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China and Central and Eastern Europe Prime Ministers gather in Bucharest, on Tuesday
Looking to refuel the China 'miracle'; The Communist Party is rethinking the nation's growth model as the economy runs out of steam.

The Chinese leadership is hyping a Communist Party meeting that began Saturday as the greatest financial rethink since leader Deng Xiaoping launched China's economic revolution in the late 1970s. The economic revolution launched more than three decades ago is still unfinished, leaving the country with a hybrid economy sometimes waggishly referred to as "capitalism with Chinese characteristics." In private talks, the leadership has acknowledged what Western economists have been warning about for years: The growth model that pulled China out of poverty has run out of steam.

Xi, now president, and his premier, Li Keqiang, have been talking up their eagerness for economic reform with a succession of prominent economists, including former U.S. Treasury Secretary Henry M. Paulson and a delegation from the 21st Century Council, made up of former heads of state. One likely target is the nation's old, behemoth state-owned enterprises, many controlled by a clique of elite families. The enterprises still hold sway in the economy, heavily subsidized and benefiting from monopolistic pricing. Also expected to come under scrutiny is an archaic residential registration system known as hukou, which prevents tens of millions of people from moving to cities with the best jobs and schools. Meanwhile, the low exchange rate for the Chinese yuan benefits exporters but leaves Chinese consumers paying far more for iPhones and jeans.

For China's new leadership, such economic changes would mean challenging powerful vested interests. "For many years, what was good for the elite was good for the country," Pettis said. "In this big fight about how to adjust, it is always about politics. Not about what is economically efficient." Xi Jinping, however, could prove a more forceful figure. He is a princeling; his father was one of Mao Tse-tung's early comrades and a key figure in the implementation of Deng's economic reforms in the southern province of Guangdong. Xi already has begun to move against the party establishment with a series of corruption investigations, targeting party officials with the giant state-owned China Petroleum and with the Assets Supervision and Administration Commission, which oversees such enterprises.

Since the 1980s, China has experienced average annual growth of more than 10%, and even though it has slowed in recent years, it still has hovered around an enviable 7%. Without a large-scale financial crisis, it is difficult to muster the political will to revise, economists say. Chinese policymakers also acknowledge that a key reason rural residents lag behind is that they haven't been able to take part in the booming real estate market. But to enact land reform that would give farmers ownership or control would deprive local governments of their main source of revenue: parceling off land to real estate developers.

Security is always tight for top Communist Party conclaves, but appears to have been stepped up further since a car plowed into pedestrians and burst into flames in Tiananmen Square on Oct. 28.

Source: Demick, Barbara: Looking to refuel the China 'miracle'; The Communist Party is rethinking the nation's growth model as the economy runs out of steam, Los Angeles Times [Los Angeles, Calif] 10 Nov 2013: A.6.

China to improve evaluation system to cut GDP obsession

China will improve its evaluation system for measuring economic performance, putting greater emphasis on growth quality to cut local obsession with GDP data, according to the head of the country's top economic planner. China will increase the weight of factors such as resource consumption, environmental cost, work safety and local debt in assessing local economic growth, and put more emphasis on employment, resident income, social security and people's health, Xu Shaoshi, head of the National Development and Reform Commission, said during an interview Tuesday. "This is intended to guide local authorities to shift more attention to economic restructuring," he said, adding that the new mechanism will take regional differences into consideration.

In past decades, the promotion of Chinese officials largely hinged on economic performance, which prompted local governments to boost growth by investing in capital- and energy-intensive industries despite environmental costs. As China tries to bring the economy onto a more sustainable track, the central authorities have been at pains
China faces a policy trilemma in trying to raise its consumption relative to GDP, S&P said in a report. Despite its record of impressive growth over several decades, the Chinese economy is widely regarded as having structural shortcomings. In particular, China invests too much, grows too fast, saves too much - and therefore consumes too little. “China’s ratio of private consumption to GDP is by far the lowest of any major economy at about 35 percent,” said Paul Gruenwald, Asia-Pacific chief economist for Standard & Poor’s. The average ratio for emerging Asia is about 55 percent, and the average for members of the Organization for Economic Cooperation and Development — a group of 34 countries founded in 1961 to stimulate economic progress and world trade — is above 60 percent. “China’s low ratio means that the share of the economic pie going to consumers is too small,” said Gruenwald.

“Using a simple framework, we find that China faces its own version of the ‘policy trilemma’: It cannot simultaneously achieve high GDP growth, a rising consumption-to-GDP ratio and a current account surplus,” Gruenwald said. “In setting its policy objectives, China cannot have it all.” Productivity-enhancing reforms can help ease the transition to a higher consumption ratio, but cannot solve the “trilemma”, the report said. Since China can only achieve two of its three objectives, it has limited options: the current path of high growth, an external surplus and a low consumption-to-GDP ratio; much slower growth, an external surplus and a faster-rising consumption-to-GDP ratio; or moderately slower growth, an external deficit, and a moderately rising consumption-to-GDP ratio, according to S&P.

Source: Hu Yuanyuan: China’s low consumption ratio presents puzzle, China Daily, 2013-11-22

Is the 'rebalancing' really taking off?

Economists debate China's speed in moving to a consumer-driven society. But before entering into any discussion of specific reform measures, one should bear in mind a central goal of the measures. And that is to reorient China to a sustainable growth model that will eventually benefit everyone, inside and outside the country. That is the case, for example, of the liberalization of interest rates. For too long, a ceiling for deposits was in place. That system helped supercharge China's growth by channeling cheap loans to big businesses while maintaining wide profit margins for banks. This worked as a de facto pump to systematically transfer Chinese household income to subsidize rapid growth. Due to this, it's not surprising that the nation's consumption levels have always been overshadowed by investment.

If China is serious about the sustainability of its growth model, or what analysts call its "rebalancing" process, it has to reduce its over-reliance on investment and raise its consumption growth rate significantly. There needs to be a "trade-off" and there should be no illusion that China can both maintain the same growth rate it had two or three years ago and achieve the "rebalancing" goal. Regrettably, the much talked about "rebalancing" process is not happening yet, at least according to the data so far. Last year, investment accounted for nearly 50 percent of the country's GDP while consumption accounted for 35 percent, according to the International Monetary Fund, a stark contrast with international patterns, in which consumption usually accounts for more than 50 percent of the GDP. Over the past 10 years, despite constant talk of shifting away from the investment-led growth model, the share of investment in GDP rose from around 40 percent in the early 2000s to today's nearly 50 percent.

Economists have diverging opinions about the current scenario. McDonough, for instance, believes the leadership is serious about "rebalancing" and that the process has already started. "The plan got derailed a bit by the global financial crisis starting from 2008. There is this over-reliance on investment. Interestingly, there's actually room for more investment as well, because a lot of the investment that occurred was not economically viable. A lot of it stemmed from that large stimulus program," he said. "But China's urbanization rate is still around 50 percent.
If you look at places like the US and Japan, it's closer to 80 percent, so China still has room for investment to increase its urbanization rate." Also, consumption has been rising in China, he noted, and many reforms mapped out at the key Party meeting will have a positive effect on incomes, which will have a positive impact on consumption.

However, not everyone is that optimistic. Michael Pettis, an economics professor at Peking University, said that if China is to "rebalance" meaningfully, its GDP must grow by only 3 to 4 percent a year. Pettis said that any attempt to engineer a balance that boosts consumption over the next 10 years to 50 percent, would require consumption growth to exceed GDP growth by close to 4 percent-age points every year. So, an annual GDP growth rate of 8 percent, for example, would require average growth in consumption of at least 12 percent for a decade. But China did not achieve such a high consumption growth rate even in the best of times when the country and the world grew much more robustly, let alone under weaker domestic and global conditions. Many people question if a 3 to 4 percent growth rate would threaten social stability. But Pettis said this is a "myth" that should be discarded. "Ordinary Chinese, like people elsewhere, do not care about their per capita share of GDP. They care about their income," he said.


China's inevitable slowdown: 'Normal' Asian growth will be bad news for everybody

Harvard economists Lant Pritchett and Lawrence Summers looked at how most countries performed over many years' time and discerned a tendency to "revert to the mean." That is, a nation's growth will return to an average level after a period of very high or very low growth. With three decades of expansion in China and a bumpier two decades in India, the Harvard economists predict, the two countries will revert to an ordinary 4 percent growth rate over the next two decades. The difference between maintaining "big" growth and "normal" growth is $42 trillion in wealth by 2033. Anders Aslund, an economist at the Peterson Institute, cites further evidence that the economic engines in China and India may be overheating. The source of the amazing performance in the developing world has been fundamental reform that captures the famous "low-hanging fruit." These economies had been bottled up for centuries, allowing no economic freedom; even a touch of capitalism at the margin yielded enormous returns. The easy policies have been implemented, and harder reforms are needed now to preserve and expand the gains. India, for example, is bedeviled by complacency and political resistance to opening markets further. The country can't kick its regulatory burden, and businesses still suffer under many coils of unnecessary red tape.

The biggest hitch in the developing world's plans for economic domination is the likelihood that the era of low interest rates is about over. Cheap borrowing has fueled China's exports to the United States, and when the money stops, so will the boom. The higher cost of borrowing will restrain the New Delhi government's taste for floating big deficits. China and India have learned the wrong lesson from the continuing financial crisis in the West. Instead of avoiding the "too big to fail" arrangements that caused America's financial distress, the developing nations have taken it as an excuse to rely more heavily on state meddling in the economy. These poor decisions make it more likely that the Asian giants will soon see lower growth, and there will be less wealth in the world economy. The world would be a happier, more prosperous place if all three nations - the United States, China and India - shared a greater faith in the free market and resisted government meddling.


China on new starting point of reform after key plenum

The just finished key meeting of the Communist Party of China (CPC) ended with an array of new reform ideas, which puts the country at a new starting point of development for the next few years. The third plenary sessions of the CPC central committee often focus on reforms. In 1978, the 11th CPC Central Committee decided to carry out the reform and opening-up policy, resulting in China's boosting economy and overall change for society.
as a whole. This time around, the country is standing at a new starting point of development. Facing challenges from inside and outside of the country, the Party decided to give a bigger role to the market as it seeks comprehensive reform. The general objective of the reforms is to improve and develop socialism with Chinese characteristics and push on with modernization of the country's governing system and capabilities, said the communique. Government administration is from top to bottom, while governance focuses on bottom to top and the integration of all levels. The decision shows that reform will help the public to participate more. In the meantime, the country will set up a central leading team for reform. The team will be in charge of designing reform on an overall basis, arranging and coordinating reform, pushing forward reform as a whole, and supervising the implementation of reform plans.

The decision acknowledged the market's "decisive" role in allocating resources, according to the communique. The market had been often defined as a "basic" role in allocating resources since the country decided to build a socialist market economy in 1992. It is not only a change in wording, but more importantly, a breakthrough in China's market reform and highlighting the importance of market power. The expression also means that the state should exert the government's role under the domination of the market, rather than exerting the market's role under the domination of the government. The decision said promoting social equity and justice and improving people's well-being is the starting point and the objective of the deepening reform. It is another major guiding principle to address domestic problems.

The meeting decided to set up a state security committee, improving systems and strategies to ensure national security and calling for the innovation of systems to effectively prevent and end social disputes and improve public security. This will be a major change for China when it responds to emergencies involving state security in the future. It comes after a series of security challenges at home and abroad in recent years.

Source: Xinhua: China on new starting point of reform after key plenum Updated: 2013-11-13 11:17

China's reform plan 'extremely positive': WB

World Bank President Jim Yong Kim lauded on Tuesday that the message from the key meeting of the Communist Party of China (CPC) is "extremely positive" and very encouraging. "The language coming out of the party congress is extremely positive," Kim told a briefing at the World Bank headquarters. "They're saying that they're going to reply much more heavily on the private sector and that the distribution of resources is going to be determined much more by market forces," Kim said, referring to the communique issued after the Third Plenary Session of the 18th CPC Central Committee, which took place in Beijing on November 9-12. Kim noted that it is very encouraging that despite lower growth figures, China is continuing down the path of reform, making the transition from being mostly investment and export-oriented to consumption and service-oriented. China's commitment to reforms of the business environment and the role of the private sector seems very firm, Kim added. "We expect them to perhaps grow at a slower rate, but the quality of growth we think will be better," he said. A more decisive role of the market in allocating resources and setting up a central leading team for "comprehensively deepening reform" were highlighted on the reform agenda.

Source: Xinhua: China's reform plan 'extremely positive': WB, 2013-11-13

Rural reform, step by step

In China, urban land is owned by the state and rural land is normally under collective ownership. While gradual reforms since 1987 saw the trading of urban land evolve into a vigorous property market that became a major growth driver, land in the countryside remains largely static. Under China's land regulations, farmers only have rights to use, but cannot directly sell or mortgage, land. They must first be acquired by a local government before being used for development.

China's new leadership has determined to build a fairer mechanism to narrow the urban-rural divide and maintain social stability during its urbanization drive. Among the key reform decision publicized on Friday by the
Communist Party of CHina Central Committee, integrated development in villages and cities is a major highlight. China is to build a unified market for urban and rural construction land, meaning land used for non-agricultural purposes. Previously, the official wording is to "gradually" achieve such a unification. On the precondition that the scale of farmland is guaranteed, farmers will also be allowed to transfer and mortgage their land-use rights, or turn the rights into shares in large-scale farming entities, according to the document. The CPC also pledged to give farmers more property rights, and set up a trading market for the transfer of land-use rights to promote an open, fair and orderly platform. Although the latest policies point in the right direction, plenty of work remains to be done, analysts cautioned. The biggest barrier is land registration, without which the land market cannot function. A survey of 1,791 farmers across 17 provincial regions by Landesa in 2011, said only around 36.7 percent of the households have both documents -- contracts and land-rights certificates -- as required by law and policy, among which less than half contain all the legally required information and can be considered strictly law-compliant. According to China's No.1 central document announced earlier this year, the government aims to complete the registration of management rights of contractual land in five years. Until that work is completed, the rural land transfers as experimented in some areas in Guangdong and Anhui is unlikely to be rolled out nationwide, analysts said.

