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Shanghai Composite falls 0.7% on weak FDI data

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New Mood in Asia, but No Clean Slate

As 2013 opens, Asia is manufacturing optimism. In China, official PMI data out Tuesday showed the manufacturing sector expanded for the third month in a row after a summer of some discontent. Stocks are getting in on the act, too. Hong Kong shares hit their highest level since summer 2011 on Wednesday. Other leading stock markets posted gains, helped by the positive Chinese data and Washington's last-minute maneuvering to avert the so-called fiscal cliff.

Maintaining the momentum won't be easy, though. China's leaders have to walk their own policy tightrope between rebalancing the economy and kick-starting it. Societe Generale sees a 30% chance of a hard landing in China, in which gross-domestic-product growth would slip below 6% in 2013, compared with about 7.7% in 2012. The region's exporters also face a still-uncertain U.S. recovery and continued weakness in Europe. And recent export-related data suggest the way ahead is unclear. In Singapore, a bellwether for Asian exports, a disappointing fourth quarter meant GDP rose 1.2% in 2012, below the government's forecast for 1.5%. In South Korea, exports fell 5.5% year on year in December, though one factor may have been that there were fewer working days because of the country's elections. In short, many concerns that dragged on Asia's economies last year still exist. With those risks lurking not far below the surface, it might be too early to bet on a resurgent Asia.


China's Dec inflation rises 2.5%

China's consumer price index (CPI), a main gauge of inflation, grew 2.5 percent year-on-year in December, the National Bureau of Statistics announced Friday. The inflation rate increased from 2 percent in November and a 33-month low of 1.7 percent in October as food prices jumped. On a month-on-month basis, December's CPI rose 0.8 percent from the previous month, according to a NBS statement. "The notable jump in December's CPI was largely attributable to a surge in food costs, especially vegetable prices," said Yu Qiumei, a senior statistician with the bureau.

Food prices, which account for nearly one-third of the weighting in the calculation of China's CPI, rose 4.2 percent in December from one year earlier, pushing the CPI up 1.37 percentage points. China is experiencing unusual cold winter, with national average temperatures reaching a 28-year low. Persistent icy weather has wreaked havoc in south China, disrupting traffic, damaging power facilities and affecting agricultural production. Vegetable prices jumped 14.8 percent year-on-year in December as chilly weather disrupted vegetable transportation, pushing the CPI up 0.41 percentage points.

China's producer price index, which measures inflation at the wholesale level, fell 1.9 percent year-on-year in December, the National Bureau of Statistics said on Friday. This marks the 10th straight month of decline after the PPI dropped in March for the first time since December 2009. The decline was smaller than the 2.2-percent decrease in November, indicating that the economy has been stabilizing, analysts said.

Source: Xinhua: China's Dec inflation rises 2.5%, 2013-01-11

World News: China's Local Governments Boost Borrowing --- Pro-Growth Push Triggers Return to Infrastructure Loans, Reviving Risk Worries Amid Debt Hangover From '09 Stimulus

In 2009 and 2010, China's local governments borrowed big, taking debt levels to around 10.7 trillion yuan
($1.7 trillion), as they financed a huge infrastructure stimulus. That led to worries among some economists that hidden debt problems could trigger instability in China's banking system. In 2011, with growth back on track, the government clamped down on local-government debt issuance. Recently released data suggest that in 2012, concern about another slowdown may have pushed up borrowing again. Bonds issued by local-government-controlled financing vehicles totaled 636.8 billion yuan in 2012, surging 148% from 2011, the central bank-backed China Central Depository & Clearing Co. said in a report published this month. At the same time, loans from trusts -- a lightly regulated part of China's credit system -- made to fund infrastructure spending rose 376 billion yuan in the nine months to September, compared with a 17 billion yuan decrease in the period in 2011.

China's top economic planning body, its finance and bank regulators and its central bank said in a joint statement this month that there had been an increase of unauthorized fundraising by local governments. Concerns about slowing growth pushed local governments to ratchet up infrastructure spending, and return to the markets to finance new projects. Spending on roads, down at the end of 2011, was up about 37% in November compared with November 2011. Local governments may also be borrowing to pay back existing debt. Town halls had to repay 1.3 trillion yuan in 2012, according to China's National Audit Office. The central government was also in pro-growth mode, increasing approvals of major investment projects.

Local government investment vehicles are paying a premium to borrow. In March, Fushun City Construction Investment Co. issued a 10-year bond, offering a return of 8.5% on 150 million yuan -- substantially above the borrowing rate faced by the central government. Fushun City Construction couldn't be reached to comment. The prospectus for Fushun's bond issuance says that the funds would be used for construction of affordable housing and infrastructure projects.

Taken together with debt issued by the central government and the Ministry of Railways, Citibank estimates that total government debt as a percentage of gross domestic product came in at 44.3% in 2011. That figure doesn't include debt taken on by state-owned policy banks, bonds issued to clear up nonperforming loans in the commercial banks and other liabilities. That situation still compares favorably with debt levels in the U.S., Japan, and European countries. The International Monetary Fund estimates gross debt at 107% of GDP in the U.S. and 236% in Japan at the end of 2012. China's local governments also have assets that could be sold to pay down debts. But higher debt still brings higher risks. Mounting debt limits the capacity of China's government to raise public spending to support growth, and rolling over loans to local governments means banks have less credit to extend to entrepreneurs. Local governments' reliance on land sales to repay borrowing raises the risk that problems in the real-estate sector will result in more nonperforming loans for the banks.


Ending on a high

A recovery in the fourth quarter of 2012 has propelled China's economy to a full-year growth rate of 7.8%. Although this is the country's lowest annual rate of expansion for 13 years, the acceleration in real GDP growth in the final quarter will allay the concerns about a possible economic hard landing that were being widely voiced during the mid-2012 doldrums. We expect the support lent to the economy by government policy and a recovering property sector to lead to faster year-on-year growth in 2013. However, there are indications that economic momentum has peaked and that inflation is likely to re-emerge as a concern for the authorities.

According to data released by the National Bureau of Statistics (NBS) on January 18th, real GDP growth accelerated to 7.9% year on year in October-December, from 7.4% in the previous quarter, ending a streak of
seven consecutive weaker quarters. The performance in the fourth quarter was sufficient to deliver economic growth in 2012 as a whole comfortably above the government's target of 7.5%. According to the preliminary figures, agricultural value-added output expanded by 4.5% in 2012, while output in both the secondary and tertiary sectors rose by 8.1%. As a result, the tertiary (services) sector increased its share of nominal GDP to 44.6%, from 43.4% in 2011, pointing to the ongoing restructuring of China's economy.

The recovery staged in the fourth quarter of 2012 was largely a product of the pro-growth policies introduced by the government in the middle of last year when it became concerned about the extent of China's economic slowdown. Capital spending was loosened, with debt-laden local governments being granted greater leeway to accelerate urban infrastructure projects. The authorities also eased monetary policy by twice cutting interest rates, thereby stimulating demand in the vital property market. House sales have since accelerated, leading to a gradual pick-up in property development activity. The external sector is likely to have been the other factor contributing to faster growth. Merchandise exports increased in value by 9.4% year on year in October-December, above the pace set in earlier quarters of 2012.

The government's loosening measures pushed up nominal fixed-asset investment (FAI) growth to 20.6% in 2012 as a whole, from a recent low of 20.1% year on year in January-May. Although greater credit availability and an acceleration in public-works projects clearly succeeded in stimulating investment in the latter part of the year, the recovery remained modest in comparison with past performances: FAI grew by 24.5% in 2010 and 23.8% in 2011. Persistently weak investment in the property sector, which accounts for around 20% of China's FAI, was the main factor constraining overall investment growth. Real-estate investment expanded by 16.2% in 2012 as a whole, up from 15.4% in January-July, but this was still significantly slower than the heady rates recorded in the previous few years.

The government has relied on traditional investment-friendly methods to boost short-term growth, but private consumption has also played an important role. Retail sales rose in value by 15.2% year on year in December, which thus tied with March as the month that saw the fastest rate of sales growth in 2012. Nominal retail sales growth moderated to 14.3% in the year as a whole, from 17.1% in 2011, but lower average inflation in 2012 meant that this was a faster rate of expansion in real terms. Most goods categories reported double-digit rates of sales growth in 2012, with sales of communications appliances and furniture rising fastest. Car sales totalled Rmb2.3trn (US$370bn) in the year, representing around 11.5% of total retail sales, but growth was relatively weak at 7.3%. Underpinning consumption were healthy rates of income growth. According to the NBS, average per-head urban disposable income reached Rmb24,565 (US$3,950) in 2012, representing a year-on-year rise of 12.6% (or 9.6% in real terms). Average per-head rural cash income increased by 13.5% (or by 10.7% in real terms) to Rmb7,917. Although both increases were significantly above the GDP growth rate, a positive sign in terms of ongoing efforts to encourage private consumption to drive a larger proportion of economic activity, it was also notable that income growth tailed off over the course of the year.

The recovery staged by the economy in the fourth quarter was welcome, but the moderation in income growth in the latter part of the year hints that the upswing may prove short-lived. There are other indications that the momentum imparted to the economy since mid-2012 has peaked. According to the NBS, China's economy grew by 2% on a seasonally adjusted quarter-on-quarter basis in October-December, down slightly from 2.1% in the previous quarter. A recent acceleration in consumer price inflation may also make the authorities reluctant to keep policy loose in the coming months. Although we continue to expect the economy to experience a cyclical upturn in 2013, these factors mean that we will not be revising up our forecast of 8.5% real GDP growth this year, despite the fact that the economy's performance in the fourth quarter of 2012 was marginally better than we had expected.

Source: EIU: Bookmark Share Ending on a high, January 18th 2013
The way forward for China's economy

China and Europe must end their business-as-usual stance this year and get their houses in order for a better future, said experts at the Institute of Southeast Asian Studies' regional outlook forum last Thursday. WHILE China had, last year, averted an expected hard landing due to its slowing economy, China expert Shen Jianguang said it was not out of the woods yet and so would find it "challenging" to grow this year. Dr Shen, who is managing director and chief economist of Mizuho Securities Asia, said China's economy did not crash because, in the last quarter of last year, it enjoyed fierce domestic demand from better paid workers and its leaders also went on a public construction spree. While domestic consumption would remain strong, and so help counter continuing sluggish demand elsewhere, Dr Shen warned that any growth spurt from the Chinese government's continued infrastructural investments would not last. Already, he pointed out, banks were delaying the approval of loans even as residents protested publicly that over-building was ruining their surroundings. Meanwhile, up to 32 per cent of its factories lay idle from over-expansion, a fallout fuelled by the government's stimulus packages in 2009 and 2010, he said. On top of that, he noted, many manufacturers were pulling out of China and going into South-east Asia instead, especially Indonesia. This was because wages were rising in China, with even migrant workers enjoying a 13 per cent pay rise last year. Still, Dr Shen said, the Chinese were "more optimistic" about this year as their new leaders had said in recent weeks that they would roll out very difficult reforms. He said that it would probably grow minimally more than the government's target of 7.5 per cent this year, but nothing was certain after that because China had not yet cracked a way to move up the value chain.

University of California at Davis don Woo Wing Thye, who has written a book titled A New Economic Growth Engine For China, suggested that China would achieve its greenest shoots from undertaking three huge reforms: First: overhaul its financial sector by setting up small banks to lend money to individual entrepreneurs. This would create vibrant small and medium-sized enterprises that would churn new economic activity and break the stranglehold of China's many monopolistic state-controlled companies. Second, China's new leaders can "give something back to its farmers" by reforming land policy to let them own land. That was a big task, he noted, because local officials saw land privatisation as taking power away from them, and so would likely retaliate by allocating undesirable plots to farmers. Third: China should polish its diplomatic skills and get on better with the rest of the world. "To be truly rich, you have to trade with the whole world and when you are a relative outsider, you have to have superb negotiation skills to boot," he said.


