China News in Brief
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China economy slows a bit. The 9.5% increase in the second quarter is down from 9.7% in the first quarter, but the pace is still robust.

GDP growth rates face of hard landing

Consumption set to gradually rise

Preparing for the (Possible) China Crash

Provinces report robust GDP growth in H1

China’s Market-Oriented Reforms in Retreat

No state bailout needed for local debt

Diagnose and Cure for Local Government Debt

Creditability costs Chinese firms 92% annually

Chinese banks’ bad debt units prosper

Microfinance firms lend $9.4b yuan in H1

China Commercial Banking Report - Q3 2011

Bank regulator warns of private lending risks

SMEs face difficulty despite boost in GDP

China’s social financing reaches $1.19t in H1

China’s tax revenue surges 26.6% in H1

Income growth contributes to higher income tax revenue

China to expand resource tax reform pilot

Chinese Firms Account for 61% of Global IPOs

China concepts stocks will survive: Analyst

China’s ceiling IE

China’s H1 power consumption up 12.3%

Hit by Energy Shortages, China Looks at Nuclear Safety

Nations clamp down on resources

More funds to support medical reform

China faces challenges in tech development: Wen

Business: The mystery of the Chinese consumer: Consumer goods

Furniture importer under fire

Five sentenced for tainting pork

Incomes become more uneven in Beijing, Shanghai

Yao Ming honored as model for youth at farewell ceremony

The emerging cultural economy in Chinese cities: early dynamics

Property purchase limits extended to lower-tier cities

Mapping the innovation production process from accumulative advantage to economic outcomes: A path modeling approach

EU Views: China economy: An all-purpose lab

West China’s economy to grow 12% this year

Non-financial SOEs’ H1 profits up 22%

Complaints on rise vs 40% year on year in H1

China launches 1st intl railway standard

Ministry apologizes for high-speed train delays

Crash threatens China’s high-speed ambitions

Russia rail war of the Chinese

China orders overhaul of transportation safety

Equities sink after news of railway collision

Unanswered questions over rail dispatch system

Six suspects detained after deadly central China bus fire

Escalator safety in spotlight

Russia/China economy: Deepening economic ties

SAFE reiterates no direct forex loss on yuan’s rise

Hands slapped, The WTO and China

Local governments sign deals with US

INTERNATIONAL: Trade dynamics may curb ‘imbalances’

Russia and China haggle over price of gas

China’s FDI up 18.4% in H1

China economy: Recent JVs, contracts, MoUs and other agreements

Ugly Highway Crash for Chinese Firm in Poland

China calls on US to ‘protect investors’

China faces a dilemma in US Treasuries
China economy slows a bit; The 9.5% increase in the second quarter is down from 9.7% in the first quarter, but the pace is still robust.

Official data released Wednesday showed China's economy still grew by a blistering 9.5% April through June compared with the same period a year ago. That's down only slightly from the 9.7% in the first three months of the year, suggesting the country could face more government measures to cool the economy.

China's strict home-buying rules, aimed at stamping out property speculation, have also triggered a drop in real estate sales in the nation's most overheated markets. To mop up the deluge of liquidity created by a bank-led stimulus program, the central bank has raised benchmark interest rates five times since October and hiked the amount of capital banks must hold on reserve to record highs. The challenge for policymakers will be how much to tighten the economy without triggering a so-called hard landing, as some investors now fear.

Many analysts at Western banks have downgraded their growth forecasts for China this year but say the threat of a deep slump remains slim. Still, they warn that new risks such as growing municipal debt and stubborn inflation could threaten the Chinese economy in the near term without proper policy measures.

Source: Pierson, David: China economy slows a bit; The 9.5% increase in the second quarter is down from 9.7% in the first quarter, but the pace is still robust, Los Angeles Times [Los Angeles, Calif] 13 July 2011: .2.

GDP growth eases fears of hard landing

The economy grew 9.5 percent in the second quarter, beating expectations and easing concerns over a hard landing amid tight monetary policies targeting high inflation. The growth rate was higher than the 9.3 percent predicted by many economists. Other indicators also point to a soft landing for the economy. Gross domestic product (GDP) rose 9.7 percent year-on-year in the first quarter and 9.8 percent in the fourth quarter of last year. The figure for the first half of this year stood at 9.6 percent. "China's economy maintained steady and fast growth in the first half of 2011, strongly supported by the expansion of fixed asset investments, domestic consumption and exports," Sheng Laiyun, a spokesman for the National Bureau of Statistics (NBS), said on Wednesday.

Industrial output in June increased 15.1 percent from a year earlier, from 13.3 percent in May. The month-on-month growth rate was 1.48 percent, according to the NBS. Fixed asset investments rose 25.6 percent by the end of June from a year earlier, compared with 25 percent in the first quarter, easing market concerns about an investment slowdown. The consumer price index (CPI), a key inflation gauge, rose 6.4 percent in June, recording a three-year high. Premier Wen Jiabao said on Tuesday that maintaining price stability remains the top priority, and the government will stick to macro-control policies. The central bank has raised benchmark interest rates three times this year, to soak up liquidity, and hiked the reserve requirement ratio for banks, the amount they have to set aside, six times during this period. On Wednesday, the State Council also promised the government would take measures to promote the development of the live pig industry to bring down prices, including providing subsidies to
farmers. The decline of global commodity prices in June is expected to reduce imported inflationary pressure, Sheng said.

Source: Hu Yuanyuan and Chen Jia: GDP growth eases fears of hard landing, China Daily, 2011-07-14

Consumption set to gradually rise

China's household consumption rate will rise gradually, and experts said the government should improve the welfare system to increase consumers' willingness to spend. According to the National Bureau of Statistics, first-half retail sales reached 8.58 trillion yuan ($1.33 trillion), up 16.8 percent from last year. Figures from JP Morgan suggest that the consumption growth rate in the first quarter accounted for 60.2 percent of gross domestic product growth, up from 47.6 percent in the fourth quarter of 2009. "It suggests China is moving to a consumption-oriented economy, which will allow policymakers to consider more consumption-stimulating policies and welfare reform to achieve a soft landing of the economy," said Jing Ulrich, JPMorgan Chase & Co's managing director and chairman of global markets for China. "The consumption-to-GDP ratio will increase in the future."

China has long promoted an economic overhaul, seeking a balance between exports and an investment-oriented economy and a consumer-based economy that would allow it to reduce reliance on international markets. The government spent 4 trillion yuan to boost domestic consumption in the past three years, as well as to increase investment in high-speed rail and other infrastructure construction. The government also recently raised the personal income tax threshold to 3500 yuan from 2000 yuan to increase disposable incomes.

"The large population in China means there is huge potential for consumption. However, the relatively weak welfare system makes people afraid to spend. They are worried about having enough to maintain their standard of living in the event of a sudden change, such as illness," said Chen Wei, an expert from the Institute of Economics of the Shanghai Academy of Social Science. Chen also suggested that the government should devote more attention to manufacturers that target the overseas market. "For a certain period, the economy will remain rely on income from exports. The financial condition of manufacturing companies will directly affect workers' welfare, and it should not be ignored," said Chen. "The government should continue to promote affordable housing, but for those willing to buy high-end property, it should be allowed."

Source: Tang Zhihao: Consumption set to gradually rise, China Daily, 2011-07-14

Preparing for the (Possible) China Crash

Moody's Investors Service, the credit ratings agency, says China has underestimated by half a trillion dollars the exposure of state-owned banks' loan portfolios to local governments. Despite five interest rate hikes since October 2010, inflation is now running at 6.4%, the fastest since 2008. But the government is flush with cash and ready to prop up key banks and companies in case things get dicey. Yet bearish investors, such as James Chanos of Kynikos Associates, question whether China can beat inflation and stop over-investing in real estate projects and factories without triggering a hard landing. If a crash or slowdown occurs -- which most analysts define as growth below 7% -- it will be brought about either by inflation or a reversal in real estate. If apartment prices fall steeply, ordinary Chinese could lose their savings, and local governments will be unable to pay off the loans they took out to invest in residential and commercial projects.

Provinces report robust GDP growth in H1

Of the 31 provinces on the Chinese mainland, 28 reported GDP growths of over 10 percent in the first half this year, the Shenzhen Evening News reported Wednesday. GDP growths in 12 provinces even surpassed 13 percent year-on-year, the paper cited an unnamed source with the National Energy Administration. In the first six months of this year, GDP of Sichuan province went up 14.5 percent year-on-year, and that of Jiangxi increased 13 percent year-on-year. Guangxi saw its GDP rise 12.3 percent, and Fujian realized a 13.4 percent growth, the cnstock.com reported Wednesday. China's GDP grew 9.6 percent year-on-year in the first half of 2011, according to the National Bureau of Statistics.

Source: Yu Hongyan: Provinces report robust GDP growth in H1, China Daily, 2011-07-20 16

Economist: China's Market-Oriented Reforms in Retreat

China's "market forces have regressed" as government agencies have started to play a more obstructive role in resource allocation, Wu Jinglian, one of China's foremost economists, said on July 4. Although the state economy no longer contributes a major portion to gross domestic product, it maintains a monopoly in sectors like petroleum, telecoms, railways and finance, Wu said in a keynote speech in the opening ceremony of a global conference sponsored by the International Economic Association. Governments at various levels also have a huge hold over major economic resources such as land and capital, said Wu, who serves as a researcher of the Development and Research Center at the State Council.

China still lacks a legal foundation that is indispensable for a modern market economy. Government officials intervene in the market at their will through administrative means, said Wu. China's market forces gained vigor when the pricing of goods was liberalized in the early 1990s and millions of township enterprises were privatized at the turn of the last century, said Wu. Entering the 2000s, however, the reform of state-owned enterprises suffered a setback, and SOEs have inhabited an increasingly assertive role in the market at the expense of private businesses. "The government has acted more intrusively in the name of macro-economic regulation," said Wu.

In China, there have been two distinct views over the origins of China's rapid economic growth. One view attributes the achievement to the "China model" marked by the domination of the state economy and the forceful regulation over the economy by the government. The other view holds that the high-speed growth was the result of market-based reforms and the liberation of the entrepreneurial spirit of the people. For this question, Wu noted the current growth model is unsustainable and has been built on investment that exploits resources and damages the environment. Another consequence of strengthened government control over the distribution of resources and active intervention in economic activity is more corruption and a larger wealth gap, said Wu.


No state bailout needed for local debt

China's trillions of yuan of local government debt do not need the central government's bailout, a top Chinese banker said on Wednesday. Guo Shuqing, the chairman of China Construction Bank, said at an academic forum that the local government debt's impact on the banking industry is "not so big that a (central) government rescue is needed". To build much-needed infrastructure and stimulate economic growth in the wake of the 2008 financial crisis, local Chinese governments have borrowed massively and investors worry these loans could hobble banks.
and the economy if they sour.

China's state auditor has estimated that local Chinese governments have borrowed a total of 10.7 trillion by the end of last year. But Guo played down risks from the debt for his bank, China's second largest. "For my bank, I don't think it's a big problem," Guo told the forum. "We just choose the good projects, good companies. We also have a lot of measures to control the risk. Also these projects usually have very good cash flows," Guo said.

