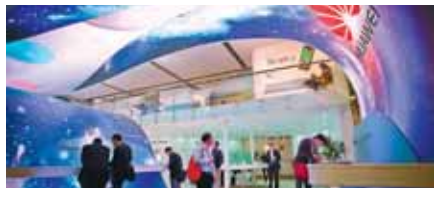


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business

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ONE\$DEQUALS

▼ RMB 6.3880 ▲ HKD 7.7575 ■ JPY 78.19 ▲ EUR 0.8240 ▼ GBP 0.6451 ▲ AUD 0.9729 ▼ INR 56.23 ▲ CAD 1.0184 ▼ KRW 1150.35 ▲ THB 31.69 ▼ BRL 2.0471

IMF: Soft landing 'possible'

Growth rate of second-largest economy to moderate to around 8%

By CHEN JIA
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China's economy is on track to achieve a soft landing despite the worsening external outlook, depending on boosting investment in the short term, which is pushing the government to internally rebalance the growth model toward consumption, a report from the International Monetary Fund said.

The Washington-based international financial organization predicted that the growth rate of the world's second-largest economy may moderate to around 8 percent this year after six consecutive quarters of slowdown.

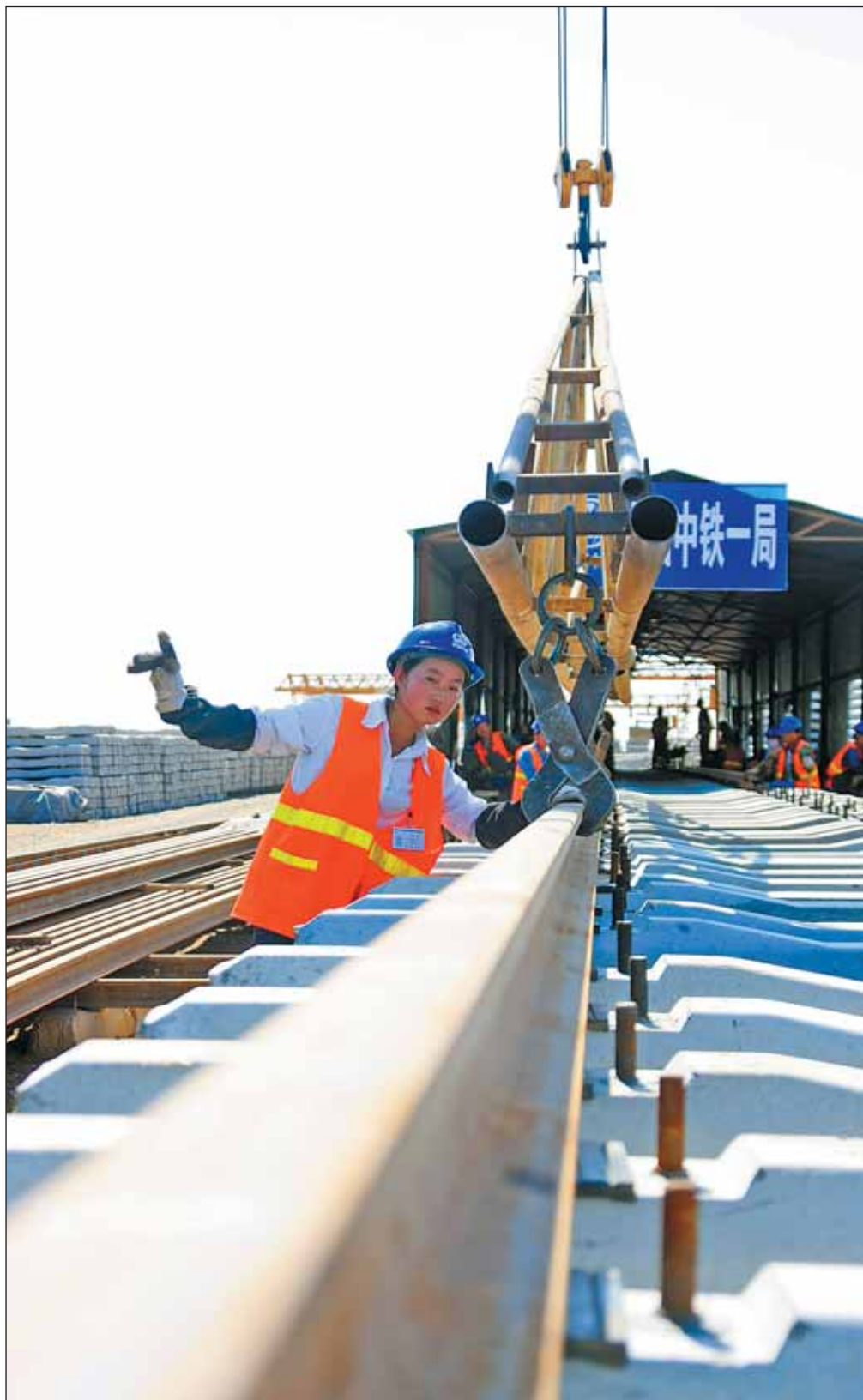
"In the event of a worsening of the external outlook, China has ample room to respond forcefully, using fiscal policy as the main line of defense," said the IMF report, although investment-dependent growth "cannot continue at the rapid pace forever."

