China News in Brief
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CPI stimulated by festive spending

China’s consumer prices spiked to a 10-month high in February, driven up by traditional spending during the Spring Festival holidays, and leaving less room for the government to negotiate an easing of tightened monetary measures. The Consumer Price Index rose sharply to 3.2 percent from 2 percent in January, the highest year-on-year increase since May 2012, according to data released by the National Bureau of Statistics on Saturday. It was mainly lifted by a 6 percent rise of food prices last month, compared to a rise of 2.9 percent in January. This segment accounted for about 30 percent of the components for calculating CPI. It contributed a 1.98 percentage point hike, the NBS said. In February, fresh vegetable prices increased 10 percent year-on-year, while aquatic product prices rose by 7.7 percent, stimulated by strong demand during the one-week Spring Festival holidays from Feb 9.

Industrial product prices continued to decrease in February, with a negative 1.6 percent on the index, same as in January. It has remained in contraction for a year, the NBS data indicated. The pace of growth in industrial output during the first two months of this year was 9.9 percent, similar to the fourth quarter of 2012. The non-metallic and automobile industries also suffered slower growth during that period, according to the NBS. Total retail sales in January and February were boosted by a 12.3 percent year-on-year, but still recorded a sharp drop compared to 15.2 percent in December 2012. The report also indicated that fixed-asset investment accelerated in January and February to 21.2 percent, compared to 20.6 percent from the whole of last year. Total planned investment for construction projects was 34.63 trillion yuan by the end of February, an increase of 18.8 percent from a year earlier, the NBS said.

Source: Chen Jia: CPI stimulated by festive spending, China Daily, 2013-03-10

Monetary measures to cool home prices to continue

Monetary policies to cool home prices in China will continue or even strengthen in the future, said the country’s central bank governor Zhou Xiaochuan at a press conference on Wednesday. The measures include down payment rates, special interests rates for housing loans and other measures, Zhou said. These are structural monetary policies instead of overall monetary policies, he said.

Monetary policies mainly focus on dealing with overall demand and usually make changes based on consumer price index (CPI) and production material prices, Zhou said. He made the remarks at a news conference on China’s currency policy and financial reform, which was held on the sidelines of the first annual session of the 12th National People’s Congress (NPC).

Source: Xinhua: Monetary measures to cool home prices to continue, 2013-03-13

On think tank row, a China critic from China

Zhu Min is a Chinese economist and currently Deputy Managing Director of the International Monetary Fund. He spoke at Johns Hopkins SAIS School on March 12. Criticism of Chinese economic policy is common in Washington, particularly among the think tanks that line Massachusetts Avenue. Less common is when the criticism comes from a Chinese national with top economic credentials and a ranking position in global economic affairs. Min Zhu’s address Tuesday at the Johns Hopkins University School for Advanced International Studies wasn’t focused on China. But in answering questions afterward, Zhu, deputy managing director of the International Monetary Fund, endorsed some of the chief complaints that U.S. leaders — and the IMF — have made about the world’s second-largest economy.

Capital and resource prices are too cheap, Zhu said, which has led to an unhealthy glut of investment and a “risky” situation in which only 60 percent of the country’s industrial capacity is being used. More money needs to be pushed to families in the form of jobs and wages to boost consumption. The country’s leaders need to speed
the opening of the service sector and shift away from the manufacturing focus that has driven Chinese growth for 20 years. “The key issue for China is not growth. . . . It is the quality of growth and reform,” Zhu said. “China should discourage investment. Currently loans are cheap and the factor price is so low — energy, transportation, water, power — those things all encourage the expansion of investment.” So much of the country’s resources are pushed toward investment projects, he said, that it “squashed people’s income levels” and prevented a faster increase in local consumption.

His comments come as China is completing its transition to a new leadership and government. Incoming leaders have endorsed in broad strokes the need for China to open its financial sector and rely more on domestic consumption for economic growth. Still unclear is how fast and dramatically they intend to move. “The most important issue is moving the growth model from investment-driven growth to domestic consumption,” Zhu said. “Many people say that. The question is how.”


China’s Next Stop

Would it surprise you to discover that China is planning to add 800 miles to its subway system over the next two years? In 2015, when the infrastructure build-out is complete, China’s subway track alone will be a mind-boggling 1,900 miles, according to JP Morgan. The Asian giant has been in the midst of constructing the world’s largest transportation system, laying mile after mile of high-speed rail and subway track. According to the World Metro Database, Beijing and Shanghai currently have the longest metro and subway systems, with about 275 miles each. The city of Guangzhou in China also falls in the top 10, with 144 miles of rail, beating Paris’ network length of 135 miles. This ambitious program is part of the pragmatic solution to help 1.3 billion residents move around the country efficiently and reduce the increasing problem of air pollution due to car emissions in big cities including Beijing.

The circulating reports and photos of Beijing’s smog have recently become a dark cloud hanging over the country’s remarkable achievements, but it’s not a new issue. In the winter, smog conditions can seem much worse. Pollutants tend to linger when the air is heavier and colder compared to lighter, warmer air during the summer. In addition, the city is located near the Gobi Desert and has always been subject to sand and dirt storms, even back in the days when it was called Peking.

The U.S. experienced similar sand storms during the Dust Bowl in the 1930s, which caused catastrophic ecological and agricultural damage to the American prairies and made the economic impact of the Great Depression much worse. Sixty-five percent of the topsoil was blown away and millions of people were left homeless.

Industrialization in Beijing has certainly aggravated the matter, but Beijing is not the first city suffering from its horrible haze. The London smog of 1952 caused 12,000 total deaths, resulting in the Clean Air Act of 1956, and according to the U.S. Environmental Protection Agency,
Manhattan suffered particularly poor air quality in the 1960s, affecting the eastern edge of the U.S. Because of the government’s concerted effort to encourage consumption and help its residents achieve a higher standard of living in previous five-year plans, new cars congested the roads as fast as they were paved. Over the past decade, sales accelerated from less than 5 million vehicles in 2002 to nearly 20 million in 2012. About 114 million automobiles are now registered to Chinese residents, with ownership exceeding 1 million across 17 Chinese cities. As we’ve discussed many times, the country is also the world’s largest energy consumer, with a huge dependence on fossil fuels, especially coal. You may think that the country’s use of coal would be the single largest factor driving air pollution, but, in Beijing, emissions from vehicles make up a bigger percentage. One-fifth of the fine particulate matter, which is made up of nitrates and sulfates, organic chemicals, metals and dust particles, comes from automobile and truck emissions in the city, according to JP Morgan. Across the entire country, automobiles cough out 27 percent of total nitrogen oxide emissions.

With residents dealing with increasing cancer-causing pollutants and vehicle congestion on roads, public discontent is rising, “adding particular urgency to causes such as environmental protection and public sector reform,” says JP Morgan.

China’s government policies were already addressing air pollution by “requiring thermal power plants to install desulphurization systems and progressively increasing vehicle-emission standards,” according to the research firm. As one recent example, last May, I discussed Beijing’s additional subsidies devoted to energy-efficient products, including fuel efficient cars, LED lighting, and high-efficiency motors.

This year, leaders appear ready to continue these environmental priorities. In comparison to last year’s budget, a larger portion of government spending will go toward environmental programs. While other areas will see a decrease in spending compared with last year, spending on environmental protection is projected to grow nearly 19 percent, says JP Morgan. With a concrete plan and a budget in place, it all boils down to execution and enforcement. And this week, the once-in-a-decade transfer of power became official, as the National People’s Congress in China elected Li Keqiang as premier and Xi Jinping as president. We look forward to watching these leaders in action.


Economists: China Mirrors U.S. on Eve of Financial Crisis

The same three warning lights that preceded America’s real estate crash and financial crisis are now
flashing over China, two economists say, leaving the government limited time to get out of trouble. In a research note published on Saturday, Nomura economists Zhiwei Zhang and Wendy Chen outline the way that elevated property prices, a rapid build-up of leverage and a slide in the country’s potential growth rate could lead to a systemic crisis. House prices in the U.S. racked up an 84% rise between 2001 and 2006, Mr. Zhang and Ms. Chen say, citing the Case-Shiller housing price index. The Nomura economists have their doubts about China’s official index, which shows a “rather benign” 113% rise in the major cities from 2004 to 2012. They argue that it is too broad, including older, lower-quality property across the nation. By contrast, a recent academic paper taking into account these quality differentials found prices climbed 250% from 2004 to 2009, they say.

“The government obviously recognizes the risks in the property sector,” Mr. Zhang and Ms. Chen write. “It has introduced a series of progressively tighter policies to contain property prices over the past several years... The pattern has been for house prices to initially dip after tightening policies are introduced, then to rebound, which suggests that the risks have not been mitigated.” Local governments, which rely on land sales as their main source of revenue, could be hit as hard as property developers by a real estate crash. The problems would quickly find their way into the banking system – 14.1% of outstanding bank loans are to local government financing vehicles, and 6.2% are to property developers, Nomura’s economists say.

They do think the country still has time to avoid a systemic financial crisis, as long as the government is not afraid to start tightening now. That will come at a cost in terms of this year’s growth outlook – but growth could still be as high as 8.1% in the first half of the year and 7.3% in the second half, Mr. Zhang and Ms. Chen estimate. Early tightening could lead to a manageable number of defaults, they think. The alternative would be a continuation of loose policy and growth of over 8% this year, followed by a crash perhaps as early as 2014. Contagion would quickly spread through the system, Mr. Zhang and Ms. Chen think, forcing the government to step in and bail out the banks or local governments, perhaps selling off public assets to deal with the mess.


For China, overhauling nation’s economy is the big focus

When Treasury Secretary Jack Lew went to China this week, the usual thorny topics came up with Chinese government leaders: trade, currency manipulation, intellectual property protection, plus an extra dose of finger-wagging about recent cyber-attacks. But there’s something going on in China that will have far broader ramifications for the U.S. economy beyond any one of these issues: China’s new leaders have pledged a massive economic overhaul, the likes of which hasn’t been seen in the country since the 1990s.

Americans are used to thinking of the Chinese economy as an ascendant, unstoppable juggernaut, the world’s endless source for cheap goods. And it’s easy to envy a country with growth projections this year between 7 and 8 percent, while the United States is still bobbing around 3 percent. But the source of that growth, China’s leaders and many experts have concluded, is unsustainable. An advanced economy depends largely on domestic consumption (although some argue that the United States has gone too far in that direction). In China, consumption makes up a relatively small portion of the economy. Instead, the twin pillars are exports and investments, and they are both hitting the limit.

Lew met this week with Li Keqiang, China’s new premier and the country’s most powerful man when it comes to economic policy. With a PhD in economics from Peking University, Li is considered a serious thinker bent on overhauling China’s economy. Reuters reported earlier this week that Li’s lieutenants include a number of high-profile officials who helped Zhu Rongji, China’s premier from 1998 to 2003, reform the country’s state-owned companies more than 10 years ago. “It was clear from the discussions that China has made a serious commitment to their reform agenda,” Lew told reporters at the conclusion of his two-day visit to China.
“The dominant theme was what can be done to generate more domestic demand and more growth.”

Transforming China’s economy is a gargantuan task but one that China’s leaders may think is necessary for their political survival. There are domestic pressures for reform. Unemployment among college graduates has become a chronic problem since China has plenty of low-paying manual labor jobs but few opportunities for skilled, white-collar workers. Meanwhile, entrepreneurs trying to build private businesses often complain about competing against state-funded firms that benefit from the support of corrupt local officials.

He appears to be off to a good start. Lew’s squeaky-clean image in the United States seemed to translate well in China, where the country’s famously opinionated netizens weighed in on his lunch choice in Beijing. Lew and three colleagues ate at an ordinary dumpling place in Beijing where the bill totaled $17. “After reading today’s news about Lew’s 109 yuan dumpling meal, I was reminded of Joe Biden’s 79 yuan meal in a small Beijing eatery, and Gary Locke’s flight to Beijing in an economy class cabin,” said scholar Xu Xin on Weibo, China’s Twitter equivalent, according to the South China Morning Post. “I also think of the hundreds of billions of yuan our public servants spend each year on meals, transport and overseas trips, and children in rural China who can’t afford clothes, food or school furniture.”

Source: Jia Lynn Yang, For China, overhauling nation’s economy is the big focus, Washington Post, Mar 21, 2013

Trade, economy top agenda as China's Xi meets U.S.'s Lew

China and the United States put trade and economic issues at the top of their diplomatic agenda as President Xi Jinping met U.S. Treasury Secretary Jack Lew on Tuesday and called for the two sides to focus on shared interests rather than differences. The two men stuck resolutely to diplomatic niceties in front of the watching media ahead of what was, for both, their first major international meeting since taking their respective offices.

