China News in Brief
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What the West Doesn’t Get About China
Development to find balance

China on Wednesday unveiled a nationwide development strategy based on regional environment and resource capacities, in a renewed bid to balance economic growth with natural conservation. The appraisal criteria for local officials' performance will also be shifted from only focusing on economic achievement to fulfilling tasks based on each region's development priority, such as agricultural production or ecological protection, according to Xu Xianping, deputy director of the National Development and Reform Commission.

The new strategy divides the country into 53 zones under four categories, namely the economically well-off regions where development needs to be optimized, areas where industrialization and urbanization should be accelerated, and fields where development will be limited or prohibited. The aim is to foster new urban clusters in the inland areas, form major agricultural production bases and construct key ecological protective screens in the country, said Xu. "Such a spatial arrangement is helpful in making more targeted and effective policies for different regions," said Yang Weimin, secretary-general of the commission.

For instance, the Yangtze and Pearl river deltas, as well as the Bohai Bay area, already suffer from the constraints of energy and resource scarcity, so that in the future their development should be focused on providing equal public services to urban and rural residents in the areas. For those areas where large-scale urbanization and industrialization are limited or prohibited, the central government will compensate them with more subsidies to "purchase the ecological services and products". Such financing policies have already been put into practice, and will be reinforced in the future. "We understand that implementing the plan is likely to result in widening the gap of economic growth between different regions, but our ultimate goal is to narrow the disparity on basic public services, residents' income and infrastructure construction all over the country," said Yang. Yang also said the country will re-define the scope and function of some nature reserves, natural and cultural heritage sites, national geological and forest parks during the next five years. Such places are under the category where development is prohibited. "Once they are settled, no adjustment can be made on a single nature reserve," Yang said.

Source: Li Jing: Development to find balance, China Daily, 2011-06-09

China can avoid middle-income trap: WB economist

China can avoid the so-called middle-income trap if it implements appropriate policies, a World Bank economist said. "The middle-income trap is not inevitable," Justin Yifu Lin, chief economist and senior vice president of the World Bank, told Xinhua in an interview. "To a large extent, it is subject to policy and development pattern." The term "middle-income trap" refers to countries stagnating and not growing to advanced country level. Their per capita income ranges from $2,000 to $6,000, unable to make breakthroughs.

Lin said that the Chinese government has accumulated much experience in macro management since the reform and opening up over thirty years ago, and per capita GDP reached about $4,400 in 2010. "In dealing with the challenges, China needs to focus on three aspects of policy response," Lin said. Firstly, it needs to continue to promote technology innovation, industry upgrading and competitiveness. "The purpose of updating technology is to increase competitiveness," he said. Secondly, it needs to solve the problem of income distribution. Acknowledging the significant improvement in living standards of the Chinese people. The income distribution challenge should not be ignored; otherwise, it will cause social tensions. "Without a stable social and political environment, proper economic development will not be achieved," Lin said. Thirdly, how to properly handle the relationship between economic growth and the environment is another major challenge. "The increasing pressure on resources and the
China economy: Controlled descent

China has released data for a variety of economic indicators in the past few days, including for inflation, trade and lending growth. The data paint a mixed picture. There remains a sense that the economy is being pulled in two different directions, with inflation and fixed investment having picked up while bank lending, money supply growth and exports—among other indicators—have slowed. This apparent contradiction is easily explained, however. It is in line with the Economist Intelligence Unit's view that policy efforts to cool growth are beginning to have a visible effect, but that the economy is still in the early stages of a soft landing that has much further to run.

We expect GDP growth to slow later in the year, but to remain relatively rapid.

Source: EIU ViewsWire: China economy: Controlled descent, June 14th 2011

CHINA: Price controls will exacerbate power shortage

Some 24,000 industrial electricity users in Shanghai will face rationing this summer, state media reported yesterday, and for the first time some 3,000 non-industrial businesses (such as offices and shopping malls) are also being asked to close at peak times to conserve power. Power shortages nationwide may be the worst since 2004. They arise from continuing policy incoherence in the power sector, and will affect industrial output in the short term.

Source: CHINA: Price controls will exacerbate power shortage, Oxford Analytica Daily Brief Service, 2011-06-21

How China plans to reinforce the global recovery

China has moved swiftly to fight the financial crisis, adjusting macroeconomic policy to expand domestic demand, and introducing a stimulus package to maintain growth, advance reform and improve people’s lives. A notable result of our response to the crisis is that China has maintained steady and fast growth. Between 2008 and 2010, China’s gross domestic product grew at an annual rate of 9.6, 9.2 and 10.3 per cent respectively. The consumer prices index over the same period was 5.9, -0.7 and 3.3 per cent; 33.8m new urban jobs were created. China has maintained sound growth this year.

The thrust of China’s response to the crisis is to expand domestic demand and stimulate the real economy, strengthen the basis for long-term development and make growth domestically driven. We have implemented a two-year, Rmb4,000bn ($618bn) investment programme covering infrastructure development, economic structural adjustment, improving people’s well-being and protection of the environment. As a result, 10,800 km of railways and about 300,000 km of roads have been built and 210m kW of installed capacity for power generation have been added. We have boosted support for science and technology including by encouraging companies to carry out technological upgrading and innovation. More than Rmb1,000bn have been spent in rebuilding after the Wenchuan earthquake. We are working to improve the balance between domestic and external demand, with the share of trade surplus in GDP dropping from 7.5 per cent in 2007 to 3.1 in 2010. We have made breakthroughs in building a social security system covering urban and rural areas. All Chinese now have access to free compulsory education. Since mid-2009, we have used monetary policy tools to absorb excess liquidity. In June 2010, reform of the
renminbi exchange rate regime was advanced, and the renminbi has appreciated 5.3 per cent against the US dollar.

There is concern as to whether China can rein in inflation and sustain its rapid development. My answer is an emphatic yes. China has made capping price rises the priority of macroeconomic regulation and introduced a host of targeted policies. These have worked. The overall price level is within a controllable range and is expected to drop steadily. The output of grain, of which there is now an abundant supply, has increased for seven years in a row. There is an oversupply of main industrial products. Imports are growing fast. We are confident price rises will be firmly under control this year.

China is now at a new starting point in its drive for development. We have adopted the 12th five-year plan which calls for shifting the development model. We will continue to pursue economic structural adjustment, boost research and development, and education, save energy and resources, promote ecological and environmental conservation, and narrow the regional and urban-rural gap. China’s drive for industrialisation and urbanisation is gathering pace. Its economy is increasingly market-oriented and internationalised. We are fully capable of sustaining steady and fast economic growth.


**Rising Asia and risk of middle-income trap**

MUCH has been said in the past few years about Asia's economic rise. The region's global credentials were buffed up even more when it demonstrated its resilience in the global financial crisis in 2008 to 2009. But many countries in Asia are either in or about to enter the 'middle-income trap'. This represents the stage where a country is stuck at a relatively comfortable level of per capita income (about $7,500 to $10,000) but cannot seem to take the next big step to become a developed nation.

Getting to the middle-income level is relatively simple. With low levels of income in the country, it can make the transition by taking advantage of the cheap labour available. The real challenge comes when a country has to leap into the ranks of advanced economies. This is because, as incomes increase, so do costs, which means a country has to move up the value chain of production. In addition, the country will need to innovate and use capital and labour more productively. This calls for a better-educated workforce and higher investments in research and development. Countries such as Malaysia, Thailand and the Philippines are now caught in the middle-income trap. Malaysia, after growing rapidly at 7 per cent from 1991 to 2000, grew by only 4.6 per cent in the 2001-2010 period. This fell far short of the 7.5 per cent growth rate targeted for the decade. Then there are Vietnam, China and India, which enjoy high growth rates but are on the brink of entering the middle-income trap. To avoid the middle-income trap, it needs the right kind of industrial policy, the proper development of financial markets to allocate risks and a well-diversified, employment-centric manufacturing sector. China - the second-largest economy in the world - needs to brace itself for a slowdown in the coming years after maintaining strong growth for more than a decade. Admittedly, China has many advantages over other Asian countries. It has huge foreign exchange reserves, its exports are dominated by manufactured products and it can attract foreign investment because of its large domestic market. But challenges still exist. The state sector dominates the economy and there is a lack of small and mid-size firms, which are crucial to the development of technical skills. Manufacturing costs are also likely to rise as wages go up and the government imposes restrictions to curb pollution.

Most of these countries want to follow in the footsteps of South Korea. After nearly defaulting on its debts at the end of 1997, South Korea pulled itself together and has grown more than twice as fast as the OECD
(Organisation for Economic Cooperation and Development) average. Its per capita income rose from 57 per cent in 1997 to 89 per cent of the group average in 2009. The major changes that South Korea brought to its economy were liberalised imports, reduced powers of the chaebol conglomerates, investment in human capital and deregulation of the financial sector. The government's main focus was increasing economic competitiveness, which is defined as strong institutions, efficient infrastructure, better health, education and training, efficient labour and financial markets, and more innovation.

Whether an Asian Century comes about depends on how well the region addresses these issues: technical progress, capital accumulation, demographics and the labour force, the emerging middle class, climate change mitigation, competition for resources, and the communications revolution. If Asian countries fail to meet these challenges, over the next five to 10 years, they will fall into the middle-income trap of slowing growth rates and stagnating income levels.

Source: Sanchita Basu Das: Rising Asia and risk of middle-income trap, The Straits Times [Singapore] 24 June 2011

**China: Key developments**

After expanding by an impressive 10.3% in 2010, economic growth will slow to an average of 8.5% a year in 2011-15. Wage inflation will remain rapid in the forecast period, helping to support private consumption. But growth in investment, notably in the property sector, will decelerate from its 2010 rate. Consumer price inflation is expected to remain a major policy issue in 2011 as the government struggles to contain strongly rising food prices. The overall annual rate of inflation will average a manageable 4.1% in 2012-15. The renminbi is likely to appreciate only slowly against the US dollar in the forecast period. The market's consensus that the currency is substantially undervalued may fray as China's trade surplus drops in the five-year period. China is the world's biggest energy consumer, according to a recent BP statistical review. The latest data suggest that China overtook the US in 2010 and now accounts for over 20% of global energy use.

Source: EIU ViewsWire: China: Key developments, 2011-06-24

**Factor function characteristics and origin of economic growth of China**

The paper makes an empirical study on factor contribution and its stage variation characteristics during 1952-2005 and 1978-2005 in China. GMM and OLS tests show that the robustness and significance level of the institution, the physical capital and human capital's contributions are much higher than other factors, and 70% of economic growth is boosted by the capital and the labor input. Factor contribution decomposition and TFP growth indicate trade has the most remarkable influence on economic growth. The state space model finds that physical capital, human capital, technological progress, finance, trade and institution have different effects on economic growth in different periods. Namely, factor contribution does have the characteristics of stage variation.