Source: Xinhua: No state bailout needed for local debt, 2011-07-07

Diagnoses and Cures for Local Government Debt

Trillions of yuan owed by local governments point to potential trouble ahead but opportunities for fiscal budget reform A clearer view of local government debt came into focus June 27 when the National Audit Office published its first survey of fiscal borrowing programs common across the mainland. That same week, Caixin reported that Yunnan's provincial government was struggling to pay back loans tied to a highway project, and sparking fears of a domino effect of defaults. Auditors concluded that China's local government debt risk is, on the whole, manageable. But in the view of analysts, the real risk lies not in the amount of debt but in its management. And this points to a worrisome habit at local government levels. Lax budget control has become a chronic problem for local officials accustomed to borrowing heavily to finance their operations. "Borrow first, ask questions later" is how many governments work.

The audit office says total local government debt reached 10.7 trillion yuan at the end of last year. The Ministry of Finance reckons the combination of central and local government debt now equals 43.9 percent of the nation's gross domestic product, which is a lot but still well below the 60 percent threshold that's generally accepted as safe internationally. China's increase in local government debt to record levels can, to a large extent, be traced to the 1997 Asian financial crisis and the 2008 global financial meltdown: Debt levels soared 48.2 percent between 1997 and '98, and nearly 62 percent between 2008 and '09, according to the central bank. The most recent crisis prompted local governments to borrow heavily to supplement a 4 trillion yuan, anti-recession stimulus package. The central government injected 1.18 trillion yuan and local governments provided the rest. The nationwide spending helped steady the economy and boost growth, but it also increased debt burdens for local governments.

But we've asked these questions before. Government debt problems are a legacy of contradictions connected to 30 years of government and financial reform in China. Fast debt growth has roots in systemic problems. For example, debt accumulation can be blamed on the slow pace of revenue-sharing reform among the nation's governments. The system hinges on diversions of local government tax revenues to central government coffers for nationwide redistribution. The goal is to equalize development spending among regions across the country. In fact, most funds transferred to local governments from the central government are one-time payments for specific projects. And in their effort to balance the interests of various regions, central government officials often end up allocating only a portion of what's needed for a specific project. Local governments and other agencies are expected to finance the rest. In underdeveloped parts of central and western China, these local initiatives often rely on bank loans. The system makes it hard for local governments to control budgets. Transfers can comprise up to 60 percent of a local government's finances in some central and western regions. Moreover, the line between central and local responsibilities can be muddled when the central government decides how to spend the money. And the system leaves few incentives for local governments to improve their finance systems.

Many observers have called for the central government to let local governments issue municipal bonds. This
may be a beneficial move in the long run, but the first step should be mapping out a system-wide overhaul. We should not rush to introduce reform projects piecemeal. Yet surely there's need for action. Local governments nationwide must not ignore the warnings recently sounded by Yunnan's financial troubles. They should study the latest audit report which, after all, offers an important health check. Then, after completing the diagnosis, the next step will be to implement a cure. And the cure requires reform.


**Credibility costs Chinese firms $92b annually**

Chinese enterprises lose up to 600 billion yuan ($92 billion) every year due to a lack of business credibility, according to official data. About 200 billion yuan, or one third of the loss, was a result of consumers' lack of trust in product quality as data with the Ministry of Commerce shows, said Wang Zhongyu, president of China Enterprise Confederation, at a forum in Beijing on Sunday. Food scandals in recent years indicated that a lack of business ethics had caused the problem, said Wang. Wang called on enterprises to promote and maintain good ethics and establish effective supervision mechanisms to avoid wrongdoing.

Source: Xinhua: Credibility costs Chinese firms $92b annually, 2011-07-18

**Chinese banks’ bad debt units prosper**

When the four large state-owned banks in China began to establish units to hold their non-performing loans in 1999, the new asset management agencies’ mandate was to try to sell or collect on as many of these troubled assets as they could. They themselves were given a ten-year life and then expected to quietly close up shop. These units were meant to be a footnote, testimony to a time when the banks, including China Construction Bank, ICBC, Bank of China and Agricultural Bank of China, were arms of the state who served the state by making loans at the behest of the state and if those loans went wrong, that was the responsibility of the state rather than the banks themselves.

In the early days of the lives of these debt resolution units, (a group which includes China Cinda Asset Management, China Huarong Asset Management, China Great Wall Asset Management and China Orient Asset Management), foreign investors who converged on Beijing in the hope of buying troubled loans at a steep discount from these companies were disappointed at their apparent reluctance to sell. “The faster they got rid of the loans, the faster they would dig their own grave,” says one Hong Kong-based banker with extensive dealings with these firms. “Why would they want to die?” Now that reluctance to hold fire sales of loan portfolios looks prescient as many of the state-owned companies that borrowed the money are prospering, giving the units charged with collecting on the debts a new lease on life in turn. Today, the cash the asset management companies have collected whether from loan sales, interest on the loans or the equity they received through debt-for-equity swaps helps support a wide range of financial activities.

Since their inauspicious beginnings, all four of these units have embarked on a path that has taken them far from their original mandate of debt resolution units to becoming quasi-boutique investment banks. They all have arms to help them diversify; arms that may include leasing, securities brokerage, real estate and trust operations. Cinda, the arm of CCB, and Huarong, the platform of Industrial & Commercial Bank of China, are the furthest along in the process, according to people who have done business with them. Cinda, set up over a decade ago to deal with CCB’s bad loans, is looking for at least one strategic investor as a prelude to going public in Hong Kong.
as early as next year, according to four people familiar with the matter

Despite the size and expansion of the asset management companies – Cinda for example, has many branches and thousands of employees – they still aren’t very transparent. The government owns them and the money flows between the government and the banks from when the loans were taken off the banks’ balance sheet is still not totally clear, according to Carl Walter, co-author of Red Capitalism, who has tried to trace those flows.
Source: Henny Sender in Hong Kong: Chinese banks’ bad debt units prosper, Financial Times, July 19, 2011

Microfinance firms lend 89.4b yuan in H1

China's small-scale credit companies have issued a total of 89.4 billion yuan ($13.75 billion) of new loans in the first half of this year, the country's central bank said Tuesday. China has a total of 3,366 micro-financing firms by the end of June this year with outstanding small credit reaching 287.5 billion yuan, up from 3,027 companies three months ago, the People's Bank of China (PBOC) said in a statement on the website. Inner Mongolia autonomous region had 342 microcredit companies by the end of last month, the most among all provincial regions in China. Meanwhile, the provinces of Liaoning, Jiangsu and Anhui all have more than 200 such institutions. In the first half of this year, the country's financial institutions granted 4.17 trillion yuan in yuan-denominated loans, 449.7 billion yuan less than the same period of last year, said the PBOC earlier this month.
Source: Xinhua: Microfinance firms lend 89.4b yuan in H1, 2011-07-20

Bank regulator warns private lending risks

Liu Mingkang, the chairman of the China Banking Regulatory Commission (CBRC), urged all financial institutions of the banking industry to strengthen risk management and prevent and control platform lending risks, the People's Daily reported on Thursday. Liu said banks should normalize their personal financial services and keep an eye on risks in fields of private lending, online lending and small-amount lenders. Liu also demanded China's banking system to ensure property developers are closely examined. Companies involved in business such as agriculture, technology innovation, environment protection, and especially small and medium enterprises, should get more financial support.
Source: Ben Yue: Bank regulator warns private lending risks, China Daily, 2011-07-26

China Commercial Banking Report - Q3 2011

Three Scenarios For The ‘Big Four’ Banks China's banking system appears to be flying high, with earnings results for 2010 looking impressive and balance sheets in solid shape. We are concerned, though, that loan loss provisions are hugely underestimated and that the stability of the banking system depends on non-performing loans (NPLs) remaining well behaved, which has historically not been the case following policy-driven lending sprees. In this report, we outline the impact that more realistic NPL assumptions would have on the 'big four' banks. 2010: A Bumper Year, Or Was It? The following table shows some key financial variables for China's four largest banks in 2010 (Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China and Bank of China). Overall, profits came in strong at CNY73.8bn (US$11.30bn), with ICBC topping the list, and leverage ratios were decent, with equity equalling 6.1% of assets on the whole. On the surface, the results were strong, but we are concerned by the low loan loss reserves (LLR), which amounted to just 2.6% of total loans in 2010 for the big four banks. While this is above the official NPL rate of 1.1%, suggesting some margin for asset deterioration, it
strikes us as exceptionally low for a banking system that extended credit by almost 60% (and 61.2% for the big four) over the previous two years. To give some basis for comparison, the last time a similar lending spree took place in the early 1990s, the NPL ratio was closer to 35%.
Source: BMI Industry Report: China Commercial Banking Report - Q3 2011, ISSN 17478537, Publication Date: Third Quarter 2011

**SMEs face difficulty despite boost in GDP**

The steady increase in gross domestic product (GDP) in the second quarter does not mean that the challenges for small- and medium-sized enterprises (SMEs) are less, analysts and entrepreneurs said. After a series of tightening measures the government has put in place since October, including five interest-rate increases, tighter bank loans, the restrictions in real estate market, operating SMEs has become much tougher. "The biggest victims of those tightening measures are small and medium-sized enterprises all over the country because of the increases in labor and raw-material costs and difficulty getting bank loans," Chen said.

To solve the problem, more support policies were needed. "The decrease of international orders and the 30 percent increase in labor and material costs have put enough pressure on SMEs so that the municipal government in Wenzhou encouraged companies look abroad for better opportunities," said Zheng Chenai, the chairman of Wenzhou Chamber of Clothing Commerce. Zheng added that SMEs have to face these challenges with the tighter government policies and only the most competitive ones will survive. "The current economic structure is not very balanced because it pays too much attention to certain fields to benefit the State-owned companies and ignores the SMEs, especially in the allocation of bank loans," Chen said. Chen added that SMEs should be given more opportunities by allowing private capital to enter the financial market and loosening policies to benefit all enterprises in all industries. "The cash flow of certain SMEs has been invested in the real estate market so I suggest that the government could encourage them to keep their focus on production instead of investing in financial products," said Ding Ningning, a research fellow at the Development Research Center of the State Council.
Source: Yu Ran: SMEs face difficulty despite boost in GDP, China Daily, 2011-07-14

**China's social financing reaches $1.19t in H1**

China's social financing, a broad measure of funds raised by the entities in the real economy, reached 7.76 trillion yuan ($1.19 trillion) in the first half of this year, the central bank said on Friday. The figure was 384.7 billion yuan less than the same period a year ago, the People's Bank of China (PBOC) said on its website. The notion of social financing was raised by the central bank at the end of last year to reflect increasingly diversified sources of financing which included not only bank lending but also direct financing from non-bank sources such as stock and bond markets.
Source: Xinhua: China's social financing reaches $1.19t in H1, 2011-07-15

**China's tax revenue surges 29.6% in H1**

China's tax revenue rose 29.6 percent year-on-year to exceed 5 trillion yuan ($769.66 billion) in the first half of the year, the Ministry of Finance (MOF) announced on Tuesday. The rate of increase was lower compared with the 32.4-percent rise in tax revenues in the first quarter of the year. The ministry attributed the tax revenue increase in the first six months to improvements in the profitability of the country's enterprises, which have been buoyed by
rapid economic growth. Inflation has also played a role in the surging tax revenues, as most of China's taxes are calculated using current prices, the ministry said in a statement on its website.

The country's economy increased by 9.6 percent year-on-year in the first half of the year. Inflation hit a three-year high of 6.4 percent in June, despite the government's efforts to ease price rises. From January to June, revenues from value-added taxes, which account for 24.8 percent of the country's total tax revenues, grew by 19.7 percent from a year earlier to reach 1.24 trillion yuan, the ministry said. Revenues from personal income taxes and tariffs climbed 35.4 percent and 32.1 percent year-on-year, respectively, in the first six months, it said.

