China News in Brief
December, 2013

Compiled by Yimin Zhang, University of Shanghai for Science and Technology for the Kiebach Center in International Business Studies, Whitman School of Management
and distributed free of charge.

Dec13
Xi underscores economic issue
China economy: REST of the story leaves little room for bulls
GDP to rise 7.5% as working GDP target: US
China targets quality, efficient growth in 2013
Domestic consumption a top priority for 2013
China allows banks extend 1-year timeline
China’s Wealth of Rural
China should lower M2 growth goal: PBOC officials
Pledge made on credit growth
China’s reform targets policy mismatch
China’s SMEs’ healthy for financing
Overseas taste for China A-share recover
Private investment in rail project boosts Wenzhou
Fund companies turn to Tocoh to woo customers
China’s stocks advance to six-month high
China’s stocks end year with continued rebound
China economy: Spending tomorrow’s taxes today
China expands VAT trial to 3 more regions
China to be “more open” vice-premier Li
Signals in China of a More Open Economy
Xi’s visit signals reform support
Xi stokes economic reform hopes in China
Xi: China to continue reform and opening-up
Reform pledged at key economic meeting
China Leader Xi Jinping is Ready to Go
To Empower the People, Trim Govt
“Strong army” Xi: The other side of China’s reform
China seeks to lift domestic demand
Regions urged to rely on local advantage
Innovation drives domestic brands more competitive
Leading entrepreneur honored
Chinese private firms top innovation spirit report
Mainland CEOs less competitive in world ranking
China to advance urbanization next year
Shanghai reclaim top spot
Railway set to create network of world-class ‘city clusters’
Income gap remains high, report shows
Economy may suffer as rich look overseas
Chinese firms dissatisfied with food safety, environment
Chicken raisers involved in antibiotics scandals
China to crack down on food safety violations
Growth to sustain at the poor catch up with the rich
China economy: China’s solar storms
China Survey finds Higher Jobless Rate
China eyes more rural development in 2013
Morality stress logistics, consumption
China’s service trade marks steady growth
Retail sales to surpass 20 trln yuan in 2012
Chinese firms ‘face slower growth’ amid gloom
China to boost the Internet of Things industry
Baidu’s unique services attract to Chinese companies
Real Web names required
Chinese Property Price and Sales Show Signs of Revival
Property curbs to stay in place for 2013
Benefits of China’s joining the WTO dwindling
Potential for China, US innovation partnerships highlighted at Annual Government Relations Dinner
China’s market economy status key to world economy
China flies aircraft over disputed islands
CENTRAL ASIA: Russia and China vie for influence
More Chinese to migrate, invest overseas: report
Economic risks above China recovery
Force upbeat about continuity in Sino-US relations
U.S. Ambassador Gary Locke highlights increasingly interdependent U.S.-China economic relationship at AmCham Shanghai event
Wang says economies of China, US comparable
Full RMB convertibility ruled out
China Revision Lassies Worries Over Outflows
China vows to narrow trade deficit in technology
China reports 2.9% rise in exports for November
Import tariffs lowered to boost consumption
CHINESE AMBASSADOR CRITICIZES U.S. TRADE PRACTICES, MAKES LINK TO JOCT
China Pacific Island economy: China’s age brings riches to the Pacific
City to be 2nd duty-free region
China vows to protect foreign investors’ interests
Sony China chief bullish over business
Conoco Hunts in China for Shale Gas
NDRC eyes services boom
China enterprises expected to reach record levels of ODI
M&A deals become scarcer in Jan-Nov
Canada (Brace 31): Edison Chinese Takes over an Energy Company
China Worse Overseas Companies, Looking for Deals
Golden opportunities for California
In China Debt, Not Consumption, is the Issue

Beijing policy makers do not need creative ways to post higher consumption numbers; they need more efficient forms of demand. There are at least three reasons to be sceptical about this argument. First, and most obviously, even the largest upward adjustments in the official data still leave China with extraordinarily low consumption. What is more, these studies ignore data that show that consumption in the official numbers might itself be overstated, possibly because most of these studies are aimed specifically at supporting the bull case. For example, purchases of household appliances and household furnishings are among the fastest growing consumption expenditures in the official data, although it is pretty clear that they would be more usefully classified as investment.

This leads to the second reason for scepticism. What matters to China is not whether any particular expenditure is called “consumption” or “investment”. It is far more helpful to distinguish between expenditures that are highly correlated with changes in non-productive investment and those that are not. Why? Because China’s future growth depends on the amount of domestic demand that will drive growth as Beijing brings down investment in unnecessary manufacturing capacity, infrastructure, and real estate development. If building fewer apartments reduces demand for household appliances and furnishings, then we cannot count on this “consumption” if investment in new apartment buildings declines. Or, to take another example, if purchases of gold and jewellery, among the fastest growing components of consumption, are driven by the excessively low interest rates that have also driven poor investment, the same interest rate reform that reduces investment misallocation should cause consumption of gold and jewellery to drop.

But the third and main reason for scepticism over various attempts to reclassify expenditures as consumption is that they miss the point. Countries that have had investment-led growth miracles have all, without meaningful exception, been derailed by debt. In the early stages of their growth, when investment spending is urgently needed to boost productivity, debt-servicing capacity grows faster than debt as the country pours resources into investment. This represents healthy growth.

At some stage, however, rigidities in the financial system, structural disincentives for innovation, a deficient legal system, weak education, crony capitalism, and a host of other conditions prevent further increases in capital spending from unleashing equally large increases in productivity. China has clearly passed this stage, with debt now rising much faster than debt-servicing capacity, and because Chinese growth currently is driven largely by even more rapid growth in debt, China’s problem can only be resolved by reversing this process.

China must find a way to grow without even faster growth in credit, and the best way to do so, as implied in the proposals following November’s Third Plenum, is to boost consumption growth by sharply increasing the household income share of GDP and to shift investment from the state sector to far more efficient smaller businesses. Beijing policy makers do not need creative ways to post higher consumption numbers; they need more efficient forms of demand. China’s problem is rapid credit growth, and the low consumption share is just a symptom of the problem.

Source: Michael Pettis: In China Debt, Not Consumption, is the Issue’ December 3, 2013
http://carnegieendowment.org/2013/12/03/in-china-debt-not-consumption-is-issue/gv6t

China shifts away from GRP-obsessed assessments

Chinese officials should downplay their obsession with economic growth and focus more on people's livelihoods and the environment, as the country trumpets a more balanced work evaluation system. A circular on improving the work evaluation of local Party and government leaderships and officials stressed that “gross regional product (GRP) and its growth rates should not be the only main indices for the evaluation of local officials’ work achievements, and charts with these data must be banned.” The document was released Monday by the Organization Department of the Communist Party of China (CPC) Central Committee. China's central government traditionally assesses the performance of local authorities mainly through economic indices like GRP, which
resulted in some local governments sacrificing the environment and residents' well being for better GRP figures.

"More distinctive and pertinent assessment indices should be created in accordance with the specific obligations of leaderships and officials at different levels and in different regions," said the statement, citing the integration of sustainable economic development, people's livelihoods, social harmony and ecological protection. Local officials should transform assessments. Rather than be based on GRP and development speed they should focus on development quality, growth mode and potential. It should stand the test of time and of the people, according to the circular. Evaluation should be dialectical and objective, taking development costs into consideration instead of only judging based on development results, it said. According to the document, greater emphasis should be given to indices related to the waste of resources, environmental protection, eliminating excess capacity and production safety. Also, evaluations in the fields of scientific innovation, education, culture, employment, income, social insurance and people's health should be strengthened. It urged local authorities to abandon the development mode of "high investment and heavy pollution for fast growth rate" and warned them against unpractical "image" or "vanity" projects. They must also reduce redundant, overlapping assessments and abolish those standards that are contradictory to stipulations from central government, it said.

According to the circular, officials should be held responsible for behaviors that violate scientific principles. In 2012, the head of the Heyuan Municipal Environment Protection Bureau of Guangdong He Mingliang was sentenced to three and a half years in prison as his dereliction of duty led to the poisoning of at least 200 residents in a local village in 2011. He approved the manufacturing operation of a battery factory which apparently did not pass an environmental impact assessment.

Monday's circular also asked central authorities to make government debts an important index for assessing local governments' performance and strengthen the audit and accountability system concerning governments' raising of loans.

Source: Xinhua: China shifts away from GRP-obsessed assessments, 2013-12-10

**China's fixed-asset investment up 19.9% in Jan-Nov**

China's urban fixed-asset investment expanded 19.9 percent year-on-year to 39.13 trillion yuan ($6.4 trillion) in the January-November period, down 0.2 percentage points from the growth rate in the first ten months, the National Bureau of Statistics announced on Tuesday.

The country's urban fixed-asset investment growth expanded 19.9 percent year on year to 39.13 trillion yuan ($6.4 trillion) in the Jan-Nov period, down 0.2 percentage points from the growth rate in the first ten months, according to the NBS. In November, urban fixed-asset investment grew 1.47 percent from the previous month, the NBS data showed. From January to November, investment from the private sector, which accounted for 63.5 percent of total fixed-asset investment, grew 23.2 percent year on year to 24.84 trillion yuan. From January to November, investment in primary industry hit 850.9 billion yuan, up 31.7 percent year on year, while investment in secondary industry amounted to 16.7 trillion yuan, up 17.3 percent year on year. Investment in tertiary industry expanded 21.5 percent year on year to 21.6 trillion yuan. Investment in China's western regions grew by 23.1 percent year on year, followed by 23 percent in the central regions and 18.4 percent in the east.

The NBS said the property sector attracted 7.74 trillion yuan of investment in the first eleven months, up 19.5 percent year on year. The growth rate increased 0.3 percentage points from that of the first ten months. Residential housing investment accounted for 68.6 percent of the total property investment, up 19.1 percent year on year to 5.3 trillion yuan. Sales of commodity housing surged 30.7 percent year on year to 6.99 trillion yuan, but the growth rate dipped 1.6 percentage points from the rate registered in the first ten months.
GDP not the only benchmark, but still important

China has promised to cut the weight of GDP when assessing the work of local governments, but the country has not scrapped economic development, central authorities said Tuesday. The Organization Department of the Communist Party of China (CPC) Central Committee issued a document on Monday promising to shift away from GDP-obsessed assessments of local governments as the nation attempts to bring its economy onto a more sustainable track.

"Not judging by GDP alone does not mean we no longer want GDP or economic growth, nor does it mean we will not assess development based on GDP criteria. We emphasize assessment based on scientific and comprehensive development," the Organization Department explained in a statement given to Xinhua on Tuesday. The move will not affect local economic development, instead it will solve prominent problems in the development process and will ultimately benefit China's future development, according to the statement. Local officials will shoulder a heavier burden and task of development because they must focus not only on the economic aggregate and growth rate, but also on the quality of development, growth mode and potential, the statement said.

Source: Xinhua: GDP not the only benchmark, but still important, 2013-12-10

Data points to expansion in Chinese economy: Solid growth in areas like industry and retail reported for November

The Chinese economy is no longer as red-hot as it once was, and efforts to balance the drivers of growth will take time to bear fruit -- but for now, at least, China's economic expansion remains solid, judging by data released over the past few days. Figures released by the national statistics bureau on Tuesday showed that industrial output, an important gauge of economic activity, grew 10 percent in November, compared with a year earlier. That was a touch below analysts' forecasts, but in line with the performance of the past few months. Retail sales climbed 13.7 percent, solidly beating analyst expectations, and picking up from the previous few months. Investment in fixed assets such as equipment and machinery -- an important factor in China's growth in recent years -- climbed 19.9 percent in the first 11 months of 2013, compared with the same period a year ago. That was slightly less than expected. Those numbers followed solid trade data reported on Sunday, which showed exports gaining 12.7 percent in November -- nearly twice what analysts polled by Thomson Reuters had forecast. And a survey of purchasing managers in the manufacturing sector produced a reading of 51.4 for November, unchanged from the previous month but solidly above the 50-point mark that separates expansion from contraction. Taken together, analysts said, the data painted a picture of an economy that is ticking along with perhaps a little less gusto than in the past few months, but much more robustly than at the start of this year.

At that meeting -- the annual Central Economic Work Conference, as it is formally known -- China's top leaders are expected to map out the country's economic policy agenda for the coming year, effectively putting more flesh on the bones of the broad-brush policy pronouncements made at a larger party gathering last month. That meeting laid out the longer-term goals for revamping the Chinese economy in a bid to put its once supercharged growth on a more sustainable and balanced footing.


China said it would seek to curb domestic debt growth and slash industrial overcapacity in 2014 without hurting growth, reaffirming a longer-term course laid out at a conclave of senior party officials last month. UBS China economist Tao Wang agreed with the leader's priorities in addressing the debt, but added, "it's hard to tell if they can walk the walk because of the rapid development of shadow lending." So-called shadow banking is lending by nonbank financial institutions, such as trust companies, securities firms and informal lenders.

The statement released by the Central Economic Work Conference, the meeting of top leaders, said that China's policy makers faced the "core task" of ensuring stable growth amid continuing economic headwinds and troubles with domestic security. The conference comes about a month after a conclave of senior Communist Party officials, called the Third Plenum, set out a blueprint for longer-term reforms. On Friday, the leaders said they would maintain "the spirit" of the plenum, but their focus was on tackling more immediate problems.

Local governments have been among the big drivers of debt, borrowing heavily to finance infrastructure and real-estate projects that are frequently mired in debt. The statement called resolving local debt problems "an important economic task," and said Beijing would "strictly control the process by which governments' raise debt."
Signaling that the central government didn't envision a large bailout, the statement added "every level of government will be responsible for their own debt." Another reason for the debt buildup is borrowing by companies, often state-owned, despite huge production gluts in industries such as steel, solar energy components and shipbuilding. Often with the political support of local government, the firms have borrowed to avoid major layoffs.

The leaders pledged to "unswervingly resolve industrial overcapacity" -- a pledge that Beijing has made before and failed to carry out.


China economy: Pricking the bubble

Despite attempts to cool down the residential property market, sales have rocketed in 2013. Trends vary regionally. Eastern China has seen the fastest sales growth, supported by richer buyers attracted to better developed cities. At the same time, expansion in new property construction is taking place at a much faster pace in western China. The impact of any correction in the property market will vary significantly between different parts of the country. According to the National Bureau of Statistics (NBS), residential property sales by volume grew rapidly over the first ten months of 2013, rising by 22.3% from the year-earlier period. Sales continued to grow even after stricter purchasing restrictions were rolled out in the richest cities at the end of March. These efforts have done little to dampen demand in the country's hottest markets. New house prices in tier-one markets-Beijing, Shanghai, Guangzhou and Shenzhen- were up by 15-25% year on year in November, according to a monthly price index published by the NBS.

Strong growth in residential property sales has been driven by purchasing in the wealthy eastern and southern parts of the country. Southern Fujian province reported the strongest property market activity across the country in the first ten months of 2013, with new house sales up in volume by 56.7% year on year. Neighbouring Guangdong province recorded robust sales growth of 28.6% over the same period, while the Yangtze River Delta regions of Zhejiang, Jiangsu and Shanghai all saw expansion in the range of 29-35%. The conspicuous underperformer so far this year has been Beijing, where sales rose in volume by only 3.1% in January-October, in a likely reflection of the fact that purchasing restrictions have been more stringently applied in the national capital. In the first ten months of the year sales in volume terms rose by only 1.4% year on year in Jilin-a performance only slightly bettered in Heilongjiang and Liaoning. Meanwhile, the emerging regions of western China have posted mixed results. Sales of new homes have been strong in Xinjiang, Guizhou and Sichuan, but less so in Chongqing and Yunnan, with rises only in the single digits. Inner Mongolia has also seen demand for housing weaken sharply amid a slowdown in the resource-intensive region's economic growth and widely reported over-supply problems. Mixed sales activity has not dissuaded investors from piling more funds into property development in western China. Property investment growth in Tibet, Yunnan, Xinjiang and Guizhou exceeded 40% in January-October over the year-earlier period. This compared with expansion rates of 20% or less in most eastern and southern provinces. Real-estate investment in Beijing contracted in year-on-year terms in the first ten months of the year. Western China is also starting new construction at a rapid rate, which should help to bolster investment in 2014. New starts measured by floor space across the region rose in volume by 8.7% in the first ten months of the year, according to the NBS, compared with 3.7% in eastern areas and 4.7% in central China.

