

UCBC Breakfast
September 3rd

China's Changing Role in Today's Economic Environment
Opportunities and Challenges for Minnesota Companies
John Evans - Managing Director of Tractus-Asia

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(Xinhua) -- Domestic retail sales leaped a brisk 23.3% to 125.8 billion U.S. dollars in July, reported the National Bureau of Statistics (NBS). The growth rate was 6.9 percentage points higher than the same period last year and 0.3 percentage points higher than the previous month.

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Keep in Mind These Events

U.S. Commercial Service

1. INT'L TRADE NETWORKING RECEPTION:

Save the date! Tuesday, September 16, 2008 the Minnesota District Export Council and the Minnesota International Center will host this fall's Intl. Trade Networking Cocktail.

2. TRADE MISSION:

Minnesota High Tech Association and Minnesota Trade Office: Mission to Hong Kong & Shenzhen, China
Date: October 10-16, 2008

For details: [amelia.goepfing@mail.doc.gov](mailto:amelia.goepfing@doc.gov)

Minnesota Trade Office (call 651-259-7484)

November 12th – The China Practicum
For lots of information and connections to doing business in and with China

Midwest Global Trade Association

September 16, 2008 - 7:30-10:00am
Seminar: importers, and forwarders... *Are You Ready?*

http://www.mgta.org/events_green/events_calendar.html

Inflation Rate Falls as Food Prices Stabilize

(Wall St. Journal) -- China's headline inflation rate last month fell to its lowest level since last September as food prices steadied, though the costs of other goods are expected to remain a concern in coming months. The consumer-price index for July was 6.3% higher than a year earlier, the National Bureau of Statistics said. That was lower than most forecasts and down from 7.1% in June and inflation's recent peak of 8.7% in February. Still, the reading did little to raise investors' spirits. The benchmark Shanghai Composite Index fell 0.5% Tuesday to a 19-month low. Investors remain concerned by the impact high raw-material prices could have on corporate profits and about signs economic growth is slowing.

Food prices remain the biggest driver of headline inflation, accounting for about one-third of the index. And in recent months, food prices have been mostly flat after surging late last year and early this year. Yet consumer-price inflation excluding food, China's closest equivalent to a "core" measure of price trends, rose to 2.1% last month from 1.9% in June. That was less than some analysts had expected, given that the figures are the first to reflect the June 20 increase in state-set prices for electricity, gasoline and diesel.

Much of the uncertainty over future inflation now involves nonfood prices. With power shortages in many parts of China worsening, analysts expect another increase in energy prices this year. That would feed into higher costs for many goods. And other price controls -- imposed early this year when inflation spiked -- could also be eased. "With food inflation normalizing, many of the 'temporary' price-intervention

measures can be phased out," said Qian Wang, an economist for J.P. Morgan Chase.

The latest data might not resolve the debate over China's high inflation, where views have tended to split into two broad camps. One points out that the CPI is rising mainly because of a jump for a few items, such as pork, and that inflation will moderate once that works its way through the system. The other argues that China is experiencing a broader rise in prices due to loose monetary policy and the unwinding of policies that kept energy and resource costs artificially low.

The headline CPI has taken the path predicted by the first camp, rising sharply early this year but falling equally sharply in recent months. But the second camp can also claim vindication from the steady upward march in nonfood inflation and the still-high readings of other inflation measures such as the corporate-goods price index and the producer-price index. The PPI, which focuses more heavily on energy and commodities, has continued to march higher. It was 10% higher last month than a year earlier, following a 8.8% gain in June. At present, oil and commodity prices have come off their highs as signs of a slowing global economy multiply. China's government has softened its anti-inflation rhetoric and has relaxed its main official tool for constraining economic growth by expanding limits on bank lending. Nonetheless, many economists now expect inflation of 6%-7% this year and 4%-5% next year -- both well over the past decade's annual average of 1.3%.

China's Unemployment Rate Down to 4% in First Half

(Xinhua) -- China's registered urban and township unemployment rate stood at four percent in the first half, down 0.2 percentage point from the same period last year, the Ministry of Human Resources and Social Security (MHRSS) said on Thursday. According to MHRSS, a total of 8.35 million people were registered unemployed across the country's urban areas and townships in the first half. The nation had created 6.4 million new jobs in the first half, accounting for 64 percent of the annual 10 million goal set by the ministry, and 2.82 million laid-off workers found new jobs in the first half, 56 percent of the annual goal of 5 million.

