

CHINA ECONOMIC BRIEF

Since 2003, China Centric has been helping companies understand what China may mean for their business and assist them in developing and executing strategies in China. As we enter our 13th year, we have worked with over 200 companies and 25 PE Groups. Our team consists of 27 professionals, 21 based in China. Our offices are located in Beijing, Shanghai, Zhuhai, Hong Kong, Taipei, and Cleveland. The majority of client activities are focused on the following areas: **Marketing and Sales** – assisting companies in the development and execution of their China market strategies; **Acquisition Services** – performing China based due diligence on manufacturing facilities, supply chains, or joint ventures **Manufacturing and Supply Chain Services** – helping companies develop their own manufacturing capability, establish and/or oversee their supply chain, contract assembly, and recruiting; and **Turnaround Services** – advising companies that have operations, supply chain, or a joint venture in China. For additional information, visit www.china-centric.com.

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In China, Projects to Make Great Wall Feel Small

By: The New York Times, January 12, 2014
Website: http://www.nytimes.com/2015/01/13/business/international/in-china-projects-to-make-great-wall-feel-small-.html?_r=1

DALIAN, China — The plan here seems far-fetched — a \$36 billion tunnel that would run twice the length of the one under the English Channel, and bore deep into one of Asia's active earthquake zones. When completed, it would be the world's longest underwater tunnel, creating a rail link between two northern port cities.

Throughout China, equally ambitious projects with multibillion-dollar price tags are already underway. The world's largest bridge. The biggest airport. The longest gas pipeline. An \$80 billion effort to divert water from the south of the country, where it is abundant, to a parched section of the north, along a route that covers more than 1,500 miles.

Article Highlights

- China is executing enormous multibillion-dollar projects throughout the country to support the growing demands for infrastructure, economic space, and energy.
- China exceeded 2014 new employment goal with a total 13.22 million new jobs.
- China's retail sales increased 12% in 2014.
- China's wealth gap is narrowing. The country is making efforts to improve the quality of life for the average Chinese. Disposable income continues to grow.

Such enormous infrastructure projects are a Chinese tradition. From the Great Wall to the Grand Canal and the Three Gorges Dam, this nation for centuries has used colossal public-works projects to showcase its engineering prowess and project its economic might.

Now, as doubts emerge about the country's three-decade boom, China's leaders are moving even more aggressively, doubling down on mega-infrastructure. In November, for instance, the powerful National Development and Reform Commission approved plans to spend nearly \$115 billion on 21 supersize infrastructure projects, including new airports and high-speed rail lines.

"China has always had this history of mega-projects," said Huang Yukon, an economist and senior associate at the Carnegie Endowment for International Peace, a think tank based in Washington.

"It's part of the blood, the culture, the nature of its society. To have an impact on the country, they've got to be big."

Whether China really needs this much big infrastructure — or can even afford it — is a contentious issue.

The infrastructure plans run counter to Beijing's commitment to reduce its heavy reliance on government-led investment to fuel growth. And some economists worry that the country might eventually be mired in enormous debt.

According to China's National Audit Office, local government debt alone stood at about \$3.1 trillion in 2013, more than a third the size of the entire economy. The high level of debt, analysts warn, could stunt growth for a long time.

Supersize Ambitions

Even as growth slows, China is promising bigger and bolder infrastructure projects, many with multibillion-dollar price tags. But the country may not be able to afford all of its plans.

"People should be concerned because very few of these big projects generate cash," said Victor Shih, a China specialist who teaches political economy at the University of California, San Diego.

And yet China's leaders are so confident of the value and necessity of building on an epic scale that engineers are mapping out plans for decades to come.

Shanghai is considered a model, a spectacularly rich metropolis of 25 million residents. Undergirding the city is a patchwork of supersize infrastructure — huge airports, subway lines, sewage systems and power plants.