Source: Xinhua: China's tax revenue surges 29.6% in H1, 2011-07-19

Income growth contributes to higher income tax revenue

China collected 355.48 billion yuan of personal income tax revenue in the first half of this year, up 92.9 billion yuan or 35.4 percent year-on-year, said the Ministry of Finance on July 14, 2011. A great surge in the amount of personal income and strengthened measures to levy and manage personal income tax were the main reasons for the growth, according to the ministry. "The original personal tax threshold of 2,000 yuan was made in 2007, while income of rural and urban residents has increased a lot each year since then, which makes the soaring personal income tax revenue," Sun said. Chinese people's tax burden is not heavy, but within a reasonable range, reported the paper, citing Wang Chaocai, the deputy director of the Research Institute for Fiscal Science under the Ministry of Finance.

Source: Zhao Tingting: Income growth contributes to higher income tax revenue, China Daily, 2011-07-15

China to expand resource tax reform pilot

China will expand the range of taxable resources to additional natural resources beyond just oil and gas, Shanghai Securities News reported Monday. Guo Xiaolin, vice-director of the general office of the State Administration of Taxation, told the newspaper that the resource tax reform proposal has been submitted to the State Council, which plans to impose a resource tax nationwide instead of just in pilot locations and according to prices instead of amount. Jia Kang, director of the Research Institute for Fiscal Science under the Ministry of Finance, said the second half of this year could be a good time to expand the range of taxable resources if inflation does not get worse.

Source: Ben Yue: China to expand resource tax reform pilot, China Daily, 2011-07-18

Chinese Firms Account for 61% of Global IPOs

Chinese companies raised a total of US$ 35 billion through initial public offerings during the first half of this year, accounting for 38.9 percent of total fundraising by IPOs worldwide. According to Beijing-based research firm Zero2IPO, 207 Chinese companies went public in domestic and international markets in the first half of 2011, accounting for 61.1 percent of the world's total. Average fundraising for each Chinese company stood at US$ 169 million, compared to the average of US$ 415 million raised by non-Chinese companies. Among the 207 companies, 167 are listed in domestic bourses while 40 are listed in overseas markets. Chinese companies listed in domestic bourses raised an average of US$ 158 million, while those listed overseas raised US$ 213 million on average.

Source: Zhang Huanping: Chinese Firms Account for 61% of Global IPOs, Caixin (China Economics & Finance) Weekly, 2011-07-08
China concepts stocks will survive: Analyst

Stocks of Chinese companies that traded overseas will survive the accounting scandal and shorting crisis, an analyst told chinadaily.com.cn in Beijing on Sunday. The analyst, surnamed Li, said in a salon held in Peking University that overseas investors had begun to differentiate good apples from bad apples and pick them out. This can be seen from the NASDAQ China Index, which has gained some lost ground since the accounting scandal hit the market. The independence and morality of US short seller Muddy Waters, who borrowed stocks in the anticipation of selling them and buying them back at a lower price, is worthy of doubt as on one hand the company released negative reports about Chinese companies and on the other hand, shorted these companies, said Li. Li said the shorting mechanism is not well-established in the Chinese mainland and, despite recent changes, current regulations allow only 91 of more than 2,000 companies to be shorted, and many of these are industry-wide leaders and not good candidates for short selling. If the shorting mechanism was expanded, many problems of A-share listed companies would be exposed to the public in the same way as their peers listed overseas, Li said.
Source: Song Jingli: China concepts stocks will survive: Analyst, China Daily, 2011-07-12

China's ceiling: IE

An economic analyst says the Chinese economy will lose its cost advantage over US manufacturing by 2016. But the average worker's wage in China is growing 17% annually, compared to 3% in the US. And as Chinese become wealthier, the nation's consumer market will demand attention that manufacturers currently lavish on their export markets. China's distribution system is focused on exports, making it less useful to serve its residents, while the US distribution system is well-configured for domestic and export markets.

China's NDRC further reform on jet fuel pricing

National Development and Reform Commission issued notice on jet fuel pricing reform. By the notice, the ex-works price of jet fuel will not exceed the price of Singapore market-imported CIF plus applicable tax and will be decided by the supply and demand parties through consultations. The ex-works price will be comprised of Singapore market CIF plus applicable tax and certain discount, out of which the discount will be consulted once a year. The ex-works price will be adjusted once a month. The new mechanism will be implemented since the 1st of August, marking a big step forward towards market reform.
Source: China's NDRC further reform on jet fuel pricing, China Business News [Shanghai] 21, July 2011.

China's Internet users reach 485m by June

The number of people surfing the Internet in China rose to 485 million by the end of June this year, up 6.1 percent from the end of last year, the China Internet Network Information Center (CNNIC) announced Tuesday.
The increase of 27.7 million over the six-month period was smaller than the increase of 36 million during the same period last year, the CNNIC said. The number of microblog users surged by 208.9 percent to reach 195 million by the end of June, it said. About 65.5 percent of China's Internet users, or 318 million people, use mobile phones to surf the net, an increase of 14.94 million from the end of last year, it said.

Source: Xinhua: China's Internet users reach 485m by June, 2011-07-19

**China Agency Says Threat To Ecosystem Is 'Grave': [Foreign Desk]**

China's three decades of rapid economic growth have left it with a "very grave" environmental situation even as it tries to move away from a development-at-all-costs strategy, senior government officials said on Friday. In a blunt assessment of the problems facing the world's most populous country, officials from the Ministry of Environmental Protection delivered their 2010 annual report. They pointed to major improvements in water and air quality -- goals that the ministry had set for itself over a five-year period ending in December. The targets were met, with pollutants in surface water down 32 percent, and sulfur dioxide emissions in cities down 19 percent.

But officials cautioned that many other problems were serious and scarcely under control. "The overall environmental situation is still very grave and is facing many difficulties and challenges," said Li Ganjie, the vice minister. Mr. Li said biodiversity was declining with "a continuous loss and drain of genetic resources." The countryside was becoming more polluted, he added, as dirty industries were moved out of cities and into rural areas.

Mr. Li said reversing the countryside's deterioration was a major focus for the coming five-year plan. He also pledged to control contamination by heavy metals, which resulted in nine cases of lead poisoning last year and seven more in the first five months of this year. He said China needed a law to regulate heavy metals, and he was confident it would be written and passed soon.

But the signs are growing that environmental neglect is causing instability. Protests in Inner Mongolia last week were partly due to concerns that industries like coal and mining -- largely dominated by ethnic Chinese -- are destroying the grasslands used for herding by the indigenous Mongolians. Similar conflicts have arisen in other sensitive ethnic areas like Tibet and Xinjiang. "In some of these areas that are very fragile, we will strictly limit development," Mr. Li pledged. He said that more than a fifth of the land that has been set aside as nature reserves had been illegally developed by companies, often with local government collusion. But he said the ministry had deployed a satellite that could detect illegal development and would put pressure on local governments to stop the work. Failing this, Mr. Li said, the ministry has the power to influence officials' prospects for promotions because environmental compliance is now a part of their performance evaluation.

Recently, the ministry canceled a high-speed train line that had not obtained its approval. Last year, Mr. Li said, the ministry turned down 59 projects worth $15 billion that had not obtained its approval. Well-connected ministries were once able to bypass the environmental ministry, but now, Mr. Li said, it had set up "an impassable firewall" to block harmful projects.


**China to launch carbon trading pilot project**

China will start a pilot carbon emissions trading project, and gradually set up a carbon emissions trading market, said a top climate change official at a major international conference on Sunday. Speaking at the
Eco-Forum Global (EFG) 2011 in Guiyang, capital of Southwest China's Guizhou province, Xie Zhenhua, vice-minister of the National Development and Reform Commission (NDRC), the country's top economic planner, said China would also speed up the establishment of a standardized system for energy saving and environmental protection, and tighten regulations on identifying and labeling low-carbon products.

For example, China was determined to straighten out prices of resource-based products, further applying differential power pricing and punitive electricity tariffs, he added. The government would provide more incentives, such as preferential taxation policies, for companies to develop energy-conservation technologies and products, according to Xie. China would also continue to boost financial support for green energy and manage growth in energy-intensive industries, said the vice-minister.

Source: Qiu Bo and Yang Jun: China to launch carbon trading pilot project, China Daily, 2011-07-18

Circular economy investment up

The Chinese government will double its investment in the circular economy this year to 2 billion yuan ($300 million) to support the national policies of energy conservation and emission reduction, a senior official said on Monday. The figure was provided by He Bingguang, a director-general level official at the department of resource conservation and environmental protection of the National Development and Reform Commission (NDRC). The NDRC will use financial support and tax breaks to draw investment into the circular (recycling) economy, which will benefit companies and society, He said. Most of the spending will go into the construction of industrial parks, the transformation of urban mining industries, clean production, food waste recycling and staff development, He said.

The major part of the investment will be used in the industrial sector, said Zhou Changyi, director general of the department of energy conservation and resources utilization of the Ministry of Industry and Information Technology. Zhou said eliminating obsolete production capacity and controlling energy-intensive, polluting industries will remain the major tasks in the next five years. According to He, China achieved much in the energy-conservation sector during the 11th Five-Year Plan period (2006-2010) and the country will step up its efforts to cut carbon emissions and save energy during the current five-year plan.

The circular economy concept has three basic principles: recycle, re-use and reduce. The circular economy is a national strategy in China, said He. "No other country has given it such a high priority. "We are now filing and summarizing the 60 cases of successful development modes of the circular economy in the past five years and will publish the final report in two months." The NDRC has established 178 demonstration units since 2005 to implement circular-economy projects, and about 1,300 companies have joined the program.

The cumulative value of the circular economy industry was 1 trillion yuan as of the end of 2010, and it is forecast to grow at least 15 percent annually during the 12th Five-Year Plan (2011-2015) period, said He. "The country will focus on the application of the circular economy concept in industry, agriculture, services and green consumption," He said. "The policy will be implemented at all stages of the production, distribution and consumption processes." However, China will still pay the most attention to reducing energy consumption in industrial production.

Source: Du Juan: Circular economy investment up, China Daily, 2011-07-26

Bright future for biomass power in China
China plans to expand its installed generation capacity of biomass power to 13 million kilowatts by the end of 2015, China Business News reported on Monday. The figure doubled the former goal proposed by the China Electricity Council, and is even higher than the planned installed capacity of solar power, which will grow to 10 million kilowatts by the end of the 12th Five-Year Plan period (2011-2015), according to Liu Tienan, the head of the National Energy Administration, who made these remarks at the national rural energy conference.

China's present installed capacity for biomass power, of which marh gas generation and garbage incineration are project examples, is about 5.5 million kilowatts. The on-grid price of biomass power is now set at 0.75 yuan ($0.12) per kilowatt-hour. Analysts said that biomass power stations may make profits due to recently released policies.

Source: Ben Yue: Bright future for biomass power in China, China Daily, 2011-07-11

**China's H1 power consumption up 12.2%**

China's National Energy Administration announced Thursday that the country's total electric power consumption in the first half of the year rose 12.2 percent from a year earlier to 2.25 trillion kilowatt-hours (kWh). Power consumption in June rose 13 percent year-on-year to 396.5 billion kWh, figures show.

