China News in Brief
February, 2013

Compiled by Yimin Zhang, University of Shanghai for Science and Technology for the Kiebach Center in International Business Studies, Whitman School of Management
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Feb13 Sinopec acquires stake in Chesapeake asset
China 2011 per capita GDP ranks world's 87th

China's GDP per capita reached $5,445 in 2011 and ranked 87th worldwide, allowing China to become an "upper middle income" country, a World Bank report said on Thursday. China's GDP in 2011 increased 9.3 percent year-on-year to reach $7.318 trillion, second only to the United States, which has a GDP of $14.99 trillion. China's Macao Special Administrative Region ranked fifth worldwide in terms of GDP per capita and Hong Kong SAR ranked 28th, the World Bank said.

Source: Zheng Yangpeng: China 2011 per capita GDP ranks world's 87th, China Daily, 2013-02-01

China's January inflation slows to 2%

China's annual consumer inflation eased from December's seven-month high in January despite rising food prices, data from the National Bureau of Statistics (NBS) showed Friday. The consumer price index (CPI), a main gauge of inflation, grew 2 percent year on year in January, according to the NBS. On a month-on-month basis, January's CPI rose 1 percent from the previous month, according to the NBS statement. The month-on-month growth rate marked an 11-month high, as a cold winter and holiday demand have significantly pushed up vegetable and meat prices, said Yu Qiumei, a senior statistician with the bureau.

China is experiencing a unusually cold winter. Persistent icy weather in south China and lingering smog in north China have disrupted traffic and affected agricultural production, Yu said. Food prices, which account for one-third of the prices used to calculate the CPI, rose 2.9 percent in January from one year earlier, pushing the index up 0.95 percentage points, according to the NBS. However, January's CPI data was benign year-on-year partly because of the base effect. The year-ago comparison figure was high, as the Spring Festival holiday fell in January last year and pushed up food prices for that month. The base effect contributed 1 percentage point to January's CPI growth year on year, the NBS said. However, analysts say price pressure will build in the coming months.

China's central bank on Wednesday warned of inflationary risks in its quarterly monetary policy report, saying that the influence of rebounding demand, labor supply changes and global monetary easing on prices must be watched closely. The central bank has resorted to open market operations, a more cautious monetary tool, to improve the cash flow since August 2012. Interest rates and banks' reserve requirement ratio were both cut twice last year to shore up growth.

Source: Xinhua: China's January inflation slows to 2%, 2013-02-08

Waiting for a Crisis

The government has two choices: cut spending and fixed-asset investment or wake up to a messy economic reckoning

Bank loans and money supply rose sharply in January. The timing of the Spring Festival may have distorted the data. Still, there are signs that many local governments with new leaders want to try an old trick, pushing fixed-asset investment (FAI) to create GDP and fiscal revenue. This would turn bank loans into GDP and fiscal revenue. Local governments are already heavily in debt. Pushing FAI would keep them liquid through new loans. It is essentially a pyramid scheme and can go on as long as the banks are willing and able to lend. But constraints have appeared. The global financial crisis created a lasting barrier to China's export growth. Hence, there is no
rising tide on the demand side for China's exports anymore. On the supply side, the labor shortage first appeared five years ago. The National Bureau of Statistics (NBS) announced that the labor age population shrank for the first time last year. Despite declining producer price index due to overcapacity in the past year, consumer price index has continued to rise and will likely continue to do so in 2013. The money supply continues to rise much faster than potential growth rate. The difference is working into inflation through labor and other costs.

In the past five years, the FAI boom lived off the inflation tax on two fronts. First, the negative real interest rate taxed savers to sustain the negative return on FAI. Second, the property bubble, now 25 percent of FAI, taxed buyers to boost government income that in turn supported a negative return of FAI. The inflation tax has serious side effects. It cuts into the country’s competitiveness and threatens exchange rate stability.

The economic fundamentals require China to slow monetary growth to about 10 percent. The inventory digestion would demand 20 to 30 percent. This is why so many vested interests complain that today's monetary condition is too tight. Last year's M2 growth rate of 13.8 percent is low relative to the average of 18.2 percent between 2000 and 2012. It is still too high for price stability. If the M2 growth rate rose to 20 percent, not only would inflation surge, the exchange rate would tumble. The inflation and devaluation pressure will trigger money to flow offshore. These cases reveal that even low-level officials can own tens of flats. Beijing has plenty of flats. They just remain empty. As the anti-corruption campaign spreads, it is likely that many worried property owners would sell. I believe that Beijing’s market would begin to decline this year, joining other cities. Indeed, as the gap between reality and perception is so wide in Beijing, the market may crash either this or next year.

While the property market cools, the FAI push hasn't. The search for new financing has led to unusual revenue-raising measures by local governments. Some resorted to prepaying last year. This is why the fiscal revenue rose much faster than the economy in a difficult 2012. More new measures to raise revenues may be invented this year. The tax burden on consumers and businesses is already very high. This is why Chinese consumers prefer to shop offshore, even for necessities. The ongoing emigration wave is related to the tax burden in China. Ultimately, businesses can shut down and liquidate if the taxes make them unviable. Their owners can take the cash and leave.

The transition from FAI to productivity-led growth requires a considerable period of consolidation. Many argue that a period of slow growth will lead to an employment crisis and social instability. Such worries are unfounded. The conditions for reform and consolidation are far better now, as labor shortage is widespread. There is no urgency to keep growth going for its own sake. China's FAI is so vast that sustaining rapid growth would surely bankrupt the country soon. FAI has tripled in five years to the current level of 70 percent of GDP in nominal value. If it triples again, the amount would become bigger than the economy of the United States. There wouldn't be enough money in the whole world to fund it.

Administrative power rules supreme in China. Without checks and balances, power interested in collecting and spending money will eventually become the whole economy. To stop a looming financial crisis and currency devaluation, China must make the transition now. The main argument against reform is that it is too difficult. There is no doubt that reforms would be very difficult. The problems have festered so much in the past decade that it is difficult to see where to start. I see one simple and effective way forward: capping government spending. In 2012 government expenditures from fiscal revenue and government funds reached 31 percent of GDP. This does not include spending from social funds. In developed economies, most spending is similar to the items in the social funds. Hence, China's government spending is usually high by international comparison. The central government should freeze total expenditure at the current level of 16.2 trillion yuan. Economic growth will gradually bring it down as a share of GDP. Such a simple measure frees up the fruits of economic growth to more efficient economic players who would use the resource to grow the economy further. The other related item is the FAI by government and state-owned enterprises (SOEs). It reached 24 percent of GDP last year. China
needs to bring total FAI to below 30 percent of GDP in ten years. Such a high level of government and SOE FAI is not sustainable. One simple way forward is to freeze this value, too, at 12.4 trillion yuan.

Unless the government chooses to limit its size through a spending freeze, the current trend is sending China towards financial crisis and currency devaluation. When that day comes, the economic adjustment would be chaotic and may throw the country into a vicious cycle. Freezing government spending at today's high level should not be too much of a hardship for all involved. If that much pain is not acceptable, we can only wait for the crisis.


China's economic and social development in 2012

China's National Bureau of Statistics on Friday released a report on the country's economic and social development in 2012. Xie Hongguang, deputy chief of the NBS, said the report highlights steady and relatively fast economic growth, the continuous optimization of the country's economic structure and progress in improving people's livelihood. The following are some important figures on China's social and economic development in 2012:

-- China's gross domestic product expanded 7.8 percent year-on-year to 51.93 trillion yuan ($8.26 trillion).
-- China's consumer price index, the main gauge of inflation, rose 2.6 percent year-on-year, below the government's target of 4 percent.
-- By the end of the year, 54 cities in a statistical pool of 70 major cities tracked by the NBS saw home prices rise month on month.
-- By the end of the year, 767.04 million people were employed in China, including 371 million people employed in cities.
-- A total of 12.66 million jobs were added in cities. The registered urban unemployment rate stood unchanged from the previous year at 4.1 percent.
-- The number of rural migrant workers had increased 3.9 percent to 262.61 million by the end of last year, accounting for 19.39 percent of the country's total population.
-- China's foreign reserves totaled $3.31 trillion by the end of the year, marking a year-on-year increase of $130.4 billion.
-- The Chinese currency, the yuan, strengthened 0.25 percent year-on-year to 6.2855 against the US dollar by the year's end.
-- China's fiscal revenues grew 12.8 percent year-on-year to 11.72 trillion yuan. Tax revenues contributed 10.06 trillion yuan, an increase of 12.1 percent year-on-year.
-- China's grain output rose 3.2 percent from a year earlier to 589.57 million tons, marking the ninth consecutive year of growth.
-- Grain crop areas in China totaled 111.27 million hectares, up 0.62 percent from a year earlier.
-- Industrial value-added output rose 7.9 percent from a year earlier to 19.99 trillion yuan.
-- Fixed-asset investment rose 20.3 percent year-on-year to 37.47 trillion yuan.
-- Retail sales of consumer goods rose 14.3 percent to 21.03 trillion yuan. Sales in urban areas grew 14.3 percent, while the figure for rural areas surged 14.5 percent.
-- The total foreign trade volume rose 6.2 percent year-on-year to $3.87 trillion. The country's trade surplus stood at $231.1 billion, up $76.2 billion from a year earlier.
-- Foreign direct investment into China dropped 3.7 percent to $111.7 billion.
-- China's broad money supply, which covers cash in circulation and all deposits, increased 13.8 percent from a year earlier to 97.4 trillion yuan.
The narrow measure of money supply, which covers cash in circulation plus that in current corporate deposits, climbed 6.5 percent to 30.9 trillion yuan.

The total population stood at 1.354 billion people by the end of the year, up 6.69 million year-on-year.

The urban population reached 711.82 million, accounting for 52.6 percent of the country's total, up 1.3 percentage points from a year earlier.

Urban residents' per capita disposable income expanded 12.6 percent year-on-year to 24,565 yuan.

The per capita net income of rural residents rose 13.5 percent to 7,917 yuan.

Source: Xinhua: China's economic and social development in 2012, 2013-02-22

Yuan lending expansion keeps momentum

China's credit supply maintained rapid growth in February, after reaching its fastest pace in two years in the first month of the year. Experts said the figure - an indicator of overall liquidity - will boost confidence in a brighter economic outlook this year, but also raises concerns about a new round of over-investment. By the end of last week, China's "big four" State-owned banks had added 250 billion yuan ($40.05 billion) in new yuan loans this month, surpassing the 180 billion yuan recorded in the whole of February last year. The move continued the trend seen in January, when new yuan lending reached 1.07 trillion yuan, the highest monthly reading since February 2010.

