China News in Brief
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Informed outsider with the inside view

John Micklethwait believes there are advantages to being an outsider looking in on China. The editor-in-chief of The Economist says it can provide the necessary detachment. "It is a mixture. To some extent (as a Western publication) you are an outsider and that is part of your value," he says. "I would not, however, want to add up the number of years the people we have covering China have actually lived and worked there, but I guess it would be at least 50 years so we are certainly very much informed outsiders." Micklethwait, who is only the 16th editor since the magazine (although still known internally as "a newspaper") was founded in 1843, was speaking in his St James' office in London, shortly before attending his publication's 5th annual China Summit in Beijing on Nov 6.

China has recently dominated the magazine's coverage with one issue carrying a major essay on the world's second-largest economy. "China as a country is at least as important to us as the United States and you wouldn't find it odd if we did four American covers in a matter of months."I would argue that some of them have been driven by the news but I think generally, if you are looking at the Chinese economy at the moment, it is very interesting." It attempts to answer the question as to what system of government is best for modern realities of aging populations and escalating health costs. It contrasts Western liberal democracy with Asian alternatives such as the Singapore model of Lee Kuan Yew, the founding father of the city state. The book, in fact, opens with a look at the China Executive Leadership Academy in Pudong district in Shanghai, which is attended by many of Chinese government high flyers. "Many of the things that governments have to do such as delivering healthcare and education are fundamentally not political questions. They are pragmatic. "That government can be done better is what is interesting now and for this there are ideas from Asia that are worth looking at and also from places like Estonia, Chile and from different parts of Scandinavia. The arc of geopolitics Asia is certainly competing again." The "fourth revolution" is essentially the revolution needed to deliver government more efficiently and less expensively. The first three revolutions were the establishment of the nation state in the 17th century; the rise of John Stuart Mill liberalism in Victorian Britain and then the building of the welfare state in the last century. In the book he cites Indian hospital entrepreneur Devi Shetty who can deliver open-heart surgery at a 50th of the cost of that in the US and eye operations at 100th of that of the National Health Service in the United Kingdom. "What he is doing is just an example of how things are behind in the West. He has looked at heart surgery and applied Silicon Valley economics." Micklethwait says these issues present a challenge for China, which is trying to build its own healthcare system, as much as it does to Western governments. "It is about modernization, pushing government through the same sort of revolutions we have had in the private sector.

"You have only got to look at my industry (media publishing). It has been turned upside down by technology over the past 20 years. Yet very little of the same technology has had an effect on government at all." Before becoming editor-in-chief eight years ago, he spent long periods in the US as bureau chief in both New York and Los Angeles as well as US editor. There he saw firsthand the government of California, which is cited in the book as an example of democracy gone wrong. Instead of serving the majority, its administration instead was in hock to a multitude of special interest groups. Many public sector workers retired at 50 on 90 percent final salary pensions. Governor Jerry Brown has recently been trying to turn round some of this. "I think in the US generally, it cannot make sense for the richest 5 percent to get more money through the mortgage tax system than the bottom 50 percent get in social housing. "In China, it cannot make sense for local governments to rely on funding by grabbing land on the outskirts of the city and selling it to make the system work. That doesn't work either."

Micklethwait says one of the most interesting aspects about China at present is its economy. Since the financial crisis it has been a major driver of global growth but the recent 7.3 percent third quarter GDP rise was the weakest for 66 months. "I saw a banker the other day and he said, OK, the last century was the American century. If you put your money at the beginning, you would be miles better off at the end but you would have had one or two years that would not go so well," he says. "I think the same is true for China this century. It is possible to have the flow of movement in your direction but at individual times things will not be so good." He thinks China's major problem is in its banking system with the proliferation of shadow banks.
Micklethwait says on speaking tours around the world, people have focused most on the China aspects of the book. Failing to adopt efficient government systems is why China from the 16th century onwards lost its dominance in the world to the West, the authors observe. "I think when Thomas Hobbes (the author of Leviathan, who developed the idea of the nation state) was born in 1588 very few would have bet the West would catch up and overhaul China," he says. Yet it might be China and other emerging nations that fully take ownership of the “fourth revolution” and not the West this time.

Source: ANDREW MOODY: Informed outsider with the inside view, China Daily, 2014-12-01

China's inflation up 1.4% in November

BEIJING - China's consumer prices grew by their slowest pace in five years in November, which may result in more easing measures by the policymakers, official data showed on Wednesday. The consumer price index (CPI), the main gauge of inflation, rose by 1.4 percent year on year, the slowest increase since November 2009, when it rose 0.6 percent, according to the National Bureau of Statistics (NBS). This is the third month in a row that China has seen its CPI rise within 2 percent. For the first 11 months, inflation grew 2 percent, well below the 3.5 percent full year target set by the government. On a monthly basis, November's CPI dipped 0.2 percent against the previous month, while data remained flat in October. Yu Qiumei, a senior NBS statistician, attributed the record low inflation level to seasonal and international factors. Food prices, which account for about one-third of the CPI calculation's weighting, rose 2.3 percent from a year ago in November, lifting CPI by 0.77 percentage points, compared to 2.5 percent and 0.83 percentage points in the previous month. Food inflation was offset by easing non-food inflation, which edged up 1.0 percent year on year in November. Subdued non-food inflation mainly came from falling fuel prices, which dropped by 8.3 percent. Last month, the slump in international crude oil prices brought down domestic gasoline and diesel prices, which dropped 5.6 percent and 5.9 percent year on year, respectively, dragging down the CPI by 0.05 percentage points, said Yu.

In addition to the slower consumer price growth, China's factory gate price decline deepened in November as a slowing economy and housing market downturn weakened domestic demand for industrial goods. The producer price index (PPI), which measures inflation at wholesale level, dropped 2.7 percent year on year in November, its steepest fall in 18 months, the NBS said on Wednesday. Wang Jun, a research fellow at the China Center for International Economic Exchanges, also expects the CPI to further decline in the next months, saying the macroeconomic policies should be more flexible while maintaining continuity and stability. The decelerated consumer and producer price growth would also create an opportunity for more price reforms. As part of the price reform, Wang of UBS expected the government to adjust prices of transport, energy and utilities, and adjust resource, energy and environment related taxes. This would help in "not only reducing price distortions and improving resource allocation, but also cushioning the deflationary pressures," Wang Tao added.

Source: Xinhua: China's inflation up 1.4% in November, 2014-12-10

China to keep '15 growth, policy steady under 'new normal'

BEIJING - China will strive to keep economic growth and policies steady in 2015 and adapt to the "new normal" of slower speed but higher quality, said a statement released after a crucial economic policy meeting concluded on Thursday. The Central Economic Work Conference saw Chinese leaders and senior officials sketching out the government's guiding economic policies and priorities for the country for the next year. Continuity and stability are key to macroeconomic policies. "The proactive fiscal policy should be stronger and the prudent monetary policy should be more focused on striking a proper balance between being tight and loose," according to the statement. To reach the 2015 goals, the leaders also vowed to accelerate reforms, further open up economy, encourage innovation, upgrade agriculture, enhance regional integration, and improve low-income people's life. The meeting is especially crucial after something of a rocky year. In the third quarter, growth slid to a low not seen since the 2008/2009 global financial crisis, dragged down by a housing slowdown, softening domestic
demand and unsteady exports.

At the meeting, the leaders including President Xi Jinping and Premier Li Keqiang stressed that the economy still faces many challenges and "relatively big" downward pressures such as increasing difficulties for businesses and the emergence of economic risks. Although the risks are generally within control, it will take a while for China to gradually dissolve them, the statement said. However, the leaders reassured the market that China can deliver its social and economic goals for 2014 "relatively well", with the economy staying within a reasonable range. The statement fell short of setting a target for 2015, which is usually made public in March, but said the authorities will be "reasonable" in setting such goals.

"New normal" is a key word in the statement and also a buzzword in China's key economic policy documents this year. China must "understand the new normal, adjust to the new normal and develop under the new normal," said the statement. Coming to terms with the "new normal" will be the "main logic" for economic growth for some time, it added. "New normal" is nothing new. It was first popularized by the California-based bond fund giant Pacific Investment Management Co to describe below-average growth after the global crisis. The term gained ground in China when in May, President Xi Jinping, during his inspection tour in central China's Henan province, described the need to adapt to a "new normal" and remain cool-headed as the brakes are applied. There used to be an "old normal" in the 35 years between 1978 and 2013, when annual growth of the Chinese economy averaged close to 10 percent and, between 2003 and 2007, it was over 11.5 percent. The "new normal" is characterized by a shift from high speed growth to a medium-to-high one, a shift from focusing on quantity and speed to quality and efficiency in growth model, a shift from stressing production expansion to improving current production, and a shift from growth being driven by conventional engines to increasingly driven by new ones. The new normal concept does not necessarily change the fact that China is still in a strategically important period with great prospects, nor does it change the positive fundamentals of the Chinese economy. The new normal asks for the change of development mode and economic structure, said the statement.

Reforms will be even higher on the economic agenda for 2015, as the Chinese government will accelerate reforms in nine areas next year including the capital market and market access for private banks. Reform will be sped up in administrative approval, investment, pricing, monopolies, franchising, government purchased services, and outbound investment. This takes into consideration both the needs for the next year and long-term interests, according to the statement. More efforts will be made to transform the reform into growth, said the statement. The evaluation system for reform and the mechanism for general public to assess the reform work will also be improved. The problems of state-owned enterprises will be addressed and efforts will be made to improve their efficiency and core competitiveness. Private and foreign companies can also expect more opening up in the Chinese economy. In the meeting, the leaders decided to expand market access in the service sector, further open up the manufacturing sector, and popularize experiences of the China (Shanghai) Pilot Free Trade Zone.

Source: Xinhua: China to keep '15 growth, policy steady under 'new normal', 2014-12-12

**Highlights of China's Central Economic Work Conference**

BEIJING - China's leaders and senior officials concluded the three-day Central Economic Work Conference Thursday, a crucial meeting aiming to set the tone for economic policies in 2015. The government will strive to keep economic growth and policies steady and adapt to the "new normal" of slower speed but higher quality. The following are highlights of the statement issued after the meeting:

Reviewing 2014
-- China can deliver its social and economic goals for 2014 "relatively well."
-- The economy will stay within a reasonable range, with positive changes emerging in the economic restructuring.
-- The economy still faces many difficulties and challenges, with "relatively big" downward pressures.

New normal
-- We must understand the new normal, adjust to the new normal, and develop under the new normal.
Coming to terms with the new normal will be the "main logic" for economic growth for some time.

Chinese economy has entered the new normal, featuring a shift from high speed growth to a medium-to-high one.

The focus of economic growth will be shifting from quantity and speed to quality and efficiency.

Economic momentum is increasingly driven by new engines rather than old ones.

The new normal has not changed the strategic importance of a period that will see great achievements, nor the fundamentals of the Chinese economy.

World economy

World economic growth will probably pick up slightly in 2015, but the recovery will remain weak.

After the global financial crisis, the world saw drastic fluctuations in financial markets and the price of bulk commodities, as well as more influence of non-economic factors like geopolitics.

China must weigh the favorable and adverse factors and make the right decisions, follow the trend and and prevent various risks.

New tasks

China should stick to the keynote of seeking progress while maintaining stability and focus on boosting economic growth quality and efficiency.

China will proactively adapt to the economic "new normal," keep economic operation within a reasonable range and put economic development model transformation and restructuring even higher on the agenda.

Continuity and stability are key to macroeconomic policies.

The proactive fiscal policy should be stronger and the prudent monetary policy should be more focused on striking a proper balance between being tight and loose.

China will strive to keep economic growth and policies steady in 2015.

China should develop new growth points, as the country is full of new growth points and enormous potentials.

Transformation of the agricultural sector should be accelerated. Good solution to issues concerning the agricultural sector, countryside and farmers are among the top tasks of the Party.

Regional integration and development policies should be improved for the country's west, northeast, central and eastern parts.

China will continue improving people's livelihood with necessary and timely support, especially for those with low incomes.

Reform and opening up

Reform will be sped up in administrative approval, investment, pricing, monopolies, franchising, government purchased services, and outbound investment.

The evaluation system for reform and general public access the reform work will be improved.

The problems of state-owned enterprises will be addressed and efforts will be made to improve their efficiency and core competitiveness.

The leaders decided to expand market access in the service sector, further open up the manufacturing sector, and popularize experiences of the China (Shanghai) Pilot Free Trade Zone (FTZ).

Efficiency and quality of outbound investment will be improved, sectors with a competitive edge will be encouraged to go overseas, and the internationalization of the yuan will be boosted in steadily.

Source: Xinhua: Highlights of China's Central Economic Work Conference, 2014-12-12

Major data from China's 3rd economic census

BEIJING -- China on Tuesday published results of its third national economic census, which showed the country's economic structure continued to improve between 2008 and 2013. Following are major data from the economic census.

China had 10.86 million legal units engaged in secondary and tertiary industries at the end of 2013, up 52.9 percent over the second economic census at the end of 2008. The country had 8.21 million corporations in the secondary and tertiary industries at the end of 2013, of which 97.5 percent were domestically
funded companies, 1.2 percent were corporations with funds from Hong Kong, Macao and Taiwan, and 1.3 percent were foreign-funded enterprises. The secondary and tertiary industries employed a total of 356.02 million people at the end of 2013, 30.4 percent more than at the end of 2008.

At the end of 2013, aggregate business capital in secondary and tertiary industries reached 466.8 trillion yuan ($76.27 trillion). Secondary industry, which includes industrial and construction enterprises, accounted for 26.1 percent of total business capital, while tertiary industry, or the service sector, accounted for 73.9 percent of the total. The country had 7.85 million small and micro-sized enterprises at the end of 2013 in the secondary and tertiary industries, accounting for 95.6 percent of the total and providing 50.4 percent of total job positions. Major industrial enterprises invested a total of 831.84 billion yuan in research and development in 2013, 170.7 percent more than in 2008, accounting for 70.2 percent of total social spending on R&D. The country had 26,894 large high-tech manufacturing companies by the end of 2013, making up 7.8 percent of all large manufacturing companies, up 1.3 percentage points from 2008.

Source: Xinhua: Major data from China's 3rd economic census, 2014-12-16

**Pointing the Way Forward - China's top leadership convenes to map out economic and reform plans for 2015**

The Central Economic Work Conference, a much-watched annual economic meeting in China, was held in Beijing from December 9 to 11 to focus on lowering the risks of a downturn and speeding up reforms in key areas with a focus on adjusting to the "new normal" in 2015. China's central authorities decided at the meeting that the country will stick to its prudent monetary policy and proactive fiscal policy. Fiscal policy will be more forceful in 2015 and monetary policy will strike a balance between tight and loose. Emphasis was put on economic progress while maintaining stability and great significance was attached to structural rebalancing, improving the quality and efficiency of growth. China has now entered the period of a new normal, demonstrating resilience, massive economic potential and plenty of room for the government to maneuver. According to opinions voiced at the conference, the nation should adapt macroeconomic policies to the new normal and keep growth rate within an acceptable range next year.

During this year's APEC meeting in mid-November, Chinese President Xi Jinping defined the economic new normal as follows: shifting from breakneck economic expansion to moderate to high-speed growth, continuous improvement in the country's economic structure and moving away from factor- and investment-driven growth to innovation-driven growth. China's reform-minded leaders are now showing a greater level of tolerance for slower growth, and they have reiterated on many occasions that the country is capable of maintaining growth "within a proper range." China's GDP growth slowed to 7.3 percent in the third quarter, the weakest since the global financial crisis, weighed down by a flagging housing market and tighter credit conditions. A decision to cut the whole-year growth target for 2015 may have been made during the Central Economic Work Conference, although detailed targets are unlikely to be confirmed and announced until the National People's Congress session in early March next year. JP Morgan has forecast in a report that China will lower its growth target for 2015 to 7.2 percent while UBS, Bank of China, the Chinese Academy of Social Sciences (CASS) and the State Information Center all have predicted that the target will be lowered to 7 percent.

To prevent further slowdown, China's central bank cut the benchmark one-year lending rate by 0.4 percentage points to 5.6 percent and the one-year deposit rate by 0.25 percentage points to 2.75 percent on November 22. The long-anticipated rate cut came at a time when the country's economic growth slipped to the lowest in months. "The purpose of the cuts is to bring actual interest rates back to a proper level and lower the financing costs facing many enterprises," the central bank said in a statement. However, arguments are prevalent in the market that one rate cut alone is far from enough. Other means, such as reducing the reserve requirement ratio (RRR), should be given full play to add liquidity to the market. A record-low inflation level also raises the probability of more easing measures by the central bank as it offers more room for monetary loosening. China's consumer price index (CPI), the main gauge of inflation, rose by 1.4 percent year on year in November, the slowest increase since November 2009, said
the National Bureau of Statistics (NBS) on December 10. The producer price index (PPI), which measures inflation at wholesale level, dropped 2.7 percent year on year in November, its largest fall in 18 months.

