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Chinese infrastructure investment conducive for global recovery

China's top economic planning agency earlier this week approved 25 urban rail projects that could be worth more than 800 billion yuan ($126.98 billion), along with other projects for roads, sewage treatment centers, waterways and ports. The move is expected to stimulate China's slowing economy and boost the world's economic recovery. The construction is part of the government's efforts to stabilize economic growth at a time when domestic demand remains weak and exports are suffering. But more importantly, the package will serve as an important step in reviving the global economy, which has been dragged into a recession by the international financial crisis. China's demand for goods, services and technology has kept the factories of other countries humming, despite slower exports to the United States and Europe following the 2008 financial crisis. Saving China's economy will maintain the country's status as the "world's factory," allowing it to continue to provide the world with an abundance of cheap, high-quality products, as well as help the world recover from the global financial crisis.

Source: Xinhua: Chinese infrastructure investment conducive for global recovery, 2012-09-08

Q3 infrastructure investment exceeds 5t yuan

Chinese investment in infrastructure projects exceeded five trillion yuan ($794 billion) in the third quarter of the year, according to data from the country's top economic planner. Social financing is expected to surge in the fourth quarter, as there is a lag time of three to six months between project approval and the allocation of funds. Earlier this month, the National Development and Reform Commission announced the approval of dozens of infrastructure projects worth more than 1 trillion yuan, including highways, ports, railways, sewage networks and waste treatment plants. The actual approval dates for the projects were spread out over the April-August period, the China Securities Journal reported Wednesday. About 25 to 50 percent of the money needed for the projects will come from local governments. Other sources include bank loans, corporate debts, corporate bonds, intercompany lending and trust lending.

If inflation is checked, new lending will exceed 1.6 trillion yuan in the fourth quarter and surpass 8 trillion yuan for the entire year, analysts estimated. In addition, off-balance-sheet entrusted loans increased during the third quarter, with 104.6 billion yuan added in August -- the greatest amount since January. Direct financing is expected to continue expanding in the fourth quarter. From January to August, corporate bonds totaled 1.33 trillion yuan.

Source: Xinhua: Q3 infrastructure investment exceeds 5t yuan, 2012-09-26

Tackling the Many Dangers Of China's State Capitalism

The big issue is China's state capitalism, the tens of thousands of state-owned enterprises that dominate half of China's economic output and that the government heavily subsidizes and protects. Foreign competitors -- which threaten these near monopolies -- are restricted by government rules, forced to "share" their technology in joint ventures with state enterprises, and denied lucrative government business, which goes instead to the state champions. "We haven't faced this kind of problem of this size before," says Robert Hormats, who heads economic policy at the State Department and has raised alarms about China's commercial statism.

If the U.S. needs another wake-up call, it will get one this week with the publication of a bracing account of the danger that China's state capitalism poses to global business -- and to China itself. James McGregor's new book, "No Ancient Wisdom, No Followers: The Challenges of Chinese Authoritarian Capitalism," dissects the complex policies and state structures that produced China's novel system. "The Communist Party of China has two unwavering objectives: Make China rich and powerful and guarantee the Party's political monopoly," Mr. McGregor writes. "At the center of this are behemoth state-owned enterprises that dominate all key sectors and
have been instrumental to the country's current success. "As China's global reach expands, this one-of-a-kind system is challenging the rules and organizations that govern global trade as well as the business plans and strategies of multinationals around the globe. At the same time, the limits of authoritarian capitalism are increasingly evident at home, where corruption is endemic, the SOEs are consuming the fruits of reform, and the economic engine is running out of gas."

They would wane in the days before China's 2001 entry to the World Trade Organization (and access to global markets), when Beijing sought to show it was embracing competition. And they would wax again over the next decade as China reversed course, gorged the SOEs on state cash, and protected them from foreign competition through an array of industrial policies. "Because the U.S. market is already wide open to Chinese products," he argues, "U.S. negotiators have no bargaining chips left."

As the state enterprises grew, China's share of world trade rocketed to 10%, corruption flourished, and Party members got rich. Citing Bloomberg data, Mr. McGregor notes that the "wealthiest 70 National People's Congress members are more than 10 times richer than the top 660 officials in the U.S. government." The enterprises themselves, meanwhile, crowded out private competition. SOEs account for about 96% of China's telecom industry, 92% of power and 74% of autos. The combined profit of China Petroleum & Chemical and China Mobile in 2009 alone was greater than all the profit of China's 500 largest private firms, Mr. McGregor writes. An independent Chinese study, he adds, says that if you subtract government subsidies from the biggest SOEs they actually lose money.

Mr. McGregor believes pressures are building within China for change -- the result of SOEs that don't innovate enough, slowing growth, an angry private sector, and a pending leadership change, among other factors. Even some top leaders say reform is needed. "If they don't reform, they'll be the guys who killed the economic miracle," he says on the phone from Beijing. He's optimistic, he says, because the Party has no choice.


China's Provinces Feel Pinch; Hit by Higher Labor Costs, Factories Also Grapple With Cooling Export Growth

China--As global demand for China's exports slows, Huang Si is tightening his belt. The manager of a factory making woolen sweaters in this southern Chinese city says orders are down about 50% from a year ago. Last year, piles of finished clothes spilled out of the storeroom on their way to be shipped. Now it is half empty, employees say. Mr. Huang says he has been forced to let a third of his 150 workers go. China's exports were up 7.1% in the first eight months of this year from a year earlier, slowing sharply from the 20.3% growth logged for all of last year. Guangdong's exports rose 5.9%, down from 17.3% last year.

The slowdown is compounding problems for Chinese manufacturers, who are also grappling with rising labor costs, a volatile currency and slow payments by customers. "Wages rose about 20% in the last year" says Eddie Leung, the managing director of watchmaker Dailywin Watch Products Manufacturing Ltd. and a representative for Dongguan companies that have investors abroad. Larger companies are upgrading technology in an effort to increase productivity and hoping to snap up business from their smaller rivals. Some small firms don't have the resources to change their strategy. Higher commodity prices are also adding to costs. Zhou Yi, the owner of Xiehe Wire Cable, which makes components for household appliances, says that a rise in copper prices has eaten into its margins. Mr. Zhou says the Federal Reserve's move to pump up the U.S. economy by injecting liquidity into the financial system has pushed copper prices higher. Customers are also taking longer to pay their bills. "Typically, the payment should be done within three months after delivery, some take six months". Small companies are responding to the downturn in a variety of ways. "We'll ask for loans from friends to upgrade our
machinery," says Mr. Huang, the garment maker. "It's so risky. If we sign an order in euros, and the euro falls, we lose money without starting to make the garments," Mr. Huang says. Garment manufacturers are afraid to sign orders of 100,000 to 200,000 pieces from Europe now, he says, preferring orders of 10,000 to 20,000 pieces.

Source: Orlik, Tom; Fung, Esther: China's Provinces Feel Pinch; Hit by Higher Labor Costs, Factories Also Grapple With Cooling Export Growth, Wall Street Journal (Online) [New York, N.Y] 30 Sep 2012: n/a.

Mr. Huang hopes Chinese consumers will take up more slack. "Domestic demand is up 10% to 20% this year, so that has helped cushion the pain," he says.

Source: Orlik, Tom; Fung, Esther: China's Provinces Feel Pinch; Hit by Higher Labor Costs, Factories Also Grapple With Cooling Export Growth, Wall Street Journal (Online) [New York, N.Y] 30 Sep 2012: n/a.

FedEx: China's Problems Growing

The chief of FedEx Corp. sounded a warning Tuesday about the fate of China's export-driven economy as the world's largest air package shipper cut its forecast for global growth in 2012 and 2013. Fred Smith, the company's chief executive, said economic weakness in Europe and the U.S. had slowed global trade, with product launches by tech-industry stalwarts such as Apple Inc. and Microsoft Corp. providing only a temporary lift. Some China watchers "completely underestimate" the impact of slowing exports, despite the country's domestic stimulus efforts, Mr. Smith said on a conference call with analysts after FedEx reported a slip in fiscal first-quarter profit.

FedEx and rivals including United Parcel Service Inc. have invested heavily in building the infrastructure to handle Chinese exports, and the two companies recently won approval to launch domestic parcel-delivery services in China. Both companies have trimmed their flying to the U.S. as the volume of consumer electronics, auto parts and other goods has fallen, in part because of competition from cheaper ocean-shipping options.

Mr. Smith blamed "policy choices" in the U.S., China and Europe for causing global trade to slow even faster than GDP, with U.S. stimulus efforts adding to the pressure on fuel costs by pushing investors into commodities. FedEx, based in Memphis, Tenn., has been moving to trim costs for much of the past year -- primarily in its big express segment -- but it made clear Tuesday that the benefits haven't come quickly enough to offset the weak economy. The company lowered its full-year earnings forecast to between $6.20 and $6.60 a share, down from an already disappointing forecast of $6.90 to $7.40 in June. For its current quarter ending in November, FedEx forecast per-share earnings of between $1.30 and $1.45, below the consensus forecast of $1.67 from analysts surveyed by Thomson Reuters.

Mr. Smith and other FedEx executives on Tuesday repeatedly deferred questions about the company's strategy to an Oct. 10 investor meeting in Memphis. Broadly speaking, however, they said they would unveil a plan that cuts significant costs from the express unit while directing customers who don't need premium, time-sensitive shipping to more appropriate options.

For the quarter ended Aug. 31, FedEx posted a profit of $459 million, or $1.45 a share, down from $464 million, or $1.46 a share, a year earlier. Revenue grew 2.6% to $10.79 billion, topping analysts' projections of $10.7 billion. Its operating margin narrowed to 6.9% from 7%. Revenue from the express-shipping business -- by far the company's largest top-line contributor -- edged up 0.6% to $6.63 billion. The segment's operating income sank by 28%, as daily package volume fell 5% in the U.S. but rose 1% abroad on improvement in Europe and Asia.


PBOC injects record funds to ease cash crunch
China's central bank added a record 290 billion yuan ($46 billion) to the financial system using reverse-repurchase agreements, seeking to address a cash squeeze in the run-up to a weeklong holiday. The People's Bank of China conducted 190 billion yuan of 28-day reverse repos and offered 100 billion yuan of 14-day contracts, according to a trader at a primary dealer required to bid at the auctions. Tuesday's total is the highest for a single day in Bloomberg data going back to 2004. "Record amounts of reverse repos are to meet the surge in cash demand before the quarter-end and the holidays," said Liu Junyu, a bond analyst in Shenzhen at China Merchants Bank Co, the nation's sixth-biggest lender. "As the central bank steps up adding funds through reverse repos, it's unlikely to cut the reserve ratio this month." The central bank kept the yields on 28- and 14-day reverse repos unchanged at 3.6 percent and 3.45 percent, respectively, the trader said.

Source: Xinhua: PBOC injects record funds to ease cash crunch, 2012-09-26

**China releases financial reform plan**

The People's Bank of China, the country's central bank, on Monday released a financial reform plan for the 2011-2015 period. The plan includes reforms regarding the marketization of exchange and interest rates and the convertibility of the yuan under China's capital account, as well as plans to encourage more private capital to enter the financial sector. Government intervention regarding small-scale financial activity will be reduced and the government's role will be further clarified during the reform process, the plan states.