In the city's thriving financial center, workers are putting finishing touches on the Shanghai Tower, a \$2.4 billion cloud-piercer that at 2,073 feet is the world's second-tallest building. Only the Burj Khalifa in Dubai is taller, at 2,716 feet.

Further east, the city is building the world's largest playground, Shanghai Disney Resort, which when it opens around 2016 will be surrounded by a 225-acre Magic Kingdom-style park, a development expected to cost more than \$5 billion. A city-owned company is helping finance the project.

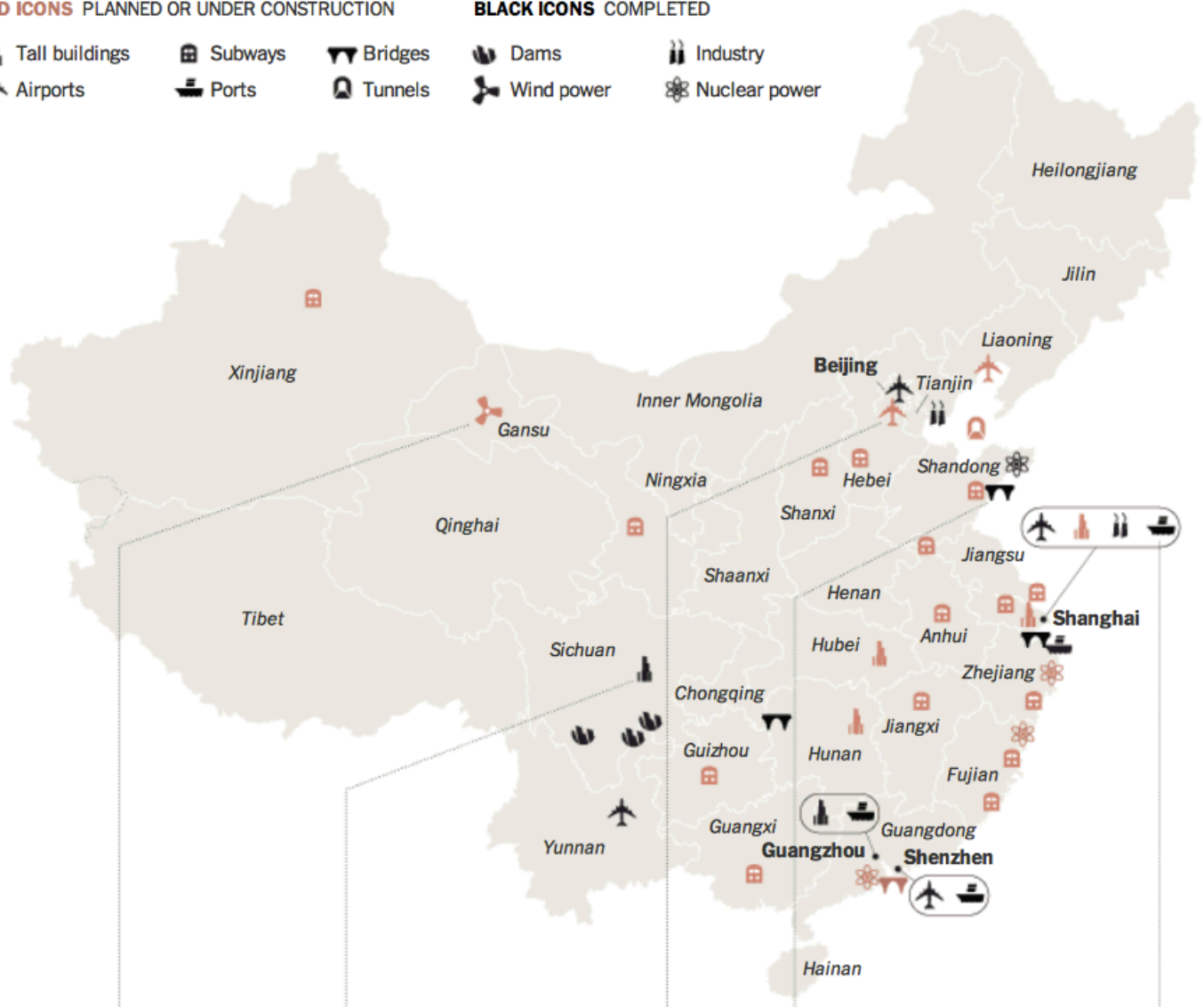
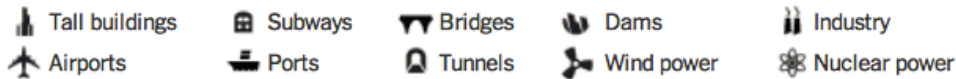
Shanghai can afford the huge price tags. The fast-growing city is a financial center and a major tourist destination.

