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Xi underscores economic issues
China must maintain economic growth and persevere with market-oriented reforms in the face of multiple risks in the economy, said newly elected Party leader Xi Jinping. The government should continue its proactive fiscal and prudent monetary policies next year and improve the economy's dynamics, Xi, general secretary of the Communist Party of China Central Committee, said at a symposium held last week with non-Party figures in Beijing. "The growth must be tangible, and should be efficient, of good quality and sustainable," Xi said. He urged adherence to market-oriented reforms and well-conceived top-level reform designs. "Targeted measures should be carried out in a timely manner, while gradual progress in the overall reforms should be combined with breakthroughs in certain fields," he added. Other priorities in 2013 include supporting agriculture, restructuring the economy and improving people's livelihoods, Xi said. China has to prepare itself for multiple risks and challenges, though the fundamentals of the economy are healthy, Xi added. The world economy will continue to grow at a slow rate, while domestic companies are troubled by increasing costs and weak capabilities in innovation. Conflicts are increasing between inadequate demand and excessive production capacity, as well as between economic development and the environment, he said.

Source: Anonymous: Xi underscores economic issues, China Daily, 2012-12-07
http://www.chinadaily.com.cn/business/2012-12/07/content_15995206.htm

China economy: Retreat of the bears leaves little room for bulls

After suffering through seven straight quarters of slowing growth, China's economy seems finally to be gathering steam in the final quarter of 2012. Growth in industrial output and retail sales hit eight-month highs in November, at 10.1% and 14.9% year on year respectively, according to data released by the National Bureau of Statistics (NBS) on December 9th. Investment in fixed assets, although expanding at a slower pace than in 2011, appears to have stabilised in recent months, with urban investment increasing by 20.7% year on year in November.

All through the economic travails of 2012, China's private consumption has remained remarkably resilient, in a trend that was reinforced by retail sales growth in November. Sales were up by 14.9% year on year in the month, compared with 14.5% growth in October. The performance of the retail sector in November will have been helped slightly in value terms by an upturn in year-on-year consumer price inflation, which rose to 2%, from 1.7% in October. Among the retail categories reported by the NBS, clothing, shoes and textiles performed particularly strongly. Car sales have also perked up in recent months, with retail vehicle sales growing by 8.3% year on year in November.

Year-on-year growth in urban fixed asset investment (FAI) in January-November remained unchanged from the 20.7% increase posted in January-October. This rate of expansion remains some way below the 24.5% rise in FAI recorded in the first 11 months of 2011. Of the investment categories tracked by the NBS, investment in manufacturing has remained a point of strength, growing by 22.8% year on year in January-November. In particular, investment in vehicle manufacturing has surged ahead in 2012, despite the current tepid demand conditions facing the vehicle industry, growing by 32.9% in the year to date. Highlighting the importance of the construction sector to the overall performance of investment, year-on-year property investment growth accelerated to 16.7% in January-November, from 15.4% in January-October.

Meanwhile, the fact that the recovery has largely come through the tried and tested routes of state-led investment and more easily available credit is a worry. The government is trying to wean China's economy off these types of growth drivers, as the efficiency of infrastructure investment is increasingly coming into question and the quality of loans used to sustain economic growth is often doubtful. The two problems are linked, given that much lending goes to state-owned firms and projects linked to local-government investment programmes. As the short term outlook for the economy begins to brighten, the government will need to use the breathing space that this will provide to do more to tackle the underlying fragilities of the country's growth model.
Govt to use 7-7.5% as working GDP target: UBS

The Chinese government will likely use 7-7.5 percent as a working GDP target for 2013, but the forecast is for actual GDP growth to reach 8 percent next year, investment bank UBS AG said in a research note on Monday. At the Central Economic Work Conference held over the weekend, an official statement said that a "pro-active" fiscal policy and "prudent" monetary policy would be pursued, while property controls would continue, in line with market expectations. The usual phrase of "steady and relatively rapid growth" was absent from the official statement, but the conference did stress the absolute importance of continued economic "development", and highlighted urbanization as the most important driver of domestic demand. In addition, the conference called for an "appropriate expansion" of total social financing in 2013, which would almost certainly exceed 15 trillion yuan ($2.38 trillion) in 2012, and for "genuinely" lowering financing costs for businesses, the report said.

Source: Hu Yuanyuan: Govt to use 7-7.5% as working GDP target: UBS, China Daily, 2012-12-17

China targets quality, efficient growth in 2013

Chinese authorities vowed Sunday to focus on quality and efficiency of economic growth in 2013, demonstrating their determination to ensure sustainable and healthy economic development after the previous pursuit of fast-track growth. A statement issued after the closure of central economic work conference, which set the tone for economic policymaking next year, said "enhancing quality and efficiency of economic growth" will be a "central task." The two-day conference offered a first glimpse into economic policies eyed by the new top leaders of the Communist Party of China, who decided to maintain a proactive fiscal policy and prudent monetary policy in 2013 as they expect global economy to maintain a low growth.

"The global economy has entered a period of profound transition and correction from a period of fast growth in the pre-crisis years," the statement said, warning of rising protectionism and increasing pressure from potential inflation and asset bubbles. Easing measures, included the latest round of quantitative easing in the Unites States and monetary easing in other economies, have again pushed up global inflationary pressure.

To boost quality growth, the statement said expanding domestic demand will be a strategic basis for China's development next year. New growth points should be created in domestic consumption, which will serve as both a strong pulling power and foundation for the economy's sustained and healthy development, it said. The country has been trying to restructure national economy to wean off its reliance on exports for growth, as its main trade partners like the European Union and the United States are embroiled in debt crisis.

Source: Xinhua: China targets quality, efficient growth in 2013, 2012-12-17

Domestic consumption a top priority for 2013

China will continue to make the growth of domestic demand a top priority to keep growth momentum on track in 2013, the country's top economic planner said on Tuesday. "The fundamental role played by consumption in bolstering economic growth needs to be strengthened, while the critical role played by investment should be well implemented," said Zhang Ping, minister of the National Development and Reform Commission, at its annual work conference. To improve equality and purchasing power, the government will deepen income distribution reform in 2013, with an emphasis on bridging the income gap and widening coverage of the social security system, said Zhang. In addition, the government will develop a host of new initiatives to drive consumption, including promoting energy saving and new energy vehicles, and encouraging private investment in service agencies such as nursing homes. The government will also encourage
e-commerce and online shopping by upgrading logistics facilities and broadband networks. Public investment will mainly cover low-income housing projects, urban infrastructure facilities, agricultural projects, public affairs, energy saving and ecological projects and innovation. Private investment in the construction of infrastructure and public affairs will be highlighted.

Zhang said overcapacity is a prominent problem in many industries. For example, the steel industry has achieved less than 75 percent of its production capacity, according to estimates by some industrial analysis. As a major planner and coordinator of deepening reform, the NDRC will play a critical role in accelerating economic restructuring and ensuring more efficient, fair and sustainable economic development, said Zhang. The government will make efforts to make breakthroughs in key areas such as pricing reform of energy resources and reform in the medical and health systems, he said.

Source: Lan Lan: Domestic consumption a top priority for 2013, China Daily, 2012-12-19

China gives banks Basel III timetable

China has handed banks a formal timetable for implementing the tougher Basel III capital requirements, ending months of uncertainty about how the rules will be phased in. The CBRC said it would not rush the implementation. Specifically, it said that the requirement of a 2.5 per cent counter-cyclical buffer – a key part of the Basel III accord that is meant to bolster global financial stability – need only be met in steps. Banks would be expected to hit 0.5 per cent by the end of next year, and then add an extra 0.4 per cent over each of the next five years. The CBRC said in a statement that this would “reduce the implementation pressure on banks”. Beijing had already delayed until next year the start of the implementation of the capital rules, which were initially meant to go into force early this year.

Along with postponing the Basel rules, it approved lower dividend payouts and reduced loan-loss coverage ratios. It also gave banks a wider berth to conduct off-balance-sheet lending activity. Now that the economy is improving, the regulators are cautiously tightening their grip on banks, telling them to bring any off-balance-sheet products that carry guarantees back on to their books. But the gradual implementation of the Basel rules will give banks more flexibility if the economic outlook sours again.

Source: Simon Rabinovitch in Beijing: China flies aircraft over disputed islands, Financial Times, December 7, 2012

China's Wealth of Risks

A sleeper risk for the stability of China's banking system is showing signs of stirring. Angry customers hit Shanghai's streets this week, wanting compensation after 140 million yuan ($22.5 million) of investments offered by Huaxia Bank Co. turned sour. The fear for investors is that Huaxia's problems are the shape of things to come for China's banks. The investment that went bad was one of a number of new wealth-management products on offer. This case was extreme: An investment backed by loans to small business, which promise to pay investors 13%. But similar products have surged. Charlene Chu of Fitch estimates the outstanding value may hit 13 trillion yuan by year-end. That is equal to about 14.5% of yuan deposits in the banking system and is up from 8.5 trillion yuan in 2011.

The reason for such products' popularity is that they appear to offer decent returns with less risk than China's volatile stock market. But their rapid growth is a concern. While most products are short term, many of them are used to fund long-term loans. That requires investors to keep recycling their money. Products are opaque, and many customers appear unaware of the risks. For individual banks, blowups like the one at Huaxia mean a payment to make investors whole and a hit to their reputations. Fitch estimates that such products as a share of total deposits are highest at Bank of Beijing, Bank of Communications, Shanghai Pudong Development Bank, Huaxia and Ping An Bank.
The real risk, though, is a loss of confidence triggering a run on wealth-management products. Shanghai's financial regulator insisted Huaxia take responsibility for the soured investment, and there is no sign of a mass exodus of funds. But a few more noisy protests and the risk for China's banks won't stay sleeping for long.


China should lower M2 growth goal: PBOC officials

China should cut its money supply growth target in coming years to prevent long-term inflation pressures building as the country's economic growth cools, Reuters reported, citing two officials from the central bank who made public remarks on Thursday. "The policy target for M2 growth should be set lower as China's economy enters a stage of structural reform and demand for money and credit also drops accordingly," Wang Yi and Shi Chunhua, who work for the central bank's statistics department, wrote in an article published in China Finance magazine. The figure of M2, a broad measure of money supply, has grown rapidly in China over the past decade, bringing the country's current M2 to GDP ratio to 180 percent, much higher than many developed countries, including the United States and Japan. Analysts say rapid M2 growth has been a key factor driving up inflation and asset prices in recent years. The two central bank officials said a slowdown in the accumulation of foreign exchange reserves and the expansion of domestic bond markets also reduced the need to create base money in the banking system.

Source: Xinhua: China should lower M2 growth goal: PBOC officials, 2012-12-21

Pledge made on credit growth

China will apply multiple instruments to guarantee the "steady" growth of credit and aggregate social financing, while maintaining a "prudent" monetary stance, the central bank said on Friday. It vowed to encourage direct financing to play a bigger role in social financing, while continuing to promote interest-rate and exchange-rate reforms, and keep the country's currency stable.

Source: Wang Xiaotian: Pledge made on credit growth, China Daily, 2012-12-29

China's reform targets policy mismatch

The Chinese government is working on a better coordination mechanism between fiscal and monetary authorities to pave the way for further economic reform, a senior government consultant said on Thursday. Li Yang, deputy head of the Chinese Academy of Social Sciences, the country's top think tank, said a regular meeting between fiscal and monetary officials, which was held in the 1990s but later abandoned for more than a decade, will restart very soon. Such officials are mainly from the Ministry of Finance and the People's Bank of China, the country's central bank. "The mismatch between fiscal and monetary policies is certainly an aspect that the government should attach more importance to if it wants to improve the efficiency of the policies," Li said. "Fast economic growth in the last decade could have covered up some problems, but slower growth in the future will see the contradictions loom large." He said capital tension next year will lead to more disputes and friction between the two sectors. Li said the roles of the two central government departments need to be defined more clearly, especially on government bond issuance and the management of the account in which tax revenue and other public funds are deposited, as well as foreign exchange reserves. Li suggested the government divide foreign reserves into different categories, leaving only a small portion to be managed by monetary authorities.

He made the remarks in Beijing where the academy's annual report on China's financial development was released. In the report, the think tank estimates credit supply in 2013 will increase by 16 percent from the end of this year, while M2 - a broad measure of money supply that covers all deposits and cash in circulation - is likely to increase by 15 percent. "Judging from
history, such a pace would keep a reasonable balance between the goal of shoring up the economy and curbing inflation," the report said.
Source: Wang Xiaotian: China's reform targets policy mismatch, China Daily, 2012-12-21

**China's SMEs thirsty for financing**

It is still difficult for China's small and micro businesses to get loans from financial institutions, said a senior official with the country's industry watchdog on Saturday. Official data show that the loans small and micro enterprises received as of the end of October accounted for 21.7 percent of the country's total loans this year, marking the third year of annual growth. However, it remains hard for small and micro enterprises to borrow money, as large-enterprise-oriented financial institutions tend to turn a cold shoulder to them in order to avoid risks, Zhu said. Zhu said China needs to set up small and medium-sized financial service providers to meet the various demands of small and micro enterprises. China also needs to encourage and guide more private capital to fund these enterprises, Zhu added.
Source: Xinhua: China's SMEs thirsty for financing Updated: 2012-12-31

**Overseas taste for China A-shares recovers**

OVERSEAS appetite for China's yuan-denominated Class A shares has recovered as equity markets rose after a three-year decline and regulators stepped up moves to make the country's capital markets more friendly to foreign investors. On December 14, in the latest relaxation of rules on foreign investment, the State Administration of Foreign Exchange abolished the US$1 billion ceiling for sovereign wealth funds, central banks and foreign monetary authorities participating in QFII. No new upper limit was specified.

The valuation of Shanghai's stock market on December 3 declined to its lowest level since 1997, with the price-to-earnings ratio of the index at 10.8 times, according to data compiled by Bloomberg News. That makes the Chinese stock market more attractive, especially while developed markets remain inhibited by the "fiscal cliff" political showdown in the US and the debt crisis in the eurozone. Investment sentiment in China has been further buoyed by the stock market's recent rebound. Between December 3 and December 14, the Shanghai Composite Index has surged above 10 percent from a near four-year low. Market watchers and investors are upbeat the market's current positive performance will continue into the new year as China's economy gathers pace after seven quarters of slower growth.

Foreign money accounts for only 1 percent of the market capitalization of the Shanghai and Shenzhen exchanges, and that percentage would rise only marginally even if the whole US$80 billion quota were used up, the advisory firm added. By contrast, foreign investment accounts for 22 percent of stock market capitalization in Malaysia and 36 percent in the Korean market.

An investment by a QFII investor is subject to rules. For example, a participant has to invest as soon as approval is received, and strict restrictions on stock positions prevail. Then, too, the regulator may reduce or revoke a QFII's quota if the full amount of the quota is not invested within a specified time. Under the current regulations, a QFII participant is exempt from the 5 percent business tax on investment gains but needs to pay a 10 percent corporate income tax on dividends, bonuses and interest income gained in China.


**Private investment in rail project boosts Wenzhou**

Opening the door to private investment in State-owned railway infrastructure projects has been acknowledged as a breakthrough in the financial reform taking place in Wenzhou, Zhejiang province. The formal sale of 50 percent of the shares in the S1 railway line - a planned 52.22-km route - at designated branches of Industrial and Commercial Bank of China Ltd in the city on Dec
12 attracted great investor attention. The starting price of the shares was 10,000 yuan ($1,600), with a guaranteed annual after-tax return of 6 percent. The total cost of the S1 line is about 17.6 billion yuan, half of which will come from individuals and private enterprises. Wenzhou Xingfu Rail-transit Shares Holding Co was launched to operate the project, valued at 8.8 billion yuan, and attract investors to buy the shares at designated banks. "The selling of shares is a move in the financial reform to help local people make wiser and safer investments in government construction projects," said Ding Jianyu, chairman of Wenzhou City Railway and Rail Transit Investment Group Co Ltd, the State-owned enterprise in charge of the project. S1 shares have been a top-selling financial product over the past few weeks among individual investors in Wenzhou. "The total amount of money raised in the first two days exceeded 100 million yuan," said Huang Yingying, a financial manager at an ICBC branch in Wenzhou. Huang added that all buyers are individuals. No local private-owned enterprises have sought to invest yet. The value of S1 shares sold to individual investors through Dec 21 exceeded 450 million yuan, according to updated figures from ICBC in Wenzhou.