China's Outlook Brightens

In China, every cloud of smog has a silver lining. The polluted skies over much of the country in recent days signaled China's economy was getting back on track. Now it's official. Growth rose to 7.9% year-on-year in the fourth quarter, up from 7.4% in the third. It was the first acceleration in seven quarters. The recovery comes at a cost--not just in terms of air quality. With exports and private sector investment weak, Beijing returned to the bad old ways to deliver the rebound. Bond issuance and trust loans to infrastructure projects surged. Real-estate sales and prices have been allowed to creep up to get housing construction started again. Higher investment in these areas is inefficient--there are persistent concerns about bridges to nowhere and ghost suburbs. Still, compared with the splurge in 2009 and 2010, last year's stimulus was moderate, and it worked. Employment--seen as important to the social stability China's leaders crave--strengthened, with the ratio of job opportunities to job seekers rising to 1.08 from 1.05 in the third quarter.

The key question now is whether last year's mini-stimulus has gained traction. Industrial profits have
recovered, up 22.8% year-on-year in November after a slump in the middle of the year. But medium- and long-term bank loans to enterprises fell in November and December—weak demand for credit suggests private companies are still in no mood to invest.

Looking beyond the cyclical recovery, there are tentative signs that the long-awaited rebalancing of China’s economy is under way. Urban disposable income rose 12.6% for the year, outpacing the 9.8% growth in nominal GDP. Incomes must grow faster than the economy as a whole if consumption is to play a stronger role in driving growth. Much now depends on what China’s new leaders deliver on reform. Will they grant migrant workers resident status in the cities? Can they offer stronger protection for farmers’ land rights? These shifts are critical to keep household income rising at a rapid clip. Beijing’s approach will determine whether growth can be sustained around 8% for a few more years, or if the 2012 stimulus only staves off an accelerated decline.


Asia economy: Soaring on a cloud of debt?

The 2008-09 global financial crisis was also responsible for pushing up leverage levels in Asia’s two largest economies, China and Japan. However, in these two cases fears about excessive reliance on credit are much more acute. In China’s case, credit as a proportion of GDP shot up from 120.1% in 2008 to 150.8% in 2012 as a result of the government’s credit-fuelled stimulus programme. Moreover, this is without taking into account the role of grey-market lending.

Stock of domestic credit (% of GDP)

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Source: Economist Intelligence Unit.

Other countries that saw a jump of 40 percentage points or more between 2001 and 2012 include Bhutan, Hong Kong, Mongolia and Vietnam. In each case, different factors are at play. Most of Asia appears to have adopted sound policies when it comes to credit management, both over the past decade and since the global financial crisis, and leverage levels in the vast majority of countries are not alarming. It is also notable that the region has largely reduced its reliance on external debt—external debt fell relative to GDP in almost all emerging Asian economies between 2001 and 2012. Nevertheless, the fact that the two biggest economies in Asia appear
to be exceptions to the rule of responsible credit growth is worrying, and Singapore, Thailand and Malaysia may need to tighten monetary policy if they are to prevent debt-inflated asset bubbles.


Xi’s appeal to curb waste gets warm response

The recent appeal made by the Party's top leader Xi Jinping to fight against extravagance and waste of resources has received an enthusiastic response from Chinese officials and members of the public. In his comments in a news story by the Xinhua News Agency, Xi said it is shocking to know the huge amount of food that is wasted in China. Considering that there is still a significant number of Chinese people living in poverty, rigorous measures are called for to stop the serious waste of resources, Xi said. He urged publicity authorities to strengthen their efforts to improve the public's awareness of waste, noting that the time-honored Chinese tradition of "being diligent and thrifty" and the idea of "honor to frugality and shame to extravagance" should be promoted among all walks of life. Party organs, government departments, military units, public-funded institutions, State-owned enterprises and officials at all levels should strictly obey resource-saving measures and firmly eliminate the waste of taxpayers' money, the top leader said, requesting supervision and inspections to be intensified over officials' extravagant acts.

Xi's call has been echoed by Party members and officials who said the general secretary's requests should be fulfilled immediately, Xinhua reported on Tuesday. They suggest authorities should start by removing lavish events and reducing waste during the ongoing sessions of local legislators and political advisers and the Spring Festival holiday, according to the report. Organizers of the two sessions in Beijing abandoned a long-followed practice of decorating meeting venues with banners and flowers and provided simpler dishes to representatives. Discipline watchdogs in Shanghai will send supervisors or plainclothes inspectors to check whether government departments have put an end to extravagant behaviors, according to Xinhua.

Source: Zhao Lei: Xi's appeal to curb waste gets warm response, China Daily, 2013-01-30

Retirees' pensions get a hike

The State Council announced on Wednesday it will raise the pensions of retired enterprise employees this year. It is the ninth consecutive year China has raised pensions for the group. The State Council decided at an executive meeting presided over by Premier Wen Jiabao to raise the retired enterprise employees' pension by 10 percent from the 2012 level, or about 170 yuan ($27.30) per person per month, on Jan 1. In the past eight years, the average pension of retired enterprise employees increased from 700 yuan in 2005 to 1,721 yuan in 2012. The meeting also urged the establishment of a mechanism to periodically adjust the pensions for retired enterprise employees.

Experts hailed the government's pension increase, saying the move shows the government's determination to close the group's pension gap with government officials. China operates a twin-track pension system. The fiscal budget pays the contributions of employees of governmental organizations and institutions, but enterprise employees have to pay their contributions themselves. Corporate employees pay 8 percent of their monthly wages to establish their pension accounts, and Chinese laws ensure that the more money workers pay into their pension accounts, the larger the pensions they will collect at retirement. Workers must contribute for at least 15 years before they can receive a pension.

Source: CHEN XIN: Retirees' pensions get a hike, China Daily, 2013-01-10

China: Old barriers in way of Xi's bid for reform

In the US the hiatus between the election of a new President and the inauguration ceremony lasts for just
under three months but in China the transition period for an incoming leader can be more like three years. By many people’s reckoning, outgoing President Hu Jintao never totally managed to consolidate his power and so his time in charge of the world’s most populous nation ended up as something of a “lost decade”, devoid of any brave reforms. That may not be entirely fair but it is a common refrain heard throughout the Chinese bureaucracy and especially among those in China who had hoped for reforms to the country’s secretive authoritarian political system.

Since Mr Xi gave his first speech in mid-November as the new head of the party, some liberal intellectuals and government advisers have expressed hope he may push through substantive political and economic reforms at an early stage in his first five-year term. But others point out that even if Mr Xi is somehow a closet Gorbachev admirer his room for manoeuvre is severely limited by powerful vested interests that have become even more formidable over the last decade of Mr Hu’s tenure.

David Shambaugh, director of the China policy programme at George Washington University, identifies the most imposing vested interests as the military, the bureaucracy, the burgeoning state security apparatus and the state-owned enterprise sector. “The sheer scale of economic and social problems in China requires policy solutions that necessitate some significant systemic political changes,” wrote Prof Shambaugh in a recent essay. But “there is no certainty that the incoming group under Xi Jinping will be able to (or wants to) change this leadership culture in order to tackle the wide range of pressing economic, political, social, environmental, legal and foreign policy challenges confronting China and crying out for decisive action.”

In Japan, the portion of the population that feels goodwill towards China has reached a four-decade low of 18 per cent and in most other neighbouring countries the concern about China’s military rise is at an all-time high. In fact, the only good friends China has in the region today are shaky Pakistan and North Korea. The general angst among regional neighbours about China’s rise and ultimate intentions is reflected among Beijing-based diplomats, who have started to speculate among themselves about the possibility of a regional conflict involving China.

Source: Jamil Anderlini: China: Old barriers in way of Xi’s bid for reform, Financial Times, January 22, 2013

Reducing air pollution

When the level of airborne particles with a diameter of 2.5 microns or less, known as PM2.5, has reached more than 400 on average, and in some cases as high as 900, in as many as 33 cities in eastern and central China, and caused serious air pollution for days, there is no reason to underestimate the harm it does to people's health. Neither is there any reason for us to reflect on what we've contributed to the smoggy days. Despite the meteorological reasons, such as the lack of wind and a cold current, the sulphur dioxide, carbon dioxide, nitrogen dioxide and carbon monoxide we have discharged into the air have contributed greatly to the air pollution, according to experts.

The rapid increase in car ownership and the increasingly serious traffic congestion have increased the exhaust fumes in cities. The number of motor vehicles in Beijing already exceeds 5 million and will increase further. There are not enough green areas and trees within the city proper to help soak up the fumes discharged by vehicles and industries. Almost all cities have these problems. In the middle of a rapid urbanization process, it is urgent for China to think about how such a process can press forward without compromising the quality of urban life with an increasingly worse living environment. The air quality in big cities could have been better had more attention been paid to the density of the high rises, had more trees been planted in proportion to the number of residential areas, and had the number of cars been strictly controlled. These are the lessons China should learn for its further urbanization.

For those cities suffering seriously polluted air, every resident needs to have a sense of environmental
awareness, since everyone is a victim. They need to reduce their use of motor vehicles. The government also needs to have measures to reduce the use of government vehicles and the pollutants emitted by industries. Other measures are also needed to reduce traffic congestion, which will greatly reduce the exhaust fumes discharged by cars.

Source: Anonymous: Reducing air pollution, China Daily, 2013-01-14

**In China, Veneer of Consensus Is Breaking Down:** [Business/Financial Desk]

GUANGZHOU, China - For two decades after the Tiananmen Square crackdown in 1989, China seemed on the surface like a country where free-market and even laissez-faire principles prevailed. It looked as if a consensus had been reached on putting economic policy and the headlong pursuit of affluence ahead of ideology and politics.

The unraveling has been visible in several ways, including the large environmental protests that have occurred in nearly a dozen Chinese cities over the last year and a half. Tens of thousands of residents of each of those cities, including Dalian and Tianjin, have turned out in successful efforts to block the construction of chemical factories, smelters and power plants, as fears of pollution outweigh the promise of job creation.

And even more recently, the breakdown of the consensus was evident during four days of protests over free speech this month outside the offices here of the most famous crusading newspaper in China, Southern Weekend, also known as Southern Weekly. The journalists were calling for the removal of a provincial propaganda chief who had rewritten a New Year's editorial, contorting an anguished review of social troubles into a paean to the accomplishments of the Communist Party. While the police peacefully persuaded demonstrators to go home on the fourth day, it was significant that the protest lasted as long as it did.

"People were standing on the podium saying, 'press freedom, press freedom,' and the police did not drag them down - it shows that the police in dealing with societal conflict now respect the right of free speech, and it is a new evolution that the people feel they have the right of free speech," said Yuan Weishi, a retired historian at Sun Yat-Sen University in Guangzhou who is also one of the best-known liberal intellectuals in southern China. What is far less clear is whether the emerging, faint hints of pluralism in China can produce a new social consensus and perhaps even a few tentative steps toward democracy. The question is whether the dialogue will someday produce something like the Arab Spring, which Vali R. Nasr, dean of the Paul H. Nitze School of Advanced International Studies at Johns Hopkins University, describes as a series of headless revolutions - hard to decapitate, but also hard to guide, control or predict. Sharp, conflicting divisions about China's future were visible at the Southern Weekend protests, and could someday prove to have been an early warning of social schism.


**Peak demographics**

China's working age population is set to peak in 2013, according to the Economist Intelligence Unit's latest demographic projections. However the impact of this milestone on the country's economy will be different from the experience of other, predominantly rich countries that have already undergone the process. While ageing, the country's urban workforce will continue to grow. It will also become much better educated.

In the developed world, ageing is most commonly associated with shrinking workforces relative to the rest of the population, giving rise to pension cuts, postponed retirement and higher taxes on the young. As an economy still in transition, China need not fret about such issues. For a start, China's state pension system is far from generous and its coverage low. Rather, the country's biggest fear is that of worsening labour shortages—a
phenomenon that was first reported in the mid-2000s and was subsequently the subject of much attention in the national media. There are two good reasons why these fears are overblown.

