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China's economy has no risk of "double-dip": NDRC

The Chinese economy will not experience a "double-dip" nor big fluctuations, and the government is capable and confident of keeping steady and relatively fast growth in the long-run, an official said Tuesday. China's potential growth rate will remain at a high level in the future on the back of the deepening process of industrialization and urbanization, as well as accelerated economic restructuring, which will release huge domestic demand, said Li Pumin, spokesperson with the National Development and Reform Commission (NDRC). Improving scientific and educational development and looser institutional restrictions will also work to promote stable growth, he said.

Source: Xinhua: China's economy has no risk of "double-dip": NDRC, 2011-08-03

China's Economy Is Headed for a Slowdown

Can China rebalance away from investment and toward domestic consumption as the main engine of growth? Yes, but with great difficulty. Chinese households consume only about 35% of gross domestic product (GDP), far less than any other country. Such a large domestic imbalance has no historical precedent. Over the next 10 years, policy makers have said they will try to raise consumption to 50% of GDP. Even that is a low number; it would put China at the bottom of the group of low-consuming East Asian countries. But achieving this goal is problematic, since it requires that household consumption grow four percentage points faster than GDP. In the past decade, Chinese household consumption has grown by 7% to 8% annually, while GDP has grown at 10% to 11%. If one expects Chinese GDP to grow by 6% to 7%, Chinese household consumption would have to surge by 10% to 11%.

Such consumption growth is unlikely because powerful structural factors work against it. The Chinese growth model transfers income from households to the corporate sector, mainly in the form of artificially low interest rates. This cheap borrowing comes at the expense of depositors. Low yields on deposits force them to sacrifice consumption, to save more. This results in a sharp decline in consumption's share of GDP. If China is to replace investment with consumption as the engine of growth, this process of financial repression has to be reversed. Households must get a rising share of overall growth.

The historical precedents of the debt buildup are worrying. Every country in modern history that has achieved many years of "miracle" growth has run into the problem of over-investment and then excessive debt. Just look at Japan. The need to resolve the debt has itself made domestic rebalancing difficult, and it has always taken far longer than even the most pessimistic forecasts.

Still, consider the price of delaying this reversal. Even if consumption manages to keep growing at the same rate it has during the past decade (when Chinese and global conditions were buoyant and debt levels much lower), China's growth must slow to 3%-4% to achieve rebalancing. This is the impact, in other words, of the required reduction in investment, which will have to be sudden and sharp.

China economy: Investing in Asia

In the early 1990s around 5% of Chinese FDI went to Association of South-East Asian Nations (ASEAN) countries; by 2008 this figure had risen to 17%. Besides the advantages of proximity, investment in ASEAN gives China access to a huge market, cheaper labour and abundant raw materials. In addition, economic integration may help to mitigate regional political frictions. China's booming investment in ASEAN is partly a matter of deliberate policy. Developing closer economic integration with ASEAN has been a pet project of the Chinese premier, Wen Jiabao, since a China-ASEAN summit in 2003 at which he called for concerted investment initiatives with ASEAN partners. This paved the way for relaxation of the approvals processes for overseas investment, and for the state-owned Import-Export Bank to step up provision of export finance for companies looking to invest in ASEAN. This has been followed by ever-larger lines of credit and funds from other state sources, such as sovereign wealth funds and the US$10bn China-ASEAN Investment Co-operation Fund.

Looking ahead, further support for China's investment in the region is likely to come from the ASEAN-China Free-Trade Agreement (ACFTA), which came into force in January 2010. Significantly, the regional trade pact obliges the signatories to enforce equal treatment of local and foreign companies, subject to some exceptions, with provisions to ensure high levels of protection for investments. The provisions of the ACFTA were implemented by China, Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand in 2010. By 2015 the terms of the agreement will also apply to Laos, Cambodia, Myanmar and Vietnam.

China invests in Indonesia and Myanmar because of its resource needs. It invests in Singapore because of the city state's strong logistical advantages, its financial and legal framework, and because it has close cultural and linguistic connections with China. And China invests in Cambodia and Vietnam because wage costs are considerably lower in those countries than domestically. But China's forays into the region are also determined by other considerations, such as a wish to promote close economic integration, integrated infrastructure, and the receptive environment in ASEAN for Chinese largesse.

The proximity factor is also an important one for investment by Chinese firms. There are extensive plans to improve transport and communication links between China and neighbouring countries, including a high-speed rail network stretching from China's Yunnan province to Thailand, Laos, Cambodia, Vietnam, Malaysia and Singapore. This would provide large benefits for industries across the board, from labour-intensive manufacturing to raw materials and energy. Where Chinese firms find themselves reaching the limits of economies of scale in their domestic production, they may find that crossborder investment improves their competitive position.

Overall, China has found a more than receptive investment environment close to home, with an abundant supply of raw materials, workers and potentially markets. It has also managed to limit the sorts of friction and controversy that have marked its investment efforts in other parts of the world (which have ranged from criticism of its firms for bringing in Chinese workers at the expense of locals to questions about the true financial position of bidders). Current tensions regarding sovereignty over islands in the South China Sea notwithstanding, relations between China and
ASEAN remain strong.

Given these factors, it is little wonder that Chinese firms are focusing strongly on ASEAN. So far, the investment balance has not yet shifted in China's favour. ASEAN still invests three times as much in China as the other way round, and investment from ASEAN in China is still growing quickly, increasing by around one-third each year. But between 2003 and 2010 China's FDI in ASEAN grew thirteendfold. It is a fairly safe bet that China will scale up further, becoming an ever more dominant force in South-east Asia's economy.


**China's stimulus hangover: Beijing unlikely to spend if U.S. hits another recession**

To shield its economy from the fallout of the 2008 financial crisis, Beijing orchestrated a massive economic stimulus. It invested billions of dollars in infrastructure projects and encouraged banks to open the credit spigot to fund construction of apartments, office towers and retail centers. The strategy catapulted China past Japan to become the world's second-largest economy; its growth helped keep the global slump from deepening. China splurged on Australian iron ore, Chilean copper and Saudi Arabian oil.

There are also serious questions about how much new investment China needs. Apartment towers in some cities are largely empty, as are malls and skyscrapers in others. "If all this investment remains unprofitable for the long term, there will be serious risk to the banking system," said Yi Xianrong, a researcher at the Chinese Academy of Social Sciences.

But the big concern is a so-called hard landing. If Europe and the United States fall back into recession and demand for Chinese-made goods declines, Beijing won't be able to juice its economy like it did the last time around. "It's a lesson on the limits of stimulus. The more you do it, the less and less you'll get out of it," said Patrick Chovanec, a professor at Tsinghua University's School of Economics and Management in Beijing. "You've already tapped all the good investments out there. A second time, you'd just be shoveling money out the door. ... It will just compound their problems."


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Still, consider the price of delaying this reversal. Even if consumption manages to keep growing at the same rate it has during the past decade (when Chinese and global conditions were buoyant and debt levels much lower), China's growth must slow to 3%-4% to achieve rebalancing. This is the impact, in other words, of the required reduction in investment, which will have to be sudden and sharp.


**China Faces Obstacles in Bid To Rebalance Its Economy:** [Foreign Desk]

China has vowed repeatedly, most recently during the just-concluded visit by Vice President Joseph R. Biden Jr., who met in this city with Vice President Xi Jinping, to overhaul its state-directed growth model and empower its consumers to spend more on their own, something that would makes its economy more sustainable and help the sluggish world economy as well. But leaders in Beijing and places like Chengdu are finding it difficult to steer China away from growth that relies largely on infrastructure projects, construction and export manufacturing, economists and financial analysts say.

But there are obstacles that limit the ability of leaders to shift direction. For one thing, China continues to empower its large state-owned enterprises at the expense of private entrepreneurs, which results in market inefficiencies on where and how capital should be allocated, analysts say. Those large enterprises have enormous influence on policy makers. State banks also tend to favor government-backed projects, which are often capital-intensive endeavors like infrastructure building.

At the provincial and lower levels, one reason officials support capital-intensive projects arises from the way such officials are measured by the central government in annual reports. The rate of local G.D.P. growth is a top criterion by which the officials are judged. Their careers depend on it, and capital-intensive projects give short-term lifts to growth numbers. Another reason officials promote such projects is corruption: it is relatively easy to take bribes or skim money from large state investment projects.

In the first half of 2011, Chengdu had an impressive 15.1 percent real growth rate that was significantly higher than the national average, according to an official report. Such rapid growth in an interior city can help with economic rebalancing. It redistributes wealth and shifts consumer
spending away from the much wealthier coast. But it raises questions about the local economic model. Critics point to Wuhan, whose growth rate matches that of Chengdu, and the piles of debt it has accumulated through investment in fixed assets like factories, roads and bridges. State banks have been lending liberally to companies created by local officials that make these investments. This kind of lending does not show up on Wuhan's balance sheets.

On the issue of exports, Mr. Biden and other American officials have been pressing China to let its currency, the renminbi, appreciate so that Chinese goods do not have an unfair advantage in the global marketplace. The renminbi has risen 7 percent since June 2010, which American officials say is not enough, though there are conflicting reports by Western economists on whether greater appreciation would have any real benefit for American industries. The currency has been appreciating at a slightly faster rate recently, perhaps partly because raising the value of the renminbi makes imported goods less expensive in China, and that helps tamp down inflation.


