China News in Brief

December, 2011

Compiled by Yimin Zhang, University of Shanghai for Science and Technology and distributed by the Kiebach Center for International Business Studies, Whitman School of Management
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CPI hits 14-month low

Consumer prices in China rose by a lower-than-expected 4.2 percent in November, subdued by the cooling economic expansion which remains endangered by Europe's deepening debt crisis. The nation's consumer price index (CPI), a main gauge of inflation, dropped sharply in November to a 14-month low of 4.2 percent, from 5.5 percent in October, after hitting a 37-month high of 6.5 percent in July, according to data posted on the website of the National Bureau of Statistics (NBS) on Friday. In the January-to-November period, consumer prices jumped by 5.5 percent year-on-year, the bureau said. Food prices, which account for about 30 percent of the products and services monitored for the CPI statistics, increased by 8.8 percent in November compared with last year - the figure was 11.9 percent in October. Pork prices declined by 5.3 percent month-on-month, and vegetable prices by 6 percent, the NBS reported.

The producer price index rose 2.7 percent year-on-year in November, a 23-month low, from 5 percent in October, because of falling international commodity prices and shrinking domestic and overseas demand, according to the NBS. Industrial output growth rose by 12.4 percent year-on-year, according to the NBS, the slowest pace in more than two years, indicating rapidly weakening economic growth. Last month, growth in fixed-asset investment slowed to 24.5 percent, 0.4 percentage points lower than in October. Real estate investment growth dropped to 29.9 percent in November from October’s 34.2 percent, according to the NBS statistics.

On Dec 1, the central bank announced that it would lower the reserve requirement ratio (RRR) for commercial banks by 50 basis points, the first cut since December 2008. Many economists predicted that monetary policy may ease further in 2012, including at least two cuts in RRR in the first half, because of the gloomy outlook for the global economy. The US government will probably embark on a third round of quantitative easing next year if Europe slides into a recession and the US housing market continues to fall. This could increase market liquidity and bring imported inflationary pressure to China.

Source: Chen Jia, Hu Yuanyuan and Yu Ran: CPI hits 14-month low, China Daily, 2011-12-10

China to maintain prudent monetary policy

China will maintain its prudent monetary policy and proactive fiscal policy in 2012, according to the annual central economic work conference that closed on Wednesday. The main theme of next year's economic and social development will be "making progress while maintaining stability," according to a statement issued after the conference. The country will ensure that macroeconomic regulation policies and overall consumer prices remain "basically stable," and will guarantee the steady growth of the economy and maintain social stability, according to the statement.

Source: Xinhua: China to maintain prudent monetary policy, 2011-12-14

Drive underway for transparent data

The headquarters of the National Bureau of Statistics (NBS) will collect data directly from more than 600,000 businesses nationwide starting next year. The move is aimed at bypassing the influence of local governments and obtaining more accurate economic figures, said Ma Jiantang, the NBS chief, on Friday. The annual statistics for 2011, including GDP and industrial output, will be calculated under the new system for the first time, Ma said at the annual National Statistics Work Conference in Beijing. The NBS plans to release the figures in March. "It is the most
dramatic revolution in China's statistics system in 60 years," Ma said. "Only businesses will be allowed to report or modify the data," he added. The bureau is building a database of qualified enterprises in the industrial, retail, service and real estate sectors. Those companies' accountants will be obliged to obtain the relevant qualifications before they report data to the NBS. The data will be uploaded through the Internet and automatically calculated by the processing system.

Vice-Premier Li Keqiang recently urged an acceleration in the reform of statistical methods and a decrease in administrative interference in economic indexes. Accurate statistics will help provide efficient adjustments to the macroeconomic policies for stabilizing consumer prices and promoting economic growth, Li said.

Source: Chen Jia: Drive underway for transparent data, China Daily, 2011-12-24

**Economy Faster growth mode shift urged**

China’s top economic planner on Wednesday said the country will further accelerate the shift of the economic growth mode, as against inadequate consumption and high energy use. Zhang Ping, head of the National Development and Reform Commission (NDRC), made the remarks when reporting to the Standing Committee of the National People Congress, the country’s top legislature. Zhang said the government will focus on raising people's incomes and improving their expectations in economic situations in a bid to expand domestic demands, especially household consumption. Domestic consumption’s contributions to economic growth is still limited. Although the China’s retail sales jumped by 15.5 percent and 18.3 percent in 2009 and 2010, respectively, compared to the previous year, the final consumption expenditure as a percentage of GDP is in decline, according to Zhang.

China has achieved an economic take-off through extensive economic growth in the last three decades, however, it has cost a lot in environmental damage and resources. Shifting the growth mode can make the economy achieve sustainable development. Industrial structure should be further optimized, and science and technology innovation should be accelerated, Zhang said in his report.

He has also called for enhanced environmental protection and further energy saving and emissions cuts, saying that the eco-system remains fragile and energy consumption high despite the positive achievements made in the 11th Five-Year Plan period from 2006 to 2010.

Source: Xinhua: Economy Faster growth mode shift urged, 2011-12-29

**Lex_RRR-rated in China**

There was something almost mischievous about China’s surprise cut in its banks’ reserve requirement ratio, at 7:03pm Beijing time on Wednesday. True to form, this put a rocket under Asian equities on Thursday. In his nine years as governor of the People’s Bank, Zhou Xiaochuan has repeatedly stressed his desire to work towards market-determined rates of interest. But deposit rates are still subject to a cap and lending rates to a floor.

Guaranteed interest margins – an average spread of 324 basis points between deposits and loans since 2005 – mean that commercial banks do not compete so much on their ability to assess risk, as on their ability to anticipate state directives about the pace and direction of new lending. Investors seem wise to this. Judging by the negligible reaction in market prices to interest-rate adjustments in recent years, markets realise that the really significant policy turns are still signalled through loan quotas and the RRR: the proportion of deposits that must be
S&P boosts ratings of BOC, CCB above those of US counterparts

Standard & Poor's Financial Services LLC (S&P), a major international rating agency, gave Bank of China Ltd (BOC) and China Construction Bank Corp (CCB) higher ratings than their US counterparts on Wednesday after it revised rating criteria. The two major Chinese State-owned commercial lenders were upgraded to A from A-, while the A rating on Industrial and Commercial Bank of China Ltd (ICBC) remained unchanged.

The changes reflect the "very high" likelihood of extraordinary government support for the lenders if they experience financial distress, because the government tends to treat the banking sector as a lever to realize its economic goals, and banks have a "very strong" link with the government, said S&P in separate statements.

Most big US banks, however, were given lower ratings after the criteria adjustment started three years ago. S&P lowered ratings of Goldman Sachs Group Inc and Bank of America Corp from A to A- on Wednesday, the seventh level of investment grade, and cut Morgan Stanley, Citigroup and Bank of America's Merrill Lynch unit to A- from A, and reduced JPMorgan Chase & Co one level to A. S&P said the European debt crisis and negative outlook on the US sovereign ratings have influenced the ratings outlook of the banks. It also reduced UBS AG and Barclays PLC to A from A+, and cut HSBC Holdings PLC to A+ from AA-.

S&P's new criteria put more emphasis on the strength of each nation's banking system, and each country is assigned a grade that serves as a starting point for the nation's banks, according to Bloomberg.

Shares of ICBC, CCB, BOC and Agricultural Bank of China Ltd declined by an average of 26 percent on the Hong Kong Stock Exchange this year, and banking equities ran into turbulence in recent weeks in Shanghai. CCB shares dropped by 0.85 percent on Wednesday in Shanghai, while those of BOC fell by 1.71 percent.


Banks still pushing to maximize lending

Chinese banks are still trying to lend as much as possible, which is likely to lead to more non-performing loans, said a source close to government decision-makers on Monday. "It would be very hard for the central bank to rein in banks' strong desire to lend. Banks should take responsibility for possible non-performing loans instead of seeking help from the government," said the source, implying that more loans would mean more risks. In the final two days of November, the four large State-owned commercial banks suddenly accelerated lending, extending about 70 billion yuan ($11 billion), compared with loans of 100 billion to 140 billion yuan during the first 28 days. Dong Wenbiao, board chairman of China Minsheng Banking Corp, said banks would always tend to lend as much as possible because, under the current regulations, they must rely heavily on net interest margins to make a profit.

In November, the International Monetary Fund warned that Chinese lenders could face
systemic risks if several large shocks took place simultaneously. Chief banking regulator Shang Fulin has told lenders to take action to curb the effects of possible defaults resulting from local government budget shortfalls and slower sales for developers, Bloomberg reported in November.

Related Stories
Source: Wang Xiaotian: Banks still pushing to maximize lending, China Daily, 2011-12-13

**Provincial borrowers defer loan payments**

China’s biggest provincial borrowers are deferring payment on their loans just two months after the country’s regulator said some local government companies would be allowed to do so. Hunan Provincial Expressway Construction Group is delaying payment on 3.11 billion yuan ($490.5 million) in interest, documents governing the securities show this month. Guangdong Provincial Communications Group Co, the second-largest debtor, is following suit. So are two others among the biggest 11 debtors, for a total of 30.16 billion yuan, according to bond prospectuses from 55 local authorities that have raised money in capital markets since the beginning of November.

As local governments delay payments for projects commissioned as part of the stimulus to ward off recession in 2009, less money is available for bank lending even as China is taking steps to inject more into the economy. The central bank has held interest rates at 6.56 percent since July to boost the economy, while the US Federal Reserve and the Bank of Japan have kept benchmark rates near zero since 2008. Local governments had 10.7 trillion yuan in debt at the end of last year, 79 percent due to banks, according to the country’s first audit released in June. So-called local financing vehicles that meet collateral requirements can have a one-time extension on their loans, Zhou Mubing, vice-chairman of the China Banking Regulatory Commission, said at a conference on Oct 24 organized by the Internet portal Sina.com.cn, according to a transcript of his comments on the website.

Local governments in China set up the financing companies to pay for the construction of roads, sewage plants and subways after they were barred from directly issuing bonds and obtaining bank loans under a 1994 budget law. Benchmark 10-year government bond yields fell three basis points from 3.5 percent to 3.47 percent. The yield premium over similar-maturity US Treasuries has narrowed to 161 basis points, from a high of 237 on Sept 22, according to data compiled by Bloomberg starting in 2005. The extra yield required to hold Hunan Provincial Expressway’s 900 million yuan in 2012 bonds has increased to 308 basis points from 151 basis points on June 21, when they were issued. That compares with a current spread of 11 basis points on Shenzhen’s five-year direct municipal bonds. Even after the reduction in interest payments, Gansu Provincial Highway said that interest and principal payments in 2011 will amount to 3.33 billion yuan, more than its 2010 cash flow of 3.04 billion yuan, according to bond-marketing materials.