Source: Yu Ran: Private investment in rail project boosts Wenzhou, China Daily, 2012-12-25

**Fund companies turn to Taobao to win customers**

Taobao, a shopping website owned by e-commerce giant Alibaba Group Holding Ltd, has become a new sales channel for fund investors. The website has attracted about 20 fund management companies after it launched a wealth management channel in July. "Fund companies are opening online stores on Taobao, but we are only providing a trading platform and will not need any other licenses," said company spokeswoman Wang Ying. Alipay - Alibaba's payment service provider - will handle the online payment process for certain products. Alipay has a license to offer payment services for fund management companies. Wang said that neither Taobao nor Alipay will be directly involved in the sale of fund products. Meanwhile, some investors said that they have concerns about the safety of buying investment products online.

Source: Wu Yiyao and He Wei in Shanghai: Fund companies turn to Taobao to win customers, China Daily, 2012-12-28

**China's stocks advance to six-month high -- Dec 28**

Chinese shares climbed Friday, driving the benchmark index to the highest level in six months, led by gains in the financial and real estate developer sectors. The benchmark Shanghai Composite Index gained 1.24 percent, or 27.36 points, to end at 2,233.25 points. The Shenzhen Component Index rose 0.98 percent, or 87.14 points, to 9,026.99 points.

Source: Xinhua: China's stocks advance to six-month high, 2012-12-28

**China's stocks end year with continued rebound, 2012-12-31**

Chinese shares continued to rise on the last trading day of this year, with the benchmark Shanghai Composite Index gained 1.61 percent, or 35.88 points, to end at 2,269.13 points on Monday. The Shenzhen Component Index rose 0.99 percent, or 89.49 points, to 9,116.48 points. 

Source: Xinhua: China's stocks end year with continued rebound, 2012-12-31

**China economy: Spending tomorrow's taxes today**

China's local government finances are a mess. Regional authorities have become overly dependent on income associated with the sale of land to developers, and are struggling under the heavy burden of debt that they built up during the state-led investment boom in 2009-10. As land sales have dropped off in 2012, some have resorted to unorthodox measures to raise extra revenue. An upturn in the property market in 2013 may provide a breathing space, but structural reforms to the system of local government financing remain an urgent priority.

Although the expansion in local government fiscal revenue in the first ten months of 2012, at
15.6% year on year, outpaced the overall average increase in fiscal revenue of 11.2% in the period, this is something of a statistical mirage. In recent years, regional authorities have come to rely increasingly heavily on sources that do not appear in headline fiscal revenue numbers. During the 2009-10 stimulus spending splurge, vast amounts of public investment were funded by the state-owned banking system.

In addition, earnings from land sales to developers have become a vital part of the local government financing system. According to the Ministry of Finance, local authorities' earnings from sales of land-use rights amounted to Rmb2trn (US$320bn) in the first ten months of 2012, equivalent to roughly one-fifth of total local and central government revenue in the official budget. However, inflows have plunged recently, falling by 21.7% year on year in January-October, in line with a decline in property investment (particularly during the first half of 2012) that left fewer developers needing to acquire land.

The fiscal crunch among local authorities has led some to resort to unorthodox strategies to shore up their finances and thus sustain their public investment-led economic growth models. In August there was a widespread shutdown by retailers in the city of Shenyang, in Liaoning province. Reports suggested that this represented an unofficial protest against what was perceived as a harsh campaign of inspections of privately owned stores and restaurants by municipal officials who were targeting hygiene breaches and counterfeit goods and imposing heavy fines on violators. The city government denied that any such campaign was under way, but it does seem that many regions have toughened their enforcement regimes: local government income from fines, although still modest, was up by 20.2% year on year in October. Anecdotal reports have also suggested that some local authorities, including a number in Zhejiang and Jiangsu provinces, are asking taxpayers to pay their tax for 2013 in advance; it is unclear whether such revenue is being inappropriately recorded as part of fiscal income for 2012.

The central government is well aware of the financial challenges facing local governments. Several initiatives have been launched in the past few years that aim to provide long-term solutions, although none is yet contributing substantial amounts of revenue. The measures have included allowing some regional authorities to issue debt, and also experimenting with property taxes (currently in Shanghai and Chongqing, although other cities may soon join the pilot programme). A more fundamental realignment of the system may have to await a new budget law, but this could be on the way soon, as a draft proposal for a revised budget law was issued earlier in 2012. Although the policies announced so far point the way to possible reforms of the local government tax system, completely restructuring it would be likely to prove extremely difficult, as this would alter the balance of power between China's regional and central authorities.


China expands VAT trial to 3 more regions

China expanded the trial of replacing business tax with a value-added tax to three more provincial regions on Saturday, the State Administration of Taxation has announced. The change to a value-added tax from a tax on revenue was applied on Saturday to transportation and services businesses in Tianjin municipality and Zhejiang and Hubei provinces, according to a statement on the administration's website. Shanghai piloted the tax-cutting program on Jan 1 this year in an effort to decrease the overall tax burden and boost the transportation and service sectors. The pilot program was then expanded to regions including the provinces of Jiangsu, Anhui, Fujian and Guangdong as well as Beijing, Xiamen and Shenzhen later this year.

The tax-cutting program will likely to be expanded to cover telecommunications, rail transportation as well as construction and installation industries in 2013, according to the statement. With Tianjin, Zhejiang and Hubei joining the pilot, more than 900,000 enterprises across the country will have been covered by the tax-cutting program, the administration said earlier this week. In Shanghai, the tax cut has helped reduce enterprises' tax burdens by 22.5
China to be 'more open': vice-premier Li

China will become "more open", Vice-Premier Li Keqiang told former US Treasury Secretary Henry Paulson on Wednesday. In a meeting between the two, Li said to expand domestic demand, tap the urbanization potential and develop other initiatives all required an increasingly open environment. He said, "China has benefited from the opening-up, In the future China will become more and more open." Li said reform and opening-up was China's inevitable path to the country's prosperity, working for the fundamental interests of its people. With further opening-up, China will expand its horizon, learn from other countries and cultivate advantages, Li said. Li said China expects its partners to become more open, adhere to trade and investment liberalization and create a fair and just environment. On China-US relations, Li said China and the United States are building a cooperative partnership of mutual respect and mutual benefit. To develop this partnership, the key is to highlight and expand common ground and control and narrow the disparities, Li said. Li urged the US to relax restrictions on high-tech product exports to China. Li called on Paulson and his team to combine thinking and action and make more efforts to China-US relations.

China's urbanization scale is unprecedented and adds color to global economic development, said Paulson, who now heads the Paulson Institute, an independent center at the University of Chicago that aims to promote sustainable economic growth and a cleaner environment. Paulson said he and his team is committed to stronger collaboration with China in urbanization, agricultural investment and financial market construction. The former US official is in Beijing to attend a seminar on the sustainability of Chinese cities.

Source: Xinhua: China to be 'more open': vice-premier Li, 2012-12-07

Signals in China of a More Open Economy: [News Analysis]

In a strong signal of support for greater market-oriented economic policies, Xi Jinping, the new head of the Communist Party, made a visit over the weekend to the special economic zone of Shenzhen in south China, which has stood as a symbol of the nation's embrace of a state-led form of capitalism since its growth over the last three decades from a fishing enclave to an industrial metropolis. "Reform and opening up is a guiding policy that the Communist Party must stick to," Mr. Xi said, according to Phoenix Television, one of several Hong Kong news organizations that covered the trip. "We must keep to this correct path. We must stay unwavering on the road to a prosperous country and people, and there must be new pioneering." In the months before the transition, there were widespread calls, including from people close to Mr. Xi, to adopt more liberal economic policies and even to experiment with greater political openness as a way for the party to maintain its rule. Without much success so far, reformers have long been encouraging the leadership to move toward a more sustainable growth model for China, one that relies more on domestic consumption rather than infrastructure investment and exports, and where state enterprises play less of a role.

Mr. Xi, known as a skillful consensus builder, has kept his ideas carefully veiled throughout his career, but his trip to Shenzhen is the strongest sign yet that he may favor more open policies. In a speech in Beijing on Nov. 29, Mr. Xi spoke of the "Chinese dream" of realizing the nation's "revival," which, besides being a call for renewal, also signaled strong nationalist leanings. Mr. Xi's early moves as party leader seem aimed at emphasizing national "revival," a theme he highlighted when he appeared on Nov. 29 with the party's new seven-man Politburo Standing Committee in a history museum at Tiananmen Square. According to People's Daily, the party mouthpiece, Mr. Xi stood in front of an exhibition called "The Road to Rejuvenation" and said,
"After the 170 or more years of constant struggle since the Opium Wars, the great revival of the Chinese nation enjoys glorious prospects." He added: "Now everyone is discussing the Chinese dream, and I believe that realizing the great revival of the Chinese nation is the greatest dream of the Chinese nation in modern times."

Mr. Xi's brand of nationalism, analysts say, could mix bolder economic policies with anticorruption campaigns, a vigorous military buildup and a muscular foreign policy. The combination is somewhat reminiscent of the Self-Strengthening Movement in the late 19th century, when some Chinese leaders and intellectuals tried to push institutional reforms to revive a weakening Qing dynasty harassed by Western powers and Japan.


**Xi's visit signals reform support**

In what is being widely interpreted by analysts as a political signal, Xi Jinping conducted his first official trip as new Party chief to Guangdong, the southern province where China's market-oriented reforms were launched. Due to its proximity to Hong Kong, Guangdong was chosen as the testing ground by Deng Xiaoping three decades ago for "reform and opening-up".

Xi met with business leaders in Guangzhou on Sunday in the run-up to the annual high-level Central Economic Work Conference scheduled to convene later this month, the Xinhua News Agency reported on Monday. In his meeting with the business leaders he stressed the importance of healthy and sustainable development. He also said China must "focus clearly" on the ever-changing global situation. While the achievement and long-term fundamentals of the economy must be recognized, China must also be aware of potential obstacles, he said. China must not attempt to ignore its problems and must "strive for the best but be prepared for the worst", he said.

In the face of complicated and fluid conditions, confidence and awareness of risks are needed to make progress while ensuring stability, he noted. "We should remain cool-headed. We should acknowledge the economic and social achievements we have made so far and recognize that the long-term fundamentals will remain sound," he said. "Meanwhile, we should also recognize that adverse domestic and overseas conditions will be long-term. We should not run from challenges nor cover up problems," he said. Xi also urged accelerating economic restructuring and pushing innovation forward. These goals were imperative, he said. After listening to opinions at the meeting about the economy, Xi urged the relevant departments to solve problems through, among other things, deepening reform and enhancing law enforcement.

Before the meeting, Xi visited Shenzhen, the first special economic zone. He was quoted during the visit as encouraging people to rapidly quicken reform. The visit was seen by observers as echoing a similar trip in 1992 by Deng, which revived the country's then-stalled reforms. The Nanfang Daily quoted Xi as saying, on his Shenzhen visit, that new ground will be broken. Newspapers in Hong Kong reported that Xi laid flowers by a statue of Deng in Shenzhen. Before arriving at Guangzhou, Xi visited the cities of Zhuhai and Shunde. Xi kept his visits low-key, to conform to the "eight rules" published days earlier that urged the end of pomp and ceremony.

Source: Gao Changxin and Zhao Lei: Xi's visit signals reform support, China Daily, 2012-12-11

**Xi stokes economic reform hopes in China**

Xi Jinping, China’s new leader, has issued a rousing call for fresh economic reforms, using his first official trip outside Beijing to visit the southern province at the forefront of the country’s economic transformation over the past two decades. “We can brook no delay” in pursuing reforms, Mr Xi told an audience in Guangzhou, according to state media reports Tuesday. “We should not avoid conflicts or cover up problems. Starting from a tough spot, we should strive for better results,” he told local officials and businesses in the southern city. “We need to have more
political courage and wisdom, and not waste any more time,” Mr Xi was quoted as saying in a separate report. A “stronger sense of peril”, he added, was needed to carry out “deeper reforms”. During a stop in Shenzhen on Saturday Mr Xi laid a basket of flowers in front of a statue of Deng in a local park. Mr Xi said he had gone there to “revere” the statue and push “new breakthroughs and new steps in boosting reform,” according to a state media account.

In contrast to his predecessor Hu Jintao, known for his wooden demeanour and slogan of “scientific development”, Mr Xi has adopted a more casual style in his first few weeks in power, coining the phrase “China dream” to describe his goals for the country. Mr Xi is hardly the first Chinese leader to talk about the need for reform. But the tone of the pronouncements emerging from his weekend trip has been more forceful than those employed by past leaders. Among some China watchers that has stoked optimism that long-delayed needed updates to economic management, from freeing up the household registration system to making government budgets more transparent, could be in the pipeline. If Mr Xi pushes hard for change, he is likely to bump up against powerful vested interests, including state-owned companies and the country’s 6.9m civil servants, who want to preserve the status quo. Mr Xi has overseen a change in official tone since taking on his role. Last week he launched a campaign against official excess, calling for top officials to pare down feasts and ribbon-cutting ceremonies and eliminate “empty talk” in order to hold shorter, more efficient meetings. He has also launched an anti-corruption campaign that has already claimed a senior party official in Sichuan province.

While Deng and other leaders stressed that China should keep its head down and “bide its time” in international affairs, Mr Xi has spoken emphatically of the “great revival of the Chinese nation”. The phrase has unnerved neighbours from Vietnam to Japan who have territorial disputes with China.


**XI: China to continue reform and opening-up**

Xi Jinping’s first inspection tour as general secretary of the Communist Party of China Central Committee sends an unmistakable signal that the new leadership is determined to deepen reforms and boost innovation, analysts said. "The central committee of our Party made the right decision in starting reform and opening-up," Xi told residents and tourists in Shenzhen during a five-day tour of South China’s Guangdong province. "We will follow this proven path and continue to develop our country and improve living standards. "We will promote reform in more fields," he said after laying a wreath in front of a statue of Deng Xiaoping.

Xi said he felt obliged to honor the history of reform and opening-up at the place that pioneered the historic cause.

"Our country's reform has entered a crucial and delicate stage, which requires us to have more political courage and wisdom and seize opportunities to enhance reforms in important sectors," Xi said during the tour, according to Xinhua News Agency. "We must make sure reform and opening-up continue to move in the right direction. We must dare to resolve tough and risky issues. "We should not fear breaking down theoretical or conceptual barriers and destroying the strongholds of vested interests," he was quoted as saying by Xinhua. He also mentioned that the CPC will initiate a plan to adjust the political superstructure, based on investigation and research, to deepen reform.

Xi's route in Guangdong was almost identical to that of Deng, who visited Shenzhen, Zhuhai, Foshan and Guangzhou in January and February 1992. After Deng’s tour, the socialist market economy was officially adopted by the Party and the government. Guangdong is also the place where his father, the late Xi Zhongxun, achieved a remarkable feat in developing the economy and improving the standard of living when he was a top official in the province in the late 1970s. During a visit to a fishing village in Shenzhen, Xi encouraged residents to continue on the path
Reform pledged at key economic meeting

Cutting tax and helping more rural workers settle in cities will be among the reforms pursued through steady economic growth, top policymakers said at a key conference plotting economic strategy for the year ahead. Mustering up "greater political courage and wisdom" and "pushing forward" were vital to achieving reform, they said as a number of measures, from raising bank lending to urbanization, were backed. The two-day Central Economic Work Conference over the weekend also endorsed "steady growth" for the world's second-largest economy.

