



Multinationals face rising competition for talents from local rivals.

Katie Wang, at Aon Hewitt PAGE 15

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**IKEA opens its 9th China store in Shanghai in June, the biggest of its kind in Asia, attracting large crowds of consumers. The Swedish furniture and home improvement retailer is speeding up store opening in China. PAGE 8** Photo: Sohu.com

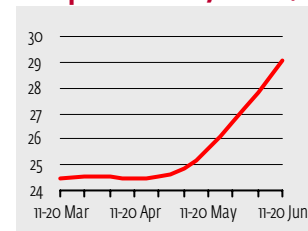
## Swedish Sav to sell sap sparkling wine to China, and Nordic lifestyle too

"The Chinese see this in a wider context – it has do to with selling the peace and quiet and healthy lifestyle that we have here in Jämtland – and this includes everything from clothes to tourism," says Peter Mosten, founder of Sav sparkling wine made of birch sap which is entering the Chinese market. PAGE 5

## Pork under limelight again

The unglorious pork jumps onto the centre of the stage again, as the record-breaking pork prices threaten to push consumer inflation to new highs. The upward curve of pork prices is expected to extend in coming months. PAGE 6

**Pork price in cities, in RMB/kg**



## Volvo to invest RMB 4.6bn in 2nd China assembly

Volvo Car obtains approval from China's environment ministry, which reveals more details about its car assembly in Daqing. Volvo's PR manager Stefan Elfström says a board decision is expected during autumn. PAGE 10

## Danish Stelton angry about IPR dispute in China

"I will not negotiate with bandits," says Michael Ring, owner & CEO of Danish design firm Stelton, which finds it has to fight back its brand name in China where it has productions. PAGE 8

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**MANUFACTURING****CHEMICALS****Bayer expands R&D in Shanghai, to double sales**

**Bayer MaterialScience**, a unit under the German pharmaceutical and chemical producer **Bayer AG**, started in June constructions of the third phase expansion of its polymer R&D centre in Shanghai.

"This is Bayer MaterialScience's only R&D facility in China, now focusing on the domestic and Asian markets. When the expansion is completed in H2 2012, it will become one of our global innovation centres with the R&D capacity for the world market," says Susan Zheng, a Bayer spokeswoman, to news2biz.



**Dr. Marijn Dekkers (centre), chairman of Bayer's board of management, attends the groundbreaking ceremony for expanding the R&D centre in Shanghai.** Photo: Bayer

After the expansion, the number of engineers at the R&D centre is expected to nearly double from the current 130. The facility will then

have a full range of R&D expertise and include solutions-focused offerings for customers in specific industries such as mobility, renewable energy and construction.

Meanwhile, its R&D activities will re-structure to focus on distinct industries, enabling the centre to provide industry-specific solutions.

**EUR 1bn investments**

The expansion of the R&D centre is part of Bayer's plan of additional investment of EUR 1bn in China by 2016, which was announced in December 2010.

The investment covers expansion of chemicals facility in Bayer's plants in Shanghai, building five new downstream chemicals facilities in China (see no 164 page 3) and moving the global headquarters for polycarbonate activities from Leverkusen to Shanghai, among others.

With the aggressive investments, Bayer AG wants to more than double its sales in China from less than EUR 3bn in 2010 to EUR 6bn in 2015, said Bayer's Management Board Chairman Marijn Dekkers in Shanghai in June.

China is Bayer's largest market in Asia-Pacific, and its third-largest single market globally, contributing almost 8.3% of global sales. In 2010, Bayer generated sales of EUR 2.9bn in China, an increase of almost 40% from 2009.

We have talked to

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**CHEMICALS****Solvay invests EUR 120m in plant, 16m in JV in Tianjin**

**Solvay**, a Brussels-based chemical company, will invest EUR 120m in a large specialty polymer plant in Jiangsu and pay EUR 16m for a 30% stake in a joint venture in Tianjin, reflecting the company's eagerness to expand in China.

"We have many new initiatives planned and we will grow Solvay big and strong in China," said the company in its 2010 annual report.

The new specialty polymer plant will be built at Solvay's industrial site in Changshu, Jiangsu province, and is expected to become operational at the beginning of 2014. Beside the plant, a Solvay compound factory is under construction in the site which will begin productions in Q4 2012.

Solvay said its specialty polymers are used for a variety of applications. Markedly, the buoyant automotive market is a big push of demand for such polymers.

"The plant in Changshu will transform the site into a strong industrial base for fluorinated polymers and their essential strategic feedstock in China. We can this way leverage the Chinese fluorine supply chain, be closer to our customers and diversify our supply basis," said the company in a press release.

**Soda ash JV**

Also in June, Solvay announced to tie up with **Tianjin Soda Ash Plant**

for a new soda ash facility in the port city in North China. Besides acquiring the 30% stake, Solvay will also provide guarantees on loans, bringing the total committed and invested amount to almost EUR 60m.

The plant with a yearly capacity of 800,000 tonnes of soda ash and related products such as bicarbonate and 800,000 tonnes of ammonium chloride is in the start-up phase. The plant will be fully operational by mid-year 2011. Solvay will commercialise yearly under its own brand name 220,000 metric tonnes of soda ash and 30,000 metric tonnes of bicarbonate.



**Solvay's office building in Shanghai.**

Photo: Solvay

"This investment will give Solvay a new access to the very large Chinese market. We can furthermore capitalise on the strengths of Tianjin Soda Ash Plant and its parent company **Bohai Group** to develop this joint venture into one of the strongest soda ash suppliers in China," said Solvay in a separate press release.

Solvay's number of employees in Asia increased to around 1,200 in

2010, among its 16,800 employees globally. The payroll expansion will continue in 2011 as its three R&D centres created in 2010 in Asia, including one in China, come into full implementation this year.

"Talent recruitment and retention has become a key priority, particularly in China," said the company.

We have talked to

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## STEEL

### Raw steel output keeps refreshing record in May

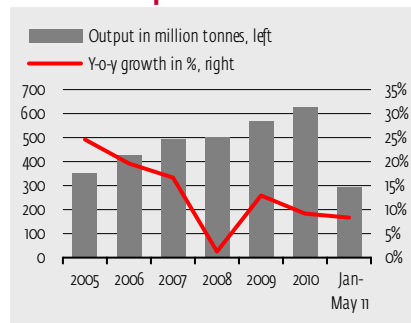
After hitting new daily record in April (see no 174 page 4), China's raw steel output continued to make records in May – this time it was the total monthly output.

According to the National Bureau of Statistics (NBS), China produced a new monthly high of 60 million tonnes of raw steel in May, up 7.8% year-on-year.

Analysts said steel mills continued to run hotly, in spite of China's cooling policies since H2 2010, because they saw profits in most raw steel products.

Besides the export market remained robust. China exported 20 million tonnes of steel products in January-May, up 12% year-on-year. The total export value of steel products in the five months surged 45% to USD 20bn.

### Raw steel output slows in 2011



Source: NBS, National Bureau of Statistics

### To cool down in summer

However, on an average daily basis, raw steel output in May edged down by 1% from April, exhibiting the first sign of slowdown.

What is more, the summer heat in June-July will reduce construction activities, and thus push down the demand for construction steels.

Meanwhile, there are a number of other negative factors including the higher credit terms as China kept mopping up bank liquidity, uncertain prospect of the domestic economy and the slackening export demand due to the soft recovery in the USA and Europe.

In January-May, raw steel output stood at 290 million tonnes, up 8.5% year-on-year, cooling from the growth of 9.3% in 2010 and 12.9% in 2009, said the NBS.

## IN BRIEF

### Philips to acquire Povos

Dutch electronics giant **Royal Philips Electronics** plans to acquire **Shanghai**

**Povos Enterprise Co**, a home appliances manufacturer, for RMB 2.5bn. Povos produces electric shavers, hair dryers, rice cookers, etc., which can be a supplement to Philips' electronics business. The deal is subject to regulatory approvals and the companies will not announce it until it is closed in the coming months, said Chinese media reports.

### AT&S builds PCB plant

**AT&S (Austria Technologie & Systemtechnik Aktiengesellschaft)**, Europe's largest manufacturer of printed circuit boards (PCB), started to build a USD 620m plant in Chongqing, its second plant in China with the existing one in Shanghai (see no 172 pages 2-3). The local media said the annual output of the new plant is expected to top RMB 3bn, which will provide 4,000 jobs for Chongqing.

### Dow turns over USD 1bn in Q1

**Dow Chemical** turned over USD 1bn in Q1 in China which represented 8.5% of its global sales in the quarter. Peter Sykes, CEO of the US chemical company's China unit, said sales growth is expected to slow to some 15% per year in the coming years, after expanding by an average of 20% per year during the past decade in China. Thus, China is expected to become Dow's largest market in 10-15 years, overtaking the USA.

### Manufacturing keeps slowing

The preliminary reading of the purchasing managers' index (PMI) of manufacturing in June fell to an 11-month low of 50.1, said **HSBC**. That means manufacturing activities cool to the brink of the

boom-bust level of 50. The slowing PMI provides more proof that China's industry-driven economy is still on the curve of slowdown.

## FINANCE

### BANKING

### French Societe Generale to open 50 more outlets

French **Societe Generale** (SG) plans to open around 50 retail banking outlets in China over the next few years, in order to tap deeper into the growing Chinese market.

"We plan to expand to where our clients and market need us, where growth potentials are," says Annette Chiu, a spokeswoman of the French lender's China unit, to news2biz.



**French Societe Generale incorporated its China unit in August 2008, which allowed it to offer banking services in RMB.** Photo: Societe Generale

SG is the only French bank that provides retail banking services in China. It now operates 8 retail banking outlets in the country, offering a wide range of services in China

which cover commercial and personal banking, corporate and investment banking, and private banking.

"In China, SG positions itself as 'your bank of choice for value-added services' by leveraging its global retail banking networks, leadership in financial derivatives and asset management," adds Chiu.

Chiu does not disclose more details about the French bank's expansion plan. SG was not alone among European lenders to expand in China. In May, London-based **HSBC**, the largest European bank, announced to add at least 200 staff in China annually through 2016.

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## BANKING

### Foreign banks expand in China, worries of regulation

Foreign banks were growing at a faster pace than the sector average – the 127 foreign lenders operating in China expanded their total assets by 29% in 2010, said the global auditor **PricewaterhouseCoopers** (PwC), whereas the total banking assets increased by 20% last year.

Therefore, measured by assets, foreign banks' aggregate market share rose from 1.71% in 2009 to 1.83% in 2010, still lower than the peak of 2.36% in 2007.

"We expect foreign banks' market share to continue to grow slowly in the coming years. But it will remain

low unless more foreign banks start to offer retail banking services," says Raymond Yung, PwC China Financial Services Leader, to news2biz.

## Fact

# 1.7 trln

yuan is the total assets of foreign banks in China at the end of 2010, or 1.83% of China's total banking assets.

In retail banking, Chinese banks have the advantage of extensive networks which are still undergoing fast expansion.

"Market share is not the only criterion to measure the contributions of foreign banks. In the past decade, foreign banks have helped China's banking sector boost services and improve risk management, among others," adds Yung.