A U.S. official said in an e-mailed statement that the meeting itself was a 45-minute strategic level discussion of the major issues on the bilateral agenda including currencies, Europe and the global economy, intellectual property, cyber-security and North Korea, in which Lew was "candid and direct." China's official Xinhua news agency in a commentary - which are not policy statements but typically reflect government thinking - said Lew should use his visit to convince Beijing that Washington would solve its debt problems, stabilize the value of the dollar and honor trade treaty commitments. "The stakes are high," the commentary said, striking a more hawkish tone than Xi.

"I can say we have a seamless connection," China's new president said, speaking in front of a tapestry depicting a pine tree and flying cranes, both symbols of hospitality. "In the China-U.S. relationship we have enormous shared interests, but of course unavoidably we have some differences." Lew said both countries had a responsibility to promote global growth, and called on China to boost domestic demand to help in global rebalancing. "The (U.S.) president is firmly committed to building a relationship of growing strength where we cooperate on issues of economic and strategic importance, understanding that we will each have to meet our own responsibilities, but we'll also have to manage our differences," he said. Both Xi and Lew agreed on the important role of the Strategic and Economic Dialogue - due to take place in the United States this year after being held in China in 2012 - in cooperation and making progress on differences, according to the U.S. official's e-mailed note.

Trade is clearly an area of both cooperation and rivalry for the world's two biggest economies, as China's Commerce Ministry reinforced at a separate event, saying it would accelerate trade talks with key trading partners as U.S. efforts to seal its own trans-Pacific free trade deal gather pace. Japanese Prime Minister Shinzo Abe said last week that Tokyo would seek to join the U.S.-led Trans-Pacific Partnership (TPP) talks that currently bring together the United States, Canada, Mexico, Australia, New Zealand, Chile, Peru, Vietnam,
Malaysia, Brunei and Singapore. Bringing the world's third-largest economy into the negotiations would set the stage for a final agreement covering nearly 40 percent of world's economic output, but could also isolate China in the process. "We will improve communications and talks with the related parties and push forward the progress of our own free trade areas," Chinese Commerce Ministry spokesman, Shen Danyang, told reporters when asked about Japan's plan to join TPP talks. "We always think that every economy in the world has the right to participate in the process of world economic integration and we always take an open and inclusive attitude for all efforts to push for regional and world cooperation," Shen said.

For its part, Washington is eager for China to move toward a more consumer-oriented economy and away from investment and export-driven growth, which has contributed to a record-high $315 billion U.S. trade deficit with China last year. Washington wants China to reduce barriers to trade and investment and to let the yuan currency float freely in markets. U.S. companies face barriers to invest in around 100 Chinese sectors, while China has complained the United States blocks Chinese investments on unjust national security grounds. Chinese Premier Li Keqiang, the head of government, pledged on Sunday to forge "a new type of relationship" with the United States and called for the end of a cyber-hacking row between the two countries.

Source: Anna Yukhananov and Aileen Wang: Trade, economy top agenda as China's Xi meets U.S.'s Lew, Reuters, Mar 19, 2013

**San Francisco Fed: Official China GDP Data is OK**

China’s National Bureau of Statistics has supporters in San Francisco. Dallas is another story.

The accuracy of China’s economic data continues to be the subject of controversy. Many alternative indicators appear to point to gross domestic product growth for 2012 below the 7.8% rate reported by the government. That discrepancy prompted John Fernald, Israel Malkin, and Mark Spiegel, researchers at the San Francisco Fed, to take a detailed look at the numbers. They compared commonly cited alternative indicators of economic activity – like electricity production – with China’s GDP data to look for signs of exaggeration in the official growth rate. To get started, Mr. Fernald and his co-authors created two separate growth indexes based on alternative Chinese data:

- A Li Keqiang index based on the suggestion from China’s new premier that rail freight, electricity output and loan disbursement were his preferred way to track growth
- A broader index based on consumer sentiment, construction of new floor space, raw materials usage, air passenger volume and new residential real estate construction

To guard against the possibility that the alternative Chinese data might have been manipulated, they created two more indexes based on data from China’s trading partners.

- A “trio” index based on trade data from the U.S., Japan and Europe, which together account for roughly half of global exports from China.
- A “world” index measuring overall Chinese trade activity based on data from the International Monetary Fund.

The next step was to determine the statistical relationship between the alternative growth indexes and China’s official GDP numbers by comparing them from 2000 through the third quarter of 2009. Based on that relationship, the authors used the performance of alternative indicators from the fourth quarter of 2009 to the end of 2012 to estimate what the official GDP growth rate should be.
The result: The forecast of GDP growth from the end of 2009 to the end of 2012 based on the alternative indicators closely matched the official GDP growth rate reported by the NBS. The conclusion from the authors: “We find no evidence that China’s slowdown in 2012 was greater than officially reported.” That’s a sharp contrast with analysis from another arm of the Federal Reserve system.

In 2012, researchers at the Dallas Fed looked at the relationship between a sharp deceleration in China’s electricity consumption and more moderate slowdown in industrial output. Their conclusion: “China might have overstated its 2012 industrial production data to mask the economy’s weakness. In other words, the slowdown in China could be worse than the official data indicate.” With research based on different approaches, and results pointing in opposite directions, the San Francisco and Dallas Feds’ conclusions are unlikely to end the debate on the reliability of China’s data. But the NBS will be relieved that at least one serious set of number crunchers is in their corner.

Source: Tom Orlik: San Francisco Fed: Official China GDP Data is OK, March 29, 2013

Premier calls for courage in upgrading economy

Premier Li Keqiang on Friday called for greater courage and wisdom in pushing forward economic transformation and upgrading to achieve more sustainable growth in the long term. Li made the remarks at an economic work conference in Shanghai following a research tour to the Yangtze River Delta region. Li said his tour found the economic climate in the Yangtze River Delta region to be generally stable, but given complicated internal and external environments, potential risks remain despite positive factors.

While maintaining steady economic growth, China should look to long-term interests to intensify efforts to foster an "upgraded version" of the economy, Li noted after listening to reports from government officials in Shanghai, and provinces of Jiangsu, Zhejiang and Anhui. "If we do not take the initiative to upgrade, steady growth will be hard to achieve and harder to sustain," Li said. To foster that model, Li stressed the importance of boosting domestic demand, as it serves as a significant basis for sustainable development amid the constantly changing economic landscape. In the face of growing competition, industrial overcapacity and rising material costs, China should enhance support to enterprises to accelerate restructuring and raise the contributions innovation makes to the economy. During the restructuring process, Li urged that efforts be made to unleash job opportunities in the service sector and adopt measures to push green growth to ensure that people have clean air and water and safe food. Besides the role of macro-economic policies, China should rely on reforms to stimulate vigor and creation within society, he said.China should do away with improper policies and regulations that have fettered economic growth, as well as cut operational costs for enterprises to allow them to compete in a more fair market, Li noted. "More importantly, we should accelerate transforming government functions, give market forces a greater role and reduce burdens on enterprises to trade government interference for more vigor in the market," Li added.

The latest emphasis on market-oriented reforms came as Li has named the transformation of government functions as the first task for the newly-elected State Council, China's Cabinet. Transforming government functions will be a "great remedy" for promoting non-government investment and employment, as well as for improving companies' competitiveness and boosting economic and social vitality, he said at a previous meeting. On Friday, Li said he hopes the Yangtze River Delta, the forefront of China's reform and opening-up, could spearhead the reforms and set an example for the rest of the country.

Source: Xinhua: Premier calls for courage in upgrading economy, 2013-03-29

Stricter measures to cool property market
Amid expectations of rising housing prices, China's central government on Friday rolled out specific rules to further tighten control of the property market. The government said in an online notice that homeowners who sell their homes will be levied an income tax as high as 20 percent of the profit they make on the transaction. Prior to the new rules, income tax was 1 percent to 2 percent of the sale price. The notice said local branches of the central bank in cities with soaring home prices can increase the down payment rate and mortgage loan interest rate for home buyers purchasing a second unit. Non-local families with one home or more, as well as non-local families without a certain amount of years of tax payment certificates or social security payment certificates will be banned from buying homes in the cities in which they currently reside. The notice also said local governments will be held accountable for curbing soaring home prices, and asked them to make specific schedules. The central government said it will step up inspections of provincial-level governments’ property market control work. Those who fail to meet their targets will be penalized. The country's major cities, excluding Lhasa, have been asked to set annual price easing targets for newly-built homes and reveal these targets in the first quarter of the year.

The notice said China will work to increase land supplies for housing, and the total amount of such land nationwide in 2013 should be greater than, or equal to, the annual average over the last five years. Cities and counties are required to make information on land supplies available to the public and reveal annual land supply plans before the end of March.

Source: Xinhua: Stricter measures to cool property market, 2013-03-01

Reforms moving with the times

As China's new leadership prepares to take charge, the nation has embraced the opportunity to deepen administrative reform by transferring power from the government to market forces and public opinion, via a restructuring plan announced by the State Council on Sunday. The move is the latest step in an ongoing, long-term transition. In 1981, the central government comprised 100 ministries and departments that employed 51,000 officials. Since 1982, there have been six major rounds of government restructuring and staff reductions, occurring roughly once every five years. As a result, only four government departments have not seen their names change in the past three decades, while the average State Council department has gone 13.6 years between major reshuffles, said He Yanling, a professor at the School of Government at Sun Yat-sen University in Guangzhou. "There are now fewer departments involved in economic management and there is greater focus on social management. The focus of the departments has also shifted from control to regulation," she said. After the reforms, the 27 departments of the State Council will be reduced by two to 25.

By streamlining the way it functions, the government is on track to further transform its role by allowing the market to play a bigger role in economic activity, said Chi Fulin, an economist and director of the China Institute for Reform and Development in Haikou, the capital of Hainan province. For many years, the government-dominated economic growth model saw strong GDP as a top priority and invested heavily to achieve that result, resulting in an imbalance between investment and consumption and other issues such as overcapacity, resource waste and environmental pollution, he said. To change the situation, a clear boundary has to be set between the market and the government, monopolies have to be broken, and the process of administrative approval needs to be simplified, he added. That view was echoed by He in Guangzhou. "The fundamental point of government restructuring is to reduce management overlap and allow each department to take control of its own field," she said. "When a specific department has to accept the consequences of its decisions, responsibilities cannot be shirked if problems occur."

While the earlier reforms were driven by domestic market forces and the need for China to become more integrated with the global economy, the country can still learn the lessons of history, especially the experiences...
of Japan in the 1980s, said Bai Zhili, associate professor at the School of Government at Peking University. At the time, Japan's economic and market control was highly bureaucratic and government involvement pushed forward the nation's economic takeoff, he said. However, when the economy stopped growing in the 1990s, Japan's central government was forced to relinquish some of its power to local governments and privatize state-owned enterprises to stimulate the market. The reforms successfully prevented further economic deterioration, he said.

In addition to the market, there is also society. As social networking platforms such as micro blogs become more popular in China, the government will need to update the administrative model and pay greater attention to public opinion as a means of sustaining social stability and harmony, said Chi Fulin. The government needs to further open the public services sector and encourage social forces, such as NGOs, to participate in the provision of public services. A dialogue mechanism should also be established to strengthen communication between government and society at large. Public expectations for better living standards now revolve around high-quality housing, a higher standard of education and cleaner air, a much more demanding set of priorities from 20 years ago, when most people simply wanted warm housing and sufficient food, said He. Departments providing social services accounted for 35 percent of State Council departments in 2007, while it was less than 30 percent in 1982, she said. China still has much to learn about social management. "It seems to be more important than just financially helping some poor families. The government has to be able to use the funds collected through taxation to benefit the entire population," according to Jia at Tsinghua University. The reform of government still has a long way to go. "Putting power in the cage of regulations" will require the government to become more open and transparent, said Chi. Also, the ambiguous boundaries between the powers of the decision-makers, the administration and monitoring unit could be a breeding ground for corruption, he said.

Source: Hu Yongqi, Lan Lan, and Fu Jing: Reforms moving with the times, China Daily, 2013-03-11

Analysis: China heads back to the '90s in economic reform drive

China is poised to launch its most serious economic reform drive since the 1990s after a series of top appointments at the weekend put the architects of Zhu Rongji's clash with state owned enterprises in charge of key economic agencies. Vice Premier Ma Kai, Finance Minister Lou Jiwei and central bank governor Zhou Xiaochuan were all Zhu lieutenants at the State Commission for Restructuring the Economy, which drew up the blueprint to sever the army's ties with business and make millions jobless as state-owned enterprises (SOEs) were reformed. They headline a clutch of officials in Premier Li Keqiang's new line-up, who are broadly considered pro-business economic reformers able to finish the work started by arch-reformer Zhu when he was premier in a way that meets the different economic conditions of today. Zhu was credited with getting China into the World Trade Organization in a move that required shutting thousands of inefficient businesses and ultimately set the nation's exporters on course to become the world's most prolific, driving the economy to No.2 spot behind the United States in the process. The pace of reform hasn't been matched since, allowing SOEs to expand their share of economic activity and retain their preferred borrower status at the nation's banks, which critics say starves the private sector of capital and chokes innovation.