Yin said 788,000 people had found employment in the provinces of southwest Sichuan, and northwest Gansu and

Shaanxi, which were worst affected by the May 12 earthquake, as of July 27.

The number included 146,000 employed outside the quake-stricken areas under the nation's cross-region employment program that had designated 19 provinces and the southern city Shenzhen in Guangdong Province as places to employ the jobless a chance from the three provinces.

According to conservative estimate, more than 700,000 people had lost their jobs due to the earthquakes in Sichuan province as of June 30.

Yin urged governments at all levels to make efforts to create new jobs.

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Property Sector Slows as Uncertainty, Credit Curbs Bite

(Xinhua) - Property investment has slowed in China since mid-year, both in value and land area, amid tighter credit and buyers' uncertainty, official statistics released on Monday show.

The National Bureau of Statistics (NBS) said that between January and July, investment in real estate development totalled 1.588 trillion yuan (231.55 billion US dollars), up 30.9 per cent year-on-year. However, the rate of increase was 2.6 percentage points less than the first-half level.

Spending on residential projects was 1.149 trillion yuan, up 33.7 per cent but 2.8 percentage points lower than in the first half alone.

The total included 45.9 billion yuan in low-income housing, up 25.2 per cent but 6 percentage points less than in the first half.

In the first seven months, 148 million square meters of land went under development, up 4.2 per cent year-on-year.

However, the growth rate was 5.7 percentage points lower

than in the first half.

About 2.229 billion sq m of housing were under construction during the January-July period, up 22.5 per cent. Yet again, the growth rate slowed from the first half, by 1.6 percentage points.

Previously, the central bank has reported that first-half lending to real estate developers and home buyers was 398.84 billion yuan, down 170.66 billion yuan from a year earlier.

Since the end of September, when China tightened credit for those buying more than one apartment, demand has ebbed. Additionally, price falls in some cities have made prospective buyers wary.

Developers sold about 260 million sq m of housing in the first six months with a value of 1 trillion yuan, representing decreases of 7.2 per cent and 3 per cent year-on-year, respectively.

The NBS also said that between January and July, 129 million sq m of commercial property was vacant, up 6.1 per cent. This was one of the few cases where the growth rate rose from the first half; in this case, by 3.9 percentage points.

How to address China's growing talent shortage? A McKinsey Report

The growing need for talented managers in China represents by far the biggest management challenge facing multinationals and locally owned businesses alike. In a recent AmCham Shanghai¹ survey of US-owned enterprises there, for example, 37 percent of the companies responding said that recruiting talent was their biggest operational problem—more than the number who cited regulatory concerns, a lack of transparency, bureaucracy, or the infringement of intellectual-property rights. Separately, 44 percent of the executives at Chinese companies surveyed by *The McKinsey Quarterly* reported that insufficient talent was the biggest barrier to their global ambitions.

Toothpaste Traffickers Guilty

According to the criminal information filed in the case, laboratory tests conducted by the Food and Drug Administration (FDA) and Colgate-Palmolive on samples of the counterfeit toothpaste revealed that the toothpaste lacked fluoride, an ingredient found in genuine Colgate toothpaste, and that some of the toothpaste contained microorganisms, such as bacillus spores and diethylene glycol. Diethylene glycol, commonly used as a coolant for hydraulic and brake fluids, is illegally used in the production of counterfeit health care products to provide lubrication and help products maintain moisture. According to the FDA, the level of diethylene glycol contained in the counterfeit toothpaste can pose health and safety risks to all consumers but primarily to individuals with compromised immune systems, children and infants. As explained in court documents, Mabass Inc., incorporated in New York in March 2004, was an importer and wholesale distributor of general merchandise, including detergent and toothpaste. Between approximately May 2006 and March 2007, Mabass imported seven shipments of counterfeit Colgate

toothpaste from the People's Republic of China and admitted during the plea hearing to continuing to import counterfeit toothpaste despite learning in November 2006 that the last three shipments contained 432,000 tubes that were counterfeit. Vidtape Inc., incorporated in New York in January 1988, was a reseller of merchandise that operated from Farmingdale, N.Y. According to court documents, between approximately November 2006 and June 2007, Vidtape purchased approximately 3,084 tubes of counterfeit Colgate toothpaste that had been imported by others from the People's Republic of China and resold it to a buyer in Toronto. Vidtape admitted that although it learned that the toothpaste was counterfeit while it was on route to Canada, Vidtape failed to recall the shipment or notify the buyer that the product was counterfeit. The counterfeit toothpaste was later seized by Health Canada, the department within the Canadian government charged with responsibility for public health, working in conjunction with the Royal Canadian Mounted Police.