One of the most fruitful developments of last year's Central Economic Work Conference was the decision to establish a central leading team for "comprehensively deepening reform" to spearhead reforms across all areas of society. The team convened seven times in 2014, resulting in concrete progress in the areas of fiscal policy, the hukou (household registration) system, rural land transfers, the Shanghai free trade zone, anti-corruption efforts and judicial reform. According to a statement released after this year's conference, China will accelerate reform in nine areas next year including the capital market and market access for private banks. Reform will ideally speed up through administrative approval, investment, pricing, monopolies, franchising, government-purchased services and outbound investment. This takes into consideration both next year's needs and long-term interests. More efforts will be made to transform the reform into growth. The evaluation system for reform and general public access to the reform work will also be improved.

On November 30, China started soliciting public opinion on a draft regulation regarding the establishment of a deposit insurance program, which will be in full operation in six months or a year. The deposit insurance program is one important component of a safety net that protects financial stability. China has extensively discussed the setting up of such a program for years. Zhu Ning, a professor of finance in Shanghai Jiao Tong University, said the implementation of deposit insurance will greatly expedite market-based interest rate reform in China. Another task high on China's economic agenda is to strengthen regional integration and promote trade by resurrecting an ancient trade route. In a speech at Kazakhstan's Nazarbayev University in September 2013, President Xi proposed establishing a Silk Road Economic Belt, similar to the Silk Road of more than 2,000 years ago, to boost political and economic ties between China and Eurasian countries. China has also been trying to revitalize an ancient seaway to promote economic ties with the ASEAN nations since October 2013 when Xi proposed the 21st Century Maritime Silk Road during a visit to Indonesia. The initiatives aim at enhancing connectivity and trade ties with Central Asia and South Asia by building roads, railways, ports and airports across the two land masses. On November 8, China announced it would contribute $40 billion to set up a Silk Road infrastructure fund to boost connectivity across Asia. Zhang Yansheng, Secretary General of the Academic Committee of the NDRC, said China's labor- and resource-intensive industries can profoundly benefit from the construction of the Silk Road Economic Belt and the 21st Century Maritime Silk Road. "It will help increase exports of products, equipment and laborers from China to countries along the proposed trade routes," Zhang said.


Changing face of global economic system

Investment aid will be a new feature of the global economic pattern and China is adapting it to implement reforms, said Chinese economist Wu Jinglian on Friday. Wu said at the 5th Caixin Summit that China is experimenting with the Shanghai Pilot Free Trade Zone and lessons learned are being copied to other regions. The basic service of the trade zone is to assist with trade and investment, and build a market-oriented, global and law-based business environment, said Wu. "China is helping improve the trade and investment rules of the global economic system".

Source: Cai Xiao: Changing face of global economic system, China Daily, 2014-12-19

China revises 2013 GDP up by 3.4%

BEIJING -- China's statistics authority on Friday revised its 2013 GDP figure up by 3.4 percent, based on results from the latest economic census. After the revision, China's GDP stood at 58.8019 trillion yuan ($9.61 trillion) for 2013, 1.92 trillion yuan more than previous estimate, the National Bureau of Statistics said in a statement on its website. Added value of the tertiary industry, or the service sector, accounted for 46.9 percent of
the 2013 GDP after the revision, while the primary and secondary industries took up 9.4 percent and 43.7 percent, respectively. The upward revision will affect the size of China's 2014 GDP but will not affect the growth rate for this year, the bureau said. The country's economic growth eased to 7.3 percent in the third quarter this year, down from 7.5 percent in the second quarter and the government has unveiled a slew of measures to boost growth.

Source: Xinhua: China revises 2013 GDP up by 3.4%, 2014-12-19

**Reform set for GDP calculation**

China is accelerating statistical reform to launch a new unified system to calculate gross domestic product in the nation's regions. The move is aimed at preventing inflated local figures contradicting central government calculations, the nation's top statistician said on Thursday. The central government will have the sole right to evaluate the GDP and growth rates of every province and municipality, said Ma Jiantang, director of the National Bureau of Statistics. Ma made the comments at the annual National Statistics Work Conference in Beijing.

A draft of the reform has been sent to the State Council, awaiting approval that is expected to be given in the first half of next year. The current statistical method is based on a direct reporting system from each province and municipality. Under performance evaluation standards, a high regional GDP is seen by local officials as a route to achieving important career rewards. The nation's GDP in the first three quarters of this year totaled 41.99 trillion yuan ($6.82 trillion), according to the National Bureau of Statistics, while the figures from the 31 provinces, autonomous regions and municipalities added up to 47.36 trillion yuan.

Ma said China will adopt the International Monetary Fund's Special Data Dissemination Standard next year to enhance the availability of timely and comprehensive economic and financial data. This will fulfill a promise to improve the dissemination of statistics made by President Xi Jinping at the Ninth G20 Summit in Brisbane, Australia in November. Ma said. He suggested that the surveyed unemployment rate be released soon, saying this will be the focus of global attention as it can show real growth quality and the situation in China's job market. He stressed the importance of this data, saying the nation's top leadership requires a more specific job market indicator before setting the annual GDP growth target and adjusting macroeconomic policies. Ma said the unemployment survey will expand samples and increase statistical content based on the current registered unemployment rate provided by the Ministry of Human Resources and Social Security. In 2013, the registered unemployment rate in urban areas reached 4 percent, according to the statistics bureau. Ma also said that big data and cloud computing will provide new technology support for production of statistics in China. "We will further use data from the online trading platform to calculate more accurate indicators of retail sales, and regularly report the online retail figures," Ma said. The bureau will also use online search and web browser technology to improve the statistics in the consumer price index, producer price index and house sales data. Telecom regulatory and population registration data can also help to clarify the unemployment situation and monitor population movement, Ma said.

Source: CHEN JIA: Reform set for GDP calculation, China Daily, 2014-12-26

**Country Forecast China December 2014 Updater**

China's president, Xi Jinping, appears dominant within the ruling Chinese Communist Party (CCP). Political controls will remain tight in 2015-19, but reforms unveiled in October to "advance the rule of law" highlighted the government's ambition of turning the ruling party into a more effective governing outfit. They included plans to make the courts more independent of local officials and to professionalise the judiciary. This will be combined on the economic side in 2015-19 with financial-sector liberalisation, an overhaul of local government financing and subjecting state-owned enterprises to greater competition. Although such changes would help to boost productivity, implementation of the reforms is likely to prove challenging amid resistance from vested interests. Mr Xi will extend his existing anti-corruption drive in an effort to manage factional tensions within the CCP.

China's growing geopolitical power will generate tension with its neighbours, but the country's financial largesse will ensure its global rise continues unimpeded. China used its hosting of the Asia-Pacific Economic
Cooperation (APEC) meetings in November to outline trade and investment initiatives designed to boost its regional standing. The People's Bank of China (the central bank) lowered benchmark interest rates in November, but monetary policy will lean more towards tightening in 2015-19 as the authorities look to rein in excessive levels of credit growth. This will curb economic expansion in the next five years, notably by slowing investment growth. Real GDP growth is forecast to average 6.3% a year in 2015-19.

Excess production capacity will serve to restrain price inflation in 2015-16. However, as investment slows, the output gap will narrow, stoking higher rates of inflation. Rapid wage growth will add to price pressures, but its impact will be partly offset by a downward trend in global oil prices. The Economist Intelligence Unit expects the renminbi to appreciate modestly against the US dollar in 2015-17, but, as capital outflows mount and the trade surplus falls, the Chinese currency will weaken on average in 2018-19. The current account will move into deficit in 2018. Merchandise export growth will slow in 2015-19 relative to its average rate over the previous decade, but import demand growth will be supported by rising domestic consumption. Chinese investment abroad will grow strongly.

Country forecast overview: Key indicators

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a Out of 10. b Out of 82 countries. c Out of 17

China's business environment score improves in 2015-19. Improvements in the scores for financing and infrastructure are partly offset by a slight weakening in the scores for macroeconomic stability and policy towards foreign investment.

Country forecast overview: China's business environment at a glance

<table>
<thead>
<tr>
<th>Value of index^</th>
<th>2010-14</th>
<th>2015-19</th>
<th>Global rank^b</th>
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<th>Regional rank^c</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>5.99</td>
<td>6.37</td>
<td>50</td>
<td>11</td>
<td>11</td>
<td></td>
</tr>
</tbody>
</table>

a Out of 10. b Out of 82 countries. c Out of 17

Policy towards private enterprise and competition

2015-16: The market is given a greater role in setting prices for inputs and outputs. Private firms provide more effective competition in some state-controlled sectors. Many underperforming state-owned assets are sold to private firms.

2017-19: Pressure builds to open some state-dominated sectors, such as banking, energy and telecommunications, but the government adopts only modest reforms. Despite this, the private sector grows much faster than the state-owned sector.

Policy towards foreign investment

2015-16: Rising costs in China persuade more foreign investors in low-cost export-oriented manufacturing to locate their operations in other countries. Restrictions on foreign direct investment (FDI) in the Shanghai free-trade zone are loosened.
2017-19: Central and western regions of China increase their share of the country’s FDI as policy incentives to invest there are maintained. The liberalisation of FDI regulations piloted in Shanghai is extended to other regions.

Foreign trade and exchange controls
2015-16: Restrictions on two-way capital flows are loosened, providing more opportunities for foreigners to invest in local securities. Domestic firms gain better access to overseas capital markets, and acquisitions abroad are encouraged.  
2017-19: Capital-account liberalisation continues steadily. The renminbi's exchange rate becomes more volatile. If capital outflows accelerate too sharply, restrictions on outbound investments may be tightened temporarily.

Taxes
2015-16: The government expands a pilot scheme to replace the business tax on services with a value-added tax (VAT). Trial property-tax schemes are extended to more cities, ahead of a nationwide roll-out in 2017-19.  
2017-19: The tax burden is increasingly shifted from indirect sources to personal taxation, and, notably, to high earners.

Financing
2015-16: Problems re-emerge in the state-owned banking sector, necessitating additional government moves to support it.  
2017-19: Interest-rate liberalisation begins to relieve some of the distortions in China's financial markets. Private-sector access to financing improves as private banks establish themselves.

The labour market
2015-16: The government implements above-inflation increases in minimum pay rates. Slowing economic growth creates some slack in the labour market, but shortages of skilled labour persist and wage growth remains rapid.  
2017-19: Collective bargaining rights are increasinglyinstitutionalised. Flaws in the education system become more evident, and immigration—particularly of unskilled workers from other Asian countries—increases.

Infrastructure
2015-16: The focus of infrastructure investment moves from connecting regions to improving cities. Transport systems and sewage networks are significantly upgraded in China's biggest urban centres.  
2017-19: Energy prices move closer to market rates, freeing up funds for investment in electricity infrastructure.

Fact sheet

<table>
<thead>
<tr>
<th>Annual data</th>
<th>2017*</th>
<th>Historical average (%)</th>
<th>2009-13</th>
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<tbody>
<tr>
<td>Population (m)</td>
<td>1,350.23</td>
<td>Population growth</td>
<td>0.5</td>
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<tr>
<td>GDP (US$ bn; market exchange rate)</td>
<td>9,468.8b</td>
<td>Real GDP growth</td>
<td>8.8</td>
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<tr>
<td>GDP (US$ bn; purchasing power parity)</td>
<td>16,481.60</td>
<td>Real domestic demand growth</td>
<td>10.3</td>
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<tr>
<td>GDP per head (US$; market exchange rate)</td>
<td>7,313</td>
<td>Inflation</td>
<td>2.6</td>
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<tr>
<td>GDP per head (US$; purchasing power parity)</td>
<td>12,206</td>
<td>Current-account balance (% of GDP)</td>
<td>9.7</td>
</tr>
<tr>
<td>Exchange rate (ar) Rmb/US$</td>
<td>6.20</td>
<td>FDI inflows (% of GDP)</td>
<td>4.1</td>
</tr>
</tbody>
</table>

a Economist Intelligence Unit estimates. b Actual.

Background:
Policy issues: China's leaders seek continuing economic liberalisation and sustainable growth alongside enduring political control. The past emphasis on economic development is now being altered in favour of social priorities, such as addressing environmental degradation, corruption and the rapidly widening inequality of wealth. Another challenge facing the government is to rebalance the economy, which is dangerously dependent on high levels of investment spending. Over the next 5-10 years the government will pursue financial liberalisation; a programme to try to improve the productivity of state-owned enterprises; reform of local government financing; centralisation of control over the judicial system; and reform of the household registration (hukou) system. However, the government will face intense opposition from vested interests.

Taxation: The standard rate of corporate-income tax is 25%. China has a progressive income-tax system, with marginal rates as high as 45%, but tax evasion is rife. Indirect tax is the main source of tax revenue, but the burden
will increasingly be shifted to taxation of personal income, and particularly that of high earners.

Foreign trade: China's trade surplus (in balance-of-payments terms) increased to US$351.8bn in 2013, from US$297.7bn in 2012. Exports totalled more than US$2.1tn in 2013, while imports were worth around US$1.8tn.

<table>
<thead>
<tr>
<th>Major exports 2013</th>
<th>% of total</th>
<th>Major imports 2013</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electrical machinery</td>
<td>13.2</td>
<td>Electrical machinery</td>
<td>18.3</td>
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<tr>
<td>Telecommunications equipment</td>
<td>11.7</td>
<td>Petroleum &amp; petroleum products</td>
<td>13.4</td>
</tr>
<tr>
<td>Office machines</td>
<td>9.9</td>
<td>Non-ferrous metal and scrap</td>
<td>8.9</td>
</tr>
<tr>
<td>Clothing &amp; apparel</td>
<td>8</td>
<td>Professional instruments</td>
<td>4.5</td>
</tr>
</tbody>
</table>

Outlook for 2015-19: Policy trends

The leadership's policy agenda will focus on implementing the reforms agreed by the CCP in late 2013 towards the overarching goal of reducing government interference in the economy and allowing market forces a "decisive" role in allocating resources. The government hopes that the productivity gains unleashed by these changes will create the conditions necessary for sustainable economic expansion and social stability.

On the economic side, core policies include liberalising exchange rates, interest rates and the capital account. The drive to move from an investment-driven growth model towards a more consumption-oriented one will be maintained, as will the push to expand public-welfare provision. The dominant role of the public sector will be preserved, but state-owned enterprises (SOEs) will face increased pressure to raise their productivity as the market is allowed to play a greater role in setting the price of their inputs and outputs. Private-sector firms will be allowed to invest in fields previously dominated by SOEs, and state firms will also be encouraged to sell off underperforming assets.

Weaknesses in local-government finances will be addressed through greater allocations from the centre and tighter controls over off-balance-sheet activities. Local authorities will be able to raise more revenue through methods such as taxing of property and polluters, and will be given more leeway to issue bonds directly. This is part of an effort to shift local governments away from their present overreliance on land sales for revenue.

Social-justice issues, including the relaxation of the one-child policy, are another part of the agenda. Steps have already been taken to abolish the distinction between rural and urban household registration (hukou) in smaller towns and cities; this will gradually be extended to larger municipalities. Although this will narrow the differences between urban and rural access to public services, it remains unclear how improved access to public services for former rural hukou holders will be paid for.

The government has set itself a deadline of 2020 to implement its plans, but progress to date has so far been mixed. This indicates the difficulties in enforcing reforms that encroach on vested interests. We are doubtful that the administration will be able to push ahead with all of its reforms-particularly those aimed at improving SOE performance.

Outlook for 2015-19: Fiscal policy

We forecast that the official consolidated budget deficit for both central and local governments will be equivalent to 2.9% of GDP on average in 2015-19, above the average of 1.7% in 2009-13. As the central authorities look to reduce local governments' reliance on borrowing, they will tolerate larger deficits. Under revisions to the Budget Law passed in August, more regional administrations will be allowed to issue bonds directly, in a move that should promote fiscal transparency. Nonetheless, the extent of off-budget fiscal transactions will remain large.

Whereas the central government's fiscal position remains strong, many regional governments face more straitened circumstances. Their public finances will be strained in 2015-19 by slowing fiscal inflows from land
sales, and from contingent liabilities related to troubled local-level SOEs. Nonetheless, the central government will ultimately stand behind those administrations that face financial crises. New revenue streams will have to be found in the forecast period and a tougher approach taken to widespread tax evasion. An effective property tax will play a role, but is unlikely to be introduced nationally before 2017.

Outlook for 2015-19: Monetary policy

Although the People’s Bank of China (PBC, the central bank) cut policy interest rates in late November, we still expect monetary policy to lean towards tightening in 2015-19 as the authorities look to curb risks associated with a period of excessively rapid lending growth. The PBC’s decision to lower its benchmark one-year deposit and lending rates to 2.75% (from 3%) and 5.6% (from 6%), respectively, was designed mainly to prevent disinflation from causing an unintended tightening of monetary policy; downward pressure on prices has raised the real cost of borrowing for firms. We still think that the PBC remains focused on deleveraging and financial-sector reform. As such, we think that a further lowering of policy rate is unlikely, although liquidity injections to ease short-term financing pressures will take place periodically.

