China News in Brief

October, 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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Economy cools in 3rd quarter-Hard landing ruled out due to robust consumption

Economic growth cooled in the third quarter to its slowest pace in more than two years amid tightening measures, debt fears in the euro zone and a sluggish US economy. But the world's second-largest economy is not facing any risk of a hard landing given its sound fundamentals, economists said.

Year-on-year GDP growth slipped to 9.1 percent in the July-to-September period from 9.5 percent in the second quarter and 9.7 percent in the first, indicating a moderate expansion, the National Bureau of Statistics (NBS) said on Tuesday. Domestic demand remained resilient last month. Year-on-year growth for retail sales was 17.7 percent, up from 17 percent in August. Industrial output in September rose to 13.8 percent from a year earlier and 13.5 percent in August. The figure for the January-to-September period increased by 14.2 percent year-on-year, according to the NBS.

Many economists predicted that the nation could see GDP growth of above 9 percent for the whole of this year, compared with 10.4 percent in 2010.

"The September Purchasing Managers' Index (a key manufacturing indicator) also signaled a production rebound," Sheng said. The index climbed to 51.2 year-on-year in September, up from 50.9 in August and July's 29-month low of 50.7. Above 50 indicates growth, anything below 50 indicates contraction. Fixed-asset investment, a key driver behind economic growth, showed robust growth of 24.9 percent in the first nine months. Investment in real estate increased 32 percent from a year earlier. Exports may contribute less to GDP growth in 2012, so domestic demand takes on greater urgency, Fan Jianping of the State Information Center said.

The consumer price index, a main gauge of inflation, fell for two consecutive months to 6.1 percent in September, from July's 37-month high of 6.5 percent. Inflationary pressure is likely to continue to drop in the last quarter of this year, because of tightening policies and falling commodity prices caused by weak global demand, said NBS spokesman Sheng. "Macro-policy objectives may shift slightly from fighting inflation to ensuring growth after inflation comes down as the environment for small exporters may become tougher in 2012," said Liu with the RBS.

Source: Chen Jia: Economy cools in 3rd quarter-Hard landing ruled out due to robust consumption, China Daily, 2011-10-19

China’s economy Hitting the kerb

A squeeze on lending hits China’s entrepreneurial heartland. With lots of bustle and a little hustle, Wenzhou businessmen have contributed enormously to China’s economic progress. That success continued in the third quarter, when China’s output grew by 9.1% compared with a year
earlier. But the threats to growth are mounting, and Wenzhou symbolises one of the dangers.

The lending spree that rescued China’s economy from the 2008 financial crisis has resulted in inflation, overpriced property markets and souring debts owed especially by local governments. Just as the government was coming to terms with these longstanding problems, two fresher ones have arrived: a slowdown in exports, particularly to Europe, and a worrying spate of bankruptcies among small enterprises, concentrated in cities like Wenzhou. For the scrappy private firms that populate Wenzhou, this year is one of the worst since the reform era began three decades ago, according to Zhou Dewen, who heads an association representing about 2,000 of the city’s small and medium-sized enterprises. Its members produce everything from zips and raincoats to paternity tests. Like any firm, they survive at the whim of their customers and creditors. But China’s foreign customers are struggling. Last month sales to the EU suffered their biggest September fall since 1995. China may even record its first annual trade deficit since 1993 next year, Wei Jianguo of the China Centre for International Economic Exchanges, a government think-tank, told China Daily, a newspaper.

Lack of custom is, however, less of a problem than a dearth of credit. Perhaps a fifth of Wenzhou’s private firms have interrupted manufacturing, says Mr Zhou, or cut production lines for lack of finance. Li Zhongjian, an entrepreneur whose factory exports metal cigarette-lighters, is afraid to accept some large orders in case credit is withdrawn before he gets paid. Some loans are metered—extended by formal banks or registered trust companies under the eye of regulators—but many are kept off the meter. Mr Li’s lighter factory, with a 20-year history, tangible assets and bona fide orders, can obtain loans from a bank. But other firms must turn to the “back-alley bankers” and “kerbside lenders” that make up Wenzhou’s informal financial system.

This informal lending is as old as China’s economic reforms. But in the past year or two it has grown dramatically in scale and scope. The cast of lenders has broadened far beyond pawnshops and rich businessmen with cash to spare. Even state-owned industrial groups, which borrow cheaply from China’s banks, have set up financing arms, passing on that credit at higher rates to needier businesses. The growth of informal finance has allowed the lending spree of 2009 to persist longer than China’s authorities wanted. Credit Suisse estimates that off-balance-sheet lending added about 10.7 trillion yuan ($1.7 trillion) to the 54.7 trillion-yuan worth of loans on banks’ books in June (see chart 2). That figure captures some underground finance but not all of it. It also includes some credit that is off-balance-sheet but above board. Informal lending, properly defined, amounts to about 4 trillion yen, Credit Suisse estimates. In Wenzhou it is hard to find someone who is not in some way involved in it, according to Kellee Tsai, a professor at Johns Hopkins University and author of “Back-Alley
Banking”. To quell inflation, China’s monetary authorities have tightened lending by banks and trust companies. That has pushed more and more borrowers into the informal market, where some are paying as much as 6% interest a month.

To escape their creditors, dozens of Wenzhou businessmen have absconded, abandoning their homes and firms. One notable case was Hu Fulin, owner of Zhejiang Centre Group, one of the country’s biggest manufacturers of spectacles, and a vice-president of Mr Zhou’s association. In 2009 bankers competed to lend to him, even paying respects at his home during Chinese new year, Mr Zhou says. He grew overconfident, borrowing to expand his business and venture into property. By September over 100 moneylenders were showing up at his premises every day demanding repayment. On a business trip to America, where he is himself owed money, he decided to stay put.

What broader damage might this credit crunch inflict? Credit Suisse estimates that 60% of informal loans now go to small-time property developers. Some borrow to buy time, hoping that the government will reverse its restrictions on multiple home purchases and prices will pick up. But they cannot wait forever. According to a 100-city index published by Soufun, a consultancy, prices fell (a little) in September. A wave of distressed selling could turn a welcome easing of property prices into a rout. That would endanger formal loans to property developers, as well as loans to other kinds of companies, if they re-lent the money to property firms. It would also reduce proceeds from land sales, on which local governments rely for revenues.

China is not there yet. Nor is Wenzhou. It has about 400,000 private enterprises. Only 90 bosses have run away, Mr Zhou points out, and several of those have now come back. But these disappearances were enough to attract streams of reporters and to draw the government’s attention. Earlier this month, Wen Jiabao, China’s prime minister, paid a visit, urging banks to go easy on small companies. The government has even persuaded Mr Hu of Zhejiang Centre Group to return. His factory was due to reopen on October 20th.

For the moment, however, the government fears rising prices more than soaring kerbside rates. It will not ease its macroeconomic controls until inflation falls more decisively. And inflation may not fall until more small firms go out of business. Not all of these companies would have survived for long anyway. Even before the credit crunch they were complaining about growing labour costs, which in Wenzhou have increased by 30% since February 2010, according to Mr Zhou. Rising wages are broadly welcomed by the government, which would rather live with runaway businessmen than striking workers. It did not engineer this credit crunch to force low-wage, low-margin companies out of business. But that may be the upshot. China must empty the cages, as the saying goes, to welcome new and more beautiful birds.

Source: China’s economy Hitting the kerb, The Economist, Oct 22nd 2011

**China jails two officials for leaking data**

China has jailed two government officials for leaking data to securities brokerages in a state secrets case that some fear may threaten economic transparency and debate. The two relatively minor officials – one from the National Bureau of Statistics (NBS) who received a five-year sentence, and
one from a research office at the central bank who was given six years – were convicted of leaking information including data on gross domestic product, inflation, fixed-asset investment, money supply and credit figures.

The sale of official data to securities brokerages has been widespread in China for years, and markets have often moved well before the figures are publicly released. But some in China’s financial industry fear that the heavy sentences imposed on the pair could make other civil servants and financial professionals reluctant to discuss their views on the economy openly for fear of violating regulations. Sun Zhen, a former deputy director of the secretary’s office at the NBS, and Wu Chaoming, a former deputy director of the financial history research office at the People’s Bank of China, were sentenced under the country’s opaque state secrets laws.


**WSJ’s Tom Orlik speaks to AmCham Shanghai on the reliability of China’s statistics**

While China’s National Bureau of Statistics has made improvements that make national GDP numbers reliable indicators of growth, there remains a gap between national-level data and regional-level data as well as discrepancies between public and private data. Understanding which economic indicators to track is critical to understanding trends in China’s economy, said Tom Orlik, China correspondent for the Wall Street Journal in Beijing. On October 14 at the Four Seasons Hotel AmCham Shanghai welcomed Orlik, who spoke on interpreting China’s official statistics, being a smart consumer based on these statistics and other data from his new book, Understanding China’s Economic Indicators. Orlik started by providing an overview of China’s national data, explaining how the government calculates their numbers for inflation, unemployment and GDP as well as recent changes in how data is collected.

However, he said, there is some data that provides a more compelling story of China’s economy, including the Ministry of Human Resources’ data on demand balance, which measures the number of people looking for jobs and the number of jobs available. The statistical trend show dips during the recession, but also the effect of government stimulus, which significantly increased the number of jobs available for Chinese job searchers. Knowing the nuances in China’s statistics can intelligently direct analysis and predictions of China’s economic future.

Source: WSJ’s Tom Orlik speaks to AmCham Shanghai on the reliability of China’s statistics, October 25, 2011

http://www.amcham-shanghai.org/AmChamPortal/MCMS/Presentation/Template/Content.aspx?Type=32&Guid={F3625D51-7548-4D59-9B1E-EE41CF784B7F}

**China’s social financing falls $194b in Jan-Sept**

China’s social financing, a broad measure of funds raised by entities in the real economy, shrank 1.26 trillion yuan ($194 billion) from a year earlier to 9.8 trillion yuan in the first three quarters, the central bank said Thursday. All sub-indicators grew at slower paces from the same period last year,
except foreign-currency loans which expanded by 184.9 billion yuan from a year earlier to 477 billion yuan, and entrusted loans which increased by 562.5 billion yuan to 1.07 trillion yuan, the People's Bank of China said in a statement on its website.

The yuan-denominated lending accounted for 58 percent of total social financing, up one percentage point from a year earlier, according to the statement. Corporate bonds made up 8.6 percent of the total, down 0.3 percentage point from last year, while foreign-currency loans accounted for 4.9 percent, an increase of 2.5 percentage points, the statement said.

Source: Xinhua: China's social financing falls $194b in Jan-Sept, 2011-10-21

**Direct debt for local govts**

The Ministry of Finance has launched a trial program to allow local governments to issue debt directly, easing concerns of possible default while offering new investment channels for private capital. The provinces of Zhejiang and Guangdong and two municipalities - Shanghai and Shenzhen - will be allowed to issue three- and five-year bonds, a statement on the ministry's website said on Thursday. The proceeds of local government bond sales will be kept in a special account at the finance ministry, which will oversee the payment of interest and principal, it said.

