GLOBAL POLITICAL ECONOMY - 180

BUSINESS AND POLITICS IN THE MUSLIM WORLD

Weekly Report on Global Economic and Business Developments
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Submitted By: ***Muhammad Ibrahim***
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Report Outline

GENERAL ECONOMIC AND BUSINESS DEVELOPMENTS IN THE WORLD

U.S. debt default to have "nasty consequences" for global economy: IMF chief

WASHINGTON -- New chief of the International Monetary Fund (IMF) Christine Lagarde said Sunday that there would be "real nasty consequences" for global economy if the United States defaulted on its financial obligations.

Lagarde, who took the post of the IMF managing director on July 5, said in an interview with the U.S. media that the default would cause interest rate hikes and stock market falls across the world. Her comments came at a moment when the White House and Republicans are intensively involved in deficit reduction and debt limit talks.

The U.S. borrowing limit, currently at 14.29 trillion U.S. dollars by Aug. 2, was reached on May 16. The U.S. Treasury Department said the United States would begin to default if there was not an agreement to lift the limit before the Aug. 2 deadline.

"If you draw out the entire scenario of default, yes, of course, you have all of that -- interest hikes, stock markets taking a huge hit and real nasty consequences, not just for the United States, but for the entire global economy, because the U.S. is such a big player and matters so much for other countries," said Lagarde, former French finance minister and the first female head of the 187-member international financial institution.

On July 6, Lagarde said sovereign debt challenges were threatening a broad range of advanced economies, not only many European countries, but Japan and the United States.

http://news.xinhuanet.com/english2010/business/2011-07/11/c_13977261.htm

NZ, Australia finance ministers to discuss single economic market progress

WELLINGTON -- New Zealand Finance Minister Bill English and Australian Deputy Prime Minister and Treasurer Wayne Swan will discuss progress on the single market between the two countries amid wide-ranging economic talks in Wellington this week.

The next steps in the Trans-Tasman Single Economic Market would be on the agenda as well as the economic outlook for the region, when they meet on Thursday, said English.

"I'm looking forward to again catching up with Treasurer Swan to discuss a number of issues of mutual interest to New Zealand and Australia," English said.

"Australia is our closest international and economic partner it remains our largest export market and an important source of investment.

"I am keen to discuss next steps in the Single Economic Market agenda, and I would like to hear Mr Swan's perspectives on the impact of the global economic situation on Australia and its economic outlook.

"At the same time, I'll update him on our Canterbury earthquake recovery programme and, more broadly, outline our programme for building faster economic growth and getting back to budget surplus."

The pair would also meet New Zealand company chief executives to discuss how the Trans-Tasman economic partnership could be strengthened.

http://news.xinhuanet.com/english2010/business/2011-07/11/c_13977667.htm

OPEC oil price rebounds

VIENNA -- After a sustaining decline for three consecutive weeks, the weekly average prices of the Organization of Petroleum Exporting Countries (OPEC) rebounded by 4.07 U.S. dollars to 109.14 dollars per barrel last week, the Vienna-based cartel said Monday.

From last Monday to Friday, OPEC oil prices rose for five consecutive days from 106.87 dollars a barrel to 112.68 dollars.

However, analysts said the price hike last week was more a technical adjustment than changes of the supply and demand relations.

On June 23, the International Energy Agency (IEA) announced to release 60 million barrels of crude oil reserves to stabilize international oil prices.

The international oil market responded to this decision quickly. In the following week, the international crude oil prices, including the OPEC oil, hit the lowest level over the last four months. But the oil prices bounced back afterwards.

In the meantime, the U.S.'s positive macroeconomic figures also boosted confidence in the U.S. economic recovery, supporting last week's crude oil price to some extent.

However, last weekend, the U.S. Department of Labor announced the U.S. payroll figures in June were much worse than expected and its employment figures reached the lowest level since September 2010.

These figures drove the stock market down sharply, leading the Dow Jones industrial average to fell 0.8 percentage points to 12,614.30 points.

Additionally, prices for the gold futures, which are widely regarded as hedging products, soared to the highest point over the passing two weeks.

All these have led to a huge selling of the international crude oil futures.

Investors of the market are also worried about a high U.S. non-farm unemployment rate, meaning less car use and energy consumption, thus increasing the possibility of downward volatility in international oil prices.

http://news.xinhuanet.com/english2010/business/2011-07/11/c_13978520.htm

China-Australia cooperation hot topic at BFA Perth conference

PERTH, Australia -- Government officials and industry leaders held heated debate on Australia's future role as a resource provider for Asia and cooperation on resource sustainability between Asia and Australia here in Perth on Monday.

The conference themed "Resources, Environment, Development" hosted by Boao Forum for Asia (BFA) in Perth, which commenced on Monday morning, saw sustainability, the demand for resources and the role of technology the three main topics.

At the opening ceremony of BFA Energy, Resources & Sustainable Development Conference, Australian Foreign Minister Kevin Rudd talked about China's new model for sustainable growth outlined in its 12th five year plan, dubbing it "China 2.0".

Rudd also noted the shift in China's economic focus from labor- intensive manufacturing sector to services industries boosting capital-intensive, high technologies and more sustainable growth.

"I'd say to Australian businesses it is very important for them to recognize the profound nature of that change," Rudd said.

Rudd added that Australia and China share a bright prospective of cooperation in energy and resources sector, as the two economies are highly complementary.

BFA Chairman Yasuo Fukuda said currently, the world is at a critical moment in a post-crisis era. It is particularly important for stakeholders of the global economy to cooperate in resources, environment, economic growth sustainability to better manage the unbalanced world economy.
During the discussions on Asia's demand for resources, Fortescue Metal Group CEO Andrew Forrest said that Australia's supply of iron ore will overtake the demand, and will result in lower, but strong and stable prices, which he described as "win- win".
Rajiv Kumar, Secretary General for the Federation of Indian Chambers of Commerce (FICCI), said that India's increasingly industrialized economy will move from the services industry to a manufacturing economy.
Kumar added that India plans to invest 1 trillion U.S. dollars on infrastructure over the next five years, and will rely heavily on resources imported from Australia.
Zhang Guobao, the director of the Expertise Consultancy Team of China's National Energy Commission said Australia is rich in uranium ore and China is making steady progress in developing nuclear energy. The two sides enjoy huge room for further cooperation.
He suggested that good opportunities have arisen for Chinese side as the uranium ore prices have lowered recently. Now is a good, if not the best chance for China and Australia to boost bilateral cooperation in nuclear energy development.
The session will continue through Tuesday. Delegates will discuss investment opportunities in Australia, technological innovation, the fluctuation of resource prices and the future of China-Australian cooperation, among others.
As a non-government, non-profit international organization, the BFA is one of the most prestigious and premier forums for leaders in government, business and academia in Asia and other continents to share visions on the most pressing issues in this dynamic region and the world at large. The Forum is committed to promoting regional economic integration and bringing Asian countries closer to their development goals.

http://news.xinhuanet.com/english2010/world/2011-07/11/c_13978306.htm

Euro zone finance ministers meet to thrash out second bailout package to Athens

BRUSSELS – Euro zone finance ministers met on Monday to thrash out a second bailout package to Greece amid concerns of spill-over of the debt crisis to Itlay, a much bigger economy in the single currency bloc.
"We have put in the place what was necessary for Greece and now we will swiftly, but without undue haste, negotiate a new programme for Greece. We're on the right track," German Finance Ministers Wolfgang Schaeuble said before the talks.
The ministers are scheduled to discuss key parameters of the second bailout package to Athens after the country had to seek financial aid from the European Union (EU) and the International Monetary Fund (IMF) last year.
As a precondition for the new rescue plan, some member states led by Germany and the Netherlands have demanded that the private sector take part in the efforts.
"As I said last week, substantial private sector involvement is for the Netherlands and Germany a precondition," Dutch Finance Minister Jan Kees De Jager said.
"We do pursue a voluntary basis but it has to be substantial private sector involvement. That's our commitment and also our parliament that demands it," said the Dutch minister.

As the ministers thrash out the new package, concerns of spill-over of the crisis to Italy has intensified after yields on Italian 10-year bonds increased to 5.4 percent following a sharp drop of 3.5 percent of the country's stocks last Friday.
Earlier on Monday, President of the European Council Herman Van Rompuy convened a meeting of top EU officials, including European Central Bank (ECB) President Jean-Claude Tricket, Eureopan Commission President Jose Manuel Barroso and European Commissioner for Economic and Monetary Affairs to discuss the second bailout package to Greece.
Although Van Rompuy's spokesman said that it's not an emergency meeting on Italy, the southern European country, with a debt to GDP ratio of 119 percent in 2010, is widely expected to be a key topic.
Schaeuble insisted before Monday's talks that Italy would not be another problem case, saying "I have no doubt that Italy will take the right decisions."

http://news.xinhuanet.com/english2010/world/2011-07/11/c_13978645.htm

Putin says U.S. monetary policy "hooliganism"

MOSCOW -- Russian Prime Minister Vladimir Putin criticized the U.S. monetary policy on Monday, calling it "hooliganism," local media reported.
"We, thankfully or not, cannot print a reserve currency. But what are they (the Americans) doing? They simply spit nails, turn on the printing press and throw money to the world, in order to resolve their urgent problems," Putin told members of the Russian Academy of Science in Moscow.
While exploiting its monopoly on issuing a global reserve currency at full scale, the United States asked Russia to obey a strict financial discipline, he added.
Russia is unlikely to resolve the problems it faces by covering the budget deficit with printing extra money, Putin said.
Also on Monday, the prime minister met with leading Russian economists to discuss the global financial crisis and scenarios of long-term sustainable economic development.

http://news.xinhuanet.com/english2010/world/2011-07/11/c_13978673.htm

Eurogroup vows to take new measures to resist contagion risk

BRUSSELS -- Euro zone finance ministers vowed on Monday to take additional measures, including giving more flexibility to the current rescue mechanism, to prevent contagion risks of the debt crisis.
"Ministers reaffirmed their absolute commitment to safeguard financial stability in the euro area," the ministers said in a statement released after their monthly meeting late on Monday.
"Ministers stand ready to adopt further measures that will improve the euro area's systemic capacity to resist contagion risk, including enhancing the flexibility the scope of the EFSF (European Financial Stability Facility)," the statement said.
These measures also include lengthening the maturities of the loans and lowering the interest rates.
Jean-Claude Juncker, president of the Eurogroup of finance ministers, told a press conference that the measures will be adopted "as soon as possible."
As to buying Greek bonds on the secondary market by the EFSF, Juncker said there are many ways to enhance the flexibility of the EFSF.

Despite their determination to prevent a spill-over of the debt crisis, the ministers did not agree on the extent to which the private sector will be involved in the second bailout package for Greece.
Juncker said talks were still underway with the private sector on their voluntary involvement in the new aid program to Athens.
The ministers said a working group will explore the modalities for financing a new aid program to Athens, steps to reduce the cost of debt-servicing and means to improve Greek debt sustainability.
"If the weight of Greek public debt is corrected downwards, if the interest rates are lowered and if the maturities are lengthened, then you might well get the impression that this will be of great help to Greece," Juncker said.
As the single currency bloc has yet to unveil the new rescue package for Athens, concerns of a spill-over of the crisis to Italy has intensified after yields on Italian 10-year bonds increased to 5.4 percent following a sharp drop of 3.5 percent in the country's stocks last Friday.
The ministers did not look specifically into the Italian case, Juncker said, but added: "Everything will be done to guarantee the stability of the Euro zone and within the Euro zone."

http://news.xinhuanet.com/english2010/business/2011-07/12/c_13979598.htm

IMF to give underrepresented nations bigger say: Lagarde
WASHINGTON -- The International Monetary Fund (IMF) would continue the efforts to enhance its legitimacy and give underrepresented countries a greater say, Christine Lagarde, Managing Director of the IMF, said here on Monday.
It is important to see that "the underrepresented countries, whether dynamic or not, whether emerging or not, have their proper say, have proper representation, have a proper seat within the Fund," the new IMF chief told reporters at an IMF media roundtable meeting.
Lagarde held that the Fund could reflect adequately the size, the population, the gross domestic product (GDP) and the role played by countries in the world in this way.
In response to questions from Xinhua, the newly-appointed IMF leader at the helm noted that the Washington-based agency needs to fulfill the implementation of the reform that was agreed in November 2010 to improve the Fund's governance, adding that a lot still remains to be done.
"Countries agreed to increase their quotas, but they need to do their homework back at home, generally with their parliament, to make sure the quotas are approved, agreed, paid up by the member states. Not many countries have yet done that," said the new head of the 187-member international financial institution.
"Before the end of 2012 the Europeans must reduce their chairs in the Executive Board by two. Negotiations are going on, not yet completed, but will have to be implemented by the fall of 2012," she added.
The IMF's first female chief noted last week at her first news conference as IMF Managing Director that she backs giving developing countries a greater role in the agency, and that she was considering creating a fourth Deputy Managing Director position.
She told the group of reporters that there will be an announcement about IMF management on Tuesday, without elaborating on the details.

http://news.xinhuanet.com/english2010/business/2011-07/12/c_13979720.htm

Obama rejects stopgap in favor of major debt reform

WASHINGTON -- U.S. President Barack Obama called on Democrats and Republicans Monday to use the ongoing debt limit negotiation as an opportunity to introduce meaningful reforms for long-term debt reduction.