First, China is still in the midst of a massive urbanisation drive. When the working-age populations of Germany and Japan, the world’s largest ageing economies, began to shrink in 1999 and 1995 respectively, the process of massive rural-to-urban migration had already matured. The proportion of the population residing in urban areas, or the urbanisation rate, had more or less stabilised at 73% and 65% respectively. In contrast, China’s urbanisation rate will only reach 55% this year and is likely to continue rising by around one percentage point (or 13m people) every year, according to our projections. China will only reach Japan’s level of urbanisation by 2022 and Germany’s by 2030. Thus, even though China’s working-age population will shrink overall, the urban working-age population will only peak in 2029 after reaching 695m—135m higher than it was in 2012. The flip side of this trend is a shrinking rural population. However, China’s rural population has been diminishing for three decades without much adverse impact on agricultural output. That is because its countryside is overpopulated: there are too many farmers working too little land. Indeed, China has even managed to boost agricultural output over the years by investing in machinery and technology.

Second, China’s labour shortages have largely been misdiagnosed. Much ink has been spilt attributing the lack of young workers for unfilled factory vacancies to demographic factors. Yet the number of Chinese aged 16–24 increased from 196m to 210m between 2000 and 2010. The rise in urban areas is even greater. Where, then, did all the young workers go? The answer is simple: they went to school. The proportion of junior secondary school graduates continuing on to senior secondary school surged from 51% to 88% between 2000 and 2010. At the same time, the proportion of Chinese aged 16–19 that were either employed or seeking employment (the labour participation rate) fell from 57% to 34%. The relationship is clear: rising enrolment rates at schools have played a major role in postponing entry to the workforce. As China’s youth becomes better educated, the coming decade will witness the emergence of a two-tiered workforce. One tier will consist of graduates looking for office jobs. The other will remain the country’s “traditional” source of labour: relatively low-skilled rural migrants seeking work in factories and construction yards. The latter group will, however, have aged substantially, creating new challenges for managers and HR departments across the country.

China’s workforce challenge is thus twofold: policymakers need to ensure that there are enough white-collar jobs for graduates, while employers of low-skilled workers will need to come to grips with hiring and managing an older workforce. Failure to do so will have serious consequences. An educated class disillusioned by high unemployment is something China can ill afford at a time of rising social tensions. At the same time, an inability to replace young workers with older ones could spell the end of the golden age of China’s mighty manufacturing sector.

Source: EIU ViewsWire: Peak demographics, January 14th 2013

CHINA: Demographics present crisis and opportunity

The challenge of providing adequate social welfare support schemes will severely test fiscal capacities. Higher labour costs and lower savings rates as the population ages will generate higher consumption and contribute to economic rebalancing. Abandoning the one-child policy would have negligible impact on demographic changes.

Two major demographic watersheds are approaching in China: Labour force. China’s working-age population will probably peak within the next few years. Total population. The total population could peak as early as 2026 at around 1.395 billion. This peak was until recently projected for some point during the 2030s, but adjustments of fertility estimates have brought it forward. China’s most recent (2010) National Census revealed that the National Population and Family Planning Commission had significantly underestimated fertility decline
(see CHINA: Census highlights opportunities and threats - June 13, 2011): population growth had slowed more precipitately than anticipated, to an average 0.57% annually during 2000-10. By 2011, the annual rate of natural increase had fallen to 0.48%, compared with 1.4% in 1990 and 2.9% in 1970.

Surveys suggest that in an 'ideal world' Chinese women would, on average, opt to have 1.7 children -- a figure well below replacement level (though exceeding the current average fertility of around 1.4). When residents of Shanghai were recently encouraged to have a second child, almost half expressed no interest in doing so. Abandoning the one-child policy would have little, if any, immediate impact on fertility, and certainly would not initiate a baby boom.

China's working-age population (defined as those between 15 and 64) is expected to peak in 2015. (If the workforce were defined as those between 16 and 59 years, the peak would probably arrive this year.) Projections also show unambiguously that the persistence of sub-replacement fertility will result in a steady rise in the average age of the labour force: During 2010-20, the number of people in the 20-24 age-bracket will fall from 116 million to 94 million. Between now and 2030 the share of young workers (15-29) in the total labour force will fall from about one-third to less than one-quarter, from almost 330 million to less than 230 million. However, there is a major qualification. The changes will occur gradually, and their impact will be cumulative, not immediate. Even allowing for a decline of 40 million in the working-age population, projections suggest that there will still be 960 million potential workers in 2030 -- hardly a crisis.

Meanwhile, raising education and skill levels, increasing labour mobility through bolder reform of the household registration system and increasing employment participation rates (especially for older age groups) would enhance productivity and redress the demographically-induced physical contraction of labour.

Inherent in declining fertility is the steady ageing of China's population. China is already an ageing society. Between 2000 and 2011, the share of the elderly (65 and above) in the total population rose from less than 7% to more than 9%, implying an absolute increase of 34 million (to 122.6 million). Population ageing is set inexorably to accelerate: By 2030, the size of the 65-and-above group will have reached almost 240 million (17% of total population), of whom over 42 million will be 80 or above. By 2050, the corresponding numbers are expected to reach almost 350 million and well over 100 million. By 2020 the median age will have reached 38.1 (in 2000 it was 29.7), and by 2060 it will have increased to 49.4 years. By mid-century, the old-age dependency ratio -- the ratio of the population aged 65 and above to those in the 20-64 age group -- will have risen to close to 50% from the current level of around 13%. The young dependency ratio -- in sharp decline since 1980 -- will also once more be increasing. The dramatic consequences of these trends is that by 2060 the overall dependency ratio will have reached more than 90% -- and by 2080 be approaching 100%.

Accommodating the social welfare demands of explosively growing numbers of elderly people poses a formidable challenge. As families become more atomistic, as urbanisation intensifies and as the burden of an only child having potentially to care for two parents and four grandparents becomes increasingly difficult to sustain, traditional mechanisms for care of the aged will continue to weaken. Even with the development of contributory social welfare schemes, the challenge of providing adequate social welfare support schemes will
severely test fiscal capacities.

Evidence from other countries, such as Japan, suggests that a reduction in the savings rate will accompany an increase in median age, reflecting the contraction in the share of the 30-50 age group (the high savers) in the population. Meanwhile, higher labour costs will lead to a redistribution of income from corporate to household. Both these factors promise to generate higher consumption and thereby assist in the process of economic rebalancing.


**Stable policy key for companies' restructuring**

The government should create a stable policy environment and a fair competition scheme for the restructuring process of companies, scholars and experts said at a forum. "The government must guard against a changeable policy, and let the market play a bigger role in choosing pillar industries and controlling production scale," Li Wei, director of the Development Research Center of the State Council, said at the 11th China Enterprises Development Forum. This year is regarded as a key period for Chinese companies to quicken their restructuring process. "With the rising labor costs, companies should sharpen their competitiveness by investing more in innovation, branding and service improvement," Li added.

Source: Hu Yuanyuan: Stable policy key for companies' restructuring, China Daily, 2013-01-16

**China unveils merger targets to upgrade industry**

The government has set targets to increase the number of mergers in nine sectors to reshuffle China's industrial structure and enhance big enterprises' global competitiveness. The Ministry of Industry and Information Technology (MIIT), along with 11 other authorities, said in a guideline Tuesday that the government is encouraging mergers in the automaking, steel, cement, shipbuilding, electrolytic aluminum, rare earth, electronic information, pharmacy and agricultural sector. The guideline says the government aims to incorporate production capacity in the coming years and upgrade industrial structures in order to increase enterprises' international competitiveness. China welcomes foreign capital to hold stakes in related enterprises or engage in mergers under supervision.

China aims to foster three to five large automakers with core competitiveness, and increase the concentration ratio of top ten auto makers to 90 percent by 2015, according to the guideline. China will fully support the development of home car brands and encourage them to go overseas for cross-border mergers, the guideline says. At the same time, the country will work to cut a large number of steel producing enterprises and phase out outdated capacity through mergers, in a bid to raise the concentration ratio of top ten steel producers to around 60 percent by 2015. China will also slash the number of firms in the rare earth business through mergers and concentrate production capacity in the sector into a number of large enterprises, the guideline says. The country aims to promote mergers in the remaining six sectors, and will try to raise the concentrate ratios of leading enterprises in those fields by 2015.

Source: Xinhua: China unveils merger targets to upgrade industry, 2013-01-23

**Supersized cities, China’s 13 megalopolies**

Population forecasts for megalopolis
Asia stocks take off as fiscal cliff crisis ends

ASIAN stocks rose nearly two percent to hit a five-month high and the U.S. dollar fell as both houses of Congress passed a bill to end the "fiscal cliff" crisis that threatened a U.S. recession and roiled world financial markets. European markets were set to rally on the news, with spreadbettors expecting London's FTSE to rise about 1 percent and Frankfurt's DAX to open up 0.5 percent. The U.S. Congress approved extending lower Bush-era tax rates to all but the nation's wealthiest households in a budget deal that stopped automatic implementation of US$600 billion in spending cuts and tax increases. Asian stocks outside Japan rose nearly 20 percent last year as a combination of improving economic data from China, easing worries about a euro zone blow-up, and global central bank easing that encouraged investors back into equity markets. (SD-Agencies)

Source: Anonymous: Asia stocks take off as fiscal cliff crisis ends, Shenzhen Daily [Shenzhen, China] 03 Jan 2013.

China to introduce gold ETFs

China's securities regulator published provisional rules for the operation of gold exchange-traded funds, or ETFs, on Friday, paving the way for introducing such business into the country's financial market. There is no specific timetable yet for the listing of gold ETFs, or mutual funds traded on stock exchanges that track the price of gold and have most of their assets invested in gold, according to an official from the China Securities Regulatory Commission, or CSRC. Authorities need to thoroughly study how to regulate gold ETFs in order to protect investors' interests in such new products, said the CSRC official, who declined to be identified. The move will be part of government efforts to boost the development of both the gold market and the capital market.

Source: Xinhua: China to introduce gold ETFs, 2013-01-26

Companies say innovation hampered by lack of talent

A lack of candidates for high-level research and development positions is hampering attempts to boost innovation, companies in East China have found. To maintain the country's rapid development, building an economy based on knowledge and innovation has become a goal. However, the supply of research and development professionals is failing to meet demand among small and medium-sized firms.
Human resources authorities in Zhejiang, a province with many private companies, have spent a lot of effort in recent years to attract talent from home and abroad. In December, the province organized its 10th large-scale job fair in nearby Shanghai. According to authorities, 233 enterprises offered more than 2,900 high-level positions, attracting applications from more than 5,800 job seekers. The positions were in many fields, including the mechanical industry, new energy, finance and agriculture. Almost 30 percent were in the high-tech field, and 14 percent were management-level positions. About 1,805 applicants reached preliminary agreements with employers, and 178 signed contracts during the fair. Candidates holding doctorates were the most in demand. About 43 enterprises, including Wangxiang Group and Wolong Holding Group, started 212 post-doctoral programs, expecting to recruit 279 people. To attract high-level talent, enterprises offered a variety of incentives, such as large amounts of research funding, a good research environment and help in resettling families and children. Despite this, many companies said they still experienced difficulty finding many professionals suitable to their company's development. It's expected that the province will need up to 1.6 million highly skilled employees by 2015.

Source: WANG HONGYI in Shanghai: Companies say innovation hampered by lack of talent, China Daily, 2013-01-11

China approves science infrastructure plan

The State Council, or China's cabinet, has approved a plan on infrastructure construction for major science and technology projects for the next two decades. According to a statement released Wednesday after an executive meeting of the State Council, the Medium- and Long-Term (2012-2030) Plan on Infrastructure Construction for China's Major Science and Technology Projects aims to boost China's innovation capability, support major science and technology breakthroughs and accelerate infrastructure construction for major projects. The plan, focusing on cutting-edge research and the country's major strategic demands, highlights seven major fields, including energy, life, Earth systems and environments, materials, particle and nuclear physics, space and astronomy and engineering technology. The plan gives priority to 16 projects, such as setting up a deep-sea scientific observation network, as well as building high-precision gravity reading and research devices, the statement said. According to the meeting, which was chaired by Premier Wen Jiabao, more efforts will be made to increase investment and create a system that enables coordinated innovation and resource-sharing in order to boost the efficiency of major infrastructure projects.

