China News in Brief
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Compiled by Yimin Zhang, University of Shanghai for Science and Technology and distributed free of charge.
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China's inflation rate unchanged in July

China's consumer price index (CPI), a main gauge of inflation, grew 2.3 percent year-on-year in July, the same pace as a month earlier, official data showed on Saturday. The growth rate was also the same as that of the first half of this year, showing stable pricing in the world's second-largest economy, according to the National Bureau of Statistics (NBS). In July, inflation grew 2.4 percent in urban areas and 2.1 percent in rural areas, NBS data showed. Food prices, which account for about one third of the weighting in the CPI calculation, grew 3.6 percent year-on-year in July, down from 3.7 percent in June. The Chinese government aims to hold consumer inflation at around 3.5 percent this year. Residential prices, which cover those for rents, utilities and building materials, grew by 2 percent year-on-year amid a weakening property sector. NBS data showed that growth in property development investment slowed to 14.1 percent in the first half from 20.3 percent in the same period of 2013, and housing sales dropped 6 percent year-on-year in the first six months.

On Saturday, the NBS also released the producer price index (PPI), which measures inflation at wholesale level. The PPI dropped 0.9 percent year-on-year in July. It had dropped for 29 months in a row, but the pace of decline has narrowed for four consecutive months, pointing to slight improvement in market demand for industrial products. Factory prices of production materials went down 1.2 percent in July, contributing 0.92 percentage point to the PPI drop, while factory prices for consumer goods gained 0.3 percent. In the first seven months, the country's PPI dropped by 1.6 percent year-on-year, the data showed. Faced with great downward pressure, the government has adopted a raft of pro-growth measures, including stepping up construction of affordable housing, infrastructure building and encouraging private investment.

Source: Xinhua: China's inflation rate unchanged in July, 2014-08-09

China's fixed asset investment rises 17% in July

China's fixed asset investment rose 17 percent year on year to 25.9 trillion yuan ($4.2 trillion) in the first seven months of 2014, the National Bureau of Statistics (NBS) said on Wednesday. The growth pace retreated 0.3 percentage point from the rate seen during the Jan-June period, according to the NBS, which attributed the slowdown to cooling investment in the property sector, weak manufacturing investment in oversupplied sectors, as well as slowing local fiscal revenue, which has restrained investment. The NBS said property investment rose 13.7 percent year on year in the first seven months to 5.04 trillion yuan, 0.4 percentage point down from the first half of the year and 1 percentage point down from the January-May period, as market sentiment remained cautious.

Earlier official data showed China's home prices continued a downward trend in more cities in June, with the
average price in 70 cities slipping 0.47 percent from the previous month, marking a second consecutive monthly drop following a 0.15-percent fall in May. Given the sluggish property market, which could complicate the broader economy, Chinese policymakers have pinned hopes on accelerating investment on railways and infrastructure, speeding up fiscal spending, and selectively easing monetary policies to offset the impact and support growth. In the first seven months, investments on infrastructure (excluding the power industry) rose 25 percent to 4.21 trillion yuan, with those in railway transportation up 19.6 percent, increasing 5.4 percentage points from the pace seen in the Jan-June period. Investment in the primary industry went up 25.1 percent, followed by a 19.2-percent rise in the tertiary industry and 13.9-percent in secondary.

Source: Xinhua: China's fixed asset investment rises 17% in July, 2014-08-13

World News: Pressure Rises to Spur China Growth

China -- China's economy faces an uphill battle for the rest of 2014, adding pressure on Beijing to step up government spending or free up money to spur growth. The latest sign of sluggishness came Thursday, when preliminary August manufacturing data showed an unexpectedly sharp drop in growth. It follows other signs of a slowdown in July, including weak domestic investment demand, a sharp drop in credit and a third consecutive monthly decline in housing sales. On Thursday, the preliminary HSBC China Manufacturing Purchasing Managers' Index fell to 50.3 in August -- a three-month low -- compared with a final reading of 51.7 in July, according to HSBC Holdings PLC. That was below economists' expectations, as the gauge's new-orders, new-export orders and employment subindexes all decelerated.


China's July money data cast doubts on recovery's durability

The amount of money flowing into China's economy slowed to the lowest level in nearly six years in July, adding to fears that a sustained recovery may be at risk in the second half of the year despite government efforts to shore up growth. Both the central bank and economists had expected some payback in July after unexpectedly strong financing data in June, but new loans and money supply growth were far below economists' expectations. China's total social financing (TSF) aggregate, a broad measure of liquidity in the economy, fell to 273.1 billion yuan ($44.34 billion) in July, about one seventh of that in June and the lowest monthly reading since October 2008 in the depths of the global financial crisis. The People's Bank of China took the unusual step of issuing a statement immediately after the data, reassuring markets that credit and financing growth was still reasonable and that it had not changed its monetary policy. Non-performing loans have now risen for 11 straight quarters, the central bank's statement said. Chinese banks made 385.2 billion yuan ($62.53 billion) worth of new yuan loans in July, down sharply from 1.08 trillion yuan in June and well below expectations of 727.5 billion yuan, central bank data showed on Wednesday. The People's Bank of China said in its second quarter policy report earlier this month that it will maintain reasonable growth in credit and social financing and fine-tune its monetary policy in a timely way. But it also sounded a cautious note by saying that bank credit is already too large and it needs to be mindful of inflationary risks. Broad M2 money supply rose 13.5 percent last month from a year earlier, the People's Bank of China said in a statement on its website, www.pbc.gov.cn, lower than the forecast 14.4 percent rise. Outstanding yuan loans grew 13.4 percent from a year earlier versus forecasts for growth of 14.0 percent.

Beijing stepped up efforts to re-energize China's economy in June, pumping more money into the system and pressing banks to extend more loans. Those steps and other stimulus measures earlier in the year appear to have offset the drag from a weakening property sector and sluggish exports, but analysts say more support may be needed to sustain a recovery. China's main stock index, the Shanghai Composite Index, reversed early gains and fell 0.8 percent after the credit data was released.

Source: Xinhua: China's July money data cast doubts on recovery's durability, 2014-08-13
Nation's big five banks plan bond sales in order to boost their capital

China's top five banks will raise 128 billion yuan ($20.8 billion) in a two-week bond offering spree following a yearlong hiatus, as regulators signal a willingness for lenders to aggressively tap fixed-income markets. The country's banking regulator began phasing in new higher capital adequacy requirements last year, in line with global rules known as Basel III, and aggressive implementation of the third Basel accord is a key element of China's plan to fortify banks against risks from a slowing economy.

China Construction Bank Corp and Agricultural Bank of China Ltd, the country's second and third-largest banks, respectively, have announced plans to raise 50 billion yuan worth of Basel III-compliant Tier 2 capital via domestic bond issues on Friday. Bank of Communications Co Ltd, the country's fifth-biggest lender, plans to raise 28 billion yuan on Monday. The issues follow two large offerings last week, the first from the country's top five banks since early 2013 and China's transition to Basel III. Industrial and Commercial Bank of China Ltd and Bank of China, the country's largest and fourth-largest lenders, together offered 50 billion yuan of bonds last week.

The flurry of offerings shows Chinese regulators have signed off on the giant deals despite their potential drain on market liquidity, and are comfortable with the new Basel III-compliant bond structure, sources told IFR Asia, a Thomson Reuters publication. China's economy showed further signs of softening in July despite a burst of government stimulus measures, and banks have tightened lending to risky areas such as the property sector. The government embarked on a massive credit-fueled economic stimulus program from 2008 to 2010 to pull the economy through the global financial crisis. Many analysts expect a large portion of bank loans extended during that time to turn sour. A total of 93 billion yuan of subordinated bonds from China's commercial banks will mature next year, according to China Central Depository & Clearing, a State-owned clearinghouse for onshore bonds.

Source: Reuters: Nation's big five banks plan bond sales in order to boost their capital, By (China Daily), 2014-08-15 07:23
http://www.chinadaily.com.cn/business/2014-08/15/content_18314724_2.htm

With the Economy Dragging, Lending Plunges in China

Chinese lending unexpectedly and drastically slowed in July to the lowest level since the depths of the global financial crisis, as a weak property market appeared to drive down demand for new loans, despite recent moves to ease credit. A broad measure of new credit was 273.1 billion renminbi, or $44.3 billion, in July, the central bank reported on its website Wednesday. That is the lowest monthly total since October 2008, the month before China announced a huge stimulus program that was seen as crucial to the country's success in avoiding the deep recessions in the United States and Europe.

In an unusual step, the People's Bank of China, the central bank, issued a separate statement that offered some explanations for the weakness of the July credit figures. It cited stricter supervision of the so-called shadow banking sector, the off-balance sheet lending by banks and trust companies. The sector's explosive growth in recent years, much like the expansion of subprime lending in the United States a decade ago, has spurred talk of a looming banking crisis in China. The central bank also said that July was traditionally a slow month for lending. It noted that lending -- when averaged with the strong growth in June, during which credit expanded by almost 2 trillion renminbi -- was at a normal level. August may see a pickup in lending. In the early part of this month, the central bank said that new lending averaged 30 billion to 50 billion renminbi a day, a pace that, if maintained, would result in a big rebound. Credit would "maintain steady growth," the bank said. The weak lending figures came as the country's economy gained some momentum in the second quarter, growing at 7.5 percent from the year-earlier period, a slight increase from the 7.4 percent growth in the first quarter. In June, the central bank lowered the amount of funds some regional banks had to keep as reserves, freeing them to lend more money. Still, those figures are far less than the double-digit gains routinely posted during the last three decades, and the lending figures released Wednesday point to further weakness. Mr. Liu and Mr. Zhou, the economists, said that the weak credit
numbers made it "imminent" that the People's Bank of China would lower the so-called required reserve ratio for banks to lift confidence.

The figures may reflect continued softness in the country's big residential property market, which drives demand for items as varied as cement and household appliances. Last year, economists at the British bank HSBC estimated the total value of housing stock in China to be 3.3 times annual gross domestic product, or more than $30 trillion. Prices for new homes declined in May and June, and home sales and residential construction fell in the first half of the year. Developers, who for years strove to avoid lowering prices, are increasingly doing so to clear unsold inventory caused by a property investment boom that resulted in empty apartment blocks in cities across China.

The slowdown in lending fit with other Chinese economic figures released Wednesday that suggest the economy is losing steam. Chinese stock markets were little changed after the news. While markets in Shanghai and Shenzhen fell more than half a percent after the midmorning announcement, they later rebounded and closed nearly flat. The Hang Seng Index in Hong Kong, dominated by mainland companies or companies with strong financial bonds to mainland China, ended up 0.8 percent.


China unveils support for insurance industry

The Chinese government on Wednesday unveiled measures to develop the insurance industry, vowing to raise premium incomes to 5 percent of GDP by 2020. The package, announced on the State Council website, let the insurance industry play a bigger role in the fledgling social security network. The second of its kind since 2006, the package could see citizens paying an average of 3,500 yuan ($565) per capita in premiums by 2020. Commercial insurance will become the primary undertaker of individual and household programs and an important supplier of corporate pensions and health insurance. The insurance will be given a bigger role in the prevention and relief of disasters and accidents through the introduction of catastrophe insurance products. Insurance funds will be encouraged to invest in bonds and equities to support major infrastructure projects, urban renewal and urbanization. The government will encourage the house-for-pension insurance experiment and launch a pilot program to introduce compulsory insurance for environmental pollution, food safety, medical accidents and campus safety. Boosted by the announcement, Chinese insurers rose across the board on the stock markets, with New China Life Insurance Co Ltd leading the gains, up 3.57 percent to 25.27 yuan.

Source: Xinhua: China unveils support for insurance industry, 2014-08-20

HK-Shanghai Connect faces weekend test

Kingston Financial Group Ltd, Guotai Junan International Holdings Ltd, Tebon Securities Co and Haitong Securities Co are among those firms working through the weekend in the first full trial of an exchange link between Asia's biggest stock markets after Japan. Bourse officials are seeking to hammer out any technical glitches before the connect goes live in October. The tie-up, which allows a net 23.5 billion yuan ($3.8 billion) of daily purchases between the bourses, gives international investors a new route to buy Chinese stocks, while helping Hong Kong bolster its status as a gateway to Chinese mainland markets.

The Hong Kong exchange ran smaller-scale tests last weekend, when brokers placed mock trades to test their computer systems, clearing and settlement. The bourse will simulate a system failure on Sept 13, according to information on its website. The Shanghai Stock Exchange declined to comment. Connecting markets with different trading rules, regulators, currencies, taxes and holidays have occupied brokers since the link was unveiled by Chinese Premier Li Keqiang on April 10. "We put a lot of human and software resources into this rehearsal," said Michael Ye, director of the investment sales division at Chief Securities Ltd in Hong Kong. "We have to test all the scenarios and circumstances of rules and regulations." A total of 96 brokers, which handle 80 percent of the city's trading volume, participated in the connectivity test last weekend, Hong Kong Exchanges & Clearing Ltd said.
“Our team needs to work over three weekends,” said Kelvin Shek, head of the information technology department at Guotai Junan International, who plans to arrive at 7 am on Saturday. "We need to have good sleep on Friday night." China restricts the movement of capital outside its borders, with local investors limited to buying overseas securities via the Qualified Domestic Institutional Investor program. International money managers seeking yuan-denominated A shares need to go through the Qualified Foreign Institutional Investor program.