Source: Xinhua: China's H1 power consumption up 12.2%, 2011-07-14 17:30

**Hit by Energy Shortages, China Looks at Nuclear Safety**

To meet its ever-increasing energy demands, China should continue developing nuclear power, said a leading expert at an energy forum held in Beijing in May. The expert, Xu Kuangdi, former president of the Chinese Academy of Engineering, cautioned, however, that the country should also be vigilant about choosing appropriate sites for nuclear power plants. Economic growth is placing China's energy infrastructure under great pressure. Some localities are encountering electric power shortages. Nuclear power accounted for 1.2% of China's total energy supply in 2007.

Source: Anonymous: Hit by Energy Shortages, China Looks at Nuclear Safety, Mechanical Engineering1 33. 7 (Jul 2011): 18

**Nations clamp down on resources**

Countries from India and Indonesia to Russia are tightening their grip on natural resources as they limit exports to build up domestic industry in a trend that will spawn many challenges to World Trade Organization (WTO) rules. Export barriers are tightening on commodities ranging from food and coal to iron ore and rare earths, which have critical roles in high-tech devices, as countries harden positions on what they see as a sovereign right to development. The WTO ruled this month that China broke trade laws when it curbed exports of coveted raw materials, a verdict that seemed to cast a doubt over nations' right to control and use raw materials on their soil.

Between October and April, at least 30 new export curbs were imposed by countries such as China, India and Vietnam, up from 25 slapped on during the previous 12 months, the WTO said in a report in June. "Every country is trying to conserve its resources," R N Patra, head of India's state-run rare earths company, IREL, told Reuters. "It is their right how they want to use them." Indonesia had raised the floor price of coal, Australia had a levy on a minimum price, and even the United States had restrictions on the export of 10 elements, Patra added. "This did not exist a few years ago. But in the future there will be greater competition for resources."
Export curbs run the gamut from taxes to restrictive quotas and outright bans. For example, India has a 20 percent export tax on iron ore and controls grain exports; Indonesia's curbs include giving priority to domestic demand for gas and coal and export taxes on cocoa and palm, while Mongolia, a potential source of rare earths, is talking about an export tax on ores. Increased export curbs by developing countries stem from short-term protectionist motives rather than long-term industrial policy, said Razeen Sally, director of the European Centre for International Political Economy, a think-tank based in Brussels.

Source: Krittivas Mukherjee: Nations clamp down on resources, China Daily, 2011-07-21

More funds to support medical reform

The Chinese central government has allocated another 18.4 billion yuan ($2.8 billion) to a subsidy fund to support the nation's medical reform, the Ministry of Finance (MOF) announced Tuesday. The new fund has brought the total amount of subsidies allocated by the central government to 171.7 billion yuan so far this year, the MOF said in a statement on its website. Of the 18.4 billion yuan, nearly 40 percent of it will be used for capacity building of maternal and child care service centers, first-aid centers and other public health institutions which specialize in the treatment of T.B. and leprosy. More than 4 billion yuan will be used to subsidize the purchase of medical equipment by county-level traditional Chinese medicine hospitals. Meanwhile, 3.4 billion yuan will be used to subsidize the medical costs of people in both urban and rural areas.

Source: Xinhua: More funds to support medical reform, 2011-07-12

China faces challenges in tech development: Wen

China faces both challenges and opportunities in the ongoing global technological revolution, Premier Wen Jiabao said in a soon-to-be-published article in an official Communist Party of China (CPC) journal. The article, titled "several issues concerning China's technological work," will be published on Saturday in this year's 14th issue of Qiushi, or "Seeking Truth," the biweekly official journal of the CPC Central Committee.

Wen says in the article that technology is a "strong driving force" for China's economic and social development. China must come into possession of powerful technology and train a large number of high-end personnel before the country can become a true global power, says Wen, who is also a Standing Committee member of the Political Bureau of the CPC Central Committee. "The future of technological development will decide the future of China," he says.

Source: Xinhua: Wen: China faces challenges in tech development, 2011-07-16

Business: The mystery of the Chinese consumer; Consumer goods

After decades of deprivation and conformism, Chinese consumers regard expensive consumer goods as trophies of success. In public, they show off. In private, they pinch pennies. By some forecasts China will be the second-largest consumer market in the world by 2015, not far behind America. Chinese people already buy more cars than people in any other country: 13.5m last year to Americans' 11.6m. China is on its way to becoming the biggest luxury-goods market. The central government made an increase in domestic consumption one of the priorities of its latest five-year plan. Small wonder that Western firms are piling in. On July 4th Nestle, the world's largest food maker, confirmed that it is in talks with Hsu Fu Chi, one of China's biggest makers of confectionery and baked goodies, with a view to buying the firm. If a deal is sealed, it would be one of the largest foreign
takeovers yet seen in China

Furniture importer under fire

A retailer of international brand furniture, which has recently been suspected of selling poor-quality fake foreign products at high prices, has insisted it does not play foul with buyers but has admitted "faults" in its employees' sales tactics. Panzhuang Xiuhua, general manager of Da Vinci Furniture Co Ltd, a Shanghai-based furniture retailer that has gained a reputation as a well-known sales agent for overseas furniture brands in China, told a press conference that all the Italian furniture displayed in her outlets "was truly made in Italy". However, Panzhuang said: "The 'American furniture' displayed in our stores, including Hollywood Homes, was made in Vietnam, the Philippines, India, Indonesia and China." She said buyers had been informed about the place of manufacture by the salesmen.

The company's credibility and quality problems became known after complaints from customers. A Beijing resident surnamed Tang sent the furniture she bought from a Da Vinci store for a quality check at the Beijing-based National Center for Quality Supervision and Inspection of Furniture and Indoor Environment after she realized the furniture gave off an unpleasant smell, China Central Television (CCTV) reported on Sunday. The results showed that the furniture failed to meet three quality standards. For example, a TV table was substandard because of the use of high density board, according to the CCTV report. Peng Jie, a whistleblower from Changfeng Furniture Company in Dongguan city in South China's Guangdong province, told the media that his employer has worked as a subcontractor for Da Vinci. One double bed, bearing the label of Cappelletti, which was priced at 30,000 yuan ($4,638) in Changfeng's plant, cost 300,000 yuan in Da Vinci shops as it had been "imported" from Italy, Peng told CCTV. Peng was sacked on Monday, a source from the company who refused to give his name, told China Daily on Wednesday. The commerce authority in Shanghai launched a quality probe at Da Vinci's warehouse in Qingpu district on Monday. It found 233 pieces of furniture labeled Cappelletti and initial inspection showed that some of the furniture was of poor quality, CCTV reported on Tuesday. Local authorities have started an investigation into Da Vinci for possible violations of consumers' interests, the report said.
Source: He Dan: Furniture importer under fire, China Daily, 2011-07-14

Five sentenced for tainting pork

Five people convicted of illegally dealing in and producing clenbuterol, a poisonous chemical known in China as lean meat powder, received punishments on Monday that included a suspended death penalty. The Intermediate People's Court of Jiaozuo, in Henan province, found the defendants guilty of "endangering public security by using dangerous means".

Liu Xiang, a clenbuterol producer based in Hubei province, received a death sentence with a two-year reprieve. Of the three other principal offenders, Xi Zhongjie was sentenced to life in prison, Xiao Bing to 15 years and Chen Yuwei to 14 years. And Liu's accomplice, his wife Liu Honglin, was sentenced to nine years for purchasing raw materials he used in making clenbuterol. The verdict said the five suspects produced and sold lean meat powder even though they knew it is harmful and that they distributed the substance in Henan, Shandong and Jiangsu provinces and five other provincial regions.
In March, China Central Television reported that pork tainted with clenbuterol had been found in products made by Henan Shuanghui Investment and Development Co Ltd, a prominent pork producer in China. The company later admitted to the violation and apologized to the public.

Clenbuterol is banned in China as a food additive because it can cause dizziness, heart palpitations and malignant tumors. The drug is used as a treatment for asthma and has been illegally taken by athletes to build muscle issue. For pig farmers, it offers a way to bring their products to market sooner. 

Source: Liu Xiangrui and Xiang Mingchao: Five sentenced for tainting pork, China Daily, 2011-07-26

Incomes become more uneven in Beijing, Shanghai

The difference seen between incomes in Beijing and Shanghai, two of the largest cities in China, has become greater in the past decade. That is in part the result of the varying economic structure found in the two cities, as well the willingness of residents of both places to buy goods and services. The capital's annual income and consumption levels are both lower than Shanghai's and have been increasing more slowly, according to the Annual Report on Analysis of Beijing Society-Building, also known as the Blue Book of Society Building, which was released by the Chinese Academy of Social Sciences on Monday.

According to statistics from the blue book, the annual average disposable income among urban residents in Beijing was 17,653 yuan ($2,715) a person in 2005, which is 992 yuan fewer than it was in Shanghai. In 2009, the difference became greater, increasing to 2,100 yuan. "The income difference between the two cities is understandable because there are more State-owned enterprises in the capital," said Lu Hanlong, professor from the Shanghai Academy of Social Sciences' institute of sociology. "They offer more stable salaries, while more international private companies, which offer better benefits, have been started in Shanghai."

A comparison of the salaries earned in both places also reveals differences. In Shanghai between 2006 and 2009, the average salary paid to residents rose by an amount that was 531 yuan higher than the amount that salaries rose by in Beijing during those years. "With more private companies and international enterprises opening offices in Shanghai, salary incomes and labor costs have risen alongside the rapid economic development and improved welfare system seen in the city," said Lu.

Lu said a rise in consumption in Shanghai and the entrance of more luxury brands into the city have led to a higher cost of living. That cost is much lower in Beijing. Compared with the annual average amount of consumption in Shanghai, that in Beijing has declined among urban residents. In Beijing, a city resident spends about 13,244.2 yuan on average on goods and services, which is 528.8 yuan fewer than Shanghai residents spent on average in 2005. In 2009, the difference in consumption between the cities amounted to 3,099 yuan.

Source: Yu Ran: Incomes become more uneven in Beijing, Shanghai, China Daily, 2011-07-19
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Source: Yu Ran: Incomes become more uneven in Beijing, Shanghai, China Daily, 2011-07-19

Yao Ming honored as model for youth at farewell ceremony

Yao Ming retired from the Chinese national basketball team Monday at an unprecedented farewell ceremony held by the Chinese sports governing body, and was highly praised by State Councillor Liu Yandong. Liu Yandong received Yao at the Great Hall of the People and invited him to a dinner after the meeting. Liu praised Yao as one of the outstanding representatives of the Chinese athletes of the new era. She said, "Yao Ming's success wins high praises and respects from the international basketball world, and helps the world know more about China. He is a model of the youth." Liu also wanted Yao to chase higher goal and use his fame to promote the development of the Chinese sports after he retired.

Yao, 31, announced his retirement from the Houston Rockets of the National Basketball Association (NBA) in front of billions of Chinese fans on July 20 in Shanghai. This time at the closed-door ceremony that only invited media were allowed in, Yao received a series of top awards and greetings from his old-time teammates, coaches and friends.