The State Council also decided to make amendments to two regulations regarding the enforcement of Copyright Law and the protection of the right to information network dissemination. Another two regulations on the protection of computer software and new plant species will also be amended.

Source: Xinhua: China approves science infrastructure plan, 2013-01-27

Science institute eyes intl cooperation

China's leading scientific institution is aiming to expand its influence by establishing overseas branches around the world, the Chinese Academy of Sciences (CAS) announced on Monday. The CAS has started building a comprehensive research center in Kenya, while branches in central Asia, southeast Asia and Latin America are being planned, CAS Vice President Zhang Yaping said at an annual work conference. The branches are expected to increase the CAS's ability to absorb and utilize international technological resources, as well as boost its global influence, attractiveness and competitiveness, according to Zhang. Zhang said the CAS will launch a program to help Chinese scientists deepen scientific cooperation with scientists in other developing countries, as well as help them train scientific and technological staff. The CAS will also recruit more elite foreign scientists, Zhang said.
Deng Maicun, secretary general of the CAS, said Chinese scientists made a number of influential achievements last year, including the discovery of factors that control the development of intelligence and the successful test flight of a stratospheric aircraft. Deng said the number of high-level papers published by the CAS has increased by 13 percent year on year, he said. The CAS also announced that it will carry out research on the cause and control of atmospheric dust following record levels of air pollution that hit multiple Chinese cities last week.

Source: Xinhua: Science institute eyes intl cooperation, 2013-01-22

China economy: Diversionary tactics

China has long suffered from water scarcity. Around two-thirds of its cities suffer from drinking water shortages, exacerbated by pollution, population growth and dwindling natural sources. As demand from urban dwellers and industry soars, the situation is expected to worsen, especially in the northern plain. The northern region is home to roughly 45% of China's population but has access to only 25% of its water. During most years, drought afflicts the northern areas of the country as the south suffers from floods. The massive South-North Water Diversion project, first proposed by Mao Zedong decades ago, aims to fix this problem by channelling southern water to parched areas of the north along three channels. Work on the project did not start until 2002, and since then has been plagued by delays.

During the first half of this year the eastern route is finally expected to come on stream. It will pipe water from Yangzhou in Jiangsu province along the Grand Canal (a huge artificial waterway built centuries ago) to Shandong and Tianjin in the north. The middle route is more ambitious; it will raise the height of Hubei province's Danjiangkou reservoir and channel water through Henan and Hebei on to Beijing and Tianjin. The majority of the trenches for the middle route are in Henan province and due for completion by the end of 2013. By October 2012 Rmb213.4bn (US$33.9bn) had been invested in the eastern and middle routes of the water diversion project. The height of the Danjiangkou reservoir (for the middle route) has already been raised, and water in the reservoir will gradually be raised further to allow the water to flow north from late 2014. From that point onwards, 9.5bn cu metres of water will be sent north to Beijing, Tianjin, Shijiazhuang and Zhengzhou-every year. The government has stated that Shandong will receive an average of 1.5bn cu metres of water a year from the project.

The proposed western route envisages diverting water from the upper reaches of the Yangtze to the upper reaches of the Yellow river, in the far west of China, through earthquake-prone mountains. However, the project remains stalled amid concerns over the feasibility of the project's scale and the environmental problems it could create. It is not pencilled in for finalisation before 2050, and if, realised at all, work probably will not start until 2020. Moreover, cost projections for the western route run over US$40bn.

Yet, even after the eastern and middle routes come on stream, supplies will remain insufficient. Beijing municipality is believed to need 3.6bn cu metres of water a year from elsewhere, rising to 4bn-5bn cu metres a year by 2020 in line with economic growth. The middle route will supply Beijing with only 1.2bn cu metres a year. At the same time, the project has been plagued by a number of issues. Water quality in the north has already been compromised by industrial investment, and water sent to the national capital, Tianjin and Shandong is subject to high quality targets. Thousands of polluting plants have been closed down over the past ten years, including paper mills, chemical plants and pharmaceutical factories, while large investments have been made in sewage works and rubbish treatment facilities. In November 2012 the government stated that it would need to invest an additional Rmb12bn in improving water quality in tributaries serving the Danjiangkou reservoir.

The impact on the areas supplying the water is another issue. More than 400,000 people have been moved to make way for construction connected with the water diversion programme. As is common with mass
relocations in China, residents complain that they are undercompensated and moved to land of inferior value. To make matters worse, regions that are intended to contribute their water resources are facing shortages of their own. In the early part of 2011 the Han River and the Danjiangkou reservoir were subject to a bout of drought. The northward diversion of water along the Han River in Hubei is likely to reduce hydropower capacity in the region. State media have reported that as much as 30% of the Han River's flow will be diverted from the section in Hubei, making pollution control more difficult and creating new shortages.

The looming water crisis will be costly. According to one estimate from the World Bank, water scarcity and pollution already cost China at least 2.3% of GDP in 2009. Droughts are expensive; when they occur, the government often issues subsidies for irrigation and fertiliser, in addition to direct transfer payments to affected farmers, to keep rural populations satisfied and grain output stable. In early 2009 the Ministry of Finance handed out Rmb87bn in relief funds to local governments. As rising pressure is put on water resources, such disbursements are likely to rise in frequency. Moving towards a more sustainable pattern of water use will prove less expensive in the long run. Water use in China is inefficient; productivity in the agriculture sector is low, as irrigation techniques remain unsophisticated, while water is heavily subsidised, encouraging overconsumption. Prices were raised in a number of cities in 2009, but this met heavy opposition. Plans for further increases were abandoned as inflation started to spike. In June 2012 the National Development and Reform Commission (NDRC), China's top economic planning body, announced plans to adopt a progressive pricing system for water use, and announced a target of 2015 for cutting water consumption per unit of output by 30% from levels in 2010. A few local governments have thought about taxing water use, but such measures would be sure to prove unpopular. Localities want their industries to grow, and will fight to get the water to do so. Poor enforcement capacity means that regulations will most likely be skirted.


Local GDP figures suggest strong Q4

Of 18 regions to release their annual GDP figures so far, 16 have beaten the national economic growth level, which slowed to 7.8 percent, the slowest since 1999. Tianjin led the nation with 13.8 percent year-on-year GDP growth, while Guangdong province retained its top spot after a 10.2 percent growth to 5.7 trillion yuan - which indicated (exact figures for its Q4 were not individually released) a particularly strong fourth quarter for the southern province as GDP growth in the first three quarters was 7.9 percent. Lin Jiang, a professor with Lingnan (University) College, a business school of Guangzhou's Sun Yat-sen University, said the upsurge in the fourth quarter was mainly the result of a boost in fixed-asset investment, and an acceleration of export tax rebates paid to exporters during the third and fourth quarters.

China's vast central and western regions also accelerated their growth in the final quarter. The only two regions that delivered lower-than-average growth were Beijing, with a growth rate of 7.7 percent and Shanghai, with a rate of 7.5 percent. However, economists remain worried by the quality of growth in some areas of the country. Guangdong and Zhejiang are the only two provinces that recorded a lower than 50 percent investment to GDP ratio. Meanwhile, analysts have called for putting quality ahead of the growth rate.

Source: Zheng Yangpeng: Local GDP figures suggest strong Q4, China Daily, 2013-01-26

Chinese firms and Gulf sheiks are snatching up farmland worldwide. Why?
The world's population is soaring past 7 billion. Food prices keep spiking every few years. Freshwater supplies in plenty of areas are dwindling. And so, in response, a slew of countries and investors -- from Chinese state corporations to Gulf sheiks to Wall Street firms -- have started buying up farmland overseas, in an apparent attempt to acquire as much precious soil and water as possible. This phenomenon is known as "land grabbing," and it has been accelerating ever since the massive surge in grain prices back in 2007. So how much land and water is actually being grabbed? Quite a lot, according to a big new study published in the "Proceedings of the National Academies of Sciences" this week. The authors find that somewhere between 0.7 percent and 1.75 percent of the world's agricultural land is being transferred to foreign investors from local landholders. That's an area bigger than France and Germany combined. Big purchasers of foreign farmland include Britain, the United States, China, the United Arab Emirates, South Korea, South Africa, Israel, India and Egypt. They're mostly seeking out land in Africa and Asia, particularly in countries such as Congo, Sudan, Indonesia, Tanzania, Mozambique, Ethiopia and even Australia.

After the land is bought up, large commercial farms will move in and boost production to grow their own crops. One 2010 study from the World Bank found that about 37 percent of this "grabbed" land is used to grow food crops, 21 percent to grow cash crops and 21 percent to grow biofuels. (For instance, some 27,400 square miles of land have been snatched up in Indonesia, largely to grow palm oil, which can be turned into biodiesel.) Is this a problem? In the abstract, it doesn't have to be -- skilled foreign investors might be able to squeeze more use out of the land than the locals can. That could, in theory, be a mutually beneficial trade. But in practice, there are a lot of concerns about how all this land is actually being acquired. Last year, for instance, Human Rights Watch released a report alleging that the Ethiopian government was forcibly relocating tens of thousands of people in order to lease land to foreign investors from China and the Gulf States. "The first round of forced relocations occurred at the worst possible time of year -- the beginning of the harvest," the report said. "Government failure to provide food assistance for relocated people has caused endemic hunger and cases of starvation."


Ranking of rich alumni promotes entrepreneurship

The compiler of a controversial list of rich alumni said the ranking helps promote entrepreneurial education at universities. A total of 183 graduates of two universities have become billionaires in the past three decades, according to a report from cuaa.net, a website focusing on university ranking and evaluation. The report, released on Wednesday, showed that 94 billionaires graduated from top-listed Tsinghua University, while Peking University ranked second with 89 billionaires. "It is ridiculous to link the quality of the university with the ability to produce rich people," a netizen said. But the compiler of the list said it actually respects knowledge as the list tells people that knowledge could make money. "We've received a lot of criticism since 2005, when we published the first report," said Zhao Deguo, the chief editor of cuaa.net, who is in charge of the report. "I hope the report can show that private business owners and entrepreneurs make great contributions to society, and change the stereotype of doing business in China. It is not certain that a scientist is more useful to society than a private business owner," Zhao said, adding that it is time for Chinese people to change their attitudes toward private entrepreneurs. "Being a professor is not necessarily
superior to being a private business owner. The only difference is their career choice,” Zhao added. "Peking and Tsinghua are the best universities in China, which also produced the most rich people." Since reform and opening-up began in 1978, Chinese colleges have striven to foster entrepreneurial qualities and have produced more than 1,700 billionaires, 62.9 percent of the number of billionaires listed as China's private business owners between 1999 and 2012.

The report includes alumni's donation ranking. It shows that these rich people have made the majority of alumni donations to their alma mater. The report also shows that from 1990 to 2012, Chinese universities received large donations — as much as nearly 7.38 billion yuan ($1.19 billion) — and 13 universities received more than 100 million yuan each. Peking ranked first, receiving 1.25 billion yuan, while Tsinghua ranked second with nearly 1.15 billion yuan.

Source: Luo Wangshu: Ranking of rich alumni promotes entrepreneurship, China Daily, 2013-01-16

**Entrepreneurs' criminal patterns studied**

In 2012, the most common crime among private entrepreneurs involved illegal financing, while SOE executives were more likely to take bribes. This divergence is the result of the former's inferior market status, according to a case study conducted by the center for the prevention of entrepreneur crimes under Beijing Normal University. The study covered 245 cases published by official media in 2012, 158 of which took place in privately owned companies.