CHINA CENTRIC ASSOCIATES

January 2015

RED ICONS PLANNED OR UNDER CONSTRUCTION

BLACK ICONS COMPLETED



Gansu Wind Farm
COST: \$17.5 BILLION



Located in the desert of northwest China, this is expected to be the world's biggest wind turbine farm, with a capacity of 20,000 megawatts by 2020.

New Century Global Center
COST: \$2 BILLION*



With 1.7 million square meters of floor space, it is the biggest building in the world, nearly three times the size of the Pentagon.

Beijing Daxing International Airport
COST: \$13 BILLION



Groundbreaking has begun on Beijing's third city airport, to be located south of the city, and due to open in 2019.

Jiaozhou Bay Bridge
COST: \$2.3 BILLION



At 26.4 miles long, the world's longest sea-crossing bridge, with six lanes for car traffic. Opened in 2011.

Shanghai Yangshan Deepwater Port
COST: \$18 BILLION



Built 20 miles out to sea, on a group of islands connected by one of the world's longest bridges. This addition makes the Shanghai port system the world's largest container shipping port.

Shanghai Zhuhai Beijing Hong Kong Taipei Cleveland

But other cities don't necessarily have the means to pay for such huge infrastructure projects.

In Tianjin, about 70 miles southeast of Beijing, the city has borrowed heavily to create what some have called a replica of New York City, with complexes modeled after Rockefeller Center and Lincoln Center. Today, though, the area is a virtual ghost town. Dozens of office towers and luxury developments sit empty, half-completed.

And here in Dalian, a city of six million in the northeast, the proposed underwater rail tunnel to Yantai is just one piece of a master plan that includes a 163-mile urban transit system.

Work is also underway on what the city says will be the world's largest offshore airport, a \$4.3 billion development on an artificial island created with landfill, covering more than eight square miles.

"It makes sense to accelerate infrastructure spending during a downturn, when capital and labor are underemployed," said David Dollar, the former country director in China for the World Bank and now at the Brookings Institution in Washington. But "if the growth rate is propped up through building unnecessary infrastructure, eventually there could be a sharp slowdown that reveals that the infrastructure was really not needed at all."

Many experts say such projects also exact a heavy toll on local communities and the environment, as builders displace people, clear forests, reroute rivers and erect dams.

In the northwest, in the city of Lanzhou, the local government has backed plans to flatten the tops of 700 low-level mountains to make way for a new business district, despite concerns about the

damage to the local ecosystem. Dam-building has also wreaked havoc, creating water shortages and environmental damage and it may have even helped set off earthquakes in southwest China, according to some scientists.

"The perilous path is the notion you can control nature," said Paul K. Gellert, a sociologist at the University of Tennessee, Knoxville. "There will always be negative social and environmental consequences."

As a one-party state controlled by the Communist Party, China can easily muster the political will and financial resources to undertake such huge projects. And for now, it is backing — and even encouraging — municipalities to think big.

"They have an authoritarian system. And so they can do all this without opposition — this is key," said Gerardo del Cerro Santamaría, an expert on mega-projects at Cooper Union in New York. "In the West, civil society participates, and in many cases, opposes big projects."

