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China's Rate Rise Signals Slow Growth

China's Christmas Day interest-rate rise was a fresh sign of Beijing's determination to cool inflation, even if it means slower growth in 2011. It also should be a wake-up call for those, such as commodities-market bulls, who believe in perpetually high Chinese growth. In turn, this likely will see a decline in China's "commodity intensity," the amount of commodities used per unit of output, as the country's service sector expands relative to heavy industry and Beijing puts a greater emphasis on energy efficiency.


Around the World In 12 Months: China's Big Zhang; [Op-Ed]

Despite the raft of anti-inflationary measures introduced by the Chinese government in November, the lead article in the morning New Capital News announces that the price of gasoline is at a record high of $4.91 a gallon. Another article says that a popular Chinese online forum voted "zhang" -- rapid price increase -- 2010's "character of the year." It outpolled the runner-up, "resentment," nearly six to one.


China economy: Hard landing?

The combination of these measures is likely to rein in inflation and the property market, but at a cost to economic growth. That there is a considerable way to go in the tightening cycle is shown by the fact that deposit interest rates, at 2.75%, are currently negative in real terms--and indeed, a long way below consumer price inflation. A long succession of incremental interest-rate increases would be required to bring deposit rates into positive territory in real terms. While interest rates are too low for China's needs, they remain above US levels, adding to the need for administrative measures to try to prevent the inflow of speculative capital, and complicating attempts to take liquidity out of the economy. Exchange-rate appreciation would help, but the government fears this would hit the export sector.


Today's miracle, tomorrow's crisis

Not everyone is impressed, however. Among the doubters are Carl Walter and Fraser Howie. Best known for Privatizing China, their 1999 book about the mainland's nascent stock market, Walter and Howie are hard-nosed financiers and long-time China hands who don't believe in miracles. As they write in the preface to their newly published book Red Capitalism, "China's economy is no different from any other {hellip} If there are such things as economic laws, they work just as well in China and for Chinese businesses as they do in other markets."

In their new work, Walter and Howie turn their unforgiving scrutiny to the banking system that lies at the heart of the mainland's fast-growing economy. It will make uncomfortable reading for investors who have bought into the idea of China's economic miracle. As Walter and Howie explain, "in China, the banks are everything". Despite efforts to develop Western-style debt and equity capital markets, Chinese banks and the vast reservoir of private savings they control remain the source of almost all the capital invested by the powerful state-sector companies that dominate the country's domestic economy.
China's economy reportedly grew 10.3 per cent in 2010

China recorded 10.3-per-cent economic growth last year while inflation held at about 5 per cent in December, Hong Kong broadcaster Phoenix Television reported Wednesday. Annual consumer price inflation reached 3.3 per cent last year, exceeding the government's target of 3 per cent, the report said. It said monthly inflation in December was high at 4.6 per cent but was marginally down from a 28-month record of 5.1 per cent in November. The government took a series of measures aimed at curbing bank lending last year as part of its efforts to control inflation and cool the overheated property market.

Fears grow that China is overheating

The national economy expanded at an annual rate of 9.8 per cent in the final quarter of 2010, and grew 10.3 per cent for the entire year. Consumer price inflation, a growing worry for policymakers, fell to 4.6 per cent in December from a more than two-year high of 5.1 per cent the previous month. For the whole year, consumer prices rose 3.3 per cent, above Beijing’s target of 3 per cent. Food prices, the main driver of inflation, rose 7.2 per cent for the year. Concerns the Chinese economy is overheating mounted after official figures revealed the economy grew faster than expected at the end of last year and inflation remained above target. Meanwhile, Guangdong added to the fears after China’s biggest provincial economy increased its minimum wage by 18 to 26 per cent, the second big increase in less than a year. Geoffrey Crothall of the China Labour Bulletin, a Hong Kong-based advocacy group, said the wage hike might not be enough to ease the labour shortages in the province, which accounts for a large percentage of the world’s production of everything from mobile phones to sneakers.

China economy: So much for rebalancing

Data on nominal GDP by expenditure for 2010 have not yet been released, but the NBS figures suggest that real investment growth last year may have been even faster than the Economist Intelligence Unit's current estimate of 11.3%, while growth in private and government consumption, estimated at 9.9% and 7.5% respectively, may have been correspondingly slower. Government figures reveal that gross fixed capital formation contributed 5.6 percentage points to GDP growth in 2010. This compared with 3.9 percentage points for final consumption spending (which includes both public and household spending) and 0.8 percentage points for net exports. China's economy is already dangerously skewed towards investment, and its recent performance will have aggravated the picture by pushing private consumption's share of GDP even lower.
China economy: Cooling measures

Some observers have begun to suggest that the central bank has lost control over lending. New renminbi lending in December of Rmb 480.7bn took the yearly total to Rmb 7.95trn (around US$1.2trn), substantially overshooting the government’s target for 2010 of Rmb7.5trn. An international credit-rating agency, Fitch, produced a report in December arguing that Chinese credit growth in 2010 had "not slowed materially" from the stimulus-stoked rates recorded in 2009. Banks reportedly circumvented caps on lending by reducing their holdings of discounted bills and by re-packaging loans and selling them as investment products. This would help to explain why year-on-year broad money (M2) growth had accelerated to 19.7% by the end of 2010, well above the government's target rate of 17%. The central bank has hinted that in 2011 it will steer away from sectoral credit targets, instead using bank-by-bank analysis and tools to curb liquidity growth.

China's inflation 'controllable': IMF chief economist

China can deal with inflation and still manage a rapid economic growth, said Olivier Blanchard, the chief economist of the International Monetary Fund (IMF). "The inflation (in China) is controllable," Blanchard told Xinhua at an economic policy panel in the Massachusetts Institute of Technology (MIT). He also said the world was experiencing a "two-speed recovery," with developing countries growing at a faster pace than developed countries. However, the economist said for some of the countries growing at a quite rapid speed, the challenge is to limit inflation in the medium term.

FX Update

The PBOC's refusal to hike interest rates more than once last year kept real interest rates firmly in negative territory. This goes a long way to explaining why China's economy has hardly broken stride since the PBOC introduced the first of six hikes in banks' reserve requirements last January. Data last month showed that the M2 money supply expanded by about a fifth in 2010, and that loans extended by banks had probably far exceeded the government's full-year CNY 7.5 trillion quota. This is all the more apparent when they contrast the differing reactions to the bank's policy measures last year.

China's salaries to increase 139% in 5 years

China may see an annual growth rate of 19 percent, or a 139 percent increase in salaries in the five years from now to 2015 as the nation's supply of labor dwindles, Law Evening News reported Friday, citing a report from Credit Suisse. China’s average labor increase stood at 1.3 percent for the last ten years, while in the next 30 years, the figure will decline to 0.3 percent. Wages may rise to 62 percent of China's gross domestic product by 2015 from 50.5 percent last year, the Credit Suisse report said. Credit Suisse Managing Director and Asia Chief Economist Tao Dong said that wages of China’s migrant workers jumped by 30 to 40 percent in 2010 and may rise 30 percent every year for the next three years.
Chinese patients promised lower medicine costs this year

Lower medicine prices are the top priority of China's health authorities this year, the Health Ministry announced Monday. A national essential medicine system would cover most government-sponsored grass-roots health institutions where drugs would be sold with zero mark-up by the end of the year, said ministry spokesman Deng Haihua at a regular press conference. China began implementing the essential medicine system in 2009 in a bid to reduce costs for patients. Due to longstanding low government funding for State-run hospitals, which in many places only covers 10 percent of operating costs, doctors have often aggressively prescribed expensive, and sometimes unnecessary, medicines and treatment in order to generate income for the hospitals. The implementation of the essential medicines system has reduced the prices of certain prescription drugs. Deng said the ministry would focus on streamlining the centralized procurement and distribution of essential medicines and making sure they were sold at no more than cost price. Centralized procurement of drugs at government-run institutions was introduced to bring down drug prices from the supply end and to lower prices of medicines for patients.