In a report issued earlier this month, the People's Bank of China, the country's central bank, said it will use multiple monetary tools to guarantee "reasonable liquidity on the market and proper growth of credit supply". Total new financing, including both bank and non-bank credit, in January amounted to 2.54 trillion yuan, an increase of more than 50 percent compared with December and more than double that of a year ago. A report by Citic Securities Co Ltd attributed the record volume in January to growing financing demand for infrastructure projects, as well as more housing loans amid the improving property market. In January, the railway system completed investments worth 20.9 billion yuan, 70 percent more than at the same time last year. Also, in a further sign of a credit-backed investment boom, many provinces have set high annual investment growth targets for this year, with some of them at 30 percent or even higher.

Moody's warned that risk may emerge if non-banking credit growth is left unchecked, or regulators are unable to adequately manage the associated risks, which could result in negative impact on the country's economic stability. Standard & Poor's Ratings Services also cautioned about possible over-investment led by the credit expansion.

The inter-bank borrowing rate, a benchmark interest rate, was at 2.27 percent in January, 0.34 percentage points lower than in the previous month. On Thursday, the central bank launched measures to withdraw liquidity from the market - for the first time in eight months - raising speculation that it will tighten credit supply.

Source: Wei Tian: Yuan lending expansion keeps momentum, China Daily, 2013-02-22

Efficiency of China economy 'sliding'

The efficiency of China's economy is slipping, with money flowing much slower between different sectors than in the past, according to analysts. They said this is despite the fact that the nation has a considerable amount of social financing — an approach to managing money that delivers a social dividend and an economic return. Liu Yuhui, director of the financial lab at the Chinese Academy of Social Sciences, a government think tank, said although financing activities in the country appear to be rampant, most of the newly borrowed money is used to repay debts instead of forming revenue among companies. Last year, social financing, which included bank and non-bank loans, bond issuance and stock sales, set a record high of nearly 16 trillion yuan ($2.54 trillion). The ratio of M2, a broad measure of money supply, against GDP stood at a record high of 188 percent at the end of
last year. The proportion of the increase in enterprises’ one-year deposits to total social financing dropped to 20 percent in 2012 from 40 to 50 percent seven years earlier, Liu said. "Accumulation of debts is pushing up the leverage ratio among companies, with the whole economy more difficult to shore up.” He said that by adding loans extended to local governments through financing vehicles, the problem becomes more severe. Liu estimated local government debt in the financial system at somewhere between 13 trillion yuan and 14 trillion yuan, with interest rates to be paid each year standing at 700 billion yuan to 800 billion yuan. According to a survey released by the China Banking Association at the end of last year, more than half of the 850 bankers surveyed said they support the practice of rolling over mature loans, saying this offers a way to ensure projects have good cash flow and that the loans will eventually be repaid following a grace period. Many banks would rather maintain the lending as long as interest rates could be paid, instead of classifying the loans as non-performing assets.”

In January, commercial banks extended more than 1 trillion yuan in new loans, and bank off-balance-sheet and non-bank channels offered another 1.5 trillion yuan of new credit to the economy, according to data from the People's Bank of China, the central bank. Social financing reached 2.54 trillion yuan last month, up 1.56 trillion yuan year-on-year. The increase in enterprises’ deposits in January, which stood at 117.9 billion yuan, was much lower than that of individuals’ savings, which stood at 749.9 billion yuan. Stephen Green, chief China economist at Standard Chartered Bank, warned last year that for an economy with an already high leverage level, “re-leveraging up” increases overall macro risk, as many financial crises are foreshadowed by an increase in leverage.


**Beef up regulation of trade finance: Experts**

The authorities should strengthen regulation of trade finance provided by non-financial institutions and draft corresponding rules to prevent risks from piling up, said bank executives and analysts. "Banks are facing rising competition from e-commerce and logistics companies in terms of providing financing services for traders, which would promote service innovation and upgrading among lenders in the long run,” said Chen Siqing, a vice-president of Bank of China Ltd. But the risks are also piling up, said Chen. "The development target and risk management standards of non-financing companies are quite different from those of banks. Therefore, regulators should enhance supervision of such trade financing activities."

E-commerce companies have been entering the financing business in recent years. Alibaba Group Holding Ltd, China's biggest e-commerce company, has provided nearly 30 billion yuan ($4.81 billion) in credit to 130,000 trading enterprises since it launched its small-sum lending business in 2010. Its payment platform Alipay conducts daily clearing valued at more than 300 million yuan. Another Chinese e-commerce giant, 360Buy, announced in November the launch of supply chain financing services for goods suppliers. It even extended the business to the preservation and appreciation of trade capital, such as selling mortgaged accounts receivable from one supplier as a wealth management product to other suppliers to make a profit. These non-financial companies are accelerating their penetration of the field, based on their information and technological advantages, and strong electronic trading or logistics distribution platforms, Chen said. Liu Xinyi, executive vice-president of Shanghai Pudong Development Bank, said the trade finance business is of great significance to lenders as it creates low-cost liabilities and extends other revenue opportunities. "It's the business that could bring the most consolidated income. In addition, banks could have a better idea of enterprises' operational situation through trade finance services, which improves risk management."

But the business also generated potential risks as lenders hand out credit without proper mortgages, and certain financing activities were not based on real trade transactions, said Yang Zaiping, executive vice-president
of the China Banking Association and an inspector of the China Banking Regulatory Commission. "Therefore, trade finance needs strengthened risk management, and institutions providing such services should closely track the capital and logistics flow related to enterprises' purchasing, producing and sales activities," he said. Yang added that global and domestic economic uncertainties have highlighted the need for tighter controls on trade finance. "When the economy is going upward, the value of mortgages usually appreciates, and it would be fine if lenders are simplify financing operations. But when the economy fluctuates, it would be hard not only to control risks, but also to monitor clients' actual operating conditions," said Liu. Rampant development of trade finance could also threaten the macroeconomic environment, said Guo Tianyong, a professor at the Central University of Finance and Economics. Analysts have warned that regulators must watch fast-growing short-term liabilities as rising external debt may undermine China's fiscal position and cause economic damage.


Spring Festival cash goes online as transfer orders soar

Online money transfers soared over the Lunar New Year holiday, as growing numbers chose to send their festive gifts online. More than 1.64 million cash transfers were made through Alipay, the payment arm of the e-commerce giant Alibaba Group Holding Ltd, during the seven-day holiday, a 77 percent increase compared with the same period in 2012, Alipay.com Co Ltd announced on Monday. In Beijing, 78,000 online transfers were made through Alipay during the holiday. "Many users transferred the money for festival packages to their relatives and friends," said Zhu Xiaolei, head of the transfer arm of Alipay's life application division. Older people transferred money to their juniors' Alipay accounts, and younger people giving money to their seniors tended to transfer directly into bank accounts, she said. The ratio of the former to the latter method is five to one. The average amount transferred to bank accounts was 1,200 yuan ($192.24), while the average amount sent to Alipay accounts was 320 yuan, according to Alipay. Safety and convenience are the main reasons for the online transfers, some residents said.

Source: Wang Wen: Spring Festival cash goes online as transfer orders soar, China Daily, 2013-02-19

China to further liberalize capital markets

China's securities watchdog has completed arrangements to further liberalize the country's stock markets by raising or removing the limits on investment by foreign institutional investors. The move was welcomed by domestic stockbrokers and investors who hoped the expected inflow of liquidity could help sustain the market turnaround. The China Securities Regulatory Commission said on Sunday it will soon release details of the new rules under which China will allow more institutions to enter the scheme. Currently, the Renminbi Qualified Foreign Institutional Investor (RQFII) scheme is only open to fund management and securities firms. Meanwhile, the commission will lift the limit on investors' portfolio composition to allow more capital to flow to the stock markets, Xinhua News Agency said on Monday. Under existing RQFII rules, investors must invest no less than 80 percent of yuan funds they raised in fixed-income securities, with the remaining portion in stocks. The changes will also increase the number of intermediaries offering services to investors. "Thus, we expect interest in the program to grow and more funds (renminbi traded offshore) to be channeled into the mainland," he said, adding that a larger proportion would likely go into equities. China needs stable long-term investment for its capital market to become better integrated with the international one, and to provide stable return on long-term investment, he said.

According to the Japanese media, as RQFII business expands, there will be two A-share exchange-traded funds, or ETFs, listed on the Tokyo Stock Exchange, which should facilitate Japanese investors investing on the A-share market. "More than 100 billion yuan ($16.1 billion) worth of quota is idle in Hong Kong, the major
offshore RMB center. The removal of restrictions will facilitate investment in the domestic market, especially the A-share market,” it added. The improved policies are expected to support and guide RQFIIIs from Taiwan, and the detailed rules are still being studied, the commission official said. China's A-share market saw a strong rally from early December, when it hit a four-year low of 1,949 points. But it has fluctuated since last week after the seven-day Spring Festival holiday, with the Shanghai Securities Journal saying offshore capital is temporarily reducing holdings of A-shares.

Source: Xie Yu in Shanghai and Chen Jia in Beijing: China to further liberalize capital markets, China Daily, 2013-02-25

**China faces downside risk from over-investment: S&P**

Investment levels in China have run ahead of returns on investment over the past five years, increasing the risk of an economic correction in the country, according to a report released by Standard & Poor's on Thursday. The report — titled The Investment Overhang: Despite China's Rebound, $800 Billion Of Downside Risk Abounds — examines the correlation between China’s investment-to-GDP ratio and GDP growth during the 1990s to early-2000s, and explores a China downside scenario arising from excessive investment. It says that China's rate of return from its huge fixed-capital investments appears to be diminishing compared to prior periods.

"China's heavy dependence on fixed capital-led growth magnifies its economic sensitivity to a correction in investments," said S&P credit analyst Terry Chan. "As fixed capital becomes less productive, the high growth rates of investment in China may be harder to sustain. Such a potential drop could have a significant impact on China's GDP growth." According to the report, the downside scenario for China assumes the investment-to-GDP ratio easing to 46 percent in 2013, which is 1.6 percentage points down from the 2012 estimated level. This modest drop could drag China's GDP growth rate down to 6 percent, compared to S&P's base case of 8 percent for 2013.


**China must avoid creating more problems with action on overcapacity**

At the Central Work Conference late last year, overcapacity was highlighted as a problem prioritised for action this year. So, just before the Lunar New Year, 12 ministries and state commissions jointly rolled out a plan to push for mergers in key industries including carmaking, steel, cement, shipbuilding, aluminium, rare earths, electronics, pharmaceuticals and industrialised agriculture. Reports say as many as 19 sectors will eventually be affected, under plans that are still being finalised. The worry about overproduction is twofold. One is the problem of waste, of course; the other is concern that the government may go overboard trying to tackle the excess capacity, thus hurting the economy even more. This worry is not unfounded. Overcapacity has plagued the Chinese economy since the 1990s. Despite repeated government attempts to solve the problem, it has only got worse. One study concluded that the rate of utilisation of capacity last year was even lower than that in 2008, at about 70 per cent of pre-2007 levels.

