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Opening Remarks at the Conference on China’s Challenges for 2030

At important moments during that 30-year partnership, the World Bank undertook analytical assessments about China’s development challenges that served as the foundation for robust debates within China. Some Chinese officials and scholars – past and present – suggested that this role for the World Bank – as a partner for knowledge and learning – was even more important than our loans or investments. And some Chinese suggested that their country was at another inflection point in its path of progress toward becoming a modern, harmonious, and creative high income society. In brief, we wanted to better understand how China could avoid the so-called “Middle Income Trap” – that stage when countries reaching about $3000 to $6000 per capita income seem to stall in productivity and income growth.

I have enormous respect for China’s accomplishments since 1980, the year I first visited China. I have seen the dramatic effects of the changes with my own eyes. They have been astounding: An average growth rate of 10 percent over three decades; Improved living conditions in low-income areas for millions; Over half a billion people lifted out of poverty, through efforts which alone have ensured that the world’s Millennium Development Goal on reducing poverty will be met by 2015. The world’s largest exporter. It’s a unique development success story.

Although each country’s circumstance is special, the Chinese experience provides insights for other countries – lessons about the importance of macroeconomic stability; adapting to local initiative and inter-regional competition; integrating with the world; relying on markets and incentives; adjusting to new technologies; gaining the benefits of foreign investment, with its transfer of know-how and links to global markets; building world-class infrastructure; and investing heavily in any country’s greatest asset: its people.

In July of this year, the World Bank Group reclassified China as an upper middle income economy. In the next 15 to 20 years, China is well-positioned to join the ranks of the world’s high-income countries. That’s a transition that only a handful of countries have made – and, sadly, many have failed.

Economic research points to just how important it is for countries to change their development strategies after they have reached upper middle income status. Middle Income countries can no longer rely on growth models that have worked while they were poor – if they do, they can be squeezed on both ends: by competition from low-income, low-wage economies, as well as by competition from upper-income countries through innovation and technological change. The World Bank’s Chief Economist, Justin Yifu Lin, has been a leader in suggesting how countries need to pursue structural transformations at different stages of development.

China’s policymakers know what needs to be done. The adjusted course is reflected in both the 11th and 12th Five Year Plans, which focus on quality of growth, expansion of domestic demand through higher consumption, structural reforms to spur innovation and economic efficiency, and social inclusion to overcome the rural-urban divide and the income equality gap. Now China needs to
translate the blueprints of these plans into action – to take “what” needs to be done -- and turn it into “how.”

China’s structural challenges occur in a current international context of slowing growth and weakening confidence. I have said recently that the world economy is entering a new danger zone this autumn. At the same time, we are seeing almost record-high food prices and volatility in commodity markets, putting the most vulnerable at risk. The financial crisis in Europe has become a sovereign debt crisis, with serious implications for the Monetary Union, banks, and competitiveness of some countries. My country, the United States, must address the issues of debt, spending, tax reform to boost private sector growth, and a stalled trade policy. These are decisions that need to be made in Europe and in the United States. But we are living in a global economy. Decisions in Europe, decisions in the United States, decisions in China – they affect all of us. It’s important that policymakers make decisions not only on the short-term challenges, but also the medium- and long-term structural drivers of growth, innovation, and opportunity.

With its remarkable economic success, China is already serving as an engine of growth. But can China avoid the middle income trap and continue to grow rapidly over the next two decades and beyond? Our discussions today are based on a strong conviction that China can overcome these challenges. We take as a starting point a vision of China in 2030 as a modern, harmonious, creative high-income society that has taken its place on the world stage as a responsible international economic stakeholder. We then set forth a time-frame for and sequencing of reforms that can take China, step by step, toward realizing this vision.

But what will it take to get there – to build on China’s considerable strengths, capitalize on external opportunities, and manage the potential hazards, risks, and vulnerabilities? How can China manage the shift from an intense focus on economic growth to a broader approach that highlights quality of growth, inclusive growth, sustainable growth – and the well-being of all Chinese citizens? How can Chinese policymakers sustain economic growth while protecting the environment and using natural resources efficiently, and how can China transition toward green development? How can pricing policies assist? What will it take to help China adjust to rapid urbanization – from 50 percent of the population living in cities today, to almost 70 percent in 20 years? How can policymakers modernize the country’s fiscal and financial systems -- aligning revenues with expenditure responsibilities at different levels of government and placing all expenditures “on budget”? How should policy makers address the roles of state and market, and private and state-owned enterprises? More fundamentally, perhaps – what should be the role of the state in China – with respect to land, labor, markets, and the rule of law? What about rethinking the organization of public management, and the shift from administrative management to rule-based policies? How can China best encourage open innovation – in products, systems, and technology – in ways that connect that innovation with the global network of ideas? How should China interact with the international economy? China is already a key stakeholder in the
world economy. Looking forward, how can China be a responsible international economic stakeholder, serving as a key partner in finding global solutions and sharing mutual responsibilities? And – perhaps the most important question: How can China best draw on the talents, energy, and creativity of its people? In the next five years, more people will be leaving the Chinese workforce than joining it. How can policymakers ensure that the Chinese people can adapt, innovate, and play an active role in the healthy and positive process of change?

We have assembled an exceptional group of experts to discuss these and the many other questions to be considered for our report on China’s Challenge. We want this to be a practical guide for policymakers. Your knowledge and experience will be of enormous value in helping to improve the analysis, enhance the policy content, and make this report as useful as possible for Chinese colleagues and policymakers.


China economy: Moving on up

As wages in China rise and technology advances, exporters are moving up the value chain and increasingly competing in the core product markets of developed countries. According to a recent Economist Intelligence Unit study, China’s standing in the mid- and high-end range of exports has steadily strengthened over the past decade. However, the sectors where China is establishing a growing presence still account for only a small portion of global trade.

After a painful 2009, China's export growth has recovered to levels seen just before the downturn. Since 2001, China has steadily increased its share of global manufactured exports, by around 1 percentage point per year. In 2010 the country's share of global manufactured exports reached 13.7%, up from 12.1% in 2009. This trend in growth is likely to persist in the coming decade. Nevertheless, China and other developing countries are increasingly encroaching on categories in which developed countries have traditionally been dominant. China's global export presence in the mid- and high-end range of exports is considerably larger than it was a decade ago, while the combined share of global manufacturing exports held by the US, EU27 and Japan fell from 63.3% in 2001 to 56.3% in 2010. The specialisation of developed economies and China in high- and low-end goods, respectively, still prevails, but it is less distinct than it was in the past. Over the next decade, China will vacate the low end and build market share in the mid-market.

Our examination of the sectors where OECD countries are experiencing the strain of Chinese export competition found that over the past three years Chinese exporters have made significant inroads into 37 out of 217 commodity export markets in which OECD economies held a dominant market share. OECD countries' share of these export markets, which represent a global export market value of US$927bn, has fallen from 79% in 2007 to 74.7% in 2010. Meanwhile, China's share has increased from 8.5% to 14%. Most of these sectors involve capital equipment and related parts, reflecting improvements in precision levels of metal-cutting/shaping facilities and in metallurgical
processes. Many components that were previously hard to produce, in particular those that required a certain level of strength, durability and precision, are now being mass produced by Chinese start-ups that have successfully reverse-engineered imported products.
Source: EIU ViewsWire: China economy: Moving on up, (Sep 5, 2011).

Expert calls for economic transformation
To overcome the complicated global economic woes, China's economy is in dire need of accelerating the process of transformation, said Li Yang, vice president of the Chinese Academy of Social Sciences (CASS), Sept 7 at the 15th China International Fair for Investment and Trade (CIFIT) in the southeastern coastal city of Xiamen. As the world's economic recovery has a long journey to go, China's economic transformation should be stepped up in various areas, according to Li.

Despite the rapid growth of China's economy over the past three decades, China has developed with great dependence on the old world economic structure oriented by developed countries. To get rid of the dependence and meet the pace of fast economic expansion, China has to realize economic transformation in various aspects, such as scientific innovation, service industry, financial reform and modernized agriculture. In addition, China is obliged to participate in the formulation of rules that govern international trade and investment in order to have a say amid increasingly fierce international competition, Li said.
Source: Xinhua: Expert calls for economic transformation, 2011-09-08

Wen says domestic demand to drive growth
Chinese Premier Wen Jiabao said on Sept 14 that China will follow the strategy of expanding domestic demand while focusing on improving demand structure to drive economic growth. Wen made the remarks in a keynote speech at the opening of the World Economic Forum's annual meeting of "New Champions 2011" in the city of Dalian in northeast China's Liaoning Province.
Wen said domestic demand is a crucial and necessary choice for a big country to achieve sustainable economic growth. He said enormous domestic demand will be generated by upgrading consumption and raising the life quality of urban and rural population and strengthening weak links in economic and social development. Wen said the country will make urbanization rate grow by 4 percentage points and raise the share of the value added created by services industries in gross domestic product (GDP) by 4 percentage points during the nation's 12th Five-Year Plan Period (2011-2015).
Source: Xinhua: Wen says domestic demand to drive growth, 2011-09-14

Wen confident about China's economy
"We are confident that we can achieve the target set at the beginning of the year, with inflation still being under control," Wen said at the World Economic Forum in the northeastern port city of Dalian. Inflation, Wen mentioned several times earlier, remains the top concern for the country's economy in the coming months.But thanks to a number of measures taken by the government, the Consumer Price Index (CPI), a key gauge of inflation, rose 6.2 percent year-on-year last month,
cooling from a three-year high of 6.5 percent in July, according to the National Bureau of Statistics (NBS).

Though China's GDP growth slowed down after the second quarter this year, Wen said that was a result of the government's tightening measures to bring inflation under control and was "within expectations."

Source: Hu Yuanyuan: Wen confident about China's economy, China Daily, 2011-09-14

**Domestic market key for future**

With exports sagging in the face of the global debt crisis, China's manufacturers should look to cash in on domestic demand, said the deputy minister of commerce. "The growing domestic consumption market is turning into a platform where local companies could expand market share and enhance competitiveness globally," Wang Chao said at the Future of China and the World Trade Organization forum in Beijing on Friday. "China is becoming one of the most important parts of the world market thanks to its growing economic scale," he said.

China's exports in August pulled back from a record high and were outperformed by imports in annual growth. The nation's trade surplus last month dropped sharply to $17.8 billion, down 43 percent from July, the first time it had narrowed in six months. Wang's remarks come as the European debt woes, which economists believe will hurt the Chinese exports. Additionally, increasing labor and raw material costs, and the rising yuan, are putting the squeeze on exporters.

"Developing the domestic market is a good alternative and will be a must-do for Chinese manufacturers in the long-term," she said. In its 12th Five-Year Plan (2011-2015), the Chinese government pledged to expand domestic consumption by raising individual incomes and improving social welfare. The Chinese government is also working on measures to boost domestic sales of goods originally produced for exports. "We also welcome foreign companies tapping the domestic market," said Wang at the forum, which was held to commemorate the 10th anniversary of China's WTO accession.

Source: Ding Qingfen: Domestic market key for future, China Daily, 2011-09-17

**One-track bind; Converging economies**

China invests some 50% of its GDP, more than double the average in rich countries. The big capital projects of state-owned enterprises, such as railways, receive funding on easy terms, but interest rates paid on bank deposits are capped. A system that favours certain borrowers over ordinary savers or bank shareholders is bound to back ill-judged projects and run up bad debts, argue the bears. China's recent growth has been so impressive that it seems churlish to question whether it can continue. Yet the country will find it more difficult to grow quickly as it becomes richer, as will India and Brazil. All three big emerging markets need to find ways to avoid the inflation that has bedevilled developing countries in the past. China's reliance on exports and on investment that supports export industries has reached its limits. The problems of middle-aged development will soon afflict China and others, according to research by Barry Eichengreen of the University of California, Berkeley, Donghyun Park of the Asian Development Bank and Kwanho Shin of Korea
University. The research shows that economies such as China's, with an undervalued currency and a low rate of consumer spending, are more likely to suffer a growth slowdown.

The research shows that economies such as China's, with an undervalued currency and a low rate of consumer spending, are more likely to suffer such a growth slowdown. These milestones are based on averages of many countries that lived through sudden slowdowns, and their experiences varied widely, cautions Mr Eichengreen. These are not iron laws. Even so, it seems certain that a slowdown will follow once the easier part of the catching up has been done. The question is whether China can mitigate this by changing its growth model. Last year's model

That model has proved successful in other parts of Asia. It is export-led, so demand has been mainly from abroad. To meet it, China has mobilised its vast reserves of cheap labour, to which it has added a fast-growing stock of physical capital, much of it imported but financed from the country's own savings. Because of China's capital-intensive growth model, consumer spending has an unusually small share of GDP: in 2010 it fell to only 34% (see chart 1, previous page). This only adds to the reliance on exports.

