China News in Brief
August, 2012

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### August 2012

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China’s CPI growth slows to 1.8% in July

China’s consumer inflation eased to its lowest rate in two and a half years in July, giving the government more leeway to loosen credit to spur the slowing economy. The Consumer Price Index, a key gauge of inflation, grew to 1.8 percent year-on-year in July, the slowest rate since February 2010, the National Bureau of Statistics announced Thursday. The rate was 0.4 percentage points lower than the figure for June. The Producer Price Index, a main gauge of inflation at the wholesale level, fell 2.9 percent in July from a year earlier.

The easing inflation is believed to be a result of the base effect. The CPI growth rate hit a 37-month high of 6.5 percent in July last year before gradually retreating as China's economy slowed for eight quarters in a row. Food prices, which account for nearly one-third of the prices used to calculate China's CPI, edged up 2.4 percent in July from a year ago, down from a growth of 3.8 percent in June. Surging vegetable prices were the driving force for the CPI's growth. Rain and flooding affected vegetable production in many places during the peak supply season, pushing up vegetable prices by eight percent. Pork prices fell 18.7 percent, dragging down CPI growth by 0.71 percentage points, NBS said. Although inflation has been relieved in the short-term, climbing costs will cause the CPI to surpass 2 percent before long, said Wang Jun, a researcher at the China Center for International Economic Exchange. He also warned that deflation risks may arise if the government fails to effectively curb the economic slowdown. Source: Xinhua: China's CPI growth slows to 1.8% in July, 2012-08-09

China economy: Economic activity has yet to accelerate

After recording real growth of only 7.6% year on year in the second quarter of 2012, its slowest rate of increase for three years, China's economy has continued to bump along the bottom. Industrial output growth slowed to a three-year low in July, according to data released on August 9th by the National Bureau of Statistics, and nominal retail sales growth also moderated last month. The stabilisation in the rate of investment growth in July indicates that recent loosening measures have yet to produce an impact, but a further deceleration in consumer price inflation has given the authorities room for additional policy stimulus.

Electricity production, a closely watched data series, rose by 2.1% year on year in July to reach its highest level so far 2012. This represented an improvement, after electricity production remained stagnant in the previous month. It is still growing far more slowly than overall industrial production, which some observers may interpret as evidence of statistical manipulation (power data are widely considered to be a proxy for economic growth). However, the discrepancy is more likely to reflect the travails of China's energy-intensive heavy industries, which have been hit hardest by the slowdown, in addition to energy-efficiency gains. Indicators such as electricity output have become a less reliable gauge of economic activity recently, owing to the restructuring of the Chinese economy towards services. Another oft-cited metric, cement production, recorded year-on-year expansion of 6.1% in July-faster than its average rate of growth in the first seven months.
months of 2012, but representing a slowdown in growth from 6.5% in June.

Fixed-asset investment rose by 20.4% year on year in the first seven months of 2012, matching the rate in January-June. The stabilisation in the rate of investment growth suggests that moves by the authorities to boost liquidity have yet to translate into an acceleration in investment on the ground. A number of local governments have also unveiled their own stimulus packages, with varying degrees of credibility.

Consumption has underpinned China's economic expansion in 2012, and there will thus be concern at the fact that growth in the value of retail sales slowed to 13.1% year on year in July, from 13.7% in June. This was partly owing to a fall in the rate of growth in car sales by value to 4.7% in July, from 6.2% in the previous month. However, after allowing for the effects of inflation, retail sales expanded strongly in July, at 12.2% year on year, above the average rate of 11.3% in January-July. This suggests that private consumption remains robust despite the slowdown in the wider economy, supported by rapid income growth and a persistently tight employment market.

Nonetheless, the weakness of the latest data is likely to prompt further policy measures. The Economist Intelligence Unit believes that another interest rate cut, in addition to a further lowering of bank reserve requirements, is likely to be forthcoming in the third quarter of 2012. Other initiatives thought to be in the pipeline include tax breaks for certain industries. We still believe that these measures should be enough to deliver an improvement in economic performance in the remainder of this year, but the July data suggest that the rebound may be slower to materialise—and also shallower—than we previously expected.

Source: EIU ViewsWire: China economy: Economic activity has yet to accelerate, Aug 10, 2012

China Faces A Profitless Recovery

While America struggles over a recovery with few jobs, China is set for a recovery with shrinking profits. Amid a raft of negative economic data in July, it is China's slowing industrial output that will get most attention. Output growth for China's factories was 9.2% year on year in July from 9.5% in June, the slowest since the financial crisis. But a drop in the producer-price index is a more worrying sign of malaise. Prices at China's factory door slid 2.9% year on year in July, versus a 2.1% drop for June. While low commodity prices are part of the reason, growing industrial overcapacity also is to blame. With an economic model heavily dependent on investment, China's output capacity has grown ahead of demand. The International Monetary Fund estimates that China's capacity utilization has fallen from just under 80% before the crisis to around 60% today.

With public debt low and inflation falling, Beijing has the firepower to keep growth near 8% this year. But excess capacity still means falling margins. Profits in the steel and cement sectors, where the problem is most severe, fell around 95% and 50% in the first half. Profits for China's broader industrial sector were down 2.2%. Rising growth will be worth cheering. But it is little
comfort if profits continue to fall.

Economic rebound lacks gas

Sharply slowing export growth together with a slump in bank loans and industrial output in July is pointing to a prolonged slowdown for the world's second largest economy. China's exports increased 1 percent year-on-year in July, the worst growth since 2009, reflecting how the global economic slowdown has weakened demand for Chinese exports, the General Administration of Customs said Friday. Meanwhile, data from the People's Bank of China, the central bank, showed that China's bank lending slumped 41.3 percent in July from the previous month, the lowest monthly figure since September 2011. Chinese banks extended 540.1 billion yuan ($84.9 billion) in new loans in July, compared with 919.8 billion yuan in June, the bank said.

China's foreign trade increased by 2.7 percent from a year earlier in July. Exports edged up by 1 percent year-on-year while imports grew by 4.7 percent, yielding a trade surplus of $25.15 billion. "The sluggish demand in the EU market, caused by the deepening debt crisis in the bloc, was responsible for China's slowed trade growth in the first half of this year," Gao Hucheng, vice-minister of commerce, said at a press briefing of the Ninth China-ASEAN Expo and the Ninth China-ASEAN Business and Investment Summit held in Beijing on Friday. "Amid the spreading global debt crisis and the slowdown of China's economic growth, the country's foreign trade will face more pressure and a more challenging outlook in the second half of this year. And there is certain pressure in achieving the goal of 10 percent trade growth this year," Gao said. China's exports to the EU dropped by 16.2 percent in July from a year earlier. And exports to the US edged up by 0.56 percent year-on-year in July. The US replaced the EU in the first half of this year as China's biggest export market.

Growth of industrial output, the key monthly measure of China's economic health, dipped to 9.2 percent year-on-year in July, down from 9.5 percent in June and the lowest level since May 2009, the National Bureau of Statistics said on Thursday. Electricity generation eked out a 2.1-percent year-on-year increase, suggesting a sharper slowdown in energy-intensive heavy industry. The government has taken the rare step of slashing interest rates twice in quick succession this year, while also lowering requirements for how much money banks must keep in reserve, as it looks to spur lending and boost growth.

"However, we still have confidence in the future of foreign trade as many enterprises have done a very good job in transforming and upgrading. Many enterprises have been putting more effort into research, development and innovation since 2008," Gao said. "As the EU is haunted by the debt crisis, emerging markets are becoming more important to China's foreign trade. China's trade with ASEAN countries will keep growing rapidly in the second half of this year after bilateral trade increased by 9.8 percent year-on-year in the first half." China will face more difficulties in exploring emerging markets as economic growth slowed in emerging economies.
Source: Li Jiabao, Ding Qingfen in Beijing and Xie Yu in Shanghai: Economic rebound lacks gas, China Daily, 2012-08-10

Challenges ahead in shift to a powerful industrial country

China will face some major challenges when shifting from a large industrial country to a
powerful one, as the world's second-largest economy has entered the later phase of industrialization, experts said on Friday. "Shortage of resources and growing environmental pressure will increase the cost of China's economic growth in the next decade," said Chen Jiagui, director of the economic department at the Chinese Academy of Social Sciences. "The rising cost of industrial activities will severely challenge the country's transformation to a powerful industrial country, along with a growing income gap and weakening driving force from the reform and opening-up," Chen said. China's import of energy and mineral products accounted for 10.7 percent of the world market in 2009, up 4.3 percentage points from 2005, according to the book National Conditions of the Large Industrial Country and Strategy of the Powerful Industrial Country published by CASS. "The loss of the cheap-labor cost advantage will bring about wide and fundamental shock to the country's industrial economic development," Chen said. Between 2006 and 2009, the wages of China's migrant workers increased by 3.6 percent annually. The country is also losing the advantage of an infinite labor supply, which will push up the labor cost of enterprises, according to Chen.

A study from the Institute of Industrial Economics of CASS showed that China has entered the later phase of industrialization with an industrialization index of 66 points in 2010, compared with 55 points in 2005. "The later phase of industrialization is the key stage of China's industrialization because we need to upgrade the current industries while developing strategic emerging industries. It's necessary and urgent for the government to put forward a strategy to transform China into a powerful industrial country because the transformation of industrial development is the core for China to change its economic development mode," said Huang Qunhui, vice-director of the institute.

Huang Libin, deputy director of the bureau of operation monitoring and coordination at the Ministry of Industry and Information Technology, said that China's manufacturing is still at the middle and lower end of global industrial chains. "The re-shoring of manufacturing in developed economies brought about pressure to China. And China needs to accelerate the pace of industrialization as well as enhance the level of industrialization. Increasing the quality and efficiency of China's industry is the key for the country to move toward a powerful industrial country, and the government will make more efforts to improve the quality and structure of the industrial products in the next five years," Huang said.

Source: Li Jiabao: Challenges ahead in shift to a powerful industrial country, China Daily, 2012-08-25

**Innovation in VAT 'boosts service sector'**

Changes would help development of non-manufacturing business Expanding reform of value-added tax will help boost China's service sector and change its position as the "world's factory", experts and officials said. "If it wasn't for 'half-way' complete VAT reform, China would not have become the world's largest manufacturer," Xu Shanda, former vice-minister of the State Administration of Taxation, said at a recent forum in Shanghai. According to Xu, VAT reform was originally designed to replace business tax in both manufacturing and service sectors when first introduced in 1994, but it was only implemented in the former to protect the tax revenue of local governments. The reform of the taxation system in 1994 was aimed at reconstructing tax income sources shared between central and local governments, with a respective target of 55 percent and 45 percent. However, under a VAT system, local governments can only retain a quarter of the
income so business tax was retained in the service sector, which was considered not as important at that time, as a compromise, Xu said. As a result, the service sector has faced a heavier tax burden, paying twice, while the manufacturing sector paid less and therefore entered an era of rapid growth. With few tax preferences such as the export tax rebate policy in the manufacturing sector, "Served by China" is no comparison with "Made in China" in the global market.

In general, the proportion of the service sector in a country's economic structure should be around 55 percent when the country enters the mid-income era, economists say. For China, the figure was only 43.1 percent when the country's per capita gross domestic product exceeded $5,400 in 2011, according to International Monetary Fund data. China vowed to increase the proportion of the service sector in its economic output by 3 percentage points during the 11th Five-Year Plan (2006-10), but ended up missing the target. A heavy tax burden was blamed as one of the main reasons for the failure. Yet authorities set an even more ambitious goal of a 4-percentage-point increase during the 12th Five-Year Plan (2011-15), and high hopes were placed on tax reform in the service sector to facilitate the achievement of the target.


China economy: Services sector set for tax boost

On September 1st reforms to China's tax system currently being piloted in Shanghai will be rolled out to the national capital, Beijing. Adjustments to tax policy have been among the government's main tools in its efforts to boost economic growth, and they play a central role in engineering a rebalancing of the domestic economy. The value-added tax reforms are set to be extended to other major cities by the end of the year, in a move that should help to boost domestic consumption. China's growing services sector will be the main beneficiary. In June the State Administration of Taxation (SAT) announced that moves to replace the business-tax system with value-added tax (VAT) will be extended beyond Shanghai, where they have been piloted since January. According to the State Council (China's cabinet), the cities of Beijing, Tianjin, Shenzhen and Xiamen, as well as the provinces of Guangdong, Jiangsu, Zhejiang, Anhui, Hubei and Fujian will introduce similar measures by the end of 2012. Beijing is slated to become the country's second pilot reform zone, with the reforms to be rolled out on September 1st. The reform of the indirect tax system is a major goal of the 12th Five-Year Plan (2011-15).

At their simplest, the VAT reforms in Shanghai—which will be the model for those adopted elsewhere—involve the replacement of a tax on business with a tax on the end-consumer. The pilot reform is applicable to two broad sectors-transport and "taxable services" (also known as "modern services"). Transport includes land, water, air and pipeline services. Taxable services cover research and development and technical activities, information technology, cultural and creative activities, logistics support, property rental (leasing) and consulting. Transport in Shanghai now faces VAT of 11%, instead of the previous 3% business tax; and modern services are liable to 6% VAT, instead of the previous business tax of 5%. Value added, rather than business turnover, is taxed, which means an overall lighter burden on services enterprises. According to a note from a US bank, Citigroup, the business tax on the transport sector was equivalent to a higher VAT rate of 11-15%.

The reforms are structured especially to benefit small-scale service providers; small-scale taxpayers are only liable for the much lower VAT rate of 3%. (Small-scale taxpayers are defined as those producing goods or taxable services with annual sales income of less than Rmb500,000, or
those engaged in wholesale and resale trade with annual sales of less than Rmb800,000.) The minimum taxable range on individuals conducting VAT or business-tax activities has also been raised, so those falling under such thresholds are exempt.

