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Weekly Focus

Chinese economy: Cool to 7Y Low but Far Outperform Others

China released its main economic indicators for 2008 this week, including GDP, CPI, PPI, trading data, fixed asset investment, industrial growth, etc. The figures show China's economy in 2008, particularly Q4, cooled to its slowest pace in seven years but the performance was much better than the average growth for the world shocked by the widening global financial crisis.

Overall, the Chinese economy maintained good momentum with fast growth, stable prices, optimized structures and improved living standards. Besides, the government's economic stimulus package will take positive effects on the economy in 2009 and help it to revive at an earlier time in 2009.

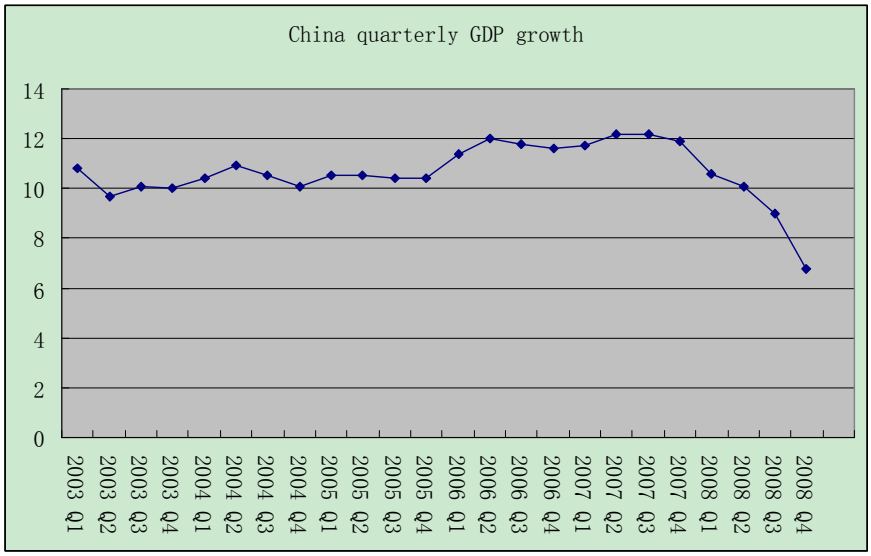
The December figures also show signs of bottoming to the country's economic downturn.

GDP: grows by 7-year low of 9% in 2008

China's economy cooled to its slowest pace in seven years in 2008, expanding 9 percent year-on-year as the widening global financial crisis continued to affect the world's fastest-growing economy.

The 9-percent rate was the lowest since 2001, when an annual rate of 8.3 percent was recorded, and it was the first time China's GDP growth fell into the single-digit range since 2003.

Besides, the year-on-year growth rate for the fourth quarter slid to 6.8 percent from 9 percent in the third quarter and 9.9 percent for the first three quarters. The fourth-quarter weakness reduced industrial output as inventories piled up amid sharply lower foreign demand.



Economic growth showed "an obvious downturn" last year, but the full-year performance was still better than other countries affected by the global financial crisis.

According to the estimate of International Monetary Fund, the average growth for the world

economy last year arrived at 3.7 percent, and 1.4 percent for developed countries, 6.6 percent for developing and emerging economies.

An official with China's National Bureau of Statistics (NBS) said he was "fully confident about China's economy in 2009 and beyond."

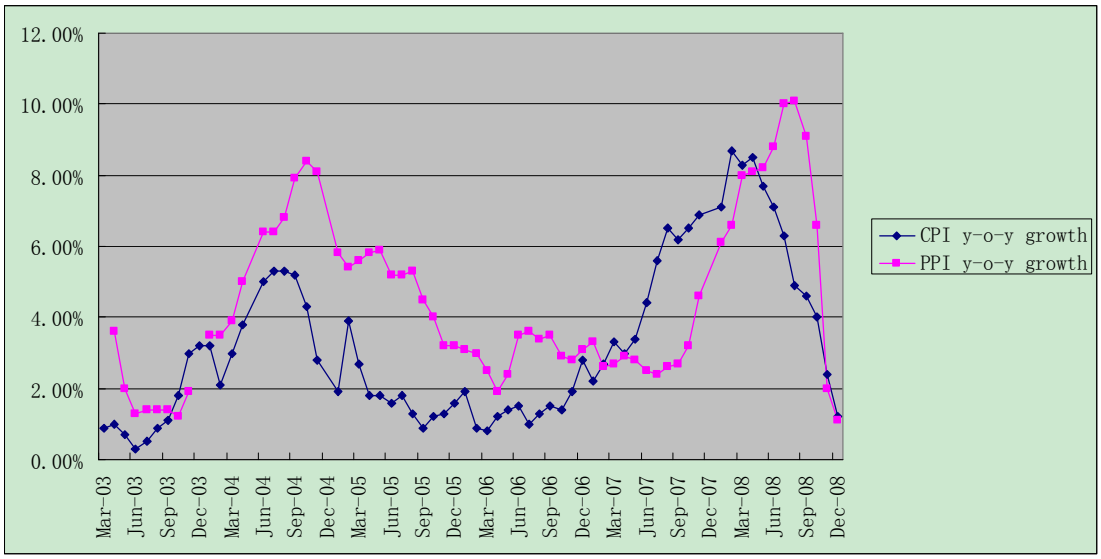
"Overall, the economy maintained good momentum with fast growth, stable prices, optimized structures and improved living standards," he said.

CPI—inflation eases, deflation worry rises

China's consumer price index (CPI) rose 5.9 percent last year after price pressures began to ease in May. The growth was 1.1 percentage points higher than the level in 2007. The CPI for December was up just 1.2 percent, the eighth consecutive month of deceleration and the slowest rise since July 2006.

Meanwhile, the producer price index (PPI), a measure of inflation at the wholesale level, fell 1.1 percent in December after rising 2 percent in November.

These descending figures indicated that China's inflation has been effectively eased.



China started out in 2008 with inflation concerns as food and commodity prices spiked, but it ended the year with an unexpected deflation risk.

Initially, China took steps, including monetary tightening, to fight against inflation. Price pressures eased significantly after May before deflation risks rose late in the year, when the global recession crushed the prices of many food and commodity items.

Some economists believe that China faces deflationary pressure but not for long, and the deflation isn't necessarily a problem, but may be a good thing this year since declines could spur demand.

Besides, the effective control of price hikes could leave more room for macro-economic controls. China has cut interest rates five times since mid-September and lifted credit quotas in an effort to stimulate growth. (XBW)

China to roll out stimulus packages for 9 industries by early March

BEIJING -- China will release stimulus packages for nine industries in succession before the opening of the annual sessions of the National People's Congress and the Chinese People's Political Consultative Conference which are usually held in March, said an official with the Ministry of Industry and Information Technology (MIIT).

The nine industries are iron and steel, automobile, shipbuilding, petroleum and chemical, textile, non-ferrous metals, equipment manufacturing, electronics and information technology, and light industry.

The work of soliciting opinions has been finished for stimulus packages for ship building and textile industries, with such work to be started soon for stimulus plans for equipment manufacturing sector.

Jian Yinsong, an official with Department of Raw Material Industry under MIIT, said that other stimulus plans are under discussion or revision and all nine packages would come out before early March.

The State Council principally approved the stimulus plans for iron and steel and auto industry in mid January.

Statistics show that the nine sectors contributed 80 percent of China's overall industrial value-added in 2007. (XBW)

China's urban jobless rate rises to 4.2% at end-2008

BEIJING -- China's urban unemployment rate was 4.2 percent at the end of 2008, up 0.2 percentage points from the previous year, the Ministry of Human Resources and Social Security (MOHRSS) said on January 20.

As of Dec. 31, there were 8.86 million urban residents registered as jobless, up 560,000 from the end of the third quarter, ministry spokesman Yin Chengji told a press conference.

The slight rise in the jobless rate reflected a slowing economy amid the global financial crisis, said Tang Min, deputy secretary of the China Development Research Foundation.

The urban jobless rate fell for five consecutive years, from a high of 4.3 percent in 2003 to 4 percent in 2007.

Statistics from the MOHRSS showed that 10 million, or 10 percent of a total of 130 million migrant workers, had returned to their rural homes jobless as of December.

Starting from the second half of 2008, weakening foreign demand has hit companies in the coastal industrial belts where most migrant workers had been employed.

Exports fell 2.8 percent year-on-year to 111.16 billion U.S. dollars in December, an acceleration from the decline of 2.2 percent in November.

Yin said that China had reacted in an "active and powerful" way to the employment impact of the global financial crisis.

Local governments have stepped up monitoring job markets and offered free or subsidized

training, among other steps, to avert large-scale job losses.

The government will focus on jobs for college graduates, migrant rural workers and urban residents this year, said Yin.

China aims to keep its registered jobless rate below 4.6 percent and provide 9 million new urban jobs this year. (XBW)

Macro Economy

Chinese Premier urges steps to reverse economic slowdown trend

BEIJING -- Chinese Premier Wen Jiabao on January 19 called for more steps in the first quarter this year to reverse the trend of economic slowdown as soon as possible and realize a good start for the whole of 2009.

Wen made the remarks during the second plenary meeting of the State Council, or the Cabinet. The meeting was held here on January 19.

Participants at the meeting discussed the draft of the government work report, which would be delivered for review at the second plenary session of the 11th National People's Congress in March.

The draft would be sent to provincial governments and central departments for advice.

The soliciting advice and revision part was a process to achieve concerted understanding and enhance confidence; a process to counter the global financial crisis and address the difficulties which arose from it; a process to solicit public opinion and make scientific decisions; and a process to improve policies and measures as well as enhance their implementation, Wen said.

Last year was an unusual year for the country, especially the second half of 2008 when the government unveiled a series of measures to counter the negative impacts of the global financial crisis.

"These measures have been proved prompt, correct and effective," Wen said.

"This year is the most difficult year for China's economic development so far this century," he said.

Efforts should be made to enhance the implementation of the government's economic stimulus package and measures announced to boost the country's major industries, he said.

The Chinese government has announced boosting measures for the steel and auto industries, and is planning measures for eight other major industries.

Wen urged departments concerned to speed up work on the making of these boosting measures.

He called for more efforts on agricultural production during the winter and the coming spring, and said favorable policies for farmers should be firmly implemented.

He also called for efforts to promote stable and relatively fast industrial development.

Enterprises should be encouraged to intensify internal management, reduce operating cost, expand markets and stabilize employment, he said, and small and medium-sized enterprises should be given more support.

Work should be done to ensure service and commodity supply during the upcoming Spring Festival as well as boost consumption in both rural and urban regions, he said.

The government should work to maintain stable growth in trade, Wen said, underlining the need to expand emerging markets and improve the quality of exported goods.

Wen also stressed the need for work to ensure the country's financial stability and safety. The government should properly deal with changes brought about by the global financial crisis and maintain sound operation of the banking sector, he said.

More attention should be given to implement the central government's policy to improve people's living standards and solve problems concerning people's interests, he said.

He urged governments at all levels to attach great importance to boosting employment, help people who had difficulties in life, and ensure production safety and social stability. (XBW)

China's 2008 GDP growth within expectation, analyst

BEIJING – The 9.0 percent of China's gross domestic product (GDP) growth in 2008 is within market expectation, Li Huiyong, an analyst with Shenyin &Wanguo Securities noted.

China's GDP reached 30.067 trillion yuan in 2008, up 9.0 percent year on year, down 4 percentage points from 2007. GDP in the fourth quarter rose by 6.8 percent year on year, down 2.2 percentage points from the third quarter, according to statistics released by National Statistics Bureau on January 22.

So far statistics of December haven't been released. According to the calculation of Li, China's macro economy already started to recover in December. Li deems that November is the hardest time for the macro economy and now the worst period has passed.

But Li meanwhile predicted that GDP growth might continue dropping in the first quarter of 2009 affected by the bad economic expectation in 2008. Unemployment rate is likely to rise; consumption data is likely to turn weaker due to drop of residents' income.

Along with result achieved by the policies adopted by the Chinese government to stimulate the economy, the country's GDP growth is expected to rebound in the second quarter. But if the global economy fails to see recovery, possibility still exists for China's economy to touch bottom again in 2010, Li pointed out. (XBW)

China's think tank forecasts 8.3 pct GDP growth in 2009

BEIJING -- China's Gross Domestic Product (GDP) growth is expected to drop to 8.3 percent in 2009, the country's major think tank said on January 19.

The report, issued by the Chinese Academy of Sciences (CAS), predicted China's economy slowdown in the first half year due to the unfavorable international economic environment.

The report also said that the unprecedented stimulus package of 4 trillion yuan (586 billion

U.S. dollars) will poise China for an early recovery in the third quarter.

The government set the goal of 8 percent growth this year at the Central Economic Work Conference held on Dec. 8.

The United Nations Development Programme (UNDP) predicted last week that China's GDP growth would slow to 8.4 percent in 2009.

The CAS report also predicted that the primary, secondary and tertiary industries will expand at 5 percent, 9.8 percent and 9.5 percent, respectively.

The Chinese economy will face heavy pressure in terms of exports this year due to the recession, the report said. The growth rate of exports and imports is expected to drop to 6.5 percent and 4.6 percent respectively.

Total trade for 2008 was 2.56 trillion U.S. dollars, up 17.8 percent from 2007. The total included 1.43 trillion U.S. dollars in exports, up 17.2 percent, and 1.13 trillion U.S. dollars in imports, up 18.5 percent, figures from the General Administration of Customs (GAC) showed. (XBW).

China's economy likely to get out of descending zone in H2, analysts

BEIJING – China's economy is likely to get out of the descending zone in the second half of 2009, and the GDP growth is expected to keep a year-on-year growth of 8 percent in the year, analysts predicted.

China's gross domestic product (GDP) reached 30.067 trillion yuan in 2008, up 9.0 percent year on year, down 4 percentage points from 2007. GDP in the fourth quarter rose by 6.8 percent year on year, down 2.2 percentage points from the third quarter.

Statistics show that the slowing down of China's economic growth in 2008 is mainly due to the reduction of external demands affected by the global financial crisis. Except for export, China's domestic demand and investment still kept a stable growth.

China's domestic sales obtained a relatively rapid growth in 2008. The total retail sales of consumer goods grew 21.6 percent year on year, up 4.8 percentage points from 2007.

Investment also had a sound performance in 2008. The total social fixed-asset investment in the year rose by 25.5 percent in the year, up 0.7 percentage points from 2007. Investment structure has got improved and confidence of investors recovered in the fourth quarter of 2008. The investment sentiment index in the fourth quarter rose to 103 from 88 in the third quarter.

China's export witnessed sharp decline affected by global financial crisis. Export of labor-intensive enterprises dropped 2.2 percent in November against the 19.2 percent growth in October. Export growth of labor-intensive products recovered to 4.8 percent in December but the export growth of entire products saw a decline of 2.8 percent in the month.

Analysts pointed out that despite the policies released by the Chinese government to support export, as bottom hasn't turned up yet for the global financial crisis, it will keep impacting China's domestic economy, which is the biggest uncertain factor for China's economic growth in 2009.

But analysts meanwhile expressed their optimism for China's economic outlook in 2009, predicting the 6.8 percent of GDP growth in the fourth quarter of 2008 as the bottom for this economic cycle.

Analysts deem that pressure exists for China's GDP to achieve a growth of 9.0 percent in 2009 but it will have no big problem to reach 8.0 percent.

