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## This Week in China

### World Bank Says China on Path to Recovery

The World Bank said that a resurgence in China - "a bright spot in the region and the global economy" - is likely to begin this year and hit full stride in 2010, potentially contributing to regional stabilization and perhaps recovery.

"A ray of hope may be emerging with signs of China's economy bottoming out by mid-2009," the World Bank said.

There are several reasons for at least some optimism, economists said earlier. China's Purchasing Managers Index moved into an expansion-

### China to Standardize Market for Rural Land-Use Transfer Rights

China is working out the details of implementing a model contract for rural land-use rights transfer to regularize farmland use rights.

The State Administration for Industry and Commerce said that the model will outline the object, time limit, payment, mode and time of payment of the deal in addition to the date of land transfer, rights and responsibilities of both parties, and the liability for

ary range for the first time in six months in March, indicating that the economy may be about to rebound.

China earlier announced a RMB 4 trillion (\$586 billion) stimulus package to revive economic growth, scrapped lending quotas to thaw liquidity and increased tax rebates to arrest a slump in exports.

The Chinese government is targeting what it calls a "challenging but manageable" 8 percent growth rate this year, after 9 percent growth last year.

Even at the low end of forecasts, China will have

breach of the contract.

Economists have likened China's liberalization of rural land rights to the privatization of China's urban housing market in the late 1990s, when most households were essentially given the state-owned apartments they lived in. With that shift, millions of people instantly acquired a major asset they could sell or lease, laying the foundation for the housing boom of the past decade.

The transfer of rural land will remain more restricted than sales of city housing. But the principle of giving

the strongest growth of any major economy this year.

"The Chinese authorities have done an incredible amount," said Vikram Nehru, the World Bank's chief East Asia economist. "What we're seeing in China is a willingness to take all the necessary action to make sure the economy continues to grow at a relatively rapid pace."

Chinese Premier Wen Jiabao said last month the government was ready to expand its stimulus if the impact of the global crisis worsens.

*Source: China View*

individuals more rights to property is similar, and this has raised hopes that the rural economy could get as significant a boost as the urban one did. China's rural population accounts for more than half of the country's total.

"To the extent that the land can be monetized, it is effectively giving money to farmers. That ultimately should be very powerful for growth," said Paul Cavey, an economist for Macquarie Securities in Beijing.

*Source: China Briefing; Wall Street Journal*

## Metals and Mining

### Record China Iron Ore Imports in March

Deals signed by small Chinese steel makers with overseas suppliers are behind a surge in the country's iron ore imports.

China said that it imported a record 52.08 million tons of iron ore in March, signaling that Chinese demand for the raw material remains strong.

Chinese steelmakers are still locked in annual price talks with global mining majors BHP Billiton, Rio Tinto and Vale, and the surge in imports illustrates their growing dependence on foreign iron ore.

Steelmakers based in northern China's Tangshan are importing iron ore and paying term prices after determining their 2009 purchase volumes late last year.

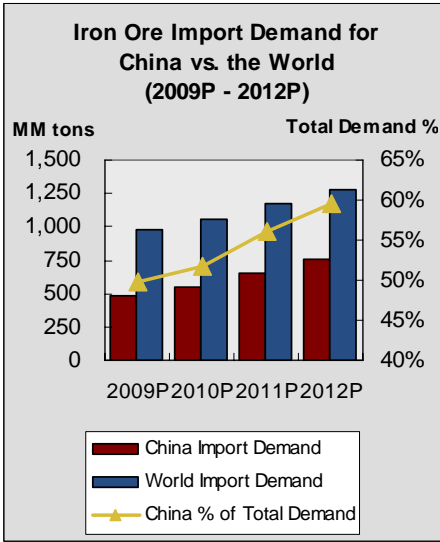
The supply deals with overseas miners were signed on a monthly basis and also included favorable terms such as payment deferrals and discounts for bulk purchases.

The contracts involve the delivery of tens of millions of tons of iron ore to Tangshan, home of hundreds of mostly small, private-sector steel mills.

"Currently, the volumes of these contracts cannot be huge, but they will back the Chinese side into a corner during the annual price negotiations," an analyst at Sinosteel Corp, a major state-owned trading house.

"The rapid increase of iron ore imports signals that China's iron ore demand is strong and that iron ore prices have hit bottom, and therefore, expectations for term iron ore prices (for the 2009-10 contract year) will certainly rise," the analyst said.

Source: Reuters



Source: Morgan Stanley

## Consumer Products / Retail

### China Car Sales Reach Record High

Vehicle sales in China, the world's largest car market, climbed to a record in March, extending gains from the previous month, helped by government policy measures to bolster demand in both urban and rural areas.

