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Rattling the supply chains: Japan and China

U.S. slams tariffs on solar panels. Steep duties on low-cost Chinese imports are aimed at boosting the U.S. solar industry.

Chinese exporters fear grim outlook

Trade officials call on US, EU to reject protectionism

Soybean imports set to rise this year

Better Ways to Deal With China

The American Chamber of Commerce in Shanghai, Government and Business Leaders Meet to Discuss American Competitiveness in China

China still remains a bright spot for US companies

China edges out US as top foreign-investment draw amid world decline

China approves foreign firms in growing sector

Telecom industry keeps eye on China

China-Korea tensions ease after failed venture

Setting sail on a quest for overseas M&As

Playing hardball with Chinese investors

Domestic consumption assumes importance to China's economy
In the commodity town of Linyi city, China's second-largest wholesale trade hub. Unlike Yiwu, the world-renowned export capital for knickknacks, Linyi is more oriented toward the domestic market. Located in East China's Shandong province, it annually dispatches thousands of freight vehicles delivering all sorts of goods to every corner of the country, as far away as Urumqi in the remote northwestern Xinjiang Uygur autonomous region. Last year, the total trading volume of Linyi's market stood at 150 billion yuan ($23.75 billion). It is expected to surge to 200 billion yuan this year, according to the commodity town's administrative commission. With these figures in stark contrast to some of China's key economic indicators, Linyi is bucking the trend of areas that are more reliant on exporting. It points to Chinese consumers' sustained demand for goods at a time when consumption in recession-battered traditional export markets is waning. Linyi is a perfect example of the inward-looking model that China may have to incline toward if its economy is to continue to grow healthily.

Those who are focusing on domestic trade are expressing particular optimism. Business is running smoothly, they say, despite the government's controls on the property market weighing on sales of building materials and home products. "No matter how tough the economy is, people still need to consume living necessities. Toothpaste, notebooks, basins, you name it. Don't forget that China has 1.3 billion people!" says Wang Shiling, who runs a large mall in Linyi, renting booths to hundreds of household product wholesalers. Wang's remarks highlight an important point: China's huge domestic market presents enormous buying power.

Chinese are increasingly affluent. The per capita disposable income of urban households ballooned to 19,109 yuan in 2011 from 2,027 yuan in 1992, while the per capita net income of rural residents climbed to 5,919 yuan from 784 yuan. According to a World Bank report, China will become a middle-income country by 2020. At that time, its consumer worth will be stunning. Meanwhile, development in the country's vast hinterland is set to fuel its economic growth. In recent years, manufacturers' drives to relocate their factories from costal China to less expensive interior provinces has boosted the economic vitality of the country's central and western regions. The moves have also offset higher costs, giving Chinese manufacturers an edge over their competitors on the global stage.

Ongoing urbanization will play a part as well. Last year, China's urban population exceeded its rural population for the first time in the nation's history, with city-dwellers accounting for 51.27 percent of the country's 1.347 billion people. In 1981, only 20 percent of Chinese lived in cities. The country will see 300 million more urbanites by 2030, with 15 million to 20 million rural dwellers moving to cities every year, according to a forecast by the Organization for Economic Cooperation and Development.

Source: Xinhua: Domestic consumption assumes importance to China's economy, 2012-10-02

**New State-level zone to boost ties with Hong Kong, Macao**

The central government has unveiled a development plan for Nansha New Area, a State-level pilot zone in Guangdong province, to foster closer business ties with Hong Kong and Macao. As the country's sixth State-level zone, Guangzhou's Nansha district will enjoy a slew of preferential policies on tax, land management, financial innovation and industrial development.

Fan Hengshan, director general of the Department of Regional Economy under the National Development and Reform Commission, said it would take about a decade to build Nansha into a high-quality living area and an example of modern urbanization with fully fledged public services and facilities. The region will be granted the right to pilot mechanisms to drive growth. For example, the new financial agencies built in Nansha will be encouraged to explore businesses such as futures, credit insurance and financial leasing. It will facilitate custom checks and relax controls on the length of residence of qualified foreigners, and allow qualified medical and construction service institutions and personnel to do business in the area. Located in the southern tip of Guangzhou, Nansha covers an area of 803 square kilometers. It has an obvious geographical advantage as it is
only 38 nautical miles from Hong Kong and 41 nautical miles from Macao. The city's green coverage has reached 41 percent, while it has per-capita green park space of 38 square meters. In October 2011, Nansha won a gold medal at the United Nations’ 15th Annual International Awards for Liveable Communities. Nansha will focus on developing the manufacturing and modern service sectors, including shipping logistics, high-tech innovation and leisure tourism, automobiles and shipbuilding. By 2025, the service sector is targeted to account for 65 percent of the area's GDP. The service industry accounted for 43.1 percent of China's total GDP in 2011. Nansha New Area will also pilot economic reforms and explore the economic structural transformation of the Pearl River Delta area. Cooperation with Hong Kong and Macao will gradually move from processing trade to the service sector, especially producer services and high-end services.

Source: Lan Lan: New State-level zone to boost ties with Hong Kong, China Daily, 2012-10-11

**China economy: A shot in the arm**

A number of western regions have rolled out social security reforms and employment subsidies over the past year and a half, propelling traditional laggards such as Gansu and Ningxia to the top of China's income growth tables. While the surge in incomes is long overdue for these largely destitute regions, questions remain as to the long-term viability of such programmes. Over the past two decades, growth in disposable incomes has generally lagged behind overall GDP growth. This is particularly true in China's interior, where economic activity is dominated by resource extraction and heavy industry. In 2010, growth in urban disposable incomes reached 11.3%, or only 7.8% in real terms, well behind that year's national real GDP growth rate of 10.4%.

In 2011, however, income growth was put at the top of a list of priorities in the government's national five-year plan (2011-15) as worries mounted that the fruits of economic growth were not being shared by households at the lower end of the socio-economic ladder. At the same time, enhancing social welfare is seen as one of the key steps required to boost domestic consumption and rebalance economic growth away from investment. The impact was immediately observable in official data. In 2011, income growth in western provinces, at a nominal 14.8%, outpaced the national average of 14.1%. This continued into 2012: in the 12 months to the second quarter, the strongest growth in urban personal disposable incomes was recorded in the remote western province of Gansu, at 14.7%. This was followed by Ningxia, also in the far west, at 14.4%. Shaanxi, Yunnan and Anhui, in western, southern and central China respectively, tied for third at 14.3%.

Policies that were launched in western provinces include minimum wage increases, job-creation programmes and a series of schemes to boost transfer payments. For example, basic pensions for retirees from state-owned enterprises in Gansu were raised by Rmb233 a month, or 14.4%. Similarly, pensions for urban retirees in Shaanxi were raised by 20%, which had a significant effect given that 20% of the province's urban population is of retirement age. In Ningxia, a large proportion of the rise owed much to two increases in the minimum wage in April 2011 (25%) and April 2012 (22%).

Gansu's government put raising incomes at the top of its priorities for the year, as in 2011 it posted the lowest urban income levels in the country, even below troubled Tibet. In the first half of 2012, Gansu's government spent Rmb640m (US$102m) on employment-related subsidies. Microloans totalling Rmb8.7bn (US$1.4bn) were issued to support small enterprises, while skills training programmes were set up and loans to small businesses were encouraged. For example, vocational schools were established to train people to make "Lanzhou beef noodles", Gansu's most well-known regional dish, with the aim of creating a stronger catering industry. Local authorities also negotiated baseline wage growth with enterprises in the province. As a consequence, Gansu's income growth was the fastest in the country for the first time in its history, according to the provincial labour and social security bureau.

The fact that local governments manage the funds for pension spending, albeit with central government
support, means that welfare boosts can be sporadic and depend on the state of public finances. For instance, a
doubling of the resource tax in Shaanxi led to a 56.5% surge in local government tax revenue in 2011. The
provincial government has pledged to spend four-fifths, or Rmb15bn, of the province's extra fiscal revenue on
boosting "people's livelihoods" in 2012. The extra spending would go towards education, social security and
employment. Such behaviour is worrying; welfare reform ought to be based on meticulous planning and
foresight rather than euphoria emanating from a one-off revenue windfall. Ageing in the population means that
public finances have the potential to be severely strained if pension reform is not carefully managed. Local
governments are notorious for having ill-managed social security schemes. Many of the funds run by local
governments are virtually bankrupt, as money has been diverted into construction projects or siphoned off.
Corruption is, as ever, a major concern: a senior Gansu official was sentenced to death in July 2012 for
embezzling nearly Rmb30m from a social security fund he directed.

However, continued growth in incomes is central to the national drive to narrow the gap between the rich
eastern seaboard and the poorest parts of the interior. In 2011, urban disposable income per head in Gansu was
roughly two-thirds of the national average—a ratio that had fallen steadily over the years. Raising livelihoods
through transfer payments is the fastest and surest way to boost incomes.


**China Reports Slower Growth in 3rd Quarter but Sees Signs of a Possible Revival:** [Business/Financial
Desk]

New economic data from China on Thursday showed that the world's second-largest economy after the
United States expanded at its slowest pace since 2009 during the third quarter of this year -- though surprisingly
strong data for the month of September also showed that the deceleration may, for now at least, have come to an
end. The weak global environment has, however, weighed on China's export sector, slowing China's once red-hot
economy. Government policies aimed at combating inflation and soaring property prices in 2010 and 2011 also
have slowed growth. The economy expanded by 7.4 percent in the third quarter, compared with a year earlier --
in line with analysts' expectations. The figure, which was below the 7.6 percent growth reported in the second
quarter, was the slowest pace of growth since early 2009, when the global economy was still reeling from the
financial crisis.

Separate data for September, however, appeared to show that the slowdown has been bottoming out, and
that an improvement may now be on the way. Industrial output grew 9.2 percent, compared with a year earlier,
and retail sales expanded 14.2 percent, the statistics office said. Both figures beat expectations and improved on
the expansions in August, showing that stimulus measures announced by Beijing over the last year have
gradually put a floor under the deceleration. Investment in fixed assets rose 20.5 percent in the first nine months
this year, from the comparable period in 2011, slightly better than analysts had expected. The Chinese authorities
have loosened lending constraints for banks in a bid to encourage more loans and stepped up infrastructure
project approvals. Two small interest rate cuts by the Bank of China in June and July also aimed to bolster
growth.

This mild stimulus approach has contrasted with Beijing's approach in late 2008, when a large stimulus
program of 4 trillion renminbi (about $635 billion) was announced in response to mass layoffs and collapsing
exports. This time around, analysts say, the jobs market so far has not deteriorated sharply. At the same time,
policy makers in Beijing are seeking to avoid reigniting an investment binge and property-price spike of the sort
that occurred in 2009-10.

China's exports rose 9.9 percent in September, compared with a year earlier, much more rapidly than
analysts had expected, as shipments to the United States and Southeast Asia improved.
Remembrance of things fast; China's GDP numbers

China's statisticians this week revealed that the country's economy had grown by 7.4% in the third quarter. That was China's slowest rate of expansion since early 2009 (see chart), and a pale shadow of the 9-12% rates it recorded back in 2010. So why did stockmarkets and economists around the region react with such relief? The 7.4% figure was a "year-on-year" calculation, comparing China's economy from July to September with the same period last year. Of more interest to investors was the comparison with more recent periods. Between the second quarter and the third, for example, the economy grew at an annualised rate of about 9%. That's enough to fill any China bull with nostalgia. China's economic slowdown looks to be over.


China's economy has bottomed out - economists

Digesting recent economic numbers, financial institutions across the globe have reached a general consensus: China's economy has bottomed out. Data released last week by the National Bureau of Statistics showed that China's economic growth slowed to an annual rate of 7.4 percent in the third quarter. However, September data indicated a pick-up in economic activity. "While news headlines highlighted this as the lowest growth in 14 quarters, we think the economy bottomed out in the first half of the year," UBS economists, headed by Tao Wang, wrote in an research note.

Robust monetary policies have been deemed vital to stimulate the economy, in the wake of bond-buying from the European Central Bank and Quantitative Easing from the US Federal Reserve. But after two interest rate cuts in June and July, the People's Bank of China (PBOC), or the central bank, has refrained from bold actions as market sentiment hit perhaps the lowest point since the global credit crunch. This is widely read as guarding against inflation and a resurgent real estate sector. The reserve requirement for large Chinese banks stands at 20 percent, unchanged since a 0.5-percent cut in May, while the central bank repeatedly resort to the lesser-significant reverse repurchase operations. Now with an ongoing recovery, economists said big bangs from the central bank would be more unlikely.

The recovery was good news for the broader economy. But the Chinese general public have long complained about unaffordable urban housing prices, which many economists said is tying the hands of decision makers. With robust retail sales in September and the tourism boom during the National Day holidays, a growth pattern powered more by consumption and less by heavy industry is emerging, indicating a slowly rebalancing Chinese economy. In the long term, China needs to further re-balance, although it is too early to conclude that this process will proceed quickly or smoothly, said Fitch Ratings.

Source: Xinhua: China's economy has bottomed out - economists, 2012-10-24

Chinese economy faces challenges

China continues to face economic challenges and needs to reform its financial system in order to shore up economic growth, according to central bank governor Zhou Xiaochuan. “There have been substantial reforms of the financial sector over the past 10 years but we cannot ignore the impact of the current external economic environment on China or the deepening of the international financial crisis,” he said. Zhou made the remarks in the latest issue of China Finance, a magazine published by the People's Bank of China, on Oct 1. The PBOC aims to make its monetary policies more effective while maintaining stability and consistency, he added.
Debt level nears intl warning level: report

China's debt level may be approaching the international warning level, a report by a think tank under China's cabinet said on Monday. By the end of 2010, the country's total liabilities had reached 23.76 trillion yuan ($3.8 trillion), 59 percent of that year's GDP, the Development Research Center of the State Council said. Most of those loans are thought to be short-term loans, which need to be repaid this year or next year. Repayment dates are approaching for the loans arranged in 2009, when the state rolled out a huge stimulus package to bail out the economy, which was hit hard by the financial tsunami at the time, said Wei Jianing, one of the authors of the report. However, the strict purchase limits imposed on the property market led to dwindling fiscal incomes for local governments, threatening their repayment abilities, said Wei. Forty-two percent of the local governments' debt needs to be repaid by the end of 2012, while another 53 percent will be repaid by the end of 2013, according to a report by the National Audit Office. The local governments' debt has reached 10.7 trillion yuan, up from 4 trillion yuan in 2006, said the National Audit Office.

