Exports Rise On American Demand
Price data offer fresh evidence of a recovery
Consumer spending rises in June
China Says Lending Put Growth Rate at 7.5 Percent
China’s H1 fixed asset investment up 17.3%
China’s H1 GDP grows 7.4%
Economists Question Beijing’s Stimulus Habit
China’s local GDP data points to recovery, rebalancing
Fiscal policy to play larger growth role
Timetable set for new fiscal system minister
China’s H1 fiscal revenue up 8.8%
Government putting the brakes on car spending
China’s Rising Risks: Chinese Investors Stock Up On Bonds
China to free up interest rates within two years
China to accelerate development of insurance sector
China exempts new-energy cars from purchase tax
Wages buoy consumer confidence
Official calls for improving commercial credibility
China to attract private investment in railway fund
Alibaba Set To Start On Course For Debut
Regulator streamlines M&A process
New FTZ rules to trigger retail competition
Beijing is starting to curb investment-led growth. It won’t be painless.
Shanghai to benefit from new bank’s HQ
Premier Li stresses quality growth, innovation
The competitiveness of China’s Leading Regions: Benchmarking Their Knowledge-based Economies)
Cabinet unveils guideline to ensure fair competition
China’s power data point to positive signs, pressure
Slower economic growth results in less air pollution
Shanghai vows harsh punishment after food scandal
Germany offers to assist western China with urbanization
$100b Pearl River-Xiangjiang plan approved
Pearl River Delta loses charm with HK businesses
Reforming hukou will unify rights of migrants
Rebalancing seen in 10 years
State Council wants innovation-driven growth, tourism development
China’s H1 retail sales up 12.1%
Premier Li vows to lower hurdles for businessmen
China July HSBC flash PMI rise to 2-month high
More cities to relax housing restrictions
China names 6 SOEs for pilot reforms
S. Korean firms boom in China
Six EcoPartnerships named for 2014
BeijingTalks Yield Scott Progress—Washington Cheers Cooperation but Major
Divisions Over Security and Trade Are Left Unresolved
Timetable laid out for investment treaty talks
U.S.-China S&ED Produce BIT Timeline, Few Other Concrete Outcomes
FTA with China makes Iceland more attractive for foreign investments
China Indicts Pair Of Investigators
Chinese, Brazilian presidents vow to consolidate ties
Chinese, Venezuelan central banks ink co-op deal
China TV Takes On Lender in Rare Spat
U.S. Companies Step Up Business Done in Yuan
A Yuan Route Abroad Is Cut Off
Restrictions loosened in Shanghai trade zone
China, Germany sign trade pacts
China welcomes WTO ruling: MCC
China’s exports up 7.2% in June
Resilient exporters ride the waves as competitors falter
WTO sides with China on US trade tariff case
China eyes $500b annual trade with Latin America in 10 years
In China, Engineers Are Hard to Keep
Law Says China Update Of Shanghai FTZ List Contains No Major U.S. Benefits
S. Korean firms boom in China
U.S. companies feel a chill in China
Beijing promises foreign CEOs a better trade climate
China FDI Bares Grows as Economy Slows, June FDI Up Just 0.2% From a Year Earlier
AmCham China Launches Online Resource To Help Companies Do Business Better In China
China Raids Microsoft Offices; Security and Bundling Probe Follows U.S.-China Commercial and Policy Tensions(?)
Report: Outbound M&As set to pick up pace in coming months
China now exporting infrastructure investment to ASEAN
China’s FDI in US set for increase
World News: Exports Rise On American Demand

Chinese exports grew in June on the back of strengthening U.S. consumer demand, in a positive sign for China's factory sector and for the global economic outlook. The results came as U.S. officials raised concerns this week over China's controlled currency -- the yuan, or renminbi -- at a two-day meeting with Chinese officials in Beijing. Washington says China's currency policy provides an unfair advantage to Chinese exporters, a charge that Beijing denies.

Chinese exports expanded by 7.2% year-over-year in June, compared with the 7% increase in May, according to China's General Administration of Customs on Thursday. This was below the median forecast of 10% growth from a Wall Street Journal poll of 21 economists. The trade surplus was $31.6 billion in June, well below May's $35.92 billion, but still strong. Imports grew by 6% year-over-year in June compared with a 1.6% decline in May, beating the economists' median forecast of a 5.4% rise.


Price data offer fresh evidence of a recovery

Factory-gate prices fell in June at their slowest pace in more than two years and inflationary pressure eased further, giving new indications that economic growth is stabilizing in China. The Producer Price Index declined 1.1 percent from a year earlier, the National Bureau of Statistics said on Wednesday. The drop compared with a 1.4 percent decline in May and was the smallest since April 2012 and prompted some economists to comment that the key indicator could move out of negative territory by the end of the year. The PPI dipped 0.2 percent on a month-on-month basis. June was the 28th straight month of year-on-year decline amid tepid demand and persistent overcapacity. "The year-on-year decline rate has narrowed for three consecutive months and the PPI for some industrial sectors continued to rise on a month-on-month basis. This indicated positive change in the industrial domain," said Yu Qiumei, a senior analyst with the NBS.

China's inflationary pressure eased further in June as the Consumer Price Index rose 2.3 percent from a year earlier, compared with a 2.5 percent rise in May, according to the NBS. In the first six months of the year, average consumer inflation was 2.3 percent, way below the official ceiling of 3.5 percent. That means the government and the central bank will have considerable room to loosen policies further to bolster the economy if needed, without risking a spike in prices, analysts said. A recent poll by Bloomberg showed that most economists remained confident in the recovery of the Chinese economy. The proportion of respondents anticipating a recession in China over the next 12 months fell to 11 percent, the lowest level since March 2013. The historic low was set in January 2013 (at 9 percent), and it rose to 17 percent in March.

Source: ZHENG YANGPENG: Price data offer fresh evidence of a recovery, China Daily, 2014-07-10

Consumer spending rises in June

Chinese consumers spent more money on catering, entertainment and tourism in June, prompting a rise of 0.56 percentage point on Bankcard Consumption Confidence Index over the previous month, according to statistics released by China UnionPay and Xinhua News Agency on Wednesday. World Cup tournament has boosted the consumption of non-daily activities, such as eating out at high-end restaurants and recreation, the main contributors that helped lift the index, a quota that calculates the proportion of non-daily necessities among overall consumption. Meanwhile, with summer approaching, tourism industry posted solid growth. In June, travel-related credit card transactions rose 17.5 percent compared with May. Sales of plane and railway tickets increased 13.06 percent and
44.36 percent month-on-month respectively. The index is expected to keep rising in the second half of the year as domestic economy continues to stabilize and recover. Moreover, the loosening of loan-to-deposit ratio and China's shift to a consumer-driven economy are likely to push forward the rise of the index.

Source: Zhu Wenqian: Consumer spending rises in June, China Daily, 2014-07-10

**China Says Lending Put Growth Rate at 7.5 Percent:** [Business/Financial Desk]

China announced on Wednesday morning that its economy grew 7.5 percent in the second quarter, marginally better than expected, as a wave of lending unleashed by the central bank helped local governments continue investment projects even as housing construction remained very weak. The National Bureau of Statistics in Beijing also released figures on Wednesday showing that industrial production and fixed-asset investment strengthened slightly more than expected in June while retail sales growth slowed slightly, as the heavy lending appears to have headed off or at least delayed a widely expected broader slowdown of the Chinese economy.

The People's Bank of China released on figures on Tuesday showing that bank lending jumped in June from a year earlier, and a category called total social financing, which includes many forms of so-called shadow banking, increased even faster. The central bank has encouraged commercial banks to direct more of these loans to small and medium-size enterprises, which have long struggled for credit. But many businesspeople in China say that the real beneficiaries of greater lending, as in the past, have been state-owned enterprises and local governments.


**China's H1 fixed asset investment up 17.3%**

China's fixed asset investment edged up 17.3 percent year on year in the first six months of 2014, the National Bureau of Statistics (NBS) said on Wednesday. The investment growth pace for the first half of this year was 0.1 percentage point up from the Jan-May period this year, though it was 0.3 percentage points lower than the same period last year, according to the NBS. In the first six months, total investment hit 21.28 trillion yuan ($3.43 trillion). Investment in the agricultural sector jumped 24.1 percent, up 3.3 percentage points from the first five months. Since last August, investment growth has been in constant decline amid a slowdown in the country's economic growth. After getting off to a weak start, China's economic growth quickened to 7.5 percent between April and June on an annual basis, up from the 7.4 percent pace in the first quarter, adding another sign of stabilization in the world's second-largest economy. However, downward pressure on economic growth still exists, with a cooling property sector weighing on the investment growth. The NBS data showed that property investment rose 14.1 percent year on year in the first six months to 4.2 trillion yuan, 0.6 percentage point down from the first five months and 2.7 percentage points down from the first quarter.

Source: Xinhua: China's H1 fixed asset investment up 17.3%, 2014-07-16

**China's H1 GDP grows 7.4%**

China's economy grew 7.4 percent year on year in the first half of 2014, the National Bureau of Statistics (NBS) announced on Wednesday. Growth in the second quarter stood at 7.5 percent, picking up from the 7.4 percent expansion in the first quarter. "The Chinese economy showed good momentum of stable and moderate growth in the first half," said NBS spokesman Sheng Laiyun at a press conference. Sheng highlighted a pickup in economic growth in the second quarter, encouraging job data and positive developments in structural adjustment. The
employment situation was stable with more than 7 million new jobs created in the first six months, he said. Sheng said economic structure continued to be optimized as growth of the tertiary sector outperformed the primary and secondary industries during this period. The added value of the tertiary industry accounted for 46.6 percent of GDP, 1.3 percentage points higher than the same period last year, NBS figures showed.

Meanwhile, domestic demand is playing a bigger role in driving growth, with consumption contributing to 52.4 percent of GDP in the first half, 0.2 percentage points higher than the same period last year, Sheng said. This was boosted by a rise in income, said the spokesman. The income gap between urban and rural households was further narrowed, with real growth of per capita cash income of rural households being 2.7 percentage points faster than the per capita disposable income of urban households during the six-month period. "However, we should keep in mind that the domestic and international economic environment is still complicated and the national economy still faces many challenges," he said. China will continue to deepen reform, promote innovation, adjust economic structure and transform development patterns to consolidate the momentum, Sheng said.

Source: Xinhua: China's H1 GDP grows 7.4%, 2014-07-16

World News: Economists Question Beijing's Stimulus Habit

A rebound in second-quarter growth is stabilizing China's economy for now but causing some economists to question whether the government's reliance on piecemeal stimulus measures is delaying needed reforms and piling up more bad debt. Economists said the momentum from recent targeted pro-growth policies is expected to peter out toward the end of 2014, leaving Beijing to confront anew a dilemma it faced just a few months back: How much of an economic slowdown is it willing to tolerate next year? By expanding credit and accelerating government spending -- the backbone of the targeted stimulus -- China arrested a deceleration in growth, economists said. Second-quarter growth increased slightly to 7.5% year on year, the National Bureau of Statistics reported Wednesday, compared with 7.4% in the first quarter.