Tough to meet CPI target, NDRC head says

Domestic prices might stay high even as government measures to rein in rapidly rising inflation take effect, Zhang Ping, chairman of the National Development and Reform Commission (NDRC), said on Thursday. "The fact that global liquidity remains excessive is unlikely to change in the short term, and global commodity prices remain at high levels, which means that China's imported inflationary pressure will not weaken," Zhang said at a conference of the National People's Congress, the country's top legislature. Zhang noted that rising domestic production costs, combined with potential weather-related shortfalls of some agricultural products, are likely to heighten inflationary expectations. "These factors will all make it difficult for the government to meet the full-year inflation target of 4 percent," he said.

Zhang said that the weak global recovery and sovereign debt crises in Europe, the US will have a negative effect on China's economy. "The negative effect of the stimulus policies adopted by developed countries has begun to emerge, as global inflationary pressure has started rising and sovereign debt crises in Europe and the US remain serious," he said. Further, he said, political turmoil in Western Asia and North Africa and volatile world commodity prices will exacerbate the uncertainty and instability surrounding the global economic recovery.

Zhang noted that the central government will continue to boost the development of affordable housing to achieve its goal of building 10 million units of low-income housing this year. Finance Minister Xie Xuren said on Thursday that the central government had spent 1.15 trillion yuan, or two-thirds of the central budget in the first half of the year, to raise living standards. The funds were mainly used to support education, social security, job creation, healthcare and affordable housing, with 576 billion yuan going into the social security and job creation sectors, according to Xie.

Source: Li Xiang: Tough to meet CPI target, NDRC head says, China Daily, 2011-08-26

China banks eager for fundraising
This year, fourteen of sixteen public banks issued their fundraising programs. The fourteen banks are expected to raise 515.845 billion yuan. Most of them will issue bonds, which amount to 373.65 billion yuan, more than 70 percent of the fourteen banks' total financing. The banks choose bonds to avert further impact on weak market.

Among the banks, China Construction Bank tops others with 80 billion yuan refinancing plan, which is followed by China Industrial Bank (60 billion yuan), Agricultural Bank of China (50 billion yuan) and Shanghai Pudong Development Bank (50 billion yuan). The four banks plan to choose subordinated bond or other financial bonds for refinancing. China Everbright Bank will issue additional shares in Hong Kong Stock Exchange to raise 40 billion yuan and it is also the largest fundraiser of the banks by shares.

After failure in 2007, about forty city commercial banks rolled out their floatation plans in the past four years. The banks such as bank of Shanghai, Bank of Chongqing, Bank of Hangzhou, Bank of Dalian, Dongguan Bank, Bank of Jiangsu and Shengjing Bank handed over their initial public offerings (IPO) to China Securities Regulatory Commission (CSRC), but the process of review and approval seems too long. An insider said, as increasing risks have been exposed, city banks, which were expected to get floated, are facing uncertainties. Regulators realized city banks aiming to serve local economy are eager for expansion and that goes back the intention to set up city banks, so their floatation would be totally put off, the insider said.

Source: Anonymous: China banks eager for fundraising, Business Times, 2011-08-03
http://roll.sohu.com/20110803/n3152777031.shtml

China May Delay Rate Rises Until 2012 as Market ´Chaos' Threatens Exports

China may join Asian nations from South Korea to India in delaying interest-rate increases after the nation's leaders urged global cooperation to stabilize financial markets. The People’s Bank of China will leave borrowing costs unchanged for the rest of this year, according to eight of 10 analysts surveyed yesterday. Economists’ median forecast is for South Korea to extend a pause for a second month tomorrow, while Indonesia stayed on hold yesterday.

The U.S. Federal Reserve pledged yesterday to keep interest rates near zero through mid-2013 and use other policy tools “as appropriate,” addressing the slump in confidence that triggered a global stock rout. China’s State Council said “relevant nations” should adopt responsible fiscal and monetary policies to maintain investors’ confidence, in a statement yesterday evening after a meeting chaired by Premier Wen Jiabao.

China’s consumer prices climbed 6.5 percent in July from a year earlier, the fastest pace since 2008, a report from the Beijing-based National Bureau of Statistics showed yesterday. That was more than the 6.4 percent median estimate in a Bloomberg News survey. A slower-than-estimated 14 percent gain in industrial production added to signs that moderating economic growth may assist in limiting price pressures. Sliding commodity costs may also help.

“Usually the Chinese government stops doing anything when there’s chaos around, that’s the instinct,” said Andy Xie, an independent analyst who was formerly Morgan Stanley’s chief Asia economist. Interest rates will be “on hold for the time being, until global markets are recovering,” he
Financial insiders debate over regulation and innovation

Enhancing financial regulation has been a common view between governments ever since crisis burst out in 2008, but debates over implementation details have kept going, especially when recent debt crisis has given rise to double-dip recession danger. Bankers and financial experts have agreed that the global banking system needs prudent and strict regulation, but how to strike a balance between regulation and financial innovation would be an important issue yet to be solved.

Dai Peng, an official with Export-import Bank of China, one of the country's policy banks, said at Saturday's fifth Annual Bankers Forum that increased regulation and financial innovation should be paid with equal attention in the reform of international financial reform. "The last round of financial crisis is the consequence of ultra market liberalism of the western countries, which need strict regulation badly," he said. But for emerging economies with underdeveloped financial markets, innovation should be encouraged to ensure a healthy market. The G20 leaders have approved to the Basel III framework at the end of last year, the new global standards for banking which requires higher capital adequacy ratios for commercial banks. There should not be a universal standard for all the banks, which could discourage the economic development in emerging markets and in turn hurt global financial stability, he said. China should work out its own regulating system that better boosts the development of the country's industry, instead of following the regulation standards of the western countries, he added.

But according to Fan Gang, a former adviser for the People's Bank of China, the country's central bank, emerging economies should be even more prudent than developed ones, as they are more vulnerable to external risks. More hot money has flowed to emerging economies and brought severe inflation ever since the United States conducted near-zero interest rates and poured excessive liquidity into the market, said Fan. When crisis comes, developing countries are less capable of self-adjusting, which requires more prudent spirit to protect the economy's operation, he said.

Source: Xinhua: Financial insiders debate over regulation and innovation, 2011-08-19

Local govt debt risk 'is under control'

Local government debt is "controllable", the Ministry of Finance said on Monday, easing fears that bad loans could derail the China's economy. "Judging from the audit results, local government debt is, generally, controllable, though there are potential risks in some areas," the ministry said in a statement posted on its website. Local government debt hit 10.7 trillion yuan ($1.7 trillion) at the end of 2010, or about 27 percent of China's gross domestic product, according to a report from the National Audit Office (NAO) on June 27.

The Ministry of Finance said that local governments have enough resources to act as buffers to
potential risks. "When you look at their ability to repay debt, apart from fiscal income, local governments have fixed assets, land, natural resources and others," it said. The State Council, or the Cabinet, vowed in July that it would continue to clean up local government financing and said it would look at setting up a mechanism to regulate the way they raised money.

Local authorities borrowed heavily through corporate bodies they created, to meet borrowing standards set by banks, to finance infrastructure and other projects. Zhang Shuguang, researcher at the Institute of Economics at the Chinese Academy of Social Sciences, said that though the overall debt risk is under control, there might be a "structural crisis". By the end of 2010, there were 78 cities and 99 counties whose governments were on the verge of bankruptcy. This means that they had a debt ratio of more than 100 percent, debt exceeded revenue, according to the NAO report. Some, in fact, have already defaulted. A local company in Yunnan province, acting as the provincial financing vehicle, said in April it could only repay the interest but not the principal of its debt, standing at billions of yuan. The provincial government then injected 2 billion yuan ($313 million) into the company. While the problems are serious, they can be overcome, analysts said. Wang Tao, chief China economist at UBS Securities said that the financing vehicles of most local governments are facing a problem of cash flow rather than insolvency. The debt will not lead to a hard landing for the economy, or severely damage the banking system, Wang said. Zhou Qiren, a professor of the National School of Development at Peking University, held a similar point of view. "There is regional disparity in China, therefore a single case will not likely trigger a national chain reaction,"

Source: Hu Yuanyuan and Wei Tian: Local govt debt risk ‘is under control, China Daily, 2011-08-16

**ChiNext raises 184b yuan over past two years**

ChiNext, China's NASDAQ-style exchange for high-growth startups, has raised 184 billion yuan ($28.8 billion) since its launch in October 2009, said Shang Fulin, chairman of the China Securities Regulatory Commission (CSRC). Shang disclosed the figures on Friday at a launching ceremony for ChiNext's third issuance examination commission. According to Shang, a total of 256 companies were listed on ChiNext as of Aug 19 this year. These companies are mainly engaged in biomedicine, emission reduction, education, new energy and materials research, Shang said. The companies have shown strong growth momentum after their IPOs were posted, said Shang, quoting recent statistics as saying that 181 of the companies listed on the exchange reported profit increases of more than 25.5 percent in the first half of this year.