**CHINA: Census highlights opportunities and threats**

The demographic, economic and political implications of China's sixth national population census. The results of the sixth national population census, released in April, show that China's population is now growing at half the
pace of the previous decade; that its citizens have become more urbanised, better educated and older. China has achieved unparalleled declines in mortality and fertility. Literacy remains high. China's population statistics surpass those of India, a developing Asian nation with a comparably large population, and put China closer to par with the developed world.

Source: EIU ViewsWire: Census highlights opportunities and threats, Jun. 23, 2011

- **China's June CPI to be higher than May**

  China's CPI will be higher in June compared to May, but it will fall significantly in the fourth quarter of the year. The prediction was given by Yao Jingyuan, former chief economist with the National Bureau of Statistics (NBS), while addressing a forum held in Shanghai Saturday. Factors, such as imported inflationary pressures emanating from quantitative easing in the United States and abundant liquidity in the domestic market, along with weak agricultural infrastructure, had caused commodity prices to rise in China, he said. "The imperfection in the distribution of farm produce across China has embodied the country's weak agricultural infrastructure, which has in turn helped to drive up prices," said Yao. Yao insisted that the Chinese economy at present showed a trait of stability, with little risks of the economy overheating or a sharp decline in economic growth, though still faced a daunting problem of inflation. He suggested the authorities stay the course of applying tightening measures in the months ahead in line with the economic situation. The country's CPI rose by 5.5 percent year on year in May, well above the government's 2011 inflation target of 4 percent. Food prices surged 11.7 percent in May from a year earlier while pork prices rose 40.4 percent year on year last month.

  Source: Xinhua: China's June CPI to be higher than May, 2011-06-27

- **Improved access to loans not a cure-all for small firms**

  New government measures that will create more financing opportunities for China's small businesses will provide aid in the short-term, but will not be a complete cure for the problems these companies face, according to some of the country's financial experts. China's top banking regulator, the China Banking Regulatory Commission (CBRC), announced on Tuesday a series of measures aimed at boosting lending opportunities for small companies, which are often spurned by banks because of their financial riskiness. The CBRC said in a statement on its website that it will permit higher bad loan ratios for banks that lend to smaller companies. The regulator will also exclude loans below 5 million yuan ($771,000) when calculating banks' loan-to-deposit ratios, as long as those loans are given to companies with annual revenues of less than 30 million yuan. '

  Financing for small- to medium-sized companies has been more difficult this year, as overall monetary conditions have been tightened, according to a report released by the Ministry of Industry and Information Technology (MIIT) earlier this month. Small businesses, which create 80 percent of China's jobs and generate 60 percent of the country's industrial output, have long complained about difficulties in securing loans from banks, which prefer to lend to large companies that are considered safer bets. The non-performing-loan (NPL) ratio for loans to small firms stood at 2.61 percent, compared with the banking sector's average NPL ratio of 1.1 percent, at the end of March, CBRC data showed. In addition, banks that dedicate a certain proportion of their total corporate loans to small businesses will be given priority to issue bonds earmarked for granting loans to small business, the CBRC said.

  However, economists said the difficulties facing many of China's small businesses go far beyond financing.
For many small businesses, financing shortages are just a symptom of a deeper problem, said Wang, adding that "these companies are not as competitive as before, due to rising costs." China's manufacturers have long enjoyed low production costs, but as the yuan continues to appreciate, the prices of raw materials and labor will rise accordingly, Wang said. Wang suggested the government should work to encourage small businesses to focus on moving up the value chain and raise the quality of their products.

Source: Xinhua: Improved access to loans not a cure-all for small firms, 2011-06-09

**Bank to offer more fund to to SMEs**

While small and medium-sized enterprises (SMEs) are experiencing difficulty borrowing money from commercial banks, China Merchants Bank Co Ltd is cooperating with private-equity (PE) companies to help alleviate the problem. Ma Weihua, president and CEO of China Merchants, said on Friday that the bank is planning to choose 1,000 SMEs in the high-technology sector from its client lists and to recommend them to PE firms. "We have found 600 candidates with the potential to become listed on the stock market," Ma said. "For the companies favored by the private-equity firms, we will lend them funds and help them to settle accounts, raise money, and manage risks." "The Ministry of Science and Technology will also provide assistance in loan-interest subsidiaries," Ma added. He said that the client resources and financial experience of commercial banks can combine with the investment capabilities of private-equity outfits to help SMEs. He added that in the United States the investment period for high-technology SMEs is between five and seven years, and that Chinese PE companies can learn from them, while commercial banks can provide a series of financial services.

In a survey conducted in April by the China Entrepreneurs' Survey System, a research agency set up by the State Council, more than 40 percent of entrepreneurs said a shortage of capital is preventing them from expanding their businesses, and that they are seeking external financing. Small companies are intent on going public, as 13.5 percent of those surveyed said they will seek a listing within the next three years, an almost 20-fold increase from the 0.7 percent of the past three years.

Source: Cai Xiao: Bank to offer more fund to to SMEs, China Daily, 2011-06-11

**China hikes reserve requirement ratio again**

China's central bank said on Tuesday it would raise the bank's required reserve ratio (RRR) by 50 points from June 20. It means banks have to set aside 21.5 percent of their capital in reserve, a record high. Analysts estimate the latest increase will freeze capital worth about 370 billion yuan ($56.92 billion) to check liquidity and ease the stubbornly high inflation. The sixth such increase this year came as the National Bureau of Statistics (NBS) reported a 5.5-percent increase of the consumer price index (CPI) in May, a 34-month high. To soak up liquidity, the People's Bank of China (PBOC) has raised the RRR once a month over the past six months. It also twice hiked the benchmark lending and deposit rates. The government will continue to prioritize easing prices in its macro regulation, since the pressure from price increases remain hefty, NBS spokesman Sheng Laiyun said at a press conference on Tuesday.

Source: Xinhua: China hikes reserve requirement ratio again, 2011-06-14

**China: Interest rate forecast**

2011 2012 2013 2014 2015
Nominal lending rate  6.8  7.3  7.1  7.3  7.3  
Real lending rate  1.71  3.10  2.65  2.94  3.23  
2011  2012  2013  2014  2015  
Nominal deposit rate  3.8  4.3  4.0  4.2  4.2  
Real deposit rate  -1.20  0.16  -0.29  0.00  0.29  
2011  2012  2013  2014  2015  
Nominal money market rate  4.5  4.4  4.0  4.3  4.1  
Real money market rate  -0.50  0.28  -0.29  0.10  0.19  

**GLOBAL ASSUMPTIONS**

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**Extent of local debts in China laid bare**

Chinese local governments owe Rmb10,700bn ($1,650bn) in debt, according to the first national audit of regional finances published by Beijing. That amount is equivalent to about 27 per cent of China’s economy. The new audit provides the most authoritative estimate to date of provincial and city governments’ explicit debts and suggests the problem, although large, is manageable. Local governments have accumulated an unprecedented mountain of debt in the wake of the 2008 financial crisis after Beijing opened credit floodgates, backing state-owned banks to lend to state-backed infrastructure projects. The audit confirmed an explosion in borrowing in 2009 when outstanding local debt rose 62 per cent. But it also showed that the government began to get a grip on the problem last year, with debt growth slowing sharply to 19 per cent. Combined with central government debt and other liabilities such as bad bank loans, analysts estimate China’s overall explicit debt load is about 70 per cent of gross domestic product. But some analysts believe the contingent liabilities of the government are much higher, once debts on the books of state-owned enterprises and other entities implicitly backed by the state are included. “If you take a very broad view of the Chinese government’s contingent liabilities rather than explicit debt on the books then the number comes to well over 150 per cent of China’s GDP in 2010,” according to Victor Shih, a political economist at Northwestern University in the US. The US has a debt-to-GDP ratio of 93 per cent, while Japan’s ratio is over 225 per cent.

Source: Simon Rabinovitch in Beijing and Jamil Anderlini in Shanghai: Extent of local debts in China laid bare, Financial Times, June 27, 2011

**Investor protection vital for market to move forward**

It has been 20 years since the birth of China's stock market, which has experienced wild ups and downs. Looking back, I think we should reflect on what kind of market it has developed into, what role it has played in
China's economy and what we should do next. China's achievement in developing its capital market during the past two decades deserves recognition. The establishment of the stock market transformed the planned financing system into a market-oriented one that could allocate society's capital more effectively and push forward the development of a market economy in the country. It also helped accelerate the joint stock holding reform of domestic enterprises with more than 2,000 companies going public. Entrepreneurs - including investment banks, rating agencies and accounting firms - that truly understand the market and competitive financial institutions have also emerged, along with the growth of the capital market.

While there has been remarkable progress, we should also note the problems that need to be addressed. Companies tend to treat the stock market as a place to raise money, but seldom pay attention to the interests of investors and how they could pay the investors in return. There are companies that have never distributed dividends to their investors. Returns many investors made from dividends are even less than bank deposit interests. This has led to a speculative sentiment in the secondary market, which investors see as a place to pocket quick profits instead of making long-term investment. The regulator has so far not designed a system that could effectively protect the interests of investors, especially retail investors who often suffer from sharp market volatility. How can a market develop if it is not the place where ordinary investors could make profits? The most urgent problem is to establish a system that truly protects the interests of investors.

In the meantime, we should continue to develop the multi-layer capital market. The size of the start-up board, ChiNext, needs to be expanded to empower more innovation-driven but cash-starved small companies to tap the capital market. The regulator should also boost the trading scale of the bond and derivative markets to raise efficiency and substantially expand the proportion of direct financing in the domestic capital market.

Source: Cao Fengqi: Investor protection vital for market to move forward, China Daily, 2011-06-08

Shanghai exchange prepares for int'l board

All the preparation for a long-awaited international board on the Shanghai Stock Exchange is "basically" in place, Shanghai's vice-mayor said in a speech, giving the clearest sign yet that the board's launch is imminent. "All the conditions for the board have basically been put in place. Next we will see the willingness of companies. The board will be put in place when the conditions are right," Tu Guangshao, who is in charge of Shanghai's finances, said on Monday night. The international board would be the first marketplace in China allowing overseas companies to offer yuan-denominated shares to domestic investors. The country's plan for the board surfaced in 2009 as part of a broader move to internationalize its currency and help Shanghai become a global financial hub by 2020.

