China News in Brief

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China to take steps to boost consumption

China has vowed to take fresh steps to stimulate consumption as its economy slows under the weight of weakening exports and a property market downturn. In announcing the plan on Thursday, Chen Deming, commerce minister, also said that China’s trade surplus fell to about $160bn last year, its third straight annual decline – a trend that could pave the way to slower renminbi appreciation. Mr. Chen said Beijing was researching a series of new measures to boost spending on energy-saving products, tourism and online shopping. He also said that the government was looking to replace subsidies for vehicle and appliance purchases that expired at the end of last year and had been very successful.

China has ample room to stimulate consumption. Household spending accounted for half of gross domestic product two decades ago but dwindled to just 33.8 per cent of GDP in 2010, a record low for a major economy in peacetime. The most important motor of the Chinese economy’s breakneck expansion over the past two decades has been capital-intensive investment. Beijing still has the fiscal power to pursue major investment projects – in one key initiative it is building millions of units of affordable housing. But there is less scope for the massive infrastructure spending that it used to revive the economy in 2008.

Source: Simon Rabinovitch in Beijing: ‘China to take steps to boost consumption, Financial Times, January 5, 2012

Fast urbanization set to drive consumption

China's urbanization rate surpassed 50 percent for the first time ever last year, and city dwellers' growing purchasing will help boost consumption and the nation's economic transformation, said analysts. Urban residents accounted for 51.27 percent of the population in 2011, up 1.32 percentage points from 2010. The increasing number of urbanites offers huge potential for consumption as the average income of urban residents is about triple that of rural people. The number of migrant workers rose 4.4 percent to 252 million in 2011, and they have become a major force behind expanding consumption, said analysts.

Consumption accounted for 51.6 percent of China's growth in 2011, while gross capital formation accounted for 54.2 percent, both of which offset the negative 5.8 percent contribution of net exports, the NBS said on Tuesday. Ma Jiantang, head of the NBS, said China wanted a more balanced contribution from investment and consumption, since the current model based on high investment growth was unsustainable, given the massive consumption of resources. Shanghai began to replace its turnover tax with a value-added tax in the transport sector and some service sectors from Jan 1, and such moves are expected to help boost consumption. Also, the government is expected to slash high import duties on luxury goods, to cater to wealthy local consumers, she said.

Source: Lan Lan: Fast urbanization set to drive consumption, China Daily, 2012-01-18

China's 2011 GDP growth slows to 9.2%
China's economy expanded by 9.2 percent in 2011 from a year earlier and 8.9 percent year-on-year in the fourth quarter, the National Bureau of Statistics (NBS) said Tuesday. The quarterly growth was the slowest in 10 quarters. China set its full-year growth target at 8 percent in early 2011 after its economy grew 10.4 percent in 2010. The country's economy expanded 2 percent in the fourth quarter on a quarterly basis, NBS chief Ma Jiantang said at a press conference.

According to preliminary statistics, the country's GDP reached 47.16 trillion yuan ($7.26 trillion) in 2011, Ma said. He said the country's economic performance in 2011 was "a good start" for the 12th Five-Year Plan (2011-2015) period and is in line with macroeconomic regulations. "We should no longer be obsessed with the speed of growth," said Lu Zhongyuan, deputy director of the Development Research Center of the State Council, or China's cabinet. He predicted the expansion of China's GDP will decelerate to around 8.5 percent in 2012. The NBS chief said the country faces a highly complicated external environment in 2012, as the economies of the European Union and the United States remain sluggish, the global financial market is experiencing turbulence and protectionism is on the rise. There are also a number of domestic risks, including mid- and long-term upward price pressures and funding shortages for small businesses, as well as structural changes intended to enhance energy-saving and emission reduction, he added. "Although GDP growth fell on a quarterly basis, it was within a reasonable range and the country's economic fundamentals were not changed. We have confidence for 2012's growth," said Ma. He said the country's urbanization process, the development of its market economy and industrialization has provided exhaustive forces for growth.

The number of people living in China's cities for the first time exceeded those living in the country's rural areas as of the end of 2011, according to the NBS. NBS data also showed that China's industrial value-added output growth decelerated in 2011 from a year earlier to 13.9 percent year-on-year. The country's fixed-asset investment, a measure of government spending on infrastructure, rose 23.8 percent year-on-year. Retail sales, a key indicator of consumer spending, rose 18.1 percent year-on-year in December 2011, up from the 17.3-percent growth seen in November. "The figures are very impressive amid complicated international and domestic situations," Ma said. The full-year inflation figure for 2011 was still up 5.4 percent from the previous year and well above the government's full-year control target of 4 percent, according to the NBS. The People's Bank of China lowered banks' reserve requirement ratio (RRR) by 50 basis points in December, its first cut in nearly three years.
China's fixed-asset investment rose 23.8 percent year-on-year to 30.1933 trillion yuan ($4.7736 trillion) in 2011, the National Bureau of Statistics (NBS) said on Tuesday. The growth rate was down 0.7 percentage points compared to that in the first 11 months, and remained flat from that of last year, NBS figures showed. In 2011, investment in the primary industry amounted to 679.2 billion yuan, up 25 percent; that in the secondary industry totaled 13.2263 trillion yuan, up 27.3 percent; investment in the tertiary industry rose 21.1 percent to hit 16.2877 trillion yuan. Infrastructure investment, excluding investments in the production and supply of power, gas and water, rose 5.9 percent year-on-year to 5.106 trillion yuan. But the rise was 14.3 percentage points lower than that of last year. Investment in the nation's western regions grew fastest last year, up 29.2 percent year-on-year, followed by 28.8 percent in the central regions, and 21.3 percent in the eastern regions. Meanwhile, investment in the nation's property sector rose 27.9 percent year-on-year to 6.174 trillion yuan, down 4.1 percentage points from that in the first three quarters and 5.3 percentage points from last year.

China's industrial value-added output growth decelerated in 2011 from a year earlier to 13.9 percent year-on-year, the National Bureau of Statistics (NBS) said at a press conference Tuesday. The full-year figure was down 1.8 percentage points from the growth rate of 2010, according to Ma Jiantang, chief of the NBS. China's industrial profits grew 24.4 percent year-on-year to 4.66 trillion yuan in the first 11 months of 2011, according to the NBS. Industrial value-added output increased 11.7 percent in China's eastern regions, by 18.2 percent in central areas and by 16.8 percent in western parts of the country. For heavy industries, industrial value-added output in 2011 was up 14.3 percent year-on-year, and that for light industries climbed 13 percent.
China's retail sales rose 18.1 percent year on year in December 2011, accelerating from the 17.3 percent growth in November, the National Bureau of Statistics (NBS) said Tuesday. Retail sales in 2011 increased 17.1 percent year-on-year to 18.1 trillion yuan ($2.9 trillion), slower than 18.4 percent growth in 2010, the NBS said in a statement. After deducting inflation, retail sales growth in real terms was 13.8 percent in December and 11.6 percent in 2011. China's consumer price index (CPI) rose 5.4 percent year-on-year in 2011. Retail sales growth of automobiles slowed sharply to 14.6 percent in 2011, down 20.2 percentage points from a year earlier, the statement said. In 2011, urban retail sales increased 17.2 percent year-on-year to 15.7 trillion yuan, while rural retail sales climbed 16.7 percent to hit 2.4 trillion yuan.

The per capita income of China's urban residents rose 8.4 percent, after deducting inflation, to 21,810 yuan ($3,434) in 2011 from a year earlier, the National Bureau of Statistics (NBS) said at a press conference Tuesday. Meanwhile, the per capita income of rural residents grew by 11.4 percent year-on-year to 6,977 yuan, faster than the previous year, according to Ma Jiantang, director of the NBS. China's consumer price index rose 5.4 percent from the previous year, well above the government's full-year control target of 4 percent, according to the NBS last week. The population of migrant workers last year reached 252.78 million, an increase of 4.4 percent, or 10.55 million from the 2010 level, said Ma.