Source: Anonymous: Debt level nears int'l warning level: report, China Daily, 2012-10-23

China expands value-added tax reform

China's top taxation watchdog on Monday said that two more provinces are ready to pilot a reform of replacing turnover tax with value-added tax in a bid to lower the overall tax burden and boost certain sectors. Eastern provinces of Jiangsu and Anhui started the trial program on Oct 1. So far, a total of 104,000 enterprises have been included in the program in Jiangsu while 46,000 enterprises have been covered in Anhui. The trial aims to apply VAT to the transport sector and some areas of the service industries in the two provinces, following that of Beijing, Tianjin and Shanghai. According to a decision made in July at an executive meeting of the State Council, China's Cabinet, the trial program will be expanded to more than 10 provinces and cities.

Source: Xinhua: China expands value-added tax reform, 2012-10-2

China encourages rural banking development

China had 858 new rural financial institutions, including rural banks, credit companies and capital cooperatives, by the end of September, the country's banking regulator said in Beijing on Sunday. Among them, 799 are rural banks, with 60 percent, or 481, located in central and west China, said the CBRC. The China Banking Regulatory Commission (CBRC) said it has been taking active and steady steps to promote the establishment of rural banks, and it has approved plans submitted by 18 banking institutions to establish 187 rural banks in the first nine months of this year, 75 percent of which would be set up in central and western regions. Private investment has been a major capital source for rural banks, according to the CBRC. By the end of June, of the 47.7 billion-yuan ($7.57 billion) total share capital of all rural banks, 74 percent was held by private investors. By the end of June, total assets of all operating rural banks stood at 319 billion yuan, with the capital adequacy ratio at 28.6 percent and outstanding loans totalling 178.2 billion yuan.

Source: Xinhua: China encourages rural banking development, 2012-10-22

China ups foreign stakes limit in securities firms

China's securities watchdog on Tuesday allowed overseas investors to hold higher stakes in the country's securities firms, its latest effort to relax controls on foreign investment in the financial industry. Overseas investors can now hold stakes as high as 49 percent in joint-venture securities firms, compared with an
investment cap of a third of those companies' equities previously imposed, according to a statement issued by the China Securities Regulatory Commission. At least one domestic investor should own a stake of no lower than 49 percent in such joint venture securities firms, but the restriction does not apply to listed securities firms, the CSRC said. In another statement, the CSRC said securities firms, including joint ventures, can apply for permission to expand their businesses two years after going into operation in China, shortening the period from the previous five years. The policy changes took effect on Tuesday and came after other steps taken by China to further open its financial markets and ease restrictions on foreign investors.

In July, the country lowered its threshold for qualified foreign institutional investors and allowed them to hold up to a 30-percent stake in a listed company, up from the previous 20-percent stake cap. The government has also accelerated QFII approvals since the start of 2012, and increased total QFII quotas to $80 billion from the previous $30 billion in April. Seven more QFIIs were approved in September, bringing the total number of QFIIs in China to 188, the CSRC said on Tuesday.

Source: Xinhua: China ups foreign stakes limit in securities firms, 2012-10-17

Chinese, US, Russian agencies set up rating group

Three rating agencies from China, the United States and Russia will jointly launch a new credit rating company to rival current industry leaders and promote independence. It was announced on Wednesday that the Universal Credit Rating Group will be established by China's Dagong Global Credit Rating Co Ltd, the US-based Egan-Jones Ratings Company, and Russia's RusRating. The headquarters will be set up in Hong Kong within six months, the companies said in a statement. The group will be invested by private institutions without conflicts of interests with its credit ratings and will not represent any country or interest group, the statement said.

Guan Jianzhong, president of Dagong Global Credit Rating Co Ltd, urged an overhaul of the current international credit rating system, which he criticized. "As the main providers of rating information that global capital flow relies on, the three major rating agencies in the US failed to ring the alarm bell for the financial crisis and even helped aggravate the crisis," said Guan. The US-based "Big Three" global credit rating agencies -- Standard and Poor's, Moody's, and Fitch Ratings -- have come under fire for their credibility during the global financial crisis. Sean Egan, president of Egan-Jones Ratings Company, said overly optimistic credit ratings led to the financial crisis and the current international rating system can no longer meet investors' demand.

Source: Xinhua: Chinese, US, Russian agencies set up rating group, 2012-10-24

Premier Wen stresses poverty relief

Premier Wen Jiabao has urged greater efforts to alleviate poverty, preserve the environment and adjust the economic structure in Southwest China's Guizhou province. Wen made the remarks during a two-day inspection tour to the province that ended on Sunday. The tour followed a previous visit to Yiliang, a county in Yunnan province that was recently hit by earthquakes and a landslide. Improving livelihoods in Guizhou will be symbolic of China's efforts to close the gap between the underdeveloped west and other regions in the country, Wen said. He called on the local government and residents of Guizhou to make arduous efforts for the province's future.

Wen visited the city of Bijie, which was approved by the State Council in 1988 as a "trial zone" for environmental protection, economic development and poverty alleviation, and expressed appreciation for the achievements the city has made over the past two decades. Wen also visited Weining, a county located in a remote mountainous area in the province and inhabited by people from various ethnic groups. He visited an adobe house in the village of Dalu and talked with local residents about an ongoing government-subsidized
housing renovation program in the village. According to the villagers, the government's support has helped 53 of the village's 262 families to renovate their houses.

Wen called for further implementation of the government's poverty alleviation policies, as well as more efforts to promote agricultural industries with local characteristics, increase farmers' incomes and improve living standards for local residents. Wen urged continuous efforts in environmental protection and ecological preservation in order to secure sustainable development in the region. Efforts to convert pastures into forests will help to conserve water resources, curb the spread of desertification, improve the ecological environment and increase farmers' incomes, Wen said. He also inspected a hydrological project and urged scientific planning for the project in order to combine water conservancy, ecological protection and desertification prevention efforts.

Source: Xinhua: Premier Wen stresses poverty relief, 2012-10-09

**CPC expected to bridge wealth gap by fair distribution**

The urban dweller complains that with more than 20 years of work experience, her income still lags far behind those in the country's monopolized industries and sectors. But public discontent over income distribution is not confined to cities. Latest statistics from the National Bureau of Statistics showed country's rural per capita cash income in the first three quarters this year was 6,778 yuan ($1,084), which was only 36.8 percent of the per capita disposable income of urban residents in the same period. Analysts warn that China's yawning wealth gap has triggered not only rural resentment over the wealthy urban dwellers, but also is brewing discontent within cities as well as villages. The original goal of China's economic reform to achieve common prosperity remains a distant future, they warn.

The State Council, China's Cabinet, has decided to establish an overall income distribution plan by the end of this year, and observers have put high hope on the upcoming National Congress of the CPC which is scheduled to open on November 8. At a high-profile meeting held in July, which is widely considered of sending a key message for the upcoming five-year CPC congress, Chinese President Hu Jintao has urged efforts to deliver more benefits to the people, relieving people's worries and addressing their practical concerns. Progress should be made in education, employment, health care, retirement and housing in order to allocate more to people in a fairer way, Hu made the remarks while addressing the opening session of a workshop for ministerial officials and provincial heads in July.

In urban regions, uneven income distribution and excessive wealth gaps among groups have become a severe problem affecting people's happiness. Unfair income distribution has been seen by observers as a major obstacle in deepening the country's economic reform and growth mode transformation. In 2011, the maximum income gap between senior company executives and migrant workers was 4,553 times, according to a report conducted by the Ministry of Human Resources and Social Security. The income growth rate of executives has also vastly exceeded that of the common staff. The income gap apparently increases and causes unfair social income distribution, says the report. Aside from improving incomes, capping high wages in state-run sectors will become a focus in the reforms, acknowledging that a slight move in income distribution may affect the whole situation, especially when vested interests are involved. Reform should take initial steps on the primary distribution phase by putting monopoly law into practice, improving property ownership and bridging the "identity gaps" among rural and urban sectors.

Source: Anonymous: CPC expected to bridge wealth gap by fair distribution, China Daily, 2012-10-24
http://www.chinadaily.com.cn/business/2012-10/24/content_15845034.htm

**China's individual and private businesses expand**

Individually-owned businesses grew steadily at 4.4 percent annually, while private enterprises achieved an
China's cautious ok on nuclear bolsters emission-cut efforts

China has announced its readiness to approve with caution new nuclear power projects, a move that bolsters the government's resolve to fuel rapid economic growth while striving to meet carbon emission cut targets. About one-and-a-half years after China began, in March 2011, to halt approvals of new nuclear projects due to the Fukushima catastrophe, the latest decision by the State Council, China's cabinet, to lift the ban meant concerns over possible radioactive contamination finally gave way to endeavors to optimize the country's energy structure amid high demands. It is also expected to help China fulfill its commitment about cutting carbon dioxide emissions per unit of GDP by 17 percent from 2010 to the end of 2015. Then further by 40 to 45 percent by 2020 from the 2005 level, a demanding task if the government intends to sustain high economic growth.

The new plan, unveiled at the State Council executive meeting that discussed and passed the Nuclear Power Safety Plan (2011-2020) and the Mid- and Long-term Development Plan for Nuclear Power (2011-2020), did not catch much attention from members of the public, suggesting many have recovered from being overwhelmingly afraid to cool-headed. China's population and rapid economic growth places huge demands on energy, with the country's primary output equaling 3.18 billion tons of standard coal in 2011, ranking it first in the world. Output of natural gas and crude oil also ballooned. Imports of the two energy resources are expected to further rise due to limited domestic findings and the construction of more transmission pipes. Although traditional energy is so far in no immediate danger of severe shortage, China must act sooner than later to develop alternative energy to avoid paying heavier prices, most notoriously air pollution, for consuming coal and oil.

Nuclear energy, unpredictable as it may be, is also known for being highly productive and clean, if no accidents like explosion or leakage occur. As nuclear energy accounts for about 1.8 percent of China's total power output, there is room for further development. The key question is how to minimize risks. The new plans explicitly stated that no nuclear projects would be constructed in inland regions in the coming five years and that adequate justification processes are a prerequisite for new projects. The documents also stressed that China should constantly carry out safety upgrades on currently operating reactors and use the most advanced mature technologies.

Source: Xinhua: China's cautious ok on nuclear bolsters emission-cut efforts Updated: 2012-10-27

China is going for green energy with NGO's help

Peggy Liu, chairwoman of the Joint US-China Cooperation on Clean Energy, or JUCCCE, said that she often gets asked if China really wants to go green. "Of course China wants to go green," she said. "But it's for a different reason than America. The Americans are coming from a moral standpoint, but in China it's more visceral, because we smell, we eat and we breathe pollution every day." An adviser to former US President Bill Clinton's climate change initiative and honored in 2008 by Time magazine as an "environmental hero", Liu became internationally renowned for her work at JUCCCE, a non-profit body helping China to implement clean
"A lot of these people don't really understand China, so we're building bridges with two hopes - one is to bring best practices and new technologies into China, and the other is to show the world how they can benefit from collaborating with China," she said. A major part of JUCCCE’s work is bringing Western experts to China to speak about sustainability concepts at mayoral training sessions. A total of 322 mayors have attended the sessions to date. Two concepts recently taught to the mayors are ecotourism and heritage-tourism - where tourists explore the heritage of the sites with minimum impact to the natural environment. Liu said that the concepts were well received by the mayors, and the local government from Mentougou, a former mining district near Beijing, held a full-day symposium to explore how eco-tourism can be implemented.

Another JUCCCE project is to bring foreign experts and companies to China to help build its smart-grid system, which has become a priority in China recently. Last year, China's State Grid Corp announced plans to invest $250 billion in electric power infrastructure upgrades over the next five years, and another $240 billion between 2016 and 2020. Unlike conventional grids, smart grid components are upgraded to include sensors, computers, and a wireless interface, allowing the electric grid to transmit and distribute electricity more efficiently. With JUCCCE's help, the US clean energy company Duke Energy and the China-based ENN Group reached an agreement to together build China's first smart energy "eco-city" in Langfang, near Beijing, last January. Duke Energy will bring to the table its expertise in various technologies, including energy storage, energy efficiency, energy recovery and electric vehicle infrastructure.

Source: Cecily Liu and Zhang Haizhou in London: China is going for green energy with NGO's help, China Daily, 2012-10-18

Govt to support solar power industry

The Chinese government will support the connection of photovoltaic solar power producers to the national grid with favorable policies, in a bid to expand the domestic market and help the industry get through tough times, an official has said. "A document on how State Grid will support China's PV solar industry has been handed to the central government and is waiting approval," said Meng Xiangan, deputy director of the China Renewable Energy Society. State Grid Corp, China's largest State-owned utility company, is expected to allow local grid companies at city level to approve solar power plants with installed capacities of less than 10,000 kilowatts each to be connected to the grid. The move is seen as "very encouraging" news by Meng. State Grid also plans to not charge solar power companies for integration with the grid, which usually costs millions of yuan, and to simplify the process, according to the document. "The obstacles that companies face in order to be connected to the national grid are the biggest problem for the PV solar power industry, as well as many other new energy industries," he said. "The new plan will help solve the problem, and it shows the central government's determination to support the development of the solar industry by solving the grid-connection issue." However, he said that it is still hard to predict when the plan will get approved and be in place. In western areas of the country, where there are rich solar resources, it is especially hard to get connected to the grid.

According to the new plan, China's installed distributed solar power generation capacity will reach 15 gigawatts by the end of 2015, 5 gW more than the target in the 12th Five-Year Plan (2011-15). Meanwhile, the government is working on a subsidy policy for distributed solar power plants. The administration plans to offer subsidies ranging from about 0.4 yuan ($0.06) to 0.6 yuan for each kilowatt-hour of distributed solar power. The amount includes subsidies from both the central and local governments. "The new subsidy policy means that the more electricity the distributed solar power plants generate, the more subsidy the companies will get," said Meng. "It's a very helpful measure to further open the domestic market." Chinese PV solar companies - which are facing punitive tariffs stemming from anti-dumping and anti-subsidies investigations launched in the United
States and Europe - were happy to hear the news.
Source: Du Juan: Govt to support solar power industry, China Daily, 2012-10-20

**China energy: Gaining energy**

Despite many imperfections, Chinese energy-saving companies are flourishing. China wastes a lot of energy. Heating a Chinese building, for instance, consumes roughly double the energy used to warm a comparable structure in Europe, experts say. The Chinese economy gobbles up nearly six times as much energy to generate a unit of GDP than lean Japan uses, the Economist Intelligence Unit (EIU) estimates. While this is bad news for the climate, it presents a growing opportunity for those in the energy efficiency business. For years, energy-service companies (ESCOs), which aid businesses in conserving energy, struggled in China. Yet rising pressure to conserve energy, coupled with supportive government policies, have in recent times sparked breakneck industry growth.