A total of 1.10 million vehicles was sold last month, up from 1.06 million in March 2008, which previously posted the highest monthly sales, data from the China Association of Automobile Manufacturers showed.

"Few had expected such explosive growth for the month. I certainly didn't as the economy had not shown clear signs of full

recovery," said Yi Junfeng, an industry analyst with Changjiang Securities.

China's auto market has received a strong boost since February from government policy support measures, including tax incentives for small cars and subsidies.

Chery Automobile, maker of China's best-selling compact car QQ, sold more than 35,000 cars in March, hitting its second monthly record this year, it said on its website.

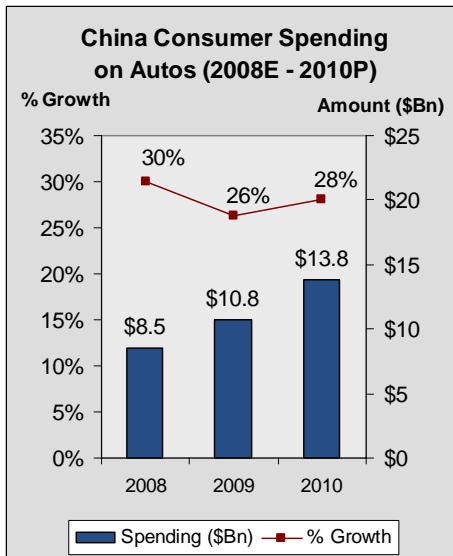
Ford Motor also expects to grow faster than the overall China market this year, banking in part on policy support to lift sales of its new Fiesta small car rolled out last month.

China's overall passenger car sales also hit a monthly high of 772,400 units in March, up 10.26 per cent from a year earlier, and a rise of 27.2 per cent from February, official data showed.

To tap the potential of the country's vast rural areas, Beijing also promised to subsidise farmers who trade in high-emission light vehicles for clean and fuel-efficient ones.

To get subsidies of up to RMB 5,000 (\$732) for each vehicle they buy, farmers have to go through lengthy application procedures at various government bodies.

Source: Financial Times



Source: Euromonitor International

## Consumer Products / Retail (cont'd)

### Moves Set to Boost Retail Sales Growth of China

China may see slower growth in retail sales this year as a result of the economic slowdown, but the government's measures to boost the gross domestic product are expected to lift the growth rate above a 30 year average, the Chinese Academy of Social Sciences said in report.

The growth in China's retail sales this year is set to exceed 14.4 percent, the average annual growth for the past 30 years, but it is expected to be lower than a 21.6 percent rise last year, the academy said in the report.

Total retail sales expanded 15.2 percent in this year's first two months.

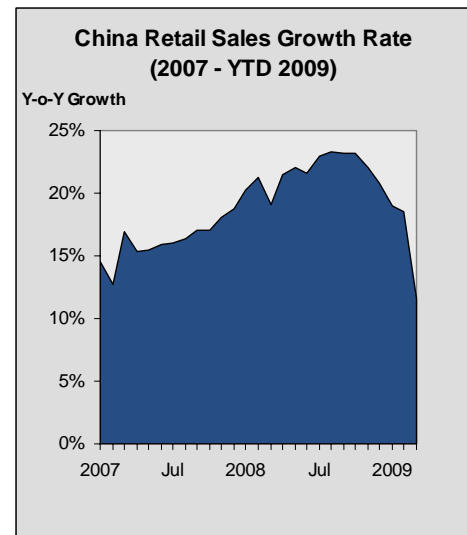
The academy also said the sagging property market will not pick up robustly this year and companies with high reliance on exports are faced with mounting operational difficulties as real economies overseas continued to deteriorate. As a result, the domestic consumption market will feel the pressure from slower income rises and less spending.

But China has relatively high level of bank savings, which could help the country offset the risks of a negative sales growth, the report said.

According to the World Bank, consumption made up less than 50 percent of China's economic growth. The global average was 62 percent.

The central government has rolled out measures to boost domestic consumption and cut reliance on exports. In addition to the RMB 4 trillion (\$586 billion) stimulus packages, government subsidies on home appliance and vehicle purchases in rural areas and a RMB 850 billion (\$124 billion) plan to reform the country's health care system were also announced

Source: Shanghai Daily



Source: Bloomberg

## Healthcare

### Businesses to Profit from China's Healthcare Reform

China's healthcare reform plan will create a huge potential market for health services providers, pharmaceutical companies and insurers.