The need for an energetic push on economic reform is acute, not least because easier reforms have been done and China's economy, now more than five times the size it was when Zhu left the stage, will respond in more muted fashion. In his first news conference since taking charge of the world's second-largest economy, Premier Li pledged on Sunday to take on vested interests in order to ensure the economic restructuring needed to recalibrate China's growth engine and keep it ticking over smoothly for the long term.

China has set a 7 percent annual economic growth target in its five-year plan that runs until 2015 and has pledged to double household income over the coming decade, implying the growth target will stay for 10 more
Economists say China must raise economic productivity massively to do so, especially as it plans to spend 40 trillion yuan ($6.4 trillion) in the next phase of urban development, which envisions shifting 400 million people from the countryside to cities over the next decade. Until then, the best guess is Li's agenda will be focused on fiscal changes that redistribute income and promote private consumption, cutting China's reliance on investment-led, export-oriented growth while pursuing the next phase of urbanization that is designed to drive domestic economic activity.

Zhou, who took control of the People's Bank of China (PBOC) in 2002, is the architect of broad financial reforms that have spawned fledgling capital markets, liberalized some interest rates and broken the peg between China's yuan and the U.S. dollar - a step along the path to turning it into a global currency on a par with the greenback. Keeping him in the job is seen as a clear statement of intent that work started must now be finished. Lou, the new Minister of Finance, said in an interview with Reuters in November that China's easier reforms had already been accomplished and only harder ones remained, including tax reform and for more freedom of movement and convertibility for the yuan currency, though at a pace that fosters capital market strength. "Right now, Chinese banks are pretty strong, but the capital markets are pretty weak. Just opening up the capital account without developing the capital markets would lead to problems, so there is much reform to do," said Lou, who at the time was head of the sovereign wealth fund China Investment Corp. Xiao Gang, named China's top securities regulator on Sunday, will have a big hand in making those reforms happen. "The financial industry should not be complacent. Instead, it must seize the opportunity to continue its reforms and restructuring," Xiao, a former PBOC deputy governor under Zhou, wrote in a February article in the state-run China Daily, for which he frequently writes.

Source: Nick Edwards: Analysis: China heads back to the '90s in economic reform drive, Reuters, Mar 18, 2013

**Consumption in China may be much higher than official statistics suggest**

In 2012, according to estimates by Jonathan Garner and Helen Qiao of Morgan Stanley, a bank, the Chinese spent over 2.3 trillion yuan ($370 billion) on domestic tourism alone. And yet China’s GDP statistics captured only a tiny part of that spending, they argue, as well as missing spending on financial services, health care and housing. As a result, official figures show private consumption languishing at around 35% of GDP. Morgan Stanley’s “bottom-up” calculations, by contrast, imply that it has grown since 2008 to almost 46% of GDP (see chart). Mr Garner and Ms Qiao draw on company reports and industry studies to fill gaps in the official data, which, they say, undercounted consumption by $1.6 trillion in 2012, more than Australia’s entire GDP. Their calculations echo earlier studies, which also found that official statistics undercount consumption, albeit by a smaller margin.

As well as stuff bought offshore, spending online is also undercounted, the two economists argue. On a single weekend in November, Chinese consumers spent more than $3 billion on two websites, Taobao and Tmall (both part of Alibaba, an online giant), in celebration of “singles’ day”, the bachelor’s equivalent of Valentine’s day. But official statistics have failed to keep pace with changing consumer habits, Ms Qiao argues, neglecting entire categories of e-spending. Online gaming, for example, is largely missing. Yet it amounted to 53 billion yuan ($8.5 billion) last year, according to Morgan Stanley’s tally of revenues earned by online gaming firms.

China’s statistics have long been viewed with skepticism or worse. Some economists worry that they fail to reflect reality, others that they slavishly reflect political imperatives. In 2002 Thomas Rawski of the University of Pittsburgh complained about a “tornado of deception”. Five years later Carsten Holz, then of Princeton
University, said that official statistics should be taken with a “rock of salt”. When Li Keqiang, now China’s prime minister, was party chief of Liaoning province in 2007, he called the province’s output figures “man-made” and “for reference only”.

But things are not as bad as they were. China’s National Bureau of Statistics (NBS), for example, long ago stopped relying on provincial output figures to calculate national GDP. China’s economic census in 2004 gave the national statisticians a better baseline for subsequent work. In 2006 a book published by the OECD argued emphatically that China’s national accounts are inevitably “wrong”, in that they are forced to plump for one of a range of plausible figures, but that they are not politically manipulated. But the NBS does not make it easy for independent outsiders to cross-check their work. Sceptics instead look for inconsistencies between China’s growth figures and other indicators, such as power generation or cement output. To track Liaoning’s economy, Mr Li looked at rail cargo, bank lending and electricity consumption. Not every statistical distortion serves to flatter China. Indeed, some of the biggest remaining flaws in China’s statistics are politically awkward. The official figures may, for example, exaggerate the politically sensitive income gap between urbanites and rural folk by as much as 40%, according to Jinjun Xue of Nagoya University and Wenshu Gao of the Chinese Academy of Social Sciences.

The understatement of consumption also gives ammunition to China’s critics, who worry that its economy relies too heavily on unsustainable investment and lament the government’s failure to rebalance the economy. Mr Garner and Ms Qiao’s alternative calculations imply instead that rebalancing is under way. In estimating consumption’s growing role, they assume that the hidden spending is not captured elsewhere in the GDP figures. If, in fact, this extra spending is misreported as something else, then consumption’s share of GDP would be even bigger.

Source: Consumption in China may be much higher than official statistics suggest, The Economist, Mar 30th 2013

From 1st paper currency to world success story

As a financial innovation pioneer, Chengdu has, in many ways, been the springboard for the growth of the modern financial services industry in China. There are 60 banking institutions, including those from overseas, operating in Chengdu, which has been designated as a financial center in Southwest China by the State Council, China’s cabinet. But some industry experts point out that the city has played an important role in shaping the modern financial services industry by being the birthplace of the first paper currency in the world, the jiao zi, introduced in 1023 during the Song Dynasty (960-1279).

The State Council, China's cabinet, ranks Chengdu as the financial center of Southwest China. The city is the premier destination in central and western China for foreign-funded banks, insurance companies and listed companies, and leads all other cities in western China in terms of financial transactions. In 2012, more international financial institutions started operating their western China branches in Chengdu, such as South Korean-owned Woori Bank and Cathay Insurance from Taiwan. There are 60 banking institutions, 69 insurance agencies and 57 securities and futures firms based in Chengdu, the Chengdu Daily reported.

According to the Chengdu government's financial office, some international banks set up liaison offices in the city in the late 1990s, and most of the financial institutions, especially international insurance companies, have opened branches in Chengdu in the past five years. "More and more multinational corporations are opening their branches in Chengdu, and the number of foreign financial institutions in the city is also increasing," said Ren Ruichong, head of banking and insurance at the local government's financial work office. A total of 233 Fortune 500 companies operated in Chengdu last year, 26 more than in 2011. Though most international financial organizations initially came to Chengdu to meet clients' requirements, many are now attracted there by
the city's robust and fully operational international financial services system. A total of 13 international banks and 14 international insurance companies have set up branches in Chengdu, while many others are awaiting approval from the China Banking Regulatory Commission to do so, Ren said. "Most of the employees in Chengdu's foreign banks are local hires. Graduates from universities such as Southwestern University of Finance and Economics as well as the University of Electronic Science and Technology of China, provide a good base for financial industry talent and the related financial outsourcing services in Chengdu." Ren said:

Source: Zhao Yanrong in Beijing and Li Yu in Chengdu: From 1st paper currency to world success story, China Daily, 2013-03-01

**China bank results: off the money**

The 2012 results season for the nation’s biggest banks is finally upon us. China’s second-largest lender kicked things off this week, reporting a 14 per cent increase in net income. This sounds good, but it is China Construction Bank’s lowest income growth in six years. That is what happens when Beijing liberalizes interest rates, removing fat interest margins for state banks. Net interest margin fell 5 basis points over the last three months of 2012 at CCB. Other banks will surely have seen similar falls. China’s banks can do some things to offset this trend. As investors seek higher returns than the measly 3 per cent rate on deposits, the demand for higher-yielding wealth management products increases. In the short term, banks can benefit – selling these investment products to boost fee income. CCB’s fee income jumped 30 per cent year-on-year in its fourth quarter. Bernstein notes that the Rmb8tn in assets under management in these products is now equivalent to a tenth of banks’ deposit base, up from just 2 per cent in early 2010.

But this is not all good news for the banks. Demand for wealth management products also boosts the market for cheaper credit through corporate bonds. Over a quarter of the former are invested in the latter. And funding costs for Chinese state-owned enterprises that issue bonds are 100-150bps lower than yields on bank loans. In turn this hurts demand for bread-and-butter loans. As a result, corporate bonds made up two-fifths of medium and long term credit issuance in the second half of last year, while commercial banks made up just 13 per cent – a record high and low. In the long term this could be bad for the banks as buyers of corporate bonds as they swap loans yielding 6.5 per cent, for bonds yielding 5 per cent. Going are the days of easy profits for China’s banks.

Source: Lex team: China bank results: off the money, Financial Times, March 25, 2013

**Official says more reforms in pipeline**

A year after the launch of landmark financial reforms in Wenzhou, Zhejiang province, the city's top financial official said that they will start to have a deep impact in the year ahead. "We're preparing to launch more policies to ensure more instant and effective results," Zhang Zhenyu, director of Wenzhou's financial office and the official in charge of the reform, said during an online interview. Zhang added that it will take three to five years for the full effect of the reform package to be felt. Establishment of a financial organization system, an innovative financial products system, a private capital market system and a financial monitoring system will be the focus of work this year. "The reform aims to solve the problems related to private capital, private financing and private enterprises," said Zhang. To mark the anniversary, a rural commercial bank, Wenzhou's first financing re-guarantee center for small and micro-enterprises, a SME commercial paper service company and other financial organizations were launched on Thursday.

The city’s first rural commercial bank, Longwan Rural Commercial Bank, has increased its total capital stock to more than 1.7 billion yuan ($270 million) from 700 million yuan in November 2012. Zhang added that proposals to establish Wenzhou Securities Co Ltd with an expected capital of more than 3 billion yuan, and Wenzhou Insurance Co Ltd with capital of 1 billion yuan are under negotiation, which are due to be completed
by the end of the year. In the past year, Wenzhou was also the first city in China to launch an index to establish updated interest rates for loans in the private capital market. "The range of the Wenzhou index will be extended from the city to the country by gathering the updated interest rates in all private capital markets," said Zhang. An online credit information system will also be launched, which will provide qualified institutions with local residents’ credit history, including details of credit card purchases and loan repayment records.

Source: Yu Ran in Wenzhou: Official says more reforms in pipeline, China Daily, 2013-03-29

**Shanghai planning to revitalize domestic financial market**

Shanghai, the Chinese mainland's best candidate to become an international financial center, is mapping out plans to revitalize the domestic financial market by giving private capital better access via a series of pilot programs.

One such endeavor is the introduction of the financial brokers system to quench the funding thirst of small-cap firms while regulating the market, according to sources affiliated with the municipal government. The idea of financial brokers derived from the sharp contrast between cash-strapped small-cap firms and an immense network of underground lenders that makes financing accessible, said Fan Yun, chairperson of Shanghai Fushen State Assets Evaluation Co Ltd. "Since many SMEs fail to reach the threshold for obtaining direct loans from banks, they have already turned to these intermediaries. But as the majority are non-registered agencies, we do want to regulate them into a legal framework," said Fan, a national legislator from Shanghai and economic adviser to the municipal government who led a research team in June to study the credit crunch among SMEs. A finance broker is a type of commercial broker or middleman who helps clients evaluate their current financing needs and identify the best way to meet them, Fan said. The job involves investigating a wide range of lending opportunities and then assisting the customer in applying for and ultimately securing the best financing option available.

Hundreds of such financial service intermediaries are running across the city and extending top-notch services to small corporate borrowers, said Dai Jie, head of the international cooperation office of the Shanghai Small Enterprises Center, which is under the auspices of the Shanghai municipal government. Dai said many of these middlemen used to work as bank creditors so that they know how to pursue options that work well with the operating budget of a client. They are well acquainted with the lending policies and seek to identify and secure the best mortgage deals for clients. "The finance broker does all the legwork for the client to find and secure the right business arrangement," he noted. Besides, as commissioned brokers have a vested interest in assisting the client in securing financing, he or she will investigate traditional and non-traditional loan options to find the best solution for a client.