In the past, the government has tried to curb excess capacity with administrative measures - such as by imposing market entry barriers, setting higher approval standards for projects and upgrading outdated production facilities - and the occasional financial policy. By contrast, its latest plan stressed the use of market-based solutions while the government plays a guiding role. This is to be welcomed. But, by setting a target of 2015 for industrial consolidation, the government is raising fears that it may end up meddling in market operations to meet the deadline.

On the mainland, overproduction is not a result of normal market operations but of a government-led,
investment-driven growth model. Two broad categories of industries suffer from overproduction on the mainland: those driven by investment, such as steel, cement and aluminum; and those encouraged by the government to develop. In the first category, overcapacity accumulates throughout an economic cycle. When the economy is heating up, exuberant investment leads to redundant projects. But when the economy cools, inefficient players that should have been forced out of business instead receive a lifeline from bureaucrats launching infrastructure projects as a stimulus. As a result, overproduction worsens. In the second category, the government distorts the market by favouring certain industries with subsidies and other help, openly or indirectly. At the same time, local government officials trying to boost their performance records over promote these industries, leading to market saturation in no time. This is the problem we see in China’s renewable energy sector, such as wind farms and photovoltaic equipment.

The problem of overproduction can only be solved through the market. The government should do two things. One, it must stop intervening in the market, and abandon its investment-led growth model. Two, it must create fair market competition by setting clear rules, rationalizing price signals and leveling the playing field. This involves wider reform, by clarifying the convoluted relationship between government and market in China. The way local governments are evaluated should also be changed to prevent unhealthy competition.

In the short term, it is both practical and feasible to develop a healthy market and improve its workings. Take utilities such as water and electricity, the prices of which have been kept artificially low, with no heed to the environmental costs. The distorted pricing has enabled inefficiencies to persist. Thus, one immediate task is to rationalise the prices of resources so that they reflect the true environmental costs. For too long, state-owned enterprises have used their access to cheap capital and land to squeeze out private enterprise. Worse, the administrative measures used in the past to tackle overproduction have usually ended up protecting the bigger players at the expense of private enterprise. So the latest merger plan must not be yet another way to suppress private enterprise.

Tackling the problem of overproduction is part of the larger task of restructuring the Chinese economy. It cannot be done overnight. While industry consolidation is to be encouraged, it has to be done through healthy market competition and not government intervention. Thus, to meet its own deadline of 2015, the government must nevertheless resist the temptation to interfere, and instead be guided by fact-based evidence on what's feasible.

Source: HU SHULI: China must avoid creating more problems with action on overcapacity, South China Morning Post, Thursday, 28 February, 2013, (This article is provided by Caixin Media, and the Chinese version of it was first published in Century Weekly magazine, 2013-02-27)

**Air pollution 'more frightening than SARS virus'**

Air pollution is more frightening than SARS because no one can escape it, said Zhong Nanshan, a leading Chinese specialist in respiratory diseases, during a TV interview aired on Wednesday. An academic at the Chinese Academy of Engineering, the outspoken Zhong is also known for exposing the SARS (severe acute respiratory syndrome) cover-up in 2003. The six-month SARS epidemic in 2003 killed 775 people in 25 countries.

Amid air pollution, people are left with limited choices in selecting their lifestyles, Zhong said. "It is more frightening than SARS. For SARS, you can consider quarantine and other means. But no one can escape from the air pollution and indoor pollution." Air pollution is an important factor in both the incidence and causes of respiratory diseases, Zhong said. When the concentration of PM2.5 increases by 10 micrograms per cubic meter, hospitalization may increase by up to 3.1 percent, he said, citing research done with a co-worker in Hong Kong. When the concentration of PM2.5 rises from 25 micrograms per cubic meter to 200, the average daily fatality
rate may rise up to 11 percent. Pollution harms not only the respiratory system but also the cardiovascular, cerebral vascular and nerve systems. "Cases of lung cancer have increased by 60 percent in Beijing in the past decade. This is a very shocking figure. Air pollution is a significant cause," Zhong said.

Zhong said people working outdoors should wear masks in serious air pollution and traffic police should be allowed to wear masks in these circumstances, which can be included in protective regulations. Air pollution is a grave issue for people working outdoors, especially in large Chinese cities, Zhong said. Up to 40 percent of traffic police were found to have nasitis and 23 percent have pharyngitis, 33 percent to over 50 percent higher than the ratios for the general population, according to statistics, he said.

On smoggy days, patient numbers, especially patients suffering respiratory diseases, increase markedly, said Zeng Mian, director of the medical intensive care unit of No 1 Hospital Affiliated to Sun Yat-sen University in Guangzhou and a specialist in respiratory diseases. Zeng has seen cases of co-workers having their own respiratory conditions improve when traveling in foreign countries, such as the United States, Australia and South Korea, but worsening back in Guangzhou. The worst smog in decades has hit many parts of China this year. The Chinese Academy of Sciences estimated that the recent smog across China has affected more than 800 million people, China Central Television reported on Thursday. "Great efforts are needed, in every possible way, to improve the basic living environment of human beings." Zhong said.

Source: Li Wenfang in Guangzhou: Air pollution 'more frightening than SARS virus', China Daily, 2013-02-01

**China eyes energy-saving products for clean economy**

The Chinese government is targeting energy-efficient products as part of efforts to build a cleaner and more sustainable economy. The Ministry of Finance announced Thursday that over 9 billion yuan ($1.43 billion) has been earmarked from the country's central budget in 2012 to promote energy-saving products ranging from home appliances to hybrid vehicles. In a breakdown, the special fund has boosted sales of 33 million units of energy-saving home appliances, 1.24 million fuel-efficient cars and 160 million illuminating devices, as well as high efficiency electric motors with a combined power capacity of 9.5 million kilowatts (kW). The fund has also boosted consumption by 250 billion yuan, while 24 billion kWh of electric power and 850,000 tons of oil were saved, the data showed. The central government started to pay subsidies for energy-saving home appliances in June 1, 2012. Buyers of such appliances can receive 70 to 600 yuan for each purchase. The government stressed the significance of energy conservation in its energy white paper released on October 24, 2012. It vowed to set up energy-saving production and consumption systems and accelerate the construction of an energy-saving society.

Source: Xinhua: China eyes energy-saving products for clean economy, 2013-02-18

**Measures proposed to boost circular economy**

The Chinese government has proposed a series of fiscal and financial measures to ensure the country's circular economy targets are achieved during the 12th Five-Year Plan period (2011-15), in a bid to build a recycling society and promote "green" consumption. The government set a target to raise the country's resource-utilization efficiency by 15 percent by the end of 2015, compared with 2010, and for the circular economy industry to achieve a total output value of 1.8 trillion yuan ($286.05 million) in the same period, the State Council said earlier this month.

The National Development and Reform Commission, the country's top economic planning agency, issued the development plan on Sunday, saying the government put forward 80 specific standards for the circular economy industry on areas such as recycling, energy efficiency, as well as the use of water, land and raw materials. The commission said that related policies on investment, taxes and the financial sector, among other
areas, will also be launched, and that the government will finalize laws to develop the country's circular economy industry. Those laws will include restricting excessive packaging of products, establishing standards and testing systems for the healthy development of the circular economy and setting up a fund for the industry. The government will also boost supervision of the industry and explore market-oriented management methods. Meanwhile, it will accelerate the adoption of advanced technologies and carry out evaluation systems to boost resource efficiency. According to the plan, China will establish 100 experimental circular economy projects in cities and 1,000 industrial parks. The government encourages banks and investment institutions to invest in such projects.

Among the measures, China will raise the entrance requirements for industries with high energy and water consumption, as well as industries with high carbon-emission levels. The steel industry - which uses coking coal and iron ore as raw materials and consumes massive amounts of electricity during its production process - is one of the key sectors targeted. For instance, Shougang United Iron and Steel Co, a company with an annual crude steel production capacity of 9.7 million tons, uses coal gas - which is waste from the steel-making process - for its power plants during electricity generation, according to Yang Chunzheng, deputy general manager of the company. The electricity is then used in its steel mills. And despite its huge appetite for electricity, the company not only generates 98 percent of its own power, but can even provide some to the national grid, he said. Also, since the steel mills are located near the coast, seawater is used to cool power plants and is then reused in the steel-making process after being desalinated.

Source: Du Juan: Measures proposed to boost circular economy, China Daily, 2013-02-19

Guideline uses market approach to curb pollution

The Environmental Protection Ministry issued guidance on Thursday making it mandatory for enterprises with high environmental risk to join an environmental liability insurance system. The ministry, together with the China Insurance Regulatory Commission, introduced the insurance system in 2007 in an attempt to use a market-oriented approach to tackle pollution damage and compensate victims for their losses. The new guideline is to make petrochemical and heavy metal industries join the system, which until now enterprises have joined on a voluntary basis. The system has already been applied in more than 10 provinces and regions, insuring more than 2,000 enterprises by almost 20 billion yuan ($3.17 billion). According to the guidance, enterprises that are included in the targeted industries but do not join the insurance system will encounter restrictions and difficulty in the approval of their projects' environmental impact assessments before and after construction, application of environmental protection related funds and their credit ratings in the banking system.

This is the second move by the ministry in as many days to control the environmental risks posed by hazardous chemicals during industrial development. Fifty-eight types of hazardous chemicals out of a total of more than 3,000 are labeled as key chemicals to prevent and control in the Five-Year-Plan (2011-15) of the Management of Chemicals' Environmental Risks, released by the ministry late on Wednesday. By 2015, a basic management system will be formed to control the environmental risk of hazardous chemicals. More than half of the 568 environmental emergencies reported to the ministry between 2008 to 2011 are related to toxic chemicals, the plan said. China receives thousands of production and import requests for new chemicals every year, the plan states. But the impact they have on people's health and the environment is still unclear. "Chemicals, hazardous waste and heavy metal will be the three main targets in pollution control," she said in an environmental meeting in December. The plan says that some of the toxic and hazardous chemicals produced or being used in China have already been prohibited or restricted in developed countries. Studies show that in recent years, a large number of toxic organic pollutants have been discovered in the lower reaches of the Yangtze River. More than 170 types of persistent organic pollutants have been detected in the waters near the Three Gorges Dam, including
China's foreign oil output surges

China is on track to produce enough crude oil outside its borders to rival OPEC members such as Kuwait and the United Arab Emirates, after its state-owned oil companies spent a record $35bn buying foreign rivals last year. In the first tally of the impact of China’s recent overseas oil investments, the International Energy Agency calculates China’s national oil companies will produce 3m barrels a day abroad in 2015, almost double their 2011 overseas output of just over 1.5m b/d and equivalent to Kuwait’s annual output.

