



The China Monitor
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Editorial

The Centre for Chinese Studies at Stellenbosch is a recent institutional creation designed to further the knowledge of China in Africa and build networks between our respective regions and peoples.

This month's China Monitor includes contributions from Ronnie Chan, Chairman of the Hang Lung Group based in Hong Kong, and Dr. Srikanth Kondapalli of India's Institute for Defence Studies & Analysis, one of the world's foremost analysts of Chinese military affairs.

In this month's "Letter from China", Mr. Chan poses the question "How China will change the world". He describes China's growing economic, political, and often less noticeable cultural, impact on the global stage. Rather than a pending "clash of civilizations", he argues for a coexistence of western and eastern cultures with China representing the revival of eastern culture.



Dr. Kondapalli evaluates China's foreign and commercial policies in South Asia, a region which Beijing is engaging strategically. The drivers of the relationship are identified and China's relations with each state in the region discussed.

During the course of September, the staff of the Centre will be attending the World Economic Forum's China session that is to be held in Beijing from the 9-10th September. The China Monitor will be providing much commentary from the WEF in next month's October edition.

Whilst in Beijing, the Centre for Chinese Studies will also be visiting numerous Chinese universities with a view to establishing academic and research linkages with Stellenbosch University. It is important for African institutions to expand their academic relationships into emerging regions and rely less upon traditional networks that were often influenced by colonial ties. The aim is to encourage new learning from China that is currently one of the globe's most dynamic economies.

Dr Martyn J. Davies
Director, Centre for Chinese Studies

Letter from China

How China Will Change the World

By Ronnie C. Chan

Chairman of Hang Lung Properties, Hong Kong

Adapted from a speech delivered at the
Citigroup Asia Pacific Leadership Meeting, Beijing, March 2002



China's rise is a social experiment similar in scale to that of its flirting with communism in the last century. Ten years ago, China still had price controls, no free movement of its citizens, few cars and few telephones, and no central bank. Twenty-five years ago, the country was so "left" that it made its former Soviet big brother seem liberal – Mao Zedong made Khrushchev look as if his middle name was "Reagan" and Brezhnev, "Thatcher." Yet in less than a quarter of a century, through reform, Deng Xiaoping improved the livelihood of more people to the greatest extent and in the shortest time than any human being has ever done – or will achieve again.

Will China stay the course? No one knows. Generations of Chinese once conditioned to communism are now living in the world's most lively capitalistic society. This has created tremendous social and psychological dislocations. To predict that nothing will go wrong seems unreasonable. On June 4, 1989, reform almost derailed but Deng single-handedly put it back on track. Assuming that China will only teeter and not fall, its impact on the world will surprise many. Here are a few considerations, beginning with the more superficial.

"Will China stay the course? No one knows."

Some ten years after joining the WTO in 2001, China is expected to account for about 50% of the world's manufacturing capacity by volume. That means roughly 50% of the world's natural resources will be consumed in China; half of the energy required to produce goods will be spent there; every other plane or ship in the world will call on airports and ports in China; half of all merchandise one sees and uses will be made in China.



Last year China overtook the U.S. as the largest recipient of foreign direct investment in the world. This was an anomaly no doubt, but China will maintain the number two position in the foreseeable future. It is conceivable that in fifteen to twenty years time, China may have the third largest stock market in the world, only next to the U.S. and Japan.

A few years ago, the world could hardly name one Chinese company. Now they are appearing on the international stage – PetroChina, Lenovo computers, Haier white goods, and Huawei communication

equipment, to name a few. They will become increasingly acquisitive overseas, initially targeting natural resource companies. China's domestic consumer market is big enough to develop domestic brands which may one day become global ones.



As long as China improves its infrastructure, it will rival the U.S. and France as the world's most popular destination for foreign visitors. Chinese tourists are beginning to be felt overseas not only by their sheer numbers but also through their purchasing power. In Hong Kong, they outspend all other tourists on a per capita basis.

There are less obvious but nevertheless significant regional and global consequences accompanying China's rise. China is now a foreign aid donor nation. Philanthropy among China's nouveau riche is emerging. The rule setting mechanisms of international organizations such as the World Bank, IMF and WTO, which were previously dominated by developed nations, will be shared. For once, a developing country will have a serious voice. China can also be a model for underdeveloped economies. Parts of China have just emerged out of abject poverty while other parts are still distinctly undeveloped. Success stories are much more inspiring and convincing than pedagogical preaching such as those dispersed by the West.

“For once, a developing country will have a serious voice. China can also be a model for underdeveloped economies.”

On the political front, China, together with the U.S., can play a serious role in facilitating peace almost anywhere. North Korea is just one example. The only obstacle to China's achieving this goal is the U.S. In 2001 and 2002, the Bush administration was on a path to make China an enemy. In the wake of 9/11, America realized that it needed China's cooperation. Let us hope that the U.S. will not unnecessarily step onto that path again.

The rise of China has still wider implications. For over two centuries, mankind was deprived of the intellect and creativity of the Chinese, who today account for about 21% of the world's population. They will now enrich the world in not only science and engineering, but also literature, music, visual arts, design, film making, etc.

Last but not least, only China's rise can represent the revival of eastern culture. Two hundred and fifty years ago, China was the wealthiest and most advanced country in the world. Globalization spelled its decline as the West soared on the back of the Renaissance, industrial revolution, and colonialism. The world has never seen a time where eastern and western cultures have to co-exist. Now it will. Instead of the clash of civilizations, mankind has the distinct possibility of seeing not only the co-existence of the two but also their mutual enrichment.