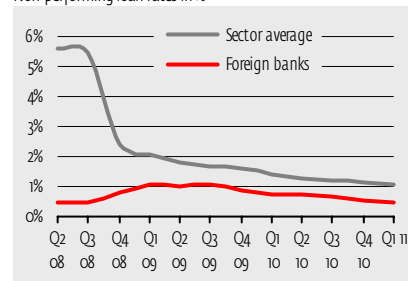
## Cautiously optimistic

Yung notes that PwC's annual study showed that foreign banks are still optimistic on the Chinese market which is expected to become the world's largest banking economy by 2023, overtaking the USA (see no 176 page 5).

In this year's survey, the 42 banks interviewed by PwC collectively expect to grow payroll by 53% to over 52,000 by 2014.

## Foreign banks do better in curbing NPL

Non-performing loan rates in %



Source: CAAC, Civil Aviation Administration of China

"The Chinese market is getting increasingly crowded. So if you act slowly, the chance of getting a foothold here will become thinner," says Yung.

## Regulation and staffing

China's tight regulation and the lack of talents remained as two of the top concerns among foreign lenders. Yung does not expect the concern to be alleviated, at least in near-term.

"The government will only become even more cautious in opening up new banking services, after witnessing the global financial meltdown in 2008-2009," says Yung.

"In fact, the regulatory limitations on domestic banks are as tight as those on foreign rivals," he adds.

Meanwhile, most banks expect the employee turnover and the salary increase to speed up, to above 15% and 10% or above, respectively, in 2011.

"Domestic banks are increasing salaries and benefits very quickly, which makes the supply of qualified

staff even tighter for foreign lenders," says Yung.

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## IN BRIEF

### VW ready to sell bonds

**Volkswagen** (VW) is ready to issue car loan-backed bonds in China by the end of 2012, if legislation is ready, said Stefan Rolf, head of securitisation at **Volkswagen Financial Services AG**. The German carmaker is eager to expand capacity. It raised RMB 1.5bn through a Dim Sum bond issuance in Hong Kong in May (see no 174 page 5).

### Citic buys into Crédit Agricole

**Citic Securities**, one of China's largest brokerages, will pay USD 374m for 20% stakes in **CLSA** and **Cheuvreux**, two subsidiaries under the French bank **Crédit Agricole**. The deal is part of the two companies' plan to create a global institutional brokerage platform and an Asia-Pacific-focused investment bank. As part of the deal, the two **Crédit Agricole** units may be merged.

### Macquarie raises USD 479m

**Macquarie**, the largest investment bank in Australia, and **China Everbright Ltd**, the Hong Kong-listed arm of financial conglomerate **China Everbright Group**, have in June raised USD 479m from global investors for a Greater China infrastructure fund. The investors of the first round of the fund-raising include **PGGM**, the 2nd largest pension manager in the Netherlands. The joint fund will

target infrastructure projects such as toll roads, airports and railways in China's Mainland, Hong Kong and Taiwan.

### BofA may sell CCB stake

**Bank of America Corp** (BofA), the largest US lender by assets, may sell half of its 10.6% stake in **China Construction Bank** (CCB), China's 2nd largest bank, to boost capital. A lockup period, in which BofA is prohibited from selling most of its shares in CCB, will expire in August. BofA spent some USD 12bn in acquiring CCB shares in 2005-2008 and has since 2009 been cutting its stake.

### More loans to SMEs

The China Banking Regulatory Commission has in June loosened its regulations over loans to SMEs, as China's repeated hikes of the required reserve ratio (see no 176 page 5) has made it harder for SMEs to get loans. The regulator now allows higher NPL rates for loans to SMEs and longer terms of loan extensions for SMEs, among others.

## FOOD & AGRICULTURE

### SAP

### Swedish Sav to sell sap sparkling wine to China

The Swedish company **Björksavsprodukter i Åre** has just concluded a preliminary agreement to start selling **Sav™**, sparkling wine made of birch sap, in China.

To the founder and entrepreneur behind Sav, Peter Mosten, this is not the end of the Chinese campaign.

"The Chinese see this in a wider context – it has to do with selling the peace and quiet and healthy lifestyle that we have here in Jämtland – and this includes everything from clothes to tourism. You could say that we will be merchandising different aspects around the concept of Sav and the environment surrounding it," says Peter Mosten to news2biz.



**Peter Mosten, owner and entrepreneur behind Sav, holding a bottle of the sparkling wine which is now on its way to China.** Image: Sav™

Sav is the Swedish word for sap. Sap from birches has traditionally been used as a drink and is tapped in the spring when the juices are rising in the trees following the winter. The reason that birch sap has been used is in addition to its mild taste its plenitude. A large birch transports up to 500 litres of water from its root system every day.

Peter Mosten's infatuation with birch sap and the possibility of mak-

ing wine from it dates back to 1989 when he and his wife had moved to Östersund, the capital of the historic landscape and county of Jämtland in the western part of central Sweden.

As a young and ambitious ecological engineer he had been charged by his professor with the task of indexing the 6 million documents in the archives of the Swedish engineer and inventor Gunnar Jęgrelius. Following 3 months of intense studies, he succeeded in making sense of the archive.

"The archive contains a description of more than 200,000 chemical substances dating from between 1700 and 1980 and among these was a recipe for sparkling wine based on sap, torn out from a Swedish book printed in 1785. I immediately tried the recipe and the result was... awful," says Peter Mosten.

But the scientist turned entrepreneur continued experimenting with the sap wine and eventually in 2005, his wife put an ultimatum to him – she would leave unless he would find another place for his sap wine. Unfortunately for Peter Mosten, the same year the Swedish air force base in Östersund and the local garrison was closed down due to defence spending cuts. This liberated a lot of prime property that was also well-suited for the production of food and beverages and the former barracks is today the location of Björksavsprodukter i Åre.

Peter Mosten does not want to reveal much about the production

process other than it takes a lot of time (3 years) and it involves both manipulation of pressure and temperatures.

In October 2008, Sav was for the first time listed in the assortment of the Swedish state alcohol monopoly **Systembolaget** and since then Sav has been sold to Denmark, Italy, Switzerland, France, Spain, Australia and Japan. In addition to China, the sap wine is about to enter the US and Canadian markets.



**The European Top Brands Cooperation Summit in Hangzhou, Sav's shortcut to China. Peter Mosten is no. 6 from the right.** Image: Sav™

Sav has been helped along by the success of the "New Nordic Cuisine" which propagates the rediscovery of local Nordic raw ingredients such as birch sap. The Nordic wave has focused the attention of the haute cuisine world to Scandinavia, e.g., leaving Copenhagen-based Noma (short for 'Nordisk Mad', Nordic Food) with the title as the "Best Restaurant in the World" in both 2010 and 2011.

The inconspicuous Jämtland company with the odd product has been a favourite of TV broadcasts. Already in 2009, it was on the CNN World Report and just recently, a

camera crew from German/French Arte high-brow TV channel visited Östersund to do a documentary on the company.

Sav's road to China started in early 2010 when it was announced that the company would be present at the Shanghai Expo the same year. In September, Sav was invited to Inaugural European Top Brand Cooperation summit that took place in Hangzhou.

"There were exclusive brands of handbags, jewellery and all kinds of luxury articles – and there was a little Sav from Sweden. I gave a presentation and I had just three bottles of Sav with me as the batch I had shipped was held back in customs in Shanghai, but the three bottles were enough to give a taste to 250 people there," says Peter Mosten.

Last Friday a group of Chinese visited Sweden based on the conference and according to Peter Mosten they ignored Stockholm and went straight to Östersund where they visited Peter Mosten who introduced them to the concept of Sav and the concept of Jämtland – nature, cleanliness, quiet life.

"They see the big picture – to them the Sav is just a part of the package," says Mosten.

We have talked to

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## PORK

### Cofco and Japanese to pour RMB 10bn for more meat

Cofco, China's largest food trader and a leading food manufacturer, has tied up with three Japanese firms, namely, **Mitsubishi Corp**, **Itoham Foods** and **Kumi Shoji**, to invest RMB 10bn in a joint venture to produce fresh meat including pork and poultry and processed meat products.

Cofco will own a 67% stake in the joint venture, and **MIY**, a company formed by the three Japanese firms, will take the remaining 33% share.

The Sino-Japanese joint venture will control **Cofco Meat Investment Co**, and aim to boost sales of the Cofco unit from RMB 2.3bn in 2010 to RMB 18bn by 2017.

### RMB 20bn to raise hogs

The move will create Cofco's largest joint venture for meat productions. Previously, Cofco had already started an ambitious plan in 2009 to invest up to RMB 20bn to raise hogs.

At that time, Cofco was triggered by high-flying pork prices and started to establish three large pig farms in Tianjin, Jiangsu and Hubei. Now, Cofco's farms can produce 1.5 million live pigs per year. Cofco has made it a target to boost the capacity to 10 million pigs per year.

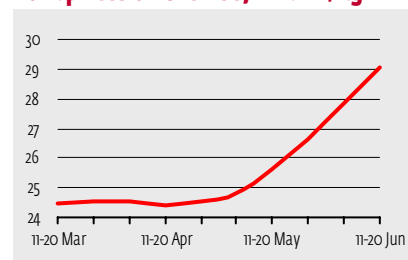
### Pork prices on the rise

Cofco's meat initiatives are more noticeable at a time when the flying pork prices are pushing up prices of

beef and poultry and even consumer inflation (see no 176 page 6).

Meanwhile, pork prices continued to go up relentlessly, refreshing historical records. According to the National Bureau of Statistics, the average retail pork price hit a new high of RMB 29 per kg in the ten days 11-20 June.

### Pork prices on the rise, in RMB/kg\*



\*The average retail prices of the pork rump in 50 big cities.

Source: National Bureau of Statistics

China has tried to cool down pork prices by, e.g., releasing frozen pork from state reserves and increasing import from the USA and Europe. But the measures may not work in any near term because Chinese consumers prefer fresh meat, instead of frozen meat.

## IN BRIEF

### Nestlé expands sausage plant

Nestlé, the Switzerland-based food giant, has in late May started to expand its plant in Dongguan, Guangdong province, which produces **Nestlé Maggie** sausage. Nestlé will invest RMB 320m to more than triple the capacity of the plant, up from the current 15,000 tonnes to

40,000 tonnes per year, when the expansion is finished in 2015.



**Nestlé wants to produce more Maggi sausage in Guangdong which supplies not only China, but also export markets.** Photo: Nestlé

### Bunge builds crushing plant

**Bunge**, one of the world's largest food producers, is investing RMB 1bn in a soybean crushing plant in Jiangsu, which will be its 4th plant in China, said the US company in its yearly report for 2010. Chinese media said Bunge is circumventing China's rule of prohibiting foreign investors to build new crushing plants in the country since 2008, as there was already a capacity glut in the sector.

