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*Chinese investment in central and eastern U.S. to Attract Up to $400 Billion in China Investment by 2020 with California a Top Target*
GDP accounting methods to be revised

China will revise its gross domestic product accounting methods in line with international standards, the National Bureau of Statistics said. The bureau told Xinhua News Agency on Tuesday that China’s current methods are derived from the 1993 version of the United Nations System of National Accounts, which was revised in 2008. The bureau is studying the 2008 version and will gradually revise the system in line with it. The bureau said some revisions have already been introduced regarding the third-quarter data, which was released in a more detailed manner, with accounting methods publicized. The bureau also said quarterly GDP data will be adjusted several times after initial publication and users should adopt the latest version.

Source: Xinhua: GDP accounting methods to be revised, 2012-11-01

Income distribution reform an imminent task

As China accumulates wealth during its rapid economic development, it is crucial to narrow the widening earnings gap through income distribution reform. Last month, the State Council, or the Cabinet, decided to establish an overall income distribution plan by the end of the year, and observers have pinned high hopes on the upcoming 18th national congress of the CPC, which is scheduled to open on November 8. According to officials close to the reform, the plan will focus on improving earnings for low-income groups and capping high wages by breaking up monopolies through opening up state sectors to private investors. It will also regulate the sectors by levying higher tax rates on state-owned enterprises.

China has been working on income distribution reform since 2004, but people's expectations have not been met. State-run monopolized sectors have become a major target of public complaints. An official report showed that some managers from state-owned enterprises earned thousands of times more than migrant workers last year, signifying widening incomes. However, the income gap is becoming ever wider along the road of development, as everyone in society can feel it. According to media reports, the number of China's super rich ranks second in the world, only after the United States.

Unfair income distribution has been seen by many economists as a major obstacle in deepening the country's economic reform and transformation of its mode of growth. The widening income gap has resulted in increasing public complaints and sometimes social conflicts, and to some extent undermined the popularity of the government among the people. China has successfully solved people's food and clothing problems but there is still a long way to go in building a well-off society in an all-round way. Making more people share the fruits of economic development will be a crucial step toward that goal.

Source: Xinhua: Income distribution reform an imminent task, 2012-11-02

China's inflation rises 1.7% in Oct

China's consumer price index, the main gauge of inflation, grew 1.7 percent year-on-year in October, the National Bureau of Statistics announced on Friday. The inflation rate, which dropped to its slowest pace since January 2010 in October, dropped from 1.9 percent in September and 2 percent in August. On a month-on-month basis, October's CPI fell 0.1 percent from the previous month, according to a statement posted on the website of the NBS. Food prices, which account for nearly one-third of the weighting in the calculation of China's CPI, rose 1.8 percent last month from one year earlier. This was down from the 2.5-percent increase logged in September. Prices for pork, the country's staple meat, slumped 15.8 percent year on year in October due to abundant supplies, dragging the CPI down 0.6 percentage points.

China's producer price index (PPI), which measures inflation at the wholesale level, dropped 2.8 percent year on year in October. It marked the eighth straight month of decline after the PPI dropped in March for the first time since December 2009. The PPI data was in line with the country's latest purchasing managers index (PMI), which rose to 50.2 percent in October from 49.8 percent in September, suggesting that manufacturing activity has improved. In order to buoy growth, the central bank has cut reserve requirement ratios (RRR) twice this year. It has also lowered benchmark interest rates twice.

Source: Xinhua: China's inflation rises 1.7% in Oct, 2012-11-09

A decade of achievement

The decade since the 16th National Congress of the Communist Party of China in 2002 has been an extraordinary period of growth. The world is undergoing extensive and profound changes, and the country is also going through a wide-ranging and deep transformation. China's economic strength has increased substantially, and major breakthroughs have been made in reform and opening-up. Both urban and rural incomes have risen considerably. Living standards are significantly higher, and China has increased its involvement and cooperation with other countries in a number of fields. It has also started to play a major role in international affairs. However, while those achievements have brought opportunities, they have also prompted unprecedented
challenges, including in environmental protection and social welfare. We have brought together three personal stories, together with statistics from various fields, including macroeconomics, the development of science, and household consumption, to demonstrate the level of progress during the past 10 years.


**Heading for rejuvenation**

The “road Toward Rejuvenation” exhibition was a well-thought-out, and very fitting, venue for Xi Jinping, general secretary of the Communist Party of Central Committee, to share his thoughts on the Chinese Dream. The exhibition graphically illustrates the nation’s and the Chinese people's tenacious fumbling for directions in the past decades, its frustrations as well as achievements. Realizing the great rejuvenation of the Chinese nation is the greatest Chinese Dream of modern China, Xi said. The country has never been as close to that goal, and the nation has never been so confident and capable of achieving it.

While reiterating the promises of building the country into a “well-to-do society in an all-round way” by the 100th anniversary of the CPC, and a prosperous and strong, democratic and civilized power by that of the People’s Republic, Xi warned there is a “very long way to go” to turn these blueprints into reality. The nation needs such a wake-up call from the illusion that such a day is well within reach. The day will not come without long-term and arduous toil, Xi admonished. Its realization still calls for the collective efforts of generations. The realistic aspect of the new CPC helmsman could not be more obvious when he made the statement that “empty talk harms the country, hard work prospers the nation”.

The new leadership faces many imperative tasks, from addressing rampant corruption to handling the prevailing discontent over income gaps. But Xi’s no-nonsense style has inspired high hopes that such an approach will be shared across the CPC’s ranks. However, the challenge lies in transforming talkers into doers. Hard work is the only way to fulfill the Chinese Dream.

Source: Heading for rejuvenation, China Daily, 2012-11-30 page 8

**Xi Jinping’s economic mission: Incoming leader's target to double the size of China's economy by 2020 sounds ambitious, but is achievable**

New leadership begets new policy initiatives. Mr Xi will have to come up with effective policy measures to address China’s mounting challenges on all fronts. Some reform initiatives, like those dealing with political and legal changes or corruption, would certainly look most daunting to Mr Xi. Mr Hu had also set the economic...
agenda for Mr Xi, who would have to ensure China's economy continue to grow while being restructured and rebalanced at the same time, so as to double its 2010 level of gross domestic product by 2020. China's per-capita GDP in 2020 will also double, to provide for an all-round xiaokang (moderately affluent) society.

The short answer is: Mr Xi's economic targets, though no less ambitious than his political and social reform targets, are feasible and actually achievable. THIS year marks a new turning point for China's long-term economic growth in the sense that its growth momentum has conspicuously slowed down. Third-quarter growth this year was barely 7.4 per cent, the lowest since the global financial crisis. The current slowdown is the combination of unfavourable short-term cyclical factors caused by the worsening of the global economic environment (recession in Europe and fragile US growth) and some long-term structural problems inherent in the Chinese economy itself (overcapacity, over-investment and local government debt).

China has sustained a good run of super growth for more than three decades, longer than what has been experienced by the other dynamic East Asian economies of Japan, South Korea, Taiwan and Singapore before. This is because China, being much bigger and more diverse than the other East Asian economies, has more internal dynamics to sustain high growth longer. In recent years, the Chinese government has come to realise that the country's past pattern of hyper growth is economically, socially and environmentally unsustainable. It is simply too disruptive for China and the world. Hence, the need for China to adjust itself to the prospects of lower growth.

Accordingly, China in 2020 will just be at the threshold of a developed economy with its per-capita GDP roughly the same as Japan's in 1980 (40 years behind) or Singapore's in 1990 (30 years behind). Suffice it to say that with its expected reasonably strong economic growth in the medium term, China will be able to build the necessary material base for the realisation of the xiaokang society. In this way, it will not be hard for Mr Xi to fulfil his economic mission. In fact, Mr Xi may find it easier to deliver such a society than a liberal democracy in 2020. Much like Mr Hu, Mr Xi's legacies are likely to be built on successful economic development rather than political reform.


The Conference Board Leading Economic Index(R) for China Rises Sharply in October


The Conference Board Leading Economic Index(R) (LEI) for China increased 1.5 percent in October to 245.5 (2004 = 100), following a 0.2 percent increase in September and a 1.7 percent increase in August. Five of the six components contributed positively to the index in October.

The Conference Board Coincident Economic Index(R) (CEI) for China, which measures current economic activity, increased 1.3 percent in October to 227.8 (2004 = 100), following a 0.6 percent increase in both September and August. All five components contributed positively to the index in October. The Conference Board LEI for China aggregates six economic indicators that measure economic activity in China. Each of the LEI components has proven accurate on its own. Aggregating individual indicators into a composite index filters out so-called "noise" to show underlying trends more clearly.

About The Conference Board Leading Economic Index(R) (LEI) for China The Conference Board Leading Economic Index(R) for China was launched in May 2010. Plotted back to 1986, this index has successfully signaled turning points in the economic cycles of China. The Conference Board also produces LEIs for Australia, the Euro Area, France, Germany, Japan, Korea, Mexico, Spain, the United Kingdom, and the United States.

The six components of The Conference Board Leading Economic Index(R) (LEI) for China include:

- Total Loans Issued by Financial Institutions (source: People's Bank of China)
- 5000 Industry Enterprises Diffusion Index: Raw Materials Supply Index (source: People's Bank of China)
- NBS Manufacturing PMI Sub-Indices: PMI Supplier Deliveries (source: National Bureau of Statistics)
- Consumer Expectations Index (source: National Bureau of Statistics)
- Total Floor Space Started (source: National Bureau of Statistics)
- NBS Manufacturing PMI Sub-Indices: Export Orders (source: National Bureau of Statistics)

The Conference Board
Summary Table of Composite Economic Indexes
Manufacturing in China Showed Growth in November

The Chinese manufacturing sector expanded for the first time in more than a year in November, according to the early reading of a business survey released Thursday, in the latest sign the world's second-largest economy may, for now at least, have skirted the sharp slowdown that many economists had feared earlier this year. With export demand reviving and a series of domestic stimulus measures feeding through into the economy, the giant Chinese factory sector is now finally breathing easier: a monthly purchasing managers index published by the British bank HSBC rose from 49.5 in October to 50.4 in November, climbing above the 50 mark that separates expansion from contraction for the first time in 13 months.

Relaxations on bank lending, accelerated infrastructure approvals and two small interest rate cuts have helped re-inject some dynamism, analysts said. At the same time, overseas demand for exports also has improved in recent months. At the same time, the double-digit growth rates seen before the financial crisis are now a thing of the past, and China is likely to grow at far more modest rates of 7 to 8 percent in the coming years, many analysts believe.


Chinese economy needs resolute actions

The government needs to carry out "bold and resolute" reforms in order to meet the target of doubling its GDP and residential income by 2020, according to Chinese economists. The Communist Party of China (CPC) outlined development objectives for the country for the next eight years at the recently concluded 18th National Congress of the Communist Party of China. It vowed to double China's 2010 gross domestic product (GDP) and per capita income for both of urban and rural residents by 2020. China has to maintain an average annual growth rate of at least 7.5 percent in the coming years in order to achieve the goal set by the government. Yin Xingmin, professor with Fudan University believed that reforms of the factor market, or the marketplace for basic production inputs like land, labor and capital, will play a major role in boosting China's future development. Reasonable prices and pricing systems for different factors will help rectify the overall industrial structure and steer the economy towards growth driven by efficiency and innovation. Yin said a market-oriented mechanism will help mobilize productive resources and help secure steady economic growth.