Around one-fifth of total fixed asset investment (FAI) in China goes into property development. It accounts for an even higher proportion of investment in more developed provinces, where the build-out of infrastructure and industrial capacity is more extensive. Property represents 61% of FAI in Shanghai and 35% in Guangdong. However, as eastern and southern provinces have relatively diversified economies, with strong consumer bases and developed trade sectors, they are less dependent on investment to drive economic expansion. As a result, property investment accounts for around just 15% of nominal GDP in Shanghai and 11% in Guangdong.

By contrast, property plays an outsized role in the economies of several western provinces, where economic growth tends to be mainly driven by investment. Investment in property development accounts for more than one-quarter of nominal GDP in both Yunnan and Ningxia. In the impoverished province of Guizhou, it represents 31% of GDP. Any downturn in the property market in such provinces would therefore have significant implications for their broader economies. The provincial economy that would be most exposed to a property collapse is the southern holiday island of Hainan, where property investment represents 41% of GDP.

Source: EIU ViewsWire: China economy: Pricking the bubble, (Dec 23, 2013)

Banks not allowed to use Bitcoin

China's central bank barred financial institutions from handling Bitcoin transactions after investors lost money on fraudulent online platforms for the virtual currency.
7

The move also follows an 89-fold jump in the virtual currency's value this year, supported in part by demand from Chinese investors. "Judging from its nature, Bitcoin is a specific virtual commodity. It does not have the same legal status as a currency and can't, and should not, circulate in the market," the People's Bank of China said in a statement posted on Thursday on its website. The central bank published the statement jointly with the China Securities Regulatory Commission, the China Banking Regulatory Commission, the China Insurance Regulatory Commission and the Ministry of Industry and Information Technology.

The virtual currency does not bring systemic risks to China's financial system at the current stage, said the central bank, as the number of Bitcoins in circulation and the market scale are both limited. No financial institutions of any kind should have a direct involvement in Bitcoin deals, it said. Financial institutions are banned from, among other things, trading, settling and market-making deals using Bitcoins, it added. Websites that provide Bitcoin-related services will be asked to register with the country's telecommunication authorities. The central bank said that the virtual currency could be used for reckless speculation, money laundering, drug and gun transactions, gambling and other illegal activities. It could also be used by terrorists to fund attacks, it added.

Investors and holders of Bitcoins in China said that the move may limit demand for the virtual currency in the country, but regulating the coin also means that authorities recognize its impact on financial markets. The Bitcoin was being traded at 5,920.87 yuan ($970) per coin on BTC China, the largest Bitcoin exchange in the country, at 6 pm on Thursday. On Sunday, the price on BTC China hit 7,395 yuan, an all-time high.

Fraudulent trading platforms have been raising concerns among Bitcoin investors in China. Chinese police have detained three people who allegedly operated a fraudulent online Bitcoin trading platform, shut it down unexpectedly and then vanished with the investors’ assets, the Xinhua News Agency reported yesterday. Police said the trading volume of the platform, which claimed to be based in Hong Kong, grew gradually and it eventually ranked fourth in the country. By the end of September, the platform had attracted 4,493 registered users who traded Bitcoin as if they were buying and selling stocks or futures, the police said. The platform closed suddenly on Oct 26 and its management team could not be contacted after that, Dongyang police in Zhejiang province said. An investor surnamed Qiao lost 90,000 yuan and reported the case to the Dongyang police department, which immediately started an investigation. According to a report in Hong Kong-based newspaper The Standard, investors might have lost up to 25 million yuan.

Source: WU YIYAO and GAO CHANGXIN in Shanghai: Banks not allowed to use Bitcoin, China Daily, 2013-12-05

Central bank OKs sales of interbank CDs

China has taken a giant step toward freeing interest rates, with the central bank introducing a new instrument to the interbank market, which lets the market set the rates. Banks were able to issue interbank negotiable certificates of deposit as of Monday, the People’s Bank of China said on its website. The interest rate on the new instruments will be determined by the market, with the Shanghai Interbank Offered Rate to be used as a reference. Regular bank deposits are subject to an interest-rate cap in China, so the new negotiable CDs will initially be available to fund managers and participants in the interbank market, but not to individuals or financial enterprises.

With the IBNCD, banks will have to negotiate the cost of lending among themselves, and thus provide a clearer picture of the cost of capital in a market-driven environment. The maximum maturity for fixed-rate IBNCDs
is capped at one year, with additional terms of one month, three months, six months and nine months, while maturities for adjustable-rate CDs are required to be longer than one year, with one-year, two-year and three-year terms. The minimum investment for a single IBNCD will be 50 million yuan ($8.2 million), according to the PBOC. The PBOC also ordered banks to disclose their annual issuance plans, and it said that the outstanding value of interbank CDs may not exceed the annual quota at any time during the year. According to PBOC guidelines, the IBNCD can be purchased by members of interbank markets, including banks, most insurance companies, finance companies owned by big corporations, securities houses and fund managers.

Source: Xie Yu in Shanghai: Central bank OKs sales of interbank CDs, China Daily, 2013-12-10

**Treasure piles up for Alibaba as depositors desert China’s banks**

For every Rmb12 that companies and individuals have deposited in Chinese banks since June, they placed roughly Rmb1 in their Yu'E Bao accounts, according to Financial Times calculations based on official data. While it remains tiny compared with total deposits in the Chinese banking system, this migration of cash from banks to the Alibaba platform is only speeding up. In the process, it threatens to upend the rules of China's state-protected financial sector, eroding banks’ profit model and shifting power to savers in a way that was scarcely imaginable at the start of this year. Other Chinese tech companies are getting in on the act. Tencent, developer of the hugely popular messaging app WeChat, is said to be designing a fund platform similar to Yu’E Bao. Baidu, the search engine company, began marketing investment products in October. “Internet companies, with their ability to instantly reach millions of consumers, have already started to subtly change the competitive dynamic in finance,” says Ernan Cui, an analyst with GK Dragonomics, a Beijing-based research firm.

With Alibaba making waves in China’s staid financial sector, banks have every reason to be worried. But there are signs that Alibaba itself is also worried – about Tencent, the company behind the popular WeChat messaging app that is now muscling into the financial space. The WeChat challenge is similar to the threat Instagram once posed to Facebook. While Alibaba has been the dominant ecommerce company on desktop computers, WeChat has made such big inroads on smartphones that it now has the ability to take a bite out of the mobile ecommerce market. “Alibaba’s dominance in the PC era cannot be fully carried over to the mobile era,” says Alex Wang, an analyst at internet consulting group iResearch.

Moreover, just like demand deposits at banks, users can withdraw their money from Yu’E Bao whenever they want. But while demand deposits earn an annualised rate of 0.35 per cent in banks – a level capped by the government to ensure that banks have plump profit margins – Yu’E Bao rates have averaged about 5 per cent over the past month. Little wonder that it has drawn such rampant demand. Launched in June, Yu’E Bao has in short order become China’s most successful money market fund. As of last month it had raised Rmb100bn, the first to reach that milestone. Behind the Yu’E Bao brand name stands Tianhong Asset Management, in which Alibaba bought a majority stake in October. Tianhong invests all the Yu’E Bao cash in money market funds, mainly consisting of interbank loans and some short-term debt securities, according to analysts. So the cash still largely ends up with banks, but rather than paying a government-controlled rate for it, they pay whatever is the going market price for money. It is, in other words, ushering in interest rate deregulation in a big way. This week’s spike in Chinese interbank rates in part reflects the growing competition for deposits. But in recent days Alibaba has launched an aggressive marketing campaign, plastering subway stations in Shanghai and Beijing with ads that leave little doubt the company has banks in its sights. “The Yu'E Bao annualised return is nearly 14 times higher than the demand deposit rate,” the ads blare. “It’s a wallet that makes you money.”


**China Cash Crunch Pushes Up Short-Term Rates**

A cash crunch among China's banks intensified, highlighting the difficulties faced by the central bank in managing an increasingly stressed financial system. The weighted average of the seven-day repurchase-agreement rate, a benchmark of how much banks charge to borrow funds from one another, rose to 8.94% on Monday from 8.21% Friday. That was the highest level since rates hit 9.29% June 21, at the peak of a previous cash crunch. Isolated trades sent the rate as high as 10% during Monday's trading and to almost 30% in June. That cash crunch, however, was partly caused by the central bank's efforts to rein in lending amid fears over a proliferation of bad loans among the country's lenders. Like the current squeeze, it came as banks sought to boost cash holdings at the end of a quarter. The turmoil in China's money market last week was sparked by a scramble for funds by banks and other borrowers as they near the end of the year, when they typically need extra cash to meet regulatory requirements and funding demands from companies.

The current squeeze is driven by several factors, analysts said. One is a little-noticed drop in China's year-end government spending. The Chinese government usually draws down fiscal deposits-the amount of funds the government keeps tied up in accounts at the central bank-more quickly in December. This article was originally
China credit worries ease after central bank acts: Money-market rates retreat from surge after big injection of cash

A plenum meeting of the top Communist Party leadership concluded last month with pledges to deliver on broad new policy mandates that would give the market a larger role in setting the speed and direction of China's economic development. In part, that strategy means reining in the country's sprawling state-owned enterprises, which for the past decade have grown increasingly reliant on inexpensive and plentiful credit to finance their expansion. At the same time, the government needs to ensure that China's private companies, which typically struggle to get loans from state-owned banks, can gain access to the money they need to continue growing and creating jobs.

A recent report by a Chinese government research group found that China's local government debt had reached an "alarming level" and posed a significant risk to the country's fast-growing economy. Two years after analysts began raising concerns about municipal borrowing, local Chinese governments appear to have piled up even more debt, about $3.3 trillion by the end of 2012, perhaps double the level in 2010.

Money-market rates fell after the central bank's open-market operations, which are a more effective and transparent tool than the unconventional measures it tried last week. Rates on the benchmark seven-day repurchase agreement fell to around 6.4 percent on Tuesday from 8.9 percent on Monday, but were still high compared with the roughly 4.5 percent earlier this month. The rate fell as low as 3.8 percent on Wednesday, before ending at 5.5 percent. The events of the past week signal China's second credit squeeze of roughly 4.5 percent earlier this month. The rate fell as low as 3.8 percent on Wednesday, before ending at 5.5 percent. The events of the past week signal China's second credit squeeze of.


China finds addiction to cheap loans hard to kick: Its pledge to tamp down shadow banking runs into entrenched interests

"It's been pretty clear since June, and especially clear since the plenum, that the new crowd is interested in tightening monetary policy and letting interest rates rise," said Arthur Kroeber, the Beijing-based managing director of GaveKal Dragonomics, an economic research firm. "The purpose is to reduce the rate at which credit is expanding, which has been a bit of a problem over the last couple of years."
"The key message from the current central bank-induced tightness is deleveraging," said Stephen Green, the head of research for greater China at Standard Chartered. "We'll see what happens when we see greater levels of corporate distress in 2014, whether Beijing buckles or not."

"The final users of the money will not be able to earn returns high enough to repay the money and promised interest," said Yu Yongding, a senior fellow at the Institute of World Economics and Politics at the Chinese Academy of Social Sciences, and a former member of the monetary policy committee at China's central bank. "The chains of lending and borrowing can be long, just like the securitized subprime mortgages. The result can be devastating."


**Shanghai FTZ to have replicable financial measures within a year**

The Shanghai Pilot Free Trade Zone will come up with replicable financial measures within one year while strengthening management and control of financial risks, said a central bank official on Tuesday. The financial measures will effectively serve the real economy, said Zhang Xin, deputy head of the People's Bank of China's Shanghai Head Office. The central bank will strengthen anti-money laundering, counter-terrorism financing and anti-tax evasion administration and closely monitor abnormal cross-border capital flow, said Zhang. The central bank said Monday that it had recently issued a guideline offering financial supports for the experimental free trade zone. Most of the items in the guideline are mature and can be implemented immediately, but some still need details to be formulated, he said. The China (Shanghai) Pilot FTZ, launched in October, is a test ground for China's reforms. The zone has pledged to push for "a full-scale opening" of the financial service sector to eligible private capital and foreign financial institutions.

Source: Xinhua: Shanghai FTZ to have replicable financial measures within a year, 2013-12-04

**China environmentalists slam inaction over smog**

The smog that blanketed over 100 cities in half of China last week has rekindled criticism of insufficient efforts in the fight against air pollution. Among urban residents, severely polluted air has become a main source of complaints and frustration over health concerns. Late last week, the Air Quality Index (AQI) in dozens of cities in eastern China topped or neared 500. AQI of over 300 cities is defined as "serious pollution." Many rushed to buy face masks and air purifiers to ward off the choking smog, a result of decades of breakneck economic growth. The dirty air even forced all primary and middle schools in the eastern city of Nanjing to close for two days.

"The smog is everywhere," said Xiong Yuehui, head of the science and technology department of the Ministry of Environmental Protection, at a meeting on Sunday in Shanghai. "If one place is free of smog, then it will be a news," he said. The world's second-largest economy does not lack the technology and funds needed to clean up the air, but lacks the implementation of concrete efforts, Xiong said. About 22 million tons of sulfur dioxide are emitted into the air untreated each year while the remaining two thirds of the total emissions, or 40 million tons, have their sulfur removed, according to data from the ministry. Xiong said the ministry was also working to toughen environmental protection standards. "The new standards approved last week called for some 2,000 cement plants nationwide to improve pollution treatment facilities," the official noted. Meanwhile, many cities nationwide will enforce limits on emissions of fine particles in mid-2014, forcing many highly polluting plants to upgrade their pollution treatment facilities, according to Xiong. Many blame China's coal-dominated energy mix for the pollution, and Bian agrees that coal is the main cause of smog. However, he said, China can only go so far in minimizing coal consumption. It cannot be completely replaced by gas and therefore the current priority is to promote cleaner use of coal. "If coal can be used in a cleaner way, the air quality would then see a dramatic improvement," according to Bian. Coal can be converted into gas and with high standards on desulfurization and denitrification in place, he added.

Source: Xinhua: China environmentalists slam inaction over smog, 2013-12-10

**Rules on local govt debts to be rewritten**
The Ministry of Finance has begun drafting rules for local governments' debt regime, a task that is expected to be completed no later than the end of next year. Having a system to match local government debt - which could increase by 30 trillion yuan ($4.9 trillion) from now to 2020 - with development needs is an indispensable part of the national program to speed urbanization, according to financial specialists close to the ministry. Without regulations or standards for municipal-level debt financing, it will be hard for the market to play a role in allocating the resources needed by China's many fast-developing cities, they said.

"The Finance Ministry is busy completing the task, and we are contributing input," said Guan Jianzhong, chairman of the Beijing-based Dagong Global Credit Rating Co Ltd. A complete government debt regime would require local governments to not only issue debt independently but also to create balance sheets, file public financial reports and work with credit-rating services, Guan said. But it would be risky to open the floodgates to local government fundraising activities before the regulatory framework is ready, he said.

Building the debt regime follows the reform hammered out by China's leaders at the recently completed Third Plenum of the 18th Central Committee of the Communist Party of China. The plan allows local governments to broaden financing "through various ways" that include issuing bonds. It also promises, without giving a timetable, to set up a "well-regulated system" for managing local government debt and warning of risks. If they are all implemented, the changes represent a momentous shift from China's historic efforts to "contain" local government debt to "channeling" them in an orderly way, financial specialists said. It basically acknowledges local governments' right to incur debt, although the nation's current budget laws still ban them from deficit financing and bond issuing. In July, the National Audit Office was ordered to conduct a nationwide audit of local government debt.

A better solution, after the audit result is disclosed, is to have a debt management system in which results can be reported on a daily basis, experts said.

Source: Zheng Yangpeng: Rules on local govt debts to be rewritten, China Daily, 2013-12-13

**Top auditor pledges to keep watch on debt**

Liu Jiayi, head of the National Audit Office, said that his office will track the potential risks of accumulated debt and how they are dissolved, while checking how new debt is used. The office will also audit officials in "key regions, key departments, key agencies and key posts" at least once during their terms, and conduct checks of government spending on conferences, meetings and office buildings, he added. Liu's comments echoed those of Finance Minister Lou Jiwei, who said on Thursday that China will enhance the management of its local government debt. "In the next year, we will strengthen local government debt management. We will build open channels, block secret routes and contain debt risks effectively," Lou said at an annual national fiscal work conference.

