



Confederation of Indian Industry

# CHINA *pulse*

The Monthly China Journal of Confederation of Indian Industry

1 August 2007 • Volume 4, No 8

## Chinese Economy

### China's GDP grows 11.5% in first half year, CPI rising

China's economy expanded 11.5% in the first half of this year, up 0.5 percentage points from a year earlier. Other economic indicators (January-June 2007) are as follows:

• GDP	: US\$ 1,405 billion (10,678.8 billion yuan)
• Added value primary sector	: 947 billion yuan (growth 4%)
• Added value secondary	: 5.55 trillion yuan (growth 13.6%)
• Added value tertiary sector	: 4.18 trillion yuan (growth 10.6%)
• CPI	: 3.2% (growth 4.4%)
• Fixed-asset investment in urban areas	: up 26.7%,
• Total foreign trade	: US\$ 980.93 billion (growth 23.3%)
• Exports	: US\$546.73 billion (growth 27.6%)
• Imports	: US\$434.20 billion (growth 18.2%)
• Trade surplus	: US\$112.52 billion (growth 84.3%)
• FDI	: US\$31.89 billion, up 12.2%
• Foreign exchange reserve	: US\$ 1.33 trillion, up 41.6% ( <a href="#">More</a> )

China's economy is likely to overtake Germany's economy, which was worth US\$2.9 trillion at the end of 2006 and become the world's third largest economy by the end of this year ([More](#)). Experts predict that China would surpass Japan in the coming decade to become the world's second largest economy ([More](#)).

### GDP growth for 2006 revised up to 11.1%, highest in 12 years

China has revised its GDP growth rate in 2006 to 11.1%, up 0.4 percentage points from the preliminarily calculated growth rate, to become the highest in the past 12 years. The GDP in 2006 was revised to 21.09 trillion yuan (US\$2.79 trillion), 146.4 billion yuan higher than the preliminarily calculated figure ([More](#)).

### CPI to rise record 4.5% in 3rd quarter, interest rate hike likely

Thirteen institutions predicated on July 29, that China's consumer price index (CPI) in the third quarter would rise to a record high of 4.5% and the central bank would increase the interest rate again in the quarter. Statistics show that China's CPI rose 4.4% in June compared with a year ago, a 28-month high, while the GDP expanded 11.5% in the first half of this year ([More](#)).

### Textile, apparel exports up 17% in 1<sup>st</sup> half

China's textile and apparel exports jumped to US\$ 73.5 billion in the first half this year, up 17.47% from the same period last year. Export value totaled US\$ 96.8 billion between September last year and June this year. China imported 1.18 million tons of cotton between January and June, 52.01% less than the same period last year ([More](#)).

### China sees surge in mechanical, electrical exports

China exported US\$ 309.95 billion worth of mechanical and electrical products in the first half of this year, up 27.1% from the same period last year. It is 56.7% of China's total exports for the first half of this year. Electric appliances and electronic products exports totaled US\$ 128.7 billion, up 29.6% ([More](#)).

### Tibet's economy grew 14.7% in first half

Tibet's economy posted 14.7% growth to reach US\$1.84 billion in the first half of this year, the highest over the past decade ([More](#)).

China Economy

## Government & Politics

### Ban slapped on polluting cities, zones

No new industrial projects will be approved in several cities and industrial parks along four major river systems to prevent them from being further contaminated. Six cities (Chaohu and Bengbu in Anhui, Baiyin in Ningxia, Bayannur in Inner Mongolia, Weinan in Shaanxi, Zhoukou in Henan), two counties (Hejin and Xiangfen in Shanxi) and five industrial zones (Wuhu in Anhui, Lanzhou in Gansu, Handan in Hebei, Puyang in Henan and Shenxian County in Shandong) were indicted by the State Environmental Protection Administration (SEPA) for their role in polluting the Yangtze, Yellow, Huaihe and Haihe rivers ([More](#)).

### Guangzhou city eases 'one child' policy

Single-child families in Guangzhou (capital of Guangdong Province) are being encouraged to have a second child, in a move seen as a relaxation of the country's "one child" policy. This relaxation in policy is aimed at seeking ways to tackle the problems caused by the city's aging population ([More](#)).