The borrowing limit, currently at 14.29 trillion U.S. dollars, was reached on May 16 this year. The U.S. Treasury Department warned the world's largest economy would default without an agreement to lift the limit by Aug. 2.

Before meeting congressional leaders for the second consecutive day, Obama pushed top lawmakers from both parties to reach a deal to slash government spending and make the government "leaner, meaner, more effective and more efficient."

"If not now, when?" said Obama at a White House press conference Monday, adding he would back a large-scale spending cut deal and both parties had to reach a debt ceiling agreement by the Aug. 2 deadline.

A potential deal -- a package of spending cuts and tax hikes that could total 2 trillion U.S. dollars or more over a decade -- is considered necessary for Congress to lift the debt limit.

Talks between Obama and the congressional leaders Sunday failed to break the stalemate over raising the debt ceiling and Monday's follow-up meeting likewise failed to resolve differences on the debt ceiling and trimming the deficit.

Obama told reporters he would meet with this group of lawmakers every day until they ink a deal.

He said the top priority for this administration was to put the economy back on track and people back to work, adding that debt reduction should be carried out in a balanced way to facilitate investment in key industries and boost job creation.

With U.S. economic growth losing steam and the unemployment rate at a stubbornly high level, many economists say the nation should make efforts to boost investment and job creation in the short term and improve fiscal sustainability over the long run.

Obama warned he would not sign a short-term, stop-gap solution to raise the debt ceiling, saying the United States could not threaten its credit and economic prosperity on a debt default.

With the debt default deadline approaching, some Republicans suggested a stopgap debt ceiling be worked out to give both parties more time for negotiations, but Obama was strongly against this approach.

U.S. House Speaker John Boehner on Saturday rejected a 4-trillion-dollar deficit reduction deal put forward by Obama, saying it was more realistic to pursue a "smaller measure". But even a smaller deal would involve tax hikes, which Republicans want off the negotiation table, according to officials familiar with the talks.

Obama urged lawmakers to ditch entrenched partisanship and do a deal in a timely manner, adding there could be no debt reduction deal if Republicans failed to compromise on tax increases.

Boehner, however, on Monday reiterated the Republican stance that "tax hikes never had a place in this discussion and never will", showing the wide gap between the two parties' fiscal reduction approaches.

Obama was scheduled to host a new round of talks with the congressional leaders on Tuesday afternoon, but experts said a deal remained unlikely unless both parties made concessions on tax increases and other thorny issues.

http://news.xinhuanet.com/english2010/business/2011-07/12/c_13980075.htm

Fed to provide new stimulus if condition warrants: Bernanke

WASHINGTON -- The U.S. central bank is poised to provide additional stimulus efforts if the U.S. economy remains sluggish, Federal Reserve Chairman Ben Bernanke said Wednesday.

The U.S. economy has continued to recover, but the pace of the expansion so far this year has been modest, Bernanke said in his twice-a-year economic report to Congress.

"The possibility remains that the recent economic weakness may prove more persistent than expected and that deflationary risks might reemerge, implying a need for additional policy support," his report said.

Bernanke maintained that temporary factors, such as high food and gas prices, have slowed the economy. He said those factors should ease in the second half of the year and growth should pick up. But if that forecast proves wrong, he said the Fed is prepared to do more.

Even with the federal funds rate close to zero, the central bank still has a number of tools to ease financial conditions, Bernanke told lawmakers during his first day of the two-day Capitol Hill testimony.

"One option would be to provide more explicit guidance about the period over which the federal funds rate and the balance sheet would remain at their current levels. Another approach would be to initiate more securities purchases or to increase the average maturity of our holdings," he said.

Stocks jumped after Bernanke signaled the Fed's willingness to take more steps to boost the sluggish economy.

The Fed has kept its key interest rate at a record low near zero since December 2008. Most private economists believe the Fed will not start raising interest rates until next summer. And some say the Fed won't increase rates until 2013, based on the slumping economy.

Bernanke was testifying after the government released a dismal jobs report last week.

Bernanke defended the effectiveness of Fed's second round of quantitative easing (QE), dubbed QE2, saying that the program had the intended effects of "reducing the risk of deflation and shoring up economic activity."

"This was a significant achievement, as we know from the Japanese experience that protracted deflation can be quite costly in terms of weaker economic growth," he said.

When the U.S. economy stalled last summer, the Fed in November rolled out QE2 to purchase 600-billion-dollar long-term Treasury securities, to keep medium- and long-term interest rates low and facilitate business and household borrowing. Fed has spent more than 2 trillion dollars to boost the economy since the financial crisis broke out in the fall of 2008.

Bernanke held that the world's largest economy was confronted with several strong headwinds including slow growth in consumer spending, the depressed housing sector,limited access to credit for some households and small businesses, as well as fiscal tightening at all government levels.

He also cautioned that the United States should improve its long-term fiscal sustainability and policymakers should take timely steps to address the challenge, adding that the nation cannot continue on the unsustainable fiscal path.

He warned that a U.S. debt default would spark a major crisis and has global economic repercussions.

http://news.xinhuanet.com/english2010/business/2011-07/13/c_13983200.htm

Greece remains in eye of debt storm: EU report

BRUSSELS -- The European Commission said Wednesday that Greece remains in the eye of storm of the debt crisis, urging the country to reinforce its economic adjustment program.

"Despite the utmost resolve of policymakers and a string of ambitious and far-reaching policy measures, some euro-area sovereigns continue to face acute challenges. Greece in particular remains in the eye of the storm," the Commission said in a quarterly report of the euro area.

The report said Greece, Ireland and Portugal have all taken significant steps towards fiscal consolidation but they must continue to pursue vigorous fiscal and broader structural reforms, especially Greece.

"While Greece has also delivered a notable fiscal adjustment to date, the overall progress is more complex in light of the debt level and the political context," the report said, adding "reinforcement of the program is therefore needed to ensure Greece's return to a sustainable trajectory of public finances."

The Commission predicted that economic growth of the euro area is expected to slow down in the coming quarters and will remain uneven across member states due to divergent adjustment needs of member states.

The euro area saw its economy expanded by 0.8 percent in the first quarter of this year compared to the previous quarter. The European Commission forecast in May that euro area economy will grow by 1.6 percent in 2011, with downside risks to growth prevailing.

http://news.xinhuanet.com/english2010/business/2011-07/14/c_13983320.htm

Zhu's nomination to give emerging economies more say in IMF

BEIJING -- The International Monetary Fund (IMF) on Tuesday nominated Zhu Min, former deputy governor of the People's Bank of China and special adviser to the managing director, as deputy managing director of the IMF.

If approved by the board, Zhu will take his new office on July 26, marking the first time for a Chinese national to hold such a senior position at the fund.

The nomination is widely regarded as a major step in the IMF's institutional transformation, which will affect the reforms of international financial system.

Founded in December 1945, the Washington-headquartered IMF and the World Bank are the world's two biggest intergovernmental organizations that oversee the global financial system by monitoring the macroeconomic policies of its member countries, stabilizing international exchange rates and providing loans and aid.

"Zhu brings a wealth of experience in government, international policy making and in the financial markets, strong managerial and communication skills, as well as an institutional understanding of the fund, and I look forward to his counsel," said the IMF's Managing Director Christine Lagarde in a statement.

She said that as deputy managing director, Zhu will play a key role in working with her and the rest of her management team in meeting the challenges facing the IMF's global membership in the period ahead, and in strengthening the fund's understanding of Asia and emerging markets more generally.

An early graduate of the Shanghai-based Fudan University, Zhu went to the United States to get a doctor's degree at Johns Hopkins University. He worked for China's central bank from 2003 to 2009, and then moved to the IMF as a special adviser on Feb. 24, 2010.

"Zhu's nomination is the latest sign of China's rise and the growing influence of emerging countries in the global economy," said Tian Dewen, an analyst at the Institute of European Studies of Chinese Academy of Social Sciences.

China, India, Brazil and other emerging economies have become major drivers of the global economic recovery and growth in the wake of the financial crisis. As the biggest engine of global growth in recent years, China has staged a responsible international image and won widespread respect from other countries, Tian said.

"The nomination of Zhu is just a start, as the status of China and other developing countries will continue to rise in global economic governance in the long-run," said Zhao Jinping, deputy head of the foreign economic research department under Development Research Center of the State Council.

The fund's voting rights have long been concentrated in the hands of the United States, European Union and Japan. Moreover, the United States has the power of veto and the largest voting quota. Emerging markets have called for adjustments in the fund's voting rights that would better represent their growing economic weight.

Lagarde agrees that the IMF needs to work toward "proper representation of those countries that are under-represented."

China's voting rights have been raised to 6.07 percent from 3.65 percent in an adjustment last year. The nation overtook Germany, France and the United Kingdom to have the third-largest voting quota in the fund, behind the United States and Japan.

With the rise of China's international status, the country will shoulder more responsibilities in the construction of the global economic and financial system, Zhao said.

Prior to Zhu's appointment, Chinese national Lin Yifu, a former professor at Peking University, became the senior vice president and chief economist of the World Bank in June 2008.

http://news.xinhuanet.com/english2010/business/2011-07/14/c_13985189.htm

Gold edges higher amid debt concerns over EU, U.S.

CHICAGO -- Gold futures on the COMEX Division of the New York Mercantile Exchange edged higher on Friday, registering a 3.2-percent rise for this week, buoyed by safe-haven demands amid concerns over debt problems in Europe and the United States.

The most active gold contract for August delivery inched up 80 U.S. cents, or 0.05 percent, to 1,590.1 dollars per ounce. It has gained 108 dollars in the latest nine consecutive hikes.

Market analysts said that gold has refreshed records several times this week, as the market fears that the debt crisis in the EU could spread and intensify and that the debt woes in the U.S. will escalate, which encouraged investors to rush for gold as a hedge against uncertainty.

U.S. President Barack Obama and congressional leaders failed to reach a compromise on reducing deficits and raising the debt ceiling. S&P earlier threatened to lower the long-term rating on the U.S. due to "the dynamics of the political debate on the debt ceiling." Before that, Moody's Investors Service had put the U.S. government's Aaa bond rating on review for possible downgrade.

Besides, the possibility of more stimulus being pumped into the U.S. economy also helped support the market, after the Federal Reserve said it may consider a third round of the so-called quantitative easing if the economy falters.

Meanwhile, silver for September delivery hiked 37.7 U.S. cents, or 0.97 percent, to 39.071 dollars per ounce. Platinum for October delivery lost 18.8 dollars, or one percent, to 1,755.5 dollars per ounce.

http://news.xinhuanet.com/english2010/business/2011-07/16/c_13988310.htm

Eight European banks fail stress test, 16 fall in danger zone

LONDON -- Eight out of 90 European banks have failed a crucial stress test and another 16 banks dropped in the danger zone, the European Banking Authority (EBA) said on Friday.

Five banks from Spain, two from Greece and one from Austria fell below the capital threshold of five percent core tier 1 over two years' horizon, with an overall core tier 1 shortfall of 2.5 billion euros (about 3.53 billion U.S. dollars), according to a report released by the EBA.

In Spain, Catalunya Caixa, Pastor, Unnim, Caja3 and CAM failed to meet the capital requirements. Two state-controlled Greek banks, ATEbank and EFG Eurobank, and the Oestereichische Volksbank from Austria also failed.

The assessment was made based on each bank's statistics by the end of April this year.

On Wednesday, the German bank Helaba announced to withdraw from the stress test after the EBA had rejected its request to include its debt-equity hybrid, or "silent participation," into its capital reserve. Otherwise, it would be the ninth to fail the test.

Among the 90 banks from 21 European Union (EU) countries tested, 16 had a narrow escape with a core tier 1 rate of between five and six percent, the EBA added. The London-based financial regulator urged these banks to take immediate measures to strengthen their capital status.

The EBA also said 20 banks would have failed the test if assessed on statistics by the end of 2010. Yet it allowed the banks to increase capitals in the first four months of 2011 and finally come up with much better results.

The result of the test, designed to assess the resilience of the European banks to withstand another financial crisis, has exceeded earlier expectation, as insider reports predicted that 10 to 15 banks were to fail.

The EU had been trying to convince the market the credibility of the banking sector review.

Just seven out of the 91 banks tested failed last year's stress test. But the Allied Irish Bank (AIB), one of the survivors, turned to government bailout only months thereafter, triggering broad doubts over the credibility of the test.