Analysts said that Lou was referring to recently disclosed measures to develop the local bond-issuance market to support local governments' financial needs amid the nation's urbanization drive, and to block them from resorting to shadow-banking activities, which are lightly regulated and have much higher borrowing costs. The Finance Ministry and the People's Bank of China, the central bank, have been studying the feasibility of implementing measures to give local governments more autonomy in bond issuance, in a bid to ease their thirst for funds as they carry out the urbanization projects, the Economic Information Daily reported earlier. Traditionally, the Finance Ministry was responsible for the issuance and payment of local government bonds. Such rights and obligations will be returned to local governments once the new policy is rolled out. The bonds will be paid with the local governments' tax revenues or profits from public projects on which the money raised via the bonds was spent.

The reform plan mapped out at the Third Plenum of the 18th Central Committee of the Communist Party of China said that the nation should consider the possibility of establishing policy financial institutions to address local infrastructure and housing needs. On Monday, the Chinese Academy of Social Sciences published the country's first balance sheet. The report estimated that China's total government debt was close to 28 trillion yuan ($4.6 trillion) in 2012, representing 53 percent of the nation's GDP that year. Of that amount, local government debt accounted for 20 trillion yuan. Official audit results have not yet been released, but it is believed they will be disclosed very soon.

The finance minister also said that new legislation for property taxes will be accelerated and a reform of the housing sector will be speeded up at the "appropriate time". China lacks a nationwide property tax system, but the central government has been planning to introduce one to curb the large rise in housing prices seen in the last two years. Regarding fiscal policy for the next year, Lou said that one of the major tasks is to optimize the nation's fiscal expenditure structure, and to curb spending on government receptions, car purchases and overseas trips by officials.

Source: Zheng Yangpeng: Top auditor pledges to keep watch on debt, China Daily, 2013-12-28
Local debts surge to nearly $3t

China's local government debt and contingent liabilities ballooned to 17.89 trillion yuan ($2.93 trillion) as of the end of June, according to the long-awaited results of an audit. The figure, released by the National Audit Office on its website on Monday, implied a 67 percent rise from a previous estimate of 10.7 trillion yuan at the end of 2010. Beijing embarked on the audit in July. The official process, involving 54,400 auditors across the nation, examined liabilities at five levels of government: central, provincial, prefectural, county and township. The 2010 audit only covered provincial, prefectural and county government debt.

The result of the audit showed that local governments' direct debt — debt that will be repaid by government fiscal revenue — totaled 10.88 trillion yuan. Contingent debt, which is defined as debt that will be repaid by return on projects, reached 7 trillion yuan. The contingent debt tally includes debt for which local governments issued official guarantees (2.67 trillion yuan) and debt with implicit government guarantees (4.34 trillion yuan). Combined with another 9.81 trillion yuan in direct central government debt, 0.23 trillion yuan in central government backed debt and 2.3 trillion yuan in debt with implicit central government guarantee, China's total government debt as of June 2013 was 30.27 trillion yuan.

The NAO said total debt by the end of 2012 was 113.41 percent of government fiscal revenue, while a 90 to 150 percent ratio is considered safe internationally. "China's government debt risks are under control in general, but there are potential risks in some places," the office said. "We believe the markets and the Chinese government should be alarmed by the rapidly rising leverage, but we do not believe China is on the brink of a debt crisis, especially if the new leaders can take decisive measures to arrest its rising leverage." Lu Ting, an economist at Bank of America Merrill Lynch in Hong Kong, said in a note Monday. Lu cited the central government's "very low" ratio of debt to GDP, which stands at 21 percent. As almost all government debt is denominated in China's own currency and held domestically, "the People's Bank of China can prevent a public debt crisis with its unlimited capability for liquidity supply", Lu said. Lu added that China is protected by national savings that include $3.5 trillion in foreign exchange reserves. Further, its central and local governments have solid assets, and the country still enjoys high economic and fiscal revenue growth.

The NAOs report showed that of all the local government debts, the largest portion, or 32.4 percent, was invested in municipal construction. The second-largest portion, or 22.9 percent, was invested in transportation. The result also revealed that China's prefectural level governments had raised the largest debts, or 27 percent of the local debt. County-level governments accounted for the second-largest amount, or 22.1 percent. There are also risks. The result revealed that two provinces, 31 prefectures and 29 counties had repaid more than 20 percent of their debts by raising new debt in 2012. Also, 37.23 percent of debt repayment involved land sale revenue, a level that was deemed too high.

Many experts have suggested China should boost its municipal bond market to give local governments greater scope for financing, a method that's regarded more transparent and better regulated. At present, only 10.3 percent of local government debt involves bond issues, the NAO said. A big share of the debt stems from spending on new airports and other public works as part of the stimulus package that helped China rebound quickly from the 2008 financial crisis. Local governments also borrow to pay for schools and other social programs that are mandated — but not paid for — by the central government. The total debt burden was obscured because local governments created separate investment agencies to pay for the construction of highways and other infrastructure. Some have run into trouble raising revenues to repay lenders.

Monday's audit report also cited problems including high debts for local industry, heavy reliance by local leaders on land sales to raise revenue and improper activities surrounding some government debt. Auditors found some 13.5 billion yuan that had been improperly invested in stocks and real estate or spent on unauthorized construction, the report said. It said 69 people were implicated but gave no other details.

Source: ZHENG YANGPENG: Local debts surge to nearly $3t, China Daily, 2013-12-30

China drafting reforms on securities, futures

China is revising the country's securities law and writing a futures law, the legislature said on Tuesday, as the government moves to implement ambitious financial reform goals approved by top leaders last month. The legal changes under way include codifying plans to shift from an approval-based system for initial public offerings to a registration system, state media reported, lowering a major hurdle for companies trying to raise funds on the country's stock exchange. The news coincides with a China Securities Journal report noting the regulator of State-owned businesses was contemplating creating new bureaucracies to improve the efficiency of state firms. The finance and economics committee of the National People's Congress is also considering changes to the laws on mergers and acquisitions, corporate restructurings, and investor protection, the parliament said in an announcement posted on its website on Tuesday.

China's IPO market has been frozen since October 2012, and more than 850 companies are currently waiting
for IPO approval. A reform blueprint approved by Communist Party leaders last month promised a shift to a market-based system where regulators focus on information disclosure but leave judgments on risk and profit potential to investors. The China Securities Regulatory Commission, which approves new issues, said last month that a new, more streamlined process could take effect in January, but some reforms required changes to the law. 
Source: Xinhua: China drafting reforms on securities, futures, 2013-12-11

Regulator to revamp rules for '3rd board'

The China Securities Regulatory Commission will revamp the rules of the National Equities Exchange and Quotations board at the end of this year, and it will work on the equity exchange's market maker system in the second quarter of 2014, the CSRC said on Friday. The National Equities Exchange and Quotations, the so-called "third board", is an equity exchange for small and medium-sized enterprises. Deng Ge, a spokesman of the CSRC, said the agency will revise, release and implement the rules on unlisted public companies. About 2,000 enterprises are in line for approval to join the board. After the rules are released, which is to occur by the end this year, the third board will start taking companies' applications.

The State Council, China's cabinet, released a statement this month on the National Equities Exchange and Quotations, in which it said micro-, small and medium-sized enterprises from around the nation could be listed on the equity exchange system. Previously, only unlisted enterprises from four high-tech industrial parks in Beijing, Tianjin, Shanghai and Hubei's provincial capital of Wuhan could apply to trade on the third board. The CSRC said new trading procedures for the third board, including a market maker system, will be launched in the second quarter. Li Yizheng, a vice-president at China Securities Co Ltd, said the market maker system brings vitality to a market. Securities firms will seek good companies under this system, which requires them to maintain a stable and liquid market for a particular security, because they will bear the risk of loss. Deng also said the CSRC is formulating merger and acquisition rules for unlisted public companies.
Source: Cai Xiao: Regulator to revamp rules for '3rd board', China Daily, 2013-12-21

China outlines measures to protect small investors

China's cabinet on Friday outlined a slew of measures which may better protect the interests of small and medium investors in the capital market. Small and medium investors are the main player in the country's capital market, but their interests are prone to the infringement, said a document issued by the State Council.
Source: Xinhua: China outlines measures to protect small investors, 2013-12-27

Urbanization helps China eliminate poverty

The greatest risk China faces in its historic modernization is the massive imbalance between urban and rural areas, according to the country's top agriculture official. "The most important and difficult task is to resolve issues concerning agriculture, countryside and farmers ... to realize the agricultural modernization and the urbanization of most farmers," said Minister of Agriculture Han Changfu in an exclusive interview with Xinhua on Sunday.

Only a week ago, at the highest-level meeting it has ever convened on urbanization, the Chinese leadership pledged proactive yet steady moves in pushing forward human-centered urbanization as it looks to balance urban-rural development and unleash domestic demand. The statement came against the backdrop of China's rapid urbanization. By the end of 2012, the country had 710 million urban residents. For the first time in China's history, its urban population exceeded the rural population, with city-dwellers accounting for 51.27 percent of the total population. Resident numbers are not everything, as poverty elimination is more important than household registration.

Laiyuan, a poverty-stricken county about 160 kilometers to the southwest of Beijing, is home to a number of people living below the $1.25 a day global poverty line. Last year, the per capita annual income of farmers in the county barely reached 3,000 yuan ($490), far below the national average of 7,917 yuan. In interviews with Xinhua reporters, some local teenagers said that a few years ago they had only one meal a day. Fortunately, things are changing as both central and local authorities are working to solve the problem. The country will emphasize urbanization in the less-developed central, west and northeast regions, with the aim of making growth more balanced, according to a statement released after a central urbanization work conference, which ended on December 13. According to the statement, efforts will be made to build up a diverse and sustainable funding mechanism for the drive. It stressed the importance of green and low-carbon development in future urbanization. In a bid to promote green development, Laiyuan county government proposed a scheme to rejuvenate the local economy through tourism. Several scenic spots, including Mount Baishishan, which is part of Fangshan Global Geopark, have been opened to visitors. Laiyuan's ongoing economic transition showcases the accelerated development of China's late-developing areas and offers an example for the country to enrich its 100 million plus poverty-stricken population. "Urbanization will not make the countryside perish, but boost the harmonious development of new cities and villages," said Han Changfu, the agriculture minister.
Local govts told to improve oversight of public welfare

The central government urged local authorities on Wednesday to improve the living-allowance system and called for more transparency in the implementation process. Local governments should examine the allocation of allowance quotas more strictly while keeping recipients' information open so that welfare can be targeted at those most in need, according to a statement released on Wednesday after an executive meeting of the State Council, China’s Cabinet. Recent audit reports have revealed issues such as poor management, misuse of funds and policy loopholes, which have hampered low-income groups' benefits, according to the meeting presided over by Premier Li Keqiang. The meeting urged relevant authorities and local governments to enhance transparency by publicizing the financial status of applicants' families and verifying the eligibility of those receiving benefits in a timely manner. It also stressed that social assistance should be combined with medical care, educational aid and housing allowances to help those struggling in poverty in urban and rural regions. Experts said it is difficult to guarantee fairness in the implementation of public assistance given the lack of supervision and abuse of power in local communities.

"The basic system of allocating poverty-relief fund quotas by local officials should take the blame and be reformed," said Yang Tuan, a social policy researcher with the Chinese Academy of Social Sciences. "Farmers should be more involved in the decision-making process of many issues relating to their livelihoods, and the powers of government should be partially delegated." However, local officials said creating non-governmental, autonomous organizations remains difficult. "With most of the young adults leaving their home village to work in cities and towns, the only people left are the elderly and children, who can't meet their obligations to run such organizations," said Chen Qiang, a senior official at the Department of Civil Affairs of Yunnan Province. Chen said tougher penalties should be imposed on those who misuse funds or quotas.

The meeting also asked authorities to adjust the minimum social allowance standard in accordance with local economic development and commodity price fluctuations.

Source: Sun Xiaochen: Local govts told to improve oversight of public welfare, China Daily, 2013-12-26

US, China must co-op to build clean energy economy: EPA

The United States and China must cooperate to "build a clean energy economy," the US Environmental Protection Agency (EPA) said Thursday as its chief Gina McCarthy prepares to travel to China to discuss the two countries' clean air and climate cooperation. "The US and China represent the world's largest economies, consumers of energy, and emitters of carbon pollution," the EPA said in a statement. "Climate change is a shared challenge, and building on more than 30 years of successful cooperation and partnership, the United States and China must work together to build a clean energy economy for a healthier, safer planet," it said.

The US agency said McCarthy will travel to Beijing, Shanghai and Hong Kong during her four-day visit beginning on Monday to discuss US-China cooperation on air quality, climate pollution and environmental issues. While in China, McCarthy plans to underscore steps China has already taken to address air pollution, additional steps to come, and how the United States and China can continue to work together, it said. Earlier this week, McCarthy has said that China's air pollution challenges bore some similarities to what had happened in the United States in the 1950s and 1960s and that the United States could share its experience with China in this regard. "We know the technologies that are available. We know what planning can do. We know that there are many ways in which you can engage your states and, in China's case, provinces, to bring a sense of urgency to this issue. And we are going to be working with them on these air quality challenges moving forward," she said. In Thursday's statement, the EPA said "the US stands ready to help" as China is taking action to address climate change while reducing traditional air pollution and promoting economic growth.

Source: Xinhua: US, China must co-op to build clean energy economy: EPA, 2013-12-06

China, Japan to benefit from US shale gas success

The cost of fossil fuel imports will stabilize, and may become cheaper, benefiting both China and Japan, amid increased energy exports from the US, said Yukari Yamashita, a director with Japan's Institute of Energy Economics on Thursday. She made the comments during the China-Japan Joint Symposium on Asia Oil and Gas held in Beijing. "Global energy consumption will increase 1.5 fold over the next 30 years," said Yamashita. "Asia,
particularly, will see a remarkable expansion in energy demand and raise its import dependence rate, increasing its presence as an energy consumer in the international energy market." Because of the rapid development of shale gas exploration in the US, a net fossil fuel export increase will have a great impact, she said. The expansion of unconventional natural gas production will lower energy prices generally. Japan is working on finding a new energy structure after the Fukushima nuclear accident and China's energy demand is increasing rapidly, which requires the two countries to work more closely with each other in many sectors in the energy industry, said Yamashita.

Source: DU JUAN: China, Japan to benefit from US shale gas success, China Daily, 2013-12-12

Talent plan to unleash creativity

China's drive to cultivate world-class scientists, the Ten-Thousand Talents Program, is being seen by observers as an effort to pave the way for a Nobel Prize. The 10-year program pledges to bulldoze through tedious red tape in order to offer more liberal and flexible funding to the nation's brightest minds, according to the Organization Department of the Communist Party of China Central Committee. The goal, it said, is to foster more than 10,000 Chinese talents, including 100 world-class scientists, whom Xinhua News Agency and the People's Daily described as "competitive candidates for a Nobel Prize".

The first batch of 277 talents were identified in late October. In an e-mail to China Daily, the organization department said the "top 100 pre-eminent talents" will be given funding to set up their own research laboratories and act as chief scientists. Funding requests will be discussed "case by case and decided based on individual needs" to support exploratory and original research, the e-mail read. Liu Zhongfan, a member of the Chinese Academy of Sciences who specializes in carbon materials, was selected as one of the first batch of pre-eminent talents, along with five others. He said the program is a chance to reform research funding in China, which affects tens of thousands scientists. "State funding now requires quick returns, and most researchers are expected to publish a pile of papers — the quality of which is often questionable — as well as cope with various reviews and checks," he said. "The program will choose 100 talents in 10 years and give ample financial support. That will encourage teams such as mine to set lofty ambitions." Unlike the current situation, successful candidates will be able to identify and pursue research of their choice, rather than be confined to fields dictated by the people holding the purse strings. Scientists in China can now dedicate only 30 percent of their working time to research due to the need to socialize with funding organizers and submit academic papers, and the higher administrative positions they hold the less time they have, according to a China Youth Daily report in 2010 that cited a poll by the China Association for Science and Technology.

Jean-Marie Andre, emeritus professor at the University of Namur and a member of the Royal Academy of Belgium, compared the Ten-Thousand Talents Program with the IBM fellowship that started in 1962. The computer giant gave candidates a chance to identify and pursue their own research without the constraint of ensuring that the results are useful to the company. As of this year, it has fostered five Nobel Prize winners and generated nearly 7,500 patents. "Just push the development of fundamental research and allow the brightest scientists to freely explore the issues they find interesting," Andre said.