### Snow acquires brewery again

**China Resources Snow Breweries Co**, China's largest brewer which is 51% held by **China Resources Enterprise (CRE)** and 49% owned by South African **SAB-Miller**, paid RMB 300m in June for an 80% stake in **Qinghe Moni Brewery Co** in Liaoning, consolidating its leadership in the Northeast China province. Hong Kong-listed CRE said it operated 70 breweries across China by the end of

March with a total brewing capacity of 146 million hl per year.

## PROPERTY & CONSTRUCTION

### CONTRACTING

#### China's COVEC kicked out of highway deal in Poland

**China Overseas Engineering Group Co** (COVEC), a subsidiary of **China Railway Engineering Corp** (CREC), one of Asia's largest construction and engineering companies, is in a crisis in Poland after Warsaw terminated COVEC's contract for constructing a section of the Berlin-Warsaw motorway in mid-June.

The Polish government may seek compensation of up to PLN 741m (or about USD 271m). Still, it may be a smaller loss than carrying out the contract which may cost COVEC a loss of some USD 394m.

COVEC won the contract for building the A2 motorway project in 2009 at a bid of PLN 1.3bn, less than half of Warsaw's budget of PLN 2.8bn. This was COVEC's first project in Poland, but it turned out that the company might have underestimated the difficulties.

One was the exchange rate, as the value of PLN rebounded significantly from its lows in 2009, together with the recovery of the Polish economy.

Besides, COVEC could not make advantages of the low-cost labour

from China, as the company had to hire local sub-contractors for a majority of the works. Chinese media said COVEC only hired some 500 Chinese workers for the A2 programme, less than one-sixth of the total number of labour for the project.

#### To sue Warsaw

Citing unnamed insider, Chinese media also reported that COVEC suffered an extra loss owing to the unclear geological conditions. COVEC has asked for to raise the price tag due to its extra work but was declined.

Thus, the consortium led by COVEC will sue the Polish government for compensation. The consortium includes **Shanghai Construction (Group) General Co**, **China Railway Tunnel Group Co**, and Polish **DECOMA Sp.zo.o**.

### PROPERTY

#### S&P: China's property sector turns negative

Credit conditions in China's real estate development sector have become increasingly challenging, leading **Standard & Poor's** Ratings Services to revise its industry outlook to negative from stable for that market.

"We are likely to see more negative rating actions among Chinese developers in the next 6-12 months because tightened onshore credit conditions and increasingly restrictive government policy have deepened the market downturn," said

S&P's credit analyst Bei Fu in a research note.

"Any meaningful slippage in sales will significantly weaken the developers' cash flow protection measures amid higher leverage and stiff competition," added Ms Fu.

Currently housing prices in China still remained stable, mainly because many developers shored up liquidity ahead of the anticipated market downturn. But more and more fissures have broken out as developers are offering more discounts for home buyers.

"Property sales were satisfactory in the first five months of this year, but we expect the sales momentum to slow as policy tightening starts to bite," said Fu.

"As a result, we expect meaningful price adjustments in H2 2011. If sales volumes remain sluggish, developers' liquidity will quickly dry up, suggesting sporadic price discounting will likely intensify," she forecasted.

#### Aftermath to banks

Bei Fu did not offer quantified projections as to by how big an extent housing prices will fall or how big an impact these falling housing prices will exert on China's banking system and the overall economy.

But generally, economists expect that even under the worst scenario, Chinese banks might not suffer a blow as hard as what Wall Street banks experienced in the financial meltdown in 2008-2009. Most Chi-

nese house buyers pay at least 20% of house prices as down payment, which reduces the leverage.

### IN BRIEF

#### Chongqing expands airport

Chongqing, the largest city in western China, plans to start construction of a third runway and a third terminal for its Jiangbei airport, investing up to RMB 20bn. The 450,000 sq.m terminal will more than double the airport's capacity when it is finished by 2015, which will make Chongqing the largest air hub in West China.



The terminal 3 of the Chongqing airport to be constructed is another symbol of the western Chinese city's ambition. Photo: cntv.cn

#### Tishman starts in Shanghai

**Tishman Speyer Properties**, the US developer of renowned landmarks such as the Rockefeller Centre in New York, started in June construction of a complex in Shanghai's Yangpu district. With a total investment of USD 2.5bn, the complex covers an area of over 267,000 sq.m. Upon completion, it will become one of the largest urban complexes in Shanghai

with residential and office buildings, among others. Tishman bought the land plot in 2008 but delayed construction as its cash flow was pinched during the financial meltdown. A local state-owned company **Shanghai Chengtuo Holding Co** has a 36% stake in the programme.

## RETAIL & SERVICE

### FURNITURE

#### IKEA opens largest store in Asia, to speed up in China

**IKEA**, the Swedish furniture and home improvement retailer, opened a new store in Shanghai in June, which was its second outlet in the East China city and 9th store in China's Mainland.

The store has a total floor area of 49,400 sq.m, making it the largest IKEA store in Asia and the second largest in the world.

"We do have a plan to speed up store opening in China, by adding some 8-10 new outlets by 2015, including IKEA outlets in IKEA shopping malls," says Linda Xu, PR manager of IKEA China, to news2biz.

IKEA opened its first store in China in 1998. Now, besides stand-alone outlets, it is also developing IKEA malls in Beijing, Wuxi and Wuhan through **Inter IKEA Centre Group** (see no 166 page 7-8).

Citing the local government in Chongqing, China's official Xinhua news agency reported in June that IKEA is going to open another store

in the West China city. But Xu says she is not aware of the event.

### Locations

Currently, eight out of the nine existing IKEA stores in China are located in the coastal areas. Only one of them is in Chengdu, capital of Sichuan province in West China.

"When opening stores, we are looking at not only local population and disposable income, but also whether there are suitable property spaces for our stores," says Xu.

"When all these conditions are good, we will work to open a new store because we are optimistic on the growth potential of home improvement market," she adds.



**IKEA opens its 2nd store in Shanghai, largest in Asia.** Photo: house365.com

Ian Duffy, president of IKEA Asia Pacific, said the retailer's turnover in China has grown by 15% per year in the past few years. He expects China to become IKEA's largest market in 15-20 years.

### Copyright challenge

A headache for IKEA in China has been that many local furniture vendors and workshops are copying IKEA's designs and selling similar products in furniture markets.

"This has been a problem for quite some time, showing that our simple Scandinavian designs are getting more popular. Our response is to continue to lower product prices and improve services, so as to boost our competitiveness," says Xu.

We have talked to

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### FURNITURE

#### Stelton: we do not negotiate with bandits

The Danish high-end design company **Stelton** has no rights to its own brand in China.

The company, which is world-famous for its stainless steel series **Cylinda Line**, designed by Danish design icon Arne Jacobsen, started production at a sub-supplier in China in 2010 (see no 148 page 3).

During spring 2011, Stelton's owner and CEO Michael Ring received a mail from a Chinese law firm that wanted to help the Danish company in retrieving the rights to its brand which had been registered in China by a third party.

"You should never negotiate with terrorists and I will not negotiate with bandits," says Michael Ring to news2biz.

He is appalled by the lack of protection for international brands like Stelton in China.

"When I recently spoke to a journalist from Berlingske [a major Danish paper – ed.], I told him to speak to the Chinese ambassador and get a comment from him as to the smoking gun policy which we and others are subjected to in China," says Mr Ring. He puts the blame on the Chinese authorities which protect the actions of the trademark violators that Mr Ring dubs as "morally and ethically repulsive."

### Not registered in China

Stelton has registered its trademark internationally, but not in China, as the country does not recognise the international registration and as the costs of registration are not justified by Stelton's sales in China.

"There is a cost connected to keeping up the registration and there is also a lot of bureaucracy connected with it – you have to be on the spot," says Mr Ring.

Stelton has protested the registration of the Stelton name in China to the Chinese authorities, stating that Stelton is a recognised international brand sold from, e.g., high-end Chinese departments stores. The company does not expect to start litigation in China as it does not expect to be found in the right by the authorities and litigation costs would be too high.

Mr Ring underlines that his charge against the Chinese authori-

ties should not be considered a sign of disrespect against the Middle Kingdom.



**Stelton's and Arne Jacobsen's Cylinda Line series subjected to a recent colour twist by British fashion designer Paul Smith.** Illustration: Stelton

"When it comes to production we produce where it is the best and cheapest. People ask me whether I source my production and when I tell them yes, they look at me sceptically. Then when I tell them that I have sourced production to Farum [a Copenhagen suburb – ed.], they tell me that this is perfectly ok. But when I tell them that I have moved other production to China, they go all sceptic again. I ask them; why are you so concerned about this and they answer that it is 'a question of quality'. I assure them that there is nothing wrong with our quality, it is checked on site and by us before it hits the shops," he said.

"This is a funny kind of racism, because what else is it?" asks Mr Ring.

Recently it has been published that in addition to Stelton also Danish **Carlsberg**, the world's fourth

largest brewer, and Copenhagen-listed jewellery maker **Pandora** have been in trouble with Chinese brand names that have already been registered by third parties. The latter has opted to strike a deal with the trademark hijackers in order to move along with its Chinese expansion plan (see no 157 page 7).

We have talked to

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## IN BRIEF

### UK supermarket eyes China

**William Morrison Supermarkets**, Britain's 4th-largest supermarket chain, has in June opened a regional office in Hong Kong to source non-food products from mainland China to offset rising prices in its home market. CEO Dalton Philips said direct sourcing would boost the group's competitiveness in the British retail market, where consumers favour non-food products manufactured in China, both for quality and value for money.

### 3rd Media Markt store

**Media-Saturn**, the electronics retailing unit under Germany's **Metro AG**, opened its third **Media Markt** store in Shanghai in June, after launching its first China outlet in Shanghai in November 2010 (see no 163 page 9). Media Markt's plan is to run 10 stores in Shanghai in 2010 and expand the outlet fleet in China to 100 by 2015 (see no 154 page 9). Taiwanese OEM manufacturer **Foxconn** owns 25% of Media Markt's stores in China.

## IT & MEDIA

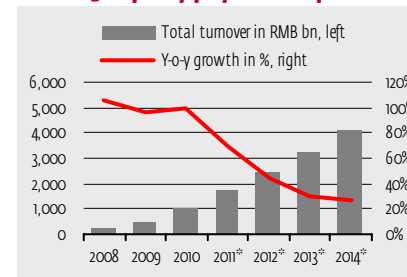
### ONLINE PAYMENT

### China issues 3rd-party payment licenses

China's central bank, People's Bank of China, issued 27 licenses to the first batch of qualified third-party payment companies in late May, which will boost a sector of trillions of yuan by giving it a legal status.

Third-party payment enterprises refer to those non-financial operators who work as the third party between buyers and sellers to provide payment settlement through Internet, telephones or mobile phones. Previously, the Chinese law only allowed payment through banks. But third-party payment companies such as **Alipay**, **Tenpay**, etc., had already amassed millions of users, in a "grey" area.

### Online 3rd-party payment explodes



\*) Forecasts

Source: iResearch

Cheng Shanbao, an analyst at the Chinese IT consultancy **iResearch**, lauded the license issuance and said

that it will soon boost the total of third-party payment to multi-trillion yuan.

