

Question 1**Paper and bookstore industries in China****Table 1: Production of Paper and Paperboard (million tonnes)**

Year	2008	2009	2010	2011	2012
World	389.6	370.4	394.2	400.4	400.5
China	83.7	90.1	96.5	103.1	106.3

Source: www.fao.org

Table 2: Consumption of Paper and Paperboard (million tonnes)

Year	2008	2009	2010	2011	2012
World	389.8	368.1	392.9	400.0	398.9
China	84.3	90.2	96.9	102.7	105.5

Source: www.fao.org

Extract 1: Paper industry in China

Asia, with its robust economic growth over the past few decades, has become one of the most important markets for everything from printing and writing paper to corrugated boxes (made from paperboard) for packaging, driven by both greater domestic consumption and exports across the world.

China, as one of the world's largest exporters, has seen a surge in demand for packaging paper. She is now the largest purchaser of pulp fibre globally. Rises in per capita demand in China have basically turned the global paper market on its head. Much of this is to do with rising incomes and the burgeoning middle class.

A fragmented market made up of many outdated paper mills is a burden to a country where consumption is expected to lead the world in years ahead as more mature markets such as the United States and Europe start to witness a decline in demand. Most analysts foresee a wave of consolidation in China, but when it may happen is yet to be seen. Chinese producers have been aggressively expanding production and some have even been trying to export their products but have faced stiff resistance in the form of rules in developed markets to control the flow of paper from cheaper producers.

The Chinese government plans to consolidate the paper manufacturing industry by shutting down outdated paper and pulp fibre equipment nationwide and persuading smaller, older manufacturers to reduce capacity. 'Small mills have to shut down if they are not making money,' says Cao Zhen Lei, general secretary of the China Paper Industry Technical Association.

For big players in the market, now that they are required to retire some small assembly lines and old paper machines, it is a great opportunity for equipment modernisation to increase capacity. To shut down old equipment is a way for a company to produce new products adapted to market needs.

The new rulings will encourage new pulp fibre projects above a certain scale, to address China's pulp fibre shortage as the country is heavily dependent on imports of pulp fibre.

Source: *Asia News Monitor*, 23 April 2012 and
Pulp & Paper International Magazine, 22 November 2011

Extract 2: Bookstore industry in China

The disappearing bookstore

'As online bookstores become more and more popular, traditional bookstores are disappearing, and a whole attitude and lifestyle is in danger of disappearing with them,' said Xue Yuan, author of the book 'Hello! The Independent Bookstores'.

Every city is home to a certain number of bookstores. And a good bookstore is usually seen as a cultural landmark within a city. In Beijing, there is All Sages Books; in Nanjing, Librairie Bookstore and in Hangzhou, Fenglinwan Bookstore. While these landmark bookstores are not in immediate danger of disappearing, many smaller bookstores are vanishing from the maps of major cities. Recently, the closure of the large private O2 Sun chain of bookstores, which once operated over 30 outlets, aroused great concern from Beijing's book lovers. The O2 Sun Bookstore is just one of dozens of 'brick and mortar' bookstores across the country that has encountered serious difficulties.

With enormous choices and no pressure to pay rent, online bookstores offer customers lower prices. Dangdang, the biggest online bookstore in China, slashed its prices by 35 percent in April and by 50 percent in May as a way to attract customers. Online booksellers now control so much of the market share that traditional bookstores are now competing for an ever-shrinking share of the market.

The demand for books remains strong. However, consumers are switching to buying books online and traditional bookstores have effectively become free exhibition platforms for online bookstores.

'Rent and employees' salaries now account for half of the total cost of a traditional bookstore. Online stores don't have these burdens,' said Lu Jinbo, a renowned domestic publisher and General Manager of Wan Rong Book Co. Ltd.

In the meantime, the market share of online booksellers has continued to expand. In addition to Dangdang, many new online vendors have entered the market.

Traditional bookstores struggle to survive

Facing increasing competition from online booksellers and rising cost, traditional bookstores are trying to revive their businesses. Some bookstores have begun to provide diversified services and offer space for seminars, coffee and socialising in order to win over customers.

Yu Zhenghui, public relations manager at the Xiamen-based bookstore chain Apodon, believes that if traditional bookstores want to be more successful, their businesses have to provide readers with something online retailers cannot furnish. Apodon Bookstore, instead of just selling books, provides an area in which customers can relax with comfortable sofas, coffee and free Wi-Fi. O2 Sun Bookstore also tried to establish itself as a social space but its efforts didn't yield satisfactory results. The management found that customers began coming to the bookstore only to enjoy the pleasant atmosphere and did not purchase any books.