Proponents say the giant projects can bring greater efficiencies. Big dams and wind farms can cut carbon emissions, while mass transit can help reduce oil consumption, thus delivering greener solutions.

Other huge projects could bolster China's position as a manufacturing and trading powerhouse. In November, the government said its freight rail link between eastern China and Spain had opened, allowing factory goods to reach Spain in just over 20 days. It is now the world's longest rail journey, far surpassing the route of the famed Trans-Siberian Railway.

China also sees hidden benefits in such projects, including the ability to gain new scientific and technical expertise.

As a result, bridge-building in China has become something akin to an Olympic event. In 2007, after China completed the longest sea-crossing bridge, in Hangzhou, the nation has regularly broken records. China now claims the longest bridge of any kind, the highest bridge and, in 2011, a new successor to the longest sea-crossing bridge, 26.4 miles long, in the eastern city of Qingdao.

“For China, a lot of this is about building a national identity. Mega-projects are suited for that,” said Bent Flyvbjerg, an authority on mega-projects who teaches at Oxford University. “It’s a lighthouse for all to see what the Chinese nation can do.”

It is the type of engineering expertise the government wants its state-owned enterprises to export — and that is already happening. Boston is buying subway cars from China. Argentina, Pakistan and Russia have asked China to upgrade their

infrastructure. Last month, Chinese construction teams began work on an ambitious \$50 billion canal across Nicaragua that could some day rival the Panama Canal.

“They have the idea that they’re going to be doing infrastructure for the rest of the world,” said Mr. Huang at the Carnegie Institute.

In doing so, China is pushing the boundaries of infrastructure-building, with ever bolder proposals. The Dalian tunnel looks small compared with the latest idea to build an “international railway” that would link China to the United States by burrowing under the Bering Strait and creating a tunnel between Russia and Alaska.

“The technology is already there,” said Wang Mengshu, a member of the Chinese Academy of Engineering and an adviser on the Dalian tunnel proposal. “Think about it. If we can build a railway to the North Pole, it would be convenient for us to go to the North Pole.”

China releases healthy employment figures for 2014

By: China Daily, January 20, 2014

Website:http://www.chinadaily.com.cn/business/chinadata/2015-01/20/content_19358722.htm

BEIJING - A total of 13.22 million new jobs were created in China in 2014, beating the full-year target, a Chinese official said on Tuesday.

Head of the National Bureau of Statistics (NBS), Ma Jiantang, said the figure surpassed the 10 million target at a press conference, noting the figure was calculated based on statistical caliber of the Ministry of Human Resources and Social Security (MOHRSS).

Urban employment increased slightly from 13.1 million recorded in 2013.

Some 773 million people were employed nationwide with 393 million in urban areas by the end of 2014, the NBS data showed.

The NBS also released its own version of China's unemployment rate of 5.1 percent for 2014 according to its internal survey.

Ma said the employment data, along with gross domestic product (GDP) growth and inflation data, were positive signs for China's economy.

The MOHRSS has yet to release the country's registered urban unemployment rate but it forecast in December that China's unemployment rate would be around 4.1 percent, basically flat with

China 2014 retail sales up 12%

By: China Daily, January 20, 2014

Website:http://www.chinadaily.com.cn/business/2015-01/20/content_19357883.htm

BEIJING - China's retail sales rose 12 percent year on year in 2014 to 26.24 trillion yuan (\$4.28 trillion), the National Bureau of Statistics said on Tuesday.

Retail sales, a key indicator of consumer spending, continued to accelerate in December, rising 11.9 percent from a year earlier.

The figure was up from November's 11.7 percent and October's 11.5 percent.

"Retail sales strengthened, suggesting some progress in much-needed economic rebalancing from investment towards consumption," Nomura economists wrote in a research note after the release of economic data.