The PBC underlined its commitment to interest rate liberalisation by announcing a further loosening of upper-side caps on deposit rates at the same time as it cut policy rates. It has also disclosed details of a deposit insurance scheme likely to be introduced in 2015. These moves suggest that full liberalisation is likely to take place in early 2016, in line with the timetable originally set out. When it takes place, benchmark interest rates will rise. In the next few years, the PBC will probably move towards a system under which one of the main interbank rates is used as a policy rate, with liquidity injections being used to keep the rate at the preferred level.

Outlook for 2015-19: Economic growth

Given that we see the interest rate cut in November as an adjustment in monetary policy, rather than a shift to a looser stance, we have maintained our economic growth forecasts. Real GDP is expected to decelerate to 7% in 2015, from an estimated 7.3% this year. Economic expansion will then slow gradually to 5.5% by 2019. The anticipated economic slowdown represents a structural, rather than cyclical, shift.

The adjustment is partly related to demography, as China’s working-age population is now shrinking. However, a more important factor is the need for rebalancing after several years during which economic expansion has been overly dependent on rapid credit growth, channelled largely into investment. Financial deleveraging is still some way off, but even rein in credit growth will slow the pace of investment. Much of the slowdown in investment growth will be concentrated in real-estate development. Household consumption should hold up better amid the financial tightening, supported by rising incomes. Meanwhile, expansion in imports will outpace export growth as local demand rises rapidly. Growth in exports of goods and services will, nevertheless, remain firm, despite the negative impact on overseas sales of rising input costs in China.

Risks to our forecast include uncertainty over monetary policy. If the PBC lowers interest rates again in 2015 it would likely boost economic growth in that year above our current expectation. However, this approach would also increase the risk of a sharp decline in growth in the medium-term by exacerbating problems in the financial sector and the over-supplied housing market.

Outlook for 2015-19: Inflation

Although disinflationary pressures have mounted, we expect annual consumer price inflation to average 2.9% in 2015-19. As in 2014, declining global oil costs will act to restrain price increases over the next five years, alongside other supply-side gains such as improved transport logistics. However, rapid domestic-demand growth and domestic-price reform will generate inflationary pressures, ensuring that consumer prices continue to record increases.

Producer prices will carry on falling in year-on-year terms into 2016 as excess industrial capacity continues to weigh on prices. As excess capacity is gradually eroded, upward pressures on prices will return. These will be boosted by policy-driven increases in utility costs and higher wages. Producer prices will rise by 1.7% a year on average in 2015-19.
The risk of outright deflation is low, but would increase if the authorities were to shift to a looser stance on credit issuance. This would have the effect of pushing back efforts to tackle excess capacity in the industrial and real estate sectors, one of the main sources of disinflation. Meanwhile, the threat persists that a bad harvest could push up food prices sharply.

Outlook for 2015-19: Exchange rates

We expect the local currency to continue to strengthen slowly against the US dollar in 2015-17, before depreciating in 2018-19 as China's external position weakens. China's financial authorities remain committed in the long term to scaling back exchange-rate intervention, as this is tied to policy goals such as rebalancing the economy and internationalising the renminbi.

The renminbi's daily trading band against the US dollar was widened from 1% to 2% in March 2014. Further widening is possible in 2015-19, but the PBC will continue to intervene to smooth volatility, meaning that the band limits will rarely be fully exploited. As the renminbi's value moves close to a market-determined level, there will be greater day-to-day volatility, including bouts of both depreciation and appreciation, in the next five years.

Outlook for 2015-19: External sector

We expect China's current-account balance to move from a surplus estimated at the equivalent of 2.4% of GDP in 2014 to a deficit of 1% by 2019. In value terms, merchandise exports will increase by 7.3% a year on average in 2015-19, while imports will grow by 9.9% a year. Many of China's imports consist of components that are assembled locally before being shipped overseas, but a growing proportion of imports is used for domestic consumption.

Despite strong growth in exports of services, driven partly by Chinese companies' work on construction projects abroad, the services deficit will widen significantly in 2015-19. This will reflect a surge in overseas travel by Chinese tourists and the liberalisation of services trade in the next five years. The deficit on the secondary income account will widen, as foreigners remit more earnings from China and as wealthy local citizens send more funds offshore. Controls on inbound and outbound capital flows will be relaxed significantly as the authorities try to make the renminbi an international currency.

Data summary: Global outlook

<table>
<thead>
<tr>
<th>Global outlook</th>
<th>2013(^a)</th>
<th>2014(^a)</th>
<th>2015(^a)</th>
<th>2016(^a)</th>
<th>2017(^a)</th>
<th>2018(^b)</th>
<th>2019(^b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World GDP growth</td>
<td>4.0</td>
<td>2.6</td>
<td>2.3</td>
<td>2.2</td>
<td>2.2</td>
<td>2.5</td>
<td>2.5</td>
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<tr>
<td>US GDP growth</td>
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<td>1.6</td>
<td>2.2</td>
<td>2.2</td>
<td>2.3</td>
<td>2.2</td>
<td>2.1</td>
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<td>Euro area GDP growth</td>
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<td>2.2</td>
<td>2.0</td>
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<td>1.3</td>
<td>1.2</td>
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<td>India GDP growth</td>
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<td>5.8</td>
<td>5.5</td>
<td>5.1</td>
<td>4.6</td>
<td>4.4</td>
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<tr>
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<td>2.7</td>
<td>5.4</td>
<td>3.3</td>
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<td>US CPI</td>
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<td>2.1</td>
<td>1.5</td>
<td>1.8</td>
<td>2.3</td>
<td>2.3</td>
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<tr>
<td>EU28 CPI</td>
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<td>2.6</td>
<td>1.5</td>
<td>1.0</td>
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<td>Developed economies: CPI</td>
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<td>2.8</td>
<td>1.6</td>
<td>2.1</td>
<td>1.5</td>
<td>1.2</td>
<td>1.2</td>
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<td>Oil price ( Brent, US$/bbl)</td>
<td>79.4</td>
<td>110.9</td>
<td>112.1</td>
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<td>88.1</td>
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<td>US 3-month commercial paper rate</td>
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<td>0.2</td>
<td>0.1</td>
<td>0.1</td>
<td>0.3</td>
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<td>£/US$ (cross)</td>
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<td>79.8</td>
<td>79.8</td>
<td>79.6</td>
<td>105.1</td>
<td>115</td>
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<td>F (cross) (cpi)</td>
<td>116.4</td>
<td>111.1</td>
<td>112.9</td>
<td>120.6</td>
<td>159.6</td>
<td>180</td>
<td>138.6</td>
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</tbody>
</table>

\(a\) Actual, \(b\) Economist Intelligence Unit estimates.

Gross domestic product, at current market prices

Data summary: Gross domestic product, current market prices
Data summary: Gross domestic product, at constant prices

<table>
<thead>
<tr>
<th>Expenditure on GDP (Rab bn at current market prices)</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>14,076</td>
<td>16,686</td>
<td>19,098</td>
<td>21,218</td>
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<td>Government consumption</td>
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<td>6,318</td>
<td>7,161</td>
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<tr>
<td>Gross fixed investment</td>
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<td>21,668</td>
<td>24,176</td>
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<tr>
<td>Exports of goods &amp; services*</td>
<td>11,155</td>
<td>12,904</td>
<td>13,813</td>
<td>14,585</td>
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<td>Imports of goods &amp; services*</td>
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<td>6,349</td>
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<td>20,892</td>
<td>21,820</td>
<td>22,863</td>
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</table>

<table>
<thead>
<tr>
<th>Expenditure on GDP (US$ bn at current market prices)</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
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<td>7,214</td>
<td>8,087</td>
<td>8,469</td>
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<tr>
<td>Government consumption</td>
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<td>2,418</td>
<td>2,709</td>
<td>2,923</td>
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<tr>
<td>Gross fixed investment</td>
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<td>713</td>
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<td>Exports of goods &amp; services*</td>
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<td>1,609</td>
<td>1,956</td>
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<td>Domestic demand</td>
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<td>7,120</td>
<td>8,155</td>
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<table>
<thead>
<tr>
<th>Economic structure (% of GDP at current market prices)</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
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<tbody>
<tr>
<td>Private consumption</td>
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<td>56.7</td>
<td>56.2</td>
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<tr>
<td>Government consumption</td>
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<tr>
<td>Gross fixed investment</td>
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<tr>
<td>Stockbuilding</td>
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<td>2.1</td>
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<tr>
<td>Exports of goods &amp; services*</td>
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<td>28.7</td>
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<td>23.3</td>
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</table>

Data summary: Gross domestic product by sector of origin

<table>
<thead>
<tr>
<th>Real expenditure on GDP (Rab bn at constant 1995 prices)</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>25,906</td>
<td>28,215</td>
<td>30,482</td>
<td>32,660</td>
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<tr>
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<td>10,087</td>
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<td>11,793</td>
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<tr>
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<td>5,770</td>
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<td>6,404</td>
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<tr>
<td>Gross fixed investment</td>
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<td>12,411</td>
<td>13,564</td>
<td>14,700</td>
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<tr>
<td>Exports of goods &amp; services*</td>
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<td>6,674</td>
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<td>Imports of goods &amp; services*</td>
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<td>26,997</td>
<td>29,210</td>
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<table>
<thead>
<tr>
<th>Real expenditure on GDP (% change)</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>10.4</td>
<td>8.3</td>
<td>7.7</td>
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<tr>
<td>Private consumption</td>
<td>15.3</td>
<td>13.8</td>
<td>13.6</td>
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<tr>
<td>Government consumption</td>
<td>11.2</td>
<td>9.1</td>
<td>9.1</td>
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<tr>
<td>Gross fixed investment</td>
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<td>8.9</td>
<td>11.6</td>
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<tr>
<td>Exports of goods &amp; services*</td>
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<td>Domestic demand</td>
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<table>
<thead>
<tr>
<th>Real contribution to growth (%)</th>
<th>2017</th>
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<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
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<td>4.3</td>
<td>4.5</td>
<td>4.2</td>
</tr>
<tr>
<td>Government</td>
<td>7.9</td>
<td>7.9</td>
<td>7.9</td>
<td>7.8</td>
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<tr>
<td>External balance</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
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</table>

<table>
<thead>
<tr>
<th>Origin of GDP (Rab bn at constant 1995 prices)</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
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### Data summary: Growth and productivity

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* Actual. Economist Intelligence Unit estimates.

### Data summary: Economic structure, income and market size

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<td>1,230 b</td>
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* Actual. Economist Intelligence Unit estimates.

### Data summary: Fiscal indicators

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* Actual. Economist Intelligence Unit estimates.

### Data summary: Monetary indicators

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* Actual. Economist Intelligence Unit estimates.

### Data summary: Employment, wages and prices
**Employment, wages and prices**

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<td>Unemployment rate (%)</td>
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**Wage and price inflation (% except labour costs per hour)**

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<td>Average real wages (Av)</td>
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<td>Labour costs per hour (US$)</td>
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* Actual, ‡ Economist Intelligence Unit estimates.

**Data summary: Current account and terms of trade**

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<td>39.2</td>
<td>-72.7</td>
<td>-57.6</td>
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**Data summary: Foreign direct investment**

* Actual, ‡ Economist Intelligence Unit estimates.
Data summary: External debt

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<tr>
<td>Total external debt (US$ bn)</td>
<td>559.1</td>
<td>710.2</td>
<td>754.0</td>
<td>822.4</td>
<td>859.0</td>
<td>927.4</td>
<td>1,026.50</td>
<td>1,168.80</td>
<td>1,307.90</td>
<td>1,434.00</td>
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<tr>
<td>Total external debt (% of GDP)</td>
<td>11.4</td>
<td>9.7</td>
<td>9.2</td>
<td>8.7</td>
<td>8.3</td>
<td>8.1</td>
<td>7.7</td>
<td>8.6</td>
<td>9.1</td>
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</tr>
<tr>
<td>Debt service ratio (%)</td>
<td>9.2</td>
<td>9.2</td>
<td>9.1</td>
<td>9.0</td>
<td>8.9</td>
<td>8.8</td>
<td>8.6</td>
<td>8.5</td>
<td>8.2</td>
<td>7.9</td>
</tr>
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</table>

* Actual. a Economist Intelligence Unit estimates.

Data sources and definitions

The sources for global and domestic data refer to historical data. The source for all forecast data, unless otherwise stated, is The Economist Intelligence Unit.

Global data

US and OECD GDP growth: OECD

World trade growth: Economist Intelligence Unit aggregate

US and OECD inflation: OECD

Oil prices: dated Brent Blend

Domestic data

Gross domestic product (GDP): the sum of value added for all sectors of the economy, including both "material production" (physical output) and "non-material production" (non-tangible output, such as services), adjusted for depreciation.

GDP growth: NBS, China Statistical Yearbook; press reports

Components of GDP: World Bank; press reports

Population: NBS, China Statistical Yearbook; IMF, IFS

GDP per head: US$ GDP divided by population

Unemployment: Economist Intelligence Unit estimates, based on official survey data

Government policy indicators: IMF, IFS; government statements

Wage inflation: based on annual average wage in manufacturing; NBS, China Statistical Yearbook

Exchange rate: official exchange rate of the renminbi against the US dollar

Current account: IMF, IFS

Stock of foreign investment: UNCTAD, World Investment Report

Debt-service ratio: total foreign debt service (principal repayments on medium- and long-term debt plus interest payments on short-, medium- and long-term debt in US dollars) actually paid, as a percentage of total exports of goods and services

**Abbreviations**

IFS: International Financial Statistics  
NBS: National Bureau of Statistics of the People's Republic of China  
UNCTAD: UN Conference on Trade and Development


**COMPARING THE ECONOMIC GROWTH OF CHINA AND INDIA: CURRENT SITUATION, PROBLEMS, AND PROSPECTS**

With the rise of emerging economies, the topic of India catching up with China or the so-called dragon-elephant competition has raised increasing concerns in the past 10 years. Viewed from successful economic growth logic and comparison, the two countries have their own experience for reference as well as deficiencies to improve. Rather than being a zero-sum game, the competition between China and India is mutually complementary and win-win cooperative. There is hope that the takeoff of dragon and elephant will contribute to the new landscape of economic development in the 21st century. As members of Brazil, Russia, India, China, and South Africa (BRICS), the peaceful development of China and India will be major events of the 21st century. The two countries should enhance cooperation instead of confrontation. If India does not follow the example of the USA closely to contain China's development, then India can change military expenditure into infrastructure investment to reduce domestic poverty, and can gain more benefits from the cooperation with China.


**China's economic reform progress under global spotlight**

BEIJING - With the conclusion of the Central Economic Work Conference on Thursday, China's economic reform has once again drawn global attention as overseas media are seeking signals indicating the trend of China's macroeconomic policy under the "new normal."

In a report titled "Chinese leaders affirm commitment to slower growth," the Associated Press (AP) said "Chinese leaders have affirmed their commitment to a 'new normal' of slower economic growth next year and promised to promote market-oriented reforms and help the poor." The plan, it added, is the latest stage in efforts by Chinese leaders "to steer the world's second-largest economy to more sustainable, environmentally friendly growth based on domestic consumption and technology instead of trade and investment."

The American news agency also underlined China's "reforms over the coming year to focus on reducing excess production capacity in industries including steel and overhauling energy policy to promote conservation."

"The meeting focused on the 'new normal' for the Chinese economy -- the shift from 'high-speed' to 'medium to high' growth," Japanese newspaper Nikon Keizai Shimbun said. It added that "China is in the process of shifting toward a more service- and consumption-oriented economy, away from its overdependence on investment."

Agence France-Presse (AFP), for its part, noted that Chinese President Xi Jinping and other leaders have said that they want to put China's increasingly affluent consumers at the center of the economy, rather than investment and exports, and that they are ready to tolerate slower expansion to achieve more sustainable growth. "We continue to believe that policy makers will mostly allow the structural slowdown in investment in sectors with oversupply, such a real estate, to run its course, particularly given that both employment and consumption growth appear healthy," Julian Evans-Pritchard, an economist with research firm Capital Economics, was quoted by the AFP as saying.

Source: Xinhua: China's economic reform progress under global spotlight, 2014-12-13
Long-awaited deposit insurance harbinger for further reforms

BEIJING -- China is undergoing one of the boldest financial reforms so far this year following the central bank's publishing of draft rules on a deposit insurance system. The People's Bank of China (PBoC), the central bank, published the rules on Sunday and has since started soliciting public opinion after 21 years of deliberation. Under the draft rules, accounts with deposits of up to 500,000 yuan ($81,500) will be insured per depositor if a bank suffers insolvency or bankruptcy. Financial institutions will be required to pay insurance premiums into a fund and an agency will be set up to manage the money. The move highlights the leadership's resolve in further rebalancing the financial system with market-oriented measures.