Investment in China's property sector rose 27.9 percent in 2011 from a year earlier to 6.174 trillion yuan ($972 billion), said Ma Jiantang, chief of the National Bureau of Statistics (NBS), at a press conference Tuesday. Full-year investment in residential housing registered an increase of 30.2 percent from the same period the year before, down 2.6 percentage points from 2010. Sales of commercial housing rose 4.9 percent to 1.1 billion square meters in 2011, down 8 percentage points from that of the first three quarters of 2011 and 5.7 percentage points from that of 2010, said Ma. Commercial housing sales volume climbed 12.1 percent to 5.9 trillion yuan in 2011, down 6.8 percentage points from 2010, according to the NBS. A total of 271.94 million square meters of commercial housing were held for sale, up 26.1 percent year-on-year, said Ma. The figure surged 18 percentage points from the previous year.

Source: Xinhua: China's 2011 GDP growth slows to 9.2%, 2012-01-17

28 provinces release 2011 economic data

As of the end of January, a total of 28 municipalities and provinces in China have
released their 2011 economic data, China Business News (CBN) reported Monday. Only Beijing, Shanghai and Zhejiang have an economic growth lower than the nation's average level. Tianjin and Chongqing both have the fastest economic growth, which stood at 16.4 percent in the past year. According to statistics released by Tianjin, the city's GDP reached 1.12 trillion yuan ($176.69 billion) in 2011, narrowing the gap between it and Guangzhou (1.24 trillion yuan).

The provinces with faster development concentrated in the central and western part of China. In 2011, Chongqing's GDP hit 1 trillion yuan, up 16.4 percent year-on-year. Sichuan province's GDP increased by 15 percent year-on-year to 2.10 trillion yuan. Provinces of Shandong, Hainan and Yunnan have not released their data yet, CBN said.


**China's reform cannot end here**

Economists and politicians in history have sought alternatives to the modern market system. The two main experiments were the Soviet-era Lenin-Stalin model, on which China’s planned economy was based during the Mao Zedong era, and the east Asian model typified by Japan from the 1960s to the 1970s, which created the economic miracles of Japan and east Asian countries. In the 1930s, when western economies were mired in the Great Depression, the Lenin-Stalin model led to the rapid growth of the Soviet economy, causing heated debate among economists. Thirty or 40 years later, the Japanese model led to another hot debate. But history has declared the failure of these two systems. The former was a rigid model designed to develop a country’s economic and military power at the expense of individual rights. The latter led to price distortion, misallocation of resources and business-government collusion.

So how does this leave China? Beijing launched the reform and opening up process in the late 1970s, then abandoned the planned economy and adopted a socialist market system. This averted the collapse of China’s economy and fuelled rapid growth. During the early stages of the transition, as the market was not yet developed, it was necessary for the government to play a leading role, resulting in a state-dominated system similar to the east Asian or Japanese model. Now, the mission of this state-dominated model is accomplished and it is time to overcome the constraints of special interest groups, transform government functions and further the process of market reform.

There are two essential tasks. A government now focused on the economy needs instead to build a rule of law and provide public services. An economic system now dominated by the government needs to become one led by the market and regulated by the government. To achieve this, the government must scrap procedures for approving economic and market activities, except in industries where regulation is necessary. It must stop interfering with market prices and transactions, and phase out regulations on land, labor, energy and mineral prices as well as on capital (interest rates and exchange rates). It must reform monopolies; privatize state-owned assets...
fairly and efficiently; and reform the tax system to fully reflect the goal of improving social welfare. Spending on public services, including social security, healthcare, education, housing and the environment must be increased.

Source: Qin Xiao (Chairman of the Boyuan Foundation, and former chairman of China Merchants Group and China Merchants Bank): China’s reform cannot end here, Financial Times, January 18, 2012

**Wen urges for more support to real economy**

Chinese Premier Wen Jiabao has urged the nation's financial sector to do more to support entrepreneurs and industry and strengthen its capability in supporting the real economy. The real economy is defined as production activity in sectors such as agriculture, manufacturing and service, which are the basis of a country's GDP. "In future, China will stick to the principle of having the financial industry serve the real economy to prevent virtual bubbles from inflating the economy," Wen said at the National Financial Work Conference on Saturday in Beijing. Wen promised to "allow market forces a greater say in deciding fund allocation and to more clearly define the government's role" at the two-day conference.

Credit priorities will be given to the country's key infrastructure projects under construction, the affordable housing projects as well as small- and micro-sized enterprises that meet the state industrial policies, according to the premier. By September 2011, China's financial institutions had extended 10.1 trillion yuan ($1.6 trillion) to small businesses, 19.1 percent of the total loans. The meeting, held every five years, maps out the development plans for the financial sector in the period in between. Similar meetings were held in 1997, 2002 and 2007.

Source: Xinhua: Wen urges for more support to real economy, 2012-01-09

**Inflation drop may see shift in policy**

Inflation eased to a 15-month low in December, further fueling speculation that the government may ease monetary policy.

![CPI TREND](source: National Bureau of Statistics)

Consumer price inflation of 4.1 percent, from the same month last year, saw the continuation of an easing trend over the last five months. This was the weakest growth since October 2010, just under the 4.2 percent for November, the National Bureau of Statistics (NBS) said on Thursday. According to the NBS, consumer prices surged by 5.4 percent in 2011, 1.4 percentage points higher than the government's yearly target. Inflation soared to a 37-month peak of 6.5 percent in July.
The authorities emphasized taming inflation as the top priority last year. Measures to combat it included raising interest rates three times and increasing, on six occasions, the reserve requirement for commercial banks. This is the amount of money banks must hold in reserve and not lend to customers.

The December Producer Price Index (PPI) gained 1.7 percent year-on-year, the slowest growth for two years. The index registered 2.7 percent in November and 5 percent in October. The average increase of this index was 6 percent last year, according to the NBS. The manufacturing sector is deteriorating amid weakening overseas demand, economists said.

The central bank in December cut the reserve requirement by 50 basis points, the first such move in three years. This freed 400 billion yuan ($63.3 billion) back into the market. New loans jumped by 640.5 billion yuan in December, the biggest monthly increase since April. Ba Shusong, an economist with the Development Research Center under the State Council, said on Thursday that the 85.16 trillion yuan broad money supply, which is known as M2, was already "so extremely large" that any further increase may lead to a price surge. "Soaring labor costs may be the main driver for the CPI this year, which means monetary policies should not be eased too much," he added.

Source: Chen Jia and Wang Ying: Inflation drop may see shift in policy, China Daily, 2012-01-13

China recoups 259.2b yuan of misused funds in local debts

Nearly half of the misused funds uncovered in the auditing of China's local government debt in 2010 has been recouped, authorities said on Wednesday. Of the 530.9 billion yuan (about $84.3 billion) of misused funds uncovered for the year 2010, around 259.2 billion yuan had been recouped by October 2011, the National Audit Office (NAO) said in a report on the year's auditing progress.

The majority of China's local government funds are raised through local government financing vehicles (LGFVs), which are mainly set up to fund construction projects and have come under fierce criticism from people alleging they are poorly supervised and managed. Violations of the management of local debts involved illegal guarantees for local debts, misdirected funds to capital, property and energy-consuming markets, and the operation of fake investment companies, the report said, adding that the governments have been moving actively to correct the irregularities. The report said authorities had made improvements on 1,581 regulations at the NAO's suggestion and 699 people had been punished concerning the illegal cases in 2010.

