

UCBC Breakfast  
December 3rd

## 'Selling Shoes to China'

Wes Tang - Business Development Director, Pacific Rim  
Red Wing Shoe Company, INC

### Economic and Business News

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## Keep in Mind These Events

### U.S. Commercial Service

**Int'l Trade Networking Reception - Save the date!**  
**Tuesday, December 9, 2008 – 5:30 pm** the Minnesota District Export Council and the Minnesota International Center will host this fall's Intl. Trade Networking Cocktail.  
**For details:** [amelia.goepfingier@mail.doc.gov](mailto:amelia.goepfingier@mail.doc.gov)

### Midwest Global Trade Association

**December 9, 8:30am- 3:00pm**  
**Import Trade Compliance... and More**  
[http://www.mgta.org/events\\_green/events\\_calendar.html](http://www.mgta.org/events_green/events_calendar.html)

**Minnesota Trade Office**  
**(call 651-259-7481)**

**December 8<sup>th</sup> – Export Financing Forum**  
**How to manage the credit crunch**

**December 9, 2008 – International Roundtable**  
**Focus on Wind Energy**

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## Container throughput to shrink in 2009

(South China Morning Post) - The growth in container shipments through the mainland's major foreign trading ports had slowed rapidly and could turn negative next year, affecting several Hong Kong-listed port operators, industry experts said. "With the financial tsunami sweeping the world, growth at China's foreign trade container ports cooled to 10% in the first 10 months of this year, compared with more than 20% per annum in the past five years," said a recent Citi report by Ally Ma and Brian Lam. "Growth in September and October slowed sharply to 5%, with ports servicing light manufacturing bases getting hit the hardest." The report said the downturn might continue to worsen in the fourth quarter. It said container throughput at the major foreign trading ports might decrease in the first half of next year and only recover mildly in the second half, at the earliest. The Citi report defined the major foreign trading ports, beginning with the largest, as Shanghai, Shenzhen, Qingdao, Tianjin, Ningbo, Xiamen and Dalian. The trade slowdown would hurt several Hong Kong-listed mainland port operators, including Cosco Pacific, China Merchants International (Holdings), Tianjin Port Development and Dalian Port, the Citi report said. It gave Cosco Pacific a "sell" rating, saying it was the most vulnerable of the ports to the trade slowdown, with most of its earnings coming from container leasing and manufacturing. Citi cut its 2009-2010 earnings forecasts by 14% for Dalian Port and 24% for China Merchants and Tianjin Port. The Pearl River Delta, a major light manufacturing base that exports extensively to the United States and Europe, was

among the hardest hit, according to the report. Shenzhen port recorded a 2.3% decline in shipments in September and an 8.3% decline last month.

"[Based on] analysis of leading indicators including the Canton Trade Fair, the fourth quarter and first half of 2009 could be extremely difficult," the report said. "The Canton Trade Fair from October 15 to November 6 in Guangzhou was the most dismal in its history. Value of contracts signed at the event declined by 17%." Growth in throughput at Hong Kong's container port slowed from 7.3% in August to 1.2% in September and minus 2.9% last month, the Hong Kong Port Development Council said. "In the coming six months for Hong Kong and Shenzhen, the trend will be worse," said Sunny Ho Lap-kee, executive director of the Hong Kong Shippers' Council. "The negative growth will be bigger." Shenzhen's ports might possibly experience a decline in container throughput next year, he predicted.

"For 2009, we believe Hong Kong and China's international trade with the US and Europe will drop."

China's domestic trade and intra-Asian trade could partly offset the decline in international trade for Hong Kong and mainland ports, he said.

However, since the terminal handling rates for the domestic and intra-Asian trade are much lower than for international trade, the decline in foreign trade would cause the revenue of terminal operators to drop substantially, Mr Ho said.

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## China to invest 2.64 trillion US dollars in 2009

(Xinhua) - China's total social investment is predicted to reach 18 trillion yuan (2.64 trillion US dollars) in 2009, National Development and Reform Committee (NDRC), the country's top economic planner, announced here on Thursday. "The 4 trillion (586 billion US dollars) stimulus package is only part of the whole picture. China's total social investment exceeded 13 trillion yuan in 2007 and is expected to top 16 trillion yuan this year," said NDRC head Zhang Ping. Zhang said the central stimulus package was roughly divided into seven parts, with 1.8 trillion yuan going towards large-scale infrastructure projects such as railways, roads, airports and the national grid.

One trillion yuan is for reconstruction in areas most affected by the May 12 earthquake in the southwestern Sichuan Province.