Beijing Signals Change in Yuan Exchange Policy

Beijing has signalled a major shift in its foreign-exchange policy by dropping a reference to managing the yuan's value through a basket of foreign currencies, a step some analysts say is a move towards a free-floating exchange rate. Under the new policy, the yuan's exchange-rate regime will be characterised by "managed flexibility" based on market supply and demand. It omitted references to the basket of currencies, which Beijing has used to manage the yuan since

July 21, 2005. The reference currencies were reportedly mainly the US dollar, the euro, the yen and the South Korean won because of their trading significance. SAFE said in its statement that "as China's economy becomes more internationalised and the movement of international capital flows accelerates, there is a need to improve the system and oversight of multinational capital movements".

3rdQtr. Growth Forecasted at 10.2% , Annual Inflation 6.6%

(South China Morning Post) Beijing will keep economic growth stable in the third quarter and ease inflation at the same time, a top government think-tank has predicted.

Economic growth will rise to 10.2 per cent in the quarter, up from 10.1 per cent in the second quarter, as industrial output and fixed-asset investment pick up on the reconstruction of disaster-hit areas, according to the State Information Centre, a unit of the National Development and Reform Commission. Inflation was expected to slow to 6.6 per cent, compared with first-half growth of 7.9 per cent, the think-tank said in a research paper published in the China Securities Journal yesterday.

"Keeping the economy growing at a relatively fast and stable pace and controlling excessive price rises should be the government's priorities," it said.

President Hu Jintao has pledged to sustain rapid economic growth as the nation's economic priority for the rest of the year, amid growing concerns that the economy may slow after the Olympic Games.

"China's economy is not only under pressure from cyclical economic developments, but also because of the need for structural adjustment," the centre said. "The only way to turn the pressure into motivation is to accelerate the process of moving up the value chain."

Fixed-asset investment is expected to grow 27.6 per cent from July to September with urban fixed-asset investment up 28.5 per cent, thanks to reconstruction work in Sichuan province which suffered a severe earthquake in May.

But the producer price index, which measures prices at the factory gate, is expected to grow 8.8 per cent in the third quarter because of high energy and raw materials prices. Morgan Stanley chief economist Wang Qing said the report sent a positive message on the economic outlook, but he was not that positive.

Mr Wang expected a slowing economy in the second half with gross domestic product growth forecast to dip below 10 per cent amid weakening demand from the United States and Europe.

Growth was likely to further slow to 9 per cent next year, Morgan Stanley said.

The think-tank said export growth could ease to 20.3 per cent in the third quarter, down from 21.9 per cent in the first half. "Meanwhile, 2009 will be a critical year because the economy could slow further as a result of softer exports and investment," Mr Wang said.

China's Bright Past Camouflages a Hazy Future

(*Wall St. Journal*) China has just hosted the most lavish Olympic Games ever by a developing nation, the capstone to an extraordinary run of achievements. Since it began opening its economy three decades ago, the nation has lifted more people out of poverty than any other nation in modern times and is poised to become the world's third-largest economy. Yet, maintaining that growth will challenge China's regime. Much of the extraordinary growth of recent years has come from policies and trends that will be winding down in coming decades. It stemmed from a mix of political stability and economic liberalization that enabled a largely agricultural and technologically backward country to catch up to the rest of the world in many areas.

Now China's population is growing older and more urban, while its industry is less isolated from the outside world. "The strategies that have helped China grow from poverty to its current levels will not yield the same dividends in the future," says Homi Kharas, a scholar at the Brookings Institution and the World Bank's former chief economist for Asia. "China needs to adapt to this reality." How China fares in that effort will ripple across the world. Many in the West are anxious about competition from China -- a subject sure to feature in the closing months of the U.S. presidential election. But many smaller developed countries depend on China's continued success. "Americans who worry that China might overtake the United States are worrying about the wrong thing," U.S. Treasury Secretary Henry Paulson wrote in an article published last week. "Serious troubles in China's economy could threaten the stability of the U.S. and global economies."