Source: Xinhua: ChiNext raises 184b yuan over past two years, 2011-08-27

**China to cut income tax for 60 million people**

China's government is attempting to boost spending and fuel sustainable economic growth though income tax cuts. Only 8 percent of Chinese will now pay income tax. Some 60 million Chinese will wake up newly exempt from income tax tomorrow morning, as the government tries to boost poorer peoples' spending power and fuel sustainable economic growth. Though a few top earners will pay more, almost everyone else will get a break, according to Finance Ministry calculations.
The biggest beneficiaries will be those at the bottom of the tax scale. The lowest rung of the income-tax ladder has been raised from 2,000 renminbi ($313) per month to 3,500 RMB ($547). The average Chinese wage is around 3,000 RMB a month. Like many developing countries, China relies very little on hard-to-collect income tax for its revenue. Last year it raised only 6.6 percent of its taxes from personal income. Instead, the government goes after the business sector, which is easier to monitor. Raising the income tax threshold will cost the government 160 billion RMB ($25 billion) in lost revenue, according to the Finance Ministry.

Household income has been falling as a share of GDP, relative to corporate and government revenues, for several years, but the new tax breaks are unlikely to reverse that trend because income tax plays such a minor role in China’s economy. "If the government wants to redistribute income from the corporate to the household sector, tax policy is not going to do the trick,” warns Kroebber. Source: Ford, Peter: China to cut income tax for 60 million people, The Christian Science Monitor [Boston, Mass] 31 Aug 2011.

Cost Of Living Index will increase minimum wage

The new Cost Of Living Index (COLI) will help improve the linkage mechanism between the adjustment of minimum wage and commodity prices. The index is currently being drafted by the National Bureau of Statistics (NBS) and its research teams from different provinces and autonomous regions, 21st Century Business Herald reported Wednesday. The current system for adjusting wages and commodity prices responds too slowly to rising consumer prices. According to a notice co-issued by five ministries, the COLI will guide officials to respond to rising prices accordingly. When COLI or consumer price index rises to a critical point, the linkage mechanism will be switched on to pay temporary subsidies. After the new index is released, the subsidies will amount to last year's minimum wage standard multiplied by the index, the report said. Statistics of different provinces have been submitted and await approval, the report said. Source: Qiang Xiaoji: Cost Of Living Index will increase minimum wage, China Daily, 2011-08-31

Hurun Wealth Report 2011 white paper released

The Hurun Research Institute and GroupM Knowledge co-published the white paper of the Hurun Wealth Report 2011 on Wednesday, Beijing Times reported. According to the paper, more than 960,000 people on the Chinese mainland have a personal wealth exceeding 10 million yuan, up 9.7 percent from last year. The average age of the millionaires is 39 years old, with 70 percent male and 30 percent female. Beijing, Guangdong and Shanghai are the top cities home to those with a personal wealth of over 10 million yuan, with 170,000, 157,000 and 132,000 millionaires in each city respectively.

The number of billionaires reached 60,000, with an average age of 43 years old. Around 4,000 of the billionaire group have a personal wealth of more than 1 billion yuan and approximately 200 have a wealth of more than 10 billion yuan. The rise in the number of billionaires in China was due to the 10.3-percent GDP growth in 2010 and soaring real estate prices, the paper said. Source: Qiang Xiaoji: Hurun Wealth Report 2011 white paper released, China Daily, 2011-08-25
**From 'Made in China' to 'Invented in China'**

In the last decade, 'Made in China' applied to almost all products from toys to clothes to home appliances. This astonishing rise of China's manufacturing is most evident in the Pearl River Delta (PRD) region in Guangdong, one of the densest manufacturing clusters in the world. The PRD growth model is now under pressure, reflecting the wider challenges China faces for its economy. The 2008 financial crisis however slowed demand, while internal wages and costs increased. At the same time, other locations like Vietnam and Indonesia vied as alternative low-cost locations for mass manufacturing.

A key goal is to strengthen innovative capabilities in the region. This is done through incentives and other favourable policies. It is noteworthy that the PRD is a highly integrated electronics production base, with most components, including increasingly higher-end ones, manufactured in the area. The region will become a significant centre for innovation in Asia. While the 'older industries' move to inland provinces and even outside China, it will be a challenge to attract the new industries.

The Sino-Singapore Guangzhou Knowledge City is a strong demonstration of the close collaboration between Singapore and Guangdong in the economic transformation journey. Co-developed by Temasek-linked Singbridge and the Guangzhou government, the 123 sq km green-field project aims to attract knowledge-based enterprises and global talent to locate within an ecologically sustainable and high quality living city. To house 300,000 residents by 2030, the project has already attracted institutions like the Nanyang Technological University, which set up an innovation base to facilitate technology start-ups, and Ascendas, which will develop a world-class business park to house these new knowledge enterprises and entrepreneurs. The government's efforts to move from 'Made in Guangdong' to 'Invented in Guangdong' will not be easy, but it is nevertheless a critical step to take if it were to move into the ranks of a developed economy. In this regard, it is a path for the rest of China to follow.

There needs to be an increase in domestic demand, and to spread wealth more evenly to China's vast interior. Infrastructure investments over the years have improved transport and logistics links, resulting in movement of manufacturing inland.


**Top court to toughen sea pollution penalties**

The country's top court plans to improve rules and regulations to better handle rising disputes over marine pollution, a senior judge has said. The remarks were made while ConocoPhillips China, the operator of two leaking oil platforms in northern China's Bohai Bay, faces compensation demands for the oil spills. Existing laws and regulations on pollution cannot keep pace with the rapidly developing marine economy, experts said. The maximum fine for marine pollution is just 200,000 yuan ($31,000).

Liu Guixiang, president of the No 4 Civil Court under the Supreme People's Court, said that China's liability fund for marine pollution is currently only eligible for tanker spills. Liu said there
has been a noticeable increase in recent years in the number of applications requiring the establishment of other such liability funds, but there is still a lack of institutional support to set them up. "However we'll look into the issue and improve the compensation liability system based on past experience to reinforce the judicial protection of the marine environment," he said.

Low penalties and lack of comprehensive supervision over the marine environment in China give companies like ConocoPhillips an excuse to delay environmental protection, said an official, who requested anonymity, from the North China Sea Branch of the State Oceanic Administration (SOA). ConocoPhillips China has not completed the cleanup following the first spill detected on June 4, and more spills have been subsequently detected. The leak polluted about 4,240 square kilometers at its peak, equal to the area of Qinghai Lake, the largest lake in China, according to the SOA. Dried oil drops and oil belts have been detected in the three provinces and one municipality surrounding Bohai Bay - Liaoning, Hebei, Shandong and Tianjin.

The expanding pollution has drawn attention from top government agencies with an investigation team established by the SOA and several ministries. The team went to the Penglai 19-3 oilfield on Monday to look into the cause of the leak and potential environment impact, according to Xinhua News Agency. A comprehensive investigation should determine economic losses in the local fisheries and the amount of compensation due to the local fishermen, Liu Cigui, director of the SOA, said on Monday. Investigators also stressed that compensation should include damage to China's marine environment. ConocoPhillips said on Monday that it is working with marine experts to assess the impact on the environment.

Source: Wang Qian and Zhao Yinan: Top court to toughen sea pollution penalties, China Daily, 2011-08-24

**China meets pollution control targets for 2006-2010**

China met two major pollution control targets from 2006 to 2010, said the country's environment watchdog on Monday. The index for sulfur dioxide emissions, the main one for measuring air pollution, dropped 14.29 percent in 2010 compared with the level in 2005, said the Ministry of Environmental Protection in the statement. Also, the index of Chemical Oxygen Demand (COD), a measure of water pollution, decreased 12.45 percent from the level in 2005, the statement said. China's 11th Five-Year Plan (2006-2010) set out to reduce COD and sulfur dioxide levels by 10 percent over this period.

According to the statement, the COD totaled 12.38 million tons in 2010, a decrease of 3.09 percent from 2009, while the volume of sulfur dioxide emissions totaled 21.85 million tons, a drop of 1.32 percent from 2009. The ministry attributed the progress to the installation of desulfurizing facilities in thermal power plants and the building of more sewage plants. About 82.6 percent of thermal power generators across China were equipped with desulfurizing facility in 2010, up from 12 percent in 2005, the statement said. In addition, 75 percent of urban sewage were processed in 2010, up from 52 percent in 2005, it said. The country also moved to close highly-polluted factories and small thermal power plants.

However, Minister of Environmental Protection Zhou Shengxian warned at a meeting last
December that the country's pollution control mission for the next five-year period (2011-2015) will be "fairly arduous" as major pollutant emissions remained huge and new pollution sources emerged.  
Source: Xinhua: China meets pollution control targets for 2006-2010, 2011-08-29 16:28

**Chinese crude imports at lowest in a year**

China imported 4.6m barrels per day of crude in July, down from 4.8m barrels per day in June and 5.1m barrels per day in May. China is the world's second-largest oil consumer and Chinese oil demand has been growing steadily this year even though diesel and gasoline prices in the country are at historic highs.

Imports of copper hit 306,626 tonnes in July, an increase of 9.5 per cent from weak numbers in June, albeit at a lower level than the same period of last year. Copper prices have fallen in the past week amid global market turmoil, but analysts reckon demand from China will put a firm price floor under the red metal.

