China News in Brief
March, 2012

Compiled by Yimin Zhang, University of Shanghai for Science and Technology and distributed free of charge.
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7.5% growth rate 'not low'

Premier Wen Jiabao said on Wednesday that the 7.5-percent GDP growth target for 2012 cannot be viewed as low. Wen said that the slower growth fits targets set in the 12th Five-Year Plan (2011-15). It can help shift focus on accelerating the transformation of economic development pattern, as well as making growth less polluting and less dependent on natural resources. "We will make every effort to let ordinary people enjoy more benefits," Wen told a news conference after the conclusion of the annual session of the National People's Congress, China's top legislature.

Last year, China's GDP increased by 9.2 percent from a year earlier, cooling from 10.4 percent in 2010, mainly because of a sharp decrease in exports caused by the European sovereign debt crisis. The lowered target increased economists' concerns about a sharp drop in fixed-asset investments. That may raise pressure on local governments to pay back loans and may undermine the financial sector. However, Wen said: "the government's debts are at a controllable and safe level". He also vowed that the increase of new debts will be strictly controlled, based on the fairly lower debt-to-GDP and budget deficit-to-GDP ratios compared with many developed countries and emerging economies. According to Wen, total local government debt was 10.7 trillion yuan ($1.69 trillion) by the end of 2010. The new debts last year were about 300 million yuan.

Source: Ding Qingfen: 7.5% growth rate 'not low', China Daily, 2012-03-16

Domestic consumption takes driver's seat

Domestic consumption will be the main driver of China's economic growth this year, said a Ministry of Commerce think tank. It is set to surpass government investment for the first time in a decade, said the Chinese Academy of International Trade and Economic Cooperation on Wednesday. "The increasingly burgeoning income for Chinese individuals and their growing willingness to spend are major reasons behind the consumption growth," said Zhang Ping, deputy director of the Department of Consumption Economics at the academy and head of the team drafting the report. The 2012 China Consumption Market Development report suggested that the Chinese government should maintain policies to continue expanding domestic consumption. That includes lowering taxes on consumer and luxury goods, deepening income distribution reform, and continuing tax rebate policies.

Government investment has long held a leading role in stimulating the nation's economy, along with domestic consumption and exports. However, the outlook for government investment this year is not positive, Zhang said. Economic crises in other countries have also battered exports. In 2012, China's domestic consumption will grow by 15 percent, the report predicted. Such rising domestic demand will create opportunities for China's trading partners, according to Stephen Green, minister of state for trade and investment of the United Kingdom. More domestic demand will lead to more balanced trade, and UK exporters will have more chances to sell to China as Chinese middle-class consumers want the same branded goods as everywhere else, from motorcars to Burberry and scotch whisky, said Green.

Urban residents will remain the major consumer group in China, despite the faster growth of per capita incomes for rural residents, said the report. Consumption of furniture, construction and house decorating materials will grow nearly 30 percent in 2012 as a large number of affordable houses come into operation, it said.

Source: Ding Qingfen in Beijngand Diao Ying in London: Domestic consumption takes driver's seat, China Daily, 2012-03-22

Middle income group grows

Expanding China's middle-income families is supposed to be the core to boosting domestic consumption and speeding up the transformation of the growth model of the national economy which mainly depends on exports
and the State's investment, observers say. The Chinese government has set a goal this year to create more medium earners to effectively reverse the trend of a widening income gap, said Premier Wen Jiabao in the annual government work report during the National People's Congress earlier this month.

The number of middle-income Chinese people will account for 40 percent of the total population as the nation's urbanization drive will turn another 150 million farmers into city residents by the year 2020, according to a recent economic report jointly conducted by the Social Sciences Academic Press (China) and Shanghai Academy of Social Sciences. "We will improve the salary system, put in place a mechanism for regular salary increases and steadily raise the minimum wage," Wen said.

A middle-income family is generally considered to have an annual income that ranges from 60,000 yuan to 500,000 yuan in the country, according to the National Bureau of Statistics. According to the National Bureau of Statistics, urban residents' per capita disposable income across the country was 21,810 yuan in 2011, an increase of 8.4 percent year-on-year after taking inflation into account. Rural residents' net per capita income was 6,977 yuan, 11.4 percent higher than a year earlier. The ratio between the two groups was 3.13:1 last year. Although incomes rose faster for both low and high income groups during the past 12 months compared with 2010, the increase for middle-income families was relatively slower, according to a statement from the statistics bureau.

Middle-income earners are estimated to make up about 23 percent of China's population at present, compared with about 70 percent in the United States and European countries, said Liang Da, an economist with the bureau. "The Chinese middle-income group has vulnerable real purchasing power due to high inflation pressure and having poor social security. It has not yet been the main purchasing power for boosting domestic consumption," Liang said. If the number of middle-income families grows faster and its consumption potential can be released, it will, no doubt, prop up an annual economic growth rate of 8 percent on average over the next 10 to 20 years, according to Liang. He suggested raising residents' disposable income through cutting enterprise taxes, especially for small-scale and labor-intensive businesses. "This is the most important method to enlarge the middle-income group," he said. Narrowing the income gap between urban and rural residents as well as improving the social security system and medical insurance can reduce Chinese families' living costs and stimulate their spending on high-quality goods and services, Liang added. A research report from UBS AG showed that by the end of 2015, China's domestic consumption is expected to account for 15.6 percent of the world's total spending, jumping from 5.4 percent in 2011, making it the world's second largest consumer market following the US. Source: Chen Jia: Middle income group grows, China Daily, 2012-03-27

**CHINA: Data exaggerate economic imbalances**

According to official figures, the ratio of consumption to GDP in China is markedly lower than in other countries, and the investment-to-GDP ratio markedly higher. One interpretation is that the economy is biased toward exports and low efficiency, and represses consumption. The imbalance drives trade surpluses with the United States, which justifies US pressure to allow renminbi appreciation. However, the imbalance is probably exaggerated: adjusted figures show some imbalance reflecting the shift from an agrarian to industrial economy,
and incomplete redistribution of government and enterprise revenue to households -- but China's consumption and investment figures are on par with other countries at an equivalent stage of development.

Low official consumption figures contrast dramatically with media images of Chinese households indulging in a spending spree on luxury goods, fast-food and home furnishings. Growth in sales of key consumption items at a rate of 15-20% per year is inconsistent with household consumption growth rates of 8-9% (though a skewed distribution of income may account for at least some of the difference). Moreover, high sales taxes and administration of value-added tax mean that many household purchases are not tracked. Altogether, household income may also be understated by some 20-30%.

China's pattern has precedents. The decline in China's private-consumption-to-GDP ratio is a pattern that mirrors many East Asian economies. Over the past twenty years, China's official consumption-to-GDP ratio fell from around 50% to 35% -- a total of 15 percentage points. Three comparable economies -- Japan, Taiwan and South Korea -- saw their consumption-to-GDP ratios fall by 20-40 percentage points during equivalent two-decade periods when they were industrialising rapidly. On the investment side, China's capital stock relative to GDP is lower than other East Asian economies.

The shift from an agrarian to an industrial economy could account for some 80% of the decline in the share of household income in GDP over the past decade, equivalent to about six percentage points, and repressed interest rates account for about 1.5 percentage points or around 20%. Thirty years ago, China's population was 80% rural, and agriculture accounted for one-third of GDP. Today the rural-urban population split is even, while agriculture makes up less than 10% of GDP (see CHINA: Transition to an urban society will be painful - January 20, 2012).

Workers have moved from less productive agriculture, where labour's share of the value of production is almost 90%, to more capital-intensive industry where, on average, labour's share is only 50%.

CONCLUSION: Macroeconomic imbalances may be becoming more extreme, yet on the whole this has been good news as workers shift to more productive activities. Rebalancing is unlikely in the short-term, but could happen with urbanisation, state-sector reform and more public expenditure on social welfare. Providing migrants with more security and encouraging higher corporate dividends would help to reduce income disparities, and could increase consumption by some five percentage points of GDP. Beijing is likely to be more receptive to this strategy than to strengthening the renminbi, which it perceives as benefiting the United States at China's expense.


**China economy: Data show slower growth, but sentiment remains buoyant**

Recent data continue to suggest that economic growth in China is slowing. Industrial value-added output was up by 11.4% year on year in real terms in January-February--its slowest rate of growth in two years. This weak picture was underscored by modest year-on-year growth of just 7.1% in electricity generation in the first two months of 2012. Nevertheless, the government's stance at the annual session of the National People's Congress (NPC, China's legislature) in March appeared to show that officials are not particularly worried about the recent downturn, suggesting that it remains under control. In February the city of Wuhu in Anhui province became the latest local authority to be forced by the central government to backtrack on its planned loosening of restrictions on property purchases. The government's unwillingness to allow a significant easing of restrictions in the property sector, despite month-on-month falls in property prices and weak sales data, highlighted its comfort with the current pace of economic growth.

On top of this, surveys of business confidence suggest a brighter picture. The official government purchasing managers' index (PMI) stood at 51 in February. In addition, that fact that in February imports rose by 39.6% year on year, to US$146bn--an extremely rapid rate of growth. This would seem to indicate that local producers are upbeat about the prospects for an imminent upturn in areas such as construction.
China economy: Research warns of middle-income trap

In February, ahead of the annual session of the National People's Congress (NPC, China's legislature), two important proposals for economic reform were published. The reports' publication looked like an effort to influence debate not just at the congress but also in the months ahead of China's leadership transition later this year.

One report was backed by the People's Bank of China (PBC, the central bank), the Development Research Centre (a think-tank under the State Council, China's cabinet) and the World Bank. The report warned that China risks becoming caught in a middle-income trap, buffeted by inflation and instability, unless it intensifies economic reforms in a number of fields. It called for a number of changes, including moves to strengthen farmers' land rights and improve labour mobility, which are relatively uncontroversial and fit well within existing government policies. However, the document also controversially advocated changes to address the role of state-owned enterprises (SOEs). It called for SOEs to be taken over by new, independent bodies that would hand over dividends to the state budget and gradually reduce the extent of state ownership. This represents a challenge to the State-owned Assets Supervision and Administration Commission (SASAC), which manages central-level SOEs but for political and administrative reasons lacks the authority to do so effectively.

Another pre-NPC call for economic reform was voiced by Sheng Songcheng, the head of the PBC's Survey and Statistics Department, in a report advocating a ten-year schedule of incremental reforms to open China's capital account. Mr Sheng's report is just one of a number of publications which have indicated that the government is now pursuing capital-account liberalisation with greater vigour. Indeed, its timescale may prove conservative, given the recent pace of opening. However, officials remain cautious about the potential for inward or outbound hot-money flows to destabilise China's financial system. The State Administration of Foreign Exchange has estimated that a net US$3.1bn of hot money exited China in 2011, in contrast to net inflows of US$35.5bn in 2010.