According to iResearch, the total of third-party payment transactions made on the web hit RMB 365bn in Q1, surging 103% year-on-year.

In 2010, the total third-party payment online topped RMB 1 trln, doubling from that of 2009 and quadrupling 2008, experiencing stellar growth in the past years.

Owing to the growing popularity of the Internet and the improving financial infrastructure, the third-party payment will continue to post exponent growth in the coming years, topping RMB 4 trln in 2014, forecasted iResearch.

### Yahoo vs Alibaba

The leader in online third-party payment is **Alipay** which was previously owned by China's largest e-commerce firm **Alibaba**. Because China requires that all third-party payment firms should be controlled by Chinese shareholders, Alibaba's chairman Ma Yun divested Alipay from Hong Kong-listed Alibaba to a separate company located in Hangzhou and controlled by Ma.

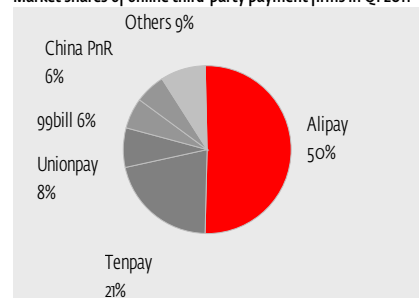
The move triggered a bitter quarrel between Alibaba and the US web company Yahoo which owns a 40% stake in Alibaba. Yahoo's current CEO Carol Bartz said that Yahoo was not notified of the spin-off. On the other hand, Ma Yun argued that the spin-off started in 2009 and was

agreed by Yahoo's former CEO Jerry Yang.

The companies still have not reached a deal. Anyway, Yahoo's shares tumbled in the past weeks, reflecting the importance and the growth potential of Alipay.

### Alipay is leader in 3rd-party payment

Market shares of online third-party payment firms in Q1 2011



Source: iResearch

**Tenpay**, operated by one of China's leading web portals Tencent.com, is the runner-up.

### Mobile carriers to enter

The first batch of licenses did not cover mobile operators especially the market leader **China Mobile**.

Analysts expect the mobile carriers to be granted licenses in the next batches, as the operators are keen to offer payment services to mobile phone users.

### IN BRIEF

#### HP to strengthen in Shanghai

Hewlett-Packard (HP) signed an MoU in June with the Shanghai municipal gov-

ernment to strengthen its presence in the city, including expanding its manufacturing base in Shanghai; consolidating its existing sites into one multi-purpose campus; establishing Shanghai as a regional China headquarters for HP's Personal Systems Group, among others. Shanghai is the home of HP's largest employee base in China.

### RMB 4bn campus in West

**China Unicom**, one of China's three telecom carriers, will invest up to RMB 4bn to set up a 190,000 sq.m campus in Chongqing, the largest city in West China. The campus will house a data centre including 180,000 servers, a call centre, other telecom service facilities and regional headquarters, etc.

### Zero import duty for comics

A rule issued by China's Ministry of Finance said that animation companies can be exempted from import tariffs and value-added taxes when importing products used for comic and animation development and production. The rule is effective from January 2011 to December 2015. The rules state that qualified animation companies must have registered capital of at least RMB 800,000.

### China as no 3 E&M market

China is expected to become the world's third largest entertainment and media (E&M) market in 2011, overtaking Germany and third only to Japan and the USA, said the global auditor **PricewaterhouseCoopers** (PwC). China's E&M sector grew 14% in 2010, far outpacing the world's average growth pace of 4.6% last

year. Cinema entertainment is the fastest growing E&M sub-sector in China with the market soaring 53% in 2010.

## TRANSPORT & LOGISTICS

### CARS

#### Volvo to invest RMB 4.6bn in 2nd China plant in Daqing

More details appear as to the second Chinese plant of **Volvo Car Corp.**, the Chinese-owned but Swedish-based carmaker.

**Volvo**, owned by **Zhejiang Geely Holding Group Co.**, has in June obtained approval from China's Ministry of Environmental Protection to build a new plant in Daqing, a city in Heilongjiang province in northeastern China.

The environment ministry's document showed that Volvo plans to invest RMB 4.6bn in the plant, in addition to another assembly in Chengdu in West China (see no 170 page 12).



**Volvo plans to assemble its XC60 SUVs in Daqing.** Photo: Volvo Car Corp

The new plant, which will cover a land area of 84 ha, is expected to start production in 2013 and will reach full capacity in 2015.

The Daqing plant is designed to have an annual capacity of 30,000 **Volvo 113K** luxury sedans, 40,000 **XC60** SUVs and 10,000 MPVs.

Back at Volvo's HQ in Gothenburg, mum's the word when it comes to a second China plant.

"There is nothing to say as to this matter, because no decision has been taken by the board as of yet. A decision is expected during autumn and then we will be able to comment this detailed information," says Stefan Elfström, Manager Media Relations, at Volvo Car in Gothenburg, to news2biz.

### Challenges ahead

Thus, the total capacity at Daqing will be 80,000 cars a year by 2015. Meanwhile, Volvo has said its capacity in Chengdu will be 100,000 cars a year. This means Volvo will have more work to do in order to fulfil its ambitious target of selling 200,000 cars a year in China by 2015.

Besides, Volvo also needs approvals from other governmental agencies such as the National Development and Reform Commission, which take time.

What is more, Daqing is a city famous for its oilfields. There are few auto components suppliers stationed in or around the city. Chinese media said the Daqing municipal government provided a big chunk of

funding to Geely to help its acquisition of Volvo from **Ford Motor**. In return, Li Shufu, Geely's chairman, may have to set up a plant there to help create local jobs. But the logistics of components and finished automobiles into and out of Daqing may turn out to be a headache for him.

We have talked to

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#### LAST RITES

### Will EUR 13m from China keep Saab from busting?

The 100% owner of Swedish **Saab Automobile**, Amsterdam-listed **Swedish Automobile NV** (which until recently was named **Spyker Cars NV**) reports that a Chinese company placed an order to purchase 582 Saab vehicles.

The total value of the deal is EUR 13m and the full pre-payment is expected to be received this week, providing Saab Automobile with short-term funding to pay the wages to its employees and perhaps also make partial supplier payments.

Oddly, Saab does not reveal the name of the Chinese company which came to the bailout. The Swedish carmaker has tied up with Chinese car dealer **Pang Da** and a minor carmaker **Zhejiang Youngman Lotus Automobile Co** for a possible assembly in China (see no 176 page 11).

Cash is sorely needed at the Swedish auto plant in Trollhättan in Western Sweden.

On June 23, just a day prior to the traditional Swedish midsummer celebration, Saab announced that it would not be able to pay its employees wages for June.

On June 27, it was announced that all members of Saab's supervisory council except the chairman Victor Muller have resigned from the council, including Saab's chief legal officer and two union leaders. This move is seen as a way of dodging personal responsibility in case of a bankruptcy.

The quickest way for Saab to get cash would be to sell its industrial property in Trollhättan. The price has been set at SEK 300m, markedly below its regular value – but even such attempts have failed.



**Saab CEO Victor Muller is Mr. Key to lead Saab out of bush.** Image: Saab

Also observers have called it a fraud if Saab's management, who is

aware of the company's precarious situation, is willing to take money up front from a Chinese buyer, as it is very unlikely that the company will ever be able to build the 582 cars.

Right now, Saab's fate is still in the hands of Victor Muller who is desperately trying to milk some cash from his prospective Chinese partners. Muller's influence seems to be dwindling as the clock is ticking – and the real power is in the hands of the Swedish unions who are already now entitled to submit a bankruptcy application in order to make the state wage guarantee go into effect. So far, the unions have refused to do so – hoping that the company will get back on its feet.

#### AIRLINES

### Air transport slows, cargo to see decline

Chinese airlines carried 24 million passengers in May, up 12% year-on-year, slowing from the 13% growth in April, according to the Civil Aviation Administration of China (CAAC).

Cross-border passenger throughput by Chinese airlines grew a modest 1.3% in May, slightly better from the 0.9% growth in April.

The CAAC attributed the slight cross-border passenger growth to the dampening China-Japan flights, where passenger throughput tumbled 28% in May.

"The total passenger throughput still enjoyed double-digit growth in January-May and will post healthy

growth this year. The cross-border throughput will recover in H2 as the aftermath of the Japanese disasters fades off," estimates Li Lei, an analyst at **China Securities**, to news2biz.

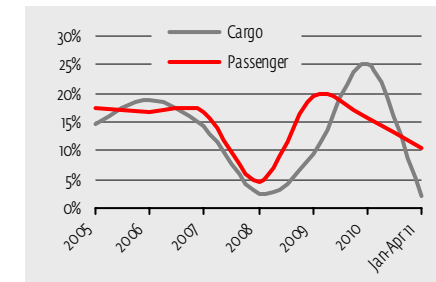
### Cargo & mail falls in May

In May, cargo and mail transportation was doing worse, with throughput tumbling 16% year-on-year. In January-April, cargo and mail throughput only grew a modest 2% year-on-year, said the CAAC.

"The decline in May was a sign that the demand for Chinese goods, especially in the US and EU markets, was easing," explains Li.

### Air transport slows in 2011

Year-on-year growth of passenger and cargo throughput, in %



Source: CAAC, Civil Aviation Administration of China

"However, we could not exaggerate the link between air freight and the macro economy. The decline of cargo throughput this year may also be the result of a correction from the surge of 25% in 2010," Li adds.

He expects air cargo freight to fall by 3-5% in 2011.

"It is too worrisome because cargo freight accounts less than 10% of Chinese airlines' turnover," says Li.

The strong performance of air freight in 2010 has triggered leading carriers including **Air China** (see no 174 page 15) and **China Eastern Airlines** (see no 176 page 13) to establish bigger freight carriers in the past months.

We have talked to

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## IN BRIEF

### EU may face retaliation

China may delay, reduce or even freeze aircraft orders it would have extended to **Airbus**, or delay or decline the applications of EU airlines to expand flights to China, as Beijing may retaliate the EU's Emission Trading System (ETS) scheme, according to Chinese media reports (see no 174 page 15). Besides, some Chinese airlines may also seek to file lawsuits against the scheme or turn away their orders from Airbus.

### Continental opens new plant

After launching its first tyre plant in China (see no 175 page 11), **Continental AG** opened an RMB 57m factory in Jinan, capital of Shandong province in North China, in late May, to produce electronics for commercial vehicles and the aftermarket. The German company now runs 18 production facilities in China.

### Honda salaries up by 32%

**Honda Motor's** joint venture in Nanhai, Guangdong province in South China,

agreed to increase the salaries of production line workers by 32%, which concluded the labour dispute. A strike broke out at the assembly and several other plants run by the Japanese automaker in May 2010 (see no 154 page 14). Workers later returned to work but wage talks did not conclude until June this year.

### CSR to raise RMB 11bn

**CSR Corp**, one of China's top two locomotive makers, plans to raise RMB 11bn through a private placement, according to a company filing. The Hong Kong and Shanghai-listed company said it plans to use the raised funds to expand its capacity of high-speed railways and trains and boosting innovation.

