China News in Brief
May, 2012

Compiled by Yimin Zhang, University of Shanghai for Science and Technology and distributed free of charge.
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Economic and business statistics for China as of May 1, 2012 are presented. (From 1980 to 2030 Annual Data) Gross Domestic Product–GDP; Economic indicators; Economic forecasts; Economic structure; Economic statistics; Statistical data; National debt; Exports; Imports

Economy continues slowing in April

Easing inflation may leave room for 'greater policy loosening'. Newly released economic indicators show that China's economy continued to slow in April, raising expectations that the government will resort to greater policy easing to help stimulate the GDP. Quickly cooling industrial production and fixed-asset investment, together with disappointing trade figures, have overtaken inflation as the key concern for Chinese policymakers.

In April, China's consumer price index, a main gauge of inflation, eased to 3.4 percent year-on-year from 3.6 percent in March, according to data released by the National Bureau of Statistics on Friday. Food prices increased 7 percent last month from a year earlier, compared with 7.5 percent in March, as falling pork and fruit prices offset rising vegetable prices. Meanwhile, the world's second-largest economy witnessed industrial production growth of 9.3 percent last month - the lowest in three years - while retail sales growth slowed to 14.1 percent year-on-year from 15.2 percent in March. Electricity production, an indicator of the industrial manufacturing sector, increased at its slowest pace since May 2009, rising 0.7 percent from a year earlier to 371.8 billion kilowatt-hours. Data published on Thursday showed that both import growth slowed to 0.3 percent in April and export growth to 4.9 percent. In April, China's new yuan loans were 681.8 billion yuan ($108 billion), down from 1.01 trillion yuan in March and much less than the predicted 750 billion yuan, the People's Bank of China said on Friday. "What I suggest is that China stimulate consumption in its domestic economy to gradually replace the market in the US and in Europe," Freeman said.
Source: Chen Jia in Beijing and Fu Jing in Brussels: Economic engines rev up in inland regions, China Daily, 2012-05-12

China investment boom starts to unravel

In an unguarded moment in 2007, the country’s official gross domestic product figures are “man-made” and therefore unreliable, Li Keqiang told the US ambassador at the time, adding with a smile that he regarded them as being “for reference only”. If Mr Li’s assessment is correct the Chinese economy is in a lot more trouble than headline GDP figures have indicated until now. When evaluating the speed of economic growth Mr Li said he focused instead on three sets of data – electricity consumption, rail cargo volumes and disbursement of bank loans. An 8.1 per cent expansion in the first three months from the same period a year earlier was a clear deceleration from 8.9 per cent growth in the fourth quarter of last year but it could hardly be considered a “hard landing” for the high-flying Chinese economy.

China’s electricity consumption in April hasn’t been published yet but electricity output increased just 0.7 per cent last month from a year earlier,
compared with a 7.2 per cent increase in March and an 11.7 per cent annual increase in April 2011. Rail cargo volumes in the first few months of the year increased by low single digits or about half the pace they were growing this time last year and banks extended far fewer new loans than expected.

Much of the current slowdown has come from the slumping real-estate market, where government efforts to rein in a credit-fuelled bubble are starting to look a little too effective. But the slowdown is coming from more than just a downturn in real estate. Chinese exports and imports in April were much weaker than predicted, with imports expanding just 0.3 per cent from a year earlier, compared with the average analyst forecast of about 11 per cent growth. In response to recent dismal data, the central bank on Saturday cut the portion of deposits that banks must hold in reserve to encourage more credit to flow into the economy.

Source: Jamil Anderlini in Beijing: China investment boom starts to unravel, Financial Times, May 14, 2012

**Beijing's Growth Tools Are Limited; To Boost Lending, Leadership Lowers Amount Banks Must Hold in Reserve**

After China announced a number of disappointing economic indicators on Friday--from industrial production to housing to domestic spending--the People's Bank of China said Saturday evening that it would lower the share of deposits that banks must hold in reserve by 0.5 percentage point, starting May 18. China's ratio of government debt to gross domestic product in 2011 was 25%, according to the International Monetary Fund, compared with 102% in the U.S. Even accounting for local-government debt, which Premier Wen Jiabao recently put at 10.7 trillion yuan at the end of 2011, or 22% of GDP, China's public finances look relatively healthy.


**China's Short-Term Gain, Long-Term Pain**

For China's slowing economy, making things better will only make things worse. The first indicator on China's manufacturing sector in May--a flash reading from the HSBC Purchasing Managers Index--was weak. A reading of 48.7, down from 49.3 in April, suggests the economic climate remains frosty. Expectations of low loans in May suggest April's weakness has persisted. The good news is that the government has shown signs of shifting more decisively into stimulus mode. A speech by Premier Wen Jiabao over the weekend put supporting growth at the top of the government's to-do list.

All this is as China's economy tilts further off balance. The breakdown of contributions to China's growth in 2011, released this week, shows that the share of investment rose again, up to 49.2% from 48.1% in 2010. The share of household consumption, meanwhile, was unchanged at 34.9%. Another credit- and investment-heavy response to slowing growth will do nothing to turn that around. President Hu Jintao and Mr. Wen should be able to hand off to the next generation of leaders with growth for the year on target. But they will leave the difficult work of rebalancing to do.


**China's economy, running low on rocket fuel**

Every year for two decades, experts have told me that China's economy was set to crash, felled by huge imbalances and policy errors. They would point to non-performing loans, bad banks, inefficient state-owned enterprises and real estate bubbles. Somehow, none of these has derailed China's growth, which has averaged an astonishing 9.5 percent annually for three decades. Ruchir Sharma, who runs Morgan Stanley's Emerging
Markets Fund, makes a different and more persuasive case in his new book, "Breakout Nations," pointing not to China's failures but to its successes: "China is on the verge of a natural slowdown that will change the global balance of power, from finance to politics, and take the wind out of many economies that are riding in its draft."

Evidence is accumulating to support his view.

China's growth looks remarkable. But it isn't unprecedented. Japan, South Korea and Taiwan all grew close to 9 percent annually for about two decades and then started to slow. Many think that China's fate will be like that of Japan, which crashed and slowed down in the 1990s and has yet to boom again. But the more realistic scenario is Japan in the 1970s, when the original Asian tiger's growth slowed from 9 percent to about 6 percent. Korea and Taiwan followed similar trajectories. What caused these slowdowns? Success. In each case, the economy had produced a middle-income level. It becomes much more difficult to grow at a breakneck pace when you have a large economy and a middle-class society. Sharma does the math: "In 1998, for China to grow its $1 trillion economy by 10 percent, it had to expand its economic activities by $100 billion and consume only 10 percent of the world's industrial commodities - the raw materials that include everything from oil to copper and steel. In 2011, to grow its $5 trillion economy that fast, it needed to expand by $550 billion a year and suck in more than 30 percent of global commodity production."

Sharma predicts trouble for countries that have been buoyed by a booming China - from Australia to Brazil - as its demand for raw materials drops. He even predicts a decline in oil prices, which, coming on top of the shale boom, should worry oil-producing states everywhere. As for China, Sharma suggests that 6 percent growth should not worry the Chinese; these would be enviable rates for anyone else. The country is richer, so slower growth is more acceptable. But China's authoritarian regime legitimizes itself by delivering high-octane growth. If that fades, China's economic problems might turn into political ones.


China's HSBC PMI contracts for 7th month: But analysts remain upbeat, expect more easing measures

China's HSBC purchasing managers index contracted for the seventh consecutive month, adding to growing fears the slowdown in the world's second biggest economy could actually be worse than expected. The index compiled by HSBC and published a week ahead of the official PMI fell to 48.7 in May from 49.3 April. The PMI index is seen as a better indicator of the actual state of the economy than other statistics. Nearly all of the sub indexes were down month-on-month with new export orders particularly struggling - 47.8 in May against 50.2 in April - showing that the effect of the eurozone crisis on the economy is far from over and that an improvement in exports in the near term is unlikely.

Markets in Asia closed down after the release of the data and on growing worries Europe is heading for another political stalemate as a deal for Greece failed to materialise. Shares dropped 0.89 per cent in Singapore and 0.64 per cent in Hong Kong. They fell 0.5 per cent in China and 0.2 per cent in Australia which is heavily reliant on demand for commodities from China.

Last weekend the government officially put growth back on the top of the agenda as Premier Wen Jiabao recognised the need to boost demand. The government has already cut reserve requirement ratio for banks three times and at least two more similar moves are expected in the coming months. Last week, several investment and consumption measures to support demand were announced roughly in line with what was put in place in 2009, but on a much smaller scale. They include support for funding in the railway sector and subsidies for the purchase of energy-efficient appliances and small vehicles. On Wednesday, the State Council confirmed government support in certain sectors including environmental protection and rural projects.

Source: Mangin, Virginie: China's HSBC PMI contracts for 7th month: But analysts remain upbeat, expect more
China economy: A greener shade of grey

Fossil fuels will continue to dominate China's energy mix, but renewable energy will carve out a bigger role. Whether or not increased use of renewables will do much to address China's huge environmental problems and rising carbon emissions is debatable, given that the "greening" trend—despite government support—will be accompanied by a huge absolute rise in coal consumption over the next few years. Still, the government's clean-energy drive will certainly create a large market for related technology, which will give succour to those firms that are able to survive a likely shake-out in the sector.

Between 2001 and 2011, Chinese energy consumption grew by 136%. This rapid pace breeds concern in Beijing about the security of supplies, particularly oil imports from the Middle East (see chart). On top of energy-security worries are the human health and environmental problems that arise from China's craving for fossil fuels. This is especially true for coal, which provided 66% of China's gross domestic energy consumption in 2011, according to estimates by the Economist Intelligence Unit. Pollution is now a contentious issue in China's major cities as the health costs of coal dependence become increasingly obvious. A desire to steal a march on rivals in the emerging clean-technology industry is another spur for China to build markets for locally-produced clean-tech equipment. Thus, China has ample incentives to "green" its predominantly grey energy mix. To this end, it is promulgating laws that climate experts consider progressive and setting a range of supporting targets. Policies are taking new and sometimes surprising directions, even as they bump up against ever bigger obstacles.

China's efforts to cut pollution and energy intensity are normally traced to the renewable-energy law of 2005, which came into force the following year. The legislation decreed that 15% of total energy should come from renewable energy by 2020. This was quietly recast in 2009 to 15% from all non-fossil energy sources, including nuclear. According to an April report by Pew Charitable Trusts that uses data from Bloomberg New Energy Finance, of 565 gw of global renewable-power capacity, roughly a quarter (133 gw) is installed in China. Another key objective during the eleventh five-year plan period (2006-10) was cutting energy intensity (units of energy per unit of GDP) by 20%. This featured the kind of efforts that harked back to an earlier era of command and control: measures included the forced shuttering of plants. Uncharacteristically, it ended in failure (by a single percentage point, according to official figures that some suspect are inflated).

This green push is being carried over into the current five-year plan, 2011-15, which is replete with new targets (see table). There is a carbon intensity reduction target, for the first time, seeking to cut carbon emissions per unit of GDP by 17% during the five-year period. China is also committed to a carbon-intensity reduction of 40-45% from 2005 levels by 2020.

In what would be a remarkable turnaround, reports in the official press continue to speak of a possible cap on energy use by 2015—this coming from a country that, until the most recent round of international climate talks in Durban last year, staunchly resisted any efforts to cap its carbon emissions as a bar on its economic development. A recent article in the official English-language newspaper, China Daily, reported plans to impose
Official targets are thought to refer to final energy use; EIU forecasts are for gross domestic energy consumption of nuclear, renewables and waste.