Source: EIU ViewsWire: China economy: Research warns of middle-income trap, Mar 26, 2012

China economy: Wen Jiabao delivers annual work report

China's premier, Wen Jiabao, delivered a report to the annual session of the National People's Congress (China's legislature) in March, outlining the government's major economic goals for 2012. These included a real GDP growth target of 7.5%, moving nearer the forecast of average annual expansion of 7% that had previously been outlined in the 12th five-year plan (2011-15).

Officials projected that inflation would average around 4% this year. On cue, year-on-year consumer price inflation slowed to 3.2% in February, from 4.5% in January. Job creation was also emphasised by Mr Wen in his report, which set a target of the creation of 9m new urban jobs in 2012. The total volume of imports and exports is projected to rise by around 10% this year, while the broad money supply (M2) will increase by 14%. The goals for M2 and GDP growth are slightly lower than in 2011, when they stood at 16% and 8% respectively, suggesting that government policy will remain slightly tighter in 2012 than it was last year.

Traditionally the government sets conservative revenue and expenditure targets, with excess revenue being spent on priority areas, such as healthcare and education. Central spending on education last year, for example, at Rmb324.9bn (US$52bn), was 109.6% of the budgeted level, thanks to higher than expected fiscal inflows. The bulk of spending occurs at local government level, however. Local expenditure on education rose by 27.8% to Rmb1.5trn (US$240bn) in 2011. Other big items of local-level spending included social security and employment
(up by 22.6% last year, to Rmb1.1trn), health (up by 33.1% to Rmb629.6bn), agriculture (up by 22.4% to Rmb947.3bn) and transport (up by 78.6% to Rmb714.1bn).

Education, health, social security and social housing are again set to be the main beneficiaries of higher public spending in 2012. Defence spending is to be increased by 11.4%, to Rmb650.3bn, but many experts believe that this substantially underestimates expenditure in areas such as armaments procurement. The fiscal deficit in 2012 is forecast to reach Rmb800bn, including a Rmb550bn central deficit and Rmb250bn in local government debt issuance.


ASIA; China lowers growth target; The nation cuts its goal for economic expansion for the first time in eight years.

Speaking to about 3,000 delegates Monday at the annual meeting of the National People's Congress in Beijing, Premier Wen Jiabao said China would cut its annual gross domestic product growth target for the first time in eight years, to 7.5% annual growth from 8%, to make the country’s economy more “sustainable and efficient.” That half a percentage point may not seem like much. But in China, it broadcasts a signal to policymakers, both national and local, that development will have to strike a better balance. Swaths of empty luxury apartment blocks, environmental degradation and violent rural protests over land seizures are just some of the ways that ordinary Chinese can point to vast inequities generated by no-holds-barred development.

But a reduced growth rate could owe just as much to China's deteriorating trade with Europe and investment constraints brought on by rising public debt and inflation. China previously signaled slower growth ahead when it released its current five-year plan calling for 7% annual growth from 2011 to 2015, but those medium-range plans typically understate actual GDP expansion. That economic road map also acknowledged the need to gear the nation's development model for higher-quality growth. In a report released last week, the World Bank and a think tank attached to China's State Council outlined necessary reforms such as boosting the private sector and the financial industry to empower Chinese consumers. Beijing will also have to convince local officials that their political careers won't hinge solely on delivering robust GDP growth. At present, government cadres have every incentive to build empty airports and lavish government offices to ratchet up growth numbers, which in turn has fueled skepticism about the validity of the statistics.

Source: Pierson, David: China lowers growth target; The nation cuts its goal for economic expansion for the first time in eight years, Los Angeles Times [Los Angeles, Calif] 06 Mar 2012: B.1.

Why China Is Suddenly Content With 7.5 Percent Growth

For years, there's been one constant for people talking about the Chinese economy: GDP growth would exceed 8%. That magic, 8% number, though, is now history. At his annual address to open the National People's Congress in Beijing, Chinese Premier Wen Jiabao on Mar 5 announced that the government has a GDP target of 7.5% this year. The European debt crisis is one culprit, with demand falling for Chinese exports. Economists and investors agree that China is now entering a new era of slower growth, one where the old 8% figure is no longer so important. The Chinese will also need to learn to live with higher inflation, says Barclays Capital economist Jian Chang, who expects inflation to average about 5% over the next decade, compared with 2% over the past 10 years.

Chinese Premier Wen Jiabao set off a firecracker this week when he announced the government is targeting only 7.5% growth for 2012. This is being presented in many quarters as a sign that Beijing is willing to tolerate slower growth in the name of better growth -- more balanced, socially harmonious and less prone to bubble formation. If only it were so.

A lot is riding on this announcement, especially among those who hope that China will be able to contribute to global "rebalancing" by shifting away from export- and investment-dependence and toward domestic consumption. And at first blush this looks exactly like what Beijing is trying to do. "[B]y setting [this target] we will guide all localities to focus their work on restructuring the economy, transforming its development pattern, and improving the quality and effect of its growth," the powerful National Development and Reform Commission (NDRC) notes in its 2012 work plan, released Monday. To that end, Beijing lists a lot of things it plans to do: "[W]e will formulate and promulgate a guiding list for key products and services of strategic emerging industries"; "[W]e will promulgate and implement the plan for allocation of the productive forces and restructuring in key [heavy] industries"; "[W]e will formulate the list for encouraging the development of emerging industries and new business models in the service sector." All of this will surely produce a slower growth rate because such choices are harder going than simply dumping billions of yuan into roads and bridges. The problem is the "we" in the NDRC report. Rather than allowing the market to allocate resources, Beijing proposes to have the government continue stage-managing development, only in a supposedly better way. For reasons why this approach won't work, look no further than a major report released last month by the World Bank and the Development Research Center of China's State Council, which assesses China's prospects over the next two decades. The report offers the not-so-surprising conclusion that China is nearing the end of the line for its current strategy. Beijing presumably agrees with this. But one refreshing conclusion of the report is the warning that only private enterprise can lead advanced growth. "The role of the private sector is critical because innovation at the technology frontier is quite different in nature from simply catching up technologically," the report says. "The process becomes essentially one of trial and error, with the chances of success highly uncertain. Innovation is not something that can be achieved through government planning."


World News: China Speeds Economic 'Transformation' --- Premier Outlines Steps Away From Torrid Growth Path: Bad News for Commodity Exporters, an Opportunity for Others

By lowering China's growth target to 7.5% this year, Premier Wen Jiabao signaled that an era of supercharged expansion may be coming to an end, a shift with profound implications for countries like Australia and Brazil that have prospered from red-hot Chinese demand for commodities. The consequences of this shift depend on how well Beijing manages the transition.

A China that relies more on consumer spending may pollute less, easing global environmental worries, and produce more jobs. The shift could also lift imports of software, entertainment, tourism, and high-technology goods and services produced by the U.S., Europe and other wealthier nations.

China's official growth target has been set at 8% since 2005. The target is largely symbolic: For the past seven years, the Chinese economy has grown at an average annual clip of 10.9%. However, analysts say the 7.5% target for 2012 indicates the direction of the economy sought by the leadership. The International Monetary Fund forecasts Chinese growth of 8.2% this year, and analysts generally peg it at 8% to 8.5%.

Mr. Wen, in his last year in China's No. 2 position, argued that China had little choice but to change its growth mix, with export markets in Europe, U.S. and Japan either growing slowly or in recession. Mr. Wen listed a number of initiatives, including boosts in the minimum wage and government support for the expansion of consumer credit and for "new forms of consumption," including online shopping and energy-efficient vehicles. He said China

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would ease the registration requirements for rural migrants to cities, making it easier for them to get better-paying jobs. He also said China would boost its pension and health-care systems, which could encourage families to spend more of their savings. On a more political note, Mr. Wen highlighted the need to protect farmers' rights to the land on which they work and live, saying that "these rights must not be violated by anyone."


**Closer Look: Conclusions of the World Bank Report**

The World Bank's most recent report on China's economy over the next 20 years offers illuminating suggestions on how the country can avoid the middle-income trap. The recently-released World Bank report on China's social and economic outlook deserves careful consideration, not least because it represents the first piece of significant research between the World Bank and the Chinese government. It hasn't received the attention it should.

The report titled, "China 2030: Building a Modern, Harmonious, and Creative High-Income Society," highlights risks China may face over the next 20 years and calls for continuous reforms. Under the current global environment with numerous uncertainties and fluctuations, China faces several urgent tasks, the most pressing of which include dealing with sluggish external demand, declining investment returns, rising costs and competition. The changing economic climate now presents an undeniable urgency to the Chinese government's long-time commitment to growth model reforms. The Chinese government's policies demonstrate credible concern over the possibility of the middle-income trap. An old Chinese saying goes, "A man without distant cares must have sorrows close at hand." For the country, this is the same. In this respect, the World Bank report is invaluable as it includes expert insights at home and abroad. And it's disappointing that the report has garnered such a lukewarm response in China thus far. Moreover, what can't be overlooked is the fact that the report was conducted in cooperation with the Chinese government's top economists. Over the past year, scholars from both sides held rounds of meetings to discuss issues surrounding the Chinese economy. Various ministries and local governments also contributed comments and opinions.

Economists in China say the report's research pinpointed deeply-rooted problems in the Chinese economy, and argue that the report's suggestions should be seriously considered. A firm stance in better reforms has helped China get to where it is today. But more must be done, and issues such as corruption, wealth gaps, asset bubbles and living conditions must be addressed. Moving further, the report may offer some clues on how to tackle these problems. Of course, we don't need to overstate the significance of the report, but we can't afford to refuse it as a whole. Such a position is unproductive and irresponsible. Looking back to China's history, any prosperous period was characterized by an inclusive attitude and introspection. For us, this should not be forgotten.

Source: Staff reporter Ye Weiqiang: Closer Look: Conclusions of the World Bank Report, 03.08.2012

**Bank of China opens yuan center**

Bank of China Ltd on Tuesday unveiled a trading headquarters in Shanghai that will oversee the bank's yuan asset trading business. The China Banking Regulatory Commission has authorized the second headquarters to conduct business in the proprietary trading of yuan-denominated bonds, money market instruments and precious metals as well as financial institutions-related business, the bank said in a statement. The launch of the new office, which was in the works for two years, is part of the Chinese government's effort to support Shanghai's ambition to become a global financial hub. Shanghai has set a goal of becoming a global clearing center for yuan-denominated
financial products by 2015 and a global financial center by 2020.

Major domestic financial institutions and national financial regulators have their headquarters in Beijing, a situation that analysts said has blocked Shanghai's drive to become a financial center. Shanghai has the largest number of foreign banks and the biggest non-bank financial industry in China. Besides Bank of China, the other "Big Four" State-owned banks - Industrial & Commercial Bank of China Ltd, Agricultural Bank of China Ltd and China Construction Bank Corp - also plan to set up second headquarters in Shanghai. Bank of China's move "is a milestone in the city's plan to become an international financial center", Shanghai Mayor Han Zheng told the Xinhua News Agency.