When the exchange link starts, Chinese institutions and investors with at least 500,000 yuan in their securities account will be able to buy Hong Kong shares using yuan through Chinese mainland brokerages, which will place their orders through Hong Kong's bourse. Overseas institutions and investors can trade shares on the SSE 180 Index and SSE 380 Index, as well as dual-listed stocks, using Hong Kong brokerages. The tie-up may also bolster the earnings prospects of Hong Kong brokerages, 200 of which expressed interest in participating in the exchange as of June. Average daily turnover in the city slid 7.9 percent in the first half from a year earlier, while nine brokerages have stopped trading in 2014, according to data from the stock exchange. Citic Securities Co, the biggest listed Chinese brokerage, gained 13 percent in Shanghai trading since the link was announced, while Guotai Junan has climbed 27 percent and First Shanghai Investments Ltd more than doubled in Hong Kong. HKEx shares have gained 32 percent, versus an 8.3 percent increase in the Hang Seng Index and a 4.3 percent gain in the Shanghai Composite through Thursday. "The weekend tests mean staff have to come back to the office and spend more time with colleagues instead of their families," said Eliot Li, director of corporate development, sales and marketing at First Shanghai's financial services unit in Hong Kong. "The whole company will celebrate after the implementation of the program."

Source: Xinhua: HK-Shanghai Connect faces weekend test, 2014-08-30

**China Considers Opening Up Stock Market Further:** China's Regulators Consid

China's financial regulators are considering expanding a trial program to open up foreign investment in stocks and bonds to more countries, widening the channel for offshore yuan flowing back to the nation. Beijing may allow institutional investors in Switzerland and Luxembourg to invest in the nation's stocks and bonds with yuan raised offshore under the Renminbi Qualified Foreign Institutional Investor, or RQFII, program, people familiar with the situation told The Wall Street Journal. With Hong Kong's quota close to being used up, China's foreign-exchange regulator has applied for additional quota from the State Council, the country's cabinet, according to the people who were at the briefing on the development. When the application will be approved and how much quota will be made available remains unclear. China's financial regulator has seen a rapid growth in the number of investors based in the U.K. and Singapore who apply for RQFII licenses, and will soon give the go-ahead to a France-based investor for the first time, said these people, without naming the investor. The regulator will continue to favor long-term investors as well as first-time RQFII applicants, these people said. China launched the RQFII program in 2011 to push for the internationalization of the yuan, aimed at boosting the currency's role in international finance and trading. The program has expanded from Hong Kong to Singapore, the U.K., France, South Korea and Germany. Investors in Hong Kong have the highest quota ceiling of 270 billion yuan, Singapore has 50 billion yuan while the U.K., France, South Korea and Germany each has an 80 billion yuan quota ceiling. The total quota ceiling for RQFII was raised to 640 billion yuan this year from initial 20 billion yuan in 2011 when the program started. The fast expansion of the RQFII program, a major channel for foreign capital investment in China's stocks and bonds, also helps channel foreign funds into the country's underdeveloped capital markets, a source of financing which Beijing hopes can divert a large part of the financing sourcing from banking credit. China's stock market has underperformed most of its global peers while its bond market saw an explosive growth.


**Departure from Property Fund Comes at a Cost**
A group of foreign investors suffered steep losses when it recently exited from a Chinese property fund once valued at $1 billion, according to the fund's adviser, in a cautionary tale for those seeking to profit from China's real-estate market. The 31 investors sold their 12% combined stake in Trophy Property Development Fund in June to investment firm Partners Group at a discount, according to Venator Real Estate Capital Partners, which became the fund's adviser late last year. Venator didn't disclose the specifics of the discount, but it appeared to be significant. According to calculations by The Wall Street Journal, Partners Group paid less than $49.8 million for the stake. By contrast, the foreign investors put up a combined $120 million for the stake when the fund opened in early 2008, according to Venator. The investors included a mix of wealthy individuals and boutique investment firms from Hong Kong, other parts of Asia and Europe, Venator said without releasing further details about their identities. Trophy's troubles stemmed from delayed projects and a breakdown in its relationship with its partner, Shanghai-based developer

Shui On Land Ltd., said Philip Mintz, Venator's president, "There were significant development delays which would take the projects beyond the available life of the fund," he said. Shui On Land said it didn't have an immediate comment. The Trophy matter has underscored for those in the real-estate industry the need to be cautious and thorough in putting together transactions, said a Shanghai-based lawyer with knowledge of the deal. Until October, the Trophy fund was headed by Kenneth Hung, who is married to the sister of the wife of Shui On Land Chairman Vincent Lo. Mr. Lo is widely known in China for developing Xintiandi, a popular restaurant and entertainment project in Shanghai. Mr. Hung, who stepped down from management of the fund as part of a restructuring process, said he couldn't comment because the overhaul is still on-going. The fund had initially invested in five real-estate projects in the cities of Shanghai, Wuhan and Chongqing -- a mix of residential and commercial projects being developed by Shui On Land. As part of the restructuring, the fund is in the process of completing an asset swap with Shui On Land, exchanging its minority investments in four developments in China for majority ownership in a residential project in Shanghai's downtown Xintiandi district. The asset swap is due to be completed in the third quarter this year.


New private fund regulation puts the focus on risk tolerance

The China Securities Regulatory Commission on Friday released a regulation on the marketing and sale of privately offered investment funds. Under the regulation, qualified investors in these funds will be classified strictly according to the scale of their assets, risk tolerance and the minimum required investment amount. Recommendations for privately offered funds are to be targeted to prospective investors based on their risk tolerance. PE firms and institutional investors, including pension funds and investment plans registered with the Asset Management Association of China, are automatically deemed to meet the requirements for being qualified investors. Under the regulation, no marketing material may be sent to institutions or individuals who are not classified as qualified investors. "The regulation is intended to promote the development of different privately offered investment funds while protecting the interests of investors," said Zhang Xiaojun, a CSRC spokesman. Zhang noted that all managers of privately offered investment funds are required to register with the Asset Management Association of China.

The central government this month set aside 2 billion yuan ($324.8 million) to purchase stakes in 49 venture capital funds, a move that it hopes will attract additional investors. Local governments will also take stakes in these funds. The venture capital funds will focus on startups and innovative SMEs. The investment areas will be strategic emerging sectors such as alternative energy, new materials, energy conservation and environmental protection, biomedicine and low-carbon industries.

Source: Cai Xiao: New private fund regulation puts the focus on risk tolerance, China Daily, 2014-08-23
China's new companies surge after registration reform

China saw a surge in new companies registration after the country took steps to streamline the process for starting a business in March, official data has showed. About 1.6 million new companies have been registered since the registration reform, rising 64.48 percent from the same period last year, statistics from the State Administration for Industry and Commerce showed. Registered capital of these new companies totaled 8.22 trillion yuan ($1.33 trillion), up 69.09 percent year on year. China lifted restrictions on minimum registered capital, payment deadlines, down payment ratio and cash ratio of registered capital on March 1, a move aimed at encouraging start-ups and energizing the economy. In July, the number of newly registered firms in the primary sector rose 3.39 percent year on year to 13,200, while that for the secondary industry and the tertiary industry reached 57,800 and 265,800, up 33.76 percent and 66.42 percent year on year, respectively. By the end of July, the number of all types of registered market entities in China came in at 64.99 million, with registered capital totaling 116.94 trillion yuan.

Source: Xinhua: China's new companies surge after registration reform, 2014-08-11

China trims red tape

The State Council, China's cabinet, has decided to exempt 45 more items from central government approval to reduce intervention in the economy. In a statement released Tuesday, the cabinet noted most of these items, either removed or devolved to lower levels, concern investment, employment and innovation. They include the verification of small companies for tax relief, approval of PhD research funds in higher education institutes and the approval of Web domain registration service providers. Fewer approvals by the central government will give more power to local governments and freedom to enterprises, which is believed to stimulate vitality and creativity in the market and society. The central government has cut or delegated to lower governments nearly 400 administrative approval items since the new leadership took office in March last year.

In Tuesday's decision, the cabinet also canceled official certifications for 11 professions, covering a wide range of fields including international commerce, taxation, asset evaluation and land registration. The statement said the move aims to lower the thresholds for employment, create a sound environment for talent development and further stimulate people's passion for starting up businesses.

Source: Xinhua: China trims red tape, 2014-08-13

SAIC mandates broader disclosure by companies

Official says new regulation aims to improve public access to information A regulation mandating expanded corporate disclosure will take effect on Oct 1, the top official of the State Administration for Industry and Commerce said on Tuesday. The rule, enacted on Aug 7, is an important step in the reform of the commercial registration system and a basic step to improve the regulation of companies and public access to corporate information, Zhang Mao, head of the SAIC, told reporters in Beijing. The goal of the regulation is to use public disclosure and credit reporting to make companies more accountable, broaden public access to data and improve government regulators' efficiency, said Zhang.

The new regulation includes the following provisions:
- Companies must file their annual results with the SAIC by June 30 of the following year.
- The annual reports must include the company's official address, outbound investment, operational status and other information.
- Companies are responsible for the accuracy and legality of their reports.
- The SAIC will conduct random reviews of the reports.
- A complaint and reporting system for such information will be established.
- The SAIC will publicize a list of companies that fail to file reports, or those that file reports omitting or falsifying information. Such companies will be classified as those operating "abnormally".
- Companies that remain in "abnormal" status for three full years shall be classified as serious violators of the law,
and a list of such enterprises will be released. Legal representatives of such enterprises will be barred from serving for three years.

- Companies will be able to revise their annual reports. If they find errors or omissions, they must file "timely" revisions and release the original and revised versions simultaneously.
- Enterprises can be removed from the "abnormal" list if the reasons they were put there no longer exist within three years from the day they were placed on the list. The same applies to the list of serious law violations.

At the news conference, the SAIC also reported some results from the Reform Plan for Capital Registration System, which was issued by the State Council, the country's cabinet, in March.

About 6,900 enterprises were registered each day last year. But this year, between March and July, about 10,500 companies were registered each day, said Zhang. That reform has lowered the cost of capital and improved the capital efficiency of companies, he said.

Source: WANG ZHUOQION: SAIC mandates broader disclosure by companies, China Daily, 2014-08-27

**Balance seen as vital for 'blue economy'**

The marine or blue economy is increasingly considered a good place to boost a country's sustainable development because of the huge economic and social potential of the seas, China's ocean watchdog said. Against that backdrop, the third Blue Economy Forum was held on Monday in Xiamen, Fujian province, as a key part of the APEC Ocean-related Ministerial Meeting. Chen Lianzeng, deputy director of the State Oceanic Administration, said in an address at the opening ceremony that the blue economy, as an emerging development concept, has become a hot topic among APEC economies. The concept means balancing environmental protection and economic growth, ensuring harmony between mankind and nature, he said. It also promotes development and cooperation and takes into account the needs and concerns of all parties. The forum was designed to enhance the knowledge of participants and lead to practical cooperation. The event - themed "Public-private dialogue: Promoting the blue economy" - attracted more than 150 delegates from 13 APEC economies.

Zhang Zhanhai, director of the strategic planning and economy department under the State Oceanic Administration, highlighted China's progress and its policy support for maritime development. China's blue economy is "a breakthrough of the traditional ocean economy", as it focuses on the integration of ocean and land with a view toward sustainable development and coordination of the ocean's economic, social and ecological aspects, Zhang said. China has witnessed consistent growth in ocean-related industries, he added. In 2009, the country initiated a pilot marine economy project to explore scientific development of the maritime economy. It also implemented a series of laws and plans, including the Island Protection Act, to better safeguard the marine environment. To date, 90 marine protected areas have been established in the country.

Lei Bo, director of the administration's science and technology department, cited three principles for developing marine science and technology: addressing major national needs, responding to demand for the development of the marine economy and following global trends in science and technology. The essence is to "develop innovation capability", he said. "The key is to make breakthroughs in the deep-sea, green and safe marine high-tech fields," he added. Through a series of key projects - for example, the national survey of the marine resources and environment in near-shore areas - and with support from National Marine Renewable Energy Special Funds, "we will lay a solid foundation for our country to become a maritime power", he said.