More than 60 companies have expressed their intention to list on the board, the Securities Times reported last month. To do so, they would be required to have market capitalization of at least 30 billion yuan ($4.63 billion) and 3 billion yuan in profit over the past three years, the newspaper said, citing anonymous sources. Sun Lijian, vice-dean of the School of Economics at Fudan University, said a sound set of regulations is essential, as inadequate supervision of the board could endanger China's financial stability. "Launching an international board to an extent equals a further opening up the nation's capital account," he said. "A more convertible yuan has its benefits, but it also exposes the currency to speculative activity and might incur financial instability." Sun suggested that funds raised through the board should be tracked to guard against speculation.

Source: Gao Changxin: Shanghai exchange prepares for int'l board, China Daily, 2011-06-08
Financial industry must develop

China needs to further develop and open its financial industry to better facilitate the country's overseas investment, a former senior trade official said on Friday. "China needs to strengthen its service industries, especially the financial industry, to accelerate the pace and raise the quality of its overseas investments," said Long Yongtu, the former deputy minister of commerce and chief negotiator of China's entry of the World Trade Organization. Long made the remarks at the Fifth China International Private Equity Forum (CIPEF), an annual direct investment and financing event in China. Long noted that China has long possessed a high level of foreign exchange reserves, which is unsustainable and has put great pressure on the country's overall fiscal and monetary policies.

The value of China's overseas investment reached $59 billion last year, accounting for less than 2 percent of the country's $3 trillion foreign exchange reserves, according to the Ministry of Commerce. Long pointed out that China needs to strengthen its financial industry by empowering domestic investment banks and the financial intermediary sector to help enterprises find investment opportunities overseas. "China should have its own Goldman Sachs and Morgan Stanley. It is a big challenge for our financial industry," he said. In the meantime, Long called for a gradual opening-up of China's financial sector to foreign institutions and domestic private enterprises. At present, the assets of foreign banks only account for about 2 percent of the total market share of China's banking industry.

It has provided SMEs with an effective way of accessing capital from private-equity (PE) funds, venture-capital firms, and other financial institutional investors, said Huang Xingguo, the mayor of Tianjin. In recent years, the local government has dedicated itself in building the city into a center for PE investment funds. Currently, more than 1,200 funds and management enterprises are registered in the city with total registered capital of more than 230 billion yuan ($35 billion), according to the local government.

Source: Xiao Li: Financial industry must develop, China Daily, 2011-06-11

Riches lie in China’s restructuring

It is not the opportunities presented by China's size that excite John Zhao but those created through the structural changes taking place in the country's economy. With the government no longer mesmerized by the speed of GDP growth, instead paying more attention to its value, private equity players should be adjusting their strategies. China's consumer market is already in a state of flux. Shoppers are no longer satisfied with being flooded by global brands' dated models, and instead want China-specific products -- for which they are willing to pay the market price. Despite the irritations of private equity euphoria, the industry clearly has an important long-term role to play in the development of China's capital markets. Private equity activity amounts to just 0.3% of the country's GDP, compared to 1%-1.5% in the US and 0.8%-1% in India.


Official confident in China’s IPO market

China became the world's largest IPO market in 2010 and will cement this position during the next 10 years, the Guangzhou-based Yangcheng Evening News reported Monday, citing an official from the country’s securities
watchdog. Qi Bin, director of the Research Center of the China Securities Regulatory Commission, said at a summit June 24 that it would be disadvantageous for the Chinese economy if enterprises have limited access to effective financing channels. In the next five years, China will strengthen the development of the capital market, the newspaper reported. He also said that it is necessary to introduce social security and pension funds into the capital market to keep the market healthy.

"It is a long way to go for us to develop a complete financial intermediary system," Qi said. But if the capital market is not fully developed, it will damage the national economy, including real estate, agriculture and the mining industry, he added. "Last year more than 50 companies went public in Zhejiang province alone. It is expected that the trend will be maintained in the next 10 years," Qi said.

Source: Yin Mingzhe: Official confident in China’s IPO market, China Daily, 2011-06-28

China's financial system comes of age

THE Chinese financial system's evolution in recent years has been extraordinary. Back in 2002, all of China's major banks were awash in non-performing loans (NPLs), which in some cases amounted to more than 10 per cent of the total balance sheet. Less than a decade later, much has changed. The old NPL problem was resolved, primarily by establishing asset-management companies to take over doubtful assets and injecting new capital into the commercial banks. Now, reported NPLs amount to little more than 1 per cent of assets. Foreign partners have been brought in to transfer skills and minority shareholdings have been floated. Current valuations put four Chinese banks in the global top 10 by market capitalisation. They are now expanding overseas, fortified by their strong capital backing.

Of course, challenges remain. Even in China, there is no magic potion that can revive a loan to a defunct exporter. And the country's big banks have lent large sums, willingly or otherwise, to local governments for infrastructure projects - many of them of dubious economic value. The authorities in Beijing, especially the CBRC and the People's Bank of China (the real central bank), have a good record of managing incipient booms and busts, and I would not bet against their success this time. They have considerable flexibility, owing to a range of policy tools, including variable capital and reserve requirements and direct controls on mortgage lending terms. They have already been tightening the screws on credit growth for several months, with positive effects.

The most interesting development is that we can now see increasing convergence in the regulatory philosophies and toolkits of Beijing, London and New York. Until the recent near-implosion of Western capitalism, the North Atlantic authorities thought that the end of financial history had been reached. Financial conditions could be controlled with one tool - the short-term interest rate - deployed exclusively in pursuit of a target, implicit or explicit, for consumer price inflation. Banks' capital-adequacy ratios were set globally, and once set, remained fixed. Otherwise, the market knew best. Banks had their own incentives to lend wisely, and controls on lending would necessarily prove ineffective. By contrast, in China, all aspects of a bank's business were directly overseen. Indeed, most banks were under the sway of the central bank.

Source: Davies, Howard: China's financial system comes of age., The Straits Times [Singapore] 25 June 2011

Ministry stands firm on minimum taxation threshold

The Ministry of Finance seems determined to stick with its proposed personal income tax threshold, despite repeated calls from the public to raise the minimum level and reduce the tax burden amid rising prices. Hong Hu,
deputy director of the Legislative Affairs Commission under the National People's Congress, told lawmakers that the second draft of the tax legislation recommends keeping the threshold at 3,000 yuan ($463), while cutting the lowest tax rate from 5 percent to 3 percent. By slashing the entry-level tax rate by two percentage points, Hong said more than 70 percent of salary earners will benefit.

Source: Zhao Yinan: Ministry stands firm on minimum taxation threshold, China Daily, 2011-06-28

Effect of local government expenditure on the ratio of output to capital: Evidence from panel data at China's provincial level

This paper divides the expenditure of local government into the productive and nonproductive expenditure for revealing the effect of local government's expenditure on output-capital efficiency through model and empirical analysis. In general, the elasticity of productive expenditure is more than that of nonproductive in a developing country. Therefore, the drawing effect of productive expenditure on economic growth is more than nonproductive one. However, the positive drawing effect of local government's expenditure on the ratio of output to capital can be displayed only if the expenditure is within a reasonable scale. When the public expenditure has surpassed the limit, there will be a negative influence. Through our empirical analysis on current Chinese economic data, it shows that the positive drawing effect of local government productive expenditure on the ratio of output to capital is remarkable; however, the positive effect of expenditure on economic construction is critically small. In some areas, the government expenditure behavior has indirectly become the economic intervention and it reveals the negative effect and low efficiency in high speed of economic growth. It is imperative for Chinese government to improve the efficiency of economic growth by adjusting the expenditure structure of local government.

Source: Jin, Tao; Zhang, Jianhui: Effect of local government expenditure on the ratio of output to capital: Evidence from panel data at China's provincial level, Frontiers of Economics in China, Volume 6, Issue 2, Pages 249-270, Jun 2011

China steps up subsidies for the needy

More than half of all Chinese provincial-level regions have established a mechanism to offer subsidies to the needy as high inflation pushes up their daily living costs. The National Development and Reform Commission (NDRC), the country's top economic planner, said on Friday that 18 provinces, autonomous regions and municipalities had set up the mechanism to give financial support to the needy in both urban and rural areas. Another six provincial-level regions will implement the mechanism before the end of August, according to an NDRC statement. The statement said the entire country will be covered by the end of this year. The plan mainly covers the disabled, low-income residents and the unemployed.

In Tianjin, a monthly subsidy of 20 yuan ($3) is offered to the needy if the consumer price index (CPI), the main gauge of inflation, rises between 3-5 percent; if the CPI rises between 5-7 percent, the subsidy will rise to 30 yuan. Beijing and many other regions have not come up with a subsidy standard yet. But it is made clear that most regions will hand out subsidies if the price index surges above 4 percent, and the subsidies will increase along with the price index. "The mechanism seeks to ensure that the quality of people's lives are not reduced despite the rises in consumer prices," said an official with the NDRC, who spoke on the condition of anonymity. China's CPI shot up 5.5 percent year-on-year in May, a 34-month high. The index rose 5 percent in the first quarter and 5.3 percent in April, well above the government's 4-percent target for the whole year.
Growing health concerns after latest food scare

Use of plasticizer in some products sparks widespread fears. Tempting as they appear, those foods might contain DEHP, an organic compound usually used to make plastic soft and pliable. Taiwan's health authorities announced the use of DEHP in some products on May 23 and demanded that 168 food processors recall more than 1 million tainted items. On the Chinese mainland, the State Food and Drug Administration announced on Saturday that eight products, food flavors, butter substitute and baked goods, made in Guangdong and Zhejiang provinces were found to contain DEHP. The plasticizer was illegally added to food and drinks as a substitute for a traditional and more expensive emulsifier, such as palm oil. For 100-yuan ($15) worth of palm oil, the same amount of DEHP costs only about 20 yuan, said Li Shuguang, a food science professor at Fudan University, during an interview with CCTV. According to Li's research, DEHP in food and drinks can cause cancer. It also can lead to kidney or testicular damage and fertility problems if it is consumed regularly and accumulates in the body. Children are the most vulnerable group, his research shows.

However, Chen Junshi, director of the Fortified Food Office under the Chinese Center for Disease Control and Prevention, asked consumers to calm down and not be frightened by the figures. "The listed products only account for a small portion of all the products in the market. There are far more we can eat." The latest test results show that eight of the 6,100 samples tested in 28 provinces in China were found to contain DEHP. The products came from four manufacturers from Guangdong and Zhejiang. The guarantee of food safety lies in production rather than supervision, said Chen from the CDC's Fortified Food Office. "The allowed food additives in the country total more than 1,000 items, which can be tested, but many companies do not announce what they add to their products," as required, Chen said. "It's impossible for the supervisory department to conduct a thorough inspection of all the hundreds of thousands of chemical components. It's impractical because all the cost would finally go to the consumers in the end."