In a long-awaited move in 2010, the Chinese government launched a push to make energy performance contracting (EPC) a major tool for raising energy efficiency. ESCOs typically sell their services via such agreements. Project developers (the ESCOs) provide money and technology to improve energy efficiency in factories or buildings and profit according to the size of the energy (hence cost) savings made. The explosion of EPC activity predates the government move. But added official incentives have helped to drive the industry during uncertain economic times. Among the juicy inducements on offer is an exemption from income tax on EPC revenues for the initial three years of a project, after which there is a 50% discount. More goodies are on offer. The central government pays Rmb240/tonne of standard coal equivalent (US$38/tce) saved. Provincial governments add at least Rmb60/tce; affluent jurisdictions like Shanghai pay up to five times as much. Such official backing risks luring in a multitude of firms bent on making short-term profits common phenomenon in China, where entrepreneurs often rush from one money-making opportunity to the next. To nurture sustainable growth and bigger fish, rather than a prodigious number of minnows, officials impose conditions when dishing out cash. For instance, they commonly take into account the size of an EPC project, the scale of its developer and their share in the up-front investment. Despite these efforts, the barrage of incentives has served to spawn a host of new firms. In 2011 nearly 700 ESCOs engaged in EPC projects sprang up, almost doubling the total and reproducing in a single year the growth in company numbers seen in the previous four years. Perhaps due to the diminutive scale of new entrants, this has not translated into faster growth in total EPC investments. In fact, expansion has slowed, though remains impressive. Last year, companies ploughed Rmb41bn (US$6.5bn) into EPCs, over 40% more than in 2010 (see chart).

How many of these firms survive will in part depend on banks willingness to lend them money. Since ESCOs usually bear the initial cost of EPC developments, they sorely need credit. Unfortunately, this is especially true for those with the most severe lack of collateral hat is, ESCOs relying purely on energy services contracting. Even the many ESCOs that are subsidiaries of manufacturing businesses face hurdles to borrowing. They, at least, have fixed assets to pledge in exchange for loans, but banks cap the amount of credit available to manufacturers. More fundamentally, until recently the EPC business-model was little known in China. Banks
The good news is that some lenders are adopting innovative means of lowering lending barriers for ESCOs, allowing them to put up projected EPC profits as collateral. Admittedly, this can be treacherous ground: the danger is that the energy saved by a given project falls short of expectations. The onus is therefore on banks to develop the skills to assess the chances of failure. Cautiously, they tend to split the risk of losses among several financial institutions. Overall, though, ESCOs are finding it easier to access credit. An example of this is Beijing Bank’s promise to lend Rmb10bn to EPC projects over five years. Ten banks in Shanghai have clubbed together to pursue plans on the same scale. Industrial Bank is another relatively ESCO-friendly institution.

Helping ESCOs cause, Chinese banks are under pressure from the central government to loan more to businesses with less harmful environmental impacts.

Generally, EPC projects generate decent investment returns, according to the China Energy Conservation Association (CECA). For example, developers in the industrial realm normally sign eight-to-ten-year contracts and break even in the first three-to-five years. Yet not everything is rosy. Given the ballooning number of ESCOs but slowing investment growth, worries that a bubble is forming are not implausible. Despite rapid apparently profitable growth, the industry remains in some senses immature. The EPC model has barely spread beyond wealthier cities on the eastern seaboard, leaving inland preserves of heavy industry relatively untouched. Further brakes on progress derive from the fact that, unlike in developed economies, Chinese ESCOs concentrate on niche areas such as recycling waste heat or retrofitting lighting systems, lifts or ventilators rather than providing a comprehensive energy-saving service. This is partly because, according to CECA, approximately half of all avowed ESCOs are offshoots of manufacturing businesses. Their narrow technical expertise means many opportunities for energy saving remain untapped.

In the long run, however, the ESCO industry can count on strong demand. The EIU forecasts that Chinese energy consumption will expand by 43% between 2011 and 2020. To cut the intensity of energy use and control emissions, Beijing intends to introduce both a carbon tax and a carbon-trading mechanism (see our special report). Whether such measures will help much to limit pollution and energy use depends on the small print. But for China growing number of ESCOs, they will surely be good for business.

Source: EIU Viewswire China energy: Gaining energy, October 30th 2012

**China's R&D spending hits record high**

China's expenditure on scientific research and development reached a record high level in 2011, according to official data released Thursday. China's expenditure on R&D totaled 868.7 billion yuan ($139.2 billion) in 2011, up 23 percent year-on-year, according to a joint report published by the National Bureau of Statistics, the Ministry of Science and Technology and the Ministry of Finance. R&D funds accounted for 1.84 percent of the country's annual gross domestic output (GDP) in 2011, a higher proportion than the 1.76 percent registered in 2010, said the report. Companies and enterprises invested the most on R&D, with 657.93 billion yuan recorded in 2011, up 26.9 percent year-on-year. Government-affiliated research institutes and universities spent 130.67...
billion yuan and 68.89 billion yuan, up 10.1 percent and 15.3 percent from a year earlier, respectively. Eight provincial regions, including the capital city Beijing and eastern China's Shanghai Municipality invested more than 30 billion yuan on scientific R&D last year. Fiscal spending on science and technological development rose 19.2 percent to reach 490.26 billion yuan, or 4.49 percent of the state's total fiscal expenditure. China's annual R&D spending grew by more than 20 percent on average for six straight years since 2006, according to the report.

Source: Xinhua: China's R&D spending hits record high, 2012-10-26

Next leader has clear view of task ahead: Decline in Chinese growth points to need for reform [Eire Region]

GDP expanded at 7.4 per cent from June to September, compared with the same period in 2011. That marked the seventh quarter running of falling growth, and reset the overall pace of advance to levels last seen in the aftermath of the 2008 global financial crisis. Because of the astonishing pace of growth for most of his decade in power, President Hu has been able to postpone serious reform, despite the dangerous social contradictions that such fast growth has generated. Mr Xi will not have that option, and has now been shown that fears of short-term slowdown cannot postpone action to rebalance the economy, analysts said.

But as Andy Rothman, CLSA's China economist, said, there has been little collateral damage on the ground. China's slowdown has not triggered mass unemployment, and urban income continues to grow at over 10 per cent. "When growth slowed a bit more than expected, the [Communist] Party responded with policy fine-tuning rather than a serious stimulus," he said. However, several observers contend that China has farther to fall unless there is reform in the first year of the new administration. Many believe that the problems are more structural than cyclical, with reforms of banking and the state sector needed to convert China's unsustainable investment-led growth model for a consumption-led one. At the macro level, the distortions created by the powerful state sector are stunting innovation and the obstacles to the creation of a consumer-driven economy will not shift without more political courage than has been shown by the Hu Jintao administration. At the micro level, there are visible signs of an economy in slowdown. The problem for Xi is that he's not Mao: the system won't let him do what he wants to'

Source: Lewis, Leo: Next leader has clear view of task ahead: Decline in Chinese growth points to need for reform [Eire Region], The Times [London (UK)] 19 Oct 2012.

China Faces Tough Choice on Growth; Incoming Leaders Must Decide Whether to Stick to Old Economic Model or Tackle Reforms to Get More Money to Consumers

The traditional methods of kick-starting growth--cutting interest rates and boosting investment--would risk exacerbating economic imbalances, increasing investment returns at the expense of salaries and spending money for households. Spreading the gains from China's growth means challenging some of the most powerful groups in the country's body politic: local officials who benefit when their governments flip land bought on the cheap from farmers, and state-owned enterprises whose low taxes translate into less money for welfare programs. The winners in such a gamble would be China's lower and middle-income households, which are increasingly looked to as the source of future growth.

According to a new national survey of China's household income, China's richest 10% control 56.9% of household income and 84.6% of household wealth--"a level of inequality seen only in some struggling African nations," said Gan Li, a professor at Texas A&M University who led the survey. The deepening inequality also makes it tougher to safeguard against the fate of other one-time economic stars that failed to advance to the ranks of wealthy nations. Brazil's boom economy stagnated in 1980s and 1990s, for instance, as the country cleaved
further into haves and have-nots, a pattern that some fear could be repeated in China. "There's a race in China between economic disparity and the rise of the middle class," says Cheng Li, a Brookings Institution senior fellow. Bolstering low- and middle-income households is important economically because these people spend a higher share of their income than rich households. The savings rate for China's top 10% of urban households is 38%, compared with 27% for middle-income households and 8% for the bottom 10%.

Concern about inequality is becoming increasingly commonplace in China. According to a 2012 Pew Research Center poll of 3,177 Chinese, 48% say the gap between rich and poor is a very big problem, up from 41% in 2008. Addressing inequality would require measures including protecting farmers' land rights to give them a valuable asset to sell or develop; granting migrant workers urban residency; and cracking down on corruption that enriches China's elites. All would require taking on powerful vested interests.

The current administration has long promised stronger land rights for China's farmers. Local political chiefs and real-estate firms, however, are both enriched by sales of land that local governments buy cheaply from farmers. Farmers receive compensation of $17,850 per acre, on average, for land seized by local authorities, just 2.4% of the $740,000 per acre market value, according to a 2011 survey of 1,791 farmers conducted by Landesa Rural Development Institute. China's 168 million migrant workers help build, clean and serve the cities, but few have the opportunity to make permanent homes there. That is because of the rigid urban-residency system that denies migrant workers and their families access to health care, education and welfare benefits in towns, whose governments see migrants as a source of cheap labor rather than members of the urban population. Reducing income inequality would also require action to tamp down on corruption. A state-dominated economy, where officials control access to valuable assets, provides ample opportunities for graft.

The share of consumption in China's GDP fell to 34% in 2011, from 44% in 2002. Consumption never fell to that low a level in the U.S, going back as far as the 19th century, or in the fast-growing Asian tigers during their growth years, according to McKinsey Global Institute. The share of household spending in GDP in the U.S. is about 70%.

The burden of reform will fall on the men expected to succeed them, Vice President Xi Jinping and Vice Premier Li Keqiang. The beneficiaries of change, lower- and middle-income households, have little voice in the policy process. But the costs of failure in slower growth and political instability could be high. "Japan's growth slowed when the economy was already wealthy, and levels of inequality were very low. That provided a baseline of stability for their lost decade," said Scott Rozelle, an expert on China's economy at Stanford University. "If China's economy in the next 20 years follows the same trajectory as the last 10, they could face zero growth as one of the most unequal societies in the world."

Source: Orlik, Tom; Davis, Bob: China Faces Tough Choice on Growth; Incoming Leaders Must Decide Whether to Stick to Old Economic Model or Tackle Reforms to Get More Money to Consumers, Wall Street Journal (Online) [New York, N,Y] 19 Oct 2012: n/a.

Reform required for growth

Beijing will have to make a bigger effort in reform during 2013 to make China's GDP grow faster than this year's targeted 7.5 percent, acknowledged a senior government economist. Although a return to double-digit growth is an unlikely scenario, China may have a good chance to keep its growth between 7 and 8 percent for some years to come, provided that Beijing "deepens the reform in basic industries" and "seeks new sources of growth," said Yu Bin, director of macroeconomic research in the State Council Development Research Center. "China is entering a stage of economic re-balancing, which means the existing growth engines are weakening while the new driving forces are still taking shape," Yu said on Friday. It wouldn't be a surprise if the country cannot repeat its record of annualized 10 percent growth as seen in the past decade, he explained. In the
meantime, the country is still in a transitional process before it reaches its "next breakthrough" in the reform in such industries as energy, transportation and agriculture.

The key of future reform, he said, is to encourage free competition, including more flexible prices and more active investment of private capital, so that the economy can become more efficient as a whole, the economist said. As for the real estate market, the State Council economist said a more differentiated policy may come into practice in 2013 to take into account the various situations in different regions. But the current control of the commercial housing market should remain consistent to "prevent a comeback of asset bubbles", he said. Yu also said China will have to strengthen its fiscal spending on infrastructure development to maintain the economy's overall level of investment in 2013. The country's exports may see some recovery in the last quarter, as the recent monetary easing in the United States and Europe may help stabilize financial markets and boost consumption, Yu said. But he added that "in our outlook for the next year, as the global recession still lingers on, it is unlikely that China's export volume will see a strong recovery". Yu expected China's inflation for 2013 to be around 4 percent, based on a rise in commodity prices and the Producer Price Index, a measure of inflation in producer goods. Thus Beijing "should remain prudent" in managing its monetary policy, in order to prevent a surge in inflation. On Friday, China's yuan appreciated to a 19-year high against the dollar, the second day to reach the upper limit of the People's Bank of China trading range. The fast rise of the yuan can partly show that global investors still have strong confidence in China.

Source: Chen Jia: Reform required for growth, China Daily, 2012-10-27

**China economy: Western provinces search for their niche**

The recently announced economic zones in the sparsely populated western provinces of Gansu and Ningxia seem more counterintuitive than most. Yet, the designation of a "New Area" in Lanzhou suggests that policymakers are serious about developing the region. Improved rail transport connections will give these provinces a boost, allowing them to play a role in growing links with central Asia. However, their remoteness puts them at a significant disadvantage. These provinces will attract investment in niche areas, but it is unlikely that they will come to rival the more established investment sites in western China, such as Chongqing and Xi'an.

Gansu and Ningxia are among China's smallest regional economies by GDP and population. As such, these provinces offer little in the way of the sizeable consumer base sought after by retailers. Heavy industry dominates. Ningxia's industrial output has traditionally been led by coal, coke, aluminium and cement, while Gansu is much more underdeveloped, with strengths in mining and oil refining. The economic prospects of these western provinces appear less bright than those of nearby Shaanxi, which has been designated by the central government as an economic centre of western China, and Inner Mongolia, which has better endowment of resources and minerals. Yet even so, Gansu and Ningxia are growing rapidly, with GDP growth rates of 12.5% and 12% respectively in 2011-well above the national average of 9.2%. This can be partly attributed to a low base, but Ningxia has seen rapid expansion in industrial output and exports, with the silicon industry a particular success. Gansu is seeing a boom in the renewable-energy sector. Until recently, Gansu had consistently ranked among China's slowest-growing provinces. The designation of a "New Area" in Lanzhou, the provincial capital, aims to change that. New Areas are a form of economic zone in China that carry considerable government support for regional development. Generous tax incentives to encourage investment are part of the package. Lanzhou New Area is only the fifth such zone in the country. The others are Binhai in Tianjin, Pudong in Shanghai, Liangjiang in Chongqing and Nansha in Guangdong. The government claims that the 806-sq-km area, which currently has a population of 110,000, will expand in population to 500,000 by 2020, with the zone's GDP reaching Rmb50bn (US$7.9bn) by 2015 and Rmb270bn
(US$42.9bn) by 2030. The area is advertising its access to a railway network running from Lianyungang in Jiangsu province through Lanzhou to western Europe—the so-called New Eurasia Land Bridge. It is also referred to as the Second Eurasia Land Bridge, or the New Silk Road. (The original Eurasia Land Bridge includes long stretches through Russia's Siberia.) Lanzhou sits on the Lanxin Railway segment of the new land bridge, which runs from Lanzhou to Xinjiang, linking with another railway running into neighbouring Kazakhstan. Officials tout the idea that factories manufacturing in Lanzhou can use the railway for export to Europe. The provincial government has also said that the new zone was specifically designed in order to explore the market potential of the former Soviet states in central Asia. However, demand remains untested. Rail freight currently accounts for only a tiny proportion of China's export trade.