Source: Henry Sanderson and Michael Forsythe: Provincial borrowers defer loan payments, China Daily, 2011-12-26

**Reforms to target income tax system**

Fundamental reforms of China’s personal income tax system are expected to be put into place in three years, a senior expert said. The reforms are likely to introduce a tax system based not only on a person’s annual income but also on economic burdens or expenses in families. The
current personal income tax system, by contrast, sets a nationwide threshold and does not take individual economic expenses into account, the expert said. Jin Dongsheng, deputy director of the semi-official tax institute under the State Administration of Taxation, said the existing system is "far from the goal of income redistribution" and needs to be revised to be fairer.

The continuing reform process, Jin explained, is tackling problems higher up in the system, but technical problems remain before the changes can take effect. "The third phase of the Golden Tax Project is going to be completed soon," he said. "Once established, it will enable the taxation authority to track the sources of people's income, even if they are paid by more than one employer in different regions. "By collecting valid information on a person's income and expenditures, the system will serve as a basis for the coming tax changes." The Golden Tax Project, a network connecting the national tax system with provincial and township revenue bureaus, is designed to prevent tax evasion by enabling the system to check a person's tax payment with his or her ID number. China's revenue from personal income tax totaled 483.7 billion yuan in 2010, accounting for 6.3 percent of the country's tax haul, the Ministry of Finance said.

Source: Zhao Yinan: Reforms to target income tax system, China Daily, 2011-12-12

Tax reforms to have larger place on the agenda

More tax reforms are on the 2012 agenda as part of China's "positive fiscal policies" intended to restructure and balance the economy, the annual top planning conference said. The 2011 Central Economic Work Conference agreed on Wednesday to highlight the role of fiscal tools, including "structural tax cuts", in the country's policy guidelines for the next year amid global and domestic uncertainties. The conference called for stronger management of expenditure and local government debt and strengthening of county-level financial resources.

An important part of the plan involves five tax reforms: a pilot program for the value-added tax; one to the property tax; adjusting the scope and structure of the consumption tax; expanding resource tax reform and studying the feasibility of an environmental tax. Tax reform got greater emphasis this year compared with the 2010 conference, which called for reforms in personal tax, value-added tax and resource tax.

China raised the threshold for its personal income tax from 2,000 yuan ($314) a month to 3,500 yuan, excluding 60 million taxpayers from the system. It also shifted the basis of the oil and natural gas tax to value nationwide from volume, which raised the tax rate by about 10 times. "There will be more resources, such as coal, to be taxed by value of production because easing inflation gives more room for tax reform," Liu Shangxi, deputy director of the finance ministry's Research Institute for Fiscal Science, told China Daily. Liu said it hasn't been decided whether the property tax pilot program in Shanghai and Chongqing would be extended to more areas or nationwide, but the tax would continue to serve as a means of regulating the housing market rather than a new source of fiscal revenue. "As for the consumption tax, the key of the reform lies in changing the scope of assessment. For example, to redefine 'luxury goods' by moving some cosmetics products off the list," Liu said. Environmental taxes, such as a carbon tax, are still in the research phase and will not necessarily be implemented in the next year, but such taxes will eventually replace some administrative fees, Liu said. Value-added tax reform, or replacing the turnover tax with a value-added tax, will see its first pilot program in Shanghai starting on Jan 1. Liu said that this move would resolve the issue of duplicate taxes and lower the tax burden,
especially for the service sector. Tax burdens on the agricultural and processing sectors should be eased to stabilize food prices and ease inflationary pressure, Meng said.

Source: Wei Tian: Tax reforms to have larger place on the agenda, China Daily, 2011-12-15

**China to continue tax-cut efforts**

China will further its efforts to make adjustments in tax reduction policies next year in a bid to improve people’s livelihood, China’s Minister of Finance Xie Xuren said at a work conference. While laying out the roadmap for next year’s tax-cut policies, Xie said the ministry will focus more on reforms in the taxation system in 2012 to build up a mechanism that is conducive to the country’s economic restructuring. The measures will include lowering tariffs to encourage imports of energy, resources, high-tech equipment and key components, Xie said.

According to a statement by the Ministry of Finance (MOF) earlier this month, the average tariff on more than 730 kinds of imported goods will be lowered to 4.4 percent as of January 1, 2012. Another reduction policy to go into effect next year states that the corporate income tax base by micro-and-small-sized enterprises will be halved while the tax rate will remain 20 percent, as part of the country’s efforts to ease their financial strains, Xie said. He stressed that the ministry will clear up unreasonable and illegal tax items to ease burdens on businesses and communities, adding that it is also mulling policy adjustments in some other categories next year, including resources tax, consumption tax and property tax.

Meanwhile, Xie said that in 2012 the ministry will work to better its role in income distribution management, increase the income of vulnerable groups and gradually lift the share of personal income in the distribution of national income.

Source: Xinhua: China to continue tax-cut efforts, 2011-12-26

**Growing pains; Insurance in China**

By any reasonable measure, China is an insurer’s dream. With premium income topping 1.5 trillion yuan ($220 billion), the market is enormous. It is also growing fast, with the life-insurance sector alone doubling between 2007 and 2010. And insurance penetration (premiums as a share of GDP), remains extremely low. So why is it that both domestic and foreign insurers seem to be struggling? Chinese firms are now experiencing serious growing pains. To get an idea of the problems, take a look at the prospectus offered by New China Life, a big local insurer, for its dual share placement, which will take place shortly on the Hong Kong and Shanghai stockmarkets. By its own admission, the company needs to raise equity because of a capital shortfall. This shortfall is caused by rapid growth: when you sign up vast numbers of new clients, your potential liabilities shoot up instantly, while the extra premiums roll in only gradually. (Another reason for the capital shortfall is that New China’s investments in domestic Chinese shares have done badly.)


**New CSRC chairman signals crackdown on insider trading**

In his first public speech since being named as China’s top securities regulator, Guo Shuqing said on Thursday that supervision of the country’s securities market will focus on cracking down on insider trading. “Here we make a solemn declaration: the CSRC has zero tolerance for insider trading and crimes in the securities and futures markets,” said Guo at the 9th Forum on Financing
for Small and Medium-sized Enterprises in Shenzhen. "We will resolutely crack down on every securities crime we discover." Many investors and observers consider investor protection a crucial issue for China. They believe that regulators must address the issue to allow the country's capital market to flourish. Last month, the CSRC asked public companies to formulate more complete and stable profit-sharing plans to pay dividends to investors.

In 2007, Chen Rongsheng, the former chairman of Shanghai Prosolar Resources Development Co Ltd, raked in more than 19 billion yuan ($3 billion) through insider trading of his company's stocks. He was later sentenced to two years in jail. So far this year, the CSRC has investigated 82 securities market cases, with insider trading accounting for more than half, according to figures published on Tuesday. The commission has imposed fines totaling 335 million yuan and banned eight investors from the market.

Guo admitted that China's 31-year-old securities market still has many "obvious" shortcomings. For instance, market players have a poor sense of honesty and legal compliance because of a lack of internal control mechanisms. More importantly, he said the concept and pattern of supervision trails the market's fast development, adding that law enforcement should be more efficient, prompt and authoritative. Guo encouraged investors to provide the commission with leads and testimony about wrongdoing to improve law enforcement.

Source: Gao Changxin: New CSRC chairman signals crackdown on insider trading, China Daily, 2011-12-02

**Shanghai Shipping Exchange works to lower risk**

The Shanghai Shipping Exchange on Wednesday began offering derivatives meant to protect shippers from the risks posed by the fluctuating cost of shipping coal on two domestic routes. The derivatives will apply to dry-bulk carriers that have deadweight capacities of 40,000 to 50,000 tons on routes going from Qinhuangdao to Shanghai and Guangzhou. A freight rate is the price charged for taking a certain piece of cargo from one place to another. The new derivative will be settled in yuan in accordance with a freight-rate index the exchange also introduced on Wednesday. The derivatives will be sold in lots, one of which will be equal to 100 tons of cargo. The exchange will require 20 percent of margin from each trader.

Coal freight rates on the two routes tend to fluctuate widely. Every year, more than 400 million tons of thermal coal is shipped on the two routes at rates varying from 20 yuan to 160 yuan a ton, according to the exchange. If the new derivative proves popular, the exchange will consider introducing similar products for more routes and more goods. The Shanghai Shipping Exchange began to develop quickly after the city adopted a plan to build itself into a global financial and shipping center by 2020.

Six months ago, the shipping exchange began offering China's first forward freight-container contracts - derivatives also used to control risk. The index for the container freight will be based on shipping rates on routes between China and the Americas and China and Europe. About 100,000 lots of those contracts are traded on the exchange each day. This year, about 7.53 million lots have been traded on the exchange over the course of 110 trading days.

Source: Gao Changxin: Shanghai Shipping Exchange works to lower risk, China Daily, 2011-12-08

**Hendry's ?China short? fund makes big returns**

Shorting the credit of companies positioned to do badly from a Chinese slowdown has
proved to be one of the hedge fund industry’s most successful trades of 2011. Hugh Hendry, the outspoken UK hedge fund manager known for his bearish, often contrarian views on the global economy, has seen his “China short” fund rack up gains of more than 52 per cent so far this year, investors have told the Financial Times. The gains compare with a loss for the average hedge fund of 4.37 per cent over the past 11 months, data from Hedge Fund Research released last week show. Mr Hendry began raising concerns about a Chinese slowdown in 2009 – even uploading a homemade video on to the video sharing site YouTube based on a visit to deserted Chinese real estate developments.


**China market regulator in show of strength**

China has exposed its biggest case of stock market manipulation in a show of strength by the securities regulator, which has vowed to crack down on illegal trading. An investment company was accused by regulators of running “pump-and-dump” schemes related to 552 different stocks for a profit of Rmb426m ($67m). The company, identified by the China Securities Regulatory Commission as Guangdong Zhonghengxin, was a small participant in the industry, but the prominence of reports about the case in the country’s financial newspapers yesterday suggests the authorities wanted to have a big impact. Although Chinese stock markets have matured in recent years, they are still rife with fraud, from insider trading to falsified financial reports.

The public security ministry said securities crimes involved more than Rmb200bn from 2002 to 2010. But while Beijing has tackled some small cases of violations, it has done little to root out the insider trading analysts say is common.

