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China's leadership role in R&D

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- WIPO's Fancis Gurry

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INTERNATIONAL

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Francis Gurry – Global approach only way to deal with the Internet.

- Cover picture, *Dhillon Photographics*

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HIDDEN DEBT PROBLEM FOR CHINA?

LOCAL governments in China are holding non-performing loans on failed infrastructure projects which were implemented as part of China's RMB4 trillion stimulus package, says ratings agency Standard & Poor's . . .



ANALYSIS

Florence Chong*

HONG KONG — Beijing has moved to defuse a potential banking time bomb by directing local governments to take over loss-making projects on the national balance sheet. Ryan Tsang, Standard & Poor's Senior Director Asia Pacific for Financial Institutions Ratings, says indebtedness at provincial and local government level in China "is an issue on top of our list". In 2009, when the Chinese Government launched its RMB4 trillion stimulus package to ward off the impact of the global financial crisis, it also unleashed a big wave of lending — and the bulk of that lending went to infrastructure projects.

"Sometimes these infrastructure projects can deliver the goods to the public but not necessarily deliver the goods to the owners or the creditors," Tsang told *ATI*.

He says lending in China grew by 30 per cent in 2009, moderating to 20 per cent in 2010. This year, he believes the figure will drop to 14-16 per cent. But in dollar value, he says, the volume of lending will remain the same because of a bigger base.

China's total banking loan book was a little above RMB50 trillion at the end of 2010. "Exposure to local government financing vehicles accounts for around RMB9 trillion, or 18 per cent of the loan book," says Tsang.

The debt is being incurred at the second, third and fourth levels of government — provincial, city or district, and county.

"The (Chinese) Government has taken proactive measures to try to quantify the debt, and to get its hand around the issue," says Tsang. "Last year, Chinese authorities ordered all Chinese banks to conduct a stock-take to classify their lending to local government in four different categories."

Tsang says the latest numbers show that a little over 50 per cent of these loans went to commercially-viable projects; 20-25 per cent to projects where cash-flow marginally covered the loan; and less than 20 per cent to projects that are not commercially viable.

"Now, the Chinese Government is trying to move some of the risky exposure from the banking sector back to local government balance sheets," he says. "They are asking local governments to take some of the social (but commercially unviable) project loans back onto their balance sheets. (Then) the Central Government will help deal with them."

In this way, Chinese banks will be able to move some extremely unviable projects off their balance sheets. Chinese banks holding marginal projects are also negotiating with the Government to provide some sort of guarantees to ensure that they get their money back. Tsang says the Government is monitoring the problem. "Will it lead to a financial crisis? We don't think so."

If Government help is not forthcoming in a worst-case scenario, Tsang says, there could be an increase of 4-6 per cent in non performing loans for China's private banking sector. The current level of non-performing loans among the so-called local government financial vehicles is around 1.14 per cent.

S&P is forecasting GDP growth of 8.0 per cent or more for China in 2011, which means that NPLs will be kept under control.

Tsang's colleague, S&P Director of Chinese Corporate Ratings, Chris Lee, says that, generally, Chinese banks are not highly exposed to the riskier end of Chinese enterprises which get their funding from alternative sources — such as family wealth, foreign equity, and now, increasing Chinese private equity sources. Chinese banks tend to lend to State-owned enterprises and so called industry "leaders".

S&P rates China's sovereign credit worthiness at AA-

Tan Kim Eng, S&P Director of Sovereign, International and Public Finance Ratings, says China is not likely to be rated AAA because of the structure of its economy.

Even though China has more than US\$3 trillion in foreign reserves, and net debt of less than 20 per cent of GDP, the weakness is that China's economy itself presents a risk.

"China's per capita GDP is still low, which means a large part of its economy is operating well below efficient levels. The problem is that if there is an economic or financial shock — which we cannot predict — inefficient and highly-leveraged Chinese companies will be hard hit," says Tan.

"In such a situation, he explains, a lot of

“Lack of transparency is an issue. A problem may not be noticed by us — or anyone else — until it becomes quite a big problem”

losses will not be covered, and Chinese banks and the Government ultimately will be expected to absorb these losses.

"Impressive as the Chinese Government balance sheet is right now, a higher ratings level means it has to be able to withstand shocks, foreseeable or not. Right now, we don't see this capacity to be sufficiently high for us to rate China above AA-."

Tan says lack of transparency in China is also an issue. "A problem may not be noticed by us — or anyone else for that matter — until it becomes quite a big problem."

"This applies not only to us but to the Chinese Government — because, in its policy-making, it is disadvantaged by that lack of transparency." **a**

* Florence Chong is Editor of *ATI Magazine*

WATCHFUL AT HOME ON NUCLEAR POWER

WHILE so far benefitting economically from Japan's nuclear incident, South Koreans are now a little less comfortable with nuclear facilities in China and North Korea — while also signing off on a US\$40 billion deal to build nuclear plants in the Middle East . . .



ANALYSIS

Peter Sylvestre*

SEOUL — Perhaps Korea's National Assembly should designate the year 2011 as Nuclear Energy Year.

The threat of a meltdown at Japan's Fukushima nuclear power plant, north of Tokyo, has rippled through neighbouring countries. In South Korea, the immediate effect was a surge in exports of bottled water and instant noodles. Demand for mineral water doubled or even tripled normal levels as Japanese consumers became leery of their own domestic sources.

Also surging are international visitors, notably flight crews and corporate refugees, who are fleeing Tokyo and streaming across the East Sea (as the Koreans call the water that separates them from Japan). In the

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PUBLISHER

Barry Pearton

EDITOR

Flornice Chang

CHIEF CORRESPONDENT

Philip Bowring

CORRESPONDENTS

Hong Kong – K.K. Chada
India – N. Harisharan
Korea – Peter Sylvestre
Singapore – Russell McCulloch
Taiwan – Michael Taylor
Thailand – Robert Herr

ADVERTISING

AUSTRALIA – Asia Today International, Level 29 Chifley Tower, 2 Chifley Square, Sydney NSW 2000, tel 61 2 9770-6477, fax 61 2 9913-2003, email advertising@asiatoday.com.au

PUBLISHER'S REPRESENTATIVES

USA/CANADA
InterMark3 International Communications, Inc.
5929 Albervan Street, Shawnee, KS 66216 USA
Tel [91 3] 248-7770, Fax [91 3] 248-7771
Contact: Fred Baehner,
email: fbahner@intermark3.com

EUROPE

LIVEpr, 4th Floor, 124 Victoria Street, London
SW1E 5LA United Kingdom, Tel [44 0]20 7630-1100,
Fax [44 0]870 121-5572, email info@livepr.net
Contact: Ross Clarke, David Wallen.

Office Manager: Khin Htwe Spaliviero



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fourth week of March, even Busan, opposite southwestern Japan, was experiencing an influx of visitors (refugees?) about 30 per cent above normal.

Most decamped from Japan to South Korea as a precautionary measure, but at least four visitors tested positive for slightly-elevated radiation upon arrival at Incheon International Airport. The Korean Peninsula is considered a safe haven because, although it lies just to the west of Japan, wind currents for the first two kilometres above the ground blow in an easterly direction.

