



Committee of 100

China News Brief

October 3, 2008

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10. Pandas Fed Chicken Soup in Central China Zoo

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1. China Could Be Dragged Down by Wall Street Crash

Bloomberg
Oct 03, 2008

Few questions confound economists more: What might tip China into the meltdown that so many have feared for so many years?

Possibilities include overheating, social instability, corruption, pollution, debt crises, war over Taiwan and a post- Olympics growth swoon. It's a perfectly rational expectation. No rapidly industrializing nation has ever avoided some kind of crisis, least of all upstarts in Asia.

The list rarely, if ever, included a Wall Street crash. And yet, financial troubles in the U.S. may be the catalyst that devastates the world's fourth-biggest economy.

This will sound like a reach to those viewing Asia's strengths. China, for example, is enjoying 10 percent growth as U.S. lawmakers argue over rescuing markets and averting a depression. With its \$1.8 trillion of reserves, China could bail out the U.S. without batting an eye.

Japan is returning to acquisition mode after its banks avoided the toxic debt devastating U.S. peers. Mitsubishi UFJ Financial Group Inc.'s \$9 billion investment in Morgan Stanley this week is a case in point. After years of lecturing Japan about its shaky banks, the U.S. is coming hat-in-hand to Tokyo.

Yet China's chances of avoiding the U.S. crisis are dwindling by the day.

“U.S. consumers are tapped out and they're going to stop buying Chinese exports,” says Simon Grose-Hodge, a strategist at LGT Group in Singapore. “There's no way China's domestic demand can take up that slack.”

Recession Risks

Adds Michael Pettis, a finance professor at Peking University in Beijing: “We should all hope the recession associated with the U.S. financial crisis is very, very mild.”

The odds of a mild U.S. slowdown are declining almost as fast as stock prices. Even with hundreds of billions of dollars worth of Wall Street bailouts, consumption decreases and big job cuts will probably intensify.

The slow drip, drip, drip nature of Wall Street's swoon should concern officials in Beijing. China's mercantilist model makes the most populous nation dangerously dependent on consumers in the biggest economy. Growth in Asia will experience quite a setback if the U.S. enters a prolonged period of weakness.

While a Japan-like “lost decade” isn't the best-case scenario, Americans aren't sitting on the kind of savings that Asians are. As U.S. growth slows, debt is reduced and households increase savings, exporters such as Hong Kong, South Korea and Thailand must look elsewhere for demand.

Little Help

Europe and Japan may be of little help. Japan is on the verge of a recession, while Europe is becoming increasingly vulnerable to events in the U.S. China will be hurt by all of the above, ridding Asia of a key source of stability.

Many say China's slowing from 10 percent growth to 8 percent isn't a disaster. Yet if a government relies on rising prosperity to conceal domestic challenges -- including the widening gap between rich and poor -- slowing growth is a major problem.

Nothing less than a drastic rebalancing will be required: More domestic consumption, a strengthening currency and greater investment in health care, pensions and education. Pulling that off quickly and with minimal disruption would be a feat like no other in economic history.

Anyone who believes China is set for smooth sailing as the U.S. sinks is likely to be as

wrong as those arguing a year ago that the subprime-loan crisis was containable.

Asia Decoupling

One of the key points here is the importance of Asia decoupling itself from the U.S. once and for all. It's easier said than done.

It's often pointed out that Asia is holding the cards. Were China to dump its \$519 billion of Treasuries, the U.S. would be in for a shock. So would China, as the fallout in the U.S. would drag on China's all-important export industries.

Stocks, too. Many Chinese are recession virgins -- they are far more used to booming than slowing growth. Equity investors are far more accustomed to double-digit gains than big drops in shares. It's an open question how this year's 58 percent plunge in Chinese shares affects sentiment.

There is reason to think Asia can stand its ground. The region's improvements since the 1997 crisis left banks stable, markets humming and currency reserves at comfortable levels. Turmoil in the U.S. is encouraging Asia to take steps to become more independent from bigger economies.

