China News in Brief
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PMI falls to lowest for four months

Business activity in the service sector fell to a four-month low in December, with most industries striving to find new growth engines amid slowed exports. China's non-manufacturing Purchasing Managers' Index, a key measure of activity in the sector, fell to 54.6 in December from 56 in November, 56.3 in October and 55.4 in September. The figures were announced on Friday by the National Bureau of Statistics and the China Federation of Logistics and Purchasing.

On Wednesday, the government reported that manufacturers' activities also weakened in December, suggested by a PMI reading of 51, the lowest since August, and down from 51.4 in November. A separate manufacturing PMI from British bank HSBC, which concentrates on smaller manufacturers, also indicates a slight decline in exports, with new orders rising at a fractionally slower pace. The HSBC PMI fell to 50.5 in December from 50.8 in November.

Source: CHEN JIA and DU JUAN in Beijing and YU RAN in Shanghai: PMI falls to lowest for four months, China Daily, 2014-01-04

China works for a more unified GDP calculation

China will ramp up efforts to make national and provincial GDP calculation more unified to ensure statistics more accurately reflect economic performance, an official said on Tuesday. Unified plans for local GDP calculation should be drawn up as soon as possible, National Bureau of Statistics (NBS) chief Ma Jiantang said. China will review national and provincial GDP figures calculated in 2013 and earlier years with the new method while urging stricter calculation of quarterly and whole-year provincial GDP growth this year. The calculation of energy consumption in GDP growth shall also be improved this year to make GDP statistics more relevant. The NBS aims to more effectively track the country's fixed asset investment by switching from an analysis of the progress of projects to an examination of a unit's fiscal outlay.

Source: Xinhua: China works for a more unified GDP calculation, 2014-01-07

New open economic system to shape China's development

After 35 years of economic boom sparked by the reform and opening-up policy, China is advancing its reforms in the new year by building "a new open economic system." The new system, brought up during the Third Plenum of the 18th Central Committee of the Communist Party of China (CPC) last November, aims to relax investment access and speed up the construction of free trade zones. In order to carry out the new system put forward by the new leadership, the notion of "interconnection" is highly valued.

The Silk Road economic belt with Central Asian countries and the 21st century Maritime Silk Road with Southeast Asian countries, proposed by the new Chinese leadership, well reflected this notion of "interconnection." The two "silk roads" are expected to deepen China's cooperation with its neighbors, and help spill over its development bonuses to other countries. Yuri Tavrovsky, a prominent political expert from Moscow Friendship University, said China's strategy for the two "silk roads" was a logical extension of the Chinese Dream concept.

To push forward the "interconnection," China also dedicated itself to promoting regional free trade negotiations. While regional trade cooperations are gaining momentum worldwide, China was excluded from the negotiations of the Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP) pushed hard by the United States. The new economic strategy adopted by Washington was dubbed "ABC" - "Anyone But China" - by the British newspaper Financial Times. Chinese Commerce Minister Gao Hucheng said in an article in the People's Daily, the flagship newspaper of the CPC, that "if we responded inadequately in the forming of the new rules, we will risk being marginalized, which will bring negative effects on our external environment for development." To meet the challenges, China has accelerated its negotiation on the China-South Korea, China-Australia and China-Japan-South Korea free trade areas (FTA) with relevant countries. Meanwhile, China also tries to achieve substantial progress in the Regional Comprehensive Economic Partnership (RCEP), a free trade agreement
involving deeper engagement than the existing FTAs of the Association of Southeast Asian Nations (ASEAN).
While facing a changing economic situation, China's adjustment of its economic systems does not only need to emancipate the domestic productivity, but also comply with China's role in international economic systems. By deepening its economic cooperation with foreign countries, China's economic reform aims to realize win-win cooperation with other countries.

Ryan Rutkowski, a researcher with the Washington-based Peterson Institute for International Economics, estimated that the broader change appeared to be the theme for 2014, and said he "expected more from the Shanghai FTZ pilot, and an expansion of efforts to pursue international trade and investment agreements." According to National Bureau of Statistics, China has contributed an averaged 20 percent of the world's economic growth annually since the 2008 financial crisis. The new open economic system will not only shape the future development of the Chinese economy, but also offer inspiration and a different way of thinking for the creation of a more balanced and just international economic order.
Source: Xinhua: New open economic system to shape China's development, 2014-01-10

China's power consumption up 7.5% in 2013

China's electricity consumption, a key indicator of economic activity, rose 7.5 percent year on year in 2013, the National Energy Administration (NEA) said on Tuesday. Electricity used in 2013 stood at 5.32 trillion kilowatt hours, according to a statement on the NEA website. The growth rate is 2 percentage points higher than that in 2012. The service sector consumed 10.3 percent more electricity than a year earlier, and the industrial sector consumed 7 percent more, while power used by the agricultural sector was 0.7 percent more than a year earlier, the statement said. Data from the National Bureau of Statistics showed China's economy expanded by 7.7 percent in the first nine months of 2013, higher than the government's full-year target of 7.5 percent. Figures on China's annual economic performance are due to be released next Monday. The average operational time of power plants across the country with generation capacity of more than 6,000 kilowatts (kW) dropped by 68 hours to 4,511 hours in 2013, according to the NEA. New generation capacity added last year stood at 94 million kW, the statement said. By the end of last year, the country's total installed power generation capacity reached 1.25 billion kW, it added.

Wu Xinxiong, head of the NEA, said the NEA has been mapping reforms to encourage and introduce more private capital into the energy sector. Reforms will be made mainly in the electricity, oil and natural gas sectors, and energy market supervision and energy safety will be boosted, Wu said at a two-day NEA work conference that ended on Tuesday.
Source: Xinhua: China's power consumption up 7.5% in 2013, 2014-01-14

How much has China's economy really grown? Poor bookkeeping added to politics leads to yearly discrepancies in data

While the national figures released this week showed 7.7 percent growth, but 28 Chinese regions and provinces reported growth figures for 2013 that, when combined are higher than the national total. And that's with three provinces yet to publish their figures for last year, the state-run Xinhua news agency reported. Prime Minister Li Keqiang has said that he does not trust such "man-made" figures when examining the Chinese economy. In 2007, while he was Communist Party chief of Liaoning Province in northeast China, Mr. Li said that he considered electricity consumption, rail freight and loan distribution to be measures of economic growth that are more accurate than G.D.P.

"This is an old problem which recurs every time the data is released," Zhang Liqun, an economist at the State Council's Development Research Center, told Xinhua. "The gap is mainly caused by duplicating calculation." "Due to local officials' obsession with governing performance, the local figures will be more or less overblown," Cong Liang, deputy head of the department of national economy at the National Development and Reform Commission, China's top economic planning body, said at a briefing on Wednesday, Xinhua reported. China has long recognized
the problem of overstated provincial growth statistics. On Jan. 7, Ma Jiantang, the head of the National Statistics Bureau, said that China hoped to bring provincial G.D.P. figures in line with the country's total. "Every region should, through thought and action, earnestly establish an economic audit system that is unified with the nation," he said, according to a report published on an official government website.


As China slows, the pain hits home: Domestic producers of commodities are being outcompeted by imports

Raghuram G. Rajan, the central bank's governor of India, acted even though his country's manufacturing sector, heavily dependent on borrowing and sensitive to any increase in rates, is already slowing. "It is only by bringing down inflation to a low and stable level that monetary policy can contribute to reviving consumption and investment in a sustainable way," he said in a statement.

Yet the prospects for emerging markets are not entirely grim. Many economists have focused on slowing growth in the value of Chinese imports, and warned about troubles in emerging markets. That partly reflects that commodity prices have been falling. But the tonnage of Chinese commodity imports has kept rising. In December, China's imports were only up 4.3 percent in dollar terms from a year earlier. But they were up nearly twice as much, 7.8 percent, in terms of tonnage, according to China's General Administration of Customs. That rising tonnage of imports has been hurting domestic production. China's coal imports have doubled in the last three years, even as many new open-pit mines have begun production in Inner Mongolia and Xinjiang. That is causing considerable hardship and closings at underground coal mines in traditional coal-mining provinces like Shanxi and Shaanxi, just as many underground coal mines closed in Wales and Appalachia in the 1970s and 1980s when they could not compete with open-pit mines in emerging markets or Montana.


How China Is Ruled: Why It's Getting Harder for Beijing to Govern

China had three revolutions in the twentieth century. The first was the 1911 collapse of the Qing dynasty. After a protracted period of strife came the second revolution, in 1949, when Mao Zedong and his Communist Party won the Chinese Civil War and inaugurated the People's Republic of China. The third revolution is ongoing, and so far, its results have been much more positive. It began in mid-1977 with the ascension of Deng Xiaoping, who kicked off a decades-long era of unprecedented reform that transformed China's hived-off economy into a global pacesetter, lifting hundreds of millions of Chinese out of poverty. China's past reforms have created new circumstances to which its leaders must quickly adapt. Reform is like riding a bicycle: either you keep moving forward or you fall off. The dangers of standing still outweigh those of forging ahead, and China can only hope that its leaders recognize this truth and push forward, even without knowing where exactly they are headed.


Latest audit results not to cause China rating downgrade

Standard & Poor's Ratings Services will not change its rating on China's sovereign debt just because of its recent auditing announcement, a senior credit analyst said Tuesday. "That has no impact on our rate" on China's sovereign credit, Joydeep Mukherji, managing director in Sovereign Ratings of the New York-based rating agency, told Xinhua, referring to China's latest estimation for its debt. Liabilities directly carried by governments at various levels stood at 20.7 trillion yuan ($3.4 trillion) at the end of June 2013, representing an 8.6-percent increase from the end of 2012, according to an announcement released by China's National Audit Office last week. "We have a stable outlook rating (on China's debt) which says that we think the Chinese government has the resources to deal
with this, also has the time to deal with this, meaning that we don't expect there would be some kind of liquidity problem," he added.

Mukherji noted that economic growth is an important criterion when his company makes a rating decision on a country. If the Chinese economy grows by 7.5-8 percent, its capacity to service the debt is extremely strong, he said, voicing his confidence that the growth engine of the world's second-largest economy is still good. "As long as growth is there, the (Chinese) government would have the money to pay for all their debt one where or another, whether local government debt or its own debt, because the money is coming in," Mukherji said.

On Monday, Moody's Investors Services, another big rating agency, posted a report saying that China's government debt level is manageable but a large accumulation in local authority arrears is credit negative. As for China's shadow banking, which is becoming a source of instability in the country's financial system, Mukherji considered it as a mixed picture. On the one hand, some businesses China's shadow banking does are kinds of normal things that other institutions do in other countries. On the other hand, it is obviously creating non-performing loans, he said, adding that most risks of the bad loans probably happened in the last few years. "Obviously it's not as well regulated, as transparent as the regular banking system. That's why we have all these problems," Mukherji said.

Source: Xinhua: Latest audit results not to cause China rating downgrade, 2014-01-08

**China economy: Picking up the tab**

The long-awaited audit, released by the National Audit Office (NAO) at the end of December 2013, confirmed a rapid build-up in local government liabilities. Total outstanding local government debt reached CNY17.9tn (US$2.95tn) by end-June, representing a rise of over two-thirds since end-2010, when the stockpile was evaluated at CNY10.7tn. Although some additional liabilities were brought onto the books by the inclusion of village-level administrations in the latest audit, the two figures were broadly comparable. The latest total includes CNY10.9tn of direct local government debt, with the remainder consisting of credit either implicitly or explicitly guaranteed by the authorities. In its report the auditor claimed that, in the worst-case scenario, local government would be responsible for only around 20% of these contingent liabilities. However, its reasoning was unclear.

Local governments have limited resources through which to otherwise meet repayments. All 31 provincial-level administrations run fiscal deficits and rely on central government transfers to support their budget position. Extra-budgetary revenue from land sales has provided the main source of debt repayment in the past, but the central government is concerned about the social tensions generated by land confiscations. An increase in land supply prompted by local government sell-offs would also risk destabilising the real-estate market: the ability of local governments to service their debt would be undermined by a downward correction in property prices.