Source: Xinhua: China recoups 259.2b yuan of misused funds in local debts, 2012-01-05

Hopes for fresh Chinese reforms fade

Signs that China is losing its appetite for key financial reforms are fuelling concerns that the country will remain on a path of unbalanced growth, increasing the chances of a future economic crisis. China’s economy has been driven by heavy
investment and exports, but those two motors are beginning to sputter. Analysts say that financial reforms are critical to giving households a bigger share of the nation’s wealth and so unlocking consumption-led growth. However, the latest Chinese financial work conference – a meeting of regulators and policymakers held every five years which has previously laid the groundwork for major reforms – has disappointed analysts by failing to produce any significant new measures. The conference, which concluded over the weekend, was instead largely a restatement of old pledges that offered little new. Partly, that is a reflection of where China is in its political cycle, with an emphasis on stability in the midst of a major leadership transition.

Analysts had been looking for Beijing to move forward on three specific long-mooted reforms: interest rate liberalization, greater currency flexibility and bond market development. There was a tentative nod in the direction of the latter, with leaders agreeing to promote “a more standardized and unified bond market”. But the other issues rated as major disappointments. The post-conference communiqué recycled well-worn language, promising that China would “steadily push forward” exchange rate and interest rate reform.

It was a far cry from China’s inaugural financial work conference in 1997, which launched the clean-up of the then insolvent banking system and established securities and insurance regulatory agencies. The second conference in 2002 laid the groundwork for the initial public offerings of the country’s top banks and for the establishment of the banking regulator. The third conference in 2007 led to the creation of China Investment Corporation, the country’s sovereign wealth fund.


Top auditor warns of fiscal, financial risks

China's top auditor has warned of potential risks in the fiscal and financial sectors this year, as well as possible risks regarding resources and the environment, social stability, outbound investment and an information-based society. China is still facing strategic opportunities in economic development, but is not yet balanced, coordinated and sustainable, and there are still uncertainties in global economic recovery, the National Audit Office (NAO) said.

The NAO has ordered the country's local auditors to pay close attention to these risks and enhance efforts to expose other severe challenges and hazards in social and economic development.

Source: Xinhua: Top auditor warns of fiscal, financial risks, 2012-01-29

Emerging markets’ golden age is at an end

It wasn’t supposed to happen this way. The biggest surprise for equity investors in 2011 was not the weakness of the crisis-ravaged European markets but the carnage in the stock markets of the emerging economies. Brazil, Russia, India and China did worse than Portugal, Italy, Ireland, Greece and Spain. As a group, they were down 26 per cent in US dollar terms versus a decline of 23 per cent for the bad boys of the eurozone.
There are reasons to believe this is not a conventional cycle. The golden age of emerging market investment may already be over.

The first point is that reinflating burst bubbles is easier said than done. The China stock market is an example. When the Shanghai Composite peaked at 6,000 in 2007, it was valued at a price to book ratio of seven times, richer than the Nikkei index in 1989 and the Nasdaq in 2000. Despite the unprecedented credit boom subsequently unleashed by Beijing, stock prices managed little more than a dead cat bounce. Shanghai rose to barely half its former high and then tamely relinquished almost all gains.

A second cause for caution is political and governance risk. The China Reverse Takeover index of 73 Chinese companies that have backdoor listings on US exchanges, trades on a historical PE ratio of less than 4 times. The low valuation reflects unease triggered by China Forestry and other debacles.

The third point is the supply-and-demand balance for equity itself. As a report from McKinsey points out, the world faces a cumulative shortfall in demand for equities relative to supply of some $12tn over the current decade. This “equity gap” is almost entirely a phenomenon of the emerging world, which will experience a cascade of equity issuance to finance future growth but lacks the indigenous equity capital to absorb it.

Source: Peter Tasker: ‘Emerging markets’ golden age is at an end, Financial Times, January 9, 2012

Beijing reforms raise hopes for rally

Having fallen 65 per cent since its bubble-era peak in 2007, the Shanghai Composite bounced 5 per cent this week after the Chinese premier and the head of its securities regulator sought to boost confidence in equities and pledged to enact a fresh round of reforms. Investors have also been emboldened by speculation that Beijing will allow money and credit growth to accelerate in the coming months, giving rise to a wave of liquidity that could affect the stock market. Caution is warranted, however. The Shanghai Composite has been the worst performer of the 10 biggest stock markets in the past two years. Its relentless decline has defied the predictions of many analysts who had been dazzled by China’s rapid economic growth. Indeed, the booms and busts of China equities have less to do with economic fundamentals and more with the vagaries of government policy and speculation by retail investors who chase trends with little regard for stock valuations.

This week, investors latched on to two proclamations. Speaking at the conclusion of the National Financial Work Conference on Saturday, Wen Jiabao, premier, called for more measures to boost confidence in the stock market, a sign that even the highest echelons of the party are concerned that equities have fallen to three-year lows. Then on Monday, Guo Shuqing, new head of the China Securities Regulatory Commission, announced his intent to advance reforms in 2012. One of his plans is to improve the mechanism for initial public offerings, which have long been a source of corruption and an obstacle to private companies listing. He has also created an “investor protection bureau” to bolster confidence in a market that has been rife with
manipulation and insider trading.

If, as some analysts warn, the China property market is very large bubble, the economic damage consequent upon its bursting would not leave equities unscathed.

Using standard valuation metrics, China shares are already cheap. The Shanghai Composite index is trading at a one-year forward price-to-earnings ratio of about 9.3, a whisker above its record low. To the bulls, this means the downside for China stocks is limited, while the upside is potentially large. However, more cautious investors note that mainland investors have never paid much heed to valuation metrics in the past, so there is little reason why the index could not fall further.

Source: Robert Cookson in Hong Kong: Beijing reforms raise hopes for rally, Financial Times, January 12, 2012

**Shanghai to become yuan center**

Shanghai will become the global center of yuan trading, clearing and pricing by 2015, in line with a State plan to make the city an international financial hub by 2020. The plan, jointly published by the National Development and Reform Commission and the Shanghai Municipal Government on Monday, sets out the main objectives for Shanghai to become a financial center. Key to those objectives is to raise the annual volume of trade in Shanghai's financial markets (excluding the foreign exchange market) to 1 quadrillion yuan ($158 trillion) by 2015. In 2010, Shanghai's financial markets (excluding the foreign exchange market) registered a trading volume of 386.2 trillion yuan, 10 times of that in 2005.

The plan says the daily mid-point price published by the central bank in the onshore yuan market would be the benchmark for both domestic and foreign yuan trading markets, and the government-backed Shanghai Interbank Offered Rate, or Shibor, would be the benchmark for yuan credit everywhere. China will also encourage overseas companies to sell yuan-denominated shares in its domestic stock markets, but no timetable has yet been released. Shanghai will also strive to increase its influence in global financial markets, especially the yuan-product market, according to the plan. By 2015, Shanghai's financial markets will witness a surge in the number of overseas investors and the growing global impact of its stock market's main indexes and commodities futures prices.

The plan says Shanghai will enhance its financial services. By 2015, the financing volume of Shanghai's financial markets will account for 22 percent of the city's total financing volume, reaching 30 trillion yuan, double that of 2010. There were 1,049 financial institutions in Shanghai as of the end of 2010, 439 more than five years earlier. As many as 320,000 financial industry professionals will be working in the city by 2015, including a large number of high-caliber talent, according to the plan.