Source: Simon Rabinovitch in Beijing: China market regulator in show of strength, Financial Times, Dec. 12, 2011

**Guo pledges to clean up China’s securities mart**

"A new broom sweeping clean" is how some analysts have described the recent high-profile crackdown on market irregularities by China’s newly appointed top securities regulator. On Friday, the CSRC publicly announced investigations into six securities market cases. The moves come after Guo, who moved to the CSRC from China Construction Bank Corp in October, made a "solemn declaration" in his maiden public speech earlier this month, stating that the commission has "zero tolerance" for insider trading and other crimes in the securities and futures market. The amounts of money involved in some of the cases - which include alleged insider trading, market manipulation and illegal investment consultation - were records in the regulatory history of the CSRC. In one case, the suspects are alleged to have manipulated 552 stocks between 2007 and 2009 and to have made 426 million yuan ($67 million) in profit. The cases indicate how the commission has beefed up its regulatory efforts, but it has been less effective in recovering misappropriated funds and compensating investors. Most of the wrongdoing reported by the CSRC this year started at least three years ago, and the commission has yet to explain how it will help investors recover their losses.

Liu Guanwu, an IPO analyst with the Beijing-based consultancy Analysys International, said China’s regulatory framework must change to give the CSRC greater powers to act as soon as irregularities are discovered. "Sometimes the CSRC wants to act more promptly but can’t. In
some cases, regulatory overlaps and conflicts of interest delay the commission’s law
enforcement,” said Liu. Meanwhile the heads of the larger State-owned investment institutions
carry more weight than the CSRC chairman, so it's hard for the CSRC to take tough action against
them, warned Liu.
Source: Gao Changxin: Guo pledges to clean up China’s securities mart, China Daily, 2011-12-13

Mainland stocks see a Year of Big losers
Two-third of investors say they’ve lost at least 20pc this
year, casting a shadow over sentiment for 2012

"Mainland investors are still ignorant, though they have lost a lot in the roller-coast market,”
said Citic Securities analyst Cheng Weiqing. "They were not aware of the bad economic
conditions when the euro-zone debt crisis took place, but many of them were still expecting a
turnaround."

"It was wrong for me to chase the rally in 2007 when the market surged at an irrational
pace,” said Coco Zuo, who bought 500,000 yuan of shares. "But I started to load up on stocks last
year when the market sentiment was bad, only to find myself getting stuck with a big loss again."

About two-thirds of mainland investors say they have lost more than 20 per cent of their
equity investments this year, suggesting another crisis of confidence in the stock market.
According to a survey by internet portal Sina, 51.8 per cent of nearly 10,000 respondents said
their investment loss exceeded 20 per cent, while 14.4 per cent reported losses of more than 50
per cent. The results added to evidence that individual investors are the main victims of the
volatile market. The benchmark slid 1.87 per cent to 2,248.59 points yesterday, to be nearly
unchanged from the level 10 years ago. Investors lost an average of 40,000 yuan (HK$48,700) in
that time, a Beijing-based hedge fund manager said.
Source: Daniel Ren in Shanghai: Mainland stocks see a Year of Big losers Two-third of investors say
they’ve lost at least 20pc this year, casting a shadow over sentiment for 2012, South China
Morning Post [Hong Kong] 14 Dec 2011: 2.

Capital market for returning yuan

The mainland on Friday launched a pilot program that will allow overseas investors to use
offshore yuan deposits to invest in the mainland’s capital markets. Calling it a landmark move,
expects said the deregulation will increase the popularity of the currency and expedite its
internationalization. The initial quota of the program, known as the RMB Qualified Foreign
Institutional Investor, is 20 billion yuan ($3.1 billion), according to the China Securities Regulatory
Commission. Some securities firms and fund companies that have subsidiaries in Hong Kong are
expected to take part in its trial run. According to the regulator, 80 percent of the quota will be
allowed to invest in the mainland’s fixed-income markets such as government and corporate
bonds while only 20 percent will be allowed to enter the stock markets.

The launch of the program comes as the mainland is experiencing emerging pressure of
capital outflows and mainland banks have seen a decline in their yuan positions for foreign
exchange purchases. The mainland’s stock markets have also been burdened by the growing
liquidity pressure, with the benchmark Shanghai Composite Index declining by more than 20
percent this year, making it one of the worst performers among major global markets. The central
government in recent years has stepped up efforts to create more investment channels for the
offshore yuan. It is part of Beijing’s ambition to raise the global profile of the yuan to reduce
reliance on the US dollar in cross-border transactions. The government is also keen on developing Hong Kong into a key center for the offshore yuan. Vice-Premier Li Keqiang in August promised a basket of measures to boost the offshore yuan market in Hong Kong.

Source: Li Xiang, Wei Tian and Gao Changxin: Capital market for returning yuan, China Daily, 2011-12-17

**Hedge fund alarm bells are ringing over China**

As the Emerging Sovereign Group, a $1bn hedge fund backed by Julian Robertson and half-owned by Carlyle, one of the world’s biggest private equity groups, told its clients in a recent note: “[We have a] gathering sense that the next act of this rolling global debt crisis may well play out in the East.” ESG sent a team for a two week “deep-dive research trip” to China in October, an investor told the Financial Times. ESG is a voice to listen to: it is one of the few hedge funds that saw the eurozone crisis coming, and has made its clients a considerable sum as a result. Its flagship fund made 39.6 per cent in 2010 and is up a similar amount this year. It is far from being alone. “In China, both the official and the HSBC PMI [a reading on manufacturing activity] suffered significant losses in November,” Brevan Howard, the world’s second largest macro hedge fund, with assets of more than $32bn under management, wrote to clients in its latest letter.

The biggest worry most have of China is not just a manufacturing slowdown, however, but the popping of a massive credit bubble, finding accurate data on which is even more difficult. In cities like Beijing or Shanghai, apartments are said by analysts to sell for as much as 30 times average annual income. Compare that with just less than six times for the worst-stricken subprime properties in the pre-crash US.

Source: Sam Jones: Hedge fund alarm bells are ringing over China, Financial Times, Dec. 19, 2011

**Wealth management market to expand**

China’s wealth management market will keep growing as the investable assets of Chinese individuals are expected to reach 62 trillion yuan (9.8 trillion) by the end of 2011, a report said Thursday. That amount will represent an increase of 14.8 percent from 54 trillion yuan a year earlier, according to the report jointly released by China Construction Bank (CCB) and the Boston Consulting Group. Fueled by swelling fortunes, China’s private banking sector has remained a bright spot in the global wealth management industry, the report said. The number of high-net-worth households, or those with investable assets over 6 million yuan, will rise to 1.21 million at the end of 2011, up from 1.03 million last year, it said. Those households will see their combined investable assets reach 27 trillion yuan, accounting for 44 percent of the country’s total. The report estimated Chinese will see their investable assets grow at a compound annual rate of 14 percent in the 2010-2015 period, markedly higher than the 5.9 percent global level. Of all high-net-worth households in China, 35 percent are from the economic hubs of Beijing, Shanghai and Guangdong province, according to the report. Meanwhile, mid-western provinces like Gansu, Anhui and Guizhou have seen the number of high-net-worth households rise faster than in other regions of the country.

Nearly 60 percent of high-net-worth individuals in China were private business owners, and they will boost demand for offshore wealth management and international asset allocation as they move more business overseas, the report projected. China’s high-net-worth individuals were most interested in fixed-income and fiduciary investment products, it said, noting that China’s
private banking sector is still in an initial stage of development despite its huge potential.
Source: Xinhua: Wealth management market to expand, 2011-12-23

**CSRC head calls for confidence in 2012**

China’s top securities regulator, Guo Shuqing, delivered a message of confidence for equity markets in 2012, in an attempt to soothe frustrated investors who booked sharp losses in 2011, the China Securities Journal reported Saturday. “We’re confident because we have a number of strong enterprises in the real economy,” said Guo, chairman of the China Securities Regulatory Commission (CSRC), at a financial award ceremony in Beijing Friday night, according to the newspaper. Guo said his confidence stems from the country’s equity markets that are the world’s second largest by market value and in lockstep with its gross domestic product, as well as a bond market that is the world’s fifth-largest. Guo’s remarks came after Chinese equity markets closed on the final trading of the year on Friday, sealing a 21.68-percent decline of the benchmark Shanghai Composite Index in 2011.

Each investor booked an average loss of about 40,000 yuan ($6,318) in equity markets both in Shanghai and Shenzhen, with a total of 6 trillion yuan in market value evaporating. Chinese enterprises raised a record high of 824.89 billion yuan in initial public offerings, rights issues or floating new shares, a figure that many investors believed weighed down the indexes and led to their losses.
Source: Xinhua: CSRC head calls for confidence in 2012, 2011-12-31

**Chinese property: a lofty ceiling**

Across the country, from the big cities of Beijing and Shanghai to the smallest regional towns, countless such complexes have sprung up in recent years as developers and local governments have rushed to capitalise on the frenzy for property. But now, following a decade-long boom and nearly two years of attempts by the central government to cool the overheated sector, the market appears to have turned. Sales volumes have slid and prices are falling as developers try to tempt reluctant buyers with discounts.

The country’s 80,000 property developers own enough land to build nearly 100 m apartments. Add this to vacant apartments for sale, according to estimates by Credit Suisse analysts, and China already has the capacity to satisfy housing demand for up to 20 years. The consequences of a crash would be dire for the wider Chinese economy and for the economies of many other countries that rely on China to fuel their own growth. Last year, property construction accounted for 13 per cent of gross domestic product, and for more than one-quarter of all investment in what is the most investment-dependent economy in history. Property directly accounts for 40 per cent of Chinese steel use; the country itself produces more steel than the next 10 producing countries combined, making it by far the most important buyer of inputs such as iron ore. Construction in China is also important for a host of other industries, from copper, cement and coal to power generation equipment. The sector “matters to an extraordinary degree for overall Chinese growth, for commodity demand, household expenditures, external trade and underlying heavy industrial profitability,” says Jonathan Anderson of UBS. He calls it “the single most important sector in the entire global economy, in terms of its impact on the rest of the world”. “The growth model China has followed for the last few years, which has involved a whole lot of property construction, is running out of steam,” says Mark Williams of Capital Economics.
“People have not priced in the coming rebalancing of China away from commodity-intensive development and this has to be bad for economies like Australia, Brazil and Chile.”

Data are incomplete but analysts say the price of an average apartment in a Chinese city is now about 8-10 times the average annual income nationwide; in cities like Beijing and Shanghai the ratio is closer to 30 times. Even at the height of the US real estate bubble in 2005, the price-to-income ratio for the whole of America peaked at about 5.1, while cities such as Las Vegas, where the bubble was biggest, saw the ratio reach 5.6, according to Zillow, a real estate information company. In the UK, the ratio peaked at about 5.8 in 2007, according to Halifax, the mortgage lender. Government policy over the last decade set up perverse incentives that almost seem designed to create a bubble, say Chinese analysts and economists. To start with, all land belongs to the state and local government officials have monopoly power over its supply. In an autocratic, opaque and corrupt system, that gives them enormous authority to decide who gets to use that land and how.