More substantive measures will therefore be required to manage the debt. In late 2013 one of the central government's "bad banks", China Cinda Asset Management, raised capital via an initial public offering in Hong Kong. Its peer, China Huarong Asset Management, is reported to be mulling a listing. Reports suggest that this capital may be used to buy up the bad debts of local governments. The authorities have also given permission to provinces to set up their own asset-management companies to handle non-performing local debts. Given that most of the credit borrowed by local governments has been invested in something tangible—whether a road, bridge or housing project—the underlying asset offers at least some value to potential buyers. The sale of public assets is probably the only way of meeting local government debt obligations in the long term. Although the central government will be reluctant to loosen its control over centrally managed state-owned enterprises (SOEs), it may be open to privatisations at local level.

Besides managing existing debt, the government's other task will be to control its future accumulation. The recent audit offered a worrying picture of the failure to curb the credit appetite of local governments. The 2010 audit served as an alarm bell to the government. In its wake, strict regulations were imposed on bank lending to LGFVs, and the loose monetary policy that had prevailed in the aftermath of the 2008-09 global financial crisis was
tightened. Yet, the steep rise in liabilities revealed by the recent audit indicates that these policies have been ineffective. As local governments have found it more difficult to secure financing from the formal banking system, they have turned to other sources. Bank loans accounted for nearly 80% of total local government debt at end-2010, but in the latest audit made up only 57%. Funding has migrated to the shadow banking sector, where local governments have been able to obtain funds through trust, securities and leasing companies. Bond issuance has also risen rapidly. The authorities have already signalled their intention to enhance surveillance over these opaque financing activities. But tougher regulations alone will not dissuade cash-strapped local governments from seeking credit, and alternative sources will inevitably emerge. Ultimately, a broader realignment of the fiscal system will be required.

There remains a window of opportunity through which to enact fiscal reforms. There were promising elements to the agenda unveiled at the November 2013 plenum of the ruling Chinese Communist Party. This included plans for the central government to assume greater responsibility for public spending and for local debt levels to be included as part of the cadre evaluation system. There were also hints at economic reforms that may help to raise productivity levels. Yet the capacity of the authorities to implement their programme remains unclear. If the central government fails to temper local demand for credit, its own debt-servicing capacity may eventually be tested.

Source: EIU ViewsWire: China economy: Picking up the tab, (Jan 15, 2014)

China's fiscal revenue rises 10.1% in 2013

China’s fiscal revenue climbed 10.1 percent year on year in 2013 to reach 12.91 trillion yuan ($2.11 trillion), the Ministry of Finance said Thursday. The growth pace, however, slowed from the 12.8 percent reported in 2012 and 24.8 percent registered in 2011. Of the total fiscal revenue, tax revenues reached 11.05 trillion yuan, up 9.8 percent from one year earlier, but growth was down 2.3 percentage points from the 2012 level. Revenues from domestic value-added tax gained 9 percent last year to 2.88 trillion yuan, while those from domestic consumption tax increased 4.5 percent to 823 billion yuan, the ministry said. Corporate income tax revenue rose 14 percent year on year to 2.24 trillion yuan.

The country’s fiscal expenditures rose 10.9 percent from one year earlier to 13.97 trillion yuan, the ministry said. This brought the national fiscal deficit for the year to 1.06 trillion yuan, or 1.86 percent of the country’s gross domestic product in 2013, according to calculations based on preliminary data released by the National Bureau of Statistics. The deficit figures were better than expected when the country’s economic growth last year slowed to the lowest rate in 14 years. The government had budgeted for an annual deficit of 1.2 trillion yuan, or about 2 percent of the GDP, in 2013.

Source: Xinhua: China's fiscal revenue rises 10.1% in 2013, 2014-01-23

China reveals 2014 financial reform priorities

China's four major financial authorities have announced their priorities for 2014. The People's Bank of China (PBOC), the central bank, will continue to expand the cross-border use of the Chinese currency, the Renminbi, this year. At the same time, it will stick to prudent monetary policy and maintain steady credit growth, improve the multi-tier capital market, and engage further in international financial regulation policy-making.

The China Banking Regulatory Commission (CBRC) will pilot three to five private banks that will bear their own risk, opening up the banking sector to domestic and foreign private capital. The banking industry watchdog will gradually reduce the threshold for foreign banks to enter the banking sector and ease their RMB operation requirements. The CBRC will keep a close eye on major housing developers, and reduce the risk of default through
weak links in the construction industry's money chain. Also on the banking regulator's radar are restructuring and technological upgrades in overcapacity industries, liquidating their assets and reducing the risk of default.

In pursuit of a more efficient market, the China Securities Regulatory Commission (CSRC) will switch IPOs from the current approval system to one based on registration. Under the new system, the timing of IPOs and how shares are issued will be determined by the market, as long as issuers disclose all relevant information as required. In order to streamline approval procedures, the CSRC will also abolish approval requirements on 21 items over the next three years starting from 2014.

The China Insurance Regulatory Commission (CIRC) is considering catastrophe insurance for those hit by disasters. The CIRC will join with the finance and other ministries to work on implementation plans for catastrophe insurance this year. The commission also intends to set up food liability insurance in 2014, given the importance of food safety in China.

Source: Xinhua: China reveals 2014 financial reform priorities, 2014-01-26

**Tackling the shadow banking is huge task**

A government document to regulate shadow banking, reported by the Chinese business media last week, has highlighted more than ever before the dilemma in China's financial system and a daunting task in its financial reform. Some say this year will be a time of make-or-break for the country. One thing to watch will be Beijing's success or failure in reining in the risk in the country's financial system while allowing it to grow, diversify services and to expand to many countries - to follow in the footsteps of Chinese investors in the world. But this is exactly what China has to do - if it wants to continue to grow relatively fast and avoid a full-blown financial crisis. According to the resolution adopted by the national leadership's third plenum last year, one of the goals of the next round of reform is precisely to build a large, versatile financial system able to guard its hardcore from indiscreet or unethical practices. This system would consist of a layer in which a few institutions hold the country's most important financial resources on behalf of the government, a second layer in which many institutions, not necessarily all State-owned, compete in the marketplace - allowed to conduct their own innovations but not expecting a government bailout if things go badly - and a third layer that is left for small services left alone to sink or swim and that therefore cannot do major harm to the main body of the national financial system. There will be some shadow banking, but it should not be allowed to grow so large and to fund so many local government projects.

With better rules and more institutions, China should be able to redirect local governments' fundraising channels from shadow banking to a more open and better-regulated bond market. Beijing recently said it would allow local governments to issue bonds to pay back their debt. The question now is who will hold their bonds and who will help float them. This year it would not be too difficult for China to make a few more good moves in this direction. But erecting the framework for a multi-layer financial system will require a much larger effort, entailing a tug-of-war between interest groups. If the financial service industry continues to be dominated by a few very large State-owned banking corporations, the change desired would not materialize and the real economy would probably continue to depend on shadow banking for a great portion of its credit. That would pose a permanent risk for the country's growth. If there is to be a real change, there will have to be diverse institutions and services for all players in the economy. The result would inevitably be more financial service companies in the stock market, which would presumably be smaller than the State-owned banking giants, and be good at generating growth from their expertise in specialized services.

The State-owned banking corporations can spin off some of their better-managed and more competitive departments. They may also sell some of their not-so-profitable services to local banks. All financial services, including those built by private investors, would be forced, not by the government but by market competition, to build a strong management and define a market niche. A danger is that if China waits for too long in defining the game rules and playground for smaller financial institutions, which would be tantamount to protecting the
monopolistic status of the State-owned banking giants, shadow banking would grow even more out of control.
Source: Ed Zhang: Tackling the shadow banking is huge task, China Daily USA, 2014-01-31

**China's 2013 new loans hit 8.89t yuan**

China's new yuan-denominated lending reached 8.89 trillion yuan ($1.5 trillion) in 2013, up 687.9 billion yuan, the central bank announced on Wednesday. New loans denominated in foreign currencies hit 584.8 billion yuan in 2013, representing a year-on-year decrease of 331.5 billion yuan, according to Sheng Songcheng, financial survey and statistics chief at the People's Bank of China. Total social financing, a measure of funds raised by entities in the real economy, stood at 17.29 trillion yuan last year, up 1.53 trillion yuan from a year previously and a record high. The new yuan lending took about 51.4 percent of the social financing, the lowest amount in history and 0.6 percentage points lower than the previous year.

The narrow measure of money supply (M1), which covers cash in circulation plus current corporate deposits, rose 9.3 percent year on year to 33.73 trillion yuan. The broad measure of money supply (M2), which covers cash in circulation and all deposits, jumped 13.6 percent to 110.65 trillion yuan in 2013, growing 0.2 percentage points less than in 2012, Sheng said. Outstanding cash in circulation (M0) amounted to 5.86, up 7.1 percent from a year earlier. Last year, the net amount of cash put into circulation stood at 389.9 billion yuan. China's foreign exchange reserves rose $509.7 billion to reach $3.82 trillion at the end of the year.
Source: Xinhua: China's 2013 new loans hit 8.89t yuan, 2014-01-15

**Shadow Lender Strives to Avert Loss** China Credit Trust Co. Appears to Have Found a Way to Pay Back Investors

China avoided a potentially destabilizing hit to its creaky financial system after a major shadow lender arranged a bailout for buyers of an investment product that was on the verge of going bust. Analysts said the fact...
that investors will avoid a financial hit—and that it remains unclear who will pay the tab—risks sending a message that reckless investing and lending can continue with impunity. That, they said, could ultimately damage the financial system.

China Credit Trust Co. told investors on Monday that it will restructure the loan behind a 3 billion yuan ($496 million) high-yielding investment product that is scheduled to come due on Jan. 31. Under the restructuring, the roughly 700 investors in the product would get their principal back but not the last of three interest payments, according to two investors who have been notified of the payment plan. China Credit said it made the move by swapping the debt for equity in the borrower, a struggling coal-mining company. The equity was then purchased by an investor it didn't name. China Credit officials confirmed the payment plan, as well as its notice to investors, but declined to comment further. The move could help calm near-term market jitters over what are known as trust products, a pillar of China's non-bank shadow-banking system. Had China Credit missed the Jan. 31 payment, the trust product would have become the first to result in significant losses for investors and could have shaken confidence in China's financial system. But the restructuring leaves unanswered long-term questions about China's financial health, analysts say. "The underlying issue is that there is too much debt in the system that has gone to wasteful projects," says David Cui, China strategist at Bank of America Merrill Lynch. "At a certain point, the involved parties will be either unwilling or unable to bail out [troubled investors or borrowers], which may trigger a credit crunch," Mr. Cui says.

Lending by shadow bankers—an assortment of trust companies, insurers, leasing firms and other informal lenders—rose 43% last year from 2012, to 5.165 trillion yuan, data from China's central bank show, becoming a major factor in China's rising debt levels. The shadow banks raise funds by offering yields far higher than are available from ordinary bank deposits, lending to borrowers considered too risky for traditional banks, such as heavily indebted local governments, property developers, coal producers and other companies in sectors burdened by overcapacity.

Growing Assets
As Chinese trusts expand, worries grow over soundness of underlying assets.

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Some traditional banks in China sell investment products on behalf of these informal lenders as a way to offer higher yields to customers. China's largest bank by assets, Industrial & Commercial Bank of China Ltd. sold the China Credit Trust product to investors but has said repeatedly it isn't responsible for the risk. Economists and analysts worry that China's shadow bankers are introducing risks into its financial system by backing projects that may never pay off and failing to disclose fully what they are asking investors to fund. They say that because banks sometimes sell problem loans to such lenders, but then have to provide credit to the purchasers, the shadow system appears to give banks a way to get rid of problem loans, but doesn't really do so. "Chinese banks have already accumulated high credit risks on their balance sheets. But distorted growth in shadow banking could lead to further unintended buildup of credit risks that banks may not fully appreciate," says Liao Qiang, an analyst at Standard & Poor's. "Certain parts of the shadow-banking sector, notably trust companies, may prove to be the weak link of China's financial system."