Having said that, South Koreans themselves are reassessing their comfort zone, because seismically-active China has 13 operational nuclear power plants (eight of which are located in Jiangsu Province, immediately west of Korea). And China is building 27 more. That is on top of North Korea's secretive, internationally-unmonitored (and questionably-managed), nuclear activities at Yongbyon (and who knows where else).

Nuclear power is certainly in the news in South Korea. In March, President Lee Myung-bak attended a ground-breaking ceremony for a nuclear power plant being built in Braka, UAE, by a consortium led by the Korea Electric Power Corporation (KEPCO).

This consortium, which includes Toshiba Power Systems and its subsidiary, Westinghouse Nuclear Power Plants, won a US\$40 billion contract in 2009 to build and operate four APR1400 nuclear power plants in the UAE, making Korea only one of six countries globally that exports (peaceful) nuclear technology (North Korea allegedly assisted Pakistan in building its nuclear arsenal). However, the deal was only finalised during President Lee's three-day visit to the UAE. The value of construction alone is put at US\$20 billion.

Cementing the deal is considered a great diplomatic triumph for President Lee, as the Korean-led consortium was able to beat out both US and French-led consortia. During the March 12-14 visit, Lee and the UAE President, Sheikh Khalifa bin Zayed Sultan Al Nahyan, enhanced a bi-lateral strategic partnership that began in 2009 with co-operation in energy, construction and environmental technology — to include security and defence.

In November 2010, South Korea announced a decision to send a 130-strong special forces unit to the UAE for 12 months to train its UAE counterparts. During his visit, President Lee was awarded the Zayed International Prize for the Environment, (previous recipients included former US President, Jimmy Carter, and former UN Secretary-General, Kofi Annan).

In fact, 2011 could be equally be designated the Year of Korea-UAE economic relations as the nuclear power plant deal is but one of several resounding successes. In February, KEPCO, with consortium members Daewoo Engineering and Construction (whose share of the project is US\$650.3 million) and Siemens, won a US\$1.43 billion contract to build and maintain (for 25 years) a 1,600 MW thermal power plant at Shuweihat. The plant is scheduled for completion in March 2014.

Three other Korean firms, Hyundai Heavy Industries (HHI), Hyundai Engineering &

Construction (HEC), and GS Engineering & Construction (GS E&C), won contracts to build Sections One (USD 1 billion), Three (US\$1.7 billion) and Four (US\$2.2 billion), respectively, of the five-section, US\$10 billion, integrated gas development project at Ruwais and Habshan.

HEC will build natural gas storage, waste water treatment and power facilities, and GS E&C will construct a refinery.

Korean firms have also broken new ground in the UAE, with South Korea becoming the first country since the 1970s to secure rights to develop untapped oil fields there. Only the US, the UK, France and Japan have secured a similar privilege.

“ Rights to develop untapped oil fields in the UAE will see South Korea's oil self-sufficiency rise from 10 to 15 per cent. Korea will secure rights to crude worth US\$116 billion ”

According to an MoU between the Korean National Oil Company (KNOC) and the Abu Dhabi National Oil Company, signed in the presence of Presidents Lee and Khalifah, KNOC will have sole right to participate in development of oil fields with reserves estimated at 1.2-1.3 billion barrels, and will have exclusive rights to develop three fields with reserves estimated at 200 million barrels.

The first project is scheduled to be finalised early next year to take effect as early as February 2014. The deal regarding Korea's exclusive rights could be signed as early as this year, and commence as early as 2013. Should the MoU materialise into concrete contracts, Korea's oil self-sufficiency will rise from 10 per cent to 15 per cent as Korea will secure rights to crude worth an estimated US\$116.6 billion at today's prices. Expect another triumphal South Korean Presidential visit to the UAE sometime this year.

For that matter, expect another South Korean visit to Turkey to follow up on a June 2010 MoU to build a total of four APR1400 nuclear power plants at Sinop. A legally-binding understanding was scheduled to be finalised early this year, and a final contract later in 2011. That deal, too, was personally encouraged by President Lee.

Stay tuned — as India, Vietnam and South Africa may be next. **a**

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Japan on rating watch as radiation worries linger

THE JURY is still out on the ultimate cost of Japan's earthquake and subsequent tsunami, but reconstruction efforts should lift economic activity in the third quarter, with demand for Australian coking coal and iron ore. Nuclear power shortages could also see increasing demand for Australian LNG . . .

TOKYO — In a preliminary assessment of the impact of the Japan earthquake/tsunami, Australia's export credit agency points out that Australia is no longer as reliant on Japan as an export and tourism market (merchandise exports to Japan have dropped from 25 per cent of the total to 14 per cent since 1995, and, by 1999, inbound visitors had declined 53 per cent from a peak 814,000 in 1999).

Roger Donnelly, Chief Economist of Australia's Export Finance and Insurance Corporation (EFIC), says that, as reconstruction in Japan gets under way, demand for Australian commodities, such as coking coal and iron ore, could increase. Exports of LNG – but not thermal coal – could also increase as the Japanese power industry fires up spare non-nuclear production capacity.

Donnelly says coal-fired capacity in Japan is reportedly working at full capacity, and it is oil-fired and LNG-fired capacity that should receive the main demand boost.

Tourist arrivals from Japan are likely to drop, and this will particularly hit Queensland, where the tourism industry is already suffering from the strong Australian dollar and the aftermath of the recent floods and cyclone. More than 50 per cent of Japanese tourists go to Queensland.

A briefing note from BBVA Bank says negative effects of the Japan earthquake and tsunami on growth will be concentrated on the second quarter of 2011, followed by a sharp rebound in the third quarter. Growth will be lower by 0.2 per cent in 2011 and higher by 0.3 per cent in 2012, BBVA says.

Effects on activity will follow a usual pattern of a short-term dip in activity followed by a surge in durable goods purchases and investment in reconstruction. Inflation will be pushed up temporarily as supply is reduced, but radioactive contamination and persistent power outages are important downward risks to the usual pattern of growth. BBVA says repatriation of capital will add to end of (Japanese) fiscal year pressures to push up the value of the yen, but this will be mostly prevented by liquidity injections from the Bank of Japan, and a deliberate effort to stabilise the yen.

While reconstruction will frustrate efforts to control public debt, pressure on long-term interest rates should be manageable — strong demand from domestic investors and the liquidity injection by the Bank of Japan should imply small increases in long-term rates.

BBVA says there will be muted upward pressure on global long-term interest rates, while oil prices will be pressed down in the short run and up in the long-run. "Some US Treasury selling might occur, but temporarily. Crude oil demand will be reduced in the short run due to lower



refining activity, but will increase later as the future of nuclear-based power is uncertain," BBVA says. "As long as there is no large nuclear contamination, the economic impact will be modest compared with the human cost."