In the United States, some Taiwanese beverage chain stores in California immediately stopped selling items considered likely to be contaminated with DEHP.


China's dairy safety standards trigger controversy

China's current dairy safety standards have stirred a new round of complaints, as critics have argued that they are the weakest in the world and were created as a favor for major dairy producers. Proponents of the standards say they are in accordance with the "conditions of the dairy industry." The maximum limit for bacteria in raw milk, or the aerobic plate count, is currently set at 2 million cells per milliliter in China, four times higher than the amount allowed under previous regulations. Wang Dingmian, president of the Guangzhou Dairy Association, said the standards are a retreat to standards that haven't been used in 25 years and that the standards are the weakest of their kind in the world. He believes the standards were lowered because of pressure from dairy producers seeking to reap larger profits by cutting costs.

Nadamude, secretary general of the Dairy Association of the Inner Mongolia autonomous region, said that 70 percent of China's dairy farmers will be forced to throw out their milk or even sell some of their cows if stricter standards are put into place. The Inner Mongolia autonomous region is a major agricultural base and home to
several large dairy companies, including Yili and Mengniu. Nadamude attributed the lower standards to the fact that small-scale farming is popular among dairy farmers. Less than 30 percent of the country's farmers have a herd of more than 100 cows. "Small-scale farming often features poor sanitary conditions and limited means of preserving milk. Therefore, the aerobic plate count in raw milk is likely to increase," said Nadamude. Publishing articles by Nadamude and Wang on Wednesday. Nadamude suggested that raising the national dairy safety standards might result in a shortage of milk and may create a dependence on imported dairy products. "People will have to resign themselves to any price hikes that foreign dairy producers may impose," he said.

However, Wang tried to refute Nadamude's argument by saying that the lower standards have not benefited farmers who are engaging in small and medium-sized dairy farming, but have instead indirectly compromised the farmers' interests. "Consumers are buying more foreign dairy products, sometimes at high prices or at risk of buying counterfeit products, because they are losing confidence in domestic products with lower standards," said Wang. A series of food safety scandals have erupted in China in recent years, shattering consumers' confidence in domestic food products. A prevailing craze for foreign products and a decrease in demand for domestic ones have emerged, preventing dairy farmers from selling raw milk at profitable prices. Dairy companies are the only beneficiaries of the lowered standards, for they are now able to acquire raw milk and expand their market share in a cost-effective way, according to Wang. Raising the standards, as well as increasing the price of raw milk, is the only way out for the dairy industry, Wang suggested.

Xinhua: China's dairy safety standards trigger controversy, 2011-06-24

Studies from Y.F. Jiang et al in the Area of Health Insurance Described

Diabetes has recently become the leading cause of chronic cutaneous wounds in China. The large population and considerable financial burden mean that serious attention should be paid to the early detection, prevention and diagnosis of chronic cutaneous wounds, and suggest that an overall health insurance system should be established, especially for the elderly.


Medical care system covers most rural residents

China's new rural cooperative medical care system now covers 832 million people, with rural residents getting larger reimbursements for their medical bills, a government official said Friday. The new system brings China's rural health insurance coverage to over 96 percent, said Yang Qing, director of the rural health department of the Ministry of Health at a press conference. Under the new medical insurance plan, reimbursement caps for farmers is raised from 30,000 yuan to 50,000 yuan ($7,600), almost ten times more than what most farmers earn annually, according to Yang. Farmers will be reimbursed for about 70 percent of their inpatient expenditures, 10 percentage points more than in 2010.

Source: Xinhua: Medical care system covers most rural residents, 2011-06-10

Challenges in environmental protection still serious

China admitted that it is facing serious challenges in environmental protection, including pollution from toxic metals aggravating the public and a severely unsafe underground water supply. "We have entered a period when
sudden incidents impacting the environment or pollution accidents are occurring frequently and when environmental pollution is daily causing social contradictions," Li Ganjie, vice-minister of environmental protection, said in a press conference in Beijing on Friday. During the 12th Five-Year Plan (2011-2015), the country will give priority to environment issues involving drinking water, air pollution, heavy metal pollution and soil pollution, Li said.

According to the country's latest environmental assessment report in 2010, more than half of China's cities are affected by acid rain. About 40 percent of major rivers are so polluted that the water can only be used for industrial purposes or landscaping. About 16 percent of the total is unfit for agricultural irrigation. The waters off the booming cities of Shanghai, Tianjin and Guangzhou were rated as severely polluted, with only stretches around the resort island of Hainan and parts of the northern coast given a totally clean bill of health, Li said. Just 3.6 percent of the 471 cities monitored got top ratings for air cleanliness, and there was a continued loss of biodiversity around the country, Li added. Last year, China witnessed 14 major heavy metal pollution incidents, including nine involving lead poisoning. From January to May this year, seven others occurred, Li said. The fast economic development is not only harming quality of water, air and soil, but also damaging the country's last "clean" zone, environment protection zones with about 22 percent of them affected, Li said, adding coal industry is the main polluting source. Safety standards for the nuclear industry need to be raised, especially to prepare for potential extreme weather and geological disasters, according to Li.


**Environmental Monitoring; New Environmental Monitoring Study Results from J. Yin et al Described**

According to recent research from Shanghai, People's Republic of China, "This study explored the spatio-temporal dynamics and evolution of land use/cover changes and urban expansion in Shanghai metropolitan area, China, during the transitional economy period (1979-2009) using multi-temporal satellite images and geographic information systems (GIS). A maximum likelihood supervised classification algorithm was employed to extract information from four landsat images, with the post-classification change detection technique and GIS-based spatial analysis methods used to detect land-use and land-cover (LULC) changes."

"The overall Kappa indices of land use/cover change maps ranged from 0.79 to 0.89. indicated that urbanization has accelerated at an unprecedented scale and rate during the study period, leading to a considerable reduction in the area of farmland and green land. further revealed that water bodies and bare land increased, obviously due to large-scale coastal development after 2000. The direction of urban expansion was along a north-south axis from 1979 to 2000, but after 2000 this growth changed to spread from both the existing urban area and along transport routes in all directions. Urban expansion and subsequent LULC changes in Shanghai have largely been driven by policy reform, population growth, and economic development," wrote J. Yin and colleagues. The researchers concluded: "Rapid urban expansion through clearing of vegetation has led to a wide range of eco-environmental degradation."

Source: Anonymous: Environmental Monitoring; New Environmental Monitoring Study Results from J. Yin et al Described, Information Technology Newsweekly (Jun 21, 2011): 671

**China will strive to meet emission reduction target**

A Chinese official said Thursday that the country will strive to fulfill its emission reduction targets for 2020.
"China will make unswerving efforts to realize its emission reduction target, no matter how international climate change negotiations develop," said Sun Cuihua, vice director of the climate change department of the National Development and Reform Commission. China has pledged to reduce the amount of carbon dioxide produced per unit of GDP by 40 to 45 percent by the end of 2020.

According to Sun, the country will use an array of tactics to meet the target, including pushing forward emission trading systems, using market mechanisms to cut carbon emissions and promoting international cooperation in combating climate change. Sun made the remarks during an international conference currently being held in Beijing. Sun said the Chinese government will fortify its policy of addressing climate change through legislation. China now has nine emission trading bourses in several major cities, including Beijing, Shanghai and Tianjin.

Xinhua: China will strive to meet emission reduction target, 2011-06-24

From carbonization to decarbonization? - Past trends and future scenarios for China's CO\textsubscript{2} emissions

Along the lines of the Kaya identity, we perform a decomposition analysis of historical and projected emissions data for China. We compare the results with reduction requirements implied by globally cost-effective mitigation scenarios and official Chinese policy targets. For the years 1971-2000 we find that the impact of high economic growth on emissions was partially compensated by a steady fall in energy intensity. However, the end -- and even reversal -- of this downward trend, along with a rising carbon intensity of energy, resulted in rapid emission growth during 2000-2007. By applying an innovative enhanced Kaya-decomposition method, we also show how the persistent increase in the use of coal has caused carbon intensity to rise throughout the entire time-horizon of the analysis. These insights are then compared to model scenarios for future energy system developments generated by the ReMIND-R model. The analysis reaffirms China's indispensable role in global efforts to implement any of three exemplary stabilization targets (400, 450, or 500 ppm CO2-only), and underscore the increasing importance of carbon intensity for the more ambitious targets. Finally, we compare China's official targets for energy intensity and carbon intensity of GDP to projections for global cost-effective stabilization scenarios, finding them to be roughly compatible in the short-to-mid-term.

Source: Steckel, Jan Christoph; Jakob, Michael; Marschinski, Robert; Luderer, Gunnar :Past trends and future scenarios for China's CO\textsubscript{2} emissions, Energy Policy, Volume 39, Issue 6, Jun 2011

China economy: Number one

China is the world's biggest energy consumer, according to a BP statistical review published on June 8th. The latest data from the UK-based energy firm suggest that China overtook the US in 2010 and now accounts for over 20% of global energy use. These findings are broadly consistent with the Economist Intelligence Unit's data and forecasts, although we think China has been the world's largest energy user since 2009. China's low per-capita rates of energy consumption mean that its demand will continue to expand rapidly. This trend is a function of the country's economic vitality, but it will also pose serious policy challenges ranging from pollution control to energy security.

BP's Statistical Review of World Energy 2011 features a slew of eye-popping statistics about China's energy profile. For example, the country's overall consumption of energy soared by 11.2% last year, to 2.4bn tonnes of oil equivalent (toe) or 20.3% of the global total. By comparison, the US's energy consumption rose by 3% to 2.3bn toe, or 19% of the global total. At the same time, China's oil production rose by its largest margin ever, reaching 4m
barrels/day. But greater domestic production did little to slake China's thirst for foreign oil, with net imports increasing by nearly 15% in 2010. China also accounted for an extraordinary 90% of the increase in global oil-refining capacity in 2010. China's consumption of other fuels continued to grow rapidly. This includes energy from renewable sources, especially hydroelectric power. Nevertheless, Chinese consumption and production of coal accounted for nearly two-thirds of global growth in both categories in 2010. China's share of global coal consumption is now nearly 50%.