"There are still more than 200 million people not covered by basic medical insurance. That will be the priority of the government over the next three years," Hu Xiaoyi, deputy minister of Human Resources and Social Security, said.

The RMB 850 billion (\$124 billion) reform plan encourages the government to purchase medical insurance services and explore ways to involve qualified commercial in-

surers to provide medical care services.

Li Yongquan, president of PICC Health Insurance Co Ltd, said the new policy will boost professional medical insurance services.

"It is necessary to encourage and support professional health insurance in order to improve the healthcare system," Li said.

Howard Sui, managing director of pharmaceutical giant Merck Serono China, said the action plan will prompt "more residents to buy medicine since they will be covered by medical insurance".

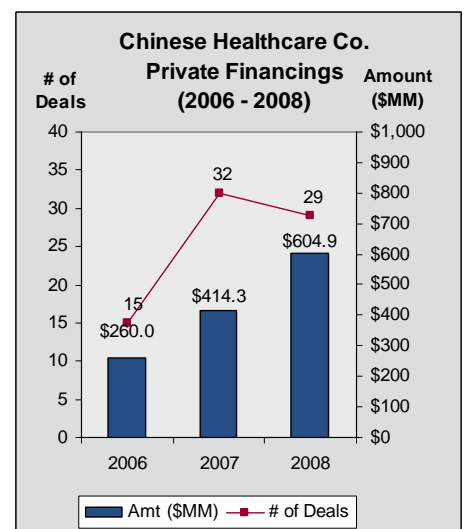
The reform calls for the central government to

spend RMB 330 billion (\$48 billion), or 40 percent of the cost of the program, through 2011.

The shift in priorities to treatment and prevention means substantial demand for ultrasound and electrocardiogram machines, according to Frost & Sullivan's research.

The new investment in health reform will also generate at least \$1.5 billion in spending on software, said Matt Wang, vice-president of IBM China, as 1,000 hospitals spend at least \$1.5 million each to set up electronic medical record and history cards.

Source: China Daily



Source: Capital IQ

## Recent Transactions

### China-backed Consortium Purchasing Delphi's Auto Brake Business

Two Chinese companies and the Chinese government signed an agreement today to acquire Delphi Corp.'s brakes and suspension businesses, the most high-profile acquisition yet by the Chinese in the American auto industry.

The Chinese auto supplier Tempo Group will acquire a 24% stake in the Delphi businesses. China's Cap-

ital Iron & Steel Co. will purchase a 51% stake and the Beijing government will own the remaining 25%.

The Delphi businesses will be owned by a new Chinese company called Beijing West Industries Co. Ltd., based in Beijing.

The Chinese consortium will pay \$100 million in cash for the Delphi businesses. The deal gives Delphi, which is struggling to emerge from bankruptcy protection, much needed capital and

allows them to exit businesses they are no longer interested in keeping.

The acquisition is expected to close by Nov. 1 and must be approved by the court overseeing Delphi's bankruptcy.

Delphi's brakes and suspension business has more than 750 patents and has employees in the United States, Mexico, Poland, India and China.

Source: Free Press

### Oz Minerals and China's Minmetals Sign New \$1.2 Billion Deal

Australian miner Oz Minerals has struck a new \$1.2 billion deal with China's Minmetals to work around government national security concerns about selling foreigners a mine on a sensitive military site.

The new plan should satisfy the foreign ownership concerns and is the second deal between

Australian miners and Chinese companies to move forward in past week. A third, much bigger proposal is still being scrutinized by regulators amid political pressure not to allow Australian assets to be sold to Chinese state-owned companies.

Oz Minerals, Australia's third largest diversified mining company, said the revised deal would allow the company to pay off all its debts and still have 600

million Australian dollars (\$410 million) left over.

Oz Minerals said the plan was to sell eight mines and other exploration and development assets for \$1.2 billion to Minmetals.

"We believe it represents an attractive offer for Oz Minerals and our shareholders," the Oz Minerals chairman, Barry Cusack, said in a statement.

Source: New York Times

### Tuniu Secures First Round Investment from Gobi Partners

Chinese travel service agent Tuniu.com announced recently that it has received a first round of growth capital investment from Gobi Partners.

