China News in Brief
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China may not overtake America this century after all
China’s Economy Unexpectedly Stumbles Again on Weak Export Results
China economy: Fiscal challenges mount
China: Slower And More Unbalanced
China Gains Fail to Ease Economic Concerns
World News: Beijing Falls Short on Rebalancing --- China Kept Spending in 2012, Missing Shift Toward Consumer-Driven Growth
Central banks rush to cut rates, but China stands firm
Current Account: Miscast BRICs Lose Way
Chinese Brokerages Can Shoot for the Stars
Masterclass: HSBC - China’s path of deregulation
Ministry responds to public concerns about pollution
China economy: Pipe dreams and public opinion
Arctic: A land of opportunity
Marine-based economy on wave of growth
First-tier cities barely livable, report
Aging Chinese Face a Bleak Picture --- High Rates of Poverty, Disability and Mental Illness Haunt Elderly, Pose Growing Economic Challenge
Record-high Chinese grads struggle to secure jobs
E&Y report urges focus on improved productivity
Services set to give China a global role
Beijing Puzzles Over Urban Growth
Growth in consumer goods sales to slow
Market to play bigger role, says Li
Guideline focuses on boosting economy
Changes open door for international education cooperation
China’s regional disparity offers growth potential: analyst
Chengdu key for China in economic integration
China underlines stable agricultural production
SMEs show more confidence in economy
China’s Producers Struggle to Absorb Free Fall in Prices
Analyst sees industrial overcapacity last until 2016
Visit to fuel economic cooperation
China expects co-op with more Indian companies
In New Delhi, Chinese Prime Minister Promotes Trade Ties
Beijing Says Ties With U.S. at a Crucial Point
US/CHINA: Elite views presage increased tensions
China Assets Go With The Global Flow
China trade data beats expectations
A third of Americans would shun a Chinese brand
The Canton Fair, The 113th Canton Fair
Seeking a win-win scenario in trade between China, US
Shanghai plans free trade zone
China-Switzerland FTA to benefit both sides
Merkel, Li call for end of EU-China dispute; solar panels
China, in dramatic shift, signals interest in US-led trade talks
Some U.S. Companies Alter Stance On SOEs After Investing In China
Foreign investment up amid uncertain outlook
China: China to be net foreign investor by 2017 according to The EIU
Smithfield bid tests US appetite for Chinese investment
China may not overtake America this century after all

Doubts are growing about whether China can pass the US to become the world's biggest economy this century amid warnings that the country's 30-year miracle is nearing exhaustion. Prime Minister Li Keqiang has asked the State Council to clamp down on the excesses of the regions. Not before time. A top regulator says local government finances are "out of control". Mr Li aims to cut China's economic growth to a safe speed limit of 7pc next year and rein in rampant investment - still a world record 49pc of GDP - before it traps the country in a boom-bust dynamic of frightening scale.

China's catch-up spurt has a few more years to run in the Western hinterlands perhaps, but when the full story comes out we may find that nationwide growth has already fallen below 7pc. Mr Li complained in a US diplomatic cable released on WikiLeaks that Chinese GDP statistics are "man-made", confiding to a US diplomat that he tracked electricity use, rail cargo, and bank loans to gauge growth. For a while, analysts use electricity data as a proxy for GDP but the commissars kept a step ahead by ordering power utilities to fiddle the figures. China's Development Research Council (DRC) expects growth to drop to 6pc by 2020. It could be much lower. The US Conference Board says it will average 3.7pc from 2019-2025 as the ageing crisis hits. Michael Pettis from Beijing University thinks it is likely to slow to 3pc to 4pc over the next decade, deeming this entirely desirable if it comes from taming the runaway state enterprises. All those charts showing China's economy surging past the US by 2030, or 2025, or even 2017, will look very credulous. China may not surpass the US this century.

Source: China may not overtake America this century after all, Telegraph.co.uk [London] 08 May 2013.

China's Economy Unexpectedly Stumbles Again on Weak Export Results: [Business/Financial Desk]

The latest sign of trouble came on Wednesday, when China's General Administration of Customs announced export and import figures for April. On the surface, they looked fairly respectable: exports were up 14.7 percent from a year earlier, and imports were up 16.8 percent. But April 2012 was an exceptionally bad month for Chinese exports and imports -- indeed, dismal trade statistics for that month were the first sign that economic weakness during the preceding winter was turning into a precipitous decline. This April's trade figures appeared even weaker when economists looked closer and found that the export growth had been largely propelled by growth in exports to Hong Kong, up 57 percent, and to special customs zones in China for export later, up even faster.

Since Hong Kong's own data has not been showing large increases in imports from China so far this year, the Chinese government has already opened an investigation into whether exporters are overinvoicing for shipments. Overstating exports can allow companies to evade currency controls and move money into China to profit from the gradual appreciation of the renminbi against the dollar. Louis Kuijs, an economist in the Hong Kong office of the Royal Bank of Scotland, estimated that with the exclusion of overinvoicing, export growth came to only 5.7 percent. Mr. Kuijs estimated that 20.7 percent of China's economic output came from exports last year, a figure that had bottomed out in 2009 at 19.7 percent.

In a bad sign for exports in the months ahead, the Canton Fair announced this week that export orders placed at this year's spring session had fallen 1.4 percent from a year ago. It was the latest sign that steeply rising blue-collar wages in China and a gradually appreciating currency are starting to erode the country's international competitiveness; foreign investment in China has also begun to level off, while surging in lower-wage countries in the region, like Cambodia and Vietnam.

What has kept the economy running is the huge volume of cash being pumped into it. Total social financing -- a measure of all nongovernment borrowing from banks, bond markets, trusts and other sources -- surged 58 percent in the first quarter of this year from the same period last year. Off-balance-sheet financing from the so-called shadow banking sector has been particularly active. Local and regional governments have also been borrowing heavily, as have special financing units that many of them have set up. The central government is now trying to rein in this borrowing, said Terry Gao, an associate director of international public finance at Fitch. It downgraded China's local currency debt on April 9 by a notch.
When a former finance minister, Xiang Huaicheng, declared in April that local-government-guaranteed debt could be as high as Rmb20trn (US$3.2trn), equivalent to almost 40% of GDP in 2012, he confirmed for many that the problem was much bigger than the central administration had previously admitted. Officials have previously said that such debt had reached Rmb10.7trn at end-2010. Assessing the true level of regional government debt is complicated by the fact that much of it comes in the form of bank borrowing by local government financing vehicles (LGFVs), entities that often use government guarantees and publicly provided collateral, such as land, to acquire credit for construction projects. The extent to which the local authorities would be responsible for bad debts in LGFVs remains unclear, and usually a means is found by which to avoid troubled LGFVs entering default. Meanwhile, fiscal transparency is poor at lower tiers of government, with off-budget activities accounting for a large proportion of spending and revenue. New credit issuance has surged in recent months, with the net rise in renminbi-denominated lending reaching Rmb2.8trn in the first quarter of 2013, the highest quarterly level since the stimulus-fuelled second quarter of 2009. Much of this will be flowing to LGFVs, despite a tightening of the rules on lending to them in recent months. Meanwhile, other forms of financing, including trust loans and bond issuance, are also booming. The UK's Financial Times newspaper reported in April that bond issuance by Chinese LGFVs hit Rmb283bn (US$45.4bn) in January-March, double the level issued in the year-earlier period.

The scale and speed of the debt build-up is such that it is beginning to affect China's sovereign creditworthiness. Fitch became the first global rating agency to downgrade China's sovereign rating, in April, largely over these concerns. The central government seems to be taking heed of these signals. Mr Xiang's comments are unlikely to have been made off-the-cuff, and may have been designed to show recognition of the scale of the debt burden. Controlling risks stemming from local government debt was also one of the priorities outlined by the State Council (the cabinet) in May. However, the State Council gave few details about its plans. Meanwhile, a newswire service, Bloomberg, reported in May that the National Development and Reform Commission (the economic planning ministry) was toughening approval processes for bond issuance by highly indebted LGFVs. Nevertheless, the scale of the crackdown on debt issuance still looks to be modest; for now, supporting economic growth remains the priority.

Time to address the problem is running out, as the country faces a more generalised fiscal crunch. Total government fiscal income used to post reliable double-digit growth, but it has trended down in recent years, with year-on-year expansion in the first quarter of 2013 standing at just 6.9%. Public expenditure growth has slowed, too, but at a slower rate: spending in January-March was up by 12.1%. If this trend were to continue, China's fiscal deficit could widen sharply, limiting the centre's ability to smooth over a restructuring of local government finances with extra funds. The State Council's May meeting put measures to make the process of establishing budgets more open, standardised and comprehensive at the top of the government's policy agenda. Officials have also talked of expanding pilot programmes that allow local governments to issue bonds directly, which could allow them to bring off-budget liabilities back on-budget.

Such moves would be welcome, but do little to tackle the root of the problem: a political system that relies on local governments to do most of the spending-and encourages them to invest heavily to drive growth-but gives them little authority to raise revenue. Pilot projects that seek to increase revenue have largely floundered. New property taxes piloted in Shanghai and Chongqing raised roughly Rmb2.5bn and Rmb100m (US$16m) in 2012, according to figures provided by Liu Jianwen, a director at Peking University's Fiscal Law Research Centre, in an interview with the state-owned Xinhua news service. Such sums are paltry: Chongqing's total fiscal income in 2012 totalled around Rmb290bn, according to Mr Liu.

The volume of commentary from the central government over the issue of local government debt suggests that
there may be further policy initiatives in the coming months. However, the administration’s reluctance to face down local authorities over the recent boom in LGFV debt and its concerns about the impact any crackdown might have on economic growth suggest that any new measures will not be substantial. If that turns out to be the case, the risk of a serious fiscal crisis in the next few years will mount.


**China: Slower And More Unbalanced**

China's growth in the first quarter was lackluster. The second is looking little better. Industrial output, China's main monthly growth measure, was up 9.3% year-on-year in April. That is slower than for much of last year. But it is better than for March and allays fears that China's economy is heading into a tailspin. Residential construction accelerated. Investment in railways gathered steam, and spending on other public works remained strong. Cement output also grew quickly.

Beijing hopes that domestic consumption will take up the slack. That appeared on track in 2012, with household income and retail sales growth both strong. But real retail sales growth fell to 11.8% year-over-year in April, from 13.5% at the end of 2012. Income data indicate a more fundamental problem, though. Year-over-year growth in disposable income for China's urban households fell from 9.6% in 2012 to 6.7% in the first quarter, reflecting the delayed impact of slowing growth and squeezed corporate profits. That is slower than the pace of GDP growth. In 2012, worries about China's weak economy were offset by signs of a healthy shift toward consumption. But if household income grows slower than the rest of the economy, a much-needed rebalancing will be impossible.


**World News: China Gains Fail to Ease Economic Concerns**

Slight improvements in China's industrial output in April did little to ease concerns that weakened growth in the world's No. 2 economy is persisting into the second quarter despite a surge in lending. The relatively slow pace of economic output puts China's leaders into a bind, analysts say. If Beijing turns up the dial on lending and spending, it could deepen the economy's dependence on debt and increase the financial system's fragility. But if the economy continues on the current path, growth could slow further, raising the prospect of higher unemployment or tepid wage increases. Already in the first quarter, urban income growth eased to 6.7% year on year, down from 9.6% in 2012.