Nations such as China are succeeding by ignoring advice from officials in Washington. After years of being lectured to bolster its banks, China is watching as the financial system the U.S. espoused as optimal crumbles.

The reluctance of Asian banks to buy hard-to-value securities such as collateralized debt obligations left them in ``rock solid" financial shape, says Marc Faber, managing director of Marc Faber Ltd. in Hong Kong. Also, central banks have been taking steps to boost investor and consumer confidence.

If things get shakier, though, Asia could be dragged down with the U.S. economy. Amid unprecedented upheaval, it almost seems fitting that a risk few considered a year ago could be the one to undermine China.

2. China's Economy Sputters

Business Week

Oct 03, 2008

The property market is tanking, stocks are off 60%, and factory orders have fallen for three months in a row.

Hundreds of millions of Chinese look forward all year to the "Golden Week" holiday marking the country's Oct. 1 National Day. After the weeklong vacation ends next week,

the mood will be decidedly downbeat. As the rest of the world struggles with the financial crisis, China has its fair share of depressing news (BusinessWeek.com, 9/17/08): The property market is tanking, the stock market is off nearly 60%, and there is mounting evidence that China's economic juggernaut is faltering.

The latest sign of a slowdown came with the Oct. 2 release of September figures on the health of China's manufacturing sector. The data, the CLSA China Manufacturers Purchasing Managers Index (PMI), showed the steepest fall in volumes of new orders since the monthly survey began in June 2004; registering 47.7, it was well below the 50 boom/bust cutoff. "This is a tsunami that starts in America, blowing across the globe and arriving at our doorstep," says Alex Fong, CEO of the Hong Kong General Chamber of Commerce. "Manufacturers [whose operations are all in China] have to be prepared for the worst."

What's worrying about the PMI is that it declined for the third month in a row, suggesting a trend of falling demand from both domestic and export orders. Based on monthly questionnaires sent to 400 Chinese manufacturers asked to give month-on-month comparisons, the survey is widely considered one of the most robust leading indicators in China, where economic data are often suspect. The PMI is also important because manufacturing accounts for about 42% of China's gross domestic product.

No Rebound after the Olympics

While the fall in new orders in August could be attributed to the Olympics (BusinessWeek.com, 8/7/08), when some industrial activity was curtailed, they did not rebound in September as many economists had expected. "We are seeing simultaneously the beginnings of an export slowdown and some weakness in business capital spending," says Eric Fishwick, head of economic research at Hong Kong investment bank CLSA Capital Markets. "It will get worse before it gets better."

CLSA predicts GDP growth will slow to 7.9% next year, down from a forecast 9.5% this year, and 11.4% in 2007. Achieving 8%, however, will require a concerted effort by Beijing to goose the economy. Indeed, the net export contribution to nominal growth has been negative since the beginning of the year. In August exports fell 2% year on year, and September is unlikely to look any better.

Coastal areas that rely more heavily on exports have been hardest hit. Nowhere is this more apparent than in Guangdong, which for years was the head of China's economic dragon. Thousands of factories have been shuttered as companies move to lower-cost areas inland and elsewhere in Southeast Asia, and the region could become China's next rust belt if things continue.

Auto Slowdown

But it's not just makers of toys and televisions that are at risk. Even China's booming auto industry is showing serious signs of decline. Passenger car sales fell 6.2% in August year-on-year, and overall growth for this year could be between 0% and 5%, says Michael Dunne, managing director of J.D. Power China. That suggests a serious slowdown in the

final four months, as sales in the first eight months were up 12%.

Even mighty Toyota (TM), the world's most successful automaker, is seeing weakness in China. The Japanese company, which saw 37% growth in car sales in the year to August, to 367,830 vehicles, plans to cut back production at its Guangdong province factory in China, according to the Nikkei Daily. "The whole market in China and our sales are not expanding as fast as we thought, but our target for 2008 is still 40% higher than it was for 2007," says Paul Nolasco, a spokesman for Toyota in China.