According to Dai, the Wenzhou model established a government-led lending registration that intends to match the needs of lenders and borrowers. But it may deter borrowers as they have to disclose secretive company information such as revenue and assets. To dismiss such concerns and given that these middlemen are strongly service-oriented, "it may be more efficient if the government leaves the business to professionals", he added. Once approved, they will register under the local industrial and commercial bureau and work with the guidance of the SME center. "They can stay as what they used to be and don't need to transform into financial companies. Rather they help companies get loans and examine and evaluate the risks for banks. It is a win-win situation," Fan said. Dai noted that many financial service intermediaries surveyed by the research team welcomed such proposals because the legal status would free them from "living in the dark".

Shanghai is home to more than 340,000 SMEs, accounting for a predominant share, or 96.7 percent, of all types of companies in the city. Small firms provide 54.6 percent of the city's job opportunities, according to government figures. However, financing difficulties remain one of the top issues plaguing these firms. For
example, Shanghai Yulong Biotech Ltd found it difficult to obtain loans due to lack of collateral, since its production base is in Shandong province.

Source: He Wei: Shanghai planning to revitalize domestic financial market, China Daily, 2013-03-14

**Fiscal, taxation policies need improvement**

China's new finance minister has given his first public speech and called for more reforms to bolster the country's inclusive growth. Speaking at a forum, Lou Jiwei highlights the need to improve fiscal and taxation systems. Lou Jiwei, in his first public speech after being named China's top finance official, says the country should offer more opportunities to individuals to realize inclusive growth. That in turn boosts fiscal revenues for the government to re-distribute. He also warns against raising high fiscal revenues and lifting government spending to support public welfare, calling them "wrong ways". Lou Jiwei said, "It is possible for us to slide down the wrong ways. The right way is an arduous way of reform, and a way toward inclusive growth. China is making an effort to avoiding the wrong ways and sticking to the right way."

The finance minister was also frank on the need to improve current fiscal and taxation policies. Lou Jiwei said, "As we can see, many public welfare policies are imperfect and lack checks. We should help the poor, not the lazy. Improving the fiscal and taxation systems requires support for related reforms and a focus on setting up a mechanism, so as to promote inclusiveness." Lou admits he feels the pressure of the 1.2 trillion yuan fiscal deficit, and vows to adopt policies to curb local governments' debt expansion. Lou also says the government will gradually hike dividend requirements for state owned enterprises to boost public finances.

Source: Fiscal, taxation policies need improvement, CCTV, 2013-03-26

**New Hands Take the Financial Regulation Wheel**

Regulatory leaders have been selected to continue steering China toward financial sector reform. Re-appointed to the post of central bank governor – and ending wild speculation about a possible successor – was Zhou Xiaochuan. On top of that, the 63-year-old won a promotion by being assigned as one the 23 vice chairmen serving on the Chinese People's Political Consultative Conference (CPPCC).

Likewise retaining his position in the new government under recently named President Xi Jinping and Prime Minister Li Keqiang was Chen Yuan, 68, who has served as chairman of China Development Bank since 1998. He also doubles as a CPPCC vice chairman.

Xiao Gang was transferred to head the China Securities Regulation Commission (CSRC) from the Bank of China, where he was chairman. He was also named to the party's high-level Central Committee. As CSRC chairman, Xiao is expected to continue moving forward with pro-market policies introduced by Guo. He and Guo are said to have different management styles: Xiao has been called studious, shy and good-natured. But the two men share a commitment to market-oriented progress: Xiao told reporters in March he supports consistency in securities regulations.

Taking the helm as the new Ministry of Finance chief was Lou Jiwei, who was transferred from the top post at China Investment Corp. (CIC), China's sovereign wealth fund.

Zhou's re-appointment followed his success in establishing a new model for governing the People's Bank of China, which is under the State Council, China's cabinet. The central bank led by Zhou has spearheaded financial reforms that began a decade ago, while also directing monetary policy. Zhou is a macroeconomics expert known for firm, market-oriented views. He's taken advantage of opportunities to systematically push forward reform, and has won acclaim for capably maintaining a dialogue with the international finance community. His work is said to have benefited China's finance industry by providing a strong cornerstone for financial regulation. By promoting Zhou as well as Chen to CPPCC posts – considered national leadership positions – those at the
government's top rung affirmed support for financial reform. Zhou and Chen are said to have the experience and vision China will need over the next few years as its financial system continues to adjust.

http://english.caixin.com/2013-03-27/100507179_2.html

China plans bond overhaul to fund $6t urbanization

China plans major bond market reform to raise the money the ruling Communist Party needs for a 40 trillion yuan ($6.4 trillion) urbanization program to buoy economic growth and close a chasm between the country's urban rich and rural poor. The Party aims to bring 400 million people to cities over the next decade as the new leadership of president-in-waiting Xi Jinping and premier-designate Li Keqiang seek to turn China into a wealthy world power with economic growth generated by an affluent consumer class. The urban development would be funded by a major expansion of bond markets, sources with leadership ties, and a senior executive at one of China's "Big Four" State banks, who was formerly at the central bank, told Reuters.

"The urbanization drive will push the domestic capital market liberalization agenda," the senior bank executive said on condition of anonymity. "Urbanization is Li Keqiang's big project. He has to get it right and he is willing to pursue innovation to make it a success." Set to be confirmed as premier at the end of the annual meeting of China's rubber-stamp parliament, which opens next week, Li must find ways to pay for the urban development that he has made a policy priority. Central and local governments, as well as bank loans, will fund the costs, the sources said. But, sweeping reforms to create a fully-functioning municipal bond market, boost corporate and high-yield bond issuance and actively steer foreign capital into the sector, are crucial to raising the sums of money China will need, they added.

China's economy largely relies on State-directed bank lending to fund investment projects, but the massive 40 trillion yuan outlay envisaged to urbanize the rural outskirts of some 270 cities is far beyond the means of the current system. Bank credit quality was badly strained by the economic stimulus program of 2008 that, at a headline 4 trillion yuan, was only a tenth the size of the urbanization program. By the end of 2010, local governments had racked 10.7 trillion yuan of mainly bank debt to fund their commitments to the stimulus. Total debt outstanding in China's fledgling bond market was 26.4 trillion yuan as of the end of January 2013, People's Bank of China data shows - barely a sixth of the size of the US bond market - and most of what is traded is issued by policy banks to support their lending.

The need for bond market reform has grown more urgent since December, when Li accelerated a commitment in China's 12th Five-Yar Plan (2011-15) to spend 40 trillion yuan on urbanization by 2030. That money will now be spent over the next decade. "(Li) Keqiang changed the target date during the Central Economic Work Conference last December," said a second source with leadership ties. Currently, China lacks a properly functioning municipal bond market and is only just developing high-yield bonds, both of which would be needed to attract the investment capital sought.

In the face of slowing exports, the government wants to raise domestic consumption's share in the economy to close one of the world's widest gaps between rich and poor and quell discontent among those Chinese who feel they missed out on blistering economic growth of the past three decades. Urbanization could cure China's economic imbalances, a study by consultants at McKinsey showed last November, putting it on a path to domestic consumption-led growth within five years to replace three decades of investment and export-driven development that stoked global trade tensions. The government hopes 60 percent of its population of almost 1.4 billion will be urban residents by 2020, from about half now, and will build homes, roads, hospitals and schools for them. But urbanization and market reform must go hand in hand, as simply adding to housing stock risks creating "dead cities", according to Xia Bin, a former adviser to the central bank and now head of the financial
A senior financial diplomat in regular contact with Chinese officials concurred. "The focus should not just be on construction. They should also focus on creating a market," the diplomat said. "If they fail to create a market, they will end up with an urban poor much worse off than the rural poor."

Source: Xinhua: China plans bond overhaul to fund $6t urbanization, 2013-03-01

PE, VC firms not allowed to invest in public funds

Private equity and venture capital firms are not allowed to invest in public-offered funds, the National Development and Reform Commission said. In February, the China Securities Regulatory Commission released a rule stating that PE and VC firms can apply for fund management businesses, which may be implemented on June 1. The NDRC also said that a fund between 100 million yuan ($15.92 million) and 500 million yuan should be registered with provincial departments, while a fund larger than 500 million yuan should be registered with provincial departments and then be presented to the NDRC.

Source: PE, VC firms not allowed to invest in public funds, China Daily, 2013-03-29

Government unveils 2013 intellectual property plan

An interdepartmental agency comprising 28 Chinese government organizations last week released its annual intellectual property plan of action. Composed of 84 detailed measures, the plan is intended to fulfill eight major tasks, including intellectual property creation, protection, utilization, management and awareness promotion. Last year, the agency issued 90 measures. Despite having fewer items, this year's plan has more clearly defined targets regarding the agency's next steps, said Huang Qing, director of the protection and coordination department at the State Intellectual Property Office.

Two of the focuses will be review and assessment of the Outline of the National Intellectual Property Strategy, which was launched five years ago, and IP strategies in some key industries, Huang said. Another highlight of this year's plan is a greater focus on work that requires cooperation among government departments. According to the plan, the nation's intellectual property strategy will be integrated with policies for a number of industries. The plan calls for increasing efforts in terms of IP risk assessment and advisory functions in some emerging industries of strategic importance. Huang said that more than half of the measures in the plan are aimed to encourage "innovation among all members of society". "On the road of innovation-powered development, the intellectual property strategy plays an important role in commercializing the fruits of innovation," he said.

In 2012, more than 2 million patent applications were filed in China, including nearly 20,000 via the Patent Cooperation Treaty. More than 1.2 million patents were granted. Of those, 217,000 were invention patents, an increase of 26.1 percent compared to 2011. The quantity of patents is the foundation of quality, and a basic indicator used to judge a nation's innovative capacity, said Huang. "The rapidly growing number of patents over recent years shows an increasing awareness of innovation," he said. However, he stressed that patent quality, not quantity, is the more important indicator.

Chen Wentong, deputy director of the national trademark office, said that having a proper trademark strategy provides "strong support and a guarantee of the nation's innovation strategy". "Today China is still short of internationally recognized famous brands," Chen said. Although it ranks first in the world in terms of the number of trademarks, the brands themselves are relatively weaker, Chen said. The trademark authority is planning to build a national trademark research center and a clearinghouse for trademark-related administrative enforcement and judicial information, Chen said. Last year, the number of trademark applications nationwide grew 16.3 percent to 1.6 million. At the same time, the number of copyright registrations for software grew to
139,000 and registrations of other works reached 688,000, a record high in both categories.
Source: Zhang Zhao: Government unveils 2013 intellectual property plan, China Daily, 2013-03-27

**Cost of Environmental Damage in China Growing Rapidly Amid Industrialization...**

The cost of environmental degradation in was about $230 billion in 2010, or 3.5 percent of the nation’s gross domestic product — three times that in 2004, in local currency terms, an official Chinese news report said this week. The statistic came from a study by the Chinese Academy of Environmental Planning, which is part of the Ministry of Environmental Protection. The figure of $230 billion, or 1.54 trillion renminbi, is based on costs arising from pollution and damage to the ecosystem, the price that China is paying for its rapid industrialization.

**China to merge health ministry, family planning commission**

China plans to set up a national health and family planning commission by merging the existing Health Ministry with the National Population and Family Planning Commission, a top official said Sunday. The integration of the two ministerial-level departments is aimed at better upholding the basic national family planning policy, improving medical and health care services and deepening institutional reform in the medical care and public health sectors, State Councilor Ma Kai said in a report to the country's national legislature. "It also aims to optimize the resource allocation of medical care and public health services and that of family planning services, as well as improve the health of the people, including newborns," said Ma, who is also secretary-general of the State Council, in the report on the State Council institutional reform and transformation of government functions.

The proposed national health and family planning commission will be responsible for planning the resource allocation of medical care, public health and family planning services, establishing a basic medicine system to standardize drug prices, formulating China's family planning policy, and supervising and administering public health, medical care and family planning services, Ma said. The functions of studying and drawing up the population development strategies and population policies of the existing National Population and Family Planning Commission will be transferred to the existing National Development and Reform Commission, he said. The existing State Administration of Traditional Chinese Medicine, currently affiliated with the Ministry of Health, will be administered by the proposed national health and family planning commission, he said. "After the reform, China will adhere to and improve the family planning policy," Ma said. The proposed integration of the two ministries drew applause from legislators and experts.
Source: Xinhua: China to merge health ministry, family planning commission, 2013-03-11

**China to elevate food, drug agency**

China plans to elevate the status of the existing State Food and Drug Administration to a general administration in order to strengthen regulation and boost people's confidence in the country's food and drug products, a top official said Sunday. Overlapping of supervision from different departments and some supervision "blind spots" are weak links of the current food safety supervision system, according to a report delivered by State Councilor Ma Kai to the parliament's annual session.

