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SOFT LANDING

Economic Growth Coming Down Smoothly

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Maintaining Growth

China's GDP grew 9.2 percent in 2011, a remarkable achievement outshining many other countries. However, the current condition of the national economy is less than appealing. The sequential quarterly GDP growth rates for 2011 stood at 9.7 percent, 9.5 percent, 9.1 percent and 8.9 percent, showing a trend of deceleration. A consensus has been made that stabilizing growth should be the primary goal for China's economic development.

Judging by international and domestic situations, it will be difficult to reach this goal.

First, the European debt crisis and the deteriorating U.S. economy have taken their tolls on the Chinese economy, and it is now still difficult to estimate the scale of their influence.

Second, the external environment for the development of the real economy remains tough. A recent report by the Development Research Center of the State Council pointed out Chinese enterprises are stuck in the most difficult period since the beginning of this century. Many companies are seriously short of capital, which gives rise to many problems in their daily operation and production.

Third, the Central Government is facing enormous pressures in terms of policymaking. Although it has managed to control the consumer prices at a relatively satisfactory level, further pressure from rising prices is inevitable.

Fighting against inflation remains a problem that needs constant attention, and the runaway prices might restrict the government from making proactive economic stimulus policies.

There are, however, a number of positive factors. The decreasing economic growth rate has caught the attention of the Central Government. In 2012, China will continue its prudent monetary policy and adopt a proactive fiscal policy, which will provide a much more relaxed environment for economic growth. In the meantime, the downward trend of growth in 2011 is interpreted as a soft landing brought about by the country's macro economic readjustment. The fundamentals for long-term steady and relatively fast economic development have not changed, laying a sound foundation for the steady development of the national economy.

In the next few years, urbanization, industrialization and marketization will further improve, offering great impetus for economic acceleration. Urbanization significantly increases individual consumption. China is conducting industrial restructuring, and the emerging industries are developing at a fast speed, providing new momentum for the future economic development. It is also striving to improve its marketization, in order to build a more open, transparent and fair market economic system.

We firmly believe the Chinese economy will maintain a sound and relatively fast growth, and make fresh contributions to global economic recovery in 2012. ■

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Send an e-mail: contact@bjreview.com.cn

Please provide your name and address along with your submissions. Submissions may be edited.

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Celebrations Overseas

People in New York City marvel at a traditional Chinese dragon dance costume at the Lincoln Center Square on January 24, the second day of the Chinese Lunar New Year.

2012 is the Chinese Year of the Dragon. A dragon dance was staged at the square as part of the celebrations for the new year, also known as the Spring Festival, China's most important holiday. The festival traditionally lasts half a month, beginning on the first day of the first month according to the Chinese lunar calendar and ending with the Lantern Festival, 15 days later.



SHENHONG

PRIZE WINNERS Cecilia Martinez, an official from the UN-HABITAT, presents singers of the Quintessense Hulun Buir Children's Choir with their trophies at the UN headquarters in New York on January 25. The choir from north China's Inner Mongolia Autonomous Region has been awarded the "Caring Citizens of the Humanities: Music and Development" prize

Host Praised

Cui Yongyuan, a famous TV host at China Central Television (CCTV), won nationwide praise because he chose to host the evening gala for migrant workers for free instead of the lavish gala of the Annual Conference of Philanthropy China on January 8.



Cui, 48, graduated from the Communication University of China in 1985 and became a journalist for China National Radio. During his spare time, he participated in the planning of CCTV's Oriental Horizon program, which turned out to be a huge success.

From 1998, Cui began to work for CCTV. He was the host of the program *Tell It Like It Is*, a popular talk show which made Cui a household name in China. He proved his talent as a remarkable host with his humor, wisdom and sincerity.

Smaller Gap

The income gap between urban and rural Chinese residents narrowed further in 2011, according to data from the National Bureau of Statistics (NBS).

The ratio stood at 3.13:1 in 2011, meaning city dwellers' average income was 3.13 times that of rural people. It represents a decline from 3.23:1 in 2010 and 3.33:1 in 2009.