The property market also looks poised for a downward spiral. Prices in Guangdong cities have fallen between 30% and 35% since the beginning of the year, even as cash-strapped property developers cut prices on new developments to move inventories. China Vanke, the country's largest property developer, slashed prices by 15% at two of its Shanghai projects at the beginning of September. Meanwhile, the property arm of Morgan Stanley (MS) is looking to unload the two luxury residential developments in Shanghai it bought in recent years, a sign the market has hit its peak. Morgan Stanley declined to comment.

Interest Rate Cut

But with property accounting for more than 10% of GDP, the government isn't going to sit idly by as values plummet. On Sept. 15, China cut interest rates by 0.27%, to 7.20%, for one-year loans, the first cut in six years and a clear sign Chinese leaders are now more worried about bolstering demand than the risk of stoking inflation.

Beijing, however, has plenty of ammunition up its sleeve to bolster demand. Government coffers are bulging—reserves are \$1.8 trillion, public debt is tiny, and the country is running a budget surplus. JPMorgan (JPM) China economist Frank Gong predicts China could easily spend 1% to 2% of GDP on infrastructure alone to build more railroads and subways.

3. China Oil Refiners May Return to Profit in October

Xinhua

Oct 03, 2008

China's oil refiners may return to profit this month after benefiting from the recent falling global crude prices, according to an industry association.

The country's oil refining industry would probably shake off heavy losses caused by previous crude price increases and state-imposed caps on refined oil prices if international prices continued to drop, the China Petroleum and Chemical Industry Association said in a report.

It forecast global crude prices could stay around or below \$90 dollar a barrel in the fourth quarter due to the flagging world economy.

China's petroleum and chemical sector had experienced double-digit annual growth in its profit for five consecutive years before suffering a 0.04 percent fall in the first five months of this year. In the first half, its profit rose a mere 2.5 percent, association figures show.

After hitting a record high of \$147.27 dollars a barrel in July, sweet crude for delivery in the next month has been continuously sliding. It fell below \$94 dollars a barrel on the New York Mercantile Exchange (NYMEX) on Thursday.

The association urged that attention should be paid to increasing uncertainties for the petroleum and chemical industry. It added the sector's risk-resisting ability had improved markedly despite the global financial turmoil.

The output of Chinese refiners totaled 175.8 billion yuan (\$25.7 billion) in August, 37.4 percent up from the same period last year, according to the report.

The country produced 18.2 million tonnes of refined oil products in August, 10.6 percent more than the same period in 2007, it said. The growth was 1.3 percentage points higher than in July.

Output of the country's petroleum and chemical industry increased 34.9 percent to 604.2 billion yuan in August from a year before, accelerating 16.3 percentage points.

It forecast the sector would post a year-on-year growth of 35 percent in import and export value and 27 percent in sales in the fourth quarter.

4. Vice Premier Stresses Production Safety

Xinhua

Oct 03, 2008

Vice Premier Zhang Dejiang underscored the scientific outlook on development and production safety during an inspection tour to northern Shanxi Province on Wednesday and Thursday.

Zhang visited the site of the Sept. 8 landslide in Xiangfen County on Thursday morning, where an unlicensed iron ore tailings pond burst and killed at least 262 people.

"The September 8 landslide was a very serious production safety incident, causing great losses, having a bad impact and leaving a deep lesson," he said.

The vice premier said a thorough investigation into the cause of the incident should be conducted and that those responsible for it should be punished seriously in accordance

with law.

A lesson should be drawn from the incident and people should be put first, he stressed, adding that more efforts should be exerted to crack down on unlicensed production and corruption behind production safety incidents.

He also demanded local authorities have a scientific outlook on development.

Production safety should be strengthened through more investment, scientific and technological progress and better management, the vice premier said.

5. Beijing Smog Returns After the Games

Xinhua

Oct 03, 2008

Smog reappeared in the Chinese capital this week, half a month after the close of the Beijing Paralympics.