China's growing weight in the world economy means it cannot rely indefinitely on other countries' spending "
Source: Anonymous: One-track bind; Converging economies, The Economist400. 8752 (Sep 24, 2011): 7-12.

**Price index softens for first time in several months**

China's inflation pulled back in August from a 37-month high, giving the government scope to hold off on further tightening of monetary policies in the face of a slowing global economy. The Consumer Price Index (CPI), the key gauge of inflation, rose 6.2 percent year-on-year, cooling from a three-year high of 6.5 percent in July, the National Bureau of Statistics (NBS) said on Friday. Food prices, which usually contribute the most to the CPI hike, increased 13.4 percent in August, slower than the 14.8 percent in July, the NBS said. Non-food inflation increased to 3 percent, compared to 2.9 percent in July. In seasonal adjustments, the pace of gain in non-food CPI had been steady. In the non-food CPI, the housing component had been easing for the past two months, with a decline of 0.2 percent month-on-month in August and July respectively, NBS statistics show. In addition, the sequential trend in Producer Price Index (PPI) continued to ease in August, with a fall of 0.1 percent month-on-month, suggesting the easing of pipeline inflation pressure in the next few months.

"As the July CPI figure had likely marked the peak in the latest inflation upturn, the headline CPI inflation rate is likely to moderately further going ahead, especially going into the fourth quarter," according to JP Morgan. Such a trend means repeated interest rate hikes and other curbs meant to chill the overheated economy are taking hold, giving the government greater leeway for policies aimed at keeping economic growth on track when the global economy is slowing down. Premier Wen Jiabao, quoted in a recent article in Qiushi magazine, reiterated that stabilizing prices is a top priority for the government this year.

Source: Hu Yuanyuan: Price index softens for first time in several months, China Daily, 2011-09-10
NDRC: Full-year inflation to exceed target

China's full-year inflation might exceed the country's 2011 full-year target of 4 percent, judging from the current trend, said Zhang Xiaogiang, deputy chief of the National Development and Reform Commission. However, China will continue to put the inflation management as its top priority, Zhang said at a press conference on the sidelines of the Summer Davos in Dalian. The 4 percent target was the country's previous prediction for the full-year and current trends show that this mark could be exceeded, he said.

Zhang said China's grain output is expected to grow for an eighth consecutive year in 2011 and reach a recorded 560 million tons, which will ease the country's inflationary pressure. Food price is regarded as a key contributor to the elevated CPI. Other favorable conditions including China's proactive fiscal policy and prudent monetary policy will ease the pressure of excess liquidity, but challenges still exist. China’s efforts to upgrade its economic structure mean that the country is facing imported inflation and rising costs of labor, land and environment.

Source: Lan Lan: NDRC: Full-year inflation to exceed target, China Daily, 2011-09-14

Slowing M2 growth 'within expectations'

The Chinese central bank said on Sept 12 that the slower pace of money supply growth in August was within expectations and the overall money supply was in line with current steady economic growth. In a statement on its website, a spokesman for the central bank, the People's Bank of China (PBOC), said some data for August didn't fully reflect the actual total money supply because of diversifying financial tools and lenders' increasing off-balance-sheet assets. "We are considering widening the measurement and developing an 'M2+' concept to better reflect the newest developments in financial markets," the statement said.

M2, a broad measure of money supply that covers cash in circulation and all deposits, increased 13.5 percent year-on-year as of the end of August, the slowest growth rate in six years, according to data released by the PBOC on Sept11. The growth rate was 1.2 percentage points lower than in July and 5.7 percentage points lower than in the same period last year. "We believe the major cause of the sharp decline in M2 growth was a significant statistical revision of the accounting standards for deposits and loans," said Li Wei, an economist with Standard Chartered PLC. For instance, about 50 percent of the reported M2 growth for March was not due to new loans and foreign exchange purchases - the factors that policymakers and market participants usually watch, he said.

New yuan lending reached 548.5 billion yuan ($85.8 billion) in August, up 9.3 billion yuan year-on-year and up 55.9 billion yuan from July. From January to July, new financing stood at 8.3 trillion yuan, with loans accounting for 56.2 percent. "Other channels such as bonds and stocks also played important roles in financing," said the PBOC.


Banking industry must seize new trend

The Chinese banking industry needs to transform at the same pace as the changing economy and go abroad to serve enterprises that have overseas operations, President and CEO of China Merchants
Bank Ma Weihua said on Sept 14. Traditional businesses of Chinese banks are facing challenges from China's tightening monetary policies. "Chinese banks need to cope with changes and secure assets quality, and only those that seize the new trend may maintain development" said Ma, at the Mentors Opening Press Conference of the Annual Meeting of the New Champions 2011 in Dalian, Liaoning province. China Merchants Bank, as a listed company, will guard and prevent risks and offer good value for stock holders, Ma said.

Asked about Small- and Medium-sized Enterprises' (SMEs) difficulties in obtaining loans, Ma said banks want returns that match the investments, and SMEs are considered relatively safe. "Rapidly growing SMEs with high-competitiveness will not be affected by the loan issue, but traditional businesses with low competition and facing shortage of loans will have to adjust themselves," he added.

Source: Hao Yan: Banking industry must seize new trend, China Daily.: 2011-09-14

**Local government financing is China's 'subprime': Cheng**

Borrowing by thousands of companies set up by China's local governments to fund construction is the nation's equivalent of the United States' subprime mortgage crisis, said Cheng Siwei, a former deputy head of the country's top legislative body. "Our version of the US subprime crisis is the lending to local governments, which is causing defaults," Cheng said at the World Economic Forum in the Chinese city of Dalian on Friday. He served as vice-chairman of the standing committee of the National People's Congress from 1998 to 2003.

Cheng's comments contrast with statements by government officials and Chinese executives who have sought to allay concerns that 10.7 trillion yuan ($1.7 trillion) of outstanding local government debt will saddle banks with soured loans and derail economic growth. The President of China Merchants Bank Co, Ma Weihua, this week said the chances of "large scale" non-performing assets are "impossible". On Friday, Cheng said it would be the "wrong practice" for the central government to bail out these companies even though it has the capability to do so. Local governments that don't have a lot of debt should not rescue those that have become highly indebted, said Cheng.

Borrowing by Tianjin's 144 local government financing vehicles may slump by as much as 140 billion yuan in 2011 from last year's level as banks curb risks and boost funding for small and medium-sized companies, Cui said. The companies have borrowed about 20 billion yuan so far this year, he said. In a sign that financing vehicles in some provinces are having difficulties repaying local debts, the auditor of northeast Liaoning province estimated in July that about 85 percent of such companies in the region had insufficient income last year to cover all their debt-servicing payments, according to a transcript of his speech in the Liaoning Daily newspaper on Sept 5.

Source: Henry Sanderson: Local government financing is China's 'subprime': Cheng, China Daily.: 2011-09-17

**Local debt NPL problems to loom by '13: Poll**

China's local financing vehicles could face the rising risk of bad loans and major problems might emerge as early as 2013, a report by a major Chinese asset management company released on Sept
19 said. The non-performing loan (NPL) ratio of local financing vehicles - investment companies through which local governments raise funds to circumvent regulations that prevent them from borrowing directly - is likely to reach as high as 15 percent, exceeding 1 trillion yuan ($156 billion), according to China Orient Asset Management Co. The report surveyed 234 institutional respondents, including commercial banks, asset management companies, investors and intermediary agencies. About 84 percent of those surveyed at commercial banks said the local financing vehicles would encounter a major NPL problem. About 57 percent reckoned that this would occur in 2013 while roughly 25 percent said this might happen in 2012, according to the report. Intermediary agencies were more pessimistic: About 98 percent of the respondents said a concentration of bad loans would occur, and half of them said it would happen in 2012. No respondents said the local government debt problem would reach a dangerous level this year.

The survey indicated that commercial banks' bad loans would dramatically increase after 2012, reflecting China's stimulus spending as it sought to fight the effects of the global financial crisis. About 73 percent of the respondents at commercial banks said that bad loans generated by the enormous increase in new loans in the past two years will emerge in concentration in 2012 or thereafter. Major sources of NPLs will be local financing vehicles, even though the loans were related to high-speed railways, steel and new energy industries, it said.

Source: Lan Lan: Local debt NPL problems to loom by '13: Poll, China Daily, 2011-09-20

Calls for faster tax reform

A table measuring the harshness of a country's tax regime in 2009, which ranked the Chinese mainland high at second place, has again aroused much debate, with experts urging faster reform of the system. According to the 2009 Tax Misery and Reform Index released by Forbes Magazine, the Chinese mainland scored 159, following France which scored 167.9. The list put Chinese citizens under the category with the heaviest tax burden in the Asia-Pacific region. By comparison, Hong Kong was considered the kindest in taxation in the region with a score of just 41.5.

China's fiscal revenue in September was up 30.9 percent compared with the same period last year, according to data from the Ministry of Finance. Statistics also show that about 80 percent of revenue came from taxes in the first eight months of 2011.

"China is in no way among the heaviest taxed countries in the world," Zhu Qing, a finance professor at Renmin University of China was quoted by People's Daily as saying. Zhu argued that the figures Forbes used to reach its conclusion in 2009 were "not scientific and were unreasonable" because they focused on the maximum individual tax rate in China of 45 percent, "a rate that only applies to fewer than 0.2 percent of taxpayers on the mainland". He estimated that China's tax burden as a percentage of gross domestic product was around 21.9 percent last year, which was lower than an average of 34.8 percent among 30 countries covered by the Organization for Economic Cooperation and Development (OECD) in 2008. Zhu's opinion received an immediate response, with Zhou Jiangong, chief editor of Forbes Chinese edition, insisting the survey was conducted fairly. "To calculate the index according to the highest marginal percentage in each locale is to establish a
measurement by which the tax burdens of different countries or regions can be compared," Zhou said.
Source: Wei Tian: Calls for faster tax reform , China Daily, 2011-09-26

**China's cabinet adjusts resource tax rate**

The State Council, or China's cabinet, announced on Sept 21 the adjustment of China's resource tax rate for crude oil and natural gas. The announcement, which came out of an executive meeting of the State Council chaired by Premier Wen Jiabao, came after officials agreed to link the resource tax to sale prices for crude oil and natural gas and adjust resource tax rates for the two products. The resource tax is currently linked to sale quantity only.
Source: Xinhua: China's cabinet adjusts resource tax rate, 2011-09-22

**China's Copycat Economy: Boon or Barrier?**

People's Bank of China adviser Li Daokui and U.S. Ambassador to China Gary Locke squared off Wednesday on intellectual-property protection at a World Economic Forum session in Dalian. The discussion was civil, but the conclusion inescapable: The two countries remain far apart on the divisive subject.

'Mr Locke has been an outstanding U.S. ambassador and has faithfully carried the message that the U.S. wants to give to our audience: to protect the economy there needs to be intellectual property protection. But I disagree,' said Mr. Li, an academic adviser to China's central bank, during a panel session entitled Next Frontiers of Growth in China. Responded Mr. Locke: 'If China doesn't strongly enforce intellectual property rights, I'm not saying that innovation won't occur in China, but certainly, the full potential of Chinese talent will not be realized,' said Mr. Locke.

Li acknowledged that 'there could be one or two aspects where there could be reform,' though he didn't provide details. Instead, he suggested China's priority now should be directly entrepreneurs, especially young ones, rather than putting barriers in their way. Only after the Chinese economy has developed to a certain degree should the authorities turn their focus to intellectual-property protection and nurturing its newly established brands, he said.

Mr. Locke warned that China's inconsistent intellectual-property enforcement sets a bad overall tone for business. 'There has to be predictability, there has to be transparency, in how laws are made,' he said. 'You cannot go around living in a country where what was perfectly legal for many years is suddenly made illegal...That discourages innovation and puts a dampener on entrepreneurship.' He also said China could face a flight of talent to other countries if there isn't sufficient protection of intellectual property rights. 'Now that innovation is an important part of every country's economy, there has to be a foundation that encourages that innovation,' he said.

**Shanghai cheap versus earnings**
Shanghai equities are the cheapest they have ever been relative to forecast company earnings, highlighting the extent to which Chinese investors have lost their appetite for stocks. The Shanghai Composite index, which dropped 1.1 per cent on Thursday, is now valued at 10.9 times forward earnings, the lowest level on record, according to data compiled by Bloomberg. On current earnings, the index is also at record lows with a price-to-earnings ratio of 12.6. Investor pessimism about the outlook for corporate profits in the coming months and years provides one potential explanation for the Chinese stock market’s record low p/e ratio.