Deposit insurance was mulled as early as December 1993, when the State Council, or China's cabinet, said a deposit insurance fund would be founded in order to protect public interests in a decision to reform the financial system. Since then, the DIS has been repeatedly brought under the spotlight, including in 2005, 2008 and 2010. Nevertheless, it remained on hold. It gained renewed attention last year when, in a key document on deepening reforms, the Communist Party of China mentioned moves to establish a deposit insurance system and improve the market-based exit mechanism for financial institutions. The delay was partly due to opposition from banks that would have to pay for the scheme, instead of enjoying the implicit government guarantee already in place free of charge. In particular, bigger banks, with strong state backing and established roots in the community, would have to set aside capital for the DIS despite the chance of a bank run being very unlikely.

The plan did not address in detail what premiums banks would have to pay, but made clear a risk-based system with standard rates plus additional risk rates that took into consideration individual banks. A Bank of Communications research paper published on Monday said the international average was around 0.015 to 0.02 percent, while Wei Yao, China Economist of Paris-based Societe Generale, put the international average rate at 0.05 percent.

The scheme, commonplace around the globe as a way to boost confidence and prevent bank runs, also serves as a great leap of faith in China which seeks to introduce more disciplined risk-taking to the banking industry long dominated by giant state players. The scheme will significantly improve the competitiveness of medium and small-sized banks as the insurance will assure depositors of the safety of their savings, according to the central bank. As a string of private banks look to join the game, deposit insurance will also put up the necessary foundation for potential insolvency risks.

The DIS is also seen as a monumental step of policy rate liberalization. Without deposit protection, smaller banks would most likely need to pay significantly higher rates to retain depositors under a fully liberalized rate environment - owing to the greater stability the larger banks could offer depositors, said Fitch ratings. As such, a deposit insurance plan would be essential to creating a more level playing field between larger and smaller institutions. Moreover, the DIS could impact China's vast shadow banking system, where wealth management products have usually been protected under the previous universal government guarantee. Taken together, the insurance would be an important development for further financial reforms to reduce moral hazard and inappropriate risk-taking by banks - by extension contributing to a more rational pricing of capital in the economy, said Fitch. This would ultimately translate into greater economic rebalancing as well as a potentially lower propensity for the state to support non-systemically important banks, Fitch added.

Source: Xinhua: Long-awaited deposit insurance harbinger for further reforms, 2014-12-02

China Banking - Dec 16, 2014

This business intelligence report covers the Banking Industry in China. It presents up to date news and commentary, summarizes the latest research, and provides an industry overview and profiles of leading companies in the industry.

China further opens access for foreign banks

China will widen the opening-up of its financial sector by relaxing control over market access for foreign-funded banks, the State Council announced on Saturday in its latest decision to revise regulations on the administration of such banks. According to previous regulations issued in 2006, when a wholly foreign-funded bank or a Chinese-foreign joint venture bank establishes a branch in China, the branch shall receive from its parent bank a non-callable allocation of no less than 100 million yuan ($16 million) or an equivalent amount in convertible currencies as its operating capital. That requirement on the amount of noncallable allocation of operating capital has been removed from the revised regulations, effective as of Jan 1.

In the past, a foreign bank should have maintained a representative office in China for more than two years before the bank applied to establish its first branch in the country. That restriction has also been removed, said officials from the Legislative Affairs Office of the State Council and the China Banking Regulatory Commission. Previously, branches of foreign-funded banks in China had narrow channels to replenish their capital from retained profits or capital injection by their parent banks, Zeng said. Capital injection is related to foreign direct investment and needs approval from multiple government departments, including the China Banking Regulatory Commission, the State Administration of Foreign Exchange and the Ministry of Commerce. By removing the requirement for a branch to receive from its parent bank a noncallable allocation of no less than 100 million yuan, China will undoubtedly loosen capital restrictions on foreign banks, he said.

By the end of 2013, China had 42 locally incorporated foreign banks plus Sino-German Bausparkasse Co Ltd, the first Sino-foreign housing savings bank. The assets of foreign banks amounted to 2.56 trillion yuan, accounting for only 1.7 percent of the total assets of 151.4 trillion yuan in the Chinese banking sector. China will also allow foreign banks to apply to conduct renminbi business more conveniently in a shorter time, officials said. Regulators also removed another requirement that foreign banks should have been profitable for two consecutive years before the application. "Such revisions will help foreign banks bridge the use of renminbi in China and their home countries, increase the number of financial institutions using the currency, and spur the offshore renminbi market," Wang said.

Source: JIANG XUEQING: China further opens access for foreign banks, China Daily, 2014-12-22

The Banker Awards 2014: Global and regional winners

According to The Banker's Top 1000 World Banks ranking, published every July, Industrial and Commercial Bank of China (ICBC) is the world's number one bank in terms of assets, profits and Tier 1 capital. The bank achieved a net profit of Rmb262.97bn ($42.96bn) in 2013, a year-on-year increase of 10.2%. This unparalleled growth has also been matched with continuous diversification, innovation and expansion, domestically as well as abroad. ICBC's global footprint is increasing rapidly, and now includes 331 overseas institutions across 40 countries. The net profits of ICBC's overseas operations (excluding the investment in Standard Bank) and domestic comprehensive subsidiaries rose by 52.2% and 76.2%, respectively, in 2013.


Top 10 China Business News Stories of 2014

1. On November 22, the country's central bank cut the benchmark one-year lending rate by 0.4 percentage points to 5.6 percent and the one-year deposit rate by 0.25 percentage points to 2.75 percent. The rate cut is a major boon for the real economy as it helps bring actual interest rates back to a proper level and lower the financing costs facing businesses.

2. Silk Road Fund: Chinese President Xi Jinping announced on November 8 that China would contribute $40 billion to set up a Silk Road infrastructure fund to break the bottleneck in Asian connectivity by building a financing platform. The new Silk Road Fund will be used to provide investment and financing support to carry out
infrastructure, resources, industrial cooperation, financial cooperation and other projects related to connectivity for countries along the "One Belt and One Road," Xi said, referring to China's Silk Road Economic Belt and the 21st Century Maritime Silk Road initiatives. The two initiatives aim at enhancing connectivity and trade ties with Central Asia and South Asia by building roads, railways, ports and airports across the two land masses.

3. Train Exports: After making great progress domestically, Chinese railway transportation equipment makers have made an aggressive foray into the global market in 2014. To avoid cutthroat competition among Chinese companies in overseas bidding, the two major rail car makers China CNR Corp. Ltd. and China CSR Corp. Ltd. announced in November that they would undergo a merger to compete in the global arena.

4 Ballooning Internet Economy: The Internet is rebuilding the nation with powerful companies changing the way Chinese people shop, communicate with others and even manage their money. Alibaba Group Holding Ltd., the Chinese e-commerce behemoth that rivals Amazon and eBay, completed its initial public offering (IPO) on the New York Stock Exchange on September 19. Alibaba raised $21.8 billion through the sale, the largest listing in U.S. history. The year of 2014 witnessed increasingly fierce competition among BAT, the acronym for China's three Internet giants-leading search engine Baidu, e-commerce group Alibaba and messaging software provider Tencent. All companies invested heavily in O2O (online to offline) services by backing up price wars and carrying out mergers and acquisitions to promising companies. The three are also waging a fierce war for market shares in China's emerging mobile payment industry.

5. Property Market Slump: Following years of strong performance, China's property market has shown signs of cooling down. Prices have been dropping, sales have slowed, new construction has dropped off sharply and banks have become increasingly cautious about lending to developers and home buyers.

6. Private Financial Institutions: In 2014, profound progress has been made in opening traditionally monopolistic sectors to private capital. In late July, the CBRC declared the approval of three new banks wholly funded by private firms, echoing the pilot scheme for setting up private banks announced in March this year. On August 21, China Minsheng Investment (CMI), the largest private investment company in China, was set up to spearhead the country's industrial upgrade.

7 Capital Market Reform: Reform on China's capital markets has been expedited this year. The State Council issued a guideline on May 9 promoting the development of the capital market, including an array of principles regarding the stock market, bond market, futures market, private equity market and further opening up the capital market. The guideline pledged to build a transparent, efficient, open and inclusive multi-layer capital market system by 2020. The Shanghai-Hong Kong Stock Connect program, which allows mainland and Hong Kong investors to trade shares on each other's bourses, was launched on November 17, boding well for the opening up of China's capital markets. On November 28, Zhang Xiaojun, spokesman of the China Securities Regulatory Commission, said a draft plan to reform the nation's stock issuance regime had been completed and would be presented to the State Council for review. Under the plan, China will switch to a registration-based system for new share listing from the current approval-based system.

8. Anti-Trust Campaign: China resolved to stringently enforce its anti-monopoly law, no matter the origin of the offender. This year, China launched wave after wave of anti-trust probes in a broad range of industries covering all types of businesses-state-owned enterprises (SOEs), private businesses and foreign-funded firms. China's regulatory authorities commenced anti-monopoly probes into Qualcomm, Microsoft, Mercedes, Audi, BMW and Japanese auto part makers in a wave of high-profile cases. On the other side of the equation, law enforcement departments have been equally tenacious in pursuing domestic firms that have violated the law. In early September, three Chinese cement companies were fined for manipulating prices and reaching price-fixing agreements. The same month, 23 Chinese insurance firms and the Zhejiang Insurance Industry Association were fined for anti-trust violations.

9. RMB Globalization: The Chinese currency, renminbi, is quickly becoming more globally used in cross-border trade clearing and settlement. On March 17, the floating band of the renminbi’s trading prices against the U.S.
dollar in the inter-bank spot foreign exchange market was enlarged from 1 percent to 2 percent, marking a further step toward the marketization of the renminbi exchange rate formation mechanism. On October 27, China announced direct trading between the yuan and Singapore dollar beginning October 28. To date, the renminbi has established direct trading with the U.S. dollar, the euro, the British pound, the Japanese yen, the Australian dollar, the New Zealand dollar, the Malaysian ringgit, the Russian ruble and the Singapore dollar.

10. Participation in Global Financial Governance: With mounting global influence, China has taken on more responsibility in the establishment of international and regional development banks. On July 15, a decision was made to establish a New Development Bank during the Sixth Summit of BRICS countries (Brazil, Russia, India, China and South Africa) in Fortaleza, Brazil. Another China-led bank, the Asian Infrastructure Investment Bank (AIIB), is in the works. The planned AIIB, which has an initial capital of $50 billion, will be dedicated to funding infrastructure projects in Asia.


A New Stock Rally Dawns in China

After years of estrangement, China's small investors are rushing back into stocks, driving a rally that has made Shanghai the top-performing major market in the world this year. The return of individual investors has been a big driver in the surprising surge in Chinese stocks over the past seven months, observers say. On Thursday, the Shanghai Composite Index jumped 4.3% -- its biggest one-day gain since 2012. The move took the benchmark's gains to 37% for the year, vaulting it over India as the biggest gainer among the world's major indexes for 2014. The rally had a setback early Friday, with the Shanghai composite down more than 2%. Newly opened stock-trading accounts in China hit 370,071 last week, the highest level since April 2011, according to data provider WIND Info. Retail investors account for about 80% of China's trading volume and the rise in interest helped drive overall trading volumes to record levels this week.

Observers say investors are latching on to a confluence of events as reasons to buy. Beijing's surprise move to cut interest rates last month has turned banks and property developers into big winners, while the opening of a trading link with Hong Kong that allows more stock investment by foreigners also has attracted fresh cash. At the same time, other popular investing alternatives are performing poorly, adding to the appeal of stocks. Property prices are falling, yields on wealth-management products are down and even gold is out of favor after its recent tumble.

But the influx of money into stocks is raising some alarms, reviving memories of the fervor seen before stocks tumbled in 2008. Many small investors like to trade fast and chase quick returns. Much of their trading involves investors borrowing money to buy stocks, a tactic that can generate higher returns but brings big risks should stocks fall. Still, the rally is remarkable because it comes despite an economic slowdown. Gross domestic product is expanding at its slowest pace in more than five years. Companies are struggling to maintain profit growth, while a turndown in the housing market and a financial system laden with risks from a poorly regulated shadow-banking sector are raising worries among economists.

Any sustained gains in the stock market will be a victory for Beijing, which has been struggling to turn around the market with a number of financial overhauls. The buying also could make funding via initial public offerings more easily available to companies -- a particular benefit for smaller firms that have long found it difficult to obtain bank loans -- as well as smoothing the process of privatizing parts of the nation's state-owned enterprises. Dozens of stocks on the Shanghai Composite hit the 10% limit on daily price movements Thursday. Brokerages such as Citic Securities, Everbright Securities and China Merchants Securities performed particularly well, but the positive mood lifted even blue-chip energy stocks, which have suffered as a result of slowing economic growth and a plunge in the price of oil.

In Hong Kong, where intraday limits don't apply, stocks of mainland brokerages surged even further. A listed unit of Shanghai-based Shenyin & Wanguo Securities Co. Ltd. jumped 39% on Thursday, capping a gain of nearly
67% over the past 11 trading sessions. The rally has pushed the average price/earnings ratio of stocks on the Shanghai Composite to 14.2 times earnings, though that is still far lower than on the S&P 500 index. Many investors have become bullish since the upturn began, betting that the rally is just beginning.

The impact has even spread to the offshore currency markets. The cost to borrow yuan in Hong Kong's money markets jumped to the highest in over 17 months as investors raced to grab Chinese currency, partly to invest in Shanghai through the stock-trading link, though usage of the program is still limp.


**Sea change looming in IPO approval process**

After the launch of Shanghai-Hong Kong Stock Connect, the next important development that investors are waiting for is a shelf registration system for share issues. At present, the China Securities Regulatory Commission approves each initial public offering in the mainland markets. But by the end of this month, it will send a reform plan to the State Council for review. The long-awaited reform will quickly face a test among investors, and it is unclear how they will react to this sweeping change.

The 25-person CSRC panel that reviews and approves IPO applications was set up in 2001. It is extremely powerful because it alone holds the keys to entering the A-share market. But there is serious corruption in the process, and questions have swirled around the panel. For example, some financially weak companies have been allowed to issue shares ahead of better-qualified enterprises. Investor skepticism intensified when commission member Deng Ruixiang was investigated for insider trading and corruption. Will the IPO reform resolve these problems? The market is waiting for the draft plan to see.

As of Nov 30, more than 570 companies remained on the IPO waiting list. There is a huge list in part because approvals were suspended for more than a year to allow for reforms, including the one now under discussion. The shelf registration system may rebalance stock supply and demand, and extremely high IPO valuations may disappear when the market can reflect the real value of listed companies, said Li Daxiao, chief economist at Yingda Securities Co Ltd. "This big reform will lead to a mature Chinese stock market," he said.

The reform is a huge project, as the basis of the Securities Law must be modified. Other laws and regulations also need changes. According to the CSRC, the entire reform process involves multiple agencies including the National Development and Reform Commission, the Ministry of Finance, and the central bank. However, some experts said that the reforms will not end speculation involving new shares among Chinese investors. On the contrary, an anticipated surge in the number of new listings may spark what was famously called "irrational exuberance". Examples can be seen even in mature markets, such as the frenzied reaction to Facebook Inc's Nasdaq debut, which had nothing to do with United States' securities regulations. For investors in the Chinese capital market, the new system will mean more choices as more companies list in a shorter period. But it is also a challenge. Investors will need to read each company's prospectus carefully and make their own analysis of listed companies' future profits, drawing on more transparent data.

For companies, simplification of the IPO procedure means a shorter waiting period. Without the requirements for a record of profitability that now prevail, it will be much easier for them to raise funds in the capital market. More shares in the market could also mean diluted valuations for each company if the pool of capital does not expand. And that could drive down the whole market.

Source: CHEN JIA: Sea change looming in IPO approval process, China Daily, 2014-12-9

**China's Stock Connect Has Yet to Jolt Trading**

Of a net 300 billion yuan ($48.48 billion) that could have flowed into mainland China using the Shanghai-Hong Kong Stock Connect since it launched Nov. 17, only a net 66.9 billion yuan has moved into the Shanghai market, equivalent to about a fifth of the overall quota for that period, according to exchange data. Even
less has flowed from the mainland to Hong Kong -- 8.4 billion yuan, or 3.4% of the 250 billion yuan quota. Given the historic nature of the program, however, expectations had inevitably run too high, said Binay Chandgotia, a portfolio manager at Principal Global Investors, which has $326 billion in assets under management. "Volumes so far have been disappointing and lower at least than what the Street expected them to be," he said. "But every time you have a new thing there's a big splash and expectations about it. The actual implementation takes time." Total turnover values "have often been much larger than the quota usage, and on average southbound [mainland-to-Hong Kong] trading's daily turnover value is nearly twice the daily quota usage," the exchange said over the weekend. Since the launch of the program, the Hang SengChina Enterprises Index, a gauge of mainland Chinese companies with Hong Kong listings, is up just 3.5%. The broader Hang Seng Index has fallen 5.9%. Analysts said another reason purchases of Hong Kong stocks have been slight is that Shanghai's stock exchange requires prospective investors to have a minimum 500,000 yuan on hand to invest. To be sure, given the benchmark Shanghai index is rallying, it is unclear how many Chinese would wish to buy stocks in Hong Kong, where the market is lagging behind.