Standard & Poor's says the earthquake and tsunami are unlikely to have a direct impact on the ratings of most Japanese corporations. The exception so far has been Tokyo Electric Power Co. Inc. (TEPCO; AA-/Watch Neg/A-1+).

"We have placed the long-term rating on the company on CreditWatch with negative implications," S&P says. S&P does not rate any Japanese corporations that have headquarters in the worst-hit prefectures of Iwate, Miyagi, or Fukushima, but it believes the disaster is likely to have a larger impact than the Hanshin earthquake of 1995.

"Credit quality could still deteriorate for companies that escaped direct earthquake damage if electricity shortages and other challenges are prolonged," S&P says. "Many corporations that supply automotive parts and electronic components have production facilities in earthquake-stricken areas. Consequently, any delay in the recovery from the earthquake would affect the recovering trend of Japanese manufacturers' earnings."

“ The cost is now estimated at US\$309 billion, up to 6% of Japan's GDP, making it the world's costliest natural disaster ”

S&P believes assets in rated structured finance securities could be affected, but it will require some time to fully assess the impact of the disaster on portfolio performance. Among different asset types, commercial mortgage-backed securities (CMBS) backed by commercial real estate, and residential mortgage-backed securities (RMBS) that are backed by home mortgage and apartment loans, will be more prone to be directly affected.

"Nevertheless, in our view, the impact on individual transactions depends on the overall exposure of the portfolios of the rated securities to these prefectures. The aggregate domestic products and population of the three prefec-

tures are each less than 5.0 per cent of Japan's total output and population," S&P said.

Korea's Samsung Economic Research Institute expects Japan's economic growth for the year to fall by up to 1.5% because the earthquake has crippled roads, homes, factories and other infrastructure. The Institute said the quake and subsequent tsunami will also impede Japan's growth momentum over the mid- and long-term.

Japan's economic growth rate is expected to hover below 1.0 per cent after 2015, the Institute said. "In the aftermath of power cuts and damage from the quake, it is inevitable for Japan to face huge economic loss."

The research institute said the economic cost of the quake is now estimated at up to 25 trillion yen (US\$309 billion), more than double the 1995 Kobe earthquake. This figure is up to 6 per cent of Japan's gross domestic product, making it the world's costliest natural disaster, it said.

"But the economic cost will further increase if radiation-related problems last longer than expected." In addition, there are hard-to-gauge losses in economic activity from planned power outages or the broader impact of the nuclear crisis, it said.

Nuclear review, but India pushing ahead

MUMBAI — Japan's nuclear crisis will not have adverse impact on the growth of India's nuclear power programme, according to the Chairman of the Nuclear Power Corporation of India Ltd (NPCIL), S K Jain.

Prime Minister Manmohan Singh, who heads the Atomic Energy Department, has called for a review of safety aspects, and spoken of the need for increased safeguards against earthquakes, tsunamis or other threats.

Jain said the NPCIL review will revisit these areas and improve safety measures.

NPCIL would buy nuclear reactors on its terms, and there was no compulsion to buy from any company, Jain said in answer to questions on the proposed purchase of reactors from GE, Areva, and other multinationals for upcoming plants. GE and Areva will supply reactors for proposed new power units at Jaithapur, in Maharashtra, and Kovada, in Srikakulam district of Andhra Pradesh. Asserting that the Indian reactors (two boiling water type at Tarapur and 18 pressurised heavy water reactors) were designed with the highest safety standards, Jain said increasing safety will mean that the cost per unit of installed nuclear power plants will increase. — *N. Hariharan.*

Uranium analyst warns against an over-reaction

ADELAIDE — Speakers at a uranium conference here have warned against over-reaction to Fukushima reactor problems, saying the incident does not alter the case for nuclear power as an energy source for the future.

Prof. Barry Brook, Chair of Climate Change at the University of Adelaide, said it was wrong to call the incident an 'accident' as it was, in ef-

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fect, an act of God. Fukushima was an original Mark 1 commercial plant designed in the 1960s, yet had managed to contain all of its nuclear fuel. Cooling systems in Generation 3 and the coming Generation 4 plants had fully-protected cooling power systems which could cool themselves over five days independent of external sources.

"The underlying demand for nuclear energy is not going away, and countries facing surging power demands will not ultimately be changing their minds about expanding or implementing a nuclear energy cycle," he said. Apart from surging economies with un-met power demands, such as India and China, other countries, including Australia, needed to replace their reliance on coal and gas.

Analyst Warwick Grigor, Executive Chairman of BGF Equities, said what he called a 'media circus' had caused widespread panic in the stock market, with most uranium shares falling by 50 per cent or more, and a fall in the uranium spot price.

A US\$60/lb uranium oxide figure was the minimum required to encourage new mines, Grigor said, and if no new mines were developed, existing production was barely enough to meet minimum demand estimates. "If, after a period of reflection, sensibility is restored to the sector and China maintains its growth profile, there will be a shortage of uranium if the price doesn't move higher," he warned.

Australia's uranium export volume is forecast to increase by 15 per cent through to 2016, South Australia's Minister for Mineral Resources Development, Tom Koutsantonis, says.

He quotes figures from the Australian Bureau of Agriculture Resource Economics and Sciences (ABARES), which show more than 440 operating nuclear power plants in 30 countries accounted for about 14 per cent of world electricity production in January 2011.

Another 72 new nuclear plants were due to be commissioned between 2012 and 2016, with consumption of uranium projected to increase by 4.0 per cent annually out to 2016.

Koutsantonis says Australia hosts about 38 per cent of the world's low-cost uranium reserves and contributed 13 per cent of last year's total worldwide production.

"My main message is that the Australian uranium industry is here for the long term," he said. "Last century saw the world dependent on fossil fuels for its energy supplies. We all know this is not sustainable in the long term. Nuclear meets the large base loads of energy generation capacity needed while delivering lower greenhouse gas emissions".

China to be major user of uranium

BEIJING — China will surpass the US as the world's largest consumer of uranium before 2030 as demand from the nuclear industry grows, a senior energy official has been quoted as saying by the State-run *China Daily*.

"It is only a question of time. We will not have to wait long for it to be true. It should happen some time before 2030," Qian Zhimin, Deputy Administrator of the National Energy Administration, told the newspaper.

China puts human face to 2011 Budget plans

THE National People's Congress has moved to counter polarisation of its 'haves' and 'have-nots'. Health, social security and education all get more in the new Budget . . .

BEIJING — Despite significantly increasing its spending in many key areas, such as education, agriculture, infrastructure and welfare spending, China's budget deficit will be lower in 2011 – 2.0 per cent compared with 2.5 per cent in 2010.

China's Central Government plans to spend 5.436 trillion yuan (US\$827.6 billion) this year, a rise of 12.5 per cent from last year, according to a 2011 Budget draft approved by China's top legislators at the 11th National People's Congress in Beijing this month.

As reported in the February issue of *ATI Magazine*, Beijing's leadership has set out to present a softer human face – putting aside its total obsession on economic growth.