The question of whether the Ten-Thousand Talents Program will do anything to improve fundamental science, however, is open to debate. China ranked second in the world for research and development investment last year, in excess of 1 trillion yuan ($164 billion). But less than 5 percent was allocated to fundamental science. The percentage in developed economies is at least double that in China, according to the National Committee of the Chinese People's Political Consultative Conference, the top political advisory body. Liu said three basic conditions decide the level of a country's fundamental research: talent, investment and the research culture.

Li Xia, professor of scientific policy at Shanghai Jiao Tong University, agreed and said the attempt to liberalize funding is a push in the right direction to encourage creativity and pure science. However, after taking a closer look at the background of Liu and the five other world-class talents chosen, he raised doubts on whether the program is aimed at supporting the right people. "All six are well known, with five of them academics with the
Chinese Academy of Sciences, and most are in their 50s," he said. "They have numerous channels to get funds and they have passed the most productive years of their life for research." He suggested the government learn from the US, where postdoctoral research stations hire the brightest minds globally at a relatively low cost, as young researchers can devote the best years of their life to science.

Chen Yuan, a postdoctoral fellow at the University of California Berkeley's Plant and Microbial Biology Department, said she went overseas because the US can provide a better cultural environment for her research. "There is more equality and trust in terms of interpersonal relationships," said the 30-year-old, who received a PhD from the Chinese Academy of Sciences' Institute Botany in Beijing. Chen now lives on a monthly salary of about $3,000, which she regards as low but enough. Chen is exactly the kind of person China wants to lure back home. But the search is also on for foreign experts to help boost reforms in science and technology.

China has realized that it is vital to introduce more favorable policies to develop its domestic talent pool and lure back overseas talent, according to the Organization Department of the CPC Central Committee. The initial step was the Thousand Talents Plan, to identify and encourage top workers overseas to come back to China. So far, about 4,000 have returned, including 40 academics. "Practice has proved that active introduction of overseas high-level talents is a quick, pragmatic and effective way to relieve our talent shortage in key areas," the organization department said in its e-mail. "Meanwhile, we should realize that domestic talents are the main force to build an innovation-driven country, so strengthened efforts to cultivate domestic talent in the long run is fundamental." The Ten-Thousand Talents Program, also known as the Special Support Plan for National High Level Talents, was launched in 2012.

Source: He Dan and Cheng Yingqi: Talent plan to unleash creativity, China Daily, 2013-12-12

**Chinese are most industrious and overworked: poll**

China may be the most industrious nation in the world, according to a recent German survey, but a Chinese labor expert said lax labor rights have created a culture of overworked employees who do not take vacations. Monster Worldwide, which runs one of the world's largest employment websites of the same name, and GfK, the largest global market research institute in Germany, released a survey on Tuesday that asked workers from eight nations to rate global "industriousness". About 8,000 participants in Canada, France, Germany, India, the Netherlands, the United Kingdom and the United States were asked which country creates the best ideas or products, how hard-working is a given country's labor force and where in the world is most competitive. The survey did not poll workers in China. China topped the ranking, followed by Germany and the US. French workers were considered the laziest in the world, according to the survey. US respondents ranked China second to their own country in industriousness.

Employees in China work an average of 8.66 hours and spend 0.96 hours in transit each workday, according to a survey jointly conducted in 2012 by Peking University and Zhaopin.com, a Chinese human resources company. The survey covered more than 30,000 respondents in 28 cities. Under Chinese labor laws and the ILO's global advocacy, employees should work no more than 40 hours a week. Germans work an average of about 33.5 hours a week, according to a report by German newspaper Handelsblatt Business Daily. Under a regulation endorsed by the State Council in 2008, workers can enjoy five days of paid leave a year after working 12 months. People who have worked more than 10 years can have 10 days of paid leave and workers who have worked 20 years or longer get 15 days. But few employees in China take their annual vacation.

Source: Yang Yao: Chinese are most industrious and overworked: poll, China Daily, 2013-12-13

**China moves to clear blockades for unified market**

Chinese authorities on Tuesday released a work plan on the removal of regional blockades across the country in an effort to build a unified and open market system. The plan, jointly issued by 12 departments including the Ministry of Commerce and State Administration of Taxation, outlined six tasks for the move, including improving
taxation rules for trans-regional business operators and addressing discriminatory pricing practices for non-local products and services. This is the government's latest effort to integrate the country's regionally fragmented domestic market -- in which local authorities' obsession with regional prosperity has fueled a rise in protectionism -- into a unified market with free flow of capital, labor and goods. China aims to build a united and open market system with orderly competition that allows the market to play a "decisive" role in allocating resources, according to a reform decision released last month after the Third Plenary Session of the 18th CPC Central Committee.

Source: Xinhua: China moves to clear blockades for unified market, 2013-12-11

China economy: The fuzzy vision for greater Beijing

Seeing the success of city clusters in the Pearl and Yangtze River deltas, China's authorities now push city integration schemes in regional development plans. These plans are consistent with the country's fixation with "balanced and coordinated regional development", especially between core cities and surrounding smaller ones. Any plan is likely to prioritise Beijing-centred integration, as the capital continues to radiate into Hebei and Tianjin. Beijing's central business district, in the eastern part of the city, has been expanding further east towards Hebei. Some of Hebei's counties and cities have become de facto satellite towns of the capital; around 200,000 residents in Hebei's Xianghe county and Yanjiao town work in neighbouring Beijing. However, Tianjin is unwilling to take a back seat. The municipality, whose Binhai New Area has been given priority since 2006, aspires to develop as an economic centre in its own right.

As discussions continue, events on the ground seem to be driving towards a final settlement. China's president, Xi Jinping, visited Tianjin in May and urged the three provinces to push forward with regional cooperation. Tianjin and Hebei set up a bilateral coordination group, with a vice-governor and a vice-mayor in charge, to "break institutional barriers". In August local media reported that a plan would be released by early 2014, and in September the State Council released an action plan for the prevention and control of air pollution, addressing Beijing, Tianjin and Hebei as one region.

But even without a comprehensive plan, the process has already begun. At its simplest, the initial draft plan envisaged Beijing focusing on services, Tianjin providing port facilities and Hebei managing industry. This is already taking place, to a certain extent. Leading up to the 2008 Summer Olympics, Beijing worked hard to get rid of its older, highly polluting industries. More than 3,000 enterprises have relocated to the city's districts since the 1990s, including some to Hebei. Shougang, a major steel company, closed its final Beijing production line in December 2010, effectively marking the end of a transition of heavy industry from Beijing to Hebei. In 2012 the capital's growth was driven primarily by services, led by the financial services, retail and information technology sectors.

The question is then whether a centralised plan covering the three provinces will have much of a positive impact. One concern is that Hebei's relative poverty and underdevelopment will pose a drag on the two municipalities. Hebei has yet to develop the mass of suppliers that the PRD has built up to support its main industrial clusters. For example, 80% of the parts supplying the automotive industry in Beijing and Tianjin are manufactured outside the Beijing-Tianjin-Hebei zone, mostly in the Yangtze River Delta industrial belt. This suggests that Hebei, the intended workshop for its urbanised neighbours, lacks the capabilities and capacity to deliver what they need. Furthermore, efforts to build up this capacity will be expensive. Directing people and business to certain areas requires the use of public resources, which would otherwise go to improving infrastructure and public services in existing metropolitan areas that are already in higher demand. Local leaders might do well to recall that the PRD was built on the back of market-oriented reforms, not a detailed plan.


China pledges further efforts to boost western growth

Further efforts will be made to support growth in underdeveloped west regions of China, the country's top economic planner promised on Friday. The focus in 2014 will be centered on infrastructure, social welfare, ecological protection and the development of industries, the National Development and Reform Commission said. In 2013, construction on 20 major projects in the western areas started, with an investment of 326.5 billion yuan ($53.35 billion) to finance the construction of highways, airports, hydropower stations and a semiconductor project. A statement released earlier this month following a key meeting on urbanization put particular emphasis on urbanization in the less-developed central, west and northeast regions, promising to boost infrastructure investments and guide industrial transfer to those regions.

Source: Xinhua: China pledges further efforts to boost western growth, 2013-12-20

Food security tops rural development tasks

China has stressed the high priority of food security in its agricultural modernization and urged better arable
land use and rural management. The country reiterated the importance of securing food quantity and quality in the process of deepening rural reforms, according to a statement issued after a central rural work conference that ended on Tuesday. "The bowls of the Chinese, in any situation, must rest soundly in our own hands. Our bowls should be filled mainly with Chinese grain. Only when a country is basically self-sufficient in food can it take the initiative in food security and grasp the overall situation for economic and social growth," the statement said.

The statement showed that ensuring sufficient quantity and reliable quality of food supply has become China's national food safety strategy, said Li Guoxiang, researcher with the Rural Development Institute of the Chinese Academy of Social Sciences. He said the development of a more professional, intensive, organized and open agricultural business mechanism will help ensure food safety and improve farmers' income.

The statement said that more efforts should be made to link agricultural subsidies with grain output to ensure farmers profit from grain planting and key production bases are active in encouraging farmers to plant grain. China has set a red-line guarantee that arable land shall never shrink to less than 1.8 billion mu (120 million hectares), and that rural land will be owned collectively by the peasantry, the "soul" of the rural basic management system. According to the statement, collective land should be contracted by rural families, and no other party can substitute for the rural family status in contracting land. The statement said the right to contract collective land belongs to rural families, no matter how the contract rights are transferred.

Meanwhile, the government has vowed to improve agricultural product quality and food safety. According to the statement, the environment in areas where agricultural products are grown will be improved. If farmland or water are seriously polluted, the area should be taken out of use, and supervision should be stepped up on food safety. The government has also pledged to improve the well-being of the peasantry and take care of children, women and the elderly left behind in villages, many of whom may have families working in cities.

Source: Xinhua: Food security tops rural development tasks, 2013-12-25

**China to deepen rural reforms**

China has pledged to deepen rural reforms and step up agricultural modernization, according to a statement issued after a central rural work conference which ended on Tuesday. Central government policy on the countryside, agriculture and farmers has been effective in arousing enthusiasm in the new century and has boosted the development of agriculture and the countryside, the statement said. Reform started in the countryside and rural growth has contributed much to the leap from being barely fed and clothed to moderate prosperity. "When defining a moderately prosperous society, the key is to observe the condition of farmers," the statement said. It must be noted that agriculture is still the weakest among the four pursuits of industrialization, informatization, urbanization and agricultural modernization. The countryside still lags behind, the statement said. "If China wants to be strong, agriculture must be strong. If China wants to be beautiful, the countryside must be beautiful. If China wants to get rich, the farmers must get rich," the statement said.

Populous as China is, the task of simply feeding the people remains a high priority, the statement said. China has set a red-line guarantee that arable land never shrinks to less than 1.8 billion mu (120 million hectares). The line should be strictly followed, the statement stressed. To ensure the farmers profit from grain planting and the key production bases are active in encouraging farmers to plant grain, more efforts should be made to link agricultural subsidies with grain output, it said.

To stick to the central authorities' rural policies, the first lies in the basic rural management system. Rural land is owned by the peasantry collectively and this is the "soul" of the rural basic management system, the statement read. Collective land should be contracted by rural families, namely members of the collective economic organizations. No other party can substitute the rural family status in contracting land and no matter how the right to contract for management is transferred, the right to contract collective land belongs to rural families, it said. The rural land management rights transfer, land concentration and scale land use should move in proportion to urbanization and changes of rural labor, as well as technological progress and social service in agriculture.

The government has vowed to improve agricultural product quality and food safety. The environment where agricultural products grow will be improved, the statement said. If any farmland or water is seriously polluted, the area should be taken out of use, and supervision should be stepped up on food safety. The government has also pledged to enrich the peasantry and take care care of their children, women and the aged left behind in villages, as many of their families might be working in cities. "Soil culture" shall not be ruptured, as villages were sources for the Chinese traditional civilization and the countryside shall by no means turn into "desolate villages, left-behind villages or hometowns alive only in memory," the statement said.

Source: Xinhua: China to deepen rural reforms, 2013-12-25

**New pricing for expropriated land to protect farmers**

New pricing modifications for expropriated land in Hebei province will be released in 2014, raising the average compensation standards to guarantee farmers receive more money. All of the villages in the province have been divided into around 700 areas sharing the same compensation standard, and the average compensation for every mu (0.07 hectare) reached 44,000 yuan ($7,250) in 2013. "The new modification will increase the
compensation amount to protect farmers' rights," Zhang Shaolian, director of Department of Land and Resources of Hebei province, said on Thursday. If more villages share the same standard, there will be fewer disputes involving the land acquisitions, Zhang said.

The pricing structure for expropriated land in Hebei was adopted on Jan 1, 2009, and similar policies were adopted in other provinces. Based on this pricing standard, the farmers whose land is taken over for public facilities or other purposes should receive compensation in accordance with their land utilization and other factors, such as location. The pricing system should be renewed every two to three years as the central government required. Hebei's last pricing standard was released on Jan 1, 2012. The new modification will be made based on changes in land utilization such as water facilities, location and economic growth. The highest compensation in 2013 was in downtown Shijiazhuang, the provincial capital city, reaching 370,000 yuan per mu, and the lowest was in a barren land in Shangyi county of Zhangjiakou — about 23,000 yuan per mu.

Source: ZHENG JINRAN: New pricing for expropriated land to protect farmers, China Daily, 2013-12-26

Govt initiates city development plan

China has identified 262 resource-dependent cities in its first national framework plan for the sustainable development of those cities, promising targeted measures to guide their development. Released on Tuesday, the 14,000-word plan placed the cities into four categories based on their resource sustainability: "emerging," "mature," "declining" and "regenerative". The idea behind the plan is that different resource-dependent cities have different problems and require differentiated development strategies.

For instance, "emerging" resource-dependent cities, such as Ordos in the Inner Mongolia autonomous region, are plagued by over-mining issues and environmental damage problems, while "declining" resource-dependent cities such as Fushun, Lianoning province, are haunted by their declining industrial sector, high unemployment levels and deteriorating communities. Thus for "emerging" cities, the policy focus will be to regulate excessive mining; for "declining" cities the policy emphasis will be to foster alternative industries and safeguard residents' living conditions; while for "mature" cities, it will be to increase the resource-utilization efficiency and improve the quality of their urbanization processes. To tackle these problems from an institutional perspective, the plan pledged to set up five key mechanisms.

For example, the government will increase the requirements for mining companies to curb over-mining, and it will improve pricing mechanisms to make the prices better reflect the scarcity of resources, adding environmental restoration and pollution reduction costs into the final cost of the products. The government also vowed to reform the current taxation system to leave more of the benefits of the region's development to local people. In the future, for instance, resource taxes on coal will be collected on the basis of price, not on the basis of volume. The reform is expected to beef up local governments' fiscal revenues as all of the resource tax will go to local governments' coffers. The current environment fee will also be converted into an environment tax.

As for "declining" cities, those whose resources have been depleted, the plan promised more funding support. Xu Hongcai, an official with the Finance Ministry, said that centrally allocated funds will mainly be used for local social security, healthcare, education and environmental restoration projects. Also, an annual rating system will be established, and those who fare poorly will be punished and will get less funding.

However, the task is daunting. In the 67 "declining" cities, a total of 70 million square meters of shanty towns have to be redeveloped; 140,000 hectares of land that is sinking due to extraction processes has to be restored; more than 600,000 unemployed people need jobs; and 1.8 million people rely on minimum living allowances.