Chinese national oil companies such as Cnooc and Sinopec have been on a buying binge over recent years, spending $92bn since the start of 2009 on oil and gas assets in countries from the US to Angola, according to Dealogic. Last year, their acquisitions hit a record of $35bn. Transactions involved joint ventures as well as outright purchases. Chinese oil executives say that it would be impossible for them to meet their country’s domestic energy needs through overseas acquisitions because of the sheer scale of the demand. China is the world’s second-largest importer of crude. Acquiring key technologies is another goal of the acquisitions, particularly for deepwater drilling and extraction of shale gas and oil sands deposits. China’s expanding global energy presence has also exposed Beijing to a range of political risks, forcing it to take a more proactive role in foreign conflicts such as the dispute between Sudan and South Sudan.


China, Russia ink major energy deal

In a perfect demand and supply arrangement, energy-rich Russia agreed to provide an annual supply of 38 billion cubic meters of natural gas to energy-thirsty China. The deal was struck during a high-level meeting in Beijing on Monday and comes ahead of an expected visit by Party leader Xi Jinping to Moscow after the National People's Congress in early March.

Gas was not the only energy source discussed by the two countries. A consensus on cooperation regarding oil, nuclear and coal was also reached. "China and Russia need each other in energy cooperation, and they have their own advantages in resources, markets and technology," said Vice-Premier Wang Qishan during his meeting with the Russian Deputy Prime Minister Arkady Dvorkovich. "There are complementarities, necessities and possibilities for us to strengthen energy cooperation, and more than that, the cooperation has strategic significance," he said. Russian officials agreed at the meeting to guarantee the annual supply of natural gas through the east pipeline to China. And both countries will continue to study the possibility of supplying China with liquefied natural gas through the east pipeline and natural gas through the west pipeline. Negotiations on increasing oil supplies to the world's largest energy consumer were not finalized, but Wang said the countries should "accelerate consultations and wrap up the agreements".

The two countries also agreed to advance wide cooperation in the non-traditional energy sectors including nuclear, coal, electric power, renewable energy as well as aluminum. A trade target of $100 billion by the end of 2015 was set. According to the General Administration of Customs, China-Russia trade for 2012 jumped by 11.2 percent from a year earlier to $88.2 billion, compared with 6.2 percent growth for China's foreign trade. The European Union's diversification away from Russian energy resources and the enhanced efforts by the United States to developing shale gas are forcing Russia to shift its focus from the West to the East. Reuters said recently that Russia is seeking to borrow up to $30 billion from China in exchange for possibly doubling oil supplies, making the world's second-largest economy the largest consumer of Russian oil. China consumed 145 species covered by the United States Environmental Protection Agency's priority pollutants.

Source: Wu Wencong: Guideline uses market approach to curb pollution, China Daily, 2013-02-22
billion cubic meters of natural gas last year. China will import 78.5 billion cubic meters of natural gas in 2014, according to data from ICIS C1 Energy.

But experts warned of the obstacles to the future negotiations. Energy relations between China and Russia have been complicated by disputes over oil shipping tariffs along the existing pipeline. Sources said it would take time before a final deal was reached.

Source: DING QINGFEN and DU JUAN: China, Russia ink major energy deal, China Daily, 2013-02-26

Traffic violations, road accidents decline

China reported a dramatic decline of traffic violations and road accidents in January, with deaths from running traffic lights and excessive speeding falling. The death toll from running traffic lights and speeding fell 13.3 percent and 71.2 percent respectively year on year, according to data from the Traffic Management Bureau under the Ministry of Public Security (MPS). The ministry reported that there were about 1.37 million cases of ignoring traffic lights in January, marking a 40 percent year on year drop. There were 285,000 cases where cars were overspeeding by at least 50 percent, representing a 32.5 percent year on year fall. There were 14,000 cases of improper use of license plates during the month, which was a 71.5 percent drop compared with the same period last year. Running red lights, excessive speed and improper license plate display were largely to blame for road accidents.

The number of violations dropped due to revised traffic rules, which came into force on January 1, according to the ministry. Under the revision, running yellow lights will result in six penalty points, doubling the previous punishment. The penalty for improper license plate display is now 12 points. The new rules were deemed the "hardest-ever" by Internet users upon introduction and also criticized as too harsh. The number of people licensed to drive cars in China exceeded 200 million as of the end of 2012, an increase of 26.47 million year on year, according to the MPS.

Source: Xinhua: Traffic violations, road accidents decline, 2013-02-01

China ushers in frugal year of the snake

The Chinese New Year was ushered in this weekend in more subdued fashion than normal, with toned-down displays of fireworks and quieter restaurants following a government drive for frugality. Sales of fireworks in the five days leading up to the holiday were down 37 per cent from 2012, according to the city government. This was partly a response to official appeals to light fewer fireworks to avoid adding to the capital’s air pollution, but it was also in line with an official push for less conspicuous spending amid a crackdown on corruption. Before the holiday week began, state-owned companies and government bodies dramatically scaled back their celebrations for the lunar New Year, also known as the spring festival. The China Cuisine Association reported that as many as 60 per cent of restaurants, especially high-end ones, had suffered cancelled reservations. This year, the state television regulator ordered the broadcaster to curtail the lavishness of the celebration and use fewer showy props. It used the same stage as last year.

Without more fundamental changes to the Chinese political system such as strengthening the rule of law, critics say the campaign against corruption and wasteful spending will only address superficial problems and will eventually lose steam. The decrease in fireworks – a staple of celebrations because they are seen as a way of ensuring good luck for the new year – did at least have a substantial impact on health and safety in Beijing. The city government’s fireworks office reported that 25 people were injured and 83 fires caused by explosives, down 28.6 per cent and 44.6 per cent respectively from last year.

Source: Simon Rabinovitch in Beijing: China ushers in frugal year of the snake, Financial Times, February 10, 2013
China to rebuild 3m houses for rural residents

The government plans to rebuild three million houses for rural residents in 2013, according to the Ministry of Housing and Urban-Rural Development. In 2008, the government carried out pilot projects to rebuild dilapidated houses in rural areas, with similar projects subsequently extended to the whole country. In July 2011, the Ministry of Finance issued guidelines for the financing of such renovations, with most of the investment set to come from central and local governments at different levels. Over the past five years, the central government has contributed nearly 70 billion yuan ($11.3 billion), while local government contributions and social investments stand at a combined total of 330 billion yuan.

A spokesman for the ministry said there are still some 20 million unsafe houses in rural areas. In the coming years, the State Council and various ministries will reinforce rebuilding efforts to improve the living environment for rural residents, the spokesman said.

Source: Xinhua: China to rebuild 3m houses for rural residents, 2013-02-10

The rich seek luxury - away from home

Wealthy Chinese look outside the mainland for high-end brands. As prices of luxury items remain prohibitive in China, wealthy consumers are going on sprees abroad. This is quickly becoming a common occurrence for wealthy Chinese shoppers, especially during Chinese New Year early in the year or National Day in October. Both holidays last for at least a week in China, turning shopping sprees into multi-day affairs.

A recent Bain report said a weaker euro coupled with an increasing number of Chinese tourists traveling abroad have pushed Chinese shoppers to make 60 percent of their total luxury purchases outside the Chinese mainland. According to an annual KPMG report on Jan 22, overseas travel among Chinese rose 71 percent in 2012, compared to a 53 percent increase in 2008. Seventy-two percent of them said they bought luxury items during their overseas trips, with cosmetics, watches and bags the most popular.

Zhou Mi, a Chinese-speaking assistant for Chloe, a French fashion brand, said 80 percent of her customers are Chinese, who, like the wind, arrive fast and leave fast with a handful of bags. "Most of them don't really have a budget," she said. "They have no problem with buying three to four pieces at a time." Sales to Chinese tourists shopping overseas have grown 31 percent, according to the KPMG report, which accounts for nearly a quarter of luxury purchases around the world.

One of the main reasons is the high price of luxury goods on the Chinese mainland - many sell for prices 30 percent higher on the mainland than in Europe because of high tariffs on imported luxury goods. The rise of individual tourism among wealthy Chinese is another key trend. Nick Debnam, KPMG's Asia Pacific chairman in consumer markets, said global brands need to pay attention to China's luxury consumers now more than ever. "What we are now seeing is that the brands which are well positioned in China are receiving a boost in overseas markets from the emergence of a surging new class of traveling and well-off Chinese consumers," he said.

Besides avoiding the high prices for luxury items in China, many affluent Chinese, said analysts, are attracted to the experience of a shopping spree. As many affluent Chinese change their shopping behavior, they are also expecting more in terms of customer service in stores. Both Bain and CLSA pointed to the fact that global luxury brands need to adjust their marketing approach in China or face the prospect of not being able to keep up with the demands of the Chinese consumer. Debnam from KPMG said brands need a global strategy for Chinese consumers both internationally and locally. "This means you will need a strong market position within China," Debnam said. "They also need the right product offering available in international stores."

To give consumers in China the same experience as in France and Italy, some luxury brands are tapping into in-store impulses for China's biggest spenders, offering them exclusive perks, such as custom-made products or...
once-in-a-lifetime experiences. According to The Wall Street Journal, Louis Vuitton recently took 10 of its most valued Chinese clients to Mongolia for a helicopter tour, landing at various luxury resorts to watch private camel-polo tournaments. The French luxury giant is planning more similar events to "provide an experience to customers that they wouldn't necessarily think of", a company spokesman said. In July, it opened a four-story Shanghai outlet equipped with an apartment for private client events and a parlor where VIPs can custom-design their own bags and leather shoes.

Source: Chen Yingqun: The rich seek luxury - away from home, China Daily, 2013-02-16

**Extravagant dining curbed by frugality call**

A slew of high-end restaurants and luxury wine brands have reported drastic sales declines amid a government frugality campaign that has swept across China, the Ministry of Commerce (MOC) said Wednesday. Extravagant dining has been reduced since the Communist Party of China (CPC) Central Committee promulgated a package of rules calling for officials to be more frugal, MOC spokesman Shen Danyang said at a press conference. Upscale restaurants in cities such like Beijing, Shanghai and Ningbo have seen revenues fall by 35, 20 and 30 percent, respectively, year-on-year in January, according to a survey Shen cited. Restaurants also reported selling fewer expensive dishes during the week-long Chinese Lunar New Year holiday. Sales of birds' nests and abalone both slipped by around 40 percent year-on-year, while orders of shark fin were down by a hefty 70 percent, according to the survey. Sales of gift boxes containing expensive food shrank by 45 percent. Premium liquor brands, such as Maotai and Wuliangye, also saw sales drops. The anti-extravagance drive does not conflict with China's efforts to boost domestic consumption, Shen said. From a long-term view, the frugality campaign will help nurture sustainable consumption and will therefore ease supply pressure on agricultural products, as well as help to protect the environment, he added.

