China Business News in Brief

China Faces "Worse-Than-Expected" Risks

One of China's leading economic planners said the nation is currently facing a "worse-than-expected" impact from the global economic downturn.

It is "still very hard to say" when the global financial crisis will hit China with its full strength, Zhang Ping, Minister of the National Development and Reform Commission, said during China's three-day national economic planning conference.

"Amid the domestic and global risks and uncertainties, coping with sliding economic growth is top of the government's work agenda," Zhang said. China has for many years depended heavily on its exports, which account for 40 per cent of GDP, as well as state-funded capital investment programmes.

The government is aiming for a minimum growth rate of eight per cent for 2009, a number that is contended by both Chinese and foreign economists.And Zhang says China is unsure when the crisis will ease. "The worsening turmoil is likely to last for a long time, and the global economy will experience a relatively long period of downturn and adjustment," he said.

China Not Interested in Western Financial Companies

The China Investment Corp, the state's USD200 bn sovereign wealth fund, is not interested in rescuing Western financial companies.

"On the one hand, the U.S. needs us; on the other hand, they are suspicious toward us. They want us to invest at their will. That is not sincere cooperation," Wang Jianxi, Deputy General Manager, was quoted at a financial conference in Shanghai. Wang added that the American government had imposed restrictions on the investments by the CIC because it feared the fund was controlled by the government. This is something which could compromise U.S. national security.

This is the second announcement from the CIC within days underlining that the financial system has to change the rules if it wants the support from the Chinese sovereign wealth fund. Last week, Lou Jiwei, Chairman of the China Investment Corporation, said the sovereign wealth fund is not considering an investment in a foreign financial company. "I don't dare to invest in financial institutions now," he said.

Insurers Help Finance Property Projects

Insurance companies are allowed to invest in China's infrastructure projects as the government is financing the RMB4 trillion stimulus package.

It is the first time that insurance companies are able to invest in infrastructure and property projects, state media reports. The insurance fund has reportedly RMB2.88 trillion to spend. The government will "guide insurance companies to invest, as creditors, in infrastructure projects, such as transportation, telecom and energy facilities, as well as rural infrastructure projects", the State Council announced.

In November, China announced a RMB4 trillion stimulus package to keep growth figures above 9 per cent in 2009. Several provinces have also launched investment projects of several trillions to offset the reduction in global demand for products made in China.

Hong Kong Losing 1,000 Jobs A Week

A new survey claims that Hong Kong is losing nearly 1,000 jobs a week in what is perceived as the biggest economic downturn since the SARS crisis in 2003.

The survey, carried out by the South China Morning Post newspaper reveals that almost 6,000 jobs have been lost in Hong Kong in the past six weeks. An additional 4,600 layoffs have already been announced for the weeks and months ahead.

Banks and other service providers are being hit the hardest. In November, HSBC said it will dismiss 450 employees due to the economic slowdown. Statistics show that the financial sector has lost 1,780 jobs so far, followed by the property and construction sector, with 1,300 jobs losses.

The unemployment rate is expected to hit 4 per cent in the months to come, the SCMP predicts. The slump has reportedly led to the biggest exodus of expatriates since 2003, when Hong Kong was hit by the SARS crisis.

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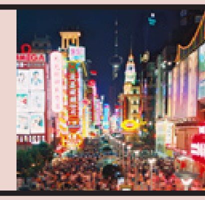
CBC Business Consulting Newsletter

CBC China News 中国

January 2009
Volume 2 Issue 2



Boosting Consumption

Fixing Health Care

Business News

Legal And Economic News in Brief

Apple Wins Trademark Dispute

Apple Inc. has won a trademark lawsuit against New Apple Concept Digital Technology Co. Ltd., state media reports. The Chinese company was ordered to pay RMB400,000 in compensation to Apple for trademark and logo infringements. The American company argued that the Shenzhen-based firm used the name "Apple" and a similar logo although it has an exclusive right on the trademarks in China until 2013.

Companies Need Approval For Layoffs

Companies in Shandong and Hubei province need governmental approval for mass layoffs. In Shandong, where reportedly the number of jobless people rose by 680,000 in the first nine months in 2008, firms letting go more than 40 workers first need "to apply for approval", state media reports. In Hubei province, companies firing 50 or more employees, must inform the local government first. Officials say companies are advised to "cut salaries rather than jobs."

China Removes Price Controls For Food

China's top economic planner announced its decision to cease its interim price control measures on grain and some food products, which it imposed earlier this year to curb inflation. The commission introduced national price controls on grain, food processed from grain, edible oil, meat, milk and eggs on January 15.

Inflation Slows To 2.4 Per Cent

China's inflation has eased to 2.4 per cent in November, the lowest level since January 2006, newest figures of the National Bureau of Statistics show. The low number is "providing more room for the central bank to cut interest rates, as the country is racing to prevent a severe downturn," state media reports. Food prices, which make up a third of the consumer price index, have risen 5.9 per cent year-on-year, down from 8.5 per cent in October.

