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Chinese Media Digest
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The Chinese Media Digest, launched in November 2014, provides critical analysis of news articles, blogs, and official speeches published in Chinese-language news media.

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REFORM AGENDA

Shanghai First City to Scrap GDP Target, Shifts Focus to "New Normal"

According to the economics magazine *Caixin*, Shanghai municipality is the first local government in China to eliminate its economic growth target. The policy shift came on January 25, after Shanghai reported real gross domestic product (GDP) growth of 7 percent in 2014—the city's lowest since 1991. Along with this announcement, the Shanghai government's 2015 work report included explicit objectives for science and technology innovation. The report stated, "The environment for science and technology innovation [in Shanghai] clearly needs to improve. Spending on research and development should attain 3.6 percent of GDP, and the rate of patent ownership should reach about 26 per 10,000 persons." The report also mandated that the city's registered unemployment rate be kept under 4.5 percent, and investment in environmental protection be equivalent to 3 percent of GDP.

According to the report, Shanghai's decision to eliminate GDP growth targets was done under the guidance of the central government's "new normal" economic strategy. Renmin University economics professor Liu Rui explained why cancelling GDP targets is in line with this strategy:

> *The 'new normal' emphasizes the modern economy's new characteristics, but it does not cast economic development issues aside. Improving the economy is not a simple matter of growth – the quality and composition of development are key. Shanghai's economy is quite mature, so the city can take the lead in addressing issues related to social welfare and environmental protection.*

- 上海成为国内首个取消 GDP 目标的城市 (Shanghai Becomes First City in China to Eliminate GDP Target)
  Caixin, January 26, 2015
  http://economy.caixin.com/2015-01-26/100778523.html

The Next Phase in China's Consumption Tax Reform

According to *Caixin* magazine, China's State Council has expanded the national consumption tax (or "excise tax") to include batteries and paints. As of February 1, a 4 percent tax rate will be levied on production, consignment processing, and imports of batteries and paints, as well as on sales at the wholesale and retail level. The tax reform was tabled in late January by the Ministry of Finance and the State Administration of Taxation.

Taxing batteries and paint is part of the government's effort to revamp the national consumption tax. One objective is to levy higher taxes on polluting and energy consuming products, while reducing taxes on ordinary consumer goods that can boost household spending. In a further example of this reform, the Ministry of Finance has eliminated the consumption tax on low-emission motorbikes and car tires while raising the tax on refined oil products. A second objective is to tax goods at the wholesale and retail level, rather than upstream in the manufacturing supply chain, in order to influence consumer behavior more directly.

A third objective is to allow a larger share of consumption tax revenue to be collected by local governments instead of the Ministry of Finance in Beijing. The central government recently eliminated the local business tax, which fell disproportionately on companies in the service sector. But doing so deprived local officials of vital tax revenue. According to *Caixin,* reassigning the consumption tax to local assets is meant to plug this fiscal gap.

The batteries to be taxed span a broad range, including primary cells, accumulator batteries, fuel cells, and solar cells. Paints are defined as any type designed to have protective or decorative properties when applied to a solid object. There are exceptions, however. Lead-acid batteries will only be taxed as of January 1, 2016. Certain cleaner batteries, including lithium-ion batteries and certain types of solar and fuel cells, are exempted. Paint will not be taxed if its volatile organic content is less than 420 grams per liter.

- 电池、涂料纳入消费税征收范围 (Batteries, Paint Included in the Scope of Consumption Tax)
  Caixin, January 27, 2015
  http://economy.caixin.com/2015-01-27/100778898.html

FOREIGN TRADE AND INVESTMENT

Caijing Claims China Is Paying Too Much for Oil Imports

Crude oil prices are at their lowest since the global financial crisis in early 2009. As a net importer of oil, China stands to benefit. According to China's customs data, China paid only $77.54 per barrel of oil in December 2014, $30 less than in July. However, the gap between China's import price and the world price also diverged during this period—by December, China paid 31 percent more per barrel than the West Texas Intermediate (WTI) crude oil price.[1]

A December 22 report in Bloomberg broke news that China paid $90 per barrel of Russian oil in November, about 20 percent higher than the world price.[2] After the Bloomberg report circulated on Chinese media, netizens accused their government of "subsidizing" Russia's teetering economy by paying too much for oil shipments. On December 26, a spokesperson for China's Ministry of Foreign Affairs refuted these accusations, vaguely stating that the contract price China pays for Russian crude is "pegged" to the world price and will eventually be adjusted.[3]

In an opinion piece in *Caijing* magazine, economics blogger Wen Guoqing claims the Chinese government is distorting the facts. He argues, first of all, that the disparity between contract and spot prices[4] is so large that China's oil companies must either be grossly miscalculating or consciously manipulating their contracts. In the case of Russia, Wen thinks China is intentionally overpaying for political reasons, perhaps to acquire Russian arms exports at preferential rates.

Wen says this problem is not limited to Russia. Since 2006, oil import prices have risen much faster in China than the rest of the world. He views this as a symptom of China's oil industry, which is dominated by a small number of suppliers. China's national oil companies (NOCs) sign long-term contracts at high prices, cognizant they can pass the costs on to consumers at the pump. This market manipulation allows NOCs to artificially raise their profits at consumers' expense. The policy is exposed when spot prices fall as precipitously as in recent months.

To combat pollution, the Chinese government recently raised consumer taxes on refined oil products. Wen argues this only makes the situation worse, since consumers are already paying too much for fuel. Moreover, China's low-quality crude imports are a major contributor to air pollution. A better solution, Wen suggests, would be to hold the NOCs accountable for market manipulation. China should be buying higher-quality crude and paying less for it.

