

UCBC Breakfast
November 5th
-see page 3-

'Selling U.S. Fans in China'
Larry Tan
Director of Sales and Marketing, Asia
Twin Cities Fan Company, Ltd

Economic and Business News ([Ctrl+Click on article title](#))

[Global Slowdown Takes Corporate Toll, from Steel to Shipping](#)

[China, World Will Struggle to Meet Oil Demand](#)

[US Warming Up to China Investments in Oil Companies ?](#)

[Illegal Exports to China, Iran Rising](#)

TAX REBATES FOR TEXTILES

(Xinhua) - China is to raise the tax rebate for certain textile and garment exports to help producers cope with the paper-thin profit margins squeezed by slacking market demand, yuan's appreciation and rising production cost. Export tax rebates for some textile and garment items would be increased by 1% to 14% from Nov. 1, according to the Ministry of Finance.

[China Venture Capitalists' Confidence Falls to New Low](#)

[Advertising Budgets Feel the Pinch](#)

[Boeing Projects China as World's Fastest-Growing Aviation Market](#)

SOME EVENTS TO KEEP IN MIND

[Main Works of Three Gorges Dam Finished a Year Ahead of Schedule](#)

[China Needs To Perfect Intellectual Property System](#)

[Russia Sets Pipeline Deal With China](#)

[China Health Care Conditions Much Worse for Rural Poor](#)

[Diamonds Lose Shine as Couples Cut Spending](#)

[The 'Heavy Cost' of China Coal Use](#)

[China Boosts Property Sector as Growth Drops Sharply](#)

[Hotel industry sees decline in bookings](#)

[Chinese Tourists Buy Luxury Goods](#)

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Events to Keep in Mind

U.S. Commercial Service

INT'L TRADE NETWORKING RECEPTION:

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For details: amelia.goepfing@mail.doc.gov

Midwest Global Trade Association

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Minnesota Trade Office

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Minnesota High Tech Association and Minnesota Trade Office: Mission to Taiwan, Hong Kong & Macau, China

Date: December 5-12, 2008

2. THE CHINA PRACTICUM - November 12th

For lots of information and connections to doing business in and with China

[Return to top page](#)

China, World will struggle to meet oil demand

(*Financial Times*) - Output falling faster than expected ; Industry focus shifts to developing nations
Output from the world's oilfields is declining faster than previously thought, the first authoritative public study of the biggest fields shows.

Without extra investment to raise production, the natural annual rate of output decline is 9.1 per cent, the International Energy Agency says in its annual report, the World Energy Outlook, a draft of which has been obtained by the Financial Times.

The findings suggest the world will struggle to produce enough oil to make up for steep declines in existing fields, such as those in the North Sea, Russia and Alaska, and meet long-term demand. The effort will become even more acute as prices fall and investment decisions are delayed.

The IEA, the oil watchdog, forecasts that China, India and other developing countries' demand will require investments of \$360bn (pound(s)230bn) each year until 2030. The agency says even with investment, the annual rate of output decline is 6.4 per cent.

The decline will not necessarily be felt in the next few years because demand is slowing down, but with the expected slowdown in investment the eventual effect will be magnified, oil executives say.

"The future rate of decline in output from producing oilfields as they mature is the single most important determinant of the amount of new capacity that will need to be built globally to

meet demand," the IEA says.

The watchdog warned that the world needed to make a "significant increase in future investments just to maintain the current level of production"

The battle to replace mature oilfields' output could even offset the decline in demand growth, which has given the industry - already struggling to find enough supply to meet needs, especially from China - a reprieve in the past few months.

The IEA predicted in its draft report, due to be published next month, that demand would be damped, "reflecting the impact of much higher oil prices and slightly slower economic growth"

It expects oil consumption in 2030 to reach 106.4m barrels a day, down from last year's forecast of 116.3m b/d.

The projections could yet be revised lower because the draft report was written a month ago, before the global financial crisis deepened after the collapse of Lehman Brothers.

All the increase in oil demand until 2030 comes from emerging countries, while consumption in developed countries declines.

As a result, the share of rich countries in global demand will drop from last year's 59 per cent to less than half of the total in 2030.

This is the clearest indication yet that the focus of the industry on the demand - not just the supply - side is moving away from the US, Europe and Japan, towards emerging nations.

[Return to top page](#)

China Needs To Perfect Intellectual Property System

(*Xinhua News*) - China needs to perfect its intellectual property protection system, said Zhang Qin, deputy director of State Intellectual Property Office.

Zhang made the remarks on Wednesday when attending the High Level Forum on Industrial Property and Development here in Beijing, saying the country's intellectual property system still lagged behind developed countries and needs improvement.