The extent of the effort to shore up growth became clearer this week. Government spending -- galvanized by eight inspection teams Beijing sent to the provinces to enforce orders to spend -- rose 26% in June from a year earlier, according to the finance ministry. Data reported Tuesday showed total social financing, a broader measure of credit in the economy, growing in June by 40% over May levels. In line with that effort, value-added industrial output rose 9.2% year over year in June, accelerating from an 8.8% increase in May, while growth in fixed-asset investment in nonrural China ticked up to 17.3% year over year in the January-June period compared with 17.2% in the January-May period. A problem, some economists said, is that the money washing through the economy, while bolstering growth, may be adding to long-term problems, particularly a buildup of debt. Controls on how money is spent tend to weaken as funds pass from hand to hand, the economists said, increasing the risks that the money will end up going to property developers, steel mills and other sectors laden with overcapacity and high debt that planners hope to bypass.

Chinese leaders have begun cutting approvals needed to start small businesses and invest in projects such as airports or wind power. But some analysts said the reliance on investment for growth speaks more of old medicine, not change. More fundamental reforms to state enterprises and the financial system will likely erode growth. A challenge for the leadership and the economy is the real-estate market. The sector accounts for more than 20% of the economy when related industries such as steel and construction are included. But many cities are afflicted by oversupply, causing buyers to sit on the sidelines, and prices to fall.


China's local GDP data points to recovery, rebalancing

China's regional economies enjoyed a revival in growth in the second quarter, data from provincial governments showed, chiming with earlier figures that suggest a burst of government stimulus measures is
re-invigorating activity. Of the 30 regions and provinces that released their local gross domestic product (GDP) data, 23 reported first-half economic growth accelerated from the first quarter. About three-quarters posted growth that was higher than the national average of 7.4 percent in the first six months. Growth also diverged sharply between eastern and western China. The coastal and northeastern regions fared the worst, while activity was most buoyant in the central and western areas, where double-digit growth rates were concentrated. Analysts said this suggested China's bid to rebalance its economy is paying off.

From redefining job targets to shifting investment to inland areas and cutting obsolete capacity in energy-guzzling sectors in the north, China wants to overhaul the world's second-largest economy and encourage more sustainable and higher-quality growth.

In Hebei -- China's top steel producer -- for instance, GDP growth stayed sluggish in the first six months, even though activity picked up slightly to 5.8 percent compared with 4.2 percent in the first quarter. Hebei wants to slash total steel capacity by 60 million tons by 2017 and to shut more outdated steel mills this year to cut air pollution in northern China. Similarly in the northeastern Heilongjiang province, the only province that has not released its GDP data, a local statistician who declined to be identified said first-half GDP growth was likely to be the lowest in China at under 5 percent.

In contrast, economies in the west such as Chongqing, Guizhou and Qinghai all posted double-digit GDP growth between January and June, helped by policy support. Just last month, Premier Li Keqiang had vowed to sink more cash into the industries and infrastructure in western China. Meanwhile, the biggest export-oriented provinces of Guangdong and Zhejiang saw GDP growth slacken in the first-half of 2014 to between 7 percent and 7.5 percent. Cooling growth along China's eastern coast is in line with Beijing's goal of cutting its economic reliance on exports in favor of a more sustainable expansion in domestic consumption.

Source: Xinhua: China's local GDP data points to recovery, rebalancing, 2014-07-31

**Fiscal policy to play larger growth role**

Fiscal policy is expected to play a larger role in supporting second-half GDP growth, while the scope of "targeted" monetary easing may expand, Bank of China Ltd's research unit said in a report on Wednesday. The report, released by the Institute of International Finance, said that although growth in recent months has stabilized, downward pressure has persisted, so more supportive policies are needed. Fiscal policy could play a broader role, with larger expenditures and a wider deficit, the report said. More money should be spent on railway construction in inland regions, urban renovation, energy efficiency and urban infrastructure, which would translate into higher investment growth. The government would also further ease companies' tax burdens and allow more cities to make independent issues of municipal bonds, the report said. "The fiscal deficit was 2.2 percent in 2013. It could be higher this year, as long as it doesn't exceed 3 percent, an international warning level," said Zhou Jingtong, a senior researcher at the institute.

Fixed-asset investment growth in May did not deteriorate much despite slumping real estate investment growth, mainly because of accelerated infrastructure spending. Infrastructure investment in the first five months rose 25 percent year-on-year, 2.2 percentage points faster than in the first four months, according to the National Bureau of Statistics. On the monetary policy front, BOC forecast more "targeted easing" toward sectors that are regarded as "strategically emerging industries" such as renewable energy and alternative-fuel vehicles. The next cut in the reserve requirement ratio—the amount of money banks are required to set aside—could also be larger than the most recent trim. To spur lending to agriculture and small businesses, the central bank in early June cut the reserve requirement ratio by 0.5 percentage point for commercial banks that have extended a certain portion of their loans to agriculture and small businesses. The central bank last week also revised the way loan-to-deposit ratios are calculated to give banks more capacity to lend. BOC said the calculation could be further adjusted within certain sectors to encourage lending to "strategically emerging industries”.

The property sector is important to China's economy, but perhaps not as important as some might think. A
study by the Institute of International Finance under Bank of China Ltd noted that since 2009, the sector’s contribution to GDP has steadily declined. Since China privatized its urban property sector in 1998, its contribution to GDP has gone from 4.2 percent in 1999 to 16.4 percent in 2009. But the ratio has declined since 2010, when the central government took measures to cool the market and rein in soaring prices. Its contribution to GDP that year fell to 10.6 percent and in 2012 to 9.3 percent, but it rebounded in 2013 to 10.7 percent due to an extraordinary boom that year. The study predicted that China's property investment will rise by 15 percent this year, but the sector will drag down GDP growth by only 0.33 percentage point, a figure that shouldn't scare the public. Even in the gloomiest projection, showing property investment growth sinking to 10 percent, GDP would be dragged down by only 0.62 percentage point. But this scenario is unlikely to occur, the report said, because the government has ample capacity to cushion a slowdown—for example, by building more government-subsidized housing and rolling out more projects backed by budgeted funds.

Source: ZHENG YANGPENG: Fiscal policy to play larger growth role, China Daily, 2014-07-03

**Timetable set for new fiscal system: minister**

China has set a clear timetable to build a modern fiscal system that will help optimize resource allocation, unify market standards, and boost social justice, the country's finance minister has said. Major reform tasks concerning the fiscal and tax system will be completed by 2016, before a modern fiscal system will be built by 2020, Lou Jiwei said in an interview with Xinhua. In Lou's words, deepened fiscal and tax reforms will not be mere amendments to current policies; rather, they will involve systemic restructuring and institutional innovation. He said the years 2014 and 2015 will be vital in pushing forward the reforms.

The top priority will be increasing the transparency of government budgets. With the exception of confidential matters, information concerning government budgets and final accounting of revenues and expenditures by both the central and local governments will be made public, according to China's reform agenda. "The disclosure of such information reflects the government's openness, and is a necessity required by governance by the law and prevention of fiscal risks," Lou said. Improvements will be made to cover all channels of budgets, including public finance, operating budgets of state-owned assets and budgets of government funds, he vowed.

Meanwhile, the country is planning to lock in six tax categories, including value-added tax (VAT), consumption tax, resources tax, environmental protection tax, property tax and individual income tax as major reform targets. It will continue with a scheme to replace turnover tax with VAT in more sectors including services, construction, real estate and financial sectors, Lou said, with turnover tax expected to be eliminated by 2015. China has been pushing VAT reform by replacing turnover tax since the beginning of 2012 in a bid to push forward structural tax reduction and boost growth of service industries. The reform started with transportation and some modern service sectors, and expanded to railway transportation, postal services and the telecom industry.

Meanwhile, China is speeding up its resource tax reforms in the coal sector by levying tax based on sales value instead of output. Such a reform was introduced to crude oil and natural gas in Nov. 2011. Lou also said resource tax will expand to the ecological system, including rivers, forests, grasslands, sea coasts and lake shores. He added that a current administrative charge on pollution will be upgraded to an environmental protection tax, in order to boost environmental and ecological protection through taxation. According to the minister, the country will also accelerate legislation of a property tax. Currently, the property tax is being piloted in the cities of Shanghai and Chongqing.

Lou said that a recent meeting of the central leadership of the Communist Party of China (CPC) demonstrated its pledge to build a comprehensive, transparent and efficient fiscal and tax system. Priority will also be given to adjusting power and spending responsibilities between central and local governments in a rational manner, adjusting distribution of revenues between them while keeping the current division of financial resources stable, said a statement released after a meeting of the Political Bureau of the CPC Central Committee on June 30.

Source: Xinhua: Timetable set for new fiscal system: minister, 2014-07-7
China's H1 fiscal revenue up 8.8%

China's fiscal revenue grew by a modest 8.8 percent in the first half of 2014 while its expenditure surged upon accelerated spending on key projects, the Ministry of Finance (MOF) said on Monday. Fiscal revenue rose 8.8 percent year on year to 7.46 trillion yuan ($1.21 trillion) from January to June, with 3.43 trillion yuan collected by the central government, up 6.2 percent from a year ago. The 6.2 percent growth was slower than a budgeted increase of 7 percent set during the annual legislative meeting in March. In June alone, central government revenue stood at 547.7 billion yuan, up 5.8 percent year on year, while local government revenue amounted to 798.4 billion yuan, up 10.9 percent from the same period last year. June's total fiscal revenue increased 8.8 percent year on year to 1.35 trillion yuan, accelerating from a 7.2 percent rise in May, according to the ministry. It explained that revenue received by the central government last month continued a trend of slow growth due to a decline in value-added tax (VAT) and increasing tax rebates for exports. Revenue from the transfer of land use rights for state-owned land, a source of revenue for local governments other than taxation, rose 26.3 percent from a year ago to 2.11 trillion yuan in the first half, but logged a meager 7.3 percent growth in June, the ministry added.

However, fiscal expenditure maintained double-digit growth. In the first six months, total national fiscal spending expanded 15.8 percent from a year ago to 6.92 trillion yuan. For June alone, the figure surged 26.1 percent to 1.65 trillion yuan. Local governments spent 1.45 trillion yuan in June, drastically up 28.3 percent year on year, while the central government spent 201.7 billion yuan, up 12.3 percent. Spending on key projects in housing security, transportation, urban and rural development, and grain and oil reserves reached as high as 20 percent or more, the MOF said. The combination of a modest growth in fiscal revenue and fast fiscal spending posed a challenge for governments at various levels, especially as the country tries to push forward across-the-board reform amid downward pressures.

