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The Chinese leadership sets the tone for China's economy in the second half of 2013

A meeting held on July 30 by the Political Bureau of the Communist Party of China (CPC) Central Committee, the country’s top decision maker, diagnosed the Chinese economy in the first half of 2013 and painted a blueprint for the latter half. The central authorities will continue to work toward stabilizing growth, restructuring the economy and promoting reforms. China's targeted GDP growth is 7.5 percent for the year and plans to add 9 million jobs to the economy. Statistics from the National Bureau of Statistics (NBS) show GDP growth in the first half slowed to 7.6 percent, with a 7.5-percent growth during the second quarter. A total of 7 million jobs were added to the job market during the first half.

The Political Bureau meeting, however, praised China's economic achievements in the first half, adding that major economic indicators were within a reasonable range and socioeconomic development was off to a good start. Economic growth in the first half was stable, with generally stable prices, a stable job market, and a bumper harvest for summer grains, read a statement after the meeting. Despite mounting concerns from the market, the Political Bureau said they believe the country has entered a period of steady and healthy economic development, noting that the economy will maintain steady growth in the latter half of the year.

Top 10 Tasks
- Continuing with a proactive fiscal and prudent monetary policy and directing financial support to the real economy;
- Expanding domestic consumption, keeping reasonable investment growth, promoting urbanization, and maintaining stable and healthy development of the real estate market;
- Maintaining a steady growth of agriculture output;
- Further increasing financial services for small and micro businesses;
- Accelerating industrial restructuring and adjustment, cultivating and developing strategic emerging industries, promoting information technology, environmental protection, new energy and the service sector;
- Implementing regional development strategies;
- Stabilizing foreign trade by expanding export channels and effectively coping with trade frictions;
- Further cutting down on administrative bureaucracy and delegating more power to lower-level governments, accelerating fiscal, taxation and financial reforms, and pushing forward reforms of natural resource pricing;
- Stabilizing commodity prices and mitigating the influence of rising prices on the day-to-day lives of the people;
- Improving people's livelihoods by offering more job opportunities, establishing an overall social insurance system that covers both rural and urban residents, and promoting the development of education, healthcare, culture and sports.

Source: Lan Xinzhen: The Chinese leadership sets the tone for China's economy in the second half of 2013, China Daily, (Compiled by Beijing Review, August 6, 2013 NO. 32), August 8, 2013

Spotlight on solar panel maker in test for China

Suntech Power Holdings was once the biggest solar panel maker in the world by production volume, its founder Shi Zhengrong was the richest man in China and the offshore parent company was listed in New York with a market capitalization of $16bn. Then in March, Wuxi Suntech, its principal subsidiary, filed for bankruptcy under China’s new revitalization law. Chinese banks are owed about $2.3bn by the mainland entity according to filings as of year-end 2011. Creditors to the offshore parent, a group with claims of almost $600m that includes several hedge funds as well as the IFC arm of the World Bank, are also attempting to recover their loans. The offshore parent has not filed for bankruptcy and is still operating.

Few people had expected the big Chinese banks to be the ones that ultimately pulled the plug on Wuxi Suntech, even though that is likely to trigger big write-downs for them. The fact that the banks were the ones to cease supporting Suntech suggests Beijing is trying to shift away from its previous growth model that relied on allocating cheap capital to chosen sectors. This approach treated the banks as instruments of state policy rather than
institutions that allocated capital to those who can use it most efficiently and profitably.

Suntech’s plight is the result of chronic over-investment in sectors that the government considers its priority. “Demand for our products depends on government subsidies,” its financial statements baldly declare. Those official subsidies include cheap capital from banks including China Development Bank, a policy lender, and the listed, more commercial Bank of China, as well as preferential taxes, according to Suntech regulatory filings. By finally saying no, the banks are embarking on a new era. The solar business, like the semiconductor chip business, is notoriously volatile. In 2010, the company’s net income was $238m, but the following year it produced a net loss of more than $1bn. In addition, Suntech is the victim of considerable mismanagement. It set up investment arms that suffered big losses. There were also related party transactions as it did business with a unit Mr Shi controlled, according to filings with the Securities & Exchange Commission.

One reason that the outcome isn’t yet clear is because the local governments have priorities that differ considerably from those of Beijing. The local government of Wuxi, in Jiangsu province near Shanghai, which supported Suntech from the start, would like to see it saved – not least because of the thousands of jobs it and its 400 suppliers provide. But the dynamic in a China that is trying to change may be far more unpredictable than in the past where Chinese priorities and the heavy hand of the state were easier to anticipate.

Source: Henny Sender: Spotlight on solar panel maker in test for China, Financial Times, August 6, 2013

New mechanism to strengthen financial supervision

China has decided to set up an inter-ministerial meeting mechanism, headed by the central bank, to beef up financial supervision, according to a report on the government website, www.gov.cn, on Tuesday. China's State Council has approved the mechanism that draws regulatory bodies from the banking, securities, insurance and foreign exchange sectors. Their meetings will also invite representatives from the National Development and Reform Commission, the Ministry of Finance and other government bodies when necessary, according to the report. The mechanism will coordinate the country's monetary and financial regulatory policies. It aims to safeguard financial stability and address regional systemic financial risks. The mechanism will also promote financial information sharing and help build the industry's comprehensive statistical systems, said the report. The mechanism will not change the current financial supervision system. It will not weaken the responsibilities of relevant government bodies either, said the report.

Source: Xinhua: New mechanism to strengthen financial supervision, 2013-08-21

Risk in local govt debt 'well under control

Most of the new lending to local government funding vehicles in 2013 went to projects that are in their final phase, according to the China Banking Regulatory Commission. The risk element of local government funding vehicles is well under control, said Shang Fulin, head of the China Banking Regulatory Commission in an interview with CCTV on Friday. Shang said in general the risk exposure of lending to local governments is small because most of the loans are long-term and contained by effective regulations and controls. It is possible that there will be defaults on some lending to local governments. The commission will classify the lending and take various measures to manage it, said Shang.

By the end of June, outstanding loans via local government funding vehicles stood at 9.7 trillion yuan ($1.57 trillion), up 6.2 percent year-on-year. The growth rate was 9 percentage points lower than the average growth rate for all categories of banking loans, according to the commission’s data. Shang said the commission will take various measures to manage the risks of lending to local government funding vehicles, including controlling the total loan amount, increasing asset-backed financing and establishing a long-term mechanism to push forward the optimization of the credit structure of local governments.

The precise amount of regional and local government-related debt outstanding is unknown. In June, the National Audit Office published a more limited survey of 15 provinces, three municipalities, 15 provincial capital
cities and three districts. It showed their debt had continued to rise but at a relatively modest level of 13 percent over the two years up to 2012, the note said. In response to mounting concerns over trusts and wealth management products - which are considered to be "shadow banking" by many people - Shang said the risk element in these products is controllable. "Growth rates of such products are not significant. The balances of these products are basically the same as that of last year," said Shang. The balance of wealth management products was 9.08 trillion yuan by the end of June, with non-standard credit assets totaling 2.78 billion yuan, 7 percent short of the level recorded in late March, when the commission released a notice on regulating the wealth management product business of the country's commercial banks. Shang said risk pressures increased in the first half of 2013 when there was a slightly higher non-performing loan rate at 0.96 percent because of the short-term volatility of the money market. "The liquidity crunch in June was a lesson to lenders that at all times the management of lenders must follow the principle of prudence. Safety and liquidity are always vital in the banking sector and financial system," said a CBRC note on Friday.

Source: Wu Yiyao in Shanghai: Risk in local govt debt 'well under control, China Daily, 2013-08-03

**New rules to regulate local government spending**

The Chinese Finance Ministry Wednesday ordered all government bodies at or above county level to make public their budgets and final accounts reports by 2015. They should also release their budgets and expenditures on the use of public funds for receptions, vehicles and overseas trips, also known as "the three public consumptions," the ministry said. The move comes as China vowed to cut administrative costs for governments as well as curb extravagance and corruption. Public institutions, social organizations and companies using fiscal funds allocated by authorities at or above county level should also unveil their spending on the three items, said the ministry. China's State Council has required provincial-level governments to disclose information on "the three public consumptions" by 2013.

Source: Xinhua: New rules to regulate local government spending, 2013-08-22

**Nationwide VAT reform for transport, services**

The value added tax reform scheme that has been running in Shanghai and several other parts of the country over the last year will now expand nationwide in the transport and service sectors. Under the plan, companies will pay taxes only on the value added to each stage of the production process and not on its gross revenues. That means a smaller tax bill for businesses. In the past, companies paid taxes based on the total revenue they brought in, even though suppliers had also paid taxes on the money they had earned. That had many companies complaining about double taxation. Under the new rules, companies only pay based on the value they have added to a good, not the total sales price. Since the rules were put into place on a trial basis in 9 areas in January 2012, they have saved domestic companies 40 billion yuan a year in taxes. And with the rules expanding, they could save companies 120 billion yuan this year.

"But in the transportation industry, it seems a different story. Shipping companies are complaining about an increase in their tax rate, from a 3 percent sales tax in the past to an 11 percent value-added tax. And they plan to increase their prices, which will undermine the benefit other companies had hoped to get from the tax reform." So that's something the system need to be in the future, need to be improved. The tax reform now only includes two major industries, transport and services, because they are the easiest to begin with. But the reform will expand to other fields in the future.

Source: cntv.cn: Nationwide VAT reform for transport, services, 2013-08-02
http://www.chinadaily.com.cn/business/2013-08/02/content_16865049.htm

**New tax cuts nurture small business growth**

The State Council, China's cabinet, announced in late July a move to suspend value-added tax (VAT) and
turnover tax for businesses with monthly revenues below 20,000 yuan, starting from Aug 1. The monthly revenue of Guan's Tianjin Yingtai Communication Equipment Sale Co Ltd, stands at around 15,000 yuan. Prior to the tax cuts, given tax rates ranging from 5 to 7 percent, Guan paid about 1,000 yuan, a quarter of her profits, in VAT and turnover taxes. The tax cuts were rolled out in an effort to bolster slowing economic growth, and China's Ministry of Finance estimates that the cuts will save businesses 30 billion yuan this year. While analysts believe the policy will have more of a symbolic significance than a material impact as the 20,000 yuan revenue threshold only applies to a limited number of companies, the move will surely send ripples through a part of the economy that employs tens of millions of people.