The designation of Yinchuan, the provincial capital of Ningxia, as an inland pilot zone and bonded area (which will offer tariff-free treatment for companies) carries less weight than Lanzhou's New Area. There are currently 22 comparable tariff-free zones in the country. These are also mainly in the east, however, and so again the plan is to leverage the transport connections provided by the New Eurasia Land Bridge to aid inland development. Yinchuan will not be a hub on the direct line through Kazakhstan to Europe, but instead connected to the railway via a link to Lanzhou.

Ningxia was selected to host a bonded area partly because of its ethnic minority status. The Hui ethnic group accounts for more than one-third of Ningxia's population and is China's largest Muslim minority, accounting for nearly one-half of the country's Muslims. The government is trying to promote Ningxia's ties with the wider Muslim world. China's trade links with Arab countries are developing rapidly—trade flows were worth around US$200bn in 2011, up by 35%—but Ningxia accounts for a tiny proportion of this. In the first half of 2012, exports from the region to the Middle East reached just US$45m.

In addition to investment and trade, officials also tout the potential role of Ningxia in Islamic finance. The local Bank of Ningxia has developed sukuk, or Islamic bonds, since 2009 and has extended Rmb700m in sharia-compliant finance to local Muslim exporters since then. Malaysia's Bank Muamalat recently announced plans to offer sharia-compliant loans and deposits through booths via its local partner, Bank of Shizuishan, by December 2012. There are also plans to set up joint Chinese-Arab investment funds to fund infrastructure and other products. Renminbi settlement of trade with the Arab nations may provide an opportunity for Ningxia's financial services, and the establishment of a regional oil futures exchange in Ningxia has been mooted. Given the political weight and economic privileges carried by New Areas, the various zones are bound to have an impact on regional development. Industrial output in Ningxia is growing rapidly, and this will receive a fillip from the tariff-free bonded zone. Silicon and other metals, minerals and chemicals, as well as cashmere and agricultural products, are likely to receive more investment. Gansu is currently one of China's least successful provinces in economic terms, but it will be able to market its low wages and its status as a transport hub.

However, provinces further east will also be able to export via rail container freight through Kazakhstan. For example, Xi'an and Zhengzhou sit on the Longhai segment of the New Eurasian Land Bridge, and although they have not been designated as New Areas, the manufacturing industries in both cities are much more advanced. Provinces such as Gansu, which are situated more directly as hubs on the railway, should be able to capture some investment, but there is more than one municipality striving to capitalise on this opportunity. Chongqing also benefits from direct transport to Europe, but it also boasts a larger population, a more proactive provincial government, an existing production base on which to build and educational resources. In the past year DB Schenker, a German logistics company, has begun to operate several shipments between Germany and Chongqing related to the booming electronics industry in the municipality. Therefore Lanzhou is likely to play second fiddle to Chongqing in this respect.

Gansu and Ningxia are therefore both likely to benefit from national efforts to encourage inland economic
development, but progress will be much slower than in their counterparts of Chongqing, Xi'an and Chengdu. They will require more than infrastructure and zones to become a success: the battle to boost development levels will remain an uphill one.


Tourist sites overwhelmed by huge crowds during holidays

The extended national holidays and a decision to waive highway tolls have brought many tourist attractions to a virtual standstill since the beginning of the eight-day vacation. Authorities have felt the pinch of the projected 13 percent increase in travelers on the roads, in part boosted by toll-free highways during major festivals, effective since Sunday. According to figures from 119 tourist sites tracked by the National Holiday Office, 5.76 million visitors were out and about by Tuesday, up 29 percent year-on-year. Holiday income at tourist attractions reached 310 million yuan ($49.3 million), skyrocketing by 33 percent year-on-year.

But the huge crowds, heavy traffic and exorbitant prices in tourist areas have taken some of the luster out of Golden Week. The huge volume of visitors overwhelmed the capacity of the cable cars at Huashan Mountain, in Shaanxi province, leaving tens of thousands stuck at the peak late into Tuesday night. According to China Central Television, restless visitors demanded refunds from the tourism committee, and police were dispatched to help deal with the crisis. The Palace Museum, or Forbidden City, in Beijing has long been a big draw for travelers. On Tuesday alone, it received more than 180,000 visitors, outstripping its best day's visitor volume by six times. In Shanghai, tourists flocked to shopping malls as retailers tried to drum up trade with deep discounts. Meanwhile, last-minute flights and hotel rooms become notably expensive and hard to book. According to the online travel agency ctrip.com, up to 95 percent of hotel rooms near tourist sites had been reserved from Monday to Thursday. Prices at budget hostels and four-star hotels surged on average by 20 percent, with some even doubling their normal prices.

The waiving of highway tolls compounded problems. By spurring unprecedented road traffic, toll-free highways left hundreds of thousands of drivers stuck in traffic during Mid-Autumn Festival. Twenty-four major highways in 16 provinces were effectively transformed into enormous parking lots as 86 million people took to the roads. Thousands of pictures were posted on micro blogs showing frustrated drivers walking their dogs, playing tennis or just napping in the vehicles.

To solve the problems, the government should consider adjusting the long-holiday framework that puts more than 1.3 billion people on vacation for a week at exactly the same time, experts say. But Cai Jiming, a political economy expert at Tsinghua University, said the paid-leave system needs fine-tuning. Currently, many employers on the Chinese mainland allow their workers paid leave only during major holidays, adding to the mass of people on the move at those times.

Source: He Wei in Shanghai: Tourist sites overwhelmed by huge crowds during holidays, China Daily, 2012-10-04

Deepen SOE reforms

A booming State sector, as a result of painful reforms in the later 1990s, has contributed significantly to China's remarkable growth over the past decade. However, further reforms of State-owned enterprises have become more urgent than ever if the country is to speed up economic transformation while tackling income inequity effectively. On Wednesday, the State Council delivered a report on the latest development and reform of SOEs at an ongoing session of the National People's Congress Standing Committee. The price paid to overhaul the State industries, most of which were struggling on the brink of bankruptcy in the later 1990s, was a necessary investment, which made SOEs the undeniable backbone of the Chinese economy.
Domestically, SOEs saw their net profits increase from 320 billion yuan ($51.2 billion) to 1.9 trillion yuan, up 25.2 percent annually between 2003 and 2011, underpinning a decade of sound and stable economic growth for the country. The ongoing transformation of China's growth model from export and investment-led expansion to consumption-driven growth will require more competition in the key sectors that are currently dominated by State firms to provide consumers with better services and products. All the suggested benefits of State monopolies in helping stabilize the market must be carefully weighed against the interests of consumers. The need to narrow the country's income disparity means that State firms sitting on fat profits should shoulder their responsibilities in reducing the widening wage gap between those sectors they've monopolized and the rest of the economy. Chinese authorities should also make it clear to these domestic corporate champions that only deepened reforms, not monopoly, can guarantee their future success, which is crucial to the country's long-term economic development.

Source: Anonymous: Deepen SOE reforms, China Daily, 2012-10-25
http://www.chinadaily.com.cn/business/2012-10/25/content_15845785.htm

Private power

Chinese entrepreneurs focus on innovation, reshape growth priorities to offset rough headwinds. Although the majority of Chinese companies on the list continued to be State-owned companies, private enterprises are slowly catching up. Five Chinese private companies are present in the rankings this year, compared with three in 2011. According to the list of China's top 500 private enterprises in 2012, released by the All-China Federation of Industry and Commerce in August, the revenue of the top 500 private enterprises in China was about 9.3 trillion yuan ($1.5 trillion; 1.1 trillion euros) last year, a 33 percent year-on-year growth. Total assets amounted to 7.8 trillion yuan, 32 percent more compared with 2010.

Aside of the general prejudices against Chinese firms in the Western markets, private enterprises have also been suffering because of their relatively weak global management capabilities and lack of innovation. Indeed, there is no doubt that many private companies have accelerated their overseas activities in the past few years, with a view to raise their profile in the international markets. “Some private enterprises have successfully acquired leading global brands, such as Lenovo purchasing IBM's PC business and Geely acquiring Volvo's vehicle unit. These cases have demonstrated the strong desire of capable Chinese private companies to make global strides,” Lu says. In September this year, Dalian Wanda completed the $2.6 billion (2 billion euros) acquisition of US cinema chain AMC Entertainment, making it one of the most successful overseas deals by a Chinese private business. In Europe, eyebrows were raised when Sany, China's largest machinery manufacturer, acquired a 90 percent stake in German concreting machinery maker Putzmeister for 324 million euros in January. Putzmeister had a 40 percent share of the global concrete machinery market in 2010 and nearly 90 percent of its sales came from overseas markets, according to Yengst Associates, an American market research group. Ouyang Xiaoming, deputy secretary-general of the All-China Federation of Industry and Commerce, says among the top 500 private Chinese companies, 150 have invested overseas, with a total investment volume of $12.35 billion, a 99.9 percent increase year-on-year.
But going overseas has not always been easy for many Chinese companies. "The general perception in Western markets is that Chinese companies are predatory, would trigger job losses and are more interested in growing market share. Such perceptions create more problems for us," says Xiang Wenbo, a director of Sany Group. "Our globalization strategy was conducted in an open and inclusive manner. Lack of understanding is what leads to such types of resistance," says Xiang. Following its Putzmeister acquisition, Sany has so far not posted any Chinese employees in Germany nor taken up any major positions. "We want to leave the company as it was and to maintain its German identity," he says. But sometimes, even the best of intentions can backfire, especially if the move does not have the backing of the government. Sany faced such a situation recently when US President Barack Obama cited national security concerns blocking the wind-farm project of its US associate. Not long ago, a congressional committee also urged US companies to stop doing business with two major Chinese telecom equipment makers, Huawei Technologies and ZTE Corp, because of security concerns. These actions are despite the fact that the White House-ordered review of security risks did not uncover any evidence against Chinese companies.

To enhance cooperation with companies in the developed nations, it is important for private entrepreneurs themselves to make efforts to foster closer relations. That Chinese companies are doing the needful in this regard was more than visible in July when, under the aegis of the China Entrepreneur Club, 30 Chinese businessmen visited the United Kingdom to foster closer links and learn from their British partners. The combined revenues of the CEC member companies was about 256 billion euros and the visit included discussions with several important officials like British Prime Minister David Cameron and London Mayor Boris Johnson. "The team represented the private sector, which creates the most jobs in China," said Liu Chuanzhi, founder of China's largest PC maker Lenovo and chairman of the CEC. During the trip, the Chinese entrepreneurs visited Goodwood, Cambridge and several companies and institutions including Rolls Royce and Virgin Group, holding in-depth discussions on many issues including the global economy, sustainable development and technological innovation. This is the third time that the club is organizing such high-level meetings. Earlier, the CEC had led similar delegations to Germany in 2010 and the US in 2011, to learn from the developed nations' business experiences and for possible future alliances, says Cheng Hong, secretary-general of the club.

Though challenges are aplenty for Chinese companies, many of the younger players often find it difficult to properly integrate resources in the global arena, as they grow in scale. Liang Xinjun, CEO and vice-chairman of Fosun group, one of China's largest privately owned conglomerates, says that many foreign companies can allocate resources globally in an economical and profitable manner, such as choosing some countries where production costs are quite low as a manufacturing base, and selling products to the most profitable markets. For most of the Chinese companies the overseas expansion starts with investment in overseas projects, followed by posting of Chinese employees and then repatriating the finished products to China for global sales. This is not exactly what one would call as "going global" or integration, he says. He says what distinguishes Fosun from other companies is that it not only invests in overseas companies but also brings the foreign brands to China. "This automatically raises the company's global brand recognition. Because of our deep understanding and the attraction of domestic market to foreign companies, this model of international cooperation has a higher possibility of success," Liang says. The philosophy behind such moves is to marry China's growth momentum with the world's resources, he says. In 2010, Fosun acquired a 7.1 percent (now 10 percent) stake, for 44 million euros, in French resort operator Club Mediterannean SA. Liang says Fosun has helped Club Med attract more tourists and raise its profile by encouraging affiliate companies and clients to spend holidays at Club Med resorts. Club Med made a profit of 2 million euros globally last year. In 2010, it suffered a loss of 14 million euros.

"Times have passed when Chinese enterprises could win market share with lower prices. Only those enterprises that can move up the value chain and provide more value-added products will survive the hard times
and reap the benefits," says Xu Xiao-nian, a professor at the China Europe International Business School. Private enterprises have already embarked on this journey and there has been a steady increase in the number of patents owned by such companies. The top 500 Chinese private companies so far own 74,631 patents this year, a 58.4 percent growth over the same period in 2010. The list also shows that 163 private companies in the top 500 have investments in new and environmentally friendly industries such as green energy. Changsha-based construction machinery maker Sunward Equipment Group is one of the companies that is actively exploring the overseas markets as part of its efforts to further expand business. He Qinghua, founder and chairman of Sunward Equipment Group, says that the group is already in active talks with several European companies for possible merger and acquisition opportunities. "The deals will help boost Sunward's R&D capabilities and after-sales network.' The company has also upgraded its entire product line with an eye on the export markets. The company now has more than 100 types of high-quality products for exports such as excavators, skid steer loaders, rotary drill machines, piling machinery and forklifts. According to He, Sunward's annual sales are expected to hit 20 billion yuan by 2015, with 15 to 20 percent of the revenue coming from the overseas market.

Talent shortage is another issue that has often derailed the expansion plans of many private entrepreneurs. "The talent shortage and general preference for being employed in State-owned enterprises have made it difficult for many private companies to find the right candidates for key managerial positions. In overseas markets, the problem is even more acute due to the cultural differences," Liu from Lenovo said.
Source: Hu Haiyan: Private power, China Daily, 2012-10-26

Official PMI shows limited upturn

The official manufacturing purchasing managers' index for China rose slightly in September, signaling the first upturn after four months of successive declines. However, manufacturing activity contracted for a second straight month, indicating that the economy is still slowing. China's PMI rose to 49.8 in September from 49.2 in August, according to the National Bureau of Statistics and the China Federation of Logistics and Purchasing on Monday. August's PMI figure was the lowest since November 2011, indicating that the country is still in the grip of an economic downturn. The September sub-indexes in most sectors - especially for new orders and raw material inventories - also rose, suggesting that policies to stimulate economic growth are taking effect, said the bureau and the federation in their statement. The September sub-index for new orders, the main driver of the PMI rebound, rose by 1.1 points to 49. Demand for tobacco, food, beverages, clothing and electronic appliances increased, but refined metals, special equipment and steel remained at a low level. The output sub-index rose 0.4 points to 51.3, meaning that manufacturing production is rising.