The strength of fiscal inflows in recent years has placed the authorities in a good position to overhaul parts of the existing tax system. China's fiscal revenue shot up by 25% in 2011 to Rmb10.4trn (US$1.65trn) on the back of an increasingly efficient tax collection system. The move on VAT is partly a response to financing problems in the private sector, which was severely hit by a prolonged credit squeeze in 2011. A major step was taken last year when the taxable thresholds on sales by small and micro-sized enterprises were raised with effect from November 1st, allowing many small businesses to escape the tax net. The corporate income tax rate for micro-businesses was also reduced by one-half.

The transition to VAT is being viewed with some apprehension by local officials. Business-tax income is largely retained by the local government; by contrast, most VAT revenue (75%) goes to the central government. Local governments are already facing financial strain as revenue from land sales dry up. To alleviate transitional pressures, the SAT has clarified that revenue collected as a result of the change to VAT can be kept at local level for the duration of the pilot period. A successful transition to a VAT system should prove beneficial to the services sector, especially in encouraging the development of smaller enterprises. However, it is yet to be seen if these reforms will support the development of a sufficiently strong tax base to keep local governments afloat as revenue from land sales diminishes and spending responsibilities increase. Other pilot tax initiatives, such as a property tax trialled in Chongqing and Shanghai, have not gone very far in generating either popularity or revenue.


Shanghai ranks 6th among financial hubs

Shanghai remains the world's sixth most influential financial center, according to a new index of 45 cities, while Beijing and Shenzhen have enjoyed healthy moves up the rankings. According to the third Xinhua-Dow Jones International Financial Centers Development Index, Shanghai has made significant improvements in the services it provides, and in the regulatory conditions it has in place. Beijing moved up three spots to 11th place on the list, while Shenzhen moved up two spots to 19th, the first time the southern city has been included in world's top 20.

An accompanying report with the index said that while European financial centers were severely impacted by the ongoing sovereign debt crisis, financial centers in Asia have gained increased influence as a result. The traditional financial powerhouses of New York, London and Tokyo hold the top three spots, as they did last year, followed by Hong Kong and Singapore. Peter Roffman, vice-president of Standard & Poor's, said he believed that the results clearly reflect Shanghai's growing influence in financial services, and China's overall economic global strength. Jiao Ran, director of the economic information department at Xinhua, said "the city has shown a commitment to the sustained growth of its financial services industries", making significant improvements in services and regulations in recent years, which have all helped build its global reputation. He added that there are strong indications that the gaps between the world's top financial centers are narrowing, making competition among the top destinations keener than ever. Among the financial centers of the BRIC (Brazil, Russia, India and China) countries, Shanghai ranks top in various indicators, including appeal to investors, talent, innovation, and convenience.
The index was certainly comprehensive in its coverage: 66 different indicators were considered, and 3,016 questionnaires sent out.

The indicator system rated the international financial centers on five key aspects - financial markets, growth and development, industrial support, services and their general business environment. Other cities on the top 10 are Paris, Frankfurt, Zurich and Chicago. Chicago moved into the top 10 for the first time, driven by its growing reputation for services, and its business environment.

Pan Yingli, a finance professor at Shanghai Jiao Tong University, said top financial centers such as New York, London and Hong Kong have a long tradition of providing quality financial services, and still have resources that Shanghai lacks and will not be able to gather in the short term. However, he noted that Shanghai's future as a financial center is bright, driven by decision makers willing to introduce policies aimed at boosting the city's reputation. He added that Shanghai still needs a more mature regulatory structure, better services, more incentives for innovation, and further appeal to investors, particularly in high-end financial products and services. But Pan said Shanghai's close ties with Hong Kong, in areas such as issuing private placement bonds and foreign exchange products, give it a strong advantage.

Source: Wu Yiyao in Shanghai: Shanghai ranks 6th among financial hubs, China Daily, 2012-08-24

**State bank funding to help major firms go private**

While Chinese stocks struggle to attract US investors, private-equity groups are seeking to buy out some of these companies with funding provided by State-owned China Development Bank. Frustrated by their low valuations, recently delisted Harbin Electric Inc and Nasdaq-listed Fushi Copperweld Inc have turned to Abax Global Capital, a Hong Kong-based asset manager partly-owned by Morgan Stanley, in an attempt to go private. Shares of US-listed Chinese companies have been hit hard by accounting scandals fueled, at least in part, by short sellers such as Muddy Waters LLC over the past two years.

While most Chinese companies haven't been accused of wrongdoing, the value of Chinese stocks has plummeted on the US stock market. The 180 Chinese companies that have issued securities on foreign exchanges since the start of 2010 are trading on average 21 percent below their offer prices, according to data compiled by Bloomberg News. The 82-stock Bloomberg Chinese Reverse Mergers Index has lost an aggregate 25 percent since August 2011. There are 129 US-listed Chinese companies trading at an average of eight times their estimated 2012 earnings per share, compared with a ratio of 11 times EPS for 276 Chinese companies that trade on the Hong Kong exchange, according to data compiled by Citigroup Inc.

In November 2011, Harbin Electric, a maker of electric motors in northeastern China and listed on Nasdaq, went private in a buyout by Abax and Yang Tianfu, Harbin's CEO, that was financed with a $400 million loan from the Hong Kong branch of China Development Bank, or CDB. Yang and Abax each owned about 41 percent of the company's outstanding shares before the deal; the split now is Yang, 75 percent stake, and Abax, 25 percent.

On June 28, Abax said it had reached a deal to take over Fushi Copperweld, a Dalian-based manufacturer of copper wire and related products, along with the company's CEO, Li Fu. The $9.50-a-share offer, which Fushi's board of directors approved, represents a premium of 21 percent above the stock's closing price on the day the deal was announced. The deal is valued at $363.8
million based on Fushi's shares outstanding as of May 4. Fu, Abax and their affiliates, who own about 30 percent of the stock, will buy out the company with their own equity and debt financing from CDB in Hong Kong.

CDB is the biggest Chinese lender helping US-listed Chinese companies to go private. The bank has provided $1.085 billion toward such delisting transactions, more than China Citic Bank Corp's $25 million, the second-biggest outlay, according to data from Roth Capital Partners, an investment bank that specializes in emerging markets.

In June, China TransInfo Technology Corp, which makes geographic transportation-information software for the Chinese government, agreed to be taken private by its CEO, Xia Shudong, in a deal that values the company at $146.6 million. The acquisition was funded with a loan from CDB. The bank also played a big role in the privatization of China Security & Surveillance Technology in September 2011, before Harbin's financial buyout.

Some critics have speculated that CDB's financing has to do with Beijing's disagreement with Washington over cross-border regulation of accounting firms. But a person close to the matter, who asked not to be identified by name, said it's a "pure commercial decision". "CDB has its own criteria about loans made to any company. It may continue to finance deals going private if it sees fit," the person said.

Source: ARIEL TUNG in New York: State bank funding to help major firms go private, China Daily, 2012-08-13

China's first bank for tech innovation opens

China's first bank for technological innovation, a result of joint investment by Shanghai Pudong Development Bank and America's Silicon Valley Bank, opened in Shanghai on Wednesday. With a 1-billion-yuan ($157 million) investment, and each side holding 50 percent of shares, the SPD Silicon Valley Bank is the first joint venture bank since 1997 to win authorization by the country's Banking Regulatory Commission. The facility combines Shanghai's excellent financial resources and overseas financial services, said Tu Guangshao, vice mayor of Shanghai. Fu Jianhua, former vice board chairman and vice president of SPDB serves as board chairman of the new bank, while Ken Wilcox, board chairman of the SVB serves as its president. The SPD Silicon Valley Bank will mainly focus on business in Shanghai and then explore more high-tech cities in China, said Fu, emphasizing its offering of services for innovative enterprises.

Shanghai Pudong Development Bank, a nationwide joint-stock commercial bank, founded in 1992, now has a registered capital of 18.653 billion yuan. Silicon Valley Bank, founded in 1983 and headquartered in Santa Clara, California, serves clients around the world through 27 US offices and three international operations.

Source: Xinhua: China's first bank for tech innovation opens, 2012-08-16

Bank of China to lead disappointing trend

When Bank of China kicks off the first-half results season for the country’s biggest banks on Thursday, it is likely to be seen as a trend setter for the wrong kind of reason. Analysts expect it to fare the worst of China’s four leading banks, with profit growth in the single digits, down from last year’s 19 per cent pace. The concern is that this slippage will not be an aberration but rather a sign of things to come for the bank and its peers. Chinese banks, the state-owned groups that dominate the country’s financial sector, have traditionally relied on government-guaranteed net interest
margins to provide about 80 per cent of profits. But in a landmark move this year, the central bank gave them more flexibility in setting benchmark lending and deposit rates, unleashing competitive forces that have started to chip away at their margins.

On top of that, Chinese banks have been issuing a torrent of off-balance-sheet ‘wealth management products’, which have been extremely popular among customers because they offer yields above benchmark rates. The upshot of the interest rate deregulation and the competition for deposits is that funding costs are rising, perhaps inexorably. The average interest margin in the banking sector is about 3 per cent now and it will approach 2 per cent in a couple of years. Bank of China is simply ahead of other banks in feeling that squeeze because it relies heavily on corporate deposits, which are more fickle than retail savings.

One of the quirks of Chinese banks is that the national regulator announces sector-wide results before individual banks report on their own performance. The official numbers, published last week, paint a very sanguine picture. Second-quarter profits were up 23 per cent from a year earlier. Yet investor sentiment about the sector remains weak. Chinese banks listed in Hong Kong are trading at a book value multiple of just about 1, a historical low that indicates many believe their years of double-digit profit growth are quickly coming to an end.

Ever since China unleashed a mammoth credit-fuelled stimulus programme at the end of 2008, investors have been braced for a rise in bad loans. But non-performing loans as a percentage of overall assets have so far remained incredibly low at just 0.9 per cent. However, with delinquencies finally beginning to rise and stress mounting in the property sector, the non-performing loan ratio is expected to drift upwards over the next year. Depending on how high it goes, low valuations of Chinese bank shares might not be so unreasonable after all.

Source: Simon Rabinovitch in Beijing: Bank of China to lead disappointing trend, Financial Times August 19, 2012

China issues 3.23b bank cards by end of June

China issued 3.23 billion bank cards as of the end of the second quarter, an increase of 20.6 percent from a year earlier, the central bank said Monday. The growth rate was 2.6 percentage points higher than that registered during the same period last year, the People's Bank of China said in a statement on its website. Some 302 million credit cards were issued by the end of June, up by 17.4 percent from a year earlier and by 4 percent from the end of March, the statement said. Credit card loans that were more than six months overdue rose 10.2 percent quarterly to hit 13.27 billion yuan ($2.11 billion) by the end of the second quarter, accounting for 1.5 percent of total credit loans outstanding, the statement said.

Source: Xinhua: China issues 3.23b bank cards by end of June, 012-08-21

Chinese groups turn to law in disputes

These are busy days for judges in China. With companies going bust and investments failing more people are turning to the courts to resolve financial disputes. A big rise in commercial litigation might seem perfectly normal in an economy that is experiencing a downturn, but in China it reflects a profound shift: the rule of law has made deep inroads in governing business transactions, from routine deals to complex financing arrangements. On the commercial front, courts are garnering respect as increasingly powerful, sophisticated and impartial institutions.

Luka Lu, managing partner of Capital Associates, a Beijing law firm, said: “People are more
conscious of their legal rights, so when it comes to disputes, they start to use legal remedies rather than other approaches. That’s a good development. Before, if there was a dispute, they sometimes just got into a physical fight.” Fosun Group, China’s largest private conglomerate by revenue, recently filed a lawsuit in a dispute with Soho China, a prominent property developer, over its acquisition of prime land in Shanghai, while two of China’s biggest banks, Everbright and Minsheng, this month sued a series of small steel companies for allegedly failing to repay loans.

The increase in caseloads has been striking. Chinese courts handled about 376,000 financial cases in the first half of this year, up 25 per cent from the same period last year, according to the government. There has also been a boom in arbitration, with about Rmb113bn in settlements last year, up 22 per cent from a year earlier. Courts and arbitrators are playing an especially prominent role in the wealthier coastal regions that have been hit hardest by the economic slowdown.

Jiang Dingku, chief partner at Zhejiang Great Strategy Law Firm, is based in Wenzhou, an eastern city where thousands of failed lending deals have ended up as courtroom battles. To deal with the influx, the city set up a special financial adjudication court. “A judge in that court can hear more than 60 cases in a month, while 60 cases in a year is already considered challenging,” Mr Jiang said. “These are multimillion renminbi cases involving dozens of enterprises, shareholders and even their relatives. They are by no means small cases.”

Wenzhou is an extreme example because of the severity of its financial crisis. Elsewhere in China, judges may be somewhat overworked, but they are also better equipped to perform their duties, according to He Xin, a law professor at City University of Hong Kong. “They’re basically capable of handling this [caseload] because of increased training. If you want to get into court as a judge, you need to pass the national judicial exam, which is very difficult,” he said. “Chinese courts are not as bad as people usually imagine, especially in the field of routine commercial disputes,” Mr He said. It is no accident that Chinese courts have evolved in this direction. Over the past three decades the government has put the pieces in place, opening law schools and drafting a large body of laws and statutes, often with international advisers. Another important development has been the creation of specialised economic and financial courts. “This allows for judges within the courts to develop expertise and familiarity with a certain kind of dispute, whether lending, contract or securities,” said Shahla Ali, a law professor at the University of Hong Kong.

Chinese courts have in the past suffered from limitations on their power to enforce decisions, but recent changes have given them greater ability to freeze assets, which is crucial in handling business cases. Ms Lu of Capital Associates said she had recently worked on a case in which a Chinese company reneged on an agreement to pay a contractor. The judge issued an injunction to prevent the company’s legal representative from flying. “The guy was in the airport and they refused to let him board the aeroplane. The judge contacted him and he paid the next day,” she said.