**Relationship between Air Pollutants and Economic Development of the Provincial Capital Cities in China during the Past Decade:** e104013

With the economic development of China, air pollutants are also growing rapidly in recent decades, especially in big cities of the country. To understand the relationship between economic condition and air pollutants in big
cities, we analysed the socioeconomic indicators such as Gross Regional Product per capita (GRP per capita), the concentration of air pollutants (PM10, SO2, NO2) and the air pollution index (API) from 2003 to 2012 in 31 provincial capitals of mainland China. The three main industries had a quadratic correlation with NO2, but a negative relationship with PM10 and SO2. The concentration of air pollutants per ten thousand yuan decreased with the multiplying of GRP in the provincial cities. The concentration of air pollutants and API in the provincial capital cities showed a declining trend or inverted-U trend with the rise of GRP per capita, which provided a strong evidence for the Environmental Kuznets Curve (EKC), that the environmental quality first declines, then improves, with the income growth. The results of this research improved our understanding of the alteration of atmospheric quality with the increase of social economy and demonstrated the feasibility of sustainable development for China.


China acts over poisoned dog meat and chicken feet

Dog meat and chicken feet are the latest delicacies hit by gruesome food scandals in China, where the government has struggled for years to purge adulterated and counterfeit products from the market. In one of the biggest cases of its kind, 17 men are standing trial in the eastern province of Zhejiang this week for selling poisoned dog meat. The accused were part of a group that bought dead animals and used cyanide and anaesthetic darts to snatch live pets and stray dogs that they then sold to meat traders and restaurants, who served the poisoned meat to patrons. Earlier this week in the same province, police said they had arrested 38 people on suspicion of preparing or selling chicken feet soaked in hydrogen peroxide, a potentially toxic chemical used for bleaching and sterilising. During their raids, police seized 30,000 tonnes of chicken feet soaked in the chemical, which can cause vomiting, and throat and stomach problems if ingested in unsafe amounts. The chicken feet, which are a delicacy throughout China, were treated with hydrogen peroxide to make them white and fresh-looking and were sold to more than 10 provinces across the country. Police said the sales network was worth about Rmb300m ($49m).

In the wake of that scandal, Beijing introduced a new food safety law but weak enforcement, rampant official corruption and unscrupulous behaviour in the highly competitive market mean food safety scandals still erupt with depressing regularity. So far this year, police have recorded more than 11,000 food and drug scandals in China, according to Hua Jingfeng, a deputy director at China’s ministry of public security. In the latest poisonous dog meat case, the court heard that seven of the 17 men were responsible for snatching and killing hundreds of dogs, often using anaesthetic darts they bought online. The other men were dealers who resold more than 60 tonnes of dog meat poisoned with cyanide and anaesthetics. The accused told the court this week they knew the meat was poisoned and admitted they would not eat it themselves.

Several recent food safety scandals in China have involved global companies such as McDonald’s, KFC, Starbucks, Walmart and HJ Heinz. Last month McDonald’s removed nearly all meat products from its menu for more than a week in China after its main supplier in the country, US-owned Shanghai Husi Food, was found to have forged production dates and used long-expired meat. The scandal also hit Husi customers KFC and Starbucks. Earlier this month, US ketchup maker HJ Heinz apologised to Chinese customers after it recalled some infant cereals containing excessive levels of lead.

Source: Jamil Anderlini in Beijing: China acts over poisoned dog meat and chicken feet, Financial Times, August 27, 2014

Xi stresses innovation to drive economic transition

Chinese President Xi Jinping on Monday said innovation should be the driving force behind development model transition and economic restructuring. Xi made the remarks during a meeting of the Central Leading Group on Financial and Economic Affairs in Beijing. A report on innovation was discussed at the meeting attended by
Premier Li Keqiang, Liu Yunshan and Zhang Gaoli, all are members of the Standing Committee of the Political Bureau of the Communist Party of China Central Committee. With the rising role of technology in economic and social progress, development based on factor costs, large-scale investment of resources and consumption of the environment cannot continue, Xi said. China must take the opportunity to lead a new wave of global technological competition. Authorities should be clear in seeking technological breakthroughs and lead the world in some core technologies. Xi urged authorities to work out concrete policy on innovation-driven development, and to implement a number of national major programs on science and technology and make breakthroughs on some programs and projects that demonstrate the nation's strategic intent. The president stressed the value of talent in various fields and necessary improvements to the incentive system to arouse the innovation passion of the scientific staff and entrepreneurs. Enterprises should be the primary innovators, and the market should be given a decisive role in allocating resources, Xi said.

Source: Xinhua: Xi stresses innovation to drive economic transition, 2014-08-19

The Business: China Touts Free Market, But U.S. Firms Know Better

When Beijing recently sent a top economic planner to the U.S. to spread word of China's ambitious new reforms, the free market got a big, amorous hug. "The market will play the decisive role in resource allocation," promised Zheng Xinli, who helped draft the much-heralded economic reforms. Competition -- not the dead hand of government -- "will unleash productivity" and will decide which companies live and which die.

But tell that to Microsoft, whose offices in China were raided by the government this week. The company joins a growing list of U.S. tech firms accused by the Chinese of violating antitrust laws. U.S. business advocates see the dead hand at work -- one keen on promoting Chinese industry at the expense of foreign companies. It's true that many in China aspire to a new market-driven future now that the old export-led economy is flagging. But there are limits, particularly when it comes to protecting sectors that the Chinese consider critical. Like technology. Microsoft got ensnared in China's anti-monopoly law, a relatively new regulatory tool. Details of the case aren't known, but the State Administration for Industry & Commerce said Microsoft didn't disclose required information about security features and how it ties its software products together. Microsoft says it has complied with Chinese laws. A number of other U.S. tech companies, including Qualcomm and InterDigital, as well as multinationals in other industries and from other nations, have also had run-ins with the anti-monopoly law.

China, to be sure, is like any nation that wants to protect consumers from unfair business practices. Its anti-monopoly law has already been used to break up price fixing by domestic Chinese companies in the food, auto and insurance businesses. Regulators have also approved mergers that they didn't deem anticompetitive. Lawyers say China, to its credit, is moving carefully with the law, often observing precedent set in other nations. The U.S. itself found that as its economy grew more complex it needed the Sherman Antitrust Act of 1890 to corral the avaricious and punish the rapacious.

But the difference in China is that the competitor to U.S. companies is often a government-owned enterprise, and the government makes and enforces the law. U.S. companies have complained that they sometimes first hear about an antitrust action against them in the Chinese media. Evidence and due process can be afterthoughts. In other instances, regulators don't make clear what the company did wrong. A vague threat is held over a company until it gives ground, perhaps agreeing to share technology or to restrict the price it charges for its product. And the courts? They can adjudicate complaints. But they are government controlled too.

The anti-monopoly law shouldn't be seen in isolation. It's one in a long string of measures China has employed to protect and expand its industries. China has used subsidies and government procurement programs to favor or punish companies. It has required foreign firms to develop new technology within China or transfer tech to China as a prerequisite for access to the market. It has used standards-setting for products as a way to exclude worrisome competitors. The Chamber of Commerce and the U.S.-China Business Council have complained to the U.S. Trade Representative, the Justice Department and the Federal Trade Commission. Last month, the U.S. raised the
antimonopoly law in its semiannual "strategic dialogue" with Beijing. The result was a joint statement noting, among other things, the importance of due process. The statement is nonbinding. Absent any stronger action by foreign governments, China will continue to win these battles. It wants a leg up in its bid to become a technology giant in its own right. And American companies will continue to find ways to accommodate Beijing. They want to retain access to the Chinese market.


Moving the Market -- Horizons: People's Bank of China Chases Yield

Disclosures last month from Italy's securities regulator listed the People's Bank of China with a 2% stake in Fiat Chrysler, the Turin, Italy-based holding company of the American car maker Chrysler and owner of the Jeep brand. Separate statements also showed the PBOC holding around 2% of Telecom Italia SpA and cable maker Prysmian SpA. This follows first-quarter revelations that the Chinese central bank had acquired similar-sized holdings in Italian oil producer Eni SpA and utility Enel SpA. It is the latest reminder that in an era of rock-bottom bond yields, driven in part by expansive central-bank policy, government-run investors face the same dilemma as private money managers: They must venture into ever-riskier assets to extract returns. China's Italian share-market forays likely were ordered by fund managers from the State Administration of Foreign Exchange, not the PBOC itself. SAFE is an agency of the central bank, but invests independently. It keeps its giant balance sheet separate. Yet that $4 trillion portfolio owes its existence to a decade of currency-market interventions by the PBOC, all undertaken to anchor the yuan exchange rate. That a small portion of it has now made China a notable shareholder in Italy's corporate establishment underscores the problematic nature of those interventions. These investments will juice up returns. But they can also expose taxpayer-owned assets to potential losses, create an awkward relationship between a government shareholder and corporate management, and foster share-price volatility. So far, SAFE's Italian bets haven't fared so well. Following news last Wednesday that Italy slipped back into recession last quarter, Milan's FTSE MIB index is down 11.5% from March 31. Fiat's shares are now down 20%, Prysmian's 17%, and Telecom Italia's 4%. SAFE is in for the longest of hauls and these holdings are a fraction of total assets. For now, it can ignore such paper losses, but divulging its holdings could put it under more scrutiny in China, crimping its freedom to act, says Mr. Truman. The roots of this dilemma lie with central banks' own behavior. And it isn't just the PBOC's interventions or the $4 trillion now burning a hole in SAFE's pockets that are to blame.

The U.S. Federal Reserve has scaled back its "quantitative easing" program but it is still buying a hefty $25 billion a month in bonds, while the Bank of Japan acquires 7 trillion yen ($68 billion) over the same period. And since nearly every major central bank's benchmark interest rate is near zero, which encourages private investors to chase risk, these purchase programs drive central banks scrambling into a global competition for scarce assets. Is this really what we want the managers of our monetary systems to be doing?


World News: China Convicts Two Corporate Investigators

A Shanghai court convicted two corporate investigators, a British man and his American wife, for illegally purchasing personal information on Chinese citizens, concluding a case that had sent shock waves through the foreign business community in China. The trial, verdict and conviction -- all in one day on Friday -- of 58-year-old Peter Humphrey and his partner and wife, Yu Yingzeng, 60, was closely watched for its implications on the treatment of business data. Mr. Humphrey was sentenced to 2 1/2 years and fined 200,000 yuan ($32,500). After serving his sentence he will be deported. Ms. Yu will serve a two-year sentence and face a fine of 150,000 yuan, but will retain rights to stay in China. The case, the first of its kind to involve foreign investigators, according to the Chinese government, highlights legal risks -- such as violating privacy or state-secret laws -- of holding or relaying

personal information of Chinese citizens.

The couple's appearance in Shanghai No. 1 Intermediate People's Court on Friday was their first court date since they were detained in the middle of last year. Though they were well-known in China for their blue-chip clientele of multinational companies, the case took on added significance because of a key client at the time, GlaxoSmithKline PLC. Their arrest came days after Chinese authorities publicly leveled bribery allegations against the U.K. drug giant, which had hired the investigators to conduct part of an internal probe. Glaxo has said that some of its employees may have broken Chinese laws and that it has been cooperating with authorities.

According to the summaries of the proceedings that the court published online, prosecutors accused Mr. Humphrey and Ms. Yu of illegally obtaining more than 250 items of personal information about unidentified Chinese citizens, paying up to $320 per item, and selling the information to clients including multinational companies through their private investigation firm, ChinaWhys Co. "It's serious and such behavior is against Chinese criminal law," the prosecutor said in reading the indictment, according to the summary. In separate responses over more than 10 hours, Mr. Humphrey and Ms. Yu denied that their firm trafficked in personal information, saying they had hired others to obtain personal data when clients requested it. "I never knew that using third parties to obtain information was illegal," Ms. Yu said, according to the summaries. It wasn't clear how in the sentencing the court intends to account for time served.

The verdict is the latest in a string of signals from Chinese authorities that suggest an increasing desire to control access to information, often in ways that limit the scope for foreign businesses to use it. The privacy law itself was tightened in 2009 to make it illegal to handle certain personal medical and telephone records -- the court alleged violation of the law in Friday's case -- but it nevertheless remains vague, according to lawyers. More recently, Chinese financial regulators classified as state secrets accounting data on locally based businesses, saying it was illegal to transmit certain auditing figures overseas even when the companies have stock listed outside China. In court Friday and in earlier statements, prosecutors alleged the couple used hidden cameras to gather information as well as government records on identification numbers, family members, real-estate holdings, vehicle ownership, telephone logs and travel records.


Li offers vision of revival for Northeast

Former industrial pioneer is now facing multiple challenges as growth falters. Premier Li Keqiang made proposals on Thursday to remove barriers to the development of the pioneer of the nation's industrialization in the 1950s to the 1970s, a broad area of Northeast China that covers Liaoning, Jilin and Heilongjiang provinces and an eastern section of Inner Mongolia autonomous region. Part of Li's plan involves the further opening of the region to neighboring countries. "Currently, we have to concentrate our energy on implementing several major tasks that serve multiple ends and make every effort to unlock the puzzle to the development of the northeast," Li said at a meeting of the State Council (cabinet) that was held to discuss the issue. The central government decided in 2003 to revive industrial bases there. The area amounts to roughly one-seventh of China's total territory. Li said the strategy has brought evident benefits in the past decade, but the economy in that part of China "is facing new challenges". He added: "The economic growth rate there has kept falling since last year, and operations in some sectors are difficult." He noted that some deep-rooted contradictions are emerging.