Yao Jingyuan, chief economist with National Statistics Bureau, also noted that China's economy will realize a new stable growth in the second half of 2009. (XBW)

China's 2008 retail sales up 21.6 pct but slow throughout 2H

BEIJING -- China's retail sales grew 21.6 percent in 2008, although growth decelerated during the second half amid the economic downturn, the National Bureau of Statistics (NBS) said on January 22.

The full-year growth rate was 4.8 percentage points higher than in 2007 but down from 21.9 percent for the January-to-November period.

As consumer sentiment weakened and inflation eased, year-on-year retail sales growth decelerated continuously during the second half, from 23.3 percent in July to 20.8 percent in November and further to 19 percent in December.

"Sales growth may continue to decelerate this year," Wang Xiaoguang, director of the Research Institute under the National Development and Reform Commission, told Xinhua.

He said it could take a long time before the government's economic stimulus package began to increase consumer spending.

"Domestic sales growth remained relatively fast and consumption in urban and rural areas remained robust," NBS spokesman Ma Jiantang told a press conference. (XBW)

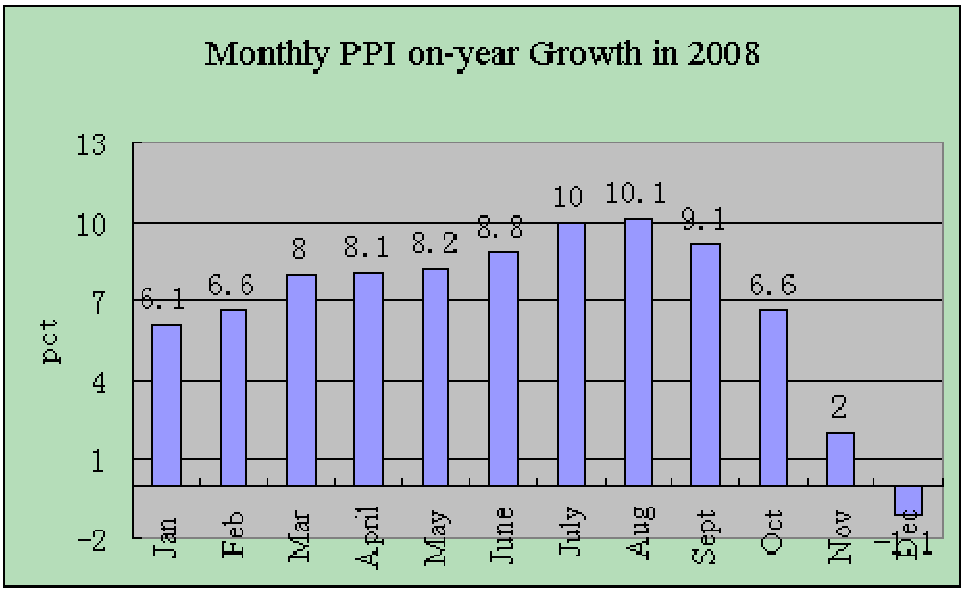
China Dec. PPI growth down 1.1 pct on year, NBS

BEIJING – China's producer price index (PPI) growth went down 1.1 percent on year in December, declining for four consecutive months, according to statistics released by the National Bureau of Statistics (NBS).

China's 2008 annual PPI growth at 6.9 percent on year, compared to 3.1 percent in 2007.

China's PPI growth once peaked at 10.1 pct in August this year, then declined to 6.6 percent in October, and further decline to -1.1 percent in December.

Following is the monthly PPI growth figures this year:



(XBW)

China's 2009 budget deficit to swell to 650 bln yuan

BEIJING – China is likely to have its budget deficit swell to 650 billion yuan, China Business News quoted a well-informed source as saying.

Included were 500 billion yuan budget deficit for 2009 disclosed by the Central Economic Work Conference held by the yearend, 320 billion yuan more than that of 2008, and another 150 billion yuan to be added.

Yang Zhiyong, researcher from the Chinese Academy of Social Sciences, estimated that the difficulty to stimulate the economy is beyond the expectation of the government. As local fiscal revenues posted sharp decline, it seems hard for localities to support the central government's 4 trillion yuan stimulus package.

According to the National Development and Reform Commission (NDRC), China's 4-trillion-yuan investment needs 1.12 trillion yuan financial support from localities in the following two years.

Yang noted that there still existed a 500-billion yuan capital gap, as localities could only afford 620 billion yuan financial support.

NDRC director Mu Hong said that the government might make the loan of treasury bonds to localities to help them tide over financial difficulty so as to carry out the stimulus packages.

It's possible for the central government to inject more capital and reduce local spending, said Liu Shangxi, researcher with the Ministry of Finance, and the loans for localities might not be the only choice.

He added that China might allocate T-bond issuance quota to localities, and let them operate the T-bonds issuance. In this case, the central government would pay interest and principal instead of the localities. (XBW)

State-owned capital to activate Chinese enterprises' M&A in 2009

BEIJING – Chinese enterprises' M&A activities will occur more frequently in 2009 thanks to relaxed monetary policy and enterprise asset for sale at low prices. Insiders point out that state-owned capital will play a leading role in promoting enterprises' M&A in the year.

Many M&A cases occurred among Chinese enterprises in 2008, but that is more an outcome of the bullish stock market in 2007, which are mainly promoted by small and medium-sized enterprises.

But in 2009, more M&A cases will be advanced by state-owned capital, in an effort to improve industry concentration.

Large state-owned enterprises may raise a tide of merging small-scale enterprises to carry out the industry policy of the government.

The Chinese government pointed out in the Central Economic Work Conference held in late 2008 that a batch of strategic industries would be cultivated through restructuring among enterprises.

According to the layout of the Chinese government, China's central enterprises, or enterprises under direct administration of the central government, will be cut to 80-100 enterprises from 140 by 2010, which means about 20-30 central enterprises will disappear through restructuring in this and next year.

Market analysts point out that more M&A cases promoted by state-owned capital will occur in manufacturing industries including steel, textile and automobile, in an effort to upgrade industrial structure and washed out outdated production capacity.

Besides, strategic industries including military industry, electric power, petrochemicals, coal, civil aviation and shipping will also be the key fields for restructuring.

Insiders point out that M&A will turn as a hot concept for the stock market in 2009 along with the transaction opportunities brought by it. (XBW)

Analysis: China 2008 personal income far outgrows CPI

BEIJING – Most Chinese urban and rural residents see their personal disposable incomes record a double-digit growth in 2008, which is a pace far quicker than the growth of consumer price index (CPI).

China's economy has demonstrated a downturn in the last months of 2008 with inflation displaying a "high-to-low" trend throughout the year as food inflation spilled over to non-food sectors such as service.

The CPI rise on year was around 8 percent at the beginning of 2008, and hit a historical high of 8.7 percent in Feb.

Despite the ups and downs of CPI, disposable incomes of urban and rural residents in China have posted a significant growth in 2008.

In Shanghai the 2008 CPI grew 5.8 percent year on year, while the disposable incomes of local urban and rural residents increased 13 and 11 percent, respectively, according to the

municipal bureau of statistics. These figures in Hubei province were 6.3, 14.5 and 16.5 percent respectively.

Faster growth of personal income than price indicates continuous growth of Chinese people's wealth, which may create favorable conditions for expanding domestic demand and increasing consumption and investment for 2009, said Wei Fengchun, deputy director of Jiangnan Securities Research Institute.

He said the growth of consumption growth will depend on that of wealth, while wealth growth is functioned by synergy among industrialization, urbanization and marketization. With the strong policy support to expand domestic demand, he said the boom of consumption is expectable.

Local governments of China also have stressed they will pay more attention to improve people's livelihood, which is to underpin sustained fast growth of personal disposable incomes.

Experts forecast that China's GDP growth will be about 7.5 percent in 2009, and CPI will grow 0.5 percent, much lower than the growth in 2008. (XBW)

Confidence of Chinese investors rebounds, ING survey

BEIJING – Chinese investors' confidence started to rebound in the fourth quarter of 2008 and about 67 percent of them plan to make investment in the first quarter of 2009 following the economy-stimulating policy adopted by the government, a survey made by ING shows.

Despite that enthusiasm of Asian investors went down as a whole in the fourth quarter of 2008, the confidence of Chinese investors rebounded in the quarter, which turns China the second optimistic market in Asia after Indonesia.

Statistics show that the investor sentiment index of Chinese investors was 103 in the fourth quarter, up 17 percent from the third quarter.

According to ING's survey, 78 percent of Chinese investors deem that China's investment plan of 4 trillion yuan to stimulate the economy will have a positive effect. 50 percent of Chinese investors predicted the economy will get improved as a whole in the first quarter, in comparison with the only 38 percent of them holding the same opinion in the fourth quarter. Meanwhile, 54 percent of Chinese investors deem that their individual financial conditions will turn better in the first quarter.

The survey meanwhile shows that Chinese investors will maintain investment in fields of low risks in 2009 and will return the stock and real estate market gradually.

Of those Chinese investors surveyed, 29 percent plan to add investment in the A-share stock market in the first quarter, up 13 percent from the last quarter.

Meanwhile, 58 percent of them predicted the housing price will drop by an average of 3 percent in the first quarter. But investors that plan to increase investment in real estate in the first quarter of this year rise to 31 percent from the 22 percent in the fourth quarter of last year. (XBW)

Foreign Trade

China's foreign trade to outpace GDP in growth in 2009

BEIJING – China's foreign trade is expected to go down this year, affected by the global financial crisis, but still outgrow the national gross domestic product (GDP).

Pei Changhong, head of fiscal and trade economics research institution under the Chinese Academy of Social Sciences (CASS), holds a rosy view on China's export outlook this year.

China's export will show considerable growth this year, given forceful macro policy support such as slowdown in yuan's pace of appreciation, lifting of the export rebate rate and further propping up of processing trade sector.

In fact, the "downturn" that industrial insiders are concerned about is the decline of prices rather than the fall of market share.

According to market institutions, the average price of China's export commodities is likely to decrease by about 10 percent in 2009 from 2008.

However, there are great potentials for the development of China's foreign trade despite of current difficulties.

Of China's export to major markets, 60 percent are basic goods and daily necessities, which are not affected by the economic shrinkage.

Therefore, it is a wise choice for the government to regain this kind of enterprises' competitiveness in cost and price, and get back China's market share of labor-intensive products.

Market watchers call on the state to maintain export growth while actively expanding import, such as advanced overseas technologies to foster state of art production capacity.

In addition, China's stimulus policies in the fields of taxation, finance and trade will be a strong spur to export-oriented enterprises.

Experts hold that China's stimulus policies will take effect in the second half of 2009, making up the loss in the first half. The growth of foreign trade will surely top GDP growth. (XBW)

China's customs tax revenue to face fierce test amid unoptimistic foreign trade in 2009

BEIJING – China may experience the toughest situation in 2009 in maintaining customs revenue increase since the introduction of reform and opening-up policy in 1978, according to General Administration of Customs.

Now the import and export situation is unoptimistic.

Chinese export and import totaled 183.3 billion U.S. dollars in Dec. 2008, decreasing 11.1 percent year on year. Of the total, the import accounted for 72.2 billion U.S. dollars, dropping 21.3 percent, the second negative growth for two months running.

National import and export could suffer serious setbacks from shrinkage of international

trade, price plunges of main energy and mineral products as well as crank-up of export rebate rate.

Statistics show that China posted 916.1 billion U.S. dollars of net customs revenue in 2008, up 157.6 billion U.S. dollars or 20.8 percent from 2007. In the first three quarters of 2008 in particular, its customs revenue grew robustly with the import of goods totaling 893.1 billion U.S. dollars and the import through general trade, the main source of custom tax revenue hitting 455.8 billion U.S. dollars, surging 29 percent and 47.3 percent, respectively.

Affected by the international financial crisis, the customs tax revenue fell in the fourth quarter. (XBW)

Sino-U.S. trade grows at slower pace upon financial crisis

BEIJING -- China's trade with the United States took the blunt of the financial crisis to slow down in the first 11 months of 2008, the General Administration of Customs said on January 17.

Between January and November last year, the bilateral trade amounted to 307.82 billion U.S. dollars, a growth of 11.6 percent on the same period of 2007.

The growth rate was 3.9 percentage points lower than the year-earlier level, or 9.3 percentage points below that for China's total external trade.

The bilateral trade volume included 233.09 billion U.S. dollars in export value, up 9.6 percent, and 74.73 billion dollars in import value, up 18.5 percent.

The growth rate for exports was 5.6 percentage points lower than the year-earlier level, but that for imports was 1.6 percentage points higher.

China's trade surplus with the United States went up 5.8 percent to 158.36 billion U.S. dollars, accounting for 61.9 percent of China's total trade surplus for the 11-month period.

The growth rate was 8.6 percentage points below the year-earlier level. The slowdown was due mainly to weakening demand in the United States after the financial crisis and to the appreciation of the Chinese currency, the customs administration said.

Foreign-funded companies made up 64.5 percent, or 198.66 billion U.S. dollars, of China's trade with the United States, up 9.5 percent. The growth rate was 7.6 percentage points lower.

Of China's exports to the United States, machines and electronics made up 61.6 percent, or 141.71 billion U.S. dollars worth, up 7.9 percent. The growth rate was eight percentage points slower.

Of 21 major categories of exports, four, including garments and telephones, reported decline.

For instance, export value in clothing and accessories was 17.24 billion U.S. dollars, down 1.1 percent. Registered exporters numbered 15,156, down from 17,021 a year ago. (XBW)

Japan remains China's 3rd largest trade partner

BEIJING -- Sino-Japanese trade amounted to 246.2 billion U.S. dollars in the first 11 months of 2008, a growth of 15.2 percent on the same period of 2007, the General Administration of Customs said on January 17.

The figure accounted for 10.4 percent of China's total external trade for the Jan.-Nov. period of 2008, continuing to rank Japan third among China's trade partners.

The total trade volume included 106.1 billion U.S. dollars in exports to Japan, up 14.9 percent, and 140.1 billion dollars in imports, up 15.3 percent.

Of the total trade, 70.3 percent, or 173.1 billion U.S. dollars, was recorded by foreign-funded businesses, up 13.4 percent.

Exports of machines and electronics were 50.66 billion U.S. dollars worth, up 15.8 percent, accounting for 47.8 percent of China's total sales to Japan.

Farm produce exports, hit by a series of product safety scandals since 2007, were down 8.3 percent to 6.92 billion U.S. dollars, as against a 1.4- percent growth for the Jan.-Nov. period of 2007. (XBW)

Chinese-African trade volume hits all time high to reach 106.8 bln dollars

LUANDA -- Visiting Chinese Commerce Minister Chen Deming said here on January 19 that China-Africa trade volume hit an all time high in 2008, reaching a historic new level of 106.8 billion U.S. dollars.

In an exclusive interview with Xinhua, Chen said the past eight years have witnessed a super fast growth of 30 percent since China- Africa trade volume reached more than 10 billion dollars in 2000.

He added that in recent years, especially since 2006 when China hosted the Beijing Summit of the Forum on China-Africa Cooperation, the Chinese-African friendly relations have been further consolidated and strengthened which has given an impetus to the fast growth of China-Africa economic relations and trade.

He said the past few years have also seen a steady development of China's investment in the African continent. "By the end of 2008,China has invested a total of over 5 billion dollars in African countries," he added.

Referring to the ongoing world financial crisis, Chen said, it has no doubt slowed down the pace of world's economic development and a special attention must be paid to its side effects towards the developing countries and underdeveloped countries.