Rural residents' per-capita annual income rose 17.9 percent year on year in 2011 to 6,977 yuan (\$1,101), while the per-capita disposable income of urbanites was 21,810 yuan (\$3,443), up 14.1 percent from a year earlier, the NBS said, citing figures from a survey of 74,000 rural households and 66,000 urban households nationwide.

The NBS attributed the large increase in rural residents' wages to the rising incomes of migrant workers last year.

Outbound Investment

China's non-financial outbound direct investment (ODI) rose 1.8 percent year on year to \$60.07 billion in 2011, said the Ministry of Commerce (MOC).

The figure brought the country's total non-financial ODI to \$322 billion as of the end of 2011. China made investments in 132

countries and regions in 2011, with ODI in Europe and Africa up 57.3 percent and 58.9 percent, respectively, reaching \$4.61 billion and \$1.7 billion, the MOC said.

Investment through mergers and acquisitions, mainly in the mining, manufacturing, electricity, communications and retail sectors, hit \$22.2 billion in 2011, accounting for 37 percent of the total ODI, the MOC said.

New Supercomputer

The Chinese Sunway BlueLight supercomputer, which was built with China-produced microprocessors and is capable of performing around 1,000-trillion calculations per second, has officially gone into operation at the National Supercomputing Center (NSCC) in Jinan, east China's Shandong Province.

The supercomputer was installed in September 2011 and underwent a three-month-long trial operation period before going into official use, making China the third country in the world to be capable of producing supercomputers using domestically developed processors after the United States and Japan.

Consisting of nine 3-meter-high boxes and equipped with a total of 8,704 Shenwei 1600 microprocessors, the Sunway BlueLight is among the 20 fastest supercomputers in the world.

Developed by the National Research Center of Parallel Computer Engineering and Technology, the Sunway BlueLight incorporates high-density packaging and low energy consumption technologies. It will be used to help increase the accuracy of climate simulations conducted by Chinese scientists and assist them in ocean circulation monitoring.

AIDS Situation

A total of 28,000 people died of HIV/AIDS in China in 2011, and another 48,000 were newly infected with the virus during the year, said an official publication on January 21.

The report on the HIV/AIDS situation in China, which was produced jointly by China's Ministry of Health, the Joint United Nations Program on HIV and AIDS, and the World Health Organization, said that the number of people living with HIV/AIDS increased by 40,000 in two years from 2009, although cases of new infections remained at a low level.

With about 780,000 people living with HIV/AIDS nationwide, including 154,000 AIDS patients, the country's total infection rate stands at 0.058 percent, the report said.

The major reasons for the rise of the number of AIDS patients on record are the government's increasing disease prevention and intervention efforts, which have helped reduce deaths and also led to an increase in

ANXIOUS JOB HUNTER

A man looks for opportunities at a job fair in Taizhou, Zhejiang Province, on January 25, the third day of the Chinese Lunar New Year



diagnoses, said the report.

The report added that more than 136,000 AIDS patients had received anti-virus treatments by September 2011, bringing the treatment coverage rate to 73.5 percent, an increase of 11.5 percentage points compared to 2009.

Relief Program

The China Disabled Persons' Federation has released the Sunlight Program, a 10-year development guideline for the country's handicapped population from 2011 to 2020. According to the report, production bases particularly for handicapped rural people will be set up nationwide with financial assistance from both central and local governments.

Under the plan, a large number of greenhouses will be built for rural families with handicapped members, to help increase their income, with the assistance of companies or cooperatives. Meanwhile, these families will also be encouraged to run businesses related to agricultural production.

Moreover, the country will continue carrying out the "Sunlight" housing projects for these families, which is funded by government-backed lottery programs.

Counterfeit Cleanup

China dealt with 111,300 cases involving fake or low-quality products in 2011, with the total value of the goods in question estimated at 5.5 billion yuan (\$868 million), said the General Administration of Quality Supervision, Inspection and Quarantine.