The EBA then came into being at the start of 2011 to re-conduct stress tests on the banks, aiming to restore market confidence in the banking sector that has been battered by the euro zone debt crisis.

However, there are still doubts on whether the test terms of this round are severe enough. Ratings agency Standard & Poor's said before the result came out that the EBA didn't pitch its stress scenarios at a level as stringent as to suggest material capital shortfalls.

Jim O'Neill, chairman of Goldman Sachs Asset Management, told Xinhua he regarded the result as a bit of a "red herring."

"It is surprising that such a small amount of capital will need to be raised, and so few were failed," he said.

http://news.xinhuanet.com/english2010/world/2011-07/16/c_13988285.htm

Five Spanish banks fail EU stress test

MADRID -- Five Spanish banks have failed a crucial EU stress test, according to a report released by European Banking Authority (EBA) on Friday.

Catalunya Caixa, Unnim, Caja3, Banco Pastor and the Caja de Ahorros del Mediterraneo were among eight banks out of 90 which fell below the EBA's capital threshold of five percent core tier 1 over two years' horizon.

The other three which also failed include two Greek banks and one in Austria.

On hearing the results, the Bank of Spain (BOE) issued a communique highlighting that none of the five banks would need an injection of further capital, "thanks to the elements for the absorption of losses in our financial system, such as the generic provisions and bonds."

BOE Governor Miguel Angel Ordonez said the EBA's results had been "expected."

Meanwhile the BOE stressed that Spain had presented a total of 25 entities for the test, compared to four or even fewer in other countries.

In addition to the five banks which failed the stress test, a further seven Spanish banks were placed by the EBA under special observation with a core tier 1 rate of between five and six percent.

These banks include Banco de Sabadell, Grupo Banca Civica (Caja Navarra, Cajasol, CajaCanarias and Caja Burgos), Caixa Ontinyent, Grupo BFA, NovacaixaGalicia, Bankinter and Banco Popular.

http://news.xinhuanet.com/english2010/world/2011-07/16/c_13988303.htm

Four Portuguese banks survive stress tests

LISBON -- Four Portuguese banks -- Espirito Santo, BCP, CGD and BPI -- all passed the stress tests conducted by the European Banking Authority (EBA) on Friday.

The result, coming 10 days after Moody's ratings agency downgraded the country's rate by four levels to junk, is a relief for the Portuguese economy.

Portugal, holding 85 billion euros (119 billion U.S. dollars) in loans from the International Monetary Fund, the European Central Bank and the European Commission, is currently in a bailout.

The stress tests foresaw an economic recession, a bear market at the stock exchange, a worsening debt risk as well as the consequences of the economic shock originating in the United States.

Using a static balance sheet of December 2010, the tests considered a Core Tier 1 of 5 percent covering a two-year scenario which was more demanding than last year, ignoring the positive effects on the yield an interest height could create.

Although all the four Portuguese banks passed the tests, two of them, BCP and Espirito Santo, were advised to reinforce their balance sheets.

The stress tests, first applied in the United States as a consequence of the financial crisis, aim at analyzing how robust a bank is in certain crashes.

After the Greek debt crisis, the EBA decided to apply the tests to European banks to find out where the weak links in Europe's financial system are.

http://news.xinhuanet.com/english2010/world/2011-07/16/c_13989115.htm

GLOBAL BANKING & FINANCE

SAFE underscores stance on hot money

BEIJING -- The State Administration of Foreign Exchange (SAFE) on Monday reiterated its tough stance on curbing hot money inflows, which threatens the nation's financial stability and triggers inflation.

In a statement on its website, the manager of China's $3 trillion foreign exchange reserve said it will continue its "high-pressure" clampdown on inflows of hot money, or speculative capital, to ensure financial and economic stability.

SAFE also announced penalties for 10 companies that conducted illegal foreign exchange transactions, which are at the root of hot money inflows. It's the third group of companies the administration has fined in less than a year.

China has been concerned in recent years by the prospect of surging hot money inflows that could cause speculation and bubbles in property and stocks. Some analysts have said that the loose monetary stance of the United States has led to a new round of inflows into emerging markets, including China.

Lu Zhengwei, chief economist with Industrial Bank Co Ltd, said that although the end of the US Federal Reserve Board's program of quantitative easing will ease fund flows into emerging markets, China still faces increasing pressure from hot money inflows this year.

"Expectations for the yuan's appreciation and higher benchmark interest rates provide more motivation for international speculative activities and will attract funds into the country to seek short-term returns," he said.

To drain excess liquidity, the central bank has raised benchmark interest rates three times this year. Central bank adviser Xia Bin has said that the latest 25 basis point hike on July 7 was "not enough" and further increases would be needed to address the situation of "negative interest rates", according to Bloomberg News.

China experienced hot money inflows of $35.5 billion in 2010, accounting for 7.6 percent of the increase in foreign exchange reserves during the year, SAFE said in February.

Foreign exchange reserves grew by another $138 billion in the first quarter, according to revised figures posted on SAFE's website Monday. The administration didn't say how much of that latest increase was caused by hot money inflows.

The first-quarter current account surplus narrowed 21 percent year-on-year to $28.8 billion, while the capital account surplus jumped 41 percent to $86.1 billion, according to SAFE's revised figures published on Monday.

Wang Jianhui, chief economist with Southwest Securities, said curbing hot money inflows can also help contain inflation, which reached a three-year high of 6.4 percent in June.

"Though not a major one, hot money inflows play a part in the nation's price inflation," he said.

"Increasing speculative capital inflows will definitely make it harder for the government to curb inflation."

Grace Ng, an economist at JP Morgan Chase Bank Co Ltd in Hong Kong, wrote in a research note earlier this month that both the trade and capital account surpluses will increase domestic liquidity and fuel inflation.

(Source: China Daily)

http://news.xinhuanet.com/english2010/business/2011-07/12/c_13979709.htm

Contagion risk in Europe shakes South Korea's financial markets

SEOUL -- South Korea's financial markets were heavily shaken on Tuesday by re-emerging contagion risk in Europe. Fears that the European debt crisis may spiral out of control to Italy and Spain heightened risk aversion globally, resulting in weaker stocks and currencies, and lower bond yields domestically.

It has been feared that spread of debt crisis to Italy, the Europe's third-largest economy after Germany and France, could hit the global economy much harder than the debt problems in peripheral countries such as Greece, Ireland and Portugal.

"There appears to be no end in sight to the crisis in the Euro zone, with the eurogroup announcement overnight unlikely to prevent further market haemorrhaging," Mitul Kotecha, head of global foreign-exchange strategy at Credit Agricole in Hong Kong, said in a report.

Overnight the European finance ministers discussed measures to prevent the crisis from spreading further. Those include the potential implementation of bond buybacks, lengthening loan maturities and lowering interest rates on loans as well as enhancing the scope and flexibility of the European Financial Stability Facility (EFSF) fund, set up in May 2010 at the height of the crisis.

Despite the efforts to contain the debt crisis, yields on Italian and Spanish bonds surged to record high since the inception of the euro overnight. The 5-year credit default swaps (CDS) widened further to 296 basis points and 331.3 basis points for Italy and Spain respectively.

Kotecha warned pressures will unlikely ease over coming sessions unless there is a clear and strong agreement in Europe, adding that the risk-off tone will persist over coming sessions.

Hit hard by contagion risk in Europe, local stocks fell sharply. The benchmark Korea Composite Stock Price Index (KOSPI) plunged 47.43 points, or 2.2 percent, to end at 2,109.73. Foreign fund outflow from local stocks led the market decline, analysts said.

Offshore investors turned to net sellers in ten trading days. Foreigners dumped a net 391.2 billion won worth of local stocks, while taking short positions of KOSPI 200 index futures worth 779.6 billion won.

"Foreign funds flowed out of local stocks due to re-emerging concerns over the European debt crisis. Appetite for safe assets will continue until the European countries unveil clear measures to stem the crisis," Lee Jae-man, an analyst at Dongyang Securities in Seoul, told Xinhua.

Lee noted investors may take wait-and-see stance before the publication of European banks' stress test results this week. European regulators reportedly plan to publish their stress test results for 91 of the region's banks on Friday.

Bond prices jumped as offshore investors built up a record long position on bond futures amid a plunge in global risk appetite. The yield on the liquid three-year treasury notes sank 10 basis points to 3.71 percent, and the return on the benchmark five-year government bonds dipped 11 basis points to 3.93 percent.

Foreigners bought a net 22,214 contract of bond futures, breaching the previous high of 17,540 contracts tallied for February 2007. Bond futures for September delivery jumped 33 ticks to end at 103.33.

"Today's heavy buying boosted expectations that foreigners will continue to purchase local bonds for the time being. Amid re- emergence of worries about the European debt crisis, the Bank of Korea (BOK) is expected to freeze its policy rate this month," Yum Sang-hoon, a bond analyst at SK Securities in Seoul, said in a telephone interview.

The BOK will hold its regular rate-setting meeting for July on Thursday. Market watchers here widely expected the central bank to keep the seven-day repo rate unchanged at 3.25 percent with

burdens for the back-to-back rate hike. The BOK raised the key rate by 25 basis points to 3.25 percent last month.
Yum, however, said the local bond yield will not move sharply from this level lower as there are no merits to buy bonds at such a low level of yield.
Meanwhile, the local currency depreciated sharply against the U. S. dollar amid the resurfacing European debt concerns. The won finished at 1,066.5 won versus the greenback, down 8.7 won from Monday's close.
United Overseas Bank (UOB) said in a report that heightened concerns over the euro area sovereign debt crisis spreading to Italy and Spain sent the dollar and other safe haven currencies stronger.
The local currency fell against the dollar amid growing risk- off sentiment, but the strength of decline was not huge compared with the euro's sharp decline, experts said.
"Foreign fund outflow in local stocks was offset by fund inflow into local bonds, limiting the local currency's sharp fall versus the dollar. Expectations for the South Korean won's appreciation prevented the currency from plunging like the euro,"Jeong Mi-young, a currency analyst at Samsung Futures in Seoul, said by phone.
Jeong noted it remains to be seen whether the local currency falls below the 1,070 won level against the dollar down the road as the breach will act as strong momentum for the dollar's gain.

http://news.xinhuanet.com/english2010/indepth/2011-07/12/c_13980511.htm

IMF urges Italy to take bold moves on fiscal consolidation
WASHINGTON -- The top priority for Italy should be boosting the economy's potential growth, while maintaining fiscal discipline and financial stability, the International Monetary Fund (IMF) said on Tuesday.
"The government is committed to gradual fiscal consolidation but has not yet taken decisive steps to foster reforms," according to an IMF's report on Italy.
Given the high level of public debt and the current market turbulence, fiscal discipline is a prerequisite for growth, the IMF said in its annual economic and financial checkup of the European country.
"Italy suffered one of the largest output contractions in the euro area during the global financial crisis and is experiencing one of the slowest recoveries," noted the report.
A modest export-driven recovery is underway in the nation, but growth is expected to remain constrained by long-term structural bottlenecks, the Washington-based IMF said.

http://news.xinhuanet.com/english2010/business/2011-07/13/c_13982194.htm

Indonesia plans to limit bank ownership
JAKARTA -- Indonesian central bank said on Wednesday it plans to cut ownership of individual investors on commercial banks so as to make banking sector more financially prudent, a media reported here on Wednesday.
Central bank governor said that the rules, which could take affect in the fourth quarter, aimed at preventing a handful of investors from controlling or dominating a bank.
Indonesia's banking sector is unique in that investors, including foreigners, can hold up to 99 percent stake.

Malaysia, which is known to have a relatively tight banking policy, has a 10 percent threshold for individual investors and 20 percent for institutions to own stake in banks.
There are about 100 commercial banks in Indonesia. Of these, 47 are either partly or majority-owned by foreigners, the Jakarta globe reported.
Darmin said on Tuesday the affected banks would be given 'a long period of transition time' after the rule is passed, so that the affected investors can sell their stakes to whomever they choose. State-controlled banks would be exempted. The ruling would be made retroactive, Darmin said, meaning the current majority investors in banks will have to sell off their shares to other shareholders.
The governor did not say what the maximum stake a single shareholder can hold in a bank would be in the future, but it is likely to be well below 50 per cent.
But for Darmin, the moves were all about 'promoting prudent banking'. He noted that the changes would bring Indonesia's bank ownership policies in line with most other countries.

http://news.xinhuanet.com/english2010/business/2011-07/13/c_13982377.htm

U.S. mortgage applications down 5.1 percent
WASHINGTON -- U.S. mortgage applications continued to decline last week, according to the latest Weekly Mortgage Applications Survey released Wednesday by the U.S. Mortgage Bankers Association (MBA).
The MBA said that the Market Composite Index of U.S. mortgage applications, a measure of mortgage loan application volume, decreased 5.1 percent in the week ending July 8, 2011 on a seasonally adjusted basis from the previous week.
The seasonally adjusted Refinance Index fell 6.2 percent, and was 42.1 percent lower than a year ago. The seasonally adjusted Purchase Index was down 2.6 percent from one week earlier.
Meanwhile, the four week moving average for the seasonally adjusted Market Index also dropped 4.7 percent. The four week moving average was down 6.3 percent for the seasonally adjusted Refinance Index, and this average fell 1.0 percent for the Purchase Index, according to the survey.
In addition, the association said that the average contract interest rate for 30-year fixed-rate mortgages last week decreased to 4.55 percent from 4.69 percent, and the average contract interest rate for 15-year fixed-rate mortgages also fell to 3.68 percent from 3.79 percent.
The survey covers over 50 percent of all U.S. retail residential mortgage applications, and has been conducted weekly since 1990. Respondents include mortgage bankers, commercial banks and thrifts.

http://news.xinhuanet.com/english2010/business/2011-07/13/c_13983229.htm

Bank of China, UnionPay issue dual-currency debit cards in Thailand
BEIJING -- Bank of China (BOC), one of the big four state-owned commercial banks in China, has jointly launched its first UnionPay debit cards with the China UnionPay (CUP) in Thailand.
The debit cards, integrating both the yuan and Thai baht accounts, can be used in more than 100 countries and regions that accept CUP standards, according to a statement on the CUP website.
The dual-currency debit cards can also save costs stemming from currency conversions between the yuan and the Thai baht as transactions in the two countries are settled in the local currency, said the statement.