In other commodities, China's demand appeared firm: iron ore imports stood at 54.6m tonnes in July, up 6.5 per cent year on year, underscoring restocking efforts and the impact of China's huge social housing project. Soyabean imports were even more buoyant, up 8 per cent year-on-year.

**Experts warn of China's rising imported oil dependence**

China's rising dependence on imported oil is threatening the country's energy security, and the government should step up energy management to ensure supply in future, experts have warned. China's dependence on imported oil rose to 55.2 percent in the first five months of this year, up from 55 percent in 2010 and 33 percent in 2009, according to the Ministry of Industry and Information Technology (MIIT). Meanwhile, that of the United States has dropped to 53.5 percent.

China's oil consumption surged 10.3 percent year on year to 198 million tonnes in the first five months this year, according to figures from the MIIT. In the same period, oil imports rose 11.3 percent to 107 million tonnes. Tong Xiaoguang, a researcher with Chinese Academy of Engineering (CAE), noted that the rapid growth in both imported oil dependency and oil import volume are signs of rising risks of China's oil trading in the global market. "China is witnessing growing need of crude oil during its development of urbanization and industrialization," said Tong, who expected China's dependence on imported oil would jump to 60 percent by 2020 and 65 percent by 2030.

"The risk is that when the country's economic development largely depends on oil consumption, it is easy to be buffeted by oil price fluctuations," Lin Boqiang, an energy professor at Xiamen University. He took the United States as an example, which has focused on natural gas exploitation in recent years as an alternative for oil, in order to avoid the influence of international oil price fluctuation. Tong said the government should set a ceiling for oil consumption and adopt measures to keep consumption within the ceiling volume. To reduce oil consumption growth, there is much room for China to boost its energy efficiency, and the country could also boost the development of natural gas, as it is rich in reserves and less expensive in price.
Source: Xinhua: Experts warn of China's rising imported oil dependence, August 15, 2011
New frontiers beckon in China's wow wow wow West

IN THE last few decades, the development of west China has taken a backseat relative to the development of provinces in the coastal regions. As foreign investments poured into the coastal provinces, cities such as Guangzhou, Nanjing and Shanghai have surged ahead, leaving cities in Sichuan, Shaanxi and other west China provinces behind.

The tide, however, is fast changing. Since China announced its Go West policy in 2000, large amounts of investments have been channelled into infrastructure development, and numerous policies put in place to encourage foreign investment into the area. These, coupled with rising costs in the coastal regions, have made west China an attractive and competitive investment destination.

In particular, growth in cities such as Chengdu, Chongqing and Xi'an, which form the anchor pillars of China's new fourth metropole called the Western Triangle Development Zone, has been gaining the attention of investors worldwide. The gross domestic product growth of these three cities has consistently outpaced that of their coastal cousins in recent years.

Manufacturing-led movement into west China. ONE reason for the growth in west China is the entry of large manufacturing companies. Global multinational corporations (MNCs) such as Acer, Dell, Ford, Intel, HP and Volkswagen have streamed into cities like Chengdu and Chongqing to set up huge manufacturing plants. For instance, Volvo's manufacturing base in Chengdu, when completed in 2013, will have the capacity to produce up to 100,000 units of S60 sedans per year. Ford, whose joint venture company Chang'an Ford rolled out some 250,000 units of Ford cars last year, is currently building its second Chongqing facility.

Labour, lower costs and better incentives--FACTORS driving this westward movement include the relative availability of labour, lower costs and preferential tax policies. Cities in west China offer a ready pool of skilled, educated labour at salaries far lower than in Guangzhou and Shanghai. For example, average monthly wages in Chongqing are approximately 2,580 yuan (S$488), compared to 4,101 yuan in Guangzhou. Land costs are significantly lower too. The cost of grade one industrial land in Chengdu, at 1,075 yuan per sq m, is only about a quarter of Shanghai's 4,200 yuan per sq m.

Beyond the favourable inherent local conditions, the slew of incentives offered by the central government sweetens the deal for companies. The corporate income tax rate in west China for encouraged industries is 15 per cent, much lower than the 25 per cent in other parts of China. Equipment imported for projects in encouraged industries is also exempt from customs duty, further cutting costs for companies.

Connecting to coastal China and the world: IN ITS 12th Five-Year Plan for the civil aviation industry, China announced that it will build 56 new airports and renovate 91 old ones, most of which are in mid-western China. Chengdu's Shuangliu International Airport is expanding its current physical capacity and network of more than 20 international destinations, while waiting for the city to finalise plans for a second international airport. Over land, a network of highways is constantly being built and upgraded to better connect west China to the coastal cities. A cargo train service linking Chongqing directly to Europe via Xinjiang, Kazakhstan, Russia, Belarus, Poland and Germany was launched in late June. Taking only 13 days, this land route offers a major shortcut
compared to the traditional sea routes from Shanghai and Guangzhou, which usually take an average of 36 days to reach Europe.

Closer to home, a pan-Asean network of railways that will stretch from southwest China all the way to Singapore is being built, and is expected to increase trade flows between China and Asean. Opportunities for Singapore firms THERE are opportunities for Singapore-based companies, from the tier two and three manufacturers serving MNCs to other supporting service providers in transport and logistics, as well as environmental services industries.

FOR those who have missed the window of opportunity in the coastal regions in the east, west China is the next window, or the new east.


Small Companies in China Feel the Squeeze

Small and medium-sized companies in Wenzhou, China are getting hit hard by the credit crunch, which the central authorities have imposed on companies to stem speculative investments and slow inflation. Zhou Dewen, head of Wenzhou's trade association for small and medium-sized enterprise, estimates that about one-fifth of China's more than 10 million small and medium-sized enterprises, most with fewer than 300 employees, are producing at half capacity and risk bankruptcy. Tighter lending by Chinese banks has helped encourage the growth of a gray market in lending by local business associations, pawn shops, and underground banks without official licenses, says Jianjun Li, professor of finance at the Central University of Finance and Economics in Beijing. Today, short-term loan rates in the informal banking sector go as high as 6% a month, while just nine months ago they were 1.8%.


Wuhan to develop micro-sized enterprises

It is reported that Wuhan city recently has announced the decision of promoting the development of local micro-sized enterprises since this year. The city plans to develop over 20,000 micro-sized enterprises and create jobs for more than 10,000 people every year. Within the next five years, the number of micro-sized enterprises will be increased five times over, while more than 50,000 workers will be absorbed into micro-sized enterprises. The target set for the plan is to hatch and foster a group of small and medium-sized enterprises with steady growth prospects.

The micro-sized enterprises are defined as companies with 20 employees or less and 30,000 yuan in registered capital or less. The technology, labor-intensive and livelihood-based micro-sized enterprises will be the focus of future municipal assistance policies. The local government's supports for micro-sized enterprises include taxation, financing and services.

Source: Changjiang Daily, Wuhan to develop micro-sized enterprises, August 17, 2011

Program to facilitate SME financing

China's central bank said on Thursday that it will expand pilot programs of securitization of credit assets and offer more support to small- and middle-sized enterprises (SMEs), Shanghai Securities News said. According to the paper, People's Bank of China said it will step up to develop securitization of credit assets, which will ease capital adequacy stress and transform loans into direct financing. The central bank is also currently assessing implementation plans to support SMEs. However, the paper added that the progress of securitization will not be quick and the strength of support to SMEs will be limited in the mean time, citing an official from the central bank.

Source: Cai Xiao: Program to facilitate SME financing, China Daily, 2011-08-19

China to give more thought to struggling SMEs

To support struggling small- and medium-sized enterprises (SMEs), China's State Council will hold a conference in September for SMEs to discuss policies for the sector's development, sources said Monday at the APEC SMEs Forum. SMEs are experiencing the greatest hardships this year and are at great risk of debt disputes, said Gu Shengzu, member of the National People's Congress Standing Committee, Shanghai Securities News reported Wednesday.

As an example of the problematic financing situation for SMEs, Gu noted that around 80 percent of SMEs in Zhejiang province are currently on private debts. Private debts exacerbate financial pressures due to the interest on capital, which can reach an annual interest rate of up to 120 percent.

Source: Hao Yan: China to give more thought to struggling SMEs, China Daily, 2011-08-31

When small businesses become big business

With large State-owned enterprises becoming more reliant on direct financing in the capital market, Chinese banks are increasingly turning their attention to the country's cash-strapped small- and medium-sized enterprises (SMEs) as a new profit driver. Instead of passively implementing the regulator's policies to help SMEs obtain loans, the banks are actively seeking clients that have small operations but promising business models.

"It is strategically important for banks to explore the SME market, which will become a crucial part of their growth engine in the future," said Wei Zengran, the general manager of the SME division at the branch of China Construction Bank Corp (CCB) in Shijiazhuang, the capital of Hebei province. Wei said that the branch aims to increase the amount of loans to SMEs to one-third of its total corporate lending during the next three to five years. China's large State-owned lenders, which have traditionally catered to the financing requirements of State-owned enterprises, are gradually losing their premium pricing power over large clients, as many of those clients are seeking funds directly from the capital market at a much lower cost.