### Child safety seats

Starting from 1 July, China will adopt a compulsory rule to require all cars to be equipped with ISO FIX installations which are for fastening of child safety seats. This is a piece of good news for related suppliers including Swedish **Holmbergs Childsafety** which produces safety buckles for auto seats (see no 174 page 13).

## ENERGY & ENVIRONMENT

### GAS

### Shell ties up with CNPC for onshore gas rigs

**Royal Dutch Shell** and **China National Petroleum Corp** (CNPC) plan to set up a 50-50 joint venture to drill onshore gas wells in China, as

part of a global alliance between the largest European and Asian oil companies.

The partnership will use technologies like automated direction drilling and optimisation, some of which were "pioneered by Shell in its North America tight gas operations", said Shell in a statement.

Details of the venture have yet to be finalised. The companies aim to develop a new automated well manufacturing system to enhance drilling and efficiency of onshore wells.

"Initially, the joint venture will provide products and services to the existing gas drilling programmes under Shell or CNPC, or the companies' joint programmes. The demand from existing programmes is already big enough," says Li Lusha, a Shell China spokeswoman, to news2biz.

Tight gas is a form of harder-to-extract unconventional gas, a category that also includes shale gas and coal-bed methane. The US Energy Information Agency estimated in April that China's shale gas deposits may hold 12 times more fuel than its conventional fields. In 2009, the US became the world's largest gas producer ahead of Russia because of the output from its shale fields, which was an example China wants to follow. China plans to triple its use of natural gas to about 10% of energy consumption by 2020 in order to reduce reliance on coal.

"Full-scale commercialisation of tight gas, shale gas and coal bed methane can require the drilling of

hundreds of wells each year, over many years," Shell said.



**Shell and CNPC will jointly develop onshore gas rigs.** Photo: shell.com.cn

The Shell-CNPC joint venture will source the majority of its rigs, services and drilling equipment from low-cost suppliers in China to help unlock natural gas resources cost-efficiently, and on a large scale.

Shell and CNPC, state-owned parent of **PetroChina**, are in a number of partnerships including exploring tight gas and shale gas in the Sichuan basin in Southwest China. The companies also jointly acquired **Arrow Energy** in 2010 to explore coalbed methane in Australia.

We have talked to

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**TURBINES****Vestas sells 49.3MW of small turbines to China**

Denmark's **Vestas**, the global leader in wind energy, has received an order of 49.3 MW from **China Datang Corporation Renewable Power Co.** The order consists of 58 units of the V60-850 kW turbine.

The turbines will be installed at Dayuanshan wind farm in Wuchuan County in Inner Mongolia.

China Datang is a subsidiary of **China Datang Group**, one of China's largest electricity generators, and is one of the largest wind energy developers in China.

The collaboration between Vestas and China Datang goes back to 2005, when the Chinese wind energy market started its rapid development.

Located in the middle of the Inner Mongolia, Wuchuan is surrounded by mountains with difficult terrain conditions and elevations between 1,800 and 2,000 metres above sea level. For such conditions, the V60-850 kW wind turbine is the best suited solution: V60's light blade design improves the overall power production; the comparatively small size of the nacelle is easy for transportation, particularly suitable for hard to reach sites.

"Since we installed the first V60s in 2010, their performance has reached a very satisfactory level, and we are very pleased to see that the reliable kW platform is continually recognized," said Jens Tommerup,

president of Vestas China, in a statement.

The contract includes delivery, installation and commissioning of the wind turbines, as well as a two-year service and maintenance agreement. The turbines are scheduled to be delivered in Q3 2011. They have a 20-year life span.



**Vestas' V60-850 kW wind turbine is among the best selling models in China.** Photo: Vestas

From initial cooperation in 2005 to the end of 2010, Vestas has signed orders of more than 800 MW with China Datang.

Vestas installed China's first wind turbines in Shandong in 1986, and as of December 2010, the company has installed almost 3,000 MW of clean energy across thirteen provinces in China. This makes Vestas one of the biggest accumulated suppliers of wind power plants in China.

Over the past few years, Vestas has established a firmly rooted pres-

ence in China with more than RMB 3.5bn worth of investments and over 3,000 employees.

Vestas has its largest integrated manufacturing complex globally situated in Tianjin, its China headquarters in Beijing, a factory in Hohhot, a global procurement office in Shanghai and a foundry in Xuzhou. In October 2010, Vestas opened its China Technology R&D Centre in Beijing.

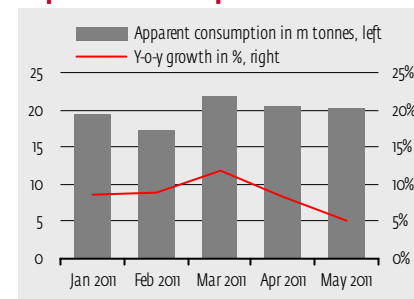
### OIL Refined oil consumption eases in May

China's apparent consumption of refined oil stood at 20 million tonnes in May, up 5% year-on-year but down 4% from April on an average daily basis, said the National Development and Reform Commission (NDRC).

Thus, refined oil consumption has declined for two months in a row, after hitting the historical high of 21.7 million tonnes in March.

Apparent consumption refers to the sum of domestic production plus net import. The sliding apparent consumption of refined oil in April-May was in line with the cooling economy, especially industrial output, in the past two months, said the NDRC.

In January-May, the apparent consumption of refined oil hit 98 million tonnes, up 8.2% year-on-year. Among refined oil, consumption of petroleum rose 8.8% and that of diesel by 7.6%.

**Refined oil consumption slows**

Source: NDRC, National Development and Reform Commission

The NDRC expects oil consumption to maintain robust growth because of the growing demand from the logistics sector and also the expanding car ownership.

**IN BRIEF****Sinopec plans big refinery**

**Sinopec**, Asia's largest refiner, has in June signed a MoU with the Jiangsu provincial government to establish a giant refinery and petrochemical complex in Lianyungang, a port city in the East China province. The facility will have an annual capacity of refining over 300,000 tonnes of oil per year, which will be the biggest in China and rank among the top 5 in the world.

**China to cut oil import duty**

Starting from 1 July, China will slash import duties for refined oil including petroleum, diesel, jet fuel and fuel oil, among which diesel and jet fuel will enjoy zero import duty. The tax cut is part of China's efforts in alleviating inflationary pressure, as refineries in China are expected to

slow their productions and overhaul their facilities in the summer heat of July.

### Power use to slow down

China's power consumption is expected to grow 8.4% per year during 2011-2015 and further slow to a growth of 5.5% per year during 2016-2020, cooling from an annual growth rate of 11.5% during 2006-2010, said Wang Zhixuan, secretary general of the China Electricity Council. The cooling power use is mainly due to the slowing economic growth, especially the slowing heavy-industry sector such as metals and petrochemicals.

## ECONOMY & POLITICS

### REGIONAL ECONOMY

#### HK firms face rising costs in Pearl river delta

Hong Kong companies with factories in the Pearl River Delta complain about the rising costs in the region, finds a survey by the Chinese Manufacturers' Association of Hong Kong (CMA).

In the survey, which was conducted in March-May and covers over 160 manufacturers, over 90% said their current production cost was on average 19% higher than that of last year.

The factors that mostly affect the operation of Hong Kong enterprises operating in the region are high labour costs, increases in raw material prices, compliance costs and risks caused by the new labour ordinance,

and fluctuations of the RMB exchange rate.

The Pearl River Delta covers seven cities in the southern part of Guangdong province, namely, Guangzhou, Shenzhen, Zhuhai, Foshan, Dongguan, Zhongshan and Jiangmen. The area is adjacent to Hong Kong and Macao and is a natural choice of destination for investors in Hong Kong. Therefore, the region, with a population of over 42 million, has grown into one of the world's largest manufacturing hubs in the past three decades.

However, owing to the labour shortage and the Guangdong provincial government's intention to climb up the value chain, manufacturers in the Pearl River Delta are struggling with thinner profitability.

The CMA survey finds that over 75% the responding companies had marked up their prices in 2010, up by an average 7.5%.

"That means Hong Kong investors operating in the region have to shoulder most of the burden of the rising production costs and their profit margins have been compressed," said CMA Vice President Johnny Yeung in a statement.

### FOREIGN INVESTMENT

#### FDI inflow keeps slowing, ups 13% in May

China's foreign direct investment (FDI) inflow, not including funds into the finance sector, stood at USD 9.2bn in May, up 13% year-on-year which was the slowest pace since

November 2011, said the Ministry of Commerce (MOC).

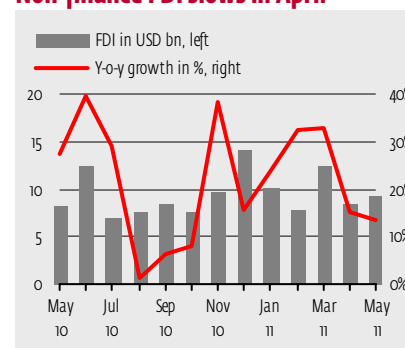
In January-May, FDI reached USD 48bn, leaping 23%.

### FDI from the US sheds 24%

Most of China's major FDI sources posted vigorous growth. For instance, the 27-member EU contributed USD 3bn of FDI in January-May, up 9% year-on-year.

On the contrary, FDI from the USA tumbled 24% year-on-year to USD 1.3bn in the five months.

### Non-finance FDI slows in April



Source: MOC, Ministry of Commerce

Yao Jian, an MOC spokesman, said that it is possible because the US is still struggling with the aftermath of the financial crisis.

Besides, Chinese media reported that some US manufacturers such as **Caterpillar** are withdrawing part of their capacity back to America, partly because the rising wages in China have made the country a less attractive location for low-cost manufacturing.

Yao said that Beijing is studying policies to attract more FDI from the service sector in the US and Europe.

### USD 3.1bn Statoil deal

Compared to FDI inflow, China's investment abroad grew at a much faster pace of 42% year-on-year to USD 20bn in January-May, said the MOC.

The surge in outbound FDI was fuelled by China's thirst for energy and resources, and the MOC said that 42% of the outbound FDI in January-May was conducted through mergers and acquisitions (M&A).

In the five months, the biggest M&A deal was **Sinochem's** acquisition of a stake in the Peregrino oil-field offshore Brazil owned by Norway's **Statoil** (see no 154 page 14), which was worth USD 3.1bn.

### FDI in RMB

In June, China's central bank the People's Bank of China (PBOC) issued a circular, which showed that Beijing has decided to push forward the opening of foreign investment in the Chinese currency, RMB.

Currently, multinationals invest in China in foreign exchanges, mainly the US dollar. China has since early 2011 started trials for FDI in RMB in limited areas such as Shenzhen and some border towns in Southwest China's Yunnan province.

**Deutsche Bank** said in a research note that many multinationals have expressed interest in FDI in RMB, but more detailed rules are not ex-

pected to be stipulated by the end of this year.

Citing unnamed PBOC officials, Chinese media reported that FDI in the Chinese currency might face limitations. For example, such FDI may not be allowed to invest in real estate, finance, among others.