China stock connect program scorecard throws up surprises

A month after Chinese mainland opened up its equity markets in a landmark trading link with Hong Kong, demand has been subdued and the bulk of activity has come from short-term speculative investors. The authorities had hoped mutual and pension funds and private banks would form the bedrock of the Shanghai-Hong Kong stock connect. But early trade volumes in the program launched in mid-November were completely dominated by hedge funds and banks' proprietary trading desks, according to five traders at some of the biggest brokerages participating in the program. Market players say it could take months for long-term investors to eventually trickle into the program, as they devise ways to cope with its peculiarities. "We are not participating in the program yet because of the operational issues that have yet to be resolved and we prefer to access the mainland markets via exchange traded funds," Robert Cormie, Asia CEO of BMO Private Bank, told Reuters. Edmund Yun, executive director of investment at the same wealth management firm, agreed, citing a number of prohibitive issues. These include beneficial ownership, tax and trading settlement. Hedge funds use banks' prime brokerages, which help them more deftly manage those regulatory constraints. Stock portfolios of hedge funds are often held by the prime brokers themselves to facilitate quick trading decisions so they are unaffected by ownership constraints.

Under the program, the daily limit on investment bound for Shanghai is 13 billion yuan ($2.1 billion) and for Hong Kong-bound investment it is 10.5 billion yuan. Typically, only a small portion of this has been used, and on Monday of last week, just 10 percent of the combined 23.5 billion yuan quota was used, the lowest level since the launch of the stock connect program.

Brokers that offer a combination of services, such as major banks HSBC Holdings, Standard Chartered Plc, BNP Paribas and Citibank CN, were expected to win the most market share under the program. But the regulatory uncertainty has limited their capacity to dominate flows. Banks with private wealth clients, such as UBS and those with extensive hedge fund networks, such as Goldman Sachs, Credit Suisse and CLSA, have grabbed early market share, traders said. That has been helped by a nearly 25 percent rise in the Shanghai Composite Index since the program was launched as hedge funds have found it cheaper to buy mainland shares under the program than "rent quotas" from investment banks, a mechanism under which investors buy derivative products from banks who have access to onshore stocks. More worryingly for the Hong Kong Stock Exchange, the slower than expected take-up of quotas under the program means revenues are unlikely to get a big boost, two traders said. A CLSA survey of Chinese investors found 90 percent willing to invest in the Hong Kong market. That dropped to 20 percent, however, when a minimum investment amount of 500,000 yuan ($80,405) which the program currently requires, is applied. The Hong Kong stock market has also fallen more than 5 percent since the launch, reducing demand for
the territory's shares.

Despite the slow take-up, investors are hopeful an MSCI review in the first half next year may earmark a bigger share of mainland equities to its emerging market indexes now that one of the biggest stumbling blocks to a larger presence on the MSCI index has been eased - investor access to Chinese stocks. Until then, participation from long-term investors is expected to grow but slowly.

Source: Xinhua: China stock connect program scorecard throws up surprises, 2014-12-22

**Hong Kong/China economy: Does Hong Kong still matter to China?**

When Hong Kong returned to Chinese rule in 1997, its place in the bigger picture for China was clear. The territory offered a gateway for a mainland government that was beginning to open China's economy to the outside world. However, its role has been eroded in the years since. These days, Hong Kong's leaders tend to look to the mainland for support rather than the other way around. Many question whether the territory still holds a special value for China. At the close of British rule in 1997, Hong Kong was a thriving centre for financial and merchandise trade, with additional strengths in professional services. Its GDP, at US$177.4bn, was almost one-fifth that of the entire Chinese mainland (US$985bn). Official statistics suggest that almost 50% of China's merchandise trade was shipped through Hong Kong. Yet the territory's role as China's premier entrepôt has been eroded. These days, it handles around 13% of China's goods trade, and the port is increasingly overshadowed by mainland rivals: Shanghai and Shenzhen already handle more container traffic, and Ningbo looks likely to surpass Hong Kong in the near future. Shanghai's plans to become China's leading financial services hub have also jangled nerves in the territory: the central government has set a target of turning the mainland city into an international financial centre by 2020.

Hong Kong's economic importance for China has been eclipsed. The Economist Intelligence Unit estimates that its GDP in 2014 will be equivalent to just 2.8% of that of the mainland. Indeed, even Shanghai's output will be more than 30% greater than that of Hong Kong. It is more common now for people to talk of what China can do for Hong Kong rather than the other way around. Advantages such as the privileged trade access to mainland markets provided under the Closer Economic Partnership Arrangement and the relaxation of travel restrictions on mainland residents travelling to Hong Kong have helped to buoy the territory's economy through troubled times.

The idea that Hong Kong has little to offer the mainland now is also misleading. It has several key roles to play, not all of which are being fully exploited. First, and perhaps most obviously, Hong Kong is simply a thriving, dynamic and culturally distinct part of China. While its economy may be smaller than those of some other Chinese cities, the territory's standard of living remains unmatched among its mainland rivals. Hong Kong's attractions continue to draw vast hordes of mainland tourists; there were 40.7m mainland arrivals in 2013, compared with a local population of just 7.2m. These visitors include not just shoppers and sightseers, but also mainland officials seeking to learn lessons about how to build an efficient city and run an effective government bureaucracy. The territory remains an example for other Chinese cities to emulate.

Second, the territory will continue to have a role to play as China's leading international financial centre. Shanghai's aspirations to take over this position look like wishful thinking. The development of transparency, effective standards of governance and high legal standards is a process that tends to take many years, and confidence in Shanghai's markets is likely to remain fragile in the meantime. The violent gyrations of the market this December will have done little to reassure investors that it is ready to take its place among the world's top financial centres. By contrast, the development of offshore renminbi-denominated financial services in Hong Kong has proceeded impressively, showing how the territory can diversify into new markets. The territory's stockmarket continues to be one of the world's top destinations for IPOs. The US$3.2bn listing of the mainland's nuclear giant, CGN Power, in December confirmed that it remains a big draw for Chinese state-owned enterprises seeking to tap international markets. The Shanghai-Hong Kong stock connect scheme, launched in November, will serve to provide further liquidity and to integrate the territory's equity markets with those of the mainland-one of their
weakest aspects at present. The development of Hong Kong's financial markets will continue to depend to a high extent upon the whims of mainland regulators, but this will put them in no worse a position than those of any other mainland city.

Finally, the territory could still have an important capacity as a political role model. The "one country, two systems" formula was originally designed to serve as a template that might show Taiwan a glimpse of how it could fit back into a unified China. The growing level of tension in the relationship between Hong Kong's people and the mainland government, and the mounting fears that the central authorities are eroding the territory's autonomy, suggest that this function is at risk. Yet this has always been a long-term project. It is still conceivable that the mainland government will in future years permit a greater degree of political liberalisation in the territory. Handling the relationship with Hong Kong successfully may not guarantee that it can win over Taiwan, but it is probably a precondition for any negotiation over reunification with the island.

In the meantime, the territory will also serve as a touchstone for the issue of domestic political reform in China. The Chinese government must learn how to handle the political aspirations of the mainland's increasingly affluent population if it is to avoid political instability in the longer term. Hong Kong offers a testing ground for them to learn which tactics work and which do not, but it is not yet clear that the right lessons are being learned.


Hong Kong's future as financial hub under threat from mainland: Hong Kong will have to reinvent itself again because it underestimated mainland's ability to evolve

While Hong Kong has prided itself as a financial gateway to China, that has also become the city's ultimate limitation. The mainland's growing demand for more sophisticated financial services makes it imperative to locate a foreign bank's headquarters in Beijing or Shanghai, not Hong Kong. Although Shanghai and Beijing are disadvantageous locations for conducting financial services outside of China, a bank's non-China operations in Southeast Asia can be effectively run through Singapore.

Hong Kong will have to reinvent itself again because it has underestimated the mainland's ability to adapt and evolve. Ironically, perhaps Hong Kong could become more like Vancouver, where the absence of manufacturing, corporate and bank headquarters has resulted in a chronic shortage of good jobs. At the same time, the mainland's demand for property has made Vancouver an expensive place to buy a home, like Hong Kong.

Hong Kong continued to prosper as the mainland's financial service provider after losing all of its industry to the mainland. But Hong Kong's private and public sectors need to start planning today for a future without an international financial industry.

Source: Guy, Peter: Hong Kong's future as financial hub under threat from mainland: Hong Kong will have to reinvent itself again because it underestimated mainland's ability to evolve, South China Morning Post [Hong Kong] 01 Dec 2014: B.14.

Fresh ideas lead to a new management theory

Is China now at the vanguard of a management revolution? Theories about how business organizations are managed over the past century have largely been of American or European origin. Now, management theory and practice is facing another assault from the East, according to leading management theorists. Peter Williamson, professor of international management at Judge Business School at Cambridge University and who has years of experience working in China, co-authored an article with his colleague Eden Yin, Accelerated Innovation: The New Challenge from China? in the MIT Sloan Management Review earlier this year. The article argues the Chinese have developed a new system of management using their huge reservoir of scientists and technicians to reduce some product development cycles from 10-15 years to just one to two years with enormous repercussions for industry. Another article, A Chinese Approach to Management, in the Harvard Business Review by Thomas Hout at the Monterey Institute of International Studies and by David Michael of Boston Consulting (who himself spent a
number of years in China) explores how Chinese managers have come up with a system to deal with perhaps the fastest moving consumer market in the world. Both raise questions of whether Chinese companies are inventing radical new methods of business organization, which will not just be applicable to China in the future but will become universal concepts.

Certainly, a number of Chinese companies, including Alibaba, the Chinese e-commerce giant founded by Jack Ma and which had the largest IPO in history on the New York Stock Exchange earlier this year; Tencent, a Chinese company that operates the WeChat instant messaging service; and Haier, the electrical goods maker inspired by its chairman Zhang Ruimin, have been hotbeds of new ideas. One who believes that management consultancies, in particular, need to pay more attention to what is happening in China is Edward Tse. The former chairman of Booz & Co Greater China and author of the influential book The China Strategy, set up his own China-based management consultancy Gao Feng Advisory earlier this year. Tse, who was speaking in a Starbucks at Liangmaqiao in Beijing among students who might easily be among the next generation of Chinese managers, believes the fast-moving developments in China will soon lead to a new management theory. "It is a matter of codifying this new evidence into a management theory. Neither what has happened in China over the past five or 10 years nor, indeed, in Silicon Valley with the emergence of Facebook and Amazon has resulted in that but I think it will happen. What we have in China is a speed and intensity of change that is becoming something of a phenomenon."

Zhang Zhixue, professor of management at Guanghua School of Management at Peking University and one of China's top management schools, however, believes the classical management theories still hold and are still as applicable in China as elsewhere. "I don't actually see any new theories coming from China that go beyond the mainstream theories from Europe and the United States," he says.

Johnson Chng, managing partner in Greater China at international management consultants AT Kearney, concedes there are some interesting management ideas coming out of China but he does not think they are making the breakthroughs some think. "I think we are far from them becoming universal concepts. Whether or not one day we will open the Harvard Business Review and read about some Chinese company doing certain things that goes in a case study of business practice, I don't know. We are not there yet though."

Source: ANDREW MOODY: Fresh ideas lead to a new management theory, China Daily, 2014-12-22

Opportunities and Challenges of International e-Commerce in the Pilot Areas of China

International e-commerce is expanding rapidly in China, and this rate of growth is expected to continue into the future. Pilot projects for importation by e-commerce were launched by the Chinese government in March 2014. These pilots took place in six cities and were intended to encourage international e-commerce. On March 21, 2014, the Chinese Customs Department implemented an e-commerce pilot program which identified six cities (Shanghai, Hangzhou, Ningbo, Zhengzhou, Guangzhou and Chongqing) as bonded import pilot areas for e-commerce, specializing in international e-commerce. It is predicted that international e-commerce will continue to exhibit explosive growth with the support of the Chinese government and the establishment of the pilot areas. However, there are no adaptable import regulations for these pilot areas, and it is unlikely there will be a significant breakthrough in policy in the short-term, such as more flexible measures or regulation. International e-commerce bonded import pilot areas are unprecedented around the world, and the challenges and opportunities of this new method of commerce need to be identified and clarified for all parties involved. This paper examines the trends and characteristics of cross-border e-commerce development in China and the challenges and opportunities for overseas suppliers. Using a SWOT analysis matrix, strategies are suggested for overseas e-commerce businesses who intend to profit from Chinese bonded import pilots.

The rate of online shopping in China is increasing rapidly. The online shopping market is moving forward at an extreme pace, and the international B2C market has grown enormously in recent years. An analysis of online buyers and their purchasing power indicates growth will continue to be stable and sustainable in the future. As the
three stages of development of offshore online shipping indicates the route of integration of resources, the e-commerce players should enhance ability to compete though the integration of resources and investment in business relationship. There is no doubt that the future lies in e-commerce, and that international companies should be quick to grab hold of the opportunities that pilot areas in China have to offer. 

China punishes 11k environmental violations

BEIJING - Chinese environmental authorities handed out punishment in 11,114 cases in the third quarter of this year, as the country reinforces a crackdown on environmental violations. Violators were fined a total of 483.45 million yuan ($78.9 million), the Ministry of Environmental Protection said in a statement on Monday.
Environmental authorities at all levels transferred 371 cases of suspected environment-related crimes, such as discharging heavy metal or persistent organic pollutants, to the police for criminal investigations. East China's Zhejiang province tops the list of cases transferred to police, with 173 cases uncovered in the region. Many companies involved have been shut down, according to the ministry.
Source: Xinhua: China punishes 11k environmental violations, 2014-12-9

Earth shifts beneath the two leading economies

The two biggest tectonic plates of the world economy are shifting, setting off friction that is increasingly evident in financial markets and global capitals. The United States is accelerating and China is cooling, a reversal of trends that followed the 2009 global financial crisis. As a result, oil is slumping as US supply rises and Chinese demand falls; capital is fleeing emerging markets; the dollar is surging and the influence of the big emerging markets is on the wane.
While the biggest losers are commodity producers and emerging markets, Russian President Vladimir Putin is proving the most exposed. His economy is headed for recession as the plunge in crude and the Russian currency deepen the impact of sanctions stemming from his aggressiveness in Ukraine.

A strengthening US and slower China once topped the wish list of world leaders, who repeatedly expressed concern that the US was stagnating and China was overheating in the aftermath of the international recession. Their hopes are now being realized. China is on course to grow the least this year since 1990, as a slowdown in real estate investment continues and factories are shuttered. Meantime, the US is gathering momentum with economists surveyed by Bloomberg News forecast a 2.9 percent GDP expansion next year, the fastest in a decade, as hiring accelerates and falling gasoline prices boost purchasing power.

Exhibit A for the new order is the price of oil, which has fallen about 45 percent this year, in part because of weaker Chinese demand and a supply glut deepened by US shale output. US production has risen to 9.12 million barrels per day, the most in weekly Energy Information Administration data that started in January 1983. Economists believe that the transfer of cash from energy producers to consumers is enough to boost the world economy. Berenberg Bank in London estimates current oil prices could boost demand by 1.5 percent of GDP in major economies in the next four to six quarters. The results are nevertheless uneven. In a study of 44 nations, Russia, Saudi Arabia, Norway, Italy and the Netherlands among the biggest losers from cheaper crude. Winners include the Philippines, China, India and Indonesia.

Money is flooding back into the US as the dollar gains in anticipation of higher interest rates. The dollar has jumped 9 percent on a trade-weighted basis this year. While a rising dollar could help beat back disinflation globally by enriching US consumers, currency strategists at HSBC Holdings Plc have warned that extreme strength would be a problem if Japan lost control of a weakening yen, a sliding euro raised fears of a breakup of the single currency or China tried to devalue the yuan.
Source: Xinhua: Earth shifts beneath the two leading economies, 2014-12-18
China to improve livelihood of low-income people

BEIJING - China will continue improving people's livelihood with necessary and timely support, especially for those with low incomes, according to the Central Economic Work Conference concluded on Thursday. More attention will be paid to the low-income people, so as to satisfy their basic living needs and stabilize the overall social situation, said a statement released after the conference. The key is to secure employment with accurate planning and arrangement and give full play to the market that can encourage entrepreneurship, improve job training and enhance governmental services, the statement said.

The conference stressed the importance of poverty relief in China's development and demanded high-quality education for every child of poverty-stricken families. Meanwhile, local featured industries will be supported and the government shall carry out poverty relief work with specific targets to cover all the impoverished population, according to the statement.

Source: Xinhua: China to improve livelihood of low-income people, 2014-12-12

China loses low labor cost advantage: report

(ECNS) -- A new report by the Institute of Industrial Economics at the Chinese Academy of Social Sciences indicates that China no longer has a lower labor cost advantage over neighboring countries. Pay rates in China have gone up substantially over the past ten years thanks to rapid economic development, a sharp increase in labor demand, a rising minimum wage and lower numbers of youth entering the labor force, the report points out.