However, Andy Xie, a Shanghai-based independent economist, said that the biggest reason for the depressed stock market was China’s booming grey market for loans. The lure of double- or even triple-digit interest rates has attracted investors to place their money in underground lending markets or wealth management products, rather than in the stock market, says Mr Xie. If his view is correct, a downturn in the property market could provide the catalyst for a Chinese stock market rally as those investors who have been funding loans at high interest rates and betting on property price rises channel their funds back into the stock market.

Source: Robert Cookson in Hong Kong: Shanghai cheap versus earnings, Financial Times, 2011-9-29

Where next for the ChiNext?

Rumors of unrealistic valuations and IPO fraud have seen the high-growth index register a major decline, reports Gao Changxin in Shanghai. After a grand debut in 2009 and a notable rally last year, the ChiNext board - an exchange for high-growth, high-tech start-ups - has undergone a major retreat this year. To make matters worse, analysts say the decline of the Shenzhen Stock Exchange's counterpart to the Nasdaq is not due to normal cyclical fluctuation. Rather, they believe that it represents the bursting of a bubble as investors return to rationality. Worse, the experts have warned that the downward trend could continue, as global and European uncertainties take a toll on the domestic market, especially small-cap companies.

The scale of the retreat has been phenomenal. The ChiNext had shed a third of its value, sliding from a high of 1239.6 on Dec 20 to a record low of 783.86 in intraday trading on June 23. By comparison, the Shanghai Composite Index, which tracks the bigger of China's stock exchanges, dropped only 5.26 percent from 2825.33 on Jan 1 to 2664.28 on June 16. Back then, 120, or 54.3 percent, of the 221 stocks on the ChiNext had fallen below their issue price. Among them, 101 stocks were trading at more than 30 percent lower than their debut levels. The board's average ratio reached a high of 80.01 this year, before slumping to around 40. That figure is more than twice that of the A-share market and the New York-based Nasdaq. On June 17, the average price-to-earnings ratio of A-share stocks was 15.76, while the rate for Nasdaq stocks was below 20.

Much of the decline came after investor confidence was dented by the sluggish results reported by the board's companies in the first quarter of this year. During that period, 23 percent of the 221 ChiNext companies reported a decline in net profit, according to Heading Century Consulting Co Ltd, an IPO consulting firm. And 12 of the 56 companies that have joined the board this year reported a
decline in profits. For example, Xinning Modern Logistics Co Ltd lost 1.81 million yuan ($283,700) in the first quarter, compared with a profit of 2.35 million it registered in the same period a year ago. "Investment banks and venture capital firms, which benefit from high issue prices, are behind the board's overvaluation," said Liu Guanwu, an IPO analyst with Analysys International, a Beijing-based consulting firm. "The higher the issuing price, the higher the commission gained by the investment banks and the return for venture capital, so they have an incentive to push up the issuing prices," Liu said.

According to figures from the Shenzhen Stock Exchange, 21 companies on the board were shorted by their own managements in May. And as of May, only 79 ChiNext companies had been listed for longer than the one year lock-up period required before management could sell the stock. Heading Century said in a recent report that irregularities have been rampant in ChiNext IPOs. Since the board's launch, regulators have received 200 written accusations concerning more than 100 companies, it said. "The accusations touch on irregularities in equity transfer, affiliated transactions, taxation and patents, exposing the phenomenon that some companies engage in fraud in their IPO processes," Heading Century said in the report.

For now, VC companies, which make a profit out of exits from IPOs, seem to be the biggest beneficiaries of the ChiNext. As of May 30, 134 of the 221 companies on the board were backed by VCs, according to Analysys International. The board's exceptionally high price-to-earnings ratio, providing exit channels with high returns, has led to a better investment return for VC firms. The average return on VC/Private Equity investments on the ChiNext stood at 11.59 times, compared with a return of 5.91 times on foreign stock markets, Ni Zhengdong, president of Zero2IPO, told a forum in Shanghai last year.


**Tiangong-1 space module blasts off**

Tiangong-1, or Heavenly Palace, blasts off from the Jiuquan Satellite Launch Center in Gansu province at 9:16 pm on Thursday. Launch declared a success as space station era beckons.

The Long March II-F T1 rocket, under the unmanned module, Tiangong-1, lifted off from the Jiuquan Satellite Launch Center at 9:16 pm as planned. Ten minutes later Tiangong-1 separated from the rocket on its way to orbit, 350 kilometers above Earth. The module deployed its two solar panels, which provide power, at 9:28 pm. At 9:39 pm, Chang Wanquan, chief commander of the manned space program, declared the launch a success as cheers and applause echoed around the command and control center in Beijing.

The launch paves the way for China's first rendezvous and docking mission. An unmanned Shenzhou VIII spaceship will be launched in November to dock with Tiangong-1. Two more missions are scheduled for next year and astronauts will board Tiangong-1, which can also function as a space lab. Wu Ping, the space program's spokeswoman, said that the ability to rendezvous and dock is vital for building a space station, which China has scheduled for around 2020. China has invested 35 billion yuan ($5.47 billion) in total on its manned space program since 1992, when it was approved, she told.
China Daily. The first phase, from 1992 to 2005, accounted for 20 billion yuan. During this period, China launched six Shenzhou spaceships to set up a system transporting astronauts between Earth and space. In the second phase, from 2005, 15 billion yuan has been spent on projects, including Shenzhou VII and the first rendezvous and docking mission, she explained.

Zhou Jianping, chief designer of China's manned space program, said that the space lab and future space station provide a rare platform for conducting experiments that could lead to breakthroughs in the study of materials and biological pharmacy. "Experiments made in the microgravity of space can lead to unexpected results," he said. "The primary purpose of China's manned space station is to peacefully explore space, and through it, serve mankind," he said.

Some have questioned the participation of the military in the program. However, the military has experience in coordinating large-scale requirements that are vital for the program and their involvement reflects international norms, Ministry of National Defense spokesman Geng Yansheng said on Wednesday. He reiterated that China is firmly opposed to the weaponization of space and the program is peaceful.

Besides the manned space program, China launched two lunar orbiters in 2007 and 2010. It plans an unmanned lunar landing around 2013, and returning moon samples in 2017.

Source: Xin Dingding: Tiangong-1 space module blasts off, China Daily, 2011-09-30

**Chinese businessmen urged to sustain growth through innovation**

Sustaining growth is one of the major concerns of business elites currently gathered in northeast China's city of Dalian for the World Economic Forum's Summer Davos meeting. Businessmen agreed "take innovations to the market" during the forum, which will end on Sept 16. The appeal for innovation in the business and technology sectors comes at a time of uncertainty, with the European sovereign debt crisis unnerving global markets.

"Innovation can happen everywhere: technological innovations, business innovations, financial innovations," Dr. Jeong Kim, president of Alcatel-Lucent Bell Labs and head of Alcatel-Lucent Corporate Strategy, said during an interview on the sidelines of the meeting. Kim said he was "a bit surprised" to hear the term "disruptive innovation" being tossed around in China this year. The term describes a phenomenon in which a new product or technology creates a new market and value network, eventually going on to disrupt an existing market and displace previous products. Kim said
he believes that China has mastered "realistic innovation" and that it will be interesting to see how China does in creating "disruptive innovation."

China plans to increase the amount it spends on scientific research and development, raising the amount from 1.75 percent of the gross domestic product (GDP) to 2.2 percent during the 12th Five-Year Plan period (2011-2015). Analysts say innovation is still a scarcity in many parts of China, where the economy remains largely investment-driven. Kim believes that the key to spurring innovation in China is to spend more time investing and researching in scientific sectors. "If you don't have broad-based research, then you don't have any options other than following or copying from someone else," he said.

Source: Xinhua: Chinese businessmen urged to sustain growth through innovation, 2011-09-16

The challenge of global creativity

The Zhongguancun Forum is a conference that covers the fields of science, technology, economics, intellectual endeavors, finance, and politics, under a general theme of "innovation and development". It is an annual event, which was first held in 2007, and is meant to help the development of the Zhongguancun National Innovation Demonstration Zone while projecting an international image. The first conference had a theme of "innovation, cooperation and development" and pulled in nearly 400 delegations from China, the United States, Germany, France, and seven other nations. The following year, the forum had the theme "technology - global innovative challenge" and drew around 1,000 people from more than 10 countries. In 2009, its topic was "innovative ability and the spirit of entrepreneurs". Major topics for discussion included the low carbon economy, financial innovation and development, and intellectual property rights protection. The 2010 Zhongguancun Forum drew more than 2,000 participants and the theme was "A base for strategic emerging industries".

After only a few years of development, Zhongguancun has itself become an important indicator of China's improvements in various industries. And it has seen its own breakthroughs in core technologies and creativity. It is also the birthplace of China's electronic information industry and is leading the development of the new generation of information technology. It claims to be the most complete, biggest information technology industry center for integrated circuitry, mobile telecommunications, software services, biologics, and high-end equipment manufacturing.

Source: Xu Xiao: The challenge of global creativity, China Daily, 2011-09-29

Nuclear industry's growth to slow

The expansion of China's nuclear power industry will slow from the rapid rate of the 11th Five-Year Plan (2006-2010), but the country should avoid drastic changes in nuclear development policies, said a former head of the National Energy Administration. "China's nuclear industry base is still weak and we must ensure development stability and consistency," Zhang Guobao, who also serves on the Chinese People's Political Consultative Conference, said in a speech posted on Tuesday on the website of the China Nuclear Energy Association. China will have 42 gigawatts (gW) of nuclear capacity by 2015, equal to 3 percent of total installed power capacity, according Zhang said.
After the accident at Japan's Fukushima nuclear complex caused by the massive March earthquake and tsunami, China's State Council said on March 16 that it would suspend approvals of new nuclear power stations and order comprehensive safety inspections at all nuclear plants, including those under construction. The inspection concluded in early August. No information on the inspections has been released so far.

China hasn't approved any new projects so far this year and the industry's development will slow compared with the past five years, said Zhang. Before the Japanese accident, another 10 units using the latest Westinghouse Electric Co AP1000 technology were in the planning stages. Preliminary work on these projects was also suspended, according to the State Nuclear Power Technology Corp, a major nuclear technology developer. Billions of yuan had been spent on preliminary work, and the suspension meant a loss of orders for dozens of manufacturers. Additionally, China has 27 units at some stage of construction, representing 30 gW of nuclear capacity, or 42 percent of the world's total units under construction. Zhang also said that China should use the inevitable slowdown in construction to address weaknesses in the sector, including manufacturing capacity and technological innovation. Last month, China connected its fourth-generation reactor to the grid. The plant is an experimental fast-breeder reactor, which produces less radioactive waste than current designs.

Despite the vibrant development of renewable energy, nuclear power remains an irreplaceable choice for China to achieve the target of generating 15 percent of its electricity from non-fossil fuels by 2020, said Zhang. "We should take this crisis as an opportunity to catch up as the world's leading nuclear power country."

Source: Liu Yiyu: Nuclear industry's growth to slow, China Daily.: 2011-08-31

Low-carbon growth 'needs incentives'

Government incentives are important to pave a low-carbon road for economic growth, and the corporate sector should be the main player through technological improvement, said officials and industry insiders at the World Economic Forum in Dalian.

"The most important thing is to have the right direction," said Gao Jifan, chairman and CEO of Trina Solar Ltd, a solar panel manufacturer in China. According to Gao, new energy solutions, such as solar power, provide the "right direction" for growth, although many deficiencies still exist. "As long as we have the direction correct, we can succeed at last. But this also requires policies, technologies and investment," he said. However, policies are only the foundation, said Gao. "We must have a good overall plan, along with advanced technologies, to bring value back to investors." He has a vision that many of the world's households will have "zero-consumption" residences by about 2020, meaning they would get all their electricity through a self-contained, solar-powered generation and storage system. Without limits of the grid, this type of technology can be used everywhere in the world, especially in less-developed areas. The cost of a solar-power panel that can produce 1 watt of electricity was $4 in 2005, but it is only $1.2 to $1.3 now, he explained. "This is the result of technological innovation and large-scale manufacturing. And it makes us more confident of seeing solar energy become a major part of the energy system in the future."

Source: Zhang Zhao: Low-carbon growth 'needs incentives', China Daily.: 2011-09-16
The greenness of China: household carbon dioxide emissions and urban development

China urbanization is associated with both increases in per capita income and greenhouse gas emissions. This article uses micro data to rank 74 major Chinese cities with respect to their household carbon footprint. We find that the 'greenest' cities based on this criterion are Huaian and Suqian while the 'dirtiest' cities are Daqing and Mudanjiang. Even in the dirtiest city (Daqing), a standardized household produces only one-fifth of the emissions produced in America's greenest city (San Diego). We find that the average January temperature is strongly negatively correlated with a city's household carbon footprint, which suggests that current regional economic development policies that bolster the growth of China's northeastern cities are likely to increase residential carbon emissions. We use our city-specific income elasticity estimates to predict the growth of carbon emissions in China's cities.