## EMPLOYER

### Aon Hewitt: more Chinese firms in top 10 employers

Six Chinese companies are named as the best employers in the 10 Aon Hewitt Best Employers in China 2011, highlighting the growing competition for talents that foreign companies are facing.

"Both state-owned enterprises and private companies are attaching importance to their workforce, increasing salaries and other benefits, which is posing an increasing competition against multinationals," says Katie Wang, a specialist at **Aon Hewitt**, to news2biz.

In the new list, six Chinese companies led by **Neusoft Corp** rank on the top 10 employers, which was the first time that Chinese companies outnumber foreign companies on the list.

The once-per-two-years survey of the best employers started in 1994 by the human resource firm **Hewitt** which was acquired by the US' **Aon Corp** in 2010. Aon Hewitt said its survey gathered opinions from more than 43,000 employees.

## 10 best employers in China 2011

| Rank | Organisations   |
|------|---|
| 1    | <b>Neusoft Corporation</b>                              |
| 2    | <b>The Ritz-Carlton Hotels, China</b>                   |
| 3    | <b>Yantai Wanhua Polyurethanes Co</b>                   |
| 4    | <b>China Telecom Shanghai Branch</b>                    |
| 5    | <b>GD Midea Holding Co</b>                              |
| 6    | <b>McDonald's (China) Co</b>                            |
| 7    | <b>China Vanke Co</b>                                   |
| 8    | <b>TNT Express China</b>                                |
| 9    | <b>HNA Group</b>  |
| 10   | <b>Tianjin SmithKline &amp; French Laboratories Ltd</b> |

Source: Aon Hewitt

The six Chinese employers on the new list cover four private companies including the home appliance maker **GD Midea Holding Co** and house developer **China Vanke Co** and two state-owned companies, namely, **China Telecom** and **HNA Group** which was parent of **Hainan Airlines**.

"Sector or size does not matter for being a good employer. The key factor for nomination was the ability of the organization to connect between organizational direction, employee expectations and people practices," said Aon Hewitt in a statement.

We have talked to

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Tel +86 21 2306 6877

## IN BRIEF

### New tax for foreigners

China has drafted a regulation to collect a new tax from foreign workers and their employers as the country plans to extend

its social security programme to include the 600,000 foreign nationals who work in China. The new tax was referred to in a provision in China's Social Insurance Law, published last October and set to take effect on 1 July. The amounts due will vary by location but foreign nationals working as executives in major cities are expected to face new bills of around \$100 a month in exchange for access to retirement benefits and subsidised fees at public hospitals.

## GDP forecasts

**Credit Suisse** has in June downgraded its forecast for China's GDP growth for 2011 from 8.8% to 8.7% and for 2012 from 8.9% to 8.5%. However, the Swiss investment bank said the Chinese economy will not see a hard landing. Also in June, the IMF was more optimistic, maintaining its projections on China's GDP growth at 9.6% for 2011 and 9.5% for 2012.

## GDP downgraded

**Goldman Sachs** revised down in June its forecasts for China's GDP growth for 2011 from 10% to 9.4%, and for 2012 from 9.5% to 9.2%, citing lower than expected industrial output growth in April and the high oil prices. The US investment bank anticipated consumer inflation to peak at 5.6% in June and ease down in H2. The full-year inflation in 2011 is estimated to stand at 4.7%.

## Inflation to top 5.5% in June

China's consumer inflation in June is expected to go even higher from the 34-month high of 5.5% in May (see no 176 page 14-15), mainly due to the fast in-

creasing pork price, said the National Development and Reform Commission (NDRC) in an official statement. The NDRC expected inflation to step down in H2, thanks to China's various cooling policies. Chinese premier Wen Jiabao said in June that the government is "confident" that inflation is within control.

## China M&A down 36%

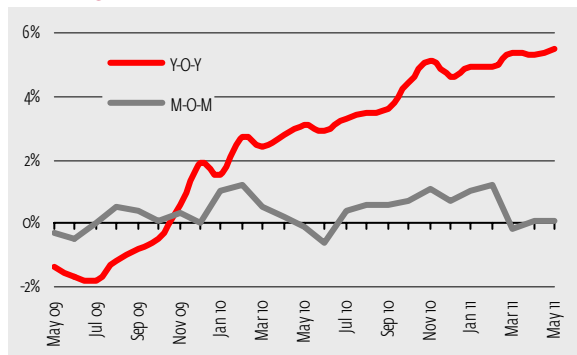
China's merger & acquisition (M&A) activities tumbled by 36% y-o-y in January-May, amid the global M&A expansion of 87% in the period, said the global auditor **Ernst & Young** (E&Y). The slowdown in China's M&A activities reflected a slowing economy and the outburst of M&As by Chinese companies last year. E&Y expects Chinese investors to continue to seek M&A targets in resources and mining sectors.

## Corrupted official

Shi Wanzhong, a former manager at the Anhui branch of China's largest mobile operator **China Mobile**, was sentenced to death with a two-year reprieve for taking bribes from **Siemens AG**. Shi was accused of taking USD 5m in bribes with Tian Qu, who served as a middleman between Shi and Siemens when Shi headed China Mobile's Anhui branch from 2002 to 2009. Tian Qu was sentenced to 15 years in prison.

## KEY FIGURES

### INFLATION



Source: National Bureau of Statistics

### PRODUCER PRICE INDEX

| On monthly basis           | Nov '10 | Dec '10 | Jan '11 | Feb '11 | Mar '11 | Apr '11 | May '11 |
|----------------------------|---------|---------|---------|---------|---------|---------|---------|
| 100 = previous month       | 101.4   | 100.7   | 101.2   | 100.8   | 100.6   | 101.0   | 100.3   |
| 100 = same month prev year | 106.1   | 105.9   | 106.6   | 107.2   | 107.3   | 106.8   | 106.8   |
| Year                       | 2004    | 2005    | 2006    | 2007    | 2008    | 2009    | 2010    |
| 100 = previous year        | 106.1   | 104.9   | 103.0   | 103.1   | 106.9   | 94.6    | 105.5   |

Source: National Bureau of Statistics

### INDUSTRIAL OUTPUT INDEX

| On monthly basis           | Oct '10 | Nov '10 | Dec '10 | Jan-Feb '11 | Mar '11 | Apr '11 | May '11 |
|----------------------------|---------|---------|---------|-------------|---------|---------|---------|
| 100 = same month prev year | 113.1   | 113.3   | 113.5   | 114.1       | 114.8   | 113.4   | 113.3   |
| Year                       | 2004    | 2005    | 2006    | 2007        | 2008    | 2009    | 2010    |
| 100 = previous year        | 116.7   | 116.4   | 116.6   | 118.5       | 112.9   | 111.0   | 115.7   |

### RETAIL SALES

| at current prices                | Jan-Feb '11 | Mar 2011 | Apr 2011 | May 2011 |
|----------------------------------|-------------|----------|----------|----------|
| Turnover in RMB bn               | 2,901.8     | 1,358.8  | 1,364.9  | 1,364.9  |
| Index 100 = previous month       | n/a         | n/a      | 100.4    | 101.3    |
| Index 100 = same month prev year | 115.8       | 117.4    | 117.1    | 116.9    |
| Year                             | 2007        | 2008     | 2009     | 2010     |
| Turnover in RMB bn               | 8,921.0     | 10,848.8 | 12,534.3 | 15,455.4 |
| Index 100 = previous year        | 116.8       | 121.6    | 115.5    | 118.4    |

Source: National Bureau of Statistics

### GROSS WAGES

A: average wages in RMB, without taxes; B: index 100 = same period of previous year

| Sectors               | 2009          |              | 2010          |              | Jan-Mar 2011 |              |
|-----------------------|---------------|--------------|---------------|--------------|--------------|--------------|
|                       | A             | B            | A             | B            | A            | B            |
| Manufacturing         | 26,599        | 109.9        | 30,630        | 115.2        | 7,931        | 116.0        |
| Finance, insurance    | 70,265        | 113.6        | 71,601        | 101.9        | 19,112       | 118.0        |
| Construction          | 24,625        | 114.4        | 27,389        | 111.2        | 6,811        | 114.7        |
| Mining                | 38,224        | 125.7        | 43,752        | 114.5        | 10,383       | 114.4        |
| Retail and wholesale  | 29,031        | 113.7        | 33,320        | 114.8        | 8,813        | 116.6        |
| Hotels and restaurant | 21,193        | 108.8        | 23,167        | 109.3        | 6,249        | 112.4        |
| Transport, logistics  | 36,224        | 110.5        | 40,278        | 111.2        | 10,765       | 115.9        |
| Computer & IT         | 59,919        | 105.8        | 63,060        | 105.2        | 16,471       | 112.7        |
| Real estate           | 32,591        | 107.5        | 35,235        | 108.1        | 9,537        | 111.3        |
| <b>National total</b> | <b>32,244</b> | <b>111.6</b> | <b>36,218</b> | <b>112.3</b> | <b>9,526</b> | <b>114.7</b> |

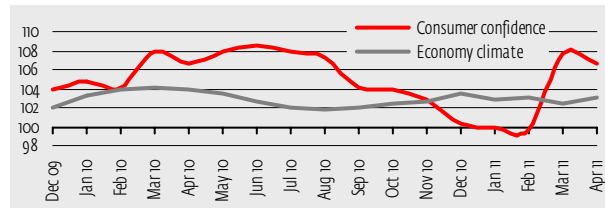
Source: National Bureau of Statistics

### CONSUMER PRICE INDEX

| 100 = same month of the previous year | Dec '10      | Jan '11      | Feb '11      | Mar '11      | Apr '11      | May '11      |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Food                                  | 109.6        | 110.3        | 110.0        | 111.7        | 111.5        | 111.7        |
| Alcohol and tobacco                   | 101.8        | 101.8        | 101.9        | 102.1        | 102.4        | 102.6        |
| Clothing and footwear                 | 100.1        | 99.8         | 100.4        | 100.8        | 101.4        | 101.8        |
| Household articles                    | 101.2        | 101.4        | 101.4        | 101.9        | 102.1        | 102.5        |
| Medicine and hygiene articles         | 104.0        | 103.2        | 103.0        | 103.2        | 103.2        | 103.2        |
| Transport and communication           | 99.3         | 99.9         | 99.7         | 100.1        | 100.1        | 100.7        |
| Recreation and education              | 100.7        | 101.0        | 100.3        | 100.5        | 100.5        | 100.6        |
| Dwelling                              | 106.0        | 106.8        | 106.1        | 106.6        | 106.1        | 106.8        |
| <b>Gross CPI</b>                      | <b>104.6</b> | <b>104.9</b> | <b>104.9</b> | <b>105.4</b> | <b>105.3</b> | <b>105.5</b> |