Source: Xinhua: Extravagant dining curbed by frugality call, 2013-02-20

**Village Xi Visited Gets 300 Mln Yuan**

Poverty-stricken Luotuowan Village in Hebei Province has a new problem: how to spend 300 million yuan recently allocated by the provincial government. The money was provided after Xi Jinping, general secretary of the Communist Party, visited on December 30. The amount surpasses the total poverty alleviation funds the village received in the last two decades. Luotuowan has 608 residents and the average annual income is a mere 900 yuan per person.

Source: Village Xi Visited Gets 300 Mln Yuan, 02.21-2013, http://english.caixin.com/2013-02-21/100493052.html

**Doubts raised about pension system**

Many Chinese people say they are concerned about the inadequate and unbalanced pension distribution in the country, according to a survey revealed by a government think tank on Friday. Nearly 39.1 percent of the 2,000 people surveyed complained that pensions are too little to meet their living needs, according to a report released on Friday by the Chinese Academy of Social Sciences. Only 17 percent of the respondents said they can live off their pensions, the survey showed. Elderly people in rural areas strongly complained about the rural endowment insurance system; 78.9 percent of insurance buyers in the survey said the pension could not meet their living needs, while 56 percent of their urban counterparts said the same thing. However, only 3.8 percent of government staff have that complaint. "Different feelings from endowment insurance participants reflect the differentiated pension welfare system," the report concluded. But 76.4 percent of those surveyed said that overall, they are satisfied with the country's endowment insurance systems.
In China, the pension follows a dual system, the pensions for those who worked within the system — for the government and public institutions — and out of the system, including those working for companies and who live in rural areas, are very different. Reform of the dual system has been under discussion for a while, but no schedule for implementation has been published, said Tang Jun, a researcher with the Chinese Academy of Social Sciences. The only information that authorities have disclosed about reform is from December, when Hu Xiaoyi, vice-minister of human resources and social security, told Xinhua News Agency that the ministry was planning to merge social insurances. He did not offer details or a schedule for the plan. Pilot programs on reforming the dual system have been conducted in some cities for a few years, but observers said almost no change has been seen due to the complicated situation.

Source: Yang Yao: Doubts raised about pension system, China Daily, 2013-02-23

**Yum Brands tightens Chinese supply chain**

Yum Brands is fighting to restore its battered image in China, vowing to tighten monitoring of its mainland supply chain after a chicken safety scare dealt a big blow to its sales in the country. Earlier this month, Yum Brands, owner of the KFC fast-food chain, forecast a drop in 2013 earnings due to the fallout from food safety concerns surrounding its Chinese business. Allegations in December that the company’s suppliers had injected growth hormones and antiviral drugs into chicken beyond food safety limits hit confidence in the brand, which had previously traded on its reputation for food that is safer than domestic fast-food competitors. On Monday, Yum, the biggest foreign restaurateur in China by sales, went on the offensive to try to limit damage from the scandal, announcing that it would strengthen oversight of its suppliers and expand drug testing, and added that more than 1,000 small producers used by the company’s 25 poultry suppliers had been eliminated from its network. Yum blamed the problem on “ineffective management” at some individual farms, adding that its goal would be to “work on the survival of the fittest of the chicken suppliers”. The company will move closer to a vertically integrated model where chicken is sourced from its own farms in China, but that “will require a big investment and it is also not easy to acquire land as breeding farm in China”, the company said.

Yum, which operates Pizza Hut as well as KFC in China, dominates even the burger chain McDonald’s in the mainland fast-food market. It arrived in the country earlier than other fast-food brands, and has long been seen as a model of how to localise a foreign brand while marketing its food as safer than that of local restaurants. Yum said last month that fourth-quarter same-store sales in China, which account for 44 per cent of its total profits and about half of revenues, had fallen 6 per cent.


**China publishes Gini coefficient’s measurements**

China has published the calculation methods of the Gini coefficient reflecting social wealth gap, the National Bureau of Statistics announced on Friday. A new survey system was set up at the end of 2012 to unify the income index for 400,000 households in both urban and rural areas. Historical income data have been adjusted and recalculated, according to an article on the NBS website. The reformed system has been drafted referring to international norms, wrote Wang Pingping, NBS resident survey office chief. Internationally comparable, China's recently released Gini coefficient reflects the income trend during the past decade, Wang said. The 2003-2012 Gini coefficient, reflecting the gap between the rich and poor, was released by the NBS on January 18. All the annual figures were much higher than the warning level set by the United Nations.

China's statistics department used to publish two indexes -- per capita disposable income of urban residents and that of rural residents -- to reflect income distribution. The reason for not publishing the index in previous
years is due to the inconsistency in the income index for both urban and rural residents, and the unclear classification of migrant workers impacted by the country's urban and rural dual structure, wrote Wang. Wang said the NBS will make further amendments and publish the Gini coefficient and calculation measurements in accordance with the new system.

Source: Xinhua: China publishes Gini coefficient's measurements, 2013-02-02

China unveils reform guidelines on income distribution

China on Tuesday unveiled guidelines to reform its income distribution mechanisms amid growing public concern over a widening wealth gap. The reform will focus on increasing residents' income, narrowing the income distribution disparity and regulating the distribution order, said a statement from the State Council, or China's cabinet, which declared approval and transfer of the guidelines. The government will work to double the average real income of urban and rural residents by 2020 from the 2010 level and let the poor enjoy faster income growth, according to the guidelines. The middle-income group will be expanded and the number of those living under the poverty line will be sharply reduced, while excessively high and hidden income will be adjusted and regulated, they said.

The reform also targets raising the proportion of residents' income in the overall national income and spending more government funds on social security and employment. "Both efficiency and fairness should be considered in the initial distribution and redistribution processes," the State Council said. It hailed the reform as significant to the country's bid to transform the pattern of its economic development into one that is more consumption-driven. Fairer income distribution is a fundamental move to safeguard equity and justice as well as social stability and harmony, it said. However, "deepening the income distribution reform is a systematic project that is arduous and complicated and concerns the reallocation of various interests," said the cabinet. "There is no way to accomplish it overnight."

Source: Xinhua: China unveils reform guidelines on income distribution, 2013-02-06

Further tax reform needed for income redistribution

China will actively explore tax reforms related to personal income, property and social security in order to adjust the way income is allocated, said a senior official from the Ministry of Finance. The government must actively study taxes as a means of redistributing income, as the country's widening income gap has seen no fundamental changes, said Jia Chen, head of the ministry's department of tax policies. Jia said the government has to improve the personal income tax system, particularly by increasing taxes on the wealthy. He also said appropriate adjustments will be made regarding which items will feature consumption taxes and how much those taxes will be. Property taxes for residential housing will be gradually expanded from the cities of Shanghai and Chongqing to other Chinese cities, Jia said, adding that China will also strengthen property tax reforms related to enterprise-owned property. Jia also proposed levying social security taxes in order to establish a sound mechanism for funding social security.

Source: Xinhua: Further tax reform needed for income redistribution., 2013-02-19

Labor shortage worsens as migrant workers stay home

Inland provinces are holding job fairs to attract migrant workers home to work, leading enterprises in coastal manufacturing hubs to fear increasingly serious labor shortages. Zhang Hongbo returned to his hometown Nanchong in Sichuan province for Spring Festival and decided not to return to his job in Guangzhou, Guangdong province. Zhang, 35, had worked in Guangzhou as a mechanic for more than 10 years. "I believe I can find a perfect job in Nanchong due to my experience," he said. "The main reason for my decision to work at
home is that I want to take care of my child and parents." Zhang said he had contacted several local enterprises about their employee needs.

There are more than 250 million migrant workers in the country, and many of them leave home for other provinces to earn a living. As inland provinces’ efforts to lure migrants are paying off, many enterprises in coastal regions are feeling the pinch to retain employees. Zeng Hongwu, general manager of Guangzhou-based shoes and leather goods manufacturer Apples Industrial Corp, said his company has some 500 employees but is short by about 40 percent. "More than 10 percent of workers have not returned after the Spring Festival each year since 2009. We've asked employees this year about their willingness to stay or not and 15 percent of them said they would not come back," he said. Zeng said orders are expected to rise this year from 2012 and that would exacerbate the labor shortage. "It is felt by almost all factories in Guangdong," he said. Zeng said garment factories have already begun to relocate from Guangdong's Shenzhen and Dongguan to inland provinces such as Jiangxi and Henan due to lower costs, and he predicts that shoes and leather goods factories will gradually move to inland locations in the next three to five years. To offset the labor shortage, some enterprises in Wuxi, eastern Jiangsu province, are holding job fairs in Anhui province to vie for migrant workers.

Source: CHEN XIN: Labor shortage worsens as migrant workers stay home, China Daily, 2013-02-19

**Chinese companies face skills shortage, report says**

More than one-third of Chinese companies are struggling to recruit skilled workers, posing a major challenge for their business-growth prospects, a report by international accounting firm Grant Thornton said on Wednesday. Almost half of the companies from sectors such as technology and clean-tech reported difficulties in hiring skilled workers, the report said. The Grant Thornton International Business Report revealed that 61 percent of companies in China cited a shortage of general employability skills as the main problem, while 55 percent said that a shortage of technical skills is the major concern. Over half of both traditional industries — construction, food & beverage and healthcare — and emerging industries — technology, clean-tech and business services — believe that those two factors are hindering the recruitment process. Xu Hua, CEO of Grant Thornton Jingdu Tianhua, said that job seekers have a hard time obtaining employment, while companies also have difficulties during the recruitment process. On one hand, the labor market is saturated and the employment situation is difficult for graduates, but on the other, businesses find it difficult to recruit qualified employees, the report said.

Compared with other industries, hospitality businesses are more concerned about the fall in customer service standards. And 25 percent of businesses in the technology sector consider that turnover will delay the development of new products and services, a higher percentage than any other industries.

Source: Hu Yuanyuan: Chinese companies face skills shortage, report says, China Daily, 2013-02-20

**China's rural migrant workers top 262m**

Nearly one in every five Chinese people were rural migrant workers -- those from rural areas working in cities -- by the end of last year, official statistics showed on Friday. The number of rural migrant workers increased 3.9 percent to 262.61 million by the end of 2012, accounting for 19.39 percent of the country's total population, the National Bureau of Statistics said in a report on China's development. In breakdown, rural workers employed outside their hometowns rose 3 percent from a year ago to 163.36 million in 2012, while those employed in their hometowns rose 5.4 percent to 99.25 million, the report said.

Helping rural workers become urban residents is considered by the government as an important task for the country's urbanization, according to this year's first policy document released last month by the State Council, or the cabinet. China will push forward reform of its household registration system, loosening requirements for...
obtaining residency permits in small and medium-sized cities and small townships, the document said. The country will also intensify efforts to provide professional training for migrant workers, ensure their social security and protect their rights and interests, according to the document.