According to statistics from the Ministry of Industry and Information Technology, 99 percent of companies registered in China are small and medium enterprises (SMEs) and they produce up to 80 percent of urban jobs. These companies also make up 60 percent of China's economic output. Easing their tax burden is part of what many call a "micro stimulus" plan that is more targeted and efficient than the massive liquidity injection unleashed in the wake of the global financial crisis in 2008. China had previously raised the tax threshold for small business owners, but the country still lacks tax incentives for promising start-ups. The country's thriving micro and small enterprises will greatly boost growth and economic restructuring, Premier Li Keqiang said at a workshop in early July in south China's Guangxi Zhuang Autonomous Region. However, many business owners currently benefiting from the tax cuts have expressed concerns that if their businesses expand, they may have to shoulder a monthly tax burden of at least 1,500 yuan once their monthly revenue tops 20,000 yuan. "From a long-term perspective, policymakers should build up a comprehensive policy package to aid the growth of micro and small enterprises," Yang said.

Source: Xinhua: New tax cuts nurture small business growth, 2013-08-02

**Ministry focuses on tax reform**

The Ministry of Finance will deepen tax reform, including real estate tax. At present, the Ministry of Finance is working on the pilot program of switching from business tax to VAT in railway transportation industry and telecommunication industry. The program will be put into effect at the end of this year or early next year. The ministry said it will also expand individual housing property tax reform on a trial basis and is working on improving industrial and commercial real estate property tax.

Source: Zheng Yangpeng: Ministry focuses on tax reform, China Daily, 2013-08-05

**Accelerating taxation reform**

Taxation reform is a big headache among governments of many countries, as it touches on very complex interest chains. For China, reforms are inevitable as the current fiscal and taxation system no longer suits today's economic and social development, and such reform can't afford to wait any further. The Chinese economy is currently faced with many problems, such as overcapacity, extensive mode of development and a slowing growth rate. The Central Government hopes to have these problems solved through a series of economic reforms. Taxation reform is recognized as the most important element in economic adjustment. Such reform requires not only government determination, but also scientific planning and precise discussions. It must suit the country's current economic development and also conform to the demands of people from various classes.

The existing fiscal and taxation mechanism was established in 1993 via a "tax sharing system", which divided Central Government and local authority rights on collecting and spending different taxes. As a result, the Central Government's administrative power has declined in some areas while its fiscal and financial powers have risen, with the situation turning out the opposite at local level. Over the past two decades, due to the "tax sharing system," the Central Government's fiscal revenues have expanded, more of which could be used to support backward central and western regions, contributing to the sustainable development of the Chinese economy. However, some local governments have to make more efforts to raise funds needed for regional development. Accumulating local debts have begun to affect financial stability. Local government enthusiasm related to investment has furthermore led to
extensive economic development and overcapacity among many industries. Thus, taxation reform becomes important in transforming a bubble-infested economy into an intensive, sound and sustainable one. The new taxation system should be conducive to structural optimization and social fairness.

Source: Beijing Review: Accelerating taxation reform, 2013-08-26

Consumer behavior changing

Slowing economic growth and changing consumer behavior are reshaping the strategies pursued by multinational companies in the Chinese market, as innovation and marketing are becoming more important than geographic expansion, a report by consultants Booz & Co said. "Chinese consumers are increasingly opting for quality goods at higher prices and adopting online shopping and social media to gather product information, which are the two key trends driving company strategy in China," according to a report by the United States-based consulting firm. The report's findings were based on an annual survey of 89 companies, mostly multinationals, conducted jointly by Booz and the American Chamber of Commerce in Shanghai. For the second year, companies ranked the evolution of consumers - from price-driven purchasers to value-driven consumers - as the top trend driving their China market strategy. Chinese consumers, particularly in first and second-tier cities, are seeking greater reliability, consistency and integrity in consumer products.

According to the survey, product development and marketing were the most important steps companies had taken to address the impact of consumer trends. Seeking geographic expansion and overseas markets were seen as less important among the interviewees. Product innovation and development of marketing channels are the areas where company leaders are most likely to invest in over the next 12 months. "China's rising middle class has high expectations of consumer products", said Robert Theleen, chair of AmCham Shanghai. "With the rise of e-commerce and social media, online marketing channels and Internet forums offer a platform for consumers to gather the intelligence they need to make informed purchasing decisions," Theleen said.

The success of China-based smartphone maker Xiaomi Inc is a good example of a company capable of integrating intelligence gleaned online into its business process, said Adam Xu, who is with the consultancy's consumer and retail practice. For product development, Xiaomi solicits suggestions for new features and improvements from an online community of brand followers. Most of its products are also sold online through preorders, giving it manufacturing and marketing edges.

Source: Wei Tian: Consumer behavior changing, China Daily, 2013-08-22

Market regulators need to fix loopholes

After a trading glitch sent the Shanghai Composite into a historical buying frenzy two weeks ago and sparked an investigation by China's securities regulators, analysts say the nation's regulators are at a loss on how to fix the deficiencies. The China Securities Regulatory Commission said on Aug 18 that it was launching a probe into State-controlled Everbright Securities Co, which is suspended from trading on Aug 16 after it said an error in its trading system led to 7.2 billion yuan($1.18 billion) in unintentional stock purchases. The surge in orders pushed the benchmark Shanghai Composite Index by 5 percent in two minutes on Aug 16 before it ended 0.6 percent lower.

On Sunday, a bourse spokesman said at a news conference that they will improve its risk control measures to prevent similar incidents from happening. The CSRC, on the other hand, said it has wrapped up its investigation into Everbright and will announce its findings as soon as possible.

Under the Shanghai Composite's current monitoring system, abnormal transactions can only be discovered after orders have been placed. "The incident seems like a brokerage's credit crisis, but it reflects loopholes with China's securities and futures trading system," said Lu Hongjun, president of Shanghai Institute of International Finance. Lu said the bourse's transaction system has clear defects. One measure it should take is to intervene when it has discovered that a brokerage's buy orders has surpassed its credit limit, he said. The bourse should also
establish a mechanism to monitor quantitative trading, which involves the use of computers to find patterns in financial data.

On Aug 16, the Shanghai Stock Exchange issued a statement at 11:44 am on its official website, claiming its trading system was running normally. Everbright did not announce its error until 2:25 pm. The market closes at 3 pm. During this timeframe, Everbright increased its short positions on index futures contracts, and got 7,023 contracts, worth about 4.82 billion yuan, as the trading day came to a close. The company explained the move as a "remedy" for the error that occurred in its quantitative trading system. Analysts and lawyers are claiming that the move was insider trading that took advantage of investors who had no knowledge of what had happened.

Two days after the Everbright incident, Xiao Gang, head of the CSRC, chaired an internal conference in Beijing, promoting a new guideline reinforcing investigations into stock and futures markets. Xiao's new arrangements include doubling the number of market investigators to 600 and sending them to six securities and futures bourses. In early August, Xiao published an article in Qiushi Journal, a political periodical run by the Central Committee of the Communist Party of China, saying that the CSRC investigators face a range of problems in detecting violations, from gathering evidence on misconduct to convicting violators.

Source: XIE YU: Market regulators need to fix loopholes, China Daily, 2013-08-26

Error costs Everbright millions

China Securities Regulatory Commission announced the punitive measures on Friday after a two-week investigation of Everbright Securities' near hysterical trading behavior that shocked the domestic A-share market on Aug 16. The brokerage will be fined five times its insider-trading-related gains, [523 million yuan ($85 million)], the CSRC spokesman said. In addition, Everbright Securities' former president Xu Haoming, assistant executive Yang Chizhong, general manager of the accounting department Shen Shiguang and general manager of the strategic investment department Yang Jianbo were each fined 600,000 yuan. And they were all banned from the securities industry for life. That is the largest fine the regulator has ever given a securities brokerage in the history of the country's stock market. The CSRC also banned the securities company from proprietary trading for three months and suspended approval for new Everbright services.

Everbright's proprietary business mistakenly sent buy orders worth 23.4 billion yuan on Aug 16 to the Shanghai Stock Exchange, and finally completed transactions of 7.27 billion yuan, which lifted the Shanghai Composite Index by 5.96 percent in three minutes. The company's four chief decision-makers decided to short-sell the stock index futures in order to hedge risks, before disclosing the information to the public market. Everbright's strategic investment department had never been included in the company's internal risk control system. The flaws in the technology were not discovered because of insufficient testing, the CSRC said.

Huang Wei, the CSRC legal department's director general and chief counsel, explained that Everbright was not found to have manipulated the market because there was no evidence that employees had acted with the intention of making a huge gain through the buy orders. According to the CSRC, investors who suffered losses from the incident can sue for compensation.

Source: Chen Jia: Error costs Everbright millions, China Daily, 2013-08-31

China needs reform to shift to quality

The Conference Board Chief Economist Bart van Ark and Andrew Polk, resident economist at its China Center for Economics and Business, said on Monday that it is important for China to put more emphasis on quality growth rather than speed. Slower growth can lead to a much healthier growth path for China if the economy begins to rely less on investment to drive growth, but in order to do so reforms need to be accelerated, said the two economists of the independent business membership and research association based in New York. "The shift from investment-led growth to consumer-led growth could also bring about less volatility in the business cycle," they said in a written interview with Xinhua. A China that grows at a slower pace but buys more from the rest of the
world will be positive for the global economy, according to van Ark and Polk. "The current driver of China's slowdown is not reform," they said, adding the moderate growth is a natural consequence of development due to demographic factors as well as a result of the catching up process. They proposed that China should move forward more quickly with reforms and on a larger scale so that the world's second largest economy can reap dividends from them sooner.

With regards to the Chinese government's recent move to rein in financial risks, the two economists believed it is a very important element of reform. But they expressed concerns over the expansion of financial loans in China which were not channeled into the real economy. "In order to fundamentally reduce financial and credit risks, overall monetary growth must slow. Otherwise, money will continue to find its way into the shadow banking sector, despite administrative restraints," they said. Slowing monetary expansion will drag down overall economic growth, but again this will lead to a much healthier growth path, they argued.