Source: National Bureau of Statistics

### SENTIMENT INDICATORS



100 = the year of 1996; Source: National Bureau of Statistics

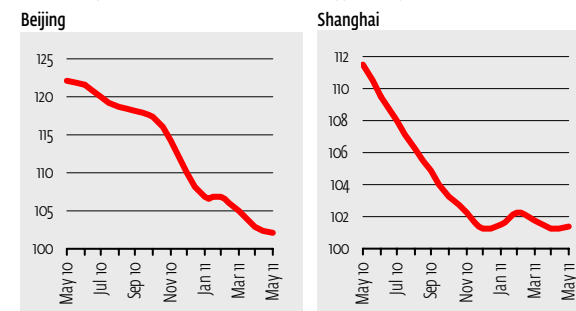
### HOUSING CONSTRUCTION

| Nationwide                     | 2007  | 2008  | 2009  | 2010  | Jan-May 2011 |
|--------------------------------|-------|-------|-------|-------|--------------|
| Completed in million sq.m.     | 478.0 | 477.5 | 576.9 | 612.2 | 216.2        |
| 100 = same period of prev year | 105.0 | 95.8  | 106.2 | 102.7 | 112.9        |

Source: National Bureau of Statistics

### NEW HOUSING PRICES, INDEXED

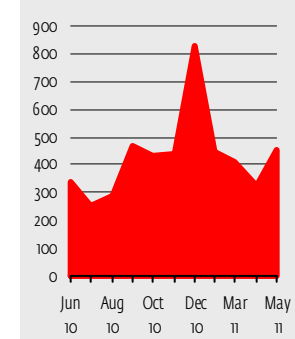
In China's top two cities, index 100 = same month of previous year



### HOUSING SALES

| Nationwide                     | 2007  | 2008  | 2009  | 2010  | Jan-May 2011 |
|--------------------------------|-------|-------|-------|-------|--------------|
| In million sq.m.               | 691.0 | 558.9 | 852.9 | 930.5 | 329.3        |
| 100 = same period of prev year | 124.7 | 79.7  | 143.9 | 108.0 | 109.1        |

Monthly housing sales value, in RMB billion



Source: National Bureau of Statistics

Indexed rentals, index 100 = prev year



Source: National Bureau of Statistics

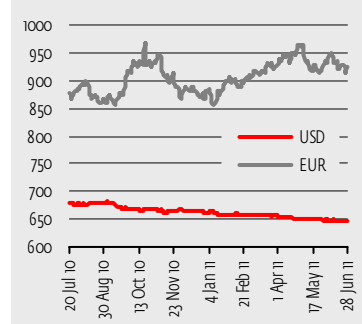
## CURRENCY

### ICBC middle rates

as of 28 June 2011

|          |         |   |
|----------|---------|---|
| 100 USD  | 647.02  | ↓ |
| 100 EUR  | 929.44  | ↓ |
| 100 DDK  | 124.60  | ↓ |
| 100 SEK  | 100.44  | ↓ |
| 100 NOK  | 119.02  | ↓ |
| 100 GBP  | 1035.81 | ↓ |
| 100 CHF  | 779.92  | ↑ |
| 1,00 CAD | 657.74  | ↓ |
| 1,00 JPY | 8.0057  | ↓ |
| 100 HKD  | 83.11   | ↓ |

### RMB per 100 USD and EUR, SAFE central parity rates



Sources: ICBC (Industrial & Commercial Bank of China), SAFE (State Administration of Foreign Exchange)

## MONEY SUPPLY

in RMB bn

|                                | Jan '11 | Feb '11 | Mar '11 | Apr '11 | May '11 |
|--------------------------------|---------|---------|---------|---------|---------|
| <b>Currency in circulation</b> | 5,807   | 4,727   | 4,485   | 4,549   | 4,459   |
| <b>M1</b>                      | 26,178  | 25,920  | 26,626  | 26,677  | 26,928  |
| <b>M2</b>                      | 73,390  | 73,613  | 75,813  | 75,734  | 76,339  |

M1 = currency in circulation + demand deposits

M2 = M1 + time and saving deposits + deposits in foreign currencies.

Source: The People's Bank of China

## TRADE

China exports and imports according to commodity groups, according to SITC classification

|                                     | EXPORTS in USD m |             |                |             |                  | IMPORTS in USD m |                |             |                |             |                  |             |
|-------------------------------------|------------------|-------------|----------------|-------------|------------------|------------------|----------------|-------------|----------------|-------------|------------------|-------------|
|                                     | Jan-Apr 2011     | Share       | Jan-Apr 2010   | Share       | 2010             | Share            | Jan-Apr 2011   | Share       | Jan-Apr 2010   | Share       | 2010             | Share       |
| Food and live animals (0)           | 15,711           | 2.8%        | 11,672         | 2.7%        | 41,169           | 2.6%             | 8,032          | 1.5%        | 6,202          | 1.5%        | 21,569           | 1.5%        |
| Beverages and tobacco (1)           | 616              | 0.1%        | 462            | 0.1%        | 1,905            | 0.1%             | 885            | 0.2%        | 577            | 0.1%        | 2,431            | 0.2%        |
| Crude materials except fuels (2)    | 4,869            | 0.9%        | 3,360          | 0.8%        | 11,621           | 0.7%             | 88,589         | 16.3%       | 61,225         | 14.6%       | 210,467          | 15.1%       |
| Mineral fuels etc (3)               | 10,513           | 1.9%        | 8,522          | 2.0%        | 26,718           | 1.7%             | 82,475         | 15.1%       | 59,720         | 14.2%       | 188,374          | 13.5%       |
| Animal and vegetable oils etc (4)   | 168              | 0.0%        | 112            | 0.0%        | 357              | 0.0%             | 3,105          | 0.6%        | 2,392          | 0.6%        | 8,741            | 0.6%        |
| Chemicals etc (5)                   | 34,998           | 6.3%        | 24,864         | 5.7%        | 87,627           | 5.6%             | 58,366         | 10.7%       | 47,967         | 11.4%       | 149,650          | 10.7%       |
| Manufactured goods by materials (6) | 93,655           | 16.9%       | 69,766         | 16.0%       | 249,200          | 15.8%            | 48,627         | 8.9%        | 41,569         | 9.9%        | 131,043          | 9.5%        |
| Machinery & transport equipment (7) | 266,954          | 48.1%       | 217,060        | 49.8%       | 780,586          | 49.5%            | 197,016        | 36.2%       | 159,910        | 38.1%       | 549,746          | 39.5%       |
| Other manufactured articles (8)     | 127,171          | 22.9%       | 99,810         | 22.8%       | 377,793          | 23.9%            | 39,122         | 7.2%        | 33,560         | 8.0%        | 113,438          | 8.1%        |
| Not classified commodities (9)      | 699              | 0.1%        | 402            | 0.1%        | 1,467            | 0.1%             | 18,444         | 3.3%        | 6,684          | 1.6%        | 18,436           | 1.3%        |
| <b>TOTAL</b>                        | <b>555,354</b>   | <b>100%</b> | <b>436,030</b> | <b>100%</b> | <b>1,578,443</b> | <b>100%</b>      | <b>544,661</b> | <b>100%</b> | <b>419,806</b> | <b>100%</b> | <b>1,393,895</b> | <b>100%</b> |

Source: China Customs

## INTEREST RATES

Benchmark interest rates of selected terms of the yuan, since 6 April 2011

| Type / term | up to 6 months | up to 1 year | up to 3 years | up to 5 years |
|-------------|----------------|--------------|---------------|---------------|
| Deposits    | 3.05%          | 3.25%        | 4.75%         | 5.25%         |
| Loans       | 5.85%          | 6.31%        | 6.40%         | 6.65%         |

Source: People's Bank of China

Shanghai Interbank Offered Rate (Shibor) as of 28 June 2011

|  | Overnight | 1 week  | 1 month | 3 months | 6 months |
|--|-----------|---------|---------|----------|----------|
|  | 5.0554%   | 6.4925% | 7.7550% | 6.4611%  | 5.1976%  |

Source: National Interbank Funding Centre

## CREDIT

The financial sector's net lending in RMB bn

| Types of loan                             | Feb '11         | Mar '11         | Apr '11         | May '11         |
|---|-----------------|-----------------|-----------------|-----------------|
| <b>Loans to households</b>                | 11,637.5        | 11,940.5        | 12,187.5        | 12,405.1        |
| - Consumption loans                       | 7,639.5         | 7,800.9         | 7,934.7         | 8,050.4         |
| - Operating loans                         | 3,998.0         | 4,139.6         | 4,252.9         | 4,354.7         |
| <b>Loans to non-financial enterprises</b> | 37,108.1        | 37,389.7        | 37,886.0        | 38,210.8        |
| - Short-term loans                        | 13,652.6        | 13,788.6        | 13,996.7        | 14,135.3        |
| - Medium- and long-term loans             | 21,799.9        | 22,038.4        | 22,272.5        | 22,390.9        |
| <b>Overseas loans</b>                     | 141.4           | 143.8           | 143.6           | 152.8           |
| <b>TOTAL</b>                              | <b>48,887.1</b> | <b>49,474.1</b> | <b>50,217.1</b> | <b>50,768.7</b> |

Source: The People's Bank of China

## STOCK EXCHANGE

Shanghai and Shenzhen Stock Exchange, selected stocks

| main list                  | Quotes | Change | Change     |
|----------------------------|--------|--------|------------|
| in alphabetic order        | 28 Jun | 14 Jun | end of '10 |
| ↑ Air China                | 9.83   | +8.4%  | -28.1%     |
| ↓ Aluminium Corp of China  | 11.08  | -6.4%  | +9.3%      |
| ↓ Baosteel                 | 6.02   | -0.7%  | -5.8%      |
| ↓ China COSCO              | 8.30   | -2.2%  | -11.7%     |
| ↓ China Life Insurance     | 18.61  | -0.6%  | -12.6%     |
| ↑ China Shenhua Energy     | 29.51  | +5.2%  | +19.4%     |
| ↑ China State Construction | 4.0    | +4.7%  | +17.0%     |
| ↑ China State Shipbuilding | 73.46  | +3.5%  | +8.4%      |
| ↓ China Unicom             | 5.29   | -6.9%  | -1.1%      |
| ↑ China Vanke Co           | 8.31   | +1.7%  | +1.1%      |
| ↓ China Yangtze Power      | 7.22   | -3.2%  | -4.6%      |
| ↑ CITIC Securities         | 13.14  | +3.2%  | +4.4%      |
| ↑ GD Midea                 | 18.44  | +4.2%  | +6.0%      |
| ↑ Indus & Commercial Bank  | 4.50   | +1.1%  | +6.1%      |
| ↓ PetroChina               | 10.76  | -1.0%  | -4.1%      |
| ↑ Shanghai Auto Industry   | 18.68  | +5.5%  | +27.2%     |
| ↑ Sinopec                  | 8.18   | +0.6%  | +1.5%      |
| ↑ Suning Appliance         | 12.65  | +4.5%  | -3.4%      |
| ↓ Tsingtao Brewery         | 34.39  | -0.1%  | -0.8%      |
| ↑ ZTE                      | 27.52  | +3.1%  | +0.8%      |