At the launch ceremony Thursday, CUP vice president Cai Jianbo said the debit cards were issued at a time when cross-border payment demands between the two countries were increasing while the CUP standard was now more widely accepted in Thailand.
So far the BOC has issued UnionPay bank cards in a total of eight countries and regions outside China, according to BOC vice president Zhu Shumin.
In late 2009, the CUP jointly introduced a credit card in Thailand with Bangkok Bank.

http://news.xinhuanet.com/english2010/china/2011-07/15/c_13988040.htm

Shanghai ranked sixth on financial center list

BEIJING – A recently released financial index ranks Shanghai as the world's No 6 financial center, two positions behind Hong Kong.
Experts said mature market regulations and more diversified investment channels are necessary to boost the city's competitiveness.
It is the second year that the Xinhua-Dow Jones International Financial Centers Development Index (IFCD Index) has been published, and Shanghai moved up two spots from last year, surpassing Paris and Frankfurt. Beijing was ranked 14th and Shenzhen was 21st.
The traditional financial centers of New York, London and Tokyo remained in the top three positions in this year's list.
Michael Petronella, president of the Chicago Mercantile Exchange (CME) Group Index Services LLC, said he believed the results clearly reflect China's growing economic prominence on the world stage.
In 2010, China overtook Japan as the world's second-largest economy. Goldman Sachs predicted that at its current rate of growth, China will dethrone the United States as the world's largest economy by 2027, and PricewaterhouseCoopers (PwC) said it could happen as early as 2020, Petronella said.
"The capital market, particularly the stock market in Shanghai, will become the largest in the world soon," said Jiao Ran, director of the economic information editorial department of Xinhua News Agency.
"The ranking mirrors the status quo of the world's major financial centers, particularly as the top three positions are still held by the traditional financial centers," said Liu Shengjun, deputy director of the Lujiazui International Finance Research Center, which is affiliated with the China Europe International Business School.
"I agree with most of the index except for Tokyo's position," Lu Hongjun, president of Shanghai Institute of International Finance, told China Daily. "Owing to Japan's current economic status, its internationalization, and the recent earthquake and nuclear emergency, Tokyo is much less prominent in the global financial market," said Lu.
Lu said Shanghai's rise is in line with the city's achievements over the past year.
Qi Xiaozhai, director of the Shanghai Commercial Economic Research Center, said that the city's efforts to build a global financial center and shipping hub have been recognized by the world.
However, he warned that the city is still a long way from challenging the dominance of the traditional financial hubs. "Shanghai should improve many sectors such as trade, industry, service, and education," he said.
"In addition, market supervision and transparency still lags far behind some Western markets," said Liu of the Lujiazui International Finance Research Center.

The list comprises 45 international financial centers. The top 10 are New York, London, Tokyo, Hong Kong, Singapore, Shanghai, Paris, Frankfurt, Sydney and Amsterdam.
On the basis of 66 indicators and 2,073 questionnaires, the IFCD Index chose 45 famous financial cities as samples, and set up a comprehensive evaluation system. The objective indicator system rates international financial centers by five aspects - the financial market, growth and development, industrial support, service and the general environment.

(Source: China Daily)
http://news.xinhuanet.com/english2010/business/2011-07/15/c_13986531.htm

S&P warns to cut U.S. credit rating
NEW YORK -- The rating agency Standard & Poor's warned on Thursday to downgrade U.S. triple-A credit ratings if the policy makers failed to reach a deal to raise the government's debt ceiling.
S&P put the U.S. long-term and short-term sovereign credit ratings on negative watch and said that it could cut the rating by one notch if no agreement was reached on raising government's debt ceiling soon.
In a statement released on Thursday, the rating agency said the CreditWatch placement signals its view that, owing to the dynamics of the political debate on the debt ceiling, there is at least a one-in-two likelihood that it could lower the U.S. credit ratings within the next 90 days.
As the deadline for raising government's debt ceiling is approaching, concerns about the stability of U.S. credit status emerged. The S&P warning came just one day after another rating agency Moody's put the Aaa bond rating of the United States on review for possible downgrade.
S&P also said even if the government raised the debt ceiling before deadline, it might still cut the rating if the U.S. medium-term debt dynamics could not be stabilized.

http://news.xinhuanet.com/english2010/business/2011-07/15/c_13986855.htm

Possible U.S. downgrade will push funds to Indonesia
JAKARTA -- The possibility of a United States investment rating downgrade will trigger a rapid capital inflows to emerging Indonesia, central bankers and analysts have said.
The statement was made as International rating agency Moody's Investors Service put the U.S. under review for a credit rating downgrade on Thursday as talks to raise the U.S. government's 14.3 trillion U.S. dollar debt limit stalled, adding to concerns that political gridlock would lead to a credit default.
"We have estimated that the U.S. economic situation will not be as good as expected. The impact in financial markets will be increased inflows because of a weakening U.S. dollar, but this is still manageable for our economy," Bank Indonesia (BI) deputy governor Hartadi A. Sarwono was quoted by the Jakarta Post as saying here on Friday. Strong macro-economic fundamentals, relatively stable political condition and expectation to jump to investment grade have lured seeking higher yield global investors in advanced nations implementing nearly-to-zero interest rate to invest into Indonesia.
"(Indonesia) needs to be thankful for the fact that, when other countries are under threat, we are moving upward. We still believe that Indonesia will secure an investment grade in the near future, "the central bank governor Darmin Nasution said on Thursday. Indonesian central bank raised interest rate by 25 basis points to 6.75 percent on Feb. 4 and has kept it on hold for a a

fifth straight month. Indonesia's its foreign exchange reserve topped 120 billion U.S. dollar as of July 14.

The central bank deputy governor Budi Mulya said the central bank estimated that capital inflows to the portfolio market would reach 11 billion U.S. dollar this year, compared to 5.7 billion U. S. dollar last year, while foreign direct investment would be higher, at 16.7 billion U.S. dollar in 2011 compared with 13 billion U.S. dollar in 2010.

http://news.xinhuanet.com/english2010/business/2011-07/15/c_13987275.htm

China's social financing reaches 1.19 trillion USD in H1

BEIJING -- China's social financing, a broad measure of funds raised by the entities in the real economy, reached 7.76 trillion yuan (1.19 trillion U.S. dollars) in the first half of this year, the central bank said on Friday.

The figure was 384.7 billion yuan less than the same period a year ago, the People's Bank of China (PBOC) said on its website.

The notion of social financing was raised by the central bank at the end of last year to reflect increasingly diversified sources of financing which included not only bank lending but also direct financing from non-bank sources such as stock and bond markets.

http://news.xinhuanet.com/english2010/china/2011-07/15/c_13987764.htm

INTERNATIONAL TRADE

Russia lifts vegetable import ban on Czech Republic, Greece

MOSCOW -- Russia's chief sanitary inspector said Monday that Russia has lifted the ban on vegetable imports from the Czech Republic and Greece.

"The import of vegetable products from the Czech Republic and Greece to Russia has been permitted since July 11 under certificates which guarantee their safety," Gennady Onishchenko said.

In June, Russia banned vegetable imports from all European Union (EU) members, including the Czech Republic and Greece, following an outbreak of a highly virulent strain of the E. coli bacteria that has killed more than 40 people in Europe.

But on July 1, Russia lifted the ban on vegetable imports from Denmark and Spain, both EU members.

http://news.xinhuanet.com/english2010/business/2011-07/11/c_13978014.htm

Chinese coastal city desperate to woo investment from disaster-affected Japanese enterprises

YANTAI -- East China's coastal city of Yantai will send a business delegation to Japan in early August to court investment from disaster-troubled Japanese enterprises, local authorities said Monday.

The delegation, consisting of business people and officials of Yantai, will visit Japan's coastal cities of Nagoya and Kitakyushu, according to Zhang Zuxia, vice director of Yantai Investment Development Board.

The delegation will talk with Japanese companies that are considering shifting their manufacturing bases abroad after the March 11 earthquake and tsunami disrupted the country's supply chains and caused power shortages, Zhang said.
A package of favorable policies will be available for investors, including tax breaks, rent cuts and government subsidies, Zhang said. "We'll offer favorable terms for each specific industry."
More than 150 companies are on the city's favorite list, including precision electronics and low-carbon companies in Kitakyushu, and automobile and autopart companies in Nagoya.
Yantai is among a number of competitors, including the Republic of Korea and some southeast Asian countries, who want a slice of Japan's industrial relocation, especially high-end manufacturing and R&D bases.
China's Ministry of Commerce said in a press conference on June 15 that investment from Japan is set to surge, as Japanese companies move manufacturing facilities to China.
However, Zhang said there has been no sign of increased Japanese investment in the city, despite its mature infrastructure and proximity to Japan. "Some companies seemed to be avoiding China intentionally," she said.
Yantai narrowly missed a 20-million-USD investment from a Japanese precision electronics giant earlier this month, as the company, wary of China's rising costs, turned to southeast Asia. The company read about the rising labor costs in south China and worried the trend may soon affect the whole country, Zhang said.
Wages are rising in China, as the country progresses from low-end manufacturing to an economy boosted by domestic demand. The country's 30 provinces have raised the minimum monthly wage by an average of 22.8 percent in 2010, according to a report released June 1 by the People's Bank of China.
Real wages for Chinese manufacturing workers almost doubled from 2002 to 2008, according the U.S. Bureau of Labor Statistics. Although China's labor pool remains one of the cheapest in the world, the rising trend is eroding its edge as the "world factory."
Feng Zhaokui, deputy director of the National Society of Japanese Economy, said the problem is not Yantai's alone. "Many Japanese companies are moving to relocate their production bases abroad, and China is not their favored choice," Feng said. "Rising costs and intellectual property are their primary concerns."
Japanese electronics giants such as Renesas and Nikon are planning to increase production in Southeast Asian countries.
Feng said China's transformation from "world factory" to "world market" prompts many Japanese companies to invest in countries near China because its huge market is "vital to Japan's recovery."
Feng suggested China take the initiative to attract investment before the chances slip away. "China should improve the investment environment and the protection of intellectual property," he said. He also advised potential host cities to go to the disaster-affected areas and pay more attention to small and medium enterprises that are most vulnerable to disasters.
China has been Japan's biggest trading partner since 2009. The Chinese mainland received 19.4 percent of Japan's overall shipments in 2010, making it the largest export destination for Japanese goods. From January to May, China's trade deficit against Japan reached 22.3 billion U.S. dollars, according to figures from China's Ministry of Commerce.

http://news.xinhuanet.com/english2010/china/2011-07/11/c_13978059.htm

China offers vast opportunities to Australian businesses: FM

CANBERRA -- Australian Foreign Minister Kevin Rudd on Monday urged Australian businesses to recognize the vast opportunities available to them in China's growing services sector.

Rudd addressed the Boao Forum for Asia (BFA) conference in Perth of Australia on Monday, speaking in both Mandarin and English.

Rudd said that for the last 30 years, China had relied on a successful growth model based on maximum growth, high investments and savings, and labor-intensive manufacturing for export.

He said China was now changing its growth model to one of sustainable economic growth, lower carbon intensity, higher renewable energy and greater energy efficiency.

The new model emphasized higher domestic consumption based on new state pensions for hundreds of millions of Chinese, a new minimum wage and greater state investment in health, education and basic housing.

Rudd said that a third key element in the new growth model was a greater emphasis on the growth of the Chinese services sector.

"It is for Australian business to recognize the profound changes that are occurring in the Chinese economy as reflected in the 12th five-year plan," Rudd said in the forum, quoted by Australia Associated Press on Monday.