**China Property Debate Heats Up**

Over the past two years, China has taken numerous measures to curb frothy real-estate prices, including ordering banks to stop issuing loans for buyers who own multiple apartments, raising mortgage rates and imposing limits on home purchases for non-residents in major cities. Average property prices in 70 Chinese cities posted their first monthly decline in October, suggesting that a meaningful price correction is starting to take place. In its commentary on Tuesday, the People's Daily said that property prices remain high and the ratio of housing prices to income hasn't yet dropped to a “reasonable level.” "We are at the key period of macro-control and haven't achieved solid results. It's far from the appropriate time to ease policies," the paper said.

But PBOC adviser Mr.Li is concerned about the macro-economic impact of a strong property correction. "Too harsh a tightening would have an overwhelming impact on China's overall economic development," he said in the essay published by New Fortune magazine. Mr. Li suggested that China should "fine-tune" its restrictions on home purchases in some areas while maintaining an overall tight stance. According to analysts, when combined with the steel, glass and other commodities used in building apartments--and the appliances, furniture and other goods that are sold to new apartment buyers--the property market affects more than 25% of China’s gross domestic product.


**Nine employers arrested for withholding wages**

Police in the southern boomtown of Shenzhen said Wednesday that they have arrested nine people who failed to pay a significant sum of wages to their employees. They were arrested in a crackdown, co-launched by the city's police and the human resources and social security bureau, in the latest move by the city to beef up the protection of migrant workers. The 50-day campaign started on December 7, just ahead of the New Year and China's traditional Spring Festival, a time when most of the country’s migrant workers in cities plan to claim their unpaid wages before returning to their hometowns. The nine employers, eight in police custody and one out on bail, have allegedly fail to pay over 8 million yuan ($1.27 million) to more than 780 workers, said the
statement. In addition to the crackdown, police also talked to many employers and warned them not to withhold wages, it said.

China has taken various measures to ensure that wages for migrant workers are paid. In 2008 and 2009, amid the global financial crisis, the government enhanced efforts in cleaning up defaults, retrieving wages of 8.3 billion yuan and 8.9 billion yuan, respectively. Last year, the government retrieved 9.9 billion yuan for the workers.
Source: Xinhua: Nine employers arrested for withholding wages, 2011-12-29

**Chinese rush overseas for Spring Festival**

Spring Festival, to be observed in mid-January this year, is the most important holiday period in China. Traditionally the Chinese would return home to dine with the whole family on New Year’s Eve, the last day of the Chinese lunar calendar. However, many families now use the holidays to go abroad for new holiday experiences. The trend reflects a change in people’s attitudes toward the homecoming tradition. They now focus more on the holiday experience, says Li Jianxin, an assistant professor of tourism management at Beijing International Studies University. The increasing enthusiasm for outbound trips during the Spring Festival is part of the surging market of China’s outbound tourism. About 57.39 million citizens went on outbound tours in 2010, up 20.4 percent year-on-year, bringing a total of $48 billion to their destinations, according to a report from the China Tourism Academy (CTA).

With the booming economy and improved living standards, traveling, once considered a luxury, has gradually come to be seen as a necessity for the ordinary Chinese people. China has already become the largest source of tourists in Asia. The Chinese are traveling to about 140 countries and regions for tourism, says the CTA report. Rising personal incomes and consumer confidence were contributing to the surge, Professor Li Jianxin said. The increasing number of outbound tourists from China has led to countries like Japan and the Republic of Korea simplifying the visa application process for the Chinese. The boom in the country’s outbound tourism has inspired more destinations to offer better services to Chinese tourists. This way both China and those countries stood to gain, said Li Jianxin.
Source: Xinhua: Chinese rush overseas for Spring Festival, 2011-12-22

**China Considers Letting Pensions Invest in Domestic Stocks**

Some Chinese officials are pushing for a system that would allow local governments to take some of the nearly two trillion yuan ($317 billion) socked away in pension funds and invest in domestic stocks, according to people familiar with the matter. China’s securities watchdog and other government agencies have discussed a proposal that would involve setting up a new entity similar to the country’s National Social Security Fund, these people said. That fund would invest a portion of the money in the domestic stock markets on behalf of local governments, which oversee pension funds that are expected to total about two trillion yuan by year-end, the people said. Currently, local pension funds can park their money only in low-yielding instruments such as bank deposits and government bonds.

Such a plan would mark another significant step by China toward developing its still-nascent capital markets as it moves toward facilitating more capital flows across the border—a key condition for its ambition of turning the yuan into a global currency. It could also help underpin Chinese stocks: Shanghai’s main benchmark is down by about one-fifth so far this year over
concerns that domestic economic growth is slowing. It's unclear how such a fund would be structured or whether it would gain the approval of China's top leaders. Proponents will likely face skepticism because China's stock markets have been plagued by irregularities among listed companies, which could put pensioners' interests at risk, and because returns in the stock market aren't guaranteed and pensions could lose money. The plan would need approval from the State Council, China's cabinet, the people said.

Source: Wei, Lingling: China Considers Letting Pensions Invest in Domestic Stocks, Wall Street Journal (Online) [New York, N.Y], 21 Dec 2011

School bus safety rules set standards

The State Council's Legislative Affairs Office opened a public comment period on Sunday on draft safety regulations for school buses. The draft, which has 59 provisions, stipulates that local governments above the county level should take "overall responsibility" for school bus safety. It also states that education, public security, transportation and product quality supervisory bodies should properly perform their duties. The government will establish and refine mandatory technical standards for the quality of vehicles used as school buses, the draft stated.

The move comes after 19 preschoolers and two adults died on an overcrowded school bus on Nov 16. The other 43 people on the bus, which only had nine seats, were injured. In response, Premier Wen Jiabao called on Nov 27 for a bus-safety regulation to be issued within a month.

Source: Chen Jia: School bus safety rules set standards, China Daily, 2011-12-12

Rule of law breaks out in China

The rule of law is breaking out in China – if not in politics, then in business. In the past month alone, Beijing regulators have used competition law for the first time to tackle monopoly behaviour at two state-owned telecoms groups, and a Shenzhen court has used Chinese intellectual property law to question Apple’s right to sell iPads in China. And in an equally rare role reversal, a Chinese court has taken the moral high ground on an intellectual property issue.

Apple is used to having other people stealing its IP in China. But now it is cast in the role of villain rather than victim: a Chinese judge last week rejected Apple’s claim that it – and not a Taiwan company that registered the trademark first – is the rightful owner of the iPad brand in China.

In the case of intellectual property, at least, there are signs of a subtle shift in business sentiment towards the law: more companies see it as a tool to make money. China has always had a high regard for the value of intellectual property – like a burglar knows the value of your Rolex. But recently, more Chinese companies have decided that owning IP is better than stealing it. Patent filings were up an astonishing 250 per cent last year over the previous year, as more Chinese entrepreneurs are making money by asserting their IP rights in court.

The NDRC’s decision to investigate the two state-owned companies – which led them to back down and offer better pricing – is a “milestone”. The case is not over yet, since Beijing must still decide whether to accept a settlement proposed by the two companies – or fine them as much as one-10th of the turnover of their broadband units. But whatever happens, it seems clear that the law will be used more in China as a tool of competition – and not just by the regulators. On Sunday, in a speech to mark the 10th anniversary of China’s accession to the World Trade Organisation, President Hu Jintao promised to strengthen the rule of law, reduce government interference in economic activities and improve the enforcement of intellectual property rights.
Don’t expect all that to happen at once: Chinese courts still regularly distort enforcement of laws for political reasons, Beijing still tolerates the regular violation of IP rights.

**MOC to sanction concealing of market disorder**

China issued management measures to sanction local commerce authorities who conceal any market disorder, the Ministry of Commerce (MOC) announced on Monday. The measures stipulate that any local competent commerce authority guilty of concealing, lying about or failing to report unusual market fluctuations will face administrative penalties, including criminal sanctions. The MOC said the measures will take effect from Feb 1, 2012 in order to monitor and control unusual fluctuations caused by unexpected incidents in the daily necessities market.
Source: Xinhua: MOC to sanction concealing of market disorder, 2011-12-9

**Online shops sell year-end reports**

Want to impress your boss by presenting a year-end work report? You can now buy one with a click of a mouse. With the new year just around the corner, ghost writers are getting a bowl full of requests to write work reports for white-collar employees. A search for "writing year-end work reports" on taobao yielded more than 602 results. Solwa's shop charges from 50 yuan to 90 yuan (from $8 to $14) for writing 1,000 words, the final amount depending on the difficulty of the work. Reports that require professional knowledge cost more. Those who make purchases on taobao can rate the products and services they receive, and their aggregated opinions can be seen by others on the site. In the past month, Solwa received 187 responses in total, all of them rating the service as "good". One buyer said: "They (the ghost writers) did a much better job than I could have."

Besides work reports, some Internet users are seeking ideas for the plays they are sometimes asked to write to entertain their colleagues at year-end parties. A search on taobao for "writing a play for an annual work party" generated more than 500 results. And there are other concerns. Buyers of the reports are often asked to provide information about their work to make the results more credible, a practice that has given rise to fears that personal information or corporate secrets will be leaked.
Source: Xing Yu: Online shops sell year-end reports, China Daily, 2011-12-31

**Economy Climate negotiations down to the wire**

With time winding down at the Durban climate change talks, countries are narrowing their options for a balanced solution. "An outcome is still within reach as long as all the countries can take on more flexibility at this final stage of negotiation," Xie Zhenhua, China's top climate negotiator, said on Friday. Issues in question are a second commitment period for the Kyoto Protocol, creating a Green Climate Fund and starting a process to negotiate a climate regime after 2020, Xie said. "We're still waiting for a final negotiation text from the chair, with which ministers can sit down and secure an outcome," said Xie. "The final outcome should be a balanced one and needs compromise from all parties." Such an arrangement should also reflect the principle of "common but differentiated responsibilities" between developing and developed nations, and address the issue of environmental integrity, Xie said.

The European Union has also called for a roadmap leading to a legally binding deal for all
countries after 2020. "Such an arrangement needs to be further negotiated and should be something we can all accept. Calling it a 'legally binding deal' at this point of time is prejudging the negation results," he said. The EU said an increasing number of countries are joining them in seeking such a roadmap, including African countries and small island nations.

Source: Li Jing and Lan Lan: Climate negotiations down to the wire, China Daily, 2011-12-10

**Emissions trading system significant to green growth**

China’s plan to establish a carbon Emissions Trading System (ETS) is of great significance to the development of its low-carbon economy, a German climate expert said Monday. China played a very important role at the just-concluded Durban climate change conference, Ottmar Edenhofer, deputy director and chief economist with the Potsdam Institute for Climate Impact Research, said in an interview with Xinhua. Edenhofer said the results achieved in Durban went beyond his expectations. "It is a very promising starting point for an internationally and legally binding agreement... We might achieve a legally binding agreement by 2020," he said.