Sources: The Shanghai and Shenzhen Stock Exchanges

Shanghai Composite index

**2759.20**

Change 14 June 2011: +1.1% ↑

Change end of 2010: -1.7% ↓

Shenzhen Component index

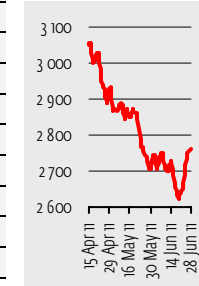
**12047.1**

Change 14 June 2011: +2.7% ↑

Change end of 2010: -3.3% ↓

Shanghai Composite closing

the last three months



China's ten largest markets, ranked according to 2010 in USD m

| No | EXPORT      |              |       |         | IMPORT |         |              |        |       |         |       |
|----|-------------|--------------|-------|---------|--------|---------|--------------|--------|-------|---------|-------|
|    | Country     | Jan-May 2011 | Share | 2010    | Share  | Country | Jan-May 2011 | Share  | 2010  | Share   |       |
| 1  | USA         | 117,513      | 16.5% | 283,304 | 18.0%  | 1       | Japan        | 78,310 | 11.4% | 176,707 | 12.7% |
| 2  | Hong Kong   | 103,474      | 14.5% | 218,317 | 13.8%  | 2       | South Korea  | 63,772 | 9.3%  | 138,399 | 9.9%  |
| 3  | Japan       | 55,987       | 7.9%  | 121,061 | 7.7%   | 3       | Taiwan       | 51,322 | 7.4%  | 115,694 | 8.3%  |
| 4  | South Korea | 34,128       | 4.8%  | 68,771  | 4.4%   | 4       | USA          | 52,011 | 7.5%  | 102,038 | 7.3%  |
| 5  | Germany     | 28,899       | 4.1%  | 68,047  | 4.3%   | 5       | Germany      | 37,359 | 5.4%  | 74,342  | 5.3%  |
| 6  | Netherlands | 21,485       | 3.0%  | 49,705  | 3.2%   | 6       | Australia    | 30,032 | 4.4%  | 60,866  | 4.4%  |
| 7  | India       | 18,537       | 2.6%  | 40,919  | 2.6%   | 7       | Malaysia     | 24,306 | 3.5%  | 50,410  | 3.6%  |
| 8  | UK          | 15,548       | 2.2%  | 38,771  | 2.5%   | 8       | Brazil       | 18,203 | 2.6%  | 38,087  | 2.7%  |
| 9  | Singapore   | 14,872       | 2.1%  | 32,348  | 2.1%   | 9       | Thailand     | 15,864 | 2.3%  | 33,200  | 2.4%  |
| 10 | Italy       | 14,414       | 2.0%  | 31,141  | 2.0%   | 10      | Russia       | 15,447 | 2.2%  | 25,836  | 1.9%  |

**GDP**

| Period  | Real growth year on year | at current prices in RMB bn | at current prices in USD bn | GDP per capita in RMB |
|---------|--------------------------|-----------------------------|-----------------------------|-----------------------|
| Q1 2011 | 9.7%                     | 9,631                       | 1,461                       | 7,187                 |
| Q4 2010 | 9.8%                     | 12,932                      | 1,923                       | 9,651                 |
| Q3 2010 | 9.6%                     | 9,582                       | 1,422                       | 7,205                 |
| Q2 2010 | 10.3%                    | 9,122                       | 1,341                       | 6,858                 |
| Q1 2010 | 11.9%                    | 8,162                       | 1,195                       | 6,137                 |
| 2010    | 10.3%                    | 39,798                      | 5,918                       | 29,700                |
| 2009    | 9.2%                     | 34,090                      | 4,991                       | 25,632                |
| 2008    | 9.6%                     | 31,405                      | 4,442                       | 22,613                |

Source: National Bureau of Statistics

**CURRENT ACCOUNT**

| excerpts shown in USD m       | 2008  | 2009  | 2010  | Q1 2011** |
|-------------------------------|-------|-------|-------|-----------|
| Trade balance of goods        | 360.7 | 249.5 | 254.2 | 20.8      |
| Trade balance of services     | -11.8 | -29.4 | -22.1 | -10.2     |
| Direct investments, net*      | 94.3  | 34.3  | 124.9 | 42.6      |
| Current account (C/A) balance | 412.4 | 261.1 | 305.4 | 29.8      |
| C/A balance in % of GDP       | 9.1%  | 5.2%  | 5.2%  | 2.1%**    |

\*) Foreign investments in China minus China's investments abroad; \*\*) Preliminary figures

\*\*\*) Estimate - Source: State Administration Bureau of Foreign Exchange

**FOREIGN DIRECT INVESTMENT**

in USD bn

| On monthly basis    | Dec '10 | Jan '11 | Feb '11 | Mar '11 | Apr '11 | May '11 |
|---------------------|---------|---------|---------|---------|---------|---------|
| in China            | 14.0    | 10.0    | 7.8     | 12.5    | 8.5     | 9.2     |
| Index 100=prev year | 115.6   | 123.4   | 132.2   | 132.9   | 115.2   | 113.4   |
| Year                | 2005    | 2006    | 2007    | 2008    | 2009    | 2010    |
| in China            | 72.4    | 69.5    | 82.7    | 108.3   | 90.0    | 105.7   |
| Index 100=prev year | 119.5   | 96.0    | 119.0   | 131.0   | 97.4    | 117.4   |

Source: Ministry of Commerce

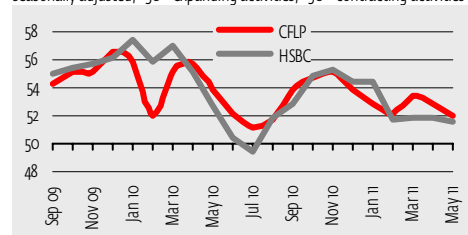
**KEY ECONOMIC DATA FORECASTS**

| Indicator               | 2010  | 2011  |       | 2012  |       |
|-------------------------|-------|-------|-------|-------|-------|
|                         |       | D&B   | ING   | D&B   | ING   |
| Real GDP growth, y/y    | 10.3% | 8.5%  | 10.2% | 9.0%  | 10.0% |
| Consumer prices, y/y    | 3.3%  | 5.6%  | 4.8%  | 5.9%  | 4.0%  |
| Govt Balance, % of GDP  | -1.6% | -2.0% | -0.5% | -1.8% | -0.2% |
| C/A Balance, % of GDP   | 5.2%  | 3.0%  | n/a   | 3.1%  | n/a   |
| Forex rate, RMB per USD | 6.62  | 6.50  | 6.35  | 6.40  | 6.10  |

Sources: Credit Suisse and Lloyds TSB Corporate Markets, from May

**PURCHASING MANAGERS' INDEX**

seasonally adjusted, &gt;50 = expanding activities, &lt;50 = contracting activities



Source: China Federation of Logistics and Purchasing (CFLP), HSBC

**REGIONAL DATA**

Index 100 = same month or period of the previous year

| Self-governing municipalities | Average employee salaries in RMB |       | Construction of new dwellings, 1,000 sq.m. |       | Industrial output growth, index | Retail sales growth index | Consumer price index | Producer price index |
|-------------------------------|----------------------------------|-------|--|-------|---------------------------------|---------------------------|----------------------|----------------------|
|                               | Jan-Mar '11                      | Index | Jan-Apr '11                                | Index | Jan-May '11                     | Jan-Mar '11               | May '11              | Apr '11              |
| Beijing                       | 18,443                           | 116.2 | 1,061.9                                    | 62.5  | 108.1                           | 111.9                     | 105.5                | 102.0                |
| Shanghai                      | 18,567                           | 117.5 | 3,670.3                                    | 116.5 | 110.5                           | 112.9                     | 105.3                | 103.3                |
| Tianjin                       | 12,987                           | 116.5 | 1,855.7                                    | 145.2 | 120.4                           | 117.9                     | 104.8                | 105.6                |
| Chongqing                     | 8,397                            | 113.4 | 11,387.8                                   | 181.4 | 120.4                           | 117.8                     | 104.6                | 103.7                |

**15 economically strongest****provinces by GDP in 2010**

(capitals indicated in brackets)

|                         |              |              |                  |              |              |              |              |              |
|-------------------------|--------------|--------------|------------------|--------------|--------------|--------------|--------------|--------------|
| Guangdong (Guangzhou)   | 10,579       | 112.2        | 13,869.3         | 95.1         | 113.0        | 115.4        | 105.3        | 103.7        |
| Jiangsu (Nanjing)       | 10,969       | 113.5        | 17,325.3         | 105.6        | 113.8        | 116.9        | 105.7        | 108.0        |
| Shandong (Jinan)        | 8,329        | 114.3        | 15,575.9         | 173.2        | 113.9        | 116.5        | 105.1        | 107.4        |
| Zhejiang (Hangzhou)     | 10,702       | 112.3        | 10,095.4         | 157.7        | 112.3        | 116.1        | 105.3        | 105.9        |
| Henan (Zhengzhou)       | 6,832        | 113.7        | 8,543.4          | 108.4        | 117.3        | 117.2        | 105.8        | 108.0        |
| Hebei (Shijiazhuang)    | 7,878        | 113.2        | 7,750.3          | 206.7        | 114.1        | 116.4        | 105.6        | 108.0        |
| Liaoning (Shenyang)     | 8,962        | 115.2        | 5,814.7          | 104.1        | 115.4        | 117.0        | 105.7        | 107.5        |
| Sichuan (Chengdu)       | 8,756        | 116.4        | 16,405.8         | 130.2        | 121.3        | 117.0        | 105.5        | 107.9        |
| Hunan (Changsha)        | 7,597        | 112.0        | 8,431.6          | 133.4        | 120.5        | 117.0        | 105.6        | 109.3        |
| Hubei (Wuhan)           | 7,982        | 116.2        | 6,152.4          | 114.8        | 120.4        | 117.0        | 105.8        | 107.5        |
| Fujian (Fuzhou)         | 8,575        | 118.1        | 4,290.3          | 81.4         | 119.6        | 117.1        | 105.9        | 104.4        |
| Anhui (Hefei)           | 8,693        | 117.2        | 6,846.4          | 119.4        | 119.5        | 117.2        | 105.9        | 109.1        |
| Inner Mongolia (Hohhot) | 8,858        | 116.0        | 1,371.8          | 83.5         | 118.9        | 116.8        | 105.4        | 107.6        |
| Heilongjiang (Harbin)   | 7,049        | 114.8        | 456.0            | 87.9         | 113.2        | 116.5        | 105.9        | 113.2        |
| Shaanxi (Xi'an)         | 7,654        | 115.0        | 1,915.5          | 83.4         | 115.5        | 117.0        | 105.4        | 108.4        |
| <b>National average</b> | <b>9,476</b> | <b>114.7</b> | <b>168,394.9</b> | <b>119.2</b> | <b>114.0</b> | <b>116.3</b> | <b>105.5</b> | <b>106.8</b> |

Source: National Bureau of Statistics

**GENERAL INFORMATION**

Population: 1.34 billion, in 2010

(49.7% in urban areas and 50.3% in countryside)

Area: 9.6 million square kilometres

Towns: 287 cities, 81 with over 1m population

Currency: Chinese yuan (or renminbi, RMB)

In power: President Hu Jintao, head of the ruling Communist Party

Most important tax rates:

Income tax: individual 5-45%; corporate 15-25%

VAT: 17%

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