The rest of the stimulus money will be spent on an affordable housing project, rural well fare and infrastructure construction, medical and cultural development, environmental protection as well as industrial restructuring. Next year's total social investment will have the same focus with the central plan which involves improving people's lives and promoting rural development, according to Zhang.

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**UCBC Breakfast (December 3rd @ 7:30 am-9:00 am)**  
**Minneapolis Community & Technical College**  
 1501 Hennepin Avenue - Wheelock Whitney Hall - Room L3000 (3rd Floor) (see sign)  
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**Call: 612-865-6543 to reserve**      \$20 per person - college students FREE

### Huge Air China fuel hedging loss - 3.1b yuan

(South China Morning Post) - Air China, the nation's second-largest carrier, said the fair value loss on its fuel hedging contracts almost tripled to 3.1 billion yuan by the end of last month.

That was well above the previous figure of 1.06 billion yuan in September and reflects a continuing plunge in fuel prices amid the global financial turmoil.

"If the international oil prices continue to remain at such low levels during the remaining period of the hedging contracts, we may be able to gradually make up for the fair value losses incurred through the hedging contracts with actual operational savings from fuel purchases on the spot market," the company said. Air China said the hedging contracts, which became operational in July and had a three-year maturity to 2010, were used to hedge 50% of the carrier's fuel consumption. They were entered into when oil was peaking, but prices have since softened, meaning the fair value of the contracts has

turned negative.

Oil price has slipped to around US\$50 per barrel recently from a peak of US\$147 in July. Due to the attributed loss in hedging contracts, the company reported a loss of 1.94 billion yuan for the third quarter, compared to a profit of 2.19 billion yuan in the same period last year. For the nine months to September, Air China posted a loss of 657.25 million yuan, against a 3.49 billion yuan profit in the same period last year. Cathay Pacific, the largest airline operator in Hong Kong, issued a profit warning early this month, saying that 2008 financial results will be disappointing due to losses on fuel hedging and weakness in revenue.

Cathay Pacific, along with other major airlines, entered into hedging contracts to balance out surging oil costs. But the recent rapid fall in jet fuel prices caused an unrealised mark-to-market loss of as much as HK\$2.8 billion by the end of last month, although the company said the amount of loss actually realised would depend on future movements in prices.

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### Chinese government involved in price fixing

China's government is defending in a New York court four Chinese vitamin manufacturers that acted together to boost prices of their exports, in an unprecedented move that could affect international antitrust disputes.

The four companies captured the market for vitamin C after years of undercutting rivals with low prices. It is a pattern that has repeated itself in dozens of markets in recent years, bringing higher prices for Chinese-made products from drugs to sweeteners to steelmaking materials.

The wholesale price of vitamin C rose from about \$3 a kilogram, or 2.2 pounds, in 2001 to \$8 or more in 2003; it has fluctuated since then, reaching as high as about \$11 a kilogram last year. China's defense is based on the doctrine of sovereign immunity: If a government orders a company to take a specific action, it generally is considered an act of state that can't be

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## FDA opens China office

(Aljazeera) - The US Food and Drug Administration has opened its first office in China as part of a global strategy to ensure the safety of imports from China. The office is the FDA's first permanent delegation outside of the US and will be followed by two more in the Chinese cities of Shanghai and Guangzhou.

"In the past we have always been at our borders to try and catch things that were not safe or did not meet our standards," US Health and Human Services Secretary Mike Leavitt said at ceremony to mark the opening of the Beijing office on Wednesday. "In the future our new strategy is to build safety into products at every step of the way."

The opening of the new office follows a series of safety scares over Chinese-made products. The most recent alert has centered on the Chinese dairy products tainted with the industrial chemical melamine.

After meetings with Chinese officials on Tuesday, Leavitt said China and the US would work on a joint initiative to use better

technology for detecting contamination, demand greater corporate responsibility and increase sharing of data and information. In the past year, China has stepped up inspections and tightened restrictions on food production and other industries, after a series of scandals. However, analysts say it remains an uphill climb for Chinese authorities to regulate countless small and illegally run manufacturing operations. Shao Mingli, head of China's country's food and drug administration, said the opening of the FDA office was a "very clear signal to the whole world." "As food and drug regulatory agencies, our first priority is to protect public health and life," Shao said at Wednesday's ceremony. "This is our top responsibility."

The FDA says it plans to open further offices in India, Latin America and Europe in coming months as it tries to step up safety monitoring of more than \$2 trillion worth of goods imported into the US every year.