The plan demonstrates the determination of the central government to make Shanghai an international financial center, and it is significant for the city's development and reforms in a bid to thrive in the global financial market, according to the Shanghai Municipal Government. The pricing of the renminbi will be decided mainly in the onshore rather than the offshore market, a message that has been
conveyed since the NDRC announced it.
Source: Wu Yiyao and Oswald Chen: Shanghai to become yuan center, China Daily, 2012-01-31

China mulls more regulation of property market

China is mulling a new round of efforts to regulate the sizzling property market after the moves it imposed about a year ago to limit purchases of residential apartments effectively brought down prices, analysts said Tuesday. Minister of Housing and Urban-Rural Development Jiang Weixin revealed that the ministry would complete a project to link databases of personal housing information concerning 40 major cities by the end of June, a measure designed to further curb house speculation, the analysts said. The government's latest move would enable it to catch people who amass houses across different cities and lay the foundation to levy property tax nationwide, said Zhang Dong, head of the property research institute at Central South University.
Source: Xinhua: a China mulls more regulation of property market, 2012-01-31

China enables migrant workers better blend in urban life

The Ministry of Civil Affairs has worked out a guideline to give the country's migrant workers greater access to urban community-based public services and help them better adapt to life in the city. The guideline urges efforts to extend public services offered in urban communities, including employment, public health, social insurance, legal aid and educational services, to cover migrant workers living in urban areas, according to a ministry statement issued Wednesday. More initiatives will be introduced to promote the employment of migrant workers by encouraging community-based companies and public institutions to employ them, the guideline says. It calls for greater efforts by community management authorities to help migrant workers solve labor disputes and safeguard their legitimate rights and interests. The guideline also urges efforts to find ways for migrant workers to take part in the selection of members of community management committees. Helping migrant workers get along with urbanites and adapt to city life will be of great significance for social harmony, according to the guideline. Official statistics show that there are 164 million migrant workers nationwide.
Source: Xinhua: China enables migrant workers better blend in urban life, 2012-01-05

Foreign workers pour into China

China is luring more foreign job seekers as its economy shines amid the global slowdown. Ian Hoorneman, a Harvard Business School MBA holder from the United States, came to Beijing in 2009 and is now a counselor and coordinator for international affairs in Beijing Royal School. "In the next 20 years there will be an opportunity for me to earn a lot more money in China than the sum I could earn in the US," he said. Many job service companies have already noticed that more and more people see China as a promising destination for employment.

Nearly 600,000 expats live in China, according to the latest census in 2010.
Before that, the nationwide census did not cover foreign workers. According to Feng Lijuan, chief consultant at 51job.com, a human resources service provider in China, the company's overseas talent pool stood at 300,000, a rise of 150 percent compared with late 2008. Her website provided nearly 65,000 work opportunities for overseas talent in early January, an annual increase of 20 percent, Feng said. Most positions are connected to finance, insurance, hotels, energy, environmental protection, and electronics and car manufacturing, she said. Feng said enterprises in China find that people from Southeast Asian countries adapt easily to positions because they share similar values and culture with Chinese. "But Chinese enterprises are longing for more professionals from the United States, Europe and Japan. Foreign professionals are always recruited by a company to lead a team and train local high-end talent," Feng said. In addition, a number of foreign youths are seeking internships in China.

Source: Chen Xin and Wu Yiyao: Foreign workers pour into China. China Daily, 2012-01-21

**Thick smog grounds flights and fouls air**

More than 100 flights in Beijing were grounded because of smog at dawn on Tuesday, according to Capital International Airport. The smog, which delayed 80 flights and canceled 43 by 12 pm, caused a surge of airborne particulate matter in most parts of the city, the Beijing Municipal Environmental Protection Bureau said on its micro blog. Visibility was reduced to less than 200 meters during rush hours, according to the city's meteorological bureau.

Air quality worsened with the smog, with the US embassy's air pollution index reading 500 at 7 am on Tuesday and its PM2.5 measurement (particulate matter smaller than 2.5 micrometers) reading 513 micrograms a cubic meter. The embassy issued a health warning of emergency conditions in the morning, saying "all people are more likely to be affected". The data showed the average Air Pollution Index, based on PM10 data collection, around the US embassy was 212 micrograms a cubic meter, with sulfur dioxide readings reaching 70 and nitrogen dioxide reaching 102. The smog began to disperse as the wind picked up at midday, allowing planes to take off and land, with visibility improving to 2,000 meters around 1 pm, according to airport.

Source: Zheng Xin: Thick smog grounds flights and fouls air, China Daily, 2012-01-11

**Clearing the air? ; Chinese air pollution**

It was China's former leader, Deng Xiaoping, who urged his countrymen to "seek truth from facts". But for the many in China who distrust government data, that sage advice can be hard to follow. In the case of official reports about the improving air quality in Chinese cities, however, taking Mr. Deng's advice is easier. To evaluate a specious government report of yet another "blue-sky day", you need only look out the window, sniff the air, or--for the brave--take a deep breath. In Beijing recently the facts have been speaking for themselves. Smog is often so bad that residents cannot see buildings just across the street, schools cancel outdoor activities and the airport
cannot operate. For those who do not trust their own burning eyes and scratchy throats, other sources of information are available. A controversial monitoring station at the American embassy in Beijing has for several years been issuing hourly reports from that single location.

China’s failure until now to report on PM 2.5 has been an important source of the discrepancies between official reports and the acrid, airborne reality. Officials have been monitoring PM 2.5 for years on a "pilot" basis, and had planned to wait until 2016 to start publishing those readings. The European Union only started reporting on PM 2.5 in 2008 and the United States just six years earlier.


Seven detained over S China river pollution

Seven people have been detained on suspicion of industrial waste discharges that polluted a south China river and threatened water supplies in a major downstream city, the local government said Monday. All the seven were chemical plants executives who worked in Guangxi Zhuang Autonomous Region, including Jinchengjiang Hongquan Lithopone Material Co. Ltd. in Hechi city, said Feng Zhennian, an official with the regional environmental protection department. Feng, who is also spokesman for an emergency response center set up to handle the incident, made the remark at a press briefing Monday evening.

Cadmium pollutants were first detected in Longjiang River, a tributary upstream of the Liujiang River, on January 15, when cadmium concentration near the Lalang reservoir was 80 times higher than the official limit of 0.005 milligrams per liter, said Feng. Environmental protection workers have been dumping neutralizers, made from dissolved aluminum chloride, at six locations along the Longjiang River to dissolve the contaminants.

"The tap water company in Liuzhou has also stepped up surveillance and will strive to provide safe water for the residents," Feng said. "Judging from the surveillance data, we're confident the situation is under control and water supplies to Liuzhou will remain safe."

Source: Xinhua: Seven detained over S China river pollution, 2012-01-31

Improving Environmental Performance in Your Chinese Supply Chain

Multinational corporations are under growing pressure to make sure that their contractors and subcontractors in China meet environmental standards in their operations. Yet traditional approaches to ensuring environmental, health and safety compliance, such as checklist audits, have proved problematic. The authors conducted research over a one-and-a-half-year period with leading multinational buyers (mostly in the apparel and footwear industries) as well as with NGOs and industry groups active in China. Based on their research, the authors report that rather than simply monitoring Chinese suppliers compliance with local environmental, health and safety (EHS) standards, leading companies are giving suppliers tools and incentives to independently improve environmental performance. They are helping suppliers use
energy, water and materials more efficiently and reaching deeper into their supply chains to where the greatest environmental damage occurs. At the same time, they are overcoming their traditional reluctance as competitors to cooperate in monitoring and fixing problems at common suppliers. The authors describe innovative approaches that companies such as Nike are taking. More generally, the authors recommendations include: working closely with suppliers and providing incentives for identifying, disclosing and addressing problems; establishing collaborative relationships with NGOs and industry groups; and finding ways both to learn from suppliers best practices and to facilitate learning among suppliers.


**Power shortfalls 'to persist'**

China will face further power shortages this year and coal prices will likely rebound after government-mandated controls expire, according to company officials and analysts. China Southern Power Grid Co, one of the two major State-owned power distributors, expects to see a "severe" power supply shortage this year, with the largest shortfalls ranging from 8 million kilowatts (kW) to 14 million kW. The company said that March through May will be the three most difficult months for power supply, and Guangdong province will have the biggest shortfalls within the grid, reaching 6 million kW to 10 million kW.

To meet the rising power demand and cut coal-fired plants' losses, the National Development and Reform Commission (NDRC) said on Nov 30 that thermal coal prices at nine major ports - including Qinhuangdao, Caofeidian and Tianjin - should be less than 800 yuan ($126) a ton starting on Jan 1. The NDRC also said that term-contract coal prices couldn't be hiked by more than 5 percent. The government regulated thermal coal prices once before, in 2008, but prices rebounded after the limit was lifted.