Backed by abundant capital, big online booksellers can negotiate with publishers and secure an advantage in the retail price war. 'Traditional bookstores such as O2 Sun Bookstore have to expand their businesses to survive, but they don't have access to bank loans or other financing channels, and they don't generate enough revenue internally to expand their business. That's the reason behind their troubles,' said Lu, the publisher.

Some traditional bookstores have resorted to setting up their own online bookstores. For example, Xooyo Book, the Guangzhou-based bookstore, provides their customers with a 30-percent discount if they purchase books online. However compared to the prices offered by major online retailers such as Dangdang, the prices offered by Xooyo Book are not competitive.

Currently, with more and more traditional bookstores facing closure, many booklovers and bookstore owners are calling on the government to adopt measures to save traditional bookstores. In many foreign countries, the government provides favourable policies for traditional bookstores. For example, traditional bookstores are exempt from income tax in France; the Canadian Government provides half the expenses for the computer facilities of independent bookstores; the Japanese and South Korean governments have adopted policies which seek to establish fair competition between traditional bookstores and online retailers.

Source: *Beijing Review*, 28 November 2011

Questions

- (a) (i) Compare China's and the world's consumption of paper and paperboard between 2008 and 2012 in Table 2. [2]
- (ii) Account for China's trend in part (a)(i). [2]
- (b) With reference to Tables 1 and 2,
- (i) explain whether China is a net importer or exporter of paper and paperboard in 2012. [1]
- (ii) use a diagram to explain how world price of paper and paperboard might have changed between 2008 and 2009. [3]
- (c) Discuss how the plans by the Chinese government to consolidate the paper manufacturing firms might affect consumers and producers. [8]
- (d) Explain how 'increasing competition from online booksellers and rising cost' (Extract 2) have affected the survival of traditional bookstores. [4]
- (e) Discuss the strategies that could be adopted by the traditional bookstores in response to the competition from online bookstores and consider whether the government should 'adopt measures to save traditional bookstores' (Extract 2). [10]

[Total 30 marks]

Question 2

The New Normal for China: Internal and External Shifts

Extract 3: China's Economic Growth Below the Magical 8%

For years, there's been one constant for people talking about the Chinese economy: GDP growth would exceed 8 percent. The country needed to create enough jobs for the millions of young people entering the workforce every year, and the Chinese leadership decided that anything below 8 percent would put job creation in jeopardy. Economists and investors agree that China is now entering a new era of slower growth, one where the old 8 percent figure is no longer so important. Anything much higher than 8 percent, would be 'unsustainable'.

China is going through a major demographic shift, thanks to the shrinking family size and the one-child policy. As the population starts to age, job creation for millions of young people isn't so vital anymore. While China needed 10 million new jobs a year in the early 2000s, today it needs just half that number, says Jian Chang, China economist in Hong Kong with Barclays Capital. Thus the labour force as a whole is barely growing in recent years and Chinese policy makers don't need to create as many jobs as they did.

Indeed, in some parts of China there's now a labour shortage as young and low-skilled Chinese workers who once flocked to factories along China's coast find they don't need to travel so far from home to find work. Local administrators such as the Shandong provincial government raised minimum wages last week in order not to lose too many of its workers to Shanghai and Beijing.

Slower growth and higher wages are two elements of the Chinese economy's new normal. The Chinese will need to learn to live with higher inflation, says Jian Chang, who expects inflation to average about 5 percent over the next decade, compared with 2 percent over the past 10 years. She added since China does not need to worry that much about job creation, there's less urgency for the government to subsidise the cost of electricity, water, and oil for producers. China is changing from this miracle growth to a more normal growth stage.

Source: *Bloomberg*, 5 March 2012

Figure 1: China Growth in Real Gross Domestic Product (year-on-year), Q1 2010 to Q4 2012 (%)



Source: National Bureau of Statistics of China

Extract 4: China New Jobless amidst Full Employment

A full quarter of recent college graduates in China are unemployed, according to official statistics published by the state-run Xinhua News Agency. And many of those who are employed end up working in jobs that are nothing near what they have studied in their undergraduate days.