Some 30 provincial-level regions have reported GDP figures for the first half. And 23 of them saw economic
growth pick up in the second quarter, while two provinces were level and five provinces reported a slowdown. Liaoning and Jilin were among the five provinces with slowing growth. Heilongjiang has yet to report its figures. Growth rates in Liaoning and Jilin in the first half hit 7.2 percent and 6.8 percent, respectively, both below the national rate of 7.4 percent.

Li's prescription for the development of the northeast includes streamlining administration to stimulate the market. He also proposed major infrastructure projects such as upgrading the massive railway network. The region has one of the densest railway networks in the nation, but much of it was built decades ago. Other suggestions include more agricultural modernization in the richest soil in China and updating the region's advantage in equipment manufacturing. Li was the Party chief of Liaoning province from 2004 to 2007.

Northeast China has attracted great attention from Beijing this year. President Xi Jinping and Li made several inspection trips there, and Xi offered proposals in July to speed up the area's revitalization. Chiefs of the four provincial governments among other high-level officials attended Thursday's meeting. Gao Guoli, deputy director of the Research Institute of Territorial Development and Regional Economics under the National Development and Reform Commission, said most companies in the area are State-owned enterprises. They respond "rather slowly" to the market compared with private companies in coastal areas. "The region needs to find an internal driving force for growth and nurture its competitive edge by diversifying its products and raising their added value," he said. Xu Xiaqing, director of the agriculture department at the Development Research Center of the State Council, pointed out that Heilongjiang grew 4.1 percent in the first quarter, ranking lowest among all provincial-level regions across the Chinese mainland. Still, Xu said Heilongjiang has taken a leading role in modern agriculture in terms of its farming scale, use of technology and per unit yield, not only in China but also in the world. However, "besides agriculture, Heilongjiang has no core industries, so slower economic growth is reasonable".

China's broad northeastern border areas could unleash significant potential by furthering reform and opening-up, said Wei Jianguo, secretary-general of the China Center for International Economic Exchanges. Russia, South Korea and Japan all are important trading partners and the northeastern border areas have unique regional advantages. However, the development strategy for the region has been a bit conservative and should shift to a more open-minded one in a time of peace, he said. Northeast China has been a major traditional industrial base of the nation with a focus on heavy industry, agriculture and manufacturing. More efforts should be made to tap into the potential of border trade and make these products more popular in neighboring countries. China has great potential to further cooperate with Russia in terms of land, markets and resources, he said. China should promote trade in services with these countries.

Source: LI XIAOKUN/LAN LAN: Li offers vision of revival for Northeast, China Daily, 2014-08-1

China unveils policies to revitalize Northeast

The Chinese central government announced an action plan to assist the northeastern region's staggering economy with a list of new measures. The plan aims to free up private businesses, deepen reforms of State-owned enterprises (SOEs), develop modern agriculture, renovate urban rundown areas and launch dozens of infrastructure projects in the provinces of Liaoning, Jilin and Heilongjiang, according to the new measures announced Tuesday. The 35 new measures, listed in a document by the State Council on its website, came as Northeast China saw the slowest economic growth among China's provincial areas during the first half of this year.

China will speed up the construction of eight rail lines and build or expand 10 regional airports in the region, the document said. SOEs are encouraged to sell part of their equities to private and foreign investors to build a mixed ownership system and pay for the reforms. A new State-owned regional investment company will be established to hasten the reorganization of poorly run SOEs in the region, the document said. The central government will support emerging industries including robotics, gas turbines, advanced marine engineering equipment and integrated circuits, as well as expanding the service industry of the region. For traditional sectors such as agriculture, the document said the northeastern provinces' status as a core grain production base will be
strengthened. Grain storage and logistical facilities will be improved. The central government will fund the building of affordable housing and grain logistics facilities, included in a 60-billion-yuan ($9.7 billion) new credit reserve for shanty town renovation by the China Development Bank. The document also named a few power transmission projects, nuclear power plant projects and heating projects to be initiated as part of a clean energy network in the region.
Source: Xinhua: China unveils policies to revitalize Northeast, 2014-08-20

**Chengdu tops in business environment ranking**
A recent ranking by Global Times shows that Chengdu, capital of southwestern China's Sichuan province, leads among the top 10 cities with best business environment. The other nine cities on the list are Xi'an, Qingdao, Ningbo, Changsha, Wuxi, Tangshan, Mianyang, Zhuzhou and Yichang. "The list is based on several elements, including media attention, investment environment, government policies, cultural environment, and experts' votes. Chengdu tops the list due to its unremitting efforts to upgrade its business environment," said Wu Jie, deputy editor-in-chief of Global Times. Chengdu is the only city that has made the annual list every year since it started in 2011. It also ranked first on another list by Global Times - Top 10 cities with best business environment on the Silk Road Economic Belt.
Source: Li Yu and Peng Chao in Chengdu: Chengdu tops in business environment ranking, China Daily, 2014-08-21

**Business leader: Farmers need to stay on the land**
Rural areas should develop through "ruralization" instead of industrialization while APEC economies can jointly tap business opportunities during the transformation, a leading businessman from Australia said on Wednesday. "Poverty can be alleviated in rural communities through the freeing of capital and land tenure and ownership reform," said Matthew Tukaki, co-founder of the EntreHub, a global initiative founded in February that aims to support budding entrepreneurs. However, among his many titles, Tukaki is best known as the head of Drake Australia, one of the world's oldest employment companies and latterly as the co-founder of the Sustain Group. "One challenge faced by China, and APEC economies in general, is more and more people moving away from the land to cities as urbanization continues. How do we feed ourselves if no one farms the land?" he said. Tukaki was in Beijing to attend the Rural Development Forum on the sidelines of the Third Senior Officials' Meeting at the Asia-Pacific Economic Cooperation 2014. He urged the integration of rural development as part of the broader APEC agenda. "This whole myth of transferring the rural population to cities is one thing, but if that rural population does not necessarily have the skills to compete in a city economy, it can cause all sorts of problems such as unemployment, homelessness and mental health issues," Tukaki said.

One way to encourage farmers to stay on the land is to build a multi-million dollar cooperative business, according to Tukaki. "If individual farmers form themselves into a cooperative, they can then share loans, the administration and the marketing of produce to attract customers," he said, adding that farmers need to improve financial literacy to make their business a success. "In the APEC framework, if we bring, for example, New Zealand's expertise on farming and dairy industry together with China's skills in infrastructure, we will have a formidable package," Tukaki said. "In China, a lot has been achieved in alleviating tens of millions from poverty, raising health, education and living standards. Reform is ongoing and China continues to learn and innovate," Tukaki said. "China is also learning about the role it now plays by virtue of both their economic and military strength." Last year, bilateral trade surpassed $130 billion, a 20.7 percent increase, with China being Australia's largest trading partner and export market. Tukaki said Chinese enterprises will equally benefit from the FTA because Australia offers all sorts of business opportunities in areas such as life science and technology.
Source: Pu Zhendong: Business leader: Farmers need to stay on the land, China Daily, 2014-08-21
CHINA: City-building ambitions will shake the world

SIGNIFICANCE: China's city-building plans represent a spatial planning project unprecedented in human history. The government is counting on guided urbanisation to remove bottlenecks to economic development, raise living standards, develop poor inland regions, tackle environmental problems and put economic growth on a more sustainable footing. Under a State Council plan launched this year, China will invest significantly in expanding rail and road networks, improving public transport, building social housing, broadening access to public services and protecting the environment.

ANALYSIS: Impacts. The greatest beneficiaries in the near term will be construction firms and local governments in central and western China. The programme offers opportunities for international city-level cooperation and business opportunities for producers of green technologies. China will be a global laboratory for design of 'green' and 'intelligent' cities.

This development model has reached its limits: Between 2000 and 2011, the acreage of land devoted to urban development increased 76.4%, but the urban population increased only 50.5%. Some rural residents have lost their land, but have not been granted access to urban social security systems. Others were more fortunate and used the proceeds from their urban jobs to invest in rural real estate. Some 133 million people left the countryside between 2000 and 2011; 2.03 million hectares of agricultural land were turned into residential land. Demographic changes have led to a scarcity in unskilled labour, forcing employers to raise wages. Mass protests by disadvantaged migrant workers helped spur rises in the minimum wage (see CHINA: Strike highlights growing power of labour - April 24, 2014). Air and water pollution are severely endangering wellbeing -- particularly in megacities such as Beijing, Shanghai, Tianjin, Guangzhou and Chongqing.

The seven-year urbanisation plan released by the State Council in March aims to address all these issues simultaneously by relieving the population pressure on the mega-cities, creating regional development hubs, improving the quality of life and using natural resources more effectively. Migrants will gain greater access to urban public services and social welfare; occupational training will be provided to 20 million people per year. Migrants will also be given a voice in China's representative organisations by increasing the percentage of migrant worker delegates to Party committees, People's Congresses, Consultative Conferences, mass organisations and unions. However, overcoming urban-rural disparities will require equal access to education, especially higher education. Although the plan envisions job training for migrant workers, there are no measures to subsidise higher education for children from low-income households (see CHINA: China struggles to train workers for the future - December 6, 2012). Peasants will be upgraded only to semi-skilled manual labourers and providers of low-level services; they are not expected to rise to become equal to their urban counterparts.

Regional development hubs will be created and migration to small- and medium-sized cities encouraged (see CHINA: Inland opportunities will grow - December 22, 2011). Pressure on megacities will be relieved by creating satellite cities a maximum one hour away by public transport. Labour-intensive industries in coastal cities are to be relocated to central and western China, where industrial clustering and higher population densities will be promoted. Inter-city links will be improved: By 2020, rail network and highways will connect all cities with populations of 200,000 and above. Cities with more than 500,000 will be connected by fast rail. All counties will be connected by national roads. Some 90% of all citizens will have access to an airport. Within cities, public transport will become the main means of transportation. In cities with more than 5 million people, there is to be at least one bus or tram stop within any 500 metre radius. Fast buses and modern trams are to increase in number, speed and punctuality.

The plan contains measures to improve public health and basic public services: Access to drinking water, waste water treatment, and solid waste treatment is to increase to 90-95% in cities and 85% in counties. The number of schools, hospitals, and employment centres will increase. Disadvantaged social groups will receive assistance: Low-cost subsidised housing will be provided for the urban poor. City planning will anticipate the needs of an aging population and more services will be provided for the elderly.

Quality of life. Recognising that many urban residents are no longer satisfied with the 'bare necessities', there
are also measures to make cities more attractive and 'liveable': Electrical and communication cables, heating and water systems will be put underground. Shantytowns and dilapidated houses will be renovated, industrial areas cleaned up and more parks built. In new cities, business and residential areas will be intermixed to prevent empty city centres. More cultural and sports facilities will be built. The speed of household broadband internet is to increase tenfold. Required standards will rise for insulation and heating in new residential buildings.

Air pollution. There are ambitious measures to address one of the country's most serious public health hazards and sources of discontent -- air pollution: Air quality. The percentage of cities conforming to national air quality standards is to rise from 41% to 60%. Prices for natural resources will rise to reflect scarcity and costs of repairing environmental damage. This includes water and electricity prices. More markets will be established for water-use rights and carbon emissions. An environmental impact assessment system will be developed and strictly enforced. Environmental awareness will be raised by promoting environmental protection, green consumption, recycling, re-use and resource-efficient product wrapping.

The State Council plan indicates the leadership's awareness of developmental bottlenecks and commitment to tackling them. However, it is not yet clear how the measures will be implemented -- or who will shoulder the costs. The necessary national and sub-national laws and regulations are currently being drafted. The plan will place local governments under financial stress by restricting their revenues while simultaneously increasing their obligations to spend: Revenue from land development is currently local governments' chief revenue source, but the plan itself will severely restrict conversion of agricultural land for development, because one aim of guided urbanisation is to protect farmland from urban encroachment in order to promote national food self-sufficiency (see CHINA: Demand for food imports will see strong growth - April 15, 2014):

If it works as intended, the plan will ensure that China's GDP continues to grow strongly and sustainably. The worst-case scenario is too many local government investments in highly leveraged and financially unsustainable showcase projects. This would lead to mass defaults by local governments, mass unemployment, bankruptcy of social welfare systems and eventually serious social unrest and political instability. Another risk is that growth occurs but is environmentally unsustainable. China is a major polluter in absolute terms, but per capita pollution still falls significantly short of developed countries'. Significant growth in per capita pollution would directly affect China's immediate neighbours and perhaps more distant regions of the world as well.

The State Council's urbanisation plan is more aspirational than realistic. The main barriers are lack of human capital paired with short-term achievement targets. Local leaders tend towards short-termism. Their performance is evaluated annually, so they cannot afford to engage in long-term strategies that sacrifice tangible outcomes for sustainability (see CHINA: Beijing struggles to enforce sustainable growth - April 3, 2012).

