

# Chinese airlines buck global downturn

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Faced with the global aviation industry downturn, Chinese airlines are being forced to compete among themselves in increasingly innovative ways.

In Western Europe and North America, many airlines have recently reported worse-than-expected losses. In China, the country's international carrier Air China saw its profits fall 38 percent last year.

However, two other large airlines — China Eastern and China Southern, in which the State holds controlling stakes — still managed to expand using innovative strategies.

China Southern Airlines, which claims to be the largest airline by passenger capacities in Asia and the fifth-largest in the world, is leveraging its extensive domestic service network and its transit hub in Guangzhou, to provide customers with a convenient connection between international and domestic services.

At a time when most developed economies are suffering from a lingering crisis, more Chinese people are traveling abroad for tourism and business.

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SI XIANMIN  
CHAIRMAN OF CHINA  
SOUTHERN AIRLINES

“Now is a good time for our business to go abroad,” said Si Xianmin, China Southern's chairman, in an interview with China Daily.

After launching six international service routes last year, China Southern started direct flights from Guangzhou to London in June, connecting wealthy travelers from China's southern provinces with European destinations.

“We're aiming to increase international routes to 30 percent of our company's total routes this year, up from 27 percent last year,” Si said.

Compared with other major Chinese airlines, China Southern's advantage is its mature domestic network, Si said. It now operates around 200 domestic routes, more than the other two major State-owned airlines, Air China and China Eastern.

Thanks to its comprehensive domestic network, China Southern can attract more passengers from the second and third-tier cities, where other airlines have no direct flights, Si added.

As a result, Guangzhou Baiyun International Airport — China Southern's home base — has become one of the country's major transit hubs. In 2011, it was China's second-busiest airport and the world's 19th busiest in terms of passenger traffic, with more than 45 million passengers handled.

The company forecasts a soaring passenger load factor, a measure of the utilization of the total capacity of its planes, on international flights, Si said.

In 2010, when China Southern launched its route to Australia, it saw its passenger numbers increase by 97 percent in a year, with its passenger load factor rising from 54 percent to 78 percent, enabling the company's total international revenue to surge 48 percent year-on-year.

China's air travel market is around 300 million passengers a year, and the figure is expected to grow to 450 million in three years.

Meanwhile, the strategy of Shanghai-based China Eastern Airlines is to seek growth through international cooperation.

The airline is working with Australia's Qantas to launch Hong Kong's first budget airline.

Jetstar Hong Kong will be a \$198 million joint venture in which Qantas and China Eastern will hold equal stakes. It plans to start flying next year.

Liu Shaoyong, China Eastern's chairman, said the Qantas JV is a key step in the company's globalization.

However, it is still too early to tell whether China Eastern will succeed in this part of the world, where the concept of budget travel is still new.

## what's news

### Xinjiang GDP grows 10.7% in first half of 2012

Northwestern China's Xinjiang Uygur autonomous region recorded 10.7 percent economic growth in the first half, 2.9 percentage points higher than the national growth rate, the region's authorities said on Monday.

Xinjiang realized a GDP of 260.1 billion yuan (\$41.2 billion) from January to June, 10.7 percent higher than the previous year, said regional statistics bureau spokesman Wang Yue.

Xinjiang jumped from 21st last year to 18th this year among 31 provinces, autonomous regions and municipalities on the half-year economic growth list, Wang said.

The industrial value-added output during the first half reached 125 billion yuan, up 11.2 percent from last year. The non-oil sector recorded a growth rate of 18.2 percent, Wang said.

### 'Smart city' initiatives to boost economy

“Smart city” initiatives in China are expected to attract huge money and create jobs, thus contributing to the country's economic growth, analysts said on Tuesday.

Investment in smart city projects might exceed 1 trillion yuan (\$159 billion) by 2015, smart city specialist Jiang Defeng said.

He said smart city construction takes advantage of advanced information technologies, especially the “Internet of Things”, to provide fast and effective information services in areas such as traffic management, healthcare and environmental protection, among others.

Wu Lun, professor at Peking University and deputy dean of the university's Institute of Digital China, said the figure of 1 trillion yuan is “rational” if it includes infrastructure, data processing facilities and service platforms.

### Deflation warning spurs declines in 'floaters'

China's floating-rate bonds had their longest declines in a year after a central bank board member warned the world's second-biggest economy can't rule out a “short period” of deflation.

The notes fell 0.3 percent in the past three weeks, paring this quarter's gain to 1.1 percent, less than half the 2.5 percent return for fixed-rate securities, according to Chinabond, the nation's biggest debt clearing house. So-called floaters, whose coupons are reset as benchmark rates change, gained 2.6 percent in the United States over the period, a Barclays Capital index shows.