Meanwhile, demand for sophisticated financial services is rising rapidly among SMEs after many of them were hit hard by a capital crunch caused by a succession of interest rate rises and tighter credit controls as the central bank seeks to rein in inflation. " Competition among banks for small-business clients, especially those of high quality, has become more intense than ever since last year," Wei said.
CCB extended 1.4 trillion yuan ($218 billion) in loans to more than 160,000 small businesses between 2007 and 2010. The bank's loans to SMEs in the first six months of this year accounted for 68 percent of its total new-yuan corporate lending. That figure has grown by 40 percent on average during the past three years, according to Yu Jiang, the head of the SME division at CCB.

Domestic lenders are also enjoying a raft of favorable policies provided by the regulator to encourage loans to SMEs, including a lower risk weighting when calculating capital-adequacy ratios and the exclusion of loans of less than 5 million yuan to SMEs in calculations of lenders' loan-to-deposit ratios. Lending to SMEs has not only become a requirement for the top-tier banks to support the country's private economy - which contributed 65 percent of GDP in 2010 - but has also become a key driver in the transformation of the banks' profitability models and the restructuring of their assets, industry analysts said.

Chinese banks' lending to SMEs had reached 9.45 trillion yuan by the end of April 2011, an increase of 7.1 percent year-on-year. The loans accounted for 28.8 percent of their total corporate lending, according to the China Banking Regulatory Commission. However, the high costs of assessing, approving and monitoring loan requests from SMEs, in addition to their greater risk of default when compared with large clients, have long been major factors that have made large banks reluctant to lend to small businesses.

The credit assessment of a small business often involves visits to the company by loan officers to check its utility and tax bills. Given the difficulty of performing due diligence on small businesses, the banks have to allocate greater human and material resources to obtain an accurate and integral picture of the credit-worthiness of SMEs. However, the banks are now seeking to solve the problem through innovations in business methods and products. CCB and Bank of China Ltd have introduced a "credit factory" business model which has standardized and streamlined the process of credit assessment. "Instead of assessing small borrowers on a company-by-company basis, the 'credit factory' model enables us to process their lending requests in batches," said Dai Zhongxing, deputy general manager of the SME division at the Suzhou branch of CCB. "It has successfully increased the banks' lending efficiency and helped reduce the high costs involved in the process," he said.

Source: Li Xiang: When small businesses become big business, China Daily, 2011-08-31

**Flying head first into the future**

New Boeing China boss will not only take on Airbus but also domestic airplane makers When David Wang, 67, retired earlier this year as head of the China unit of the US plane maker Boeing Co, it came as a surprise that a 38-year-old from South California was named as his successor to lead one of the company's key global markets. Tall Bertrand-Marc Allen, vice-president of Boeing International and president of Boeing China, also known as Marc Allen, has made a strong impression since he arrived in the country in March.

Although Boeing's airplanes account for about 60 percent of the aircraft operated in the country, its market share has dropped about 10 percent compared with that of 15 years ago, said Li Xiaojin, a professor at China Aviation University in Tianjin, despite the fact that its rival Airbus SAS entered China 13 years after the US aircraft maker did.
"Boeing has achieved many landmark performances in China, including the first flight to land on the Tibetan plateau, and has dominated fleets in Air China and China Southern Airlines, two leading air carriers," he said. "But it has also faced visible challenges from its European rival in recent years."

In appointing Allen to such a key market, the chairman, chief executive officer and president of the US' largest exporter, Jim McNerney, said "The Chinese market is as important, and eventually may well be even more important, than the US market. The people who will lead our company in the future have to have personal experience in China." McNerney does not hide his expectations of Allen. "If he continues to do well, he will be part of the senior leadership of the company," he said.

"I think the last few years have shown the important role China has to play in all of our businesses and how much the future is here," Allen said. "I am stepping into this role just as this realization is sinking in in the West. This is the future of business. This is the place to be." "If I am listening more than I'm talking, I am doing the right thing, and I'm doing a good job," he said. Drawing on his international experience, Allen said he was particularly impressed by the way China executes its policies in support of its goals. "I haven't seen anything like it," he said. "Nowhere in the world does the policy so quickly materialize into positive action. "I have found an incredible balance in my daily work, dealing with politics and government, which is about law and the real-world expression of law, while also making decisions on marketing strategies and risk and reward," he said.

"For Boeing China, that means what to invest in, and what not to invest in," he said. For Boeing, its investment in China continues to grow rapidly. Just this past April, the company doubled the production capacity of its plant in Tianjin, which manufactures composite components for Boeing aircraft. But above and beyond manufacturing, Allen said, it is crucial to develop innovation in partnership with China in a way that has great mutual benefit attached to it.

Boeing's investments in innovation in China are in broad forms, involving research initiatives across the country with different partners. Current research efforts include studies on advanced material for seats, alternative fuels and interior designs. The company will also open in 2012 the China Aviation Industry Corp (AVIC)-Boeing Manufacturing Innovation Center in Xi'an to provide advanced instruction and laboratories for AVIC workers, followed by training in AVIC factories that make parts for Boeing's commercial airplanes. "It is out there," he said. "We want to find points of innovation where we can create something together, Boeing with China."

Added challenges include the emergence of China as another large plane maker. The Shanghai-based Commercial Aircraft Corp of China Ltd, or COMAC, is expected to launch its first commercial aircraft C919 - a rival to the Boeing 737 and the Airbus 320 - in 2014, and to make its first delivery in 2016. It is hoped the move will lessen the country's dependence on foreign aircraft manufacturers. Industrial analysts believe the airplanes made by COMAC might not rival the two established overseas companies, but will dilute the low-end market share in the future. "This is a really dynamic moment in the market place," Allen said. "We recognize the duopoly between Boeing and Airbus in the market is coming to an end." Welcoming the global opportunities and competitive challenges, Boeing looks for programs that can cultivate collaboration with COMAC in places where the two can "promote important industrial issues, grow the industry bigger and develop the market
for everybody”, he said.

China Railway cancels $976m private placement

China Railway Group Ltd (CRGL), the railway construction giant, announced on Thursday the cancelation of a plan to offer a private placement that would raise 6.24 billion yuan ($976 million) for the company. The plan for a non-public offering, approved by shareholders in August 2010, intended to issue some 1.5 billion A shares to up to 10 investors at a price of not less than 4.05 yuan a share. The proceeds would have been used to support the construction of a subway project in Shenzhen, Guangdong province and three bridges and a road construction project in Liuzhou in the Guangxi Zhuang autonomous region.

CRGL's share price has gradually dropped after two bullet trains collided in Wenzhou, Zhejiang province on July 23, leaving 40 people dead and nearly 200 injured. Shares of CRGL listed in Shanghai Stock Exchange (SSE) closed at 3.19 yuan on Thursday. Before the accident, CRGL's share price was hovering at around 4 yuan. "Uncertainties may exist within the government's approval process because of the change of macroeconomic policies. As a result, shareholders' approval ceased to be effective," said CRGL in a statement filed to the SSE. The Wenzhou accident ignited public concerns about the safety of high-speed trains in China.

The State Council presided over by Premier Wen Jiabao on Wednesday has decided to lower the operating speed of bullet trains and re-evaluate the safety system of rail projects that have been approved but yet to be constructed. Meanwhile, approvals for new rail projects have been postponed.
Source: Tang Zhihao: China Railway cancels $976m private placement, China Daily, 08/12/2011

Safety inspections scheduled for China's high-speed railways

A government official said that inspection teams are ready to conduct safety checks on the nation's high-speed railways, as ordered by the State Council, or China's cabinet. The 12 teams, consisting of a total of 286 railway experts and government officials, will inspect a total of 49 high-speed railway projects currently under construction, as well as 6,000 km of high-speed railways currently in operation, said Huang Yi, a spokesman from the State Administration of Work Safety (SAWS). The government announced earlier this month that it would conduct safety checks on its high-speed railways from mid-August to mid-September in order to prevent major accidents in the wake of a fatal train collision that killed 40 people near the city of Wenzhou in east China's Zhejiang Province on July 23.

Huang said that the government is speeding up its efforts to revise the country's work safety laws. He added that the revisions will require safety facilities to be simultaneously designed and installed alongside future construction projects.
Source: Xinhua: Safety inspections scheduled for China's high-speed railways, 2011-08-23

Out with the old, in with the new
The old-fashioned machines in the factory of Jinbiao Woolen and Textile Mills Co Ltd in an underdeveloped county in southern Jiangsu province whirl and grind all day, churning out reams and reams of cheap cloth to supply the many garment makers in the region. While Japanese textile workers are busy pressing buttons on computerized machines and increasing production by leaps and bounds, some of their Chinese counterparts are sweating in workshops without air-conditioning, using the sort of machines that disappeared from Japanese factories about 20 years ago. It is a gap that the Chinese government intends to close.

On July, 19, the State Council approved a comprehensive work plan to conserve energy and reduce emissions during the 12th Five-Year Plan (2011-2015) period. The aim of the plan is to save energy by eliminating inefficient methods and establishing advanced production facilities. About a week before the work plan was approved, the Ministry of Industry and Information Technology (MIIT) came up with a list of production lines and facilities that must be withdrawn from service by the end of the year. The list covers some 2,255 companies from 18 industries, with the focus on eliminating backward production facilities in heavy industries such as iron manufacturing and cement production.