Furthermore, many coal traders are evading the rules. "Since the regulation limits only port-trading prices, some coal traders try to complete trades at coal production bases," Dai said. Also, "traders want to sell more coal on the spot market to avoid the 5-percent ceiling on price hikes for term-contract coal", he said. "They would also hold onto their coal reserves instead of selling them now."

China raised on-grid electricity prices by 0.025 yuan a kilowatt hour (kWh) and electricity prices for industrial users by 0.03 yuan a kWh on Nov 30. Since coal prices are largely market-oriented, while electricity prices are set by the government, rising fuel costs in recent years have put many coal-fired power plants into financial difficulties.

Source: Du Juan: Power shortfalls 'to persist', China Daily 2012-01-04

**Iran tensions mean 'it's time for China to diversify' crude sources**

With tensions rising between Western countries and Iran and geo-political risks increasing, it's time for China to further diversify its crude oil import sources, industry
experts said. The European Union (EU) reached a preliminary agreement to impose sanctions against Iranian oil exports, Reuters reported, a move that drove Brent crude oil prices higher. A final decision on sanctions is expected by the end of this month. Sanctions against Iran would inevitably affect China, which would probably reduce its reliance on that nation due to political pressure, said Niu Li, a senior economist with the State Information Center.

Iran, which is China's third-biggest crude source after Saudi Arabia and Angola, exported 420,000 barrels of oil a day to China in 2010, supplying 9 percent of China's total imports, according to the Economics & Technology Research Institute of China National Petroleum Corp (CNPC). China spent $15.85 billion buying oil from Iran in the first nine months of 2011, up 84.5 percent year-on-year. Oil imports from Saudi Arabia increased just 19.7 percent, while those from Angola rose 0.28 percent, Chinese customs data show. Apart from Iran, China also imports oil from Qatar, the United Arab Emirates, Russia, Venezuela and some African countries. Customs figures show that China, the world's second-biggest oil user after the US, imported 231.86 million tons of oil in the first 11 months of 2011, and up 6.1 percent year-on-year. Imports accounted for more than 50 percent of the country's total oil consumption starting in 2010.

In response to possible EU sanctions, an official from the National Iranian Oil Co was quoted by Reuters as saying that the country could replace its European customers by diverting more oil into Asian countries, including China, as well as Africa. To guarantee China's energy security, it would be important to accelerate the construction of more strategic and commercial crude oil inventories, even though there's little chance that a war in Iran will break out.

Source: Wang Xiaotian: Greater say needed on yuan's convertibility, China Daily, 2012-01-07

Chinese premier to bolster Gulf energy ties

China will this week launch its highest-level diplomatic visit to the Gulf for more than two years, seeking to bolster its growing energy ties to the region amid jitters over possible western sanctions on Iranian oil and Tehran's counter-threat to block the Strait of Hormuz. Premier Wen Jiabao’s six-day trip will take him to Saudi Arabia, Qatar and the United Arab Emirates, while China’s state-owned Sinopec is poised to sign a joint venture deal to develop a big refinery on the Saudi Red Sea Coast. Saudi Arabia is China’s largest supplier of crude – and Beijing is expected soon to overtake Washington as the biggest buyer of Saudi oil – while Qatar recently became China’s largest supplier of liquefied natural gas.

Analysts say the expected confirmation later this week of a deal between Sinopec and Saudi Aramco, Saudi Arabia’s state owned oil company, to build a 400,000 barrel a day refinery at the Red Sea port of Yanbu is an early sign of an effort to deepen a relationship previously based on the simple equation of Saudi Arabia producing oil for China to consume. The Yanbu facility is Sinopec’s first overseas refinery and comes after a similar joint venture with Aramco to build a joint refinery in China’s Fujian province. Aramco has been further increasing its Chinese presence by building a
refinery in the south of the country in partnership with PetroChina, and by sending students to Chinese universities – mirroring similar programs in the US and elsewhere. Elsewhere in the region, Chinese oil companies have landed several service contracts in Iraq, where Cnooc and Sinochem are helping develop the Maysan oilfield, while CNPC is working in the Rumaila field together with BP. Chinese companies are also working in Iran, although progress has been slow there because of UN sanctions on the oil sector.

China’s crude oil purchases from Tehran have also fallen under closer scrutiny this week, after the US announced sanctions on Iran’s Central Bank. Tim Geithner, US Treasury Secretary, arrived in Beijing on Tuesday to press China to support the move. Even though Mr Wen is said to be skipping Tehran on this visit, most observers don’t expect Beijing to abandon its historic policy of seeking good relations with both Iran and the Gulf Arab states, whatever the antagonism between them.


**Innovation is 'secret' to China's success**

Innovation is the "secret" behind China's decades of fast growth and will lead the way for future development, Chinese ambassador to Britain Liu Xiaoming said on Wednesday night. China now "needs to move on with even stronger will to innovate," the ambassador said in a speech to the teachers and students at Imperial College London. He introduced China's plan on institutional innovation through economic, political and social reforms and its diplomatic innovation in further exploring the path towards peaceful development. The ambassador put the focus on China's determination in scientific and cultural innovation, including its plan to invest more in developing frontier technologies in information, bioscience, material engineering and space, and building top-rate research institutes, high quality universities and globally competitive R&D centers.

Liu said China would build on its cultural heritage and absorb the best of other civilizations, in order to foster a new culture and a culture influence that "fits well with China's global profile." In his speech, Liu quoted the motto of Imperial College London: 'Scientia imperii decus et tutamen' (knowledge is the adornment and protection of the empire).

Rector of Imperial College London Sir Keith O'Nions said China's open attitude to ideas, flow of people and innovation is "an extraordinarily welcomed message" to all nations. "We are very proud that 10 percent of all the Imperial college students come from China. They are fabulously important part of our community," he added.

Source: Xinhua: Innovation is 'secret' to China's success, 2012-01-20

**China vows to continue development of west, northeast**

China will continue to boost the development of the country's less-developed western and northeastern regions, according to a statement released after an executive meeting of the State Council Monday. The meeting, presided over by Premier Wen Jiabao, has approved guidelines for the development program of China's west and the
revitalization of the northeast old industrial bases in the country's 12th Five-Year Plan period (2011-15), according to the statement. The two regions have been at a new starting point in history, said the statement.

The vast western region is still a "short plate" in the country's regional development, and achieving its prosperity is an important but difficult task in the building of an all-round well-off society, it said. Efforts should be undertaken to keep the growth of the regional GDP and the residents' income higher than the national average in the five-year period, it said. More emphasis should be put on the construction of "development priority zones" with their own development focus and priority according to their environmental features, natural resources, current development stage and development potential, according to the statement. The State Council also underscored the importance of infrastructure construction, environment protection, promotion of advanced industries and agriculture, and the development of small towns and villages, education and opening-up.

The statement said that there were still unsolved systematic and structural problems that have restricted the development of China's northeastern region, and that local governments should continue to deepen reform and accelerate transformation of development pattern in the 12th Five-Year Plan period. The State Council urged those involved to make vigorous efforts to promote agricultural development, further perfect modern industries, and optimize regional development strategy in the northeastern provinces. Local governments should also work to ensure sustainable development of resource-rich cities, improve infrastructures, enhance environmental protection, boost employment and affordable housing construction, and deepen reforms of state-owned enterprises while accelerating the growth of the private sector.

The more developed eastern and central provinces should offer better assistance to the development of these regions, the statement said.

Source: Xinhua: China vows to continue development of west, northeast, 2012-01-10

China to step up land reform this year

China is planning to launch new pilot projects to promote land reforms this year, Xu Shaoshi, the country's minister of land and resources, said Monday. The ministry will summarize its experiences from previous pilot schemes, especially from those related to land acquisition, which has been an issue of wide social concern, said Xu at a national conference on land resources that closed in Beijing on Monday. The new pilots programs will cover the examination and approval of urban land use, the transferring of land under collective ownership, land management that supports economic zones, and differentiated policies on land control, according to Xu.