Source: Xinhua: China's rural migrant workers top 262m, 2013-02-22

**China's R&D spending hits 1 trillion yuan**

China's spending on research and development increased 17.9 percent year-on-year to 1.02 trillion yuan ($162.24 billion), according to data released Friday. The rise comes amid the country's efforts to build an innovation-driven economy. R&D expenditure represents 1.97 percent of the gross domestic product last year, up from the 1.84 percent and 1.75 percent registered in 2011 and 2010, respectively, the National Bureau of Statistics said. China's annual R&D spending grew on average by more than 20 percent for six straight years since 2006 before slowing slightly last year, said a report issued earlier by the NBS.

In 2012, a total of 217,105 invention patents to domestic and overseas applicants were authorized, up 26.1 percent from the previous year, the State Intellectual Property Office said Thursday. Of the total invention patents, 63.2 percent were granted to domestic applicants.

Source: Xinhua: China's R&D spending hits 1 trillion yuan, 2013-02-22

**Chinese enterprises urged to innovate**

The central government is urging enterprises to make more efforts to improve and innovate, according to a guideline published on the government's website on Monday. The guideline also sets a goal of establishing a market-oriented "technology innovation system" inside enterprises by 2015 that combines research, development and production. The guideline calls on enterprises to invest more in research and development, with money spent on research by large- and medium-sized industrial enterprises to be increased to 1.5 percent of their main business revenues. Leading enterprises should reach the level as their international peers and double the amount of patent applications they file, the guideline says.

China's innovation is poor and lacks core technology with independent intellectual property rights, the guideline says, adding that the current mechanism has restricted innovation. The government will help enterprises set up research and development branches, nurture small- and mid-sized firms, cultivate more talent and improve financial policies that can support innovation. Relevant institutions should tap into their respective advantages and cooperate with enterprises in order to innovate, the guideline says.

Source: Xinhua: Chinese enterprises urged to innovate, 2013-02-05

**China to develop sustainable marine fishery**

The Chinese government has made new plans to tap the nation's marine resources in a more sustainable manner to stimulate economies in coastal areas and better protect maritime interests. The State Council, or China's cabinet, issued a set of guidelines to boost the country's marine fishing industry following an executive meeting presided over by Chinese Premier Wen Jiabao on Wednesday.

Under the guidelines, China pledges to take an array of environmentally friendly measures, such as intensifying monitoring of fishery areas, strictly implementing off-season policies and controlling offshore fishing. It will also target long-range fishing, intensive sea-farming and aquatic products processing to fine-tune the industrial structure. In addition, the guidelines highlight the significance of improved management of the sector in line with current international rules. Aspects including accelerating fishing boat upgrades, nurturing leading companies, improving fishermen's livelihood and stepping up infrastructure construction were also noted. China's efforts to shore up its marine economy also include the establishment of Sansha city in July of last year.
China's non-manufacturing activity grows further

Business activity in China's non-manufacturing sector continued to grow in January, partly as a result of robust retail trade ahead of the Spring Festival, an official monthly survey showed on Sunday. The Purchasing Managers Index (PMI) of the non-manufacturing sector came in at 56.2 percent in January, up 0.1 percentage points from December, the China Federation of Logistics and Purchasing (CFLP) said in an online statement. The sub-index for new orders retreated 0.6 percentage point from a month earlier to a still-high 53.7 percent, while that for new export orders saw a slight climb of 0.1 percentage points to 52.6 percent. Retail businesses were most active in the month, with the activity index rising 4.5 percentage points to 71.1 percent, helped by the annual buying spree ahead of the Spring Festival. The sub-index of intermediate input prices logged the biggest gain of 4.4 percentage points to hit 58.2 percent, its highest level in nearly 10 months. The holiday effects, as well as price rises in construction-related upstream materials, are the reasons behind the sharp increase, the CFLP said.

In January, business activity in the catering industry saw a sharp drop of 17.3 percentage points from a month earlier, while the new orders index shrank to below 50 percent. The statement attributed the change to a public response to the central government's calls for a frugal lifestyle, which has led some government organs to reduce extravagance and cut spending in restaurants. Other sub-indices, such as in-hand orders, employment and business outlook declined from a month earlier, the statement added. The CFLP's non-manufacturing PMI is based on a survey of about 1,200 companies in 27 industries, including transportation, real estate, and catering and software development.

Source: Xinhua: China's non-manufacturing activity grows further, 2013-02-04

China's individual, private businesses top 40.6m

China's individually-owned businesses and private enterprises topped 40.6 million around January end, according to the State Administration for Industry and Commerce (SAIC). They are providing jobs for about 80 million people and report 2 trillion yuan ($321.03 billion) in capital. Most businesses, or 90 percent, are working in the tertiary or service sector, and only 8 percent are in the second industry and 2 percent in the primary industry. Half of the businesses are located in the eastern regions and only 30 percent are based in the central regions and 20 percent in the western areas.

Individually-owned businesses and private enterprises have been growing rapidly into a key source for China's economic growth, fiscal revenue and employment. The country registered only 140,000 such private businesses in 1978 before the number hit a high of 31.6 million 1999. The SAIC started clearing the "dead" members in counting from 2000 on, leading to five-year declines in the total number. It hit a bottom low of 23.5 million in 2004, but started to grow again rapidly.

Source: Xinhua: China's individual, private businesses top 40.6m, 2013-02-11

Nation to see travel rush, again

China's transport system is being put to the test, as the world's largest annual human migration comes to a peak with the Spring Festival holiday wrapping up. More than 6.5 million trips were made on Chinese railways on Thursday, with more passengers expected to flood railway stations on Friday, which will witness the first rush of people returning to work after the seven-day Spring Festival holiday, the Ministry of Railways said.

A total of 4,550 train services were operating on Wednesday, completing nearly 5.8 million trips for
passengers, the ministry said, adding that 629 temporary, extra train trips would be made on Thursday to help handle the surge in travelers. Also on Wednesday, nearly 50 million trips were made in private cars and buses, the Ministry of Transport said, noting about 987,800 passengers traveled through 7,291 flights on the day. From Thursday to Saturday, major expressways will witness a rapid increase in private cars and congestion is expected on Friday, the last day of the toll-free period for this Spring Festival holiday, according to traffic management officers with the Ministry of Public Security.

Source: Zhao Lei: Nation to see travel rush, again, China Daily, 2013-02-15

China's 1st privacy protection standard in effect

China's first set of national guidelines on personal information protection took effect on Friday. Information collectors should obtain permission before collecting and using citizens' private information, according to the rules published in November 2012. Co-formulated by the China Software Testing Center and other organizations, the guidelines were created to provide a standard on personal information collection and processing. Leaks of private information such as phone numbers and purchase records are often for commercial purposes and have aroused concern among the public amid China's ongoing Internet boom.

The guidelines made headlines Friday, with media reports saying enforcing the guidelines means public service providers, including banks, Internet firms, telecom operators and property developers, will have to upgrade the protection of citizens' personal information.

Source: Xinhua: China's 1st privacy protection standard in effect, 2013-02-11

4G network to lead the world

China Mobile Communications Corp, the parent company of the world's largest telecom carrier by subscriber, announced on Tuesday that it plans to deploy the world's biggest 4G LTE network in China this year, covering more than half a billion people, according to the company's chairman. In a keynote speech at the Global TD-LTE Initiative summit in Barcelona, Xi Guohua said the homegrown TD-LTE technology is gaining in popularity across the globe as the industry matures. China Mobile will build a TD-LTE 4G network in China this year that will cover more than 100 cities, or about 500 million people, Xi said. "It will be the largest LTE network around the world." Meanwhile, China Mobile is about to acquire more than 1 million TD-LTE terminals, including smartphones and data cards, in 2013. "Besides high-end mobile phones (supporting TD-LTE standard), low- and mid-end mobile phones will also enter the market, providing customers with more choices," the chairman said. Mobile phone vendors LG Electronics, HTC Corp, Huawei Technologies Co Ltd and ZTE Corp have partnered with China Mobile to launch four models of TD-LTE smartphones.

China Mobile for the first time released two TD-LTE terminals under its own brand on Tuesday. The MiFi products, CM 512 and CM 510, act as mobile hotspots for TD-LTE network surfing. "This will be a new milestone marking the diversified, large-scale development of LTE," Xi said, stressing the importance of more TD-LTE terminals entering the global market. China Mobile is now conducting large-scale trials of TD-LTE networks in 13 major Chinese cities. The company constructed 20,000 TD-LTE base stations and expects to expand the figures by tenfold this year. In December, China Mobile Hong Kong launched a TD-LTE commercial network. The network is not only China Mobile's first commercial TD-LTE network, but also the first LTE TDD/FDD converged commercial network in Asia. "The commercialization of TD-LTE was dramatically accelerated in 2012," Xi said. The commercial networks and user base began to develop, he added.

Miao Wei, minister of industry and information technology, said in March last year that authorities will begin approving 4G licenses in two to three years. But in September, Miao said the licenses will be ready for issue in one year. Worldwide, there were 14 TD-LTE commercial networks deployed as of February, providing
services for millions of consumers, according to statistics from GTI. Currently, 10 chipset vendors have launched TD-LTE terminal chipsets. Most of them support multiple telecommunications standards, including FDD LTE, 3G WCDMA and even TD-SCDMA, Xi added.

Source: Shen Jingting: 4G network to lead the world, China Daily, 2013-02-27

**China stresses continuity of property curbs**

China will strictly implement and improve tightening measures on the housing market, and keep the policies continuous and steady, according to China's State Council, or the cabinet. Cities which have imposed restrictions on the real estate market are required to maintain their grips, while for other cities where prices have run too fast, related provincial governments should order them to impose timely curbs, said a document issued after an executive meeting of the State Council chaired by Premier Wen Jiabao Wednesday. Policymakers at the meeting also pledged to increase land supplies for regular commercial housing projects this year. In principle, land supplies for home construction should not be lower than the average in the past five years, said the document.

Source: Xinhua: China stresses continuity of property curbs, 2013-02-21

**Manufacturing activity slows in January**

Manufacturing expansion in China slowed to below market expectation in January, dragged down by shrinking export orders, according to an official government index released on Friday. The Purchasing Managers' Index for the manufacturing industry, a gauge of nationwide manufacturing activity, retreated to 50.4 in January from 50.6 in December, lower than the market's expectation of around 51, the National Bureau of Statistics and the China Federation of Logistics and Purchasing jointly announced. The government figures were released on the same day as those by HSBC Holdings Plc, which reported its own manufacturing PMI for last month, showing a sudden rise to 52.3 from 51.5 in December, a two-year high, said HSBC. The UK's Financial Times suggested that the official PMI might be considered as reflective of State-owned companies, while the HSBC version was a better indication of private activity.