The 2013 average salary in urban China was 51,474 yuan ($8,403) in non-private entities, 60,139 yuan ($9,817) in mining and 46,431 yuan ($7,579) in manufacturing. Year-on-year salary increases in the latter two industries hit 5.6 percent and 11.5 percent respectively, according to the National Bureau of Statistics. Monthly average incomes in the country's manufacturing industry surpassed that of most Southeast Asian and South Asian countries, the report revealed. The monthly basic pay of a blue collar worker in Shanghai is up to 6.97 times that of similar earnings in Rangoon and at least 1.15 times as much as in Kuala Lumpur, according to data from the Japan External Trade Organization (JETRO). The report also indicates that though pay levels for highly qualified workers will keep increasing swiftly, future income levels in China would not rise as sharply as during the past few years, when factors such as lower growth rates, business performance, minimum wage standards and labor supply are taken into consideration.


Reforming pension system a long haul

The aim of the pension reform is to build a system for Party, government and public institutions that is similar to the one employed by the private sector so as to break the long-held dual system. Under the dual pension system, the employees in a state agency can get 80 to 90 percent of their salary after retirement while the employees of an enterprise may only get 40 to 60 percent. It means the pension of 37 million public servants and employees in state agencies in China will not be provided fully by the government and will have to contribute the same amount to their pensions as employees do in enterprises. Pension reform has been stuck in the past few years as pilot programs in places, including Guangdong province and Shanghai municipality, have come to a standstill after they were launched in 2008.

The reform will not affect the salaries of employee's in state agencies as the wages will be adjusted as they need to pay for their own pensions, according to Tang Jun, secretary Public Policy Research Institute of Chinese Academy of Social Science. The reform is the most-discussed topic on Chinese social media site Sina Weibo, and the hashtag "pension reform" was used 18.5 million times as of 15:50 pm today. "I have been waiting forever for this new policy, I'm hoping for a raise in the salary after the reform because currently it's too low," a netizen named jasmine-muomuo said on Sina Weibo. Netizen named dapengkantianxia gave thumbs up to the reform on his
micro-blog. "If you want to enjoy social security, you have to pay for your own, no matter if you are a government official or a private enterprise employee. This is more fair."
Source: Reforming pension system a long haul, China Daily, 2014-12-24

China to add over 13 million jobs in 2014

BEIJING -- China's job market has proved resilient despite slowing economic growth with more than 13 million new jobs expected to be created this year, said a senior Chinese official. China's registered urban jobless rate will remain at a "relatively low" level, Yin Weimin, China's human resources and social security minister, said Thursday at a work conference, without giving a specific figure. The new jobs numbers will beat the government's full-year target of at least 10 million jobs. China's gross domestic product (GDP) expanded 7.4 percent year on year in the first three quarters. At the end of September, China's urban registered jobless rate stood at 4.07 percent, lower than the annual employment control rate of 4.6 percent targeted by the government. China added 10.82 million jobs in the first nine months. Yin's remarks mean that more than 2 million jobs are expected be created in the fourth quarter.
Source: Xinhua: China to add over 13 million jobs in 2014, China Daily, 2014-12-26

China resolves to promote low carbon urban development

LIMA - China has been striving to take a new road of urbanization featured by intensive land use, smart city, and green and low carbon development, China's top climate negotiator said in Lima, Peru, on Wednesday. "As our country enters into the middle and later stage of industrialization, urbanization will become the main areas of future growth of carbon emissions and energy resources," said Xie Zhenhua, vice chairman of the National Development and Reform Commission (NDRC), who heads the Chinese delegation at the China Pavilion during the UN Climate Change Conference in Lima, capital of Peru. At a side event of UN climate talks, Xie emphasized the importance of Chinese cities to meet the country's national goal of peaking emissions around 2030. The Chinese official said it is "quite realistic" for China to set a goal around 2030. China has 36 low carbon pilot cities and 55 pilot industrial parks, which aim to explore how sustainable design can be better for people and the economy.

Acknowledging that previous economic growth had come at the expense of environmental destruction, Xie said China was aiming for more efficient and high quality development. "We have more to come," Xie promised, referring to the national plan each country is expected to produce in the first half of next year, adding that "acting on climate change is not something imposed by others; it is something we want to do ourselves." But he called for international cooperation "to achieve the win-win result for low carbon development" and also encouraged Chinese enterprises to join this process to push forward green and low carbon development in urban areas. Xie was joined by Al Gore, former US vice president and now chairman of the Climate Reality Project, who spoke highly of China's efforts. "The historic handshake between China and the US has had an electrifying impact on the world's efforts to find a deal on climate change," said Gore. In describing his hopes, Gore quoted three poets from China, Spain and the US respectively. He cited words of Chinese poet Lu Xun that "hope is a path on the mountainside. At first there is no path. But then there are people passing that way. And there is a path."

Achim Steiner, UNEP Executive Director, urged the US and China to help bridge the gulf between rich and poor countries in the talks. Andrew Steer, president of World Resources Institute, said there are 275,000 people a day moving to cities worldwide. Developing these cities' sustainability has big gains for quality of life and economic growth as well as keeping emissions down, he said. The activities in China Pavilion, which kicked off on Dec 5, will present 17 events including forums and press conferences featuring China's efforts and achievements in addressing the climate change.
Source: Xinhua: China resolves to promote low carbon urban development, 2014-12-11

Regulator set to strengthen antitrust laws during 2015
The country's top competition regulator has vowed to strengthen its anti-monopoly efforts next year to ensure fairer market conditions. Zhang Mao, head of the State Administration for Industry & Commerce, told a conference in Beijing on Thursday that its priority for 2015 remains cracking down on monopoly and illegal competition in key sectors, and any actions that infringe upon commercial intelligence rules. The administration is expected to roll out relevant competition rules, promote unified competition, and improve a fairer competitive environment, he said. "It is important to introduce competition to the market and to coordinate industrial and competition policies," said Zhang. From January to November, the administration investigated companies accused of being allegedly involved with monopolies, including the Swedish firm Tetra Pak and US technology giant Microsoft Corp.

It has strengthened supervision over both traditional industries and the Internet-based sectors, investigating a total of 43 monopoly cases. It also investigated and dealt with 26,000 illegal competition cases. High-profile investigations against Western companies, have sent shockwaves across various international business sectors. In September alone, antitrust fines totaled more than 1.63 billion yuan ($266.6 million), after two multinational automakers and their dealers were reported to have breached rules and been levied heavy fines. FAW-Volkswagen Sales Co was fined 248.58 million yuan, equivalent to 6 percent of the company's sales in 2013, with seven dealers of its luxury Audi brand fined 29.96 million yuan. Chrysler Group China Sales Ltd was fined 31.68 million yuan by the Shanghai Municipal Development and Reform Commission, equivalent to 3 percent of its sales of the previous year, with three Chrysler dealers fined 2.14 million yuan. Throughout the process of clamping down on anti-monopoly activities, Chinese regulators have denied targeting foreign companies. Xu Kunlin, head of the antitrust bureau of the National Development and Reform Commission, said in September that of the 335 enterprises investigated by the NDRC over monopolies, only 33 were foreign.

The emphasis was put on fairer market competition and better economic efficiency, rather than protecting domestic enterprises. Many of the antitrust probes were triggered by consumers, and the probes went wherever consumers complain, said Xu.

Source: WANG ZHUOQIONG: Regulator set to strengthen antitrust laws during 2015, China Daily, 2014-12-26

Investment by PE, VC firms reaches record

Venture capital and private equity deals made in China reached a record high in the first 11 months of 2014, benefiting from the rising number of startup companies and the restructuring of State-owned enterprises, according to a report. According to the figures from Zero2IPO Group, 1,873 venture capital deals were made in the first 11 months of this year with investment value of $15.6 billion, a 135.9 percent increase on the full year 2013. Another 892 private equity deals were made during the same period worth a total of $50.4 billion, a 105.7 percent increase on last year. "Venture capital investment in China has been active this year because of the improving conditions for raising funds and the rising number of startup companies," said Ni Zhengdong, chairman of Zero2IPO Group. The study showed that 231 new VC funds were set up in the first 11 months worth $15.4 billion, a 122.6 percent increase in value on last year. It also showed about 60 percent of the VC deals made during the period were at the startup stage.

"Private equity investment this year reached a record high benefiting from the restructuring of State-owned enterprises and private placement of listed companies," said Ni. During the Third Plenary Session of the 18th CPC Central Committee held in November last year, the government expressed strong support for "mixed-ownership" reform of the State-owned enterprises. The Zero2IPO report said the Internet sector was the most popular this year for VC investment, followed by the mobile Internet and healthcare sectors.

The figures also showed that VC exit routes were various during the period under review: Of the 427 exits in total, 141 were through initial public offering, 124 by merger and acquisition, and 70 through share transferring, with 46 sold to management buyouts, and 20 by backdoor listings. The report said there were a record 350 PE exit deals completed in the 11 months, benefiting mainly from a resumption in IPOs in the A-share market. Ni said although the exit numbers both increased this year, the pressure to exit at the right time and with solid returns is still
high. From 2010 to the end of November this year, there were 10,252 VC and PE deals made in China, but the number of IPOs backed with PE and VC funds during the same period was only 628, the report showed.

"Angel investment activities have been very active this year," said Ni. A total of 547 angel investment deals were signed in the first 11 months in China totaling $341.4 million, a 69.6 percent increase compared with the whole of last year, according to the report.

Source: CAI XIAO: Investment by PE, VC firms reaches record, China Daily, 2014-12-10

**China's fixed-asset investment up 15.8%**

**BEIJING** - China's fixed-asset investment rose 15.8 percent from one year earlier to 45.11 trillion yuan ($7.37 trillion) in the first 11 months of 2014, the National Bureau of Statistics (NBS) said on Friday. But the pace of growth slowed further from the 15.9 percent growth registered in the January-October period and 16.1 percent growth in the January-September period. The calculation does not include fixed-asset investment by farmers. It covers projects with investment of at least 5 million yuan, as well as all property development projects.

Between January and November, fixed-asset investment in primary industry grew the most, up 29.9 percent year on year to 1.09 trillion yuan. This growth is one percentage point higher than that recorded in the first ten months. Fixed-asset investment in tertiary industry grew 17.1 percent to 25.2 trillion yuan, up 17.1 percent year on year. But growth was 0.3 percentage points lower than the first ten months. Fixed-asset investment in secondary industry saw 13.3 percent growth year on year. Growth dropped 0.1 percentage point from the first ten months.

Fixed-asset investment in China's western regions witnessed the fastest growth, with 17.7 percent growth from a year earlier to hit 11.47 trillion yuan. Investment in the central regions grew 17.4 percent year on year to 12.65 trillion yuan. Eastern regions attracted 20.58 trillion yuan in fixed-asset investment, up 14.5 percent year on year. Private fixed-asset investment climbed 17.9 percent year on year in the first 11 months to 29.13 trillion yuan. But the growth rate was 0.1 percentage point lower than that in the first ten months.

Investment in property rose 11.9 percent year on year in the first 11 months to 8.66 trillion yuan. But the growth rate was 0.5 percentage points lower than in the first ten months. Property investment growth continued to slide, and leading indicators such as new starts and land sales weakened further, suggesting that developers’ outlook remains cautious, said Zhang Zhifei, an economist with Nomura Securities.

Investment will continue to play a key role in China's economic growth, said a statement issued after the Central Economic Work Conference, a crucial economic policy meeting, on Thursday.

Source: Xinhua: China's fixed-asset investment up 15.8%, 2014-12-12

**China to advance agricultural modernization**

**BEIJING** - China concluded a rural work conference on Tuesday, vowing to push forward agricultural modernization through reform and innovation. The country made great progress in rural development in 2014 with its 11th consecutive bumper harvest and an increase in farm income, according to a statement released after the two-day central conference, which sets the tone for next year. "However, China is facing unprecedented challenges if it wants to achieve sustained and stable development in the agricultural sector," said the statement, citing rising agricultural production costs, impaired cultivation and limited arable land and fresh water. To solve the problems, China must accelerate agricultural modernization and raise quality and efficiency of agriculture, Zhu Lizhi, an expert with the Chinese Academy of Agricultural Sciences, told Xinhua. The statement said that China will strive to transform the pattern of agricultural development, raise the output rate of the land, increase resource utilization rate to attain intensive and sustainable growth.

Under the economic "new normal", agricultural modernization is of great significance to stabilizing economic growth, adjusting structure and improving people's livelihood. Agricultural modernization is the foundation and pillar for China's modernization drive, but it is a prominent weak point at present, the statement said. "Compared with fast-advancing urbanization, industrialization and informatization, our country's agricultural modernization is
lagging far behind, seriously impeding the synchronized development of the four aspects," said Li. Top policymakers at the meeting pledged to make more efforts to speed up agricultural modernization in order to unleash farmer consumption potential and spur investment in rural infrastructure. A growing agricultural sector will also forge new engines to propel China's economic expansion, according to the statement.

"Food security should be China's top priority during the agricultural modernization process. China will keep cereal largely self-sufficient and staples absolutely safe," the statement read. Farmers are encouraged to form new agricultural entities in an innovative way to achieve economies of scale. To facilitate associating farmers and their lands, China will guide orderly transfer of management rights of rural lands to new agricultural entities. China will exploit agricultural resources in a more friendly and "greener" way to protect farm land and fresh water. Policymakers decided to extend greater policy support and beef up financial support to underpin rural development. China will actively push forward the construction of "new socialist countryside" and improve living environment for farmers. The country will also wage a war against poverty and release more farmers from poverty. At the same time, rural residents are encouraged to take advantage of urbanization and start small businesses. The Central Rural Work Conference is an annual event for Chinese policymakers to deliberate on and map out rural policies for next year. The meeting discussed a guideline of deepening rural reform and advancing agricultural modernization.

Source: Xinhua: China to advance agricultural modernization, 2014-12-24

CHINA: Housing market reaches turning point

China's housing market fell sharply in the first three quarters of 2014, ending more than a decade of strong growth and raising questions about the country's overall economic health, since the property sector is deeply embedded in the domestic economy and a big stimulus to GDP growth. However, a housing crash leading to a 'hard-landing' collapse in GDP growth is very unlikely.

Construction activities will shift towards lower-cost and state-sponsored social housing. Excess supply in some areas could lead to defaults among overexposed investors and construction companies. Demand from the real estate sector will contract further for domestic producers of cement, steel, glass and other construction goods. Sluggish demand from China's construction sector will depress prices for exporters such as Australian and Brazilian iron ore producers. As domestic high-end property speculation loses its attraction, Chinese investors will further shift their attention to foreign markets.

Over the decade 2003-13, average annual real estate investment accounted for one-quarter of China's total fixed investment and just under 16% of its annual GDP (measured in current prices), National Bureau of Statistics (NBS) data show. These overall estimates conceal several structural features of China's property market: Housing dominates real estate investment. During 2003-13 investment in residential buildings constituted on average 70.0% of all property investment, and grew by 24.6% per annum. Urban housing has been paramount in residential construction. Since the mid-1990s, cities' share of property investment has risen to 90.0% from 69.0%; in 2003-13 it averaged 87.4%.

Residential investment shows a strong geographical bias. In 2013, half of all residential investment was concentrated in
coastal provinces, and just five of these -- Liaoning, Jiangsu, Zhejiang, Shandong and Guangdong -- accounted for more than 35%. Recent declines in sales and prices follow many years of buoyant growth. Such figures throw into sharp relief the 10.8% decline in house sales in China's 100 largest cities during the first three quarters of 2014. Data for 2013 show that the national average residential price per square metre was exceeded in only eight places -- Beijing and Shanghai (the most expensive cities for property), Zhejiang, Hainan, Fujian, Guangdong, Tianjin and Jiangsu. The average sales price in Beijing was 200% above the national average; in Gansu, which has the cheapest residential property, it was almost 40% below it.

In recent years demand for housing has been driven by: residents wanting to move to larger and better units; and speculative purchases of high-value properties by investors. Both these forces are on the wane. However, with demand and supply-side factors constraining future price and sales growth, China's residential property market has reached a turning point. With prices in Beijing, Shanghai and other large cities at what is likely to be a ceiling, property speculators are increasingly seeking to buy overseas -- in the United States, United Kingdom and Australia (see CHINA: Flow of wealth offshore will grow - April 29, 2013).

Meanwhile, the spur to domestic house purchases will shift from upgrading towards replacement of sub-standard and older housing, and purchases by new homebuyers. Underlying this is demographic and geographical factors. The population between the ages of 25 and 49, the age group that has hitherto been the mainstay of homebuying, will peak in 2015. Some 90% of registered urban households already own homes -- significantly higher than their equivalents in the United Kingdom, United States, France, Japan and Germany. Future home sales will therefore depend more on migrants from the countryside -- a group with more limited purchasing power. Housing demand will shift more towards lower-cost units and social housing. This demand is more likely to be met by the public sector than the private market.