Source: Xinhua: Chinese patients promised lower medicine costs this year, 2011-01-10

China struggles in quest to adjust

Under pressure over its mercantilist currency policy and the seeming abrasiveness of some of its foreign policy moves, China is trying to seduce its critics with tales of booming domestic demand back home. While Mr Hu was making his way around Washington, Beijing announced that growth last year reached another eye-popping 10.3 per cent. Adopting the same dexterity with numbers that allowed the White House to announce $45bn in new Chinese export orders, Mr. Hu told a business audience about the 14m jobs that Chinese demand was creating around the world, as well as the $600bn in savings that American consumers had enjoyed from cheap Chinese manufacturing. The week before, Li Keqiang, Chinese vice-premier, told everyone he met on a tour of Europe about his country’s $1,400bn import bill.

The message they were trying to convey was pretty clear: China is now one of the leading drivers of global economic growth and is making a decisive contribution in lifting the world from the financial crisis. Why would you encourage it to introduce policies that might put this growth at risk? As it happens, there are plenty of US companies that might nod in agreement – at least the ones who sell to Chinese consumers. Every year, tens of millions of Chinese are being pulled by rising incomes into a modern consumer class that probably includes more people than the entire population of the US. These new Chinese consumers are spending their weekend at the General Motors dealership, popping into the Apple store and queuing at their local Wal-Mart. They are buying all kinds of new stuff.

Yet a flourishing Chinese consumer market is not the same thing as an economy that is rebalancing. The reality is that last week’s figures for gross domestic product underlined how difficult it is to shift China’s economic model. China’s growth drivers also have a familiar look. Investment is still the main contributor to GDP, aided by another year of epic bank lending. But consumption provided its lowest contribution to growth since 2003 and continued to decline as a share of overall spending. Growth in urban incomes, which was in double figures in 2009, fell to 7.5 per cent last year. This is the paradox of China’s economy: demand for modern consumer goods is rising sharply as urban Chinese get richer, but consumption as a whole continues to play a more modest role than in any
other big economy. China’s leaders have talked for five years about shifting the growth model towards consumption and this will be the central goal of the plan for the next five years. Yet large and politically important parts of the economy remain addicted to the cheap land, energy and credit formula that has fuelled such high investment rates. Rebalancing is proving much tougher.

Source: Geoff Dyer: China struggles in quest to adjust, Financial Times, January 24 2011

**IPR efforts redoubled**

The Chinese government is "willing to actively increase" cooperation with the United States on intellectual property rights (IPR) and the nation will take a "responsible" attitude in advancing IPR protection "in the long term", said the vice-minister of commerce. Jiang Zengwei, also director of the national leadership team on the six-month high-profile campaign combating IPR infringement, also said that the project of software legalization, an issue the US has been very concerned about, is "well under way". He said that by May, China's central government will have legal software in all of its offices and local governments will follow by October.

In October, the State Council launched a six-month campaign against pirated goods, the government's most comprehensive effort to promote IPR protection in recent years. The main goal of the campaign is to strengthen protection of patents, trademarks and copyrights of a wide range of domestic and foreign goods, including books, videos, software, electrical equipment, auto parts, mobile phones, medicines and seeds. Jiang said China's IPR efforts will be lasting. "Such efforts will not only encourage domestic innovation and help China fulfill its goal of becoming an innovation-driven nation, but also highlight the country's commitment to abiding by international laws and creating fair competition for companies at home and abroad," he said.

As the core of the IPR protection campaign, the national leadership team has identified 36 projects - including the 80 most important cases regarding trademarks, patents and music copyrights - to investigate and resolve. These cases involve many internationally famous brands, including Louis Vuitton, Prada, Marlboro and Nike, from nations such as the US and France. Authorities identified an estimated 19,000 cases of IPR infringement and counterfeiting during the first two months of the campaign, 11,000 of which have been handled. "China is committed to fiercely fight counterfeiting and dispel any doubts foreign investors may have regarding its investment environment and opening-up policy," Jiang said. "We will strengthen our communication and coordination with foreign business, addressing their concerns on IPR protection. China will treat domestic and foreign companies equally on IPR protection," he said.

By the end of December, the central government had purchased 47,716 legal software packages, worth 36.13 million yuan ($5.47 million) including 20,156 sets from overseas valued at 27.5 million yuan, according to statistics by the Government Offices of Administration of the State Council.

Source: Ding Qingfen: IPR efforts redoubled, China Daily, 2011-01-13

**Energy Research: New findings from Tsinghua University in the area of energy research described**

According to a study from Beijing, People's Republic of China, "This paper presents an overview of the initiatives launched in energy supply and consumption and the challenges encountered in sustainable road transportation development in China. It analyzes the main energy challenges related to road transportation development arising in the context of economic development, rapid urbanization, and improvement in living standards."
If the current pattern continues, by the year 2030, the vehicle population in China will be 400 million and fuel demand will be 350 million tons. The potential energy saving capacity being 60%, the actual oil demand by 2030 from on-road vehicles might technically be kept at the current level by improving fuel economy, propagating use of HEV and diesel vehicles, improving supply of alternative fuels, and developing public transport,” wrote X.J. Hu and colleagues, Tsinghua University.

Source: Anonymous: Energy Research; New findings from Tsinghua University in the area of energy research described, Energy & Ecology. Atlanta: Jan 14, 2011. pg. 302

**Energy Research; Researchers at Wuhan University target energy research**

According to a study from Wuhan, People's Republic of China, "At present, China's economic development faces energy challenge, and the appropriate solution of energy bottleneck is the key to healthy, rapid and sustainable development. China's gross amount of hydraulic resource ranks first in the world; however, because of low level of development, hydraulic resource has a broad development prospect." China's hydropower development aims at an installed hydropower capacity of up to 194 million kW by 2010, accounting for 23.1% of the gross installed power capacity and 35% of hydropower resource," wrote X.L. Chang and colleagues, Wuhan University.


**Environmental Research; Studies in the area of environmental research reported from Shandong University**

"Shandong Province is currently experiencing fast urbanization and economic booming. However, low energy efficiency, energy shortage and other energy related issues are becoming the limiting factors for further economic development," researchers in Jinan, People's Republic of China report. The researchers concluded: "On the contrary, Shandong can achieve rapid economic development with less energy consumption and affordable environmental load if the industrial structure is being further optimized, technological upgrading efforts are strengthened, strict pollutant control measures are implemented, and reasonable plans for energy development are established.”

Source: Anonymous: Environmental Research; Studies in the area of environmental research reported from Shandong University, Energy Weekly News. Atlanta: Jan 14, 2011. pg. 328

**ChiNext raises 117b yuan for 153 companies by 2010**

Companies listed on China's Nasdaq-style ChiNext board have raised 116.75 billion yuan ($17.61 billion) since the board's creation in October 2009, Shang Fulin, chairman of the China Securities Regulatory Commission, said Saturday. By the end of 2010, 153 companies have been listed on the ChiNext board, with combined market capitalization of 736.5 billion yuan. Moreover, 17.79 million investors have opened ChiNext trading accounts, Shang said at the 15th China Capital Market Forum held in Beijing. The board had 139 high-tech companies by the end of 2010, which accounted for more than 90 percent of its total listed enterprises. During the first three quarters of 2010, ChiNext-listed companies reported a 26.93 percent year-on-year rise in profits on average, and their business revenue jumped 36.49 percent, Shang said. China will strengthen supervision of the ChiNext board and crack down on all types of irregularities to protect investors' interests, Shang added.

Source: Xinhua: ChiNext raises 117b yuan for 153 companies by 2010, 2011-01-10
JP Morgan to finish preparatory work for Chinese securities JV in Q2

JP Morgan Chase & Co (JP Morgan) will finish preparatory work for its recently-authorized Chinese securities joint venture in the second quarter, Shao Zili, chairman of the company's greater-China area operations, said Thursday. JP Morgan will hold a 33.3 percent stake in the joint venture. First Capital, a leading Chinese securities firm, will hold the remaining 66.7 percent. The joint venture will involve in the A-share and domestic bond issuance business, which JP Morgan has never tried in China before, Shao said. The China Securities Regulatory Commission, China's securities regulator, approved the establishment of the joint venture last week.


