China News in Brief
August, 2015

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China's leaders have warned their people they need to accommodate a "new normal" of economic growth far slower than the rate that propelled the economy into the world's second-largest in the past two decades. The slowdown deepening this year is part of a bumpy transition away from an era when smokestack industries, huge exports and massive infrastructure spending -- underpinned by trillions in state-backed debt -- powered China's seemingly unstoppable rise. Today, debt has swelled to more than twice the size of the economy, and some of those industries, such as construction and steel, are reeling. Instead of them, China is pushing services, consumer spending and private entrepreneurship as new drivers of growth that rely less on debt and more on the stock market for funding.

China's faltering stock market sank further on Tuesday, with the Shanghai Composite Index closing down a sharp 7.6%. The central bank, seeking to invigorate borrowing and spending, cut benchmark interest rates for a fifth time in 10 months and reduced the amount of money banks need to hold in reserve. Amid these financial shocks, some things continue to go right in the Chinese economy. Retail sales are still climbing, up 10.5% in July from a year earlier, although the rate of growth has slowed. A string of U.S. companies, from Apple Inc. to Gap Inc., have singled out China as a growth market in an otherwise sluggish world. Chinese consumers are spending like never before on movie tickets, toothpaste, jeans and cars. The problem is that consumer spending isn't robust enough to replace the heavy industry and investment in infrastructure and property that powered China's nearly 10% average annual growth for the past three decades. For that to happen, a series of wrenching changes would have to take place, from giving migrants better access to social services to breaking the dominance of state-run banks and companies in many industries.

Earlier this month, the central bank issued a surprise devaluation of the currency, the yuan, in a move that was read by some as a sign of desperation. When the government set out to arrest a stock-market slide in June, it first called for limiting the borrowing of money to buy shares, only to reverse itself to encourage more borrowing. The results have been dramatic swings in the stock market and currency, amid concerns among global investors that China's leaders don't have control of the situation. The Shanghai Composite Index has fallen 22% in the past four trading days, on top of a slide in June and July, erasing all of its gains for the year. Beijing's missteps in recent months have shaken a world that has looked to China over the past two decades as a dependable source of growth and careful economic management. China now is exporting volatility. The CBOE Volatility Index, a measure of risk in the U.S. stock markets sometimes called the fear gauge, has surged over the past week, tracking the cratering Shanghai market. This is in contrast to previous Chinese share routs that barely registered abroad.

Mr. Li, in his statement on Tuesday, said that as the government takes "more reform measures to encourage market vitality and improve people's living conditions, China has the ability and conditions to achieve its annual economic growth target, which will be a big contribution to the global economy." Mr. Li has been quoted in a 2007 cable exposed by WikiLeaks as having his own measures for growth, such as cargo movement and loan disbursement, at a time before he became premier. One of his indicators, overall electricity demand, has risen less than 1% this year, largely because of slower manufacturing and construction; that compares with growth of more than 5% a year earlier. Some of the slowdown reflects Beijing's efforts to close heavy and polluting industries. By contrast, power demand from services -- including real estate, financial services and transport -- has grown 7.5% this year.


Volatilities are 'natural consequence' of China's economic transition

WASHINGTON - Recent volatilities of Chinese stock market and the currency depreciation are "natural" in
such an economic transition as China is undergoing, chairman of the Principal Financial Group said. Larry Zimpleman, also chief executive officer of the Principal Financial Group, said in a recent interview with Xinhua that he remains confident about China's economy as the government has long been "trying to re-engineer the economy." In his eyes, China's economy in the past three to four decades was built on low cost manufacturing and exports which has brought hundreds of millions of Chinese people into the middle class with rising incomes. "But clearly at some point, China isn't necessarily going to be the lowest cost place for manufacturing. Other countries are naturally going to begin to take part of that," he said. The economic transition pushed by the Chinese government will transfer China from an export driven manufacturing economy to an economy based on internal consumption, saving and investment, said Zimpleman. "This is a difficult transition," he said. "The natural consequence of that is there is going to be volatility. This transition can't be made smoothly. It will involve volatility and therefore we shouldn't be surprised when we see that happen."

The Chinese stock markets experienced their two worst days on Monday and Tuesday in eight years, crashing to the lowest level since December 2014. It is the first time in 10 months that the benchmark Shanghai Composite Index has been below 3,000 points. According to the General Administration of Customs (GAC) data, China's foreign trade posted a 6-percent decrease in the first quarter, falling to 5.54 trillion yuan ($864.2 billion), with exports rising 4.9 percent and imports dropping 17.3 percent. The growth of China's value-added industrial output, which measures the final value of industrial production has also experienced obvious up-and-down this year. The annual growth rate fell to 5.6 percent in March then gradually rebounded to 6.8 percent in June and dropped to 6 percent in July. Though the transition is difficult, it is "the right thing to do" and "the right shift of the economy," Zimpleman said, as it will make China's development more sustainable and depend more on China's domestic market instead of the overseas one. "China will be successful in ultimately re-engineering its economy," said Zimpleman, adding China will become the world's largest economy in 20 to 30 years with an economic model more like Germany, France, the United States and other developed economies.

Talking about the recent rising concerns about Chinese government's intervention in the stock market and the depreciation of Chinese currency yuan against the US dollar, Zimpleman said those interventions are "not unusual for government" and "perfectly logical" as the government has a role to support the economy and manage the capital market and exchange rate. Chinese stock market has witnessed a quick rise since the end of last year and reached a peak of 5,166.35 points on June 12. After that the stock index began to fall and the Chinese government has taken several measures to stem the panic, including reducing the number of new shares to avoid a shares glut, a police crackdown on short-selling and a six-month ban on big shareholders selling stocks. "The United States government through Federal Reserve has been involved into the capital market for the last seven years. They were influencing single interest rate, pushing interest rate down," said Zimpleman, adding "the European Central Bank in Europe is doing the same thing." Zimpleman, said "every government to some extent is watching its currency. And in fact if they get outside what they think it is reasonable area they start to take steps to manage that," referring to the recent depreciation of yuan against US dollar. "At this point I would say I don't see anything that causes me great concern," said Zimpleman, as the actions taken by China's central bank is "almost like using a tire pump to push a little more air into the tire because the tire was going to be a little bit flat." Zimpleman also said "it is quite common" for pension fund to go into the stock market in developed countries," referring to the current discussion of pension fund to invest in the stock market in China. "I would also say a more robust retirement system is more helpful for the economy of China because it will provide more stable and long term source of capital," he said.

Source: Xinhua: Volatilities are 'natural consequence' of China's economic transition, 2015-08-27

False alarm on a crisis in China

China, many believe, is in a financial and economic meltdown causing anxiety and panic everywhere. China's stock market dive first dragged down other emerging markets and has now spread to the United States, slicing trillions of dollars off the value of stocks traded here and in other global markets. Since China is the world's
second-largest economy and has growing financial ties around the world, developments there clearly have enormous potential implications for both developed and emerging markets.

While not as overpriced, American equities before last week had experienced a six-year bull market without a correction. The catalyst for this month's correction was the view that China's growth was weaker than advertised and likely to soften further and that the currency depreciation that began earlier this month was China's last gasp at propping up economic growth. The perception that China's growth was slowing drove commodity prices to new lows, further weakening emerging markets such as Brazil and Chile that are big commodity exporters, and eventually driving down American equities sharply. But if China hadn't been the catalyst for the correction in American markets, it most likely would have been something else.

And that is what the government of China is now doing, both with respect to the exchange rate and belatedly in more recent days, to a surprising extent, with the equity markets. There remain concerns over Chinese real estate and state-owned enterprises. But recent events should be seen as part of the conscious liberalization and rebalancing of the Chinese economy. Even if that means a sell-off in stocks, it is not a sell-off in the fundamentals of the Chinese economy. In fact, this may strengthen those fundamentals by going further down the path to reform.


Power use, railway cargo provide economic encouragement

BEIJING - Electricity consumption and railway cargo volume, two key indicators of economic performance, are showing encouraging signs of growth, China's national economic planner said on Sunday. China used 463.34 billion kilowatt hours of electricity from Aug 1 to 28, up 2.97 percent year-on-year. The growth rate was 6.54 percentage points higher than in the equivalent period last year and 4.97 percentage points higher than in July, according to a statement on the website of the National Development and Reform Commission. The commission said it expects power consumption for the whole of August to grow 3 percent year-on-year and that it will continue to climb in September. Meanwhile, the commission said, rail freight companies shifted 5.8 percent more cargo in July this year than July last year. These trends were backed up by figures from key provinces. In East China's Jiangsu province, industrial power consumption is expected to climb 6 percent year-on-year in August. Public power consumption in Guangdong Province this month is set to be 2 percent higher than in August 2014, even though the population have been less likely to blast their air-conditioning in this relatively cool Guangdong summer. The growth rate is expected to be 4 percentage points higher than July.

Source: Xinhua: Power use, railway cargo provide economic encouragement, 2015-08-31

Li: Government will boost 'positive factors'

Initiatives aimed at reform, innovation will inject new energy into market, premier says China will use more policy weapons to achieve its growth targets for the year, said Premier Li Keqiang at a closed-door meeting with a small group of key officials on Friday. The government will do "whatever can be done" to boost "positive factors for growth", Li said. The country is facing a lingering slowdown in the manufacturing sector and continued anxiety in the stock market. At the macroeconomic level, more effective and industry-specific policies will be adopted to offset the downward pressure troubling the country's transitional economy, Li told the officials. He said the government must be sensitive to subtle developments and adaptive in policy implementation, to make sure the economy will achieve its targeted annual growth of around 7 percent. In addition, the government will introduce more reform and innovation initiatives to inject more energy and creativity into the market, he said.

Regarding the economic work to be done in coming months, Li said the government will stand firm but be prepared to adapt to new developments. As traditional drivers for growth in China have waned, "it is necessary to provide more public goods and services, and to encourage mass entrepreneurship and innovation to boost the growth momentum," Li was quoted as saying in a circular released on Saturday. Major economic indicators on fixed-asset investments, imports, exports and value-added industrial output fell short of market expectations in July,
signaling a contraction of the economy. Li said recent world market volatility has added new uncertainties to the global recovery. Policies involving cuts in the required reserve ratio for banks, interest rates, taxes, fees and measures aimed at stabilizing the market have been issued and are paying off, the circular quoted Li as saying. Li said that in light of burgeoning consumer demands new policies will be rolled out to unlock consumption potentials and improve living standards through means such as better express deliveries and other logistics services. More global cooperation on production capacity will be encouraged as that will deliver win-win results, he said.

In addition, corporate research and development innovation will be encouraged through extra tax deductions for research and development costs and through revisions to the regulations governing technology businesses. Wider application of green, energy-efficient and low-carbon products will be encouraged, and more sectors will be able to take advantage of the Internet-Plus initiative to foster new growth, Li said. Li said there is currently no reason to further adjust the value of the yuan, and China is well positioned to defend against regional or systemic risks. He said it is important to promote financial reform and opening-up and keep a reasonable level of liquidity to better serve the real economy. It is also important to accelerate the creation of institutional solutions and to foster and ensure the sound development of an open, transparent capital market for long-term stability.

Source: Zhao Yinan: Li: Government will boost 'positive factors', China Daily, 2015-08-31

IIF: Emerging Markets in 'The Perfect Storm'

The Institute of International Finance issued the following news release: Emerging markets are suffering from what appears to be a "perfect storm" in recent weeks, with equities, bonds and currencies seeing declines, according to a new research note by the Institute of International Finance. "Emerging market countries navigating harsh global economic and financial conditions must pursue strong economic policies to reduce vulnerabilities," said Hung Tran, executive managing director of the IIF. "These countries will need to articulate a reform agenda designed to improve potential future growth." The IIF identified five factors that have combined to contribute to intensified headwinds to EM growth and prospects for financial markets:

* Portfolio rebalancing away from EM assets: Driven by a healing economy and anticipation of Fed liftoff, the U.S. dollar has strengthened by over 20 percent over the past three years, recently reaching 10-year highs on a trade-weighted basis. Together with expectations of rising U.S. rates, these developments have helped trigger a sustained rebalancing of international investors' portfolios away from EM assets.

* Heightened refinancing risk: Many EM corporations have borrowed heavily in recent years. As the IIF noted in a recent research note, EM nonfinancial corporate debt has risen to 80 percent of GDP, up from 60 percent in 2008. Much of this debt may now not be hedged effectively against currency risk. The IIF calculated that only about 30 percent of EM non-financial corporate borrowers have natural hedges (e.g., exporters with U.S. dollar revenues). For many of these corporations, revenues have slumped along with export prices of late.

* Commodity price slump: A strengthening U.S. dollar continues to contribute to the multi-year decline in commodity prices, exacerbated in recent weeks by renewed concerns about China's growth outlook. Sharp gyrations in Chinese equity prices and heavy-handed batteries of government support measures have raised concerns about China's ability to engineer a soft landing and rebalance the economy. The willingness of the Chinese government to keep moving towards a fully market driven economy has also been called into question.

* Deteriorating outlook for EM exports: With falling commodity prices already hurting many emerging market countries that rely on exports, any further weakening in China's import demand (already down over 15 percent year-on-year in H1 2015) would hit commodity exports harder still. A new IMF Working Paper focusing on network effects of demand shocks suggested that a 10 percent drop in Chinese imports could reduce the export revenue of China's trade partners (and their trade partners) by over 7 percent of GDP on average.