Source: Simon Rabinovitch in Beijing: Chinese groups turn to law in disputes, Financial Times August 13, 2012

**The most important sector in the world? : Chinese property**

China’s property market was once described as the "most important sector in the known universe" by Jonathan Anderson, formerly of UBS, a Swiss bank. It certainly felt that way on a recent visit to Sanya, the resort city in Hainan, known for its sea air and speculative vапours. Finding a real-estate agent in Sanya is as easy as buying a bucket-and-spade. Flyers advertising
flats sprinkled the beachfront like sea-spray. Nationwide, real estate accounts for about a fifth of Chinese investment, and investment contributes over half of the country's GDP growth. The industry's economic consequences are not confined to China. Australia sells the iron ore that makes the steel that makes the girders that buttress China's buildings. And these new buildings are wired with copper shipped from Chile.

These global spillovers are much discussed, but rarely quantified. One attempt to do so appears in the IMF's latest article IV report on China's economy, drawing on a forthcoming working paper by Ashvin Ahuja and Alla Myrvoda. To put them in context, consider the following slowdown scenario. Investment in Chinese real estate grew by 30.2% in 2011. In the first half of this year, it grew at the much slower pace of 16.6%. Suppose that lesser pace continues for the rest of the year. Then the level of Chinese real-estate investment at the end of 2012 will be 10.4% less than it would have been had the 2011 pace continued. \( (10.4 = 100 \times \frac{130.2 - 116.6}{130.2}) \)

According to these estimates, the slowdown would knock about 1% off China's GDP in 2013. That's a concern, but it's not a disaster either. Curiously, the estimates suggest that a slowdown in Chinese real estate would do more damage to Japan and Germany than to China itself. These economies sell a lot to the Middle Kingdom, of course, and they also export a lot to other countries that are themselves vulnerable to a Chinese slowdown. So they are hurt both directly and indirectly by China's troubles.

Source: Anonymous: The most important sector in the world?: Chinese property, The Economist (Online), Aug 1, 2012

More property curbs expected

The Ministry of Housing and Urban-Rural Development is studying more policy measures with other authorities to expand the curbs on the real estate market, Xinhua News Agency cited an unnamed source from the ministry as saying. In late July, China's State Council sent out eight inspection teams to 16 provinces and cities to inspect the implementation of property regulation policies by local authorities. The inspection teams found increases in property prices and easing of the policies by some local authorities. The inspection teams told those authorities to correct the moves immediately, and that they were not allowed to ease the curbs, Xinhua reported on Friday.

The launch of new property projects and the cuts of property loan interest rates released the restrained property demand in the past months. The size of newly built residential projects for sale reached a record high at the end of July in key cities, while turnover edged down since August. China's real estate market will keep fundamentally stable development, the source said.

Source: Li Jiabao: More property curbs expected, China Daily, 2012-08-24

Re-lending business gets green light

The China Securities Regulatory Commission issued a notice on Monday allowing the Shanghai and Shenzhen stock exchanges to start the program, instructing them to choose the right time to launch it, initially on a trial basis. Under the pilot, securities houses are allowed to re-lend money and securities borrowed from lenders, insurance companies and mutual funds to their clients in margin trading. China Securities Finance Co has been set up, with registered capital of 12 billion yuan ($1.89 billion), to lend to the brokerages. The first batch of 11 securities brokerages has got the green light to conduct re-lending business, according to Shanghai Securities News.
Margin trading was first introduced in China in 2010, when investors were allowed to conduct margin trading using their own stocks as collateral. As of Aug 15, a total of 69 securities companies are able to conduct margin trading and the number of investors has reached 329,500, according to China Securities Finance Co. The total volume of margin trading was around 1.59 trillion yuan, with 66.4 billion yuan currently being traded. Margin trading is essential to build what regulators call a "comprehensive" stock market, as it allows short-selling for the first time in the world's second-biggest stock market by capitalization. Short-selling adds to market volatility but allows investors to profit in bear markets.

More short-selling could dampen any hopes of a market rebound in the short term. Shares of securities companies, however, benefited from the news. Guojin Securities Co Ltd jumped by about 6 percent, suggesting investors believed the new measure will boost industry profitability. The sector slumped by more than 5 percent on Monday, as a massive amount of restricted shares hit the market.

Source: Gao Changxin in Shanghai: Re-lending business gets green light, China Daily, 2012-08-25

China's 1st CCS project captures 40k tons of CO2

China's first carbon capture and storage demonstration project (CCS) sealed off more than 40,000 tons of carbon dioxide in the past 15 months in North China's Inner Mongolia autonomous region, operators told Xinhua Monday. As an environmental protection project of China's megaton direct liquefaction coal project, the CCS project was listed as a national key technology project and was implemented by China's leading coal company Shenhua Group Corporation Ltd, located in Wulanmulun, Erjinhoro Banner, Inner Mongolia. The project proved China as the first country able to realize the entire process of capturing carbon dioxide and sealing it in saline aquifers, said Shu Geping, general engineer of China Shenhua Coal to Liquid and Chemical Co Ltd. Experiments and research are still underway and the goal of sealing 300,000 tons of carbon dioxide is expected to be realized in June 2014, Shu said. The underground saline aquifers in Ordos Basin in Inner Mongolia can store tens of billions of carbon dioxide, and this kind of basin is quite common in China, which means the demonstration project will greatly contribute to reducing China's carbon emissions, said Zhang Dongxiao, dean of the Clean Energy Research Institute of Peking University.

About 80 percent of China's carbon dioxide emissions come from coal burning. China made a promise to the United Nations that by 2020 the country would reduce carbon dioxide emissions per gross domestic product by 40 to 45 percent, based on levels observed in 2005. Researchers with Shenhua said the current CCS technology only stores carbon dioxide but can not generate profits. To popularize the technology, carbon dioxide needs to become a resource that can be utilized, and Shenhua has started relevant research, Shu said.

Source: Xinhua: China's 1st CCS project captures 40k tons of CO2, 2012-08-07

China and its controversial carbon appetite

For anyone toiling in the less lofty fields of environmental policy, the debate about the Middle Kingdom’s ecological aims is just as perplexing. In the space of a few short years, China has become the world’s biggest maker of solar panels and wind turbines. Its leaders have brought in a spate of pollution controls; shut down some of the filthiest coal plants; announced plans for pilot carbon markets, and spoken of building an “ecological civilisation” based on sustainable growth.
But does this amount to meaningful change? Or is China still at heart a growth-at-all-costs vandal, ready to choke its rivers with vast mega-projects and allow industrial pollution devastating enough to poison its water, food and air? The answer is complex.

For one thing, trying to clarify China’s environmental policy is as fraught as trying to establish such a thing in the US – a country capable of approving both Arctic oil drilling and some of the world’s toughest pollution rules. There are bureaucrats in Beijing eager to tackle the environmental destruction that makes the air in the capital itself a menace. But they face rivals who see no reason why China should not follow the “pollute first; mitigate later” model on which industrialised nations built their wealth.

Here lies the central conundrum facing not just China but the world: morally, it is impossible to argue that the Chinese people should be denied the right to the economic prosperity long enjoyed by the developed world. Environmentally, however, it is impossible to say that they should, for this is a country whose ecological impact is spreading far beyond its borders. From climate change to Californian air quality, the influence of the world’s factory is immense. That makes China vital to any effort to stop global temperatures rising by more than 2C from pre-industrial levels – the threshold scientists say should not be crossed if the world is to avoid potentially dangerous climate change.

And it is not just China’s carbon pollution that affects the rest of us. When Chinese dust storms are at their most violent, scientists say they blow contaminants as far as California and other western US states. China’s appetite for everything from shark fins to tropical hardwoods and minerals has added to pressure on fish stocks, forests and African farmlands. Its hunger for coal and other fossil fuels spurs environmentally contentious exploration for such energy sources worldwide, from Canadian tar sands to Nigerian oilfields.

Still, no one has experienced the harsh impact of China’s industrial transformation more than the Chinese themselves. It has therefore become conventional wisdom to believe that change lies in the clout of a growing Chinese middle class, fed up with a government that cannot guarantee air safe enough to breathe or food clean enough to eat. Recent events add weight to the idea. Twice last month, Chinese authorities axed contentious projects after mass protests – a copper plant in Shifang; an industrial waste pipeline in Qidong. Prof Shapiro is rightly doubtful. As well as assuming that the Beijing government will be able to respond to such pressure in a country already struggling to enforce its environmental laws, the idea implies that battered natural resources will be capable of rehabilitation.


**China's energy use down 2% in 2011**

China cut its energy usage by 2.01 percent last year to 0.79 tons of standard coal equivalent for every 10,000 yuan ($1,570) of China's GDP, according to government data issued Thursday. Beijing posted the greatest decline, dropping its energy use by 6.94 percent to 0.45 tons of standard coal equivalent per unit of GDP, according to the figures released by the National Development and Reform Commission, the National Bureau of Statistics and the National Energy Administration. West China's Qinghai province registered the greatest increase in power usage per unit of GDP. Its energy usage went up 9.44 percent, followed by a 6.96-percent increase in west China's Xinjiang Uygur autonomous region and a 5.23-percent increase in south China's Hainan
province. The government also evaluated energy use per every 10,000 yuan of industrial value-added output. Beijing topped the list with a decline of 18.5 percent. West China's Ningxia Hui autonomous region ranked last, with a 14.72-percent increase in power usage per unit of industrial value-added output. The Tibet autonomous region, Hong Kong, Macau and Taiwan were excluded from the calculations. China plans to cut the energy use per unit of GDP by 16 percent by 2015 from the level in 2011. It also aims to lift non-fossil fuel energy usage to 11.4 percent of the country's total energy consumption from the current 8.6 percent. To meet the targets, the government has adopted a range of measures, including the closure of outdated thermal power plants and iron and cement workshops and a push for the use of clean energy, such as solar and wind power. The government also hopes to reduce greenhouse gas emissions per unit of GDP in 2020 by 40 to 45 percent compared to 2005 levels.

Source: Xinhua: China's energy use down 2% in 2011, 2012-08-17

Back to business

Chinese students who study overseas and return are increasingly turning to entrepreneurship to make their dreams come true. Zhang Yue reports in Dalian, Liaoning province.

When 31-year-old Li Tuo applied to study for a postgraduate degree on public policy at Japan's Kyoto University in 2005, he was thinking he would get a government job when he returned to China. But Li now runs his own company providing free school applications and a visa service for students who want to study in Japan. The company, in Dalian, Liaoning province, has helped hundreds of students since it was founded in 2008 and makes a profit by receiving commission from universities in Japan. "When I returned to China in 2008, I found that landing a job was not as easy as I thought, even with an overseas degree," Li recalls. "The salary was disappointing, too." He got one job offer with a salary of 3,000 yuan ($471) per month, but found his study experience in Japan could not help him get a government job.

This is not an unusual experience for students who return from their overseas studies to China in recent years. According to the Ministry of Human Resources and Social Security, in 2011, 186,200 overseas students returned to the country. While finding employment after years of overseas experience has become an issue for Chinese students, some are boldly starting their own businesses. Among those who returned in 2011, 20,000 set up their own businesses. "Most of my schoolmates stayed at electronics companies in Japan," Li says. "But about 20 percent are returning. We see more potential for self-accomplishment back here." Self-accomplishment is what Li was seeking when he set up his own business.

"When I returned from the United States in 1996, only those who could not survive in the US came back to China," says Xu Xiaoping, one of the country's best-known angel investors, who now provides funds to entrepreneurs from overseas including Li. "But now it is different. Mostly, those who return now have big ambitions and a clear career goal on returning to China and starting their own business." This has become a major trend among overseas returnees, young entrepreneurs who are enjoying favorable policies in their motherland.

Since 2000, China has established various platforms to communicate with returning overseas entrepreneurs. Gatherings are held at both central and city government levels. Among them and one of the biggest is Overseas Chinese Scholars (OCS), a one-week event held by Dalian government, the Ministry of Education, the Ministry of Human Resources and Social Security, the Ministry of Science and Technology and the Organization Department of the CPC Central
Committee. "This year, the companies that have received most support from the government are in the fields of information technology, biotechnology and new energy development," says Gong Liming from the department of technology of Liaoning province on recapping this year's OCS event in June. The event attracted more than 1,800 overseas returnees to Dalian and more than 800 projects. Zhang Qun, a 41-year-old who returned to China and set up his company in Dalian in 2009, won support from last year's OCS. He will receive a start-up fund of 2 million yuan ($314,000) and will be able to utilize a 200-square-meter work zone for free for three years. Since 2001, more than 3,200 overseas returnees who set up their own business have been enjoying similarly favorable policies. "We want to attract more brilliant young Chinese to return to the motherland," says Wang Xiaochu, vice-minister of Human Resources and Social Security. However, Zhang says after living in Japan and the United States for 13 years, he did not have sufficient understanding of his home country. Recruitment, he says, is a tough issue. His company, INTESIM, deals with simulation techniques and requires a lot of research and technical work. "Only when I returned in 2009 did I notice that in China, technicians are not easy to find. More and more young people are going for higher education, but less are doing the handy work," he says. "Also, young people in China are lacking research skills in particular areas." Zhang is now working with Tsinghua University in Beijing and several universities in Dalian. "I have to make sure that once they finish their degrees, Dalian is the place they are willing to stay at," he says. He is also working with students studying overseas to ensure that "once they return, the company will become their career choice".

While people like Zhang enjoy favorable government policies, Li is working hard. As the education service agency is a relatively new industry, and he did not receive any preferential policy from OCS this year, Li is raising funds from angel investors, such as Xu. Li has 10 overseas-returned staff working for him among a total of 37 employees. His online company, liuxuejp.net, has 117,651 followers on its micro blog. He hasn't gone to bed before 2 am since the company started as he has been studying the service and marketing strategies of other well-known education agencies. "I have to say that returning to China and starting my own business has been tough," Li says. "Overseas experience doesn't make it any easier for me than other entrepreneurs. When I recruited my first employee, a certificate from Kyoto University did not make me any more credible than other young bosses. "But I still encourage students to study overseas. No matter what you do afterward, overseas experience builds confidence and broadens horizons.