Source: Xinhua: Chinese economy needs resolute actionsUpdated: 2012-11-25

Urban push strategy has support of World Bank

The World Bank is committed to supporting the nation's unprecedented urbanization push, and looks forward to input from China on a major report on urban living, its chief said on Thursday, one day after meeting Vice-Premier Li Keqiang. Urbanization is also a major part of the "knowledge hub" project that China and the World Bank agreed to work on this week. This hub will facilitate collaboration among Chinese and international experts on important development issues. China is "advanced in its urbanization strategy," Jim Yong Kim, World Bank president said in an interview with China Daily. China and the World Bank have agreed to undertake a major project on urbanization, which is "not just for China, but also for the world," said Kim. "Many developing countries can learn so much from China's urbanization." The global financial institution will continue to offer any assistance in terms of loans and fostering an investment environment in China, Kim said. Kim met with Vice-Premier Li in Beijing on Wednesday.

Li said advancing urbanization is a priority amid the transformation of the economic growth model. Li also
said China is willing to learn from global experiences and to partner the World Bank in a joint study on the subject, hopefully involving universities and research bodies worldwide. "We expect to turn the study on urbanization into a flagship project representing cooperation (between China and the World Bank)," said Li. Kim agreed. "There are many things for China to tackle to maintain sustainable economic growth, "but Li has extremely insightful views on urbanization when he said urbanization is about services, food security, healthcare, education and retirement, and about combining all these".

Li told Kim that despite China being the second-largest economy, its growth is far from balanced and there is a wide gap between rural and urban areas. "When we advance urbanization, we will create a higher level of industrialization, use of information technology, and modernization of agriculture," Li said. This requires the nation to tackle a series of tasks, including security in grain supply, energy efficiency and further reforms, Li added. "To implement these tasks, we will have to understand the global vision and experience," and the World Bank will be an excellent source, he said. About 75 percent of the country's gross domestic product is generated in its 120 largest cities, and 350 million rural residents are expected to move into the cities over the next 20 years.

"Countries like China will have a major role" in the World Bank's transformation into a solutions bank, as "we can help China find their own solutions shape its future, provide services and infrastructure", in ways like the knowledge hub, said Kim. Kim has proposed to build the World Bank into a "solutions" bank, an organization that aims to reduce poverty and to facilitate clients in applying "evidence-based, non-ideological solutions to development challenges".

Source: DING QINGFEN in Mianyang, Sichuan: Urban push strategy has support of World Bank, China Daily, 2012-11-30

China to have 600m middle-class by 2020

China's rapid urbanization will greatly increase its number of middle-class people to 600 million and support an economic growth between 7 percent and 8 percent annually by 2020, a government think tank chief predicted here on Saturday. Speaking at a reform forum in Haikou, capital of China's southern-most province of Hainan, Chi Fulin, executive president of the China Institute for Reform and Development, said, "As urbanization will create huge domestic demand potential, China still has ample room for transition and reform for the coming decade." As more farmers are leaving their farmland and becoming migrant workers in cities and towns, China is expected to have another 200 million migrant workers living in urban areas, according to a study by the China Institute for Reform and Development. The continued urbanization and the increase in middle-class consumers will spur investment demand by at least 40 trillion yuan ($6.3 trillion) over the next 10 years, Chi said. He predicted domestic consumption will replace investment to become China's major engine driving the economy, with residential consumption in rural and urban areas expected to jump to 30 trillion yuan in 2016 from 16 trillion yuan last year.

Source: Xinhua: China to have 600m middle-class by 2020, 2012-11-05

Health care in China: Entering ‘uncharted waters’
Multinationals are flocking to take advantage of the opportunities, but long-term success is by no means assured.

China’s health-care sector continues to develop at an astonishing rate: spending is projected to grow from $357 billion in 2011 to $1 trillion in 2020. From pharmaceuticals to medical products to consumer health, China remains among the world’s most attractive markets, and by far the fastest-growing of all the large emerging ones. It is not surprising that multinationals are flocking to take advantage of the opportunities, but long-term success is by no means assured. Although we remain optimistic about the overall outlook for China’s health-care market, multinationals will find it harder to compete. We expect a clearer separation between winners and laggards. Late entrants may struggle. Three themes will shape China’s health-care market: the continuation of economic and demographic trends, further health-care reform, and the policies articulated in the government’s 12th five-year plan.

The forces behind the boom in China’s health-care market
Health-care companies have celebrated China’s robust market in recent years; it’s a bright spot compared with the lackluster conditions they contend with in many other countries. Health care expenditures in China have more than doubled since 2006, benefiting virtually every related sector.

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<th>2006</th>
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<tr>
<td><strong>Overall</strong></td>
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<tr>
<td>Total health care expenditures</td>
<td>$156 billion</td>
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<tr>
<td>Per capita health care expenditures</td>
<td>$119</td>
<td>$261</td>
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<td>Population with health insurance</td>
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<td>&gt;95%</td>
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<tr>
<td><strong>Pharmaceuticals</strong></td>
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<td>Market Size</td>
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<td>Global ranking</td>
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<td>3</td>
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<tr>
<td>Combined revenues of top 10 pharmaceutical multinationals</td>
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<td>$10 billion</td>
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<td>Number of sales reps from top 10 pharmaceutical multinationals</td>
<td>6,000</td>
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<td><strong>Other categories</strong></td>
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<td>Traditional Chinese medicine, market size</td>
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<td>$13 billion</td>
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<td>Vaccines, market size</td>
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<td><strong>Medical products</strong></td>
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<td>Global ranking</td>
<td>6</td>
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1 Value measured at ex-manufacturer price—i.e., excluding costs such as shipping and taxes.
2 2007 data.

**Source:** China Health Statistics Yearbook (2006 and 2011), China’s Ministry of Health; Chinese Pharmaceutical Association (CPA); R&D-based Pharmaceutical Association Committee (RDPAC);

**Health-care reform: A top national priority**

China’s health-care reform began in earnest in 2009. This far-reaching transformation of the system is expected to be complete by 2020. The progress, already significant, is particularly impressive in areas such as the development of infrastructure in China’s lower-tier cities and rural areas, as well as enrollments in insurance plans, through which more than 95 percent of the population now has some form of coverage. Several key aspects of reform are still bogged down: programs such as the Essential Drug List and the overall reform of public hospitals (for example, funding mechanisms). In a speech delivered in late 2011, Vice Premier Li Keqiang underscored the government’s commitment to bolstering health-care reform, whose goal is “to establish a universal basic health-care system providing safe, effective, convenient, and low-cost health-care services by 2020.” However, he acknowledged the challenges of the process, particularly for reforming public hospitals.

We believe that the next stage of reform could have a major impact on aspects of the health-care system, ranging from insurance coverage and market access to the development of the primary-care infrastructure. Here we examine each aspect.

**Insurance coverage: Broader, but how deep can it reach?**

In a few short years, China’s government insurance programs have extended coverage to more than 95 percent of the population. Coverage remains basic, however. One-third of the country’s provinces, for example, still do not provide universal outpatient coverage in basic medical insurance. Of those that do, the coverage provided is limited—in Shanghai,
outpatients are responsible for 30 to 50 percent copayments and a $240 deductible. Patients’ out-of-pocket expenses remain high overall as a result of strict reimbursement caps and low or no reimbursement for expensive drugs.

**The 12th five-year plan: The biomedical sector as a strategic industry**

In the 12th five-year plan, which the State Council published in March 2011, China’s government identifies seven strategic industries. One of them is the biomedical industry, broadly defined as including biologics and small-molecule pharmaceuticals and vaccines, as well as medical devices, diagnostics, and even traditional Chinese medicine. Collectively, these seven industries are expected to account for 8 percent of China’s GDP by 2015 and for 15 percent by 2020, up from 5 percent in 2010. Historically, government backing has significantly accelerated the growth of designated strategic industries, such as automotive. The central government is actively committed to developing the biomedical industry, and local governments are quickly following suit, so the sector is poised for rapid growth over the coming decades.

**Multinationals will team up with local companies**

The government’s push for health-care reform and 12th five-year plan, combined with unfavorable reimbursement levels for premium products and cost pressures at the largest hospitals, have prompted multinationals to look more closely at deepening or expanding their presence in China through partnerships and acquisitions. In this way, they hope to compete in the lower-tier segments and to capture productivity gains. To benefit from the experience of local companies, several multinationals have teamed up with them in pharmaceuticals, consumer health, vaccines, and medical devices.

China remains a bright spot in the global outlook for health care, but the bar to effective competition has been raised by increased government intervention and business complexity, as well as intensifying local competition. To succeed at scale, multinationals will want to increase their investments across the value chain, step up their core capabilities, and explore creative ways of reaching new customer segments through partnerships. The right combination of these methods will allow multinationals to navigate the uncharted waters of health care in China successfully.

Source: Franck Le Deu, Rajesh Parekh, Fangning Zhang, and Gaobo Zhou: Health care in China: Entering “uncharted waters” Multinationals are flocking to take advantage of the opportunities, but long-term success is by no means assured, Mckinsey Quarterly, NOVEMBER 2012 •

**Urbanization key to curing imbalances, report says**

China’s urbanization could cure its economic imbalances, a new study shows, putting it on a path to domestic consumption-led growth within five years to replace 30 years of investment and export-driven development that stoked global trade tensions. The report by consultants at McKinsey comes as International Monetary Fund (IMF) models show China’s current account surplus remains too big, despite a narrowing of global imbalances in the wake of the 2008-09 financial crisis and which IMF officials say could swell again as world economic growth recovers. "We see this as being a turning point in the Chinese economy, really for the next few decades," said Jonathan Woetzel, a director in McKinsey. "The world has only one model for economic development: modern societies are urban, consumer-driven, productivity-led and services-oriented. China, currently is none of these," Woetzel said, "but urbanization is the most crucial."

The report, "What’s Next for China," forecasts that further urbanization will see the consumer share of GDP in the Chinese economy reverse its long decline and accelerate over the next five years to see private consumption overtake investment as the biggest component of the economy by 2025. That will be driven in part by household incomes across the country growing consistently faster than GDP growth in every year from 2012 out to at least 2030. The McKinsey model forecasts household consumption rising almost three-fold from 2012
to 2030, or from a national average of 30,000 yuan (US$4,800) to 92,000 yuan over the period. That shift will fundamentally change the structure of China's economy, manifesting itself most clearly in a boom in cities, particularly smaller ones that currently have populations below 1.5 million people and which will provide 40 percent of urban GDP growth out to 2030, the report says. Services will rise to become 53 percent of GDP versus industry's 42 percent share by 2030 and the service sector's employment share will increase to 52 percent from 36 percent at present.