The latest data from BP highlight several noteworthy trends. China will be hard-pressed to tackle the environmental problems associated with heavy reliance on coal. China's rapid growth implies not just a change in the proportion of global energy consumed by developed and developing countries, but also a massive increase in overall global consumption over the next decade. The BP report highlights China's burgeoning dependence on imports.

**Energy consumption, international comparison** (m tonnes oil equivalent)

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<tr>
<th></th>
<th>2009(a)</th>
<th>2010(a)</th>
<th>2011(c)</th>
<th>2012(c)</th>
<th>2013(c)</th>
<th>2014(c)</th>
<th>2015(c)</th>
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<td>474.4(b)</td>
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<tr>
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<td>2,407.3(b)</td>
<td>2,510.3</td>
<td>2,628.7</td>
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<td>322.6(b)</td>
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<td>323.1</td>
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<tr>
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<td>12,802.8</td>
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<td>13,442.9</td>
<td>13,825.8</td>
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(a) Actual. (b) Economist Intelligence Unit estimates. (c) Economist Intelligence Unit forecasts.
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Word count: 763

Source: EIU ViewsWire: China economy: Number one, Jun. 9, 2011

**Railway Revolution Builds China's Consumer Culture**

Since opening the first high speed line between Beijing and Tianjin in 2008, the country has laid down more than 4,600 miles of new tracks. This is three times more than Japan, where the bullet train was invented, and this is just the start. Once completed near the end of this decade, the high speed rail system will connect more than 250 Chinese cities, span 18,641 miles and reach roughly 700 million people. Currently, the high speed rail network connects about one-third of China’s cities. That figure is set to nearly double over the next two years. If current forecasts hold true, 100 percent of the China’s cities will be connected through high speed rails by 2019.

The effect this massive buildout can have on commodities is evident: thousands of miles of new track, hundreds of new stations and dozens of new trains will certainly boost demand for steel. But there’s also a corollary effect that can expedite the transformation of China’s economy. More people traveling across the country means there will need to be more places for them to eat, sleep and shop. Take hotel rooms for example. Currently, the U.S. has just fewer than 5 million hotel rooms spread across the country; China has about half that amount. However, Morgan Stanley forecasts that the two are set to switch places near 2025 as China pushes to offer more than 9 million hotel rooms by 2039. Familiar names such as Wyndham, Starwood and Hilton are planning major additions to their pipelines in China. Morgan Stanley also says that the high speed rail expansion presents opportunities in areas such as consumer staples, car rentals and tourism. The latter is especially important because the average
Chinese citizen is going to be able to explore culturally rich areas of the country that were previously too difficult or expensive to visit. A poll from CLSA’s China Reality Research last year showed that travel remained a top aspiration.

These are all examples of how the dynamics of the Chinese consumer are forever changing. As investors, it’s important to understand these intermarket relationships and how a development in one area of an economy can dramatically affect another seemingly unrelated area of the economy. Being able to spot these trends and developments before they bubble up to the surface is how active money managers can create alpha for their shareholders.


Ready to say 'aloha'

Approximately 66,000 tourists from the Chinese mainland who traveled to Hawaii in 2010. That's a jump of about 35 percent compared with the 2009's data of 49,000, according to the statistics of the Hawaii Tourism Authority (HTA), the lead state agency for Hawaii's tourism industry. The agency also predicted that the number will hit 82,000 by the end of this year, a 24 percent increase. One problem bothers Chinese travelers: There's no regular direct flight from China to Hawaii. Most mainland tourists have to transfer at Inchon Airport in South Korea or Narita Airport in Japan. "It's still premature to have scheduled direct flight connecting China and Hawaii," says Mike McCartney, the president and chief executive officer of HTA. "The visa issue is most crucial reason, and no one can make the commitment yet."

As the visa issue is not what the tourism managers from both countries can do, they have endeavored to offer tourists more convenience - charter flights. China Eastern Airlines scheduled three first-ever charter flights to Honolulu this January and February, around this year's Spring Festival. These three tours were operated by China CYTS Tour, one of the major travel agencies in China, who declared it "just lifted the curtain for American market," according to Gao Zhijun, vice-president of the company. "Another nine charter flights are coming before next year's Spring Festival," HTA's tourism brand manager Goo tells China Daily. "Currently, we plan to have five in summer, three during the National Day holiday, and three for next Chinese New Year." Goo thinks this volume of travelers could stimulate carriers to consider a scheduled nonstop flight in the future.

According to statistics of HTA in January released on the Honolulu Star Advertiser, the largest daily newspaper in Hawaii, "Chinese visitors are expected to spend an average of $368 per person per day this year, compared to just $275 per day for every Japanese tourist." In addition, the average daily spending for all Hawaii tourists is $178.


Hiring outlook is promising, says Manpower

Chinese employers forecast a solid hiring environment in the third quarter with nearly 30 percent of employers planning to increase their work force and more than half intending to keep their payrolls unchanged, according to a survey by the global employment service provider Manpower Inc. Manpower interviewed some 4,000 companies on the Chinese mainland to measure employers' intentions to increase or decrease the number of employees between July and September 2011. The results, due to be published on Tuesday, showed that 28 percent of those surveyed expect to increase hiring, while 54 percent of employers said they will hold on to the staff they have in the
third quarter. The number of employers who expect to reduce their head counts in the upcoming quarter stands at 9 percent, according to the survey. Job seekers are likely to find most opportunities in the next three months in the transportation and utilities sectors and in the country's second-tier cities, according to the survey.

Source: Yang Ning: Hiring outlook is promising, says Manpower, China Daily, 2011-06-14

**China to promote innovation among SOEs**

China will step up its efforts to promote independent innovation and technological advancement among its central state-owned enterprises (SOEs), the State-owned Assets Supervision and Administration Commission (SASAC) said Thursday. Scientific and technological advancement will contribute more than 60 percent to the growth of the country's central SOEs during the 2011-2015 period, SASAC chairman Wang Yong said at a work meeting. Speeding up innovation is now an urgent priority for central SOEs, as they must enhance their core competitiveness in the face of a rapidly changing global marketplace, Wang said.

Central SOEs should integrate foreign technologies and use them to create new products with independent intellectual property rights, he said. The SASAC will design new measures and improve current policies to create a more favorable environment for central SOEs, he added. Before the meeting, the SASAC signed a memorandum with the Ministry of Science and Technology to jointly promote innovation among central SOEs. According to a work plan issued by the SASAC, the number of authorized patent applications filed by central SOEs will double over the next five years.

Xinhua: China to promote innovation among SOEs, 2011-06-24

**China defines functions of regions to sustain development**

China's top economic planner, the National Development and Reform Commission (NDRC), said Wednesday that the central government has carefully defined the functions of regions at local levels with differentiated policies to sustain the country's development. Xu Xianping, vice minister of NDRC, said at a press conference that local governments must optimize, accelerate, restrict or prohibit industrial development in different regions according to the defined nature.

According to NDRC's function-dividing plan, economic development must be optimized in the regions of the Bohai Rim, the Yangtze River Delta and the Pearl River Delta, where gross domestic product (GDP) accounts for about 40 percent of China's total. Priorities are given to development in 18 zones in central and western China, where resources are rich and the environmental capacity is good for further urbanization. At the same time, industrial development in 25 major ecological zones and seven major grain-producing zones will be restricted; while development in the country's nature reserves will be prohibited, according to the national plan. Xu said the differentiated functions were of strategic and fundamental significance and with binding force.

The new functional divisions of regions will change the way the central government evaluates the performance of local officials, it said. China's current evaluation system of officials' performance is considered by critics as too GDP-centered, thus often catalyzing officials to pursue GDP growth at a cost to the environment. To solve the problem, evaluation indicators such as economic structure, resource consumption, environmental protection, scientific and technological renovation, migrant population and public services will be emphasized in regions where their development should be optimized. Yang Weimin, secretary-general of NDRC, said the functional definitions aim not to narrow the GDP gap between different regions, but to offer equal basic public services and
bridge the residential income gap for people living in different regions. To boost the establishment of different functional zones, the central government offers a package of policy support in fields of fiscal input, investment, industries, land use, agriculture, population, ethnic groups, the environment and the climate change, according to the function-dividing plan.

Source: Xinhua: China defines functions of regions to sustain development, 2011-06-9

**China's rich swoop on homes overseas**

An increasing number of China's rich are snapping up properties overseas in the expectation that domestic inflation will continue to rise after the consumer price index reached a 34-month high in May. According to Colliers International, a real estate service provider, the proportion of Chinese buyers in Vancouver's property market is on the rise. At the end of the first quarter this year, it increased to 29 percent of all homebuyers. In the past six months, Chinese spent 1.3 billion yuan ($200 million) through Colliers' international property department, with Canada, the UK and Australia topping the buying list. "We are expecting a clear increase in the extent of mainland buyers' purchases of overseas properties this year because of the government's rigorous restraint on the number of homes a family can buy in key cities," said Alan Liu, managing director of Colliers International (North Asia). Due to the latest financial push from China, the average price of a home in Greater Vancouver rose 12 percent in 2010 and is expected to rise another 3 percent this year, according to the Canada Mortgage and Housing Corporation. "Purchasing properties is necessary for the super-rich to allocate their resources globally, but it might not be a good choice for domestic investors from the middle class because it implies that you are betting on the depreciation of the renminbi," said an industry expert helping people purchase properties overseas who declined to be named. "Meanwhile, property prices in mature markets are usually steady, without too much room for price appreciation."

Source: Hu Yuanyuan: China's rich swoop on homes overseas, China Daily, 2011-06-28

**From a seller's to a buyer's market**

Thirty years ago, commodities were scarce and a ration system was still in place. Coupons were issued not only for food and fuel, but also for bikes and televisions. Coupons ruled everything and even if you had money, you could not make purchases without coupons. Retail was still controlled by the government and was seen only in the collectively-owned stores. A few agricultural markets continued to exist in the countryside, but they were considered "the tail of capitalism" and soon ceased to exist. The lack of competition between them, resulted in poor performance and consumer service. No new retail formats or service innovations were introduced for decades. It was not uncommon for retail buyers to use backdoor relationships to get much-wanted goods.

With policy relaxation over the past 30 years, the transformation of the retail sector has been dramatic. It began in the 1980s with the breaking of the stranglehold of the State and collectively-owned stores, leading to an influx of individual retailers and the restoration of agricultural markets. The government also took steps to abolish the procurement and sales system, and reduce the number of consumer goods that were under the purview of planned prices. The early 1990s saw foreign retailers making their way into China, bringing with them new retail concepts, technologies and know-how. Carrefour was one of the early birds.

