

COUNTRY PROFILE:**PEOPLE'S REPUBLIC OF CHINA****DATED:****AUGUST 2009****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

Recent Political Highlights

- The government's main priority is to support the economy amid concerns that rising unemployment could increase social unrest. The EIU expects unrest to persist among ethnic Tibetan and Uighur minorities. Ethnic violence in China's restive Xinjiang province left more than 140 people dead and hundreds injured in July.
- China believes that the new round of China-India boundary talks to be held in August in New Delhi will play a positive role in pushing forward bilateral relations with common efforts being made by the two countries. The current talks will be the 13th round to be held since the two countries initiated the border dialogue process in 2003, following an agreement signed in 1993 to maintain peace and tranquility along the India-China border area.

Recent Economic Highlights

- Foreign direct investment in China fell for a tenth straight month in July as companies stalled expansion plans amid the global financial crisis. Investment declined 35.7% from a year earlier to \$5.36bn. China's economy is forecast to expand 9.4% this year, topping the government's official 8% target, as a \$585bn (4 trillion yuan) stimulus and record bank lending spurs growth. Growth rebound to 7.9% in Q2'09 after slowing to 6.1% in Q1'09.
- The EIU forecasts growth at 8% in 2009 and 2010 led by expansion in investment spending and consumption. Falling trade flows and tax cuts offered to business will reduce tax receipts in 2009. Coupled with rising spending, the EIU forecasts the budget deficit to rise to 4.3% in 2009.
- China's CPI dipped 1.8% in July y/y. The PPI fell 8.2% from July 2008 after a 7.8% drop in June. Industrial output accelerated 10.8% in July from a year earlier, after gaining 10.7% in June. The current account surplus is expected to fall to 6.5% of GDP in 2009 due to the poor outlook for exports and falling commodity prices.
- China's foreign exchange reserves, the world's largest rose a record \$178bn to reach \$2.132 trillion in July as more overseas investors pumped money into stocks and property; the first time the reserves have topped \$2 trillion. About 65% of China's reserves are in dollar assets, with the rest in euros, yen and sterling.
- Sales of domestically made automobiles totaled 1.09 million units in July, up 63.6% compared with the same period last year. Sales of passenger cars topped 832,600 units. The Chinese auto market is forecast to explode exponentially over the next 10 years.
- China's banking regulator said rules on a mortgage for second-home buyers will remain the same with a down payment on second homes currently set at no less than 40% of the price; the rules are in line with the situation of the property market in China and are aimed at preventing speculative purchases. Chinese lenders extended a record \$1.08 trillion (7.37 trillion yuan) of new loans in the first half of the year, exceeding the annual target of 5 trillion yuan, after the government eased lending restrictions in November to boost the economy.
- China's power consumption in July rose 6% to 342 billion kWh compared to the same month last year. Power consumption of agriculture went up by 5.1% and that of service trade was up 10.4%. Power generation, another measure of industrial activities expanded 4.8% in July y/y, the second consecutive growth after eight months of decline from last October.
- China has launched an unprecedented and long-awaited plan to offer subsidies of up to 70% for solar power projects as well as relevant power transmission and distribution systems that connect to grid networks. China's bid to boost the solar energy sector could draw more than \$10bn in private funding for projects and put China on track to become a leading market for solar equipment in the next three years. The nation is trying to catch up in a global race to find alternatives to fossil fuels, blamed for carbon emissions affecting the planet's climate.
- China's State Food and Drug Administration (SFDA) announced a two-year campaign to improve the quality standards of pharmaceuticals from manufacture to sale. The program is aimed at better regulating the production, distribution, pricing, advertising and application of basic pharmaceuticals across the country; violators face prosecution. Beginning September, Chinese businesses and factories that violate occupational hazard regulations will be shut down and face a maximum penalty of \$44,000.
- With China's steel industry in turmoil over the Rio Tinto scandal, the government has instituted a three-year moratorium on applications to expand production or start new projects. The government will continue backing the China Iron and Steel Association in iron ore price negotiations but will stop the disorderly competition among Chinese importers. Chinese steel capacity expansion is usually scattered among different steel mills resulting in chaotic development so the government is working on industry consolidation to boost capacity.
- The Chinese government is working to try and consolidate companies in ten key industries, namely: steel, automotive, shipbuilding, chemical, light industry, textiles, nonferrous metals, equipment manufacturing, electronic information and modern logistics, in order to increase competitiveness.

Latest Trade Developments

- SA exports to China totalled R29.3bn in 2007, R35.2bn in 2008 and R23bn in the year-to-May 2009. SA imports from China totalled R60.2bn in 2007, R82.4bn in 2008 and R30.1bn in the year-to-May 2009. South Africa was China's largest trading partner in Africa in 2008.
- China may appeal the WTO ruling that would break up the monopoly of two state-owned firms as the sole foreign audiovisuals importers. China has imported approximately 500,000 titles of publications of all kinds since joining the WTO in 2001. The US filed the case two years ago and it involves publications, audio and video products and music download services imported by China. Private Chinese companies have welcomed the move.
- China will impose anti-dumping duties on coated art paper from Japan and the Republic of Korea for five years; anti-dumping duties were imposed in 2003 and the Chinese feel that if they are scrapped their paper industry will be hurt. China cut duty on coated paper from Japan from 56% to 10.4% last November after an evaluation made at the request of the importer.