The risks of falling productivity and overcapacity in China worry the IMF. It sees a risk that huge spending on fixed asset investment -- currently around 50 percent of GDP having hovered above 40 percent for several years --- for an extended period could fuel overcapacity in the global economy. A pilot study into external economic imbalances published by the IMF in July showed that a narrowing worldwide since the global financial crisis was driven more by the slowing economic cycle than decisive policy action -- raising the risk that they are simply reasserted when world economic growth rebounds. Super-loose monetary policy settings at the U.S. Federal Reserve, the European Central Bank, the Bank of Japan and the Bank of England -- including quantitative easing -- are among the policy distortions that must be addressed. (SD-Agencies)

Source: Urbanization key to curing imbalances, report says, Shenzhen Daily [Shenzhen, China], 16 Nov 2012.

My part in China's war on corruption

Now China wants us all to think that it is rising above corruption. Virtually anyone who said anything at the 18th party conference that has just ended found a way to mention how much they hate it. And Beijing has diverted Wang Qishan, the west’s favourite economic reformer, from managing the economy to hunting corrupt officials. I am planning to do my bit to help him. It involves refusing to donate even one renminbi this holiday season, unless I know exactly how it will be spent. Sound simple? You’d be surprised.

My part in China’s war on corruption

After a couple of sobering experiences of charity scams at Chinese schools, I have made up my mind to avoid that orphanage in future, until I could find a way around the quilt scam. So instead, I made a trip to an institution for severely disabled children, which was prepared to donate for them. “How much did they cost?” I asked, displaying the New World naivety so despised in the ancient culture that is China. He quoted a figure that was many times their market value. I handed over the cash, he handed over the fake receipt, and another stone was laid in the edifice of corruption in China.

I decided to avoid that orphanage in future, until I could find a way around the quilt scam. So instead, I made a trip to an institution for severely disabled children, close to our home in Shanghai – only to find that Wang Qishan may have some work to do there too. Foreign volunteers at that orphanage told me that they always bought clothing and toys to donate, but had never seen them in use on subsequent visits – a classic red flag that the goods are at worst being sold, or at best being locked away from the intended recipients. Then I heard that the well-meaning foreign volunteers were planning to pay in cash for some building repairs: another classic opportunity to charge donors 10 times the cost and pocket the difference. But the donors did not want to believe that could happen: they declined to use their own contractor or insist the orphanage get more than one quote. They prefer to feel good about giving – and leave the rest to fate.

After a couple of sobering experiences of charity scams at Chinese schools, I have made up my mind to help Mr Wang by refusing to buy one more fake quilt, pay for one more fake building repair, or even fund one more fake hug for my darling daughter. I am going to do China the favour of not treating it like Zaire. I too am responsible.

Source: Patti Waldmeir in Shanghai: My part in China’s war on corruption, Financial Times, November 20, 2012

Wenzhou unveils financial reform details

Specifcics of China's pilot financial service reform were released on Friday as the first bond issuance by a loan company in Wenzhou, Zhejiang province, proved successful. The new policies focus on bond financing for legally registered small loan companies. Announced by the Wenzhou government, the policies are designed to govern the operation of the city's private lending registration service center, small and medium-size enterprise
Wenzhou, which boasts one of the densest clusters of private enterprises in China, was selected for the pilot reform after a local financial crisis featuring widespread factory closures because of dwindling orders from overseas and rising interest services charged by underground lenders. The reform is aimed at building the city into a prosperous but well-regulated financial service center capable of meeting the needs of local entrepreneurs. Central government officials expect the Wenzhou reform to serve as an example for similar changes that they may recommend across the nation.

Some 30 small loan companies have already registered with the government since March, with total registered capital of more than 8 billion yuan ($1.28 billion), he said. To supply SMEs with innovative financial products, the new regulations promise that all kinds of bonds and securities will soon be introduced to the city's financial market. The city aims to have more than 30 listed companies in 2015 and another 50 ready for the initial public offerings. It will welcome more securities companies to set up branches.

Zhou Dewen, chairman of the Wenzhou SME Development Association, pointed out that the new regulations contain innovations for local enterprises' direct financing and loan terms. "There are more options for SMEs to access loans and take part in the city's development by investing in a larger variety of business areas," he said. However, there is no major breakthrough on whether to allow the establishment of private banks and more flexible interest rates. Short of these, he said, "our financial reform still seems to have a long way to go".

Source: Yu Ran in Shanghai: Wenzhou unveils financial reform details, China Daily, 2012-11-23

PBOC says reforms to keep GDP on track

China's central bank yesterday vowed to keep the monetary environment stable in the months ahead. "The preemptive fine-tuning of macro policies and the structural reform measures are gradually taking effect, and the economy is expected to stay steady and see relatively rapid growth," the People's Bank of China said in its latest monetary policy report released last night. The PBOC said China's economic growth has been affected by structural and cyclical factors, thus making the tasks of economic restructuring and changing the development pattern "very pressing." The central bank warned that the Chinese economy is still facing a "complicated" environment at home and abroad, as external demand remains weak due to the lingering impact of the global financial crisis and domestic momentum for intrinsic growth needs to be consolidated.

China's GDP growth slowed to 7.4 percent in the third quarter of the year, marking the seventh consecutive quarter of decline. The PBOC noted that China is still in the process of urbanization, informatization, industrialization and agricultural modernization, but the fundamental factors that support steady and rapid economic growth remain basically unchanged. China will focus on maintaining stable monetary conditions while striking a balance between economic growth, price stability and risk prevention, the report said.

While priority should be given to stabilizing growth, the government will continue with its prudent monetary policy, making it more targeted, flexible and forward-looking with more fine-tuning methods, the report said. The government will maintain market liquidity at a reasonable level by using combined monetary tools and improving the macro-prudential policy framework. The government will also push forward the market-based reform of interest rates and further improve the exchange rate formation mechanism of the yuan and make the currency more flexible.

Source: PBOC says reforms to keep GDP on track, Shanghai Daily [Shanghai, China] 03 Nov 2012.

China in Transition: Landscape Shifts For China Banks

A Communist Party Congress meeting this week will select a new group of leaders for the world's No. 2 economy. A key task: rebalancing the Chinese economy away from bank-fueled investment that has enriched banks and state-owned enterprises, and toward consumption, which would benefit households and job-creating private companies. If that agenda gains traction, it will require a revolution in China's banking system, one that for the past decade has largely relied on a government-controlled interest-rate regime. China's central bank sets a floor on lending rates and a ceiling on deposit rates, allowing banks to live off a guaranteed spread between the two. Critics say the interest-rate controls shield banks from pressure to compete for business, hurting smaller borrowers, and that the controls penalize the depositors that Beijing hopes will become more-active consumers.

China's four biggest banks reported a combined third-quarter profit of 190 billion yuan ($30 billion), almost triple the amount made by the top four U.S. banks.

A shift away from that model "poses huge challenges to commercial banks including our bank," said Wang Hongzhang, chairman of China Construction Bank Corp., China's second-largest bank by assets, at a news briefing on Sunday on the sidelines of the Communist Party's 18th Party Congress. Mr. Wang said the bank will try to adapt to the new banking order by diversifying into credit cards, insurance, commodities trading and other fee-based businesses. "Interest-rate liberalization is a process that will take a while," Zhou Xiaochuan, governor of the People's Bank of China, the country's central bank, said at the briefing. "Recently, the pace has picked up."

Source: Shanghai Daily [Shanghai, China] 03 Nov 2012.
In China, bank lending accounts for 56% of the external financing for the corporate sector, compared with 43% in the U.S. and 41% in Brazil, according to ChinaScope Financial, a data firm partly owned by Moody's Corp. A tiny 4% of capital raised by Chinese companies comes from the stock market and 13% from bonds. Beijing is already making some moves toward shaking up the banking sector. The central bank cut its benchmark rates twice this year, in June and July, and gave banks extra leeway to set their own lending and deposit rates. The moves, which analysts say represent a step toward dismantling the rigid interest-rate system, have started to prod Chinese banks to adjust their businesses in light of the potential for much slower profit growth and greater competition. The rate cuts in July brought the one-year benchmark lending rate down to 6% and the one-year benchmark deposit rate to 3%. Many banks have set deposit rates at slightly above that benchmark rate, as is allowed by the central bank. But they have been slower to cut lending rates as much as is permitted. As the changes narrow bank lending margins, "commercial banks have to think about how to transform their business models to stay profitable," said Ding Baohua, a senior executive at China Bohai Bank Co.

For the big four banks -- CCB, Bank of China Ltd., Agricultural Bank of China Ltd. and Industrial & Commercial Bank of China Ltd., China's No. 1 bank by assets -- a shift to a more consumption-driven economy and the parallel financial overhauls would amount to a test of their credit and capital resilience over the next few years. "They will find it tougher to maintain adequate profits as the economy slows and credit losses spiral up," said Standard & Poor's analyst Liao Qiang. Some small banks are increasingly targeting the private sector. "Our focus is not on getting big, but on finding niche markets in small and medium-sized enterprises, private businesses and high-net-worth clients," Liang Yutang, vice chairman of major lender China Minsheng Banking Corp., said at a recent banking forum in Beijing.


3b debit cards issued in China

Chinese banks have issued 3.08 billion debit cards by the end of September, a central bank report showed on Monday. A total of 3.4 billion bank cards have been issued by the end of the third quarter this year, including 318 million credit cards, an increase of 18.8 percent from a year ago, the People's Bank of China said in a report on its official website. In the third quarter, a total of 10.08 billion transactions worth 88.2 trillion yuan ($14 trillion) were made through bank card payments, while per capita bank card consumption reached 4,151.97 yuan in the three-month period, according to the PBOC report. Meanwhile, credit card loans that were more than six months overdue rose 8.8 percent quarter on quarter to hit 14.43 billion yuan, accounting for 1.4 percent of all credit loans outstanding, at the end of September.

Source: Xinhua: 3b debit cards issued in China, 2012-11-27

Expand property tax nationwide: minister

Property tax should be expanded nationwide, said Finance Minister Xie Xuren in an article published in Tuesday's Economic Daily. "We should seriously conclude the experiment of the current property tax pilot projects and study how to expand the reform nationwide step by step," he said. So far, the pilot property tax policy has been limited to Shanghai and Chongqing.

The recent housing price rebound has fueled calls for expansion of the property tax policy, which is expected to curb the number of homes investors buy. Xie also called for a change in the current system in which taxes and fees on property development, transfer and tenure are collected individually. He said the various taxes and fees collected during the transaction of the houses should be simplified.


