China News in Brief
April, 2012

Compiled by Yimin Zhang, University of Shanghai for Science and Technology and distributed free of charge.

Apr12
A political crisis will not stop China
Chinese Premier Blasts Banks
Chinese economy grows 8.1% in Q1
Growth model shift should go ‘full speed ahead’
The People, Not the Government, Authored China’s Revival
China economy: Quarterly growth stabilizes
China not second strongest country: PM official
Committed to reform process
Chinese, foreign experts discuss China development model
China economic growth still needs rebalancing: experts
Structural shift gaining momentum: AmCham
Balance at tipping point: Viewpoint
Banking monopoly by state targeted
China cuts RRR for some county lenders
CHINA: Wenzhou pioneers new round of financial reform
Wenzhou opens new center for financing
China’s financial supervision sound, more efforts needed: IMF
CPI jumps higher than predictions
Expanded QFII quota: signal of faster opening up
A step in the right direction
Yuan lending set to cross new border in pilot plan
People’s Daily website IPO raises $239m
China unveils improved IPO reform guidelines
Public awareness of environment grows: Report
China economy: Demographic profile
Guest post: explaining China’s fake seas
Diseases threaten economic growth
Trends in World income inequality and the ‘Emerging Middle’
Domestic Income Shifting by Chinese Listed Firms
Focusing on the major function-oriented zone: A new spatial planning approach and practice in China and its 12th Five-Year Plan
Changjiang: Beyond the latecomer advantage
Advances in Chinese Agriculture and its Global Implications
Legal reform urged on forced demolitions
More workers staying near home
Ministry to withdraw 38 food additives
China considers reform of public institutions
Chinese postgraduates flock to US schools
Cultural heritage faces urban growth challenge
Domestic industry sees marketable opportunities
Major Chinese industrial companies’ profits drop 1.3%
CHINA: Cautious SOE shake-up faces resistance
Pilot plan to help small enterprises get funding
Investment opportunity set, political connection and business policies of private enterprises in China
1) Focuses on boosting growth in Asia
China to host 2013 Fortune Global Forum
Philippines and China in naval stand-off
Yuan moves toward liberalization
China widens yuan trading band against US dollar
China: the long march of the renminbi
Shanghai ranked as China’s most open city
China-South Korea pact ‘first on agenda’
China imports Ukrainian corn for 1st time
Trade Deals Put China In Quandary
US-China must build mutually beneficial economic ties
China Eastern orders 20 Boeing 777s
Hannover Industrial Exposition concludes
China seeks balanced, win-win trade in 2011-2015
Foreign Investment into China Falls Again
Russia, China Ink Business Pacts
Foreign investment projects from emerging markets advance in April
As China Cools, Foreign Profits Shift
Private Equity Rushes Into China Technology
Chinese Capital Flowing To Japan
Outbound investment still in ‘upcoming stage’
State ownership effect on firms’ FDI ownership decisions under institutional pressure: a study of Chinese outward-investing firms
A political crisis will not stop China

The sceptics are not just jaundiced western expats or frustrated Chinese liberals. Wen Jiabao, the country’s prime minister, does a pretty good job of talking down the Chinese miracle. He has called the country’s economic growth “unbalanced and unsustainable”. Last week, he warned that if China does not push ahead with political reform, it is vulnerable to another “cultural revolution” that could sweep away its economic gains. Mr Wen’s comments were swiftly followed by the fall from grace of Bo Xilai, the controversial Communist party boss in Chongqing. This outbreak of high-level political infighting has been seized upon by China-sceptics as further evidence that the country’s much-vaunted stability is a myth.

So who is right? The people who think China is a rising superpower, or those who insist that it is a deeply unstable country? Oddly enough, they are both correct. It is clearly true that China has enormous political and economic challenges ahead. Yet future instability is highly unlikely to derail the rise of China. Whatever the wishful thinking of some in the west, we are not suddenly going to wake up and discover that the Chinese miracle was, in fact, a mirage.

My own scepticism about China is tempered by the knowledge that analysts in the west have been predicting the end of the Chinese boom almost since it began. Yet, it is equally hard to believe that either the Chinese economic or political systems can continue along the same lines indefinitely. Rapid, export-driven growth of 8-9 per cent a year is not sustainable forever. And China’s political system looks increasingly anachronistic, as demands for democracy spread around the world. Mr Wen was probably implying as much last week, when he said that the Arab people’s demand for democracy “must be respected . . . and cannot be held back by any force”.

It is clearly true that China has very difficult political and economic transitions ahead. There are, however, encouraging precedents from the rest of Asia. South Korea and Taiwan have both moved from fairly brutal one-party states to functioning democracies – and from low-cost manufacturing to high-tech consumerism.

Some China sceptics prefer to compare the country’s rapid growth to that of the Soviet Union or to Japan in the 1980s. But the USSR’s inefficiency was disguised because it never competed on world markets: China, by contrast, is already the world’s largest exporter. As for the Japanese bubble, that burst when the country was already far richer on a per-capita basis than China is now. The Chinese economy, because it is relatively poor, still has huge scope for modernisation. In politics, as in economics, China’s weaknesses also hint at untapped potential. As last week’s infighting illustrated, the country is still burdened with an immature political system. If and when China achieves the “fifth modernisation”, as the dissident Wei Jingsheng once called democracy, it will have surmounted the biggest remaining obstacle to superpower status.

Source: Gideon Rachman: A political crisis will not stop China, Financial Times, March 19, 2012

Chinese Premier Blasts Banks

Chinese Premier Wen Jiabao told a national audience on Tuesday that China’s state-controlled banks are a "monopoly" that must be broken up, in a blunt appeal for a shake-up of the creaky financial system. "Let me be frank. Our banks earn profit too easily. Why? Because a small number of large banks have a monopoly," said Mr. Wen, according to the transcript of the program on the broadcaster's website. "To break the monopoly, we must allow private capital to flow into the finance sector."
The backlash was initially prompted by frustration at what has been perceived as banks' payments of low interest rates on deposits and indiscriminate levying of fees. It has worsened in recent weeks as lenders posted record profits, even as the economy slows and some companies struggle to access credit. Mr. Wen's push is part of a broader set of issues over China's growth, and came on the same day that Beijing unveiled programs intended to support the development of the country's capital markets and to spread international use of the yuan. Among them, China's security regulator said it would more than triple the amount that foreigners would be allowed to invest in China's heavily restricted financial markets to $80 billion.

For decades, China's economic growth has relied to a large extent on the captive savings of ordinary Chinese moved at cheap rates to state-owned enterprises. The system penalizes savers and rewards borrowers, perpetuating an economic imbalance marked by high rates of investment and suppressed consumption. That model is increasingly seen as unsustainable. To lift the economy, many economists believe China must now transfer more money to consumers and aid its service sector, which is based on private enterprise.

Critics say it has impeded innovation in products and services, and encouraged lending to state-owned enterprises that has an implicit government guarantee. The effect is that many private companies, the main generators of jobs, are starved of capital, the critics say.

"The Chinese government has said similar things for many, many years and I have yet to see drastic, concrete action," said Victor Shih, an associate professor at Northwestern University.

Two cheers for China’s rebalancing

China’s economy is changing. Indeed, it has to change, as I argued two weeks ago (“How to blow away China’s gathering storm clouds”, 20 March 2012). The good news is the scale of the external rebalancing. The bad news is that this is at the cost of larger internal imbalances. China’s balance of payments has been a roller coaster. Thus, between 2003 and 2007, the current account surplus rose from 2.8 per cent to 10.1 per cent of gross domestic product. The surplus then fell sharply, to 2.9 per cent, by 2011. Over the same period, the share of exports and imports in GDP exploded upwards and then fell once again.

Specific issues arose over the past explosion in China’s surpluses. These were partly the consequence of interventions in foreign currency markets and consequent accumulation of foreign currency reserves. The latter rose from $170bn in January 2001 to $3.2tn at the end of last year. One tool in the policy box was to sterilise the monetary consequences of these interventions. All these are mercantilist policies. Moreover, if a country is to have a huge investment boom and a strong external position, consumption normally has to be repressed and savings encouraged. This is what happened: private consumption fell from 46 per cent of GDP in 2000 to just 36 per cent in 2007. Public and private consumption together fell from 62 to 49 per cent of GDP, while gross saving jumped from 38 to 51 per cent of GDP. A substantial part of these savings were invested abroad, in low-yielding assets, at great cost: China’s external reserves are $2,300 for every man, woman and child, or as much as 40 per cent of GDP.

Thus, a reduction in the external surpluses has been in the interests of both the rest of the world and China. So how happy should the results make us? The answer is: not ecstatic. Suppose that China were to grow over the next decade at the still high rate of 7 per cent a year. Suppose, too, that
investment (including investment in inventories) fell from 50 per cent of GDP to a still very high 40 per cent, because a smaller rate of investment is needed to support lower growth. Suppose, too, that the external surplus remained 3 per cent of GDP. To achieve the expected 7 per cent GDP rate of growth, consumption (public and private) needs to grow at a real rate of 9 per cent while investment grows at 4.6 per cent. This would be an astonishing reversal. It would be impossible, without a big shift in the distribution of income towards households. That, in turn, would require comprehensive reforms in the financial system, in corporate governance and even in the power structure of the country. Moreover, there is a risk that such reform lowers investment far more than it adds to consumption. The result could be a very hard landing. Is that feasible? Perhaps. But it requires a huge expansion in consumption relative to investment. Will that happen, while the economy continues to grow? Nobody knows.

Source: Martin Wolf: Two cheers for China’s rebalancing, Financial Times, April 3, 2012

**Chinese economy grows 8.1% in Q1**

China’s economy grew 8.1 per cent in the first quarter from a year earlier, its slowest pace in nearly three years. With Europe struggling and the US recovery appearing to ebb, signs of strength from China, could still help allay fears of a global slowdown.

Concerns had emerged last year that the combination of weakening export demand and a slumping domestic property market would weigh on China. Investors, many of whom had been waiting for Beijing to announce stimulus measures, had grown worried at the government’s perceived inaction. But Beijing has been quietly injecting cash into the economy, encouraging banks to lend more and easing restraints on credit flows. A larger-than-expected Rmb1tn ($159bn) in new loans in March, announced on Thursday, was the latest evidence of its shift towards a moderately pro-growth stance. A gradual, managed slowdown in the economy is exactly what China has been trying to achieve. Premier Wen Jiabao said last month that the country was aiming for 7.5 per cent growth this year, its lowest target in almost a decade. Although most analysts still expect it to surpass that target, the low number is an indication of the government’s ambition to steer the economy towards what it sees as a slower, steadier growth pattern.

Source: Simon Rabinovitch in London: Chinese economy grows 8.1% in Q1, Financial Times, 2012-4-13

**Growth model shift should go 'full speed ahead'**

China needs to accelerate the transformation of its growth model to cope with external challenges and internal problems, said Liu Mingkang, former chairman of the China Banking Regulatory Commission. Speaking at the China Political & Economic Forum: Global Challenges & Opportunities, organized by the Friends of Hong Kong Association and China Daily Asia Pacific, Liu said the nation’s economy faces many difficulties, though it is maintaining stable growth. "The Chinese economy is facing the pressures of an evident export demand contraction and difficulty in enhancing domestic demand," Liu cautioned.

Exports increased by 7.6 percent in the first quarter, 5.8 percentage points lower than in December 2011. Breaking down exports by category, Liu noted shipments of textiles, clothing, shoes, packaging bags and ceramics had all contracted in early 2012. Export demand is shrinking, but it's not easy for China to shift its economy to a consumption-driven model. The country is facing difficulties in expanding domestic demand, and this is particularly evident in the southeastern
provinces. According to Liu, the increase in consumption expenditures in Guangdong province in January and February was 10.4 percent year-on-year. In the same two months of 2011, consumption spending increased by 16.1 percent.

"Despite the challenges that China is facing, the country can employ its fiscal, taxation and monetary policies in an integrated manner to hasten the transformation of its growth model," Liu said. First, the government can undertake fiscal and monetary reforms to accelerate the reform of monopolies. Second, there is a huge demand for mergers and acquisitions in various industries in China. The government could offer taxation, fiscal and monetary policies to support mergers and acquisitions. China must also do more to protect intellectual property rights and nurture innovation, Liu added. "The Chinese government and enterprises, through cooperation, can create a good international environment that can help slash the costs and mitigate the risks for enterprises undergoing a transformation," Liu concluded.
Source: Oswald Chen in Hong Kong: Growth model shift should go ‘full speed ahead’, China Daily, 2012-04-20

The People, Not the Government, Authored China's Revival

In late 2008 Premier Wen Jiabao embarked on a massive stimulus program. Today Wen is struggling with the inevitable aftermath: persistent inflation; a steep rise and sudden decline in the stock markets; and the creation and popping of a massive property bubble. As a result, thoughtful observers call his debt-fueled growth “fake.”

Today, however, China’s leaders are on an antireform kick as they seek to bolster the prospects of massive state enterprises and restrict opportunities for foreign investors and domestic entrepreneurs. Especially since the middle of the last decade they have blocked -acquisitions of local businesses by foreigners, increased state control of enterprises, employed predatory tactics against multinationals and diverted credit away from private enterprises. As they say in China these days, “The Communist Party is now the economy.” The central government’s misguided moves can only undercut the efforts of the Chinese people to recapture the magic of double-digit growth. So investors should become optimistic about the Chinese economy only when Beijing goes back to letting its farmers, shop owners and entrepreneurs do what they do best: building, expanding and growing their businesses across the country. Contrary to popular belief, the Chinese people, not their government, created China’s miracle. It’s no wonder that, with the Communist Party grabbing more control now, the economy is faltering.