A nationwide scheme does not look likely within this five-year period. However, a carbon tax—likely to be set initially at a low rate of perhaps Rmb20-30/tonne (roughly US$3-4/t)—may see the light of day during this planning period. Unlike carbon-trading arrangements, the design of the tax and procedures for implementing it are said to be fully drawn. Precisely when it will actually be unveiled may depend to some degree on developments in international climate-change talks, where it could be used as a bargaining chip. Whatever the case, at the initial levels that seem likely, the tax will have little impact on emissions.

Needless to say, refitting a large, swiftly developing economy like China with clean-energy technology is no easy task. Absorbing so much new wind-power capacity is proving immensely difficult for China’s grid, to cite one important example. Just under a third of China’s wind farms are stranded without a grid connection, while power generated at others often goes to waste because the utility is unable or unwilling to buy it. A reported renewable energy quota system could address the problem by setting local renewable-energy targets, though much will depend on the enforcement mechanisms. So far, efforts to encourage the grid to buy more green power lack teeth. The structure of China’s economy will also make it difficult to clean up its energy mix. The country has pumped investment into a state-dominated heavy-industrial sector that consumes vast amounts of electricity and resists government attempts to slim it down. In the current five-year period, the aim is to raise energy-efficiency by 16%. As this is four percentage points lower than the previous target, even some at the heart of policymaking felt it was not rigorous enough. Yet the early signs are that hitting even this modest target will not be easy. In 2011, China aimed to slash energy intensity by 3.5%, but managed just a 2% cut. The state responded by raising the efficiency goals it imposed on energy-guzzling sectors. However, we expect that although energy efficiency will continue to improve, the government’s scaled-down aims are unlikely to be met.

Heavy industry is of concern for another reason: it is a large source of demand for coal. An abundance of this cheap, dirty source of energy in China, which has the world’s third-largest coal reserves, is probably the

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* Official targets are thought to refer to final energy use; EIU forecasts are for gross domestic energy consumption of nuclear, renewables and waste.

a cap of 4.2bn tonnes of coal equivalent (tce) by 2015, citing Han Wenke, the head of the Energy Research Institute under the National Development and Reform Commission, which co-ordinates economic planning in China. This compares to consumption of 3.5bn tce in 2011, by official reckoning. The plan proposes breaking down the overall objective into provincial and city-level targets—although Mr Han described the national target as "relatively flexible", in contrast to those for energy efficiency and carbon-emissions intensity.

The very notion of a cap, however flexible, illustrates the fact that China’s clean-energy policies are a work in progress. China’s rumoured cap (absolute or not) on energy use reflects the strictures of a command-and-control economy. It leaves it open to familiar abuses: only one of China’s provinces admitted to missing its 2006-10 energy-intensity aims, though in aggregate the country failed to reach its overall target. This points to a disconnect between objectives at the centre and in the provinces, which tend to prioritise economic growth.

The structure of China’s economy will also make it difficult to clean up its energy mix. The country has pumped investment into a state-dominated heavy-industrial sector that consumes vast amounts of electricity and resists government attempts to slim it down. In the current five-year period, the aim is to raise energy-efficiency by 16%. As this is four percentage points lower than the previous target, even some at the heart of policymaking felt it was not rigorous enough. Yet the early signs are that hitting even this modest target will not be easy. In 2011, China aimed to slash energy intensity by 3.5%, but managed just a 2% cut. The state responded by raising the efficiency goals it imposed on energy-guzzling sectors. However, we expect that although energy efficiency will continue to improve, the government’s scaled-down aims are unlikely to be met.

Heavy industry is of concern for another reason: it is a large source of demand for coal. An abundance of this cheap, dirty source of energy in China, which has the world's third-largest coal reserves, is probably the
biggest barrier to the pursuit of greener growth. The coal sector is hampered by bottlenecks in the railway system connecting mines in the north and west of the country to power stations and factories closer to the eastern seaboard, which exacerbates power shortages. This is being addressed in several ways, however. The most significant move is to encourage construction of 14 big coal-industry bases. Coal will be converted into electricity at these hubs, avoiding altogether the country’s already-strained railway network. A sweeping scheme to construct a network of ultra-high-voltage cables over the course of this decade, though presented in a green rinse as a means of bringing renewable power from the interior to the coast, will also provide a way to transmit this new wave of coal-fired power. (China’s coal-industry centres could be doubly harmful for China’s energy-efficiency and carbon-intensity plans, as local governments in the west covet the opportunity to foster new heavy-industrial bases—coal-to-liquids plants, for instance—to capitalise on the anticipated coal-mining boom.)

What does all this mean for China’s profile as an energy consumer? We forecast that by the end of the decade coal will have declined as a percentage of China’s (far expanded) energy use. Cleaner-burning natural gas will become more important, as policymakers throw their weight behind its greater uptake. It will displace some coal used for baseload electricity generation, as China imports more and tries to develop indigenous shale-gas resources. Coal will nonetheless still provide well over half of China’s energy. In absolute terms, the country will burn 35% more coal by 2020 than it did in 2010. We project that carbon emitted through burning fuel will rise by 43% between 2010 and 2020 (see chart). As a percentage of gross domestic energy consumption, the share of renewable energy (including waste as well as hydropower, by far the largest form of renewable power) and nuclear power will grow from 13% in 2010 to 16.4% at decade’s end (see chart, below). (Direct comparison with government targets is complicated, partly because official measures of total energy differ from our own.)

Many of China’s critics—and perhaps some who hope that China will lead the way on climate action—will be disappointed by this performance. Apologists for China will argue that for a developing economy even such huge growth in carbon emissions represents commendable progress; things would be much worse if it failed to act. They might also point out that in Chinese policy circles the scientific basis of climate change is not a matter of debate, unlike in Washington DC.

This debate will continue to generate hot air of its own. What seems indisputable, though, is that with a mixture of incentives and penalties China is opening up a continent-sized economy for renewable-energy equipment. China is not only spurring the use of wind turbines, solar panels and dams. Its low-cost production, economies of scale and the mobilisation of large pools of financial resources—such as tens of billions of dollars in controversial
low-interest loans from state banks—is forcing down the cost of deploying renewables, to the alarm of competitors. Last year, global solar-panel prices fell by half. China has fuelled the rise of some of the world's biggest renewables-equipment makers. Prosperity in these firms' large home market is not assured, however. International solar manufacturers are refocusing on China to make up for less bright prospects overseas. A slowdown in wind installations at home means China's wind manufacturers must look abroad ever more urgently. As a result, consolidation will gather pace in both sectors. In the long run, though, drawing on significant domestic demand will sustain the companies that survive the shake-out. For Chinese firms' overseas competitors, this is ominous; politicians in the US and elsewhere will continue to complain about lost jobs and unfair trade practices as competition for global market share in green technology intensifies. Yet, as the world's governments struggle to address climate change, the growth of renewable power in China, and the related ascent of Chinese clean-tech manufacturing firms, will serve as the primary engine driving the green economy for years to come.

Source: Viewswire Economist Intelligence Unit China economy: A greener shade of grey, May 25th 2012

Gov't land sales contracts worth $501b in 2011

A report released Thursday showed that China's local governments sold 333,900 hectares of land to be used for construction in 2011, with the total value of the sales contracts reaching 3.15 trillion yuan ($501 billion). The average price of land in 105 major cities stood at 3,049 yuan per square meter last year, up 6 percent year-on-year, the Ministry of Land and Resources (MLR) said Thursday in an annual land resources report. The amount of land allocated for the construction of affordable housing in 2011 reached 48,100 hectares, exceeding the original target of 41,800 hectares, according to the report.


Commercial banks' NPL ratio below 1%

Latest data from China's Banking Regulatory Commission showed that the non-performing loan (NPL) ratio for the country's commercial banks stood at 0.9 percent as of the end of the first quarter, down from 1 percent at the end of last year. As of the end of the first quarter, the outstanding non-performing loans of the commercial banks stood at 438.2 billion yuan ($69.6 billion), the data showed. The commercial banks include large banks, joint-stock banks, city banks, as well as rural commercial banks and foreign-funded banks. Foreign-funded banks registered the lowest NPL ratio, at 0.5 percent; the NPL ratios for large commercial banks and joint-stock commercial banks stood at 1 percent and 0.6 percent, respectively, the data showed. Meanwhile, the capital adequacy ratio of the country's commercial banks hit 12.7 percent as of the end of the first quarter, which remained unchanged from the end of the last year, the data showed.

Source: Xinhua: Commercial banks' NPL ratio below 1%, 2012-05-18

Beijing reforms: China’s lending laboratory

Yet Mr Huang Jianqin is no ordinary Chinese banker. Henglong Small-Sum Loan, the lender he heads based in the coastal city of Wenzhou, is at the heart of an official reform experiment that aims to alter the shape of China’s economy by loosening the government’s grip on the financial sector. Henglong targets the small businesses that are the lifeblood of the Chinese economy but have long been overlooked by the big state-run banks. Should the experiment succeed, Mr Huang’s institution and others like it will multiply and grow, giving rise to a more efficient financing model for the world’s second-largest economy, analysts say. Failure would leave China vulnerable to a sharp slowdown. “Reform is essential. Private companies create the growth and the jobs, but the banks aren’t willing to lend to them. State-owned banks only lend to big state-owned companies,” he says.
If China’s three-decade boom has been awe-inspiring, it has also been a relatively straightforward tale of the Communist nation using its state lenders to invest heavily in the industrialisation and urbanisation of a backward, agrarian economy. Now comes the harder part. Many top officials remain wedded to a state-led model that has served China well for many years but is running out of steam. After averaging 10 per cent annual growth for the past decade, the Chinese economy is cooling, slipping to 8.1 per cent in the first quarter of this year. This slowdown is forcing China’s banks, long accustomed to flinging loans at large government-backed investment projects, to develop a new skill: identifying the dynamic private businesses that will drive the next generation of Chinese growth.

Small and medium-sized enterprises generate about 65 per cent of China’s gross domestic product and 80 per cent of its jobs but they have received only a fifth of bank loans, according to government estimates. Financing SMEs has also climbed to the top of the national political agenda. As he prepares to step down next year, Wen Jiabao, China’s premier, has made unusually strident calls that the time has come “to break the monopoly” of the biggest banks. To put his words into practice, the government has selected Wenzhou as a testing ground for what could be the biggest financial reform in China in a decade, to cut borrowing costs for SMEs. In March the government said a pilot financial reform zone would be launched there. “If the Wenzhou reforms are successful, the central government has said they will spread nationwide. So we are at the cutting edge,” says Wang Gang, a senior adviser to the project’s steering committee. While work is only just beginning, two main initiatives are clear. First, the city has established a private lending centre to match wealthy individuals and companies with people in need of capital. Second, lending companies will be allowed to change into deposit-taking banks. If done on a large scale, this would chip away at the state banking monopoly. Officials see both reforms as more pragmatic than simply ordering state banks to lend to SMEs, a measure that has only had limited success. The Wenzhou initiative is meant to press a wider array of banks to compete with each other to back the most successful private businesses.

Source: Simon Rabinovitch: Beijing reforms: China’s lending laboratory, Financial Times, May 22, 2012

Outsourced workers call for change

If you were doing the same job at the same level as another person but were paid less and enjoyed fewer social welfare benefits simply because you were an outsourced worker, how would you feel? Li Huan (not her real name), a teacher at Shenyang Normal University in Shenyang, the capital of Northeast China's Liaoning province, is in exactly that position. She said her basic salary is the same as the regular teachers, but as an outsourced staff member, she only qualifies for the lowest level of social security benefits and her accommodation allowance is much lower than that of the regular teachers. Li said she began working at the school in 2009, but her employment contract was signed with a local employment agency. In others words, she is an outsourced worker from the agency.

Under Chinese Labor Contract Law, employment agencies can be established to provide workers for temporary and subsidiary positions. Outsourced workers do not sign contracts with the companies they work for, but with employment agencies. The agency pays the workers' wages while charging the employers a commission and management fees. Li said all the teachers and administrative staff who have been working at the school since 2008 are outsourced.