There was an increase in the average amount involved per case, from 37,100

yuan (\$5,857) in 2010 to 53,500 yuan (\$8,445) in 2011. Among all investigated cases, 800 involved more than 150,000 yuan (\$23,679), up 40 percent from a year earlier, said Li Yuanping, spokesman of the administration.

Nearly half of the cases related to food, building materials and agricultural production, he said.

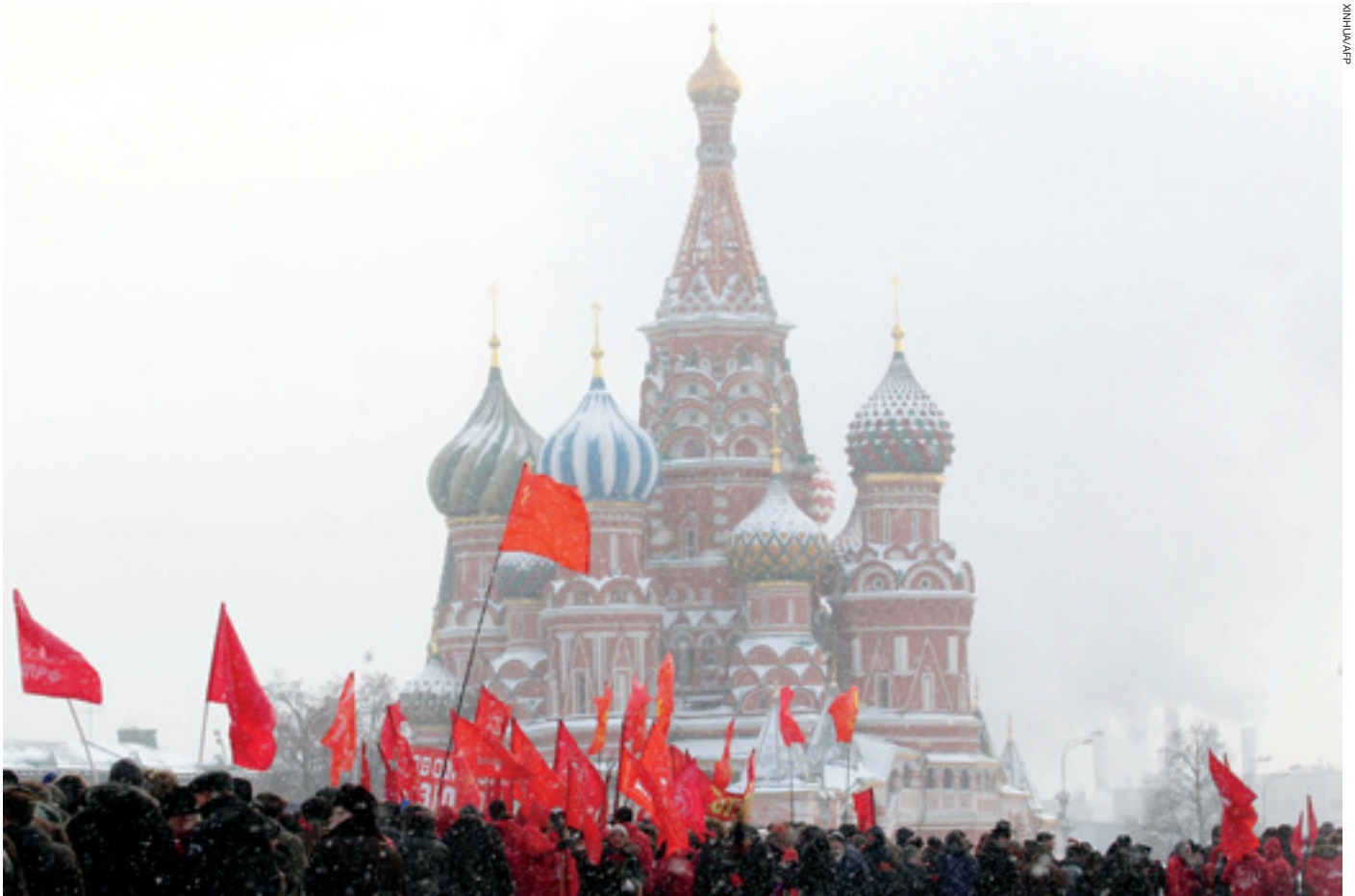
New Museum Head

Shan Jixiang, former Director of the State Administration of Cultural Heritage, was appointed new curator of the Palace Museum in Beijing, replacing the 65-year-old Zheng Xinmiao, who has been its head from 2002. The museum's reputation was tarnished by a slew of scandals last year.