While the retail sector has grown, China has also flipped from a seller's to a buyer's market. From having next to no choice, consumers are now spoilt for choice, both in terms of what to buy and where to buy. Competition
between retailers has become fierce, spilling out of the big cities and cascading into the smaller cities across the nation. Retailers now have to strive to better understand consumers and satisfy their needs, and thus we are starting to see many of the world's best retail practices being adopted in China. Though there are very few markets in the world that are as open to new ideas as China, not all retail models can simply be transplanted from the West.

Source: James A.C. Sinclair: From a seller's to a buyer's market, China Daily, 2011-06-01

How can retailers crack China?

At the end of 2010. Its middle class is now estimated at 300 million and already approaching the size of the entire population of the US. The big questions for UK retailers are how they make this enormous market work for them, and how they keep up with the pace of change China has become associated with. However, as the Chinese retail market matures, competition from domestic retailers will get fiercer. "Never underestimate how quickly the Chinese learn," says Guy Salter, deputy chairman at Walpole, an industry body for the UK luxury sector. They are quickly getting the hang of mass market retailing, and foreign retailers will need to stand out. For some, this means using their brand to make them distinguishable in a crowd. Any retailer with something different to offer will have a big advantage. Apple, for instance, has a higher sales per square foot in its Shanghai store than it does anywhere else in the world. Gieves & Hawkes deputy chairman Mark Henderson said at a Walpole summit on luxury retailing in China this month that the menswear chain's most profitable store in the world is Chinese. Manufactured success. Kingfisher opened its first B&Q store in China in Shanghai in 1999, and now has 40 across the country. As it works to establish a stronger presence, Cheshire says it is looking at manufacturing its own range of products for the Chinese market. "We've found the market is driven by manufactured brands, not retailers. Our challenge is to establish our own-label operation, which is what we've started to do."

Retailers that can't differentiate themselves through product must do so via price, which is difficult when competing against cheap Chinese stores for strongly price-conscious Chinese consumers. Or, they must simply be the best merchants around and tailor their offer carefully to the local population. There have certainly been some high-profile exits, such as US electronics retailer Best Buy, which announced its retreat in March this year. Success in China is certainly never taken for granted, even by the biggest names.

Chinese-driven growth isn't just related to opening stores in the country - one other opportunity it has presented is the spending power of the Chinese tourist. Chinese tourists have become key consumers for many UK retail brands, but many think they've not reached their potential yet. London-based retailers have expressed their frustration before over the struggle wealthy Chinese people sometimes have to get into the UK - the reluctance of the UK government to release more visas puts too many off, they say. Harrods managing director Michael Ward said at the Walpole summit that four years ago Chinese consumers produced the equivalent of one third of the business US customers brought into the department store. Now, Chinese spending is four times the size of US spend.

Source: Anonymous: How can retailers crack China?, Retail Week (Jun 07, 2011)

Experts warn of subsidence threat along new railway

Railway experts have called on local governments along the Beijing-Shanghai high-speed rail line to stop jeopardizing the landmark project by drawing underground water. Subsidence of the foundation of the Beijing-Shanghai high-speed railway must be kept within 5 millimeters in 100 years, if trains run at 380 km/h on
the 1,318-km-long line. To achieve the goal, "extraction of underground water within a certain range of the Beijing-Shanghai high-speed railway must be prohibited and should be written into law", Wu Kejian, deputy director of the science and technology department with the Ministry of Railways, said.

The remarks coincide with the news that the $17.6-billion high-speed railway linking Taipei and Kaohsiung has a section between Yunlin and Changhua facing problems of ground subsidence and may have to be closed in 10 years should the problem remain unsolved. The railway was put into service in 2007.

Shanghai had a long-standing problem of ground subsidence caused by underground water extraction. The problem aroused public concerns in 2007, when the city's ground subsided 7.5 cm on average, according to a report by Xinhua. Not only Shanghai, but also the whole Yangtze River Delta is among the areas in China most affected by ground subsidence. Experts said that over-extraction of underground water and improper urban construction caused the problem. The Ministry of Railways and the provinces along the line had issued circulations during the project banning underground water extraction in a certain range on both sides of the Beijing-Shanghai high-speed railway, he said. According to media reports, Shanghai has restricted annual underground water extraction from 20 million cubic meters in 1965 to less than 8 million cu m and replaces water underground every winter. Jiangsu province also closed thousands of wells in areas suffering subsidence. Complicated geological conditions in that area could also cause unwanted land subsidence. For example, some areas between Xuzhou and Shanghai have karst caves; an earthquake rupture belt exists in the section between Bengbu and Chuzhou in Anhui province; and the land in Changzhou, Jiangsu province, and in Shanghai is as soft as tofu because it was formed by silt that piled up from the sea over centuries. Guo said measures taken in the Yangtze River Delta include laying rail tracks on bridges with long foundation piles that reach deep into the land. "Most of these foundation piles built on soft land could reach 50 meters into the ground, some even to 100 meters," he said.

Per capita railway mileage in China is only 6 cm, shorter than a cigarette, Xinhua reported earlier.

Source: Xin Dingding and Xu Wei: Experts warn of subsidence threat along new railway, China Daily, 2011-06-16

Beijing shows off latest fast rail link

As China unveiled a shiny new high-speed train connecting the great metropolises of Beijing and Shanghai on Monday there was one thing conspicuously absent from the comfortable new carriages: a speedometer. Despite a design speed of 350-380 km/h, trains on the longest high-speed line to be built in one go will travel at a maximum operating speed of 300 km/h and about a third of the trips between the two cities will travel at just 250 km/h. A one-way ticket from Beijing to Shanghai costs Rmb1,750 ($270) to travel business class and Rmb555 for second class.

The ministry has declared its intention to shift from “leapfrog development” to “sustainable development” and it has shelved some of the more ambitious high-speed rail blueprints, lowered average speeds on all high-speed lines and promised to rein in soaring debt levels. Under Mr Liu, borrowing by the railway ministry leapt from Rmb77.1bn in 2007 to Rmb1,980bn by the end of March this year, according to data from the National Audit Office.

Ministry officials have repeatedly insisted in recent years that China has been able to “absorb and digest” high-speed train technology it bought from international companies such as Siemens, Alstom, Kawasaki and Bombardier and then “re-innovate” to create its own intellectual property. But Zhou Yimin, former deputy director of the ministry’s high-speed department, said when China bought foreign technology, the purchase contracts stated
that trains should not run faster than 300 km/h but the ministry under Mr Liu had ignored safety issues and fixated on running trains faster and faster. Issues over intellectual property, safety and reliability are ever more important to China’s state-controlled high-speed rail industry, which is seeking to expand into international markets. Chinese railway construction companies are already building high-speed lines in places such as Saudi Arabia and Turkey and are expected to play a bigger global role in track and infrastructure construction. 

Source: Jamil Anderlini in Shanghai: Beijing shows off latest fast rail link, Financial Times, June 27, 2011

China Opens World's Longest Cross-Sea Bridge

When the new Qingdao Jiaozhou Bay Bridge opened to traffic this week in China, it made the Guinness World Records for the longest cross-sea bridge in the world. The 26.4-mile long and 110-foot wide bridge stretches across the bay, linking the Huanghai district to the city of Qingdao and Hongdao Island. China spent 17 years planning and designing the engineering marvel to be able to withstand the bay’s high salt content and icy winters. Yet, it only took four years to build, with at least 10,000 workers on the construction team. The Xinhua news agency says about $2.3 billion was spent, and 450,000 tons of steel and 81 million cubic feet of concrete were consumed in its construction. An estimated 30,000 cars are expected to make the trek across the bay each day. Residents already traveling between Huangdao and Qingdao will have their trip cut in half, from 40 minutes to 20 minutes.

While the bridge made headlines for breaking a world record, it is only one of many major infrastructure projects planned by China. In only a few short years, the country has been redefining urbanization at a phenomenal scale: From 2005 through 2025, Chinese cities will add more than 350 million people, which is the entire population of the United States; More than 200 Chinese cities will have more than one million inhabitants. Europe today has 35 cities of that size; There will be 50,000 new skyscrapers, the equivalent of ten New York Cities. Many of these urban residents have rising incomes and discretionary income to purchase cars and upgrade their homes in pursuit of a better life—just like the American dream. To accommodate this rapid economic development, rising middle class and growing car ownership, China has been ramping up its transportation system. Similar to our story of China’s high speed rails, the magnitude of opportunity is expected to span across many industries, including tourism, restaurants, hotels, construction, property, rail, roads and airlines. 


China advised to 'put a brake' on tobacco industry

Chinese policymakers should consider putting a brake on the growth of the country's tobacco industry, which produces one third of the world's cigarettes, a prominent economist and policy advisor has said. Hu Angang, director of the Research Center for Contemporary China at Tsinghua University, said in an interview with Xinhua that the tobacco industry "can not be allowed to grow any stronger." Industry figures show that China produced 2.38 trillion cigarettes in 2010, rising a staggering 40 percent over the past decade. The tobacco industry currently generates about 7 percent of the government's annual revenue. But the country's tobacco revenue has been overshadowed by lost productivity and the overwhelming medical costs linked to tobacco-related sickness and deaths since 1999, Hu said in the interview just before the World No Tobacco Day on Tuesday.

Last year, the cost incurred by people smoking outweighed the tobacco profits and jobs created by 61.8 billion yuan ($9.5 billion), Hu said, citing one of his recent studies published earlier this year. "If we take into account that tobacco kills 1.2 million Chinese every year, the tobacco industry's 'contribution' to society is not even worth
mentioning," he said. Hu said the Chinese policymakers should take advantage of the state monopoly to put a lid on the tobacco industry's growth, reducing its production and profits while encouraging tobacco industry workers to seek other jobs. There are about 300 million adult smokers in the country. Millions of Chinese also rely on the tobacco business, from farming to retailing, for a living, industry estimates show. "The success of China's tobacco control campaign largely hinges on the political will and actions taken by the leadership," Hu said. "The government should deal with the matter with the same focus as it has given on HIV/AIDS control." "Without China's success, global tobacco control can not make big strides," he added.

Source: Xinhua: China advised to 'put a brake' on tobacco industry, 2011-06-01

**China's industrial output to grow 13.5% in H1**

China's industrial added-value output growth is expected to register an increase of about 13.5 percent year-on-year in the first half of 2011, according to an official report released Thursday. Growth for the first half of this year is forecast to be 0.7 percentage point lower than that in January-April, according to the joint report by the Ministry of Industry and Information Technology (MIIT) and the Chinese Academy of Social Sciences. Industrial value-added output rose 14.2 percent year-on-year in the first four months, 4.9 percentage points lower than the same period of last year, according to MIIT. Calling the industrial economic momentum "steady" in the first four months, the report urged preparations for "quite a few" difficulties and problems, such as rising costs, power shortages, squeezed liquidity and soaring inventories in the coming months.