Since the central government will oversee the payment of interest and principal, the issued debt will be seen as guaranteed by the State, said Gang Meng, director of the rating committee of Dagong Global Credit Rating Co Ltd. "If a rating is required, it should be triple-A," he told Sina.com.cn. However, such a guarantee could lead to the "moral hazard" problem, said Xu Xiaonian, an economics and finance professor at China Europe International Business School. "Local governments would tend to borrow more regardless of their repayment abilities," he said at his real-name micro blog.

The move comes amid increasing concerns that the accumulation of local government debt poses the risk of default. Local authorities borrowed heavily to help finance China's 4 trillion yuan ($627 billion) stimulus package after the global economy slumped in 2008. Data from the National Audit Office show the debts of local governments stood at 10.7 trillion yuan at the end of last year, equal to 27 percent of the country's 2010 GDP. China's budget law prohibits local governments from issuing bonds on their own. But many financing vehicles have been set up by local governments to raise funds to circumvent the law and meet demand for financing.

Source: Wei Tian: Direct debt for local govts, China Daily, 2011-10-21

**Zhejiang to issue 8b yuan bonds**

Government of China's eastern Zhejiang province will issue 8 billion yuan ($1.25 billion) worth of bonds to fund infrastructure this year, as part of a trial program of the central government to allow local governments to sell bonds directly. The issuance, consisting of 50-percent three-year bonds and 50-percent five-year bonds, has been ratified by the central government, according to the provincial government. The money will be used to fund city-level and county-level infrastructure projects that are under construction, especially low-income housing projects, said Qian Juyan, head of the
Zhejiang Provincial Department of Finance. New projects will be strictly controlled from getting the fund.

According to China's budget law, local governments are prohibited from issuing bonds on their own. But they set up special investment platforms to raise fund. In 2009, the Ministry of Finance introduced a program that it issued bonds on behalf of local governments. Qian said the finance ministry has selected two provinces and a municipality to participate in the trial in order to explore new financing channels for local governments. The move came amid increased concerns that the pile-up of local debt under the investment vehicles faces risks of default after local authorities borrowed heavily to help finance China's four-trillion yuan stimulus package amid the global financial crisis since 2008.

Source: Xinhua: Zhejiang to issue 8b yuan bonds, 2011-10-06

**Most listed companies forecast upbeat results for Jan-Sept**

Earnings forecasts of listed companies on the Shanghai and Shenzhen bourses suggest that over 60 percent are poised to post upbeat results for the first three quarters, Shanghai Securities News reported on Oct 10. By Sept 30, 826 listed companies in the two bourses had unveiled their earnings forecasts for the first three quarters, and 61.74 percent announced good news. Of the 510 well-performing companies, 484 have forecasted earnings growth compared to the same period last year, while 26 companies managed to get out of the red.

Despite the general upward trend in profits in the first nine months, quarter-on-quarter growth slacked. Net earnings of these companies in the third quarter edged up 0.39 percent over the previous quarter, much lower than the 33.6 percent quarter-on-quarter growth posted in the second quarter. Real estate and non-ferrous metals led the quarterly decline, down 45.5 percent and 35.03 percent, respectively. The listed companies are expected to release their quarterly reports from Oct 11 to Oct 31.

Source: Xinhua: Most listed companies forecast upbeat results for Jan-Sept, 2011-10-10

**Rich Chinese invest 42% of wealth in stocks**

A report from Merrill Lynch Global Wealth Management, a division of Bank of America, has found that wealthy Chinese invested 42 percent of their wealth in stocks last year. The report on wealth management in the Asia-Pacific region published Wednesday said the number of rich Chinese, with net assets of at least $1 million (not including assets such as real estate and durable goods) reached 535,000 in 2010, ranking second in the region and fourth in the world. The total wealth of rich Chinese stood at $2.66 trillion last year, up 13.2 percent from 2009, it said.

Regarding their preference for investment, the report found that stocks and real estate properties are their prime investment targets. It said by the end of 2010, their investment in the real estate sector made up 27 percent of their total investment, with 42 percent in stocks, much higher than the average investment level in such sectors in the region. The report predicts that in the coming year the investment proportion of wealthy Chinese in the real estate sector will drop to 39 percent due to
concerns over the government's tightening control over housing prices; while their investment in stocks will decrease to 21 percent. It is predicted rich Chinese will reduce their cash holdings next year due to rising inflation, while their investment appetite for products with high risks and higher returns will grow, it said.

Source: Xinhua: Rich Chinese invest 42% of wealth in stocks, 2011-10-13

Neither a borrower nor a lender be

Premier Wen Jiabao paid a rare visit to Wenzhou, a typical boomtown in eastern Zhejiang province, during the National Day holidays. He was accompanied by a team of senior treasury officials, including the Finance Minister Xie Xuren and the Governor of the People's Bank of China, Zhou Xiaochuan. Wenzhou has nothing to offer in terms of amenities, so these luminaries didn't go there to seek temporary relief from the heavy burdens of state. Instead, they traveled to the city to address what has recently become a huge headache for the manufacturing powerhouse. The high-level visit served as a reminder that a localized credit crisis in Wenzhou is threatening to escalate into a national issue. Similar problems, on a lesser scale, are known to be troubling China's other manufacturing hubs, including cities in the Yangtze River Delta and the Pearl River Delta.

Since Wen's visit, the local and provincial governments have introduced a raft of measures with the intention of containing the crisis. At the core of their efforts is the establishment of a bailout plan, amounting to an estimated 100 billion yuan ($15 billion), to help insolvent entrepreneurs repay high-interest loans taken out with underground lenders. In recent weeks, the local government has maneuvered behind the scenes to persuade banks and the credit middlemen, called underwriters, to be more sympathetic in their dealings with cash-strapped clients and, if necessary, to provide them with loans at favorable terms. "We've put together a group of 48 underwriting companies to provide money and corporate services to small and medium-sized enterprises (SMEs) with lower interest rates and commission fees," said Yu Zhongping, director of the Wenzhou Economic and Information Commission. Yu added that more measures will be introduced to monitor and control the risk of a collapse of the gray, or underground, money market that has become a major source of funding for many SMEs.

To help dissuade bankrupt borrowers from absconding or even taking their own lives, the city government has established a team of financial and corporate experts to assist in the restructuring of debts and operations of insolvent enterprises. So far, at least three fugitive entrepreneurs have returned to Wenzhou to cooperate with the government in rebuilding their businesses. What's more, banks in the city, including the local branches of the State-owned banks, have agreed to extend credit to financially troubled enterprises to help them overcome cash flow problems.

Earlier this month, the provincial government also moved to help SMEs by establishing measures to assist potential enterprises with a greater number of loans, and to ensure that fewer companies are shut down because of financial problems. "More measures will be carried out in the near future to provide SMEs with more efficient loans and more authorized lending companies and bank branches will be established especially to meet the demand from SMEs," said Yang Xiaoping,
director of the Zhejiang branch of the China Banking Regulatory Commission (CBRC). For SMEs, these rolling measures offer an opportunity for a rapid resolution of their troubles.

According to statistics provided by the Wenzhou municipal government, the amount of private capital in the city currently exceeds 600 billion yuan, with an annual growth rate of 14 percent over the past five years, including about 110 billion yuan from underground lenders. Since the beginning of the year, the estimated annual interest rate has been rising, hitting a peak of more than 25 percent in September. Since April, the increasing number of factory closures and absconding owners has severely affected the multi-billion-yuan gray market in Wenzhou and other cities in Zhejiang province. More than 20 underground lenders have now closed down, leaving them with a total loss estimated at more than 5 billion yuan at the end of September. Experts have said the losses would have been higher if more of the gray lenders had gone under.

Top lenders and depositors really started to sit up and take notice of the collapse of Wenzhou's huge underground banking system after more than 90 companies closed down and some owners committed suicide. However, the recent moves to improve the local situation have prompted a number of entrepreneurs to return to restructure their companies with the encouragement and support of the local government.

Among the owners who absconded, Hu Fulin, the president of China's largest manufacturer of spectacles, the Wenzhou-based Center Group, was the biggest debtor and also one of the first to return to his hometown. Hu fled to the United States on Sept 21, leaving up to 2 billion yuan in arrears, including 1.2 billion yuan in high-interest debt from underground banks. Another errant executive, Sun Fucai, chairman of the board of Aomi Fluid Equipment Co Ltd, returned to Wenzhou on the same day.

"The majority of SMEs in the Pearl River Delta don't participate in private lending activities as frequently as Wenzhou businessmen, so they won't fall into the same traps. They've also learned enough lessons to avoid the risks in the future," said Zhou Qiren, a professor at Peking University's National School of Development, talking about the release of a report on the challenges facing SMEs in the Pearl River Delta.

Source: Yu Ran: Neither a borrower nor a lender be, China Daily, 2011-10-17

**Stocks slide to 31-month low**

Stocks on the Chinese mainland fell on Thursday, driving the benchmark index to the lowest level since March 2009. The retreat came on concern that slowing economic growth and divisions among European leaders over a rescue strategy is threatening the outlook for earnings. The Shanghai index has plunged 17 percent this year, driving down estimated price earnings to a record low of 10.8 times, according to data compiled by Bloomberg. China has raised interest rates three times in 2011 and ordered lenders to set aside a bigger portion of their deposits to curb inflation that's near a three-year high. Consumer prices in the world's second-biggest economy increased 6.1 percent in September from a year earlier, the National Bureau of Statistics said last week. The government's full-year inflation target is 4 percent. A gauge of material companies in the CSI 300 plunged 3.3
percent, the most among the 10 industry groups. Risks stemming from China's shadow banking system and private lending must be "strictly controlled", and such loans will be curbed, the head of the nation's banking regulator said.

Source: Irene Shen: Stocks slide to 31-month low, China Daily, 2011-10-21

**China still important IPO market: NASDAQ**

China's market is "huge" for future growth, and the piled-up applicants for the initial public offerings (IPO) are still in hope after the global markets for IPO are open again, a senior executive at NASDAQ OMX told Xinhua Wednesday. Bruce Aust, NASDAQ executive vice president, said the company is still excited at the opportunities in China, with the "dramatic" growth in the country, and NASDAQ will continue investing heavily to help the Chinese companies access the US market and become public. As the world's largest stock exchange by volume, NASDAQ has about 3,500 companies listed on its board, among which, 124 are the Chinese companies. Bruce said although the IPO market has been slowing down under the huge uncertainty in the global economy, he still sees a "big pipe line" of companies waiting to access the US markets and list on NASDAQ with over 105 applicants, and about 20 are the Chinese ones.

Bruce said NASDAQ has been operating in China for many years, and has very great listing companies like Baidu, Sina and Ctrip, "you still see the entrepreneur spirit in Asia, and there are very positive stories of these entrepreneurs that are growing great companies in China." Improving the education is one key method that NASDAQ has been doing, such as organizing the IPO group camps and corporate governance seminars, through which, the CEOs can have a better understanding of what it means to being a public company, and the obligations it means to be part of the US capital markets.