African Energy's New Friends in China

China's engineering and manufacturing giants have recently completed or are participating in at least $9.3 billion of hydropower projects in Zambia, Gabon, the Democratic Republic of Congo, and elsewhere on Africa, according to data compiled by Bloomberg and International Rivers, a Berkeley, CA, environmental group. A similar, if smaller, push is happening in newer renewable technologies. Chinese enterprises are now the top investors in African solar power, and China's government in June earmarked $100 million for solar projects in 40 African countries. Overall Sino-African trade hit $127 billion in 2010, up from $10 billion in 2000, Beijing's commerce ministry reports. One attraction for African governments is that Chinese investment comes with few strings attached. China doesn't tie its aid to human-rights progress, environmental issues, or democratic governance, as the US and Europe do.


Rich realize value of giving for charity

An audience of 6,000 was expected for the concert in Guizhou province, but more than 20,000 attended. The singer topping the bill was no rock star but 43-year-old businessman and high-profile philanthropist, Chen Guangbiao. Many of the concert-goers might have turned up anyway for the free livestock and farm tools Chen had promised to give out after the Sunday night show in Bijie's city square. After the two-hour concert of pop songs, including some he had penned himself, Chen handed over 2,000 pigs, 1,000 sheep and 113 tractors to the Bijie city government, asking that they be given to farmers in need.

After 30 years of unprecedented economic growth, the commercial elite, like Chen, are looking for ways to put their money into the hands of those less fortunate. The methods they choose vary. In
June, Zong Qinghou, ranked by Forbes China as the third richest man in China, told Xinhua News Agency he will set up a family foundation with initial capital of about 2 million yuan ($309,000). The amount may seem paltry compared with his $5.9 billion in assets, but the founder of one of China's largest beverage companies, Wahaha, also said he will set aside part of the annual bonuses he receives from Wahaha's 150 companies and use it as "a continuous capital" for the foundation. The government's Ministry of Civil Affairs has already approved the foundation. The new family foundation is to function as an internationally recognized prize, similar to the Nobel Prize, encouraging scientific innovation and offering more educational opportunities to underprivileged people. "Charity doesn't equal donation," Zong said. "I have a company with more than 30,000 employees to run, and the first step is to provide them with a good life, and then if possible, create more jobs for more people."

Statistics from the Zhejiang Civil Affairs Bureau showed that businessmen from the area collectively donated 230 million yuan after the 7.1-magnitude earthquake in Yushu, Qinghai province, last year. In 2008, after the Wenchuan earthquake, donations from Zhejiang business owners reached 3.5 billion yuan, with material contributions worth an additional 650 million yuan.

Jack Ma, the founder of world largest online shopping platform, Alibaba, agreed that doing charity should not be highlighted and that it relies on personal consciousness. He was the only person from Zhejiang who attended Buffett and Gates' dinner, but Ma didn't promise to give away all his property. He defended his decision by saying that Buffett made his decision to flow to the philanthropic cause at the age of 75. Most Zhejiang businessmen are now about 50, the age when Buffett was also busy creating wealth, instead of thinking how to handle it.

The Wang Zhentao Charity Foundation, named after the shoe magnate of Zhejiang's Aokang Group, may be a good example. With initial capital of 20 million yuan, Wang has helped more than 1,000 university students finish their college degree studies, with the promise that after graduation, they will help to pay the tuition for another student for one year. "Some of the kids are about to graduate this year and 5,000 yuan won't be a very heavy burden for fresh graduates, but it will continue to benefit more and more people," said Wang Hailong, the spokesman for Aokang. "Besides, it will also teach the younger generations to give back, creating a beneficent environment for society."

Source: Xu Junqian and Wang Yan: Rich realize value of giving for charity, China Daily, 2011-09-27

**Chinese property boom starts to wobble**

Chinese bonds and equities are flashing warning signs that suggest the booming mainland property sector is heading for a bust – a development that would send shockwaves through financial markets worldwide. Fears are most stark in the international bond markets, where Chinese property developers have sold $19bn of debt in recent years. Prices of these bonds have plunged by an average 22 cents on the dollar in the past two months alone, causing yields to jump. Equity markets are also delivering a brutal verdict. Since the start of the year, Chinese property stocks listed in Hong
Kong have tumbled 40 per cent, compared to a 22 per cent decline in the benchmark Hang Seng index.

Partly as a result of the dearth of accurate, comprehensive data on supply and demand for housing in China, there is a wide array of opinions about whether the market is a bubble, and if it is, whether it has started to burst. What is without doubt, however, is that Chinese property developers took on enormous amounts of debt in recent years as they pursued aggressive expansion plans, leaving them little room for manoeuvre if property sales do fall.

Making matters worse, developers are losing access to funding, having been frozen out of public bond markets for the past three months. Meanwhile, state-owned banks are following government orders to restrict lending to all but the most powerful developers. In January 2010, when bullish sentiment about China was running high, Evergrande sold $1.35bn of five-year bonds to US, European and Asian investors with a coupon of 13 per cent. Those bonds are now trading at 73 cents on the dollar, giving a yield of 26 per cent. Meanwhile, Hong Kong-listed shares in Evergrande are trading at a multiple of just four times its forecast 2011 earnings.

Now, however, with inflation running at elevated levels and expectations that bad debts will start to emerge in the banking system, few think China will choose to implement another stimulus package on the same scale, even if the global economy faces another crisis. “The government doesn’t want the whole industry to go bankrupt but it probably doesn’t mind the market calming down if that means one or two go bust and have to be consolidated into bigger entities,” he said.

Source: Robert Cookson in Hong Kong: Chinese property boom starts to wobble, Financial Times, 2011-9-29

Pan-Pearl River bloc aims for closer relations

Governments of the pan-Pearl River Delta (PRD) region cooperation bloc have pledged to achieve closer ties in their transport network, emergency response, product quality supervision, water resources and corporate and personal credit systems. In the transport network, for example, they will jointly pursue construction of cross-provincial railways and highways, Yao Mugen, deputy director of the organizing committee of the gathering, said on Sept 22. Sharing the massive Pearl River system, the members of the bloc will jointly build up the anti-disaster capacity of the rivers and seek effective protection and rational use of these waterways, Yao said. Yao commented during the seventh session of the Pan-PRD regional cooperation and development forum and trade fair, which is being held in Nanchang, Jiangxi province, from Sept 20-24.

The bloc, dubbed 9+2, encompasses the provinces of Fujian, Jiangxi, Hunan, Guangdong, Hainan, Sichuan, Guizhou and Yunnan, the Guangxi Zhuang autonomous region, and the Hong Kong and Macau special administrative regions. It covers one-fifth of the area and one-third of the population of the country. Excluding Hong Kong and Macau, the economy of the region accounts for one-third of the national total.

Government heads of the members discussed issues including easier customs clearance, industrial relocation and the introduction of services from Hong Kong and Macau. They also signed agreements on cross-provincial family planning services and deeper tourism cooperation. Social
management made the list of key issues for the first time at this session. The members of the bloc will strengthen cooperation in education, technology, human resources, population services and social insurance, said Hong Lihe, vice-governor of Jiangxi.

Pan-PRD cooperation has a unique and important role in the country's development, and it holds an irreplaceable position in cross-Straits ties and cooperation with the Association of Southeast Asian Nations, said Li Zhaozhuo, vice-chairman of the National Committee of the Chinese People's Political Consultative Conference. As of noon on Sept 22, 1,544 deals had been signed during the event, valued at 451.3 billion yuan ($70.5 billion), Yao said.

Source: Li Wenfang: Pan-Pearl River bloc aims for closer relations, China Daily, 2011-09-23

On deep-rooted problems in China's economy

China's economy is currently at a crossroad leading to two different directions. One is to further deepen the reform, concentrate on crucial aspects and relax control over details, govern by non-intervention and let the market play an increasing role and lead the economy; while the other is to enhance the state sector with weakening the private sector, and let the government play a greater role and lead the economy. Which direction should China head for? The answer would undoubtedly be the former. As such, this paper argues that there does not exist the so-called China Model and attributes the deep-seated problems caused by those misconceptions in China's economy to three pairs of over-emphasis versus under-emphasis, namely, over-emphasis on the government versus under-emphasis on the market, over-emphasis on enriching state versus under-emphasis on enriching the people, and over-emphasis on development versus under-emphasis on public service. Moreover, in regard to how to solve these problems, the paper proposes to further advance the two fundamental transformations of government functions: 1. to transform from a development-oriented government to a service-oriented government, and 2. to transform from an omnipotent government to a limited government.


Wen: China's opening-up a long-term commitment

Chinese Premier Wen Jiabao said on Wednesday that the nation's opening up to the outside world is a long-term commitment which covers all fields and is mutually beneficial. "China's basic state policy of opening up will never change," he said. "We will continue to get actively involved in economic globalization and work to build a fair and equitable international trading regime and financial system," he said. "We will continue to improve foreign-related economic laws, regulations and policies so as to make China's investment environment in keeping with international standards, transparent and more business friendly," he said.

Source: Xinhua: China's opening-up a long-term commitment, 2011-09-14

Shanghai plans to raise the number of underwriters
To solve the financial difficulties among small and medium-sized enterprises (SMEs), Shanghai municipal authorities announced on Sept 6 plans to increase the number of underwriting companies from 69 to 100 during the coming years. According to statistics from the Shanghai Municipal Finance Bureau, 58 small-loan underwriting companies were operating in the city at the end of last year, with loans worth 17.3 billion yuan ($2.7 million) annually. The number of underwriting companies has increased to 69. "We aim to have about 100 underwriting companies in the city with a target for annual loans valued at 35 billion yuan in the next few years to ensure the ongoing availability of loans for SMEs to borrow anytime they want," said Jiang Zhuoqing, head of the Shanghai Municipal Finance Bureau at a news briefing to announce a series of policies to support SMEs.

The Municipal Finance Bureau will pay closer attention to the high costs and risks of private loans and to promoting a healthier financing environment. "Three billion yuan will be used in three ways to support the SMEs: for the expansion of underwriting companies; on lending risk controls; and on coordinating with commercial banks to provide loans, especially for high-tech companies," said Jiang. The Shanghai Banking Regulatory Bureau has also promised to encourage more commercial banks to assist and regulate the operations of underwriting companies.

Source: Yu Ran: Shanghai plans to raise the number of underwriters, China Daily, 2011-09-7

More loans offered to help SMEs

China's commercial banks pursued more aggressive lending in August than in July due to a temporary ease in inflation in August, as indicated by data released by the country's central bank on Sunday. New lending in August was 55.9 billion yuan ($8.75 billion) higher than new loans in July. New yuan-denominated loans reached 548.5 billion yuan in August, up 9.3 billion yuan year-on-year, the People's Bank of China (PBOC), the country's central bank, said in a statement on its website on Sunday.

By the end of August, the outstanding broad money supply (M2), which covers cash in circulation and all deposits, rose 13.5 percent year-on-year to 78.07 trillion yuan, down 1.2 percentage points from July growth and down 5.7 percentage points from the same period last year, according to the statement. The M2 growth in the first eight months fell below the target of 16 percent set by the PBOC at the beginning of this year. The continued slowdown in both M1 and M2 growth was a collective result of the central bank's monetary tightening measures in recent months amid rising inflation, said Zhu Jianfang, chief economist of Citic Securities.

Zhao Qingming, a senior researcher with China Construction Bank said lending growth was recovering during August because the central bank noted that medium and small-sized enterprises had difficulty accessing loans and, thus, lessened its liquidity tightening efforts in the markets. The accelerated construction of government subsidized housing units also helped boost the lending increment in August, Zhao said.

Source: Xinhua: More loans offered to help SMEs, 2011-09-12

CHINA: Rising costs and falling demand threaten SMEs
Over the past year, China's small and medium-sized enterprise (SME) sector has been severely hit by rising labour and raw material costs, and credit-tightening policies introduced to control inflation. The economic difficulties facing the major economies of the EU and United States have further affected their export demand. Recent reports from the Ministry of Industry and Information Technology indicated that 15.8% of the country's SMEs faced bankruptcy.


China expands lending to fund-hungry small firms

Chinese banks have extended more loans to small firms to ease their financial predicaments as the government tightens monetary supply, a banking regulator said on Sept 28. Outstanding loans to small firms grew 26.6 percent year-on-year to hit 9.85 trillion yuan ($1.55 trillion) at the end of July, said Xiao Yuanqi, an official in charge of financial services for small enterprises at the China Banking Regulatory Commission. The growth was 10 percentage points higher than that of the banks' total outstanding loans, Xiao told Xinhua. More than 100 commercial banks have set up special operations to ease small firms' difficulties getting access to bank credit, he noted.