He said many African countries have, relatively speaking, weak economic foundation and rely heavily on foreign investments and aid. These African countries are now facing financial difficulties following the big cut in the price of crude oil in the world market.

"We hope China and African countries can work together to further strengthen multilateral cooperation to face the tough challenges brought about by the ongoing world financial crisis," he said.

Chen and his delegation members were scheduled to leave Angola for home on January 19 to end his three-nation African work visit which also brought him to Kenya and Zambia. (XBW)

Banking

Analysis: China's banking industry to develop undesirably in 2009

BEIJING – China's banking industry will face grim challenges in 2009 because further interest rate cut is expected to narrow interest spread, and banks will weather chillness with acceleration of government's economic stimulus scheme and capital market rally.

-- Smaller interest spread to squeeze banks' profits

Third-quarter reports of the Bank of China (BOC, 601988.SH) and the Industrial and Commercial Bank of China (ICBC, 601398.SH) unveiled that net interest income occupied 66 percent and 84.8 percent, respectively, of their total operating revenue in the first three quarters of 2008. The net interest income for China Construction Bank (CCB, 601939.SH) accounted for 81.8 percent of its total revenue in the first half of 2008.

The banking industry is expected to see a rise of 40~50 percent in net profit for 2008 thanks to swift interest rises in the first three quarters of 2008.

However, after the cut of bank interest rate five times since September 2008, the one-year benchmark lending rate had dropped by 216 basis points accumulatively to 5.31 percent, and the five-year or more lending rate went down to 5.94 percent. The one-year benchmark deposit rate and five-year deposit rate fell to 2.25 percent and 3.6 percent, respectively.

Xu Wenbing, analyst of the Bank of Communications (BoCom), predicts that the interest spread in 2009 is to shrink by 40-50 basis points from that in 2008. As a result, banks' profits will be affected negatively.

China is expected to apply unprecedented relaxed monetary policy to help the economy smoothly go through the global economic downturn. Accordingly, it is widely recognized that the central bank will slash the interest rate two to three times more this year, by about 54~81 basis points. The rate for lending is predicted to drop more than that of deposits.

Meanwhile, citizens are leaning to time deposits under the current economic stagnancy, which will surely increase banks' interest expenditure.

Looking back to previous rate cuts, the government has shifted its policy-making orientation from protecting banks to easing enterprises' financing cost and buoying their development, and stimulating housing consumption, said Chen Xiaosheng of Shenyin Wanguo Securities. The moves are not only dwindling banks' profits, but also lead to reversal of interest rate between deposits and mid and long-term loans.

According to BoCom's 2008-2009 outlook report on China's banking industry, commercial banks are expected to post negative growth in net profit in 2009.

-- Economic stimulus to trigger loan demand

Another challenge commercial banks will face is lower demand for bank loans as enterprises

are pessimistic about future in the case of economy downslide.

According to the statistics by Shanghai University of Finance and Economics, the entrepreneurs' investment confidence index for the fourth quarter of 2008 declined by 15.1 points over the previous quarter to 110.1 points, in which the enterprises' development expectation confidence index that reflects the prospects of enterprises reached 92 points, down 14.8 points. The figures indicated that enterprises would reduce their investment activities and the demand as bank loans would slump considerably.

Luckily, the central government has launched a series of economic stimulus measures and reiterated to make full use of the anti-cycle adjustment function of monetary policy and ample money supply, and to facilitate proper growth of credit supply. The measures will strongly push forward economic growth and diminish part of the negative impact on bank loans.

BoCom's outlook report figures out that China's stimulus measures on domestic demand will give a strong push to bank loans than that in 1998.

The reasons are: the government will spend four trillion yuan in two years, the actual investment may be a bit higher, and the spending in 1998 was only three trillion yuan for five years; the projects to be invested have been expanded from infrastructure construction to people's livelihood like housing construction; and China's top four state-owned banks have made remarkable improvement in actual non-performing loans ratio, asset quality and anti-risk capacity to boost their aspiration for lending.

-- Intermediary business to enhance banks' anti-cycle capacity

Commercial banks witnessed sustained and rapid development in intermediary business over the past two years thanks to capital market boom. Fourteen listed banks recorded 83.767 billion yuan of revenue from such business, up 73.59 percent on year.

Generally, intermediary business income kept by international commercial banks accounts for 40-50 percent of the total revenue, far beyond that in Chinese banks.

Chen Xiaosheng noted that China's banking industry has advantages in widespread branches, abundant client resources, and experiences in settlement, agency, bankcards and wealth management services. As intermediary businesses is closely linked to daily consumption, they are able to resist economic weakness.

Commercial banks should make full use of their own resources to develop more types of intermediary services, explore cooperation with other financial institutions and clients and lift the proportion of such business, said Chen.

Analysts believe that the capital market tends to get stable in 2009 along with the completion of economic adjustment cycle. As a result, fund custody and wholesale business will turn for the better. Some investors will begin to transfer their lower-interest deposits into the capital market in pursuit of high profit.

Xu Wenbing believes that the scale of direct financing such as short-term financial bills, mid-term notes and corporate bonds will be widened apparently in the campaign of accelerating domestic demand. These businesses will boost the investment banking business for commercial banks. Additionally, commercial banks are stepping up the reform of comprehensive operation, and new businesses like securities, leasing and bank insurance will become new points for profit growth. (XBW)

Drastic Interest rate slash unlikely before Chinese New Year, analysts

BEIJING – China's central bank is unlikely to slash the interest rate by a big margin before Chinese New Year signaled by recent open market operation, said China's market analysts.

The interest rate for the 91-day repo on January 15 finally arrived at one percent, flat to last trading.

Besides, the issuing rate of 3-month central bank bill only slipped 4.03 basis points at the beginning of this year and the interest rate of repos at all terms have kept stable since Dec. 30, 2008.

These rates are closer to domestic banking cost leading to limited room for further decline and recent open market operations implied that the central bank is unlikely to cut the interest rate.

Although the rebound of credit data could not justify a reviving economy, the step of cut in interest rate will back to normal in a bid to keep a stable financial operation.

Lu Zhengwei, chief economist of the Industrial Bank, held that the credit proliferation might prompt a cut of 50 basis points in requirement reserve ratio, but the time is uncertain.

Statistics indicate that the central bank only conducts two batches repos totaling 60 billion yuan this week. In contrast, as much as 220 billion yuan of funds will come due, which means the central bank will put a net of 160 billion yuan to the market, marking the largest weekly net amount since Jan. 2008.

With the Chinese New Year approaching, the central bank enhance the injection of capital to meet the payment demand during the festival, which also explained the continuous declines of interest rate on the money market. (XBW)

China to see more interest cuts in 2009, Bank of China report

BEIJING -- China will continue to see more interest cuts throughout 2009 to enhance market fluidity, according to an economic outlook released by the Bank of China (BOC) here on January 19.

The country's major lender expected the People's Bank of China (PBOC), or the central bank, to lower the benchmark interest rates of both deposit and credit to 1.44 percent and 4.5 percent respectively.

The benchmark deposit and credit rates now stand at 2.25 percent and 5.31 percent respectively after five cuts within three consecutive months from last September.

The PBOC is also expected to further lower the required reserve ratio to 10 percent this year from the current 14.5 percent. The central bank has already conducted four similar cuts since last October to encourage more bank lending for industries thirst for capital.

The country's fiscal deficit is estimated to reach 500 billion yuan (73 billion U.S. dollars) in 2009, up 178 percent from last year's 180 billion yuan, as the government plans to expend billions of dollars on state projects to boost economy.

Despite the four-trillion yuan stimulus package initiated by the government to boost domestic demand, the BOC report said China would not be immune to a global recession. The country

would suffer further economic downturn before seeing signs of recovery in 2010.

The bank expected the economic growth to slow to about 8 percent this year, compared with the 13 percent historical peak in 2007. (XBW)

China banks see sharp decline in NPL ratio

BEIJING -- Commercial banks in China reported a sharp decline in both non-performing loans (NPLs) and the NPL ratio last year, the China Banking Regulatory Commission (CBRC) said on January 18.

The NPL ratio of lenders, including foreign banks, was 2.45 percent at the end of 2008, down by 3.71 percentage points from a year ago, the CBRC said.

In addition, outstanding NPLs were reduced by 700.24 billion (102 billion U.S. dollars) to 568.18 billion yuan (83 billion U.S. dollars).

The banks' total assets at home were 62.4 trillion yuan (9.1 trillion U.S. dollars) by the end of December, up 18.6 percent from a year earlier, the banking regulator stated.

On January 16, Liu Mingkang, CBRC chairman, called on domestic banks to boost risk management and continue strict controls of NPLs and the NPL ratio.

The government has urged lenders to extend more credit since late last year, amid other efforts to spur the economic growth. But this has aroused worries of rising bad loans in deteriorating economic conditions.

China's economy slowed sharply last year, hit by weakening exports and property investment. The gross domestic product (GDP) expanded 9 percent annually in the third quarter, compared with 10.1 percent in the second quarter and 10.6 in the first quarter.

The government is scheduled to release economic data for December next week.

Leading economist Cheng Siwei said earlier this month that the economy would start to recover in the second half of the year, but will regain full steam in 2011. (XBW)

Net release of liquidity hits one-year high

BEIJING – The People's Bank of China (PBoC) dumped 160 billion yuan of net money supply into the market this week, a record weekly high since last January, National Business Daily reported on January 16.

The net money supply was produced by 220 billion yuan worth of expired bills and repos minus two repos operation worth 60 billion yuan in total this week.

The net supply last week was only 5 billion yuan.

One reason for the abrupt increase in money supply is that the central bank tries to meet banks' demand for massive payments during upcoming traditional Chinese Spring Festival holiday, and the other is attributed to the large amount of expired bills and repos this week, according to a bank trader.

The central bank conducted 91-day repo operation on January 15 at a bid interest rate of 1 percent. This is the third time for China to introduce one-percent interest rate for repos of this term. This implies that the central bank has stopped reducing the rate since the end of December.

PBoC cut the bid interest rate to six-year low of 0.9 percent for the 28-day repo on December 23, 2008.

With repeated declines of interest rate and releases of liquidity, banks have ample money reserves. But it seems to have become a burden for them as they can hardly find good projects to lend their money. Therefore, they prefer to do interbank lending and purchase bonds to keep the money inside the banking system.

Transaction turnover in the interbank market surged 25 percent in December 2008, and Shibor and collateral bond coupon rate fell 106 basis points from November, respectively. All this indicates sufficient liquidity on the interbank market.

Continuous interest rate cut or unsymmetrical rate decline will harm banks' net interest spread and market confidence, Gao Hua Securities warned in a latest report.

However, Zhang Minhua, senior official of CITI Group, estimated that the central bank would slash the interest rate by another 27-54 basis points as a stimulus to the real estate market. (XBW)

Analysis: Renminbi internationalization still has a long way to go

BEIJING – The internationalization of China's currency Renminbi still has a long way to go despite that regional foreign trade settlement in RMB yuan has fueled the expectation strongly.

The issue on whether or not Renminbi can be internationalized now is widely discussed. Particularly since the global financial crisis began in the United States last year, both internal and external conditions have headed towards the direction favorable for Renminbi internationalization.

China is well established as the world's fourth largest economy and may have taken the place of Germany to be the world's third largest economy according to the revised GDP figure for 2007. Its economic strength is powerful enough, worth trusting and counting on. Meanwhile, the value and status of existing internationalized currencies are questioned when drastic shakes occurred to current international money system.

It seems Renminbi is qualified to be internationalized.

But the fact is there are some deep-rooted obstacles in its way to internationalization, some Chinese experts noted.

First of all, Chinese yuan now is not internationally owned yet. If China wants to make it, it must first abandon its trade surplus and adjust its macro economic structure, which is difficult for a country like China that has 70 percent of its economic growth depend on export at present. Spreading financial crisis has brought China to further see the importance of adjusting its export-dominated economic development mode. But, it will take time for it to complete the process.

Apart from the economic structure issue, RMB yuan is not pegged to any physical assets, which can protect its holders from depreciation risks. Bretton Wood Agreement in 1944 pegged US dollar to gold, and thus erected the core position of US dollar in the international money system. Besides gold, US dollars is also pegged to oil at present, this is why the world is willing to safeguard the international position of US dollar.

What's more important, China cannot afford to fully open its capital market at present,

though it has already set to in a gradual way. Even if Chinese capital market is fully opened now, investment channels for Renminbi, including trading of yuan-denominated stocks and bonds, are inadequate. Neither can China open its capital market in near future, nor can it provide enough investment tools.

Actually, the level of internationalization of Renminbi is very low, according to a research conducted by China's central bank, the People's Bank of China.

Nevertheless, China is trying to push forward regionalizing Renminbi in Asia, especially Southeast Asia, which is regarded as the first step towards internationalization. After all, the advantages of making its home currency an international one are obvious: huge commercial interests together with higher status, cheap price imports and enhancement of people's livelihood at least.

Pushing forward regionalization of Renmbi is an important measure for China to rescue its export, and it will produce a pulling effect on the whole economy.

On December 24, 2008, the executive meeting of the State Council decided to allow Guangdong and the Yangtze River Delta area to settle their goods trade with Hong Kong and Macao SAR, and Guangxi and Yunnan with ASEAN countries in RMB yuan on a trial basis, with the amount of RMB yuan involved exceeding 100 billion yuan. This is an important and substantial step China has made towards internationalization of RMB yuan.

Before then, China and Russia have signed an agreement, agreeing to expand business settled in Ruble and RMB yuan. China and the Republic of Korea (ROK) have also signed money swap agreement.

By expanding RMB settlement in international trade, China may unify depreciation of RMB yuan domestically and internationally, which will help RMB towards the direction of free conversion.

Anyway, Chinese yuan cannot become the local currency of Asia countries, but it can play the role of settlement currency in Asia, said Lian Ping, chief economist of China Communications Bank.

It is feasible for China to open the capital market to Asian partners in an orderly way through expanding the regional export, and gradually enlarge the circulation area of Renminbi in Asia to lay a foundation to international settlement, Lian noted.

It is reported early that international settlement in RMB yuan is likely to be launched on a trial basis in the Yangtze River Delta area in 2009, and related plan has been submitted to the People's Bank of China (PBoC), China's central bank for approval.

To promote international trade settlement in RMB yuan is generally taken as the start to promote internationalization of RMB yuan. If the report is true, China has already started on the work.

As for whether the ongoing financial crisis will change the pattern of international currency and enhance the international status of RMB yuan, Chen Yulu, Vice President of People's University of China holds that after the financial crisis, the US dollar-dominated international money system will be diversified, but the transition will take at least 30-40 years. China may seize the opportunity to promote internationalization of RMB yuan.

There are also experts holding that the international position of US dollar remains unshakable, and may even be strengthened amid the financial crisis, as the United States is still the strongest country in the world, in terms of its adjustment of policies and systems and in the fields of science

and technology and the national defense.

Maybe, it is still early for RMB yuan to become an international currency. But the Long March needs a start, and the initiative can by no means come from the market. (XBW)

RMB real effective exchange rate depreciates by 1.72 pct in Dec 2008

BEIJING – The index of China's real effective exchange rate of Renminbi (RMB) appreciated by 12.66 percent in 2008, according to the Bank of International Settlements (BIS).

Included was the index of 111.26 in December, depreciating by 1.72 percent from November on the ground that RMB was weak against euro and Japanese yen.

December witnessed RMB depreciate by 9.61 percent against euro, 5.67 percent against Japanese yen, and 0.03 percent against HK dollar. Chinese currency continued going strong against British pound at 6.42 percent.