As part of the grand reform plan, China has vowed to build a comprehensive, transparent and efficient fiscal and tax system, pointing to fiscal revenue and spending of higher quality, as indicated in a statement released after a central leadership meeting in late June. One of the highlights of the reform is a program to replace business tax with VAT in some service sectors, which analysts said may reduce tax revenue to some degree in the short term. China aims to fulfill key tasks in the new round of fiscal and tax reforms by 2016, and establish a "modern fiscal system" by 2020.

Source: Xinhua: China's H1 fiscal revenue up 8.8%, 2014-07-14

Government putting the brakes on car spending

The central government has set a timetable for the reform of government spending on vehicles, aiming to scrap the supply of vehicles for regular government affairs. According to a guideline unveiled on Wednesday, central government departments are required to complete the vehicle reform by the end of this year, while the reform for local governments will be finished next year. Other public sector bodies, including State-owned enterprises and institutes, have to complete the reform within two to three years. According to the guideline, officials from central departments could receive monthly traffic subsidies of 1,300 yuan ($209), 800 yuan or 500 yuan depending on their ranking. The guideline also urged authorities to make proper arrangements for drivers or other staff that may be affected during the reform, and sell spare vehicles to avoid the loss of State-owned assets. Expenses for government vehicles, receptions and overseas trips, known as the "three public expenses", have raised concerns in recent years over the large amount of money spent on them. Lian Weiliang, deputy head of the National Development and Reform Commission, said that the principle of the reform is frugality. He said that 60 percent of the "three public expenses" are for government vehicles. About 4.2 billion yuan was spent last year on vehicles by 38 central government bodies and 389 affiliated institutions, the National Audit Office said last month. "About one-third of government vehicle use is directly related to public business, one-third is for officials' private use, while the other third is for the drivers," said the official, who declined to be identified.
China's Rising Risks: Chinese Investors Stock Up on Bonds

Many of the buyers are former stock investors who have lost money and confidence in the market in recent years. The benchmark Shanghai index has slumped since the global financial crisis, and trades at around a third of its 2007 peak. As worries grow over high-yield products offered by banks and trust companies, and returns fall on once-popular money-market funds sold by companies such as Alibaba Group Holding Ltd., retail investors with cash to spare are turning back to the safety of government bonds. On Thursday, the Finance Ministry sold about 40 billion yuan ($6.45 billion) of bonds, designed for individual savers that offer lucrative yields, the fifth of nine sets of sales planned for this year. The offerings are typically similar in size.

Today, there aren't any requirements to buy the bonds, and demand for them exceeds supply. This month, the five-year bond was sold at a 5.41% coupon, beating the 4.75% annual rate offered on the banking deposit rate over the same period, and the 4.01% annual yield on the regular government bond that professional investors trade. Meanwhile, other worries have surfaced, including the country's first corporate-bond default earlier this year. Concern has risen about the health of the country's financial system because of a rapid debt buildup. There also are signs of falling prices in the once-buoyant housing market, which had been a popular place to park money. Many are eager to lock in the high rates, worrying that as China opens up its capital markets, yields will fall toward developed-market rates. Yields on the five-year U.S. Treasury bond are at 1.6%.


China to free up interest rates within two years

China's central bank governor Zhou Xiaochuan reiterated on Thursday that China is likely to have fully liberalized interest rates within two years, but the timetable will depend on economic circumstances at home and abroad. "The timetable to liberalize interest rates will be mostly carried out according to conditions of the domestic economy and global economy, but we believe it could be realized within two years," Zhou told a press conference at the ongoing China-US Strategic and Economic Dialogue. In March, Zhou said at China's annual legislative session that the country is very likely to ease its grip on banks' deposit rate, the last and most important step of interest rate liberalization, in the coming one or two years. At Thursday's press conference, Zhou said the Chinese leadership has stressed "a sense of urgency in reform" and the People's Bank of China is preparing accordingly. After the interest rate is freed up, the central bank will have its policy rate play a guiding role in the market via mechanisms on the monetary market, said Zhou, adding that the bank is preparing two or three sets of such tools. China has taken incremental steps toward interest rate liberalization, including a central bank decision last July to scrap the floor limit for bank lending rates, and a guideline in December for piloting negotiable deposit certificates on the interbank market.

As for forex reform, Zhou said the central bank will "significantly cut intervention on the forex market" if targets for forex reform are realized step by step and when the right conditions are in place. The international forex market will see some abnormal fluctuations as major countries adjust their currency policies, said Zhou. As a result, China has to be discreet about the spillover effect, he noted. Data showed the Chinese currency, the yuan, had appreciated by more than 12 percent by January this year after the central bank deepened reforms to the yuan's exchange rate formation mechanism back in June 2010. However, the currency headed toward months of depreciation against the US dollar after the central parity rate of the yuan hit a new high against the dollar on Jan 13 at 6.095. Analysts have forecast that greater two-way fluctuations of the yuan may become a normal trend in the future.

Source: Xinhua: China to free up interest rates within two years, 2014-07-11
China to accelerate development of insurance sector

China on Wednesday vowed to improve insurance services to stimulate innovation and entrepreneurship. Faster development of the sector will optimize the economic structure and promote innovation in social governance, according to a statement released after a meeting of the State Council, China's cabinet. The insurance and social security systems will be integrated, making commercial insurance a major pillar of social security, the statement said. Competent insurance companies are encouraged to roll out commercial pension and health care plans, to invest in the old-age pension industry, participate in the integration of the health sector and develop new products. Insurance will be incorporated into the disaster and accident prevention and alleviation system. It will also reinforce industrial upgrades, support agriculture and insurance funds will be encouraged to invest in urbanization, infrastructure and residential renovations. The insurance sector should be a modern corporate system with new market entry and exit mechanisms, advanced practices and technology from abroad, able to export domestic insurance services.

Source: Xinhua: China to accelerate development of insurance sector, 2014-07-10

China exempts new-energy cars from purchase tax

The Chinese government announced Wednesday that new energy cars will be exempted from a 10 percent purchase tax starting from September in its bid to save energy and combat pollution. From Sept 1, 2014 to the end of 2017, buyers of qualified pure electric cars, plug-in hybrid electric cars and fuel cell cars will not have to pay vehicle purchase tax, according to a statement released after an executive meeting of the State Council, or the Cabinet. The statement urged related authorities to step up compiling and unveiling the catalog of vehicles that will be included in this plan.

Source: Xinhua: China exempts new-energy cars from purchase tax, 2014-07-10

Wages buoy consumer confidence

Nielsen index maintains high level in Q2 as inflation gauge declines. Chinese consumer confidence remained high in the second quarter, thanks to average wage increases and a reduced consumer price index, Nielsen said on Monday. The consulting firm said the confidence index stood at 111, marking the third consecutive quarter at this level and one point higher than a year earlier. HSBC Holdings Plc on Monday upgraded its forecast for the country's economic growth to 7.5 percent from 7.4 percent, saying recovery has been stronger than expected. The economic expansion in the second quarter "surprised on the upside relative to our forecast" owing to stronger-than-expected government support measures, HSBC Chief China Economist Qu Hongbin said in a report released Monday.

The improved economic forecast for China, the US and parts of Europe will help boost consumers' confidence, but the direct driver is higher disposable income and a reasonable consumer price index, according to Patrick Dodd, managing director of Nielsen China. "During China's ongoing transformation from an investment-to consumption-driven economy, per capita spending continues to grow due to increasing disposable income," Dodd said. In the second quarter of 2014, Chinese consumers' willingness to spend reached 46 percent, 2 percentage points higher than in the previous quarter, according to Nielsen's findings. Meanwhile, their perceptions about personal finance increased one percentage point to 70 percent. Last year saw a 14 percent jump in average pay for China's 269 million migrant workers, making it possible for them to spend more, said Dodd. Meanwhile, the CPI, the main gauge of inflation, moderated to 2.3 percent growth in June, down from 2.5 percent in May, NBS statistics showed.

Consumers in third-tier cities reported the highest confidence index of 113 points, closely followed by
fourth-tier cities at 112 points. First- and second-tier cities shared a confidence level of 110 points. Confidence in rural areas was unchanged from the previous quarter, at 110 points, according to Nielsen. "Deepening urbanization is another key driver behind China's high level of confidence. Even though more than half of China's 1.35 billion people live in towns and cities, the urbanization rate in China, compared with that of the US and the EU, is still low, meaning millions of new consumers with cash to spend will emerge in the coming decade," said Dodd. For the 11 categories audited both online and offline, online sales increased from 15.2 percent of total sales in May of last year to 19.6 percent in May this year. Offline sales still account for the majority of all sales, occupying around 80 percent. Nielsen research also showed that online sales, with 6.8 percent, contributed more to the overall growth rate of 12.7 percent in these 11 categories, compared with only 5.9 percent from offline sales.


Official calls for improving commercial credibility

Senior Communist Party of China (CPC) official Liu Qibao on Wednesday called for improving "commercial credibility" in China. Liu, head of publicity for the CPC Central Committee, said credibility is the foundation for the government to win people's hearts and for a person to gain fame. He asked authorities and media to strengthen publicizing good examples in credibility building and meanwhile exposing local governments and enterprises that are doing bad in this regard. Earlier this month, a local TV station reported that Shanghai Husi Food Co, Ltd, a meat supplier owned by US-based OSI Group, offered expired meat to a number of global food brands including McDonalds, KFC and Starbucks. The food safety scandal has spread to Hong Kong and Japan. Liu urged for legal measures against those losing credibility.

Source: Xinhua: Official calls for improving commercial credibility, 2014-07-31

China to attract private investment in railway fund

China will provide the initial money for a railway fund, which will be open to private investors to help better finance the sector's expansion, according to rules published on Tuesday. Under the rules drafted by the National Development and Reform Commission, Ministry of Finance and Ministry of Transport, the government will provide the initial capital through China Railway Corp, with the rest coming from private investors. No details on the initial investment were given. At least 70 percent of the fund would be invested in railway projects, with the rest invested in land development and other higher-yielding projects, according to the rules. The national railway operator will be responsible for generating "reasonable returns" for investors. The fund will be managed by a new company, which will be allowed to issue short-term bonds and borrow from banks to maintain cash flow, but barred from providing guarantees and trading futures and financial derivatives.

In April, the government said it would create a fund worth 200 billion yuan to 300 billion yuan ($32-$48 billion) each year, as part of its policy measures to support the slowing economy. China Railway Corp has said it would raise its annual investment by 20 billion yuan to 720 billion yuan in 2014 to increase the number of lines it plans to build. The railway sector is burdened by mounting debt due to state-led investments in the past, prompting the government to reform the financing model by attracting private investment.