Commenting on a report posted by HSBC recently, saying that 260 million migrant workers in China to settle into cities will promote consumption and bolster growth, van Ark and Polk believed that the massive number of workers will boost demand for the rest of the world. Meanwhile, van Ark and Polk warned of the risks of China's urbanization, saying geographical expansion of Chinese cities may have a negative impact on environment. "A greater focus on building efficient and green cities, rather than emphasizing the speed of urbanization, will make growth healthier. Emphasizing job creation in the service sector in urban spaces will help sustain income growth despite lower GDP growth," they said.

Source: Xinhua: China needs reform to shift to quality, 2013-08-20

**CPC's Nov meeting to discuss deepening of reform**

The Communist Party of China (CPC) will convene a key meeting in November to discuss deepening reform in an all-round way, the Political Bureau of the CPC Central Committee announced on Tuesday. The 25-member Political Bureau said in a statement following a meeting on Tuesday that the Third Plenary Session of the 18th CPC Central Committee will be held in November in Beijing. The meeting also approved a 2013-2017 work plan for establishing and improving the system for punishing and preventing corruption. The meeting approved a document concerning functional transformation and institutional reform of local governments. The Political Bureau members also listened to a report on preparation work done for a pilot free trade zone in Shanghai, the statement said.

During the session the Political Bureau will report its work to the CPC Central Committee and the session will discuss major issues concerning comprehensive and deepened reforms, said the statement. "Reform and opening up serve as a critical strategy to determine modern China's destiny and rejuvenation of the Chinese nation. There should never be an end to the practice and development, emancipation of the mind, and reform and opening up," said the statement. "There is no way out for China to stop or even reverse the process," it said, adding that reform and opening up have "only a progressive tense, no perfect tense." The meeting stressed that the Party must strengthen confidence in reform, head in the right direction, consolidate consensus, and coordinate all reforms. The people's initiative must be respected, the statement said, calling for a pooling of wisdom in the Party and society and uniting all strengths in promoting reform. The meeting urged the Party to fully recognize contradictions and difficulties that the reform is now facing, calling for strengthened courage in tackling grave issues. The meeting encouraged the Party to be brave enough to break down ideological barriers and vested interests. It also called for innovation in theories, systems, science and technology, culture and other fields by promoting comprehensive and deepened reform. The statement said the idea of reform and innovation should be implemented in all aspects of governance, and the strength of the whole of society should be better consolidated in the Party's work.

Attendees of the meeting vowed to establish a system to punish and prevent corruption under a "grim and complicated" situation. "To stop the spread of corruption should be a major task and goal for the whole party," said the statement. The meeting stressed again to crack down on both "tigers" and "flies" in anti-corruption moves and investigate violations by Party officials. "Corruption is still a common phenomenon, the soil that nourishes
corruption still exists, and the situation remains critical and complicated," the statement noted. For the CPC, system building against corruption is a "major political task"; and for the whole society, it is a common responsibility, the statement said. The Party must strictly discipline its members and punish corrupt officials more severely, the statement said. To prevent corruption, the Party must start with curbing bureaucracy, formalism, hedonism and extravagance and improve officials' work style. The statement vowed to reform the CPC discipline inspection system; revamp the anticorruption mechanism, improve the CPC multilevel supervision and inspection systems at all levels. Moreover, the statement said discipline inspectors and supervision organs and staff should make themselves upright at first, be clean and honest to serve the people.

The Political Bureau also vowed to transform local government and push forward institutional reform. The core of the proposed reform is to transform government functions, with the emphasis on further reforming the administrative approval system with the view of continuing to streamline government and delegate power to the lower levels. The institutional reform should focus on prominent issues concerning people's livelihood. Violations in government staffing should be resolutely investigated and punished. Effective measures should be taken to ensure various requirements on transforming and streamlining the local government are well implemented so as to let the people feel the actual effect of change brought by the reform, according to the meeting.

The Political Bureau of the Communist Party of China (CPC) Central Committee threw its weight behind the planned Shanghai pilot free trade zone (FTZ) on Tuesday. Establishing the flagship Shanghai FTZ in response to new circumstances is an important step forward in reform and opening up, said the statement. The program will spearhead the CPC Central Committee's endeavor to explore new ways of improving management, advancing the transformation of government functions, facilitating trade and investment, and deepening reform and opening up the economy, said the statement. The political bureau urged the State Council, or Cabinet, Shanghai municipal government and all related government departments to work together to forge ahead with the program.

Source: Xinhua: CPC's Nov meeting to discuss deepening of reform, 2013-08-28

Xi calls for innovation push in Dalian

President Xi Jinping called for the nation's high-tech industries to embrace companies with advanced technologies and business management skills in a visit to Dalian, Liaoning province, on Thursday. During a tour through the coastal city's high-tech industrial zone, Xi was given a demonstration of high-tech products, including a battery-powered vehicle and a robot that crawls. He said the high-tech industrial zone should refuse companies who are incapable of producing advanced technologies. Not all "vegetables" — in reference to companies — belong in the "basket" of high-tech industrial zones, Xi said. The Dalian High-Tech Industrial Zone, covering an area of 153 square kilometers, was established in 1991 and houses about 4,700 companies engaged in software and information services development.

At one stop at an IT solutions and services company, Xi encouraged the workers to help advance Chinese society through technological innovation. The nation's traditional methods of development are no longer sustainable and today's economic development must rely more on talent, Xi said. At another stop, the president demonstrated a company's teleconferencing technology aimed to help hospitals across the country easily exchange information and treatment advice. Using a high-tech TV screen, Xi spoke with Xu Shuqiang, president of China-Japan Friendship Hospital in Beijing, which is linked with many hospitals nationwide. "It's like adding wings to tigers to improve medical services through information technology. The system should be used effectively to provide better services to the people," Xi said. He also visited the Dalian Commodity Exchange and encouraged the bourse's staff to explore methods to develop an exchange for futures trading. During his visit to a maker of hydrogenation reactors on Wednesday evening, Xi said that workers and technicians are the treasures of an enterprise. He called on managers to make greater efforts to retain talented employees. He said pay scales should climb in step with a company's increasing output. Xi also visited Dalian Shipbuilding Industry Co Ltd as rain fell on Wednesday evening, taking photos with the company's workers. Realizing that none of the workers had umbrellas, Xi handed
his umbrella to an official and stood in the rain to take photos with the workers, Xinhua News Agency reported.
Source: ZHANG XIAOMIN and AN BAIJIE: Xi calls for innovation push in Dalian, China Daily, 2013-08-30

**Food safety tops public's concerns**

Illegal additives, poor hygiene and unsafe materials in the manufacturing process were the major concerns of the public in 2012, while private and multinational companies were the major sources of the worry, a new report says. The report on Chinese public opinion and crisis management studied 1,593 of the 5,000 major "public opinion events" last year in an effort to find the characteristics and trends of the events, government agencies' response to them, and public feedback. The report — produced by the Public Opinion Research Laboratory and Crisis Management Center of Shanghai Jiao Tong University — recorded 113 large public opinion events related to food safety. That number was up 74 percent from 2011.

Private companies were most often mentioned in food safety scandals in 2012, accounting for 53.2 percent of the total compared with 43.1 percent in 2011, followed by multinational companies, accounting for 17.4 percent. In February 2012, frozen dumpling producer Zhengzhou Sinian Food Co in Henan province suffered a loss of public confidence after a customer found an adhesive bandage inside a glutinous rice dumpling. In April, preserved fruits sold by several big-brand stores, including snack chains Laiyifen and Baiweilin, were found to be processed in unsanitary factories and had excessive additives. All are private companies. In December, the Shanghai Food Safety Office said excessive amounts of antibiotics were found in eight batches of raw chicken samples taken from a KFC supplier from 2010 to 2011, triggering public outrage.

China's food industry suffered a crisis of confidence in 2008, when milk powder produced by a company in Hebei province was found illegally laced with melamine. The chemical additive led to the deaths of six children and sickened 300,000 others. Even so, recurring scandals in the food industry in recent years suggest that lessons were not learned from the 2008 scandal.

Earlier this month, New Zealand diary giant Fonterra said clostridium botulinum, a kind of toxin, was found in its whey protein, which other companies buy to produce baby formula and sports drinks. After that, Chinese producers who used contaminated materials from New Zealand began to recall products, the latest blow to Chinese consumers' confidence in milk powder products.

Source: WANG HONGYI: Food safety tops public's concerns, China Daily, 2013-08-21

**China to regulate water supplies amid water diversion**

A draft regulation concerning water that is supplied to areas that are part of a south-to-north water diversion project was published for the purpose of soliciting public opinions on Friday. The draft was posted on the website of the Legislative Affairs Office of the State Council. The draft will regulate the way water is supplied by a water diversion project that will divert water from South China to the arid north, according to a statement from the Legislative Affairs Office. Water supply plans for different regions should be sanctioned by the State Council, the draft says. Regions that benefit from the project should strictly regulate groundwater exploitation, improve their local environments and eliminate or restrict the development of industrial, agricultural or construction projects that consume large amounts of water or create large amounts of pollution, it says. The regions should also strengthen water quota management in order to save water, according to the draft. The draft says water sources and regions along the project's supply routes should enhance pollution treatment so as to ensure the quality of their water. It stipulates criteria for the demarcation of water conservation areas, as well as measures for water pollution prevention and treatment regarding industry, agriculture and water-based transportation near water sources and along diversion routes. The draft also covers the responsibilities of maintenance units.