China's four-month decline in producer prices and slowing consumer-price increases will hurt profits, restrict investment and slow economic growth, Song Guoqing, a member of the People's Bank of China's monetary policy committee, said on Saturday.

### Wenzhou financial reform details under way

Details about Wenzhou's plans to make financial reforms may be released as early as August, Zhang Zhenyu, director of the city's financial office, said on Monday.

The office has amended the plans and added details about rural financial reforms, Zhang said at a promotional fair held in Shanghai. The modified version has been submitted to the provincial authorities for their approval.

“Financial reform in rural areas will mostly concern cooperatives, financing and industry cooperation,” he said.

Rural financial reforms will also direct more private capital to the real economy, Zhang told Shanghai Securities News.

### Securities firms allowed to invest insurance money

The China Insurance Regulatory Commission has introduced interim measures allowing securities and fund companies to manage investments of insurance money, according to a report published on the commission's official website on Monday.

The report said insurance companies, starting



A girl admires a sculpture for the Mid-Autumn Festival in Suzhou, Jiangsu province, on Saturday. Although the festival doesn't begin until Sept 30, many traders in Suzhou are preparing to sell mooncakes, a popular food during the holiday.

WANG JIANKANG / FOR CHINA DAILY

in 2003, had usually managed insurance money by themselves or entrusted that task to insurance asset management companies.

The report said most small and medium-sized insurance companies are developing their businesses rapidly. But their ability to invest is relatively insufficient.

### Nation makes progress in healthcare reform

China's healthcare reforms have achieved good progress, while the sector faces a series of challenges, including an increase in chronic diseases, a shortage of talents, and an imbalance between urban and rural areas, officials and experts said at a summit held in Beijing on Tuesday.

Organized by Economist Conference, a part of The Economist Group, the summit's main theme was to how to deal with these challenges.

Measures suggested at the summit included a greater role for private healthcare and medical insurance, increased government spending on disease prevention and control, and stricter supervision of medical service quality.

China invested around 1.2 trillion yuan (\$188 billion) in the first round of its healthcare reforms from 2009 to 2012. The government has promised to invest more between 2013 and 2015 compared with the first round.

### Huawei profit falls amid stronger competition

Huawei Technologies Co, China's biggest maker of phone equipment, posted a 22 percent drop in first-half operating profit, as competition intensifies in the telecom industry.

Operating profit in the first six months was 8.79 billion yuan (\$1.4 billion), Huawei said in an e-mailed statement on Tuesday, without providing a year earlier figure. Revenue rose 5.1 percent to 102.7 billion yuan, the Shenzhen-based company said.

Huawei joins smaller cross-town rival ZTE Corp in reporting a decline in profits as the Chinese companies compete with firms including Ericsson AB, Cisco Systems Inc and Nokia Oyj to sell mobile phone networks, office communication systems, and handsets in China and overseas. The downturn in the global

economy is hampering growth in the telecom industry, Huawei spokesman Scott Sykes said.

### Bank of America defends economic growth figure

Bank of America Corp has stepped in to defend China's second-quarter economic-growth data after analysts from Barclays Plc to Mizuho Securities Co said the figures may be overstated.

Shen Jianguang of Mizuho said in a research report this week that deeper slowdowns in industrial and electricity output contradict the GDP statistics. Lu Ting, a Bank of America economist in Hong Kong, said in a note on Thursday that industrial output is in line with GDP and that the electricity data may have failed to take into account some growth.

### Gome forecasts first-half loss on sales drop

Gome Electrical Appliances Holding Ltd, China's second-biggest electronics retailer, forecast a loss for the first half as revenue declined and its e-commerce unit was unprofitable.

The company will report results by Aug 31, Beijing-based Gome said in a filing to the Hong Kong Stock Exchange on Tuesday, without specifying the size of the projected loss.

Gome reported an 88 percent profit decline in the first quarter as China stopped subsidizing some home appliance purchases. Larger rival Suning Appliance Co said on July 13 that it expects first-half net income to fall by as much as 30 percent because of weaker sales and higher expenses.

The retailers last year benefited from a government program, which ended on Dec 31, that gave as much as 400 yuan subsidies on the purchase of home appliances.

### Govt may sell 3-year bonds worth \$4.7b at 2.42%

The Finance Ministry is likely to sell at least 30 billion yuan (\$4.7 billion) of three-year bonds at a yield of 2.42 percent on Wednesday, according to the median estimate in a Bloomberg News survey.

The highest forecast was 2.50 percent and the lowest 2.35 percent, the survey of seven finance companies showed. The estimate compares with a 2.41 percent yield on similar-maturity notes in the secondary market on Monday, according to data compiled by Chinabond.

Investors will bid on the yield at the auction. The issuer will set the security's coupon by taking an average of the winning bids.