Trial program for offshore funding

The Chinese mainland securities regulator will begin a trial program that allows local fund houses to raise money offshore for investment in the domestic financial market, two sources said. At least 80 percent of the money raised will have to be invested in the domestic bond market, said the sources who were familiar with the matter but were not authorized to publicly disclose the details. "The move is based on the overall financial trend of the yuan increasingly becoming more international," one of the sources said on Monday. "The banks are already moving forward in this aspect and it's time for brokerages and securities companies to follow suit."

Mini-QFII stakes are named after the eight-year-old QFII (Qualified Foreign Institutional Investor) program, which allows foreign fund managers to invest in Chinese stocks and bonds on behalf of overseas investors using money raised overseas. Chinese brokerages with international arms, such as Guotai Junan Securities, are expected to participate in the mini-QFII program. "Most of the money will be invested in the bond markets to ensure the stable development of the trial program," another source said. The Chinese mainland has been trying to make its currency more international by establishing Hong Kong as an offshore yuan center.

Source: Victoria Bi: Trial program for offshore funding, China Daily, 2011-01-18

China vows tough measures to curb illegal land use

A senior land administrator has pledged tough measures to curb the illegal use of land, especially for the construction of real estate, luxury villas and golf courses. Li Jianqin, director of the law enforcement and supervision department of the Ministry of Land and Resources, said on Thursday that there were a total of 53,000 cases of illegal land use across the country in 2010, which gives an indication of the scale of the challenge posed by seeking to protect this scarce resource. The cases involved 27,866 hectares of land, an increase of 1.1 percent on 2009, Li said at a press conference. Moreover, about 10,933 hectares of the total land illegally used in 2010 were on arable land. Li said the ministry managed to reclaim about 2,867 hectares of land last year. And 2,582 people were punished for illegally using land last year, with 239 of them being criminally convicted, he added. The use of land in 2,895 cities is monitored by satellite surveillance, a practice China began in 2000 with an initial 66 cities in 25 provinces, municipalities and autonomous regions. Li said satellite imaging has played a significant role in protecting the country's land supply by helping detect cases in which it is being illegally used.

Source: Wang Qian: China vows tough measures to curb illegal land use, China Daily, 2011-01-21

Commercial property gains investors' preference

China's commercial property sector will replace the residential market as the emerging star in 2011, with
tightening measures continuing in the housing market while domestic consumption picks up. Li Ming, CEO of Sino-Ocean Land Holdings Limited, said boosting the development of the commercial property business will be one of the main focuses of the company's new five-year development plan. So far, the company has invested approximately 10 billion yuan ($1.52 billion) in commercial properties and held about 2 million square meters reserved for commercial real estate development. "As the government greatly strengthens its efforts to increase the supply of affordable housing, the growth potential of the residential housing sector may slow in the long run, so increasing investment property holdings will be a must for our business development in the future," Li added. Other brand property developers followed a similar strategy.

Supported by China's sound economic development, coupled with a strong rebound in the rental prices of prime office and retail property last year, institutional investors also intensified the expansion of their portfolios by acquiring prime office and retail projects in Beijing, as witnessed by several notable en-bloc transactions completed in the last quarter of 2010, according to the US-headquartered real estate service provider Jones Lang Lasalle.

Source: Hu Yuanyuan: Commercial property gains investors’ preference, China Daily, 2011-01-21

**Measures to tame property market**

The State Council raised the minimum down payment for second-home buyers to 60 percent from the current 50 percent on Wednesday, and called on local governments to set price targets in the latest move to rein in property prices. The mortgage rates for second-home buyers, however, remain unchanged at 1.1 times the benchmark lending rate, according to a statement posted on www.gov.cn.

Local governments must set property price targets in line with local income levels for 2011 and the targets should be made public in the first quarter, the State Council said. Those who fail to meet the targets will have to explain to the State Council, the statement said. Local governments are also required to set a cap on the number of apartments residents can purchase. People who already have an apartment are allowed to buy another but those with two apartments will not be permitted to buy any more, according to the statement.

China should be cautious about the risk of a real estate bubble, World Bank Chief Economist and Senior Vice-President Justin Yifu Lin said on Tuesday. "China must carefully study the cases of Japan and Ireland, where the collapse of the real estate bubble caused a financial crisis and economic stagnation," Lin told a symposium at Peking University.

Source: Hu Yuanyuan: Measures to tame property market, China Daily, 2011-01-27

**A tale of 2 cities for property tax reform**

Shanghai and Chongqing will launch the first-ever property tax for second-home buyers, part of a series of government measures to curb soaring prices and real-estate speculation. The two cities announced on Thursday night that they will levy the property taxes from Friday. The tax will target high-end, newly purchased second homes and will require buyers to pay between 0.4 to 1.2 percent. Non-local residents without any job or investment in Chongqing will also be taxed when they buy second homes.

In Shanghai, second-home buyers will pay a tax of 0.6 percent. If values of homes are less than double that of average housing prices, buyers need only pay 0.4 percent. Taxes will be more staggered in Chongqing. Buyers of new second homes will pay a tax of 0.5 percent if homes are valued at two to three times average housing prices. Homes valued at three to four times the average prices will be taxed 1 percent, with the highest tax not exceeding
1.2 percent. All villas and town houses in Chongqing will be taxed as well.

"The property tax can be considered a new measure to adjust demand and supply, curb property speculation and squeeze the housing bubble," Chen Guoqiang, deputy chief of the China Real Estate Society, said.

The two city governments told the media that the property tax is aimed to help narrow the wealth gap, guide property purchases in the right direction and better distribute housing resources. The tax collected will be used in the construction of government-subsidized affordable housing projects.

Source: Li Woke and Wang Ying: A tale of 2 cities for property tax reform, China Daily, 2011-01-28

Market Strategies, Analysis, Competitive Intelligence and Challenges in Entering the Chinese Market

China's impressive economic growth performance over the past thirty years has elevated China to the second largest economy in the world. This economic performance was achieved with a centrally planned government and a market oriented system. Further, China lacks the coherent political ability to develop a legal reform that supports its current fragile and opposing political system; split between liberal ideologies and socialistic authoritarianism (Choukroune, 2009). Research suggests that Western academic and prescriptive literature on basic strategic marketing practices are practiced in Chinese manufacturing companies, with higher performing firms differentiating themselves by utilizing effective local marketing strategies (Huan, Brooksbank, Taylor & Babbis, 2008). And although there is a trend towards adopting Western marketing management theories, there are efforts to apply indigenously developed theories (Sutton-Brady, Voola, & Yuksei, 2010). However, China has a very unique and complex culture and philosophy that directly influences marketing strategies, consumer preferences and emotional appeal. Marketing strategies and research into doing business in China must be comprehensive in capturing the depth and understanding of China's political, legal, economic, social, cultural, and environmental systems; as well as development of marketing strategies, competitive intelligence strategies, marketing analysis, mode of entry, cultural impact on consumer behavior and so on. Further, researchers argue that organizations' marketing strategies must be locally adaptive and responsive in foreign countries; that is, think globally; act locally. Moreover, research further suggests that the Chinese consumer market is diversified, dynamic and constantly evolving at a rapid pace, reflecting China's economic growth. [PUBLICATION ABSTRACT]


Faster but costly, high-speed train sparks controversy

Spring Festival, which will fall on Feb 3 this year, is the most important traditional festival in China and an occasion for reunions of family members and friends. The peak travel season during the festival, or Chunyun, which has been dubbed as the "largest migration on the planet", will start on Wednesday. An estimate by the Ministry of Railways suggests that during the 40-day period, about 230 million trips will be made on China's railway system. China has the ambition to build the world's fastest rail network as rail cars with the name "China Railway High Speed (CRH)" began appearing in growing numbers in recent years. According to the Ministry of Railways, China will have a rail network of 110,000 kilometers by 2012, with 13,000 kilometers of high-speed rail. The latest milestone was high-speed trains between Shanghai and Hangzhou, which began service last October. The prices for first- and second-class seats from Hangzhou to Shanghai soared by 108 and 56 percent, respectively. At
the same time, the number of ordinary trains in service has dwindled, making it harder to get cheaper train tickets. The situation is similar elsewhere. A high-speed train service between Shanghai and Jiangsu province started operating on July 1 last year. Meanwhile, 25 express trains between Shanghai and Nanjing, capital of Jiangsu, ceased operations. The highest price for a soft berth in the trains plying between Shanghai and Chengdu tops 2,330 yuan.