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## Labor unrest alarms are sounding

(Bennett, Coleman & Company) - Chinese leaders have finally admitted that the country is facing a "grim" situation on the employment front owing to the global economic crisis. An official survey has shown that demand for labor has fallen 5.5% in the third quarter of this year across 84 different cities.

Yin Weimin, head of the ministry of human resources said that labor discontent was a "top concern" of the government as the employment situation has turned "grim". The government is clearly worried that unrest among jobless workers would result

in protest demonstrations and unruly scenes. The past weeks have seen strikes by taxi drivers in four cities and a workers' riot at the party headquarters in Gansu province.

China has nearly 150 million migrant workers, who have left their rural homes in central and west China to work in the factories of South China. The extent of unemployment caused in factories cutting back production following loss of export orders is still not known. But the number might prove to be big enough to cause social tension, sources said.

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## Pollution worsens on Yellow River system

(Xinhua) -- A Chinese water resources official on Sunday called on people to improve the awareness of water saving and protection in a bid to curb pollution of rivers from spreading and worsening.

Li Xiaoqiang, chief of publicity section with the Yellow River Conservancy Committee, made the remark over the phone while commenting on the fact that pollution had spread to one third of the Yellow River system.

With a mainstream of 5,464 km, the Yellow River, billed as the "mother river" of China, originates from Qinghai province, flows eastward through Sichuan and Gansu provinces, Ningxia Hui and Inner Mongolia autonomous regions, and Shaanxi, Shanxi and Henan provinces before emptying into the Bohai Sea from Shandong Province in east China. It has 35 main tributaries. The Yellow River Conservancy Committee said in a bulletin released last Thursday that it monitored the mainstream of the Yellow River and its tributaries last year, with the combined length totaling 13,492.7 km, and found 4,557.6 km, or 33.8% of the waterways monitored, to have polluted water classified as type-five negative. The Yellow River Conservancy Committee is an organization affiliated to the Ministry of Water Resources and has its headquarters in Zhengzhou, capital of central China's Henan Province. It is assigned with the mission to overseeing the welfare of the Yellow River system.

Only 2,174 km of the waterways, or 16.1% of the river sections monitored, were said to have water quality classified as types one and two, both standards suitable for drinking.

The bulletin also showed that the river system had an increase of 18.9% in rainfall last year in comparison with that of 2006, but received more pollution too: waste and sewage water discharged into the river system totaled 4.29 billion tonnes last year. Industrial sector was blamed as the No.1 polluter, followed by living sewage contributed by urbanites living along the river system and the service trade.

In 2006, the organization monitored 12,510.8 km of the Yellow River system, of which, 31.1% were found to have type-five negative water. And 4.26 billion tonnes of waste and sewage water was discharged in the Yellow River system in that same year. The Yellow River and its legions of tributaries flow through arid north China, making the river system hard to clean on its own, said Li. The State Council, China's Cabinet, launched a nationwide campaign among industrial enterprises to save energy and reduce the discharge of pollutants enormously in the second half of last year.

"It is a good thing though it takes arduous efforts too," said Li. "I wish a harmony could be achieved between development, utilization, and protection of the river someday."

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## China Will Be a Winner in the New Economy

(Wall St. Journal) The incoming Obama administration will face formidable challenges, but global economic collapse is no longer imminent. That may be small short-term comfort to the markets and Main Street. But having stared down the abyss, governments around the world appear determined to address root issues. The G-20 gathering of the world's major powers in Washington on Nov. 15 was only the beginning of a long and constructive process of revising the global system. In the new system the United States will still be the largest economy but no longer the sole determinant of global economic health. The new winners will be cash and China. Those without cash are in a precarious position. Tens of millions of homeowners and property owners in the U.S., Europe, the Gulf region and Asia have seen the value of their assets decrease sharply. They either have negative equity or insufficient income to make payments. Pension plans and 401(k) accounts have been devastated by a 50% plunge in global equities. Millions of workers have lost or are about to lose their jobs. The U.S. government balance sheet will become even more debt-laden.

But every crisis creates opportunities -- or at least so goes the old Chinese saying. This time is no exception, and China will emerge victorious. As its recently announced \$600 billion stimulus package makes clear, those who have cash can spend their way through this global crisis, and China has lots.

The global economy for the past five years has been driven by credit, with cash as currency pushed to the sidelines. With cheap credit, deals got pricier and valuations higher, to the point where some transactions were about as carefully assessed as a Monopoly trade. Now credit is cheap but not readily available. New government regulations and internal risk-mandates will mean that credit won't flow as promiscuously.

