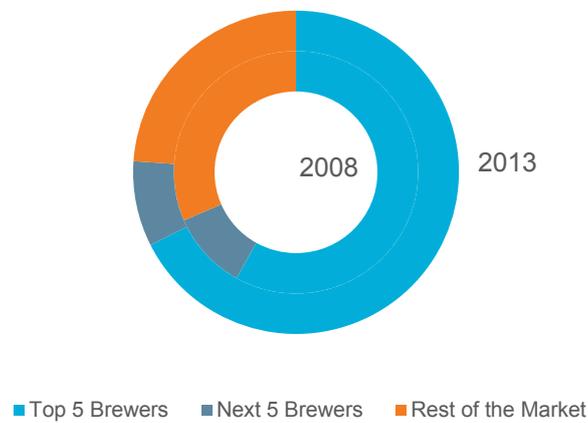


Source: Euromonitor International

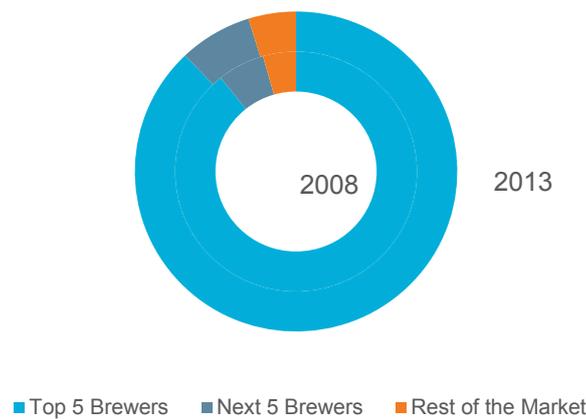
Taking a closer look at the USA and China, growing consolidation was witnessed in China over 2008–2013, while the USA is highly consolidated, with 88% of volume sales deriving from the top five brewers in 2013. In the USA, saturation in acquisition activity was significantly affected by anti-trust laws and the growth of the craft beer market that slightly reversed the consolidation trend between 2008 and 2013. In China, the attractiveness of volume sales growth rates prompted major Chinese and multinational brewers to pursue wider provincial coverage. Exciting prospects for volume sales attracted the biggest brewers in the world to China, with them entering various provincial markets.

Opportunities for global brewers to expand in China are unlike those in the USA, where acquisitions are restricted by high sunk costs and anti-trust laws. In China, the government is protective of domestic companies and will actively apply policies that do not give majority control to non-Chinese organisations. For such a reason, non-Chinese brewers such as Carlsberg A/S and SABMiller Plc. are entering and expanding in China’s beer market via strategic alliances or joint ventures. SABMiller was technically the fourth biggest brewer in China in terms of volume sales in 2013, but does not register as so. This is because it has only a 49% minority share in China Resources Enterprise and Snow, the biggest beer brand by volume in China and the world, thus not qualifying as its owner. Carlsberg’s ranking of fifth, meanwhile, derives from its provincial associates and the acquisition of local brewers.

**China: Volume Sales Consolidation, 2008 and 2013**



**The US: Volume Sales Consolidation, 2008 and 2013**



Source: Euromonitor International

In emerging beer markets it can be expected that unit prices will become more affordable and consumers will opt to trade up to superior brands. With expected income growth and increased affordability in China, the market will begin to see changes in the beer pricing landscape. In 2013, economy lager in China accounted for 82% of overall beer volume sales, compared to 25% in the USA. Even though China is the largest market in terms of volume sales, it is still relatively immature, as highlighted by its undersized premium beer segment. China's current prominence in terms of economy lager highlights the significant potential of the premium space, alongside further volume growth in the economy segment. By 2018, Euromonitor International expects economy lager to account for 76% of standard lager volume sales. Whereas in the USA, slower dynamics will see the premium lager segment grow to a 27% share of standard lager volume sales.

Subsequently, for players such as SABMiller and Carlsberg, there are opportunities in this fast-growing market. Although there are opportunities for multinational brewers in China's premium beer segment, they should not dismiss the continued potential in economy lager. With ever increasing affordability both within and beyond urban centres, and with the increasing penetration of retailing channels, global brewers can capture a consumer base in provincial China that was previously beyond their reach. As these new consumers' incomes increase and macroeconomic conditions improve, brewers will also be able to encourage consumers to trade up.