Data on Monday showed industrial output in April rose 9.3% from a year ago -- better than the 8.9% rise in March but below expectations of 9.5%. Nomura analyst Zhiwei Zhang noted that April 2013 had two more working days than 2012; accounting for that, he figures industrial output "likely slowed." The property sector showed signs of continued strength, despite the government's crackdown on speculators. Retail sales were 12.8% higher than a year ago in April, up slightly from March's pace, but below the 15.2% mark in December. Economists say that reflects in part Beijing's anticorruption campaign, which has hurt restaurants and tourism as officials cut back on lavish banquets and other conspicuous consumption.


**World News: Beijing Falls Short on Rebalancing --- China Kept Spending in 2012, Missing Shift Toward Consumer-Driven Growth**

A more detailed look at China's economic performance in 2012 shows it tipped further off balance, relying more than ever on credit-fueled investment, a trend it had tried to rein in. "Rebalancing the economy is the essential challenge facing the Chinese government but they have not made any progress over the last year," said Mark
Williams, China economist at Capital Economics. The share of fixed investment in China's gross domestic product rose to 46.1% in 2012, up from 45.6% in 2011, according to National Bureau of Statistics data, published by data provider CEIC. The data also show the share of net exports at 2.7%, down from 8.8% in 2007, reflecting the transition from reliance on foreign demand to domestic investment to drive growth. Meanwhile, the share of household consumption was flat at 35.7%. That figure is particularly disappointing as it comes after government efforts to relance growth more toward consumption, which is extraordinarily low by international standards. In 2011, this push appeared to be making some headway, with the share of household consumption in GDP edging up and fixed investment's share staying flat. But with growth slowing in 2012, a return to credit and investment to pump up the economy seems to have undone that modest progress.

In the first four months of 2013, there were signs that the structure of the economy was moving in the wrong direction. Growth in disposable income for urban households slowed. Economists say excess reliance on investment as a driver of growth is a key risk for the world's second-largest economy. China's leaders have long pledged to expand consumption. The result: Investment has careened higher while consumers have been starved of funds to spend at the shops. The investment share of China's GDP is substantially higher than in other Asian tigers during their periods of rapid industrialization. By comparison, South Korea's share of investment peaked at 40.1% in 1991, according to the IMF. The signs of excess investment are evident in China's steel sector, where overcapacity has futures prices on the Shanghai exchange near record lows. "Even if demand rebounds, the industry won't recover completely as long as China doesn't take real actions on overcapacity," said an official with Anshan Iron & Steel Corp., one of China's largest steel mills. In the real-estate sector, excess investment has poured in, with ghost towns of unsold property springing up around the country. There are currently 3.7 billion square meters of property under construction in China, according to the NBS, enough to satisfy demand for almost four years without starting a single new property. The consequences are clear in slowing growth, mounting debt and reduced corporate profitability. China's GDP decelerated to 7.8% growth in 2012, down from 9.3% in 2011 and the slowest since 1999. China's leaders have made boosting domestic consumption a priority. Private-sector wages rose 14% in 2012, outpacing the economic growth rate as the central government encouraged aggressive increases in minimum wage and changed labor regulations in favor of workers. The government has also loosened control on interest rates, boosting the income of household savers. A stronger yuan has reduced export competitiveness, discouraging investment in low-end manufacturing. Now, despite those efforts, the trend toward consumerism playing a larger role appears to have stalled.


Central banks rush to cut rates, but China stands firm

While central banks worldwide have cut rates and weakened their currencies in response to the plummeting Japanese yen, China has stood firm, confident that its economy, the world's second biggest, can withstand current global weakness, a leading economist says. Central banks in the eurozone, India, Australia, South Korea, Poland and Israel have cut rates in recent weeks, amid lower-than-expected global growth and Yen's sharp depreciation, which fueled competitive devaluation concerns. The US Federal Reserve is currently buying $85 billion worth of long-term bonds to push down borrowing costs and boost the housing market. The Bank of Japan unveiled a series of more aggressive easing measures in April, aiming to double its monetary base over the next two years to end nearly two decades of deflation in Japan. When a country cuts interest rates, it reduces the appeal to investors of holding the currency and weakens the currency. The yen has depreciated about 30 percent against the US dollar since early October 2012.

Feng Guo, senior economist of the Asia/Pacific Department of Washington-based IIF, told Xinhua China's first quarter gross domestic product (GDP) growth of 7.7 percent year on year was not very low, still above the government's 7.5 percent target. But inflation was the major concern for the PBOC as China's Consumer Price
Index rose 2.4 percent year-on-year in April. Guo also believed yen's depreciation had limited impact on China's economy as the Bank of Japan's monetary easing was less powerful than the Fed and the yen was far less important than the US dollar as an international reserve currency. However, interest rate differentials would become bigger between China and other major economies which cut interest rates recently, attracting more speculative capital into China and putting the yuan under further appreciation pressure, Guo said.

Source: Xinhua: Central banks rush to cut rates, but China stands firm, 2013-05-14

Current Account: Miscast BRICs Lose Way

Are BRICs really over? Yes and no. The concept of BRICs is a powerful compass for navigating the global economy, but a poor investment tool. To put it another way, BRICs are more than a fad and less than gospel. There is no denying the economic power of BRICs. By Mr. O'Neill's calculations, the bloc's gross domestic product will overtake the U.S.'s within the next 12-18 months and exceed the economic output of the Group of Seven leading economies by 2032. "The idea that the BRICs are finished is stupid," Mr. O'Neill told me. "When I dreamt the thing up, it was as an economic concept, not an investing concept."

Since 2008, the MSCI BRIC index is down by about 13%, compared with a fall of less than 5% for emerging-markets stocks and a rise of more than 17% in U.S. equities. Investors have been voting with their feet. Billion of dollars have flowed out of BRIC equity funds since 2011, while both frontier-markets funds and good, old U.S. mutual funds have seen robust inflows. BRICs veterans such as Mark Mobius, who helps to oversee some $50 billion as executive chairman of Franklin Templeton Investments' emerging-markets group, see this as a short-term phenomenon. "There have been some outflows from BRICs as the so-called 'hot money' goes in search of short-term gains, but this is usually a good sign that a market has hit a bottom or is close to the bottom," Mr. Mobius said in an email.


Chinese Brokerages Can Shoot for the Stars

It's no worldbeater, but China Galaxy Securities' Hong Kong initial public offering will break a long stretch without a major listing in the city. The $1.07 billion IPO is the biggest there since November. It may also be a sign of rebounding interest in Chinese stocks. Companies are sometimes accused of window-dressing ahead IPOs. But Galaxy's prospectus shows revenue and margins declined steadily between 2010 and 2012. At least it's an honest broker. Despite strong economic growth, the Shanghai Composite Index is down 63% from its October 2007 peak. Securities brokers, such as Citic Securities and Haitong Securities, have suffered.

But there is a structural case for investing in China's brokers. The market is underdeveloped, offering potential for growth. China's equity-market capitalization in 2011 was just 46% of gross domestic product, according to the World Bank. That compares with 104% in the U.S. And while U.S. households have more of their wealth in stocks than in the bank, China's households held just 13% of their financial assets in equities as of 2010.

They are wary for good reason. Markets there are driven more by liquidity than fundamentals, with insiders often ahead of the curve on tradable information. A 2011 survey by Gan Li, a professor at Texas A&M University, found that 56% of households had lost money in the stock market, while just 22% had seen gains. But if Beijing wants a financial system that can fuel the next stage of growth, equity markets will have to play a bigger part. For China's brokers, that points to a stellar future.
Masterclass: HSBC - China's path of deregulation

During the past 18 months, enormous strides have been made in the liberalisation and deregulation of China's capital markets. The changes have been rolled out in a measured way, reflecting the belief of former Chinese leader Deng Xiaoping that reforming China's economy should be undertaken slowly and pragmatically, or as he put it: “Crossing the river by touching and feeling for the stones.”

China's deregulation story began in 1992, when the B-share market was opened to foreign investors. This market was isolated from the A-share main board, numbering only 107 listed companies and with a market capitalisation of USD27.5bn as of March 2013. "The size of the market didn't meet foreign investors' needs," says Mr Ng. The next move by China's financial authorities was the opening of the A-share market under the qualified foreign institutional investor (QFII) scheme, with an initial quota (the total amount that could be invested by all QFIIs) of USD4bn. A steady stream of changes and additions to the QFII followed; just two years later the quota for foreign institutions was more than doubled to USD10bn. In 2006, the China Securities Regulatory Commission (CSRC) revised QFII rules and relaxed the eligibility criteria for long-term funds. A year later quotas were increased to USD30bn and domestic institutions were allowed to invest overseas under a new scheme - the qualified domestic institutional investor (QDII). In 2009, the State Administration of Foreign Exchange (SAFE), relaxed foreign exchange control rules for QFII. The China interbank bond market, CIBM, governed by the People's Bank of China (PBOC), was opened to foreign investors in 2010.

The pace of change further quickened from 2011, when trading of index futures was added to the QFII scheme and a renminbi QFII (RQFII) scheme was launched. The first batch of the RQFII was bond funds with a total quota of RMB20bn. In 2012, the QFII quota was increased to USD80bn and the approval cycle was shortened from 18 months to an average of 6 months. The CSRC and SAFE further revised QFII rules to relax controls and provide more flexibility and the RQFII was extended to A-share ETF funds, with the quota increased to RMB270bn. In the same year, the CIBM scheme was opened to foreign insurance companies and rules for a qualified domestic limited partner (QDLP) scheme were promulgated in Shanghai, enabling foreign hedge fund managers to apply for fund-raising in China and overseas investment for the first time.

Liberalisation of the markets and promotion of cross-border investment will continue in the coming years in China. This year, another extensive round of reforms is under way or planned; a pilot for a qualified domestic individual investors (QDII2) program is expected to be announced; the RQFII is being extended to cover all financial institutions with the Type 9 license issued by SFC in Hong Kong with the asset allocation restrictions removed and a repatriation rule confirmed; QFIIs have been allowed to participate in the CIBM; citizens from Hong Kong, Macau and Taiwan living in mainland China have been allowed to invest into A-share and domestic securities investment funds; and foreign residents living in mainland China can invest into domestic securities investment funds. Finally, foreign banks will be allowed to provide custody services for domestic funds. The regulatory authorities are aiming to grow inbound investment volumes to about 10% of total market capitalisation. The total number of approved RQFIIs by the end of March 2013 was 27 and the total approved quota at that time was RMB70bn. The majority of investment (61%) is in ETF products, the remainder in fixed income products. The CIBM scheme is open to five types of institutions: foreign central banks or monetary authorities; RMB clearing banks in Hong Kong and Macau; overseas participating financial institutions engaging in RMB cross-border trade settlement; foreign issuance companies; QFIIs and RQFIIs. As of March 2013, 61 foreign institutions were approved under the CIBM scheme, of which the vast majority - 85.2%, were banks.

There are huge opportunities in both inbound and outbound investments in China, says Mr Ng. The strategy to start projects on a relatively small scale, learn from these and then roll them out to a wider audience has seen investment opportunities "explode like a volcano," says Mr Ng. "The changes under way here will link the world..."
with China and China with the world."

Source: Masterclass: HSBC - China's path of deregulation, The Banker (May 2013)

**Ministry responds to public concerns about pollution**

On Wednesday, the Environmental Protection Ministry revealed how the government has handled 13 cases of pollution in the first three months of 2013. This is the first time the ministry has released information in this manner about a group of pollution incidents. But such information will be released on a quarterly basis in the future, said an official from the ministry who asked not to be named. "We are taking this measure to respond to the public's concerns. We hope it will make public supervision more convenient and push enterprises to rectify problems and improve their operations as quickly as possible," said the official.