We stand at the brink of a new chapter of human civilization that holds great promise. Which path we will take will depend to a good extent on our political leaders. In particular, the U.S. President has a

deciding influence. Of course he cannot single-handedly help, but can certainly derail it. This is the gravest challenge facing President Bush. 

Mr. Ronnie Chan is chairman of the Hang Lung Development Group, one of the largest real estate development, management and Investment firms in Hong Kong. The Group comprises three publicly traded companies-Hang Lung Development, Amoy Properties Limited and Grand Hotel Holdings Limited. His essays have appeared in, among other places, the International Herald Tribune and the Financial Times. Please send comments to: lplo@hanglung.com

Policy Watch

Dr Srikanth Kondapalli

Stabilizing the South-West, re-enforcing in the East: Chinese Premier's Visit to South Asia



As political tempers ran high in East Asia in the wake of the Chinese Han-class submarine intrusion in areas close to Japan and the approval of the “anti-secession” law by the Chinese National People’s Congress (NPC) to counter Taiwanese independence, a different picture is emerging in China’s south-western areas with Premier Wen Jiabao’s visit from April 5-12, 2005. A short but significant visit, this was intended to stabilize and expand China’s ties with its south-western neighbours at a time when the United States is strengthening its position in this and contiguous areas as well.

China’s pro-active policies in South Asia suits recent “good neighbour” policies as well as assists the recent Western Development Campaign of opening the backward western areas. Combined with Chinese forays in South-East Asia, Wen’s visit to South Asia conforms to the Chinese leadership’s effort to stabilize relations with these regions diplomatically and economically, while making political and military preparations in the east. This is exemplified better by Wen’s comments, soon after the NPC session which adopted the “anti-secession law” that explored possibilities of using “non-peaceful means” to solve its problems with Taiwan, when he cited ancient Indian scripture invoking the necessity for peace. Additionally, in a belated move, China recognized India’s rise by readjusting its policy towards establishing and developing a “long-term” relationship with India.

Premier Wen visited Pakistan, Bangladesh, Sri Lanka and India on a four-nation whirl-wind visit in April. Shortly before this tour, foreign minister Li Zhaoxing visited the other South Asian countries, Nepal and Maldives, thus completing the trip of the whole region by the Chinese leaders.

Pakistan



Relations with Pakistan were elevated by China from a “traditional friend” to partnership during Wen’s visit to Islamabad. China assured Pakistan that it would defend the latter’s “sovereignty, independence

and territorial integrity” a euphemism to counter any Indian moves to divide Pakistan. A treaty of friendship, cooperation and good neighbourliness was signed. In addition, they have signed 22 agreements to further cooperation in trade, defence, infrastructure and other areas. Specific Chinese assistance relates to the first phase of the Gwadhar naval port in the western tip of Pakistan, contract for the construction of four F22P frigates, assistance in the manufacture of JF-17 multi-role aircraft, support for the \$350 million Chashma II nuclear plant, etc.



Despite the traditional bonhomie between the two countries, there has been no respite for China in terms of violence in Xinjiang. China has given a list of what it considered to be terrorist organizations and individuals linked to Al-Qaeda to Pakistani authorities but the progress in identifying and handing them over to Chinese authorities is tardy. While both the countries have coordinated efforts in launching counter-terrorism campaigns, China is still concerned about Uighur links in Pakistan.

Wen also took this opportunity, while in Islamabad, to address the Asia Cooperation Dialogue, where he called for a new Asia with peace, stability, cooperation and development. Given the 16th Party Congress resolution for building a “well-off society” in China in the next two decades, this proposal is not surprising. However, he suggested that China would support an “Asia-based regional and sub-regional cooperation mechanism” in the process. This reminds one of the former Chinese foreign minister Qian Qichen’s call in the early 1990s that all “outside powers” in Asia should withdraw from Asia. Given the Chinese opposition to the United States policies, this formulation could suggest Chinese support for a non-US grouping and perhaps preferably under the Chinese influence.

Bangladesh



Wen’s entourage to Dhaka has a significant itinerary. Prior to the visit the Chinese were happy to know that Dhaka had closed their Taipei Representative Office in May 2004. However, it was reported that prior to the visit, a diplomatic hiccup ensued between the two as a Dhaka office issued visas to

“China and Bangladesh have elevated their relations to establish a ‘comprehensive and cooperative partnership’.”

Taiwanese. Taiwanese trade contacts with Bangladesh have also increased over a period of time to the chagrin of Beijing. It is not out of context to mention that the Bangladeshi leadership regularly, if less successfully, complains to Beijing about the negative balance of trade positions between Bangladesh and China. However, very few investments into Bangladesh are forthcoming from Beijing.

China and Bangladesh have elevated their relations to establish a “comprehensive and cooperative partnership”. This used to be the configuration accorded to India by China from 1988. As with some other South Asian countries, China started looking at Bangladesh as a crucial partner in helping it to

enter the South Asian Association for Regional Cooperation. In addition, Bangladesh's role in the success of the Chinese-driven Kunming sub-regional cooperation would be crucial.

While declaring that they have "no big differences, only friendship", Chinese and Bangladeshi leaders signed nine accords during this visit to include areas in setting up a nuclear plant at Roopur at Iswardi, cooperation in public security, air and land transport, economic and social fields. The nuclear agreement was considered as a "landmark development" in the bilateral relations since independence in 1971. In 2002, both have signed a defence cooperation agreement with the objective of "institutionalizing" such ties. Subsequently, military training, arms exports, etc have been frequently reported.