Source:  Zhang Yue: Back to business, China Daily, 2012-08-06

Wealth gap in rural China nears warning level

Households in rural China have seen incomes increase on average over the past three years, but the wealth gap in the vast countryside has almost reached the warning level, a top Chinese institute for rural studies said Tuesday. The cash income of rural households grew 14.13 percent from a year earlier to an average of 38,894.4 yuan ($6125) last year, and the per capita cash income in rural areas rose 11.95 percent to 9,260.6 yuan, according to a survey by Central China Normal University's Center for China Rural Studies. The survey was launched in 2009 and covered more than 6,000 rural households across the country. The figures have not been adjusted to reflect inflation. The institute said in a report released Tuesday that the income growth was fueled by rising wages among farmers who have abandoned rural life to work as migrant laborers outside of their hometowns, mostly in cities. Wages paid to the migrant laborers accounted for 65.7
percent of the total income of rural households, it said. China is experiencing the largest mass migration of people from the countryside to urban regions in history. The nation had 253 million migrant workers by the end of 2011, 10.55 million more than a year earlier, according to official data.

The wealth gap among rural households is widening. The Gini coefficient, an index reflecting the rich-poor gap, in rural China stood at 0.3949 last year, nearing the warning level of 0.4 set by the United Nations, the institute said. It also said that the total income of the top 20 percent of the rural households was 10.19 times that of the bottom 20 percent and that the wealth gap in west China was bigger than in the east of the country. "We believe the wealth gap in the nation as a whole is well above 0.4 because the gap is large between urban and rural areas," Deng told Xinhua. "But as an institute for rural studies, we don't have urban figures." The last time the Chinese government published a Gini index for the nation was in 2000 when it stood at 0.412. But most scholars believe the index is currently between 0.45 and 0.50. Deng Dacai, professor and deputy chief of the institute, said the Gini index has been on the rise from 0.29 in the early 1980s when the nation started to implement the reform and opening-up policy.

The reason why the gap exists is that those who work as migrant laborers in more urban areas earn twice as much as those who grow crops to make a living, the institute said. Only 11.1 percent of the richest and 82.5 percent of the poorest live by farming. The income gap between the two groups shows how large the gap is between urban and rural areas, said Xu Yong, chief of the institute, adding that it will force more rural residents to abandon farming and leave the countryside. "As a result, the cities will likely face more pressure and problems will emerge in the country's agricultural production," he warned. The institute's researchers said rural infrastructure needs to be improved to make life better there, while policies and technology should be introduced to boost agricultural production and make it more lucrative. In the cities, migrant laborers should be viewed as equal to urban residents in terms of employment and social security, the researchers said, considering the fact that migrant laborers have little social security and are often charged huge fees to send their children to schools.

Source: Xinhua: Wealth gap in rural China nears warning level, 2012-08-22

**China's rural development in past decade**

Agricultural productivity and the livelihood of rural residents have improved over the past decade, according to a report released by the National Bureau of Statistics on Friday. Since the 16th National Congress of the Communist Party of China in late 2002, the government has taken a raft of measures to strengthen the agricultural sector and bring benefits to farmers, the report said. The following are facts and figures from the report:

-- Total grain output surged from 114.15 million tonnes in 2002 to 571.21 million metric tons in 2011, representing an annual growth of 25 percent.
-- Grain output has increased for eight consecutive years since 2004.
-- Net income per capita of rural residents rose by 180 percent from 2002 to 6,977 yuan ($1,102) in 2011, achieving an annual growth rate of 8.1 percent.
-- By the end of 2011, the total length of rural roads, including highways in counties and townships and cement-covered roads in villages, reached 3.56 million kilometers, up 170 percent from 2002.
-- The rural road network connected 99.97 percent of all townships and 99.38 of all villages in China by 2011.
Average residential area of rural residents rose 36.6 percent from 2002 to 36.2 square meters in 2011.

A total of 832 million people, or 97.5 percent of all rural residents were covered by China's rural cooperative medical care system by 2011.

China's system of subsistence allowances for rural residents covered 53.14 million people and 26.63 households by the end of 2011.

Source: Xinhua: China's rural development in past decade, 2012-08-25

More Chinese firms turn to online business

An increasing number of Chinese enterprises have taken to the Internet to do business more effectively and efficiently in light of the current economic downturn, according to data from the country's Internet regulator. China had 8.73 million registered domain names at the end of June, and 3.98 million were registered using ".cn" domain names, the China Internet Network Information Center said Monday. The number of Chinese websites using ".cn" domain names in the first half of this year was up 460,000 from the end of 2011, marking the fastest biannual growth since 2008, according to CNNIC. The ".cn" suffix is a so-called Top Level Domain for China, like ".com" or ".net," and individuals and companies seeking to create a web address are required to be approved by CNNIC. Of those newly-added ".cn" websites, about 71 percent were domestic companies, particularly small and medium-sized enterprises.

China has the world's largest number of Internet users, with an online population of 538 million by the end of June, including 210 million online shoppers, data released by CNNIC last month showed. China's e-commerce transactions totaled 5.88 trillion yuan ($933 billion) last year, up 29.2 percent year on year, according to the Ministry of Commerce. According to the MOC, over 40 percent of Chinese SMEs have used e-commerce to maintain rapid growth, as a worsening external environment, rising labor costs and tightened credit have created difficulties for SMEs.

The Chinese Internet watchdog's permission for individuals to register ".cn" domain names again since May also helped boosted the popularity of the ".cn" suffix, as 94,000 personal websites have been registered, CNNIC said. CNNIC had prohibited individuals from registering websites with the domain name ".cn" since December 2009, when a nationwide crackdown on pornographic websites and portals containing "illegal and hazardous" information was launched.

Source: Xinhua: More Chinese firms turn to online business, 2012-08-07

Ministry vows to better guide development of e-commerce

The Ministry of Commerce on Friday said it would introduce more specifications to better guide the development of the nation's e-commerce market. In the meantime, consumers complained that the ongoing price war among major e-commerce websites was merely a tacit marketing conspiracy. The ministry had in the past issued at least two specifications to regulate the behavior of e-commerce companies, and more national standards will be announced as the industry's turnover increases, according to Wang Desheng, deputy director of the ministry's department of circulation industry development. He also did not specify if the price war has violated the ministry's regulations.

Earlier this week, Jingdong Mall and Suning Appliance announced the launch of a price-reduction campaign to lure customers. Other online retailers quickly joined the price war, claiming to be selling products at lower prices than their competitors. However, some customers
found that the so-called "price cuts" came after significant price hikes a day before. Online retail search engine eTao said that on the first day of the price war, only about 5,000 items’ prices were reduced across the nation's top six online shopping websites, including Jingdong, Suning, Gome and Dangdang. The discounted items accounted for 4.2 percent of the around 117,000 products on eTao's price-monitoring radar. Jingdong, the major instigator of the price war, cut the prices of just 6 percent of its large household appliances, said eTao.

Apart from e-commerce, the ministry also introduced standardization measures in some other key sectors such as logistics, circulation of agricultural products, wholesale and retail. "A standard system covering major industries in supply chains has basically been established, backed by standards in the key sectors of business services, neighborhood services, wholesale and retail," said Wang from the ministry during a news briefing on Friday. By the end of 2011, a total of 800 standards had been issued for the commercial distribution sector, and a further 200 will be issued this year, according to the ministry. The regulation on standardization in the commercial sector, issued by the ministry in early May, came into effect on July 1. "Standardization serves as the fundamental issue in promoting services quality and upgrading industries. The modernization of supply chains will lower costs and enhance efficiency, and thus boost domestic consumption," Wang said.

Source: Gao Yuan, Li Jiabao and Chen Limin: Ministry vows to better guide development of e-commerce, China Daily, 2012-08-18

**Shanghai’s focus on North Bund continues**

Shanghai's booming North Bund area has developed dramatically over the past decade, and that massive growth will continue apace as companies involved in shipping, financial services and other key industries flock to the area. That's according to Sun Jianping, Party secretary of Shanghai’s Hongkou district, who told China Daily that the latest figures show there are more than 3,000 shipping service companies and 20 major industry bodies and institutions headquartered in North Bund. He added that the area - facing the famous Bund financial strip and Lujiazui areas across the Huangpu River - has ambitious plans to establish itself as one of the world's most modern and ambitious shipping and financial services clusters. Sun said so far, cumulative investment has reached 26 billion yuan ($4.1 billion) for major projects in the area, with floor space totaling 2.15 million square meters. "Usually, the simple throughput of a port is highlighted. However, we care more about the port's ability to allocate resources where they are needed best, especially improving high-end services for the shipping sector," Sun told China Daily.

In 2009, the State Council officially designated North Bund as central to the ongoing development of Shanghai as an international shipping center. The international passenger transport center of Shanghai and Shanghai international shipping service center have been completed and are already in use. More than 90 financial services companies have set up operations in the area, running businesses including fund management, equity investment, and assets investment. "As the Bund and Lujiazui areas have become saturated, North Bund still provides sufficient space for further expansion, particularly those in financial services," Sun said.

Away from North Bund, the district authorities have also been focusing on a plan to renovate North Sichuan Commercial Road, considered the third-longest commercial street in Shanghai after Nanjing Road and Huaihai Road. The famous thoroughfare has becomes less prosperous in recent years, but Sun said there are also plans afoot to kick-start its fortunes by developing it into a
distribution center for imported goods. Sun said he has been holding discussions in particular with Japanese household-goods manufacturers and retailers. "As consumer demand in Japan has dropped, Chinese consumers have remained thirsty for products, so why not introduce the companies and their products to Shanghai, particularly North Sichuan Road?" Sun said. As well as Japanese investors, there is also considerable interest from South Korean and Taiwan companies planning to use the area as their sales and distribution centers.

Source: Xie Yu in Shanghai: Shanghai's focus on North Bund continues, China Daily, 2012-08-29

**Mobile Internet industry to boom in Shanghai**

Shanghai mobile Internet industry's sales revenue is expected to exceed 80 billion yuan ($12.6 billion) and will employ more than 60,000 people by 2015, according to the latest plan for the industry in the city. The Shanghai Mobile Internet Industry Development Plan (2012-15) from Shanghai Municipal Commission of Economy and Information revealed that the city will take steps to cultivate innovative companies, attract industry leaders, and establish production and innovation bases in Shanghai in the next few years to make the city a new business hotspot for the mobile internet Industry. The plan said Shanghai would pay more attention to developing processing chips used in intelligent mobile terminals. Meanwhile, the city will increase its investment in Internet infrastructure construction and Wi-Fi coverage to provide solid foundations for the industry. Shanghai will introduce a number of measures to attract leading and influential companies, including provide financial support and improving intellectual property rights.

Source: Tang Zhihao: Mobile Internet industry to boom in Shanghai, China Daily, 2012-08-28

**China’s ‘flying man’ crashes out of games**

Liu, the 2004 Olympic 110m hurdles champion, hit the first hurdle in his heat and fell. It became clear he had hurt his right leg, but he proceeded to hop on the other limb along the track and kissed the last hurdle in his lane. The 29-year-old’s fall was his second successive Olympic calamity. At Beijing in 2008 he was the nation’s poster boy as one of the favourites for the 110m hurdles, but had to withdraw in his heat without clearing a hurdle because of a foot injury that later required surgery.

As the first Chinese man to win an Olympic gold in track, which had long been seen as beyond the reach of the country’s athletes, Liu Xiang became a superstar after the 2004 games in Athens. With his given name of Xiang, which means “to fly”, and his clean-cut image, Mr Liu was an advertisers’ dream. He earned millions in endorsements from Coke to China Mobile and his face was plastered on billboards across the nation.

His fall at the first hurdle in London echoed his exit at the exact same stage in Beijing, and provoked the same outpouring of sympathy and bewilderment from his legions of fans. “My heart is broken again,” said Jin Xi, a university student in Beijing. On Sina Weibo, a Chinese version of Twitter, Liu Xiang quickly shot up the ranks of the hottest topics under discussion. “Xiang Brother, just so long as you tried, it’s fine. Don’t burden yourself too much. I hope you can try again,” one said. Another user wrote: “The flying man is after all a man and so must feel pain. But even if you fall, you still are the flying man. Liu Xiang, you will always be the pride of China.”

Source: Charles Morris in London and Simon Rabinovitch in Beijing: China’s ‘flying man’ crashes out of games, Financial Times August 7, 2012
There was blood; The perils of private enterprise

A visitor to Jingbian County in northern Shaanxi province finds at its heart a thriving oil town in the grip of a state-owned company, Shaanxi Yanchang Petroleum. Yanchang's building, 12 storeys high, towers over the low-slung town. The company is by far Jingbian's largest employer and taxpayer. This region in north-western China was known for impoverished peasants dwelling in caves hewn out of the deep, compacted soils of the Loess plateau. In a decade Jingbian has become a booming company town. Quite how it became this is a tale worth telling. In Jingbian the government appears to have fallen far short of its own insistence that it is committed to the rule of law and the protection of private property rights. Instead the county has become an exemplar for the saying guojin mintui, shorthand for "the state advances, while the private sector retreats". The government also argues that the public always profits when the state wins.

Source: Anonymous: There was blood; The perils of private enterprise, The Economist404. 8796 (Aug 4, 2012): n/a.

Measures to boost private investment 'have worked'

A Chinese official who regulates investment activities in the country said Tuesday the government's measures encouraging private funds to enter more sectors have worked and helped stabilize investment growth this year. "Those measures encouraging private capital to enter fields such as oil and gas exploration and education have been playing an active role since the beginning of this year," said the official, citing the heavier weighting of private funds in the country's overall financial input.

Fixed-asset private investment in China rose 25.8 percent year-on-year to 9.37 trillion yuan ($1.48 trillion) in the first six months of 2012, accounting for 62.2 percent of the country's total investment, which expanded 20.4 percent in the first half, according to data from the National Bureau of Statistics. According to the official, private investment in the oil and gas exploration, education and health sectors surged 89.2 percent, 40.2 percent and 43.1 percent, respectively, in the first half of this year. The small quantity of private funds in those sectors also helped yield rapid growth, since such fields used to be dominated by state-owned capital, he said.