The liberalization of interest rates will be pushed forward progressively and reforms of the mechanism used to calculate the yuan's exchange rate will occur steadily, the plan states. Further studies regarding direct trading between the yuan and other currencies in emerging markets will be conducted, according to the plan. Authorities will allow freer cross-border capital flow and boost the convertibility of the yuan under China's capital account, according to the plan. Authorities will encourage private capital to participate in the reform of banks, securities firms and insurance companies, as well as guide private capital to expand investment in financial organizations, the plan states, adding that the government also supports private capital in setting up rural banks, credit companies and capital cooperatives. By 2015, the value-added output of the nation's financial industry will account for five percent of the gross domestic product, while the value of direct financing by non-financial organizations will account for at least 15 percent of the total social financing value, according to the plan.

Source: Xinhua: China releases financial reform plan, 2012-09-18

**China urges quicker adoption of govt credit cards**

China's Ministry of Finance and the central bank have jointly issued a document urging for the quicker implementation of specialized credit cards to be used by public servants. The credit cards are for public service employees to use for their expenses, including business travels and conferences. The document has ordered all central government departments to implement the system to all its units before the end of 2012. Some departments are ordered to issue such cards to their staff before the end of the month, a statement on the MOF's website said on Thursday. For local regions, the system should be expanded in provincial government departments and municipal governments. Meanwhile, it should also be implemented top-down to the township level, the statement said. The special cards, with account numbers starting with 628, carry the normal functions of credit cards, but they also serve as a tool for the management of state budget. Clear records of transactions on the cards are traceable, which can boost fiscal transparency and contribute to anti-corruption efforts.

Source: Xinhua: China urges quicker adoption of govt credit cards, 2012-09-28

**China to expand property tax trial regions**

China will expand its property tax trial to include more cities beyond Shanghai and Chongqing, and will
gradually set up a nationwide property tax system, officials said. A real estate tax system will be established gradually along with the expansion of the pilot property tax scheme, Cong Ming, inspector from the policy and regulations department at the State Administration of Taxation, was quoted as saying by the China Securities Journal on Friday. The details of the real estate taxation system will be worked out by the end of this year or early next year, Cong said. Cong also said that the current property tax, which is collected in accordance with the property's selling price, should take into account the land price. Apart from Shanghai and Chongqing, more cities will launch property taxes in the near future, said Cong. The final goal is to set up a property tax system that can be used for more than just as a tool to cool down the property market, he added. Separately, Cong said that the consumer tax reform will also be launched soon.

Source: Xinhua: China to expand property tax trial regions, 2012-09-21

**China lifts bar on securitisation sales**

China Development Bank will sell $1.6bn in asset-backed securities this week, the country’s biggest securitisation deal, and its first in three years. China had barred the sale of asset-backed securities in 2009 when the global financial crisis sullied their reputation. But after a boom in lending over the past few years, Chinese banks need to free up balance sheet space, and parcelling loans to investors via securitisation is likely to be an important part of this process. Chinese regulators remain cautious, placing sharp limits on how banks can operate. They will be able to convert no more than Rmb50bn ($7.9bn) of assets into securities this year, less than 0.1 per cent of outstanding loans in the banking system.

The resumption of securitisation, however small, is seen by analysts as an answer to many bottlenecks in China’s financial system. Chinese bank loans have doubled since the end of 2008, forcing lenders to repeatedly tap capital markets for equity. The credit boom also stretched loan-to-deposit ratios, which are not permitted to exceed 75 per cent. By selling loans to investors, banks get more breathing space on both fronts.

China Development Bank, a giant state-run lender that funded many of the country’s major infrastructure projects, begins the process on Friday, selling Rmb10.2bn in asset-backed securities. In a prospectus, CDB said it was selling six tranches of notes. Four are rated AAA, one AA and the last is subordinated, with no rating. The weighted average of 49 loans comprising the securities is AA. About half of the loans were to industries such as electricity generation and railways. Only one was classified as related to the troubled property sector.

China first experimented with asset-backed securities in 2005, but sales were limited in size and regulators said many of the repackaged loans were simply bought by other banks, keeping credit risk squarely within the banking system. Nevertheless, there were still worrying signs of circularity in the CDB deal. One of the two main underwriters was China Development Bank Securities, a domestic investment bank wholly owned by CDB itself.

Source: Simon Rabinovitch in Beijing: China lifts bar on securitisation sales, Financial Times, September 5, 2012

**Capital market info security rules unveiled**

China's securities regulator on Thursday unveiled a set of measures on safeguarding information security in the securities and futures industries, which will take effect on Nov 1. The China Securities Regulatory Commission announced the release of the measures in a statement posted on its website, saying that the measures have specified major market participants' obligations to ensure information safety. Institutions in the securities and futures industries must meet basic requirements in infrastructure, information systems, network isolation, safety protection and management rules, according to the measures. The measures also listed requirements on system upgrading and modification, data backup and storage, as well as ensuring funds for
information technicians, the statement said. The CSRC said it will make more detailed requirements based on the realities of securities, funds and future industries, among others, in an effort to promote their capabilities in safeguarding information security.

Source: Xinhua: Capital market info security rules unveiled, 2012-09-28

As Chinese Stocks Slip, Funds Move In --- Some Foreign Managers See Potential For Long-Term Growth as Country Woos International Investors

Chinese shares fell to their lowest intraday level in nearly four years on Wednesday, and some foreign fund managers say they are ready to jump in. The benchmark Shanghai Composite Index for shares listed on mainland China, known as A shares, briefly dipped below the 2,000 level for the first time since February 2009, before closing at 2,004.17. The index has fallen almost 9% so far this year amid worries over a slowing economy and the uncertainty surrounding a planned once-a-decade leadership change. That makes it one of the world's worst-performing equities markets in an otherwise positive year. As of the close of trading on Wednesday, the Standard & Poor's 500-stock index had achieved a 14% year-to-date gain and London's FTSE 100 had tacked on 3.5%. The plunge, however, has led some foreign fund managers to tiptoe into the market, betting on the country's long-term growth potential at a time when Chinese officials also have stepped up efforts to attract international capital to bolster financial markets.

In the first half of this year, about $5.3 billion in net foreign capital moved into Chinese equities, according to China's foreign-exchange regulator. Still, foreign holdings still make up less than 1% of China's stock-market value due to Beijing's tight control over both its currency and the flow of money across its borders. The total value of the Shanghai market has dropped to 14.1 trillion yuan ($2.2 trillion) from 14.8 trillion yuan as of the end of 2011, indicating domestic investors are withdrawing capital. And there are some signs that fund managers continue to increase their wagers on Chinese stocks. In the week ended Sept. 19, equity funds poured $763 million into China, the biggest weekly inflow in more than seven months, according to data provider EPFR Global. Foreign fund managers venturing into the market are citing attractive valuations. The Shanghai index is now valued at about 11 times earnings for the previous 12 months, compared with 13 times at the end of last year and 55 times at the peak in 2007. By comparison, the S&P 500 is currently valued at about 16 times trailing earnings.

Many foreign investors still are choosing to stay on the sidelines. Chinese regulators have doled out $30.8 billion in investment quotas to foreign investors since 2002, but only a fraction of them have been spent, say analysts and market experts. Still, the slump in Chinese shares has led Beijing to open the door wider for foreign institutional investors to buy mainland Chinese stocks, in moves analysts say are aimed at propping up Chinese markets and paving the way for a yuan that can be freely converted into other currencies. Of the $30.8 billion in quotas China has granted since 2002, nearly one-third of them were approved this year, China's foreign-exchange regulator said on Monday.


Index touches 43-month low

Investors’ nerves were rattled on Wednesday as the country's major stock index dipped below the psychologically important level of 2000 points for the first time in 43 month. The Shanghai Composite Index touched a low of 1999.48 points at 2:54 pm, before closing at 2004.17 points at 3 pm, down 1.24 percent, or 25.12 points. The index dropped as the regulator restarted new IPO examinations, amid reports that a flood of
restricted shares will hit the market in October. The last time the index touched that level was in February 2009.

Industrial and Commercial Bank of China Ltd, the A-share market's biggest stock by market capitalization, dropped 0.27 percent, or 0.01 yuan, to 3.64 yuan (58 US cents). China Shenhua Energy Co Ltd, China's biggest coal company, dropped 0.46 percent, or 0.1 yuan, to 27.71 yuan. China's two biggest oil companies, Sinopec and PetroChina, both ended the day with losses. The Shanghai index had fallen 8.88 percent in the year to Wednesday and 4.2 percent over the past month. The NASDAQ-style growth enterprise board is the most under pressure, with restricted shares worth around 50 billion yuan expected to hit the market in October, 15 times the amount this month. Meanwhile, regulators have started examining IPO applications again after a two-month hiatus.

Source: Gao Changxin and Wang Ying in Shanghai: Index touches 43-month low, 2012-09-27

**Chinese manufacturing hits nine-month low**

The purchasing managers’ index, an important gauge of industrial activity, slouched to 49.2 in August, a nine-month low. It had been forecast to stay roughly level with July’s 50.1 reading. Beijing has tried to shift to a moderately pro-growth policy stance this year. It has cut interest rates twice, lowered the amount of deposits that banks must hold in reserve and accelerated approvals of investment projects. At the same time, however, it has been extremely wary about fuelling a big rise in housing prices, as it did when it unleashed a massive stimulus programme in late 2008, and so has placed sharp limits on the property sector that are taking a toll on the wider economy.

The employment sub-index in the PMI fell to 49.1 in August from 49.5, suggesting that manufacturers have shed more jobs. Any reading below 50 in the PMI points to a contraction in activity, while readings above 50 denote an expansion. New orders also declined, dropping to 48.7 from 49. The reading for export orders was particularly weak, remaining at 46.6 for a second straight month.

Source: Simon Rabinovitch in Beijing: Chinese manufacturing hits nine-month low, Financial Times, September 1, 2012

**GE; GE to Provide Cleaner, Efficient Power for China's Zhejiang Province**

GE (NYSE: GE) will supply five Frame 6FA gas turbine-generators for three power plants in China's Zhejiang Province that will help to meet the province's strong power needs. Designed for high efficiency and low emissions, all three projects support the provincial government's initiative to develop gas turbine cogeneration plants to replace less efficient coal-fired boilers in order to reduce environmental impact and increase energy efficiency in the region.

When they enter commercial operation in December 2012, the three new plants will produce a total of approximately 575 megawatts of power in Zhejiang province, alleviating this year's power shortage of approximately 7000 megawatts and securing the process heating supply for related industries in the area. Natural gas from China's landmark West-to-East Pipeline II will be the primary fuel for each plant. "Each project will meet the electricity and heating demands of the surrounding industrial areas and residential districts with limited environmental impact, compared with older technology plants," said Walter Wang, GM, thermal enterprise commercial for GE Power & Water. "With their midrange output, high efficiency, high exhaust energy for steam production and low emissions, our 6FA gas turbines are an excellent match for distributed energy applications such as these." In a distributed energy project, electricity and heat are generated on-site, at or near the point of use. This is a highly reliable source of energy and eliminates the cost and the risk associated with distributing power from a centralized power plant over long distances.