Bank of China Chairman Xiao Gang said: "Setting up a yuan trading headquarters in Shanghai is an important measure for the bank to ... quicken its strategic development in Shanghai". Bank of China is a leader among domestic banks in yuan and precious metals trading. Last year, the bank's cross-border yuan clearance and settlement business hit 1.7 trillion yuan ($269 billion), the highest among Chinese banks. The Shanghai Evening Post has reported that the new headquarters will be on the same administrative level as the Bank of China's Shanghai branch. The bank's existing capital exchange center and information center in Shanghai will be merged into the new headquarters, according to the newspaper.

Source: Gao Changxin in Shanghai: Bank of China opens yuan center, China Daily, 2012-03-21

Chinese banks defy expectations

For all the talk of bad loans and impending doom at Chinese banks, their latest earnings failed to live up to such fears. Over the past week, most of the country’s big banks reported net profit increases in 2011 of 25-30 per cent – strong growth by international standards, though par for the course in China in recent years.

Many investors believe that Chinese banks will face a day of reckoning after embarking on a record lending spree during the global financial crisis, when they were called on by the government to provide credit to propel the economy.

But that day is not yet at hand; most banks registered a decline in their non-performing loan ratios last year. Agricultural Bank of China, seen as the riskiest of the big banks because of its rural focus, said that bad loans declined from 2.03 per cent of its total assets in 2010 to 1.55 per cent. Industrial and Commercial Bank of China, the country’s biggest lender, said that its non-performing loan ratio fell from 1.08 per cent to a negligible 0.94 per cent. The banks’ success in avoiding defaults is largely thanks to the government’s decision to extend debt maturities. Critics see that as a delaying tactic, but the banks are adamant that they have been prudent. Despite the robust results, Chinese bank shares fell sharply over the past week. On the Hong Kong stock exchange, shares of AgBank, Bank of China and Industrial and Commercial Bank of China fell 7 per cent.

In the details of the banks’ results, there are signs of potential loan trouble. While their non-performing loan ratios declined, banks set aside more cash to protect against the possibility of defaults. AgBank made provisioning for bad loans equivalent to 4.08 per cent of its total loans at the end of 2011, up from 3.4 per cent in 2010 – a tacit admission that conditions will deteriorate. The need for additional capital raising to prepare for defaults has been another concern lingering over Chinese banks. Several banks are issuing new equity this year. Bank of Communications led the way with a $9bn private placement two weeks ago, the world’s largest share sale in nearly a year. Industrial Bank, a midsized lender, last month raised $4.2bn in a private placement and Minsheng Bank plans to raise $1.4bn in a rights offer.

Source: Simon Rabinovitch in Hong Kong: Chinese banks defy expectations, March 29, 2012

More fiscal reforms to support market

China will carry out further fiscal reforms this year to bolster domestic consumption and resolve regional
disparity in economic development, Finance Minister Xie Xuren said on Sunday. Xie said the country will improve the tax transfer payment system between local and central tax authorities to intensify support to local development, especially to less developed regions. In 1993, China launched a tax system to gather some of the tax revenues of local authorities to the central governments, and reallocate those revenues to aid local economic and social development via transfer payments. The tax revenue of the central government accounts for 49.5 percent of the total, while local authorities have 50.5 percent, according to Xie. The payment to local government was in two forms - general payment and payments on particular items. General payments currently account for 52 percent of the total amount. Xie said the system has helped tackle the regional disparity in fiscal power that comes from an unbalanced economic development, as it lifted the per capita fiscal revenue in western region to 97 percent to that of the eastern region via transfer payment, compared with 35 percent before reallocation. Xie said the general payments would be increased in the future to allow local authorities to make more effective use of these revenues.

As for tax reforms, Xie vowed to promote pilot reforms for replacing sales tax with value-added tax, levying resource taxes based on value rather than quantity, and collecting property taxes, all of which are currently on trial in a number of cities and industries. "There are too many circling taxes (indirect taxes) in China's current tax system, and direct taxes have a relatively small share," Xie said, adding that the next step will be to increase the proportion of direct taxes in the system.

China's overall fiscal revenue in 2011 surged 24.8 percent to exceed 10 trillion yuan ($1.58 trillion), which was widely criticized, because it grew much faster than national income did. The National People's Congress recently approved China's 2012 government budget plan, which set a goal of fiscal expenditure at 12.4 trillion yuan, an increase of 14.1 percent from the previous year.

Source: Wei Tian: More fiscal reforms to support market, China Daily, 2012-03-19

Bond Platform Rising for Unlisted Companies

China's securities regulator is mulling a proposed mechanism that would let companies, including young firms with low credit ratings, issue bonds through stock exchanges. The proposed trading deck would target institutional investors and unlisted companies in the high-tech sector, including those that have yet to qualify for an initial public offering but need significant financing. Private bond investors would include financial institutions such as securities firms and insurance companies. Initially at least, banks would be excluded. The plan, which one broker cheered as "a major breakthrough," fits a China Securities and Exchange Commission (CSRC) effort to encourage investment product diversification and support small and medium-sized enterprises (SMEs). Officials have yet to announce a timetable for introducing the system.

Today, a limited number of qualified enterprises are issuing private corporate bonds on an inter-bank market regulated by the National Association of Financial Market Institutional Investors (NAFMII). Issuance and management rules are similar to those that cover the nation's government bond market. About 100 billion yuan in bonds have been issued on NAFMII's platform since its launch in May 2011. Most are medium-term notes maturing in one to three years, and most issuers have high credit ratings.

CSRC architects working on the proposed trading mechanism want to broaden company financing options and investor portfolios yet set clear boundaries. For example, under one CSRC proposal, private bond yields at any given period would be limited to four times the going rate for bank loans. This provision would match a People's Supreme Court ruling that has set private lending rates across China at no more than four times bank rates. Setting bond yields at the highest possible levels would "provide space for higher interest rates so SMEs with low credit ratings can enter the market," said a broker. Unlike the NAFMII, which at first restricted private bond issuers to borrowers with high credit ratings and then phased in issuers with lower credit-ratings, the CSRC plans to give head-start priority to SMEs, which are usually less credit worthy than big companies.
Despite the CSRC's effort to encourage SME participation, however, many analysts expect the proposed market's early trades to be dominated by issuers with high credit ratings. The reason, they say, is that few investors are prepared to accept the kinds of risks posed by run-of-the-mill SMEs. Another potential hitch is that securities brokers, which are likely to underwrite most stock exchange-linked bonds, have not been tested by the market for their capacity to assess risks among SME bond candidates.

Yet many securities firms are expected to accept the challenges. Currently only two brokers – CITIC Securities Co. and CICC Securities Holdings Co. – are allowed to underwrite bonds on the NAFMII platform. The exchange private bond program would likely open underwriting doors to a whole flock of securities firms.

"For brokerages, the policy allowing private debt issued by unlisted companies is substantive, positive," said one broker. "They can develop wealth management products accordingly (and) diversify asset management portfolios, thus enhancing their investment and management capabilities." And the Essence broker argued that, despite the risk challenges, securities firms have an edge over banks in the area of price flexibility. Indeed, CSRC is likely to exclude banks from the group of authorized underwriters.

But it appears bankers aren't shedding any tears; they'd rather stand clear as the proposed bond market gets off the ground. One banker said "no one wants to be the pioneer" for the fledgling program. Besides, the banker said, "the platform is small and restrictions are heavy. Not many investors are willing to play along."

According to proposed rules reviewed at the Shenzhen forum, bond-issuing enterprises would have to have operated a business for at least three consecutive years, follow sound accounting procedures and have a comprehensive financial control system. Companies failing to service debt and locked in operations-related lawsuits would be excluded. Under the proposed mechanism, an issuing enterprise's fund-raising capacity would be deep, as none would be bound by a rule for public bonds that restricts an issuer to raising no more than 40 percent of net assets.

Sixteen listed banks would be barred, at least at first, from participating in the market, according to the CSRC proposal. On the other hand, wealth products with no more than 200 subscribers, each with a minimum investment of 1 million yuan, would be allowed to participate in private bond trading. A CITIC Securities source said, "For unlisted companies that do not meet listing requirements, such as high-tech companies, this is a very good financing channel" and "more convenient than bank financing."


**China economy: Reform hopes**

The CSRC's moves regarding the domestic capital markets may prove to be even more important. In February the CSRC published for the first time a list of companies that had applied to list on China's stock exchanges. The commission has also declared that it will no longer take part in the initial review process for listings on Shenzhen's ChiNext exchange for growth stocks.

Supporters of economic reform in China have not had much to cheer over the last few years, but there are growing hopes that the transition to a new generation of national leaders over the course of 2012-13 will kick-start the policy agenda. Ahead of the reshuffle at the top, China's major financial regulatory positions were changed in late 2011, and the new head of the China Securities Regulatory Commission (CSRC), Guo Shuqing, has been showing what can be done by a policymaker with an agenda.

Since taking over in October, Mr Guo has overseen a notable increase in the permitted level of foreign investment in China's security markets through the qualified foreign institutional investor, or QFII, programme (including renminbi-denominated QFII flows from Hong Kong). The number of foreign financial institutions...
qualifying under the programme has also increased sharply, and Mr Guo has also promised to clear the backlog of QFII applications that have built up.

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In addition to these other moves, the CSRC oversaw the launch of simulated trading of futures in government treasury bonds in February, and has confirmed that it expects to allow firms to start issuing riskier high-yield "junk" bonds in 2012. The latter move has the potential to help alleviate financing constraints on firms in the private sector, who often find it harder to secure funding from banks than SOEs.

Source: EIU ViewsWire: China economy: Reform hopes, Mar 21, 2012

Home / Business / Markets Wenzhou to pilot reforms

Wenzhou won Beijing's approval on Wednesday for a landmark financial pilot project that will allow residents of the coastal city to, among other things, invest privately overseas and set up loan companies. At a State Council executive meeting chaired by Premier Wen Jiabao, the government selected Wenzhou in eastern Zhejiang province, a city with a deep tradition of entrepreneurship, to be a "pilot zone" for a series of financial reforms. The State Council decision covered 12 major points, which include developing privately owned financial services, setting up village banks and rural financial co-ops and encouraging lending by State-owned banks to smaller businesses. The government of Zhejiang province was required by the State Council to set up a working group to lead the implementation of the reform program and to work closely with the People's Bank of China.

A communiqué after the cabinet meeting said: "It is imperative to launch comprehensive financial reform in Wenzhou in order to iron out long-standing problems in local economic development and lead private fund-raising activities to develop in an orderly way to strengthen their capability to serve the real economy." Such comprehensive financial reform is "of the utmost importance, not only for Wenzhou, as it can serve as an example for financial reform and economic development nationwide," it said.