Policymakers vowed to enlarge capital supply for development, including raising bank loans and keeping the currency stable. But the economy must grow at a pace that ensures quality, efficiency and sustainability, they said. They also pledged to strengthen and improve macro-economic regulation to ensure its "healthy and sustainable development". The fundamental role played by domestic demand was stressed, and both public and private investment will be encouraged. China will keep up proactive fiscal and prudent monetary policies, along the general lines of 2012, policymakers agreed and vowed further reform of the tax system, including structural tax incentives to different industries. They also promised increasing support to agriculture, the rural economy and innovation, and vowed to raise the standard of living.

The conference grabbed market attention even before it started, with the Shanghai Composite Index in A-shares rising 4.3 percent on Friday, its biggest one-day gain since 2009.

Source: LAN LAN in Beijing and CHEN JIA in Sanya, Hainan: Reform pledged at key economic meeting, China Daily, 2012-12-17

China Leader Xi Jinping Is Raring to Go

Barely a month after becoming party secretary, Xi Jinping has been busy showing who's in charge. He has stepped up a crackdown on corruption, ordered officials to cut down on pomp and ceremony, called for improved relations with the rest of the world, and pushed for a stronger military. On his first official trip outside Beijing, Xi, who should assume the presidency in March, visited the freewheeling province of Guangdong, where he met with entrepreneurs and called for speedier economic reform. There he evoked the vision of paramount leader Deng Xiao-ping, who launched China's opening to the world some 30 years ago and who traveled to Guangdong in 1992 to energize reforms. Reining in corruption seems to be the top goal.


To Empower the People, Trim Gov't

Future growth is tied to increased productivity, which can only be brought about if the governing structure is changed to let market forces operate. Two powerful forces have driven China's growth in the past decade. A favorable demographic trend has cut China's dependency ratio to one of the lowest in modern history. China's baby boomers were born between 1950 and
1975. The one-child policy of the past three decades has amplified the natural demographic trend, making today's dependency ratio – which the World Bank defines as the ratio of dependents (people younger than 15 or older than 64) to the working-age population – unusually low. Also, the labor participation rate of China's women is similar to men's. It is partly due to low household wealth. That force may be reversing too. From now onward the dependency ratio is likely to rise. The demographic tailwind is turning into a headwind. After China joined the WTO a decade ago, multinational companies shifted production to China from Europe, Japan and the United States. The redistribution of manufacturing capacity triggered a surge in China's share of global trade. This tailwind is responsible for the rapid growth in bank deposits and money supply. The fixed exchange rate amplified the impact of trade boom on money supply. The debt crises in the West signal the end of China's trade boom. When their factories moved to China, these countries resorted to debt to sustain their living standards. As long as the market was willing to go along, the debt-driven consumption continued, which in turn fed China's export boom. As the debt bubbles burst, so did spending power. This is why China's export boom is over.

China has followed the East Asian model and experienced similar successes as well as similar problems. The WTO and demographic tailwinds meant strong monetary growth. China used part of the money to build up a supporting infrastructure for manufacturing successes. Transportation, energy and telecom systems have become highly developed. Multinational companies can operate in China as in developed economies while enjoying low labor costs. The competence in building infrastructure made it possible for the economy to benefit from joining the WTO and its favorable demographic trend. Exports rose by 20 percent per annum in the decade after joining the WTO, which catapulted the country to the No. 1 spot in global trade.

Whenever money is plentiful, wasteful spending is inevitable. In the 1920s, U.S. businesses over-invested in new technologies and this led to massive overcapacity, which precipitated the Great Depression. In the 1980s Japanese businesses over-invested too and paid too much for trophy assets abroad. Its economy has stagnated for two decades. China has done the same. Over-capacity is everywhere. The overall overcapacity could be one-third, much greater than either in the United States at the end of the 1920s or in Japan in 1992. Easy money usually leads to speculation, asset bubbles, and corruption or rent-seeking. China's stock market rose five times between 2005 and 2007. The land price rose over thirty times in the boom decade. In some cities it went up 100 times. The asset bubbles amplified the feeling that money was easy to come by, which decreased resistance to wasteful investment or rent-seeking activities. Like in the United States and Japan before, the bubbles functioned partly to subsidize investment. For example, China's stock market has declined in the past decade even though the nominal GDP rose four times. Japan's stock market is as low as three decades ago. After the 1929 crash, the U.S. stock market didn't reclaim its peak for two decades. China's fixed investment has been close to half of GDP for many years, much higher than Japan's or the United States' during their peak years. It suggests that China's challenges would be as severe as what the United States faced in the 1930s or Japan in the past two decades.

The East Asian development model is investment and export-led. China's exports rose twice as fast as global trade and four times the global economy in the past decade. The chances are that exports would rise less than 10 percent in the coming decade. That would require China to scale back investment to below 30 percent of GDP. The most important part of the turning point is land prices going into a down channel. Unlike the stock market, the property market takes time to adjust, possibly five to six years; 2012 is the first year. When it's all over, the price of land could drop by 80 percent in many cities and property prices by half. All these factors point to a property burst as big as in Japan or Taiwan.

Waste and bubbles are inevitable during an economic boom. When it's over, paying for the past mistakes can be quite complicated. In particular, asset quality in the banking system deteriorates sharply after a boom. China's non-financial sector debt is over two times GDP. It doesn't include
underground lending. If that is included, the level could be 2.5 times. This is very high for a developing country. Mature economies have non-financial sector debt of 2-2.5 times GDP. They could have such levels of debt because their household wealth levels are higher. At China's US$ 6,000 per capita income level, no other countries could be found with the same debt level, including the East Asian economies when they went into debt crises in 1997. China's debt is skewed toward businesses and local governments. Mature economies tend to have 50 to 70 percent of GDP in business debt. China's is twice as high. Moreover, China's business profitability is about half of the global average. It means that the debt burden is four times. This is why China's stock market is so weak despite the economic boom. This is China's Achilles' heel. The business debt is not comparable to its earnings capacity. It will inevitably lead to large amounts of bad loans. In the past, the problem was covered by appreciating land prices, which empowered local governments to subsidize businesses.

Even though the twin dividends are over, China still has plenty of growth potential. The current per capita income is one-seventh of the level in developed economies. China's relative income was probably higher towards the end of the 1930s. Considering that ethnic Chinese are among high-income groups in developed economies, it doesn't make sense for China's income to be so low relative to the world. If so, it means that the country's system, not the people, is the problem.

The recent debates on the growth potential tend to focus on the wrong areas. Urbanization is resuscitated as another growth area. But, most tier three cities are overbuilt. Their properties under construction would take many years to absorb. Economic growth ultimately comes from a productivity increase, not investment per se or more workers. Productivity growth depends on constant optimization of capital and labor by market forces. The price mechanism is the greatest human invention. It turns collective wisdom into improving productivity.

An expanding government is the root cause for many economic ills in China. More people in the government means more pressure for rent-seeking. As administrative power, not the rule of law, dominates the economy, rent-seeking pressure inevitably changes the economic structure into one for its convenience. Making bubbles, building image projects, and increasing taxes and fees on the people are some of the inevitable consequences. As long as the government remains so large, the pressure for bringing to it more money always exists. If one tax is cut, another one may come to replace it. The beginning of the property bubble deflating is decreasing government revenue, as land sales revenue drops. This is the main reason behind the push for a property tax. While a property tax is appropriate under certain conditions, they do not exist in China. For example, a property tax should occur if property is really owned. China's property titles are for 70-year usage. Second, property tax revenue should go into local usage like education. China's property tax is likely to support existing government spending in investment. Some argue that the tax is for controlling speculation. That is not correct. The right tool for controlling speculation is a capital gains tax. There is one already. If it is not enough, it could be raised. The real purpose of the property tax is to feed the government. This is why China's economic reforms are unlikely to succeed without changing the governing structure. The most important benchmark is in the number of people in the administrative system. Many government agencies have seen their payrolls increasing by ten times in the past fifteen years. To make the government effective and constructive, the size of government needs to be cut by half or more. This is obviously difficult to achieve, but China's future depends on it.

China's household consumption is about one-third of GDP. It is low because labor income accounts for just over 40 percent of GDP. Gray income is probably 10 percent of GDP. Most money in China goes to the government and SOEs. Companies go to them for demand and profit. As their spending is not efficiency-driven, their suppliers are not either. This is why, even though China is the second-largest economy in the world, it doesn't have many competitive companies to speak of. Efficient companies rise when they meet sustainable and efficient demand. When money
is spent by the people for their needs, the demand created is sustainable. Companies that compete for it successfully will last. China's household consumption should be above 50 percent of GDP, similar to that in other developing countries. It requires labor income at 65 percent of GDP, also a normal level. These goals can only be met if the government and SOE's share in the economy decreases. In the short term, the government could cut income and consumption taxes by 1 trillion yuan. Such a down payment could increase demand for industries with overcapacity and boost market confidence in China's future.

Source: Andy Xie: To Empower the People, Trim Gov't, 12.21.2012
http://english.caixin.com/andy_xie/index.html

“Strong army” Xi: The other side of China’s reformer

Much has been made this week of Xi Jinping’s “southern tour”. In retracing the footsteps of Deng Xiaoping, the leader who turned China to markets after Maoism, Xi’s trip to the southern province of Guangdong has been interpreted as the possible beginning of a new push for economic reform.

But Xi’s tour was about more than just the economy. He also spent three days inspecting a military base in Guangzhou, the provincial capital, and made a series of speeches calling for stronger, combat-ready fighting forces. “To realise the great revival of the Chinese nation, we must preserve the bond between a rich country and a strong military, and strive to build a consolidated national defence and a strong military,” he said. The same cannot be said of Chinese media. On Thursday the top story on the front page of the People’s Daily, the official mouthpiece of the Communist party, was about Xi’s “rich country, strong army” speech. The accompanying photo was of Xi clutching binoculars on a naval destroyer surrounded by officers.

Xi’s discussion of the economy has fuelled optimism that he could unleash a fresh wave of market-oriented reforms, but there have not been any concrete policy changes yet. Granted, Xi is still in his first month as general secretary of the Communist party. On the military front, though, Xi already appears to have made his first real move. A Chinese aircraft flew over the Senkaku/Diaoyu Islands on Thursday, the boldest action by China yet to challenge Japanese control of the archipelago, which Beijing claims as its own. As Mure Dickie in Tokyo reports: “Japan’s defence ministry said the incident was the first violation of Japanese airspace by a Chinese official aircraft since at least 1958.” Beijing has downplayed the significance of the flight. The Chinese foreign ministry said aerial surveillance of the islands was “completely normal”.

Xi was clear in laying down the law: First, we must keep in mind that the military must unswervingly adhere to the Party’s absolute leadership and obey the party’s orders. Second, being able to fight and win a war absolutely necessary for a strong military. Third, the PLA must maintain its discipline. The military must be governed strictly according to laws. With the Party in full control of the military and Xi, by all appearances, in full control of the Party, that should leave little doubt about who was behind the order for the Chinese surveillance flight over the islands.

Source: Simon Rabinovitch: “Strong army” Xi: The other side of China’s reformer, Financial Times, December 13, 2012

World News: China Seeks to Lift Domestic Demand

In a statement issued after the annual Central Economic Work Conference, a weekend meeting of senior officials to assess economic and international challenges, Beijing's leadership said it wanted to boost imports and speed the integration of rural migrants into cities as ways to boost domestic consumption, according to reports in China's state-owned news agency, Xinhua. China needed to show "more courage to reform," the statement said.

The conference was chaired by the incoming premier, Li Keqiang, and focused on one of Mr. Li's top economic priorities, urbanization, which the group's statement called a "historic task" and "the biggest potential driver of domestic demand." Rural migrants can earn far more money
working in China's cities than they can in their home villages, giving them a lot more cash to spend. China's State Council, the government's top body, now is looking at a land-overhaul plan that would increase the payments to farmers whose land is seized by local governments and later used in real-estate development. Such payments would make it easier for farmers to move to China's cities. China's population became more than 50% urban last year.

The work conference was also frank about the domestic and international problems confronting China in the year ahead. "We face a number of risks and challenges," the statement said. "The problems of unbalanced and unsustainable development remain. Growth faces downward pressure. There is excess production capacity. Enterprises face rising operation costs and capacity to innovate is inadequate. There are latent risks in the financial sector."


Regions urged to rely on local advantages

Although the country's inland areas are catching up in economic growth, experts have warned them not to blindly follow the coastal region's well-worn export-led path. Taking a look at the growth pattern of all regional economies in China in 2012, one can spot emerging differences. It is easy to see that central and western regions are generally growing at a much faster rate than the more industrialized regions along the eastern coast.

The GDP figures in the first three quarters show that 24 provinces, municipalities and autonomous regions exceeded the national average of 7.7 percent year-on-year. Most of them are in central and western China. The mega-city of Chongqing led the pack by posting a growth rate of 13.8 percent year-on-year. Even the provinces that reported the slowest growth in central and western China could still be faster than 10 percent, overtaking Shanghai's 7.4 percent and Beijing's 7.5 percent. "It is a good thing," he said. "But it would be no good if all the central and western regions follow the well-worn track of the eastern regions."

said Cao Heping, a professor of economics at Peking University. Economic growth should be a "multi-polar" phenomenon in China, "not unipolar". But across central and western China, most cities are dependent on large fixed-asset investment projects as the main driving force of their economic growth - from new airports and high-speed railways, to new business and commercial districts. A study of five-year economic programs in central and western China shows that many of them have a similar list of development priorities. Nearly all have pledged major efforts regarding the same seven "strategic emerging industries" as defined by the central government. Even in the design of local buildings, cities tend to copy the landmarks of Beijing or Shanghai.

Such a single-minded pursuit of GDP growth must be redressed, Cao said, to ensure there is "a greater diversity of regional development efforts". And officials' performance must instead be "measured by a variety of standards". Can any central and western region eventually catch up with eastern regions by following such a "me-too" strategy? Peng, the Wuhan-based economist, does
not think so. For example, the growth rate of Guangdong province, the nation's economic powerhouse, was 7.9 percent in the first three quarters of 2012, which amounted to 321.4 billion yuan. Whereas Central China's Henan province, which has almost as much land and people as Guangdong, grew 10 percent over the same period. But in absolute terms, this increase was worth 217.7 billion yuan. This means that, despite Henan's faster growth, the gap between the two provinces has actually grown, Peng said.

Understandably, recasting a region's economic model is a long and sometimes painful process. But there are silver linings, and East China's Zhejiang province may be one of these. In the first three quarters of the year, as Zhejiang's GDP grew 7.7 percent year-on-year, its service industries grew 9.2 percent and contributed more than 4 percentage points to GDP growth, according to the provincial government. Investment in Zhejiang's service sector, excluding real estate development, surged 32.7 percent year-on-year. Even with real estate development included, investment in Zhejiang's service sector still managed to increase 27.3 percent. Zhejiang's service sector, and its entire economy, may seem to be shedding the model of real estate-led growth ahead of the rest of China. Zhejiang's service sector revenue also registered faster growth of 9.2 percent year-on-year in the first three quarters than the 6.8 percent notched up by its manufacturing sector during the same period. In some other coastal provinces, in contrast, the manufacturing sector continued to play a dominant role in the local economy, despite domestic overcapacity and fewer overseas orders. Zhejiang's advantage, according to Zhu Huasheng, associate professor of economics at Beijing Normal University, can partly be explained by the clusters of private enterprises in its different cities. Zhu noted that the majority of the enterprises in Zhejiang, especially those in the south of the province, are privately owned. "So they are very sensitive to market signals. And once their products are seen as not being competitive enough, they can change their production strategy almost overnight." Through the process, companies in each city in Zhejiang have developed their comparative strengths and niche products. For example, while companies in northern Zhejiang's Ningbo are good at competing in the men's apparel market, those in southern Zhejiang's Wenzhou mostly specialize in the production of men's leisure wear, Zhu said. Zhejiang is the home of Alibaba Group, which owns the country's largest e-commerce and online payment platforms. Over the years, many e-commerce and logistics companies have appeared in Zhejiang. Alibaba Group, which occupies more than 50 percent of China's online shopping market. Alibaba's dominating market strength is certainly unique. It did not come from building roads, railways or airports. It does not even cause traffic jams. The problem, experts say, is that this cannot be replicated by other provinces.