Friday's Beijing Times said the air in the city remained polluted for three successive days, citing pollution indexes for Tuesday, Wednesday and Thursday at 106, 104 and 126, respectively.

The air quality would turn for the better during the daytime on Friday, and the pollution index was predicted to be between 50 and 70, the newspaper said.

The reappearance of the smog was blamed on such factors as the lifting of some provisional environmental protection measures taken to ensure good air quality during the Olympics and Paralympics, the restarting of work at construction sites, and the return of heavily-polluting vehicles on the roads.

There were 208 blue sky days this year as of Tuesday, 22 more than that for the same period last year, according to the Beijing Municipal Environmental Protection Bureau website.

6. China After the Olympics; a Great but Hesitant Power

The Financial Times

Oct 03, 2008

Each time I visit China I am struck by the hesitation. The world watches in awe and, if truth be told, with considerable apprehension, as China reclaims a place as a great power. Yet those steering the country's rise betray a strange ambivalence.

In Beijing, pride jostles with insecurity; studied diffidence sits alongside brisk self-confidence. Insistence that others, particularly the US, should be properly respectful of China's new status co-exists with a nervous inwardness.

The Olympics, it has been said many times, taught China more about the world and the world more about China. That is probably true. Yet there is little sign that the success of the games will recast Beijing's global outlook. China has still to decide what sort of power it wants to be. This matters greatly to the rest of us.

The inauguration in January of a new US president promises a fresh chapter in that nation's politics. The sunny confidence in *laissez faire* capitalism of the Reagan era has been lost to the convulsions in financial markets. The Iraq war demands a welcome humility as to the efficacy of US military power. To my mind, though, this election also closes the curtain on the Roosevelt/Truman era. The postwar global order, shaped in America's image, is nearing the end of its natural life.

This column has argued many times that the decisions taken by the next US president will be critical in determining what replaces it: a wider, more inclusive set of international rules and institutions; or a return to great power competition. Anyone with a passing knowledge of history will hope it is the former.

The choices made in Washington are a necessary but insufficient condition for a new international architecture. The decisions taken in Beijing will be as important. There will be no more pivotal relationship in coming decades than that between the US and China. As things stand, though, America is struggling to adjust to the passing of its unipolar moment while China is reluctant to admit the implications of its rise.

Twice during recent months I have sat in on lengthy and learned discussions between western and Chinese politicians, policymakers and scholars. Most recently I attended an excellent Sino-British event sponsored by the Great Britain-China Centre and the international department of China's Communist Party.

On one level, the impulses driving Chinese policymakers seem clear enough. This is a country with a ruthless sense of narrowly defined national interest. Beijing does not eschew multilateralism *per se* – it understands its new-found prosperity rests on a rules-based global trading system – but it remains a jealous guardian of national sovereignty. The bit of the United Nations charter that counts above all others is the one that proscribes interference in the domestic affairs of other states.

This China, rooted in the self-confidence that comes with being the world's oldest surviving civilisation, sees no reason to take lectures from the US or Europe on its human rights record or on its political system. It eschews the universalism claimed for western

democracy and resents the implication that its own political and social order is inferior. The legitimacy of the Communist Party, runs the refrain, lies in its success in lifting out of poverty hundreds of millions of its citizens.

In this frame of mind, Beijing is always exasperated with, and often angered by, demands that Tibet should be given significant autonomy, if not independence. “We solved the Tibet problem in the 1950s,” I heard one ranking official say. “The Dalai Lama left.” As for Taiwan, we should be in no doubt: Beijing will stop at nothing to prevent its independence. China’s unity is inviolable.

This China defends a Westphalian view of sovereignty by refusing to put human rights at the centre of its relationships with Burma, Sudan or Zimbabwe. Non-interference is a vital source of geopolitical stability, an official told me during an earlier visit. I should ask China’s small regional neighbours whether they want Beijing to imitate the US by overturning regimes deemed hostile.