Xiao Tian, deputy director of the Genenral Administration of Sports of China, awarded the Olympic Order in Gold of the Chinese Olympic Committee (COC) to Yao. Jacques Rogge, the president of the International Olympic Committee (IOC), was the other person who received the award without winning a gold medal at the Olympic Games. Xiao Tian said, "Yao Ming receives overwhelming respects and love from fans around the world not because of his 2.26-meter height, but because of outstanding personality and the high goal of his career. I hope all the Chinese athletes should learn from Yao Ming." Yao also received an unprecedented retiring jersey of the Chinese men's national team, an award which was set up for him. Xin Lancheng, the director of the Chinese Basketball Administration Center, said, "Yao Ming is the most outstanding basketball identity in the history of the New China. He is the glorious model of the Chinese basketball players. He leaves to the Chinese basketball the priceless wealth, which will be cherished and inherited by a new generation of the Chinese basketball."
The emerging cultural economy in Chinese cities: early dynamics

In recent years, Chinese national and municipal governments have emphasised growth of the urban cultural economy, aiming to achieve 15-20% economic output share in the largest metropolitan regions by 2020. There is wide variation in policy and physical approaches to growing the urban cultural economy, explored in Beijing, Shanghai and Foshan. Differing physical models of cultural economic development are explored: formal arts facilities, cultural preservation based redevelopment, high-tech creative zones and bottom-up clusters. Key drivers are discussed and tensions are explored - between production and consumption spaces, top-down and bottom-up approaches and between authenticity and gentrification. The authors conclude the sector is becoming a major shaper of physical form, affirm the key role the private sector has played and assert that bottom-up districts, driven by the producers themselves, have been among the most successful. Spatial dynamism is emphasised, particularly the emergence of new cultural production spaces on the urban periphery, and the evolution in the urban core of former production spaces into new cultural consumption environments.

Mapping the innovation production process from accumulative advantage to economic outcomes: A path modeling approach

The research about the innovation production process (IPP) is burgeoning. Our understanding of the interdependent interactions between functionally distinct innovation activities during it from a systemic perspective is rather unclear, yet, which is beneficial to empirical innovation management. This study, based on systems thinking, presents a novel analytical framework to empirically and quantitatively map the IPP jointly associated
with a path modeling approach, which helps in untangling the interactive mechanism between stage-specific innovation activities with distinct functions within an IPP from accumulative advantage to economic outcomes. We use the attractive analytical framework to guide an empirical investigation to the China's high-tech industries' IPP at the macro-regional level. Our empirical study confirms the dominant role of previous innovation capital accumulation in the whole IPP embedded into regional innovation systems of China's high-tech industries. That is, we prove the existence of accumulative advantage phenomenon in the regional IPP. The examination results show that there is a significant Matthew effect of technological innovation accumulation on technological innovation inputs as well as the Path dependence of technological innovation outputs/outcomes on technological innovation accumulation. This indicates that the innovation-practitioners should promote innovation capital accumulation for sustainable innovations and economic profits in a long time. At the same time, our findings suggest that, in order to alleviate the cross-regional unbalance of innovation development and promote radial innovations in China's high-tech industries, both policy-makers and innovation-practitioners should try to get rid of the dependence on the previous accumulated innovation capital.

Source: Chen, Kaihua, Guan, Jiancheng: Mapping the innovation production process from accumulative advantage to economic outcomes: A path modeling approach, Technovation 31. 7 (Jul 2011): 336.

China economy: An all-purpose hub

Zhengzhou may not be an economic powerhouse, but its environment is cleaner than most cities in China. Zhengzhou is generally more export-oriented than other central China cities. Exports from the city declined sharply in 2009, reflecting the global downturn, but recovered quickly in 2010, with an increase of 58% year on year to US$2.7bn. Exports have continued to boom in the first five months of this year, rising by 37% year on year to nearly US$1.4bn. Zhengzhou is China's largest producer of aluminium oxide. It is also a major producer of frozen-food products.

Economic forecast: Zhengzhou prefecture

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Nominal GDP (Rmb bn)</td>
<td>381.1</td>
<td>437.4</td>
<td>509.9</td>
<td>598.9</td>
<td>703.3</td>
<td>800.3</td>
</tr>
<tr>
<td>Real GDP growth (%)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Zhengzhou</td>
<td>13.6</td>
<td>11.1</td>
<td>11.6</td>
<td>11.5</td>
<td>11.0</td>
<td>10.2</td>
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<td>Henan</td>
<td>12.2</td>
<td>11.6</td>
<td>11.1</td>
<td>10.9</td>
<td>9.9</td>
<td>10.1</td>
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<td>National</td>
<td>10.3</td>
<td>9.0</td>
<td>8.7</td>
<td>8.5</td>
<td>8.0</td>
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<tr>
<td>Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Disposable income per head (Rmb, urban)</td>
<td>19,521</td>
<td>21,424</td>
<td>24,082</td>
<td>27,041</td>
<td>30,451</td>
<td>33,061</td>
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<tr>
<td>Urban individuals earning more than (‘000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Rmb20,000</td>
<td>3,040</td>
<td>3,825</td>
<td>4,808</td>
<td>5,782</td>
<td>6,743</td>
<td>7,458</td>
</tr>
<tr>
<td>Rmb50,000</td>
<td>148</td>
<td>273</td>
<td>471</td>
<td>746</td>
<td>1,131</td>
<td>1,501</td>
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Source: Economist Intelligence Unit.
Industry: Recent projects

<table>
<thead>
<tr>
<th>Company</th>
<th>Activities</th>
<th>Investment value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Emerging sectors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electronics</td>
<td>Building a production base for mobile telephones.</td>
<td>US$32m</td>
</tr>
<tr>
<td>Foxconn (Taiwan)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dangdang (China)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Logistics</td>
<td>New logistics centre in operation by end of 2010. Specifically targeting Henan’s rural market. (Zhengzhou Economic and Technological Development Area)</td>
<td>Rmb300m (US$46m)</td>
</tr>
<tr>
<td>Haier (China)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Major sectors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food &amp; beverage</td>
<td>Building a wheat flour processing and edible oil production plant, with completion expected in August 2011.</td>
<td>US$30m</td>
</tr>
<tr>
<td>Wilmar International</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Singapore)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real estate</td>
<td>Commercial real estate projects (Rmb5bn) and a meat-processing Rmb5.8bn plant (Rmb800m). (Erqi District)</td>
<td>(US$892m)</td>
</tr>
<tr>
<td>Yurun Group (China)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food &amp; beverage</td>
<td>Opening a new factory at end-2011. (Zhengzhou Economic and Technological Development Area)</td>
<td></td>
</tr>
<tr>
<td>PepsiCo (US)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Infrastructure: Recent projects

<table>
<thead>
<tr>
<th>Type</th>
<th>Link</th>
<th>Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recently completed</td>
<td>Rail High-speed rail from Zhengzhou to Xi’an</td>
<td>2010</td>
</tr>
<tr>
<td></td>
<td>Road Fourth ring road, expanding the city to 550 sq km</td>
<td>2010</td>
</tr>
<tr>
<td>Due for completion</td>
<td>Rail Beijing-Guangzhou high-speed line built through Zhengzhou</td>
<td>2012</td>
</tr>
<tr>
<td></td>
<td>Metro Construction started on metro line 2</td>
<td>2015</td>
</tr>
</tbody>
</table>

Operating charges

| Industrial land         | Rmb/sq metre                              |
| Land-use fees (Grade 1-Grade 5) | 1,070-384 |
| Utilities               |                                           |
| Electricity (Rmb/kwh)   | 0.56-0.76                                 |
| Water (Rmb/cu metre)    | 1.75-3.25                                 |
| Sewage treatment (Rmb/cu metre) | 0.65-0.8 |
| Labour costs            | Rmb/month                                 |
| Minimum wage            | 800                                       |
### Average wage

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Company-paid</th>
<th>Employee-paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension</td>
<td>20.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Industrial injury</td>
<td>0.5-2.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Maternity</td>
<td>1.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Unemployment</td>
<td>2.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Medical</td>
<td>8.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Telecommunications (Rmb)</td>
<td>Installation Monthly fee</td>
<td></td>
</tr>
<tr>
<td>Telephone installation</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>ADSL (corporate use)</td>
<td>n/a</td>
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Source: Zhengzhou government website (updated January 17th 2011).

### Comparative output and investment, 2009  (Rmb bn unless otherwise indicated)

<table>
<thead>
<tr>
<th></th>
<th>Zhengzhou</th>
<th>Wuhan</th>
<th>Hefei</th>
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</thead>
<tbody>
<tr>
<td>Nominal GDP</td>
<td>330.0</td>
<td>456.1</td>
<td>210.2</td>
</tr>
<tr>
<td>Real GDP growth (%)</td>
<td>12.0</td>
<td>13.7</td>
<td>17.3</td>
</tr>
<tr>
<td>Investment</td>
<td>Fixed asset investment</td>
<td>228.9</td>
<td>300.1</td>
</tr>
<tr>
<td>Fixed asset investment (% change)</td>
<td>29.1</td>
<td>33.3</td>
<td>34.3</td>
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</table>

Source: Local statistical bureaus.

### Comparative GDP growth trends (%)

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</thead>
<tbody>
<tr>
<td>Zhengzhou</td>
<td>16.0</td>
<td>16.0</td>
<td>15.9</td>
<td>12.2</td>
<td>12.0</td>
<td>13.6</td>
<td>11.1</td>
<td>11.6</td>
<td>11.5</td>
<td>11.0</td>
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<tr>
<td>Wuhan</td>
<td>14.7</td>
<td>14.8</td>
<td>15.6</td>
<td>15.1</td>
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<td>13.7</td>
<td>14.0</td>
<td>13.8</td>
<td>13.1</td>
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<tr>
<td>Hefei</td>
<td>16.9</td>
<td>17.5</td>
<td>18.1</td>
<td>17.2</td>
<td>17.3</td>
<td>18.8</td>
<td>16.0</td>
<td>16.6</td>
<td>16.7</td>
<td>16.3</td>
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</tbody>
</table>

Note. Cities are compared with two others either in the same region or with similar development indicators.

Source: EIU ViewsWire: China economy: An all-purpose hub, Jul 18, 2011

### West China's economy to grow 13% this year

China's first evaluative report on economic quality in the western region predicted that the region's economy will grow by 13 percent, higher than the nation's average. The report was published during the Western Region Economic Development Forum held in Beijing on Sunday. As a part of an annual research report on economic development in the western regions of China, the Western Blue Book 2011 has reviewed and analyzed economic growth in western areas since the implementation of the country's strategy on the development of western regions

The report concluded that local economies in China's western regions have been developing rapidly since the western development strategy was adopted. It confirmed that the living standards of local residents in western regions have seen great increases over the past eleven years. The report also summarized the main obstacles barring economic growth in west China and suggested several policy changes and additions in accordance with the problems facing west China's economies. Western regions will need to focus on improving education and environmental protection in the future, as well as creating more opportunities for local residents to earn more money. Yao Huiqin, a professor from Northwest University, said at the forum.

Source: Xinhua: West China's economy to grow 13% this year, 2011-07-25

Non-financial SOEs' H1 profits up 22%

China's non-financial State-owned enterprises (SOEs) posted a year-on-year increase of 22.3 percent in their first-half profits, the Ministry of Finance said on Monday. Profits totaled 1.13 trillion yuan ($173.08 billion), of which, 765.46 billion yuan was made by centrally administered SOEs, the ministry said in a statement on its website. Revenues rose by 24.2 percent to 17.42 trillion yuan during the first half of this year, a growth rate slower than the 24.5 percent increase in SOEs' costs. The SOEs turned in taxes of 1.56 trillion yuan during the first half, up 28.9 percent from one year earlier, of which, 1.18 trillion yuan of taxes were from the centrally administered SOEs, the statement said.