Source: Xinhua: Measures to boost private investment 'have worked', 2012-08-09

Slower growth dashes hope of swift recovery

China's economy showed extended signs of weakness in July with less-than-expected growth in a batch of key indicators released Thursday, dampening wishes of a modest recovery in the second half. However, the Consumer Price Index, the main gauge of inflation, expanded at the slowest pace in 30 months of 1.8 percent, allowing more room for policy easing to encourage growth.

The National Bureau of Statistics data also showed industrial production grew 9.2 percent from a year earlier in July, down from the rise of 9.5 percent in June and less than an expected 9.8 percent. Fixed-asset investment in the first seven months gained 20.4 percent year-on-year, flat with the growth in the first half of this year and defying estimates of a strong rebound after faster approvals of investment projects since June. Retail sales, a yardstick of domestic consumption, gained 13.1 percent on an annual basis in July, also weaker than the advance of 13.7 percent a month earlier, the statistics bureau said.

To stimulate growth, local governments have unveiled many new investment projects,
especially in infrastructure construction.
Source: China.org.cn: Slower growth dashes hope of swift recovery
Updated: 2012-08-10
http://www.chinadaily.com.cn/business/2012-08/10/content_15662064.htm

Chinese prefer foreign brands

The five most recognized brands in China are all imported from overseas, the latest Campaign Asia-Pacific 2012 Asia's Top 1,000 Brands report shows. Released for the ninth time, the report, jointly published by the monthly trade magazine Campaign Asia-Pacific and the global information and insights provider Nielsen, covered 14 major products and services categories across a total of 73 sub-categories among 12 key regional markets in Asia-Pacific. In the Chinese market, the top 10 brands that successfully made themselves on to the list include Apple Inc, Nestle S.A., Chanel S.A., Sony Corp, Samsung Group, Uni-President Enterprises Corp, Panasonic Corp, Nike Inc, Canon Inc and Starbucks Corp. It is the first time the luxury brand Chanel was listed among the top 10.

Eight out of the top 20 most recognized brands in the Chinese market were Chinese brands in last year's report. However, this year's report shows only three local brands in the top 20. They are the leading traditional Chinese medicine pharmacy Beijing Tong Ren Tang, which ranked 11th, instant noodle brand Master Kong Holdings Ltd, 14th, and the nation's home appliance giant Haier Group, 15th (technically a multinational). Household brand names Baidu Inc and Mengniu Dairy Co, which appeared in the top 10 last year, both saw their ranking drop this year in the Chinese market, the former to 37th place and the latter to 89th.

Meanwhile, no homegrown Chinese brand was listed among the top 100 in the Asia-Pacific region. Otremba said it "reiterates the challenges Chinese brands are facing to gain consumer recognition beyond their home markets".

Gao Aidai, 22, a researcher at a Shanghai-based information technology firm, also stressed "quality" when asked for the reason for her preference for Western or Japanese brands. "Chinese brands can easily fall into the trap of being a copycat due to a lack of their own ideas or creativity, as I understand. But that does not exert as much influence as the quality issue. I seldom buy any domestically produced food or dairy products nowadays due to health concerns," she said. Huang Yingwen, 24, a public relations specialist working at a Beijing PR company, finds most of her personal belongings in the closet are Western brands such as Marc by Marc Jacobs or H&M. "Actually, the product quality of some Chinese domestic brands is as good. But their design and marketing are always flawed. The patterns and the after-sales services always let me down," sighed Huang. Gao Aidai, 22, a researcher at a Shanghai-based information technology firm, also stressed "quality" when asked for the reason for her preference for Western or Japanese brands. "Chinese brands can easily fall into the trap of being a copycat due to a lack of their own ideas or creativity, as I understand. But that does not exert as much influence as the quality issue. I seldom buy any domestically produced food or dairy products nowadays due to health concerns," she said.
"The Chinese people remember the quality issues which they experienced until the 80s with Chinese products. This often resulted in a credibility issue for Chinese brands vis-a-vis the consumers in their own domestic market," said Pascal Armoudom, a partner with A.T. Kearney China management consultants in charge of consumer, luxury and retail for Greater China. Explaining the success of these international brands, Armoudom said that it is largely because "they have accumulated decades of experience in building image and value". "Although facing the challenges above, Chinese brands have been working hard to turn this around since the year 2000. They know that the time for delivering mass production at optimal cost as a guarantee for success is over," said Armoudom.

Source: Shi Jing in Shanghai: Chinese prefer foreign brands, China Daily, 2012-08-06

**China economy: Restarting China's high-speed rail programme**

The rail budget for 2012 was quietly boosted in mid-July, in a sign that the government is looking to increase its level of support for the slowing domestic economy. The boost signals the resumption of an ambitious high-speed rail construction programme that ground to a near-halt following a disastrous crash in Wenzhou a year ago. Doubts have surrounded the status of the government's plans for high-speed rail links owing to the emergence of safety issues and alleged graft. In February 2011 the railway minister, Liu Zhijun, was removed from his post for corruption. The Wenzhou rail crash of July 2011, which led to the deaths of 40 people, was followed by the imposition of speed restrictions on the rail network, parts of which had been able to run at 350 km/hour - faster than the majority of installed systems in developed economies.

However, there have been recent indications that China's ambitions for its high-speed rail network remain broadly intact. First, it appears that a boost has been given to the railway budget. Whereas in early July the Ministry of Railways had predicted it would invest Rmb406bn (US$64.4bn) in infrastructure during 2012, by late July ministry documents were pencilling in Rmb470bn - an increase of 16%. This is likely to be part of the government's efforts to support the economy through infrastructure spending. Second, a new plan for high-speed rail development was released in July by the State Council (China's cabinet). Although greater caution may be exercised in the build-out of the railway system, the government therefore appears largely undeterred by the events of 2011.

China's high-speed rail network, at 13,000 km, is already the largest in the world. According to the State Council plan, the total operating length of the network will reach 40,000 km by the end of 2015, linking up the prosperous eastern seaboard and establishing east-west connections to central and western China (see map). Under the proposals, nearly all cities with a population of more than 500,000 will have access to the national high-speed rail network. The plan follows a "four by four" approach, with four main north-south routes and four main east-west routes. Most of the high-speed lines are passenger-dedicated lines (PDLs), running parallel to or following slightly different routes to existing conventional tracks; other lines are mixed-use passenger and freight lines.

The Qingdao-Taiyuan route serves the northern half of China, and will free up rail capacity for
natural resource transport. The line will connect Shanxi province with the north-eastern coast: work on the remaining Jinan-Shijiazhuang PDL section is expected to begin soon, for completion by 2015. Finally, the Xuzhou-Lanzhou route will connect the eastern province of Jiangsu with China's west, linking the Guanzhong-Tianshui economic area to the Yangtze River Delta.

Such ambitions are impressive, but uncertainty surrounds the mechanisms for financing these developments. After years of investment, the Ministry of Railways is burdened with high levels of debt. According to official figures, the ministry owed Rmb1.9trn (US$301.6bn) in long-term debt at the end of March 2012. It has scaled back investment so far this year in response, spending just Rmb148.7bn (US$23.6bn) on rail infrastructure in January-June, down by 38.6% year on year. However, it still made a loss of Rmb7bn in the first quarter of the year, as passenger and cargo traffic slowed. How the ministry is to meet its recently expanded expenditure targets, as well as fund broader rail expansion up to 2015, is unclear. As such, the debts amassed by the ministry and its local bureaus are likely to have to be restructured. Extending the period of the loan repayment may allow sufficient time for demand to catch up if the high-speed rail system generates the type of wider economic benefits that the government envisages. Assuming that these short-term financing problems can be addressed, there is reason to be optimistic about the development of the network. It will tackle some of China's many transport bottlenecks and will help to open up inland China, benefiting nationwide distribution chains and tourism, as well as facilitating the movement of investment and manufacturing inland.


**SOEs should adjust investment: SASAC**

Investments by central State-owned enterprises’ targeting scale expansion must be stopped and used instead to upgrade technology, products and the commercial model of the companies, the State-owned Assets Supervision and Administration Commission said. SASAC, the government supervisor of 128 central SOEs, asked the companies to boost the management of their capital chain and cash flow. SOEs should also avoid the ripple effect resulting from the shortage of funds of upstream and downstream industries, SASAC said. In the first half of the year, central SOEs generated profits of 387 billion yuan ($61.18 billion), down 16.4 percent from a year earlier. Shao Ning, SASAC's vice-chairman, said earlier that central SOEs should prepare for a tough period in the next three to five years due to the slowing economic environment after 30 years of fast growth. Wang Yong, SASAC's chairman, said that rising costs in energy supply, raw materials and in credit, along with foreign investors' sagging confidence and capability, would make 2012 a tough year for China's SOEs.

Source: Bao Chang: SOEs should adjust investment: SASAC, China Daily, 2012-08-07

**China's PPI down 2.9% in July**

China's Producer Price Index, a main gauge of inflation at the wholesale level, fell 2.9 percent in July from a year earlier, the National Bureau of Statistics said Thursday. The data marked the fifth straight month of decline after China's PPI saw a drop in March for the first time since December 2009, NBS data showed. On a month-on-month basis, the country's PPI for July moved down 0.8 percent, the NBS said in a statement on its website. In July, producer purchase prices shed 3.4 percent year-on-year and 0.8 percent on a monthly basis, the NBS said. In the first seven
months of the year, the PPI went down one percent year-on-year, while producer purchase prices lost 0.8 percent, it said.

In a report released last Sunday, the central bank said it will strengthen the fine-tuning of its monetary policy in the second half of the year and improve its credit policies to shore up the development of the real economy.

Source: Xinhua: China's CPI growth slows to 1.8% in July, 2012-08-09

**China's power consumption slows**

China's power consumption growth slowed further in July, as the country's factory activity and industrial output posted weaker growth amid the economic downturn, the National Energy Administration said Tuesday. The nation's total electricity consumption grew only 4.5 percent from a year earlier to 455.6 billion kWh, the NEA said in a statement on its website. The July data brought electricity consumption in the first seven months to 2.83 trillion kWh, up 5.4 percent year-on-year, easing further from the 5.5 percent seen in the first half of this year, according to the NEA data. In breakdown, power consumed by the agriculture sector dipped 0.4 percent year-on-year to 58.9 billion kWh, while electricity consumed by the industrial and manufacturing sector added 3.6 percent year-on-year to 2.1 trillion kWh. Electricity consumption by the service sector increased 11.9 percent year-on-year to reach 319.3 billion kWh, while residential electricity use amounted to 356.9 billion kWh, up 12.5 percent from a year earlier.

In the January-July period, China added 28.92 million kilowatts in new power-generating capacity nationwide, 6 million kilowatts of which was created by hydropower projects and 17.9 million kilowatts by thermal power plants. The weak power consumption was mainly dragged down by a surprise industrial output slowdown in July.

Source: Xinhua: China's power consumption slows, 2012-08-14

**World News: Manufacturing Fall Continues in China**

A preliminary gauge of manufacturing activity in China on Thursday sent another warning signal on the state of the world's second-largest economy. The preliminary HSBC China Manufacturing Purchasing Managers Index fell to a nine-month low of 47.8 in August, compared with a final reading of 49.3 in July, HSBC Holdings PLC said. The preliminary August reading marks the 10th straight month the index has been in contractionary territory, signaling extended difficulty for manufacturers. It also signaled that economic woes in the major foreign markets of Europe and the U.S. continue to weigh on China's exporters, as an index for new export orders fell to its lowest level since March 2009, in the midst of the global financial crisis. The subindex for new export orders fell to 44.7, down from 46.7 in July. Meanwhile, the employment subindex was unchanged at 47.7 in August, but was below the expansionary threshold of 50 for the sixth consecutive month.


**China central SOEs' profits down in Jan-July**

China's centrally-administered state-owned enterprises saw net profits down 16.1 percent year-on-year in the first seven months of this year to 459.38 billion yuan ($72.92 billion). The drop narrowed 0.3 percentage points from the first half of this year, China's State-Owned Assets
Supervision and Administration Commission of the State Council said in a statement on Friday. The SASAC did not say the reasons behind the decline in profits.

During the same period, total revenue of central SOEs rose 8.4 percent to 12.33 trillion yuan year-on-year, and taxes and fees handed in by those companies increased 13.8 percent to 1.26 trillion yuan, the statement said.

Source: Xinhua: China central SOEs' profits down in Jan-July, 2012-08-24

Manufacturing drops to 9-month low: HSBC

China's manufacturing industry may deteriorate further in August, affected by a faster drop in new orders and no significant signs of any improvement in the global economy, which analysts say could spark Beijing to accelerate plans to ensure growth. New figures on the sector, in the HSBC Flash China manufacturing purchasing managers' index, showed a sharp fall, to a nine-month-low reading of 47.8 in August, down from July's 49.3. The report said that Chinese producers are struggling with both strong global economic headwinds and weak domestic demand, suggested by the five-month-low sub-index reading on output, which declined to 47.9 from 50.9 in July.

New export business also declined at its sharpest rate since March 2009, adding further concern about dropping overseas demand amid the deepening European debt crisis. The HSBC PMI focuses more on export-oriented and private companies than the official figures released by the National Bureau of Statistics and China Federation of Logistics and Purchasing. That August official PMI is scheduled to be released on Sept 1. Chinese local governments are keen to map out investment projects to drive up economic growth with additional spending on infrastructure and manufacturing. This week, two municipalities — Tianjin and Chongqing — announced an extra 1.5 trillion yuan ($236 billion) investment stimulus package in industries including energy, petrochemicals and advanced equipment. Incomplete statistics show local governments across the country have announced investment plans involving about 7 trillion yuan since July. Ningbo in Zhejiang province, Nanjing in Jiangsu province, Guangzhou in Guangdong province, and Changsha in Hunan province have all released investment plans that are aimed at boosting growth.