In China, the latest notable dispute over land use, financing and elections last year in the village of Wukan in the southern province of Guangdong led to months of large-scale villager protests against local authorities. The Ministry of Land and Resources will start pilot programs that allow local governments to build rental housing on construction land under collective ownership, drawing experiences from previous land protection and compensation trial programs, said Xu.

Source: Xinhua: China to step up land reform this year, northeast, 2012-01-10
**Festival holiday boosts retail sales**

China's retail sales for the week-long Spring Festival holiday rose 16.2 percent year-on-year, boosted by a variety of promotional events, data from the Ministry of Commerce (MOC) showed on Saturday. Shops and restaurants across the country pocketed 470 billion yuan ($74.4 billion) in sales volume, with that of clothes, jewelry and foods up 18.7 percent, 16.4 percent and 16.2 percent respectively, the MOC said. The Spring Festival, or Chinese Lunar New Year, which fell on Jan 23 this year, is traditionally a time for family reunions in the nation. Businesses experience a boom during the period as people swarm to shops and restaurants.

Sales of festival-related goods saw double-digit growth in most regions, with the volume rose 15.5 percent in Beijing, 17.9 percent in Jilin, 18.1 percent in Qingdao, and 14.2 percent in Dalian. Among the purchases, New Year gold bars, gold ingots and other Dragon-themed jewelries were most favored by consumers. Electronics and home appliances were also well-received by consumers. Digital Single Lens Reflex, 3D TVs and the newly released iPhone 4s were among their favorites. In addition to shopping, many people turned to traditional activities, such as visiting temple fairs. Restaurants and entertainment facilities were all flooded with people.

Source: Xinhua: Festival holiday boosts retail sales, 2012-01-29

**Zhejiang moving to ease financial pressures for firms**

Zhejiang province will strive to ease private companies' financing pressures and channel private capital into the real economy instead of speculation, said Xia Baolong, the provincial governor, on Monday. "The province has proposed a plan to the State Council about a trial reform involving financing in Wenzhou, to solve the financing problem of small companies," Xia said, adding that the provincial government is trying every method to help small companies get more funding. Media reports have said that the trial reform might include an increase in the number of small-loan companies and the establishment of stock-holding village banks, which would be jointly established by a number of companies.

Xia said that bank branches in the province had applied to their head offices for permission to make supplementary loans of more than 40 billion yuan ($6.3 billion) to SMEs during the fourth quarter of 2011, but there was still a huge gap between credit supply and demand for the small business sector. Major banks favor big businesses, especially State-owned ones, to reduce their risks and obtain a secure return on their capital. It is more difficult for SMEs, especially private businesses and individuals, to borrow from banks. So they turn to the private financing market.

"There are more than 100 small-loan companies in Zhejiang, with capital of more than 30 billion yuan," said Din Minzhe, director of the provincial financial office. "In recent years, private capital moved into speculative ventures like real estate. We should induce this money to return to the real economy to avoid financial risk," Xia said.

Source: Xie Yu: Zhejiang moving to ease financial pressures for firms, China Daily, 2012-01-31
China's PMI rebounds to 50.3% in Dec

China's PMI, a preliminary readout of the country's manufacturing activity, rebounded to 50.3 percent in December, indicating a stabler slowing trend for the country's economic growth. The December Purchasing Managers' Index was up 1.3 percentage points from 49 percent in November, the China Federation of Logistics and Purchasing (CFLP) said Sunday. The country's GDP rose 9.1 percent year-on-year in the third quarter of the year, slowing from 9.5 percent in the second quarter and 9.7 percent in the first quarter.

The CFLP's sub-index for new orders in December was 49.8 percent, up 2.0 percentage points from November. The sub-index for purchase prices rose 2.7 percentage points from November to 47.1 percent in December. The sub-index for export orders recovered 3 percentage points to 48.6 percent in December from November's sharp drop to 45.6 percent, suggesting that the impact of the spreading eurozone debt crisis eased, and the weakened demand gradually regained the former losses. In December, 12 industries, including petroleum refining and coking, apparel, shoes, fur and feather products manufacturing, agricultural food processing and food production, enjoyed a PMI over 50 percent, while sectors such as facility manufacturing, general equipment manufacturing, and industrial chemicals manufacturing registered under 50 percent.

The CFLP's PMI is based on a survey of purchasing managers in more than 820 companies in 20 industries. The preview of HSBC China's PMI for December rebounded slightly from November's 47.7 to 48.7 after adjusting for seasonal variation.

Source: Xinhua: China's PMI rebounds to 50.3% in Dec, 2012-01-02

China publishes first industrial restructuring plan

The State Council, or cabinet, on Wednesday published its first mid- to long-term industrial restructuring and upgrading plan. China targets an 8-percent growth in value-added for all industries over the next four years, a 2-percentage-point rise in value-added ratio from the end of 2010, and a 10-percent annual increase in overall labor productivity, according to the Industrial Restructuring and Upgrading Plan (2011-2015) published on the central government's website. As for major industrial enterprises, expenditure on research and development will account for at least 1 percent of their revenues. The proportion will rise to at least 3 percent for key industrial enterprises, and they will double the number of patent ownerships over the next four years, according to the plan.

China aims to see a better industrial structure, with value-added of emerging industries accounting for 15 percent of the country's total value-added by 2015. Meanwhile, the nation aims to see a fall in pollution and work-related accidents. Energy consumption per unit of value-added should drop by 21 percent from the end of 2010, while water consumption of value-added should slide 30 percent, according to the plan.

Source: Xinhua: China publishes first industrial restructuring plan, 2012-01-19
THREE DISPUTES AND THREE OBJECTIVES: China and the South China Sea

There are three severable categories of disputes, each with its own parties, rule sets, and politics. There are disputes over territorial sovereignty, in the overlapping claims to the South China Sea's islands, rocks, and reefs; disputes over which coastal states claim rightful jurisdiction over waters and seabed; and disputes over the proper balance of coastal-state and international rights to use the seas for military purposes.

China is pursuing three main objectives in the South China Sea and Southeast Asia: regional integration, resource control, and enhanced security. Chinese actions over the past four decades are better understood in relation to its various strategies for achieving these objectives.


China in 2012: fixated on stability as the pressures grow

History will look back on 2012 as the year when China anointed its “fifth generation” of leaders and shifted to a slower growth trajectory. This transition will take place against a backdrop of daunting internal challenges - increasing social unrest, widening income disparities and both ecological and man-made disasters - and of escalating external tensions stemming from America’s “pivot” to Asia and simmering regional worries about China’s economic rise. While the political system will be fixated on preserving stability as new leaders take the helm, reduced economic flexibility could thwart Beijing’s intentions to do so.

But many foresee an economic collapse, arguing that a prolonged eurozone crisis coupled with a property bubble could render vast swaths of industry unprofitable. This would reveal hidden financial vulnerabilities and feed a downward spiral. Others believe that Beijing has ample resources to avoid a crisis, but argue that with a growth model based on infrastructure and land sales, and with exchange and interest rates rigidly controlled, it may not have all the necessary tools at its disposal. Domestically, an increasingly active middle class is generating pressure for more accountable governance. Mounting inequalities have nurtured a sense of injustice. 200m migrant workers remain second class citizens and corruption is worsening. Tackling these problems is urgent, but China’s economic successes have fostered an unwarranted self-confidence. Instead, motivated by the Arab Spring, the system has moved aggressively to contain any social discontent that might spark more politically sensitive movements.