* Slowdown in global trade: For many reasons still under debate, world trade has slowed significantly since the 2008 financial crisis--posting only 1.5 percent growth over the past 12 months compared to a long-term annual average of 7 percent prior to the crisis. With the majority of EM countries highly reliant on trade, this slowdown
has put pressure on EM earnings, corporate profits, household income and retail sales, denting growth. Slowing world trade has also made depreciating currencies less useful in stimulating export growth. Currency weakness is also putting upward pressure on inflation in some EM countries, which is likely to constrain their ability to use monetary easing to support slowing growth.

The IIF also noted that several important EM countries are facing specific challenges that have contributed to a decline in investor confidence:


**Li signals stronger economic reform**

China's premier has formulated a series of amendments to his blueprint for the economy as he attempts to boost growth and strengthen domestic demand, Zhao Yinan reports. When Premier Li Keqiang greeted New Zealand Governor-General Jerry Mateparae in a Uygur-style room in the Great Hall of the People in Beijing last week, he probably didn't expect the high-level bilateral talks to devolve into a question and answer session about China's economic reforms. While it's customary for international leaders to inquire about the latest news on the Chinese economy—it's an issue that has ramifications for all nations, after all—Mateparae probed a little deeper below the surface of GDP growth and discussed the underlying health of the economy. Li's message to his guest, and the world at large, was that implementing reforms is a tough, multifaceted job, but the government is determined to push the changes through, including major reforms such as the reduction of the government's role in the economy and improvements to the financial sector. Li began restructuring the world's second-largest economy when he assumed office in 2013. The reforms, their progress and the chances of success, are at the top of the list of concerns for the central leadership—and other world leaders, given the strength of the Chinese economy in an increasingly interlinked and globalized world. Li is almost halfway through his first five-year term and the reforms are continuing. So far, the signs have been encouraging. In the first half of the year, the economy showed signs of growing robustness, with better-than-expected growth of 7 percent.

A closer look at this year's State Council executive meetings, a weekly working conference presided over by the premier to discuss essential issues with members of his Cabinet, provides an insight into Li's methods. By the start of this week, Li had held 17 executive meetings that mainly focused on four areas of reform. First, seven new policies will be implemented to smash institutional barriers and free businesses from bureaucracy, including the cancellation of the outdated loan-to-deposit ratio for banks, which was seen as one of the factors that prevented banks from lending. Second, policies have been formulated to encourage investment and consumption to boost economic growth. The moves will include the construction of faster Internet broadband networks to facilitate e-commerce, and will also entail massive infrastructure construction and the use of a huge amount of raw materials. The third thread centered on the promotion of trade, and greater opening-up. A wider range of popular Western products will be imported to boost weak domestic demand and reverse the outflow of hard currency by Chinese tourists traveling overseas. In a recent article on the Financial Times website, Henry Paulson, former US treasury secretary and the author of Dealing with China, said maintaining the present "halfway house" will make it harder for China to avoid the middle-income trap that has prevented many emerging markets from developing into prosperous economies. Paulson concluded by saying that China's top policymakers will be aware that they will have to expend even more energy to achieve the reform agenda laid out 20 months ago.

Source: Zhao Yinan: Li signals stronger economic reform, China Daily, 2015-08-04

**More reforms expected for Beijing-Tianjin-Hebei coordinated development**

BEIJING - China is determined to deepen reforms to clear away obstacles to the coordinated development of Beijing, Tianjin and Hebei regions. The governments will break down barriers that block the free flow of capital, technology, property rights and labor, said a document issued by the office of a leading group for the coordinated development of the Beijing-Tianjin-Hebei area on Sunday. The document revealed key information of an outline of
the Beijing-Tianjin-Hebei integrated development program, which was approved by the Political Bureau of the Communist Party of China (CPC) Central Committee in April. Unified markets in financial services, land resources, technology and information will be promoted. Coordination will be established in policymaking concerning administration, infrastructure construction, environmental protection, industrial development and technological innovation. The governments will also unify public services, such as public job centers, a better pension system and reforms for the college entrance test and student enrollment. The reform will also help boost the innovation capacity of the region, according to the document.

The plan seeks to beef up innovation centers such as Beijing's Zhongguancun Science and Technology Park and Binhai New District in Tianjin, the document said. The government will encourage enterprises to invest in R&D, improve financing channels and prompt the sharing of resources and research results among innovators. China hopes the integration will help the areas to reinforce the position as a technological innovation center by 2017 and boost the R&D investment and its proportion in regional GDP by 2020. A guideline for coordinated development of the Beijing-Tianjin-Hebei region was approved by the Political Bureau of the CPC Central Committee in late April, aiming to reshape the densely populated region.

Source: Xinhua: More reforms expected for Beijing-Tianjin-Hebei coordinated development, 2015-08-24

More controls on online payments

China plans to tighten regulatory controls on the country's nearly 300 online payment firms, including Alibaba Group Holding Ltd's finance affiliate. The draft rule, published by the People's Bank of China, the central bank, on Friday, has triggered concerns among the general public as it imposes a cap on the amount that can be spent online via third-party payment platforms. Industry observers said that rather than making people's life convenient, the draft rule aims to curb online payment companies from providing services that are otherwise provided by financial institutions. Under the draft, the PBOC plans to limit the amount an individual can pay online to 5,000 yuan ($800) per day through third-party payment accounts, unless the customer's identity can be verified by a security token and electronic signature. The central bank is seeking public feedback on the move by Aug 28.

Many Internet shoppers expressed their frustration, saying that 5,000 yuan is not enough to buy an iPhone online. In an unusual gesture, the central bank issued a follow-up statement during the weekend to clarify the "misunderstanding" of the draft rule. It said that customers with at least five methods of verifications can open a so-called "comprehensive account", which limits annual online or mobile payments to 200,000 yuan per person. With three to five verification methods, customer can only open a "consumption account", with an annual transaction limit of 100,000 yuan. "The goal of the draft rule is to limit the business portfolio carried out by third-party payment firms as an increasing number of them have expanded their business to engage in peer-to-peer lending, wealth management and other services that were earlier offered by financial institutions in China," he said.

With mobile Internet becoming an increasingly integral part of people's lives, especially for those in urban areas, Internet-based payments have been adopted on an increasing number of occasions, from online shopping to more and more offline supermarkets, restaurants and cinemas. Internet finance is also posing a rising threat to Chinese brick-and-mortar banks, which have lobbied for more regulations on third-party payments and peer-to-peer lending platforms. Statistics from iResearch Consulting Group show that China's third-party payment market jumped 50.3 percent year-on-year to 8.08 trillion yuan last year. However, Ma said the business of Alipay, China's largest online payment tool backed by Alibaba, and Tenpay, the payment tool under Tencent Holdings Ltd, will remain intact as the two online payment leaders, with a combined market share of 69.1 percent in 2014, have made a lot of efforts to evolve from an online payment tool to a comprehensive online finance services provider. "Both of the giants have already gained licences to operate online banks. But for small online payment firms, the draft regulation will restrict their innovation capabilities and make it difficult for them to compete in the long run," said Ma.

Source: Meng Jing: More controls on online payments, China Daily, 2015-08-4
Bank lowers lending rate to ease debts

China's central bank announced that it would lower the benchmark deposit and lending rates by 25 basis points beginning on Wednesday, hoping to further ease companies' debt burdens and curb expanding downward risks. After the adjustment, the one-year deposit rate for financial institutions fell to 1.75 percent, and the lending rate dropped to a record low of 4.6 percent, according to the People's Bank of China. It was the fifth drop in interest rates since November. The last one, also by 25 basis points, was on June 28. The central bank also cut the amount of money banks must hold, or the reserve requirement ratio, by 50 basis points for all financial institutions, starting on Wednesday, to ensure sufficient liquidity in the banking sector and keep a stable growth in credit. Ma Jun, chief economist of the central bank's research bureau, said the cut in interest rates and the reserve ratio will help to stabilize expectations, but it doesn't change the "prudent" monetary policy. The weaker-than-expected economic indicators since July showed that the country's economic growth momentum has resumed its downtrend after a short-term rebound in May and June. Chinese stocks continued their turbulence on Tuesday, with the benchmark Shanghai Composite index sinking a further 7.6 percent to below the 3,000 level. It slumped 8.5 percent on Monday. In order to support agricultural activities and small businesses, the central bank allowed an extra 50 basis points reserve ratio cut for rural financial institutions, including the non-county level rural commercial banks and rural credit cooperatives. Moreover, the ratio cut for financial lease companies and auto financing companies reached 3.5 percentage points, according to the central bank.

The central bank simultaneously removed the interest rate ceiling for deposits longer than one year, which had been limited to 1.5 times the benchmark rate, while deposits with maturities of less than one year will maintain the limit. "It means the reform to liberalize interest rates has almost finished," said CIC economist Liang. "The rates will be determined more by the market in the future."

Source: Chen Jia: Bank lowers lending rate to ease debts, China Daily, 2015-08-26

China removes regulation on loan-to-deposit ratio

BEIJING -- China's top legislature on Saturday adopted an amendment to the Law on Commercial Banks, removing a 75 percent loan-to-deposit ratio stipulation. The ratio will instead be regarded as a liquidity-monitoring indicator, according to the amendment, which was voted by the National People's Congress Standing Committee at the end of a bimonthly legislative session that started on Monday. China has kept the 75-percent ratio since the law was enacted and put into effect in 1995. The amendment will take effect on Oct 1.

Source: Xinhua: Li: China removes regulation on loan-to-deposit ratio, China Daily, 2015-08-29

Debt weighs heavily on China's cities: Local governments owe a total nearing $3 trillion, raising the risk of a crisis

The wide new boulevards that cut across parts of Weifang in eastern China are largely free of traffic, a quiet reminder of the coastal city's big ambitions. Weifang is quickly outgrowing its rural roots, and officials see a wave of urbanization reshaping the local economy for years to come. Across the city, plans are underway for billions of dollars of major public projects, including new roads, high-speed rail lines, water treatment plants, schools and health care facilities. There is just one hitch: Weifang can't pay for the projects. In the past, city officials would have turned to low-cost loans from state-owned banks, as the national government encouraged local spending to spur economic growth. But the Chinese leadership, worried about the country's ballooning debt problem, is backing away from that strategy. Like hundreds of other cities across China, Weifang is now wooing deep-pocketed outside investors, both local and overseas, to help foot the bill for public infrastructure and services. "If the project suits the public-private partnership model, we will try to fund it that way," said Liu Xitian, the deputy director of Weifang's finance bureau. "The next step will be to improve public services. We will release lots of projects in that area." The push reflects the precarious financial state of many cities and town.
While the country escaped the worst of the global financial crisis six years ago, it did so on the back of a borrowing binge by local governments, which spent heavily on new but often unprofitable infrastructure projects. Now, many local governments are mired in debt. In Weifang, a city known for seafood processing and an annual kite-flying festival, rapid urbanization over the past decade has saddled the local government with debts of 88.4 billion renminbi, or $14.2 billion at the current exchange rate, as of June 2013, the most recent data available.

Part of Beijing's solution has been to help local governments lower their borrowing costs through refinancing. Local government-controlled companies that are struggling to pay down bonds are being encouraged to exchange them for new loans at lower interest rates from state-run banks. China's Ministry of Finance recently expanded this local government debt refinancing program to 3 trillion renminbi, or nearly $500 billion, up from 1 trillion renminbi just a few months ago. China has also begun a national campaign to encourage private investment in local infrastructure projects. In May, the nation's top economic planning agency released a list of more than 1,000 projects worth 2 trillion renminbi that local governments across the country are seeking to finance with outside investment. Analysts estimate that is on top of about 1,500 other projects worth 3 trillion renminbi that had been previously announced by the local authorities. Such experiences, say analysts, could limit the appetite of foreign investors. A recent study by the Economist Intelligence Unit commissioned by the Asian Development Bank found that China ranked high for its investment climate and operational experience in dealing with projects involving private capital but that the country's regulatory and institutional framework was among the weakest in Asia. "The initial wave of all these projects definitely is going to be more suited to the local players," said Stephen Ip, a partner and the head of government and infrastructure business at KPMG China, based in Shanghai. Foreign investors "can't really make the leap of faith at the moment." In Weifang, the local government has a list of nearly 70 projects it hopes to finance through the so-called private partnership model, for a total investment of 124 billion renminbi -- about a quarter of the city's economic output.

Weifang officials have had some success in attracting private capital. The new hospital, built with funding from Sunshine Insurance, a company based in Beijing, aims to be the biggest medical facility in Shandong Province. The insurer, which this year spent $230 million to buy the Baccarat Hotel in New York, has local connections. The company's chairman, Zhang Weigong, is a native of Weifang. One of the biggest projects in Weifang is the local section of a new high-speed rail line connecting the major cities of Jinan and Qingdao. It is the country's first high-speed rail project to secure private financing. But the definition of private is a bit stretched, in some cases. The Weifang government is responsible for 4 billion renminbi of the 26 billion renminbi budget for the 147-kilometer, or 90-mile, stretch that will run through the city. The main outside investor is the Postal Savings Bank of China, a sprawling, state-owned bank. Temasek Holdings, the Singapore state investment firm, has agreed to participate in funding at the provincial level, according to local officials. In the sleepy village of Beiying on the outskirts of Weifang, a farmer who gave his surname as Pei worries that the rail project will force him out of his home. "I was born in this village and have worked as a farmer my whole life," said Mr. Pei, 50, who grows fruits and vegetables a few hundred yards from where construction on the rail line will start soon. "What else can I do if I don't farm?"


