Xi approval fuels frenzied hopes for new China economic zone

XIONGXIAN, China/BEIJING: Like many residents of Xiongxian county, a polluted corner of Hebei province, 17-year-old Liu Zipeng has been giddy with excitement since China announced plans this month for a vast new economic zone backed by President Xi Jinping himself.

"I am so happy - I don't need to move to Beijing or worry about getting a wife anymore," Liu said with a laugh. Such are the hopes for the area, about 100 km (60 miles) southwest of Beijing, that authorities quickly banned property sales to quash a speculative frenzy.

While China has set high expectations by touting the Xiongan New Area as a successor to zones in Shenzhen and Shanghai that helped make China an economic powerhouse, the force of Xi's endorsement could help it flourish where other new development areas failed to match the hype.

In a sign of Beijing's intent, Xu Qin, the former mayor and Communist party boss for Shenzhen, was named acting governor of Hebei province on Friday, with analysts saying it is likely he will be tapped to lead development of Xiongan. Once a sleepy fishing village, Shenzhen, bordering Hong Kong, became an economic juggernaut after being declared a special economic zone in 1980.

Details for Xiongan, planned eventually to stretch across 2,000 square kilometres, an area almost as big as Tokyo, remain sketchy. It is pitched as an environmentally friendly city housing some of Beijing's relocated "non-capital functions", with hopes to attract high-tech industries. Nearly 30 large state enterprises including PetroChina and China Shipbuilding Industry Corp have expressed interest, though no specific relocation plans have been announced.

The three counties that make up the area, Xiongxian, Anxin and Rongcheng, are home to about a million people as well as wheat fields, light manufacturing and heavy pollution - endemic in much of Hebei. But unlike Shenzhen and Shanghai's Pudong, the development of Xiongan is not expected to be accompanied by major economic reforms, and its landlocked setting is a transportation disadvantage.

"Natural market forces would probably not have chosen this place. But if the central government backs it with unlimited resources, it could become whatever it wants to be," said Steven McCord, head of research for North China at real estate consultancy Jones Lang LaSalle.

The plan fits into a broader regional integration push for the cities of Beijing and Tianjin and Hebei province, dubbed Jing-Jin-Ji, which has been spearheaded by Xi since 2015 to tackle the "big city disease" plaguing Beijing, a crowded and polluted city of 22 million.

But Jing-Jin-Ji's progress has been slower than hoped. "It's been hard to get traction getting Beijing, Tianjin, and Hebei to work together seamlessly," McCord said.

Xiongan could be a political and geographical "clean slate" to generate more jobs and economic stimulus for North China, he said.

Xi himself visited Anxin county in late February, which only became public when China announced plans for Xiongan on April 1. Morgan Stanley's base scenario foresees 133 billion yuan ($19.3 billion) in additional fixed asset investment annually over 15 years to build Xiongan, equivalent to just 0.24 percent of China's 56.2 trillion yuan of nationwide fixed asset investment last year.

Mixed record

While the Shenzhen and Shanghai economic zones thrived, some similar schemes in China have fallen short of expectations. Caofeidian, also in Hebei, was promoted by former President Hu Jintao as a new industrial zone in 2008, but development foundered as debt accumulated.

Authorities have been trying to give Caofeidian another push to upgrade its industries to become a driver of Jing-Jin-Ji's integration, but competition among provinces has been a drag on progress.

"Caofeidian had central government support, but it was a long way from being a national-level special economic zone. Its importance was definitely not at the same level that Xiongan is seeing now," said He Jun, head of macroeconomic research at Anbound Consulting.

"Xiongan's biggest advantage is that it has strong support from the central government." He remains doubtful that Xiongan will emulate Shanghai or Shenzhen due to its geography and the greater openness of China's economy now, but the political leadership seems intent on making it succeed. — Reuters

EU welcomes Italy's deficit-cutting plans

ROME: Italy's latest plans to rein in its deficit are a "step in the right direction," EU Commission chief Jean-Claude Juncker said yesterday Rome gave the green light to a package of reforms aimed at lopping 3.4 billion euros off the budget shortfall this year.

"The Italian government's pledge is a step in the right direction... Italy is making enormous efforts to rein in its public deficit," Juncker told the daily La Repubblica. "Nevertheless, in the medium and long term, in order to save themselves and the monetary union, the Italians must clean up their public finances in a decisive manner," Juncker said. On Tuesday, Prime Minister Paolo Gentiloni announced that his cabinet had approved a package of economic reforms that would knock 0.2 percentage points off Italy's deficit ratio this year. The reforms include measures to fight tax evasion and reduce public spending, but do not entail any tax increases.