Only 15 percent of China's small enterprises could get loans from banks and half of them had to resort to private lenders, according to a report by the National School of Development with Peking University in July. With tighter liquidity and stricter regulatory requirements on capital-adequacy ratios and loan-deposit ratios, banks are more reluctant to lend to small firms, said Ai Min, a retail banking general manager with China Minsheng Banking Corp, Ltd.

Source: Xinhua: China expands lending to fund-hungry small firms, 2011-09-29

Finance And Economics: Chinese stall; Auditing in China

The Shanghai affiliate of Deloitte, one of the Big Four global accounting firms, used to be the auditor of Longtop, a Chinese financial-software company. After signing off Longtop's financial statements for several years, the firm smelled trouble during its audit for the financial year that ended in March. Its subsequent questions did not go down well at Longtop, which seized some of Deloitte's papers and threatened to keep Deloitte staff from leaving company premises. Deloitte quit as auditor, and Longtop's shares ended up being delisted from the New York Stock Exchange in August. Longtop is one of several Chinese firms to have suffered this fate. But Deloitte is now in a bind all of its own. America's Securities and Exchange Commission (SEC) subpoenaed Deloitte's working papers for the Longtop audit in May. Deloitte says it cannot deliver them without breaking China's secrecy laws. American law can give way to foreign regulations if they are clear and justifiable. But the SEC says Deloitte has made only hazy assertions of Chinese secrecy law, the basis for which is in any case "impossibly vague".

The underdevelopment of service industry in China: An empirical study of cities in Yangtze River Delta

The service industry in China is underdeveloped, in comparison with not only the past experience of developed countries at the similar level of GDP per capita, but also other similar developing countries at present. We define this deviation of China's service industry from the development trend in other countries as the development deviation puzzle, and propose a conceptual framework based on the manufacturing cost disease hypothesis to understand the reasons behind this puzzle. We test our hypothesis using the data from the urban cluster in Yangtze River Delta. The results indicate that labor productivity growth in service industry is driven by capital investment and the development deviation puzzle is indeed rooted in the manufacturing cost disease. Our analysis suggests that, to correct the underdevelopment of service industry, the strategy of investment-driven industrialization and urbanization must be changed. Expansion of producer services is important in increasing the intensities of human capital and foreign investment.


Shanghai crash spurs transportsafety concerns

Some 270 people were injured when two trains collided on one of Shanghai’s newest subway lines, stoking further public concern whether safety has been sacrificed to guarantee the rapid expansion of China’s transport systems. The safety of public transport has become politically sensitive after the collision of two bullet trains in July, in which 40 people died. Tuesday’s crash occurred on the city’s line 10 subway, China’s largest fully automated line, when one train rammed into the back of another. The crash occurred while controllers were running trains manually after an equipment failure, Shanghai Shentong Metro Group, the subway operator, said. Xu Jianguang, director of Shanghai’s health bureau, told a press briefing most of the injuries were minor. An estimated 20 of the injured were in critical condition but the injuries were not life threatening.

“This is the darkest day ever for the Shanghai subway. Regardless of the cause or responsibility, we are stricken with remorse for having caused our passengers injury and losses,’” the company said in an apology posted on its blog. “We want to deeply, deeply apologise.” The incident has raised fresh doubts over the safety and reliability of China’s rail system, which has been built in record time under the direction of the railways ministry and a handful of state companies. The signalling system on line 10 was supplied by Casco, a joint venture between French rail group Alstom and China Railway Signal & Communication Corp (CRSC), the same company that was the general contractor for the signalling and communications systems on the section of track involved in the deadly July crash. A senior China-based rail executive said there was some early suggestion that a power failure may have played a role in Tuesday’s subway collision. The signalling system on the Shanghai metro is different from that used on the Wenzhou high-speed train line. There have been widespread allegations of corruption in the industry and, in February, China’s railway minister was removed.
from his job for “serious discipline violations”. Many experts have also voiced concern that corners have been cut in the headlong rush to expand subway and high-speed rail systems.


**The trade destruction effect and trade diversion effect of RMB appreciation**

This paper examines how Chinese RMB appreciation affects China and its competitor's exports to the third market at industry level. We develop a two-country competition model to analyze the trade destruction effect and trade diversion effect of RMB appreciation. The theoretical analysis shows that the appreciation of RMB has negative impacts on China's exports and positive impacts on its competitor's exports. We then empirically test how the appreciation of RMB to the US dollar affects China's and India's textiles and apparel exports to the US from 1995Q1 to 2008Q4. The empirical results show that an 1% appreciation of RMB to US dollar will reduce China's exports of textiles & apparel to the US by 2.63% and raise the India's exports of textiles & apparel to the U.S. by 2.71%.


**Yuan will be fully convertible by 2015**

Chinese officials told European Union business executives that the yuan will achieve "full convertibility" by 2015, Bloomberg quoted EU Chamber of Commerce in China President Davide Cucino as saying. "We were told by those officials by 2015," Cucino was cited by Bloomberg as saying, declining to identify the government departments involved. People's Bank of China Governor Zhou Xiaochuan said that while there is no timetable for convertibility, the offshore yuan market is "developing faster than what we had imagined".

According to Bloomberg, China has accelerated the use of the yuan in international trade and investment to curb its reliance on the dollar. A fully convertible currency is one of the criteria the US and Europe are demanding from China as a condition for allowing it to be part of the International Monetary Fund's currency basket. A 2015 target would be a year faster than the schedule expected by 57 percent of 1,263 global investors in a Bloomberg survey published in May. China "has no defined timetable for the yuan to be fully convertible," Bloomberg cited Zhou as saying. "It will be a gradual process." Zhou is in London for an official visit with Chinese Vice Premier Wang Qishan.

Source: Xinhua: Yuan will be fully convertible by 2015, 2011-09-09

**HK to boost yuan's internationalization**

Hong Kong is exerting efforts to build itself into an offshore center for RMB or yuan, China's currency, which, experts say, will accelerate the currency's internationalization process. Hong Kong will be dedicated to developing cross-border settlement in RMB and establishing an offshore center accordingly, Hong Kong Financial Secretary John Tsang Chun-wah said Wednesday at a forum in
the southeastern city of Xiamen. "Hong Kong will make it more convenient for mainland enterprises to trade and invest in Hong Kong," he said at the 15th China International Fair for Investment and Trade, which opened Wednesday and will end on Sunday.

In the first half of the year, the mainland's non-financial direct investment in Hong Kong hit $14.8 billion, accounting for 62 percent of the total non-financial outbound direct investment, according to Yu Jianhua, China's assistant minister of commerce. Hong Kong's RMB deposits grew by 3.4 percent from June to reach 572.2 billion yuan in July, according to the Monetary Authority of Hong Kong. Total RMB remittance for cross-border trade settlement was 148.97 billion yuan in July, compared to 205.09 billion yuan in June. Demands of trade settlement in yuan are huge in Hong Kong, said Chen Wen, a vice manager of the business optimization department of the Bank of China (Hong Kong), adding that the volume of yuan settlement in Hong Kong has totaled 1.8 trillion yuan since 2009.

Source: Xinhua: HK to boost yuan's internationalization, 2011-09-10

RQFII enhances HK's role as offshore RMB center

Analysts said that the imminent RMB Qualified Foreign Institutional Investors (RQFII) trials will be conducive to expanding the investment channels of yuan funds raised in Hong Kong. This will also enhance Hong Kong's role as an offshore RMB center and accelerating yuan's internationalization process. The People's Bank of China (PBOC), the country's central bank, will kick-start RQFII trials soon, allowing yuan funds raised in Hong Kong to be invested in the mainland's securities market, a senior official said Thursday. The official, who spoke anonymously, said that the initial investment quota allowed to RQFII will be less than 20 billion yuan ($3.13 billion), 80 percent of which will be invested in the mainland's stock market. The option will first be open to domestic fund managers familiar with the A-share market and subsidiaries of securities companies in Hong Kong. Despite the relatively conservative 20-billion yuan quota, the RQFII trial program was an encouraging start as it will help expand the investment channels for yuan funds raised in Hong Kong. Analysts estimate that the RMB deposit in Hong Kong is likely to reach one trillion yuan by the end of the year.

The RQFII program is part of the central government's measures to build Hong Kong into an offshore RMB center, said Vice Premier Li Keqiang at a forum on the nation's 12th Five-Year Plan (2011-2015) and cooperation between the mainland and Hong Kong. Li also said that more yuan bond issuance will be encouraged to bolster the offshore yuan business in Hong Kong.

An offshore RMB center is very important in promoting the internationalization of the yuan, as it is a market for transactions, deposits and innovations, said Yang Tao, an expert with the Chinese Academy of Social Sciences.

Source: Xinhua: RQFII enhances HK's role as offshore RMB center, 2011-09-13

RMB's appreciation 'to remain gradual'

The appreciation of Chinese currency will continue to follow a gradual pace despite the upcoming push of visiting French Foreign Minister Alain Juppe for a faster speed of the renminbi's rise, economists said on Sept 12. Juppe will visit Beijing on Sept 14 for talks ahead of the G20
summit in France in November. The summit will discuss the global economic crisis and high levels of sovereign debt owed to China.

The Chinese government has been under pressure from Washington and other trading partners to ease currency policies and other measures that they complain keep the yuan undervalued and swell China's trade surplus. But Wei Jianguo, secretary-general of the China Center for International Economic Exchange, said too rapid appreciation of the renminbi will chill the country's exports next year, especially when the global economy is expected to slow down. "Next year will be a critical period for China's trade, as the ongoing debt crises in the European Union and United States reduce their demand while yuan appreciation and ever-increasing trade protectionism hit China's exports," said Wei, who was a former vice-commerce minister. While China's exports to emerging economies grow rapidly, they account for just one-third of those lost to developed economies, Wei said. He forecast China's trade surplus will decrease to less than $100 billion for 2011 from last year's $183 billion.

Robert Zoellick, president of the World Bank, said last week that inflation was "the most important" issue for China, and he suggested the yuan appreciation would help ease inflation, because "an appreciated currency lowers prices at home of the foreign goods". But Lian Ping, chief economist at the Bank of Communications, said that to curb inflation should not be entirely dependent on the yuan's appreciation. "To lower the domestic inflationary pressure via the yuan's appreciation will have to require sharp increase in a short term," Lian said. "It will be undoubtedly at the cost of a sharp decline of the export and loads of jobs lost - the loss outweighs the gain."

"Generally speaking, the market's expectation for the yuan's appreciation in 2011 is between 4.5 and 5.5 percent," Liu said.


**China's SMEs face adverse conditions in 2011**

Financing difficulties, rising costs, and labour shortages have left China's small- and medium-sized enterprises (SMEs) with severe survival predicaments this year, said economic experts at The three-day Asia-Pacific Economic Cooperation (APEC) Small and Medium-sized Enterprises (SME) Summit kicked off Monday in Chengdu. SMEs contribute a lot to the employment rate and national economic development, Gu Shengzu, a member of the National People's Congress Standing Committee, said, calling attention to the severe difficulties facing SMEs in 2011. "About 60 to 70 per cent of China's SMEs face adverse conditions," said Gu. A survey showed that 20 per cent of SMEs have stopped production, gone out of business or closed down in the city of Wenzhou in eastern China's Zhejiang Province, Gu said. "If that keeps happening, plenty of small and medium-sized enterprises are likely to go bankrupt, leading to certain unemployment," said Tang Min, an official with the People's Bank of China (PBoC), China's central bank.

Due to the tightened monetary policy, small- and medium-sized enterprises have found it difficult to get loans from banks, turning instead to private loans for help. "Around 90 percent of China's SMEs rely on private financing systems, making it very popular," said Gu. Xu Xiaonian, an
economics professor at China-Europe International Business School, suggested that the government should provide fair opportunities to SMEs. "A more favorable environment for the development of SMEs ought to be created," said Xu. "Markets of monopoly industries should open up to SMEs, and tax burdens of SMEs should be reduced as well."


**China’s Rise Isn’t Our Demise**

I FIRST visited China in 1979, a few months after our countries normalized relations. China was just beginning to remake its economy, and I was in the first Senate delegation to witness this evolution. Traveling through the country last month, I could see how much China had changed in 32 years — and yet the debate about its remarkable rise remains familiar.

Then, as now, there were concerns about what a growing China meant to America and the world. Some here and in the region see China’s growth as a threat, entertaining visions of a cold-war-style rivalry or great-power confrontation. Some Chinese worry that our aim in the Asia-Pacific is to contain China’s rise. I reject these views. We are clear-eyed about concerns like China’s growing military abilities and intentions; that is why we are engaging with the Chinese military to understand and shape their thinking. It is why the president has directed the United States, with our allies, to keep a strong presence in the region. As I told China’s leaders and people, America is a Pacific power and will remain one. But, I remain convinced that a successful China can make our country more prosperous, not less.