Source: Zheng Yangpeng: Govt initiates city development plan, China Daily, 2013-12-04

China looks abroad for urbanization ideas

China's Foreign Ministry on Monday said the country is willing to enhance cooperation with other countries in urbanization as a UN General Assembly committee designated October 31 as World Cities Day. The UN General Assembly "decides to designate October 31 of every year, beginning in 2014, as World Cities Day," said a resolution adopted by the UNGA Economic and Financial Committee on Friday. The World Cities Day originated in "Better City, Better Life," the theme of the World Expo 2010 in Shanghai. China is ready to strengthen
cooperation with foreign countries in urbanization and sustainable development, he said, noting that China is in an important period of urbanization.
Source: Xinhua: China looks abroad for urbanization ideas, 2013-12-9

China's urbanization could learn from foreign experience
Urbanization is the road China must take in its modernization drive, offering an important way to address rural problems, a statement released after a Chinese central urbanization work conference said. As the highest-level meeting the Chinese leadership has convened on urbanization, the two-day conference, which ended Friday, has attracted worldwide attention and received valuable suggestions. The conference statement said efforts would be made to build a diverse and sustainable funding mechanism for the drive, and private investment in and operation of urban public infrastructure would be encouraged.
"It is great news for private enterprises like Pacific Group," Yan Jiehe, founder of China Pacific Construction Group told Xinhua. "This means non-public investment has the opportunity in the future to be fully involved in China's urbanization, and share risk with the public sector to lift the quality and efficiency of the process." In the United States, more and more private capital has been introduced into urban construction in recent years in the face of reduced revenue and public financing at all levels of American government.
Overseas analysts also saw the meeting's emphasis on reforming the local government revenue system as an important factor in steadily driving forward the urbanization process. Stephen K. Sham, mayor of the city of Alhambra in Los Angeles County, said federal government tax rebates for local authorities, a major source of US cities' revenue, was strictly limited to funding infrastructure, ensuring funds could not be misused, and this could be adopted by China.
Edward Tieh-Yeu Huang, a former Community Redevelopment Agency expert with the City of Los Angeles, lauded the meeting's proposal to macro-manage urbanization, especially its emphasis on consistent city planning, listening to public opinion, and respecting experts' advice. He said US local governments usually held public hearings to canvass opinion and proposals were often modified repeatedly before being adopted.
Luis Alberto Moreno, president of the Inter-American Development Bank (IDB), warned that China, with its current fast pace of urbanization, should try to avoid what Latin American countries had experienced, such as pollution, traffic congestion, huge divisions of wealth, lack of medical and educational resources and other "city diseases."
Source: Xinhua: China's urbanization could learn from foreign experience, 2013-12-18

China's retail sales up 13% in first 11 months
China's retail sales grew 13 percent year-on-year to 21.13 trillion yuan ($3.48 trillion) in the first eleven months of this year, the National Bureau of Statistics said Tuesday.
Total retail sales in the first eleven months grew 13 percent year on year to 21.13 trillion yuan ($3.48 trillion), the NBS said. Urban consumption hit 1.82 trillion yuan in November, up 13.6 percent year on year, while rural residents spent 280.8 billion yuan, up 14.8 percent from the same period last year.
Source: Xinhua: China's retail sales up 13% in first 11 months, 2013-12-10

China's industrial production growth softens in Nov
China's industrial production growth softened in November, with industrial value-added output expanding 10 percent year-on-year, 0.3 percentage points lower than that in October, official figures revealed on Tuesday.
On a month-to-month basis, industrial production in November edged up slightly by 0.76 percent from the previous month, the National Bureau of Statistics said. For the first 11 months of this year, the industrial value-added output climbed 9.7 percent from a year earlier. November's slowdown in industrial production growth was in line with
market expectations. Of the 41 industries surveyed by the NBS, 39 posted year-on-year growth in value-added output in November. Notably, auto output growth in volume terms jumped by 25.6 percent year on year to stand at 2.28 million units in November.

By product, the output of power, cement, crude steel and non-ferrous metals in November grew 6.8 percent, 10 percent, 0.6 percent and 13.7 percent year on year, respectively. Crude oil output, however, contracted by 0.6 percent in November from a year ago, in comparison with a 3.1-percent growth in October, according to the NBS.

Source: Xinhua: China's industrial production growth softens in Nov, 2013-12-10

**SMEs seek equal footing in China's new reform**

The Ministry of Industry and Information Technology (MIIT) recently surveyed over 2,000 small and micro businesses. More than half of the respondents complained about rising labor costs, materials and financing, according to Zhu Hongren, chief engineer of the ministry. "The cost of labor has increased by 20 percent in 2013 alone," said Deng Yonghao, chairman of Cronus Bike, a small company that has switched its focus from the overseas market to the domestic one. "Financing costs have risen by 8 to 10 percent." Deng said, noting that it is about four times higher than that in foreign markets. Deng said his domestic sales have doubled every year, but that it is still hard to compete with state-backed firms for resources. Other main obstacles for Chinese SMEs include unreasonable tolls, a shortage of staff and a lack of distribution channels, according to Zhu of the MIIT.

China's SMEs provide more than 85 percent of the country's total jobs and three quarters of all technology innovation. They also account for half of the tax revenue of the economy. Protecting and stimulating vitality among SMEs has become a pressing issue. SME owners are keeping an eye on the Central Economic Work Conference, which started on Tuesday in Beijing to review the country's economic work in 2013 and map out plans for next year. Prior to the meeting, a reform agenda unveiled last month promised to further free up markets, and affirmed equal status of public and non-public sectors. The 60-point decision on "comprehensively deepening reform" was announced after a plenum of the Central Committee of the Communist Party of China (CPC). It stressed to abolish unreasonable regulations and barriers imposed upon the private sector, and build a fair system of market access. To empower SMEs, the Chinese government has, since August, waived value-added tax (VAT) and business tax for companies with monthly sales lower than 20,000 yuan ($3,300). The policy will benefit six million small and micro businesses in the country, easing them from a tax burden of 12 billion yuan a year. The authorities have also canceled 33 categories of administrative fees and launched a nationwide tax reform trial in traffic and modern service industries. The move is expected to save SMEs 120 billion yuan in taxes.

Zhu told Xinhua that the MIIT plans to set up 4,000 public service platforms for SMEs by the end of 2015, and 307 have already been established as models. The platforms will provide services related to information and technology, financing, energy saving and environmental protection, as well as training and logistics, according to the MIIT.

China has also pledged reforms of its banking sector to make lenders more attentive to the needs of cash-strapped SMEs. The Chinese government pledged to step up cooperation among Chinese SMEs and their counterparts in Germany, Sweden and the Asia-Pacific Economic Cooperation members. "Chinese and foreign SMEs are at different stages of development and with various resources, but they can be complementary partners," Zhu added.

Source: Xinhua: SMEs seek equal footing in China's new reform, 2013-12-12

**How Li Qiang Cheers Zhejiang’s Private Spirit**

Zhejiang Province has long been a pioneer for China's economic development as a manufacturing and export hub, and by experimenting with new ways of doing business rooted in the region's renowned entrepreneurial spirit. But economic conditions have changed in recent years, challenging Zhejiang's ability to maintain rapid GDP growth and keep that spirit alive. Pressure has been mounting ever since a private lending crisis in 2011 rocked the city of Wenzhou, one of the province's key commercial centers. Credit problems overwhelmed companies at a time when overseas demand for regionally manufactured goods had started to slump.
Provincial government officials have been trying to tackle the challenges. For example, the government recently started experimenting with a financial reform project in Wenzhou. The Zhejiang branch of the National People's Congress on November 22 approved guidelines designed to promote private financing in that city. Meanwhile, a free trade zone is coming together for the provincial seaport of Zhoushan. The central government in Beijing recently gave the green light to the plan. These and other projects in Zhejiang are being closely monitored by the central government and other provinces nationwide. They stand as weathercocks pointing to what could be future private sector reforms for all of China.

At the center of Zhejiang's latest economic adjustments is provincial Governor Li Qiang. He's been pushing for market-boosting reforms since taking office early this year. And although new to the job, Li has won central government support for his efforts to encourage privatization and streamline financing. "The situation in Zhejiang now is different than in the past," Li told Caixin in an exclusive interview November 24 in Beijing. "Our entire society is accelerating steps toward transformation. We should go farther by taking bigger, more balanced steps. "But we don't want to set targets that are too high," Li said. "Because so many provinces have grown too fast, we feel a little anxious." While addressing the provincial people's congress in January 2013, Li said Zhejiang's economy has relied too heavily on low-end, labor-intensive, energy-hogging manufacturers. Despite efforts to change, he said, the situation today remains fundamentally the same. Until now, the motivation to innovate has not been not strong enough to trigger action. In the Caixin interview, Li focused on how Zhejiang plans to meet its economic challenges by transforming the private business environment through innovative programs. He also described his outlook on financial reform in Wenzhou and plans for limiting government power in the context of the province's future development path. Excerpts from the interview follow.

As long as the spirit of the Zhejiang merchant is still alive, as long as the pioneering spirit is still around, we're not afraid. Everyone knows that Zhejiang has no mineral resources in the ground nor large forests nor especially fertile land. The Zhejiang economy has been successful because the people of Zhejiang have made themselves into a resource. Even though there are some problems now, the overall condition of Zhejiang's private sector is still quite good. China's reform and opening campaign's greatest success has been to invigorate people to innovate and take the initiative. If you want to discuss entrepreneurial spirit, the most classic cases are in southern and central Zhejiang, and most notably in Wenzhou, where poverty spurred the desire for change. Wenzhou people were the first to burst onto the world scene by starting businesses after the reform and opening campaign was launched (in 1978). Today, Wenzhou's spirit is the synthesis of four kinds of culture. The first is a maritime culture, based on the spirit of taking risks. The second is a mountain culture, with the spirit of enduring hardship. The third is an immigrant culture, the love of coming together to achieve common goals. The fourth is a mercantilist culture, which advocates a combining of moral principles and pragmatism, as well as benefiting laborers through trade. The life-force of Zhejiang's merchants is particularly strong, as the environment that gave birth to them is an arduous one.

At present, we're trying to push economic transformation and upgrades across the board, and to achieve innovation-driven development using water control projects. A major task involves an effort to promote well-known companies and professionals. The second goal is to replace people with machines. A visible effect of this swap would be a conservation of labor, which can resolve migrant labor shortage problems. It's even more important that we promote apply and find industrial uses for innovative results to increase labor productivity. Over the first three quarters of this year in Zhejiang, the number of patents granted grew by 20 percent; corporate technological transformation investments grew 34 percent; and labor productivity increased 10 percent. I think these numbers are very important as they demonstrate that the quality of our industries is rapidly improving. The third is swapping space for land. Land, energy and environmental capacity put tough limits on Zhejiang's economic growth. The fourth is swapping e-merchants and markets. In 2012, the total turnover volume on Zhejiang's professional commodity exchange markets was 1.58 trillion yuan, and the online turnover volume was 1.3 trillion yuan. These were nation-leading figures.
On November 22, the Zhejiang People's Congress passed the Wenzhou Private Financing Management Regulations. The regulations are China's first-ever local law for private lending. They formally take effect March 1. The problem now is, as you're well aware, that channels between large amounts of private capital supply and large amounts of SME financing demand is not streamlined. Private capital has broken away from the real economy, and some problems have emerged. The State Council chose Wenzhou as the host of its financial reform experiment in hopes Wenzhou can find a way out. Since 2012, we've made great strides in opening three channels. The first allows private capital to link with large projects and large industries. The second lets bank capital link with SMEs and micro-enterprises. The third channel will ultimately allow all kinds of resources, including private capital, financial capital, etc., connect with the industrial economy and real economy. Once we've opened those three channels, I think we'll have unclogged the artery, and the two difficult sets of problems I mentioned will disappear on their own.

In January 2013, the State Council mentioned "exploring the construction of a free trade zone and gradually building a free port area when conditions are ripe" in its Zhejiang Zhoushan Archipelago New Area Development Plan. We've been pushing hard for this ever since. The Zhoushan Archipelago New Area will be China's fourth "new area," following in the footsteps of Shanghai's Pudong, Tianjin's Binhai, and Chongqing's Liangjiang new areas. The state has let us launch a pilot in the Zhoushan Archipelago New Area to gradually explore establishing a free trade port. Shanghai's recently established free trade zone has been beneficial to Zhejiang. We are next door to Shanghai. Shanghai's free trade zone out of necessity advances the opening of surrounding provinces to the outside world. Second, Shanghai's free trade zone is divided into four quadrants, of which the Yangshan Bonded Port is in Zhejiang's Zhoushan. The advantages to the logistics industry of developing an international port in the Zhoushan Archipelago New Area are extremely obvious. If we set up a free trade port here centered on commodity trade and characterized by high-end maritime industries, we can supplement the Shanghai Free Trade Zone, enabling reciprocity and accelerating the opening of the entire Yangtze River Delta region to the rest of the world. What's more, we want to use the Yiwu international trade comprehensive reform pilot as a fulcrum to lift central southwest Zhejiang, opening them in a big way. If we attach a straight line that runs from Yiwu to Ningbo-Zhoushan to the arc that runs across the province's coastline, we'll have made an arrow that points from Zhejiang toward the Pacific Ocean. Zhoushan isn't exactly like Shanghai. Zhoushan is an island. We plan for it to be a duty-free area. This is a method of oversight that treats an area as territory within our control but outside of customs regulations. That would make it rather convenient. Building a free trade port in Zhoushan will benefit warehousing, shipping and provisioning of commodities. It will accelerate the development of high-end maritime industries. As Zhoushan is already an important component of the idea that Shanghai should be an international shipping center, building a free trade port there will benefit expanding the experimental scope and territory of the Shanghai Free Trade Zone. It will allow reciprocal coordination, enrich functionality, and strengthen the collaborative amplitude of opening China to the outside world.


Chinese firms can learn from co-ethnic US counterparts

The experience of Chinese-American firms in the US can provide insights on strategies to grow small businesses in China. Chinese-American companies, like other minority firms in the US, face considerable barriers to success, yet they are a vibrant entrepreneurial presence all across the country. According to the latest government data available - the Survey of Business Owners - there are about 500,000 Chinese-American firms with annual sales of $142 billion. To get an idea of the comparative sense of the value of these Chinese-American firms, a recent WPP report estimated the value of the top 100 Chinese brands in China to be $379 billion. There were also close to 145,000 female-run Chinese-American firms with sales of $26 billion and an annual payroll of $4.2 billion. In total, Chinese-American firms employed 782,738 people and had an annual payroll of $21 billion. The growth of these firms both in number and sales was much higher than that of all the businesses in the US.

One usually associates Chinese-American businesses in the US with the all too familiar "Chinese Restaurant" in big cities or small towns across the country. However, the figures show that the top sector for these firms was in
the professional, scientific and technical services area with 16.4 percent of the firms in that sector and $9 billion in sales. The second-largest presence was in the accommodation and food services sector with 12.7 percent of the firms in that sector and $18 billion in sales. There also have been a number of recent high-profile reports that document the strong presence of immigrants from China in the high-tech sectors of the US. The sector with the largest revenue was wholesale trade with sales of $54 billion.

While Chinese-American firms can be found in nearly every state in the US, the top five states, accounting for most of these firms, are California, New York, Texas, New Jersey and Hawaii. California accounted for almost 40 percent of Chinese-American firms in the country and 48 percent of revenue. For historical reasons, Chinese-American firms concentrated in certain sections of some large cities that became what is popularly called Chinatowns. Recent research helps us get a sense of the economies of these Chinatowns. The Asian American Federation in New York estimated recently that there were more than 6,000 firms owned by Chinese Americans in New York's Chinatown in 2008. Deposits in banks operating in the area were estimated to be $6.8 billion in 2005. Chinatown, San Francisco, is smaller than the one in New York. According to the city of San Francisco, Chinese-American firms there paid an estimated $120 million in sales tax in 2008.

The experience of Chinese-American firms in the US points to the fact that entrepreneurship is a core element of the Chinese DNA. All over the world, the Chinese diaspora displays this characteristic. Small businesses could flourish in China and become a potent engine of economic growth. From the experience of Chinese-American and other minority firms and as documented in the research of Robert Fairlie and others, we find that the critical factors for business success are: availability of startup capital; educational levels; work experience in running a business; and political and cultural factors. Reports on Chinatowns in New York and San Francisco suggested some other areas that are also important for success; such as: movement from price competition to quality, service and uniqueness; improving customer service; focus on market demand; developing business and trade associations; cultural heritage tourism; and technical assistance to help firms perform better.

As China helps its small businesses thrive and nurtures entrepreneurship, the experience of Chinese-American firms can provide a glimpse of both the possibilities as well as the infrastructure necessary for small businesses to grow. Chinese-American entrepreneurs could also be tapped to become mentors to entrepreneurs in China.

Source: Bruce Corrie and Zhang Xiuping: Chinese firms can learn from co-ethnic US counterparts, China Daily, 2013-12-24

Nation on drive to eliminate redundancy

Overcapacity is one of the major problems in the world's economic cycles. Now it's China's turn to deal with it. This year, the central government carried out a series of measures designed to ease the problem, trying to establish a long-term system to solve it and accelerate industrial upgrading. President Xi Jinping has stressed that the country will no longer evaluate local governments' performance by GDP growth alone. Instead, it will include reducing overcapacity among criteria for evaluating the work of local officials, the State Council announced. Balancing environmental carrying capacity, market demand and resource supply within five years is the goal.