There is more cash sloshing around the world than most people think. The problem for the U.S. and to some extent Europe is that this cash is now in unfamiliar places, some of which -- as John McCain reminded us on the campaign trail -- can be found in countries that "don't like us very much."

The McKinsey Global Institute assessment of global financial assets (which includes bank deposits, stocks, bonds and private equity) released earlier this year showed about \$167 trillion world-wide at the end of 2006. That figure is now considerably less but still probably three times global GDP, and represents a massive supply of fuel for economic activity.

Tens of trillions in noninvested money (not in stocks or bonds) sit largely unused. Those who have it are hoarding it, unclear about the short term. As the dust settles, however, that cash will be king. Some cash will be used for purely private gain, for example by vulture real-estate investors in southern Florida, buying up those unused, unwanted and unsold condos at fire-sale prices. Such cash will do little to enhance the public good. But other uses of cash will. Corporations in the U.S. alone may have up to \$1 trillion reserved, and they will begin to pick at deals amid the market wreckage. They are also likely to weigh

future cash flow more cautiously. That doesn't mean that all deals will turn out well, but the reliance on cash will temper excessive greed and speculation.

Sovereign wealth funds have cash. After being burned in some of their deals at the end of last year, they have become more stringent. But they still have trillions, and they have every intention of investing that money with an eye on future returns, as demonstrated by Abu Dhabi's recent investment in Barclays, and Saudi Prince Alaweed's raising his percentage to 5% of deeply depressed Citigroup shares. Private equity and hedge funds also have pools of cash. We hear about the blowups, but not as much about the ones weathering the storm.

In the next few years, these custodians of private capital are likely to assume the role of venture capitalists, merchant bankers and deal makers all in one. They will take on less leverage (by choice or necessity) and put more of their own skin in the game, which is always a good reason for thinking twice and checking your assumptions.

Then there is China. Yes, the balance of power at the G-20 summit shifted toward Russia, Brazil and its hundreds of billions in reserves. Saudi Arabia, and a rich though still economically stagnant Japan. But China remains in a league of its own.

With \$2 trillion in central-bank reserves alone, China is cash-rich and almost debt-free. That is true not just for the government but for many individuals. Because there is no mature bond market and the currency remains unconvertible, individuals in China have a savings rate approaching 50%.

To be sure, there have been real-estate bubbles in many Chinese cities, and these have been popping. But China's overall cash position is extremely high, and its dependency on exports is less than most suppose.

The immense stimulus package just announced by China should erase fears of a major Chinese slowdown. Yes, some factories will close because labor is cheaper inland than in the more expensive coastal regions. But the shortfall created by sagging exports will be made up by state spending. Beijing has the money, and the willingness to spend it.

China's actions could also have direct -- and positive -- effects on the U.S. economy. An investment arm of the Chinese government is now deep in talks to buy up parts of AIG. China is already the primary source of growth for many U.S.

companies, including ones like Caterpillar that make things in the U.S. and export them to China. As the developed world sags, China is becoming even more important to the global system.

China also needs a vibrant U.S. (and Europe). Beijing will likely take action to prevent a collapse by continuing to purchase U.S. Treasuries. We may not like the fact that China is our creditor, but having no creditor would be a good deal worse. The U.S. government can spend for a time, provided the dollar remains the currency of last resort and buyers like China keep lending.

But as the New Deal showed, and as Barack Obama understands, government alone cannot fuel the economy. Government must jump-start the system when it stalls, but after that, cash and China will drive the recovery.