In fact, some argue that the prospects for educated workers are far worse than for low-skilled labourers. Factory workers are in high demand in the coastal regions of central and southern China, fueled by booming industrial, blue-collar sectors like manufacturing and construction. Wages for migrant workers rose by 14.9 percent just last year alone. While higher education has long been considered a ticket to a brighter future in China, the number of well-paying jobs has not grown as fast as enrollment.

Over the last decade, China's college-educated population has multiplied eightfold, from 830,000 graduating in 1998 to 6.8 million in 2012, largely due to the Chinese government decision to expand the country's higher-education system in 1999.

Furthermore, being a large country like China, it is common that some graduates are unwilling to accept or do not possess the necessary information to land their first job in other parts of the country.

Source: *Globalpost.com*, 6 August 2012

Table 3: Selected Macroeconomic Indicators for China, 2008 to 2014

	2008	2009	2010	2011	2012	2013*	2014*
Unemployment rate (%)	4.4	4.4	4.2	4.3	4.5	4.1	4.1
Rate of Inflation (%)	5.9	-0.7	3.3	5.4	2.7	4.4	5.1

* forecast

Source: World Bank & Statista

Extract 5: Don't blame China for US Trade deficit

China is one of the top three trading partners of the United States (US) in recent years and its bilateral trade surplus with the US hit a record US\$202 billion in 2011. Protectionist sentiments in the US are running high, with a familiar chorus calling for a major revaluation of her currency, the Yuan, to counteract China's alleged currency manipulation intended to keep its exports cheap.

But to focus on China's currency is to miss the real story behind the country's trade surplus. Much of the confusion comes from focusing on the still huge US-China trade imbalances, rather than looking at the trade picture from a structural perspective. The truth is that China's surpluses are not driving US deficits.

Two phenomena largely explain the emergence of China's trade surpluses: surging American consumption and a maturing East Asian production network centered on China.

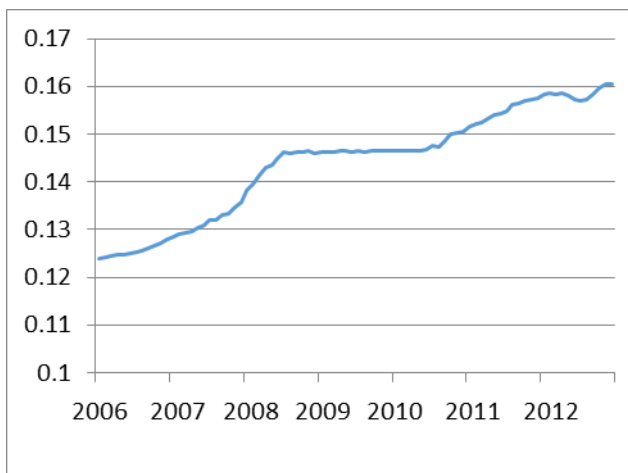
The origins and consequences of the increase in US consumption followed by growing fiscal deficits are well known. This has little to do with China but reflects US domestic realities. The US economy has now been growing for more than three years and unemployment rates had been falling. This is in part due to Obama's fiscal 'pump-priming' measures as well as the Federal Reserves' two rounds of monetary Quantitative Easing (QE).

The role of the East Asian production network began decades ago as Japan moved portions of its production base to Southeast Asia. China became central to that network with its 2001 accession to the World Trade Organisation, which offered easier access to Western markets, especially the US. Despite substantial real wage increases of about 12 percent annually in China, labor productivity rose even more rapidly, making it profitable for multinationals to use the country as the assembly plant for the world. Processing exports (those with high import content, facilitated by low import tariffs) are responsible for the entirety of its surplus. As much as eighty percent of the components are sourced elsewhere. In that respect, the US trade balance with China is really a regional, rather than a bilateral, issue.

However, the trade imbalances are unlikely to continue if the US government decides to scale back on fiscal expansion, halt any further QE policies as well as initiate the much anticipated increase in interest rates. Furthermore, analysts predict an erosion of China's current advantage if wages continue to grow excessively.