In October, the government announced guidance for reducing overcapacity in five industries - namely, steel, cement, electrolytic aluminum, sheet glass and shipbuilding. It was the first time that the State Council, the country's cabinet, published a report of this kind to deal with the overcapacity problem. The Ministry of Industry and Information Technology is requiring 19 industries comprising 1,569 companies to cut production capacity. The companies must shut down part of their production lines by the end of the year. The China Banking Regulatory Commission said in November it is prohibiting any type of credit support to new projects in industries with a severe overcapacity problem.

It is expected that 2014 will see even stricter standards. Overcapacity occurs as a result of fast economic growth, and it causes redundancy and waste. Thus, dealing with the problem is an inevitable part of the country's economic upgrading. China's photovoltaic solar power industry is one that was reborn after a reshuffle. A year ago, all nine Chinese solar companies listed abroad suffered huge losses. This year, the same companies achieved profit after a strategic adjustment driven by the market. As 2014 approaches, it promises to be a tough year both for companies struggling with overcapacity and local governments facing the problem.
Provinces drawing up plans for State asset management

Guangdong and Shanghai are taking the lead in drafting a market-oriented reform plan for State-owned assets management, which is expected to serve as a reference for other provinces with large-scale national assets. Guangdong is looking to securitize up to 60 percent of its State-owned assets by the end of 2015, from a current level of 20 percent, leaving only two years for local State-asset watchdogs to reach the goal. Lyu Yesheng, head of the Guangdong State-owned Assets Supervision and Administration Committee, said the focus for the province's 4 trillion yuan ($655 billion) worth of national assets will be on optimizing allocation, shifting away from asset management and toward capital management. To this end, the South China province will be learning from Singapore's experience in setting up a Temasek-like government-led investment management company, Peng Peng, independent director for the local national assets supervisor, was quoted as saying by the Shanghai Securities News. Preparation for the company started at the end of last year, according to Peng.

In East China's Shanghai, another hub for national assets, a reform plan for State-owned assets likely will be released as early as next week at a conference of local SASACs. This round of reform will be different from the previous round of SOE reform with its massive IPOs, as it will focus on introducing more private capital and emerging sectors. In the meantime, Shenzhen is looking to release a revised supervisory system for State-owned assets next year, and such regions as Shandong and Jiangsu also are drafting reform plans.

Source: Wei Tian in Shanghai: Provinces drawing up plans for State asset management, China Daily, 2013-12-13

China to diversify SOE shareholding

China will promote a mixed-ownership economy by diversifying the shareholding structure of state-owned enterprises (SOEs), an official with the country's SOEs regulator said Thursday. Huang Shuhe, vice-chairman of the State-owned Assets Supervision and Administration Commission, told a press conference that the country will speed up the transformation of SOEs, especially parent companies, into joint-stock firms. It will also improve the shareholding structure of SOEs. Some SOEs, State-owned capital investment companies and capital operating firms that are vital to national security will be wholly invested by State-owned capital, according to Huang. "Absolute majority shares can be held by state-owned capital for SOEs in major industries and key fields that are the lifeblood of the economy," Huang said. State capital can hold a relative majority of shares for important SOEs in pillar sectors and new- and high-technology industries. It can hold minority shares in or totally exit from SOEs that do not need to be controlled by state capital and whose majority shares can be held by capital from other sources.

Source: Xinhua: China to diversify SOE shareholding, 2013-12-19

State-owned assets management system to improve

The State-owned assets management system will be strengthened, Chinese authorities said on Thursday. New models and methods will be developed to "strengthen State-owned assets oversight with capital management at the core," said Huang Shuhe, vice chairman of the State-owned Assets Supervision and Administration Commission of the State Council. The administration will look into establishing State-owned capital operating firms or reorganizing some State-owned enterprises into State-owned capital investment companies, Huang said. The budgeting system will be improved, and the proportion of State-owned capital gains handed over for public finance use will be increased, Huang said. The proportion of State-owned capital for public finance use will rise to 30 percent by 2020, he said.

The 16th National Congress of the Communist Party of China (CPC) took the decision to reform the system in 2002. "Ten years of practice has proved that the decision was completely right," Huang said. The Third Plenary Session of the 18th CPC Central Committee in November required further improvements to the system.
World News: China to Demand More Of Its State-Owned Firms

Officials don't yet have details on the changes or when they might take place, said Huang Shuhe, vice chairman of the State-Owned Assets Supervision and Administration Commission. But Mr. Huang said at a news conference that China wants government-controlled companies to pay more in dividends and give a greater role to private capital and investors. Mr. Huang didn't detail to what degree state-owned enterprises could be transformed into companies where public shareholders have a greater say. The commission's plan calls for 100% state ownership in sectors "vital to national security," while enterprises in economic "lifeblood" industries will remain majority controlled by the state.

Reviving the maritime Silk Road

More than 600 years ago, the legendary Ming Dynasty diplomat Admiral Zheng He made seven epic journeys to the West via a route known as the maritime Silk Road. First used in the Qin and Han Dynasties (AD 25-220), the nautical passageway connected the ports of south China to Southeast Asia, India, Arabia and Africa. Silk, china, tea and spices exchanged hands from Guangzhou, the starting point, to the countries around the Gulf. Now, China is proposing to rebuild this centuries-old seaway into a 21st century maritime Silk Road. Kuantan, on the east coast of Peninsular Malaysia, is hoping that modern day Chinese vessels will share Zheng's assessment when he landed here in the 15th century: that this city facing the South China Sea is an ideal gateway to the region and beyond.

Located 250 kilometers from the capital city of Kuala Lumpur, Kuantan is the east coast's economic hub and its most modern city; although by no means as cosmopolitan as its west coast sisters. The capital of the state of Pahang is being developed into an integrated logistics and industrial hub for the East Coast Economic Region (ECER), a major project by the Malaysian government to decentralize economic activities. Crucially, it provides fast access to China through its namesake port. The multipurpose, deep-sea port serves the resource-rich hinterland of the east coast and is a leading petrochemical hub port and container terminal for that part of the peninsula. "We offer the shortest, quickest and most direct route between Malaysia and the ports of the Far East. The shipping community stands to benefit in terms of cost and reduction in shipping time," says Khasbullah bin A Kadir, chief operating officer of Kuantan Port Consortium, the port operator. He adds the sailing time between the port and China is a mere four days.

The Malaysian government, which is trying to correct a gaping trade imbalance, is hoping this proximity and Kuantan's strategic location between China and the rest of the region will be major draws for Chinese companies. It has scored its first big win in the Guangxi Beibu International Port Group. The State-owned conglomerate operates four ports in southern China - Fangchenggang Port, Qinzhou Port, Tieshan Port and Beihai Port - and has business interests in logistics, international trade, real estate, energy and environmental technologies. It will be taking up a linchpin role in realizing Malaysia's aspirations with investments to the tune of billions of ringgit in the Malaysia-China Kuantan Industrial Park (MCKIP) and Kuantan Port, which is 5 km from the park. MCKIP is the sister park to the China-Malaysia Qinzhou Industrial Park (QIP) in Qinzhou, China, and the first industrial park in Malaysia to be accorded national status. "MCKIP and QIP will take Malaysia-China relations to greater heights as they will play a synergistic role in enhancing bilateral trade between both countries," Khasbullah explains. "A distinct and competitive supply chain would emerge between both sister parks, resulting in a cross-border movement of manufactured goods with the Kuantan and Qinzhou ports serving as trans-shipment hubs to redistribute goods to markets around the world." The park is being jointly developed by a Malaysian consortium of public and private sector companies and a Chinese consortium, of which Guangxi Beibu is a major shareholder (the other partner is the Qinzhou Investment Company). The Chinese have a 49 percent stake in the joint venture. "Each of these signings point to a long and fruitful future for the MCKIP. The park has already attracted investment commitments worth 10.5 billion ringgit ($3.3 billion), creating 8,500 jobs," Najib noted. Much of this is coming from Guangxi Beibu which will be investing in three projects within MCKIP. This will include 3 billion ringgit for
the expansion of Kuantan Port, which is undertaken together with IJM Corp, owner of Kuantan Port Consortium; and 2.5 billion ringgit via the joint venture company developing MCKIP. In September, the Chinese conglomerate spent a further 334 million ringgit to purchase a 40 percent interest in Kuantan Port Consortium from IJM Corporation. Khasbullah says that the partnership with Guangxi Beibu will bring best practices in port management given its experience from running four ports in China, while its network of clientele will enhance the capacity utilization of Kuantan Port.

Source: Elaine Tan in Kuala Lumpur: Reviving the maritime Silk Road. China Daily, 2013-12-09

CHINA/UK: Economic mismatches hinder financial links

The recent allocation of an 80.0 billion renminbi (13.0 billion dollar) quota under the Renminbi Qualified Foreign Institutional Investor (RQFII) scheme alongside the permission for Chinese banks to establish branches in the United Kingdom are steps towards improving financial links between China and the United Kingdom. On paper, they appeal to the United Kingdom's ambition to increase trade with China and cement the City of London's dominant position in foreign exchange. In practice, they appeal more to China's agenda of managed currency internationalisation. Although the United Kingdom has been criticised for being 'too late to the party' and for overlooking China in favour of other emerging economies such as India, economic mismatches pose a greater threat to improving links.


China, US start annual trade talks

Annual trade talks between China and the United States started on Friday in an effort to address trade frictions and build a foundation for the new model of major-power relations between the world's two biggest economies. "This is the first Joint Commission on Commerce and Trade (JCCT) since the new Chinese and US administrations took office," Chinese Vice Premier Wang Yang said at the meeting. The US delegation includes US Secretary of Commerce Penny Pritzker, Trade Representative Michael Froman and Agriculture Secretary Tom Vilsack. This year marks the 30th anniversary of the JCCT, an annual forum launched in 1983 for the two countries to address trade and investment issues. "The JCCT has witnessed soaring bilateral trade, which has totaled $50 trillion this year from $4 billion in 1983," Wang said. Bilateral investment has increased to $10 trillion this year from $100 million in 1983, Wang said. He said the JCCT also helps build a solid foundation for the new model of major-power relations, which presidents of the two countries reached consensus on during their summit in June in California. Wang stressed the important role played by the JCCT in the past three decades, saying that "without the JCCT, any breakthrough or any resolution to the differences in bilateral trade would be impossible." Wang said he expects the ongoing JCCT to be a friendly and mutually beneficial meeting.

"We have the potential here today to demonstrate our two countries' ability to remove trade and investment barriers, increase openness and efficiency of our markets, and ensure the stable trade and investment relationship moves forward," Froman said at the opening session. "Government and business leaders in the US and around the world have expressed how the JCCT should play an important role in supporting shared growth and prosperity between the world's two largest economies," Pritzker said. "As a former business leader, I believe strongly through close cooperation we can and should achieve mutually beneficial outcomes and tangible results," Pritzker said. Pritzker said the US-China relationship is "entering in a moment of opportunity" and that the two nations should "seize this moment by taking both short term and long-term steps that show we are pursuing a balanced and ever growing trade and investment relationship." She suggested the two sides move forward in areas such as intellectual property rights, services liberalization, government procurement, agricultural and other market access and regulatory issues. "It is important that we make progress. It is critical to the prosperity to the people of both China and the United States. We as leaders have the responsibility," she said.

Source: Xinhua: China, US start annual trade talks, 2013-12-20

Premier wants more US high-tech imports

Chinese Premier Li Keqiang on Thursday urged the United States to relax limits on China's high-tech imports. "We expect the US to relax restrictions on high-tech exports to China and provide a good environment for Chinese businesses to invest in the United States," Li said in a meeting with the US delegation. The delegation includes US Secretary of Commerce Penny Pritzker, Trade Representative Michael Froman and Agriculture Secretary Tom Vilsack, who came to Beijing for the 24th Joint Commission on Commerce and Trade (JCCT), which begins on Friday. Calling economic cooperation the ballast of China-US relations, Li called on the two countries to make best of their advantages and improve cooperation. "I expect both sides to take a pragmatic attitude and understand each other to seek good results from the JCCT and deepen bilateral trade cooperation," Li said. Li said common ground
outweighs differences in China-US relations and applauded growing collaboration. "Both sides should tap potential for further cooperation, respect each other's core interests and major concerns, properly handle differences and seek sound and steady growth of bilateral relations," Li said.

Pritzker, on behalf the US delegation, said having strong economic relations is of "vital importance" to both countries. "Having a positive and successful JCCT will help strengthen bilateral relationship," she said. She underscored the US commitment to stronger cooperation with China in trade, investment, telecommunications, agriculture, food security and intellectual property protection. She also pledged to deal with frictions properly.

Source: Xinhua: Premier wants more US high-tech imports, 2013-12-20

Don't think it's only British firms who can profit in China - the UK has much to offer our firms too: Commentary

A frequent topic of debate in business and political circles in recent weeks has been international trade and, specifically, the openness of different economies. This month, I was invited to be part of the UK trade delegation that visited China with the Prime Minister. The aim was to encourage increased trade between Britain and China, which has been a priority of this Government and its predecessors. It was a highly successful trip that illustrates how China-UK economic and trade relations are continuing to grow and develop. As the only Chinese businessman on the delegation, it was interesting to observe that much of the discussion about the visit centred on what China offers the UK - notably 1.3bn consumers, a growing middle class and the potential for infrastructure investment. However, for me, what is most interesting is what the UK offers Chinese businesses.

Huawei has been in the UK for more than 12 years and we employ nearly 900 people here; based on that experience I believe there is much Chinese businesses can learn and benefit from by investing in the UK. That is also why I would encourage other companies to invest here. There are three things that have made the UK such an interesting and valuable place for global companies in which to invest and do business.

First, the UK is an open market. As a trading nation, the UK has a long history of being open to international trade and investment. This has taken British business people and companies around the world and has helped to create a national ethos that strongly advocates free trade. That ethos has meant Huawei has been able to partner with telecom operators, such as BT, to deploy the next-generation broadband networks that will cover 90pc of the UK by 2017. Publication of the UK National Security Adviser's review of the Huawei Cyber Security Evaluation Centre (HCSEC) in Banbury, which stated that "HCSEC is a model for government collaboration with the private sector" is a further example of the UK's open attitude. Huawei shares the same goal as the Government and our customers in raising the standards of cyber security in the UK and ensuring network technology benefits consumers.

Secondly, the UK has world-renowned universities and highly skilled researchers that continue to score high in global rankings. The quality of British institutions and their students continues to be hugely impressive. We also admire the strong international links British institutions have and their track record of producing graduates who excel at innovation and creativity, from scientists and artists to philosophers and designers. As part of our programme to support the higher education sector, over the next five years Huawei will invest Pounds 10m into a number of research programmes with UK universities, only part of the Pounds 1.3bn we are investing into the UK before the end of 2017.

Thirdly, the UK is also one of the world's pre-eminent services and financial centres. The professions and disciplines that support this include financial services, accounting, the legal profession and the creative industries. This service focus is something many countries are now looking to imitate, but such a specialism, and the ecosystem to support it, takes decades to develop. It is because of Britain's expertise in this sector that earlier this year Huawei opened a global financial centre in the City of London, focused on financial and risk management.

Being the only Chinese businessman on the trip to my homeland, I felt I had a role to help other delegates better understand China, but also to improve the way the UK is viewed in China. Fostering and developing understanding between the UK and China benefits the companies and economies of both countries. This is a two-way street and I think the UK should take great pride in its achievements and what it offers the world. This is a two-way street and the UK should take great pride in its achievements.'

Source: Zhang, Victor: Don't think it's only British firms who can profit in China - the UK has much to offer our firms too.: Commentary, The Daily Telegraph [London (UK)] 21 Dec 2013: 38.

Victor Zhang is chief executive of Huawei UK

No one is immune from Beijing's 'gravity machine'

China's growing sense of itself as a country worthy of respect, even deference, has been noticeable since 2008. The Lehman crisis shook its faith in market capitalism in general, and in American infallibility in particular. Recently, the process has gone further. China is commanding more influence over foreign corporate executives, national leaders and journalists alike. In the words of Orville Schell, director of the Center on US-China Relations at the Asia Society, Beijing has revved up its "gravity machine", exerting a stronger pull on those with whom it deals. Everyone from David Cameron, the UK prime minister, to Matt Winkler, editor-in-chief of Bloomberg News, has felt the effect. Deng's plan for economic take-off relied on attracting foreign capital and foreign technology. As
China grows richer, however, it is no longer clear who needs who more. Beijing is challenging foreign companies over practices that until recently it might have considered acceptable. This year Tim Cook, Apple’s chief executive, was forced to apologise for his company’s “arrogance” in the application of a warranty programme to repair its iPhone 4 devices. Milk formula companies, including Danone, have been fined for engaging in supposedly anti-competitive practices. The latest example is GlaxoSmithKline, being hauled over the coals for allegedly bribing doctors and hospitals to prescribe its drugs. Sir Andrew Witty, chief executive, has already indicated that he will consider lowering the cost of GSK products. Foreign companies once had considerable leverage. But the new reality seems to be that China – the biggest fast-growing market in the world – now has the whip hand.