The 6FA is ecomagination-qualified. Ecomagination is GE's commitment to providing innovative solutions
that maximize resources, drive efficiencies and help make the world work better. About GE GE (NYSE: GE) works on things that matter. The best people and the best technologies taking on the toughest challenges. Finding solutions in energy, health and home, transportation and finance. Building, powering, moving and curing the world. Not just imagining.


Green can be great for Chinese economy: World Bank

Environmental "green" growth will not necessarily result in slow growth for the Chinese economy, said Pamela Cox, regional vice-president for World Bank East Asia and Pacific. In an interview with China Daily, she said well-laid urbanization plans can prove essential to sound development. Officials in the world’s second largest economy seem to have reached a crossroads and now must decide if they are willing to sacrifice economic growth to ensure energy is used more efficiently. But, "just because (development is) green doesn’t mean it cannot be fast," Cox said. "If you look at some of the technologies China is currently producing, for example, solar panels or biogas projects that are producing energy at lower costs for residents, it is smart economics," she said on Tuesday. The demand for energy, and the price of it, is increasing throughout the world, she added. Amid those circumstances, technology that uses energy more efficiently will not only help China spend less on energy but also give it business and export opportunities. "As China moves out of lower-end export goods, such as clothes and shoes, the country can now export more technologically advanced goods," Cox said. "Meanwhile, the lower energy costs paid by citizens can also free up new purchasing power for more consumer goods. So, actually, green growth can be great growth.

The goals, as stated in the country’s 12th Five-Year Plan (2011-15), call for reducing the country’s carbon intensity, or its emissions of carbon for each unit of its GDP, by 17 percent by the end of 2015. In a recent report, the World Bank said urbanization will help China meet that goal. "Cities are politically, financially, and administratively organized to act quickly and to realize the national policy goals, as they have been driving the economic transformation in the last three decades," the report said. "The urban areas can be more innovative, more creative and, potentially, more efficient in terms of resources use, but only if you have done it well," Cox said. "Few cities are planned and operated in a perfect way. A lot of cities in the world have to adapt to new progress in a changing economy and world. The key is to start with an integrated approach."

Source: WEI TIAN: Green can be great for Chinese economy: World Bank, China Daily, 2012-09-26

IPR protection key to economic restructuring

Encouraging innovation and protecting intellectual property rights are key to the success of China's ongoing efforts for economic restructuring and industrial upgrading, a senior Chinese trade official said on Wednesday. Chong Quan, deputy international trade representative with the Chinese Ministry of Commerce, made the remarks at the second China-US International Cooperation Forum on Intellectual Property Rights. China's 12th Five-Year Development Plan (2011-2015) defines science and innovation as an important tool to support the country's shift of economic growth model, and stresses the need to "improve relevant legislation to help strengthen the creation, application, protection and management of intellectual property," Chong told the forum. A remarkable achievement for China's IPR protection over the past years was the elimination of pirated computer software from all government institutions and offices, Chong noted. "By May 2011, all agencies of the Chinese central government were using legitimate software only. By June 2012, all provincial governments were doing so," he said, adding that municipal and township governments across the country are expected to catch up by the end of 2013. Chong also urged Chinese enterprises to better understand the importance of IPR protection.
and innovation. "Chinese companies need to learn from their American counterparts in this regard," he told Xinhua. "Chinese business representatives in our delegation (to this forum) will exchange ideas with the US side on how to better protect IPR in such areas as online music and e-commerce."

US officials attending the forum echoed Chong's emphasis on the significance of IPR protection. "IP (intellectual property) protection has never been more central to each of our countries individually and for our relationship with each other," said David Kappos, US under secretary of commerce for intellectual property and also director of the US Patent and Trademark Office, in an opening address. "Both of our governments recognize innovation is critical in the 21st century. A strong IP protection is the key part of any society's innovative activity," Kappos said. "China and the US together developed a robust cooperation on IP protection across all areas of creative pursuit."

Source: Xinhua: IPR protection key to economic restructuring, 2012-09-20

The Renminbi Blues

Economist Richard Easterlin, now at the University of Southern California, has been trying to crack the happiness code for decades. In the 1970s, he developed the theory that has become known as the "Easterlin paradox," which argues that although people with higher incomes tend to report higher levels of life satisfaction, countries don't become generally more satisfied as they become richer. Now, a group of economists led by Easterlin has tested his hypothesis on the most dramatic example of economic development in recent history: China's post-liberalization boom. Both per capita GDP and average consumption in China increased at least fourfold in real dollar terms between 1990 and 2009. Surely, then, Easterlin asks, the Chinese must be feeling at least a little better about life?

Nope. Looking at a variety of data from the World Values Survey, Pew, Gallup, and others, Easterlin and his team found that life satisfaction in China actually declined from 1990 through the mid-2000s, according to their recent paper in the journal of the National Academy of Sciences. It has since rebounded a bit but still appears slightly down from 1990.

This trend mirrors the experience of the post-communist countries in Eastern Europe, but Easterlin says that even he was surprised to see the Chinese parallel. "The results show that cultural factors are overridden by economic development," he says. And the doldrums may be permanent. "None of these countries are likely to exceed pre-transition levels" of happiness, he warns. Easterlin thinks that China's yawning inequality is likely behind the slow growth in life satisfaction. "People make comparisons of their living levels with those around them," he says. Never mind that tens of millions of Chinese families have progressed from owning bikes to cars if the guy down the block is driving a Lamborghini, it's likely to leave you wanting. It seems like true happiness is still all about keeping up with the Jiangs next door.


China to inspect 'toll-free' policy during holiday

Chinese authorities will inspect during the upcoming National Day holidays whether the policy which allows free passage of cars on the country's expressways is well implemented. Local inspection authorities have been told to check whether expressway toll stations, expressway service areas and parking lots in scenic spots nationwide are carrying out the toll-free policy, said a circular issued Tuesday by the Ministry of Supervision and the State Council Office of Redressing Malpractices.

Chinese authorities have adopted a new regulation which exempts passenger cars taking expressways from tolls during the Spring Festival, Tomb Sweeping Day, Labor Day and National Day holidays, starting October this year. Inspection authorities at all levels will conduct on-the-spot checks for irregularities and seriously
dealing with arbitrary charges and violations of the policy, the circular said. The policy, which allows free passage of passenger cars with seven seats or fewer on toll roads, bridges and tunnels, is warmly welcomed by the majority of private car owners, a group that has long complained that toll gates cause traffic jams during national holidays.

Source: Xinhua: China to inspect 'toll-free' policy during holiday, 2012-09-26

**China economy: Invisible borders**

China's regional governments lend heavy support to their local industries—keen to boost both local tax revenue as well as headline GDP growth figures. However, the lack of inter-regional competition can be detrimental to the national economy. Local protectionism removes incentives for sheltered enterprises to improve their products or prices. They also encourage inefficiencies when local cadres promote sectors that are not the best suited for their cities. Regional integration has long been a central government goal, but the EIU has found that progress has been patchy so far. Further efforts are needed to build a more efficient national economy.

Regional governments are expected by their constituencies to support their local industries. This is especially visible on the streets of Beijing and Shanghai. Nearly all of the capital's 70,000-strong taxi fleet consists of models produced in the nearby Beijing Hyundai factory, a joint venture between the local Beijing Automotive Group and South Korea's Hyundai Motor Company. Shanghai's 50,000 taxicabs are sourced from Volkswagen's joint venture plant with local carmaker SAIC Motor.

However, such behaviour by governments can be damaging to the national economy. The absence of a nationwide competitive marketplace means that favoured firms have little incentive to cut prices or improve their products. The State Council (China's cabinet) is keenly aware of the issue and, over the past two decades, has issued numerous directives ordering regional governments to stop practising local protectionism. The situation has improved since the late 1980s, which witnessed the outbreak of numerous inter-provincial economic wars. Extreme measures adopted by local authorities have ranged from road blocks and arbitrary taxes to outright confiscation of merchandise and vehicles. But old habits die hard. When the global economic downturn first hit China in late 2008, the provincial government of Anhui issued a directive to companies instructing them to use only locally produced steel. In a more absurd example in 2009, the government of Gong'an county in Hubei province ordered civil servants and teachers collectively to smoke 230,000 packs of a local cigarette brand.

One of the consequences of such a mentality on the part of officials is that there is little regional specialisation of industry in China. In any medium-sized city, local officials will be sure to impress upon potential investors their ambitions to build a financial centre, a high-tech manufacturing hub and an eco-city, regardless of whether or not it makes any economic sense to do so.

Using correlations in GDP growth over the 1996-2010 period yields mixed results. On average, Tibet stands out as being the least integrated region, while the Siberian border region of Heilongjiang is the most integrated, which is puzzling. In terms of provincial pairs, the two most integrated regions are Jiangsu and Shandong. Hubei and Hunan come a close second—sensible considering that the provinces in each of these regional pairs are neighbours. Large, coastal exporting economies-Zhejiang, Jiangsu and Guangdong—also appear to be highly integrated. But this has little to do with integration with each other. Rather, growth in these provinces is so driven by global demand for exports that shock to the world economy are reflected simultaneously through these regions, thus giving off the appearance of integration.

Correlations between interior and coastal provinces are low. However, central provinces appear highly integrated with each other. Rivers seem to play an important role. Anhui, Hunan, Hubei, Chongqing and Sichuan—all on the Yangtze-exhibit correlation scores close to or above 0.9 with each other (1 indicates perfect correlation, 0 indicates no correlation). Shandong and Henan, on the Yellow River, also exhibit high
co-movement. Geography is not the only factor determining the extent of integration. When the central government implemented a development policy favouring the eastern coast in the 1980s and 1990s, the surge in competitiveness in exporting provinces on the seaboard created a major threat to inland industries. Interior provinces heavily resisted the influx of goods from the relatively advanced factories in Guangdong and around Shanghai.

Government initiatives to create regional economic zones have not resulted in higher degrees of integration. For instance, the Jing-jin-ji (Beijing, Tianjin and Hebei) zone has long been touted as a model for building regional efficiencies, but the correlation between these three regions is weak, ranging from 0.2 to 0.4. The grand ambitions for integration in the so-called Pan-Pearl River Delta Region in the south also remain unfulfilled. Correlations between Guangdong, the core of the zone, and its immediate neighbours are poor. Certainly, building national highways, rail routes and telecommunications networks as has been done on a massive scale over the past decade forms an important part of building a unified national market. But it is the softer side of commerce-the human element and the building of trade networks-that economic planners will never quite get a handle on.

While the establishment of a national market for goods and services remains a distant goal, there is one element that moves across provincial borders in abundance-people. According to the 2010 population census, some 86m people live outside of their province of hukou registration. These are not just the highly visible migrant workers from farms in Sichuan and Henan seen toiling in coastal factories and construction sites. In fact, a major misconception is that migration in China is largely a rural-to-urban phenomenon. The bulk of migrants in cities in China are in fact from other cities. The dispersion of migrants around China will likely play a formidable force in driving inter-provincial trade in the future. This has certainly been the case with the Chinese diaspora on the global stage. Remittances from migrant workers to their families back home have already given rise to substantial cross-provincial capital flows. But while market forces will help to dismantle China's invisible borders, the central government in Beijing would do well to take a tougher stance on regional protectionism, starting with a more rigorously enforced competitive state procurement process. Introducing greater transparency in public tendering, as well as harsher penalties for violations by local officials, would carry the dual benefit of promoting regional integration and mitigating corruption, not to mention saving on public funds.