At the same time, Rome upgraded its forecast for economic growth this year to 1.1 percent from 1.0 percent previously, following growth in 2016 of 0.9 percent. The European Commission had written to Rome in mid-January demanding that it revisit its 2017 budget plans and shave off 3.4 billion euros ($3.6 billion) or face penalties. Italy's 2017 budget adopted last autumn had pencilled in a deficit equivalent to 2.3 percent of GDP-significantly higher than the 1.8 percent initially demanded by Brussels.

"The deficit-to-GDP ratio will be reduced to 2.1 percent this year," Gentiloni said Tuesday.

"Our forecasts are cautious and it has often turned out in recent years that they are corrected positively afterwards." Italy has the second highest public debt of any EU country, equivalent to 133 percent of its GDP in 2016.

It was one of eight eurozone countries warned in November that they could face fines and restricted access to funds from Brussels over their failure to stick to the EU's Stability Pact rules.

"Italy has all the instruments available to be a driving force within the EU," Juncker said in the newspaper interview yesterday. "That said, I'm saddened to see the country losing competitiveness day by day, year by year," he continued, suggesting that its growth rate was currently "too weak."

Turning to the migrant crisis, in which Italy is very much on the front line, Juncker suggested that the country "receive the Nobel Peace Prize given all it has done to save lives in the Mediterranean".

But he rejected accusations that Europe had left Italy on its own to tackle the migrant crisis.

"That's not true. From the beginning, I've said that the tragedy of immigration cannot only be the problem of Greece or Italy, but must be treated as a European problem," Juncker continued. That was why the EU had drawn up a system for sharing the numbers of asylum-seekers and taking in and registering the refugees, he added. — AFP

HANGZHOU: Customers select mangos at a supermarket in Hangzhou, east China's Zhejiang province yesterday. Prices for goods at the factory gate in China jumped in March, the government said. — AFP

China Q1 economic growth seen steady at 6.8% in Q1

Construction booming, services sector resilient

BEIJING: China's economy likely grew by a solid 6.8 percent in the first quarter, the same pace as the previous quarter, due to sustained government infrastructure spending and a gravity-defying housing market, according to a Reuters poll of 60 economists.

But the world's second-largest economy is widely expected to lose steam later in the year as the impact of earlier stimulus measures starts to fade and as local authorities step up a battle to rein in red-hot housing prices. A tighter monetary policy stance by the central bank and intensifying efforts by regulators to contain debt risks and asset bubbles could also weigh on growth in the world's second-largest economy if not handled well, economists said.

"Growth is still driven by infrastructure investment and the property sector, but property investment is likely to slow in the second half due to curbs on home buying and mortgages," said Tang Jianwei, economist at Bank of Communications in Shanghai.

"The economy is stabilizing and warming up, but there are still downside risks in the medium term." A surprisingly upbeat reading would likely boost stocks and global commodity prices, but a weak outcome could fuel the risk of more capital outflows, putting fresh pressure on the yuan currency.

The government is aiming for 2017 growth of around 6.5 percent, slightly lower than last year's target of 6.5-7 percent and the actual 6.7 percent, which was the weakest pace in 26 years. Top leaders have signaled tolerance for more modest growth this year to help defuse financial risks created by an explosive growth in debt. Economists in the poll estimated GDP grew 1.6 percent quarter-on-quarter, versus 1.7 percent in the fourth quarter, though only 25 analysts gave sequential forecasts.

Property, debt key risks

Most analysts agree the property market may pose the single biggest immediate risk to growth. In March and early April, more than a dozen local governments imposed or tightened restrictions on home purchases and tightened mortgage down payment rules, after data showed housing prices, sales and investment remained strong, defying earlier cooling measures.

Increasingly tough measures are expected to slow activity in the property market eventually, but at the risk of a nasty crash that would damage the economy and consumer confidence. At the same time, China's central bank has shifted to a tightening bias and is using more targeted measures to contain risks in the financial system, after years of ultra-loose settings.

The People's Bank of China (PBOC) has raised short-term interest rates modestly several times already this year and some market watchers expect one or two more hikes by year-end. But it is considered unlikely to tighten policy abruptly ahead of a major leadership transition later this year.

Indeed, some analysts believe the government could quickly unwind tightening measures and revert to traditional pump-priming if growth slows too sharply, despite official warnings about the dangers of prolonged debt-fueled stimulus. The Organization for Economic Co-operation and Development (OECD) says China's total private and public debt has exceeded 250 percent of GDP, up from 150 percent before the global financial crisis.

Steady expansion

China will release first-quarter gross domestic product (GDP) on April 17 (Monday), along with March industrial output, retail sales and fixed asset investment. Industrial output likely grew at a steady 6.3 percent pace in March, aided by a continuing construction boom and a pickup in export orders as global demand improves.