The proposed ministry-level General Administration of Food and Drug will replace a large group of overlapping regulators with an entity similar to the Food and Drug Administration of the United States. It will combine the functions of the existing State Council's Food Safety Office, the State Food and Drug Administration as well as the food supervision duties from the General Administration of Quality Supervision,
Inspection and Quarantine (AQSIQ) and the State Administration for Industry and Commerce (SAIC), Ma said. The general administration will be responsible for supervising food and drug safety in the process of production, circulation and consumption, Ma said in the report on the State Council institutional reform and transformation of government functions. Staff and departments of the SAIC and AQSIQ concerning food quality supervision will be transferred to the new general administration, he said. The country's new national health and family planning commission will be responsible for assessing food safety risks and forming food safety standards. The Agriculture Ministry is responsible for the quality and safety supervision of the farm produce, he said. The Commerce Ministry's supervision responsibility of authorized pig slaughtering will be transferred to the Agriculture Ministry, he said.

China's current food safety system involves at least five departments, including health, agriculture, quality supervision, industry and commerce administration, and food and drug supervision. Insufficient communication and coordination among those agencies often resulted in low work efficiency and supervision loopholes. "Departments of the State Council are now focusing too much on micro issues," Ma Kai said, noting that overlapping in government functions often leads to buck-passing among government departments. "We should attend to our duties, and we must not meddle in what is not in our business."

Source: Xinhua: China to elevate food, drug agency, 2013-03-11

China to restructure energy agency

China plans to restructure the National Energy Administration (NEA) in order to streamline the administrative and regulatory systems of the energy sector, according to a report delivered by State Councilor Ma Kai to the parliament's annual session on Sunday. The new NEA will incorporate the functions of the State Electricity Regulatory Commission, Ma said in the report on the institutional reform of the State Council, China's cabinet. The State Electricity Regulatory Commission (SERC) is to be dissolved, according to the state councilor.

The main responsibilities of the consolidated administration will include drafting and implementing energy development strategies, plans and policies, advising on energy system reform and regulating the sector, Ma said. The planned restructuring is aimed at "further pushing forward the development and reform of the energy sector and enhancing its supervision and regulation," he added. The new administration will remain under the jurisdiction of the NDRC, which will focus on coordination between planning in the energy sector and that of the national economy and social development, Ma said.

"China is a large energy consumer. Ensuring national energy security and the development of the energy sector is of significant importance," according to a statement from the State Commission Office for Public Sector Reform. China consumed 3.62 billion tons of standard coal equivalent in 2012, up 3.9 percent year-on-year, the National Bureau of Statistics (NBS) reported in February. Last year, the consumption of coal, crude oil, natural gas and electricity rose 2.5 percent, 6.0 percent, 10.2 percent and 5.5 percent from a year earlier, respectively. "Electricity is an important form of energy," according to the statement. "Keeping the electricity sector outside the jurisdiction of the NEA has resulted in the overlapping of functions and responsibilities between the NEA and the SERC, a disadvantage to the overall planning of the energy sector and the development of the electricity industry." The overlapping duties of the two agencies include electricity sector reform, as well as investment entry, project approval and pricing in the sector, according to the statement.

Source: Xinhua: China to restructure energy agency, 2013-03-11

CNPC sets up two shale gas fields

China National Petroleum Corp, the country's largest oil and gas producer, said on Tuesday that it has
established two national-level shale gas fields with 23 wells. One of the fields is located in Changning-Weiyuan, Sichuan province, and the other is in Zhaotong, Yunnan province. The company said it owns the intellectual property rights of four sets of exploration technologies.

By March 10, the company had finished setting up 16 wells in the Changning-Weiyuan field. The daily output in that field of a single straight well is between 2,000 cubic meters to 33,000 cu m and that of a horizontal well is between 10,000 cu m to 160,000 cu m, according to the company. The company has seven wells in the Zhaotong field, with the daily output of the straight wells at 2,500 cu m and of horizontal wells between 15,000 cu m and 36,000 cu m. "These wells have good potential for future exploration," CNPC said. According to China's 12th Five-Year-Plan (2011-2015) on the energy industry, the country will achieve the large-scale commercial production of shale gas by the end of 2015.

Source: Du Juan: CNPC sets up two shale gas fields, China Daily, 2013-03-13

Guangdong comes out top in competitiveness ranking

South China's Guangdong province has the strongest economic competitiveness out of all 31 mainland provincial-level regions, followed by Jiangsu province, Shanghai and Beijing, a think tank report said on Thursday. Chongqing, the only inland municipality, now ranks 15th on the list, while Jiangxi province dropped five places, according to the Report on the Overall Competitiveness of China’s Provincial Economy released by the Chinese Academy of Social Sciences. Instead of the GDP of each provincial-level region, the contribution of high-tech to industrial added value and comprehensive energy consumption per 10,000 yuan of GDP were given great weight among all 210 indicators.

Source: Guangdong comes out top in competitiveness ranking, China Daily, 2013-03-01

Shanghai China's most sustainable development region: report

Shanghai remains China's most sustainable region of development, according to the 2013 China Sustainable Development Report issued on Monday. Issued by the Chinese Academy of Sciences (CAS), the report also cites the municipalities of Beijing and Tianjin, as well as the provinces of Jiangsu, Jilin, Zhejiang, Liaoning, Hainan, Guangdong and Fujian, as being highly sustainable. A similar report issued last year listed Shanghai, Beijing and Tianjin, as well as Guangdong and Jiangsu provinces, as the country's most sustainable regions of development. CAS reports on science and high-tech development, as well as its sustainable development report, have been reprinted by Science Press to highlight the government's resolution to innovate and construct an environmentally friendly society. Wang Yi, vice head of the CAS Institute of Policy and Management, said the 2013 development report contains deep analyses of global development trends and specifies a direction for China's development.

Source: Xinhua: Shanghai China's most sustainable development region, 2013-03-26

Grain production climbing toward record

China's grain output is likely to hit a record high this year and bring a 10th consecutive year of growth, as the nation steps up efforts to boost agricultural technology and infrastructure, a senior official said. "There is no pressure at all to achieve that goal," said Niu Dun, vice-minister of agriculture and a member of the Chinese People's Political Consultative Conference National Committee. "That confidence comes from the innovation of three main food staples - rice, wheat and corn." "The use of one of the three improved quality staple crops can increase the yield by at least 20 percent per unit," he said. "China's population will rise to 1.6 billion by 2035," Niu said. "If per capita grain consumption in China were to equal the current level of 400 kg per year, China would need nearly 650 million metric tons of grain by that time." He said that if China were able to buy all the grain from the global trade market, it would nearly meet the gap between the rising demand and the current grain
China's grain output rose 3.2 percent to 589 million tons in 2012, rising for the ninth consecutive year, according to the Ministry of Agriculture. Against the backdrop of the global food crisis, China's grain "miracle" further contributes to global food security. "It is not a problem of whether we can feed ourselves, but rather a foundation of social stability, China's deepening reform and global food security," Niu said.

Experts forecast that China's annual grain output will rise by 50 million tons in the next decade, but the strong surge in grain imports has also triggered widespread concern about the country's long-asserted goal of meeting 95 percent of demand with domestic supplies. "China has the potential to raise its per-unit grain yield," said Huo Xuexi, dean of school of the economic and management at Northwest Agriculture and Forestry University. "But a decline in arable land, both in quantity and quality, the rapid outflow of rural labor, and severe environmental pollution present China with a very difficult task." Huo, who is also a member of CPPCC National Committee, said China's annual grain imports are likely to reach 100 million tons in a few years and, at that time, the nation will rely more on the global market especially for soybean imports.

During a CPPCC group discussion on grain security, the problem of food waste was also brought up. Members suggested reducing grain waste in transport, consumption and storage. Food valued at 200 billion yuan ($32 billion) is thrown away during consumption annually in China. The volume is equivalent to the amount consumed by more than 200 million people every year.

Premier points the way for farming

Agricultural modernization can help drive economic growth, Li says. Making his first research tour since becoming premier, Li Keqiang highlighted agricultural modernization on Thursday, describing it as one of the main engines to drive China's development. Li visited a farm in Guli, a town in Changshu city, Jiangsu province, after touring a garment factory in Jiangyin. He was shown new developments in urbanization in which farmers' communities transformed themselves into communities in an urban setting with members conceding their farm plots to specialist farmers. Li welcomed them as both new urban residents and new farmers, saying if they make a good effort in building their communities, small-town life can be easier and more convenient than living in big cities.

In the wheat fields of Guli, he told local residents "the earth can yield gold" if only there are policies to motivate farmers to grow more. "Farmers should not only be encouraged to produce more grain, but also to produce higher quality grain," he said. But producing more is impossible on small plots, Li said. "It can only be done through concentrating the land into larger farms." In the past 10 years, about 450 hectares of Guli's farmland has been transformed into larger farms under the management of professional cooperatives. Li said agricultural modernization will help power China's change together with urbanization, industrialization and use of information technology.

Xi Jian, an official from the local government in Changshu, said: "The crop yield has increased rapidly through the adoption of large and modern machinery, which can be put into use following the transfer of land." According to the local government, the value of agricultural output in Changshu reached 6.27 billion yuan ($1.01 billion) in 2012, up 10.5 percent on the previous year. The local government plans to develop 10 large agricultural cooperatives and five service centers to repair farm machinery.

Song Hongyuan, a researcher with the Research Center for Rural Economy, affiliated with the Ministry of Agriculture, said Li's words echoed the theme of the No 1 document released this year by the Central Committee of the Communist Party of China. The document called for improving agriculture's economy of scale, encouraging more large farms and professional farmers, and fostering various types of farming cooperatives. He
said the government must heighten vigilance against the use of farmland for non-agricultural purposes, adding that all legal land transfers should be done on a voluntary basis by farmers.

Source: CANG WEI in Changshu, Jiangsu and ZHENG YANGPENG in Beijing: Premier points the way for farming, China Daily, 2013-03-29

**China's banks finance more small companies**

Chinese banks gave more loans to small and micro-sized enterprises in 2012 to support their development, the China Banking Association said in a report on Friday. The outstanding loans to the country's small and micro-sized enterprises stood at 14.77 trillion yuan ($2.35 trillion) as of the end of last year, accounting for 21.95 percent of the total outstanding loans in China's banking sector, the report said. Bank loans to small and micro-sized enterprises increased 19.73 percent year on year in 2012. The growth was 4.09 percentage points higher than the average level of all bank loans last year.

China has more than 10 million such enterprises, but the country's banking institutions tended to be reluctant to lend to them over risk concerns. A recent government report said that financial institutions will receive guidance to help step up support for small and micro-sized enterprises.

Source: Xinhua: China's banks finance more small companies, 2013-03-15

**Manufacturing expands in Feb, but at slower pace**

China's manufacturing industry expanded for the fifth consecutive month in February, but at a weaker pace, influenced by the Spring Festival holiday and a decline in new orders, suggesting a modest economic recovery. The Purchasing Managers' Index, a leading economic indicator showing operational activities in the manufacturing sector, dropped to a five-month low of 50.1 in February, compared with 50.4 in January, the National Bureau of Statistics and the China Federation of Logistics and Purchasing reported on Friday.

HSBC Holdings Plc also released the manufacturing PMI for February based on its own survey. A reading of 50.4, a fall from 52.3 in January, showed the same moderating trend in economic growth. "It doesn't signal that China's recovery is losing steam, given the greater volatility of readings around the Chinese New Year period," said Qu Hongbin, chief China economist at HSBC.

The official statistics showed that new orders and export orders retreated last month, due to weakened demand. The bureau said the sub-index for new orders dropped to 50.1 from 51.6 in January, while the reading for export orders fell to 47.3, a drop of 1.2 points from a month earlier.

Source: Chen Jia in Beijing and Yu Ran in Shanghai: Manufacturing expands in Feb, but at slower pace, China Daily, 2013-03-02

**Chinese parliament holds 83 billionaires**

The legislature of the world's last major communist country is almost certainly the wealthiest in the world, according to a popular rich list that names 83 dollar billionaires among the delegates to China's parliament this year. Meanwhile, in America there is not a single billionaire in the House of Representatives or the Senate while the wealthiest member, Texas Republican Michael McCaul, is estimated to be worth a paltry $500m.