Source: Xinhua: China to attract private investment in railway fund, 2014-07-9

Alibaba Set To Start On Course For Debut

Chinese e-commerce company Alibaba Group Holding Ltd. plans to launch its initial-public-offering process as soon as the end of the month, people familiar with the matter said. The firm, which could raise more than $20 billion and rank as one of the largest IPOs ever, shared a timetable with some current investors through an email, the people said. The email marks an official acknowledgment of the timing plans, until now the subject of wide speculation. The communication also warned that timing still depends on market conditions. Including a "roadshow," which pitches the deal to investors, the IPO process for a deal of this size typically takes about two
weeks. That means if all goes smoothly, shares would be sold and begin trading by mid-August on the New York Stock Exchange. The mid-August timing would help ensure the deal gets done before bankers and investors head out of town for late summer vacations.

A number of other Chinese technology companies have seen their shares rise following IPOs in the U.S. this year. JD.com Inc., an online Chinese retailer, has seen its stock climb 46% since its debut in May, and Weibo Corp., an online-messaging service akin to Twitter, is up 13% since its April offering. Alibaba connects buyers and sellers of various goods and services across its websites and mobile apps. It is expanding fast and highly profitable, generating $3.7 billion in net income against total revenue of $8.4 billion in the fiscal year ended March 31.

During its investor roadshow, Alibaba intends to hold meetings in Asia, North America and Europe, people familiar with the deal have said. Alibaba initially filed its IPO paperwork with the Securities and Exchange Commission in May and has since made two updates to it. One included more information about its individual businesses and the partners who have outsized influence on the company's governance. The other named the New York Stock Exchange as its listing venue and its ticker symbol as "BABA." It usually takes the SEC about two to three months to review a filing before approving it and allowing the company to formally set a price and sell the shares. It wasn't clear whether the SEC had finished its review of Alibaba's filing.


Regulator streamlines M&A process

The China Securities Regulatory Commission will simplify the review process for major asset restructuring programs and takeovers of listed companies, the market regulator said in a statement on Friday. Listed companies will no longer need CSRC approval for major asset restructuring programs, except in the case of backdoor listings. Such listings involve acquisitions of companies that already trade on stock exchanges by enterprises that don't qualify for listings on their own. There's an exception to this rule. If a listed company plans to acquire assets by using its own shares, it will still need CSRC approval. The regulator also said that listed companies no longer need to provide profit forecasts when they acquire assets. The requirements for backdoor listings are the same as those for initial public offerings, and no listings by purchasing shell companies will be allowed on the ChiNext board, China's Nasdaq-style market. "To protect investors, we'll monitor companies' information disclose and strengthen regulations," said Deng Ge, a spokesman for the CSRC. Separately, the CSRC announced that it will no longer review takeover bids of listed companies, a move that it said will lower the acquisition cost for bidders. Bidders will also get more choices of methods to provide performance security for takeover bids. As an alternative to posting a performance bond, acquiring companies can also offer guarantees from banks or other financial entities, said the statement.

The CSRC also announced rules on Friday establishing a shelf registration system for public mutual fund issues. Effective Aug 8, fund firms need only register with the agency to issue new products. The regulator will step up its oversight of fund firms to ensure that they're complying with the regulations, and it will enforce compliance and implementation to protect investors' interests. The CSRC said it will complete all registration processes for products within 20 days after the required documents are submitted. The regulator will also increase penalties for fund firms engaging in irregularities.

Source: Cai Xiao: Regulator streamlines M&A process, China Daily, 2014-07-12

New FTZ rules to trigger retail competition

China's retailers may be facing fiercer competition than ever with changes in the China (Shanghai) Pilot Free Trade Zone, market insiders said at a forum in Shanghai on Wednesday. The lifting of some restrictions in the FTZ lets foreign-funded enterprises operate online stores within the zone. The relaxation, which may enable qualified foreign retailers to sell products via FTZ entities to Chinese consumers, may pose challenges to domestic retailers
in after-sale services, pricing and management, said Yan Jing, deputy chief of kuajingtong.com, an FTZ-registered online trading platform, at a forum organized by the World Retail Congress. Free trade zone-registered retailers not only can assure consumers the quality of imported goods but online trading will extend the advantages of price, service and quality control nationwide, said Yan. Some importers and retailers already are preparing to launch exhibition and trading centers within the FTZ that are devoted to selling the products of specific countries.

In early June, for example, the Australian National Exhibition and Trading Center opened in the zone. A handful of other shopping areas are also set to open by the end of the year and could expand to online business channels in the near future. Retailers and traders need to closely watch logistics and warehousing, analysts said. Experts said luxury goods in Shanghai may also see a new round of pricing and brand positioning in the face of such changes. Supply chain conformity is key for retailers and traders amid these shifts, said Zhou Ting, an expert on luxury brand consumption with Shanghai-based Fortune Character, a luxury lifestyle information provider.


This China Slowdown Is Different; Beijing is starting to curb investment-led growth. It won't be painless.

China announces official second-quarter GDP on Tuesday, a figure widely expected to reflect official guarantees of continued strong growth. But data from the China Beige Book—a private survey of 2,200 firms nationwide—suggest that the Chinese economy isn't expanding as Beijing's numbers would imply. Actually, the second quarter saw another broad-based slowdown.

Our survey data this quarter reflect a very different dynamic: broad-based falls in capital expenditure growth and a related further fall in loan demand. Back in the second quarter of 2013, loan demand remained high but many couldn't access credit, driving those firms to more expensive shadow lenders. But this quarter firms simply didn't want the credit. Loan demand hit the lowest level since our survey began in the first quarter of 2012. The lack of demand can't be seen in interest rates on bank loans, which rose a bit this quarter and often reflect institutional relationships as much as real changes in market demand. But it is manifest in rates charged by non-bank financials, the so-called shadow lenders. Shadow bank rates plunged to below those charged by the banks, for the first time at the national level. Firms watching the economic slowdown didn't want to spend. At the national level, capital-expenditure growth slowed broadly this quarter, as did firms' expectations for future spending. Fewer firms increased investment than at any time since our survey began.

The worst slowdown was in mining, where the share of firms increasing their investment spending collapsed by almost 30%. Services firms followed with a 20% drop, and manufacturers dropped nearly 20% despite a relatively solid quarter of growth. The only sector to increase investment slightly was real estate and construction, but even there the on-year trend showed weakness. The proportion of real-estate firms expecting higher investment next quarter also dropped, while more firms said they expect to cut spending. Capital expenditure in retail is best reflected by retailers' willingness to open or close stores. In China's central region, including megacity Chongqing and Sichuan province, outlet expansion fell off a cliff. Just 22% of firms increased their number of outlets—a near 50% drop from the first quarter—while 18% are cutting stores, more than twice as many as last quarter. The labor market is seeing depressed growth in hiring and wages.

If official data are at all accurate, Chinese capital expenditure is the weakest it has been in more than a decade—and evidence suggests that this investment downshift may be difficult to reverse. A year ago, tighter credit constrained growth and the central bank had the option of loosening again. This quarter, lower non-bank interest rates failed to support investment. There are considerable advantages to this dynamic, as China badly needs investment to decline and consumption to grow. But these numbers suggest that firms are borrowing and spending less, not ratcheting up in response to anticipated or actual government stimulus. If so, this isn't a slowdown with Chinese characteristics, as some have argued. It is the opposite: a normal slowdown. That bodes well for China's long-term fortunes but also suggests that slowing investment will produce a much bumpier ride than many have hoped.
**Shanghai to benefit from new bank's HQ**

Brazil, Russia, India, China and South Africa, or BRICS, announced the founding of the New Development Bank on Tuesday during a summit in Brazil. The new bank reflects the growing influence of BRICS, which accounts for almost half the world's population and about one-fifth of global economic output. It will have an initial subscribed capital of $50 billion equally shared among the founding members, and will support infrastructure and sustainable projects in developing countries. Chen said the bank will greatly benefit Shanghai as intergovernmental loans bring in more commercial transactions. Favorable policies expected to be launched in the experimental Shanghai Free Trade Zone will help create a hospitable business environment. Chen said expanding business relations among BRICS countries lays a solid foundation for Shanghai to build itself into a global financial center by 2020. Chen said the bank may also complement China's massive foreign exchange reserves. "A large share of China's $4 trillion foreign exchange reserve has been invested in US Treasury bonds, with even lower yield than the inflation rate. Once the bank is in place, "we might as well use part of the reserve in the overseas infrastructure projects, and we may get higher returns”, he said.

Harold Trinkunas, director of the Latin America Initiative at the Brookings Institution, said the new bank will give developing countries a bigger say in the international financial system. "In a sense, the New Development Bank is another version of the World Bank, but without some of the political conditionality issues that have traditionally been attached to World Bank loans.

Source: WEI TIAN in Shanghai, CHEN WEIHUA in Washington and AMY HE in New York: Shanghai to benefit from new bank's HQ, China Daily, 2014-07-17

**Premier Li stresses quality growth, innovation**

Chinese Premier Li Keqiang has reiterated "quality" as the mainspring of China's growth, saying that quality growth, whether slightly higher or lower than 7.5 percent, will be acceptable. Economic growth should create jobs, increase people's incomes, save energy and be good for the environment, Li said during an economic symposium on Tuesday. Quality growth comes through innovation that can upgrade the economy, Li said, pledging to maintain China's economy within a proper range: GDP growth around 7.5 percent and inflation below 3.5 percent. He said the country will keep its targeted macro-control policies and allow the market to play a bigger role. Administrative procedures will continue to be simplified, and a transparent mechanism will create a fair environment for businesses. Support to the real economy will also continue. Small firms, agriculture companies and the tertiary sector will be supported, and manufacturing will be improved. Current economic growth is stable, but the government must be more aware of difficulties, risks and downward pressures.

Source: Xinhua: Premier Li stresses quality growth, innovation, 2014-07-18

**Human Geography; Recent Findings from Nottingham Trent University Provides New Insights into Human Geography (The competitiveness of China's Leading Regions: Benchmarking Their Knowledge-based Economies)**

Investigators publish new report on Human Geography. According to news reporting originating from Nottingham, United Kingdom, by VerticalNews correspondents, research stated, "China's spectacular economic growth has been spatially uneven, with much development occurring in eastern coastal areas. In particular, three metropolitan super-regions' have become China's most competitive knowledge-based economies, consisting of the Pearl River Delta, the Yangtze River Delta, and the Bohai Gulf Region."

Our news editors obtained a quote from the research from Nottingham Trent University, "This paper
benchmarks the competitiveness of these regions, with a view to exploring which region is best positioned to become the most dominant knowledge-based economy over time. Through the theoretical lens of dynamic comparative advantage, it is shown that each region has hugely increased its competitiveness through improvements in the capacity to absorb and diffuse knowledge. It is further shown that due to multi-dimensional advantages the Yangtze River Delta, incorporating the Shanghai metropolis, is best positioned to become the dominant hub of China’s future knowledge economy."

According to the news editors, the research concluded: "It is concluded that China’s leading regions will require further economic policy adjustments in order to secure their future competitiveness."