Another key barrier holding back China's urbanization process is the rigid hukou system, or household registration system, which is tied to one's place of residence and is used to obtain access to basic welfare and public services. The system has prevented migrants from gaining equal access to services in cities, disadvantaging them to a more vulnerable position. Although China's urban population exceeded its rural population for the first time last year, with city-dwellers accounting for 51.27 percent of the population, a considerable portion of them have no official city hukou. Friday's document promised to gradually allow eligible rural migrants become official city residents, accelerate reform in the hukou system to fully remove restrictions in towns and small cities, gradually ease restriction in mid-sized cities, setting reasonable conditions for settling in big cities while strictly controlling the population in megacities.

Source: Xinhua: Rural reform, step by step, 2013-11-16

U.S. praises China's plan for economy

The United States Treasury secretary, Jacob J. Lew, on Friday described China's declaration that market competition should have a decisive role in country's economy as an "ambitious reform agenda," a top aide to President Xi Jinping said. "The direction is significant," Mr. Lew said, "but the character and the pace of change matters."

He spent the day in Beijing after visiting four Asian countries that are negotiating with the United States to join the Trans-Pacific Partnership, or T.P.P. When completed, the trade group, with 12 countries, would cover 40 percent of the global economy. The Obama administration aims to have the trade talks completed by Dec. 31. "While we still have work to do," Mr. Lew said, "my conversations leave me with the hope that we can still complete T.P.P. this year. In each capital, it was clear that this is in their interest. There was a very strong focus on economic growth and T.P.P. as a part of that." China was not invited to join the Trans-Pacific Partnership by the Obama administration, and Beijing initially reacted to the proposed trade pact as an effort by Washington to dominate the group. But in recent months, some Chinese officials have expressed interest in the possibility of China's joining later.


The Road Ahead for China's Reforms; With a blockbuster game plan in place, Beijing must seize the momentum and deliver much-needed reforms.

China's Third Plenary party meeting has just unveiled a sweeping reform agenda for the next decade. Despite several crucial gaps, overall the new agenda is robust and substantive, marking the most ambitious reform program
in two decades. In terms of long-term significance, this pivotal meeting is perhaps surpassed only by the historic third plenum in 1978, when Deng Xiaoping dramatically changed the course of China by embarking on market reforms and opening up to the outside world. Yet despite stunning successes to date, China's transition to a free market economy is far from complete. While the private sector has expanded, state and state-owned enterprises continue to occupy the commanding heights of the economy. Excessive regulations stifle innovation. Because of serious structural imbalances and institutional deficiencies, pessimists predict that China will be stuck in the "middle income trap" with unstable and potentially explosive social and political consequences at home and abroad. The future of China and, to some extent, of the world, thus depends on her efforts to deepen economic reforms. There is too much at stake. That is why it is so encouraging that China's leadership has reaffirmed its strong commitment to reforms. The Party has publicly pledged as many as 60 specific policy and institutional reforms. If implemented, they could transform China into a dynamic modern market economy with rule of law, open competition and entrepreneurship. There are three main reasons why Mr. Xi must seize the current momentum and follow through with bold actions.

First, reforms are essential to the realization of the "Chinese Dream." President Xi has articulated a highly attractive vision for China; namely, to double national income by 2020 and to transform the country into a modern, high income, civilized, and democratic nation by 2050, when the People's Republic celebrates its Centennial. Just as Deng's vision of modernization marshaled China's energy and resources for economic development, Xi's "Chinese Dream" is a brilliant construct that can rally and reenergize both the Party and people to embark on a shared mission. However, overly intrusive and often corrupt bureaucracy, inefficient state-owned enterprises, and the absence of a level playing field for private enterprises and a massive rural population hobble China's ongoing progress. If the "Chinese Dream" is to be more than just a pipe dream, President Xi must pursue serious reforms that unleash China's vast potential.

Second, there are numerous pressing challenges immediately facing the country. Most of these challenges cannot be effectively addressed with quick fixes or fiscal and monetary stimuli. China's traditional growth engine, long powered by exports and government-led investment spending, is clearly losing steam. There has been a colossal misallocation of capital and acute economic imbalances. Widening urban-rural disparities and increasing social tensions persist. The broad structural reforms outlined in the Party's new blueprint could fend off these mounting pressures to ensure long-term social stability.

Finally, strong reforms are the only means to meet the rising expectation of the Chinese people. China's current growth model has led to the greatest reduction of poverty in human history. Yet at least 100 million Chinese, predominantly rural citizens, continue to live in poverty. At the same time, China's newly affluent middle class who are well-traveled, internet-savvy and independent-minded demand continuous improvements in quality of life. This includes cleaner air and water, safer food, less corruption and improved public services. Chinese entrepreneurs yearn for less state interference, greater economic freedom, fairer competition and more effective protection of property rights. The exodus of wealthy and successful Chinese emigrating overseas in recent years is an alarming trend that underscores social dissatisfaction. President Xi can restore public confidence through vigorous reforms.

It is therefore reassuring that Chinese leaders have wisely embraced far-reaching structural reforms. With a blockbuster game plan in place, it is now all about execution. Delays or half measures would dismay China's poor, entrepreneurs and middle-class consumers while bolstering the case of China bears and naysayers both within and outside China. President Xi's credibility, the Party's legitimacy and China's future are all on the line. With Xi's decisive leadership, hopefully China can succeed.

Source: Hu, Fred: The Road Ahead for China's Reforms; With a blockbuster game plan in place, Beijing must seize the momentum and deliver much-needed reforms, Wall Street Journal (Online) [New York, N.Y] 19 Nov 2013: n/a.

World News: Map Done, China Faces Reform Roadblocks --- Resistance From Local Governments, Interest Groups Means Impact of Ambitious Economic Blueprint Will Take a While
Under the Chinese system, the Communist Party sets overall policy direction, but central and provincial government agencies are charged with putting the plans into effect. As in many big government bureaucracies, China's ministries are rife with conflicting interests and jealousies, wedded to traditional policies and frequently beholden to interest groups that benefit from the status quo. In China's case, the ministries have focused on gross-domestic-product growth as the No. 1 goal, at Beijing's direction, helping to create a 30-year boom, but also producing environmental problems, dangerous debt levels and housing bubbles. Implementation of the economic strategy plan is a "hard slog," said Standard Chartered economist Stephen Green. "Choose your sector. In every area, reformers have clear ideas, but it's hard to push them past interest groups."

The 20-page blueprint released Friday outlines sweeping changes in the economy, so that China relies far more on market forces than it has in the past and opens closed sectors to private-sector and foreign competition. The plan bore the personal imprint of party chief Xi Jinping; an accompanying explanation was issued under his name. Even so, few, if any, market analysts changed their forecasts for growth in 2014. China's leaders have indicated that they are willing to tolerate a slower growth pace in exchange for more sustainable growth as reforms are implemented, and a number of economists have factored that into forecasts seeing growth declining from this year's pace.

Through the third quarter of 2013 China's GDP expanded at a 7.7% clip. The party plan also says promotion of local officials won't depend on their ability to drive GDP growth going forward. Now the criteria will include environmental protection, technological innovation, health care and other measures. But it is far from clear that the party can come up with meaningful ways to quantify the new criteria, or that officials will take them seriously.

Efforts in recent years to make big structural adjustments in the economy have flopped. In 2007, then-Premier Wen Jiabao labeled China's economy as "unstable, unbalanced, uncoordinated and unsustainable," -- the "four uns," as they became known -- and China's five-year plans in 2006 and 2011 had ambitious strategies to rectify those problems. But China made hardly any progress in rebalancing the economy during Mr. Wen's tenure so it depended less on investment and exports and more on domestic consumption. The global financial crisis of 2009 prompted him to introduce a massive stimulus plan that boosted GDP growth by relying on heavy investments in real estate and infrastructure, which deepened all the "uns."

Some reforms envisioned by the new party blueprint are already moving ahead, especially in the financial sector. The plan calls for the creation of a bank deposit insurance system, which is now being considered by the State Council, the Chinese government's top decision-making body. Deposit insurance is widely seen as a prelude to letting banks compete on deposit rates and allowing capital to flow more freely into and out of China -- also goals established in the blueprint. Other changes are on a slower track. The plan calls on authorities to "accelerate real-estate tax legislation and move reform forward in a timely manner," but nothing more specific, even though China has been experimenting with property taxes in the metropolises of Shanghai and Chongqing for several years. Dividends on state-owned firms are due to increase under the plan, but China has pledged to do that for at least two years. This time, the party committed to a specific goal -- 30% dividend rate -- by a specific time, 2020. State-owned firms now pay dividends of between 5% and 15%. Those payments generally don't go to general government revenue but are earmarked for propping up troubled state-owned firms. Some of China's state-owned firms are among the largest corporations in the world; they and the bureaucrats that regulate them are formidable opponents of reform, Chinese officials say.


**China's New Economic Blueprint: Who Wins? Who Loses?**

The Chinese Communist Party's leaders last week issued a broad blueprint for the next decade that calls for empowering consumers and easing Beijing's grip on key industries long controlled by the state. Its sweeping goals include easing barriers for foreign capital, increasing the involvement of private investors in state-dominated
businesses and giving the country's vast rural population greater access to money. Over the long term, one significant move -- to ease China's one-child policy -- signals a willingness to grapple with the mounting pressures of an aging society.

"The mood is positive in the country, and if the people of China get the impression that the positive development can continue for 10 or 20 years, they will be more prepared to spend," says Karsten Engel, China chief executive for German auto maker BMW AG. The key will be implementation. Despite its ambitious reach, the plan doesn't set specific timetables or goals in many cases, particularly regarding how foreign players might be allowed greater opportunities to invest. And the efforts could face considerable opposition.

Banks: The plan adds impetus to Beijing's previous calls to shake up China's banking sector, which critics say has directed money to the biggest state-owned companies at the expense of small and midsize businesses. The plan even hints at foreign participation in banking, though specifics are scarce. But as long as banks and their state-owned customers believe they are implicitly backed by the government, then the ability to manage risk will remain underdeveloped. To that end the blueprint calls for the introduction of deposit insurance and the creation of a process to allow banks to go bankrupt.

Financial Markets: One of the most aggressive items is a pledge to revamp the country's system for initial public offerings, transforming it from the government deciding which companies can list into companies deciding on their merits. The blueprint has positive, if vague, words for foreign investors. It calls for looser cross-border capital flows and greater convertibility of China's currency, the yuan. The plan also calls for easier cross-border deals.

Autos: Changes ranging from easing the one-child policy to encouraging rural residents to move to cities will help the auto industry meet a widely expected goal of selling 30 million vehicles a year by 2020. And auto executives say broader economic overhauls will encourage more Chinese people to buy cars. China's vows to clean up the environment could provide a headwind. That said, the environmental push could help foreign car makers showcase cutting-edge technologies.

Tech and Telecom: The picture is mixed for China's vibrant Internet sector, which could see a boost from the blueprint's proposed economic overhaul even as the sector faces potentially tighter censorship. Beijing also plans to open up the doors to foreign investment in e-commerce. Though the blueprint isn't specific, the plan could mean opening up to foreign Internet companies that largely have stayed away from the Chinese Internet. Financial liberalization, meanwhile, could spur further steps by Internet companies such as China's Alibaba Group Holding Inc. and Baidu Inc. to create Internet investment products.

Property: The plan seeks to speed property-tax changes. That could help Beijing address the long-running problem of sky-high housing prices, which has led many governments to tighten rules on purchases and lending. China currently taxes property sales but not the value of real estate, encouraging sometimes imprudent purchases. The blueprint also aims to speed land reform. Details are scant, but industry players say that could mean loosening the grip that local governments have on rural land sales, potentially bringing more supply to market and pushing down prices.

Consumer Goods And Services: The blueprint is aimed squarely at nurturing the nation's growing consumer class. That mean retailers, restaurants and consumer services could be among the biggest beneficiaries. China's leaders have signaled that they want to increase the weight of consumer spending in the economy. Urbanization is key to the effort. Beijing believes that moving more rural residents to cities will lead to apartment purchases, trips to furniture stores and demand for other trappings of modern life. Building a consumer class will take money, and Beijing's leaders suggest they increasingly are open to where that will come from. The blueprint calls for greater foreign investment in elder care, architecture, accounting, logistics and e-commerce.

China to overhaul judicial system: communiqué

China is to reform its judicial system to better protect the rights and interests of the people, according to the communiqué issued after a key meeting of the Communist Party of China (CPC) Central Committee. In a bid to build China under the rule of law, it is imperative to build a fair, efficient and authoritative socialist judicial system and safeguard the rights and legitimate interests of the people, according to the statement released after the third plenary session of the 18th CPC Central Committee closed on Tuesday. Endeavors should be made to uphold the constitution and laws, deepen reforms in administrative law enforcement and ensure independence and fairness in prosecuting bodies and courts, as well as to improve judicial practice and protection of human rights, according to the communiqué.