"Labor outsourcing has been widely used in teaching, research and administrative posts in universities," said Wang Xiaolong, a consultant with the Chinese Educational, Scientific, Cultural, Health and Sports Workers' Union. "Outsourced staff always earn around half the wages of regular workers for the same job. They also enjoy fewer social security benefits and have fewer opportunities for promotion and training." Recent research conducted by Wang's organization at more than 10 universities in northeastern Jilin province revealed that
outsourced workers account for 8 to 10 percent of teachers, student advisers and administrative staff in those colleges. These practices also commonly exist in other municipalities and provinces, including Beijing, Shanghai, Tianjin and Zhejiang, said the report. Universities in Beijing have more than 3,500 outsourced workers in teaching, research and administrative positions, while in Shanghai, the figure is around 2,500, according to the report. Wang said the reason that universities commonly turn to labor outsourcing is that an increase in student recruitment in recent years has pushed the schools to employ teachers in a more flexible way. "Labor outsourcing usually generates lower costs, so it's quite appealing to universities that are short of funds," he said. Wang said the practice should not be overused in universities because it leads to inequality among workers.

Source: Chen Xin: Outsourced workers call for change, China Daily, 2012-05-07

Economist defends relationship between SOEs, private firms

China's State-owned enterprises (SOEs) and private businesses are not oppositional forces, but complementary ones, and allegations of a widening development gap between the two sectors is a totally "false proposition," according to a renowned Chinese economist. Hu Angang, director of the Center for China Studies at Tsinghua University, refuted a popular description of the Chinese economy that says SOEs have gained rising dominance over the withering private sector, or that "the state advances and the private sector retreats." The premise of such a notion is that SOEs and the private sector are playing a zero-sum game that involves no cooperation and one sector's gain results in the other's loss, but this does not agree with the facts, Hu wrote in his latest article.

Whether judging from the number of enterprises, employment statistics, industrial output or profits, such a phenomenon does not exist based on the figures of both sectors' developments in past years, he wrote. Figures from the National Bureau of Statistics show that the number of Chinese industrial above-scale SOEs have declined from 64,700 in 1998 to 20,300 in 2010, and provided 27.8 percent of the total industrial profits of above-scale enterprises that year. In the same period, the number of above-scale industrial private enterprises surged to 272,300 in 2010 from 10,700 in 1998, comprising more than 60 percent of the total number of above-scale enterprises. These private enterprises accounted for 28.5 percent of the nation's total industrial profits in 2010, up from 4.6 percent in 1998. SOEs have also contributed more to government tax revenue than private businesses, according to Hu. In 2010, SOEs turned in 71.7 percent of government revenue from main business taxes and surcharges of above-scale industrial enterprises, while private enterprises only contributed 14.6 percent. The government has also reduced tax burdens on private firms starting with a taxation pilot reform in 2007, which resulted in a decline in private enterprises' contribution rate to tax revenue, according to Hu, who expected an even more relaxed environment as the reform trials were expanded this year.

Hu wrote that SOEs and private enterprises play different roles in the development of the Chinese economy, and they are both close partners and competitors in supporting the country's economic development. "It's like a man walking on two legs, which is steadier, faster and more coordinated than walking with only one leg," he explained. SOEs are like elite field troops that shoulder the responsibility of competing with top global companies and becoming industrial leaders with advantages in resources, capital and technology, Hu wrote. Meanwhile, private enterprises are local armies aiming to create more jobs to boost regional development, and some have also emerged amid global competition due to their flexibility and creativity, Hu wrote.

Competition and cooperation between SOEs and private enterprises have helped both sides improve, he wrote, adding that in 2011, 69 Chinese enterprises were ranked among the top 500 companies in the world, up from only four in 1995. Moreover, Chinese SOEs only dominate the nation's seven sectors, including tobacco production, oil and gas exploitation and water supplies, which are either resource industries or related to public utilities, said Hu. He also noted that these industries do allow the entrance of private capital but with strict and
clear criteria. China should focus on the development of both SOEs and private enterprises according to its own conditions in order to strengthen both of its "two legs," wrote Hu. Hu wrote that with "two strong legs," he expects that more than 120 Chinese enterprises will enter the global top 500 ranking in 2020, including 20 to 30 private enterprises, and that China will overtake the United States as the world's largest economy by 2020.

Source: Xinhua: Economist defends relationship between SOEs, private firms, 2012-05-12

Policy 'storm' on horizon

China's top securities regulator told the industry to prepare for a "policy adjustment storm" as he outlined a raft of reforms to develop the capital market and improve its efficiency to keep pace with the nation's economic restructuring. "Now is the best time for the securities sector to accelerate financial innovation," Guo Shuqing, chairman of the China Securities Regulatory Commission, told 146 top executives from more than 100 securities companies and stock exchanges at a banquet in Beijing. A similar event, held in 2008, laid down markers for capital market reforms over the subsequent four years. This time, the country's top securities regulator made 11 suggestions on the innovation of institutional market players and collected opinions to prepare for the upcoming "policy adjustment storm".

Guo's comments may signal that a period of deregulation is on the horizon, after China's securities companies last year suffered their most difficult year since 2006, amid a bear market in which the Shanghai Composite Index suffered its third-largest drop, falling of more than 21 percent to 2199.43. By the end of last year, 109 securities companies in China had a total net income of 39.38 billion yuan ($6.24 billion), only about half of the previous year's figure, according to data from the Securities Association of China.

The CSRC chief's blueprint encouraged institutional market players to create new financial products based on customer demand, while expanding the range of companies' self-operated businesses until they can invest in all the financial instruments in both the stock exchange and the over-the-counter markets. The plan also included supporting comprehensive business expansion based on the expansion of QFII, RQFII and QDII quotas; encouraging more mergers and acquisitions among securities companies; promoting institutional investors' participation in the upcoming OTC market and adjusting the risk management system. Since Guo took up the CSRC's chairmanship last October, the commission has released more than 50 new rules and policies, making it one of the most active reformers in China's ongoing economic restructuring. During the May Day holiday, the CSRC cut the transaction fees charged by the Shanghai and Shenzhen bourses on trading in yuan-denominated shares by 25 percent. It also asked companies seeking initial public offerings to release additional financial information when their price-to-earnings ratio is 25 percent higher than the industry average, in an attempt to prevent issue prices from becoming unreasonably high. According to the CSRC chairman, upcoming reforms will concentrate on the problems faced by cash-strapped small businesses, and the lack of efficient investment tools to soak up large amounts of private capital.

Source: Chen Jia: Policy 'storm' on horizon, China Daily, 2012-05-09

Chinese stocks fall after RRR cut - May 14

Chinese shares closed down Monday after China's central bank announced a second cut in banks' reserve requirement ratio (RRR) this year. The benchmark Shanghai Composite Index fell 0.6 percent to 2,380.73. The Shenzhen Component Index lost 1.16 percent to 10,093.38. The People's Bank of China said late Saturday that it will lower RRR for banks by 50 basis points starting May 18, in an effort to inject liquidity to buoy the economy.

Source: Xinhua: Chinese stocks fall after RRR cut - May 14, 2012-05-14

Private lending in Wenzhou falls
The Wenzhou branch of the central bank announced on Wednesday its first monitoring rate for private lending in the city. This is part of the pilot project to legalize private lending in Wenzhou adopted by the State Council in March. The average private lending rate in Wenzhou is 21.58 percent, down 3.02 percentage points year-on-year and 0.8 points month-on-month, according to Xinhua News Agency, citing an announcement by the local central bank branch. The branch has conducted a regular survey of private lending rates since 2003. Such surveys include data from 140 collection points, including 30 rural credit agencies, 28 micro-lending companies, 30 credit guarantee companies and 50 pawnbrokers and social lending agents, Xinhua reported. Lending rates in Wenzhou are widely regarded as indicative of the availability of funding nationwide and the interplay between the demand and supply sides.

Source: He Wei in Shanghai: Private lending in Wenzhou falls, China Daily, 2012-05-17

CSRC revises rules on securities issuing

Securities issuers and lead underwriters can negotiate to decide an offering price and use other methods besides inquiry, according to a report on the website of China Securities Regulatory Commission on Tuesday. According to the report, CSRC revised the regulation of securities issuing and undertaking to make different parties in the market positively participate in the issue of new shares and undertake responsibility. Any innovative pricing methods should be registered with the commission first. The report also said securities issuers and lead underwriters can decide the offering price directly based on the preliminary inquiry. They also can fix the price through an accumulated bidding inquiry to the allotment subjects within the range of inquiry. The revised regulation also ruled that institutional investors who claim to make use of the price difference between the first and second markets cannot purchase new shares.

Source: Cai Xiao: CSRC revises rules on securities issuing, China Daily, 2012-05-22

Small companies' IPOs to propel expansion of nation's exchanges

China's stock market has great growth potential as small companies seek to raise funds, providing more opportunities for foreign exchanges to cooperate with local ones, Duncan Niederauer, CEO and director of NYSE Euronext, said on Tuesday. "In the next decade, more than 5,000 Chinese companies are likely to go public, creating more job opportunities and boosting economic growth," said Niederauer. Several companies from the Chinese mainland are waiting to launch IPOs in the US market, he said. Current conditions in US capital markets are "sound", although the number of Chinese companies that go public in the US is unlikely to approach the level of two years ago, he added. In 2010, 22 Chinese companies went public on the NYSE Euronext's exchanges. Last year, however, only seven went public on the exchanges, raising a total of $1.49 billion. There are 104 Chinese companies listed on the NYSE Euronext's exchanges: 81 companies on the NYSE, 20 on the Amex and three on Alternext. Most of those are small and medium-sized innovative private companies.

Niederauer predicted that Shanghai may become one of the top three global financial centers in 10 years, with London and New York, as China's economy is still on a fast-growth track. The New York-based group of exchanges is willing to cooperate with stock exchanges in Shanghai, Shenzhen and Hong Kong to help more Chinese companies raise funds in the primary market. The company and the China Financial Futures Exchange signed a memorandum of understanding on May 16 to promote a bilateral partnership to support the development of the exchanges' futures and options markets. It also reached agreements with other Chinese exchanges, including the Dalian Commodity Exchange and Zhengzhou Commodity Exchange, to explore opportunities for information sharing, exchanging and training, as well as researching strategies for the derivatives market.

Source: Chen Jia: Small companies' IPOs to propel expansion of nation's exchanges, China Daily, 2012-05-23
SMEs set for bond sales

China will allow small and medium-sized enterprises to sell bonds through private placements starting next month as part of measures to broaden financing channels for businesses struggling for funds. The first batch of bonds under a trial program will be introduced in mid-June, the Shenzhen Stock Exchange said in a statement on its website. Property and finance-related companies are barred from the trial, it said. The bonds will be sold through Shenzhen's exchange, with no more than 200 investors allowed to take part in any placement, according to the statement.

Source: Anonymous: SMEs set for bond sales, China Daily, 2012-05-24

China Aims to Support IPO Market

China's securities regulator said it will take measures to support initial public offerings and refinancing of private companies, part of the government's broader campaign to tap the country's private sector for help at a time of weakening economic growth. In a statement Friday, the China Securities Regulatory Commission said it will also lower relevant regulatory thresholds in order to support overseas listings of private enterprises. In addition, it will simplify the approval process for private companies to raise funds in the domestic corporate bond market. The CSRC said it will also encourage private capital to invest and take stakes in the country's mostly state-owned securities and futures companies. The securities regulator said it will support private capital in its effort to accelerate industry consolidation and upgrading through mergers and acquisitions. The CSRC said it will also continue to support private capital's investment in domestic asset management companies. Last week, the Ministry of Railways issued a statement saying it will invite private investment in the railway market, which has traditionally been one of the most state-dominated sectors of the Chinese economy. And on Wednesday, China's State Council, its cabinet, said it would encourage private investment in industries including energy, telecommunications, education and health care.