The country also encourage the enterprise to upgrade their innovation level, so that the innovation can be used as an industry standard. "This will increase enterprise profit and contribute to society," he added.

China's intellectual property system began in 1985. Patent

application topped four million in the past 20 years and has increased by more than 20 per cent annually during the past five years.

Patent application is expected to hit 900,000 this year.

"However, China still lacks legislation experience on intellectual property protection, and enterprises don't have enough consciousness to protect themselves from pirates by appealing to the law," said Zhang.

With the theme of "Communication, Cooperation and Win-win", the forum provided a platform to participants to discuss production, application, protection and management of intellectual property protection.

[Return to top page](#)

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Main works of Three Gorges Dam finished a year ahead of schedule

(Xinhua News) -- With the last turbo-generator in operation on the south bank of the Yangtze River at 9 a.m. Wednesday, the Three Gorges Project looks set to be completed one year ahead of construction schedule.

Generating unit 15, which had a 72-hour test run, would be connected to the power grid on Thursday, said Cao Guangjing, deputy general manager of China Three Gorges Project Corporation.

"More checks on unit 15 and other aspects concerning the entire project, including final financial accounting are also pending," said Cao.

Begun in 1993, the Three Gorges Project was expected to be finished by November 2009.

With a budget equivalent to 22.5 billion U.S. dollars, the project is also a water control system for the upper and middle reaches of the Yangtze, China's longest waterway. Its

functions cover power generation, flood control and navigation. Main works of the project are a 185-meter-high dam, a five-tier ship lock, and 26 hydropower turbo-generators. The dam has 14 turbo-generators on the left bank and 12 on the right.

Combined, they will produce 84.7 billion kw of electricity annually, which would require 40 million to 50 million tonnes of coal consumption for a coal-fired station to produce.

Plans were expanded further to include six more turbines by 2012. A ship lift will be finished by 2015.

The project has produced 270 billion kwh of electricity since July 2003, when the first generating unit began operation.

The electricity generated by the project supplies 15 provinces in central, eastern and southern China, easing a severe power shortage in industrial regions.

As of June, 1.24 million residents had been relocated to make way for the construction.

[Return to top page](#)

What's new with the Chinese consumer? It's hard for brand managers to keep pace with the shifting attitudes of Chinese consumers. But some trends can be discerned amid the noise.

To access this McKinsey Report, [Control and Click Here](#)

Chinese Tourists Buy Luxury Goods

(International Herald Tribune) - About three-quarters of Chinese travelers buy luxury goods while traveling overseas, a new report has found. A survey released Monday by Nielsen's China Outbound Travel Monitor showed that about half of Chinese tourists bought branded luxury goods overseas, while the other quarter bought non-branded but high-end items. About 60 percent said they bought products overseas because they were more likely to be "genuine" and "authentic." Of Chinese tourists who went to Europe, 59% bought high-end branded goods, with each visitor spending an average of \$1,359 on luxury items. Meanwhile, 56% of Chinese tourists to North America bought high-end branded goods.

[Return to top page](#)

Russia Sets Pipeline Deal With China

(Wall St. Journal) - A top Russian energy official said China will provide Russian oil firms with "considerable" loans in return for increased oil supplies as Moscow and Beijing agreed on details of a new pipeline linking the two countries.

Deputy Prime Minister Igor Sechin didn't say how much money China would be willing to lend, adding that the amount would depend on future oil-supply contracts between Russian oil and pipeline companies OAO Rosneft and OAO Transneft, and Chinese energy giant CNPC Sinopec.

Such a loan would be timely for oil major Rosneft, which finds itself heavily indebted at a time when the global credit markets are all but shut. It has already faced at least one margin call from creditors.

Any oil-for-credit deal would also help Russia further diversify its customer base for oil exports. Speaking during a visit to Moscow by Chinese Premier Wen Jiabao, Mr. Sechin told reporters that Russia was looking for new markets. "We need to seek a replacement for those markets which have stabilized or

where consumption has fallen off," Russian news agency Interfax quoted him as saying. He added that he expected a supply deal to be signed by Nov. 25.

Some media have reported that the loans could be as high as \$25 billion. Spokesmen for both Rosneft and Transneft declined to comment on that figure Tuesday, saying only that talks were continuing.

A deal was also signed Tuesday between Transneft and CNPC to build a pipeline spur that would link the two countries' trunk pipelines. A Transneft spokesman said the two sides had agreed on "who would build which section" but that construction and entry-into-service deadlines remained unsettled. CNPC will build a 600-mile stretch inside China leading up to the Russian border, while Transneft will construct a stretch of around 40 miles on the other side.

The pipeline is expected to be completed by the end of 2009 at the earliest. It will carry around 300,000 barrels of Siberian oil a day to China.