Although China is the biggest textile manufacturer globally, its textile industry, as Ling sees it, still faces two deadly failings. The first is low productivity and the second, the exhaustion of resources. "Actually, the requirements laid down by the MIIT are quite low. If one had to score 60 out of 100 to get a pass in an exam, most of the production facilities we are being required to eliminate would only score 20 ... seriously," said Ling. "The biggest problem for textile companies is water pollution. The waste that textile companies discharge will lead to eutrophication (a process whereby bodies of water gain a glut of nutrients that stimulate excessive plant growth) nurturing all kinds of algae," said Ling. "Therefore, our company spent a year and invested some 7 million yuan in building our own sewage disposal system, which is capable of purifying coal-black waste into tap water," said Ling proudly.

Wenzhou's local government has produced a list of companies that are low in efficiency and high in pollution. Companies, including producers of leather goods whose annual production is less than 200,000 units, will be closed this year. "The Chinese used to enjoy some advantages in human resources, land and the environment. But now, those advantages are waning. If we cling to the old-fashioned methods, we will have no right to settle the price. The goods we produce will be highly vulnerable to international interest rates, labor costs and the size of the order. We will not be able to compete with those world-famous brands," he said. "Only with more advanced technology and highly valued intangible assets, such as the brand's culture, can we break away from the previous methods of economic growth," he concluded.

Source: Shi Jing: Out with the old, in with the new, China Daily, 2011-08-22

Markets in Turmoil: China Hamstrung in Rescue Role This Time

After the collapse of Lehman Brothers in 2008, China launched a four trillion yuan ($622 billion) stimulus plan that didn't just keep its own growth on track, but helped steady the world economy at a crucial time. But China, now the world's No. 2 economy, is struggling with the costs of that massive
rescue plan: inflation, a property bubble and growing debt -- factors that will constrain its ability to invigorate the economy again, economists say.

Policy makers across the region voiced concern about the darkening outlook and declared themselves ready to respond. Japanese officials said Friday they stand ready to wade back into the currency markets if needed, a day after the Bank of Japan sold yen to counter buying from investors wary of holding dollars and euros. Foreign-exchange dealers said Bank Indonesia sold dollars Friday to support the country's currency and South Korean economic officials are set to meet Sunday to discuss policy responses.

Prakash Sakpal, an economist at ING Bank, predicted that central banks in China, India, South Korea, Taiwan and Thailand would hold off from further interest-rate increases and credit tightening, a shift from the anti-inflationary stance that has dominated the agenda all year.


China to provide more opportunities for US business

China will provide even greater business opportunities for US companies in the next five years, said Vice President Xi Jinping on Friday. Xi made the remarks while attending the China-US business dialogue with US Vice President Joe Biden.

"It is estimated that in the next five years, China will import commodities worth more than $8 trillion," he said, noting that China's total retail sales of consumer goods are expected to exceed 31 trillion yuan ($4.85 trillion). "This will provide more business opportunities for foreign enterprises, including US companies," he said. Thirty years ago, some US companies chose the Chinese market with extraordinary foresight and gallantry, and they shared the fruits of China's economic growth, he said. Compared with the past, China now has a better reserve of talent and broader market space, he noted. He said China will step up the transformation of its mode of economic development and expand domestic demand during the 12th Five Year Plan (2011-2016).

He said an increasing number of powerful and farsighted Chinese enterprises have actively exploited the US market in recent years. He hopes companies of both countries will enhance cooperation in the areas of energy, environmental protection, infrastructure, biomedicine, financial services and small-and-medium sized enterprises in order to write a new chapter in bilateral economic cooperation.

Source: Xinhua: China to provide more opportunities for US business, 2011-08-19

Chinese premier expresses confidence in US economy

Chinese Premier Wen Jiabao said on Friday that he is "fully confident" that the US economy will overcome its difficulties and return to prosperity. Wen made the remarks during an afternoon meeting with visiting US Vice President Joe Biden.

"The prosperity and stability of the United States are important for the whole world," Wen said at the meeting, which was held in Zhongnanhai, the Chinese government's central compound. Wen said that Biden conveyed a "very strong determination" to enhance Sino-US relations during the first
three days of his visit. "You have clearly told the Chinese people that the United States is committed to preserving the integrity of its public debt, including its safety, liquidity and inflation-resistance, which will undoubtedly enhance investors' confidence," he said. China remained the largest foreign holder of US debt as of the end of June, holding about $1.16 trillion in US Treasury securities. Biden said the United States will ensure the safety of its debt not only for the sake of China, but also for US citizens, who own 85 percent of the country's total debt.

Source: Xinhua: Chinese premier expresses confidence in US economy, 2011-08-19

**China urges US to relax controls on high-tech exports**

Vice-President Xi Jinping Friday urged the United States to take "concrete action at an early date" to relax restrictions on hi-tech exports to China. Vice-President Xi Jinping (R) speaks next to US Vice-President Joe Biden during a discussion with US and Chinese business leaders at Beijing Hotel in Beijing August 19, 2011. He also called on the US side to provide a fair investment environment for Chinese enterprises in the United States. Xi said that the method of cooperation that has been used for the past three decades, in which the US provided funds and technology while China provided labor, resources and markets, has greatly changed. Bilateral economic and trade cooperation is reaching wider areas and higher heights. Competition will definitely arise between businesses from both countries in the process of cooperation and development, but that kind of competition is benign and fundamentally beneficial to common development, he added. "We would like to see such benign competition bring benefits to both sides and create win-win results," he said.

Source: Xinhua: China urges US to relax controls on high-tech exports, 2011-08-19

**Chinese Premier Sounds Confident Note on U.S. Economy:** [Foreign Desk]

After widespread criticism among Chinese of Washington's recent debt-ceiling gridlock and with expanding fears of another recession that could imperil the value of China's huge stake in American debt, Vice President Joseph R. Biden Jr. and Chinese leaders labored on Friday to cast the American economy's weakness as a passing phase.

Meeting later with Mr. Biden in Zhongnanhai, the Chinese leadership's compound in central Beijing, Mr. Wen reiterated his faith in the strength of the American economic system and praised Mr. Biden for his assurances. "In spite of the difficulties facing the United States economy at present, I have full confidence that the United States will overcome these difficulties and get its economy back on the track of healthy growth," he said. It was especially important, he added, that Mr. Biden had assured Chinese "that the United States will keep its word and its obligations with regard to its government debt, it will preserve the safety, liquidity and value of U.S. Treasuries." Mr. Biden replied, "U.S. Treasuries -- we're going to take care of very closely, not merely because China owns 8 percent of them, but because the Americans own 85 percent of them."


**U.S. assets are safe, Biden tells China**
On the final stop of his four-day China trip, Vice President Biden sought to assure a university audience that the United States will come to grips with its debt problem, and he blamed a vocal faction of the Republican Party for the struggle to reach a deal. Biden told the audience that despite the economic problems and turmoil in the financial markets, the United States remains "the single best bet in the world in terms of where to invest." Asked by a student about the safety of China's $1.17 trillion in U.S. Treasury securities, Biden replied, "You're safe." "Please understand that no one cares more about this than we do, since Americans own 87 percent of all our financial assets and 69 percent of all our Treasury bonds, while China owns 1 percent of our financial assets and 8 percent of our Treasury bills, respectively," Biden said. "So our interest is not just to protect Chinese investment," he said. "We have an overarching interest in protecting the investment, while the United States has never defaulted and never will default." But the trip became overshadowed by the continuing economic problems in the United States, including the lengthy debate over raising the debt ceiling, the downgrading of the nation's credit rating by Standard & Poor's, wild stock market fluctuations and growing alarm in China over the safety of the country's holdings of Treasury bonds.

Although the trip primarily focused on economics, Biden made a nod in Sichuan to human rights concerns. "I recognize that many of you in this auditorium see our advocacy of human rights as, at best, an intrusion and, at worst, an assault on your sovereignty," Biden said in his speech, as reported by news agencies. "I know that some in China believe that greater freedom could threaten economic progress by undermining social stability." "I believe history has shown the opposite to be true," he added, "that in the long run, greater openness is a source of stability and a sign of strength.


China, France agree to work on yuan flexibility Task force plans to make a formal proposal to Group of 20 leaders' meeting on how the yuan can become part of the IMF's quasi-currency

China and France are forming a task force to clear the way for the yuan's inclusion in the Special Drawing Rights (SDR) of the International Monetary Fund (IMF), French finance minister Francois Baroin said in Beijing yesterday. Baroin's announcement comes after French President Nicolas Sarkozy made a brief stopover in Beijing to meet with his Chinese counterpart, President Hu Jintao, on Thursday. Since this year, Sarkozy has been calling for a timetable for emerging currencies like China's yuan to enter the IMF's SDR in recognition of its growing role in the world economy.

China and France are forming a task force to clear the way for the yuan's inclusion in the Special Drawing Rights (SDR) of the International Monetary Fund (IMF), French finance minister Francois Baroin said in Beijing yesterday. The group will make a formal proposal to leaders of Group of 20 nations in Cannes in November, Baroin told a news conference after meeting with senior Chinese officials, including People's Bank of China governor Zhou Xiaochuan and China Banking Regulatory Commission chairman Liu Mingkang. The task force, comprising officials and experts from both countries' finance ministries, central banks and other economic agencies, will work within the framework of G20 nations, Baroin said without elaborating.