## Chinese stocks enter bargain territory

(Financial Times) - Government's fiscal stimulus and a stable currency are making the country look more appealing. Chinese equities have lost more than 60% of their value this year - but some analysts now believe company valuations are at bargain levels. The loss represents quite a fall from grace. Last year, the UK's top performing unit trust across all sectors, Gartmore China Opportunities, returned more than 70%. This year, it has lost 47%. However, the Chinese government has stepped in with proposals to prop up the country's economy - prompting analysts to look at the country with a more optimistic eye. Last week, it announced a fiscal stimulus equivalent to 15% of GDP over two years, to stimulate consumer spending and invest in low income housing and improving infrastructure. Craig Russell, chief market strategist at Saxo Bank, believes it is the most comprehensive stimulus package of any nation so far. He also thinks China will continue to cut interest rates and stop its currency appreciating too much in order to help exporters. He argues that the increase in government spending will offset any slowdown in consumer spending - though he predicts this will still rise by 15% in 2009. Certain shares are expected to do well, such as rail companies, concrete businesses and banks that will be the initial beneficiaries of the government funds. Bank of America this week paid \$7bn to lift its stake in China's second-largest bank, the China Construction Bank - which Russell argues is a play on the expected growth. Analysts also point to the fact that the Chinese government has roughly \$2,000bn in cash reserves to spend on reviving its economy - unlike western economies that are heavily in debt. "I suspect I might be contrarian and say China is my favourite country pick for next year as most people are writing it off," says Mark Dampier at Hargreaves Lansdown. Many investors had been shunning emerging markets because their exports are expected to slow as the west falls into a recession. But the long-term growth prospects for China remain strong and Dampier argues: "I would say the crash gives you a better entry point as prices are back to what they were four or five years ago." Expectations for Chinese GDP growth next year vary - some put it as low as 5%, others at more than 8% - but all agree it will be less than the 11.9% seen in 2007. However, while a Merrill Lynch poll of institutional fund managers this month showed record pessimism for Chinese growth next year, the managers are still

overweight in China in record numbers - 67% were overweight in November, compared with just 19% in October. Michael Hartnett, chief emerging markets strategist at Merrill Lynch, says this is partly because of the "first in, first out" theory, as China was the first equity market to enter a bear market. "There's a lot more bad news discounted in China than other equity markets," he says. And compared with other so-called Bric economies (Brazil, Russia, India and China), China's currency, the renminbi, has been "a rock of stability by comparison". Alan Gibbs at JO Hambro is overweight in China in his Asian fund and has been gradually increasing this in the past three months. "The risks of equity investment everywhere are still high, but if you're looking at the fundamentals, the economic backdrop in China is on the whole very comforting," he says. He argues that the stock market fall has burst what he says was a bubble in Chinese equities that had made it hard for fund managers to find value for the past five years. He also believes the intentions of the Chinese government are more meaningful than attempts by western governments to control the credit crisis - so the rescue package should be taken seriously. "The government has a good record of being effective in implementing what it wants to implement," he says. "For all that's said about China embracing capitalism, the government still owns quite a large proportion of the corporate sector and the Communist Party is important in a way that the Labour party here is not." Ewan Markson-Brown at Newton Investment is focusing on the property sector, which he believes will stay resilient because of the ongoing urbanization of the population. He thinks the next six to nine months will be an "amazing opportunity" to buy growth companies, as shares are trading so cheaply compared with valuations. Fen Sung at Premier Asset Management is looking at healthcare stocks. He says this is another growing area in China as the country is no longer so reliant on imports. His picks are Shandong Weigao, a syringe supplier to all the major hospitals and Sino Biopharmaceutical, the producer of the number two hepatitis B drug in China. Risks, of course, remain. Managers agree the biggest of these is how far consumer spending - particularly in the US - slows.

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## ... Price fixing continued

prosecuted in foreign courts. In his Nov. 7 ruling, Judge Trager effectively rejected that stance, finding enough evidence to go to trial. No date has been set. In their court filings, the four largest Chinese vitamin makers don't dispute that they acted together to set prices. Rather, they argue they did not violate the law because they were compelled by the ministry to coordinate export prices and production. Most of this evidence has remained under court seal until recently. It documents repeated instances -- recounted in the participants' words in the minutes of intercompany meetings, which were posted on the Web -- in which the companies met and agreed to raise prices and curtail production. One such meeting, between sales representatives of two of the defendant companies, took place at a Las Vegas hotel in 2004, where the

sales people were attending a trade show, according to evidence filed by the plaintiffs.

A suit filed on behalf of Resco Products Inc, alleges that companies in China conspired to drive up the price of magnesite, which is used in steelmaking. Prices for the essential material are up 400% in just three years.

The Chinese priced their product so low, for so long, it drove everyone else out. When they took over the market, the price increases started. Resco bought 800 tons of magnesite from China last month for \$1,200 a ton, up 50% from its last order in July. In court filings, China's magnesite producers didn't dispute that they discussed prices and offered the same defense as vitamin C makers: They didn't violate the law because they acted under government authority.

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## China's Great Growth Engine Slows Rapidly

(New York Times) The Ma'anshan Iron and Steel Company recently opened a giant \$3 billion steel mill on the outskirts of this city. The mill, which covers one and a half square miles and has its own power plant and shipping port, was built to help meet China's seemingly insatiable appetite for growth. But during what should have been a peak production period two weeks ago, it was silent. Rolls of coiled steel sat near the end of a long assembly line as a few helmeted workers lounged about, playing with their mobile phones. Three blast furnaces and a line that produces H-beams for construction were also temporarily shuttered here at Ma'anshan, about an hour west of Nanjing.