Earlier this month Wen told a news conference after the National People's Congress that the government was considering an overhaul of legislation that banned private fund-raising by businesses and individuals. The comments came in response to a question about private fund-raising and the case of Wu Ying, a businesswoman who faces execution for illegally raising 770 million yuan ($123 million). The case is awaiting final review by the Supreme People's Court. Wenzhou was selected for the pilot project after local debt-laden entrepreneurs, unable to repay debts, fled the city last year when State-owned banks reduced lending to small and medium-sized enterprises (SME) amid credit-tightening measures by the central bank. SME proprietors frequently complained about discriminatory treatment from large banks because of their fewer assets and lack of credit records. To keep business running, many Wenzhou SMEs had to resort to seeking underground credit with exorbitant interest rates, sometimes as high as 90 percent. As a result, financial institutions in Wenzhou reportedly saw their non-performing loans surge nearly fourfold. These loans amounted to 11.24 million yuan by the end of February, up 19 percent month-on-month, China Business News reported, suggesting that the current economic slowdown and flagging property market were leading to still more defaults.

The pilot program will "set free the power of Wenzhou's private capital," said Zhou Dewen, chairman of Wenzhou SME Development Association. "What we will see will be a new growth cycle of non-State sector
China to boost economic reform in key industries

China's cabinet has decided to push forward economic reform in key sectors, including energy and railways, as part of the goals the current government promised to achieve before it completes its tenure. The government will deepen pricing reforms for resource products and work on implementing tiered electricity pricing for residential users, as well as create a market-based refined oil pricing mechanism, according to a document posted on the State Council's website. The government is working on detailed measures to encourage private businesses to enter the railway, finance, energy, telecommunications and education sectors, the document said, adding that more resources will be used to foster financial institutions that can serve the agricultural industry and small-sized businesses. China's interest rate formation mechanism will become more market-directed and a new stock issuance and retreat system will be improved, the document said. The document said the creation of a reform plan for the railway sector is under way.

Source: Xinhua: China to boost economic reform in key industries, 2012-03-24

Boao Forum lists Singapore economy as most competitive

Singapore has the most competitive economy in Asia, according to a report released by the Boao Forum for Asia on Wednesday. China and India, which along with Brazil, Russia and South Africa make up the BRICS economies, lagged behind in the ranking because of their low commercial and administrative efficiency. China's competitiveness was ranked 10th highest among Asian economies in 2011, moving up from its spot in the previous year, according to the report. The forum assessed 37 Asian economies by looking at their economic strength, social development, infrastructure and human capital and innovation.

"China's overall competitiveness increased in 2011 because of the country's work to modify its structure," said Wang Jun, a researcher at the China Center for International Economic Exchanges. "But it needs to streamline the approval procedure to improve commercial administrative efficiency." Wang, one of the main contributors to the report, said the indicators were all calculated using official figures culled from governments or reliable international organizations. Singapore has topped the list for two consecutive years, followed by the economies of Taiwan, Hong Kong, Japan and South Korea. "China's ranking might decrease in the next year since the government has lowered its target for economic growth," Wang said. "Economic strength has great weight in the evaluation system." Although India is a large market and enjoys rapid economic growth and a great potential for innovating, its ranking dropped to 32 from 28 last year.

Europe, the largest trading bloc in the world, saw its share of world trade decline to 38 percent in 2010, down from 41 percent in 2009. Asia's share, meanwhile, increased to 32 percent in 2010, up from 29 percent the year before. About 54 percent of Asia's trade was conducted among Asian economies in 2010, up from 51 percent in 2009. He said Asian economies are at a crossroads and must decide if they will further work toward regional integration. Besides the free-trade cooperation now going on among the Association of Southeast Asian Nations and other Asian economies, the United States is promoting the US-led Trans-Pacific Partnership, Pei said the Trans-Pacific Partnership is faced with great difficulties and uncertainties. "The nine members' trade among merely makes up a small portion of their total trade and they tend to trade more outside of (the partnership)," he said. "The future of (the partnership) depends on the attitudes of Japan and South Korea."

Source: Lan Lan: Boao Forum lists Singapore economy as most competitive, China Daily, 2012-03-22
China's defence budget set to exceed rest of Asia Pacific by 2015

As Beijing reduces military manpower but buys new equipment its defence spending is expected to grow by 19 per cent to USD238.2 billion from 2011-15, according to new forecasts from IHS Jane's Defence Budgets. This is almost four times Russia's predicted spend (USD65.4 billion) within the next four years, but still far behind the United States, which is forecast to allocate USD621.8 billion to defence spending in 2015 despite the expected impact of military cuts. Beijing's spending on aircraft and space programmes alone is expected to increase by nearly USD7 billion from 2012-15.

Across the Asia Pacific region Japan is forecast as the second highest defence spender by 2015 on USD66.6 billion, followed by India on USD44.9 billion and South Korea on USD35.5 billion. Taiwan's defence budget is likely to see the second-highest growth rate in Asia Pacific, rising by 10 per cent from 2011-15 to USD13.5 billion. The proportion of Taiwan's state expenditure allocated to defence is falling due to its focus on social welfare and economic development but recent budgets suggest the government wishes to reverse the trend and increase defence spending. Australia's defence budget is expected to rise to USD27.5 billion, although such is the ambition of Canberra's equipment modernisation programme that this increase may not be enough to realise its expectations. Meanwhile, Singapore has adopted a long-term approach to financing its defence requirements with consistent funding at around 3.75 per cent of GDP. Vietnam (9 per cent) and Indonesia (8 per cent) are expected to see the third and fourth largest jumps in defence spending until 2015.

Source: China's defence budget set to exceed rest of Asia Pacific by 2015, Jane's Defence Industry29. 3 (Mar 1, 2012)

Apple: China to profit from rising wages even if companies feel the pinch (a bit)

Apple’s decision to back wide-ranging pay and labour reforms at the Chinese factories of Foxconn, its biggest contract supplier, will clearly raise costs at both companies. But the Apple empire will not see a serious dent in its profitability, as its high-tech competitors will have to follow suit. And it’s a price worth paying to keep on the right side of consumers who don’t like the idea of buying iPhones made by slaves – and of the Chinese authorities who have backed pay rises for workers to help spread the benefits of economic growth.

As the FT reported, the news came hours after Tim Cook, Apple’s chief executive, toured a Foxconn production line in China, when the US-based Fair Labor Association announced the contract manufacturer had agreed to improve conditions for its 1.2m workers.

With Foxconn operating at profit margins of only 1.5 per cent, compared to 30 per cent at Apple, it’s clear that the world’s most valuable company by capitalisation will have to bear most of the extra cost. The estimated manufacturing labour content of an iPhone or iPad is around 5 per cent. China Capital Securities puts labour costs at just 2-3 per cent of total operating costs at Hon Hai. Pay has already been rising, with Foxconn leading the way following a spate of suicides in 2010. Last month the company announced another round of wage increases of 16-25 per cent. China’s share of low-tech exports has already started to fall. It accounted for 53.6 per cent of US imports of textiles and clothes last year, compared to 53 per cent in 2010. Low-wage Vietnam and Bangladesh are among the countries gaining market share. But this isn’t bad for China. Japan, South Korea and Taiwan, the east Asian economies which became wealthy through their manufacturing process, all moved out of low-tech exports as they moved up the value chain.
Chinese average wages are now above those of its low-pay rivals, as the chart below shows. But it has a big cost advantage over Malaysia and Thailand, exporters of the high-tech hardware that China now wants to move into. Furthermore, China, with its good education levels, big infrastructure developments and work ethic remains very competitive, not least in its inland regions, where wages lag behind those on the coast. As this chart shows, China’s export prices in dollar terms are not rising as fast as prices from other emerging markets.

Source: Stefan Wagstyl: Apple: China to profit from rising wages even if companies feel the pinch (a bit), March 31, 2012, http://www.ftchinese.com/story/001043937/en

Foxconn Labour report backed

Apple has fully backed a report published by the Fair Labor Association detailing inadequate working conditions and multiple abuses of labour codes at one of its main suppliers Foxconn. The report, conducted by researchers who logged close to 3,000 hours in three factories, was based on an in-depth assessment that included a survey of more than 35,000 Foxconn employees, who answered more than 2,200 questions, as well as hundreds of on- and off-site interviews. Workers completed the questionnaires on a computer or iPad, the report said.

Main areas of focus included working hours, compensation, health and safety. Foxconn wages are higher than the Chinese average and the legal minimum, but the report found that 14 per cent of employees may not receive “fair compensation for unscheduled overtime”. In addition, 64.3 per cent of workers believed their pay was insufficient to cover basic needs. The report said: “During peak production periods, the average number of hours worked per week exceeded the FLA code standard of 60 hours. Also, there were periods in which some workers did not get one day off in seven days”. Despite this, the survey results showed that employees were not necessarily frustrated by the schedule, with 48 per cent answering that their working hours were “reasonable”, 33.8 per cent saying that they wanted to increase their hours to make more money, while 17.7 per cent felt they worked too much.

Foxconn agreed to comply fully with Chinese labour law by reducing overtime from the 80 hours a month now set as the limit – though this ceiling is often exceeded – to 36, while maintaining pay. This will involve hiring and training a “significant” number of additional employees, providing accommodation and developing a compensation package to deal with the lost income from fewer hours. It will also improve its overtime pay policy.

The report found that although Foxconn had resolved many health and safety violations, it agreed to improve its system to record all accidents resulting in injury, instead of just the ones causing work stoppage.

March 29, 2012 5:44 pm

The Social Enterprise Emerges in China

In foreign countries, the charity has developed for hundreds of years and then the social enterprise organically came up. In China, they have everything within a few decades. They now have grassroots nonprofit organizations, social enterprises, venture philanthropy funds, and so on -- all of a sudden. So explained Li Fan, co-founder of the Global Links Initiative, the first social entrepreneur membership organization in China. The concept of the social enterprise -- with its emphasis on applying business strategies to achieving philanthropic goals -- has kept pace with the evolution of the idea in the Western academic community. The concept of social enterprise is now emerging in China. But it is not yet widely known to the general public or regularly covered by
mainstream media. The Chinese government is still trying to understand the new phenomenon and formulate policies toward it.

Meanwhile, representatives of the old government-organized charity organizations, such as the China Disabled People's Federation, have announced that the federation needs to move toward a social enterprise model. What is too early to foretell is to what degree and in what areas the boundary between the state and grassroots social innovations can be negotiated. China's 12th five-year plan stresses innovation in the public administration system. Nevertheless, while government officials talk about social reform, scholars and observers argue that such reforms could turn into a new form of government administration rather than genuine empowerment for grassroots initiatives. The question is how far grassroots initiatives can go when the government can stop their activities at any time and while there is an unreliable governance system to protect them.