China economy: Quarterly growth stabilises

China's headline rate of real GDP growth slowed sharply in the first quarter of 2012, with the economy expanding by 8.1% year on year, compared with 8.9% in the last three months of 2011. However, the picture was much more stable on a quarter-on-quarter basis, with the seasonally adjusted growth rate slowing only marginally, to 1.8% in January-March, from 1.9% in October-December. The National Bureau of Statistics (NBS) stated that consumption had contributed 76% of total economic growth in the first quarter of 2012. This appears a relatively strong performance, given that the value of retail sales in January-March was up by just 14.8% year on year, representing a slowdown from growth of 17.1% in 2011 as a whole. Some important
consumption categories performed particularly poorly in the first three months of this year, with vehicle sales, for example, down by 3.7% year on year.

However, inflation has fallen in recent months: consumer prices were up by 3.6% year on year in March, compared with an average of 5.5% in 2011, and this has helped to support real growth in consumption. Further support has come from rapid wage growth; per-head disposable income for urban residents was up by 14% year on year in the first quarter of 2012, according to the NBS, while the equivalent figure for rural residents was 17%.

Investment, although still growing in year-on-year terms, lies at the root of the recent slowdown in economic activity. Fixed-asset investment growth has slowed notably, although it remained fairly rapid in the first quarter of 2012, at 20.9% year on year. Much of the slowdown in investment has been concentrated in the housing sector, where according to a property-market research body, the China Index Academy, new residential-construction starts were down by 5.2% year on year in January-March, to record their first contraction since 2009. Property prices are falling in many cities, and some distress sales of landholdings are taking place. In Chongming Island in Shanghai, a land plot that had sold for over Rmb1bn in 2011 was re-sold at auction for Rmb536m in early 2012 after the initial purchasers failed to complete the transaction.

According to China's customs authorities, merchandise exports expanded faster than imports in the first quarter of 2012: exports increased by 7.6% year on year, while imports rose by 6.8%. The country posted a trade surplus of US$1bn on a customs basis in January-March this year, compared with a deficit of US$2bn in the year-earlier period. The swing largely reflected weak imports of raw materials, in line with the slowdown in domestic construction.


**China not second strongest country: FM official**

China is the second largest economy, but not the second strongest country, a Foreign Ministry official said on Tuesday. "China is still a growing country with imbalanced development," Assistant Foreign Minister Le Yucheng said at a forum held by China Institute of International Studies in Beijing. It's unfair to accuse China of being a "selective stakeholder" who switches between the role of "elephant" or "ant" as it sees fit, rather than a "full stakeholder," said the official. Le said that for all its remarkable progress, China still has many weak links. "It is not unwilling - but unable - to take on more international responsibilities and fully play the role of a major country." "Just like in sports: Though China has a comfortable lead in table tennis, it is almost impossible for China to win a gold medal in football," he said.

Meanwhile, Le stressed that when it comes to safeguarding world peace, stability and development, China has always done its best and its track record is as good as any other country. "China's development is attributable, first and foremost, to the hard work of the Chinese people, who are well-known for their diligence, dedication and willingness to work overtime," adding that Chinese will never forget the longstanding support and help from the international community. Employees in China only have five to 15 days of paid vacation each year, which is less than half of the figure in European countries, said the official.

At the forum, Le also said that China's top job is to secure well-being of its 1.35 billion people. China's sheer size and fast development has brought many expected and unexpected problems, he said. "We have heard from the outside world both kind reminders and gloating comments or even harsh criticisms," said the assistant minister. "We Chinese understand far better than anyone else
what our problems are and how to prioritize," he said. Every year, China needs to create 25 million
jobs, Le said. "Managing such issues well so that the 1.35 billion people can lead a good life is the
highest priority of the Chinese government," he said, adding that "Nothing is more important than
this."
Source: Xinhua, Jiangsu: China not second strongest country: FM official, China Daily, 2012-04-11

Home / Business / Economy 'Committed to reform process'

China is committed to "structural reform", probably introduced incrementally, Robert Zoellick,
World Bank president, said. His comments came after a World Bank report in February, launched in
conjunction with the Development Research Center of the State Council, urged China to introduce
reforms to sustain economic growth in the coming decades.

"From my last visit a month ago, I came away with the sense that leaders at both central and
provincial level are committed to the reform process," Zoellick said. "If you ask me how quickly it
(the reforms) will happen, my guess is that the Chinese government will probably begin with pilot
programs in some of the provinces," Zoellick told China Daily in a recent interview at the Boao
Forum for Asia. "I don't expect a 'big bang', but it's very important that China continues momentum
on reforms."

European debt and the sluggish global recovery means that time is pressing for countries,
including China, to implement reforms, Zoellick said. "The world economy has improved and the
European situation has stabilized," as governments focus on macroeconomic stabilization, he said.
"I am not critical of the policies ... but the message that I would bring is in addition to the
macroeconomic stabilization, countries need to focus on structural reforms for growth," he said.
"We will probably wait for the details of the reforms to come later, but it's my expectation that the
process will be done step-by-step through pilot projects," Zoellick said.

The World Bank's proposal for China to overhaul its State-owned enterprises has met
opposition. Zoellick was even interrupted at a press conference launching the report by a protester
who identified himself as an "independent researcher" and shouted slogans to the press. "There will
be hurdles, as there are some interest groups benefiting from the current models and structures and
that's not different than any other country," Zoellick said.
Source: Ding Qingfen: 'Committed to reform process', China Daily, 2012-04-09

Chinese, foreign experts discuss China development model

Several renowned experts from China and foreign countries gathered here on Monday to
discuss China's development model during the London Book Fair, exchanging views on its future.
At the beginning of the forum, Liu Binjie, Director of the General Administration of Press and
Publication, reviewed China's path of development over the past century. "China has considered
about the way of western style, and also once followed the former Soviet Union's planned
economy," he said. "But during the course, it found out that only a way which complies to its
culture and fits its real condition could lead the country to success." Along the journey, however,
some challenges crop out. "The reform and opening up improved social efficiency, but justice
became another important issue." Meanwhile, over-exploitation of resources and deterioration of
environment were two other challenges confronting China. "To address these problems, the Chinese
government slowed down the pace of economic growth to give room for reform," he said. He
stressed that China's development would not affect others, on the contrary, it will bring more
opportunities for the rest of the world.

Javier Solana, former Secretary-General of the North Atlantic Treaty Organization (NATO), agreed that China is developing fast and played an indispensable role in the world arena. He pointed out that to become a global leader meant that China will have more responsibilities and risks. He hoped China and other countries could resolve issues together based on mutual trust and good relations.

With the development of China, Martin Jacques (author of the best-selling "When China Rules the World: the end of the western world and birth of a new global order") believed that it will reshape the global order. As a result, western countries should shelf prejudice and learn from each other with China. "In fact, China learned from the west more than the west learned from China," he said, reminding some western people that "it's time to wake up."

Source: Xinhua: Chinese, foreign experts discuss China development model, 2012-04-17

**China economic growth still needs rebalancing: experts**

The strong growth of Chinese economy is helpful for the world, but the economy, which heavily relies on external demand, still needs rebalancing, experts said in Washington Saturday. China's economy keeps growing very fast and strongly despite the drag of external demand, with trade surplus declining significantly, a panel of economic experts said at a seminar during the Spring Meetings of the International Monetary Fund and its sister agency the World Bank, kicking off Friday here.

"The rest of the world all enjoy low-cost production in China," said Pamela Cox, vice president of East Asia and the Pacific Region of the World Bank. China is walking in the orientation of higher income levels as its economic productivity has improved greatly, Cox noted. "China is growing and changing."

China's current account ratio of the GDP has declined from over 10 percent in 2007 to 2.8 percent in 2011, said Yi Gang, deputy governor of China's central bank. Yi noted that this huge improvement reflected both short-term factors, such as weaker external demand, and long-term structural changes, adding that China has carried out a series of structural reform in recent years by investing in social security and promoting domestic consumption.

However, experts also cautioned that Chinese economy still needs rebalancing to ensure sustainable growth, as domestic consumption is not vigorous enough. China's surplus remains high and its consumption ratio of the GDP is still low, said Naoyuki Shinohara, deputy managing director of the IMF. Rebalancing not only in China but in advanced countries is critical to the world, said Vincent Reinhart, Morgan Stanley's chief US economist.

Source: Xinhua: China economic growth still needs rebalancing: experts, 2012-04-23

**Structural shift gaining momentum: AmCham**

Structural changes in China's economy are already apparent and will accelerate, driven by external and internal factors, the American Chamber of Commerce said on Wednesday. The strong commitment of US companies to the Chinese market is subject to China's future policy choices and development path, as well as external risks such as another global economic slowdown, the chamber said in its annual white paper on the State of American Business in China. "The transition to a new economic growth model presents new challenges. A new commitment to deepen market reforms and extend a truly market economy to additional sectors of the economy will ensure more
sustainable economic growth," said Ted Dean, AmCham China chairman.
In the survey, 76 percent of the companies said they expect their revenue to grow in 2012, and 26 percent expect growth in the range of 11 to 20 percent, compared with the government's 7.5 percent target for GDP growth in 2012. "The operating environment continues to be strong, especially when compared to the rest of the world," said the report. However, rising costs have made nearly 90 percent of the surveyed companies believe that China is becoming a weaker competitor. Management-level human resources are seen as the leading business challenge and non-management level constraints rank third, while other inputs such as the cost of land, rents, raw materials and transportation are also rising. China is losing its competitiveness in labor costs and that will eventually lead to a structural change in manufacturing and trade, but it's also a positive outcome of ongoing efforts to rebalance the economy, said Song.
Source: Lan Lan: Structural shift gaining momentum: AmCham, 2012-04-26

**Balance at tipping point: Viewpoint**

At the microeconomic level, the model has produced dominant state-owned enterprises and banks, regional party elites and a large but subordinated private and family enterprise sector, lacking access to the cheap loans, subsidies and other commercial privileges enjoyed by state institutions. China has now reached the point in its development where a realignment of roles between the state and market sectors is needed for sustainable economic progress and competitiveness.

Indeed, two days before Bo was sacked, a published speech by the presidential heir-apparent Xi Jinping reminded party cadres about the essential need to establish "purity" in the party's organisation, structure and policy implementation, and observance of the rule of law.

Home / Business / Industries  **Banking monopoly by State targeted**

A consensus has been reached among Beijing's top leadership to reduce, if not break, the State sector's banking monopoly, Premier Wen Jiabao said. This was the first time that Beijing acknowledged the monopoly of State-owned banks following last month's announcement of a pilot project to reform the financial sector in Wenzhou, an eastern coastal city with a tradition of entrepreneurship. Wen made his remarks during a visit, April 1 to 3, to companies in Fujian province and the Guangxi Zhuang autonomous region.

In the latest session of the National People's Congress some lawmakers painted the banking sector as an "industry of windfall profits". "Regarding raising funds for your businesses, I think it has been too easy, quite frankly, for our banks to make profits," Wen told businessmen during his visit. "The reason is that a small number of large banks are in a monopolistic position. It is only from them, and nowhere else, that companies get the loans they need. "This is why we've now come to make way for private capital to enter the financial services sector, which ultimately requires breaking monopolies. There is already a consensus among the central leadership, which is reflected, as you can see, by the pilot reform in Wenzhou. "I think some successful practices from Wenzhou's pilot reform can be introduced nationally. Some of the practices may even be immediately implemented," the premier said.

The Wenzhou reform was announced by a State Council executive meeting on March 28. It allows private financial services, including setting up village banks and rural financial cooperatives.
Under the current system, State-owned banks live off an effectively guaranteed spread between deposit and lending rates that are set by the central bank. The spread now stands at around 3 percentage points. The so-called Big Four banks - Industrial and Commercial Bank of China, Bank of China, China Construction Bank and Agricultural Bank of China - raked in a combined profit of about 630 billion yuan ($100 billion) last year against a backdrop of slowing economic growth. Reflecting on the fat profits of banks, Hong Qi, president of China Minsheng Banking Corp, even said at a forum late last year that the sector's profit was so high but profit for industrial companies was so low that he sometimes felt upset to talk about his bank's profit. Minsheng's annual report, published in March, showed a surge in profit of more than 58 percent in 2011, to 27.9 billion yuan. Up to 55 percent of the outstanding loans in the banking system were extended by the Big Four together with Bank of Communications, China Development Bank and the Postal Savings Bank.

Wen also mentioned investment during his visit, especially in high-speed rail. Despite the fatal July train crash in Wenzhou, the premier said that China should not overreact to the tragedy by abandoning high-speed rail. An investment of 500 billion yuan will be made this year to build new high-speed tracks, following last year's 700 billion yuan investment, he said.

Source: Gao Changxin in Shanghai: Banking monopoly by State targeted, China Daily, 2012-04-05

**China cuts RRR for some county lenders**

China has cut the reserve requirements for some county-level financial institutions by 100 basis points, sources familiar with the matter said Friday. The favorable reserve ratios, effective on April 1, will end on March 31, 2013. The financial institutions were rewarded with the one percentage point lower reserve requirements because they managed to lend a certain percentage of loans to local businesses last year. The People's Bank of China, the country's central bank, has been implementing a differentiated reserve requirement policy for county-level lenders to help boost lending, support local economies and improve rural financial services. The reserve requirement is the amount banks must keep with the central bank rather than lend out. People close to the matter did not specify how many county lenders will enjoy the lower reserve ratio policy.