Cabinet unveils guideline to ensure fair competition

China's State Council, the country's cabinet, on Tuesday unveiled guidelines to "promote fair market competition" and "safeguard normal market order." The guideline is meant to let the market play a decisive role and let the government play a better role in allocating resources, and to correct the problem of "incomplete market system, excessive government intervention and insufficient regulation," said the State Council. To achieve the goal, the State Council first urged a relaxation of market access, saying the government should not restrict any market access unless the investment activities are forbidden by law or harm the interests of a third party, public interest or national security. According to the guideline, market regulation will be strengthened and monopolies or unfair competition will be harshly penalized. The State Council aims to establish a market regulatory system featuring sophisticated mechanisms and clearly defined rules and regulations by the end of 2020.

Source: Xinhua: Cabinet unveils guideline to ensure fair competition, 2014-07-9

China's power data point to positive signs, pressure

Slightly higher power consumption in the first half of 2014 indicated China is still battling to arrest a slowing economy, analysts said. China's power consumption, an important indicator of economic vitality, rose 5.3 percent from a year ago to reach 2.63 trillion kwh, according to the National Energy Administration on Tuesday. "Although changes in power consumption were not big, they kept the momentum of steady growth," said Liu Zhu, an electricity analyst at China Credit Rating. In June alone, power use increased 5.9 percent from a year ago, up 0.6 percentage points from the growth in the previous month. Liu expects power consumption to continue its slow growth in the short run as the economy needs to gain steam further.

During the January-June period, electricity use by primary industries dropped 4.6 percent year on year. Power consumption by the industrial sector rose 5.1 percent while that by tertiary industries went up 6.9 percent. In the first half, private homes and the service sector contributed more to the entire electricity use, indicating that economic restructuring has gained traction, Lin said.

Source: Xinhua: China's power data point to positive signs, pressure, 2014-07-16

Slower economic growth results in less air pollution

Slower economic expansion in the first half of 2014 has helped some regions in China perform better in fulfilling goals for energy saving and cutting emissions, according to a report released by the National Development and Reform Commission on Monday. Fujian, Hainan and Qinghai provinces, and Ningxia Hui and Xinjiang Uygur autonomous regions received red-light warnings for insufficient action in conserving energy in the first half of the year, the report said. The rest of the regions have made basically smooth progress toward their energy-saving goals.

China's most polluted region, Hebei province, got a green light in energy conservation in the first half, partly
due to economic restructuring under the pressure to clean up its smog. Hebei grew 5.8 percent year-on-year in the first half, the lowest rate seen among all regions. Li Yan, head of Greenpeace East Asia's Climate and Energy Campaign, said many energy-guzzling projects are still under construction in the western regions and many of them are fossil fuel projects. Around 12 provinces have launched plans for controlling coal use - a positive for reducing smog and emissions as coal is a major source of carbon pollution.

Source: Lan Lan: Slower economic growth results in less air pollution, China Daily, 2014-07-29

Shanghai vows harsh punishment after food scandal

Shanghai's top official on Sunday pledged "severe punishment" for anyone involved in a food safety scandal that has spread from the Chinese financial hub to Hong Kong and Japan. Han Zheng, Secretary of the Communist Party of China (CPC) Shanghai Municipal Committee, told a meeting convened to deal with the scandal which has prompted public scare that any company violating the law in the city would be severely punished in accordance with the law. The move came a few days after a local TV station reported that Shanghai Husi Food Co., Ltd, a meat supplier owned by U.S.-based OSI Group, mixed fresh and expired meat. The scandal has dragged in global food brands including McDonald's Corp, KFC-parent Yum Brands Inc. and Starbucks Corp.. Five people have been detained over the scandal where regulators in Shanghai said Husi forged production dates on its beef products and sold them after their expiry.

As part of his pledge, Han said that journalists and whistleblowers, which have played an important role in exposing the scandal, should be protected. "Media's watchdog role in this case should be viewed as a positive energy," he said. Han promised that investigation into the incident should be accurate and the results should be disclosed to the public in a timely manner. The official urged the supervisory body of the government to remain wary and carry out their duty in a proactive fashion. "(You should) take notes from what had happened to prevent similar cases from happening again," Han said.

In a statement posted on its website on Saturday, OSI Group said it would "withdraw all products manufactured by Shanghai Husi from the marketplace." The group also said it was conducting a thorough internal investigation into any possible failures on the part of current and former senior management.

Shanghai's determination to punish the wrongdoers in the scandal has been welcomed in China, where food safety remains a big concern for consumers. But some voice their dissatisfaction over the role of the supervisory body in the scandal. "The head of Shanghai's food watchdog should resign since the supervision did not work at all in the scandal," said microblogging user Longmianzimian.

Source: Xinhua: Shanghai vows harsh punishment after food scandal, 2014-07-20

Germany offers to assist western China with urbanization

Germany is willing to help the western part of China achieve sustainable development during its ongoing urbanization, German Chancellor Angela Merkel said in Chengdu on Sunday. The western region has its own unique opportunity during China's urbanization drive, Merkel said at a forum on Sunday in Chengdu, Sichuan province, which is the first leg of her seventh official China trip, which started on Sunday. The western region doesn't have to copy models from the eastern region, she said. Instead, it should take an approach toward efficient and sustainable development that will last not just 10 or 20 years, but much longer, she said. Merkel said that although Chengdu is an old city, "from another perspective it is young and modern" because it is going through such rapid change during urbanization. Chengdu, with an urbanization rate of only 45 percent, will face rapid changes as it tries to accommodate an additional 1 million migrants a year. Such change must be effectively guided, she said. "We've been paying close attention to China's change, not only in coastal regions, but also in the west." She said energy efficiency and conservation have been a significant topic in Germany, and that enterprises from both sides could make use of the opportunity to strengthen cooperation. Germany would love to help China, including Sichuan, deliver their overall urbanization development strategy, she said.
By the end of last year, the city's foreign affairs office had confirmed 6.8 billion yuan ($1.1 billion) in direct investment from German enterprises. The total volume of imports and exports between the two sides has reached $1.5 billion. The city has also laid out a blueprint to build an industrial park that will aim to lure more small and medium-sized German companies, the office said. "In Germany, more than 98 percent of the enterprises are small and medium-sized companies," said German Ambassador to China Michael Clauss. These companies are eager to invest in China, and their advanced technologies can help China upgrade its industrial system, Clauss said.

Source: Qiu Bo in Chengdu and Zhou Wa in Beijing: Germany offers to assist western China with urbanization, China Daily, 2014-07-07

$100b Pearl River-Xijiang plan approved

Pearl River-Xijiang River Economic Belt Development Plan of Guangxi Zhuang autonomous region has been approved by the State Council on Wednesday, a move expected to involve investment of 630 billion yuan ($101 billion). Guangxi plans to carry out 166 projects within three years. Ninety-nine of the projects will focus on infrastructure construction, such as renovating Xijiang shipping channel and building highways and high-speed railways. The projects are all ecological and environmentally responsible. Some local A-share listed companies, including Beibu Gulf Port and Guangxi Communications Investment Group Co Ltd, are likely to benefit from the plan.

Source: Zhu Wenqian: $100b Pearl River-Xijiang plan approved, China Daily, 2014-07-16

Pearl River Delta loses charm with HK businesses

Labor shortage and rising manpower costs on the mainland continue to be major concerns for Hong Kong-based manufacturers in the Pearl River Delta, a leading manufacturing base in China, a new survey said on Friday. The labor shortage rate for Hong Kong-based companies increased from 10 percent in March-May of 2013 to 13.6 percent in the same period of 2014, said the survey conducted by the Chinese Manufacturers' Association of Hong Kong. The survey was conducted for the period from March to May and covered 274 Hong Kong-based companies of which about 55 percent have developed manufacturing businesses in the Pearl River Delta. Most of the Hong Kong-based companies are engaged in original equipment manufacturing in sectors like garments, electronics and hardware, the survey said. The averaged number of workers in each of the Hong Kong-based companies in the Delta region fell from 703 in 2013 to 599 in 2014, it said. Edward Tsui, vice-president of the association, attributed the labor shortage to a more balanced economic development between the inland areas and the coastal regions on the mainland. "Businesses in the Delta region will continue to see a labor shortage in the long term as the labor situation on the mainland has intensified with more migrant workers expected to remain in their hometowns as they can now find jobs that offer equivalent payment," Tsui said. The rising living costs in the Delta region has also posed challenges for migrant workers, according to Tsui.

According to the survey, 85 percent of the surveyed companies reported higher labor costs from March to May, with an average year-on-year increase of 12.2 percent. "As the labor costs rose and they could not transfer the labor pressure to overseas clients, more companies have reported profit declines," Tsui said. Of the surveyed companies, 32 percent said they plan to move their manufacturing business to remote inland areas and Southeast Asia, which have relatively lower labor costs, according to the survey. "As the Delta region is pushing forward industrial upgrading, more professional workers are needed in the traditional manufacturing industry," Tsui said. Tsui said that the labor authorities in Guangdong province should work with professional organizations to offer training services for workers. "Moreover, companies should also shift their focus from OEM to ODM (original design manufacturer) and OBM (original brand manufacturer) to boost competitiveness amid the downsized global demand," he said.

According to the survey, the United States and Europe still remain top two markets for Hong Kong-based companies. Feng Shengping, chief researcher of the Guangdong Provincial Situation Research Center, said Hong Kong manufacturers should focus more on the mainland market to avoid the impact from rising labor costs and the
labor shortage. HK-based Lomak Opto-Mechatronics Technology Company, for example, have benefited from the mainland market over the past few years. The company, based in Dongguan, a traditional manufacturing city in the heart of the Delta region, has opened businesses on several e-commerce platforms to tap the domestic market, with products being widely sold in Guangdong and other inland provinces and regions, company sources said. According to the company, domestic sales accounted for more than 40 percent of its business last year, helping it better avoid profit loss amid rising labor costs and labor shortage.

Source: Qiu Quanlin in Guangzhou: Pearl River Delta loses charm with HK businesses, China Daily, 2014-07-19

Reforming hukou will unify rights of migrants

Chinese migrant workers living in cities will gradually have full access to schools and hospitals where they work, a significant move to improve social equality between rural and urban residents. Under guidelines to create a unified household registration system, known as hukou, the dual-household system that has divided people into urban or agricultural households since the 1950s will be phased out. In its place, a system of residence permits will be set up to allow qualified migrants to enjoy urban services. The guidelines said basic public services - including education, healthcare, social insurance, employment, aged care and housing - will be expanded to migrants' children.

More than 200 million rural migrants are now working in cities and the numbers are increasing, Huang said. According to a national plan in speeding up urbanization, the country intends to subsidize vocational training for all rural migrants by 2020. Liu Limin, vice-minister of education, said that in the past three years more than 3 million migrant children have entered kindergartens in cities, and 28 provinces and regions are unveiling or discussing policies to give migrant students access to the college entrance examination. The guideline also said the expansion of the country's megacities including Beijing and Shanghai will be limited.