CONCLUSION: The stability of China's political system and the long-term outlook for the global economy depend upon China's successful transition to an urban society -- but who bears the high costs of Beijing's ambitious city-building programme will be fiercely contested, as local and central governments hammer out laws and regulations to implement it. The implementation record of local governments suggests that targets will be partially achieved at best and that the plan is more aspirational than realistic.


China's consumer confidence rebounds in July

Chinese consumer confidence rebounded for a second month in July on a month-on-month basis amid an upward trend for economic growth, according to an index released on Saturday. The Bankcard Consumer Confidence Index (BCCI), compiled by Xinhua News Agency and China UnionPay, a national bank card association, edged up 0.06 point from June to 85.33 points in July. A higher reading in the index shows a boost in consumers' desire to spend. A report released along with the index attributed the rebound mainly to rising consumption in tourism during the summer holiday and promotions by businesses. Last month, the spending of bank card users in hotels and plane tickets rose 13.05 percent and 34.29 percent from June, respectively, and
spending on tickets for large tourist resorts soared 61.81 percent.

The report forecast that consumer confidence may continue to rise on an upward trend for economic growth in the next few months, as the government has adopted a raft of pro-growth measures, including stepping up construction of affordable housing and infrastructure building. The BCCI index, first released in April 2009, is based on bank card transaction data and analyses of changes in urban consumption.

Source: Xinhua: China's consumer confidence rebounds in July, 2014-08-11

China's retail sales up 12.2% in July

China's retail sales maintained steady growth in July, rising 12.2 percent year on year to 2.08 trillion yuan ($338.2 billion), according to data released by the National Bureau of Statistics (NBS) on Wednesday. The rate was slightly down from the 12.4-percent rise in June, the data showed. In the first seven months, retail sales went up 12.1 percent to 14.5 trillion yuan. Income from the catering sector increased 9.4 percent to 218.7 billion yuan in July, while sales of consumer goods amounted to 1.86 trillion yuan, up 12.6 percent year on year, the NBS said. Retail sales growth in rural areas continued to outpace that in urban China. In July, sales in rural regions rose 13.2 percent from a year ago to 281.7 billion yuan, while that in urban areas climbed 12.1 percent.

Source: Xinhua: China's retail sales up 12.2% in July, 2014-08-13

China's July PPI down 0.9%

China's producer price index (PPI), which measures inflation at wholesale level, dropped 0.9 percent year on year in July, the National Bureau of Statistics said on Saturday. The PPI has now dropped for 29 months in a row, but the pace of decline has narrowed for four consecutive months, down from 1.1 percent in June, 1.4 percent in May, 2 percent in April and 2.3 percent in March. The narrowing shows that market situations for industrial products slightly improved in recent months, said NBS senior statistician Yu Qiumei. Factory prices of production materials declined 1.2 percent in July, contributing 0.92 percentage points to the PPI drop, while factory prices for consumer goods gained 0.3 percent, pushing up the PPI a little. In the first seven months, the country's PPI dropped by 1.6 percent year on year, the data showed.

Faced with great downward pressure, the government has adopted a raft of pro-growth measures, including stepping up construction of affordable housing, infrastructure building and encouraging private investment.

Source: Xinhua: China's July PPI down 0.9%, 2014-08-9

China's July industrial output up 9%

China's value-added industrial output expanded 9 percent year-on-year in July, 0.2 percentage point slower than that of June, official data showed on Wednesday. Despite a slowdown from June, the pace last month was slightly higher than the 8.8-percent expansion seen in the January-June period, the National Bureau of Statistics (NBS) said in a statement. Year-on-year growth in the first seven months also stood at 8.8 percent, and industrial output in July rose 0.68 percent from June. China uses industrial value-added output to measure the final value of industrial production, or the value of gross industrial output minus intermediate input, such as raw materials and labor costs. The NBS data only tracks the output of large Chinese companies with annual primary business revenues of more than 20 million yuan ($3.25
The figures also showed that industrial output in China's western regions increased by 10.9 percent, trailed by 8.9 percent in central areas and 8.5 percent in eastern regions. In a breakdown, the output of manufacturing rose 10 percent, for mining that added 6.2 percent and growth for electricity, heating, gas and water was 1.9 percent, the statement said.

Source: Xinhua: China's July industrial output up 9%, 2014-08-13

**China's manufacturing activity at three-month low: HSBC**

China's manufacturing expanded at a slower pace in August, a sign of weak momentum in its ongoing economic recovery. The HSBC/Markit China flash manufacturing PMI for August dipped to 50.3 from a final reading of 51.7 in July, making the lowest rate in three months as both output and new orders slowed, according to HSBC's preliminary purchasing manager's index (PMI), released on Thursday. "The data suggests that the economic recovery is still continuing but its momentum has slowed again," noted HSBC chief China economist Qu Hongbin. After a shaky start this year, Chinese policymakers have pinned hopes on accelerating investment on railways and infrastructure, quickening fiscal spending, and selectively easing monetary policies to support faltering growth. Helped by these efforts, China's economic growth showed more recovery signs in the second quarter, with growth accelerating to 7.5 percent from the 7.4-percent expansion in the first.

But as the latest data pointed to still weaker recovery rates, Qu said more policy support is needed to help consolidate the trend. "Both monetary and fiscal policy should remain accommodative until there is a more sustained rebound in economic activity," he said in a research note. Reacting to the news, Chinese stocks headed downward in the morning session, with both the Shanghai and Shenzhen Component Index experiencing loss.

Source: Xinhua: China's manufacturing activity at three-month low: HSBC, 2014-08-21

**MIIT announces new capacity-cutting plan**

China unveiled a detailed overcapacity replacement policy on Thursday that will promote cuts in the iron and steel, electrolytic aluminum, cement and glass industries. In a key document last October, the State Council (cabinet) established the principle of replacing obsolete or excess capacity with an equal or smaller amount of new capacity. It said any region that wanted to establish new facilities in any of these sectors would have to shut outdated or excess factories before new lines would be permitted. The idea was to create incentives for local governments to address concerns that despite years of talk about cutting excess production lines, new facilities were actually adding more capacity than was being eliminated. The result was unbearably high levels of capacity that squeezed manufacturers' profits. For example, in 2011 and 2012, a total of 37 million metric tons of steel capacity was shut. But in those same years, 125 million tons of new steel capacity was built, according to the China Iron and Steel Association. The latest plan hammered out by the Ministry of Industry and Information Technology will put the principle into practice.

First, the plan puts three economic hubs - the Beijing-Tianjin-Hebei region, the Yangtze River Delta and the Pearl River delta - into a category of their own. In these regions, new capacity will replace at least 1.25 times that much eliminated capacity. In other regions, new capacity will replace old capacity on at least a one-for-one basis. In early July, the MIIT announced the first batch of capacity to be closed, which covered 1,181 companies in 15 industries. Those facilities were told to close by Sept 30. More such lists are expected soon. Feng Fei, head of the ministry's department of industrial policy, told China Daily that the "swapping" of new facilities for old ones includes not only those factories to be eliminated this year, but also in the following two years. The idea is to avoid a repeat of the previous scenario "where old capacity was phased out, but new capacity far exceeded it", he said. Second, the plan offers the option for local governments and enterprises to trade quotas. So if one province has good conditions for the development of the steel industry, which might mean building new facilities, but it doesn't have sufficient capacity to be eliminated, it could trade with another region that has excess capacity to be eliminated but few new projects in the pipeline. The swap would give the first province a larger quota while
providing the other province with money to fund its capacity elimination process. The trading prices will be determined by the participants themselves, Feng said. In a sign of the seriousness of this round of capacity cuts, the plan stipulates that only facilities designated by the MIIT as obsolete or excess capacity after 2013 may be used to trade. And capacity can only be used once. Some analysts have expressed concern about whether there is sufficient "outdated" capacity to trade. Feng estimated that amount is less than 5 percent of the total after years of cuts. Another concern is whether investment in these four sectors will be suppressed and hurt the economy. But Zhang Liqun, a researcher with the Development Research Center of the State Council, said China has to bear "transient pain" if it wants to upgrade its industrial sector.

Source: Zheng Yangpeng: MIIT announces new capacity-cutting plan, China Daily, 2014-08-1

70% mixed ownership target for Guangdong SOEs

Companies of mixed ownership should account for more than 70 percent of all State-owned enterprises (SOEs) in Guangdong province by 2017, according to a directive on SOE reform issued by the provincial authorities on Monday. About 30 SOEs with mixed ownership will be formed, each generating annual revenue of over 100 billion yuan ($16.29 billion) or having assets of over 100 billion yuan. All SOEs in Guangdong should complete their process to becoming corporations by 2015, reported the Nanfang Daily.

Source: Li Wenfang in Guangzhou: 70% mixed ownership target for Guangdong SOEs, China Daily, 2014-08-20

China property slump: where house prices are falling fastest

Analysts warn that "structural oversupply" of homes threatens to drag on China's growth, as new prices fall for third consecutive month Prices of new Chinese homes fell for a third straight month this July, fuelling fears that housing troubles could drag on the superpower's growth. New home prices dropped in 64 of 70 cities, the highest proportion seen since records began in July 2005, according to the National Bureau of Statistics of China. Despite local authority efforts to ease or remove home restriction policies (HPRs) across several regions, the prices of new homes fell by a weighted average of 0.9pc between June and July. Falling growth in China could have sweeping knock-on effects throughout the global economy, as business depend on continuing Chinese growth to buoy demand worldwide. Nomura said that "structural oversupply in China's property sector is a long-lasting issue and the largest risk to China's economy". Economists fear that the unravelling of the Chinese housing boom is now becoming entrenched. But homebuilders suffered on the news, with Sun Hung Kai Properties and Cheung Kong stocks down 1.5pc and 1.1pc respectively.


Real-Estate Fund Backed by Li Ka-shing in Talks to Sell Office Building: Prospective Deal Comes After Real-Estate Sales by Mr. Li's Companies in the Past 12 Months

ARA Asset Management Ltd., a real-estate fund manager backed by Hong Kong tycoon Li Ka-shing, is in talks to sell an office tower in Shanghai, according to three people familiar with the situation. The Asian real-estate fund is close to completing the sale of Shanghai International Capital Plaza, a 31-story office and retail tower to a Singapore-based fund, Alpha Investment Partners Ltd., they added. Alpha is paying around 27,000 yuan ($4,382) per square meter for the tower, which is located in the Hong Kou district west of the Huangpu River, according to one of the people. The tower has a total gross floor area of 56,859 square meters, according to ARA's website, which translates to a price tag of 1.54 billion yuan ($250 million). Another person said he understood the price was "below 30,000 yuan" per square meter. In January 2011, ARA Asset Management bought the tower for $176 million, the people said. ARA Asset Management didn't immediately respond to requests for comment.

Many investors closely watch moves by companies backed by Mr. Li, widely considered Asia's richest man, for hints on the tycoon's view of the property market. In the past 12 months, his companies, including Hutchison Whampoa and Cheung Kong Holdings, have reduced their investment in China, selling office and shopping malls
in Nanjing, Shanghai and Guangzhou. In December, ARA sold Nanjing International Financial Center, an office tower in Nanjing, for $407.1 million to Sanpower Group. But recent sales by ARA don't mean that the firm is withdrawing from China, real-estate investment managers said. "It's still on the lookout for Grade-A office assets," said a fund manager who has worked with Mr. Li's companies. He declined to be named citing the need for discretion in the investment deal business.

The prospective deal comes amid a broader slump in China's real-estate market. While investors are still eyeing properties in Beijing and Shanghai, most have a more pessimistic outlook toward the country's less developed cities. Many are worried that the construction of apartments and office buildings in smaller cities has outpaced demand in recent months, driving down the price of land and homes. The prospective sale of Shanghai International Capital Plaza, located within a stone's throw of the city's North Sichuan subway stop, points to some investors' growing appetite for lesser-known office projects in the Hong Kow district, which was Shanghai's Jewish quarter during World War II. This area is less well-known than neighborhoods such as Nanjing West Road and Huaihai Middle Road. Asked about a deal for the Shanghai building, a spokeswoman with Alpha Investment Partners declined to comment beyond saying that the firm "will make an announcement if and when any such deal materializes." "We see China as a big market with tremendous growth potential given the rate of urbanization, growing consumerism and intraregional tourism," said the spokeswoman, who asked not to be identified in line with corporate practice. She added that the fund is exploring investment opportunities in China.


‘Return to rationality’ signals big shift in China’s housing market

As China’s real estate slump began to hit sales at the Champs Elysées development in the picturesque lakeside city of Hangzhou, the company building it responded with a price cut. Angry homeowners gathered to protest, holding banners with slogans such as “Return my blood and sweat money!” as police formed a barricade around the office entrance. The residents relented eventually, perhaps with the creeping realisation that the days of making easy money in the Chinese real estate market are over. “People are returning to rationality,” says Chen Xuemei, sales manager at the Champs Elysées. “If they are starting a family and need a home, they will still buy. But people are no longer buying homes expecting to earn a big profit.”