Sun Zhang, a transportation professor with Shanghai-based Tongji University, suggested that in the peak travel season, limited traffic resources be reserved for the needy, low-income passengers. "Like the migrant workers, they can only go home once a year," he said. "They would rather stand. So can we transform the berth to seats to reduce the cost and improve the capacity?" Also, columnist Xin Haiguang suggested that government provide subsidies to the railway system to reduce ticket prices. "To some extent, the railways in China are linked to the public interests and we shouldn't solely pursue commercial profits," he said.

Source: Xinhua: Faster but costly, high-speed train sparks controversy, UN expert, 2011-01-19

High-speed railway to boost trade

"One of our main tasks during the 12th Five-Year Plan (2011-2015) is to accelerate the construction of a high-speed railway from Nanning to ASEAN countries such as Singapore to establish an international passage, bolstering Guangxi's foreign trade," Ma Biao, chairman of the regional government, said on Monday. "We will invest 15.6 billion yuan ($2.36 billion) to build the railway linking Nanning and Singapore via Vietnam, which is extremely important for the construction of the Nanning-Singapore Economic Corridor," Long Li, director at the transportation department of the region's DRC, told China Daily. The Nanning-Singapore Economic Corridor, the cross-border economic channel between China and the ASEAN, starts at Nanning and encompasses Hanoi in Vietnam, Vientiane in Laos, Phnom Penh in Cambodia, Bangkok in Thailand, Kuala Lumpur in Malaysia, and Singapore. Ma said the Nanning-Singapore Economic Corridor and bonded port areas round the gulf would become new hotspots and growth points within the China-ASEAN Free Trade Area (CAFTA). Fueled by the founding of CAFTA, the export and import volumes of Guangxi hit a record $17.71 billion in 2010, with a year-on-year growth rate of 24.3 percent.

"Guangxi will continue to strengthen its economic cooperation, including the Nanning-Singapore Economic Corridor and the Pan-Beibu Gulf Economic Zone, with neighboring countries," Ma said. Founded in 2006, the Pan-Beibu Gulf (PBG) Economic Cooperation Zone comprises the Guangxi Zhuang autonomous region, Guangdong and Hainan provinces, Vietnam, Malaysia, Singapore, Indonesia, the Philippines and Brunei. The PBG cooperation zone is a new sub-regional scheme in the China-ASEAN framework. "To beef up trade with neighboring countries and provide convenience for commercial interaction, we will spend 300 billion yuan on the construction of the railway within the next five years," Ma said earlier.

Source: Bao Chang, Huo Yan, and Huang Zhaohua: High-speed railway to boost trade, China Daily, 2011-01-18

China's GDP-driven provinces urged to slow down

Alarmed by the vaulting ambitions of many Chinese provinces to grow at all costs, China's top economic chief is calling on officials to calm down and spare a thought for the environment. Zhang Ping, who heads China's National Development and Reform Commission, the central economic planning agency, said only five or six of China's 30 provinces are targeting annual economic growth of 8 or 9 percent. The remaining provinces are aiming
for growth rates of more than 10 percent this year, with some wanting to double economic output in the coming five years. "China has a planned energy supply of about 4 billion cubic tons of coal equivalent for the next five years, and this is not enough to meet demands for economic growth to double," he was quoted as saying on the news portal Sina.com. Beijing is increasingly concerned with the ambitions of Chinese provinces across the country to chase high growth despite the central government's pleas for a more moderate and sustainable pace of expansion.

Years of rapid economic growth have taken a toll on China's environment, with Beijing trying to undo some of the damage now. It has an annual growth target of 7 percent for the next five years, well down from last year's 10 percent. Zhang said Beijing has asked local governments to take into account the supply of "energy, environment, water and land" to set more reasonable growth targets.

Source: Xinhua: China's GDP-driven provinces urged to slow down, 2011-01-07

China economy: Shenzhen's more liberal approach

Shenzhen streamlined its government structure in 2009, reducing the number of civil-service positions by one-third. From March 2010 all civil servants recruited in the SEZ are no longer eligible for life-time employment. Salaries of existing law enforcement and technical professionals working for the government are now linked to job performance, skills and years of service rather than to seniority or rank.

<table>
<thead>
<tr>
<th>Income</th>
<th>Disposable income per head (Rmb, urban)</th>
<th>Rmb20,000</th>
<th>Rmb30,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP (Rmb bn)</td>
<td>2009</td>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td>Real GDP growth (%)</td>
<td>2009</td>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td>Guangdong</td>
<td>10.7</td>
<td>12.2</td>
<td>13.9</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>9.3</td>
<td>11.1</td>
<td>9.6</td>
</tr>
</tbody>
</table>

Source: Economist Intelligence Unit.

<table>
<thead>
<tr>
<th>Emerging sectors</th>
<th>Company</th>
<th>Activities</th>
<th>Investment value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive</td>
<td>PSA Peugeot-Citroen (France) and Chang'an Motors (China)</td>
<td>Establishing a joint venture, with production to start in 2012. Expected annual output of 200,000 cars and 20m engines.</td>
<td>Rmb6.4bn (US$1.27bn)</td>
</tr>
<tr>
<td>Automotive</td>
<td>Daimler (Germany) and BYD (China)</td>
<td>An electric-vehicle joint venture was established in July 2010 in Shenzhen's Foshan New District.</td>
<td>Rmb600m (US$91m)</td>
</tr>
<tr>
<td>Telecoms &amp; technology</td>
<td>Alibaba (China)</td>
<td>Opened its south China headquarters in 2010.</td>
<td>US$100m</td>
</tr>
<tr>
<td>Telecoms &amp; technology</td>
<td>Baidu (China)</td>
<td>Opened its international headquarters in the city in 2010, as well as a research-and-development centre.</td>
<td>–</td>
</tr>
<tr>
<td>Logistics</td>
<td>UPS (US)</td>
<td>Opened its new intra-Asia hub in February 2009.</td>
<td>US$180m</td>
</tr>
</tbody>
</table>

[Table] Economic forecast: Shenzhen prefecture

[Table] Industry: Recent projects

[Table] Infrastructure: Recent projects
Tourists from the mainland make record number of visits overseas

A record 56 million mainland tourists traveled overseas last year, Shao Qiwei, head of the China National Tourism Administration, said on Wednesday. That number is an increase of 8.3 million over 2009. In contrast, 55.7 million overseas tourists visited China and stayed for at least one night last year, up 9.5 percent year-on-year. In total, 134 million overseas visitors came to China, up 6 percent year-on-year, spending $45 billion in the country. Meanwhile domestic tourists made 2.1 billion trips last year, up 11 percent from the previous year, bringing revenue of 1.25 trillion yuan ($189 billion), he said. “China’s tourism has entered a new round of golden development, thanks to fast economic development, the growth of people’s incomes and further opening-up,” he said. Industry analysts said it is the first time that the number of mainland tourists going overseas has exceeded that of inbound overnight tourists.

Source: Xin Dingding: Tourists from the mainland make record number of visits overseas, China Daily,
Europe: Mr. China goes shopping; Charlemagne

Saldi! Rebajas! The winter sales have started. And like the increasingly numerous Chinese tourists across Europe, the Chinese state has gone shopping. On his tour of Europe this month, China's vice-premier, Li Keqiang, announced his country's plan to buy cheap European government bonds, as Chinese companies purchased shares in European petrochemical ventures, tens of thousands of cars and even a few million euros' worth of Spanish wine and ham to top off the shopping basket. This is not just nouveau-riche retail therapy. China is looking for bargains. But some of the things it is seeking to spend its money on are less tangible: goodwill, political support and, perhaps most importantly, the survival of the euro zone. In recent months Chinese leaders have visited not just the big European countries, such as Germany, France and Britain, but also several of the troubled "peripheral" states. With every trip to the southern fringe--be it Wen Jiabao, the prime minister, in Greece in October; President Hu Jintao in Portugal in November; or Mr Li in Spain this month--the leadership brings the same message: China supports European integration, wants the euro to flourish and will buy bonds to help the most indebted states.