The PMI for large-scale enterprises was 50.2, 1.1 points higher than in August. Meanwhile, the reading for small businesses fell by 0.1 points month-on-month to 49.8 and medium-sized enterprises saw a month-on-month decline of 1.0 to 46.7. The employment sub-index fell 0.2 points to 48.9, the fourth successive month below 50, reflecting ongoing job losses in the manufacturing sector, with metals and autos bearing the brunt of the downturn. The purchasing price index for raw materials rose to 51.0 in September from 46.1 in August. The previous four months all had readings below the midpoint 50 figure. Prices of raw materials are still rising in some industries, especially oil refining and chemicals. However, raw material prices for the steel and metals industries are falling. The purchasing price index for raw materials in those industries was below 40.
An independent PMI figure released by HSBC increased slightly to 47.9 in September from 47.6 in August, a nine-month low. The HSBC survey is heavily focused on small and medium-sized companies.

Source: Du Juan: Official PMI shows limited upturn, China Daily, 2012-10-02

### China flash PMI shows signs of recovery

The Chinese manufacturing sector showed signs of improved health in October, suggesting a gradual economic recovery is under way, according to a survey released on Wednesday. HSBC’s flash China manufacturing purchasing managers’ index (PMI), the earliest indicator of the state of factory orders in the country, moved up to 49.1 in October, up from 47.9 in September. Various Chinese economic data released over the past two weeks – from exports increasing 10 per cent to double digit growth in retail sales in September – all point to stronger economic growth. China’s GDP grew 7.4 per cent in the third quarter, the government said earlier this month.

Reflecting this new optimism, producers have started passing through price rises. HSBC economists Sun Junwei and Qu Hongbin pointed to the increase in prices for steel and cement in recent weeks because of increased construction activity. “Both PPI and CPI inflation likely bottomed in September and will see a modest rebound in coming months,” said the HSBC analysts.

Source: Rahul Jacob in Hong Kong: China flash PMI shows signs of recovery, Financial Times, October 24, 2012

### State Council tells cities to focus on public transport

The State Council has told cities across China to make development of public transportation a priority. Public transport should be the immediate concern in the development of urban transportation, and public transport - comprising rail transit, bus and tram systems - should be accelerated, according to a document released after a State Council executive meeting presided over by Premier Wen Jiabao on Wednesday. Road conditions for cyclists and pedestrians should also be refined, it said. The current public transport system still has a long way to go to meet the public's needs, and the use of public transport is still too low, the document said. The meeting stressed the need for coordination between urbanization plans and public-transport development plans. The infrastructure and supporting facilities for public transport, including parking lots, bus dispatching centers and transit centers, should also be improved, according to the document.

Meanwhile, government investment into public transport will be increased during the 12th Five-Year Plan (2011-15) period. The government will unveil policies include tax cuts, oil price subsidies and electricity price cuts for the public transport sector. Private funds will also be encouraged to take part in the construction and operation of public transport, the document said. Public transport road rights will also be guaranteed and cities must map out lanes for buses, which could also be shared by school buses and airport buses, it said. The development of rail transit has been included in the urban development plans in a number of Chinese cities over the years. So far, 28 cities have had their rail transit development plans approved by the National Development and Reform Commission. According to those plans, 2,500 km of subway will be built between 2010 and 2015.

Source: Xu Wei: State Council tells cities to focus on public transport, China Daily, 2012-10-11

### Yuan Gains Steam In Global Trade

Canadian steel importer Direct Alloys Inc. is one of an increasing number of foreign businesses switching to the yuan to settle trade with China, a trend that is boosting the currency's global status even though its appreciation is slowing this year. "When our Chinese suppliers quote us in dollars, we're paying a higher price than we should because they have to take a gamble on the dollars," said Doug Klutz, director of operations at the...
Edmonton-based start-up. Mr. Klutz said the company is in the process of switching to the yuan to settle its purchases, a move he said likely would reduce the company's costs for steel imports from China by about 10%. Shifting to the yuan can benefit foreign companies as their Chinese partners pass on foreign-exchange-related savings to overseas buyers. For the foreign firms, the reduction in expenses is seen as worth the yuan-related exchange risk. At the same time, eager to see a greater international role for the yuan, Beijing has made it easier for Chinese companies to settle cross-border transactions in the currency.

"Businesses around the world are re-evaluating how they transact business with China," said Alfred Nader, a vice president at Western Union Business Solutions, part of the Western Union Co., an Englewood, Colo.-based provider of global payment services. Mr. Nader said the firm's U.S. clients increased the number of yuan payments to China by more than 15% in the second quarter of this year compared with the previous quarter. Yuan payments from its U.K. clients rose nearly 10%, he said, while its French and Australian customers recorded increases of about 30% and 25%, respectively. He added, though, that the dollar still accounts for the vast majority of payments sent through the company.

The pickup in trade-related demand for the yuan from foreign businesses comes as global acceptance of the currency has waned in other areas, such as yuan trading outside mainland China. The amount of yuan-denominated bank deposits in Hong Kong has dipped recently, and yuan-bond issuance in the city is rising more slowly. Investors have become less eager to buy yuan-denominated assets as China's economic slowdown has limited the currency's appreciation this year.

Analysts say that the increase in yuan-denominated trade settlement is driven by real corporate need. In July and August, 12.3% of the 4.2 trillion yuan ($671.5 billion) in China's total trade was paid for in yuan, up from 10.7% in the first half of this year, according to an analysis by Standard Chartered Bank and data provided by the People's Bank of China.

Recent weakness in the yuan has made more foreign businesses willing to pay Chinese suppliers in the currency, while the currency's increased volatility has encouraged more Chinese companies to accept the yuan payments as a way to avoid future exchange risks. Late Wednesday in New York, the yuan was at 6.3000 to the dollar, from 6.2896 late Tuesday.


INTERNATIONAL: Renminbi internationalisation deepens

China has continued to make steady progress to promote the international use of the renminbi. To some extent, the willingness of trade partners to adopt the renminbi may reflect a preference to reduce reliance on the dollar and euro within the global monetary system, as well as an opportunity to cut transaction costs for bilateral trade. The pace of renminbi internationalisation may be slowed by deteriorating background economic conditions. Yet by 2020, more than 25% of China's total trade will probably be settled in its currency. The anomaly arises from the fact that China has the second largest output but its currency plays a limited role:
Concerns over the direction of the US economy and financial system have fuelled the belief that the period of dollar hegemony is coming to an end. Euro-area turmoil has provoked even greater disenchantment with the existing imbalanced international monetary system, which, in effect, is based on two key currencies -- the dominant dollar and the alternative euro, with minor supporting roles for the UK pound, Japanese yen and Swiss franc.

It is also widely believed that the discrepancy between China's key position in world trade and GDP, and its almost negligible role in global financial affairs and the monetary order implies that the renminbi will take a more active part in international transactions in the future. Nevertheless, a rapid challenge to the dollar's position -- especially in terms of its roles as numeraire for measurement and invoicing purposes and as the basis for many financial market transactions -- is unlikely. Indeed, the most marked change in the shares of reserve currencies in known global foreign exchange reserves has been the decline in holdings of the euro from 27-28% of known total reserves in 2008-09 to 25% in 2011.

In contrast to the declining shares of advanced countries in global trade and GDP, the developing world and China in particular have risen in economic strength. Yet Beijing in particular has failed to match this in terms of its positions in global finance: China accounts for around 10% of world GDP (as much as 15% in PPP terms) and of goods exports (it is the world's largest exporter), and an even larger share of world manufacturing. Yet its currency has played virtually no role in the world monetary order, even for transactions such as trade settlements. However, the renminbi position is changing. The key questions now are how quickly and how far it can go towards becoming a major currency, at least on a par with the pound and the yen.

The Chinese authorities are making steady progress in terms of: managing the renminbi exchange rate more flexibly; opening up the country's capital account and domestic financial markets; and promoting increased renminbi use in international payments for trade and investment. Indeed, the pace of change is most obviously demonstrated by the rising share of trade transactions now settled directly in renminbi (cutting costs for export-import trade as well as promoting use of the currency). From almost nothing in 2009-10, optimistic forecasters suggested that the renminbi might account for perhaps 5-6% of all China trade (imports and exports) by 2012. In fact, the actual figures point to a share as high as 10% (equivalent to about 360 billion dollars- worth of trade per annum). In order to facilitate transactions, a number of central banks are now holding renminbi -- although these holdings may not be counted in their official reserve holdings due to the lack of full renminbi convertibility. Additionally, there is considerable potential for growth in renminbi use by companies raising funds for both inward and outward investment in China: Chinese companies see this as a way to reduce their financing risk. Foreign investors in China may prefer to match investment costs with renminbi revenue streams. Financial investors may seek to expand the role of renminbi instruments in wealth portfolios (see HONG KONG: Offshore renminbi market takes off - October 13, 2011).

Government bonds . These activities, together with the opportunity to diversify their currency investments, will tend to make central banks already inclined to maintain large foreign exchange positions increase their renminbi holdings. However, they will look for suitable instruments to invest in -- and here China is still in a relatively weak position. Central banks typically invest in safe haven government bonds to provide security and some yield. However, China's government bond market is currently too small to sustain substantial growth in demand. A deeper Chinese sovereign bond market is more important than the lifting of

<table>
<thead>
<tr>
<th>Government bond market debt stock</th>
<th>IMF estimates of central bank FX reserves</th>
<th>% of known FX reserves</th>
<th>Pro-rata* total based on global FX reserves of $10.2 trillion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dollar</td>
<td>12,863</td>
<td>3,509</td>
<td>62.2</td>
</tr>
<tr>
<td>Euro</td>
<td>11,200</td>
<td>1,413</td>
<td>25.0</td>
</tr>
<tr>
<td>Pound</td>
<td>1,459</td>
<td>216</td>
<td>3.8</td>
</tr>
<tr>
<td>Yen</td>
<td>12,818</td>
<td>199</td>
<td>3.5</td>
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<tr>
<td>Swiss Franc</td>
<td>122</td>
<td>6</td>
<td>0.1</td>
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<tr>
<td>Other</td>
<td>302</td>
<td>5.4</td>
<td>550</td>
</tr>
<tr>
<td>Renminbi</td>
<td>1,509</td>
<td>-</td>
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</tbody>
</table>

Major reserve currencies: Central Bank bond holdings compared with total bond market (billion dollars, end 2011)
*Note: rising unallocated reserves may imply higher value
Sources: IMF, BIS, Oxford Analytica estimates
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remaining capital account restrictions to determine how far the renminbi can reach a position commensurate with China's economic power.

CONCLUSION: The increasing ease with which China's currency can be used for trade settlement, as well as the country's key position in world trade, can alone position the renminbi as one of the world's key currencies. Lifting restrictions on use of the renminbi in other of transactions -- in particular inward and outward investment and international fund raising -- will also push forward China's agenda for renminbi internationalisation. There is scope for the renminbi to overtake the yen and possibly the pound in the rankings of important reserve currencies over the next 5-10 years, especially if China expands suitable bond supply. That said, the renminbi will remain a long way from challenging the dollar's dominant role.


China Sees Renewed Foreign Currency Inflows

Data from China's central bank on Friday suggested that capital began flowing back into the country in September as the currency resumed appreciating. China's central bank and financial institutions purchased a net 130.68 billion yuan ($20.7 billion) of foreign currency in September, compared with a net sale of CNY17.43 billion in August and ending two months of net sales, according to Dow Jones Newswires calculations based on central bank data. The banking system's foreign currency purchase position totaled CNY25.640 trillion at the end of September, higher than the CNY25.640 trillion recorded at the end of August, the data from the People's Bank of China showed. The yuan fell around 0.9% against the U.S. dollar from the start of 2012 to the end of August, but it rose around 1% in September.


China’s currency rises in the US backyard

The Republican presidential candidate Mitt Romney last week repeated his promise to declare China a currency manipulator on his first day in office. Even discounting the “get tough on China” bluster of the campaign season, this remark encapsulates American distance from, and denial about, changing economic realities. Would-be US leaders would do well to note that for probably the first time since the Second World War the dollar bloc in East Asia has been displaced. In its wake a currency bloc based on China's renminbi is emerging. In new research, we find that since the global financial crisis, as the United States and Europe have struggled economically, the renminbi has increasingly become a reference currency (meaning emerging market exchange rates move closely with it). In fact, since June 2010 when the renminbi resumed floating, the number of currencies tracking it has increased compared with the earlier period of flexibility between July 2005 and 2008. Over the same period, the number tracking the euro and the dollar declined.

East Asia is now a renminbi bloc because the currencies of seven out of ten countries in the region—including South Korea, Indonesia, Taiwan, Malaysia, Singapore, and Thailand—track the renminbi more closely than the US dollar. For example, since the middle of 2010, the Korean won and the renminbi have appreciated by similar amounts against the dollar. Only three economies in the group—Hong Kong, Vietnam, and Mongolia—still have currencies following the dollar more closely than the renminbi. This shift stems from China's rise as a trader; its share of East Asian countries' manufacturing trade has risen from 2 percent in 1991 to about 22 percent today. Countries that sell to the growing Chinese market or are locked in supply chains centered on China see the advantages of maintaining a stable exchange rate against the renminbi. Trade is also propelling the rise of the renminbi outside East Asia. For example, the currencies of India, Chile, Israel, South Africa, and
Turkey all now follow the renminbi closely; in some cases, more so than the dollar. If China were to liberalize its financial and currency markets, the lure of the renminbi would broaden and quicken.

This development has two implications. First, it is one more important marker in the shift of economic dominance away from the United States and towards China. The renminbi bloc has now displaced the dollar bloc in Asia. The symbolism and its historic significance cannot be understated because East Asia, despite physical distance, has always been part of the dollar backyard. Second, and related to the above, is that this shift highlights the conflicting tugs that East Asian countries will face. The old saying is that politics trumps in the short run but economics wins in the long run. If true, the strategy of relying on China for butter and on America for guns will be a difficult balancing act to pull off.