Source: Xinhua: China cuts RRR for some county lenders, 2012-04-14

**CHINA: Wenzhou pioneers new round of financial reform**

A new financial reform plan for the southern city of Shenzhen earlier this month won the support in principle of the central government. This follows the State Council's approval of the Pilot Comprehensive Financial Reform Plan for Wenzhou City, a boom town in the coastal province of Zhejiang. Premier Wen Jiabao has personally supported the programme, having visited Wenzhou on a study trip during which he made a rare public attack on state banking monopolies. People's Bank of China Governor Zhou Xiaochuan also stated that the Wenzhou reform measures, once deemed successful, should be applied to the whole country as soon as possible.

The reforms will provide a much-needed new stimulus to the economy as growth slows: Rural and small business will benefit; State banks' monopoly will be challenged over the longer term; Local roles in financial supervision and regulation will be enhanced.

The Wenzhou reform plan has twelve tasks on the agenda, including measures to: standardise private lending; encourage the development of new small financing institutions; provide rural, small and micro-enterprise financing; enhance local regulatory and supervisory roles; and permit individual overseas direct investment in renminbi.
The Shenzhen experiment will include: renminbi two-way cross-border lending and borrowing with Hong Kong; and bond market innovation.

One of the conclusions the government drew from analysis of the global financial crisis is that the financial sector should serve the real sector. There has been concern about business owners in Wenzhou and elsewhere deserting their manufacturing plants and speculating in the property and financial markets. Underground lending is rampant.

According to the Wenzhou office of the People's Bank of China: the size of Wenzhou's underground lending market is 110 billion (17.5 billion dollars); the annualised lending rate is as high as 100%; and only one-third of the money went into the real sector. In this context, making the financial sector more responsive to real industry needs has become the hallmark of the reform initiatives. In Wenzhou, the emphasis is on rural and small business lending. In Shenzhen, it is leveraging the funding resources from both Guangdong province and Hong Kong to support the real economy.

Wenzhou has been on the forefront of China's private sector development; it is a thriving manufacturing base; its merchants are all over the country; its private investments are all over the world. Because of rigidities in the banking system that favour large state enterprises, Wenzhou finds itself with a lot of private capital without proper channels for investment, and, despite this, a lot of small businesses struggle to find financing. According to the local government, Wenzhou's private capital amounts to 600 billion renminbi, and is growing at 14% per year. The reform initiative hopes to develop local financial institutions and regulations to help bridge the demand-supply gap in capital more efficiently.

Shenzhen was one of the earliest Special Economic Zones in China's reform and opening up. It is the home of the Shenzhen Stock Exchange and a large number of hi-tech companies. Its close proximity to Hong Kong and to the manufacturing hub of the Pearl River Delta makes it an obvious bridge to finance the regional economy by harnessing financial resources both locally and in Hong Kong. Right now, much of the flow of funds across the border with Hong Kong is underground.

In the short run, for the reform experiment to be deemed successful, it has to demonstrate that it has improved the funding opportunities for the rural, small and micro enterprises, and be manageable by the regulatory and supervisory framework. Ultimately, real success would be the creation of a new class of competitive financial institutions to provide an alternative to state bank domination, but that will be a longer term political economy proposition.

Compared to Wenzhou's original reform proposal, the central government plan is necessarily more broad-brushed. However, as far as the local government is concerned, the lack of detailed implementation guidelines will make it difficult to execute, because many of the changes will touch laws and regulations over which the local government has no authority. Also, interest rate liberalisation has been removed from the original proposal; it will be hard to develop a true credit market without proper pricing flexibility. However, this is a rare experiment in the financial system that is locally-based, and is certain to generate new insights for the whole system. Wen's unusual statement that the whole leadership is united behind the move suggests that financial sector reform is a major national strategic initiative. Wenzhou and Shenzhen are only the beginning. The Wenzhou and Shenzhen plans mark the beginning of a new round of reform experiments to improve the allocation of financial resources, to support local small and rural businesses and to internationalise the renminbi. Like most major reforms in China, the current round of financial reform will be limited to local pilot areas first, but it is likely that more local reform initiatives will
follow, especially in Shanghai and Beijing.

Wenzhou opens new center for financing

A center that will monitor and act as a clearinghouse for private lending opened in Wenzhou, Zhejiang province, on Thursday under a 12-point pilot plan to reform the city's financial industry. The center is intended to bring Wenzhou's huge, unquantified "shadow banking" system into the light of day. It has 6 million yuan ($952,000) in registered capital and 22 investors, both individuals and institutions. It will gather, process and disseminate private lending-related information, register private loans and provide credit ratings. The entity, to be supervised by Wenzhou's financial regulators, rents office space to private lenders. So far, seven institutions have leased space. The center requires borrowers and lenders to submit bank transfer receipts and contracts after a loan deal is conducted through the center. "Existence of the center will make private lending traceable and prevent a build-up of risks," said Zhou Dewen, chairman of the Wenzhou Small and Medium-sized Enterprises Development Association. There is no authoritative figure for the scale of private lending in Wenzhou because everything's done underground, Zhou said. Putting private lending activities above ground, he added, will avoid a repeat of last year's situation, where entrepreneurs fled after being unable or unwilling to repay debt bearing usurious rates of up to 90 percent. The founding of the center was one of the 12 measures promised in a central government decision earlier this year to make Wenzhou, China's private capital powerhouse, a "pilot zone" for a series of financial reforms.

The reforms also include allowing residents of the coastal city to invest privately overseas and set up loan companies. Also on Thursday, the government of Wenzhou released a detailed plan on implementing the pilot. The city will set up a finance supervision bureau. It will draw up supervision plans and crack down on irregularities in the city's financial industry. The plan calls for Wenzhou to have at least 30 rural financial institutions and 100 micro-credit companies with 40 billion yuan in net assets by the end of 2013. This year alone, the city is to add 30 micro-credit companies.

Source: Gao Changxin: Wenzhou opens new center for financing, China Daily, 2012-04-27

China's financial supervision sound, more efforts needed: IMF

China's financial supervision has made significant progress, but more efforts are needed to meet challenges ahead, the International Monetary Fund (IMF) said on Thursday. "Regulation and supervision of China's banking system has made impressive progress in the past few years, led by an activist, forward-looking regulator China Banking Regulatory Commission (CBRC), with a clear safety and soundness mandate," the IMF said in its detailed assessment report released on Thursday about China's banking system. However, the Washington-based global financial institution cautioned that as further opening up, innovation and expansion of banks occur, complexity and risks will increase at the same time. The document is one of the five detailed assessment reports about China's observance with international financial standards, which were prepared under the IMF's Financial Sector Assessment Program (FSAP).

In a separate detailed assessment report about China's insurance companies, the IMF said insurance companies in China were closely supervised and generally subjected to appropriate
regulation. As for the securities and futures industry regulation, the IMF noted that Chinese securities and futures sector and their regulation have undergone considerable development. Reforms in recent years, including the non-tradable shares reforms, the introduction of stock index futures trading in 2010, have enhanced the transparency of the market and broadened the range of available products.

China is one of the 25 "systemically important" economies that have agreed to mandatory financial sector assessment at least once every five years. The FSAP is a key part of the IMF's activities in financial surveillance and the monitoring of the international monetary and financial system.

Source: Anonymous: China's financial supervision sound, more efforts needed: IMF, China Daily, 2012-04-06
http://www.chinadaily.com.cn/business/2012-04/06/content_14992114.htm

CPI jumps higher than predictions

Inflation rate hits 3.6% in March as further easing policies under review. Inflation, driven by food and energy prices, hit a higher-than-expected 3.6 percent in March renewing concerns about inflationary pressures in the coming months. The latest figure may see the government adopt a more cautious stance on monetary loosening and stimulus measures despite cooling economic growth, analysts said. The government's inflation target for the year is 4 percent. Food prices helped drive inflation as they account for about one-third of the weighting in the CPI calculation. They increased 7.5 percent last month from a year earlier. In February they increased 6.2 percent year-on-year. Vegetable prices surged by 20.5 percent year-on-year, 14 percentage points higher than February's figure, according to the NBS.

Rising oil prices played a key role and both weather and energy costs could come into play again in the second quarter, according to experts. Premier Wen Jiabao said during a visit to eastern and southern China last week that the government will take measures to prevent a rebound in consumer prices. Despite the rise in inflation, the producer price index, an indicator of future consumer prices, dropped 0.3 percent from a year earlier. It was the first decline since November 2009, showing a slowdown in manufacturing.

Source: Chen Jia in Beijing and Gao Changxin in Shanghai: CPI jumps higher than predictions, China Daily, 2012-04-10

Expanded QFII quotas signal of faster opening up

Chinese regulators are promoting the opening-up of the capital markets by expanding quotas for foreign investment at a record pace, aiming to attract more overseas funds to boost the economy and accelerate the market-based reform of the financial system. These moves might be the starting point for an accelerated capital account opening, and more foreign money inflows are expected to be involved in China's long-term investment projects in the coming months, analysts said. The China Securities Regulatory Commission has decided to raise the amount available for qualified
foreign institutional investors, or QFII, by $50 billion, the largest increase since the launching of the pilot program in 2002. The total QFII quotas now stand at $80 billion, a statement from the CSRC said on its website on Tuesday. The government may continue to improve the QFII investment program to draw more foreign long-term funds into the domestic capital market, said the CSRC statement.

Premier Wen Jiabao said on Tuesday in Fujian province that slower GDP growth and the potential expansion of companies' losses might figure prominently in this year's economic situation. Wen stated a goal at the start of this year to draw international investment into the domestic capital market. "The country should ensure certain liquidity in the financial market and maintain a proper amount of bank loans," said Wen, who pointed out that the current economic situation is "steady and sound".

Since 2003, China's regulators have approved a total of $24.6 billion to allow 129 foreign institutes to launch investment services in the mainland. As of March 23 this year, 74.5 percent of the investment volume under the QFII program had been injected into the domestic stock market, with 13.7 percent in bonds and 9.6 percent in bank deposits, the CSRC statement said. About 1.1 percent of the A-share market's value comes from QFII investment, the statement said.

Source: Chen Jia: Expanded QFII quotas signal of faster opening up, China Daily, 2012-04-05

A step in the right direction

China's securities regulator recently announced that it will raise the total amount that foreigners are allowed to invest in the country's stock and bond markets. This is the latest in a series of moves to relax the controls on cross-border capital flows. But while this has helped to lift equity prices, the wider impact will be limited unless there is faster progress on reforming the currency regime and State-regulated banking system. Under the new initiative the amount that can be brought into the country under the Qualified Foreign Institutional Investor (QFII) scheme, which is the only way overseas investors can invest in China's domestic securities markets with foreign currencies, has been increased from $30 billion to $80 billion. Meanwhile, foreigners will also be allowed to bring 70 billion of offshore renminbi funds ($11.1 billion) to the mainland through the Renminbi Qualified Foreign Institutional Investor scheme (RQFII), up from 20 billion renminbi when this programme was launched a few months ago.

The news seems to have immediately boosted market sentiment. China's equity prices outperformed in the region when its stock markets re-opened last Thursday after the three-day Qingming Festival holiday: the Shanghai Composite Index rising almost 2 percent, following a fall of nearly 7 percent over the previous month.

But the bigger picture is that this is China's latest step towards opening its capital account and further facilitating the internationalisation of its currency. The government may have realized that sooner or later the renminbi would lose its attraction for foreigners if there were no further easing of
controls on capital account convertibility. Nonetheless, hopes of unfettered cross-border flows any time soon will probably be disappointed, as there are two preconditions for the opening of the capital account: the currency will need to freely float, acting as a means to release any transient pressure affecting the economy, while the financial system will need to become sufficiently developed, so that it can cope with rapid inflows or outflows of money. Both of these seem a long way away.

Admittedly, the government has signalled that the renminbi's daily trading band might be widened soon. This would be symbolically important, but in practice it doesn't necessarily mean that the government will allow the market freer rein to determine the renminbi's level. It will be more important to watch how the renminbi actually performs. Policymakers seem to have also realized that one of the priorities should be speeding up reform in financial markets, with Premier Wen Jiabao recently commenting that China's State-owned banks are a "monopoly" that must be broken. A few days before his comments, the State Council approved a pilot financing scheme in the wealthy city of Wenzhou to improve the role of private funds in financing, which may help to find the answer.


Yuan lending set to cross new border in pilot plan

Shenzhen will push for a cross-border yuan lending pilot project this year that will allow banks in Hong Kong and Shenzhen to lend the currency directly to clients in the opposite city, a move that is expected to boost Hong Kong's offshore yuan business. The Shenzhen city government has included the proposed program into its work schedule for this year, according to a document obtained by China Daily on Thursday. Direct yuan lending, which will be an important link between the onshore and offshore markets for the currency, will deepen financial reforms in Shenzhen, the document said. It added that low-cost yuan loans from Hong Kong will be used mainly to develop the yuan financial business of the Qianhai zone in Shenzhen. The official China Securities News reported on its website that Shenzhen is applying for such a direct yuan lending program with Hong Kong, but Beijing hasn't given its final nod. However, a Shenzhen government official, quoted by Reuters, denied the report about the pilot project. News about the program helped push up Shenzhen stocks by nearly 2 percent as investors cheered the prospect of easier credit.

According to the Hong Kong Monetary Authority, outstanding yuan loans in the city rose 16.1 times during 2011 to 30.8 billion yuan. The pilot plan should also help push up Hong Kong's yuan deposit rates.