China's economic slowdown could expose more such problems. Government officials worry that a hit to investors will lead to highly publicized protests and could undermine faith in the overall financial system. In the case of the product sold by China Credit, local government officials have played an active role in putting together the restructuring plan, according to people with direct knowledge of the matter. China Credit, which is about 33% owned by state-controlled People's Insurance Company (Group) of China Ltd., sold the product, called "Credit Equals Gold No. 1", in 2011 through ICBC. It offers annualized returns of between 9% and 11%. The trust firm then lent the funds to an obscure coal-mine operator in northern China's Shanxi province, called Zhenfu Energy Group. The company is owned by Wang Pingyan, a farmer turned entrepreneur. As coal prices plunged and some of
his mines were forced to shut down due to accidents and local protests, Mr. Wang found himself short of cash to pay off creditors. Mr. Wang, who has been detained by authorities in connection with his financing activities, couldn't be reached for comment. A representative for his company declined to comment.

China Credit warned investors earlier this month that it might not be able to repay them when the product matures at the end of the month. Last week, China Credit disclosed that the coal company had received key government permission to reopen a mine and that another coal project has won support from local authorities and the community, according to a document reviewed by The Wall Street Journal. Obtaining licenses will permit the mines to start operating and generate revenues.


**China ends year as Asia's weakest market**

China may be the world's fastest-growing major economy, but it can also lay claim to a more dubious superlative: home of the worst-performing stock market in Asia. The lacklustre performance of China's domestic stock markets also comes in sharp contrast to the United States, where both the Dow Jones industrial average and the S&P 500 have in the past year overtaken their peak levels before the financial crisis to set record highs. The Shanghai index, by contrast, is trading at slightly more than a third of its value at its 2007 peak, when it reached 6,092.06 points. Shanghai's stock market came in last place among Asian markets in 2013. Its performance was slightly worse than the 6.7% annual decrease in the main share index in Thailand, where street protests have been disrupting the nation's capital for weeks.

China's market slump has taken shape over a comparatively long horizon due to a number of factors. Domestic shares are still mostly off limits to foreign investors. China's largely closed capital account means Chinese savers have few options for investing their money; property and stocks have been the traditional favourites. But since a robust rebound in 2009, China's stock markets have been stuck in a downward spiral, leaving many investors disheartened. The Shanghai index saw trading volumes decline for three straight years, from 2010 to 2012. Many ordinary Chinese have instead invested their money in recent years in wealth management products. These securitized debt instruments pay much higher interest rates than bank deposits but, as loosely regulated products of the country's murky shadow banking sector, they tend to offer minimal disclosure and entail significantly greater risk.

Still, moves by Chinese policymakers in the year since President Xi Jinping came to power have given investors cause for encouragement. A key plenum of the Communist Party leadership in November concluded with pledges that would represent China's most significant financial overhauls in decades. Following that meeting, the securities regulator announced on Nov. 30 a series of new policies designed to strengthen investor protections and corporate disclosure requirements, as well as to resume share sales. China's domestic markets have not seen an initial public offering since October 2012. Chinese IPOs appear on track to resume in early January. On Tuesday, five companies announced to the Shanghai and Shenzhen stock exchanges that they had received approval to conduct share sales. They include Guangdong Qtone Education Co., Guangdong Xinbao Electrical Appliances Holdings, Neway Valve (Suzhou) Co., Truking Technology Limited and Zhejiang Wolwo Bio-Pharmaceutical Co. All five companies intend to list in January, the first among a backlog of about 760 firms waiting to sell shares in China.


**CSRC 'determined' to pursue IPO reform**

The nation's financial regulators will continue to pursue market-oriented reform for new share listings and conduct random inspections, including checks of underwriters' work, the China Securities Regulatory Commission said on Friday. The commission made the statement amid industry concern that the process of IPO reform would be
affected by the delay in the offering of Chinese drug maker Jiangsu Aosaikang Pharmaceutical Co Ltd. So far, 51 companies' plans to go public have been approved. But since Dec 31, nine of those companies - including Aosaikang - have suspended their offerings for various reasons. Aosaikang had announced plans to issue 55.466 million shares at 72.99 yuan ($12.07) per share, with 78.6 percent of the shares to be transferred from existing shareholders. Zhang Xiaojun, a spokesman for the CSRC, said that proportion was "too high" and not in line with the purpose of an IPO. "Aosaikang's IPO delay is good for protecting the interests of investors and achieving the goal of market-oriented reform of new share listings," said Zhang.

The CSRC conducted random checks this week on the issue and underwriting work of 44 institutions and 13 principal underwriters of IPOs. "The commission will continue to do random checks to ensure the sound development of the Chinese stock market and the interests of investors," said an official of the CSRC, commenting anonymously.

Meanwhile, China's first post-reform IPO finished its first trading day on Friday with a 43.5 percent rally. Neway Valve (Suzhou) Co Ltd issued 82.5 million shares at 17.66 yuan a share. Shares closed at 25.34 yuan. "Neway's closing price on Friday was slightly higher than expected but it's still a reasonable level," said Zhang Qi, an analyst at Haitong Securities Co Ltd. Cinda Securities Co Ltd published a report early on Friday saying a price of 16.77 to 21.3 yuan per share would be reasonable on the first trading day. In comparison, Zhejiang Shibao Co Ltd, the last company to issue shares before IPOs were suspended in 2012, saw its shares skyrocket by 650 percent on the first trading day, which was Nov 2, 2012, in Shenzhen.

Source: Cai Xiao in Beijing and Gao Changxin in Shanghai: CSRC 'determined' to pursue IPO reform, China Daily, 2014-01-18

Regulator ' regrets' US move on audits

The China Securities Regulatory Commission "regrets" that its United States counterpart, the Securities and Exchange Commission, "ignored" China's efforts to promote cooperation in cross-border supervision, Deng Ge, a CSRC spokesman, said on Friday. The CSRC will pay close attention to the progress of the ruling on the Chinese units of the "Big Four" accounting firms, the spokesman said. Cameron Elliot, an administrative law judge with the SEC, recommended on Wednesday that the Chinese affiliates of Deloitte Touche Tohmatsu Ltd, Ernst & Young, KPMG and PricewaterhouseCoopers LLP be barred from providing audits for US-traded companies for six months. Those affiliates had rejected the US regulator's demand for access to audit documents. "We regret that the ruling ignored China's efforts to strengthen cooperation with the US on cross-border supervision," said Deng.

The CSRC had shared the audit details of four Chinese companies listed abroad with overseas regulators, in a further move to crack down on illegal activities and protect the interests of investors, the CSRC said in early January. In May, a memorandum of understanding was signed by the CSRC, China's Ministry of Finance, the audit regulator in the US and the US Public Company Accounting Oversight Board. Elliot's ruling doesn't take effect immediately, as it must be approved by the SEC. The firms can also appeal, first to the commission itself, then to the US federal courts. "We hope that the SEC would consider the overall situation of Sino-US cooperation on supervision and make a correct final judgment to deal with the case appropriately," said Deng. Deng said the CSRC will closely monitor the progress of the ruling and negotiate with the SEC.

If the ruling stands, it could temporarily leave more than 100 Chinese companies that trade on US markets without an auditor. It may also influence audits of US multinational companies that have large operations in China, because the Chinese affiliates of the "Big Four" often help their US affiliates complete those audits.

Source: CAI XIAO: Regulator 'regrets' US move on audits, China Daily, 2014-01-25

Reforms Will Guide China

After 35 years of high-speed development, China is again at the brink of major readjustment and reform. The country's achievements over the past three and half decades have polarized world attention. China's share of world
GDP has soared from 1.2 percent in 1978 to 10.3 percent in 2012, and that of GDP per capita from US $360 in 1978 to US $7,800 in 2012. These figures are just a facet of the vast changes that have taken place in China. In the past 35 years, the rise of China has been the main impetus for the restructuring of world power. China's rapid and sustained economic growth has taken East Asia to equal ranking with Western Europe and North America within the global economic, trade and financial systems. Thanks to the sustained economic development of China and its neighboring countries in the region, East Asia has in the 21st century become a dazzling "powerhouse" in the world political and economic arena.

China faces unprecedented difficulties in bringing into effect large-scale reform and readjustment. First, certain vested interest groups have formed amid China's fast economic development, but reform calls for re-distribution of wealth. That is to say, China needs to "perform surgery" on its current governance system. This goal is far more difficult to achieve than the simple consensus that "poverty is not socialism" reached 35 years ago at the beginning of reform and opening-up. Second, over the past 35 years, a large bureaucratic system has come into existence. Reformers must deal with the obstructions they encounter within it of backward thinking and conventions if they are to find new routes and methods of remolding the current system and bringing about the huge changes that China needs. Third, globalization and informatization have enabled different social groups to express diverse opinions and demands with regard to their common interests. Reforms, therefore, must guarantee the interests of broad masses of the people. To accomplish this, reformers need to establish a new social consensus among different groups to achieve a new equilibrium in China's future society. This task cannot be compared to any in earlier periods of development in China's history. In other words, China needs a social and political consensus now more than it ever has at any previous period of development.

What is encouraging, however, is that China is amid an era of vitality and vigor. China's new leadership, headed by President Xi Jinping, is aware of its historic responsibility and is intent on maintaining the competitiveness of China's economy and sustainable development through continuous reforms. Since November 2012, when Xi Jinping was elected General Secretary of the CPC, he has made 19 inspection tours around China, during which he has mentioned reforms on 18 occasions. Premier Li Keqiang has stated that although China is losing its cheap labor demographic dividend, it can reap more dividends from reform. The reform decision made at the Third Plenary Session of 18th CPC Central Committee covers 15 fields, through a sequencing of major and important reform measures. Reform measures regarding the judicial system, ecological conservation and development, and rural land resources are extremely innovative. The whole reform plan clarifies the direction of China's future development. For example, it states that the market will play a "decisive" role as opposed to the former "basic" role in China's economic development. It moreover calls for an upgrading of China's political governance to promote democracy and rule of law. This includes establishment of a new national security commission that will enable better planning of domestic and international work as a whole and development of national security strategies. The plan also demands the setting up of a central leading team to "comprehensively deepen reform." Its responsibility will be to guarantee implementation of reform plans and to consider and adopt pragmatic reform approaches. President Xi Jinping emphasized when expounding on the reform measures that China will enhance top-level design and strategic planning. He concluded by saying that to launch reform, China must be bold, move fast and be ready to take risks.


Reform blueprint highlights quality, efficiency

After a series of key conferences on the economy last year, China's reform framework and crucial areas have been hammered out clearly. As senior leaders have repeatedly emphasized, China will focus more on innovation, the quality and efficiency of the economy than pure gross domestic product (GDP) expansion and economic growth acceleration. This meant China could sacrifice its high growth rate to gain the fruits of structural reform, analysts said, noting the country had showed its determination in dealing with challenges. China should avoid focusing
simply on economic growth targets, which were considered part of the traditional planned economy and ran contrary to the new leadership's stated intention of letting the market play a "decisive role," Stephen Roach, senior fellow at Yale University's Jackson Institute for Global Affairs, said.

The leadership in fact has been seeking to downplay a specific GDP number, proposing a "rational scope of economic operation" instead, which means that the macro-control measures are aimed at a "rational sector" that is constantly changing with China's potential growth rate. At the same time, diluting the importance of the GDP indicator signaled the central government is beginning to lay emphasis on the quality of the economy in a bid to realize a delicate balance between growth and adjustment. Nobel laureate Joseph Stiglitz called for correctly unscrambling China's slowdown, saying "China will stay the course on sustainable growth (despite deceleration)..." and this benefits not only China, but also the world for the long term.