Three challenges especially stand out for the Chinese. The nation's changing work force, a widening in the gap between rich and poor and severely constrained supplies of energy and environmental resources.

Population

In the next few years, China will cross the threshold to a majority-urban society. China's urbanization rate is about 40% to 45% now, well below levels of about 75% in most of Western Europe and Latin America, but statistics show that growth in China's urban population is already slowing. Since urban workers earn more than three times as much as rural ones, the annual migration of more than 10 million farmers into cities has boosted the economy. Moreover, a smaller number of workers will have to support an increasing number of elderly. The United Nations projects that China's working-age population will account for a decreasing share of the total after 2010, and will start shrinking in absolute terms after 2015 -- the long-delayed effect of the strict family-planning policies that came in the 1970s. The "demographic dividend" from a young and growing work force may have been responsible for a quarter of China's growth to date, says Wang Dewen, a

demographer at the Chinese Academy of Social Sciences. In the future, he and other scholars argue, China will have to grow by making more productive use of fewer resources -- working not just harder, but smarter.

Resources

China's growth has depleted global supplies of energy and raw materials, as well as its own resources of clean air, fertile land and drinkable water. Without improvements in efficiency, China's expansion will be constrained by the finite supply of such essentials. In recent months, the nation has been plagued by shortages of gasoline and electricity, illustrating the limits to its consumption. Some adjustments already are happening. Qiu Jiabin, a 26-year-old school administrator in Shanghai, bought a Buick Excelle a year ago. But he hasn't touched it for the past month, since the government raised fuel prices. "Now, my car is a burden to me," Mr. Qiu says. He is taking a shuttle bus to work instead. Mr. Qiu and the rest of China's 1.3 billion people each consumed the equivalent of 1.4 tons of oil in energy last year, a relatively low figure. If each Chinese were to consume the same amount of energy as each person in the U.S. does -- the equivalent of 7.82 tons of oil -- then China alone would consume nearly as much energy as the entire world does now. So far, China's government is falling behind in its drive to cut the amount of energy required to produce each yuan of economic output. It managed a reduction of just 2.9% in the first half, less than last year's 3.7%. Economists say China's low state-set prices for energy need to become more market-based to create pressure to conserve.

Inequality

Just 30 years after it began moving away from socialism, China has become one of the world's most unequal societies, based on measures of the gap between richest and poorest. Initially, the widening disparity was beneficial -- forced equality under Mao Zedong prevented people from being productive. Today, it increasingly contributes to social instability, as people who lose their homes to make way for factories and others displaced by development express displeasure in sometimes violent protests. Addressing that will require repairing a dilapidated network of social services -- something the government says it is working on. But the Chinese are getting bolder in challenging the state. The Communist Party will need to expand their avenues for doing so legally or risk widening battles with its citizens that could make it harder to deal with all of the challenges it faces. "The party will need to take itself on in very difficult ways to address this issue," says Minxin Pei, a China scholar at the Carnegie Endowment for International Peace in Washington. Addressing inequality "will be a wedge issue among the ruling elites -- not just an issue that divides the haves and the have nots."

The Challenges of China's Growing Cities - A McKinsey report

China's dramatic economic growth is intensifying the challenges of urban policy. This report explains how China can meet these challenges.

China Remains on Track for Gradual Slowdown

(*Financial Times Ltd.*) As Beijing faced up yesterday to an Olympics hang-over, the government tried to assess whether the economy would also suffer one.

The 16 days of Olympic sports were accompanied by a flurry of anxious predictions about a rapid slowdown in the economy and talk of an imminent budget stimulus package. Given that robust growth in China is preventing an even sharper global retrenchment, investors around the world are looking closely for signs of post-Olympics blues.

Yet although there have been a few alarming indicators, most of the data released so far indicate China is on track for a gradual slowdown from the double-digit growth rates of recent years rather than a plunge.

"Our advice is: calm down," says Arthur Kroeber, head of Dragonomics consultancy in Beijing. "China's economy is basically in fine shape."

Although Beijing itself is only a small part of the national economy, the Olympics could hit some short-term economic figures.