Source: Xinhua: China still important IPO market: NASDAQ, 2011-10-20

**China to establish nationwide social credit system**

China will strive to establish a social credit system nationwide to ensure sound and healthy social and economic development, China's State Council, or Cabinet, said Wednesday. China needs to create an honest and faithful society through system improvement and enhanced education, as lack of credibility remains a prominent problem, according to a statement released after a State Council executive meeting chaired by Premier Wen Jiabao.

The statement mentioned some of the behaviors featuring lack of credibility, such as business fraud, manufacture and sale of fake products, fraudulent applications and claims, and improper academic behavior. China will comprehensively push forward the establishment of a nationwide social credit system in the next five years, or the 12th Five-Year Plan period (2011-2015) by establishing a system to keep record of all citizens' credit history, it said. The country will accelerate legislation and regulation improvement concerning the credit system and push forward the construction of credit systems within industries and government departments, and at local levels, it said. The government will also work to make the credit information be shared across the nation,
develop credit rating agencies and promote use of credit products in an orderly way. Meanwhile, the
government should enhance its own credibility by increasing transparency, and strengthen education
on social honesty, it said.
Source: Xinhua: China to establish nationwide social credit system, 2011-10-20

Individual businesses surge to 36m units in China

China's individual businesses amounted to 36.01 million units in the first half of this year, with a
registered capital of 1.5 trillion yuan ($230 billion) and 73.34 million employees, according to the
State Administration for Industry and Commerce (SAIC). From January to June, the newly registered
individual businesses totalled 3.55 million units, up 7.73 percent year-on-year, involving a capital of
240 billion yuan, 19.1 percent higher compared with the same period of last year, said SAIC.
Individual industry and commerce boomed from only 100,000 in 1978, the start of the reform and
opening up in China, and now play an unparalleled role in offering jobs and boosting economy.
Source: Xinhua: Individual businesses surge to 36m units in China, 2011-10-03

Chinese entrepreneurs called to upgrade businesses

Chinese entrepreneurs all over the world should strive to build moderan and professional
businesses as the global environment continues to evolve, Singapore Prime Minister Lee Hsien
Loong said on Thursday. Speaking at the opening of the 11th World Chinese Entrepreneurs
Convention in Singapore, Lee said many ethnic Chinese have been successful entrepreneurs in many
parts of the world and contributed to the communities after their success. The world economic
system has undergone fundamental changes over the past decades as Asia grew fast and new
technologies alter the business landscape and restructure jobs and entire industries by increasing
connectivity, shrinking global supply chains and opening new markets, he said.

Lee said most Chinese companies started off as family businesses but such a basis of business
has its limits. Citing the example of China's telecommunications solutions supplier Huawei
Technologies which has now come to be a Fortune 500 company, he said the company hired
consultants to revamp its management systems when it began to internationalize. "Beyond a certain
point as companies grow and expand, the family structure no longer works. These businesses have to
adopt a more systematic and professional structure ... That is the way to go," he said. Lee urged the
Chinese entrepreneurs to continue enhancing their links with one another, which is a strategic
resource for the entrepreneurs located all over the world. He also urged Chinese entrepreneurs all
over the world to strengthen their links with their local communities and go beyond merely growing
the business and share their success with the community they belong to, he said.

The 11th World Chinese Entrepreneurs Convention was a biannual event organized by business
chambers of several regionals and countries. Hosted by the Singapore Chinese Chamber of
Commerce and Industry this year, it gathers over 4,000 participants from more than 30 countries and
regions.
Source: Xinhua: Chinese entrepreneurs called to upgrade businesses, 2011-10-06
Fugitive from debt back to Wenzhou for restructuring

Zhejiang - A fugitive Wenzhou eyeglass manufacturer returned to his hometown on Monday to assist the local government in the restructuring of his business. His return is widely seen as an indication that the Wenzhou city authorities are stepping up their involvement in containing the credit crisis that has already driven many manufacturers out of business and led their owners to flee abroad, or, in some extreme cases, commit suicide.

Hu Fulin, the founder of Zhejiang Center Group Co Ltd, one of China's biggest spectacle makers, fled on Sept 20 after the collapse of his underground money lending operation. Zhejiang Center, with 3,000 workers, produces more than 20 million pairs of glasses a year. The company apparently has remained a growing concern while Hu's other ventures in real estate speculation and loan shark operations failed. Media reports have said he owes up to 2 billion yuan ($313 million), including 1.2 billion yuan in high-interest debt from underground banks, and that he originally fled to the United States. It is not clear what convinced him to come back to help in the government-initiated restructuring of Zhejiang Center.

Media reports have also said that he was the third such fugitive from debt to return to China. According to the latest local government statistics, more than 90 business owners have fled the city because they were unable to repay their debts. A shoe producer, Shen Kuizheng, committed suicide by leaping from the window of his 22nd floor apartment. "The return of Hu is a good sign that the financial problems among medium-sized enterprises could be solved sooner if more enterprise owners were willing to cooperate with the local government instead of running away," said Zhou Dewen, the chairman of the Wenzhou Small and Medium-sized Enterprise Development Association.

The visit of Premier Wen Jiabao to Shaoxing and Wenzhou on Oct 3 and 4 indicated that the central government had realized the importance of providing more financial support to small and medium-sized enterprises. "Premier Wen promised that the amount of loans for small and medium-sized companies would definitely be increased, and more steps would be taken soon to help those enterprises out of their difficulties," said Zhou, who accompanied Wen and other officials during the visit to Wenzhou. After Wen's visit, media reports mentioned a rumor that the local government had applied through the provincial government to the central bank for a loan of 60 billion yuan to help local banks increase financing to struggling local enterprises. The Wenzhou government hasn't confirmed that rumor.

Source: Yu Ran: Fugitive from debt back to Wenzhou for restructuring, China Daily, 2011-10-11

Guizhou attracts private enterprises to speed up economy

A conference for the promotion of the economic development of Guizhou province was held in Beijing Monday, aiming to attract more private enterprises to invest in the Southwest China province. The conference was held by the provincial government of Guizhou as a warm-up for the conference for the development of Guizhou organized by the All-China Federation of Industry and Commerce
(ACFIC), which is scheduled to be held in late December.

At the conference, municipal and county governments of Guizhou introduced guests to their favorable policies, such as industrial zones and related projects. The major industries and projects discussed include equipment manufacturing, special local food, modern medicine, phosphorus and coal chemicals, energy, modern electronic information and strategic emerging industries. Lv Mengliang, vice governor of Guizhou, said the provincial government had been working to improve the economic environment for the private enterprises since late March. The development of private economy in Guizhou was showing a fast, healthy and continuous growth that had a significant contribution to the economic and social development of Guizhou. Guizhou aimed to double the number and total economy of its private enterprises. It also hopes to increase the employment and innovation abilities of its private enterprises by 100 percent. Dai Wei, deputy secretary of Beijing municipal government, said it was a win-win opportunity for Beijing and Guizhou as the two sides could complement each other in economic development. He encouraged private enterprises in Beijing to invest in Guizhou. Beijing is the first stop of the series promotion conferences. The following will be held in cities such as Qingdao of East China's Shandong province, Quanzhou of East China's Fujian province and Wuxi of East China's Jiangsu province.

Source: Guizhou attracts private enterprises to speed up economy, China Daily, 2011-10-18

**Wenzhou economy 'still healthy' despite recent debt problem**

Debt-laden entrepreneurs who fled from Wenzhou, Zhejiang province, have only had a "limited impact" on the local banking system and the overall economic situation in the region remains healthy, banking executives and analysts said. Most of the small companies in Wenzhou, a vibrant private-sector hub, rely on underground banking networks to raise cash amid credit tightening by banks. These networks charge interest rates as high as 90 percent. A spate of debtors fleeing the city, after taking out loans at exorbitant rates, had caused alarm. More than 90 borrowers, unable or unwilling to repay their debts, have fled since April. There were fears that these debts, estimated to be about 20 billion yuan ($3.1 billion), endangered the banking system. "The general economic situation in Wenzhou, and Zhejiang province as a whole, remains stable and healthy," a senior executive at the Zhejiang branch of the Bank of China, said. The companies whose bosses had fled account for only a tiny fraction of some 500,000 enterprises in the city, he said.

About 90 percent of local households or individuals, and nearly 60 percent of enterprises, are involved in underground banking networks, according to data from the People Bank of China's Wenzhou branch. For those banks that do lend to private firms, the scale was too small to cause big losses. "Potential losses only account for less than 20 percent of the money we lent to the problematic enterprises, and the collateral for these loans can fully cover the risks," the bank executive said. Underground banking provides loans of about 3 trillion yuan, compared with loans of 52.4 trillion yuan from State banks, according to figures from the China Banking Regulatory Commission, the industry watchdog. The government has taken a slew of measures to tackle the credit crunch and the problems that it has caused in Wenzhou, including capping interest rates and
ordering banks to expand lending to small companies. The State Council on Wednesday unveiled a set of measures to ease a funding squeeze among small businesses. The government will allow small firms to issue more bills and bonds and will raise the threshold for levying value-added and business taxes, it said.


**Survey: Small businesses struggle to survive along Pearl River Delta**

Small businesses in the Pearl River Delta have gloomy profit projections for this year due to a number of factors, especially rising production costs and tightened liquidity, a survey has found. The survey, conducted by the National School of Development of Peking University and Alibaba Group, targeted some 3,000 small businesses in the delta region that have no more than 30 million yuan ($4.7 million) in annual sales revenue and employ no more than 100 workers. The average profit for small companies in the delta region is predicted to fall by about 30 percent this year due to the harsh domestic and global economic situation, compared with that of 2010, the survey said. More than 70 percent of the surveyed companies found the rising production cost a big challenge to sustaining their businesses, the survey found. The survey was concluded in September, covering some major manufacturing cities such as Guangzhou, Foshan, Dongguan, Shenzhen and Zhuhai in the delta region. The average price of raw materials paid by small businesses had risen by 20 percent to 50 percent over 2010, the survey said. Because increased costs, raw material suppliers limited the time an account could remain open, posing large challenges for small companies to maintain a smooth financial flow. The survey also found that small businesses saw orders decline by 30 percent on average in 2010. Because of the reduced orders, only 33 percent of the surveyed small businesses were producing at full capacity and up to 27 percent were working at half capacity this year. The survey also found that up to 50 percent of small businesses in the Pearl River Delta have never experienced equity trading in the local financial market due to limited financial channels.

Source: Qiu Quanlin: Survey: Small businesses struggle to survive along Pearl River Delta, China Daily, 2011-10-11

**Lenders will issue bonds to aid SMEs**

China will encourage commercial banks to issue bonds to provide loans for small businesses, as part of the government's latest efforts to solve their cash-flow problems. Approval work for bond issuance is under way, said Xiao Yuanqi, a director of financial services for small businesses at the China Banking Regulatory Commission (CBRC), on Tuesday. "Commercial banks must make sure that all the money collected through bond sales is used exclusively for loans to small enterprises," said Xiao. The CBRC won't set a limit on the value of the bonds, but Xiao said banks have shown a great eagerness to issue them, he said.