Shan, 57, who holds a doctor's degree in urban planning from Tsinghua University in Beijing, is known for his efforts in protecting cultural heritage across the country. After being appointed director of the State Administration of Cultural Heritage in 2002, Shan promoted the preservation of cultural relics, launched new nationwide surveys of cultural heritage sites and developed new architecture-related programs in rural areas. It's commonly believed that Shan's background will help with the ongoing renovation of the Palace Museum, which will be completed by 2020.



BITTER WINTER A girl plays on the frozen sea in Haizhou Bay off Lianyungang, Jiangsu Province, on January 25



XINHUA/AFIP

RUSSIA

Russian Communist Party supporters queue up to lay flowers at the mausoleum of Soviet leader Vladimir Ilyich Lenin on Red Square in Moscow to mark the 88th anniversary of his death on January 21



XINHUA/AFIP

President Barack Obama delivers his State of the Union address on January 24, in Washington, D.C. In his speech Obama called for "rebuilding an economy where hard work pays off and responsibility is rewarded"

THE UNITED STATES



Egyptians wave national flags during a mass rally in Cairo's Tahrir Square on January 25, marking the first anniversary of the uprising that toppled Hosni Mubarak

EGYPT

INDIA



A marching band member plays a tuba as he participates in the Republic Day parade in New Delhi on January 26. India celebrated its 63rd Republic Day with a large military parade



ROMANIA

Railway company employees clear snow in Bucharest on January 26. South Romania was paralysed by heavy snow, with dozens of national roads cut off and 28 flights to and from Bucharest's airports cancelled

CROATIA

A woman casts her ballot at a polling station in Zagreb on January 22, in a referendum on Croatia's EU membership bid. More than 66 percent of voters said "yes" in the referendum, paving the way for Croatia to become the bloc's 28th member in mid-2013



COVER STORY

THROTTLING DOWN

Rising domestic spending easing effect of sluggish exports on China's economy By Hu Yue

Despite the weakness of Western economies, the Chinese economy still achieved a robust growth rate of 9.2 percent in 2011. The GDP totaled 47.16 trillion yuan (\$7.45 trillion) last year, said the National Bureau of Statistics (NBS).

But the growth rate is lower than the 10.3 percent of the previous year. Also, in the last quarter of 2011, the GDP growth dropped to 8.9 percent from 9.7 percent, 9.5 percent and 9.1 percent, in the first, second and third quarters.

"The quarter-by-quarter weakening was partly due to our economic rebalancing, but it's in line with the government's macro-control goals," said Ma Jiantang, Commissioner of the NBS. The fourth-quarter growth rate remains within a reasonable range, he said.

Yao Jingyuan, a researcher with the Councilor's Office of the State Council, said the economic slowdown is not necessarily a bad omen for China.

"It is an acceptable outcome as the economy tries to transform its growth model," said Yao. "And it's time to address the

imbalance problem glossed over during past boom times."

"The slowdown is moderate and controlled, and is necessary for curbing inflation and restructuring the economy," said Zhang Xiaojing, a researcher with the Chinese Academy of Social Sciences (CASS). "It also indicates that the country has sped up the transition from quantity-oriented growth to quality-led development."

Despite the slowdown, the fundamentals for the country's stable and relatively fast economic growth in the medium to long term haven't changed, said Ma. The economy still has deep growth potential thanks to ongoing urbanization, industrialization and market reforms.

Li Wei, President of the Development Research Center under the State Council, agreed.