Accelerating regional integration will bring the kind of productivity benefits that the Chinese economy will increasingly start to need as its working-age population begins to shrink in 2015. Failing that, readers may well be in store for another round of compulsory cigarette-smoking.


China urbanization lacks quality, needs investment

Even as more than half of the Chinese population currently lives in cities, China's urbanization drive has not given enough attention to quality or provided equal treatment to migrant workers through the years, according to a green paper issued Saturday. Small and medium-sized Chinese cities will become the key for promoting a better and faster urbanization process, said the green paper on China's small and medium-sized cities in 2012 released at a development forum in Beijing. Small and medium-sized cities contributed to 56.22 percent of the country's overall economy last year, with a combined gross domestic product of 26.51 trillion yuan ($4.2 trillion), according to the green paper. More than half of the Chinese population, or 691 million people, are living in cities, representing an urbanization rate of 25.71 percent. Nevertheless, the quality of the urbanization process remains low, as it is still difficult for rural residents to become urban residents and enjoy the same public services as their peers living in cities.

"To become urban residents, farmers still face obstacles such as high costs," said Wei Houkai, the team to
write the green paper, who is also deputy director of the Institute for Urban and Environmental Studies with the Chinese Academy of Social Sciences. CASS studies show that China will need to relocate more than 200 million people living in rural areas to cities and provide job opportunities and homes for them by 2030 if the urbanization process continues at the current speed of 0.8 to 1 percentage point. Taking into account those migrant workers who have already left the country’s farmlands to seek employment in cities, China will have to turn 400 million to 500 million farmers into urban citizens. Urbanizing those farmers would cost 40 trillion to 50 trillion yuan, Wei said. “It’s apparent that such a problem can’t be resolved by the government alone,” he said. He urged the establishment of a diversified cost-sharing mechanism to ensure that migrant workers can enjoy the same treatment in social security, employment, public services, affordable housing and education as urban residents.

Source: Xinhua: China urbanization lacks quality, needs investment, 2012-09-15

**China puts aircraft carrier into service**

China put its first ever aircraft carrier into formal service on Tuesday in a symbolic move that could further raise tension with Japan and other neighbours. The newly named Liaoning aircraft carrier will help Beijing “effectively protect national sovereignty, security and development interests”, China’s Ministry of Defence said. China’s President Hu Jintao, who is also chairman of the commission that controls the military, presided over the launch ceremony at the ship’s home port of Dalian, along with Premier Wen Jiabao and top generals. Mr Hu “fully affirmed” the efforts of those working on the ship and called on them to complete all remaining tasks according to the highest standard, the defense ministry said.

The carrier is the former Soviet navy’s unfinished Varyag, which was towed from Ukraine in 1998 minus its engines, weaponry and navigation systems. Christened the Liaoning after the north-eastern province surrounding Dalian, the ship began sea trials in August 2011 following years of refurbishment. The Liaoning will mostly be used for training purposes and short missions in China’s coastal waters. Still, the symbolism of formally launching it now, in the midst of bitter recriminations over the uninhabited Senkaku/Diaoyu islands, fits with the provocative and strident stance Beijing has taken on the issue.

Source: Jamil Anderlini in Beijing: China puts aircraft carrier into service, Financial Times, September 25, 2012

**3 smugglers’ sentences stir debate**

Three people who bought goods overseas to sell in China have been charged with smuggling and received severe sentences, triggering a heated discussion over whether the booming online purchasing agents industry has crossed a line. Li Xiaohang, 30, a former flight attendant, was sentenced to 11 years in prison for buying makeup from duty-free shops in South Korea and passing the items through customs as personal belongings instead of goods “many times” between 2010 and August 2011. The import duty on cosmetics, the most popular type of overseas purchase, is high in China. Li evaded 1.13 million yuan ($178,000) in taxes, according to Beijing No 2 Intermediate People’s Court, which heard this case on Monday. She also received a 500,000 yuan fine.

Li’s partners, Chu Ziqiao, 31, and Shi Haidong, 40, were responsible for buying goods from duty-free shops in South Korea and selling them through their online shops on Taobao, according to the court. Chu was sentenced to seven years in prison and Shi five years.

“It’s very rare to see such kind of cases involving smuggling in this way in recent years, and I never heard of a similar punishment for smuggling makeup,” Li Zhitaos, a publicity official of the court, told China Daily. In response to the case, the management authority for Chinese online marketplace Taobao, where the smuggled goods were sold, on Thursday called on other shop owners who provide online purchasing services to obey the laws and regulations and make their businesses legal. More than 5,000 verified shops on Taobao provided
overseas purchasing services in 2011.

A woman surnamed Ling, who opened her online shop on Taobao two years ago to purchase goods for others from Japan, admitted that most individual purchasing agents carry or send goods as personal items through customs. Even though Li and her partners were arrested, Ling said most purchasing agents who smuggle goods are not caught. "It's because the amount of goods we sell is not large and they can only find the previous ones through our selling records," she said, adding that she has been caught several times and been forced to pay back the duty fees. "It's just been bad luck." Ling said she believes the punishment for Li and her partners was too heavy, and many netizens agreed.

Tang Hongxin, a lawyer specializing in criminal cases from Yingke Law Firm in Beijing, disagreed and said the 11-year sentence was not very severe. Under the Criminal Law, people should be sentenced to 10 or more years if the amount of taxes evaded on smuggled goods reaches 500,000 yuan, Tang said. Li's sentence was not heavy based on the taxes she evaded, he said. To prevent similar cases, customs officials and Taobao employees should pay more attention to purchasing agents, since they use loopholes to illegally earn money, he said. Chen Jianwei, an analyst with Central China Futures Corp in Zhengzhou, Henan province, said a more effective way to cut down on the amount of smuggling is to reduce duties and taxes.

Source: Zheng Jinran and Cao Yin: 3 smugglers' sentences stir debate, China Daily, 2012-09-07

China's SMEs in financial crunch: report

China's small and medium-sized enterprises have been hit by multiple difficulties as the overall economy falters and export demand weakens, according to a new report. The report was jointly released by China International Cooperation Association of SMEs and the municipal government of Yulin in southern Guangxi Zhuang autonomous region on Sunday. The report said most of China's SMEs face difficulties as slowing domestic and overseas market demands and soaring consumer costs have aggravated their business environment, especially for labor-intensive sectors such as small suppliers for iron and steel firms and automobile producers. Official figures suggested that SMEs made up 97 percent of China's 12.5 million licensed companies by the end of 2011.

The report said the SMEs are facing a tougher financial crunch this year than before. It cited figures from the National Bureau of Statistics that only 8.6 percent of the SMEs that needed bank loans got money they applied for in the first quarter, which was down by 1 percentage point from the same period of last year. The report foresees that a large number of SMEs may shut down during China's on-going economic restructuring, eliminating high energy-consumption and pollution-yielding firms. They also pointed out that upgrading technology and improving management is a fundamental way for SMEs to survive the crisis.


SME confidence slips again in Q3

Confidence among small and medium-sized enterprises dropped further in the third quarter, as the country's economic growth continued to slow down, research from Standard Chartered showed on Thursday. The SME confidence index stood at 46.71 percent, down 7.44 percentage points on the previous quarter, according to the bank's research. A reading of above 50 shows SMEs are confident about their prospects. The slide in the index, said Gu Chanjuan, president of SME wealth management at Standard Chartered, is mainly due to the continuous dip in China's economic growth, especially the deteriorating foreign trade situation. "Declining exports and imports may pose the biggest challenge for China's economy in the coming months," said Wei Jianguo, former vice-minister of commerce. He said the country might find it hard to hit its trade growth target of 10 percent for the year. "September and October may be the worst time for China's exports as it is the key season for exporters
to grab Christmas orders," said Wei, adding that SMEs may have a really difficult time.

According to the report, SMEs recorded lower operational and investment confidence, down for the second quarter in a row. Their confidence in financing, however, climbed slightly on the previous quarter. "Now is the best time for the central government to launch policies, such as tax cuts, to support export-oriented SMEs," Wei said. Though the government has been trying to stimulate domestic consumption as the other two major drivers, exports and investment, remained weak, the outlook for China's consumer market is not as optimistic as expected. According to Wang Jianlin, chairman of Dalian Wanda Group, China's largest commercial property developer and operator, the average growth rate of passenger traffic at Wanda malls will be in single digits this year, compared with double-digit growth before 2012. Meanwhile, the average spending of shoppers at Wanda malls is also falling this year, signaling that consumer spending capacity or their willingness to spend is fading. Moreover, many multinational chain stores have changed their plans or are slowing the pace of opening new stores in China, according to Wang. The group runs around 70 Wanda malls around the country.

Source: Hu Yuanyuan: SME confidence slips again in Q3, China Daily, 2012-09-28

China's Economy Signals Continued Contraction in Manufacturing

A gauge of manufacturing activity in China rose slightly in September but remained in contractionary territory for the 11th consecutive month, indicating that the world's second-largest economy is still slowing. The HSBC China Manufacturing Purchasing Managers' Index rose to a final reading of 47.9, compared with a preliminary reading of 47.8 announced last week, and a final reading of 47.6 for August, HSBC Holdings PLC said Saturday. New export orders fell at the fastest rate since March of 2009, HSBC said, when the global economy was still reeling from the financial crisis. The export orders reading indicates that economic weakness in major export markets such as the U.S. and Europe is continuing to have an impact on China. The sub-index reading on employment indicated that workforce numbers at manufacturing firms fell in September, though at a more mild pace than in the previous two months. Nearly 85% of survey respondents reported no change to their staff levels, while 8% said they had cut staff, HSBC said.

China has taken a series of measures over the past several months to support growth, but many economists say the government's reaction to the slowdown has been less intense than expected, possibly due to fear of a rebound in inflation or property prices. In the most recent move, the General Administration of Customs on Friday announced a series of measures to stimulate trade growth, including scrapping some customs charges and simplifying procedures for trade companies.


China sovereign fund sees 3.9% investment return

The China Investment Corporation, the nation's sovereign wealth fund, announced Thursday that the annualized yield of its overseas investment stood at 3.9 percent since it was founded five years ago. The company said the result showed that the corporation has maintained and increased the value of the nation's foreign exchange reserves amid fluctuating global financial markets. According to the company's 2011 business report, its overseas investment portfolio included 31 percent of long-term investments, 25 percent of diversified public equities, 21 percent of fixed-income securities, 12 percent of absolute return investments, and 11 percent of cash funds and others. Due to the slow recovery of global economy and the European debt crisis, the return on the CIC's global investment portfolio declined 4.3 percent last year. Headquartered in Beijing, the company was established on Sept 27, 2007 with a registered capital of $200 billion. Its total assets reached $482 billion as of the end of 2011.
Merkel's China Trip Focuses on Economy, Not Rights: [Foreign Desk]

Chancellor Angela Merkel of Germany headed home on Friday from a two-day visit to China with a stack of newly signed business contracts and a pledge for Beijing's backing in the euro crisis, but few promises from Beijing to improve human rights. Ms. Merkel, seven members of her cabinet and several dozen representatives of Germany's largest companies visited China at the invitation of Prime Minister Wen Jiabao as both countries faced the prospect of slower growth and weakening demand for their exports, pushing economic concerns to the forefront. At the heart of Ms. Merkel's concerns were winning support from Mr. Wen and the man expected to succeed him early next year, Li Keqiang, in buying up more European debt in an effort to ease the sovereign debt crisis, which has been crippling Europe for three years and causing uncertainty in global markets.