Source: Xinhua: China's industrial output to grow 13.5% in H1, 2011-06-02

**China's non-manufacturing sector growth slows in May**

China's non-manufacturing sector posted slower growth in May, with a drop of the Purchasing Managers Index (PMI) for the sector, the China Federation of Logistics and Purchasing (CFLP) said Friday. As a key economic leading indicator, the PMI of non-manufacturing sector weakened to 61.9 percent in May, down 0.6 percentage point from April.

Source: Xinhua: China's non-manufacturing sector growth slows in May, 2011-06-03

**CHINA: Drought and floods reopen water debate**

After the worst drought in 60 years, south-western and central China have suffered torrential rain since the first week of June, causing lethal floods. By June 13, there were 97 deaths and nearly 8,000 houses destroyed, and 200,000 people have been evacuated from their homes. This combination of extreme weather has imposed large social and economic costs and raised fears that crop failures could affect world food prices. The drought, in particular, highlighted risks that growing water stress poses to China's macroeconomic health.


**China's industrial businesses' profits up 27.9%**

Profits for China's industrial businesses rose 27.9 percent year-on-year in the first five months of this year to hit 1.92 trillion yuan ($296.80 billion), the National Bureau of Statistics (NBS) announced on Monday. The growth rate, however, was 1.8 percentage points lower than that of the first four months of this year. The report was based on a survey of industrial companies with annual sales exceeding 20 million yuan each. Survey of industrial
companies before 2011 used a sales threshold of 5 million yuan. Combined profits for State-owned and State-controlled companies increased by 19.6 percent year-on-year to 633.4 billion yuan, while those of collective-owned companies jumped 29.8 percent to 29.8 billion yuan. In the first five months, foreign-funded enterprises and those funded by investors from Hong Kong, Macao and Taiwan registered a combined annual profit increase of 15.4 percent, totaling 517.7 billion yuan, the NBS said. Out of the 39 industries surveyed, 37 reported year-on-year profit growth in the January-May period, while two reported declines in profit growth. The oil production, coke making and nuclear fuel production sectors shrank 51 percent and the ferrous metal melting and production sector dropped 1.1 percent in profits year-on-year in the first five months.

Source: Xinhua: China's industrial businesses' profits up 27.9%, 2011-06-27

**Full steam ahead for high-speed rail patents overseas**

Beijing - China's railway sector will stick to its strategy to explore high-speed rail markets overseas, a railway ministry spokesman said. "Since we have stepped out, we won't withdraw," Wang Yongping, spokesman with the Ministry of Railways, told a news conference on Monday, in answer to a question about how China would deal with obstacles in exporting its high-speed rail technologies. China is now filing patent applications for its high-speed railway technologies in regions including the United States, Brazil, Europe, Russia and Japan, which is an indispensable step for tapping overseas markets, according to Li Jun, director of the general affairs office of the transport bureau under the ministry. He told China Daily in a written reply on Monday that 21 patent applications have been filed under the Patent Cooperation Treaty in these regions. The subjects of the applications are technologies including the high-speed trains' assembly, hull and bogies. So far, eight of the 21 applications have passed a preliminary examination and entered the next stage related to the examination of the application and issuance of patent, he said. At home, 1,902 applications concerning high-speed railways have been filed, among which 1,421 patents have been issued. The efforts are expected to pave the way for CSR Corporation Limited, one of China's two manufacturers of high-speed trains, to enter the US market.

Last December, CSR and General Electric (GE) signed a joint venture agreement to make high-speed trains in the United States. Liu Gang, deputy director of the equipment department of transport bureau under the ministry, told the news conference that CSR and GE are now in discussions about transferring CSR's high-speed train technologies to GE.

CSR Qingdao Sifang Co Ltd partnered with Japan's Kawasaki Heavy Industries in 2004 to produce a 200-km/h train that Kawasaki transferred to China. Based on the platform, the company developed a 300-km/h train and later the CRH380A train with a top speed of 380 km/h, which will operate on the Beijing-Shanghai high-speed railway starting this Thursday. Ma Yunshuang, deputy general manager and technology director of CSR Qingdao Sifang Co Ltd, told China Daily earlier that after experiments and upgrades to suit China's rail system, the CRH380A is totally different from the train prototype imported from Japan. "Our technologies may originate from foreign countries, but it doesn't mean that what we have now all belongs to them. We have added our knowledge gained from experiments to the train and made designs to satisfy our needs, so the new train is not theirs anymore."

Source: Xin Dingding: Full steam ahead for high-speed rail patents overseas, China Daily, 2011-06-28

**China backing nations' battle against debt crisis**

After announcing the purchase of Hungarian bonds at the start of his visit to Europe, Premier Wen Jiabao on
Saturday further assured nations in Central and Eastern Europe about Beijing's commitment to support their efforts to beat the debt crisis. "China is a responsible long-term investor in the European financial market. We support the economic and financial adjustment measures adopted by Central and Eastern European countries and have confidence in their financial markets in the future," Wen said while addressing a forum to encourage business ties between China and the region at the Hungarian Academy of Sciences. The premier announced earlier on Saturday, after meeting his Hungarian counterpart, Viktor Orban, that China will consider buying a "certain amount" of Hungarian bonds and continue supporting Europe and the euro. Hungary has been severely hit by the financial crisis and economic recession since 2008 and has a high fiscal deficit and public debt ratio.

Beijing had earlier extended a helping hand to several European counties - including Greece, Spain and Portugal - by purchasing bonds. "We are willing to explore all kinds of effective ways of cooperation and will continue to support the development of Central and Eastern European countries," Wen said. He listed reasons behind his confidence, citing rich natural resources, solid economic foundations and strength in technology and education in the region as positives.

Nations in Central and Eastern Europe, many former members of the Soviet Union, have long maintained good relations with China. Most established diplomatic ties with Beijing very soon after the founding of the People's Republic of China in 1949. However, the premier said he believed China's current trade volume with the region to be limited, accounting for less than 10 percent of that with the European Union. To resolve the problem, he offered plenty of advice and asked both sides to ink "some big landmark projects" in the area of infrastructure construction. He also said China would like to accelerate the creation of the Eurasia railway line to facilitate transportation.

Source: Li Xiaokun: China backing nations' battle against debt crisis, China Daily, 2011-06-27

Business: The end of cheap goods?; Chinese manufacturers

"It is the end of cheap goods," says Bruce Rockowitz. He is the chief executive of Li & Fung, a company that sources more clothes and common household products from Asia than perhaps any other. In the low-tech areas in which Li & Fung specialises, the firm handles an estimated 4% of China's exports to America and a sizeable chunk of its exports to Europe, too. It has operations in several East Asian countries, where it diligently searches for cheap, reliable suppliers of everything from handbags to bar stools. So when Mr Rockowitz says the era of low-cost Asian production is drawing to a close, people listen. He argues that Asian manufacturing has gone through a number of phases, each lasting about 30 years. Chinese wages are rising fast. A wave of new demand, especially from China itself, is feeding a surge in commodity prices. Manufacturers can find some relief by moving production to new areas, such as western China, Vietnam, Bangladesh, Malaysia, India and Indonesia. But none of these new places will curb inflation the way southern China once did, he predicts. All rely on the same increasingly expensive pool of commodities. Many have rising wages or poor logistics. None can provide the scale and efficiency that was created when manufacturers converged on southern China.


China sees import expansion as long-term strategy

Increasing imports is not a temporary measure for China, but a long-term macro-economic strategy, Yao Jian, spokesman for the Ministry of Commerce, said on Wednesday. Yao stressed the importance of import expansion in
balancing China's economy during a press conference held in Beijing. The government will continue to create favorable trade, tax and financing policies to boost imports, Yao said, adding that the measures taken by the country have caused import growth to outpace export growth over the last 17 months. China's imports grew by 29.4 percent year-on-year during the first five months of this year, compared with a 25.5 percent increase in exports. The country's trade surplus dropped 35.1 percent year-on-year to reach $22.97 billion during the same period.
Source: Xinhua: China sees import expansion as long-term strategy, 2011-06-15

Eastern Europe/China economy: The waking giant

China's growing economic links in recent years with other regions, particularly Africa and Latin America, have been widely covered. Not so its growing ties with eastern Europe. Largely, this is because China's economic presence the region remains moderate outside of Central Asia, despite recent growth. However, its role will continue to expand, and this may eventually have political implications.
Initially, China's increased activity in eastern Europe was mainly motivated by its quest to lock in energy and raw-materials supplies. However, the aims have broadened to securing access to new markets, including those in (or with prospects of joining) the EU. Its imprint is strongest in the Commonwealth of Independent States (CIS), where it poses a direct challenge to the regional heavyweight, Russia. Economic links have grown particularly strongly with Central Asia, driven by geographical proximity and Central Asia's substantial energy endowment. Kazakhstan leads the way Economic ties between China and Turkmenistan, the other main energy producer in Central Asia, have also grown significantly since 2007.

Chinese involvement in Central Asia is a direct challenge to Russia's role in the region. China has helped the region to break its dependency on Russia to get its energy supplies to external markets. There is a general feeling that one of Russia's motives for pushing a customs union that became fully operational between itself, Belarus and Kazakhstan last year was to counter China's growing share of regional trade (the Kyrgyz Republic also agreed to join the customs union this year). Despite China's encroachment on Russia's traditional sphere of influence, ties between Russia and China are deepening as the two countries gradually overcome their mutual suspicion. To a large extent, as with Central Asia, growing links have been driven by energy-trade considerations: China's bid to tie in energy supplies and Russia's desire to diversify its own energy export markets. Western Europe remains Russia's main export market. However, this market has been sluggish and China's rapidly-growing market offers huge new potential.

Buying China

Now, China's government expects to double retail sales in the country in the next five years, taking consumption from 45 percent of GDP to 55 percent of the national economy. "The domestic (Chinese) market will become an increasingly important part of the country's GDP," Lewis said. "The biggest challenge will be the development of domestic logistics. Domestic logistics is not nearly as sophisticated as the export-oriented logistics, particularly in areas such as the use of intermodal transport."