China reaches economic crossroads with low-cost investment growth

According to data from the International Monetary Fund (IMF), annual per capita GDP in China rose to $5,414 in 2011, meaning that China has reached a stage of economic development where it can no longer rely on low-cost investment to keep growing, People's Daily reported. When the per capita GDP of Japan, South Korea and many nations in Europe rose above the $4,000 mark, these countries adjusted their industrial structures, developed their heavy industries, implemented strategic export policies and replaced labor-intensive with technology-intensive growth. In a little more than a decade, several of the countries which took such steps were able to see their per capita GDP double, according to the newspaper. At the same time, many of these countries began shaking up the composition of their industrial makeup, with an emphasis on developing the service sector as the base of their economies. With many now wondering what the future has in store of China's economy, clearly there is much the nation could learn from the developmental experiences of other countries across the world, the newspaper said.
China reaches economic crossroads with low-cost investment growth, China Economic Review - Daily Briefings (Nov 5, 2012)

China approves marine zoning plans for regions
The government has approved local maritime zoning plans submitted by the city of Shanghai and the southern provinces of Guangdong and Hainan, respectively, for the 2011-2020 period, the State Council said Tuesday. The State Council, or China's cabinet, issued a document instructing local governments in the three regions to control reclamation projects, protect fishermen's livelihoods and the development of modern fishery, curb oceanic pollution and make efforts to improve the marine environment. The zoning plans should be followed when formulating relevant industry plans and should not be arbitrarily altered, the State Council said. According to the document, the total size of sea reclamation areas in Shanghai should not exceed 2,300 hectares by 2020. Reclamation areas should be no larger than 23,000 hectares in Guangdong and 11,150 hectares in Hainan, the document said. It also stipulated minimum requirements for marine agriculture, conservation and reserved areas in the three regions, as well as the length of repaired coastlines. Plans for reclamation and other development projects should be strictly scrutinized and local governments' incomes from sea utilization should be used to restore and protect the marine environment, the document said.
Source: Xinhua: China approves marine zoning plans for regions, 2012-11-07

China's economic transformation 'great': Luxembourg minister
Luxembourg Minister of the Economy and Foreign Trade Etienne Schneider said on Tuesday China's economic transformation has been "great." "The invention and research and development which was made in China's economy is huge," Schneider told Xinhua in an interview. "So I see the Chinese economy is more and more becoming a high-tech economy. That's important and would bring the world forward," he said. Taking solar technology as an example, Schneider said from a viewpoint of the development of renewable energy, "all the developments which have been made in China and which improved the systems are extremely favorable to the climate also in Europe," although they "put some problems to our industry and business."

Schneider said that during the past years, more and more Chinese companies made Luxembourg a springboard for entering into Europe. He said that several reasons made Luxembourg attractive to foreign investment, including political stability and continuity, flexible regulation and lighter tax burden. "About 43 percent of Luxembourg working forces are foreigners, which shows how open the Luxembourg society is," said the minister. Luxembourg government paid high attention to economic and trade relations with China, he said.
Source: Xinhua: China's economic transformation 'great': Luxembourg minister, 2012-11-07

The Other Congress Investors Should Watch
China's economy needs fixing. The International Monetary Fund estimates capacity utilization has fallen from over 80% during the last leadership transition in 2002 to 60% in 2011. The World Bank's Doing Business indicator ranks China 91st. Transparency International's corruption perceptions index puts the country at 75th, equal with Romania. That didn't matter when all China had to do in order to grow was build new export factories. Now it does. China's growth rate already has halved from a peak of 14.8% year over year in the second quarter of 2007 to 7.4% in the third quarter of 2012. To ensure it doesn't fall further, China needs a top rank that can make tough decisions and clamp down on the rampant graft that undermines legitimacy and good governance.

Concrete policies on rebalancing the economy -- breaking up state monopolies, overhauling urban-residency and land-rights systems that hold back China's 650 million farmers, and pressing ahead with liberalization of exchange and interest rates -- still are to come. Those are needed to reduce China's dependence on investment as opposed to consumer spending. The transition will give early signals on whether China's leadership is equal to the task.

Changes in growth model a priority
China should firmly implement economic reforms and accelerate the change of its growth model in a bid to enhance the vitality and competitiveness of its economy, President Hu Jintao said on Thursday. "In response to changes in domestic and international economic developments, we should speed up the creation of a new growth model and ensure that development is based on improved quality and performance," Hu said in his report to the 18th Party Congress. He said making economic development the central task is vital to national renewal, and development still holds the key to addressing the challenges China is facing. Hu's remarks come as China's economic growth has been slowing, mainly due to tightening measures in the property sector and sharply
shrinking global demand for Chinese goods amid the eurozone debt crisis and the slack global economy. "China is in an important period of strategic opportunities for its development," said Hu. "We should firmly maintain the strategic focus of boosting domestic demand, speed up the establishment of a long-term mechanism for increasing consumer demand, unleash the potential of individual consumption, increase investment at a proper pace and expand the domestic market." As part of its 12th Five-Year Plan (2011-15), China will strive to expand domestic consumption to drive economic growth, a shift from largely relying on exports and investment. China's transformation has also sent a positive signal to foreign businesses. Hu also pointed out that "deepening reforms" is the key to the transformation of the economic growth model.

Source: Chen Jia in Beijing and Zhang Chunyan in London: Changes in growth model a priority, China Daily, 2012-11-09

Column: Change comes to China

The 18th Congress of the Communist Party of China (CPC) selected its central committee on November 14. The eventual composition of the leadership does not include surprises. The striking emphasis in the choice of leadership has been on youth. Xi Jinping and Li Keqiang are yet to turn 60 and are more than 10 years younger than the leaders they will replace. The rest of the leadership is of similar vintage, underlining China's decision to put its future in the younger, post-World War generation of leaders for the next 10 years.

What is critically important is the vision of China that the new leadership will set out to implement in the months and years to come. The outlines of the vision are laid out in the resolution of the 18th National Congress. The roughly 2,500-word document traces the vision of a modern China and the efforts it needs to make in the face of some unusual challenges. While referring to the consolidation and modernisation of China along the lines of development based on socialism with Chinese characteristics, and eulogising Marx, Lenin, Mao and Deng Xiaoping, the resolution alludes to a scientific outlook on development. This oft-repeated phrase (seven times) justifies the process of trials and changes that has been gradually institutionalised by the outgoing leadership. Guided by this scientific outlook on development, the resolution specifies five major goals for China. These are:

- Sustained and sound economic development;
- Expanding people's democracy;
- Significantly improving the country's cultural soft-power;
- Fully raising living standards;
- Achieving major progress in building a resource-conserving and environmentally-friendly society.

Some of the goals, like the focus on resource-conservation and the environment, indicate the seriousness with which China plans to address these concerns. A considerable amount of resources are expected to flow into environment measures over the next few years. Similarly, the emphasis on cultural soft power underlines the intention to step up cultural diplomacy with all corners of the world. Culture can well become China's most conspicuous export in the years to come. While the emphasis on economic development is not unexpected, along with a rise in living standards, the surprise is in the repeated emphasis on achieving a 'moderately prosperous society'. Clearly the effort to raise living standards is being set off against a tempering of expectations, which have zoomed sky high, following a sharp increase in consumption propensity and growth of liquid wealth. Accumulation has been driving greed, which is leading to ratcheting imbalances among income classes. Indeed, the biggest surprise in the document, and the most onerous challenge for the new and young leaders of China, would be controlling corruption. In a rare admission of one of the biggest threats to socio-economic stability in China, the resolution underscores the importance of tackling corruption and ensuring political integrity.


China's Leadership Transition: One Out of Three Ain't Good

In the months leading up to the change in China's leadership, there were hopes for changes in three main areas. These were: more reformers in the Politburo Standing Committee, a nod toward competitive selection of leaders and greater rule of law, and a streamlined decision-making process at the top. In the fight for seats at the high table, reformers lost out to conservatives. Wang Qishan, seen as a potential Mr. Fix-It for China's financial sector, made the cut but wasn't given a brief to work on the economy. Mr. Wang has the important job of fighting corruption. But that is tough to do while the party remains a law unto itself, and it risks wasting his talents. Streamlining the decision-making process is the only area showing progress. The Standing Committee, which makes decisions by consensus, shrinks from nine to seven members, which should make it easier to get things done. Unlike his predecessors, outgoing leader Hu Jintao will hand over command of the military at the same time as his other roles, giving Mr. Xi control of party, government and guns. All isn't lost. At the least, China's new leaders are competent administrators. Six of the seven have run provinces or municipalities as big as many European countries. Five of them have run export-focused, business-friendly coastal areas. The need for
economic change, with a stronger role for domestic consumption in underpinning growth, is well recognized within the party.

But China is at a crossroads in its development. Nick Lardy, an expert on China's economy at the Peterson Institute, forecasts that with far-reaching changes, growth in gross domestic product can be sustained at around 8% a year through 2021. Without change, Mr. Lardy estimates the average could be closer to 5.1%.


**Smiling face but the same old iron fist**: Jonathan Fenby on the daunting challenges ahead as China embarks on the Xi Jinping era

**WHEN XI JINPING, China's new leader, appeared in public for the first time after being appointed on Thursday, the last major world power ruled by a Communist Party gained a new, human face. In contrast to his predecessor, Hu Jintao, who always seemed to be reciting an offi-cially approved text, the stocky, 59-year-old Xi seemed to speak with genuine personal feeling of what needs to be done in this nation of 1.3 billion people. He talked of people's desire for a better life, for better jobs, education and health care -- and for less pollution. He flashed his chubby smile, unlike the ever dour Hu. His slightly bear-like stance contrasted with the ramrod backs of the Communist Party elite standing with him on the stage in the cavernous Great Hall of the People in Beijing. Therein lies the basic para-dox as China moves into the Xi Jinping era. On the one hand, its leaders acknowledge the major challenges facing them but, on the other, they are extremely reluctant to alter the power structure or the reliance on economic growth that have produced many of these problems. They fear that political reform would bring the whole edifice tumbling down, Gorbachev style. They stress party unity above all, particularly since the drama surrounding the fall of the maverick politician, Bo Xilai, after the mysterious death of the British businessman Neil Heywood in his south-western fiefdom of Chongqing - but whose real sin was to have challenged the consensus machine that runs the People's Republic.

While individual liberties have greatly increased, anybody who tries to organise political opposition is likely to end up in jail. Xi may smile for the cameras but this remains an iron-fisted regime that has control in all forms at its heart. They see life in down-to-earth terms of material betterment, epitomised by the young woman who said on a television dating show that she would "rather cry in the back of a BMW than laugh on the back of a bicycle". Economic growth has changed society radically. Social media run rings round the censors. Corruption and poorly enforced safety standards, notably for food, have bred widespread cynicism and distrust. Chinese leaders may extol the riches of their country's culture and civilisation but they often send their children to study abroad -- Xi's daughter is at Harvard under a pseudonym and Bo's son also studied there after Harrow and Oxford.

Xi has a tricky task ahead of him at home, while abroad he has to work out how to deal with Beijing's scratchy relationship with Washington under the second Obama administration and faces an array of disputes with other east Asian states, including Japan. The new leadership's main concern is domestic, yet China's growth inspires shock and awe, leading some to see it ruling the world.

Never have so many people been pulled out of absolute poverty in such a short space of time. But behind that achievement lie the problems Xi pointed to on Thursday - and many more he did not identify. The economy, though still growing much faster than in the West, is slowing down and needs rebalancing towards consumption and away from infrastructure, property and exports - a tricky process when the population has grown accustomed to runaway expansion. Xi will need his popular touch in the years to come; his problem is that, as a child of the system, he is likely to be unwilling, and probably ill-equipped, to steer the country's further evolution to the fairer, more relaxed society that would provide the safety valves needed to avoid the upheavals which have marked so much of China's turbulent history.