[Return to top page](#)

China Venture Capitalists' Confidence Falls to New Low

The China Venture Capitalist Confidence Index (Bloomberg symbol: CVCCI) for the third quarter of 2008 registered 3.25 on a 5 point scale, falling from last quarter's measure of 3.54, to the lowest reading in the 3.5 year history of the Index, suggesting that the global economic slowdown are now also straining the confidence that venture capitalists have in the future high-growth entrepreneurial environment in China. This trend is consistent with declining sentiment in Silicon Valley where VC confidence also just marked a multi-year low. Authored by Professor Mark Cannice of the University of San Francisco School of Business and Management and Ling Ding, of MCLD Venture Resources, the current VC Index reading is based on an October 2008 survey of 14 Mainland China and Hong Kong venture capitalists.

Growing caution over the spreading financial crisis and its impact on the venture capital business model were recurring themes among this study's respondents. "In particular, survey respondents were concerned over declining exit opportunities and less committed new capital to venture funds," said Dr. Cannice. Respondent David Zhang of Matrix Partners China

indicated, "The global economic depression, especially the decline of the capital markets, will influence the exits of local VC investment in the short term." This is consistent with the Q3 Zero2IPO China Venture Capital Report, which showed a decline in exits of Chinese ventures from 19 transactions in Q3 2008 versus 36 during prior quarter, and 35 transactions in Q3 2007. Marvin Lai of iTM Ventures confirmed, "The slowdown of the world economy today will impact the investment sentiment of private equity firms in China."

However, sentiment was not universally negative. Max Burger-Calderson of Apax praised Chinese entrepreneurs, noting that in a tightening global economy, they focus on building revenues through great products and services. Cannice and Ding expect fewer exit alternatives, scarcer capital commitments and investments in the near term, but believe this current difficult environment will spawn innovative Chinese ventures. In authoring both quarterly VC indexes, Dr. Cannice sees converging trends of VC sentiment across the Pacific, as US VC firms explore high potential Chinese markets.

[Return to top page](#)

Illegal exports to China, Iran rising

(Houston Chronicle) - Illegal exports of weapons, military equipment and national security-related technology to potentially adversarial nations are on the rise, the Justice Department reported Tuesday.

Of 145 people charged with rogue shipments last year, nearly half - or 43 percent - were exporting goods to Iran and China. Federal prosecutors indicted three more men Tuesday for allegedly conspiring to export material used in space and weapons technology to an academy that builds satellites for the Chinese government.

"Keeping U.S. weapons technology and other restricted materials from falling into the wrong hands - and from being used against our allies, our troops overseas or Americans at home - is a top counterintelligence priority," Assistant Attorney

General Pat Rowan said.

Prosecutors described a 30 percent increase in 2008 of exporters violating U.S. national security laws.

An estimated 74 exporters have been charged with sending goods to Iran over the last two years, and another 23 to China over the same period, said Justice spokesman Dean Boyd. Additionally, about 60 defendants were charged with exports to Mexico - mostly arms shipments, Boyd said.

Tuesday's indictment, unsealed in federal court in Minnesota, charges Jian Wei Ding, Kok Tong Lim and Ping Cheng with seeking to send to China carbon-fiber material that can be used in rockets, spacecraft and to enrich uranium.

[Return to top page](#)

Global slowdown takes corporate toll, from steel to shipping

(Wall St. Journal) China's central bank cut interest rates for the third time in six weeks, intensifying efforts to shore up confidence as the country's growth prospects dim and the global economic slowdown takes a toll on a wide swath of its companies.

China's economic growth cooled to 9% year-on-year in the third quarter, the slowest pace in five years, and could slow even more sharply in coming quarters as the domestic housing market freezes up and demand for exports slumps.

"The government is pulling out all the stops to make sure that the gentle economic slowdown seen so far doesn't turn into something more serious," said Mark Williams, an economist with Capital Economics in London.

The latest move takes the benchmark one-year lending rate down 0.27 percentage point to 6.66%, while the one-year deposit rate will drop 0.27 percentage point to 3.60%. The People's Bank of China moved ahead of an announcement by the U.S. Federal Reserve, which cut its key rate by a half-point to 1% on Wednesday. Other major central banks, including those of Japan, Europe and the U.K., also are expected to further lower borrowing costs in coming days as the impact of the financial crisis continues to spread.

The rate cut came on a day when a number of Chinese corporate mainstays reported lower or disappointing third-quarter results. Those made it clear that China Inc. was feeling the effects of the slowdown even before the world's financial strains intensified in recent weeks. The Shanghai stock market closed down 2.9% on Wednesday.