Source: Xinhua: New open economic system to shape China's development, 2014-01-10

**New reform drive offers world 'Chinese opportunities'**

Chinese Foreign Minister Wang Yi said on Friday that China will provide the world with more "Chinese opportunities" in development as it is embracing a new round of comprehensive reforms. China's new reform drive will not only herald a new era for its own development but also have extensive and positive impacts on the world, Wang said during the World Economic Forum (WEF) annual meetings. An increasingly prosperous China will provide the world with more "Chinese opportunities" in development, namely market opportunities, investment opportunities, growth opportunities and cooperation opportunities, he told a special session on China.

"China has every confidence in the success of its reform," Wang said, noting the confidence came from the country's fine tradition of constant self-improvement and its over-5000-year splendid civilization. It also came from the right path the country has chosen, from the strong leadership of the Communist Party of China, from the country's huge development space and potential as well as from its win-win strategy of opening-up, Wang added. Meanwhile, he said that China would contribute more of the "Chinese power" to world peace, remain committed to the path of peaceful development, undertake more international obligations, and play an even more active and productive role in resolving hotspot issues, he said. China will continue to handle disagreements and differences through equal-footed consultations while working with other countries to safeguard human conscience and international justice, he said.


**December worst air quality month of 2013**

More than 80 percent of cities failed to meet the national air quality standard during at least half of December, making it the month with the worst average air quality in 2013, according to information released by the Environmental Protection Ministry on Friday. Out of the 74 cities officially monitored, 62 failed to reach the standard on 15 days out of the month, which was twice as many as the number in November. Only three cities reported good air quality on more than 24 days in December: Lhasa, in the Tibet autonomous region; Kunming, in Yunnan province; and Zhangjiakou in Hebei province. In November, that total was 12 cities.

The poor air quality in December stemmed from the smog that enveloped 104 cities in 20 provinces across China in early December, reducing visibility to less than 10 meters in some places. Levels of five major air pollutants grew in December. The monthly average of PM2.5 which can enter deep in the lungs — increased by almost 56 percent. The number of days with good air quality in the Yangtze River Delta region fell by more than 24 percentage points from November. For the Pearl River Delta region, the decrease was more than 45 percentage points. The updated guidance includes four levels of advisability regarding the use of fireworks, as opposed to the three issued in 2013, which were: proper, not quite proper and not proper. The newly added level is a harsher one: "extremely improper".

Authority blacklists polluting products

The Ministry of Environmental Protection (MEP) on Friday released a list of products and crafts that companies are advised to avoid on the grounds that they pose high pollution risks. The list, including 722 products and 92 crafts, has also been offered to 13 departments including the People's Bank of China and the ministries of commerce and finance for guidance in their choice of products and crafts, the MEP said in a statement. The list has been drawn up to help groups and individuals clearly identify environment-averse items in safety supervision, decision-making and restrictions in policy support so as to limit manufacture, use and export of these products. According to the ministry, more than 300 products on the blacklist have already been excluded from export tax rebates and banned in the processing trade by tax and trade authorities.

Many blacklisted products involve heavy metal pollution and high emission of pollutants such as sulfur dioxide, chemical oxygen demand and ammonia nitrogen. The list was first released in 2007, and Friday's version integrates those of previous years and also includes two categories of environmentally friendly crafts and key environmental protection facilities that it is hoped will become more widely used by companies.

Source: Xinhua: Authority blacklists polluting products, 2014-01-25

China introduces tiered pricing to save water

All cities in China should be charging tiered prices for household water by the end of 2015, to encourage people to use less water. The guidelines published on Friday by the National Development and Reform Commission and the Housing and Urban-Rural Development Ministry, suggest a three rate structure, charging more to homes which use more. The structure will be based on average monthly household water consumption. The first tier applies to 80 percent of average consumption; the second tier to 95 percent. The price differential between the three tiers should be no less than 2:3:6, and greater in areas where water is more scarce.

Source: Xinhua: China introduces tiered pricing to save water, 2014-01-03

To Conserve Water, China Raises Prices for Top Users

The announcement by the National Development and Reform Commission, China's top economic planning body, marks the first stab at actual resource-sector reform after an economic-reform blueprint by top Chinese Communist Party leaders in November targeted the cheap use of resources, promising a greater role for markets in setting prices for power and other commodities. The new system, which will be in place by the end of 2015 and will extend existing trials in some locales, will include a three-tiered pricing structure based on water use for households in all cities and some towns. Under the plan, the heaviest consumers--or top 5% of households--will pay at least three times the base rate of water. The second tier will pay 1.5 times the base rate, while the lowest tier--roughly 80% of urban households--wouldn't be affected by the changes, according to the NDRC.

Prices for water in China remained relatively cheap nonetheless, according to analysts. The bank, citing a 2011 survey by Global Water Intelligence, said the average water price in 25 major Chinese cities was 46 cents per cubic meter, compared with a global average of $2.03 per cubic meter. Chinese consumers spent 0.5% of disposable income on water tariffs versus 2.8% in the U.S. Residential consumers in Beijing pay four yuan (66 U.S. cents) per cubic meter of water.


World News: Asia: China Moves to Diversify Crude Sources

Imports from Saudi Arabia, China's largest overseas supplier, were flat in 2013 from a year earlier, the first time in at least a decade that Chinese imports from the country haven't grown on an annual basis. Growth in Saudi crude imports historically has been measured in the double digits. Imports over the past year from Saudi Arabia, Angola and Russia -- China's largest suppliers in 2012 -- shrank as an overall share of total shipments. Last year
their crude made up 42% of China's imports, compared with 44% in 2012. At the same time, growing imports from smaller and emerging oil-producing countries have helped make up for the shortfall. Imports from Iraq rose roughly 50% in 2013, ranking it behind Russia as China's fifth-largest source of foreign crude.

China's apparent oil demand -- net imports of refined oil products combined with the amount of crude processed by refineries -- also has been slowing. China's oil demand grew 3% in 2013, slowing from 10% growth in 2010, according to the International Energy Agency, the developed world's energy watchdog.

The release of Tuesday's data concludes a landmark year for Chinese oil companies abroad. In February, Cnooc Ltd., the listed unit of the country's primary offshore oil producer, closed on its $15.1 billion purchase of Canada's Nexen Inc. -- the largest foreign acquisition of a company by a Chinese firm. CNPC, the country's largest energy producer, said crude oil at its overseas projects last year surpassed 100 million metric tons for the first time.


**Nation's salary growth strong: Report**

China will see the strongest salary growth among all Asian countries in 2014, even though the nation's economic growth rate has been slowing down, a report from global human resources firm Hays has said. According to the 2014 Hays Asia Salary Guide, which was released on Thursday and polled about 2,600 employers across the region, 67 percent of the surveyed Chinese employers said they will increase employees' salaries above 6 percent, compared with 66 percent last year. Only 29 percent of polled employers from other Asian countries and regions said there would be a salary increase above six percent in their organizations, with the rate remaining the same as in the previous year. About 9 percent of Chinese respondents said they will increase their employees' salaries by more than 10 percent in 2014, compared with 12 percent last year. Meanwhile, cost-control measures have lowered the ceiling for salary increases in many organizations across Asia, said Lance.

Along with offering competitive salaries to employees, there has also been a sharp increase in the number of organizations offering benefits in an attempt to boost employee-retention level across Asia. About 85 percent of the polled organizations now offer their staff benefits, up from 79 percent last year.

Hiring demand remains quite robust in Asia. About 71 percent of employers expect business activity to increase, while 43 percent expect their permanent staff levels to rise. "This means that candidates with in-demand skills and realistic salary expectations can be confident that this year will provide them with the opportunity to secure a challenging career move and a salary increase," said Lance. In the Chinese job market, pharmaceutical companies, especially R&D-oriented firms, companies providing financial technology services, manufacturing companies specializing in niche technologies such as avionics, as well as oil and gas companies focusing on niche skill sets, will have the highest demand for qualified candidates in the next 12 months as well as the highest possibility of offering a generous income increase, Lance added. Most major players in the biotech industry have relocated their global R&D centers to China. This has created huge demand for qualified talent with R&D background, said Hank Tu, senior manager at Hays China. People with market access expertise will also be in huge demand in the biotech industry, Tu added.

Source: Shi Jing in Shanghai: Nation's salary growth strong: Report, China Daily, 2014-01-10

**Premier calls for action to relieve poverty**

Premier Li Keqiang pledged greater efforts to break the intergeneration poverty curse, during a meeting on poverty alleviation with other senior officials over the weekend. It is time to adjust the strategy for poverty
reduction, Li said at the meeting, which took place on a train traveling from Xi'an to Zhen'an county in Shaanxi province. Li told the officials, including central bank governor Zhou Xiaochuan, that though China has lifted more than 600 million people out of poverty since the launch of reform and opening-up, chronic poverty remains in areas with harsh environmental conditions. He said the government should encourage urbanization, especially the development of small cities and towns, to relocate poor populations. He also urged local governments to guarantee equal access to public services to those who relocate.

Li also said during the weekend meeting that local governments will enjoy greater autonomy in utilizing funds and initiating measures tailored specifically to tackle the root of the poverty issue. However, it's urgent that the central government strengthens supervision on "life-saving" money reserved for the needy as a recent audit report revealed serious malpractice in the field. A total of 86 million yuan earmarked for poverty alleviation was used for other purposes in 19 counties from 2010 to 2012, according to a report released by the National Audit Office in late December. The auditor's random check also revealed that 17 counties made fraudulent applications and claims for 21.5 million yuan in poverty alleviation funds, Beijing Times reported. As of 2012, there were about 100 million rural residents living below the poverty line, with an annual per capita income of less than 2,300 yuan.

Source: He Dan in Beijing and Zhao Yinan in Zhen'an, Shaanxi: Premier calls for action to relieve poverty, China Daily, 2014-01-28

**China's provinces downgrade income growth targets**

Most of China's provincial regions have set lower targets for the growth of urban and rural incomes in 2014, in a sign of a more pragmatic outlook on the economic situation. Eighteen provinces, autonomous regions and municipalities out of 26 that have released government work reports for 2014 by Wednesday downgraded expectations regarding per capita disposable income of urbanites or net income of rural dwellers. China's western area made the biggest reduction. Sichuan and Gansu cut their growth targets by four percentage points, while Shaanxi, Inner Mongolia and Guangxi Zhuang did so by three percentage points. Many provincial-level regions put their residents income growth target below their economic growth rate expectation. Of the 18 provincial regions that have downgraded expectations, 15 also targeted more humble growth rates in gross domestic product (GDP). North China's Tianjin is aiming for a 2014 growth of 11 percent, 1.5 percentage points lower than the 2013 target.

However, weaker expectation will not necessarily lead to stagnation or lesser efforts to improve people's livelihood. With aims for a better-structured economy, provinces are taking actions that will benefit residents in real terms. The government of Shanxi province has raised its targets regarding living standards and technological innovation, such as newly added urban jobs and helping rural workers settle in cities. The National Bureau of Statistics (NBS) also said on its website that China will attach greater significance to the improvement of residents' income and reform of the income distribution system, promising people's income would keep abreast of the GDP increase.

Source: Xinhua: China's provinces downgrade income growth targets, 2014-01-24

**Restructuring tops local agenda**

In recent days, the world must have been keeping a close eye on China as the world's second-largest economy posted a 7.7 percent gross domestic product growth figure for 2013, the slowest in 14 years. Because Beijing is likely to maintain a moderate economic growth target this year, a rebalancing initiative will advance first from the central government, then outward to the provinces and other municipalities and regions. The 7.7 percent GDP growth last year equaled that in 2012, the slowest since 1999. Consumption contributed 50 percent of the GDP last year, while investment contributed 54.4 percent. The disparity is explained by the fact that net exports for goods and services were minus 4.4 percent, said Ma, who noted that last year, the tertiary sector, including retail sales and real estate as well as other services, exceeded the weighting of the secondary sector, including industry and the construction businesses, for the first time in three decades. As the global economy continues its recovery in 2014,
and domestic reforms are yet to be fully advanced, China's economy will grow about 7.8 percent this year. Contributions from consumption and exports will increase, while those from investment will decline, said Tang Jianwei, a senior macroeconomic analyst at the Bank of Communications Ltd.