The expert said that, in the next 10 years, developing countries, such as China and India, should not build their transport systems, houses and other infrastructure at the price of high carbon emissions. "This highly carbon intensive capital stock would not allow us in the future to reduce emissions at a reasonable cost," he said.

China has planned to set up its domestic ETS during 2011-2015, the period for its 12th five-year national development plan, aimed at eventually using market means to reduce carbon emissions. Edenhofer said investors in China would find they have to reduce carbon emissions and save costs, adding the system would also promote green technology innovation in China.

Launched in 2005, the EU’s ETS was the first and biggest international scheme for the trading of greenhouse gas emissions allowances. The system now operates in 30 countries, covering some 11,000 power stations and industrial plants. Within the ETS, companies and plants receive emission allowances, which they can sell to or buy from one another as needed. Besides the ETS, Edenhofer said, China and Europe could closely cooperate in such fields as environment-friendly technology and carbon capture storage. "I think one of the most important challenges in the future for Europe is energy storage. How can we store renewable energy? Here we have to set up some kind of research projects and also need to cooperate with China," he said.

Source: Xinhua: Emissions trading system significant to green growth, 2011-12-13

**Daily report on PM 2.5 density soon**

Pilot monitoring showed the density of PM 2.5 in Shanghai exceeded the national standards of grade II air quality from 2006 to 2010. A daily report on PM 2.5 level in Shanghai will likely be published from next year. PM 2.5, known as the smallest and most hazardous airborne pollutant, is smaller than 2.5 microns in diameter. Getting these inside one’s lungs is harmful. Since autumn, when consecutive smoggy days severely disturbed people’s lives in Beijing and other big cities in China, it has become something of a household word associated with health concerns.

Shanghai Environmental Monitoring Center (SEMC) said on Friday that they have been carrying out pilot monitoring of PM 2.5 since 2005, and now had 24 monitoring spots in Shanghai. Monitoring results showed that the level of PM 2.5 failed to reach the national standards for grade II air quality. The national standards refer to a draft standards released by the Ministry of
Environmental Protection in November, which includes a five-grade classification of air quality on the basis of pollution indices, with grade I being the best and grade V the worst. According to monitoring statistics released by SEMC, since 2005 to 2010, the average annual density of PM 2.5 was 0.044 - 0.053 milligrams per cubic meter, failing to reach the level of grade II air quality, which is 0.035 milligrams per cubic meter. The statistics also showed PM 2.5 density in Shanghai was about the same or down slightly in the last five years.

China currently uses PM 10, or particular matter under 10 micrometers, to measure air quality, but the government authorities have been urged to apply the more stringent PM 2.5 standard, which measures this finer matter that is considered more hazardous to people's health as it can go deeper into the lungs. The Ministry of Environmental Protection said it has been considering revising the present standards, and a new index standard, including the measuring of PM 2.5 and ozone density, was scheduled to be fully implemented nationwide in 2016, with pilot projects conducted in certain regions ahead of the national deadline.

Source:  Xie Yu: Daily report on PM 2.5 density soon, China Daily, 2011-12-26

China upgrades 1st UHV transmission system

China on Friday put into operation a project extending its ultra high voltage (UHV) system to boost electricity transmission capacity from the country's energy-rich northern regions to the power-short central provinces. After the extension, the 640-km Jindongnan-Nanyang-Jingmen 1,000-kilovolt alternating grids will double the electricity transmission capacity and greatly relieve the power shortage when demand peaks in winter and summer under the Central China Grid, according to the State Grid Corporation of China (SGCC), which built the UHV lines. A total of 120 million kWh of electricity -- equal to 60,000 tons of coal equivalent -- can be transmitted daily through the grids, which run between the city of Jingdongnan in northern Shanxi province and Nanyang, Henan province and Jingmen, Hubei province in central China. As the first such grid designed and built by China, the UHV grid became operational in January 2009 and was upgraded this year.

In January this year, the SGCC said it planned to invest 500 billion yuan ($78.9 billion) to extend its UHV electricity transmission lines to six by 2015. UHV, defined as voltage of 1,000 kilovolts or higher of alternating current and 800 kilovolts of direct current, is designed to deliver large quantities of power over long distances with less power losses than traditional lines.

Source:  Xinhua: China upgrades 1st UHV transmission system, 2011-12-17

China to unveil new energy consumption strategy

China is set to unveil a plan to impose controls on total energy consumption, said Zhang Ping, director of the National Development and Reform Commission (NDRC) on Friday. The new plan, together with an energy-intensity target that has already been set for the period between 2011 and 2015, will provide policy guidelines for energy conservation and the reduction of emissions, said Zhang, without outlining a timetable. "We need to achieve a better balance between economic growth, economic transformation, energy conservation and emissions reduction," said Zhang, at the NDRC's annual work meeting, which came on the back of an extended two-week conference on climate change, held in Durban, South Africa. In Durban, emerging nations such as China were put under greater pressure to shoulder more responsibility for cutting emissions.

China has set a target of cutting energy intensity - which is calculated as units of energy for
each unit of GDP - by 16 percent by 2015 from the 2010 level. The controls will be allocated to provincial governments. The plan will not only have an impact on GDP growth but will also influence the energy structure and price. "Setting limits on energy use means putting limits on GDP," China must switch to "healthy and qualified GDP", otherwise, it will take years to digest the "junk GDP" at a high environmental cost. Earlier this month, China laid out detailed plans to control greenhouse gas emissions in the coming five years, with the national target allocated to provincial governments. As a top priority, China will actively nurture new consumption frontiers and optimize the consumption environment to boost its consumption capability and demand.

Source: Lan Lan: China to unveil new energy consumption strategy, China Daily, 2011-12-17

Family business difficult to sell

The father buys, the son builds, the grandchild sells and his son begs. So goes the saying that describes how family-run businesses evolve. But forget the grandchild and his son. For most first-generation entrepreneurs on the Chinese mainland, the headache is that their children will not build on their success, according to a survey. Of 2,093 family businesses surveyed, 73.7 percent of owners were unwilling to pass the baton to the next generation, while 50.5 percent of the rich second generation are reluctant to run the family business, according to the Chinese Family Business Report. The report was carried out by the All-China Federation of Industry and Commerce, the National Center for Private Economy Studies, the Research Centre for Chinese Family Firm and the Department of Family Business and Business History at Zhejiang University.

Li Da, an entrepreneur from Wenzhou, Zhejiang province, opened a bakery in his hometown instead of inheriting his father's cigarette lighter company that was founded in the 1980s. "My father's 20-year-old company has a set business model where I have no chance to apply my talent," said the 24-year-old, who discovered an interest in baking as a student while working part time in a bakery in Paris. "I want to bring original French pastry to local customers instead of working in a sun-setting industry." Li Da’s father, Li Zhongjian, said he was happy to see his son start his own business. "It has become common for the younger generation to refuse to inherit the family enterprise, which I understand."

Chen Ling, a professor at the Department of Family Business and Business History at Zhejiang University, said businesses created by China's first-generation entrepreneurs are faced with a "to be or not to be" situation. "Chinese family businesses, mostly in the low-end manufacturing sector, may be acquired or just simply die out," Chen said. This predicament prevented the younger generation from taking the reins. According to Chen, the next five to 10 years will witness a boom in the transfer of family wealth, since the founders, mostly in their 50s, will retire in their 60s. Some first-generation entrepreneurs hired professional managers to help their children. But this is not an easy or even popular option. According to the report, only 7.9 percent of CEOs interviewed were willing to hire professional managers, with 55.9 percent complaining about difficulty in finding suitable candidates and 34.6 percent citing the high cost. Other reasons cited included an issue of trust and legal protection.

According to the report, family businesses on the Chinese mainland, mostly small and medium enterprises located in the eastern coastal provinces, are still in the early stage of growth. However, the family business accounts for 90 percent of the private economic production on the mainland and contributes more than 50 percent to the mainland's GDP, according to Huang Mengfu, chairman of All-China Federation of Industry and Commerce.
Private businesses to be major investors in W China

Private businesses will play a major part in China’s investment growth in the coming years, and great opportunities lie in the fast-growing western provinces, a senior official said on Thursday. "The western provinces have their advantage of late-development, and will see higher rate of investment growth than the east,” said Huang Mengfu, chairman of All-China Federation of Industry and Commerce. Speaking at the conference co-hosted by the Business Association and Southwest China’s Guizhou province, which came last in the country’s GDP rank, Huang spoke in the hope of boosting the province’s economic growth by introducing more private investment.

According to Huang, private sectors now contribute to more than 55 percent of China’s total GDP growth, and 50 percent of the investment growth. But the proportion is much lower in less developed provinces, such as Guizhou, of which the private sector only accounts for around 30 percent of its economic aggregate. To emphasize the role of private investors, Vice-Premier Li Keqiang has recently called for more involvement of private capital in areas such as railways, infrastructure and social causes. "Compared to government-led investments, private capitals are more profit-oriented, that means they only go to areas where there is a higher return rate," Huang said, adding that Western China has its obvious advantages in this regard.

"We are hoping to double the size of our private sector in the next three years," said Zhao Kezhi, governor of Guizhou province. "All areas are open to private capital as long as there are no violations of the law," Zhao said.

Source: Wei Tian and Yang Jun: Private businesses to be major investors in W China, China Daily, 2011-12-23

China stresses stable grain production

Top officials of China's State Council, the country's cabinet, highlighted the long-term and stable development of grain production on Monday as rising production costs and climate change are imposing challenges. The top officials made the call at a meeting held Monday by the State Council in Beijing, which commended 200 top grain-producing counties and 700 agricultural scientists, farmers, and skilled workers who made great contributions to the nation’s grain production in 2011. Government data showed China's grain output rose to a record high of 571.21 million tons this year. The figure represented a year-on-year increase of 4.5 percent and marked the eighth consecutive year of growth for the country's grain output. Vice Premier Hui Liangyu said that 2011 also marked the fifth straight year that the nation's total grain output exceeded 500 million tons, which indicates a more consolidated foundation for food security. However, he said the grain harvest this year has not come easily, as frequent natural disasters and sharply rising production costs posed challenges.

The growth of grain output and the rise of farmers’ income will be more difficult in the coming year because of the massive output scale this year, the uncertainty of climate, and costlier agricultural production, he said at Monday's meeting, which was also attended by Premier Wen Jiabao. The officials agreed that the nation must place grain production at a "particular important" position in its economic and social development by further improving the construction of infrastructure related to grain production and agriculture and constantly
increasing subsidies for farming. They also agreed the country should continue to raise the minimum purchasing price for grains and provide greater rewards for top grain-producing counties, so that incentives can be created to boost the enthusiasm from local authorities, experts, and farmers to stabilize grain production in the world's most populous country.