Wal-Mart apologizes to customers for price cheating

Wal-Mart (China) late Thursday apologized to customers after being blacklisted by Chinese authorities for cheating on prices. The Wal-Mart (China) Investment Co, Ltd expressed "sincere apology" to affected customers in a written interview with Xinhua. Further, the company has been cooperating with authorities' investigation into the cheating. It has also launched self-examinations in stores nationwide.

The company, which entered China in 1996 and has opened 189 stores in 101 cities across the country, promised to continue the self-examination regularly. Its 700 price inspectors perform millions of examinations weekly. The National Development and Reform Commission (NDRC), China's top economic planner and price regulator, said Wednesday that some Carrefour and Wal-Mart stores in China are involved in deceptive pricing practices.

Source: Xinhua: Wal-Mart apologizes to customers for price cheating, 2011-01-28

World News: Highlights of the Interview With Hu Jintao

The package plan and the related policy measures that the Chinese government introduced to counter the international financial crisis have also provided good opportunities for the growth of all enterprises in China, foreign companies included. . . To address its impact and maintain the steady and relatively fast growth of the economy, China quickly adjusted its macro-economic policies, resolutely adopted the proactive fiscal policy and moderately easy monetary policy, put in place a package plan to boost domestic demand and stimulate economic growth, significantly increased government investment, implemented industrial readjustment and reinvigoration plans on a large scale, energetically promoted scientific innovation and technological upgrading, raised social welfare benefits by a substantial margin and introduced a more active employment policy.

Press Conference with President Obama and President Hu of the People's Republic of China

Executive Office of the President THE WHITE HOUSE Office of the Press Secretary For Immediate Release January 19, 2011 REMARKS BY PRESIDENT OBAMA AND PRESIDENT HU OF THE PEOPLE'S REPUBLIC OF CHINA IN JOINT PRESS CONFERENCE East Room 1:27 P.M. EST PRESIDENT OBAMA: [...] our exports to China are growing nearly twice as fast as our exports to the rest of the world, making it a key part of my goal of doubling American exports and keeping America competitive in the 21st century.


What America and China must not forget

The central problem in the U.S.-China relationship right now is mutual mistrust. Large numbers of Chinese in and out of the government believe that the United States is out to stop China's rise and is actively seeking to overthrow the government. Even as many Chinese see America as a declining power, they also see America's strength and react to U.S. criticism of China through history's lens of China's occupation and "humiliation" by Western countries and Japan.

Large numbers of Americans fear or feel frustrated by China's rapid economic rise, particularly at a time of our own economic difficulties. As a growing economic power, China's military is also growing. Many Americans fear this growth, given the uncertainty about China's military objectives and China's increasing assertiveness, especially in the Pacific region, and its voracious appetites for energy and natural resources (which the United States shares).

There is one way to dispel the mutual mistrust that currently exists in the U.S.-China relationship: acknowledge it, and work together to produce concrete results that demonstrate each side's good faith and the benefits of cooperation over conflict. Our leaders need to tackle the large issues that contain the potential for conflict and opportunities for cooperation, with parallel dialogues by leaders and experts outside of government.


Meetings build a platform for stronger bond

President Hu Jintao's visit and the joint statement with the United States provide a "brand-new platform" for the two sides to strengthen economic ties, despite some divergent views, experts said. Before Hu's state visit, high-level officials from the US, including Treasury Secretary Timothy Geithner and Commerce Secretary Gary Locke, said the two nations should strengthen cooperation and that the relationship has created huge benefits to both sides.

As part of the state visit, China will purchase $45 billion of goods in the US, including a $19-billion deal for 200 Boeing airplanes, said the White House on Wednesday. Besides the Boeing deal, China will also buy from agricultural, telecommunications and technology companies, including General Electric, Honeywell and Navistar.

The White House said the deals will support up to 235,000 jobs in the US. Chen Deming, China's commerce minister, said at a press briefing in Washington that the two sides will sign contracts worth $5.1 billion for two-way investment, and Chinese investment in the US will be as high as $3.2 billion. The US-China Business Council cited
the trade and investment agreements as a "positive reminder" of the importance of the US-China commercial relationship.

"The announced export sales of $45 billion support jobs in the United States. China is the only major market to meet President Obama's goal of doubling exports in the next five years," said John Frisbie, president of the council. Minister Chen also said that China's currency policy is not a major source of China's trade surplus with the US. China will "review its trade policies and formulate measures to promote imports, with particular attention on economies with trade deficits with China, including the US and some European Union member states," he said. Hu said in the White House that the Chinese government protects intellectual property rights of all registered businesses in China and will not link its innovation policies to the provision of government procurement preferences.

Source: Ding Qingfen: Meetings build a platform for stronger bond, China Daily, 2011-01-21

...AND CHINA ISN'T BEATING THE U.S.

China is a great power in every sense of the word. It is the most populous country in the world. The Middle Kingdom has weathered the Great Recession better than the West. It is developing a blue-water navy to rival the US in the Pacific. Politicians, commentators, and the public believe China has already supplanted the US to achieve primacy in world politics. This is not only wrong -- it is dangerously wrong. If one measures power strictly according to GDP at market exchange rates, then the US is roughly 250% more powerful than China. Exaggerating Chinese power has consequences. Hysteria about Chinese power also provokes confusion and anger in China as Beijing is being asked to accept a burden it is not yet prepared to shoulder.

Source: Daniel W Drezner: ...AND CHINA ISN'T BEATING THE U.S., Foreign Policy. Washington: Jan/Feb 2011. , Iss. 184; pg. 67, 1 pgs

Hong Kong used as lab in currency experiment

The rise of the renminbi in Hong Kong is a tale of two cities. One is the city of high finance in Hong Kong’s business district where bankers are abuzz with excitement at the rapid increase in the use of China’s currency for trade finance and corporate bond issues. With the mainland currency not fully convertible, Beijing is using Hong Kong as a laboratory where international companies can hold and trade renminbi-denominated products.

In the other Hong Kong, rents and salaries continue to be paid in Hong Kong dollars and shoppers still use the currency, although many retailers happily accept renminbi from mainland Chinese tourists. “The question is does this represent a tectonic plate shifting or is this just another currency option?” asks Mark McCombe, chief executive of HSBC’s Hong Kong operations. “We have the ability to offer the renminbi for payroll,” he notes, “but nobody is using it.” The answer is somewhere in between. The renminbi’s attraction is primarily speculative.

China’s currency is viewed as a sure bet that will continue to appreciate against the US dollar, to which the Hong Kong dollar is pegged. Over the past year, the renminbi’s share of Hong Kong’s retail deposit base has rocketed from 0.1 per cent to about 4 per cent. Just before Christmas, the Hong Kong Monetary Authority, announced that renminbi deposits in the city had increased to Rmb280bn at the end of November, up 246 per cent in a year.

Chinese companies were first allowed to settle import and export deals in
renminbi in the middle of 2009. The number of mainland exporters eligible for cross-border renminbi trade settlement recently rose to 67,000 from only 365 as the People’s Bank of China (PBOC) sought to expand the scheme exponentially. Total renminbi remittance for cross-border trade settlement climbed to Rmb93.7bn in November from Rmb68.6bn in October. To boost renminbi availability overseas, Beijing has signed currency swap agreements with eight central banks – in Argentina, Belarus, Hong Kong, Iceland, Indonesia, Malaysia, Singapore and South Korea – totalling Rmb800bn ($121m). The HKMA is the only central bank known to have activated its swap. The authority drew down Rmb10bn of its Rmb200bn swap line in October, opening a new channel through which commercial banks in the city can obtain renminbi for clients. Banks such as HSBC and Standard Chartered have created renminbi-denominated investment products and arranged “dim sum” bond sales, so-named after the city’s famous culinary fare, for multinational companies.

