



China Pulse



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Yuan as International Currency

China became the third largest economy in 2007 and is expected to take over as the second largest by 2009/2010 surpassing Japan's economy. However, in currency reforms China has been very cautious and slow. Since July 2005, when China allowed its currency, yuan (or Renminbi), to float in a very narrow band, yuan has risen in value against the US dollar by about 21%. In the meanwhile, China also linked yuan to a basket of major currencies including the yen, the euro, the pound, the won, and the US dollar.

Premier Wen Jiabao recently suggested that the economic policies of countries, which issue global reserve currencies, need closer supervision as part of building a diversified international monetary system. Zhou Xiaochuan, governor of the People's Bank of China, in March also suggested that reliance on the US dollar as the world's primary unit of foreign exchange should be reduced by developing the Special Drawing Rights issued by the IMF. Zhou also proposed for a super-sovereign currency to end the US dollar's dominance as an international reserve currency. It demonstrates China's confidence and willingness to play an increasingly active role in the international monetary system. China has been very open in expressing concern over the safety of huge Chinese investment in US dollar assets and turned down any suggestion to appreciate or depreciate yuan.

Since December last year, China has signed currency swap agreements totaling \$95 billion with Argentina, Malaysia, South Korea, Belarus, Indonesia and Hong Kong to bypass the US dollar to enable other overseas central banks to sell yuan to local importers who want to buy Chinese goods. It is expected to benefit manufacturers and traders at home and abroad. The acceptability of yuan in international market would also somewhat reduce burdens on China.

China took another initiative for 'yuan settlement' of trade with the ASEAN countries on trial basis along with the settlement of trade of Pearl and Yangtze River delta regions with Hong Kong and Macao. In April, China allowed exporters and importers in five cities (Shanghai, Guangzhou, Shenzhen, Zhuhai and Dongguan) to settle cross border trade deals in yuan. For the first time during the current Canton Fair in Guangdong, the traders have been given the option of using yuan to settle the deals.

These initiatives apparently are part of China's plan to promote more international use of the Chinese currency. However, one of the major obstacles China faces in making yuan as an international currency is that it has not yet opened its capital account to foreign investors for fear of a massive capital outflow in a crisis situation. With the rise in Chinese economic strength and its willingness to play an increasingly important role in world monetary system it is expected that China would make yuan fully convertible by 2020 when Shanghai is made an international financial hub.

China's Economy

China's foreign trade (January – April 2009)

Trade	Jan 09, \$ bn, Change	Feb 09, \$ bn, Change	March 09, \$ bn, % Change	April 09, \$bn. % change
Total	141.8; -29.02%	124.95	162.02	170.73, -22.8%
Exports	90.45; -17.5%	64.9; 25.7%	90.29; -17.1%	91.94, -22.6%
Imports	51.43; -43.1%	60.05; 24.1%	71.73; -25.1%	78.8, -23%

Source: MOFCOM, PRC



China's economic indicators Q1

Fixed asset investment:	Rose 28.8% in Q1
Industrial output:	Up 5.1% year on year in Q1, with a rise of 8.3% in March
Producer price index (PPI):	Fell 4.6% in Q1
Consumer price index (CPI):	Dropped 1.2% year on year in March, compared with a decline of 1.6% in February
Retail sales:	Up 15% to 2.94 trillion yuan in Q1
GDP growth:	Up 6.1% year on year, lowest in 10 years
Total GDP:	6.5745 trillion yuan (\$939 billion)
Foreign trade:	Dropped 24.9% to \$428.7 billion
Exports:	Down by 19.7% to \$245.5 billion
Imports:	Down by 30.9% to \$183.2 billion
Foreign Exchange Reserves:	\$1.95 trillion (at end of March)
FDI:	\$21.8 billion, \$5.6 billion less than the same period of last year (Q1)

China drives sales for global vehicles

First-quarter vehicle sales in China grew by 3.8% year-on-year to 2.68 million units outstripping the US as the world's biggest vehicle market. It is expected that the sales would reach 10.2 million units in 2009, up almost 9% from last year ([More](#)).

China reports surpluses in both accounts in 2008

China reported surpluses both in current and capital accounts in 2008. Current account had a surplus of \$426.1 billion, with an increase of 15% and surplus on capital account was \$19 billion, down 74% ([More](#)).

China fifth largest holder of gold

China became the world's fifth-biggest holder of gold with 1,054 tons by the end of 2008. The increase in China's gold reserves has come primarily from domestic production and refining ([More](#)).