### China starts digging water tunnels beneath Yellow River

On July 08, construction began on a pair of tunnels -- part of the massive south-to-north water diversion project -- that will traverse the Yellow River and bring Yangtze River water all the way to Beijing. The two tunnels will be 4,250 meters long and have a diameter of seven meters. They will pass underneath the Yellow River to the west of Zhengzhou, the provincial capital of Henan Province ([More](#)).

### China's uranium deposits sufficient for nuclear power development up to 2020

China has enough uranium reserves to develop its nuclear power industry up to 2020, said Wang Zhongtang, a senior official with the State Environment Protection Administration. A recent survey on 4.3 million square km of the country's territory indicated that the annual exploitations of uranium would be able to meet demand in the years up to 2020 ([More](#)).

### Long-term tourism plan for Tibet

Authorities have published a long-term plan for the tourism industry's sustainable development in the Qinghai-Tibet region, which aims to retain the same blue-sky and plateau views even after years of development. The scheme (2006-20) plans to develop the region along the Qinghai - Tibet Railway into a top-quality tourist destination, which will attract about three million tourists each year, staying for an average of 7 to 12 days by 2020 ([More](#)).

### Former head of China's drug watchdog executed in Beijing

Zheng Xiaoyu, 63, former director of China's State Food and Drug Administration (SFDA), was executed on July 10 for taking bribes and dereliction of duty ([More](#)).

### 95 officials punished for kiln slavery

Thirty-three officials have been removed from their Party or government posts and 62 given disciplinary warnings for failing to prevent some brick kiln owners in Shanxi Province from using people, including children, as forced laborers ([More](#)).

### China, Turkmenistan sign energy deals

China and Turkmenistan on July 17, signed a series of agreements on cooperation in trade, technology, education and energy, including two on sharing natural gas products and gas purchase, during the visit of Turkmenistan President, Gurbanguly Berdimukhamedov to China. The two countries have agreed to expedite talks on energy partnership to complete the proposed China-Turkmen gas pipeline at the earliest ([More](#)).

### China to provide 100 million yuan to Bangladesh

China agreed to provide US\$13.2 million to Bangladesh in economic assistance and construct a 'Bangladesh-China Friendship Exhibition Center' in Dhaka. Since 1980s, China has assisted Bangladesh in building 'Bangladesh-China Friendship Conference Center' in Dhaka as well as six friendship bridges in Bangladesh ([More](#)).

### US Senate panel clears China currency bill

The US Senate Finance Committee voted 20-1 on July 26, to give the US government new tools to press China to raise the value of its currency, but the Bush administration said it opposed the bill. The overwhelming vote shows Congress is headed toward passing legislation by a big enough margin to overcome any presidential veto, said Sen. Charles Schumer who helped craft the measure. The US claimed that its trade deficit with China soared to a record \$232.5 billion in 2006 and is on track to surpass that this year ([More](#)).

## Business & Industry

### Chinese phone users reach 860 million by May

China had more than 860 million phone users by the end of May this year. It includes 494 million mobile phone users and 372 million fixed-line subscribers ([More](#)).

### China's oil consumption likely to reach 350 million tons in 2007

China will use up to 350 million tons of oil this year, ten million tons more than last year. In 2006, nearly 50% of China's oil consumption was imported from abroad. In 2006, China imported 139 million tons of crude oil, up 17% on 2005 ([More](#)).

### China top choice for investors

According to a survey conducted by leading global professional services firm Ernst & Young, 48% of international investors cited China as one of their top three preferred business locations in 2007, up from 41% in the 2006 survey. They said they were drawn to China for its low labor costs, more competitive rates and higher productivity. The United States was found to be the second most attractive country, finding favor with 33% and India third with 26% of the respondents ([More](#)).

### Yuan likely to be more flexible

According to Yi Gang, assistant Governor of the People's Bank of China, the Chinese currency yuan will gradually become more flexible. China promised to carry out appropriate macroeconomic policies including a prudent fiscal policy as well as a prudent and moderately tight monetary policy, deepening of structural reforms and speeding up the transformation of economic growth patterns to achieve sustainable growth ([More](#)).