The demand constraints outlined above come as China faces an over-supply of housing. Estimates of unsold and vacant properties range from 5.6 million to 64.5 million units. One report indicates that in 2013, 22.4% of urban houses were vacant. Another source suggests that unsold properties are sufficient to meet demand for up to seven years. Inventories appear to be large in second-tier and third-tier cities, underlining the rationale of directing household registration reform towards making smaller cities more attractive to migrants. The message from the supply side is clear: the impact on construction activity of housing recovery in China will, for the foreseeable future, be dampened by the large overhang of vacant properties.

CONCLUSION: A modest recovery is likely next year, but demographic changes and structural adjustments in the property market mean that the 'golden age' of booming prices is over. As the industry matures, its impact on the wider economy will weaken.


China housing market trims losses

Chinese house prices fell at a slower pace in November, in a tentative sign that the sickly housing market may soon bottom out, lightening its drag on the broader economy. House prices on new homes fell by an average of 3.6 per cent in November from a year earlier, according to Financial Times calculations based on the government’s survey of 70 large and medium-sized cities. That is the largest annual drop on record since the government stopped publishing nationwide price data at the beginning of 2011. But on a monthly basis, November’s data showed signs of improvement. New house prices fell by 0.6 per cent in November from a month earlier, down from declines of 0.8 per cent in October and 1.0 per cent in September.

“The central bank’s policy to aid the market is having an impact,” said Yan Yuejin, researcher at E-house China R&D Institute, a Communist party-linked research organisation. “The pace of destocking in various cities is accelerating . . . There is hope that first-tier cities will halt their monthly declines and begin a rebound by the year-end.” Indeed, data out last week showed property sales volume at an 11-month high in floor-area terms in November, although it was still down 13 per cent from a year earlier. House prices have now fallen year on year for

35
three straight months, while month-on-month declines began in May. “House price decline will continue going into next year, but the pace of adjustment will moderate,” Zhu Haibin, chief China economist at JPMorgan, wrote in a note. Mr Zhu expects the market will bottom out at a level 5-10 per cent below the peak hit in 2013.


China issues real estate registration rules

BEIJING -- The State Council, China's Cabinet, has issued provisional regulations on real estate registration, according to a statement released on Monday. The regulations include 35 articles and will take effect March 1, 2015, the statement said. In accordance with China's Property Law, the new rules mark the beginning of the country's real estate registration work, to be guided and supervised by the land and resources authorities. All governments above the county level shall designate special departments for registration in their areas and follow instructions from higher governments. The regulations will cover collective ownership of land, ownership of buildings and forest, contracted land management rights, and rights to the use of construction land, homesteads and maritime areas. The registration will be filed electronically or in print and kept permanently, and the electronic version shall be backed up regularly, according to the statement. Land and resources authorities will establish a platform to manage registration information that can be shared in real time and will be strictly confidential. Anyone who completes a false registration will have to pay compensation. Any abuse of power, forged document or illegal information disclosure of real estate registration will be prosecuted, the statement said.

Source: Xinhua: China issues real estate registration rules, 2014-12-22

Reform of central SOEs to speed up

The nation will accelerate the reform of its gigantic central State-owned enterprises so they can expand globally, modernize their management and become more innovative, said a senior official on Wednesday. Yan Xiaofeng, secretary-general of the State-owned Assets Supervision and Administration Commission, said the agency is drafting a major reform plan, which will be announced by the State Council (cabinet) early next year. Similar reforms have already started at many SOEs in provincial-level areas. Since the 2013 Central Economic Work Conference vowed to pursue reform and innovation in economic and social development, change at the central SOEs has become a key task for the national government. These reforms will ensure quality and efficiency in economic growth, stimulate markets and accelerate the economic structural adjustment. They will also improve SOEs' performance and services and help them "go global". "As the Chinese economy has entered a 'new normal' stage, SOEs must realize that it is time to upgrade their industrial structures and rely more on the Internet and automation to strengthen their export ability," Yan said.

The total asset value of central and local SOEs is about $16.33 trillion. To build a balanced economic development structure, the central government is encouraging more private companies to venture into telecommunications, energy and transportation infrastructure projects through the public-private partnership model. Yan said the reform plan for the SOEs will put a higher priority on containing the spread of corruption at central SOEs. SOE executives will be held responsible and severely penalized if their dereliction of duty leads to corruption and they fail to stop, investigate and report major incidents of corruption.

Li Yining, a renowned economist and professor at Peking University, said the government should introduce professional management into central SOEs, in particular in the competitive industries. That practice should replace the appointment of officials from certain administrative levels to be the leaders of major State enterprises. The shift will demolish the internal barriers that block progress in efficiency and fairness, Li said. "As the government is welcoming private investors to participate in SOEs' stockholding reforms, the mixed-ownership model, transparent management and fair competition can be made possible. That will give consumers free choice ... and better services," said Li.

Source: ZHONG NAN/ZHENG YANGPENG: Reform of central SOEs to speed up, China Daily, 2014-12-11
China retail sales up 12% in first eleven months

BEIJING - China's retail sales in November grew 11.7 percent year on year to 2.35 trillion yuan ($384 billion), slightly up from October's growth of 11.5 percent, the National Bureau of Statistics (NBS) said on Friday. The country's retail sales rose 12 percent year on year to 23.66 trillion yuan ($3.87 trillion) in the first 11 months. "Adjusted for inflation, real year on year retail sales growth edged up compared with October, suggesting a rising trend of consumption amid weak economic growth," China International Capital Corp, a leading investment bank, said in a report on Friday.

Retail sales growth in rural areas outpaced that in urban China. In the January to November period, sales in rural regions rose 12.9 percent from a year ago to 3.24 trillion yuan, while sales in urban areas climbed 11.8 percent to 20.42 trillion yuan. China's online retail sales continued to accelerate, soaring 55.9 percent year on year to 385.8 billion yuan in the January-November period, based on the survey results of retail catering enterprises with large revenues.

China will continue targeted and structured control policies to maintain medium- and high-speed growth for the economy. It will actively adapt to the economic New Normal of slower speed but higher quality, according to a statement issued after the meeting.

Source: Xinhua: China retail sales up 12% in first eleven months, 2014-12-12

NBS census reveals tertiary industry's growing power

China's National Bureau of Statistics released the Third National Economic Census results on Tuesday, indicating obvious changes in the economic structure during the past five years. Legal entities in the secondary industry accounted for 25.3 percent, down by 5.7 percentage points over the end of 2008, the statement said. In the tertiary industry, legal entities accounted for 74.7 percent, up by 5.7 percentage points. Employees in the secondary industry accounted for 54.1 percent of all workers, 3.5 percentage points lower than that at the end of 2008. While that in the tertiary industry they accounted for 45.9 percent or 3.5 percentage points higher. The tertiary industry has become an important driving power of China's economy and a key to stabilize the labor market, said Ma Jiantang, the director of NBS.

Besides the structural changes, the data also showed largely expanded total economic size and improved growth efficiency and quality, said Ma. After the release of the results, the NBS plans to revise the GDP growth rate of 2013, which was previously announced at 7.7 percent. The revision margin will be around 3 percent and the final figure will be announced on Dec 19. At the end of 2013, there were 10.85 million legal entities in the secondary and tertiary industries, up by 52.7 percent, or an increase of 3.758 million by the end of 2008. The size and profits of high-tech manufacturing industry also saw rapid growth during the five years, according to the economic census.

Source: Chen Jia: NBS census reveals tertiary industry's growing power, China Daily, 2014-12-16

APEC blue' hits November factory activity

Clearing the air for the Asia-Pacific Economic Cooperation forum in Beijing early last month meant closing many factories and construction sites, which left manufacturing activity almost stagnant, figures released by the National Bureau of Statistics and the China Federation of Logistics and Purchasing on Monday show. The November manufacturing Purchasing Managers Index slipped to an eight-month low of 50.3 from 50.8 in October, the agency said. The PMI reading signals further economic downward momentum, which is eroding the labor market and prompting policymakers to do more to stabilize growth, economists said.
According to the NBS, the output sub-index fell to 52.5 in November from 53.1 in October, and the new orders index dropped to 50.9 from 51.6. The declines reflected excess capacity and weak demand, so factories are under rising pressure to expand output, said Zhao Qinghe, an NBS economist. Despite the downbeat figures for November, the government has announced policies to support growth and so most enterprises are confident about the economic outlook, he said. The PMI also showed an unfavorable situation in the labor market. The employment component eased 0.2 point to 48.2 in November. It has been below 50 since June 2012.

The central bank unexpectedly cut interest rates on Nov 21, and economists speculate that the latest PMI data will prompt policymakers to shift further toward supporting growth. Kuijs forecast further steps to stimulate infrastructure investment and urbanization, as well as an additional relaxation in property market policies. Separately on Monday, Standard Chartered Plc released its November Small and Medium-sized Enterprises Confidence Index, which rose to 58.29 from 56.64 in October, driven by a mild improvement in sales boosted by the year-end holiday season.

However, the survey also showed further deterioration in the job market, with the employment sub-index declining for the third consecutive month to a record low of 55.4. Another sub-index measuring credit conditions at small and medium-sized enterprises climbed to 54.4 from 52.3 in October, influenced by the central bank's rate cuts, the bank said. "Small businesses still have a cautious outlook for the first quarter of 2015, as the fundamentals for SMEs remain weak," according to economists Shen Lan and Li Wei at Standard Chartered Bank (China) Ltd. "We expect one more rate cut in the first quarter of next year in order to lower the cost of funding and support growth."
Source: CHEN JIA: 'APEC blue' hits November factory activity, China Daily, 2014-12-02

**China's industrial output growth further dips in November**

BEIJING - China's industrial output grew 7.2 percent year on year in November, down from a 7.7 percent in October and 8 percent in September. On a month-to-month basis, industrial output rose 0.52 percent from October, the same as in the previous month, the National Bureau of Statistics (NBS) said in a statement. For the first 11 months, industrial production growth decelerated to 8.3 percent year on year, down 0.1 percentage points from the first ten months of 2014, the NBS said. Growth in some key industries fell significantly, including car manufacturing, electrical machinery and equipment manufacturing, and general equipment manufacturing. Industrial output growth has decelerated in the last four months. November's growth was the second lowest since April of 2009, with only August of this year recording a lower rate. In August, year-on-year industrial output growth tumbled to 6.9 percent, raising market concerns that the "world's factory" was losing growth momentum.

China uses industrial production (officially called industrial value added) to measure the activity of designated large enterprises, each with annual turnover of at least 20 million yuan ($3.27 million). At a crucial economic policy meeting that concluded Thursday, China's leaders said the economy still faces many challenges and downward pressure. In addition to calendar effects and restrictions on factories and construction in Beijing and neighboring regions, slower export growth and weak investment were the main causes of slower industrial output growth, said Bob Liu, analyst at the China International Capital Corp. November's deceleration was offset by stronger output of equipment for railways and shipbuilding, which grew 12.9 percent. The telecommunication and computer sector, which registered a sharp acceleration of 12.2 percent in October, continued expanding at a relatively fast pace, at 12.6 percent in November. Growth of total power generation slowed to 0.6 percent year on year last month, down from 1.9 percent in October.
Source: Xinhua: China's industrial output growth further dips in November, 2014-12-12

**HSBC: China's manufacturing activity at 7-month low**

BEIJING -- China's manufacturing activity dropped to a seven-month low, according to the HSBC's preliminary purchasing managers' index (PMI) released on Tuesday. The HSBC flash manufacturing PMI for December dropped to 49.5 from November final reading of 50, HSBC said in a report.
Report: Factory wages poised for further growth

Manufacturing labor costs in China will continue to rise steeply at 12 percent annually until 2020, according to a new report, but the wage increases will not be matched by similar rises in productivity, casting a shadow over the future competitiveness of the world's largest manufacturing base. New data from HSBC Holdings Plc and Markit Economics showed a flash Purchasing Managers' Index at a seven-month low of 49.5 for December, that compared with the median estimate of 49.8 in a Bloomberg News survey. A separate report from the Economist Intelligence Unit, a global business consultancy, meanwhile, also showed on Tuesday that China's annual earnings grew at 11.9 percent from 2001 to 2012, and it is very likely to continue at that rate from 2013 to 2020. The growth projection places China in a strong position compared to developed economies, but not against some of its developing rivals.

In 2012, average manufacturing wages in China were $2.1 per hour, compared with $35.7 in the United States, and eight years later, Chinese workers could still be earning just 12 percent of their US counterparts, the EIU report said. By then, average labor costs in China would still be 35.2 percent of those in Brazil, 55.2 percent of Mexico's and 75 percent of Turkey's, said the EIU report, titled Still Making it.

Serious competition, however, could be coming from Vietnam, India and Indonesia. In 2012, China's average wage was 147 percent higher than Vietnam's but by 2019 that could have jumped to 177 percent. Another recent survey, from Japan External Trade Organization, also claimed that the average wages of workers in Shanghai were 319 percent higher than their counterparts in Hanoi. Commenting on the JETO statistics, the Chinese Academy of Social Sciences said China's wages are unlikely to continue rising as fast as they have in recent decades. The EIU said that one of the failings of the NBS figures was a lack of data from enterprises based in towns and villages, which employ a considerable proportion of China's manufacturing workers. Given that workers there and in private firms are paid less than those in State-owned enterprises, the NBS data could be criticized for overvaluing real wages, which the EIU said it had tried to compensate for.

Tom Rafferty, an economist with the EIU, said that one certainty is that the fast rise in wages over the past few years has not been matched by the equal growth in productivity, which is worrying economists. The EIU report noted that China saw a surge in productivity in the early 2000s following its entry into the World Trade Organization and State-owned enterprises reform. But it said growth has slowed dramatically since 2005 and wage growth outpaced the gain in productivity in four of the five years between 2008 and 2012. "China will continue its manufacturing story, only if it sorts out how to lift its productivity," said Rafferty. "That requires it to enhance the efficiency of its workforce, climb up the value-chain, and introduce more innovation."

Golden era ends for industrial growth

Growth in industrial activity slowed this year to 8.3 percent, the weakest expansion since 1998 when the figure began to be announced, and conditions will remain difficult in the years ahead as the nation seeks a new economic model, the government warned on Monday. Minister of Industry and Information Technology Miao Wei said industrial value-added output will grow at an "intermediate speed" in the foreseeable future as the broader economy slows. The ministry has set next year's target at about 8 percent. "A moderate growth rate will be the 'new normal' as the country faces strong challenges in lifting growth while tackling overcapacity in industries such as steel, cement and flat glass," Miao said. Industrial value-added output covers only manufacturers with more than 20 million yuan ($3.2 million) in annual revenue. China recorded high rates of industrial production growth over the past decade, peaking in 2007 at 18.5 percent. Slowing exports and domestic demand have caused a steady slowdown since 2012. This year will be the second in a row for China to report single-digit industrial production growth. The figure was 9.7 percent last year.

Miao called for broader use of high technology in sectors including integrated circuits, telecommunications
and alternative-fuel vehicles. "One of the major tasks for 2015 is to find new growth engines," he said, adding that the government is encouraging local enterprises to invest in innovation. "The merger of industrial and information technologies will help China lift the quality of manufacturing," Miao said. China aims to make a number of emerging sectors, such as e-commerce and next-generation telecom networks, play a bigger role in lifting domestic demand. Information consumption jumped about 25 percent this year to 2.8 trillion yuan. Turnover from e-commerce reached a record high of 12 trillion yuan, up 20 percent. Data from Analysys showed that consumers spent more than 200 billion yuan on mobile shopping in the third quarter, more than tripling the year-earlier amount.

Source: GAO YUAN: Golden era ends for industrial growth, China Daily, 2014-12-23

India may grow faster than China in 2016: Goldman Sachs

According to Goldman Sachs' chief India economist Tushar Poddar, lower fiscal and current account deficits and falling inflation, helped by lower commodity prices, and structural reforms being implemented by the new government will help boost the investment cycle in India. This might help make India the fastest growing major economy in calendar year 2016, overtaking China for the first time, the investment bank said. Goldman Sachs expects India to grow at 6.3% in calendar 2015, 6.8% in 2016 and at 7% or more till 2018. China's growth rate in 2016 is expected to slow to 6.7% from 7% in 2015.

Source: India may grow faster than China in 2016: Goldman Sachs, Mint [New Delhi], 05 Dec 2014.

China ready to boost economic ties with CEE countries

BELGRADE -- China's new round of reform and opening-up will provide important opportunities for the Central and Eastern European (CEE) countries, said Chinese Premier Li Keqiang here on Tuesday. When addressing the Fourth Economic and Trade Forum between China and CEE countries in Belgrade, Serbia, Li said there is tremendous potential for the two sides to work with each other. Deepened cooperation between China and CEE countries is conducive to the balanced development of Europe, said the premier, who raised a four-point proposal on pushing forward economic cooperation between China and CEE countries.