Source: Anonymous: China, France agree to work on yuan flexibility Task force plans to make a
formal proposal to Group of 20 leaders' meeting on how the yuan can become part of the IMF's quasi-currency, South China Morning Post [Hong Kong] 27 Aug 2011: 1.

**China's trade surplus rises on surprise export surge**

China's trade surplus for July hit $31.5 billion, the highest in two and a half years, thanks to higher-than-expected export growth, especially to the European Union. The surplus eased fears that the US and European debt crises might hurt global demand for Chinese goods. Officials and experts said that they believe export growth will remain robust in the third quarter, driven up by rising orders from overseas ahead of the Christmas shopping season. But it is still too early to predict whether US and European debt woes would hurt Chinese exports in the long term, they said.

China's exports surged 20.4 percent from a year earlier to $175.13 billion in July, a record high, while imports rose 22.9 percent year-on-year to $143.64 billion, according to the General Administration of Customs (GAC). The $31.5 billion monthly trade surplus is the highest since February 2009 and has come at a time when the world's largest exporter faces uncertain demand from the US and the EU.

"China's export performance always lags behind a slowdown and weakening demand overseas. So debt problems overseas will not have a negative impact on Chinese exports right now," said Zhang Yansheng, director of the Research Institute of Foreign Economic Relations at the National Development and Reform Commission.

Labor-intensive industries led export growth, as seen by above-average increases in textile exports at 21 percent and garments at 27.1 percent. But the increase in exports of mechanical, electrical and high-tech goods was much slower at about 15 percent.

Source: Xinhua: China's trade surplus rises on surprise export surge, 2011-08-11

**Quality of China's exports to EU improved in H1** (Xinhua) 10:18, August 14, 2011

The quality of the products China exported to the European Union (EU) improved during the first half of this year due to strict quality control measures, according to quality control authorities. The number of quality complaints made by the EU regarding Chinese imports declined by 45 percent in the first half of 2011, according to the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ). The administration attributed the improved quality to its nationwide crackdown on counterfeited and substandard products. A total of 218,000 counterfeiting cases have been investigated so far this year, involving goods worth a total of 9.5 billion yuan (1.49 billion U.S. dollars), the administration said.

Source: Xinhua: Quality of China's exports to EU improved in H1, 2011-08-14

**Int'l fair to showcase west China's development, business opportunity** (Xinhua) 14:31, August 17, 2011

The Western China International Fair (WCIF) will continue its commitment to serve as a platform for the outside world to discover China's western region as it prepares for its 12th event, fair organizers said Tuesday. A total of 4,564 companies from 52 countries and regions have confirmed participation in the annual fair that is scheduled on Oct.18-22 in Chengdu, capital of southwestern
Sichuan Province, according to the organizers. Among the companies, nearly 2,000 are from abroad while 149 of them are Fortune 500 companies, the organizer said. The fair has completed the work of soliciting exhibitors on an area of 120,000 square meters, which are divided into six halls covering electronic information, hi-technology, international cooperation, agriculture and equipment manufacturing. The WCIF was first launched in 2000 to echo the central government's western development strategy. It aims to bring together enterprises from home and abroad to attract investment to the west and promote cooperation and trade.

Source: Xinhua: Int'l fair to showcase west China's development, business opportunity, August 17, 2011

**Chinese Hunger for Corn Stretches Farm Belt**

China's struggle to meet the growing demands of its middle class is fueling a sudden surge in demand for corn, sending vast ripples across the U.S. farm belt and potentially upending the grain's trade flows around the world. China's need for corn—which forms the basis of sweeteners, starch and alcohol as well as feed for livestock—was on stark display in July when the nation ordered 21 million bushels of U.S. corn in one hit, more than the U.S. government thought the country would buy in a year. The purchase surprised the market and came as an intense July heat wave was shrinking the potential size of the Midwest crop. China bought another 2.2 million bushels of U.S. corn early this month. Corn prices, which have nearly doubled over the past year, climbed another 1% Tuesday. The corn futures contract for December delivery at the Chicago Board of Trade rose 7.5 cents to settle at $7.275 a bushel. China's influence on corn demand underlines how its fast-growing economy is reshaping global commerce. The nation, with its growing population of 1.3 billion people, has been a major player in commodities markets in recent years. The USDA now forecasts that China will import 79 million bushels of corn from all sources for the 2011-2012 crop year. But some grain traders are much more optimistic. They said in interviews that they think China wants to buy 200 million bushels of corn from the U.S. alone.

Source: Kilman, Scott; Spegele, Brian: Chinese Hunger for Corn Stretches Farm Belt, Wall Street Journal (Online) [New York, N.Y] 16 Aug 2011:

**China's trade surplus falls to 1.44% of GDP in H1**

China's trade surplus fell to 1.44 percent of the country's gross domestic product (GDP) in the year's first half and the proportion is expected to drop further this year, the Ministry of Commerce said Wednesday. China has seen its trade surplus-GDP ratio decline in the past few years, down from 6.7 percent in 2008 to 2.2 percent in the first half of 2010, ministry spokesman Shen Danyang told a press conference here. To promote trade balance, China will continue to actively expand imports of advanced technologies, key components and resources that China lacks, Shen said.

The world's second largest economy, China reported a record trade surplus of $31.48 billion in July, sharply higher from June's $22.27 billion and the $28.7 million in the same period a year ago. Shen said the trade surplus surge in July was "accidental to some extent." He attributed the growth to rapid rises in exports to developing countries and emerging markets such as Brazil and Russia as
well as retreating prices of imported commodities. The yuan reached a record high of 6.3896 per US dollar on Wednesday, strengthening from 6.4167 per US dollar two weeks ago. 

Source: Xinhua: China's trade surplus falls to 1.44% of GDP in H1, 2011-08-25

China airliner gets GE tools But sharing such vital technology raises questions

At a General Electric flight simulator here, the visibility has been set at near zero to mimic thick rain and clouds. But a video console near the pilot shows a vivid picture of nearby mountains precise enough to allow a plane to take off or land despite the conditions. The system is one of several highly valuable next-generation technologies that GE has developed - and that the company has passed along to China as part of a joint venture with the state-owned Aviation Industry Corporation of China.

GE, like other companies, must weigh which technologies should be brought to joint ventures with China and how to protect them from being stolen or misused. These decisions face virtually any executive trying to develop a presence in the country - from the most sophisticated technology firms, which worry about software piracy, to old-line industrial equipment makers, which have seen knockoffs of their products pop up soon after making deals with Chinese partners.

Under the agreement with AVIC, GE avionics will be on board a new Chinese commercial airliner that is likely to become a rival to aircraft produced by U.S.-based Boeing and Europe's Airbus. The potential competition with Boeing, coming at a time when the United States is fighting to maintain its own manufacturing base, has stirred some American criticism. But GE executives say they have had no second thoughts. China's airplane market is booming, and the deal was too important to pass up, they said, even at the cost of sharing the avionics technology.

Source: Schneider, Howard: China airliner gets GE tools But sharing such vital technology raises questions, Journal - Gazette [Ft. Wayne, Ind] 29 Aug 2011

China remains a magnet for FDI

China remains an attractive destination for foreign direct investment (FDI) despite a decline last month, experts said. FDI fell to $8.3 billion, with year-on-year growth of 19.8 percent, the Ministry of Commerce said on Tuesday. Emerging industries in China will be a new engine for economic growth and attract more capital inflows, analysts said.

China has designated industries such as energy conservation and environmental protection, new information technology, advanced equipment and new energy as the keys to sustainable growth. China is also revising its guidelines for foreign investment to expand market access for overseas companies. These guidelines are expected to be announced in the coming months.

During the first half, however, FDI from the US contracted 22.32 percent year-on-year. "Many US firms are facing financial difficulties due to the turbulent financial market in the US and that has affected their investment in overseas markets, including China," said Li Zhongmin, an investment researcher with the Chinese Academy of Social Sciences. But the discouraging prospects for economic recovery in the US and Europe will make the growing Chinese market more appealing to investors from those areas, he said.
Coca-Cola to invest $4 bln in China in 3 years

Coca-Cola, the world's top soft drink producer, will pour in another 4 billion U.S. dollars in China from 2012 to 2014, announced its chairman and CEO Muhtar Kent Thursday in Shanghai. "We are excited not only with our achievement in China but we are more excited about the prospect of our business in China in the coming years," said Kent in an interview with Xinhua. Kent said the new investment will go mainly to expand Coca-Cola's portfolio and packaging, to continue investment in its infrastructure and distribution system, and to invest aggressively in cold drink equipment and to enhance consumer experience.

China is Coca-Cola's third biggest market following the United States and Mexico. Kent said he is convinced that China will become the beverage giant's largest global market but he did not give more details about the timetable. With the latest investment plan, Coca-Cola's total investment in China since it returned to the market in 1979 is expected to reach 9 billion U.S. dollars in 2014.
Source: Xinhua: Coca-Cola to invest $4 bln in China in 3 years, August 18, 2011

Hong Kong Expects Yuan FDI Framework This Year

The framework for bringing yuan funds raised offshore to mainland China will be in place by the end of this year, the Hong Kong Monetary Authority said Monday, adding the move could increase the issue of bonds and bank loans denominated in the currency in Hong Kong, the offshore yuan hub for China. While on an official visit to Hong Kong, Chinese Vice Premier Li Keqiang on Wednesday announced several initiatives aimed at easing the flow of offshore yuan back into mainland China. Mr. Li suggested Beijing intends to follow through on the plans for what has been dubbed yuan foreign direct investment, but he didn't give a timeline. Chinese authorities will make some revisions on rules and regulations regarding the yuan foreign direct investment plan in the coming months, and the framework should be in place by the end of this year, HKMA Deputy Chief Executive Peter Pang said in a press briefing Monday.