Chief executives are not alone in feeling the force of China’s gravity machine. Britain was all but ostracised for a year after Mr Cameron had the temerity to meet the Dalai Lama. In April, when François Hollande, French president, was granted an official visit to Beijing, some of his retinue barely hid their glee at trumping the British. What they did not say was that, unlike his predecessor Nicolas Sarkozy, he had refrained from meeting the Dalai Lama. France even returned two bronze heads looted from the Summer Palace in the 19th century as a sort of modern-day “reverse tribute”. Mr Cameron seems to have learnt how to play the game. On his visit to the Chinese capital this month he was decorum itself. He hardly mentioned human rights. During his trip a British journalist from Bloomberg, a news organisation that published a story exposing the alleged wealth of Mr Xi’s family, was excluded from a press conference. Downing Street raised “deep concerns” over the interference. But the press conference went ahead without the journalist all the same.

The most obvious example of China’s growing potency came last month with its declaration of an air defence identification zone covering airspace that includes islands disputed with Japan. Although Washington criticised the abrupt manner with which the zone was announced, it has told US airlines to comply with rules governing it. More and more, then, China is dictating the terms with which it deals with its interlocutors. Much of this is expected, natural even, for a state that for two millennia was used to being treated as the pre-eminent power. That does not mean, however, that it will be easy for the rest of the world to take.

Source: David Pilling: No one is immune from Beijing’s ‘gravity machine’, Financial Times, December 11, 2013

---

**Britain, China boost biz ties**

The United Kingdom has experienced a surge of Chinese investment in recent years, among which are some extraordinarily fast-growing companies confidently establishing their footprint on British soil through both organic growth and acquisitions. Since 2009, China’s investment in the UK, including direct investment and mergers and acquisitions, has maintained strong momentum and has reached $12.4 billion in total, with project investments being the main beneficiary. This year, Chinese companies have invested or planned to invest in more than 10 big projects in Britain worth nearly $5 billion, according to data from the Chinese embassy in the UK.

The fast growth of Chinese companies in the UK also highlights the huge potential of the Sino-UK business relationship, says the Grant Thornton Tou Ying 25 tracker 2013. In Chinese, tou ying means “investing in the UK”. These 25 companies, apart from their huge contributions to the UK economy, also employed more than 2,600 people and generated revenues of more than 17 billion pounds ($27.8 billion) in 2012, an increase of 27 percent from the previous year. Even the slowest-growing company grew by 9 percent. The growth tracker is a good indicator of the diversity of Chinese investment in the UK, because it contains sectors such as banking, energy, manufacturing, retail, technology and telecoms. Of the 25 companies, 20 grew organically and the rest through acquisitions. Nearly half the companies are based in London. The rest are spread across the UK. The selected companies all have minimum revenue of 5 million pounds, at least 51 percent Chinese ownership and have been trading at least since the beginning of 2011. Stephen Phillips, chairman of the China Britain Business Council, says that the UK’s transparency level and its strong European links are compelling attractions for Chinese investors. “Chinese companies that come to the UK get access to some of the best financial and professional services that the world has to offer. This makes it easier for them to grow and...
expand their businesses,” Phillips says. According to Phillips, the real benefit comes from the ability of Chinese businesses to create and protect jobs and to help British businesses become a part of the global supply chain. He adds that mergers and acquisitions and joint ventures with Chinese companies have also allowed British companies to tap into the huge Chinese domestic market.

While several Chinese companies are planning ventures in the UK, others are taking steps to consolidate their presence and even branching out into other markets. Mindray Medical International Ltd and China Telecom Corp Ltd (Europe) are two Chinese businesses that have chosen to grow organically in the UK, after establishing a mature presence in the Chinese domestic market. Shenzhen-based Mindray, a medical devices maker, is a Chinese company that expects to use its UK unit as the global hub for expansion. The company established its first international office in the UK in 2005. Globally, Mindray has subsidiaries and representative offices in more than 20 countries, while its net revenue reached $1.06 billion last year, of which $587 million came from international operations. The UK is also a major hub for the Chinese company in Europe and houses the human resources and finance departments for the continent, Yin says. He says that although Mindray's products are manufactured in China, his team uses the "global design, made in China" motto to market the products in Europe. Cao Li, managing director of China Telecom (Europe) Ltd, says the company has teamed up with several European network operators and service providers such as BT Group Plc, Telecom Italia SpA and Spain’s Telefonica SA. He says it has expanded step-by-step to include more than 10 points of presence (an access point from one place to the rest of the Internet) in locations including London, Frankfurt, Stockholm, Moscow, Paris, Johannesburg, Helsink and Dubai in the United Arab Emirates. "Our vision is to construct an ‘information silk road of the 21st century’. Although competition in the UK and Europe is severe, our advantages include good solutions for clients, low-latency terrestrial cables through Russia to connect Europe with China, enabling a fast and reliable transfer of information, timely repair capability and good service,” Cao says. Compared with the more commonly accepted technology of submarine cables, which are found on the ocean's floors, China Telecom's strength lies in its Euro-Asia network solution, Cao says. China Telecom (Europe) launched its mobile phone business in the UK last year with CTExcelbiz, a service that uses leased capacity on the network of Everything Everywhere, the joint venture of France Telecom SA and Deutsche Telekom AG. CTExcelbiz has more than 10,000 clients in the UK and has since extended its services to France, Cao says.

Chinese companies that have taken the inorganic route, mostly through acquisitions of struggling British companies, are leveraging on their UK subsidiaries' technologies and research expertise to develop new products and markets. Zhou Xiaoming, minister counselor of the Chinese embassy in the UK, however, says that Chinese companies are now diversifying their investments in the UK, moving from traditional finance, trade and telecommunications to advanced manufacturing, infrastructure, branding and research and development. Zhou says this diversification of the Sino-UK business relationship has promoted the growth of Chinese companies and helped them go global. It has also boosted growth and employment and helped aid British economic recovery. In 2008, Zhuzhou CSR Times Electric, a Chinese company that makes train-borne electrical systems and electrical components, acquired Dynex Inc, a semiconductor manufacturer based in Lincoln, England. After the acquisition, the Chinese company decided to invest 12 million pounds on a new research and development center in the UK and increased the R&D team strength from 12 to 40. Dynex, on the other hand, helped Zhuzhou CSR build a new factory in China, which specializes in low-voltage IGBT semiconductors, while high voltage IGBT semiconductors are made in Lincoln. "The strategy Zhuzhou CSR Times Electric Co Ltd discussed with us was to retain our operations in Lincoln," says Paul Taylor, who has been CEO of Dynex since 2004. "They wanted us to grow. They want to invest in technologies and facilities we have here, so we would be able to become a leader in technology." Dynex's team in Lincoln has grown from fewer than 250 before the acquisition to more than 330 now. The company's sales team in China has also grown after Zhuzhou CSR became a distributor of Dynex products in the Chinese market, Taylor says. Other successful examples of Chinese M&A deals in the UK include China's Bright Food (Group) Co Ltd buying a majority stake in British cereal maker Weetabix Ltd last year and Shandong Yongtai Chemical Co acquiring majority ownership of British car parts maker Covpress Ltd in July. According to Zhou, China and the UK are complementary economies. "Britain has abundant experience in the service and creative industries and technical innovation, while China, as an emerging market, offers capital and a large potential market," he says.

Source: Cecily Liu and Zhang Chunyan: Britain, China boost biz ties, China Daily, 2013-12-30

Door opens to offshore accounts in trade zone

The People's Bank of China said on Monday it will permit businesses and individuals to open offshore accounts in the China (Shanghai) Pilot Free Trade Zone, a decision intended to promote cross-border investment in the pilot area. The central bank said the move will hasten progress toward market-determined interest and exchange rates and promote full convertibility of the yuan. Access to offshore accounts will allow more companies and people to take part in "growing foreign-related economic activities in the FTZ", according to a statement on the
central bank's website. Foreign nationals will be eligible to open an offshore account in the FTZ. They will be treated as local residents for this purpose. All financial institutions in Shanghai will be able to offer this service via a separate accounting unit for FTZ transactions. There will be no barriers to money transfers between the offshore accounts in the FTZ and overseas accounts. However, transactions with domestic bank accounts will be classified as cross-border transactions and therefore regulated. The accounts can be used for cross-border financing and assurance, as well as individual investment by Chinese nationals in overseas securities and by foreigners in the domestic capital market, according to the central bank. Investors will also be able to conduct foreign-currency transactions involving the yuan within their accounts, without a daily limit "when conditions mature", according to the bank. The PBOC will also remove the interest rate ceiling on foreign-currency deposits "at an appropriate time".

Multinational companies will carry out more capital settlements in the FTZ. Financial institutions will launch more innovative offshore products in the area, the securities firm said. So far, 47 financial institutions, including 12 foreign banks, have received approval to set up a branch in the FTZ, two months after the zone was officially launched. As for the possible risks associated with speculative capital, the PBOC said it will pay close attention to irregular cross-border capital movements.

Source: WEI TIAN: Door opens to offshore accounts in trade zone, China Daily, 2013-12-3

Yuan Hits Milestone in Trade Deals --- China's Currency Eclipses Euro and Yen for Use in Financing Arrangements; 'More of a Comfort Zone'

China's burgeoning influence on the world economy reached a milestone as use of the yuan in trade finance overtook the euro and the yen. Importers and exporters used China's currency for 8.7% of their financing agreements with trade partners in October, up from 4.4% a year earlier, according to Swift, a financial-services firm that monitors international currency flows. That made the yuan the second-most used currency in trade finance but still well behind the U.S. dollar, which back 81% of trade finance.

The Chinese currency trades within a narrow band dictated by the Chinese government, although Beijing has worked to loosen the band in recent years. In late October, the yuan appreciated to an all-time high of 6.08 yuan per dollar, but it has weakened slightly since then. The government has taken steps to make it easier to convert in and out of yuan, with an eye toward competing with the U.S. dollar, which dominates global trade flows, as well as other widely circulated currencies such as the euro, British pound and yen.


China's irregular forex trade hits $2.5b

Chinese companies fabricated forex trade to the tune of $2.5 billion in the first 11 months of 2013, the State Administration of Foreign Exchange (SAFE) said on Monday. A total of 112 companies were involved in irregular financing, of which 41 are facing administrative sanction and 12, which are suspected of breaking the law, are being dealt with by public security departments, SAFE said in a report. SAFE urged both home-grown and foreign banks to be extra vigilant of authenticity and compliance to control risk and support the actual needs of the real economy. SAFE will step up supervision of banks and cross-border capital to ensure economic and financial security.

Source: Xinhua: China's irregular forex trade hits $2.5b, 2013-12-17

China challenges US on anti-dumping cases

China on Tuesday requested a consultation with the United States at the World Trade Organization regarding alleged misconduct by the US in 13 anti-dumping measures in recent years, Chinese commerce officials said. The consultation request, the first WTO dispute case between the world’s top two economies this year, suggests China has advanced in its approach in challenging US trade mechanisms and is guarding the world’s largest exporter against frequent trade remedy measures, analysts said. “The US Commerce Department has obviously conducted itself incorrectly. In its anti-dumping measures, its actions were inconsistent with the WTO rules, which caused big problems for Chinese enterprises and disrupted normal bilateral trade,” Yang Guohua, deputy director of the
department of treaty and law at the Ministry of Commerce, told reporters in Beijing.

A total of 13 Chinese products, including oil well pipes, solar cells and warm-water shrimps, were caught up in the dispute. In total, China’s annual export value of these products to the US market reached $8.4 billion, based on calculations of the export value of these products a year prior to the final rulings of the anti-dumping measures, according to the ministry. Yang said that the US “did not meet the WTO requirements and make sufficient explanations” when putting Chinese enterprises under “targeted dumping”, a WTO rule exception stating that Chinese exporters overall did not sell products to the US market at less than the normal value in China, but instead is dumping its products in a specific region, period or with specific purchasers.

“We are challenging the mistakes in the US trade mechanism and aim to root out US misconduct from now on,” said Chen Yusong, a director of the department. “We are very confident in winning WTO support in the dispute because the US actions obviously run against the WTO rules,” Yang said.

Source: LI JIABAO: China challenges US on anti-dumping cases, China Daily, 2013-12-03

Trade surplus hit record high in Nov

China's acceleration of exports and slowdown of imports in November left the country with its largest trade surplus in more than four years. The improvement of overseas demand increased China's chances of securing an 8 percent trade growth target this year. It also gave the new leadership more room to advance reforms and ensure that markets play a decisive role in the economy. But experts cautioned that the inflow of "hot money" has been disguised as trade payments.

November exports increased 12.7 percent year-on-year to $202.21 billion, while imports stood at $168.4 billion, up 5.3 percent year-on-year, the slowest rise in imports since July, the General Administration of Customs said on Sunday. Overall trade in the first 11 months of this year rose 7.7 percent year-on-year to $3.77 trillion, slightly lower than the government's 8 percent growth target set earlier this year. The trade surplus in November, $33.8 billion, was the highest since 2009, when the government launched a large-scale stimulus package. The country's overall trade gains in the period from January to November this year reached $234.15 billion, more than the total value for last year.

In the first half of this year, foreign trade companies were caught over-invoicing and export growth in April was as high as 14.7 percent from a year earlier. SAFE then investigated a crackdown on the practice of inflating trade growth. "November's remarkable trade surplus will increase expectations for the appreciation of the renminbi. It will also weaken China's exports next year when the US tapers off its monetary stimulus and capital flows out of China," Wang said. He added that China's import growth in November was "in line with the country's economic performance", while GDP growth in the last three months of this year "will be slightly better" than the three months ending September.

Source: Li Jiabao: Trade surplus hit record high in Nov, China Daily, 2013-12-09

Excluding China from trade talks 'inappropriate'

It is "very inappropriate" to exclude China from the ongoing three mega negotiations on regional trade arrangements, a senior Chinese official said on Wednesday. Against the backdrop of the financial crisis, many developed countries have questioned and even discarded multilateralism, the base of economic globalization, said He Yafei, deputy director of the Overseas Chinese Affairs Office of the State Council. He, former vice-foreign minister, made the remarks during talks with veteran editors of British newspaper The Times at its headquarters in London. The three negotiations he was speaking about were the Trans-Pacific Partnership of 12 countries led by the United States; the Transatlantic Trade and Investment Partnership between the US and European Union; and the Trade in Services Agreement between the EU and 20-odd economies of both advanced and developing countries, including the US. Attempts to “marginalize” China and exclude it from mapping out new global economic rules will only further undermine multilateralism and the current international economic system, he said.
Calling both China and Britain a supporter of free trade, He said China actively promotes the Doha Round negotiations, and welcomes the trade package recently sealed at the World Trade Organization's ninth ministerial meeting in Bali, Indonesia. He also called for the British newspaper to play a helpful role in strengthening the two peoples' mutual understanding, which fundamentally decides the development of the two countries' relations.

Source: Excluding China from trade talks 'inappropriate', 2013-12-12
http://www.chinadaily.com.cn/business/2013-12/12/content_17171612.htm

China to stop duties on US auto imports

China's Ministry of Commerce (MOC) said on Friday that it will stop anti-dumping and countervailing duties on sedans and sport utility vehicles with engines of 2.5 liters and above imported from the United States. The MOC said in a statement on its website that the decision will be in effect starting Dec 15. The MOC had not received any applications for further investigations in the 60 days before the expiration date of the current measures. The MOC announced on Dec 14, 2011 that China would levy the duties after an investigation showed evidence of dumping. Since December 2011, importers of relevant vehicles have been required to set aside deposits with Chinese customs ranging from 2 percent to 12.9 percent, based on the level of dumping and subsidies the US car makers received from the US government, according to the MOC.