Source: Xinhua: China to overhaul judicial system: communiqué, 2013-11-12

China advances diverse forms of ownership: communiqué

China is to promote an economy with diverse forms of ownership, according to the communiqué issued after a key meeting of the Communist Party of China (CPC) Central Committee. "Both public and non-public sectors of the economy are important components of the socialist market economy and significant bases for economic and social development," reads the statement released after the third plenary session of the 18th CPC Central Committee closed on Tuesday. Development in the non-public sector will be encouraged which will in turn stimulate vitality and creativity in the whole economy, the document says, while maintaining the dominance of the public sector. The property rights protection system will be improved and state-owned enterprises will adhere to modern corporate practices, supporting healthy development in the non-public economy.

Source: Xinhua: China advances diverse forms of ownership: communiqué, 2013-11-12

China discloses more to improve market climate

China is to expose intellectual property rights (IPR) violations to the public, and build a system of real property registration, according to a State Council statement on Wednesday. Manufacture and sale of counterfeit or substandard products, as well as IPR infringement will be disclosed to the public following legal procedures, said the statement issued after an executive meeting of the State Council presided over by Premier Li Keqiang. The move, part of the central government's efforts to step up government information transparency, is expected to spur the upgrading of product quality, boost consumer confidence, protect IPR and encourage innovation. The central government ordered law enforcement authorities to disclose case details, penalties and evidence within a prescribed period of time after the decision is made, and to make timely response to public concerns. Such information should be encompassed in a social credit system, and local governments at all levels should strengthen supervision to ensure effective enforcement, it said.

The State Council also decided to integrate the responsibilities for real estate registration that are currently scattered across different departments, to improve administrative governance and ease burdens on enterprises and the public. The Ministry of Land and Resources will be in charge of directing the registration of land, real estate, grassland, forest land and maritime space. No change is made on departments entrusted with industry management and supervision on real property transactions, the statement said. An information platform will be established to ensure information exchange between departments and efforts will be made to push forward a system of real property registration open to public inquiry.

Source: Xinhua: China discloses more to improve market climate, 2013-11-21

Market Mover: After a Rant, China's Central Banker Leads Push to Overhaul Economy

Mr. Zhou's reappointment signals that party leaders are likely to embrace at least some market-oriented reforms in an economic plan due to be released at a meeting of senior party officials scheduled to begin on Saturday. The central banker has long championed a more consumer-based economy in which ordinary people have more
money to spend and more loans are available to private firms rather than state-owned behemoths. To that end, his priorities include creating deposit insurance for banks, making higher interest rates available to depositors, creating more privately owned banks and opening China more to foreign investors. At a Shanghai conference this summer, Mr. Zhou said the world’s second-largest economy was in need of reforms “to further promote trade and investment, improve financial services to the real economy and improve people’s livelihood.”

One reason financial-sector reforms have jumped to the fore, participants in the process say, is that Mr. Zhou has spent years putting together a road map for change. He has gained the backing of senior officials, including Mr. Xi’s top economic adviser, Liu He, who has worked with Mr. Zhou for years, these people say. A proposal recently submitted to party leadership by the State Council’s Development Research Center, an influential government think tank, lists the financial sector as a key area for reform. Since his reappointment in March, Mr. Zhou has traveled extensively with Mr. Xi, recently to Central Asia and Russia. Mr. Xi also appointed him to be vice chairman of the Chinese People’s Political Consultative Conference, an influential policy-consultative group.

Mr. Zhou has served as central banker since 2002, making him the longest-serving PBOC governor since the bank was created in 1948. As such, he has become the face of the Chinese economy internationally, mixing easily with central bankers in Europe, the U.S. and Japan. He has long represented China at international meetings, including events held by the Group of 20 and the International Monetary Fund. Former U.S. Treasury Secretary Hank Paulson, who meets regularly with top Chinese officials, says the nation’s leaders realize “if they are to successfully drive the transition to an economy that is more reliant on private markets and less on the state, China needs a modern financial system. In this regard, they will rely heavily on Zhou.”

Some economists say that any reform agenda that is heavy on financial reform but leaves untouched other pillars of the economy, such as state-owned enterprises, could backfire. China is awash in credit, with domestic debt rising so rapidly over the past five years that analysts say the economy is beginning to look a lot like Japan, Thailand and Korea did before financial bubbles there burst and produced deep recessions. If additional lending from a resurgent banking sector, for instance, goes to build more vast developments with few occupants -- “ghost cities,” as they are called here -- it could make China more vulnerable to financial problems. Mr. Zhou has said China would move prudently. “We’ll find a balanced measure to keep relatively fast economic growth and at the same time improve our economic structure,” he told state broadcaster China Central Television in August. First up on Mr. Zhou’s agenda, analysts and banking officials say, is bank-deposit insurance. China has never had such insurance, although there has been an implicit guarantee that the government would step in to protect depositors if a bank fails. Its introduction has been stalled for at least 10 years because of opposition from large state-owned banks, officials at those banks say. China’s new leaders have put a premium on increasing lending to smaller, innovative firms -- also a priority of Mr. Zhou’s -- and want to increase the number of smaller, privately owned banks to make these higher-risk loans. Deposit insurance could help such banks build credibility with consumers worried about the safety of their money.

In a September article in the Communist Party’s Seeking Truth magazine, Mr. Zhou emphasized the need to “support private capital to set up private banks and guide them to position themselves in serving small and micro companies.” In China, the central bank isn’t independent from political bodies, as it is in the U.S. Mr. Zhou acts as an adviser to more senior government and party officials who must sign off on policy changes. That limits his direct power.

Chinese officials and economists say Mr. Zhou used nationalist arguments to get State Council approval in 2009 for a plan to turn the Chinese yuan into an international currency, saying it would be a symbol of China’s rising power. In a series of papers, he touted China’s “superior system advantage when it comes to making vital
policy decisions” and argued that the dollar had failed as a reserve currency.

Mr. Zhou has had to fight hard for one of his biggest priorities, speeding up the time when China opens its doors wide to foreign-capital flows -- money moving in and out of the country. He has argued that encouraging such flows would give Chinese investors a chance to diversify their portfolios, and smaller companies now starved for funds the chance to raise capital from foreign investors. It also could increase competition among state-owned enterprises and force them to make decisions based on potential profitability rather than politics. Skeptics have noted that many other countries have been harmed by unregulated capital flows. Money surging into a country can create bubbles in real estate and other assets, and money draining out can leave borrowers scrambling to cover debts. Objections have come from prominent academics such as Justin Yifu Lin, the first Chinese citizen to serve as World Bank chief economist, and Yu Yongding, a former member of the central bank's advisory board. Critics of Mr. Zhou’s proposals feel they have made inroads. Chinese officials have taken note of the troubles Brazil and India have had coping with sudden capital outflows after the U.S. Federal Reserve hinted in May that it would start reversing its stimulus policies, according to Chinese economists. Mr. Zhou and others at the central bank now stress that China could reimpose capital controls if necessary. Mr. Zhou isn't backing down. Banking officials say he is pressing for the publication of a schedule to open the capital account to further solidify China's commitment to the policy.


More change is in the cards in finance

A comprehensive credit investigation system will be established in the China (Shanghai) Pilot Free Trade Zone to better serve the private economy and pave the way for bigger steps in financial reform, said a local banking regulator. "The FTZ management committee is preparing to build an integrated credit investigation system to bring together all relative credit information," said Ma Lixin, deputy head of the Shanghai Banking Regulatory Commission, at a forum held by Fudan University on Sunday. A big shortcoming of the current credit systems, including the one operated by the People's Bank of China, the country's central bank, Ma said, is that they mostly record only the financial information of a company. "The lending to private companies depends very much on non-financial information, such as payment of your electricity bill. Yet such information is hard to trace in a traditional credit system." Ma said the new credit investigation system in the Shanghai FTZ will integrate the systems of the central bank, commercial banks, as well as other information relative to a company's integrity. "In the new system, commercial banks will be able to evaluate the credit information in a more comprehensive manner and private enterprises will also have a better chance to win the favor from banks," he said.

In a key move to simplify investment procedure, the industrial and commercial administration authority of the Shanghai FTZ has removed the minimum registered capital requirement for business startups, as well as the annual checking system, which is now replaced by a reporting system. In late October, one month after the Shanghai FTZ was officially launched, the policy was spread nationwide, as announced at a meeting presided over by Premier Li Keqiang. But in the meantime, Li also called for advancing the building of an integrity system: Enterprises with deceptive practices will be put on a “blacklist” that will be publicly available.

To establish a comprehensive credit system will be in line with the decision of the recent Third Plenary Session of the 18th Central Committee of the Communist Party of China, which highlighted the role of an inclusive financial sector, especially in serving cash-strapped small and private companies. Zou Pingzuo, a researcher with the central bank's research bureau, said China's financial system is in an inverse-pyramid shape, meaning that most of the money is flowing into the banking system, and much of the capital has been injected into State-owned enterprises. "As for now, the financing costs for private companies are still as high as 20 percent a year," he said. Ma said: "Banks wouldn't intentionally differentiate between private companies and SOEs, but SOEs do have more guarantees and lower risks.” He said only a comprehensive credit system that includes all relative information of a
private company could eliminate such "discrimination". The establishment of such a system will also come along with bolder steps taken by financial institutions in the tested area. By Monday, there were 17 banks among those that have won approval to register a branch within the FTZ.
Source: Wei Tian in Shanghai: More change is in the cards in finance, China Daily, 2013-11-19

**Move faster' to free deposit rates**

China is going to accelerate the freeing up of deposit interest rates, said the chief of the People's Bank of China at a forum on China-France financial cooperation on Tuesday. Zhou Xiaochuan, governor of the bank, said the central bank is considering going further with interest reforms, particularly with deposit interest rates. "China has been building a system for market-based interest rates in the past two decades," said Zhou. "More mechanisms, such as market-oriented pricing mechanisms, need to be established to lift the control on deposit interest rates. " The central bank liberalized loan interest rates in July. The bank widened the upper limit of the floating range for deposit interest rates to 1.1 times the benchmark interest rate in June 2012, constituting a major step toward total freeing up deposit interest rates. "Many countries with successful experiences of free deposit interest rates removed the limit on fluctuations in a progressive manner," wrote Sheng Songcheng, chief of the statistics department of the central bank, in an article earlier this year. "It should be the same case with China, starting from long-term to short-term and from small to large deposits."

The trend toward more flexible interest rates has stirred up concerns that the profitability of China's banking industry will be severely hampered since about 80 percent of the profits are generated by net interest margins. A report by Group 2012, a privately run economic research team, rebuffed the concerns in a recent report. Since 1998, net interest margins at major Chinese banks floated between 2.2 percent to 3.2 percent. In 2010, 2011 and 2012, the average net interest margins of Chinese banks were 2.57 percent, 2.79 percent and 2.76 percent, near the average level of the past 15 years, said the report. "The pricing scheme of interest rates will gradually move from a uniform standard regardless of costs to a differentiated mechanism based on the level of costs," said the report, "The rising forces (private banks, for instance), the increase in loans to micro and small enterprises and diversified portfolios will generate more profit and opportunities for China's banking sector."

China will step up efforts to institute full convertibility of yuan capital accounts, said Zhou. To achieve that goal, China must adjust its management on cross-border capital flows so that enterprises could reduce their costs in financial transactions and various kinds of investment activities. Zhou also called for the simplification of the administrative approval procedures for the exchange rate management system, switching the emphasis from granting approval to supervision, from micro to macro management and from positive to negative lists. He encouraged investment from Qualified Domestic and Foreign Institutional Investors, specifying that the approval system over the investment quantity and qualification of these investors could be revoked if necessary.
Source: Yang Ziman: 'Move faster' to free deposit rates, China Daily, 2013-11-27

**China's fiscal reforms needed**

Fiscal and tax reform is the entry point and main thread of the overall deepening of the financial reforms. China's third plenary session of the 18th CPC Central Committee revealed the direction of state sector reforms and the shift in local governments' financing power, as currently, local governments' spending right and powers are not matching. Matching local governments' spending with their financing power is the key of China's fiscal reforms. Huang Yiping, Professor at China Center for Economic Research, said local government should give up certain spending responsibilities. "Now the central government wants to take back some of spending responsibilities, particularly things like pension, responsibilities for police, healthcare, education and so on. I think it is a good idea for it is better for these functions to have a uniformed standard in the country," Huang said.

On the other hand, the central government should give the local governments more financing power. China's local governments still have the big problem of soft budget constraints which means they are not responsible for
their borrowing. Local governments' borrowing has been rising rapidly regardless of their balance sheet. Many assume that if they cannot pay back, the central government will step in. Huang says that the current situation is very dangerous and can easily lead to fiscal and financial crisis. "I think before we give the local authorities more responsibilities, more revenue, we need to establish independent balance sheet. So they can raise their own taxes, sell bonds. The central govt to step back, otherwise," Huang said. China's local government are responsible for 80% of spending while getting 40% of tax revenue according to the World Bank data. Striking a healthy balance between the local governments' spending and income is the next big step in China's fiscal reform.

Source: CCTV correspondent Michelle Xing: China's fiscal reforms needed, 11-14-2013
http://english.cntv.cn/program/bizasia/20131114/104012.shtml

China's reforms positive for local govts: Fitch

The series of reforms announced over the weekend in China could begin to change the way the country's local and regional governments (LRGs) operate, said Fitch Ratings, a London-based credit rating company, on Tuesday. If implemented effectively, these measures could optimize fiscal transparency and overall budget management, said the company.

Last Friday, the leadership of China issued a decision on "major issues concerning comprehensively deepening reforms", which was approved at the close of the Third Plenary Session of the 18th Communist Party of China Central Committee, a four-day key meeting which ended on November 12. Fitch counts on two reasons for LRGs to achieve medium-term improvements. "The first is that these reforms aim to change the incentives of local government operations and raise their overall level of transparency," said Fitch. The second reason is expectation of gradual improvements in overall budget management, including complication and disclosure of LRG balance sheets, transition to an accrual-based accounting system, and establishment of debt monitoring and risk-alarm system, said the credit rating company. This would help reduce the unsustainable dependence on land sales and other forms of unstable financing activities.