The most recent major pollution scandal to provoke a public outcry was in March, when Deng Lianjun, then-head of the local environmental protection department, responded to residents concerns over a polluted river in Cangxian county, Hebei province, by saying just because it had turned red that didn't mean the water was unsafe to drink, because "after boiling with red beans the water has that color, too". The river was later found to contain levels of aniline that were 73 times higher than the national standard. The announcement said Deng had been removed from his post, and the local environmental protection department is testing water and soil samples from a nearby chemical factory that was believed to have caused the pollution.

One of them was an allegation that first appeared in February on Sina Weibo, claiming that factories in Weifang, Shandong province, had polluted the local water supply by pumping wastewater 1,000 meters underground. The ministry's statement said an investigation led by the local government found no solid evidence that this had happened, but it found that many small paint factories have been operating without wastewater treatment facilities. The statement said the local environmental protection department plans a further investigation into the illegal dumping of wastewater, and will accelerate the construction of sewage discharge pipelines in the region.

In another case, companies in an industrial park located in the Tengger desert in the Inner Mongolia autonomous region, have been dumping their wastewater directly into the desert without treatment. Production was halted completely in the industrial park after the situation was exposed in March, and it will not be resumed until all enterprises are equipped with a sewage discharge system.

Source: Wu Wencong: Ministry responds to public concerns about pollution, China Daily, 2013-05-09

**China economy: Pipe dreams and public opinion**

Yunnan's recent economic boom owes much to its role in driving China's economic integration with south-east Asia. The south-western province, which borders Myanmar, Vietnam and Laos, is at the centre of efforts to strengthen trade infrastructure between China and its neighbours. Deeper integration is on the cards, but recent protests in the provincial capital, Kunming, over the construction of a strategically important petrochemicals base have indicated an increasingly active citizenry less willing to tolerate such projects in their backyards.

The refinery is slated to play a central role in the wider plan for Yunnan to act as China's bridgehead to South-east Asia, and will process crude oil from the Myanmar-China pipeline currently under construction. The pipeline itself is integral to China's wider energy security strategy, as well as to China-Myanmar economic relations. The protests are aimed at China National Petroleum Corporation (CNPC), the state-owned energy giant that is behind the oil refinery in Anning, a county-level city under Kunming's administration. According to the company's website, the pipeline is scheduled to start operations in 2014. The main purpose of the Myanmar-China pipeline is to allow oil to be shipped from the Middle East through the Indian Ocean while avoiding the Malacca Strait. Such an option has long been a priority, as China worries that the Strait, through which much of its oil imports are channelled, might be too easily blocked by unfriendly forces.

Moreover, the development of Yunnan's petrochemicals industry plays a key role in national plans for the
south-western region. Yunnan's industrialisation forms part of the province's so-called "Bridgehead Strategy", which in turn is part of the current national 12th five-year plan (2011-15). The strategy envisions Yunnan building and strengthening trade channels with South and Southeast Asian countries, with export-oriented manufacturing targeted at South-east Asia receiving special policy support. The mission is to strengthen regional economic integration, as well as to boost the economy of the relatively poor agricultural province. According to observers, the protests in Kunming were organised by local community groups and college students worried about the project's environmental impact on the relatively green city. Kunming's mayor, Li Wenrong, has claimed that the project will be called off if "most of the citizens say no" to it. However, he has yet to propose a method to find out just how many actually do oppose the project. The protests in Kunming have again highlighted how local authorities need to approach industrial planning with greater delicacy. Developing transparent consultation processes over major projects would be one way to ameliorate public frustrations. Raising the importance of environmental targets, vis-à-vis those for economic growth, in the performance assessments of local cadres could be another. The political landscape in China is changing rapidly, with environmental-related discontent now a significant driver of social unrest. The Kunming protest was accompanied by a similar one in Chengdu, and another protest in Shanghai followed one week later. The protesters in Kunming may wring some specific concessions from the authorities over PX, but they are unlikely to lead to any major reversals over plans for the refinery and its associated pipelines as a whole. However, they will serve as a warning sign that, in the future, building such projects will not be as straightforward as it was in the past. How this incident is handled will set the tone of industrial development to come.


Arctic: A land of opportunity

Shrinking sea ice in the Arctic, opening up the region to increased human activities, will provide business opportunities for Chinese companies in the shipping, oil and gas industries, said a senior official from one of the world's leading shipping industry classification societies. The latest research data show the Arctic ice is melting at an unprecedented speed. With its temperature rising at a rate twice that of elsewhere in the world, the region is expected to be ice-free within the next decades. Scientific expeditions also confirmed the Arctic shipping routes are opening for longer periods in the summer than before. If this trend continues, shipping routes traversing the region will face increasing traffic in the near future. Plying the Arctic routes, shipping companies could cut the sailing time between Asia and Europe by almost one-third. This would in turn reduce their fuel costs, which have been increasing steadily in recent years.

However, extreme climate conditions in the Arctic region, such as fog, low temperature, icing and long nights, mean that shipping companies would have to make further investments in new ice-capable vessels with enhanced hulls. This would boost business for Chinese shipbuilders, said Remi Eriksen, chief executive officer of maritime and oil and gas from the Norway-based Det Norske Veritas. "The vessels required by the Arctic routes would need enhancement and adjustments in certain parts, such as the hull and propeller system," Eriksen said. "This represents new opportunities for Chinese shipbuilders," he added. Shipping companies are indeed intrigued by the prospect of using the Arctic routes. But so far they have generally adopted a wait-and-see approach. Among Chinese shipping companies, only the State-owned China Ocean Shipping (Group) Co showed interest. In September 2012, COSCO Chairman Wei Jiafu paid a visit to Iceland and discussed cooperation in developing the Arctic routes. But since then the company released no further plans for the new shipping routes and "had little intention of making any immediate movement", according to a source within the company.

Chinese shipbuilders, meanwhile, are also keeping a close eye on the market activities. China Shipbuilding Industry Corp, one of the country's two biggest shipbuilding conglomerates and the Chinese navy's main contractor, said so far there has been no significant growth in orders for ice-breakers or ice-capable cargo vessels. "But we are ready with all the designs and facilities. Whenever there is an order, we can start manufacturing immediately," the
company told China Daily in an exclusive interview.

The oil and gas industry is another sector that is likely to benefit from the retreating ice sheet. The Arctic is believed to contain one fifth of the world's undiscovered hydrocarbon resources. More than 80 percent of this is believed to be located in offshore waters less than 500 meters deep. There are currently about a dozen ongoing oil projects in the Arctic region but no Chinese companies are participating in any, according to Det Norske Veritas data. But they are coming. During Chinese President Xi Jinping's visit to Moscow, Russian oil giant Rosneft signed an agreement with its Chinese counterpart China National Petroleum Corp to enhance cooperation in Russia's Arctic territory. Yet despite the oil industry's enthusiasm, the grim fact remains that in the near term investment in Arctic oil may not be profitable. Oil consumption may still increase in most emerging markets but that might not be the case with developed economies. Other sources of energy such as bio-fuel and shale oil will also affect demand, according to a research note from the Economist Intelligent Unit. In the meantime, any accident that may occur during the projects, especially an oil spill, will cause grave consequences, given the fragile ecosystem and harsh environment in the Arctic region. Current technologies are unable to respond properly and effectively if oil spills occur there. As environmental regulation is expected to become stricter, operational costs for oil companies will also rise.


Marine-based economy on wave of growth

China's marine-based economy exceeded 5 trillion yuan ($820 billion) last year, accounting for 9.6 percent of the national economy, according to the China's Ocean Development Report. The report, released by the China Institute for Marine Development Strategy of the State Oceanic Administration on Monday, looks at the input of coastal tourism, ship building and activities generally related to the sea. Coastal tourism saw the fastest year-on-year growth of 28.3 percent to reach 697.2 billion yuan. The second most rapidly growing sector was the ship industry, which was up 27.49 percent last year to reach 133.1 billion yuan.

The report predicted that the average growth of China's ocean economy will remain at around 8 percent annually. The marine economy's contribution to the country's GDP will amount to 12 percent up to 2020 and over 15 percent in 2030. In the first decade of the 21st century, the average annual growth rate of the ocean economy used to be as high as 16.7 percent, higher than GDP growth.

Source: SHI JING in Shanghai: Marine-based economy on wave of growth, China Daily, 2013-05-18

First-tier cities barely livable, report says

Most first-tier cities in China are barely suitable for living due to their poor ecological environment, despite rapid economic development and preferential regulations for investment, said a newly released report by a top Chinese think tank on Sunday. First-tier cities, including Beijing, Shanghai and Guangzhou, failed to make the list of habitable cities even though they are in the top 10 in terms of commercial advantages, unification of city and countryside, and culture development, according to a report on China's urban competitiveness from the National Academy of Economic Strategy under the Chinese Academy of Social Sciences. Only two first-tier cities, Hong Kong and Macao, are among the country's most livable cities, said the report. Beijing ranks best in terms of academic resources and intellectual atmosphere, second-best in business environment and sustainability, and third in cultural industry. But it dropped to 74th and 119th in habitable and ecological environment, the report said. High housing prices have become the main reason that some cities are increasingly "uninhabitable", with other reasons including poor air quality and traffic congestion.

According to the report, livability is the primary and most basic function of a city and plays a key role in upgrading urban competitiveness. Ni Pengfei, director of the center for city and competitiveness under the Chinese Academy of Social Sciences, said the competitiveness of a city usually rapidly ascends as economic competitiveness increases. However, the rise slows down and even descends soon afterward.
World News: Aging Chinese Face a Bleak Picture --- High Rates of Poverty, Disability and Mental Illness Haunt Elderly, Pose Growing Economic Challenge

China's elderly are poor, sick and depressed in alarming numbers, according to the first large-scale survey of those over 60, an immense challenge for Beijing and one of the greatest long-term vulnerabilities of the Chinese economy. The survey of living conditions for China's 185 million elderly paints a bleak picture that defies the efforts of the government to build what it calls a "harmonious society," one dedicated to human welfare rather than simply economic growth. Of the generation that built China's economic boom, 22.9% -- or 42.4 million -- live in poverty with consumption of less than 3,200 yuan a year ($522). The survey, led by Chinese and international academics, covered 17,708 individuals across 28 of China's 31 provinces and was partly funded by the Chinese government through a science foundation. It also showed that disability and mental-health problems are widespread:

Of those surveyed, 38.1% reported difficulty with daily activities and 40% showed high symptoms of depression.

International comparisons are difficult. But rates of poverty, disability and depression in China all appear relatively high. The poverty rate for Americans aged over 65 is 8.7% according to the Census Bureau. The U.S. Health and Retirement Study found that 26% to 27% of elderly Americans had a disability, and depression rates are also markedly lower than in China. John Strauss, a professor at the University of Southern California and one of the leaders of the project, pointed to China's relatively low level of development as part of the explanation for higher poverty levels there. "We need to remember that China is still a developing economy, it is not yet a high-income country," he said. An aging population means the problems are compounded. The number of old people for every hundred working-age members of the population -- known as the dependency ratio -- will rise from 11 in 2010 to 42 in 2050, according to projections from the United Nations. Other countries will also see a rise in the dependency ratio. But the pace of aging in China is particularly marked -- a consequence of its one-child policy.

The survey finds that 88.7% of the elderly who require assistance with daily activities receive it from family members. But the one-child policy and the migration of many young people to cities for work threaten to erode the traditional approach. China is unique in encountering a serious problem with aging while still a poor country. "Other countries are old and rich," said Albert Park, a professor at Hong Kong University of Science and Technology and a survey leader. "China will be old at a relatively early stage in its development."