Sri Lanka



One of the stated objectives of Wen's visit to Sri Lanka was to view the help extended to the latter to overcome the Tsunami disaster. To recall, China has written off all governmental debts of Sri Lanka. Of an estimated loss of nearly US \$5 billion in Sri Lanka, China contributed about \$ 4 million, with



about \$8.7 million promised during Wen's visit. In addition, one medical team was sent to Sri Lanka, at Hikkaduwa, with about 17 members. Chinese vice foreign minister Wu Dawei visited Hikkaduwa on January 11, 2005. Incidentally, a Taiwan-based Buddhist Compassionate Relief Tzu Chi Foundation with its 29-member medical team at Hambantona, one of the worst affected areas in Sri Lanka, is one of the largest such medical teams extending relief to the affected.

China and Sri Lanka have elevated, during this visit, their relations to an "all-round and cooperative partnership characterized as sincerity, mutual help and long-term friendliness". In addition, Wen suggested the need for "coordination" between the two on international and regional issues.

In addition to signing six documents during this visit that extended cooperation in economic and trade issues, agriculture, debt relief and technical cooperation, Wen participated in the inaugural ceremony for the restoration work of the Panadura fishing harbor, to be financed by China.

India



Premier Wen mentioned before his India visit that this is one of his significant visits abroad for 2005. The reasons for elevating India in the Chinese calculus are many, and include burgeoning trade contacts, identical views related to protecting sovereignty of the countries under the United Nations Charter, close collaboration in the Group 20 developing countries in the discussion on trade barriers

and other related economic issues, etc. More importantly, with the installation of the second Bush Administration in the United States, which visualizes and supports the rise of India for the geo-political and economic stability of Asia and beyond, China appears to have had no choice but to also recognize the rise of India. US Secretary of State Rice visited New Delhi as the first stop in her Asia trip and suggested that India is poised to play a major role in the 21st Century.

“China appears to have had no choice but to also recognize the rise of India”

Given this background, several Chinese have voiced concern about the emerging close US-India relations in several fields, viz., economic, technological, defence and strategic aspects and their potential impact on Asia. From the hype created in both countries, it appeared that the visit would revive the 1950s bonhomie. However, the contexts have changed.

Despite several agreements, proposals for confidence building measures and a joint statement on building “long term constructive and cooperative partnership” in several spheres, nevertheless, hard ground realities are staring at both India and China. The joint statement between the two countries stated as much when it noted “incremental progress in addressing outstanding issues”. One major aspect is the inability to resolve border disputes as has been suggested before the visit. Instead “political parameters and guiding principles” were enunciated. The fact that it took more than 24 years, 8 rounds of talks, 15 Joint Working Group meetings and 5 Special Representative meetings to arrive at these principles not only suggest the complicated nature of this issue but also the disinterest of both parties. Clearly, China has been stalling a solution to the border dispute. Nevertheless, the joint statement called for a “proactive manner” of settling such disputes and that it should be “pursued as a strategic objective.”

A second major concern in the India-China relations is the role played by China in Pakistan, especially in the proliferation of weapons of mass destruction. The joint statement issued by India and China obliquely refers to this when it stated that relations between the two should be based on “sensitivity for each other’s concerns...”

On the “strategic” aspects of India-China relations, progress achieved during this visit appears to be minimal, though both tried to chart out future possibilities. On the crucial issue of the reform of the United Nations, Beijing’s position appears to be ambiguous. While it has stated that it “supports” an enlarged Indian role in the international arena, China has not categorically supported an Indian claim to the United Nations Security Council permanent membership with veto. Instead, much like its “all-weather” friend Pakistan’s position, Beijing is for a “gradual” and “consensual” approach and indefinite postponement of the UN reform. In addition, both India and China have



different views about each other's entry into the Shanghai Cooperation Organization and South Asian Association for Regional Cooperation respectively. There has also been no visible and concrete progress in arriving at a "de-targeting" agreement between the two in terms of strategic weapons.

Conclusion

Chinese Premier Wen Jiabao's visits to the four South Asian countries have led to mixed results that are bound to affect not only China's relations with these countries but may also influence the regional scenario.

By upgrading its relations with the other South Asian countries, China has once again indicated that other countries are as equally important as India, even as it tried to readjust its policy towards India in "strategic" terms.

"China has once again indicated that other countries are as equally important as India..."

On its minimalist agenda, while Pakistan, Bangladesh and Sri Lanka were supportive of China's stand on Taiwan in terms of backing the recent NPC resolution on "anti-secession", New Delhi appears to be less enthusiastic about the Chinese proposals. The joint statement between India and China reiterated India's position that it "would continue to abide by its one China policy". In this context it needs to be pointed out that Taiwanese investments are higher than China's investments in India, though India-China trade is several times higher than India-Taiwan trade.

China opposed Taiwan's nuclear initiatives for several decades and threatened to use force if the island develops such capability. Yet, China is widely believed to have proliferated weapons of mass destruction to several countries, especially Pakistan, Saudi Arabia and Iran. During Wen's visit, China extended cooperation for the second phase of the Chashma nuclear plant in Pakistan and initiated a similar measure for energy-rich Bangladesh. While these are supposed to be in the civilian sphere and under the international safeguards, progress and impact in this regard will be closely watched in the coming decades.



China's trade with the South Asian countries has increased over a period of time. This appears to be the most tangible outcome of China's interactions with the region. While its trade with Pakistan, Bangladesh and Sri Lanka witnessed incremental progress, India-China trade reached an estimated \$13.6 billion in 2004 from a mere \$100 million in the early 1990s, signifying that trade with India would be much more significant than with other countries in the region. More important, successive Chinese leaders visits to India saw a stop over at Bangalore, the Indian Silicon valley, which indicate that

Indian software technologies would be tapped by China in the coming years, as it makes progress in incorporating Taiwanese hardware. 

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Business Briefs

Significant business developments in China over the past month



Lenovo posts gains in quarterly profits.