The south-north water diversion project was conceived by former Chairman Mao Zedong in 1952. The State Council approved the ambitious project in December 2002 after debates that lasted nearly half a century. The project, which will be built at an estimated cost of 500 billion yuan ($81 billion), has aroused global concerns over
land use, possible regional climate changes, environmental damage, impact on agriculture and suffering caused by massive relocation efforts. The project is expected to divert 44.8 billion cubic meters of water annually from the Yangtze River and relieve water shortages in North China by 2050. Construction on the project's 1,467-km eastern route began in December 2002. The route is expected to supply water to north China by the end of 2013.
Source: Xinhua: China to regulate water supplies amid water diversion, 2013-08-10

**Concerns of growth at cost of environment**

Most urban residents worry that China's economic growth will come at the cost of its environment, according to the results of a survey released on Monday. Of more than 3,000 urban residents interviewed by telephone nationwide in July, 78 percent said they care about the country's economic development. However, 71 percent said they worry the country's fast growing economy will destroy or damage the environment, according to the survey conducted by Guangzhou-based Canton Public Opinion Research Center. All interviewees were older than 16. Another 62 percent said they believe the country's economic growth will have little impact on improving people's living standards. As the country's economic growth shows signs of a slowdown, 49 percent said they worry their lives will be affected while 44 percent said they are not worried at all. Fifty-one percent of low-income earners and 55 percent of middle-income earners worried their quality of life would be affected by the slowdown.
Source: ZHENG CAIXIONG: Concerns of growth at cost of environment, China Daily, 2013-08-26

**Oil giants fail environmental tests**

Govt delays approval of CNPC, Sinopec new projects till '13 emissions evaluation The country's two major oil providers — China National Petroleum Corp and China Petroleum and Chemical Corp — have been punished by the Environmental Protection Ministry for failing their 2012 environmental tests. The evaluation, released on Thursday, was based on four indicators: chemical oxygen demand, which shows the concentration of organic matter in the water; ammonia nitrogen, a major cause of excessive nutrients in water; and the airborne pollutants sulfur dioxide and nitrogen oxide. The indicator for chemical oxygen demand for China National Petroleum Corp, or CNPC, Asia's largest oil and gas producer, was reduced 0.08 percent in 2012, far below the target reduction of 0.6 percent. Nitrogen oxide emissions by China Petroleum and Chemical Corp, or Sinopec, in 2012 were originally set at zero growth, but the company increased emissions by 1.28 percent. The central government required CNPC and Sinopec to reduce their nitrogen oxide emissions by 8 percent, compared with 2005 levels, by the end of 2015. Instead, such emissions increased 8.27 percent for CNPC and 2.52 percent for Sinopec by the end of 2012, according to the ministry. Sinopec spokesman Lyu Dapeng said that most of its affiliated companies have taken effective action as planned but a few of them, like Sinopec Luoyang Co, Shanghai Co and Anqing Co, did not perform well and affected the overall results. He emphasized it recently launched an environmental campaign and will invest 22.87 billion yuan ($3.74 billion) in three years on 803 environmental management projects. CNPC said the company has earmarked 12.7 billion yuan for pollution reduction projects before 2015 and will implement tougher evaluation measures for affiliated companies, China National Radio reported on Thursday.

The ministry says all kinds of detailed problems in the two petrochemical companies were found during the investigation process. The first is the lack of desulfurization and denitrification facilities. One-third of CNPC's 115 coal-burning boilers are not equipped with desulfurization facilities and none are equipped with denitrification facilities. The situation is no better for Sinopec. About 40 percent of its 174 boilers don't have desulfurization...
facilities, and only four of them have denitrification facilities. Investigation also found that the two companies' pollution treatment techniques are ineffective. Of CNPC's 77 boilers with desulfurization facilities, only 11 of them have a desulfurization efficiency higher than 90 percent, the rate for the others is below 70 percent. Problems were also found at many of the two petrochemical giants' subsidiary companies, including discharging excessive sewage, affecting the storm-water drainage system with wastewater, and even providing fake online-monitoring data. The environmental performance of their affiliated companies abroad are leading the world, but their emission reduction efforts within China are far from satisfactory, People's Daily commented on Thursday. Almost half of the two oil giants' refining capability is located around the cities of Beijing and Tianjin, the provinces of Hebei and Shandong, and the Yangtze River and Pearl River deltas, where airborne pollution is most severe and complex. Yet their affiliated companies are still implementing an outdated atmospheric pollutant standard issued 17 years ago, People's Daily reported.

Source: Wu Wencong and Shi Jing: Oil giants fail environmental tests, China Daily, 2013-08-30

Top jobs getting difficult to fill

China will experience the most severe managerial shortage in the world in the second half of 2013, continuing a five-year trend, according to a survey of executive search consultants. That was the finding of 43 percent of the consultants in 15 geographical regions surveyed by the Association of Executive Search Consultants, an industry group. "There isn't enough talent that fits the bill locally and not enough international talent equipped with the knowledge to take on the local Chinese market," Joe Chappell, AESC global marketing director, said in an interview. The shortage "is not expected to wane any time soon", he said. AESC President Peter Felix said in a news release that it's "no surprise" to see executive talent shortages in China and other developing nations "already affecting these countries' ability to fulfill their growth aspirations".

The Financial Times reported in April that China's under-developed business-education system is unable to produce upper-management candidates fast enough to meet demand in the world's second-largest economy. In the past, international companies offset local managerial shortages by bringing in Taiwan- and Hong Kong-born executives, hiring Chinese-born graduates returning from international universities or sending out expatriates, the Financial Times reported, adding that these managers can lack an instinct for local markets. Cash-strapped global companies are also starting to balk at the cost of sending out expatriates, the newspaper said.

The sectors expected to experience the greatest demand for senior executive talent in the second half of the year are healthcare/life sciences, energy/natural resources and manufacturing, according to the report.

Source: MICHAEL BARRIS: Top jobs getting difficult to fill, China Daily, 2013-08-03

Li stresses regional economic structure adjustment

China should make greater efforts to adjust regional economies in order to achieve sustainable development in the nation's economy, Chinese Premier Li Keqiang said on Monday. "Sustainable development in the economy, improvement of people's livelihood and promotion of social justice are this government's main tasks. To meet the goals, China should feel the pulses of the economy and the orientation of macro-economic policies," Li said at an economic meeting in Gansu province. Li said China is in a transition period and should strive to improve the quality, efficiency and sustainability of economic growth. It should also allow people to benefit more from economic development. "For this purpose, China should make the most of reforms, stimulate the market's vitality and achieve sustainable and healthy development of the economy," Li said. Li said the biggest problems in the country's economic structure are clear when you compare urban and rural development as well as unbalanced development in certain regions of China. He said central and western China have the most room for improvement, with a higher priority on developing the western regions. Li urged more efforts to support infrastructure construction, labor-intensive industries and environmentally friendly industries. Economic reforms should be given a higher priority over eradicating poverty in western regions, Li said. Economic growth should be environmentally friendly,
said Li, who added that ecological problems like deforestation be taken into considering within economic reforms.
Source: Li stresses regional economic structure adjustment, China Daily, 2013-08-19

**Frugality prevailing in former high-end sectors**

China's ban on extravagant official galas illustrates efforts of the Communist Party of China (CPC) to fight corruption and will help healthy development of related markets, analysts said. Immediately after authorities issued a circular on Tuesday to halt extravagant official galas and punish those who organize such events, a provincial satellite television channel in east China's Anhui province quickly wrapped up an evening gala celebrating Qixi Festival, or China's Valentine's Day. Government funds should not be used to hold commercial celebrations or pay for expensive entertainers, according to the circular. It said lavish festive celebrations damaged the image of the CPC and the government, and triggered complaints from the public. This has been the second ban to curb extravagant and wasteful galas this year. The first notice was issued by the administration in charge of radio and TV in January to urge broadcast stations to follow a frugal and simple style. The new ban is expected to stop some local governments and official TV stations from pursuing grandiose performances to celebrate the Spring Festival, the traditional Chinese new year, industry insiders said.

The frugality decisions are part of efforts to implement the "eight requirements" that the CPC leadership began promoting in December to reject extravagance and bureaucracy. The public has expressed support of the bans on the Internet, saying cash should be used to improve public welfare.

Tian Zhihui, an entertainment association official, said the gala performances market has dropped by 30 percent after the frugality regulation was made. However, the drive will help for the healthy development of the market as no government funds will be granted for expensive entertainers, thus reducing the cost of a performance. Mid-year reports released by some luxurious restaurants showed they are suffering due to fewer government bookings. High-priced dishes are being replaced with more affordable food. The catering industry, especially the high-end dining sector, must reduce their reliance on government clients and adhere to a new market environment as the frugality campaign is deepening, said a report issued by the China Cuisine Association earlier this month.

The situation is similar in the tourism market with tours at the public's expense decreasing. The occupancy rate of five-star hotels across China was 50 percent in the first half of the year, 5 percent lower than the same period in 2012. The average room revenue saw an 11 percent decrease year on year, according to a survey by the China Tourist Hotels Association.

Source: Xinhua: Frugality prevailing in former high-end sectors, 2013-08-15

**Fonterra chief executive apologizes to China consumers**

The chief executive of Fonterra has apologized to Chinese consumers for a food safety scare that threatens to damage the reputation of the world’s largest dairy exporter in one of its most important markets. Chinese health officials ordered a recall of some of Fonterra’s milk shipments at the weekend, after the New Zealand-based company found traces of bacteria that can potentially cause botulism, at a manufacturing site. Vietnam followed China’s action with a recall of its own on Monday.

Fonterra is the latest multinational to be forced on the defensive in China, as government regulators target foreign companies for alleged misbehavior ranging from overpricing and poor customer service to bribery and corruption. The scare knocked the New Zealand dollar down 1.5 per cent against the US currency, illustrating the importance of Chinese dairy consumption to New Zealand’s economy. Units in the Fonterra shareholders fund fell nearly 8 per cent before closing down 3.6 per cent, while shares of Chinese dairy companies rallied on news of Fonterra’s setback. China accounts for about 20 per cent of New Zealand’s annual dairy exports, which are valued at $9.5bn. The majority of the country’s dairy exports to China are unaffected by the temporary suspension on Fonterra products.

Source: Tom Mitchell in Beijing and Neil Hume in Sydney: Fonterra chief executive apologises to China
China fines milk formula makers in pricing probe

Chinese regulators have fined six baby formula manufacturers more than $100m for price fixing, in a major escalation of their actions under the country’s anti-monopoly law. The National Development and Reform Commission imposed the biggest fine on Mead Johnson of the US, which will pay Rmb204m ($33m). The anti-monopoly law, which came into force in 2008, has mainly been used by Chinese authorities to assert their right to review and approve large international mergers and acquisitions. The fines announced on Wednesday mark a broader application of the law’s powers to police pricing practices in China’s domestic market.