Source: Oswald Chen: Yuan lending set to cross new border in pilot plan, China Daily, 2012-04-13,

People’s Daily website IPO raises $219m

The heavily censored website of the People’s Daily, the Chinese Communist party’s flagship newspaper, has launched an initial public offering that makes it worth nearly as much as The New York Times. In the first listing of a Chinese media organisation’s editorial operations, the online unit of People’s Daily raised Rmb1.38bn ($219m) in Shanghai, nearly triple its initial fundraising target. Other party-controlled outlets have previously listed their commercial arms. Beijing hopes that the listing will pave the way for similar IPOs as it expands the global footprint of its state-controlled media. China Central Television is building a US broadcasting centre in Washington.

The People’s Daily, founded in 1948, and other stodgy party outlets need funds to modernise
and close the gap with private internet companies such as Sina and Tencent, which have much more popular news websites. People.com.cn ranked 49th in visitor numbers in China last year, according to internet monitoring organisation ChinaRank. “We need to increase our popularity, expand the range of products and services we offer, reach a wider audience and increase page hits per visitor,” the People’s Daily said. The People’s Daily standard fare is, however, supported by a wide range of more popular and commercially lucrative titles such as the Global Times, a nationalistic newspaper that is sometimes referred to as the Fox News of China.

Source: Simon Rabinovitch in Beijing: People’s Daily website IPO raises $219m, Financial Times, April 20, 2012

**China unveils improved IPO reform guidelines**

China's securities regulator on Saturday issued its final guidelines on new rules for the country's initial public offering (IPO) system after making several improvements according to feedback gathered from the public earlier this month. The new guidelines are aimed at improving the accuracy of information disclosures and making initial pricing more reasonable, the China Securities Regulatory Commission (CSRC) said in a statement on its website. The guidelines detail separate responsibilities for issuers, intermediary institutions, law offices, accounting firms and rating agencies, as well as dictate strict punishments for irregularities and illegal practices. Issuers and underwriters may freely decide the offering time within the effective period following regulatory approval, according to the revised guidelines. The CSRC will also allow underwriters to invite 5 to 10 individual investors to participate in pricing procedures. It promised to introduce independent third parties to carry out risk evaluations regarding information disclosures by companies in order to give references to medium- and small-sized investors, according to the guidelines. When price earning ratios go 25 percent higher than their listed industry peers, issuers should further analyze possible risks in order to disclose more information to investors. The regulator also removed a three-month lock-up period for institutional investors in a bid to boost the circulation of new shares in the market, according to the statement.

Source: Xinhua: China unveils improved IPO reform guidelines, 2012-04-30

**Public awareness of environment grows: Report**

The public has become a leading force in environmental protection, according to a report released by a non-governmental organization on Thursday. The Green Book of Environment, made by Friends of Nature, said more residents are becoming involved in environmental protection and they have learned how to effectively affect authorities’ decision-making. In the past, the public tolerated infringements on their environmental rights, and they would turn to laws only when their losses became unbearable. Now people believe it is their natural right to be involved in environmental protection and that their participation helps make government's decisions more efficient, said the report.

The organization also listed the top 10 environmental protection events that the public was involved in 2011. The list included concerns raised by the public about PM2.5 - particulate matter smaller than 2.5 micrometers in diameter - in the air, customers' request for Apple to investigate its suppliers suspected of violating environmental regulations, and Nanjing residents' opposition to removing trees to make way for subway construction.

In 2007, the government of Xiamen, a port city in East China's Fujian province, agreed to
suspend construction of a highly polluting chemical project after the public expressed strong opposition. About 1 million text messages were sent to pressure the government to cancel the project.

Source: Chen Xin: Public awareness of environment grows: Report, China Daily, 2012-04-20

**China economy: Demographic profile**

China will remain the most populous country in the world in the forecast period, and its population will reach 1.35bn by 2016. The average annual rate of growth in the population in 2012-16 will slow slightly, to 0.5%, from 0.6% in 2007-11. Growth in the working-age population will slow significantly, to an average of 0.2% a year, in the forecast period, from 0.8% in the historical period. The proportion of the population aged under 15 will shrink slightly in 2012-16, from 19.4% in 2011 to 19% in 2016. The proportion of people over 65 years of age will meanwhile increase to 12.3% of the population by 2016, from 10.1% in 2011. The old-age dependency ratio will continue to rise after the end of the forecast period: according to estimates from the World Bank, the proportion of China's population aged over 65 will rise to 22% by 2030.

China will remain the most populous country in the world in the forecast period, and its population will reach 1.35bn by 2016. The average annual rate of growth in the population in 2012-16 will slow slightly, to 0.5%, from 0.6% in 2007-11. Growth in the working-age population will slow significantly, to an average of 0.2% a year, in the forecast period, from 0.8% in the historical period. The proportion of the population aged under 15 will shrink slightly in 2012-16, from 19.4% in 2011 to 19% in 2016. The proportion of people over 65 years of age will meanwhile increase to 12.3% of the population by 2016, from 10.1% in 2011. The old-age dependency ratio will continue to rise after the end of the forecast period: according to estimates from the World Bank, the proportion of China's population aged over 65 will rise to 22% by 2030.

China's changing demography will have important economic and social implications. The "demographic dividend" that has driven China's growth in recent decades by providing the country with a supply of surplus labour will begin to disappear in the forecast period, as the labour force is expected to start to contract gradually.

<table>
<thead>
<tr>
<th>Demographic profile</th>
<th>2006</th>
<th>2011</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1,283</td>
<td>1,321</td>
<td>1,356</td>
</tr>
<tr>
<td>Male</td>
<td>660.3</td>
<td>678.6</td>
<td>694.5</td>
</tr>
<tr>
<td>Female</td>
<td>622.3</td>
<td>642.1</td>
<td>661.2</td>
</tr>
<tr>
<td>Age profile (% of total population)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0-14</td>
<td>20.9</td>
<td>19.4</td>
<td>19</td>
</tr>
<tr>
<td>15-64</td>
<td>71.4</td>
<td>72.2</td>
<td>71.1</td>
</tr>
<tr>
<td>65+</td>
<td>7.7</td>
<td>8.4</td>
<td>9.9</td>
</tr>
<tr>
<td>Young-age dependency ratio</td>
<td>0.29</td>
<td>0.27</td>
<td>0.27</td>
</tr>
<tr>
<td>Old-age dependency ratio</td>
<td>0.11</td>
<td>0.12</td>
<td>0.14</td>
</tr>
<tr>
<td>Working-age population (m)</td>
<td>916.3</td>
<td>933.4</td>
<td>963.2</td>
</tr>
<tr>
<td>Urbanisation (% of total)</td>
<td>41.3</td>
<td>45.9</td>
<td>51</td>
</tr>
<tr>
<td>Labour force (m)</td>
<td>780.5</td>
<td>795.5</td>
<td>784.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Period averages</th>
<th>2012-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population growth (%)</td>
<td>0.6</td>
</tr>
<tr>
<td>Working-age population growth (%)</td>
<td>0.8</td>
</tr>
<tr>
<td>Labour force growth (%)</td>
<td>0.4</td>
</tr>
<tr>
<td>Crude birth rate (per 1,000)</td>
<td>12</td>
</tr>
<tr>
<td>Crude death rate (per 1,000)</td>
<td>6.2</td>
</tr>
<tr>
<td>Infant mortality rate (per 1,000 live births)</td>
<td>17</td>
</tr>
<tr>
<td>Life expectancy at birth (years)</td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>72.4</td>
</tr>
<tr>
<td>Female</td>
<td>76.6</td>
</tr>
<tr>
<td>Average</td>
<td>74.4</td>
</tr>
</tbody>
</table>

Sources: International Labour Organisation (ILO), labour force projections; Economist Intelligence Unit estimates and forecasts; national statistics.
Another crucial demographic trend is the ageing of the population, which will bring into sharp relief the need to improve pensions and healthcare provision.

Concerns about both labour demographics and rising welfare costs will encourage increased debate of the government's one-child policy, which was introduced in 1979 in a bid to slow a rapid rate of population growth. Already, various exceptions to the one-child rule have been introduced, and a further relaxation of the policy is expected in the forecast period.

Improved healthcare provision, nutrition and hygiene will lead to an increase in life expectancy in China in the forecast period. In 2012-16 life expectancy will average 73.4 years for males and 77.7 years for females. However, China will continue to face major health challenges, most notably from HIV/AIDS and smoking. The World Health Organisation (WHO) and the Joint UN Programme on HIV/AIDS (UNAIDS) estimates that there were 740,000 people living with AIDS in China in 2009, but the WHO believes that the number could rise rapidly in future, and there is growing evidence that HIV/AIDS is spreading from high-risk groups to the general public. There is growing awareness of the health risks associated with smoking, in a country where over 50% of adult males are regular smokers. The WHO has estimated that smoking kills 1.2m Chinese a year, and there is now a growing resolve on the part of the government to act more forcefully against the habit.

Source: EIU ViewsWire: China economy: Demographic profile, Apr 27, 2012

Guest post: explaining China's fakes

On last Chinese New Year’s Eve in Shanghai, while waiting in a pub for the annual spectacle of zillions of firecrackers and fireworks going off at the same time, I felt like having a cigar. I inquired of a waiter if the pub sold cigars. He said someone outside on the street would. I stepped out. Sure enough, a middle-aged migrant type had a huge stash of cigars hanging on the side of a bicycle, all Cuban. The Partagas 4 went for Rmb 50 each, about half the price in Hong Kong. The excitement over a very good price didn’t last. The reality soon dawned on me that someone on the sidewalk selling Cuban cigars was probably not kosher. The cigar certainly didn’t taste Cuban.

Last month I passed through a huge cigar shop in an upscale mall in Beijing. I went inside and saw Cuban cigars piled up to the roof on all sides. Then one odd thing struck me: all the cigars looked exactly the same color and had no scent, just like the cigar I bought on the sidewalk in Shanghai. A few days later I tried to buy a cigar at a five star hotel where I had done so many times before. The hotel has a good reputation. But it was selling the same thing as I bought on the sidewalk in Shanghai. The shop was outsourced. Some clever fellow had got in.

One more thing for China’s nouveau riche is going down the gutter. You may have money in China. But when it comes to enjoying the good life, you down a bottle of fake Lafite and smoke a fake Cuban cigar, hoping neither is poisonous. The boutique shop inside a five star hotel required some very talented person to pull it off. So does antique looking 1982 Lafite served at super expensive restaurants. Extraordinarily talented people are in the fake goods business. They even manage to penetrate the most prestigious hotels. As the business is so huge and sophisticated, a big portion of the best and the brightest in China must be involved. Why would so many talented people get involved? Shouldn’t such people be successful in legitimate business? China’s economic structure is a major factor in explaining the phenomenon.

The most important driver for the fake luxury business is unsophisticated demand from the nouveau riche. They are trying to experience the good life for the first time. It is relatively easy to
dupe such consumers. Lafite drinkers in China do it just like Zhang Yu ones, bottoms up. It’s hard to know what one is drinking. When naive consumers always drink the fake Lafite, they find the real one tastes funny. The Cuban cigar is such a new new thing that most people don’t know how it tastes. Hence, anyone who rushes any fake stuff in can be accepted as the real stuff. When people are used to the fake ones, they find the real ones taste funny. Maybe Cuban cigars will forever be made in China.

China’s economic structure doesn’t provide many opportunities. The government’s obsession with investment creates overcapacity everywhere. Most businessmen in China don’t make money from their stated specialties. Speculation, colluding with government officials, and manufacturing fake goods have become the primary sources of profits. This push factor shouldn’t be underestimated. When one is loaded with debts in an oversupplied business, manufacturing fakes is an attractive way out.

Would all that energy and ingenuity in the fake business ever be employed in more enduring activities? Shouldn’t Chinese businesses strike rich by creating brands or unique technologies? That day will come, in my view. When China’s capital allocation is market driven, normal businesses will become profitable. Talented business folks could make good money in legit businesses. Making fake Lafite may become a thing of the past by then.

Source: Andy Xie: Guest post: explaining China’s fakes, Financial Times, 2012-4-12

Diseases threaten economic growth

China, the world's biggest cigarette market, may suffer slower economic growth because of cancer and other chronic diseases that are hurting the labor force, Minister of Health Chen Zhu said. Non-communicable diseases which cause prolonged sickness are responsible for four out of five deaths in China, compared with about 63 percent globally, and absorb about 70 percent of the nation's health spending, Chen said in an interview on Monday. Fighting the threat requires tighter scrutiny of the tobacco industry, linked to 1 million deaths in China, he said. The country now counts more than 90 million diabetes and 120 million chronic kidney disease sufferers - the most in the world. "If we don't curb the fast rise of chronic diseases in China, it will have an impact not just on people's health, but also on society and the economy," Chen said in Hainan province, where he is attending the Boao Forum for Asia. "It could affect the continuity of our economic growth because a lot of deaths caused by chronic diseases are in people younger than 60."

Unless preventative steps are taken, early deaths from so-called non-communicable diseases such as heart disease, stroke, diabetes and cancer will crimp China's national income by $558 billion in the decade ending 2015, according to the World Health Organization. Half of sufferers who die of chronic diseases are under 65 years of age, according to the World Bank.

China will consider expanding its healthcare workforce and increasing resources near major cities to improve access, Chen said. The government will also look at introducing standards to ensure quality isn't compromised amid a new tendering system tested in East China's Anhui province that encourages drugmakers to compete for State contracts to supply essential medicines. "In evaluating the essential medicines, we need to put quality as the priority and not just the price," Chen said. "The prices of drugs and equipment are a little bit high in China. Balancing the growth of the industry and controlling health expenditure is both a challenge and a dilemma for the government."
Tobacco also presents another dilemma in China, the world's biggest producer and consumer of the aromatic leaves, accounting for 38 percent of cigarettes smoked worldwide in 2009. "One of the key aims is to enhance the government's supervision of the commercial activities related to tobacco," he said.