Source: Xinhua: China to stop duties on US auto imports, 2013-12-13

Officials from China, Europe, US review planned container alliance

Maritime officials from China, the United States and the European Commission held their first joint meeting on Tuesday in Washington to review the proposed P3 Network, a pooling arrangement among the world's three largest operators of container vessels. Denmark-based A.P. Moller-Maersk Group, Mediterranean Shipping Co SA of Switzerland and French carrier CMA CGM SA agreed in June to establish the long-term operational alliance on East-West routes to optimize resources and lower the cost of container shipping. The alliance will operate total capacity of 2.6 million 20-foot equivalent units, initially using 252 large-capacity vessels on 28 loops on three trade lanes: Asia-Europe, trans-Pacific and trans-Atlantic. While the P3 Network vessels will be operated independently by a joint vessel operating center, the three shipping companies will continue to have fully independent sales, marketing and customer service functions. The network center and P3 Network intend to start operations in the second quarter of 2014, subject to obtaining the approval of relevant competition and regulatory authorities.

As all these companies are European-owned, the EC has expressed its support of the alliance and said the network will benefit shippers by improving service standards. However, shipping companies in China and the US strongly oppose the proposal. Since 90 percent of China's foreign trade is seaborne, and the country has developed a worldwide shipping industry, Chinese companies such as China Cosco Holding Co Ltd and China Ocean Shipping (Group) Co have urged the China Shipowners Association to raise concerns about the P3 Network and the impact on competition. Li Hongyin, head of the Chinese delegation and deputy director-general of the bureau of water transport at the Ministry of Transport, said the sustainable growth of the maritime sector has great significance for China and global shipping markets. The three parties have a common duty to protect the sound development of maritime transport, Li said.

The three shipping giants have a combined 37 percent of global capacity for container vessels, according to the Shanghai International Shipping Institute.

Source: Zhong Nan: Officials from China, Europe, US review planned container alliance, China Daily, 2013-12-19

China to deepen, broaden economic diplomacy

Economic diplomacy is expected to be a priority of China's comprehensive diplomacy endeavor next year with China's increasingly deeper and broader integration with the global economy. Foreign Minister Wang Yi said recently that, in 2014, China would put more effort into economic diplomacy, aiming to boost domestic prosperity as well as share opportunities with the rest of the world. Among China's economic diplomacy agenda items next year, priorities will be given to the development of a Silk Road economic belt and the 21st Century Maritime Silk Road, bilateral and multilateral free trade zones, and a greater say in establishing standards. When outlining China's diplomatic priorities for 2014 earlier this month, Wang said China would strive for an "early harvest" in those efforts. China's Ministry of Commerce will push forward the strategy by accelerating the establishment of free trade areas (FTAs), along with the two Silk Roads, and work with other countries to lay down specific measures.

Christopher K. Johnson, a senior adviser to the Washington-based Center for Strategic and International Studies, said China was taking "rather bold" action. China had found huge business opportunities in the trade and economic area that the United States had not tapped so far, he said.

In order to deepen its economic diplomacy, China also pledged to promote multilateral and bilateral free trade talks, including finishing talks with South Korea and Australia at an early date, pushing forward an upgrade of its FTA with the Association of Southeast Asian Nations (ASEAN) and concrete progress in talks on a comprehensive
economic partnership in the region, and boosting the China-South Korea-Japan FTA talks. China will also take an open approach to talks with member states of the Trans-Pacific Partnership, as well as other regional or cross-region FTA initiatives. China has set a $1 trillion target for its trade with ASEAN member countries by 2020, while two-way trade volume between the country and Russia is expected to rise to $200 billion in the next seven years.

Moreover, China will also actively participate in the reform of international economic governance to attain a greater say in setting standards. Chinese Vice Premier Wang Yang has said China should have a greater say in developing international trade and economic regulations and standards, so as to push the international economic order in a just, more reasonable direction. The Chinese economy has entered a new development stage. In 2014, China will strengthen economic diplomacy in a bid to bolster the domestic effort to pursue comprehensive and deeper reforms.

Source: Xinhua: China to deepen, broaden economic diplomacy, 2013-12-26

Trade-Plus Effects of WTO Dispute Settlement on China: An Ideal or Illusion?

China has actively participated in WTO dispute settlement over the past decade. It was hoped that China's WTO accession and participation in WTO dispute settlement could provide an external force to further China's reform. Due chiefly to the expansionist trend of the WTO regime and China's non-market economy, party-state regime and highly politicized WTO accession strategy, WTO dispute settlement sometimes exerts effects on China that are beyond the area of trade. Although China is sensitive and vulnerable to such trade-plus effects, a case study of China's relevant WTO disputes shows that, in general, China has successfully accommodated such effects to date. Therefore, despite its positive role in helping China improve trade governance, WTO dispute settlement has insofar played a limited role in furthering non-trade reform in China.

Source: Chi, Manjiao: Trade-Plus Effects of WTO Dispute Settlement on China: An Ideal or Illusion?, Journal of World Trade47.6 (Dec 2013): 1349-1384.

FDI enters new structural era

Nation's investment environment going through fundamental change China's foreign direct investment entered an era of restructuring and optimization in 2013, experts said on Friday. "China's FDI is seeing a trend of restructuring this year with growth slowing to a moderate pace," said Yang Liqiang, a researcher at the Institute of International Economics of the University of International Business and Economics in Beijing. "The share of FDI inflow into the manufacturing and real estate sectors declined, while that into the finance and R&D sectors went up." Last year, China was the world's second-largest FDI recipient, with FDI inflow dropping by only 2 percent year-on-year to $121 billion, compared with the 18 percent drop seen for global FDI, according to the United Nations Conference on Trade and Development's 2013 World Investment Report.

Zhang Shixian, a researcher at the Institute of Institute Economics of the Chinese Academy of Social Sciences, said "China's FDI is now going through a phase of structural optimization, with the introduction of the 'negative list' in the China (Shanghai) Pilot Free Trade Zone. FDI inflow will not drop in the short term, but its structure will improve," Zhang said. He added that China's investment environment is changing fundamentally and that the country's huge market has outweighed its role as the world's factory in the past decades. "Despite rising costs at home, new FDI inflows from now on, which are focused on the high-end manufacturing and service sectors, are less sensitive to cost increases as they are more efficient and aim to grab a share of the expanding Chinese market," Zhang said.

Shanghai's pilot FTZ and China's talks on investment pacts with the United States and the European Union also aim to boost investment into the country. "As China streamlines procedures, FDI will continue to see structural changes. The services and agricultural sectors will see increased shares of FDI inflows, while the central region will likely outpace the eastern and western regions," said Zhang Xiaojing, a researcher at the University of International Business and Economics. Zhang added that foreign investment in China's eastern areas is being moved to other regions, especially in labor-intensive sectors, due to the rapidly growing labor costs.

Source: Li Jiabao: FDI enters new structural era, China Daily, 2013-12-21

NDRC: 'Negative list' to cut central govt role in investment

The National Development and Reform Commission, the country's economic planner, vowed on Tuesday to stick strictly with the State Council's directory of investment projects that require government approval. The directory, known as the negative list, came into effect on Dec 2 and replaces the government's approval procedures for 19 investment areas. It devolves the responsibility to approve 30 categories of investment items from central to local authorities, and it transfers approval for 10 kinds of investment projects to industrial administrations. Compared with the previous version from 2004, the list attaches more significance to the market's decisive role in allocating resources, better recognizes the principal status of enterprises as investors and focuses more government attention on its duties as defender of public interest, the NDRC said. The reform plan, drawn up during the Third Plenum of the 18th Communist Party of China Central Committee, states that enterprises should have full
independence to make decisions within the legal framework, for which the government will not exercise evaluation and approval procedures, except for projects concerning national or ecological security, strategic resource development and public interest.

However, the list involves the coordination of duties and interests of different levels of government, as well as the redistribution of labor among administrative departments for various industries, Luo Guosan, deputy director of the fixed assets investment division of the NDRC, said on Tuesday. "One principle is to ensure the government plays its role as an effective and responsive macro-controller," he said. "The number of projects that need central government approval will drop by about 60 percent after the list comes into effect. The job will be done by local governments." The government will enforce the pre-entry national standard as well as the negative list model for foreign investment projects, according to the NDRC.

Most standard foreign-bound investment from China will be recorded; only for investment projects in sensitive countries and regions, sensitive industries, or projects with an investment higher than $1 billion from Chinese investors will the government exercise its evaluation and approval rights, Luo said.

The negative list maintains the central government's approval rights over investment in some overcapacity industries, such as iron and steel, cement, electrolytic aluminum and shipbuilding, he added. "This is to help the country digest its overcapacity as soon as possible," he said. According to Luo, the NDRC is closely working with other ministries to simplify the application and approval procedures for many qualified industries not on the list. "We're trying to shift the government's role from pre-investment examiners to responsible supervisors in and after investment, to better serve enterprises and the public interest," he said. "The government should provide service, not interference."

Source: Li Yang: NDRC: 'Negative list' to cut central govt role in investment, China Daily, 2013-12-31

**ODI expansion outpaces GDP growth by 3 times**

China's outbound investment is expanding almost three times as fast as the nation's GDP, and the emphasis is shifting away from resources and toward the service sector and industry, a private equity firm said in a report on Wednesday. A Capital, which has offices in Beijing, Brussels and Hong Kong, said that from January to September, China's ODI totaled $73 billion, up 20 percent year-on-year. The GDP growth rate for the period was 7.7 percent, the report added. The firm said China's ODI will likely equal inward foreign direct investment in the next three years, with an additional $500 billion in new outbound investment by 2016. About 57 percent of Chinese ODI in the first nine months went into mergers and acquisitions, which rose 21 percent to $41.6 billion. "It shows that the trend of 'going global' is accelerating as the economic model changes," said Andre Loesekrug-Pietri, chairman of A Capital.

Investment in overseas resources projects and companies totaled $23.7 billion, up just 7 percent - and that even included the $15.3 billion takeover of Nexen Inc by CNOOC Ltd. That deal alone accounted for 63 percent of all resources M&A by value. Investment in industry and the service sector surged 46 percent to $17.9 billion. The total was boosted by the acquisition of US-based pork producer Smithfield Foods Inc by Shuanghui International Holdings Ltd. In the industry and services category, ODI in North America took up 40 percent, with 30 percent in Europe. "Chinese investors are increasingly going for high added-value firms," said Loesekrug-Pietri. The firm said that $24.7 billion was invested in M&A deals in North America in the first nine months, producing 60 percent of them. Only 13.9 percent of all M&A deals went to Europe. And the value in the first three quarters dropped 25 percent to $5.8 billion. There were only two exceptions: ODI in Germany was up 72 percent, and investment in France was "stable", the report noted. "North America and Europe will be popular M&A destinations for Chinese investors in the coming years, because their industry and services sectors are very strong and companies in the regions are also open to Chinese investment," said Loesekrug-Pietri. But he added that as the economies in the US and Europe improve, it's getting more difficult to do takeover deals, and being minority shareholders can be a wise choice for Chinese investors.

State-owned enterprises remained the driving force, accounting for 75 percent of all M&A deals by value in the first nine months. Private-sector
companies' total M&A deal value was up 86 percent at $10.4 billion. Private Chinese companies are becoming more active in making acquisitions in Europe across both the manufacturing and service sectors. "Many private Chinese companies are looking for good technology and products to take to China's domestic market," Duan said. That's because private companies can't afford large deals, and they want to control risks by keeping transactions small.

Source: Cai Xiao in Beijing and Cecily Liu in London: ODI expansion outpaces GDP growth by 3 times, China Daily, 2013-12-05

**Outward direct investment guide published**

China unveiled the 2013 Outward Foreign Direct Investment Guide on Thursday, providing information on rapidly increasing investments abroad. The annual guide, compiled by the Chinese Academy of International Trade and Economic Cooperation, the Investment Promotion Agency of the Ministry of Commerce, and economic and commercial counselors' offices at Chinese embassies, was launched in 2009. The 2013 edition contains legal information regarding antitrust issues, a safety review of mergers and acquisitions in host countries and regions, regulations on mergers and acquisitions, infrastructure development plans, and anti-commercial bribery laws in host countries and regions. It also carries updated information on political situations, economic data, business environments and social stability, Huo Jianguo, president of the academy, said the guide covers the 165 countries and regions that hosted 96.3 percent of China's outward direct investment in 2012.

From January to November, the nation's outward direct investment rose by 28.3 percent year-on-year to $80.2 billion, topping the $77.2 billion for all of last year, the ministry said. The growth pace was faster than expected, Huo said, noting the uncertainties in economic growth at home and abroad. He added that China's investment in Europe will quicken. As the government streamlines outward investment procedures and shifts approvals toward a management system of supervision and services, Huo said regulations should remain or even be improved in some sensitive industries and regions as government supervision had yet to be well established. Ge Min, a deputy director at the All-China Federation of Industry and Commerce, said private enterprises, accounting for half of China's investors abroad, will speed up their overseas spending.

Source: Li Jiabao: Outward direct investment guide published, China Daily, 2013-12-19

**ODI on track to outstrip FDI, official says**

China's foreign trade grew at its weakest pace in the past two years since the opening-up of the economy began some three decades ago, but its share of global trade and outbound investment is still rising, a senior commerce official said. "Compared with inbound investment, China's outbound investment is expected to take off in the coming years," said Commerce Minister Gao Hucheng during an interview at the ministry's annual meeting on Friday. Gao said China's total outward investment is expected to reach $90 billion this year, a year-on-year increase of 15 percent. Trade has given Chinese enterprises the money, technology and management skills to invest abroad. "With the economic recovery, developed countries are in need of updated infrastructure. In developing countries, there are markets for Chinese companies to build entirely new infrastructure projects," said Gao.

In a few years, China's overseas investment may surpass the foreign direct investment it attracts, experts said. In the January-November period, Chinese investors splashed out $80.24 billion in nonfinancial direct investment, up 28 percent from the same period last year. During the same period, China's actual use of foreign capital was $105.5 billion, up 5.48 percent, according to the ministry. The trend of rising Chinese ODI "will be pulled up by China's high savings rate and Chinese enterprises' stronger competitiveness," said Mei Xinyu, a foreign trade expert at the Chinese Academy of International Trade and Economic Cooperation, a think tank of the Ministry of Commerce. "More Chinese investment will flow into global infrastructure, manufacturing and so on," Mei said.

However, Gao said that to protect the interests of Chinese enterprises in the process of going global, more legal support is necessary. Despite criticism of China's investment environment, Gao said foreign investment in the country has been edging up, and more of it will shift away from industry and into the service sector. The total trade in services surpassed $520 billion in 2013. "Of course, we will further standardize measures on attracting investment, clarify preferential policies and promote fairer competition between foreign and domestic companies," said Gao.

As for this year's 8 percent growth target for foreign trade, Gao said the actual outcome will be close. Total foreign trade is predicted to climb to $4.14 trillion, which would be an increase of more than 7 percent. "Although we are moving at a slower pace, we are playing a bigger role in the international trading markets," said Gao. At the same time, it is urgent for the country to create new comparative advantages in emerging industries, including water and electric power, construction equipment, high-speed rail transport and nuclear energy, according to Gao.

Source: YAO JING: ODI on track to outstrip FDI, official says, China Daily, 2013-12-27
Outward Foreign Direct Investment (FDI) Strategies of Korean and Chinese Multinationals: Will Chinese firms be the eventual winners?

China was always more inwardly focused adopting multi-domestic rather than global strategies according to Porter (1990). As well as the historical and political development evident in the strategic focus of MNEs, there are also a number of theories that help explain the current global strategies of Chinese and Korean MNEs. According to Debaere's research, Korea focuses more on the USA for its outward FDI strategies which may also influence its success rate in gaining technology to move up the value chain.

To some extent China faces similar problems to Korea though it enters the global market during a more competitive era. They have both experienced 'hot wars' and geopolitical tensions have been particular issues for the region. However, things are improving for China with recent improvements in relations with Taiwan though there have been some recent disputes with China and the Philippines concerning ownership of the waters in the region. China joins the international market at a later time than Japan and Korea and has some advantages and disadvantages which arise from this. The advantages have included joining at a lower cost base though the currency and wages costs are now rising. New infrastructure is always better than the previous so China can capitalise on these improvements and costs have been lowered due to international competition and more workers in the market place. There is further potential from more education and skilling as well as moving up the value chain. China joins the international market at a time when more women are at work globally than before which should help improve productivity further. Both countries have had controls on exchange and this has limited the development of the service sector, however these are set to improve in the future. China also has a growing domestic market which should generate further income, there may be less need to have so many assets overseas as has been the case with Korea.