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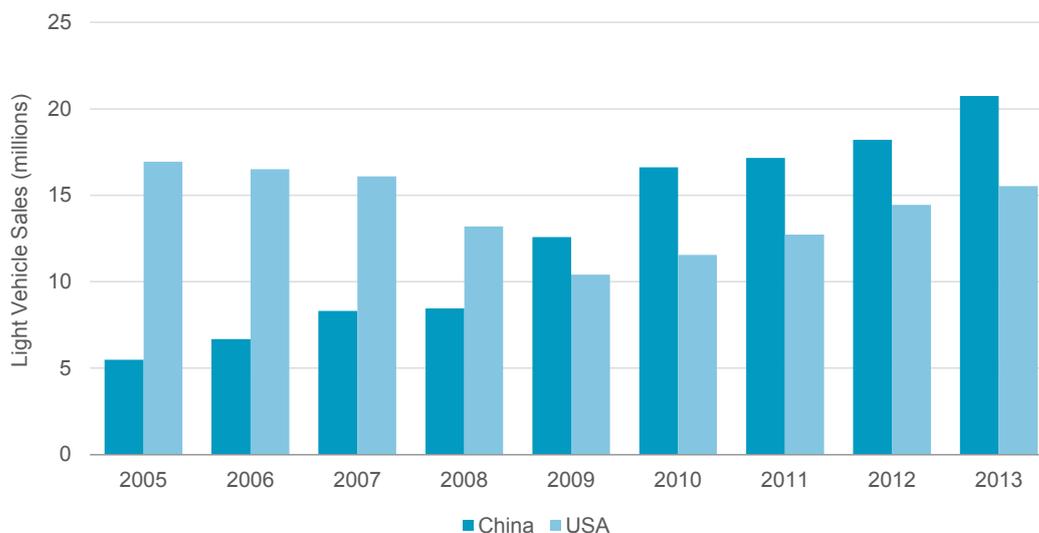
# LIGHT VEHICLE SALES IN THE EARLY 2020S



Whereas China will overtake the USA to become the world's largest economy in PPP terms this year, light vehicle sales in China already surpassed the USA in 2009. Admittedly, the recession means that light vehicle sales in the USA plummeted by 18% in 2008 and a further 21% drop in 2009 took the volume down to just 10.4 million units, whereas pre-crisis sales typically exceeded 16 million units. In contrast, however, light vehicle sales in China continued their ascent even throughout the global economic downturn and flew by the USA with 12.6 million light vehicle sales in 2009.

Sales climbed to 16.6 million units in 2010 and so China would have undoubtedly overtaken the USA even without the sales slump brought on by the global financial crisis. The key question is why did China become the largest car market in the world years before it would become the largest economy and what does the future hold?

## Light Vehicle Sales in China and the USA, 2005-2013

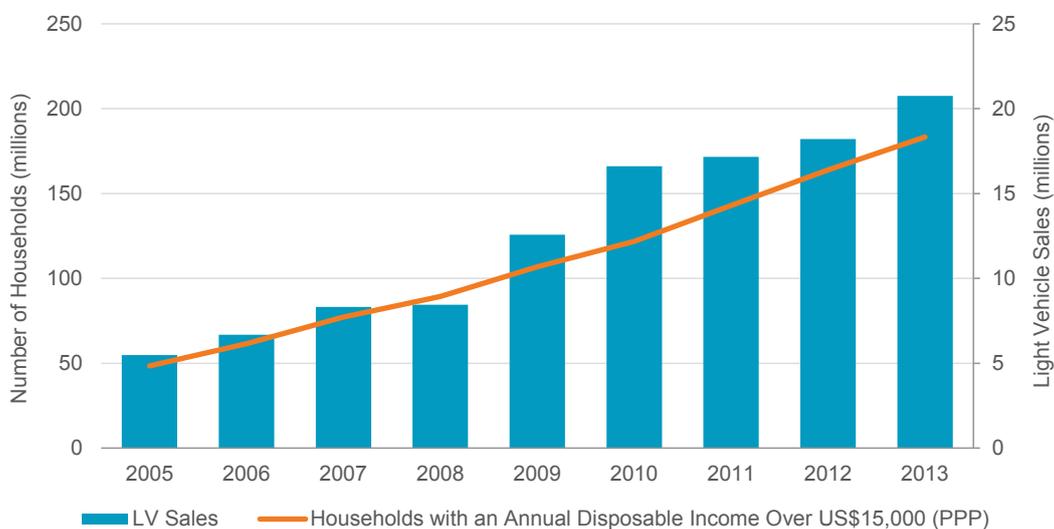


Source: Wards Auto

In GDP (PPP) per capita terms, China still ranks way below the USA; in fact in a ranking of 183 countries, China is in 75th place. Even in 2030, per capita GDP in PPP terms in China will remain at less than half that of the USA. Merely considering the economic performance of the two countries, especially in per capita terms, therefore provides little guidance as to vehicle demand although this does naturally highlight the significant differences in population size. Even despite the one-child policy, the population of China is consistently four times larger than that of the USA. Considering population size does not help to explain why light vehicle sales in China overtook the USA in 2009 and in contrast to economic performance, it actually begs the question as to why it did not happen earlier.