Exports Drop, Surplus Soars

Exports decreased 2.2 per cent to USD114.99 bn in November, newest statistics show. It is the first monthly decline in seven years, a custom official said. At the same time, China's trade surplus soared to a record USD40.09 bn as imports fell 17.9 per cent year-on-year to hit USD74.9 bn. "The figures are horrifying," Bloomberg quotes Lu Zhengwei, Chief Economist at Industrial Bank. "Plunging imports show that on top of faltering global demand, domestic demand is also shrinking as the economy cools." Goldman Sachs said it revised its 2009 growth outlook for China from 7.5 per cent to 6 per cent.

China's FDI Fell In November

Foreign direct investment into China fell 36.52 per cent in November year-on-year, to USD5.3 bn, state media reports. Year-to-date figures, however, are up 26 per cent, to a record USD86.4 bn. November's USD5.3 bn represents the weakest inflow in 14 months, the Ministry of Commerce said in a statement. But some experts were expecting lower figures. "The decrease [in FDI] does not come as a surprise, and is a result of the strong RMB and the economic slowdown," said Markus Knoepfler, consultant with Beijing-based FinanzConsulting Group. The recent depreciation against most international currencies did not have an immediate impact, Knoepfler added. Total foreign direct investment in the period from January to November stands at USD84.6 bn, compared to USD74.8 bn for the entire 2007 year. In the first six months of 2008, FDI into China grew 45.6 per cent year-on-year.

Chinese Public Holidays 2009		
Chinese New Year:	25-30	January
Qingming:	4-6	April
Labour Day:	1-3	May
Dragon Boat Festival:	28-30	May
China National Day:	1-8	October

China's Dilemma with Rising Exports and Slowing Consumption

As export growth is slowing for the first time in seven years, the Chinese government is considering shifting to a more domestic consumption-based economy. But the current economic slowdown is making it more difficult than Beijing could have imagined.

China's economy grew over 10 per cent in the past years but the numbers of the last quarter of 2008 and the forecast for 2009 leave no hope that the party continues. Within a couple of weeks, the government had to changes its policies. While it fought an overheating economy and a 7 per cent inflation rate until late summer of 2008, the current economic circumstances forces policy makers to change their focus entirely.

In China's eyes, the current economic slowdown must be fully attributed to the United States' failure of controlling its financial system. And it is not unusual when Chinese politicians or key officials criticize the American way of life. Central Bank Governor Zhou Xiaochuan urged the United States to raise its savings rate and reduce the budget and trade deficits. Excessive consumption and over-reliance on debt in the United States. "were key reasons for the crisis," he concluded.

To China, the global economic slowdown meant tens of thousands of company closures, mostly in Guangdong province but also in many other regions, hundreds of thousands of job losses, slumping exports, lower growth for its industrial output, lower property sales and dropping prices, raising unemployment and additional pressure on its currency, the RMB. The challenges are many and Beijing needs to reposition the country in the world economy.

Focus on investment and consumption

It is therefore no surprise that the government is seeking a way out of its dependence from other countries. The economy relies for a big part on its exports; some statistics suggest that exports make up almost 40% of total GDP (however, exports are measured as gross revenue while GDP is measured in value-added terms. A study by UBS found that the "true" export share is therefore just below 10% of GDP).

The other factors that make up the GDP, investment and consumption, have traditionally played a more important role than government spending. But this is about to change as Beijing announced a RMB 4 trillion (USD 586 billion) stimulus package to keep its 1.3 billion people busy and the economy in shape. Officially, this trillion investment must keep the growth rate above 9%, the government said in November (see box "In the News").

But the most recent plan of Beijing is to target consumption. Growth rates for consumption have been above 23 per cent for the last months, hitting a record high in June with 23.3%. In November, however, this rate slumped to 20.8% and a further slowdown is expected for December and 2009. From January to November, the average growth rate stood at 21.9%. This translates to RMB 9.78 trillion (USD 1.4 trillion).

A new plan, announced in the middle of December, is targeting five sectors to boost domestic consumption:

- Agriculture
- Low-cost Housing
- Infrastructure
- Energy Conversation
- Social Welfare

The government did not say how much money it will spend to stimulate these sectors. The RMB 4 trillion that it has announced some weeks earlier might well be all that it is able to spend. But more important than the figures is the commitment of the government to shift from an export-led economy to a consumption-based system; here illustrated with the words of the state media:

The new move… [is] expected to counter the negative impact posed by the global financial turmoil and economic recession, which has caused a sharp decline in export in the third quarter of this year.

Demand is shrinking

With these measures, China tries to reduce its dependence from the United States and the European Union, which make up the bulk of exports. But recent trade figures show that this will not happen anytime soon as China's trade surplus hit a new all time high with USD 40.09 billion in November due to a 17.9 per cent slump in imports. Imports haven't fallen so much in recent years and economic data in December and January will show what this exactly means for consumption. But it is certainly not good news. "Plunging imports show that on top of faltering global demand, domestic demand is also shrinking as the economy cools," Goldman Sachs said.