Corporate tax cuts to ease burden for small enterprises

A series of new corporate tax cuts are expected to reduce the tax burden on small businesses by more than 100 billion yuan ($15.64 billion), the Ministry of Finance said on Friday. An executive meeting of the State Council on Wednesday decided to increase the number of businesses eligible for a 50 percent reduction in their corporate tax. The policy, effective through the end of 2017, will extend firms that are eligible for a 10 percent tax rate to those with an annual taxable income below 300,000 yuan from 200,000 yuan. Those above the 300,000 yuan threshold are levied a 25 percent rate. In addition, the State Council also extended the exemption of value-added tax and business tax for small businesses with less than 30,000 yuan in monthly sales. That exemption was set to expire at
the end of this year. It is the second time this year, and the fifth time since 2010, that the government has raised the threshold for businesses to qualify for the tax reduction, in a move which analysts said underscored Beijing’s eagerness to bolster growth and create jobs amid the current economic slowdown. The government increased that threshold to 200,000 yuan from 100,000 yuan in February. “The move is designed to stimulate the market, boost employment and encourage mass entrepreneurship,” said Wang Jianfan, director of the tax policy department at the Ministry of Finance, who said the tax breaks would have a “limited” impact on fiscal income.

Micro and small firms create more than 70 percent of new jobs each year, but they are required to pay a variety of levies, such as corporate income tax, business tax and value-added tax, along with fees imposed by the local and central governments. Last year, 2.46 million small businesses benefited from cuts in corporate income tax and 22 million taxpayers benefited from business tax and VAT exemptions, which saved them 61.2 billion yuan, according to the State Administration of Taxation - still a small fraction of the 7.3 trillion yuan the government brings in through all the three. Many business owners and commentators have been calling for more tax breaks for larger businesses, too, as a good way of helping the wider economy.

Source: Zheng Yangpeng: Corporate tax cuts to ease burden for small enterprises, China Daily, 2015-08-22

Caps on local government debt quota pose more questions than answers

China’s top legislature has approved the local government debt quota for this year, but the market is still scrambling to figure out what the actual quota is, a critical question that is unanswered. Finance Minister Lou Jiwei presented the debt limit proposal to the Standing Committee of the National People's Congress on Monday, and the latter passed it. This is a due procedure under the new Budget Law which stipulates that an approved limit was necessary to rein in local government debt. After the overall ceiling is determined, the central government can allocate limits for each region. According to a statement issued after Lou's briefing, the actual debt quota for this year would be the combination of the local governments' outstanding debt by the end of 2014 and the new debt quota for this year. The NPC earlier this year approved a 600 billion yuan ($94 billion) new debt quota, but the outstanding debt level is still anybody's guess. However, this year's aggregate debt quota is critically important as it would decide whether the current debt-for-bond program will be expanded. China in March, and then in June granted a total 2 trillion yuan quota under which local governments could issue new low-cost bonds to replace high-yielding legacy debt. But market circles believe that the amount is not big enough to cover all the maturing debt this year and expect more such quota. Latest indications that the debt quota for this year would be a combination of outstanding debt in 2014 and new issuance this year, raise the possibility that the 2 trillion yuan quota could be added, because previously granted quota is designed to swap existing debt before June 2013, instead of before the end of 2014. Based on national auditor's survey results, as of mid-2013, local governments have amassed 17.9 trillion yuan of liabilities, and they have to repay 1.86 trillion yuan maturing debt this year. Since then, more debts have been raised and based on legacy debt as of the end of 2014, local governments have to repay 2.9 trillion yuan this year, China International Capital Corp estimated.

But on the other hand, domestic market has been under great pressure to absorb local governments’ massive low-yielding bonds. Liaoning province's recent failure to sell all its municipal bonds, and other regions' rising coupon, have demonstrated market's aversion to the instruments. The province is among 33 provinces and cities that have issued a total of 1.6 trillion yuan bonds to swap maturing debt under the 2 trillion yuan quota.

Source: Zheng Yangpeng: Caps on local government debt quota pose more questions than answers, China Daily, 2015-08-26

China not source of global financial volatility

BEIJING - China is not the main cause of the current chaos in the global financial market. Problems in the West are more to blame. Turmoil has swept financial markets across the globe over the last few weeks, slashing stock prices, jolting the value of major currencies, and beating commodity prices to their lowest points in many
years. Western analysts have attributed the volatility to China's stock market rout, or to China's adjustment of its foreign exchange rate formation mechanism, which led to the yuan's depreciation. The accusations are unfair and groundless. It is undeniable that repeated sharp declines in China's stock market since mid-June have shaken investors' confidence, and fears and anxiety have radiated to global bourses. Apart from some psychological impact, however, Chinese stocks affect the global market little as they are largely isolated from the rest of the world. Domestic investors are prohibited from directly trading foreign equities, and overseas investors can bet on the Chinese market only via the closely managed Qualified Foreign Institutional Investors and Shanghai-Hong Kong Stock Connect arrangements. Similarly, the yuan's depreciation has limited influence on global stock and currency markets as the yuan is not fully convertible.

Recent sell-offs in China's stock market dominated by irrational retail investors were just out of panic. Economic fundamentals in the country are stable, with glimmering signs of improvement. As one of the encouraging results of economic restructuring, the services sector increased 8.4 percent in the first half of 2015 and it accounted for 49.5 percent of China's GDP. The economy is regaining steam as the government has started new growth engines, including by encouraging more sophisticated equipment manufacturing and the integration of the Internet with traditional industries, by developing regional trade and infrastructure, and by international industrial cooperation. The International Monetary Fund estimated that China contributed 27.8 percent of global economic growth by last year, higher than the US contribution of 15.3 percent. The institution expects the Chinese figure to grow to 28.5 percent this year. Although the Chinese economy is slowing down amid headwinds, it is still expanding at one of the fastest speed in the world.

Since the 2008 global financial crisis, many developed countries have pumped a great amount of liquidity into the market and lowered interest rates to nearly zero. Hot money flowed to emerging markets for higher returns and helped create froth and dampen policymakers' efforts to reduce leverage. As the US economy is recovering, the Federal Reserve has hinted that it will hike interest rate this year, prompting international capital to flow back to the United States. Currencies of emerging markets are under huge depreciation pressure as capital could leave in a large scale. Drastic changes in the value of major currencies make the financial market even more turbulent. In addition, the prolonged European debt crisis casts a shadow on global economic recovery. Geopolitical issues and terrorism also add uncertainties to the world economy. The current financial turmoil is a reflection of many complicated problems, most of which arise from Western countries, not from China.

Source: Xinhua: China not source of global financial volatility, 2015-08-28

Market slide in July worst to hit China in 6 years: Major indexes slumped more than 14% in Shanghai and Shenzhen

The main indexes of the Shanghai and Shenzhen markets each fell 14.3 percent in July, despite government intervention to stabilize trading. After prices began to plunge, the Chinese government announced a raft of measures aimed at stabilizing prices and restoring confidence in the market. Those efforts seemed to work -- for a while. In a matter of days, there was a government-financed effort to buy up shares; a suspension of initial public offerings; and rules preventing major shareholders from selling their shares. Regulators also vowed to investigate "malicious" short-sellers and any other forces that might be driving prices down. The efforts, though widely criticized by some analysts as overly aggressive interference in the market, seemed to shore up share prices, at least until last Monday. That is when a broad range of stocks fell again, sending the Shanghai composite down 8.5 percent on the day, its biggest daily drop since 2007.

Almost immediately, regulators reaffirmed their commitment to stabilizing prices and said they were investigating what they called an "abnormal" stock dip. On Friday, the China Securities Regulatory Commission said it was investigating automated trading and had suspended 24 stock trading accounts for "suspected irregularities." "This is a reflection of a very fragile trust in the market," he said. "It's still a retail-driven market, and an emerging market, so you should expect some volatility." From their peak, on June 12, China's major stock
indexes have lost about a third of their value. In Hong Kong, which is under separate governance, share prices have slipped, but not as sharply. The Hang Seng index is down 13.4 percent from its peak this year in late April.


**Bloomberg: China can't prop up its stock market forever**

Having put their credibility on the line by propping up the stock market, Chinese officials may now think they have little choice but to keep pouring resources into equities: Fears that the government might ease up are what seem to have sparked the rout earlier this week. If Chinese officials are going to continue with this support, however, then they also need to look for ways to minimize the long-term damage of their intervention by strengthening China's market infrastructure, not just share prices. Other governments that have intervened to shore up their markets through quantitative easing, for example have found that unwinding those interventions takes years. Meddling should be confined to efforts that promote stability without undermining market dynamics. When the government armed the China Securities Finance Corp. with $483 billion in liquidity to bolster Chinese brokerages, for example, it was employing the kind of confidence-building strategy monetary authorities elsewhere have tried before.

More important, the government needs to avoid the kind of arbitrary and heavy-handed threats that instill fear and uncertainty among investors. In China, for instance, foreign investors comprise only an infinitesimal share of the market barely 3 percent. Trying to paint the downturn as a Western conspiracy, as some officials have done, is counterproductive. In fact, greater foreign participation would help reduce the wild, sentiment-driven fluctuations in share prices that have plagued Chinese markets. Nor is it useful to encourage the police to investigate and arrest supposed short-sellers. If they’re to return to the market, both local and foreign investors need to see clear rules in place, not vague threats.

Indeed, even as the government continues its support for stocks, officials should press ahead with reforms to strengthen regulations that will restore investor confidence. Beijing is already paying the price for not having set stricter rules for margin lending, for example, which might have prevented the dangerous levels of leverage that exist today. Authorities should also impose stronger accounting standards and develop more credible ratings agencies. Finally, the government has to crack down on the kind of mischief that has led Chinese investors to pay more attention to companies' political connections than to their earnings. If leaders truly want to reduce the casino swings to which China's markets are prone, they need to give people something more solid to invest in.

Source: *Bloomberg: China can't prop up its stock market forever, The Salt Lake Tribune [Salt Lake City, Utah] 01 Aug 2015.*

**China's stock market intervention: Are government efforts hindering recovery?**

"The biggest drop in Chinese stocks in eight years Monday is another sign that Beijing's efforts to prop up prices have failed," wrote Burton Malkiel for the Wall Street Journal last week. "Moreover, the interventions themselves have made China's equity markets more volatile and damaged their credibility in the long run." The Chinese stock market reached its peak in mid-June when the bull-run that began in the summer of 2014 came to an abrupt halt. Since then, the stock market has continued to plunge as the government pulled out all the stops to prop it up. Over the last few months, Beijing eased borrowing measures to encourage investors to buy back stocks and permitted Chinese speculators to use their homes as collateral for borrowing to buy more. Meanwhile, due to an exchange rule that imposes a daily up and down limit of 10 percent for stocks, trading was suspended for over half of all shares. Numerous funds were also created to assist some of the country's largest brokerage firms to buy stock funds themselves and the central bank cut interest rates to record lows. But perhaps the most criticized measure was the government's decision to prohibit major shareholders from selling and to ban short sales and new initial public offerings. Now analysts say that these measures will have long-term repercussions by damaging investors' faith in
the market and encumbering much-needed market reforms.

"All of these interventions show that the government is willing to jump in with a bunch of ad hoc measures, so that could make people think that the government is willing to prop things up," says David Dollar, senior fellow with the Foreign Policy and Global Economy and Development programs at the Brookings Institute. "But it hasn't worked very well. So for many investors, it should make them nervous that it's not really a fair stock market, that it's something where the government might come in and try to push prices one way or the other. And that undermines a general sense that the stock market is the right place to invest," he concludes. Writing for Forbes, Junheng Li, an expert on China's economy, agrees that the measures will drive away investors. "Many Chinese and foreign investors will hesitate to go back into a market where you may not be able to get out when you want to (even when the daily 10% limit on individual stock price declines has not been reached), where you can be forced to buy more stock than you want to and where the authorities can compel private participants to put their money at risk by having to create a stabilization fund," Ms. Li wrote. And Heather Long, who compared China's stock market woes to the United States' 1929 "Black Thursday" in a piece for CNN Money, agrees that the moves do little to inspire confidence. "Part of the problem is that when there's a big intervention like what the bankers tried to do in 1929 or what China's government is doing now, it's akin to several fire engines showing up with their lights and sirens blaring. It looks bad to outsiders (or, in this case, to investors). After checking out what's going on, they typically want to get away," Ms. Long wrote. And Mr. Dollar agrees that the current situation could hinder the removal of some red tape for companies that planned to enter the stock market.

For now, however, analysts are not predicting that the stock market crash, which many say is really just the correction of 2014's spike, will have a serious impact on the rest of the economy. "The country's stock market plays a smaller role in its economy than the U.S. stock market does in ours and has fewer linkages to the rest of the economy," Bill Adams, PNC Financial's senior international economist in Pittsburgh, told Forbes. Still, the real danger lies in the fact that the government's failure to save the stock market could undermine people's confidence, says Dollar. Western analysts say that the Chinese government's heavy-handed intervention is to blame for hindering the market's recovery and could hinder market reforms in the long-run.


Equities Rout Highlights Disarray

"The recent sharp rises and falls in the stock market offered a stress test on the stability of China's financial system as well as the ability of regulatory agencies to respond to emergency," said Zhang Ming, a senior economist at the Chinese Academy of Social Sciences, a government think tank. The "lack of regulatory coordination" exposed by the market turmoil, Mr. Zhang added, should make the government "all the more cautious" about carrying out its pledge to allow freer flows of capital across China's borders.