Chinese personal computer maker, Lenovo Group



recently posted an unexpected gain in its quarterly profits on 11 August, shortly after acquiring IBM's PC business in May this year. The company reported a profit of US\$46 million for the first financial quarter to June, a year-on-year rise of 6%. From April to June the group's total sales increased by 234% year-on-year to US\$2.4 billion. IBM's PC business yielded profits from integration in just two months, resulting in cost savings of US\$10 million. That figure is expected to rise to as much as US\$200 million per year when business integration is fully completed. The US\$1.25 billion purchase of IBM's PC business has made Lenovo the world's third-largest PC maker, after Dell and Hewlett-Packard Co.

United States and China to discuss textiles.

United States and Chinese officials are set to hold textile trade talks this August in San Francisco. However, the Bush administration has not decided whether to formally seek a comprehensive textile trade deal with China. The August 16-17 talks are part of a series of consultations mandated under World Trade

Organisation rules following U.S imposed emergency import curbs in May this year, on textile imports from China. U.S textile groups require a deal that would eradicate the need for them to file petitions calling on the Bush administration to impose emergency import curbs, as allowed under the World Trade

Organisation rules until the end of 2008 under the terms of China's entry four years ago. US textile producers want an agreement that limits the growth in imports from China to less



than 7.5% a year, which can be unilaterally imposed under WTO safeguard provisions.

Yahoo to buy into Chinese Alibaba.com.

Yahoo Inc. announced on 11 August that it would pay US\$1 billion to acquire a 40% in Chinese e-commerce firm Alibaba.com. According to a joint statement from both companies, the deal will see Yahoo contributing its China business to Alibaba. The acquisition will also include 3721.com, a Chinese language search engine that Yahoo procured last year. Yahoo will hold 35% of voting rights in Alibaba as a result of its latest investment. The deal is expected to be

completed later this year and is the biggest deal thus far by foreign Internet companies eager to get into China's online market of more than 100 million people. The partnership is set to rival U.S based eBay, the world's largest online commerce company, which purchased a Chinese portal, eachnet.com, in 2003. Yahoo expects China to be the world's biggest Internet market within the next five years.

Rising oil prices in China.



Increased tax on oil and gas exploitation, and soaring crude prices may see further price hikes for refined oil and natural gas in China. From 1 July this year, crude oil exploitation tax increased to 300%, while the tax on gas rose between 40% and 50%. The increases are based on reserves and exploitation facilities but the adjustment will not impact significantly on China's oil and gas producers as it is offset by high profits from soaring crude prices. Analysts claim that the country's domestic refined oil prices will not be affected as they are determined by global crude prices. However, if crude prices remain at their current levels or increase further, the Chinese government may increase gasoline and diesel prices.

China reveals basket of currencies. The Governor of China's central bank, Zhou Xiaochuan, announced on 10 August the details of the basket of currencies now used to determine the value of the yuan. The dominant currencies are the US dollar, the euro, the yen and South Korea's won. The Singapore dollar, pound sterling, the Malaysian ringitt, the Russian rouble, the Australian dollar, the Thai

baht and the Canadian dollar will also be used to determine the value of the yuan. The Governor stated that



the currencies were selected based on their share of China's foreign trade, foreign debt and foreign direct investment. Zhou said that given that the United States, the European Union, Japan and South Korea are China's largest trading partners, their inclusion in the basket is a natural one, adding that any economy that has an annual bilateral trade volume of more than US\$10 billion could not be overlooked in forming the basket of currencies. The Governor maintained that countries with an annual trade volume of more than US\$5 billion should also be considered for inclusion. Zhou did not provide details of the weightings of individual currencies in the basket.

US and China engage in dialogue. The first round of high-level strategic dialogue between China and the United States opened in Beijing on 1 August. Chinese Vice-Foreign Minister Dai Bingguo and US Deputy Secretary of State Robert Zoellick attended the meeting, where they discussed various views on numerous bilateral, regional and international matters of mutual concern. Chinese President Hu Jintao and US President George W. Bush are expected to hold six meetings this year.

Zijin backs down on selling new shares. China's largest overseas-listed gold miner, the Zijin Mining Group, has abandoned plans to sell new shares in Hong Kong, or the mainland A-share market, opting to rely on internally generated funds and bank loans for needed capital. The decision announced this August

contradicts earlier statements in April, when Zijin alluded that it may sell A or H shares to fund acquisitions. The mining group is the latest company to retract plans to sell A shares following China's May decision to bar new share sales in an attempt to bolster stock prices in Shenzhen and Shanghai. Zijin is looking to expand to increase gold, copper and iron ore production and is looking to invest in Australia, South Africa and the Philippines.

Barclays keen to expand in China

Barclays Plc. Britain's third-largest bank by assets plans to increase its fledgling presence in emerging markets such as China and India to prop up earnings from outside its UK base. The bank currently has exposure in both India and China. European and U.S. banks, including U.K. rivals HSBC Holdings Plc and Royal Bank of Scotland Group Plc, have spent more than US\$6 billion buying stakes in China's lenders since the start of last year, seeking to profit in a market where household savings total US\$1.65 trillion. Royal Bank of Scotland teamed up with Merrill Lynch & Co. and the Li Ka-shing Foundation to purchase 10% of Bank



of China, the nation's second-largest bank, for US\$3.1 billion. Barclays aims to open a second corporate-banking branch in China within the next few months. The bank is closely following the strategies of HSBC and Standard Chartered Plc., a UK bank that generates two-thirds of its profits in Asia.