In addition to lower domestic and international demand, the Shanghai stock market, in which millions of Chinese have invested a good part of their savings, has lost close to 70% of its value in less than a year. The ongoing decline in property prices, up to 40% in the southern city of Shenzhen for example, has put additional pressure on households. Millions of people have become rich thanks to increasing real estate prices in the last 10 years. "The party has ended," said one analyst with Deutsche Bank. The stock market and the property market are two more factors that make it difficult for the growing middle class to spend more. China's plan to boost consumption may just come at the wrong time as money is locked in the market or under the mattress with a savings rate of close to 40% of GDP.

Economists and politicians that say China has already started transitioning toward a new growth model based less on exports and investment and more on household consumption will have to think again, argues a recent article in Newsweek. "We would love to believe it too, but it just ain't so," wrote Stephen Green, a China Economist with Standard Chartered bank. He says expecting Chinese spending to save the world from recession is "a pipe dream."

The article on page 3 of this newsletter discusses the reasons why people don't dare to spend their savings in China.

In The News

Growth Rates For 2009 Vary

Wang Tongsan, Senior Economist at the Chinese Academy of Social Sciences, said "China can achieve 9% GDP growth, or even higher" in 2009. While foreign banks and analyst are expecting between 6 and 8% growth, Wang said "the possibility is quite high - it could be at least 70 percent possible that GDP growth reaches 9% next year." In November, the government said its USD586 bn stimulus package will ensure 9% GDP growth but then, in December, revised its target saying that it will cut the business tax from 5 to 4% to "ensure GDP growth of at least 8 per cent". The reduction would result in a RMB120 billion tax cut for companies and individuals. The 8% were confirmed by Liu Mingkang, Chairman of China's Banking Regulatory Commission, as he said in mid-December that "we take 8% as our bottom line."

China Statistics and Numbers

- Foreign Direct Investment dropped 36.52 per cent year on year in November, to USD5.3 bn, the Ministry of Commerce said. In the first 11 months of 2008, FDI grew 26.29 per cent, to USD86.4 bn, a new record high.

- China's inflation slowed to 2.4 per cent in November, the lowest level since January 2006, according to the National Bureau of Statistics. Food prices, which make up one-third of the consumer price index, rose 5.9 per cent year-on-year, down from 8.5 per cent in October.

- Chinese exports decreased 2.2 per cent, to USD114.99 bn, in November. It is the first monthly decline in seven years. At the same time, China's trade surplus soared to a record USD40.09 bn, as imports fell 17.9 per cent year-on-year, to USD74.9 bn.

- If unemployment rises to above five per cent, "social stability could be threatened," state media quotes a senior lawmaker. Some 24 million people will compete for 12 million jobs in 2009, the Ministry of Human Resources and Social Security said. China's current unemployment rate is officially "below 4.5 per cent".

- Capital raised from IPOs in China amounted to a mere USD21.8 bn from January to November 2008, a report by market research company Zero2IPO said. This is down 70 per cent compared to 2007. The number of domestic IPOs decreased from 76, while overseas IPOs by Chinese firms dropped to 37.

There is no quick fix for China's health system

One way to make people spend more is taking off the burden of skyrocketing health costs. Policy makers know this is crucial to lower the savings rate and combat the looming economic downturn in 2009. But a health system for 1.3 billion people cannot be fixed over night.

As foreign investment and exports drop, China's government is determined to push consumption. This isn't as easy as it looks, despite a savings rate of close to 40%. Chinese households are reportedly sitting on savings worth USD 3 trillion, money that is set aside for unforeseeable incident such as health care costs.

State media reported in December that "814 million rural residents had joined the [new health care] system as of September". This equals about 91.5 per cent of the total rural population and is funded by RMB 100 per person of which the government pays RMB 80. So far, the fund has collected RMB 71 bn.

And still, an operation or a serious illness can wipe out a family's savings as the health care system is not paying all the fees and charges in full. Hospitals ask for upfront payment and doctors are often improving their income substantially by subscribing more drugs than necessary for inflated prices.

Economists call to revamp the health care system to unlock a good part of the USD 3 trillion in savings people have on their bank accounts or under their mattresses. "It is in the interest of the government to develop the social safety net fast. It will stimulate consumption. [Chinese] save because they are frightened of getting sick," Newsweek quotes Huang Ming, a professor teaching at Beijing's Cheung Kong Graduate School of Business.

The government knows it has to act and no one would argue that fixing a health care system for 1.3 billion people is something that can be done easily and in a short period of time. In 2006, the government has spent USD 143 billion for health; in 2007 the number has hit USD 219 billion. In addition, policy makers are working hard to develop new pilot schemes including fixed drug prices, a recommended drug-purchase list and price labels laws to prevent people of being cheated. Once this is taking place, the economy could benefit from an improved and streamlined health care system that allows people to save less and spend more. But again, the benefits of a reform won't have an effect on the economy in the short run, the country's size and population is making a quick fix impossible.

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