InterChina

英特华

Article Collection October 2011

I. INVESTMENT ENVIRONMENT

Inflation is likely to remain high

Inflation in China in 2011 will stand at 5.8 percent, and there will be no initiatives to further tighten or loosen the nation's monetary stance, said Yu Yongding, a former adviser to the central bank's monetary commission, on 21st October.

"Inflation is slowing down gradually. On the whole, inflation is under control ... the Chinese government has been quite successful in controlling it," said Yu, who is currently a researcher at the Chinese Academy of Social Sciences.

Yu made the remarks at a seminar in Beijing, organized by the Central University of Finance and Economics.

China's consumer price index (CPI), a main gauge of inflation, declined to 6.1 percent in September, from a peak of 6.5 percent in July. The government's target for the year is 4 percent.

New moves to tighten or loosen the monetary stance are unlikely, said Yu, adding that China won't cut interest rates until inflation falls below 5 percent.

To soak up liquidity and curb inflation, the government has raised interest rates three times this year and hiked the reserve requirement for commercial lenders six times.

China's economy will perform satisfactorily in the foreseeable future, without the risk of a hard-landing risk in the short- and medium-terms, said Yu.

"Investment growth is still quite strong ... even if the world suffers from a double-dip recession, China can still manage," he said, predicting that the world's second-largest economy will maintain GDP growth of at least 7 or 8 percent.

China reported a GDP growth rate of 9.1 percent in the third quarter, down from 9.5 percent in the previous three months.

"China's fiscal position is strong," said Yu. "There is no reason for pessimism at least in the short- and medium-terms."

The country is still capable of implementing a stimulus to shore up the economy if required. But any stimulus would be smaller than the package of 4 trillion Yuan ($627 billion) introduced in 2008. That's because the country has learned the lesson that the earlier package was too large and too rushed, he said.

But the economy does face some major long-term problems, such as low investment efficiency, overreliance on external demand and capital losses in its dollar-denominated assets, warned Yu.

Liu Ligang, head of Greater China Economics at ANZ Banking Group, said the country would experience a soft landing, but that the inflation pressure hasn't eased markedly, as CPI is climbing month-on-month and the central banks of major global economies are maintaining their monetary-easing policies.

"The economy is still facing rising capital inflows," said Liu, who added that the decline in the foreign-exchange reserves in September is a temporary phenomenon resulting from the depreciation of euro assets.

"Capital flows to emerging markets are likely to continue, so the policy challenges will remain," said Menzie Chinn, professor of public affairs and economics at the University of Wisconsin in the US.

Source: *China Daily*, 2011.10.22

China tightens regulations over banks' investment products

The China Banking Regulatory Commission (CBRC), the nation's banking regulator, on 9th October unveiled new measures to improve regulations over banks' wealth investment products.

The new measures came three months after CBRC began soliciting public opinion on wealth investment management since June 29 this year to regulate one of the banking industry's most profitable businesses.

Commercial banks have seen rapid development of their wealth investment businesses in recent years, but some problems have also appeared along with the robust growth, including misleading and falsified sales of products to clients, the CBRC said in a statement on its website.

Those problems have damaged the legitimate interests of clients and hurt the banking industry's integrity, the CBRC said.

The banking regulator ordered commercial banks to improve the information disclosure system to better inform clients about risks when they buy wealth investment products from banks.

The documents of wealth investment products should include information on investment risks and carry out necessary assessments of clients' ability to endure risks and give anticipated results in worst-case scenarios, according to the new measures.

Chinese commercial banks used to lure investors to buy their wealth investment products by touting how profitable they might be.

The assessment of clients' risk-enduring abilities should be based on their age, financial statements and investment experience, according to the CBRC.

Source: *Xinhua*, 2011.10.09

II. BUSINESS SECTORS

[Energy & Power] New firms in power industry restructuring

The government is to establish two new companies from the design and construction businesses of the power grid groups in a long deliberated move to restructure the power industry.

"Splitting the affiliated businesses from the power grid groups is an important step in restructuring the power industry," said Shao Ning, vice-chairman of the State-owned Assets Supervision and Administration Commission (SASAC).

Shao said the move will enable the power grid companies to focus on their main businesses and produce more accurate accounting.

The two new companies, namely China Power Construction Group Co Ltd and China Energy Engineering Group Co Ltd, will focus on exploration, design and construction, according to a statement released by SASAC last 29th September.

The total assets and annual profits of the two new companies will be more than 100 billion Yuan ($15 billion) after the restructuring, said Wang Yong, chairman of SASAC.

"Their scale and abilities will put them at the top of the industry among all the power companies," Wang said.

Some industry insiders predict that the scale of the two new companies mean they will be among the world's top-500 companies.