The building materials, chemical, non-ferrous metals and petroleum industries enjoyed notable year-on-year increases in profits during the first half. The real estate, iron and steel, and electricity sectors reported big gains in profits from the second half last year, while post and telecommunications SOEs posted

Source: Xinhua: Non-financial SOEs' H1 profits up 22%, 2011-07-19

Complaints on cars rise 40% year on year in H1

Due to the removal of a number of preferential policies, the limits on car buying in major cities and the current economic conditions, China's car market showed a decline in output and sales volume in the first half of 2011. However, the number of complaints on vehicles experienced a year on year surge. Statistics showed that a total of 5,606 effective complaints were received in the first half, up 41.45 per cent compared with the same period of last year. Of the total, proprietary brands accounted for 2,473, while joint venture brands took up 2,997. In addition, compact vehicles topped the gripe list, representing 58.03 per cent.

Source: Complaints on cars rise 40% year on year in H1, China Business News [Shanghai], 20 July 2011.

China launches 1st int'l railway standard

An international standard drafted by China South Locomotive and Rolling Stock Industry Group Corp (CSR) on overhead railway contact lines was permitted by the International Electrotechnical Commission (IEC), Beijing Daily reported on Thursday. It is the first time China made an international standard in the railway industry. The overhead contact line is used to supply power for the train's electric traction. This standard, which was proposed by CSR Zhuzhou Electric Co Ltd in 2009, was officially launched on June 29, 2011, with 100 percent agreement of all IEC’s member countries. The report said it is a big step for China's railway industry because the international
standards in this field were in the past always made by developed countries.
Source: Ben Yue: China launches 1st int'l railway standard, China Daily, 2011-07-14

Ministry apologizes for high-speed train delays

Authorities plan to inspect the recently opened Beijing-Shanghai high-speed railway to ensure its safety after equipment on it failed on three separate occasions in four days, a railways official said on Thursday. During an online chat, Wang Yongping, spokesman for the Ministry of Railways, said the spate of equipment failures has prompted the ministry to call meetings to better understand the causes of the malfunctions. Wang offered an apology to the passengers who had been on board the delayed trains. In the two weeks since June 30, when the line began operating, only 85.6 percent of the trains have arrived to their destinations on time. "The glitches have exposed some problems, but this is happening mainly because the equipment is still in a ripening period," he said.

Wang explained the causes of the malfunctions in detail. Speaking of a power failure that caused 19 trains to be delayed on the line in Shandong province on Sunday, he said that was the result of a short circuit that occurred during a thunderstorm.

Statistics show that an average of 165,000 passengers have used the Beijing-Shanghai high-speed railway every day since July 1. Another 80,000 continue every day to take the old railway that has run between the two cities since before the new one opened

Crash threatens China’s high-speed ambitions

A train crash that killed at least 35 people has raised fresh questions about China’s high-speed rail ambitions and will lend support to critics calling for more investment in conventional, slower technology. Another 210 people were injured in the first serious accident involving Chinese bullet trains. It happened when one train hurtled into another that had stalled near the city of Wenzhou, south of Shanghai.

The government embarked on a massive spending drive five years ago to build the world’s largest high-speed rail network in record time. But what was meant as a source of national pride and efficiency has instead become one of embarrassment and concern. Saturday’s accident, which tossed six train carriages off the tracks in a pile of twisted metal, was the latest and most devastating setback for China’s rail programme.

In the past six months, the railways minister has been dismissed for “serious disciplinary violations” and his replacement has announced a big reduction of top speeds following safety concerns, while a new line between Beijing and Shanghai has been beset by stoppages. This year, Sheng Guangzu, the new railways minister, vowed to stick to a blueprint to expand the country’s track network to 120,000km by 2015 from the current 91,000km. But a smaller expenditure target implied that Beijing was decreasing the portion of the newly-built lines that would be high speed. The crash will have reinforced the scaling back of these ambitions. Debt has become another indication that all is not well in China’s bullet train build-out. The railway ministry’s liabilities have tripled in two years to hit Rmb1.980bn ($307bn), state media reported last week. Although it is easily within the government’s capacity to repay, the ministry had been expected to fund itself largely through cash flow, and the debt is an indication of investment gone awry.

The answer is not for China to pare back its spending on railways, but to direct it more sensibly, analysts say. The Chinese rail system carries about a quarter of global freight and passenger traffic on 6 per cent of the world’s
lines. The density of its network, measured in line distance per inhabitant, is about a tenth of that in the US, a seventh of the European Union’s and a third of Japan’s, according to the World Bank. It would be better to build conventional, high-capacity lines than fast trains that carry fewer people and cost more, Mr Zhao said.

But China had also been hoping to transform its bullet trains into a large export, the sort of sophisticated product that it wants to sell to the world as it graduates from being a low-cost manufacturer. Even before the crash, the Chinese export plans were running into trouble from Japan’s Kawasaki Heavy Industries, which said it would take action if China filed for patents on trains using Japanese technology. Of the trains that collided on Saturday, one was based on a Kawasaki design and the other was based on a model by Canada’s Bombardier. Chinese railway officials previously said they had “digested” the foreign technology and then “reinnovated” to create their own intellectual property.

Source: Simon Rabinovitch in Beijing: Crash threatens China’s high-speed ambitions, Financial Times, July 24, 2011

Russia rail: wary of the Chinese

The fatal train collision near Shanghai at the weekend may add to the challenges China faces as it plans to become a global force in high speed railway technology. In Russia, where Beijing is angling for contracts to build high speed railways, officials had misgivings about alleged Chinese abuse of intellectual property rights even before the crash.

Russian Railways, the state rail monopoly, plans to tender late this year for the construction of a €12bn – to €15bn high speed railway line between Moscow and St Petersburg, the biggest infrastructure projects ever undertaken in Russia. China is expected to put up strong competition against other bidders including German, French and South Korean groups, says Denis Muratov, chief executive of Russian Railways’ High Speed Rail Lines subsidiary. “China can outbid any offer. They have no problem with finding any kind of money.” However, reservations about intellectual property rights will likely deter Russia from handing China all the contracts. “Of course we would like the project to be done cheaply. But we might have questions about patents that have been creatively reworked in China… It would be best to divide the project up,” says Mr Muratov.

Russia has watched with awe as China established the world’s longest high speed railway network in less than 7 years and used bullet trains to spur the development of its far flung regions. In comparison, Russian Railways’ plans to develop high speed rail links that began when the company began buying bullet trains from Siemens, the Germany high technology group, in 2009, are modest. China sees Russia as a land bridge to Europe and has urged Russian Railways to extend the network further east to connect the two countries. Siemens established a train manufacturing plant in China after winning a $1bn order for high speed trains in 2009.


China orders overhaul of transportation safety

China's transportation authority on Sunday ordered local departments to launch thorough safety overhaul to resolutely curb severe traffic accidents after a raft of tragedies in less than a month. Local authorities should spare no efforts to put safety at first place, as ensuring safe transportation is an important task of protecting people's interests, Li Shenglin, head of the Ministry of Transportation (MOT), said at an emergency meeting. The meeting was held after a high-speed train crash in East China's Zhejiang province on Saturday, which left 35 dead and 192
others injured as of Sunday night. Li said the incidents had revealed protruding problems, and a nationwide safety inspection should be carried out immediately. Top officials at all levels of authorities should be held responsible for accidents, he noted.

Also at the meeting, MOT announced to put video surveillance facilities on the long-distance sleeper bus after a bus caught fire on Friday near the city of Xinyang in Central China's Henan province. The accident left 41 people dead, and was the deadliest of its kind in years. Feng Zhenglin, MOT's deputy head, said every sleeper bus should be installed with GPS and surveillance camera under the scrutiny of the operator's headquarter. He also advised bus companies to suspend service between 2 am and 5 am when road accidents happened most frequently. Intensified efforts should be made to curb overloading which made several bridges collapse recently, he added.

A bridge partially collapsed early Friday in China's eastern city of Hangzhou, leaving a truck driver injured. One person was killed and 22 others were injured after a bridge collapsed Thursday in east Fujian province.

On Saturday evening, high-speed train D301 rear-ended bullet train D3115, which lost power and stalled after allegedly being hit by lightning near the city of Wenzhou in Zhejiang province. Shortly after the accident, Chinese leaders, including President Hu Jintao, Premier Wen Jiabao and Zhou Yongkang, a Standing Committee member of the Political Bureau of the CPC Central Committee, called for all-out efforts to rescue passengers and ordered to make rescue work a priority. Three railway officials, including Long Jing, head of the Shanghai Railway Bureau; Li Jia, head of the bureau's Communist Party of China (CPC) committee, and He Shengli, a deputy chief of the bureau, were removed from their posts following the train collision.

Source: Xinhua: China orders overhaul of transportation safety, July 25, 2011

Equities sink after news of railway collision

Stocks on the Chinese mainland fell the most in two months as railway shares plunged after a deadly bullet-train accident, while the political stalemate over the US debt limit boosted concern that the world's biggest economy will default. CSR Corp and China CNR Corp, the nation's biggest train makers, tumbled more than 9 percent after the weekend train collision killed at least 38 people and prompted the government to order a rail safety inspection. China Vanke Co led declines for developers as Credit Suisse Group AG said the accident might dampen demand for real estate in cities along new railway lines. The Shanghai Composite Index was down 64.33 points, or 2.3 percent, at 2706.46 as of 2:06 pm, the most since May 23. The measure dropped 1.8 percent last week, the first decline in five weeks.

Source: Irene Shen: Equities sink after news of railway collision, China Daily, 2011-07-26

Unanswered questions over rail dispatch system

Insiders have questioned why the rail dispatch system failed to prevent the rear-end collision between two bullet trains on Saturday in Wenzhou. The first bullet train was traveling south from the Zhejiang provincial capital of Hangzhou on Saturday evening when it lost power, allegedly due to a lightning strike, and stalled. The second train then hit it from behind. Six carriages derailed and four fell about 15 meters from a viaduct. The Ministry of Railways has not explained yet why the second train was apparently not warned there was a stalled train in its path. An investigation into the cause is under way, said ministry spokesman Wang Yongping.

According to Shuai Bin, a professor at Southwest Jiaotong University, and other experts, rear-end collisions of bullet trains are rare because a bullet train has at least two ways to inform the dispatch center of its operation and
position. Yang Jixiang, a rail signaling expert with China Railway Fourth Survey and Design Institute Group, told Beijing News that bullet trains all have radio signaling systems to keep in touch with the dispatch center, which is usually set up in every railway bureau. In the case of the deadly accident on Saturday, the Shanghai railway bureau has such a dispatch center giving orders to trains running in Zhejiang, including the two trains that collided. Yang said even if a radio signaling system is damaged by a lightning strike, the low-voltage rail should be able to detect a train on top. Such a rail circuit signaling system can send the information to the dispatch center’s computer system, and it is considered very reliable, he said. The computer system will automatically issue a warning whenever a train malfunctions or two trains get too close, a veteran train driver with more than 20 years’ working experience was quoted as saying by Beijing News. With such a system, a rear-end collision is almost impossible unless the computer system breaks down or is sabotaged, or orders fail to reach trains in time, he said.

Source: Xin Dingding: Unanswered questions over rail dispatch system, China Daily, 2011-07-26

**Six suspects detained after deadly central China bus fire**

Police have detained six suspects over a deadly bus fire in central China that killed 41 people and injured another six onboard, sources with the Ministry of Public Security said on Monday. Inflammable chemicals, prohibited from being carried onboard, caused the blaze that occurred early Friday in Henan Province, the sources said citing the result of police investigation. The 35-seat bus, which was traveling from the city of Weihai in the eastern Shandong Province to central Hunan’s provincial capital Changsha, caught fire at 4 a.m. Friday on the Beijing-Zhuhai Expressway.