Source: Rahul Jacob, Robert Cookson and Robin Kwong: Hong Kong used as lab in currency experiment, Financial Times, January 17, 2011

**Renminbi not undervalued as real exchange rate increases: UN expert**

The Chinese currency is not undervalued, if measured with Real Effective Exchange Rate (REER) based on Unit Labor Cost (ULC), a better way to grasp changes in competitiveness than looking at nominal exchange rate and REER based on Consumer Price Index (CPI), the United Nations Conference on Trade and Development (UNCTAD) said on Tuesday. In a press conference presenting UNCTAD's recent surveys and findings, Heiner Flassbeck, Director of UNCTAD's Division on Globalization and Development Strategies, said according to his calculation based on the ULC oriented approach, the Chinese currency "is not undervalued", but rather, "it has appreciated quite significantly in the last ten years."

According to UNCTAD, China's ULC based REER nearly doubled since 1995, in contrast with the CPI based REER, which increased only around 30 percent, and the gap depicted a widening trend. UNCTAD considers ULC a more reliable tool in calculating China’s REER, as more than 60 percent of all Chinese exports emanate from affiliates of foreign firms. The UN agency also attributed the trade imbalance between China and other nations primarily to FDI and foreign firms dominated export and import behavior, which gives foreign investors absolute competitive advantage and incredible margins by combining their high technology with cheap local labors.

Source: Xinhua: Renminbi not undervalued as real exchange rate increases: UN expert, 2011-01-19

**Hu defends Beijing’s currency policy**

Hu Jintao, China’s president defended Beijing’s currency policy, telling business audiences in Washington that the Chinese economy had helped create 14m jobs globally. Speaking on Thursday after U.S. congressional leaders complained about the Chinese currency being undervalued, Mr. Hu said the export of “quality and inexpensive” products had saved US consumers $600bn, although he did not specify over what time period.

After Barack Obama stressed on Wednesday the role that the US military presence had played in underpinning prosperity in Asia, Mr. Hu said that the two countries should co-operate more closely in the region. “We should turn Asia-Pacific into an important region where the US and China work closer together, on the basis of mutual respect,” he said.

Chinese sovereign debt to be sold in Japan

Japan’s army of small investors will this month get their first taste of renminbi-denominated Chinese government bonds when Monex, the country’s largest online brokerage, becomes its first distributor of such debt. Monex is betting that the intensifying speculation that Beijing will allow its currency to appreciate over the next few years will encourage wealthy Japanese individuals to buy the three-year debt. Société Générale estimates that the renminbi will appreciate by 13 per cent from current levels over the next three-to-five years to Rmb5.75. The bonds are a portion of Beijing’s Rmb8bn debt issuance in Hong Kong last December, of which there was a Rmb2bn portion of three-year (Y25bn, $303.6m) bonds.

Risk-taking Japanese retail investors have long been keen buyers of assets denominated in high-yielding currencies as chronic deflation at home has kept rates close to zero for years, forcing them to seek returns overseas. Monex is expanding in Asia, and last year acquired Hong Kong’s Boom Securities and created a holding company in the territory. Oki Matsumoto, chief executive, has said he plans to relocate some of his research staff there to benefit from a more international environment. Separately, Diam, one of Japan’s largest asset managers, will in February launch a renminbi-denominated bond fund that will include government, government agency, international agency and corporate debt. Monex will distribute the fund.

Source: Lindsay Whipp in Tokyo: Chinese sovereign debt to be sold in Japan, Finanial Times, January 20 2011

Processing industry at root of trade imbalance

Even a large appreciation of the yuan will not substantively reduce China's trade surplus with the United States, as US operations in China are the major source of the bilateral trade imbalance, said a vice-minister of commerce on Wednesday. "Any adjustment to the yuan exchange rate will have a limited impact on decreasing the trade surplus with the US," said Jiang Yaoping, vice-minister of commerce, at a forum held in Beijing. The US has been pushing China to allow its currency to rise during the past year thanks to the huge trade deficit, despite the rising yuan during the second half of 2010.

But Jiang said the real beneficiary of the surplus is the US. "About 80 percent of China's trade surplus with the US is created by US multinationals operating in China," he said. From January to November of last year, China's trade surplus with the US grew by 28 percent from a year earlier to $167.31 billion, said the General Administration of Customs. Meanwhile, the yuan had appreciated by more than 3 percent in 2010 after China removed its two-year peg against the dollar. Since the financial crisis, critics claim that China is the major source of the global trade imbalance.

At the forum, Jiang said that a large part of the trade imbalance could be explained by the "processing industry", in which multinational firms import intermediate goods from other countries and assemble them as finished products in China before exporting them overseas. As a result, despite contributing only a portion of the manufacturing process, the finished product is recorded entirely as a Chinese export. "Multinationals, especially those in the laptop sector, create more than 80 percent of the surplus, and the export of laptops contributes to about half of China's surplus in the processing trade," said Jiang. According to the ministry, 95 percent of laptops worldwide are assembled in China. While their US counterparts earn over 50 percent of the profits, Chinese original laptop manufacturers earn about 4 to 5 percent. Through its monopoly in the ownership of technology and software, it is the US that occupies the top end of the value chain, Jiang said.
World News: **China Gives Nod To Foreign Firms**

China is aiming to strengthen its ties with the European Union, its biggest trade partner, amid continued pressure from Washington to let its currency, the yuan, appreciate faster to reduce trade imbalances with the U.S. "We hope that the EU will relax restrictions on high-tech exports to China, promote the improvement of international trade and financial regime, and develop trade relations that are balanced and sustainable," China Vice Premier Li Keqiang said.


**New rules for China's overseas contractors**

The Chinese government will introduce new guidelines to strengthen its efforts in improving and regulating the performance of overseas project contractors, a move that will help companies establish their brands, said a vice-minister of commerce on Wednesday. "Chinese overseas project contractors should strive to maintain a balance between quantity and quality in developing overseas contracted projects. So they can build their brand and forge their edges in the long term," said Chen Jian, vice-minister of commerce. He also said the government will establish a long-term mechanism to provide information service for the companies to easily adapt to the local customs and avoid cultural conflicts. "New rules will be implemented by the government to complement the current regulation system, so that all Chinese companies will abide by the rules and fulfill their share of social responsibilities," Chen said. In addition, companies are urged by the vice-minister to optimize their development mode and move upward along the value chain. According to Chen, more and more Chinese companies will have business opportunities abroad since the global industrial restructuring is still underway and emerging economies are keen on improving their infrastructure. However, the rising number of labor disputes has prompted the government to step up efforts to enhance regulation of those companies' behavior overseas.

China's overseas project-contracting business maintained a rapid growth for the last few years and played an important role in the country's economic growth. It now absorbs more than 3,000 companies, with projects scattered all over the world. According to the ministry data, agreements worth more than $130 billion were signed in 2010, up 3 percent year-on-year. The annual turnover jumped by 16 percent year-on-year to more than $90 billion. Despite the rapid development, Chinese companies have only a limited market share in the global market and there is considerable room for future expansion, Chen said.


**China to be U.S. largest trading partner in a decade: Geithner**

China is expected to become the United States' largest trading partner in about 10 years and their economic ties are bringing "huge benefits" to Americans, US Treasury Secretary Timothy Geithner said Friday. "It's very important to understand that this is a relationship with very substantial economic benefits to the United States," Geithner said at a White House briefing. The secretary said that the US exports to China passed the $100 billion mark in 2010. "They are growing at about twice the pace of our exports to the rest of the world," he said. "What that means is our exports to China will double in the next four to five years, and that means China is likely to
become our largest trading partner sometime roughly 10 years from today." The two economies are each other's second largest trading partner now. "The opportunities American companies enjoy in China are expanding quite substantially," he said.

On the other side, China will talk about their concerns and their expectations for how to make sure they have continued access to US technology and US markets, he added.

Source: Xinhua: China to be US largest trading partner in a decade: Geithner, 2011-01-15

Trade surplus set to decline below $100 billion in 2011

China's trade surplus will decline to less than $100 billion, and imports will grow at nearly twice the rate of exports in 2011, Wei Jianguo, secretary-general of the government think tank, the China Center for International Economic Exchanges (CCIEE), told China Daily in an exclusive interview. Wei urged the government to utilize imports as a major tool for economic restructuring in the 12th Five-Year Plan (2011-2015). "Imported products will help to boost domestic demand in China," he said. "The government should increase raw material imports, especially soybeans, oil, steel and copper," said Wei. Imports of consumer goods, such as wine, cosmetics, and jewelry, also need to be increased, he said. China's imports in 2010 increased by 38.7 percent year-on-year to $1.39 trillion, and the value of exports was about $1.58 trillion, resulting in a surplus of $183.1 billion, said Yao Jian, spokesman for the Ministry of Commerce on Tuesday.