China to amend law on personal income tax. China's top legislature on 23 August

deliberated the draft amendment to the personal income tax law. The draft amendment includes lifting the tax collection starting line from US\$98.8 to US\$185 and forcibly asking high-income groups to file tax returns and pay taxes themselves. Statistically, wage earners are China's main personal income tax payers. In 2004, China's revenue collection from personal income taxes was US\$21 billion, 65% of which comes from the country's 300 million salaried worker.

EU China hold talks to resolve textile crisis.

European Union trade negotiators are to visit China this month in a bid to resolve the crisis



over blocked imports of Chinese textiles, after three further clothing categories breached quotas this month. Following an agreement on quotas reached in June, six out of the ten agreed categories have now exceeded their quota. The quota restrictions have sparked a dispute between Europe's textiles industry, which argues that the increase in Chinese textiles imports is damaging European producers, and the retailers and importers who rely on cheap shipments from China. EU officials stated that they would not be renegotiating the Shanghai agreement, but would instead opt for more flexibility in the 10 June agreement by shifting some of next year's quota to this year. Meanwhile, retailers in the EU said they were looking to shift production to other locations in Asia to guarantee product deliveries.

China National Petroleum puts in bid for

PetroKazakhstan. The China National Petroleum Corporation (CNPC), China's largest oil producer, announced on 22 August

that it has bid US\$4.18 billion for the takeover of PetroKazakhstan through its wholly owned subsidiary, the China National Petroleum Corporation International (CNPCI). PetroKazakhstan is registered in Canada, and listed in the United States, Canada, Germany and Kazakhstan. The Canadian oil company has an annual oil output of 7 million tons, and has oil and gas assets located in Kazakhstan, which shares a common border with China. This makes the deal China's largest foreign acquisition yet. China National Petroleum outbid India's state-owned Oil and Natural Gas Corporation to acquire PetroKazakhstan. The deal serves as consolation for the Chinese oil industry given the failed Unocal bid on 2 August. However, Kazakhstan has passed a law declaring its right to pre-empt the sale of any oil property in the country, which means the deal cannot be fully accomplished without government approval. Essentially, Kazakhstan could pre-empt the sale of assets within the country but could not block the sale of PetroKazakhstan itself. PetroKazakhstan's main asset lies in its full ownership of one oil field, Kumkol South, and half-ownership of two smaller ones, Kumkol North and Germunaigaz.



South Korea acquires China's Okay Airways. South Korea's largest airline, Korean Air Co.

announced on 22 August that it signed a preliminary agreement to take over China's Okay Airways to target increasing air cargo and passenger demand in China. The investment is part of the company's strategy to increase their activity in China. Korean Air is conducting due diligence for three months and

plans to complete the purchase by the end of this year to tap the air cargo, passenger and terminal markets. Korean Air Lines Co. is based in Seoul, and is the world's second-largest airfreight carrier. China is now one of the three major aviation markets in the world, after the United States and Europe. The 121 million passengers carried in China last year represented 16% annual growth, twice the global average, according to Chinese statistics.

Chinese Bank to sell shares to foreign banks. Huaxia Bank, a Chinese lender busy negotiating to sell a stake to Deutsche Bank and six other foreign banks, posted a 29% increase on 24 August in first-half profits from loans and investments. The net income at China's fourth-largest publicly traded lender increased to 640 million yuan from 495 million yuan the previous year. That indicated a 44% gain in second-quarter profit to 328 million yuan, from 228 million yuan a year earlier. Revenue rose to 3.4 billion yuan from 2.7 billion yuan in the quarter. Huaxia is currently engaged in talks with a number of foreign banks, including DBS Bank Holdings of Singapore, Société Générale and BNP Paribas of France, and Sumitomo Mitsui Financial Group of Japan. Huaxia aims to find an investor by the end of September and the negotiations with Deutsche Bank are more advanced than Huaxia's talks with other investors. Deutsche Bank will buy about a 5% stake in Huaxia for US\$110 million with the purchase to be concluded next month.

Australia, China FTA talks resume. Australia and China have resumed the second round of talks on a free trade zone. The countries exchanged information on their respective

trade mechanisms during the three-day meeting which ended 24 August. The talks are meant to set the grounds for the third round of talks expected to be held by the end of October. The governments of the two countries began the free trade talks in May in Australia.

CFE releases list of China's top 500. The Chinese Federation of Enterprises (CFE) issued the list of China's top 500 companies in 2005 on 21 August. The Federation employed exactly the same criteria used by Fortune Magazine to evaluate its global top 500 companies. CFE statistics indicate that the gross business income, profits and assets of China's top 500 just account for 8.4 percent, 7.0% and 6.0% of the world's top 500 respectively. The first eight companies in the list are corporations in monopolized fields such as petroleum, power and steel, but the world's top 500 companies belong to competitive fields like the automotive industry. Aside from this, the majority of the world's top Fortune 500 companies are privately run, whereas most of China's leading enterprises are still state-owned. However, the number of privately-owned companies is steadily increasing. The CFE list indicates that 15.8% of China's top 500 companies are privately owned, with the per capita asset profit margin, asset turnover and business income much higher than their state-owned counterparts.

China to adopt policy on auto trade. China's Ministry of Commerce intends to adopt detailed measures to standardize vehicle trade within the country. The measures will deal with the trading of second-hand cars, spare-parts, and the recycling of discarded vehicles. The latest developments will build on the Policy on Auto Trade which came into effect as of 10

August, detailing the overall principle of vehicle trade and target of government management of the industry. The government also intends to introduce competition mechanisms into the auto trade industry in a bid to encourage companies to become more internationally competitive. The new policy also has attached much importance to the protection of consumer interest. Ministry statistics show in 2004, that China has become the third largest auto market in the world, with sales volume reaching 5 million units.

China's auto industry shows slump in profits.