"The steady transfer of the growth model to a services-based economy is already happening.

"I would say to Australian business it's very important for them to recognize the profound nature of this change, to recognize the vast new array of opportunities which exist."

Rudd said these opportunities existed in education, health, engineering and design, water efficiency, renewable energy and tourism services.

As a non-governmental, non-profit international organization, BFA is one of the most prestigious and premier forums for leaders in governments, business and academia in Asia and other continents to share visions on the most pressing issues in this dynamic region and the world at large. The Forum is committed to promoting regional economic integration and bringing Asian countries closer to their development goals.

http://news.xinhuanet.com/english2010/business/2011-07/11/c_13978028.htm

China's current account surplus falls 21 pct in Q1

BEIJING -- China's current account surplus, the broadest measure of its trade surplus, fell 21 percent to 28.8 billion U.S. dollars in the first quarter, the foreign exchange regulator said on Monday.

The surplus under the financial account, which measures the net capital inflow, increased 41 percent from a year ago to 86.1 billion U.S. dollars, the State Administration of Foreign Exchange (SAFE) said on its website.

The data was released after revision, SAFE said.

The foreign exchange reserves increased 138 billion U.S. dollars in the first three months, excluding effects of changes in the exchange rate and asset prices.

http://news.xinhuanet.com/english2010/china/2011-07/11/c_13978157.htm

South Korea's pork, beef import surge on outbreak of FMD

SEOUL -- South Korea's import of pork and beef surged in the first half of this year as the spread of foot-and-mouth disease (FMD) drove millions of livestock to be culled, the animal quarantine agency said Tuesday.

South Korea imported 219,681 tons of pork in the first six months of this year, up 120 percent from a year earlier, according to the Animal, Plant and Fisheries Quarantine and Inspection Agency.

Beef import amounted to 187,874 tons in the first half, up 29 percent over the same period last year, according to the agency.

The sharp increase was mainly attributable to the outbreak of FMD, which led the government to cull millions of pigs along with thousands of head of cattle.

Pork imported from the U.S., which accounted for 43.4 percent of the total pork import, reached 95,380 tons in the first half, up 223 percent from a year earlier. Import from Canada also soared 191 percent on-year to 31,376 tons.

Beef imported from Australia, accounting for 47.7 percent of the total beef import, stood at 89,659 tons during the January-June period, up 20.8 percent from a year before. The U.S. beef import grew 54.6 percent on-year to 43,990 tons over the cited period.

http://news.xinhuanet.com/english2010/business/2011-07/12/c_13979605.htm

China drives booming export of New Zealand logs

WELLINGTON -- The value of New Zealand forestry exports in the first three months of this year leapt by 800 million NZ dollars (655.76 million U.S. dollars) to 4.4 billion NZ dollars, fueled by soaring demand for logs from China, New Zealand's Ministry of Agriculture and Forestry (MAF) announced Tuesday.

New Zealand's log exports continued to be dominated by exports to China, said MAF acting manager of sector infrastructure Andrew Doube.

This was driven by strong economic growth in China and a reduction in the availability of logs from Russia, China's traditional supplier, said Doube.

China imported 1.7 million cubic meters of New Zealand logs in the March quarter, up by 44.5 percent from the same period last year.

India was also emerging as a significant importer of New Zealand logs, with demand approaching that of South Korea, New Zealand's second largest log export market.

The volume exported to India in the March quarter was 400,000 cubic meters, up by 157 percent year on year.

Exports of 3.1 million cubic meters of logs in the quarter accounted for half of New Zealand's estimated harvest.

"This is the first time this has happened in the 25 years these statistics have been collected," said Doube.

The strong international demand for logs has resulted in higher domestic prices, putting pressure on New Zealand wood processors, who were facing less demand from reduced construction activity at home and in the United States due to the global economic recession.

"As a result, some mills have closed or down-scaled since the December 2010 quarter, and some remaining saw-millers have reported to MAF that they are questioning their future viability in the industry," said Doube.

The earthquake that struck Christchurch on Feb. 22 had no immediate effect on total sawn timber production figures through the first quarter of the year.
"There is a general expectation that there will be increased demand for processed wood products once the post-quake rebuild begins."

http://news.xinhuanet.com/english2010/business/2011-07/12/c_13979971.htm

Beijing's foreign trade up nearly 30% in 1st half
BEIJING -- China's capital beat the national average for growth in foreign trade in the first half of the year, with the trade deficit widening.
Local customs sources said Tuesday that Beijing generated 185.6 billion U.S. dollars in foreign trade over the past six months, a rise of 28.7 percent from the same period of last year. The growth rate was higher than the national average of 25.8 percent.
The total included 27 billion U.S. dollars of exports, up 4 percent year-on-year, and 158.6 billion dollars of imports, up 34.1 percent. The trade deficit amounted to 131.6 billion dollars, up 42.6 percent.
Between January and June, Beijing's trade with the European Union stood at 21.72 billion U.S. dollars, up 17.3 percent year-on-year, trade with the United States reached 12.52 billion dollars, up 40.9 percent, and trade with Japan hit 10.05 billion dollars, up 15.5 percent.
In June alone, the city sold 520 million U.S. dollars worth of goods to Japan, up 68.2 percent year-on-year, and bought 1.45 billion dollars worth from it, up 20.5 percent.
The six months saw Beijing export 1.42 billion U.S. dollars worth of rolled steel, up 29.4 percent year-on-year; 630 million dollars worth of farm produce, up 24.6 percent; and 15.63 billion dollars worth of machinery and electronics, down 1 percent.
From January to June, the city imported 36.73 billion U.S. dollars worth of machinery and electronics, up 17.8 percent year-on-year, 75.04 billion dollars worth of crude oil, up 37.2 percent, and 7.7 billion dollars worth of iron ore, up 21.2 percent.

http://news.xinhuanet.com/english2010/china/2011-07/12/c_13980340.htm

U.S. trade deficit up 15 pct in May
WASHINGTON -- U.S. trade deficit rose more than 15.1 percent in May to the highest level in more than two years advanced by spiking oil prices, reported the Commerce Department on Tuesday.
In May, the world largest economy exported 174.9 billion U.S. dollars, about 1 billion dollars less than the previous month.
In May, imports rose by 5.6 billion dollars from April to 225.1 billion dollars, resulting in a goods and services deficit of 50.2 billion dollars.
U.S. President Barack Obama vowed in 2010 to double the country's export in five years and create about 2 million jobs within the United States.
The Obama administration is endeavoring to fulfill the goal which means an average of 15 percent increase in export annually.

http://news.xinhuanet.com/english2010/business/2011-07/12/c_13980905.htm

Cambodia's trade with Malaysia grows sharply in 1st four months

PHNOM PENH -- The bilateral trade between Cambodia and Malaysia increased by 75 percent in the first four months of this year, compared to the same period last year, said a senior commerce official on Wednesday.

From January to April this year, the two countries' total trade volume amounted to 100.6 million U.S. dollars, up 75 percent from 57.5 million U.S. dollars in the corresponding period last year, Pan Sorasak, secretary of state for the Ministry of Commerce, said during opening the 2nd Malaysia Solo Fair 2011 in Phnom Penh.

Cambodia's exports to Malaysia worth 18.6 million U.S. dollars, increased nearly five folds from 3.2 million U.S. dollars, and Cambodia's imports from Malaysia reached 82 million U.S. dollars, up 51 percent from 54.4 million U.S. dollars.

Cambodia's main imports from Malaysia were textile and clothing, processed food, chemical products, cosmetic products, manufactures of metal, machinery, beverage, tobacco and electronic products, while Cambodia's exports to Malaysia were crude rubber, textile and clothing, manufacture of metal, and palm oil.

Sorasak attributed the increase to a longstanding and healthy bilateral relationship between Cambodia and Malaysia under the ASEAN spirit.

"I believe that as the same ASEAN members, Cambodia and Malaysia will continue to pursue active trades by utilizing ASEAN Free Trade Agreement (AFTA) as tools for trade developments, and Cambodia expects to see stronger growth of trade with Malaysia this year," he said.

In 2010, the bilateral trade between Cambodia and Malaysia worth 229.7 million U.S. dollars.

http://news.xinhuanet.com/english2010/business/2011-07/13/c_13982376.htm

Colombia stresses importance of free trade with U.S.

BOGOTA -- Colombian President Juan Manuel Santos on Wednesday said a Colombia-U.S. free trade agreement (FTA) would serve as a "fundamental element" in boosting bilateral strategic relations.

Santos said he was confident that the agreement, currently being discussed in the U.S. Congress, would soon receive legal approval, when he was attending an inauguration of the U.S. company Proctor and Gamble's distribution center in north Colombia's Antioquia province.

The president said "the agreement is a fundamental part of our future strategic relations, which we want to further strengthen."

The Colombia-U.S. FTA was signed as early as in 2006, but failed to be approved by the U.S. Congress due to a lack of bipartisan consensus.

http://news.xinhuanet.com/english2010/business/2011-07/14/c_13984315.htm

China to be Latin America's 2nd largest trade partner in 2015: UN body

SANTIAGO -- China will become Latin America's second largest trade partner as early as in 2015, the UN Economic Commission for Latin America and the Caribbean (ECLAC) said Wednesday.

Osvaldo Kacef, director of ECLAC's Economic Development Division, said the current China-Latin America trade volume has already reached that of Europe.

"Given the uncertainty of the economic situation in Europe, China is in the process of ... becoming the second largest trade partner of Latin America," he said.
ECLAC Executive Secretary Alicia Barcena said the world's emerging markets are gradually reducing their dependence on industrialized countries and seeking new relations with China.
Osvaldo Rosales, director of ECLAC's International Trade and Integration Division, said Latin American countries should adopt active trade and investment policies to better do business with China.
"Investments in natural resources and industrial sectors to Latin America increased last year," Rosales said.
He stressed China's large international reserves, and the global economic crisis meant the region should draw more Chinese investments in the coming years.
Latin American nations should produce more value-added products instead of merely exporting raw materials, and this could generate more jobs, incomes and technological innovations, he said.
The average economic growth in Latin America and the Caribbean is predicted to stay 4.7 percent this year and drop to 4.1 percent in 2012.

http://news.xinhuanet.com/english2010/business/2011-07/14/c_13984973.htm

China, EU to seek bilateral investment treaty

BEIJING-- China and the European Union (EU) have agreed to negotiate a bilateral investment treaty, said China's Minister of Commerce Chen Deming on Thursday.
He made the remarks during a joint briefing in Beijing with the visiting EU Trade Commissioner Karel De Gucht.
The minister said the two sides discussed a wide range of issues including investment, trade and intellectual property rights (IPR).
The EU expressed concern over China's compulsory certification regulations, export credits and exports of raw materials. China stated its views on high tech trade and registration of traditional herbal medicine. China also expressed grave concern over the EU's recent trade remedy measures particularly anti-subsidy duties, said Chen.
The EU is China's largest trading partner. China is the EU's fastest-rising export destination. Last year, bilateral trade reached 480 billion U.S. dollars. In the first half of this year, bilateral trade grew 21.3 percent from a year ago with EU exports to China increasing 13percentage points faster than China's exports to the EU.
The EU Trade Commissioner said a more open EU-China market will benefit both sides. He welcomed China's moves in promoting technological innovation and looked forward to further cooperation particularly regarding raw materials, IPR and government procurement.

http://news.xinhuanet.com/english2010/business/2011-07/14/c_13985467.htm

Canadian minister promotes closer Canada-China trade ties

VANCOUVER -- Canada's new International Trade Minister Ed Fast on Wednesday called for improved Canada-China trade ties at a roundtable meeting with Chinese-Canadian business leaders.