Source: Zhao, Meng: The Social Enterprise Emerges in China, Stanford Social Innovation Review10. 2 (Spring

Aging population will constrain growth

China's aging population and the deteriorating natural environment will constrain economic growth, Ma Jiantang, head of the National Bureau of Statistics said Saturday. China's "demographic dividend" has decreased as the population is aging fast, and environmental problems will continue. Both factors will hamper the country's economic growth, Ma said at the China Development Forum held in Beijing. Ma's remarks came after China lowered its GDP growth target in 2012 to a seven-year low of 7.5 percent last week to give more leeway to restructure its economy without fuelling inflation. The country's ratio of labor force to the overall population dipped for the first time in 2011, Ma said.

Meanwhile, in contrast to limited natural resources per capita, China's energy and resource consumption were enormous, which has resulted in high costs to curb heavy pollution, he said. The country must step up reforms and restructuring to secure steady and rapid economic growth, Ma concluded.

Related Stories
Source: Xinhua: Aging population will constrain growth, 2012-03-17

CHINA: Demographic pressures add urgency to reforms

The one-child policy has over the past 30 years created two demographic issues: an rapidly ageing society and a significant gender imbalance. The latest census estimates a total fertility rate between 1.4-1.5, overturning the 1.8 figure estimate long held by the National Population and Family Planning Commission. Economic and social policy reforms are likely to result, and new market opportunities open up.

Improvement of the social welfare system will become more critical. The government will need to provide incentives to encourage higher value-added industries. New business opportunities will emerge in the health sector, with government subsidies for services targeted at elderly people.

In 2010, around 120 million Chinese were over the age of 65, equivalent to 8.9% of the total population -- only slightly above the global weighted average of 8.1%. By comparison, the United States and the United Kingdom have respectively 13.1% and 16.5% of the population over 65 ( see CHINA: Census highlights opportunities and threats - June 13, 2011). However, the 2010 Chinese figure was an increase of just under 3% in the decade since 2000. This rate of increase is predicted to continue for the next five years. The current total fertility rate is significantly lower than the replacement fertility rate of 2.1, just falling into the
‘extremely low’ category of below 1.5. By comparison, UK and US fertility rates are 1.8-1.9 and 1.9-2.0 respectively, while Japan’s is 1.3.

As China speeds towards becoming an ageing society, the disappearing demographic dividend has the potential to threaten economic growth, prompting calls for relaxation of the one-child policy to bolster a reduced labour force (see CHINA: Ageing will force major policy shifts - January 12, 2011). However, China has the unique problem of an ageing population that is nevertheless still accompanied by a labour supply glut, a feature that will probably persist over the medium term at least. With an idle labour force of over 200 million in rural China, reported migrant-worker shortages in recent years have mainly been due to reluctance to employ those outside preferred categories, such as the over 40s (or in some cases even over 25s).

Discrimination by age, appearance, gender and marital status are only few of the many aspects of workplace discrimination faced by those in the labour force. Such bizarre conditions can only exist when there is a labour surplus. Although the majority of Chinese job seekers have faced some form of discrimination, very few complain because there is always another applicant waiting to replace them. Currently, China’s economy is one-sixth the sum of the United States, Germany and Japan combined -- but its labour supply is three times the sum of those countries.

For businesses, an ageing China creates opportunities in the health products and services industry, with demand outstripping supply in areas targeted at the elderly. Profitable opportunities exist across sectors as diverse as organic agriculture and the development of better and more extensive elderly care services. There is a severe shortage of government-sponsored nursing homes. Currently there are only enough beds to satisfy around 2% of those over 60, significantly lower than the 5-7% in developed countries. This means the elderly care market is a seller’s market with private nursing homes providing better services but at very high prices. In some cities, local governments are subsidising nursing homes established by non-governmental groups, to promote better quality elderly care services at more reasonable prices. In Shenzhen’s nursing homes, each new bed is subsidised up to 15,000 renminbi (2,400 dollars) over five years, and each occupied bed can be subsidised up to 200 renminbi per month.

In the 0-20 age bracket, there are more than 20 million more males than females. Analysts predict that by 2020, there will be 30-40 million young males unable to find women to marry. The ‘marriage squeeze’ will be particularly serious in rural China, where there is higher gender imbalance, leading to an increase in human trafficking and prostitution. Immigration of young females from neighbouring countries is also predicted to grow.

The high gender imbalance reflects broader gender inequalities. However, the underlying cause of the imbalance is an inadequate social welfare scheme, particularly in rural regions. In the absence of significant pension support, rural parents must continue to rely on children for support. Preference for boys in such areas will persist until an adequate social security system is established. Although prohibited, ultrasound tests are still widely used in rural areas and private clinics to determine the sex of a fetus, prompting calls to amend the criminal law to allow prosecution of doctors who conduct non-medical prenatal sex determination and sex-selective abortions.
CONCLUSION: Tensions created by current demographic trends will accelerate social and legal reforms aimed at establishing a more comprehensive pension scheme and reducing sex-selective abortions. As labour force growth slows, the pressure for a rapid transition to a higher-productivity, skills-based economic growth model will increase. At the same time, new opportunities will emerge in health sector areas targeted at the elderly.
Source: OxResearch Daily Brief Service: CHINA: Demographic pressures add urgency to reforms, Mar 09, 2012

Italians move against false brands

At least 30 faux products were found, including bags and leather goods and bedding. Following a one-year investigation, the Italian Trade Commission has reported 30 so-called Italian brands with no connection to Italy to the State Intellectual Property Office. "We found the Italian brands were China-made and just used Italy as a signboard to attract consumers," Gui Hua, a lawyer with the commission's Beijing branch, said on Sunday. "They never registered in Italy, let alone became popular or well-known across the world."

The State Administration for Industry and Commerce has refused the trademark application of two of the reported brands, Gui said, but had given no response on the others.

Giovanni de Sanctis, an official with the Italian Trade Commission, which has offices in Beijing, Shanghai and Guangdong, leads the investigation into false brands to protect the image of real Italian products. De Sanctis began doubting the authenticity of some Italian-named products in China in August 2010 and found them to be false after checking the brand details with trade associations in his homeland. "It was unbelievable to see non-existent brands in China," Sanctis said. "I never imagined such a thing could happen." "What I do is to guard the reputation of goods made in Italy and hope that the Chinese government will pay more attention to those fake brands."

De Sanctis and Gui said the prices of some of the false Italian brands were surprisingly high. "A mattress with an Italian brand is selling for 40,000 yuan ($6,332) or more, but has no connection with Italy," Gui said. "It's the sellers' excuse. They prefer to make up romantic Italian stories to confuse the public instead of facing up to their real faults," Gui added. Yu Guofu, a Beijing lawyer from Sheng Feng Law Firm who specializes in intellectual property cases, said many Chinese companies, especially the small ones, urgently need to be regulated. "The companies always introduce their brands as being born or having a long history in foreign countries to cheat customers. It is a form of false advertising that disturbs the regular market and leads to unfair competition," Yu said. If a Chinese company registers a brand with foreign logos or slogans, the trademark authority in the country can refuse its application on the basis that it has no connection to that foreign country, Yu added. "To avoid such false advertising or infringement, the relevant departments should do more investigations and the legal organs should hand out stricter punishments," he said.
Source: Cao Yin: Italians move against false brands, China Daily, 2012-03-19

Villagers fight over patents in rural China

Xu Song recently became the proud owner of 799 Chinese furniture patents. The problem is, he admits that he did not invent the furniture: his neighbours made it first – and they just copied it from Ikea anyway. Designed by IKEA, copied by the neighbours, patented by Mr Xu: this may not be the kind of creative progression Beijing has in mind when Chinese leaders talk about building an economy based on innovation. But in a strange kind of way, the fact that Mr Xu and his neighbours – former migrant workers and pig farmers in a rural Chinese village – are fighting over patents is a sign of the growing sophistication of the Chinese economy, legal experts say.

It all started when hundreds of former migrant workers moved back to Dongfeng village, a poor hamlet in China’s eastern Jiangsu province, to turn it into a “Taobao village”: a place where almost every home makes furniture in a shed in the back garden, and sells it from a virtual storefront. Mr Xu and his neighbours are part of a
vast national reverse migration of workers from the factories of the developed south and east, to become e-commerce entrepreneurs back home. But to launch their businesses successfully, they need to build brands – and for that, they must innovate. China’s leaders recently reinforced the message in their parliament: they want people like Mr Xu to add brainpower to the products they make.

Mr Xu is adamant that he is merely responding to that call, by registering all of the products made by his neighbours, as a way to protect them from being pilfered by copycats. He admits that his neighbour made the patented products before he did – a crucial distinction in patent law, where being first is what counts. And they all admit that they copied the designs from elsewhere in the first place. But Mr Xu insists: “I didn’t steal their products, I just registered the patents.” He thinks he should be rewarded with licence fees from everyone else in town – because he had the bright idea of protecting the town’s IP. He can easily use his patents to get Taobao to remove their products from its website, if they do not comply.

Mr Xu says he is just “brand building”. But his neighbours see things differently. “He opened his factory long after the rest of us,” says Ding Cuihua, who claims to have run Dongfeng’s first Taobao furniture factory. She admits that everyone in the village copies everyone else – and competes only on price – but she says none of the villagers will pay Mr Xu to stop the short-sighted cloning.

Tony Chen, intellectual property lawyer at the law firm Jones Day in Shanghai, points out that there is nothing illegal about what Mr Xu did. To obtain a so-called “design patent” in China, an “inventor” need only send in three pictures or drawings of the design; the patent office does not independently confirm whether the design is innovative. “This exposes the weakness of Chinese patent law,” says Mr Chen. The Chinese patent office granted 380,000 design patents in 2011 while the US Patent office granted only 21,000. “These numbers do not reflect the innovation reality.” Ironically, no one in the village seems at all bothered by the fact that their furniture designs were all, originally, “borrowed” from others. They think it is fine to steal IP from foreign companies – just not from the neighbours.

Source: Patti Waldmeir in Shanghai: Villagers fight over patents in rural China, Financial Times, March 29, 2012

From brawn to brain; Innovation in China

THE end of cheap China is at hand. Blue-collar labour costs in Guangdong and other coastal hubs have been rising at double-digit rates for a decade. Workers in the hinterland, too, are demanding--and receiving--huge pay increases. China is no longer a place where manufacturers can go to find ultra-cheap hands. Other countries, such as Vietnam, are much cheaper. What will this mean for China and the world? Contrary to conventional wisdom, it will not mean that companies close their Chinese factories and stampede to somewhere poorer. China is still a terrific place to make things. Labour may be cheaper elsewhere, but it is only one cost among several. Unlike its lower-paying rivals, China has reasonable infrastructure, sophisticated supply chains and the advantage of scale. When demand surges for a particular product, the biggest firms in China can add thousands of extra workers to a production line in a matter of hours.