As trade and investment bind us together, we have a stake in each other’s success. On issues from global security to global economic growth, we share common challenges and responsibilities — and we have incentives to work together. That is why our administration has worked to put our relationship on a stable footing. I am convinced, from nearly a dozen hours spent with Vice President Xi Jinping, that China’s leadership agrees. We often focus on Chinese exports to America, but last year American companies exported more than $100 billion worth of goods and services to China, supporting hundreds of thousands of jobs here. In fact, our exports to China have been growing much faster than our exports to the rest of the world. The Chinese leaders I met with know their country must shift from an economy driven by exports, investment and heavy industry to one driven more by consumption and services. This includes continued steps to revalue their currency and to provide fair access to their markets. As Americans save more and Chinese buy more, this transition will accelerate, opening opportunities for us.

Even as the United States and China cooperate, we also compete. I strongly believe that the United States can and will flourish from this competition. First, we need to keep China’s rising economic power in perspective. According to the International Monetary Fund, America’s gross domestic product, almost $15 trillion, is still more than twice as large as China’s; our per-capita G.D.P., above $47,000, is 11 times China’s. And while there is a lot of talk about China’s “owning” America’s debt, the truth is that Americans own America’s debt. China holds just 8 percent of outstanding Treasury securities. By comparison, Americans hold nearly 70 percent. The United
States has never defaulted on its obligations and never will. Maybe more important, the nature of 21st-century competition favors the United States. In the 20th century, we measured a nation’s wealth primarily by its natural resources, its land mass, its population and its army. In the 21st century, the true wealth of a nation is found in the creative minds of its people and their ability to innovate.

America’s strengths are, for now, China’s weaknesses. In China, I argued that for it to make the transition to an innovation economy, it will have to open its system, not least to human rights. Fundamental rights are universal, and China’s people aspire to them. Liberty unlocks a people’s full potential, while its absence breeds unrest. Open and free societies are best at promoting long-term growth, stability, prosperity and innovation. We have our own work to do. We need to ensure that any American willing to work can find a good job. We need to keep attracting the world’s top talent. We must continue to invest in the fundamental sources of our strength: education, infrastructure and innovation. But our future is in our own hands. If we take bold steps, there is no reason America won’t emerge stronger than ever.


Nation sharpens ability to succeed globally

China ranks 26th in competitiveness, up one notch from a year earlier, on the back of strong economic fundamentals, according to the Global Competitiveness Report released by the World Economic Forum on Sept 7. "China continues its relentless upward trend in the ranking with across-the-board strength in many areas," said Jennifer Blanke, lead economist and head of the Center for Global Competitiveness and Performance, World Economic Forum. China has improved its score and rank each year since 2005, and it leads the BRICS (Brazil, Russia, India, China and South Africa) economies by a significant margin - South Africa, second among the BRICS, placed 50th.

Improved access to healthcare and education, which economists at the World Economic Forum said are the key measures of a country's competitiveness, also enhances China's performance in the ranking. According to the report, China has made remarkable advances in business sophistication and innovation, spurred by the government's staunch efforts to encourage innovation and heavy spending in research and development. However, inflation, access to financing and inefficient government bureaucracy are the top three complicating factors for those doing business in China, it said. Moreover, standards of business ethics and corporate accountability are below those found in a number of other economies, according to the report. In previous years, China's poor results in the financial market development and technological readiness pillars lowered the economy's overall competitiveness performance. But it shows marked improvement in the first of these (up nine spots) owing to an increased availability and affordability of financial services and better access to credit.

Among the most competitive, Switzerland remains the No 1 for the third year, followed by Singapore, edging up one notch this year. Sweden and Finland came in third and fourth. The United
States dropped for a third year in a row to fifth place amid growing macroeconomic vulnerabilities and deteriorating public confidence in politicians’ ability to address critical issues.
Source: Hu Yuanyuan: Nation sharpens ability to succeed globally, China Daily, 2011-09-08

**China Fears Much Ado About Nothing**

Balance is also a crucial goal for China’s economy—the economy must not grow too quickly or risk a sharp correction. Just this year, China has weathered an epic battle with inflation, drought and floods, poor global macroeconomic conditions, massive accounting/corruption scandals and a tragic accident on one of its marquee achievements—the country’s high speed rail system.

The key to China’s economic growth isn’t “how fast?” or “how much?” The most critical question is “what’s driving it?” Many of China’s critics, such as Jim Chanos and Hugh Hendry, claim China’s current economic status is a mirage created by government stimulus and relies on exports. However, examination of China’s economic growth over time (see chart) reveals that consumption and gross capital formation are the two pillars lifting China to the top.

Net exports accounted for 18 percent of China’s total 14.2 percent GDP growth in 2007, according to CLSA’s Andy Rothman. During the first half of 2011, exports have a negative contribution of -0.7 percent of China’s 9.6 percent GDP growth and accounted for only 12 percent of total industrial sales revenues. We’ll debunk more tall tales of China’s export economy in a moment.

Strong income growth has triggered a rise in domestic consumption. CLSA says inflation-adjusted wages in urban areas rose 7.8 percent in 2010 and have risen another 7.6 percent during the first half of 2011. As a result, urban retail sales and household expenditures increased 17.4 percent and 12 percent during the second quarter of 2011, respectively. In addition, rising migrant wages and higher farm-gate prices have led to a 13.7 percent increase in real rural incomes and 16.8 percent increase in rural retail sales during the first half of 2011, CLSA says.

A primary driver of China’s economic growth has been fixed asset investment (FAI), which slowed to 23 percent in August but is maintaining the 23-25 percent pace the country has seen in recent years, CLSA says. Strong FAI is bullish for commodities demand as increased industrial activity and construction gobbles up more cement, iron ore, crude oil and copper. In addition, FAI by private
companies has outpaced that of state-owned enterprises for 17 consecutive months. Rothman says this is indicative that private firms are financially healthy and anticipate strong demand. This isn’t because the Chinese government doesn’t have the money. Revenue increased more than 21 percent in 2010 and has already jumped more than 31 percent in 2011, CLSA data shows. According to BCA, “China has one of the smallest fiscal deficits and fastest nominal GDP growth rates among major world economies.” Government expenditures for this “socialist” country only account for 23 percent of GDP, well behind other countries such as Brazil and the U.S. (both roughly 40 percent), the United Kingdom (about 43 percent) and Ireland (around 70 percent).

The low level of government expenditure as a percentage of growth is not by chance, but a specific model the Chinese government has adopted. Guan Jianzhong, the head of state-owned Chinese rating agency Dagong, recently told German news outlet Spiegel that “China relies on its real economy to create value and money. If we can draw some lessons from the Western experience, we should insist on letting real economy create value and money while discouraging the Chinese from borrowing too much money.”

Transitioning Workforce and the Importance of Housing in China

According to GaveKal’s research, China’s cities absorb 20 million new people each year, creating a current shortfall of 75 million housing units. They estimate 40-50 million new urban households will need to be constructed by 2020 in order to meet demand. The chart on the left illustrates that a large portion of China’s urban growth will take place in suburbs as cities with 1 million people or less experiencing the most growth.

Although China has seen a decade of economic transformation, detractors have also compared China’s growth to the Japanese bubble economy during the late 1980s and South Korea just prior to the Asian financial crisis in the late 1990s. GaveKal argues that China is more similar to 1960s Japan and 1970s South Korea, with “rapid catch-up growth still ahead.” Around the globe, no “rich countries” have more than 10 percent of their workforce in agriculture and no “fairly well-off” countries have more than 20 percent. The chart on the right compares GDP per capita of China, South Korea and Taiwan as their workforces transitioned away from agriculture. When China’s workforce hit the 50 percent level, the country’s GDP per capita was $2,000—roughly the same as
Taiwan. Today, China’s GDP per capita stands at $7,500 but the country is still carrying a larger percentage of farmers and ranchers than South Korea and Taiwan were at the same level. GaveKal’s research estimates that between 33 and 40 percent of China’s workforce is currently employed in the agriculture sector. As more of China’s workforce shifts to more modern jobs, their productivity and incomes increase. GaveKal says this means the country is “far from exhausting the economic gains of shifting its workforce to more productive activities.”

China Bears Doth Protest Too Much
Perhaps some of China’s negative press stems from American’s fear that China is taking our place atop the global hierarchy. There are a couple of reasons that’s just not true. One, many American companies are riding the wave of China’s growth all the way to the bank. Of the companies held in the S&P Composite 1500 Index, 707 have revenue growth above 10 percent. Many are America’s largest and oldest companies, who long ago recognized China’s transformation and shifted capital overseas to continue growing their revenues. Caterpillar already has 16 manufacturing facilities, 3 research and development centers, and 3 logistics and parts centers located in China. In a recent announcement, the world’s leading manufacturer of construction and mining equipment says it is expanding operations again. Likewise, Coca-Cola announced that the company was investing $4 billion over the next three years in China, bringing the total investment to more than $7 billion beginning in 2012. Muhtar Kent, chairman and CEO of The Coca-Cola Company, stated, “China is one our most important growth markets in the world as we work to achieve our 2020 Vision goal of doubling system revenues and servings this decade.” These are only a few examples of how American business is keeping its entrepreneurial spirit and sustaining jobs by reinventing itself in the developing world. Some will say that they are sending American jobs overseas but the U.S. economy is actually much more domestic-oriented than you’d think.

For example, U.S. imports only accounted for 16 percent of U.S. GDP in 2010 with imports from China totaling 2.5 percent of GDP. U.S. consumer spending on goods from China was only 2.7 percent of total spending in 2010, according to a new report from the Federal Reserve Bank of San Francisco. Consumer spending on items manufactured in America was nearly 90 percent of the total. A greater myth many believe is that most of the $100 you spent shopping at Wal-Mart last weekend heads back to China. However, the San Francisco Fed reports shows that for every dollar spent on an China-made item in the U.S., 55 cents lands in the pocket of U.S. businesses for services such as marketing and sales. America also sends goods in the other direction. China is America’s third-largest export market with the total U.S. exports of electronics, agricultural and other products to China rising an astounding 468 percent from 2000 to 2010, according to USA Today.

Conclusion
There are many questions surrounding the global market but the Chinese economy remains headed toward the moon. The country, of course, remains vulnerable to external forces but we believe the economy’s strong momentum will be enough to carry the country through, should volatile times persist.

China keeps word to WTO along bumpy road

It takes about five years of intricate talks on average for a candidate nation to join the World Trade Organization (WTO), but for China, such a process took 15 years plus five months. China's prolonged and uneven journey to the WTO manifested its incompleteness under the framework of global trade, as 10 years ago when the talks were started, China remained relatively secluded from the common trade rules and standards. Ten years on, China has become the world's biggest exporter and the second largest importer, but it has also suffered the most from trade protectionism. Its low-price products gender antipathy from not only developed nations but also emerging economies that have front competition with China. China will continue to vigorously push forward the opening up policy to facilitate global trade and investment, Commerce Minister Chen Deming told a forum held at the 15th China International Fair for Investment and Trade (CIFIT), which opened Wednesday in the southeastern coastal city of Xiamen.

By the end of 2000, prior to the WTO accession, the volume of China's merchandise exports and imports was $249.2 billion and $225.1 billion, respectively. Within a decade, as of the end of 2010, China's merchandise exports reached $1,600 billion and imports amounted to $1,400 billion. The general tariff rates have been lowered from 15.3 percent in 2001 to 9.8 percent at the end of 2010. The trade boom has prompted China's nearly double-digit economic growth, which has propelled the economy to become the second largest in the world. It also accumulated the world's largest reserve of foreign exchange and created millions of millions of jobs.

"China's trade-driven growth also had a trickledown effect to other developing nations. The high domestic consumption led to a significant increase in demand for natural resources and conversely benefited resource rich developing nations," said Kandeh K. Yumkella, director general of the United Nations Industrial Development Organization. China's efficient production system also has led to the global availability of a wide array of consumer goods at affordable prices. This in turn has led to an indirect increase in purchasing power of consumers in developing countries, and in turn has had a poverty-reduction impact, he added.