However, Fitch also pointed out that main challenge for the proposed Chinese reforms could be powerful interest groups at the local level. "In any event, implementation remains the key to actual credit improvements," it added. Moody, another international credit rating company, however, said on Monday that the policy statements released last week are credit positive for the sovereign, local governments, state-owned enterprises, property developers and utilities.

Source: Xinhua: China's reforms positive for local govts: Fitch, 2013-11-19

Official pinpoints China's tax priorities

A Chinese official on Thursday set out the major tasks ahead for a taxation system which aspires to serve development and social equity. China's Minister of Finance Lou Jiwei told Xinhua that the emphasis is on the role of taxation as a source of revenue, a redistributor of income and a tool of structural optimization and industrial upgrades. "We will establish a tax system that lends itself to scientific development, social equity and market unity," Lou said. His remarks come on the back of key policies on improvement to the taxation system released last week by the Communist Party of China.

A major task already underway is replacing turnover tax with value-added tax (VAT) levied on the difference between the cost of production and the price of a commodity on the market. Following regional experiments since the beginning of 2012, changes to the VAT regime were rolled out over the whole country's transportation industry and six service sectors on August 1, reducing taxes on business by 94 billion yuan ($15.3 billion) in the first 10 months of the year. A consumption-based VAT system, in line with industrial development rules, will soon eliminate double taxation, the minister said.

Reform of consumption tax will also be used to adjust consumption of products which use a lot of energy or cause pollution, as well as some high-end consumer goods. The policy document called for legislation on a housing
property tax, which will mean lowering taxes and charges for construction and transactions, while increasing taxes on ownership. Trials of property tax have been running in Chongqing and Shanghai since January 2011 as local governments try to cool the property sector.
Source: Xinhua: Official pinpoints China's tax priorities, 2013-11-22

'China plans close watch on pricing in six sectors

China's top price regulator plans to ratchet up pressure against companies in six industries that engage in monopolistic pricing, said an official from the National Development and Reform Commission. The sectors are aviation, consumer goods, vehicles, telecommunications, pharmaceutical products and home appliances, Lu Yanchun, an official of price supervision and anti-monopoly pricing at the commission, told the Xinhua News Agency. Those industries are very close to residents' daily lives, and the NDRC's regulation will help to protect consumers and stimulate domestic consumption in a fair market environment, analysts said. According to Lu, the NDRC is continually strengthening efforts to crack down on excessively high prices, based on a comprehensive anti-monopoly legal and regulatory system. It is also strongly supported by governments at the central and provincial levels.

In January, the NDRC announced new sanctions on foreign companies for the first time after years of investigations. In one price-fixing case, six liquid crystal display producers, including two from South Korea and four from Taiwan, paid 353 million yuan ($57.5 million) in fines. The NDRC also imposed fines of 670 million yuan, a record for anti-monopoly fines in China, against six baby formula companies - Biostime, Mead Johnson, Dumex, Abbott, Friesland and Fonterra. Their commercial operations were said to be anti-competitive activities that violated the nation's laws against monopolies.
Source: Chen Jia: China plans close watch on pricing in six sectors, China Daily, 2013-11-27

China Pledges Overhaul To Free Up IPO Market

China's leaders vowed to revamp the country's IPO system, transforming it from one under which the government decides which companies can list to a Western-style system in which companies can go public on their merits.

The shift is a significant loosening of government control over China's struggling stock markets, which have performed dismally despite strong economic growth. The change in rules for initial public offerings would remove a major regulatory obstacle that has long been criticized for distorting supply and demand and artificially inflating valuations of new listings in one of the world's largest capital markets.

China's system has prompted many of China's most innovative and ambitious private firms, including technology companies such as Alibaba.com Corp. and Baidu, to seek listings in Hong Kong and New York, analysts say. Just this month, two Chinese lenders -- Bank of Chongqing Co. and Huishang Bank Corp. -- raised a combined US$1.78 billion via IPOs in Hong Kong.

Securities law must prioritize investor protection: official

Protecting investor interests is a priority when amending China's securities law, the head of the country's securities regulator has said. Amending the existing securities law, which was last altered in 2005 and came into effect in 2006, is among the top priorities of the standing committee of China's top legislature - the National People's Congress, according to a plan released in October. "In essence, securities law is a law on investor protection," Xiao Gang, chairman of the China Securities Regulatory Commission, was cited by Friday's China Securities Journal as saying. Protecting public investors should be the basic value of securities law as investors lack knowledge about invested companies, Xiao said. The chairman suggested amendments consider ways to protect
investors, such as a system of public interests litigation and forced securities buy-back in case of fraud during issuance or sales, as well as compulsory fulfillment of obligations. He added that securities law should be able to stimulate the market's vitality and push for unified supervision on different types of securities markets.

Source: Xinhua: Securities law must prioritize investor protection: official, 2013-11-29

China considers consumer goods safety law

China's quality watchdog is considering a consumer goods safety law for better consumer rights protection, it said Monday. The draft law will be submitted to the Legislative Affairs Office of the State Council for examination by the end of 2015, and will be included in the State Council's legislative work, according to the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ).

The consumer goods safety law legislation is aimed at intensifying the institutional supervision of consumer goods safety, reducing and preventing consumer goods safety accidents, and safeguarding consumers' rights and interests, said Mei Kebao, deputy head of the AQSIQ. The consumer goods safety law should be linked with the product quality law and the food safety law, and take into consideration the condition of Chinese enterprises and China's economic and social development, he added. So far, China has no specific law concerning consumer goods safety. The food safety law took effect on June 1, 2009 and the product quality law took effect on Sept 1, 2000.

Source: Xinhua: China considers consumer goods safety law, 2013-11-19

China's dirty air

Xie Zhenhua, vice chairman of the National Development and Reform Commission, China's top economic planning body, admits that pollution is harming the mental and physical health of the nation's citizens, that China has an "obsolete development model" with an "unreasonable industrial and energy structure." Yet China, putting economic growth as its foremost goal, has consciously pursued an obsolete model with all the known downsides. It unwisely acted as if environmental degradation is an unavoidable byproduct of economic growth. Mr. Xie says that China will see improvement in air quality in about 5 to 10 years. China is only now belatedly beginning to adopt the kind of environmental policies that worked for advanced economies more than a generation ago.

Still, irreversible damage has already been done; carbon emissions have contributed to global warming while other pollutants have damaged the ecosystem, wildlife and human health, leading to further increases in respiratory diseases over the next decades. The economic cost of such damage is substantial. The World Bank estimates that the cost of environmental degradation and resource depletion is equivalent to 9 percent of China's gross domestic product. Mr. Xie, who is scheduled to participate in the global climate talks in Poland next week, should squarely face that fact and understand that investing in environmental improvement is an economic activity (like building cleaner coal power plants) with real gains in terms of employment and technological advances. While China has thought of pollution as a necessary cost of becoming an advanced economy, it should understand that antipollution investments are also drivers of economic growth.


China energy firms to pay higher safety costs: HSBC

Chinese energy companies are set to pay much higher safety costs for their operating systems in the future, following Friday's deadly oil pipeline blast in east China, banking giant HSBC has said. Because oil and gas are volatile and combustible products, great care must be exercised at all times in producing, transporting, storing and processing these commodities, HSBC said in a report emailed to Xinhua on Wednesday. "This accident is likely to build in much higher safety costs into these systems going forward," it said. The blast took place in Qingdao city, Shangdong province on Friday morning after crude oil leaked from an underground pipeline operated by Sinopec, the country's largest oil refiner. As of Monday, the blast had taken 55 lives, left nine people missing, and put another 145 in the hospital. HSBC said Chinese oil companies, including Sinopec and China's largest oil producer,
PetroChina, operate large amounts of infrastructure.

The report, citing Chinese state statistics, said that by the end of 2012, China had a total of 90,123 km of oil and gas pipelines connecting visible refining capacity and related storage by the end of 2012. Sinopec and PetroChina hold the majority of these pipeline assets. PetroChina operates 16,344 km of crude oil pipes, 9,437 km of oil product pipes, 35.6 million cubic meters of crude storage and 40,995 km of natural gas pipeline systems. Sinopec owns 7,100 km of crude oil and 9,614 km of oil product pipelines, 35.6 million cubic meters of crude storage and 6,856 km of natural gas pipeline systems.

On Monday, Wu Xinxiong, head of the National Energy Administration, urged China's energy industry to improve work safety following the blast. A comprehensive safety inspection is being planned, Wu said, who called for effective investigation and treatment of hidden dangers.

Source: Xinhua: China energy firms to pay higher safety costs: HSBC. 2013-11-27

**China to hone income distribution: CPC decision**

China will enhance regulation of income secondary distribution through taxation, according to a key document of the Communist Party of China (CPC) publicized on Friday. The country will meanwhile focus on increasing the share of work remuneration in primary distribution, the document said, explaining that information systems on personal income and property will be established among efforts to narrow income gaps between urban and rural areas, different regions and sectors. China aims to bring about an income distribution pattern that is olive in shape, according to the document. The document was adopted by the four-day Third Plenary Session of the 18th CPC Central Committee upon its conclusion on Tuesday.

Source: Xinhua: China to hone income distribution: CPC decision, 2013-11-15

**Shanghai residents bag top disposable income**

Shanghai is tops in urban disposable income among 31 provinces on the Chinese mainland with 40,188 yuan ($6,550) a year, research shows. The city is also the only one with an average 40,000 yuan-plus annual per capita disposable income, equal to 234 percent of Northwest China's Gansu province, which comes last on the table with only 17,157 yuan per year. The average disposable income for China's urban residents was 24,565 yuan in 2012. The growth in per capita income fell to 6 percent in the third quarter this year from above 9 percent the year before, which, according to Sheng Laiyun, a spokesman with the National Bureau of Statistics, was the result of lower economic growth.

Following Shanghai, three regions - Beijing, Guangdong and Zhejiang - were the only ones with average annual disposable incomes of 30,000 to 40,000 yuan, while 19 other provinces including Jiangsu and Tianjin had 20,000 to 30,000 yuan. There were only eight provinces with urban disposable incomes above the annual national average level, while eight other provinces, including Heilongjiang, Qinghai and Gansu, were below 20,000 yuan a year. In the meantime, the national average disposable income for rural residents was only 7,917 yuan in 2012, one-third that of average residents, the bureau data showed. Such regional and urban-rural disparity renewed calls for deepening reform in the country's income distribution system. It is one of the most anticipated reforms from the key meeting of the Party to draw up the next decade's economic agenda, which closed on Tuesday.

Source: Wei Tian in Shanghai: Shanghai residents bag top disposable income, China Daily, 2013-11-13

**Middle class sitting in the driver's seat for consumption**
China's emerging middle class is growing up, preparing to make its presence known in terms of the nation's economic growth. According to the Discover China's Emerging Middle Class survey released by ZenithOptimedia, China's emerging urban middle class totaled 125 million in 2012, and the number is expected to reach 356 million by 2020. It's a group with great potential to boost the country's consumption, and in the long term, the economy. "The Chinese middle class is not necessarily the richest, as a large number of young people are put into this category, but they definitely promise more wealth with a bigger purchasing power in the near future," said Steven Chang, CEO of ZenithOptimedia Greater China. The report is based on the findings of a survey of about 17,700 respondents in 150 cities, the largest study of its kind so far.

Definitions of China's middle class vary among the different research firms and institutions. But as Gerry Boyle, chairman of ZenithOptimedia Asia Pacific explained, middle-class families in the West have about 30 percent of their income left over after all their basic expenditures have been made, with the lion's share of that leftover income devoted to healthcare and their children's education. ZenithOptimedia believes that the Chinese middle class includes those with an annual household income of at least 72,000 yuan ($11,815) in tier-one and tier-two cities, and 48,000 yuan in tier-three and -four cities. Among the respondents, 57 percent reported an average annual household income of 179,000 yuan, with most of these possessing higher academic degrees. About 70 percent of this wealthy group was above 35 years old. In addition to having a comfortable income, members of China's middle class also own their own cars or at least have the intention of purchasing one soon. That is reflected in ZenithOptimedia's survey, in which 71 percent of the respondents said they own a car, while 50 percent plan to buy one within the next six months. In tier-four cities, 75 percent of those identifying as middle class are more anxious to buy a car than a luxury watch. In addition, the Chinese middle class seems drawn to modern technology, such as the Internet, smartphones or tablets.

The study comes at a time when the central government is addressing the importance of consumption, which is said to be the major driving force for the country's economic growth. By 2020, China's household domestic consumption is expected to account for half of the nation's total output, according to the National Bureau of Statistics. The middle class is said to be spearheading that consumption. Not only does this group have a better understanding of brands, but ZenithOptimedia said its members are enthusiastic consumers. The luxury watches they buy each year are worth an estimated 49 billion yuan. They reportedly consume 2.7 billion cups of coffee and buy 5.1 million cars a year. And the amount they spend on travel will soon reach 300 billion yuan annually.

Source: Shi Jing: Middle class sitting in the driver's seat for consumption, China Daily, 2013-11-14

After Decades, China Will Ease One-Child Policy: [Foreign Desk]

The Chinese government will ease its one-child family restrictions and abolish "re-education through labor" camps, significantly curtailing two policies that for decades have defined the state's power to control citizens' lives, the Communist Party said Friday. The changes were announced in a party decision that also laid out broad and potentially far-reaching proposals to restructure the economy by encouraging greater private participation in finance, vowing market competition in several important parts of the economy, and promising farmers better property protection and compensation for confiscated land.