Source: Chen Jia: Manufacturing drops to 9-month low: HSBC, China Daily, 2012-08-24

China's successful SOEs adapt in a changing world

For the large, usually hard-to-change, clumsy-in-reaction State-owned enterprises, the capricious business environment since 2008 has been difficult. Most of China's largest SOEs were established in the 1950s and 1960s. Now directly overseen by the State Assets Supervision and Administration Commission, 117 SOEs are at the "central level". They cover industries such as energy, aviation, telecom and construction, each playing a pivotal role in the nation's development. And 38 of the 117 "central SOEs" are now on the Fortune 500 list, compared with 10 in 2005.

Wang Yong, the minister of SASAC, said the SOEs could take a still-larger share in the global market. Wang also said SOEs will depend on innovation, management and business strategic planning for their growth. However, since 2008, the global slowdown has been threatening the profit of most of these large corporations. SASAC officials admitted that rising costs in energy supply, raw materials, and credit, along with foreign investors' sagging confidence, will make 2012 a tough year for the SOEs.

Earlier this year, SASAC asked SOEs to offset the effects of the global economic slowdown

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by speeding up their "strategic transformation" and technological upgrading. Not all SOEs have been making equal progress since. But some have been using the time as an opportunity to learn - as to how to leverage their advantages, tap their potentials, and adapt to the new market environment. In the process, they have increased their value, like China Power Investment Corp, or expanded collaboration with overseas partners, like China Huadian Corp.

In the resource-rich Huolin Gol in the Inner Mongolian autonomous region, China Power Investment, one of China's top five power generating corporations, is building one of China's largest electrolytic-aluminum bases near its gigantic pithead power plant. Production of electrolytic aluminum is long considered a high power-consuming and high-pollution industry. If it were placed elsewhere, government approval would be difficult to get. But for Lu Qizhou, general manager of China Power Investment, it is exactly to the company's advantage. Thermal power industry has been operating at a continuous loss because of rising coal prices and State control of electricity prices. By integrating its pithead power plant with the higher value-added aluminum production, putting the power plant near the coal mine, and putting the aluminum production near the power plant, China Power Investment has found a new model of growth without having to wait for the government to raise the price of electricity. In eastern Inner Mongolia, where China Power Investment keeps intense operation, there are large coal deposits. But most of the coal is lignite, low in its release of heat and hard for transportation and storage, Lu said. Combining coal mining, electricity generation and aluminum production has raised the company's energy efficiency far higher than the industry average. In 2011, electrolytic aluminum brought in 2 billion yuan profit for the company, while its thermal-power business saw a loss of more than 10 billion yuan.

At the same time, China Huadian Corp, also one of China's top five power generators, is building its advantage through new international collaborations. Last year, China Huadian entered a joint venture with General Electric Co. to develop an aeroderivative gas turbine, a core device in distributed energy systems. Named Huadian GE Aero Gas Turbine Equipment Co, the venture has China Huadian contributing 51 percent of its registered capital of $100 million, and is scheduled to start operating in 2013 in Shanghai. Distributed energy systems, also known as distributed energy resources, refer to the generation of energy from small energy sources. "It is the first step for us to introduce key distributed energy resources technology from the US," said Deng Jianling, a China Huadian vice-president. The aeroderivative gas turbine is modified from the aviation engine and burns natural gas to create energy, capable of maintaining a high level of energy efficiency. China Huadian has been developing distributed energy resources projects that help provide electricity for consumers from the company's nearby small power plants, thereby reducing energy waste during transmission. It plans to establish 10 million kilowatt distributed energy resource projects by the end of 2020. Currently, China's largest distributed energy resources station is in Guangzhou University Town, operated by China Huadian, which enjoys millions of yuan in profit each year from an equivalent reduction of 100,000 tons of emission from a coal-fueled thermal power plant.

Source: Bao Chang: China's successful SOEs adapt in a changing world, China Daily, 2012-08-10

World News: Friction as China Clout Grows in Japan

In a notable role reversal, China is emerging as a major investor in Japan -- a diminished status for the island-nation that is inflaming old animosities between two wary neighbors. Here in this port city, the distrust is taking the form of an ugly battle over construction of a new Chinese consulate. Dignitaries in Niigata lobbied for the consulate for years -- traveling to Beijing, offering
gifts of local sake -- in hopes of bringing tourists and business to their struggling city of 800,000 on the Sea of Japan. But in their moment of triumph, when the consulate was announced, locals erupted in protest. Some 15,000 people signed petitions against the Chinese. Protesters blocked streets with their trucks. This past March, the city assembly passed a resolution demanding tighter control of land purchases by foreigners. Construction remains stalled as Tokyo and Beijing try to figure out what to do next.

Many Japanese appreciate that China's growing economic clout could help Japan in its struggle to regain economic vigor. But at the same time, animosity is growing. A recent survey showed 84% of Japanese respondents had a negative impression of China, up six points from a year earlier. Nearly two in three Chinese said the feeling was mutual.

"On the one hand, Japan wants to take advantage of China's rise. But on the other, it can't stop worrying. It hasn't figured out how to deal with the new money and the newcomers," said Jianmin Jin, a Chinese economist who has watched China-Japan relations at the Fujitsu Research Institute in Tokyo since 1998. It is difficult to calculate precisely how much money China invests in Japan, because some deals get done through third countries to avoid notice. China's net direct investments in Japan rose to a record $338 million in 2010, roughly 20 times the level of five years earlier, according to China's Ministry of Commerce. (In 2011, all foreign direct investment fell off a bit, including China's, after the Fukushima nuclear disaster.) From April 2003 to March 2012, Chinese companies accounted for 97 of the 970 investment deals in Japan made by foreigners and coordinated by the Japan External Trade Organization, a government investment-promotion body. That put China in second place, after the U.S. with 293 deals.

Japan is chasing Chinese money of all sorts. In recent weeks the government inaugurated a special visa program for wealthy Chinese tourists willing to vacation in areas hardest hit by last year's tsunami. In some ways, Japan's response to Chinese investments echoes the U.S. reaction to Japanese wealth in the 1980s and the early 1990s. Japanese investments in American landmarks such as New York's Rockefeller Center and California's Pebble Beach Golf Course set off an uproar. In Japan today, the backlash is building just as quickly as Chinese funds arrive. Japanese lawmakers speculate that Chinese companies want technology or military intelligence.

Some Chinese say Japanese racism undermines China's ability to do business here. After years studying Japanese, Sun Rong Qing arrived in Niigata in 2006 to open a branch of a food-trading company from Dalian, a Chinese port city. The 53-year-old businesswoman said she struggled to build relationships. Some people declined to shake her hand at social events, she said. Others called her derogatory names that were common during Japan's colonial rule, such as "chin-koro," an extremely derogatory way of saying "Chinese." In Tokyo, an attempt to brand a "Tokyo Chinatown" -- a neighborhood bustling with Chinese businesses -- to attract tourists and Tokyoites has been thwarted by non-Chinese business owners and officials in the area.

The port city of Niigata, however, could use some help. Its population is declining, alongside a retreat in heavy industry. The economy is in tatters. Downtown is scarred by dozens of closed stores, including a once prominent department store at the city's busiest intersection. Niigata Prefecture's economic output shrank in 10 of the 13 years through 2009 (the latest data available), and overall was down 14% from 1996 levels. Despite the fact that Niigata's controversial new Chinese consulate has yet to be built, the city is already seeing the benefits of having its China connection. In April, the consulate -- operating from a temporary home in an old school building -- helped to bring in a tourist group of 150 people from the Chinese city of Nanjing. Many were tour
agents looking to design new trips for Chinese travelers who have already visited more popular cities like Tokyo and Kyoto. They admired cherry blossoms in bloom and spent a night at a hot spring resort. Still, some residents, including many of Niigata's city assembly members, feel the city has more to lose from a bigger Chinese presence. "It's a consulate with just 17 staffers. I have a hard time understanding why they need 16,000 square meters [roughly four acres] of land for that," said Kaoru Sasaki, another Niigata assembly member. "I am against this plan." Asked in parliament about the Niigata consulate dispute at a recent parliament session, foreign minister Koichiro Gemba said the government has asked Beijing for "detailed explanation" for the purpose of the new consulate. "The issue of land purchases by foreigners . . . is a theme that we will have to consider broadly over the coming years," Mr. Gemba said.


Securities JVs get nod to expand business

The China Securities Regulatory Commission announced on Friday that foreign shareholders can have a total stake of as much as 49 percent in a joint venture securities company, up from the previous limit of one-third. In a joint venture, at least one Chinese shareholder should own more than 49 percent of the total shares, according to the CSRC. "The new policy is to fulfill the Chinese government's pledge at the fourth China-US Strategic and Economic Dialogue in June and to promote the opening of the securities industry," an official from the commission said at a news briefing.

The regulation also lowered the standards for Sino-foreign securities joint ventures to expand their business scope. Joint ventures can apply for new services after two years' operation, compared with five years in the past, the CSRC said. Their scope can be expanded into brokerage services and financial consultancy, alongside the investment banking business. "Shareholders from Hong Kong, Macao and Taiwan should follow the same regulation, and we are promoting the business opening for those three regions," the official added.

The business performance of 11 Sino-foreign securities joint ventures was lackluster this year, influenced by the gloomy stock market and economic slowdown. In the first six months of this year, only three of the 11 securities joint ventures gained a total of five IPO underwriting projects, raising 4.96 billion yuan ($781 million), according to data from Wind Information Co Ltd. In the A-share market, 33 securities companies raised 73.4 billion yuan by underwriting 108 IPOs in the first half. The expanded shareholding ratio for foreign capital and the companies' enlarged business scope may improve their performance in the Chinese market.

Source: Chen Jia: Securities JVs get nod to expand business, China Daily, 2012-08-25

CDB chief leads China’s thrust overseas

The red carpet is invariably rolled out whenever delegations from China Development Bank land in developing countries to vet potential lending projects, especially when the bank’s chairman Chen Yuan leads the group. That is because few banks in the world can match CDB’s ability to write big cheques. The Chinese group has lent tens of billions of dollars to projects from Angola and Brazil to Australia and Venezuela. It is also why Mr Chen is treated like royalty when he shows up overseas. Arguably the most important banker in China, Mr Chen is venerated at home as well. He and his bank have financed the construction of the most ambitious infrastructure the
world has ever seen as well as almost every important project in China, including the Three Gorges Dam. Today the bank Mr Chen has built up since he left the People’s Bank of China in 1998 is the most powerful financial institution in China. It has total assets of close to Rmb6.25tn ($984bn), earned profits of Rmb46bn last year, and says it has offices in more than 130 countries. CDB is at the heart of China’s increasingly powerful global money machine. Its ever expanding footprint across the world comes at the same time as banks in the developed world are pulling back. The contrast is especially dramatic in Latin America, the backyard of the US.

Much of CDB’s lending is determined by the State Council and the National Development and Reform Commission. “CDB remains an extension of the government,” says Charlene Chu who is in charge of rating Chinese banks for Fitch Ratings. “Commercialisation is off the table for CDB.” At the same time, though, it appears almost schizophrenic in its lending, as it balances its policy lending obligations with its commercial ambitions. For example, CDB has become the most active provider of leveraged finance for buyout deals. When the Hong Kong Stock Exchange bid for the London Metal Exchange this year, it turned to CDB for funding. CDB has also financed several small Chinese companies wishing to delist in the US, among them Fushi Copperweld, China TransInfo Technology, China Security & Surveillance Technology and Harbin Electric. The bank funds these loans not through deposits but by issuing bonds that other banks are obliged to buy in the interbank bond market – more than Rmb1tn last year alone with a total of Rmb4.5tn outstanding, according to its latest annual report. Because its funding costs are lower than those of rivals, the bank can undercut competitors. That is one reason other banks resent CDB. “When they show up, we just run away,” says the head of one mainland bank group.

Mr Chen has been thwarted in his desire to take stakes in international banks: after he bought a small stake in the UK’s Barclays in 2007, regulators vetoed his bid for stakes in Citigroup in the US and Dresdner in Germany. “Nobody knows what the path will be for CDB,” says Ms Chu of Fitch. “But it will be different.”

Source: Henny Sender: CDB chief leads China’s thrust overseas, Financial Times, August 23, 2012

Obama should pray that China overtakes US

Fellow Financial Times columnist Niall Ferguson has received some fierce criticism for a piece he wrote in Newsweek, under the provocative headline: “Hit the road, Barack”. Among various complaints, critics cried foul over a graph showing that the International Monetary Fund predicts that, on current trends, China will overtake the US to have the world’s largest economy in 2017. Indeed, US business and the US economy desperately need China to keep growing. Mr Obama need not be embarrassed when China’s economy overtakes that of the US; but he should lose a lot of sleep over any suggestion that China might fail to do so.

On that basis, China should be causing sleepless nights in the White House. The latest flash estimates for China’s purchasing manager data are now at a nine-month low of 47.8. Western analysts are notoriously nervous of official Chinese data. However, commodity prices are something of a truth teller. Iron ore prices, driven almost exclusively by Chinese demand, have fallen by a third since April. Copper prices are also mired in decline. Stock markets, too, are raising red flags. China’s domestic stock market is the most eye-catching. The Shanghai Composite index this week dropped to a low last seen in March 2009 – the month the developed world’s stock markets started their great recovery. It is down 66 per cent from its 2007 peak, and
has underperformed the S&P 500 by 32 per cent since the beginning of last year.

Goldman Sachs produces a quarterly “beige book” compiling managements’ comments during their investor briefings. One of the clearest themes of the latest edition is concern over global growth, which largely comes from China. Caterpillar, for example, said that it was lowering production there and intended to cut production further. The greatest hope of optimists among executives, at least as parsed by Goldman, is that China can rebound and execute its growth shift successfully. United Technologies, for example, rhapsodised over the possibilities for growth in demand over the next 15 years. IBM reported very strong growth in computer sales. The upshot for the US is clear. Everyone needs to be offering up a prayer that China does indeed overtake the US on schedule, three years from now. That would help Americans grow richer.