In an exclusive interview with Xinhua on Thursday, Professor Zhang Yuanhuang, head of both the center and research team behind the report, said the distinction should be attributed to the unequal status of the two elite groups in terms of market environment and treatment under economic policies. The country focused on protecting the interests of SOEs for decades, and the protection of private assets was not added to the Constitution until 2004, said Zhang. The report specifies that private entities normally experience greater difficulties in market access, obtaining loans or making profits. The total profits of China's top 500 private companies are comparable to that of the five leading state-owned banks, according to statistics from the All-China Federation of Industry and Commerce released early this month. The 31 cases involving the illegal pooling of public funds were all committed by private entrepreneurs, and over 45 percent of these cases occurred in east China's Zhejiang and Jiangsu provinces, Zhang's research found. According to Zhang, this shows the financing difficulties private companies encounter when going through formal banking channels, especially in regions with developed private economies that have been hit by the global economic recession.

Meanwhile, SOE senior executives were found to have taken bribes in exchange for exploiting their positions of control over resources and business opportunities. Bribery was found in 34 percent of cases involving SOE entrepreneurs, said the report. The trend shows that some SOE executives are abusing their roles, said Zhang, adding that the monopolies held by SOEs in key economic sectors grant managers in State-owned companies government-like authority to allocate resources — an authority they sometimes abuse for personal gain. Zhang identified taking bribes as a serious form of corruption for leaders of SOEs.

The study was meant to detect weaknesses in the current system and offer suggestions for improving the country's market management and rule of law, said Zhang.

Source: Xinhua: Entrepreneurs' criminal patterns studied, 2013-01-25

**From guard shack to global giant; Chinese industry**

Lenovo started humbly. Its founders established the Chinese technology firm in 1984 with $25,000 and held early meetings in a guard shack. It did well selling personal computers in China, but stumbled abroad. Its acquisition of IBM's PC business in 2005 led, according to one insider, "to nearly complete organ rejection".
Gobbling up an entity double its size was never going to be easy. But cultural differences made it trickier. Given all this, its recent success is startling. In the third quarter of last year, Gartner, a consultancy, declared Lenovo the world's biggest seller of PCs, ahead of Hewlett-Packard (HP). Lenovo's rebound raises several questions. How did the firm recover from disaster? Is its new strategy sustainable? And does its rise signal the emergence of China's first world-class brand? Lenovo's recovery owes much to a risky strategy, dubbed "Protect and Attack", embraced by the firm's current boss. After taking over in 2009, Yang Yuanqing moved swiftly. Keen to trim the bloat he inherited from IBM, Mr Yang cut a tenth of the workforce. He then acted to protect its two huge profit centres--corporate PC sales and the China market--even as he attacked new markets with new products.

Lenovo uses the hypercompetitive Chinese market as a test bed for products and strategies that are later rolled out globally. That is both strength and a weakness. If Lenovo is to cement its market-share gains elsewhere, it must go beyond merely copying what works in China. Bad timing makes this problem more daunting. Lenovo has managed to get to the top of the PC mountain at precisely the moment when the mountain appears to be crumbling. Industry sales are shrinking as PCs are made obsolete by other devices. HP has even mooted quitting the business altogether. Some say Lenovo's costly global expansion will end in tears. Mr Yang disagrees. Indeed, he shows an unfashionable faith in PCs, which are still 85% of Lenovo's revenues. They will keep evolving, he insists, citing the Yoga. Inventive firms can still profit from them. He gushes about a "PC+" approach, now being tried in China, that adds mobiles, tablets and smart televisions to PCs and connects them all with a local cloud. He also thinks Lenovo has a secret weapon. It has kept a lot of manufacturing in-house (why outsource to Foxconn when you already pay Chinese wages?). Mr Yang believes this in-house expertise gives his firm an edge in product development. But Lenovo must exploit that edge better than it has done so far if it is to compete with a technology powerhouse like Samsung and build a global brand anything like Apple's. If Lenovo is to become China's first world-class brand, it must come up with products that consumers are passionate about. In December, as he was honoured as "Economic Figure of the Year" by China's national broadcaster, Mr Yang described the task ahead for his firm and country: "My dream is that one day China will be more than a world factory...it will be a global centre for innovation."

Source: From guard shack to global giant; Chinese industry, The Economist406. 8818 (Jan 12, 2013): 55-56.

China manufacturing grows fast in January

The HSBC Flash China Manufacturing Purchasing Managers' Index, the earliest available indicator of China's industrial performance, climbed to a 24-month high of 51.9 in January, up from 51.5 in December. A reading above 50 means expansion. It may be the third consecutive month that the index, which is slanted towards private and export-oriented firms, stayed in the territory of expansion. Qu Hongbin, chief economist for China at HSBC Holdings Plc, said the January's HSBC China manufacturing PMI may herald a good start to the new year. "Thanks to an increase of new orders, manufacturers accelerated production by additional hiring and more purchases," Qu said. "Despite a weak external demand, the restocking process by domestic enterprises is likely to add steam to China's ongoing recovery in the coming months."

China's economic growth quickened to 7.9 percent in the fourth quarter of last year, ending a seven-quarter slowdown after the government relaxed its monetary policy and fast-tracked some big investment projects. However, the world's second-largest economy may continue to be impacted by a faltering global economy and a cooling housing market at home, some analysts warned.


Chinese private firms may offer mobile services directly to users
The Ministry of Industry and Information Technology is proposing a two-year trial to allow companies to repackage and rebrand services to consumers in a move that analysts see as an end to the state-controlled telecom industry monopoly. It is the latest detail in China's bid to promote and introduce private capital in the telecom industry, which aims to boost competition and service quality, the ministry said. Private firms, which must have telecom work experience and a team more than 50 people, can apply for the services. They can purchase bandwidth from carriers China Mobile, China Telecom and China Unicom, which have to provide bandwidth at "fair or favorable" prices, the ministry said. It is collecting public feedback on the proposal until February 6. The State Council, China's Cabinet, said in May 2010 that it would encourage private investment in the telecom industry and promote competition.

Foreign investment is still limited to minority holdings in listed telecom firms, and foreign companies will not be allowed to apply to become "virtual carriers" at present. By the end of November, China Mobile had 707 million mobile users, China Unicom 236 million users, and China Telecom 158 million.

Source: Shanghai Composite falls 0.7% on weak FDI data, Shanghai Daily [Shanghai, China] 09 Jan 2013.

SOEs make strong progress on listings amid reforms

China's State-owned enterprises made major progress in transferring their assets into listed companies during 2012, according to the latest official figures. By the end of last year, 953 State-owned companies had gone public, accounting for 38.5 percent of all the companies listed on A-share market, said the State-owned Assets Supervision and Administration Commission, or SASAC, on Thursday. The companies had a total market value of 13.71 trillion yuan ($2.2 trillion), worth more than half that of the total market, the data released by the SASAC showed.

From January to November last year, national SOEs generated revenues of 34.2 trillion yuan, up 10.3 percent from a year earlier. Their profits decreased by 6.9 percent to 1.7 trillion yuan. China's State-owned enterprises are in the middle of wide-ranging market-driven reforms - which involve listing assets, carrying out restructuring, improving corporate governance, and strengthening their managements, including the appointment of outside board directors - all of which are aimed at stabilizing growth. "Central and local SOEs took further steps on pushing forward the listings and establishing outside board directors last year, and we will continue to deepen and complete the task this year," said Wang Yong, director at SASAC. Wang made the remarks during an asset supervision and management conference, attended by heads of SASAC subsidiaries from different provinces, cities and autonomous regions.

Of the 118 central SOEs, 51 have officially established boards of directors with outside members. In 2005, Baosteel Group Corp became the first SOE to set up an official board system, according to SASAC. "In 2013, SASAC will make greater efforts to deepen the reform of SOEs, varying the operations of State-run assets and strengthening the regulation of the board system," Wang added. He pointed out that the reform of the SOEs had entered a tricky time, as business across many sector had been dropping, mainly as a result of global economic difficulties and falling international demand. "Transforming SOEs into stock market companies and improving board regulation is still in its infancy, so we should make more of an effort this year," Wang added.

Source: Bao Chang: SOEs make strong progress on listings amid reforms, China Daily, 2013-01-11

China's new leaders a hot topic at Davos

Discussion of China's policy agenda under new leadership is heating up, with leading government officials and international economists at the World Economic Forum saying that China should continue to push structural reforms to achieve sustainable development. Zhang Xiaoqiang, deputy director of the National Development and Reform Commission of China, said the new leaders' agenda will focus more on shifting the country's growth
model toward efficiency and quality. "The new leadership has emphasized clearly that China's development will move toward efficiency and quality through structural reforms," he said at a panel discussion of the Davos forum, which concluded on Saturday. "China will more rely on enlarging domestic demand and science and technological innovation to ensure sustainable development," he said. But the domestic-oriented policy agenda does not mean that China will close its market, he said, noting that China will continue to open up to international enterprises.

Gorden Brown, former British prime minister, said China's new leadership should recognize the convergence of interest of its international partners. "While reform is needed to improve education, urban systems, the labor market and environmental conditions, recognition of interdependence is very important, which requires far more international cooperation than ever before," he said. Anil Gupta, professor of strategy and entrepreneurship at the University of Maryland in the US, said China's new leadership has shown a lot of confidence, which is a very good starting point. "For example, Xi Jinping is very confident, very decisive and very direct," Gupta said. "Because of his clear communication, it is easier to interpret what he said and that he means what he said." Orit Gadiesh, chairman of Bain & Company, a leading international strategy consulting group, said she expects the new leadership to maintain "open-minded” attitudes. "We see the huge potential and confidence over China is not only from surprising changes in infrastructure but also from the attitude changes over the last decade," said Gadiesh, who is chair of the international advisory body of Shanghai municipality.

Source: Fu Jing and Li Xiang in Davos, Switzerland: China's new leaders a hot topic at Davos, China Daily, 2013-01-27

Xi strikes strident tone on foreign policy

China will never compromise on what it considers its “core interests” and “legitimate rights”, its new leader Xi Jinping has said in his first published speech on foreign policy since taking over as leader of the ruling Communist party in November. “No country should presume that we will engage in trade involving our core interests or that we will swallow the bitter fruit of harming our sovereignty, security or development interests,” Mr Xi was quoted as saying in a summary of his speech published by Chinese state media on Tuesday. But he also said China would not “pursue development at the cost of sacrificing other country’s interests” and he insisted that Beijing remained committed to maintaining the multilateral trade system and participating in global economic governance.

Since taking over as leader of the Communist party and head of the Chinese military in November, Mr Xi has made a series of pronouncements and public appearances that seem primarily aimed at boosting his popularity and appeasing various powerful interest groups within the party. These include a high-profile crackdown on corruption and lavish official spending, pledges to continue economic reform and orders to the army to form itself into a more effective fighting force that is prepared to go to war to defend the nation. Expectations have been running high in China that Mr Xi might be planning to introduce significant economic or political reforms, but so far there is little evidence he intends to do any such thing.

Source: Jamil Anderlini in Beijing: Xi strikes strident tone on foreign policy, Financial Times, January 20, 2013

China's Money Trail: Chinese Fly Cash West, by the Suitcase

Amid a rush of newly affluent Chinese eager to move money out of China, U.S. and Canadian border officials are seizing large amounts of cash tucked into wallets, purses and suitcases at airports across North America. Officials at Canada's two busiest airports -- Toronto and Vancouver -- seized around 12.9 million Canadian dollars ($13.0 million) in undeclared cash from Chinese nationals from April 2011 through early June 2012, according to documents provided to The Wall Street Journal by the Canada Border Services Agency.
money, most of it returned to the owners, represented 59% of all cash seized at the airports in the period, according to the data. In the U.S., Chinese citizens are the top source of airport cash seizures after Americans.

From 2009 to 2011, U.S. airport customs officers seized over $5 million in undeclared cash from Chinese citizens, according to U.S. Customs and Border Protection. That is 8.4% of the total seized and more than double the nearest amount for another nationality. In China, violators of Beijing's rules on moving out cash are also subject to fines. From 2007 to 2011, China's State Administration of Foreign Exchange levied such fines totaling 1.27 billion yuan ($202 million), according to the most recent data available.