Public donations in China hit $12.6b in 2011

No less than 80 billion yuan ($12.6 billion) in public donations were made in China last year, Minister of Civil Affairs Li Liguo said Monday, citing a preliminary tally. Although Li did not give an exact date for when the final numbers will be released, the estimate still surprised many who thought China's charity sector had sustained irrecoverable damage after the sector's credibility was tarnished by embezzlement scandals that surfaced last year. The most famous case revolved around a young woman calling herself "Guo Meimei". She claimed to work for an organization under the Red Cross Society of China and posted photos of her lavish lifestyle on the Internet, prompting speculation that she had embezzled money to fund her extravagances. The Red Cross Society of China has denied employing her.

China received public donations worth 100 billion yuan in 2008, after the country's southwestern regions suffered from a massive earthquake. In 2009, the figure fell to 54 billion yuan, but in 2010 it topped 100 billion yuan again, partly because of the Yushu earthquake in Northwest China's Qinghai province. Li has promised further efforts to promote information transparency among China's charity sector. Philanthropy in China has made great progress in recent years, said Li, noting that the number of non-governmental organizations established in China has hit 457,500, and most of them are involved in public service.

Do you qualify as a white-collar worker?

To keep pace with consumer and employment developments, Chinese netizens recently came up with updated criteria for workers to be labeled white-collar. Much-discussed online in the past few months, the new requirements not only put entry to the club out of reach for most average earners, but have sparked discussion about Chinese society's rising affluence and the consequences of that trend. Drafted in early 2012, the criteria state that to be a white-collar worker, one needs to earn a monthly salary of no less than 20,000 yuan ($3,169), own an apartment with at least two bedrooms and a car worth around 150,000 yuan. The list immediately became a hot topic as many wage earners, despite their decent jobs and working environments, found themselves off the pace.

It inspired the Legal Evening News and Chinese recruitment website 51job.com to conduct an online survey on the disparity. According to results published on Monday, only three of 562 interviewed office workers met all the requirements, while 22 said their salaries exceed the threshold. The criteria, though lacking systematic social research and statistical analysis, to some extent reflects China's public opinions on the financial requirements of leading a relatively leisurely life amid soaring prices in almost everything.

In sharp contrast to popular conceptions, most Chinese office workers crowd on to buses and subways to commute to work, and save every penny they can to cover the creeping price of shelter, food and transportation. The mere requirement of owning a home was enough to keep many out of the newly defined group.

Driven by rapid urbanization and property speculation, China's housing market has boomed in recent years, and houses -- ever more precious -- have become the focus of everyday talk and a most important measure of one's standard of living. Meanwhile, white-collar workers are supposed to have enough spare time for entertainment and enjoy a low-carbon lifestyle, according to the widespread criteria.

Source: Xinhua: Do you qualify as a white-collar worker?, 2012-05-16

Better environment to attract overseas Chinese

A senior Communist Party of China (CPC) official on Thursday said the country will create a more "business- and innovation-friendly environment" for the purpose of attracting Chinese nationals with overseas experience to establish businesses in China. Li Yunchao, head of the Organization Department of the CPC Central Committee, made the remark at an international recruitment seminar hosted by the committee's Party School. Li said those who return to China to start businesses have a "Chinese dream" of rejuvenating the nation, adding that "today's China" offers them opportunities to realize their goals. Li encouraged attendees to engage in scientific research, start high-tech companies and educate world-class scientists and entrepreneurs. The seminar was held as part of "Plan 1,000," a recruitment program created by the central government in 2008 for the purpose of attracting overseas Chinese to start their own businesses in China. Overseas Chinese who wish to participate in the program are eligible for a tax-free signing bonus of 1 million yuan ($158,098) to be used for starting their businesses, as well as favorable policies concerning public services and social welfare. Over 2,200 qualified overseas Chinese experts were recruited as of the end of 2011.

Source: Xinhua: Better environment to attract overseas Chinese, 2012-05-18

Chinese cities 'near top' of world carbon emissions list

Several major Chinese cities have some of the world's highest per capita carbon footprints, a World Bank report said on Thursday. Greenhouse gas emissions (measured in tons of carbon dioxide equivalent per capita) in Tianjin, Shanghai and Beijing far exceed those of cities such as Paris, Tokyo, London, Barcelona and Jakarta. Industry and power generation are major contributors in Chinese cities, largely because coal dominates the nation's energy use. Globally, most urban emissions come from transport, buildings and waste, but these three
sectors only account for about 20 percent of China's urban emissions.

According to data from the three Chinese cities, about 40 percent of urban emissions are from power generation and another 40 percent from industrial activities. Shomik Mehindratta, a World Bank urban transport specialist and co-editor of the report, said Chinese cities have high emission levels because they are important global centers of industrial production. Cities account for more than 70 percent of energy-related greenhouse gas emissions worldwide and this is expected to rise to 76 percent by 2030, said the report.

China's urbanization is accelerating, and about 350 million people are expected to move into cities during the next 20 years. Axel Baeumler, World Bank senior infrastructure economist and a co-editor of the report, titled Sustainable Low-Carbon City Development in China, said Chinese policymakers face an important question: will China follow a high- or low-emissions path as it urbanizes. The report said that cities must act on multiple fronts to achieve low-carbon growth and also incorporate responses to climate change in planning, investment decisions and emergency-preparedness plans.

A critical issue for China's leaders to consider is the spatial growth of Chinese cities and links with municipal finance, as spatial growth patterns determine long-term carbon use in a city. "Local governments are relying on land transfers and land development to raise revenue for building infrastructure and urban development, but such an approach is unsustainable. "The links between land use, finance and urban sprawl need to be broken," said Liu Zhi, lead infrastructure specialist at the World Bank's Beijing office.

The report recommends that urban leaders encourage a cleaner supply of energy, enhance market-based methods of energy demand management (including prices that reflect full costs), enforce energy-efficient building codes and switch to consumption-based billing for district heating. It also suggests optimizing the transport system to provide alternatives to automobiles and encourage walking and bicycling.

Source: Lan Lan: Chinese cities 'near top' of world carbon emissions list, China Daily, 2012-05-04

**Huge investment in 'green' projects**

China will invest more than 2 trillion yuan ($316 billion) in promoting energy-saving and low-carbon projects during the 12th Five-Year Plan period (2011-15), Xie Zhenhua, vice-minister of the National Development and Reform Commission, said. The country has set a goal of reducing its energy intensity by 16 percent and carbon intensity by 17 percent during the same period. The government will allocate targets of energy-saving and carbon-reduction to regions and key industries after considering regional disparities in resources, development level and industrial structure. An evaluation and surveillance system will be built and efforts in promoting energy-conservation and emission-reduction will be adopted as a crucial tool for assessing local government performance, said Xie.

Meanwhile, the country will step up efforts in eliminating outdated capacity in energy-guzzling industries, including electricity, iron and steel, electrolytic aluminum and cement, while it will further boost the service
industry and strategic emerging industries. The strategic industries include alternative energy, biotechnology, new-generation information technology, high-end equipment manufacturing, advanced materials, alternative-fuel cars and energy-saving and environmentally friendly technologies. The share of services in GDP will increase to 47 percent by 2015 from the current level of 43 percent and the share of the emerging industries was targeted to reach 8 percent during the same period, among which the energy-saving and environmentally friendly industry will reach 2 percent.

Buildings and transportation also contribute to a large portion of the country's total carbon dioxide emissions. The country will accelerate efforts in building a green construction and transportation system, Xie said. The country will build 100 demonstration sustainable development cities and 1,000 demonstration companies and industrial parks. Price and tax policies and fiscal measures will be adopted to encourage the industry and a mechanism for ecological compensation will be created, he added.

Source: Lan Lan: Huge investment in 'green' projects, China Daily, 2012-05-21

Pollution and Treatment Control Companies; Donaldson to Build Two New Filter Plants in Xuzhou, China

Donaldson Company, Inc. (NYSE: DCI), announced that construction will begin on two new manufacturing plants in Xuzhou, China, to serve the fast-growing filtration needs of China's diesel-powered equipment and industrial markets. Each of the new plants will be 140,000 square feet, one dedicated to manufacturing air filters while the other plant will specialize in liquid filters. These two new plants, expected to open in CY14, represent Donaldson's second manufacturing campus in China. Donaldson's very successful first China campus in Wuxi opened in 1997 and currently has four manufacturing plants.

"We warmly welcome Donaldson, a leading worldwide filtration solutions company, to build manufacturing plants in Xuzhou," said Zhang Fu Ning, Standing Committee Member, Xuzhou Municipal Government and Party Secretary of Xuzhou Economic & Technological Development Zone. "With Xuzhou's reputation as the capital of construction machinery in China, Donaldson's new plants will streamline the supply chain for our local construction equipment manufacturers. We will fully support Donaldson's development in the Xuzhou Economic Development Zone."

Source: Pollution and Treatment Control Companies; Donaldson to Build Two New Filter Plants in Xuzhou, China, China Weekly News (May 29, 2012): 108.

CHINA: Inequality constrains consumer goods markets

Despite a 'consumer revolution' that has benefited millions of people, China is still far from a middle-class society. Poverty remains, especially in rural areas, and the consumption gains of growth have been distributed unequally among Chinese consumers. The strategic importance of the middle class lies in its potential to raise household consumption, thereby serving a core objective of the 12th Five-Year Plan (2011-15): rebalancing to a growth pattern less reliant on investment and exports. However, the limited size of China's consuming middle class has important implications for policy and business.

In 2009, expenditure surpassed the national average in only eleven out of 31 provinces, four of which were mega-cities (Beijing, Tianjin, Shanghai and Chongqing). Spending gaps were most pronounced for high-end products: Car ownership per 100 urban households ranged from 23-30% in Beijing, Zhejiang and Guangdong. The national average was less than 11%. In 16 provinces, the corresponding figure was less than 8%. In the rural sector, regional and provincial patterns of consumption spending are more complex. For example, possession of air conditioning units is a mere 0.65% and 2.8% per 100 households in the cooler West and North-east, compared with more than one-third in the hot and humid East.

Urban survey data for 2009 show that among urban residents only the top 40% of income recipients
enjoyed a level of consumption spending above the national average. Consumption spending by the bottom four deciles fell below this average by between 45% and 60%, and in the case of the poorest 5% of households could not be met by available disposable income (ie, it was partly financed by loans). In 2009, net rural per capita income was 5,153 renminbi. Yet the average per capita income of some 60% of rural households was less than 5,000 renminbi, and for about one-fifth of households (around 145 million people), the corresponding figure was 1,550 renminbi or less. With spending on food, clothing and housing accounting for two-thirds of total consumption expenditure and transport, education and health care absorbing a further quarter, the balance left for items such as consumer durables was severely constrained.

Skewed income distribution will make it difficult to increase the consumption share of GDP, since so many Chinese -- including almost all those in the rural sector -- have little or no access to discretionary spending. Even if incomes rise and inequalities narrow, it will take some time before today's low-income households reach a threshold that allows them to divert significant funds towards spending on non-essential items, especially consumer durables.


Service sector 'can fuel growth' amid sluggish economy

Trade in services will play a bigger part as the growth engine of a cooling Chinese economy, as well as a driver for depressed product trade amid sluggish global demand, commerce officials said. "With an increasing risk of another global downturn, countries are looking for new growth pole, and service trade has drawn much attention," Qiu Hong, China's assistant commerce minister, said in Beijing on Tuesday. "China's domestic market (for service providers) still has huge potential, even amid global uncertainties ... and development of the service sector is the new opportunity for the Chinese economy," Qiu said at a news conference on the First China International Fair for Trade in Services, which is scheduled to be held in Beijing next week. China ranks fourth globally with a service trade volume of $419.4 billion in 2011, and the country has been climbing up the table by one notch every year in recent years.