"Demand is definitely shrinking," Wang Wei, an investor relations manager, said as he toured one of the brand-new plants. "Everyone is cutting back capacity." It is happening faster than most anyone predicted: China's economy, long the world's fastest-growing major economy, is slowing down. Economists are forecasting that after growing nearly 12% last year, China's economy could slow to 5.5% in the fourth quarter of this year -- a stunning retreat for a country accustomed to boom times.

Last week, banking regulators began warning about the risk of bad loans accumulating, and labor officials publicly worried about the possibility that mass layoffs would lead to unrest. "It's the speed of the deceleration that scares people," says Liang Hong, a Goldman Sachs economist.

The American recession is one big reason China's epic economic growth is imperiled: as Americans buy less, China sells less. And China's own efforts to keep its economy growing, through a stimulus package worth nearly \$600 billion, may not replace a falloff in American demand as the recession deepens. The global downturn is already reaching deep into the heart of the country's once-rapid industrial transformation -- its steel, cement and construction companies -- stalling dozens of multibillion-dollar investment projects. Plunging housing prices at home combined with a virtual global investment freeze have led to steel orders softening, steel prices plummeting, and inventories and losses piling up. Coast to interior, China's aggressive building boom is no longer so.

In Hebei Province, in north China, Capital Steel, one of China's biggest steel makers, is building a \$10 billion steel mill complex on an island, even as its profits evaporate.

In the eastern Chinese city of Hangzhou, Vanke -- a huge real estate company -- is spending more than \$1 billion to build what amounts to a new city, with its own schools, a hospital and thousands of town houses at a time when the company is reporting a huge drop in sales. And in Macao, new construction is grinding to a halt on one of the world's biggest real estate developments -- a massive casino and hotel complex whose cost has been estimated at \$20 billion -- because of huge debt obligations. About 10,000 people could lose their jobs.

Nationally, Chinese officials say their country faces a grim situation. New economic data released over the last weeks is beginning to reveal the extent of the slowdown in China.

This year, housing sales in big cities have plunged by as much as 40% from a year ago. Government revenue was down in October. And last month, industrial production registered its weakest growth in seven years.

"Growth is deteriorating fast," says Andrew Driscoll, a China

resource analyst. "We're not talking about China's growth going backwards. But when supply is geared toward 10% growth, and it comes down to 5%, you have excess supply."

To cope, Beijing recently approved the biggest economic stimulus effort in China's history: a \$586 billion package over two years, aimed at shoring up the very industries that seem to be faltering -- steel, cement and companies engaged in building. The government also approved emergency measures including tax relief, export rebates and housing policies. The government is promising fast approvals for local governments to build subsidized housing, railways and airports, and even nuclear power plants. Fixed-asset investment -- or spending on things like housing and manufacturing plants -- accounts for about 45% of the nation's economy, and that is the focus of the effort, analysts say. Just months ago, Chinese leaders were warning that growth was too strong and risked stoking inflation. Now, Chinese officials say they want to do their part to keep the global economy from slipping into recession.

In America, consumers have closed their wallets. Parts of Europe are already in recession. And in Asia, Japan and Hong Kong now say that they too have slid into recession.

The ripple effects are being felt everywhere in China. Hard-hit airlines and automakers have appealed for government aid. Local governments that raised millions of dollars auctioning off land rights are confronting lower bids and depressed sales, which essentially means lower tax revenue.

Lead smelters, which produce material for the battery industry, and aluminum producers are shutting down production lines.

And cement makers -- one of the pillar industries in a nation perpetually under construction -- are depressed.

"This is a bleak winter for the cement industry," says Yang Dongsun, an analyst at Merchant Securities. "There's a nose dive in real estate construction. In south China and east China, two places where real estate boomed, many projects have suddenly stalled." Last month, electricity production in China dropped for the first time since early 2005, a sign that big industry, the largest consumer of power, is in retreat.

"Global commodity prices collapsed. People got scared, and many activities just stopped, and many turned off the lights."

Steel producers are among the worst off. Slowing demand has forced many to idle plants. Australian and Brazilian iron ore suppliers -- which reaped huge profits from China's building boom -- say demand from China has already slowed sharply. Here at Ma'anshan Iron and Steel, executives are pondering what happened just after the middle of the year, after they began operating a huge new mill that they say is much more efficient than older mills. Ma'anshan's average steel price peaked at \$768 a ton around June, then began falling sharply. In November, prices dipped as low as \$490 a ton.