Source: ZHANG YAN and WANG QIAN: Reforming hukou will unify rights of migrants, China Daily, 2014-07-31

Rebalancing seen in 10 years

Economist says income inequality has to be reduced to avoid 'huge crisis' Wang Xiaolu believes the latest economic data provides evidence the Chinese economy is rebalancing. The 63-year-old is deputy director of the National Economic Research Institute, a leading independent think tank, and one of China's most widely respected economists.

The National Bureau of Statistics data, published on July 16, showed that services, and not manufacturing, continued to be the major driver of growth or the second quarter in a row. It made up 48.9 percent of additional GDP, compared with the secondary sector's 47.1 percent. "I think you can see some initial rebalancing of the economy over the past couple of years. No one quarter would define rebalancing since it is very much a long-term, rather than short-term process," he says. He believes there is some initial evidence of the government's attempts to rebalance the economy working but implementation of reforms will still present a challenge.

Consumption as a proportion of GDP has to rise from its 2013 level of 49.8 percent to at least 60 percent for significant rebalancing to have occurred, according to Wang, and that will take at least 10 years and probably longer. "I expect it will gradually happen over the next 10 years but it will depend on the success of institutional reforms as to how the patterns of income distribution will be readjusted," he says. Wang, who twice has won the Sun Yefang Economics Prize (named after the Chinese economist who was one of the first to advocate market reforms), is regarded as a leading expert on consumption and income distribution. His book, Strategic Thinking on National Income Distribution, won the most influential book award in the CITIC press awards in 2013.

Wang believes there are huge risks for the Chinese economy if it fails to rebalance. "The continuation of the current situation would result in a very bad situation for China because current levels of economic growth would not be sustained. It would lead to many problems such as a lack of funding for public services, debt issues and also higher levels of unemployment." He says any hope of rebalancing in China was delayed by the financial crisis.
which led to the Chinese government responding with a 4-trillion yuan ($660 billion) stimulus, one of the largest in
history, which worsened the existing imbalances. "Many government investment programs resulted in bubbles and
debt problems. We need to learn lessons from the financial crisis because there was certainly over-investment in the
economy." For Wang, it also exposed a local government funding problem (many cities and towns in China remain
seriously in debt), which needs to be resolved as part of the rebalancing process. "Local governments rely too much
on land sales for funding. It is not sustainable because land is limited and you cannot sell it forever. Land sales are
not well monitored or transparent. Local governments need to be able to raise money in local taxes and be less
reliant on central government," he says.

The government unveiled its 10-year plan for the country at the Third Plenum of the Party last October, and at
the annual Central Economic Work Conference, that followed two months later, the detailed reforms for the current
year were outlined. As part of rebalancing, the government set out plans to reform the social security and health
systems, which would give people more confidence to spend or consume and not save for future rainy days. It also
announced reform of the hukou, or household registration scheme, so that migrant workers can live proper lives in
cities, bringing their families with them and consuming more rather than just remitting money back to their home
areas. "Government spending is not necessarily wrong and can help the rebalancing. If the government can spend
more on the social security system and improved healthcare and provide better housing, it could have the effect of
increasing household consumption and making the economy more balanced."

Wang also sees the government's current anti-corruption measures, which restrict the hospitality budgets of
officials and their receipt of gifts, as part of the rebalancing efforts. "In the short run it may have some negative
impact on economic growth because government consumption will be reduced, but you cannot rely on corruption to
drive consumption."

"One of the worst inequalities is between people living in rural and urban areas. Someone in a rural area
receives an average pension of 80 yuan a month, whereas in an urban area this is 1,600 yuan a month. You also
have the problem of rural migrant workers not having access to urban social security systems in urban areas. "If
you can improve this situation, you not only find that people on low incomes benefit but the whole nation as well
since with a better income distribution, you will have a more balanced economic structure."

Wang says he has no problem with people getting wealthy in society so long as they do so by transparent
means. He sees people like Jack Ma, the former English lecturer who started China's biggest Internet business,
Alibaba, as role models. "If people start a business, work hard, earn a large income and get rich, that is fine. China
needs people who can earn money in the market," he says.

For Wang it is imperative China addresses issues of income inequality and achieves a more balanced economy
with a greater role for consumption unless it is to suffer the fate of many Latin American economies and become
ensnared in the middle-income trap. "If the economy does not rebalance, this seems very possible to me. If you
look at what has happened to these countries in the middle-income trap, they have had a lot of instability with
negative consequences for economic growth."

Source: Moody, Andrew: Rebalancing seen in 10 years, China Daily : European Weekly [London (UK)] 25 July
2014: 8.

**State Council wants innovation-driven growth, tourism development**

China should use technology and innovation to support medium-to-high growth in the economy, and
accelerate growth in the tourism sector, the State Council said on Wednesday. China should strengthen basic
research, create platforms for the fruits of technological research to be transformed into productivity, and give more
room to creativity, according to a statement released after a State Council executive meeting presided over by
Premier Li Keqiang.

Tourism is an important part of modern services and speeding up the sector's development plays an important
role in job creation and poverty reduction in central and western regions, as well as bolstering economic growth and
environmental protection, it noted. High priority will be given to ensuring environmental-friendly practices in tourism. China's tourist industry should also be opened to more social and foreign capital to support its development, according to the statement. The State Council said that China will reduce administrative approvals and provide more support in financing, business site use and promotion to build stronger tourism enterprises, while increasing spending on tourist infrastructure, public services and training.

Source: Xinhua: State Council wants innovation-driven growth, tourism development, 2014-07-03

China's H1 retail sales up 12.1%

China's retail sales growth accelerated during the first six months of the year, boosted by strong figures in the online sector, according to data released by the National Bureau of Statistics (NBS) on Wednesday. Retail sales grew 12.1 percent year on year to 12.42 trillion yuan ($2.02 trillion) in the January-June period, quickening from the 12 percent growth registered for the first quarter, the NBS said. The actual growth rate was 10.8 percent with inflation deducted. In June, retail sales saw month-on-month expansion of 0.96 percent. Sales in the online sector witnessed strong growth in the first six months, surging 48.3 percent year on year to 1.14 trillion yuan. Income from the catering sector increased 10.1 percent to 1.3 trillion yuan, while sales of consumer goods amounted to 11.12 trillion yuan, up 12.4 percent year on year, the NBS said. Retail sales growth in rural areas continued to outpace that in urban China. In January-June period, sales in rural regions rose 13.2 percent from a year ago to 1.69 trillion yuan, while that in urban areas climbed 12 percent.

Source: Xinhua: China's H1 retail sales up 12.1%, 2014-07-16

Premier Li vows to lower hurdles for businesses

Premier Li Keqiang pledged more financial support for new businesses to encourage entrepreneurship amid the continuing downward pressure on the Chinese economy. "The government and State-owned banks must conduct in-depth research, change their work styles and mindset to find ways to make it easier for new businesses, which are largely small businesses, to get loans," Li said on Friday. Earlier that day, Li had met owners of small and micro businesses in Shandong, wrapping up a two-day visit to the coastal province.

Shandong's economy picked up slightly in the second quarter, after reporting 8.7 percent economic growth in the first, a moderate growth rate compared with other provinces. Ten business owners attended Friday’s symposium, and the difficulty of getting financing was their key complaint. The State Council issued guidelines on Wednesday that make it easier for businesses to get loans. It listed detailed measures to ensure that more loans would go to small and micro businesses, the service industry, the agricultural sector and projects that safeguard the environment and improve people's lives.

Li has consistently emphasized the importance of serving the needs of small and micro companies through administrative and financial reforms during his many inspection visits this year. "We should have microfinance services for small and micro enterprises. The combination of the two 'micros' will be of great benefit," Li said during a visit to a small loan company in Shenyang, capital of Liaoning, in late March. During a trip to Hainan province in April, he asked about the increase of newly registered local enterprises, which rose by 77 percent year-on-year in March, while registered capital that month surged by 247 percent. "Streamlining administration and delegating power to lower levels will increase residents' income by making it easier for them to start their own businesses. The reform can also lower costs. That is what the government should do," Li said.

Source: ZHAO YINAN/LI XIAOKUN: Premier Li vows to lower hurdles for businesses, China Daily, 2014-07-26
China July HSBC flash PMI rises to 18-month high

Activity in China's factory sector expanded at its fastest pace in 18 months in July, a preliminary HSBC survey showed on Thursday, as a raft of government stimulus measures kicked in. The HSBC/Markit Flash China Manufacturing Purchasing Managers' Index rose to 52.0 in July from June's final reading of 50.7, beating a forecast of 51.0 in a Reuters poll. It was the highest reading since January 2013, and above the 50-point level that separates growth in activity from contraction for the second consecutive month. A sub-index measuring new orders, a gauge of demand at home and abroad, hit a 18-month high of 53.7, while the sub-index for output also rose to a 16-month high in June. The final Markit/HSBC manufacturing PMI for July is due on Aug. 1. China's economy grew slightly faster than expected in the second quarter as a burst of government stimulus paid dividends, but analysts said Beijing will likely need to offer further support to meet its growth target of around 7.5 percent for 2014.

Source: Xinhua: China July HSBC flash PMI rises to 18-month high, 2014-07-24

More cities to relax housing restrictions

Local governments in second-tier cities are rushing to relax curbs on home purchases, and some are even urging people to "buy now" as sluggish property sales undercut local fiscal revenue. Hebei province said on Thursday that the government will continue to offer tax breaks to "maintain a healthy property market". For example, there will not be any personal income tax on sales of apartments owned for at least five years.

Meanwhile, in Jiangsu province, the government-backed Changzhou Daily published a front-page ad on Tuesday declaring that "now is the best time to buy a home, as realty prices will not fall any further". According to real estate consultancy Shenzhen World Union Properties Consultancy Inc, the transaction volume of commercial housing in Changzhou dropped 18 percent year-on-year in the first half of this year. And as of June 30, the inventory of new commercial housing totaled 12.3 million square meters, it said. It would take about two years for that to be sold, given the average pace of home sales in Changzhou. The newspaper's plea was greeted with widespread criticism.

As the central government pursues stimulus measures to give a lift to the slowing economy, it is also allowing market forces to play a significant role in real estate prices. Against the backdrop of the slowdown in the property sector, the National Development and Reform Commission said on Thursday that the central government will no longer set ranges for real estate agencies' fees.

Hohhot, capital of Inner Mongolia and Jinan, capital of Shandong province, recently ended all curbs on home purchases. But moves like that will not shake the housing market. Similar moves are likely in other cities, especially those with large inventories.