Source: Zheng Yangpeng: Regions urged to rely on local advantages, China Daily, 2012-12-26

Innovation makes domestic brands more competitive

Chen Hailun got a confidence boost when his company's products were classified as upper-level consumer-grade pianos in the latest issue of Piano Buyer magazine. "This means Chinese brand Hailun has become one of the most popular brands in the global piano market," said Chen, board chairman of Hailun Piano Co Ltd, based in Ningbo, a city in East China's Zhejiang province. Zhejiang was at the forefront of China's reform and opening up drive over 30 years ago. Today, the coastal province known for its booming private sector is home to a large number of companies like carmaker Geely and shoemaker Aokang. And, after years of restructuring and innovation, Hailun can count itself among the province's most successful enterprises.

Hailun initially produced piano parts for domestic and overseas brands. In 2005, the company began to establish its own line of pianos, with a powerful research team of both Chinese and foreign experts. Last year, the company sold more than 22,000 pianos both at home and abroad, and in June, the company listed on the Shenzhen Stock Exchange. "Technology brings remarkable economic interests. There will be no quality products without good research staff, and a company will be in danger if it has no brand of its own," said Chen. Amid the global economic slowdown,
some private manufacturing companies in China have been relying on upgrading and product innovation to be more competitive.

Geely, which acquired Volvo Cars in 2010, saw sharp export growth this year, despite the general slowdown of China's foreign trade, which is partly due to weakened demand from the crisis-plagued European and US markets. In the first 10 months, Geely exported more than 80,000 cars, up 190 percent year on year. High-quality brands like Emgrand accounted for 40 percent of the company's exports, according to the Hangzhou-based carmaker. "By strengthening research and development and upgrading its products, the strategic transformation has built up the core competitiveness of Geely," said Yang Xueliang, director of public relations of Zhejiang Geely Holding Group Co Ltd. Yang added that the company will continue to promote its own advanced technologies to make cars more energy-efficient and environmentally friendly. He forecast about 30 percent annual growth for the company's overseas exports in the next three to five years.

Zhejiang aims to double its investment in research and development in 2015 from 2010 to make it account for 2.5 percent of the province's gross domestic product, according to the provincial science and technology department. The province will carry out pilot projects for industrial technological innovations and build more than 50 State-level innovative companies by 2017, according to the department.

Source: Xinhua: Innovation makes domestic brands more competitive, 2012-12-19

Leading entrepreneurs honored

The startup enterprises with most potential and the leading entrepreneurs among returning Chinese students who set up business in pioneering parks were announced at the Pearl River Innovation Forum in Guangzhou, capital of Guangdong province, on Tuesday. Ten people were named 2012 Leading Entrepreneurs and 73 enterprises were awarded the title of Most Potential Start-up Enterprises.

Zou Shenglong, CEO of Shenzhen Xunlei Network Technology Ltd, and Cao Gang, president of Zhantang communication technology (Shanghai) Co Ltd, are among the 10 Leading Entrepreneurs. More than 300 pioneering parks across the country took part in the selection and recommendation activities. They evaluated the participating companies' innovation ability, growth ability and industry prospects. They assessed entrepreneurs from their characters, social influence, industry influence and capital market influence.

Source: Meng Fanbin: Leading entrepreneurs honored, China Daily, 2012-12-19

Chinese private firms lack innovation spirit: report

Privately-owned companies in China rely on copying their counterparts' technology with few bothering to improve and innovate, a report has concluded. The Report on Chinese Non-governmental Enterprises' Competitiveness 2012 found that of those surveyed 36.4 percent of the country's private companies had not set up their own research and development center during the past three years. The report, released Saturday by the Center for Private Economy Studies under the Chinese Academy of Social Sciences, surveyed 622 private firms in 19 provinces and municipalities. It included Zhejiang, an eastern region boasting many private companies.

"The overall independent innovation capabilities of Chinese privately-owned companies are relatively weak and they are in urgent need of transforming and upgrading their industrial development mode," the report concluded. According to the report, only 35.2 percent of enterprises have shifted from labor-intensive products to those with high technical input in the past three years. While urging private enterprises to break away from traditional development methods, the report proposed the country set up a public technology service network that will help companies to utilize latest technological breakthroughs. In addition, the report recommended favorable taxation and financing systems that will ease private companies' financial burdens during the transformation.
Mainland CEOs less competitive in world ranking

Three chief executive officers from the Chinese mainland are among the world's top 100 corporate leaders rated according to their long-term performance by the Harvard Business Review this year. But their number is too small in stark contrast to the country's economic influence in the world, management specialists said. Of the best-performing CEO list, Li Jiaxiang, former CEO of Beijing-based Air China, is ranked 17th — the highest position of all Chinese candidates. Wang Dongming, CEO of Beijing-based CITIC Securities is ranked 83rd and Dong Mingzhu of Zhuhai-based Gree Electric Appliances is rated 98th. The list is compiled according to a company's shareholder return and market capitalization growth during the CEO's term. "China has been the growth miracle of the past decade, so you might expect CEOs there to have done very well, but we find that the opposite is true," wrote Morten T. Hansen, Herminia Ibarra and Urs Peyer, who compiled the best-performing CEOs list.

Li Jiaxiang is famous for his slogan "a general who fears to unsheathe his sword is not a good general". When Li led Air China between 2004 and 2008, the company's total shareholder return outperformed its peers by 1.022 percent, and the carrier's market capitalization increased by 237 billion yuan ($38 billion) during the same period, according to a list of Chinese business leaders released by the compilers in July.

As one of China's most internationalized companies, CITIC Securities' performance is outstanding among all Chinese securities companies. China's top brokerage firm bought CLSA from Credit Agricole SA of France for $1.25 billion in July, and has a Japanese managing director, Tokuchi Tatsuhito.

"I have a lot of respect for Dong Mingzhu. There is no other home electric appliance company as focused as Gree, which spends so much time mainly on air conditioners, while other major home electric appliance companies broadly expand their product lines," Liu said. "It is very hard for a company to resist temptation for other opportunities and be focused, but focus brings success." According to Liu, China's home electric appliance producers have little bargaining power against dominant retailers Suning and Gome, but Dong was not willing to accept dozens of yuan profit for making a television. Instead, she stood up and created Gree's retail chain.

"I am actually a little surprised by the first two names. To my understanding, the list should choose CEOs from fully open and competitive industries, but both aviation and securities in China are still dominated by the State sector," said Yin Xingmin, professor with Fudan University. "In that sense, Dong Mingzhu should be the highest ranking CEO from the Chinese mainland in the list as the industry that Gree Electric is in is full of fierce competition," Yin said.

Source: WANG YING in Shanghai: Mainland CEOs less competitive in world ranking, China Daily, 2012-12-22

China to advance urbanization next year

China will actively and steadily push forward urbanization next year, with a focus on improving quality of the efforts, according to a statement issued Sunday after a two-day central economic work conference in Beijing. Urbanization is a historic task with the country's modernization drive, and a main driver to boost domestic consumption, according to the conference, which charts the course for the following year's economic work. China's urban population, which outnumbered that of rural areas for the first time at the end of last year, is expected to account for 70 percent of the total population by 2030, according to the World Bank's forecast.

An increase of a single percentage point indicates an addition of more than 10 million urban residents, each of whom will spur at least 100,000 yuan ($15,892) in infrastructure investment, according to previous estimates by experts. The statement said the country will center its efforts on

Source: Xinhua: Chinese private firms lack innovation spirit: report, 2012-12-24
improving the quality of urbanization, while using favorable conditions to actively guide the healthy development of the process. The country will work to build cities with more rational layouts, making them more fit for regional and industrial layouts, as well as resources and environment conditions, the statement said. More migrant workers from rural areas will become urban dwellers, it said. The country will incorporate the concept of ecological civilization in its urbanization process in a bid to build intelligent, green and low-carbon cities, according to the statement. To boost domestic consumption and improve people's well-being, the statement also vowed to reinforce the country's urban and rural social security networks.

Source: Xinhua: China to advance urbanization next year, 2012-12-17

**Shanghai reclaims top spot**

Forbes magazine names city as China's 'best for business' among 100 competitors Shanghai has reclaimed the title "Best City for Business" after three years, a Forbes magazine ranking showed on Wednesday. The city's improved position comes as the competitiveness of export-oriented cities in South China declines amid the sluggish global recovery. The survey, which was the ninth of its kind, ranked 100 cities, evaluating eight factors that could affect business strength, such as labor, transport, costs, innovation and the size of private economy.

Guangzhou and Shenzhen, which ranked first and second last year, gave up their leading positions to East China's Shanghai and Hangzhou, reflecting the fact that Guangdong province has been hit hard by the country's deteriorating foreign trade situation. Wuxi, in East China's Jiangsu province, took fifth position as the city improved its traffic system and capacity for innovation, Forbes said in its report.

But coastal provincial cities are seeing their rankings fall as part of an overall trend due to surging operational costs and the slow speed of growth in developed areas, together with a larger exposure to global turmoil. On the list termed "cities with the highest operational costs", eight out of the top 10 most expensive cities are from coastal provinces, led by Beijing, Shanghai and Tianjin. In comparison, cities in Central China are climbing up the rankings as a result of adequate labor resources, lower operational costs and improving transport systems. "The central regions are where people, resources, labor and talents gather, so they are a logistical hub," he said, adding that cities in central regions may overtake first-tier cities as the fastest-growing regions. The Yangtze River Delta still dominates the list, having 31 cities selected, while the Pearl River Delta has 11 cities on the list. Jiangsu province has the largest number of cities in the rankings, with 18, followed by Shandong province with 13 and Zhejiang province with 12.

According to a Forbes survey, Suzhou was the most innovative city, overtaking Shenzhen for the first time, because of a significant increase in the number of patent applications and licenses there. Western cities such as Lanzhou, capital city of Gansu province, and Urumqi, capital city of the Xinjiang Uygur autonomous region, made their debuts on the list. However, their levels of consumption and innovation were far lower compared with cities in central regions, the report said.

Source: Wei Tian in Beijing and Feng Zhiwei in Changsha: Shanghai reclaims top spot, China Daily, 2012-12-13

**Railway set to create network of world-class 'city clusters'**

The world's longest high-speed rail service, which starts between Beijing and Guangzhou on Wednesday, is expected to bring huge economic prosperity to towns and cities along its route, creating what officials are calling world-class "city clusters" across Central China. Although...
largely being seen as a passenger line, Wu Ruliang, director of the Logistics Association of Hubei Province, said his industry will benefit greatly from the new high-speed link, and expects the cost of express delivery to drop by at least 50 percent as a result of its opening. Officials from the Ministry of Railways have said the new route will release cargo transport capacity on the old line between Beijing and Wuhan by 20 million tons a year. Wu added that with 95 percent of highways and 65 percent of class-A roads now installed with toll gates, the logistics industry will view rail transport as an altogether more appealing prospect than road from now on, given that toll costs currently account for a third of all logistics costs. "The opening of the service means the logistics industry will enter a new era of high-speed rail transport," Wu said.

Shijiazhuang will be brought much closer to the economic region dominated by Beijing as a result of the new link, given that it will now be just an hour away from the capital. It will be one of many locations along the route to benefit from the development of what officials are calling "city clusters". One of the largest will be created along the Beijing-Wuhan section - the Central Plain area which ties in the city of Wuhan with Changsha, Zhuzhou and Xiangtan. Analysts believe the area could become as economically important as the Pearl River Delta, Yangtze River Delta, and Bohai Economic Rim. Wuhan, in particular, will be fashioned into a hub for the country's high-speed passenger transport network, given its location right in the heart of the network. The development plan for the central regions, published by the State Council, which aims to build Wuhan and Zhengzhou into national transport hubs. The central region city cluster may turn into a new growth engine for China.

Source: Wei Tian in Shanghai: Railway set to create network of world-class 'city clusters', China Daily, 2012-12-25

**Income gap remains high, report shows**

The country's Gini coefficient, which is commonly used as a measure of inequality of income or wealth, stood at 0.61 in 2010, much higher than the alarm level of 0.4, a report from the Survey and Research Center for China Household Finance showed on Sunday. The level was also well above the global average of 0.44, according to the World Bank's release. According to the report, inequality was higher in villages than in cities, as the coefficient for rural households was 0.6, while that for urban families was 0.56. Meanwhile, the Gini coefficient in eastern regions, which was 0.59, outstripped that of western provinces, which was 0.55, the report showed. The figures were an update of the last official release on the country's inequality level in 2000, which put the overall Gini coefficient at 0.412. The new data was published by a center co-founded by Southwestern University of Finance and Economics and the Institute of Financial Research of the People's Bank of China.

Gan Li, head of the research center, said such a high Gini coefficient is "rarely seen in the world", but he also said "it is a common phenomenon for fast-growing economies, as a result of the effective resource allocation by the market, and so should not be feared too much".

According to the report, the average household income in 2010 was 71,500 yuan ($11,500) for urban families, and 28,400 yuan for rural households. Social security income was a major difference between the two. For example, the average pension income for urban families was 33,000 yuan, while for rural families it was only 12,000 yuan. Educational background was another decisive factor for income level. People who have a bachelor's degree or above earn four times more than those who did not finish junior high school. "There are many references to how to reduce the inequality," Gan said.

"In the short-term, it can be achieved via a sound secondary allocation system, and in the long-term, government needs to raise the education level and provide more equal access to opportunities." According to Gan's research, if the government uses the growth in its fiscal income - which has increased by an average of 20 percent annually in recent years - plus the profits from State-owned enterprises, it will have 3.8 trillion yuan in hand to subsidize 60 percent of the
low-income families, and bring China's Gini coefficient down from 0.61 to 0.4. Another study by Gan's center found that the unemployment rate in China's urban areas was 8 percent in 2011, which translated to 27.7 million people without work.

Source: Wei Tian: Income gap remains high, report shows, China Daily, 2012-12-11

**Economy may suffer as rich look overseas**

Investment immigration has 'potential to damage growth'. The growing number of Chinese opting for investment immigration could damage employment and rural economies in their homeland, a new report warns. Wealthy Chinese are increasingly eyeing opportunities to move capital abroad, according to the 2012 Annual Report on Chinese International Migration released on Monday. About 50 percent of investment immigration projects each worth $500,000 in the United States are being pitched by agencies in China. Immigrant investors in China are mainly private business owners, self-employed groups and senior corporate management staff aged 35 to 55, said the report, released by the Center for China and Globalization and the Beijing Institute of Technology. "The private economy contributes more than 60 percent of China's GDP and it absorbs a majority of employees. So if private business owners emigrate with their capital, it would mean less investment in the domestic market, so fewer jobs would be created," said Wang Huiyao, director of the Center for China and Globalization. Investment immigration also brings proportionally bigger economic losses in less developed areas than in big cities because the economies in those areas are mainly bolstered by the private sector, the report added.

In 2011, more than 150,000 Chinese emigrated to destinations such as the United States, Canada, Australia and New Zealand, it said. The United States was the top destination for Chinese immigrants and some 87,000 permanent residence permits were granted in 2011. Of these, 3,340 were approved through investment. China is one of the major sources of investment immigration for Canada, and Chinese applicants accounted for 75 percent of the North American country's investment immigration in the past three years, according to the report. From 2008 to 2011, nearly 17,000 Chinese were granted immigrant visas in Australia via investment, and they accounted for nearly 60 percent of the total the country allowed for foreigners.

Source: CHEN XIN in Beijing and YU RAN in Shanghai: Economy may suffer as rich look overseas, China Daily, 2012-12-18

**Chinese people dissatisfied with food safety, environment**

Chinese people are generally satisfied with the government's public services, but they are becoming increasingly concerned about the quality of what they eat and the environment in which they live, a scholar said Thursday. A survey measuring how people feel about basic public services in China found that services concerning environmental protection and food safety scored below three points on a five-point scale, highlighting that security incidents and food safety scandals have reduced people's confidence in recent years. The results of the survey conducted among 8,070 people were released by the Chinese Academy of Social Sciences, or CASS, in a report, and they sum up people's degrees of satisfaction with infrastructure, public security, social security, medical and health services, education and environmental protection. The satisfaction scores were calculated according to five degrees, ranging from 1 to 5 points, with 1 being "extremely dissatisfied" and 5 being "very satisfied".