CEE countries boast good port resources and should connect their ports with traffic arteries, including railways and highways, to form a gigantic logistic network and thus expand their trade, the premier said. China welcomes Serbia to lead the effort to establish a consortium on China-CEE transport infrastructure cooperation to serve participating firms from both sides, he said. The premier hoped to combine China's advantages in equipment manufacturing with the needs of CEE countries for infrastructure upgrading to make good use of China's equipment production capacity and promote the economic development of these nations. He proposed setting up a new framework for joint investment and financing between China and CEE countries as a way to serve the real economy.

China encourages CEE countries to continue using the $10 billion special credit line, said the premier, adding that another $3 billion investment fund will be established to encourage Chinese companies and financial institutions to participate in public-private cooperation and the privatization process in CEE countries. China will also launch the second phase of China-CEE Investment Cooperation Fund worth $1 billion dollars to support its investment projects in these counties. To boost bilateral trade, Li said the Chinese government will take joint measures with the governments of CEE nations to facilitate custom clearance and personnel exchanges, so as to create favorable conditions for expanding trade and improve trade structure between the two sides.

In their speeches, Serbian Prime Minister Aleksandar Vucic and Czech Prime Minister Bohuslav Sobotka expressed their will to expand cooperation with China in economy and trade, investment, infrastructure, aviation, energy, finance and people-to-people exchanges, so as to jointly promote economic growth and common development. About 1,500 businessmen from China and 16 CEE countries attended the forum.

Source: Xinhua: China ready to boost economic ties with CEE countries, China Daily, 2014-12-17
Sino-US investment treaty sees major progress

China and the United States are finalizing text checks on a bilateral investment treaty and will formally exchange negative lists at the beginning of next year, China's Vice Finance Minister Zhu Guangyao said Tuesday. The BIT negotiations are considered the most important issue in the two nation's economic relationship. Zhu underlined that the two countries sought a transparent investment treaty that was free of discrimination. China and the United States both wish to complete negotiations within Obama's term, Zhu said at an economic forum in Beijing. Talks on the treaty began in 2008 as both countries sought to increase mutual investment, which only accounted for a tiny share of their overseas investment. Last year, bilateral trade volume increased to $520 billion, and outstanding two-way investment rose to $100 billion. At last month's summit, the world's two biggest economies agreed to accelerate the bilateral investment treaty negotiations with the aim of achieving agreements on the treaty's core issues and major provisions by the end of the year. Both countries agreed more resources were needed in the negotiation process to cement a comprehensive high-standard bilateral investment treaty, according to the Chinese Foreign Ministry. At the forum, the vice finance minister also said China had noticed an American think tank's proposal of a Sino-US free trade area, adding that China was open to suggestions that could benefit global economic integration and promote world economic growth.

Source: Xinhua: Sino-US investment treaty sees major progress, 2014-12-17

China-US talks on trade conclude with fruitful outcomes

CHICAGO -- The latest round of the annual China-US high-level talks on trade and commerce ended here Thursday afternoon, with both sides hailing the "important consensus and outcomes" they achieved as well as the significant changes they introduced to the decades-old mechanism. The 2014 China-US Joint Commission on Commerce and Trade (JCCT), also known as the 25th JCCT session, opened Tuesday in this US Midwest metropolis and co-chaired by Chinese Vice Premier Wang Yang and US Secretary of Commerce Penny Pritzker and Trade Representative Michael Froman. US Secretary of Agriculture Tom Vilsack also attended. It was the last major bilateral event in a year that marks the 35th anniversary of the establishment of China-US diplomatic ties. It also came on the heels of US President Barack Obama's Beijing tour in November, during which he and Chinese President Xi Jinping agreed to further push the building of a "new model of major-country relationship" between the world's two largest economies.

"This JCCT session added a perfect finishing touch to this year's development of China-US relations, and also laid a solid foundation for our bilateral economic and trade cooperation next year and in the long run," Wang, who arrived in Chicago Tuesday, told the American hosts during their initial talks. He also expressed the belief that China and the United States have much more common interests than differences, and that their economic and trade cooperation will prosper as long as the two countries can "seek common ground while reserving differences" in the spirit of mutual respect, mutual understanding and mutual accommodation. Sources with the Chinese delegation told Xinhua that during the session, the US side also repeatedly emphasized the significance of US-China cooperation for both economies and the world economy at large, and expressed its readiness to work with the Chinese side on the basis of mutual respect and mutual benefit to lift economic and trade ties to a new height.

Source: Xinhua: China-US talks on trade conclude with fruitful outcomes, 2014-12-19

A Comparative Study of Suburbanization in United States and China

Suburbanization as a topic of urban geography is always an important subject. This study responds to the recent call for a "comparative (re) turn in urban studies" by comparing suburbanization in the US and China. The comparative perspective offered here focuses on the "differences" rather than the similarities. This study clarifies one of the significant differences between the US and China, suburbanization has not weakened the functionality of city centers in China in the way it did in the US: 1. Unlike the US, suburbanization has not weakened the economic
function of city centers in China because of the different administrative jurisdiction system. 
2. When 
suburbanization is taking place, city centers gain even more political powers in China. 
3. Despite the fact that 
people moved out to the suburbs, city centers are still the places where the best living condition and most job 
opportunities exists.

China eyes more free trade parks to invigorate growth

BEIJING -- Just more than a year after the successful launch of the China (Shanghai) Pilot Free Trade Zone 
(FTZ), the government is planning several similar zones to invigorate the faltering economy. The decision to 
establish three free trade parks in Guangdong and Fujian provinces, and Tianjin Municipality, was announced after 
a State Council executive meeting last week in hopes of replicate the Shanghai model's success. The new parks will 
focus on the experimental policies made in the Shanghai zone, but will also be allowed to add new elements 
according to local conditions, said the statement released after the meeting. "This means some 70 percent to 80 
percent of the plans for the three regions will be identical with those for Shanghai," said Sun Yuanxin, professor 
with the Shanghai University of Finance and Economics.

Apart from those experiments, analysts expect the trade park in Guangdong to excel in customs clearance and 
financial reforms due to its proximity to Hong Kong and Macao. The Fujian park is predicted to have more 
favorable policies concerning trade with Taiwan, and the Tianjin park will center on financial leasing. 
"Differentiated competition will help explore better experiences to serve the national reform and opening-up," Chen 
Bo, an expert from Shanghai University of Finance and Economics, said. Although detailed plans for the three trade 
parks have not been made public, the market has reacted positively to the news, with stocks related to the concept 
increasing on Monday. The move came as China's growth slid to a low not seen since the 2008/2009 global 
financial crisis in the third quarter, dragged down by a housing slowdown, softening domestic demand and 
unsteady export.
Source: Xinhua: China eyes more free trade parks to invigorate growth, 2014-12-15

China plans major joint projects on Silk Road

China plans to carry forward the Silk Road initiative and kick off major joint projects, as the contract value of 
service outsourcing within the region soared by 22.3 percent to $10.61 billion from January to November, said the 
Ministry of Commerce on Tuesday. Also known as the Belt and Road initiatives, the country is building the Silk 
Road Economic Belt and the 21st Century Maritime Silk Road and has implemented agreements totaling $8.05 
billion in the first 11 months this year, up 31.5 percent. "China will promote connectivity in transportation, energy 
and telecommunication with countries along the Silk Road, and encourage companies to increase investment and 
set up industrial parks beneficial to regional economy," said Shen Danyang, spokesman for the Ministry of 
Commerce.

The Asian Infrastructure Investment Bank and Silk Road Fund will help bankroll a series of major projects, 
Shen added at a press conference on Tuesday. Promoting regional prosperity is the primary goal behind building the 
modern Silk Road, since economic development of the countries along the Road stands at a low level, with per 
capita gross national income amounting to only 46.4 percent of the global average, according to Chinese Premier Li 
Keqiang. Shen added that the outsourcing agreement helps promote service trade and enhance cooperation with 
countries on the Silk Road. China had 27,686 service outsourcing enterprises with six million employees as of Oct 
31.
Source: Dai Tian: China plans major joint projects on Silk Road, China Daily, 2014-12-17

The U.S. Needs a Free-Trade Deal With China
The Peterson Institute for International Economics' recent study, "Bridging the Pacific," concludes that such a trade agreement would be of great benefit for both countries. U.S. exports would increase by almost $400 billion a year, and U.S. national income would rise more than $100 billion annually. There would be 1.7 million export-related jobs added to the U.S. economy over 10 years, and American consumers meanwhile would benefit from lower prices and wider product choices.

China's national income would increase by more than $300 billion a year, helped by a dramatic boost in foreign direct investment between the two countries. At present, the U.S. has in China about $50 billion of FDI stock (about 2% of China's total FDI), which are direct investments in companies, while China's FDI in the U.S. is around $36 billion. With a bilateral free-trade agreement in place, U.S. FDI could rise in five years to $160 billion, and China's FDI in the U.S. could rise to $122 billion. This would help reposition the U.S. -- the world's leading investor -- to benefit from future growth in the world's second-largest economy.


**China to prevent intl firms from avoiding tax**

BEIJING -- Chinese taxation authorities pledged to step up supervision of multinational companies on Monday in a campaign to crack down on tax avoidance. Zhang Zhiyong, deputy director of the State Administration of Taxation, said China will comprehensively monitor the profit levels of foreign companies to make sure there is no "base erosion and profit shifting" (BEPS). A company may erode a country's tax base by using a number of schemes to shift profits across borders, taking advantage of tax rates that are lower than in the country where they earn the profits. "China will coordinate with other countries to clamp down on BEPS plotting and cross-border tax avoidance," said Zhang. China is the world's largest destination for foreign direct investment and faces the challenge of varied tax avoidance techniques.

Last month in Brisbane, Chinese President Xi Jinping and other G20 leaders promised further efforts to stop tax avoidance, including measures to modernize international tax rules, prevent cross-border tax evasion, and exchange information among member countries and with other countries. Zhang said China will actively engage in global cooperation to fight BEPS activities and other tax avoidance schemes.

Source: Xinhua: China to prevent intl firms from avoiding tax, 2014-12-02

**Corporate News: Wal-Mart Addresses Price Issues In China**

Wal-Mart Stores Inc. said it found pricing discrepancies in its China operations three years ago and has since moved to strengthen compliance policies and procedures in the key growth market. The Bentonville, Ark., retailer said in a statement on Thursday that its employees in China recognized pricing problems, prompting an "extensive investigation" that involved external legal and accounting firms. Wal-Mart determined that the pricing issues weren't material to its operations, the statement said. Wal-Mart said it put in place new compliance measures that included training, regular auditing and communicating "approved practices to management and all relevant departments," the statement said. Wal-Mart's China division has hit obstacles-- from government fines to stiff competition-- in the Chinese market over the past three years. Same-store sales in China declined 1.6% from a year earlier for the quarter through July. Consumers have pulled back on gift cards and other purchases tied to gift-giving, executives say. Industry experts say Wal-Mart is also facing stiffer competition with domestic rivals and e-commerce companies.

The Wal-Mart statement said the investigation led to changes in leadership in 2011. That year, Wal-Mart's China chief resigned after officials in the southwestern city of Chongqing closed stores and detained workers, alleging that the retailer was selling ordinary pork as the more expensive organic variety. Wal-Mart said at the time that the executive left for personal reasons. Also that year, the National Development and Reform Commission, China's economic planner, fined Wal-Mart for pricing violations. A person familiar with Wal-Mart's China
operations said the fine was tied to price discrepancies. China is a major growth market for Wal-Mart. The retailer plans to run 480 Wal-Mart stores in China by the end of 2016, adding to its current 400.


**ODI may outpace FDI in investment flows this year**

Outbound direct investment by Chinese enterprises could exceed inbound foreign direct investment for the first time this year as companies diversified their activity around the world from infrastructure projects to technology and brands, a government spokesman said. China's non-financial ODI rose 11.9 percent to $89.8 billion during the first 11 months, while non-financial FDI was up just 0.7 percent to $106.24 billion, the Ministry of Commerce announced on Tuesday. Shen Danyang, spokesman for the ministry, said that when the full-year figures are tallied, they are likely to show that ODI exceeded FDI, even though China does not specifically aim to be a capital exporter. Chinese companies invested in 153 countries and regions between January and November. Seven destinations accounted for almost 75 percent of the total, including the Association of Southeast Asian Nations, the European Union, the United States, Australia and Russia. Structural changes are taking place in the global economy, offering Chinese enterprises some opportunities for internal transformation. Domestic companies are also looking to get more "bang for the buck" overseas, especially in emerging markets.

China can draw on its international experience in its own drive to urbanize, innovate and develop a modern service sector, said Shen. Boosted by strong demand in Africa and emerging markets such as Latin America and Oceania, Chinese contractors' turnover totaled $121 billion in the first 11 months, up 10.6 percent year-on-year. These companies signed $161 billion worth of new contracts and sent about 500,000 workers to different locations throughout the world. "The robust growth of China's outbound direct investment will not change in the short term. The economic situation demands that domestic companies deploy more people and resources to fuel their growth in overseas markets," said Zhou Mi, a researcher at the Chinese Academy of International Trade and Economic Cooperation. According to Zhou, Chinese investment no longer focuses on infrastructure projects and natural resources. Enterprises such as China CSR Corp, Huawei Technologies Co and Sinochem Group are now quite able to build manufacturing facilities to produce advanced products of their own in foreign markets. China's ODI reached a record high of $108 billion in 2013, making it the world's third-largest investor for a second consecutive year.

Countries on the Silk Road Economic Belt and 21st Century Maritime Silk Road, two initiatives proposed by China to promote regional integration and facilitate trade on the Eurasian continent and in the Pacific and Indian Ocean regions, have been doing more business with China this year. The contract value of service outsourcing and implementation agreements totaled $10.61 billion (up 22.3 percent) and $8.05 billion (up 31.5 percent), respectively, from January to November. During that period, 629,000 people joined the service outsourcing sector. Almost 70 percent held tertiary qualifications, demonstrating that better-educated workers are assuming a larger role in China's labor exports. Shen Danyang, spokesman for the Ministry of Commerce, said that these sectors will facilitate cross-border business, tourism and educational exchanges. "This has become an important way to reduce the pressure in the domestic job market, and it will offer great opportunities for Chinese workers to gain international work experience," he said. China had 27,686 service outsourcing enterprises with 6 million employees as of Oct 31.

Source: ZHONG NAN: ODI may outpace FDI in investment flows this year, China Daily, 2014-12-17

**UK becomes top destination for outbound deals**

The rapid increase in Chinese investment in the United Kingdom is set to continue in 2015. According to the Chinese embassy, the first seven months of this year saw a surge of money from the mainland. Chinese companies completed nine major mergers and acquisitions during that period, which were valued at more than $5 billion—a
larger figure than in all of 2013. One prominent investment involved Nanjing-based Sanpower Group Ltd, owner of the Nanjing Xinjiekou department store, which agreed in April to take control of retailer House of Fraser in a deal valuing the company at more than 450 million pounds ($745 million), including 250 million pounds of debt. It was the biggest international retail acquisition by a Chinese company. Cumulative investment by Chinese companies in the UK stands at almost $40 billion, including a 10 percent stake in Thames Water Utilities Ltd, Britain’s biggest water utility, held by the China Investment Corp, the sovereign wealth fund. The $40 billion from China is twice the size of total flows the other way, and it makes the UK the largest recipient of Chinese investment in the European Union. Property, financial services, information technology, advanced manufacturing, infrastructure, the creative industry and retail are popular sectors for Chinese companies investing in the UK.

For example, a large real estate deal was carried out by China Life Insurance Co, the country’s largest insurer, which together with Qatar Holding LLC bought a building in London’s Canary Wharf for 795 million pounds in June. In June, China Construction Bank Corp, which has been selected as the first Chinese bank to provide yuan-clearing services in the UK, bought a central London office building off-market for about 110 million pounds. Investment into the UK is expected to rise again next year as Chinese capital seeks a safe haven for outbound investment. China’s outbound direct investment reached a record high of $108 billion in 2013. ODI reached $74.96 billion for the first nine months of this year, up 21.6 percent year-on-year, and the upward trend is set to continue. As Chinese companies expand their global reach, they see the UK as a major base in Europe. Many Chinese companies established their European headquarters in the UK. The UK has generally welcomed Chinese investment. Officials such as Prime Minister David Cameron and Chancellor of the Exchequer George Osborne have even sought to attract more Chinese investment. The view on Chinese investment is becoming more positive among people in the UK, who have come to understand the motivation, behavior and impact of Chinese companies. The rapid growth of Chinese companies in the UK, organically and through acquisitions, is significantly contributing to the UK's economic growth and creation of jobs. More importantly, both China and the UK are promoting and extending cooperation. Examples of this include high-speed railways and nuclear power stations. There are many reasons to believe that China's ODI will continue to heat up and the UK will remain a primary destination for that capital.

Source: ZHANG CHUNYAN: UK becomes top destination for outbound deals, China Daily, 2014-12-23