The companies will participate in the construction of large-scale coal-fired power plants, nuclear plants and clean energy power plants, as well as other transportation and infrastructure investments and opportunities overseas.

However, experts say there is still a long way to go to complete the restructuring of the industry and power generation, equipment manufacturing and power transmission should also be separated from the groups.

"But separating the electricity equipment construction companies from the power grid groups is still proving a difficult problem to solve," said Lin Boqiang, director of the China Center for Energy Economic Research of Xiamen University.

Source: *Xinhua*, 2011.10.03

[Food & Beverage] China forms food safety risk assessment center

China has established a national professional center for food safety risk assessment, which is a major move for China in applying improved scientific management to preventing food scandals.

Inaugurated in Beijing 13th October, the government-funded organization is designed to offer technological support in assessing, monitoring, issuing early warnings and communicating food security risks and food safety standards.

Minister of Health Chen Zhu addressed the founding ceremony, calling the center's formation a key step for China in guarding food safety.

Chen urged the center to play an active role in helping authorities make decisions regarding food safety in a scientific manner.

According to officials, the center has formed more than 300 monitoring sites across China, including sites in supermarkets and farm produce markets.

Since 2010 China has established a nationwide food safety risk monitoring system, as well as a national panel of experts to assess food safety risks and a judgment commission for national food safety standards.

Source: *China Daily,* 2011.10.14

III. FOREIGN PLAYERS

[Auto]BMW 9-month sales surpass full 2010 tally

The world's largest premium carmaker BMW Group sold more than 177,000 vehicles on the Chinese mainland in the first three quarters this year to surpass its 2010 full-year tally.

The German manufacturer said in a recent statement that it delivered 165,669 BMW and 11,853 MINI cars in the first nine months, robust year-on-year growth rates of 45 percent and 60 percent.

The company did not disclose its 2011 sales target for China, where it moved nearly 170,000 cars last year.

Its flagship model - the BMW 7 Series sedan - registered 32 percent growth in sales to more than 24,000 units in the first nine months, maintaining its leadership in the imported upscale full-size segment.

BMW X models have seen combined sales of nearly 38,000 units as local demand for premium SUVs continues to boom.

About 34,400 of the carmaker's 3 Series sedans were sold in the first nine months, an increase of 33 percent over the same period last year.

The new-generation 5 Series made at the company's joint venture BMW Brilliance Automotive in Shenyang, Liaoning province, reported stunning sales growth of 88 percent - the strongest of all BMW models in China - with more than 52,500 units delivered.

BMW now has about 250 dealerships in the country, up from some 200 at the beginning of the year, said Daniel Kirchert, senior vice-president for sales and marketing at BMW Brilliance Automotive.

He told China Daily in a recent interview that BMW has benefited from its move to establish dealerships in smaller cities in the past two or three years, adding that BMW was the first luxury car brand to have retail outlets in more than 30 cities in the country at that time.

He noted that the strategy is continuing with about 10 dealerships currently under construction in the inland cities Nanchong, Yibin and Panzhihua in Southwest China's Sichuan province, where just a few years ago people could hardly imagine there will be much demand for luxury vehicles.

BMW can now produce about 75,000 3 Series and 5 Series sedans at its local joint venture plant.

The company is expanding its existing plant to increase yearly output to more than 100,000 units, while building a new auto factory with designed annual capacity of 200,000 units or more.

The new plant is scheduled to start operation early next year making the BMW X1 SUV and other new models.

Sales of MINI cars in the first three quarters also exceeded all of last year as it attracts more buyers with its enriched product lineup. Its first SUV model - the MINI Countryman - was launched in China in February and has since sold about 3,000 units.

The first independent MINI showroom opened in Shanghai in October 2010. Construction on a second will begin in Beijing at the end of this year.

Source: *China Daily*, 2011.10.24

[Machinery] Walter tooling up for growth in China

China is expected to account for about one-third of global tool demand by 2020, despite worries about a slowdown in its economic growth, German metal-cutting tool supplier Walter AG said.

"China is currently Walter's third-largest market ... (following Germany and the US). But its growth rate is the fastest, and it is only a question of time before China will be our second-biggest market," said Andreas Evertz, president of Walter.

The Tuebingen, Germany-based Company, currently employs about 200 people in China and plans by the end of the year to increase the number by 50 percent and more than triple it in the near future, Evertz said.

In addition to organic growth, Walter is also interested in acquiring local companies in China, Evertz said. He added that Walter had contacted some local firms, but he declined to name them. Walter is looking at companies with high-quality products and strong sales networks around the country, he said.

Founded in 1919, Walter provides high-end tooling systems for turning, milling and drilling. It entered China in 1996 and now designs and produces special tools for customers in a factory in Wuxi, in East China's Jiangsu province.