"The magnitude and pace of the damage the global slowdown has had on China has been too quick, so people haven't had a chance to react," said Vincent Chan, head of China equity research for Credit Suisse Group.

Many economists expect China to cut rates still more as the year goes on, and to unveil more government spending on infrastructure and social services to further boost growth.

"China will need to come out with a massive fiscal response to stabilize investor expectations," Mr. Chan said.

Signs of softness already are being seen in everything from steel to shipping. Baoshan Iron & Steel Co., the listed unit of China's largest steelmaker, posted a below-forecast 19.2% profit gain but warned that it could lose money on some products in the last months of the year. Steel exports have slipped just as Chinese domestic demand from housing construction also falls. Reduced steel production means less

demand for electricity to run the smelters, and hence less demand for coal to run turbines to generate power. And fewer shipments of coal and other bulk products will also be felt by infrastructure operators. China's trade volumes are growing at barely half the rate they were a year ago.

"China's exporters, especially those in the east, have really felt a rather strong impact from the current financial crisis," Xie Zhenhua, a senior economic-planning official, told reporters on Wednesday, hours before the rate cut was announced.

Chinese consumer demand has stayed relatively robust by most measures this year, but people appear to be cutting back on air travel and car purchases. Analysts worry that the slumping stock market, weakening property prices and signs of rising unemployment will cut into spending.

Chinese banks have been mostly unscathed by the global financial difficulties and are weathering the storm better than many other sectors. China's central bank sets the margin between lending and borrowing rates, protecting banks' profitability under normal conditions. Still, their managements haven't yet been tested by loan defaults from suffering companies, which could eat away at profits as loans go bad.

For many Chinese companies, loose practices during the boom years will likely come back to depress profit even more in coming quarters, said Xue Lan, head of China equity research at Citigroup Inc. "Many companies expanded capacity too aggressively and now deflationary pressure will hit as demand slows," she said.

The government is paying particular attention to the plight of small businesses, which account for much employment growth but tend to get hit harder in economic downturns. In a separate announcement on Wednesday, the Ministry of Finance said it has allocated an additional one billion yuan (\$147 million) to support lending to small businesses.

For all the recent gloom, economic conditions in China and other Asian countries still remain better than in many other parts of the world. Most Asian countries haven't built up the heavy external debts that made emerging European economies like Ukraine, Iceland and Hungary more vulnerable to financial crisis and forced them to seek bailouts.

"Asia can't help but be pulled down when the rest of the world slows. But the underlying fundamentals in Asia are much stronger, so we should expect them to come out of this much quicker than the rest of the world," said Mr. Williams of Capital Economics.

[Return to top page](#)

China Health Care Conditions Much Worse for Rural Poor

(International Herald Tribune) – A team of experts reports China's economic boom has resulted in stark inequity between its urban and rural populations in terms of health, and experts urged the government to work harder at providing health care for everyone. Infant mortality in China's countryside stands at 123 for every 1,000 live births compared with 26 in the richest counties. Of every 1,000 children, 64 in the countryside will not live beyond their fifth birthday, compared with 10 in the cities. While life expectancy in Shanghai is 78.1 years, that figure is 66.1 in Gansu, one of the poorest provinces.

In China, the problem of sex discrimination lasts through infancy and childhood, reflected in higher death rates for girls. "In 2000, infant mortality was 33.7 per 1,000 live births for girls compared with 23.9 per 1,000 for boys." The authors attributed the disparities to inadequate government investment in health care, which increased "out-of-pocket" costs, hitting the poorest the hardest.

[Continues in pp. 9 - Control+Click](#)

Diamonds lose shine as couples cut spending

(South China Morning Post) - De Beers, the world's biggest diamond producer, coined the slogan voted the catchiest of the 20th century - "A diamond is forever" - and hoped that once the message caught on, when a diamond had been bought it would never be resold. Such a mentality, of course, would be good for keeping the price of diamonds - and De Beers' profits - high. The financial meltdown triggered by the crisis in world credit markets has put the ultimate symbol of love and commitment to the test and diamond sales in Hong Kong are slowing. Jewellers are already feeling the pinch and there is talk of hiring freezes and job-shedding.

Bride-to-be Kitty Qin got her first diamond but has foregone the second. Her fiance paid HK\$60,000 for an engagement ring from Emperor Watch & Jewellery, but the couple has scrapped plans for diamond-encrusted wedding rings and opted for a pair without diamonds. Patrick Lui Yick-keung, a sales manager at Chow Tai Fook Jewellery, owned by Cheng Yu-tung, said sales had dropped 10% since the end of Golden Week on October 5. "The psychological effects of the crisis dragged down sales as customers put their purchase plans on hold, particularly for high-end products worth HK\$1 million," he said.