To improve air quality in Beijing, the authorities imposed restrictions in August and September on polluting industries in six provinces that together produce 40 per cent of China's steel and 20 per cent of its cement. However, the actual economic impact of the restrictions is still unclear.

This blip has been compounded by several other pessimistic indicators. The latest government purchasing managers index showed a sharp decline, car inventories hit a four-year high in June, air passenger traffic has slowed sharply, and electricity output growth has also dropped.

With loud complaints coming from some exporting sectors about rising costs and growing fears about unemployment levels, speculation has been increasing that Beijing is about to relax fiscal policy.

According to Frank Gong, economist at JPMorgan, China's top leadership is considering a stimulus package of Rmb200bn-Rmb400bn (\$30bn-\$60bn, EUR20bn-EUR40bn, pound(s)15bn-pound(s)30bn), equal to 1-1.5 per cent of gross domestic product, in addition to spending for rebuilding in the Sichuan earthquake zone. The plan could include tax cuts and measures to boost the housing market.

However, many economists think the broader picture is of continued strong growth in China this year, even if there are now more uncertainties about the outlook for 2009 and beyond.

Despite the slowing global economy, China's exports have held up better than most people expected, increasing by 22 per cent over the past year. Domestic investment has slowed gradually, but this has been a government objective.

Meanwhile retail sales, on a real basis, were up 15.4 per cent in July over the same period in 2007, the biggest rise this decade, according to HSBC.

The response of the government to recent data has been to tweak policy rather than make a big shift.

An increase in government spending in the second half is likely. With fiscal revenues rising 33 per cent in the first half of the year, China is running a much larger budget surplus than it had planned for and has plenty of cash available to help fine-tune the slowdown.

Sichuan Earthquake Reconstruction to Cost \$150bn

(The Guardian) - The Chinese government faces a repair bill of almost \$150bn (pounds 76bn) from the Sichuan earthquake, equivalent to a fifth of its entire tax revenues for a single year, the state media reported yesterday.

Providing new houses for 3.9 million refugees, replacing schools and creating jobs for 1 million people are among the measures in an ambitious plan to rebuild the region devastated by the magnitude 8 quake, which struck on May 12.

Amid criticism that corruption and lax building standards may have contributed to the 69,225 death toll - particularly in collapsed schools - the authorities said a central focus of reconstruction would be high-quality public buildings.

"We will make the reconstruction of public service facilities such as schools and hospitals our priority . . . and turn them into extremely safe and solid structures that the public can feel reassured about," stated a draft plan issued by the National Development and Reform Commission.

The commission - which steers China's economy - said an investment of 1 trillion yuan (\$147bn) would be needed to pay for the plan. The sum surpasses the \$120bn reconstruction bill for the 1995 Kobe earthquake in Japan. It is equal to the entire economic output of Sichuan last year and three times what Beijing spent rebuilding the capital in preparation for the Olympics.

The plan envisages building 169 hospitals and 4,432 primary and middle schools to replace collapsed structures in the three

quake-hit provinces: Sichuan, Gansu and Shaanxi.

Another 2,600 schools that remained standing will be strengthened.

Under the plan, more than 3 million homeless rural families will get new houses and 860,000 apartments in the city will be built.

Welfare programmes will also be expanded to help the 1.4 million people driven into poverty by the disaster.

Job creation schemes will centre on an expanded 150 km-long urban corridor stretching from the provincial capital Chengdu to Mianyang. No timetable was set for the task, but the central government has previously set an eight-year goal to return people's lives to normal.

Even if the budget is allocated, that will be a momentous task.

According to the state media, the direct economic loss from the disaster totalled 843bn yuan. Much of the damage is also impossible to fix with money or mortar.

Li Yan lost her child in a school collapse in Mianzhu city. She has heard that the government will pay 10,000 yuan per person in relief funds, but she says it will not even cover a third of the cost of rebuilding her home.

"We can't rebuild by ourselves without help," she said. "As well as a home, our biggest need is justice for my dead child, but I know that is something that nobody can help us with."

Tony Blair: We Can Help China Embrace the Future

(*Wall St. Journal*) - The Beijing Olympic Games were a powerful spectacle, stunning in sight and sound. But the moment that made the biggest impression on me came during an informal visit just before the Games to one of the new Chinese Internet companies, and in conversation with some of the younger Chinese entrepreneurs.