China’s multiyear property boom appears to be grinding to a halt. Prices have dropped in many parts of the country, sales have dried up and new construction has fallen sharply as developers have retrenched. A change in mindset among Chinese homebuyers – away from pure speculation towards a system based on fundamental demand for accommodation – is leading to a profound shift in the way the country’s housing market operates. “Previously parents told their kids: don’t squander your money . . . save it and buy a house. After you buy a house, save more and buy another house,” says Du Jinsong, property analyst at Credit Suisse, the bank. “Now even parents are saying: don’t buy houses any more – it’s not worth it. I think this is a very big change.”

China’s last property downturn in 2011 was met with concerted action from central government, including interest rate cuts. This time, however, Beijing has held firm, leaving local governments – and property developers – to formulate their own responses. Those efforts are now in full swing, including price cuts, easier access to capital and the end of restrictions on multiple home purchases. Last week the southern city of Foshan became the latest to announce an easing of restrictions for those seeking to buy multiple apartments, something analysts at credit rating agency Moody’s said should “release some of the pent-up demand for residential properties and reduce pressure on pricing”. Of the 47
Chinese cities with home purchase limits at the start of the year, 34 have relaxed their policies, with a dozen removing controls altogether. From the developers’ side, prices have been slashed and extra perks introduced for would-be buyers. Some have promised to repurchase homes if prices fall, or offered cheap loans to finance downpayments. These supportive measures – which vary by city and by province – have already had some tangible effects. Though prices have continued to fall, transaction volumes surged in June as restrictions were eased in certain cities, providing developers with welcome cash and bringing some confidence back to the market.

Another difference between this slump and the previous one is that Chinese savers have a much broader range of alternative investments. Many have been drawn to the shadow banking system, where wealth management products offer double-digit returns on investments that many see – rightly or wrongly – as underwritten by the state. The corporate bond market is also growing fast, while a new stock link-up between Hong Kong and Shanghai is set to provide another avenue for investors. Mr Du fears that if the property market fails to bounce back quickly, the downward trend may become impossible to reverse. He says: “To me that is an early sign that interest in the market has definitely changed – maybe for good.”

Source: Josh Noble in Hong Kong and Gabriel Wildau in Hangzhou: ‘Return to rationality’ signals big shift in China’s housing market, Financial Times, August 12, 2014

Nationwide property tax mulled for houses and land

China is likely to introduce a nationwide property tax as early as next year following trials in Chongqing and Shanghai, an official at China's top legislative body said. The National People's Congress, the top legislature, is drafting a property tax law that is expected to wrap up later this year and be imposed in 2015, said the official from the NPC, who asked for anonymity due to the sensitivity of the issue. Unlike the trials in Chongqing and Shanghai, where the property tax is levied on houses only, the planned national property tax will target houses and land. "The method of taxation is still under discussion and is subject to changes," the official said, adding that the NPC is also soliciting opinions from experts and tax authorities. Specifically, the ratio of the tax has not been decided, nor is whether the tax will be levied on newly built properties or on properties already owned. The new tax will combine several existing taxes, including a land tax on property developers, a tax for occupying arable land and a tax for house transactions. Last year the Third Plenary Session, the top annual meeting of the Communist Party of China, pledged to quicken the enactment of a real estate tax as part of broad reform. It also required hastening the enactment of tax laws to improve the legitimacy of tax collection.

China started to levy property taxes in Chongqing and Shanghai in 2011 as pilot projects. In Shanghai, if a family has a home of more than 60 square meters per person, it will be taxed at a rate of 0.4 percent to 0.6 percent of the total property price annually. In Chongqing, the trial tax is focused more on taming investment speculation on villas and high-end properties, with the rate set between 0.5 percent and 1.2 percent of the property price annually. Jia Kang, head of the Research Institute for Fiscal Science at the Ministry of Finance, said at a recent forum that although the housing tax only applies to two cities, its impact on the market is clear. He said China's property tax, unlike the US model, should include an exemption amount for everyone, rich or poor. Liu Weimin, a researcher with the Development Research Center of the State Council, said no matter what specific taxes are abolished or added, the overall tax burden should not be increased. He cautioned that the public should not expect the reform to lower home prices, rather, the goal is to narrow the gap between rich and poor. In this regard, certain tax-exempt areas should be set so ordinary families with a basic accommodation area would not be subject to the tax while rich families with large floor space are subject to the tax. Also, he said, progressive taxes should be introduced. "To be fair, the tax should not only cover newly purchased homes after a certain date, but all existing homes," he said.
ADB to work together with China-proposed AIIB

Vice-president of Asian Development Bank (ADB) Zhang Wencai said on Friday that the ADB was ready to work together with China proposed Asian Infrastructure Investment Bank (AIIB). The visiting ADB vice-president said as there was a huge infrastructure deficit in Nepal and the whole South Asian region, efforts from single development partner would hardly bring about concrete changes and all the concerned agencies should work together to fulfill the existing infrastructure gap. "The China proposed bank will not be substitute but will be compliment to ADB and other development partners," he said at a press conference organized by ADB Nepal Mission in Kathmandu. "We will work together with the China invested bank," Zhang said, adding that as there is immense need of money to be invested for infrastructure projects, the donor partners should work together in funding. "I am sure that the new China proposed bank will also work together with all of us (concerned donor agencies) to help Nepal achieve higher, sustainable and inclusive growth by minimizing the existing infrastructure gap here," he said.

Zhang's remarks came at a time when the Nepal government has begun working towards getting the founding membership of the bank. On Aug 6, Nepal's Finance Minister Dr Ram Saran Mahat went to China to discuss with Chinese government authorities including finance and commerce ministers. According to Nepal's Council of Ministers, the membership will help the Himalayan country to get soft loans for funding huge infrastructure projects which the local banks and financial institutions have been failing to do.

China to build Asia-Pacific partnership with APEC members

China is willing to build an Asia-Pacific partnership with APEC members that will lead future cooperation in the region, said State Councilor Yang Jiechi on Wednesday. Yang made the remarks at the opening ceremony of the third Senior Officials' Meeting (SOM3) of the APEC 2014 in Beijing. The Asia-Pacific economies will play an increasingly important role in promoting world peace and development, he said, noting the economies are reforming their development patterns and the international status of the economies will continue to be enhanced.

As the APEC members only have 80 days to go before the opening of the 22nd APEC Economic Leaders' Meeting (AELM), Yang called on all members to promote cooperation, adhere to opening up and inclusiveness and push for the consensus on the outcome of the AELM. He called for positive progress in the areas of Asia-Pacific economic integration, innovative development, promoting reform, finding new areas of growth and strengthening connectivity, aiming to make more contributions for lasting development, prosperity and progress in the Asia-Pacific region. As a member of the Asia-Pacific family, China views the Asia-Pacific region as a permanent home and foundation of its development and prosperity, said Yang. China is committed to promoting the Asia-Pacific development through its own development and provide new opportunities for the region's prosperity through its own reform and opening up, he said. China has always been thinking about ways to make new contributions for deepening the Asia-Pacific economic integration and pushing for more substantial outcomes of the AELM, he said.

Beijing is hosting the SOM3 and related meetings for the Asia-Pacific Economic Cooperation summit in Beijing from Aug 6 to 21, including some 100 sessions covering topics such as trade, investment, agriculture, food and anti-corruption. One task for the many SOM3 committees and working group meetings is to deepen consensus, implement cooperation initiatives, and make preparations for the outcome document of the AELM. With the theme of "Shaping the Future through Asia-Pacific Partnership", the 22nd AELM will be held in Beijing on Nov 10 to 11.

Source: Xinhua: ADB to work together with China-proposed AIIB, 2014-08-13

Source: Xinhua: China to build Asia-Pacific partnership with APEC members, 2014-08-20
The long fall; To come

China did not industrialise in the way that the West did. Europe had learned of gunpowder from China in the Middle Ages, but by the 19th century Europeans were far better at using it to get their way. In the 1830s the British tried to prise open the China market with opium—something people could be made to want, and keep wanting, whatever their previous inclinations. The Chinese tried to stop the trade; the British forced a war upon them and won it. In the subsequent Treaty of Nanjing, concluded in 1842, Britain grabbed Hong Kong and forced China to open its doors. China descended into a spiral of denial, defeat and semi-colonisation. Perhaps most humiliating, in the 1890s enfeebled China was defeated in battle by the Japanese—a people whose culture had been founded on Chinese civilisation, but which was now transformed by eagerly adopted Western technology and ambition. China's centrality in Asia had been usurped. Much of what has taken place since has been a reaction to the loss of wealth, power and status, and a desire to regain the respect China's leaders and people feel to be their country's due. Its history, its size and the feeling of potency brought on by the remarkable growth of the past two decades push it to want to be something more, and to take back the place that foreigners stole from it. China's people and leaders feel their nation's time has come once again.


Overseas Borrowing Exposes China to U.S. Interest Rate Rises; Foreign Loans Into China Rose to Almost $800 Billion in the First Quarter of 2014

China's overseas borrowings are leaving the country increasingly vulnerable to a rise in U.S. interest rates, potentially creating funding problems for some companies and tighter conditions for the financial system overall. The world's second-largest economy largely rode out the 2008 global financial crisis, shielded in part by a surge in domestic bank lending and capital controls that protected it from a sharp reversal in global money flows. China still tightly controls capital flows, but authorities have allowed more foreign capital into the country to drive growth. As China's links with the global economy have increased, moreover, so have the leaks in its once watertight controls on capital. Foreign loans into China in the first quarter of 2014 rose 38% on year to almost $800 billion, a fourfold increase since 2010, according to data released last week by the Bank for International Settlements. Chinese companies and banks have sold a record $57 billion in dollar-denominated bonds so far this year, according to Dealogic, already eclipsing a record issuance of dollar bonds last year.

The world's number-two economy remains better insulated than more-open developing countries such as South Korea or Indonesia, which suffered last year when the Federal Reserve announced it would begin scaling back massive asset purchases that had kept the world awash in cheap funds. But the buildup means Chinese firms are more exposed than ever to a rise in global interest rates, a greater risk as the U.S. economic recovery deepens. A pickup in U.S. bond yields is already starting to make foreign borrowing less attractive. One sign that Chinese companies have begun to unwind some foreign exposure: investors pulled a net $36.9 billion in capital out of China in the second quarter, reversing a $94 billion inflow in the first three months of 2014, according to data released last week. China's total overseas borrowing is only about 10% of gross domestic product, lower than many nations. Its banking system is largely funded by local deposits, meaning a rise in overseas rates is unlikely to cause a widespread financial problem. And it still fixes the value of its currency and manages liquidity in the financial system, backed by $4 trillion in foreign reserves. Higher offshore rates could be another source of financial stress for Chinese borrowers, many of whom are highly leveraged.

Other observers are worried about the risk China's buildup of overseas debt poses outside of China. The run-up in lending to China by Hong Kong-based banks—many of them local units of Wall Street lenders—has alarmed the local monetary authority, which is demanding more robust funding requirements. Loans from Hong Kong institutions to China grew 30% in 2013. In the first three months of 2014, they increased a further 8% on year to $317 billion. Taiwan has seen similarly rapid growth in credit to China, with loans growing 87% on year in the first quarter to $58.6 billion. Many of those loans have funded the international expansion of big Chinese companies,
monetary officials say. But some of them may have ended up in riskier property investments that could go sour if rates increase and growth slows.


World News -- China's World: Influential Voice Sees 20 Years of Roaring Growth

Justin Lin Yifu has an unusual background for an economist, particularly one who has the ear of China's top leaders. Mr. Lin is confident that the Chinese economy still has the ability to roar along at 8% for another 20 years. That is far higher than the prevailing consensus among economists outside China, and even some economists inside China think that may be a stretch. The International Monetary Fund sees growth slowing to 6.3% in 2019. The Chinese government's own growth target this year is 7.5%. Nor is Mr. Lin particularly troubled by China's rapidly mounting debt, which worries the IMF and others quite a bit. In an answer to emailed questions, he points out that total government debt, at 40% of Chinese GDP, is among the lowest in the world and it is almost all in local currency, which eliminates the risk of an international debt-repayment crisis. If necessary, he argues, the debt of local governments -- a black hole for credit from the loosely regulated "shadow-banking" sector -- could be restructured. "There is no danger of a systemic crisis," he says.

For now, it appears that they are taking the more optimistic, Lin-like, view. The government is rolling out a "mini-stimulus" program as growth flags, falling back on the old standby of credit-fueled investment to keep the momentum moving along. Meanwhile, an ambitious 60-point economic-overhaul agenda unveiled last year is moving ahead at a slow pace, suggesting that Chinese leaders believe they have quite a bit of room for maneuver. President Xi Jinping's plan offers comprehensive measures to overhaul state enterprises, spur the private sector and unlock prosperity through land reform and labor mobility.