Addressing the meeting on bilateral trade, held in the Chinese Cultural Centre in Vancouver's Chinatown, Fast said Canada-China merchandise trade topped 57.7 billion Canadian dollars (about 60 billion U.S. dollars) last year, triple that of a decade ago.
The official, who also serves as minister of the Asia-Pacific Gateway, said the number could be much higher, with "tremendous potential that China presents Canada and vice versa."
Fast, a lawyer from Abbotsford, British Columbia, a farming community outside of Vancouver, was appointed to the two key portfolios in May after the ruling Conservatives swept to a landslide victory in the federal election.
"We are committed to building more commercial ties across the Pacific, whether it's through our Asia Pacific Gateway and Corridor Initiative or through enhanced bilateral trade with economic powerhouses like China," he said.
The Asia Pacific Gateway and Corridor Initiative, launched in 2006 to upgrade and expand the network of road, rail, air and port infrastructure, is a federal government package of investment and policy measures focusing on trade with Asia-Pacific Region.
Canadian exports to China increased 18.7 percent year on year to an equivalent of 13.8 billion U.S. dollars last year, while Canadian imports from China stood at about 46.4 billion dollars, up 12.2 percent. Overall, China was Canada's second largest merchandise trading partner, but still lagged well behind the United States.
Chinese exports to Canada included electrical and electronic equipment, machinery, toys and sporting equipment, while Canada's biggest exports to China were minerals, fossil fuels, wood pulp, fats and oil, and oilseeds.
Fast said trade had been to his country's long-term prosperity and praised the government's strategy to expand the trade relationship.
He said trade contributed 60 percent to Canada's gross domestic product and about one in five Canadian jobs.
Under the Gateway and Corridor Initiative, 47 infrastructure projects have been started in the country's four western provinces, involving more than 1.5 billion U.S. dollars in federal financing.
"These projects are removing bottlenecks and improving connections between transportation modes. In other words, if we as Canadians want to export goods and import goods on a competitive basis, we have to have the transportation infrastructure in place to do that efficiently and effectively," Fast said.
The ports of Vancouver and Prince Rupert, both in the province of British Columbia, are the shortest sea routes between North America and China.
Fast, who plans to make his first visit to China as early as this fall, said the Chinese-Canadian business community's involvement in the process of engaging with China and the rest of the Asia Pacific was "absolutely critical" for trade to grow.

http://news.xinhuanet.com/english2010/business/2011-07/14/c_13985062.htm

China's FDI up 18.4 pct in H1

BEIJING -- China's foreign direct investment (FDI) rose by 18.4 percent year-on-year to 60.89 billion U.S. dollars in the first half of this year, Yao Jian, spokesman for the Ministry of Commerce (MOC) said on Friday.
In June alone, China's FDI rose 2.83 percent from one year earlier to 12.86 billion U.S. dollars, Yao said at a regular press conference.

The growth rate had slowed for three consecutive months, and the June figure was 10.3 percentage points lower than that of May.
China approved 2,919 foreign-invested companies to start business operations in June, up 6.57 percent from the same month last year.
A total of 13,462 foreign firms received approvals to start operations in the first half, up 8.77 percent year-on-year, he said.
Capital inflows from 10 Asian nations and regions, including Japan, Thailand, Singapore, climbed 23.88 percent in the first half to 52.53 billion U.S. dollars, while investment from the European Union rose 1.17 percent to reach 3.46 billion U.S. dollars during the same period.
However, the United States continue to slow its direct investment pace in the world's second-largest economy.
FDI from the U.S. fell 22.32 percent to 1.68 billion U.S. dollars in comparison to the same period last year, Yao said, adding that the U.S. investment in other emerging markets, including Brazil and India, also dropped during the same period.
Furthermore, the growth rate in FDI in China's economically-developed east regions was slower than those in the country's central and western areas during the first half.
East China attracted 51.8 billion U.S. dollars of FDI, up 16.09 percent year-on-year, compared with the 31.78-percent increase in the central regions and 35.18-percent rise in the western areas, Yao said.
Chinese companies invested 23.9 billion U.S. dollars in non-financial sectors in 117 countries and regions during the first half, up 34 percent year-on-year.
About 9 billion U.S. dollars, or 37.7 percent of China's total outbound direct investments, were channeled into company mergers over the same period, he said.

http://news.xinhuanet.com/english2010/china/2011-07/15/c_13986820.htm

South Korea's trade volume hits record high in first half of 2011

SEOUL -- South Korea's trade volume for the first half of 2011 posted a record high on the back of strong exports, customs figures showed Friday.
According to the data from the (South) Korea Customs Service, the country's trade volume in the first half of this year reached 532.9 billion U.S. dollars, surpassing the previous record high of 434.8 billion U.S. dollars recorded in the first half of 2008.
Exports rose 24.2 percent year-on-year to 274.8 billion U.S. dollars, while imports increased 26.6 percent year-on-year to 258. 1 billion U.S. dollars, the data said.
However, despite the largest trade volume, the trade surplus fell some 800 million U.S. dollars to 16.7 billion U.S. dollars from a year earlier due to the increase of about 55 billion U.S. dollars in imports, according to the data.
The customs office expected that trade will remain brisk in the second half and that this year's overall trade volume would reach nearly 1.1 trillion U.S. dollars.

http://news.xinhuanet.com/english2010/business/2011-07/15/c_13987674.htm

Euro zone trade in balance in May

BRUSSELS -- The Euro zone trade with the rest of the world was in balance in May, the European Union's (EU) statistics bureau Eurostat said on Friday. It rose from a deficit of 4.9 billion euros (6.9 billion US dollars) a year ago. In April, the 17 EU nations that use the euro recorded a trade deficit of 4.8 billion euros (6.7 billion dollars).

In May, compared with the previous month, Euro zone exports rose by 1.5 percent and imports by 0.2 percent.

For the 27-nation EU, its trade deficit declined to 13.2 billion euros (18.6 billion dollars), from a deficit of 16.0 billion euros (22.5 billion dollars) a year ago and a deficit of 16.4 billion euros (23.1 billion dollars) in April.

In April, EU exports rose by 1.1 percent and imports by 0.7 percent on monthly basis.

http://news.xinhuanet.com/english2010/business/2011-07/15/c_13988140.htm

China adjusts import tariffs on key technological components

BEIJING -- China's Ministry of Finance announced Friday that the country has adjusted tariffs on imports of core components and raw materials used to build sophisticated technological equipment.

Import tariffs and import-related value-added taxes (VAT) will be scrapped on key components and raw materials that are used to build third-generation nuclear power-generating units. The adjustment came into effect on Jan. 1, 2010.

Import tariffs and import-related VATs on key components and raw materials used to produce oil refinery equipment, natural gas transmission pipelines and ships will also be removed. This adjustment became effective on July 1.

Manufacturers of the equipment specified have until Aug. 15 to register with customs and taxation authorities for a tariff exemption review.

http://news.xinhuanet.com/english2010/china/2011-07/15/c_13988237.htm

Canada-EU trade talks have "important progress:" Canadian official

OTTAWA -- Canada's Minister of International Trade Ed Fast on Friday hailed the "important progress" made so far in free trade negotiations with the European Union, saying the two sides aim to complete the talks by 2012. Fast made the remarks as Canada and the EU concluded their eighth round of talks, which took place earlier this week in Brussels.

The minister said in a press release that ambitious offers had been exchanged on goods and government procurement during the week, saying that talks continue to move forward with the aim of completing negotiations by 2012.

"We are making important progress as we move closer toward an agreement that has the potential to dramatically boost two-way trade and create jobs and prosperity in all regions of Canada," said Fast.

Canada and the EU have held eight successful rounds of negotiations since October, 2009. To date, significant progress has been achieved in all negotiating areas, including goods, services, investment, government procurement and many others. The ninth round is scheduled to take place in Ottawa this October.

Fast called the negotiations "our most significant trade initiative since the North American Free Trade Agreement," saying that some issues still need to be resolved.

The European Union, with its 27 member states and a population of 500 million, is Canada's second-largest merchandise export market and the second-largest investor after the United States. A Canada-EU joint economic study, released in October 2008, shows that a Canada-EU free trade agreement could boost Canadian GDP by at least 12 billion Canadian dollars (about 12.58 billion U. S. dollars), and benefit workers in many sectors of the Canadian economy, including aerospace, chemicals, plastics, aluminum, wood products and manufacturing, as well as commodity- and resource- based businesses.

"Broadening and expanding access to more markets -- like the European Union -- is a key part of our job-creating, pro-trade plan." Fast concluded.

Since 2006, Canada has launched an ambitious trade agenda, opening doors for Canadian businesses by concluding new free trade agreements with eight countries: Colombia, Jordan, Panama, Peru and the European Free Trade Association member states of Iceland, Liechtenstein, Norway and Switzerland.

Negotiations are also under way with India, which could boost Canada's economy by at least 6 billion Canadian dollars. (1 U.S. dollar equals 0.9536 Canadian dollar).

http://news.xinhuanet.com/english2010/world/2011-07/16/c_13988301.htm

China hails WTO ruling against EU duties on Chinese steel fasteners

BEIJING -- The Ministry of Commerce (MOC) on Saturday welcomed the World Trade Organization ruling that the European Union (EU) is illegally taxing Chinese steel fasteners. It is of great significance and will help Chinese enterprises enjoy better competitive conditions in the international market including the EU, said an unidentified official of the MOC Treaty and Law Department in a statement on its website.

"This is not only a victory for Chinese industry but for the WTO rules as well," the official said.

The ruling has reinforced the confidence of WTO members in the WTO rules and the multilateral trading system, the official said.

The ruling from the WTO's appellate body on Friday said the EU isn't complying with international commerce rules by imposing anti-dumping duties on the fasteners from China.

The WTO ruled the EU's single duty requirements and practices are discriminatory and violated WTO rules.

It said the EU isn't calculating them fairly as it takes China as a single exporter, instead of treating the companies individually.

For a long time, the EU has been requiring Chinese exporters to prove they meet with the "single duty" requirements in responding to anti-dumping cases.

The EU imposed anti-dumping duties of 26.5 to 85 percent on fasteners from China for five years in January 2009.

China is the world's biggest producer of screws, nuts, bolts and washers, while the EU is its major market. The WTO set up an expert panel on Oct. 23, 2009 after China initiated the WTO case on July 31, 2009, saying anti-dumping measures taken by the EU against the import of Chinese steel fasteners violated WTO trade rules.

The WTO ruled on Dec. 3 last year that the EU anti-dumping duties are discriminatory and violate global commerce rules. The EU appealed on March 25 this year. China appealed further on March 30 on the remaining problems that did not win support from the expert panel.

http://news.xinhuanet.com/english2010/china/2011-07/16/c_13989373.htm

WORLD ECONOMIES

Japan lowers economic growth forecast to 0.4%

TOKYO -- The Bank of Japan (BOJ) lowered its forecast of the country's economic growth in real gross domestic product (GDP) for fiscal 2011 from April's 0.6 percent to 0.4 percent on Tuesday after the twin disasters in March.

The Japanese cental bank made the new projection during a two-day policy meeting that started Monday.

The BOJ also decided to keep its key short-term interest rate unchanged at around zero to 0.1 percent.

While the BOJ avoided predicting any contraction in GDP in the current fiscal year, it indicated that sentiment among large companies may rebound by September.

Business confidence among Japan's largest manufacturers dropped sharply in the three months to June from the first quarter in the aftermath of the March 11 earthquake and tsunami, the BOJ said in a report earlier in July.

The quarterly Tankan diffusion index of sentiment at large Japanese manufacturers fell to minus 9 in June, following a reading of plus 6 in March and 5 in December.

http://news.xinhuanet.com/english2010/business/2011-07/12/c_13979940.htm

Euro zone inflation steady at 2.7% in June

BRUSSELS -- Annual inflation in the Euro zone remained at 2.7 percent in June, the European Union's (EU) statistics office Eurostat said on Thursday.

This is the seventh month that the figure stood well above the two percent ceiling preferred by the European Central Bank (ECB) in order to maintain price stability. A year earlier, the key index was 1.5 percent.

In June, energy prices in the euro zone jumped by 10.9 percent year on year, while food rose by 2.7 percent.

Across the EU, annual inflation dropped to 3.1 percent from 3.2 percent in May. A year earlier the rate was 1.9 percent.

Among the 27 EU member states, Sweden registered the lowest inflation rate of 1.5 percent, while the highest rate was seen in Romania, which was 8.0 percent.

Earlier this month, the ECB raised the key interest rate by 25 basis points to 1.5 percent to curb the growing price pressure in the euro area.

Analysts expected further hikes in the remaining months of this year despite the sovereign debt woes in several Euro zone countries.

http://news.xinhuanet.com/english2010/business/2011-07/14/c_13985633.htm

Italy's economic struggles sparking big worries at home, across Europe

ROME -- The ripples of Italy's economic struggles are being felt across Europe as its stocks remained stagnant Tuesday after two consecutive trading days of sharp drop.

Italy's economy has long been among the weakest in the European Union (EU), with economic growth trailing the average for the EU as a whole in eight of the last nine years, amid regular threats of credit downgrades, and dim growth prospects going forward.