The central parity rate of RMB against the greenback tumbled for four consecutive trading days to touch the limit-down on the spot market in early December, which led to market expectation of RMB depreciation.

But the central parity rate of RMB against the U.S. dollar maintained stable since China's central bank took measures on the market.

RMB nominal effective exchange rate index was 111.57 in December, depreciating by 2.52 percent on month. The whole 2008 saw the nominal effective exchange rate appreciate by 12.88 percent.

A country's real effective exchange rate has deducted inflation factors, and can indicate the external value and the relative purchasing power of the home currency. (XBW)

RMB exchange rate to go stable in 2009

BEIJING – China's Renminbi (RMB) exchange rate is expected to maintain stable in 2009, in view of the situation at home and abroad.

According to economists, China needs to ward off defilation in the short term and prevent inflation in the long term so as to stabilize its price level.

It is necessary for China to stabilize the exchange rate to tranquilize international price level.

The economists agree that if the U.S. dollar continues to appreciate against euro in the first half of 2009, yuan is likely to depreciate against US dollar and appreciate against euro to maintain a stable and effective exchange rate.

If dollar starts to depreciate against euro in the second half of 2009, yuan is likely to resume appreciation against the dollar.

Although China's external demand shrinks sharply, the dollar is still in excessive supply on the exchange market. Therefore, the pressure on yuan's appreciation still exists, according to the economists.

However, if the international economic situation continues to deteriorate, oversea capital will flood out of the emerging countries, and will bring in depreciation pressure to currencies in these

countries including China. (XBW)

China's first acquisition loan lends out

BEIJING -- The China Development Bank signed a contract on January 20 to extend 1.63 billion yuan (240 million U.S. dollars) in acquisition loan to the CITIC Guo'an Group, the first such case after the country allowed banks to issue acquisition loan last month.

The CITIC Guo'an would use the loan to increase its shareholding in the Baiyin Group, a non-ferrous metal processing company in northwest China's Gansu Province.

CITIC Guo'an planned to spend 3.26 billion yuan to bring its stake in Baiyin Group to 45 percent. However, CITIC Guo'an's previous percentage of shareholding was not available yet.

CITIC Guo'an, a subsidiary company of the CITIC Group, covers information industry, hi-tech, natural resources development and real estate development.

The China Banking Regulatory Commission (CBRC) allowed commercial banks to provide loans to domestic enterprises conducting acquisition both at home and abroad, starting from December of 2008.

Commercial banks, including domestic urban and rural commercial banks and foreign banks in the country, must meet certain criteria to initiate the business. These included a capital adequacy ratio above 10 percent and a loan loss provision taking up more than one percent of the total loan, among others. (XBW)

Insurance

Chinese insurers report 3.3 trln yuan total assets in 2008

BEIJING – China insurance industry posted total assets of 3.3 trillion yuan by the end of 2008, up 15.2 percent over the early of 2008, and insurance capital of 3.1 trillion yuan, up 14.3 percent over the beginning of 2008, said China Insurance Regulatory Commission (CIRC) on January 21.

The proportion of equity products investment (including stocks and securities investment funds) in the investment portfolio of China's insurance capital stood at 13.3 percent at the end of 2008, down 13.8 percentage points from the beginning of the year.

By the end of 2008, bank deposits and bonds took 84.4 percent of insurers' investment portfolio, up 16 percentage points over the beginning of the year.

Chinese insurance industry realized premium income of 978.41 billion yuan, rising 39.1 percent on year, the fastest growth since 2002.

Included was 233.67 billion yuan from property insurance, 665.84 billion yuan from life insurance, 58.55 billion yuan from health insurance and 20.36 billion yuan from casualty

insurance, up 17 percent, 49.2 percent, 52.4 percent, and 7.1 percent, respectively.

According to Wu Xiaojun, an official from CIRC, China's insurance industry maintained steady and fast growth in 2008, with a policy surrender rate of 3.78 percent, down 0.94 percent from 2007.

By the end of 2008, dividend insurance products accounted for 51.77 percent of life insurance premiums, and investment-linked and universal insurance products took up 5.79 percent and 19.77 percent, respectively.

Wu pointed out that Chinese insurers might see decline in their profits due to factors like serious natural disasters, nosedive of domestic capital market and international financial woes.

Chinese insurers saw claim expenditure up 31.2 percent to 297.12 billion yuan in 2008.

Included was 141.83 billion yuan from property insurance, up 39 percent on year; 131.5 billion yuan from life insurance, up 23.5 percent; 17.53 billion yuan from health insurance, up 50 percent; and 6.26 billion yuan from casualty insurance, down 1.4 percent on year. (XBW)

Premium income of Chinese insurance industry up 39.1 pct in 2008

BEIJING -- The China Insurance Regulatory Commission (CIRC) announced on January 21 that the industry reported a 39.1 percent growth in received premiums in 2008, the highest annual rise since 2002.

The insurance industry in total received 978.41 billion yuan (143.88 billion U.S. dollars) in premiums, CIRC official Wu Xiaojun said.

The insurance market had maintained stable and relatively rapid growth in the past year, as the industry strengthened supervision and risk control to cope with the impact of the global financial crisis, said Wu.

Life insurance saw significant growth last year, up 49.2 percent to 665.84 billion yuan, while health insurance premiums rose 52.4 percent to 58.55 billion yuan.

But analysts said the growth rate might fall in 2009, as the slump in stocks and the property market cut savings and reduced demand.

Major natural disasters and the shrinking capital market last year had also considerably damaged profits of the industry, Wu said.

China Life, the country's biggest life insurer, has estimated that its 2008 unaudited net profit fell more than 50 percent from a year earlier. (XBW)

CIRC lowers supervision charges on insurance business

BEIJING – China Insurance Regulatory Commission (CIRC) on Jan. 15 published a circular, lowering the supervision charges on insurers, agencies, and insurance assets management companies.

Supervision charges on insurers' liability insurance and short-term health insurance businesses have been lowered from 0.18 percent of their annual premium income to 0.16 percent.

As for property insurance and personal accident insurance businesses, the charges have been

lowered from 0.19 percent of annual premiums to 0.17 percent.

Supervision charges on long-term life insurance and long-term health insurance businesses have been cut to 0.09 percent and 0.08 percent of annual premium, respectively.

CIRC also lifts its supervision charges on policy-type export credit insurance business and new rural cooperative medicine insurance business, so as to support the nation's economic stimulus plan. (XBW)

Foreign insurance capital eyes China health insurance market

BEIJING – As the current financial woes have impeded development of foreign insurance capital in their home countries, some foreign insurers began to focus their strategic development on Chinese health insurance market, reported Shanghai Securities News.

WellPoint. Inc, a leading American health insurance company, is exploring China's health insurance market through its WPMI (Shanghai) consulting company to provide third-party medical management services in the first stage, and in the second stage, it plans to open a joint venture health insurance company, disclosed WPMI president and chief executive officer John P. Domeika.

But Chinese health insurance companies have posted bad operation performance and began to divert their business to investment-type insurance products due to high costs and lack of policy support.

China lacks independent health insurance products, and Chinese insurers still need health insurance expertise, which posed a good opportunity for foreign insurers to expand their business on Chinese market.

However, foreign insurers also face challenges, as Chinese clients only take health insurance products as a financial tool to preserve asset value, ignoring its function to improve medical quality. (XBW)

China's agricultural insurance premium revenue more than doubles to 11 bln yuan in 2008

BEIJING – Direct agricultural insurance in China generated a premium revenue of 11.07 billion yuan in 2008, soaring 110 percent year on year, according to China Insurance Regulatory Commission (CIRC).

Meanwhile, insurance companies paid out 6.9 billion yuan in accordance with insurance claims, benefiting near 11 million households/times.

China expanded agricultural insurance pilot programs from six to 16 provinces and Xinjiang Production and Construction Corps in 2008 with the participation of 90.16 million households.

The premium from direct liability insurance totaled 8.17 billion yuan in 2008, up 22.7 percent, in addition to 5.19 billion yuan of newly added capital for entrusted management.

Source with CIRC said that Chinese insurers paid out 297.1 billion yuan within 2008, advancing 31.2 percent from 2007.

Noteworthily, pension insurance corporations were entrusted to collect 20.55 billion yuan of

enterprise annuity and manage 47.36 billion yuan of assets in 2008, surging 140 percent and 420 percent respectively. (XBW)

Securities

Chinese shares stand above 2,000 points on positive economic trends

BEIJING -- Chinese share prices closed one percent higher on January 22 (Thursday) after the National Bureau of Statistics (NBS) said the country's economic growth showed positive trends.

The Shanghai Composite Index climbed one percent to 2,004. The Shenzhen Component Index was up 1.15 percent to 7,050.

Combined turnover reduced to 103.65 billion yuan (14.8 billion U.S. dollars) from 106.39 billion yuan on the previous trading day.

The NBS announced on January 22 the country's economy cooled to its slowest pace in seven years in 2008, expanding 9 percent year-on-year as the widening global financial crisis continued to affect the world's fastest-growing economy.

Nevertheless, the country's performance was better than the average growth of 3.7 percent for the world economy last year, 1.4 percent for developed countries and 6.6 percent for developing and emerging economies, NBS director Ma Jiantang said, citing estimates of the International Monetary Fund.

Officials and analysts said some positive signs surfaced in December, which they believed indicated China could economically recover before other countries.

Medical-related industries rose sharply on the announcement of a long-awaited medical reform plan. Beijing Wandong Medical Equipment Co. Ltd. rose by the daily limit of 10 percent to 7.55 yuan. Topchoice Medical Investment Co. Inc. also rose by 10 percent to 6.46 yuan.

The State Council, or Cabinet, passed a medical reform plan on January 21 which promised to spend 850 billion yuan (123 billion U.S. dollars) by 2011 to provide universal medical service to the country's 1.3 billion people.

Banks were almost flat as December figures on money supply showed some "positive changes" but whether they represented a trend was unclear. The Industrial and Commercial Bank of China went up slightly 0.27 percent to 3.69 yuan. Bank of China rose 0.98 percent to 3.08 yuan.

Shenyin & Wanguo Securities said in a report released on January 22 that domestic bourses would outperform neighboring markets, but uncertainties remained with the approaching holiday recess.

The two bourses will be closed from Jan. 24 to Feb. 1 for the traditional Spring Festival holiday.

Other Asian stocks also rose on January 22. Japan's Nikkei average closed 1.9 percent higher. Hong Kong's Hang Seng index climbed 2 percent boosted by a 5.3-percent rise in HSBC, the largest European bank which had plunged for eight consecutive sessions to a decade low. (XBW)

China's leading equity exchanges to unify trading rules

BEIJING – China's four leading equity exchanges, respectively in Beijing, Shanghai, Tianjin and Chongqing, are expected to adopt unified rules on state-owned equity transactions around the Spring Festival, according to an insider.

While retaining part of the former rules made by the four exchanges, the new rules will be more comprehensive and feature emphasis on risk control, said the insider.

For example, they include more detailed requirements on the consigner of assets and equities, he added.

Such a set of unified rules is helpful to boost the development of the equity market, as it will reduce trading cost and make equity exchanges more focused on value-added services, said , professor of the School of Economics of Peking University.

It will also bring about orderly competition amongst the equity exchanges, said analysts.

The four major exchanges started cooperation talks back in 2008. On February 28, 2008, they announced to jointly release information on their own websites and through five contracted media agencies.

On March 10, they agreed to build a unified trading system and for that end, set up a joint working group.

Under the leadership of the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council, which overseas state-owned assets, the four exchanges gathered many times and formulated rules on the trading of state-owned assets.

The final document was earlier expected to be completed by end-2008 but was postponed somewhat. At present, it has been sent to the four exchanges and will likely be implemented around the Spring Festival. (XBW)

17.452 bln shares pending for unlocking on Shanghai, Shenzhen bourses in Feb

BEIJING – After climbing up 9.52 percent from January 5 to 20, Chinese stocks are likely to wrap up the first month of 2009 with rally streak. However, huge quantity of shares pending for unlocking in February, numbering 17.452 billion, will continue to pose greater pressures on the market in the coming month.

Statistics show 115 firms listed on the Shanghai and Shenzhen bourses will release 17.452 billion shares to the secondary market for trading after a given lock-up period, up 36.5 percent from the figure for shares unlocked in January.

Based on the closing price of January 20 (Tuesday), the market capitalization of these shares is projected to be 153.301 billion yuan, up 45.76 percent over that unlocked in January.

Adding the shares pending for unlocking from January 25 to 31, during which the market will

suspend trading for the week-long Spring Festival holiday, the actual quantity of shares to be unlocked in February will amount to 17.896 billion, valued at about 164.083 billion yuan at the closing price on January 20.

The unlocking spree will spike at end-February, due mainly to the floating of China Merchants Bank's (600036.SH) 4.799 billion non-tradable shares resulting from the split share structure reform, which translates to 56.1 billion yuan in market cap, or 42.47 percent of the monthly figure.

Among the shares to be unlocked, those privately placed to shareholders before IPO or to institutions during rights issues account for only 5.11 percent.

Due to their large proportion, non-tradable shares, especially those resulting from the split share structure reform, have been blamed for the plunge of China's A-share market in 2008.

Thanks to economy-boosting policies and other factors, the market rebounded in January. However, such cases as selling newly unlocked shares have also increased as shareholders rush to take profit.

Statistics indicate a total of 498 million formerly non-tradable shares were sold in the past two and a half weeks, valued at 3.118 billion yuan.

In other words, an average of 260 million yuan was cashed from newly unlocked shares each trading day in January, compared with an average of 172 million yuan in December.

It remains uncertain whether the market can stand the pressure of unlocked shares in February. (XBW)

Chinese shares almost flat on expectation of more government stimulus

BEIJING -- Chinese share prices closed 0.37 percent higher on January 20 (Tuesday) on expectation of more government stimulus plans.

The Shanghai Composite Index gained 0.37 percent to 1,994. The Shenzhen Component Index climbed 0.54 percent to 7,020.

Combined turnover shrank to 85.15 billion yuan (12.2 U.S. dollars) from 120.45 billion yuan on the previous trading day.

Analysts said investors were looking forward to more government stimulus plans as Premier Wen Jiabao on January 19 called for more steps in the first quarter this year to reverse the trend of economic slowdown as soon as possible and realize a good start for the whole of 2009.

The National Bureau of Statistics is scheduled to announce economic data including the GDP and CPI of the fourth quarter and the whole year of 2008 on January 22.

"Investors are cautious now as they are waiting for more government measures to stimulate key industries," said TX Investment Co. in a report released on January 20.

Small and medium-size banks led the rise. Industrial Bank Co. Ltd. rose 3.26 percent to 18.68 yuan. Bank of Communications was up 2.77 percent at 5.56 yuan. The rises were boosted by reports of state-backed share purchases of the country's top three lenders.

Securities firms also rose despite bleak earning reports. Haitong Securities soared 9 percent to 11.56 yuan. Changjiang Securities was up 5.38 percent at 10.96 yuan.

Other Asian markets slumped on January 20 on concerns that increasing financial market

woes will deepen the world's economic downturn, highlighting the difficulties confronting incoming U.S. President Barack Obama.

Japan's Nikkei fell 2.3 percent, while Australian shares dropped 3.1 percent. Other major indexes, including in Hong Kong, Taiwan and the Republic of Korea fell 1 to 2 percent each.