"Two major drivers are helping to inject fresh steam into the economy: continued urbanization that creates enormous domestic demand and industrialization that requires robust investments," Li said.

"For the economy in 2012, we should still



be full of confidence," said Ma. China will maintain its proactive fiscal policy and prudent monetary policy this year.

Driving forces

Since exporters took a heavy blow from sluggish Western economies, China's economic growth was predominantly homegrown last year.

Buoyant investment helped put a solid floor under economic growth. Investment in fixed assets surged 23.8 percent from the previous year to reach 30.19 trillion yuan (\$4.77 trillion) in 2011, which contributed 54.2 per-



TO BE SAILING: Cargo ships being built in Nanjing, Jiangsu Province

cent to last year's GDP growth, said the NBS.

Meanwhile, Chinese consumers have opened up their wallets to fill in the blank left by falling exports. While consumption accounted for 51.6 percent of last year's GDP, the contribution of net exports was -5.8 percent, according to the NBS.

Retail sales of consumer goods stood at 18.12 trillion yuan (\$2.86 trillion) in 2011,

rising 17.1 percent compared with 2010.

Zuo Xiaolei, chief economist with the Beijing-based China Galaxy Securities Co. Ltd., said the rapid expansion of the middle class and their increased spending could give the economy a boost, despite a prolonged downturn in Europe and the United States.

Per-capita disposable income of China's urban residents climbed 14.1 percent year on

year in 2011 to reach 21,810 yuan (\$3,445), while per-capita net income of farmers was 6,977 yuan (\$1,102), up 17.9 percent year on year, according to the NBS.

"Since it takes time to complete the social safety net, the road to a consumer-oriented growth model will depend critically on real wage growth," she said.

The Ministry of Human Resources and ►►

Social Security said 24 provinces raised the minimum wage standard by an average of 22 percent last year.

In September 2011, the government raised the cut-off point for personal income tax to 3,500 yuan (\$553) from 2,000 yuan (\$316), which facilitated wage growth and boosted consumption.

Progress in improving social security could also help fuel consumption.

A pension program benefiting the country's 50 million unemployed urban residents that launched on July 1, 2011 has been implemented in 60 percent of the cities and townships.

Promising prospect

Although a downward trend of GDP growth is inevitable due to external uncertainties and domestic rebalancing, China's economy will continue steering a steady course of growth.

Inflation, an acute headache for China in 2011, will calm down.

"Consumer prices will taper off markedly in 2012 as the economy slows, food prices retreat and imported inflation falters," said the Bank of China in a recent report, which predicted that the CPI will rise around 3.5 percent in 2012.

Zhuang Jian, chief China economist with the Asian Development Bank, also anticipated a downward trend in the overall price level in 2012 as a result of diminishing carry-over effects and the government's prudent monetary policy direction.

"There might be a certain degree of fluctuation in monthly figures, but the overall CPI growth will stay around 4 percent," he said.

Investment remains a pillar contributor to the macro-economy, said Qu Hongbin, chief China economist with the HSBC.

"China can use affordable housing and public welfare projects as a powerful buffer to offset the slowdown in private property," he said, adding that it has already begun.

Fan Jianping, a researcher with the State Information Center, agreed. "An expected slowdown in commercial housing construction will be compensated by the government's ambitious affordable housing plans," said Fan.

"Investments will remain supported by solid corporate profits and gradually easing monetary environment," said Lu Zhengwei, chief economist with the Industrial Bank Ltd.

"Infrastructure construction is likely

to slow this year due to decreased spending on railways," said Lu. The Ministry of Railways recently announced that China plans to invest 400 billion yuan (\$62.99 billion) on railway infrastructure construction in 2012, representing a slight decline from the 469 billion yuan (\$74.1 billion) in 2011. "But massive input in water resources and energy development are already in the pipeline," he said.

Qu said a new driver will be the strategic emerging industries, including information technology and new materials. "A key target in the 12th Five-Year Plan (2011-15), was to boost those industries to account for 15 percent of GDP by 2015," he said.