Source: John Authers: Obama should pray that China overtakes US, Financial Times, August 26, 2012

Yuan Might Depreciate Against Dollar by Year-End

Economists and strategists have trimmed their forecasts on the yuan’s value after a slew of disappointing China data that included trade figures, triggering thoughts that Beijing may further weaken its currency to encourage exports. Now, however, they are tipping the yuan to stay flat or even depreciate slightly in the medium term, after the data last week which showed a narrowing July trade surplus for China and dampened hopes of a rebound story for the world's second-largest economy.

Given that and amid the country's sharp slowdown in export and import growth, a smaller trade surplus is expected this year and "the appreciation pressure for the [yuan] should lessen," said Liao Qun, chief economist at Citic Bank International Ltd., the Hong Kong unit of China Citic Bank Corp. Mr. Liao now expects the yuan to be flat against the U.S. dollar by the end of 2012, compared with his earlier forecast of a 1% rise for the Chinese currency. Societe Generale has also lowered its forecast for the yuan. It now tips a 1% depreciation against the greenback instead of expecting the currency to be flat, and said the dollar/yuan is likely to reach 6.3500 by the end of this year, compared with 6.2940 late last year. Analysts also said it is becoming more difficult for the U.S. to urge China to strengthen the yuan's value as the Chinese currency has already risen 23% against the greenback since China started its currency reforms in 2005. "The shifting balance of flows and also the increasingly two-way nature of [U.S. dollar-yuan] price action, support the view that [the yuan] is much closer to equilibrium value than it has been for many years," HSBC said in its latest report on Asian currencies.

Source: Fiona Law: Yuan Might Depreciate Against Dollar by Year-End, Wall Street Journal

Investors Shift Money Out of China --- New Figures Show Capital Leaving Amid Concerns Over Nation's Growth Prospects; Real-Estate Buyers Also Look Abroad

Investors and companies are increasingly pulling money out of China and its currency in a vote of concern over its growth prospects, a development that could hinder Beijing's efforts to spark a turnaround. New data published by China's central bank Tuesday showed China's banks were net sellers of 3.8 billion yuan ($597 million) in foreign exchange in July, suggesting that China's exporters aren't converting their dollar earnings into yuan and some investors are taking funds out of the country.

Meanwhile, the outflows are contributing to high prices for luxury apartments in Hong Kong and
bringing Chinese buyers into property markets as far-flung as London, Singapore, and San Francisco. Calvin Sheng, an IT consultant, recently shelled out 2.5 million yuan for an apartment in Melbourne, Australia. "I just went to the bank, bought the Australian dollars I needed for the down payment and transferred the funds to Australia," said Mr. Sheng.

Reduced flows of funds into China's financial system make it more difficult for banks to make loans, and complicate Beijing's attempts to kick-start lackluster growth. China's central bank has injected more than 1.4 trillion yuan into China's financial system so far this year, but bank lending remains subdued. "From the second half of 2011, the worsening European crisis, shocks to the global financial system, and deleveraging caused a flight to safety, with short-term capital flows leaving emerging markets and flowing into the U.S.,” Chinese government researcher Zhang Ming wrote in a recent note. "These flows gave the Chinese economy a shock."

Some of that includes money from private investors increasingly interested in shifting money abroad, though the exact amount is difficult to track. Ann Li, who works in media in Hong Kong, has just purchased an apartment in Hong Kong, which is outside China's capital controls. "We think it is a good asset allocation," Ms. Li said. "My parents have houses and investments in the mainland, so we are buying this house in Hong Kong. We also have concerns about property rights and the political outlook in China."


**China Eyes Ways to Broaden Yuan's Use**

China aims to turn a trickle of cross-border trade that is settled in yuan into a stream, with Latin America and the Middle East as the next possible focal points, Hong Kong’s U.S. envoy said. Donald Tong, Hong Kong's U.S.-based commissioner for economic and trade affairs, said officials are quietly working on developing new yuan financial centers. "My colleagues in Hong Kong have been working very closely with Beijing whereby we could enhance the use of renminbi," Mr. Tong said in an interview, using another word for the Chinese currency. In addition to fresh engagement with trading firms in Latin America and the Middle East, China is talking with companies in the U.K. and Australia to broaden the currency's use beyond Hong Kong and Singapore, he said, without giving a timeline.

China's strategy for broader use of the yuan in international commerce is part of a push to have the yuan considered a reserve currency and alternative to other major currencies, including the U.S. dollar. But even the most optimistic economists say that the yuan becoming a reserve currency is a difficult process that would likely take years, if not a decade or so. The internationalization drive began in 2009, and yuan trade settlement has exploded in the past year. Some market analysts expecting it to run between $350 billion and $450 billion in 2012, Mr. Tong said. That compares with yuan settlements of about $300 billion last year and only around $300 million in 2010. One political challenge is that larger demand for yuan will put more upward pressure on the currency, eroding an export advantage for Chinese manufacturers. Growth in China is also slowing, which will likely translate into lower trade-growth figures.

Drop in China trade growth stirs concern

Chinese export and import growth slowed markedly last month, flashing warning signals about both the domestic and the global economy. Exports rose 1 per cent year on year in July, a six-month low and down from an 11.3 per cent pace in June. Well below expectations, the figure indicated flagging external demand. Imports were up 4.7 per cent, dipping from June’s 6.3 per cent pace and pointing to a slackening in China’s appetite for commodities. China was left with a $25.1bn surplus, a two-month low.

After the weak factory data on Thursday, analysts said that Beijing would deploy both monetary easing and fiscal spending to prop up growth. The poor showing on exports also fuelled calls for the government to act on trade by letting the renminbi depreciate.

Source: Simon Rabinovitch in Beijing: Drop in China trade growth stirs concern, Financial Times August 10, 2012

EAST ASIA: Trade strategies will shape region’s future

Trade diplomacy is rising as a foreign policy priority for East Asia's major economies, which see free trade agreements (FTAs) as increasingly crucial for cultivating international influence and positioning their businesses for global competition. East Asia's prospects for future growth are associated with regional integration, especially with widening the scope and deepening the content of trade and economic agreements. Its lagging regional integration risks becoming a competitive disadvantage versus Europe and North America.

Two possibilities are under discussion: East Asia FTA (EAFTA). This would comprise ASEAN plus Japan, China and South Korea (ASEAN+3); and Comprehensive Economic Partnership for East Asia (CEPEA). This would comprise the countries above, plus India, Australia and New Zealand (ASEAN+6). Japan has proposed a scheme called the Comprehensive Economic Partnership for East Asia (CEPEA) comprising ASEAN plus China, Japan, South Korea, India, Australia and New Zealand (ASEAN+6). Tokyo insists on the participation of the latter three because: it seeks to counterbalance the rapidly growing influence of China; and since all three are mature parliamentary democracies, such an agreement would be more acceptable to Washington, Japan's major ally, than an ASEAN+3 alternative that excludes them.

Beijing's initial preferences were for: an ASEAN+3 region-wide FTA (Beijing was not at all enthusiastic about widening the range of participants to include the three Anglophone democracies); and a focus on trade in goods, excluding services, investment, IPR and labour issues. However, Beijing recently made substantial concessions to Japan, showing readiness to compromise on both scope and makeup and, in effect, accepting the CEPEA scheme with the doors open for other countries to join later. An August 2011 meeting of ASEAN+3 economic ministers produced a China-Japan joint initiative to accelerate creation of the region-wide FTA and conclusion of a comprehensive economic partnership agreement (EPA). The latter, which Japan favours, would have much greater scope -- EPAs can, for instance, include provisions about labour. Beijing's new flexibility stems from wariness of the TPP (perceived as a tool to contain China's influence) and, more broadly, growing US involvement in the region, economically and diplomatically (see US/ASIA: 'Pivot' strategy faces challenges - June 18, 2012). Washington may also hope that by taking the initiative on TPP membership it can shape the rules so that if China eventually wants to join it must accede to higher standards or tougher regulations (see US/ASIA: Washington's regional strategy turns on trade - February 28, 2012). This could threaten the very
foundations of China's industrial-political relationships if it affects, for example, state-owned enterprises or government procurement. Therefore, Beijing aims to draw Tokyo into East Asian initiatives rather than the TPP. This is also a major motive for Beijing's increasingly proactive stance on the trilateral FTA with Japan and South Korea. Tokyo's official position is that the latter is as important as the TPP and will be pursued in parallel.

**Conclusion:** The pressing issue is 'competition' between two schemes: the TransPacific Partnership (TPP) and a trilateral agreement involving Beijing, Seoul and Tokyo. The most probable is a Washington-led TPP with nine members, with Tokyo perhaps joining later. Tokyo's worst scenario is the TPP expanding without it while a (politically straightforward) Seoul-Beijing bilateral FTA dims the prospects for a trilateral accord. Tokyo may adopt (or feign) a proactive posture on the TPP to win concessions from Seoul on a trilateral accord and to prevent Seoul and Beijing signing a bilateral agreement.


**World News: Trade Slowdown Squeezes Asia --- Effects from Chinese Falloff Ripple Through the Region; 'Crisis Management Should Be Stressed'**

The effects of slowing demand in China are rippling through countries that supply its larger neighbor with anything from commodities to electronic parts, highlighting an accelerating trade slowdown across Asia. China's July trade figures, out Friday, showed exports at a near standstill, and import growth was also anemic at 4.7%, a signal that China's slowdown is trickling down to its buying from other nations. China's imports from members of the Association of Southeast Asian Nations were actually down -- off 0.6% in July from a year earlier.

Much of China's trade weakness can be attributed to disappearing demand in the developed world. Compared with a year earlier, China's exports to the EU in July were down 16% and its exports to Japan down 1%. Its exports to the U.S. were almost flat, up just 0.6%. Price declines for such commodities as oil, copper and coal were a factor, as trade is measured by value rather than volume. Compared with the 2008-09 financial meltdown, when trade plummeted, the current falloff has been mild. But its impact on growth is noticeable in places such as Singapore, Hong Kong and Taiwan. Singapore reported revised second-quarter GDP figures Friday showing the trading hub's economy shrank 0.7% in the second quarter on an annualized, seasonally adjusted basis. As China, Japan and India, the continent's top economies, struggle to varying degrees, their pain is transmitted to their trading partners. Japan bought just 5% more from the rest of Asia in the first half of 2012 than in the year-earlier period, a major shift from the double-digit growth of recent years. As spending on recovery from last year's earthquake tails off, Japan imports could further decline.


**China Trade Benefits**

Democrats and Republicans don't agree on much in this polarizing election year, but one exception is trade with China. Nearly every politician seems eager to claim on the stump that the scheming Asian giant is hurting U.S. living standards. So it's worth noting a new analysis by the
U.S.-China Business Council that shows how America's individual Congressional districts gain from trans-Pacific trade. The results show a striking dissonance between the anti-China rhetoric and business on Main Street.

Republicans such as Frank Wolf of Virginia, John Shimkus of Illinois and Joseph Pitts of Pennsylvania have all signed onto the latest legislative effort to punish Beijing for its alleged currency manipulation. But their districts’ goods exports to China have increased by 536%, 686% and 640%, respectively, over the past decade -- much faster than exports to the rest of the world. Then there are the states. New York and South Carolina, home to Senators Chuck Schumer and Lindsey Graham of China-is-a-currency-manipulator fame, have seen export booms in the years since China joined the World Trade Organization: 472% for the Empire State and 2,261% for the Palmetto State. That counts only the trade in goods. The latest data for services aren't out, but historically the U.S. has run a trade surplus with China in services. Of particular interest to Presidential candidates, the election swing states Pennsylvania, Ohio and Michigan all make the list of top-15 state exporters to China in dollar terms, with export growth of 1,177%, 838% and 1,169% respectively over the past decade.

Roughly 55 cents of every dollar that Americans spend on "Made in China" products goes to the Americans who design, ship and market those products, according to a study last year by economists at the San Francisco Federal Reserve. This is in addition to the boost to standards of living as import competition checks price increases for consumer goods.

All of this is a reminder that free trade is a bedrock of American prosperity, and that it should be a bipartisan priority. U.S. leaders can and should press China to continue opening its economy to trade, not least for the benefit of the Chinese. But protectionist policies would only hurt millions of U.S. companies and consumers who benefit from the China trade.


**Processing trade surged in past decades**

China's processing trade totaled $1,305.21 billion in 2011, a surge compared with the $235 million trade value in 1979, said the General Administration of Customs. High-tech products accounted for 44.9 percent of processing trade in 2011, compared with 26 percent in 2002. Head of the customs Yu Guangzhou said that it is of crucial importance to transform and upgrade the domestic processing trade as global processing trade is facing the world's economic slowdown. The government will urge processing trade companies to relocate from eastern regions to the undeveloped western regions and promote services trade as well as strategic emerging industries to re-balance processing trade.

Source: Li Jiabao: Processing trade surged in past decades, China Daily, 2012-08-21

**Price Wars Seen Hurting Solar Sector In China**: [Business/Financial Desk]

China's solar panel manufacturers, who dominate global sales with a two-thirds market share, are confronting growing trade and financial problems, a Chinese industry official acknowledged Tuesday, shortly before one of the industry's largest companies, Trina Solar, announced weak results for the second quarter. The United States Commerce Department has already imposed preliminary antidumping and antisubsidy tariffs on Chinese solar panels totaling more than 33 percent, although the tariffs are subject to a review by the department this fall that could raise,
lower or even repeal them. A coalition of solar manufacturers in Europe has asked the European Union to impose antidumping tariffs.

Trina Solar, one of the largest Chinese solar manufacturers, announced Tuesday that it had lost $92.1 million on sales of $346.1 million in the second quarter. Price wars in the industry eroded overall revenue, even as the volume, measured by wattage of solar module shipments, continued to increase.