So China is not about to hollow out. But if it is to keep growing fast, it must become more innovative. At present Chinese innovation is a mixed bag. There are some outstanding private firms. Frugal engineers at private companies such as Mindray, which makes medical devices, and Huawei, a telecoms giant, are devising technologies that are cheaper and sometimes better than their rich-world equivalents. Manufacturers operating near China's coast, whether home-grown or foreign, are adept at "process innovation"--incrementally improving the way they make things. And China's internet start-ups, such as Tencent (a social-networking service) and Alibaba (an e-commerce company), have had a genius for copying Western business models and adapting them to the Chinese market.

But innovation is about more than this. One way of defining it would be as fresh thinking that creates value
people will pay for. By that measure, China is no world-beater. Though its sweat produces many of the world's goods, it is designers in Scandinavia and marketers in California who create and capture most of the value from those products.

If the argument that the Chinese state is uniquely innovative is at best unproven, the obstacles in front of a small private-sector innovator are clear. The most obvious is piracy. China's intellectual-property laws are not bad on paper, but are enforced patchily and partially. Another problem is the way so many industries have been consolidated in the hands of favoured firms. Antitrust and competition laws are not applied vigorously to well-connected champions. State-directed banks take the Chinese people's savings and lend them at microscopic interest rates to national champions. This starves clever but unconnected firms of capital, and cheats savers, too.

Nobody expects the Chinese government to let the reins go completely, but it needs a less top-down approach that gives its citizens more space to experiment. It must let private investors risk money on ideas they think might work, and bear the consequences of failure. An obvious place to start would be to let firms build on what they already do well, such as process innovation. But the next Chinese breakthrough may actually come in an unexpected field. China was once a dazzling innovator: think of printing, paper, gunpowder and the compass. If its rulers loosen their grip a little, it could be so again.

Source: Anonymous: From brawn to brain; Innovation in China, The Economist 402. 8775 (Mar 10, 2012) (Copyright 2012 The Economist Newspaper Ltd. All rights reserved.)

Coal-rich city eyes green economy

In the mid-1980s, former Chinese leader Deng Xiaoping met with Armand Hammer, a US industrialist and founder of Occidental Petroleum, and decided to set up one of China's first joint ventures here in North China's Shanxi province. The city of Shuozhou was born in 1989. Last year, it produced 186 million tons of coal, about 20 percent of the total in Shanxi, a major powerhouse of China.

More than 20 years of massive coal exploration has brought the city wealth, but has also taken a toll on its environment, leaving huge piles of coal waste and causing sandstorms. "Coal excavation brings soil erosion and destroys forests, and we don't want that. We want the city to be green, to be a good place to live," said Wang Maoshe, Party chief of Shuozhou, who was in Beijing for the National People's Congress this month. Consequently, planting trees has been high on the city government's agenda, he said. Since the late 2000s, Shuozhou has invested about 1 billion yuan ($158 million) a year to plant 22,000 hectares of forest, an area about 25 percent larger than Washington, DC. Now, 35 percent of the city area is green, and Wang has an ambitious plan to increase that area by 2 percentage points a year. It is no easy task, considering the harsh natural conditions and huge investment.

Shuozhou, situated near the Ordos Desert, sees an annual average temperature of 6.4 C and has limited rainfall, about 450 mm a year. Last year, Beijing had about 720 mm of precipitation, according to the China Meteorological Administration. "So we plant mostly Mongolian pines, which easily adapt to sandy soil, and we've successfully brought water from the Yellow River through diversion channels," Wang said. As for the 1 billion yuan annual investment, Wang said about one-third is from the provincial or city government, one-third from the district government and one-third from enterprises, especially coal mine companies. "One tree for 1 ton of coal, that's our requirement for coal mines," he said. "Coal exploration hurts the environment, so it has to pay the price."

The city is also going green by making better use of the coal waste. About 20 percent of each ton of raw coal excavated is waste, or gangue. In the past, the gangue was thought to be worthless, local officials said. The city now produces 36 million tons of coal gangue a year, almost all of which could be used to generate electricity. That provides a power generation capacity of 2.67 million kWh, the largest amount of all cities in China, according to
figures from the city government. After power generation, coal and coal gangue turn into coal ash, which was also thought to be useless in the past. But the ash contains metals, including alumina and silica, which can be extracted. To make better use of coal ash, an industrial park, focusing primarily on processing coal ash, is under construction. To diversify its economy, the city is vigorously developing non-coal industries, such as agriculture and animal husbandry. Among the planned projects to be launched before 2016, about 70 percent are not related to coal, according to the city government.

Source: Zhu Zhe and Sun Ruisheng: Coal-rich city eyes green economy, China Daily, 2012-03-22

Fuel prices raised by 6.5-7%

China raised fuel prices for the second time this year, hiking gasoline and diesel by 6.5 percent to 7 percent effective on Tuesday, amid rising world crude oil prices and falling domestic inflation. Prices went up by 600 yuan ($94.90) a metric ton, the biggest hike since June 2009. The average gasoline price went up 6.5 percent to 9,980 yuan a metric ton, while diesel prices rose 7 percent to 9,130 yuan a metric ton. Both prices are record highs.

The prices are set in reference to a basket of crudes (Brent, Dubai and Cinta), which jumped more than 10 percent in the past 22 working days. China's foreign oil dependency jumped to 56 percent in 2011 from 30 percent in 2000. That's not a sustainable trend in light of the country's long-term demand for oil, so China is using the pricing system to curb excessively rapid increases in oil use, the NDRC said. Central government subsidies to the agriculture, fishery, forestry, urban public transportation and taxi industries will be provided to offset the price hikes, the authority said. The frequency of price adjustments - two times in as many months this year - is much more than in previous years. The government raised prices only three times last year. There's widespread market speculation that China will reduce the price-adjustment reference period to 10 days, from 22 days, to better reflect volatile global oil prices.

Source: Zhou Yan: Fuel prices raised by 6.5-7%, China Daily, 2012-03-20

China economy: Shale-gas reserves are larger than first thought

In March the Ministry of Land and Resources revealed that new surveys show that China has an estimated 25.1tn cu metres of recoverable shale-gas reserves. Although seismic exploration has been under way for some time, so far no shale-gas project has reached commercial production. However, the National Development and Reform Commission said in March that it believes that output could reach 6bn cu metres a year in 2015, and 60bn-100bn cu metres by 2020. This could allow gas to take on a bigger role in energy provision, reducing the country's dependence on coal— as well as its greenhouse gas emissions.

Source: EIU ViewsWire: China economy: Shale-gas reserves are larger than first thought, Mar 26, 2012

Beijing Holds The Key to Property Rise

The secular slowdown in China's economy is clear. What is more interesting, and harder to determine, is whether a resurgent property sector could yet ride to the rescue of growth this year. There are bullish and bearish signs. On the bull side, daily and weekly data show sales volumes have picked up. Growth in property transactions in tier-one and major tier-two cities has moved into positive territory for the first time since the summer. On the bearish side, a survey published by the central bank on Tuesday showed that 68% of households still believe that house prices are too high. Worse, just 14% said they were thinking of buying a house in the next quarter -- almost as few as at the nadir of the global financial crisis at the end of 2008. That suggests house prices have further to fall before buyers come back into the market in large numbers -- and that politicians will be in no hurry to relax their controls.
Yet policy remains the wild card. While local governments have attempted to break ranks on the central government's crackdown on speculators, Beijing continues to hold the line. Premier Wen Jiabao made a forceful reiteration of the need for controls at the National People's Congress last week.


**Consumers complain most against unlicensed vendors**

A total of 42,800 complaints filed by consumers were against unlicensed vendors in 2011, China's market supervisor said Thursday, which marks International Consumer Rights Day. The figure accounted for 15.82 percent of total cases filed last year, the most among all other cases, the State Administration of Industry and Commerce (SAIC) said. The figure was followed by cases violating quality laws and regulations (22,000), and cases infringing consumer rights (14,200), the SAIC said. The SAIC received 270,500 complaints last year, an increase of 12.16 percent year-on-year. Violations of contract laws and regulations increased the most, up 332.18 percent.

Source: Xinhua: Consumers complain most against unlicensed vendors, 2012-03-16

**China's rich reluctant to take over family firms: report**

Many Chinese are reluctant to take over their family's firms when their parents retire, according to a news report carried by people.com.cn on Wednesday. Citing a survey over 182 Chinese of family firms by a Shanghai Jiao Tong University team, the report said up to 82 percent of surveyed heirs said they were reluctant to take over the family business. The average age of the surveyed family entrepreneurs was 52 and succession of the business has become an increasingly visible concern, said the survey. China's family businesses, mostly started since China initiated the reform and opening up drive around 30 years ago, will enter a core period of power-shifting from founders to their children in the upcoming 10 years.

Professor Yu Mingyang, leader of the survey team, said many of the young family members, who were born in 1970s or 1980s and extensively influenced by the Internet, showed interest in electronic commerce and IT related business generally, other than the business started by their parents. Some of them even reported that they wanted to pursue a career as officials, a dream shared by many university graduates, the report said, quoting the survey. According to a report presented late last year by the research organs of the All-China Federation of Industry and Commerce, around 85.4 percent of China's private enterprises belong to family businesses, in which individuals or families own a controlling stake of more than 50 percent.

Source: Xinhua: China's rich reluctant to take over family firms: report, 2012-03-16

**Home / Business / Economy Major industrial firms' profits drop 5.2%**

Profits for Chinese chemical producers, automakers and other major industrial companies fell 5.2 percent in the first two months of 2012 from the same period a year earlier, China's statistical authority said Tuesday. Total profits for the largest industrial companies, or those with annual revenues above 20 million yuan ($3.17 million), stood at 606 billion yuan during the first two months, the National Bureau of Statistics said in a statement on its website. The data highlighted the impact of the sluggish global economic recovery on Chinese companies, especially state-owned enterprises, as exports have slowed due to waning external demand. The data also represents a significant drop from February, during which industrial profits rose 25.4 percent to 5.45 trillion yuan in 2011 from the same period a year earlier. State-owned and state-controlled enterprises saw their profits fall 19.7 percent from one year earlier to 179.1 billion yuan, while private companies' profits grew 24.4 percent during the same period. The ferrous metal sector was hit the hardest, with profits slumping by 94 percent. The computer,
telecommunications and electronics manufacturing industries suffered a 40.8-percent drop in profits. Profits in the power generation sector, however, increased by 21.1 percent. The country's oil and gas exploration industry witnessed a 15.5-percent rise in profits, according to the statement. China's economic growth slowed to 9.2 percent in 2011, down from 10.4 percent in the previous year.