In its Global Economic Prospects 2012 released on January 18, the World Bank predicted the Chinese economy will grow 8.4 percent in 2012 and 8.3 percent in 2013.

China is vulnerable to downturns in the United States and Europe, but a healthy balance sheet, slowing inflation and massive foreign reserves mean China can ease aggres-

sively, if necessary, said the Bank of America Merrill Lynch, in a recent report.

The bank expected China to avert a hard landing and forecasts GDP growth of 8-9 percent in 2012.

"Affordable housing will be a crucial factor in restarting the growth engine. We don't doubt the Chinese Government's determination in building more affordable housing," said Lu Ting, a Hong Kong-based economist with the Bank of America Merrill Lynch.

Dong Tao, chief regional economist for non-Japan Asia at Credit Suisse, expected a soft landing in China as private consumption holds up because of salary increases, tax cuts and continued urbanization. He predicted quarterly growth in 2012 will be about 8-8.5 percent.

"If the economy weakens any further, we would expect future stimulus to be more focused on consumption than infrastructure. In the beginning, a fiscal stimulus would likely increase funding for affordable housing and provide consumption subsidies," he added.

Wang Tongshan, Director of the Institute of Quantitative and Technical Economics at the CASS, said China has better fiscal and financial resources than major developed economies, so it can avoid a balanced recession.

Wang expected this year's economic growth is likely to be 8-9 percent and CPI will be controlled within 4 percent.

This year's growth might be the lowest since 2003, but it would still be the world's fastest among large economies, said Wang.

Potential risks

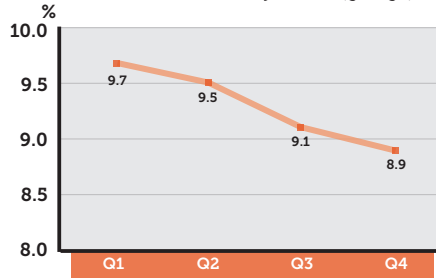
The greatest risk for China this year is external, as the European debt crisis is likely to deteriorate, causing further pains for Chinese exporters, said Peng Wensheng, chief economist at the China International Capital Corp.

Wang Tao, chief China economist with the Swiss investment bank UBS, also struck a note of caution. Wang expected China's export growth to drop to zero in 2012, which would trim 1.4 percentage points off GDP growth, although she does not think the trade surplus will completely vanish in 2012.

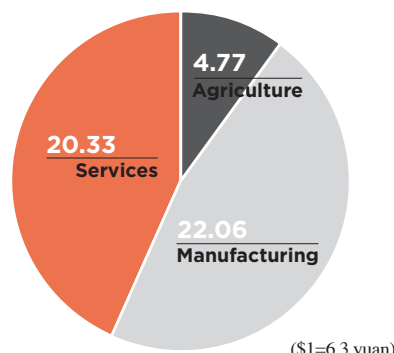
"But looking from a global perspective, the shrinking trade surplus should be seen as a welcome development, an evidence that China has made progress in redressing trade imbalance," she added.

"The export situation will be grim in

GDP Growth Rates, 2011 (y.o.y.)



GDP Composition, 2011 (trillion yuan)





ZHANG GUANGJUN

SUFFICIENT SUPPLY:
Residents in Luoyang, Henan Province, buy vegetables at a community market

2012, especially in the first half of the year,” said Zhang Xiaoqiang, Vice Chairman of the National Development and Reform Commission, at a recent forum held in Beijing.

Zhang expected China’s foreign trade to grow 10 percent in 2012, much slower than the 22.5 percent in 2011.

Shen Jianguang, Greater China chief economist at Mizuho Securities Asia Ltd., believed another cause for concern lies in the rapidly cooling property markets.

“Stagnating property investments have sent a chill throughout relevant industries such as appliances and cement,” he said. “Meanwhile, lagging land sales are making a dent to fiscal capacities of local governments.”

“Other risks looming over the economy include growing debts of local governments and rampant private lending,” said Zhu Baoliang, a researcher at the State Information Center.

“Properly dealing with those problems will be key to economic stability this year,” he said.