Tony Savino, a Vancouver-based real estate agent, said he had a Chinese client who used an international money-wiring firm to gather cash sent from family members, in $10,000 batches, for a condo purchase. Some people go as far as getting a new passport. Mainland investor Bruce Lee said he became a Hong Kong citizen two years ago partly because of the territory's looser currency rules. In June, Mr. Lee paid $400,000 for an island off the coast of Nova Scotia. To get the cash for the purchase, he wired money from his furniture business in Guangzhou to a business in Hong Kong, and from there to Canada, moves that are legal under Hong Kong law. Many people simply carry the cash. The $1 million seized from Chinese citizens at Los Angeles international airports over the last three years -- an amount that has almost tripled since 2009 -- represented over 17% of all cash seized in the city's airports. Chinese money accounted for the second biggest cash seizures -- after funds seized from Americans -- at airports in Chicago and Detroit and the third biggest in Houston and San Francisco. In Detroit, cash seized in 2011 from Chinese citizens represented 18% of all cash taken, a ratio that had increased from 5% in 2009.


**Chinese economist refutes US for blaming China on currency policy**

The so-called Chinese "currency manipulation" is some Americans' favorite scapegoat for the United States' large trade deficit and anemic job growth, but export growth is actually determined primarily by factors other than exchange rates, a renowned US economist pointed out on Tuesday, Global Times reported.

"The reality is that the value of China's yuan in terms of dollars is not the major reason why China exports over three times as much to us as we do to them. Its exchange rate is a minor source of weak US job growth," Lazear wrote in an article published on Tuesday on The Wall Street Journal, the newspaper said.


**Demand for gold rises as central banks diversify reserve holdings**

Demand for gold may rise as central banks and sovereign funds are likely to replace US dollar and euro holdings with the precious metal amid the uncertainty caused by the global financial crisis, a report issued by the Official Monetary and Financial Institutions Forum said on Friday. China may decide to increase the percentage of gold holdings in its monetary reserves in the next few years, said the report, an analysis of the world monetary system commissioned by the World Gold Council. Demand for gold is likely to rise amid the uncertainty about the stability of the US dollar and the euro, the main assets held by central banks and sovereign funds, it added.

China almost doubled its gold reserves in the last five years. The country had holdings of 1,054 metric tons in July 2012 and is now the sixth-largest holder of monetary
gold. In 2011, gold accounted for 14.4 percent of the world's total monetary reserves. In a country-by-country comparison, the figure was 1.6 percent in China, while it was 74.5 percent in the United States, 71.4 percent in Germany and 71.1 percent in France, according to data from the World Gold Council and the International Monetary Fund.

China holds the world's largest foreign exchange reserves, which were worth more than $3.31 trillion by the end of 2012, according to figures from the People's Bank of China, the country's central bank. The amount is so large that China has no other currency options than holding US dollars and euros, the report said. Driven by China's desire to increase its financial clout, the Chinese renminbi is likely to emerge gradually as a genuine international currency as the country has been easing restrictions on its use in transactions and investments abroad. The re-balancing process of the global economy through China's economic rise will occur gradually rather than abruptly and will not be straightforward. In particular, the move toward full renminbi convertibility is likely to be only gradual, the report added.

Source: Wu Yiyao in Shanghai: Demand for gold rises as central banks diversify reserve holdings, China Daily, 2013-01-12

China's Innovation Gap

Where is China's George Westinghouse? Or its Steve Jobs or Henry Ford? It is a question few outside China ever ask. After all, in less than 20 years, China has transformed itself from a technology backwater into the world's leading manufacturer. Its factories churn out low-cost clothing and toys, and also high-tech smartphones, tablets, and televisions. Fifteen years ago, it was a nation of bicycles; today, it is the world's largest producer of automobiles. From the outside, we see a manufacturing juggernaut. When China's leadership looks in the mirror, it sees an economy whose future success is far from assured.

To understand why, consider Apple's iPhone. It is assembled in vast Chinese factories with modern infrastructure. The iPhone's factory price is $144. Apple's wholesale price is $224. Yet Chinese manufacturers receive only $3.86 per unit for assembly and testing. Apple's vendors, which supply such components as the processor and display, receive another $14.14. That means Apple earns $126 on each iPhone leaving the factory, plus most of the $80 markup to the wholesale price. As a percentage of the iPhone's wholesale price, Apple's component vendors receive about 10 percent and its Chinese manufacturers less than 2 percent. A similar survey shows China receives only 1.7 percent of the retail price of Hewlett-Packard computers. This is China's weaknesses: It earns only pennies on the retail dollar for the products it makes. The companies that own the intellectual property retain most of the value.

According to a recent study by the Boston Consulting Group, Chinese workers have been averaging 15 to 20 percent wage increases annually. In the heavily industrialized Yangtze River region, pay is roughly $3 per hour, compared with 72 cents in 2000. Boston Consulting predicts it could reach $6.30 per hour by 2015. While that is one-fourth the pay of average U.S. or German factory workers, automation makes those workers far more productive than their Chinese counterparts. As Chinese wages rise, workers in the United States, Germany, Japan, Korea, Italy, and other nations that have automated will increasingly compete with China on a more level playing field. To thrive, China must produce and support creative people like Steve Jobs- and Henry Ford, Thomas Edison, and George Westinghouse- whose innovations will enable China to create greater and broader wealth beyond its manufacturing sector. China's leadership knows it can no longer be simply a factory to the world. To thrive in the future, China needs to build on its brains, not its brawn. It needs to transform itself into a knowledge economy that generates innovation. But how?

To understand China's plight, consider the three trends that powered the nation's rapid economic growth. Between 1985 and 1995, China encouraged foreign corporations to build factories and take advantage of
low-cost labor. Starting around 1995, the government underwrote the rapid growth of Chinese businesses with low-cost capital. By 2005, however, much of China's growth in high-tech products was still being driven by copying and reverse engineering intellectual property developed by others. This created friction with other nations and their innovative corporations. It has also stifled the development of home-grown intellectual property, since Chinese innovators can never be sure they will profit from their ideas.

The central government has laid the groundwork for a more innovative economy. A series of medium-to-long-term initiatives are funding science and technology research, reforming education, developing talent, and supporting emerging industries. The results are mixed, but show signs of China's progress over the past two decades. The country has increased science and technology funding significantly. According to an annual study by Battelle and R&D magazine, China's share of global R&D spending was 13 percent in 2011, compared with 34 percent for the United States, 23 percent for Europe, and 12 percent for Japan. Enrollment in higher education has expanded, and the quality of programs and facilities has improved. China leads the world in science and engineering graduates, though there are still shortages of the right mix of talent and skills even among high quality graduates.

China has made some progress on intellectual property rights. It puts increasing emphasis on standards. It has tried to reverse the "brain drain" and entice expatriate Chinese professionals to return home. Native venture capital firms are starting. Yet China cannot do this alone. In our globalized world, knowledge, talent, and innovation are increasingly mobile. No one corporation or nation can keep pace—much less lead—in idea creation by itself. China has created an extensive network for acquiring technology through international cooperation. It includes:

* Growing numbers of foreign R&D centers and technical experts in China.
* Rising participation in international scientific, technology, and standards-making organizations.
* Increased numbers of students and scholars abroad, and cultivation of links with Chinese professionals overseas and in Taiwan.
* Bilateral research and technology transfer agreements.
* Encouragement of foreign investment in manufacturing and R&D.

With all this know-how flowing into China, the nation has boosted exports of high-tech products and more than halved its reliance on foreign technology.

It sounds like a success story, yet the key question Chinese leaders keep asking themselves is, "Who owns the IP?" Clearly, Hu Jintao, president of China and former general secretary of the Communist Party, is concerned. In a 2010 speech he told the Chinese Academy of Sciences: "Thanks to efforts made over a long time, our country has made rapid progress towards our science and technology goals. But our capability to make independent innovation is still not great. The overall technology content of economic development is not high; many crucial and core technologies are still under the control of others; the strength of our science and technology in leading strategic advanced technologies is weak; and the reliance of important industries on foreign technology is still very high." In 2010, foreign-owned companies accounted for more than 60 percent of China's high-tech exports. Joint ventures between multinationals and Chinese companies amounted to somewhat less than 20 percent. State-owned factories provided another 10 percent. That left wholly owned Chinese firms with less than 10 percent of total exports. Moreover, 70 percent of the value China adds to high-tech exports comes from assembling or processing imported goods, and as we have seen with the Apple iPhone, this is very low value work.

China has made enormous strides over the past decades. It has begun to embed itself in global knowledge networks. But how does it make the leap to innovation? I believe foreign R&D centers will play a central role in Chinese innovation. The growth of multinational R&D centers in China has been explosive. In 1997, only 24
foreign R&D centers had registered with the Ministry of Commerce. That rose to 750 in 2005 and more than 1,300 in 2011. These are not the old-style "the government forced us to do it" entities. This is a serious effort by large companies to tap the enormous- and relatively inexpensive- Chinese talent pool. Increasingly, these units are not simply there to reengineer products designed elsewhere to local requirements. Many now have regional and global responsibilities. These research centers are training a new generation in such critical, if often intangible, skills as managing projects and personnel, working on teams, adopting best practices, setting standards, and protecting intellectual property. They demonstrate how to establish an environment that supports creativity and innovation.

Chinese leaders also hope to catalyze change by enticing top researchers to come to China. The Thousand People Plan, for example, seeks to recruit several thousand top entrepreneurs, managers, financiers, and especially scientists and engineers from abroad. It promises high salaries and generous government funding for laboratories. The program has scored some successes, but many overseas Chinese are wary of making a full commitment. Instead, many run China-based laboratories, support students, and consult with companies either part-time or at a distance. Their caution appears firmly grounded. Some returnees have received a mixed or icy reception from colleagues and have had to deal with jealousy, pushback, and other interpersonal issues.

Chinese multinationals are also reaching out to talented researchers in other nations by building research centers of their own overseas. This is happening faster than you might think. In 2006, Chinese direct foreign investment overseas was $75 billion, about one-sixth the amount that multinationals invested in China. In 2009, it had grown to 50 percent of multinational investments, though this may be partly due to reduced spending following the 2008 global recession. China is working hard to become an innovator whose ideas and platform technologies capture the full value of its manufacturing infrastructure. Chinese leaders understand that innovation is central to their critical interests. Without it, China will never capture the true wealth generated by its dynamic manufacturing sector, improve its competitiveness, or reduce its overall dependence on foreign technology. It will fail to capture the high ground in such emerging fields as life sciences and clean energy technology. At the same time, leaders crave the stability and control Command China offers.

China has created the educational and research infrastructure needed to embed itself in emerging transnational knowledge networks. Thriving foreign enterprises are likely to have a significant impact on China's R&D culture. Some of the technology developed in China will certainly stay in China, especially as R&D enterprises form closer links with Chinese universities and laboratories. If Taiwan is any indicator, Chinese with multinational experience are likely to become the technology entrepreneurs of China's future. Yet most Chinese firms do not invest enough money in research. This is because it is easier to buy or copy technology than to innovate. This problem was the primary focus of a July 2012 national conference on science, technology, and innovation. At the conference, senior Chinese leaders acknowledged, in sometimes brutally frank fashion, the reality that China's innovation mechanisms need to be repaired. While these leaders are pressuring enterprises to innovate, it makes little financial sense unless officials are willing to tighten enforcement of IP rights.

Still, one billion people can accomplish a great deal when they put their minds to it. We certainly see signs of success, from manned space flights and a modernized military to record-setting highspeed rail and supercomputers. Are these one-off advances- Potemkin technologies created to impress others- or signs of something more sustainable? We will know the answer to that question when we see which Chinese firms become the next Apple, UP, Toshiba, Philips, or Siemens.


**New trade measurements lower U.S. deficit with China**

The U.S. trade deficit with China may be much smaller than thought, according to new trade measurements
that capture the flow of raw materials and intermediate goods as they work their way around the world into final products. In a significant revision to economic recordkeeping, the Organization for Economic Cooperation and Development and the World Trade Organization have patched together international databases that show more than just the value of final goods trading hands between countries - the traditional method of measuring imports and exports.