In a frank two-hour question-and answer session with Chinese netizens in the lead-up to the NPC meetings, Chinese Premier Wen Jiabao said: "I always say we should not only make the cake of social wealth as big as possible, but also distribute the cake in a fair way and let everyone enjoy the fruits of reform and opening up."

To counter the polarisation of its "haves" and "have-nots", and help to control a property bubble, Beijing will lift spending on affordable or social housing by almost 15 per cent to 129,266 billion yuan.

"I think China's rise lies in talent and education"

- Premier Wen Jiabao

Wen said: "I want to tell real estate developers: I haven't investigated the profits of every one of you, but I think you real estate developers, as a member of society, should do your own bits for society. You should have morality running in your veins.

"When we evaluate an official's performance, the yardstick should be whether the public are happy or not, dissatisfied or not, but not high-rise buildings and projects."

He said a key priority in the coming five years is ensuring fair income distribution, which has a direct bearing on social justice and stability. "We will ensure that people's income increase is kept in pace with economic growth and people's salary growth kept in pace with the productivity rise."

The Chinese Premier singled out three specific areas of concern and action: 1) increase the salary of the low-income group and minimum living allowances, 2) contain salaries in industries with overly high incomes; and 3) protect lawful income, ban illegal income and regulate excessively high income.

As he foreshadowed, Budget spending on social security and employment this year will be 16.6 per cent higher — at 441,434 billion yuan, education will rise 16.3 per cent to 296,357 billion yuan and the health care and medical budget has increased to 172,758 billion yuan, again up more than 16 per cent.

Wen said: "The whole world is talking about China's rise, and what the people talk about most is (China's) GDP. But I think China's rise lies in talent and education."

The Budget will focus on compulsory education for all Chinese children, including special attention to those in rural areas. China has budgetted 12.5 per cent more in funds for science and technology, along with further development of the Internet.

Transportation continues to feature strongly, with Beijing aiming to improve the so-called connectivity of its people. By the end of 2011, China's total railway lines will expand to 99,000 kilometres. Last year, China added 120,000 km of highways to its road network – a figure set to rise by 4,000 km again this year.

Other key messages at the NPC were the control of inflation and the exchange rate of the Chinese currency, the renminbi. The Chinese leadership said inflation growth would be kept under 4.0 per cent, and reiterated a gradual appreciation of the currency, with the Governor of the People's Bank of China, the central bank, indicating that it will likely appreciate 3.5 per cent against the US dollar this year.

Wen said China would continue to increase the use of its currency in cross-border trade and investment this year, and press ahead with making the currency convertible under capital accounts. PBOC said the use of RMB in trade settlements would expand to the rest of the country this year. The trial programme of yuan settlement in cross-border trade started in 2009 in five cities, expanding to 20 cities last year.

RMB still one-way street for China's offshore investors

SYDNEY — China has paved the way for Chinese companies to invest or acquire assets overseas in the Chinese currency, the renminbi. Norman Chan, Chief Executive of the Hong Kong Monetary Authority, says the People's Bank of China (PBOC) announced a new set of rules recently, But it is still something very novel, he says, and it will take a while before for the first transactions take place.

Chan, who was in Sydney for a seminar on

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the internationalisation of the RMB, says that from now on, Chinese investors will be able to remit currency from China to finance offshore purchases or investment. Until now, the main currency for such transactions has been the US dollar. While there is no doubt that the use of RMB will enhance and facilitate more trade and investment flows, the speed at which the offshore market will develop will depend on the pace of liberalisation, he says.

But he warns that offshore renminbi investments will be in just one direction. Remitting RMB back into China is still an issue — allowed only on a case-by-case basis.

Chinese companies are raising RMB in Hong Kong. So far, 16 issues in Hong Kong have raised 36 billion yuan, but again the funds cannot be repatriated freely into China. — only on a case-by-case basis.

“Therefore, we are working very closely with the PBOC and relevant authorities to see whether this can be formalised into a set of rules like the rules covering overseas direct investment by Chinese enterprises,” Chan told *ATT*. “There is a need for a greater degree of certainty and predictability in terms of getting approval from the authorities.”

Chan came to Australia to promote the role of Hong Kong as a key RMB offshore centre (see *ATT*, January 2011). China’s annual trade has grown to US\$3 trillion yuan, but only 2.5 per cent of that was settled in RMB last year.

Chan believes that, in time, up to 10 to 15 per cent of China’s trade could be settled in yuan. Private sector economists are more ambitious, with some predicting that as much as 25 per cent of all China’s external trade could be settled in RMB by 2013.

Chan says the usage of yuan will increase as suppliers, producers and others come to understand the savings from settling in RMB. He says it is a “no brainer” to settle trade in RMB.

“A lot of companies do not have sophisticated treasury functions — to deal with currency risks,” he says, adding that in a highly-competitive world where margins are narrow and constantly squeezed, exporters are looking for ways to save costs. Settling in RMB, he argues, will save transaction costs.

But he agrees that it will be a gradual process until companies are comfortable with the currency and start to have open accounts in RMB. “This is where the banking industry will play a role in assisting customers,” he says. **a**

HSBC Research pioneers offshore RMB bond index

HONG KONG — HSBC Global Research has launched the HSBC Offshore Renminbi (RMB) Bond Index (CNH Index) to meet growing demand in the market for information on renminbi bonds.

Launching the Index, Anita Fung, Group General Manager and Head of Global Banking and Markets, Asia-Pacific, said that, as the internationalisation of the RMB becomes a greater reality, it is inevitable that investors, businesses and customers globally will grasp its potential.

“China’s evolving economic connectivity, propelled by its position as the world’s leading exporter and fifth-largest direct investor, is supporting the international transition of the RMB,” she said.

“In launching the most representative offshore RMB index in the market, HSBC now provides an accurate and transparent benchmark for our customers to facilitate informed decisions and to seize opportunities.”

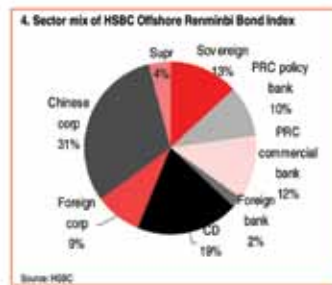
The new Index caters specifically to investors holding RMB-denominated and RMB-settled bonds and Certificates of Deposits (CDs). HSBC says it will further support rapid development of the offshore RMB bond market.

In 2010, this market doubled in issuance value, year-on-year. HSBC forecasts that, by the end of 2011, the offshore RMB bond market will cross RMB100 billion.

The benchmark index tracks the total return performance of RMB fixed-income instruments issues outside China. The index constituents follow strict eligibility criteria, comprising a broad cross-section of RMB-denominated and RMB-settled bonds and CDs.

As of March 2011, the CNH Index covered 57 per cent of the total outstanding RMB-denominated and RMB-settled bonds in the offshore market, and 76 per cent of total institutional issuance.