To soothe abounding growth worries, policymakers have cautiously handed out incentives on a selective basis, including

favorable policies for smaller businesses in terms of credit support, taxation and government purchases.

On November 30, 2011, the central bank announced plans to decrease the ratio of deposits that banks must set aside in reserve by 0.5 percentage points for the first time in three years.

“Waning inflation has allowed the country to stop tightening monetary policy, but the speed and format of further loosening will largely depend on how domestic and overseas situations develop,” said Guo Tianyong, Director of the Research Center of China’s Banking Industry, Central University of Finance and Economics.

“Despite falling CPI, long-term inflation pressures remain, forcing policymakers to keep a vigilant eye on consumer prices,” said Fan.

Fan noted that domestic inflation will be an inevitable trend, as resource prices, labor costs, and land prices head north. “China’s broad money supply is almost two times that of the GDP, the highest ratio among major global economies. The excess liquidity may easily reignite inflation once regulatory controls become loose,” he said.

“The United States is also likely to start a

third round of quantitative easing, paving way for China’s inflation to come back,” he added.

Fan suggested China strengthen supplies of agricultural products by improving farming technologies, logistics efficiency and rural finance.

“On the liquidity front, there is limited room for policymakers to aggressively ease the monetary policies,” he said.

Wang Jian, Secretary General of China Society of Macroeconomics, said it is too early to lower the guard against inflation as the Lunar New Year spending may trigger a rebound in food prices.

“The persistent conflict between expanding population and shrinking arable land will push up grain prices,” he said. “International commodities prices are also likely to bounce back due to recovering demand in emerging economies.”

“Those factors may drive CPI back to no less than 5 percent this year, and possibly above 6 percent in the fourth quarter,” he added. ■

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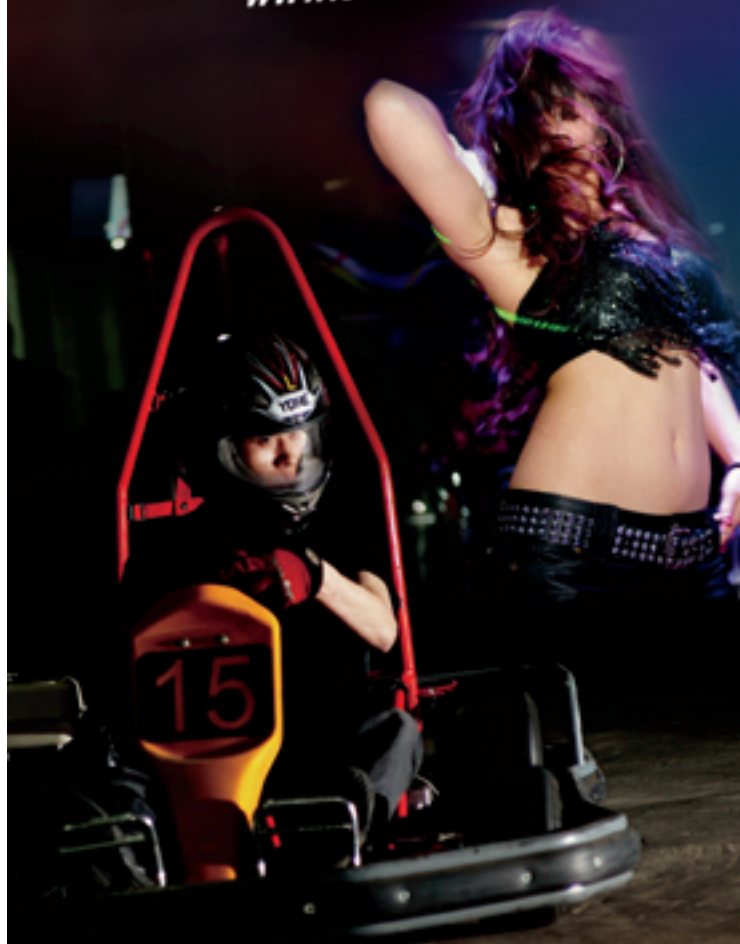
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