Fixed asset investment was expected to grow 8.8 percent in the first quarter, easing marginally from 8.9 percent in the first two months of the year. Investors and policymakers will be watching for any further signs of improvement in private investment, which quickened in January and February after a sharp loss of momentum in the last few years. — Reuters

LONDON: Fruit and vegetables are displayed for sale at a food stall at Whitechapel Market in east London yesterday. — AFP

British wage growth after inflation almost vanishes

LONDON: Inflation almost completely gnawed away the growth in pay of British workers during the three months to February, the clearest evidence yet that households are feeling the strain of rising prices as Brexit negotiations begin. Inflation-adjusted pay growth inched up just 0.2 percent over the period, the weakest increase since mid-2014, official data showed yesterday.

The figures drove home how households are grappling with rising prices in shops, exacerbated by the pound's plunge that followed last year's vote to leave the European Union and by rising global oil prices. The unemployment rate in the period between December and February held steady at an almost 12-year low of 4.7 percent, in line with the median forecast in a Reuters poll of economists.

"Big picture remains a labor market with very strong employment plateauing at record highs ... combined with a pay disaster," Torsten Bell, director of the Resolution Foundation think tank, said on Twitter. Sterling hit its highest level in over a week against the U.S. dollar after the figures as investors focused on a slightly stronger-than-expected rate of nominal pay growth.

Earnings including bonuses rose by an annual 2.3 percent in the three months to February, unchanged from the previous period, the Office for National Statistics (ONS) said on Wednesday.

Economists taking part in a Reuters poll had expected growth of 2.2 percent. An expected further rise in inflation is raising the prospect that wages, in real terms, will soon start to contract, as they did in most of the years since the 2008/09 recession. Consumer price inflation stood at 2.3 percent in the 12 months to March and the Bank of England expects it to approach 2.7 percent by the end of this year. Many private economists expect inflation will surpass 3 percent this year.

After Britain's economy withstood the initial shock of the Brexit vote last year, economists have reined in their forecasts for how much unemployment is likely to rise. But the ONS said the number of unemployment benefit claimants - which is a potential early warning sign of an economic downturn - rose by 25,500 to 765,400 in March, the largest increase since July 2011.

Economists taking part in the Reuters poll had expected the number of benefit claimants to fall by 3,000. The number of people in work increased only modestly by 39,000 although the employment rate of 74.6 percent was a joint record high. Job vacancies in the three-month period to the end of March rose by 16,000 to a record high 767,000. British workers are becoming more reticent about moving jobs as the process of leaving the European Union gets underway, exacerbating long-standing skill shortages, a survey of recruiters showed on Friday. — Reuters

Tesco dives into red on accounting scandal

LONDON: Supermarket giant Tesco revealed yesterday that it fell into an annual net loss of £40 million due to a costly accounting scandal at Britain's biggest retailer.

The after-tax loss, equivalent to $50 million or 47 million euros, was skewed by a £235-million hit in costs arising from the three-year-old scandal. The company's performance contrasted with a net profit of £138 million in the previous financial year, Tesco added in a statement.

However, operating or underlying profits before one-off items rallied almost a third to £1.28 billion in its 2016/2017 financial year, which ran until the end of February. That beat market expectations. And annual sales grew for the first time in seven years by 3.7 percent to £55.9 billion, despite fierce domestic competition. The news comes two weeks after Tesco agreed to a fine and compensation costs in Serious Fraud Office deal, under which the firm will not face prosecution. Charges have previously been brought against three former Tesco executives, who will face trial over alleged fraud and false accounting.

Tesco also said yesterday that it expected its vast £3.7-billion takeover of British wholesaling giant Booker to be submitted for shareholder approval by either late 2017 or early 2018.

"We are confident that we can build on this strong performance in the year ahead," said chief executive Dave Lewis in the statement. "On top of this, our proposed merger with Booker will bring together two complementary businesses, driving additional value for shareholders by realising substantial synergies and enabling us to access the faster growing 'out of home' food market."

LONDON: A customer pushes a shopping trolley as he walks through the car park of a Tesco store in Sevenoaks, south-east of London yesterday. Supermarket giant Tesco revealed yesterday that it fell into an annual net loss of £40 million due to a costly accounting scandal at Britain's biggest retailer. — AFP

Share price slides

The results were badly received on the London stock market. Shares fell 3.14 percent to 189.45 pence in mid-morning deals, topping the fallers' board on the FTSE 100 index, which was 0.25 percent lower. "Tesco's historic troubles have left a lingering mark on its current results," noted David Alexander, retail analyst at GlobalData. "Past indiscretions aside, there is plenty for executives to crow about in today's numbers."

Tesco is the world's third-biggest supermarket chain after France's Carrefour and global leader Wal-Mart. The group had slumped into an enormous record loss of £5.7 billion in 2014/2015 after a vast property writedown and challenging home trade. However, it rebounded into slender profit last year.

Tesco had been accused of overstating profits by £326 million between February and September 2014 in an accounting error. Following the incident, the company appointed outsider and former Unilever executive Lewis in July 2014 to replace long-standing chief executive Philip Clarke and oversee a drastic restructuring of the group. —AFP