But the view from outside China is that the economy is more fragile than the government seems to believe. Many international economists believe it isn't so much the absolute level of debt that matters -- though economywide debt, including corporate debt, at more than 200% of GDP is certainly high. Rather, they worry about the rapid buildup, which is almost always a prelude to a financial crisis. Mr. Lin says that his 8% call is dependent on the government embracing fundamental reforms. He bases his optimism on his theory of the "advantage of backwardness" -- how less-developed countries can catch up via technologies rich countries develop at massive cost. More-skeptical economists focus on how the big drivers of Chinese growth are running out of steam as the economy naturally matures: The workforce is shrinking, and China is getting far less bang for its buck on investment in capital -- everything from factories to computer hard drives. Increasingly, the view among international economists is that China is running out of time to make economic fixes. There is a risk that rosier scenarios like Mr. Lin's may dilute leaders' sense of urgency.


India's Economy Is the Strongest of Brics

The Brics have all fallen down, but the rebuilding has begun at only one: India. Yet this might not happen as fast as investors seem to think. Among the members of this band of emerging economies, Brazil, Russia, China and South Africa all are slowing down. In contrast, a year after facing crisis, India is starting to revive. This week, it should report that economic growth ticked up in the June quarter. Other indicators point that way already. Exports rose 9.3% in May through July from the same period last year. Imports of capital goods expanded in May, June and July after shrinking the past two fiscal years. Electricity demand was up by an average of 11%, year over year, in June and July. Sales of vehicles rose, too. India's informal economy, as large as the formal one but harder to measure, is shifting gears as well. Output of cement jumped 9.6% in the June quarter, three times as much as last
fiscal year. And more physical currency changed hands the past three months after adjusting for inflation. These are promising signs, but a strong, sustainable rebound will remain elusive. New capital spending announced by firms fell during the June quarter from a year before, according to the Centre for Monitoring Indian Economy. It could be such investments will take time to arrive. But there are reasons to think it will be a long wait. State banks that would fund such expansion remain undercapitalized. And new Prime Minister Narendra Modi's broader reform agenda remains modest. Consumer inflation is stubbornly high at 8%, hemming in hopes for lower interest rates. Valuations for the Bombay Stock Exchange 100 index remain above their 10-year average, with the index at a record high. India may outshine its Brics brethren, but it still may not be bright enough for investors.


China Looks to High-Speed Rail to Expand Reach: [Metropolitan Desk]

A favorite export from China to its neighbors these days are high-speed rail lines designed to make trade routes in the vast stretches of Asia more accessible and fortify Chinese dreams of turning its southern reaches into the capital of mainland Southeast Asia. But not everyone wants to be bound so close. A rail project that would pass through the mountains of northeast Myanmar to the coastal plains on the Indian Ocean would give China a shortcut to the Middle East and Europe. For China, the strategic importance of the proposed line can barely be overstated: The route would provide an alternate to the longer and increasingly contentious trip through the South China Sea. However, the Myanmar government viewed the project as a one-sided proposition and put it on the back burner last month, allowing a memorandum of understanding to lapse. It gave no timeline for when it might reconsider. It is the second major Chinese project to be suspended in Myanmar, in 2011, soon after the new government took office, construction of the Chinese-financed Myitsone hydroelectric dam at the headwaters of the Irrawaddy River was suspended.

The latest setback in Myanmar was not all bad news for China. With considerable gusto, the new junta in Thailand gave approval on Aug. 1 for two Chinese high-speed rail projects that had been shelved because of financing difficulties under the previous government. The head of the junta, Gen. Prayuth Chan-ocha, announced the revival of plans that call for more than 620 miles of rail links from Thailand to Kunming, the capital of Yunnan province, by 2021. In all, China wants to build thousands of miles of track that will loop through Laos, Cambodia, Thailand and Malaysia and head south to Singapore as part of a grand trans-Asian rail accord signed by nearly 20 Asian countries in 2006. The gravitational pull of Southeast Asia toward China through its well-developed and relatively inexpensive high-speed rail technology was almost inevitable, despite opposition in some places, Mr. Wade said.

In Myanmar, the rail project was designed to run close to two Chinese-built pipelines for oil and gas that were completed last year, despite widespread opposition from farmers living along the route. Residents and “social organizations” were also opposed to the railway, Myint Wai, the manager of the ministry of rail transportation, said last month. Resentment against China is widespread in Myanmar, and the grass-roots discontent about the rail project was of great concern to the military junta because the generals who retain seats in Parliament face elections in 2015, Myanmar media reports said. Investment from China has dropped since the height of its influence under the junta, but China remains Myanmar's top investor, according to Myanmar government figures. And the growth of Chinese exports, which results in a flood of cheap consumer goods, continues to explode, up by more than 50 percent since 2011.

Japan, concerned about the economic strength of its archrival, China, across Southeast Asia, is presenting itself as an alternative benefactor. It has increased its investment in the region and targeted Myanmar with its largess, particularly in the rail projects that are so dear to China. Japan recently won the contract to upgrade a track, built more than a century ago, from Yangon, Myanmar's commercial capital, to Mandalay, a job that China was originally scheduled to do. Japan has also offered to modernize Yangon's decaying urban transit system. Still, the
The Chinese ambassador to Myanmar, Yang Houlan, said at a recent news conference in Yangon that even though the memorandum of understanding on the rail project had expired, China was ready to work with Myanmar at any time. So confident is China that Myanmar will eventually sign up for the project, plans are going ahead to gouge an 18-mile rail tunnel out of the rugged Gaoligong Mountains that straddle the border with Myanmar and serve as the entry point to Yunnan Province and Kunming. The engineering challenge of constructing the tunnel through the mountain range is similar to building on the permafrost in Tibet, said Wang Mengshu, a tunnel expert at the Chinese Academy of Engineering. Myanmar will inevitably come to its senses and agree to the Chinese railway, said Zhu Zhenming, a professor at the Yunnan Academy of Social Sciences, and an expert on Southeast Asia, for the simple reason that it will serve as a conduit for even more Chinese goods on the Myanmar market. “Poorer people cannot buy American goods, or Japanese goods,” he said. “Chinese goods are cheaper.”


**Nation looks to boost international use of yuan for trade**

China is strengthening its policy on yuan internationalization by promoting wider use of the currency around the world. The People's Bank of China signed a memorandum of understanding regarding yuan clearing and settlement arrangements with the Bank of Korea on July 3, just several days after it signed similar arrangements with the central banks of Luxembourg and France. Earlier in June, London and Frankfurt joined Hong Kong, Macao, Taiwan, Singapore and Malaysia in having designated yuan clearing banks. The PBOC appointed China Construction Bank in London and Bank of China in Frankfurt.

The European Union was China's largest trading partner in 2013, with bilateral trade accounting for 13 percent of China's $4.16 trillion global trade volume. Although the yuan trade settlement volume has grown rapidly in recent years, the amount of yuan cross-border trade settlement in Europe accounted for less than 1.7 percent of China's global trade as of 2013, according to the report. The nation has taken increasingly rapid steps toward internationalizing its currency since it established an offshore yuan market in 2004 with the launch of personal yuan banking in Hong Kong. In 2010, Hong Kong was declared the first offshore yuan center. During the past three or four years, the yuan has become one of the top currencies in trade settlement. It is now the world's seventh most-used currency in goods and services payments, having climbed from 20th rank in 2013, according to data from international financial communications platform SWIFT. Leading European financial centers are all wooing China to become the regional center for offshore yuan businesses, after China designated the first yuan clearing bank outside the country in Singapore in 2013. London is strong when it comes to foreign exchange and derivatives. Frankfurt and Paris are strong in terms of trade settlement. Luxembourg's strengths are investment funds, bonds, deposits and loans.

Yuan internationalization has continued to grow in recent years on the back of strong policy support by the government and the creation of additional offshore yuan clearing arrangements and currency swap lines with overseas central banks. The lack of offshore investment options has continued to drive the huge demand for yuan bonds. As of June 26, total offshore yuan bond issuances had reached 276.2 billion yuan ($44.5 billion), compared with 280 billion yuan for the whole year 2013. In addition to increased issuance volume, more international issuers have tapped into the offshore yuan market, although Hong Kong issuers continue to form the bulk of the market. Non-Asian corporates had issued 16 billion yuan worth of offshore yuan bonds by June 26, compared with 27.9 billion yuan last year, Lee said.

The People's Bank of China is preparing to launch the China International Payments System to replace a patchwork of networks and allow hassle-free yuan payments. By developing and researching CIPS, China is building an expressway for the yuan to become fully convertible on the capital account. The system is an infrastructure for the cross-border use of the yuan and will have a deep impact on the internationalization of the
currency, said Li Bo, head of the Monetary Policy Department II of the PBOC.
Source: Jiang Xueqing: Nation looks to boost international use of yuan for trade, China Daily, 2014-08-15

China's Baosteel Hit by Weakening Renminbi; Dollar-Denominated Debt Holdings Take a Toll on Country's Largest Listed Steelmaker

Already facing pressure from slumping demand, China's largest listed steelmaker has a new challenge: a weakened Chinese currency. State-run Baoshan Iron & Steel Ltd. said Monday that foreign-exchange losses and weakness in China's economy led to a 15% decline in net profit for the first half of the year compared with a year earlier. The company, also known as Baosteel, and other steelmakers have been hit by slowing growth in the world's No. 2 economy, particularly in the slumping housing market, as well as by broad industry overcapacity. Baoshan's bottom line was also hit by 270 million yuan ($44 million) in foreign-exchange losses because of the company's dollar-denominated debt holdings, General Manager Dai Zhihao said at an online investor conference. The losses were largely because of a 0.9% fall in the value of the yuan in the first six months this year relative to the U.S. dollar, as well as changes in U.S. interest rates, Mr. Dai said. The pressure could last into the coming months, Mr. Dai said. "We think that a weak yuan will persist through the third quarter or to the end of the year, but in the medium term, the yuan will maintain its stability relative to the dollar or rise a little," he said.

A weak yuan is generally good for Chinese factory owners because it makes Chinese exports cheaper relative to other currencies. But it can also hurt energy companies, as well as energy-dependent ones like airlines, because oil is priced globally in dollars, making it more expensive to buy with a weaker yuan. A weak yuan also hurts companies that have borrowed in dollars seeking lower interest rates and available cash. Baoshan holds about 70% of its debt in U.S. dollars, out of a total debt portfolio valued at less than 55 billion yuan, or about $9 billion, Mr. Dai said. It began to accumulate such debt in recent years because interest rates were lower than what the company could find domestically, Mr. Dai said. Baoshan has taken measures to lock in forward-exchange arrangements for payments expiring by the end of the year, he said. Shanghai-based Baoshan said its net profit fell to 3.15 billion yuan in the January-to-June period compared with 3.7 billion yuan a year earlier. That marked an accelerated pace of decline from a 7% fall in the first quarter. Steel demand hasn't completely evaporated, Mr. Dai said, though its rate of increase is slowing. Steel demand rose just 0.4% in the first half, the state-backed China Iron and Steel Association said earlier this month. China's steel output is projected grow at 3% this year, the industry's slowest pace in five years.

No letup in spate of antitrust probes

The National Development and Reform Commission said 12 Japanese auto companies have been investigated for suspected price manipulation of parts and bearings and its bureaus in Shanghai and Hubei province are completing probes into US carmaker Chrysler and German manufacturer Audi. It said these companies will be fined soon, without giving details of the amount. The announcement follows a surprise raid on Mercedes-Benz's Shanghai office on Monday and its distributors in five Chinese cities last week.

Huang Yong, deputy head of the expert advisory group of the State Council's anti-monopoly committee, said Chinese regulators have accumulated substantial experience in evidence collection in the six years since the Anti-Monopoly Law was introduced. Because of a lack of experience in the early stages, the law had not been enforced well. "These companies have to be aware that anti-monopoly investigation has become a default position in China," he said. Foreign companies should be familiar with China's law, as it has its own terms, although these firms may have carried out antitrust practices in other countries for years, Huang said. Xu Kunlin, head of the price supervision department at the National Development and Reform Commission, has announced a plan to recruit at least 170 employees for the antitrust law enforcement team as investigations are stepped up. About 20 will join his
office in Beijing and the others will work in provincial branches nationwide.

A spokesman for Chrysler in China declined to comment. Audi China and Mercedes-Benz said they were cooperating with the commission, Reuters reported. Under the Anti-Monopoly Law, the commission can impose fines of between 1 and 10 percent of a company's revenue for the previous year. Referring to the 12 Japanese auto companies investigated for suspected monopoly violation on parts pricing, Nissan said it had not been investigated as of Wednesday. Others, including Toyota, Mazda and Honda, declined to comment, Bloomberg reported. Industry experts said automakers have too much leverage over car dealers and parts suppliers, enabling them to control prices, considered a violation of China's anti-trust laws.


Trade surplus skyrockets to hit monthly record

China's trade surplus surged to a monthly record high in July as export growth unexpectedly accelerated and imports fell, suggesting the recoveries in the United States and Europe will help sustain expansion in the world's second-largest economy. Overseas shipments increased 14.5 percent from a year earlier, the Beijing-based customs administration said on Friday, beating all estimates in a Bloomberg News survey that had a median projection of 7 percent. Imports dropped 1.6 percent, leaving a trade surplus of $47.3 billion, bigger than all analyst estimates. Sales to the biggest markets of the US and Europe surged, indicating strength in demand. The Shanghai Composite Index reversed losses to gain 0.3 percent at the close. The MSCI Asia Pacific Index of stocks was down 1.4 percent in Tokyo.