Source: Arvind Subramanian and Martin Kessler: China’s currency rises in the US backyard, Financial Times, October 21, 2012

China 'strongly opposes' US report on telecom firms

China's Commerce Ministry announced Tuesday it "strongly opposes" a report that alleged Chinese telecommunication companies Huawei Technologies Inc and ZTE Corp posed national security threats in the United States. The US report, based on "subjective guesswork" and "untrue evidence", used national security as an excuse for blocking Chinese companies from fair competition in the US market, said Shen Danyang, a ministry spokesman. A US congressional investigation report released Monday said Huawei and ZTE were potential security threats and recommended the US government not use any equipment from the two firms in its computer systems. Shen said the move by the US side violated its long-held free market principle and would undermine investment and cooperation between the two countries' companies. "We hope the United States can make concrete efforts to create a just and fair market environment for the two countries' companies and promote a sound development of bilateral economic and trade ties," Shen said.

Source: Xinhua: China 'strongly opposes' US report on telecom firms, 2012-10-10

Finance chiefs to skip Tokyo meetings

The Chinese central bank governor and finance minister will skip the annual meetings of the International Monetary Fund and World Bank Group that are taking place in Tokyo this week as relations between the two Asian powers remain tense. The place of Zhou Xiaochuan, governor of the People's Bank of China, the central bank, will be taken by his deputy, Yi Gang, who will deliver a speech on Sunday, according to an event listing on the IMF's website.

"We were informed two days ago that Governor Zhou's schedule might require him to cancel his lecture in Tokyo," an IMF spokeswoman said. "If Zhou is not going to attend, it is truly unfortunate as the annual meeting in Tokyo is a very important event," the Financial Times quoted Osamu Fujimura, the Japanese chief cabinet secretary, as saying. "In any case, economic exchanges between Japan and China are very important, so we hope to smooth bilateral communications broadly." Koriki Jojima, Japanese finance minister, who took up his position 10 days ago, said it was 'regrettable' that the two men won't attend the meetings, adding that "from the global perspective, we will continue to communicate with China". Besides Yi, the Chinese delegation to Tokyo will be led by Zhu Guangyao, vice-minister of finance, Xinhua News Agency reported on Tuesday, suggesting that Finance Minister Xie Xuren will also miss the conference.

"There might be multiple reasons for the officials' absence," said Xu Hongcai, deputy director of the Information Department of the China Center for International Economic Exchanges. "It's not necessarily to boycott the trip to Japan, and China absolutely has no reason to abandon the current role it plays in the IMF. "The deputy governor and vice-minister can also represent China and will perform their duties in pushing
forward reforms of the international financial system, as well as expressing China's stance in dealing with the current global economic turmoil," Xu said.

Zhou and Xie's absence this year came after China's four biggest State-owned banks - Industrial and Commercial Bank of China Ltd, China Construction Bank Corp, Bank of China Ltd and Agricultural Bank of China Ltd - decided to not send representatives to the Tokyo meetings. The move was widely seen as the latest sign that the worsening tension between China and Japan was spreading to the countries' economic relations. Last month, street protests broke out in Chinese cities after Tokyo "purchased" several of the Diaoyu Islands, which are part of China's territory.

"China is a responsible country," Xu said. "Our economic cooperation with surrounding countries, which is beneficial to the world economy, will not be interrupted." “Meanwhile, the need for China to have more votes in the IMF shouldn't be questioned either. It is already a settled matter.” Xu said the country has set 2015 as the year that it wants to have the yuan added to the IMF's Special Drawing Rights, which is an international reserve asset used to supplement the official reserves of the organization's member economies. Its value is currently set in accordance with a basket of four important international currencies that can be exchanged for freely usable currencies.

Source: Wei Tian: Finance chiefs to skip Tokyo meetings, China Daily, 2012-10-11

Islands dispute hurts investment, trade with Japan

The territorial dispute over the Diaoyu Islands has hurt Japanese investment in China and bilateral trade between the countries, according to central government commerce authorities. In September, Japanese investment in China and bilateral trade saw a slowdown, which Ministry of Commerce spokesman Shen Danyang described at a briefing on Friday as "to some degree" related to the Japanese government's "purchase" of the disputed islands. But "as long as Japan corrects its wrongdoings, there is actually great room for the long-term development of Sino-Japanese economic and trade relations," and China believes that bilateral trade should enjoy a healthy future, the spokesman said.

The first nine months saw Japanese investment in China total $5.62 billion, an increase of 17 percent year-on-year, but at a much slower speed than its expansion in 2011, which the ministry reported as 50 percent. In the meantime, bilateral trade saw a net decrease of 1.8 percent to $248.7 billion. In September alone, trade went down as much as 4.5 percent year-on-year, when China saw an increase of 2.2 percent in its exports to Japan and a decrease of 9.6 percent in imports, according to the General Administration of Customs. Mergers and acquisitions by Japanese companies have also seen a significant slowdown in China while its overseas mergers and acquisitions in general progressed on a faster pace. Statistics from RECOF Corporation, a Japanese M&A consulting company, showed that Japanese mergers and acquisitions in China from July to September reached 5.6 billion yen, down almost 70 percent from that in April to June, while overseas mergers and acquisitions of Japanese companies maintained strong growth. In China's domestic market, Japanese automakers are planning to cut their supply after a suspension of production amid mass protests in early October, according to Chinese auto market sources. Toyota reportedly saw its sales in China tumble by as much as 49 percent in September.

Source: Li Jiabao: Islands dispute hurts investment, trade with Japan, China Daily, 2012-10-20

Rattling the supply chains; Japan and China

ANTI-JAPAN riots, the torching of car showrooms, bloody attacks on hapless drivers of Japanese cars—all these have eased in China since the row over disputed islands reached its peak last month. But in Japan, the sense of injury runs deep. Japan's mass-selling weeklies, a barometer of public opinion, have spent weeks
fantasising about such once-unthinkable scenarios as a mass pull-out of Japanese companies.

Not so. According to Keidanren, Japan's business lobby, there are almost 30,000 Japanese firms in China, the result of 40 years of mostly thriving trade. Japan has invested $85 billion in China in the past 15 years, including over $6 billion last year alone. With Japan's economy stagnant, its population shrinking, and energy costs and the currency rising, its firms in China have little choice but to lower their heads and hope that the row blows over. The toll is heavy, nonetheless. Car exports to China, for instance, may drop by 70% in the fourth quarter compared with the third, says J.P. Morgan, a bank. Japan's GDP may dip as a result.

Despite the unfavourable climate, many firms are resolved to press on. Even as its sales in China plunge, and after some soul-searching about the timing of the announcement, Mitsubishi Motors said on October 12th it would launch a long-term tie-up with Guangzhou Automobile Group to make and sell sports utility vehicles. Japan's biggest clothes retailer, Fast Retailing, says it plans to open another 1,000 Uniqlo stores in the country. Shin Tanaka of Fleishman Hillard, a public-relations firm, says retailers are more inclined to keep their plans in place than producers are. Partly that is because they cannot afford to ignore the vast and growing Chinese market. Also, they have less to lose from vandalism.

Stunned as both Japanese producers and retailers are by the outbursts, there may be a sting in the tail for China. In contrast to 2005, the previous time anti-Japanese riots flared, China is not the only fast-growing, well-populated, low-cost market around. Back then, Japanese firms hedged their China risk with a "China-plus-one" strategy, implying that they would find an extra Asian supply hub, such as Thailand. Now, that has grown into a wider "China-plus" strategy, because their options these days have widened to include Indonesia, Myanmar, Vietnam, Cambodia, the Philippines and India. As China's wages rise and its economy slows, analysts say the risk that multinational supply chains may find alternative locations is something the government may want to think about the next time it lets vandals loose in the name of nationalism. Japanese businessfolk, meanwhile, might try harder to gag their clumsy nationalist politicians, who sparked the row over the islands in the first place.


U.S. affirms tariffs on solar panels; Steep duties on low-cost Chinese imports are aimed at boosting the U.S. solar industry.

The Obama administration upheld steep tariffs on Chinese solar panels, finding that improper trade practices have undermined an American solar industry that the largest U.S. manufacturer says is in the midst of collapse. In one of the largest trade cases the U.S. has pursued against the Asian superpower, the Commerce Department said China's government is subsidizing companies that are flooding the U.S. market with low-cost products -- a tactic known as "dumping." To counteract those price cuts, the U.S. government imposed tariffs ranging from 18% to nearly 250%. For some Chinese companies, those tariffs are slightly lower than preliminary tariffs imposed in May. Still, another set of duties dealing with improper subsidies was increased dramatically. Although the initial ruling levied anti-subsidy fees ranging from 2.9% to 4.7%, the final ruling issued Wednesday sets those fees at 14.8% to 16%. The tariffs could aggravate already strained trade relations between the U.S. and China. Solar companies in both countries are suffering from a lack of global demand for their products, even as President Obama looks to renewable energy to create jobs and reduce U.S. dependence on oil.


Chinese exporters fear grim outlook

China’s exports rose almost 10 percent year-on-year in September, according to data released at the
weekend. But speak to Chinese exporters and they say the economic doldrums in Europe mean many are facing more daunting challenges than they were during the 2008 heights of the global financial crisis. To Zhou Dewen, head of an industry lobbying group in Wenzhou, the famously entrepreneurial city in eastern China, the situation is “already worse than 2008.” “The difficulties are bigger and they are far more widespread.” Groups like Mr. Zhou’s typically petition Beijing for export subsidies or tax rebates and his caution should be taken with a pinch of salt. But the past six months have been unusually difficult for exporters buffeted by sagging demand in western markets and wage and raw material rises at home.

On the ground in China the situation looks grimmer than the data reflects. The new paradigm of smaller orders and shorter lead times and the resulting slimmer margins is likely to persist across the labor-intensive export sector in China. Demand from the large markets of Europe and the U.S. is unlikely to soon bounce back to levels seen before the 2008 crisis. In addition, many retailers in the U.S. and elsewhere have started to source labor-intensive products either from markets closer to home such as Mexico or to countries with lower wage costs such as Cambodia. But, even as the world faces up to a secular slowing in demand from western consumers, China’s nimble factories and superior infrastructure give it a head start over its competitors, says Michael Bellamy, who heads Passagemaker, a sourcing company in Shenzhen. The fastest growing market for his company is the besieged economy of Spain. “In the past three months, we have added six projects for Spanish clients. Last year, we had none,” says Mr. Bellamy. “The rougher the economy is back home, the more important outsourcing becomes.”

Source: Rahul Jacob in Hong Kong, Simon Rabinovitch in Beijing, and Ed Crooks in New York: Chinese exporters fear grim outlook, Financial Times, October 14, 2012

Trade official calls on US, EU to reject protectionism

The European Union and the United States should not resort to protectionism to keep up with China's quick pace of economic growth, which may occur at an annual rate of 7 percent in the coming two decades, said a senior trade official. "I am quite confident that China's huge domestic market and the further development of its western regions can sustain an annual growth rate of between 7 and 8 percent in the coming 20 years," Wang Jinzhen, vice-chairman of the China Council for the Promotion of International Trade, said on Thursday in Brussels. Wang called on advanced economies to cooperate more with China instead of resorting to confrontation and trade protectionism. Chambers of commerce throughout the world, in an annual report released in Brussels on Thursday, reached a consensus about the need for free trade and pumping energy into the real economy, the part of the economy concerning goods and services.

Wang complained that the the EU and US have behaved unfairly to Chinese companies even though leaders in those places routinely say that free trade and investment are essential to economic growth. Wang said the US' recent investigation into Chinese telecom giant Huawei Technologies Co Ltd is an example of a protectionist measure that has been imposed on a Chinese company in the name of national security. Wang also said the EU's recent decision to start an anti-dumping investigation into the activities of Chinese solar panel companies has harmed their European counterparts, saying companies in both places frequently do business with each other. "We have seen a trend of developed economies tending to resort to protectionism amid economic difficulties," Wang said.

Sylvain Plasschaert, a member of the advisory board for the European Institute for Asian Studies, said China's current growth is evidence that its economy is performing well. Plasschaert said China's emphasis on realizing the full potential of its domestic market means it will import more in the future. He added that middle-class Chinese will be in a position to buy more and thus make a tremendous contribution to economic growth. "And here, in Brussels, we are going to see a summit that may bring more good news and help stabilize
the European economy,” Plasschaert said.
Source: Fu Jing in Brussels: Trade official calls on US, EU to reject protectionism, China Daily, 2012-10-19

Soybean imports set to rise this year

China, the world's largest soybean consumer and importer, is expected to further increase its soybean imports this year, thanks to its increasing demand and declining domestic output. That suggested the country is becoming more dependent on the global food market. The China National Grain and Oils Information Center, a research unit at the State Administration of Grain, raised its forecast in its latest report, projecting that the country's soybean imports will reach 3.5 million metric tons in October, 5.2 million tons in November and 4.5 million tons in December. This means that China's soybean imports this year will increase 9.3 percent from last year to a total of 57.5 million tons. The country's domestic soybean output, meanwhile, was estimated to decline by 11.6 percent from last year to 12.8 million tons, as China's soybean growing area shrank by 14.43 percent from a year earlier to this year's 6.75 million hectares, according to the report.

In the meantime, China's soybean consumption this year was predicted to increase 3 percent from last year to 74.4 million tons, according to the Ministry of Agriculture. This marks the 10th consecutive annual increase in the country's soybean consumption and will increase the nation's reliance on imports, industry analysts said. China was not a soybean importer until the 1990s. But 82 percent of the soybeans consumed in the country in 2011 came from imports. More than 40 percent of the imported beans were from the United States, according to official data. The worst drought in 56 years hit the US in June this year, prompting industry concerns about this year's soybean yields while driving up soybean prices in the global market. The Chicago Board of Trade said November soybeans jumped to a historical high of $17.9475 per bushel on Sept 4. According to the latest report from the US Department of Agriculture, US soybean output this year is expected to decline 7.54 percent from a year earlier to 77.84 million tons.
Source: Zhou Siyu: Soybean imports set to rise this year, China Daily, 2012-10-23

Better Ways To Deal With China: [Business/Financial Desk]

Within four years, the currencies of our main trading partners have risen sharply against the dollar; the exchange rate of our main Asian rival has jumped by a third. The trade deficit starts to recede. America -- undisputed leader of the free world -- gets to carve one more notch in its belt. This is the type of success Mitt Romney hoped to conjure up during the foreign policy debate on Monday night when he promised to get tough on China from "Day 1," designating China a currency manipulator and opening the door for trade sanctions. It is also the image President Obama wanted to convey when he countered that he has been twice as tough on China as his predecessor, George W. Bush.