"Traditional statistics do not give a clear picture of today's ways of trading," WTO Director General Pascal Lamy said at a news briefing. "The obsession, which has always been that exports are great and imports are bad, is wrong. . . . If you want to build your competitive advantage, the first question you need to ask is where do I need to import more" to benefit from globalized production systems. He said the data made the traditional focus on bilateral trade balances between countries "senseless" because of how the value embodied in many products is spread across several nations.

One headline finding: The U.S. trade deficit with China would fall by as much as 25 percent when measured on a value-added basis - from $176 billion in 2009 to $131 billion. Offsetting that decrease are trade deficits with South Korea, Japan and Germany - countries that funnel intermediate goods to China for final assembly - which would be larger because some of the value of U.S. imports that arrive from China comes from the microchips or other high-end inputs produced in those nations. While the U.S. trade deficit doesn't change overall, its redistribution from China to a group of allies does hold geopolitical importance - and could shape perceptions of the U.S.-China trade relationship and the response to it.

It could affect analysis of how China's currency policy affects U.S. jobs - perhaps shifting emphasis toward Japan, a more direct economic competitor in the types of goods the United States produces and a country that also has intervened in its currency markets. It could also prompt a closer look at how anti-dumping and other trade actions are evaluated - and whether penalties sought against a final producer should be applied instead to other countries that provided unfairly priced component parts. Tariffs may also find less favor as countries understand how much of what they import is reworked into exported goods.


Canton Fair Releases Details

The Canton Fair announced that trade between China and Africa has displayed sustainable growth despite the ongoing global financial crisis. According to Chinese customs data, Sino-African trade value rose 31 percent to $166.3 billion last year. As of April 2012, China's direct investment in Africa totalled $15.3 billion - a 30-fold increase from a decade ago - and China has been Africa's largest trading partner for the last three years. According to a release, many African businesspeople have achieved great success by attending the Canton Fair. Of the 188,145 foreign buyers who attended the 112th Canton Fair, which closed early last month, 13,362 (over 7 percent) were from Africa. This has positively impacted the commercial development of the continent and enhanced the quality of life of many African people. The deepening trade ties between China and Africa are not only evidenced by an increase in trade volume, but also by the strengthening of countless business relationships and a reliance of Africa on the quality and competitive price of China-sourced goods.

Source: Canton Fair Releases Details, Entertainment Close - Up (Jan 7, 2013)

Pudong to launch free-trade zone later this year

Shanghai is planning to set up a free-trade zone in the Pudong New Area later this year, the China Securities Journal reported on Tuesday. Authorities in the city are working out plans to launch the zone as part of an attempt to turn Shanghai into an international trading center, the report said. The plans include opening duty-free
stores in the area — approved in December when the municipal government started looking for sites. Under the initiative, Shanghai Pudong Airport Comprehensive Free Trade Zone is likely to be used to test the plan. Source: HE WEI in Shanghai: Pudong to launch free-trade zone later this year, China Daily, 2013-01-8

**China's foreign trade grew 6.2% in 2012**

China's foreign trade in 2012 expanded 6.2 percent year-on-year to $3.867 trillion, missing the government's 10-percent annual target. The country's exports and imports volume totaled $3.87 trillion last year, and growth slowed sharply from the 22.5-percent rise registered in 2011, Zheng Yuesheng, General Administration of Customs spokesman said. Exports throughout 2012 rose by 7.9 percent year-on-year while imports increased by 4.3 percent, yielding a trade surplus of $231.1 billion, up 48 percent from a year earlier, the General Administration of Customs announced Thursday.

Zheng said 2012's trade performance came despite "a deepening debt crisis in the Eurozone, a sharply slowing world economic recovery, continuously sluggish demand on the global market and big downward pressure on the domestic economy." The country's trade will be "slightly better" in 2013 than 2012, he said. In December alone, the value of Chinese exports gained 14.1 percent from one year earlier, up from November's unexpectedly-weak 2.9 percent rise. The value of imports rose 6 percent year-on-year last month, improving from November when there was no growth.

Trade with Europe, China's biggest trade partner, declined 3.7 percent year-on-year in 2012. Trade with the United States, which overtook Europe to be the biggest buyer of China's exports, expanded 8.5 percent from one year earlier. Japan dropped to be China's fifth largest trade partner, from fourth. Trade between the two countries last year sank 3.9 percent from 2011 amid tensions after Japan's illegal "purchase" of the Diaoyu Islands. Exports to ASEAN countries up 20.1%. China's imports from ASEAN member countries increased 1.5 percent year-on-year to $195.82 billion in 2012.

China will still face a hostile foreign trade environment as a result of sluggish demand, increasing production costs, fewer orders and trade protectionism. Source: Li Jiabao: China's foreign trade grew 6.2% in 2012, China Daily, 2013-01-8

**World News: WTO Hopeful Seeks Beijing Nod**

Former Mexican Finance Minister Herminio Blanco is seeking China's support for the top job at the World Trade Organization in part by pledging to appoint a Chinese official to a top WTO slot and opposing efforts to use the WTO to pressure China to revalue its currency. Mr. Blanco met on Thursday with senior Chinese officials, including Commerce Minister Chen Deming, to make his case to succeed the current director-general, Pascal Lamy. Mr. Blanco said he would appoint a Chinese deputy director-general. "It's part of my pitch and it's time" that it happened, Mr. Blanco said in an interview on Thursday. Mr. Blanco's trip to Beijing is sure to be one of many by the nine candidates for director-general of the WTO in what has become the most-open race to head one of the world's three major international economic institutions. There isn't a European or U.S. citizen in the race. The candidates hail from New Zealand, Ghana, Brazil, Costa Rica, Jordan and Indonesia, among other countries. Generally, they are current or former trade officials. None are household names. All the WTO's 157 members
have a single vote, making a country like Cameroon, in theory, equal to China. But the organization in practice is led by the major trading nations and also by coalitions of the world's poorest nations. China's endorsement would give a big boost to any candidacy. The WTO plans to pick a new leader around May 31. The other two major economic international institutions, the International Monetary Fund and the World Bank, are headed respectively by a European and an American.

Mr. Blanco said in the interview that he didn’t believe the WTO should judge whether a country’s foreign-exchange policy constitutes an unfair subsidy -- a charge frequently leveled at Beijing over its tight control of the yuan’s movements. A number of academics and other trade experts have urged the U.S. and other powerful traders to bring a case against China at the WTO for using an undervalued currency to unfairly boost exports, but so far that hasn’t occurred. Beijing would be sure to strenuously oppose such efforts, which could split the institution. “It would be very destructive to bring that issue into the WTO,” Mr. Blanco said. But his close ties with the U.S. could be a liability as well with many developing nations.

Who's Running?
-- Ghana: Alan Kyerematen
-- Costa Rica: Anabel Gonzalez
-- Indonesia: Mari Pangestu
-- New Zealand: Tim Groser
-- Kenya: Amina Mohamed
-- Jordan: Ahmad Hindawi
-- Mexico: Herminio Blanco
-- Korea: Taeho Bark
-- Brazil: Roberto Carvalho de Azevedo


INTERNATIONAL: New trade data alter economic landscape

The OECD and WTO on January 16 released the first edition of a new dataset isolating the value derived from exports for the OECD economies and some of the largest emerging markets. The point of value-added data is to assess the actual contributions of various economies to the value embedded in a final-sale export. Hence, the new database helps isolate the economic benefit derived from exports, with some surprising implications. The ‘BRIC’ economies are more important than conventionally thought, and the United States has a strong interest in seeing the euro-crisis resolved.

The new dataset might point towards useful directions for investment in such areas as education. Perhaps the most celebrated example of the need for trade data based on added value is Apple's iPhone. It has been estimated that, although the phone is assembled in China, only 4% of the value of the product is attributable to China itself, with the rest being imported for final assembly, either in physical components or technical services.

The new dataset reveals the more nuanced composition of bilateral trade deficits: The US deficit with China is 25% smaller than is suggested by conventional
gross trade figures. Japan runs a larger surplus with the United States than it does with China, contrary to the conventional data. Indeed, Japan's surplus with the United States is 60% larger than suggested by gross trade figures.

Brazil is a larger exporter of services than previously thought. Over 40% of Brazil's value-added in exports are in the form of services. At the other end of the spectrum, Brazil's large exports of commodities to China means its true value added is smaller than suggested by its gross trade figures.

Like its conventional (gross trade) counterpart, the trade-in-value-added (TIVA) figures report an exceptional downturn in 2009. Focusing on the 2005-08 figures highlights trends underway before this shock: The BRIC economies are final-demand destinations in their own right, rather than being mere conduits for demand in the developed world. The fastest-growing final-demand export destinations for the BRICs plus Turkey and Indonesia (the 'BRIC-6') were the BRICs themselves. The BRIC-6 exported 277 billion dollars in valued added to each other. This means that the BRICs are much closer to serving as each other's markets than the conventional (gross) data would suggest; the latter put US consumption of BRIC-6 exports at 647 billion dollars, whereas the TIVA data put this at 385 billion dollars.

The value-added data clarify the US interest in a successful resolution of the euro-area crisis; 45% of its non-NAFTA exports were consumed in euro-area economies as of 2009: Excluding NAFTA, the top consumer of US exports is Germany -- at least on the basis of the most recent TIVA data, which was for 2009. China is a distant second-place, and basically equivalent in size to France, the United Kingdom and Japan. This contrasts with gross trade figures, which paint China as the top consumer and Germany as fourth-rank. India is much more important as a US export destination, and the Netherlands much less important, when using TIVA data compared to gross data. Brazil drops off the top-ten list when using TIVA data.

CONCLUSION: In the short term, the new dataset will help cool tempers in some of the more acrimonious trade relationships, while reigniting others. In particular, Washington will be urged to shift the focus from Beijing to Tokyo in assigning blame for US trade imbalances with East Asia. Long-term, as the dataset gains broader circulation, it will have implications for growth policy, possibly pointing OECD governments towards tools to re-start growth.

Source: INTERNATIONAL: New trade data alter economic landscape, OxResearch Daily Brief Service. (Jan 24, 2013)

Shanghai plans pilot free trade zone

Shanghai official on Sunday announced plans to set up a pilot free trade zone (FTZ) that would meet international norms in its Pudong New Area, the city's financial and commercial hub, in 2013. Shanghai has applied for a permit to build the FTZ on the basis of its existing comprehensive bonded zones. If the application is approved, the FTZ would become the first free trade zone in the Chinese mainland, said sources with the government of Pudong New Area. Building the FTZ is one of the Shanghai municipal government's major tasks in 2013, according to a report on government work delivered by Yang Xiong, acting mayor of Shanghai, at the first session of the 14th municipal People's Congress. It will take about three years to build up an FTZ up to
international standards, said Wan Zengwei, director of the Pudong Academy of Reform and Development in Shanghai.

Analysts said Shanghai has advantageous conditions for setting up an FTZ on the basis of the existing comprehensive bonded zones -- Waigaoqiao Free Trade Zone, Yangshan Free Trade Port Area, and Pudong Airport Comprehensive Free Trade Zone. The trade volume of Shanghai's comprehensive bonded zones in 2012 totaled over $100 billion, the highest in the Chinese mainland. China sees establishing FTZs as opportunities to boost its trade with surrounding economies and contribute to world trade volume, said Zhou Hanmin, vice-chairman of the Shanghai Municipal Committee of the Chinese People's Political Consultative Conference. The FTZ will help Shanghai to cut the costs of trade and improve the trade efficiency, Wan said. Besides, the FTZ will demand some supporting financial services such as cross-border financing businesses and international trade settlement, which will be conducive to deepening China's financial reform, the official added. Analysts believe that the FTZ to be built in Shanghai will serve as an important engine for China's cause of deepening reform and opening up in the next five to 10 years.