But now the country's debt level has been a rising cause for concern, with overall debt reaching 120 percent of the country's gross domestic product and the country's budget deficit around 7 percent of GDP, double the supposed deficit limit for euro countries.
The conditions are enough to worry investors, who fear that Italy could be the next domino to fall after the bailouts in Greece and Ireland.
On Monday, those worries sent the Italian Stock Exchange in Milan into a freefall, slipping 5.2 percent at its worst before recovering slightly to finish nearly 4 percent lower on the day, leaving it now 21 percent lower than in February.
And the losses continued to pile up: stocks opened much weaker in Milan on Tuesday, falling a further 4.2 percent in the first hour of trading but reduce its drop to 0.49 percent at noon.
The spread between the return on Italian and German debt - an oft-quoted measure of the attractiveness of each country's bonds - on Monday reached its largest gap ever, at more than 3 percentage points.
Hopes that an emergency 47 billion euro (66 billion U.S. dollars) austerity budget might help shore up investor confidence in the country's economy evaporated after it was revealed that about 40 billion euro (56 billion dollars) of the impact was back loaded to 2013 and 2014, after the current government being out of office.
"This is a kind of cocktail of disappointing information and data," Stephen Wood, chief market strategist for Russell Investments, said.
Monday's bad news in Italy sparked smaller drops from stock markets across Europe: all 18 western European stock exchange blue chip indexes lost ground, including a 1-percent drop in London, a 2.3-percent fall in Germany, a contraction of 2.7 percent in France and a 2.7-percent drop in Spain.
Overall, the Stoxx 600 index of European major companies fell 1.4 percent on the day, with analysts citing Europe's problems as reasons for widespread selling in the United States later in the day and in Asia on Tuesday.
Investors' unnerving concerns are partly caused by the size of the Italian economy.
The EU has already engineered bailouts in response to similar debt problems in Greece and Ireland, but if Italy's debt problem worsens substantially it would be a much more difficult issue to confront.
At 2.06 trillion dollars last year, Italy's economy is more than four times larger than those of Greece and Ireland combined. Italy trails only Germany and France in size among euro zone economies.
As a result of the worries in recent days, the value of the euro compared to the U.S. dollar has begun to slip. On Monday, it fell 1.4 percent, bringing its total losses against the dollar to 4.1 percent over the previous six trading sessions. The euro saw similar slips against other major currencies.
"The kind of bailout that the EU pulled together for Greece or Ireland would be almost impossible for an economy the size of Italy's," Marco Ensilio, an analyst with Milan investment bankers ABS Securities, told Xinhua.
"Already, the possibility of a second Greek bailout has worried (EU) finance ministers about where the money will come from. The amount that would be needed to save Italy in the event the situation worsens would be almost impossible to pull together."
Some countries are already trying to gauge the impact that a credit default in Italy would have on their economies.

On Monday, the Bank of England estimated that a collapse of the Italian economy would have a direct impact of 43 billion British pounds (68 billion dollars).
Italian newspapers reported Tuesday that Austria and France are modeling similar scenarios to understand the risks to their economy.
In Italy, hope remains high that the worst can be avoided.
Late Monday, Italian President Giorgio Napolitano called for a kind of "national cohesion" to resist the growing pressure on the Italian economy. Prime Minister Silvio Berlusconi said investors and companies should "have faith" that Italy would be able to satisfy its debt payments and keep its accounts in order.

http://news.xinhuanet.com/english2010/indepth/2011-07/12/c_13980821.htm

South Korea's unemployment rate falls to 3.3% in June
SEOUL -- South Korea's unemployment rate fell to 3.3 percent in June from a year earlier as private sector increased employment amid economic recovery, a government report showed Wednesday.
The jobless rate stood at 3.3 percent last month, down 0.2 percentage point from the same month a year earlier, the Statistics Korea said in a monthly report. From the previous month, the rate edged up by 0.1 percentage point.
The number of unemployed, who failed to land work despite job- hunting efforts, decreased to 839,000 last month from 878,000 a year earlier.
Unemployment rate among those aged between 15 and 29 came in at 7.6 percent in June, down 0.7 percentage point from the previous year, but it was higher than May's 7.3 percent, according to the report.
The number of people employed reached 24.75 million in June, up 472,000 from a year earlier. The June growth marked the largest on- year expansion in 11 months.
The robust recruitment was mainly attributable to expanded production and consumption caused by brisk exports, the report said.
Health and social welfare service sector, which drove up the June job gain, created 186,000 jobs last month, with manufacturers adding 118,000 positions. The whole and retail sector employed 96, 000 workers.

http://news.xinhuanet.com/english2010/business/2011-07/13/c_13982011.htm

Mexico's international reserves reach record high
MEXICO CITY -- Mexico's international reserves reached a record high of 130.86 billion U.S. dollars on July 8, the Central Bank of Mexico (Banxico) said Tuesday.
The reserves witnessed an increase of 1.66 billion dollars between July 4 and 8, which came after a purchase of about 1.2 billion dollars from credit institutions, Banxico said, adding that it was the 20th increase this year.
The country's international reserves ended up with 113.6 billion dollars last year, Banxico said.
The monetary base, which includes bills, coins and bank deposits, rose from 229.8 million dollars to 54.19 billion dollars, the bank said, adding that the country's public demand for bills and coins has been weaker this year.

http://news.xinhuanet.com/english2010/business/2011-07/13/c_13982295.htm

Japanese govt. maintains monthly economic view in July

TOKYO -- The Japanese government on Wednesday left its assessment of the economy unchanged in its monthly report for July, stating that output and exports are increasing but that downside pressures continue to exist in the wake of the March 11 twin disasters.

"Upward movements are observed in the Japanese economy while difficulties continue to prevail, due to the Great East Japan Earthquake," the Cabinet Office stated in its monthly report.

The office upgraded its overall assessment for the first time in four months in June, saying there were signs of an improvement in production output following a sharp slump following damage to infrastructures and key supply chains, caused by the March earthquake and tsunami that ravaged northeastern coastal regions of Japan.

"Industrial production and exports show some upward movements after they declined due to the earthquake disaster," the government report said.

The office noted that private consumption has "leveled off" following sharp post-quake declines and whilst the economy is in a mild deflationary phase, business investments have stopped deteriorating, the government report said.

But while consumer confidence has shown signs of improvements, with rising sales of electronic goods and automobiles, the office maintained that the improvement in the nation's employment situation has "paused" and remains severe.

The office also highlighted potential short-term downside risks to Japan's economy including domestic factors such as electricity constraints due to power supply shortfalls as the nation's nuclear power plants remain off-line for safety checks and oil prices continue to rise.

In addition, a further slowdown in overseas economies was pointed out by the cabinet office as potentially having an adverse impact on Japan's economy, which economists say has shrink in the April-June quarter, but will likely bounce back in the current quarter.

http://news.xinhuanet.com/english2010/business/2011-07/13/c_13982591.htm

U.S. federal budget deficit nears 1 trillion USD in 2011 fiscal year

WASHINGTON -- The U.S. federal budget deficit is approaching 1 trillion U.S. dollars in the first nine months of the 2011 fiscal year, the Treasury Department said on Wednesday.

Combined federal budget deficit topped 970.5 billion dollars for the first nine months of the budget year through June, an average borrowing pace of more than 107 billion dollars per month, the department said in a report.

The U.S. federal budget deficit in June reached 43.1 billion dollars, the second smallest monthly one in the nine months of this fiscal year ending on Sept. 30, noted the report.

The nation's federal budget deficit stood at 1.29 trillion dollars in the previous fiscal year.

http://news.xinhuanet.com/english2010/business/2011-07/14/c_13983274.htm

Moody's puts U.S. Aaa rating on review

NEW YORK -- Moody's Investors Service Wednesday put the Aaa bond rating of the United States on review for possible downgrade, given the rising possibility that the statutory debt limit will not be raised on time.

The rating agency said that the review of the U.S. government's bond rating is prompted by the possibility that the debt limit will not be raised in time on Aug. 2, to prevent a missed payment of interest or principal on outstanding bonds and notes.

Moody's said in its statement that "an actual default, regardless of duration, would fundamentally alter Moody's assessment of the timeliness of future payments, and an Aaa rating would likely no longer be appropriate."
As a result, the rating would most likely be downgraded to somewhere in the Aa range, considering the default is expected to be short-lived and the expected loss to holders of Treasury bonds would be minimal or non-existent.
If the debt limit is raised again and a default avoided, the Aaa rating would likely be confirmed, according to the rating agency. However, the outlook assigned at that time to the government bond rating would very likely be changed to negative at the conclusion of the review unless substantial and credible agreement is achieved on a budget that includes long-term deficit reduction.

http://news.xinhuanet.com/english2010/business/2011-07/14/c_13983311.htm

U.S. debt ceiling talks stall despite Moody's warning
WASHINGTON -- U.S. President Barack Obama's debt ceiling negotiations with congressional leaders were still in a deadlock Wednesday, despite a credit downgrade warning from the rating agency Moody's.
It was the fourth straight day that Obama hosted the talks with congressional leaders to avert a looming default crisis.
Moody's Investors Service warned it was placing the U.S. top-notch debt rating on a downgrade watch, prompted by prospects that the U.S. debt limit won't be raised in time to prevent a default. This put even more pressure on the bipartisan negotiations.
The borrowing limit, currently at 14.29 trillion U.S. dollars, was reached on May 16. The U.S. Treasury Department warned the world's largest economy would default without an agreement to lift the limit by Aug. 2.
U.S. Federal Reserve Chairman Ben Bernanke, when giving testimony to Congress, said a U.S. debt default would spark a major crisis and have global economic repercussions.
Republican House Speaker John Boehner told reporters that he hadn't been able to get commitments from the president and Democrats on scaling back entitlement spending. "Dealing with them the last couple months has been like dealing with Jell-O," he said.
Republican lawmakers have put forward a balanced-budget amendment to the Constitution, a measure many Republicans believe would force the White House to balance its budget.
But White House spokesman Jay Carney said there is no need for such an amendment, as this practice amounted to "ducking responsibility" rather than tackling challenges.
"What we need to do here is not complicated," Carney said, adding it requires leaders of both parties to work out a compromise to achieve a significant deficit reduction deal.
However, Obama didn't succeed in wringing concessions out of Republicans to strike a deal of raising the federal government's borrowing capacity.
Obama will meet the group of congressional leaders Thursday afternoon to search for a deal to stave off an unprecedented default crisis.

http://news.xinhuanet.com/english2010/business/2011-07/14/c_13984051.htm

Singapore economic growth slows down to 0.5% in Q2

SINGAPORE -- The Singapore economy grew by 0. 5 percent year on year in the second quarter, according to flash estimates released by the Ministry of Trade and Industry on Thursday.

The growth was slightly lower than market expectations of around one percent.

The slower growth was partly due to the high base effect and a weaker manufacturing sector.

The manufacturing sector contracted by 5.5 percent year on year, after expanding by 16.4 percent in the first quarter. On a seasonally adjusted quarter-on-quarter basis, the sector contracted by an annualized rate of 22.5 percent, "largely reflecting a decline in the biomedical manufacturing cluster, as some companies switched to producing a different value-mix of active pharmaceutical ingredients during the quarter," the ministry said.

Output in the electronics cluster also fell, partly due to an easing in global demand for semiconductor chips.

The construction sector grew by 1.6 percent, while the services sector grew by 3.3 percent.

The Singapore economy grew by 8.3 percent year on year in the first quarter.

http://news.xinhuanet.com/english2010/business/2011-07/14/c_13984076.htm

Indian June headline inflation accelerates to 9.44 pct

MUMBAI -- Indian headline inflation measured by wholesale price index climbed up to 9.44 percent in June from 0. 06 percent in May on higher domestic fuel prices, said Indian Ministry of Commerce and Industry on Thursday.

The inflation is lower than market expectation of 9.7 percent but is set to top 10 percent in the upcoming month due to the lag of price transmission.

The release showed that all of the three sectors of the inflation index saw hardening in the month.

Primary articles posted inflation of 12.22 percent from 11.3 percent in the previous month due to the non-food articles like oil seeds and minerals.

The fuel and power sector had 12.85 percent of price increase against 12.32 percent in May on hike of petrol prices.

The price index with manufactured products sector expanded 7.43 percent in June from 7.27 percent driven by pricier iron ore, basic metals, cement and non-metallic minerals.

Meanwhile, the inflation data in April was revised upwardly again to 9.74 percent from provisional 8.66 percent.

http://news.xinhuanet.com/english2010/business/2011-07/14/c_13985001.htm

U.S. jobless claims down 22,000 last week

WASHINGTON -- The number of Americans initially applying for unemployment aid continued to decline last week after hitting a seven-week low a week earlier, an encouraging sign for the U.S. job market, the U.S. Labor Department reported Thursday.

The Labor Department said that the advance figure for seasonally adjusted initial claims for jobless benefits was 405,000 in the week ending July 9, a decrease of 22,000 from the prior week's revised figure.

The fresh figure was the lowest level in almost three months but still remained elevated relatively. Applications have been above 400,000 for 14th consecutive week, signaling the labor market will take time to heal.