Profits from China's auto manufacturing industry have in the first half of the year



fell 62.5% year on year. According to latest figures released on 24 August from the China Automotive Industry Association, the profit of refit car, auto engine and spare part manufacture sectors dropped 50.04%, 30.50% and 29.21% year on year respectively. The only sector to record a profit is the motorcycle manufacture sector, growing 4.16% year on year for that period. In the first six months the profit of the auto industry in China totaled US\$2.8 billion, down 48.16% year on year. Income from sales of auto spare part manufactures during the period grew 16.37% year on year, ranking first in all auto subfields. The sales income of refit car, motorcycle, and auto engine and auto manufacturers respectively rose 8.06%, 8.06%, and 3.51% and dropped 2.52%. China's auto exports increased to 44.17% year on year.

Caterpillar Inc to develop world's largest industrial park in China. Caterpillar Inc subsidiaries in China, have this month signed three non-binding memoranda of understanding with an industrial park development company, Shanghai Lingang Economic Development Co Ltd (Lingang Group), which is currently developing the world's largest industrial park. Caterpillar Remanufacturing Services will use its proven record in the area of remanufacturing to establish the Lingang Industrial Area as the premier remanufacturing centre in China to support Caterpillar customers and dealers in China and the Asia-Pacific region. Caterpillar currently operates 10 facilities, both joint venture and wholly-owned businesses in China. Earlier this year, Caterpillar acquired a minority stake in SEM with an option to purchase the remaining equity in 2007. In addition, Caterpillar is engaged in preliminary discussions with other Chinese manufacturers, which could result in additional future investments.

Property prices in China set to drop.

China's central bank, the People's Bank of China has released a financial report on the real estate industry forecasting a slowdown in the growth of property prices in the country next year. The report states that the supply and demand on the housing market will be balanced in 2005 and 2006 and that government is tightening its rein on speculative activities by implementing macroeconomic control measures. The report also mentions that the Construction Bank will offer the first mortgage-based securities to private housing buyers in the third quarter of this year. In order to control interest rates risks, departments concerned will produce such risk control tools

as interest rate swaps, interest rate options and option swaps and other interest derivatives. Meanwhile, commercial banks will be allowed to issue fixed-interest private housing loans. The report recommends the use of taxation to curtail speculative activity in the housing market and more aggressive levying of the land value increment tax in order to promote the healthy development of the property market.

No further revaluation of the Yuan. China reiterated on 25 August that it would let the market determine the yuan's value and not take any actions to depreciate it further. The central bank, however, has signalled it would not tolerate sharp gains in the currency. The yuan increased by 0.16% at most since the revaluation.

Nokia predicts 200 million new subscribers in China.

Nokia

reported on 25 August, that it expects 200 million new mobile subscribers in the burgeoning Chinese market within the next three years. Nokia expects three and possibly four 3G mobile licenses to be issued in China, most likely in the first half of 2006. The global mobile giant anticipates that the global number of mobile phone subscribers to pass the 2 billion mark in the fourth quarter of this year and to reach 3 billion by 2010.



Heineken to increase stake in Kingway.

Dutch beer maker Heineken NV has concluded discussions about a possible stake increase in Chinese beer maker Kingway Brewery

Holdings Ltd. Heineken-APB (China), Heineken's joint venture with Singapore's Asia-Pacific Breweries, paid US\$74.6 million for a 21.44% stake of Kingway last year, and GDH holds a 52.63% controlling stake.



Chinese government orders mines to shape up or close down. China has ordered coal mines to improve safety conditions or face closure by the end of this year, and has told local government officials to get rid of their shares in mines by next month. The decision is indicative of the Chinese government's determination to regulate the mining industry after 9,000 workers died in mining accidents over the past 20 months. Current regulations ban Communist Party members and public servants from investing in businesses, but the practice is still widespread in the coal mining industry and other areas.

is reforming its banking sector, ahead of World Trade Organisation mandated opening of the country's financial sectors to overseas competition by the end of 2006. The Swiss bank, UBS, Singapore-based Temasek Holdings, and an investment bureau under Kuwait's Ministry of Finance, are also discussing the possibility of acquiring stakes in the Bank of China. UBS said in June that it planned to invest approximately US\$500 million in BOC, but might increase this to US\$1.266 billion to acquire a 5% stake. Temasek has also said that it would invest US\$1 billion in the China Construction Bank and the Agricultural Bank of China which is also scheduled to go public.

Goldman Sachs led consortium to buy into Industrial Bank of China. The Industrial Bank of China, one of the country's largest state-owned lenders, has agreed to sell a 10% of its shares to a consortium led by Goldman Sachs for US\$3 billion.

Royal Bank of Scotland to invest in Bank of China. The Royal Bank of Scotland, Europe's second largest bank, is set to become a strategic investor in the Bank of China. China

Sourced from: China View, New York Times, Reuters, Bloomberg, Xinhua

China & Africa

The latest updates on Chinese activity on the African continent.

Mauritius and China celebrate 40 years of diplomatic ties. Chinese President Hu Jintao and Mauritanian President Maaouya Ould Sid'Ahmed Taya on 20 August exchanged congratulatory messages on the occasion of the 40th anniversary of the establishment of

diplomatic ties between the two countries. Both countries used the occasion to reaffirm their commitments to strengthening and developing bilateral ties. Premier Wen Jiabao and Foreign Minister Li Zhaoxing also exchanged congratulatory messages with their respective counterparts.