Chinese demand for foreign-branded milk powder has surged in the wake of safety scares in the domestic market. The worst of these occurred in 2008 when local powder was found to be tainted with melamine, a toxic industrial chemical. Several babies died and thousands fell sick. Abbott, Danone unit Dumex, Fonterra, Dutch group Royal Friesland Campina and Biostim e International Holdings, a Chinese company listed on the Hong Kong stock exchange, were also penalized. The six fines totaled Rmb670m. The NDRC said the companies used various methods including fines and reduced discounts to penalize distributors who offered prices below set limits. In other instances, they limited or cut off the supply of goods to distributors. Most of the companies fined on Wednesday declined to comment on the violations identified by investigators. Article 14 of China’s anti-monopoly law forbids “retail price maintenance”, a practice in which manufacturers set price guidelines for their distributors and retailers. Mead Johnson reduced the prices of its milk formula products in China by as much as 15 per cent in mid-July, shortly after news of the NDRC’s probe first emerged. Nestlé and other baby milk manufacturers slashed prices by similar amounts.


China goes big with skyscrapers

As the world's second largest economy, China is not just getting stronger, but it's also growing taller, with the volume and height of skyscrapers in China growing ever upward. In 1990 there were 5 buildings taller than 200 meters across the country; but by the end of last year, that number exceeded 250. By today's definition, a skyscraper is any building with a structural height of 500 feet or more. China has adopted high-rises as its preferred building style due to the rapid urbanization process. The blistering pace of construction is seen around the world as a sign of how the economic center of gravity has shifted east with China, getting a new skyscraper every five days, according to research.

"Dizzying construction heights are not unique to places like Beijing, Shanghai or Guangzhou these high towers are popping up everywhere, like mushrooms after the rain. And by 2016 China will have approximately 800 skyscrapers - four times the current number in the US. But do these high-rises really serve the needs of the country, as more and more people move to the city or they are just a symbol of wealth -- flashy concrete monsters that block urban skylines? The appetite in China for high-rises in the past five years and the next five is bigger than has ever been seen before in the history of construction. And, people have mixed opinions on it." Guan Yang said. Once these high-reaching skyscrapers are built, we have issues of designing sustainable urban environments to deal with. If this could be dealt with before hand, it would make a big difference. "A lot of skyscrapers have experienced "time out" periods when the finance fell short and there was a lack of proper project planning in advance. So the assessment on a skyscraper project needs to more thorough. We should be more realistic on the height by considering who will move into them and why." Huo Ke, Head of Architecture Dept, NE University said.

Another fact about the country's high-rises is that some of them did not rise straight from the ground, but sprang up just to replace existing ones. High-rises may be symbols of the country's growth and progress, but perhaps there is always time to slow down and to weigh the pros and cons.
Financial innovations set to boost lending to SMEs

China is asking local governments to support small and micro sized enterprises--because they provide the most jobs but get the least financing. Many cities are now fast-tracking loans for smaller firms in the tech sector. In today's special series of "Innovate to Reinvent", reporter Yin Hang visits IT companies in China's central and eastern regions to see how local governments there---are stimulating high-tech SME growth. No properties, no existing orders, no offices or equipment. Grandiose ideas are all that exists and no one is certain whether they can be carried out. That's why a lot of start-up micro firms in the high-tech industry were given the cold shoulder when they asked banks for loans. But now, a change in attitude. Chinese banks are drumming up more financing support to small and micro firms in the high tech industry. This is a new push by China's banking regulator to support the sector.

"With a registered capital of ten million yuan, Xu Nianlong started his company in 2011. And as his ideas and innovation being recognized and welcomed by more of his customers, his need for more capitals is also growing." Yin Hang said. Xu's company offers internet platform services for businesses who are seeking online promotions. As his new orders expand by the day, Xu discovered his thirst for additional capital. "Ordinary banks need mortgages for issuing loans. In particular, as high-tech companies, we have to put lots of investment into our initial stage research and development. So we have little collateral for additional financing. But eventually the loan support provided by ICBC helped us to set up our R&D and data center." Xu Nianlong said. Xu Nianlong finally borrowed 2 million yuan from ICBC's Guanggu high-tech park branch. The branch was established to support the growth of Wuhan's high-tech companies. The head of the bank says its headquarters have given them more freedom to make loans for innovation-driven, high tech, SMEs. "High-tech entrepreneurs have proprietary technologies. So we're working with the local government to check their R&D potential and credit history. This way we can issue loans to qualified lenders." Zou Guohua, Manager of Wuhan Guangu Branch, ICBC said. The branch have issued loans to more than 45 small high-tech firms in 11 months. Its outstanding loan value to this sector reached 200 billion yuan.

Over in eastern Zhejiang province, 700 kilometers away from Wuhan. Similar innovations are also enjoyed by local high-tech firms. Local banks have cut red-tape in order to streamline the lending process in addition to extending loan maturities. "We now encourage banks to be more innovative on loan repayment. For example, we suggest banks to adjust the repayment date of SMEs according to their production cycles. We believe it's an effective way to revitalize the stocks of capital." Bao Zuming, Vice Director of Zhejiang Office of China Banking Regulatory Commission said. Up until the end of June, the outstanding loans issued to SMEs accounted for 39 percent of this local bank's total loans. And rising portions of it were issued to high-tech SMEs in the region.

Worsening business conditions put firms under pressure

The deteriorating domestic and foreign business environment is increasing pressure on Chinese public enterprises, which are grappling with tax burdens and cross-border investment barriers, a survey of listed companies shows. The situation calls for further government effort to deepen reforms to support business development, the survey said. The survey, covering more than 1,500 listed enterprises in China, was scheduled for release on Saturday by the China Association for Public Companies. Respondents to the 2013 Chinese Enterprise Development Environment Report urged the government to pursue structural reform, especially of State-owned enterprises. They also called for clarification of the roles of the government and the market, and urged the government to foster a more innovative business environment.
In the survey, 82.3 percent of the corporate respondents cited an "excessively heavy" or "heavy" tax burden, a key reason for declining profits in recent years. On average, taxes took up 9.75 percent of companies' operating revenue. For small businesses, the figure was 11.1 percent, the report said. Companies in the eastern region reported an average tax burden of 9.1 percent, compared with 10.6 percent in western areas and slightly more than 11 percent in the central regions. The most common suggestions for tax reform were lower rates in general and an expansion of the pilot program that involves a shift from the business tax to a value-added tax. For companies expanding overseas, the biggest obstacle - mentioned by about 44.2 percent - was investment barriers. Almost 57.4 percent of the respondents suggested that the government improve its policies and regulations and simplify inspections and approvals for overseas activity. "In addition, the government can provide better legal advice and protect Chinese enterprises' interests" in overseas investment, the report said.

As of this month, 2,492 companies had listed on the Shanghai and Shenzhen stock exchanges. The companies have total assets of 119.36 trillion yuan ($19.5 trillion) and net assets of 15.68 trillion yuan, according to the China Securities Regulatory Commission. "Public companies have become a very important part of the Chinese economy, representing outstanding businesses in different industries. They serve as an indicator of the overall development trend of Chinese enterprises," Zhou Jiannan, deputy chief of the listed company supervision department of the CSRC, said this week. Last year, non-financial listed companies' income grew only 8.1 percent, 11.6 percentage points slower than in 2011. Their net profit growth slowed for the first time since 2008, the CSRC data show.

Source: Chen Jia: Worsening business conditions put firms under pressure, China Daily, 2013-08-24

China's July manufacturing PMI rises to 50.3

China's purchasing managers' index (PMI) for the manufacturing sector rose slightly to 50.3 percent in July from 50.1 percent in June, according to official data released Thursday.

China's economy has been stuck in a protracted slowdown, easing to 7.5-percent growth in the second quarter from 7.7 percent in the first three months, according to the National Bureau of Statistics (NBS).

The data showed that the sub-index for new orders rose 0.2 percentage points to 50.6 percent, while that for new export orders was up by 1.3 percentage points from June to 49 percent last month. Most sub-indices increased from a month earlier, CFLP said. The sub-index for production moved up 0.4 percentage points from June to 52.4 percent, while that for raw material inventories was up 0.2 percentage points from June to 47.6 percent. The sub-index for the purchasing prices of major raw materials surged 5.5 percentage points to 50.1 percent in July, while the employment sub-index edged up 0.4 percentage points to 49.1 percent. The business outlook sub-index rose 2.3 percentage points to 56.4 percent, ending a dropping trend from the previous three months and signaling that more companies are positive about their business prospects for the next three months.

On Thursday, HSBC also released its final PMI reading for China's manufacturing sector, which dropped for a third straight month to an 11-month low of 47.7 in July from 48.2 in June. HSBC's PMI reading, which focuses more on small and medium-sized manufacturers, showed that new orders dropped the most over the last 11 months, while employment shrank for a fourth month.

Source: Xinhua: China's July manufacturing PMI rises to 50.3, 2013-08-01

Half of Chinese businesses fail within five years

Half of Chinese businesses fail within the first five years and are likely to encounter a bottleneck in three to seven years, according to a report from the State Administration for Industry and Commerce released on Tuesday.
By late 2012, China had a total of 13.2 million businesses. 6.53 million businesses, accounting for 49.4 percent, failed within the first five years; 4.35 million businesses, accounting for 32.9 percent, failed in five to 10 years; 2.35 million businesses, accounting for 17.7 percent, made it past the 10-year mark. The vast majority of businesses, however, are far more likely to collapse in their third year. Businesses in different industries have quite different life expectancies.

From early 2008 to late 2012, 1.43 million wholesale and retail businesses closed their doors and 2.49 million businesses in the manufacturing, leasing and commercial service industries were forced to drop out of the market. The average lifespan for businesses operating in the traditional service industry is currently 6.32 years. The lifespan of businesses in the modern service industry differs greatly due to their different characteristics. Financial businesses hold the longest life expectancy, averaging at 8.84 years, due to their high threshold and strong competence. Real estate agencies, accounting for a large proportion of businesses in the real estate industry, with their low threshold and high dependence on economic conditions and real estate adjustments, enter and exit the market quite frequently. As a result, the average lifespan of real estate businesses is rather short, about 4.49 years. The report shows that mining, power, heating, gas and water-related operations, as well as businesses in public management and social security and social organizations, usually enjoy a rather stable development due to funding, technology and policy limits. Businesses running community services, repair services, accommodation services and restaurants have a high mortality rate.