Trying to push China around like a bulked-up version of 1980s Japan does not fit with our national interests. In fact, it puts at risk a central, long-term American objective: drawing China into the club of prosperous, rule-bound and democratic nations. The Chinese currency is the wrong target. Of course China has been manipulating its currency for years, buying mountains of dollars to keep the renminbi cheap and give its exporters a leg up. But Beijing appears ready to correct course. Factoring in China's fast inflation, which makes its exports more expensive, the real value of the renminbi has risen at least 15 percent against the dollar since mid-2010. Beijing has curbed its dollar hoarding. And its broad trade surplus is falling fast: down to 2.3 percent of its economic output this year from more than 10 percent in 2007.

China's trade surplus with the United States is in part an illusion, because exports assembled in China from imported components are counted as 100 percent Chinese. Yuqing Xing, an economist at the National Graduate Institute for Policy Studies in Tokyo, estimates that China contributed only 3 percent to the value of its exports of
iPhones and laptops in 2009. Chinese labor costs accounted for only $6.50 of the $178.96 wholesale cost of an iPhone 3G exported by China, according to a study by Mr. Xing and Neal Detert. Japanese components accounted for $60.60, German parts for $30.15, Korean components for $22.96 and American parts for $10.75. The numbers are rough. Some of the parts may have been made in China. Still, counting the entire $178.96 as a Chinese export vastly overstates its role.

Even if we conclude that currency manipulation alone is causing our bilateral trade deficit -- a highly unlikely proposition -- we can't blame it on China. "We have an Asian trade deficit," said Clyde Prestowitz, a former trade adviser to the Reagan administration. "If we were serious, we would say there are a number of countries manipulating their currency and distorting the world economy." Joseph E. Gagnon, a former Federal Reserve official at the Peterson Institute for International Economics, says 20 countries actively depress their currencies to bolster their exports, including Japan, Switzerland, Taiwan and Korea.

China will continue to pose significant economic challenges for the United States in coming years. The cheap currency may recede as an issue. Still, getting tough is not the best way to address them. In the State of the Union address this year, President Obama said he had saved more than 1,000 jobs in the tire industry by imposing tariffs to stop a surge of imports from China. Gary Hufbauer, an economist at the Peterson Institute who worked in the administrations of Gerald Ford and Jimmy Carter, estimated that each job saved cost Americans at least $900,000 in more expensive tires, reducing spending on other goods. After all is said and done, Mr. Hufbauer concluded, the policy cost the economy 2,531 jobs. And that doesn't even count the effect of China's retaliation: antidumping duties on chicken parts that led to $1 billion in lost sales and reduced employment further.

There are tools to deal with China without setting off a trade war and undermining the national interest. Many economists have suggested changing the rules of the World Trade Organization to allow retaliation against currency manipulators. The European Union would probably support such changes. Interested countries could start the process by forming a voluntary nonmanipulation club and use carrots and sticks -- say, a tax on China's Treasury Bond purchases -- to get reluctant nations to join. A multilateral approach, with tough talk in private, is also more likely to succeed against other egregious policies.


The American Chamber of Commerce in Shanghai; Government and Business Leaders Meet to Discuss American Competitiveness in China

American small to medium-sized enterprises (SMEs) account for 99.7% of all U.S. companies and employ more than half of the 60 million-strong private sector workforce. Yet only 1% of the nation's 28 million small businesses export. Of U.S. SMEs that do export, only 10% export to China, America's fastest growing export market. At Friday's AmCham Shanghai SME roundtable, attended by Under Secretary of State Robert Hormats, Under Secretary of Commerce Francisco Sanchez and other federal, state and local officials, AmCham Shanghai leadership called for a doubling of the number of U.S. exporting SMEs from 1% to 2% by the end of 2014 and emphasized the key role the China market must play in achieving this goal. An increase to 2% would translate into billions of additional dollars in exports and would support millions of new, high quality American jobs.

Under Secretary Hormats led off the event with comments highlighting the importance of SMEs to the U.S.-China commercial relationship. "Creating opportunities for U.S. SMEs is critical to promoting two-way trade and investment between the United States and China and that's one of the reasons I believe the work of the AmCham Shanghai, and the new SME Center, is so important," stated Under Secretary Hormats. "AmCham Shanghai and its SME Center will also help connect U.S. state and Chinese provincial government officials, as
well as local business representatives, as they are the best positioned to build these connections. This initiative is critically important because improving linkages between U.S. SMEs and Chinese SMEs will create more jobs in the United States.” Francisco Sanchez, Under Secretary of Commerce remarked, "American SMEs are the backbone of our economy and we've got to give their products and services every chance to succeed in the growing Chinese market. The International Trade Administration has been proud to work with AmCham Shanghai over the years to increase market access and eliminate trade barriers. Today's dialogue is another important step in this journey, and is sure to go a long way in helping U.S. businesses increase their export sales, strengthen their bottom lines, hire new workers, and generate economic growth.”

In China, a complex, changing and in some cases uneven regulatory regime discourages many U.S. SMEs from exporting or expanding their businesses there. China's regulatory environment itself is among the most significant challenges. The results of the 2012 AmCham Shanghai SME Challenges Survey, presented at Friday's event, found that nearly three-quarters of U.S. SMEs surveyed indicated that an unclear regulatory environment negatively impacted their business by adding costs and undue risk to their operations. More than half report that a perceived preference for Chinese companies "somewhat hindered" their business. Day to day concerns, such as obtaining required licenses to operate their business in China were cited as a concern by more than half of responding SMEs. The survey also shows that the threat of intellectual property theft as well as the limited resources small companies have to seek redress of grievances was particularly acute among American SMEs. 44 percent of U.S. SMEs cited the lack of "protection and enforcement of your IPR" as a hindrance to their business in China and almost one-third indicated concern for the theft of their company's trade secrets. The China market attracts companies from all over the world and is an increasingly competitive environment. U.S. SMEs compete with small business from Germany and elsewhere in Europe, Japan and Australia who often receive significant support from their home governments. Limiting factors like "unfair competition" and trouble "finding the right customers" were both ranked by more than two-thirds of SMEs as top challenges.

These obstacles are amplified by a lack of resources available to SMEs when compared to larger multinational companies. SMEs face additional functional challenges that range from basic market knowledge to acquiring export financing or other capital needs to complete orders, generating overseas sales leads and being aware of external business support sources, such as U.S. government assistance. With these obstacles in mind, AmCham Shanghai is taking steps to equip SMEs with the tools to navigate a challenging business environment in China. The AmCham Shanghai SME Center, to be launched on November 6 in Shanghai, will consist of both a physical and virtual resource and referral platform. The Center will provide targeted services for SMEs interested in exporting to or expanding their operations in China via best-in-class resources and referrals to its 3,700-strong member network.

To download a copy of Under Secretary Hormats' remarks please visit: http://www.state.gov/e/rls/rmk/2012/198021.htm
To download a copy of Under Secretary Sanchez's remarks please visit: http://trade.gov/press/speeches/2012/sanchez-092112.asp


China still remains 'bright spot' for US companies

Amcham Shanghai sees optimism despite increased competition. Despite bleaker business prospects over the past year, US companies operating in China continue to see it as a "bright spot" in which to do business, according to the president of the American Chamber of Commerce in Shanghai. Small and medium-sized United States firms are being encouraged to boost their exports by cashing in on China's increased domestic
consumption, she added. "It is fair to say there are challenges for our companies operating in the Chinese market. They can range from regulatory challenges to structural challenges," Brenda Lei Foster, president of the chamber, or Amcham Shanghai, told China Daily. "The importance is that the Chinese market is really maturing, and with that maturation you have increased domestic competition and competition from other countries. US companies just need to be able to compete at a higher level, but I think they are still optimistic about their prospects in China."

A survey by the chamber this year showed that 80 percent of US companies in China reported revenue growth in 2011 over 2010, down from 87 percent in 2010 from 2009, while 51 percent of firms said their operating margins improved in 2011 from 2010, down from 66 percent in 2010 over 2009. Amcham Shanghai, founded in 1915 and known as the "Voice of American Business" in China, is the largest and fastest growing American Chamber in the Asia-Pacific region. A report by Amcham added: "Rising costs were rated the most significant business challenge in 2011, replacing human resource constraints for the first time since 2006. As a result, 91 percent of survey respondents said rising costs are causing China to lose some of its competitive advantages compared to other low-cost manufacturing countries."

Foster said: "We don't see a large group of US companies in China either returning to the US, or moving to other Asia-Pacific countries. They are fully focused on the Chinese market, and if so they are usually expanding or diversifying their operations, but they are not moving out of China." She said more than 60 percent of US companies are in China for the Chinese market 69 percent placed China in their top three investment destinations, while more than 76 percent wanted to increase their investment in China in 2012. "Our companies are still optimistic about investment in China," she said. The leadership transition, or the 18th National Congress of the Communist Party of China, is scheduled to take place on Nov 8. Amcham Shanghai said: 'China will remain a key market for US companies. Continuing a trend of 'in China for China', US companies are strengthening their connections outside China to boost their Chinese operations, and 62 percent of the companies imported parts or finished goods from the US into China in 2011."

Foster said US companies will continue to tap China's demand for sophisticated, innovative US products, including services, as the country makes the transition from an export-intensive economy to one driven by higher value-added production and domestic demand. China's expanding middle class is expected to reach 400 million in 2020 by US global management consulting firm McKinsey & Co. The widening consumer base offers a "compelling destination for US small and medium-sized enterprises to boost exports or expand their business", said the Amcham Shanghai report entitled "Viewpoint: Opportunities for US Small and Medium Business in the China Market."

Source: Li Jiabao: China still remains 'bright spot' for US companies, China Daily, 2012-10-24

World News: China Edges Out U.S. as Top Foreign-Investment Draw Amid World Decline

Global foreign direct investment inflows fell 8% to $668 billion in the first six months of this year compared with the year-earlier period, the United Nations Conference on Trade and Development said Tuesday. A decline in flows to the U.S. and to large developing economies drove most of the drop, as emerging markets such as Russia and India posted large declines. China became the world's top destination for foreign investment in the year's first half, edging the U.S. out of the top position for the first time since 2003. But the U.S. may reclaim the top spot in the second half, the report said. Foreign investment in developing economies matched flows to developed economies for the first time, the report said.

Political uncertainties also have caused businesses to hold back on investment decisions. The euro-zone debt crisis continues, while the U.S. presidential election and China's once-in-a-decade leadership change take place next month. "It's a difficult year for elections, and that is one of the reasons why businesses are taking a
wait-and-see attitude," said James Zhan, director of the investment and enterprise division at the U.N. organization.

"With the world slowing, foreign companies don't have the cash flow they once had and they're quite nervous about what their future is going to be," said Martin Baily, an economist at the Brookings Institution, a Washington think tank. An increasing share of investment has flowed into developing economies in recent years, chasing the faster growth rates seen in those markets compared with advanced economies. "It's amazing the U.S. has been such a major destination for so long," he said. The U.N. data show that U.S. FDI inflows reached $57.4 billion in the first half of this year, down from $94.4 billion in last year's period. China attracted $59.1 billion in foreign investment in the first six months, down from $60.9 billion in the year-earlier half.


China approves foreign firms in growing sector

China will allow foreign investment in its burgeoning shale gas industry, in the hope that the foreign companies' technical expertise can help extract the resource. Opening the market to foreign companies will help to achieve a breakthrough in shale gas exploration technology, said Yi Zhongrong, director of the production office of the Jianghan Oilfield of the China Petrochemical Corp, known as Sinopec. "We are trying to learn quickly about shale gas, and the technologies to tap into the resource, through our own research and development and also from foreign companies," he said.

Foreign firms were excluded in the country's first tender in 2011. But in the second auction which opened on Thursday, foreign companies were allowed to apply for permits to explore and develop shale gas sites through joint ventures with Chinese companies, according to the Ministry of Land and Resources. Some global energy companies have shown great interest in the country's shale gas exploration sector, including France's Total SA, which has been in talks with Sinopec for a possible drilling project in East China's Anhui province. Industry insiders said more overseas firms will be encouraged to invest in the country's shale gas industry. As authorities mull further partnership options, Shell signed the first shale gas production-sharing agreement with China National Petroleum Corp in March. ExxonMobil, BP, Chevron and Total have also embarked on shale gas partnerships in China. In all of the joint efforts, the Chinese side controls the joint venture.

Shale gas has revolutionized the energy industry over the past decade with significant deposits discovered throughout the world. The United States has emerged as a leading producer of shale gas, and its boom has led to a big drop in US carbon emissions because the gas is cheap and clean. China is trying to duplicate the US success with its own shale gas development program and to accelerate its pace in tapping the country's vast reserves. By 2015, China plans to pump 6.5 billion cu m of shale gas, and between 60 to 100 billion cu m before 2020 from its current commercial production of zero, according to the country's 12th Five-Year Plan (2011-15) on shale gas exploration. The enthusiasm in the sector is supported by the hope that the central government will give "proper" subsidies and release adequate policies for shale gas exploration, said Zhou Shihong, deputy director of the Chongqing land resources and housing property bureau.

Source: Wang Qian: China approves foreign firms in growing sector, China Daily, 2012-10-26

Business Technology: Telecom Industry Keeps Eye on China

China has issued just vague warnings about the possibility of repercussions on economic relations after a U.S. congressional report this week criticized two Chinese telecom companies, Huawei Technologies Inc. and ZTE Corp. The report said Huawei and ZTE pose risks to U.S. national security, and warned U.S. companies against buying their products.
But analysts said China's government could respond with a number of unannounced measures to bolster its embattled telecom champions, which have rejected the congressional allegations that their equipment could be used for spying in the U.S. At stake is China's market for technology gear underpinning computer networks and cellular communications. Sales of network equipment for government and business use alone could total $105 billion this year and grow 11% in 2013. For example, China's largest companies could be advised not to purchase networking gear from U.S. companies, and tenders for new equipment could be disproportionately awarded to Chinese companies. Any such retaliation, analysts said, would likely fall heavily on U.S. companies such as Cisco Systems Inc. The networking-equipment company has identified China as a key market, reporting that net product sales in the country rose 17% in the fiscal year ended July 28 while global sales rose just 5%.

Wednesday, a spokesman for China's Ministry of Foreign Affairs said the expansion of Chinese telecom companies abroad is a win-win for China and the countries where the companies operate. The spokesman, Hong Lei, also called on "relevant countries" to "adhere to mutually beneficial cooperation with China to deepen the development of bilateral economic and trade cooperation."


China-Korea Tensions Rise After Failed Venture: [Foreign Desk]

Lured by cheap iron ore and low wages, the Xiyang Group, one of China's biggest mining conglomerates, took a significant risk, building a mine in economically backward North Korea that was designed to feed China's steel mills and provide much-needed investment to China's impoverished ally. Now that deal is in tatters. Xiyang says that the North Korean government sabotaged its $40 million investment, allowing the company to stay just long enough to steal its knowledge, then seizing the iron ore mine and sending armed guards to evict Chinese workers. And recent sniping over the failed venture has exposed the often testy relationship between China and North Korea that, in public, remains hidden beneath vows of friendship.