Source: YAO JING: More cities to relax housing restrictions, China Daily, 2014-07-18

China names 6 SOEs for pilot reforms

Six big state-owned enterprises (SOEs) will pilot reforms in ownership, management and supervision, Chinese authorities announced on Tuesday. The companies are the State Development & Investment Corporation (SDIC), China National Cereals, Oils and Foodstuffs Corporation (COFCO), China National Building Materials Group (CNBM), China Energy Conservation and Environmental Protection Group (CECEP), Xinxiang Cathay International Group (XXCIG) and China National Pharmaceutical Group (Sinopharm), according to the State-owned Assets Supervision and Administration Commission (SASAC). The SDIC and COFCO will be "reorganized" to establish "state-owned asset investment companies" on a trial basis. Mixed-ownership pilot reforms will be carried out at Sinopharm and CNBM, said SASAC spokesman Peng Huagang at a press conference. A more effective board of directors system will be set up at XXCIG, CECEP, Sinopharm and CNBM, and "disciplinary inspection teams" will be sent to another two or three unnamed SOEs, said Peng, who is also in charge of reform issues for the SASAC. The "state-owned asset investment company" has been designed to make the
"state," the SASAC in this case, a stake-holder instead of a manager of a SOE so as to raise the company's management and operation efficiency.

For mixed-ownership reform, SOE giants like China National Petroleum Co and China Telecom have carried out their own plans to diversify corporate ownership and attract social funds. The new board of directors system is meant to make the board act as the company's decision-making center while reducing the management entitlements of investors. The SASAC will delegate a total of 21 management powers to the SOEs themselves later this month and more powers in September, a source familiar with the matter told Xinhua. The main goal of the "disciplinary inspection teams" is to defend against "the loss of state-owned assets," Peng Jianguo, vice director of the Research Center of the SASAC, told Xinhua. "The pilots signal that the reform of SOEs and state-owned assets has entered a new stage where top-level design and pilot reforms go hand in hand," said Peng Jianguo.

Source: Xinhua: China names 6 SOEs for pilot reforms, 2014-07-15

Six EcoPartnerships named for 2014

Six new economic relationships, or EcoPartnerships, between entities in China and the United States have been designated for 2014, according to officials from both sides. The signing ceremony will be held on Thursday as a prominent element of the China-US Strategic and Economic Dialogue, which will be held on Wednesday and Thursday in Beijing. The six EcoPartnerships include ties between Shanghai Municipal Transportation Commission and the Port of Los Angeles; Tianjin Economic Technological Development Area and the Commerce Department of Philadelphia; Shenzhen Low-carbon Development Foundation and the Environmental Defense Fund; the Institute of Science and Technology for Development, Shandong, and Lawrence Berkeley National Lab; Harbin Electric Corp and GE; and China Petroleum & Chemical Corp and Sapphire Energy. The EcoPartnership program is a collaborative effort between the two sides that was established in 2008 under the first S&ED talks.

Source: LAN LAN: Six EcoPartnerships named for 2014, China Daily, 2014-07-8

Beijing Talks Yield Scant Progress --- Washington Cheers Cooperation but Major Divisions Over Security and Trade Are Left Unresolved

U.S. officials sought to brighten the mood at the end of two days of talks with Chinese counterparts that yielded little progress on security and trade issues that have driven a wedge between the world's two biggest economies. Secretary of State John Kerry said the annual talks, known as the Strategic & Economic Dialogue, showed "the U.S. and China are committed to a new model of relations based on practical cooperation, but also constructive management of differences." That was a theme echoed by Treasury Secretary Jacob Lew and by Chinese officials. Mr. Kerry on Thursday highlighted areas where the two governments are working together, including fighting wildlife trafficking and promoting energy efficiency.

But there were no agreements on how to resolve maritime border disputes, deal with industrial cyberespionage or what strategy to take to thwart North Korea's nuclear-weapons program or to enhance human rights.

On economic issues, Mr. Lew, the Treasury secretary, said the U.S. had convinced China to reduce intervention in its currency markets to "what are really extraordinary circumstances." That would be a big win for the U.S., which has complained that China has intervened regularly since the start of the year to drive down the value of the yuan against the dollar to help its export sector. But a fact sheet issued by the U.S. and China said only that China would "reduce foreign-exchange intervention as conditions permit" -- without defining the conditions. China's central bank governor, Zhou Xiaochuan, echoed the points on the fact sheet, without elaborating, in a news briefing. On Wednesday, Finance Minister Lou Jiwei was more blunt. "It is very difficult for us to completely refrain from foreign-exchange market intervention," he said.

Timetable laid out for investment treaty talks

The two-day high-level dialogue between China and the United States has led to a timetable for talks on a bilateral investment treaty and other agreements in broad areas, boosting relations between the world's two largest economies despite remaining differences. This year, the two countries will try to reach consensus on the core issues of the text of the bilateral investment treaty negotiations. They pledged to start the second phase of negotiations in 2015 over the negative list, which specifies bans and restrictions on types of foreign investment, Vice-Premier Wang Yang said on Thursday during the conclusion of the sixth China-US Strategic and Economic Dialogue. The S&ED, held in Beijing, narrowed divergences and brought about more than 90 agreements, Wang said. Vice-Minister of Finance Zhu Guangyao said: "We will still see great difficulties in the talks because of different national conditions and development levels. ... The challenge of negotiating the negative list will be huge, but the meaning will be very significant." The US also welcomed Chinese investment and promised to provide an open environment.

Wang said that the hard-won fruits of the S&ED will lay the foundation for the top leaders' meeting during the November Asia-Pacific Economic Cooperation summit in Beijing. "The success of this year's S&ED again proves that China and the US have the ability and wit to properly tackle the differences and overcome difficulties to keep the ship of Sino-US relations sailing on the right route," he said. US Secretary of State John Kerry said that China's success is in the interests of the US and "we seek a relationship defined not by strategic rivalry but by practical cooperation on common challenges and constructive management of the differences where our interests diverges".

Source: Li Jiabao: Timetable laid out for investment treaty talks, China Daily, 2014-07-11

U.S.-China S&ED Produces BIT Timeline, Few Other Concrete Outcomes

The United States and China at this week's Strategic & Economic Dialogue (S&ED) set a concrete timeline for moving ahead on their bilateral investment treaty (BIT) negotiations, committing to reach agreement on the core text by the end of the year and to launch discussions on their respective negative list offers early next year. Other than the BIT, the S&ED largely yielded positive statements on a wide range of issues. For example, China's anti-monopoly law -- a business priority heading into the talks -- received a nod, but the language fell short of what some U.S. business representatives had hoped, according to one business source.

On trade secret theft, both sides affirmed that they "do not approve of trade secret theft for commercial advantage and that the protection and enforcement of trade secrets is essential to maintain fair competition and to develop an innovative economy," according to the fact sheet.


FTA with China makes Iceland more attractive for foreign investments

More international companies have expressed their interest in launching new plants in Iceland following the Free Trade Agreement (FTA) between China and Iceland, which came into force earlier this month. "There won't be any tariff on products that previously had tariff. This makes Iceland suddenly attractive for new plants and manufacturing goods for China," said Ossur Skarphedinsson, the Icelandic former foreign minister who signed the FTA with China on behalf of the Icelandic government.

Bremen Ports is already developing a harbor in Finnafjordur in the northeastern part of Iceland in cooperation with local municipalities. Four companies, including United Silicon Carbide, Silicor Materials, Thorsil and PCC Silicon Metal Production Plant, are planning to build silicon plants in Iceland. Terry Jester, the CEO of Silicor Materials, told Xinhua that the FTA with China is one of the three reasons the company decided to come to Iceland. She mentioned the knowledge of metals work within the aluminum industry in Iceland as a second reason. "Then the power price is also very attractive," Jester said. "The FTA just makes it that much more important and that much
better,” Jester said. Silicor Materials will be producing and selling high-quality solar silicon to China. The plan is to start building the plant at the end of this year and have solar silicon for sale by the end of 2016, she said. The first large-scale plant of Silicor Materials will cost $619 million with an annual production capacity of 16-19 metric tons, about 3 percent of the total solar market. Skarphedinsson believed the export of oil, gases and carbon fibers through Iceland could become attractive to China in the future, adding the FTA might increase the interest in opening a carbon fiber plant in Iceland.

Source: Xinhua: FTA with China makes Iceland more attractive for foreign investments, 2014-07-11

Corporate News: China Indicts Pair Of Investigators

Chinese prosecutors indicted a foreign husband-and-wife investigation team for illegally obtaining private information on Chinese citizens, in a case that has drawn attention to their work with U.K. drug giant GlaxoSmithKline PLC and to China's judicial system. According to the official Xinhua News Agency on Monday, Shanghai prosecutors have indicted Peter William Humphrey, a 58-year-old British national, and his wife, Yu Yingzeng, a 61-year old American, for illegally trafficking personal information, such as household registrations, real estate, vehicles and family background. It said the couple used the information to sell reports for their company, ChinaWhys Co., to clients, who were often multinational companies.


Chinese, Brazilian presidents vow to consolidate ties

Chinese President Xi Jinping and his Brazilian counterpart, Dilma Rousseff, pledged Thursday [17 July] to further consolidate the comprehensive strategic partnership of coordination between their countries. “This year marks the 40th anniversary of the establishment of China-Brazil diplomatic relations. Bilateral ties have been developing steadily in the last 40 years, with political and strategic mutual trust as well as common interests reaching unprecedented heights,” said Xi. Being the second and seventh largest economy in the world, China and Brazil should enhance exchanges and cooperation, deepen strategic coordination, jointly create a favourable external environment for their development and safeguard the common interests of developing countries, Xi added.

For her part, Rousseff said Brazil and China, as the largest developing country respectively in the West and East Hemispheres, share the same views on many strategic issues. Brazil is boosting investment in transportation, infrastructure, agriculture, information, logistics and innovation in science and technology, and welcomes a broader involvement of Chinese enterprises, Rousseff said. The railway project running from the Peruvian Pacific coast to the Brazilian Atlantic coast will play an important role in promoting Brazil's economic growth and lifting regional development, she said, pledging to “work together with China and Peru to build this project into a satisfactory one.” Rousseff suggested that Brazil and China boost cooperation within the frameworks of the United Nations and the Group of 20 (G20), push forward the implementation of the International Monetary Fund reform, advance the establishment of global Internet regulations and governance systems, and promote sustainable development of the world.

Xi suggested that the two countries intensify high-level exchanges as well interaction at different levels and in various fields, actively communicate on governance experiences and coordinate macro-economic policies. The two countries should build a long-term and stable cooperative partnership in mining and oil exploitation, launch strategic cooperation in high-speed railway construction, join hands in building the Brazil-Peru transcontinental railway, and enhance cooperation in finance, science and technology innovation, Internet and people-to-people exchanges, he said.

A joint statement on deepening China-Brazil ties was released after the meeting. The two leaders also witnessed the signing of several cooperation documents and the launch of the Portuguese edition of China's Baidu search engine. In a joint press conference, Xi stressed that his state visit to Brazil is to enhance cooperation, promote development
and strengthen confidence. Hailing his talks with Rousseff as fruitful, Xi said that the two sides have reached broad consensus, and that China is willing to work with Brazil to turn this visit into an opportunity to enhance communication and cooperation, deepen strategic mutual trust and create a brighter future for bilateral ties. Rousseff said that Brazil will work with China to make positive contribution to building a peaceful, democratic and inclusive world, adding that her country supports China's bid to host the 2022 Winter Olympic Games. Brazil is the first leg of Xi's ongoing Latin America tour, which will later take him to Argentina, Venezuela and Cuba.