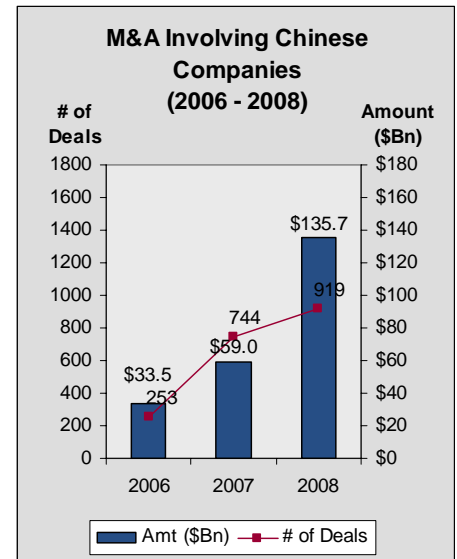
Established in October 2006, Tuniu.com is a B2C e-commerce website supplying online travel booking service for the whole country. Taking advantage of the Internet,

Tuniu integrated the tourist industrial chain, and set up a creative online travel booking model.

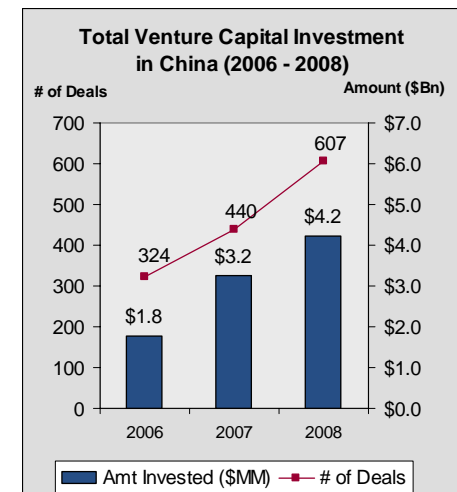
According to Yan Haifeng, COO of Tuniu, the newly increased investment and current favorable national environment would help the company to develop influential tourist products, increase added value of its service so the company can grow bigger and stronger, and provide better service for existing customers.

Gobi Partners Inc. is a specialized venture capital company with a management fund of more than \$200 million. Based in China, the company focuses on early-stage investment in the areas of information technology and digital media. Its strategic investors include IBM, NTT CoCoMo, Sierra Ventures, McGraw-Hill, Steamboat Ventures, and Nokia Growth Fund.

Source: Zero2IPO



Source: Capital IQ



Source: Zero2IPO

## Additional

### China Foreign Exchange Reserves Rise to \$1.954 Trillion

China's central bank says its foreign exchange reserves rose 16 per cent year on year to \$1.954 trillion by the end of March.

In a notice on its website the bank said reserves increased by \$7.7 billion in the first quarter, \$146.2 billion lower than the same period last year.

Analysts believe China holds up to 70 per cent of its foreign reserves in U.S. dollar assets, including Treasury securities.

In March, the reserves increased by \$41.7 billion, an increase \$6.7 billion more than the same

period last year.

China's reserves have ballooned as the central bank buys up dollars generated from its huge trade and influx of foreign investment.

While China's economy has slowed due to a plunge in trade and a slump in the domestic real estate industry, recent data show the drop eased in March.

Beijing has taken steps to hold down the price of exports by cutting taxes on exporters and stopping the rise of China's tightly controlled currency, the yuan, against the U.S. dollar. Economists say both steps could strain relations with trading partners if China is seen

to be competing unfairly.

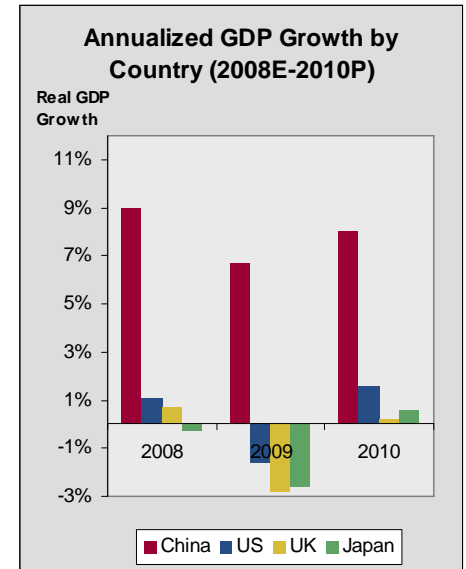
Western leaders, including British Prime Minister Gordon Brown, are pressing for China to contribute to a global bailout fund from its reserves.

Exports fell 17 per cent in March from a year earlier, the fifth straight monthly decline but less severe than February's 25.7-per cent plunge, the sharpest in a decade, the customs agency reported.

It said trade "showed clear signs of improvement."

Imports fell by 25.7 per cent, widening the Chinese trade surplus to \$18.6 billion from February's \$4.8 billion gap.

Source: Associated Press



Source: Euromonitor International

*China's GDP growth will greatly exceed that of other major economies in the coming years and beyond.*