Steel executives say weak consumer spending reduced demand for things like cars and refrigerators, which contain finished steel. But most say falling property prices had an even bigger impact. Ma'anshan recently reduced its production by about 15 percent. But company executives say they are hopeful about the government rescue effort, one that will put China back to building. "I'm quite optimistic about the stimulus package," Hu Shunliang, at Ma'anshan Iron and Steel, said. "It's not just theater. It will stimulate other industries and help bring us more investment."

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## Inevitably, China slashes interest rates

(Times Newspapers) - China announced the biggest single cut in interest rates since the Asian financial crisis of 1997 yesterday, as it acknowledged the damage that the global downturn was causing to its surging economy.

The People's Bank of China slashed benchmark rates for one-year loans and deposits by 108 percentage points, the fourth rate cut in only three months as the Government tries to persuade consumers to spend more. The rate will fall to 5.58 percent on a one-year loan.

The central bank also reduced the proportion of deposits that banks must hold in reserve, giving them more money to lend to businesses that face a sudden sharp drop in export demand and a downturn in the domestic property market.

Jing Ulrich, head of China equities with JPMorgan, said: "This is the most aggressive monetary easing in recent years and should bode well for China's market performance."

Signs are appearing that China may be in no position to use its booming economy to help the rest of the world. Industrial growth slumped last month to a seven-year low, and exports, imports, retail sales and fixed-asset investment all weakened. Power generation fell by 4 percent from a year earlier - the first drop in a non-holiday month for a decade.

Hundreds of workers laid off from a toy factory in the export hub of southern Guangdong province clashed with police and smashed buildings to back demands for severance pay. And the mayor of Shenzhen, the nearby boom town, said that 50,000 workers had been laid off from 682 failed enterprises in the past year.

Li Yang, a researcher with the Chinese Academy of Social Sciences, said that the size of the rate cut showed that growth was fading faster than expected.

The World Bank said this week that it expected China's GDP growth to slow to about 7.5% next year - its lowest in nearly two decades. Although that level of growth is envied by other countries, it is barely sufficient to provide enough jobs for the estimated 14 million new entrants to the Chinese labour market each year.

Mr Li said: "If the economy slows and employment problems emerge, those problems may translate into social tensions, which is the biggest concern for the Chinese Government."

The aggressive nature of Chinese policy highlights the anxiety among the leadership and Wen Jiabao, the Prime Minister, has said openly that the country faces an unusually difficult period for its economy - the fourth largest in the world - after growing at double-digits since 2002.

The Government unveiled a 4 trillion yuan (Pounds 400 billion) stimulus package this month, designed to ramp up investment in roads, railways, affordable housing and an array of public works. However, it is not yet clear how much of that spending will be new and how much has already been allocated.

Patrick Bennett, Asia foreign exchange and rates strategist with Societe Generale in Hong Kong, said: "China is out to save itself here. The rest of Asia is strong, but all policy-makers in the region and on the planet need to take their own steps. China is showing good leadership."

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## Consumer confidence drops for third month

(South China Morning Post) - Consumer confidence on the mainland dropped last month for the third consecutive month amid the world's deepening credit turmoil, fueling pressure for more growth-driven policies.

A consumer confidence barometer fell to 92.4 from 93.4 in September and 93.7 in August, the National Bureau of Statistics said. Some economists said the deepening global financial crisis and sharp falls in mainland stock and property prices since September were eroding people's feel-good factor.

To maintain job levels and achieve 8% to 9% economic growth next year, Beijing is expected to roll out fiscal and monetary measures after cutting interest rates and bank reserve ratios last night. "All the numbers will go down for a while," Citibank Global Markets Asia managing director and head of Asia economic and market analysis Huang Yiping said of the macroeconomic indicators. "It will take some time before the stimulus package is implemented and before people feel [good] about it." The People's Bank of China lowered the benchmark one-year lending rate 108 basis points to 5.58% and the deposit rate by the same margin to 2.52%. The reserve ratio was cut by 100 points for major lenders and 200 points for smaller banks. Economists said the moves would spur housing demand and lower companies' borrowing costs.

JP Morgan China equities managing director and chairman Jing Ulrich described the cuts as "the most aggressive" so far, which will boost investors' confidence. "We expect China's central bank will continue to loosen money supply in an effort to improve access to financing for the corporate sector, as well as provide funding for the recently announced stimulus package," Mrs Ulrich wrote in a note.