Fortune magazine statistics showed that 62 percent of US businesses have a lifespan of less than five years; only 2 percent could survive for 50 years. Another study showed that the average lifespan of Japanese businesses now stands at 30 years. OECD data showed 20 to 40 percent of businesses drop out of the market within the first two years; 40 to 50 percent of businesses can survive more than seven years. Generally speaking, within a specified market, 5 to 10 percent of the businesses drop out within the first year. By the end of the first decade, the survival rate for Chinese businesses with a registered capital of less than 1 million yuan, 1 to 10 million yuan and over 10 million yuan is 40 percent, 65 percent and 90 percent, respectively. In the US, the Fortune 500 companies have an average lifespan of 40 to 42 years, medium and small businesses often have one of less than seven years and transnational companies run from 10 to 12 years. In Europe only 50 percent of medium and small businesses survive five years.

Source: China.org.cn: Half of Chinese businesses fail within five years, 2013-08-01
http://www.chinadaily.com.cn/business/2013-08/01/content_16862357_2.htm

HSBC PMI: Business conditions worsen in July

After adjusting for seasonal factors, the HSBC Purchasing Managers' Index (PMI) posted an eleven-month low of 47.7 in July, down from 48.2 in June, signaling a deterioration of business conditions for the third consecutive month, a company report said Thursday. According to the figures, the production levels of Chinese manufacturers declined for the second month in a row in July. The rate of contraction quickened slightly, but remained modest overall.

The report said lower output was driven by a further decline in new business in both domestic and international markets, with the sharpest net fall of new orders in 11 months. New export orders, in contrast, fell at a reduced pace, though they have now declined for four months in a row. Evidence indicated deteriorating market conditions had led to reduced client demand. Exporters reported that new sales to Europe, Southeast Asia and the United States were all lower compared to June levels. Payroll numbers were cut for the fourth successive month in July, with the rate of job shedding the quickest since March 2009. The reduction was due to a combination of employee resignations and company downsizing. On the price front, the report said that cost pressures continued to ease. Average input costs fell at the slowest pace in four months but still at a marked pace overall as imported goods were reported to be lower in price. Reduced operating costs were passed on to clients through a fall in output charges, while average tariffs have now decreased for five months in a row, though the pace of discounting eased...
since June and was the slowest recorded since March.

Source: Xinhua: HSBC PMI: Business conditions worsen in July, 2013-08-02

July non-manufacturing PMI rises to 54.1%

The non-manufacturing PMI stood at 54.1 percent in July, up from 53.9 percent for June, according to the National Bureau of Statistics and the China Federation of Logistics and Purchasing (CFLP). The improving non-manufacturing figure is in line with China's manufacturing PMI, which also rose in July to 50.3 percent from 50.1 percent in June, according to previously released figures. In the service sector, the sub-indices for business activity and new orders both rose for two consecutive months, up to 53.0 percent and 50.0 percent, respectively. The sub-index for employment gained three percentage points to 53 percent.

Construction activity also remained at a high level in July, according to the CFLP, with the sub-index for business activity staying above 58 percent. Deepening industrialization and urbanization, a government plan to renovate run-down urban areas and increased investment in the railway sector mean the construction sector will maintain active in the second half, the CFLP said. Their sub-indices for business activity and new orders both ended two consecutive monthly decreases and rebounded, although they still remained below 50 percent. The CFLP warned of a trend of rising costs in the non-manufacturing sector. The sub-index for intermediate input prices rose 3.2 percentage points over June to 58.2 percent in July. China's non-manufacturing PMI is based on a survey of about 1,200 companies in 27 industries.

Source: Xinhua: July non-manufacturing PMI rises to 54.1%, 2013-08-03

Rising property prices ring alarm bells

While China's top leadership has vowed to maintain steady growth in the second half of 2013, rising property prices amid a continuous economic slowdown are ringing alarm bells for the reform of the world's second-largest economy. China's economy will maintain steady growth for the rest of this year amid "extremely complicated domestic and international conditions," according to a meeting of the Political Bureau of the Communist Party of China Central Committee on Tuesday.

The country's gross domestic product (GDP) growth slowed to 7.6 percent in January-June of 2013, the weakest first-half performance in three years, according to the latest official data. In contrast to the slower growth, however, the prices of both new and existing homes continued to rise in most Chinese cities in June. Of a 70-city statistical pool, 63 Chinese cities saw month-on-month home price rises, official data showed. Meanwhile, a recent quarterly survey of 350 real estate managers in 31 of China's big cities revealed that more than half of developers said they will increase supplies in the third quarter and raise prices. The survey results were supported by adequate funding in the real estate sector. Data from the central bank showed that the balance of yuan-denominated lending to property developers stood at 13.56 trillion yuan ($2.2 trillion) at the end of June, up 32 percent from a year earlier. Moreover, local governments' income from land sales soared 46.3 percent in the first half of 2013, compared to a 27.5-percent decline in the same period of last year, which indicated that land sales had been the major source of income for local governments.

In fact, more than 70 percent of China's social financing went into the property sector and local government financing vehicles in the first five months, and that pushed up financing costs, according to Tang Jianwei, a senior analyst on macroeconomics at the Bank of Communications. Total social financing surged 50.2 percent to 9.11 trillion yuan during the first five months, prompting concerns about excessive money supply and financial risks. "The real interest rates are over 9 percent, far above the GDP growth, and that's why the fairly loose liquidity failed to boost economic growth," said Tang. Soaring prices have meant profits for property developers. Out of 35 such firms to have issued performance reports for the first half, 21 registered climbing year-on-year profits, according to data from the country's two bourses.

Source: Xinhua: Rising property prices ring alarm bells, 2013-08-01
Imbalance seen in Sino-US talent exchanges

China and the United States are reporting a huge imbalance in attracting talented people from the other side, with an expert calling for more Chinese and American government support to encourage talent mobility between the two countries. A new round of talent flow will be aroused with the development of globalization, said Wang Huiyao, president of the China Global Talents Society, at a symposium on global talent movement on Thursday. Wang said that the number of Chinese students in the United States has surged in the past few years, increasing from 67,723 in 2007 to 194,029 in 2012. In the meantime, an increasing number of Chinese juniors, particularly those middle school students, are studying in the United States, up from 65 in 2005 to 6,725 in 2010, according to the Chinese talents society.

"Although China is seeing soaring numbers of students studying in the United States, the number of US students to China has remained relatively stable in recent years," Wang added. The number of US students studying in China rose to 14,596 in 2011 from 11,064 in 2007, an unparallel pace compared with the upsurge of Chinese students in the US. He suggested the Chinese government strengthen its projects and policy on overseas talents, lower Chinese green card requirements and focus on global entrepreneurs and innovators, so as to attract more foreign talented people.

Source: Xinhua: Imbalance seen in Sino-US talent exchanges, 2013-08-02

Guideline made for Shanghai pilot zone

Shanghai is set to test the water for further financial reform after the central government approved the establishment of a pilot free trade zone in the business hub. The city released detailed guidelines including measures to allow more private capital in the banking sector and promote cross-border use of the yuan. The guidelines consist of 42 entries divided into three categories: those that are already in place yet need reinforcement, those that are ready to be launched and those that still await approval. The 12 entries marked as "innovative reform", which still await a green light from relevant ministries, are mostly measures to lessen foreign exchange control and encourage cross-border yuan flow to facilitate trade and investment in the region.

The Ministry of Commerce said on Thursday that the State Council - China's cabinet - has formally approved the plan to establish a 28-square-kilometer free trade zone in Shanghai, which comprises four areas under the special supervision of customs. The plan was passed at an executive meeting chaired by Premier Li Keqiang on July 3. A detailed plan will be released when the adjustment of legal framework is complete. According to the guidelines, Shanghai vowed to promote cross-border settlement of yuan and expand the use of the currency in trade, investment and insurance. To do so, the city will strengthen its role as a settlement center for international trade and pilot fund management for multinational companies' headquarters. It also looks to include more businesses in its inter-bank foreign exchange settlement. In the meantime, Shanghai will develop a mergers and acquisitions investment fund and encourage innovation in private equity and venture capital investment. The city will also accelerate the establishment of its futures market and introduce treasury bond futures within the second half of this year, according to the guidelines.

According to Ge Yufei, vice-president of SPD Bank's Shanghai branch, the bank has already set up a team to prepare for the launch of these measures. Initial plans include setting up an office within the Shanghai FTZ, and developing innovative products and services to meet various demands, Ge said.

Various proposed rule changes will help create channels that can lower the cost of funding to businesses. Other provisions would allow rich individuals a much wider choice in where to park their wealth. There is a proposal that seeks to encourage enterprises undertaking consolidation of production capacity to raise funds more cheaply and simply by issuing preferred, rather than common, stock, which is a financial instrument that consists of both debt with fixed dividends and equity with potential appreciation. Another proposal calls on the authorities to regulate and promote asset securitization that can provide greater funding flexibility for financial
institutions. The plan also includes a proposal to progressively lift the control on direct foreign investment by domestic investors. The limited investment channels in the domestic market are widely believed to have forced many wealthy individuals to park most of their money in property, helping to drive prices in major cities to levels fewer and fewer people can afford.

Source: Yu Ran and Wei Tian in Shanghai: Guideline made for Shanghai pilot zone, China Daily, 2013-08-23

State Council to modify law in Shanghai FTZ

China's legislature on Friday gave the green light to the State Council, or the Cabinet, to modify the implementation of laws related to foreign enterprises at a pilot free trade zone in Shanghai. As authorized by the National People's Congress (NPC) Standing Committee, the State Council will suspend administrative approvals regulated in three laws, covering foreign-capital enterprises, Chinese-foreign equity joint ventures and Chinese-foreign contractual joint ventures. The move is aimed at stepping up the transformation of governmental functions and innovate the mode of opening-up, according to the decision, which will be effective on Oct 1. If the trial operation of suspension, scheduled to be three years, proves applicable, the laws will be amended and improved. Otherwise, the laws will resume. The Shanghai FTZ will be the first such zone on the Chinese mainland. It will take about three years to build to meet international standards. The zone is expected to help Shanghai to cut costs of trade, improve efficiency and promote financial services.

Source: Xinhua : State Council to modify law in Shanghai FTZ, 2013-08-30

Zhejiang gets boost with new export tactics

China didn't meet its 8 percent export growth target last year, leaving many wondering if overseas sales could remain a driving force of the nation's economy. However, one city outperformed: Yiwu in Zhejiang province, which recorded a gain of 150 percent in exports to $9.01 billion. The rapid rise continued in the first half of this year as Yiwu's exports hit $9.43 billion, up 408 percent. The largest contributor to this blistering pace has been a new type of trade - the export of commodities bought at shopping malls. According to Yiwu's statistics, such shipments have accounted for just under 78 percent of the city's total exports so far this year. "This is a trade model especially designed for Yiwu, and we can see that the outcome is surprisingly positive," said Mayor He Meihua.