China’s economic prowess is also seen by outsiders as having stimulated nationalism in a generation removed from the Cultural Revolution. Beijing’s belligerent responses to overlapping maritime claims have heightened worries about its security objectives in a region already wary of its economic clout. This is one factor in Japan’s decision to relax its ban on weapons exports; to China’s dismay, it has also driven its neighbors to support a stronger US presence in Asia and complicated regional trade integration initiatives.
The potential for conflict will force China and the US to redefine their respective roles in a shifting environment that neither is comfortable with. Tensions will be further aggravated by anti-China trade sentiments during the American elections. Asian countries are in a position to delineate the boundaries of influence for these two powers but, given their varied interests, alliances will shift depending on individual concerns. China must walk a very narrow line at a time when its outgoing leadership is reluctant to take any far-sighted decisions.

Source: Yukon Huang (Senior associate at the Carnegie Endowment and a former World Bank country director for China): ‘China in 2012: fixated on stability as the pressures grow, December 27, 2012

**U.S. seeks to expand presence in Philippines**

Two decades after evicting U.S. forces from their biggest base in the Pacific, the Philippines is in talks with the Obama administration about expanding the American military presence in the island nation, the latest in a series of strategic moves aimed at China. The sudden rush by many in the Asia-Pacific region to embrace Washington is a direct reaction to China's rise as a military power and its assertiveness in staking claims to disputed territories, such as the energy-rich South China Sea.


**Greater say needed on yuan's convertibility**

China won't refuse to make its currency increasingly convertible under the capital account, but the country needs a greater voice in defining "full convertibility" globally, said Zhou Xiaochuan, the governor of the People's Bank of China (PBOC). "Because the International Monetary Fund (IMF) currently doesn't have specific standards on convertibility under the capital account, the definition of 'full convertibility' is discussable," said Zhou in an article published on Friday in the latest issue of China Finance Magazine, which is run by the PBOC. Therefore, the standards should be more flexible and China should participate in formulating methods to measure a currency's convertibility under the IMF framework, he said. Earlier this week Zhou said that the yuan will be freely convertible soon. "Now, we are not too far away from our goal of convertibility," he was quoted as saying by Caixin.com. The official Chinese timeframe for the realization of full convertibility of the yuan is prior to the end of 2015.

Zhou added that currency convertibility doesn't mean giving up control of cross-border financial transactions, and said that it is reasonable to curb speculative capital flows when the international market registers unusual volatility. "Convertibility should be based on the necessary management of the country's foreign debt. Yuan convertibility doesn't mean that anyone can borrow money in the global market freely." In addition, China is not planning to develop any disputable financial derivatives products that may hurt the economy, and the country emphasizes that the free use of currency has a precondition that it must serve the "real economy", which produces goods and services, Zhou added.
In 1996, China made the yuan convertible for trade settlement, but hasn't allowed transactions of local financial assets into foreign assets at market exchange rates, fearing that such a move would stoke real estate and equity bubbles.  
Source: Wang Xiaotian: Greater say needed on yuan's convertibility, China Daily, 2012-01-07

**China's cross-border RMB settlement hits $408b**

China's cross-border trade settlement in yuan under current accounts hit 2.58 trillion yuan ($408 billion) by the end of 2011 since China launched the pilot program in July 2009, official figures showed on Wednesday. By the end of 2011, China has signed currency swap contracts worth 1.3 trillion yuan with 14 countries and regions, according to a statement on the website of the People's Bank of China. In 2011, RMB-denominated offshore direct investment totaled 20.15 billion yuan while foreign direct investment settled in RMB on the Chinese mainland topped 90.72 billion yuan, the statement said.

To further boost the international use of yuan, the statement said China will work to widen yuan transaction channels and step up financial services for yuan-denominated investments.  
Source: Xinhua: China's cross-border RMB settlement hits $408b, northeast, 2012-01-11

**RARE EARTHS TO BECOME LESS SCARCE**

THE INTERNATIONAL MINING community is racing to turn the tables on the People's Republic of China by challenging its absolute dominance of the market for rare earths, a series of elements in the periodic table critical for the US. military's high-technology communications and weaponry. Peter Cashin, president and chief executive officer of Quest Rare Minerals Limited, says that to understand this market, it is important to draw a distinction between light and heavy rare earths. He says, China actually could consume all its known deposits of rare earths by then, but it likely will continue some exports to avoid skirmishes with the World Trade Organization, which seeks to settle trade disputes.  

**Weak export demand hits trade surplus in 2011**

China's trade surplus narrowed to $160 billion in 2011, from a year earlier, as export demand weakened in the United States and Europe, the Ministry of Commerce said on Thursday. And the outlook for exports in 2012 is "severe" but foreign trade will be "more balanced" with measures to boost imports, officials from the ministry said during the annual National Commerce Work Conference in Beijing. The trade surplus last year declined by 15 percent from a year earlier to $160 billion, Chen Deming, minister of commerce, said during his keynote speech at the two-day conference which started on Thursday. Chen highlighted the major tasks that the ministry will undertake in the coming year, including stabilizing exports, increasing
imports and balancing foreign trade. The ratio of China's surplus to its GDP is expected to fall to "2 percent" in 2011 from 3.1 percent in 2010, he said, while foreign trade in 2011 grew by "20 percent" year-on-year to "$3.6 trillion".

The General Administration of Customs is expected to release export and import figures for December and the whole of 2011 on Jan 10. Exports increased by just 13.8 percent in November from a year earlier to $174.46 billion, the lowest since December 2009. The trade surplus has been shrinking since the global financial crisis erupted in 2008. In 2009 the surplus decreased by 30 percent to $196 billion, and dropped again by 6.4 percent year-on-year to $183 billion in 2010.

"The business environment home and abroad for Chinese exporters is severe and there are many uncertainties and unstable factors ahead, especially with the spreading European debt crisis," Chen said. Premier Wen Jiabao said this week that business conditions may be "relatively difficult" during the first quarter and China faces "problems of weakening external demand and rising costs for companies". To stabilize exports emerging markets will be prioritized. Exports to developing nations in 2011 grew by 30 percent, and by 17 percent to developed nations. Measures will be introduced to transfer orders from coastal areas to central and western regions. Chen said in his speech that exporters would be encouraged to add value and conduct research.

The Ministry of Finance announced late last year that China would reduce import tariffs on more than 700 categories of goods ranging from high-tech equipment to consumer goods. "China plans to import more goods, including energy, raw materials, key components, high-tech equipment and consumer goods this year," Chen said. "And we will increase imports from the least developed nations, urging the developed nations to loosen restrictions on exports to China."

Source: Ding Qingfen: Weak export demand hits trade surplus in 2011, China Daily 2012-01-06

**US business leader urges closer ties with China**

The United States should advance economic ties with China to reduce the adversarial nature of the relationship between the world's two largest economies, the head of the US Chamber of Commerce said. Our country should make a major effort to attract global investors," said Thomas Donohue, president and CEO of the chamber. "Foreign investment already supports 5 million direct jobs and millions of indirect jobs. We need to negotiate more bilateral investment treaties ... India and China should be high on that list," Donohue said during his annual State of American Business speech on Thursday.

But in the current fierce presidential election campaign, criticism of China about its currency and military growth has raised concerns and opposition from Beijing. Last week, the new Pentagon strategic review named China, along with Iran, as potential threats to US security. Analysts warned that relations are facing a very difficult year with political transitions in both countries and several geopolitical challenges, such as the South China Sea, the Korean Peninsula and Iran.

The chamber, which represents the interests of more than 3 million US companies
and industry associations, will continue to strengthen trade ties with China, Donohue said. "If we are advancing our economic relationships, then there is going to be less concerns about the adversarial relationship but more about cooperation to deal with the geopolitical issues in the region and around the world. We need to do both, but let's put more energy into the trade and investment side," he said at a news conference after the speech.

As China has 1.3 billion people, a massive growth of the middle class and tremendous opportunities for US companies, "we should continue vigorous and strong exchanges with China to protect our interests and advance our economy", he said.