It also owns a technology center in Wuxi where it tests products and offers training courses for customers. It plans to open three more technology centers in the next 12 to 18 months - in Beijing, Shenyang in Northeast China's Liaoning province, and Chongqing or Chengdu in Southwest China - said Per Tornell, managing director for Walter Greater China.

China is the world's largest machine tool producer, consumer and importer. The country currently accounts for 15 to 17 percent of the world's tool demand. China's metal-processing machine tool industry achieved output value of 98 billion Yuan ($15.4 billion) in the first half of this year, up 32.9 percent year-on-year, according to statistics from the China Machine Tool and Tool Builders Association. The country imported machine tools valued at $9.69 billion during the same period, up 46.35 percent year-on-year.

"Industries such as aviation, automotive, shipbuilding and energy will be the focus of China's machine tool market. They are creating huge demand for high-end computer numerical control machine tools and highly efficient cutting tools," Wang Liming, executive vice-president of the association, said during the EMO Hannover 2011 in late September. The two-yearly trade fair is one of the world's leading metal-working technology trades fair.

The automobile industry has been the most important customer for the machine tool industry, contributing 30 to 40 percent of the global metal-cutting tool market.

Thanks to the explosive growth of China's automobile market, Walter's sales in China surged 80 percent year-on-year in 2010, Evertz said. China overtook the US as the world's largest vehicle market in 2009. Its automobile market saw 32 percent year-on-year growth in 2009 and 46 percent in 2010, stimulated by government efforts such as tax breaks on purchases and subsidies on trade-ins in rural areas.

But with the two-year incentive policies ending and car purchase limits enacted in some cities to protect the environment, auto sales growth in China is likely to slow to about 5 percent this year, according to the China Association of Automobile Manufacturers.

"But this is only temporary. It is still growing, from a very high level," Tornell said.

The automobile and energy industries together contribute about half of Walter's business in China, Tornell said. But the relative size of the railway and aviation sectors will increase, given the country's ambitious plans to expand the railway network and develop the aviation manufacturing industry, Tornell said.

In April, Walter opened its Asia-Pacific headquarters in Shanghai, where its engineers can reach most of the locations in the region within five hours to provide customer support. Previously, they had to fly from Germany to solve technical problems for customers in the region.

Source：*China Daily*, 2011.10.13

IV. KEY ISSUES

China works to replace turnover tax with a value-added tax

The State Council, or China's Cabinet, on 26th October approved a pilot program to replace turnover tax with a value-added tax (VAT).

The government will replace turnover tax with a VAT on select service sectors, such as the transport sector, in Shanghai from Jan. 1, 2012, said a statement issued after a State Council meeting presided over by Premier Wen Jiabao.

If the pilot program is successful and the conditions are right, the policy will be extended to some service businesses nationwide, it said.

The reform aims to incrementally replace turnover tax with a VAT in all sectors nationwide, it said.

Turnover tax refers to a tax on the gross revenue of a business, while a VAT refers to a tax levied on the difference between a commodity's price before taxes and its cost of production.

The policy change is considered a taxation reduction, especially for the service sector.

Current VAT rates include two ranks, 17 percent and 13 percent. According to the statement, the government will also add two lower ranks, 11 percent and 6 percent.

Furthermore, a draft amendment to the regulation on fodder and fodder additives was passed at the meeting in order to address the abuse of fodder additives.

The draft has allowed authorities to publicize fodder producers who violate safety rules and to issue tougher punishments to violators.

Source: *Xinhua,* 2011.10.26

Positions at foreign firms less attractive

The China Banking Regulatory Commission (CBRC), the nation's banking regulator, on 9th October unveiled new measures to improve regulations over banks' wealth investment products.

The new measures came three months after CBRC began soliciting public opinion on wealth investment management since June 29 this year to regulate one of the banking industry's most profitable businesses.

Commercial banks have seen rapid development of their wealth investment businesses in recent years, but some problems have also appeared along with the robust growth, including misleading and falsified sales of products to clients, the CBRC said in a statement on its website.

Those problems have damaged the legitimate interests of clients and hurt the banking industry's integrity, the CBRC said.

The banking regulator ordered commercial banks to improve the information disclosure system to better inform clients about risks when they buy wealth investment products from banks.

The documents of wealth investment products should include information on investment risks and carry out necessary assessments of clients' ability to endure risks and give anticipated results in worst-case scenarios, according to the new measures.

Chinese commercial banks used to lure investors to buy their wealth investment products by touting how profitable they might be.

The assessment of clients' risk-enduring abilities should be based on their age, financial statements and investment experience, according to the CBRC.

Source: *Xinhua*, 2011.10.09