In addition to the imbalances in public services between rural and urban areas, Wu said disparities also exist among different groups living in the same place who are divided according to factors such as where they live, whom they work for and how much they earn. Those who live in urban downtown areas tend to be more satisfied with infrastructure, social security, education and medical health facilities, compared to those who live in suburbs, according to the report.

It noted that people who work in government and for government-sponsored institutions are among the most satisfied groups. The report also found that those with a monthly salary of more
than 5,000 yuan ($794.77) feel happier and are more confident about the future than their peers earning less than 1,000 yuan per month.
Source: Xinhua: Chinese people dissatisfied with food safety, environment, 2012-12-07

Chicken raisers involved in antibiotics scandals
China's agriculture authority said Tuesday it has shut down poultry farms in East China where animals were given excessive amounts of antibiotics, pledging to intensify checks on poultry farmers. Last week, Chinese media reported that some poultry farmers in Shandong province had given their chickens excessive amounts of antibiotics, including amantadine and ribavirin, to help them survive in overcrowded chicken houses, triggering nationwide concern about food safety. Bi Meijia, the chief economic engineer as well as the spokesman for the Ministry of Agriculture (MOA), told a press conference Tuesday that relevant poultry raisers and processors have been shut down and are under close investigation. The MOA attaches great importance to the case. It has dispatched a group of experts to Shandong and ordered local authorities to properly handle the case, he said, adding that results will be released to the media in time. "In the following steps, we will enhance supervision over the entire poultry raising industry, raise the quality of the industry and notably scale up the crackdown on those who feed animals excessive amounts of antibiotics and veterinary drugs," he noted. Those found violating laws and standards will be punished, he added.

Foreign fast food chains such as Yum! Brands' KFC have also been embroiled in such scandals. The Shanghai Food and Drug Administration said in a statement Friday that the level of antibiotics found in KFC chicken samples was fine, but it found a suspicious level of an antiviral drug in the samples. The watchdog has asked KFC to recall the tainted products and launch inspections throughout its outlets in the city.
Source: Xinhua: Chicken raisers involved in antibiotics scandals, 2012-12-25

China to crack down on food-safety violations
Chinese government will take strong measures against companies that break food safety regulations to ensure "healthy" New Year holiday and the Spring Festival that falls in mid February next year. The authorities will implement harsher punishments for food producers that make counterfeit products and sell adulterated or expired food, according to an announcement released Sunday by the food safety office under the State Council, or China's Cabinet. It also urged local inspectors to intensify their efforts to ensure the safety of grain products, meat, infant food, alcoholic beverages and edible gifts during the holidays.
Source: Xinhua: China to crack down on food-safety violations, 2012-12-31

Growth to sustain as the poor catch up with the rich
We group the provinces into three tiers according to gross domestic product per capita: Tier 1 municipalities, Beijing, Tianjin and Shanghai and their rural outskirts, are home to 4 percent of China's population, produce 9 percent of the country's GDP, and had average per-capita GDP of 78,800 yuan (US$12,500) in 2011.
Tier 2 provinces, with average per-capita GDP of 50,000 yuan in 2011, include seven provinces, Fujian, Shandong, Liaoning, Guangdong, Inner Mongolia, Zhejiang and Jiangsu. One-third of the country's population officially live here.
The rest provinces are left in Tier 3. This group had average per-capita GDP of a third of the Tier 1 level. Altogether, Tier 3 provinces contribute about 46 percent of China's GDP, while they are home to 63 percent of the population.

Now, what would happen if Tier 3 and Tier 2 provinces caught up with today's Tier 1 level of per-capita GDP? If Tier 3 provinces could reach the current per-capita GDP level of today's Tier 2 provinces, China's whole economy could grow at 7 percent for another five years. If Tier 2 and
Tier 3 provinces could increase their per-capita GDP to today's Tier 1 level, the national economy could grow at 7 percent for another 12 years.

But our idea here is simple: if the poor parts of China were able to catch up with the rich parts of China - in other words, if the poor parts could just follow the same growth model and do what their neighbors have done - then 7 percent potential growth for another 5 to 12 years looks achievable to us.

Source: Growth to sustain as the poor catch up with the rich, Shanghai Daily [Shanghai, China] 04 Dec 2012.

China economy: China's solar storms

As the sector braces itself for the slump in external demand, officials are trying to accelerate development in the home market. China has already become the world's third-largest consumer of solar energy, up from seventh in 2010. Solar installed capacity ballooned from 537 mw in 2010 to 2.5 gw in 2011. As a result of the external slowdown, officials have brought forward the planned target of 21 gw from 2020 to 2015. In October local media reported that the State Grid, China's largest utility, plans to give local subsidiaries the power to approve plants with installed capacity of less than 10 mw. The National Energy Administration is reportedly considering a subsidy of Rmb0.4-0.6 per kwh of distributed solar power.


World News: China Survey Finds Higher Jobless Rate

A new survey shows that the real unemployment rate in China is double the official level, and layoffs rose sharply among migrant workers in the past year, underlining the challenge for China's new leaders to maintain growth. The survey of 8,000 households shows the urban unemployment rate hit 8.05% in June, nearly twice as high as the official 4.1% rate. The survey was run by Gan Li, an economics professor at South Western University of Finance and Economics in Chengdu. The unemployment rate for China's army of 160 million migrant workers has risen sharply to 6% in June 2012, up from 3.4% in August 2011 according to the survey.

China's official unemployment rate is based on urban residents registering for unemployment benefits. That measure leaves out key sections of the workforce -- notably migrant workers. With no access to urban benefits, migrant workers typically respond to job losses by returning to the farm or accepting lower pay. A survey by Xin Meng of Australian National University shows migrant-worker wage growth slowed to 1.7% year-on-year in 2012, from 23% in 2011. The survey also reflects China's hidden army of long-term unemployed: workers laid off in the late 1990s when the government closed thousands of unprofitable state enterprises, who haven't managed to find work since. Since many continue to receive some form of compensation from their former employers they aren't counted in the official unemployment data.


China eyes more rural development in 2013

China will look to improve farmers' income growth and reduce obstacles in agricultural development next year, in a bid to boost vitality in rural areas, according to an annual conference. At the Central Rural Work Conference that closed Saturday, Minister of Agriculture Han Changfu said while improving the country's basic rural system, China would focus on fostering new types of agricultural businesses. This will require maintaining stable land contract relationships on the basis of household contract management while guiding the orderly transfer of farmers' land contract management rights, said Han. It was agreed by delegates at the conference that farmers' rights will be fully protected, and land transfers should not be compulsory or restricted. They agreed the government should work to create systems that are more organized when it comes to
agricultural production and operation. The government should also increase support to new types of businesses like family farms and specialized cooperatives.

Delegates also agreed that while ensuring the nation's grain security and effective supply of major agricultural products, more work should be done on pricing and ensuring that farmers get a fair profit during times of rising production costs. In 2012, China's grain output rose 3.2 percent year-on-year to hit 589.57 million tons, marking the ninth consecutive year of growth, according to data from the National Bureau of Statistics. Despite the rising yield, the country still faces a tightening grain supply amid the increasing demand driven up by population growth. In response, China has increased its imports of farm produce to meet domestic needs. To further ease the crunch, China will encourage more industrial and commercial enterprises to invest in agriculture, Han said.

Minister of Finance Xie Xuren also pledged to intensify efforts to boost farmers' income by allocating targeted funds to stabilize grain prices and strengthening capital management for agricultural use at a national finance work meeting that closed Friday.

Source: Xinhua: China eyes more rural development in 2013, 2012-12-24

Ministry stresses logistics, consumption

China's Ministry of Commerce said Saturday that it will put emphasis on raising logistics efficiency and expanding domestic consumption next year. "Implementing policies to promote the country's logistics development will be one of the ministry's major tasks next year," Deputy Minister of Commerce Gao Hucheng said at the closing ceremony of a two-day national commercial work conference concluding Saturday. The ministry will accelerate the development of modern logistics in an effort to safeguard the proper market functioning in 2013, according to a statement on the ministry's website. On Wednesday, the State Council, or China's cabinet, announced a range of measures to lower logistics costs and improve logistics efficiency, including cheaper electricity and water for agricultural product processing and circulation and lower fees at farm produce markets. The MOC said it will also improve the system for promoting domestic consumption and nurture new sources for consumption growth. It will guide popular consumption choices including credit consumption and online consumption, advocate green and cyclical consumption, as well as safeguard the safety of consumption.

Source: Xinhua: Ministry stresses logistics, consumption, 2012-12-30

China's service trade to mark steady growth

China's service trade is expected to show steady expansion this year, but the deficit in the sector is also increasing, official data showed Thursday. According to the Ministry of Commerce, the service trade value is expected to exceed $470 billion this year, up 13 percent year-on-year, or 10.8 percent of the nation's foreign trade, an increase of 0.5 percentage points. In the first three quarters, service imports, excluding government services, rose 13.8 percent from the same period last year to $344.3 billion, while exports surged 19.2 percent to $207.2 billion. The service industry deficit expanded to $70.1 billion from $45.15 billion. The transportation, tourism, insurance, patent and franchise service sectors saw the greatest deficit increases.

Source: Xinhua: China's service trade to mark steady growth, 2012-12-27

Retail sales to surpass 20t yuan in 2012

China's retail sales are expected to surpass 20 trillion yuan (3.21 trillion) in 2012, and will exceed 30 trillion yuan in 2015 given an annual growth rate of 15 percent, said Zhang Zhigang, head of the China General Chamber of Commerce. The first 11 months of the year saw China's retail sales up 14.2 percent from a year earlier to 18.68 trillion yuan, according to data released by the National Bureau of Statistics on Sunday. Fang Aiqing, assistant minister of commerce, said that China's urbanization rate will increase at least 0.8 percent annually during the 12th Five-Year Plan
(2011-15), meaning that more than 10 million people in rural areas will become urban residents each year. Their consumption is expected to increase three times from current figures, thus creating more opportunities for domestic trade.
Source: Li Jiabao: Retail sales to surpass 20t yuan in 2012, China Daily, 2012-12-10

**Chinese firms 'face slower growth' amid gloom**

In the case of the 15 SOEs, Fitch expects the median company to record growth of 10 percent in 2013 and 36 percent in 2013, after just 1 percent in 2011. For the 25 non-governmental companies, median revenue growth is forecast to slow to below 20 percent a year during 2012 and 2013, from 41 percent in 2011 and 53 percent in 2010. Profitability growth is significantly lower than that achieved in 2011 and 2010 but clearly remains in positive territory, the report showed.

Fitch forecasts the average net income growth for the 40 corporations will slow to just 0.1 percent in 2012 from 10 percent in 2011. The fall in net income is broadly in line with China's recent overall economic performance this year, the report said. China's industrial profits fell by 1.8 percent year-on-year over January to September 2012, underlining the possibility of negative growth for the full-year 2012. This contrasts with strong profit growth of 40 percent in 2011 and 50 percent in 2010. In the specific case of the 15 SOEs, the median revenue growth rate is forecast to fall to 8 percent in 2012, and 6 percent in 2013, down from the 40 percent of 2011. Notably, revenue and profit growth for Chinese city gas distributors remains robust because they benefit from low penetration rates and supportive state policies despite the general economic slowdown.

On the other hand, sectors tilted toward domestic demand, including gas, registered improving sentiment. Meanwhile, sentiment on inventories and earnings per share revision continue to improve, J.P. Morgan said in a report. "The recovery in industrial activity appears to be gaining traction, supported by policy easing and stabilization in the housing market. External demand has also improved in the near term," said Zhu Haibin, chief China economist and head of Greater China Economic Research at J.P. Morgan. "This likely suggests that, at the micro level, the operating environment for corporates is improving along with the macro indicators in recent months, but probably at a more gradual pace," Zhu added.
Source: Hu Yuanyuan: Chinese firms 'face slower growth' amid gloom, China Daily, 2012-12-07

**China to boost the Internet of Things industry**

China is considering guidelines to further develop the Internet of Things industry, financial website 21cbh.com reported on Dec 24, citing a government official. The government has drawn up 10 initiatives, including national standard drafting and research investment, in a bid to boost the industry, said Gu Dawei, deputy director of high-tech industry office under the National Development and Reform Commission. Gu said the guideline is expected to be implemented soon, but didn't offer a more-specific timetable.
Source: Gao Yuan: China to boost the Internet of Things industry, China Daily, 2012-12-24

**Beidou's unique services attractive to Chinese companies**
Although Beidou is a latecomer in the world's navigation market, Chinese companies have set their eyes on the unique services provided by the system. Beidou's hybrid orbit increases the number of visible satellites, enhancing the stability of its navigation signal, Cao Jianlin, vice-minister of science and technology, said in an interview with China Daily. Beidou also uses an all-direction and short-message communicating technique that other navigation systems do not have, he said. "Beidou has its unique advantages designed for users. For example, the short-message communication technique can provide strong support to regions hit by natural disasters. So Beidou has better service capacities compared with the other three navigation systems," Cao said. In May 2008, a devastating earthquake hit Wenchuan, Sichuan province, cutting off communication for tens of thousands of people. "Although the mobile signal was disconnected, we used Beidou's short-message function during the rescue," said Li Shiru, a marketing specialist at the Hwa Create Corp, a Beijing company that produces positioning chips and devices based on the Beidou system. Rescue teams in Wenchuan were equipped with handheld terminals capable of sending or receiving 120 Chinese characters at one time to communicate with the rescue headquarters. "Now we have updated the terminal in some ways — we made it more portable, installed all kinds of mobile phone functions, made it resistant to water and dust, and we now use the Android operating system," Li said. Cao Hongjie, vice-president of UniStrong, "Beidou's short-message function can be used in many different industries," Cao said. One example is the logistic system. Currently, few truck drivers use GPS because they are already familiar with the route. "But with Beidou, the short message function and the position report function will enable logistic headquarters to see the drivers' location, and they can dispatch vehicles and drivers in a more efficient way," Cao said.

Source: Cheng Yingqi: Beidou's unique services attractive to Chinese companies, China Daily, 2012-12-28

Real Web names required

The National People's Congress Standing Committee, China's top legislature, on Friday approved rules to enhance the protection of personal information online and safeguard public interests. The decision, which has the same legal effect as a law, was adopted by lawmakers at the final meeting of a five-day session, after first being proposed to lawmakers on Monday. Companies and government employees who violate the rules can face penalties, including confiscation of illegal gains, license revocation and website closure, as well as a ban on engaging in Web-related business in the future. The decision said it "ensures Internet information security, safeguards the lawful rights and interests of the people, legal entities or other organizations and safeguards national security and social public interests". People who find network information that discloses their identities or infringes upon their rights, as well as those who suffer harassment from promotional messages, are empowered to demand service providers delete related information or take other necessary measures to stop such spamming. In addition, the rules also include an identity management policy requiring Internet users to use their real names to identify themselves to service providers, including Internet or telecommunications operators. "Network service providers will ask users to provide genuine identification information when signing agreements to grant them access to the Internet, fixed-line telephone or mobile devices or to allow users to post information publicly," the decision said.

Source: ZHAO YINAN in Beijing and Zhang Chunyan in London: Real Web names required, China Daily, 2012-12-29

World News: Chinese Property Prices and Sales Show Signs of Revival

Average housing prices in China rose at a faster pace in November than the month before, a government survey showed, boosting hopes the property market has turned a corner after a long campaign to tamp it down. Wall Street Journal calculations based on data released Tuesday by the
National Bureau of Statistics showed that average prices in 70 cities surveyed increased by 0.24% on average in November from a month earlier, compared with a 0.05% increase in October. Compared with a year earlier, prices fell 0.6% on average in November, decelerating from a 1% decrease in October. Prices of newly built homes in 53 of the 70 surveyed cities rose in November compared with the previous month, more than the 35 cities in October.