Mr Lui, who has worked for Chow Tai Fook for 30 years, said frontline staffers had not yet detected the same chill experienced during the Sars outbreak or the 1997 financial crisis. But they were growing increasingly pessimistic about the near future.

Hong Kong Chief Executive Donald Tsang Yam-kuen said in his policy address on Wednesday that the financial meltdown would be deeper and the recovery period longer than the 1997-1998 financial crisis. However, he did not unveil any relief

measures. "There is no relief on household financial burdens and also no incentive for consumers to spend," said Moody's Economy.com economist Sherman Chan. "What Hong Kong needs right now is some powerful stimuli that can immediately shore up domestic demand."

ICEA Securities analyst Carrie Chan said that during the past two years, jewellery sales in Hong Kong had been strong with customers willing to spend more on luxury items. "But it now seems that demand for these type of goods has been among the first to be affected," Ms Chan said.

Meanwhile, the biggest worry for jewellery firm 3-D Gold Jewellery Holdings is its future rather than softening demand. The widow of jewellery magnate Lam Sai-wing was among five people arrested yesterday in connection with the theft of HK\$179 million worth of gold bars.

The arrest came nearly three weeks after the sudden death of the company's late chairman and co-founder, which triggered technical default of its loans.

The Bank of Tokyo-Mitsubishi UFJ sued a subsidiary of the company seeking almost HK\$24 million worth of gold bars and Sun Hung Kai Investment Services also filed lawsuits against Mrs Lam.

3-D Gold Jewellery, formerly Hang Fung Gold Technology, had a net debt to equity ratio of 80% last year up from 67% in 2006, according to JP Morgan.

"The company's corporate bond traded at a distress level soon after his death," said a bond market source. "In such a credit market, I expect this company to go bankrupt soon."

[Return to top page](#)

The 'Heavy Cost' of China Coal Use

(Aljazeera) - China's heavy reliance on coal to power its booming economy has brought with it a hidden cost of about \$250bn a year in lost and damaged lives, waste and environmental degradation, a multinational study has found. The amount works out to about 7% of the country's GDP for last year but none of the costs is reflected in low coal and energy prices, says the report. So warns "The True Cost of Coal", a report jointly commissioned by Chinese economists and international environmental groups including Greenpeace. As a result it said there was little incentive for China to introduce cleaner, safer and more efficient sources of energy. The 63-page report identified government price distortions and weak oversight as the key problems arising from China's dependency on cheap coal. It also takes into account the distortion of government regulations which keep coal prices down such as land ownership policies, and inadequate worker safety and worker compensation systems.

Weaknesses

"Environmental and social damages are underestimated while using coal in China as a result of market failures and weakness in government regulations", said Mao Yushi, an economist and lead author of the report.

The report said China could wean itself off its coal dependency and better address ecological degradation and global warming concerns by accounting for the hidden annual costs.

"If all the external costs of coal are genuinely reflected in the

coal price, this will provide a non-distorted price signal for the whole energy market," the report said.

It added that a fair price for coal will ensure more efficient use and increase the competitiveness of Chinese companies while spurring development in renewable energy sources. At the same time the 23% price increase recommended in the report will cause only a 7% drop in consumption, meaning that coal will not lose its dominance in China for decades.

Clean up

Yang Ailun, climate and energy campaign manager at Greenpeace, said China faced a growing urgency to clean up its environmental act.

"Recognising the true cost of coal would create incentives to developing cleaner, sustainable energy sources," she said.

"The government should introduce an effective price signal for coal, which would ensure a massive improvement in energy efficiency."

The report added that Chinese miners were already paying a heavy price for the use of coal, with fires, floods and other disasters in China's mines killing an average of 13 miners a day.

Many of the accidents in China occur in small mines with low safety standards or in mines operated illegally.

China now ranks alongside the United States as one of the world's two biggest emitters of the gases that are blamed for climate change.

[Return to top page](#)

U.S. Warming Up to China Investments in Oil Companies ?

(*International Herald Tribune*) - On both sides of the Pacific, financiers and energy executives remember the uproar that ensued when, in 2005, the China National Offshore Oil Corp. tried to acquire Unocal, a U.S. oil and gas company in California.

Offering more than \$18 billion, a figure that was widely considered to be above market value, Cnooc was brusquely rebuffed amid frenzied concerns over the national security implications of putting a U.S. energy company in the hands of a state-run Chinese company.

Unocal was sold instead, for a lower price, to Chevron. Yet concerns and heated rhetoric about foreign ownership - and especially Chinese ownership - of potentially sensitive U.S. assets did not fade. Just eight months ago, in committee testimony, Representative Marcy Kaptur, an Ohio Democrat, issued dire warnings about the threat posed by the likes of China Investment, China's \$200 billion sovereign wealth fund.