Source: Anonymous: Diseases threaten economic growth, China Daily, 2012-04-03

**Trends in World Income Inequality and the 'Emerging Middle'**

The contribution in this volume by Matthias vom Hau, James Scott and David Hulme offers an important point of departure for evaluating the rise of emerging powers and their potential impact on global poverty reduction. This article seeks to further specify (i) the salient cases of rapid economic growth that have come to constitute the 'emerging middle' phenomenon; (ii) the relationship between this 'emerging middle' and recent patterns of change and continuity in world income inequality; and (iii) the relationship between these changes and possible future patterns in world poverty. The article argues that China and India constitute the two most salient instances of rapid economic growth. For most countries in the world, on the other hand, there has been considerable stability in the relative distribution of world income. Moreover, the very success of China and India might translate into constraints for economic growth in both wealthy and middle-income countries.


**Domestic Income Shifting by Chinese Listed Firms**

To encourage economic development in specific regions and industries, the Chinese Central and local governments offer a series of corporate income tax incentives (tax exemptions, reduced tax rates, tax holidays, and tax refunds). In China, parent and subsidiary companies are consolidated for financial reporting, but not for tax purposes. We take advantage of a unique disclosure in the tax footnotes of Chinese listed firms to examine income shifting among consolidated group members in response to these incentives. We find that intangible-intensive groups ("firms"), and firms concerned with meeting minimum earnings thresholds to issue equity, shift greater amounts of income. We find no evidence that high concentrations of either Central or local government ownership affect the level of income shifting.


**Focusing on the major function-oriented zone: A new spatial planning approach and practice in China and its 12th Five-Year Plan**

For a long time, China has been focusing primarily on pursuing economic growth, with less concern about social and environmental development issues. This may make China's development unsustainable. In contrast to its current economic-oriented approach predominated by economic growth, this research note presents a newly proposed approach of major function-oriented zone (MFOZ) that is designed by our research team and is largely accepted by the central government and incorporated into its 12th Five-Year Plan. This approach tries to rationalise China's regional development and insists that each region should have its unique functions to perform, determined
by its own characteristics, conditions and requirements. With this approach, the central government is able to monitor and coordinate regional and local developments, and hence the Planning of MFOZ is seen by the central government as a tool to steer spatial arrangements for the country's long-term sustainable development.

Source: Fan, Jie; Sun, Wei; Yang, Zhenshan; Fan, Peng; Chen, Dong: Focusing on the major function-oriented zone: A new spatial planning approach and practice in China and its 12th Five-Year Plan, Asia Pacific Viewpoint53. 1 (Apr 2012): 86-96.

**Chongqing: Beyond the latecomer advantage**

The spectacular growth of Chinese cities since the 1980s is often theorised as reflecting the advantages of latecomer development (ALD). ALD has been more effective in cosmopolitan, globally accessible coastal cities than outer cities. As leading cities, like Shanghai, close the development gap, the potential for 'easy' ALD growth falls off rapidly. Because institution building is more difficult than firm-based growth, ALD strategies may generate rapid short-term economic growth but not sustainable development. Accordingly, Chongqing municipality, with a population of 33 million, in West China, is pursuing a beyond latecomer advantage model. This is characterised by: 1. reducing poverty and rural-urban disparity through accelerated urbanisation, rural-urban integration and emphasising human resource development; 2. upgrading the value added of Chongqing’s economy through targeting of FDI and incentives to local start-ups; 3. endogenous development, reducing risks from external shocks; 4. Hukou reform; 5 establishing a land use conversion certificate market to rationalise land use; 6. emphasis on morality to address crime/corruption; 7 recognition of the importance of amenity in attracting investment and talent; and 8. establishing a longer developmental time perspective. This paper explores this Chongqing model in detail.

Source: Cai, Jianming; Yang, Zhenshan; Webster, Douglas; Song, Tao; Gulbrandson, Andrew: Chongqing: Beyond the latecomer advantage, Asia Pacific Viewpoint53. 1 (Apr 2012): 38-55

**Advances in Chinese Agriculture and its Global Implications**

In the past thirty years, China has made great strides in terms of boosting food production while simultaneously reducing the number of its rural poor. This success was largely accomplished through agricultural policy and trade reform, food market liberalization, and public investment in agricultural infrastructure and agricultural research. However, there is much more economic development work to be done in rural China, as issues such as an aging agricultural workforce, land-use rights, and water shortages persist. At the same time, increased urbanization and the rising middle class are changing the demand for food in China. This article outlines the issues facing Chinese agriculture and connects those issues to the global marketplace.


**Legal reform urged on forced demolitions**

Legal experts have called for a revision of the country's laws on land seizure, in a bid to ease tensions over forced demolitions. Rapid urban expansion has resulted in an increasing amount of land seizures and forced demolition of homes and property. But the rights of property owners are being constantly infringed upon due to a lack of clear-cut procedures before and after demolition,
Wang Liming, a member of the Law Committee of the National People's Congress, said in a motion submitted during the annual session of the country's top legislature in early March.

Although China's Property Law, introduced in 2007, has clarified the circumstances and procedures required for the government to take over land, houses and other property, Wang said the stipulation was too general. The law says that land expropriation should be in the public interest and property owners should be compensated accordingly. But the term "public interest", Wang said, is ambiguous and the stipulation regarding demolition procedure is too general, and can give way to violence and forced demolition.

Last year, at least 1,480 home demolitions were carried out without the property owner's consent, and 57 officials were punished for malpractice that led to death or injury in 11 of the cases, Xinhua News Agency reported.

Source: Zhao Yinan: Legal reform urged on forced demolitions, China Daily, 2012-04-05

More workers staying near home

China is now home to 158 million migrant workers and their salaries increased by 21.2 percent from 2010 to 2011, according to the National Bureau of Statistics. A bureau survey looking at Chinese migrant workers showed the country's rural workforce increased by 4.4 percent in 2011 year-on-year. In the same period, the number of migrant workers rose by 3.4 percent while those who chose to work in hometown climbed by 5.9 percent. Nearly half of migrant workers, the survey found, still work in the coastal provinces of Guangdong, Zhejiang, Jiangsu and Shandong. But the two biggest manufacturing centers in the country, the Pearl River and Yangtze River deltas, saw their workforces grow at a slower pace in 2011 than the year before.

The poll interviewed nearly 200,000 rural workers in 31 provinces. It found rural workers who chose in 2011 to work in their home provinces outnumbered for the first time in years those who went elsewhere for employment. Meanwhile, the proportion of rural workers older than 40 has gone from 30 percent in 2008 to 38.3 percent in 2011. In those three years, the average age of rural workers went from 34 to 36. That indicates there may indeed be a limit to what has previously been called an "unlimited supply" of migrant workers.

More than 84.5 percent reported toiling for more than 44 hours a week - exceeding the legal limit on work time. More concerning is the current shortage of skilled workers, which could undermine company's advantages.


Ministry to withdraw 38 food additives

China plans to withdraw 38 types of food additive from the market, in response to rising concerns over food safety. Analysts said the targeted additives are used in many food products, including candies, cakes, and canned meat and fruit. The food additives are mainly used for preserving freshness, and improving taste and appearance. The draft proposal was posted on the Ministry of Health website on Friday for public comment until April 20.

Public concern over food safety continues to be high in China, following the melamine milk scare in 2008 and the use of the illegal additive, clenbuterol, by farmers to feed pigs in Henan province in March 2011. Dong Jinshi suggested authorities should also crack down on the illegal use of food additives and set stricter content levels.

Source: Jin Zhu: Ministry to withdraw 38 food additives, China Daily, 2012-04-10
China considers reform of public institutions

China is striving to make its public institutions more "public-welfare oriented" and reduce the country's financial burden by transforming some of them into businesses, according to a circular issued on Monday. Similar to government departments but contrary to private businesses, public institutions in China are financed by the national budget and do not have earnings. They cover sectors such as education, science, culture, health, agriculture, forestry, water conservation and media sectors. As the number of workers in public institutions is far greater than the number of civil servants, it's becoming increasingly challenging for the central government to finance such a huge group.

Public institutions with administrative roles should be turned or merged into government departments. Those have business operations will be gradually transformed into enterprises. Those providing social services will retain their status as public institutions, with the public-welfare nature to be strengthened, according to the circular which outlines a reform plan. Efforts should be made to conduct assets inspections, financial auditing, capital rating and debt verification before transforming public institutions, the circular said, adding that national assets must be registered. Labor contracts and social insurance of public institution staff should also be changed accordingly, with retired employees retaining their original status, the circular went on to say. A transitional period will last about five years for each public institution to ensure smooth switch, it said. The circular stressed the public institutions' role as social services providers, saying that efforts should be made to promote equalized social services between rural and urban areas and among different regions.

Source: Xinhua: China considers reform of public institutions, 2012-04-17

Home / Business / Economy Chinese postgraduates flock to US schools

Postgraduate schools in the United States have seen a record-breaking number of Chinese applicants over the past year, a new survey showed. The Council of Graduate Schools, a US organization dedicated to the advancement of graduate education and research, recently published a new survey that said Chinese applicants increased by 18 percent for the 2012 fall semester, marking the seventh successive year of double-digit growth in applications from China. Applications from India increased by 2 percent, following an 8 percent increase in 2011. South Korea's 2 percent gain last year was followed by a decrease of 1 percent this year.

"The overall growth in applications is encouraging, but there are interesting variations between individual countries and regions," said Debra W. Stewart, president of the Council of Graduate Schools, in a written statement. "We need to ensure that US graduate education attracts students from around the globe by increasing outreach efforts and pursuing policies that would allow those graduates who want to remain in the United States and contribute to our economy to do so," she added. The survey polled all 500 US colleges and universities that were members of the Council of Graduate Schools as of January 2012.

Chinese undergraduate students rose in number as well. The Institute of International Education, a non-governmental organization based in the US, reported that Chinese students increased by 43 percent at the undergraduate level from 2010 to 2011, which largely accounts for the growth this past year. By November 2011, the total Chinese enrollment in the United States reached 158,000, or nearly 22 percent of the overall international student population.
"More and more wealthy Chinese parents prefer to send their children to the United States," said Liu Haishan, a consultant at the New Oriental Vision Consulting Company, an overseas consulting agency. "The world's top 100 universities only include two in China - Tsinghua and Peking University - but there are around 60 in the States," Liu said. "Furthermore, you only have one chance a year to take the college entrance exam in China, but you can take the Scholastic Aptitude Test six times a year, which means a higher chance of entering a top US university." Liu also said that Chinese high school students are showing greater interest in studying abroad, with some even starting to prepare three years ahead.

Source: Cheng Yingqi: Chinese postgraduates flock to US schools, China Daily, 2012-04-13

Cultural heritage faces urban growth challenge

Rapid large-scale urbanization and improper rural development are the main challenges to protecting China's cultural heritage, experts have warned. The 7th Wuxi Forum on the Conservation of China's Cultural Heritage heard on Wednesday that unsuitable development in rural areas had damaged the structure, environment and features of some historical villages in China. The harmonious relationship between man and nature had been broken, and accelerated urbanization had pushed historical cities and towns to host large populations, Tong Mingkang, deputy director of the State Administration of Cultural Heritage, said at the Wuxi forum in East China's Jiangsu province. Statistics showed that the total of built-up urban areas in China doubled to 40,000 square kilometers between 1996 and 2010.

In some underdeveloped regions of China, historical buildings and villages have been abandoned, as a growing number of people move to cities, while others have deteriorated due to a lack of maintenance, the forum was told. Meanwhile, in urban areas, it has become fashionable to develop ancient streets for modern purposes, such as shopping malls or entertainment hubs.

Abhimayu Singh, the representative of the United Nations Educational, Scientific and Cultural Organization in China, said that only by understanding that cultural heritage is the core of social development, can people know that heritage protection is a "mutual responsibility" and not just a "label". Mounir Bouchenaki, special consultant to UNESCO, said people should let decision-makers know that investment in cultural heritage is key to social development.

During the 12th Five-Year Plan (2011-15) period, the State Administration of Cultural Heritage will create a "credible, representative and balanced" preparatory list for China's world cultural heritage, said Tong Mingkang. He added they would also set up an early-warning monitoring system across the country to combine cultural heritage and emergency conservation efforts. A "Wuxi proposal" was put forward on Wednesday to promote the sustainable development of world heritage sites as one of the commemorative events at the 40th anniversary of UNESCO's Convention Concerning the Protection of the World Cultural and National Heritage.

Source: Xinhua and China Daily in Wuxi, Jiangsu: Cultural heritage faces urban growth challenge, China Daily, 2012-04-12

Home / Business / Economy Domestic industry sees marketable opportunities

Leading Chinese industrial firms see this year's Hannover Messe as a great opportunity to showcase their innovations and new technologies, and are seeking chances to find overseas cooperation in sustainable development. As the partner country of the Messe, the world's major industrial and technology show, China has brought its latest achievement in new-energy vehicles
and smart manufacturing, under the general theme of "Green and Intelligence". The Hannover Messe, which runs from Monday to Friday, has attracted some 5,000 exhibitors from 69 countries and regions. Almost half of these exhibitors come from outside Germany, among which more than 500 came from China, promoting their latest products and technology in the Chinese Exhibition Hall. China's First Automobile Works shows its plug-in hybrid electric car, the C131 PHEV, which reduces car emissions to almost zero. FAW has set up joint ventures with international industrial leaders including Germany's Volkswagen, from which the State-owned automaker learned advanced technology, management and human resources skills, accelerating its entry to the international market and supporting the development of its local brand.