The Chinese Commerce Ministry has complained repeatedly, most recently in a statement Monday, that renewable energy programs by five state governments in the United States discriminate against imports from China, but it has not said whether it might file a challenge with the World Trade Organization. The ministry is also investigating a complaint from Chinese industry that the United States is exporting polysilicon, the main ingredient for solar panels, at prices below manufacturing costs.


**Premier Wen urges to stabilize export growth**

Premier Wen Jiabao said China should carry out targeted efforts to steady export growth so the country can hopefully meet this year's economic and social development goals. During an inspection tour to the southern province of Guangdong, the country's major exporter of goods, Wen said China should place high attention to the difficulties and uncertainties facing exports, which had taken a hit from the economic global climate. "The third quarter of the year is a critical period for China to realize the year's export growth target and we should take targeted steps to stabilize growth," Wen said. His latest remarks came as export growth slowed sharply in July to a six-month low following dwindling demand from Europe and Japan. Exports rose 1 percent year-on-year to $176.9 billion in July, plummeting from the 11.3-percent growth seen in June, official data showed.

Source: Xinhua: Premier Wen urges to stabilize export growth, 2012-08-27

**Economic woes hit processing**

Global economic woes will cause grim and complicated conditions for China's processing trade in the second half of 2012, a senior official predicted on Tuesday while announcing details of a fair for members of the sector. Waning demand from other major economies and the simmering eurozone debt crisis are the main factors weighing on China's processing trade, which is vulnerable to a slowdown in external demand, Jiang Yaoping, vice minister of commerce, said in Beijing at a news conference about the China Processing Trade Products Fair. The event, the first of its kind, is scheduled to run from September 16 to 19 in Dongguan, south China's Guangdong province. It will aim to create a platform to help export companies shift more focus to China's domestic market.

The exports and imports of China's processing trade totaled $753.21 billion in the first seven months this year, up 3.1 percent year-on-year. However, in July alone, exports for processing trade fell 5.6 percent over a year earlier while imports edged up 0.2 percent.

Related Stories
Source: Xinhua: Economic woes hit processing sector, 2012-08-29
Playing Peekaboo With Audit Watchdog

Investors can only hope the U.S. audit watchdog will bite, even if it doesn't bark. This month, the Chinese affiliate of Big Four accounting firm KPMG converted from a joint venture with the international firm to a local business with a majority of Chinese partners. Mandated by the Chinese government, the move marked a big change. In that case, the affiliate seemingly should have sought a new registration with the U.S. Public Company Accounting Oversight Board. Instead, it sought to effectively transfer its existing registration so that it can continue audit work for U.S.-listed Chinese companies or Chinese units of U.S. multinationals.

The problem it sought to sidestep: The oversight board likely wouldn't approve a new registration because China continues to block it from inspecting local audit firms. That could have left some multinational companies with China operations and Chinese companies listed in the U.S. without a registered auditor in China.

Now, the onus is on the board, especially because Chinese affiliates of other firms likely will pursue similar moves. The KPMG affiliate's filing to continue as an existing registered firm doesn't require approval. But the board could object if there was a significant change in its structure, which seems to be the case. So far, the board has been mute. It may be biding its time as Chairman James Doty negotiates with the Chinese government in hope of reaching an accord on inspections by year's end. But if the board stays silent too long, and gets played by the Chinese government, investors will be the losers.


China Scolds U.S. Over Iran-Related Bank Sanctions

China on Wednesday urged the U.S. to revoke its sanctions against Bank of Kunlun Co., a unit of state-owned China National Petroleum Corp., and warned that the move would damage China's interests and Sino-U.S. relations. U.S. sanctions against Chinese financial institutions "badly violate rules governing international relations and hurt China's interests," Chinese Foreign Ministry spokesman Qin Gang said in a statement on the ministry's website. "China is strongly dissatisfied, is firmly opposed to it and will raise solemn representations to the U.S. from both Beijing and Washington."

The sanctions against Kunlun are the latest attempt by the U.S. to ratchet up pressure on Iran to prevent it from acquiring nuclear weapons. Earlier this year, the U.S. sanctioned Zhuhai Zhenrong Co., China's largest importer of Iranian crude oil, alleging that it exported gasoline to Iran in 2010 and 2011--an allegation that Zhuhai denied.

"The [Kunlun] sanctions are largely symbolic...they are very much parallel to the sanctions on Zhuhai--aimed to placate critics but unlikely to significantly impact investments by CNPC," said Michal Meidan, an analyst at political risk consultancy Eurasia Group. "This shouldn't negatively impact U.S.-China relations," she added.

Mr. Qin said Wednesday that China and Iran have normal, fair and transparent business relations in the areas of energy and trade, which "have nothing to do with Iran's nuclear plans" and are "not in violation of U.N. Security Council resolutions." China's position on nuclear nonproliferation is "firm and consistent," and the country is committed to finding an appropriate solution regarding the Iranian nuclear issue together with the U.S., Mr. Qin said.

Kazakhstan/China economy: Chinese investment in Kazakhstan brings benefits

As Sino-Kazakh economic co-operation expands and Chinese investors look beyond their traditional terrain in the oil and gas industry for opportunities, Kazakhstan is starting to reap long-term infrastructure benefits from these economic links. Most Chinese investment in Kazakhstan to date has reflected China's interest in tapping into natural resources, and is concentrated in the oil and gas, metallurgy and minerals sectors. As a result of aggressive energy sector investment, China controls around one-fifth of the Kazakh energy market. Nevertheless, Kazakhstan's effort to entice foreign investors into non-energy sectors to promote economic diversification and stave off "Dutch disease"—whereby overreliance on energy revenue stunts economic development, harming the export competitiveness of non-oil sectors—is paying dividends. As Chinese investment diversifies into other sectors, notably industry and transportation, Kazakhstan is benefiting from improved infrastructure and better transport links.

China has invested around US$13bn in Kazakhstan since independence, accounting for around 11% of total foreign direct investment (FDI) since 1991. Trade with China has soared in recent years, rising in 2010 by 45% year on year, to US$20bn. The two countries issued conflicting statistics on bilateral trade in 2011 (US$25bn according to Chinese figures; US$21bn according to Kazakh statistics), but they have pledged to boost trade to US$40bn by 2015. This will require greater non-energy investments from China in the Kazakh economy. In order to boost trade, the two countries signed a currency swap deal worth US$1bn in 2011, allowing them to trade without recourse to a third currency. China overtook Russia as Kazakhstan's largest export market in 2011, with US$14.7bn of exports (18.5% of the total). The bulk is oil and oil products (20% of oil produced in Kazakhstan is exported to China), but Chinese investors are increasingly entering sectors outside natural resources. Highlighting these diversified investments, one-half of a US$10bn assistance package extended by China to Kazakhstan in 2010 was earmarked for projects outside the energy sector, in transport, telecommunications and agriculture.

Kazakhstan's economic diversification plans are underpinned by the Accelerated Industrial-Innovative Development Strategy, running to 2015. The flagship Sino-Kazakh industrial project is the free-trade zone under construction at Khorgos on their border, 360 km north-east of the Kazakh financial capital, Almaty, and 670 km from Urumqi, the capital of the Xinjiang province in China. On the other side of Kazakhstan, Chinese entrepreneurs are investing in the special economic zone at the Caspian Sea port of Aktau, where the Urumqi Economic and Technological Development Zone and the Xinjiang Sanbao Industry Group are building a China Industrial Park. Kazakhstan has attracted Chinese investors into the power-generation sector. The Moynak hydropower station near Almaty, which opened in early 2012, was built by the China Gezhouba Group on a US$727m contract, with the China Development Bank extending loans of US$200m towards construction.

Sino-Kazakh economic co-operation plays an important role in Kazakh efforts to improve transport infrastructure in order to position itself as a transit hub linking Asia with Europe. Economic co-operation with China is thus benefiting Kazakhstan by bringing shared know-how, infrastructure improvements, rural development and integrated transport links, boosting the Kazakh authorities' strategy of positioning Kazakhstan as a transit hub. We forecast that Chinese investment in Kazakhstan will increase as the Kazakh authorities grow increasingly keen to attract
further FDI into key sectors, including the chemical and pharmaceutical industries, telecoms, and agriculture.

Energy sectors remain major focus of China's ODI

Outbound direct investment made by China's energy and resources industries reached around $239 billion from 2005 to the first half of 2012, accounting for 71 percent of the country's ODI, according to a report issued Wednesday by Ernst & Young. China's ODI skyrocketed from $10 billion in 2005 to nearly $73 billion in 2011, the report said. In recent years, China has diversified its ODI from energy industries to the agriculture and technology sectors. Eighty-two percent of China's ODI went to energy industries in 2009, but the proportion fell to 60 percent in the first half of this year. However, outbound investment in the agriculture and technology sectors, which accounted for just 2 percent of total ODI in 2009, jumped to 17 percent in the first half, according to the report. Many Chinese companies polled in the survey said they may take advantage of European economic woes by acquiring undervalued assets. Thirty percent of companies polled pointed to Western Europe as their top investment destination, while 22 percent of companies saw the United States and Canada as best places to invest.
Source: Xinhua: Energy sectors remain major focus of China's ODI, 2012-08-09

Firms need 'smart strategy' in overseas investment

To sustain growth and move up the value chain amid global economic uncertainty, Chinese multinationals need to have a smart strategy in promoting overseas investment, Supachai Panitchpakdi, Secretary-General of the United Nations Conference on Trade and Development said in Hong Kong on Wednesday. As an already favorite destination for foreign direct investment, China is "a key source of overseas investment as well," Panitchpakdi made the remarks in a keynote speech at the 2nd China Overseas Investment Summit at the Hong Kong Conference and Exhibition Center, while indicating over the past decade, China's outward investment has grown by 25 percent, outpacing the increase of 6 percent for traditional investors from developed countries. "As a result of this rapid expansion, China now ranks 9th among the top 10 investing countries globally with FDI outflows in 2011 outstanding at $65 billion," he said, noting that the majority of them went to developing economies, especially those in Africa and Asia.

However, despite Chinese firms coming a long way in improving their competence in expanding global presence, more needs to be done. "Chinese transnational businesses should move up the value chain... As Chinese economy becomes more knowledge and capital-extensive, there may be advantages for Chinese firms to relocate labor-extensive activities to other developing countries, particularly African nations, which, with an emerging population and a large market, could prove a real opportunity for Chinese manufacturing and services firms," he told a packed hall. In this process, Chinese companies should seek to diversify their focuses and investments in Africa, for instance, extending from natural resources and construction industries to automobiles, IT, electronics, solar power sectors, etc. "I would urge Chinese business leaders to avoid mistakes made in the past by some multinationals. Environmental damages and social conflicts can, and will, hamper the global operations of that company," the secretary-general stressed. Therefore, it is essential for Chinese businesses to take corporate social responsibility very seriously. "Chinese
firms must make sure not only shareholders, but all the stakeholders, must be positively aware of the commitment regarding environmental, social and governance issues," he said, adding that investing in human resources, instead of simply making use of them, is of great significance to enhance the competitiveness and sustainability of transnational corporations.

Source: Xinhua: Firms need 'smart strategy' in overseas investment, 2012-08-22

Win-win situation for China to invest abroad

Successful Chinese investments abroad can create a "win-win situation not only for China but for those countries," Executive Director of SelectUSA Steve Olson said during an exclusive interview on Thursday. "China and the United States are the two most important economies in the world," said Olson, adding that China has a very important role to play in overseas investment. Established by the US President Barack Obama in 2011, SelectUSA is the first-ever federal-wide effort to facilitate business investment as an engine for job growth and economic development. The initiative is housed in the US House of Commerce Department and coordinates investment-related resources across US federal agencies. Although the initiative is quite new, it's a long standing policy that the United States is open for foreign investment, Olson said, "President Obama, by creating SelectUSA, has provided tangible signal that we are open to investment," he told Xinhua.

Olson believed now is a "fabulous time" for Chinese companies to invest in United States amid the economic downturn. Moreover, economic development organizations in the United States are incentivized to attract investment to create jobs. "There are opportunities to be had in every state of the United States," he said. According to Olson, the United States has the largest fully developed consumer economy in the world. With 315 million consumers at home, it has access to another 420 million international consumers through free trade agreement. "To establish a company as a global brand, it will be located and produced in the United States," he argued.

Olson said as the center for capital and investment flows across the world, Hong Kong can play a critical role in facilitating companies from the mainland China to invest overseas. "There are highly developed financial institutions and service providers here that can be an important intermedia for the Chinese investors, large or small, going to the United States," he noted.

Source: Xinhua: Win-win situation for China to invest abroad, 2012-08-23

China: UNCTAD chief: Chinese firms need "smart strategy" in overseas investment

To sustain growth and move up the value chain amid global economic uncertainty, Chinese multinationals need to have a smart strategy in promoting overseas investment, Supachai Panitchpakdi, Secretary-General of the United Nations Conference on Trade and Development (UNCTAD) said here Wednesday. As an already favorite destination for foreign direct investment (FDI), China is "a key source of overseas investment as well," Panitchpakdi made the remarks in a keynote speech at the 2nd China Overseas Investment Summit at the Hong Kong Conference and Exhibition Center, while indicating over the past decade, China's outward investment has grown by 25 percent, outpacing the increase of 6 percent for traditional investors from developed countries. "As a result of this rapid expansion, China now ranks 9th among the top 10 investing countries globally with FDI outflows in 2011 outstanding at 65 billion U.S. dollars," he said, noting that the majority of them went to developing economies, especially those in Africa and Asia.
However, despite Chinese firms coming a long way in improving their competence in expanding global presence, more needs to be done. "Chinese transnational businesses should move up the value chain... As Chinese economy becomes more knowledge and capital-extensive, there may be advantages for Chinese firms to relocate labor-extensive activities to other developing countries, particularly African nations, which, with an emerging population and a large market, could prove a real opportunity for Chinese manufacturing and services firms," he told a packed hall. "The two-day conference themed "Global Economic Transformation and New Approaches to China's Overseas Investment" was opened here Wednesday."