Government & Politics

China announces three-year stimulus plan for textile sector

China on April 24 announced a detailed three-year support plan to ensure stable development in the textile industry and upgrade its structure. According to the plan, the annual production of large textile enterprises (with annual revenue of more than 5 million yuan or \$732,000) was expected to rise to 1.2 trillion yuan by 2011 from 850 billion yuan in 2008 ([More](#)).

3rd tranche of stimulus package to 'fall short'

The third batch of China's massive stimulus plan will fall short of the predicted amount and be spent on projects usually overlooked for funding. China would release just 70 billion yuan (\$10.2 billion), lower than the previous 100 billion and 130 billion yuan tranches of the 4 trillion yuan package announced last November ([More](#)). The new money would continue to be poured in projects that could benefit people's livelihood, such as health and education sectors, big infrastructure projects and housing for low income earners ([More](#)).

Trade team visits US for new deals

A Chinese trade delegation left for the United States on April 23, to explore trade and investment opportunities. Similar trade missions visited Europe in February under Chen Deming, Minister of Commerce of China and signed deals worth more than \$13 billion in four countries. The visit of the delegation is also seen as a precursor to the strategic and economic dialogue (SED) between China and the US in summer. Beijing dispatched similar missions to the US before each year's SED ([More](#)). During the current visit of the trade delegation, Chinese and US firms signed 32 trade and investment contracts worth \$10.6 billion ([More](#)).

China and Taiwan sign agreements on regular flights, financial, judicial co-op

Mainland China and Taiwan signed on April 26, 3 agreements on opening regular flights, boosting cooperation in finance and cracking down on crime. The number of flights will increase to 270 every week from the current 108. In financial cooperation, the two sides agreed to facilitate financial institutions to set up branches on each other's side ([More](#)).

Controversial Chinese IT rule to begin May 1, 2010

On April 29, China announced that it would introduce a new regulation forcing makers of information technology related products procured by the Chinese government to disclose key software information effective from May 1, 2010. The new regulation would force IT product makers to disclose sensitive proprietary technology information including source codes for software that control IT products, such as those for operating systems for integrated circuit chips and touchless intelligent cards ([More](#)).

5 nuclear plants in pipeline

China will start construction of five nuclear power plants (Sanmen in Zhejiang province, Haiyang and Rongcheng in Shandong province, Taishan in Guangdong province and Changjiang in Hainan province) this year as part of efforts to dramatically expand its nuclear power capacity by 2020. At present, China produces only 2% of the nuclear power in the world ([More](#)).

China encourages domestic firms to invest overseas

China released an investment guidebook on April 10 to help domestic firms make foreign investments in 20 countries, such as Pakistan, Thailand, Malaysia and Japan. It includes investment laws and regulations of the 20 countries and statistics about individual countries among other useful information such as advice on problems that firms may encounter. China plans to unveil more of the guidebook to cover as many as 160 countries and regions by the end of June ([More](#)).

China expands overseas investment in first quarter

In the first quarter of 2009, China's overseas investment grew steadily and the number of its overseas contracted projects maintained fast growth while growth rate of labor service cooperation with foreign parties slowed down. In the first quarter, China set up 445 companies abroad, an increase of 6.8% compared to the same period last year. China's non-financial direct investment in the overseas market reached \$3.7 billion ([More](#)). However, according to a survey report of the CCPIT, the world financial crisis has severely dampened Chinese companies' enthusiasm for investing overseas, although many of them said they still want to go global. By 2008, the cumulative overseas investment reached \$130 billion with non-financial investment surging 64% to \$40.6 billion that year ([More](#)). The National Development and Reform Commission is encouraging Chinese companies to make overseas investment in five key areas like exploration in overseas petroleum, natural gas and important mineral resources, technological and intelligence cooperation, advanced manufacturing and infrastructure facilities ([More](#)).

CNPC buys Kazakh oil company

China National Petroleum Corp (CNPC) has agreed with Kazakh state oil company Kazmunai gas to jointly purchase Kazakh oil company, JSC Mangistaumunaigas (MMG), for US\$3.3 billion. The purchase includes two oil and gas fields and all MMG's other oil and gas assets. By the end of 2008, CNPC had invested US\$7 billion in Kazakhstan ([More](#)).

China, Russia ink oil cooperation agreement

Chinese and Russian governments signed an oil cooperation agreement on April 21, which marked a major breakthrough in bilateral energy cooperation. The two countries, earlier in February had signed seven agreements on a package cooperation program for energy resources, which included a pipeline construction project, a long-term crude oil trading deal and a financing plan between the China Development Bank and the Russia Oil Pipeline Transport Company ([More](#)).