Meanwhile, data showed investment flows to China dropped 5.4% in November from a year earlier and a Commerce Ministry official warned China may struggle to attract foreign investment next year amid rising wages.


**Property curbs to stay in place for 2013**

Controls on the property sector will continue, to prevent over-investment from buyers next year, the Ministry of Housing and Urban-Rural Development said on Tuesday. China has tightened its curbs on the property sector since 2010, when home prices rose beyond the reach of average wage earners. The government introduced a series of restrictions to control house purchases in several cities, requiring higher down payments and bringing in property taxes. Some 28 percent of wealthy investors faced huge losses in the real estate market last year, according to the latest annual Chinese wealth report from the Boston Consulting Group and China Construction Bank Corp, and 3 percent of them saw losses of more than 30 percent. China's high-net-worth population is defined as those with financial assets of more than 6 million yuan ($960,000). A small number of investors who took out high-interest loans to buy properties were forced to sell at a loss of 30 percent on the market price to repay their debts.

Source: Yu Ran in Shanghai: Property curbs to stay in place for 2013, China Daily, 2012-12-26

**Benefits of China's joining the WTO dwindling**

The initial advantages China gained from joining the World Trade Organization in 2001 are dwindling, trade experts warned on Tuesday. Speaking at the Eighth Forum on Industrial International Competitiveness in Shanghai, experts called for further market reforms from China and the rest of the world to prevent trade frictions. The primary benefits that China received have been eclipsed, said William Barringer, international trade director and senior partner at Curtis Mallet-Prevost Colt & Mosle LLP. "By joining the WTO, the basic benefits are the lowering of tariffs, supported by the most favored nation treatment, and national treatment, among others," Barringer said. As a result, China's WTO accession greatly boosted its trade volumes, notably in the textile, metals and machinery sectors. For example, he said, textile and apparel manufacturers took full advantage of the elimination of quantitative restrictions on exports after 2005, with the sector growing 220 percent between 2001 and 2007. He said unless China "adds value" to new products, it will fall behind as countries such as Vietnam and Cambodia prove more competitive in terms of labor costs. As Chinese companies move up the value chain, they should start creating national brands which lay the foundation to create global brands.

The global financial crisis since 2008 saw trade protectionism pick up worldwide, with China being the "most hit", said WTO Deputy Director-General Alejandro Jara. "Protection today accounts for the trade size equivalent of Brazil and India combined, and it is on the rise," he said, adding he supports China going through WTO procedures to uphold its rights against rampant protectionist moves. A total of 53 trade remedy cases have been launched against China in 2012, affecting $24.2 billion of exports, seven times the amount in 2011, said Ministry of Commerce spokesman Shen Danyang.

China and the EU are set to experience more friction in trade relations due to changing product profiles from China, said Fredrik Erixon, director of the European Center for International Political Economy, a Brussels-based think tank. "We are not going to go back to the past decade
known as the golden age of China-EU trade integration, because there will be intensified competition in areas where Europe thinks it traditionally has the comparative advantage over China," Erixon said. To overcome that tension, Erixon suggested both sides roll out market reforms, with China liberalizing more sectors, getting away from its high level of reliance on State-owned enterprises, and giving domestic companies greater access to capital markets. Europe, on the other hand, should embark on reforming its welfare system by increasing incentives and pressures on people to work, he said. At the same time it should liberalize its currently highly regulated services sector.

Source: He Wei: Benefits of China's joining the WTO, China Daily, 2012-12-19

American Chamber of Commerce in the People's Republic of China; Potential for China, US Innovation Partnerships

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.


China's market economy status key to world economy

Dec 12, 2012 marks eleven years since China joined the World Trade Organization. In the eleven years, China has blossomed into the world's greatest exporter and second-biggest importer. 11 years after entering the WTO, China is now the biggest exporter in the world, sending products worth more than $900 billion worldwide each year. And an average of $750 billion worth of imports every year is equal to the creation of over 18 million jobs in countries trading with China.

Tu Xinquan, Associate Dean at UIBE China Institute for WTO Studies, said, "China has done a lot to improve its trading environment since it joined the WTO. The government has adjusted related laws and regulations to establish new rules that are in line with the market economy. Of course it takes time and we are still working hard to improve ourselves in the international trade field." Despite China's international trade have expanded rapidly since it joined the WTO eleven years ago. An increasing number of trade disputes have posed a great challenge to Chinese exporters. In an effort to bring more stability in its exports. China's central government has introduced several measures over the past few years. Among other changes it requires faster payments of rebates on export taxes and asks for more money to be lent to exporting firms to open up financing channels. Moreover, Professor Tu said it is vital for major players on the international
stage to grant China its market economy status. Tu Xinquan said, "Personally speaking, I feel that the discrimination towards Chinese firms is growing among the EU and US. The main reason is the increasing competitiveness of Chinese enterprises. I think it will take some time for western countries to accept the nature of China's market economy status. Meanwhile, international trading rules are mostly made by the developed western players, so better need to learn more and adapt itself more promptly into world trade." China's WTO Accession Protocol says that transitional provisions will terminate within three years. Experts say against the backdrop of a gloomy global economy, the damage done to China through further procrastination by the EU and US would be trivial compared to the problems that could be posed by the rebalancing of the global economy.

Source: CCTV: China's market economy status key to world economy, 2012-12-12
http://www.chinadaily.com.cn/business/2012-12/12/content_16010548.htm

China flies aircraft over disputed islands

China turned up the heat in its simmering dispute with Japan on Thursday when for the first time it used a government aircraft to challenge Tokyo’s control of a contested island group. Tokyo scrambled fighters and made a formal diplomatic protest after a Chinese maritime surveillance aeroplane was spotted in the territorial air space of the remote and uninhabited islands, which Tokyo calls the Senkaku and Beijing knows as the Diaoyu.

But Hong Lei, a Chinese foreign ministry spokesman, said Chinese aerial surveillance of the Diaoyu islands was “completely normal” and that it was Japanese vessels and aircraft that were intruding on China’s territory. The incident came as China marked the 75th anniversary of the Nanjing massacre, one of the most notorious incidents in Japan’s 1937-45 invasion that is still a source of friction between Asia’s two leading powers. China has in recent months routinely sent surveillance ships into the territorial waters around Senkaku, challenging Tokyo’s effective control of a group that Beijing says Japan stole in the late 19th century. The use of an aircraft to accompany the ships is sure to fuel calls in Japan for more assertive action against China and for the strengthening of coastguard and naval forces in the area. Japanese media said the incursion by the small twin-engine propeller aircraft had initially gone undetected by radar operated by the Self Defence Forces, as Japan’s military is officially known under its pacifistic constitution. The Japanese air force scrambled eight F-15 fighters and an airborne early warning aircraft in response to the Chinese flight, the defence ministry said. However, NHK, the Japanese state broadcaster, reported that the Chinese aircraft had already left the islands’ territorial air space by the time the Japanese fighters arrived on the scene.


CENTRAL ASIA: Russia and China vie for influence

Although China and the United States have focused greater attention on Central Asia in recent years, Russia remains the dominant power in the region. Its size and the cultural, political and economic connections that remain from the Soviet period are such that Central Asian countries are reluctant to take any actions that would antagonise Moscow. For Russian leaders, Central Asia serves as a buffer zone that protects Russia's southern border from potential threats.

The construction of alternative pipelines over the last decade has eliminated Russia's monopoly on hydrocarbon transit from Central Asia. Energy-producing states in the region can now sell their products to China and Iran. At the same time, changes in patterns of supply and demand for natural gas in Europe have decreased the political and economic significance of Russia's remaining monopoly on natural gas supply to some European countries. The development of new methods of shale gas extraction in the United States has increased the supply of LNG to Europe at the same time as the 2008-09 global financial crisis has led to a sharp drop in demand for natural gas ( see RUSSIA: New deals brighten outlook for shale oil - September 20, 2012).
China has sought to increase its economic and political influence in Central Asia without alienating Russia for a number of reasons. For example: Central Asia has become one of China's primary energy suppliers; Central Asia serves as a security buffer zone between China and both Russia and the United States; and China seeks to prevent Uighur separatists in Xinjiang from using Central Asia as a safe haven. To further these goals, China made large investments into the Central Asian economies and, in particular, in energy infrastructure. The region provides raw materials to China in exchange for finished products such as machinery, food and consumer goods.

In the security realm, Russia has combined participation in the Shanghai Cooperation Organization (SCO) with its role in the Collective Security Treaty Organization (CSTO) (see RUSSIA: Kremlin seeks 'collective leadership' in Asia - December 12, 2012). While the SCO provides a neutral forum where Russia can discuss security and plan joint operations and exercises with China, the CSTO allows Russia to address Central Asian security issues without China's participation. At the same time, Russia has sought to counter China's economic influence in Central Asia by setting up the Customs Union, which, in 2014, is expected to include Kyrgyzstan and Tajikistan. Recent discussions concerning the establishment of the Eurasian Union in 2015 are also part of the effort to cement Central Asian economic ties to Russia. The extension of Russia's military base agreements with Central Asian countries, together with Kyrgyzstan's decision to ask the United States to vacate the Manas base after the NATO departure from Afghanistan, will leave Russia as the sole security provider to vulnerable states in the region.

CONCLUSION: Russia's security relations with Central Asian states will strengthen as they face the consequences of NATO's withdrawal from Afghanistan in 2014. At the same time, Moscow's efforts to remain the dominant economic partner of the region's key players will likely falter as China strengthens its position as the main recipient of Central Asian energy exports and a key supplier of imported consumer products.


More Chinese to migrate, invest overseas: report

A report on China's migration status released Monday says more Chinese will migrate overseas in the coming years. According to the Annual Report on Chinese International Migration 2012, the main factors driving such migration include a pursuit of richer educational resources, safer investment environments and improved quality of life. The report, published by the Social Sciences Academic Press, noted that the trend is likely to bring losses to the country in terms of assets and talents, pose obstacles for China's supervision over non-performing assets and complicate the development of its substantial economy. According to the report, there were more than 45 million overseas Chinese in 2010, the world's greatest population of migrants.

In 2011, 150,000-plus Chinese gained permanent residency in major immigration destinations, with the United States, Canada and Australia as the top three such countries. According to the report, most of these immigrants from China are high net worth individuals, and their investments are mainly focused in real estate, foreign currency and deposits and stocks, among other fields. "Migration for investment has become a significant part of Chinese people's international migration," the report said.


External risks impede China recovery

The People's Bank of China's (PBOC) fourth quarter survey of economic expectations, published yesterday, saw a jump in the number of bankers anticipating monetary easing in the first quarter of 2013, even as recent hard data shows a mild rebound taking hold in the fourth quarter.

Weakness in the external environment -- to which the world's second biggest economy is levered -- remains a drag, according to the Ministry of Commerce, which yesterday revealed data
showing foreign direct investment extend its longest run of year-on-year falls in three years. "Next year, there are still many uncertainties for external demand and the prospect of a slowly growing global economy will last for a while," ministry spokesman, Shen Danyang, said. "In addition, there is also increasing trade protectionism emerging. So we cannot be optimistic about the external trade environment next year," Shen told a scheduled news conference.

The government so far has relied on fine-tuning policy settings in its efforts to combat the worst downturn China has faced since the 2008-09 global financial crisis, studiously avoiding any hint of repeating the 4 trillion yuan (US$640 billion) stimulus package it launched back then. China cut interest rates in both June and July and has lowered banks' reserve requirement ratio (RRR) by 150 basis points since late 2011, freeing an estimated 1.2 trillion yuan for lending.(SD-Agencies)


**Locke upbeat about continuity in Sino-US relations**

Gary Locke, the US ambassador to China, has spoken optimistically about deepening ties between the two countries and insisted that despite their recent leadership transitions, there will be continuity in bilateral relations. Speaking at a forum sponsored by the Asia Society in New York on Monday, Locke told his audience: "For quite some time, the leaders of both countries have been committed to greater engagement with each other. "They are really working very hard, developing a constructive, mutually beneficial relationship, one with cooperation. "Our economies are so intertwined. The Chinese leaders know that, and American leaders know that, so we have to figure out how we get along, not because of our own self interests, but because the history of the Asia-Pacific region will be written by the US and China."

China is the second-largest export destination for the US and its top agricultural export destination. US agricultural exports to China increased 42 percent over the last year. Exports of all goods and services have soared 50 percent over the last two years, doubling the increase in US exports to the rest of the world. Figures show that a million US jobs now depend on goods and services exported to China, and millions of jobs in China depend on goods and services exported in the other direction. Locke said many of the world's problems will only be solved by cooperation between the US and China.

Despite US President Barack Obama's administration bringing a record number of WTO cases against China, Locke said this does not mean the US won't cooperate with China. "We have had trade disputes with Canada and France," he added, emphasizing that Americans should welcome Chinese businesses that want to invest in the US, much as Japan and South Korea have done as their economies industrialized. He noted that anti-Chinese statements made in recent months by members of Congress do not reflect the views of the Obama administration - but he did not say whether he was referring to the House Intelligence Committee report two months ago, which described Chinese telecom companies Huawei Technologies and ZTE Corp as posing national security concerns to the US. Locke said that only around a hundred of the thousands of foreign direct investments made in the US each year are reviewed for national security reasons, and that only six or seven of those had involved Chinese firms. "The vast majority of these investments are not problematic, and they are very much welcomed," he said. He praised Chinese investments, in particular by Tianjin Pipe Co in Texas and Wanxiang Group Corp in the Detroit area, for creating thousands of jobs.

Source: Chen Weihua in Washington: Locke upbeat about continuity in Sino-US relations, China Daily, 2012-12-20

**U.S. Ambassador Gary Locke highlights increasingly interdependent U.S.-China economic relationship at AmCham Shanghai event**

In a speech to more than 450 U.S. and Chinese businesspeople and government officials, U.S.
Ambassador to China Gary Locke highlighted the increasingly interdependent economic relationship between the United States and China and the importance placed on the relationship by the Obama Administration. "Getting the U.S.-China relationship right is a long-term effort and we will continue to make this a priority in President Obama's second term and as China's new leadership comes into office." Continued Locke, "One simply cannot overestimate the importance of the U.S.-China economic relationship. More than a billion dollars of goods and services flow between our two countries every single day, compared to 100 million per year when President Nixon first came to China 40 years ago. Over 800,000 American jobs depend on producing goods and services sold to China. And over a million Chinese jobs are anchored by trade with the United States."

Locke also toured the AmCham Shanghai Small and Medium Enterprise (SME) Center, launched on November 6 to support the competitiveness of American SMEs in China. During the meeting, Locked highlighted important progress made on streamlining the U.S. visa process. Now, visa applicants can get an appointment within two to four days at the U.S. Consulate General in Shanghai, a huge improvement from an average of 70 days in 2010. During an interview with Insight, the Chamber's monthly magazine, Locke commented, "AmCham Shanghai plays a very critical part in the expanding ties between the U.S. and China. I'm pleased to see that your plans for a SME Center have become a reality." Continued Locke, "I know that this will provide expanded commercial opportunities for a critical segment of U.S. companies doing business in China."

The Twelfth Annual Government Appreciation Dinner, held at the Shanghai Marriott Hotel City Center, celebrated the long-standing partnership between the U.S. business community, the U.S. government and the Shanghai Municipal Government which has greatly contributed to the rapid development of Shanghai, China's commercial, industrial and financial capital. The Ambassador highlighted the important role Shanghai plays hosting U.S. foreign direct investment in China stating that U.S. investment in the city has reached almost 15 billion dollars. Finally, Ambassador Locke underlined an important new trend in the U.S. China economic relationship - Chinese FDI into the U.S. stating that, "We welcome Chinese investment in the United States with open arms."