These people, men and women, were smart, sharp, forthright, unafraid to express their views about China and its future. Above all, there was a confidence, an optimism, a lack of the cynical, and a presence of the spirit of get up and go, that reminded me greatly of the U.S. at its best and any country on its way forward.

These people weren't living in fear, but looking forward in hope. And for all the millions still in poverty in China, for all the sweep of issues -- political, social and economic -- still to be addressed, that was the spirit of China during this festival of sport, and that is the spirit that will define its future.

During my 10 years as British leader, I could see the accelerating pace of China's continued emergence as a major power. I gave speeches about China, I understood it analytically. But I did not feel it emotionally and therefore did not fully understand it politically.

Since leaving office I have visited four times and will shortly return again. People ask what is the legacy of these Olympics for China? It is that they mark a new epoch -- an opening up of China that can never be reversed. It also means that ignorance and fear of China will steadily decline as the reality of modern China becomes more apparent.

Power and influence is shifting to the East. In time will come India, too. Some see all this as a threat. I see it as an enormous opportunity. But we have to exercise a lot of imagination and eliminate any vestiges of historic arrogance. The volunteer force that staged the Games was interested, friendly and helpful. The whole feel of the city was a world away from the China I remember on my first visit 20 years ago. And the people are proud, really and honestly proud, of their country and its progress.

No sensible Chinese person -- including the country's leadership -- doubts there remain issues of human rights and political and religious freedom to be resolved. But neither do the sensible people -- including the most Western-orientated Chinese -- doubt the huge change, for the better, there has been. China is on a journey. It is moving forward quickly. But it knows perfectly well the journey is not complete. Observers should illuminate the distance to go, by all means, but recognize the distance traveled.

The Chinese leadership is understandably preoccupied with internal development. Beijing and Shanghai no more paint for you the complete picture of China than New York and Washington do of the U.S. Understanding the internal challenge is fundamental to understanding China, its politics and its psyche. We in Europe have roughly 5% of our population employed in agriculture. China has almost 60%. Over the coming years it will seek to move hundreds of millions of its people from a rural to an urban economy. Of course India will seek to do the same, and the scale of this transformation will create huge challenges and opportunities in the economy, the environment and politically.

For China, this economic and social transformation has to

come with political stability. It is in all our interests that it does. The policy of One China is not a piece of indulgent nationalism. It is an existential issue if China is to hold together in a peaceful and stable manner as it modernizes. This is why Tibet is not simply a religious issue for China but a profoundly political one -- Tibet being roughly a quarter of China's land mass albeit with a small population.

So we should continue to engage in a dialogue over the issues that rightly concern people, but we should conduct it with at least some sensitivity to the way China sees them.

This means that the West needs a strong partnership with China, one that goes deep, not just economically but politically and culturally. The truth is that nothing in the 21st century will work well without China's full engagement. The challenges we face today are global. China is now a major global player. So whether the issue is climate change, Africa, world trade or the myriad of security questions, we need China to be constructive; we need it to be using its power in partnership with us. None of this means we shouldn't continue to raise the issues of human rights, religious freedoms and democratic reforms as European and American leaders have done in recent weeks.

It is possible to hyperbolize about the rise of China. For example, Europe's economies are still major and combined outreach those of China and India combined. But, as the Olympics and its medal tables show, it is not going to stay that way. This is a historic moment of change. Fast forward 10 years and everyone will know it.

For centuries, the power has resided in the West, with various European powers including the British Empire and then, in the 20th century, the U.S. Now we will have to come to terms with a world in which the power is shared with the Far East. I wonder if we quite understand what that means, we whose culture (not just our politics and economies) has dominated for so long. It will be a rather strange, possibly unnerving experience. Personally, I think it will be incredibly enriching. New experiences; new ways of thinking liberate creative energy. But in any event, it will be a fact we have to come to terms with. For the next U.S. president, this will be or should be at the very top of the agenda, and as a result of the strength of the Sino-U.S. relationship under President Bush, there is a sound platform to build upon.

The Olympics is now the biggest sporting event in the world, and because of the popularity of sport it is therefore one of the events that makes a genuine impact on real people. These Games have given people a glimpse of modern China in a way that no amount of political speeches could do.