Many export-oriented processing companies in the provinces of Guangdong, Fujian, Zhejiang and Jiangsu will face increasing difficulties this year, because of soaring raw material prices and increased labor costs, Wei said. He suggested accelerating the development of technology-intensive trades in services, such as offshore software outsourcing and business-process outsourcing, which will reduce energy consumption and raise the employment rate for university graduates.

Source: Chen Jia: Trade surplus set to decline below $100 billion in 2011, China Daily, 2011-01-21

Trade measurement skews deficit

Many US politicians have raised their tones in criticizing China's huge trade surplus to the United States, claiming cheap products imported from China have squeezed many US citizens out of jobs. But that did not prevent many US technology firms from increasing their production capacities in China. During the past few years, US companies including Dell and Hewlett-Packard have accelerated their pace in expanding production capacity in China, especially in the western part of the country, which is a priority in China's development. Those moves, though benefiting both US consumers and Chinese workers, have unfairly pushed China to the center of US criticism, with claims that many of the products US firms produce contribute to China's exports to the US, according to industry experts. In 2009, the world's biggest PC maker, HP, launched a new laptop manufacturing base in Chongqing in Southwest China, with an annual production capacity of 24 million units. Its competitor, Dell, in August last year also kicked off its second operation center in neighboring Chengdu, Sichuan province. The investment helped China's exports of computer products in November grow 42 percent year-on-year to $197 billion, compared to only 13-percent growth in China's PC market in the third quarter of last year.

Xing Yuqing and Neal Detert, researchers at the Asian Development Bank Institute, a think tank in Tokyo, said in a research note published last month that the traditional ways of measuring global trade have presented "a distorted picture" which fails to reflect the complexities of global commerce. The research uses iPhone as an
example, which in trade statistics is considered a Chinese export to the US, although the popular smartphone is actually designed and owned by a U.S. company and is made largely of parts produced in several Asian and European countries. "Most of the bilateral deficit associated with iPhone trade did not originate in China, as Chinese workers contributed a very small portion of the added value to an iPhone sold in the market," Xing and Detert said in the research. They calculated that the estimated $178 wholesale cost of the shipped phone was credited to China under the current trade measurement, even though the value of the work performed by Chinese workers accounted for just 3.6 percent, or $6.50, of the total. Although it is hard to estimate the real trade figures between the US and China, Lamy said if trade statistics were adjusted to reflect the actual value different countries contributed to a product, the size of the US trade deficit with China - more than $226 billion according to US figures - would be only about half of official figures.

Source: Wang Xing: Trade measurement skew deficit, China Daily, 2011-01-22

‘Made in China’ tells us little about global trade

As recently as 30 years ago, products were assembled in one country, using inputs from that same country. Measuring trade was thus easy. 2011 is very different. Manufacturing is driven by global supply chains, while most imports should be stamped “made globally”, not “made in China”, or similar. This is not an academic distinction. With trade imbalance causing friction between leading economies, the measures we use can gravely exacerbate geopolitical tensions at a time when cooperation is more vital than ever. International trade is currently measured in what is known as gross value. The total commercial value of an import is assigned to a single country of origin, as the good reaches customs. This worked fine when economist David Ricardo was alive 200 years ago. Now what we call “made in China” is indeed assembled in China, but its commercial value comes from those numerous countries that precede its assembly. It no longer makes sense to think of trade in terms of “them” and “us.”

This is not to suggest that all international trade tensions will vanish overnight if we change the way trade is measured. But if we are to debate something as important as trade imbalances, we should do it on the basis of numbers that reflect reality. A distorted trade picture can inflame bilateral relations, while raising anti-trade sentiment at a time when protectionist pressures are already rising. Apple’s iPhone illustrates this clearly. It is assembled in China, then exported to the US and elsewhere. Yet the components come from numerous countries. According to a recent Asian Development Bank Institute study, the phone contributed $1.9bn to the US trade deficit with China, using the traditional country of origin concept. But if China’s iPhone exports to the US were measured in value added – meaning the value added by China to the components – those exports would come to only $73.5m. It isn’t just phones. Automobiles, aircraft, electronics – even clothing – are increasingly made in many countries. No car or commercial jet could now be built with inputs from just one country. Business leaders also know that new trade frictions are especially damaging in an era of global supply chains. Import duties, red tape or other delays or costs in the delivery of inputs means higher costs. And our traditional trade statistics make such frictions much more likely.

The statistical bias created by attributing commercial value to the last country of origin perverts the true economic dimension of the bilateral trade imbalances. This affects the political debate, and leads to misguided perceptions. Take the bilateral deficit between China and the US. A series of estimates based on true domestic content can cut the overall deficit – which was $252bn in November 2010 – by half, if not more.

Measures we use also change the way trade affects jobs too. Research on Apple’s iPod shows that out of the
41,000 jobs its manufacture created in 2006. 14,000 were located in the US. Some 6,000 were professional posts. Yet since US workers are better paid, they earned $750m, while only $320m went to workers abroad. Indeed, the iPod may have never existed if Apple had not known that Asian companies could supply components, while both Asian workers and Asian consumers would manufacture and buy it. Statistics that measure value added can provide a more reliable way of seeing how trade affects employment.

Different means of calculating trade is relevant well beyond the US and China. Thinking about trade in value-added terms can take us beyond the politics of bilateral trade balances. Seen this way, trade shifts from a one-to-one balance into a network of value-added chains, where interdependence dominates and everyone can win. Most importantly, it will help policymakers, and their populations, see the need for stronger multilateral trade co-operation – and the global growth and jobs they can bring.

Source: Pascal Lamy: ‘Made in China’ tells us little about global trade, Financial Times, January 24 2011

The writer is director-general of the World Trade Organisation

**US will lose business if export controls remain in place**

The United States will probably allow huge business opportunities to go to European Union (EU) countries and Japan if it refuses to rescind controls on exports to China as soon as possible, according to Chinese government officials. The comments came at a monthly forum on China-US Economic Relations held by the China Center for International Economic Exchanges (CCIEE) - a high-level business thinktank - on Wednesday. Wei Jianguo, a former vice-minister of commerce, and now secretary-general of the CCIEE, urged the US to quickly reduce restrictions on high-tech exports to China in a bid to narrow the trade surplus, an issue that has become central to bilateral trade conflicts. "The sooner the US does it (loosens the restrictions), the more leverage it will gain in the future and the more commercial benefits it will gain otherwise, the business opportunities (in terms of high-volume Chinese imports of high-tech products) will naturally slip away to other nations, including those in the EU and Japan," said Wei. During the 3rd China-EU High-Level Economic and Trade Dialogue held in Beijing in December, the EU agreed to set up a working panel to examine boosting high-tech sales to China. A meeting on the issue is expected to be held early this year, after the two sides reached a consensus on increasing cooperation on high-tech trade.

The export of high-tech products to China, for both military and civilian use, has long been forbidden by the US despite repeated calls for change. During President Hu Jintao's four-day visit to Washington last week, China again made a proposal on the issue during the bilateral high-level meeting. Although China signed a series of agreements on purchasing US goods worth as much as $45 billion, no progress was made on the issues of export controls. "US exports to China would easily increase if such a restriction did not exist." said Sun Zhenyu, the former Chinese ambassador to the World Trade Organization, at the forum. Some US companies have also agreed with that statement. "Both the US and Chinese governments have to look at reducing controls, because erecting barriers cannot be the answer to US need to create jobs and prosperous growth," said Mark Norbom, president of General Electric China. GE, the largest US industrial company by market value, announced a number of deals with Chinese groups last week that will create about 4,500 jobs in the US, including the formal signing of a joint venture agreement with the Aviation Industry Corporation of China to set up a 50-50 joint venture to provide avionics for the new Chinese C919 airliner.