Fewer than 425,000 people applying for aid is consistent with modest job growth, but the number of jobless claims will have to fall to 375,000 or below to signal a sustained drop in the unemployment rate.
However, about 11,500 applications in Minnesota were from state employees temporarily laid off due to the state government shutdown, the department noted.
Meanwhile, the four-week moving average, which more closely watched claims figure, also fell slightly to 423,250 from the previous week.
The advance figure for seasonally adjusted insured unemployment during the week ending July 2 was 3.727 million, an increase of 15,000 from one week earlier.
The U.S. economy growth has slowed in recent months, dragging down the labor market's recovery, and the unemployment rate in June also rose to 9.2 percent.
The weekly figures of jobless benefits application reflect the level of layoffs and indicate real-time condition of the American job market.

http://news.xinhuanet.com/english2010/business/2011-07/14/c_13985834.htm

Bernanke says "uncertain" about economic developments, backtracking from QE3
WASHINGTON -- U.S. Federal Reserve Chairman Ben Bernanke said Thursday that the central bank was uncertain about the near-term developments in the U.S. economy, and the Fed was not ready to adopt another round of quantitative easing (QE) moves to shore up the economy.
"Today the situation is more complex. Inflation is higher. Inflation expectations are close to our target," Bernanke told U.S. lawmakers during his second day of the two-day Capitol Hill testimony.
"We'd like to see if, in fact, the economy does pick up, as we are projecting," he said in taking questions from lawmakers when giving his twice-a-year economic report to Congress.
The central bank chief said his agency was not prepared at this point to take further accommodative monetary policy action, backtracking from his Wednesday remarks that the Fed was poised to roll out additional stimulus moves if the U.S. economy worsens.
When the U.S. economy stalled last summer, the Fed in November rolled out the QE2 to purchase 600-billion-dollar long-term Treasury securities, in an effort to keep medium- and long-term interest rates low and facilitate business and household borrowing.
Fed has spent more than 2 trillion dollars to boost the economy since the financial crisis broke out in the fall of 2008, which has invited sharp criticism both at home and abroad, as many economists hold that the QE moves failed to bolster the U.S. economy.

http://news.xinhuanet.com/english2010/world/2011-07/15/c_13985883.htm

Carbon price to unleash investment and build stronger economy: Australian Treasurer
CANBERRA -- Pricing carbon pollution will unleash a new wave of investment in clean energy technology, and build a stronger economy for Australia for years to come, federal Treasurer Wayne Swan said on Friday.
Swan, who was visiting Carnegie Wave Energy Limited's test facility at Fremantle of Western Australia, said wave energy, wind power and other forms of renewable energy are "absolutely critical" to help reduce carbon pollution, and drive jobs of the future.
"You can't be a first-rate economy in the 21st Century unless you are powered by clean energy," Swan told Australia Associated Press in Perth on Friday.

"Putting a price on carbon sends a signal to the investment community to invest in clean energy." He said the carbon price was fundamental change that would set Australia up for the future, and that moving to price carbon and to renewable energy would make the Australian economy strong for the long term, "otherwise we'll be a technological backwater".
Meanwhile, Prime Minister Julia Gillard on Thursday told the National Press Club in Canberra that the carbon price is a vital economic reform which will build the nation's clean energy future.
Under the carbon tax scheme, Gillard said Australia would not suffer an effect to trade competitiveness against international competitors and there will be a nine billion U.S. dollars scheme in place to compensate Australia's most effected trade exposed industries. She said the government's Clean Energy Future program will also support Australian jobs by assisting businesses to survive and prosper in a low carbon economy.
The 24.8 U.S. dollars a tonne carbon tax will start from July 1, 2012. The tax is set to increase 2.5 percent each year for three years, and will switch to Emissions Trading Scheme in 2015.

http://news.xinhuanet.com/english2010/business/2011-07/15/c_13987366.htm

Turkey collects nearly $5 billion from debt restructuring: minister
ANKARA -- The Turkish government collected nearly 8 billion liras (about 4.87 billion U.S. dollars) from taxpayers in a debt restructuring program in the first half of 2011, Finance Minister Mehmet Simsek announced Friday.
"We expect it to rise significantly by the end of the year," Simsek told a press conference on the government's budget performance in the first half of 2011.
However, Simsek said, the government would not use the money in current expenditures.
The Turkish government plans to collect nearly 30 billion liras (18 billion dollars) in taxes according to a law passed earlier this year and more than four million people have applied for a restructuring of outstanding taxes they owe the state under the new law.
Simsek urged public institutions not to ask for supplementary appropriation, saying that "we will take our stance considering Turkey's long-term priorities."

http://news.xinhuanet.com/english2010/business/2011-07/15/c_13988164.htm

Italian parliament approves 70-bln-euro austerity package
ROME -- The lower house of Italy's parliament on Friday approved a austerity budget worth over 70 billion euros (about 98 billion U.S. dollars) aimed at securing public finances and reassuring global markets on the country's financial solidity.
The package, seen as crucial to keep the Euro zone's third largest economy afloat in the lingering debt crisis, was passed in the House of Deputies by 314 votes to 280 with two abstentions, according to local news agency Ansa.
The mix of spending cuts and tax measures, aimed at reaching budget balance and cutting down Italy's elevated debt levels by 2014, was approved Thursday by the Senate, the upper house.
The government had initially approved a 47-billion-euro (66 billion dollars) budget but then deemed it insufficient in protecting Italy from the risk of a debt crisis.
Amid renewed fears for a spill-over of the debt crisis to Italy, the budget plan was approved in record time of just one week, as the parliament moved in a frenetic rush to shield the country from debt speculation, and send a positive message to markets after days of stock falls.
Friday's parliamentary vote was hailed by Italian Prime Minister Silvio Berlusconi.

Talking on the sidelines of the parliament session, Berlusconi said the government wanted to reduce taxes as promised for Italians, but couldn't afford to do so because "times are very hard and right now this is not possible."

"But I have worked for the benefit of all," he assured.

In his speech at the Senate on Thursday, Economy Minister Giulio Tremonti also acknowledged the budget plan to be necessary, "because without budget balance the monster of debt, heredity of the past, would swallow our future," he warned.

http://news.xinhuanet.com/english2010/world/2011-07/16/c_13988286.htm

ARTICLE/COMMENTARY

A taxing issue for online shops

BEIJING -- E-commerce may lose its competitive edge, report Yang Wanli and Chen Limin in Beijing.

It started a year ago, when China issued its first regulation targeting online trade and services. Then, last month, Wuhan city officials collected more than 4.3 million yuan ($665,000) in tax from a company that sells clothing online.

Rumors flourished: Is the government going to start taxing online sales? What does that mean to my business - or my shopping habits?

Many observers seem to have jumped the gun on the regulation, Wuhan tax collection and the rumored imminent introduction of e-commerce tax. But economic reasons make such a tax possible. It's happening in other countries.

As many as 161 million people, more than one-third of China's Internet users, shopped online last year, according to the China Internet Network Information Center. Sales reached 523.1 billion yuan, more than double the total for 2009, and accounted for 3.3 percent of all retail sales.

Deutsche Bank expects e-commerce will help drive retail sales to more than 1.5 trillion yuan, a 7.2 percent share of all domestic retail sales, by 2014.

Those kinds of numbers indicate the huge potential for tax revenue.

The tax at issue is not a sales tax, although the effect on consumers is the same. It's a value-added tax (VAT), and the regulation has been around since Dec 5, 2008.

It says that all people and entities engaged in the sales of goods; in providing processing, repairs or replacement services; and in importing goods to China are subject to paying VAT.

"According to the regulation, most online shops should pay value-added tax," said Liu Tianyong, senior partner of Hwuason Law Firm, the first in China to specialize in taxation law.

In Central China's Hubei province, the tax bill presented to Wuhan Zhuana Garment Co Ltd included VAT, enterprise income tax and an overdue fine for transaction volumes of 105 million yuan last year, according to Zhou Guangchun, spokesman for the Wuhan Municipal Office of State Administration of Taxation.

He said the company sells clothes through both traditional sales channels and its store on Taobao, China's biggest online selling platform.

"As long as the taxpayer is involved in the trade of goods, he or she should bear the obligation of paying tax, no matter how they trade the goods or in what way they settle up for the goods," Zhou said.

85% 'no' votes

Sina Weibo, a popular Chinese language Twitter clone, asked users in late June: "Do you support the collection of tax on online stores?" As of Monday, more than 5,200 votes had been cast, 85 percent of them against the idea.

Most of those who commented said they worry that taxes would lead to higher prices online and that e-commerce would lose its competitive edge.

"My God, if tax is charged on Net shops, how can we survive? The only way out is to close the store," Heaven Lin posted on Wednesday.

About 7 percent of the votes supported tax collection on Net sales; remaining voters stated no preference. Tianjinwolf said tax should be collected because it would put the sellers under government supervision, better protecting customer rights.

Zhao Yi, 27, would fall into the "no" category. Shopping is how she and her female friends spend their spare time - and their money. Zhao earns 8,000 yuan a month as an office worker in Beijing, and about half of that supports her shopping habit.

"Window shopping is nice but we prefer online shopping right now," she said. And the idea of adding tax to her purchases? "It's awful!" Zhao had just brought a blue party dress on Taobao for 328 yuan, less than she would have paid at a mall. "Look at this. It might be priced at more than 400 yuan with the tax," she said.

Real names, IDs

The regulations issued as "interim measures" last year by the State Administration for Industry & Commerce require online sellers to provide their real names and identification numbers to the shopping platforms where they open their online stores. Previously, some sellers registered with any name they wanted, and ID numbers were not required.

Online stores meeting the requirements to register as companies with their local industry and commerce bureaus - a preliminary to being taxed - are to do so.

Among other requirements, platform operators must regularly check the information they are given; sellers must present a receipt as a record to any buyer who asks for one; and sellers are responsible for providing specific product descriptions and for protecting customer privacy.

An official from the administration said it will begin a nationwide survey of Internet shops this year that aims to collect information on the number and sales of e-commerce shops. The data, to be collected over about three years, will contribute to standardized management of the industry in the future, the administration said.

"We are closely following what's happening, but we have not been told of anything related to taxing online sellers," said Yang Sha, public relations manager of Paipai.com, a shopping website under Internet conglomerate Tencent Holdings Ltd.

Taobao.com handled more than two-thirds of China's online shopping last year, with 400 billion yuan in transactions. Its public relations manager, Yan Qiao, said there are two kinds of online stores on Taobao - those registered as companies and those that are not.

Taxing a company or not "depends on whether it's a registered company, not whether it is an online shop", Yan said.

He declined to comment on whether the government should tax online stores, but said that registered companies should pay tax.

Liu, the tax law specialist, thinks that the regulations are the first step toward future taxing of online sales. "Following the providing of real personal information about online sellers, registering in the department of industry and commerce will be the next," he said.

"It is a good thing to consumers because all these actions will contribute a lot to cleaning the market. A short-term hurt is unavoidable, but greater service and high-quality products will come later."
The State Administration of Taxation didn't reply to China Daily's request for an interview about taxation of online shop owners.

'It will be death'

Yu Kai, 40-year-old boss of an online store based in Wuhan, foresees more than "a short-term hurt". If the government taxed Internet sales, he said, it would kill his business. "It will be the death of almost all Net stores."
Yu's company has sold auto parts on Taobao since Aug 1, 2008, and has racked up more than 100,000 transactions. "But we earned little." His eight employees average 1,500 to 3,000 yuan a month in wages, he said.
"The greatest advantage of online shops is providing customers with lower prices" than bricks-and-mortar stores, he said. To draw traffic, he sells some items below cost. "If we have to pay tax, there will be no profits."
"If Wuhan starts to collect tax," he said, "I would choose to change my ID and register in other cities."

Support first

Lu Benfu, an expert on the Internet economy at the School of Management, Chinese Academy of Sciences, said taxes on Internet sales should be collected at some point, but determining how and when that is done is an art.
"The government should first of all support the industry for some time before taxing it, which may well be a burden for online sellers." And he thinks exemptions should be allowed under three circumstances: on all online sellers until their number exceeds 5 million; on those whose sales account for less than 5 percent of total retail sales in China; and on those whose average annual income is less than 50,000 yuan.
The government has encouraged people and companies to conduct commerce online, and many experts say e-commerce will stimulate domestic consumption.
Guangdong, Zhejiang and Sichuan provinces, as well as some other areas, have adopted a series of favorable policies for e-commerce, including tax return, rent deductions and free training.
"If the government were to tax online sellers now, it could reduce their passion for taking part in e-commerce business," said Chen Shousong, an analyst with domestic research company Analysys International. He also thinks taxes should be levied differently for goods sold online and traditionally so as not to squelch the motivation of e-sellers.
Xu Xiaolan, deputy director at the China Center for Information Industry Development, said the government could test online taxation in certain cities before putting it into practice nationwide.

VAT elsewhere

Lawyer Liu explained that the VAT system in China has two rates, for large-scale and small-scale shops. The value-added tax for shops with transactions of more than 1.8 million yuan (about $278,000) is 17 percent of the added value (the selling price minus purchase price). For those with lower transaction totals, the tax is 3 percent of the selling price.
In the United Kingdom, Liu said, e-commerce regulations took effect in August 2002. They provide for a standard VAT rate of 17.5 percent, a preferential rate of 5 percent and a rate of

zero, depending on the types of products. Stores with less than $92,000 in transactions are not required to pay the tax.

In Germany, the price of products sold online include the VAT. The rate for most products is 19 percent, but for books, it is only 7 percent to encourage people to read more.

(Source: China Daily)

http://news.xinhuanet.com/english2010/business/2011-07/12/c_13979156.htm