London 2012 gives Britain a tremendous chance to explore some of these changes and explain to the East what the modern West is about. One thing is for certain: Hosting the Olympics is now a fantastic opportunity for any nation. My thoughts after the Beijing Games are that we shouldn't try to emulate the wonder of the opening ceremony. It was the spectacular to end all spectaculars and probably can never be bettered. We should instead do something different, drawing maybe on the ideals and spirit of the Olympic movement. We should do it our way, like they did it theirs. And we should learn from and respect each other. That is the way of the 21st century.

Consumer Confidence Rebounds in August

(Xinhua) - China Consumer Confidence Index (CCCI) was updated today, with the survey results showing that China Consumer Confidence Index rebounded 0.9 point to 92.9 in August after a 3.1-point plunge in July. Current conditions fell further by a slight 0.8 point to 90.1, while future expectations rose by 1.8 points to 94.4, and concerns on future general price rises eased. This was in tandem with the initial results of the August Consumer Sentiment Survey by Reuters/University of Michigan in the US, which reported a 0.5-point rise in the overall consumer confidence to 61.7, with a 3.8-point drop in current conditions to 69.3 and a 3.8-point rise in future expectations to 56.8. Concerns on future general price rises were also reported to have eased.

In the last couple of weeks, quite a number of economists pointed out that the Olympics would not become a divide of China's development progress. And this was partly proved in the survey results of this month's consumer confidence: the opening of the Olympics did not show a major impact on the consumer confidence of the month. Instead, changes in the consumer confidence index were more related to the changes in lasting factors, such as the stock market, general prices, and the subprime mortgage crisis. Consumer confidence on current conditions fell again in August as a result of the dives (again) of the stock market and rises (again) in general prices (as can be inferred from a re-falling consumer satisfaction with current general prices after two months' consecutive rises). Future

expectations, on the other hand, rebounded this month, led by an improvement in the expectations on future business conditions. On the other hand, consumers' concerns on future price rises eased in August despite of the falling satisfaction with current prices. The percentage of consumers who expected general prices to rise in the year ahead went down by eight percentage points from that of the previous month, while that of those who expected general prices to fall in the year ahead went up by six percentage points from the month before. Expected increase in general prices in the year ahead also went down by two percentage points from the last month.

Consumer Voices:

"I have a relatively stable job and decent income, so I planned to make some investment. Then I realized how fast stocks and funds were falling, and that bank deposits resulted only in negative interest rates, and prices are rising so fast that I better spend the money to make my life more comfortable."

"The global economic environment is bad, and the China government does not have a second key project for investment like the Olympics. I guess economy might slow down in the following period. But so long as the regulatory policies are appropriate, I believe the economy will continue to improve."

"Houses are expensive, and house prices might fall further. Banks are tightening their mortgage policies so I might as well wait instead of buying a house now."

Trade Surplus Expected to Fall as Imports Surge

(South China Morning Post) The country's trade surplus would ease in the second half of the year as imports increased amid a stronger economy and export growth stabilized despite the global economic slowdown, Vice-Minister of Commerce Gao Hucheng said.

Second-half export growth was expected to be similar to that of the first half, Mr Gao said, contrary to widespread concerns over a possible slowdown.

Growth in imports would probably remain high, he said yesterday.

The mainland's exports rose 21.8 per cent to US\$666.3 billion in the first half easing from 27.6 per cent a year earlier, as the subprime mortgage crisis dampened demand from the United States.

First-half imports rose 30.6 per cent to US\$567.6 billion.

Sun Mingchun, the chief China economist at Lehman Brothers, said he expected export growth to slow to less than 20 per cent over the rest of this year and to a single digit next year.

"There are upside risks to our forecasts if the Chinese government moves aggressively to reverse its policies implemented since late 2006," Mr Sun said.

Exports to the US, China's second-biggest trading partner, rose

9.9 per cent in the first seven months of this year, according to the mainland's customs figures.

Shipments to the European Union rose 27.1 per cent while those to Japan increased 15.9 per cent.

Trade with developing economies was rising, making up a larger slice of the country's foreign trade, including both exports and imports, Mr Gao said.

Exports grew by a much lower than expected 17.6 per cent in June, compared with the 28.1 per cent growth in May,

prompting top leaders to embark on fact-finding trips to economic strongholds and key export bases last month before a Politburo meeting to work out a policy to promote exports.

The government on July 31 raised tax rebates on overseas sales of textiles and garments to 13 per cent from 11 per cent to help exporters struggling to cope with the effect of the yuan's appreciation, rising domestic costs and weaker global demand.