- 中国进口原油是否存在对俄罗斯的补贴？(Is China Subsidizing Russia via Crude Oil Imports?)
  Caijing, December 27, 2015
  http://blog.caijing.com.cn/expert_article-151342-78103.shtml

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[1] Data from U.S. Energy Information Administration and China General Administration of Customs, via CEIC.
[2] Bloomberg, "China Buys Record Russia Crude as Putin Seeks to Avoid Recession," December 22, 2014. *http://www.bloomberg.com/news/articles/2014-12-22/china-buys-record-russia-crude-as-putin-seeks-to-avoid-recession*.
[3] Embassy of the People's Republic of China in The Republic of Uganda, *Foreign Ministry Spokesperson Hua Chunying's Regular Press Conference*, December 26, 2014. *http://ug.chineseembassy.org/eng/fyrth/t1223213.htm*.
[4] Spot prices are set daily by international markets. Contract prices are agreed upon by buyer and seller for future shipments. The degree to which contract prices are adjusted in accordance with spot prices varies widely.

China's "Going Out" Strategy 2.0: High-Speed Rail and Nuclear Equipment

The Chinese government first launched the "Going Out" strategy in the 10th Five-Year Plan (2001-2005), incentivizing Chinese companies to venture abroad in search of markets, resources, and technology. According to *21st Century Business Herald*, an economics daily, the government announced a new phase in the "Going Out" strategy on January 28. Now, the priority is to seek foreign markets for Chinese high-tech equipment, especially in the high-speed rail and nuclear power sectors.

The article notes that during his five trips to 14 countries in 2014, Premier Li Keqiang signed agreements worth $140 billion of equipment purchases from China, primarily in the high-speed rail sector. China is currently in negotiations for high-speed rail contracts with 28 countries, including the United States, Brazil, and Russia. Company data obtained by *21st Century Business Herald* from China CNR Corporation, one of China's two major rail car builders, shows the company signed contracts totaling $3 billion in 2014, including with the city of Boston.

Nuclear power equipment is a further area of focus in the new "Going Out" strategy. China's indigenously developed Hualong One and CAP1400 reactors are third-generation reactors designed to compete with the latest in Western designs. These products have 70 percent local manufacturing content, and so add considerable value to China's economy. While they are waiting to be deployed at over a dozen nuclear power sites in China, they are being positioned by the government as pioneers for China's high-tech exports.

21st Century Business Herald reports Chinese officials have helped domestic nuclear equipment companies sign cooperative agreements with several foreign governments. Examples include China Nuclear Group's agreements with Argentina and Canada, and China General Nuclear Power Group's agreements with the United Kingdom and Romania.

According to the report, the recent executive meeting of the State Council also singled out steel, non-ferrous metals, construction materials, and light textiles as candidates for "Going Out." These industries are suffering from overcapacities in China. The government's goal is to set up downstream operations overseas to facilitate exports of these industrial products.

- "走出去"升级版有什么不一样 (What Is Different About the Latest Version of the "Going Out" Strategy)
  21st Century Business Herald, January 29, 2015
  http://jingji.21cbh.com/2015/discuss_129/1367117.html

Are App-Based Cab Companies a Good Thing? The Debate in China

App-based taxi companies are challenging the local taxi industry across the world. China is no exception. In late December, the vice-director of Shanghai's transport authority declared "private taxis (*zhuanche*)"—i.e. cars ordered by smartphone app users that are not affiliated with traditional taxi companies—illegal. His colleagues in Beijing and dozens of other municipalities followed suit.

Why the backlash against app-based car services? According to a blog in *Caijing* magazine, two interest groups militate against them. Traditional taxi drivers are seeing a sharp decline in their business and blame the new competition. Backing them are local transport officials, who cite a Chinese law prohibiting private cars from picking up passengers without an operating license. They complain that companies running taxi apps do little to vet and monitor the drivers who use their system.

The *Caijing* blogger, however, thinks app-based taxis will only grow in China, and for the better. Taxi users like the fact they can pinpoint their location and choose between different types of vehicles. There has also been rapid convergence with ordinary cab prices as more app-based companies hit the market and offer discounts to stay competitive.

At the same time, app-based cab drivers earn good wages. The *Caijing* blog estimates they take in between $1,626 and $2,440 in monthly taxi receipts, apparently better than most ordinary cabs. On top of that, they only transfer about 20 percent of their earnings to the app-based car service company. By comparison, it is standard for a regular cab driver in Beijing to pay $842 a month to his cab company, which can amount to over half of that driver's gross earnings.

For the time being, ordinary cab drivers are aligning with their employers and local officials to oppose the emerging app-based industry. But the *Caijing* blogger thinks they will eventually realize they are being exploited by the old system. The drivers are likened to Luotuo Xiangzi, a rickshaw driver in a working class novel about early 20th century China.[5]

- 谁才是的哥们赚钱糊口的最大障碍呢？(What is the Biggest Obstacle for Cab Drivers to Make a Living?)
  Caijing, January 12, 2015
  http://blog.caijing.com.cn/expert_article-151714-78644.shtml

[5] *Rickshaw Boy* or *Camel Xiangzi* is a novel by the Chinese author Lao She, a social realist who wrote about the plight of common workers in Beijing during the 1920s and 1930s. *Rickshaw Boy* provides a visceral description of the hardships endured by the rickshaw drivers who ferried passengers around Beijing on foot.