For months, analysts have speculated about the economic policies that could be introduced at the meeting. But the planned changes to population policy and punishment, two areas where overhauls have been debated, and delayed, for years, gave the decision significance beyond the economy. They could stir public expectations of even bolder changes under Mr. Xi and Prime Minister Li Keqiang in the decade they are likely to spend in office.

For decades, most urban couples have been restricted to having one child. That has been changing fitfully, with rules on the books that couples can have two children if both parents are single children. But that policy will now be further relaxed nationwide. Many rural couples already have two children, and some have more. The one-child restrictions were introduced to deal with official fears that China's population would devour too many resources and suffocate growth. But they have created public ire and international criticism over forced abortions,
and have created a population of 1.34 billion, according to a 2010 census, that is aging relatively rapidly, even before China establishes a firm foothold in prosperity. Experts have for years urged some relaxation of the controls.

The party leaders also confirmed an announcement made earlier this year, and then abruptly retracted, that they intend to abolish re-education through labor, which since the 1950s has empowered police authorities to imprison people without any real judicial review. Experts and officials have debated whether to adjust or abolish the system of camps since the 1980s. Now abolition is closer. Under Mr. Xi, the government has pursued a broad crackdown on political dissent, critical opinion and rumors on the Internet, and perceived ideological threats. But the decision promised fairer and more predictable treatment from the police and the courts, hinting at support for long-discussed measures intended to make judges more independent of the local officials in their jurisdictions.


China's Coming One-Child Crisis

The Communist Party's "open letter" that announced the One Child Policy in 1980 also proclaimed: "After 30 years, the currently very intense population growth problem will be eased, and different population policies can be adopted" -- a seeming pledge that the program would only be temporary. All this gave rise to hope that a major change in China's population-control project was imminent -- and might be announced by President Xi Jinping at the Nov. 9-12 Third Plenum of the Communist Party's Central Committee. What the regime promulgated, however, was a relatively minor adjustment. Couples would be allowed to have two children if just one spouse is an only child, instead of both spouses as the policy was previously. No time frame was given for the rollout of this adjustment.

Beijing's population planners expect the revision to have only a limited demographic impact. According to a widely quoted official estimate, about a million extra births a year are expected. In the context of the current 16 million or so annual births, that would amount to a paltry fertility increase of maybe around 6% for China. (No one knows the precise current birth figure, in part because so many parents still try to conceal out-of-quota babies.) The day after the new birth directives were announced, the Chinese state news agency Xinhua ran the headline "Birth policy changes are no big deal." Beijing did not significantly "reform" population control. Rather, it just reaffirmed its coercive program with one minor and relatively insignificant change.

So let us ask once again: Why, apart from its totalitarian impulse, does the Communist Party cling to its abhorrent and manifestly impractical One Child Policy? The most intriguing answer I've heard came from one of China's leading demographers a few years ago. When I asked him this question (couched a bit more politely), he said he could only guess that the leadership in Beijing actually believes that Chinese women will start having five children again if they end the policy. His guess may or may not be correct. But if his reading of China's leaders is right, or even approximately correct, the Communist rulers in Beijing would be further out of touch with their subjects than almost anyone suspects.


Policy shift gives birth to investor

According to the National Population and Family Planning Commission, couples where just one spouse is an only child will be permitted to have two children. Although the timetable for implementation of the policy has not been fixed. They're not the only ones excited about the prospect of another child.

Companies that make products for mothers and babies, and investors in those companies, are optimistic,
too. Sitting in the Lidu area, outside of the north Fourth Ring Road in Beijing, Amcare Corp, a private hospital specializing in mother and child healthcare, welcomes newborns every month. Their business is looking brighter thanks to the relaxation of the one-child policy. Warburg Pincus LLC, a private equity firm, has recently led a majority part of an investment of $100 million in Amcare to fund the company's expansion. Within five years, Amcare is expected to add seven new facilities, making a total of 10, in major cities including Shanghai, Hangzhou and Wuhan to cope with the rising demand for medical services for newborns, children and pregnant women. "The landmark initiative is a boost to our hospital," said Hu Lan, chief executive officer with Amcare, which was been operated since 2006. "But we're also a bit cautious about the impact of the relaxation of the one-child policy."

Demographers have estimated that after the relaxation of the family planning policy, there will be an additional 1 million newborns in China each year. That's about a 5 percent increase. Hu said the relatively small number of additional newborns will give the hospital group time to catch up with the rise in demand while maintaining the safety of its operations. Amcare's three facilities in Beijing and Tianjin achieved revenue of 300 million yuan ($49.2 million) last year, up 50 percent year-on-year. Hu said each of the seven new facilities will require investment of 100 to 200 million yuan. The group's patients are middle- and high-income earners, with a majority working for banking, Internet, technology and entertainment companies, Hu said.

The infant formula market is also expected to get a lift from the new regulation. The industry will see an additional 6 billion yuan in sales each year, said Song Liang, a dairy industry analyst. The extra sales will mostly occur among Chinese brands of milk powder, shrinking the gap in market share between domestic and foreign milk producers, he said. Song said that in first-tier cities, many couples are both only children. Those who wanted to have a second child already did so under the old policy, which allowed them to do so. Therefore, the new policy will encourage more births of second children to couples in second- and third-tier cities. Those smaller cities and counties are the major battlefield for domestic baby formula makers, Song said. In the baby formula market, domestic brands hold a share of about 40 percent and foreign brands account for about 60 percent. The market is worth about 55 billion yuan annually. But after the relaxation of the regulations, domestic and foreign brands are expected to split the market evenly. Foreign baby formula brands, which are most popular in first-tier cities, will be less affected by the limited increase of newborns in big cities, he said.

Listed companies involved in mother-and-child care have seen their shares get a boost. Nine companies - including Ningbo David Medical Device Co Ltd (which makes infant incubators and warmers), Goldlok Toys Holdings (Guangdong) Co Ltd and Xinjiang Western Animal Husbandry Co Ltd - saw their shares rise by the daily 10 percent limit on Monday. But shares of the companies retreated on Tuesday.

A China International Capital Corp Ltd report said the relaxation of the family planning policy will alleviate the pressure of an aging population and help optimize the population structure. The report said that the relaxation is only a beginning and more adjustments are expected. In the short term, the demand for mother-and-child consumption will be lifted. Sectors including maternity medicines and treatment, medical testing facilities, baby care, healthcare, baby formula, diapers, toys, clothing for children and early education will also be supported, it said.

Haitong International Securities Group Ltd said that the initiatives will give an obvious boost to the number of newborns. The country will experience a fourth baby boom in five years, when people born between 1980 and 1990 marry and give birth. Coupled with the newborns from the relaxed policy, the number of newborns each year is expected to reach 23 million in three years. The number of children below age 3 will be 35 percent above the current level. But some analysts are taking a conservative view of the new regulations' impact. Xue Shengwen, a senior researcher at CICConsulting, an industry research firm in China, said the impact on companies will be limited. Xue added that there are still uncertainties about the policy change.


**China to reform petition system: CPC**
China will reform its petition system and authorities must respond to and terminate cases within the legal framework, according to a key policy document of the Communist Party of China (CPC) published Friday. Petitioning, also known as letters and calls, is the administrative system for hearing public complaints and grievances. People who are not satisfied with government decisions can request reexamination of their matters. But after reexamination and review, matters are closed. The termination procedure was sometimes abused by local authorities, resulting in inappropriate settlements of cases. This led to public anger. As part of the reform, a system will be set up so that authorities must abide by the law to terminate cases, according to the CPC's decision. The decision was approved at the Third Plenary Session of the 18th CPC Central Committee. The country will set up a system for online petitioning and strive to settle people's cases timely and at local level, the decision said.

Source: Xinhua: China to reform petition system: CPC, 2013-11-15

**Bringing China's best minds home to roost**

On the face of it, the fact that more than three times as many Chinese students now go abroad to study compared with a decade ago does not seem to bode well for China's "brain drain" dilemma. But the tide may be turning. The number of students who return is four times higher now than a decade ago and the government appears to have a renewed eagerness to tackle the problem. In 2012, some 400,000 students went to study abroad, up from 120,000 in 2003. The Ministry of Education says 330,000 returned last year, up from 80,000 a decade ago. China still has a trade deficit of talent, but it is a much smaller deficit than at any time in decades.

"The Chinese government thought about it as a serious problem after 1987," says David Zweig, a professor at Hong Kong University of Science and Technology who has researched the subject extensively and is now working on a book about returnees. In 2010, Zweig adds, the issue was taken over by the Coordination Group on Specialists of the Communist Party of China. The goal of this group is to coordinate the myriad efforts in place to bring back talent to China. Between 1990 and 2010, the Ministry of Education spent close to $98 million in seed funding for about 20,000 returnees. A program by the Chinese Academy of Science, launched in 1994, offers as much as 2 million yuan ($328,500) for research to returnees. In almost 20 years, almost 1,600 professionals have taken advantage of the plan. In 2008, China launched the Thousand Talents plan, through which the government tries to convince overseas Chinese to return. The plan offers top scientists and entrepreneurs as much as $150,000 in cash, office and laboratory space, housing allowances and school entry for children. Another program, the Medium- and Long-Term Talent Development Plan (2010-2020) aims to attract another 2,000 specialists in IT, biotechnology, aerospace, environmental protection, agricultural technology and transportation.

China is now offering more permanent residency permits to attract talent, taking a different approach to combat the ongoing brain drain. The number remains relatively small but it is growing. In 2012, authorities issued 1,202 permits, 83 percent more than a year earlier, according to Zheng Baigang, head of the Bureau of Exit and Entry Administration at the Ministry of Public Security. The majority of the applications came from the US, Japan, Canada, Australia and Germany. But it is hard to tell how effective these programs truly are at bringing back top talent. There have been criticisms of poor management, particularly in city level programs. At times, "returnees" who have taken advantage of programs were already back in China but were enrolled to shore up the numbers. At other times, the people offered spots in these programs did not necessarily fit the bill.

Quality can be an issue. The lower end of the talent spectrum tends to swell the ranks of the returnees. Weak students, often supported by their parents after they come back to China, return in droves. The best and the brightest are often hired in the US and Europe. Luring these candidates back is expensive. In a 2008 survey, Duke University in the US found that half of 637 returnees polled had five years or less of experience in the US. They were hardly top executives. The issue is made more pressing by the fact that business and investors regularly complain of shortages of top-tier talent, particularly high level executives or researchers across a variety of industries from logistics to biotechnology.

Since 1978, more than 2.6 million students have left China to study abroad; only 1.1 million have returned,
according to China's Ministry of Education. But as China grows, quality of life improves and salary levels rise, more students who left to study are coming back. In 2011, there were as many as 186,000 returnees, about 40 percent more than in 2010, according to the Ministry of Education.

At the same time, a greater percentage of students who go out to study do so with the intention of returning once their studies are over, says Zweig. "Now it is about 50 percent of people going out who are coming back, but most of them are going for a one or two year (master's)," he says. That is not really brain drain. Brain drain, he explains, is when an entire graduating class at one of the top schools such as Peking University or Tsinghua University in Beijing goes out of China to do PhDs. And the tide may also be shifting among Chinese professionals who studied, trained and worked abroad. Some have returned, often lured back by the improving quality of life, increasing prospects and greater opportunities, particularly since the global financial crisis and the slowdowns in the US and Europe.

Source: ALFRED ROMANN in Hong Kong For China Business Weekly: Bringing China's best minds home to roost, China Daily, 2013-11-18

Gov't inputs 805m yuan for agriculture

The Ministry of Finance on Friday said the government has recently allocated 805 million yuan ($131.11 million) to boost agricultural industrialization. The investment aims to support new agricultural management systems and industrialization of competitive products. Of the total, 460 million will go to leading enterprises that can help drive agricultural growth and 345 million will go to a program to support each county on one special local product. The fund will cover 28 provinces, autonomous regions and municipalities including Beijing, Hebei and the Inner Mongolia, as well as three cities listed independently in the state plan, including Dalian, Ningbo and Qingdao.

Source: Xinhua: Gov't inputs 805m yuan for agriculture, 2013-11-02

Li sees reform bringing profit for farmers

Fundamental rural reform, encouraging professional investors, family farms and greater engagement in production by rural cooperatives, is approaching in China, Premier Li Keqiang said. Li also pledged to push through economies of scale to boost farmers' profits. He made the comments during a trip to Heilongjiang province, China's largest crop producer, this week. Li called on economies of scale to be implemented in the agricultural sector by setting up cooperative enterprises. But this reform, he said, should be conducted with the consent of farmers and ensure the strict protection of their rights. The reform is likely to change the fundamental rural policy that has been implemented for more than three decades, including the household contract system, which emphasizes leasing collectively-owned arable land to rural households.

Heilongjiang province saw a devastating flood in August that caused the evacuation of hundreds of thousands of residents. Li visited families and a resettlement center established for those who lost their homes and to help struggling villagers. He also visited a farm machinery center and a grain depot, where he stressed the development of modern agriculture depends on reform. "Agricultural reform should respect the innovation and willingness of farmers, and the most important purpose of reform is to ensure the well-being of farmers and improve their lives," he said.

Source: Yu Ran in Shanghai: Li sees reform bringing profit for farmers, China Daily, 2013-11-6

China to further stimulate e-commerce

China will encourage more e-commerce to try to bring online retail sales up to 10 percent of the total retail sales of consumer goods, according to the Ministry of Commerce on Thursday. China will expand e-commerce, with a focus on key areas including retail, cross-border trade, agricultural products and the service sector. By 2015, e-commerce transactions are expected to exceed 18 trillion yuan ($2.93 trillion). By then, exports and imports via
e-commerce could amount to at least a 10-percent share of total trade. Online retail sales will account for at least 10 percent of annual sales of consumer goods.