Even at the July 4 meeting, officials weren't initially on the same page, said the officials familiar with the discussion. Zhou Xiaochuan, governor of China's central bank, and Lou Jiwei, China's finance minister, both objected to using too-aggressive intervention because they felt it would harm China's effort to bring more market forces into its economy, said the officials. They eventually went along with Mr. Li's plan, which, according to the officials, was then approved by President Xi Jinping before he left for Russia on July 8. Mr. Xi's endorsement underscores the leadership's desire to restore the public's confidence in its ability to manage the economy as well as to prevent the stock malaise from spreading to other parts of the economy.

The disarray highlights the competing interests of different regulators. The central bank looks at the country's overall financial stability, while the securities regulator oversees the capital markets. Under Xiao Gang, former head of one of China's biggest state-owned banks, the securities agency wants to make China's stock markets -- long seen as immature and driven by flighty retail investors -- into a valid funding source for companies shunned by risk-averse banks. But it also wants to give indebted state-owned companies -- a major impediment to making
China’s economy more market-driven -- a place to sell shares to pay off their debts, giving the agency an incentive to keep IPOs flowing.


Phil's Stock World: China Stocks Open Marginally Higher As Regulators Unleash More 'Measures'

Chinese stocks are opening flat to marginally higher - still lower from Friday's close - despite the government unleashing yet more 'measures' in the name of stability. Having banned 5 accounts - reportedly including Fed-favorite Citadel - China is blaming excess market volatility on short-term short-sellers and has put in place curbs on short-selling that force traders to hold for at least one day. On the bright side, margin traders reduced exposure for the seventh day in a row, reducing outstanding balances to 5-month lows. which leaves the median China stock trading at a remarkable 61x reported earnings (compared with 12x in Hong Kong). Investors who borrow shares must now wait one day to pay back the loans, according to statements from the Shanghai and Shenzhen stock exchanges issued after the close of trading on Monday. This prevents investors from selling and buying back stocks on the same day, a practice that may "increase abnormal fluctuations in stock prices and affect market stability," the Shenzhen exchange said. The short-selling curbs are the latest measures the government is taking to prop up share prices and prevent market manipulation after an almost $4 trillion selloff. Regulators are probing "malicious" short selling and have examined the futures trading accounts of foreign investors. They've also banned stock sales by major shareholders, suspended initial public offerings and compelled state-run institutions to support the market with equity purchases. But for now it is having only modest impact...

The more measures they apply, the higher the price of pork goes and the more squeezed by inflationary pressures - no matter how bad the economy - the PBOC is to not cut RRR. In other words, a 21% surge in pork prices - a major component of China CPI - forces the PBOC to apply piecemeal measures and not apply broad-based cuts to stimulate the economy. So while some talking heads pray for more bad data in China, they are missing the crucial panic factor - soaring food prices will mean more social unrest than plunging stock prices.


Regulator to intensify war on speculation

China's securities regulator has widened efforts to stem the stock market slide by investigating the speculative program trading blamed for the surging market volatility. The move came as the A-share market continued to decline with shrinking turnover and greater volatility amid investors' renewed fears for a second dip after the dramatic sell-off has slashed the benchmark index by some 30 percent since mid-June. The Shanghai Composite Index fell by 1.1 percent on Monday while the ChiNext index that tracks high-growth start-up companies on the Shenzhen bourse fell by 5.5 percent. Nearly 500 stocks in Shanghai and Shenzhen tumbled by the 10 percent trading limit. The surge of blue-chip banking shares during afternoon trading helped lift the benchmark index to close above 3,600 points.

The China Securities Regulatory Commission has turned its attention to automated program trading, a type of trading strategy that utilizes computer programs to execute buy and sell orders based on predetermined conditions. "Trading irregularities in some stock accounts combined with the risks amplified by program trading have seriously hurt the market stability," the CSRC said in a statement. The securities watchdog said that it has found abnormal and speculative trading that is suspected of having used program trading to distort share prices and mislead investors to make profits. While program trading remains a niche strategy employed by hedge funds and private equity firms, it has drawn growing concerns over its impact on market volatility as the advance of technology and easier access to electronic exchanges offer investors more sophisticated trading tools to play the market. On Monday, the Shanghai Stock Exchange said that it restricted trading of four stock accounts during intra-day trading
as they were suspected of disrupting market order by frequent orders and cancellations. The Shanghai and
Shenzhen exchanges have imposed curbs on 24 trading accounts for such trading irregularities. But some experts
expressed doubts over the effectiveness of the regulator's move to prevent a market meltdown.
Source: Li Xiang: Regulator to intensify war on speculation, China Daily, 2015-08-04

Technology (A Special Report) --- China's Stock Market: Fan Bao and Garvis Toler on how the recent rout will
affect IPOs

What does the recent market rout in China mean for the IPO landscape? Fan Bao, the founder and chief
executive of investment bank China Renaissance, and Garvis Toler, the global head of capital markets at NYSE, sat
down with Wall Street Journal Financial Editor Dennis Berman to discuss the issue. Here are edited excerpts.

MR. BERMAN: Fan, what is going on in the Chinese stock market? Just the other day, the market was down
8% in one day, an incredible figure. Do you expect further declines?

MR. BAO: We need to go back to how this whole thing started. Our economy is going through a lot of
struggles as we try to restructure. We need a boost to get the economy going, and to that end we need liquidity.
Historically our banking system hasn't been very good at pumping liquidity to where the money is truly needed, so
this time around we decided to use the stock market to deploy capital. But in order for people to get interested in
the stock market, we need a bull market, right? So we gave a little bit of liquidity to create a bull market. But very
soon we found that the market itself isn't the Chihuahua we had at home. It's a little bulldog, and once we got him
excited, we couldn't really keep him down. And after repeated messages to "stay calm," the dog was still jumping
up and down and all over the place. Then we decided to kick him in the head. But once we kicked him in the head,
he drops dead. Next we decided to put him on life support. Now we have a bulldog on life support.

MR. BERMAN: Garvis, when you see an 8% drop in one day, what is your reaction?

MR. TOLER: Well, we've lived through these types of gyrations in the U.S., certainly, if we go back 15 years
or so. So I take more of a longer-term view. This is a marketplace that's still growing up and trying to find the right
balance between [intervention] and free-market forces. If you take a longer view, I think these things will end up
finding their own balance.

MR. BERMAN: So, you advise some of the most important companies in China. A lot of them are already
public in the U.S. Some of them are obviously pre-IPO. What would be your advice today if someone called you
and said, "What do I do?"

MR. BAO: I think they need to ask themselves two questions and then give themselves real honest answers.
One is who you are. The second one is, which market fits you? Because obviously this year, before the bulldog was
put on life support, a lot of people got really excited and decided to come back [and list in] China. It almost became
a trend. But what has happened in the last couple of weeks has gotten people thinking that, fundamentally, these
two markets are still very different. Over time they may converge, but as of now you really have to understand
which one fits you better.

MR. BERMAN: Do you ever see the day when U.S. companies are listed in China?

MR. BAO: Why not? Despite what has happened, Chinese capital markets have become more connected with
international markets. And if China is too difficult now, maybe Hong Kong is the way to go.

MR. BERMAN: What do you guys think about valuations right now in general?

MR. TOLER: It wouldn't be surprising to see a continued correction. And if you look throughout history in
other markets, it's actually fairly healthy to have these types of corrections.

MR. BAO: I'm worried about current valuation levels. A lot of companies out there are spending tons of
money, burning cash. But subsidizing that model very much depends on a sustainable supply of capital, and that
environment could change very quickly. Earlier this year, it almost felt like there was an unlimited supply of capital
in China. But within a span of two weeks, all liquidity disappeared.

Source: Technology (A Special Report) --- China's Stock Market: Fan Bao and Garvis Toler on how the recent rout
Hong Kong’s MPF retirement fund rings up loss in July as China market rout takes toll: China equity funds

Hong Kong’s 481 Mandatory Provident Funds posted an average 2.06 per cent loss last month and a combined loss of 4.94 per cent in the past three months, a period that coincided with a searing rally followed by a severe rout that caused losses of almost US$4 trillion. "The MPF is going to face challenging times ahead as the mainland and Hong Kong stock markets will continue to experience high volatility due to concerns about the economic slowdown in the mainland and Hong Kong," said Louis Tse, a director of VC Brokerage. "To make things worse, no one can tell what will happen in the markets when Beijing terminates its rescue plan and withdraws from the markets," he said. "The bond markets are also going to continue to be hurt by rising interest rates. We cannot place any high hopes on the MPF."


A U.S. fund sees trading suspended in China: More than 30 accounts, including one by Citadel, told to stop stock activity

An account of a unit of Citadel was among more than 30 trading accounts suspended by Chinese regulators trying to stabilize financial markets. Chinese stock market regulators have suspended more than 30 trading accounts, including one owned by the brokerage unit of the big American hedge fund Citadel, as they continue trying to stabilize the country's volatile markets. "We can confirm that while one account managed by Guosen Futures Ltd. -- Citadel (Shanghai) Trading Ltd. -- has had its trading on the Shenzhen exchange suspended, we continue to otherwise operate normally from our offices, and we continue to comply with all local laws and regulations," Citadel wrote on Monday in an email. The suspension came amid continued volatility in the markets, with Shanghai’s main share index closing an additional 1.1 percent lower on Monday. A week earlier, the index had plunged 8.5 percent in its biggest single-day loss in eight years. Chinese regulators have been taking exceptional measures to help halt the recent slide in the country's markets, including buying shares directly and barring major shareholders of companies from selling their stakes. Despite these efforts, shares have continued to tumble. From their peak in mid-June, the total value of all domestically listed stocks has declined by about a third, shedding more than $3 trillion in market value.

The China Securities Regulatory Commission, which has in recent weeks pledged to crack down on "malicious" short-sellers and market manipulators, appears to be expanding its scrutiny to other types of trading. On Friday, it said it would strengthen its supervision of so-called program trading, which can include high speed, algorithmic or other computer-driven trading strategies. It said 24 such trading accounts on the Shanghai and Shenzhen exchanges had been suspended on suspicion of harming the market with rapid-fire share purchase or sale orders that were canceled before they could be fulfilled, a strategy known as spoofing. By the time markets closed on Monday, the Shanghai and Shenzhen exchanges had announced suspensions for more than 10 additional accounts, bringing the total number of targeted accounts to more than 30.

Citadel, which is based in Chicago, has several other accounts in China apart from the suspended Guosen account, and those continue to operate normally. The company has not been accused of wrongdoing. "Citadel has been actively investing in the region for 15 years, and has always maintained a constructive dialogue with regulators, including during the recent market volatility," Citadel said on Monday. The entity that owns the suspended account, Citadel (Shanghai) Trading, is a locally registered firm wholly owned by Citadel and incorporated in 2010. China's capital markets are still largely closed to foreigners. Although overseas investment firms face restrictions on buying stocks in Shanghai and Shenzhen, as well as strict limits on moving funds to and from mainland China, a small but increasing number of them, mainly hedge funds, have followed Citadel in recent
years. Their strategy: incorporating local units in China so they can trade more freely as domestic entities, according to Chris Powers, a senior consultant at Z-Ben Advisors, a financial consulting firm based in Shanghai. "In the last six weeks obviously you've had a lot of direct intervention into the market in terms of actually buying shares," Mr. Powers said. "But a lot of the other measures are more about trying to instill confidence and encourage people to behave a certain way," he added, "and preventing them from doing what Beijing considers are activities detrimental to the stock market."


Chinese Retail Investors Flee Plunging Markets; More than 20 million pulled out in July, as Shanghai Composite Index took biggest monthly dive in six years

Nearly a third of the country's individual investors--more than 20 million people--fled the plunging stock markets last month. The number of retail investors holding stocks in their accounts slid to 51 million at the end of July from 75 million at the end of June, according to China Securities Depository & Clearing Corp., the government agency that tracks accounts. As they ran, the Shanghai Composite Index suffered its biggest monthly decline in six years, falling 14% to finish 29% below its June 12 peak. Unlike in the U.S., where institutions dominate stock trading, retail investors are king in China, owning around 80% of listed stocks' tradable shares, according to investment bank CICC. Those frantic rescue efforts couldn't keep the share-price plunge in Shanghai and Shenzhen, which began in mid-June, from continuing through most of July. When the month ended, investors in China were sitting on a paper loss since that June 12 peak of 6.8 trillion yuan ($1.1 trillion), according to CICC.

Though the crash could mean that there are some bargains out there, it is hardly surprising that China's turbulent stock markets are drawing fewer new entrants. The number of investors opening new accounts in the week ending July 24 was down 20% from the corresponding week in June. The Chinese are big savers, setting aside as much as 50% of their disposable income, according to the World Bank. The government had hoped to channel some of that from banks to the capital markets, but for now that hope looks rather forlorn.

Source: Chinese Retail Investors Flee Plunging Markets; More than 20 million pulled out in July, as Shanghai Composite Index took biggest monthly dive in six years, Gu, Wei. Wall Street Journal (Online) [New York, N.Y] 05 Aug 2015: n/a.