Some of these arguments are tactical, of course. China has strategic reasons to prop up the regimes in Burma and North Korea, economic ones to keep close to Sudan and Zimbabwe. In any event, to demand that these countries end repression of their citizens might validate outside interference in China’s affairs.

There is, though, the other China. Here, certainties are replaced by doubts and ambiguities, the desire to walk tall on the international stage by an abiding fear that if the domestic economy slows, the country will fall to social and political disorder.

This China has begun to wake up to the implications of its new-found status – to the idea that the price of being a great power is closer scrutiny of its governance at home and its actions abroad. Hence, it has steered the six-party talks to persuade North Korea to give up its nuclear weapons and has backed three UN sanctions resolutions aimed at dissuading Iran from building the bomb. It has shown willing to nudge, if not push, the Sudanese government over Darfur.

We should not expect too much. For all its new-found status, visitors are ever reminded that China’s national income per capita is barely more than one-twentieth that of Britain’s; hundreds of millions of Chinese still live on a dollar a day; safeguarding stability in a nation of 1.3bn people does not allow for the luxury of multi-party elections.

This China argues with itself, weighing where its interests collide, or coincide, with western demands that it should act as a responsible global stakeholder. It wants international approval – hence the huge investment in the Olympics – but not at the expense of domestic control. It sees popular nationalism both as a tool of diplomacy – a warning to outsiders not to push it too hard – and a hazard – things might get out of hand.

Tensions crop up too between the short term and long term. So, yes, China can see that a nuclear-armed Iran would pose a strategic threat to global oil supplies; but, yes too, it wants to secure Iranian oil this year and next. Sanctions, it judges, are unlikely anyway to

cool Tehran's nuclear ambitions.

My sense is that the internal debates around all these issues are more fluid and more intense than it might seem on the surface. But everyone agrees that the trajectory will depend critically on whether China sustains its economic miracle. I often hear western policymakers worry about Beijing's new-found power. But perhaps they should be more fearful of a faltering China.

7. EU Move to Extend Import Tariffs Criticised

The Financial Times

Oct 03, 2008

Consumer groups hit out at the European Commission after it moved to extend anti-dumping tariffs on shoes imported from China and Vietnam, arguing that the duties raised prices for their ailing members.

“Consumers, who already face huge price increases, namely in the food and energy sectors, have had to pay the bill for long enough,” said Monique Goyens, director-general of BEUC, an umbrella group for consumer associations across Europe.

Those complaints came as the Commission formally announced an extension of the duties, first imposed two years ago, under pressure from Italian shoe manufacturers.

The decision came in spite of the fact that 15 of the European Union's 27 member countries voted two weeks ago to allow the tariffs to lapse.

It was particularly awkward for Peter Mandelson, European trade commissioner, who last week urged China to remove obstacles to foreign investment.

Mr Mandelson had been preparing to remove the duties, which amount to 16.5 per cent for Chinese leather footwear imports, and 10 per cent for Vietnamese.

However, he was compelled to launch a new review because of European rules that oblige him to honour the industry requests, according to Peter Power, the trade commissioner's spokesperson.

“There was no way out of it for him,” Mr Power said, adding that the Commission would aim to carry out the review, which typically takes 12 to 15 months, “as quickly as possible”.

Chinese and Vietnamese manufacturers were also holding out hope that the Commission might issue a rebate if the complaint was ultimately rejected.

Between July 2007 and June 2008, the countries' combined European shoe sales topped €2.3bn (\$3.4bn, £1.8bn), and accounted for more than half of the EU's imports by volume.

Europe first imposed a two-year tariff on China and Vietnam in October 2006, after concluding that they had sold leather shoes at unfair levels.

A Vietnamese delegation travelled to Brussels two weeks ago to urge member states to allow the duties to lapse, arguing that the countries had increased their prices by 10 to 18 per cent.

In addition to consumers and retailers, even some manufacturers lent their support. The Federation of the European Sporting Goods Industry, for example, argued that the duties were a hindrance to member companies which design shoes in Europe and then outsource their manufacture to Asia.