HSBC’s CNH Index is a stand-alone benchmark, and from April 2011 becomes part of the HSBC Asian Local Bond Index (ALBI). The CNH Index will account for one per cent of ALBI’s overall weighting, and slightly over 10 per cent of its China sector. www.hsbc.com **a**



<http://www.hsbcnet.com/research/offshore-renminbi-bond-index>

Taiwan opening high-tech sectors to Chinese equity

TAIPEI — Taiwan’s Ministry of Economic Affairs (MOEA) has announced that Taiwan will open an additional 42 industry areas to Chinese investment, conditionally allowing Chinese companies to acquire stakes or to forge joint ventures in five sensitive high-technology sectors.

The five sectors are integrated circuit (IC) manufacturing, semiconductor packaging and testing, flat panel and component manufacturing, machine tool manufacturing, and electronic and semiconductor equipment manufacturing. The new list covers 25 areas in the manufacturing sector, eight in the service sector and nine in the public construction sector.

It brings to 247 the total number of areas opened to Chinese investment since the first round of liberalisation in June 2009, which opened industries such as textiles, plastics and handsets.

“The first list in 2009 served as a test of the market’s temperature, and the second round is expected to attract more Chinese investment because of its strategic advantages,” the Minister of Economic Affairs, Shih Yen-shiang, said.

According to media reports, the decision could prompt a high-powered Chinese delegation to visit Taiwan by the end of March to seek investment opportunities. The new MOEA regulations allow Chinese companies to acquire a maximum 10% stake in existing Taiwanese technology companies and a maximum 49% stake in new technology-sector joint ventures in Taiwan.

But an economics official said the Government’s decision to ease the ban on mergers and investments between Tai-

wanese flat panel companies and Chinese enterprises will be “the real benefit” of the liberalisation. “This will make a dramatic difference to how soon flat panel companies such as AU Optronics Corp. and Chimei Innolux Corp. can enter the Chinese market and compete with South Korea’s Samsung and LG,” the official said.

Since the first round of liberalisation in mid-2009, there have been 126 Chinese investment projects worth US\$139 million,

“The second round is expected to attract more Chinese investment because of strategic advantages”

according to the MOEA. The Ministry is planning to organise at least three delegations to visit China to seek investments by companies there in Taiwan’s newly-opened sectors. The Ministry is also adjusting its target for Chinese investment this year to US\$140 million.

Outside of the high-tech sector, China’s State-owned China Ocean Shipping (Group) Company is being tipped to buy a stake in a subsidiary of Taiwan’s Yang Ming Marine Transport Corp. to jointly develop a container centre in Kaohsiung Harbour in southern Taiwan. **a**

at the heart of Asia

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Photo: Lai Chi Kok Drainage Tunnel, Hong Kong, Leighton Asia



No 'Plan B' for Doha

THE Doha Round of global trade talks seems doomed to fail as participants battle with dramatic changes in world economic patterns. The United States, China, India and Brazil are deadlocked in sideline talks, with WTO Director-General Pascal Lamy determined to force a decision . . .

SYDNEY — European Trade Commissioner, Karel de Gucht, visited Malaysia in March on his way to Australia to discuss strategy to conclude the much-stalled Doha Round of multilateral trade negotiations. Asked if the Doha Round will end if an agreement cannot be reached this year, de Gucht says: "There is no Plan B at this moment of time."

de Gucht, who assumed his current role in February 2010, says: "These are very hypothetical questions. One of the things I have learned in politics is that you should be very cautious not to answer hypothetical questions. Instead you should be trying to get a solution."

A former Deputy Prime Minister of Belgium, he adds: "I am more confident than in the past because, for the first time since 2008, major stakeholders are ready to invest political capital in this Doha process."

He told *ATI* that trade is always a multiplier of economic growth. "What we need is more economic growth, and also, I believe, more balance in economic development," de Gucht says: "What we are presently witnessing in North Africa is the result of economic imbalances and food shortages. The Doha Round would contribute immensely to a balanced world — and that is what we really need."

The Round, known as the Doha Development Agenda, has a central brief to promote development among emerging economies. de Gucht says that, since the Round was launched in 2001, the world has seen the passing of a decade with dramatic changes in economic patterns. "The emerging countries were already emerging in 2001 — and now they have become fierce competitors (to developed economies)," he says. "I believe one of the problems in this whole Doha process is that these emerging countries have a double face. On the one hand, it is very difficult to doubt that a country like China is a developing country because it still has as many poor people as Africa."

"On the other hand the Chinese have become fierce competitors. They are producing everything in all sectors. One of the problems in finding a solution for Doha is, precisely, how to discount the two faces into one agreement?"

He says this is a major point that the negotiating parties will have to tackle "before we can get to an agreement."

The WTO is racing against time to get a final agreement before the end of the year. Pressure for the timetable is coming from the White House, with the US due to go into a Pres-

idential election in 2012. "If there is a political will to get an agreement, then it should be possible within the time limit. It is not a matter of time. It is a matter of political will," says de Gucht.

He adds: "Globalisation is a highly political issue in Europe, and even more-so in Latin America, because globalisation has winners and losers. I believe globalisation is not only unavoidable; it is also necessary."

The EU Commissioner says the earthquake in Japan is unlikely to plunge the global economy into another crisis. But he says there will still be an economic impact — through trade disruption. Japan, he says, is very important in the global supply chain, especially in components. Japanese companies have about one-fifth of the components market. "This is going to disrupt, for example, the mobile phone industry — because it has to source components from Japan. The same goes for steel."

Factories in Korea and Taiwan particularly import key components from Japan for mobile phones and upmarket electronic products. At the time of writing, European carmakers — Volkswagen, Peugeot, Citroen and others — said they might be forced to halve production in coming weeks as components suppliers in Japan struggle to restart factories.

Japan is also a key chip producer, and, as a result of the earthquake, chip prices around the world have been rising. **a**

MAKE-OR-BREAK FOR LAMY

ANALYSIS

Florence Chong

PASCAL LAMY plans to force all 153 members of the World Trade Organisation — especially half a dozen recalcitrant members — to make a decision on the future of the Doha Round of trade negotiations.

In a calculated make-or-break move — to pull the talks back from the brink — the French Director-General of the WTO intends to expose

these countries which could end up shouldering blame for collapse of the talks.

Lamy is not saying which countries are being obstructionist. But he intends to defy the wishes of some WTO members by publishing by Easter the texts of what would have been draft agreements, aiming to open up what have previously been behind-the-scenes discussions to the entire membership.

Clearly Washington, currently quagmired in its own domestic political and economic issues, is part of the problem. Similarly, the increasingly assertive developing triplets — China, India and Brazil — are not blame-free.

Lamy says: "As agreed at the beginning of the year, we plan to publish these texts by Easter, and they will cover the 20 topics that have been under negotiation in this Round."

"Our intention in publishing the draft texts is to show where the convergences and the divergences are. Members can then assess what can be done, and make a decision on the areas of deadlock."

The latest round of negotiations resumed in 2010 in a last-ditch effort to find an agreement. There was special focus on bilateral meetings between the US and the three key developing economies in an attempt to find common ground. Disagreement over industrial tariff reductions, Lamy told *ATI*, was a key reason for the break-down in talks. He said developed countries, including Australia, had generally agreed to a 50 per cent tariff reduction, while developing countries would cut their tariffs by 40 per cent.