Human rights issues may have been largely ignored on this visit, but economic ties have flourished since the two countries began a program of annual governmental exchanges in 2010. On this trip, German executives signed contracts worth more than 4.8 billion euros, or $6 billion, including an order for Airbus, a French-German venture, for 50 jets worth more than $4.4 billion. Still, disagreements over trade, transparency and access to China's lucrative domestic market remain. Ms. Merkel said on Thursday that she favored negotiation in a trade dispute in which Germany's largest producer of solar panels is accusing China of dumping low-cost panels in Europe. During a visit to Mr. Wen's home city, Tianjin, outside Beijing, she made it clear that Chinese companies needed to recognize that subsidies distorted competition and violated European law. "My plea is that everyone be transparent, that they lay their cards on the table about how they produce," the chancellor said, Reuters reported. Europe's trade commissioner is expected to decide next week whether to take up the case.


China competitiveness ranking sees rare decline

China's global competitiveness ranking declined for the first time in 2012 after seven years of steady progress. Experts said the news is a warning to Beijing that it needs to effectively increase education and innovation investment and speed up market-oriented reform.

In the Global Competitiveness Report 2012-13, released on Wednesday, the Switzerland-based World Economic Forum said China's competitiveness ranking dropped from the world's 26th in 2011 to 29th this year, its first decline since 2005. For the fourth straight year, Switzerland was ranked No 1, and this year, it is followed by Singapore. Hong Kong and Japan are also on the top-10 list. The report's competitiveness ranking is based on the Global Competitiveness Index (GCI), calculated by drawing together public and private data in 12 key categories, including institutions, infrastructure, macroeconomic environment and innovation. The factors make up a comprehensive picture of an economy's competitiveness. The annual report also said China still leads the emerging economies. Among the 144 economies and regions listed, Brazil was 48th; South Africa, 52nd; India, 59th; and Russia, 67th.

David Fouquet, an expert of the Brussels-based European Institute of Asian Studies, said China's leadership should have a more comprehensive picture than what was described in the report, which is more business-based. "China should be careful about the criteria in the report, which indicates that the smaller the economy is, the more competitive it will be," said Fouquet, adding that this is an indication that China needs to interpret the results in the report critically. The report indicated that Switzerland and countries in Northern Europe have been consolidating their strong competitive positions since the economic downturn in 2008. The US declined in the rankings for the fourth consecutive year, falling two places to seventh. It's overtaken by the Netherlands, which
is fifth, and Germany, which is 6th. Dennis Pamlin, founder of Sweden-based consultant firm 21st Century Frontiers, said: "For a country like China, which is so big and has special circumstances, it is better to use a tailor-made approach in which China is compared with other counties in key areas. An index in which peaceful development is the starting point, not almost totally ignored."

Source: Fu Jing in Brussels and Wei Tian in Beijing: China competitiveness ranking sees rare decline, China Daily, 2012-09-06

Chindependence: The Sinodependency Index

JUST as the Big Mac Index provides an informal barometer of currency misalignments, The Economist's Sinodependency Index serves as a rough gauge of the world economy's exposure to China. Many readers have asked for information on how we cobbled it together for the article on August 25th.

Our method is straightforward. The index includes all of the firms in the S&P 500 index that provide a useable geographical breakdown of their revenues. This amounts to 135 firms. Each company's weight in the index is supposed to reflect their China revenues. So a company raking in $2 billion a year from China gets twice the weight of a company pulling in $1 billion. Some companies report their China revenues explicitly. Many others report only their revenues for Asia-Pacific, excluding Japan. In these cases, we assume that China's share of those revenues matched China's share of the region's GDP. This varied from 46% to 49% over the course of the index's history. This is, admittedly, a crude assumption. But it was largely borne out in the cases where it could be tested, ie where firms reported their revenues for both China and the broader region.

When we first devised our Sinodependency Index in 2010, we scaled its constituent firms a little differently. Their weights reflected their market capitalisation multiplied by China's percentage share of their revenues. Under this method, a company worth $100 billion that derived 10% of its revenues from China had the same weight in the index as a company worth $20 billion deriving half of its revenues from China. Feel free to debate the merits of the two methods, perhaps in the comments section below.

The table below displays the 135 companies in our Sinodependency Index. The size of each firm's tile reflects its weight in the index. (Placing the cursor over a tile brings up the exact percentage.) The colour of each firm's tile corresponds to their industry sector. Clicking on a button shows the ranking in previous years. Data aficionados can click here for a csv file of the information.

Source: Chindependence: The Sinodependency Index, The Economist (Online) (Sep 6, 2012).

International investment, trade fair kicks off in Xiamen

More than 600 delegations from 110 countries and regions gathered Saturday in the southeastern city of Xiamen to attend the 16th China International Fair for Investment and Trade. The fair, sponsored by China's Ministry of Commerce, aims to facilitate global investment flows through the hosting of bilateral and multilateral economic promotion activities. "We look to using the platform to deepen investment exchanges and help restore the global economy back to shape,” Vice Minister of Commerce Gao Hucheng said at the opening ceremony. China's economic strides in recent years had made it an attractive destination for foreign investment. Official statistics showed foreign direct investment in China reached $116 billion in 2011. Meanwhile, China's "go global" strategy had fuelled the country's outbound direct investment growth. Last year's ODI increased 8.5 percent year on year to $74.65 billion, ranking the sixth worldwide, according to the MOC.

Source: Xinhua: International investment, trade fair kicks off in Xiamen, 2012-09-08

Twisting Beijing's View of the U.S. QE3

The Federal Reserve's move to pump up growth in the U.S. will raise howls of protest in China. In fact, the
Fed is doing the job of Chinese policy makers for them. Two years ago, China's consternation at the Fed's "quantitative easing" was easy to understand. Beijing was trying to temper its domestic stimulus measures and feared a flood of hot money stoking inflation and asset-price bubbles. This time around is different. Growth in industrial output and exports is at its lowest level since the financial crisis. Yet monetary policy remains relatively tight.

Now, the Fed has done Chinese policy makers a favor. If past experience is anything to go by, quantitative easing in the U.S. will spark a wave of capital flows to emerging markets. Inflows of capital should buoy China's flagging real-estate and equity prices, and pump up liquidity in the banking system, pushing bank lending and investment higher. Assuming the Fed's move has the desired impact on the U.S. economy, China's factories--and those across Asia--should see slightly stronger growth in exports, too. There are negatives. Higher commodity prices will mean imported inflationary pressure. A weaker U.S. currency will reduce the purchasing power of Asia's enormous dollar reserves as well. But for China, a move that should boost growth and fuel demand from its biggest export customer looks like more of a benefit than a cost.


Xi Jinping hits out over Japan dispute

Xi Jinping, China's leader-in-waiting, weighed into the country's dispute with Japan over a group of islands in the East China Sea on Wednesday. In a meeting with Leon Panetta, US secretary of defence, Mr Xi said Japan "should rein in its behaviour and stop any words and acts that undermine China’s sovereignty and territorial integrity", according to Xinhua, the official news agency. Mr Panetta, on his first visit to China as defence secretary, said: "My impression was that he was very healthy and very engaged," adding that their meeting had run at least half an hour over time because of Mr Xi's keen interest in the discussion. Mr Panetta sought to explain the US policy of "rebalancing" towards Asia, which has raised concerns in Beijing that it could be an attempt to contain and encircle a rising China. He was also keen to push for a stronger and more sustained relationship between the two countries' militaries, which has in the past been disrupted over issues such as US weapons sales to Taiwan.

He praised Mr Xi as "one of those that really believe that we can develop a new model in the relationship between China and the United States".


Japan to charge China for protest damage

Japan will ask the Chinese government to pay damages for the cost of repairing the Japanese embassy in Beijing and consulates that were attacked in anti-Japan demonstrations that swept through China over the past week. “We will request payment for the damage done,” Osamu Fujimura, chief cabinet secretary, said on Thursday. The Japanese embassy in Beijing and consulates in some Chinese cities were the target of anti-Japan protests that were triggered by Japan’s decision to nationalise some of the remote Senkaku islands, claimed by China as well as Japan.

Protesters hurled stones and rubbish at the Japanese embassy and consulates and damaged a range of Japanese businesses, breaking windows and destroying factories and shops. A Panasonic factory and Toyota dealership were burnt while department stores operated by Heiwado were ransacked. The Heiwado stores are expected to take at least a month to reopen. Mr Fujimura said damage to Japanese businesses should be dealt with based on Chinese law, but that the Japanese government was prepared to provide advice to companies if requested. The Japanese government was in the process of assessing the extent of the damage done, Mr Fujimura
Islands 'purchase' hurts major industry sectors

Japan's "purchase" of China's Diaoyu Islands is having an economic impact on the two Asian economic powers across a range of key industry sectors, particularly travel and tourism. Meanwhile, China is ramping up its customs inspections for Japanese products arriving at its ports, companies said on Friday. "We've heard from our employees in China that some Japanese products arriving at Chinese ports are facing stricter customs procedures," Tsutomu Suehara, a spokesman for Japanese trading house Sojitz, was quoted as saying by AFP.

China Comfort Travel Group Co Ltd started to cancel its tour groups to Japan on Sept 11, when it announced it would stop selling all Japan tour products at the agency's 5,500 stores across China. In Beijing, all its Japan tour groups booked between Sept 16 and Oct 8 were cancelled and customers were refunded, said Yao Yao, head of the agency's marketing department. Hainan Airlines Co Ltd, which runs a weekly charter flight between Beijing and Okinawa-ken, cancelled the flight on Thursday because of insufficient passengers, said Dong Jun, the airline's public relations manager. Japan Airlines Co Ltd said it would reduce its daily flights to China, excluding Hong Kong, by three to 10 until Oct 27, while the Nikkei Business Daily said JAL had about 12,000 cancellations on flights between September and November, including 5,500 seats cancelled flying out of Japan and 6,500 seats cancelled from China.

The country's automakers are reported to have lost $250 million in output owing to suspension of operations in China, caused by protests this week, and they now also face the risk that sales will halt altogether in the world's largest car market, according to an estimate by IHS Automotive. "This impact will continue, depending on the development of the dispute," She said. The Ministry of Commerce also launched an anti-dumping investigation into imported pyridine from Japan and India.

A Reuters poll on Friday showed that 41 percent of Japanese companies see the islands dispute affecting their business plans. China is Japan's biggest trade partner with bilateral trade worth $340 billion in 2011. Japan's exports to China accounted for 19.7 percent of Japan's total exports in 2011.

Source: Li Jiabao and Wang Wen: Islands 'purchase’ hurts major industry sectors, China Daily, 2012-09-22

The economics behind the China-Japan dispute

Anti-Japan protests in China over the Senkaku/Diaoyu islands have died down but with Taiwanese and Chinese ships looking for mischief and the likelihood of more provocative acts, it will not take much for emotions to flare up again. Neither Chinese nor Japanese leaders are well positioned to handle a prolonged confrontation given pressures to revive their respective economies. Nor can either side afford to be seen as caving in to nationalistic pressures.