Markus Rodlauer, head of the IMF's China team, highlighted how the cooling of China's investment can affect the global market.

"A very sharp slowdown in investment in China would have a fairly significant impact on growth and exports of goods from countries like Japan, Germany, Chile, and of course other countries in Asia."

The world doesn't want to see a sharply weakened economic engine while the European debt crisis is worsening, so "policies should continue to be geared toward achieving this year's growth targets," according to the report.

The government has taken measures to respond to the slowest economic expansion — 7.6 percent in the April-to-June period — since the second



Workers at a track-laying site on the Hami-Lop Nor Railway in the Xinjiang Uygur autonomous region. An IMF report said China can achieve a soft landing and manage to have economic growth of around 8 percent this year.

quarter of 2009, by spending more and easing monetary policy.

The central bank has lowered the reserve requirement ratios twice this year to free more mar-

ket liquidity and cut benchmark interest rates twice within a month to boost lending.

Many economists from global financial institutions believed that those measures

have started to have an effect, which will help economic growth recover in the second half.

The Ministry of Industry and Information Technology

said growth may stabilize and rebound in the rest of this year as policies gradually take effect.

"The deep impact of the global financial crisis is continuing to unfold", which is having a great effect on "many companies", said Zhu Hongren, a spokesman for the ministry.

The mainland's benchmark stock index — the Shanghai Composite Index — retreated 0.4 percent to 2,136.15 at the close on Wednesday, the lowest since March 2009, showing that investors remain skeptical about how strong the recovery will be.

The index, which tracks the biggest companies in China, has fallen 13 percent from this year's high point on March 2.

Lu Zhengwei, chief economist with Industrial Bank, predicted on Wednesday that the consumer price index for July may further slump to 1.7 percent from June's 2.2 percent, while the producer price index is likely to decrease 2.5 percent compared with a 2.1 percent drop in June, suggesting that the corporate environment may be worse.

As CPI is expected to slow to less than 2 percent in the third quarter, there will be more room for monetary policy easing, a research note from JPMorgan Chase & Co said on Tuesday. It expected one more interest rate cut and three RRR cuts in the second half.

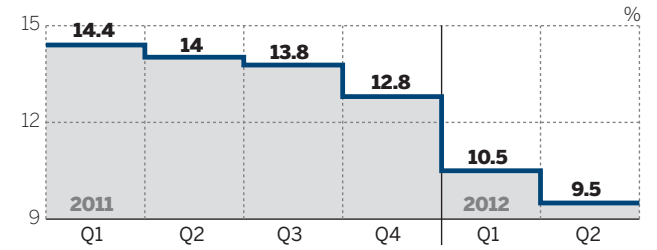
Besides, further fiscal stimulus can strongly support growth through tax cuts and more infrastructure investment projects, the bank said.

The uncertain global economic environment and weak overseas demand have increased selling pressure on the Chinese currency over the past months.

The yuan hit its lowest level against the dollar this year on Tuesday after falling nearly 1 percent to the bottom of its daily trading band.

"The renminbi is assessed to be moderately undervalued, reflecting a reassessment of the underlying current account, slower international reserves accumulation, and past real effective exchange rate appreciation," the IMF report said.

GROWTH OF INDUSTRIAL ADDED VALUE ABOVE THE DESIGNATED SCALE



Source: Ministry of Industry and Information Technology SHEN WEI / CHINA DAILY

Industrial performance set to recover

By TUO YANNAN
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China's economy continues to be plagued by the growing losses of domestic businesses, but the situation will improve in the second half of this year, the country's top industry regulator said on Wednesday.

The Ministry of Industry and Information Technology said the economy is still under pressure, as industrial added value posted its slowest growth in nearly three years in the first half of this year — 10.5 percent.

Difficulties faced by companies, especially small enterprises, are increasing, including the rising cost of raw materials, the difficulty of getting financial backing and the consequences of sluggish external demand, said Zhu Hongren, the ministry's chief engineer.

But he added that the slower economic growth this year will ease the pressure from rapid growth that followed the 4 trillion yuan (\$634 billion) stimulus package and other past policies.

China launched the stimulus package about three years ago to cushion the blow of the global financial crisis of 2008.

Industrial output grew by 9.5 percent year-on-year in the second quarter of this

year, the slowest growth since July 2009, according to figures released by the National Bureau of Statistics.

The figure hit 20 percent about two years ago.

"We can treat the industrial added value growth rate as a barometer of a country's GDP growth," said Xu Hongcai, a senior economist with the China Center for International Economic Exchanges. "Normally, the industry growth index is higher than GDP by 3 to 4 percentage points."