Fast forward to the grave new world of the U.S. financial crisis, where things seem rather different. "If they want to invest in our oil and gas sector, I can't imagine we would have any objections," Alan Hegburg, deputy assistant secretary for the U.S. Department of Energy, was reported as saying this month in South Africa about the possibility that China might still be interested in U.S. energy assets.

That attitude is no guarantee that U.S. critics of Chinese investment will drop their opposition to such deals, but it is a sign of changing times.

Sensitivity over foreign ownership of potentially strategic assets is not a uniquely Chinese-U.S. issue. China, for example, has met resistance to efforts to invest in mining and resource concerns in Australia; the United States has erupted with equally heated objections to other foreign investment attempts. A year after the Unocal episode, security concerns led to the blocking of an attempted purchase of American ports by a Dubai firm.

Still, in light of the problems now facing the U.S. economy - plunging share prices and asset values, flat growth rates, job losses, liquidity and credit shortages, declining corporate earnings, bank collapses and government bailouts - it makes sense that any renewed Chinese efforts to invest in the U.S. energy sector might be received more warmly than they were three years ago.

And China may be nibbling. This month, U.S. media reported bids by Cnooc, together with China Petrochemical, known as Sinopec, on a series of overseas oil and natural gas assets. Those included \$1.8 billion for an Angolan oil block owned by Marathon Oil of the United States, several hundred million dollars for various Caribbean natural gas assets and as much as \$2 billion for a Canadian company with a stake in oil fields in Syria.

According to a recently reported estimate by Dealogic, a research company based in London, China this year has already concluded \$26.3 billion worth of deals on foreign resource acquisitions, including energy and mining assets.

Despite fears like those expressed by Kaptur, such acquisitions do not necessarily represent a coordinated Chinese government effort to lock down global energy supplies. When it comes to Chinese energy companies investing overseas, experts said it was not always policy makers who called the shots. Companies

in recent years have found themselves with increasing leeway to serve their own commercial needs rather than national policy goals.

Trevor Houser, a U.S. specialist on Chinese energy, said many of the country's largest oil companies wielded enough political clout to bend policy to their own interests, or simply to make foreign investment decisions on their own, without waiting for a government mandate.

"Though Beijing actively encouraged overseas investment in the past, the companies are taking the lead today, shaping policy to suit economic interests," said Houser, director of the energy and climate practice at the Rhodium Group in New York, an advisory partnership with a focus on China.

What is not certain is the scale of China's appetite. Given its still low rates of car penetration and per capita energy consumption, there is no doubt that energy demand will continue to rise, and that this demand will continue to affect world markets. But despite the temptation to hunt for bargains in the rubble of a troubled world economy, China also has ample reason to be cautious.

One factor is the spotty track record of China Investment and other Chinese investors in overseas assets. Since its creation in late 2007, China Investment has lost billions of dollars in two of its highest profile investments, its \$3 billion stake in the private equity firm Blackstone Group and its \$5 billion purchase of a 9.9 percent holding in Morgan Stanley.

Other Chinese companies that splurged on foreign resource acquisitions can relate similar tales of woe. In February, China's largest aluminum producer, Aluminum Corp. of China, teamed up with Alcoa and invested \$14 billion for a 12 percent shareholding in the British-Australian mining giant Rio Tinto. Since then, Rio Tinto's share price has declined markedly, to less than half the price at which Chinalco acquired its stake. Adding insult to injury, the investment has become mired in the liquidation morass left by the failure of Lehman Brothers, which facilitated the purchase and, when it collapsed, was holding the shares on Chinalco's behalf.

Amid fears of getting burned again, China may prefer to hold back until the likely length and depth of the U.S. and global economic slide becomes clearer. A sign of Chinese unease came last week when President Hu Jintao bluntly told his Indonesian counterpart: "The current world economic situation is grim and complicated."

China's economic growth rate in the third quarter of this year fell below 10 percent for the first time in more than four years. A continuing downturn in its main U.S. and European export markets will take a further toll. Still, domestic demand and investment are the prime drivers of Chinese growth and exports are far less important than generally assumed, says Andy Rothman, China macro strategist at CLSA Asia-Pacific.

Chinese banks, moreover, have reported only modest exposures to the U.S. subprime lending mess.

With its strict currency controls and foreign exchange reserves totaling about \$1.9 trillion, China seems well-insulated against the worst financial crisis.

And yet, amid a global crisis, and deep uncertainty about its likely course, Chinese policy makers will need to weigh carefully the risks and rewards of shopping for energy bargains.

[Return to top page](#)

Advertising budgets feel the pinch

(Wall St. Journal Asia) - Global economic woes may soon hit the marketing business in Asia, a region once thought to be relatively immune from an advertising downturn.