Among the delegates gathered in Beijing this week to attend the National People’s Congress, the China-based Hurun Global Rich List identified 31 people with more than $1bn in personal assets. The richest is Zong Qinghou, founder of Chinese drinks maker Wahaha, with an estimated fortune of $13bn, according to Hurun. The NPC is tasked with approving legislation proposed by the ruling Communist party but in practice it plays a mostly ceremonial role. Another 52 billionaires are delegates to the Chinese People’s Political Consultative Conference, a toothless advisory body that meets at the same time as the NPC for about two weeks
each year in early March. Given the difficulties involved in calculating the hidden wealth of many of China’s top leaders and their families, analysts say the Hurun report probably seriously understates the true number of super-wealthy participants in the political sessions. The number of dollar billionaires identified by the report was up 17 per cent this year from last year, when 28 billionaires attended the NPC and 43 were at the CPPCC.

In China’s authoritarian but nominally egalitarian system, the convergence of power and great wealth is a highly sensitive topic and one that Communist leaders themselves regard as potentially destabilising. Xi Jinping, the newly appointed head of the party and military who will formally take over as president by the end of the current NPC session on March 17, launched a campaign against extravagance and corruption immediately upon taking office in November.

“Our government is a totalitarian one with an axe hanging over everybody’s head and the decision over whose head it will fall on lies with officials,” said Xingyuan Feng, a researcher at the Chinese Academy of Social Sciences, a government think-tank. “When businesspeople amass a fortune they need to protect it – so they either find an agent to [do so] or they become an official themselves. “Another popular choice is to acquire a foreign passport and we are already seeing a lot of CPPCC members who have become foreigners.”

The top three richest members of the CPPCC are all sons of Hong Kong tycoons, with Victor Li, the son of Asia’s richest man Li Ka-shing, coming in first with an estimated family fortune of $32bn. Hong Kong’s relatively smooth transition from a former British colony back to Chinese territory over the last 15 years has been helped by support from the territory’s richest citizens, who were mostly co-opted by the Communist party in exchange for business opportunities on the mainland.

The average fortune among the 83 wealthiest NPC and CPPCC delegates is $3.35bn, according to the Hurun report, compared with the average annual wage for Chinese urban workers of less than $7,000. Each of the 83 richest members of the US House of Representatives and Senate has an average of $56.4m, according to figures from the Centre for Responsive Politics. At nearly 3,000 delegates, the NPC is the biggest legislative assembly in the world while the CPPCC boasts around 2,200 delegates.

Source: Jamil Anderlini in Beijing: Chinese parliament holds 83 billionaires, Financial Times, March 7, 2013

**China, the Abnormal Great Power**

China’s rising economic influence has leaders around the world on the edge of their seats. But Beijing is an abnormal great power. Its international potential is constrained by significant domestic economic vulnerabilities, and the inward-looking. Chinese leadership has yet to craft a nimble and constructive international posture. And as the Chinese economy normalizes, its growing pains are laid bare. All this has the effect of elevating risks and aggravating insecurities in China’s neighborhood and beyond.

This is not the path many hoped Beijing would follow. As China became a global economic power, expectations were raised that it would act as a responsible stakeholder, as Robert Zoellick put it when he was U.S. deputy secretary of state. Beijing, it was hoped, would help shape the international agenda—consistent with norms largely established by the West—rather than continue to adhere to long-established national interests. And indeed, Beijing seemed headed that way.

As far back as April 1974, the Chinese leadership was avowing its peaceful intentions. Deng Xiaoping, in a special address to the UN General Assembly, declared that “China is not a superpower, nor will she ever seek to be one. If one day China should change her color and turn into a superpower, if she too should play the tyrant in the world, and everywhere subject others to her bullying, aggression and exploitation, the people of the world should identify her as social-imperialism, expose it, oppose it and work together with the Chinese people to overthrow it.” In 2003, the Communist Party’s theorist Zheng Bijian echoed the sentiment, explaining that China’s economic ascendancy should be seen as a “peaceful development” that posed little threat to its neighbors
but offered many benefits to the world at large.

But expectations were clearly unrealistic. China’s remarkable economic progress has encouraged Beijing to become more rather than less confrontational. Most observers see a diminished likelihood of China playing a positive role in global affairs. The discussion is now about how rising nationalism and related security interests have hardened China’s foreign policy positions. This has created the impression—arguably unfair at times—that Beijing is more inclined to use its economic clout to advance core interests than to strengthen political relationships.

While the country is criticized for becoming more assertive, aggressive, and bullying, in reality it should be seen as being too reactive. Many areas of friction have emerged as a result of these tendencies, including emotionally charged claims over the Diaoyu/Senkaku islands. But these reactive stances emanate from a wider set of issues, including trade and investment flows, intellectual property rights violations, interactions with “rogue” regimes, and other geopolitical concerns. These tensions are manageable. Beijing will soon be forced to take a more nimble and practical outward view—a reactive posture is counterproductive. In the meantime, both China and the United States in particular should focus on building their relationship in the economic realm and on developing more inclusive international policies.

China’s rapid economic rise has pushed it into the unique position of becoming a superpower earlier than expected or intended. The country has had startling economic success, moving from low- to upper-middle-income status and lifting some 600 million Chinese out of poverty in only three decades. Some see Beijing as being able to exercise considerable influence, but in reality, its ability to do so is limited. In transitioning from central planning, China’s institutional base and experience in dealing with sensitive global issues lag well behind its impressive economic achievements, placing it at a disadvantage in working with other major powers. And part of the cost of becoming a more “normal” economy is slowing growth and increased vulnerability to global economic cycles. Beijing is facing a bumpy road ahead. The country will no longer be able to maintain stability by controlling key economic prices, such as interest and exchange rates, and limiting capital movements. Liberalization in the context of internationalizing the renminbi naturally involves greater exposure and risks.

Moreover, despite its economic resurgence, China’s ability to escape the middle-income trap is not a foregone conclusion. Only a handful of middle-income countries have made the transition to high-income status in the past quarter century, and none of them had China’s formidable handicaps. Foremost among these challenges is that China will become old before it becomes rich. Many observers do not realize how relatively poor China is, with a per capita income ranking only around 90th internationally. Even by 2030, only about 10 percent of China’s population will be seen as relatively well off (defined as within the top decile of global incomes) compared with about 90 percent of the population in the United States.

For much of the last decade, friction with China has been most often reflected in trade issues. Headline criticism focuses on complaints that Beijing manipulates the exchange rate and unfairly subsidizes exporters. Increased litigiousness against China does not jibe with the country’s decreasing trade surplus, which has fallen sharply to around 2 percent of its GDP from a high of 8 percent five years ago. Nevertheless, trade tensions with the West persist because of China’s unique position in the East Asian production-sharing network. Components produced by its neighbors are shipped to China for assembly and final export largely to the United States and Europe. China actually benefits much less financially but bears the brunt of trade tensions with the West that should in theory be shared with others in Asia.

Moreover, China is increasingly under attack for promoting indigenous innovation through forced technology transfers or theft. Here, China’s rise directly influences perceptions about its behavior as an international stakeholder as it grapples with implementing wide-ranging structural and legal transformations that
are required to improve the enforcement of intellectual property rights.

Beijing’s efforts are often subject to security restrictions in destination countries. That was demonstrated recently in a congressional report that raised still-to-be-substantiated national security concerns about Huawei Technologies and ZTE, two large Chinese telecommunications companies. These suspicions were based largely on the companies’ presumed connections to the Chinese government.

Further complicating matters is a major component of China’s overseas investment strategy: the search for new energy sources and natural resources. China’s overseas investments and aid flows now dwarf the amounts coming from all other multilateral and bilateral donors. That strategy, too, is not without drawbacks.

Still, the most visceral global reactions to China’s perceived assertiveness come from interactions that are seen as impacting America’s security and humanitarian interests and that are shared to varying degrees by other Asian countries and the EU. China’s real intentions in supporting the six-party talks on North Korea, for example, are questioned. Taiwan is a continuing point of contention with the United States, and Beijing’s position on Tibet attracts emotionally tinged criticism from many quarters.

But events have often forced China to react before it really wanted to. The result is that its actions may not be well considered. This stance harms China’s image as a responsible stakeholder if others see it as being deliberately uncooperative.

China is also deeply suspicious about America’s intentions in launching its much-heralded “pivot” or rebalancing toward Asia, which Beijing has interpreted as attempted containment of Chinese power. Such a move calls into question Washington’s willingness to provide more space for a rising China. The aggressive way that America has been pushing the Trans-Pacific Partnership (TPP) with a host of Asian countries is a case in point. There is little logic in a major regional trade and investment agreement that does not include the region’s largest trader and investor. Yet, the conditions of the TPP gave China no choice but to eschew membership.

Domestic economic development also plays a role in island disputes. Lagging ASEAN countries have pressing energy and other resource needs and often look to these territories and their surrounding waters for oil and seafood. Efforts to be more inclusive should extend to the U.S. pivot. The TPP should have been made more flexible so that China would see itself as having a stake in constructing a productive outcome rather than seeing little to be gained by being included. That lesson should be learned and applied to future trade deals.

Given the charged nature of sovereignty disputes, China and other Asian claimants might be well served by setting aside this question and focusing on narrow confidence-building measures or negotiating less troublesome resource rights, perhaps on the model of Taiwan’s East China Sea Peace Initiative. The United States should avoid making commitments that destabilize the situation and appear to favor one claimant over others. And because the disputes are complex, with multiple claims and overlapping interests, China should recognize that multilateral approaches involving the most concerned regional parties as well as other interests or advisory groups can help achieve fairer and more inclusive solutions—a consistent goal in China’s history of international relations.

A reactive China is helping neither itself nor others. The United States and other major powers should take pains to stress the benefits of more active participation in shaping the international agenda as China enters a riskier period of economic transition. Harsh rhetoric and actions that are perceived as attempts to contain China’s development will not be helpful, but reaching out and constructing sensible solutions would be wise policy for Washington. The key is convincing Beijing that its interests are best served by forging solutions now, showing that compromise and cooperation will help China in the long run, and reassuring Beijing that its concerns will be heard.

Source: Yukon Huang: China, the Abnormal Great Power, Article March 5, 2013
http://carnegieendowment.org/2013/03/05/china-abnormal-great-power/fo53
Why Xi Is Going to Moscow First

Xi Jinping’s first foreign trip as China’s president reflects the remarkable progress made in the Chinese-Russian relationship. But potential pitfalls remain. Related Topics
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China’s new leader, Xi Jinping, will make his first foreign trip as president to Moscow in late March on his way to a meeting of emerging-market leaders in South Africa. This will be followed by two further stops in Africa and a gathering of secondary leaders in south China for an economic forum. The near-term agenda appears designed to show that China has friends in many places. And indeed, the Chinese-Russian relationship has come a long way. But potential pitfalls remain.

First, borrowing from the American experience, it might be reasonable to assume that new leaders meet their allies and close friends before meeting leaders of countries with more complicated and cross-cutting relations. As President Barack Obama is in the process of meeting the new Japanese and Korean leaders before meeting Obama. Moreover, if this approximates Chinese thinking—there was some internal debate about which capital to visit first—President Xi did not have a rich menu of options: North Korea, no way; Burma, Laos, Cambodia, too small; India, too soon. Even if Russia is a default choice, the Chinese certainly appreciated Putin’s traveling to Beijing last June within weeks of his official inauguration, as well as making China the only country he visited the previous fall during the Russian election campaign.

Second, Russia and China share some tactical and even strategic interests in constraining the West’s recent trend toward interference in other nations’ affairs, as in Libya and now Syria. Talks in Moscow would allow Putin and Xi to take stock of global and regional developments—from Afghanistan to Syria and from Iran to North Korea—and compare their world views. For China, Putin personally can be relied upon to keep an arm’s length from Washington and to promote a multipolar world, not one dominated by the United States. For Russia, the growth of China, India, and other emerging powers is clearest evidence of the multipolar world becoming a reality. Thus, demonstrating Sino-Russian cooperation serves the interests of both in offsetting American power and influence. The Chinese have largely chosen to interpret Obama’s “rebalancing” to Asia as part of a policy to “contain” China. For them, showing a working relationship with Russia illustrates that China cannot be contained. For the Kremlin, it permits Putin, in power since 2000, to solidify relations with China’s new leaders as Moscow pays more attention to its sparsely populated and economically underdeveloped eastern regions that physically abut the most dynamic part of the world.

Third, this visit comes at a time of heightened tensions with Japan over the disputed islands in the East China Sea, and Xi may try to woo Moscow to Beijing’s side in its quarrel with Tokyo. The Russians, the Chinese point out, have their own dispute with the Japanese over the South Kuril Islands: why not show mutual solidarity? There, Putin may be expected to tread with caution. For one, the disputed territory is in Russia’s possession; for another, Putin seeks a closer relationship with Tokyo both to help develop Russia’s Far East and to better balance Moscow’s policies in the Asia-Pacific region.