Source: Fenby, Jonathan: Smiling face but the same old iron fist - on the daunting challenges ahead as China embarks on the Xi Jinping era, The Sunday Telegraph [London (UK)] 18 Nov 2012

**China launches first cultural industry index**

China launched its first cultural industry index on Friday to provide an indicator of how the sector is performing. Shenzhen Stock Exchange and Shenzhen Securities Information Co Ltd jointly issued the OCT Culture Index named after OCT group, a Shenzhen-based state-owned enterprise administered by the central government. Among the 99 listed companies in the country's cultural sector, 50 are chosen as samples of the index. The sample companies are engaged in the creation, production, distribution and consumption of cultural goods and services, as well as new media. The index's basis date is laid on June 30, 2009 and its basis points are set at 1000. Shenzhen Securities Information Co Ltd runs its maintenance tasks.

Experts said that OCT index will indicate the development level and trends of China's cultural industry, and reflect the operational and profitability situations of listed culture-related firms. On the first trading day, the
index opened at 1190.21 points and ended at 1185.41 points.
Source: Xinhua: China launches first cultural industry index, 2012-11-09 22:54

China's Bonds Yield No Sign Of Stimulus

Back in July, the yield on one-year Ministry of Finance debt dipped to 2.28%, way below the 3% benchmark for the one-year deposit rate. The interest-rate swap curve was pricing in multiple rate cuts. By October, though, the one-year yield was back at 2.94%, just below the one-year deposit rate. That reflects more optimism about China's immediate growth prospects and pessimism about the chances of significant monetary easing. Signs of stabilization in economic growth, combined with inklings of higher inflation, have convinced China's fixed-income markets that rate cuts are back off the table. Industrial output rose by 9.2% year on year in September, faster than August's 8.9%. Business surveys and steel prices suggest another modest acceleration in October. Meanwhile, the consumer-price index bottomed at 1.8% year over year in July and is expected to creep up in the fourth quarter.

China to boost foreign access to markets

China will give foreign investors greater access to its stock and bond markets as part of a cautious reform push to open its financial system to the world. Guo Shuqing, the securities regulator, said China would increase the quotas that are allocated to foreign institutions for investing in its closely guarded capital markets. Worried about destabilising capital flows, China has long capped the amount that foreign institutions can invest in the country’s capital markets. But with the Chinese stock market among the worst performing in the world over the past three years, the regulator has been trying to attract more foreign money. Giving foreign investors more channels to invest in China is also seen as an important part of building the renminbi into a global currency, since those holding renminbi outside China have been demanding more investment options.

Mr Guo said the government would nearly quadruple the amount of renminbi held offshore that it allows to re-enter the country’s markets. The current ceiling is Rmb70bn ($11.2bn); Mr Guo said the plan was to allow an additional Rmb200bn into China. On top of that, he said that regulators were also committed to increasing the overall quota for foreign institutions investing in China. Earlier this year China increased that quota to $80bn from $30bn. When that $80bn mark is hit, the cap will be lifted again, Mr Guo said.

Although China is the fastest-growing big economy in the world, it has struggled to persuade foreign investors to take its markets seriously. Foreign investors and analysts say that its stock market, which has dropped more than 60% from its peak in late 2007, resembles a rigged casino, with rampant insider trading and weak corporate governance.
Source: Simon Rabinovitch in Beijing: China to boost foreign access to markets, Financial Times, November 11, 2012

China's securities regulator dismisses launch of international board in the near future

China's securities regulator on Sunday dampened the hope for allowing overseas companies to go public in domestic equity markets soon, saying that the launch of "international board" needs a lot of preparations and China does not have a timetable for it, People's Daily reported. Guo Shuqing, chairman of the China Securities Regulatory Commission, made the remarks at a group interview on the sidelines of the 18th National Congress of the Communist Party of China, which opened on Nov. 8. "We have no plans to launch the international trading board in the near future and there are still a lot of issues (in connection with the launch) that need to be addressed, such as issues concerning trading, law, accounting and regulations," the newspaper reported Guo as saying. The launch of the international board, which will allow foreign firms to sell yuan-denominated shares in China, was stated in a document issued by the State Council, or China's Cabinet, in 2009.

However, many economists and financial experts have voiced opposition to foreign companies listing in the domestic market, largely because they believe that neither the market environment nor China’s A-shares operating system are ready for introducing foreign companies. Guo dismissed concerns that the launch of the international board would draw funds away from domestic shares and send their prices down further, the newspaper said.
Foreign investors rethinking China strategy

FOREIGN investors have started rebuilding their China equity portfolios, tempted by low valuations after two years of market under-performance and signs economic growth may be stabilizing. They have pumped nearly US$4 billion into Chinese equity funds in the past two months alone, trying to get in early on what they hope will be a sustained rally.

Bank of America Merrill Lynch’s global survey of fund managers, covering 248 managers with US$695 billion of assets under management, found confidence in China’s economy was at a three-year high. In October, shares of Chinese mainland companies listed in Hong Kong, known as H shares, jumped 7.6 percent to easily outpace other regional benchmarks.

One attraction is valuations. The MSCI China index, the most popular benchmark for China funds, has consistently under-performed Asian markets over the past two years, following a stellar run where it nearly tripled in value between October 2008 and November 2010. The index trades on a forward price-to-earnings multiple of 9.2, cheaper than Brazil on 9.9 and India on 13.2, and a lure to investors hoping to get in early on another substantial upswing. The H shares are at price-to-book ratios around four times lower than in 2007, according to Thomson Reuters data. Those valuations and signs the economy is improving - Thursday’s flash purchasing managers’ index (PMI) reading showed the first expansion in manufacturing in 13 months - have piqued interest, and it seems investors are worried about missing out on riding the recovery.

And long-standing issues for investors, such as transparency, reform of state-backed companies, corporate governance and regulator interference in the market, have yet to be properly addressed despite some positive noises from authorities. So while the H shares in Hong Kong are showing signs of life, China’s mainland stock markets are languishing near three-year lows and on the nose with retail investors. Two-thirds of Chinese companies that have posted third-quarter earnings missed expectations, according to Citi Private Bank. Profits fell an annual 5.8 percent, and analysts, on average, are still cutting earnings expectations for next year. Rising non-performing loans (NPLs) pose a risk for the banks, a hangover from cheap credit as part of the 2008/2009 stimulus though the NPL ratio is officially reported at 0.97 percent.

Source: Foreign investors rethinking China strategy, Shanghai Daily [Shanghai, China] 27 Nov 2012.

China to levy differentiated dividend taxes

China will start to levy differentiated dividend taxes on individual investors from Jan 1, 2013 according to how long the investors hold their shares, the Ministry of Finance announced on Friday. The move aims to promote the healthy development of the country’s capital markets by encouraging long-term investment and curbing short-term speculation, according to a brief statement on the ministry's website. Investors holding shares for less than a month will have to pay a 20-percent tax rate on dividends, while those holding shares for more than one month but less than one year will pay a 10-percent tax rate, according to the statement. If shares are held longer than one year, the tax rate will be only 5 percent, the statement said. Currently, dividend tax rates stand at 10 percent for all shareholders in China.

Source: Xinhua: China to levy differentiated dividend taxes, 2012-11-16

Chinese investors shun Shanghai equities

China’s benchmark equity index seems impervious to good news. Despite a brightening domestic economy, a successful transfer of power in Beijing and efforts by regulators to boost participation, the Shanghai Composite has tumbled. On Tuesday, it closed below 2,000 points for the first time since January 2009. The Shanghai market is largely closed to foreign investors, who can only access mainland-listed shares, known as A-shares, through a restrictive quota system. Instead, global investors tend to buy Chinese companies via their Hong Kong listings, or H-shares. These have rallied 15 per cent since September as foreigners turn more bullish on Asia’s largest economy.

The domestic Chinese investors who dominate trading in Shanghai have had plenty of bad news to weigh up over the past couple of years. China’s economy has slowed for seven straight quarters and is on track to record its lowest annual rate of growth for a decade this year. Indeed, many Chinese investors have simply given up on equities and moved to other investments such as property, gold or high-yield wealth management products.

China experienced an equity market bubble in 2007, when the Shanghai index topped 6,000 points before slumping to 1,700 in less than a year. Having been burnt once, many would-be equity investors now prefer investment products offered by banks, which they believe will provide them with a decent return. A boom in corporate bonds has also sucked a large amount of capital from the stock market. Hence the apparent unresponsiveness to more positive news. Trade figures for October showed a bounce, while manufacturing, industrial production and retail sales have all turned a corner. Fears over a hard landing, at least in the short term, have eased.

Source: Xinhua: China to levy differentiated dividend taxes, 2012-11-16
The mainland stock market has shown no signs of improvement this year, lagging behind other equity indices. The Shanghai Composite is the worst performing main index in Asia, falling 10 per cent in 2012 and now flirting with lows last seen in the wake of the collapse of Lehman Brothers. On Wednesday the index took another downward step, dropping 0.9 per cent to 1,973, leaving the market trading at 8.4 times estimated 2013 earnings, compared with an average of 11.2 times for Asia ex-Japan.

Recent fund flow data have also pointed to a growing appetite for China. Last week, investors added $341m to China funds, making it the top country pick among global emerging markets, according to data from EPFR. An October survey of global fund managers conducted by Bank of America Merrill Lynch showed confidence in the Chinese economy had surged to its highest level since July 2009. Not everyone is convinced. John Woods, chief Asian strategist at Citi Private Bank, reckons the Hong Kong rally will crack. He says: “I don’t think there are any more prescient investors than A-share investors and they really haven’t bought into the [H-share] enthusiasm.” He believes the market should be more concerned about corporate profitability. There’s an awful lots of expectation, everyone is focused on valuation,” says Mr Woods. “Just because it’s cheap, doesn’t mean it can’t get cheaper.”

Source: Josh Noble in Hong Kong: Chinese investors shun Shanghai equities, Financial Times, November 28, 2012

China Stock Market May Find Traction On Friday

The China stock market has closed lower now in four straight sessions, plummeting more than 60 points or 3.2 percent en route to another fresh four-year closing low. The Shanghai Composite Index closed just below the 1,965-point plateau, and now traders are looking for a mild recovery when the market opens on Friday. The global forecast for the Asian markets is positive thanks to better than expected economic data from the United States and Europe - although the upside may be capped by concerns over a lack of progress in the fiscal cliff negotiations. The European and U.S. markets were higher and the Asian bourses are tipped to open in similar fashion. The SCI finished modestly lower on Thursday, bucking the regional trend of gain on weakness from the financial shares and securities. For the day, the index dipped 10.03 points or 0.51 percent to finish at 1,963.49 after trading between 1,961.82 and 1,980.56. The Shenzhen Composite Index dropped 7.54 points or 1.0 percent to end at 743.43. Among the actives, China Minsheng Banking Corp eased 0.2 percent, while Shanghai Pudong Development Bank fell 0.4 percent. Citic Securities shed 4.4 percent, Haitong Securities dropped 5.9 percent, China Vanke jumped 1.1 percent and Poly Real Estate Group added 0.8 percent.

In economic news, rating agency Standard& Poor's affirmed China's 'AA-' long-term and 'A-1+' short-term sovereign credit ratings and stable outlook on Thursday citing the country's strong economic growth potential, robust external position, and the government's relatively healthy fiscal position. Such strengths balance weaknesses related to China's lower average income compared with similarly-rated peers, a general lack of transparency, restricted information flows, as well as an economic policy framework that is still evolving to suit its largely market-based economy, the agency said.