The service trade, or labor trade, refers to cross-border business exchanges in sectors such as logistics, tourism, financial services, education and culture. The world's service trade expanded from $5 trillion in 2005 to $8 trillion in 2011, according to the World Trade Organization, despite the global downturn. "The growth of the service sector has been more stable compared with that of trade in goods, which is easily affected by global demand," Qiu said. The service sector still accounts for a relatively small part of China's total economic output, only 43 percent in 2011, compared with an average of 70 percent in developed economies, as reported by the World Bank. Domestically, there are also large regional disparities. The service sector accounts for 70 percent of the economy in Beijing, but only 20 to 30 percent in coastal areas.

Source: Wei Tian: Service sector 'can fuel growth' amid sluggish economy, 2012-05-23

Economic engines rev up in inland regions

China's less-developed western provinces have become new champions of GDP growth, as the more advanced coastal areas experience setbacks in their export business. Wang Jian, a leading researcher with China Macro Economics Institute, noted that "a large-scale process is taking place in which industrial capacity from China's coastal provinces is being transferred to the poorer interior and western regions". China's GDP growth will remain low over the next three months, said Wang.

With the exception of Gansu and Heilongjiang, the 29 provinces, municipalities and autonomous regions on the mainland released their GDP growth reports for the first quarter of the year. Of the 29 provincial-level
entities, only five, namely Jiangsu and Henan provinces, and the Guangxi Zhuang, Inner Mongolia and Ningxia Hui autonomous regions, reported higher growth rates than the rates they reported in the same period last year. And the other 24 all saw a slowdown. Among the provinces with higher growth rates, only one, Jiangsu, was from the east coast.

But where are the familiar names that led the country's economic growth in the past decade, such as Guangdong and Shanghai? In fact, nearly all of the members of the former leading pack are now trailing behind. In year-on-year terms, both Shanghai and Beijing grew merely 7 percent in GDP. Zhejiang, which is home to the nation's largest cluster of private enterprises, grew 7.1 percent. Guangdong, the largest province in foreign trade, grew only 7.2 percent. The worst hit area was Guangdong, which is much more heavily dependent on exports than any other province on the mainland. In contrast, Jiangsu, the second-largest province in China in terms of GDP, could still obtain 9.8 percent growth in the first quarter while its foreign trade registered no progress from the same period last year. Guangdong's problem is seen more vividly in some of its cities. Shenzhen, which used to grow much more rapidly than the rest of Guangdong, saw growth of 5.8 percent, the lowest in 32 years. And Dongguan, an export-oriented manufacturing hub that was dubbed the "factory of the world," saw growth of 1.3 percent, its worst result since early 2009.

Although Guangdong remains the largest provincial economy in China, Cheng said Jiangsu has built a superior industrial structure and is capable of working much more flexibly with neighboring regions. "No one should be surprised that Jiangsu can keep growing faster nowadays." With heavy machinery and high-tech industries accounting for a larger share of its economy, Jiangsu can afford to rely less on exports than Guangdong. Jiangsu's technology sector contributed more than 35 percent to its total industrial output in the first quarter.

See a similar economic pattern in Zhejiang. Chen Jianjun, a professor of regional economics at Zhejiang University, noted that following the outbreak of the global economic crisis in 2008, Zhejiang and Guangdong could immediately pick up thanks to the financial stimulus program from the government, without having to change their business model. But as soon as the stimulus program had done its work, these two provincial economies began to slump - showing the results of their slow adjustment, he said.

However, the growth pattern of all the faster-growing provinces is not without questions. They may not depend so much on exports, but they continue to depend on huge injections of government-sponsored investment in industrial and public facilities. In the first quarter, Jiangsu's fixed-asset investment, the bulk of which is government-sponsored, grew 22 percent year-on-year, much faster than local consumer spending. Real-estate projects took up one-fifth of its fixed-asset investment.

Source: Zheng Yangpeng and Huang Ying : Economic engines rev up in inland regions, China Daily, 2012-05-12

C China holds key to economic growth

The development of Central China will be a pillar of the nation's economic growth amid the slowly recovering global economy and China's cooling GDP expansion, with key industries such as agriculture, energy and machinery being promoted, officials said on Friday. "The development of the central region has become an important factor supporting China's economic growth and is closely related to the transformation of the country's economic growth pattern and the adjustment of its economic structure," Vice-Premier Wang Qishan, told the Expo Central China 2012 in Changsha, Hunan province.

The three-day expo, which opened on Friday, is jointly held by Hunan, Hubei, Jiangxi, Anhui, Henan and Shanxi provinces, which account for one-fourth of China's population or one-fifth of the nation's GDP "As the global economic outlook is still challenging, China will ... further open up the central provinces to embrace industries shifting from coastal areas or overseas," Wang said. China's exports slightly expanded 6.9 percent
year-on-year in the first four months while exports from the central region registered a year-on-year surge of 23.6 percent in the same period, according to the Ministry of Commerce.

Commerce Minister Chen Deming called for further opening-up to boost development and innovation in the region. "Further opening-up (of the Chinese economy) will be an effective way to combat the spreading financial crisis while contributing to world economic growth," he added. After six years, the expo has become a major platform for the region to further open up and increase regional as well as international exchanges, Chen said. Increased foreign direct investment in the region will also enhance its role in China's economic growth, according to Deputy Commerce Minister Wang Chao. Foreign direct investment in the region rose 26.7 percent year-on-year in the first four months while China's total FDI in the first four months dropped 2.38 percent year-on-year, according to Wang. Christian Murck, president of the American Chamber of Commerce in China, said FDI is already growing at a rapid pace in the region and US investment in China will increase this year, but is shifting from coastal areas to the central and western regions to meet the demands of domestic consumers.

Source: Li Jiabao and Feng Zhiwei in Changsha: C China holds key to economic growth, China Daily, 2012-05-19

Declining competitiveness in E China cities

In 2011, competitiveness of China's eastern cities declined relatively, Economic Information Daily reported on Tuesday, citing a report released by Chinese Academy of Social Sciences (CASS). According to China Urban Competitiveness Report by the National Academy of Economic Strategy under CASS, Shanghai is a typical example. In 2011, for the first time, the city's comprehensive competitiveness was exceeded by Beijing and came in fourth place after Hong Kong, Taipei and Beijing. Ni Pengfei, director of Urban and Real Estate Economic Research Office of National Academy of Economic Strategy, Chinese Academy of Social Sciences (CASS), noted that, according to the data of the sixth national census, the Shanghai resident population increased over the previous year by 3.9 million. It is a significant factor affecting Shanghai's ranking data. Most significantly, Shanghai and some eastern cities have entered a critical restructuring period and the transfer of industries is the main cause of declining competitiveness, Ni added. Moreover, the report showed that, in some cities in the eastern region, the high housing prices have directly impacted on the cities' competitiveness enhancement. In 2011, Wenzhou, Zhejiang province dropped out of the top 50 most competitive cities. The private lending crisis seen in the city was closely related to years of keen investment in real estate. Gao Peiyong, an academician of CASS, believes the full range of the transformation and upgrading shows that China's economic development has come to a new stage as the reforming and opening-up policy going deep.


Burgeoning business with Japan, South Korea

The first Ito-Yokado opened Chengdu in 1997 on Chunxi Road, the busiest commercial street in the southwestern city. From its opening to the end of 2001, its annual average growth in sales was 150 percent, the highest among all 184 Ito-Yokado outlets worldwide. Ito-Yokado's Chengdu General Manager Imai Makoto attributed the success to Sichuan's rapidly expanding economy and consumer demographics. By 2011, Chengdu had more than 14 million people, ranking the city fourth in China. Its annual per capita urban disposable income was 23,932 yuan. Retail sales in the city surpassed 286 billion yuan for the year, up more than 18 percent over 2010.

But Japanese businesses stretch far beyond retailing. By the end of 2011, 30 Fortune 500 firms from Japan including Toyota, Mitsubishi Heavy and Kobelco had operations in Chengdu. According to the Japan-China Economic Association, there are now 200 Japanese firms in Chengdu and more will come in the wake of the
latest round in western development. "The market of eastern China is nearly saturated and competition is very stiff," said Masahiko Goto, a former general manager at the association. "But there is much room for development in Sichuan because of the huge western market. It is the right time for Japanese firms to come to Sichuan. If they arrive several years later, their opportunities will diminish," he said.

According to the Korea Trade Center in Chengdu, almost all large enterprises from South Korea have invested in Sichuan. By March 2012, South Korean firms had invested $330 million in Sichuan sectors including electronic information, machine manufacturing, automobile manufacturing, food, trade and finance. Investment by South Korean enterprises in Sichuan is less than 1 percent of their total in China, but the trade center believes much more will come due to the nation's western development strategy.

**Source:** Zhuan Ti: Burgeoning business with Japan, South Korea, China Daily, May 26, 2012

**SOEs to absorb private capital**

State-owned enterprises should absorb private capital in their restructuring, said the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) in an article published on Qiushi magazine. The article said large state-owned enterprises should lead the development of both state-owned and private firms, actively introduce strategic investors and get their core businesses listed. According to the article over 72.1 percent of centrally-administered state-owned enterprises and their affiliated enterprises have carried out restructuring by now, compared with 30.4 percent in 2002. Currently, more than 90 percent of state-owned enterprises have restructured. As of the end of June 2011, 359 firms controlled by central enterprises have gone public, either in the A-share market or overseas markets. And 54.07 percent of central enterprises’ total assets, 68.67 percent of net assets, and 60.4 percent of operating income are in their listed arms, the article said.

**Source:** Anonymous: SOEs to absorb private capital, China Daily, 2012-05-18

**World News:** China Is Looking to Private Investment To Bolster State-Controlled Firms

China will encourage more private investment in state-controlled entities to aid their restructuring, in a move that suggests Beijing hopes to marshal nongovernment money to bolster the economy. The move, announced Friday by the agency that oversees China's state-run companies, is in line with other recent measures unveiled by the central government to stimulate the economy while at the same time opening up greater space for the country's private sector. The invitation to private capital comes at a time when the profitability of the state sector is flagging. According to figures from the Ministry of Finance, profits earned by central state-owned enterprises fell by 8.6% from a year earlier in the January-April period to 669 billion yuan ($106 billion). Private investors will be able to contribute cash or other assets like intellectual property to a state-owned enterprise that is undergoing restructuring, and in return receive equity stakes, convertible bonds or other compensation, the statement said. State-run companies that are in the process of listing or issuing new shares should invite private investors to participate in the issuance, it said.


**Private investment to enter into more sectors**

China will issue specific guidelines on encouraging private investment in more industries after opening the way for private capital to flow into the railway and health sectors, an economic official said Tuesday. Drafting of detailed rules for private investment in the heavily state-controlled and monopolized electricity, oil and natural gas sectors is underway, said an official with the National Development and Reform Commission (NDRC), the country's top economic planner. And government departments responsible for housing and construction, water
resources, securities market and state-owned assets are also writing rules aimed to boost private investment in those sectors, an unnamed official said. The NDRC will also release a series of rules in May or June regarding better monitoring and analysis of private investment and improving engineering consulting services for private investment, he said.

The State Council, or China's cabinet, in February said encouraging private investment in previously state-controlled sectors would be a priority. Those sectors include railways, municipal administration, finance, energy, telecommunications, education and health care. Detailed rules regarding private investment must be released within the first half of the year, the State Council said. Private investment accounted for 61.9 percent of China's fixed-asset investment in the first quarter, up 4.6 percentage points from the same period last year, said Wang Xiaotao, head of fixed-asset investment at the NDRC. However, shares of private investment in sectors such as electricity, education, health care, finance, transport and water conservancy remained low, ranging from about 7 to 14 percent, said Wang. Moreover, difficulties in fund raising have long hindered the growth of small- and medium-sized private firms, Wang added.