The latest measures will complement a 4 trillion yuan (HK\$4.54 trillion) stimulus package Beijing rolled out earlier this month, which aims to stimulate domestic consumption and employment through spending in sectors such as infrastructure, property, environment, education, health care and transport.

Despite the world's gloomy outlook, Mr Huang was confident of the mainland's economic prospects, as the high liquidity in its banking system allowed ample flexibility for fiscal policies to manoeuvre.

"Domestic sales are holding up well, so far, in volume terms," he said.

Retail sales surged 22% to 1.008 trillion yuan last month, although growth eased to 23.2% in September from 23.3% in August.

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## Time to re-think Off-shoring?

**Changing economic conditions may have undermined some of the benefits of off-shoring. For managers of global supply chains, this could be the time to reevaluate.**

The production of high-tech goods has moved steadily from the United States to Asia over the last decade. The reasons are familiar: lower wages, a stable global economy, and rapidly growing local markets. These factors combined to make nations such as China and Malaysia favored manufacturing locations. In the last two years, however, the favorable economic winds that carried off-shoring forward have turned turbulent. The new conditions are undermining some of the factors that made manufacturers of every stripe, including those in high tech, move production offshore.

For executives managing global supply networks, the question now is whether or not conditions are moving toward a tipping point. Is this the moment to consider sharply scaling back offshore production plans and bringing manufacturing back or close to the United States? Is there a more measured response

that better suits the new circumstances? Before executives change their strategies, however, they must determine the total landed cost of each product produced offshore and better understand the shifting trade-offs between cost savings from offshoring (such as lower wages) and rising logistics charges. Oil prices, and consequently the cost of shipping, have risen to heights few foresaw even just several years ago. Since 2003, crude oil has soared from \$28 to more than \$100 a barrel. The economics research institution CIBC World Markets estimates that in 2000, when oil prices were near \$20 a barrel, the costs embedded in shipping were equivalent to a 3 percent tariff on imports. Today, that figure is 11 percent—meaning that the cost of shipping a standard 40-foot container has tripled since 2000.

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*To read the complete McKinsey report on this subject, [control and click here](#)*

## China's bid to end bribery for doctors

(Xinhua) -- China's new bid to end corruption among non-government employees, especially doctors, has touched a sensitive nerve of the Chinese society in which poor doctor-patient relations have long been a topic, and where doctors are on low salaries. Medical staff may face commercial bribery charges if they receive money or other forms of reward from sales agents of pharmaceutical companies or suppliers of medical equipment, according to a judicial interpretation by the Supreme People's Court (SPC) and the Supreme People's Procuratorate released on Monday.

Doctors may also face punishment if they help promote pharmaceutical products through their prescriptions and then get a kickback.

An official with the SPC said the move was to tackle bribery in several fields including medicine, which have "seriously harmed the public interest". The document triggered heated online debate since it was released Monday. More than 5,000 comments have been left on the message board of [www.sina.com.cn](http://www.sina.com.cn), one of China's major news websites.

"Firmly support. Even though it cannot completely root out commercial bribery in the medical circle, at least doctors would bridle their behaviors for a while," a netizen from east China's Jiangsu Province wrote.

"Accepting kickbacks from pharmaceutical companies is an open secret of doctors. Many doctors have lost their medical ethics," another anonymous netizen wrote.

Despite applause, the new measure also aroused discontent from many medical professionals.

"It's unfair to assume that doctors are all corrupt. I believe that

a few doctors do receive kickbacks, but they are not the majority," a dentist surnamed Min from a middle-sized state-run hospital in Beijing told Xinhua.

"As a young dentist, I myself have never received any kickbacks," she said.

"Besides, we have to look for a reason why some doctors would like to take kickbacks," she said. "It's because our salary is too low."

Min said her monthly income was about 2,000 yuan (about 294 U.S. dollars), which included both salary and bonus.

"With such a salary, living in Beijing is not easy."

Another young surgeon from a big state-run Beijing hospital told Xinhua that his salary was roughly the same as Min. "Do you believe it? I earn 3 yuan for one appendectomy," the surgeon surnamed Wu said.

Wu said he believed the problem of commercial bribery in medicine circulation was "one of the system rather than one of doctors".

"I think the government should increase funding to public hospitals and raise the salary of medical staff so that hospitals and doctors don't need to look for other ways to solve income problems," he said.

Li Ling, professor of the Peking University, said China's medical reform in the past two decades, which was market-oriented, was "not right".

"Indeed, since doctors and hospitals rely more on profits, they have come to rely on medicine sales for the bulk of their revenues," she said.

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