Pension coverage for urban residents has expanded from 155 million in 2003 to 304 million in 2012, according to data from the Ministry of Human Resources and Social Security. Pension coverage for rural residents has grown even more rapidly. But the benefits remain inadequate in many cases. The survey shows that on average, recipients of the government's basic rural pension receive just 720 yuan a year. More than 90% of the elderly population is now covered by health insurance, but out-of-pocket costs remain high. "Mom had a stroke last year, and the hospital charged 18,000 yuan, but we could claim back only 1,000 yuan from insurance," said Mr. Luo, the umbrella seller. The out-of-pocket costs equaled almost half of his annual income.


Record-high Chinese grads struggle to secure jobs

With lower college graduate employment rates being reported in many provincial regions, job hunting has become an uphill battle as the year's graduate supply is expected to hit a record high. The latest statistics from the Shanghai Municipal Education Commission, or SMEC, show that only 44.4 percent of the city's university graduates had signed employment contracts by May 10, down 2 percentage points year-on-year. Meanwhile, the drop was greater for bachelors than for masters, with graduates from vocational colleges inching up 1.2 percent. Like Shanghai, Beijing and Guangdong have both reported declines in the proportion of university students with
signed job contracts. Only 30 percent of university graduates in Guangdong had signed employment contracts by April 1, down 10 percentage points from the same period of last year. The Beijing Human Resources and Social Security Bureau also revealed mounting employment pressure. Only 28.24 percent of university graduates in Beijing had been hired by April 19.

By June, some 6.99 million students will graduate from vocational colleges and universities, up 190,000 year-on-year and a record high since 1949, according to the Ministry of Education. Faced with the record-high supplies, Chinese governments have made greater-than-ever efforts to boost employment. The Shanghai education authority, for instance, is considering an experimental program to encourage university graduates to engage in social services, but detailed incentives have yet to be released. In northern China's Hebei province, graduates who opt to start their own businesses will receive government subsidies. Graduates opening small businesses are eligible to enjoy preferential treatment in loans and social security outlays. The Ministry of Education has also issued an order to ban employment discrimination based on gender, household registration and educational background. The Inner Mongolia Autonomous Regional Government announced that it would offer a monthly subsidy of 2,700 yuan ($439.12) per person to 2,500 graduates who majored in agriculture, husbandry, forestry and water resources and are willing to work in rural areas for two years. At the end of their service, the regional government may offer them preferential admission into the civil service or they may enjoy a 10-point bonus in the entrance exam for postgraduates.

In a gesture to boost employment, Chinese President Xi Jinping has visited a human resources development and promotion center and a vocational school in Tianjin over the past two days. He said that employment is a worldwide problem, but one that is vital to people's livelihood. The issue must be addressed from an overall perspective. A fundamental way to boost employment is to expand the economy, he noted, adding that the greater the Chinese economy is, the better the job market.

Source: Xinhua: Record-high Chinese grads struggle to secure jobs, 2013-05-16

**E&Y report urges focus on improved productivity**

Improving productivity will be of central importance to China in the next decade to maintain economic growth and avoid the "middle-income trap", an Ernst & Young survey said on Tuesday. Individual companies will overtake the government to become the main driving force in improving productivity levels by moving up the value chain and technological upgrading, it said. The survey was conducted among executives and senior managers from 1,700 domestic and international companies in China earlier this year, and measured profitability. The average profit margin for the sample companies was 20.9 percent. Only 3 percent of executives reported they were loss-making in the past financial year. "Companies in general continue to be profitable in China, suggesting that the economy remains in good health," the report said.

Nigel Knight, E&Y's managing partner of advisory services in China, said: "Raising productivity is now critical for China's economic future", as the previous engines of growth in China are running out of steam. Foreign multinationals had the highest profitability compared with State-owned enterprises, private domestic enterprises and joint ventures, with a profit margin of 44 percent. Of the nine sectors covered, including basic material, consumer goods and financial services, the healthcare sector gained the highest average profit margin of 25.2 percent. Knight said companies showed strong willingness to focus on future profitability with profit margins expected to come under increasing pressure. Amid modest economic development in China, corporate revenue growth has slowed but costs continue to rise unabated, "resulting in a considerable profit squeeze", he added. The slowdown has hit the industrial sectors hardest, particularly telecommunications, industrial goods, and consumer goods, the report said. The survey showed that foreign multinationals felt the revenue drops most acutely, as they relied more on export markets in developed countries, where demand remains weak. E&Y's Knight added that lower quality of management will act as a constraint on growth, suggesting that companies will be under pressure to adopt a transformational approach to improve productivity, by focusing on strategic planning and alignment,
standardization of operating processes, internal controls, workforce planning, and technology infrastructure.
Source: Chen Jia: E&Y report urges focus on improved productivity, China Daily, 2013-05-29

Services set to give China a global role

China has long been known as the world's major manufacturing powerhouse. But as the country restructures its economic growth model, it is poised to emerge as a major trader in services, participants at a leading trade fair said in Beijing. They also urged more reforms and opening-up to further unleash the potential of China's services. "China's services sector as well as trade in services are facing historic opportunities," Vice-Minister of Commerce Jiang Zengwei said during the second China International Fair of Trade in Services, held in Beijing from May 28 to June 1.

China is the world's third-largest trader in services, the third-largest services importer and the fifth-largest exporter. In 2012, China's total trade in services reached $470.6 billion, accounting for 5.6 percent of the world's total, according to the Ministry of Commerce. The first quarter of this year saw China's overall trade in services rise 14.4 percent from a year earlier to $120.1 billion, with exports gaining 7 percent year-on-year to $46.5 billion. Imports jumped 19.7 percent to $73.6 billion, yielding a trade deficit of $27.1 billion, according to the Ministry of Commerce. Tourism, transportation services and trade in consultations accounted for more than 70 percent of China's trade in services in the January-March period.

"China has two important strengths in boosting trade in services, the leadership's determination or strategic vision and the large population. The government plays a very significant role in expanding trade in services and China's population is highly educated, which is the very basis for growing trade in services," said Guillermo Valles Galmes, director of the Division in International Trade in Goods, Services and Commodities at the United Nations Conference on Trade and Development. In late 2012, China published the 12th Five-Year Plan (2011-15) for services sector development and outlined that the contribution of the sector to the country's GDP growth will increase by 4 percentage points by 2015 from 43.2 percent in 2010, and trade in services will reach $600 billion. "China is doing well in several sectors including construction services. This is crucially important for the infrastructure development in many other countries," Galmes said. "But many other drivers are still needed, including entrepreneurship, supervision ability and freedom of trade and market access," he added. China plays a leading role in the world's exports of creative products and services, including advertisement, recreation and research and development, and its exports tripled from 2002 to 2011, according to a recent report from the UNCTAD.

Source: Li Jiabao: Services set to give China a global role, China Daily, 2013-05-31

World News: Beijing Puzzles Over Urban Growth --- Government Entertains Debate on How to Manage Population Gains as It Seeks Lift From Bigger Cities

The country's new premier, Li Keqiang, who has made urbanization a focus of China's economic reform plans, said the government had received 500 proposals on the subject at a March meeting of the largely ceremonial parliament. China has long been wary of supersize urban centers for fear of creating slums like those surrounding some Latin American or African centers, or of worsening pollution or spurring centers of political opposition. China's government hasn't bought into the bigger-is-better argument so far, but it is listening to new ideas. The country's new premier, Li Keqiang, who has made urbanization a focus of China's economic reform plans, said the government had received 500 proposals on the subject at a March meeting of the largely ceremonial parliament. China's planning agency, the National Development and Reform Commission, says it will release a blueprint to guide urban-growth policies later this year.

How best to manage urban growth is hotly debated. Urban specialists point out that many of China's cities aren't as densely populated as Singapore, Seoul or downtown Tokyo, which have made the transition to the consumer-led service-industry centers that China aspires to. Beijing is seen as especially poorly planned. It has
about half of the population density of Seoul and is circled by six ring roads that encourage automobile use and urban sprawl. More could be done to make China's largest cities more efficient, including expanding subways.

But China has long been wary of supersize urban centers for fear of creating slums like those surrounding some Latin American or African centers, or of worsening pollution or spurring centers of political opposition. Since China opened its economy in 1978, officials have tried to control the influx of migrants to coastal export centers by denying migrants the resident permits they need to collect social benefits or get their children into local public schools. The government appears to continue to balk at a biggest-city approach. While Premier Li says he is in favor of "coordinated development of large, middle and small cities," he also warns of "urban malaise" and the creation of shantytowns in cities "filled with tall buildings."


**Growth in consumer goods sales to slow**

The sales of consumer goods will grow 13 percent year-on-year, lower than in previous years, according to the 2013 China Consumer Market Development Report released on Thursday by the department by the department of consumer economics at the Chinese Academy of International Trade and Economic Cooperation of the Commerce Ministry. Zhao Ping, deputy director of the department, said the estimated slowdown reflects the fact that consumption will mostly be supported by private consumers rather than by public funds. She said that fewer government stimulus policies will back consumption this year, and in addition, the government measures to crack down on corruption - banning lavish banquets and spending on luxury products using public funds - will curb overspending and the sales of luxury goods. The report said, the growth in retail sales of consumer goods will mostly be backed by demand from private consumers and a rise in incomes.

The consumption of food and beverage products will remain strong, boosted by the policies to increase incomes for lower and medium-income earners - the mainstream buyers for this sector. Sales of clothing products will also grow rapidly, with more transactions made at online and more exposure expected for Chinese brands, a trend inspired by the country's first lady, who favors domestic designs rather than international brands for her diplomatic trips, the report said. The report also found that high-end caterers have suffered the most from the government's policies to crack down on waste and lavish spending. In Beijing and Shanghai, the revenue of high-end restaurants dropped 35 percent and 20 percent year-on-year, respectively, during the Spring Festival period. But it also said that the impact of the policies on the restaurant industry is only temporary, encouraging high-end and medium-level caterers to target new customers.

Due to the government's influence on private spending, luxury liquor brands such as Wuliangye and Moutai have also been affected and demand for high-end liquor will be severely hit, said Zhao. Meanwhile, the growth of the luxury market on the Chinese mainland slowed to 7 percent in 2012 from 30 percent in 2011, the lowest level since 2006. In 2013, the consumption of luxury brands, particularly in the male luxury sector, will remain low. The fastest growth will be seen in the furniture and decoration materials sector, which is expected to increase 20 percent, supported by demand from second- and third-tier cities. Urban consumption, which accounts for 80 percent of China's overall consumption, is expected to grow at a slower pace than consumption by rural residents.
Market to play bigger role, says Li

China will allow the market to play a bigger role in economic innovation, Premier Li Keqiang said on Monday at a State Council meeting on the reform of government. As more power is delegated to lower levels, the government should shift its focus to three areas — improving the policy environment for development, providing high-quality public service, and upholding social fairness and justice, he said. There should be a better balance between the government and the market, and between the government and society, the premier said during a videophone conference to launch a new round in transforming the functions of the cabinet and its branch agencies. The reform of government functions is a major effort to help the nation maintain growth, control inflation, reduce risks, and enjoy healthy and sustainable economic development.

According to the premier, the reform will minimize government approval needed to authorize general investment projects and general qualification certificates. It will contribute to fair competition in the market, and to corporate-level efforts to upgrade management and technology. It will ultimately expand employment opportunities, through speeding up the registration of industrial and commercial enterprises, and give more latitude to small and medium-sized enterprises and to service industries. It will also inject greater vitality to development initiatives at local level.