Source: Xinhua: Private investment to enter into more sectors, 2012-05-23

China's Public Transportation: Problems, Policies, and Prospective of Sustainability

The rapid pace of growth of China is unprecedented. Coupled with its sheer size (more than 1.3 billion inhabitants in 2010), the fast growth makes China an important player in the world community. In terms of gross domestic product (GDP), it is the second economy in the world, after the US, with its GDP increasing more than twenty-fold from US$268 billion in 1978 to US$5,900 billion in 2010. China's real per capita income has more than quadrupled between 1980 and 2010. At the same time, the rapid growth has resulted in tremendous problems and challenges to China and to the world. In dealing with traffic problems in Chinese cities, the initial approach in the 1990s and early 2000s focused on the expansion of the road system, in spite of the general scholarly recognition that public transportation is the most effective way to deal with urban traffic problems in large cities.

The rapid urbanization, motorization, and economic growth in China over the past three decades have resulted in severe traffic congestion, air pollution, urban sprawl and increased energy consumption. Despite recent efforts to provide "cleaner" automobiles, the authors conclude that public transportation holds the key to China's urban sustainability, given the country's continuing urbanization and motorization processes. For example, from 1990 to 2009, the city of Beijing had a population increase from 10.8 million to around 17.6 million. The urban area in 1990 was mainly located within the third ring beltway, comprising an area of about 150 km²; while in 2009 the main urban area expanded to the fifth ring beltway with the size increasing to 750 km², a five-fold expansion. The average motor vehicle speed in central Beijing on arteriais fell from 45 kph in the 1990s to around 17 kph in 2009. At almost the same time, the vehicle ownership in Beijing has more than quadrupled, from 1 million in 1997 to 4.76 million in 2010.

Most Chinese cities are rarely able to integrate public transportation and land use owing to the fragmented management structure of transit, road, and land use planning in different departments. For example, the planning and construction of high-speed rail systems is done at the national level by the Ministry of Railways. The local government has little role to play in the planning, construction, and management process. Therefore, even as the rapid development of high-speed rail brings increasing passenger flows to the urban public transportation system, the existing bus system is not well connected and integrated with the high-speed rail network.

The driving force behind the urban transportation and environment problems in China, the urbanization, motorization, and urban sprawl resulting from economic growth will not abate in the near future. This creates tremendous challenges for cities to maintain economic growth, improve environmental quality, and reduce
energy consumption, and to provide efficient and equitable services to urban residents. It is certain that a well-developed public transportation system can be the most sustainable means to address the urban transportation problems in China, particularly in the largest cities. The rapid expansion of city size makes nonmotorized travel modes infeasible as a main means of long-distance commuting. Therefore, public transportation becomes the most viable mode to transport large volumes of commuters and other travelers across long distances. Given the monocentric form of Chinese cities, development density, concentration of employment in urban centers, and the continued urbanization process, there is a great opportunity for transit service development in China. However, more investments should be put into expanding and improving low-cost public transportation systems, and more emphasis should be put into improving integrated service planning, land use planning, and use of advanced transit technologies. As for low-cost public transportation systems, there is little doubt that highcapacity rail transit is essential for moving large numbers of passengers through the congested, high-density corridors that increasingly characterize China's rapidly growing cities. However, given the nature and expense of high-speed and the metro rail system, it is impossible to have an extensive public transportation system that is composed entirely of rail systems. Other forms of transit systems should be given equally important attention. Furthermore, to make the public transportation systems more competitive, using pricing mechanisms to make owning and driving private vehicles more expensive can effectively deter the purchase and use of automobiles. However, given the economic forces that are driving urban sprawl and auto ownership, how strong should these pricing actions be without hampering the economic objective? It could be argued that accompanying the pricing mechanism, having an extensive, accessible, convenient, fast, and modern public transportation network is almost the prerequisite, and is the only way to effectively address the urban transportation problems and air quality issues and create sustainable cities in China in the long run.

Source: Peng, Zhong-Ren; Sun, Jian (Daniel; Lu, Qing-Chang. Institute of Transportation Engineers: China's Public Transportation: Problems, Policies, and Prospective of Sustainability ITE Journal 82. 5 (May 2012): 36-40.

Power consumption decelerates in April

China's power consumption decelerated in April amid slowing industrial activities during the period, new data showed Monday. Energy consumption rose 3.7 percent year-on-year to 389.9 billion kWh in April, down 3.3 percentage points from that in March, according to a statement on the website of the National Energy Administration (NEA). The data came as China's industrial production weakened sharply in April, with industrial value-added output up 9.3 percent year-on-year after taking into account inflation, marking the lowest pace in nearly three years.

For the first four months, electricity consumption increased 6 percent from a year ago to 1.56 trillion kWh, said the NEA. During the January-April period, electricity consumption by primary industries decreased 4.2 percent year-on-year to 26.7 billion kWh, power used by secondary industries expanded by 3.7 percent to 1.13 trillion kWh, while the tertiary industries consumed 181.7 billion kWh of electricity, up 12.5 percent from a year ago. Meanwhile, residential electricity consumption increased 15.4 percent from a year earlier to 217.6 billion kWh.

Source: Xinhua: Power consumption decelerates in April, 2012-05-15

Chen to leave China on US student visa

Chinese activist Chen Guangcheng was subjected to beatings and held under illegal house arrest. The tense diplomatic stand-off between the US and China over Chen Guangcheng appeared to be coming to a close on Friday as China said it would allow the blind dissident to travel to the US as a student. In a further
indication that the two governments had reached a new agreement, the US state department said that Mr Chen, who fled to the US embassy in Beijing after escaping house arrest, had been offered a fellowship at a university in the US, where he would be joined by his wife and two children. Hillary Clinton, US secretary of state, who was in Beijing for two days of economic and foreign policy talks, welcomed the Chinese statement which appeared to end the worst diplomatic spat between the countries in over a decade, although she cautioned that “there is more work to do”.

The agreement provided a face-saving solution to the crisis which began last week when Mr Chen found refuge in the US embassy after a dramatic night-time escape from his home in rural eastern China, where he had been kept under house arrest for more than a year. During the escape, he broke his right foot in three places, US officials said. Mr Chen, who campaigned against forced sterilisations and abortions, was sentenced to prison in 2006 on charges his supporters say were trumped up to silence him. After his release in 2010, he was placed under house arrest, where he remained until last week.

On Wednesday, Mr Chen left the embassy and went to a Beijing hospital to be reunited with his family under what US officials said was an understanding with Beijing that he would be allowed to relocate to a safe place in China and study law. But within hours, Mr Chen had changed his mind and said mistreatment of his wife after his escape and threats from the Chinese government had shattered his trust in the deal, and he now hoped to leave the country.

The collapse of the initial deal had threatened to become a major political issue in the US, with Republican challenger Mitt Romney calling it a “day of shame” for the Obama administration. However, Republican adviser Bill Kristol said on Fox News that Mr Romney had been “foolish” to get involved in such a complicated and delicate situation. Talking to the FT on Friday morning before the new deal became apparent, Mr Chen said state security agents were swarming the hospital and keeping US diplomats from visiting him. “I only want to tell you that I’m in great danger now,” he said in a short telephone interview. But later on Friday, after two days of barring US officials from visiting him, Chinese security officials allowed American embassy staff and a doctor to see the activist. Gary Locke, the US ambassador, also spoke to Mr Chen on the phone.


Expert says China-US economic dialogue productive

The fourth round of China-US Strategic and Economic Dialogue (S&ED) was "productive" and made progress in several economic and trade areas, a US expert on global economy and China-US relations said on Friday. "The movement is in the right direction," Kenneth Lieberthal, director of the John L. Thornton China Center at the Brookings Institution, said in an interview with Xinhua. He spoke highly of the speech made by Chinese President Hu Jintao at the opening session of this year's S&ED, saying the address which focused on the needs to construct a new type of Sino-US relationship was "very positive" and set the goals for the development of bilateral relations.

Lieberthal also welcomed the commitment made by the two countries to resuming negotiations regarding bilateral investment treaty. The two sides pledged to schedule a seventh and subsequent negotiating rounds about the bilateral investment treaty. "It is of great importance to the United States that China undertakes domestic structural reforms to achieve the goals of the 12th five-year plan," Lieberthal said. China's sustained, healthy and balanced growth is "very much in the interest of the United States," he added. He commented on China's shrinking trade surplus as a share to its GDP, saying that more balanced trade in China is good for the world economy, but domestic reforms need to be taken vigorously to make the change sustainable.

Seeking common ground while reserving differences would be the spirit of the China-US Strategic and
Economic Dialogue, Lieberthal said. This year's meetings have demonstrated that the two countries could promote cooperation on what they agree and limit tension on what they diverge. "Most of the things that China seeks are actually also in America's interest," Lieberthal said, adding that China is a major factor in global economic growth from which the United States benefits a lot.


'Significant' results gained in China-US dialogue

China vows to open up financial market wider to foreign investors. The United States will quicken its examination and approval for Chinese financial institutions that apply to invest in the US, as part of the achievements in the fourth round of the China-US Strategic and Economic Dialogue. Both delegations said on Friday that they were deeply encouraged by the results, while President Hu Jintao said there have been "significant agreements" in this round of talks. The two countries reached 67 agreements in the economic dialogue, covering a wide range of issues in the macro economy, bilateral trade and investment as well as financial cooperation.

"There is significant progress in financial cooperation between the US and China," said Vice-Minister of Finance Zhu Guangyao. According to Zhu, the US is now quickening its examination and approval process on the Bank of China and Agricultural Bank of China's applications for opening more branches in the US and the Industrial and Commercial Bank of China's initiative to take over Bank of East Asia (US). China will revise regulations to allow foreign investors to raise their stakes in joint venture securities companies and joint venture futures companies to as much as 49 percent. Foreign investors' ownership in securities firms is capped at 33 percent.

China has made significant and promising reforms to its currency regime that will lead to further appreciation of the yuan against the dollar and other major currencies over time, US Treasury Secretary Timothy Geithner said on Friday.

Moreover, the US said it is committed to loosening restrictions on high-tech exports to China soon. "It doesn't make much sense from a national security point of view as China can easily get them from somewhere else," said Yukon Huang, a senior associate at the Carnegie Endowment for International Peace.

US Secretary of State Hillary Clinton said on Friday that both sides discussed hot spot issues ranging from the Democratic People's Republic of Korea and Iran to Sudan and Syria. Every problem has provided an opportunity for cooperation, she said. State Councillor Dai Bingguo called the talks a "tremendous" success. "It took a whole day yesterday" he said, adding both sides have been more candid than before and have become accustomed to in-depth talks with each other.

According to the Foreign Ministry, among dozens of achievements on the strategic channel, the two sides decided to hold another round of consultation on Asia-Pacific affairs later this year, and a human rights dialogue in Washington in the summer. A meeting on Middle East affairs was also put on the agenda. In addition, both sides are considering sending a Chinese maritime security ship to Hawaii in September for a joint drill with a US Coast Guard ship.


China still needs US, says Mr Lee: Ex-Singapore PM explains why conflict with the US is not in China's interest

China still needs foreign investments and technology for its economic growth and therefore does not benefit from an antagonistic relationship with the United States, former Singapore prime minister Lee Kuan Yew told an
international symposium which opened here yesterday. Mr Lee made the remark during a 45-minute dialogue with Mr Shotaro Yachi, a former vice-minister of the Japanese Foreign Ministry.