Wang says economies of China, US inseparable

The economies of China and the United States have become "interdependent and inseparable," a top Chinese official said after high-level trade talks which were being watched for signs of how the two powers will cooperate after their respective political transitions. Vice Premier Wang Qishan was speaking on Wednesday after the annual US-China Joint Commission on Commerce and Trade. Tackling dozens of thorny, detailed trade issues, the two days of talks were short on big outcomes but set an upbeat tone. Wang said recovery of the world economy in the next five years will be sluggish, so the US-China economic relationship had acquired critical importance. "Our two countries have to strengthen our economic relationship. We have to come to terms with the fact that we have become interdependent and inseparable," he said. Wang said China was sticking to the path of economic reform and would honor its promises to observe trade rules and treat foreign companies fairly. "When we say we are opening up in China, it's not just empty talk," Wang said.

Both sides were upbeat about the talks. The US cited progress on intellectual property protection, market barriers and Chinese government procurement policies but said there was much more to be done. "We have provided a new platform for a strong US-China relationship," acting US Commerce Secretary Rebecca Blank told a news conference. China pointed to US reforms of
its controls on high-tech exports and a commitment to fair treatment for Chinese companies investing in the US.

Full RMB convertibility ruled out

Central bank chief Zhou Xiaochuan said on Monday that the country's goal to achieve the yuan's capital account convertibility doesn't necessarily mean 100 percent convertibility or a free-floating currency. "We shouldn't interpret capital account convertibility as a free currency, with cross-border asset transfers without control, zero financial supervision, and the internationalization of the yuan," said Zhou, governor of the People's Bank of China. International institutions such as the International Monetary Fund didn't set up clear and unified standards to measure the openness of capital accounts, and 100 percent convertibility barely exists, Zhou said at a forum in Sanya, Hainan province. He said China's target to open up convertibility doesn't rule out the necessity of maintaining certain existing filing procedures when entities conduct cross-border financial transactions, financial supervision, and certain capital controls to prevent money laundering and tax avoidance.

Earlier this year, China's top securities regulator, Guo Shuqing, a candidate to be the next central bank governor, said the full convertibility of China's currency is just around the corner, and the economy's capital account is already far more convertible than outside institutions give it credit for. He said 16 items in China's capital account are convertible now, 17 are basically convertible and seven are partially convertible. Further, he said, "There is no item that is inconvertible." Guo added that countries in different phases of development must make their own analyses in accordance with their own methods of opening up and their own situations. Zhou also said the country doesn't welcome short-term speculative capital inflows, and capital controls are still necessary in some circumstances to fend off financial risks brought by "hot money" inflows in emerging economies. Dealing with capital inflows into China would be a larger problem for the country than money rushing out.

China has announced a series of measures to liberalize its capital accounts in recent months. Earlier this month, the State Administration of Foreign Exchange said that it will launch a pilot system on Jan 14 to better monitor cross-border capital flow. In November, the administration said it will clear the way for foreign investor capital to flow in and out of the country more easily by waiving and simplifying regulations. And a pilot program was launched in Shanghai to allow yuan cross-border lending by onshore multinational corporations to offshore parent companies or related companies within the same group, viewed as another significant step toward liberalizing capital accounts. "For some items under the capital account, once the government has made up its mind and implemented policies, they would be open for convertibility all together very quickly," Zhou said. But coordination between some foreign-exchange policies and other regulatory rules - for example, the imposition of an export tax - will take some time, he added.
Source: Wang Xiaotian: Full RMB convertibility ruled out, China Daily, 2012-12-18

World News: China Revision Eases Worries Over Outflows

The capital and financial account -- a measure of net capital inflows -- showed a deficit of $51.7 billion in the quarter, down from a preliminary report of about $71 billion, according to the latest data released by the nation's foreign-exchange regulator Wednesday. China's currency, the yuan, since autumn has been appreciating against the dollar, and is now up about 1% this year after losing ground slightly earlier in the year. A rising currency draws funds, particularly from investors looking to invest what is known as hot money as they seek short-term returns. "China's [capital] account is becoming more balanced," said HSBC economist Ma Xiaoping.
Source: Kazer, William: World News: China Revision Eases Worries Over Outflows, Wall Street
China vows to narrow trade deficit in technology

Contract value of high-tech imports hits $32.2 billion in 2011, up 25.5% China aims to boost exports of technological products to narrow the $10 billion deficit in the industry, as the country improves its manufacturing sector and restructures its economic growth, a trade official said on Thursday. "Chinese companies are changing from technology importers to exporters, and the country's technology exports have entered a fast-growing phase," Zhou Liujun, director-general of the Department of Trade in Services and Commercial Services of the Ministry of Commerce, told a press conference held to promote the 2013 China (Shanghai) International Technology Fair. Shanghai, together with the coastal Jiangsu and Zhejiang provinces, accounted for 38 percent of China's total imports and exports of technology in 2011, Zhou said. China's technology trade was worth $53.56 billion in 2011, compared with $22.61 billion in 2006. In 2011, the contracted value of China's imported technology products stood at $32.16 billion, up 25.5 percent year-on-year.

The lasting deficit in technology trade is rooted in China's strong demand for high technology as the country shifts from a "Made-in-China" model to a "Created-in-China" model, which makes it almost impossible to reach a balance in technology trade in the short term through a reduction in technology imports, Zhou said. "We should concentrate on the structural balance of technology trade. Imported technology is urgently needed for our manufacturing sector improving efforts and can save costs in research and development," Zhou said. "On the other hand, China has made important technology advances in the past decades and has great potential for export," he added.

The contracted value of technology exports increased from $580 million in 2006 to $21.4 billion in 2011. Exports mainly include computer software, which accounted for 89.2 percent of China's exports in the sector last year, and technology consulting and services, as well as the licensing of proprietary technology. Zhou said the Shanghai fair can also serve as a means for technology buyers to meet suppliers, and will lower the costs and risks, as well as break technology barriers imposed by developed economies.

During his meeting with former United States Treasury secretary Henry Paulson on Wednesday, Vice-Premier Li Keqiang urged the US to loosen restrictions on high-technology exports to China as soon as possible. The restrictions - which cover about 2,400 types of technology - contributed to the trade imbalance between the two countries, Commerce Minister Chen Deming said in May.

Separately, the Chinese government also said it will boost efforts in the intellectual property protection field, and will set up an IPR alert mechanism to resolve disputes in technology trade. A technology evaluation system is also in a pilot stage, according to Cao Donggen, deputy director general of the patent administration department of China's State Intellectual Property Office. Technology trade accounted for 12 percent of China's services trade in recent years, implying there is great scope for expansion, according to Zhou. China's services trade is expected to grow more than 10 percent year-on-year in 2012, according to Zhou. The growth pace is very satisfactory compared, for instance, with the country's goods trade growth, which stood at 6.3 percent in the first 10 months of the year.

Source: Li Jiabao: China vows to narrow trade deficit in technology, China Daily, 2012-12-07

China Reports a 2.9% Rise in Exports for November: [Business/Financial Desk]

Exports from China edged up 2.9 percent in November, far less than analysts had expected, highlighting the crucial role that homegrown stimulus and reforms will play in the renewal of China's acceleration while the trajectory of global demand remains highly uncertain. The 2.9 percent year-over-year expansion in exports fell far short of the average of 9 percent that economists surveyed by Reuters had expected. It also represented a sharp slowdown from 11.6
percent in October and 9.9 percent in September. Imports were flat from a year earlier.

The prospect of tax increases and spending cuts in the United States, and the continuing debt crisis in Europe, have long been flagged by economists as significant risk factors for recovery in countries like China, which derive a large part of their growth from selling goods to the United States and Europe. Weak demand from the world's largest developed economies -- the United States, Europe and Japan -- was the main reason for the weakness in Chinese exports in November. Shipments to the United States slipped 2.6 percent and those to Japan by 3.8 percent, while exports to the European Union plummeted 18 percent.


**Import tariffs lowered to boost consumption**

China will lower the tariffs on 784 imported products starting from January as part of a major effort to boost domestic consumption, the Ministry of Finance said on Monday. The temporary adjustment will allow the products, grouped into five major categories, to be imported on a tax rate that is lower than the most-favored-nation tariff, according to a statement on the ministry's website. The new rates will take effect on Jan 1. Lower tariffs on products closely related to people's livelihoods, including infant milk powder, have been much attention. Tariffs will also be lowered on raw materials and spare parts for the equipment manufacturing industry and strategic emerging industries, such as robots used for automobile production. Resource products as well as energy-saving and emission-reduction products will also benefit from lower rates. Products that support the development of the agriculture and textile industry are also included on the list. The measure aims to boost imports and meet an increasing demand from domestic consumers, the ministry said.

He Weiwen, a professor with the University of International Business and Economics, recognized the measures could be positive but the desired effect is far from guaranteed. "The major obstacle for domestic consumption remains the high cost of distribution. Thus lowering that cost should be a main priority if the government is aiming to boost domestic consumption," he said.

The Finance Ministry also said it will extend the temporary lower tariff rates for some export products, including coal, crude oil, fertilizer and ferroalloy. The levies on fertilizer will move from price- to volume-based.

Source: Wei Tian: Import tariffs lowered to boost consumption, China Daily, 2012-12-18

**CHINESE AMBASSADOR CRITICIZES U.S. TRADE PRACTICES, MAKES LINK TO JCCT**

China's Ambassador to the World Trade Organization in Geneva Dec. 18 sharply criticized the United States for failing to comply with WTO legal decisions and shirking its responsibility to act as a leader in the multilateral effort to conclude the Doha round. He also blasted the U.S. for its alleged "abuse of trade remedies" and "refusal of investment projects based on ideological reasons."

On specific issues, Yi argued that part of the reason why the U.S. is a powerhouse when it comes to agricultural exports is because the industry receives "enormous domestic support." The U.S. should address this distortion in order to provide a "level playing field" for farmers from developing countries, he said. The ambassador also alluded to a WTO dispute that the U.S. lost on cotton-specific and other agricultural subsidies, which the U.S. has not yet implemented. While China criticizes U.S. subsidies, it has also been dramatically increasing its own agricultural subsidies in ways that U.S. industry groups say violates WTO rules (Inside U.S. Trade, Oct. 31).

The ambassador also pointed out that while the U.S. economy is open in many sectors, the U.S. still maintains "tariff peaks" on seven percent of its tariff lines, mostly on products of interest
to developing countries, such as textiles and clothing, agricultural products and footwear. The ambassador also argued that just when U.S. leadership on the Doha round is most needed, the U.S. is prioritizing regional and bilateral initiatives.

On Chinese investment in the United States, U.S. observers say the U.S. does not block Chinese investments for "ideological" reasons. Instead, it blocks or places conditions on a small percentage of deals that involve the transfer of assets to Chinese persons for national security reasons. The Committee on Foreign Investment in the United States (CFIUS) evaluates such investment deals for national security reasons. In fact, several prominent Obama administration officials -- including Undersecretary of State Robert Hormats -- have traveled to China in recent weeks in an effort to highlight that the U.S. seeks more Chinese foreign direct investment. At the same time, however, these officials have stressed that China needs to do more to open up investment opportunities for U.S. investors in China if it wants to continue enjoying relatively open access to the U.S. market. U.S. observers bristle at Chinese arguments that the U.S. is not doing enough to open up to Chinese investment when China's Foreign Investment Catalogue strictly regulates investment in that country. The catalogue divides China's economy into sectors where foreign direct investment is "encouraged," "restricted" and "prohibited." These categories carry far-reaching implications for whether a proposed investment can take place and the level of scrutiny it will face.

U.S. export controls are a perennial issue raised by Chinese officials, and some U.S. officials have dismissed it as a politically motivated complaint. In 2011, for instance, China submitted a "wish list" of 141 items and technology that it wanted to import but could not under the current system. The U.S. subsequently requested more details to follow up on this wish list, but China never engaged, even though the Commerce Department offered to send over technical experts to discuss the matter and to connect Chinese companies with U.S. companies that sell dual-use items that are eligible for export to China, a U.S. official said.

On trade remedies, China has launched a series of WTO cases against the United States. In a landmark 2011 decision, China proved that the way in which the U.S. was implementing concurrent trade remedies against the same products from countries like China violates WTO rules. Since then, the U.S. has passed legislation designed in part to implement the findings of this case, and China has subsequently launched a legal case against that new bill.

Source: CHINESE AMBASSADOR CRITICIZES U.S. TRADE PRACTICES, MAKES LINK TO JCCT

**China/Pacific Islands economy: China's rise brings riches to the Pacific**

Ten years ago China played only a peripheral role in trade flows in the Pacific Islands. This dynamic has changed, as the country has become both an important supplier of products and a major market for some of the region's economies-especially those with natural resources to export. The impact of China's rise has not been felt in all countries, but the underlying trend is one of deeper economic engagement. As trade flows have increased, China has come to rival the influence of Australia and New Zealand as a driver of local economic growth.

Although exports to China have depended largely on countries' natural endowments, the attractions of Chinese goods have been more universal, and many of the Pacific island countries now import at least 10% of their imports from China. This reflects China's emergence as the world's leading supplier of cheap manufactured goods. China is also an important player in the manufacture of low-cost transport and construction equipment, as well as in the export of intermediate goods such as plastics and refined oil products.

Merchandise trade is, of course, just one aspect of China's economic relationship with the region. Chinese funding has also already bolstered governments and driven infrastructure investments in many economies. For example, Chinese loans have underpinned the reconstruction of Tonga's capital, Nuku'alofa, after much of the city was razed in riots in 2006. Its influence will
also be felt in the tourism sector, where a sustained surge in outbound travel from China will eventually lift earnings in the Pacific's holiday hubs—although this trend is currently only in its infancy. For the region's fragile economies, the extra support from China's engagement may prove a useful force for development, provided that it can be harnessed effectively. Cheaper imports have also raised living standards, making products more affordable for the region's many low-earners.

Nevertheless, concerns linger about the Pacific Islands' exposure to China. Some countries in the region have built up dangerously high debt levels with Chinese banks, which may prove difficult to repay. For governments, the attractions of building economic ties with China are obvious—particularly given the fact that China's leaders, unlike those in Australia or New Zealand, seem disinclined to interfere in domestic politics. In the end, few relationships come without strings attached, but for now China's impact on the region remains largely benign.

Source: EIU ViewsWire: China/Pacific Islands economy: China's rise brings riches to the Pacific, (Dec 27, 2012)

City to be 2nd duty-free region

SHANGHAI is to become the second region on the mainland to allow duty-free shopping for individuals traveling domestically, part of the city’s efforts to become an international trade center, according to a guideline that takes effect on January 1. "The city will explore tax rebates on departure in coordination with national-level administrations and select locations to set up duty-free shops," the guideline says.

China's southernmost Hainan Province piloted the plan on January 1, 2011, with visitors and local residents able to buy tax-free commodities from designated stores before flying to other destinations on the mainland. The plan received a warm welcome initially, but its popularity has been declining because the products offered prove unattractive to travelers and there are also too few shops in the region, Xinhua news agency said.

Introducing tax rebates on departure in Shanghai will develop a sound shopping atmosphere that is crucial to the city's mission to become an international trade center, said Shanghai Vice Mayor Zhao Wen as she proposed the plan during a political advisory meeting in Beijing. Shanghai currently has duty-free shops at airports and one in Jing'an District that allows individuals to buy duty-free products within 6 months of their last return from overseas.

The proposed new duty-free shops will extend tax benefits to travelers without the need to leave the country. The guideline urges government departments to encourage the establishment of trade companies, improve the layout and infrastructure of commercial and logistics facilities, simplify trade-related procedures, and maintain a healthy market and legal environment. Other detailed measures will include offering preferential policies in terms of labor, capital and clearing for trade headquarters, providing greater support for local trade firms involved in international disputes, cutting paperwork for customs clearance, developing an exhibition industry, reducing administrative approval for trading projects, and promoting e-commerce and trade in services. In 2009, the central government announced its plan to build Shanghai into an international trade center by the year 2020.

Source: City to be 2nd duty-free region, Shanghai Daily [Shanghai, China] 28 Dec 2012.