However, the key point is that a much lower proportion of the Chinese population can afford to buy a new car. Euromonitor International data reveals that just 7% of households own a car in China compared to 89% in the USA. Income levels are critical for car ownership and between 2005 and 2013, light vehicle sales in China essentially tracked the number of homes that exceed USA\$15,000 annual disposable income (ADI) in PPP terms. On average over this period, light vehicle sales equated to 11% of the number of households with at least USA\$15,000 ADI.

**China: Light Vehicle Sales and Households with Annual Disposable Income over USA\$15,000 (PPP)**



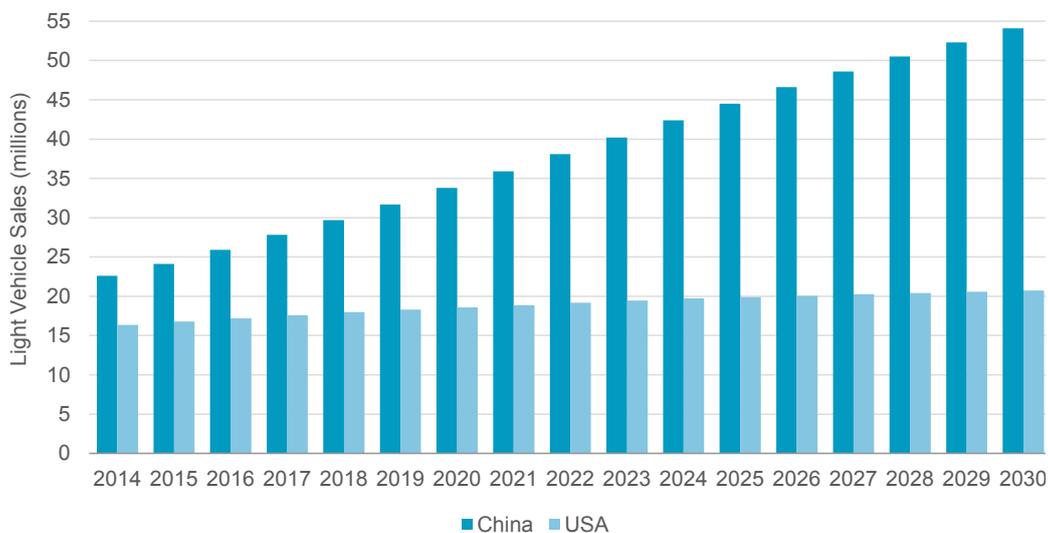
Source: Wards Auto, Euromonitor International

Prior to the economic downturn, light vehicle sales in the USA also correlated closely with the number of households with annual disposable income over USA\$15,000 in PPP terms. Except in the recessionary period of the early 1990s and the boom years around the new millennium, demand equated to 15–17% of the number of ADI USA\$15,000+ homes.

Despite a consistent recovery in demand since 2009, light vehicle sales volume has still not recovered to be to at least 15% of the number of American households exceeding USA\$15,000 ADI. However, Euromonitor forecasts that light vehicle sales will rise to equate to 14.6% of the 103 million households with annual disposable income over USA\$15,000 in 2014 with 16.4 million units, up 5% on 2013. Crucially, this will be the highest sales volume since 2006 and demand is therefore back to pre-crisis levels. This pales into insignificance compared to China, where, underpinned by nearly 200 million households with over USA\$15,000 ADI, Euromonitor International forecasts 22.6 million light vehicle sales, up 9% on 2013. Moreover, although USA light vehicle sales are forecast to climb, bolstered by the immigration-led population expansion, rising incomes among China's similarly expanding population means the growth in the number of potential car-buying households will significantly outpace the USA.

Barring any major economic shocks or natural disasters, light vehicle sales in China are thus set to double the USA in the early 2020s and climb to over 50 million units in 2030, whereas demand will barely exceed 20 million units in the USA.

#### Light Vehicle Sales in China and the USA, 2014-2030



Source: Euromonitor International

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