Li stressed that more effective administration should be in place on matters of deep public concern, including food safety alarms, the environment and work safety. Justice should be meted out in a timely manner when the law has been broken in such cases. More should be done to cut redundant capacity in industries that suffer such problems, he said. Li's remarks come after the State Council, China's cabinet, launched two rounds of measures in the past two months, canceling and delegating 133 items concerning administrative examination and approval. "China, in the next step, will continue to push forward the initiative (on transforming government functions), with greater courage and wisdom," Li said. "We will fight to the end of the uphill battle."

Source: DING QINGFEN: Market to play bigger role, says Li, China Daily, 2013-05-14

Guideline focuses on boosting economy

The National Development and Reform Commission released a guideline covering luxury and property tax, as well as other sectors of the economy. The guideline, issued on Friday, also promotes energy-saving measures and green development. The commission vowed that excessive energy consuming products "will be subject to taxation". Some items previously categorized as luxury goods will be eliminated from the bracket, said Kong Jingyuan, director-general of the department of comprehensive reform under the commission. The guideline said the property tax pilot program, currently in operation in Shanghai and Chongqing, will be expanded to more regions. Kong said authorities are currently studying detailed plans for the expansion.

A detailed development plan for the urbanization strategy will be formulated, the guideline said. Lian Qihua, deputy director-general of the department of comprehensive reform, said the plan will be published "within this year", and a working conference for urbanization will also be held within the year.

Source: Source: WEI TIAN: Guideline focuses on boosting economy, China Daily, 2013-05-31

Changes open door for international education cooperation

The president or principal administrator appointed by Chinese-foreign cooperatively run schools will no longer require central government approval, according to a list of the canceled administrative approval items released by the State Council. The cancellation also includes cooperatively run educational institutions from the mainland and the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan, it said. Before the cancellation, the president or principal administrator appointed by those schools needed to be approved by the Ministry of Education, according to the list.
According to the list, the Ministry of Culture will delegate the rights of examination and approval of commercial performances at non-singing and dancing entertainment venues by foreign art performance groups and individuals in China to provincial cultural departments. Meanwhile, domestic schools will face increasing competition when more advanced overseas educational institutions enter the country.
Source: Changes open door for international education cooperation, China Daily, 2013-05-17

China's regional disparity offers growth potential: analyst
China's regional disparity could bring vast potential for economic growth, a top economist from Standard Chartered Bank said Wednesday. "In the next five years, China's economy will maintain a growth rate of 7 to 8 percent thanks to the growth opportunities offered by the regional disparity," said Stephen Green, Standard Chartered's chief economist for China. Green used data acquired through the bank's research to categorize Chinese cities into three tiers according to their GDP per capita. Beijing, Shanghai and Tianjin are first-tier cities, with an annual GDP per capita of nearly 80,000 yuan ($about 12,903), he said. He described second- and third-tier cities as those with an annual GDP per capita of 50,000 yuan and less than 30,000 yuan, respectively. Green said the research indicates that if second-tier cities reach first-tier GDP levels, the economy will maintain an annual growth rate of at least 7 percent for the next five years. However, Green said it will be difficult for the economy to maintain 8-percent growth in the second quarter, citing recently issued weak economic data. He added that the bank will lower its expectations for China's growth rate and consumer price index this year.
Source: Xinhua: China's regional disparity offers growth potential: analyst, 2013-05-08

Chengdu key for China in economic integration
Pankaj Ghemawat, a professor of global strategy at the IESE Business School, believes that the Chinese southwestern city of Chengdu will play a very important role in China's integration in the global economy. Chengdu, the capital city of China's Sichuan province, "will carry out a very important role in not only assuring that China is increasingly integrated in the global economy, but also in ensuring that the levels of integration within China will remain high and that those people who live in the interior of the country will not be left behind," said the professor before attending a forum there. Chengdu will host during June 6-8 the Global Fortune Forum, which is an event organized by the American magazine "Fortune." Professor Ghemawat will make keynote speeches on the forum.

The Professor told Xinhua that Asian companies are behaving in a different manner to those in other parts of the world in their response to the current economic situation, given that "in recent years they have reduced their investment in their foreign subsidiaries, while increasing investment in their national subsidiaries. The Asian companies in the Global Fortune 500 (the ranking of 500 American companies, drawn up by the magazine based on their net income) invested as much money in their respective countries as outside of them, which showed there are "different responses in different regions." Professor Ghemawat will also talk about the long-term development concerning evolving markets, which he believes will result in an economically multi-polar world. Chengdu has been chosen to host the Global Fortune Forum because it represents a symbol of the country's interior development. With a population of over14 million, Chengdu's gross interior product grew by 13 percent in 2012 to a total of 813.89 billion yuan (132 billion U.S. dollars) with around 233 of the 500 multinational corporations included in Fortune Magazine's ranking having a presence there.
Source: Xinhua: Chengdu key for China in economic integration, 2013-05-18

China underlines stable agricultural production
The Chinese government on Wednesday urged greater effort to ensure the smooth agricultural production needed to sustain growth in the world's second-largest economy, amid multiple events that have pummelled the farming industry. In an executive meeting of the State Council headed by Premier Li Keqiang, the cabinet
underlined the importance of agriculture, describing it as the "foundation of the national economy and key insurance of stabilizing growth, controlling inflation and preventing risks."

Floods in China's northeast, which is the country's farming heartland, and droughts in the northwest and southwest will hurt output, while falling pig prices, tight supply of beef and mutton, and the outbreak of H7N9 influenza will also weaken the industry. The 7.0-magnitude quake that hit Lushan County in southwest China's Sichuan province also dealt a blow to regional agricultural production. Sichuan is China's major pig raising base. To cope with these challenges, efforts must be made to ensure stable supply and prices, according to the statement.

The meeting stressed the importance of smooth spring farming, encouraging the use of machinery in ploughing to boost output and lay foundations for developing modern agriculture. The cabinet also pledged to raise the minimum purchase price of corn, and increase pork reserves to prevent steep falls in prices.

Source: Xinhua: China underlines stable agricultural production, 2013-05-09

SMEs show more confidence in economy

Chinese small and medium-sized enterprises showed stronger confidence in economic growth in the first quarter, expecting faster improvement of the business environment in the coming months, said a report from Standard Chartered on Wednesday. An index showed SMEs' confidence rose to 56.51 — the highest level in a year — in the first three months, up by 9 percentage points from the fourth quarter of 2012, the report showed. Enterprises in the middle and western regions were more optimistic about the future's growth, while companies from the eastern provinces still worry about the macro economic situation. "The external economic recovery and the rebound of Chinese exports may strengthen the new orders' growth," the report said. "But the small-scale businesses will still face challenges of overseas uncertain economic environment and rising production costs.”

Standard Chartered's SME Confidence Index is based on a quarterly survey covering 1,000 samples from 20 cities, including chemical material producing, transportation equipment manufacturing and electronic machinery and equipment manufacturing industries.

Source: CHEN JIA: SMEs show more confidence in economy, China Daily, 2013-05-09

World News: China's Producers Struggle to Absorb Free Fall in Prices

A sharp fall in factory prices -- the 14th straight monthly decline -- signals further trouble for a Chinese economy already facing mounting debt and slowing growth, as old-line industries struggle with growing overcapacity. Producer prices -- a measure of prices of goods before they reach consumers -- dropped 2.4% in April, the sharpest decline since October, paced by particularly steep falls in the metals and chemicals sectors. That could add to concerns about China's slowdown in growth, say economists, because falling producer prices make it tougher for makers of industrial goods and commodities to make profits, pay off their debts and pay their suppliers on time. The deflation in the industrial sector reflects overcapacity in a number of Chinese industries including steel, coal, glass, aluminum, solar panels and cement.

But for industries, the effect of falling prices can be severe. Aluminum Corp. of China, which reported a 975 million-yuan ($158 million) loss in the first quarter, said more than 90% of the aluminum produced in China is produced at a loss. "China's urbanization will boost aluminum consumption in the long run," said a spokesman, "but digesting the inventory may need some time." The cement industry also looks bloated. Huaxin Cement Co. President Li Yeqing said last week that cement makers need to shut down old plants to avoid "catastrophe" for the industry. Analysts said firms with government connections, however, are likely to get financial support. In the solar-panel industry, producers are hemmed in by import duties in the U.S. and similar measures about to be imposed in Europe, boosting overcapacity and undermining prices and profits. LDK Solar Co. has been struggling under the weight of $2.2 billion in debt. After a plan to sell one of its factories fell through, the company was rescued by the Hefei city government, which agreed to acquire the plant.

During past episodes of producer-price deflation, China grew its way out of its problems. After China joined
the World Trade Organization in 2001, exports soared, boosting demand for manufactured goods and commodities. During the global financial crisis of 2008 and 2009, a stimulus plan included almost open-ended lending to big, often state-owned firms now seized by falling prices. Now export demand is light and domestic demand hasn't been as powerful as some had expected as Beijing tries to limit infrastructure spending.


Analyst sees industrial overcapacity last until 2016

The process for China to gradually eliminate excessive production capacity in over-supplied sectors may last till 2016, a Chinese macroeconomic analyst has warned. Overcapacity problems intensified following over-investment in 2009, and it will be seven years from that point before the excessive production is eased, Chen Letian, chief macroeconomic analyst with Rising Securities, wrote in an article published on the China Securities Journal reported on Friday. Had it not been the massive expansion in industrial capacity amid massive stimulus in 2009, China's current round of production capacity would likely be reduced to normal levels in 2013, Chen wrote.

Overcapacity has led China's several sectors, including the steel industry, to the edge of losses. By the end of the first quarter, the debt-to-asset ratio of the steel sector reached 61.52 percent, while average daily crude steel output climbed to a record high of 2.132 million metric tons. Overcapacity also troubles China's emerging solar and wind industries, with the solar sector seeing a capacity utilization rate of 60 percent and the wind turbine industry's rate at less than 70 percent. A capacity utilization of less than 70 percent is dangerous and could trigger vicious competition, Chen warned.

High profit expectation and widely support from local governments led to China's overcapacity problems. Chen wrote in the article that China will face urgent need to cope with overcapacity in the coming years; otherwise, bankruptcy, debt and unemployment may cause a financial crisis. He suggested that some of the excess capacity could be absorbed through mergers and reorganization, improving companies' capacity for innovation and encouraging Chinese businesses to expand overseas.

Source: Xinhua: Analyst sees industrial overcapacity last until 2016, 2013-05-17

Visit to fuel economic cooperation

Premier lands in India on his first overseas journey since taking office Premier Li Keqiang arrived in New Delhi on Sunday afternoon on his first overseas visit since taking office, accompanied by a large business delegation. The visit will help link the two huge emerging markets, which together can become an engine of the world economy if they can take advantage of each other's development, analysts have said. Calling India "an important partner and friend", Li said in his statement released upon arrival that interests between China and India have become further intertwined. Later on Sunday he met with his Indian counterpart Manmohan Singh.

According to the Foreign Ministry, Li is scheduled to meet with Indian President Pranab Mukherjee and give a speech on Beijing's ties with New Delhi. He will also go to the commercial hub Bombay. Beijing said a basket of cooperation documents will be signed during the visit. China is India's second-largest trading partner, and India is China's largest trading partner in South Asia. Bilateral trade reached $66.5 billion in 2012 and is expected to reach $100 billion by 2015.