Asked about concerns that China may not become a responsible stakeholder but instead challenge the world order dominated by the Americans and Europeans, Mr Lee said: 'I think China cannot antagonise America because (it) will always need investments and technology from America. 'Therefore, the interdependence on the economic side, I think, will not be allowed to deteriorate to a point where there will be conflict.' 'I think when President (Barack) Obama talks about a pivot to Asia, he realises there will be both cooperation and competition between America and China,' he said.

'The Chinese have already made clear that their claims to the islets and sandbanks in the South China Sea do not preclude free navigation by other countries,' he pointed out. But he believes that China will not surrender its territorial claims. 'I tend to believe that the ownership (claims) are too valuable for the Chinese to give up because there may be oil and gas underneath. Eventually, it is best settled by the United Nations Law of the Sea.'


China 'still a draw' for many US firms

China is still an attractive destination for US investments despite rising labor and raw material costs, according to the US Chamber of Commerce. "Absolutely, China is still an attractive destination for US investment, but increasingly not on a wage basis, as emerging economies like Vietnam and Indonesia have lower wages," Myron Brilliant, senior vice-president of the international division of the chamber, said. "US investment in China is changing slowly. One of the most attractive points of the country is the size of the economy and the 1.3 billion population. There is a desire (among) US investors to manufacture and produce here and sell to the domestic market," he said. Brilliant urged Chinese investors to look at commercial development in the US and expand investments in the US in industries such as retail, manufacturing and real estate, since millions of jobs depend on foreign direct investment. The first four months saw investments from the US, one of China's major sources of foreign direct investment, edge up 1.9 percent year-on-year, after a full-year decline of 26 percent in 2011, according to the Ministry of Commerce. Foreign direct investment (FDI) in China edged down 0.74 percent year-on-year in April. FDI has been falling on a year-on-year basis since December, according to the ministry.

"The sluggish world economy affected global direct investment and preferential policies in other emerging economies have brought more competition for China to attract FDI. "At home, rising costs blunted the competitive edge for foreign investors and China began to focus on the quality of FDI, which together affected the scale of foreign investment flowing into China," Shen Danyang, ministry spokesman, told a regular news briefing on Tuesday. Wang said that rising costs will drive US investment to western parts of China, and make use of low labor and land costs to tap the domestic market. China is optimistic about the prospect of attracting FDI because of the improving investment environment. "At present, there is no massive withdrawal of foreign investment from China. But in the medium and long term, we can't exclude the possibility that reshoring initiatives will reduce EU and US foreign investment, including investment in China," he said. Wang excluded the probability of US and EU manufacturers moving their production capacity in China to other emerging economies. "Industrial chains in manufacturing are well developed in China and it costs too much for investors to move them to another destination," he said.

Source: Li Jiabao: China 'still a draw' for many US firms, China Daily, 2012-05-16

Spur for UK offshore renminbi market
Standard Chartered has issued Rmb1bn worth of commercial paper out of London in the past four weeks, as it tries to encourage the development of an offshore renminbi market in the UK. The bank revealed the details on Tuesday as the UK Treasury met with the Hong Kong Monetary Authority and a working group of seven banks in Hong Kong to discuss the standards and products that will promote the market’s development. StanChart said its three-to-six month commercial paper programme filled the gap between longer term bonds and short-term deposits in the offshore renminbi funding market, and was another small step in the creation of a pool of renminbi liquidity in London. StanChart said it sold the commercial paper to Middle Eastern sovereign wealth funds and European pension funds.

China retains extensive capital controls which prevent the free flow of renminbi between the Chinese mainland and the rest of the world. That means renminbi in Hong Kong and London can trade at different exchange rates and interest rates to renminbi in Shanghai. The HKMA and UK Treasury are holding a two-day meeting in Hong Kong with seven banks to work on products and standards for renminbi debt, currency and repo agreements, all of which are necessary to the development of a liquid offshore market. Bank of China, Barclays, Deutsche Bank, HSBC, JPMorgan, Royal Bank of Scotland and Standard Chartered all agreed on Tuesday to reconvene in six months time, probably in London, to discuss further development of the market.

Source: Robert Cookson and Paul J Davies in Hong Kong: Spur for UK offshore renminbi market, Financial Times, May 22, 2012

America's Shield Against Chinese Contagion

Europe is a mess, and China has hit a rough patch. But the two could hurt each other far more than they could hurt the U.S. For those who think Europe can sort out its problems, trade figures are a good first stop. Tally imports and exports for the 17 countries using the euro, and they roughly balance. Deficits in countries like Spain are offset by surpluses in other countries -- primarily Germany. What that says, on paper at least, is that Europe has the means to bail itself out. Germany may not want to foot the bill, but it has the means to. But an economic slowdown in China could shift that arithmetic from unpalatable toward impossible. The country has been a major destination for European exports overall, and German exports in particular.

China's government is now trying to kick-start investment. But if it can't, Germany's and Europe's exports will be challenged. That could hurt America, too, of course, but not as much. The U.S. exported $123 billion in goods to China last year, according to Comtrade, the United Nations trade statistics database, against Europe's $178 billion. And machinery is a far smaller percentage of U.S. exports to China. The other big reason China is slowing is because of weaker export growth, particularly to the euro area as demand slows. With consumers ratcheting back, European imports from China were 2.6% lower in the first quarter than a year earlier, according to Eurostat. Europe imported $267 billion in goods from China last year, equal to 3.6% of Chinese GDP, according to Comtrade. European goods imported from America came to $196 billion, or 1.3% of U.S. GDP. China is exposed to Europe in other ways. In the fourth quarter, foreign banks reduced their lending to China for the first time since 2008, the Bank of International Settlements reported last month. Much of that decline was driven by European banks pulling back.


US Treasury: China not currency manipulator

The US Treasury Department said on Friday China has not met standards of a currency manipulator, but it would closely monitor the pace of the Chinese yuan (RMB) appreciation. In its Semi-Annual Report to Congress on International Economic and Exchange Rate Policies, the Treasury highlighted the need for greater exchange
rate flexibility, including China and some other major economies. The report, which was released on Friday, concluded that China did not meet the standards of a currency manipulator. Such a conclusion is based on the fact of the RMB’s appreciation against the dollar since June 2010 and the decline in China's current account surplus. "Since China initiated currency reform in July 2005, the RMB has appreciated 40 percent bilaterally against the dollar after adjusting for inflation," according to the report. The Treasury said China's recent move to widen the daily RMB trading band "has the potential to increase exchange rate flexibility." It also mentioned the steps China has taken to liberalize its capital account, including by increasing the ability of portfolio investors to invest in Chinese assets. However, the Treasury said it would continue to closely monitor the pace of RMB appreciation.


**China isn't labeled currency manipulator**

An artificially cheaper yuan gives Chinese exporters a price advantage in selling their goods in the U.S. But Treasury still declined to cite China, saying that the Chinese have made progress in correcting currency and related imbalances and also have assured the U.S. that they would move more quickly to adopt a more flexible market-based exchange-rate system.


**Canton fair closes with drop in export transactions**

The spring session of the biannual Canton Fair, or the 111th China Import and Export Fair, closed on Saturday, with export transactions decreased for the first time since 2009. The value of export deals dropped by 2.3 percent year-on-year to $36.03 billion, or down 4.8 percent than the figure at the autumn session of the fair, said Liu Jianjun, spokesman with the fair. This is the first volume decrease since the spring of 2009 as economic crisis hit the world from 2008, according to Liu. Debt crisis from European Union countries and tough job market in the United States were among the factors that have caused the decrease, he said. The purchasers attending the fair reached 210,000, setting a new record since the fair's debut in 1957.

Source: Xinhua: Canton fair closes with drop in export transactions, 2012-05-07

**Chinese Exporters' Weakness at Fair Points to Broader Economic Anxiety**: [Business/Financial Desk]

The Canton Fair, China's biggest marketplace for exporters and buyers, announced over the weekend an unexpected decline in contracts signed over the last month at the fair's spring session. The weak result was the latest sign that exporters across China are struggling to maintain their global competitiveness. Falling export orders are also a warning for the Chinese economy because they coincide with steeply rising wages and higher rents for factory space, pushing many export factories to the brink of insolvency.

The Canton Fair disclosed during the weekend that contracts signed at its spring session totaled $36 billion, a drop of 2.3 percent in dollar terms from the spring session last year and a decline of 4.8 percent from the session last autumn. The official Xinhua news agency said that it was the first year-over-year decline in Canton Fair contracts in dollar terms since the spring of 2009, at the bottom of the global economic downturn. Chinese exporters must pay their workers and their rent in renminbi, not dollars. The slide in orders at the Canton Fair has been even steeper in renminbi terms because the Chinese currency has appreciated 3.4 percent over the last 12 months against the dollar.

Stanley Lau, the deputy chairman of the Hong Kong Federation of Industries, a trade group whose members employ 10 million mainland Chinese workers, said that the number of factories in export-oriented areas of
southeastern China is steadily declining as costs rise. "China will still be the world's center of factories, but it will not be the cheapest," he said. Not all exporters are ailing, however. Luxury goods vendors appear to be faring better, as affluent households have resumed spending.


Japan vows to boost exports to China

Taking advantage of an expected China-Japan-South Korea free trade agreement, Tokyo has vowed to boost exports to China, which slowed last year after a nuclear accident in Japan. "We will use any preferential policies that help to spur Japanese agricultural, forestry and seafood exports to China, although the outcome of the FTA negotiations remains uncertain," Japan's ambassador to China, Uichiro Niwa, told China Daily.

On Sunday, the three countries agreed to start talks about an FTA this year during a trilateral summit chaired by Premier Wen Jiabao. Niwa said once the negotiations start, Japan will consider opening industries such as agriculture based on the basic policy on comprehensive economic partnership released by the Japanese government in November 2010, aiming at reaching a high-level FTA. Japan's exports to China dropped last year due to China's import restrictions on Japanese products following the country's earthquake disaster and Fukushima Daiichi nuclear power station crisis, according to Niwa. Data from the General Administration of Customs show China's agricultural imports from Japan fell 41.4 percent to $350 million in 2011. The China Chamber of Commerce of Foodstuffs and Native Produce said the Japanese radiation crisis has apparently influenced the views of Chinese importers and consumers.

The State Council, or Cabinet, said in March that China will cut import duties on consumer goods, certain energy products and raw materials to drive purchases. Beijing will 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, according to the Ministry of Commerce. China National Agricultural Development Group Co Ltd is building a Sino-Japanese high-end agricultural products trading center with Japan's Ministry of Agriculture, Forestry and Fisheries. After its expected opening in the first half of this year, the center will become a major trading platform for Japanese high-end agricultural products tailored to the Chinese market.

Source: Bao Chang: Japan vows to boost exports to China, China Daily, 2012-05-15

China challenges trade protectionism

China filed World Trade Organization cases on Friday challenging US countervailing measures against Chinese exports worth nearly $7.3 billion, widening a conflict between the world's two largest economies. The cases, covering US anti-subsidy tariffs on 22 Chinese goods including steel, paper and solar cells, come as a weakening global economy is fueling trade frictions, experts said. China began its challenge by requesting consultations with the United States through the WTO to resolve the dispute. If that fails, China can request a ruling by a WTO panel, which can order the US to scrap measures found to violate free-trade commitments, or to pay compensation. It complained that Washington was repeating its "wrongful practice" from a dispute over Chinese solar power equipment.

Ministry of Commerce spokesman Shen Danyang said the US acted inconsistently with WTO rules in the countervailing investigations, and continued wrongdoings that had been refuted by the WTO Dispute Settlement Body rulings. "We reviewed 22 countervailing cases that the US has launched against China since 2006 and found common wrongdoings in these cases and so complained to the Dispute Settlement Body for consultation," said Li Chenggang, head of the ministry's department of treaty and law. Shen added that US misuse of trade
remedy measures infringed the interests of Chinese enterprises and aroused intense discontent. The US Department of Commerce announced on May 17 that it will impose preliminary anti-dumping duties on Chinese solar power equipment - ranging from 31 percent to 250 percent - after it ruled in March that Chinese manufacturers sold products below cost. The case was included in the 22 cases in which China challenged the US countervailing measures, according to Li.