NDRC plans steps to bolster bond market

The National Development and Reform Commission, the nation's top economic planner, said on Wednesday that it will come out with more initiatives to develop the debt market, particularly to boost funding for infrastructure projects and stabilize the overall economy. The NDRC will soon permit two policy banks to fund big ticket infrastructure projects through bond issues, but it was yet to finalize the details, said sources close to the issue. The bonds will be issued by the China Development Bank Corp and the Agricultural Development Bank of China and the debt will be purchased by the Postal Savings Bank of China. The central government is likely to subsidize 90 percent of the interest on the securities, they said. "It is the first time that the NDRC is adopting such financial instruments to raise capital for infrastructure projects by working closely with financial institutions," said Zhang Hanya, president of the Investment Association of China. The interbank bond issuance arrangement seeks to provide ongoing funding support to key projects promoted by the government and to ensure that there are no hitches in raising follow-up funds, amid the financing plight faced by several local governments, he said. About 22 sectors will be involved in the bond issuance, including the urban rail transit system, railway projects in central and western China and competitive manufacturing industries, which are quite consistent with key projects promoted by the regulator since November. It was reported that the first batch of the bonds could be launched in one month or so. Bloomberg previously reported that the government is planning at least 1 trillion yuan ($161 billion) in bonds to fund construction projects.
The latest official manufacturing Purchasing Managers Index indicated a continuing trend of weak demand, while performance of the property sector and exports remains weak. Traditional tools are not effective and companies still face high costs or barriers in borrowing from commercial banks, said analysts. Meanwhile, the NDRC said on Wednesday it would allow the issuance of bonds for individual projects for the first time, another move to develop the country's debt market. The new rules aim at expanding the scale of direct funding and let the capital markets play a greater role to serve the real economy, it said.

Source: Lan Lan: NDRC plans steps to bolster bond market, China Daily, 2015-08-6

China Crackdown on Citadel Shines Light on Foreign Firms; Chicago-based firm is one of few foreign outfits to have penetrated mainland markets with a local trading operation

HONG KONG--A crackdown on traders in China that included Chicago-based Citadel LLC has shone a light on the few foreign investors to have set up shop in a country long wary of outside influence. An account trading the firm's own money was one of more than three dozen accounts suspended from trading over the past week after Chinese authorities launched a probe into automated trading and possible stock-price manipulation. "We continue to otherwise operate normally from our offices, and we continue to comply with all local laws and regulations," a Citadel spokesman said this week. Not many foreign firms have penetrated China's massive mainland markets with a local trading outfit as Citadel has. Instead, most rely on the limited routes that have been opened to foreigners, such as a stock-trading link formed with Hong Kong last year that allowed overseas investors to freely trade some Shanghai-listed shares for the first time. That link doesn't enable foreigners to trade instruments such as China's CSI 300 stock-index futures, one of the most heavily traded futures contracts in the world. Investors outside China also remain largely barred from the country's topsy-turvy but potentially lucrative commodity futures markets. China is the world's biggest buyer of commodities ranging from iron ore to copper and gold.

Citadel pioneered a model since followed by a small clutch of other foreign investors: It set up shop in China with what in Citadel's case is called a wholly foreign-owned enterprise, or WFOE. Citadel Shanghai Trading Ltd. was originally registered in early 2010 as a commodities trader in a partnership with Citic Securities Co.'s direct-investment arm, according to government filings. The firm is part of Citadel's brokerage business, not its better-known hedge-fund operation.

Chinese regulators have been scrambling to contain the damage from this summer's stock-market collapse, which slashed a third off the value of the Shanghai Composite Index. Their efforts have included large purchases of stock by state-controlled companies, limits on share sales—and, increasingly, scrutiny of individual traders in a search for what state media have dubbed "malicious" forces. With their investment capped at less than 5% of the market, foreign investors outside of China continue to make up a only small sliver of China's $8 trillion stock market. Some traders say they have been spooked by the crackdown on Citadel and others. "Even Chinese fund managers don't want to sell stocks right now," said one foreign investor in China.

Citadel founder Kenneth Griffin recently expressed a positive outlook for his firm in the country. "When I think about the next 10 years, we are going to have a very meaningful business in China," Mr. Griffin said in one of several interviews conducted before the suspension for a page-one article in The Wall Street Journal. "This is a very interesting moment for them. The 10-year story on China is completely intact," he said.

Source: China Crackdown on Citadel Shines Light on Foreign Firms; Chicago-based firm is one of few foreign outfits to have penetrated mainland markets with a local trading operation, Lamar, Mia; Deng, Chao. Wall Street Journal (Online) [New York, N.Y] 06 Aug 2015: n/a.

China to regulate online equity financing platforms

BEIJING -- China's securities regulator will soon begin inspecting online equity financing platforms to address risks brought by illegal activities and help the platforms better serve the real economy. The China Securities Regulatory Commission (CSRC) will oversee several kinds of online platform, including equity-based
crowdfunding, which allows investors to receive a stake in a company funded by pooling money from many people via the Internet, said Deng Ge, spokesman for the CSRC, at a press conference Friday. The inspection aims to discover and correct illegal activities, minimize risks and lead platforms to perform better in serving the real economy, Deng said. The inspection will focus on several aspects, including whether the online fund raisers have promoted themselves publicly, whether the accumulated number of equity holders has exceeded 200, and whether the raisers have collected private equity funds in the name of equity-based crowdfunding. Deng said. Some institutions are operating in the name of "equity-based crowdfunding," which are actually non-public equity financing or private equity funds raising, hence do not fall within the scope of equity-based crowdfunding activities allowed by the guidelines on promoting the healthy development of Internet finance unveiled easier in July, Deng said. The CSRC has recently told governments at the provincial level to forbid institutions and individuals from illegally issue stocks under the guise of equity-based crowdfunding.

To support innovation and the healthy development of Internet finance, new policies were rolled out in July in guidelines by ten central government departments and industry regulators, including the People's Bank of China (PBOC). More regulation is needed to deal with Internet finance crime, and self-discipline is also required if the industry is to build a sound and honest environment for finance players. "Internet finance could help small and micro enterprises with investment and fund raising, and also upgrade the quality and efficiency of financial services," an official with the PBOC said during a press conference.

Source: Xinhua: China to regulate online equity financing platforms, 2015-08-8

Regulator vows steps to restore market stability

China's securities regulator said on Friday that maintaining stock market stability and restoring investor confidence are still its top priorities, despite the recent turbulence which dampened market sentiment and trading volume. The regulator has met with all major securities brokerages and funds and urged them to better control their margin trading and short sales business, both of which have been blamed for the recent roller-coaster ride in the A-share market, according to Deng Ge, the spokesman of the China Securities Regulatory Commission. Deng told a news conference on Friday that the regulator will also target speculative trading of stock index futures and prohibited futures companies from offering margin lending for clients to trade futures contracts.

The A-share market rallied on Friday, with the benchmark Shanghai Composite Index rising 2.26 percent to close at 3,744.2 points. The smaller Shenzhen Component Index gained 2.67 percent to close at 12,753.05. US investment bank Goldman Sachs Group Inc has estimated that the Chinese government has injected up to 900 billion yuan ($147 billion) in the past two months to try to prevent a market meltdown. The government has also adopted a series of measures to halt the recent market rout that wiped out nearly $4 trillion in market value. The regulator has halted new share offerings and banned major shareholders from selling shares in their companies for six months. Rumors that the regulator may once again permit listed companies to augment capital with additional share issues have also weighed heavily on market sentiment. Deng said the market regulator will specifically target the act of prying for non-public information through advantageous social connections and leaking market-sensitive information through online social networks.

Source: Li Xiang: Regulator vows steps to restore market stability, China Daily, 2015-08-8

Pension funds gain access to the stock market

Up to 600 billion yuan ($97 billion) could be channeled into China's struggling equity market after the Cabinet gave final approval on Sunday to allow pension funds access to the stock market. These funds will be able to invest up to 30 percent of their net assets in the country's stocks, equity funds and balanced funds, according to the finalized rules published by the State Council. A draft rule was publicized for public consultation on June 30. The Ministry of Human Resources and Social Security said late last month that a majority of the public supported the proposals, including the 30 percent ceiling. The rule was published on Sunday after shares slumped by nearly 12
percent last week, the worst weekly performance since June. China's pension funds, which account for about 90 percent of the country's social security fund pool, had net assets of 3.5 trillion yuan by the end of last year, according to the ministry. Spokesman for the ministry Li Zhong has said that more than 2 trillion yuan of the net assets can be used for investments, which means in theory that about 600 billion yuan could potentially be invested in the stock market. The vast funds were previously only allowed to be deposited in banks or invested in Treasury bonds, which give very low yields. Officials said the latest move is an important step to diversify the funds' investment channels and enhance their yield to address the growing number of retired people. China's pension funds are a patchwork system mostly overseen by city and county-level governments, and it has been difficult to consolidate them even at provincial level.

Source: Zheng Yangpeng: Pension funds gain access to the stock market, China Daily, 2015-08-24

CHINA: Stock crash shows cracks in 'China model'

The People's Bank of China (PBoC) yesterday cut interest rates and required reserve ratios after the Shanghai Composite Index fell 8.5% and 7.6% on August 24-25 to go below 3,000 for the first time in eight months. Strenuous government efforts to support the market raise doubts about the foresight and control exercised by Beijing in actively encouraging an unsustainable equities boom in the first place. Beijing will do everything it can to maintain asset values while seeking market-oriented yet non-critical reforms at the margins. A-shares will experience limited trading and prices determined by government regulation. Beijing's 'unlimited' capacity to support overseas financial commitments will be placed in doubt. Speculative demand will fall for oil, iron ore, copper and precious metals as collateral or a store of value against a weakening renminbi.

The precipitous fall in stock prices on August 24-25 reflects the downturn in trading volume, but also signifies deepening scepticism about the government's capacity to corral capital and manage the markets. Just as the latest rout betrays the ineffectiveness of the 21-broker pledge to support the market, the plan announced on August 23 for the state pension fund to invest 30% of its assets in domestic equities will have limited stabilising effect and for now only damages the government's credibility. The stock bubble constituted the most explicit expression yet of the authorities' method of dealing with debt problems: a closed capital system that relies on the resources of ostensibly independent financial institutions to channel new capital into the economy. August 19 saw confirmation of this strategy when China Securities Finance, the largest participant in July's government-mandated market intervention, announced the transfer of large quantities of recently purchased stock to Central Huijin Investment, the state-owned holding company that serves as the lynchpin of Beijing's authority within the banking system through its majority stakes in the state-owned commercial banks. Stabilisation mechanisms depend ultimately on Beijing's credibility: Chinese markets for financial investment operate according to individuals' interpretations of policy positions rather than economic fundamentals. The deeper issues are the prospects for economic reform and Beijing's ability to bear the costs of economic adjustment. Volatility is among these costs. External stakeholders are also losing confidence that Beijing has the financially capacity to support the ambitious goals of the Asian Infrastructure Investment Bank, the 'One Belt and One Road' initiative, and a domestic infrastructure plan centred on the development of new cities (see CHINA: AIIIB will reshape development finance landscape - March 30, 2015 and see CHINA: City-building ambitions will shake the world - August 14, 2014).

Stock market turbulence and the government's response indicate rising risk of a financial crisis. This is more likely to originate as a credit than a currency crisis. Domestic depositors and creditors recognise the financial system's finite capacity to support inflated asset values. Opacity in the mechanisms used to support the market combined with widespread recognition of the disconnect between market prices and economic fundamentals will see CHINA: Stock crash shows cracks in 'China model', Oxford Analytica Daily Brief Service. (Aug 26, 2015).

CSRC steps up crackdown

The securities market regulator and police are cracking down on suspected violations of stock dealing rules
and the fabrication of trading information, the latest step in a slew of measures to clean up markets amid wild
exchange gyrations. Police are investigating eight employees of the country's largest brokerage, CITIC Securities
Co Ltd, for suspected illegal securities trading, the official Xinhua News Agency said on Tuesday. In a statement to
the Hong Kong stock exchange on Wednesday, CITIC Securities said it had not been informed of a probe into staff
and the business was operating normally. An employee and a former employee of the China Securities Regulatory
Commission are suspected of insider trading and forging official documents and seals, the agency said. Wang
Xiaolu, a reporter at business magazine Caijing is suspected, along with others, of fabricating and spreading false
securities and futures trading information, the agency said. Police summoned Wang on Tuesday night, Caijing said
in a statement on Wednesday, but it was not given a reason for his detention. It would support actions taken by
Wang within the normal course of business, it said, adding it believed objective reporting promotes the healthy
growth of the securities market. In stock exchange statements on Tuesday, four Chinese brokerages said the CSRC
was investigating them for failure to properly identify clients. Haitong Securities Co Ltd, Founder Securities Co Ltd,
Huatai Securities Co Ltd and GF Securities Co Ltd said the CSRC was looking for failures to review and verify
client identities, in line with rules.
Source: Xinhua: CSRC steps up crackdown, 2015-08-27

China: Bubble-Up Innovation

The purpose of this paper is to present a new approach to solving the problem of sustainable innovation for
China. By basing new products on combinatorial innovation based on technical insights arrived through a
heterarchical team based structure, a company can create and launch innovative products that will transform their
business. We propose that the solution to China's innovation problem is to follow the maxim of investing in the
team, not in the business plan. Companies that continue to follow an MBA planning approach based on competitive
strategy and Blue Ocean market opportunity, will not only fail to create disruptive innovations but they will also
fail to attract the creative talent needed to transform their business.

Over the last century the corporation has been the basis for economic activity but due to advances in
technology and the internet, the platform has become the new structure for innovation and business growth.
Technology has been on an unrelenting upward climb that has shifted the strategy, structure and culture of the
business organization. The best way to predict the future is to invent it. Flistory has shown that most companies fail
because they become comfortable with their success and continue to do what has made them successful. Instead of
looking for new opportunities that are high risk, they only make incremental changes. The core business of any
company has to be innovation. The job of today's CEO is to think about the future and to ask the question, "What
could be true in five years?" One of Steve Job's greatest strengths was the ability to use his vision to look at the
market and to see what others could not see and to do what others were unwilling to do.