China signs $4.3b deals with UK
Trade deals worth $4.3 billion, including a $2.46 billion agreement on building a "clean coal" plant between China Energy Conservation and Environmental Protection Group and British Seamwell International Ltd, were signed as Premier Wen Jiabao met British Prime Minister David Cameron on Monday. The two leaders signed 12 agreements and restated their desire to double bilateral trade to $100 billion by 2015. On human rights, Wen said at a news conference that there should not be any "finger-pointing" at China over the issue. British gas company BG Group signed an agreement with Bank of China that allowed for up to $1.5 billion of new funding options to support BG's growth plans. The agreements will help British companies work with China in several key areas, including architecture, civil engineering, remote sensing satellite and research and development.

The two leaders also discussed cultural and educational exchanges between China and the UK and global issues such as international security, Libya and climate change. Wen said China was talking to both sides in Libya because the conflict would only be resolved by Libyans themselves, adding: "Foreign troops may be able to win a war, but they can hardly win peace."

Source: Li Xiaokun and Zhang Chunyan: China signs $4.3b deals with UK, China Daily, 2011-06-28

**China, Germany sign $15 billion deals**

China and Germany signed deals worth more than $15 billion on Tuesday as the leaders of the world's top two exporters set a target of doubling their annual trade by 2015. One of the highlights of the ceremony was China's purchase of 62 A320 aircraft from Airbus SAS. Other contracts, among the 14 deals signed, included an electric car project between German auto giant Volkswagen and its Chinese partner FAW and a factory in Foshan. Volkswagen also signed a deal with Shanghai Automotive Industry Corporation, while Daimler and the Beijing Benz Automotive Company inked an agreement on investment in new products, engines and a research and development center. A range of government-to-government cooperation projects covering energy, finance and the environment were also among the deals signed. "We both take the view that what is good can become better," Merkel said.

China is prepared to buy more high-quality German goods, Wen said, but he also called for Berlin to quickly grant it formal recognition as a full market economy to help remove trade obstacles. "We are not forcing anyone into technology transfer," he said and urged Germany to seek a loosening of EU restrictions on technology exports. Germany is Europe's biggest technology exporter to China. By April, contracts worth $52.2 billion, covering a total of 15,448 transfers to China, had been signed. The contracts involved the transportation, telecom and chemical sectors. Though China has a trade surplus with Europe, it actually runs a deficit with Germany. Imports from Germany increased 33.4 percent in 2010, resulting in a $6.29 billion deficit.

Source: Li Xiaokun and Fu Jing: China, Germany sign $15 billion deals, China Daily, 2011-06-08

**AmCham lists six consumer trends in China**

The American Chamber of Commerce in Shanghai (AmCham Shanghai) released on June 13 a report revealing the six fundamental trends impacting the consumer market in China, China Business News (CBN) reported Tuesday. The research report, “China Consumer Market Strategies 2011”, was jointly issued by AmCham Shanghai and Booz & Company, an international management consulting firm. The report is based on a survey of 135 companies doing business in China.

The key trends listed include increasing use of the Internet and other mobile communications, and a change in expectations among consumers based on external exposure such as overseas trips and access to media. A third trend
is the rising mobility of Chinese consumers because of major investments in roads, trains and other transportation infrastructure. The three other trends are: changing demographics, the evolution of the family unit and changes in work-life balance among China’s consumers. Chinese companies that want to become more competitive in the country’s high-end consumer market should focus more on quality, branding and service, the report also stated.

Source: Yin Mingzhe: AmCham lists six consumer trends in China, China Daily, 2011-06-14

23% of foreign investment went into property in 2010

A total of 23 percent of foreign investment in China went into the real estate sector last year, the country's foreign exchange regulator said on Thursday. The ratio of foreign investment in the property sector remained well above 10 percent over the past 10 years, with such investment growing rapidly since 2006, said the State Administration of Foreign Exchange (SAFE) in its 2010 annual report. No sizable speculative money inflows were detected, but there were small volumes of "hot money," which stole into China mainly under the cover of trade, the report said.

Source: Xinhua: 23% of foreign investment went into property in 2010, 2011-06-17

Overseas Chinese entrepreneurs urged to help

Chinese Vice president Xi Jinping is encouraging overseas Chinese business people to participate in China's next stage of development and promote communication and cooperation between China and the rest of the world. China's ongoing economic restructuring and transformation of its development pattern offers important opportunities for overseas Chinese entrepreneurs, said Xi, while meeting on Friday representatives from the Overseas Chinese Entrepreneurs Association who were in Beijing attending the association's second congress.

People of Chinese origin residing overseas, returned overseas Chinese and their relatives, as well as overseas Chinese entrepreneurs have made significant and irreplaceable contributions to China's development in the past, he said. Xi encouraged the meeting's attendees to actively participate in China's modernization and push forward communication and contact between both sides of the Taiwan Strait. He also hoped that overseas Chinese compatriots could play a major role in boosting cross-culture exchanges and expanding economic cooperations between China and other nations.

Xinhua: Overseas Chinese entrepreneurs urged to help, 2011-06-24


-- China Business Process Outsourcing market will cross US$ 7 Billion by the end of 2014
-- Human Resource Outsourcing will be more than more than 40% by the end of 2014
-- As at 2009, Dalian was home to over 890 software and service outsourcing enterprises
-- In 2009, the signed and executed contract value of Harbin's offshore outsourcing services were more than US$ 2 Billion and over US$ 290 Million, respectively
-- In 2008, Qingdao city approved 640 foreign investment projects
-- In 2009, the signed contract value of Tianjin's city offshore outsourcing services amount was more than US$ 300 Million
-- At the end of 2009, a total of 70 Fortune 500 companies invested in 111 projects in Hangzhou
Beijing, Tianjin, Shanghai, Shenzhen, Guangzhou, Chongqing, Dalian, Chengdu, Xian, Jinan, Hefei, Nanchang, Nanjing etc. are some most popular cities for Outsourcing industry in China


**Japan set to boost China investment**

Japanese investment in China is set to surge as it transfers manufacturing bases from areas damaged by the March earthquake and tsunami, boosting China's foreign direct investment (FDI), the Ministry of Commerce said on Wednesday. To aid Japan's economic recovery, China plans to "send trade and investment delegations to the country in the coming months, and increase imports from Japan", Yao Jian, ministry spokesperson, said. Yao was speaking at a monthly news conference during which the ministry announced China's FDI figures for the past five months. FDI rose 13.43 percent year-on-year in May to $9.23 billion, the lowest increase this year, compared with 15.21 percent in April. But it surged 23.4 percent, from January to May, to $48 billion, with 10,543 foreign entities setting up in China.

Following the March earthquake many Japanese companies will move their manufacturing facilities to China, Yao said. From January to March, Japanese companies invested $1.83 billion in China, making it the country's largest investor, from second largest after Singapore in 2010. The figures for April and May are not yet available. In a recent exclusive interview with China Daily, Dai Hakozaki, deputy director of the Japan External Trade Organization Beijing, said China is likely to witness a new wave of Japanese companies transferring production lines. Regions hit by the quake and tsunami were major manufacturing areas and provided vital parts for the auto and electronics industry. As a result, Japanese manufacturers in China have suffered due to the loss of these components. Japan's auto and mechanical equipment industries are the two main sectors that have invested in China, accounting for a combined 32 percent of Japan's investment in the country from January to September last year.

But some analysts voiced caution. Investment opportunities in the country have attracted a large and growing number of international brands. German chemical giant BASF announced plans on Wednesday to invest 40 million euros ($57 million) in its Shanghai production center to double production capacity. Italian luxury company Prada plans to add 12 stores a year over the next three years to its existing 18 stores. But investment from the United States dropped 24.12 percent year-on-year to $1.29 billion. "The slow and unstable economic recovery in the US led to the decrease," said Yao. "We expect more US investment in China's service sector. But we need to study how to make it happen."

Source: Ding Qingfen and Zhou Siyu: Japan set to boost China investment, China Daily, 2011-06-16

**Guangdong fair yields deals worth $8.9b**

Foreign-funded firms that were previously export-oriented sought to explore the booming domestic market at a recent fair to combat the aftermath of the global economic downturn. They clinched 5,960 agreements or letters of
intent - an 11 percent increase over last year - valued at 57.71 billion yuan ($8.9 billion) - a 7 percent increase - at the third annual Guangdong Foreign-invested Enterprises Commodities Fair in Dongguan, Guangdong province, according to the fair's organizer. Nearly 1,000 foreign-funded enterprises engaged in manufacturing in Guangdong and 19 enterprises from the special administrative regions of Hong Kong and Macao, and provinces such as Hunan and Hainan, showed products ranging from home appliances, food and beverage and garments to toys. The fair, launched in 2009, when China's export sector bore the brunt of the global economic downturn, has helped build experience in expanding domestic demand, optimizing trade structures and upgrading the manufacturing sector, said Yu Jianhua, assistant minister of commerce.

Guangdong's authorities have been working to upgrade the export-oriented processing trade industry in the province, encouraging companies to sell to the domestic market. About 33,000 companies are engaged in the processing trade in Guangdong, generating $446.08 billion in imports and exports last year, which accounted for 56.9 percent of the total imports and exports in the province and 38.5 percent of all processing trade enterprises in China. Processing trade companies in Guangdong sold products worth 1,161.5 billion yuan to the domestic market last year, according to official statistics.

Source: Li Wenfang: Guangdong fair yields deals worth $8.9b, China Daily, 2011-06-28

**What the West Doesn't Get About China**

When many managers think about China, they imagine a container ship whose hold and deck are brimming with cartons of toys, clothing, iPhones, and other goods bound for the world's consumer markets, whose populations power China's economic engine. That view couldn't be more wrong. Despite the Chinese government's well-publicized program to encourage domestic consumption, few Westerners grasp just how much progress the country is making on this front. Although millions of peasants live on subsistence wages, millions more Chinese are moving to urban centers and achieving a recognizably middle-class lifestyle. To be sure, despite its rapid progress China is still far from self-sufficient in a number of areas. It remains dependent on foreign multinationals for market access--many Chinese companies lack the ability to generate significant export trade on their own. The country can provide a college education for a growing share of the population but still relies largely on foreign universities for top-flight graduate education. Western companies will increasingly be on their own when dealing with many of the politically based difficulties of doing business in China. The power of Western governments to impose their will on the Chinese is diminishing rapidly--if it was ever really there at all--as the rise of China's own markets makes the country less dependent on Western companies. Competing in China will have less to do with government policy and more to do with offering the right products and services to the right customers at the right price.

Source: Stalk, George; David, Michael: What the West Doesn't Get About China, Harvard Business Review 89. 6 (Jun 2011)