Source: Tan Yingzi and Chen Jia: US business leader urges closer ties with China, China Daily, 2012-01-14

Sino-US trade tensions may increase

Trade tensions between China and the United States may be exacerbated by the global financial outlook and US election politics, economists said. "What I worry about are trade tensions between China and the US," Stephen Roach, senior research fellow at Yale University's Jackson Institute for Global Affairs, told China Daily in Davos during the World Economic Forum. Roach did not elaborate on who was to blame for growing trade tension. But he described China as his "favorite economy" because it has weathered economic challenges without sacrificing the interest of other economies. "I don't think trade friction between China and other economies will grow, but my worry is about (the frictions between) China and the US," Roach, an expert of the Chinese economy, said. "Trade tensions are going to be a major feature amid the shift in the global environment in the next few years." Roach said that he was hopeful over another challenge facing China: transforming China's economy from one that focuses on trade and investment to one based on domestic consumption, as indicated in the 12th Five-Year Plan (2011-15). "I am optimistic that China will do it," he said.

At a panel discussion on whether emerging markets can deliver global growth, Li Daokui, policy adviser of China's central bank and director of the Center for China in the World Economy at Tsinghua University, also listed trade tensions between China and the US as a concern. "We must pay close attention to growing trade tensions between China and the US," said Li, adding that protectionism does not help protect US jobs. "If this situation erupts, global oil prices will surge and the supply could be disrupted. This will have a huge impact on emerging economies, such as China," Li said. "If trade tensions (between China and the US) grow I am afraid this will further dim the already gloomy economic outlook," Li said. Chinese enterprises have faced growing US trade protectionism. "We welcome the US government to create a fair environment in which its enterprises can compete instead of using punitive measures," said Gao Jifan, president of China's leading solar power equipment producer Trina Solar. Gao was referring to the US launching anti-dumping investigations against Chinese solar panel manufacturers. US President Barack Obama's State of the Union address, during which he targeted China, was a particular issue of concern for Gao. "I understand this is election politics," Gao said. "But it is also very clear if the US takes tough measures, jobs in his country will decrease instead of increase." Gao's company
has set up one of its four overseas headquarters in the US. "So I think it is wrong for the US president to play the China card, especially a card against Chinese enterprises," Gao said. "If it continues, China suffers, our US clients and employees suffer, and the world economy suffers."

But in a panel discussion in Davos, US Trade Representative Ron Kirk dismissed any possible trade war. When asked by China Daily what were his grounds, he replied: "The best insurance I will give to China is the $300 billion in trade surplus between China and the US."

Source: Fu Jing: Sino-US trade tensions may increase, China Daily, 2012-01-30

U.S. Companies Move Operations Back Home

Some American companies say the benefits of creating jobs in the United States are greater than the potential cost savings of operating overseas. [Ken Ames], CEO of California-based Seesmart LED, a maker of commercial and residential lighting solutions, offers insight on his company's decision to bring its entire overseas operations - 250 to 500 jobs - back to the United States within the next two years.


Ministry predicts new surge in ODI

Outbound direct investment (ODI) for 2011-15 is expected to register double-digit annual growth to reach $560 billion, matching the nation's foreign direct investment (FDI), a statement from the Ministry of Commerce said. The government will accelerate promoting "overseas investment" during the 12th Five-Year Plan (2011-15) period, the statement, posted on the website of the ministry on Wednesday, said. The scale of accumulative ODI from 2011 to 2015 will reach the level of the nation's FDI, according to the statement."The annual growth rate (from 2011 to 2015) for the nation's ODI on average will remain around 17 percent, and the accumulative volume in the five years is expected to reach $560 billion, equivalent to that of China's FDI during the same period," it said.

ODI in the non-financial sector, in 2010, surged as high as 36.3 percent year-on-year to $59 billion, after it gained 14.2 percent in 2009. China overtook Japan and the United Kingdom that year to become the world's fifth-largest overseas investing nation. From January to November of 2011, ODI in the non-financial sector grew by 5.2 percent year-on-year to $50 billion, according to the ministry. By the end of November accumulative investment reached $312 billion.

In the statement the ministry said the government will guide and encourage local companies to enhance cooperation and invest abroad in manufacturing, energy, culture and engineering. And China will also promote investment in the service sector, including finance, architecture, tourism, education and telecoms.

China Three Gorges Corp recently agreed to pay 2.69 billion euros ($3.5 billion) for a 21 percent stake in EDP-Energias de Portugal, Portugal's biggest utility, to gain access to wind and hydropower assets in Europe and the Americas. It is also the
Chinese company's biggest cross-border acquisition. It's not only about State-owned companies. Executives from the Qingdao Kingking Group, the world's second-largest candle maker, told China Daily on Tuesday that it plans to invest $100 million globally to develop gold and copper mines in the next three years.

The FDI outlook is less promising. From 2011 to 2015, China's annual FDI is expected to reach, on average, $120 billion, with improved quality and diversification, the statement said. During 11 months of 2011, China's FDI surged by 13 percent year-on-year to $103.8 billion, close to the level of 2010. China will encourage foreign enterprises to invest in agriculture, high-end manufacturing, high-tech, new energy and services, the statement said. In foreign investment guidelines released last Friday, China said it will open more sectors to foreign investors.

Source: Ding Qingfen, Li Jiabao and Oswald Chen: Ministry predicts new surge in ODI, China Daily 2012-01-05

**China's non-financial ODI totals $60.07b**

China's non-financial outbound direct investment (ODI) rose 1.8 percent year-on-year to $60.07 billion in 2011, the Ministry of Commerce (MOC) said Wednesday. The figure brings China's total non-financial ODI to $322 billion as of the end of 2011, the MOC said. China has made investments in 132 countries and regions in 2011, with the ODI in Europe and Africa up 57.3 percent and 58.9 percent, respectively, to $4.61 billion and $1.7 billion, the MOC said. Investment through mergers and acquisitions, mainly in the mining, manufacturing, electricity, communications and retail sectors, hit $22.2 billion in 2011, accounting for 37 percent of the total ODI, the MOC added.

Source: Xinhua: China's non-financial ODI totals $60.07b, 2012-01-19

**China’s Sany to acquire Putzmeister**

China has laid claim to a pillar of German industry after Sany Heavy Industry, the country’s largest construction equipment group, said it would acquire Putzmeister, a Mittelstand company that makes high-tech concrete pumps. The deal is among the largest in which a Chinese company acquires one of the family-owned, niche-focused, German engineering groups – the backbone of the German economy. The term Mittelstand covers Germany’s legion of small and medium-sized family groups. Sany, whose chairman is China’s richest man, and Citic PE Advisors, a Chinese private equity company, will acquire all of Putzmeister, with Citic retaining a minority shareholding. Sany and Citic will pay €360m for the business, as well as taking on Putzmeister’s debt, giving the company an enterprise value of just over €500m.* Sany will pay 90 per cent and Citic Capital 10 per cent.

In 2009 Sany, which makes a wide range of machinery from excavators to mobile cranes, overtook Putzmeister as the world’s largest concrete pumps manufacturer by sales. The Shanghai-listed company – often referred to as China’s Caterpillar – wants to build a global Chinese construction equipment brand and already has plants in the US, Brazil, India and Germany. But most of its sales are still at home, where government measures have cooled the property market and reduced demand for
construction equipment. In Europe, Sany has until now lacked a large sales and service network and established brand name. Last year Sany opened a greenfield €100m research and development plant near Cologne – the biggest Chinese corporate investment in Europe – explaining that if it wanted to become a world-class company it needed to reach the best global manufacturing and engineering talent. Putzmeister, based near Stuttgart, has about 3,000 employees. Revenues reached a record €1bn in 2007 but fell by about half during 2008 and 2009, leading to hundreds of job cuts. Although the company has returned to growth and profitability, revenues last year were about €570m.
Source: Chris Bryant in Frankfurt: China’s Sany to acquire Putzmeister, Financial Times, January 30, 2012 3:52 pm