Retail sales growth in rural areas outpaced that in urban China. Last year, sales in rural regions rose

2013, and new jobs would increase to more than 13 million in 2014. The NBS announced on Tuesday that China's economy grew 7.4 percent in 2014, in line with market expectations.

12.9 percent from a year ago, while sales in urban areas climbed 11.8 percent.

Online sales showed robust growth, soaring 49.7 percent year on year in 2014 to 2.79 trillion yuan.

Consumption has been a bright spot in the Chinese economy, which is confronting slowing domestic investment growth and a weak global recovery.

China's gross domestic product (GDP) grew 7.4 percent in 2014, registering its weakest expansion in 24 years.

Consumption contributed 51.2 percent to GDP growth last year, three percentage points more than the previous year.

Looking ahead at 2015, retail sales are expected to rise 12.2 percent year on year, according to a working paper published last month by a group of economists of the People's Bank of China.

China's wealth gap narrows as disposable incomes grow

By: China Daily, January 21, 2014

Website:http://www.chinadaily.com.cn/business/2015-01/21/content_19363979.htm

Income inequality in China narrowed last year, a silver lining to the cloud of a cooling economy that grew at the slowest pace since 1990, the National Bureau of Statistics reported on Tuesday.

The Gini coefficient, an internationally used indicator of a country's wealth gap, stood at 0.469 in 2014, down from 0.473 in 2013, according to the NBS.

A Gini reading of 0 represents perfect equality, while a reading of 1 suggests perfect inequality.

The index, which dropped for a sixth consecutive year from the high level of 0.491 in 2008, was read by analysts as a positive signal amid the country's reform to cap the income of top executives of State-owned enterprises and pension reform which requires government and public institution employees to contribute to their retirement plans.

Disposable per capita incomes grew faster than gross domestic product last year, increasing 8 percent year-on-year in real terms - that is, adjusted for inflation. Rural disposable incomes rose 9.2 percent, faster than the 6.8 percent gain recorded for urban residents, the NBS said.

The country's unemployment rate stood at 5.1 percent, while 13.22 million new jobs were created, surpassing the full-year target of 10 million, the data showed.

While China's Gini coefficient remains above the international warning level of 0.4, analysts said the steady growth of household incomes and narrowing inequality will likely lead to a growth of the middle class and consumption and the service sectors. These will be the new growth engines for the economy.

"The expansion in the service sector was stable, the unemployment rate remained under control, household income (growth) surpassed economic growth, and income inequality started to narrow. These are important features in China's economic rebalancing process," Zhu Haibin, chief China economist at JPMorgan Chase & Co, said in a research note.

A broad-based salary hike in China is expected soon, with Beijing having issued guidelines to raise the salaries for civil servants and public employees. The

range is reportedly 10 percent to 30 percent, with lower-ranking employees receiving higher percentages. Pay hikes for employees of State-owned enterprises and some private enterprises are likely to follow.

"The pay hike, in our view, indicates Beijing's goal of improving the quality of life for the average Chinese, after having extracted savings by curbing wasteful spending at government branches and SOEs," Wendy Liu, a researcher at Nomura Securities Co Ltd, said in a report.

Labor force shrinks for third year

China's working population declined for the third straight year in 2014, triggering concerns that a shrinking labor pool will weigh on the country's economic growth, especially for labor-intensive industries.

The working age population, those aged 16 to 59, decreased 3.71 million last year, the steepest drop since 2012 when the country first saw a decline, data from the National Bureau of Statistics showed on Tuesday. The decline in 2013 was 2.44 million while the figure in 2012 was 3.45 million.

Economists are worried the record decline in China's labor force will drive up labor costs and force both domestic and foreign companies to shift their plants and factories overseas, hurting the export and manufacturing sectors, the main national growth engines.

The shrinking labor force has raised concerns of a demographic crisis. Some experts are calling for a complete scrapping of all family-planning restrictions so China can avoid the trap of the population getting older before it gets richer.