Ethiopia seeks closer military ties with China. Ethiopian Prime Minister Meles Zenawi said on 14 August that Ethiopia seeks to forge closer military ties with China. The Ethiopian head of state told a visiting Chinese military delegation, led by Lieutenant-General Zhu Wenquan, that Ethiopia wanted mutual co-operation in military training, technology, and peacekeeping expertise. Ethiopia has become one of the leading troop contributors to international peacekeeping missions in troubled African countries, forming part of the first AU peacekeeping mission deployed to Burundi in 2003. Currently, Ethiopian troops are part of the UN peacekeeping force in Liberia. Bilateral cooperation in military training has existed for many years.

Kenya to become a hotspot for Chinese tourists. A Chinese delegation has launched a survey of tourism sites in Kenya's Coast in an effort to promote the destination to Chinese tourists. Led by the Chinese Minister for agriculture, the delegation visited various tourist attractions and historical sites in Malindi. The Minister said it was important to market Kenya to Chinese tourists given that the bilateral relationship dates back more than 600 years. Kenya plans to sign a memorandum of understanding with China to undertake an in-depth study on their heritage at the Coast following a recent visit by Chinese archaeologists following the discovery of Chinese artifacts. Jimbi Katana, a National Museums official, said hundreds of Chinese landed in Siyu after their vessel ran aground in Pate in the 12th Century.

Suntopway to promote Ugandan coffee. Suntopway Solar Uganda Ltd, a Chinese solar

equipment maker and distributor, will commence marketing Uganda's agricultural produce starting with coffee. Henry Xia, the managing director, said on 25 August that coffee consumption in China is growing at a faster rate than predicted.

Currently, China's coffee consumption rate is 5% for 1.3 billion people and is projected to rise to 10% in three years.



Chinese and Korean national petroleum companies warned against entering the Niger Delta. Groups in the Niger Delta have this month cautioned Chinese and Korean National Petroleum Companies not to enter the area following both the companies' procurements of oil and gas blocs in the recently concluded 2005 oil blocs licensing round. The message was conveyed by the Ijaw Monitoring Group following reports that both Chinese and Korean companies were given the right of first refusal by the government over



some oil blocs in the Niger Delta area. Specifically, government had earlier granted 'right of first refusal' over three blocs located in the onshore Niger Delta, and two more in the deepwater to Taiwan, Chinese Petroleum Corporation and the Korea National Oil Corporation to the disapproval of both local and international participants in the round.

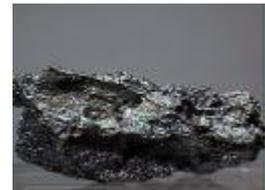
Liberia entrenches diplomatic ties with the PRC. The NYGL Chairman has agreed with the transitional parliament on 22 August that it is now illegal for Liberia to reestablish diplomatic ties with Taiwan. The development follows an NTLA resolution unanimously passed into law two weeks prior, the resolution is now a legal instrument which consolidates Liberia's bilateral relationship with the People's Republic of China. Liberia had established diplomatic ties to Taiwan under Samuel Doe in the 1980's provoking the withdrawal of diplomatic mission of the PRC from the country. This led to the closure of the Liberia Sugar Company and several other agricultural projects including paddy rice projects around the country. The Chinese also abandoned the construction projects of the Health and Foreign ministries, and the Samuel Kanyon Doe Sports Complex in Monrovia, and health outposts in the provinces of Liberia. Liberia reestablished diplomatic relations with PRC roughly eighteen months ago.

Chinese company uses Ethiopian residues for building materials. Sichuan Xinghe, a Chinese building materials manufacturing company announced on 27 August that it plans to manufacture building materials from agricultural residues in Ethiopia. During talks with President Girma Wolde-Giorgis, the Chinese company said that it had the capacity to conduct the operations. President Girma said that the government was prepared to provide the necessary support to Sichuan Xinghe, indicating that Ethiopia has a favourable investment climate for other Chinese investors. The plant will be established in Akaki, Kaliti, Sub-city, and will manufacture the building materials by mixing

sugar-cane residuals with sand and cement, a technology new to the country.

ZUPCO stalls bus orders. The Zimbabwe United Passenger Company (ZUPCO) has given China's First Automobile Works (FAW) certain conditions and specifications to meet before it gives more orders for bus deliveries. The decision by ZUPCO follows concerns that the Chinese manufactured vehicles are not suitable to Zimbabwe's road conditions. FAW, a leading automobile maker, supplied ZUPCO with 50 buses earlier this year, and ZUPCO intends to purchase an additional 250 buses.

Chinese company interested in Kenyan Titanium. A Chinese company has signaled an interest in



purchasing titanium from Kenya. The Jianchuan Group is interested in buying vast quantities of mineral deposits in the country, mined by Tiomin Resources, a Canadian firm. The Canadian company was this year granted a license to exploit the mineral, in a deal which was one of the largest single foreign direct investments in Kenya. Representatives from the Jianchuan Group are currently in China to evaluate the reliability of sourcing Kenyan titanium. The Chinese company recently signed a memorandum of understanding with Tiomin, declaring its intention to purchase titanium. Jianchun Group is a large firm with investments in paints manufacture, electronics, batteries, adhesives and detergents.

Imminent joint venture between Nigerian and Chinese Construction Banks. In a bid to

attract offshore investment into Nigeria's proposed National Construction Development Bank, the promoter's are engaged in entering into a joint venture

agreement with the China Construction Bank. The



Group has already met with senior officials from the Chinese Embassy in the country, seeking to formalise an agreement enabling the bank to cooperate with the China Construction Bank. The Nigerian Bank would be private sector driven, and wants to tap into the expertise and experience of the China Construction Bank, one of the largest banks in Asia.

Chinese company connects Kenyan government to wireless communications.