Meanwhile, banks will also take further measures to support small enterprises. For example, qualified commercial banks are being encouraged to expand their operations and set up local
branches and franchised agencies to serve small enterprises nationwide, Xiao said. Banks should increase their tolerance of non-performing loan (NPL) ratios for small enterprises, but there will not be a specific range for the ratio as different banks have different conditions, he said. This year, outstanding loans to small enterprises had hit 9.85 trillion yuan ($1.55 trillion) by the end of July, an increase of 26.6 percent compared with the same period last year, according to the CBRC. Meanwhile, the growth of outstanding loans was approximately 10 percentage points higher than the banks' total outstanding loans by the end of July.

According to a recent survey, nearly 80 percent of SMEs in Guangdong reported a shortage of working capital and 33.4 percent of them experienced a shortfall of more than 10 percent. Those financial difficulties are being exacerbated by a host of other factors, such as currency appreciation, tight land supply and labor shortage.

Source: Lan Lan and Li Wenfang: Lenders will issue bonds to aid SMEs, China Daily, 2011-10-26

**SMEs' shortage of funds boosts PE/VC firms**

The current difficulties being encountered by small and medium-sized enterprises (SME) in securing bank loans amid tightened monetary policies are providing more bargaining power for private equity and venture capital (PE/VC) companies when striking deals. In the face of severe financial pressures, many SMEs have lowered their valuations and become more open to equity investments. The VC/PE outfits, in return, are now "calmer" when assessing investments, and are able to buy stakes at a lower price, according to industry insiders.

Yu Wenchao, deputy investment director at Shenzhen-based CDF Capital Co Ltd, said that at present he will not pay a price-earnings ratio higher than 10 for equity investment, while just a year earlier ratios higher than 15 were widespread. According to the VC/PE industry consultancy Zero2IPO Group Research, the number and amount of VC/PE investment in China hit a record high in the third quarter. Investment surged 128 percent year-on-year to approximately $3.4 billion. The only 60 VC/PE companies allowed to make investments in China raised a record $9.5 billion in the third quarter, double the amount in the same period last year.

Source: Gao Changxin: SMEs' shortage of funds boosts PE/VC firms, China Daily, 2011-10-28

**Property investors create new hot spots**

Government figures show the trading volume of apartments in Beijing was down 50 percent on the figure last year, with counties neighboring Beijing the new hot spots for property investors. Property prices in Beijing have stabilized since last year, following the introduction of various policies to restrain soaring property prices, leaving speculators little room for earning. However, as a result, counties outside the capital have become a new target for investors.

"The demand for property in Beijing has now moved to neighboring counties in Hebei province," Li Wenjie, general manager for the North China region of property agency Centaline China, told China Daily on Sunday. For instance, in less than a year, the average property price in Chicheng, a poor county in Beijing's neighboring Hebei province, almost doubled to more than 4,000
yuan ($626) per square meter according to Xinhua News Agency. In Dachang Hui autonomous county, also in Hebei province, housing prices are now between 4,000 and 5,000 yuan per square meter, compared with 3,000 yuan a year ago and in Zhuozhou city, housing prices have risen 2,000 yuan per square meter in the last two years.

Although real estate developers put prodigious faith in September sales, demand in Beijing did not surge as expected this year. The total trading volume of the city's commodity housing in September was down 51 percent compared with same month last year. The average property price was 21,735 yuan a square meter last month, down slightly on August.

Source: Qiu Bo: Property investors create new hot spots, China Daily, 2011-10-03

**More cities see slower property price hikes in Sept**

More cities reported a slowdown in year-on-year increases in property prices in September as a result of government's tightening efforts to cool the market, according to the National Bureau of Statistics (NBS). In September, 59 cities out of the statistical pool of 70 major cities saw new home prices increase more slowly from a year earlier, compared with 40 cities in August, the NBS said in a report on its website. For month-on-month changes, 17 cities saw declines in new home prices in September, up from 16 in August. Meanwhile, prices in 29 cities remained unchanged, the report said. "The rapid growth in property prices has been markedly contained. Government's control efforts have achieved positive results as prices in some cities begin to retreat," NBS spokesman Sheng Laiyun said in a press release. As for resold housing units, 46 cities reported second-hand home prices declined or stayed unchanged month-on-month in September, up from 43 in August, the report added.

Source: Xinhua: More cities see slower property price hikes in Sept, 2011-10-18

**China developer warns on price falls**

China’s largest real estate developer believes the country’s property market, a key driver for the economy, has turned and expects conditions to worsen in the coming months as sales prices volumes decline further.

Government efforts over the past year to rein in soaring prices were having a severe impact on the market and developers were being squeezed after sales volumes in 14 of the country’s largest cities halved in September from a year earlier. “We can see a trend of declining sales, especially in the major cities,” Shirley Xiao, executive vice-president at China Vanke, said on a conference call with investors on Tuesday. “Prices have begun to decline little by little so we think even buyers who are able to buy will choose to wait for now because they’re targeting even lower price cuts.”

In recent days, small and sporadic demonstrations have broken out at a handful of real estate sales offices in large cities such as Shanghai, with angry recent homebuyers organising sit-ins and demanding refunds after developers started offering discounts on neighbouring apartments to attract new customers.

A 30 per cent drop in property prices would precipitate a collapse in fixed investment in China
and the country’s investment-driven economy would experience a so-called hard landing after years of annual growth above 9 per cent, according to UBS economist Wang Tao. Property investment accounts for more than 20 per cent of total fixed investment in China and UBS estimates almost 30 per cent of final products in the economy are absorbed by the property sector.

Debt-laden provincial governments in China rely heavily on land sales for revenue and have poured investment into commercial housing projects in recent years. These local authorities also account for up to 30 per cent of all outstanding bank loans, many of which are collateralised by land and housing developments, so a collapse in the property market could have a devastating knock-on effect on the financial system. A property crash could also be politically destabilising as it would especially hurt the country’s newly minted property-owning middle class, who are the most important constituents for the ruling Communist party. On Saturday Chinese premier Wen Jiabao suggested that government support for the property market is unlikely to come soon as he urged all levels of government to continue strictly implementing Beijing’s tightening measures. Vanke said its third-quarter net profit rose 32 per cent from a year earlier to Rmb606m ($95m).

Source: Jamil Anderlini: China developer warns on price falls, Financial Times, Oct. 25, 2011

**Iron ore plummets to 15-month low**

Chinese steel mills have started to cut their production as tighter credit conditions and a cooling real estate market bite in the world’s biggest steel market, pushing the cost of iron ore to a 15-month low. The price of the iron ore in the spot market plummeted on Tuesday to the lowest level since July 2010, dropping a hefty 7.2 per cent – the biggest one-day drop in more than 26 months – to $128.50 a tonne, according to pricing agency Platts. Iron ore prices have fallen more than 30 per cent over the last six weeks. The rapid drop has opened a huge gap between spot prices and quarterly contracts, pushing Chinese steelmakers to demand a renegotiation of contracts. Traders said that some steelmakers were threatening to walk away from their contracts if miners refused to accept lower prices for October-December.

The production cuts at small and medium size Chinese steel mills present fresh evidence that Beijing’s monetary tightening is filtering down into slowing demand for raw materials. Although China’s steel demand outlook has not changed in recent weeks, traders and executives say financing has dried up for some mills, prompting them to cut output and reduce ore purchases. The contract at the Shanghai Futures Exchange for rebar steel, commonly used in construction, has fallen 18.1 per cent since September to Rmb4,021 a tonne on Tuesday. Last week, it hit a year-low. The construction sector, a major source of steel demand, has slowed this year as Beijing has tried to cool real estate prices. Over the past year China has raised interest rates and bank reserve requirements in an effort to fight inflation, and these measures have restricted the flow of credit into the economy.


**Ambitious plan set for clean water**

China has pledged to make all its underground drinking water safe and to significantly improve
the overall quality of groundwater by 2020, a goal that even some senior environmental officials say will be difficult to achieve.

All pollution from urban sewage, industrial projects and agricultural activity must be cut off from underground sources so that it will not contaminate the water, said Zhao Hualin, director of pollution prevention department under the Ministry of Environmental Protection. The government also plans to import technologies for groundwater restoration and start pilot treatment projects in the coming five years, Zhao said, citing a national blueprint to tackle underground water pollution for 2011 to 2020, which the State Council issued in August. About 63 percent of China's groundwater is safe for drinking, and the rest is polluted, according to a nationwide monitoring study carried out by the Ministry of Land and Resources. "In some key regions, the groundwater has been found to contain toxic pollutants that can lead to cancer and birth defects, such as heavy metals and other hard-to-clean, organic pollutants," said Tao Qingfa, a senior official with the Ministry of Land and Resources. "This comes partly from the relatively high natural content of heavy metals in the soil in some areas and partly from industrial pollution," he told China Daily on Friday. Tao estimates that about 3 percent of the nation's groundwater contains excessive levels of heavy metals, making it unsafe for drinking. Testing in the Pearl River Delta has shown that 45.7 percent of the groundwater there contains lead and 39.1 percent contains arsenic, according to Tao. He did not say whether those concentrations made the water unsafe.

Before 2020, a total of 34.66 billion yuan ($5.45 billion) will be invested in a system to monitor groundwater pollution as well as carrying out pilot projects to prevent agricultural contamination and restore polluted groundwater. Dumping sites for hazardous industrial wastes, garbage landfills, mining sites and petrochemical plants will undergo special scrutiny to ensure their highly toxic waste does not spill or seep into underground water. But officials said they are not optimistic that these measures can effectively reverse groundwater contamination, which can last a long time and is extremely difficult to remove. "Once the groundwater is polluted, it may take decades to restore it. And China does not currently have remediation technologies," Zhao said. "It will be really difficult to clean all the pollution in 10 years," he said.

Source: Li Jing: Ambitious plan set for clean water, China Daily, 2011-10-29

Despite goal, country releases more pollutants

China has lost ground on its resolve to emit less nitrogen oxide this year. Even though the country planned to reduce its annual emissions of the pollutant by 1.5 percent in 2011, it in fact released 6.17 percent more nitrogen oxide in the first six months of the year than it had in the same period a year ago, according to statistics from the Ministry of Environmental Protection. The failure to control nitrogen emissions, which are a large cause of acid rain and smog, shows the difficulties the country will face in its attempt to battle pollution without shifting away from its reliance on heavy industries, environmental experts warned. Nitrogen oxide, which stems mainly from coal-fired power plants and vehicle emissions, can irritate the lungs and lower people's resistance to influenza and other respiratory infections.
"A delay in the thermal power industry's nitrogen removing efforts is a large reason for the increase in nitrogen emissions," Hou Yuxuan, an analyst with CI Consulting, a Shenzhen-based industry research firm said. Ma Jun, director of the Institute of Public and Environmental Affairs, agreed. "Emissions of nitrogen oxide have been on a steady increase in the past several years, and it will take a rather long period of time to reverse that trend," he said. Dealing with vehicles' nitrogen emissions is even more difficult, he said.