The central government this year has stepped up fiscal spending on the development of agriculture and rural regions as well as on the improvement of farmers' livelihoods, in efforts to bridge gaps of wealth distribution and urban-rural development in the world's second largest economy. Xie Xuren, minister of finance, said Sunday fiscal spending from the central government for agriculture-related projects and farmers are expected to top 1.04 trillion yuan ($164 billion) this year, which represents a 21.3-percent surge compared to the figure last year. Local governments' finance departments have also implemented subsidy programs for farmers who raise live pigs and sought measures to raise farmers' incomes, such as hiking minimum purchasing prices for wheat and rice. To boost farmers' interest in farming, 140.6 billion yuan of funds were deployed to subsidize the purchase of materials ranging from machinery, improved crop varieties, to agricultural production materials. Around 227 billion yuan of funds have been appropriated to help impoverished farmers in the rural regions so far this year.

Source: Xinhua: China stresses stable grain production, 2011-12-27

**China tightens controls on microblogs**

China has made a long-expected move to control influential microblogs much more tightly with new rules that require users to register with their real names. The rules, announced on Friday by the Beijing Municipal government, also explicitly ban the tweeting of appeals for non-sanctioned gatherings and force the companies that run social networks to apply for government approval.

After the collision of two high speed trains in late July, which killed 40 people, triggered a microblog-fuelled wave of criticism of the government, the party stepped up efforts to rein in the social media. It denounced the spread of what it calls rumours through microblogs, and high-ranking officials pressured Sina, the company which runs Sina Weibo, the country’s leading microblog, into adopting stricter self-censorship measures. It has also stepped up punishment of internet users for spreading allegedly false or harmful content.

Baidu, China's largest online search engine, was using the system when it tried to build Shuoba, a real-name social media platform. The company abandoned the service earlier this year after it failed to gain traction with users and the checks, at Rmb4 (63 cents) per query, imposed an additional cost burden on Baidu. “The question is whether Sina will have to shoulder that cost – that would be disastrous for them,” said Bill Bishop, an independent investor and blogger in Beijing.


**China's Beidou starts providing services**

China's indigenous satellite navigation system Beidou started providing initial operational services, including positioning, navigation and timing, to China and its surrounding areas from Tuesday, a spokesman for the system said. Six more satellites will be launched in 2012 to further expand the service area of Beidou system to most parts of Asia-Pacific region, spokesman Ran
Chengqi, who is also director of China satellite navigation system management office, told a press conference in Beijing.
Source: Xinhua: China's Beidou starts providing services, 2011-12-27

Convergence of TV, Internet, phone to continue

China will push ahead the convergence of television, Internet and telecom services in 2012, said Miao Wei, minister of Industry and Information Technology, Monday. The government will expand pilot projects to all the municipalities, provincial capitals and other eligible cities next year, Miao said. Last year, only 12 cities were chosen for the trial, including two municipalities, Beijing and Shanghai, and four provincial capitals, Harbin, Nanjing, Hangzhou and Wuhan.

The tri-network integration, which allows users to access television, Internet and mobile phone services through a single device, was listed in the government work report last year as one of the emerging strategic industries for priority development and slated for completion by 2015. By the end of November, China's Internet protocol television (IPTV) users have exceeded 11 million, while mobile video subscribers have surpassed 40 million.
Source: Xinhua: Convergence of TV, Internet, phone to continue, 2011-12-27

Global decline drags down Chinese factories

At the Winfire cigarette lighter factory in the eastern Chinese city of Wenzhou, a big overseas client stopped new orders at the company because of global uncertainties, forcing the factory to fire around 40 of its 100-strong workforce. Millions of factories like Winfire cigarette lighter factory are being squeezed from all sides by rising costs, labour shortages, shrinking margins and a collapse in new orders from overseas.

China’s official purchasing managers’ index for November shows this trend playing out across the country as the manufacturing sector, which officially makes up about 50 per cent of gross domestic product, contracted for the first time in almost three years. The index, released on Thursday, fell to 49.0 in November, down from 51.4 in October, dropping below the 50 reading that separates expansion from contraction. Readings for both new orders, and new export orders point to even worse to come, as factories across the country are already laying off workers, buying fewer raw materials and cutting production.

The first and most obvious reason for the slump in manufacturing is the decline in global demand, particularly from embattled economies in Europe. Falling orders come as many companies are facing higher prices of raw materials, restricted access to credit and greater environmental compliance and labour costs. For years, Beijing has promoted policies aimed at moving Chinese manufacturing up the value chain and actively discouraged the state-owned banking system from lending to small, low-tech producers like Winfire. But a huge portion of Chinese manufacturing is still in low-end industries like textiles and rising costs and inadequate access to credit mean many producers are being slowly squeezed out of existence rather than climbing the technology ladder.
Source: Jamil Anderlini in Beijing and Rahul Jacob in Hong Kong: Global decline drags down Chinese factories, Financial Times, Dec. 1, 2011

China's industrial output up 12.4% in Nov

23
China's industrial value-added output grew 12.4 percent year-on-year in November, the National Bureau of Statistics (NBS) announced Friday. The figure was 0.8 percentage points lower than the October level, the NBS said in an online statement. On a monthly basis, the industrial value-added output increased by 0.91 percent. In the first 11 months of 2011, the industrial value-added output increased 14 percent year-on-year, down 0.1 percentage points from the first 10 months. In November, the industrial value-added output of state-owned and state-held companies rose 7.8 percent year-on-year, while that of collectively-owned and joint-stock enterprises expanded by 6.8 percent and 14.4 percent, respectively. In general, China’s industrial activities are retreating at a steady pace.

Source: Xinhua: China's industrial output up 12.4% in Nov, 2011-12-09

Guidelines to boost hi-tech service industry

The State Council, or China's Cabinet, issued guidelines on Friday to promote the development of the country's high-tech service industry. China is targeting an 18-percent increase in the annual revenues of the high-tech service industry over the next four years, according to the guidelines posted on the central government's website. Meanwhile, China intends to make its high-tech service industry an important engine of economic growth by 2015. And it will establish an impeccable high-tech service industry system by 2020, according the guidelines.

The high-tech service industry will play a significant role in boosting domestic demand, generating jobs, fostering the growth of emerging industries and optimizing the country's industrial structure, the guidelines said. The guidelines also noted that the industry remains in a fledgling state, despite the country's growing demand for high-tech services.

The guidelines asked relevant government departments and local authorities to properly implement the central government's policies aimed at boosting the industry's growth, improving the industry's business environment, giving favorable financial and tax policies to the industry, expanding the industry's financing channels and strengthening personnel training for the industry.

Source: Xinhua: Guidelines to boost hi-tech service industry, 2011-12-17

Border town links east and west

ALATAW, Xinjiang - Once bleak and uninhabited, Alataw Pass, the country's largest land port of entry, is getting rich. People gather in the town on the China-Kazakhstan border, which lies on the western-most point of Northwest China's Xinjiang Uygur autonomous region, to engage in trade, tourism and shopping. High export volumes of Chinese food, textiles, garments, shoes and chemical products travel through the Alataw Pass, which has rail and highway links and oil
pipelines. Imports of rolled steel, crude oil and leather products come in from central Asian countries. The trade hub has been in operation since June 1990. Thanks to the implementation of the Western Development Strategy and the opening of the Europe-Asia transcontinental railway, Alataw has become a major trading facility in West China. It handled 25.2 million tons of cargo in 2010, making up 90 percent of Xinjiang's total port cargo volume, valued at $11.9 billion. It reported 10.4 billion yuan of customs tax revenue.

Before the 1990s, Alataw could barely support plant life, let alone humans, said Jurat Abdukerim, director of the managerial committee of the Alataw Pass. Now, the Alataw Pass has more than 10,000 permanent residents and a transient population of about 20,000. The State Council approved the establishment of a bonded zone at the Alataw Pass in May. The zone, covering 5.6 square kilometers (sq km) in the Mongolian autonomous prefecture of Bortala in Xinjiang, is the 16th of its kind in the country. The first phase of the 800 million yuan project, covering 2.96 sq km, is scheduled for completion by year-end. With the new bonded zone, the Alataw Pass will evolve into a comprehensive free-trade zone with trade, processing and logistics services.

Although a large amount of imported cargo passes through the port every day, less than 1 percent of the imports are processed in the port area and only 50 percent are processed in Xinjiang. As a result, the transport-oriented economy has brought little economic benefit or regional development to the Mongolian autonomous prefecture of Bortala or to Xinjiang. Upon its completion, imports in the area will be bonded, and taxes on industrial value-added and consumption will be waived. That will provide incentives for processing and logistics companies to base themselves in the area. People are not willing to settle and work in Alataw because of the harsh climate, which experiences about 200 windy days a year. As a port of entry, Alataw is not designated as either a city or a town. There is a big gap between the port’s development and input in social undertakings ... such as money, education and medical treatment. More support from the State in policy and investment is still needed.

Official figures show China's trade with Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan reached $86.8 billion in 2010, up more than sevenfold since 2001. Xinjiang's trade volume with Central Asia reached $4.48 billion in the first quarter of 2011, up 65 percent year-on-year. Trade with Kazakhstan reached $2.7 billion, up 60.3 percent year-on-year.

Source: Shao Wei: Border town links east and west, China Daily, 2011-12-09

**SH port container traffic reaches 30m TEUs**

The annual container traffic of Shanghai port has reached 30 million TEUs on Friday, which is a world record high, according to the China Communications Ministry. Shanghai port, which started container traffic in 1978, has witnessed fast development of container traffic, with the container traffic volume reaching 10 million TEUs in 2003 and 20 million in 2006. The port became the world’s busiest port in 2010, with the largest goods volume handling capacity and container traffic volume.

Experts point out that fast development of the container traffic in Shanghai port underscores the impact of China’s sustained economic growth on global trade patterns, as well as the port’s own efforts to upgrade its traffic system and port environment to gain a better competition edge. Statistics from the ministry show that during the Jan-Nov period the country’s above-designated-size ports had handled 8.32 billion tons of goods, an increase of 13 percent to
that of the last year, and the container traffic was 149.1 million TEUs, an increase of 12 percent.
Source: Xinhua: SH port container traffic reaches 30m TEUs, 2011-12-23

**Surveys reveal sharp global slowdown as crisis worsens**

Europe's debt crisis might have pushed its economy into a far steeper contraction than anyone thought and growth in China is sputtering, according to surveys that point to a sharp global slowdown taking place. The eurozone's composite Purchasing Managers Index (PMI), while improving slightly month-on-month in November, still tallied with a 0.6 percent quarterly rate of decline for the last three months of this year.

While recession in the eurozone now looks a foregone conclusion, there are worrying signs the Chinese economy is starting to sag - perhaps unsurprising given the European Union is China's biggest export partner. Chinese service sector growth cooled in November to its weakest pace in three months, further backing a view that authorities will have to fine-tune monetary policy again.