The more level-headed realise that there is much to be gained in fostering closer economic ties and cooling tensions. Both sides could use "benign neglect" to postpone emotionally charged issues until sentiments allow for a softening in animosities. This is a path that mainland China and Taiwan have followed with some success in recent years.

Clearly both China and Japan would stand to lose if the disputes led to a breakdown in relations that interrupted production and triggered boycotts. Bilateral trade has tripled over the past decade to more than $340bn. China is now Japan’s major export market and Japanese investment in China has been running at twice that of the US and South Korea in recent years.

Japan has a much more substantial economic presence in China’s domestic market than vice versa. Japanese
chain restaurants are quite popular and their retail outlets sell everything from cars to electronics in China. But most Chinese consumers would not consider switching to European and other Asian brands much of a sacrifice and on this score Japan could be more vulnerable to a trade breakdown or boycott. However, China also stands to lose – most of these goods are produced by Chinese-owned companies with local labour and materials – and thus the second-round effects would take a toll on China’s interests.

The more important consequences in terms of the impact on growth, however, come from the complementary roles that the two countries play in the east Asian production network. China may be the face of this network, as the assembly plant for the world, but the largest share of the sophisticated components for assembly originates from Japan. China, however, has benefited greatly from the jobs generated in export-oriented industries. And both China and Japan have thrived because these arrangements make use of their relative advantages, allowing them to specialise and achieve scale economies. China’s large trade surplus with the west, which emerged partly because of this network structure, has fomented considerable tensions with the US. But often overlooked is that Japan accounts for a large share of this surplus in value-added terms.

Assessing the relative costs for the two sides if the production network became hostage to the island disputes is more complicated because other countries are also involved and roles are evolving. Increasing transport costs and the complexities of a dispersed supply chain are also encouraging firms that previously outsourced components to integrate more within China. As Chinese technology-intensive companies such as Huawei expand, local linkages have deepened. Processing-related imports and exports have fallen by about 10 percentage points as a share of total trade over the past decade as production has become more integrated within China. The net effect is that forces are pushing China to become more of a competitor with Japan in the production network rather than a complementary partner.

Regional economic and trade considerations also affect the calculus. Both countries are competing for access to resources from hydrocarbons to base metals. Bilateral tensions are raised every time a deal is struck, such as determining the route for the Russian oil pipeline serving Asia or awarding extraction contracts in Myanmar. As a mature economy, Japan’s growth is less resource intensive than China’s. But its vulnerabilities may not be any less, given special factors such as China’s near-monopoly position in rare earths that are vital to Japan’s more sophisticated production lines.

How both sides handle politically tinged regional trade agreements also matters. Japan may now feel that joining the Trans-Pacific Partnership would draw Japan closer to an American-led trade bloc as a hedge against China’s growing economic clout. But along with America’s “pivot” toward Asia, this may reinforce insecurities among China’s hardliners that this is all part of a “containment” strategy and that stronger economic ties with Japan may not be worth it.

All this is a reminder that seemingly minor but emotionally charged disputes can trigger actions with far-reaching negative consequences for everyone. Both sides need to put this dispute on the back burner where it belongs.

Source: Yukou Huang: The economics behind the China-Japan dispute, Financial Times, September 24, 2012

**Growth of China, India over 20 years: a comparison**

COMPREHENSIVE statistics on over a thousand indicators, often running for five decades, are available for many countries from the World Bank database. From out of the hundreds of indicators, we select a few - macro-economic and sectoral - to get a comparative perspective on the extent of progress that China and India achieved within the two decades of 1990-2009.

The macro-economic indicators in Table 1 speak for the phenomenal growth achieved by both economies during 1990-2009, with China gaining lead over time. In 1980, China's GDP per capita in comparable
international dollars was 60 per cent of that of India. China continued to be behind India up until 1991, when its per capita GDP was 96 per cent of India's. From then on, China took off at breakneck speed with its 2009 per capita GDP amounting to a little over 207 per cent of that of India. There is no short cut for such an accomplishment: relatively high domestic saving and investment levels are at the root. However, China leveraged foreign direct investment effectively and focused on building industrial expertise, while India did so on the services front, to some extent. India has allowed relatively more portfolio investment and is relatively more inflation-prone than China.

India added 300 million people to its population during 1990-2009 as against 200 million in China (see Table 2). India is well above China with regard to both arable land per capita and percentage of total land area that is arable. Still the yields are way below that of China. This factor influences the welfare of the vast rural population: 70 per cent of total population. Labour-intensive industrial progress helped China in many ways: boosting jobs, reducing the percentage living in rural areas relatively more rapidly, improving export earnings and reserves, and reducing poverty significantly.


In Crisis With Japan, China Adjusts Strategy but Does Not Back Down

After allowing anti-Japanese demonstrations that threatened to spin out of control, China has reined them in and turned instead to hard-edged diplomacy over disputed islands in the East China Sea to lessen any potential damage the conflict might have inflicted on the nation's softening economy and a delicate leadership transition. But Beijing sent a not-so-subtle message to Tokyo by not granting clearance to the plane that would have brought in an important Japanese guest, the chairman of Toyota. Other Japanese attended the event, though, and at the United Nations in New York, the two sides met in private and sparred in public.

The protests in more than 80 cities, including in urban centers where Japanese car dealerships and electronics plants were damaged, suggested that the Chinese leadership approved the outpouring of nationalism in part as insulation against criticism of the party itself during the transition of power that formally is scheduled to take place at the 18th Communist Party Congress, now set to begin on Nov. 8. But the protests threatened to turn against the Chinese government itself, diplomats and analysts said. Even though China has overtaken Japan as the biggest economy in Asia, Beijing's handling of the dispute, precipitated by the Japanese government's decision to buy three of the islands from their private Japanese owners, highlighted the interdependence of the Chinese and Japanese economies, and the limitations on what the leadership could allow. Notions of punishing Tokyo economically for buying the islands, whose status was left unclear after World War II, are unrealistic, said Hu Shuli, editor in chief of Caixin Media and one of China's chief economic journalists. So many Chinese workers are employed at Japanese-owned companies, she said, that any escalation of tensions leading to a boycott of Japanese goods could lead to huge job losses.

A rough chronology showed that immediately after the Japanese government announced it had bought the islands, protests began in Beijing and other cities. The protests then spread, reaching a peak on the anniversary of the Sept. 18, 1931, Mukden Incident, which led to the Japanese invasion of Manchuria. After that, the protests were shut down. "I think it will be less likely for the new Chinese leadership to make concessions," said Mr. Ren, now a professor of international politics at Fudan University in Shanghai. "The same goes for a possible Liberal Democratic Party government in Japan. That's why I am very worried about the Sino-Japanese relationship."

China economy: Export powerhouse struggles

The global economic slowdown is being felt more acutely in China's key export provinces. Most prominently, Dongguan, in the southern province of Guangdong, has been hit hard by a combination of slow overseas sales, the movement of some types of manufacturing inland and abroad, higher labour costs and the slow process of crawling up the value chain. Higher-value manufacturing may eventually emerge, but much depends on the extent of progress made towards the national goal of shifting from reliance on external demand to domestic demand.

China's economic reforms began with the opening-up of Guangdong province in the late 1970s. The province benefits from transport and cultural links with the adjacent port city of Hong Kong, making it a logical location to set up factories servicing overseas demand. The special economic zone of Shenzhen was the first to take off. In the past decade, Dongguan, to the north of Shenzhen, has also risen as a manufacturing hub. The area surrounding the city is host to around 11,200 registered industrial processing firms, most with investment from Taiwan and Hong Kong. The EIU estimates that GDP per head in Dongguan had risen to Rmb57,560 (US$9,136) by 2011, much higher than the national average of US$5,460. However, areas with strong links to the global economy have been hit harder by faltering external demand and the resultant slowdown in investment spending. In the first half of 2012, Guangdong province reported GDP growth of 7.4% year on year, ahead of only Beijing and Shanghai (7.2%). Dongguan's growth rate of 2.5% over the same period was the slowest in the province.

The Guangdong authorities are seeking a move up the value chain, and so-in theory-should see the loss of some lower-end industries to inland China and South-east Asia as a good thing in the long term. However, Dongguan is having to deal with the cost and difficulties of technological upgrading at the same time as policies are being reoriented towards supporting domestic consumption. Dongguan's industry is dominated by small and medium-sized enterprises, which have less capital available to support upgrading. Its problems in moving up the value chain also stem from the area's status as a newer emerging area competing against the already established zone of Shenzhen. It is not rare in China for newer areas to compete via looser implementation of regulatory standards, but this makes a subsequent attempt to move up the value chain all the more onerous. The local government has sought to provide some assistance, spending Rmb3bn since 2008 to assist areas such as technological upgrading, the establishment of research-and-development centres and the development of companies' own brands. Such schemes are designed to help local companies both to move up the value chain and to shift the focus of their sales to the domestic Chinese market. Despite government support, however, the EIU forecasts that GDP growth in Dongguan will remain below 8% over the period to 2016, well below the heady double-digit rates recorded in 2001-10. This underlines the point that moving up the value chain in the midst of an economic downturn is unlikely to be easy. As a consequence, it is likely that Dongguan is looking at a prolonged downturn, and the city is only the clearest example of a process being felt across China's export-processing belt.

The government has repeatedly stressed its aim to shift the economy towards the servicing of domestic demand. However, progress towards this goal has so far been mixed at best. Dongguan has been recently hailed by the Chinese media as an example for other areas in China to follow in this regard, despite the fact that the area is struggling to make progress on this agenda itself. In the first half of 2012 domestic sales by above-scale industrial enterprises in Dongguan (those with annual business income of more than Rmb20m) were up by just 1.2% year on year to Rmb193.1bn. Local manufacturers have cited the higher costs incurred in developing the domestic Chinese market, including the high cost of brand establishment; insufficient protection of intellectual property rights in China; problems in the housing market in key cities; the immature state of domestic consumer credit; and the fact that product mixes have been developed for overseas markets and cannot simply be switched to service domestic needs.
China's weak trade activity adds to pressure for stimulus

China reported weak trade activity in August, raising pressure on the central government to stimulate the nation's slowing economy. Imports fell 2.6% from a year earlier after growing 4.6% in July, underscoring China's softening demand for commodities and raw materials. Exports grew 2.7% from a year earlier, up slightly from 1% growth in July. The weak trade figures, announced Monday, come a day after China said industrial production had expanded at its slowest pace in three years.

To boost employment and investment, China recently announced a slew of infrastructure projects, including new subway lines. The government also unveiled domestic subsidies for energy-efficient appliances to encourage more Chinese to buy. In addition, over the last nine months, Chinese officials have implemented a variety of measures, including cutting interest rates to boost bank lending to businesses.

China backs EU efforts to address debt crisis

A Foreign Ministry spokesman said Thursday that China will continue to support Europe's endeavors to stabilize its economy and will help to resolve the eurozone crisis through multiple channels. "Some progress has been made recently regarding the European debt crisis," Hong Lei said at a daily news conference when asked to comment on a Wednesday decision by Germany's Federal Constitutional Court to establish the European Stability Mechanism. The approval of the ESM has paved the way for a permanent bailout fund and other economic instruments to go into operation to fight the crisis. China has paid close attention to the crisis, Hong said, adding that the European debt crisis affects not only Europe, but also has an influence on China and the world at large. China has always backed efforts made by the EU to handle the crisis and has provided assistance within its capacity by increasing imports and expanding investment, Hong said.