Fourth, the Xi visit to Moscow may seek to achieve a new quality of Sino-Russian arms relations: technology transfers, not just off-the-shelf sales, and even joint development of some weapons systems. In recent years, arms trade between the two countries has gone down because Moscow had been unhappy with Chinese efforts to reverse engineer and produce Russia’s exported systems. However, there are reports of new agreements, especially involving aircraft and jet engines, where Chinese technology continues to lag. Unlike in the 1990s, when infusions of Chinese cash kept the Russian arms makers afloat, Moscow’s decision today will reflect its strategic choice.
Fifth, the visit could also be of symbolic importance in light of ongoing U.S. activity in northeast Asia. The recent nuclear tests and missile launches by North Korea have provided even stronger rationale for the U.S.-led missile defense effort in northeast Asia. The Chinese see this effort as potentially aimed at them, and are increasingly worried. This concern is behind Beijing’s much stronger response to North Korean activities of late. The Russians claim that the U.S.-NATO ballistic missile defense system in Europe might have some capacity against their strategic deterrent. The Chinese seek to capitalize on Moscow’s concerns to entice the Russians to cooperate against the rising U.S. threat to the two countries’ nuclear forces. The Kremlin, however, is less agitated about the U.S. systems in the Pacific. Its preference for now is to reach an accord with Washington in Europe that would offer reassurances that its ballistic missiles are not affected by the U.S. defenses aimed at Iran.

And sixth, the meeting could be a sign of things to come in the energy sector. Hectic negotiating activity in the gas sector has preceded the upcoming visit. After years of haggling over prices for Russian exports to energy-hungry China, Gazprom executives are promoting a target of the end of 2013 finally to reach a deal. Gazprom’s smaller competitors are also looking for infusions of Chinese capital for liquefied natural gas investments. Putin treats Gazprom as among his family jewels, so the prospects for a deal to diversify away from dependency on the European market will rely heavily on his judgment and the price he seeks. Thus far, price has kept the two sides from agreement.

Xi’s trip to Moscow reflects the remarkable progress that has been made in the Chinese-Russian relationship over the past quarter-century, following Mikhail Gorbachev’s May 1989 visit to Beijing that marked the end of the three-decades-long Sino-Soviet cold war. The two countries, once bitter ideological rivals, have managed to build an essentially pragmatic relationship. The list of accomplishments is impressive. Since 1996, a confidence-building agreement on border demilitarization has been in force. Since 1996, a confidence-building agreement on border demilitarization has been in force. Since 2004, their 2,700-mile-long border has been legally fixed and fully demarcated. Since 2008, China has been Russia’s biggest trading partner, having overtaken Germany. And each year, 2.5 million Russians visit China and 750,000 Chinese travel to Russia.

This does not mean, of course, that the relationship is problem-free. The very fact of a resource-rich, population-poor Russia sitting next to a resource-poor, population-rich China is a source of long-term instability. The two countries’ common border looks like a thin membrane separating two very different worlds. The level and structure of Sino-Russian economic exchanges continues to be rather low. Russians are unhappy that they have become a mere raw-materials resource base for China; the Chinese complain about the lack of investment opportunities open to them in Russia. A 2009 accord to spur cooperation between China’s northeast and Russia’s Far East has so far failed to deliver—the crossing points along the border are too few and far between. A recent project to build a bridge over the Amur River, to carry coal by rail, has been repeatedly delayed. This illustrates that while Russia and China have some obvious compatible commercial interests, a difficult common history and different economic systems have constrained cooperation.

Moreover, while Moscow reaches out to relaunch the development of its eastern territories, and seeks to establish its presence and voice in the Asia-Pacific—both bilaterally and through organizations such as the East Asia Summit and APEC—it has not ceased to think of itself as essentially European. Vladimir Putin’s vision of integration within the continent of Eurasia stretches from Lisbon to Vladivostok—not from St. Petersburg to Shanghai. For years, Moscow has been pressing Brussels for a visa-free regime between Russia and the European Union; any such arrangement between Russia and China would be inconceivable.

China and Russia also have diverging interests in a number of areas; they even compete in some. China has been making inroads into former Soviet Central Asia, where Moscow has made it clear that while it could live with a much-expanded Chinese economic presence, it would resist any attempt by Beijing to project its military
presence to the region. The Chinese are clearly unhappy that Russia has been selling arms to Vietnam and that Gazprom has started drilling for oil and gas in the South China Sea, even though outside the waters contested by Beijing and Hanoi. And on several high-profile territorial issues involving the other party, Beijing and Moscow have displayed caution. China did not follow Russia in recognizing Abkhazia and South Ossetia and has taken a neutral stance on the ownership of the South Kuril Islands. Russia, while firmly supportive of Beijing’s sovereignty over Taiwan, Tibet, and Xinjiang, does not take a position on Diaoyu/Senkaku islands in the East China Sea that Beijing and Tokyo both claim or the islands in the South China Sea.

Finally, historical observation suggests that much of China’s motivation in cultivating a good working relationship with Russia is to keep its rear flank safe as it deals with the more difficult issues stemming from its relations with the United States, Japan, and other countries. Over the years, leaders in Beijing have appreciated President Putin’s fiercely independent stance, particularly vis-à-vis the United States, but they are allergic to any sign that Moscow is getting too close to Washington. They know they do not have to fear present-day Russia, which is relatively weak and largely focused on itself, and will be trying, as much as they can, to exploit Moscow’s problems with Washington to their advantage. The Kremlin, while fully recognizing the importance of relations with China on their own merits, will seek to use its Beijing connection to increase incentives for the West to accommodate Russia’s national interests. In the Chinese phrase, it is a case of “same bed, different dreams.”


Chinese premier pressed on cyber spying

Mr. Lew’s visit to Beijing, the first by a senior member of President Barack Obama’s new cabinet, was timed to coincide with the formation of a fresh Chinese government, headed by Xi Jinping, who formally took over as state leader last week. The meetings were the first in public for Mr. Xi and Mr. Li in their new roles and also Mr Lew’s opening meetings with foreign leaders since he was confirmed as Treasury secretary in February. In his discussion with Mr. Li, Mr. Lew distinguished between cyber attacks suffered by many governments and hacking by state-sponsored Chinese entities aimed at stealing commercial secrets. China has been accused by foreign governments, companies and cyber hacking experts of supporting large-scale efforts to extract trade and commercial secrets from global companies. When confronted by such accusations, China has invariably denied any involvement in cyber hacking and insisted that it is itself a major victim of hacking attacks. In Wednesday’s discussion with Mr. Lew, Mr. Li acknowledged the Treasury secretary’s remarks but did not respond at length, according to a US official.

The two sides also discussed China’s exchange rate, a perennial topic in such talks for almost a decade that has slipped down the agenda following steady appreciation in the renminbi by more than 30 per cent against the dollar in eight years. Mr. Lew said he had raised the issue in his meetings with leaders and stressed that the value of the renminbi should be “market-determined”.

Earlier on Wednesday, in a meeting with a group of US companies in China that included Boeing, Ford, General Electric, FedEx and JPMorgan Chase, Mr. Lew was told that cyber security and protection of intellectual property and trade secrets were top priorities for them.

Mr. Lew also discussed North Korea and its recent nuclear test. “We made clear that the US views the provocative actions of North Korea as very serious and we will continue to pursue methods available to change the policy perspective in Pyongyang,” he said. “[China and the US] share a common objective of a denuclearized Korean peninsula and we will continue to discuss it.”

Source: Jamil Anderlini in Beijing and Richard McGregor in Washington: Chinese premier pressed on cyber
Too early to bank on a Brics lender

Imagine a group of five friends who get together to build a holiday house but can’t agree on what it should cost, where to put it or who should pay for it. This roughly is the position of the leaders from Brazil, Russia, India, China and South Africa as they end their annual Brics summit. They all think that a Brics development bank is a good idea – a channel for funds for developing countries, managed by developing countries independently of the International Monetary Fund and the World Bank, where the developed world still predominates.

Officials from the five countries discussed funding the bank with $50bn in capital. But there was no agreement on whether they should pay in equally – $10bn each – or whether the contributions should reflect the wide differences in gross domestic product. China’s economy is four times as large as Russia’s or India’s and about 20 times the size of South Africa’s. It is not just a question of who can or cannot afford it. It is also a matter of who staffs the bank, where they lend the money – and whose companies benefit from its largesse. Equally contentious is the issue of locating the headquarters, as other multilateral institutions will attest. It took a lot of horse-trading before the European Bank for Reconstruction and Development was based in London even though the UK is by no means the largest paymaster.

China, as the dominant force among the Brics, doubtless would like the bank in Beijing. South Africa has argued that the bank should focus on Africa – as the continent most in need of development funds – which might suggest a preference for Johannesburg. Some Brics observers have indicated that London might make a good compromise. It is a city on nobody’s turf and reasonably well-located in terms of time zones and transport links. But putting a Brics bank in London could undermine the aims of promoting the Brics as an emerging-markets counterweight to the Old World. If Brics leaders can’t do better on this housekeeping matter, how can they hope to co-operate on the much bigger questions they want to address – notably their collective lack of representation at the IMF and other existing multilateral institutions?

The Brics face three underlying difficulties. First, in whatever order they line up for the summit photographs, the leaders cannot avoid the fact that China is much larger than the rest and is much more successful in projecting its economic power globally. Beijing will be wondering what exactly it can achieve via a Brics bank that it cannot do with the state-run China Development Bank or other big state-controlled banks.

Next, while the Brics want to make common cause on global economic governance, they have to show they can do this in practice. Their failure to back a single candidate in the 2011 race for the leadership of the International Monetary Fund, when France’s Christine Lagarde was appointed managing director, was noted.

Finally, intra-Brics differences are as significant as their similarities. Brazil, Russia and South Africa are big resources exporters. China and India are importers. There are border tensions between China and India, and competition for influence in central Asia between China and Russia. China is a Communist state. Russia is an ex-Communist authoritarian state. The others are democracies.

A $100bn fund agreed to combat currency crises is a useful statement of political commitment, even if its practical advantages may be limited. (What will it do that coordinated ad hoc action by central banks cannot?) But the Brics leaders need to take care that they remain realistic about the scope of their co-operation. If they can create a Brics bank, fine. If not, they need to back down before the plan becomes a political embarrassment.

Source: Stefan Wagstyl in London: Too early to bank on a Brics lender, Financial Times, March 27, 2013

Chinese president attends BRICS summit

Chinese President Xi Jinping and leaders of four other major emerging economies gathered here on
Wednesday for the fifth BRICS summit to promote cooperation. Leaders of Brazil, Russia, India, China and South Africa, collectively known as BRICS, are expected to endorse plans to establish a development bank and a foreign exchange reserves pool in a bid to deepen cooperation among the five emerging economies. Under the theme of "BRICS and Africa: Partnership for Development, Integration and Industrialization," the BRICS summit will for the first time be joined by African leaders, with BRICS-Africa cooperation high on the agenda.

Xi, who is on his first trip abroad as Chinese president, is expected to outline China's viewpoints on BRICS-African cooperation. "I look forward to discussing plans of cooperation with leaders of other BRICS countries and African nations. I believe that with concerted efforts of all participants, the meeting will be a successful one and take the solidarity and cooperation of developing countries to a new high," he said upon arrival in South Africa. The BRICS countries account for 42 percent of the world's population, 20 percent of the world's economic output and 15 percent of global trade.

Source: Xinhua: Chinese president attends BRICS summit, 2013-03-29

Official says China won't take part in currency wars

China won't engage in any "currency wars" by depreciating the value of the yuan through monetary easing policies to shore up the economy, as some major economies have done, said a former deputy central bank governor on Tuesday. "The yuan will continue to fluctuate in both directions as the central bank strengthens market-oriented reforms," said Wu Xiaoling, who is still closely connected to the People's Bank of China and is now the vice-chairman of the National People's Congress Financial and Economic Affairs Committee. The easing policies conducted by some major economies, such as Japan, are similar to "quenching thirst with poison", she said at a press conference. "Printing more money and devaluing the currency could be useful to promote economic growth over a certain period. But if a country doesn't have a sound economic structure or strong growth momentum, it would be poisonous to depend on a looser monetary stance," Wu said. Her remarks come after a report in Japan's leading economic daily Nikkei said that the Bank of Japan's recently appointed leaders might launch fresh easing measures before their first policy meeting next month.

"Instead of intervening in the currency market to contain appreciation and stimulate exports, China needs to create a fair and competitive financial environment for domestic companies, and continue to promote the reform of the international monetary system," Wu said. She said the yuan's exchange rate is already very close to its equilibrium level as the difference between the onshore rate and its non-deliverable forwards on the offshore market is narrowing.