"That is what is on the table. (But) the US is asking emerging countries for extra efforts in harmonising the industrial tariffs of developed and developing countries," he says.

Washington is seeking more concessions from China, India, and Brazil specifically in three key areas — chemicals, industrial machinery and electronics. These three countries have indicated their willingness to make more concessions — but not to the extent that the US is asking. "Their attitude is that the US has to pay something in return too," Lamy says.

Asked if the latest deadlock will kill the Doha Round, Lamy told *ATI* that this is a decision WTO members will have to take. "We will give them a clear picture of what is happening (by publishing the texts). We will provide information for them to make a well-informed and considered opinion."

Lamy says failure of the Round would be bad news for all developing countries. "Unlike the big guys, who can continue to develop bilateral trade agreements, the small guys are left on their own, and must rely on the WTO and multilateral trade agreements to open markets for them."

This Round seems doomed to fail because of the rising tide against globalisation in a world where unemployment is now at record levels in many developed countries.

As the then-EU Trade Commissioner, Lamy worked closely with then-US Trade Representative Robert Zoellick to salvage the talks when they first floundered in Cancun in 2003.

Seven years on, Lamy is again faced with the unenviable task of trying to save the Doha Round. Who will he partner this time? Robert Zoellick is now the President of the World Bank, acutely aware of the importance of trade to developing economies. **a**

Aust. energy and minerals earnings at record high

CANBERRA — Australia's export earnings from energy and mineral commodities in 2010 were a record AUD165 billion, 25 per cent higher than in 2009, according to the Australian Bureau of Agricultural Resources and Science (ABARES).

Deputy Executive Director, Paul Morris, said the earnings reflected continuing strong growth in demand from Australia's major trading partners, such as China, Japan and Korea. "In 2010, there were increases in export earnings for iron ore, metallurgical coal, copper and crude oil, underpinned by higher export volumes and higher world prices," Morris said.

The average index of export prices of energy and mineral resources increased 13% in 2010, supported by a 24% increase in metals and other minerals export price index.

The energy commodities export price index remained largely unchanged in 2010 compared with 2009.

Commodities that recorded significant increases in export earnings in 2010 included: iron and steel, up AUD531 million (61%) to AUD1.4 billion; iron ore, up AUD17 billion (57%) to AUD47 billion; crude oil, up AUD3.3 billion (43%) to AUD11 billion; zinc, up AUD570 million (32%) to AUD2.4 billion; copper, up AUD1.7 billion (29%) to AUD7.5 billion; nickel, up AUD721 million (22%) to AUD4 billion; and metallurgical coal, up AUD4.7 billion (19%) to AUD30 billion.

Commodities that recorded significant decreases in export earnings included: uranium oxide, down AUD291 million (27%) to AUD779 million; diamonds, down AUD98 million (18%) to AUD452 million; thermal coal, down AUD1.2 billion (9%) to AUD13.2 billion; and refined gold, down AUD428 million (3%) to AUD13.8 billion. www.abares.gov.au

China changes the rules for Rep. offices

BEIJING — New regulations issued on March 1 point to significant changes ahead for foreign representative offices in China, lawyers Baker & McKenzie warn in a *Client Alert*.

"Companies with Rep. Offices in China should take the opportunity to evaluate whether a Rep Office presence meets future business needs, and seek legal advice to ensure that their existing presence is in compliance with the new Regulations," B&M says.

The Regulations clarify some uncertainties, and introduce several new requirements for representative offices –

- The scope of non-profit activities that such offices can engage in is specified to include market research, exhibition activities, publicity activities and liaison activities;
- There are increased penalties for non-compliance – and greater powers of investigation;
- Representative offices must undergo an 'annual inspection', which includes submission of an audit report and a business activity report to the registration authority, the Ad-



ministration for Industry and Commerce. The Regulations also update penalty provisions originally set out in 1983, raising the cap on fines – and also imposing other penalties. Inquiries to nancy.leigh@bakermckenzie.com

Stockwell puts pick-and-pack into Shenzhen and Shanghai

SYDNEY – Stockwell International, Australia's largest privately-owned freight forwarding company, has established Pick-and-Pack warehousing facilities in Shenzhen and Shanghai to help clients meet increasing demand for both mixed product and individual shipments.

Angela Gambell, Director of Sales and Marketing for Stockwell, says the new facilities will help clients save costs in both consolidation of orders and on local distribution to customers in Australia. "There is a trend towards more internet-based customers, and fulfillment of their orders requires a large number of individual shipments," says Gambell.

"We call it 'drop' shipping.

"Our clients might order in bulk, and they might have 40 different suppliers throughout China, but their individual customers are scattered throughout Australia. So rather than bring the products to Australia and pay storage and local distribution costs, it is more efficient to have a single consolidation centre in China.

"We bring the different items into Shenzhen or Shanghai, and can pack containers based on the individual needs of a store, for example, or pack a mix of items for an individual customer, or put the products into inventory. Then we deliver from China to the (Australian) customer, door-to-door."

Stockwell has warehousing space in Shenzhen covering three ports there, and has also established a consolidation centre in Shanghai. It is looking at the possibility of a pick-and-pack centre at Ningbo as the market continues to develop. Says Gambell: "We are aligning ourselves with the big international players (Toll, DHL etc) but we believe we are more customer-service orientated. The customer has complete tracking of every shipment and one point of contact, one account manager.

Stockwell has been operating in China for 27 years through its local agent, CIFF (Comprehensive International Freight Forwarders).

Stockwell is arranging a series of familiarisation visits to China for its customers to see first-hand the pick and pack facilities now available. "We want to solidify client relationships and to let our customers talk with our local Chinese agents and suppliers personally," says Gambell.

Stockwell International began life 40 years ago as Bulgin & Stockwell, a customs broker based in Mascot, later expanding into international freight forwarding, air and sea, import and export, local transport, storage and warehousing. It now has a staff of more than 100 based at Botany in Sydney.

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India's budget woos foreign funds for infra development

Jakarta juggles relationships with US, China

SYDNEY — Indonesia is engaged in a delicate balancing act between China and the US, argues a new report from the Australian think-tank, the Centre for Independent Studies.

CIS Policy Analyst Jessica Brown says Indonesia needs US support to protect its key maritime interests, but does not wish to upset its lucrative economic relationship with China.

"Like Australia, Indonesia sees both opportunities and threats in the rise of China," says Brown. "Australia and Indonesia also share many of the same foreign policy concerns. Rich in natural resources, Indonesia is keen for trade and investment with China to increase. But it is wary of a future where China may be able to dominate the region."

Indonesia has built upon its 'middle power' status to reclaim its *de facto* leadership role of ASEAN, has joined the G20, and has been actively developing relationships with regional powers such as Australia and India, she says.

"At the same time as Indonesia's fortunes are changing, the geopolitical dynamics of the region are shifting. A growing Indonesia will be integral to managing security concerns in Southeast Asia.