China's Export IOU Crisis

Headline data show China's exporters are in a perilous state. Reality may be even worse. The State Administration of Foreign Exchange's latest numbers show growth in foreign-exchange income from exports has slowed sharply. The ratio of export income returning home relative to the value of exports fell to 85% in the second quarter, near levels last seen during the financial crisis. That reflects cash constraints for China's foreign customers. August's dismal 2.7% year-on-year growth in exports was made possible only by extending credit to troubled buyers. If Europe worsens, China's factories won't only see exports fall further, they also will be sitting on a pile of IOUs. Lower foreign-exchange income from exports also reflects a decision by businesses in China to keep their earnings overseas in foreign currency. Combined with an exodus of funds through the capital account, which registered a deficit in the second quarter, the consequence is a reduced flow of funds into China's economy.

Importing Jobs From China; Exports aren't the only drivers of employment.

Barack Obama and Mitt Romney are competing to see who can sound tougher on trade with China, with the Obama Administration leaking on Sunday that it plans to file new complaints at the World Trade Organization against Chinese autos and auto parts. So it's a good moment to look at the actual evidence and see how imports
from China often create American jobs.

Chinese imports in apparel and toys alone supported a total of 576,000 jobs in the U.S. in 2010, according to a new report from the Heritage Foundation. The analysis, by Derek Scissors, Charlotte Espinoza and Terry Miller, is not without its flaws, as the authors readily acknowledge: Accurate data for something as complex as the value added along a supply chain can be hard to come by. Yet the study is in line with a growing body of research demonstrating the contribution of Chinese exports to American prosperity.

A 2010 paper from the Asian Development Bank Institute found that although each iPhone 3G exported from China to the U.S. last decade entered America with a declared value of $178.96, only $6.50 of that value was clearly attributable to China, where the phones underwent final assembly. Much of the rest of that value accrued to the Koreans, Japanese and Americans who produced the components and shipped them to China for manufacture. The authors also noted that the entirety of the markup between the imported value and the final sale price on the iPhone (ranging from 50% to 100% of the declared import value) accrued to Americans. This included profits for Apple, payments to shipping and logistics firms, and margins for retailers. Economists at the Federal Reserve Bank of San Francisco expanded on this point in a study last year by focusing on all the American value added to "made in China" products. They found that up to 55 cents of every $1 dollar spent on a product with a "Made in China" label actually goes to Americans who design the products; manufacture components that are shipped to China for final assembly; transport the goods; market and retail them; finance their production and trade, and so on. The San Francisco Fed researchers also found that imported components from China are appearing in a growing number of "Made in America" products. The Chinese content in American-assembled finished goods has roughly doubled in the decade since China joined the World Trade Organization, to 1.9% in 2010. These are American products that would be more expensive for U.S. and global consumers--or simply impossible to produce on American soil--without imports from China.

All this is a useful corrective to what often passes in Washington as thinking on trade. For instance, the Big Labor-backed Economic Policy Institute regularly produces papers purporting to show huge American job losses from trade--2.7 million net jobs lost to Chinese imports between 2001 and 2011, according to their latest opus last month. These calculations wrongly assume that a product not manufactured in China would automatically be made in America. Yet manufacturing has often shifted to China not from the U.S. but from countries like South Korea or Japan from which America used to import. Trade critics also tend to ignore jobs in retailing, advertising and the like, on the remarkable theory that such jobs would exist regardless of where the product is manufactured. In reality, those jobs--and jobs in a variety of ancillary services, such as iPhone app development or e-commerce--might never have existed if imports from China hadn't boosted American purchasing power by lowering prices, a spur to consumption.

Source: Anonymous: Importing Jobs From China; Exports aren't the only drivers of employment, Wall Street Journal (Online) [New York, N.Y] 17 Sep 2012: n/a.

Global economic woes mire China in trade rows

It's a familiar turn of events: When the global economy worsens, trade disputes become more common, especially those targeting goods that are "made in China". On Monday, US President Barack Obama announced the United States would go to the World Trade Organization to file a lawsuit alleging that China provides subsidies to companies that make automobiles and auto parts, thus harming their US competitors. In response, the Ministry of Commerce said on Wednesday: "The US' decision was made out of political considerations. A presidential election is now going on in the US and President Obama made the announcement in Ohio, which is a state where much automobile production takes place. China is firmly opposed to the US action." "From cases involving solar panels to rare earths and many other sorts of products, we have already seen that trade
protectionism is being used more often against China, and this will probably continue for a couple more months,” said Zhang Xiangchen, director-general of the Ministry of Commerce's department of policy research. He said "the US and the (European Union) will be the most aggressive players in the game”, noting that their economies are plagued by either "high unemployment" or "huge debt burdens".

In early September, the EU announced plans to start an anti-dumping investigation into exports of Chinese solar panels, which, last year, had a value of 21 billion euros ($27.5 billion). The probe came at the request of a group of 25 producers of solar equipment and is the biggest-ever anti-dumping claim to be submitted to the bloc. The EU countries are the chief destinations of Chinese exports, making it likely that the investigation will deal a devastating blow to Chinese solar companies if it results in the imposition of greater duties.

For more than a decade, China has been a target of trade disputes, a development that has largely resulted from the quickening pace of its exports. Since 2009, a wave of trade investigations into Chinese exports, led especially by the US, has threatened to drown Chinese manufacturers. The first half of this year saw the start of 40 trade remedy investigations into Chinese exports, a number up by 38 percent year-on-year. In one of the most significant of those cases, the US, the EU and Japan submitted a complaint about China to the World Trade Organization in March, accusing it of controlling exports of rare earths, elements that are widely used in the production of smartphones, computers and other sophisticated hardware.

In May, in a preliminary ruling, the US Department of Commerce imposed anti-dumping tariffs equal to between 31.14 percent and 249.96 percent of the cost of solar panels imported from China. Two months before, it had imposed countervailing duties - also known as anti-subsidy duties - equal to between 2.9 percent to 4.73 percent of the cost of Chinese panels. Then in July, the US announced it would set tariffs equal to as much as 73 percent of the cost of wind towers imported from China, contending that the country has sold the towers for less than how much it costs to produce them. Following the US' example, the EU has submitted an anti-dumping complaint against Chinese companies. The trade investigations threaten to harm all of the parties that are involved in them. The EU, for instance, was the destination in 2011 of 60 percent, or $35.8 billion worth, of China's solar exports.

Faced with an increasing number of trade disputes, the Chinese government is hitting back. Two months after the US announced a preliminary ruling in the case concerning exports of Chinese solar panels, China said it was starting an investigation into US polysilicon. The Chinese government has also said it is looking into industrial associations' requests for investigations into whether European wine makers and polysilicon exporters have benefited from unfair subsidies and have dumped their products on the Chinese market. Premier Wen Jiabao has said the country will take steps to encourage domestic companies to innovate more and become stronger competitors.

Source: Ding Qingfen and Li Jiabao: Global economic woes mire China in trade rows, China Daily, 2012-09-20

**China overtakes US as largest crop importer**

China passed the US last year for the first time to become the biggest importer of agricultural products, while also increasing its exports, according to data by the World Trade Organization. Imports, including food and beverages, rose 34 percent to $144.7 billion in 2011 from $108.3 billion in 2010, according to Bloomberg calculations based on data released by the Geneva-based trade body. Exports gained 25 percent to $64.6 billion, beating Canada to become the sixth largest, the data show. The country's rising population was highlighted as the reason for growth demand from soybeans, corn, feed livestock, powdered milk and sugar to make beverages. Urbanization widened China's water and land shortages, further fueling a global rally in crops amplified by drought-reduced supply.

Source: Xinhua: China overtakes US as largest crop importer, 2012-09-21
Foreign firms 'will benefit from new industries'

Foreign companies will enjoy new opportunities with the development of the recently announced seven strategic emerging industries, such as environmental protection and new-energy vehicles. According to a national development plan for strategic emerging industries during the 12th Five-Year Plan (2011-15), unveiled in July, the government wants the industries to generate 8 percent of GDP in 2015 and 15 percent by 2020. This is a marked rise from the 4 percent of GDP that they were responsible for in 2010.

Plans for energy saving and environmental protection, high-end manufacturing, new materials and new-energy vehicles have been issued. Plans for new-generation information technology, biotechnology and new energy are being examined for approval by the State Council. Other reforms are in the pipeline, such as low-altitude airspace management, the convergence of telecom, broadcasting and Internet network services and reform of the pricing mechanism and quota system for new energies. The government will set up a special fund to boost emerging industry development. The fund for this year is a 7.5 billion yuan ($1.17 billion) investment in innovation and strategic emerging industries allocated by the government in March, industry insiders said.

Together with investment in key scientific research projects and local fiscal investment, the total will be more significant, economists said. More than 20 local governments have launched detailed plans to boost emerging industries between 2011 and 2015. The Shenzhen government, for instance, has allocated 10 billion yuan for new emerging industries. Local governments are designing a range of preferential policies, subsidies and loan arrangements. Finance Minister Xie Xuren last month pledged to further support emerging industries through tax incentives.

Davide Cucino, president of the European Union Chamber of Commerce in China, said European businesses are eager to contribute. "Most of the technology involved is already in use in Europe. And the readiness of European business to invest in these sectors perfectly matches the need for further development in China," he said. However, he also expressed concern that foreign companies would not be treated equally, regarding subsidies, financing and intellectual property rights.

"Foreign enterprises are facing more opportunities and brighter prospects in China by fully utilizing China’s opening-up policy and the country’s diversified market." The government has encouraged foreign investors to target industries such as biomedicine. Further opening up to international cooperation is a must, said Feng Fei, head of the industry department at the State Council Development Research Center, a government think tank. "Chinese companies and their foreign counterparts will have to create new models for business cooperation," he said. Some Chinese companies traditionally took a "take-and-use" approach in research and development. But they will have to play a bigger role in innovation as there is a technology shortfall in some new industries, such as electric car batteries where both Chinese and foreign companies have yet to make a genuine breakthrough.

Many international companies have seen the new emerging industries and industry transfer from coastal areas to the interior as a pathway for future investment, said Zhang Changchun, director of the Institute of Investment at the National Development and Reform Commission. Executives from more than 100 international companies including Siemens, Toyota, Ford and Motorola have recently visited regions such as Chongqing and Sichuan to investigate the investment environment, according to the Economic Observer. The emerging industries provide a number of opportunities, and combating pollution is one of them. US scientific instrument manufacturer Thermo Fisher Scientific has seen monitoring equipment sales rise. China tightened air pollution monitoring standards and the Environment Ministry plans to build around 1,500 monitoring sites for the particulate matter 2.5 by 2015 with an estimated investment of 2 billion yuan. Zhou Xiaobin, a commercial director of Thermo’s environmental and processing instrument division in China, said sales have risen sharply.