A Guangfa Securities report said the fact that domestic markets were not much affected by neighboring markets showed investor confidence here was recovering. (XBW)

Chinese shares slightly down with holiday recess approaching

BEIJING -- Chinese share prices closed 0.46 percent lower on January 21 (Wednesday) as the Spring Festival holiday recess came closer.

The Shanghai Composite Index lost 0.46 percent to 1,985. The Shenzhen Component Index was down 0.71 percent to 6,970.

Combined turnover rose to 106.39 billion yuan (15.2 billion U.S. dollars) from 85.15 billion yuan on the previous trading day.

Domestic bourses will be closed from Jan. 24 to Feb. 1 for the traditional Spring Festival holiday.

Investors were worried that continued troubles in the global financial sector and bleak economic data would add to uncertainties in the country's economy, said a Guangfa Securities report released on January 21.

The National Bureau of Statistics is scheduled to announce economic data including the GDP and CPI of the fourth quarter and the whole year of 2008 on January 22.

Li Huiyong, a Shenyin & Wanguo Securities analyst, said the economy might have reached the bottom in December calculated on the monthly power consumption data and the Purchasing Managers Index. He estimated the quarterly GDP might hit a 36-quarter low at about 6 percent.

Investors were still looking forward to more government stimulus plans as Premier Wen Jiabao on January 19 called for more steps in the first quarter this year to reverse the trend of economic slowdown as soon as possible and realize a good start for the whole of 2009, he added.

Textile companies rose on expectation of an industrial stimulus scheme. HuaFang Textile Co. rose by the daily limit of 10 percent to 3.3 yuan. Zhejiang Golden Eagle Co. was up 8.2 percent to 4.09 yuan.

Banks remained strong on news of state-backed share purchases of the country's top three lenders. Bank of Beijing rose 2.45 percent to 10.46 yuan. Bank of Communications climbed 1.26 percent to 5.63 yuan.

Military technology industries also rose after the government revealed its defense expenditure figures over the past 30 years for the first time in a white paper on January 20. China North Optical-Electrical Technology Co. rose 9.98 percent to 26 yuan. China Spacesat Co. went up 8.83 percent to 20.34 yuan.

Globally, Barack Obama became U.S. president on January 20 with a message of hope and resolve that has so far failed to convince investors. U.S. markets posted a record Inauguration Day drop after institutional money managers State Street Corp and Bank of New York Mellon Corp reported substantial losses on investments and sharply lower profits.

Other Asian markets dropped tracking U.S. market losses. Japan's Nikkei average slid 2 percent to a seven-week closing low. Singapore's main index fell 1.9 percent. Major indexes in Hong Kong and Australia fell 1-2 percent each. (XBW)

China to tax income from stock appreciation rights and restricted shares

BEIJING – China will levy tax on personal income derived from stock appreciation rights (SARs) and restricted shares (RS) granted by domestic firms listed on home or overseas bourses, according to a document jointly issued by the Ministry of Finance and State Administration of Taxation.

Analysts regard the move a signal to boost the current bearish market as holders of SARs and RS face higher costs in cashing such holdings.

The document asks listed firms to file their SARs and RS schemes to both the securities regulator and the taxation authority.

Currently, stock options serve as the major form of incentives for executives of listed companies in China. Only three companies adopt SARs schemes and 27 firms pursue RS incentives.

Despite the small number, SARs and RS incentives may keep rising in future and the move to tax personal income from SARs and RS supplement the current taxation regime regarding stock-based incentives.

China issued measures on taxation of stock options, one of the three major stock-based incentives, in 2005 and 2006. (XBW)

Analysts say bond correction closer to conclusion

BEIJING – This round of correction in bond market is theoretically closer to conclusion since both fundamentals and capital supply have not seen any significant change, according to a bond trader with a commercial bank in China.

"The unexpected financial data is likely to produce more effects on the long term products," said Jiang Chao, analyst with Guotai Junan Securities, referring to the rapid growth of loan issuance in Dec. 2008.

"But the overall trend in China's bond market has not changed," added Jiang.

Some analysts reckoned that the explosive credit growth in last December is unsustainable, as the credit expansion was merely spurred by favorable policy and mainly focused on bill financing and policy-support projects such as infrastructure.

However, Chinese commercial banks still act cautiously on granting loans and the loan growth would fall back following recent rebound, according to these analysts.

The credit rebound would have limited effect on economy if these loans were not pipelined into private sector.

Meanwhile, the capital supply keeps abundant in banking system, which is set to shore up a bull market, also according to the analysts.

China's bond market weathered an abrupt correction following 4-month bullish movement at the 2009 beginning. (XBW)

CSRC mulls reform of IPO system

BEIJING – China Securities Regulatory Commission (CSRC), the securities regulator, has been mulling over the adjustment of the current IPO system and expects to put it in place in near future, Shanghai Securities News quoted an insider as saying.

At the recently concluded annual working meeting of CSRC, Shang Fulin, chairman of the commission, said China would reform the IPO system based on market orientation and improve its pricing and underwriting mechanism.

It is learned that CSRC has consulted with institutional investors on the current securities issuance system, focusing on price inquiry, allotment of new shares, issuance of restricted shares and review of IPO plans.

China has suspended the approval of IPO since September 2008 due to sluggish stock market. (XBW)

Privately offered funds perform well in 2008

BEIJING – Privately offered funds posted good investment returns in 2008 with six reaping positive return amid Shanghai stock composite index fell almost 70 percent.

This is disclosed at the Award Ceremony for the Best-performing Privately Offered Funds in 2008 held On January 15 by Sinolink Securities Co., Ltd.

Privately offered funds have become one of the major institutional investors focusing on domestic and overseas capital market, said Lei Bo, Chairman of Sinolink Securities Co., Ltd, adding that Sinolink has been studying on this aspect for two years and like to shoulder the responsibility of upgrading the status of Privately offered funds.

Jin Yanshi, chief economist of Sinolink Securities Co., Ltd, held that privately offered funds have advantages compared with public offered funds. They can adjust their funds position freely even with no position in equity according to their judgment to market.

Liu Jianhui, Vice President of Sinolink attributed the better than market performance of private placement funds in 2008 to the low position operation in January, March, June, August and October when stock market plunged very deep. The private placement funds strictly controlled risk without hedge tools.

Jin stressed that privately offered funds can break traditional investment model and create new business model. It is privately offered funds that continuously broke traditional investment model and set up multi-level capital market.

Jin encouraged the privately offered funds to strengthen self-discipline before they are accepted by the mainstream society.

Some private offered funds hope they can gain license from the government someday so that to widen their issue channels and expand investment size.

The privately offered funds developed rapidly in 2008 with over 100 established in the year

and over 98 percent of them made higher than market returns. No one knows how big they are exactly. Some people say it is 500 billion yuan and some say it is 800 billion yuan.

China Securities Regulatory Commission and other regulatory department proposed to implement the strategy of bringing the privately offered funds under the sunshine in 2007. (XBW)

Futures

Shanghai's fuel oil futures market to be depressed in 2009

BEIJING – Shanghai's fuel oil futures market maintains a bearish outlook this year due to the growing impact of downward international oil prices, insufficient demand and overstocking of fuel oil, and fuel tax reform.

Shanghai Futures Exchange (SHFE) witnessed the dramatic ups and downs in fuel oil futures prices like an inverted "V" shape last year. Prices of fuel oil futures contracts surged 59.1 percent to 5,600 yuan/ton (US$819) on record on July 22, and then plunged 64.3 percent to 2,000 yuan/ton (US$293) on November 28. The total loss reached 959 yuan/ton (US$140), or 27.2 percent, in 2008.

China's fuel oil market is being driven down by the steep drop in oil price in 2009 because the fuel oil imported for the country is priced on the basis of Mean of Platts Singapore (MOPS) and Singapore fuel oil prices are more than 90 percent relevant to the global oil prices.

Analysts predicted that the oil price would continue the downward trend in 2009 due to shrinking market demand and the staggering global recession.

The oil cartel announced a record production cut of 2.2 million barrels a day starting Jan 1, 2009, but not enough to turn the bearish sentiment around in the short term. That may come into effect in the second half of 2009.

Some dismal economic news from China suggested that the decline power generation and depressed petrochemical industry would shrink the demand of fuel oil and contribute to the sluggish fuel oil market.

According to the National Bureau of Statistics, power industry is the largest consumer of fuel oil, accounting for 32 percent of the total consumption, and petrochemical industry takes the second place with 22 percent.

It's really stunning that China's power generation declined 9.6 percent in November 2008 due to enterprise production cut and suspension.

According to China Petroleum and Chemical Industry Association, production of petrochemical industry also dipped 1.5 percent to 259.99 billion yuan (US$38 billion) in November in comparison with the same period of previous year, dropping by 32 percent, much bigger than other industries, due to curbing demand at home and abroad.

What's more, the determination of the Chinese government to explore alternative energy resources for the sake of environmental protection also added to pessimism that China's fuel oil

consumption. The import is expected to drop.

Another critical factor will be the overstocking of fuel oil, only accelerating the downward journey of the price. By the end of December 2008, first-class fuel oil inventories in Huangpu, Guangdong province had piled up to 500,000 tons, the highest level since May 2008.

For fear of cost increases, fuel oil importers made efforts to expand their inventories before January 1, 2009 when fuel tax started to be levied. Fuel oil handling at Huangpu seaport last December soared to over 1.2 million tons, touching the peak of 2008.

However, the low inventory turnover reminded the market that fuel oil demand is still deteriorating.

The fuel oil market is also influenced by refined oil prices, seeing that many Chinese refineries use fuel oil to produce refined oil for the shortage of crude oil. Recent economic data show concerns that the refineries will curb the demand as refined oil prices plunge.

The state issued a notice of price adjustment to address its domestic pricing system of refined oil on December 19, 2008, with ex-factory price of gas down to 5,580 yuan/ton (US$816) from 6480 yuan/ton (US$948) and 4970 yuan/ton (US$727) from 6,070 yuan/ton (US$888) for diesel.

The tax hike of gasoline, diesel and fuel oil will keep fuel oil price pretty suppressed. According to the State Administration of Taxation, consumption tax on gasoline and diesel will rise by 0.8 yuan/liter (US 12 cents) and 0.7 yuan/liter (US 10 cents), respectively. Tax on other fuels will rise by a similar amount.

According to Xinhua calculation, consumption tax on fuel oil included in price will surge to over 800 yuan/ton (US$117) from 100 yuan/ton (US$15) after adjustment, and eat into the earnings of refineries gained by the tumble fuel oil price.

Under these conditions, any price rally for fuel oil appears increasing unlikely. Bears will rule the fuel oil market in the long term. ($1=6.8362 yuan) (XBW)

China likely to launch steel products futures trading around March

BEIJING – China is likely to launch steel products futures trading this March on the Shanghai Futures Exchange, with linear steel and threaded steel to be the first futures varieties, according to an insider.

The introduction of steels futures will help enterprises prevent price risks through hedging and is helpful to restructuring of the domestic steel industry.

Also, it will help change China's passive status in international iron ore negotiations. China may gradually gain some pricing power on the international steel market.

The source also said futures products of major building materials such as linear steel and threaded steel surely would come out earlier than rice futures. (XBW)

Coal & Power

NDRC likely to mediate contracted coal price dispute

BEIJING – The National Development and Reform Commission (NDRC) of China is considering to coordinate the contracted coal price as some coal enterprises refused to provide power coal to power plants.

China's five power giants have been trying by all means to get NDRC involved in the contracted coal price negotiation despite of the emphasis of NDRC on free talk between coal and power enterprises.

However, after the negotiation between coal and power enterprises came to a deadlock and power plants are facing power coal shortage because of decreasing coal inventory, which would affect the normal social power consumption, NDRC probably will interfere to settle the problem.

Since the price divergence between coal and power enterprises is about 100 yuan per ton, the result of the interference of NDRC is expected to be 50 yuan cut on both sides.

It is learned that the Price Bureau of NDRC recently asked for advice from the State Electricity Council on solution for coal-power conflict.

Analysts pointed out that power plant production suspension, the worst result of the coal-power conflict, is expected to happen at the beginning of the Spring Festival if power plants do not buy power coal from the market.

In fact, coal and power enterprises still hold tough attitude toward each other.

An insider from a power group noted that the five power giants probably might not generate electricity if they suffer further loss in 2009.

On the other side, a coal group refused to provide power coal for the 7 power plants of Huaneng Group in Northeast China. (XBW)

Local development and reform commissions fail in coordinating contracted coal price

BEIJING – China's local price regulators, or the local Development and Reform Commissions, in Henan, Heilongjiang, Guizhou and Hunan provinces have failed in coordinating the contractual power coal price between power plants and coal suppliers. Since China's five power giants refused to accept the coordinating price, power coal inventory at power plants has kept decreasing, according to an official with the Development and Reform Commission of Henan province.

It is learned that the general idea in coordination of local governments is to suggest coal and power enterprises trade at temporary coal prices, which is a little higher than the annual contractual coal price at the beginning of 2008.

However, power enterprises are afraid that the temporary price would become the long-term

contractual price and thus turned down the coordination scheme.

An insider with the power system disclosed that according to the coordination scheme, power plants have to give coal enterprises a certain amount of advance payment, but most of them could not spare the money because of great loss in 2008.

The advance payment for coal price is expected to be 50-100 yuan per ton higher than the contractual coal price.

By far, coal and power enterprises haven't made material progress in their coal price negotiations.

The National Development and Reform Commission is still on the fence of contractual coal price negotiation between coal and power enterprises, but is expected to stand out when power enterprises incur problems of supply shortage of power coal, said Wang Shuai, chief analyst with Orient Securities. (XBW)

China's power plants forecast profit plunge on higher coal price

BEIJING -- China's power producers are expected to record a 50 percent to 60 percent drop in net profit --or even losses -- compared with the previous year due to soaring coal prices, according to statements to the Shanghai and Shenzhen stock exchange markets over the weekend and on January 19.

SDIC Huajing Power said its 2008 net profit fell more than 60 percent. That was compared with the 550 million yuan (80.48 million U.S. dollars) net profit in 2007 with earnings per share at 0.63 yuan, according to its statement to the Shanghai Stock Exchange Market.

Huangneng Power International, said the company would be expected to post losses for 2008, but didn't disclose a specific figure.

Its net profit in 2007 hit 5.997 billion yuan, with earnings per share at 0.50 yuan.

Guangdong Shaoneng Group forecast its losses at 60 million yuan to 80 billion yuan last year, with losses per share at 0.065 yuan to 0.086 yuan, in its statement to the smaller Shenzhen Stock Exchange Market. The company's net profit totaled 90.91 million yuan in 2007.

According to their statements, Guangdong Shaoneng attributed their ugly results to the capped electricity price and coal price hikes, noting the country's move to raise on-grid power prices twice failed to prop up profits.

For example, the price of steam coal at Qinghuangdao Port of Hebei Province in north China stood at 650 yuan per tonne in May, and rose to around 1,050 yuan per tonne in July. It dropped to around 630 yuan per tonne in November.

China raised the on-grid power price by 0.017 yuan per kWh in June and 0.02 yuan kWh in August to around 0.3 yuan per kWh on average to offset rising costs in power plants. But retail household power prices were capped amid concerns of a higher inflation.

The country's five largest power generators, including China Huaneng Group, China Datang Corp. and China Guodian Corp., posted combined losses of 26.836 billion yuan in the toughest first ten months because of the gap between the steep coal prices and the state-set electricity prices.

China's coal prices declined since August 2008 and inventory climbed, which eased the pressure of power companies, analysts said.