Mr Gao said the ministry was still monitoring the effect of the increase in export tax rebates on textile and clothing producers, and had not yet decided on further increases.

China Medical Devices Research Report

Research and Markets announced the release of a new Market research study on China's medical device sector.

In China, the medical devices industry is concentrated in the Pearl River delta, Yangtze River delta and the Circum-Bohai-Sea region. They all enjoy conditions favorable to the growth of the industry, including local technological strength, a huge talent pool, a relatively solid clinical medical foundation and preferential policies. The combined output value and sales income of these three regions account for over 80% of the national total.

In the first half of 2007, the top countries for China's medical device imports remained the United States, Japan and Germany. China imported 580 million USD worth of medical device from the US, an increase of 11.15% over the previous year; 350 million USD from Germany, an increase of 16.33%;

and 330 million USD from Japan, a drop of 3.17%. In fact, 65.26% of all China's medical device imports came from these three countries.

In addition, there were 19 countries and areas from which China's medical device imports surpassed 10 million USD, and 18 countries and areas from which China's imports more than doubled.

Conclusions

This is a very hot area, and all indications are that it will only get hotter. Demand can only increase as population ages, digital and biomedical technologies continue to advance, and an ever larger number of people have the resources to become customers. For more information, go to :

www.researchandmarkets.com

Chinese Airlines Hurting with Higher Fuel Costs

(*International Herald Tribune*) Air China said Wednesday that its first-half profit fell while China Eastern Airlines remained unprofitable as the carriers, two of the country's three largest, were pinched by rising fuel costs and lower passenger volume. The airlines warned that the rest of the year would remain challenging for the industry.

"High oil prices and global economic softness will undoubtedly continue to deeply affect the airline industry for the remaining part of the year, and we believe we might also be impacted beyond 2008," Air China's chairman, Kong Dong, said in a statement. For January to June, Air China's net profit fell 20.07%, while China Eastern's net loss was 212.50 million yuan, less than the 305.62 million yuan it reported in the same period last year.

China Eastern's operating costs rose 13% during the period while Air China's were up 15%, according to domestic accounting figures.

Big Chinese airlines have also been hit by an unexpected decline in passenger volume, largely because of the catastrophic earthquake in May in southwestern China, marking a reversal of the industry's steady growth in the past few years.

A dull global economy and strict airport safety checks preceding the Beijing Olympics, which ended last weekend, also deterred many passengers.

Air China carried 17.60 million passengers in the first half, down 1.49% year-on-year, while China Eastern saw a 1.20%

drop to 18.11 million.

Both airlines posted further declines in July, but Kong of Air China said that, with the Olympics over, traffic should recover gradually.

The pain has been softened by a rise in the yuan, cutting the value of dollar-denominated debt for aircraft purchases. China's three biggest airlines, including China Southern Airlines, booked combined foreign-exchange gains of 6.41 billion yuan in the first half, under domestic standards, nearly triple their total net profit of 2.16 billion yuan in the period, as the yuan appreciated 6.6%.

"A global economic downturn and high oil prices have expedited the global trend of painful industry consolidation," he said. "This, however, may present opportunities to stronger industry players with a strong operating track record and a solid balance sheet."

A deal to sell a 24% stake in China Eastern to Singapore Airlines expired this month. Deutsche Bank cut its target price for China Eastern's Hong Kong-listed shares to 1.15 Hong Kong dollars, or 14.7 U.S. cents, from 1.98 dollars, citing its need for a capital injection.

The bank said the airline's first-half results indicated it could not stand on its own, and unfavorable factors are expected to continue in the third quarter. It maintained a sell rating on China Eastern and said its stock price had not yet hit bottom. The airline's shares have lost more than three-fourths of their value in 2008.

Caterpillar To Invest \$100 Million To Expand Plant

BEIJING -(Dow Jones)- Caterpillar Inc. (CAT) will invest "just north of" \$100 million to triple production capacity at its Shandong unit over three years, and will also spend \$20 million to build the first phase of a research and development center in Wuxi, Chief Executive Jim Owens said Thursday. The expansion of Shandong SEM Machinery Co., which

manufactures wheel loaders, will begin in 2009, Caterpillar said in a statement. It didn't specify the current or increased production capacity.