Source: LAN LAN: Foreign firms 'will benefit from new industries', China Daily, 2012-09-05
Microsoft: raising the stakes in China

When Microsoft’s top China executive talks about his host country, he is very diplomatic. “Germany has problems, China has opportunities,” Ralph Haupter, who took over as chief executive of Microsoft Greater China earlier this year after running the software company’s marketing in Germany, told reporters on Thursday. But ‘opportunity’ is something a euphemism. In a country where there is a vibrant trade in pirated Microsoft software, it’s no easy task for Microsoft to make money. Last year, the public got a rare glimpse on just how bad things have been in China when Steve Ballmer, Microsoft chief executive (pictured above), told staff in Beijing that the company’s total revenue in China didn’t even match that in the Netherlands, a country with a population just 1.3 per cent that of China, as the Wall Street Journal reported.

Haupter, on contrast, was full of praise. “The government has made a lot of efforts and has done great work,” he said, although industry bodies such as the Business Software Alliance say Beijing’s latest crackdown on piracy leaves a lot to be desired. But open and aggressive criticism is a tricky thing in China, as most multinationals would agree. Executives of American and European firms are extremely reluctant to go on the record blasting Beijing even when they accuse the Chinese authorities of protectionism, industrial espionage or mercantilist policies in private. Microsoft, as other big software companies, have set their sights on big cloud computing contracts from state-owned enterprises and regional governments. Microsoft’s answer is more people and more investment in China. The company will raise its research and development spending by 15 per cent and hike its 4,500-strong workforce by 1,000 in the current fiscal year, Haupter announced. Not that this is anything unusual. In China, now the world’s largest market for PCs and handsets by shipments and one that grows much faster than many other large markets, raising the stakes is the only way to stay in the game for foreign companies, even if playing isn’t always fun.

Source: Kathrin Hille: Microsoft: raising the stakes in China, Financial Times, September 6, 2012

Foreign-funded companies total 436,800 in China

A total of 436,800 foreign-funded enterprises had set up shop in China by the end of June, an increase of 68.55 percent from 2002, according to the State Administration for Industry and Commerce. Their registered capital has more than doubled over the past decade to hit $1.79 trillion as of the end of June, according to a SAIC seminar held Friday.

The number of domestic enterprises surged by 78.57 percent from 2002 to 12.65 million, with combined registered capital amounting to 65.9 trillion yuan ($10.45 trillion). China has also seen a boom in private business. Individually-owned businesses expanded by 63.87 percent from 2002 to 38.96 million by the end of June, with registered capital reaching 1.78 trillion yuan during the period.

Source: Xinhua: Foreign-funded companies total 436,800 in China, 2012-09-22

Foxconn closes China plant after riot

Foxconn Technology Group, the world’s largest contract electronics manufacturer by shipments and revenue, suspended production at one of its largest factories in China on Monday following a riot by 2,000 workers. The incident is the latest case of labour unrest at Apple’s main supplier despite the efforts by Foxconn in 2010 to revamp the way it manages its 1m-strong workforce in China. “The dispute was brought under control by local police at approximately 3am this morning,” the company said on Monday. “According to police, some 40 individuals were taken to the hospital for medical attention and a number of individuals were arrested.” The Taiyuan plant employs 78,000 people and is part of the iPhone supply chain, but analysts said there would be no impact on the iPhone 5. The plant, which makes small quantities of casings, expects to resume production
on Tuesday. However, analysts said the violence demonstrated that Apple and Foxconn’s reliance on low-cost labour was unsustainable despite production changes made after a series of suicides by Foxconn workers in 2009 and 2010.

An audit of Foxconn’s operations by the Fair Labor Association, the US group, found earlier this year that Foxconn had addressed about two-thirds of 360 labour problems. But as orders piled up for the launch of Apple’s iPhone 5 over the past few months, complaints increased about excessive overtime and the use of students as “interns”. A worker at the Taiyuan plant said Sunday's unrest erupted after Foxconn security staff bullied a worker, prompting fellow staff from his home province to turn on the guards.

Source: Kathrin Hille in Beijing and Sarah Mishkin in Taipei: Foxconn closes China plant after riot, Financial Times, September 24, 2012

**AmCham Shanghai SME Roundtable Takes a Look at American Competitiveness in China**

At the 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 percent to 2 percent by the end of 2014 and emphasized the key role the China market must play in achieving this goal. According to a release, an increase to 2 percent would translate into billions of additional dollars in exports and would support millions of new American jobs.

"SMEs play a critical role in powering the U.S. economy. Although we are seeing more interest among U.S. SMEs in the China market, only a very small percentage is active internationally," said Brenda Foster, president of AmCham Shanghai. "One reason is China's challenging market. While there is great opportunity, access to China's burgeoning market is getting tougher every day. Government and organizations like AmCham Shanghai need to work together to assist with that access to support American SME competitiveness in China. This will create opportunity not only for American small businesses, but for the economy as a whole. The AmCham Shanghai SME Center is designed to do exactly that." "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," noted 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."

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 member network.
Cross-border infrastructure financing to continue: Wen

China will continue providing financing support for cross-border infrastructure construction with Eurasia, Premier Wen Jiabao told an audience at a session of the second China-Eurasia Expo on Sunday. Addressing the second China-Eurasia Economic Development and Cooperation Forum in Urumqi of northwest China's Xinjiang Uygur Autonomous Region, Wen said China and involved countries should earnestly carry out such projects as the China-Central Asia natural gas pipeline and the China-Kazakhstan oil pipeline, and push forward the new energy pipelines between China and Russia. The countries should speed up building major transport routes, including the highway linking western China and western Europe, the China-Tajikistan highway and the China-Kyrgyzstan-Uzbekistan highway and railway, he said. The premier added China and Eurasian countries should effectively operate and maintain the Chongqing-Xinjiang-Europe railway, a recently opened logistics route between Asia and Europe. He also called for better integration of regional telecommunications networks.

With regard to cultural and people-to-people exchanges between China and Eurasia, Wen said the two sides should expand dialogue and exchanges between civilizations, respect each other's cultural traditions and religious customs, and promote mutual learning and harmonious coexistence of different races, religions, beliefs and cultures. Wen encouraged countries to send more students to each other, build joint universities and strengthen cooperation in human resources training. "We should promote tourism cooperation, and establish more sister provinces/states relations," he said. "History proves that stronger cultural and people-to-people exchanges will expand mutual understanding and common views among the Eurasian people, and bolster friendly relations between the countries," according to the premier.

Source: Xinhua: Cross-border infrastructure financing to continue: Wen, 2012-09-03

No limits to Chinese investment: US ambassador

The United States welcomes more Chinese investment and there is virtually no sector that is off-limits to Chinese investors, US ambassador to China Gary Locke said on Saturday. He made the remarks in an interview with Xinhua at the ongoing 16th International Fair for Investment and Trade in the southeastern city of Xiamen. Locke said although the foreign direct investment flows between the world's two largest economies had grown rapidly in recent years, there are still plenty of room for growth. As of the end of 2011, Chinese investment into the US accounted for less than 3 percent of the country's total foreign direct investment and roughly 1 percent of the total foreign investment the US received.

To encourage more foreign capital inflows, Locke said the US has initiated specialized program called "Select USA." and it will hold a large investment conference for top Chinese companies this coming December. Locke cited Tianjin Pipe's steel pile mill investment in Texas and Wanda Group's acquisition of AMC Entertainment as successful Chinese investment in the US.

Asked to comment on recent reports about foreign businesses planning to leave China due to rising labor and materials costs, Locke said the phenomenon is always happening throughout the world. A report jointly released by the US Chamber of Commerce and the AmCham Singapore said 21 percent of American companies plan to shift part of their investment or operations in China to Southeast Asian countries in the coming two years due to China's rising production cost. Locke said China could see this shift as an opportunity to move up the value chain. He said decades ago America had started to move its simple manufacturing to Mexico, Taiwan, Hong Kong, the Republic of Korea and then the Chinese mainland, so that it can focus on high-end industries. "The challenge and the key is to keep providing good-paying jobs to Chinese people and focus on education and technology," he said. Locke said the US welcomes Chinese government's steps to ease restrictions on foreign
investment, and he said he expects more policy changes concerning the foreign capital in the financial service sector.

Source: Xinhua: No limits to Chinese investment: US ambassador, China Daily, 2012-09-08

China International Fair for Investment and Trade: Chinese Find Allure in UK Investments

Chinese investment in the United Kingdom is increasing rapidly, and the 16th China International Fair for Investment and Trade will help encourage even more growth, said government officials and business leaders during a seminar. Investments by Chinese enterprises in the UK reached $6.88 billion for the 18 months since January 2011, almost five times the number of previous decades, said Hu Ruihong, director of the Overseas Investment Department at the Ministry of Commerce. "China and the UK are important business partners," Hu said in the seminar on Saturday afternoon. "There are more than 450 Chinese companies investing in almost every important economic sectors in UK, such as energy, minerals, food and more," he said "We hope this seminar will help strengthen the cooperation." The seminar was organized by Hu's agency, the Fujian Subcouncil of China Council for the Promotion of International Trade (CCPIT), the CCPIT Xiamen Sub-council, and China-Britain Business Council.

The UK tops the World Bank Survey on ease of starting a business, and for Chinese investors, it stood out among competitors for its tax rates, labor costs and the large population of Chinese international students, said Qiu Shuang, senior inward investment officer with the United Kingdom Investment and Trade agency. The international students are not only bilingual, but also quite aware of the cultural differences between China and Western counties, so they would be great at marketing in Western areas for China-based companies, Qiu added.


'Golden period' for Chinese investment

Chinese enterprises have entered a "golden period" of overseas expansion, with investments increasing, and mergers and acquisitions on the rise, according to report released by a Beijing-based research institute. Launching its findings in Stuttgart, Germany - one of China's key target markets for outbound investment - Du Liang, director of the China Entrepreneur Research Institute, said official figures show that from January to July this year, overseas investment by Chinese companies reached $42.2 billion, a 52.8 percent growth year-on-year. He said that the Chinese government's favorable policies aimed at encouraging firms to expand internationally, the chronic European sovereignty debt crisis, and the appreciation of the Chinese currency have all combined in helping the boom in overseas expansion by Chinese businesses this year. However, Du issued the good news with a warning too: "I am afraid the process of internationalization by Chinese enterprises will not be as smooth in future", adding that some advanced economies may slam their doors shut to Chinese businesses, if their economies start to improve.

The latest Ministry of Commerce figures showed that Chinese investors have expanded their businesses into 2,407 companies in 117 countries and regions worldwide from January to July, as total outward outbound direct investment (excluding those in finance) hit $42.2 billion during this period. During the first half of the year, there were 117 merger and acquisition deals conducted by Chinese investors overseas, worth a total of $30 billion. The institute also compiled a top 50 list of the most internationally ambitious Chinese enterprises, according to their overseas strategies, corporate governance provision, supply chains, capital flows, brands, R&D and social responsibility activities, and profits. The top five were IT giant Lenovo Group, information and communication supplier Huawei, electronic appliance producer Haier Group, and oil giants CNOOC Ltd and China Petrochemical Corporation (Sinopec Group). "What surprised us most was the amount of international activity
by Chinese businesses in the entertainment and cultural sectors," said Du. The report also noted particularly strong interest by Chinese enterprises in the financial services and machinery sectors.

Source: Fu Jing in Stuttgart, Germany: 'Golden period' for Chinese investment, [Home / Business / Economy], China Daily, 2012-09-29