Kenya announced on 22 August that it has signed a contract with China's Huawei Technologies Company, to provide wireless communications to the country's government offices. President Kibaki divulged that he was negotiating with the Exim Bank of China for the provision of over US\$24 million soft loan to finance the improvement of Kenya's rural telephone network. The President commended Huawei for its involvement in the modernisation of Telkom Kenya through the improvement of the network in Naivasha, Nairobi and Mombasa. Huawei Technologies has expressed interest in expanding its Kenya operations.

Kenyan president visits China. Kenyan president Mwai Kibaki made his first ever trip to China in August. Significantly, this is the

first official visit by a Kenyan head of state to China in 11 years. The main aim of Kibaki's visit to China was to bolster bilateral trade relations, within the context of recently strengthened relations between the two countries. Kibaki was accompanied by a Kenyan business delegation to China, whose aim was to survey China's market in an effort to identify ways in which trade relations, which are currently tipped in favour of China, can be balanced. According to Chinese Customs, bilateral trade amounted to a record high of US\$366 million in 2004. The Kenyan president met with a number of high level Chinese officials, including President Hu Jintao and Prime Minister Wen Jiabao. Concluding their talks, the two presidents signed five agreements pertaining to economic, air transport, and quarantine cooperation. The Kenyan president's visit to China yielded positive outcomes for both countries, including strengthened bilateral ties, economic cooperation as well as 2.6 billion Kenyan shillings worth of aid.

China loans 10 Million Yuan to the DRC.

China pledged a 10 million yuan loan to the Democratic Republic of Congo on 5 August. The loan is in the form of a bilateral technical and economic cooperation agreement. It is an interest-free loan, with a 10 year grace period for repayment. The Chinese said the loan funds will be used for poverty reduction programmes.

Chinese interested in Nigerian cassava products. A Chinese delegation from the Genertec International Corporation of China was recently in Nigeria on a 12-day mission to assess the viability of importing cassava

products. The delegation was particularly interested in sourcing cassava products from the Ogun and Kwara states, and had meetings with, amongst others, President Obasanjo. Their visit came amidst the Nigerian government's campaign for a 'return to



agriculture' as a means of earning foreign exchange

e, and no longer to rely purely on oil exports for this purpose. According to Nigeria's commerce minister, Ambassador Idris Waziri, the country can earn over US\$12 billion of foreign exchange per year through the exportation of cassava products. Agricultural cooperation between China and Nigeria is on the rise, particularly evidenced by the presence of 500 Chinese agricultural experts currently working in Nigeria under the National Special Programme for Food Security.

Lesotho receives grant from China to improve TV and radio communications.

China has pledged a US\$15 million grant towards a project aimed at improving television and radio communications in the Kingdom of Lesotho. Currently, Lesotho's broadcast media and communications systems are underdeveloped and unreliable. According to Lesotho's Minister of Broadcasting, China will provide US\$4.5 million worth of equipment and technical assistance. The project, commencing in January 2006, will make it possible for Lesotho to rent bandwidth for both TV and FM radio broadcasts on satellite networks that are already in operation. It will also facilitate the

improvement of Lesotho's electric power infrastructure.

South African diamond company puts down roots in China.

South Africa's Michael Diamonds Company set up shop in China on 6 August 2005 under the name of South Africa Michael Diamonds China Co. Ltd. The new branch in China is currently the most integrated diamond base in Asia.

China-Africa Cooperation Forum meeting held in Beijing.

The China-Africa Cooperation Forum was held in Beijing from 22-28 August. The forum is a platform to investigate means to strengthen Chinese-African trade ties. Chinese-African trade relations have significantly expanded with trade increasing by 31% in the last two years. Chinese State Councilor Tang Jiaxuan told African delegation heads that China has proposed to promote the third ministerial meeting of the China-Africa Cooperation Forum in 2006 to a summit meeting. Delegations from 46 African countries and observers from six African regional organizations attended the two-day senior officials meeting in the Chinese capital.

Nigeria launches first Chinese language weekly newspaper.

West African United Business Weekly, the first newspaper in Chinese, was officially issued on 7 August in Lagos, Nigeria. The newspaper was issued and distributed by newly-established West African United Multimedia Co., Ltd. The newspaper was initiated by the Chinese Industrial and Commercial Enterprises Association two years ago as the association's A4-sized weekly newsletter. In the last two

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years, it has published 50 issues. As the only newspaper in Chinese, the weekly newspaper has grown into a standard-sized newspaper and with a dedicated following of Chinese

readers. The number of Chinese citizens residing in Nigeria has grown from 10,000 several years ago to over 50,000 at present.

Sourced from: China View, New York Times, Reuters, Bloomberg, Xinhua, AllAfrica

The China Forum

Upcoming Events

The Centre for Chinese Studies is to co-host a business executive seminar with WESGRO on the 13th October. The seminar will be hosted at the WESGRO offices in Cape Town. The guest speakers will be from a variety of industries based in the Western Cape, including shipping, textiles, agribusiness, banking, steel, and the media. Issues that will be addressed at the seminar include the consequences of a free trade agreement between South Africa and China, and Western Cape experiences of trading with China.



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For more information please email Thomas Bevan, Projects Manager at the CCS, at tbevan@sun.ac.za, or Yolanda Joseph, Assistant Trade Economist, WESGRO at (021) 487 8627 or yolanda@wesgro.org.za

Our Services

The Centre for Chinese Studies offers its services to both the public and private sector. These services are provided by our 'China Team' of qualified personnel and experts in the realm of advisory, research and business strategy assistance. Our full suite of service offerings include:

- ✓ Market intelligence
- ✓ Political risk analysis
- ✓ Economic Research
- ✓ Business Strategy Planning
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For greater detail into our service offering to clients, please contact Laroushka Reddy, Research Manager at the CCS, at lreddy@sun.ac.za

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