Source: Xinhua: Major industrial firms' profits drop 5.2%, 2012-03-27

**Fade in China, Made in America**

A slower China will dent global growth, but it could give the U.S. a boost. For the U.S., China's emergence has been more of a mixed bag. Low-price Chinese imports helped keep inflation in check but also contributed to the hemorrhaging of U.S. manufacturing jobs. China's households, despite big gains in income, remained too poor to buy made-in-America goods.

That might be about to change. Speaking this past week at the National People's Congress in Beijing, Premier Wen Jiabao announced a 7.5% economic-growth target for 2012, down from 8% for each of the last seven years. That recognizes that after an era of breakneck investment-driven growth, China's economy is entering a new, less torrid phase. For hard-commodity exporters that have provided raw materials for China's manufacturing and infrastructure expansion, this isn't good. Australia's merchandise exports to China, for example, equal 5% of its gross domestic product, and iron-ore shipments account for more than half of that.

Some U.S. companies could see sales slacken as China throttles back. Manitowoc could see demand for tower cranes soften. United Technologies might sell fewer Otis elevators and Carrier HVAC units. But for the U.S. economy as a whole, a slower China could be a positive. A recent survey by Standard Chartered shows average factory wages in China's Pearl River Delta, the country's manufacturing heartland, rising 10.4% in 2012, a second year of double-digit-percentage increases. Government policy also is moving into a supportive position. At the National People's Congress, Mr. Wen put expanding consumer demand at the top of the government's 2012 to-do list. That brings the Chinese economy into America's wheelhouse. U.S. soybean farmers, airplane manufacturers, apparel designers and medical-equipment engineers don't gain much when China builds a new railway network. But they do benefit from demand for a higher-protein diet, more air travel, haute couture and higher-quality health care. But as Chinese growth moderates, consumption rises and aspirations blossom, "Made in America" might get its chance to shine.


**Officials foresee greater BRICS coordination**

The European Union and the United States should work to foster cooperation among the countries collectively known as the BRICS to redevelop international governance and effectively deal with the difficulties facing the world, say senior European politicians and scholars. Jacek Saryusz-Wolski, the former vice-president of the European Parliament and now a member of that body, has been asking the EU's executive arm to foster more coordination among the 27 EU member states in response to the increasing policy coordination seen among the BRICS countries, which are Brazil, Russia, India, China and South Africa. The BRICS have been coordinating their positions on issues such as climate change, global regulations, the access to raw materials, terrorism, sustainable development, political stability and security. They take their meeting in India this week as an opportunity to make their stances on these issues public again. "The EU should take note of this new phenomenon, which is that the BRICS group has started to coordinate foreign policies, besides the economic parts in their relationship," Saryusz-Wolski said.

Saryusz-Wolski is a strong advocate within the EU for the forging of closer relations between the EU, the US and the BRICS. In his recent report on the EU's policies toward the BRICS and other emerging powers, he
predicated that seven emerging economies - Brazil, Russia, India, China, Indonesia, Mexico and Turkey - are collectively projected by 2050 to have larger economies than the G-7 countries, made up of the US, Japan, Canada, United Kingdom, Germany, France and Italy. By 2050, China, the US and India could together make up 50 percent of the world economy and the EU could be of a comparable scale to any of those countries if it acts as a strong and unified political entity. "So my proposal is not to treat those countries only separately in bilateral relations, but to look in a coordinated manner at their joint initiatives and react to them, and also to study to what extent they converge or diverge from the policy expectations of the EU," Saryusz-Wolski said. "I am saying in my report that we are looking with hope at emerging economies. Countries that are bigger and more developed can co-shoulder with us the problems of the globe." He also called on the US to take note of the increasing coordination among the BRICS countries.

Source: Fu Jing in Brussels: Officials foresee greater BRICS coordination, China Daily’ 2012-03-28

**Western countries' monetary policy hurts emerging economies**

The BRICS countries Thursday expressed concerns over the monetary policy pursued by the Western countries, saying it has been hurting the emerging economies of the world. According to a draft declaration by the BRICS, aggressive monetary easing by western central banks to revive growth in their economies is hurting emerging nations which are facing a rush of destabilizing capital inflows. "Excessive liquidity because of the central bank actions has been spilling over into emerging economies, fostering excessive volatility in capital flows and commodity prices," according to the document.

It also says that the BRICS group wants steps to avoid escalation of the Iran oil crisis and favored a diplomatic resolution to the problem. Leaders of Brazil, Russia, India, China and South Africa, the BRICS nations, are attending a one-day summit in the Indian capital.

Source: Xinhua: Western countries' monetary policy hurts emerging economies, 2012-03-29

**Premier signals way to yuan internationalization**

Maintaining steady economic development and further strengthening financial regulations are basic to the internationalization of Chinese currency, and have consolidated the government's stance to speed up relevant reforms, Premier Wen Jiabao told global business leaders at a forum on Monday. The government is pushing forward policy innovations and regulations to make the yuan float more freely, and the currency will be freely convertible "at the right time", the premier said to delegates at the China Development Forum 2012. "The direction of our economic reform and policies will not change or stop," Wen said, encouraging foreign company executives to strengthen confidence in the country's future.

China's gigantic global trade volume has driven the government to approve yuan-denominated cross-border settlements on deals. The premier also called for long-term solid trade relationships with foreign partners, which needs help from a more freely convertible yuan. The yuan reached 6.31 per US dollar on Monday, the strongest since March 9. But it has weakened 0.4 percent in the past three weeks, according to the China Foreign Exchange Trade System. The yuan has appreciated about 30 percent against the dollar since July 2005.

Source: Chen Jia: Premier signals way to yuan internationalization, China Daily, 2012-03-20

**Set the money free; China's capital controls**

Cheap capital has been crucial to China's rise. The country's growth has been fuelled by banks sucking up plentiful household savings and pumping them into not-always-deserving industry, including big, state-owned borrowers. There are costs to this approach. The skewed interest rates offered by China's banks represent a tax on depositors and a subsidy for industry. They distort the economy, suppressing consumption, services and private
business in favour of investment, industry and the state. Savers seeking to avoid being fleeced by the country's banks inflate housing bubbles instead. And controls on capital outflows prevent sound investments abroad, resulting in large and dangerous piles of foreign-currency reserves. Ultimately, putting this right requires China to accept freer movement of capital within its borders, and across them. Yet opening a financial system to the outside world carries dramatic risks--witness the tide of hot money into China's neighbours that led to the Asian financial crisis at the end of the 1990s. How, then, should China chart a safe course?

But China should liberalise finance at home before unleashing capital flows across borders. China can minimise the dangers of liberalisation by preparing the path. Thus any scheme to free up the capital account should also liberalise interest rates and the exchange rate, overhaul monetary policy, improve the way Chinese banks are run and supervised, and foster deeper, better-regulated financial markets. Domestic and international liberalisation can complement each other. Foreign competition can force Chinese banks to raise their game. The movement of capital in pursuit of the best returns also prevents domestic interest rates from getting too far out of line. At this stage of its development, China's financial reforms will work best in tandem. But to prevent bubbles and crashes, capital-account liberalisers should remain in the back seat while the domestic reformers keep pedalling.

Source: Anonymous: Set the money free; China's capital controls, The Economist402. 8774 (Mar 3, 2012): 18-23

China-US FTA talks suggested

China should propose the initiation of talks on a free trade agreement with the United States to reduce trade frictions and create benefits for both, a former senior commerce official has said. "Why shouldn't we consider establishing an FTA between the world's two largest economies?" asked Wei Jianguo, former deputy minister of commerce. "We could study the feasibility of the matter," Wei said, adding that China and the US have highly complementary economies. China should also "accelerate its steps" on establishing an FTA with Japan and South Korea, Wei said, which would connect the three top economies in Asia. Wei's proposals come as the US is aggressively expanding its influence in the Asia-Pacific region and expects to grow its economy and create employment by taking advantage of the fast economic growth in Asia.

The world's largest economy is advancing a trade agreement in Asia, known as the Trans-Pacific Partnership, to remove trade and investment barriers among the nations involved. Nine countries, including Australia and Vietnam, have agreed to join the pact and set a goal of reaching a final agreement by the end of this year. China is not included. Last year, Japan, the world's third-largest economy, also announced its desire to join the Trans-Pacific Partnership talks, but the matter is pending.

China is trying to transform from a big exporter to a great consumer, while the US pledges to double its exports in five years. "The China-US FTA could help the US expand exports to China, reducing trade frictions," Wei said. US experts said an FTA between China and the US should be a good thing. "Any approach by China to initiate discussions with the US on a free trade agreement should be welcome," said Vikram Nehru, senior associate of Southeast Asian Studies at the Carnegie Endowment for International Peace, a Washington-based think tank. But he stressed that "China should be aware that US concerns extend well beyond trade barriers and are likely to include "behind-the-border" trade issues. These trade issues could involve explicit budgetary subsidies and implicit policy-related subsidies to State enterprises. The protection of intellectual property rights of US companies by the Chinese legal system is also a big concern, Nehru said.

But a China-US FTA may not be established soon. "In the short term, talks on a China-US FTA are highly unlikely," said Zhang Yunling, director of the division of international studies under the Chinese Academy of Social Sciences. The US is strongly committed to advancing the Trans-Pacific Partnership, setting up trade rules in Asia based on its own wishes, Zhang said. There are many things that have to be addressed before the talks
could start, including the US recognizing China's market economy status, an issue that the two nations have long been arguing over.

Source: Ding Qingfen, Zhang Yuwei and Chen Weihua: hina-US FTA talks suggested, 2012-03-17

**China posts record trade deficit in 20 years**

China posted its largest trade deficit in the past two decades last month, while the nation's imports surged by 40 percent. Exports grew at half the rate of imports. Economists say the spike in imports and large trade deficit in February is an "individual case" and could be attributed to "seasonal factors", predicting imports will moderate in the months ahead as China's economic growth slows. They also said the gloomy outlook will probably lead to a "slower pace of gains in the Chinese currency and the easing of government policy".

According to the General Administration of Customs, China's imports rose 39.6 percent from a year earlier, after a 15.3 percent slump in January. Exports grew 18.4 percent year-on-year, with drop of 0.5 percent. This caused a trade deficit worth $31.5 billion in February, the largest since 1990. Because the Chinese lunar New Year fell in January this year, the year-on-year growth rates for Chinese exports and imports were distorted, and combined figures for the January-February period "could better reflect the current situation", said Li Wei, an economist from Standard Chartered Shanghai. In that period, China's foreign trade gained by 7.3 percent to $533 billion, with imports increasing 7.7 percent and exports 6.9 percent. The first two months saw a trade deficit worth $4.25 billion. From January to February, China's exports to the EU dropped by 1.1 percent, pulled down by the crisis in Italy, where imports from China fell by 31.1 percent. But sales to the US gained 12 percent.