The ministry will provide policy and financial support for manufacturers and foreign enterprises conducting cross-border e-commerce, particularly the small and medium businesses. Domestic e-commerce will be encouraged to look outward, including establishing overseas agencies, improving offshore warehouse logistics and customer service, and cooperating with foreign counterparts. The MOC also called on local authorities to attract more private investment into the e-commerce sector.

Source: Xinhua: China to further stimulate e-commerce, 2013-11-22

**China SME Confidence Index down**

The China SME Confidence Index from Standard Chartered Bank reached 52.04 for the second quarter this year, down 4.47 from the previous quarter. The decline came after a surge in the first quarter and highlights concerns about economic conditions despite a slew of measures taken by Beijing over the following months. All five sub-indexes of the survey fell in varying degrees in the three months. The sub-index measuring SMEs' confidence with the wider economy fell 7.51 points to 47.36. On operation, it was down 1.89 points at 54.92 and stood at 56.97 on investment and 48.90 on financing. The SME Confidence Index is based on a quarterly survey covering 1,000 samples from 20 cities, including chemicals and materials, transport and equipment manufacturing. The results were similar to an earlier business climate survey conducted by China-based Internet company NetEase Inc, which indicated that financing difficulties were not a major issue this year as more SMEs reported sufficient cash flow. Forty-two percent of the surveyed firms forecast a continuation of the financial crisis, a drop of 8 percent compared with last year. But another 40 percent were "unsure" about their business prospects, compared with just 27 percent a year ago. A third of the SMEs showed faltering confidence in the macroeconomic outlook for 2013, which was 4 points higher than last year. Half of the companies are as optimistic as they were last year. Only 40 percent said they expect improved business performances in 2012, while the figure was 51 percent last year. However, there is still increasing commitment to growth plans. Instead of scaling back investment, 62 percent of companies plan to boost capital and equipment levels - up 5 percent from last year - and more than half of the companies vowed to expand their employee numbers, slightly higher than last year.

The annual survey drew opinions from top executives of 100 SMEs nationwide, covering sectors such as textiles, machinery, food and the Internet. This year, SMEs are having an easier time securing loans from banks compared with last year, highlighting increased market fluidity. More than a third of the surveyed firms now believe that getting loans is "normal", doubling the percentage from the previous year. High taxation surfaced as the top concern in this year's survey. About a quarter of the companies said they feel burdened with unaffordable taxes, citing it as their biggest headache. Meanwhile, rising costs are worrying at least 19 percent of business owners, while loan barriers ranked as the third-biggest hurdle. However, easier access to loans is a "false proposition" because there are simply fewer companies trying to get loans, according to Zhou Dewen, chairman of Wenzhou SME Development Association. "Most SMEs are being squeezed by rising costs and shrinking demand. Why would they bother getting loans?" Zhou asks.

Source: He Wei: China SME Confidence Index down, China Daily, 2013-11-18 07:40

**'No more land' for firms with surplus capacity**

In another sign of the government's resolve to tackle the problem of excess industrial capacity, the Ministry of Land and Resources will reject applications for land acquisition by companies in sectors with low capacity utilization ratios. Those industries are steel, cement, electrolytic aluminum, plate glass and shipping. "The ministry will clear the land used by projects involved in industries with excess capacity and launch a long-term, efficient system to prevent illegal land use by related companies," Minister of Land and Resources Jiang Daming was quoted as saying by the China Securities Journal.
The capacity utilization of the shipping industry in the first three quarters was about 55 percent, 20 percentage points lower than in 2012. As the burden of excess capacity intensifies, all central government departments with responsibility for the issue have announced measures to bring the situation under control. On Oct 6, the State Council - China's cabinet - released guidelines on addressing the problem. The cabinet said that it was "essential" to prevent the further expansion of capacity by companies in troubled industries. Another document was issued jointly by 10 departments, including the National Development and Reform Commission, the Ministry of Industry and Information Technology and the Ministry of Supervision. That document said that the government is urging companies to avoid repetitive construction of excess capacity. A conference call was held by the NDRC and the MIIT on Nov 4 to follow up on guidelines from the central government on tightened restrictions for companies trying to launch new projects.

Source: Yu Ran in Shanghai: 'No more land' for firms with surplus capacity, China Daily, 2013-11-13

**Tackling overcapacity is top priority**

China's top economic planner has pledged to take unprecedented steps to tackle industrial overcapacity as official data suggest the rate of industrial capacity utilization in the first half of the year hit a four-year low. "Although overcapacity is an old and periodic problem that arises about every five years, it was not as serious before as it is now," said Li Zhongjian, an inspector of industrial planning for the National Development and Reform Commission. The National Bureau of Statistics said that the rate of industrial capacity utilization in China in the first half of 2013 stood at 78 percent on average, the lowest since the fourth quarter of 2009. Analysts believe the rate will continue to dip if the government does not intervene, as a great deal of infrastructure construction and investment in the industries is still going on. By contrast, the industrial capacity utilization rate in the United States rose steadily from 77.9 percent to 78.3 percent in the third quarter, the highest since July 2008, the US Federal Reserve said.

Zhu Min, deputy managing director of the International Monetary Fund, warned at a forum in Beijing earlier this year that the industrial utilization rate has dropped from 90 percent to as low as 60 percent in China and flags a serious overcapacity issue, which begets a low return on investment and becomes an obstacle hindering China's rise in the global value chain, despite its important position in the global industrial chain.

Capacity utilization rates of 21 out of 39 sampled main products have fallen below 75 percent in China. Among those, photovoltaic products and calcium carbide's rates fell even lower, to under 60 percent. By the end of 2012, the capacity utilization rate was 72 percent for iron and steel, 73.7 percent for cement, 71.9 percent for electrolytic aluminum, 73.1 percent for sheet glass and 75 percent for the shipbuilding industry. "If unchecked, overcapacity will aggravate the vicious competition, enlarge the industrial losses, increase banks' non-performing assets, and waste material and human resources," warned the State Council's guideline on solving overcapacity, which was released on Oct 15. The guideline indicated that industries suffering from overcapacity may be weeded out, transferred or merged. The core task is to "control new growth, optimizing existing ones through a long-term mechanism", the guideline said. Some industries will be moved to industrial parks or designated regions from scattered urban and suburban areas, and the government will use pricing policies in electricity, water and land to force others to exit from the market or seek innovation.

As a response to air pollution problems in North China, "restructuring the iron and steel industries of Shandong, Hebei, Liaoning, Shanxi and Jiangxi will be a key task to streamline the industry", noted Li of the development and reform commission. The government also will establish an information system for the industries with excess production capacity, with the help of industrial associations, to practice timely supervision and take precautionary measures.

The reform plan made by the just-concluded Third Plenum of the Communist Party of China's 18th Central Committee acknowledges the government's role in addressing overcapacity. It said that the government should enhance market-entry criteria in energy saving, the environment, technology and security to form a long-term
mechanism for preventing and digesting overcapacity. There also should be a more comprehensive assessment system for development, which must include energy waste, environmental damage, ecology benefits and overcapacity as the main indexes to prevent the government from being led by the need for fast economic growth.
Source: Li Yang: Tackling overcapacity is top priority, China Daily, 2013-11-22

**Real estate registry system to be unified**

The government has announced plans to consolidate various real estate registration offices into one body, establishing a single information-sharing platform. The planned reforms are aimed at providing better protection for the property rights of citizens, while establishing the foundation for a possible tax levy. The decision was announced at Wednesday's executive meeting of the State Council, the nation's Cabinet. The Ministry of Land and Resources will supervise the registration of real estate nationwide, including housing, forests and sea, according to an official statement. The move is expected to end the inefficiencies of the existing scenario, by which various kinds of real estate are registered under different government agencies. Under the new plan, a "basic platform" will be established on which real estate approval, transactions and registration information can be shared by different agencies, thus eliminating the "isolated information islands". Analysts said part of the program has already been implemented in rural areas, where a national delimitation and documentation campaign aims to clarify who owns what. The countryside is notorious for its lack of clarity, due largely to the system of collective ownership. However, real estate ownership issues require clarification in urban areas too. The State Council said the proposed system would make it easier for individuals and institutions to obtain information relating to property ownership and questions of criminality or corruption.
Source: Zheng Yangpeng: Real estate registry system to be unified, China Daily, 2013-11-21

**Shanghai free trade zone to host gold warehouse**

A 2,000-ton gold warehouse will be operational this month in the China (Shanghai) Pilot Free Trade Zone, as global gold traders look to the zone as a gateway to China's huge gold demand. The warehouse, which is the size of three basketball courts, was developed by Malca-Amit Global Ltd, a Hong Kong-based company that focuses on the storage and transportation of precious metals and diamonds. All the paperwork has been done, construction is already finished, and a promotional campaign is on the way to attract local clients. Wu Hong, who is in charge of the operational side of the new warehouse, said that the total investment was a seven-digit figure in US dollar terms but declined to give the exact amount. The warehouse, the first of its kind in the zone, can also be used to store artwork, luxury products and diamonds. The local business registration date shows that the warehouse was incorporated last September under the name Shanghai Malca-Amit Logistics Co Ltd. The registered capital stands at 8 million yuan ($1.3 million). The Shanghai warehouse is the seventh globally for Malca-Amit, and Wu said it was built in response to the strong demand from the company's global clients, who are eager to tap deeper into the Chinese market via the FTZ. Wu said that Malca-Amit's clients include big multinational banks and major bourses, while refusing to provide names.

Trading gold via the FTZ will have many advantages. Previously, if a Chinese buyer wanted to import gold, he had to get government approval first, shop abroad and then ship the precious metal back to China. The whole process could take months and price changes during the process could cause the buyer significant losses. Now, foreign sellers can ship the gold to the FTZ first and then deal with local buyers whenever there's an order. Wu said the warehouse is in talks with local institutions, including Bank of China Ltd, Industrial and Commercial Bank of China Ltd and the Shanghai Futures Exchange, for future deals. At the end of September, China's central bank said it is mulling an increase to the number of firms allowed to import and export gold and will also ease restrictions on individual buyers. It's widely expected that the policies, if put in place, could further boost demand in China, where gold typically trades at a premium to London spot prices. Gold retains luster for Chinese consumers as economy improves. Two gold-backed ETFs launched in Shanghai.
Urbanization, legal reform big challenges for China

Urbanization and legal reform are two big issues faced by Chinese leaders currently, experts said on Saturday. Last year, Chinese Premier Li Keqiang especially talked about urbanization a lot, said Kerry Brown, executive director from the China Studies Center at the University of Sydney. This poses an enormous challenge for the leaders because urbanization creates mobility of people, Brown said at the China Forum in the Warwick University. By 2020, he said, 70 percent of Chinese people will live in cities. Therefore social structure improvement is needed to deal with the expansion of urban population. "In (Chinese) leadership's minds, they want to find solutions to growth, aiming to establish a strong country," Brown said.

"A big achievement by former Chinese leaders Hu Jintao and Wen Jiabao is economic growth," he told the forum. To keep the momentum of development, Li proposed to increase domestic consumption and improve the development of service sector so as to address the structural problems, but above all he talked about urbanization, Brown said. Ernest Caldwell, lecturer in Chinese law from the School of Law with the University of London, has been studying the Chinese legal system for over ten years. "I saw good developments since the reform and opening-up," he told Xinhua, taking the revision of criminal law and criminal procedure law as examples. After Chinese President Xi Jinping and Premier Li took office, Caldwell added, "there is increasing discourse of the rule of law." At the mean time, he saw growing right consciousness from grassroots. Caldwell especially talked about the constitution, which the Chinese leaders used against corruption and the ordinary people used to protect their individual interest. He praised the emphasis of rule of law at the Third Plenary Session of the 18th Central Committee of the Communist Party of China, but noting it takes time to see the progress.

Source: Xinhua: Urbanization, legal reform big challenges for China, 2013-11-17

A stronger China-Europe partnership will bring us all greater prosperity

China's Premier Li Keqiang says there is "great potential" for expanding co-operation between China and Europe. The 16th China-EU Summit, which took place in Beijing this week, yielded fruitful results and issued the China-EU 2020 Strategic Agenda for Co-operation. It has announced the launch of negotiations on a China-EU investment agreement and set the goal of bringing China-EU trade to $1trillion by 2020. This is no low-hanging fruit and we need to jump to reach it, but I am confident we can attain that goal. The agenda will definitely provide more opportunities for economic and trade collaboration between China and Europe, including the UK. China will, as always, firmly support Europe's integration process. A united, stable and prosperous Europe is in the interest of the world and of China. The growth of mutually beneficial business ties between China and Europe will not only bring benefits to both sides; it will also create brighter prospects for China-Europe relations. This should be a win-win endeavour.

In a couple of days, I will pay my second visit of the year to Europe and will meet prime ministers of 16 central and eastern European countries in Bucharest, where we will explore ways to boost co-operation. There is great potential for expanding co-operation between China and these countries and I look forward to working together with my colleagues from these nations to create a new impetus for developing our mutual relations. The world economic recovery remains bumpy and fragile. To meet this common challenge, we need to continue to work together and help each other; at the same time, we also need to keep our own houses in order. I am pleased to see that many European countries are leaving recession behind them and the EU economy is being put on a more stable footing; China also has a good report card for its economy. Despite a significant slowing down in the growth of government revenue and a "credit crunch" in the middle of this year when the overnight inter-bank rate surged to abnormal levels, we stayed focused and did not inject liquidity into the economy, despite what many expected. We have adopted a host of measures to address both current and long-term needs. For example, we have steadily released the dividends of reform, provided a level playing field for businesses - private capital in particular - and
tapped the potential of the market. We generated the internal driving force of economic growth, improved supply and boosted domestic demand through structural adjustment. These efforts have enabled us to tide over the difficult period. The Chinese economy is now on a stable footing and stays within a comfortable range, with GDP growth at around 7.5pc and the inflation rate under 3.5pc. It is expected that more than 12m jobs will be created this year.