China vows to protect foreign investors' interests

China vowed to continue to protect foreign investors' rights and interests and their intellectual property rights, according to a statement issued Sunday after a central economic work conference closed. The country will step up its effort to stabilize foreign direct investment inflows while expanding its outbound investment next year. China will also stabilize and increase its share of world markets while boosting imports to support the country's economic restructuring and make its international payment more balanced, according to the two-day conference, one of the nation's most important economic events.
Sony China chief bullish over business

SONY Corp's business in China has "more or less" returned to levels seen before recent protests against Japan's actions over a group of disputed islands, the Japanese company's China chief Nobuki Kurita said yesterday. "My general impression is business conditions have more or less returned to the pre-crisis environment," he told a briefing at a Sony store in Beijing. He saw sales in China falling 10 percent in the business year to next March from the previous year, but growing strongly in the two subsequent years. "There's no market that has no risk," he said when asked about Japan-China relations. "Our mandate is to maximize our business potential in any given situation." Kurita expects Sony's business in emerging markets to grow 40 percent from the current level to 2.6 trillion yen (US$31 billion) in the business year ending in March 2015. China would account for "a good chunk" of that growth, he said.


Corporate News: Conoco Hunts in China for Shale Gas

ConocoPhillips is joining the search for shale gas in China, adding its experience in extracting gas by unconventional means to the challenge of making hydraulic fracturing a viable development approach in the country. Conoco last week signed an agreement with China Petrochemical Corp., known as Sinopec, to study shale-gas exploration in the Sichuan Basin, the Houston-based company said Tuesday on its website. The statement marked the official entrance of a third major international oil company into China's shale-gas industry. Royal Dutch Shell PLC signed a similar agreement in 2009 with PetroChina Co., before it gave the green light to a more formal production-sharing contract in March. Chevron Corp. signed an agreement for a joint study with Sinopec in April 2011 and began initial drilling in the first quarter. Other global oil companies, including BP PLC and Total SA, have said they are studying similar agreements, but have yet to announce partnerships.

The Chinese government has targeted raising annual shale-gas output to 230 billion cubic feet by 2015 and as much as 3.531 trillion cubic feet by 2020 from practically nothing now. But according to consultancy Wood Mackenzie, China could reach barely one-tenth of its 2020 goal.

Under Sinopec's latest shale-gas pact, ConocoPhillips will drill two wells in a 3,900-square-kilometer section of the Qijiang block in China's southwestern Sichuan province, Sinopec said. It didn't disclose financial details. Conoco's Beijing office couldn't be reached for comment.

According to the U.S. Energy Information Administration, China has 1.275 trillion cubic feet of recoverable shale-gas resources in two basins, exceeding the reserves in the U.S. and Canada combined. But China's complicated geology, scarce water resources and lack of foreign participation are seen as barriers to mass commercialization.


NDRC eyes services boom

Larger scale' foreign investment likely as urbanization accelerates. China's top economic planning body said on Friday the service sector will become more appealing to foreign investors, driven by an expected surge in business from the country's accelerated urbanization process. Xia Nong, deputy director-general of the Department of Industry under the National Development and Reform Commission, said the country will adopt more "proactive strategies" to further open its service sector on a "larger scale" to international competition. Foreign investment will be integrated with boosting China's industrial restructuring, and the country's top service providers
will also be encouraged to go overseas, Xia told a press briefing on Friday. Overseas company investment in urban transportation surged a massive 24-fold in the first 11 months from a year ago, followed by telecommunications and other information services, which soared nearly 12-fold, and pipeline transportation industries, at sevenfold, according to latest Ministry of Commerce figures. Foreign investment in the service sector was valued at $47.57 billion in the first 11 months of 2012, down 2.5 percent year-on-year, but except for the 8.3 percent decline in real estate investment, the rest of the sector enjoyed a 2.8 percent rise from a year ago.

China has set goals to raise those two figures by 4 percentage points respectively by 2015, from 2010 levels, according to a plan for the development of the service sector. The plan, adopted by the State Council in September, was the first Five-Year Plan (2011-2015) for the sector. It stresses services closely related to the restructuring of some industries in particular, including finance, transportation, logistics, high-tech, design consulting, business services, e-commerce, engineering consulting, professional services and energy conservation. Industries to meet people's diversified demands were also listed in the plan, including the cultural industry, tourism, health and social assistance, legal services, and household services.

Source: LAN LAN: NDRC eyes services boom, China Daily, 2012-12-29

**China enterprises expected to reach record levels of ODI**

The government is expecting "record" levels of outbound direct investment by Chinese companies this year, and has vowed to ease and improve the systems involved to ensure that momentum continues, People's Daily reported. Speaking at the 4th China Overseas Investment Fair in Beijing, Mu Hong, deputy head of the National Development and Reform Commission, pledged to boost the resources available to companies, and set up information networks and associations to help organizations with the advice they need to seek opportunities overseas. "Despite the sluggish world economy, Chinese outbound investment remained robust and the whole year will see Chinese outbound investment at record levels," the newspaper reported Mu as saying. He said that in the first 10 months of the year, China's non-financial outbound direct investment totaled $58.17 billion, up 25.8 percent from a year earlier. The country's ODI increased by 8.5 percent year-on-year in 2011 to $74.7 billion, with non-financial ODI reaching $68.6 billion, up 4 percent year-on-year, the newspaper said.

Source: China enterprises expected to reach record levels of ODI, China Economic Review - Daily Briefings (Dec 4, 2012).

**M&A deals become scarcer in Jan-Nov**

Influenced by weak economic conditions in China and abroad, the number and value of merger and acquisition deals completed by Chinese companies decreased in the first 11 months of this year. Even so, venture capital and private equity firms say they regard the transactions as an important means of exiting investments they have in other companies. The first 11 months of 2012 saw Chinese companies complete 820 M&A deals, a decline of 21.2 percent year-on-year. Of the 719 of those deals for which investment information was made public, the total value was $43.8 billion, down 22.5 percent year-on-year, according to a report released on Wednesday by the research company Zero2IPO Research Center.

As for domestic M&A deals, 681 were completed by the end of November. For the 620 of those for which data were made public, the total value was $14 billion, a year-on-year decline of 49.7 percent. The first 11 months of the year saw Chinese companies complete 139 M&As overseas. For the 99 for which data were made public, the total value was $29.7 billion, up 4.1 percent year-on-year.

Among industries, machinery and manufacturing had the greatest number of M&A deals from January to November. The period saw Chinese companies complete 97 deals in those industries, accounting for 11.8 percent of the total number. Measured by value, the energy and mining
industries led the way. Chinese companies completed $19.4 billion worth of M&A deals in those industries during the first 11 months, constituting 44.4 percent of the total.

Venture capital and private-equity firms are playing an important role in M&A deals conducted by Chinese companies. Those types of firms completed 177 of the deals, totaling $3.7 billion, in the first 11 months. "There are 808 companies waiting to go public in China," said Liu Zhou, managing director of Fortune Capital, a leading Chinese equity investment company. "With the way things usually go, it will take two to three years for all of them to be listed. So we should be diversifying our exit channels, and M&A is a good way to do that." Liu said venture capital and private-equity firms used IPOs to exit from 70 percent of the investments they stepped out of in the first 11 months of the year. That's down from 90 percent last year but is still a much higher proportion than is common among investment exits in the United States.

Source: Cai Xiao: China vows to narrow trade deficit in technology, China Daily, 2012-12-06

Canada Clears $15 Billion Chinese Takeover of an Energy Company: [Business/Financial Desk]

Canada on Friday allowed a Chinese state-run oil giant to move forward with $15 billion takeover of a domestic energy company, but the government indicated that such deals might not pass muster in the future. The deal - the acquisition of Nexen by the China National Offshore Oil Corporation, or Cnooc - is the latest effort by the Chinese government to find new sources of oil and natural gas reserves to help drive the country's growth. The state-run Cnooc has been active, striking several partnerships in Canada and the United States. Prime Minister Stephen Harper has been trying to create new markets to export Canadian energy, which is largely dependent on the United States for its exports. He has been courting China since the United States stalled approval of the Keystone XL pipeline project, which would move more oil sands production to the Gulf Coast.

The Nexen bid prompted nationalistic concerns in Canada. Some conservative members of Parliament worried about Cnooc, which is an arm of the Chinese government, gaining control over energy assets generally controlled by Canadian provinces. The government's decision also did not necessarily quell criticism within Canada. Within seconds of the prime minister's release, Peter Julian, a member of Parliament for the opposition New Democrats, condemned the Nexen approval as an act of "rubber stamping" that did not reflect the views of most Canadians. The government's shifting sentiments could curb the deal-making spirits of Chinese companies.

In July, Sinopec, a competitor to Cnooc, agreed to pay $1.5 billion for a piece of the North Sea operations of Talisman Energy, another Canadian oil company. After agreeing to buy Nexen in July, Cnooc made several moves to gain the support of the Canadian government. The Chinese company announced plans to keep Nexen management and establish Calgary, Alberta, as its headquarters for North and Central America.

But Canada may find it difficult to entirely rebuff the overtures of well-financed Chinese players. Major oil and gas deals require enormous financing, and Canada needs to further develop the oil sands. All of that takes money, which the Chinese government-owned companies have. Nexen's own financial struggles prompted its relationship with the deep-pocketed Cnooc. One of its core sources of reserves, Yemen, has been plagued by political instability. Nexen has also run into trouble in its own backyard. OPTI Canada, Nexen's partner in an oil sands operation in Long Lake, Alberta, went bankrupt after a series of production delays. Cnooc then acquired OPTI Canada for $2.1 billion, giving the Chinese a 35 percent holding in the project. This is a more complete version of the story than the one that appeared in print.

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China Woos Overseas Companies, Looking for Deals: [Business/Financial Desk]

So far this year, the dollar volume of Chinese acquisitions overseas is up 28 percent from the same period a year ago, according to Thomson Reuters data. That compares with a 2.8 percent slump in global merger and acquisition volume over all. Chinese international acquisitions are ahead for the year despite a slump during the third quarter, as state-owned enterprises, which are the main Chinese buyers, and some private enterprises waited for a change in the country's political leadership at the Communist Party Congress in mid-November. But now the Chinese buyers are back.

"An increase in overseas investment by Chinese companies is an inevitable trend," the commerce minister, Chen Deming, said at a conference two weeks ago, adding that China did not want to remain overwhelmingly invested in fixed-income securities. "With foreign reserves of $3 trillion in hand," he added, "we will not sit back and watch the assets depreciate with the third round of quantitative easing. We must inject it into the real economy and make our contribution to global prosperity."

Wanxiang Group agreed on Sunday to pay $256 million to buy most of A123 Systems, a
bankrupt manufacturer of high-tech batteries. And a consortium of Chinese investors agreed on the same day to pay $4.2 billion for a controlling stake in the American International Group's aircraft leasing business. On Friday, Canada approved the $15 billion acquisition of Nexen, an energy company, by the China National Offshore Oil Corporation, or Cnooc. That deal is still pending approval by the American committee that reviews foreign investments on national security grounds, commonly known as Cfius. A few deals may be completed this winter, but the real surge is likely to happen by next summer, bankers and lawyers said. State-owned enterprises account for as much as four-fifths of China's overseas acquisitions by value and many of their top executives are expected to change jobs this winter as the country's new leaders start promoting their followers.

Two of the biggest deals by Chinese companies this year were for control of North American companies. The bid for the A.I.G. business, the International Lease Finance Corporation, or I.L.F.C., is the biggest takeover by Chinese entities on record, according to data from Thomson Reuters.

Many of today's buyers have drawn lessons from past failures and moved to assuage government regulators before striking deals. Cnooc, in particular, learned from its failed bid to buy the oil company Unocal seven years ago, and tried to apply those lessons in its pursuit of Nexen. The Chinese company considered the deal in part because it believed that a takeover could win approval, according to a person with direct knowledge of the matter. While a big player in Canada's energy community, Nexen was not one of the country's iconic companies, heading off the sort of brutal fight that surrounded a takeover battle for Potash, the producer of an important fertilizing ingredient. Cnooc hired an army of advisers, including lobbyists and public relations specialists, to press the point that a deal would only strengthen the Canadian energy company. And Cnooc was open about much of its financing, aiming to halt concerns that it was being financed cheaply by state-run banks.


Golden opportunities for California

The state, now fifth in the United States in the value of investment from China, aims to climb higher by tapping its intrinsic strengths, Chen Jia and Joseph Boris report from Oakland, California. With China a top target for US municipalities and states seeking foreign investment, one destination can put a number on its potential appeal to Chinese capital: $60 billion. By 2020, California could attract that amount from China, according to an October report from Rhodium Group, a consulting firm in New York that tracks Chinese outward investment.

"California is a good target for Chinese investors because we are looking for infrastructural development such as hotels and a baseball stadium," said Jean Quan, mayor of Oakland in northern California. Quan expects increased investment from China, particularly in property development, which is so important to her city. This will be due in large part, she says, to US Congress' recent extension through September 2015 of the EB-5 visa program. Under EB-5, an applicant is given permanent US residency if his investment of at least $1 million leads to 10 full-time jobs within two years. The threshold is just $500,000 if the jobs created are in a rural or high unemployment
area of the US. Local officials in the US including Quan have said real estate investors from China's growing middle- and upper-income populations seem particularly interested in the visa program.

Oakland is an easy fit for Chinese investors, with hotels close to the city's predominantly Chinese-American neighborhoods and a large population of skilled, bilingual workers. As an example, the mayor cited the deal for the Tribune Tower, a city landmark whose neon sign bears the name of Oakland's daily newspaper, a former tenant. In late 2011 the 20-story, 8,175-square-meter building was bought in foreclosure for $8 million by a group of private investors assembled by businessman and Oakland native Tom Henderson. Henderson won't identify the investors by name, but he has said most are from China. In addition, Henderson is investing $3 million to $4 million to renovate the building, helping to attract tenants, including a restaurant, for the rest of the building. "We are bringing in $100 million to Oakland alone. Over the next 18 months, we'll create 2,000 jobs in Oakland through the EB-5 program," said Henderson, who recently returned to California from China. The trip was his 19th to China since January 2011. He has offices in Shanghai, Beijing and Guangzhou. Henderson's San Francisco Regional Center was established under the auspices of US Citizenship and Immigration Services, the government agency that created the EB-5 program in 1990. About 95 percent of prospective EB-5 immigrants turn to regional centers to help navigate the visa-application process, a USCIS spokesman was quoted as telling The Wall Street Journal earlier this year. There are 245 regional centers in the US, 61 of them in California, according to the USCIS website.

Ed Lee, the Chinese-American mayor of San Francisco, is preparing to visit China next year, according to Darlene Chiu Bryant, executive director of ChinaSF, an economic development initiative of the city. As more Chinese companies set up offices and expand operations in the US, San Francisco aims to guide those considering a move through each stage of decision-making and relocation. ChinaSF has a bilingual staff and offices in San Francisco, Shanghai and Beijing that support an exchange of ideas.

In February, Governor Jerry Brown announced at a US-China economic forum in Los Angeles his plan to form a China-California task force to spur cooperation, investment and trade. Later in the year, Brown re-established a state trade and investment office in Shanghai. California had closed a dozen such offices around the world in a budget-cutting move eight years ago, including in Shanghai, Hong Kong and Taiwan. In 2010, China surpassed Japan as California's No 3 export market, posting a 20 percent increase over the previous year.

California has competitive advantages in high-tech sectors including software, information technology, electronics design and renewable energy. Historically strong cross-Pacific ties to China complement the state's other attributes, such as an ethnically diverse, highly educated workforce. Although the Rhodium report sees Chinese direct investment in California soaring to between $50 billion and $60 billion by 2020, it cautions that the state will need a focused strategy to reach that goal.

Robert Berring, a University of California, Berkeley, law professor, expressed concern that "parochial and backward interests within the United States may see increasing Chinese investment as a threat. "Chinese capital can provide a much-needed boost for the California economy," he said.
"If the 21st century is to be a good one, the US must see China as a partner in progress." Chinese investment is a boon to the US economy and can help draw the two countries closer, Berring said.
Source: Chen Jia and Joseph Boris: Golden opportunities for California, China Daily, 2012-12-18