Instead of relying on market research or listening to the experts, Jobs insisted on inventing tomorrow by
putting things together in a way that no one else had done. Jobs based his products on technical insights and
avoided listening to what the customer wanted. Jobs explained his product strategy quoting Henry Ford, "If I had
listed to customers, I would have gone out looking for faster horses." Jobs followed Ford's advice and insisted on
defining needs that the customer did not know they had. The result was customers world-wide were able to jump
from their Sony Walkman mobile analog tape decks to enjoy their iPod and their iTunes. Jobs, like Henry Ford,
invented something new, dramatically changing the music business and the way people interact with their music
players.

In order to invent the future, a Chinese company has to adopt the principles of combinatorial innovation. Hal
Varian, professor of information sciences at the University of California, Berkley says, "It's imperative for
companies to understand and use technology to reconfigure their industries." Varian compares the current period to
previous times of industrialization when new technologies combined to create more complex and valuable systems.
Combinatorial innovation occurs where there is a great availability of different component parts that can be
combined to create new inventions. Today, Chinese companies have the opportunity to apply technology to solve big problems in novel and radical ways. It is easy to underestimate the power of digital, exponential and combinatorial innovation now evident by the success of Google’s self-driving car. Future success for China calls for growth to be replaced by the need to scale. In order to succeed, a company has to do something big and it has to develop it very quickly and globally. Platforms such as Facebook, Twitter and Google’s Android can be scaled to reach not millions but billions of users.

Specialize and simplify are essential for Chinese company development and scaling of new products. Speed and userfriendliness are essential to rapid growth. In order to be "great” at something, it is necessary to keep it simple and singular. Companies innovate and scale more quickly when they have open communication. Open can be defined in different ways but generally it means sharing ideas and intellectual property not only with employees and team members, but also with other companies and customers. By being open, a company gives up control for innovation and scaling. Innovative companies do not follow the competition, they compete with themselves to invent and do new things. Innovative companies should strive to create a monopoly. A monopoly means a new product that benefits everyone and sustains profits for the company. Competition means no sustainable profits and no long-term survival. Realistically, competition is basically an ideology that distorts how a company should operate and manage its resources. The more competition a company faces in the market, the less opportunity there is for that company to scale and to profit.

The reform of structure needs to provide support for a flat, open, participatory, team based system. It is important to bring feedback to a system to enable cultural learning. Management reforms need to include the following changes:

* Greater transparency and information flow given the knowledge explosion.
* Less bureaucratic flatter management structure to enhance flexibility, rapid response, team building, alliance formation and networks.
* Empowerment of a broad range of individuals and groups.
* Boundary spanning structure and mechanisms such as cross functional committees.


How did Tianjin port explosion happen?

How did Tianjin port explosion happen? At least 123 people were killed after a massive explosion ripped through a chemical storage facility in Tianjin port earlier this month. Now residents want to know went wrong. Mystery still surrounds the massive chemical explosion at Tianjin port, which killed at least 123 people earlier this month. At the center of the storm is Tianjin Dongjiang Port Rui Hai International Logistics Co, which stored toxic chemicals at the blast site. Residents living close to the storage facility have described it as an "arsenal". So, what actually happened? Below, are the key questions being asked about the deadly disaster:

How did Rui Hai International obtain a permit to store toxic chemicals? For many residents, that is the key issue. The company at the heart of the police investigation is Rui Hai International, which stored chemicals at the site without, it is claimed, the knowledge of local authorities. With registered capital of 100 million yuan ($15.7 million), Rui Hai International was set up in Dongjiang Free Trade Port Zone in 2012. The company's business facilities are made up of warehouses, storage terminals, storage yards, wastewater sumps and office buildings. The company's website showed that it received a permit by Tianjin Maritime Safety Administration to operate storage and distribution works for toxic chemicals. These included calcium carbide, sodium nitrate and potassium nitrate for use in domestic and overseas markets. Tianjin police has struggled to clearly identify the substances being stored at the blast site because the company's offices were destroyed. Confused documentation has also been a problem. In another twist, Xinhua News Agency reported that Rui Hai International had only been granted a license to handle toxic chemicals less than two months ago. This poses the question: Had the company been operating
illegally since October 2014 after its temporary license had expired.

Did the company flout government regulations? Dong Shexuan, the deputy head of Rui Hai International, who holds 45 percent of the company’s shares, is reported to be well connected with officers inside the Tianjin police force and fire service. Although details are sketchy, it has been alleged in The Beijing News that he met with officials of the Tianjin port fire brigade during a safety inspection. According to claims from a senior official, who declined to be named, from the Industrial and Commercial Bureau of the Tianjin Binhai New Area, Dong gave fire service officers safety appraisal files, but an independent assessment of the site was not carried out. Dong, who is now in police custody, was unavailable to comment about these allegations. What does appear clear is that Dong was given the green light for operating a storage facility close to a residential area. To many local residents, this appeared unusual as similar companies operating in the chemicals sector had been closed down by authorities. So far, the police has detained senior managers of Rui Hai International, including Dong, as well as the son of a former police officer in Tianjin, and Yu Xuewei, a former State-owned company executive. Both are shareholders in Rui Hai International.

Why were the warehouses located so close to residential areas? Again, this is a difficult question to answer. Yang Baojun, vice-president of the China Academy of Urban Planning and Design in Beijing, has called for the planning process to be overhauled. Existing laws in China state that warehouses containing toxic materials must be at least 1,000 meters from major transport hubs and public buildings. But the Rui Hai International complex was only 560 meters away from a residential area and 630 meters from the railway station.

How can disasters such as the Tianjin port explosion be averted in the future? Views on this subject are mixed. He Liming, chairman of the China Federation of Logistics and Purchasing, an industry body in Beijing, has pointed to the financial costs involved. Moving chemical plants and warehouses outside of cities could prove difficult unless companies are heavily compensated "As many chemical plants are located in the cities where land prices in China’s urban areas have surged, they will not easily relocate unless they are paid the full value for the land they occupy,” He said. In addition, local governments rely on these companies to generate jobs, growth and taxes. In fact, they have become vital to domestic economies across the country. Still, the Tianjin port explosion has to be a wake-up call for the entire nation, according to Zhang Boju, director of Friends of Nature in Beijing, a leading nonprofit organization involved in conservation protection. Zhang would like to see all chemical-related industries reviewed and supervised by government and public watchdogs after calling for more transparency in the sector.

After the Tianjin blast, the State Council issued an emergency notice in which it asked governments at all levels to reinforce the safety management on dangerous chemicals and explosives. It called for strict controls and the implementation of special regulatory measures on highly toxic chemicals such as cyanide, as well as inflammable and explosive materials. The State Council urged governments at all levels to learn the bitter lessons from the massive blast and to crack down on illegal activities to ensure the safety of the general public.

Source: Zhong Nan: How did Tianjin port explosion happen? China Daily, 2015-08-26

Chinese students and higher education destinations: Findings from a choice experiment

This paper presents a novel application of a discrete choice experiment that seeks to contribute to a more accurate understanding of international education flows. The discrete choice experiment method is employed to identify the key factors underlying students’ international education choices. The specific focus in the study is on China as the largest origin country of international students in the growing global education market. Data are collected from a sample of prospective Chinese outbound students. The findings suggest that university ranking and destination safety are key decision drivers for Chinese students. The results have policy implications for Australia, as one of the key higher education destination countries, for instance, in relation to recently changed student visa systems and the potential effects of planned government budget cuts to higher education on educational quality and reputation.

Source: Chinese students and higher education destinations: Findings from a choice experiment, Gong, Xue;
China to build unified resource trading platform by 2017

BEIJING - China aims to integrate public resource platforms and foster a unified system by the end of June 2017, the State Council announced on Friday. By the end of June 2016, local governments will be required to complete the integration of platforms such as those for construction project bidding, trading of land use rights and government procurement, with an aim to form a regulated, unified and transparent national system a year later, according to a statement released after a State Council executive meeting presided over by Premier Li Keqiang. The move is intended to improve government efficiency, prevent corruption, and allow easier resource access for start-ups and entrepreneurs, the statement said. The creation of a transparent information sharing platform is the latest of government efforts to streamline administration and let the market play a bigger role in resource allocation. Earlier this month, the State Council began the process of severing the traditionally close relationship between government and trade associations. Starting in 2018, the government will stop directly sponsoring these associations and instead contract their services as outside agents.

Source: Xinhua: China to build unified resource trading platform by 2017, 2015-08-01

Top 10 emerging cities on the Chinese mainland

The Economist Intelligence Unit (EIU) indentified the top emerging cities on Chinese mainland based on such measures as population, income, infrastructure and economic activities. EUI's emerging city ranking aims to identify fast-growing cities. According to EUI, most of the top 20 cities are from China's central and western provinces. Guiyang, capital city of China's Southwest Guizhou province is the top on the list with its position as a leading "big data" center followed by Xiangyang city and Hengyang city in Central China. Xiangyang in Hubei province has established a dedicated industrial park to attract businesses relocating from the southern manufacturing powerhouse of Shenzhen. Benefitting from industrial relocation and population migration, the third- and fourth-tier cities in eastern provinces, such as Suqian in Jiangsu province also have bright growth prospects.

Here are the top 10 cities with positive outlooks.
No 10 Chengdu, Southwest China's Sichuan province
No 9 Zhengzhou, Central China's Henan province
No 8 Zhuzhou, Central China's Hunan province
No 7 Huaibei, East China's Anhui province
No 6 Huainan, East China's Anhui province
No 5 Suqian, East China's Jiangsu province
No 4 Chongqing, municipality in Southwest China
No 3 Hengyang, Central China's Hunan province
No 2 Xiangyang, Central China's Hubei province
No 1 Guiyang, Southwest China's Guizhou province

Source: Top 10 emerging cities on the Chinese mainland, China Daily, 2015-08-25

A Regional Categorization for "New-Type Urbanization" in China

Regional differences in the character of urbanization in China are substantial. The promotion of what has been termed "new-type urbanization" cannot, as a result of these regional differences, be expected to follow a universal approach--rather, such a development must objectively adhere to locational and category-specific principles and adopt differentiated urbanization development models. Regional categorization is often used in geography, but is rarely deployed in research addressing human and social problems relating to urbanization. In March 2014, China published the National New-type Urbanization Plan (2014-2020), which calls for the scientific and reasonable planning of "new-type urbanization," and appropriate regional categorizations are urgently needed in order to guide
this reform. Responding to this challenge, this research engaged in the design of a "dominantly quantitative analysis, qualitatively supplemented" method in order to divide China into 5 main regions and 47 sub-regions in terms of new-type urbanization. The paper discusses the features and key problems of each region. This study introduces a new method for regional categorization, thereby remedying the lack of regional categorization in relation to "new-type urbanization" in China, and ultimately promoting the development of regional categorization in the humanities as a valuable reference for healthy and sustainable Chinese urbanization.

The new-type urbanization plan recently issued by the Chinese government is the programme of action in relation to China's urbanization. The plan will affect various aspects of China's development, including urban construction and development, social development, and economic growth. Based on the position that "problems associated with new-type urbanization must be addressed differently in different regions, and the key issues in relation to new-type urbanization are different in every area," this study designed a special method to divide China into several new urbanization region types (and thus regions) that are able to serve as a basis for discussion and development of new-type urbanization, and deliver healthy sustainable development in accordance with local conditions.

(1) This paper presents a method for regional categorization related to the treatment of social problems within the humanities, enriching established methodologies related to regionalization, as well as the Chinese comprehensive regionalization system. Regionalization is an important means of recognition and effective management via the categorization of complex territories and areas. Geographical zoning is often used to solve complex regional systems of human-land relationships [32, 33]. The method developed and deployed in this study differs markedly from existing methods. Since the emphasis of new-type urbanization emphasis is rather on problems of a social nature, our method is mainly qualitative, treating quantitative approaches as supplementary (although existing natural zoning and economic divisions were determined via quantitative analysis). Combing the existing regionalization and planning with new methods, this approach reflects the historical origins of the humanities and uses that research tradition to offer better solutions to the problems associated with urbanization regionalization. This method breaks through the limits of past methods in order to create a new notion of regionalization, providing a reference for solving complex regional social problems in the future.

(2) The results fill in a gap in current academic knowledge about the regionalization of China's urbanization. This study divides the country into 5 types of large regions and 47 small regions, which helps clearly elucidate the urbanization features of different regions and specifically discuss the development strategy, objective, model and approach for each region in relation to conditions of new-type urbanization. The division is based on an understanding of the substance and features of new-type urbanization and stresses the key issues at stake in different regions' urbanization. Accordingly, the results are also able to reflect the aims of new-type urbanization.

(3) The regional categorization of new-type urbanization is specifically designed to answer to China's urbanization, in a manner which differs from existing regionalization plans. At present, China has many specific regionalization plans that play important roles in the nation's social and economic development in certain periods, for instance, the Main Function Zoning helps in addressing national land development issues, China's Comprehensive Agricultural Regionalization gives directions on agricultural development issues, and China's Ecological Function Regionalization helps in ecological protection [42]. As a complex process and a model for future development, new-type urbanization interacts with all of the above issues, and as such these plans have been taken as key references in this study. However, new-type urbanization represents the latest important model and process to be addressed in China's development; as such this research can be expected to deviate from existing plans. We believe that the regionalization categories set out here have the potential to play an important role in China's healthy and sustainable urbanization.