Following the new leadership's avowed determination over reform, many provincial and municipal governments lowered this year's GDP growth targets and are focusing more on the implementation of economic restructuring. The key challenge for China's successful economic restructuring is whether leaders have the commitment to confront the trade-off between economic growth and reform. Meaningful reform must entail deleveraging or a slower growth rate. Should China encounter another external shock, it would be critically important not to repeat such policy mistakes as the stimulus package in 2008, he added.

Source: Li Jiabao and Sun Ruisheng: Restructuring tops local agenda, China Daily, 2014-01-29

Aging nation means challenges, opportunities

The fast expansion of China's elderly population will severely challenge the nation's economic restructuring process because of the decrease in its labor force and the lackluster coverage of its social security system, officials said. But the increase in the aging population also means great business opportunities for companies providing senior care services, because the world's second-largest economy is on track to expand domestic demand to maintain sustainable growth, experts added. "The country has stepped into an aging society while its economy and society are still developing. The aging challenge is complex, huge as well as urgent in view of the weak economic foundation. Compared with developed economies, China faces the double pressure of improving the lives of the huge senior population and maintain economic development," Gu Xiulian, former vice-chairwoman of the Standing Committee of the National People's Congress, told a forum in November.

At the end of 2001, people aged 60 or above accounted for 10.33 percent of the whole population, while those aged 65 or above made up 7 percent of the population. In November 2010, senior citizens accounted for 13.26 percent of the population, with 8.87 percent aged 65 or above. In 2025, the elderly population will account for more than 20 percent of the total with about 12 percent aged 65 or above. In 2050, people aged 65 or above will make up one-quarter of the total population.

China's elderly population will exceed 300 million in 2025 and 400 million in 2034, according to Minister of Civil Affairs Li Liguo. However, a total of 440,000 elderly services institutions in China only provided about 4.2 million beds by the end of 2012, according to the Ministry of Civil Affairs. China's per capita GDP, which reflects the well being of the population, was a little more than $1,000 in 2001, when the country started to get older, and a little more than $6,000 in 2012. Per capita GDP in developed economies ranged from $5,000 to $10,000 when they started to get older. China's labor force, aged from 15 to 59, decreased 3.45 million in 2012 from a year earlier, which was a "turning point".

Additionally, the aging process is very unbalanced in different regions as well as between rural and urban areas, Li Wei said. "The aging process is going from the well-developed eastern regions to the less-developed western regions. Shanghai entered the aging society as early as 1979, while the northwestern Ningxia Hui autonomous region started to enter the aging society in 2012," he said. "As a huge number of young workers moved into cities, aging is being much more felt in the rural areas than in urban areas. Meanwhile, strict family planning policies, accelerated industrialization and urbanization are also responsible for the country's reduced fertility rate, dwindling senior support services as well as the increase in the number of disabled elderly and elderly with no children around them," Li Wei said.

However, this trend suggests a historic opportunity for the senior services industry, which has great significance for the country to expand domestic demand, increase employment and develop new consumption hot spots, said Li Liguo, Minister of Civil Affairs. Faced with the severe challenge, China needs to build a multi-tier elderly support system, said Gu Shengzu, vice-chairman of the NPC Financial and Economic Committee. "We must boost the aging service industries, as pensions alone are insufficient for elderly support. The government provides
basic services with a support mechanism, while families play a fundamental role thanks to our traditional filial culture. Institutions and other businesses in the aging service industry should also play their roles," Gu said. "In addition to perfecting the system of aging services, it's important to encourage private capital to get into the business," he added.

Source: Li Jiabao: Aging nation means challenges, opportunities, China Daily, 2014-01-30

Better to give? Not if you're China's wealthiest

Chinese billionaires with personal assets of at least 10 million yuan ($1.65 million) were less generous in giving gifts last year, a Hurun study shows. The number of gifts they gave fell by 25 percent in 2013, and the average cost of the gifts also decreased, according to the 10th Chinese Luxury Consumer Survey released Thursday by the Hurun Research Institute, which follows the lifestyles of the richest people in China. The Chinese rich also seemed thriftier in terms of the luxury products they consumed, with overall spending on such items falling by 15 percent last year. A slowdown in Chinese economic growth, as well as the central government's anti-corruption initiatives, prompted the change.

But it also demonstrates the maturity of the Chinese luxury market, said Rupert Hoogewerf, founder and chief researcher of the Hurun Report. "The Chinese rich are no longer spending as lavishly as they did in previous years. They are becoming more rational and mature, and care more about their own styles. They are now starting to appreciate the culture and craftsmanship behind their purchases," he said. "This is a very important change, signaling the transition of the Chinese billionaires in the next decade," Hoogewerf said. Hoogewerf noted a paradox seen in the Chinese entrepreneurs who want to stay discreet on one hand but on the other are buying more Rolls-Royce automobiles and luxury watches than those in any other country.

Of the 393 high-net-worth individuals surveyed, 31 percent said they were "extremely confident" in the Chinese economy over the next two years, a level that rose from 25 percent in 2012, and the first rise seen in this statistic in five years. In addition, the proportion of those "not confident" in the economy fell from 10 percent in 2012 to 3.3 percent in 2013. Despite the rising confidence, super-rich emigration to other countries is growing. The percentage of those who have left China or who plan to do so rose from 60 percent in 2012 to 64 percent in 2013. The United States remains their destination of choice, though the proportion of individuals emigrating to Europe has increased.

Source: Shi Jing in Shanghai: Better to give? Not if you're China's wealthiest, China Daily, 2014-01-17

Big rise in Chinese overseas

The number of Chinese going abroad to work or study has doubled in two decades, from 4 million in 1990 to 9.3 million in 2013, according to the report by the Center for China and Globalization released on Wednesday. The number of foreign migrants arriving in China has also risen, but on a lesser scale, from 370,000 to 848,000 since 1990. The top four destinations for Chinese are the United States, Canada, Australia and New Zealand.

The work ethic and law-abiding reputation of Chinese people meant that countries were increasingly ready to offer them opportunities. Work opportunities are the driving force in attracting Chinese abroad, but education also plays a major role. Last year, China Merchants Bank and management consulting firm Bain & Company jointly published the China Private Wealth Report, showing that about 77 percent of all respondents said they would consider, or were planning, to live overseas for their children's education.

The center's report said that in 2012 Chinese students were granted 399,000 visas to study overseas, a 10-fold increase on 2000. The number of Chinese citizens going overseas purely for work rose by more than 13 percent
year-on-year in 2012. In 2012, a total of 850,000 Chinese workers, mostly in the manufacturing, construction and health sectors, went abroad to work, according to the Ministry of Human Resources and Social Security.

The general trend is set to continue, as many developed countries are facing labor shortages. The US is poised to triple the number of visas granted to technology specialists to 500,000 by 2018. Demand will also rise for those with basic skills, such as plumbers. The center's report said that more than half of employers in Australia and New Zealand had difficulty in recruiting in 2012, while in Japan more than 80 percent of bosses said they had been unable to fill a shortfall in skilled labor.

The center released statistics last year showing that the number of Chinese returning home, especially those with good educational backgrounds, has been increasing since 2004 and will surpass the number of those leaving the country within the next five years. Permanent residency was granted to 148,000 Chinese citizens in foreign countries in 2012. In China, 1,202 foreigners received permanent residency status in that year. Given that China has close to 1.4 billion people, those holding green cards represent a tiny percentage. The comparable figure in the US is about 5 percent. Qi Lixin, chairman of the Beijing Entry and Exit Service Association, said: "The big gap between the two indicates that China should be more open to the world. The immigration law in China is not that friendly to foreigners." Under the law, at least four kinds of green card are available in China: For those who have invested at least $500,000 in the country; technical personnel, such as deputy managers and associate professors; people with special skills, or those "needed by the State"; and for spouses, provided they have been married for five years or more and have lived in China for at least nine months each year. For foreign students in China, obtaining a Chinese work visa directly after graduating is quite complicated. Foreign students in China have to return home to change a study visa into a work visa, involving a significant amount of time and paperwork.

Source: YANG WANLI: Big rise in Chinese overseas, China Daily, 2014-01-22

The Labor Share Question in China

In the past two decades, China's economic growth has been increasingly dependent on investment. To maintain the growth of investment, China must sustain a fairly high rate of profit, and the fall in labor's share has been seen as a crucial factor to sustain profitability. Although the mainstream economists have widely admitted there is a downward trend for labor's share in China, they explain this trend with a story that has nothing to do with class struggle. Sectoral changes are not equivalent to economic modernization as a process of economic development. Sectoral changes involve the redistribution of labor power from agricultural to non-agricultural sectors and from industry to the service sector. During the period 1996-2003, the share of industry in total employment decreased from 23.5% to 21.6%. This is the only period in the reform era that witnessed the decrease of industry's employment share.

There is a new turning point for the Chinese working class. After the outbreak of the global capitalist crisis, labor's share in China began to recover. Along with this fact, one can also observe that the nominal wage level has grown faster than nominal GDP since 2008, and in 2012 China's working-age population decreased for the first time in the reform era, which implies that the reserve army of labor will shrink in the near future. More importantly, there is a developing workers' struggle for a decent living wage that is sufficient to afford the cost of living in the urban areas. The new generation of migrant workers who were mostly born in the 1980s and '90s insists on living in the urban areas. This has led to struggles for higher wages. Workers' struggle for a larger share of the national income will eventually end the high-profit era for capitalists and thus open up a new era for the Chinese economy.


The Property Report: China's Tech Sector Redraws the Map

China's high-tech companies have made their mark on the nation's economy. Now, with growing cash and investment at their disposal, they are beginning to have an impact on its skylines.
Sale prices of office units in Zhongguancun are catching up to Beijing. Five years ago, Zhongguancun offices sold for 16,800 yuan per square meter, only about two-thirds of the then-city average of about 27,100 yuan per square meter, said Colliers. Now offices are sold at 43,400 yuan per square meter, or three-quarters of the 57,600 yuan-per-square-meter average in the city. Vacancies in Zhongguancun are below 2% for office space, compared with the 3% average in Beijing, according to real-estate investment company Jones Lang LaSalle. As a result, many of Beijing's largest tech companies are looking further north, where land prices and rents are cheaper.

Another budding tech hub is Shanghai, where property developer Shui On Land in 2005 started work on a large-scale, commercial and residential project in Yangpu district specifically for technology companies and startups. "One stretch called Daxue Lu, or University Avenue, looks similar to Westwood village near UCLA," said Yu Sern Hong, China regional manager at Hollywood-based architecture firm 5+design, referring to the University of California, Los Angeles. The architecture firm doesn't have a role in the project. "It definitely has a vibe that appeals to young professionals." Shui On Land has a tiered office-leasing structure in KIC -- it charges startups as little as 700 yuan a month for a table in shared space, while charging bigger firms four yuan per square meter a day ($22 per square foot a year). In contrast, offices in Shanghai's Lujiazui Financial District rent for as much as about 16 yuan per square meter a day.


A new opportunity for prosperity

Urbanization is definitely the buzzword of the year. Premier Li Keqiang has stressed on several occasions that urbanization will create China's biggest domestic demand. At the year-end Urbanization Work Conference chaired by President Xi Jinping in mid-December last year, a quality-based, human-centered and green urbanization target was also highlighted. From a policy perspective, this newspaper has reported extensively throughout the whole year on the topic. Institutional barriers for better urbanization such as the hukou (household registration) system, rural land regime and local government fiscal power restraints have been analyzed carefully. Today, however, we would like to focus more on the grass-roots level, of how the grand strategy affects people's everyday lives and how enormous business potential will be created. Our onsite studies showed that the impact is real and all-encompassing.