### China's high-tech industry focuses on innovation

China's top economic planner has adopted a fresh strategy for high-tech industry, with the emphasis shifting from expansion to beefing up the capacity to innovate. The transformation has been written into the 11th Five-year Plan for High-tech Industry (2006-2010) released on July 6, 2007 by the National Development and Reform Commission. Industrial expansion has been demoted to fourth rank with the new top three priorities being innovation, optimizing industrial structure and going international ([More](#)).

### Open skies deal inked with US

China and the US signed a deal on July 09, to further open up the skies between the two countries. It is estimated that the agreement will generate as much as \$5 billion in passenger and cargo revenue for the airline industry over the next six years, and about \$8 billion in new economic activity in the United States ([More](#)).

### US files formal case against China on subsidies

The US on July 12 requested the WTO to establish a dispute settlement panel to deal with China's so-called industry subsidies. "Although our two rounds of WTO consultations with China have been constructive, they have not resolved our concerns about its apparent use of trade-distorting subsidies that it pledged to eliminate upon joining the WTO," said Sean Spicer, spokesman for the US Trade Representative ([More](#)).

### Growing cotton consumption may drive up cotton prices

China's cotton textile industry will consume more than 13 million tons of cotton this year, making the nation's cotton supply shortage worse, according to a report of the China Cotton Textile Association. The report estimated that China's cotton yarn output would increase by 1.5 million tons to more than 20 million tons by the end of this year. Last year it produced 17.4 million tons of yarn with 6.73 million tons of cotton produced at home ([More](#)).

### 3G tech to help China build nuclear reactors

China on July 24, finalized a contract with a consortium, led by the US-based Westinghouse Electric Co, to build four nuclear power reactors in the eastern part of the country. The media had earlier reported that the contract involved \$8 billion. China will use Westinghouse's AP1000 technology to build the four reactors, two of which will be in Sanmen, Zhejiang Province, and the others in Haiyang, Shandong Province. "The contract will result in the first-ever use of advanced US nuclear power technology in China," Westinghouse President and Chief Executive Stephen Tritch said. ([More](#))

### Chinese bank makes global finance foray

In an unprecedented sortie into the global financial market, China Development Bank (CDB), a State-owned bank has teamed up with an international partner to join Europe's most heated competition in a banking takeover. China Development Bank dramatically increased its international profile by announcing that it will buy up to 5% in London-based Barclays, Britain's third largest lender. CDB's Barclays deal is a first ever deal in which a state backed financial organization has become an active player in an international buyout of a large financial service network. According to an announcement by CDB, it will join Temasek Holdings of Singapore to invest up to 13.4 billion euros in Barclays through subscription of shares. And that, in turn, will provide additional capital for Barclays in its ongoing bid for Amsterdam based ABN Amro ([More](#)).

**Insurers to pour \$39 billion into overseas market**

More than \$39.5 billion is ready to flow into the international market with China's insurance companies getting government approval to invest abroad. The new rules effective from July 25 raised Chinese insurers' overseas investment ceiling from 5% of their assets to 15% ([More](#)).

**Laws, Rules & Regulation****China amends draft new labor law amid outcry over forced labor scandal**

The draft labor contract law, which is likely to be adopted by China's national legislature when it ends its weeklong session on July 1, has been revised to punish government officials for abuse of office and dereliction of duty ([More](#)).

**Legal interpretation targets bribery**

The Supreme People's Court and the Supreme People's Procuratorate of China fired a new shot in the country's fight against corruption on July 8 by issuing a legal interpretation of new forms of bribery. They spelled out 10 types of bribery ([More](#)).

**China stops encouraging exporters to remit forex**

China has scrapped a set of rules that provided incentives for exporters to bring home as much foreign currency as they could from July 1, signifying another step in its efforts to ease capital inflows. China's capital and current account surpluses have soared, and it is now trying to reverse the situation to ease the upward pressure on the yuan created by such inflows ([More](#)).

**China to levy tax on oil exports by foreign partners**

China will levy tax from August 1 on crude oil exports by foreign partners in offshore exploration joint ventures. But the government will grant companies a five-year holiday from the 5% export tariff if they are executing contracts they have already inked with Chinese partners. The move is aimed at saving domestic resources and bringing the policy for foreign companies in line with that for domestic operators ([More](#)).