Social financing to reach 15t yuan

China's total social financing could reach 15 trillion yuan ($2.38 trillion) this year, representing 26 percent of the gross domestic product in 2012, a report from Barclays showed on Monday. The share of bank credit in total social financing is now 55 percent, from 58 percent in 2011 and 70 percent in 2008, while that of debt financing has jumped to 14.3 percent, from 9.5 percent and 8 percent, respectively, the report showed.

Meanwhile, there are renewed concerns about the financial and fiscal risks associated with the rapid expansion of non-bank credit financing. Two types of risk are frequently mentioned. The first is risks from sizable trust and entrusted loans. The second is risks from a rebound in local government investment vehicles' borrowing from the bond market and trusts rather than from banks. This year has seen a revival of trust financing after regulatory curbs introduced in mid-2010 muted activity. Trust sector assets under management had risen from 4.8 trillion yuan in 2011 to 6.3 trillion by the third quarter of 2012, with a significant amount of lending to developers or local government investment vehicles that can't access bank credit. More than 35 percent of trust assets represent funding for infrastructure and real estate construction. Property-linked trusts account for 677 billion yuan, or 11 percent of the total, according to the report.

Source: Hu Yuanyuan: Social financing to reach 1st yuan, China Daily, 2012-11-26

China's grain yield to increase for 9 yrs straight

Grain production in China will increase for nine consecutive years with output set to rise this year, according to an official at the Caijing Annual Conference on Thursday. Chen Xiwen, deputy director of the
Leading Group on Rural Work under the Central Committee of Communist Party of China, made the comments when speaking about grain security at the two-day conference in Beijing, which closes on Thursday. Chen said that urbanization will be the engine that drives growth, but that the country has to guarantee grain security and supplies of important agricultural products with further expansion of urban areas. He said that almost half of the world's exports of soy beans will be shipped to China this year. Also, China has been the net import country of wheat, rice and corn, with total grain imports exceeding 60 million tons. China has to continue to protect its arable land and boost agricultural productivity as its economic growth has outstripped the expansion of agriculture, according to Chen. China has to utilize land more efficiently and better safeguard farmers' legitimate rights through future reform, Chen said.

Source: Xinhua: China's grain yield to increase for 9 yrs straightUpdated: 2012-11-29

**Alibaba doubles net income**

Net income at Alibaba, the fast-growing Chinese ecommerce website quarter-owned by Yahoo, more than doubled as China's online economy continues to boom despite economic slowdown elsewhere in the country. Net income leapt 113.4 per cent year-on-year to $293m as revenues continued to surge. Alibaba's top-line rose 70.6 per cent year-on-year to $1.1bn for the quarter to the end of June. The numbers were released by Yahoo in a filing to the Securities and Exchange Commission last week. Alibaba is a private company and does not release its numbers to the market. Yahoo, however, still owns 24 per cent of Alibaba's common stock. The US tech giant used to own almost half of Alibaba, before the Chinese group bought back around half of Yahoo's stake for $7.6bn in September, to pave the way for an eventual listing.

Net income for the nine months to the end of June at Alibaba trebled to $781m, while revenues almost doubled year-on-year to $2.9bn for the same period. The results mean that Alibaba is now China's second-largest online company by revenue, coming in ahead of Baidu – the Chinese search engine – and behind Tencent Holdings, which had revenues of almost $1.7bn in its latest quarterly results. Alibaba declined to comment beyond the numbers revealed in Yahoo’s filing.

Source: Duncan Robinson: Alibaba doubles net income, Financial Times, November 12, 2012

**Promotions drive sales on Singles' Day**

The sales revenue a few Chinese online retailers made this Nov 11 - a date set aside in China in honor of single people - was more than double the entire amount made in the US market last year on so-called Cyber Monday, or the day following Thanksgiving weekend. Analysts said online retailers offered various promotions for Singles' Day, which fell on Sunday this year, helping to stimulate domestic consumption. The biggest online shopping sites in China, Taobao.com and Tmall.com, both of which are owned by the e-commerce giant Alibaba Group Holding Ltd, had 19.1 billion yuan ($3.06 billion) in total transactions on Sunday. That company's lead was followed by other Chinese e-commerce websites, Alibaba's sales alone were more than double the $1.25 billion that retailers made through online sales in the US market on Cyber Monday last year, according to the research company comScore. One contributor to Sunday's spending binge was an explosion in shopping among those who are usually reluctant to buy relatively higher-priced goods, said Ding Ningning, a researcher at the State Council's Development Research Center. "It's not that consumers can't afford to buy things," he said. "It's that prices are sometimes too high, (which affects people's willingness to buy)."

Singles' Day was started by university students and later taken up by e-commerce companies as an opportune time to offer sales promotions. Ding said the promotions offered on that day often reduce the prices of goods by half. Those help encourage people, especially young Internet users who are often less inclined to plump for relatively expensive items, to make purchases online. Xu Wei, a researcher from the China Center for International Economic Exchanges, agreed that online shopping is becoming an ever-more popular way to increase the spending power of Chinese consumers. Even so, she said the Singles' Day promotions might have merely caused certain products, such as cars, to be sold sooner than they would have otherwise and could ultimately lead to declines in future demand. An automobile shop on Tmall sold more than 300 cars on Sunday, said Alibaba.

E-Commerce China Dangdang Inc, a US-listed online retailer, had 100 million yuan in sales on Monday. And Tencent Holdings Ltd's 51buy.com said its sales exceeded 120 million yuan on Sunday, more than 10 times the amount on the same date a year before. E-commerce, which has become increasingly popular in recent years, is expected to see its value increase to 18 trillion yuan by 2015, four times the amount for 2010. By that time, it is predicted to be the source of 9 percent of all retail sales in China, according to the 12th Five-Year Plan (2011-15). Online shopping generated only 4.32 percent of retail sales last year, up from 1.16 percent in 2008.

Source: Chen Limin in Hangzhou and He Wei in Shanghai: Promotions drive sales on Singles' Day, China Daily , 2012-11-13
China economy: China's looming oil flood

As oil refiners in Europe and the US continue to struggle, capacity in China is being ramped up. A large amount of new capacity—1m barrels/day (b/d)—is coming on stream this year, up from around 11.6m b/d at the moment. Expansion will largely take place in the north-east, the country's main oil-producing region, and the south, close to consuming markets. However, China's previously breakneck pace of growth in energy demand has begun to slow, and global oil prices remain uncertain. Worries about overcapacity loom. Investment in oil refining has remained strong, even in a weakened economic environment, owing to a firm push from the central government. China is attempting to bring higher-value-added refining activities within its borders, and as such has set a goal of boosting refining capacity by one-third during 2011-15.

The continual ramping-up of refining capacity has raised eyebrows given the expected slowdown in the national economy over the medium term, however. In November the International Energy Agency (IEA) expressed concern that the sector may be overheating. It believes that China's crude processing capacity could rise by more than 2.9m b/d by 2017, against a rise in consumption of oil products of only 2.1m b/d.

Excess capacity could lead Chinese refiners to begin to look for overseas buyers. CNPC's US$4.7bn joint-venture refinery with Russia's Rosneft, which broke ground in Tianjin in 2010, planned to have Russian oil delivered directly to Tianjin's port for refining. Moreover, it was granted the right to export its oil products—the first time Chinese authorities have granted such a right to a project involving foreign capital. Policymakers may be beginning to take note of the IEA's concerns. The start of operations at the CNPC-Rosneft joint venture has recently been pushed back to after 2015, and CNPC's Jinxin refinery in Liaoning recently failed to obtain central government approval for expansion, amid concerns that refining capacity is running ahead of the needs of the province's economy. However, efforts to rein in capacity expansion may be too little, too late.

Source: EIU ViewsWire: China economy: China's looming oil flood, Nov 21, 2012

China's role to change in global supply chains

China's role in the global supply chains saw a key change in 2009 when authorities started to push for economic restructuring and sustainable growth, said William Fung, chairman of Hong Kong-based trading firm Li & Fung Group. Addressing a business forum in Singapore on Wednesday, Fung said China started to be part of the global supply chains after its opening up in the late 1970s and gradually came to be known as the "world factory" over a course of three decades. A key change came in 2009 when authorities started to push for economic restructuring and more sustainable growth, as it is clearly not sustainable to rely on cheap labor and cheap exports. Fung said he sees a change for China to be eventually both a source of exports and a global consumer market over the next three decades as authorities try to boost domestic demand.

He also said at the forum that both Hong Kong and Singapore are among the world's leading trade and logistics hubs in terms of the supply chains. Hong Kong is the gateway to the Chinese mainland, while Singapore's hinterland is the Association of Southeast Asian Nations. Gregory So, secretary for commerce and economic development of the Hong Kong Special Administrative Region government, also said that the two free trade hubs share many strengths, including rule of law, internationally recognized codes of practices in business and commerce and clean and efficient governments. So said the close links between Hong Kong and the Chinese mainland, and similarly those Singapore with the ASEAN, are likely to offer one another vast potential in expanding access to each other's huge hinterland. "I look forward to ASEAN agreeing to formally start negotiations with Hong Kong for us to join the FTA at the earliest opportunity," he said.

Source: Xinhua: China's role to change in global supply chains, 2012-11-01

World News: Obama's Asia Trip Comes Amid Tug of War With China

U.S. officials have emphasized that the visit to Myanmar, the first by a sitting U.S. president, is meant to encourage that country's recent reforms and emergence from a rigid military dictatorship less than two years ago. But Myanmar, also called Burma, is also a big prize in the regional tug of war with Beijing, and some see the visit as an attempt to move the country closer to the U.S. and away from China, which was one of the old regime's few global friends.


We can learn something from China

I've just returned from my eighth trip to China in the past seven years, and I am always amazed at how a city's skyline can change in less than 12 months. Over 11 days, I was part of a group that started in Tianjin, a city of 14 million and a sister city to Greenville; then on to Tokyo for the South East U.S. Japan (SEUS Japan)
Confidence; then back to China to visit Hong Kong, Guangzhou, Xiaoshan and Dalian.

As I traveled this amazing country, it crossed my mind that China is one of the greatest case studies of “fast-forward” economic development. I wanted to know how and why development could grow so quickly. What I learned was that the growth is focused and intentional. The very land that is being developed is so precious that it is sold by the square meter, but it is always planned in not only what it will look like, but how it will affect the value of what is around it. This is done mainly through a series of 12 five-year social and economic development plans the Chinese have implemented for the past 60 years. Each plan builds on the success of the other and at times makes very difficult decisions to develop specific areas of the country over others. The five-year plans have guided cities and provinces for economic growth and development mainly focused on producing significant infrastructure development, which in turn supports both public and private investment. Industrial parks are 48,000 to 60,000 acres and typically are measured in square kilometers instead of acres. These massive developments all sport intricate three-dimensional models that include utility corridors, multiuse property development strategies and financing packages. The effect is that each of these parks becomes a full-fledged, self-supporting city.

This is an economic developers dream, but there are challenges with growth on this scale, and these challenges make it a great place for us to find prospects. First, the middle class is growing at an incredible rate and wages have risen from 25 cents per day to almost $5 per hour and show no signs of slowing.