In the first six months of the year, emissions of sulfur dioxide, another harmful air pollutant, have fallen by 1.74 percent below what they were in the same period the year before. Meanwhile, two measures of water pollution - chemical oxygen demand and the presence of ammonia nitrogen - decreased by 1.63 percent and 0.73 percent respectively. From 2011 to 2015, China hopes to reduce its emissions of nitrogen oxide and ammonia nitrogen by 10 percent below what they were in 2010, and to cut emissions of sulfur dioxide and chemical oxygen demand by 8 percent during the same period. The fact that emissions were not cut as much as desired at the start of this year should be a reminder to officials that the country's current mode of development cannot be sustained, said Ma. "With the economy expanding at breakneck speed, emissions are still set to increase if the country cannot shift away from its over-reliance on fossil energy to fuel its development," he said.

Between 2006 and 2010, China spent heavily on equipment used to treat pollution. Emissions of sulfur dioxide were subsequently reduced by 14.29 percent and chemical oxygen demand by 12.45 percent. Even so, the effects of such spending will gradually diminish over time and the potential for further emission reductions will be small, Ma warned. In such difficulties, the only recourse is to switch to a mode of development that has less of an effect on the environment, he said. "There has been much talk about restructuring the economy over the years," Ma said. "But I don't see that really happening."

Source: Li Jing : Despite goal, country releases more pollutants, China Daily, 2011-10-12

**Electricity to play bigger role in energy consumption**

China will rely more on electricity as total energy consumption eases, but reforming the power sector is essential to ensure supply, according to experts. Wang Min, vice-president of the State Grid Corp of China (SGCC), the country's leading power distributor, said with the rapid development in clean energy generation, electricity will account for a larger part in China's terminal energy consumption in the coming years. A report from the energy research institute of the SGCC estimates that more coal and natural gas will be used to generate electricity instead of being burned directly and electric cars will become widely accepted in the future. Electricity will account for 27.5 percent of terminal energy consumption in 2020 from 20.9 percent in 2010, according to the report.

The report forecasts that non-fossil energy will account for 15 percent of the country's primary energy by 2020, compared with 8.3 percent in 2010. It also predicts that 84 percent of non-fossil energy will at that time be used to generate electricity. Wu Yin, vice head of the National Energy Administration (NEA), indicated that electricity can be used more efficiently than other types of energy, which will help reduce the growth of China's energy consumption. He said that each
percentage point increase of electricity used in terminal energy consumption will result in a drop of 6.2 percentage points in China's energy consumption per GDP, citing recent research results. In the national development plan for 2011-2015, China aims to reduce energy consumption per GDP unit by 16 percent as of 2015 from 2010.

Source: Xinhua: Electricity to play bigger role in energy consumption, 2011-10-25

**China conducts its first jet biofuel trial**

China conducted its first demonstration flight powered partly by a biofuel on Friday, possibly paving the way for future biofuel use on commercial flights in the country.

The one-hour trial used 13.1 tons of biofuel blend - half conventional jet fuel and half China-grown, jatropha-based biofuel - to power one of four engines on an Air China 747-400 jet. Each of the jet's other three engines was powered by conventional jet fuel to guarantee safety, said Li Jun, an expert with Air China. The plane took off from Beijing Capital International Airport at 8:32 am and returned at 9:30 am. Six performance tests were conducted at various altitudes, with the highest at 11,900 meters. "Everything went smoothly," Zheng Weimin, the captain of the flight, said. "I detected no obvious difference in engines powered by the biofuel blend and conventional jet fuel."

The trial was part of a Sino-US energy cooperation program and marked a milestone in the two countries' joint efforts regarding biofuel and high technology, said William Zarit, minister counselor for commercial affairs at the US embassy. In the project, PetroChina Co Ltd, China's largest oil producer, worked with UOP LLC, a subsidiary of Honeywell's special materials section, to source and refine the biofuel. Boeing and Pratt & Whitney provided aircraft and engine technical support. For China, the demonstration flight was a significant step in the development of the jet biofuels industry, said Shen Diancheng, deputy general manager of China National Petroleum Corporation. PetroChina is the corporation's listed arm.

However, airlines said wider use of biofuels on commercial flights in China was still a few years away. He Li, vice-president of Air China, said that using biofuels on commercial flights required large-scale production to make the price acceptable. Zhang Yufeng, vice-president of Honeywell's specialty materials section, said raw materials were a big problem. "The material cost means that the price of biofuel is much higher than traditional fuel," he said. The material cost for biofuel was about two or three times that of conventional fuel, he said. Shen said PetroChina has grown 80,000 hectares of jatropha, a shrub, on low-quality farmland in Southwest China's Sichuan and Yunnan provinces since 2007. Oil from the seed of the shrub is extracted for the biofuel.

Source: Xin Dingding and Wang Wen: China conducts its first jet biofuel trial, China Daily, 2011-10-29

**China tightens grip on social media**

The Chinese government has started a systematic crackdown on what it says are unruly internet users with an announcement by the regulator that two people had been detained for spreading false
information online and that three more cases were being investigated. While Chinese citizens have
been prosecuted before for information they had posted online, the move by the regulator – the State
Internet Information Office – marks the first high-profile announcement of several such cases by the
central government.

Sina Weibo, a domestic leader among Twitter-like microblog services, now has 250m registered
users who write 90m posts a day, the company said last week. The majority of the content is
entertainment-focused, but the services have also become a pressure valve where users vent
frustration and express criticism that can find little room in China’s more tightly censored traditional
media. Over the past several months, party and government officials had stepped up warnings against
the spread of “rumours” over the internet and especially through Weibo.

The State Internet Information Office has now indicated that it is following this up with action. It
said a man from Shanghai with the surname Li had been punished with 15 days in administrative
detention – a form of arrest that can be implemented by police without any legal procedure – for
posting online a fake document pretending to be a notice from the tax administration. It also said a
student from the south-western province of Yunnan had been put in administrative detention for
spreading a rumour about the alleged murder of eight village officials by a man who suffered from a
fatal disease that he blamed on local environmental pollution. In a third case, the regulator said an
editor at a leading internet portal had been disciplined after re-posting a false rumour about the crash
of a military aircraft on his personal microblog.

Source: Kathrin Hille in Beijing: China tightens grip on social media, Financial Times, Oct. 27, 2011

China ‘not doing enough on software piracy’

The world’s leading software industry body warned on Monday of a jump in revenues lost to
software piracy in China as the country’s government is failing to rein in rampant copyright
infringement. Robert Holleyman, president and chief executive of the Business Software Alliance,
said pledges by the Chinese government to help foreign companies gain more revenues from
software sales in China and high-profile anti-piracy campaigns had failed to deliver. “All that
activity led us to believe that we’d see some fairly rapid reduction of software piracy in China,” Mr
Holleyman said. “But none of what I’ve picked up with our companies indicates that they’re seeing
the kind of economic growth associated with the sales of software.”

In late 2010, the Chinese government, responding to growing criticism of its intellectual
property rights protection record, promised in talks with the US that it would help increase foreign
companies’ software sales in the country. Since last year, Beijing has also been running a
high-profile crackdown on the production and sales of pirated goods. The duration and scale of the
campaign initially gave rise to cautious optimism among foreign industry executives that real change
could be on the cards. But Mr Holleyman said: “While [piracy as a] percentage of total software
sales is coming down somewhat, the US$ losses are exploding.” He added that he expected
multinational software companies to launch more legal action against Chinese counterfeiters as a
result. In China, 78 per cent of all software sold in 2010 was pirated, according to BSA’s 2011
Global Piracy Report, compared with a global average piracy rate of 42 per cent. While this is not among the world’s highest piracy rates, China created the second-highest economic damage through piracy as the industry lost $7.8bn in revenues to pirates last year. In the US, the damage was $9.5bn. Source: Kathrin Hille in Beijing: China ‘not doing enough on software piracy’, Financial Times, Oct. 24, 2011

**Learning by rote is no answer to a search for heroes**

There are few American heroes in Asia these days. Steve Jobs was the great exception, widely admired precisely because he is seen as a quintessentially American self-made man. To many fans, especially in China, the late Apple chief executive is an uncomfortable reminder that their country still has a long way to go before it can produce a figure with similar accomplishments and stature. It is not clear what exactly it takes to produce a Steve Jobs, of course. But to those Chinese who wish to see their country develop the same entrepreneurial culture there are several ingredients missing, which mostly have to do with two areas: education and finance (notwithstanding the fact that Jobs was, famously, a college drop out).

The Chinese system still suffers from an emphasis on rote learning. That stifles creativity. Answers are to be learnt, not discovered. Today’s educational system implicitly encourages widespread copying, not just in exams but in everything from mobile phones to cancer research. Moreover, Chinese universities, especially the first-tier ones, are part of the political system. University presidents are party members. As a result, these professors say it will take as long as 50 years before institutions such as Tsinghua can compete with their American peers in their ability to foster real innovation.

The other big challenge is to ensure that good ideas get funding. China is also struggling with the challenge of making sure its entrepreneurs and smaller companies can get the funding they need. Today, China’s financial system is still structured around the needs and demands of the state-owned enterprises. These behemoths continue to get the bulk of bank loans, paying artificially low rates, even though they account for an ever-shrinking portion of economic output. In a world where interest rates are tightly controlled, banks are reluctant to lend to small and medium enterprises let alone start-ups because they can’t charge enough to compensate for the risk and these companies lack adequate collateral. The capital markets are still underdeveloped. The shadow banks are more akin to pawn shops or loan sharks for small companies and start-ups. While China has formed hundreds of private equity and venture funds – the most appropriate sources of funding for entrepreneurial start-ups – many of these seem at the moment to be more focused on raising funds than on finding the next Steve Jobs. The difficulty for smaller companies and start-ups of obtaining money outside the shadow banking system where rates are artificially high has now become a matter of official concern. Last week, China’s State Council announced measures calling on banks to provide more credit to smaller enterprises, promised relaxed standards for lending and voiced support for alternative financing channels including venture capital. Some of China’s most impressive financial minds, such as Gao Jian, a senior official at China Development Bank (and widely considered the
father of the Chinese bond markets), have been working for a while now on innovative measures such as raising money in the capital markets through collective bonds in the name of China Development Bank itself and then distributing the proceeds to dozens of smaller, cash-starved companies.

More and more Chinese themselves realise that it is time to change the template and that the old ‘c-c’ (copy in China) business model needs to change. The admiration for Jobs is an indirect admission of that. It is vastly better than jaded Hong Kong, where a recent survey showed that the most admired person among young people in the territory was a truck driver who won the lottery.