The visit has become a hot topic in India. Hindustan Times said in an article titled Let's Dance with the Dragon on May 17 that the "Indian industry looks forward to the visit ... which is expected to deliver significant results, especially as it is the new head's first overseas tour". "India and China stand at a historic juncture where global affairs are transforming. Innovative cooperation mechanisms, especially in economic engagement, could stimulate a new sustainable partnership within this changed context," the newspaper said. "While President Xi Jinping chose to visit Russia on his way to the BRICS summit in March, Li chose India to be his first destination abroad to send a message of the commitment of the new leadership to further friendly relations with New Delhi," Press Trust of
India wrote on May 13.
Source: Ding Qingfen in New Delhi and Li Xiaokun in Beijing: Visit to fuel economic cooperation, China Daily, 2013-05-20

China expects co-op with more Indian companies

China welcomes more Indian enterprises to cooperate with their Chinese counterparts to achieve mutually beneficial and win-win results, visiting Chinese Premier Li Keqiang said here Tuesday. Li made the remarks when touring India's industrial giant Tata Group in the financial capital of Mumbai. Li said that the group, which opened an office in China's Shanghai over a century ago, has a special relationship with China. The Tata Group has carried out extensive cooperation with Chinese companies in recent years, Li said, referring to the group as an epitome of the comprehensive development of China-India cooperation in trade and economy. Li said that during his stay in India, he had reached a strategic consensus with Indian leaders and nailed down a host of pragmatic cooperative programs, which would strongly promote Tata's cooperation with China.

Chairman of Tata Cyrus Mistry said it was a great honor for the group to be a forerunner of India-China cooperation in trade and economy and the bridge for India-China friendship. The group is willing to take advantage of the steadily developing India-China relations to further expand cooperation with China and play an active role in the development of the bilateral relationship, Mistry said. The Chinese premier also made a video call with Tata staff, both Chinese and Indian, at the Shanghai office, saying that they are not only exploiting the Chinese market but also helping China know more about the Indian market. This shows that China and India, two large emerging economies and markets, are connected and complementary, he added. "As the China-India economic and trade relations develop, I am sure you will have more opportunities to exert your talents," Li told the staff. For their part, the staff vowed to continue efforts to contribute to the friendly cooperation between China and India.

Source: Xinhua: China expects co-op with more Indian companies Updated: 2013-05-22 10:05

In New Delhi, Chinese Prime Minister Promotes Trade Ties: [Foreign Desk]

Continuing his charm offensive in the Indian capital, Prime Minister Li Keqiang of China spoke before a gathering of nearly 500 business leaders here Tuesday and emphasized the importance of trade ties. "A few clouds in the sky cannot shut out the brilliant sun rays of our friendship," Mr. Li said. In a veiled reference to efforts by the United States to strengthen ties with India, in part to serve as a check on China, Mr. Li said that a country can "choose its friends but not its neighbors." "There is a proverb in Chinese that a distant relative may not be as useful as a near neighbor," Mr. Li said. Officials in India have expressed clear appreciation that Mr. Li, who arrived in the country on Sunday, decided to make India the first stop of his first foreign trip since assuming office in March.

But Indian leaders have also voiced deep concerns to the Chinese over a border spat that began April 15 in which nearly 50 Chinese troops camped for weeks on mountainous land in the Ladakh area of Kashmir that India claims as its own. Referring to the dispute, Mr. Li told the business leaders that "we have not shied away from this question, but have agreed to push forward in resolving this question." In remarks to reporters after the address, India's external affairs minister, Salman Khurshid, said that the Chinese had so far been unable or unwilling to tell the Indians why the incursion took place, but that the Indians had not asked Mr. Li directly. "Why embarrass him?" Mr. Khurshid asked. "If he has the answer, he can share it with us. If he doesn't have the answer, he will discover it." Mr. Khurshid also said that the Chinese were aware that India was deeply concerned about its ballooning trade deficit with China, its largest trading partner. "He's instructed his commerce minister to find ways of addressing this issue," Mr. Khurshid said of Mr. Li.

In his speech, Mr. Li appeared to enjoy using the Indian greeting "Namaste," saying he had learned it on his first visit to India 27 years ago and had been unable to use it since. He noted several times that India and China had two of the largest domestic markets in the world. "If every one of our combined 2.5 billion people would buy a new
mobile phone,” he said, “it would blow up the orders lists of all the information technology manufacturers of the world.”


World News: **Beijing Says Ties With U.S. at a Crucial Point**

China's President Xi Jinping said relations with the U.S. were at a "critical juncture" during a meeting Monday with White House National Security Adviser Tom Donilon, ahead of a closely watched summit in California with President Barack Obama next month. Mr. Donilon, during the first day of a visit this week to the Chinese capital, said Mr. Obama was eager to boost cooperation with senior Chinese leaders as the two sides attempt to wade through a range of issues that have chilled relations in recent months. His meeting with Mr. Xi at the Great Hall of the People in Beijing lays the groundwork for a presidential summit in California in June, where issues ranging from cybersecurity to China's posture toward neighboring North Korea are expected to be on the agenda. “The current China-U.S. relationship is at a critical juncture to build on past successes and open up new dimensions for the future,” Mr. Xi said during Monday's meeting.

Mr. Xi, who took over as head of China's Communist Party and military in November and as president in March, is slated to meet with Mr. Obama June 7-8 at the former estate of Walter and Leonore Annenberg, outside Palm Springs. The visit is being billed as a chance for the two presidents to skip the pageantry that usually accompanies a Chinese leader's visit to the U.S. and to get down to business negotiating on a range of sensitive topics. Mr. Obama "is firmly committed to building a relationship defined by higher levels of practical cooperation and greater levels of trust, while managing whatever differences and disagreements that may arise between us," Mr. Donilon said during his meeting with Mr. Xi.

The California summit will be an important opportunity for U.S. leaders to learn more about the diplomatic intentions of Mr. Xi, who foreign-policy experts have described as more confident in foreign affairs as well as more nationalistic about China's role in the world than his predecessor, Hu Jintao. Among other issues, U.S. leaders in the coming weeks are likely to continue pressing Beijing to harden its stance toward neighboring North Korea, whose growing belligerence toward South Korea has left the region on edge. The U.S. has pressed China to place greater pressure on its neighbor and traditional ally to abandon its nuclear-weapons ambitions, a topic likely once again to be discussed at next month's summit. China remains concerned about the Obama administration's effort to shift its military and strategic focus to the Asian-Pacific region. During his visit, Mr. Donilon is also expected to meet senior Chinese defense officials on Tuesday, where flaring questions of cybersecurity may feature prominently.


**US/CHINA: Elite views presage increased tensions**

US National Security Advisor Tom Donilon today held talks with General Fan Changlong, vice-chairman of China's Central Military Commission, ahead of the first summit between US President Barack Obama and Chinese President Xi Jinping on June 7-8. The bilateral economic and strategic relationship has long featured powerfully symbiotic and mutually antagonistic elements; and the balance between the two impulses has shifted over time. Though changes in bilateral ties play out in regular interactions between the two countries' foreign policy elites -- ranking policymakers, scholars, and businessmen -- they are underwritten by how these elites perceive their counterparts. In the United States, elite perceptions of China have soured notably in recent years, darkening the overall outlook for China-US relations.

More US businesses are likely to complain that Beijing's policies deliberately restrict their profitability in China. Such complaints about China are unlikely to disappear as the US economy recovers. High-level talks this year may reduce the risk of severe friction, but tensions will endure. The continued economic success and political
stability of authoritarian China has challenged the US belief that free markets lead to free and open political systems. The US business community, long a champion of strong US-China ties, has become increasingly critical of many of Beijing's policies, particularly towards foreign investors.

Changes within China bolstered this belief, including: liberalisation of the Chinese economy, society, and, to a limited extent, the political system over the past three decades; the 1989 Tiananmen Square protests, which featured explicit calls for democratisation. However, by the early 2000s, it had become clear that economic liberalisation was not fostering rapid political liberalisation. This posed a direct challenge to Wilsonianism, and was the basis for a major debate in 2003, when Columbia University Professor Andrew Nathan published an article entitled 'Authoritarian Resilience.' Nathan posited that the Chinese Communist Party (CCP) had proven much more adaptive than analysts expected. His views were influential not just because they were well reasoned, but also because of who he was: Nathan had cultivated strong relationships with Chinese human rights activists in the 1980s and 1990s, and had written a book that predicted the country's liberalisation. More recently, several books by scholars such as David Shambaugh and Bruce Dickson of George Washington University have focused on explaining the CCP's evolution and adaptability. Today, US scholars who maintain the belief that China will democratise typically focus on several phenomena, none of which are likely to lead to rapid political change, namely: developing 'intra-Party democracy' (increased democratic procedures within the Communist Party); limited local-level elections; and China's growing middle class.

In the early 2000s, introduction of the internet to China and increased social unrest were also hailed as developments that would promote democratisation. However, the Chinese government has proven adept at managing both access to information and upticks in 'mass incidents', or local-level protests. Thus the mainstream US view has shifted from 'China will democratise' to the notion that even if it does change, such a shift will not happen until the distant future.

Among foreign policy-making elites, this shift in perception and the realities of a rising China resulted in less overt criticism of Chinese authoritarian practices. This does not mean that Washington's fundamental position on democratisation and human rights has notably softened -- rather, it reflects a belief that China will remain an authoritarian state for some time. Despite changes in elite diplomatic and academic perceptions of China, any negative effect on China-US relations had been cushioned by the business community's enthusiasm regarding China's rise -- and the potential size of its market. However, following the global financial crisis of 2007-09, business perceptions have taken on a more negative aspect: many US businesses now believe that China is not 'playing by the rules'. This sentiment is grounded in some old concerns, such as intellectual property protection and fears that renminbi undervaluation is giving China's exporters an edge. However, new anxieties have also emerged, principally over China's indigenous innovation programme and its activity in the cyber realm:

US economic woes have made criticising China, the first major economy to recover from the global financial crisis, popular at both the elite and popular level. As the recovery gathers steam, such vitriol will lessen -- though the substance motivating such criticism will remain. This is likely to moderate negative perceptions of China somewhat. Beijing's territorial disputes with its neighbors, particularly in the East and South China Seas, have fuelled popular perceptions that China is becoming assertive. Beijing is unlikely to modify its stance on these disputes, making low-level diplomatic and potentially military conflicts between China and its neighbors increasingly likely. This will reinforce negative US views -- particularly in the event of a major clash. Cyber security has rapidly become of critical importance in US-China ties (see CHINA/US: Espionage fears feed mutual hostility - February 14, 2013). This issue has proven particularly salient among US businesses; thus it is likely to further darken US elite perceptions on China.

CONCLUSION: The more negative perception of China adopted by US foreign policy elites in recent years is not likely to change -- certainly not over the next year. While firmer US GDP growth may reduce tensions over trade and renminbi valuation, China's many territorial disputes with US allies in Asia, and bilateral controversies over cybersecurity, are likely to more than offset any economic thaw.
China Assets Go With The Global Flow

In China, fixed-term deposits offer 3%, wealth management products generate more than 4%, and investment in trusts and real estate come with the enticing prospect of double-digit returns. That is attracting a share of the rising tide of global liquidity. In the first four months of 2013, capital inflows amounted to 1.5 trillion yuan, more than six times higher than a year earlier and equal to 12% of China's first-quarter gross domestic product. Those inflows have a big impact. Foreign capital flowing into the financial system adds to the money supply, and contributes to surging credit. Total social financing—a broad measure of credit tracked by Beijing—rose 63% from a year earlier in the first four months of the year. Assets under management at China's trusts rose 1.3 trillion yuan in the first quarter, more than double the increase in the first quarter of 2012. House prices are rising again. Secondary market prices in Beijing were up 10.9% year-over-year in April according to the National Bureau of Statistics. Equities are the exception to the rule. It is testimony to the sorry state of China's stock markets that despite abundant liquidity, the Shanghai Composite Index is up just 2.4% so far this year. A reversal or reduction in inflows won't derail China's economy. But flows of funds that raised asset prices on the way in, will knock them down on the way out.