Second, electric rates are three to four times more expensive than rates in the Southeast. More importantly, electricity in China is unreliable and power can be shut down without notice due to significant demand and the need for additional power production plants.

Third, the cost of fuel is influencing the cost of shipping, causing companies to look at producing goods closer to the end user. These factors have given rise to the term “re-shoring.”

I truly have to say what impresses me most about China is not necessarily the grandeur of all the spectacular buildings and the massive ports, interstate highways, rail and airport facilities, but the clarity of the five-year plans and the follow-through of the implementation of each.

Source: Johnson, Hal: We can learn something from China. Spartanburg Herald - Journal [Spartanburg, S.C] 20 Nov 2012

US Treasury notes yuan’s rising value

The Treasury said in its report the yuan had risen in value by 9.7 percent since June 2010, and by 12.6 percent when inflation is taken into account. China's trade and current account surpluses have both fallen to 2.6 percent of gross domestic product from peaks of 8.8 and 10.1 percent respectively of GDP, it said. “The Chinese authorities have substantially reduced the level of official intervention in exchange markets since the third quarter of 2011, and China has taken a series of steps to liberalize controls on capital movements, as part of a broader plan to move to a more flexible exchange rate regime,” the report said. Still, the Treasury said the yuan remained significantly undervalued. It vowed to keep pressing China to let its currency rise further to “level the playing field for American workers and businesses and support a strong, sustainable and balanced global economy.”

Source: US Treasury notes yuan’s rising value, Shanghai Daily [Shanghai, China] 29 Nov 2012.

Canton Fair sees declining participants, turnover

The 112th session of the Canton Fair, China's largest trade fair, witnessed a decline in both participants and turnover, according to the event's closing news conference on Sunday. Statistics from the fair's organizer show that, as of Saturday, 188,145 overseas participants from 211 countries and regions have signed into the fair, said spokesman Liu Jianjun. The figure was 10.26 percent lower than the last session, in spring, and 10.5 percent lower than the corresponding period last year, he said. The fair has also seen a fall in its turnover of $32.68 billion, a 9.3-percent decrease compared to the spring session. Orders from the traditional market of European countries and Japan dropped considerably, while those from emerging markets showed minor declines.

Source: Xinhua: Canton Fair sees declining participants, turnover, 2012-11-05

China’s foreign trade goal hard to reach

China looks unlikely to meet the 10-percent growth goal for foreign trade set early this year due to the European debt crisis and shrinking external demand, Chinese Minister of Commerce Chen Deming said Friday. “Even though our year-on-year export growth rate rebounded slightly to 9.9 percent in September and 11 percent in October, it remains very difficult for us to achieve the 10-percent foreign trade growth target for the whole year,” Chen said at the panel discussion open to the press. The targeted foreign trade growth is a sharp slowdown
from the 22.5 percent year-on-year increase last year when China became the world's second-largest importer after it took over Germany as the world's biggest exporter in 2009. Chen said the ministry has readjusted the goal and reported to the State Council, aiming only to keep China's share in global trade unchanged this year.
Source: Xinhua: China's foreign trade goal hard to reach, 2012-11-09 22:54

The 112th Canton Fair "Sustaining Global Trade in Difficult Times"
Despite ongoing economic problems in Europe and America, the 112th session of the Canton Fair, which closed on November 4, has displayed a remarkable resilience. While the number of participants and turnover fell around 10 percent compared to the spring session, the percentage of repeat visitors rose over 8 percent, underlining the great commercial value of the event and its importance as a buttress for sustaining global trade.

Companies from developing countries, especially BRICS nations, demonstrated a strong desire for economic cooperation at the fair. Many were optimistic that increasing trade between BRICS nations could counter the recent decline of sales in more traditional markets. With Brazil set to host the World Cup and Olympics soon, opportunities now abound for Chinese companies in the Brazilian market. A forum at the Canton Fair to help Chinese companies familiarize themselves with Brazil's business environment was attended by 400 visitors.

Why investing in China is good while things look bad
While the impact of Tuesday's US election will be felt almost immediately thanks to the ticking time-bomb of the fiscal cliff, the implications of the Chinese leadership change will be a slower burn, but no less important for that. Both countries face profound economic and social challenges but China's contribution to global growth and its still seriously unbalanced economy mean there is even more urgency about finding the right answers than there is in Washington.

Last week's figures suggest that the near two-year retreat from a growth rate of more than 12pc to 7.4pc may finally have stabilised - and at a level that we can only dream of, mired as we are in Europe's economic sclerosis. Amid all the soul-searching about whether China might be the new Japan - on the cusp of a prolonged stagnation driven by anaemic consumption and a rapidly ageing population - it is important to remember that, relatively speaking, China is still the humungous engine of the global economy. There is some speculation (and historical precedent) that the election of a new Central Committee next week could kick-start a renewed wave of government stimulus and this is a key component of the bullish argument for Chinese shares. I think the latest figures actually make this a bit less likely. They suggest that the modest monetary tweaks so far this year have been more effective than the outside world thinks.

That said, the direction of travel is obvious from the latest five-year plan. Its key focus, the rebalancing of the economy to domestic consumption, will continue. And it is essential that it does because an economy as dependent on investment spending as China's is - around 50pc of total output - is not sustainable. The comparison with Japan 20 years ago is not as far-fetched as you might think because China has arguably become as addicted to building "bridges to nowhere" as Japan was. In 1990 consumer spending represented only half of Japanese GDP, compared with 70pc in the West, so when the investment boom ended the Japanese consumer was unable or unwilling to plug the gap. However, little more than a third of Chinese GDP is down to government stimulus and this is a key component of the bullish argument for Chinese shares. I think the latest figures actually make this a bit less likely. They suggest that the modest monetary tweaks so far this year have been more effective than the outside world thinks.

The key question for investors is the extent to which all this has been factored into Chinese share prices because on most measures they are historically very cheap. The significant underperformance of the Chinese stock market, reflects indiscriminate selling of fundamentally sound companies and that continues to throw up a wealth of stock-picking opportunities, especially in the consumer-related companies which I continue to believe will be the main beneficiaries of a rebalancing of the economy, continued urbanisation and double-digit wage inflation. Given the scale of the economic challenges facing China and the uncertainty that necessarily accompanies a once-in-a-decade change at the top, it would be a bold call to unequivocally signal the turn for Chinese shares. But investing when everyone else thinks it's a bad idea makes for better outcomes than jumping on a bandwagon.

Corporate News: Google's Outage in China Shows Business Risk There
Disruptions to Google Inc.'s Web-search and email services in China over the weekend underscore the
Chinese authorities often tighten Internet control around sensitive subjects and events. But a number of users in recent weeks say Internet disruptions have worsened to an unexpected degree ahead of the congress. During a recent interview, Matthew Prince, the chief executive of CloudFlare Inc., a company that provides Web-performance and security services for websites, said the company's engineers and consumers have reported increased difficulties with traffic out of China since the end of August.

Google's services are still widely available in China despite its declaration in 2010 that it wouldn't censor its search results in China anymore and would instead shift searches to Hong Kong, a Chinese city that isn't subject to Beijing's censorship restrictions. But the services can be unreliable and sometimes don't function right away, troubles that experts attribute to Beijing's censorship efforts. Google is now only a minor player in terms of market share in China's search business, which is dominated by Baidu Inc. "If China insists [on] creating another Great Firewall between the China cloud and the rest of the world, China will be an increasingly untenable place to do business," Mr. Wolf said. Such a move could also put Beijing in violation of its free-trade commitment under the World Trade Organization, which China joined in 2001. China has said it complies with WTO requirements.


**Tianjin Economic-Technological Development Area:** 28 Years at the Top

China's irresistible rise has been powered by development zones such as the Tianjin Economic-Technological Development Area (TEDA), which at 28 years of age has blazed a trail for the rest of the country to follow and continues to pioneer new economic growth. TEDA is nearly as old as the reform and opening up policy that led to its creation and its story has been that of the nation - fast growth through industrialization and investment in infrastructure and skills that is now heralding a shift to a knowledge-based economy. TEDA has also been named China's top industrial zone every single year by the Ministry of Commerce since 1998, seeing off competition from other development zones that have sprung up across the nation.

TEDA has thus far attracted 4,999 foreign-invested projects worth a total of US$69.9 billion, including 188 projects invested in by Fortune 500 companies. There are also nearly 10,000 Chinese firms in TEDA. Among all the companies in TEDA, one is worth more than RMB 100 billion, three are worth more than RMB 50 billion and nearly 100 are worth more than RMB 1 billion. Job creation continues apace. In the first half of 2012, there were 31,000 new jobs in TEDA. Overall, some 500,000 people work in TEDA, including about 9,000 people who are deemed to be top class executives.

Somewhat unlike globewide competitors such as Taiwan's Hsinchu Science and Industrial Park and Singapore's Jurong Town Corporation, TEDA supports a wide range of pillar industries and this wide scope creates economies of scale and business efficiency inside TEDA's own borders. It will also stimulate synergistic learning and enhance overall industrial competitiveness, according to Zeng. TEDA also focused on innovation by building an innovation park, an R&D centre and industrial clusters. It invited renowned universities to establish campuses in the zone to conduct vocational education and industry-related research. Innovation and hi-tech industry have helped TEDA stay relevant at a time when costs in China are going up and the traditional manufacturing industry is seeing its already narrow profit margins squeezed. But further development has brought with it new challenges, such as how to attract top talent to Tianjin.

The financial crisis, which has hit western countries particularly hard, has seen an uptick in the number of highly trained Chinese returnees moving back to China after having launched careers abroad. And industrial zones such as TEDA understand that they need to offer more than just a place to work. With China at a crucial moment in its development as the old export-led model becomes less viable and hi-tech innovation becomes a necessity, TEDA's past focus on research and development and its development of industrial clusters mean it is well-placed to make the transition and help the country make it too. "Development areas have been a key engine for China's economic growth," said Shushan. "Over the last 28 years, TEDA has gone from the region's leading development 'area' to a leading development 'partner' for global investors. We are fully aware of our
resh business success of American SMEs by offering specific services to address these challenges and leveraging our 3,700-strong Chamber membership,” said Griffiths. SME Center staff will work closely with U.S. government agencies, in particular the U.S. Foreign Commercial Service, which is tasked with supporting American companies abroad including small businesses.

Yang Yihang, Deputy Director General of the Investment Promotion Agency of China’s Ministry of Commerce (MOFCOM) noted in his remarks at the launch event, "Unlike Fortune 500 companies, SMEs do not often come with the thorough knowledge about operating in the China market. Therefore, they have a stronger need for support in accessing information and resources and understanding policies. The launch of AmCham Shanghai’s SME Center responds to this need. I believe the Center will do a great deal to promote the success of American SMEs in China.”