Wang Zejun, power industry analyst with Beijing-based Huarong Securities, said higher coal prices were the main reason for slacking performance. Decreased demand also pared profits for power producers.

He said as coal prices continued to fall, the whole power industry would be expected to reverse the slump this year and gain 40 billion yuan to 13 billion yuan by the year end. (XBW)

SASAC to inject 10 bln yuan capital in power plants, grids, report

SHANGHAI – China's State-owned Assets Supervision and Administration Commission will inject more than 10 billion yuan of capital into the country's five leading power producers and two power grid corporations, China Business reported.

The governmental capital injection is expected to reach the business accounts of the enterprises soon, which is mainly to make up for the loss of the power enterprises in 2008 resulted from natural disasters, coal price hikes and caps on electricity price, according to the report.

The five power giants to receive the capital include China Huaneng Group, China Datang Corp., China Guodian Corp., China Huadian Corp. and China Power Investment Corp. And the two power grids are State Grid Corp. and China Southern Grid Co.

It is learned that the capital will be injected directly into the parent companies rather than the listed units of the power groups. (XBW)

China to kick off three UHV AC transmission projects in 2009

BEIJING – China will kick off the construction of three ultra high voltage alternating current (UHV AC) transmission projects in 2009, according to the State Grid.

The three projects are respectively transmission lines from Huainan to Shanghai, from Ximeng to Shanhai and from Shaanbei to Changsha.

According to the plan of the State Grid, the investment in UHV power grids will amount to 83 billion yuan in 2009 and 2010, including 57 billion yuan in UHV AC transmission lines and 26 billion yuan in UHV directing current (DC) transmission lines.

By the beginning of the country's 12th Five-Year Program period (2011-2015), China is expected to build up a backbone UHV power grid with two north-south and two east-west transmission lines.

So far, China's first ultra high voltage transmission line linking Shanxi province with Jingmen City in Hubei province via Nanyang in Henan province has gone into formal operation on Jan. 16.

Besides, the State Grid will step up the construction of the Xiangjiaba-Shanghai and Jinping-Nanjing UHV DC transmission lines.

Statistics from State Grid showed that the operating revenue of the company reached 1,155.6 billion yuan in 2008 but its profit decreased by nearly 80 percent on year to 9.66 billion yuan on account of natural disasters and electricity price adjustment. (XBW)

Chinese Academy of Sciences launches action plan on solar energy

BEIJING – China's to top research institute Chinese Academy of Sciences (CAS) recently kicked off one action plan on the promotion of solar energy with an aim of making solar energy one of important sources by 2050.

This action plan will be carried out in three phases, that is, distributed utilization by 2015, alternative utilization by 2025 and large-scale utilization by 2035, respectively.

This action plan aims to form value chain on technological innovation including basic studies, application studies and market research.

It's learnt that CAS will join forces with other domestic institutions, striving for making breakthroughs in new theories, methodologies, materials and processes concerning photovoltaic, thermal PV, photochemical and photo biological. (XBW)

Oil, Gas & Petrochemicals

China mulls on stimulus package for oil and petrochemical industry

BEIJING – China is likely to unveil its stimulus package for oil and petrochemical industry after upcoming traditional Lunar New Year, which celebrates on January 26, 2009, according to China Petroleum and Chemical Industry Association (CPCIA).

Sun Weishan, vice secretary-general of CPCIA, said, "The draft of this stimulus package hasn't been completed or examined by expert panels and it will be submitted to the State Council for approval later."

It's originally planned to roll out the stimulus plan before the Lunar New Year, according to Sun.

Still, it will be hard to unfold the stimulus package in accordance with previous schedule due to the variety and complexity of national oil and petrochemical industry.

Sun declined to deliberate specific economic and policy support within the comprehensive plan and stressed that the plan would be released soon.

It's expected that incentives will go to oil refining, farm chemical, high-end chemical and other sectors.

Earlier, China issued a stimulus package for iron and steel industry and automobile industry with another six stimulus packages to be released. (XBW)

China may update oil and fertilizer reserve system soon, report

BEIJING – China is brewing plans to update its systems for managing state petroleum reserves (SPR) and fertilizer reserves, Xinhua-run Shanghai Securities News quoted industrial sources as saying.

An unnamed source was quoted as saying that China has completed layout of its second batch of SPR that is designed to have a storage capacity of 26.80 million cubic meters, but the source didn't reveal other details.

"Besides SPR, commercial oil storage tanks and private-run tanks will be encouraged by the government to increase their oil storage," said the source.

China's commercial fertilizer reserves system, which fails to take effect in 2008 due to cost hike, may in the new year see a reform in which state fertilizer reserves may be created, according to the source.

The export rebate on petrochemical products may also return to the level before July 2007, said the source.

China is mulling a stimulus plan for petrochemical industry that is badly marred in 2008 amid the global financial crisis. The plan may involve China's second batch of strategic oil reserves. (XBW)

China 08' dependence on crude imports rises 2 ppts to 48.68 pct

BEIJING – Statistics from the National Bureau of Statistics and Chinese Customs show China's 08' dependence on crude imports amounted to 48.68 pct, two percentage points higher than that in 2007.

The growth rate of import dependence, however, presents a slowdown compared to the 2006-2007 period when it hit 3.01 percentage points, partly because China's demand in H2'08 waned as a result of the global financial crisis.

China's crude oil output in 2008 edged up 2.3 percent to 189.73 million tons, a faster growth than the y-o-y growth of 1.6 percent in 2007, while the 08' imports rose by 9.6 percent to 180 million ton, 2.8 percentage points lower than one year earlier period, indicating China is making efforts to lessen its dependence on imported oil.

Market analysts, however, still believe China, the world's second largest consumer, would need more oil in the future for powering its economy, though its demand weakens a bit currently amid the global financial crisis.

Market predicts that China's dependence on oil imports would likely reach 50 percent by 2010 and 60 percent by 2020.

Table China's crude dependence from 2006 to 2008 (unit: mln tons)

Period	Output	Imports	Dependence
Jan. –Dec. 2006	183.717	145.180	43.04 pct
Jan. – Dec. 2007	186.657	163.175	46.05 pct
Jan. –Dec. 2008	189.73	180.00	48.46 pct

(XBW)

Iron & Steel

Analysis: China's steel industry benefits from stimulus, support plan

BEIJING -- Excess capacity, low industrial concentration and a lack of access to natural resources have long plagued China's steel sector. These problems have been exacerbated by the impact of the global financial and economic crisis.

When China's State Council, or Cabinet, approved a "rejuvenation plan" January 14 to support the troubled industry, the immediate aim was to deal with the effects of the crisis. However, analysts said, it could also ease the industry's long-term structural problems.

Since the plan was announced, construction steel prices have risen about 60 yuan (8.78 U.S. dollars) to about 3,650 yuan per ton in Beijing and Tianjin, according to Mysteel, a steel information service company.

Prices had been rising since the government's 4 trillion yuan economic stimulus package was announced in November.

From Jan. 14, when the industry package was announced after the market closed, and January 19, the Shanghai Composite Index rose 3 percent. Meanwhile, shares in the biggest steel producer, Baosteel, were up 2.5 percent while the No. 2 producer, Angang Steel, saw its stock rise 3.6 percent.

Chu Xueliang, an analyst with China Jianyin Investment Securities, said the support plans would help solve the persistent problems of excess capacity, low industrial concentration and a lack of raw materials.

FIRST, CUT CAPACITY

Analyst Rong Gang, of Langesteel, a steel information service, said China would consume about 500 million metric tons of steel, assuming the economy grows 8 percent this year. Last year's consumption was estimated at 451 million metric tons.

But capacity exceeded 650 million metric tons at the end of 2008, meaning producers were making too much steel even before the full impact of the crisis was felt.

Analysts believe the global crisis and its impact on China have yet to run their full course, and demand abroad for China's steel products remains weak.

They fear that even small signs of price recovery will prompt shuttered factories to resume production, which would exacerbate overcapacity and weaken prices again.

THEN, RESTRUCTURE

Low industrial concentration is another problem. China's steel sector is big but not strong.

Based on 2007 figures, Chu says, China's top 10 steel producers accounted for just 36.8 percent of the nation's total. The top five producers turned out about 20 percent.

By comparison, according to the International Iron and Steel Institute, the world's single largest producer, Luxembourg-based ArcelorMittal, produced 10 percent of the world's steel in 2006.

With more than 700 companies, many with extremely low output, China is the world's leading steel producer. According to the World Steel Association, in 2007 (the most recent year for which figures are available), China produced almost four times as much as the second-largest producer, Japan, and almost five times as much as the No. 3 producer, the United States.

China accounted for more than one third of 2007 global production.

RAW MATERIAL REMAINS PROBLEM

Something largely beyond China's control is its need for imported raw materials, such as iron ore. The only market power it has in this area is the power to negotiate with suppliers.

Leading steel companies such as Baosteel and Wuhan Iron and Steel each import about 70 percent of their iron ore. However, the huge number of small producers complicates negotiations with iron ore suppliers such as Australia, because the industry doesn't negotiate as a bloc.

NEW SUPPORT PACKAGE

The State Council announced support programs on January 14 for the vehicle and steel sectors, two of the many industries for which the government is expected to announce specific support packages.

Chu said the steel industry plan includes eliminating obsolete capacity, speeding up innovation, promoting alliances and mergers and cutting export tariffs.

Regulations will favor larger, more efficient blast furnaces with a capacity of at least 1,000 cubic meters of ore. Those with capacities under 400 cubic meters should be closed.

Chu says about 100 million tons of obsolete capacity could be closed by this method, and he expects to see the impact show by 2010.

The government will subsidize loans of about 15 billion yuan to encourage technological upgrading and product rationalization to better meet demand.

Chu predicts China will eventually have six steel giants, each with an annual output exceeding 200 million tons as the support programs give companies a great opportunity to merge with or acquire other companies, which would increase industrial concentration.

Export tariffs on 67 steel products were scrapped Dec. 1 to ease pressure on exporters, according to the China Iron and Steel Association (CISA).

But Chu says industrialists are still hoping for further tax cuts, rebates or exemptions, and it is likely that some of these steps will be taken.

A UN report in December forecast the world economy would only grow 1 percent in 2009, 1.5 percentage points less than in 2008.

A slower global economy would mean reduced demand for steel -- not just in raw form, but also in motor vehicles and household appliances.

Faced with these multiple challenges, the CISA says steel producers must match production with demand and avoid below-cost exports. (XBW)

Nonferrous Metals

Individuals to have access to trade of Au T+D products

BEIJING – Following the opening of Au99.95 to individual traders, Shanghai Gold Exchange (SGE) will also make the trade of Au T+D available for individuals, according to the rules on deferred delivery and payment products released by SGE last weekend.

The rules provide that members of SGE can accept account applications from legal entities as well as individual investors.

Individuals are required to underwrite the clauses specified in Statements of Risks Incurred from Deferred Delivery and Payment Trade before participating T+D transactions.

Members of SGE, on the other hand, should enter into agency contracts with the individuals that open the accounts and apply for trading codes on behalf of them.

Currently, the timetable and details on individual trade of Au T+D products are still not ready. However, as a product that leverages margins, it has strong appeal to investors.

It is learned that some domestic banks have started system testing to prepare for the launch of the business.

Compared with gold futures, Au T+D products enjoy the advantage of night trading, from 20:50 to 2:30 (Beijing Time), during which the global gold market is most active, and therefore provide more trading opportunities and ward investors from overnight risks.

However, the products will not squeeze the market of gold futures in the short term, said a manager of a Shanghai-based futures company.

The open of deferred payment products to individuals will be conducive to the maturity of China's gold market, said analysts.

It will also meet individuals' demand for more access to the gold market amid uncertain economic conditions. (XBW)

SGE adjusts trading margins against risks during Chinese New Year festival

BEIJING – Shanghai Gold Exchange (SGE) announced on January 19 to adjust the trading margin ratios for Au (T+D), Au (T+N1), Au (T+N2) and Ag (T+D) contracts to guard against possible volatility of gold and silver prices on international market during the traditional Chinese New Year Festival in the last week this month.

The trading margin ratios for the above contracts will be raised from 10 percent to 13 percent at settlement on January 22, and their limit up/down and default penalty ratio adjusted to 10 percent and 11 percent, respectively, on January 23 (Friday).

If February 2 (Monday) doesn't see daily limit up/down, trading margin ratios of these contracts will resume to 10 percent on that day, and to 8 percent for the next day with limit

up/down of 7 percent.

At daily settlement on January 22, the trading margin for Au (T+D), Au (T+N1), Au (T+N2) and Ag (T+D) contracts will be recalculated in terms of the adjusted ratio. (XBW)

Aluminum prices to fluctuate below cost lines in 2009, insider

BEIJING – Aluminum prices on Chinese market will fluctuate below the cost lines on oversupply, predicted Wen Xianjun, vice chairman of China Nonferrous Metals Association (CNMA).

Wen also said CNMA is striving to have power supplied directly by power plants, rather than power grids, in several pilot aluminum enterprises and then spread it throughout the whole industry.

Wen estimated Chinese production capacity of alumina may have increased 21.43 percent on year to 34 million tons by the end of 2008, and the annual total output may be around 22.72 million tons.

By now, China has cut about 9.6 million tons of alumina production, said Wen.

He also estimated Chinese production capacity of electrolytic aluminum may have increased 16.8 percent on year to 18 million tons in 2008, and the annual total output may be 13.25 million tons or so.

China's electrolytic aluminum output has seen a decrease month by month since September 2008. By now, the whole industry has cut production of 3.5 million tons.

Wen noted that Chinese aluminum prices generally depend on the relationship between demand and supply as well as their production costs.

Power normally accounts for 40 percent of the total costs for producing electrolytic aluminum in China, 15 percentage points higher than the global average, according to Wen, who emphasized the necessity of direct power supply for aluminum enterprises.(XBW)

China Dec. copper output up 3 pct on year to 304,000 t, NBS

BEIJING – China's copper output reached 304,000 tons in December last year, up 3 percent year on year, with the growth rate down 14 percentage points, according to the latest data release by National Bureau of Statistics (NBS).

The copper output in November fell by 2.3 percent year on year.

NBS said that China's copper output amounted to 3.71 million tons in 2008, up on year 10 percent, compared to the growth rate of 18 percent in 2007.

Some analysts noted that the copper market seemed to be on the mend.

China's largest copper refiner, Jiangxi Copper Co. (600362.SH; 0358.HK), has predicted that copper consumption will increase by 2 percent this year, which is expected to give some confidence to the market.

Wang Chiwei, executive director of Jiangxi Copper, earlier said that the company was optimistic about the copper market's outlook, and believed copper to become a popular investment variety once the economic situation gets better. (XBW)

China 2009 refined copper consumption estimated to grow by 2 pct, insider

BEIJING – China's consumption of refined copper will grow by 2 percent only in 2009, due to soft demand on domestic household market.

The forecast is made by Wang Chiwei, a deputy manager of China's top copper producer Jiangxi Copper Group, parent of Jiangxi Copper Co., Ltd. (600362.SH).

Although the government's economic stimulus package will stimulate wire and cable producers to add demand for copper products, producers of air-conditioners and refrigerators will cut demand for copper pipes and bars greatly, said Wang.

Wang estimated Chinese copper consumption in 2008 to increase 4 percent on year to 4.96 million tons, output of copper mines to increase 8.4 percent on year to 920,000 tons, and output of refined copper to grow 6.7 percent to 3.68 million tons. (XBW)

Automotive Industry

China auto industry expecting 8-10 pct growth in 2009

BEIJING -- China's recent auto industry boosting plan launched by the State Council is expected to stimulate auto consumption in short term and push forward industrial upgrade in the long run.