Source: Xinhua: Six suspects detained after deadly central China bus fire, July 26, 2011

**Escalator safety in spotlight**

On July 5, shortly after an ascending escalator on Beijing subway Line 4, an Otis 513 MPE, suddenly reversed. A 13-year-old boy was killed and 30 passengers were injured. Based on its initial investigation, the Beijing Bureau of Quality and Technical Supervision said the Otis 513 MPE had design flaws and the company was inescapably responsible for the accident. The use of all 257 Otis escalators was suspended for inspection. The accident is still being investigated. The inspectors and experts involved are not allowed to release any information, said Li Shoulin, director of the National Elevator Quality Inspection and Testing Center in Langfang, Hebei province. A news release is planned after the investigation is closed. The Shenzhen subway had a similar accident in last December, also involving an Otis 513 MPE.

China has adopted safety rules for the construction and installation of elevators, escalators and the horizontal conveyors often seen in airports. Chinese technical standards are equal to European standards (EN81-1:1998 for elevators and EN115:1995 for escalators), but the passenger flow at Chinese subway and railway stations is much greater than that in Europe. Every day, more than 7 million journeys are made on 14 Beijing subway lines, which run a total of 336 kilometers, Li Xiaosong, spokesman of the Beijing Municipal Commission of Transport, said at a news conference. Besides traffic flow, local area characteristics and environment are important considerations in setting safety standards for elevators and escalators, said an expert at the Guangdong Elevator Technology Institute who asked to remain anonymous. For example, compared with European cities, Beijing needs sturdier elevators and escalators because it is windier, dustier and more polluted here. "The safety standards for elevators and escalators in China should be set higher than the European standards, so that the standards will conform more smoothly to the
Thanks to the fast development of the real estate market and public transportation systems in recent years, China has become the largest manufacturer of elevators in the world, with the most existing installations and newest installations, according to statistics from the China Elevator Association. By the end of 2010, China had nearly 14 percent of all the world's elevators and more than 44 percent of its escalators. Brands owned by Otis accounted for the largest proportion (20 percent) of new installations. China produced 45,000 escalators and horizontal conveyors last year, accounting for 90 percent of new installations worldwide, and 320,000 elevators, 64 percent of the world total. About 37,200 of the elevators, escalators and conveyors produced were exported.

Statistics on elevator and escalator accidents, especially in recent years, are extremely hard to find, despite central government requirements that different levels of safety supervision bureaus inform the public regularly about accidents. According to an old report posted on the China Elevator Association website, China had 53 serious elevator and escalator accidents in 2003, including 24 in passenger elevators and four on escalators. The accidents caused 39 deaths, 18 injuries and direct financial losses of 1.34 million yuan ($207,260). While the number of accidents fell the next year to 22, with 18 deaths and nine injuries, the financial losses rose to 2.06 million yuan.

Source: Jiang Xueqing: Escalator safety in spotlight, China Daily, 2011-07-14

Russia/China economy: Deepening economic ties

Bilateral trade is dominated by Chinese exports to Russia, which have grown particularly strongly in recent years. From a surplus in trade with China of US$2.7bn in 2005, by 2008 Russia was running a deficit of more than US$9bn. Although Russia again ran a surplus in 2009, as its demand for imports--especially of machinery--collapsed, the balance again reverted to a deficit in 2010 as Russian domestic demand began to recover. In 2010 Russia sourced 17% of its imports from China.

In 2010 Russia sourced 17% of its imports from China. Machinery and equipment account for around 30% of Russia's imports from China, with textiles and footwear also taking significant shares. Russian exports to China are dominated by mineral products (accounting for 55% of Russian exports to China in 2010), as well as wood and wood articles (11%), base metals (10%) and chemical products (9%). Machinery and equipment accounted for only 1% of Russian deliveries to China in 2010. Russia had attracted some US$2.2bn in Chinese foreign direct investment, or 44% of the stock of Chinese investment in eastern Europe at the end of 2009, according to Chinese data; according to data from the Russian Central Bank, the figure was US$1.25bn.

Source: EIU ViewsWire: Russia/China economy: Deepening economic ties, Jul 14, 2011

SAFE reiterates no direct forex loss on yuan’s rise

China's foreign exchange regulator reiterated Wednesday that an appreciation of China's currency renminbi, or yuan, will not directly result in a loss of the country's foreign exchange reserves. Value changes in foreign exchange reserve assets only happen when they are converted to yuan, the State Administration of Foreign Exchange (SAFE) said in a statement on its website. "Currently China does not need to repatriate forex reserves massively," it said. Currency fluctuations only reflect a change to the book value, it said, adding it is not an actual loss and does not affect real purchasing power of the forex reserves. Government data shows China's forex reserves totaled nearly $3.2 trillion by the end of June.

The statement echoed the stance the SAFE voiced in May, which was made after a government researcher said
in an essay that China likely suffered an accumulated loss of around $271 billion on foreign exchange reserves since 2003 because of the yuan's appreciation.

SAFE also called for the United States government to take "concrete and responsible measures" to strengthen confidence in the international financial market and respect and secure investors' interests. SAFE added that using China's forex reserves to make large-scale investments in global commodities, such as gold and oil, would hurt domestic consumption and economic development as the move would increase the price of commodities.

Source: Xinhua: SAFE reiterates no direct forex loss on yuan's rise, 2011-07-20

**Finance And Economics: Hands slapped; The WTO and China**

WHEN China joined the World Trade Organisation (WTO) in late 2001, its share of world exports stood at 4.3%. By last year that share had soared to 10.6%, and the country had become the world's biggest exporter. In addition to awe and envy, its rise has spawned a rapidly growing list of trade quarrels. China was a party to only two of the 93 trade disputes that were taken to the WTO between its accession and the end of 2005. But in the five years to the end of 2010, it was involved in 26 of the 84 cases filed at the forum.

On July 5th the WTO's dispute-settlement body found against China on three linked complaints. The cases were brought by America, the European Union and Mexico in 2009 and took issue with China's policy of restricting the exports of certain industrial raw materials, including bauxite, magnesium, zinc and silica, of which it is a leading producer. The plaintiffs argued that China's policies gave domestic firms that use these commodities an unfair competitive advantage, while also restricting world supply of these inputs and causing their prices to soar.

China says its restrictions were motivated by its desire to conserve the world's limited supply of these materials and to protect the environment from the pollution caused by their extraction. The problem with this line of argument, as the WTO panel noted, was that although China restricted the export of these commodities, it had done nothing to reduce their actual production. China's policies were in clear violation of its WTO commitments, it found. China expressed "regret" at the WTO's ruling and has up to 60 days to lodge an appeal. But the significance of this judgment goes beyond China. Many countries banned some food exports during the food-price spike of 2008. A renewed period of buoyant commodity prices and demand could easily tempt more governments to emulate China's restrictions on exports of raw materials. The WTO's judgment may dissuade at least some countries from doing so. And given the rotten state of the Doha round of trade talks, a show of teeth in defence of a rules-based trading system is more useful than ever.

Source: Anonymous: Finance And Economics: Hands slapped; The WTO and China, The Economist 400. 8741 (Jul 9, 2011)

**Local governments sign deals with US**

At least 20 agreements were inked between local governments of China and the United States at a grand signing ceremony on Thursday at Little America Hotel. Officials from Zhejiang, Qinghai, Yunnan and Anhui provinces made deals across different sectors - from trade to education, environmental protection, culture and interpersonal exchange.

Eastern China's Zhejiang province and the state of Delaware agreed to have more friendly exchanges. Small and medium-sized enterprises from the rich coastal province, which boasts the most active private sector in China, will work with the Delaware Department of International Trade and Development to further explore more business
opportunities in the US. Two companies from Zhejiang also signed agreements with US partners in energy and resources and the auto industry.

The remaining three Chinese provinces focused more on green technology and environmental protection. Northwestern China's Qinghai province, which is very similar to the state of Utah in terms of geography, will work with Pacific Millennium Holdings Corp on the International Forum and Joint Development of Ecology and Carbon Sink of Qinghai. The province's Huanghe Hydropower Development Co Ltd and SunPower Corp will work together in new energy development. Asia Silicon (Qinghai) Co Ltd also plans to work with GT Solar Inc. The Wuhu Economic and Technological Development Zone in eastern China's Anhui province reached a deal with NuvoSun on a project for thin film solar cells. Southwestern China's Yunnan province, which is famous for its ample natural resources, will partner with the US Nature Conservancy on biodiversity protection. US coffee chain Starbucks signed a Memorandum of Understanding with Ai Ni Group, one of the province's most established coffee operators and agricultural companies.

Source: Tan Yingzi: Local governments sign deals with US, China Daily, 2011-07-16

INTERNATIONAL: Trade dynamics may curb 'imbalances'

The drivers behind varying trends in world trade. Thanks to the sharp rebound in world trade following the financial crisis, export-led economies have enjoyed a strong recovery from a disastrous 2009. However, at a more disaggregated level, there are signs of a marked divergence in trade trends -- in part determined by commodity markets, in part changing consumption patterns.


Russia and China haggle over price of gas

Disagreement over price continues to hold up a landmark agreement between Russia and China that would pave the way for the supply of up to 68bn cubic metres of Siberian gas to the world’s biggest energy consumer, according to Alexander Medvedev, deputy chief executive of Gazprom. Mr Medvedev said the two sides still remained far apart on price, but added that an eventual agreement was in the interest of both parties. “It would be good [to have a deal] because we have a roadmap with a target to sign a contract in the middle of the year. But it’s the natural desire of the buyer to buy cheaper and of the seller to sell higher and actually the current level of negotiation left only one unsolved issue and [that] is the price,” he told the Financial Times in London before flying to Beijing late last week.

Russia and China had widely been expected to sign an agreement in June during a state visit to Moscow by Hu Jintao, China’s president. A deal, which would supply China for the next 30 years, is seen as central to Russia’s strategy to globalise its energy trade away from its core European markets where it has also faced competition by a surge of liquefied natural gas (LNG) coming from countries like Qatar.

However, Mr Medvedev said he believed Gazprom’s position on price was “justified” in light of the current global supply and demand situation. Gas demand is also expected to rise as governments around the world re-evaluate their commitment to nuclear power after Japan’s recent disaster. Gazprom would also have to invest heavily in two pipelines that Russia has proposed to build from Siberia to China. Mr Medvedev said even before the disaster at the Fukushima plant, there was an argument “to treat natural gas not as a temporary solution but as
an important part of the energy mix and the best road to a carbon dioxide-clean environment”.
Source: Sylvia Pfeifer: Russia and China haggle over price of gas, Financial Times, July 24, 2011

**China’s FDI up 18.4% in H1**

China’s foreign direct investment (FDI) rose by 18.4 percent year-on-year to $60.89 billion in the first half of this year, Yao Jian, spokesman for the Ministry of Commerce (MOC) said on Friday. In June alone, China’s FDI rose 2.83 percent from one year earlier to $12.86 billion, Yao said at a regular press conference. The growth rate had slowed for three consecutive months, and the June figure was 10.3 percentage points lower than that of May. China approved 2,919 foreign-invested companies to start business operations in June, up 6.57 percent from the same month last year. A total of 13,462 foreign firms received approvals to start operations in the first half, up 8.77 percent year-on-year, he said.
Source: Xinhua: China’s FDI up 18.4% in H1, 2011-07-15

**China economy: Recent JVs, contracts, MoUs and other agreements**

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<th>Date</th>
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<td>Agriculture</td>
<td>Yunnan Provincial Overseas Investment Co; SOMA Group of Cambodia</td>
<td>--</td>
<td>Yunnan Provincial Overseas Investment Co and SOMA (which is engaged in agricultural development) agree to build a rice-processing facility, which will have an annual processing capacity of 200,000 tonnes of rice, in Cambodia.</td>
</tr>
<tr>
<td>Aviation</td>
<td>China Southern Airlines (a Hong Kong-listed company based in Guangzhou); Boeing Co of the US</td>
<td>Approx US$1.6bn</td>
<td>Boeing wins an order from China Southern Airlines to supply six Boeing B777F freighters, which are to be delivered between 2013 and 2015.</td>
</tr>
<tr>
<td>Energy &amp; power</td>
<td>Nexans of France; Shandong Yanggu Cable Group</td>
<td>Approx Rmb1.24bn (US$191m)</td>
<td>French cablemaker Nexans agrees to acquire 75% of Shandong Yanggu, a maker of power cables. The transaction is subject to regulatory approval.</td>
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<tr>
<td>Energy &amp; power</td>
<td>Schneider Electric of France; Beijing Leader &amp; Harvest Electric</td>
<td>US$650m</td>
<td>Schneider agrees to fully acquire Leader &amp; Harvest, a maker of medium-voltage drives. The deal is</td>
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9th) Technologies Co (jointly owned by two Hong Kong-based private equity firms—Affinity Equity Partners and Unitas Capital) subject to regulatory approval.