Source: Xinhua: Shanghai plans pilot free trade zone, 2013-01-27

**Over 6% of imported goods unqualified**

More than 6 percent of imported goods inspected by China's quality authorities failed to meet standards last year, the General Administration of Quality Supervision, Inspection and Quarantine said on Monday. Last year, the quality watchdog conducted inspection and quarantine actions on 4.5 million batches of imported goods valued at $952 billion. It found that 6.19 percent of all the batches were substandard. It also inspected 13.9 million batches of goods to be exported. About 0.12 percent fell short of standards, the same level compared with the previous year. Inspection and quarantine authorities also stopped 4,331 kinds of harmful pests on imported agricultural products from entering China, including 284 types of especially dangerous pests.

Source: WANG XIAODONG: Over 6% of imported goods unqualified, China Daily, 2013-01-28

**More Rational Distribution of FDI in China**

According to the Ministry of Commerce, although the overall FDI in China in the first three quarters of 2012 was slightly below the same period of 2011, the share for central and western provinces showed a strong increase of 16.5 percent, a shift welcomed by the government.

At present there are 663 foreign investment companies in China, 51 regional headquarters by the Ministry of Commerce's definition. According to research by Long Guoqiang, director general of the Department of Foreign Economic Relations Research at the Development Research Center of the State Council, many transnational companies are amending their China strategies and diverting investment from low-cost manufacturing to hi-tech manufacturing, service sectors of higher added value and research and development.


**Shanghai Composite falls 0.7% on weak FDI data**

SHANGHAI stocks fell after two days of gains as data showed foreign direct investment in China shrank seven months in a row in December. The key Shanghai Composite Index shed 0.7 percent to close at 2,309.50 points, falling below the 2,300-point level at one moment this afternoon. Turnover was 133.1 billion yuan (US$21.5 billion). Foreign direct investment in China fell for a seventh straight month in December to US$11.7 billion, a year-on-year drop of 4.5 percent, the Ministry of Commerce said today. The decline slowed from November's fall of 5.4 percent. For the whole year of 2012, China drew US$111.7 billion of foreign capital, well below the government target of US$120 billion. It was a 3.7 percent drop from 2011 and the first decline in three
years, according to the ministry. The worsening European debt crisis and other complicated factors led to deteriorating external environment for the Chinese economy which was already affected by the global downturn, said Shen Danyan, spokesman for the ministry.

Source: Shanghai Composite falls 0.7% on weak FDI data, Shanghai Daily [Shanghai, China] 18 Jan 2013.

**Investment in UK will be 'explosive'**

China's investment in the United Kingdom will continue its "explosive" growth, with high-end manufacturing and infrastructure leading the way, a senior diplomat predicted. "The UK is the most open economy, and also the most market-oriented," in Europe, said Zhou Xiaoming, minister counselor of the Chinese embassy in the UK. Chinese companies have been answering the call from some members of the European Union for capital. In 2011, the UK was the third-largest EU destination for Chinese investment, following Luxembourg and France, according to the Ministry of Commerce. China's overseas direct investment in the UK in 2011 was $2.5 billion, it said. But Zhou said the real figure was far more as Chinese overall investment in the UK experienced "explosive" growth. "It is estimated that the Chinese capital that flew into the country in 2011 reached $6.5 billion," said Zhou. And the momentum will probably be sustained in the coming years, he said.

The past year also saw some key mergers and acquisitions. In May, Shanghai-based food and beverage group Bright Food agreed to pay $1.7 billion, including debt, for a 60 percent stake in UK cereal maker Weetabix. Reports in December said China Gas Holdings agreed to buy London-listed Fortune Oil's gas business in China for $400 million. "Chinese capital mainly went to the service, energy, food and mining industries," said Zhou.

And "high-end manufacturing and infrastructure will be hot spots" for Chinese companies, he added. Executives of China Investment Corp, a $410 billion sovereign wealth fund, have repeatedly said that the company will seek infrastructure deals in the UK. They agreed to buy a 10 percent stake in Heathrow Airport in October. This follows closely on the fund picking up a stake in Thames Water last year. From 2011 to 2015, the UK is expected to need capital worth about $325 billion for the infrastructure sector, he said.

As a country that is proud of innovation and design, the UK is a "good place" for Chinese manufacturers to set up research and design departments, Zhou said. "We have already seen some domestic manufacturers establish their R&D centers in the UK," he said. Last summer, the Chinese fashion brand Bosideng made its first foray abroad, opening a flagship store in London's West End. The company makes its products in the UK. "The top brands in the world are in London and Bosideng is here to learn from them and to build itself into a luxury brand," said Zhu Wei, CEO of Bosideng Corp UK. "We have got the best local designers to join us," he said.

"The UK is the land of thinkers. Chinese manufacturers could learn a lot when they are here," Zhou said. To further boost investment, the UK is about to introduce Patent Box legislation. This will come into effect in April 2013 and aims to encourage more companies to invest in patents, research and development through cutting taxes and providing incentives.

Source: Ding Qingfen in London: Investment in UK will be 'explosive', China Daily, 2013-01-4

**China 'needs say' on investment rules**

China should increase its influence on the drafting and establishment of global investment rules to help promote cross-border investment and facilitate further expansion by Chinese companies, experts said on Friday. Commerce Minister Chen Deming said in late December that FDI flowing to China will reach $110 billion in 2012. Meanwhile, the non-financial ODI of China, the world's fifth-largest nation in terms of outbound investment, will surpass $70 billion in 2012.
"In view of China's position in global investment, the country should play a bigger role in establishing global investment rules," said Sun Zhenyu, chairman of China Society for World Trade Organization Studies on Friday. "China's combined ODI, taking into account financial ODI, surpassed the country's FDI in 2012," said Sun, also China's former ambassador to the WTO. Trade and investment protectionism is growing amid the sluggish world economy, but the world "does not have an exclusive mechanism of global investment, as the WTO oversees global trade", he added. "In addition to some provisions by the WTO, global investment rules are mainly based on bilateral investment agreements while many obstacles, such as national security, which have no clear definition, can be abused, posing a challenge to global investment."

UNCTAD's flagship publication, World Investment Report 2012, released in July, predicted that global FDI will grow from $1.6 trillion in 2012 to $1.8 trillion in 2013 and $1.9 trillion in 2014. Eddie Chen, vice-president and chief representative in China of Invest Sweden, said China has a "good opportunity" to increase its influence in drafting global investment rules. "The next decade of global investment will see more players from emerging economies, with China being the leading one," Chen said. Chen said China should join forces with other emerging economies in promoting global investment rules.

Wang Zhile, president of Beijing New Century Academy on Transnational Corporations, said that the promotion of global investment rules would not only boost mutual investment but also facilitate Chinese companies tapping into international markets. Wang said that the double-digit growth in sales and profits of world's top 500 transnational companies in 2010 and 2011, if continued in the next two years, will lift the sluggish world economy.

Source: Li Jiabao: China 'needs say' on investment rules, China Daily, 2013-01-12

China envoy says UK far more open than US to Chinese investments: Global yuan market's growth will be long process, as China seeks to limit speculation

Britain is far more positive about inward Chinese investment than the United States, said Liu Xiaoming, China's ambassador to the UK. "The UK's policies are open, encouraging and welcoming to Chinese enterprises ... in contrast, it is disappointing that the situation across the Atlantic is not as open", he said in a speech at the London Capital Club yesterday. "Chinese companies have been frequently obstructed (in the US) for political reasons," Mr Liu said. "For example, the US Congress rejected merger deals of (telecoms companies) Huawei and ZTE for considerations of 'national security'." He added that the Obama administration forbade a member of China's SANY Group from constructing wind farms in the US, also on grounds of national security. "Cases like these are troubling for China's overseas investment, for some countries are in fact protectionist in the name of national security," said Mr Liu, adding that the British media, such as The Economist magazine, "have taken an impartial position and criticised the United States".

From January to November 2012, China directly invested in 130 countries and regions around the world. Its non-financial direct investments totalled US$62.5 billion and are estimated to exceed US$70 billion for the full year. Last year, China invested US$8 billion in the UK, more than the total in the past several years, he said. These include an investment in Thames Water, an announcement that Huawei would spend Pounds 1.3 billion ($$2.56 billion) on investments in the UK, and China's Brightfood purchase of shares in Weetabix. In the energy sector, Sinopec and CNOOC expanded operations in Britain. Several major Chinese commercial banks also established branches and subsidiaries in new office buildings in the UK.

London will play a major role in the growth of the external renminbi market, Mr Liu said. But expansion of the global renminbi market will be a long process, as China wants to concentrate on trade and real investment and limit speculation in its currency. Mr Liu did not indicate whether China intended to relax capital controls significantly at this stage. The aim of the Communist Party of China's 18th Party Congress is that China will
globalise at a faster pace, he said, which will see growing numbers of Chinese multinationals having a presence around the world, a global service network, as well as more global Chinese financial institutions and logistics companies. China will also make use of its foreign exchange reserves to invest in foreign nations' infrastructure, public utilities and leasing businesses.

China also aims to boost foreign inward investment. According to an Ipsos Mori's annual "Captains of Industry" survey, 23 per cent of Britain's 103 chairmen, executives and senior directors believe that China is "the most attractive country for investment" compared with domestic Britain at only 8 per cent. Last year, China attracted US$110 billion in foreign investment, Mr Liu noted, adding that "in the first half of last year China had overtaken the United States to become the No 1 country recipient of foreign investment".

For more than three decades China has been leading other developing countries in terms of investment inflow because its "attraction comes from both 'stock' and 'increment,'" he said. By Chinese "stock", Mr Liu was referring to the nation's well-developed infrastructure system. He also claimed that China now "leads the world ... in the operation of mobile and Internet networks", apart from having the "world's largest skilled labour force". He said "increment" will come from the goal of doubling per-capita income of the Chinese people along with China's GDP by 2020. To capitalise on this, Britain has scaled up its investments in China. For example, Jaguar and Rover have a joint-venture agreement with China's Chery Automobile to invest more than Pounds 1 billion to make British cars in China. Coffee shop chain Costa, too, plans to double the number of shops in China to 500 by 2016. The 18th Party Congress also aims at increasing urbanisation and modernisation of China by developing smaller cities such that they will suffer from less pollution and overcrowding than the larger cities.

China's current urbanisation rate is 53 per cent, compared with 80 per cent in developed countries. The migration of people will not only add to the urban workforce, but also drive investment and consumption, Mr Liu said.

Another aim is to encourage innovation in the economy through the advancement of science and technology and the strengthening of intellectual property protection. Mr Liu said China also wanted to focus on environmental issues, notably the conservation of resources and energy, developing renewable energies and pollution treatment. Green investment could amount to Pounds 800 billion over the next five years, he noted. Monopolies will not be tolerated and domestic and international market access will be expanded, he said.


### China now major target for M&A growth-market activity

"The continuing desire for foreign multinationals to tap into China's growing middle-class consumers has been a significant driver in making China a leading destination for M&A for a number of years," Robert Ashworth, managing partner at Freshfields Asia, told China Daily. Ashworth added that foreign investors are becoming increasingly familiar with the M&A process in China. "Activity levels in China, in particular, rebounded well, and it is likely that China will continue to lead in the coming two years," said Ashworth.

According to a Freshfields report released on Monday, China attracted almost $35 billion of fresh inward M&A investment, up 3 percent year-on-year, helping the country secure its position as the most sought-after investment destination for the third time in the last five years. China was followed by Mexico with $25.7 billion and
Russia with $18.6 billion. In terms of deal volume, China also took the first position with 598 transactions compared with Russia, in second place, with 384 deals. Popular sectors of the Chinese M&A market included metal, mining and telecoms. The report focused on 24 economies designated as emerging and developing by the International Monetary Fund, including China, Brazil and Russia. The value of global M&A investments targeting these key growth markets rose 5 percent year-on-year in 2012 to $162.4 billion. The figure follows a drop of almost 25 percent recorded in the previous year. The US led the ranking of the most active investors in growth markets, followed by Belgium, Hong Kong and Singapore. Notably, on a volume basis, Hong Kong took second place with 324 deals.

Source: Cai Xiao: China now major target for M&A growth-market activity, China Daily, 2013-01-29