New guideline set to focus on e-commerce, parallel imports

The emerging online auto trading and parallel import car sales are expected to be focuses of the upcoming antitrust guideline for the auto industry currently being drafted by the National Development and Reform Commission. As the first rule relating to the auto industry in the country's Anti-Monopoly Act, which came into effect in 2008, the new guideline will cover traditional auto part production and supply chain, auto sales and after-sales services. Delegates from automakers, industry associations, officials and lawyers, took part in a closed-door meeting to discuss the issues. Part of the discussions was to work out how to include the controversial and booming sectors of e-commerce and the parallel car import business into the new guideline, which is expected to benefit consumers, sources told China Central Radio Station. A market insider said the e-commerce channels are "actually controlled by the general auto dealers", as current online platforms don't have the capacity to sell directly to buyers. Currently, there are no statistics available on total auto sales through e-commerce websites and as parallel import car shops only opened eight months ago, no figures are available, according to authorities and market associations in China.

Source: Yang Cheng and Hao Yan: New guideline set to focus on e-commerce, parallel imports, China Daily, 2015-08-17

China to encourage more loans to agricultural sector

BEIJING - Chinese farmers will soon be allowed to use their management rights over contracted land and their homes as collateral for bank loans. The trial programs, announced by the State Council on Monday, are an attempt to revitalize rural land assets, increase the investment in long-term and large-scale agricultural projects, and raise farmers' income. China's central bank, the People's Bank of China, and the central leading group office of rural work will improve rural finance and carry out pilot projects to allow farmers to raise mortgages. Local governments and institutions will offer better support for improvements on rural financial products and services such as reduced interest rates, extended maturity and more appropriate credit ceilings. China is making large-scale farming more attractive to industrial and commercial capital, via transfer of management rights of rural land and development of new agricultural businesses.

Source: Xinhua: China to encourage more loans to agricultural sector, 2015-08-25

In China, a ghost town points to shifting economic fortunes

SHENFU, China - Giant skyscrapers tower unfinished and abandoned around a lake that forms the centerpiece of this new town. The wind blows through the empty hulk of what was supposed to be a multistory hotel and restaurant complex. A salesman insists that people have moved into one of the few housing complexes to be completed around the shore, but as dusk falls, only a handful of lights blink on. He offers to throw in a free car with every apartment purchased. This is Shenfu New Town in the northeastern province of Liaoning, built to handle the overflow from the once-booming industrial cities of Shenyang and Fushun. For much of the past decade, this was China's fastest-growing region, the home of the heavy industry that powered the nation's rise and rode on the coattails of a construction boom unparalleled in history.

Today, China's economy is undergoing a painful transition that has left heavy industry reeling and set investors' nerves jangling. The stock market is crashing, and fears of an economic slowdown are spreading. In the real economy, nowhere is the brunt of that slowdown and the pain of that transition being felt as sharply as here in the northeast. "Everybody knows what to do. You need to change the economic structure. But what concrete steps to take? Nobody knows," he said. "What can we do? Financial sector? You can't compete with cities like Shanghai. High-tech industries? Those won't flourish overnight." But here the problems seem even more deep-rooted, and attitudes more entrenched. This is a region where factory workers still look back fondly on the good old days of the Soviet-style planned economy and the industrialization drive that Mao Zedong undertook in the 1950s. This is a region, as the government official acknowledged, without the culture of entrepreneurship you find on China's
southern and eastern coasts. "Here it is not encouraged to start up your own business," he said. "Everyone just wants a stable job with a big state-owned enterprise."

The Tiexi district of Shenyang is nicknamed the "Ruhr of the East," after the German district that forms the backbone of that nation's industrial might. Yet here, the backbone of China's economy appears to be wilting. At state-owned companies, workers say fewer shifts mean their monthly pay has fallen from up to 5,000 yuan ($780) two years ago to more like 2,000 now. At private factories such as the Shenyang Heavy Machinery Huayang Mechanical Co., the situation is bleaker. Here, just 30 workers man old-fashioned lathes making machinery for the coal industry in a factory that once employed 400. Many people leave the region to look for work elsewhere. That relieves some of the social pressure but is draining some of the best talent from the northeast and leaving behind a rapidly aging population, experts say. Reflecting their concern, President Xi Jinping and Premier Li Keqiang both made "inspection tours" of the northeast in the past four months. Both have stressed the need to foster innovation, encourage small and medium-size businesses, reform state-owned companies and find new engines for growth. But both have also signaled a reluctance to turn their backs on the old ways entirely. In April, Li called for the government to launch major infrastructure projects - even though revenue is down 23 percent in the first half of this year. In July, Xi said state-owned enterprises are the backbone of the economy and warned that the government must avoid "the blindness of the market" even as it pursues reform, state media reported.

Many of China's problems date to the 2008 global financial crisis, which crushed export growth. A major government stimulus program delayed the day of reckoning but led to a rapid rise in debt that now needs to be contained. But it is the end of the construction boom that may have hit heavy industries such as steel and cement the hardest. "It may take a 10 to 20 percent capacity cut before these sectors become profitable again," said Citi's Shen. "If they do cut capacity, the economy will get worse, but if they don't, the problem will drag on for a few more years." In Shenyang, the signals remain as mixed as they are nationally. At the gleaming new factory complex run by the Shenyang Machine Tool Group (SYMG), fully automated lathes and milling machines work with a precision and speed that was previously unimaginable, and company chairman Xiyou Guan talks enthusiastically about joining the next global revolution in smart machines. SYMG rose from being the 36th-largest machine tool company in the world in 2002 to the largest in 2011. Times are much tougher now - revenue has since dropped sharply, and the company is projecting a net loss in the first half of this year. It has fallen back to third place globally. Nevertheless, Xiyou, who is also a senior Communist Party official, remains upbeat - about his company and for the region as a whole.


A Historic Opportunity for U.S.-China Ties

The decline of direct household ownership in stocks and a rise in institutional ownership has been central to the development of the U.S. stock market over the past 60 years. More recently, South Korea and Taiwan have seen the development of a domestic institutional-investor base and a rise in foreign institutional ownership that coincided with reduced volatility and lower valuation extremes. Korea’s three-year price volatility when markets opened in 1992 averaged 25%. Today it's 13%. Meanwhile, foreign ownership has grown to 32% from 6% over the same period. China may never see foreign ownership on such a scale, but even a more moderate change could accelerate a shift to a more stable capital-market structure.

Ultimately, China's growing participation in the global economy would mean increased outward investment, which the U.S. needs to attract. Giving Chinese investors the confidence to enter the U.S. market could draw an even larger share of the $55 billion China made in foreign direct investment during the first half of this year. These investments are increasingly coming from smaller, private, entrepreneurial companies, creating investment flows and American jobs in unexpected and underinvested places. Innovative Chinese companies such as Wanxiang and Nanjing Zijin-Lead Electronics are already going global, bringing investment and creating jobs and economic
vitality in Elgin, Ill., and Dothan, Ala.

While China and the U.S. remain at loggerheads on many political issues, there's no other existing dialogue between these two countries that could bring about such significant benefits and in such a comprehensive manner. There are many challenges left to overcome. Differences on national security, cybersecurity and intellectual property are formidable and not easily resolved. But both sides must harness the momentum and progress they've achieved so far and not let go of this historic opportunity to more closely link together the world's two largest economies.


Clash of the currencies; If the yuan competes with the dollar

WHEN will the yuan rival the dollar? Many in China think it only a matter of time. Chen Yulu, a leading economist, says it will take 15 years. Wei Jiangguo, deputy head of a major think-tank, puts it at 20. Officials are more circumspect: currency internationalisation will be a long process, its pace determined by the market, says Zhou Xiaochuan, the central-bank governor. Outside China, opinions are more divided. Some think the yuan is already on the verge of displacing the dollar in Asia; others predict it will never get there.

What difference would it make if China's currency did vie with the dollar for global pre-eminence? Scholars have looked for clues in the transition from the pound to the dollar, but that took place around the middle of last century in a very different context. The dollar and the pound were both convertible into gold at fixed rates, making the leap of faith for those switching from one to the other much less of a risk. Today, reserve currencies are not backed by gold. Their value is more slippery--a function of supply and demand. What is more, the shift from the pound to the dollar reflected a passage of economic power, one that had started many decades earlier, between two allies with shared democratic values and economic ideas. China's leaders talk of the yuan's internationalisation in peaceful terms. A more diverse monetary system will breed financial stability for the world, they say. But China's rise poses a bigger threat to America than America's did to Britain. For all the paens to mutually beneficial development, China is a possible adversary, governed by an autocratic regime with a statist approach to the economy. Some in China thus take a darker view of how competition between the yuan and the dollar will play out. Song Hongbing, author of "Currency Wars", a conspiracy-laced series of books, foresees America fighting the yuan every step of the way. That has been shown to be wrong, so far. Over the past five years China has built a network for yuan-trading around the world, and America has not tried to thwart it. But a glimpse of the potential for conflict came last year when America tried, unsuccessfully, to persuade its allies to stay out of the Asian Infrastructure Investment Bank, launched by China. America is pushing for a Pacific trade deal that excludes China. And it is striking that among the many yuan-trading hubs established by China, from London to Singapore, the one glaring hole in the network is New York.

A global yuan would also win China more respect. China has shown that it wants to be seen as a good citizen of the world at times of trouble. In 1997-98, during the Asian financial crisis, and in 2008-09, during the global one, it locked the yuan in place against the dollar. This reassured other countries that it would not use depreciation as a crutch for its economy. As international use of the yuan increases, China will be in a position to do more, by serving as backstop to the global financial system. When Lehman Brothers collapsed in 2008, the Federal Reserve provided emergency swap lines to banks around the world. If a crisis hits in two decades' time, China could play a similar role. It is assembling the framework to lend such support by establishing currency swaps with many nations, from Argentina to Russia. The economic consequences of the yuan's rise would be momentous. The "exorbitant privilege" that goes with being the issuer of the dominant currency would ebb for America. Because there is so much demand for dollar assets--more than 60% of all global central-bank reserves are held in dollars--America and companies based there can sell bonds for higher prices than they could otherwise. Since bond yields move inversely to prices, this means it costs less for Americans to borrow--so it is easier for the government to fund its deficits and
for firms to raise money. How much is this exorbitant privilege worth? Researchers found that yields on American ten-year treasury bonds were as much as a percentage point lower in the early 2000s thanks to the dollar's status. America is also able to issue all its debt in dollars. The currency mismatch that often triggers debt crises in smaller economies is thus off the cards; the Federal Reserve can simply print more dollars to pay off the government's liabilities. The benefits add up to $100 billion a year for America, estimates the McKinsey Global Institute. When the yuan rivals the dollar, China will eat into this pie. Investors from other countries might sell off dollar assets since they would have alternatives in the yuan; this would drive up American interest rates and weaken the economy. Researchers have shown that the Fed can mitigate but not fully counteract this effect by buying the bonds sold by foreigners. The upshot is that America would have to work harder to retain the confidence of global investors, perhaps leading it to rein in government debt.

But the changes required of China would be even more dramatic. In his account of how the dollar remained the world's pre-eminent currency despite being at the centre of the global financial crisis, Eswar Prasad, an economist at Cornell University, explains that its strength resides in America's institutions. Deep financial markets, a robust legal system and a generally transparent political process underpin the dollar. Faith in these make America and its currency a haven. China would have to build a similar complement of institutions to persuade investors that the yuan is as reliable. It would need to make its currency truly convertible, stop intervening in its exchange rate and build a big, liquid, transparent bond market. Heavy-handed intervention to prop up stocks when they recently crashed shows how far China is from developing a mature financial system. China would also, like America, need proper rule of law. This would require allowing courts to go against the wishes of the Communist Party, something unthinkable for now. And through all this, China needs to keep its economy marching forward. Stagnation would undermine the yuan's appeal. China's record over the past five years, when it began to promote yuan internationalisation, is impressive. The share of Chinese cross-border trade settled in yuan rose from nothing in 2009 to 22% last year. It is now the fifth-most-used currency for international payments. The IMF is debating whether to adjust its special drawing right, a basket of reserve currencies, to include the yuan. Still, this is a far cry from its rivalling the dollar. Some 50 central banks have invested reserves in yuan, but only in small amounts. Foreigners hold $200 billion in Chinese stocks and bonds; they have 80 times more--$16 trillion--in American securities. For now, the yuan is a bit player on the global stage. But at the start of the 20th century, so was the dollar. A global monetary system with multiple poles could in theory engender greater economic stability

Source: Clash of the currencies; If the yuan competes with the dollar, The Economist416.8949 (Aug 1, 2015): 8.

**PBOC promises effective steps for yuan stability**

Central bank officials said on Thursday they were confident of keeping the yuan stable at a rational value, promising "effective management" to deal with any extreme volatility. Yi Gang, deputy governor of the People's Bank of China and director of the State Administration of Foreign Exchange, said that "the exchange rate fluctuations have been within expectation." "After a short run-in period, the market status will return to normal,” he said. "The central bank will take effective management if unexpected volatility happens, to stabilize the market". As the spot rate is allowed to trade within a range of 2 percent of the daily fixing, the potential risk is under control, said Yi. The top regulator's commitment boosted market confidence and the yuan's tumble eased.