The most recent Reuters polling of leading global economists suggests the eurozone will not survive intact in its current form, unless Europe's leaders are willing to take action on a scale not seen in the last few years. The latest Reuters poll of economists showed a 60 percent chance the eurozone would fall into recession. "Italy is faring the worst, with the survey suggesting that GDP could collapse by 1 percent in the fourth quarter, while both France and Spain are likely to see their economies contract by around 0.5 percent," added Williamson. "With price pressures easing further, Beijing can and should use policies that are targeted on small businesses and service sectors to keep GDP growth at above 8 percent for the coming year," Qu Hongbin, HSBC's chief China economist, said in a statement.
Source: Andy Bruce: Surveys reveal sharp global slowdown as crisis worsens, China Daily, 2011-12-12

**China grants $9b in tariff reductions since WTO entry**

China's import tariff reductions since the country's World Trade Organization (WTO) accession a decade ago have amounted to 57.07 billion yuan ($9 billion) by the end of October, the country's customs authority told Xinhua on Friday. In the first 10 months of this year, tariff reductions under a slew of preferential trade arrangements amounted to 18.51 billion yuan, the country's General Administration of Customs said. After China became an official member of the WTO in December 2001, the general level of the country's import tariffs lowered 15.3 percent to 9.8 percent in 2010. It has established 16 free trade areas with 29 countries or areas, and carried out 10 free trade agreements and three preferential trade arrangements.
Source: Xinhua: China grants $9b in tariff reductions since WTO entry, 2011-12-09

**Asia: All change ; China's economy and the WTO**

The World Trade Organisation (WTO), like many clubs, denies patrons the right of automatic readmission. Having quit the organisation's predecessor shortly after the Communist revolution of 1949, China had to wait 15 long years to gain entry after reapplying in the 1980s. The doors finally opened on December 11th 2001, ten years ago this week. The price of re-entry was as steep as the wait was long. China had to relax over 7,000 tariffs, quotas and other trade barriers. Some feared that foreign competition would uproot farmers and upend rusty state-owned
enterprises (SOEs), as to some extent it did. But China, overall, has enjoyed one of the best
decades in global economic history. Its dollar GDP has quadrupled, its exports almost quintupled.
Many foreigners also prospered. Yet in America, China's single biggest trading partner, sentiment
towards the country has turned starkly negative. In a recent poll, 61% of Americans said that
China's recent economic expansion had been bad for America; just 15% thought it had been good.
This partly reflects China's controversial currency regime. Foreign frustration is partly a sign of
China's success.
Source: Anonymous: All change ; China's economy and the WTO, The Economist401. 8763 (Dec

Hu urges recognition of full-market economy status

Chinese President Hu Jintao on Sunday urged other countries to recognize China's
full-market economy status as soon as possible and relax restrictions on high-tech commodity
exports to China. Hu made the remarks in a keynote speech at an forum in Beijing to
commemorate the 10th anniversary of China's accession to the World Trade Organization (WTO).
Source: Xinhua: Hu urges recognition of full-market economy status, 2011-12-12

Yuan funds for forex drop for 2nd month

The People's Bank of China (PBOC), the central bank, announced Monday the country's yuan
funds outstanding stemming from foreign exchanges dropped for a second month in November
from one month ago. As of the end of November, the nation's total yuan funds outstanding for
foreign exchanges stood at 25.46 trillion yuan ($4 trillion), down 27.9 billion yuan from the figure
at the end of October, the PBOC data showed.
Source: Xinhua: Yuan funds for forex drop for 2nd month, 2011-12-19

China's foreign trade growth slows to 17.6% in Nov

China's foreign trade rose 17.6 percent year-on-year to $334.4 billion in November this year
amid weak external demand and a slowing domestic economy, the General Administration of
Customs (GAC) announced Saturday. The year-on-year growth in imports and exports in
November was 4 percentage points lower than that in October, according to GAC data. The
November imports rose 22.1 percent year-on-year to $159.94 billion, while exports increased
13.8 percent from a year earlier to $174.46 billion, the GAC said in a statement on its website.
Trade surplus in the month narrowed 34.9 percent from a year earlier to reach $14.52 billion.
China is set to break a new record for its foreign trade volume this year. In the first 11 months its
imports and exports expanded 23.6 percent year-on-year to $3.31 trillion, far exceeding the
full-year figure of $2.97 trillion in 2010, according to GAC data. In the first 11 months, China's
trade surplus shrank by 18.2 percent year-on-year to $138.4 billion, which came mainly from the
country's processing trade in the period. On breakdown, general trade increased 30.9 percent
year-on-year to $1.75 trillion from January to November, while processing trade rose 13.4
percent to $1.19 trillion. China's trade with the United States, the country's No 2 trading partner,
increased 16.9 percent from a year ago to $405.43 billion.
Source: Xinhua: China's foreign trade growth slows to 17.6% in Nov, 2011-12-10

China: Government set to act as export expansion slides
With China's export growth continually decelerating and possibly falling to zero next year, the government is set to take action to prevent further declines, said the Ministry of Commerce on Monday. These measures include supporting exporters' drive to tap emerging markets, approving the establishment of 59 export bases, strengthening traditional industries and helping exporters in the central and western regions expand overseas. Conditions next year "will be more complicated and severe for Chinese exporters, and the task for the Chinese government in maintaining stable export growth will be harder" said Zhong Shan, vice-minister of commerce, during a foreign trade meeting in Beijing.

According to Zhong, one large step that the government will take is to do more to help exporters develop and promote goods and services in emerging markets, especially those with large populations and rich natural resources. In 2010, 36 percent of China's outbound shipments went to four markets: the United States, the European Union, South Korea and Hong Kong. But four emerging markets - Russia, Brazil, South Africa and India - accounted for a mere 7 percent of overseas sales, even though their economies showed faster growth than developed regions'.

China on Tuesday approved and announced the establishment of 59 export bases to help maintain growth in overseas shipments. These include a garment exports base in East China's Jiangsu province, an apple base in Shaanxi province and a shoe base in Zhejiang province. "Such bases make it easier to strengthen industrial chains and promote brands in different regions," Zhong said. "And it is also more efficient for global purchasers."


Trade frictions to challenge economic diplomacy

China's economic diplomacy will face growing challenges in the form of trade and exchange rate disputes, as well as the task of protecting overseas investment interests, over the next few years, experts said on Sunday. Next year will be an election year for the United States and France, and there is an increasing possibility for the two countries to use the "China threat" as an excuse for not dealing with their own economic issues, which will put Chinese diplomacy under pressure, said Ding Yifan, deputy director of the Institute of World Development of the Development Research Center of the State Council at a seminar on Chinese diplomacy. During the first half of 2012, several countries will remain in a grave debt crisis and may even see their crises deepen, Ding said, adding that this situation may create friction between China, the United States and Europe.

Additionally, protecting China's growing overseas investments will pose new challenges for the country's diplomacy, Ding said. During the past three decades, China has invested in more than 170 countries and regions, with outbound direct foreign investment topping 170 billion U.S. dollars. In the past 30 years, China has been focused on "bringing in" foreign investment; it may do more to facilitate its "going out" in the future. Chinese economic diplomacy will serve the country's economic construction and the protection of its overseas interests, national interests and security, Chen said, adding that China's position in the world is closely related to its economic diplomacy.

Source: Xinhua: Trade frictions to challenge economic diplomacy, 2011-12-19

Asia Falls In Early Trading; Focus Is on Europe
South Korean shares tumbled along with other Asian markets in early trading Monday on concerns about potential instability in the region following reports that North Korean dictator Kim Jong Il died. Markets in Asia already had been down as Europe's debt crisis and global growth worries drove exporters and commodities shares down. South Korea's Kospi Composite briefly fell 4.4% to its lowest level since mid-October, though it recovered somewhat by late morning and off 3.2% Japan's Nikkei Stock Average was off 1.0% and Australia's S&P/ASX 200 dropped 2.2% -- both tapping intraday three-week lows. Taiwan's Taiex index slipped 2.1% to 6639.74, its lowest since July 15, while Hong Kong's Hang Seng Index fell 2.5%, China Shanghai Composite slipped 2.6% and India's Sensex fell 1.7%.

In currency markets, the dollar surged against the won and was up against the yen and euro. The won hit a low of 1,199 against the dollar following the news but pared initial losses as the authorities tried to allay market jitters. The Bank of Korea was suspected of intervening to curb excessive won losses. The dollar was trading at 1,175 won late in the Asian morning. Trading in regional markets, which continue to face headwinds from Europe's debt mess and a potential crunch in demand for its key exports, remained nervous on news of the North Korean leader's death as it opens a potentially dangerous period of transition and instability for the country and northeast Asia.

Source: Navaratnam, Shri: Asia Falls In Early Trading; Focus Is on Europe, Wall Street Journal (Online) [New York, N.Y] 19 Dec 2011

China encourages use of yuan, yen in trade with Japan

Chinese Premier Wen Jiabao Sunday told visiting Japanese Prime Minister Yoshihiko Noda that China is willing to work with Japan in promoting the direct use of their respective currencies in bilateral trade. The People's Bank of China (PBOC) said on its website that the Chinese and Japanese leaders agreed to strengthen cooperation in the financial markets of the two countries and encourage more bilateral financial transactions.

Wen added that China also hopes to accelerate the process of building a free trade zone among China, Japan and the Republic of Korea as well as to boost East Asian monetary and financial cooperation. The PBOC said in the online statement that the China-Japan financial cooperation might help reduce risks stemming from fluctuations of foreign exchange rates and transaction costs during trade settlement. The Chinese central bank said that applications are currently under way from Japan to buy Chinese government bonds, but with little details provided. The PBOC also encouraged Japan to make direct RMB investments in the Chinese mainland.

Source: Xinhua: China encourages use of yuan, yen in trade with Japan, 2011-12-26

China urged to increase holdings of gold

China should further diversify its foreign-exchange portfolio and make more gold purchases when the metal's price dips but is still at a relatively high level, a senior central bank official said on Monday. "The Chinese government should not only be cautious of the imported risk caused by rising global inflation, but also further optimize its foreign-exchange portfolio and purchase gold assets when the gold price shows a favorable fluctuation," said Zhang Jianhua, director of the research bureau affiliated with the People's Bank of China (PBOC). He made the remarks in an article in the Beijing-based Financial News, a newspaper run by the PBOC.
The spot gold price declined 16 percent over the past three months to less than $1,600 an ounce last week. It touched a record of more than $1,900 in early September. Zhang said that gold had become the only "safe haven" for risk-averse investors. "No asset is safe now. The only choice to hedge risks is to hold hard currency - gold." Zhang didn't specify what proportion of China's $3.2 trillion foreign reserves should be held in gold. As of this month, China ranked sixth worldwide in gold holdings, with about 1,054 tons. The value accounted for about 1.8 percent of the country's total foreign reserves, according to a report released by the World Gold Council (WGC). The US topped the list by holding more than 8,133 tons of the metal, 76.6 percent of its foreign reserves by value, while Germany ranked second by holding 3,396 tons, 73.7 percent of its reserves. In 2011, countries including Russia, Thailand, South Korea, Bolivia, Colombia, Kazakhstan and Venezuela purchased the metal to increase gold holdings of their central banks' reserves. China didn't sell or buy gold from 2010 to 2011, according to WGC statistics. "But it's impractical for China to put its foreign reserves into commodities, including gold, because all these markets are too small for such a big hoard.