### Sany Group to buy German concrete mixer maker

Sany Group Co Ltd, the country's biggest machinery maker, has signed off an 8.1 million euro (\$1.21 million) deal to buy a German manufacturer of concrete mixers.

Intermix GmbH is the third biggest concrete mixer maker in Europe. The company, which was hit hard during the financial crisis, has net assets of 3.16 million euro at the end of 2011. Revenue for 2011 was 10.1 million euro, only one-third of the 30 million euro in 2007.

The deal marks a renewal of SANY's international push. The company came under spotlight after paying 525 million euro for Putzmeister, a world leader of heavy machinery in Germany.

### Sluggish demand affects ports' business

Sluggish overseas markets and weak domestic demand slowed the growth of ports across China in the first half of the year.

Ports registered 3.94 billion metric tons of cargo throughput in the first half, up 7.4 percent year-on-year, but lower than the 13 percent increase in the first half of last year, according to the Ministry of Transport.

As investments in the manufacturing and real estate sectors slowed, China's imports of raw materials, including steel and coal, slowed. Weak demand from domestic steel companies and the pile-up of imports and exports led to record port stocks of raw materials in the first half of the year, the Economic Information Daily reported.

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# BOC, Julius Baer form cross-client partnership

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Bank of China Ltd, one of China's four biggest commercial lenders, has sold its Swiss unit to Switzerland's largest private bank and the two sides have formed a strategic partnership to refer clients in the future.

It announced on Monday that Julius Baer Group Ltd will take over Bank of China (Suisse), which has less than 1 billion Swiss francs (\$1 billion) in assets.

This is the first time the Chinese lender has sold an overseas institution.

A senior executive at BOC told China Daily that one of the main reasons for the sale was its weaker-than-expected performance.

The two sides have agreed upon a reasonable price for the deal, said the executive, who declined to elaborate.

“Selling the Swiss arm after four years doesn't mean BOC will stop developing private banking across Europe. It just reflects our consideration to further integrate local business,” said the senior executive.

Apart from Switzerland, the lender has also entered the overseas private banking business in Luxembourg, Singapore, as well as Hong Kong and Macao.

“The primary goal when we set up the unit was to develop private banking. But local rivals are too strong. It's very difficult for a foreign bank to develop its business there. So we think it's better to cooperate with local private banks,” the 21st Century Business Herald cited a source at BOC's private banking division as saying.

In a statement issued on Monday, the two lenders said they have reached a strategic cooperation agreement whereby they will



A Bank of China Ltd branch in Xuchang, Henan province. The bank sold its Swiss unit to Switzerland's largest private bank after attempting to set up a private banking operation there by itself for four years.

GENG GUOQING / FOR CHINA DAILY

mutually cross-refer clients and undertake various joint marketing activities.

BOC will refer clients with international private banking needs outside the Chinese mainland to Julius Baer, while Julius Baer's clients requiring commercial banking services will be referred to BOC, according to the agreement.

The two companies will also cooperate in product distribution, financial market research, and certain joint initiatives such as investment conferences, said the statement.

Li Lihui, vice-chairman and president of BOC, said its cooperation with Julius Baer

complements the lender's existing private banking capabilities.

BOC is trying to focus its efforts in offshore Asia in terms of private banking business, the Financial Times reported on Tuesday.

It is preparing to launch a new service in Hong Kong and Macao later this year, the newspaper reported.

It has been investing in systems and people ahead of a formal rollout of a new private banking service under Bank of China International, its investment bank, in the fourth quarter, the FT cited two sources familiar with the matter as saying.

“It's quite reasonable for Chinese lenders

to put more emphasis on the Asian market in terms of private banking. When major foreign players accelerate their pace of expansion in the region, domestic lenders should keep in mind that there is a big market in Asia,” said Guo Tianyong, banking research director at Central University of Finance and Economics.

He said Chinese banks lack sophisticated products and sufficient experience with regard to private banking, and can hardly win mature markets, especially in a country such as Switzerland, which has special banking operation methods and traditions.

“BOC, which has many more overseas institutions compared with other major banks in China, should continue to do some streamlining to make its overseas business more efficient and profitable.”

By the end of 2011, BOC had established 3,699 wealth management centers, 166 prestigious wealth management centers and 19 private banking centers in the Chinese mainland, while also making initial progress in developing Asia-Pacific and European wealth management platforms, it said in its annual report.

By the end of 2011, the number of its middle and high-end customers increased by more than 80 percent. And the number of private banking customers grew by more than 60 percent, with assets under management reaching 300 billion yuan (\$47.2 billion).

Boris Collardi, CEO of the Swiss group, said the partnership would help expand its presence in China, one of the world's most important and fastest-growing wealth markets.

Julius Baer reported a near 20 percent increase in first-half net profits to 175 million Swiss francs, mainly driven by strong inflows from emerging markets.