This new model of trade differs from the traditional export business, which involves loading containers, customs clearance, inspection and quarantine and taxation. The new model of trade started trials last August. It is considered a breakthrough in Yiwu's international trade reform and upgrading, which began in 2011. Lou Zhangneng, director of Yiwu's commerce bureau, said that the new process makes the export of small commodities from Yiwu much more efficient. "China's traditional method of trade and related regulations are designed for exports of commodities from factories. One container will usually have only one type of goods, or perhaps a few, but the regulations are not suitable for Yiwu," he said. As the world's largest market for small commodities such as accessories, toys and household gadgets, Yiwu's exports mainly consist of small items purchased by foreign individuals from the city's shopping malls. Each person buys a small assortment of goods. Unlike the situation elsewhere in China, "export containers from Yiwu will have dozens, even hundreds of categories of commodities, each category from different stalls of shopping malls. It is time- and money-consuming for the customs clearance and inspection and quarantine departments if we follow customary trade procedures," said Lou. He Fenghua, general manager of Yiwu Kunpeng International Transport Co, said that since the new trade model began, the company's profit has grown by 10 to 20 percent. "It took 20 to 30 minutes to conduct customs clearance in the traditional way, and it required at least one employee of the company to follow the whole procedure. Under the new model, however, it takes no more than five minutes. Everything can be done online," he said. He's company serves as an international trade agent linking foreign purchasers with sellers in shopping malls in Yiwu. The company charges service fees for transportation, warehouse services, customs clearance and shipping. "We can save two to three days on the whole export procedure now, which saves us lots of money. Service frequency has increased as
well," he said. He's company has 5,000 square meters of warehouse space, which is filled with commodities purchased by foreign customers. His eight transportation teams, each with 20 to 30 cars to carry containers, are so busy they can't keep up.

But the new trade model is not the only explanation for Yiwu's increase in export volume. The basic reason for the tremendous growth rate of Yiwu's exports is the return of local trade agencies as a result of new policies. The tax rules state that exported commodities are subject to a 17 percent value-added tax. Since most vendors in Yiwu only provide ordinary receipts rather than formal invoices for tax purposes, there are no tax exemptions or refunds on these purchases. Exports of small commodities from Yiwu have been long been conducted by trade agencies registered in cities outside the province, which are eligible for export tax exemptions. Chen Wentong, president of Changhang International Logistics Co, said that the discrepancy in tax treatment puts international trade agencies in Yiwu at a disadvantage. "The profit on small commodities is as thin as 5 percent. How can we also carry a 17 percent tax rate?" he said. The new tax rules extend the exemption to local companies. Lou said before the tax change, exports handled by agencies outside the province were counted as the exports of those provinces. "The figures starting from last August reflected 90 percent of Yiwu's actual export performance. The city's contribution to the whole province's export growth reached 55.3 percent," he said. Lou also explained that having local companies conduct foreign trade can also help increase quality supervision. "When quality problems occur, it is easier to track local companies than those outside the province. It helps Yiwu build a better image," he said.

Source: Yan Yiqi in Yiwu, Zhejiang: Zhejiang gets boost with new export tactics, China Daily, 2013-08-01

**Magnetic attraction for EU SMEs**

With the growth of total foreign direct investment in China falling off, the biggest waves of capital inflow may have passed. But the waves still come. Only now, they tend to be smaller or medium-sized and come roaring in from Europe. Many expected FDI in China to continue to fall this year, after dropping 3.7 percent year-on-year to $111.72 billion in 2012, but investment from the European Union climbed 30 percent to $2.47 billion in the first four months. In the first half of this year, foreign investors established 10,630 companies in China, down 9.18 percent year-on-year, while total FDI inflow rose 4.9 percent year-on-year to $61.98 billion, according to the Ministry of Commerce. The investment surge from the EU is being called the new wave of capital migration and is being ridden largely by small and medium-sized enterprises that have positioned themselves at the head of niche businesses.

"It marks Europe's third wave of overseas investment," Piter de Jong, vice-chairman of the European Union Chamber of Commerce in China, told the South China Morning Post. "The first two waves were made some 20 to 30 years ago from, first, the state-owned enterprises and later big private corporations. Now it is the turn for SMEs." SMEs recently looking to enter China include small autoparts suppliers, green technology firms and consumer goods distributors, and De Jong expects more to come.

Why they come varies from company to company, but it is now less to do with labor and operation costs and more to do with technological innovation and improvement. Not so long ago, Thomas Pester, owner of Pester Pac Automation GmbH, a German packaging machine maker, would never have thought about expanding his 125-year-old family business to China, especially during difficult economic times. Now he is building a new plant in Shanghai's Songjiang district, the only other plant outside his home market, to serve the pharmaceutical and cosmetics industries in China and neighboring countries. "Every company must find out for itself when and why to invest," Pester says. "For us, a family-run business, it's quick and easy to make decisions." It was made easier when Pester realized China was home to 5,000 pharmaceutical companies and the market remained one of the few bright spots for growth during the global economic downturn. "Nowadays, European markets are largely saturated and have stagnated, which propelled us to look for new areas of growth. The BRICS nations (Brazil, Russia, India, China and South Africa) are definitely where new businesses would take place," he says. "I would say the market access in China is much easier today compared with 15 years ago when everything was a bit unknown and
unexpected. You find yourselves better located, where the number of English speakers has picked up dramatically, and you find flights to China are more frequent than before." Pester Pac has supplied more than 7,000 film-wrapping, case-packing and palletizing machines to companies around the world, including Colgate-Palmolive Co and Johnson & Johnson Inc. Pester believes that the tide of investment has now turned in favor of smaller established European companies who, inspired by the success stories in China of their bigger counterparts, have been flexing their muscles on the side, awaiting their turn.

Another German company, Boehringer Ingelheim AG, has spent $46.35 million setting up a joint venture in Shanghai and establishing itself as the first biopharmaceuticals manufacturer in China to use mammalian-cell culture technology. The partnership with ZJ Base Co in Shanghai is an important step in Boehringer Ingelheim's strategy to meet the growing demand for high-quality biopharmaceuticals in China, Boehringer says. "There are some small and middle-sized companies that have developed new medicines but have not come up with a set of matching manufacturing processes," he says. "We help them design ways of mass production, boost efficacy and achieve commercialization, so that their products will be licensed and find ways to market."

As markets become global, an increasing number of European SMEs are turning to exporting their ideas and efforts to other countries, says Chang Xinjie, public relations director at Haldor Topsoe (Beijing) Co Ltd, a Chinese subsidiary of the Danish catalysts producer. Chang says the move is in line with Haldor Topsoe's strategy of strengthening and expanding cooperation between Denmark and China, with energy efficiency and environmental protection priorities on the Chinese government's agenda. "In continuously driving toward greener economic growth, the Chinese government needs more and more advanced technology and solutions in agriculture, infrastructure, manufacturing, energy, environment and service sectors," Chang says. "In these areas, EU SMEs do have something to offer and will be naturally attracted to the Chinese market."

Swiss electronic components manufacturer Huber+Suhner AG has made the single biggest investment in its history — $65 million — to establish a plant in Changzhou, Jiangsu province, producing low-frequency wire and cable products. The products will be widely used in railway vehicles, solar technology and electric and hybrid vehicles. Urs Kaufmann, company CEO, believes that China now possesses enough skilled engineers and researchers that it has not only become the biggest growth market, but also the powerhouse for the company. "We believe in the growth of the Chinese market and, more importantly, customer proximity is key to our success," he says.
Confidence in China's continued rise has also attracted the manufacturing group Halma Plc, a former rubber trader with headquarters in the UK.

This comes at a time when a string of European conglomerates have signaled a retreat from the Chinese market, citing soaring labor and operational costs among major concerns. Sportswear maker Adidas AG, for instance, opted to relocate to even cheaper ASEAN nations for cost control. But such costs do not worry SMEs so much. SMEs account for more than 98 percent of companies in Europe and account for 70 percent of EU jobs and GDP. More importantly, they are considered the chief source of creative ideas and technological innovation. Pester Pac Automation identifies high-caliber skills as the most valuable resource for innovation and long-lasting business ideas. "Unlike those bigger firms, we are not big producers in volume," says Thomas Pester. "Rather, we need a small number of highly-educated people as the good input in our business. We don't really need quantity of people but the quality and we have that in China, in Shanghai."

However, in a recent survey, consultancy Roland Berger Strategy Consultants found that 30 percent of 526 European firms in China mentioned high competition from privately owned Chinese companies as a key impediment to local business. While rising labor and operation costs may still be a concern, Kaufmann of Huber+Suhner is optimistic that the value of their products with increase accordingly. Boehringer says Shanghai was chosen to launch its joint venture with ZJ Base because of advantages in the investment environment, service system and talent resources, as well as positive feedback and support from government and regulators.

On the exit moves of some of the bigger Western companies, Dan Steinbock, research director of International Business at the India, China and America Institute, an independent think tank in the US, believes that while these companies can enjoy greater cost efficiencies by moving to emerging neighboring countries, they cannot achieve comparable scale and scope. Nor would they benefit from comparable infrastructure and logistics. Robert Theleen, chairman of the American Chamber of Commerce in Shanghai, points out that, before China's rise, the successful Asian countries were either an island (Japan), peninsula (South Korea) or city state (Singapore). But China is the first nation to industrialize rapidly that is similar in size to a continent. That requires it to think "horizontally", he says. Unlike many smaller markets that have only one scale of competitiveness and develop vertically, China has plenty of scope for sustainable growth from its coastlines and inland and may well leverage comparative advantages across different regions and cities.

But experts say the Chinese government still has a way to go to convince companies that they can move inland in China rather than leaving the country. "It is still problematic because many inland cities are not perceived as pro-business, because of lack of regulation and higher logistic costs," says Pedro Videla, professor of economics at IESE, the graduate business school of the University of Navarra in Barcelona. Another thing the government can do is to clear investment hurdles by lowering thresholds in industries such as telecoms and finance, which are held by domestic monopolies.