Offshore yuan traded in Hong Kong rebounded 1.1 percent, while the onshore spot rate slipped slightly by 0.19 percent. The daily fixing of the yuan's exchange rate against the US dollar, set by the People's Bank of China, fell by 1.1 percent on Thursday to a four-year low of 6.4010 yuan per dollar. That followed the sharpest two-day drop since 1994, making an accumulated 3.5 percent fall from 6.1162 on Monday. The shock depreciation in the currency happened as the central bank introduced a new market-oriented reference rate regime. The previous trading day's closing price, movements of the world's major currencies, and demand and supply of the yuan will now be taken into account in setting the trading midpoint. According to Yi, a more flexible exchange rate will help to achieve a balance between capital inflows and outflows. "We have our own timetable to push forward the
country's capital market reform, and that cannot be easily changed by exchange rate fluctuations. We are confident about steadily achieving our goals."

Source: Chen Jia: PBOC promises effective steps for yuan stability, China Daily, 2015-08-14

The devaluation of yuan

The People's Bank of China unexpectedly devalued the yuan. A 1.9% drop on the day of the devaluation, the biggest single-day fall in the yuan's modern history, was followed by further declines. The move unsettled global markets, prompting China to offer reassurances that this was not the start of a "persistent depreciation" of the yuan in order to boost the country's flagging exports. By introducing more flexibility to the exchange rate, China may have hoped to bolster its case for the yuan to join the IMF's basket of reserve currencies.


Li says yuan to remain stable

Premier LiKeqiang said on Tuesday that the yuan will "remain basically stable" and in equilibrium. Li said China recently improved its system of setting the daily yuan reference rate against the US dollar — part of the effort to better reflect global market developments. He added that the adjustment was part of China's ongoing reform efforts. There is no longer any basis for continued depreciation of the renminbi, he said. The yuan has depreciated about 3 percent against the dollar, prompting speculation of monetary easing by the Chinese government amid sluggish exports and weaker economic expansion. Li made the remarks during a meeting with Kazakh First Deputy Prime Minister Bakytzhan Sagintayev in Beijing. Sagintayev attended an annual meeting of the two countries' cooperation committee on Sunday.

Li admitted that the Chinese economy has, to some extent, been affected by turbulence in global markets, but said its fundamentals remain stable and economic development is still within a reasonable range. "We still have room to further implement macroeconomic policies, and China has a huge domestic market," he said. "China has the confidence to achieve major economic development goals this year under proper reform measures to stabilize and restructure the economy."

Source: Zhao Yinan: Li says yuan to remain stable, China Daily, 2015-08-26

China Currency Risks Take Back Seat

Chinese real-estate firms, among the country's heaviest borrowers in dollar-denominated debt, aren't rushing to hedge their foreign-currency liabilities even as the surprise devaluation of the yuan adds to their debt load, according to interviews with property developers, bankers and analysts. The Hong Kong-listed shares of Chinese real-estate developers are trading at their lowest in months, reflecting worries about their exposure to foreign debt. But these firms, large issuers of U.S. and Hong Kong dollar debt in recent years as the yuan rose, said the costs of hedging their exposure to overseas currencies isn't worth it. The yuan is down 2.9% since Beijing's move to devalue it this month, having retraced some of its losses after China injected cash into the financial system. In contrast, hedging, based on the interest charged on cross-currency swaps, could cost as much as 3.7% of the U.S. dollar debt that is being hedged.

Chinese real-estate firms have been starved of cash in recent years for land purchases at home while Beijing tightened credit. Total debt for real-estate firms stands at $63 billion, according to data provider Dealogic. A broadly appreciating yuan made it easier to pay down foreign-currency borrowings, but with the yuan now falling, home builders from state-owned companies such as China Overseas Land & Investment Ltd. to riskier lower-rated firms such as Fantasia Holdings Group Co. will be exposed to currency-exchange losses as well as higher debt payments. For now, that call to hold off foreign-exchange hedging -- typically through cross-currency swaps -- makes sense. With the yuan falling, any company seeking to hedge its exposure in the currency into U.S. dollars would have to pay a higher interest rate than before. At the moment, swapping dollars to yuan would lead to a 3.7%
interest charge, so a company that wanted to hedge a billion dollars in debt would need to set aside $37 million to pay for that hedge.


**Sino-US trade in numbers**

![Graph showing Sino-US trade in numbers](chart.png)

*Source: Sino-US trade in numbers, China Daily, 2015-08-28*

**China Keeps Still-Eager Global Investors Guessing.**

As China's once-staid currency suddenly dropped sharply last week, Wall Street began sniffing around for a way to profit. A trader on Goldman Sachs's Hong Kong trading desk sent a memo to hedge fund clients highlighting one opportunity: Taking advantage of a price difference between China's onshore renminbi and its offshore version. The currency is not freely tradable, and it was trading in Hong Kong as much as 1.5 percent lower than in China. That is "assuming you can move money between Hong Kong and the mainland," the trader wrote, referring to China's capital controls. "Good luck," he signed off. In China, there is always a catch, something that even some of the world's smartest investors are just starting to learn.

The bull run was heralded as a new golden age of stocks by the state media. Until it hit a free fall that erased over $3 trillion in market value, volatility that continued on Tuesday. The currency for years was set at a relatively stable rate. Until the government devalued the currency, prompting its steepest fall in decades. "China really has always been an enigma," said Troy Gayeski, a senior portfolio manager at SkyBridge Capital, an investment firm that has $9.4 billion invested in hedge funds. "You could be dead right in the thesis and you won't make money."

The Chinese stock market's rise into the stratosphere, fueled in part by the government's encouragement, had attracted droves of hedge funds. In July and August of last year, some China-focused managers increased their
exposure to mainland stocks by as much as 50 percent of their entire portfolio, according to Mark W. Yusko, the chief investment officer of Morgan Creek Capital Management. The investment advisory firm, which has $4 billion invested in private equity, hedge funds and venture capital funds, has money in a handful of China-based hedge funds. "In the short term, we are buying the dip," Mr. Yusko said. "One of the crazy things is that -- in investing -- when things go on sale, people run out the door." Betting on China is anything but straightforward. Many like Morgan Creek opted to invest in Chinese hedge funds. Investors seeking to buy local equities directly have to get approval from Chinese regulators, by obtaining a qualified foreign institutional investor license. Big players like Goldman Sachs and Stanford University have taken this route. Several years ago, the government began to expand the program, as part of an effort to overhaul its financial system. As the market soared, many hedge funds rode the bull run, raking in profits and posting double-digit returns. At the end of the second quarter, Asia-focused hedge funds had $126.3 billion in capital invested, a record amount of money according to the research firm HFR. Chinese markets began to tumble, with stocks 30 percent off their highs at one point. By the end of July, the capital devoted to Asia-focused hedge funds had dropped by $10 billion as investors ran for the exits and losses mounted, according to HFR. Since then, it has continued to be shaky, with stocks in Shanghai down more than 6 percent on Tuesday. Casting doubt on the market reform efforts, Chinese authorities have aggressively intervened to help stop the slide. Investors got blindsided by some of the measures, including a ban on "malicious short-selling" and forcing big investors to hold their shares for six months. Stuck in limbo, hedge fund managers said they were unsure how they fared in the chaos. Stock market regulators suspended more than 30 different trading accounts, including one owned by the brokerage unit of Citadel, the $26 billion firm founded by Kenneth C. Griffin.

Then last week the People's Bank of China abruptly devalued its currency, veering off script and raising fresh concerns about the economy. The central bank typically sets a daily midpoint for the currency, allowing the renminbi to trade within a narrow band. On Aug. 11, the initial price was roughly 2 percent lower, dropping 4.4 percent by the end of the week. The currency usually moves just a fraction of a percent. Despite the recent tumult, the China story continues to enchant Wall Street. The billionaire hedge fund manager Julian H. Robertson announced last week that he was putting money into Yulan Capital Management, a firm that focuses on companies in the greater China region. While Mr. Robertson declined to comment directly on how much he invested, his firm, Tiger Management, typically makes seed investments of $25 million and takes an equity stake. "Asia, in general, and China, in particular, offer great opportunities for hedge funds, both on the long and short sides," Mr. Robertson said in an emailed statement. CDIB Capital International Corporation, the private equity arm of China Development Financial, raised $405 million last month for a fund focused on private equity opportunities in China and other Asian markets. It is the fourth Asia-focused fund that the firm has started this year. The fund will focus on Chinese consumption, as well as companies with innovative models and advanced manufacturing operations, said Chris Lerner, a Shanghai partner at Eaton Partners, the firm that helped CDIB Capital raise money for the fund. For example, the fund could focus on Taiwan, where the economy is intertwined with China; seven of the top 10 exporters in China are run by Taiwanese entrepreneurs, Mr. Lerner said. "People want to play China, but it's much harder to play China because you don't know the rules and they change all the time," Mr. Bergmann said, referring to capital controls there. "Do you realize how volatile these things are?" he added. "You could lose your shirt." Investors ultimately know they cannot ignore China, given its size and influence. Ray Dalio, the founder of the world's biggest hedge fund, the $160 billion Bridgewater Associates, recently tempered his enthusiasm for China, saying the firm did not properly anticipate how quickly the stock bubble would deflate.


Chinese buyers are welcome in Europe

Yet after last month's market crash, in which about 30 percent was knocked off the value of Chinese shares prior to government intervention, real estate industry insiders predict that Chinese investors will be looking to
further diversify their portfolios by pumping money into European property. "There is anecdotal evidence that Chinese buyers have intensified their interest in global property markets, including London, as a result of the recent stock market volatility," said Tom Bill, head of London residential research at Knight Frank LLP, a property consultancy founded in 1896. Brian O'Connor, director of Adhoc Immobilien, a Berlin real estate agency in Germany, echoes this. The value of investment in overseas property by Chinese individuals and companies rose from $600 million in 2009 to about $15 billion in 2014, according to estimates by Knight Frank. The company said Chinese buyers accounted for 11 percent of all transactions above 1 million pounds ($1.55 million) in London last year, up from 4 percent in 2012.

A separate report released in January by the United Kingdom property consultants Savills states that 70 percent of real estate purchases in London last year involved foreign buyers, with transactions totaling 14.6 billion pounds. China ranked second only to the United States in terms of the nationality of buyers in the UK capital, with American investors putting 3.4 billion pounds into the market compared with Chinese investors' 2.2 billion pounds. "London has always been a magnet for overseas investment, whether it was from the Middle East, the US or from around Europe. Chinese investment is the newcomer," said Eric Pang, head of the China desk at Jones Lang LaSalle Inc, an investment management company specializing in real estate. Offices, hotels, apartments and mixed developments have proven so far to be the most attractive assets for Chinese buyers. For example, Dalian Wanda Group, one of China's largest conglomerates, invested 700 million pounds in June 2013 to build a five-star hotel beside the River Thames, which runs through the city center. Chinese state-owned developer Greenland Holding Group announced early last year it will invest 1.2 billion pounds in two overseas development projects in London. They include a residential building on the historic Ram Brewery site and a high-end residential project in Canary Wharf. China's banks also like London. Last June, China Construction Bank paid 110 million pounds to acquire No 111 Old Broad St in the city's financial district, known locally as the City.

And it is not only a UK phenomenon. "Interest from Chinese investors in European property has been constantly rising for the past two, three years," said Sebastian Fischer, managing partner at estate agency Engel & Voelkers in Berlin. "Institutional buyers are mainly looking for large investment properties, while private individuals generally want apartments. "European property has always been a well-functioning asset and is highly attractive from a Chinese portfolio management standpoint. Interest has risen due to the weaker euro and insecurities on Chinese stock markets." Paloma Perez Bravo at E& V's office in Madrid added that there has also been an increase in Chinese investment in Spain. "Three percent of overseas buyers were from China in 2013. The following year it was 3.4 percent. We don't have the statistics for this year yet, but we expect it to be about 4 percent. So Chinese buyers are increasing year-on-year," she said. "In Q2 this year, we had many Chinese buying houses in Madrid. In Q4 2014, it was a very good time, as a lot of Chinese people came to ask about properties." As in London, Dalian Wanda showed its ambitions to go global last year by acquiring the Edificio Espana, a Madrid landmark that was Europe's tallest building when it was completed in 1953. The company paid Grupo Santander 260 million euros ($282 million) to secure the historic structure. Walter Boettcher, research director and economist at global realtors Colliers International, based in the UK, said: "When we (Europe) went into the financial downturn, there was a lot of uncertainty, so obviously the Chinese, like many other foreign investors, were looking for safe places to invest. There was a bit of a push factor, too. "The Chinese (companies) realized they were very exposed to dollar-denominated economies, and in some measure they were looking at the UK, and even Europe, as a means of diversifying their exposure to various currencies." Air pollution and health and social services issues have also led many Chinese individuals to buy property in the developed countries to which they may eventually emigrate.

"What's more, the Chinese government is encouraging companies to go out and invest in overseas markets," added Rasheed Hassan, director of cross-border investment at Savills. Insurance giant China Life is one of the biggest corporations to follow that advice, buying No 10 Upper Bank St - an iconic skyscraper in London's Canary Wharf - for 795 million pounds last year. Simon Barrowcliff, executive director of central London capital markets at CBRE, a commercial real estate company, explained that, initially, the acquisitions were for occupational reasons,
such as Chinese banks that had expanded into the UK buying their own headquarters in the City. The influx of Chinese capital into London and other major European cities that is expected to follow the stock market crash in China will have a dramatic effect, some analysts said. They believe the investment will potentially attract even more money to the real estate industry and create tens of thousands of jobs.