PBOC's deputy governor Yi Gang last week urged major economies to avoid the competitive devaluation of their currencies and said that G20 countries should comply with the group's joint statement and reach a consensus. He added that China takes global liquidity levels into full account when making policy decisions, and will hold on to its prudent monetary stance. The PBOC will maintain its "stable" policies, with tighter control over credit growth and a more open attitude toward financial markets to encourage direct financing, according to Wu. "As the ratio of money supply against total GDP remains high, it's vital for the authorities to tighten the reins on lending activities, which would amplify the money injections," Wu said.

The country's lending pace slowed in February as new-yuan loans extended by banks fell to 620 billion yuan from 1.07 trillion yuan in January. However, the depreciation of the yen would have a limited impact on China's economy, especially in terms of trade and capital flows, said Peng Wensheng, chief economist and managing director of China International Capital Corp Ltd. He said that if the yuan strengthened 20 percent against the yen, the real effective exchange rate of the yuan will go up 1.5 percent, leading to a decline of 2.5 percentage points in China's exports.

Source: Wang Xiaotian: Official says China won't take part in currency wars, China Daily, 2013-03-13
China to stabilize overseas market

Despite mounting challenges, China will work hard to stabilize its overseas markets, Commerce Minister Gao Hucheng said Thursday. The country will accelerate foreign trade restructuring to improve trade quality and build technology, brands, quality and service as new trade advantages, the new minister said during an interview with Xinhua. He vowed to realize the goal of not allowing the growth rate in foreign trade to fall below that of the gross domestic product. In the domestic market, the priority is expanding consumption and cutting logistics costs, Gao said. In regards to regional economic integration, Gao said every economy has the right to choose a suitable economic integration path based on its own situation and development level, and China holds an open and tolerant attitude toward this.

The international trade rule system represented by the World Trade Organization is the foundation for global free trade, and its role can not be replaced by any regional pacts, Gao said. "Under the current situation, we should first safeguard existing multilateral trade rules and fight trade protectionism," Gao said. China eyes an 8-percent increase in foreign trade in 2013. Its foreign trade climbed 6.2 percent year-on-year to $3.87 trillion in 2012, considerably lower than the 10-percent growth previously targeted by the government. Meanwhile, China has targeted 7.5-percent economic growth and 3.5-percent inflation this year.

Source: Xinhua: China to stabilize overseas market, 2013-03-22

China, Russia vow to boost trade ties

Chinese President Xi Jinping and Russian Prime Minister Dmitry Medvedev pledged to promote trade ties between the two countries during their meeting Saturday. In recent years, the China-Russia relationship has withstood the tests of changing international circumstances and made substantial progress, Xi said, adding that there is a greater need now for the two nations to deepen their comprehensive strategic partnership of coordination as the world has seen continuous profound changes. Xi said that China and Russia have worked closely to stave off the adverse effects of the global financial crisis and expanded their trade and economic ties despite unfavorable conditions. The two nations have also made breakthroughs in their energy and resources cooperation, demonstrating that the two economies are highly complementary to each other, share broad common interests and boast of bright prospects for cooperation, he added. The Chinese president urged the two nations to strengthen their coordination in accelerating the implementation of cooperation agreements in oil, natural gas, as well as nuclear and coal power, and do a good job in making plans for cooperation in high-technology, aerospace, and cross-border infrastructure. He also called on the two sides to expand mutual investment, focus on a number of strategic big projects, and promote joint research, development and production.

Medvedev said the relationship between the two countries is at its best in history and the bilateral strategic partnership has enjoyed good development. The Russian side believed that Xi's visit is fruitful, and will further deepen bilateral strategic coordination, and inject fresh impetus into the long-term development of Russia-China relations, he said. He also pledged that Russia will work with China to make full use of the regular meeting mechanism between the two nations' prime ministers, implement the important consensus and agreements reached by the two presidents, boost bilateral trade ties and enhance industrial cooperation to increase their economic prowess. Currently, the global economic situation is still complex and volatile, and the two sides should work closely within multilateral and bilateral frameworks to advance reforms of the international financial and monetary systems so as to promote the long-term steady and sustainable development of the global economy, he said.

President Xi arrived in Moscow on Friday for a state visit to Russia, the first leg of his maiden foreign trip since he took office last week. The Chinese president on Friday held talks with his Russian counterpart, Vladimir
Putin, and attended, together with Putin, the opening ceremony of the “Tourism Year of China” in Russia.
Source: Xinhua: China, Russia vow to boost trade ties, 2013-03-25

China intensifies attacks on Apple

The Chinese government has intensified a coordinated public campaign against Apple, slamming the technology group as “dishonest”, “greedy” and “incomparably arrogant” and threatening regulatory action if the US company does not improve its after-sales service policies. Following a series of scathing and apparently choreographed reports in China’s biggest state media outlets, the country’s quality inspection bureau said on Thursday that Apple would have to change some of its warranty policies or face “severe repercussions according to relevant laws and regulations”.

However in a country regularly exposed to public health scandals involving adulterated infant formula, toxic food additives and industrial pollution, Apple’s alleged transgressions have been met with a tepid response from the public. Other analysts have suggested that the government is hoping to undermine the dominance of Apple and other global operators in the Chinese market in order to benefit domestic companies such as Lenovo, Huawei and ZTE, who many analysts consider have been left behind by more innovative products from global competitors. Research from a government institute last month said China was too reliant on Google’s Android smartphone operating system and Beijing has said it will place higher standards and restrictions on smartphone makers, including requirements for them to help the Chinese government monitor online activity.

China is Apple’s second-biggest market after the US and Apple sales in China in the fourth quarter of last year topped $7.3bn. The official attacks on Apple began with a primetime special on state broadcaster China Central Television to mark consumer rights day on March 15 in which the maker of the iPhone and iPad was accused of treating Chinese consumers as less important than their western counterparts. This claim was based partly on allegations that Apple does not replace the entire outer case when it repairs iPhones, as it does in other markets, because under Chinese law handset makers must provide a renewed warranty for a completely new phone.

However, “Everybody is eating cooking oil recycled from gutters, no problem! Everybody is drinking poisonous milk powder, no problem! We drink water filled with dead floating pigs, no problem! But when you change the back cover of iPhones for foreigners but not for us then that is not OK, that is far more serious than any of these problems,” wrote one sarcastic online commentator. Apple responded to the initial CCTV report by posting a brief statement in Chinese on its website outlining its warranty policies and highlighting its “incomparable user experience”. This contrasted with the swift reaction of German carmaker Volkswagen, which was also featured in the March 15 show and issued an almost immediate recall of more than 380,000 vehicles that the show claimed had problems with their gearboxes. Starting on Monday, the Communist Party’s official mouthpiece, the People’s Daily, ran a series of front-page articles and editorials that lambasted Apple for its lack of contrition, its arrogance and its discrimination against Chinese consumers. “Perhaps the trouble comes from Westerners’ traditional sense of superiority,” the paper’s editorial said. Adding to Apple’s China frustrations, the company was forced to appear in a Shanghai court on Wednesday to face a lawsuit from Shanghai Zhizhen Network Technology, a Chinese company that accuses it of intellectual property infringement related to Apple’s popular Siri software.


U.S. companies blame China for hacking

More than a quarter of US companies surveyed by the American Chamber of Commerce in China say they have had trade secrets stolen or compromised through cyber attacks on their China operations, adding weight to
US accusations that Beijing is behind numerous corporate espionage attacks. Twenty-six per cent of respondents to the US business lobby’s annual survey said they had been victims of such attacks and 95 per cent of respondents said the situation was unlikely to improve. “Over 40 per cent of respondents say the risk of a data breach is actually increasing,” the chamber noted. “This poses a substantial obstacle for businesses in China, especially when considered alongside the concerns over [intellectual property rights] enforcement and de facto technology transfer requirements.”

In recent weeks, US officials, including President Barack Obama and Thomas Donilon, national security adviser, have publicly called on the Chinese government to cease cyber attacks on US companies aimed at stealing their trade secrets. Beijing’s consistent retort has been to deny any involvement in cyber hacking and to insist that it is itself a big victim of hacking attacks. The survey of US companies was conducted late last year, before Chinese cyber hacking had garnered much international attention and before any US official had made any public statement on the issue. The annual survey is closely watched by the US and Chinese governments and is considered a good indicator of business sentiment among US companies operating in China. It relies mostly on multiple choice questions and this year it covered 325 of Amcham’s member companies.


**Foreign firms seek action from China’s new leaders**

Foreign companies in China say they want the country’s new leadership to act on pledges to reduce bureaucracy and remove investment barriers as the business climate gets tougher, the American Chamber of Commerce in China said March 29. Results of a survey of 325 businesses conducted by the chamber show that just 28 percent see China's investment environment improving, down from 43 percent a year earlier. Although 78 percent were optimistic about business in China over the next two years, only 18 percent said they planned to substantially expand their investments in the coming 12 months, down from one-third in the year before. Slower economic growth, market barriers and government restrictions were the main reasons for the more modest investment plans, while rising labor costs were also a concern, according to the survey conducted in November and December of last year. Foreign companies have had to contend with double-digit percentage growth in salaries and benefits for their workers over the past two years, while the cost of land and raw materials have also shot up.

Chamber President Christian Murck said companies were encouraged by recent statements from leaders such as Premier Li Keqiang's pledge to reduce the number of approvals needed for investments by one-third, but that real action is now needed. “Overall, it's a hopeful time despite the challenges. We have a new leadership, we have an economy that is performing pretty well,” Murck said. “We all feel that there is a very broad understanding of the issues at the senior levels of the Chinese government, and we are hopeful that we will begin to see a more direct focus on action.”

That's despite evidence that that China's economic opening has stalled in recent years and foreign companies “have not felt over the last four or five year that there have been commercially significant positive changes in the business environment or the investment environment,” Murck said. As China continues to develop into a more mature economy, a failure to proceed with new policies would cause it to lose momentum and start “almost effectively moving backward,” he said.

Survey respondents, mainly senior-level country managers, also expressed concerns about cybersecurity, with just over one quarter reporting that data had been accessed or stolen. They were also increasingly gloomy about China's protection of copyrights and patents, with 72 percent saying measures to protect intellectual property were ineffective. However, 47 percent said they had noticed an improvement in intellectual property rights enforcement over the past five years, against just nine percent who saw a deterioration. More than half
considered China's strict Internet censorship an impediment to doing business, while almost three-quarters said slow or unstable Internet access hurt their business efficiency. The survey did not publish results for quality of life issues, although Murck said Beijing's much-publicized air pollution woes could be affecting the willingness of some business executives to take up positions in the Chinese capital.

Source: Asahi Shimbun: Foreign firms seek action from China's new leaders, THE ASSOCIATED PRESS, March 29, 2013

**Green guidance on the way for Chinese companies operating abroad**

China is to improve efforts to guide and help domestic investors in shoulerding corporate social responsibility and protecting the environment abroad, according to the Ministry of Commerce. The pledge comes with the nation's overseas direct investment set to see rapid gains. As part of the commitment, the ministry, together with the Ministry of Environmental Protection, on Thursday launched the Guidelines on Environmental Protection for China's Outbound Investment and Cooperation, aiming to standardize the overseas activities of Chinese investors on environmental protection.

More overseas Chinese projects are being blamed for destroying the local environment as the world's second-largest economy raises a new wave of investment abroad amid the European debt crisis. Yao Jian, spokesman for the Ministry of Commerce, said during a Beijing press briefing on the launch of the guidelines that Chinese companies and investors still have a lot to improve on in overseas markets, in particular environmental protection. Yao said good implementation of corporate social responsibility is of great significance to Chinese companies, as it helps them "strengthen their core competitiveness and soft power in the global market". The ministry will continue to improve rules and regulations focusing on Chinese companies' corporate social responsibility abroad, he said. Bie Tao, deputy director general of the Department of Policies, Laws and Regulations with the Ministry of Environmental Protection, said the guidelines cover a wide range of practices on how to respect the culture and laws related to environment protection abroad. They urge domestic companies to set out their own environmental management strategy, drawing up relevant plans and training systems, and regularly issue environmental information. "Chinese companies will not reap the benefits if they fail to protect the environment, and address related concerns to local communities abroad," Bie said.

China's overseas direct investment has seen remarkable growth in the years since the 2008 global financial crisis. Last year, its outbound direct investment in the non-financial sector rose 28.6 percent year-on-year to $77.2 billion, the Ministry of Commerce said. Last year, Hong Kong, the ASEAN region and the European Union ranked the top three regions worldwide in terms of outflow of investment from China. In 2011, Chinese companies owning overseas businesses paid taxes of more than $22 billion, employing 1.22 million people abroad.

Source: Ding Qingfen: Green guidance on the way for Chinese companies operating abroad, China Daily, 2013-03-1