Vendors protest at Alibaba’s fee rises on Taobao Mall site

Alibaba Group has triggered a vast internet protest by small online vendors after introducing steep fee increases on its business-to-consumer site, highlighting the weight the e-commerce group carries in the Chinese economy. Close to 50,000 people were logged in on Thursday to an online voice chat room for small vendors on Taobao Mall, China’s largest business-to-consumer marketplace, complaining about the price rises and arranging attacks on large Taobao Mall vendors. Members of the chat room called upon each other to buy large amounts of the same product at the online stores of certain large vendors including Uniqlo, the Japanese clothing chain, and then cancel the orders with complaints to drive down those vendors’ customer satisfaction ratings. The protest started after Taobao Mall announced on Monday that it would raise the annual service fees vendors have to pay from Rmb6,000 ($940) to as much as Rmb60,000, and increase the deposit it takes from vendors from Rmb10,000 to up to Rmb150,000 next year. “[On Tuesday], Tmall.com suffered malicious attacks that continued for several hours which severely disrupted the normal business of some compliant vendors,” Taobao Mall said.

The standoff is a consequence of the group’s moves to restructure its consumer business amid heightened competition and a maturing e-commerce market. But as the rapid growth of e-commerce in China attracted rivals and consumers became more demanding, the group created Taobao Mall, a marketplace for professional retailers and more upscale goods. From last year, the company has taken steps to separate Taobao Mall from Taobao Marketplace to ensure vendors in the online mall guarantee certain quality and service standards and do not sell fake goods. The sudden fee rises are the latest such step. “In our restructuring, we have also considered that some vendors who only just started might face some challenges in raising their service quality, so we have offered them the choice of developing on Taobao Marketplace,” said the company.

But the small vendors said Taobao’s moves were destroying their business. “If I can’t sell the stocks piled up in my home on Taobao Mall, I don’t know what to do,” said a seller surnamed Yang, who runs a car accessories shop in the coastal province of Zhejiang. “If I can’t sell those online, I’ll lose more than Rmb200,000.” Sellers said Taobao Marketplace was not a viable option. “After Taobao Mall opened, all resources were directed there, and all the visitor traffic was sucked up over
there,” said a seller, who only identified himself with the online nickname Zuo’an.
Source: Kathrin Hille in Beijing: Vendors protest at Alibaba’s fee rises on Taobao Mall site, Financial Times, Oct. 14, 2011

**China to boost legal management system for online retail**

China will map out rules to establish a legal management system for online retail, said the Ministry of Commerce (MOC) on Wednesday. MOC spokesman Shen Danyang said the MOC will lead the draft of the rules to form a system for access and exit of third-party transaction platforms and clarify rights and responsibilities of all parties in online retail. The recent heated event of Tmall.com revealed the weaknesses of the legal footing in China's network management with legal hiatus and faulty supervision, which made change imperative, Shen said. Thousands of small merchandisers waged war on the night of Oct 12 against larger companies on Tmall.com, China's largest business-to-consumer platform by transaction value, after the platform announced it would quintuple its service fees on Oct 11.
Source: Xinhua: China to boost legal management system for online retail, 2011-10-19

**China to build Central Plains Economic Zone**

China's State Council has issued a guideline on supporting central Henan Province to be built into a Central Plains Economic Zone for balanced development. The guideline, publicized on Friday, positioned the Zone, covering entire Henan and radiating to the surrounding areas, as “a key grain production and modern agriculture base, a national model of coordinated development in industrialization, urbanization and agricultural modernization, an engine of national economic growth, a modern traffic hub as well as a center of Chinese civilization inheritance and innovation," taking advantage of its geographic location, abundant grain production, immense market potentials and solid cultural foundation. The plan was made to secure food supply and promote the balanced development of different regions, it said. It set the goal that the zone would preliminarily take shape by 2015 and be further built into a prosperous, environmental friendly region by 2020. China to build Central Plains Economic Zone
Source: Xinhua: China to build Central Plains Economic Zone, 2011-10-08

**Why Americans should learn to love the renminbi**

Until recently, few workers in America, Europe or Japan spent much time worrying about why they earned 10, 20 or even 30 times what a Chinese worker did. What was it that allowed, say, someone stacking boxes in a US factory to earn multiples of the wage earned by a Vietnamese or Mexican worker? Not any more. As hundreds of millions of workers in the emerging economies, especially within Asia, have entered the global workforce, they have begun the slow process of levelling the playing field. Developing countries are improving their standards of education, infrastructure and technology, even if their legal and political institutions still lag behind. Incomes are narrowing. In 1990, at purchasing power parity, gross domestic product per capita in China was
$800 against $23,000 in the US, a differential of 29. By last year that had shrunk to 6.2, according to figures from Royal Bank of Scotland. By 2015 it is expected to narrow to 4.3.

There are things America and other advanced countries can do to raise productivity and to address inequality. But tinkering with China’s currency is not one of them. The arguments, pretty well rehearsed, include:
* Many items supposedly made in China are just assembled in China. A report by the Asian Development Bank Institute in 2010 found that, of the estimated $178.96 wholesale cost of an iPhone, the value of assembly work in China accounted for only $6.50. Most of the manufacturing cost comprises high-precision components made not in low-wage economies, but in high-wage ones such as Japan and South Korea.
* Since June 2005, when the renminbi was first unpegged, the Chinese currency has appreciated 30 per cent against the dollar. The real rate of appreciation is greater given higher Chinese inflation. We should not be surprised that this has failed to do the trick. The yen virtually doubled in value within two years of the 1985 Plaza Accord, with little impact on Japanese exports.
* Even if Chinese exports do become less competitive, jobs are unlikely to flock to high-wage economies such as the US. Rather they will tend to go to other low-wage ones such as Bangladesh, Vietnam, Indonesia and Mexico.

Source: David Pilling: Why Americans should learn to love the renminbi, Financial Times, Oct. 12, 2011

**China’s high-speed rail plans falter**

With the same force that powered the most ambitious rail programme in history, China has slammed the brakes on its investment in high-speed trains. The sudden halt has led to system-wide whiplash, leaving workers without pay, battalions of heavy machinery sitting idle and setting back plans for bullet trains that were meant to carry the nation’s future.

“Everything is a lot harder. There is no money, so we can’t even pay our workers. And quality checks are extremely strict,” said a crew boss from the China Railway Engineering Corporation, the state-owned enterprise that has laid most of the nation’s rail tracks. Wang Mengshu, deputy chief engineer at the China Railway Tunnel Group, told state media last week a shortage of funds had halted the construction of more than 10,000km of track nationwide. Without a resumption, the 6m workers employed in the rail industry would begin to suffer, Mr Wang added.

Before the Wenzhou accident, high-speed rail had been a source of immense national pride. The country’s first bullet train only started running in 2007 but within four years China had developed the world’s largest high-speed network. The boom was supposed to roll on for another decade at least, with plans to double the length of its high-speed rail lines by 2020. But confidence has faltered. Spending had already been slowing after a surge from stimulus money in 2009 but the decline since the Wenzhou crash in July has been precipitous. In year-to-date terms, investment in railways and transport had been up 7 per cent in the first half of 2011. By the end of September it was down 19 per cent, according to official data.
But the government appears to be slowly setting the high-speed rail plans back in motion. Restarting the investment would provide an immediate boost to the weakening economy. Longer term, it is also expected to encourage a big structural shift, opening up China’s interior to make domestic growth more self-sustaining. Beijing’s first task has been to appease investors. Concerns about the railway ministry’s fast-growing debt – Rmb2,100bn ($330bn) and counting – and tight monetary conditions had combined with the deadly crash to damage market sentiment, forcing the ministry to put off plans to raise capital. To break the logjam, the finance ministry announced this month it would cut taxes by half on interest earned from railway bonds issued between now and 2013. That smoothed the way for the sale of Rmb20bn in debt, with more on the way. At the same time the State Council has ordered banks to extend more loans to the railway ministry. But Beijing must also address concerns among the train-riding public. Passenger numbers have fallen sharply since the Wenzhou crash. About 151 million trips were made on Chinese trains in September, almost 30 million fewer than in July, according to ministry data. But beyond ordering a thorough safety review, Beijing has showed no appetite for such fundamental change. The concrete plants next to the Bazhou track have not been dismantled. Their doors have only been padlocked and are waiting to be reopened.


Fuel-price drop good news

Gasoline and diesel prices are reduced for the first time this year beginning Sunday, as oil and gas prices in international market continue to fall. The wholesale price of regular gasoline and diesel prices declines by 300 yuan ($47) per ton, according to the National Development and Reform Commission, China's top economic planner. The decrease would cut the benchmark retail price of gasoline by 0.22 yuan per liter and diesel by 0.26 yuan per liter. The price cut was welcomed by Chinese commuters as fuel prices reached their highest points since a hike in April and stayed unchanged despite the price fluctuations in international market.

Under an oil pricing mechanism started in 2009, the government considers adjusting domestic refined oil prices when international oil prices change more than 4 percent within 22 working days. Since then, China has adjusted fuel prices 16 times, with 10 price hikes and six reductions. A more market-oriented mechanism is under study, he said, without giving a timetable.

Source: Lan Lan: Fuel-price drop good news, China Daily, 2011-10-10

China Cautious on Europe Aid

Chinese and European officials sought to play down expectations about when and how China may deploy its vast financial resources to help bail out indebted countries in Europe. A Chinese Vice Finance Minister said China must first see the details of a new European bailout fund before making any commitments. "We of course must wait until its structure is extremely clear," Zhu Guangyao told a press briefing. "And moreover, this investment must be decided on after serious, technical
Experts warn of growing US trade protectionism

The US Senate's vote on a bill to punish China for keeping the value of its currency low is a sign of rising trade protectionism, said analysts. And they warned that, if ratified, the bill has the potential to trigger a trade war between the two countries and hamper the fragile global economic recovery. In a 79-19 vote on Monday evening, the US Senate agreed on a bill that would require the US Treasury Department to determine if China is manipulating its currency and, if that is believed to be the case, then order the Commerce Department to levy taxes on some Chinese goods.

On Tuesday, the People's Bank of China released a statement in which the central bank said it "deeply regrets" the vote and cautioned that it will not help resolve domestic issues in the US - such as the trade deficit, the low level of savings and high unemployment - but could potentially affect the economy and market confidence. "The passage of the bill may seriously affect China's currency reforms, potentially leading to a trade war between the two sides," the Chinese central bank said in its statement. Such a move "seriously violates World Trade Organization rules and obstructs Sino-US trade ties", according to a statement from a Foreign Ministry spokesman, Ma Zhaoxu. China has urged senators to "rationally understand Sino-US trade cooperation, which is mutually beneficial in nature, and to stop pressuring China through domestic law-making", he said. The bill "will further escalate the exchange rate issue by adopting protectionist measures on the pretext of a 'currency imbalance'," he said.

Some US politicians have violated internationally accepted regulations by allowing a debate that seeks to impose duties on Chinese imports, said Shen Danyang, a spokesman for the Ministry of Commerce, on Tuesday. Shen said the yuan exchange rate is not to blame for the trade imbalance between China and the US. He added that it is unfair to use a controversial bill on China's alleged "currency manipulation" to resolve US internal contradictions.