Some experts suggested the marked difference in the two indexes could be linked to the official January PMI being the first time the statistics bureau had expanded its survey sample size to 3,000 enterprises across 31 industries, from the previous 820, across 21 sectors. "This change of survey method may have obvious influence on the final reading. However, we believe the official PMI can better reflect the economic situation in China," said Liu Ligang, chief China economist with Australia and New Zealand Banking Group Ltd.

The sub-index of the official PMI that specifically indicates new orders rose to 51.6 from 51.2 in January, its highest since May 2012, which shows that market demand is continually rebounding, according to the statistics bureau. However, new export orders contracted with their reading dropping to 48.5 last month, from 50 in December.

Source: Chen Jia: Manufacturing activity slows in January, China Daily, 2013-02-02

**Output growth hits 4-month low, says HSBC**

China's manufacturing production growth hit a four-month low in February, dented by the Chinese New Year holiday and continued weakness in external demand, banking giant HSBC Holdings Plc said on Monday. A prediction saw the manufacturing Purchasing Managers' Index retreat to 50.4 in February from 52.3 in January, but still showing the sector was expanding, HSBC said. "It means the underlying strength of China's recovery remains intact, as indicated by still-rising employment and the recent pickup of credit growth," said Qu Hongbin, HSBC's chief economist for China and co-head of Asian economic research.
The moderation in HSBC's PMI prediction was mainly led by weaker growth in new orders, with the relevant sub-index declining to 51.2 in February from January’s 53.7, the lowest level for three-months. Another sub-index showed new export orders fell to 49.8 this month, compared with 50.5 a month earlier, and indicating that exports have turned to contraction from modest growth, according to HSBC. Qu said that over the past three years, the average moderation of the PMI during the Chinese New Year months was 1.4 points, during which most manufacturing production takes a week's break. He said the manufacturing sector remains optimistic, suggested by the continuous expansion of raw material purchases. "More importantly, robust labor market conditions should provide additional support to continued consumer spending growth in coming months."

Source: Chen Jia in Beijing and Xie Yu in Shanghai: Output growth hits 4-month low, says HSBC, China Daily, 2013-02-26

Mainland, Taiwan look to possibilities in aerospace

Fan Liqing, spokeswoman for the State Council's Taiwan Affairs Office, used the well-known catchphrase on Wednesday to describe how cross-Straits cooperation can fare in aerospace. The mainland is eager to cooperate with Taipei on space research and development, she said at a news conference. Her remarks came as Kuomintang Honorary Chairman Lien Chan led a delegation visiting the Beijing Aerospace Control Center on Wednesday. During the visit, the delegation met the three astronauts who went to space in June on the Shenzhou IX spacecraft. Liu Yang, China's first female astronaut, was a focus among the visitors, and most of them took photos with her, China Central Television reported. Sharing a light moment, Lien's wife, Lien Fang-yu, asked the female astronaut to take her into space during the next space mission, the report said. It's the first time that Lien Chan has been to the Beijing Aerospace Control Center. The Beijing Aerospace Control Center is not mysterious to Taiwan visitors because many Taiwan reporters have already been there, Fan said at the news conference.

Yang Liwei, China's first astronaut, called for cross-Straits aerospace cooperation in July when he met with a visiting summer camp group of 38 Taiwan students, Xinhua News Agency reported. Plant seeds from Taiwan were sent into space on mainland spacecraft, marking the first step in the cross-Straits cooperation in aerospace technology, Yang said. That cooperation can be promoted in the research of aerospace medicine, biology and materials, he said. Mainland aerospace authorities would like to train astronauts from Taiwan, Yang said. Both sides expressed confidence in the peaceful development of cross-Straits relations, and Lien said that making the Taiwan Straits peaceful is a common desire of Taiwan society, Fan said. The number of mainland tourists to Taiwan - both group and individual visitors - reached a high of 1.97 million last year, up 57.5 percent year-on-year, according to the Taiwan Affairs Office of the State Council.

Source: An Baijie: Mainland, Taiwan look to possibilities in aerospace, China Daily, 2013-02-28

US relaxes visa policies for Chinese applicants

The United States will launch a new application policy for non-immigrant visa applicants from China, promising better customer service and lower costs, the Embassy of the United States in Beijing announced on Wednesday. The new policy, which will go into effect on March 16, offers greater convenience for applicants scheduling visa interviews, completing visa processing procedures and checking their visa status, US
Ambassador to China Gary Locke said. Visa applicants will only have to pay a standard processing fee of about $160 for most non-immigrant visa categories, Locke said. Unlike the current policy, no additional fees will be charged for scheduling or changing visa interview appointments or returning applicants' passports, he said. Using the embassy's hotline to make appointments or ask questions relevant to the application process will also be free in three weeks.

Applicants currently have to pay the visa processing fee in cash at China Citic Bank branches. The new policy offers the additional options of paying online with a Chinese debit card or a foreign credit card or paying at any China Citic Bank ATM. Internet-based services will also be supported by the new policy. Applicants can conduct visa interviews online and check for their day to be served or to pick up their passports. Once the new policy is in effect, passports can be collected at any of the 900 China Citic Bank branches across China. Currently, applicants can only collect their passports from the embassy or have them returned by mail. In the past year, the waiting time for an appointment had been reduced to an average of five days. The embassy has vowed to continue to improve efficiency in this regard. The new visa application system is just one part of the overall efforts to continually improve the US Embassy's services for Chinese tourists, Locke said.

According to statistics from the US Department of Commerce, more than 650,000 Chinese tourists visited the US in the first half of 2012, marking a year-on-year increase of 46 percent. In 2012, the US Embassy in China processed more than 1.34 million non-immigrant visa applications, a 26-percent increase year-on-year and an almost 80-percent increase from 2011, Locke said.

Source: Xinhua: US relaxes visa policies for Chinese applicants, 2013-02-21

China's capital, financial account posts a deficit

China's capital and financial account posted a deficit in 2012, while the current account surplus shrank during the same period, according to data released by the State Administration of Foreign Exchange on Friday. In a statement published on its website, the foreign exchange watchdog said the country registered a $117.3 billion deficit in the capital and financial account last year, in contrast to a surplus of $186.1 billion in 2011. The country's current account surplus fell to $213.8 billion by the end of December, accounting for 2.6 percent of GDP. The proportion went down by 0.2 percentage points compared with that of the previous year.

"The deficit reflected the fact that last year China faced capital outflow pressure as global and domestic economic growth softened and international financial turbulence increased," it said. The reform of the currency exchange rate formation mechanism also contributed to the deficit last year, said SAFE. "As the reform deepens and foreign reserves stabilize, if the current account witnesses a surplus, a deficit will be formed on the capital and financial account," it said.

Source: China's capital, financial account posts a deficit, China Daily, 2013-02-01

Currency's global role takes huge step closer

The internationalization process of the yuan has been given a major boost by the Chicago Mercantile Exchange. On Monday, the owner of the world's biggest futures exchange will launch deliverable offshore yuan futures in Hong Kong by offering three-year contracts worth either $100,000 or $10,000. These are price ranges that will attract both hedge funds, retail traders and a generally more diversified client base, analysts believe. KC Lam, the Singapore-based head of foreign-exchange products in Asia for the CME Group, said China's economic status - as the world's second-largest economy, the largest exporter and second-biggest importer - will lead to a growing global demand for its currency. "Our decision to launch the USD/CNH (renminbi traded offshore) foreign exchange futures contracts is primarily commercially driven," Lam said. The yuan has been used for business transactions in multiple offshore locations including Hong Kong, Singapore, and Australia. "Hong
Kong is the choice for the offshore RMB launch due to its thriving commercialism and it is the doorstep of China," Lam said. To move to the next stage of yuan internationalization, trading in the currency needs to become global and accessible to a diversified client base, "across hedge funds, proprietary trading firms, banks, as well as corporate and retail accounts," Lam said. Bask of China - a key Chinese player in terms of promoting global business in yuan - formed a strategic alliance with the CME Group in March.

Source: Zhang Yuwei in New York: Currency's global role takes huge step closer, China Daily, 2013-02-25

**Dollar dilemma as greenback value falls**

US Treasury bonds accounted for 36.4 percent of China's $3.31 trillion foreign exchange reserves on Dec 31, according to the People's Bank of China. The Treasury International Capital report released by the US Department of the Treasury on Feb 15, a week after Chinese New Year's Eve, showed that China remains the largest foreign creditor of the world's largest economy. Its total holdings of United State's government debt are now $1.2 trillion, according to the US Treasury Department. Together with other dollar-denominated investment products, such as certain corporate bonds, the proportion of US dollar debt is almost 70 percent of China's entire foreign exchange reserves.

How to make better use of the world's largest foreign exchange reserves became the core issue. Is it still best to continue to expand holdings in US government bonds? "The huge amount of reserves in US dollars could be transferred into residents' pockets or used to launch special investment funds to help Chinese enterprises expand overseas," wrote Qiu Xiaohua, the chief economist of Minsheng Securities Co, in a posting on Sina Weibo on Feb 14. "A third approach would be to use a part of it as an international development fund to support economic growth in undeveloped regions, such as some African countries," Qiu added.

Xi Junyang, deputy director of the Shanghai University of Finance and Economics Center for Financial Research, disagreed with distributing the reserves to individual residents or spending it in China, which would lead to serious inflation. "The foreign exchange reserves come from overseas. They can only be used for external payments," Xi said. "The most important thing is to improve the international balance of payment, rather than finding the ideal way to use the foreign exchange reserves," said Chen Yuyu, an associate professor with the Guanghua School of Management at Peking University.

An official from the State Administration of Foreign Exchange announced on Jan 14 that a new office called SAFE Co-Financing had been launched to handle trusted loans based on the country's foreign exchange reserves. The main duty of the office is to seek out new channels in which to invest the reserved capital. "It will be an important element in innovating the use of the foreign exchange reserves to avoid their value falling," a SAFE statement said. The "innovation" will be guided by market-oriented rules and be controlled under a strict risk-management system, the official pledged. Xinhua News Agency reported the new office had already started pilot work before the announcement. SAFE provided the capital and entrusted the China Development Bank to lend money to Chinese enterprises aiming to expand their business overseas. "China Development Bank can decide the loan's interest rate, length of maturity and total amount, while SAFE will take all the risk," the official said. The investment return of the entrusted capital from foreign exchange reserves is expected to be higher than the return on US Treasury bonds, especially under the US quantitative easing policies in which the US effectively prints more money, thereby reducing its value, analysts said. However, it would come with higher risks.
"Many disputes remain about how to use the reserves. However, their most important function is to stabilize the yuan, strengthen external payment capacity and ensure the country's anti-risk capability," said Xu Hongcai, a senior economist with the China Center for International Economic Exchanges, a government think tank. "Safety is always the priority," Xu said. However, it may now be a good time for China to reduce its holdings of US Treasuries because the devaluation of the dollar has further eroded the value of the foreign exchange reserves, said Xu. "The increasing money supply in the US is leading to depreciation of the dollar and helping to dilute its debt as the US tries to solve its fiscal problems. As a result foreign creditors will suffer huge losses." He suggested China's central bank should readjust the asset structure of the foreign exchange reserves and encourage commercial banks to apply for foreign exchange loans to support the direct investment of businesses in European countries and the US, or import high-tech products.