China aims to create 1.5 million jobs in electronics and IT industry

China said on April 15 that it would boost the development of electronics and IT industry to create more than 1.5 million new jobs in three years. The sales of electronic and IT products in 2008 totaled \$920 billion, with exports reaching \$521.8 billion, or 36.5% of the country's total export value ([More](#)).

Business & Industry

Chinese enterprises are 70% private

More than 70% of Chinese enterprises are now privately owned. The number of the registered private enterprises in China had reached 6.59 million by the end of 2008, with a total registered capital of 11.74 trillion yuan (about \$1.72 trillion) ([More](#)).

China's trade with South Asia

The trade between China and the seven South Asian countries (Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka) reached \$66.1 billion, an increase of nearly 12 times compared to 2000. China has been very active in expanding its trade with South Asian countries, Chen Jian, vice minister of Chinese Ministry of Commerce said at the 2nd South Asia Countries Commodity Fair Press Conference on April 10. In 2008, new project contracts signed by the two sides reached a record \$17 billion ([More](#)).

China imports record volume of iron ore in March

China's iron ore imports topped 52.08 million tons in March, setting a monthly record high. In the first quarter, China imported a total of 130 million tons of iron ore compared to 440 million tons in 2008 ([More](#)). Tangshan Ganglu Iron and Steel Co., Ltd., has been using 100% imported iron ore in production since March -- though in January, domestic iron ore made up for about 30% of the total raw materials. Imported iron ore is cheaper than the domestic one and is of higher quality ([More](#)).

Airbus A320 assembly line in Tianjin signs orders until 2016

The Airbus A320 final assembly line project in Tianjin has received 284 orders for Airbus A320 aircraft from China's domestic market, some of which will not be delivered until 2016 ([More](#)).

India & China

India-China trade to reopen through Nathu La

The border trade through Nathu La pass (in Sikkim) between India and China resumed on May 1 ([More](#)).

CII & China

CII India Business Forum launched in China

CII on April 15 established 'India Business Forum' (IBF) in China to build the brand of India's industrial capabilities and facilitate growth of business between the two countries. The launch was announced at the Conference on "Impact of the Global Economic Crisis: Challenges and Opportunities for India and China" organized by CII in association with the Embassy of India in Beijing. Mrs. Nirupama Rao, Ambassador of India to China, Mr. Chandrajit Banerjee, Director General, CII, Mr. Wang Jinzhen, Vice Chairman, CCPIT and Mr. J. J. Shrikhande, Chairman, CII IBF China addressed the conference. More than 120 representatives from various Chinese and Indian companies based in China apart from officials from the Government departments and Embassy, attended the conference. One of the key focus areas of IBF will be to work with the Indian Embassy in Beijing and others to build "Brand India" by creating platforms to showcase the sectoral strengths of India, explore areas of cooperation for trade and investment and share good practices to learn from each other.



Ms Nirupama Rao, Ambassador of India to China, delivering the keynote address at the Conference on "Impact of the Global Economic Crisis: Challenges and Opportunities for India and China" and the Launch of 'CII IBF in China', 15 April, 2009, Beijing

Business Seminar with Jiaxing City

CII organized a seminar on trade and investment cooperation with Jiaxing (Zhejiang province of China) on 17 April 2009 in Gurgaon. Mr. Shen Wenping, Vice Director of Jiaxing Municipal Bureau of Foreign Trade and Economic Cooperation, the leader of the delegation, stated that the trade has progressed significantly between Jiaxing and India in recent years. Presently eight Indian companies are operating in Jiaxing. He invited Indian businessmen to invest in Jiaxing in various sectors including ITO/BPO. The members of the delegation expressed interest in exploring opportunities for investment in India. Mr. Ravi Bhoothalingam, Member, CII National Committee on Tourism and Chairman, Manas Advisory Pvt. Ltd. stated that the delegation's visit to India was very significant especially during the ongoing recession and hoped that India and China today were positioned as big locomotives of the economy to pull out the world from the ongoing economic turmoil.



Seminar with business delegation from Jiaxing, China, 17 April 2009

Contact:

U. D. Bhatkoti, Advisor

Confederation of Indian Industry

The Mantosh Sondhi Centre, 23 Institutional Area, Lodi Road, New Delhi-110003, India
Tel: 91-11-24616023; Fax: 91-11-24601298; Email: u.d.bhatkoti@cii.in; Website: www.cii.in

CII China Office

E B Rajesh, Chief Representative

Confederation of Indian Industry

Room No 11A47/49, Shanghai Mart, 2299 Yan'an Road (West), Shanghai 200336, China
Tel: +86 (21) 62360969; Fax: +86 (21) 32283510;
Email: e.b.raiesh@cii.in Website: www.cii.in