According to MOC data, the inbound Foreign Direct Investment (FDI) rose to $114.7 billion in 2010 from $46.9 billion in 2001. Chen Deming said, "China has opened up almost its entire manufacturing sectors and more than 100 service categories. The degree of openness is no less than some developed nations." Foreign companies also profit from China's economic boom. "A company's future is possibly determined by its performance in China. This is no exaggeration," said Hisao Sakuta, chairman of the BOD, Omron Corporation, at the forum. Omron, a leading sensing and control technology company, embarked on its first operations in China in the 1990s. At present, its revenue in China ranks second only to Japan, where its headquarters is located. The number of Omron's employees in China accounts for nearly half of its global total. It also operates two R&D centers and nine plants in the country. Thanks to the sound socio-economic administration of the government, China today is not just a manufacturing powerhouse, but also rapidly emerging as a vast consumer market, Hisao said. "We are more committed than ever to our investment strategy in the Chinese market," he added.
While admitting China is challenged by a series of new problems, including environmental and resources restrictions and rising labor costs, Chen said China still has prominent advantages, such as comprehensive industrial facilities and infrastructure, and abundant human resources as well as close links to the outside which world offer investors staunch support.

"Made-in-China" goods are known for their reasonable prices, but that has become a major source of friction between China and other countries that complain the massive inflow of low-priced products impair their domestic industries and cost jobs. Li Zengli, an official with the Fair Trade for Imports and Exports Department of the Ministry of Commerce, said Sept 7 at a meeting in the eastern city of Nanjing, that the country has been targeted most in the anti-dumping investigations for 16 consecutive years. It is also come under the most anti-subsidy probe in the past five years.

Source: Xinhua: China keeps word to WTO along bumpy road, 2011-09-09

**Shanghai to build world's biggest expo center**

Shanghai, China's economic center, plans to build a super-sized exhibition center that is likely to become the world's largest, a municipal official said Sept 8. The Shanghai municipal government has set up a headquarters to command construction of ancillary facilities to the China Expo Center, which will be located at the Shanghai Hongqiao Central Business District, said Sha Hailin, deputy secretary general of the Shanghai municipal government, at a press briefing. The project will cost 23 billion yuan ($3.6 billion), and the first-phase investment has been secured, said Sha, without elaborating on the amount. The center, composed of a main exhibition hall and ancillary facilities, will cover an area of about 1,560 mu (104 hectares), with an indoor area of 400,000 square meters and 100,000 square meters of outdoor exhibition areas, Sha said.

Source: Xinhua: Shanghai to build world's biggest expo center, 2011-09-09

**Is China Heading for Collapse?**

The CPC regime now follows a well-defined corporate-style leadership succession process with term limits, providing a degree of stability other Communist regimes never achieved. The excesses of Mao and the "Gang of Four" caution against allowing anything approaching one-man rule. China's desire for international respectability, along with a deep cultural bias favoring consensus, discourages anything more radical than "muddling through." The regime's opaque committee system is the antithesis of the "cult of personality" found in almost all of the countries experiencing sudden regime change.

Although China may look like a rising economic and political competitor today, that situation could quickly reverse. The wildly erroneous predictions of "Japan as #1" three decades ago should warn the outside world not to over-react to the "China threat." Punitive U.S. measures in response to China's mercantilist trade and currency policies and disregard for intellectual property rights, however justifiable on the merits, could create the impression in China that the US has created, or at least hastened and deepened its economic stagnation. The United States should avoid providing the CPC regime any excuse to claim the United States is the cause of China's woes. If the Chinese people as a whole ever adopt that view, U.S.-China relations could be poisoned for decades.
The United States and the international community should also recognize that, as China's economy deteriorates, any confrontational military maneuvers are likely to be met with escalation rather than compromise. Confrontation would tempt a struggling CPC regime to adopt a jingoistic, rally-'round-the-flag patriotism. The CPC regime already inculcates and makes political use of anti-Japanese feelings among Chinese born long after the end of World War II. "Foreign threats" would serve both to encourage public unity and to justify crushing whatever real or perceived internal opposition exists. It would also favor increased military expenditures and distract people from adverse economic and ecological developments. The United States should make serious efforts to avoid becoming the new enemy. It will need to tread carefully to avoid making China's economic decline worse both for China and the rest of the world.

Source: Samuel A. Bleicher, "Is China Heading for Collapse?" (Washington, DC: Foreign Policy In Focus, September 13, 2011)

**Becoming number one**

IN 2010 CHINA shot past Japan to become the world's second-largest economy (based on current market prices). But when might it supplant America at number one? The answer depends on how the exchange rates are calculated.

The Economist has crunched the numbers and found that, based on reasonable assumptions about these three variables, China could overtake America in the next decade. Its economy has grown by an average of more than 10% a year over the past ten years. As the country gets richer and its working-age population starts to shrink, that growth rate is likely to tail off to perhaps 8% soon. For the American economy the calculation assumed an average annual growth rate of 2.5%.

Inflation tends to be higher in fast-growing emerging economies than in slow-growing rich ones. This is because of the Balassa-Samuelson effect, named for the two economists who first explained it. Fast productivity growth in export industries raises average wage costs across the economy, including in non-traded services where productivity is sluggish. That in turn pushes up average inflation. Our projection assumes a 4% inflation rate in China compared with 2% in America.

The third factor is the exchange rate. To sustain its catch-up with America, China needs to rebalance its economy away from exports towards consumer spending, which will require a rise in its real exchange rate. Some of this will come from having a higher inflation rate than its trading partners. But China's large current-account surplus and America's big deficit also suggest that the yuan will have to become much stronger and the dollar much weaker. We have allowed for an extra 3% annual rise in the yuan against the dollar on top of the inflation gap of two percentage points. That implies a slight slowdown in the yuan's recent appreciation.

If all this comes to pass, China's economy will be bigger than America's by 2020. On a different set of assumptions--a Chinese growth rate of 6%, an American one of 3% and an appreciation of the yuan of 2% a year--the date slips to 2024. Or you can make your own predictions, using the interactive chart on The Economist's website, by going to

Source: Anonymous: Becoming number one; The Economist400. 8752 (Sep 24, 2011): 5.
Obstacles remain for China-Japan-ROK trade zone

Insufficient mutual trust and the protection of sensitive industries remain two major obstacles for China, Japan and the Republic of Korea (ROK) to establish a trilateral free trade zone, a Chinese commerce official said on Sept 5. Since 2002, the three Asian neighbors have mulled over the creation of a free trade zone that would encompass a market of almost 1.5 billion people. "In light of the trend of international cooperation, it is necessary for China, Japan and the ROK to establish such a free trade zone. And now, all conditions are ripe on the whole," said Chen Zhou, director of the Department of Asian Affairs under the Ministry of Commerce, at the ongoing 7th China Jilin Northeast Asia Investment and Trade Expo.

But before realizing the zone, the three countries need to further enhance mutual trust and create an atmosphere of expanding mutual economic cooperation, Chen said. He added that each nation has certain industries it wants to protect. Japan and the ROK are sensitive toward their agricultural industries, while China is concerned over technology-intensive manufacturing industries. Disagreements also remain over the opening-up of investment areas, Chen said.

Officials have said the three countries are expected to start negotiations on the establishment of a trilateral free trade zone next year, and a research report will be finished by the end of the year and submitted to heads of the three governments. During a visit to Japan in May, Premier Wen Jiabao said that China is willing to push forward the negotiations with the greatest sincerity.

Currently, China is the biggest trading partner for both Japan and the ROK. In 2010, China-Japan trade reached nearly $300 billion, while China-ROK trade totaled over $200 billion, both of which reached new highs. Japan and the ROK are China's major sources of foreign investment. They have established nearly 100,000 companies in China with an accumulative investment of $120 billion.

Source: Xinhua: Obstacles remain for China-Japan-ROK trade zone, 2011-09-06

China ranks 6th in int'l trademark registry applications

China became the world's sixth largest applicant for international trademark registry this year, up one place from 2010, a deputy director general of the World Intellectual Property Organization (WIPO) said on Sept 6. The WIPO received a total of 39,687 applications worldwide in 2010. Among them, 1,928 came from China, up 42.2 percent year-on-year, the second fastest increase worldwide after the Republic of Korea, Wang said at the 4th China Trademark Festival being held in Chengdu, capital of southwest China's Sichuan province. Meanwhile, China's domestic trademark registry applications are also rapidly increasing, with the number of applications exceeding 1.4 million so far this year, according to Wang.

Despite the massive number of Chinese trademark applications, the country lacks well-recognized trademarks. "Actually, we cannot yet name a truly internationally-recognized Chinese brand," said Zhang Yumin, an intellectual property rights researcher with the Southwest University of Political Science and Law. Meanwhile, trademark protection is not adequate in the country, said Yuan Qi, an official with the Trademark Department of the State Administration for Industry and Commerce. Yuan said this has led to rampant trademark rights violations.
Firms vulnerable in trademark protection overseas

As Chinese enterprises pick up the pace to go global, they find themselves frequently challenged in protecting trademarks overseas. In Sept 2004, Hisense Group, a leading home appliance maker in China, reported having its trademark registered by German industrial giant Siemens AG. Beijing-based Wangzhihe Food Group discovered in July 2006 that its trademark and logos had been pirated by German food company Okai. The increasing number of trademark infringement cases demonstrates Chinese firms' vulnerability in protecting trademarks abroad, experts said.

"Despite a rapid increase in Chinese trademark applications over recent years, Chinese firms still face rampant trademark violations in the overseas market," said Shen Chunxiang, who works with a Beijing-based law office. ANTA Sports Products Chairman Ding Shizhong estimated that at least 15 percent of Chinese trademarks have been pirated abroad and that more than 100 infringement cases occur each year. "Chinese firms have certain difficulties in protecting their trademarks in foreign countries as they are unfamiliar with local laws, cultures, and languages, and legal expenses are high," Shen said.

Chinese firms are also less aware of trademark protection, said Yuan Qi, an official with the Trademark Department of the State Administration for Industry and Commerce (SAIC). SAIC figures show that foreign companies filed 154,000 trademark applications in China by 2010, while Chinese firms applied for 11,400 trademarks overseas. China currently has 5 million effective registered trademarks. Though the country has the world's most registered trademarks, only one in every ten domestic firms possess one.

Chen Lin, general manager of China's leading liquor maker Wuliangye Group, said taking legal action against intellectual property rights (IPR) disputes has protected the brand and won it fame on the liquor market. The company is famous for winning a trademark infringement case in 2007, in which the manager of a pirated "Wuliangye" brand distributed in Incheon, Republic of Korea was sentenced to one year in prison.

The Chinese government will strengthen cooperation with its foreign counterparts to help Chinese firms settle IPR disputes overseas and assist them in establishing IPR disputes institutions, Yuan said.

Source: Xinhua: Firms vulnerable in trademark protection overseas, 2011-09-09

EU, China should look beyond trade irritants

Economic ties between the European Union and China constitute a key component of a sustainable global recovery, and the two should work to look beyond short-term trade irritants, said a European Commission economist at a five-day forum that ended Saturday. Lucian Cernat, chief economist of the European Commission, said China is the fastest growing market for EU trade and an important destination of the bloc's foreign direct investment, while the EU remains the biggest market for Chinese exports. "We have to avoid being sidetracked by short-term trade irritants and pursue common systemic objectives in the WTO (World Trade Organization)," Cernat added. The
A recent EU opinion survey cited by an economist shows that 65 percent of respondents believe the EU has benefited significantly from international trade, and 64 percent think that in the coming years trade will benefit more emerging economies like Brazil, China, and India. The EU is focusing on a long-term agenda that entails strengthening bilateral priorities in investment, services, intellectual property rights, and technology, sustainability, and global governance.

Source: Xinhua: EU, China should look beyond trade irritants, 2011-09-17

**China seen through 'colored lens': Ambassador to EU**

A senior Chinese diplomat has complained that some Europeans still view China through a "colored lens" and propose unreasonable background checks on Chinese companies, which could seriously obstruct the flow of investment. Song Zhe, China's Ambassador to the European Union (EU), revealed that a number of Chinese investment proposals have been blocked recently and warned of serious consequences, although he declined to elaborate further. "The recent cases of Chinese investment being blocked have left many Chinese businesspeople with the impression that the European investment environment is deteriorating, causing them to postpone or even cancel their plans to invest here," Song told a seminar on Sept 19.

He said many European countries propose background investigations into Chinese investment simply because of groundless suspicions. "Actions like this could seriously obstruct the investment flow from China," Song said. "In Europe, the sovereign debt crisis is providing a breeding ground for protectionism."

A senior European diplomat said that Brussels has been generally "conservative" toward Beijing because European officials' views on China are divided. The official said that the coming months will see a series of high-level encounters between China and the EU. European heads of state are scheduled to visit China for an annual summit with their Chinese counterparts. An economic and trade dialogue will also take place in November. In addition to these high-level meetings, Chinese President Hu Jintao will attend a summit of G20 leaders in France on Nov 4 and 5, a meeting that will also serve as a platform for the discussion of China-EU issues from a global perspective.