Potential for China, US Innovation Partnerships Highlighted at Annual Government Relations Dinner

Minister of Science and Technology Wan Gang highlighted the value of Sino-US collaborations in science and technology at this year’s annual Government Appreciation Dinner, hosted by the American Chamber of Commerce in the People’s Republic of China (AmCham China). The theme of this year’s event was “Open and Inclusive Innovation.” Minister Wan, speaking before some 600 attendees, including US Ambassador to China Gary Locke, said US companies could tap new market opportunities by helping China advance toward national science and technology goals. Of the Fortune 500 companies, he said, 470 have already set up R&D centers in China. In 2010, foreign companies invested 104.8 billion renminbi in R&D, a ten-fold increase over the past decade. Noting that China has steadily increased its investment in education, he said: "I hope R&D centers can take full advantage of China's highly-educated talent and its R&D infrastructure to continue to develop the nation's innovation capacity," he said. Minister Wan also pointed to the lengthy Sino-US history of collaborations in science and technology. Over the past thirty years, he noted, the US and China have carried out effective and successful cooperation in sectors including energy, agriculture, environmental protection, sanitation, meteorology, and nuclear safety.

AmCham China Chairman Ted Dean, in his remarks, drew attention to China's immense potential for innovation. If the US and China “work together openly and inclusively, both countries gain from new products, new cures, and new businesses created in China and in the United States.”


China: UNCTAD chief said 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. 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 (COIS) 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. "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.


UK 'welcomes' Chinese capital

Britain sees investment as an effective way to drive growth. The British Ambassador to China told an audience in Beijing on Friday that his government continues to welcome investment from China. Sebastian Wood told the FT Chinese Annual Forum 2012 that the United Kingdom wants to lift its economy out of the global financial crisis by seeking investment-driven growth, rather than one led by domestic consumption. "This strategy is the opposite to that of China, because we have spent too much," Wood said. The comments came just 24 hours after it was revealed that China Investment Corporation, the sovereign wealth fund, had increased its investment in the infrastructure of the UK by spending 450 million pounds ($726 million) on a 10 percent stake in the company that owns London Heathrow Airport, the country's largest airport. It was the second major investment made by CIC this year in the UK infrastructure sector, after the manager of China's $410 billion wealth fund took an 8.86 percent stake in Thames Water, the largest water and sewage company in the UK, in January - a deal considered by analysts at the time as the fund's first major share purchase in the UK. Reporting the Heathrow deal this week, The Financial Times suggested that CIC is in talks to buy Deutsche Bank's UK headquarters for 250 million pounds.

Chinese investment in the UK has gone beyond infrastructure. In September, Chinese telecom and computer network giant Huawei Technologies Co invested 1.3 billion pound to expand its operations in Britain over the next five years, a move which is expected to create 500 jobs. Wood said that China is becoming more open to invest in technological areas overseas, adding "we welcome the investment from China". According to the latest figures from UK Trade & Investment, which promotes UK business deals overseas, China became the third-largest investor in the UK in 2011, up from seventh the year before, thanks to the Chinese government's policy of encouraging competitive companies to expand abroad. Last year, China's investment in the UK surpassed $1.1 billion, an increase of more than 55 percent year-on-year.

Justin Yifu Lin, a former chief economist at the World Bank, told the FT Forum that infrastructure investment is becoming a key engine for economic growth in developed economies. "Although developed nations have mature infrastructure networks, there is still big investment potential in the area," Lin said. UKTI says that the country has identified 250 billion pounds worth of infrastructure investment needed over the next 10 years, with increased private-sector involvement needed to deliver that, on projects including energy generation and transmission, airports, rail, digital communications, and waste and water treatment.

The UK government's attitude differs from that in the US, where the authorities have expressed national security concerns over Huawei's investment plans in the country. FT quoted a spokesman for British Prime Minister David Cameron as saying: "The 500 jobs brought by Huawei are the kind of jobs we need to rebalance the economy and compete in the global race." The UK's largest telecom operator Everything Everywhere announced on Wednesday that its network infrastructure and solutions will all be supplied by Huawei, when it
launches commercial operation of its 4G service.

Source: Bao Chang: UK 'welcomes' Chinese capital, China Daily, 2012-11-03

**Chinese Banks Carefully Plot U.S. Arrival**

The Federal Reserve Board's decision in May to allow a large Chinese bank to buy a majority stake in a U.S. depository has yet to touch off an expected wave of similar deals, but that is not due to a lack of interest on the other side of the Pacific. Industry observers say Chinese banks are plotting their expansion into the United States, but they are doing so deliberately in hopes of avoiding mistakes that have been made by some other foreign banks with stateside ambitions.

Chinese banks that are seen as likely acquirers are the so-called Big Four -- Industrial and Commercial Bank of China, Bank of China, China Construction Bank, and Agricultural Bank of China. ICBC is the world's fourth-largest bank, with $2.6 trillion of assets, and the other three all rank among the 15-largest by assets.

The U.S. central bank gave Chinese institutions a blueprint for how to enter the United States in May when it approved Industrial and Commercial Bank of China's application to buy up to 80% of the U.S. operations of the Bank of East Asia in New York. Simultaneously, the Fed allowed Bank of China and Agricultural Bank of China to establish new U.S. branches, potentially giving those two banks a leg up over Chinese competitors that are looking to enter the American market.

The Japanese example is one the Chinese would like to avoid, according to industry sources. In the 1980s Japanese banks expanded quickly in this country, particularly in California, and by the end of that decade, they controlled about half of all foreign banking assets in the United States. The subsequent hasty exit by some of Japanese banks was triggered partly by troubles at home, but also, in the view of industry observers, by their failure to maintain strong U.S. leadership at their banks in this country. In the early 2000s, when Japanese banks were rapidly selling off their U.S. assets, American executives at those institutions used to joke that investors might know about the sale of their bank before they did.

One reason why the arrival of Chinese banking has so far attracted scant attention in the United States may be the small size of the first acquisition. The U.S. operations of the Bank of East Asia have under $800 million of assets, making the bank a tiny speck in comparison to its Chinese purchaser, which has a market capitalization of $1.8 trillion. Some industry observers expect other Chinese banks follow this pattern - dipping their toes into the water with the purchase of a small bank that that serves Asian Americans. There are a number of such banks in southern California, including the $1.4 billion-asset Preferred Bank (PFBC) in Los Angeles.


**Bookmarks**

*Chinese investment in central and eastern*

Chinese investment in the new member states of the EU is still on a very small scale, but looks set to rise, with both Chinese and central-east European governments keen that it should do so. The motivation is clear-cut: securing market access, technology transfer and optimisation of supply networks. The search for good projects is on, but there are reasons for caution on both sides.

Chinese outward foreign investment is driven by two sets of factors. First, financial: with US$3.2trn of hard currency reserves, China has an incentive to push foreign investment of all kinds, in order to improve returns on assets, and as a hedge against currency fluctuations. The bulk of Chinese reserves are kept in the form of government and quasi-government debt, but the China Investment Corporation held US$410bn of assets at the beginning of 2011, to be used for financial and direct investment, and with a policy of increasing the weight of direct investment. Finally, private individuals in China hold some US$9.6trn of investible wealth, about 20% of which is invested abroad. Second, the real economy: as an emerging economy with a high growth rate but a limited domestic resource base, China has a strong incentive to invest in raw material and energy production in other countries of the world—usually in developing countries, but also Russia. Market access considerations may also provide good reasons to make direct investments, particularly in developed countries with big domestic markets. Direct investments in mid- and high-tech sectors in the developed economies are largely driven by a desire to use foreign direct investment (FDI) as a channel of technology transfer back to China, as in the cases of the Geely acquisition of Swedish Volvo Cars, and the recent acquisition of Norwegian Elkem by the China National Chemical Corporation.

In 2010 the stock of Chinese FDI in the EU totalled €6.7bn (US$8.6bn)—just 3% of the world total, and only around 9% of the value of FDI from the EU in China. But FDI flows from China increased from just €100m in 2009 (there were net repatriations in 2008) to €700m in 2010, 10% of total Chinese outward FDI flows in that year. Provisional estimates suggest that it increased sharply again in 2011. So while Chinese FDI in the EU is still a relatively small investment flow, it is increasing fast. One other striking feature of Chinese FDI in
Europe is that, while it is dominated by big corporates, a small but growing proportion of the total assets involved belong to small, (Chinese) family firms.

Most of the factors cited above (apart from technology transfer back to China) also drive Chinese FDI in the central-east European EU member states (CEE). Most obviously, investment in CEE gives Chinese firms untrammelled access to the EU market. But we should not overemphasise this factor—China is also showing a great deal of interest in investment opportunities in western Balkan countries with no immediate prospect of EU membership, including Serbia, Montenegro, Bosnia and Hercegovina and Macedonia. The most striking examples of Chinese FDI as a channel for transfer of Chinese technology to the region are the Chinese telecoms company Huawei's investments in Hungary and Romania. With the development of the Huawei European Design Centre in Romania, a pattern of two-way technology transfer could be established here in the future. The Great Wall Motors car-assembly plant which went into production in Lovech in Bulgaria earlier this year is a classic example of 'reverse outsourcing', with most of the components coming from China. During 2012 China has signed a number of new investment agreements with Hungary. And in Romania negotiations continue on possible Chinese investment in the Cernavoda nuclear plant.

Against these bright prospects must be weighed a number of disappointments in relation to Chinese involvement in the CEE economies. In Poland, the picture is clouded by the disaster of the A2 highway. The tender for construction of the new road was awarded to a Chinese construction firm, COVEC. The firm fell down badly on the job, and the road had to be completed by Polish firms. The Chinese side has been accused of dragging its feet on investment projects in Hungary, and has notably failed to step in to save Malev, the Hungarian national airline, from bankruptcy. These stories reflect two important points. Chinese capabilities are not limitless.

Source: EIU: Bookmark Share Chinese investment in central and eastern, November 14th 2012

U.S. to Attract Up to $400 Billion in China Investment by 2020 with California a Top Target Finds Asia

A new report published today by the Asia Society predicts that the U.S. will attract up to $400 billion new direct investment from China by 2020 and that the State of California in particular will benefit.

Before 2008, annual Chinese direct investment in the United States typically stood well below $1 billion. Since then, Chinese investment in the U.S. has exploded, reaching nearly $2 billion in 2009 and a record $5.8 billion in 2010. In the first three quarters of 2012, Chinese firms completed transactions worth $6.3 billion, setting the stage for a new record year for Chinese investment in the United States. California is the top target for Chinese investment in the U.S -- it has attracted more investment projects from China than any other U.S. state. Chinese investment in California is growing at triple-digit levels and could reach $60 billion by 2020 -- if the state and private sector, in partnership with the U.S. government, do a better job working together to attract Chinese capital, according to Daniel H. Rosen and Thilo Hanemann of the Rhodium Group, authors of Chinese Direct Investment in California. The report's global launch took place at a joint AmCham Shanghai and Asia Society conference on the growing trend of Chinese investment in the U.S. Compared to the rest of the U.S., Chinese investment in California is disproportionately from private rather than state-owned enterprises, greenfield rather than M&As, and is strongest in high-tech and the service sector -- areas that the Chinese government and private sector have targeted for accelerated growth. Understand California's value to China. The state's economy is the largest in the U.S. It has strong competitive advantages in high-tech sectors like software, IT, electronics, and cleantech. The state has long ties with China and has one of the most highly educated, multi-cultural workforces in the world. Target the right Chinese firms. High-tech firms in China seek what their California counterparts have: technology, know-how, and market experience. This is also true for high-value services in China seeking to move up the value chain. The Chinese government has identified exactly these areas as priorities for future economic growth.