"Ultimately, Indonesia does not want to pick sides, and will continue to juggle its relationships with China and the US as long as it serves its interests to do so. Indonesia will not allow itself to be manipulated by either China or the US to further their interests.

"As Indonesia continues to grow in strategic and economic importance, its relationships with two of the world's largest powers will be important for the whole region, including Australia." www.cis.org.au

Vietnam lifts rates again – to 13%, devalues the dong

VIETNAM - The State Bank of Vietnam raised its repo rate, which is used by SBV in its daily open market operations (OMOs) to manage banking sector liquidity, by 100 basis points on April 1 to 13.00% effective immediately. SBV's refinancing and rediscounting rates remain at 12.00%.

Commenting on the move, ANZ Bank said the rate hike is in line with expectations. "Q1 growth might have dipped, but inflation is still rising," ANZ said. "March inflation surged to 13.9% (y/y), and will increase further as domestic demand stays strong, and rising food and fuel prices complicate the picture."

ANZ said the move would help rein in credit and money growth. "As inflation pressures persist, we expect the SBV will need to hike its key interest rates further to 14-15% this year, which will set the stage for more moderate inflation and higher growth in 2012."

SBV has now lifted interest rates by four per cent this year, with a two per cent hike on February 17 and a further one per cent on March 9. The Vietnamese currency, the dong, was also devalued in February. Inflation pressures have been mounting in Vietnam in part because of the devaluation, but domestic electricity and fuel prices are also rising.

INDIA is giving absolute priority to infrastructure development, with energy and transport winning the lion's share of the new Budget. FIIs in India will be able to invest up to US\$25 billion in infrastructure bonds . . .



N. Hariharan
ATI Correspondent

MUMBAI — India is wooing foreign funds for infrastructure development. The nation's annual Budget, presented to Parliament on February 28 by Finance Minister Pranab Mukherjee, has, for the first time since liberalisation in 1991, permitted foreign direct investment (FDI) in the mutual funds industry for development of infrastructure. The Budget proposes to allow foreign institutional investors to invest up to US\$25 billion in infrastructure bonds to help curb funding concerns.

The thrust of the Budget is on infrastructure. Besides increasing annual infrastructure spend, the Budget proposes setting up a special debt fund to attract foreign players.

Industry has welcomed the move to spend a total of Rs214 billion — accounting for about 48.5 per cent of Plan expenditure — on infrastructure. The proposal to disburse loans worth Rs200,000 million through India's Infrastructure Finance Company is a much-needed incentive for the sector.

Meanwhile, a reduction in excise duty on cement and steel will help developers cut input costs on construction, but much more had been expected to help accelerate the supply of affordable housing.

Mukherjee announced that the Government this year wants to implement the long-pending Goods and Services Tax. This is expected to benefit logistics and transport services providers as it will revamp the way India's logistics market currently works.

The Minister has proposed providing infrastructure status for post-harvest storage, bringing cheer to companies wanting to set up cold chains or refrigerated warehouses and needing foreign investment to do this.

The Budget slashes basic Customs duty on specified agricultural machinery, including all cold storage equipment, from 5.0 per cent to 2.5 per cent, and on micro-irrigation equipment from 7.5 per cent to 5.0 per cent. And capital investment for the creation of modern storage capacity, such as silos, will now be eligible for "viability gap" funding from the Finance Ministry. Cold storage conveyor belts and refrigeration panels will be exempt from excise.

The tandem moves have been hailed by industry as "a complete package of relief". Corporate houses such as Coca-Cola are keen to invest in the cold storage sector.

With infrastructure status, companies can borrow at lower interest rates to invest, and

case-by-case clearance from the Government will now go through normal routes — with no need to approach the Foreign Investment Promotion Board for clearance. The Budget also reduces excise duty and provides concessional duty for the clean energy sector.

Concessional customs duty of 5.0 per cent on machinery, equipment and appliances to set up solar PV plants, and a reduction in excise duty on solar thermal power generating units, is a boost to the industry. Hari Kiiran Chereddi, Managing Director of Sujana Energy Limited, says the initiatives will help optimise power generation, distribution and consumption.

Energy and transport get the lion's share — 45.95 per cent — of total Central plan outlay.

"The Government also wants in 2011 to implement the long-pending Goods and Services Tax"

Tax holidays for the power sector have been extended by one more year till March 31, 2012.

The Finance Minister has raised the allocation for education by 24 per cent to reinforce India's push to create a skilled workforce able to keep up with fast-paced growth. The proposed allocation touches Rs520,570 million, of which higher education gets Rs131,000 million.

The booming health care industry gets an increased Plan allocation of Rs276,000 million, up 20 per cent over last year. However, hospital services have been made taxable at 5.0 per cent.

More money has also been made available to track crime, to register non-Indian residents living in India, and to check out those seeking visas from Indian consulates abroad. The aim is to track terrorists and criminals through a mission mode project. The Minister has doled out Rs100,000 million more than in the last Budget, allocating Rs396,600 million for 2011-2012.

The farming sector gets an additional subvention of 3.0 per cent, and banks will be giving priority to agriculture loans, where the interest rate is pegged at 4.0 per cent.

Nine per cent inclusive growth is the target of this year's Budget, with the fiscal deficit to be brought down to 4.6 per cent from last year's 5.1 per cent.



Protecting the Brand ...

Why IP's new role in the knowledge economy demands global licensing



Florence Chong
Editor, *ATI Magazine*

THE emergence of China's leading role in R&D and patent filing is changing the landscape completely for intellectual property, says Francis Gurry, who heads the World Intellectual Property Organisation (WIPO). But change is also being driven by the elevation of intellectual property to a strategic level of thinking as the world moves into a knowledge economy – where knowledge input in the production process is higher, he says. In the next decade, global production will be more knowledge-driven – and WIPO will need to work more closely with the WTO, which oversees global trade . . .

CHINA HAS EMERGED as the world's second-biggest spender on research and development after the United States — and now leads the world in filing for patent rights to protect Chinese brands. "This is going to change the landscape completely for intellectual property," says Francis Gurry, an expatriate Australian who now heads the Geneva-based World Intellectual Property Organisation (WIPO).

"China has become a bigger producer of new technology than all European countries, except for Germany. This is an amazing change in a fairly short time," he says. "My impression of the Chinese is that they have a clear strategy on intellectual property, so they invest huge amounts in education and research. China has passed Japan in terms of investment in R&D. Only the US is still ahead."

Gurry adds: "China is extraordinary in the patent area. Chinese applications have exploded since 2009, with more filings than France or the United Kingdom. In 2010, the number of Chinese applications rose by 65 per cent from 2009. This is a new interna-



WIPO's Francis Gurry – A global approach the only way to deal with the Internet.

tional phenomenon." He says that, in terms of technology, WIPO has generally divided the world into developed and developing countries. China has changed this.

Gurry has increased the frequency of his visits to China, and says a number of Chinese technology firms based in Shenzhen are now very large players on the global stage.