As the world watched closely, the third Plenary Session of the 18th Communist Party of China Central Committee last week adopted a series of decisions aimed at comprehensively deepening reform in China. These decisions will not only speed up China's social and economic development, but also help address resources and environmental constraints, as well as uneven development between urban and rural areas and among different regions, thus bringing greater prosperity to the Chinese people and creating new opportunities for our relations with the outside world. China's modernisation programme will create historic opportunities for mutually beneficial co-operation between the 2bn people of China and Europe, including those in the UK. Let us seize this opportunity and deliver the benefits which co-operation can bring to all our peoples.

Source: A stronger China-Europe partnership will bring us all greater prosperity, Telegraph.co.uk [London] 22 Nov 2013.

**Chinese reform, U.S. stasis**

The economic transformation spelled out in the various decision documents of the Third Plenum reveals a significant shift in China's development strategy. Market-determined pricing -- for necessities like fuel, food and pharmaceuticals; services; and eventually even the renminbi, China's currency -- is now emphasized over allowing the state to arbitrarily set these prices.

The coming transition to a rebalanced China changes the rules of engagement in this co-dependent relationship. America seems unprepared for this possibility. Long dependent on China as the world's ultimate producer, the United States may have a hard time waking up to the reality of a China that is less focused on enabling America's excess consumption and more interested in spending money on social services rather than buying Treasuries and helping to keep United States interest rates down.

The restructuring suggested by China's Third Plenum is an enormous opportunity for growth-starved economies like the United States'. The coming emergence of the Chinese consumer could be the greatest global growth bonanza of this century, benefiting American manufacturing and services enterprises alike. But that won't happen unless American leaders have the vision and commitment to restore competitiveness through savings, innovation and investment. An asymmetrical rebalancing -- Chinese restructuring and American stasis -- is a recipe for failure.


**China to play a key role in Serbia-Hungary high-speed railway**

A railway connecting Serbia and Hungary will start construction with the cooperation of Chinese companies, Chinese Premier Li Keqiang and his counterparts of the two European countries announced on Monday. "After deep and candid talks, we have reached a significant agreement to jointly build a railway linking Serbia and Hungary. A working group has been set up to work out details of project," Li said at a news conference during a four-day visit in Bucharest, Romania. Being called a "landmark" project in upgrading China's cooperation with Central and Eastern European countries, the railway construction is expected to improve local infrastructure. "For years, products being made in China have won its reputation on the globe. Now, equipment made in China is also going abroad and is expected to win a high prestige too," Li said.

Hungarian Prime Minister Viktor Orban said China's investment in the project is of great assistance not only to the country, but also to the entire European Union. He said the agreement is beyond the traditional win-win pattern, since it can benefit Hungary, Serbia, China and the European Union altogether. "The need to construct the railway is urgent. But Hungary is not able to finance the project and the EU is not in the position to do it either, so China's
decision to come in is of great historic significance," Orban said. Serbian Prime Minister Ivica Dacic said the railway plan, when being completed, can set the standard in the region and influence the whole transport through countries in the area, and he is almost certain that "other countries will join the project soon".

The Hungary-Serbia railway project is the second railway construction agreement being announced on Monday, following the Romania's plan to construct a high-speed railway with Chinese technologies. Romanian Prime Minister Ponta announced the plan as he and Premier Li met with press on Monday afternoon in Bucharest. Apart from the high-speed railway project, a number of infrastructure projects, including nuclear power plants and telecommunications, were also signed.

Source: ZHAO YINAN in Bucharest, Romania: China to play a key role in Serbia-Hungary high-speed railway, China Daily, 2013-11-26

China's limited influence

Based on the size of their commercial relationships with China as a share of their overall economies, the governments next closest to "China capture" are Pakistan and Myanmar. But Beijing's reluctance to undermine improving relations with India or to become more deeply implicated in Pakistan's chaotic domestic politics will prevent a closer embrace. Myanmar is moving away from China on its own. Its recent political and economic opening signals an effort to better diversify its international partners to avoid too deep a dependence on Beijing.

Over time, China's trade and investment relations with key trading partners that hold strategic value like Germany, Brazil, Saudi Arabia and Indonesia might allow Beijing greater influence in their policy making decisions. That kind of clout would lead to direct political and economic benefits: China would win access to commodities, profit-making opportunities for its companies and an increase in its international political leverage vis-a-vis the United States and Europe. Germany in particular could give China a stable foothold into European markets and a means of better aligning European economic policy with Chinese preferences; countries like Brazil, Saudi Arabia and Indonesia provide China with much much-needed commodities. China is already second only to the United States as Germany's leading non-European export market. It replaced the United States as Brazil's largest trade partner in 2009. In the Middle East, China is fast becoming the No. 1 source of energy demand for nearly every producer in the region and investing heavily in regional infrastructure to support supply routes.


Shanghai FTZ to open up further for innovation

As the "test field" for China to further open up its economy, the China (Shanghai) Pilot Free Trade Zone will explore new possibilities in expanding this role, said Ai Baojun, director of the zone administration commission in a news briefing on Thursday in Shanghai. These include promoting government functional transformation and creating new administration models. Shanghai will actively follow the trend of globalization and integrate itself into the rules of international investment and trade to improve its open-up model and this will help make Shanghai be an important driver for China to further integrate into globalization. According to Ai, the core task of his commission is to create new institutions, instead of providing or waiting for preferential policies, and form the institutional framework to match the universal rules of international investment and trade. Eight foreign enterprises passed won evaluation and approval from his commission in 190 fields with restrictions according to the negative list. "We will try to construct an international, rule-of-law and market-based business environment in the zone in two to three years or even a shorter time", Ai noted. "We want to create a set of experiences and practices that can be copied and spread nationwide to serve the national reform and open-up." As an important pilot project of innovation and structural upgrading of the zone, the Shanghai Joint Property Exchange has established a property exchange firm, and the Shanghai Futures Exchange will build an international crude oil futures trade platform in the zone. The first cross-border electronic commerce service platform in China "cross-border links" will start soon in the zone. A batch of new projects, including staple commodity trading, finance leasing and a shipping and freight index derivative
trading will also be initiated in the zone.

Source: Wei Tian in Shanghai and Li Yang in Beijing: Shanghai FTZ to open up further for innovation, China Daily, 2013-11-28

**Premier Li sees bigger role for China in Romanian infrastructure**

Chinese Premier Li Keqiang said on Wednesday that Chinese companies can take a more prominent role in infrastructure projects in Romania. His comments to the Chamber of Deputies and the Senate at the Romanian Parliament Palace came amid discussions on how plans for projects such as high-speed railways and power plants should be financed. Applause stopped his speech about 20 times. Li's speech followed his meeting at the palace with Romanian Senate President Crin Antonescu and Chamber of Deputies President Valeriu Zgonea.

Source: Zhao Yinan: Premier Li sees bigger role for China in Romanian infrastructure, China Daily, 2013-11-28

**China, S.Korea, Japan discuss basic guideline at 3rd FTA talks**

China, South Korea and Japan discussed modality, or basis guideline, on the trilateral free trade agreement (FTA) at the third round of talks, Seoul's trade ministry said Friday. The three Asian countries talked about the trilateral FTA's modality such as how to make a draft of liberalization for goods at the third round of negotiation, which was held in Tokyo for four days through Friday, according to the Ministry of Trade, Industry and Energy (MOTIE). Working group meetings were held to discuss a wide range of topics such as indication of origin, customs, trade remedy, sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) along with services, investment, competition, general rules and intellectual property rights. Talks among experts were made about e-commerce, environment, government procurement and food sectors. The fourth round of negotiations was scheduled to be held in Seoul in February 2014, with detailed schedules to be discussed further later, the ministry said. In 2012, combined gross domestic product of the three nations reached $14.3 trillion, accounting for some 20 percent of the world total and 70 percent of Asia's total. The combined import and export volume of the three countries were $5.4 trillion, or 35 percent of the world total.

Source: Xinhua: China, S.Korea, Japan discuss basic guideline at 3rd FTA talks, 2013-11-29

**EU seeks engagement with China for global development**

The European Union (EU) has strong interest in effective engagement with China on global development issues, said the bloc's development commissioner Andris Piebalgs. "China has the potential to make huge differences to the developing world and it is already doing so," Piebalgs told Xinhua. The commissioner said that the EU looks forward to mutual understanding and consensus with China through dialogues, saying that the two sides need discussions to better understand each other, which will ultimately lead to better development outcomes. "We have different approaches to development, but they can be complementary for potential cooperation," Piebalgs said. Lauding China's domestic success in lifting hundreds of millions of people out of poverty in the past three decades, Piebalgs acknowledged that China is still a developing country. "It has the world's second largest population living in poverty after India," he said.

China has managed to provide development aid to over 120 countries since 2000, thus rising to be one of major development players in the world. The EU welcomes the model of developing countries helping each other out, or the South-South cooperation, Piebalgs said. He called for expansion of the United Nations' Millennium Development Goals (MDGs) for the post-2015 period to further eradicate poverty and promote sustainable development. A number of MDGs have been achieved since 2000, ranging from halving extreme poverty and halting the spread of HIV/AIDS to providing universal primary education. He stressed the value of the MDGs as the first global development framework with strong political and financial support.

The UN has started preparing for intergovernmental negotiations on a post-2015 agenda. "The negotiations will be difficult, but in detail, not in overall approach," Piebalgs said. Earlier this year the EU called for "a decent
life for all by 2030" in a proposal targeting the post-2015 global development agenda. The next development framework must address not only quantitative targets, but also qualitative ones such as standards in education, nutrition, water and air, according to the proposal. A decent life is a life free of conflict and with security, a life where basic ingredients such as food and education are guaranteed, and a life where each personality can be realized, the commissioner pointed out.

Source: Xinhua: China, EU seeks engagement with China for global development, 2013-11-29

Cities ink Silk Road economic belt agreement

Twenty-four cities from eight countries along the Silk Road have agreed on common efforts to establish a "Silk Road economic belt." According to the Urumqi Consensus inked at the Silk Road Economic Belt Cities Cooperation and Development Forum, which concluded on Friday, signatories will work to set up the belt, a collaborative scheme aiming for greater cooperation, development and prosperity among the countries along the longstanding trade route. The parties agreed in the consensus to enhance exchanges between governments of involved cities, initiate cooperative talks, establish friendly relations among each other, and learn from each other on urban construction and management. They also agreed to boost trade and economic exchanges and strengthen cultural and people-to-people exchanges. City or regional representatives from China, Turkey, Kazakhstan, Kyrgyzstan, Iran, Georgia, Tajikistan and Turkmenistan attended the event. developing an economic belt along the Silk Road has clearly become the common will for all countries of the region, she added.

The ancient Silk Road was a 7,000-km-long pathway created by camel-driving merchants who carried silk and porcelain to Western Europe and spices to the Far East 2,000 years ago. The road lost its significance as the age of sailing set in. The land defined as the new Silk Road covers 18 Asian and European countries with a total area of 50 million square km and a population of 3 billion people. It also boasts rich energy, mining, tourism, cultural and agricultural resources. The 8,000-km-long highway, from China's Khorgos, an inland port in Xinjiang, to St. Petersburg of Russia through Kazakhstan, will become a new important trunk line connecting Asia and Europe. The Silk Road economic belt, in combination with China's opening up of its western regions, will help economic restructuring and upgrading in central and western China, and become a new pole for the economic growth of the country, said Huo Jianguo, president of the Chinese Academy of International Trade and Economic Cooperation.

Source: Xinhua: Cities ink Silk Road economic belt agreement, 2013-11-30

China revises measures on int'l transaction declaration

China has revised its regulation governing the declaration of international receipts and payments in order to bring the data in line with global standards, a government document said Friday. The new regulation, endorsed by Premier Li Keqiang, will go into effect on January 1, 2014. Under the new regulation, statistics collection and declaration will cover all economic transactions between Chinese and non-Chinese citizens, as well as Chinese citizens' outbound financial assets and liabilities. The existing measures, which were promulgated in 1995 by the People's Bank of China, the central bank, do not cover the latter. Non-Chinese who make economic transactions in Chinese territory will also be required under the new rule to declare their international receipts and payments data, according to the document. The revision comes as transaction values of international receipts and payments have increased and transactions have diversified in recent years. It was made in accordance with the International Monetary Fund's sixth edition of its Balance of Payments and International Investment Position Manual, released in 2008, which raised the requirements regarding data collection. Experts believe the new measures will improve China's statistics system for international balance of payments while acting as a persuasive force for authorities to beef up monitoring and analysis of cross-border capital flows.

Source: Xinhua: China revises measures on int'l transaction declaration Updated: 2013-11-22

Taking the high road between China and Pakistan: On Karakoram Highway, one of world's wonders, time
fights to stand still

Stretching more than 800 miles from Abbottabad in Pakistan to Kashgar in China's western Xinjiang region, the Karakoram Highway is the world's highest transnational roadway and a testament to modern China's determination to shape and contain nature's most daunting obstacles. Completed in 1979, the roadway's ostensible aim was to foster trade between Beijing and Karachi, but also to sweeten a marriage between two allies united in their enmity for India.