In Hong Kong, demand for yuan bank loans has been particularly weak as borrowers can easily get cheaper loans denominated in the U.S. dollar. As of late June, according to the HKMA, yuan loans in Hong Kong totaled 10.98 billion yuan (US$1.72 billion), a fraction of the 553.6 billion yuan in yuan deposits in the city. The first and the only yuan-denominated initial public offering was by a Beijing-focused real-estate investment trust controlled by businessman Li Ka-shing. Hui Xian REIT raised 10.48 billion yuan in Hong Kong in April.
Source: Law, Fiona: Hong Kong Expects Yuan FDI Framework This Year, Wall Street Journal (Online) [New York, N.Y] 22 Aug 2011

China attractive FDI destination

China will remain the most attractive investment destination over the next two years, as world foreign direct investment (FDI) gradually recovers from the global financial downturn, said the United Nations Conference on Trade and Development (UNCTAD) and economists. As the
government continues to push for the country's industrial upgrading and relocation, China's FDI inflows, particularly to sectors such as services and high-technology, will remain bulky in the coming years, they said. "China boasts a bright future in attracting more FDI flows," said James X. Zhan, director of the investment and enterprise division of UNCTAD.

FDI jumped 18.6 percent year-on-year in the first seven months to $69.2 billion, said the Ministry of Commerce on Tuesday. Foreign investors set up about 15,600 new projects during the first seven months, up nearly 8 percent from the same period of last year. The global FDI volume increased by 5 percent year-on-year to $1.24 trillion by the end of 2010, according to the The World Investment Report 2011, released by UNCTAD last month. The figure is still 15 percent lower than the average volume of $1.472 trillion before the financial crisis and 37 percent lower than the peak volume of $1.971 trillion reached in 2007, the report said. Some developing countries with promising economic growth were the major FDI recipients, and nearly half of the investment flowed to new manufacturing projects, according to the report.

In China, FDI inflows registered a stronger recovery. In 2010, FDI in China surged by 17.4 percent from last year to $105.7 billion, the first time the figure exceeded $100 billion, compared with a decline of 2.6 percent year-on-year in 2009, data from the Chinese Ministry of Commerce showed. According to the ministry, FDI to the service sector jumped by 28.6 percent to $48.7 billion in 2010, accounting for 46.1 percent of China's total figure. The manufacturing sector absorbed $49.6 billion during the same year, up 6 percent year-on-year. Geographically, the FDI growth rate in Central China registered the most notable increase. In 2010, FDI to Central China surged by 28.6 percent year-on-year to $9.02 billion. West China has seen an increase of 26.9 percent year-on-year while the country's eastern region showed an increase of 15.8 percent from 2009, official data showed. "The different increases in different regions and sectors are caused by the country's policies to accelerate industrial relocation and upgrade the country's industrial structure," said Hao Hongmei, a researcher at the Chinese Academy of International Trade and Economic Cooperation.

By contrast, global FDI in the service sector continued to fall sharply in 2010, accounting for 30 percent of the total figure. In manufacturing, FDI volume surged by 23 percent year-on-year in 2010 to $544 billion, according to the investment report by UNCTAD.

During the first half of this year, FDI in China surged by 18.4 percent year-on-year to $60.9 billion. The service sector attracted $28.1 billion, up 21.4 percent from last year, while manufacturing absorbed $28.5 billion, increasing 15.63 percent year-on-year, official data showed.

Source: Zhou Siyu: China attractive FDI destination, China Daily, 2011-08-23

**Apple attacked over Chinese suppliers**

Chinese environment groups have accused Apple suppliers in the country of systemic pollution, underscoring the pressures on one of the world's biggest companies as opposition is growing in China against environmental degradation as the cost for economic growth. In a report released on Wednesday, five Chinese non-governmental organisations said the US technology company was using suppliers with public records of environmental violations and taking "advantage of the loopholes in developing countries' environmental management systems." The accusations escalate a
standoff between Apple and Ma Jun, director of the Institute of Public and Environmental Affairs, a co-author of the report, which is threatening to damage Apple's image. The groups have sought to influence 29 big electronics brands over the past year to work with them on containing pollution in their supply chain, but singled out Apple, saying the company had been uniquely unresponsive.

Apple, whose chief executive Steve Jobs resigned last week due to ill health, has faced controversy over its suppliers in China before. In May, an explosion at a Foxconn factory in Chengdu producing the iPad 2 killed three workers and injured over a dozen more. In February, Apple said that 137 workers had been poisoned in 2009 by a chemical used to clean iPhone screens in a Wintek factory in Suzhou.

Apple did not respond to questions seeking to confirm whether individual companies mentioned in the report were its suppliers or not. "Apple is committed to driving the highest standards of social responsibility throughout our supply base," said Carolyn Wu, an Apple spokeswoman. "We require that our suppliers provide safe working conditions, treat workers with dignity and respect, and use environmentally responsible manufacturing processes wherever Apple products are made." In its latest supplier responsibility report, the company said 2010 audits had found that 80 facilities were not storing or handling hazardous chemicals properly. Apple's report said the company required the non-compliant facilities to correct their hazardous waste handling, storage and disposal practices and to maintain documentation of these operations.


No direct Chinese investments in Libya

Reports of China's losses in Libya are inaccurate, said Shen Danyang, spokesman of the Ministry of Commerce, on Wednesday. China does not have direct investments in Libya, only contract projects, he said. "Any government in any county will consider the market demands and the economy benefits. Chinese enterprises have competitiveness around the world in trades and investments," said Shen when asked about the investment prospects of China's crude oil enterprises in Libya.

Earlier this year, Zhong Manying, director of the department of West Asia and Africa under the Ministry of Commerce, said 26 Chinese enterprises were involved in businesses in Libya. Their businesses, valuing more than $20 billion, were in property, railway, crude oil service, and telecommunication.

Source: Hao Yan: No direct Chinese investments in Libya, China Daily, 2011-08-25

ODI dips in July, year's first slide

China's non-financial outbound direct investment (ODI) in July dropped by 58.1 percent year-on-year to $3.73 billion, mainly due to a decline in the amounts going into developed economies such as the United States, the European Union and Japan.
But foreign investment experts and a Ministry of Commerce official said that the decline was only temporary and long-term prospects for China's ODI were bright. According to the ministry, the drop in July was the first year-on-year decline this year.

Statistics show that, from January to July, ODI in the non-financial sector edged up a mere 3.3 percent to $27.6 billion, as investment into the EU, US, Japan, Russia and the Association of Southeast Asian Nations shrank. No specific country figures were released. But non-financial ODI into Australia expanded 102.5 percent, while that into Hong Kong was up 23.9 percent. "The slowdown in the growth for China's ODI in the past few months can be mainly attributed to the debt crises sweeping the US, EU and Japan, which have dampened local investors' confidence and also led to a new round of investment barriers worldwide," said Zhang Monan, an economist with the State Information Center, who studies the global economy. Minister of Commerce Chen Deming said on Tuesday at a forum that this is a favorable time for Chinese companies to invest overseas, and the scale of their investment will rise rapidly.

During the first seven months, inbound foreign direct investment grew by 23.7 percent year-on-year to $59.5 billion, although investment from US-based companies fell 19.2 percent.

Source: Ding Qingfen and Zhou Siyu: ODI dips in July, year's first slide, China Daily, 2011-08-25

**China economy: China plays a growing role in outbound investment**

China was the world's fifth largest source of outbound investment in 2010 after the US, Germany, France and Hong Kong, according to the World Investment Report 2011, which was published in July by the UN Conference on Trade and Development (UNCTAD). The report showed outbound investment from China hit US$68bn in 2010, from US$56.5bn in 2009. Investment in Latin America rose especially rapidly, led by the US$7bn purchase of a stake in the Brazilian branch of a Spanish oil and gas company, Repsol, by the state-owned Chinese oil firm, Sinopec.

China's outbound investment has continued apace in recent months, with a UK-based consulting firm, PricewaterhouseCoopers, claiming that Chinese groups had made 107 outbound merger and acquisition deals in the first half of 2011, or roughly one-third of the global total of 302. China's Sichuan Hanlong Group made a bid in July to acquire Australia's Sundance Resources for around US$1.5bn. Sundance's main interests are in iron ore mines in Africa, and so the move could support China's efforts to win greater control over the pricing of its iron ore imports. Another key field for investment has been financial services. The Industrial and Commercial Bank of China (ICBC) agreed to buy the Argentinean operations of South Africa's Standard Bank for US$600m in August. ICBC has been ramping up its overseas operations in recent years, paying US$550m for Thailand's ACL Bank in 2010 and US$5.5bn for a 20% stake in Standard itself in 2007.
Source: EIU ViewsWire: China economy: China plays a growing role in outbound investment, Aug 31, 2011