The US has 10 days to respond to China's consultation request and 30 days to start negotiations. If it accepts the request, it has 60 days to conclude the negotiations. Failure with these procedures will entitle China to ask for a Dispute Settlement Body panel to investigate the complaint. "The US will probably accept the request but I don't see a big chance to resolve the dispute through consultation," Zhou said.

US President Barack Obama signed a bill in March allowing countervailing investigations on products from countries that the US doesn't grant economy market status to, but the bill was recently reviewed for inconsistency with the US constitution. "This showed that the US misuse of trade protection measures is not even accepted at home," Zhou said.

Source: Li Jiabao: China challenges trade protectionism, China Daily, May 26, 2012

**China asks WTO to block U.S. tariffs**

China has turned to the World Trade Organization to help block U.S. tariffs on 22 types of Chinese products, including solar panels, pipes for oil wells, coated paper and steel wheel hubs.


**AmCham 2012 Recommendations Focus on Improving Economic Restructuring**

Amid rising costs and moderating economic growth, there is increasing urgency for China to enact market reforms in order to transition to a more innovative and sustainable economic model, according to the 2012 State of American Business in China White Paper released by the American Chamber of Commerce in the People's Republic of China (AmCham China). AmCham China's annual White Paper, now in its 14th edition, is written by representatives from member companies, and outlines key developments and challenges across a wide range of industries in which US member companies operate, from agriculture to financial services to retail. As China's economy grows, market conditions remain good for business and AmCham China members report strong revenues and good profit margins.

China's progress toward a market economy has slowed in recent years and the outcome of ongoing efforts to rebalance the economy to create a market based on domestic demand and sustainable innovation remains uncertain. "AmCham China commends the government for the many successes it has achieved, but the transition to a new economic growth model presents new challenges. A new commitment to deepen market reforms and extend a truly market economy to additional sectors of the economy will ensure more sustainable economic growth in the future and create new opportunities for companies and consumers," said AmCham China Chairman Ted Dean.

As China enters a transition phase in its economic development, the 2012 White Paper outlines policy recommendations that will benefit China's economy and advance China's development goals. "To position itself for the coming decades of growth, we believe China should promote more vibrant competition. It could do so by opening up market access across the many industries that remain restricted to foreign investors, completing the transition to a market economy, and promoting greater consistency and transparency in government policies around the country," said Ted Dean. Specific policy recommendations in the 2012 White Paper for improving the business and investment environment include a focus on human resource challenges, improving regulatory
coherence across China, increasing licensing opportunities for member companies and improving intellectual property rights protection.


Home / Business / Economy 'Milestone' investment agreement is signed

A "milestone" investment agreement between China, Japan and the Republic of Korea was signed in Beijing on Sunday, after years of negotiations, while the leaders of the three nations announced that talks focusing on a free-trade agreement would be launched within the year.

Trade ministers from the three countries signed a promotion, facilitation and protection of investment agreement on Sunday as their leaders - Premier Wen Jiabao, ROK President Lee Myung-bak and Japanese Prime Minister Yoshihiko Noda - met in Beijing ahead of a summit scheduled for Sunday and Monday. "The investment agreement is the first legal document on trilateral cooperation in the economic field, it is a milestone," Wen said at a joint news conference at the Great Hall of the People. China welcomes Japan and the ROK expanding their investments in China and hopes they will be primary destinations for China's overseas investments, he said. "The global economy is recovering slowly while the European debt crisis is not over." Wen said. "The establishment of a free-trade pact will unleash the economic vitality of the region and give a massive boost to economic integration in East Asia," he said.

The investment agreement, concluded in March after 13 rounds of negotiations since 2007, includes 27 clauses and one additional protocol covering topics such as investment definition and dispute resolution, according to a statement on the website of the Ministry of Commerce. The pact will provide a more stable and transparent investment environment for the three parties and is an important basis for the FTA, according to the ministry's statement. Japan and the ROK are leading investors in China. Japan invested about $80 billion while the ROK invested about $50 billion up to the end of last year, according to a report released by the Foreign Ministry on May 9. Trade between the three countries surged to more than $690 billion in 2011 from $130 billion in 1999. China has been the largest trading partner of Japan and the ROK for several years while Japan and the ROK are China's fourth and sixth-largest trading partners respectively.

Source: Li Jiabao and Li Xiaokun: 'Milestone' investment agreement is signed, China Daily, 2012-05-14

Foreign firms finding new fields

As some observers become concerned that foreign businesses will move factories or investments out of China and transfer them elsewhere during the country's economic slowdown, a series of our reports look at the increasing tendency of foreign investment to go into western China. Kwon Oh-hyun, vice-chairman of Samsung, took a group of 20 senior company officials to Xi'an in March to announce that Samsung will spend $7 billion to make advanced gadgets in the city, which is most associated with the army of terracotta warriors and horses that were unearthed at a site nearby. "The move is sort of unheard-of before in Samsung, not only in the scale of investment but also the technology we would like to transfer to the Chinese side," said Kwon. "We expect to create a miracle here." The factory, which will make NAND flash technology, a type of digital memory widely used in smartphones and tablet computers, is expected to come into operation in 2013. The operation will be the fruit of the largest foreign direct investment measured by value made in China's western region. While labor costs are increasing rapidly along the coasts of East China, more foreign companies such as Samsung are looking to the country's west. Their plans promise to both bring renown to the region and to turn it into a magnet for foreign investment in the coming years. The city's greatest asset is its government support, Kwon said. "Their great enthusiasm (in attracting the project) was so impressive that it triggered our decisions," he said. To provide
Samsung with a site for the project, the Xi'an municipal government prepared an area of 9 square kilometers in the western part of the city. Xi'an is also planning to establish an area that Samsung can use to import supplies tariff-free. Samsung is not alone in its interest in China's west.

In 2011, the computer maker Hewlett-Packard and electronics company Foxconn Technology Group announced they would invest $3 billion in Chongqing, a city in Southwestern China. In early April, Ford Motor Co said it would modify its Chongqing factory to increase its annual output from 350,000 to 950,000 vehicles by 2014 in a project to be undertaken with its joint venture partner, Changan Automobile Group Co.

During the past year, the foreign direct investment going into China's western region has increased at a faster rate than that going into the country's coastal regions. The Ministry of Commerce said China received $116 billion in foreign direct investment from last January to December, up 9.72 percent from a year before. Of that, the western region received $11.6 billion, up 28.24 percent year-on-year.

Chongqing, a large city in the southwest, has done much to attract foreign investment in the past two years. In 2011, $10.53 billion of foreign investment went into the city, the eighth largest amount recorded in the country that year, accounting for one-fifteenth of the country's total. More than 200 of the top 500 businesses in the world have opened outlets in Chongqing. "China's western region now has the attributes investors need: an enlarging consumer market, water, electricity, land, energy and labor resources and talented workers," said Li Qian, director in charge of managing foreign direct investment into Chongqing.

The Samsung project is expected to attract investments in Xi'an from close to 200 companies and lead to the creation of more than 10,000 jobs. The Shaanxi provincial government has set its target for economic growth this year at 13 percent, up from 12 percent last year. That far exceeds this year's national growth target of 7.5 percent, which was announced by Premier Wen Jiabao earlier this year. Chongqing, for its part, is aiming for 13.5 percent growth, and Chengdu, in Sichuan province, is expecting to have growth of 12 percent.

Labor, meanwhile, has quickly become more expensive in China in the past few years, helping prompt some foreign companies, including the world's leading sportswear maker Nike, to move their factories from China out to countries such as Vietnam, where work can be obtained for less. But many government officials and experts believe that such transfers will not become common in the future, noting that China's economy still has a lot of momentum. Also, they said, of the companies that are moving factories, many are of the type that requires a lot of manpower.

The westward movement of international companies such as Samsung and HP will open opportunities in the region for other companies, which are likely to follow closely on the heels of the pioneers. Since Samsung announced its decision early this year, the Shaanxi government has welcomed a number of foreign companies and visitors that are looking to make investments. Take Messer Group GmbH, a German company that manufactures and supplies various types of gas. It had planned to set up a small branch in Xi'an last year but later decided to open a fully fledged factory there. The US company Applied Materials Inc, a producer of semiconductor equipment, is one of the first batch of foreign companies that decided to establish factories in China's west. In 2003 - three years after the central government introduced its western development policy - the company decided to establish a global research and development center in Xi'an. The company has so far invested $255 million in the center. "Xi'an has a rich reserve of talented workers thanks to its large number of higher learning institutes," said Zou Gang, general manager of Applied Materials Xi'an. "Also the government's policies are preferential."

As the country's west make preparations for its own economic rise, it all the while faces more intense competition from rival cities in central China that are also intent on attracting foreign companies. Wuhan, in Hubei province; Zhengzhou, in Henan province; Wuhu, in Anhui province, and other cities are all welcoming capital and factories from the east and abroad. Two of their most recent successes came in attracting Unilever, a
large maker of consumer products, and Continental AG, a tire maker. Besides Unilever, at least 25 other of the global top 500 companies have factories in Hefei. They include ABB Ltd, which provides engineering and other services, and the Japanese conglomerate Hitachi Ltd. Ministry of Commerce data suggest that the amount of foreign direct investment entering China's central region in the first four months of the year increased by 12.6 percent year-on-year. The comparable figure for the entire country, meanwhile, decreased by 2.38 percent in the same period; that for the western region decreased by 15.2 percent.

Source: Ding Qingfen in Xi'an: Foreign firms finding new fields, China Daily, 2012-05-23

**Chinese firms look for acquisitions**

Around one third of Chinese companies are planning to grow through acquisitions over the next three years, accounting firm Grant Thornton said in a report on Wednesday. Although the proportion is a decrease from 45 percent last year due to the economic slowdown, it is still higher than the 26 percent in 2010, according to the latest Grant Thornton International Business Report 2012. When asked about sources of growth capital in the next three years, nearly half of the businesses (43 percent) chose "don't know", rising steeply from 23 percent last year. The businesses see increasing uncertainties in financing. Retained earnings and bank finance are still the main financing channels for businesses, down to 42 percent this year from 57 percent in 2011. The willingness of businesses to undertake an initial public offering is 18 percent, lower than the 24 percent last year but higher than the global average (5 percent).

"Shortage of working capital is always a bottleneck for the development of small and medium enterprises and would be more serious this year with the slowdown of the economy and tightened policies," said Xu Hua, the chief management partner and chief executive officer of Grant Thornton in China. The pressure would be relieved, though, because government has put forward a series of supporting policies for the financing of small and medium enterprises. The businesses themselves should manage their credit well and learn more about specialized financing knowledge to actively broaden their financing channels, he added.

The report also reveals that 92 percent of acquisition-minded businesses in China's mainland expect to expand through domestic acquisitions, reflecting the fact that the majority of businesses are still focusing on the domestic market. 26 percent of businesses on China's mainland are planning cross-border acquisitions, in line with the proportion of last year. This remains the highest level since 2008, demonstrating a stable overseas interest in investing in China. The regions that most interested in making an acquisition in the next three years are North America (37 percent) and the BRIC (Brazil, Russia, India and China) economies (35 percent). Despite the fact that only 28 percent of businesses in mainland Europe having acquisition interests, 44 percent of these businesses expect to grow through cross-border transactions, putting it top globally. This reflects the fact that European businesses, lacking confidence within the region, are seeking opportunities in high-growth markets, according to the report.