In accordance with a plan jointly drafted by the National Development and Reform Commission (NDRC) and Ministry of Industry and Information Technology (MIIT), China's auto industry is expected to maintain continuous growth in the coming three years, hopefully eight to ten percent in 2009, ten to 12 percent in 2010, and 12 to 15 percent in 2011, according to an industrial insider.

The plan mainly focuses on auto market development, industry reorganization, technological innovation, new energy vehicle strategy and homegrown brand development. Under the plan, the government will lower the purchase tax on vehicles of 1.6L or below from 10 percent to 5 percent from Jan. 20 to Dec. 31 in a bid to stimulate sales.

Besides, the government will provide one-off subsidy, amounting to a total of 5 billion yuan (730 million U.S. dollars), to farmers for upgrading three-wheeled agrimotors and low-speed trucks to mini-trucks or purchasing new minivans below 1.3L from March 1 to Dec. 31.

Among the supportive measures included in the plan, the cut of vehicle purchase tax and subsidy on old car rejection can boost auto demand by around 300,000 units in 2009, accounting for three percent of China's total, according to Chen Guangming, an expert from the China Jianyin

Investment Securities.

In the long run, the plan will create chances of auto industrial upgrade, merger and acquisition and reorganization, and development of new energy vehicles.

Xu Changming, director of Economic Consultancy Center of the State Information Center, said the plan shows government determination to support the development of auto industry and will help restore market confidence.

According to auto expert Guo Junfeng, the key of the plan is to encourage industrial upgrade and enterprises' merger, acquisition and reorganization. With market downturn, auto enterprises will face increasingly fierce competitions, and industrial restructuring will speed up.It is estimated that the plan will involve 80 to 120 billion yuan.

The country is aiming at guiding but not rescuing the market, as the support is mainly directed to small-displacement vehicles, new energy vehicles and sales in rural areas, according to Jin Yongsheng, a manager of Sinotrust Management Consulting Ltd.

Su Hui, general manager of Beijing Yayuncun auto market, called for a combination of multiple measures to achieve the 8-10 percent growth in 2009. (XBW)

Analysis: China's new auto policy to fuel new energy vehicle industrialization

BEIJING – China's boosting plan for auto industry launched by the State Council on January 14 would accelerate the industrialization of new energy vehicles, industrial experts said.

Under the plan, China decided to adopt a new energy vehicle strategy and push forward industrialization of electric cars and related key parts.

The central government will launch a special fund amounting to 10 billion yuan in the coming three years to support automakers' technological innovation and their development of new energy vehicles and related parts.

This will help China to gain its own advantage in the world competition in the field of new energy vehicles, according to industry insiders.

-- New energy vehicle, new growth point

New energy vehicle has become a new growth point in the global auto market. All the major auto-producing countries are taking the development of new energy vehicles as a strategic step to increase their competitiveness and maintain a sustainable development amid concerns about the increasingly serious energy situation in the world. In the United States, hybrid car sales managed to grow despite the sluggish auto market.

According to a McKinsey research report, China has the potential and possibility to lead new energy car development in the world with its cost and market advantages, although it lags far behind the world level in traditional auto sector.

-- China's achievements in new energy vehicle technology

China has invested approximately two billion yuan in new energy vehicle development and has made big achievements in the past ten years. It has now basically mastered related technologies, built a power technology platform of energy-saving and new energy vehicles,

established a complete key parts production system, developed a series of new energy vehicle products and formed small-batch production capacity.

BYD Auto, the famous Chinese homegrown automaker, launched its F3DM hybrid electric car equipped with dual hybrid power system in December 2008, and became one the world's three companies mastering this technology together with General Motors and Toyota.

-- China's new energy vehicle sees rosy picture

Wan Gang, minister of Science and Technology, said that China's auto industry is facing big challenges, but enterprises should take the chance to adjust product mix, and speed up technological innovation and product upgrade.

New energy vehicle sales in China have been sluggish because of high costs. The prices of new energy vehicles produced by Chinese automakers including Chery, Geely, ChangAn and BYD are lower than that of foreign ones, but still are 20 percent higher than traditional car prices.

According to Zhang Jinhua, deputy director of China Automotive Technology & Research Center, government support and subsidy are very essential for mass production of new energy vehicles. The supportive measures to new energy vehicles included in the boosting plan will help accelerate its industrialization. (XBW)

IT & Telecom

China to expand rural household appliance subsidy policy nationwide this year

BEIJING -- China's coverage of rural household appliance subsidy policy will be expanded across the country this year, said Yao Jian, spokesman of the Ministry of Commerce (MOC), on January 15.

Coverage of the policy has been extended from incipient four pilot regions, namely Shandong, Henan, Sichuang provinces and Qingdao city, to 14 provinces and cities of Inner Mongolia Autonomous Region, Guangxi Zhuang Autonomous Region, Liaoning, Heilongjiang, Anhui, Hubei, Hunan, Shaanxi provinces, Dalian city, and Chongqing Municipality on December 1, 2008, and will be widened nationwide starting from February 1 this year.

Meanwhile, four more products, including motorcycle, PC, water heater, and air conditioner, were involved in the subsidy list, and local governments could choose two of them according to their concrete demand.

The task of MOC are selecting products and manufacturers strictly so as to ensure product quality and security, and making sure the subsidies could come in rural residents' hands directly, said Yao.

The Chinese government promised to grant a 13 percent subsidy to four appliances, including

color TV, refrigerator, washing machine and mobile phone, for farmers', and set up maximum subsidy limits of 2,000 yuan for color TV set, 2,500 yuan for fridge, 2,000 yuan for washing machine, and 1,000 yuan for cell phone.

Fu Ziying, Vice-Minister of Commerce, said previously that the household electrical appliance subsidy policy could help stimulating rural consumption for 920 billion yuan in total, and driving up annual retail sales growth of social consumer goods by 2.5 percentage points in rural areas.

Actually, Yao revealed that, MOFCOM estimated the annual retail sales growth of social consumer goods would exceed 21 percent.

In the January-November period of 2008, retail sales of China's social consumer goods hit 9.78 trillion yuan, up 21.9 percent and 5.5 percentage points on year, a fresh high since 1997.

Meanwhile, the growth difference of consumption and investment was 4.9 percentage points, down 4.1 percentage points from 2007; while the effective growth of consumption in rural regions saw a seven-month consecutive growth and reached 18.3 percent in November 2008, up 8.2 percentage points from the same period of 2007. (XBW)

China to invest RMB 150 bln on 3G technology in 2009

BEIJING – China's three telecom operators have announced their 3G investment plans for 2009 in succession, but industrial analysts reckoned that they are hardly to gain profits in one or two years.

The carriers lost no time in network upgrading as soon as they obtained 3G licenses so as to take the preemptive opportunities of 3G business, and the competition on China's telecom market became more intensive.

Wang Jianzhou, president of China Mobile (0941.HK; CHL.NYSE), lately requested his staff to make efforts to complete the second phase of TD-SCDMA (TD) construction, which involves 28 cities in advance, and start the bids for the third phase of network construction as soon as possible.

According to China Mobile's development scheme, it plans to invest 58.8 billion yuan to build 60,000 new TD base stations, adding the total to over 80,000; the network will cover 238 prefecture-level cities, accounting for more than 70 percent of the total of the country, with provinces and cities in East China fully mantled.

China Unicom's (0762.HK; CHU.NYSE) earmarked 60 billion yuan for 3G investment this year. Its president Chang Xiaobing lately revealed that the carrier would ensure the accessibility of its WCDMA network in 282 cities this year, with 55 cities ready in the first half of this year, and the total capital expenditure in 2009 and 2010 was estimated to be 100 billion yuan.

China Telecom (0728.HK; CHA.NYSE) planned a three-year investment of 80 billion yuan to upgrade and optimize existing networks.

In the meantime, the carriers are impatient to roll out their 3G business to obtain users.

China Telecom's Beijing branch will offer CDMA2000 services starting from February; and China Unicom plans to launch its WCDMA business and release the number segments, namely 185 and 186, somewhere around May 17.

However, according to Li Zhiwu, an analyst with BOCOM International, the introduction of

3G implies that the three carriers' network construction subsidies and operating fees will all increase, and affect their profits in the following two to three years, and risks for new business promotion are likely to last for 3-10 years.

Meanwhile, prices for their 2G business may also be affected, likely to lead to drop in profits. (XBW)

3G frequency resources distributed to carriers

BEIJING – China's Ministry of Industry and Information Technology (MIIT) has just allocated 3G frequencies to the top three telecom carriers, after the issuance of 3G licenses in early January.

China Mobile (0941.HK; CHL.NYSE), the 3G standard of which is based of TDD mode, gets 1880-1900 MHz and 2010-2025 MHz, altogether 35 MHz.

The 3G standards of China Unicom (0762.HK; 600050.SH; CHU.NYSE) and China Telecom (0728.HK; CHA.NYSE) are both FDD-based, and each of them was granted 30 MHz.

Chna Unicom will use 1940-1955 MHz and 2130-2145 MHz, and China Telecom, 1920-1935 MHz and 2110-2125 MHz.

Statistics show that 3G frequency resources auction value exceeded 100 billion US dollars in other countries, but China distributed the frequency resources to carriers, rather than launching public sale.

Instead of paying large amount of money to purchase the resources, carriers just have to pay some utilization fees, according to Chen Ruming, an official from MIIT.

Analysts believed that the distribution of 3G frequency shows the country's preferences to support the self-developed 3G technology TD-SCDMA, as China Mobile has five more MHz frequency resources than its two competitors, and its frequency sectors are lower as well, which means less power consumption.

Government official said that the allocation of 3G frequency resources was based on the current actual requirement of 3G business. Carriers are allowed to apply for more resources when they expand their business. (XBW)

China search engine operator revenue up

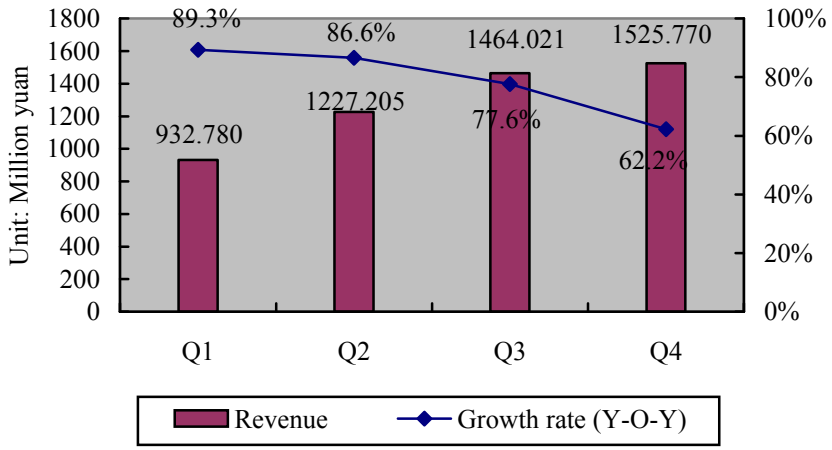
BEIJING – China's search engine operator revenue surged 61 percent year on year in the fourth quarter of 2008 to reach 1.53 billion yuan, excluding channel revenue, according to a report conducted by Analysys International.

In 2008, China's search engine operator revenue amounted to 5.15 billion, up 76.3 percent year on year.

Although gloomy macroeconomic environment exerted a negative impact on ads market, search engine marketing maintained steady progress and attracted advertisers with low cost and direct communication effects, according to the market researcher.

The following chart (Chart One) shows the market size in four quarters of 2008.

Chart One:
China's search engine operator revenue in 2008



In terms of market structure, Baidu (BIDU.NASDAQ), Google (China) and Yahoo! (China) stood as the top three operators, with their joint market share accounting for 95.8 percent of the total.

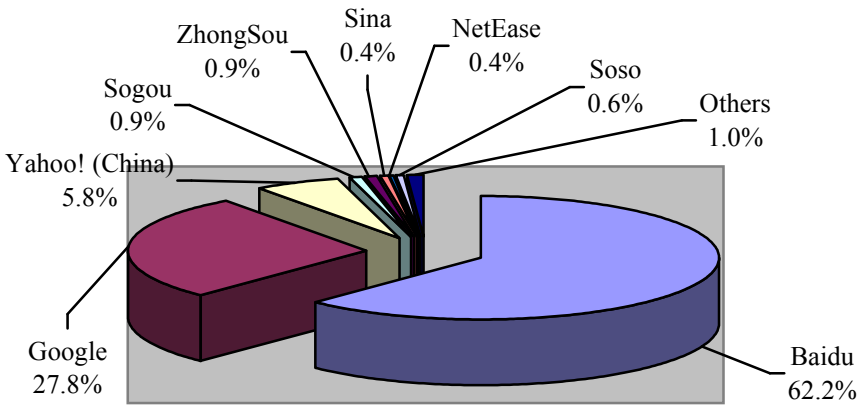
Baidu's market share rose from 59.3 percent in 2007 to 62.2 percent in 2008, and that of Google (China) went up 4.4 percentage points year on year to 27.8 percent.

Meanwhile, Yahoo! (China) market share shrank to 5.8 percent, down from the 11 percent in 2007.

Other search engine in general maintained stable on the market.

The following chart (Chart Two) shows the market shares of different search engine operators in China in 2008.

Chart Two:
Market shares of different search engine operators in China in 2008



(XBW)

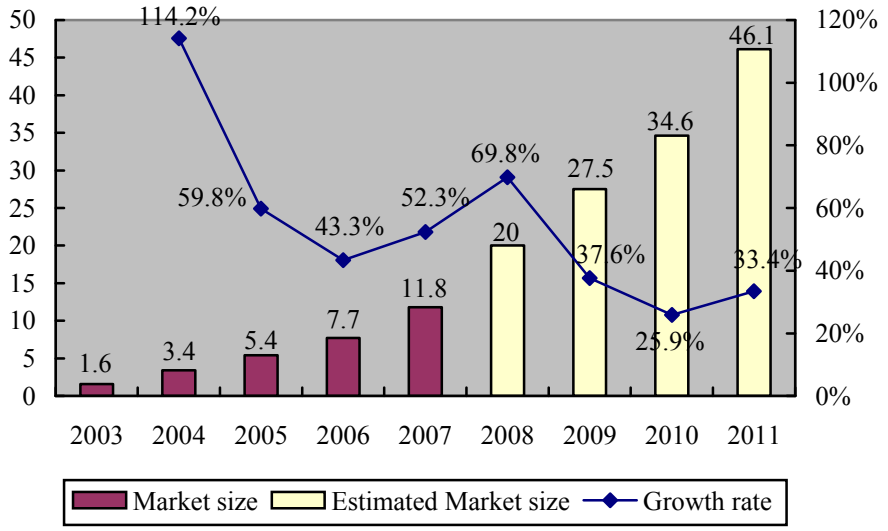
China online ads market to grow 37 pct in 2009: Analysys International

BEIJING – China's online advertisement investment is expected to grow 37 percent to 27.5 billion yuan in 2009, and the online ads operator market size is estimated to reach 16.3 billion yuan, according to Analysys International report.

The following chart shows the online ads market size from 2003 to 2007, and the estimated market size from 2008 to 2011.