MoU signed (Jun 3rd) General Electric of the US; Harbin Electric Co of China—Harbin Electric agrees to purchase four gas turbines from GE by the end of 2013.

Equipment Agreement (Jun 6th) NSK of Japan; Hefei Hi-Tech Industrial Development Zone (Hefei HTDZ)—Bearing manufacturer NSK agrees to set up a subsidiary to produce bearings in Hefei HTDZ. The plant is expected to start operations in August 2012.

Food & beverages

Acquisition approved (Jun 27th) Diageo of the UK; Sichuan Chengdu Quanxing Group (Rmb140m (US$21.5m))—Liquor giant Diageo wins approval from Chinese regulators to increase its stake in Quanxing Group (a white-spirit maker which owns 40% of Shanghai-listed Sichuan Swellfun Co) to 53% from 49%.

Metals & mining

Agreement signed (May 31st) Mongolian Coal Corp (wholly-owned by Hong Kong-listed Mongolian Mining Corp); Kerry Group; QGX Coal (incorporated in Gibraltar)—Mongolian Coal acquires QGX Coal (owner of the Baruun Naran Coking Coal Mine in Mongolia) from the Kerry Group, a subsidiary of Kuok (Singapore) Ltd.

Retail

Acquisition announced (Jun 28th) Suning Appliance of China; Laox of Japan (¥9bn (US$114m))—Nanjing-based Suning agrees to raise its stake in Laox (a loss-making electronics retailer) to 65% (from 34%) through a new share issue.

Telecoms & technology

Takeover offer (Jun 1st) Lenovo Group (a Hong Kong-listed company based in Beijing); Medion Euro231m AG of Germany (54.98% owned by Gerd Brachmann’s chairman) Lenovo agrees to pay Euro231m (80% in cash, 20% in Lenovo’s new shares) for a 36.66% stake in Medion (a personal computer and electronics manufacturer). Mr Brachmann will retain an 18.33% stake. Lenovo also plans to fully acquire Medion. The share purchase and the takeover offer are subject to approval by the EU.

Source: EIU ViewsWire: China economy: Recent JVs, contracts, MoUs and other agreements, 2011-07-18

Ugly Highway Crash for Chinese Firm in Poland

A construction project billed as a breakthrough for a China engineering concern ended in friction and failure.
A Polish highway project that was supposed to crack open the lucrative European construction market for a Chinese engineering conglomerate has slammed doors instead. On June 13, Poland's General Directorate for National Roads and Highways (GDDKiA) announced the decision to cancel its 1.3 billion zloty (US$ 472 million) construction contract with China Overseas Engineering Group Co. (Covec). Covec's consortium included Shanghai Construction (Group) General Co. and China Railway Tunnel Group Co. Ltd.

Another twist came when China's state-run People's Daily newspaper reported in mid June that Covec had asked to cancel the contract days before GDDKiA's decision. No matter which side ultimately comes out ahead, though, the once-happy relationship between the Polish government and a Chinese builder is ending in a lose-lose situation, said Chai Hongyun, chairman of the Polish-Chinese Economic Cultural Association. Not only did the incident hurt Covec's reputation in Poland, but the public image for Chinese companies in general has been soured by labor strife and subcontractor payment disputes.

Covec, which has several big infrastructure projects in Africa as well as Asia under its belt, won the highway contract in September 2009 with a bid well below offers submitted by several major European engineering firms. The victory was hailed for offering China an important foray into the high-value European market for public infrastructure jobs. The contract called for building 29-kilometer and 20-kilometer stretches of road – the longest of five sections for the A2 highway – in 32 months. Polish officials hoped to complete the roadway in time for European football fans expected to drive to European Football Championship games next year in Poland and nearby Ukraine. "The Polish government's budget for the construction of two sections of expressway was 2.8 billion zloty," the source close to Covec explained. "China Overseas Engineering's bid price was less than half that budget. The Polish Construction Industry Association filed an unsuccessful complaint with the European Union after claiming that Covec "received Chinese government subsidies to offer a deliberately undervalued bid."

But soon after they began construction, the above analyst said, Covec officials found the project's difficulties had been underestimated by their own staff. The Polish government client did not initially specify the use of steel sheet piling for the expressway's bridges. But over the course of construction, it was found that almost all bridges needed the expensive piling for reinforcements, driving up costs. In addition, Poland's economic rebound after the global financial crisis in 2008 and demand tied to 2012 football-related construction were blamed for huge price increases for building materials. Some raw material prices and machinery rental rates have shot up more than 500 percent in the past year, said the analyst, hurting Covec's bottom line.

Labor tensions stewed and eventually led to a strike among workers for Covec's Polish subcontractors beginning May 18. The workers claimed the Chinese company had defaulted on payments, and a group of angry Polish workers forced their way into Covec's office in Warsaw, even setting fires outside the doorway. Polish government rules had prevented Covec from hiring more than about 500 Chinese workers, or about one-sixth of the project's workforce, for the road building. The rest were Poles hired through subcontractors. According to the People's Daily report, an unidentified executive at Covec's parent China Railway said an internal team that looked carefully at project estimates in April concluded the company would eventually lose about US$ 395 million. After terminating the contract with Covec in June, GDDKiA said it would re-open the bidding process and hire another firm. It also said Covec would be prohibited from bidding on public projects in Poland for three years.

China calls on US to ‘protect investors’

China has called on Washington to bolster international faith in its economic policies amid signs that Beijing has cut its purchases of US government debt. The State Administration of Foreign Exchange, which manages China’s currency reserves, said it had noted warnings by rating agencies Standard & Poor’s and Moody’s of a possible sovereign rating downgrade for the US if lawmakers do not reach an agreement on the country’s debt ceiling. “We hope the US government will earnestly adopt responsible policies to strengthen international market confidence, and to respect and protect the interests of investors,” it said in response to questions posted on its website.

About two-thirds of China’s $3,197bn in currency reserves, the world’s largest by a wide margin, are estimated to be invested in US dollar-denominated assets. China considers the composition of its reserves to be a state secret. But by contrasting US and Chinese data, economists have come to the tentative conclusion that Beijing has greatly slowed the pace of its investment in US government debt this year. In the first five months of the year, the Chinese central bank purchased $269bn in foreign exchange. However, combined inflows into US Treasuries from China, and from Hong Kong and London – Beijing’s two preferred global financial centres – totalled about $63bn. This suggests that China has invested less than a quarter of its new currency reserves in US assets, far below its rate in previous years, economists say. Safe declined to say whether it was slowing its accumulation of US Treasuries, and said that any move to increase or decrease its holdings was normal investment behaviour.


'China faces a dilemma' in US Treasuries

China has "little choice" but to continue buying US Treasury bonds in the short term despite the potential risk
of Washington defaulting on its obligations to foreign bondholders, analysts said on Tuesday. China, the largest foreign holder of US Treasuries, increased its holdings by $7.3 billion to $1.16 trillion for the second straight month in May, according to the US Treasury Department.

The total foreign holdings of Treasury securities rose 0.6 percent to $4.5 trillion in May, the same month the US reached its $14.3 trillion debt ceiling the US government can legally borrow to finance its operations. Since reaching the limit on May 16, the US Treasury has relied on accounting maneuvers to prevent a federal default. US Treasury Secretary Timothy Geithner said that if the debt ceiling was not raised by the Aug 2 deadline, the government would default on its obligations to its foreign bondholders.

"China faces a dilemma in its holding of the US T-bonds," said Dong Yuping, an economist with the Institute of Finance and Banking at the Chinese Academy of Social Sciences (CASS). "Beijing has little choice but to continue to buy the US debt because Beijing wants a stable dollar. And the US Treasury bonds remain the most liquid investment product in the market, given China's huge foreign exchange reserves. "But China has to come up with a backup plan of investing its foreign reserves as a long-term strategy because the trend of a weakening US dollar has become almost a certainty," he said.

Yao Wei, an economist for China at the French bank Societe Generale SA, said that China needs to speed up the pace of structural reforms to rebalance its economy to reduce external surpluses, internationalize the yuan, and diversify foreign exchange reserves. "The key issue here is not what China should buy, but how China can slow down the pace of foreign exchange reserve accumulation to reduce the need to buy," Yao said. "China should seriously rethink the assumption of US Treasuries as a safe haven."

Source: Zhang Yuwei and Li Xiang: 'China faces a dilemma' in US Treasuries, China Daily, 2011-07-20 16

Overview of Outward FDI Flows of China

China is integrated rapidly with the world economy by increasing its foreign investment linkage with other countries. China's direct investment both inward and outward FDI provides important net long-term economic benefits for both home and host countries. In the past two decades, outward FDI from China increased by nearly 300% (Note 1). According to the special report of TNCs and Canada-China FDI, the development of China's outward FDI can be classified into two stages: (1)1982-2000, spontaneous stage, (2)2000-current, government-oriented stage. Starting from virtually no OFDI in 1979, the initial outward FDI flows from China are few and mainly for establishing offices and agencies in other countries. In 1990s the FDI flows grew increasingly volatile. In 2005 China was the 4th largest investor among emerging markets, up from 14th in 2004 with 72.4% of all economies in the world receiving Chinese FDI. The annual growth rate was 19.7%, which was much higher than that of GDP. Based on the results of the work of the OECD investment committee, China's OFDI flow and stock stands as the 4th and 6th largest respectively among developing countries. The Chinese outward FDI has risen to 56.53 billion in 2009. The first section of the study encompasses an introduction of three collaborated sets of FDI determinants-economic conditions, the regulatory framework and investment promotion. Section two outlines the features of FDI outflows as the overall FDI scale, the target sectors, the geographic distribution and the concrete ways of outward FDI of China as exemplified by the affirmative data. Section Three summarizes the findings and sketches some reflections about concrete actions to further the spread of FDI outflows in a properly arranged business-led agenda.

As China is rapidly mingled with the global economy, the outward FDI in the concrete form of multinational
corporations of diverse kinds are making contributions to the economy advancement of China to a great extent. Yet the FDI outflows should be strategically tailored to suit the domestic requirements of economic development. The Chinese government should refresh the definition of FDI donators as no more than a cosmetic exercise but well designed to strengthen its world power substantially.