The business spat came into the open last month when Xiyang posted a gritty, salacious blog item describing what the company called its "nightmare" in running the mine. It included details of high living by the North Korean managers when they visited China, where they were said to have demanded female escorts, expensive alcohol and cars. In a follow-up blog post this month, Wu Xisheng, the deputy general manager of Xiyang, demanded that North Korea stop its "illegal activities" at the mine and pay $31.2 million in compensation. "We think they don't have that much money," he said in a recent interview, adding that his company had been negotiating for months with the state-run North Korean company for the compensation.

To the surprise of many, North Korea responded to Xiyang's accusations with some of its own, despite its heavy dependence on Chinese aid and the investment of Chinese companies. The Beijing office of the Joint Venture and Investment Committee of North Korea posted a note on its Web site saying that Xiyang had failed to provide up to half of the investment it promised even after several years, and that many laws and regulations had been passed to provide more legal protection for foreign investors.

To stand a chance of real economic advancement, analysts say, he would need continuing support from China. About two-thirds of the 305 foreign investments in North Korea are Chinese, according to a list published by the Open Source Center, a United States government intelligence organization that analyzes publicly available material. Japan comes next with 15 investments, according to the list. Xiyang is the biggest Chinese investment to face trouble in North Korea, but not the only one. Mr. Wu of Xiyang, however, imagines that riches from the mine that his company worked on are already being sold off, probably to other Chinese companies. "The technology is easy," he said. "They've already learned it." In 2007, the Wanxiang Group, a conglomerate that makes auto parts, established a partnership with North Korea to develop a large
copper mine, known as the Hyesan Youth copper mine, according to accounts in the Chinese news media. After two years, the North Korean partner announced it was taking full ownership. In that case, the chairman of Wanxiang prevailed on China's prime minister, Wen Jiabao, to persuade the North Koreans to back off.


Setting sail on a quest for overseas M&As

China's rise in the global value chain is inevitable as an increasing number of companies venture out into the wider world alongside hordes of investors, keen to snap up bargains. According to the Ministry of Commerce, China's outbound direct investments surged by 39.4 percent from a year earlier to $47.68 billion in the first eight months of this year. Outbound direct investments through mergers and acquisitions maintained fast growth in the first eight months of this year and reached $13.2 billion, accounting for 28 percent of China's overseas direct investment in the same period, according to the ministry.

China's strategic focus was to attract foreign investment in the 1990s. Foreign investment and outbound direct investment have now struck a balance in the first decade of the 21st century. This decade will see massive overseas mergers and acquisitions by Chinese enterprises, said Eddie Chan, vice-president of Invest Sweden. Having witnessed the growth of Chinese ODI over the past 10 years, Chan has been involved in more than 100 overseas M&As. In his view, the complexity and the professional level of Chinese enterprises in dealing with these cases has been of an international standard. The volatile international economic situation presents tremendous opportunities for forward-looking companies with strategic vision. "Overseas investment by Chinese entrepreneurs will still focus on developed countries. We will see a number of cross-border investors in the future emerging in China," said Chan.

However, along with the fast outward-going pace come doubts about the efficiency and profitability of these projects. Shi Ziming, commercial counselor at the Ministry of Commerce's department of outward investment and economic cooperation, said 77.6 percent of the non-financial enterprises have profited from their overseas investments while 22.4 percent reported losses. Volvo, for example, which was acquired in 2010 by Geely Group, suffered a net loss of 243 million kronor ($38 million) in the first six months of this year. In contrast, it generated a net profit of 1.2 billion kronor in the same period of 2011.

According to Chan, the overseas M&As of Chinese enterprises possess a uniqueness, unlike internal mergers within countries in the West. Chinese companies bring not only capital but the opportunities to explore the Chinese market. "It is a brand new business cooperation model," he said. "Capital can immediately play a role when the money is there but full exploration of the market will take some time to complete," he added. "The return period in investment in Volvo has not yet begun but, with its plant completed in China, Volvo will gradually expand the market and see a rise in sales," said Chan who was involved in the Geely-Volvo purchase. "They (overseas M&As) are the right direction for Chinese enterprises to go in. Despite a temporarily adverse situation, they will eventually see a silver lining," he said. While Chinese companies are anxiously looking for shelter in overseas markets, European countries are also eager to seek opportunities from the rapid economic growth in China. After Sweden and the UK became the first

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Note: The Spanish companies should be credited to the 2012. Source: A Capital
two countries to establish investment-promoting offices in China a decade ago. European countries have since set up more than 30 similar bureaus. "There are basically no countries that haven't done it," Chan said. Local governments in many countries including the UK and Spain have also set up a representative office in China to promote their own regions' investment opportunities.

Countries have their own preferences for industrial investment and targets. The comparatively developed countries in western Europe and Scandinavia are hoping to carry out cooperation with China in high-tech areas by virtue of their technical superiority, whereas those in southern, central and eastern Europe now mainly focus on light industry and agriculture. A recent survey by accountancy and management consultancy firm Ernst & Young showed that Europe is still the first choice for future overseas investment by Chinese entrepreneurs. "Europe is the cradle of the Industrial Revolution (1750-1850), as well as the presenter and practitioner of the concept of sustainable development. Compared with North America, the overall policies are more open. This is what Chinese investors really need," Chan said. The United States is also a favorite destination for Chinese investors. "In 2012, Chinese investment in the US will double the amount of last year and it will keep doubling for some time to come," said Harley Seyedin, president of the American Chamber of Commerce in South China. Chinese investment in the US jumped 38.5 percent from a year earlier to $1.81 billion in 2011. Meanwhile, China's overall outbound direct investment was $74.65 billion last year, according to the 2011 Statistical Bulletin on China's Outbound Direct Investment jointly released by China's Ministry of Commerce, National Bureau of Statistics and State Administration of Foreign Exchange in August.

Despite having an optimistic outlook on China's overseas investment, Arthur Wang, a global partner with McKinsey & Co, said there are still challenges facing Chinese managers in their overseas operations. Apart from the traditional obstacles such as cultural differences, one of the major issues is to find the right balance in the elasticity of managing overseas units. To that end, Chinese companies need to raise a group of top and middle management with international business experience and language skills. "At the moment, the lack of such talent is the biggest challenge facing ambitious Chinese investors," Wang said.

Although there has been a wave of negative comment about China multinationals Huawei Technologies Co and ZTE Corp in some countries, notably the United States, where they have been accused of being likely to spy for the Chinese government, dampening the momentum of ambitious Chinese investors eyeing overseas markets, many believe the setback is only temporary. "Isn't it paradoxical that many of us have learned the news via the Internet, which uses an increasing amount of equipment provided precisely by these two companies?" asked Peter Cheung, a British Chinese living in London. Earlier, the United Kingdom said it was investigating Huawei's business in the UK after the world's second-biggest telecommunications equipment maker announced a 1.2 billion pound ($1.9 billion) investment in Britain aiming to create at least 700 jobs over the next five years, the UK's Sky News reported. "The world needs Chinese investment as much as it needs the 'made in China' products," Cheung said.

The trend is reflected in this year's China International Fair for Investment and Trade, the world's largest stage for global investment exchange held annually in Xiamen, in East China's Fujian province, where a "revolution" was under way with the audience taking to the stage. Traditionally an arena for Chinese projects to compete for the favors of global audiences wanting to invest in the Middle Kingdom, at least in the past 15 years of the fair's history, more attendees now decided to try to sell their own countries' projects. Among them, 12 countries participating in the fair staged a group performance as it moved to its climax. Henry Qin, executive vice-president of ASP Group, a facilitator of two-way cross-border economic exchanges between China and Australia, was one of the "leading actors" in this show. "The Chinese economy and that of Australia are highly complementary, especially in the resources area," Qin said when making a presentation to potential Chinese investors. He said the mining infrastructure in Australia is relatively underdeveloped because of inadequate
investment. China's demand for resources could provide financial support in that area. "Combining China's financial resources with the mineral resources of Australia, we'll have the chance to establish the most important mining capital market in the world," Qin said. In addition to Qin, others, including some from India, Russia, Italy and the United States, presented the best and unique opportunities in their countries' investment environment in the hope of taking a share of a growing Chinese cake in overseas markets.

Victoria Tang, associate director-general of InvestHK, said with an excellent service system in finance, law, accounting, insurance and branding, Hong Kong can play the role of a platform to assist mainland investors in meeting various demands and achieve their "going-out" strategies. Meanwhile, she said, Hong Kong has talent resources with global vision and knowledge of the mainland market and can be a "drill ground" for Chinese enterprises with global ambitions.

Apart from the efforts of the companies themselves, economists are also calling for more support on the policy level for China's overseas investments, which may require a fundamental change in China's economic structure. Ba Shusong, an economist with the Development Research Center of the State Council, said one of the major challenges facing the Chinese economy in the coming years is the diminishing demographic bonus and a constantly rising labor cost as a result. "Therefore, preparing early and moving out of the low-end processing and manufacturing industries will be beneficial for the Chinese economy," Ba said. Meanwhile, he said, the ongoing urbanization process in China as well as the improving living standards of people both require massive consumption of resources. As a result, a global investment strategy for resources is necessary for the long-term benefit of the Chinese economy. Over the past 30 years, the evaluation of the gross domestic product has played a major part in how local authorities are assessed. This "GDP worship" has made its contribution to China's economic soaraway success but has also been blamed for social and environmental problems caused by development for the sake of development. For the next stage, faced with increasing pressure for economic transformation and expanding outward investment, Ba suggested changing the assessment criteria for local governments from GDP to gross national product. GDP defines production based on the geographical location of production, whereas GNP allocates production based on ownership. While GNP measures the output generated by a country's enterprises (whether physically located in China or abroad), GDP measures the total output produced within a country's borders - whether produced by that country's own local firms or by foreign firms. When a country's capital or labor resources are employed outside its borders, or when a foreign firm is operating in its territory, GDP and GNP can produce different measures of total output.

Despite a rapid economic expansion over more than 30 years, ordinary Chinese citizens' welfare hasn't grown very much compared with Japan and the Republic of Korea. These countries enjoyed a big share of China's
economic growth from their investment in China. "Japan's GDP growth may be weakening but its GNP growth may not be as low considering the revenue of its massive investments in China and other major economies worldwide," Ba said. According to statistics from the Ministry of Commerce, Japan was the third largest regional investor in China as of 2011, only after Hong Kong and the British Virgin Islands. The realized FDI value was $79.9 billion as of 2011, which accounted for 6.5 percent of the total FDI in China. The trend is also seen within different provinces in China. To encourage overseas investment, Ba suggested attaching more importance to GNP in the assessment criteria for local governments, thereby bringing in a global vision for local authorities and offering more support to the overseas investment resources.

Sheng Songcheng, head of the statistics department at the People's Bank of China, said growing overseas investment brings an opportunity for China to open up its capital account. The capital account includes FDI, portfolio and other investments, plus changes in the reserve account. The capital account and the current account together constitute a nation's balance of payments. Since large capital inflows or outflows can have destabilizing effects on a nation's economy, many countries have controls in place to regulate capital account flows. When Chinese companies or individuals want to explore overseas markets and purchase business units, materials or energy, they will all have to act in concert with the opening up of the capital account. With the country's more than $3 trillion foreign exchange reserves and an obvious overcapacity in domestic industrial sectors, opening up the capital account will benefit the transformation of the world's second largest economy. The income from overseas investment is only currently 0.5 percent of China's GDP at the moment, whereas in Japan, where private investors can invest directly overseas via its open capital account, the figure is 2 to 3 percent of GDP.

The Business: Playing Hardball With Chinese Investors

Should the U.S. block investment by Chinese companies in America until China opens its market wider to U.S. business? That idea, which is popping up in some trade circles, derives from the well-known principle of reciprocity -- in this case, doing unto others as they do unto you. It generally guides trade pacts, including those governing the U.S. and China, in the form of rules intended to produce mutual benefit. The subject even came up when Vice President Joe Biden was getting briefed for his last trip to China, according to one attendee. Mr. Biden's office declined to comment. Forcing reciprocity on another country is controversial for a number of reasons. But it's getting some attention because Chinese direct investment in the U.S. is rising. This year, it's expected to hit roughly $8 billion -- an annual record and up from $11 million in 2000, says Rhodium Group, which tracks investment. China has invested a total of about $23 billion in energy, entertainment and other sectors in the U.S. By comparison, U.S. companies have more than three times that invested in China, according to Rhodium. American firms have long argued that, in a fair world, their stake would be much bigger.

In a study out this month, the U.S. Chamber of Commerce describes a labyrinthine approval process for investment in China that favors domestic companies and inhibits foreign access. The report recommends that China adopt the "principle of reciprocity" by, in part, eliminating investment reviews that the U.S. doesn't have. In the U.S., potential national-security and other concerns recently scuttled both Sany Group's desire to buy a wind farm near restricted military airspace in Oregon and Superior Aviation Beijing Co.'s proposal to buy Hawker Beechcraft, which has some defense business. A congressional report also warned that China's Huawei and ZTE telecom companies pose security risks. These problem transactions represent a small portion of China's total deals in the U.S. and weren't evidently the result of a hidden form of reciprocity. But it didn't appear that way to some abroad. "There is a lot of hostility and prejudice in the U.S. against Chinese investors," said Xiang Wenbo, Sany's president.

For that reason, U.S. multinationals shy away from the idea. They're worried that China will retaliate
against their existing business and erect additional hurdles to investment. Current U.S. law essentially limits
government oversight of foreign investment in America to projects affecting national security, and companies
want to keep it that way. "We let Chinese investment into the U.S. because it's good for us," says Rhodium's Dan
Rosen, who worked in the White House on China's accession to the World Trade Organization. "The benefits are
job creation and the tax base. Reciprocity isn't something we should do. Why abandon our principles of
economic liberalism and play their game?"

Besides, not every U.S. company is complaining. In a survey of American companies in China by the
US-China Business Council, 90% of respondents said they are optimistic or somewhat optimistic about business
prospects in China over the next five years. Hoyt Harper, head of global brand management for Sheraton Hotels
& Resorts, says his chain has 54 properties in China and 50 more slated to open in the next few years. "It just
continues to grow." Still, a lot of companies, such as big U.S. manufacturers and financial-services companies
that compete directly with China's state-owned enterprises, aren't so lucky. They could use some help.

China's companies are just beginning their search for investments abroad. What's clear is that U.S. leverage
is certain to grow. What isn't clear is how, or whether, the U.S. will use it.
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