Xu said that although the government has already taken some steps to stimulate the economy, its downward trend is still serious.

"From the perspective of new loans, enterprises' confidence in economic growth is dropping. The government needs to adopt stronger finance tools or policies to spur industry growth," Xu said.

In June, the ministry introduced a new policy to encourage private investment in the telecom industry. The detailed policy will be published soon, the ministry said.

"China needs new growth to stimulate consumption, and the information technology industry will become a big part of that. But the broadband network isn't fully developed yet. The private sector will be encouraged to enter this industry," Zhu from the ministry said.

Oil demand declines in June for first time in three years

By DU JUAN
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China's oil demand fell for the first time in three years in June with a 1.9 percent drop year-on-year to 36.84 million metric tons, or an average of 9 million barrels a day, according to analysis from New York-based energy and metals information provider Platts on Wednesday based on government data.

The country's daily oil demand in June fell 178,400 barrels a day from 9.18 million barrels a day in the same period last year, which is the first drop since a 2 percent decrease in the first quarter of 2009 in the wake of the global financial crisis, Platts said.

On a daily basis, apparent oil demand last month was at its lowest since September's figure of 8.95 million barrels per day.

Apparent oil demand is calculated on the basis of crude

throughput volumes at domestic refineries and net oil product imports reported by the National Bureau of Statistics and Chinese customs, Platts said.

"Industry insiders have been expecting the drop to come because demand for fuel will definitely decline when economic growth slows," said Platts' senior writer for China Song Yen Ling.

China's apparent oil demand increased 0.3 percent to 9.35 million barrels a day in April and 0.5 percent to 9.39 million barrels a day in May.

However, the drop in June led the second quarter's daily oil apparent demand to drop 0.4 percent compared with the same period last year.

"Oil demand had a slight increase in the first half, and the one-month drop cannot show the whole picture of national demand in the long run," said Li Li, senior information manager at energy consultancy ICIS C1 Energy.

According to Platts, China's average daily oil apparent demand in the first half was 9.45 million barrels, up 1 percent year-on-year.

Li estimated that demand in the third quarter will stabilize at around 2 to 4 percent growth year-on-year.

"Since oil prices fell in May, the fuel markets, including coal and oil, have both suffered a period of high inventories, but the situation will improve," she said.

"Meanwhile, fuel prices will be uncertain in the second half because of both political and financial influence.

"In the second half of the year, it's going to be a tussle between the slowing economy and the government's efforts to get things back on track," Song said.

China's second-quarter GDP growth was 7.6 percent, 0.5 percentage point lower than the first quarter, the lowest in the past three years. Industrial output growth was 9.5 percent, compared with 12.1 percent in



Drivers refill their cars at a gas station in Xuchang, Henan province. A Platts report said China's oil demand in June declined for the first time in three years, dropping 1.9 percent year-on-year to 36.84 million metric tons.

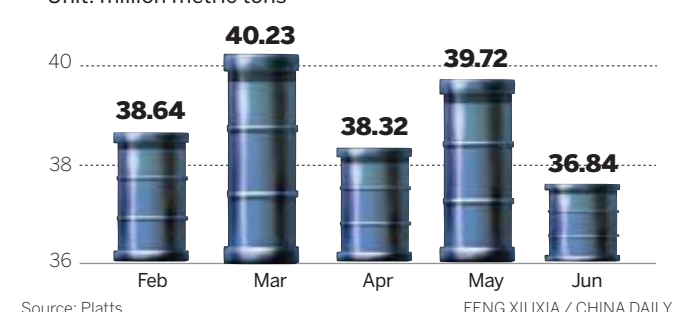
the last 12 months, and electricity generation decreased 0.9 percent year-on-year.

The most recent figures show coal consumption, which accounts for about 70 percent of the country's total energy use, grew 2.8 percent year-on-year

in the first half, a 6.6 percentage point drop compared with last year's growth rate in the same period.

Jiang Zhimin, vice-president of China National Coal Association, said coal demand will continue to fall in the second

CHINA'S OIL DEMAND



Source: Platts FENG XIUXIA / CHINA DAILY

half and the oversupply situation will worsen.

Earlier this year, the Economics and Technology Research Institute under China National Petroleum Corporation, the country's biggest oil producer, said in a report that domestic oil demand would grow 5 percent to 493 million tons in 2012. The growth rate is lower than the average in the past 10 years.

Meanwhile, the country's net crude oil imports will increase 6.4 percent to 266 million tons this year.

Net oil imports by China in 2011 rose 7.7 percent to 264 million tons.

The People's Bank of China cut the benchmark interest rates in early July, the second time in a month, in an effort to increase lending.

Signs that the stimulus efforts might be working came with a doubling of new loans from China's four biggest banks to 50 billion yuan (\$7.9 billion) in the first half of July as compared with the first half of June, according to Platts.