"We also hope that the European business community will join with the efforts to bring more Chinese companies here in pursuit of common development." Song said. And while increasing investment in Europe generates revenue for Chinese companies, Europe also benefits in a number of ways. Many European companies have been reinvigorated through mergers, acquisitions, and restructuring. By the end of 2010, Chinese companies in Europe had hired 37,700 local employees.

Source: Fu Jing: China seen through 'colored lens': Ambassador to EU, China Daily, 2011-09-21

**A review of foreign business management in China: APJM**

This study reviews the research on foreign business management in China and analyzes 193 articles published in English in 13 academic journals between 1980 and 2008. The studies were classified based on the type of research, the main topic, and the methods employed. The studies were then mapped and their key research findings and conclusions were highlighted. A three-stage model
of market transition was developed to contextualize the work, and this helps explain the shifting focuses in the literature and identify directions for future research. [PUBLICATION ABSTRACT]


China makes moves to increase imports

China is studying and launching concrete measures related to tax and procedures to increase imports. The move is part of a bid to enhance the country's industrial competitiveness and balance of trade, said Zhong Shan, vice-minister of commerce on Thursday. While the global debt crisis is hurting demand for Chinese goods and exports, "expanding imports will strengthen the competitiveness of the local industries, if appropriate moves are taken", said Zhong during a keynote speech at the China Import Forum 2011 in Shanghai. The country is stepping up efforts to research and draft six relevant measures, including "launching preferential tax and finance policies, simplifying and reducing relevant procedures, maturing domestic circulating channels and promoting (trade) fairs", he said. Meanwhile, the nation is also committed to optimizing the import structure, and importing more advanced technology, equipment and parts, resource-related and consumer goods in the next five years. On Thursday, the ministry also announced the establishment of the Shanghai Waigaoqiao tariff-free zone - China's largest zone of its kind in terms of imports - as a trial area for the promotion of regional imports and trade.

China's year-on-year import growth during the first eight months has been increasing, resulting in a figure of 30.2 percent in August. Between January and August, imports grew by 27.5 percent, compared with 23.6 percent for exports. "Without expanding imports, China cannot maintain sustainable development in foreign trade," said Zhong. "More imports could help reduce the trade surplus and alleviate the pressures of trade protectionism," said Zhong. Imports are of strategic importance to the Chinese economy, and it is estimated that they account for 46 percent of China's growth in productivity, said Zhong. Imports of commodities such as minerals, energy-related and agricultural goods have also risen rapidly. In 2010, 29 percent of China's imports were commodity-based, while the figure was 17 percent in 2002.

Source: Ding Qingfen: China makes moves to increase imports, China Daily, 2011-09-30

Home / Business / Economy Int'l M&A rulings set to exceed 200 this year

The transnational merger and acquisition (M&A) cases that China accepts and handles are expected to exceed 200 in 2011, rising from 117 in 2010, pointing to the appeal of the Chinese market to foreign investors and China's improving anti-monopoly laws. Although many have said that China uses the anti-trust law as a cover for protectionism and the law poses hurdles for M&A deals, Shang Ming, director-general of the anti-monopoly bureau of the Ministry of Commerce, said China's procedures and practices in drafting and executing the anti-trust laws are "transparent and in line with international practice". "China will further improve the transparency and efficiency of handling and reviewing M&A cases," Shang said at the two-day 2011 BRICS International Competition Conference, which opened in Beijing on Sept 21.
Between the implementation of the anti-monopoly law in 2008 and this past June, China accepted and handled 267 cases. The most recent case involves Nestle SA and Chinese snack and candy maker Hsu Fu Chi International Ltd, with the world's largest food producer agreeing to buy 60 percent of the Chinese company for $2.07 billion in July. Another Nestle acquisition, of a 60 percent stake in Xiamen Yinlu Food Group Co Ltd, was recently approved. "Rising applications for M&A review in China could also be explained as (a sign of) the nation's maturing anti-monopoly law," he added.

About 97 percent of the 267 cases that the ministry concluded, or 259, were approved "with no strings attached", and a bid by Coca-Cola Co for China Huiyuan Juice Group was the only one that was turned down, said Shang. Seven deals were approved with conditions, including the merger of Russian potash producers OAO UralKali and OAO Silvinit this June and General Motors Co's acquisition of some units of Delphi Automotive LLP, the bankrupt US car-parts maker, in 2009.

"We have adhered to the principle of transparency in drafting the anti-trust law and prioritized the procedures in case reviews," said Shang.

Source: Ding Qingfen: Int'l M&A rulings set to exceed 200 this year, China Daily, 2011-09-22

**Latest Sino-Singapore project to learn from Suzhou, Tianjin ones**

Guangzhou's latest Knowledge City project will be "a progression" from two previous government-to-government projects between China and Singapore and benefit from them, its chief executive officer said on Monday. "It's a progression of things that have happened and if each and every one is successful and serves its purpose, then we learn something. Without these two projects, we wouldn't have learnt as much as what we would have. We also benefited from the progression of the last two projects," said Tay Hun Kiat, CEO of the Guangzhou Knowledge City.

The Guangzhou project is located on a 123-sq-km site about 35 km away from the center of Guangdong's provincial capital. Its master developer is a joint venture company, the Sino-Singapore Guangzhou Knowledge City Investment and Development Co Ltd, with a registered capital of 4 billion yuan ($625 million). The company is 50 percent owned by Knowledge City Pte Ltd – under the Temasek Holdings-owned SingBridge International Singapore – and its other half owned by the Guangzhou Knowledge City Investment and Development Co Ltd, which is under the Guangzhou Development District.

The project is being positioned as "a model and catalyst for the economic upgrading and environmental enhancement" of southern Guangdong province. Pillar industries identified include the IT convergence, biotechnology and pharmaceuticals, energy and environmental technology, and education and training sectors. The Suzhou Industrial Park and Tianjin Eco-city, which are the previous two collaborations between China and Singapore, were developed on a government-to-government level but the Guangzhou project will be driven by the private sector with support from the Chinese and Singapore authorities. The project adopts a long-term approach and
will take 20 years to complete, Tay said. It aims to provide 250,000 job opportunities and boast a population of half a million people.

Source: Alexis Hooi: Latest Sino-Singapore project to learn from Suzhou, Tianjin ones, China Daily, 2011-09-26

Globalization of Local Retailing: Threat or Opportunity?: The Case of Food Retailing in Guilin, China

Small-scale retailing is characteristic of many developing and emerging economies. It has been argued that in the course of economic development a retail environment will be transformed into a more efficient system by fewer but larger retailers that often are gigantic global players. However, in many societies, small retailers have other functions in addition to retailing. As shown in a sample of small retailers in the People's Republic of China, many retailers started their businesses due to unemployment or retirement In countries such as China where the social security safety network is lacking, starting a small-scale business is one way to earn a living. The benefits of the modernization on retailing notwithstanding, this paper discusses how economic development and efficiencies of scale in retailing may destroy a well-functioning system that provides income for less-fortunate individuals. The findings are based on observations and interviews conducted in 1993-2010 in Guilin, China.

Source: Polsa, Pia and Fan, Xiucheng: Globalization of Local Retailing: Threat or Opportunity?: The Case of Food Retailing in Guilin, China, Journal of Macromarketing31.3 (Sep 2011): 291.

China eyes overseas markets

Far from being merely a major receiver of overseas direct investment for its cheap labor cost and huge market, China is now becoming an active and powerful overseas direct investor because of Chinese companies' expanding capacity and the country's huge foreign exchange reserves. The Chinese government is confident of its outbound direct investment (ODI) increasing at a fast pace in the coming years.

Despite the decrease of 40 percent in the global foreign investment in 2009, China's ODI in the non-financial sector increased by 6.5 percent to $43.3 billion that year, helping China rise from 12th to the ninth largest outbound investing nation in 2008. In 2010, China's ODI grew 36.3 percent from a year earlier to $59 billion. As part of its 12th Five-Year Plan (2011-2015), China has pledged to encourage more companies to expand their sales networks overseas and enhance their competitiveness in the next five years.

A United Nations Conference on Trade and Development report shows China is now a most attractive destination for overseas investment. By 2010, China's foreign direct investment (FDI) had reached $1.05 trillion, compared to $258.8 billion of accumulative ODI by then. So far, much of China's outbound direct investment has gone to the Asia-Pacific region. It has also gone to Latin America, Africa and the European Union. By 2009, 75.5 and 12.5 percent of China's accumulative ODI went to Asia and Latin America, according to the Ministry of commerce. Ministry of Commerce figures show China's ODI flowing into the EU and the US in 2010 surged by 297 and 81.4 percent to
$2.13 billion and $1.39 billion. In contrast, overseas direct investment flowing into China increased by 36.3 percent during the same period.

But the robust growth of China's ODI cannot hide the challenges. Political restriction is one of them. A report by the United States' Asia Society said that China's outbound direct investment is set to surge, with assets expected to reach between $1 trillion and $2 trillion across the world by 2020. But the report is not optimistic about prospects of Chinese investment in the US, saying that the United States believes that Chinese investment is largely driven by political reasons rather than the profit motive. An executive from Huawei Technologies Co Ltd said the company is interested in expanding in the US, but restrictions imposed because of political reasons are a major challenge. A recent string of failed deals, including Minmetals' dropped $6.5 billion offer for Equinox and Sino-Steel's halted iron ore project in western Australia, have shown how challenging overseas ventures can be. "Overseas investment is not only about injecting capital, it concerns many other factors, including technology, management, talents and rules and regulations," said Song Ligang, a researcher with Australian National University. "It's a long-term learning process."

Source: Ding Qingfen: China eyes overseas markets, China Daily, 2011-09-0

Fair shows demand for China's ODI

The China International Fair for Investment and Trade (CIFIT), which closed on Sunday, has significantly driven international investment flows over the past 15 years, said the head of the United Nations Industrial Development Organization (UNIDO). "CIFIT has now become a major part of China's global economic strategy," said Kandeh K. Yumkella, director-general of the UNIDO, a key sponsor of the CIFIT. Yumkella said the fair has grown in importance since he first attended five years ago. Diverse, high-profile forums demonstrate the fair's strength and show the world's thirst for China's overseas direct investment (ODI) and countries' desire to boost trade with the Asia's economic power, said Yumkella, who attended the high-level Sino-African investment forum and an international investment forum held concurrently with CIFIT in Xiamen.

According to the organizers, delegations attending CIFIT signed 493 investment projects worth $21.45 billion this year showing the growing importance of the investment platform. Over the fair's 14 previous years, more than 14,300 investment projects worth about $100 billion were signed.

Source: Hu Meidong and Yang Cheng: Fair shows demand for China's ODI, China Daily, 2011-09-12

Chinese businesses want a wider door to the US

As Chinese investors are making efforts to seek business opportunities in the United States and help create local jobs, the US government needs to adopt a more open attitude toward the new wave, Chinese business leaders said at a public forum in Washington on Sept 27. Dozens of top experts, senior government officials and business leaders attended the Global China Summit hosted by the Washington Post Live. China Daily is an official media partner of the summit. The topics focused on ongoing social and economic changes in China and its influence on the rest of the world.
"It is getting easier and easier to do business in China as the country is becoming more and more open to business," said Chi Zhihang, vice-president and general manager of North American operations for Air China, China's national flag carrier of civil aviation. "I think the US has the tendency of becoming less and less open to business."

Chi, born in China and now a naturalized US citizen, earned his master's and doctorate degrees from MIT's Sloan School of Management. He said 20 years ago it was difficult to get a passport in China, but relatively easy to get a visa to the US. Now, it is just the opposite. He said Chinese companies often find non-business-related issues pop up when they come to America to do business, such as getting a visa. The lavish spending Chinese tourists could bring huge revenue to the American tourism industry and create a lot of US jobs if it was easier to enter the US, Chi said. But because of the complicated visa application procedures and exhausting waiting periods, many Chinese travelers give up traveling to America.

Cheng Lixin, president of the North America region of the ZTE Corp, is facing more challenging problems. Shenzhen-based ZTE is one of the leading global providers of both telecommunications equipment and handset devices. It has already experienced failures investing in the sensitive US telecom industry because of national security concerns. Supervising 14 offices in nine states, "Focus more on the local governments," he suggested to Chinese companies. "They are more pro-business and practical than the federal government."

Barshefsky, now senior international partner at the law firm WilmerHale, echoed the concern on the visa application process, saying its reviewing system is "entirely irrational" and should be changed. She offered several pieces of advice for potential Chinese investors: start smaller, understand the US regulatory process, be creative in finding solutions for investment problems and partner more often with American companies, which will provide additional credibility to the Chinese entity and some comfort in respect of national security.

Source: Tan Yingzi: Chinese businesses want a wider door to the US, China Daily, 2011-09-28