Source: HE WEI: Magnetic attraction for EU SMEs, China Daily, August 6, 2013 NO. 32), August 4, 2013

Sino-US trade gap narrows
United States exports to China, which have been growing in recent years, increased 4.5 percent in June, narrowing the trade deficit between the world's two largest economies, according to US Commerce Department figures released on Tuesday. Exports to China — one of the fastest-growing markets for US goods — were up 4.2 percent for the first half, the new data show. US exports to the European Union, however, only rose 1.5 percent in June, with first-half exports to the EU down 5.5 percent.

The yuan has appreciated by 1 percent against the dollar since the beginning of 2013. Because of the weakening of some major currencies — including the yen and the British pound — the yuan's value has been pushed up in recent months, appreciating by nearly 20 percent against the yen since July. The new US trade figures show imports from China fell 2.2 percent, lowering the contentious US trade deficit with China to $26.6 billion from $27.9 billion in May.

China remained the US' third-largest export market after Canada and Mexico, purchasing nearly $110 billion in US goods in 2012, according to the Washington-based US-China Business Council, which represents more than 200 US companies doing business in China. The council's new report on US exports to China by congressional district — released last week — showed that between 2003 and 2012, total US exports to China rose 294 percent. In 2012, the report said, 262 congressional districts (60 percent of the total) increased exports to China. Between 2003 and 2012, 401 congressional districts (92 percent) experienced triple-digit growth. Growth in exports to China also outpaced growth in the majority of districts' exports to other markets, with 249 districts out of 435 having higher growth in exports to China in 2012 than to the rest of the world. Even smaller states have seen significant growth in exports to China. Shipments from Vermont, Connecticut, Hawaii and Delaware have recorded at least 400 percent growth since 2003. The Commerce Department figures show the US trade deficit narrowed sharply in June to its lowest level in nearly four years, indicating a stronger outlook for second-quarter growth.

Source: ZHANG YUWEI: Sino-US trade gap narrows, China Daily, 2013-08-08

Trade ministers meet for free trade talks

Trade ministers from 16 Asian countries are meeting in Brunei for free-trade agreement talks. They took part in the first discussions on the Regional Comprehensive Economic Partnership, or RCEP, to resolve differences on trade barriers and market entry. Ministers there are representing the Association of Southeast Asian Nations, as well as China, Japan, South Korea, India. If the agreement is signed, it'll establish the world's biggest FTA zone, covering 16 countries, 3.5 billion people and one-third of world's GDP. China's commerce minister Gao Hucheng said his government is taking part in the RCEP talks, but is paying close attention to the TPP negotiations. For China, it's also in negotiations with Japan and South Korea for a Northeastern Asian free trade zone.

Source: cnTV.cn: Trade ministers meet for free trade talksUpdated: 2013-08-21

China investigating foreign companies over security

China's probes into renowned foreign companies has aroused heated discussion online, with netizens supporting the country's steps because of security concerns. The Wall Street Journal reported last Friday that China is preparing to investigate American corporations IBM, Oracle and EMC over security issues. It questioned the probes, saying they were in retaliation to the rejection of China's telecom giant Huawei by the world's largest economy. In recent years, Huawei has been repeatedly rejected for selling its devices to American firms due to security concerns raised by the US government.

However, the reason for China to launch the investigations was the country's threatened security problems exposed by Edward Snowden, former US spy agency contractor. The whistleblower revealed that at least nine US firms have participated in the US surveillance program called PRISM, which hacked deep into China's computer networks. China became a focus for the Snowden case since he stopped in Hong Kong en route to Moscow. He also claimed that the US National Security Agency hacked into critical network infrastructures at universities in China.
On Sina Weibo, China's most popular Twitter-like microblogging site, most netizens applauded the country's step to investigate foreign companies in China for security reasons.

The Global Times published a commentary in its paper and official microblog on Monday, saying that compared with the United States, China has done much fewer and much "gentler" investigations for security reasons. The paper said that international companies have become an important part of the Chinese economy as the country adheres to its reform and opening-up policy. It is normal and reasonable for China to conduct security probes, the commentary said. The campaign is not targeted at foreign companies, but aimed at creating a fairer and better environment for economic competition, according to the paper.

Source: Xinhua: China investigating foreign companies over security, 2013-08-20

China antitrust push draws ire of US companies and regulators

Foreign investors in China are increasingly concerned that they are being targeted in official investigations of pricing practices, such as one aimed at baby formula manufacturers earlier this year. They have also raised concerns about Chinese antitrust authorities’ rulings on mergers and acquisitions of mainland companies by foreign investors.

“China is wielding its antitrust law in a discriminatory manner targeting foreign companies,” said Jeremie Waterman, executive director for China policy at the US Chamber of Commerce, the largest US business lobby group. Maureen Ohlhausen, a Republican commissioner at the Federal Trade Commission, said that “political decisions” should have no place in antitrust reviews. The FTC conducts antitrust reviews in the US alongside the justice department. In an interview with the Financial Times, Ms Ohlhausen said there needed to be greater transparency over China’s decisions. “If the Chinese make a decision to impose a remedy or block a deal it can be hard for outsiders to know what was the main motivating factor in that,” she said.

Despite Ms Ohlhausen’s intervention last month, US officials have generally been reluctant to confront China over antitrust rules, despite being sympathetic to complaints that deals were being unfairly blocked or approved with tough conditions. The matter has not been raised in bilateral economic and trade talks between Beijing and Washington. Chinese companies and officials have also questioned whether their investments in the US are welcome. US lawmakers used a congressional hearing to raise concerns about Shuanghui’s proposed $4.7bn purchase of Smithfield pork, the largest Chinese takeover of a US company, which is still in the balance. US and Chinese antitrust authorities are expected to hold further talks on competition policy in the coming months. The issue could become a point of contention in negotiations over a new bilateral investment treaty announced earlier this year.


FDI surges 24% in July

Foreign direct investment in China surged 24.13 percent from a year earlier to $9.41 billion in July, the largest expansion since March 2011 and also the sixth consecutive monthly increase since February, according to the Ministry of Commerce. The first half of this year saw foreign investors establishing 10,630 companies in China, down 9.18 percent year-on-year, while FDI inflow rose 4.9 percent year-on-year to $61.98 billion. The country attracted $111.72 billion in FDI last year, down 3.7 percent from a year earlier.

"Foreign direct investment in China will grow steadily in 2013," said Huo Jianguo, president of the Chinese Academy of International Trade and Economic Cooperation, a government think tank. He added that China's further opening-up lies in...
easing the market access of foreign investment as well facilitating the management. "As for manufacturing, the catalogue for encouraged industries is subject to further expand while easing access to the high-end manufacturing and the strategic emerging industries will bring in new capital. And the administration as well as approvals should be simplified. What's more, practical moves should be introduced to support foreign investment in services sectors," Huo said. "The key issue in the near future is not expanding FDI size but diverting the spending into high-end and high value added industries and merging it with China's economic restructuring, which will bring great effectiveness," Huo said.

Source: Li Jiabao: FDI surges 24% in July, China Daily, 2013-08-23

Chinese find M&A deals hard to clinch

The sale of AIG’s aviation leasing business to a Chinese group is now close to collapse, signalling the implosion of yet another Chinese bid to control such assets — the third in just a few years. When Chinese groups show up at auctions these days, the response is more scepticism than celebration. In this case, the Chinese buying group fell apart. In other cases, involving potential purchasers ranging from obscure groups to well-known banks, either approvals or financing or the prevailing fear of overpaying were factors. China Development Bank submitted the highest bid for the aviation leasing assets of Royal Bank of Scotland (by a margin of $240m), despite the fact that the bank believed it had no chance of getting approval for the deal. A Chinese group bidding for Hawker Beechcraft could not come up with the financing and lobbied vehemently (albeit unsuccessfully) for the return of its $50m deposit. Bank of China submitted a low-ball bid not once but twice for an Indonesian bank that Temasek was selling (which went ultimately to Maybank).

It was not supposed to be like this. China has massive amounts of money and a hunger for everything from the natural resources it lacks to leading edge technology. If it is to transform itself into a consumer-led economy, it needs to upgrade manufacturing and its brands and design. The degree of competition in China is intense, so even where overcapacity is not an issue, profit margins are often razor-thin, making overseas markets far more attractive by comparison.

Moreover, there are few domestic mergers and acquisitions so most companies have little practical experience of how deals get done. In addition, with the exception of a few technology companies, Chinese companies still lack internal specialists with titles such as chief strategic officer to think about these matters. And in many cases, the Chinese encounter hostility and xenophobia when they do venture abroad. Consider the contention around Shuanghui International’s $4.7bn acquisition of Smithfield Foods, which has become hostage to pork barrel politics in the US.

Of course, there are sectors where the Chinese have successfully closed deals. The two top sectors, oil and gas and mining, account for more than half of all deals since 2000 and involved nearly $200bn out of a total $368bn in outbound transactions, according to data from Dealogic. The Chinese government was behind virtually all these transactions, which were led by state-owned enterprises with the cheap financing of the policy banks such as China Development Bank that have access to the balance sheet of China itself. So far, most successful acquirers have been state-owned companies with the blessing of the government.

Looking ahead, the next wave will probably involve more privately owned companies doing smaller deals, particularly technology companies that are intrinsically more global. Such deals are likely to be targeted more at Europe, particularly Germany, than the US, where the only thing equal to the paranoia of the US about China is China's paranoia about the US. But that should not restrict capital outflows from China.

Many people involved on both sides of the border believe the next big thing will be real estate as Chinese developers and institutional investors look abroad, especially to the US. Both funding and permission are far easier to obtain in China and often are a simple formality in the US. There is another (unvoiced) reason real estate deals are attractive. With enough money, Chinese investors can get temporary green cards. Chinese people are increasingly following their money out of China.
China's ODI hits $50.6b, up by 20%

China's outbound direct investment in the non-financial sector rose by 20 percent from a year earlier to $50.6 billion during the first seven months of the year, according to the Ministry of Commerce. The nation's ODI flowing into Japan from January to July dropped by 11.5 percent, while the Chinese mainland's ODI to Hong Kong decreased by 5.3 percent. During the first half, China's ODI in the non-financial sector in Japan declined by 9.1 percent in one year, according to the Ministry.

Source: Li Jiabao and Zheng Yangpeng: China's ODI hits $50.6b, up by 20%, China Daily, 2013-08-23