In the first half of this year, according to Nielsen Co., advertising spending in China grew 17% from a year earlier.

But a new survey of marketers across Asia has found that the majority expect their ad budgets to shrink next year, with a quarter expecting a decline of more than 20% from this year. The survey, conducted by Beijing-based consulting firm R3, included 50 senior marketing managers responsible for a total of more than \$3 billion a year in ad spending.

"The events of the last two weeks have hit marketers hard," said R3 principal Greg Paull. "There will be significant reductions in the coming year, even in typical growth markets, such as China and Taiwan." Big Australian retailer Harvey Norman Holdings Ltd., which also has a presence in Malaysia, Singapore and other countries, says it is considering cutting its marketing budget by 20%. Financial-services companies in Asia are already shelving plans for branding campaigns, say media buyers. And, after years of increases, the global ad budget for South Korea's Samsung Electronics won't grow next year.

Much of the pessimism in Asia has developed in the past two weeks. When R3 first conducted its research in September, only 15% of the respondents said they expected tighter marketing budgets next year. But when the firm called the same executives back Oct. 9 and 10, the proportion of marketers saying their budgets were being cut had ballooned to 55%.

In a separate analysis, Publicis Groupe media-buying firm ZenithOptimedia predicted Oct. 7 that ad spending growth in Asia, including Japan, would slow to 5.2% next year, down from

6.6% this year. Zenith predicts the U.S. ad market will grow just 0.7% next year. Media-buying companies say many of their Asian clients are taking a "wait and see" approach and that multinationals facing pressure from headquarters will be the first to slash marketing budgets in Asia. Local brands may cut their spending later, once local economies start to feel the economic pinch directly. The money will go to digital ads, direct marketing and efforts such as in-store promotions, because when ad dollars get restricted, they go into areas that are more direct and measurable. But some marketers see opportunity. "In recession times, it is quite good to continue to advertise, because it is an opportunity to take market share," says Patrick Stahle, chief executive of Aegis Group's Aegis Media Asia-Pacific. He thinks smaller, fast-moving consumer-goods companies as well as luxury-goods makers are most likely to boost spending. In making ad-buying choices, marketers must balance shorter-term budget concerns with longer-term opportunity in Asia. "A bigger dynamic than what is happening in the global financial markets is the emergence of the middle classes in those bigger Asian markets," says Bruce Haines, the global chief operating officer at South Korea's Cheil Communications Inc., the agency of record for Samsung. "With that growth potential, we certainly still want to be a part of those markets," he says. While multinational agencies in Asia have been spared many of the layoffs now spreading across the industry elsewhere, growth through aggressive acquisition of local firms is likely to slow. "We continue to grow with caution," says Aegis's Mr. Stahle, who expects to hire 100 employees in the region before year end.. [Return to top page](#)

Boeing Projects China as World's Fastest-Growing Aviation Market

The Boeing Company [NYSE: BA] detailed its 2008 Current Market Outlook (CMO) for the China region today, forecasting a market for 3,710 new airplanes worth about \$390 billion over the next 20 years.

"China will continue to be the fastest-growing aviation center in the world, requiring 41 percent of the entire Asia-Pacific region airplane demand. This makes China the largest market outside of the U.S. for new commercial airplanes," said Randy Tinseth, Boeing Commercial Airplanes vice president - Marketing.

China air travel and air cargo market growth will cause China's fleet to more than triple to 4,560 airplanes by 2027-about as many airplanes as are in Europe today.

Single-aisle airplanes will account for 70 percent of the new purchases, driven by the world's fast-growing domestic market. Single-aisle airplanes such as the Boeing Next-Generation 737 will be the largest category, with 2,600 new airplane deliveries. Demand for intermediate twin-aisles, such as the Boeing 787 Dreamliner and 777, will result in approximately 780 airplane deliveries. When combined, the single-aisle and intermediate twin-aisle market will make up 91 percent of China's total delivery dollars. Demand will include a limited number of large

airplanes (747-size and larger) to connect China with other major world destinations. The market forecast calls for about 100 airplanes in that category.

With China's cargo markets leading the global industry, Chinese air carriers will add about 370 freighter airplanes by 2027, quadrupling its total freighter fleet size.

The Boeing 2008 forecast combines today's market environment with a long-term view that portrays how air transport will be transformed over the next 20 years. It's an outlook that indicates continued strong fundamentals underlying the need for new airplanes-including economic growth, world trade, aviation market liberalization and new aircraft capabilities.

The detailed study enables Boeing to better work with airlines in supporting their fleet plans in conjunction with their future economic growth. The outlook facilitates Boeing's strategic plans to drive the development of new airplanes and the improvement of existing models.