Giving migrant workers equal access to education, healthcare and social security in cities could unleash their demand for goods as they feel safer spending. But these rights should also be their inherent rights. Equal social entitlement is not only an economic issue, but also a social issue. Cities owe them because for too long, they contributed greatly to the city's prosperity but have seldom enjoyed the prosperity created by them. Now, it is time to pay the historical debt and deliver a more solid base for China's economy as well.

As elsewhere in the world, huge populations in poor countries, as China once was, is always a heavy burden. But once the country gets rich, the previous "burden" turns out to be a blessing, when rich people spend. The story in China is even more exciting because it has the largest population in the world, and it is urbanizing fast. Even as the past decade has witnessed the great leap forward in

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A new opportunity for prosperity
China's urbanization process, nearly a half of the population is still in the countryside. Foreign consumer brands have long since identified the importance of the Chinese market, as demand growth in their home markets slumped. They realized as more rural people moved to the cities, aspiring for a bourgeois lifestyle, the Chinese market could be a lifeblood for their business success, even for their survival in the coming decade. But most foreign and domestic high-end brands have tapped only into first- and some second-tier Chinese cities. A vast number of cities such as Nanning are still largely untapped. There is, despite the perceived low purchasing power, a more important reason facing potential buyers of products: a very limited option of things to purchase. The prosperity of copycat brands has demonstrated opportunities exist. Foreign brands that are able to deliver quality products and unique experiences can gain a strong position.


China's urban fixed-asset investment growth cools in 2013

The annual growth of China's urban fixed-asset investment cooled to 19.6 percent in 2013, the National Bureau of Statistics (NBS) announced on Monday. Urban fixed-asset investment expanded to 43.65 trillion yuan ($7.19 trillion) at the end of 2013, bureau data showed. The growth rate was 0.3 percentage point lower than that of the first 11 months of last year and 1.1 percentage points lower than that of 2012, according to the NBS. In 2013, fixed-asset investment from the private sector, which accounted for 63 percent of total fixed-asset investment, registered a faster growth rate, at 23.1 percent, than the total. The growth of private investment also cooled in 2013, by 1.3 percentage points from 2012, and its share in total fixed-asset investment went down by 1.8 percentage points, the data showed. The data also showed that fixed-asset investment by foreign businesses increased by 4.5 percent year on year in 2013, down from 4.7 percent for the first 11 months of last year.

Investment in the primary industry hit 924.1 billion yuan, up 32.5 percent from 2012, while investment in the secondary industry amounted to 18.48 trillion yuan, up 17.4 percent year on year. Investment in the tertiary industry expanded 21 percent year on year to 24.25 trillion yuan. Investment in China's western regions grew by 23 percent year on year, followed by 22.8 percent in the central areas and 17.9 percent in the east.

Source: Xinhua: China's urban fixed-asset investment growth cools in 2013, 2014-01-20

China's retail sales up 13.1% in 2013

China's total retail sales in 2013 increased 13.1 percent year-on-year to 23.44 trillion yuan ($3.87 trillion), the National Bureau of Statistics said on Monday. December's sales grew 13.6 percent from a year earlier, according to the bureau. In 2013, the retail sales of consumer goods in cities gained 12.9 percent from the previous year, to 20.25 trillion yuan, and in rural areas, they went up 14.6 percent, to 3.19 trillion yuan, the bureau said. In terms of consumption pattern, revenue for the catering industry in 2013 reached 2.54 trillion yuan, up 9 percent year-on-year; retail sales of commodities went up 13.6 percent year-on-year, to 20.9 trillion yuan.

Source: Li Jiabao: China's retail sales up 13.1% in 2013, China Daily, 2014-01-20
China allows more private capital in telecoms

China's Industry and Information Technology Ministry (MIIT) on Wednesday granted a second batch of licenses to eight private enterprises for resale of certain mobile services. The move enables the firms, including e-commerce retail giants Gome and Suning, to partner and compete with backbone operators through the resale of mobile services, further opening the largely monopolized sector. The certified firms have to improve their pricing and customer services before starting resales, said Zhang Feng, chief engineer of MIIT. To gain the licenses, private firms must sign a cooperation agreement with one of the three backbone operators -- China Mobile, China Unicom and China Telecom, before filing an application with the MIIT. The ministry granted the first batch of licenses to 11 private firms in late December last year. As the pilot scheme moves on, it will grant more licenses to qualified private businesses. Applications will close in July. The pilot scheme focuses on protecting consumers' rights and raises detailed requirements for applicants in their payment and exit policy, and their ability of offer long-term high-quality services, Zhang added. "This will help competition and innovation while offering more choices and better service to consumers," Zhang said. The MIIT in early December issued 4G licenses to the three backbone operators, a new era in China's high-speed mobile network.

Source: Xinhua: China allows more private capital in telecoms, 2014-01-30

Singapore's Temasek to be 'model' for SOE reform

China will learn from Singapore's Temasek Holdings Pte Ltd, using the government investment corporation as a model for the reform of asset management, sources at the State-owned Assets Supervision and Administration Commission told the China Securities Journal. Starting this year, SASAC will establish three types of State-owned asset management entities: industrial investment corporations, investment holding companies and asset operating companies.

Many State-owned enterprises on the Chinese mainland are interested in becoming industrial investment companies. SASAC is drawing up the conditions as to industrial sectors, management and scale to select qualified SOEs. The new investment companies may be formed through the transformation of one SOE or the reorganization of several SOEs. China Resources (Holdings) Co Ltd, State Development and Investment Corp and China POLY Group Corp are the three likeliest enterprises to become investment holding companies under the pilot reform.

There's no plan to try out State-owned asset operating companies soon, although the nation may set up new "capital operating firms" whose shareholding rights will mainly come from the 40-plus listed SOEs, according to the newspaper. The investment companies will be in charge of investment, financing and construction, while "capital operating firms" will mainly manage the SOEs' stock rights and not run industries directly. The investment and operating models are similar to those of Temasek, which manages a net portfolio of $173 billion, mainly in Asia. "There are many models of sovereign wealth fund management in the world. Singapore's Temasek has proven to be a more reliable and efficient one than the others, and it fits China's needs better," said Chen Fengying, an economic researcher at the China Institutes of Contemporary International Relations in Beijing. However, Chen added: "China's State-owned assets are much larger than those of Singapore. Although it is impossible to copy Temasek directly in China, the reform is meaningful for China to try new models of State-owned asset management. SASAC has proven to be lagging behind the needs of the times and the market."

Source: Li Yang: Singapore's Temasek to be 'model' for SOE reform, China Daily, 2014-01-28

China's December PPI down 1.4%

China's producer price index (PPI) fell 1.4 percent year on year in December, data from the National Bureau of Statistics (NBS) showed on Thursday. PPI, which measures inflation at the wholesale level, declined for 22 consecutive
months year-on-year in December, but it was unchanged from that in November. Annualized PPI for 2013 fell 1.9 percent year on year, the NBS data showed. This is compared to a 1.7-percent drop in 2012. Data released on Thursday by the bureau also showed a 2.6-percent inflation in 2013, and a 2.5-percent inflation in December.

Source: Xinhua: China's December PPI down 1.4%, 2014-01-09

**China an example of stability leading to industrial development**

Stability is vital for industrialization, economic development and prosperity, United Nations Industrial Development Organization (UNIDO) Director General Li Yong said in Vienna on Monday. He made the statements as part of UNIDO's 2013 report at the National Bank of Austria (OeNB), and made particular reference to his home country of China, where GDP growth has risen sharply over the past 40 years. He said the Chinese government has contributed to stability with its economic policy, and combined with cooperation with international organizations and foreign direct investment, China's economy has been propelled forward. That areas of industry had moved from China to other Asian countries such as Bangladesh and Cambodia were good things, he added, and fell in line with the 2013 report, which mentions that all countries should strive for production with higher complexity and value-added in the course of industrialization. OeNB governor Ewald Nowotny said industry contributes significantly to the growth of countries, and that the most recent economic crisis showed countries with less industrialization fared worse than those with more such as Austria and Germany.

Source: Xinhua: China an example of stability leading to industrial development, 2014-01-21

**NDRC plans industrial data warning system**

China is mulling an early warning system for industrial information to report possible overcapacity, in a bid to tackle the aftermath of overheated economy. The top economic planning body, the National Development and Reform Commission, said on Wednesday that it is building an early warning system, which will collect industrial information and issue warnings of potential overcapacity based on analysis of the data. Chen Bin, an official from the commission, said the information platform would also exchange data with the Ministry of Land and Resources, the Ministry of Environmental Protection and the China Banking Regulatory Commission, to improve the accuracy of data analysis. Overcapacity is listed as one of the major obstacles for China to maintain sustainable growth in 2014. Chen said he is confident of partially solving the problem in 2014 as "many local governments have realized its downside and are working on it with us".

Source: Zhao Yinan: NDRC plans industrial data warning system, China Daily, 2014-01-22

**Manufacturing PMI expected to hit 6-month low**

The manufacturing Purchasing Managers Index is expected to retreat to 49.6 in January from 50.5 in December, in a six-month low, the British bank HSBC reported on Thursday. A PMI sub-index to show the output situation slightly slipped to a three-month low of 51.3 in January, compared with 51.4 in December. Qu Hongbin, chief economist in China and the co-head of Asian Economic Research at HSBC, said the marginal contraction of January's preliminary HSBC PMI figure was mainly dragged down by cooling domestic demand conditions. "This implies softening growth momentum for manufacturing sectors, which has already weighed on employment growth," he said.

Qu suggested the policy tilt towards supporting growth to avoid repeating growth deceleration seen in the first half of 2013 amid relatively moderate inflation.

Source: Chen Jia: Manufacturing PMI expected to hit 6-month low, China Daily, 2014-01-23

**China's Industrial Economy Evolves into an Era of Steady Progress: Prospects and Challenges**

China's industrial economy's growth has steadily evolved into a period of slowdown but the development momentum of its industrialization and urbanization requires and supports a relatively high rate of growth of the
industry. Rapid growth has transformed into an era of "steady progress". That heralds great changes in the momentum of growth, the nature of institutional systems, and policy concepts of the industrial economy. The character of industry and the achievement of healthy development are the essence of industrial advancement in the era. "Steady progress" requires a stabilization of attitude, policy and expectation. "Progress" calls for better quality of growth, equilibrium and environmental performance. Above all, advancing reforms is fundamental to achieving these new objectives of the "steady progress". As market is potentially powerful while government's function is limited, only moderate, prudent and cautious government regulation will provide the reliable policy assurances necessary to set China's economy firmly on the track of steady progress and sustainable growth.

China's industrial development and industrialization have entered a stage of steady progress, shifting gears from exuberant high growth rates to a healthier and more sustainable path of growth. Questions on how to define and achieve "steady progress" require an indepth analysis. Following the thinking of a market-based economy, economic systems are organic and whose vitality derives from the proactive behaviors and unremitting innovation of numerous spontaneous micro-level economic entities. No social planning center has the ability to effectively process information in an effective and centralized manner to decide the correct options and behavioral pattern of each individual micro-level economic entity. Thus, economic development can only be a process of growth and system evolution following its own intrinsic laws. Therefore, excessive intervention that may cause a deviation from the normal track should be avoided. From a long-term perspective, "steady progress" is the most appropriate option for China's industrial development and is consistent with the laws of a market economy.