Leading German technology businesses also expressed excitement, hoping the Messe will help them strengthen their presence in the Chinese market. They believe that China's policy reorientation from high growth to sustainability will lead to increasing demand for their products and services. Peter Kohler, CEO of Weidmuller, which provides products and solutions for the transmission of power, data, and control signals in industrial environments, said that he looked forward to meeting both existing and potential customers from China at the fair.

Source: Zhang Haizhou, Cecily Liu and Bao Chang: Domestic industry sees marketable opportunities, 2012-04-24

**Major Chinese industrial companies' profits drop 1.3%**

Profits for Chinese chemical producers, automakers and other major industrial companies fell 1.3 percent in the first three months of 2012 from the same period last year, China's statistical authority said Friday. Total profits for the largest industrial companies, or those with annual revenues above 20 million yuan ($3.17 million), stood at 1.0449 trillion yuan during the first three months, the National Bureau of Statistics said in a statement on its website. Rising purchase prices, weak sales growth and increasing manufacturing costs caused the profit decline, said He Ping, an official from the NBS. The statement said that in March alone, industrial profits rose 4.5 percent to 438.9 billion yuan from the same period of last year.

State-owned and State-controlled enterprises saw their profits fall 12.4 percent from one year earlier to 317.2 billion yuan in the first quarter, while private companies' profits grew 22.4 percent during the same period.

Source: Xinhua: Major Chinese industrial companies' profits drop 1.3%, 2012-04-27

**CHINA: Cautious SOE shake-up faces resistance**

Discussions at last month's National People's Congress have helped open the way for a departure from the 'China model' of state capitalism and a new round of economic reform. This is in line with the recent China 2030 report, co-authored by the Development Research Centre (DRC) -- a highly influential and reform-minded subsidiary of the State Council -- and the World Bank, with the support of Ministry of Finance officials and, reportedly, Vice-Premier Li Keqiang. The report envisages a significant scaling back of the state's role in economic activity, reforms to improve corporate governance and an expanded role for the private sector. However, it stops short of recommending all-out privatisation.

Discussions at last month's National People's Congress have helped open the way for a departure from the 'China model' of state capitalism and a new round of economic reform. This is in line with the recent China 2030 report, co-authored by the Development Research Centre (DRC) --
a highly influential and reform-minded subsidiary of the State Council -- and the World Bank, with the support of Ministry of Finance officials and, reportedly, Vice-Premier Li Keqiang. The report envisages a significant scaling back of the state's role in economic activity, reforms to improve corporate governance and an expanded role for the private sector. However, it stops short of recommending all-out privatisation. Although the China 2030 report is widely described as a 'World Bank report', and its recommendations are largely based on Western policy models, the involvement of the DRC and senior officials from the Ministry of Finance gives it strong credibility domestically. Moreover, some of the proposals have already been piloted and received implicit approval from the authorities.

A web of central and local government officials at every level permeates the state sector. The party apparatus has control over senior-level appointments, giving the CCP near-total authority and responsibility for economic performance. This constitutes a source of legitimacy for the party. Reforms are costly. The 2030 report puts the cost of enterprise reforms in the late 1990s at some 20% of GDP (likely an underestimate), much of it borne by employees as the enterprises shed their social functions. The type of rationalisation now envisaged implies further monetisation of SOE employee benefits (still more generous than in the private sector) and recognition of liabilities towards employees nominally laid off but still on payroll.

Industrial policy has become more complex. The distinction between industrial policy and planning guidelines is increasingly blurred. China has designated certain sectors as strategic and ultimately off-limits to both the private and foreign-owned sectors.

Although the 2030 report does not address the complex nature of these challenges head on, it is clear that it envisages a very different industrial landscape by 2030, with a more vibrant industrial sector, greater consolidation and a more favourable environment for smaller privately owned enterprises. The report's central assumption is that past productivity gains were driven by the private sector, and that the state can achieve its policy objectives with a smaller share of industrial output. It targets a reduction in the SOEs' contribution to industrial output from 27% now to 10% by 2030. In doing so, it advocates: further separation of ownership and control by removing the appointment of senior management from the political sphere; public disclosure of accounts in line with international practice; the establishment of State Asset Management Companies to represent the government as shareholder (these would have a clear mandate and be subject to industry-specific and publicly announced performance benchmarks); confinement of the State-Owned Assets Supervision and Administration Commission (SASAC) to policy and oversight; and lowering of barriers to entry in key sectors (such as petroleum, chemicals, electricity distribution and telecommunications) to facilitate the entry of small and medium-sized enterprises.

Previous efforts at governance reform may indicate the extent to which these targets are achievable. Indeed, the focus of the 2030 report, and its political context, are not new. Reforms in the 1980s and 1990s sought to increase managerial motivation and bring the corporate structure of state enterprises closer to that of their Western counterparts. The State-Owned Enterprise Law (1988), the State-Owned Property Regulations (1994) and Company Law (1993) created the institutional foundations of a model based on three bodies, namely: a shareholder general meeting; a board of directors; and a supervisory board. Alongside these reforms, there has been a gradual withdrawal of line bureaus and ministries from asset management. These changes required political compromise, which eventually led to the establishment of the SASAC in 2003. However, the results
of these reforms have generally fallen short of their objectives. A lack of regulatory oversight, along with the failure of intermediate-level organisations to adopt the role of professional owners, resulted in rampant asset-stripping and over-investment. In the absence of credible market institutions, the CCP has continually been forced to revert to a centralised style of administrative control.

The 2030 report recognises that a wide range of objectives -- such as technology reform, productivity growth and management and professional resources -- are not being attained due to unresolved issues that are ultimately contingent on the role of the government. The role it envisions for the private sector is also a significant step. However, the policy environment and the constraints under which these proposals operate have not changed. Despite the report's glowing assessments of the private sector's contribution to growth, it is clear that the authors view it as having severe shortcomings, and in practice it is difficult to see how these can be remedied by improving market access alone. The discriminatory treatment of large private firms indicates that the immediate obstacle is not necessarily market access but rather the arbitrary political and regulatory environment that they face.

CONCLUSION: Maintaining the pace and scale of China's development depends on effectively unravelling a complex state-sector corporate governance structure characterised by overlapping connections between state-owned enterprises (SOEs), the bureaucracy and the Chinese Communist Party (CCP). How to do this without endangering economic stability will be a key policy debate for the foreseeable future, with a successful resolution important for both economic growth and the legitimacy of the CCP. The privatisation of state enterprises is off the agenda; a more likely outcome is a compromise that balances the need for greater competition and more transparent governance with maintaining the authority of the CCP.


**Pilot plan to help small enterprises get funding**

A pilot program that would allow small, non-listed companies to issue bonds to limited categories of investors has been submitted to the State Council for final approval, the China Securities Regulatory Commission said on Thursday. The goal is to expand funding channels for cash-starved businesses and support industry. The bonds may only be sold to a limited number of sophisticated investors, under a proposal made earlier by the Shanghai and Shenzhen stock exchanges. The Securities Times said institutions, as well as individuals with at least 5 million yuan ($793,500) in total financial assets and more than two years of securities investment experience, may buy the bonds. The bonds will offer returns of up to three times the current benchmark debt interest rate of 6.56 percent, with maturities of at least one year, a CSRC official said earlier this month. According to the CSRC, small companies from six provinces and cities - including Beijing, Shanghai, Zhejiang and Guangdong - may have the chance to first issue such bonds.

Source: Chen Jia: Pilot plan to help small enterprises get funding, China Daily, 2012-04-27

**Investment opportunity set, political connection and business policies of private enterprises in China**

The main purpose of this paper is to examine the factors that determine the business policies of private enterprises in the People's Republic of China. Little is known about these private enterprises although these are surpassing the state-owned enterprises to become the most important corporate
sector in China. The phenomenal growths of these enterprises provide an interesting setting to study the effect of the investment opportunity set (IOS) on business policies. We also examine how a firm's political connection, generally believed to be instrumental to a firm's success in transition economies, affects its business policies. We provide evidence on the importance of these factors in shaping the private firms' business policies in China. More specifically, our results show that growth firms pay lower dividends, have lower overdue receivables relative to sales, have higher percentage of bonus shares, and are more likely to engage in joint ventures. In addition, firms with better political connection are able to borrow more, are more likely to establish a board of directors, and are more likely to acquire SOEs. These results have policy implications with regard to private enterprises in transitional economies in general and those in China in particular.

Source: Chow, Clement Kong; Wing; Fung, Michael Ka; Yiu ; Lam, Kevin C; ; Sami, Heibatollah: Investment opportunity set, political connection and business policies of private enterprises in China, Review of Quantitative Finance and Accounting38. 3 (Apr 2012): 367-389.

**Li focuses on boosting growth in Asia**

Greater engagement with Asia will play a key strategic role in China's opening-up policy, Vice-Premier Li Keqiang said on Monday. Promoting growth will provide sound and sustainable development for the region, Li said at the opening ceremony of the annual meeting of the Boao Forum for Asia. As the largest market for Asian imports and an important source of investment, China will expand cooperation in a range of sectors, such as emerging industries, infrastructure, finance and technology, Li said. "Openness has been vital to Asia's fast growth in the past and it will continue to be crucial for the area's further development," he said. China will work with countries to push forward the establishment of regional cooperation mechanisms such as bilateral and multilateral free trade zones, Li said. More than 2,000 officials, business and academic leaders from around the world attended the event with the theme of "Asia in the Changing World: Moving Toward Sound and Sustainable Development".

China and other Asian countries share a sound basis of collaboration such as the cooperation channels between China and the Association of Southeast Asian Nations. Also, China is negotiating with the Republic of Korea and Japan to create a free trade area. In his speech, Vice-Premier Li also said that the country's fundamentals remain good and he is confident in its ability to maintain long-term, stable and relatively fast economic growth. "The fundamentals of the Chinese economy remain good and the momentum of economic growth has not changed. We will be able to maintain steady and relatively fast development in the long term," Li said.

PepsiCo chief executive officer Indra Nooyi, who is attending the forum, said the speech delivered a "very encouraging and clear" message. It's very impressive that Li stressed China's desire to cooperate and that it wants a win-win scenario with other countries, she said.

Li mentioned that the Shanghai Cooperation Organization should work together on economic issues and emphasized collaboration among China, Japan and the Republic of Korea. This indicates China's new outlook on how to promote regional integration within Asia, Pang said. China has entered a crucial stage in reforming the economy and will continue to strive to achieve breakthroughs in key areas, including taxes, finance, prices and income distribution, Li said.

Source: Lan Lan and Qin Jize: Li focuses on boosting growth in Asia, China Daily, 2012-04-03

**China to host 2013 Fortune Global Forum**
The 2013 Fortune Global Forum, a prestigious world business summit, will be held in the southwest Chinese city of Chengdu in June 2013, organizers announced Monday. The forum, running from June 6 to 8, will bring the CEOs of the world's biggest multinational companies, entrepreneurs and scholars to China for an event themed "China's New Future." Andy Serwer, managing editor of US-based Fortune Magazine, said China has an emerging role to play in the world market and noted the dramatic growth of the country's western region. Delegates will share deep insights into new trends in today's complex global economy and glimpse its future, he added. It will be the fourth time China gets to host the forum, initiated in 1995 by Fortune Magazine. Shanghai, Hong Kong, and Beijing have held the annual gathering previously, in 1999, 2001, and 2005 respectively.

Source: Xinhua: China to host 2013 Fortune Global Forum, 2012-04-09

Philippines and China in naval stand-off
Two Chinese marine surveillance ships have been engaged in a stand-off with a Philippine navy vessel in a disputed area of the South China Sea, the latest example of rising tensions in the region. Beijing and Manila summoned each other’s ambassadors and lodged diplomatic protests over the incident in Scarborough Shoal, about 120 nautical miles west of the Philippines’ main island of Luzon, according to Albert del Rosario, the Philippine foreign secretary. The conflict began on Tuesday morning when a Philippine warship tried to detain at least eight Chinese fishing boats and arrest those on board for allegedly fishing illegally in Philippine waters. Two Chinese surveillance ships later moved in to protect the fishermen from what Beijing called “harassment” by Philippine soldiers, and asked the warship to leave the area, which is also claimed by China.

Beijing has become increasingly assertive in pressing its claim to the entire South China Sea, believed to be rich in oil, gas and fisheries, and has been accused by some of its neighbours, particularly the Philippines and Vietnam, of harassing other countries' oil exploration ships in the region. Other parts of the South China Sea are claimed by Brunei, Malaysia, the Philippines, Taiwan and Vietnam. An initial meeting yesterday with Ma Keqing, the Chinese ambassador to Manila, failed to break the deadlock. Both sides “resolved to seek a diplomatic solution to the issue”, said Mr del Rosario.

Source: Roel Landingin in Manila, Kathrin Hille in Beijing: Philippines and China in naval stand-off, Financial Times, April 11, 2012

Yuan moves toward liberalization
China has taken another big step toward liberalizing the yuan's exchange rate by allowing banks to hold short positions in foreign currencies. Banks that had foreign-exchange dealings of more than $1 billion in 2011 may hold $10 million worth of short positions, according to a statement released by the State Administration of Foreign Exchange late on Monday. Banks with foreign-exchange dealings of between $100 million and $1 billion last year may have short positions worth $5 million, and those that had dealings worth less than $100 million may hold short positions worth $3 million. Effective on Monday, the new rules apply to all lenders except for national banks and foreign-exchange market makers. The State Administration of Foreign Exchange said it will make another announcement pertaining to institutions in those categories.