Worldwide, Boeing projects investments of \$3.2 trillion for 29,400 new commercial airplanes to be delivered during the next 20 years. [Return to top page](#)

Health Care Issues Continued

Health care is taking up the bulk of household incomes, or a whopping 50% in 2006 (more than 18 times that in 1990) because of inadequate health insurance.

This compares with 45% in South Korea, 16% in Sweden, 15% in Japan and 11% in France.

The average cost of a single hospital admission is now almost equivalent to China's annual income per head and is more than twice the average annual income of the lowest 20% of the population.

Also, chronic illnesses like cancer and heart and respiratory diseases were time bombs, and that the Chinese should reduce their intake of fatty foods and salt, stop smoking and start exercising.

Increasingly affluent Chinese consumed between 25 and 100% more fat each day in 2002 compared with 1982, sharply raising the risk of heart disease and cancer.

While these chronic illnesses have to do with people living longer, several high-risk factors are also involved.

Apart from a fatty diet, many Chinese consume a relatively high 12-gram dosage of salt daily, which the paper said accounted for hypertension in about 177 million Chinese adults.

Based on Chinese definitions, 22.8% of Chinese were overweight in 2002. About 7.1% in the population were obese in 2002.

One in every three smokers in the world is a Chinese man, the experts wrote. They reported that cigarette consumption increased to 2,022 billion in 2006, to a level 17% percent higher than in 2002.

The average Chinese male smoker smoked 15 cigarettes a day in 2002, up from 13 in 1984.

The costs of China's disease burden from smoking were likely to be vast, and China will suffer reduced productivity and more premature deaths, the researchers warned.

[Return to top page](#)

China Boosts Property Sector as Growth Drops Sharply

(The Irish Times) – China announced steps to boost its property market and help exporters after new data showed a sharper than expected decline in its growth rate, as the impact of the global financial crisis began to take hold.

After five years of double-digit expansion, figures for the third quarter showed the annual growth rate falling to 9% - well below most pessimistic forecasts.

The Chinese State Council, the country's cabinet, also said it was planning increases in infrastructure spending after the economy's growth rate fell for the fifth quarter in a row.

For much of the past year, China had seemed immune to the problems in international credit markets. However, in recent weeks there have been growing signs that the economy might slow more sharply than expected, which has contributed to falling commodity prices.

The 9% growth rate for China's gross domestic product in the third quarter was below the consensus forecast of 9.7% and down from the 10.1% annual growth in the second quarter.

In the first nine months of the year, the economy expanded by 9.9%, down from 11.9% for the whole of 2007. The latest economic figures were affected by restrictions on factories

Olympics. But officials said the slowing growth in the third quarter also reflected the impact of the worldwide credit crunch.

"The global financial crisis and subsequent slowdown has started and will continue to have a negative impact," said Li Xiaochao, spokesman at the National Bureau of Statistics.

"The subprime crisis that broke out last year in the US is still spreading and deepening."

Economists believe the Chinese economy will continue to decelerate further, especially if the global financial crisis starts to hurt exports from China, long one of the main drivers of economic growth. Exports have so far continued to grow at an annual rate of more than 20% this year, in spite of the economic slowdown in the US and the EU, now its biggest trading partner.

The government said yesterday that taxes on house purchases would be reduced and value added tax rebates would be increased for exporters of textiles and machinery. However, there is a debate in official circles about just how big a fiscal stimulus is needed to prevent a sharper slowdown.

[Return to top page](#)

Hotel industry sees decline in bookings

(South China Morning Post) - Local hoteliers expect occupancy rates to shrink in the final quarter of this year, although they remain hopeful that the full-year rate will be close to last year's. The Federation of Hong Kong Hotel Owners yesterday predicted a year-on-year drop of about 5 percentage points in the last three months of the year - usually the peak season. Federation vice-chairman Clarence Shun Wah said the occupancy rate would be "very good" if it could surpass 85 per cent this quarter, compared with an average of about 90 per cent during the same period last year. The group said the number of business visitors, especially those from the US and Europe, dropped recently. It believed hotels would have to cut costs

while some might delay expansion plans for a year or so. "We foresee that arrival figures, especially Mice [meetings, incentives, conventions and exhibitions] travellers, will drop," federation director Michael Li Hon-sing said, warning that the impact of the financial crisis would emerge gradually.

"People may travel less, and in the worst case they might not come to Hong Kong but would use telephone conferencing," he said. Mr Li said he hoped the overall occupancy rate this year would be close to 84 per cent to 85 per cent, the same for last year, as visitor arrivals were strong in the first three quarters. He was confident of next year's outlook.

[Return to top page](#)