**Currency tax under consideration: SAFE**

China's top foreign exchange regulator vowed on Friday to consider new measures, including a transaction tax, to curb currency speculation, after hot money inflows intensified in 2013. Yi Gang, head of the State Administration of Foreign Exchange, made the comments in an article in the Communist Party journal Qiushi. Yi wrote that a Tobin tax, a tax on all spot foreign currency transactions that's named after Nobel economist James Tobin, should be "studied in depth". It's the first time that a Chinese regulator has commented publicly on the tax, which was first suggested by Tobin in 1972. In 2011, the European Commission proposed to introduce a financial transaction tax within the European Union by 2014. The tax would affect transactions among financial institutions, with a charge of 0.1 percent on the exchange of shares and bonds and 0.01 percent on derivative contracts.

Low rates in the United States have sent increasing amounts of hot money, or speculative funds, into emerging markets including China in search of higher returns. Last month, China reported its widest trade surplus in almost five years. The surplus rose to $33.8 billion in November from $31.1 billion the month before.

In its 60-point blueprint in November guiding China's reforms over the next decade, Beijing promised the liberalization will be completed by 2020.

Source: GAO CHANGXIN in Shanghai: Currency tax under consideration: SAFE, China Daily, 2014-01-04

**Zhoushan port takes key step to free trade zone**

The Zhoushan Port Comprehensive Bonded Zone announced on Wednesday that it started official operations of its first-phase project, the first step to becoming a free trade zone. Located in Zhejiang province, the Zhoushan Port Comprehensive Bonded Zone covers an area of 2.55 square kilometers on the Zhoushan islands. Some 110 companies have been registered in the bonded zone and another 20 are undergoing registration process. The combined investments of projects running in the zone will reach some 31 billion yuan ($5.12 billion), said Bei Luguo, director of the bonded zone authorities. The bonded zone aspires to become a hub for maritime equipment manufacturing, biological and electronic industries, warehousing, shipping, financial and exhibition services, according to the official plan for the zone. The State Council granted approval for the zone on Sep 29, 2012.
Zhoushan has been applying for a pilot program to set up a cross-border e-commerce platform, department of communication of the city's government said.

Source: WU YIYAO in Shanghai: Zhoushan port takes key step to free trade zone, China Daily, 2014-01-09

**China reports departure of foreign currency chief**

Mr. [Zhu Changhong] joined SAFE in 2009 after working as a hedge fund manager at the Pacific Investment Management Company, the huge asset management company known as Pimco. A native of China, Mr. Zhu studied physics at the University of Chicago. In 1999, he joined Pimco as a bond trader and hedge fund manager under Pimco's founder and co-chief investment officer, William H. Gross. Last July, Mr. Zhu was the subject of a flattering profile in The Wall Street Journal, which described him as a low-key but highly respected fund manager who was helping SAFE diversify its holdings away from being overly reliant on United States government bonds and bills, which offer safe but low returns. An American-trained fund manager who returned to China to help invest the world's largest foreign exchange reserves has left his government position, the Chinese state-run news media reported on Tuesday. Using the SAFE Investment Company, which is registered in Hong Kong, the agency has set up a fund worth hundreds of billions of dollars to invest in stocks and to take direct stakes in foreign companies. The agency, analysts say, has channeled money toward international private equity funds and American corporate pension funds.


**Strong China-US trade and investment links**

As the Chinese and US economies are increasingly intertwined, some remarkable highlights have emerged in economic ties between the world's top two economies, experts said. China's imports from the US outpaced its exports to the country and Chinese investment growth in the US outran US investment growth in China. The renminbi is becoming more internationalized and not forced to appreciate, said Zhou Shijian, a senior researcher at the Center for US-China Relations at Tsinghua University. At November's Third Plenum, China pledged to reduce the government's role in the economy, free up interest rates and let markets play a decisive role.

In 2012, the US was China's second-largest trade partner and largest export market. Bilateral trade rose 8.5 percent year-on-year to $484.7 billion, about 12.5 percent of China's overall trade, according to the General Administration of Customs. China's exports expanded 8.4 percent to $351.8 billion and its imports grew 8.8 percent to $132.9 billion. The first 11 months of this year saw China-US trade increase 7.6 percent to $472.1 billion. Chinese exports rose 4.9 percent to $335.1 billion and imports were up 14.9 percent to $137 billion, according to figures from the customs agency.

China and the US held the 24th China-US Joint Commission on Commerce and Trade from Dec 19 to 20 in Beijing. Chinese Premier Li Keqiang called economic cooperation the ballast of China-US relations. He said both sides should tap the potential for further cooperation, respect each other's core interests and major concerns, properly handle differences and seek sound and steady growth in bilateral relations, according to Xinhua News Agency. Li said he expects the US to relax restrictions on high-tech exports to China while providing a good investment environment for Chinese businesses. US restrictions on high-tech exports to China were largely responsible for the trade imbalance between the two economies, experts said. China's non-financial outward direct investment in the US jumped by 232 percent year-on-year in the first 11 months, according to the Ministry of Commerce. In September, China's Shuanghui International took over US pork giant Smithfield Foods for $7.1 billion, the largest-ever Chinese acquisition of a US company. US non-financial direct investment in China rose 8.6 percent year-on-year to $3.16 billion in the January-November period, according to the ministry.

US Commerce Secretary Penny Pritzker said during the JCCT meeting that "clearly we are entering a moment of opportunity in the US-China relationship. We should seize this moment to take both short-term and long-term
steps that show we will pursue a balanced and ever-growing trade and investment relationship."
Source: Li Jiabao: Strong China-US trade and investment links, China Daily, 2014-01-02

Abe pledges Japanese training and aid to Africa: Leader seeks to close gap with China in courting resource-rich region

The trip, which ended Monday, was meant to showcase an effort by Mr. [Shinzo Abe] to expand Japan's presence in Africa, a region that could serve both as a source of minerals and energy for Japan's industrial economy and as a new market for Japanese goods. Mr. Abe has made Africa one of the centerpieces of a diplomatic push to complement his domestic growth-fostering policies, known as Abemomics, which aim to end Japan's long economic decline. Japan finds itself lagging far behind its rival China, which has already been investing heavily in Africa for a decade. As if to underscore that competition, China's foreign minister, Wang Yi, was also on a four-nation visit to the region at the same time as Mr. Abe's trip.

Japanese officials have said that while they cannot match the some $75 billion in development aid that China has poured into Africa since 2000, they do hope to close the gap in other ways. One is to use Japanese aid to train African engineers and technicians, in order to differentiate Japanese efforts from Chinese projects that have been criticized for employing mainly Chinese workers while offering few jobs of any sort to Africans.


China, US 'pragmatic about pact'

China and the United States are bracing for mounting challenges before completing their bilateral investment treaty, although the two sides reportedly took a pragmatic view toward the pact during their recent two-day closed-door meeting. The 11th Sino-US Round of Negotiations for the bilateral investment treaty ended Wednesday in Shanghai to figure out procedures for the future talks. "This round of negotiation is aimed at setting down the modalities, or the procedures and methods, for advancing the negotiations," said Wang Xinkui, president of the Shanghai WTO Affairs Consultation Center. But he warned that the real difficulties of the negotiations have yet to come, and the biggest challenge will lie in the schedules of concessions, or each side's specific commitments. "The next round of negotiations will not go very quickly or easily because the talks must proceed in accordance with China's reforms at home," he added.

Commerce Minister Gao Hucheng said negotiating the investment pact "will happen every two months in China and the US by turns, and the pact, once established, will mark a milestone in China's reform of investment mechanisms", State broadcaster China Central Television reported on Wednesday. China is revising its laws on foreign direct investment to build a stable, transparent and predictable environment and to raise foreign investors' confidence in the world's second-largest economy, Wang Shouwen, China's assistant minister of commerce, said on Tuesday. The government set up the China (Shanghai) Pilot Free Trade Zone last year to streamline administrative procedures for foreign direct investment and to try out the approach of a negative list and equal treatment for foreign enterprises. It will unify laws and regulations on local and foreign investments and let the market play a decisive role in the allocation of resources. "The China-US bilateral investment pact carries more significance than China's accession into the World Trade Organization," said Wang Xinkui of the Shanghai WTO Center. "China is now the world's biggest goods trader and second-largest economy. The bilateral pact between the world's top two economies represents the orientation of global investment rules and covers issues such as intellectual property rights, labor and environmental protection. It will also shed light on the future investment pacts with other economies."

Source: Li Jiabao: China, US 'pragmatic about pact'. China Daily, 2014-01-16

World Economic Forum -- Analysis: Two-Track Future Imperils Global Growth --- 'Squeezed Middle'
The World Economic Forum's Global Risks Report, published ahead of this week's meeting in Davos, Switzerland, and built on a survey of world-wide experts, identifies severe income disparity as the world-wide risk most likely to manifest itself over the next decade. Members of the "squeezed middle" in developed countries are already making their voices heard, some throwing their weight behind antiestablishment and nationalist political movements that oppose globalization. Branko Milanovic, a former World Bank economist now with the City University of New York, says data from household surveys show that, from 1988 to 2008, real incomes of the poorest 50% in the U.S. grew 23%. Their counterparts in the bottom 50% in Germany and Japan fared worse, the poorest Japanese seeing their real incomes fall by 2% in real terms. Meanwhile, incomes of the top 1% of Americans grew 113%, a figure that other studies suggest may be an underestimate. "National inequalities, almost everywhere except Latin America, have gone up," Mr. Milanovic says.

Globally though, the new working and middle classes of emerging economies such as China, India and Brazil have emerged as big beneficiaries of the past 20 years. The biggest losers are the world's poorest 5%, many in Africa. International bodies such as the Organization for Economic Cooperation and Development argue that more unequal income and wealth distributions erode social cohesion and increase the scope for internal conflict.

The reasons for rising inequality are several-fold. Globalization delivers a financial hit to the unskilled, whose labor comes in direct competition with lower-paid workers in developing economies. Highly skilled labor tends to be the major beneficiary of technological advances. The rise of the financial sector, where top bankers have been able to cream off huge rewards, appears to be another factor. But perhaps the most influential is the growing importance of access to capital. A new book from Mr. Piketty, "Capital in the 21st Century," makes the case that historically, the return on capital has exceeded economic growth. It follows that people who have access to capital will see their incomes increase faster than people whose incomes depend on the growth of the economy -- the average working Joe. Income and wealth will therefore over time become more concentrated.


World News -- China's World: Two Asia Giants, Two Divergent Paths

The regional order is being challenged as both Japan and China find themselves in periods of strength, an entirely new phenomenon that is likely to play out in unpredictable ways over many decades. Until the second half of the 19th century, China dominated Asia. Then Japan successfully modernized, and China began a slow collapse. The switch in relative strength culminated in tragic form when Japan invaded its much larger neighbor in the 1930s; eventually one million Japanese troops swept through China in a devastating occupation.

China is again on the rise, and now its top leader, Xi Jinping, is imbued with a mission to reclaim his country's pre-eminence and redeem its wartime humiliation. A resurgent China, meanwhile, has goaded Japanese Prime Minister Shinzo Abe to shake his country out of a two-decade-long slump. Both leaders are newly installed; yet they are each already more powerful domestically than any of their recent predecessors. And both are pressing ambitious economic reform agendas.

In theory, a simultaneous flowering of these two economies should be a benefit for each other -- and, therefore, the whole region. They are, after all, immensely complementary: Japan has formidable industrial organization, technological mastery and financial depth; China is a fount of lower-end manufactures and agricultural produce. The reality, though, is that politics are driving them apart. Spurring the economic ambitions of both Mr. Xi and Mr. Abe is a nationalism that's rooted in their brutally contested recent past. In Tokyo, that dynamic was illustrated in two starkly contrasting ceremonies that took place at the end of last year. On Dec. 30, Mr. Abe celebrated a 57% surge in the Tokyo Stock Exchange over the year. Days earlier, he visited Yasukuni Shrine, where 14 Class-A war criminals are enshrined. The Yasukuni visit triggered fury in China, which took it as further evidence that Japan is
unrepentant over the war.