The change is meant to further develop China's foreign exchange market, give banks more flexibility in trading in foreign exchange and make it easier to price the yuan, the administration
said. On Saturday, the country's central bank announced that the yuan will be allowed to fluctuate by 1 percent above and below a daily midpoint - double the previous limit of 0.5 percent. The doubling of the yuan's daily trading band, which took effect on Monday, was the first time such a widening has occurred since May 2007.

The central bank's decision to widen the yuan's daily trading range does not necessarily mean there will be a shift to a new system of setting exchange rates, Fitch Ratings Ltd said in a report on Tuesday. "This band remains narrow," it said. "Its widening is consistent with the Chinese authorities' strategy of making the renminbi/dollar rate less of a one-way bet, with the intention of deterring potentially destabilizing, speculative, 'hot money' inflows. "As such, it could be interpreted as an attempt to bolster the existing managed exchange-rate framework, rather than a move toward liberalization." The ratings agency said the prospects for such liberalization are slim in 2012 in light of current doubts about the global economy and of the impending transition in China's leadership. Last week, Fitch affirmed its 'A+' foreign-currency rating for China, giving it a stable outlook. Its local-currency rating was set at 'AA-' with a "negative" outlook, resulting from the expectation that China's sovereign balance sheet will contain more debt following a rise in the use of credit from 2009 to 2011.


**China widens yuan trading band against US dollar**

The People's Bank of China (PBOC), the country's central bank, announced Saturday it will widen the yuan's daily trading limit against the US dollar to 1 percent from Monday. In the foreign exchange spot market, Chinese banks can exchange the yuan 1 percent above or below the central parity against the US dollar announced by the China Foreign Exchange Trading System each trading day. Previously, the daily trading limit was set at 0.5 percent. China's current foreign exchange market is developing more maturely and trading entities are more capable of pricing independently and managing their risks, the PBOC said in a statement on its website.

Adjusting to the demand of market development, widening the yuan's trading band aims to promote exchange of the Renminbi, boost the yuan's two-way fluctuation flexibility and improve the market-based managed floating exchange rate regime tied to a basket of foreign currencies, according to the PBOC. The central bank pledged in the statement that it will maintain the "normal fluctuation" of the yuan's exchange rate, stabilize the rate at "reasonable and balanced levels," and keep the macro economy and financial markets stable.

Source: Xinhua: China widens yuan trading band against US dollar, 2012-04-14

**China: the long march of the renminbi**

China’s latest move to liberalise its financial markets – Saturday’s decision to widen the renminbi/US dollar band – barely registered among traders and investors, writes Stefan Wagstyl. With the markets overshadowed by pessimism about the outlook for global growth and the European debt crisis, there was little time to focus on the long-term benefits that should flow from Beijing’s gradual opening up of its economy. However, if and when the current gloom lifts from the markets, Beijing’s decision to widen the trading band from 0.5 per cent to 1 per cent should be positive for China and the global economy.

First, it shows that despite the political turmoil, China’s policymakers are still at work. Next, following soon after the modest relaxation of limits on foreign portfolio investment, the currency
move confirms Beijing’s continuing commitment to economic liberalisation. Capital Economics said that the action would have little impact on the renminbi’s movement and it kept in place its end-2012 forecast of Rmb6.20 to the dollar, an appreciation of less than 2 per cent from Friday’s close. However, “the wider band lays the groundwork for a more market-driven and volatile exchange rate regime somewhere down the road”. So, on its own, not a big change. But another step forward on a long path.

Source: Stefan Wagstyl: China: the long march of the renminbi, Financial Times, April 16, 2012

**Shanghai ranked as China’s most open city**

China’s eastern economic hub of Shanghai is the most open city in the country for its deep involvement in developing an export-oriented economy, according to a report released by the National Development and Reform Commission (NDRC), China’s top economic planner. Beijing and the southern coastal province of Guangdong ranked second and third, respectively, in terms of their degree of openness, which was measured using three primary indices for economic, technological and social development, the report said. The report marked the first time for China to release an openness index for its 31 administrative areas on the Chinese mainland. The southwest province of Guizhou ranked the lowest after Northwest China’s Qinghai province and the Tibet autonomous region, the report said. Cao Wenlian, deputy director of the NDRC’s Fiscal and Financial Department, said the ranking will help the country’s less-open regions to recognize their developmental advantages and encourage them to make more efforts to match their openness ratings with their own economic development levels.

Source: Xinhua: Shanghai ranked as China’s most open city, 2012-04-02

**China-South Korea pact 'first on agenda'**

A free trade agreement between China and South Korea will probably precede a planned China-Japan-South Korea FTA, a senior official from the Korea Trade-Investment Promotion
Agency said. The FTA is likely to be concluded first "because research for the bilateral FTA is advanced and the Chinese government has taken an active interest", Park Jin-hyung, KOTRA's executive vice-president for China, told China Daily. Wang Luo, a researcher from the Chinese Academy of International Trade and Economic Cooperation, a Ministry of Commerce think tank, said: "China and (South Korea) took a very clear position for the bilateral trade agreement and preparations are ongoing.

China, Japan and South Korea signed a trilateral agreement to promote investment on March 22, after five years of negotiations, according to China's Ministry of Commerce. Jiang Jiqing, director of the Department of International Trade and Economic Affairs at the ministry, said that the investment agreement "will pave the way" for an FTA between China and South Korea, as well as the trilateral pact.

The trilateral FTA, "although it will challenge (South Korea's) primary industries of agriculture, animal husbandry and seafood, will have an active influence on (South Korea) on the whole and is welcome at home," said Park. He suggested the manufacturing industry would be an easy start for the trilateral FTA negotiations and urged China to further open its services sector. He added that a trilateral FTA would enlarge the regional trade volume and offset sluggish demand from the European Union and the United States.

For example, China's AVIC International Energy signed a cooperation agreement with Modn M-Tech on March 19. The deal involves investment of $30 million to set up a factory in South Korea to make electric vehicle battery equipment. South Korean's cumulative investment in China reached $36 billion as of 2011, Park said (though China gives the figure as $50 billion), while China's investments in South Korea - mainly in tourism and entertainment - only reached $3 billion. The discrepancy implies that Chinese companies did not find suitable investment targets in South Korea, Park said. "South Korean investors generally hold that it's no easy thing to explore the huge market in China without investment in production facilities or setting up companies in China. Communications, vehicles and machinery are the most common areas for South Korean investment in China, but the service industries, wholesaling and retailing are increasingly favored," Park said.

Source: Li Jiabao: China-South Korea pact 'first on agenda', China Daily, 2012-04-06

**China imports Ukrainian corn for 1st time**

China, the world's largest corn consumer, has recently started grain imports from Ukraine, with the first shipment of 50,000 metric tons of Ukrainian corn and wheat already on its way to the nation. This is the first time China has imported corn from the Eastern European nation, with the amount expected to reach between 1 million and 1.5 million tons within the next three years. In 2011, China imported 1.75 million tons of corn, compared with 1.57 million tons in 2010, according to data from the General Administration of Customs. Official data also showed that corn imports during the first two months of this year registered a staggering increase to 1.3 million tons, almost the total annual
amount in previous years. Industry analysts estimate this year's imports at between 3 million and 4 million tons. Most of China's current corn imports come from the US. Analysts said the Chinese market would welcome Ukrainian corn, given its lower price than US corn and the fact that it is not genetically modified. In the meantime, as agricultural trade plays an increasingly important role in balancing China-US trade, "large State-owned companies will continue importing from the US because of political reasons", Ma added.

Source: Zhou Siyu: China imports Ukrainian corn for 1st time, China Daily, 2012-04-07

Trade Gains Put China In Quandary: [Business/Financial Desk]

After months of weakness in overseas demand, especially from Europe, Chinese exports finally seem to be recovering. But now the country's domestic economy is looking a little less robust. Exports surged last month, helping to produce an unexpected trade surplus of $5.35 billion in March, according to government data released Tuesday. But imports grew lethargically, a warning sign for a domestic economy where government policies have aimed to deliberately deflate a real estate bubble and as a growing number of wealthy Chinese appear to be moving money out of the country. Slowing domestic demand is a concern in any economy, except when deliberately engineered to slow inflation, as is the case to some extent in China. But the Chinese government faces a particularly difficult balancing act because strong economic growth at home has been its main claim to political legitimacy.

Chinese leaders are trying to deflate a real estate bubble by banning most purchases of second and third homes, a policy that has brought an abrupt slowdown in residential housing construction, with the exception of public housing projects, a national priority to provide more affordable housing.

Many Chinese exporters have been looking to the country's domestic market in response to tepid growth overseas for the last several years, but are finding the Chinese market an even bigger challenge now. "The buyers are very aggressive in asking for price discounts and the right to return unsold products," said Peter Chen, the sales manager at the Hua Hai Toys factory, which makes water pistols in Chenghai, China. "At least our overseas customers have never asked to return products back to us."

Blue-collar wages have nearly tripled in the last seven years or so in China, but heavy investments in ports, highways, telecommunications and other infrastructure have helped to offset the extra labor costs by making it less expensive and easier to ship goods to markets. A study released last month by Panjiva, a New York consulting company that advises 2,000 mostly American importers on how to locate overseas suppliers, found that slightly more than half of the importers interviewed had expressed a desire to increase purchases from other Asian nations, notably India, Vietnam and Thailand. But that has not yet translated into shifts in outsourcing. "When it comes to moving manufacturing beyond China, there's still more talk than action," Josh Green, the chief executive of Panjiva, wrote in an e-mail on Monday.

Bankers and lawyers say that Chinese companies doing initial public offerings abroad increasingly want to keep the proceeds offshore instead of repatriating them to China. Chinese businesses have been more aggressive in making offshore acquisitions, particularly related to natural resources, although this has been partly driven by government policy. Also, wealthy Chinese have been pouring huge sums into real estate in havens like Hong Kong and New York, even as real estate prices tumble in mainland China. They have also become very active users of a wide range of
offshore trusts and tax shelters in places like the Cayman Islands, far from the Chinese tax authorities and fraud investigators.


Home / Business / Economy US China must build mutually beneficial economic ties

US Secretary of Commerce John Bryson told the 21st Committee of 100 Annual "Common Ground" Conference in Los Angeles Friday that the United States and China must continue to build a mutually-beneficial and a balanced economic relationship. "It's clear that the world's two largest economies are becoming more intertwined each day," said the US secretary of commerce. Bryson said in a closing keynote speech that US-China relations have come a long way in the 1970s. He mentioned this year marks the 40th anniversary of then US President Richard Nixon's historic trip to China. "At that time, he rightly predicted that a bridge would be built between China and the US But I think that even he would be amazed by just how far we have come." He said China has lifted hundreds of millions of its people out of poverty. China is now the second-largest economy in the world and America's second-largest trading partner. Bryson said over the past three years, US President Barack Obama and Chinese President Hu Jintao have met 10 times. "Today, it's clear that China and the US have benefitted greatly from our growing economic relationship," said Bryson. He said now the two countries must take further steps to unlock their full potential with balanced growth. Bryson said the two countries now face great challenges but even greater opportunities. "And the prosperity and well-being of people in China, America, and -- in fact -- around the world will be deeply affected by how well we cooperate and lead together," said Bryson.

However, the US secretary of commerce stressed American manufacturing as a key part of the US-China relationship. He said 70 percent of America's R&D and 90 percent of America's patents are in manufacturing -- so preserving and strengthening this sector is essential. "After a decade in which we lost nearly six million manufacturing jobs, we've now added nearly half a million in the past 25 months," he added. Bryson said China should welcome American-made goods to address its growing needs, just as the United States is open to Chinese-made goods. And, of course, China's growing middle class wants access to US consumer products and services more than ever before. He said US goods exported to China have grown by almost 50 percent over the past two years. They topped $100 billion for the first time in 2011. "However, the goods trade deficit with China grew by about 30 percent. This imbalance means that we must continue to work harder to help US exports reach China. Leveling the playing field is an important way to do that," said Bryson. On direct investment, Bryson said US companies have substantial investments in China, totaling over $60 billion. He said these US firms stand ready to invest even more, especially if China supports more openness and transparency in approving foreign investments. According to Bryson, overall foreign direct investment in the United States has been strong, with $228 billion in 2010, up sharply from 2009. He said it's encouraging to see more Chinese companies looking to invest in the United States. China's investment in the United States to date is only around $6 billion, one-tenth of the US investment in China. That's relatively small compared to many other countries. "We welcome Chinese companies that see the benefits of choosing the US when they build facilities and create new jobs," said Bryson.

Dominic Ng, Chairman and Chief Executive Officer of West West Bank told Xinhua in an interview after the discussion that many of the concerns and worries about investing in China show
the lack of understanding about China by Americans. He said that's why it is important to have more American journalists, scholars, students and teachers to visit China, and US President Obama's program to send 100,000 students to China is a good way. Ng, who is the chairman of the Committee of 100, said the Committee of 100 supported Obama's efforts to promote exchanges between the two countries and provided consulting and other kinds of support to promote mutual understanding between the two countries.

Source: Xinhua: US China must build mutually beneficial economic ties, 2012-04-21

**China Eastern orders 20 Boeing 777s**

China Eastern Airlines is set to order up to 20 Boeing 777 widebody aircraft, in a deal valued at up to $6bn at list prices. The order comes as Airbus, the European jet maker and Boeing's chief rival, struggles to finalise a $3.5bn deal to sell 15 A330 widebody aircraft to China Eastern. The Airbus order has been put on hold because of China’s objections to European Union proposals that will oblige foreign airlines to comply with its carbon emissions trading scheme, according to people familiar with the situation. The Boeing deal is likely to reinforce European aerospace industry fears that the sector could be caught in a global trade war because several countries, including China, India and the US, object to the EU carbon scheme.