Source: Wang Xiaotian: China urged to increase holdings of gold, China Daily; 2011-12-27

Strategies of Chinese Multinational Enterprises: Observations and Preliminary Conceptualization

This paper presents a conceptual framework for analyzing differences in the motives and strategic choices of Chinese multinational enterprises (CMNEs) entering developed versus developing countries. Strategic choices focus on entry mode selection, governance structure and local marketing arrangements in the host country. Our central argument is that the motives and strategic choices of CMNEs in developed countries are more consistent with latecomer theorizing whereas the motives and strategic choices of CMNEs in developing countries are more consistent with the classic eclectic paradigm. The major contribution of this paper is to consider host country development stage as a key contextual variable in the internationalization strategies of CMNEs.


First FDI drop in 28 months

Foreign direct investment (FDI) fell almost 10 percent last month from a year earlier, the first drop in 28 months, as Vice-Premier Li Keqiang called for a boost to domestic consumption on Thursday. Amid the "grim and complicated" global outlook, China needs to strengthen market capacity and growth by encouraging private
investment, increasing investment in affordable housing projects and accelerating urbanization, Li said. The vice-premier also called for greater promotion of the service industry, which he said is the largest "employment creator and innovation driver".

According to the Ministry of Commerce, FDI fell 9.76 percent from a year earlier to $8.76 billion in November. China last witnessed a monthly drop in FDI in August 2009 amid the world's worst financial meltdown in seven decades. From January to November, US investment in China dropped by 23 percent year-on-year to $2.74 billion, and investment from the EU rose marginally by 0.29 percent to $5.98 billion. Shen Danyang, ministry spokesman, said the monthly figure may not reflect the long-term trend, which he described as positive. Shen said China's commitment to opening its market wider will help attract more investment, with high-tech and green industries offering golden opportunities for foreign firms. President Hu Jintao reaffirmed China's policy to open up as he said the policy had benefited both China and the world.

Source: Ding Qingfen: First FDI drop in 28 months, China Daily, 2011-12-16

A Safer Way to Gain Exposure to China

China's economy has swelled four times in size in a decade, but growth is slowing. Market forecasters are locked in a debate over what comes next. Bears expect falling property prices, souring loans and a hard landing for an economy that is heavily exposed to construction. Bulls say China will manage a softer transition to growth that is slower but not slow, as purchases by its middle class consumers play a more prominent role.

Deciding whom to side with is devilishly difficult. But much of the fear might already be priced into China's shares, says John De Clue, head of U.S. Bank's global strategies group. The iShares FTSE China 25 Index Fund, a popular means of investing in China, has fallen 19% this year, including a 5% slide this past week. China's economic importance is such that ambivalent long-term stock investors should move beyond the question of whether to invest and focus instead on how much, and how.

The Market Vectors China exchange-traded fund offers exposure to an index of "A" shares traded on mainland exchanges, which are usually off-limits to foreigners and have a reputation for volatility. It uses derivative securities to get its exposure, which can cause its returns to differ from the returns of the index. Over the year ended November, fund shareholders lost 20.7%, versus an 18.6% loss for the index. China shares are a good deal now, Mr. De Clue says -- but don't expect fast gains. Valuations in China "are very low," he says, "but stocks can stay cheap for a long time."


China to open more sectors to foreign investors

China will open more sectors to foreign investors, encouraging investment in strategic emerging industries, the central government said Thursday. The National Development and Reform Commission and the Ministry of Commerce jointly issued a new guideline to encourage more foreign investment into energy-saving and environmentally-friendly technologies, new-generation information technology, biotechnology, high-end equipment manufacturing, alternative energy, advanced materials, and alternative-fuel cars. The guideline will take effect on January 30, 2012.
China will cut down restrictions on foreign investment by allowing them to invest in more sectors while lifting caps on the proportion of foreign capital in some sectors, according to the new guideline. Meanwhile, the government will continue to welcome foreign investors to high-end manufacturing and modern service industries. It also encourages them to invest in recycling industries.

However, the government will withdraw support for foreign capital in auto manufacturing because of the need of the healthy development of domestic auto making. It will neither support foreign investment in the sectors of polycrystalline silicon and coal chemical due to concerns of industrial overcapacity and repeated construction, according to the guideline.

In light of regional development gaps, the government will roll out a fine-tuned policy for the central and western regions in the future.

In the first 11 months of this year, China attracted $103.77 billion of foreign direct investment, up 13.15 percent from a year earlier. During the same period, the country approved the establishment of 25,086 foreign-invested companies, up 3.23 percent year on year.

Source: Xinhua: China to open more sectors to foreign investors, 2011-12-30

China’s Jan-Nov ODI reaches $50b

China’s overseas direct investment (ODI) in non-financial sectors in 130 countries and regions reached $50.01 billion in the first 11 months of this year, up 5.2 percent year-on-year, the Ministry of Commerce (MOC) announced Thursday. The nation’s cumulative ODI in non-financial sectors totaled $312 billion as of the end of November, MOC Spokesman Shen Danyang said at a press conference held in Beijing. Shen said that 74.4 percent of the investment went to China’s Hong Kong, the ASEAN, the EU, and countries including Australia, the United States, Russia and Japan.

Business volume in overseas-contracted projects during the first 11 months hit $86.3 billion, up 16.2 percent year-on-year. Meanwhile, the value of new contracts signed rose 3.5 percent to $114.12 billion, Shen said. As of the end of last month, 822,000 Chinese were working in these investment projects abroad. The number was down 17,000 from the same period last year.

Source: Xinhua: China's Jan-Nov ODI reaches $50b, 2011-12-16

China Might Ease Citizens’ Foreign-Asset Buys

China is weighing measures to give its citizens greater ability to directly invest overseas as part of its efforts to diversify the country’s mammoth foreign-exchange reserves, according to people familiar with the matter. The State Administration of Foreign Exchange, the country’s currency watchdog and part of China’s central bank, is considering gradually expanding how much foreign currency Chinese individuals can purchase every year for the purpose of investing overseas, the people said. Currently, Chinese nationals can exchange up to the equivalent of $50,000 a year into foreign currency.

The two-way fluctuations "should serve as a very good condition for us to reasonably open the capital account," Li Daokui, an adviser to the People's Bank of China, the central bank, said at a forum Friday. "We can encourage households to hold U.S. dollars and to buy foreign assets, such as U.S. securities, through commercial banks." Mr. Li also emphasized the need to have "a valve" in place to block big flows of capital out of the country, should China move toward loosening its capital controls. China's reformers hope that a policy shift could help improve
returns on China's foreign-exchange reserves, the world's largest at $3.2 trillion. They have largely been invested in low-yielding instruments such as U.S. Treasury bonds. Concerns about the dollar's longer-term prospects have contributed a sense of urgency in recent months to China's ambitions to give the yuan a more global role while reducing the country's vast dollar holdings. The risk of dollar exposure was underscored during the summer when Standard & Poor's cut its rating on U.S. government debt, unnerving global markets.

Zhou Xiaochuan, the PBOC governor, said in October that the government may allocate more resources and assets to Chinese households in the future, using the Chinese term "cang hui yu min," meaning storing foreign-exchange reserves among the people. Allowing the private sector to play a bigger role in managing the reserves could facilitate capital moving in and out of China's borders in an orderly way, analysts say, thereby helping to reduce the country's persistent balance-of-payments surplus that has resulted from its trade surplus and an investment boom. That, in turn, could help alleviate the pressure on continued yuan appreciation.


**Chinese firms seek overseas expansion in crisis**

While many transnational companies tighten investment in developed economies in face of a lingering economic crisis to ease profit declines, Chinese firms see possibilities of making their investments mutually beneficial there. China Three Gorges Corp (TGC), the operator of the world's biggest dam, last week won a bid to buy a 21 percent stake in the Portuguese utility Energias de Portugal for 2.69 billion euros, marking the first time for a large Chinese firm to join the privatization of eurozone nations amid the continent's debt crisis. The move highlights the willingness of Chinese firms to invest and help invigorate struggling economies against the backdrop of the worsening eurozone debt crisis and rising global uncertainties.

Chinese firms have been on a buying spree this year. Following Chinese oil giant CNOOC's acquisition of Canadian oil sands developer OPTI in July, Sinopec recently completed a 2.2-billion-Canadian-dollar transaction to takeover Canada's Daylight Energy Ltd. China's Yanzhou Coal Mining also said last week it has proposed buying 77 percent of Australia's Gloucester Coal. The deal could create Australia's largest listed coal firm if approved.

The country's ODI hit $68.81 billion in 2010, taking up 5.2 percent of global capital flows and exceeded the ODI of both Japan the United Kingdom for the first time to become the fifth largest in the world. China's overseas investment has boosted its own growth and contributed positively to recipient countries, said Deputy Commerce Minister Chen Jian at an investment forum last month. Chinese overseas affiliates, which totaled 16,000 units as of 2010, employ nearly 800,000 people and pay $10 billion in taxes each year, according to an IMF study. China's overseas investment is likely to grow 20 to 30 percent annually in the next two to three years, an Ernst & Young report said.

Many proposed Chinese deals in the overseas market have been blocked by national security or technology issues, Lin said. The Chinese telecom giant Huawei has repeatedly been rebuffed from making deals in the United States over security concerns during the past few years. In the latest outcry, China's Zhejiang Youngman Lotus Automobile and Pang Da Automobile Trade Co. were rejected in a deal to purchase Swedish automaker Saab, as Saab's former parent company GM refused the technology license transfers. The refusal finally led to Saab's bankruptcy. To
create a fair environment for Chinese investment, Lin called for developed economies to "remove political factors in reviewing Chinese deal proposals in order." Besides external factors, Chinese investors should also recognize their own weaknesses to cope with these setbacks, said Wang Zhile, director of Beijing New-Century Academy on Transnational Corporations. Wang said Chinese firms are increasingly challenged by compliance management, which requires familiarity with local laws and rules and corporate regulations in obtained businesses. Communications with non-governmental organizations and focusing on local public appeals are also important.

Source: Xinhua: Chinese firms seek overseas expansion in crisis, 2011-12-29