What happens next? The future will be shaped in part by the success of economic reforms in both countries. Mr. Abe's plan is filled with peril. In trying to lift growth, he has so far delivered mainly currency devaluation and fiscal spending. This has been aided by hyperaggressive monetary easing and the worry is that the push to lift inflation will add to the burden of financing Japan's already staggeringly high public debt. Mr. Xi is moving in the opposite direction. His goal is to slow Chinese growth rates in an orderly way by tempering investment and drawing down debt, putting the economy on a more sustainable path driven by consumption. One risk is that the air will come out of debt and real-estate bubbles too quickly, stalling the country's advance.

One difference now, says Ken Courtis, the Tokyo-based former vice chairman of Goldman Sachs Asia, is that Japanese company executives are growing increasingly exasperated with their politicians. "In private they are saying: 'I wish we could sit down with the Chinese and see how we can do business,'" he says.

**Even as Wages Rise, China Exports Grow**: [Business/Financial Desk]

Cheng Chunmeng, the general manager of a manufacturer of colorful children's chairs in east-central China, gave his workers a 30 percent raise last year to keep them from leaving. His labor costs are rising even faster in dollar terms, as the Chinese currency slowly climbs against the United States dollar. Yet Mr. Cheng, like many Chinese exporters, enjoys growing sales to the United States. "I saw a remarkable increase in orders from the United States starting in March, and getting better and better since then," Mr. Cheng said. "I feel 2014 will be an even better year."

China announced on Friday morning its largest annual trade surplus in dollar terms since 2008, as the surplus widened another 12.8 percent compared with 2012, reaching $259.75 billion. China has kept its export machine running even while wages rise. Blue-collar pay has soared between fivefold and ninefold in dollar terms in the last decade, wrecking China's reputation as a low-wage place for export-oriented manufacturing. Rocketing wages and benefits reflect an acute shortage of manufacturing labor, as a younger generation goes to college instead of heading for factories and as rural China has mostly run out of young adults to send to the cities.

China's exports, while growing more slowly than a few years ago, are still far from stalling despite the disappearance of its advantage in labor costs. Chinese exporters say they have been able to keep prices low and retain overseas customers because factories are becoming more productive. Much of the manufacturing has stayed in China because the highly developed supply chains leading to and from the factories remain among the best in the world. Foreign investment in China has stagnated while surging in Southeast Asian rivals like Cambodia, Indonesia and Vietnam, setting off hand-wringing in Chinese media. But China still invests heavily in China. Domestic investment dwarfs foreign investment elsewhere in the region, leaving Chinese entrepreneurs and state-owned enterprises with more than enough cash to keep buying machinery.

A result of rising productivity and manufacturing overcapacity is that average prices for American imports from China have actually dropped 0.9 percent in the last year even as the renminbi has risen and Chinese wages have soared, according to data from the Bureau of Labor Statistics in Washington. That decline in prices has kept the pressure on Western competitors -- and kept Chinese exports buoyant.

**World News: Asia: Pakistan Seeks China Reactors**

Fixing Pakistan's electricity crisis is a top priority of Mr. [Nawaz Sharif]’s government, which was elected in May. The shortage of energy is a constraint on Mr. Sharif’s plans to boost growth and pull Pakistan out of its
downward spiral of violence and economic woes. Coal, hydro and nuclear energy plants are all planned to plug the shortfall. An international body called the Nuclear Suppliers Group, of which China is a member, is supposed to bar the export of nuclear technology or fuel to countries that have not signed the NPT. Pakistan possesses nuclear weapons and isn't a signatory. Moreover, the leading scientist behind the Pakistani nuclear program, A.Q. Khan, has been accused of involvement in spreading the country's nuclear know-how to countries such as North Korea and Libya. China is the only country willing to supply Pakistan with nuclear plants, and Pakistan is China's sole market for nuclear exports, providing an outlet for China's hopes of selling its nuclear technology more widely.


China's FDI inflow grows 5.25% in 2013

Foreign direct investment (FDI) in the Chinese mainland increased 5.25 percent year on year in 2013 to reach $117.59 billion, the Ministry of Commerce said Thursday. The growth came as a change from the annual 3.7 percent decline registered in 2012, when the country's economic slowdown worried global investors. In December alone, the country's FDI inflow rose 3.3 percent from a year earlier to $12.08 billion, the ministry's spokesman Shen Danyang said at a press conference. Shen said FDI in the country's service sector gained 14.15 percent in 2013 to reach $61.45 billion, or 52.3 percent of the total. FDI in the manufacturing sector dropped 6.78 percent to $45.56 billion. The ministry data showed FDI from the United States expanded 7.13 percent from one year earlier to $3.35 billion last year, while that from the European Union was up 18.07 percent to $7.21 billion. However, FDI from Japan fell 4.28 percent to $7.06 billion, while the Chinese mainland's investment in Japan's non-financial sector plunged 23.5 percent last year. The country's total investment in overseas non-financial sectors increased 16.8 percent year on year to $90.17 billion last year, the ministry said.

Source: Xinhua: China's FDI inflow grows 5.25% in 2013, 2014-01-16

China's foreign trade boosts overseas investment

Taking the crown from the United States as the world's largest commodity trading nation is inspiring news for China at the start of 2014. In the eyes of domestic and overseas observers, China's foreign trade hitting another record high proves it has been constantly opening up to the outside, which not only boosts its investment abroad, but brings about more dividends and opportunities for world development.

According to official figures disclosed on January 10 by the General Administration of Customs, China's exports and imports totalled 4.16 trillion U.S. dollars, and the trade surplus for 2013 reached 259.75 billion dollars, marking an increase of 12.8 percent year-on-year. This was another major milestone for China, after it became the world's No.1 exporter back in 2009. Behind the impressive figures, the structure and landscape of China's foreign trade are changing. Seeking to upgrade trade is an important step towards strengthening China's opening up effort.

A central economic working conference in mid-December last year laid out the agenda for foreign trade development in 2014. It emphasized the need to create comparative advantages and competitiveness in exports and to enlarge imports of equipment and technologies that facilitate domestic economic restructuring. Observers say steady growth of foreign trade provides strong support for China's robust increase in foreign investment, and pushes Chinese enterprises to move up the value chain in the global market.

The Ministry of Commerce statistics evidenced the trend. In the first 10 months of 2013, China's non-financial FDI (foreign direct investment) rose one fifth. For 2012, China's FDI increased 17.6 percent to a record 87.8 billion
dollars, making it the third biggest source of FDI following the U.S. and Japan. In the meantime, Chinese private enterprises were involved in a wave of overseas mergers and acquisitions last year in real estate, food and other services, including Fosun International's buyout of One Chase Manhattan Plaza, Shuanghui's acquisition of Smithfield Foods and Yashili's dairy investment in New Zealand. At the beginning of 2014, a report from Rhodium Group (RHG) again put "Chinese investment" in the limelight, claiming China's investment in the United States doubled in 2013 to 14 billion dollars, its highest level in history. According to the RHG report, Chinese corporations have now become a big employer of Americans. By the end of 2013, Chinese companies have created more than 70,000 full-time jobs in the United States, an eightfold increase from 2007. The continuously expanding investment, stimulated by active trade activity, will benefit countries that maintain close ties with China. And the world's major developed economies could also take a piece of the pie.

Source: Xinhua: China's foreign trade boosts overseas investment, 2014-01-16

**The changing face of Chinese ODI in the United States**

As Chinese investment in the United States is on the rise this year, a few new elements are worth noticing from the deals of 2013. New York-based research firm Rhodium Group released a new report noting three interesting observations about Chinese investment in the US last year. More private firms invested; more local jobs were created; and politics was no longer the common denominator of deals that failed. Overall, Chinese investment in the US doubled last year, driven by large-scale acquisitions in food, energy and real estate, according to Rhodium. Among them private firms started to take off in investment — accounting for more than 80 percent of transactions and more than 70 percent of total value. David Riedel, president of New York-based Riedel Research Group, said investment in these sectors will continue to grow this year. "These are all sectors that are important to China and where opportunities to learn best practices and benefit from experience in the US will be valued," noted Riedel. The pickup by private firms in comparison with State-owned enterprises, according to Riedel, reflected the commitment of the Chinese government's focus on development driven by the private sector. "This is a healthy development from the perspective of the broader Chinese economy," said Riedel. "External investments by private companies are less politically sensitive than investments from State-owned companies, which is critical to investment success in the US," he added.

The Rhodium report said that most failures of investment deals were related to commercial factors rather than politics. The Committee on Foreign Investment in the US, or CFIUS, that reviews foreign investments in the US — sensitive deals in particular — has nixed past deals of Huawei Technologies, citing "national security" reasons. Chinese investors have gradually accepted that the CFIUS review is a process on sensitive deals, and the filings with the agency increase as investments increase. Last year, CFIUS approvals of China's auto parts maker Wanxiang buying the A123 Systems for $257 million and meat producer Shuanghui taking over Smithfield for $4.7 billion were good omens for Chinese investors. "It is a process issue. As long as you are transparent, you follow the procedure and follow the rules, and address the issue, then it should be OK," Wanxiang America president Ni Pin told China Daily after the deal was closed. Wanxiang American employs some 6,000 people, more than 90 percent of them local hires, out of the 70,000 jobs created by Chinese investments in the US. Riedel said liberalization of regulation to encourage external investment is likely a theme we will see continuing to grow this year and beyond. Among the total of 82 deals — 44 acquisitions and 38 greenfield projects — several big deals account for most of the value of the total investment. The top six transactions, sorted by Rhodium — Shuanghui-Smithfield, CNOOC-Nexen US, Sinpec-Mississippi Lime JV, Fosun-Chase Manhattan Plaza, General Motors Building (40 percent stake acquired by group led by Soho China CEO Zhang Xin), and Sinochem-Wolfcamp Shale — account for more than 80 percent of total combined value. Investment from last year also marked a noticeable increase in the real estate market. In California, the Chinese are the third-largest foreign buyers of real estate, after Mexicans and Filipinos, according to Realtor.org. The Rhodium report said the outlook for Chinese investment will be positive this year because of the strong economic reforms set out by the Chinese government.
China's 2013 M&A value hits record high

The total value of mergers and acquisitions (M&A) in China reached a record high of 260 billion US dollars last year, a PricewaterhouseCoopers (PwC) report showed on Wednesday. Last year, there were 43 deals with a transaction value above one billion US dollars, with this number far exceeding the 30 cases seen a year earlier, the report said. It noted that M&As among China's state-owned enterprises were mostly concentrated in energy, resources and industrial areas, while investments by privately owned enterprises were more diversified. "We forecast the strong momentum can be sustained, supported by China's accelerating market reforms... government policy support, as well as a gradually recovering capital market," said PwC partner Hu Lan.


China calls on Motorola Mobility: Lenovo to purchase cellphone pioneer; Chicago to get HQ

Motorola Mobility, the Libertyville-based cellphone-maker with a longtime Chicago pedigree, will have Chinese ownership under a deal announced Wednesday. Google, which owns Motorola Mobility, said it will sell the smartphone business for $2.91 billion to Lenovo, giving one of China's most prominent technology companies a broader foothold in the United States.

Motorola -- which invented the commercial cellular phone -- was the industry leader and innovator as recently as a decade ago, but over time the company fell behind more nimble competitors such as Apple. The sale to Lenovo is another reminder of that lost promise, just as it reflects the rising ambition and wealth of Chinese corporations. In the Motorola deal, Lenovo will get the Motorola brand and products, including the Moto X and Moto G, and it will gain access to the company's patents. Lenovo, which ranks fifth globally in handset sales, sees the Motorola deal as a way to make quick headway into U.S. and Latin American markets.

Source: Bergen, Kathy: China calls on Motorola Mobility: Lenovo to purchase cellphone pioneer; Chicago to get HQ, Chicago Tribune [Chicago, Ill] 30 Jan 2014: 1.