“The reality is that today's modern European footwear industry is a prime example of the flourishing international trade between Europe and Asia,” said Horst Widmann, the group's president, blaming the tariffs on a “minority protectionist element” in the industry.

Meanwhile, some European companies, such as Spain's Camper, have said that the trade dispute could hinder their efforts to expand in China at a time when its consumers are increasingly buying high-end shoes.

8. 32 Injured by Turbulence on China Airlines Flight

The Associated Press

Oct 03, 2008

At least 32 people were injured Thursday after a China Airlines flight from Hong Kong to Bangkok encountered turbulence, a Thai airport official said.

Most of those hurt aboard flight CI-641 from Hong Kong suffered minor cuts and bruises, but two had spine injuries, a hospital spokesman said. Early accounts said there had been fewer injuries, none serious.

The Boeing 747-400 was hit by turbulence about 20 minutes before landing at Bangkok's Suvarnabhumi Airport at about 1:30 p.m., said a spokeswoman for Airports of Thailand, who insisted that she not be named because she was not authorized to release information to the press. China Airlines is a Taiwanese carrier.

Two people suffered serious spine injuries, said Chairat Panthuraamphorn, a doctor at Bangkok's Samitivej Srinakarin Hospital, which administered to 20 of the injured. The

other injured passengers were taken to other hospitals.

A duty officer at Suvarnabhumi Airport, also speaking on condition of anonymity, said the captain of the flight contacted the control tower to ask to land ahead of schedule and to have doctors and ambulances standing by to take care of the injured.

9. China quality watchdog says more than 300 agencies "credible" for melamine testing

Xinhua

Oct 03, 2008

China's quality watchdog published on Thursday a list of more than 300 testing agencies approved to conduct melamine testing.

The list announced by the General Administration of Quality Supervision, Inspection and Quarantine includes the Beijing-based testing center under the Chinese Academy of Inspection and Quarantine, the testing center for animals, plants and food under the Tianjin Entry-Exit Inspection and Quarantine Bureau, and Taiyuan Bureau of Quality and Technical Supervision.

The administration said it would continue to update the list of "credible" agencies on its website so that both dairy producers and consumers could find among the list an appropriate agency for the melamine testing.

Some 13,000 infants nationwide were hospitalized with kidney problems and at least three were killed after drinking baby formula tainted with the toxic chemical of melamine, which was added to raw milk so the protein content of the milk appears higher than it actually is.

10. Pandas Fed Chicken Soup in Central China Zoo

Xinhua

Oct 03, 2008

The current national holiday Chinese people are celebrating also meant a feast for the captive animals in Wuhan, the Hubei Province capital.

Thursday's Changjiang Times reported Wuhan Zoo had experienced an influx of tourists in the first four days of the "golden week" holiday that began on Monday. Wednesday's peak resulted in the arrival of about 30,000 visitors.

The animals at the zoo were all overworked in keeping the visitors entertained. Zoo keepers tried their best to give the animals extra nourishment and to help them regain their fitness.

Male pandas Xiwang and Weiwei, which literally means "Hope" and "Greatness," were brought to the central zoo in June from the quake-ravaged China Research Center for Giant Panda Protection at Wolong in Sichuan Province.

The pandas, who recently celebrated their third birthday on Aug. 30, became restless and were running about around 10 a.m. on Wednesday when more than 1,000 tourists had gathered, talking loudly in the hall where the bears were housed.

Fearing the pandas might have too much shock and fatigue, their keepers prepared the pair chicken soup for lunch, hoping it could pacify them and replenish vital energy.

"Being first timers for such a recipe, the panda pair finished all the soup placed in the jars within no time," said the newspaper.

Other animals, including sea lions, red pandas, monkeys and chimpanzees also received special meals on the day.

The national holiday, which marked the 1949 founding of the People's Republic of China on Wednesday, ends on Sunday.