China trade data beats expectations

China's exports and imports grew more than expected in April, offering the possibility of a better outlook for the world's second-largest economy, but the figures failed to put an end to skepticism that financial maneuvering by exporters and speculative capital inflows are masking weakness in real demand. China's exports rose 14.7 percent in April, while imports grew 16.8 percent, leaving the country with a trade surplus of $18.16 billion for the month, the Customs Administration said on Wednesday. From a month earlier, exports edged up 2.7 percent while imports fell 7.7 percent.

Source: Xinhua: China underlines stable agricultural production, 2013-05-08

A third of Americans would shun a Chinese brand

A third of Americans would not buy a brand if they knew it to be Chinese-owned, according to a latest survey from HD Trade Services Inc, U.S. marketing and brand development company. The survey asked 1,500 Americans, "would you buy a product if you knew the brand was owned by a Chinese company?" — 68 percent said they would, but 32 percent said they would not. By contrast, 81 percent of respondents said they would buy a product if they knew it was Japanese-owned. An earlier survey by the company showed that 94 percent of Americans could not name a single Chinese brand. Among those who could name at least one, Lenovo was mostly mentioned (2.53 percent), followed by Baidu (1.2 percent) and Huawei (1.07 percent). Only 59 percent of respondents were unable to name a Japanese brand. "This contrasted with the fact that China is the world's second-largest economy and nearly half of all durable consumer goods purchased in the United States are made in China," said Sperling-Horowitz. Leo Liu, HD Trade's director of China operations, said the results illustrated just how important it is for Chinese brands to work on raising their international profile.

He cited Haier, now one of the world's largest appliance makers, as an example of a huge Chinese company, but which was thought by many American respondents to be a German-owned brand. Liu said German products are generally synonymous with superior engineering and quality in US. "Haier does nothing to deceive its consumers — it has simply positioned itself as a multinational brand," added Liu. A major reason for the low Chinese brand recognition, according to Sperling-Horowitz, is that many Chinese companies are too focused on establishing and perfecting their brands at home, and have not dedicated enough resources to promoting them in overseas markets.
such as the United States. Many Chinese companies have entered the US and international markets by acquiring Western companies with a pre-existing footprint, rather than launching there on their own, he said. But Sperling-Horowitz said there is still room for Chinese companies to improve their marketing strategy. He added that after attending many trade shows in the US over the years, one striking impression is that many Chinese companies — even multi-billion dollar ones — attend such events using staff who cannot speak English proficiently. They also use brochures and other promotional materials which can contain many grammatical mistakes. Chinese companies are also not good at telling their own success story, he said.


The Canton Fair; The 113th Canton Fair

Figures from the spring session of the Canton Fair, which closed on May 5, show that China's most prestigious trade show outperformed market expectations. The 113th session of the Fair welcomed over 200,000 overseas purchasers, up 7 percent on the previous session. The value of trade deals struck at the biannual event reached US$ 35.5 billion, an increase of nearly 9 percent on the last session. Experts agree that the healthy statistics herald a steady improvement in this year's trade situation. China's foreign trade rose 13.4 percent year-on-year in the first quarter of 2013, with exports increasing 18.4 percent.

The latest Canton Fair underlined the importance of developing markets to sustaining improved trade. Compared to the 112th Canton Fair, the number of African buyers attending the event was up nearly 30 percent, while the number of Oceanian buyers was up 15 percent. The value of deals signed with BRICs nations, the EU, the United States, the Middle East and Japan were up across the board. While emphasizing brand quality and competitiveness, the Canton Fair also fosters innovation. Compared to previous sessions, one of the highlights of the latest event was a 73 percent increase of the product design showcase area. As the world looks ahead to a more positive year for trade, the Canton Fair will continue to act as an engine for sustained growth. Organizers, buyers and companies are already anticipating the upcoming installment in the autumn.


Seeking a win-win scenario in trade between China, US

Editor's Note: US exports to China significantly outperformed export growth to the other top 10 US trading partners including Brazil by 180 percent, but US primary interests still lie in securing access to potential Chinese markets. The US-China Business Council looks at China as a $250 billion market for US companies with still greater potential for further growth. Now China is making great efforts toward improving the two nations' economic cooperation. In this article, to share his views with our readers, Li Zhongzhou, former director-general of MOFCOM and former division director of United Nations Conference on Trade and Development, explains about this development.

The 10 years from 2001 to 2011 witnessed rapid expansion of China-US trade and economic relations. The United States played the key role in negotiating the terms and conditions for China's accession to the World Trade Organization. It extracted the greatest concessions from China in the tariff schedule contained in the China Accession package agreement. The US holds initial negotiating rights for 7,051 tariff numbers of the more than 7,000 tariff numbers package. In other words, the tariff schedule reflects fundamental US trade interests. In return the US terminated the application of the Jackson Vanick Amendment to grant China unconditional most-favored-nation treatment. China's accession to the WTO significantly contributed to the fast development of China-US trade and economic relations in spite of all the difficulties arising from US partisan politics.

US primary interests lie in securing access to the potential Chinese market. The US-China Business Council looks at China as a $250 billion market for US companies with still greater potential for further growth. According to the council's latest report China and the US Economy: Advancing a Winning Trade Agenda, January 2013, China is the US' third-largest export market next only to the two North American Free Trade Agreement members -
Canada and Mexico. US exports of goods to China rose from $19.2 billion in 2001, the year of China's WTO accession, to $103.9 billion in 2011. It represents a 542 percent rise in growth. In that year China bought 60 percent of total US soybean exports and 30 percent of total US cotton exports. In the same year, the US exported $26 billion in services to China and imported $11 billion in services from China, a surplus of $15 billion in favor of the US.

According to a US-China Business Council survey, US companies operating in China aim to access the Chinese market. A total of 74 percent of their products made in China sold in the Chinese market: 18 percent were sold to third countries and only 8 percent were sold back to the United States. The products sold back to the US contain a large proportion of US intermediates goods and services. As the Chinese economy is set to grow at a moderate rate of 7 percent, import/export trade is likely to continue to grow in the next 10 years at a higher rate of at least an average 10 percent. The value of total imports and exports will likely reach some $10 trillion in 10 years.

This huge Chinese market offers the best opportunity for the US to achieve President Barack Obama's ambitious goal of doubling US exports in five years. In terms of US-China trade, this goal is well within reach judging by the successful experience of exponential growth of US exports to China in the past 10 years. For China there is no need to be concerned about fast growth of imports from the US so long as the US does not apply discriminatory trade restrictions against Chinese products.

A preliminary joint Organization for Economic Cooperation and Development-WTO study on trade in value-added characterized the global value chains as a dominant feature of the global economy. Trade policy actions on any products from any sources will have an impact on the global economy including the country taking such actions. The study singles out the China-US bilateral trade balance to illustrate the complex nature of global value chains. Measured by value-added, China's bilateral trade surplus with the US was more than $40 billion - 25 percent smaller - because that reflects the higher share of US value-added imports in Chinese final demand and also the fact that one-third of China's exports possess foreign contents. This testifies to the high degree of the China-US interdependent and win-win relationship. The presidents of both countries have endorsed a strategic and economic partnership. It is time for actions by the administrations to cement this mutually beneficial partnership. It is easier said than done. There are a number of hurdles to be removed to allow a truthful partnership to flourish. The foremost one is to avoid misperception or intentional misrepresentation of the inherently beneficiary China-US economic relations as a zero-sum game. The perception that looks at China's economic development per se as a threat to US predominance in world affairs would constitute a major hurdle to productive bilateral cooperation. Joint efforts should be made to facilitate the reinforcement of the two largest economies of the world and contribute to the healthy and sustainable development of the global economy.

Both China and the US are open to foreign direct investment. According to a report by the United Nations Conference on Trade and Development in 2012, China overtook the US to become the top FDI destination country. Paradoxically, the two-way investments from each other are low. China ranks as the eighth largest destination of US manufacturing investments abroad over the last decade. Chinese companies have a great interest in investing in the US. According to US Government data, Chinese companies invested only $6.5 billion in the US in 2012, in comparison with British investment of $442 billion, German investment of $216 billion and Dutch investment of $240 billion. It is understandable that Chinese companies are just starting to invest from a low level. What puzzled the Chinese business community is the fact that prospective Chinese direct investments in the United States frequently hit a protectionist wall erected by the administration on untenable arguments such as threats to US national economic security even though China's investment of $6.5 billion accounts for only a tiny, insignificant fraction of total FDIs in the United States. Unless this imbalance is properly addressed, the proposed negotiation on a China-US bilateral investment treaty will lead nowhere.

Lastly, China and the US as the world's top two economies share a common responsibility to support the recovery of the global economy. The pressing issue is to reaffirm commitment to an open economic system and faithfully adhere to the WTO-based multilateral trade rules, learn the lessons of the 1930s and refrain from a
beggar-thy-neighbor policy at this time of global economic crisis. We should maintain high vigilance against the danger of protectionist contagion in view of rising concerns about competitive devaluation. But China is not immune from protectionist contagion. Currently China has become the main target of trade protection actions particularly in anti-dumping and countervailing measures which go far beyond trade remedy and are purely for trade protection inconsistent with WTO rules. For example, there is the parallel levying of antidumping and countervailing duties at a prohibitive level of more than 100 percent. There is growing sentiment within Chinese industry in favor of turning inward in spite of reaffirmation by the central government for further advancing the opening-up policy.

In conclusion, China and the US have identical interests in maintaining an open global economic and trade regime. The China-US strategic and economic dialogue needs a strong push by both sides to achieve substantive progress in win-win cooperation so that it will not degenerate into a mere talking shop. It is time for action.

Source: Li Zhongzhou: Seeking a win-win scenario in trade between China, US, China Daily, 2013-05-13

Shanghai plans free trade zone

The major driving force is a 10-year plan for Pudong, or the eastern part of Shanghai, that is grander and bolder than anything that has ever been conceived even by overly ambitious Shanghai officials. The plan encompasses an area of 28 square kilometers, including Waigaoqiao Free Trade Zone, Yangshan Free Trade Port Area and Pudong Airport Comprehensive Free Trade Zone. The area is almost the same size as Macao, and its trade volume topped $100 billion last year, the highest on the mainland. In this area, a new economic order will be established with its own set of rules for commerce and finance. Indeed, the Shanghai free trade zone, as it is temporarily called, is set to have even more of an impact than other such entities in Shenzhen or Tianjin. The project, mapped out at the beginning of this year and approved this week, is the first of its kind in China. Ready for submission to the State Council later this month for the official seal of approval, the project is expected to start operation in phases in the second half of this year at the earliest. The free trade zone plan is one of Shanghai municipal government's major tasks for 2013, according to a government work report delivered by Yang Xiong, acting mayor of Shanghai, at the first session of the 14th municipal people's congress.