The pickup in exports follows June's 7.2 percent increase and compares with analysts' estimates for gains ranging from 2.9 percent to 10 percent. The median projection for imports was a 2.6 percent increase, after a 5.5 percent jump in June, and the trade surplus was forecast at $27.4 billion, following $31.6 billion the previous month. China's exports to the European Union rose 17 percent in July from a year earlier and shipments to the US jumped 12.3 percent, the biggest gain since November, based on customs data compiled by Bloomberg. Sales to countries in the Association of Southeast Asian Nations gained 11.9 percent. The trade surplus for the first seven months widened to $150.6 billion from $125.9 billion in the same period last year. The previous monthly record was $40.1 billion in November 2008. The surplus suggests pressure on the yuan to appreciate will probably increase if the central bank doesn't actively intervene in the foreign-exchange market, economists at Australia & New Zealand Banking Group Ltd wrote in a report after the release. Part of the drop in imports may be attributable to falling commodity prices. Iron-ore imports in the first seven months of the year rose 18.1 percent by volume while the average price fell 14.5 percent, the customs administration said. Crude oil imports rose 7.2 percent by volume and the average price declined 1 percent, and the average price of soybeans dropped 3.9 percent while the volume jumped 20.2 percent.

China's economy has entered the second half with a mixed picture of growth in factories and service industries. While an official index showed manufacturing expanded in July at the fastest pace in more than two years, a private gauge of services dropped to a record low, hurt by a real-estate slump. Trade will rebound in the second half as incentives take effect and demand from developed nations increases, Shen Danyang, a Commerce Ministry spokesman, said in a briefing last month.

Source: Zhou Huiying and Mu Chen: Trade surplus skyrockets to hit monthly record, China Daily, 2014-08-9

Vietnam to see 17.3% growth in imports from China in 8 months

Vietnam's import from China in the first eight months of 2014 is expected to grow 17.3 percent year-on-year, according to the country's General Statistics Office on Tuesday. Vietnam is forecast to spend some $27.6 billion to import goods from China, said the office, quoted by Vietnam News, the online edition of Vietnam's state-run news agency VNA. In January-August, Vietnam is expected to see a deficit of $17.8 billion in trade with China, an
increase of 18.5 percent year-on-year. However, Vietnam is forecast to gain a trade surplus of $1.7 billion from international trade activities as a whole.
Source: Xinhua: Vietnam to see 17.3% growth in imports from China in 8 months, 2014-08-26

A Comparative Analysis of the Export Performances of China and India: Evidence from US Imports

This paper compares the export performances of China and India, the two largest labour-abundant countries. The empirical analysis of the paper is based on US imports from these two countries at the ten-digit level for 1992-2012. The paper examines the composition of exports from China and India, the degree of concentration of exports, and the extent of export similarity. The paper also explores the nature of product differentiation based on unit prices of exports from China and India. The empirical analyses show that China's shares in the US market, for both high-technology products and labour-intensive products, are substantially higher than that of India. Furthermore, China's export basket, compared to India's, is more diversified, and that the extent of export similarity between China and India in the US market is quite low. The data on unit prices of exports suggest that China has outperformed India in vertically differentiated products.

China's FDI inflows falter again in July

Foreign direct investment (FDI) into the Chinese mainland fell sharply again in July, slumping 16.95 percent from a year earlier to $7.81 billion, the Ministry of Commerce said on Monday. The sharp decline was in contrast with a mere 0.2-percent seen in June, according to the ministry. For the first seven months, the FDI, which excludes investment in the financial sector, stood at $71.14 billion, down 0.35 percent from the same period last year, it said.

With China speeding up economic restructuring, it's normal for us to have some fluctuations in FDI figures," said Shen Danyang, spokesman of the MOC, "but such fluctuations are not evidence for changing trends." According to the MOC, foreign investors set up 13,249 new companies in the first seven months of 2014, overall up 1.6 percent from last year, compared with a 3.2-percent increase in the first half of the year. Shen rejected speculation the decline in FDI was related with China's ongoing anti-monopoly investigations into foreign-funded companies.

According to the MOC, China's FDI in the January-July period mainly flowed into the service sector, which attracted $39.72 billion of overseas investment, or 55.8 percent of the total during the period. The FDI into the manufacturing sector in the January-July period fell 14.26 percent to $25.2 billion, or 35.4 percent of the total. According to the MOC, the top overseas investors were Hong Kong, Taiwan, Singapore, Republic of Korea (ROK), Japan, the United States, Germany, France and the Netherlands. Collectively, they contributed 93.9 percent of the total. Investment from the United Kingdom and the ROK remained strong in the first seven months, up by 61.2 percent and 34.6 percent, respectively. However, Japanese investors cut their investment by 45.4 percent from previous year to $2.83 billion during the period, while investment by the US and European Union dropped 17.4 percent and 17.5 percent, respectively.

On the other hand, the outbound direct investment (ODI) by Chinese non-financial companies soared 84.9 percent from previous year to $9.21 billion in July, compared with a year-on-year decline of 5 percent in the January-June period. The July ODI figure marked the first monthly growth since February this year, according to Shen Danyang, spokesman of the MOC. The sharp increase in ODI contributed to the 4-percent annual growth for the first seven months, during which Chinese investors made $52.55 billion, or 322.74 billion yuan, of investment in 149 countries or regions, according to the MOC.
Source: Xinhua: China's FDI inflows falter again in July, 2014-08-13

KKR cooks up $400m investment in Chinese chicken producer

KKR is investing $400m into China’s largest chicken producer in the latest example of the buyout group’s
tactic of pursuing investment themes that match Beijing’s interests. Improving food safety has become a priority for the Chinese government following a string of scandals, most recently last month when a mainland supplier to KFC and McDonald’s was accused of providing rotting meat to the chains. The deal will give KKR 18 per cent of Fujian Sunner Development, the country’s largest breeder, processor and supplier of chicken products. It was not immediately clear if the funds represented fresh equity or a stake sale. China’s reforms of food producers have typically involved consolidating small producers in the hope of better managing standards. Less than a third of China’s chicken was supplied by large groups, Sunner and KKR said, compared with more than 95 per cent in the US. “Vertically integrated chicken farming is a key solution to the food safety threats facing China’s animal protein sector,” said Julian Wolhardt, a partner at KKR.

Last year, KKR managed to almost triple its initial investment in China Modern Dairy, of another scandal-ridden sector, when it sold most of its remaining stake to China Mengniu Dairy, the country’s biggest producer of dairy products. This year the private equity group led a consortium of investors injecting about $270m into the pork-producing unit of Cofco, the state-owned food company, with the aim of helping it improve standards. Pork is the most-consumed meat in China. But the country is already the world’s second-largest chicken consumer – although at 10kg a head, according to KKR and Sunner, it falls far short of Americans’ 43kg per capita habit. The investment illustrates how the buyout group has stuck to its conservative approach, putting money into traditional companies rather than chasing the latest hot internet company.

Source: Jennifer Hughes in Hong Kong and Henny Sender in New York: KKR cooks up $400m investment in Chinese chicken producer, Financial Times, August 26, 2014

**Restrictions loosened on overseas ownership of hospitals**

China is to allow foreign investors to wholly own hospitals in seven cities and provinces, further opening up the country’s fast-growing private hospital sector. Beijing, Tianjin and Shanghai and the provinces of Jiangsu, Fujian, Guangdong and Hainan will take part in a pilot test that was launched in July, the Ministry of Commerce said on Wednesday. The private healthcare sector is a magnet for investors, with the number of private hospitals rising fast in the past decade as Beijing looks to take the pressure off its state-run system. China's healthcare spending is set to reach $1 trillion by 2020, according to global management consulting firm McKinsey & Co. Beijing has been slowly opening the door to overseas money, previously allowing overseas investors to own 70 percent stakes in hospital joint ventures. Full ownership had been allowed in areas including Hong Kong, Macao and Taiwan. The attraction is clear. There were 11,300 private hospitals in China last year, compared with just 3,200 in 2005, according to a Deutsche Bank report in June. It added that a further 8,000 public hospitals are likely to be privatized in the next five to 10 years.

Approval for foreign-owned hospitals will be overseen by provincial governments, the Ministry of Commerce said, adding that only investors from Macao, Taiwan and Hong Kong can practice traditional Chinese medicine. The ministry's announcement did not include any requirements for a minimum level of foreign investment. Guo Wei, general manager of the healthcare branch at HCR, a market research company, said most Sino-foreign joint venture hospitals in China are specialized hospitals mainly targeting high-end clients. Guo said it is highly possible that foreign capital will continue to be invested in specialized hospitals. "Medical talent is limited in China. It's difficult to find enough doctors specialized in different medical fields to establish a general hospital," he said. Dwight W. Clark, founder of the US-Sino HeartCare Center, said it is still better for foreign investors to establish hospitals with Chinese companies, as there are many rules and regulations in China that foreigners may be unaware of.

Source: Xinhua: Restrictions loosened on overseas ownership of hospitals, 2014-08-28

**ODI to maintain robust increase**

China’s outbound direct investment will maintain a robust growth trend in the long run despite a slowdown in
the first half of this year, the Ministry of Commerce said on Friday. "Regarding the development trend, the steady and fast growth momentum of China's outward investment cooperation will not change in the long run," the ministry said in a statement on its website. For the full year, ODI is likely to rise 10 percent, supported by "the improvement of the Chinese economy in the second half of this year, the acceleration of reforms in the outbound investment mechanism and the closing of some big cross-border projects", the ministry said. Chinese project contractors in overseas markets will probably achieve a 5 percent increase in their new contracts by value and cumulative turnover this year, boosted by strong growth potential in Africa and emerging markets such as Latin America and Oceania, according to the ministry. He said that the slowdown in the first half was caused by a high base of comparison, with some especially large projects agreed on in the first half of last year. In the January-June period, ODI decreased 5 percent to $43.34 billion. Asia and Latin America continued to attract the largest amount of about 74.1 percent of the total. Investment in the European Union surged 221.7 percent while spending in Russia went up 109.5 percent and that in Japan expanded 100 percent, according to the ministry.

He added that some risks had become prominent for Chinese investors in recent years, which demanded greater preparation. "Security concerns, such as the situation in Libya and Iraq, became very prominent in the past one or two years, dealing a heavy blow to investors. In addition, natural disasters and diseases also had a severe impact on Chinese companies, a new trend in recent years. "The global economic situation, including the development of the EU debt crisis, also demands that Chinese investors take precautions before entering an overseas market," Zhou said.

The ministry said in the statement that it is improving the policies supporting China's outbound investment. Regulations are undergoing reforms to shift from approval to registration. Investment plans in some key countries will be compiled to provide more guidance for Chinese investors. The risk evaluation and alert system will also be strengthened, said the ministry. On April 9, the ministry held the first meeting with the African Union regarding cross-border and regional infrastructure construction.

Source: Li Jiabao: ODI to maintain robust increase, China Daily, 2014-08-09

Silk Road rally revs up with Beidou

China's self-developed Beidou navigation system is being used to track and monitor the Silk Road Truck Rally to ensure driving security and fair competition, according to the event's organizing committee. The Ministry of Transport and the government of the Xinjiang Uygur autonomous region organized the event. The rally covers six provinces and regions and drivers will take at least half a month to complete the route. The long distance and time frame means scientific and accurate data collection is key, according to an organizing committee official. The navigation system will help ensure driving safety and offer accurate data to evaluate the performance of all the trucks. "All vehicles are equipped with the Beidou navigation system, which enables the organizing committee to send instructions to all vehicles and track their location, speed, oil consumption and journey," said the official. The system records information including truck position coordinates, local time and driving speed. It also gives warning signals for speeding, fatigue driving, emergency braking and deviation from the planned route, according to Zhang Dafu, project manager at BDStar Navigation, the system's developer. "The system's precision is on a par with the GPS and incorporates nearby gas stations, dining and shopping locations and road information," said Zhang.

As part of the rally participants visited the Henan Bonded Logistics Center, in Henan province, and the Zhengzhou International Land Port, the starting point of an international rail connecting Henan's capital Zhengzhou, Xinjiang and Europe, on Aug 16. Freight transport training representatives and rally participants from 12 provinces and cities attended a symposium on Aug 18 to promote more standardized and scientific freight transport training. Participants also visited the Xi'an International Trade and Logistics Park in Shaanxi province on Aug 19 and were headed towards Yan'an, China's revolutionary base, on Aug 20. The truck rally is a demonstration of the nation's achievements in modern logistics and transportation, according to the organizing committee. It is a warm-up for the
upcoming Silk Road Economic Belt Transportation Summit, which will be held during the fourth China-Eurasia Expo in Urumqi on Sept 2.
Source: Yang Feiyue: Silk Road rally revs up with Beidou, China Daily, 2014-08-25