China online ads market size in 2003-2011

Unit: bln yuan



According to Analysys International, current economic environment offers China's online ads market a good opportunity to display its advantages, when international enterprises pay more attention to China, domestic firms are trying to expand, and companies reinforce cost control.

With China's Internet prevalence rate increased to 22.6 percent, netizens' strong power of consumption attracts more advertisers for online ads market. Statistics show that 40 percent netizens are at the age ranging from 25 to 40, and more than 30 percent hold a college diploma or above.

Online media are highly innovated with strong interactivity, which allows online ads to target on audience more precisely and provide fascinated ads products. Besides, the timeliness of online information flow promises marketing activities with better communication effects.

In addition, online media provide low cost on advertising. The cost per 1,000 impressions (CPM) in online media is about 10 percent of that on TV. On the Internet, such competitive payment methods as cost per click (CPC) and cost per sale (CPS) are also available. (XBW)

Machine-building

Chin's stimulus plan for equipment manufacturing industry under discussion

BEIJING – Chinese officials and industrial specialists are gathering here to discuss and revise a stimulus plan for equipment manufacturing industry.

These officials and specialists from China's National Development and Reform Commission (NDRC) and Ministry of Industry and Information Technology (MIIT) and industrial experts will submit their plan to the State Council for examination and approval after the discussion.

An official to the discussion disclosed that the government would provide financial support to the research and development (R&D) of basic parts on construction machinery, and grant tax preference to enterprises for the purchase of high-end environmental-friendly equipment and Chinese-made equipment as well.

Earlier this week, MIIT held a seminar with equipment manufacturing association focusing on the support to industrial structure adjustment, technological innovation, enterprises' reorganization and merger and acquisition, purchase of homegrown equipments, and the research and development of basic parts.

The basic parts used by Chinese equipment manufacturers rely heavily on import from foreign suppliers, who take away around 70 percent profit from the industry. (XBW)

China mulls plan to boost shipbuilding industry

BEIJING – China's National Development and Reform Commission (NDRC) has initiated a plan with other related authorities to boost the stranded shipbuilding industry and will submit it to the Cabinet for approval, said an official with the Ministry of Industry and Information Technology (MIIT).

The plan, targeting the shipbuilding sector in the next three years, emphasizes enhanced credit support to shipbuilders and self innovation in ship building, said the official.

It also encourages the replacement of old ships with new ones so as to stimulate the demand, added he.

As for the call for setting up a special fund to back the shipbuilding industry, the official said work on it is still at the initial stage and the government will consider other financial means to back the industry.

In view of declining new orders and capital squeeze faced by ship yards, MIIT has made efforts to enhance communication between major shipbuilders and financial institutions so that banks could have more confidence in shipbuilding companies and keep giving them financial support through ways such as financial leasing and export buyer's credit, the official introduced.

China stands as the world's 3rd largest shipbuilding country, following the Republic of Korea

and Japan. The industry slipped into winter worldwide since September last year, with nearly no orders placed in December. (XBW)

Textile

China mulling package to support textile industry

BEIJING – China is mulling over a supportive package for its troubled textile industry, following the previously unveiled boosting package for auto and steel industry.

The Nation Development and Reform Commission (NDRC), China's top economic planner, has recently submitted a textile industry stimulus plan to the State Council for examination and approval.

The plan is first drafted by the China National Textile and Apparel Council (CNTAC) under authorization of NDRC, based on which, NDRC worked out the framework on fund allocation and specific supportive measures, according to Cao Xuejun, an official in charge of textiles from the Ministry of Industry and Information Technology who has taken part in the drafting of the plan.

Yang Jichao, deputy secretary general of CNTAC, said that CNTAC has suggested five general points in the plan, including encouraging industrial adjustment, independent research, technological transformation, energy-saving and emission reduction, and development of home-grown brands and marketing channels.

An industrial insider disclosed that the government would allocate a big sum of money to advantage enterprises in the form of discount loans.

The general goal of the plan is to maintain a stable textile production and sales and to increase employment, Yang said.

CNTAC said the support form will be a generalized system of preferences, leading to development of the whole industry.

Wang Qianjin, chief editor of webtextiles.com, reckoned raising export rebate rate and enlarging credit loans as the two most effective tools for the government to boost textile industry.

However, despite the two times of adjusting up the export rebate rate on textiles and garments last year, China has not seen signs of recovery of the industry. New supportive measures are expected.

Profits of large textile enterprises in China totaled 104.2 billion yuan in the first eleven months of 2008, down 1.77 percent, marking the first decline in the last ten years. Altogether 9,654 enterprises reported losses in the period, accounting for 20.44 percent of the total of the industry.

The supportive package is expected to be unveiled along with a light industry boosting plan, a CNTAC official added. (XBW)

China industrial textiles see chances in large-scale infrastructure construction

BEIJING – China's industrial textiles is expected to see a boost in demand, along with large-scale infrastructure construction stimulated by the four-trillion-yuan economic package, according to Sun Ruizhe, vice president of China National Textile and Apparel Council (CNTAC).

At present, industrial textiles only account for 15 percent of fiber consumption in China, in sharp comparison with 35 to 40 percent in developed countries such as the United States and Japan, Sun said.

The ratio of garments, household textiles and industrial textiles stands at 53 to 33 to 14 in 2007, which will change to 50 to 33 to 17 by 2010, according to the eleventh five-year plan of China's textile industry (2006-2010). Also included in the plan, the fiber consumption of industrial textiles is expected to reach 7.5 to eight million tons by 2010.

The construction of railways, roads and ports will provide great chances for development of geotextiles. Statistics show that China's output of geotechnical composite materials reached 138,000 tons in 2007, including 64,000 tons of knitted non-woven geotextiles.

Zhu Minru, chairman of China Nonwoven & Industrial Textiles Association (CNITA), said China would focus on development of non-woven geotextiles in the coming ten years in accordance with the eleventh five-year plan of China's textile industry.

Besides, medical textiles will also see great chances along with the development of medical industry under state supportive policy.

According to statistics released by CNITA, China's import of medical textiles hits four billion U.S. dollars every year. (XBW)

Agriculture

Drought affects 7.9 mln hectares of wheat farmland in China

BEIJING -- China's Ministry of Agriculture said on January 20 that lack of rainfall in major wheat-growing provinces has brought drought to 119 million mu (7.9 million hectares) of wheat farmland.

The figure was 100 million mu more than the same period last year.

Most of northern China suffered from lack of rain during this winter, and in some areas, the amount of rainfall is 70 to 90 percent less than average, said officials with the ministry.

More than half of the wheat farmland in Henan, Anhui and Shanxi provinces is suffering drought, said the official.

As drought harms crop's ability to weather the winter, the ministry has sent six expert teams

to help farmers cope, and local governments have also organized similar instruction groups.

Also in freak weather, 1,003 kilometers of the Yellow River become ice-locked by Jan. 19, and 200 people from 27 families in Hukou of Shanxi Province suffered the effects of flooding as ice blocked the river on the night of January 17, according to the State Flood Control and Drought Relief Headquarter. (XBW)

Pharmaceuticals

China passes new medical reform plan

BEIJING -- China's State Council, or Cabinet, passed a long awaited medical reform plan which promised to spend 850 billion yuan (123 billion U.S. dollars) by 2011 to provide universal medical service to the country's 1.3 billion population.

The plan was studied and passed at an executive meeting of the State Council chaired by Premier Wen Jiabao on January 21.

Medical reform has been deliberated by authorities since 2006.

Growing public criticism of soaring medical fees, a lack of access to affordable medical services, poor doctor-patient relationship and low medical insurance coverage compelled the government to launch the new round of reforms.

According to the reform plan, authorities would take measures within three years to provide basic medical security to all Chinese in urban and rural areas, improve the quality of medical services, and make medical services more accessible and affordable for ordinary people.

The meeting decided to take the following five measures by 2011:

-- Increase the amount of rural and urban population covered by the basic medical insurance system or the new rural cooperative medical system to at least 90 percent by 2011. Each person covered by the systems would receive an annual subsidy of 120 yuan from 2010.

-- Build a basic medicine system that includes a catalogue of necessary drugs produced and distributed under government control and supervision starting from this year. All medicine included would be covered by medical insurance, and a special administration for the system would be established.

-- Improve services of grassroots medical institutions, especially hospitals at county levels, township clinics or those in remote villages, and community health centers in less developed cities.

-- Gradually provide equal public health services in both rural and urban areas in the country.

-- Launch a pilot program starting from this year to reform public hospitals in terms of their administration, operation and supervision, in order to improve the quality of their services.

Government at all levels would invest 850 billion yuan by 2011 in order to carry out the five measures according to preliminary estimates.

The meeting said the five measures aimed to provide universal basic medical service to all Chinese citizens, and pave the road for further medical reforms.

The meeting also decided to publish a draft amendment to the country's regulation on the administration on travel agencies for public debate.

It also ratified a list of experts and scholars who would receive special government allowances. (XBW)

China provides free new drugs to AIDS patients

BEIJING -- China launched a program to provide new drugs to AIDS patients across the country, a senior health official said on January 19.

The Ministry of Health (MOH) has begun to distribute the second-line medicines - three anti-retroviral drugs among full-blown AIDS patients for free, said Hao Yang, deputy director of the ministry's disease control bureau.

The second-line regimen includes two new drugs, TDF and Kaletra - aswell as 3TC, which is also part of first-line drugs. All these medicines are imported and cost between 12,000 ($1,760) and 15,000
yuan a patient a year, reported China Daily on January 20.

The cost of second-line drugs increases sharply from the first line's- 5 out of 7 of which are made in the country and cost between 5,000and 8,000 yuan, the newspaper said.

"The new drugs offer new hope to patients who have not responded wellto the first-line treatment and developed drug resistance," Hao said.

The new free-drug campaign developed out of last year's clinical trial project in which 429 full-blown AIDS patients from Henan, Anhui and Hubei provinces were studied to test the efficacy of the "second-line" treatment.

"The scheme has already yielded results," said Zhang Fujie, a researcher with the National Center for AIDS and Sexually Transmitted Disease Control and Prevention.

During the clinical trial, the virus among 70 percent of the patients declined rapidly after they took the second-line drugs for six months. A rising number of people on first-line treatment are developing
resistance to drugs and switching to second-line treatment, he said. But the second-line treatment is not necessarily more effective than the first, Zhang said.

MOH figures show the government has provided free anti-retroviral treatment to 58,000 AIDS patients since 2003, according to the newspaper.

Thanks to the treatment, the mortality rate among AIDS patients dropped from 28.7 percent in 2002 to 5.8 percent in 2007, according to a survey of the National Center for AIDS and Sexually Transmitted Disease Control and Prevention. The study covered 37,305 patients receiving the treatment.

"The treatment is effective," Zhang said. "But its effect varies drastically among patients in different provinces."

Only nine of the more than 20 kinds of anti-AIDS drugs are available in the country, and whether a patient should get second-line treatment ought to be determined only through clinical test, Zhang said.
But clinical tests are still difficult to conduct in the country because indicators involve multiple factors and require special facilities and a lot of human resources, he said. "It's hard to conduct

clinical tests also because many AIDS patients don't follow doctor's advice ... reducing their effect dramatically."

What is more worrying, he said, is that "once the second-line drugs become ineffective we'll be left with no solution".(XBW)

Health minister warns challenge from bird flu human infection after third death

BEIJING -- China's Health Minister Chen Zhu admitted here on January 20 that the country faced a "grim" situation to prevent and control bird flu human infection.

A 16-year-old boy died of bird flu in central Hunan Province on the morning of January 20, the third death in China from the disease so far this year.

"It is the high season of human bird flu cases," Chen said at a meeting here.

He asked health departments across the country to double their efforts and well implement measures to prevent and control the disease.

Health departments will coordinate with the agriculture and commerce authorities to control bird flu outbreaks among fowls so as to prevent them from spreading to human, he said.

Hospitals will spare more resources to diagnose and treat human bird flu cases while health departments will tighten the monitoring of the epidemic.

"We will inform the public about the epidemic situation and the prevention work without delay," he said.

However, a bird flu expert denied a large-scale outbreak of human bird flu cases at the same meeting.

"The current cases are separate cases. There's no connection," said Shu Yuelong, vice director of virus control and prevention with the National Center for Disease Control and Prevention. "But these cases warned us of improving prevention and supervision over the epidemic, and ensuring early detection and diagnosis when new cases are found."

So far four human bird flu cases have been reported in Beijing and in three other provinces, with three fatalities.

The only living patient, a two-year-old girl in north China's Shanxi Province, was still in a critical condition.

"We remain alert to any changes in the pattern, but the cases so far conform with seasonal patterns we have seen in other years and in other countries," said the World Health Organization (WHO) China office in an email interview with Xinhua.

China reported eight cases and six deaths in the first quarter of 2006, one case and one death in the same time of 2007 and three cases and three deaths between January and March in 2008, according to the WHO China office.

The WHO has not changed its pandemic alert level, which remains at Phase 3, the email statement said. "This signifies that there has been no or no efficient human-to-human transmission of the virus."

The WHO suggested that it should be important to treat each case seriously and rule out any changes of the virus or in the transmission routes.

The WHO will continue to monitor the situation and stay in close contact with China's

Ministry of Health, the statement said, adding that it will provide technical assistance if requested by Chinese authorities. (XBW)

Real Estate

China levies unified premise tax on foreign firms and individuals as of Jan.1 2009

BEIJING – China starts to levy premise tax on foreign-funded companies and foreign individuals from January 1, 2009, which replaces the original urban premise tax, according to announcement released by China Finance Ministry on January 19.

It marks that China has unified the premise tax for domestic and foreign enterprises and individuals.

Before this, China had long pursued two sets of different premise tax systems, i.e., the premise tax was only levied on domestic-funded enterprises and Chinese individuals, while the urban premise tax was levied on foreign-funded companies and foreigners.(XBW)

Environmental Protection

Over 80 pct of China's sea areas suffer from pollution

BEIJING -- About 83 percent of China's sea areas were polluted to some extent, according to a report released on January 16 by the State Oceanic Administration (SOA).

The polluted areas, up from 78 percent the year before, were affected by eutrophication, a process in which water bodies receive excess nutrients that stimulate excessive plant growth such as algae and nuisance plants weeds.

It also indicated other problems, including lack of oxygen and severe reductions in water quality, fish and other animal populations.

Li Haiqing, a senior official with the SOA said the administration had called on all oceanic departments to strengthen monitoring and prevention of "red tides" and other algae blooms.

Pollutants were blamed for the cause of the red tides in which large amounts of algae kill sea life. These algae vary in color from green to brown, but are mostly red.

China saw 68 cases of red tides last year, fewer than the 82 cases in 2007. However, they contaminated a total of 13,738 square km of sea area, up 2,128 square km from the previous year.

Last June, algae invaded the eastern coastal city of Qingdao, which hosted sailing events during the 2008 Olympics, blocking proposed sailing routes and affecting preparations for the Games.

For a month, the city government mobilized soldiers and volunteers to clear more than 1 million tons of algae, and built barriers and fences to keep it out of the sailing venue. The algae was completely cleared on Aug. 1.

While some experts said it was a result of climate change and heavy rain, environmentalists believed the algae blooms were largely due to sewage and agricultural pollutant run-off.

According to the report, marine disasters resulted in 152 people dead or missing in China last year, with direct economic losses of 20.61 billion yuan (3.03 billion US dollars). The figure in 2007 was 8.84 billion yuan. (XBW)

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Notice to subscribers,

The next issue of Xinhua Business Weekly will be published two weeks later for the week-long Chinese New Year holiday. Thank you.