Duncan Freeman, a senior researcher at the Brussels Institute of Contemporary China Studies, said that given the very bad economic situation in the US and the approaching election season, it is not surprising that congress is seeking action on the yuan. Ultimately the decision on whether new measures are passed will depend on the domestic political calculations of members of Congress, and possibly on President Barack Obama, if he is faced with a bill he has to sign or veto. In the past, the administration has sought to avoid sanctions on this issue, but in an election year, the political calculation may be different, said Freeman. Imposing sanctions on China for undervaluing its currency may cause damage to the US economy that would outweigh any benefits that would accrue from a reduction in trade imbalances, he said.

Source: Tan Yingzi, Zhang Yuwei and Li Xiang: Experts warn of growing US trade protectionism, China Daily, 2011-10-05
Rising China labor costs could lead to 3m new jobs in US, report says

Fast-rising labor costs in China's competitive manufacturing regions are expected to keep more US investment at home and create up to 3.2 million new jobs there by 2020, according to a report from the Boston Consulting Group. However, foreign direct investment from the US might not shrink in the coming years, said a partner of the consulting company on Sunday. "US manufacturers are expected to continually inject as much money as in previous years into China's manufacturing sector. Their investments might shift to supply products for Chinese domestic consumption instead of exports," David Lee, a partner in Shanghai, said. Mainly because of China's rising wages, which are growing about 20 percent annually, the country's cost advantage for many products was predicted to decline by a range of 10 to 15 percent. As a result, the world's second-largest economy might no longer be the default low-cost manufacturing location for the US in the long term, said the report.

China's export-led and labor-intensive companies might be the first to face problems because of changing economic conditions, said Yuan Gangming, a researcher at the Center for China in the World Economy at Tsinghua University in Beijing. The Boston Consulting report said that 15 percent of US imports from China could be reshored, meaning the products would instead be produced and sold in the US. "The trade surplus with the US could possibly narrow, which might increase the pressure on manufacturing sector growth," said Yuan. "But it will help to accelerate the adjustment of the industrial structure and remove the overwhelming dependence on low-cost manufacturing."

Source: Chen Jia: Rising China labor costs could lead to 3m new jobs in US, report says, China Daily, 2011-10-10

Hu urges Canton Fair to promote China's openness

Chinese President Hu Jintao has urged the China Import and Export Fair, also known as the Canton Fair, to contribute more to the improvement of the country's openness to the outside world. Hu made the remarks in a congratulatory letter to the 110th China Import and Export Fair, which opened Friday in Guangzhou, capital of southern Guangdong Province. Praising the fair's vital role in promoting China's trade and economic relations with the rest of the world during the past 55 years, Hu said the fair has helped Chinese enterprises, products and brand names go global. "In the 12th Five Year period (2011-2015), China will continue to stick to its opening-up strategy featuring mutual benefits and common win, and expand the breadth and depth of opening-up," noted Hu in the letter. Hu expressed hope that the Canton Fair could adapt to the changing economic situations both at home and abroad, be innovative in fair organization and improve services, so as to contribute more to China's mutually-beneficial cooperation with other countries.

Source: Xinhua: Hu urges Canton Fair to promote China's openness, 2011-10-15

Premier Wen warns of decreased openness

Premier Wen Jiabao on Friday called for joint international efforts to combat rising trade protectionism, which he said is damaging the world economy amid ongoing global economic
turbulence. "We should embrace opening-up and development, instead of closed doors and stagnation. This is a general trend," said Wen at the opening ceremony of the 110th Canton Fair in Guangzhou. The forum falls on the 10th anniversary of China's entry into the World Trade Organization. "The current challenge is that there is growing trade protectionism worldwide and more trade frictions are politicized, which casts a large shadow over and hurts the global economic recovery," Wen told exporters in a speech carried on State television. "China and the other nations should work hand-in-hand to open up markets to each other, with more sincerity and determination, firmly beating down trade protectionism." Wen said countries should be rational in dealing with trade disputes as the world grapples with a mounting debt crisis. "The shadow of an international financial crisis can be removed as soon as possible ... only if we properly handle international trade friction in a more rational way," he said.

Wen made no specific mention of the United States, but his remarks followed a storm of protest in China over a bill that Beijing has warned could start a trade war between the world's top two economies. Early this week the US Senate passed legislation aimed at charging duties on Chinese exporters, alleging China was holding down the value of its currency. The European Union recently launched a series of trade remedy cases against Chinese exports of tiles and bicycles. "Nations tend to focus on narrower objectives such as on boosting exports especially in difficult situations," said Harsha V. Singh, deputy director-general of the WTO. "Open markets create multiple win-win conditions for all," Singh said. "It is extremely important for nations to work together and further improve the mutually supportive international conditions."

The 110th Canton Fair has attracted more than 23,700 export-oriented enterprises to display their goods, and 280,000 global buyers applied to enter. But the Ministry of Commerce said the prospects for China's exports are not optimistic, citing the gloomy global economy and rising yuan and labor costs in China."China follows the policy of expanding imports and stabilizing exports. We never intentionally seek a large trade surplus," said Wen. Wen said China's becoming a member of the global trade body has proven to create win-win benefits for both China and other nations. Despite the achievements that China has made since its entry into the WTO a decade ago, "China will continue to push forward its reform and opening-up policy with incomparably firm determination and courage," as China is still a developing nation characterized by imbalanced economic development, said Wen. "Trade development and investment promotion is a key factor in reviving the global economy," the premier said.

While stabilizing exports, China pledged to expand imports to balance trade as part of its 12th Five-Year Plan (2011-2015), with the combined imports volume in the next five years expected to reach $8 trillion. China's yearly trade surplus has been falling since the financial crisis began. The figure dropped 34 percent from 2008 to $196 billion in 2009, further sliding to $183 billion last year. The nation's trade surplus will account for less than 3 percent of its gross domestic product this year, Wen predicted. China also vowed to encourage Chinese companies to invest overseas, besides continuously welcoming foreign business to invest, especially in China's central and western areas. "Those qualified and reputable companies play the major part in the going-overseas strategy," said
Wen. It is vital for the world that China maintains open markets as the world will continue to benefit from China's growth, said Singh.

"China's becoming a member of the WTO is a success not only for China, but also the world," said Wen. China became the largest exporting nation in 2009, and it has been the most popular destination for foreign direct investment among developing nations for 19 years. The accumulated foreign direct investment reached $760 billion in 2010. During the past 10 years, China's overseas direct investment grew 40 percent annually, reaching $68.8 billion in 2010. China is now the largest destination for exports from emerging markets including Brazil and South Africa, and the least developed nations.
Source: Ding Qingfen: Premier Wen warns of decreased openness, China Daily, 2011-10-15

Trade deficit next year 'possible'

China may see its first annual trade deficit for two decades next year, Wei Jianguo, former vice-minister of commerce, said. September and October are traditionally the peak time for contracts ahead of the festive season in Europe and the United States but demand is sharply down this year, he said. "China's export-reliant enterprises are facing their toughest time in years. The possibility of a full-year trade deficit cannot be ruled out next year," Wei, secretary-general of the China Center for International Economic Exchanges, a government think tank, told China Daily.

China's last yearly deficit occurred in 1993. Europe, China's biggest trading partner, is experiencing its worst recession since World War II, amid a continuing debt crisis and a beleaguered financial system, he said. "Growth in emerging markets will not compensate for China's losses in Europe." Trade between China and Europe was nearly $480 billion in 2010, or 16.1 percent of the country's total trade volume. China's trade surplus is likely to decline to between $50 billion and $100 billion in 2011, from $183 billion in 2010, he said.

Small- and medium-sized enterprises (SMEs) in areas such as Zhejiang and Guangdong are under intense cash-flow pressure and are unable to get loans, Wei said. Tightening policies, surging costs for labor and goods, a rising yuan and weakened export demand exert great pressure on small- and medium-sized enterprises, he said. If these enterprises, which employ more than 70 percent of the workforce, failed, it would be "a massive blow to the economy", Wei said. "It's time to ease macroeconomic policies in the export sector and give exporters easier access to loans," he said. Premier Wen Jiabao recently urged more lending to small- and medium-sized enterprises and said that fiscal measures would also be taken to ease the bottleneck facing cash-thirsty small companies.
Source: Lan Lan: Trade deficit next year 'possible', China Daily, 2011-10-18

China-Germany trade to hit new highs

Trade between China and Germany is expected to reach new highs, as mutual trade and investment will continue expanding, Chinese Ambassador Wu Hongbo said on Oct 21. Bilateral trade between China and Germany, both economic powers in the world, totalled $142.4 billion in 2010, Wu told a press briefing. The prospect of bilateral trade remains promising for the rest of this
year, as it already hit $127 billion in the first nine months, despite the sweeping global economic and financial crisis, he said. While mutual direct investment has gained momentum in recent years, a huge imbalance still exists. According to official statistics, German direct investment in China had reached $18.03 billion by the end of August, more than 10-fold that of Chinese direct investment in Germany, which stood at only $1.73 billion.

"The economic structures of the two countries are reciprocally complementary than competitive," Wu said, noting that Chinese enterprises are encouraged to expand various forms of cooperation with their German counterparts. "This will be conducive to bringing to full play China's comparative advantages in manufacturing and Germany's technological ones," he said. "It will help open more sales channels in the Chinese market for German products and will also help boost employment in Germany."

Source: Xinhua: China-Germany trade to hit new highs, 2011-10-22

**China-ASEAN Expo boosts economic co-op**

The eighth China-ASEAN (Association of Southeast Asian Nations) Expo closed in Nanning in Guangxi Zhuang autonomous region on Wednesday, with economic ties and mutual trust greatly enhanced between China and the 10-member ASEAN. "This expo has made new contributions toward friendly exchanges and economic cooperation between China and ASEAN countries," Zheng Junjian, secretary-general of the China-ASEAN Expo Secretariat, said at a press conference held after the closing ceremony. As of 4 pm Wednesday, the total trade volume at this year's expo reached $1.8 billion, up 5.6 percent from the previous expo, said Zheng. Zheng said 105 international economic agreements were signed, with total investment up 10.9 percent from last year's expo to $7.4 billion. About 2,300 enterprises participated in the six-day event, up by 4.6 percent from last year, he said.

As a platform for both economic and diplomatic exchanges, the expo also brought together Chinese and ASEAN state leaders, who held bilateral and multilateral meetings to improve mutual understanding and trust, said Zheng. Premier Wen Jiabao, Cambodian Prime Minister Hun Sen, Malaysian Prime Minister Najib Razak and other state leaders attended the expo and six meetings were held between the heads of government. "The attendance of state leaders and high-level officials from China and ASEAN member countries showed that governments are resolved to enhance reciprocal cooperation and boost the development of the China-ASEAN Free Trade Area (CAFTA) for common prosperity in face of a complex global economic situation," said Zheng. China-ASEAN trade surged 37.5 percent year on year to $292.8 billion in 2010, the year when the CAFTA was founded, according to customs figures.