Kashgar's markets are your easiest entry point into Uighur culture. The city's other main draw is the Central Asia International Grand Bazaar, a gargantuan market that overflows with Chinese-made textiles, Malaysian sweets, Turkish appliances and a full range of doppa, the traditional embroidered hats that crown the heads of Muslim men from Istanbul to Bishkek. A few blocks away is a pigeon market, where collectors practically coo over prized specimens, some of which sell for more than $1,000.

Tashkurgan remains a thoroughly Tajik city whose 5,000 residents speak an Indo-European dialect related to Persian. We arrived near sunset, and as we walked through the center of town looking for a place to eat, we found ourselves distracted by the faces of passers-by: women with striking green eyes, their heads topped by circular hats draped in colorful scarves, and square-jawed men who could easily blend into a lunchtime crowd in Rome. The Tajiks, famously proud of their traditions, also distinguish themselves from the region's other ethnic minorities by greeting one another with an elaborate exchange of handshakes and kisses.


US suspension of ITA talks is disappointing, minister says

Commerce Minister Gao Hucheng said the move by the United States to suspend negotiations for expanding the Information Technology Agreement not only surprised China but also disappointed participants who would have benefited from the talks, according to a statement on the ministry's website on Monday. US Trade Representative Michael Froman said on Thursday that China's demands to exempt more than 100 products from the technology trade deal risked leading to a breakdown in the negotiations. Gao said that it is normal for participants to have different claims during the talks because of different development levels. But the US demands far exceeded what was acceptable to Chinese industries, which "is the prime cause for the negotiations not concluding in an agreement". He added that the US refused to make any concessions owing to pressure from its industries who had a significant competitive edge. The US overlooked appeals from Chinese enterprises in weak positions and ignored the huge gap between the two countries, which is "unacceptable to China". "It is irresponsible for the US to give up the consensus that has been agreed by most of the countries only because the deal cannot meet its own requirements for several products," Gao said in the statement. Since September 2012, China has been actively pushing forward negotiations to expand the ITA and adjusted its domestic industries, Gao said. Major participants, including China, have reached consensus on about 200 items with a global trade value worth $2.77 trillion. The ITA talks aim to expand a 16-year-old World Trade Organization agreement and update it to cover the Internet era, cutting the import costs of items like personal computers, laptops, telephones, fax machines, computer software and semi-conductors.

Source: Li Jiabao: US suspension of ITA talks is disappointing, minister says, China Daily, 2013-11-25

China, France vow new-type economic partnership

China and France on Tuesday pledged to develop a new type of comprehensive, mutually beneficial and sustainable economic and financial partnership. The agreement came after the first China-France high-level economic and financial Dialogue, which was co-chaired by Chinese Vice Premier Ma Kai and French Finance Minister Pierre Moscovici in Beijing. Calling the dialogue mechanism "an important new platform for bilateral economic and financial cooperation," Ma said the two nations should fully implement the consensus reached
previously by their two presidents. He called on the two sides to strengthen macro-economic policy coordination and enhance cooperation under the framework of the G20. Both should continue to deepen cooperation in traditional areas such as nuclear energy and aviation, and promote cooperation in new areas like modern agriculture, urbanization, new energy and the oceans, according to Ma. The vice premier also urged China and France to attach high importance to International Monetary Fund governance and quota reform to enhance its credibility, legitimacy and effectiveness. For his part, Moscovici said the dialogue mechanism showed the leaders' willingness to develop bilateral ties. Calling China one of the most important partners of France, he said the European country welcomes Chinese companies' investment in France, adding that both sides should refrain from reacting to trade imbalances with protectionism.

China and France signed an agreement to avoid double taxation and prevent tax evasion and issued a joint statement after the dialogue. The statement said that consistent with their commitments, both countries will take action to raise standards and consistently implement the global standards agreed to date. Both sides committed to fully implementing the agreed reforms in a consistent and non-discriminatory way and enhancing cooperation and information sharing. According to the statement, there has been an historical strategic partnership between the two countries in the civil nuclear energy field and this was reinforced by the collaboration of Chinese and French companies. "Our cooperation in civil nuclear energy is driven by the aim of mutual interest between both countries," it said.

Source: Xinhua: China, France vow new-type economic partnership, 2013-11-26

Chinese market to open wider to foreign investors: document

More openness to global markets and foreign businesses features as a key part of the Third Plenum resolution whose full text was published on Friday evening. Restrictions on overseas investors are to be lifted for industries including services for children and the elderly, architectural design, accounting and auditing, commerce, logistics and e-commerce. Industries to be opened up gradually include financial services, education, culture and medical care, while the opening-up of the manufacturing sector will be deepened. Foreign and domestic businesses are to be treated on equal terms under the Chinese legal system. Opportunities for building more free trade zones, in addition to the pilot program in Shanghai, are indicated, with the document saying the central government may select several qualified areas to develop free trade parks, ports or zones. Negotiations on mutual investment treaties with other countries and regions will be accelerated, the document states, and bureaucracy will be reduced for foreign investors. On economic reform, there is much greater scope for development created for private companies and those with mixed ownership. Most noticeably, private technology companies are granted access to the research, production and maintenance of military equipment.

Don't miss
Green chance offered to investors
Investors eagerly await meeting's outcome
Investors sit on sidelines, holding cash
Investors target water desalination sector
PE, VC investors see big returns in M&As
Courting the new breed of investors

Source: By ZHAO YINAN in Beijing and WEI TIAN in Shanghai Chinese market to open wider to foreign investors: document, China Daily, 2013-11-16

Tech Firms Feel a Chill in China

Big U.S. computer and software companies are reporting a sudden chill in sales to China, and some blame increased government hostility toward the U.S. In the latest sign, computer-networking-gear maker Cisco Systems Inc. said last week that orders from China in the latest quarter fell 18% from the same period a year earlier. Cisco
further projected revenue world-wide would decline 8% to 10% in the current quarter, in part because of continued weakness in China. Earlier, International Business Machines Corp., Hewlett-Packard Co. and Microsoft Corp. all reported declining sales to China in their most recent fiscal quarters. Some analysts detect similar signals. Mark McKechnie, of Evercore Partners, said the fallout from the NSA disclosures "is having a real impact" on technology spending. Last month, Ed Maguire, a managing director at Asian investment bank CLSA, wrote that the NSA disclosures "could change the game for U.S. tech firms by accelerating market-share gains of Chinese firms."

The weak sales figures come amid heightened commercial tensions between the U.S. and China, aggravated by the NSA disclosures. State-run Chinese media have stressed concerns about the use of foreign tech gear. A June cover story in China Economic Weekly appeared with the English headline "He's Watching You." It named eight U.S. companies -- including Cisco, IBM and Microsoft -- that it said pose a danger to China's computing networks.

Not all U.S. tech firms report trouble in China. Brad Brooks, chief marketing officer of Juniper Networks Inc., a Cisco rival, said in an interview Thursday that the company hasn't seen any slowdown in China; in its most recent quarter, Juniper said sales to Asia-Pacific, including China, increased compared to the prior quarter. Storage-system maker EMC Corp. said last month the company is "growing nicely in China."

China Foreign Ministry spokesman Qin Gang said China deals with other countries based on mutual respect, but added "the Chinese government has an obligation and responsibility to safeguard national security." Citing media reports of U.S. intelligence-gathering efforts, he said, "We hope the U.S. will pay attention to not only China's but other countries' concerns around the world in this regard."

China represents about 10% of the global technology market, and accounts for 15% to 20% of global hardware demand, according to CLSA. The bank says Chinese companies control about 70% of the domestic market for telecommunications gear, but Western companies account for roughly 70% of sales of computer servers.


**Foreign investor guidelines on the drawing board**

China will create a new administration model and a "negative list" for foreign investors, Commerce Minister Gao Hucheng has said. The government will treat foreign and domestic investors equally in admitting and establishing their investment projects, he said. There also will be a "negative list" telling foreign investors what they cannot do. It will replace an investment guideline catalog that tells them what they should do. "Foreign investors will enjoy equal treatment with their Chinese counterparts in the fields not listed on the list," Gao noted.

"Chinese leaders have seen the necessity for streamlining the investment approval procedures and opening up more fields to foreign investors, which will bring China new development opportunities and contribute to the sustainability of its economic growth," Greg Gilligan, chairman of the Beijing-based American Chamber of Commerce in China, a nonprofit organization that represents US companies and individuals doing business in China, told Xinhua News Agency.

Gao said the new model, proposed as a reform target at the just-concluded Third Plenum of the Communist Party of China's 18th Central Committee, "responds to some foreign enterprises' expectations and will consolidate [their] confidence in expanding investment and even moving their research and development centers and regional headquarters to China". In the Fifth China-US Strategic and Economic Dialogue from July 10-11, China agreed to regard the pre-establishment national treatment and negative list as a negotiation base for the first time with the United States in bilateral investment treaty talks. The first regional negative list in China was released in late September in the China (Shanghai) Pilot Free Trade Zone. Experts believe the Shanghai list will be a model for the national version to be jointly designed by the Commerce Ministry and National Development and Reform Commission.

"A series of foreign fund administration system reforms will follow on its heels. For example, the procedures for the investment project application, assessment and approval should be abolished according to the reform
direction, and relevant rules and laws should be amended accordingly.” “The duties of the Commerce Ministry, NDRC and State Administration of Industry and Commerce should be adjusted to fit the new milestone system reform of foreign funds,” Ma added. “We will unify the rules and laws on foreign and domestic investments to keep policies on foreign funds stable, transparent and predictable to ensure a unified, fair and transparent investment entry system,” pledged Gao. As the reform plan of the Third Plenum indicates, Gao said that the Chinese government will open up finance, education, culture and medical care, and lift entry controls in architectural design, care for infants and old people, accounting and auditing, commerce and trade, logistics, electronic commerce and other service sectors. “Opening up these fields to foreign capital is good for people's livelihoods and optimizes China's industrial structure,” he said. Moreover, thanks to the initiative to establish the Silk Road Economic Zone and China-ASEAN FTA, China's border areas with Southeast Asia, Northeast Asia and Central Asia are expected to become new growth points for China to promote foreign investment.

Data of the Commerce Ministry show that foreign investment in China totaled $97 billion from January to October, rising by 5.77 percent year-on-year and growing for nine months consecutively. From 2000 to 2010, an aggregate of $261.7 billion had been remitted out of China as net profits of foreign enterprises, which increased by 30 percent annually, topping the 20 percent global average annual growth rate. In return, China would like to steer more foreign capital to such areas as technology, innovation and research.

Source: Li Yang: Foreign investor guidelines on the drawing board, China Daily, 2013-11-27

Peru/Brazil economy: **Chinese investment still focused on resources**

China's thirst for Latin American raw materials and its growing influence in the region were again underscored by the purchase of three Peruvian oil and gas blocks for US$2.6bn by China's state-controlled energy firm, PetroChina. The fields were previously held by Petrobras Energia Perú, the local subsidiary of Petróleo Brasileiro (Petrobras, Brazil's state-controlled oil firm). Fredy Otárola, the president of Peru's Congress, in mid-November celebrated the 42nd anniversary of the start of bilateral relations with China, declaring the Andean country's historic relationship with the Asian giant "an integral strategic association, with profound roots and wide horizons", and reminding an audience gathered at a special ceremony at the legislative palace that Peru was the second country in Latin America, after Cuba, to establish links with China. These links have paid handsome dividends - bilateral trade between the two is now worth US$15bn, with Peru's exports to China worth US$7.9bn last year, having more than doubled in the past five years (from US$3.5bn in 2007).

China National Petroleum Corporation (CNPC), PetroChina's parent company, has been active in Peru since 1993 and already holds considerable assets, including three oil and gas fields. This latest purchase, which needs the approval of the Chinese and Peruvian governments, would be the second-largest acquisition in Peru since Royal Dutch Shell bought Repsol's liquefied natural gas (LNG) assets in February 2013 for US$4.4bn. The total reserves acquired by PetroChina are estimated at 12.1bn barrels of oil equivalent. Deal is further evidence of Petrobras's current strategy of concentrating on domestic concerns The Peru deal takes Petrobras's divestments this year to US$7.4bn. Under its 2013-17 business plan the Brazilian state giant aims to divest US$9.9bn in assets as it focuses instead on the country's massive new offshore deepwater oil fields, into which it is ploughing US$237bn up to 2017. In October CNPC and China National Offshore Oil Corporation (CNOOC) each took a 10% share in an exploration and production concession for Brazil's largest new offshore concession, the Libra field, for an upfront fee of US$700m each.


**China and Central and Eastern Europe Prime Ministers gather in Bucharest, on Tuesday**

Together with Romanian Prime Minister Victor Ponta and his Chinese counterpart Li Keqiang, who will be paying an official visit to Romania, the Summit will also be attended by the heads of Government of Albania, Bosnia-Herzegovina, Bulgaria, the Czech Republic, Croatia, Estonia, Lithuania, Macedonia, Montenegro, Poland,
Serbia, Slovakia, Slovenia, Hungary and the Foreign Minister of Latvia, a Government release remitted to Agerpres on Sunday informs. The meeting of Bucharest is the second meeting of the Prime Ministers of China and the countries of Central and Eastern Europe, after the one organised in Warsaw, in 2012. According to the Government, on the occasion of the Summit of Bucharest, the Prime Ministers will assess the implementing stage of the cooperation proposals launched in Warsaw one year ago, will approach the concrete fields and means of making the trade and investment relations in the two areas more dynamic, through cooperation projects in sectors such as energy, agriculture, infrastructure, transports, IT and tourism. ‘Through the presence of ten Prime Ministers of EU member states and that of the Latvian Foreign Minister, the dialogue between Central and Eastern Europe and China ensures the complementarity and supports the strengthening of some wider relations between the EU and China,’ the Executive shows.