Boeing and Airbus declined to comment. China Eastern could not be reached.

Source: Andrew Parker, Hal Weitzman : China Eastern orders 20 Boeing 777s, Financial Times, April 26, 2012

**Hannover Industrial Exposition concludes**

Under the slogan of "Green + Intelligence", China as the Partner Country of the 2012 Hanover Industrial Exposition this year showcased a series of sustainable growth solutions during the five-day event concluded on Friday. The participation of 500 Chinese companies presented China as "an equal partner and an important market and technology driver", said Dr Wolfram von Fritsch, Chairman of the Managing Board of Deutsche Messe, at the press conference on the last day of the show. Out of a record number of 195,000 visitors, more than 50,000 were from outside Germany attending the world's largest and most influential industrial technology fair, regarded by many as a barometer of the global industry. The figure is one third more than that of year 2008, right ahead of the setting off of a global financial crisis which still haunts the world even today.

By focusing on the keynote topic of "greentelligence", the expo highlighted green technologies as a viable business model with the power to drive growth across the world. "This mix of international participation, thematic excellence and high-caliber decision-makers defines Hannover Industrial Expo as the international benchmark for new business generation and networking in the industrial, government and research sectors," von Fritsch added.

Source: Xinhua: Hannover Industrial Exposition concludes, 2012-04-28

**China seeks balanced, win-win trade in 2011-2015**

China will pursue a balanced, progressive and mutually beneficial foreign trade development from now until the end of 2015, according to an official plan released on Thursday. Imports and exports are expected to see steady growth during the five years, with total trade volume growing by an average annual rate of around 10 percent and reaching about $4.8 trillion by 2015. "The trade balance situation will continue to improve," the ministry said. China will implement an active
import strategy and properly handle trade frictions to achieve a win-win situation for all trade partners, according to the plan.


World News: Foreign Investment Into China Falls Again

Foreign direct investment into China in March fell from a year earlier, marking the fifth straight month of decline amid the European debt crisis, a sluggish global economy and a weakening domestic property market. "Investments from the European Union were down a lot in the first quarter, falling 31.3%, and that was related to the debt crisis," Commerce Ministry spokesman Shen Danyang after the data's release Tuesday said. Attracting foreign capital is expected to remain difficult for the rest of the year, he added, saying that the lack of a resolution in Europe would reduce the ability of companies there to invest abroad, and that China's rising labor costs and competition from other emerging markets, which had cut into China's totals over the entire first quarter, would continue to be factors. For the first quarter, foreign direct investment was down 2.8% from a year earlier to $29.5 billion. Mr. Shen said measures to tighten China's real-estate market, which has accounted for one-fourth of total foreign direct investment in recent years, had slowed investment there. The tightening was aimed at cooling once-red-hot property prices, and Mr. Shen said the investment decline was in line with Beijing's macroeconomic policies. Mr. Shen said the U.S. is also encouraging companies to invest at home while emerging nations are boosting their efforts to attract foreign capital, and these factors are having an impact on investment in China. In 2011 as a whole, China attracted $116 billion of actual foreign direct investment, an increase of 9.7%.

Mr. Shen also forecast China's trade situation will improve in the second quarter, and said a full-year target of 10% growth in total trade could be reached despite economic weakness in developed countries, rising domestic production costs and squeezed profit margins for local exporters.


Russia, China Ink Business Pacts

Russia and China signed contracts valued at $15 billion and will work to further strengthen ties, Chinese Vice Premier Li Keqiang said at a business forum in Moscow. A total of 27 contracts were signed, and the two countries said Saturday that they would expand cooperation in the financial sector, direct investments, machine building and electronics. Among the planned projects between the two countries are a joint investment fund with a planned size of $4 billion and the design of a wide-body passenger plane, Russian and Chinese officials said.


Foreign investment projects from emerging markets advance in April

Businesses in China and India, the emerging markets that Gov. Martin O'Malley has been trawling for trade relationships, are beginning to bite. In June, the governor went with nearly 70 business leaders on a trade mission to China, South Korea and Vietnam. His office has said the East Asia trip netted $85 million in deals for Maryland businesses. It also resulted in the opening of a
Chinese investment bank in Baltimore's World Trade Center.

On April 13, the Export-Import Bank of China and the Maryland Department of Business and Economic Development signed a cooperative agreement saying that the bank would open an office at the Inner Harbor, its first U.S. outpost. The China Exim Bank, as it is called, is wholly owned by the Chinese government and headquartered in Beijing. A mission of the bank is to provide construction loans; to date, it has done so primarily in developing nations. O'Malley's administration hopes the institution will help bankroll infrastructure and development projects in Maryland. "The governor has been looking for investors for State Center and the Red Line" and other projects, Walker said. The State Center is a $1.5 billion, midtown redevelopment project that is being challenged in court. The Red Line is the proposed east-west light rail route in Baltimore. In addition to O'Malley's expectation that the Export-Import Bank will be able to front cash for state projects, the bank is also intended to foster business relationships and act as an anchor for Chinese companies that want to invest in the United States.

In Maryland, 5.1 percent of the jobs in the state -- employing 103,800 workers -- were created by foreign investment in 2009, the most recent year for which figures are available, according to the International Trade Administration. That percentage has declined slightly over the past decade, from 5.5 percent of the state's jobs in 2002, but is similar to that in most Mid-Atlantic states. The recent agreements could begin pushing that percentage up in Maryland, McLernon said.


As China Cools, Foreign Profits Shift

China has become more fickle for international companies hungry for growth. As first-quarter results pour out, equipment makers like Caterpillar Inc. and ABB Ltd. are noting slowing demand, yet consumer-focused Apple Inc. and Starbucks Corp. are surging ahead. The mixed signals could be an early sign of big change in Chinese economic growth that emphasizes consumer spending, economists say. If sustained, the trend could lead to stable growth in the years ahead, though not at the double-digit-percentage pace that the country has averaged for the past 30 years.

Caterpillar, the Peoria, Ill., construction- and mining-equipment company, last week bragged about first-quarter growth in the U.S., which Chief Executive Doug Oberhelman said "more than offset slowing in China and Brazil." Others reporting slowing China demand during the first quarter included miner Vale SA and United Technologies Corp., which said new Chinese orders fell 21% at its Otis Elevator unit. Meanwhile, Apple reported that sales in greater China, which includes Hong Kong and Taiwan, more than tripled to $7.9 billion in the quarter ended March 31, driven in large part by Chinese consumers.

China also appears to be in the early stages of shifting its economy so it relies more on consumer spending and less on investment, real estate and exports. Weaker sales by foreign companies reliant on the Chinese real-estate and infrastructure markets, and stronger sales by those depending on consumers, indicate that "rebalancing" is occurring. Rebalancing, long urged by Western and Chinese economists, "would give China a better shot at maintaining a reasonable rate of growth" over the long term, said Nicholas Lardy a China expert at the Peterson Institute for International Economics in Washington, D.C. That is because consumer spending is widely considered a far sturdier foundation of growth than changeable export markets or an overheated real-estate sector. Another clue: Disposable income for China's urban households grew more rapidly.
than GDP in the first quarter for the first time since the global financial crisis, giving a boost to consumer spending.

While some consumer companies reported pullbacks in discretionary spending, Starbucks contended otherwise. "We continue to see strong traffic growth in China," Starbucks Chief Financial Officer Troy Alstead said. "We haven't seen any of the slowness that I've heard others talk about." France's Pernod Ricard SA said it saw "very dynamic growth" in China, driven by sales of Martell cognac and Scotch whiskies.


Private Equity Rushes Into China Technology

Since Intel Capital first came to China in 1998, it hasn't slowed down, investing $650 million in more than 100 companies, including Internet portals Sohu.com and Phoenix New Media, and Neusoft, China's largest IT solutions company. Intel has a lot of competition in China's soaring venture capital and private equity markets. A total of $27.6 billion was plowed into 695 investments in China last year, up 166% and 92%, respectively, over 2010, according to Zero2IPO Group, a venture capital and private equity research agency in Beijing. Don't expect China to unseat the US soon, however: 49% of global investment last year still went to the US and Canada combined.


Chinese Capital Flowing To Japan

Over the past several months, Chinese companies have stepped in to save a string of Japanese companies that were desperate for funding. Chinese private-equity firm Hony Capital is bidding with U.S.-based TPG for Japanese semiconductor maker Elpida Memory Inc. Last month Taiwan-based Hon Hai Precision Industry Co., better known as Foxconn and which operates extensive contract-manufacturing facilities in China, said it would take a 10% stake in Japanese electronics manufacturer Sharp Corp. Also last month, Panasonic Corp. sold some of its household-appliances operations to China's Haier Electronics Group Inc. Chinese computer maker Lenovo Group Ltd. last year formed a personal-computer joint venture in Japan with NEC Corp.

Such deals signal a new phase in the investment dynamics between the two countries. For decades, capital flowed one way -- from Japan to China -- led by Japanese companies building factories in China. Such investments are continuing, and even picking up speed as Japanese companies flee rising manufacturing costs at home. But now, capital is flowing the other way, too, as Japanese companies -- with domestic sales hurt by a shrinking market and exports pummeled by a strong yen -- seek to unload unprofitable operations or raise funds for restructuring. Chinese companies investing in Japan often are attracted by their targets' technology and reputation, says Kotaro Masuda, a senior researcher at the Institute for International Trade and Investment, which is affiliated with an industry association of trading companies. "They want to leverage Japanese technology and brand image to better compete with their domestic rivals and gain share in the home market," he says.

Despite unprecedented opportunities abroad, China's outbound direct investment is still in a fledgling state, according to a poll undertaken by China's trade promotion agency. A majority of the companies that responded to the survey, entitled Chinese Companies' Outbound Investment and Operation, said they were dissatisfied with the way business is conducted overseas, where economic, cultural and political difficulties abound. Responding to opportunities abroad, Chinese companies have been extending their reach to more countries in Africa, Europe, North America and Latin America, as well as in Asia. More than half of the respondents to the survey, though, said they were not satisfied with the profits their overseas branches and operations make or the market shares that they hold. A majority also said their businesses were doing better in Africa than in the United States and the European Union. They attributed their good African fortunes to the improved infrastructure and tamer competition on that continent, the survey said.

The China Council for the Promotion of International Trade published the results of the poll, which drew on interviews held with more than 1,000 outward-oriented Chinese companies hailing from 16 cities across the country. "China's outbound direct investment is still at an early stage, and Chinese companies aspiring to invest abroad will have to face and deal with all sorts of difficulties," said Dong Jiayang, director-general of the economic information department of the council. Of the companies surveyed, most said the overseas investments were made during the past five years. Only 3 percent said their overseas operations were established 10 years ago, the survey said. Among the overseas projects undertaken by the companies surveyed, 70 percent were new, and 20 percent were done through joint ventures. The remaining 10 percent were made through mergers and acquisitions, it said.

Also in the survey, 56 percent of the respondents said they know a lot about the foreign markets where they do business. China's outbound direct investment increased annually by double-digit percentages from 2006 to 2010 and is expected to continue surging as the Chinese government encourages businesses of all types to invest abroad. In 2011, China made the fifth-largest amount of investment in the world, surpassing Japan and the United Kingdom. By the end of 2011, China's cumulative amount of outbound investment was more than $380 billion. Of the companies that responded to the survey, 73 percent said their moves overseas had benefited from government support. In the first quarter of 2012, China's outbound investment into non-financial sectors increased by 94.5 percent from a year earlier, rising to $16.55 billion.

In developed nations, "we could look at high-tech industries, including those having to do with low-carbon and new energy technologies", said Wang Shengwen, deputy director-general of the ministry's department of outward investment and economic cooperation. In developing nations, he
said, opportunities are likely to lie in "infrastructure and manufacturing". Also of the surveyed companies, 50 percent said they had invested in manufacturing.

The survey found that more than 70 percent of the interviewees believe the biggest difficulties that arise in conducting business overseas stem from "the search for the right business partner, a lack of brand awareness in foreign markets and cultural differences". "Chinese companies take on much bigger risks when they operate in Africa rather than in the US and EU," it said. Then there are political risks and restrictions. Wang said the greatest difficulties Chinese investors are likely to face will stem from the weak world economy, protectionism, cultural conflicts and political turmoil.

Source: Ding Qingfen in Beijing and He Wei in Shanghai: Outbound investment still in beginning stage, China Daily, 2012-04-19

**State ownership effect on firms' FDI ownership decisions under institutional pressure: a study of Chinese outward-investing firms**

This study investigates the effect of state ownership on Chinese firms' foreign direct investment (FDI) ownership decisions. It adopts a political perspective to extend the application of institutional theory in international business research. Specifically, it examines firms' heterogeneous responses to external institutional processes during foreign market entry, while taking into consideration the political affiliation of firms with the external institutions. We argue that state ownership creates the political affiliation of a firm with its home-country government, which increases the firm's resource dependence on home-country institutions, while at the same time influencing its image as perceived by host-country institutional constituents. Such resource dependence and political perception increase firms' tendency to conform to, rather than resist, isomorphic institutional pressures. We tested our hypotheses using primary data for 132 FDI entries made by Chinese firms during 2000-2006, and we found that the effects of home regulatory, host regulatory and host normative pressures on a firm to choose a joint ownership structure were stronger when the share of equity held by state entities in the firm was high.