**China to increase resource tax on ores**

China will raise the resource tax on lead and zinc mines, copper mines and tungsten mines as of August 1 this year. According to the policy, there will be five new tax brackets for lead and zinc mines, ranging from 10 yuan per ton of lead and zinc ore to 20 yuan per ton of lead and zinc ore, up roughly 400 percent from the previous resource tax on lead and zinc ore, established at the end of 1993, ranging from 2 yuan per ton to 4 yuan per ton ([More](#)).

**Favorable tax policy for textiles**

China has issued detailed measures on implementing the favorable tax policy for imported textile machines, the first among 16 kinds of hi-tech devices to enjoy benefits. In January, China adopted the policy of reimbursing the value-added taxes and tariffs levied on imported key machine parts to develop and make high-speed pneumatic looms and automatic winders. All the reimbursed taxes will become national capital funds to be used for new product development ([More](#)).

**Standards set to assess clean production for 6 industries**

China has issued its clean production evaluation systems for six industries (cement, fermentation, soda ash, machinery, sulphuric acid and leather) as part of its nationwide efforts to curb air and water pollution, to be effective from July 20, 2007 ([More](#)).

**China abolishes foreign exchange reward system for exporters**

China has scrapped a reward scheme set up eight years ago that gave preferential treatment to domestic companies, which earned the largest amounts of foreign currency, in the latest attempt to keep tabs on its soaring trade surplus and foreign exchange reserves ([More](#)).

**China puts new curbs on processing trade to address trade imbalance**

China has announced a new policy to be effective from August 23 and covering 1,853 products in plastics, furniture and textiles and other labor-intensive industries, to curb the development of process trade in a bid to reduce its ever-rising trade surplus. Under the new policy, enterprises engaged in the production of the affected products are required to have guarantee deposits in the Bank of China, the designated bank of China Customs, while registering their process trade contracts with the authorities ([More](#)).

## India & China

### Hu writes to Pratibha on firming up ties

Chinese President Hu Jintao on July 26, offered to work with India's newly elected President, Pratibha Patil to strengthen the Sino-Indian strategic cooperative partnership, which is key to promoting peace and development in Asia and the world. "On the occasion of your swearing-in as the Indian President, I wish to extend my warm congratulations and best wishes," President Hu, said in his message ([More](#)).

### Reliance Communication Ltd awards Huawei \$ 200 million network expansion contract

Reliance Communications Ltd has awarded a network expansion contract worth over US\$ 200 million to Huawei Technologies Co Ltd. Under the agreement, Huawei will expand and provide services for CDMA and GSM base stations and assist in building next-generation network infrastructure. Reliance is seeking to extend its wireless and wireline digital network to over 20,000 towns and 600,000 villages in India, which would give it the country's largest telecom network ([More](#)).

### Indian dumping duty on paracetamol to stay

Chinese paracetamol exporters may not be able to get rid of the Indian anti-dumping duties imposed on their products since 2001 even as the duties approach their expiry date. India's Ministry of Commerce and Industry will not remove the anti-dumping duty, according to China Chamber of Commerce of Medicines and Health Products Importers and Exporters. Apart from India, South Africa, Indonesia and the European Union have also imposed anti-dumping duties on Chinese paracetamol ([More](#)).

### Lenovo to set up second manufacturing plant in India

Lenovo has announced the setting up of a second manufacturing plant in India at Baddi in Himachal Pradesh at a cost of \$11 million. The new plant will have a capacity of two million units of desktops and notebooks a year. The plant, which is expected to be operational in the third quarter of the current year, will enable Lenovo to optimise its supply chain, improve competitiveness and direct management control in the Indian market. The company has a plant in Puducherry with a capacity of one million units annually. Lenovo opened an innovation centre in Mumbai last year and announced a worldwide marketing hub in Bangalore in July this year ([More](#)).

#### Contact:

Mr. U. D. Bhatkoti, Advisor  
Confederation of Indian Industry  
The Mantosh Sondhi Centre, 23 Institutional Area, Lodi Road, New Delhi-110003  
Tel: 91-11-24616023; Fax- 91-11-24021298; Email: [u.d.bhatkoti@ciionline.org](mailto:u.d.bhatkoti@ciionline.org)

#### CII China Office

Madhav Sharma, Director & 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: [madhav.sharma@ciionline.org](mailto:madhav.sharma@ciionline.org)  
Website: [www.cii.in](http://www.cii.in)