Source: Xinhua: China-ASEAN Expo boosts economic co-op, 2011-10-27

**China's foreign trade to top $3t this year**

A senior Chinese official said on Oct 28 that the country's foreign trade volume will surpass $3 trillion this year, accounting for 10.5 percent of the world's total. This year marked the 10th
anniversary of China's entry to the World Trade Organization, and the country has become the world's largest exporter and second largest importer, said Liu Mingkang, chief of China Banking Regulatory Commission, at a financial forum. The country's ratio of trade surplus to its GDP is expected to fall to lower than 3 percent this year from 7.5 percent in 2007, Liu said. Source: Xinhua: China's foreign trade to top $3t this year, 2011-10-28

**Li: Speed up free trade talks**

Vice-Premier Li Keqiang on Thursday said negotiations on a free trade agreement between China and the Republic of Korea (ROK) should move at a faster pace, and said he hoped the two countries could expand their investment cooperation. "We have to speed up efforts to conclude a free trade agreement," Li told representatives from the Korea Chamber of Commerce and Industry and other business leaders at a banquet. He said the two countries agreed on the need for such a deal and the foundations had been laid through years of research. "A China-ROK free trade agreement will help us jointly cope with international economic risks and boost both countries' national welfare," Li said. He also suggested the ROK should expand its investment in China in the service sector and agriculture. He said the two countries should strengthen cooperation on banking and securities to jointly push forward the development of a securities market in the region.

China is the ROK's largest trading partner, with annual bilateral trade surging to $188.4 billion in 2010 from $6.3 billion when diplomatic relations were established in 1992, Huh Chang-soo, chairman of the Federation of Korean Industries, said at the banquet. Huh called for more economic cooperation and personnel exchanges with China to expand trade and fuel growth. Source: Qin Jize: Li - Speed up free trade talks, China Daily, 2011-10-28

**RMB: still a long road ahead**

A reserve currency is not created overnight, if at all. And China’s renminbi won’t be claiming an exclusive title any time soon. That is the message of a report by law firm Allen & Overy which looks at the funding needs of global companies over the next decade. It finds that, although the renminbi might make strides against the euro and the dollar, there is no easy path to currency domination.

The A&O report asked 1,054 executives globally where they thought the RMB would be in 10 years time. When asked, ‘what do you think will be the most important currency for international trade and finance in 2020?’, only 11 per cent chose the RMB. That compares with 55 per cent for the dollar and 21 per cent for the euro. However, the simple fact that the RMB registered in the top three at all says quite alot about how far it has come over the past few years.

China holds such a large stock of dollars that it is especially vulnerable to any devaluation – whether inflation led or otherwise – and cannot sell any large quantities without adversely affecting the market price. Another indication of the RMB’s rise can be found by looking at the growing trend towards RMB-denominated products – exemplified by fact that the RMB was a more popular currency for company bond sales than the euro for the first time in the third quarter of this year. Only 17 per cent of those surveyed by A&O expected to use renminbi denominated products for any of
their financing needs in the next year. However, that number increases by half to 26 per cent when executives were asked whether they expected to use renminbi denominated products for financing over the next five years. "But there is increasing clarity as to how this process works and the issue will fade away once the renminbi is fully convertible, expected to happen sooner than many think.

http://www.ftchinese.com/story/001041414/en -

China cuts holdings of US debt

China divested $36.5 billion of its net holdings of US Treasury debt in August. The move was the biggest sell-off of dollar assets by Beijing this year, despite a surge in foreign demand for US financial assets as investors sought a safe haven amid the European debt crisis. Analysts said that the reduction of its holdings of US debt indicated that China has adjusted its foreign-exchange investment portfolio after the US credit rating was downgraded by Standard & Poor's in August.

China currently holds $1.137 trillion of US Treasury debt, meaning that the country is still the largest foreign owner of US debt, according to data released by the US Treasury Department on Tuesday. The August reduction was the first time that China had trimmed its US debt holdings in five months after a net purchase of more than $8 billion in July. Some analysts said that the sell-off does not necessarily mean that China has lost faith in the US dollar. Instead, they said Beijing may want to allocate more assets to US corporate bonds, which offer more stable returns.

Despite China's reduction of US debt holdings, other major foreign investors significantly boosted their holdings in the same month as they sought a safe haven amid the growing European debt crisis. The United Kingdom boosted its US Treasury holdings to $397.2 billion in August, a rise of 2.4 percent compared with July. Japan's holdings rose to $936.6 billion, up from $914.8 billion in July, according to data from the US Treasury Department.

Source: Li Xiang: China cuts holdings of US debt, China Daily, 2011-10-20

China revises M&A rules for sensitive industries

A circular issued by the ministry entitled "Implementation of the Security Review System for M&As of Domestic Enterprises by Foreign Investors" replaces guidelines issued by China's State Council in February and requires that investment proposals in sectors deemed vital to national security must be subject to a security review. The State Council added that the review board would examine proposed investment in the "defence industry and military enterprises" as well as "sensitive"
businesses related to national security, energy and resources, "critical infrastructure", "key
technologies" and "major equipment manufacturing and other enterprises".

Media agencies in China added that there were 1,798 M&A deals during 2010, although it did
not specify in which sector and added that these deals had a disclosed value of USD82 billion, an
increase of 13.8 per cent above the amount in 2009. The implementation of the security review
guidelines follows Beijing's announcement earlier this year that it plans to increase foreign direct
investment (FDI) in a range of defence-related high-technology sectors.

A directory of the industries encouraged to secure foreign investment include commercial
sectors such as agriculture, tobacco, textiles and mining. However, those with close links to defence
are also being targeted, including: helicopters and helicopter parts; unmanned aerial vehicles;
aviation ground equipment; flight simulation and training equipment; gas turbine engines; marine
engineering equipment; marine radars; aircraft design, production and maintenance; and aircraft parts
manufacturing and maintenance.

10 (Oct 1, 2011).

Walmart China loses two more executives

Walmart’s China chief executive and a senior human resources executive for the country are
leaving the company, the latest upheaval to hit the US retailer’s operations in China. The company
on Monday said that Ed Chan, chief executive for China, and Clara Wong, senior vice-president for
human resources in China, had resigned “for personal reasons”. The latest departures at the top of
Walmart’s China operations follow the equally abrupt resignations in May of the company’s chief
financial officer and chief operating officer in China. Walmart said those two executives, Roland
Lawrence and Rob Cissell, also had resigned for personal reasons.

Monday’s announcement followed the arrests last week of two Walmart junior store managers
and the detention of 35 employees by authorities in Chongqing, where Walmart stores were found to
be selling ordinary pork labelled as organic. Walmart said there was “no correlation” between the
resignations and the case in Chongqing. The company said last week it was co-operating with
authorities on the investigation and had closed its 13 stores in the south-western Chinese city for a
fortnight.

Walmart’s Chongqing operations have run into trouble with local authorities three times this
year. The company has been punished 21 times in the city since 2006. Paul French, founder of
Shanghai-based research company Access Asia, said Walmart might a target because it is a foreign
company. Mr French noted that several retailers, Chinese and foreign, had previously been caught
selling meat products past their sell-by dates. Mr French said where organic products were concerned,
part of the problem was that there were in excess of 40 authorities that could certify products as
organic. Walmart reported $7.5bn in revenue last year in China. That is just a small share of its
global revenues of $420bn but the country’s fast-growing retail market is expanding at a rate of
about 17 per cent a year.
Economic slowdown a boon to Blackstone

China's economic slowdown will result in more acquisition opportunities for foreign investors, Blackstone Group executives said. But the world’s largest private equity (PE) company will shun China's real estate market for the time being because property prices have risen too high. "Blackstone will be much more enthusiastic in a softer economic environment," Stephen Schwarzman, chairman and chief executive officer of the Blackstone Group, said in Beijing on Thursday. The Chinese economy grew at a slower pace of 9.1 percent in the third quarter, a slowdown Schwarzman said "may give rise to some economic dislocations". That dislocation means that some companies may have financial difficulties, a scenario he said will provide good opportunities for investors such as Blackstone. Schwarzman said Blackstone likes to invest when other people become pessimistic.

High property prices have been among the reasons Blackstone thought the time not conducive to investing in China's real estate market, Schwarzman said.

The company's recent sale of a 95 percent stake in a Shanghai shopping center, Channel One, to Hong Kong-listed New World Development Co for 1.46 billion yuan ($230 million), is "a successful investment", Schwarzman said. The company bought the Shanghai property in 2008 for about 1 billion yuan and then significantly increased its tenant ratio. However, Antony Leung, the group's chairman for Greater China, said Blackstone is confident about China's real estate market in the long term. "The trend for China's urbanization is still there. When (property) prices are going down, they will be attractive," Leung said. The company has shown interest in investing in consumer-related industries, such as healthcare and medical industries in China.

Source: Shen Jingting: Economic slowdown a boon to Blackstone, China Daily, 2011-10-28

Chinese investment in Europe to surge

In the wake of a handful of high-profile Chinese investments in companies like Volvo. This impression is reinforced by a proposal that would see China give a small chunk of its $3,200bn foreign exchange reserves to the International Monetary Fund to bail out European banks or backstop sovereign debt in the eurozone. In fact, China’s total stock of direct non-financial investment in the 27 European Union member states, while growing quickly, is still miniscule at around $15bn, according to a new study from Rhodium Group, an economic consultancy. That represents less than 0.2 per cent of all foreign investment stock in Europe.

The vast bulk of those reserves is managed under a strict mandate that does not allow it to be spent on direct
investments abroad. However, Beijing is encouraging its cash-rich state enterprises to expand beyond China’s borders and the country’s outbound investment is expected to surge in the coming years. According to government figures, China’s global stock of outbound direct investment reached $330bn at the end of June, up from less than $30bn in 2002 but that still only accounted for about 1.6 per cent of the global total from all countries. Given Beijing’s ambitions and the size of China’s economy, the Rhodium Group estimates that Chinese companies could invest as much as $1,000bn abroad between now and 2020, with much of it going to developed economies.

“China’s investment interest is moving from natural resources toward developed economy assets such as brands, technology and distribution channels so places like Europe will receive a greater portion of that $1,000bn,” said Thilo Hanemann, research director at the Rhodium Group.

Chinese direct investment in Europe in the first half of this year hit almost $3.3bn, exceeding the total for all of last year. If some large proposed deals in the energy, gas and PC sectors are completed, the total for this year could be as high as $8bn. While European officials insist the continent is open to all foreign investment Chinese officials complain that their companies are treated unfairly and regarded as a threat while investors from the US are welcomed. Analysts say the biggest obstacles to more direct investment in Europe are Chinese companies’ lack of experience in international deal-making and their inability to adapt to the legal and political environment they encounter there. “So far we have seen very few successful stories of Chinese companies operating in Europe,” said Tao Jingzhou, managing partner for Asia at Dechert law firm. “It is a struggle because of much higher costs and a very different legal structure, especially when it comes to labour laws.”