Source: Ding Qingfen: China posts record trade deficit in 20 years, 2012-03-11

**China to be world's biggest importer soon**

Minister of Commerce Chen Deming said Sunday that China, now the world's second largest importer, will become the biggest in a few years. China not only provides the world with high-quality products at low costs, but also buys high-end goods supplied by global brands, Chen said at the China Development Forum 2012. The growth rate of China's retail sales stayed between 16 percent and 18 percent over recent years, higher than its GDP growth, indicating the country's huge purchasing potential, the minister said.

Chen said many Western politicians blamed China for global trade imbalance, but they seldom mentioned that China, with its population only accounting for 19 percent of the world total, is also the world's second largest importer. Trade remedy measures adopted by some developed countries are undesirable, because they are neither fair to other economies, nor just to domestic citizens and enterprises, Chen added. Chen said emerging countries should base their growth on domestic demand so as to balance its growth, while opening their markets and facilitating trade in line with national conditions.

China's trade surplus narrowed 14.5 percent year-on-year to $155.14 billion in 2011, with imports up 24.9 percent to $1.74 trillion, customs data showed. The China Development Forum 2012 runs from Saturday to Monday, with a theme of "China and the World: Macro-Stabilization and Economic Restructuring."

Source: Xinhua: China to be world's biggest importer soon, 2012-03-19

**China to change foreign trade growth pattern**

A guideline to accelerate the transformation of the country's foreign trade growth pattern was jointly issued on Thursday by 10 Chinese government agencies. The country aims to balance its foreign trade by increasing imports and optimizing the mix of its import tariffs, according to the publication on the Ministry of Commerce website. The guideline said favorable tariff policies will be implemented to boost imports of advanced technology, equipment and components, energy and raw materials as well as people's daily necessities.
The government will encourage domestic firms to "go overseas" and secure stable supplies of energy and resources abroad, it said. The country is also keen to assume greater pricing power in the global commodities market and better its reserve system of strategic resources.

The guideline urged more efforts to increase the share of developing countries in China's foreign trade and push forward the strategy of introducing free-trade areas. It said the government will help export firms to improve quality, build their own brands and move up the technology and value-added scale so that they can foster global competitiveness.

Under the guideline, China will further reform the yuan's exchange rate formation mechanism to make the currency more flexible. It also vows to promote the use of the yuan in cross-border trade settlement and investment.

Source: Xinhua: China welcomes US efforts to expand hi-tech trade, 2012-03-26

China to cut import duties

China will cut import duties on selected energy products and raw materials as well as consumer goods to boost purchases, the State Council said in a statement on Friday. The decision underlines Beijing's intent to buy more from its trade partners to boost domestic consumption and comes after China posted its largest monthly trade deficit in at least a decade in February. "As we maintain stable growth in exports, we should focus more on imports and appropriately expand its amount," the State Council said in a meeting.

China, the world's largest exporter, will have to rely less on exports to drive its economy in coming years, when growth in the US and European markets is predicted to slow. Importing more will lift living standards and ease China's disputes with its trade partners, according to the ministry. Vice-Premier Li Keqiang said earlier this month that China will import $10 trillion worth of goods and services in the five years ending 2015.

"One of the ministry's top trade priorities this year is...to increase imports of capital goods, especially spare parts, and consumer goods," Wang Shouwen, director of the ministry's department of foreign trade, said at an Import Expansion and Balanced Trade Development Forum in Kunshan, Jiangsu province. According to the ministry, China's imported goods are currently divided into three main categories: capital, consumer and resources. Resources such as iron ore, copper and aluminum comprise the majority of the country's total imports. "Encouraging the import of capital goods such as advanced spare products is undoubtedly helpful to upgrading China's industry, the promotion of investment efficiency and improving international competitiveness," Wang said.

To boost imports, the State Council said it will cut duties on "some energy products, raw materials, consumer
goods closely related to people's daily lives, and key items that China does not produce". China's import tariffs on energy products are generally low. For instance, an import duty of 1 percent is levied on mainstream gasoline products and diesel is duty-free. Beijing will also encourage importers to buy more from countries that have free trade agreements with China, such as Pakistan, New Zealand, and member countries of the Association of Southeast Asian Nations. The new move is expected to reduce China's trade surplus by increasing imports, which may help reduce trade frictions with other countries, experts said.

To transform into a more consumer-driven economy, Beijing is adopting a "buy more but not sell less" approach, which helped narrow its trade surplus by 14.5 percent in 2011 to $155 billion. In February, China posted a $31.5 billion trade deficit as commodity imports pushed total purchases up 39.6 percent compared with a year ago, more than double the pace of export growth. The ministry said greater effort on expanding imports will be significant for the recovery of the global economy. With more import liberalization, China's overall tariff rate is about 9.8 percent, much lower than the average of other developing economies. "Companies involved in these industries will face fierce competition from foreign investors and foreign exporters," Zhang Yansheng, director of the Foreign Economy Research Institute under the National Development and Reform Commission, said. Source: Bao Chang in Beijing and Cang Wei in Kunshan, Jiangsu province: China to cut import duties. China Daily, 2012-03-31

U.S. and Europe Move on China Minerals

The U.S., joined by the European Union and Japan, plans to ask the WTO, the international arbiter of trade practices, to open talks with China over its restrictions on exporting the rare-earth minerals, administration officials said. China dominates both the mining of rare-earth materials and the ability to process mined oxides into the metals that serve as key components of everything from smartphones to hybrid vehicles to military equipment. China produces more than 95% of the world's rare-earth minerals.

The latest U.S. effort was widely anticipated by people in the industry following years of unsuccessful efforts to press China directly on the issue. The U.S. will ask the WTO to stop China to stop its controls on the production of rare-earth minerals. Barring a surprise breakthrough in negotiations, the issue is likely to become a full-fledged case at the WTO against China.

Official spokespeople at China's Commerce and Finance ministries didn't immediately respond to requests for comment. But a senior researcher at the Commerce Ministry said on Tuesday that the U.S. attempt is "conspicuously unreasonable." "When India banned exports of cotton last week, the U.S. didn't say anything," said Jin Bosong, deputy director of the ministry's international trade and economic cooperation research institute, citing a restriction that India has since rolled back. "The WTO needs to have a consistent basis on how it treats global trade matters," he said, warning the U.S. may "end up losing even more" if the issue escalates. Source: Reddy, Sudeep; Favole, Jared A.: U.S. and Europe Move on China Minerals. Wall Street Journal [New York, N.Y] 13 Mar 2012: A.1.

Fourth straight monthly fall in FDI

Foreign direct investment (FDI) shrank in February from a year earlier, the fourth straight fall, while investment from Europe witnessed a sharp decline, according to the Ministry of Commerce. FDI last month dropped by 0.9 percent year-on-year to $7.73 billion, following a 0.3 percent drop in January. "This is not good news, it reflects the gloomy global economy," said Wang Zhile, director of the research center for transnational cooperation at the ministry. It is difficult to be optimistic about the outlook for FDI "given the doubts in the minds of foreign companies about the global economy and China's foreign investment environment," he said.

The first two months of the year have seen investment into China from the 27 EU nations drop by 33.32
percent, from the previous year, to $906 million. Outflows from the Asia-Pacific region and the United States are positive. From January to February, investment from 10 Asian nations and regions, including Japan, the Republic of Korea and Singapore, increased by 2.66 percent year-on-year to $15.38 billion, and from the US rose by 0.87 percent to $525 million.

Surveys by the chambers of commerce from Japan, the US and the EU, all showed that a majority of companies are confident in Chinese markets and would like to further invest here. But there are criticisms, especially concerning laws and regulations, market access and rising labor costs. In the new industrial guidelines for foreign investors, China said it encourages foreign companies to invest in high-end manufacturing, services, high-tech and strategic emerging sectors.

China's outbound direct investment (ODI) in January and February, in the non-financial sector, surged by 41.1 percent from a year earlier to $7.44 billion, according to the ministry. Details were not disclosed. China's ODI in 2011 into the European Union rose by 94 percent and increased in Africa by 59 percent from a year earlier. China Investment Corp, the sovereign wealth fund which recently received an injection of $30 billion from the government, will mainly focus on investing in Europe in the short term, while financial assets are undervalued and there are limited financial risks in purchasing. Wang Jianxi, deputy general manager and chief risk officer of the company, told China Daily.

Source: Ding Qingfen: Fourth straight monthly fall in FDI, China Daily, 2012-03-16

Global Finance: Citi Unloads Stake in Shanghai Bank

Citigroup Inc.'s sale Monday of its remaining stake in Shanghai Pudong Development Bank underscores the retreat of giant Western banks from large ownership positions in their Chinese counterparts due to rising capital demands. The pullback isn't a repudiation of China by the Western banks, which generally have made money on their holdings and in some cases retain investments and strategic partnerships in China. Citigroup will book about a $349 million profit on its sale of a 2.71% stake, and Bank of America Corp. last year recognized $5 billion in gains on sales of shares in China Construction Bank Corp.

Instead the sales highlight tightening capital standards for U.S. and European lenders. Monday's sale comes days after U.S. regulators rejected Citigroup's request for a dividend increase or share repurchase, citing the need to hold sufficient capital in a potential economic downturn or market shock. In the past two years, Morgan Stanley has sold its 34% stake in China International Capital Corp., Bank of America Corp. has cut to 1% from 19% its holding in China Construction Bank, and Goldman Sachs has sold several chunks of a 2006 purchase of 4.9% of the shares in Industrial & Commercial Bank of China.

Although many of these stakes were billed as long-term strategic investments, Western banks are finding that they needn't own shares in a Chinese bank to do business there. Citigroup, for instance, recently received a green light to offer credit cards to customers in China, becoming the first Western bank to receive such approval. Citigroup said Monday that it would continue to work with Shanghai Pudong through an agreement that will allow them to cooperate in a number of areas, including the sharing of technical assistance. "China remains a top priority market," Andrew Au, chief executive of Citi China, said in a statement. The New York company still owns a 20% stake in the China Guanfa Bank, a midsize lender that is scheduled to go public later this year. The bank recently sold its minority stake in Indian mortgage lender Housing Development Finance Corp., an investment that dated to 2005.


China becomes top foreign investor in Germany
China overtook the United States to become the top foreign investor in Germany in 2011 in terms of investment project numbers, according to statistics released by the Germany Trade & Invest (GTAI) agency on Thursday. Chinese investment projects in Germany have totaled up to 158, ahead of the United States' 110, Switzerland's 91 and France's 53, said a statement by GTAII, the economic development agency of the German government. The foreign investment projects in Germany mainly concentrate in the mechanical engineering and automotive sectors, which account for 20 percent of the total, as most of them involved in the new production bases, in comparison with 13 percent being pumped into the sphere of new technologies, 6 percent into the field of renewable energy. More than half of the total foreign investments in Germany still come from the European countries, according to the GTAII.

Source: Xinhua : China becomes top foreign investor in Germany, 2012-03-16