He points to Chinese firms such as Huawei, now a global telecommunications company,

“ In terms of technology, WIPO has generally divided the world into developed and developing countries. China has changed this ”

and Tencent, now the world's third biggest Internet company — after Google and Amazon. "At any given time, Tencent has 250 million people online and it has 400 million subscribers," he says.

Gurry says the impact of the global financial crisis was to decelerate the trend to innovate.

Patent applications from the US and the EU dropped, but China and South Korea increased their filings.

If registration of international patents is used as a measure of technology production, then the world has changed totally, Gurry told *ATI*.

"The only surprise is how quickly this has happened. At the present rate, China will overtake Germany in terms of total international patents granted in three or four years time."

The US make up 28 per cent of all patents granted, with 19.5 per cent from Japan, 10.5 per cent from Germany, 7.6 per cent from China and 5.5 per cent from South Korea.

With the emergence of China as a major patents holder, WIPO is rushing to keep up with translation so that the world can be kept abreast of Chinese technology.

Gurry says a lot of institutions, including the Internet search company Google, are working on software to allow automatic translation. The capacity today is only to provide what Gurry terms "a good first run to get the gist of something", but this is a long way from being able to provide a full translation of the Chinese text.

Japan provides an English translation with all its patent applications, and Gurry expects the Chinese to go down the same path.

"I think Australia ought to take advantage of linguistic diversity and establish premier Asia language institutes," he says. "It is a natural

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BUSINESS ACTION

THE MONTH IN REVIEW



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FDI IN INDIA DOWN BY 30% IN FEBRUARY ON EUROPE WOES

NEW DELHI — Foreign direct investment (FDI) in India registered its second consecutive decline in February, dipping by 30% year-on-year to US\$1.2 billion against the backdrop of financial turmoil in Europe. In February 2010, India attracted FDI worth US\$1.7 billion. During the 11-month period from April 2010 to February 2011, FDI inflows into India declined by 25 per cent to US\$18.3 billion. India received FDI worth US\$24.6 billion during the April-February 2009-10 period. "This year is not good for FDI. The global economic recovery is very fragile in European economies. India needs some policy actions to boost FDI," CRISIL principal economist, D.K Joshi, said.

INDONESIA'S ENERGY SITUATION 'CRITICAL'

JAKARTA — Political turmoil in oil-producing countries has the potential to make Indonesia's energy situation more critical, according to the

Chairman of Indonesia's National Oil and Gas Companies' Association (Aspermigas), Effendi Siradjuddin. Siradjuddin said the Indonesian Government should be seriously wary of the domino effect of political turmoil in the Middle East following the increase in global oil prices. He said world oil prices at US\$120 per barrel had been fuelled by a rise in world oil consumption that was no longer linear with increased production. According to Siradjuddin, Indonesia is experiencing an oil deficit of about one million barrels per day, and this could increase by three million barrels per day in the next five years. He said Indonesian production capacity is currently only 950,000 barrels per day, while consumption is 1.4 million barrels per day.

AUST-BRAZIL ORE PRICING 'UNDER THREAT' IN AFRICA

MELBOURNE — Australia and Brazil's dominance of global iron ore pricing could be broken by a Pilbara-sized west African mining region that could undermine Australia's terms of trade, says Chicago-based economist Dale Hale. At least 20 mines would open in a region spanning Liberia, Guinea, Sierra Leone, and the Cameroon by 2015, and their aggregate output could reach 600 million tonnes a year. That's equivalent to 62% of global production in 2012 and 38% in 2015, Dale said. "If we add this much supply, this could break the Australian-Brazilian cartel in setting iron ore prices. This could finally set the stage for iron ore prices to decline in a meaningful way ... in five years." Hale said China had joined BHP Billiton (ASX:BHP) and Rio Tinto's (ASX:RIO) subsidiary RTZ Mining and Exploration as investors and explorers in the region. China was the world's biggest iron ore producer in 2010, according to a US geological survey, mining 900 million tonnes, or 37.5% of global supply, all of which it retained to fuel its economic expansion.

CHINESE AIRLINES TO SUE EU OVER CARBON TAX PLAN

BEIJING — Chinese airlines plan legal action against a European Union plan to impose a carbon tax from 2012, claiming it could cost them millions of dollars a year, according to a report in the *Beijing News*. China's aviation sector will have to pay an additional 800 million yuan (US\$122 million) a year after the EU starts levying a carbon emissions tax from next year on flights originating or landing in Europe. The report, citing figures from China's aviation regulator, said the cost could hit three billion yuan a year by 2020. China's top three airlines, Air China (SEHK:00753; SSE:601111), China South-

ern Airlines (SEHK:01055; SSE:600029), and China Eastern Airlines (SEHK:00670; SSE:600115), plan to jointly lodge a legal case with the China Air Transport Association, the industry group's secretary general, Wei Zhenzhong, was quoted as saying. Hainan Airlines, another large carrier, may also take part.

JAPAN'S TEPCO SEES POWER SHORTAGE THIS SUMMER

TOKYO — Tokyo Electric Power Co. (TSE:9501) expects its power output to fall about 8.5 million kilowatts short of demand this summer, an estimate that some have blasted as way too optimistic. With the March 11 earthquake and tsunami knocking some nuclear power plants and other facilities offline, the utility is conducting rolling blackouts in greater Tokyo to deal with a shortage of electricity. Tepco plans to increase its output capacity by about 20% from current levels to 46.5 million kilowatts by the end of July by bringing damaged fossil-fuel-fired plants in Ibaraki Prefecture back online and setting up gas turbine facilities. Last summer, a record-breaking heatwave pushed up power demand to as much as 60 million kilowatts.

TAIWAN PREMIER PLEDGES TRANSPARENCY IN MERGERS

TAIPEI — Taiwan's Premier Wu Den-yih says the Government will promote a new wave of mergers in the banking sector based on the principles of transparency, legality and selflessness. The effort will be aimed at correcting problems that have emerged from the second-phase of financial reform, Wu said during a legislative hearing. He denied however, that the Government has any plan to push for a third wave of reforms.

TATA AND AUSTRALIA'S SUNENGY IN SOLAR DEAL

NEW DELHI — India's largest private power producer, Tata Power (BSE:500400), has gone into a partnership with the Australian company Sunengy to establish a solar power project in India. "The two will build a pilot plant for Sunengy's low-cost, floating on water, solar technology in India by the end of this year," Tata Power said in a statement. Construction will begin in August.

INDONESIA, CHINA SIGN ON DEFENCE CO-OPERATION

JAKARTA — Indonesia and China have agreed to strengthen defence co-operation, including the joint-production of missiles. A spokesman for Indonesia's Defense Ministry, Brig. Gen. I Wayan Midhio, said the two parties have paved the way for joint missile production. Speaking after witnessing the signing of an MoU with China on technical co-operation in the defence sector, he said the Indonesian Defence Forces were already using Chinese-made C-802 missiles to equip some of its warships.

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Contact: Asia Pulse Production Centre
Phone: (612) 9322 8634
Fax: (612) 9322 8639
<http://www.asiapulse.com>
Email: asiapulse@asiapulse.com.au