The top manager of China's sovereign wealth fund, Chairman and Chief Executive Officer of China Investment Corp Lou Jiwei, said US government bonds are still safe assets right now, but the continued low interest rates in the US had decreased expected returns on the investment. China will continue to buy US Treasury bonds, although the future gains from the investment don't look promising, according to Lou, who is a former vice-minister of finance.

Source: Chen Jia: Dollar dilemma as greenback value falls, China Daily, 2013-02-25

**Export woes need for change in trade structure**

The recent lowering of foreign trade targets by provincial governments suggests more challenging prospects for China's foreign trade this year after lackluster growth in 2012, with experts calling for urgent steps to improve the nation's trade structure. Guangdong province, which accounts for a quarter of China's foreign trade, has set a foreign trade growth target of 5 percent for 2013, despite the province's trade growing 7.7 percent year-on-year in 2012, surpassing its 7.5 percent target. The eastern province of Jiangsu lowered its target to 5 percent this year from 8 percent in 2012 after its foreign trade rose 1.6 percent year-on-year. "We must speed up the strategic transformation of foreign trade in 2013 ... and balance imports and exports while fostering new trade growth engines, as well as upgrading processing trade," said Guangdong Governor Zhu Xiaodan.

Fujian province has set a target of 5 percent for this year, while Shandong province expects its foreign trade to grow by 8 percent. Zhejiang province is expected to set a lower target than last year's 10 percent. Guangdong, Jiangsu, Fujian, Shandong and Zhejiang accounted for 58 percent of China's total foreign trade in 2012. Commerce Ministry spokesman Shen Danyang said that trade prospects will remain challenging this year due to sluggish overseas demand and the unfavorable trade environment.

China's foreign trade rose 6.2 percent year-on-year in 2012, missing its 10 percent target and contrasting sharply with the 22.5 percent surge in 2011. Exports grew 7.9 percent year-on-year in 2012, the slowest pace in more than a decade except 2009, in the wake of the outbreak of the global financial crisis. Speaking at a forum on Friday, Wei added that global economic prospects will remain uncertain over the next three to five years. Yao Jingyuan, a researcher at the Counselors' Office of the State Council, blamed weak exports in 2012 for China's slow economic growth. Yao added: "But China's high-tech exports retained quite high growth in 2012, suggesting that the current export growth model and structure are not sustainable." Amid rising costs at home and fierce competition from neighboring countries with lower costs, we are now at an urgent moment to transform exports and take the downward pressure in export growth as the motivation for restructuring."

Source: Li Jiabao: Export woes need for change in trade structure, China Daily, 2013-02-05

**China trade growth hints at strong 2013**

Chinese exports and imports rose strongly in January, pointing towards solid growth both in China and
abroad at the start of 2013. Inflation in China also receded last month, slowing to 2 per cent from 2.5 per cent in December. But analysts called for caution in interpreting the figures because next week’s Chinese New Year holiday will have caused significant distortions since companies tried to push as much business as possible into January before work came to a halt. Moreover, the timing of the holiday – which fell in January last year but February this year – has probably made year-on-year trade growth appear stronger and inflation weaker than is really the case.

Chinese exports rose 25 per cent from a year earlier, the fastest pace since April 2011 and up from 14.1 per cent in December. Imports increased 28.8 per cent, more than four-times December’s 6 per cent rise. The boom in imports trimmed China’s trade surplus to $29.2bn in January, from $31.6bn a month earlier.

With growth rebounding, the Chinese central bank said in a report this week that controlling inflation had become a priority. The big rise in imports was partly a reflection of the return of inflationary pressures. Raw material prices have jumped in recent months, with iron ore, a crucial ingredient in steelmaking, up 80 per cent since September. That helped push Chinese producer prices up 0.2 per cent from a month earlier.

Source: Simon Rabinovitch in Beijing and Michael Steen in Frankfurt: China trade growth hints at strong 2013, Financial Times, February 8, 2013

China's int'l trade still smaller than US

China's combined export and import volume in 2012 still ranked behind that of the United States when using the same method to measure, the Ministry of Commerce said Wednesday. The ministry expects the country's total international goods trading to be $15.64 billion less than that of the United States according to the measurement adopted by the World Trade Organization.

The US Commerce Department has released two sets of figures for its international goods trading -- $3.82 trillion (based on international balance of payments) and $3.882 trillion (based on the measurement which is similar to the WTO's measurement), said an MOC official. The WTO usually adopted the latter figure in its annual international trading report that is due to be released late February or early March, the official added. China's export and import volume increased 6.2 percent year-on-year to $3.867 trillion in 2012, according to the data issued last month by the General Administration of Customs.

Source: China's int'l trade still smaller than US, China Daily, 2013-02-14

US approves $18bn Cnooc bid for Nexen

Cnooc’s $18bn bid for Canada’s Nexen won approval from US officials, paving the way for the completion of China’s largest foreign acquisition. Tuesday’s approval from the Committee on Foreign Investment in the US, a multi-agency body that reviews large deals that could affect US security, gives Nexen “all of the requisite approvals to proceed to close”, the company said in a statement. The Cnooc deal for Nexen is the third Chinese deal to be approved by the committee in recent months, and follows clearances granted for BGI-Shenzhen’s bid for Complete Genomics, and Wanxiang Group’s bid for A123 Systems, the battery maker. All three deals faced some political opposition but were ultimately approved by Cfius. By winning approval, Cnooc has cleared the final hurdle in its long quest to establish a major foothold in North America.

In 2005, it attempted to buy US energy producer Unocal for $18.5bn but withdrew its bid after facing stiff political opposition in Washington. Cfius never reviewed that deal and Chevron soon after acquired Unocal. Its bid for Nexen also faced political headwinds, but the company had learnt from its previous mistakes. It courted US and Canadian regulators early on, and made moves to win support from Canadians, such as moving its North American headquarters to Calgary. Late last year it looked as if Cfius might challenge the deal. In November, Cnooc and Nexen resubmitted their agreement for approval, raising concerns that Cfius was taking a hard line.
Less than two weeks after resubmitting for Cfius review in November, Canadian regulators approved Cnooc’s bid for Nexen, saying it was “likely to be of net benefit to Canada”. At the same time, they also promised strict new limits on foreign state-owned companies investing in its natural resources.

Management handover of Gwadar port begins

An agreement was signed in Islamabad on Monday to hand over management of the strategic Gwadar port to a Chinese company, according to Pakistani media. Under the agreement, China Overseas Port Holdings Ltd will fully assume the responsibility of the port from Singapore’s PSA International. The port will remain property of Pakistan and the Chinese company will share the profit, The News International reported. Chinese Ambassador to Pakistan Liu Jian dismissed speculation that China would use the port for military purposes, the Nation newspaper reported on Monday. Liu also rejected India’s concerns over the handover, saying no third country should have reservations about the bilateral arrangement, which "is in the economic interest of the peoples of China and Pakistan”, the newspaper reported. Experts said the move aims to develop the port region, which has long been dogged by security threats, and strengthen stability in Pakistan, and the move is in line with China’s interests.

China provided about 75 percent of the initial $250 million funding for the construction of the port, which is close to the Pakistan-Iran border and the Strait of Hormuz in Pakistan’s southwestern Baluchistan province. The Pakistani cabinet on Jan 30 approved the transfer of the port because the Singaporean company had not developed the deep-sea port on the Arabian Sea "as desired". Pakistan hopes that the Chinese company’s investment in the port will help the country support its economy, Information Minister Qamar Zaman Kaira said last month. Pakistan expects the port to be a hub for trade and economic activities in the sparsely populated but resource rich region and to create jobs.

China will hardly see profits from the port in the short term due to chronic problems such as inadequate infrastructure and land requisition, said Hu Shisheng, an expert on South Asian studies at the China Institutes of Contemporary International Relations. In the near future, China needs to revive the port by investing in infrastructure construction and help Pakistan to independently develop the region, he said.
Source: Zhao Shengnan: Management handover of Gwadar port begins, China Daily, 2013-02-19

Overseas businesses urged to comply with rules

Chinese businesses operating overseas should comply better with local laws and regulations, and fulfill their social responsibilities while abroad, a Foreign Ministry spokesman said Friday. At a regular press briefing, spokesman Hong Lei said, "The Chinese government always holds a foreign policy for cooperation of mutual benefits, and requires overseas businesses to remain honest and trustworthy, comply with local laws, regulations and management as well as fulfill their social responsibilities.”

Hong's remarks came after reports that the Zambian government had seized control of a coal company run by Chinese-owned Collum Coal Mine due to poor compliance with safety and environmental standards. The Zambian government also canceled licenses of three other small mines owned by Collum Coal Mine. Hong said the mine is a Zambia-registered company and the issues should be addressed according to laws and regulations in the African nation. "The Chinese government hopes and believes the Zambian government will properly deal with the case and protect the lawful rights and interests of the company,” Hong said. The spokesman also highlighted the robust growth of China-Zambia economic and trade cooperation in recent years. He pointed out that growing investment from Chinese companies had created many employment opportunities for the Zambian
people and helped boost local economic development.
Source: Xinhua: Overseas businesses urged to comply with rules, 2013-02-22

**Sinopec acquires stake in Chesapeake asset**

Sinopec, the Chinese state-owned oil and gas group, will pay $1bn for a 50 per cent stake in Chesapeake Energy’s Mississippi Lime oil and gas field. The joint venture represents Sinopec’s second step into unconventional US oil and gas, following its $2.2bn purchase of stakes in five Devon Energy properties last year. It is the latest example of a buying spree by Chinese oil and gas companies, which the International Energy Agency forecast last week will lead to state-owned groups producing 3m barrels of oil a day outside of China by 2015, more than the current production of Kuwait.

Spending on international oil and gas acquisitions by Chinese state-owned oil and gas companies hit a record $35bn last year, including deals such as Cnooc’s $18bn bid for Nexen of Canada. Unlike Cnooc’s takeover of Nexen, Sinopec is entering a joint venture. Chesapeake will retain operational control of the Mississippi Lime field, in the US states of Oklahoma and Kansas. The transaction, worth $1.02bn in total, was announced by Sinopec International Petroleum Exploration and Production Corporation (SIPC), part of the wholly state-owned parent group. Chesapeake reported last week an 87 per cent drop in its underlying earnings for 2012, as rising oil production failed to compensate fully for the fall in the price of natural gas. The company plans $4bn-$7bn of disposals in 2013, down from almost $12bn last year, as it seeks to pay down some of the $12.3bn of net debt it held at the end of 2012.