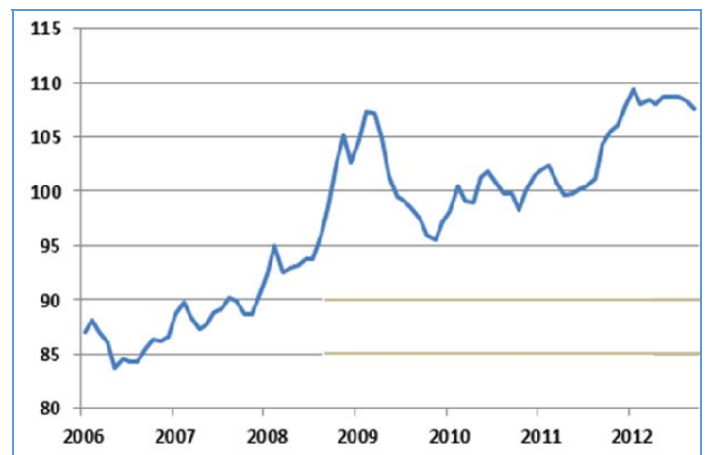
Source: *BloombergView*, 19 April 2012 and *Wall Street Journal*, 10 July 2012

Figure 2: Exchange Rate of Yuan (US\$ per Yuan)



Source: The Pacific Exchange Rate Service, University of British Columbia

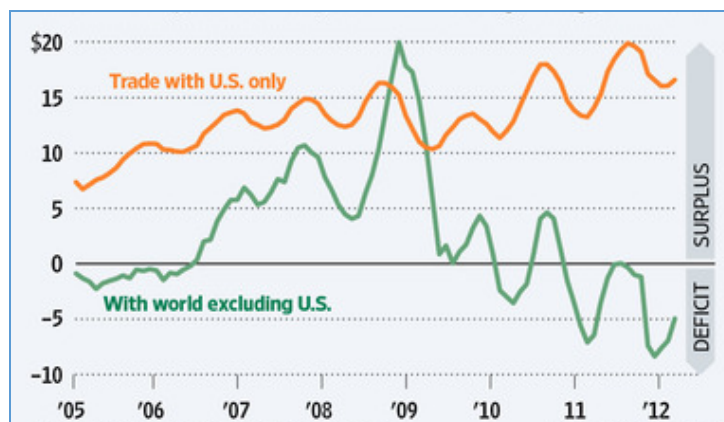
Figure 3: Real Effective Exchange Rate (REER)* for Chinese Yuan, 2006 to 2012 (March 2010=100)



Source: Bank of International Settlements

*REER refers to the weighted average of a country's currency relative to an index or basket of other major currencies adjusted for the effects of inflation. The weights are determined by comparing the relative trade balances, in terms of one country's currency, with each other country within the index.

Figure 4: China Monthly Trade Balance, (in US\$billions), 2005-2012



Source: General Administration of Customs, China

[Turn over

Questions

- (a) Describe the trend in real Gross Domestic Product for China from 2010 to 2012. [1]
- (b) Explain the statement that 'the Chinese leadership decided that anything below 8 percent would put job creation in jeopardy'. [2]
- (c) Account for the 'barely growing' labour force in China. [2]
- (d) Explain why there is 'less urgency for the Chinese government to subsidise the cost of electricity, water and oil for producers'. [2]
- (e) (i) Explain the possible tradeoff between inflation and unemployment and comment whether it is shown in Table 3. [3]
- (ii) Discuss whether unemployment or inflation might be a concern for China as she enters the 'new normal' decade. [8]
- (f) (i) Explain how the change in the exchange rate of Yuan in Figure 2 affects China's Real Effective Exchange Rate (REER) in Figure 3. [2]
- (ii) Discuss whether the external value of the Yuan is the major reason behind China's growing trade imbalance with the United States. [10]

[Total 30 marks]

Copyright Acknowledgements:

Question 1 Table 1 & 2: www.fao.org, retrieved 15 August 2014
 Question 1 Extract 1: Asia News Monitor, 23 April 2012 and Pulp & Paper International Magazine, 22 November 2011
 Question 1 Extract 2: Beijing Review, 28 November 2011
 Question 2 Extract 3: Bloomberg, 5 March 2012
 Question 2 Figure 1: National Bureau of Statistics of China
 Question 2 Extract 4: Globalpost.com, 6 August 2012, retrieved on 12 August 2014
 Question 2 Table 3: World Bank & Statista
 Question 2 Extract 5: BloombergView, 19 April 2012 and Wall Street Journal, 10 July 2012
 Question 2 Figure 2: The Pacific Exchange Rate Service, University of British Columbia
 Question 2 Figure 3: Bank of International Settlements
 Question 2 Figure 4: General Administration of Customs, China

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