Benefiting from the news about the free trade zone, prices of related stocks rallied while the Shanghai Composite Index dropped 1.11 percent on Tuesday. Shanghai Pudong Road & Bridge Construction Co Ltd was up 4.59 percent, while Pudong-based real estate developer Golden Bridge rose 4.22 percent. Wan from the Pudong Academy of Reform and Development in Shanghai said the rapid implementation of the free trade zone plan is closely related to the current economic situation as Premier Li Keqiang reiterated at an economic conference in March in Shanghai "we should use opening up to boost domestic demand and provide a push for reform". As Shanghai Disneyland is set to open in 2015 and a high-end duty-free center opens around the same time in Waigaoqiao Free Trade Zone, Wan concluded that the free trade zone is "in line with the local government's call for a transformation of economic development, which will focus more on boosting domestic consumption". "The free trade zone will also help Chinese companies going overseas by helping increase exports," he said. "The new free trade zone should not simply replicate any other already existing examples either in form or in function," he added.

Source: Shi Jing in Shanghai: Shanghai plans free trade zone, China Daily, 2013-05-15

China-Switzerland FTA to benefit both sides

China and Switzerland on Friday announced the completion of talks concerning a new free trade agreement (FTA), the first to be signed between Beijing and continental Europe. A memorandum of understanding was signed during a meeting between visiting Premier Li Keqiang and Swiss President Ueli Maurer. The two sides also announced the establishment of a financial dialogue mechanism. However, they did not reveal when the FTA will be finally signed and put into place.

Xu Tiebing, an associate professor of international studies at the Communication University of China, said in a
Friday report by the Beijing News that the FTA will benefit both sides. Swiss financial businesses, including banks, will enjoy more advantages in obtaining permission to enter China, while China will be able to enter European markets more effectively by building corporate branches or joint ventures, Xu said. Under the future FTA framework, Switzerland may help reduce trade barriers set by the EU against China, Xu said.

Li said in a signed article published Thursday in Neue Zuricher Zeitung, a German-language Swiss daily, that with the advent of FTA, Switzerland will become the first country in continental Europe and the first of the world's top 20 economies to sign an FTA with China, adding that the implications will be significant. He said the FTA has demonstrated that China is firmly committed to upholding multilateral trade, vigorously promoting regional trade liberalization and accelerating the implementation of its FTA strategy. "A high-quality FTA agreement between China and Switzerland will also set a good example. It will not only upgrade our business and investment cooperation, but also send a powerful message to the rest of the world that we reject trade and investment protectionism and instead embrace trade liberalization and facilitation," the article said.

Statistics indicate that two-way trade between China and Switzerland exceeded $30 billion in 2011, a record rise of 50 percent compared with that of 2010. Despite the persistent eurozone sovereign debt crisis and uncertainties in the world economy, bilateral trade volume remained as high as $26.3 billion last year. China is Switzerland's third-largest trading partner behind the EU and the United States, while Switzerland is China's seventh-largest trading partner in Europe.

Source: Xinhua: China-Switzerland FTA to benefit both sides, 2013-05-21

**Merkel, Li call for end of EU-China dispute; solar panels**

German chancellor Angela Merkel and Chinese premier Li Keqiang on Sunday called for an end to a trade dispute between Europe and China over solar panels and wireless equipment, telling a joint news conference they were both for free trade. The European Union accuses China of pricing its solar panels and mobile telecommunication devices too cheaply and "dumping" them in Europe to corner the market. It plans to impose duties on Chinese panel makers. China denies the allegations. "Germany will do what it can so that there are no permanent import duties and we'll try to clear things up as quickly as possible," Ms. Merkel said after a meeting with Mr. Li in Berlin. "We don't believe that this will help us, so we want to use the next six months intensively."

China has threatened to retaliate if the EU pushes ahead with the investigation. Mr. Li, standing next to Ms. Merkel at the briefing that followed the signing of a range of business agreements, said a trade dispute between the EU and China would harm both sides and benefit neither. He said China was interested in both a two-way dialogue and consultation on how to resolve the issue. "We don't agree with this decision and emphatically reject it," Mr. Li said, adding the step was "especially dubious" because the global economic recovery was still in fragile shape. "It not only endangers jobs in Germany. It will also endanger the development of the sector in Europe. That will harm the interests of the European consumers and Europe's industry."


**China, in dramatic shift, signals interest in US-led trade talks**

Since the U.S. and other nations began talks on an Asia-Pacific free-trade pact, Chinese officials had pretty much looked at the deal with suspicion, as another attempt to contain China's rise in the world. Now, however, Beijing is giving a wholly different signal: a willingness to join the U.S.-led negotiations. "We will analyze the advantages, disadvantages and the possibility of joining the TPP," said Ministry of Commerce spokesman Shen Danyang, referring to the Trans-Pacific Partnership, at a briefing Thursday. The TPP talks already involve 11 countries, including Australia, Vietnam, Canada and Mexico. And with Japan soon to join, those at the negotiating table would represent close to two-fifths of the world economy.

The Obama administration sees the TPP as more than an agreement that would remove tariffs in the
fast-growing Pacific region. It is meant also to set standards and address critical regionwide issues on regulations, supply chains and state-owned enterprises. All of which would presumably help President Barack Obama's broader goal of boosting American exports as well as strengthening Washington's influence in the Asia-Pacific region. Trade analysts doubt that that, given China's current economic structure, Beijing could realistically join such an ambitious multilateral trade deal -- and one led by the U.S. Still, the latest comments from Beijing signal a dramatic shift in the way the Chinese are looking at the TPP. Once highly critical and perhaps a bit defensive about the ongoing TPP talks, which figure to extend well into next year, Chinese officials increasingly are asking about the details of the pact and what it might mean for China's trade and regional economic relationships.


**Some U.S. Companies Alter Stance On SOEs After Investing In China**

According to U.S. business representatives, there are clear instances in which some U.S. companies soften their advocacy for stricter disciplines on state-owned enterprises (SOEs) in China after they enter into partnerships with these SOEs in China. The reason, they say, is that it becomes awkward for these U.S. companies to call for tough disciplines that would affect their Chinese partner; in some instance, U.S. companies may even indirectly benefit from the success of their SOE partner, which may benefit from Chinese government policies. While agreeing with these observations, one observer said that, overall, U.S. government policy is hardening on SOEs, not softening. This observer noted that the Obama administration is pushing for SOE disciplines in the Trans-Pacific Partnership talks, and said this reflects the general push from the business community on this issue. Most executives realize that they need to be able to operate in China over the long term, and take a broader view on policy, he suggested. Another business source said that if and when such changes in policy happen at individual companies, it is not having a major effect on the desire of the U.S. business community to push for SOE disciplines.


**Foreign investment up amid uncertain outlook**

Foreign direct investment in China rose for the third consecutive month in April with more money coming from European countries and the United States, the Ministry of Commerce said yesterday. But analysts say the outlook for foreign investment remains uncertain as its growth momentum eased for a second month. Foreign investors channeled a total of US$8.43 billion into China last month, up 0.4 percent from a year earlier, according to the ministry. The pace slowed from the gain of 5.65 percent in March and 6.32 percent in February, although it was still much better than January's fall of 7.3 percent.

According to a latest report by consulting firm KPMG, China has become the top destination for sourcing among multinational companies outside their home country with these companies moving more of their research units close to production bases. However, the investment outlook remained murky as China's overall economic performance in recent months fell short of expectation and pointed to a fragile recovery, analysts said.

During the January-April period, investment from the 27-member EU rose 29.7 percent to US$2.5 billion, while capital from US firms jumped 33.2 percent to US$1.4 billion. China attracted a total of US$38.3 billion foreign investment in the first four months, up 1.21 percent annually. Meanwhile, China's outbound direct investment surged 27 percent to US$29.5 billion in the first four months, indicating Chinese investors' strong enthusiasm for globalizing their businesses.


**China: China to be net foreign investor by 2017 according to The EIU**

China's role in the global economy is changing. The country's imports have started to catch up with its exports,
and perceptions of China as an overseas investor have altered dramatically. The Economist Intelligence Unit's 'China Going Global Investment Index' predicts that China will be a net investor in the world economy by 2017. In 2012, China accounted for 11.6% of global output and 6.7% of outward direct investment (ODI), according to The Economist Intelligence Unit's estimates. Annual investment outflows in China have grown at an average rate of 35% per year since 2005, reaching US$115bn in 2012. That has pushed China up the global ODI rankings from 16th place in 2011 to 3rd place (excluding tax havens) last year, after the US and Japan.

In light of this, and with increasing numbers of Chinese firms looking to go global and seek investment opportunities overseas, The EIU’s index has identified the most attractive destinations for China's investment based on opportunity and risk, finding that the US, Singapore and Hong Kong are the three most attractive destinations for Chinese foreign direct investment. Chinese firms are currently active in 119 countries and territories. The index demonstrates that Chinese firms are not just interested in frontier markets; many attractive destinations for the world's second largest economy are large and wealthy OECD countries with big domestic markets and valuable brands and technologies. Seven of the top 10 countries are OECD members, suggesting that, on balance, developed economies provide significant investment opportunities for Chinese firms.

The US tops the list as the most attractive destination for Chinese foreign direct investment. The US leads in market size, scores highly for its endowment of natural resources, has the world's best stock of existing brands, is highly innovative and has high human capital and a relatively stable business environment. These elements combined led it to be ranked number one. Singapore and Hong Kong also score well for their favourable business environment, openness to trade and strong cultural links to China. In fact, these two markets are scored as the two least risky destinations for Chinese FDI and this, combined with the fact they also score in the top quartile for opportunity, leads to their high overall performance. These two city economies have high levels of GDP per capita, and while they are not large economies, they provide an excellent base for Chinese firms to access regional and global markets as a result of their good transport infrastructure and open economic policies.

Source: Kasikorn Research Center: China to be net foreign investor by 2017 according to The EIU Asia News Monitor [Bangkok] 15 May 2013.

Smithfield bid tests US appetite for Chinese investment

When US senators raised a red flag about SoftBank’s proposed $20.1bn takeover of a majority stake in Sprint Nextel, they focused on the way the Japanese mobile operator’s network relied on a supply chain sourced out of China. Political reaction in Washington to Shuanghui International’s bid for Smithfield Foods, however, has been muted by comparison, largely because the supply chain on this occasion runs in the opposite direction. Shuanghui plans to use the Virginia company to export pork to China from the US, and to learn how to run a global meat processor without the kinds of food safety problems that have damaged the reputations of Chinese producers.

Dan Rosen, who heads the China practice at the Rhodium Group, a consultancy in New York, said Shuanghui was buying Smithfield not to enter the US market but to differentiate itself from its competitors at home. “It wants to stand out in its domestic market and tie itself to better industry practices [on food safety],” he said. The Smithfield deal would in one hit double the number of Americans employed full-time by majority-owned Chinese companies to 70,000, according to Rhodium. Smithfield has a workforce of 36,000. The transaction lands at a politically-sensitive moment – a week ahead of a two-day summit between Barack Obama and Xi Jinping, the first time the pair will meet as their countries’ respective national leaders. China has long complained about US restrictions on investment into America and the issue is certain to come up in their talks in California.

Compass Point Analytics, a consultancy which specialises in Cfius deals, concluded in a “preliminary evaluation” that any review “will focus on Smithfield’s relationship with the US government”. “Smithfield has been a direct supplier to the US Department of Defense and may have been a subcontractor to food service companies supplying DoD and civilian government agencies,” the consultancy said. “These vendor relationships may raise two possible national security concerns: the safety of food provided to US government personnel, and
Even as it runs into roadblocks in sensitive sectors such as telecommunications and oil, Chinese investment in the US has been rising rapidly in recent years. Although much focus has been on the role of state-owned Chinese companies, the country’s private sector spent more in the 15 months to April this year on US deals than in the previous 11 years combined, Rhodium figures show.