Source: Ding Qingfen: US will lose business if export controls remain in place, China Daily, 2011-01-27
Guest Column: **How Germany can compete with China**

When it comes to competition in global markets, especially in exports, China and Germany are increasingly on a collision course. Germany was the number one exporter from 2003 to 2008. In 2009 China overtook Germany to become number one — and it will stay there. In 2010 both nations again showed strong export growth and defended their positions, well ahead of the US in exports. With remarkable similarities between Chinese and German exporters, the competition will be tough.

Why is Germany, a comparatively small country, so strong in exports? The explanation lies in its “hidden champions”, little known mid-sized world market leaders. My total count of these companies is around 2,500 worldwide, and 1,200 of them are from Germany. They alone account for about one quarter of German exports. Surprisingly I found a rather similar structure in China. 68 percent of all Chinese exports come from companies with fewer than 2,000 employees — not from large corporations. It is also amazing that China already has well over 100 hidden champions, probably more than highly developed countries such as France, the UK or Japan.

Globalization usually starts with exports and sales. Manufacturing follows, then R&D, and later on complete management functions. Most German companies are in the late stages of this process. They are not only building huge manufacturing sites in China, but also moving R&D for cheaper and simpler products there. Siemens and Bosch are well advanced on this path. Schenck Process, a world leader in industrial weighing and measuring processes, has even moved its complete competence centre for the mining industry to Beijing. The only way for German companies to remain competitive against the Chinese in the low-cost, low price-segment is to “become Chinese” themselves.

But we also see a movement in the opposite direction. The Chinese call it trading up. When I visited the concrete pump plant of Sany in Changsha, China, about a year ago, I was stunned. The first thing I saw in this ultra-modern plant were Mercedes and Volvo truck chassis. Expressing my astonishment, I got the reply, “We mount our concrete pumps on the best trucks in the world.” And it went on. I saw Deutz diesels, Bosch Rexroth hydraulics and controls from Siemens. Sany stated unequivocally that they use only world-class suppliers. A few months later I met Sany’s General Manager Europe in Cologne, near to which Sany is currently building a greenfield plant — the first Chinese plant in Germany. My “Why?” question again found an interesting reply: “Sany has to be in a world-class manufacturing location. If we want to become world-class we must be in direct contact with the best global manufacturing and engineering talent.” In 2009, Sany overtook Putzmeister from Germany as the global leader in concrete pumps. Sany is not a typical Chinese company, but it is a harbinger of things to come.


**China to double imports by 2015 to balance trade**

China's Minister of Commerce Chen Deming said at a panel discussion in DAVOS, Switzerland “China's imports will double during the coming five years”. “This (the doubling of imports) highlights China's commitment to balancing its foreign trade, and the nation's aim of shifting its economic growth mode to one driven by demand,” said Li Yong, assistant to the chairman of the China Association of International Trade. Chen Deming said the major task facing the commerce ministry in the next five years will be that of balancing trade by stimulating
imports and stabilizing exports. According to data from the customs service, China's imports for 2010 surged to $1.4 trillion, a rise of 38.7 percent from a year earlier. Imports related specifically to new energy, new materials, energy saving, high-end equipment manufacturing, low-carbon technology, aerospace, shipbuilding and rail transportation will also be a focus. Chen also said he has consulted with his US counterpart to seek a doubling of US exports to China, amounting to $200 billion by 2015.

Source: Fu Jing and Ding Qingfen: China to double imports by 2015 to balance trade, China Daily, 2011-01-29

Cost of Doing Business in China Rises

Two recent PRC government policies will increase the cost of doing business in China, a top concern of many US companies. The recently passed Social Insurance Law will soon require foreigners working in China to participate in China's social insurance system. Separately, a new PRC State Administration of Taxation notice required foreign companies to pay education and urban maintenance and construction taxes beginning Dec 1, 2010. The Social Insurance Law, which will take effect Jul 1, 2011, consolidates previous regulations on pensions and health, work injury, unemployment, and maternity insurance. Also contributing to rising costs in China, foreign companies were required to pay education and urban maintenance and construction taxes starting Dec 1, 2010, according to an October 2010 State Council notice.


Effective Public Relations in China

Communicating a message effectively in China requires understanding the subtly moving parts of the country's complex operating environment. Government-controlled media, the Chinese Communist Party's interests, economic reforms, and rapidly expanding Internet use all affect corporate communications strategies in China. To maintain effective public relations (PR) in China, foreign executives should be open to challenges, and understand that engagement in China is much more complex than in almost any other business environment. China's Internet community is among the fastest growing in the world. China had roughly 420 million Internet users, or netizens, in June 2010, and the number is increasing rapidly. Context and experience in many markets, including the US, suggests the need for a different approach to engagement in China. Effective PR in China requires taking into account the full context, embracing complex issues, and engaging stakeholders at various levels. Foreign companies can learn from the iron rooster incident, including by developing PR strategies in China that factor in local market conditions.


Finance And Economics: Hope over experience; Investment banking in China

Stymied by a series of rejections for its own offshore acquisition efforts and stung by growing complaints over how it treats foreign firms, Chinese officials have spent recent months proclaiming that, despite a few misunderstandings, their country is open for business. On January 7th JPMorgan and Morgan Stanley made announcements that seem to back these claims: after years of petitioning, the Chinese government had at last granted them permission to enter the country's domestic securities market. In theory, and perhaps only theory, the
approvals are highly significant. They are the first for an America bank since 2003 and will result in the two global giants joining a small group of foreign banks allowed to underwrite in China's domestic markets. Others are desperate for access. The new approval for JPMorgan and Morgan Stanley allows them into the domestic market only through one-third stakes in joint ventures to be carved out of two of China's smaller securities firms. And not only will they be mere bit players in bit players: the government has imposed operating limits. For the next five years the joint ventures will be able to underwrite but not trade securities.


**China economy: Quick View - Foreign investment surge continues**

China has been attracting large amounts of FDI for some years, and the Economist Intelligence Unit expects inflows to remain relatively high. The country is still ranked by many international firms as their preferred investment destination. The stock of inward FDI was equivalent to an estimated 11.7% of GDP, a relatively high level, in 2009.

Foreign direct investment (FDI) in China rose to a record in 2010, according to figures released by the government on January 18th. FDI in 2010 totalled US$105.7bn, up 17.4% from 2009. Rising Chinese incomes mean that FDI is increasingly focussed on satisfying domestic demand, assuaging fears that rising wages could dent China's attraction for foreign companies seeking a cheap production base.

![Table] China: Foreign direct investment (% change, year on year for the year to date)

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**GE expects double-digit growth in China**

General Electric expects “solid double-digit” sales growth in China this year and “for a long period of time”, although revenues there have fallen short of expectations, chief executive Jeff Immelt has said. The US’s largest industrial group by market value has this week announced a series of deals with Chinese groups that it says will sustain or create about 4,500 jobs in the US, including the formal signing on Friday of a joint venture agreement with Aviation Industry Corporation of China (Avic) to set up a 50/50 joint venture to provide avionics for the new Chinese C919 airliner.

One principal concern of foreign businesses in China has been the “indigenous innovation” policy, which favours those with Chinese-owned intellectual property when bidding for contracts for the government or state-controlled bodies. Mr Immelt said Mr Hu had explained that foreign companies with facilities in China would be “able to compete toe-to-toe with everybody else” for government procurement. GE established a technology centre in Shanghai, and last year promised a further $500m for regional innovation centres.


World News: **Chinese Investing Overseas Gets Easier**
The eastern Chinese city of Wenzhou, in a pilot program, will let residents invest directly overseas, a small liberalization step that is part of a wider effort by China to reduce controls on its currency. Wenzhou residents will be allowed to invest up to $200 million a year, though investment in a single project can’t exceed $3 million, according to a statement posted on the website of the Wenzhou Foreign Trade and Economic Cooperation Bureau. Tycoons from the city have already found ways to invest their cash in the far corners of the world, from textiles in Italy to trucking ventures in Africa. Since the new measure is focused on one city -- albeit a prosperous one -- its larger impact is likely to be limited.