**Chinese, Venezuelan central banks ink co-op deal**

The central banks of Venezuela and China signed a cooperation agreement on Friday aimed at promoting the exchange of information on statistical methodologies, monetary policy strategies and funding mechanisms. Zhou Xiaochuan, governor of the People's Bank of China, said the agreement is a breakthrough for both sides to enhance economic ties. It is important for the two central banks to share experiences, especially on monetary policies and financial stability, Zhou added. Zhou's Venezuelan counterpart, Nelson Merentes, described the deal as "historic," saying it would facilitate bilateral collaboration. "We must take into consideration that more and more Chinese companies" are investing in Venezuela in various fields, such as agriculture, livestock, construction, mining and telecommunications, he said.

Source: Xinhua: Chinese, Venezuelan central banks ink co-op deal, 2014-07-19

**World News: China TV Takes On Lender in Rare Spat**

In a rare public tussle between two powerful arms of the Chinese government, China's state broadcaster took aim at Bank of China Ltd., accusing the lender of laundering money and helping clients skirt the country's controls on cross-border fund transfers. China Central Television aired a nearly 20-minute-long report that said Bank of China's branches in several cities transferred large amounts of cash abroad for customers planning to emigrate. In some cases, it said, the bank worked with immigration agents to help clients disguise the origins of their funds. In exchange, Bank of China would charge handsome commissions on the transactions, the CCTV report said. "It is puzzling that a big state-owned bank like Bank of China would engage in a shadowy business like this," the CCTV report said. Bank of China said that the CCTV report was "factually incorrect" and that there is misunderstanding about how its cross-border money-transfer business works. In conducting the business, the bank said, it adheres to regulatory requirements, including those prohibiting money laundering.

CCTV, one of China's most influential propaganda arms, occasionally criticizes foreign and domestic companies, often spurring its targets to apologize and make good with their customers. But rarely has CCTV gone after big state-owned businesses. Bank of China is one of China's big four state-controlled lenders and often acts to fund China's policy goals. CCTV representatives didn't respond to requests to comment.


**U.S. Companies Step Up Business Done in Yuan**

American companies are conducting a record amount of business in Chinese yuan, looking to benefit from cost advantages over dollar transactions. Payments made in yuan by U.S. companies ranging from Ford Motor Co. to small clothing importers quadrupled over the past year to a record 2.6% of the global yuan total, according to the Society for Worldwide Interbank Financial Telecommunication, a financial-services firm that monitors international currency flows. The U.S. recently passed Taiwan to become the fourth-largest hub for trade in the yuan outside mainland China, after Hong Kong, Singapore and the U.K., according to Swift. The yuan is making inroads with U.S. firms now because it is becoming more cost-efficient to pay in the currency. American importers can often
negotiate better prices with Chinese suppliers if they agree to use yuan to make a purchase. Chinese companies tend to increase prices when they settle trades in dollars as a way to offset potential exchange-rate fluctuations. Transactions in yuan still represent a tiny portion of the more than $500 billion in annual trade between the U.S. and China. But companies and banks in both countries say the currency, also known as the renminbi, is starting to gain a foothold in America for the first time since China began loosening restrictions on trading the yuan outside China in 2009. At the start of a two-day summit in Beijing Wednesday, Treasury Secretary Jacob Lew pressed China to further free up the yuan. U.S. officials have accused China of keeping the yuan weak to help exporters.

Widespread use of the renminbi by U.S. companies would be a milestone in China's push to make its currency more accessible world-wide because the U.S. is the world's largest economy and China's biggest trade partner. The yuan's liberalization is part of the government's long-term goal to allow free-market forces to play a bigger role in the economy, with the aim of shifting the world's financial center of gravity from the U.S. to China. U.S. companies need to use the yuan for a variety of reasons, including paying for imports from China or protecting against exchange-rate fluctuations. They also need to make yuan transactions if they establish an office in China to pay for things like salaries and office supplies there. Beijing began loosening its grip on China's currency in 2005 when it dropped the yuan's peg to the dollar, though the yuan still trades in a tight range set daily by the government. Four years later, China launched a pilot program to allow some Chinese companies to settle their trades in renminbi. That program has since expanded to include almost all companies in mainland China. The Chinese government has also simplified the approval process for yuan settlement. Usage of the yuan has taken off globally. More than 18% of China's total trade is paid for in the currency, up from less than 1% five years ago, according to Bank of China Ltd. The Bank for International Settlements reported last year that the yuan is now the ninth most actively traded currency in the world.

Chinese officials acknowledge that the yuan is a long way from competing against the dollar as a reserve currency used by governments around the world as a store of value for their rainy-day funds. A "lot of homework" is yet to be done before the yuan becomes a truly international currency, China's central bank governor, Zhou Xiaochuan, said at a press conference in March. Payments out of the U.S. account for 2.6% of total renminbi payments world-wide, compared with 5.9% in London and 6.8% in Singapore, according to Swift data. Hong Kong commands the biggest share, with 71%. Victoria Classics, a textile importer based in Edison, N.J., started paying its Chinese suppliers in renminbi in the middle of last year after importing from China for more than two decades. The company's factories in China had been unwilling to accept yuan payments until last year, when the Chinese government simplified the process for settling yuan trades. Joe Cohen, chief executive of Victoria Classics, said the company has saved approximately $200,000 since it switched to renminbi.


A Yuan Route Abroad Is Cut Off

China's major banks have halted an experimental program, sanctioned by the country's central bank, that helped citizens transfer large sums overseas despite government capital controls, according to people with knowledge of the matter. The halt, which the people said was likely to be temporary, comes after the program was criticized by China's powerful state television broadcaster, underscoring the political sensitivity of the issue of wealthy Chinese moving money abroad. Experts said the criticism could set back China's efforts to ease its grip on the country's financial system.

Big commercial banks including Bank of China Ltd., Industrial & Commercial Bank of China Ltd. and China Citic Bank Corp. have halted the program, which allowed Chinese to remit their yuan across borders, the people said. The halt came after the People's Bank of China, the central bank, started to look into allegations that Bank of China had used the program to help clients launder money, they said. Last week, China Central Television accused the lender of improperly helping clients skirt China's controls on cross-border fund transfers. In some cases, CCTV
said, the bank worked with immigration agents to help customers disguise the origins of their funds. Bank of China has denied the accusations. It said in a statement last week that it adhered to regulatory requirements in conducting the business, including those prohibiting money laundering. CCTV officials didn't respond to requests for comment.

The CCTV report brought to light a trial program the PBOC began about two years ago that allowed a few approved banks, including Bank of China, ICBC and China Citic, to start offering cross-border yuan-remittance services for Chinese individuals through their branches in the southern province of Guangdong. The PBOC never publicly announced the program because it intended to carry out the trial quietly, the people familiar with the matter said.


Restrictions loosened in Shanghai trade zone

Authorities in the China (Shanghai) Pilot Free Trade Zone eliminated more than a quarter of the restrictions on foreign investors on Tuesday. The zone's original "negative list", which outlines forbidden or restricted areas for foreign investment activities, had been criticized for having too many restrictions and a lack of transparency. "The new list features more openness and transparency and is more in line with international standards," Dai Haibo, deputy director of administration committee of the zone, said at a news conference. For example, the zone has lifted the nine restrictions on foreign investment in manufacturing, four in commercial services and two in shipping services. In addition, authorities have also issued a guideline to support foreign investment in 31 areas covering 10 industries. Foreign investors will be allowed to develop oil exploration technology, process green tea and design luxury cruisers. The 28-sq-km pilot zone was launched in September 2013. Its negative list now contains 139 clauses of restrictions and prohibitions. The guideline was approved by the State Council on Saturday, and will take effect immediately, Dai said.

In June, 207 new foreign-funded enterprises were registered in the Shanghai zone, six times more than in October when it was launched. So far, 1,240 foreign businesses have registered in the zone. Industrial associations, foreign companies and research institutes were consulted in preparing the revised list, according to the Shanghai municipal government.

Source: WEI TIAN in Shanghai: Restrictions loosened in Shanghai trade zone, China Daily, 2014-07-02

China, Germany sign trade pacts

China and Germany signed a series of trade and investment deals on Monday during a visit to Beijing by Chancellor Angela Merkel, including agreements on two new factories for Volkswagen AG and the sale of 123 helicopters by Airbus SAS. The two countries are exporting giants - with Germany the European Union's biggest economy and China the world's second-largest - and Merkel aims to strengthen the economic relationship on her four-day visit, her seventh since taking office in 2005. She was accompanied by executives from Siemens AG, Airbus, Deutsche Lufthansa AG and Deutsche Bank AG, among other companies, according to German media. Merkel and Premier Li Keqiang oversaw the signing of a series of agreements on Monday.

According to a statement by Volkswagen, the German carmaker will build two new vehicle plants in the northern port city of Tianjin and Qingdao in the east as it invests 2 billion euros ($2.7 billion) along with Chinese auto manufacturer FAW Group Corp. The new plants’ production capacity will be finalized "based on market demand and relevant industrial policies", the company said in an e-mail to AFP. Merkel toured a Volkswagen factory in the southwestern city of Chengdu on Sunday. China has become Volkswagen’s largest and most important market, the company said, adding the group sold more than 1.5 million vehicles in the country in the first five months of this year, including sales by its joint ventures FAW Volkswagen and Shanghai-Volkswagen. European aerospace giant Airbus announced that its helicopter division has signed contracts to sell "a record" 123 aircraft
over six years to three Chinese companies. The helicopters - mainly light single-engine aircraft from the Ecureuil family and the light twin-engine EC135 - will be used for general aviation activities, it said in a statement. No financial details were provided. Also on Monday, Lufthansa said it had signed a memorandum of understanding to form a joint venture with Air China Ltd. The new partnership, which will come into force in October, will give passengers additional travel options and flight connections and allow Lufthansa "to have even better access to the second-largest aviation market after the United States", according to the German carrier.

China is a crucial mass market for Germany, with Chinese companies wanting its technology and millions of newly prosperous citizens craving German goods ranging from cars to luxury home appliances. Germany last year sold goods worth 67 billion euros to China, its second-largest export market outside Europe after the US. Imports from China topped 73 billion euros.

Merkel later met President Xi Jinping, who said her country was an "important strategic partner". "Germany is a country with sizable influence in the world," he said. "China places high importance on the development of our relationship." He also wished Germany good luck in the ongoing 2014 FIFA World Cup soccer tournament in Brazil.

Source: Agence France-Presse: China, Germany sign trade pacts, China Daily, 2014-07-8

China welcomes WTO ruling: MOC

China's Ministry of Commerce (MOC) said it welcomes the ruling of the World Trade Organization (WTO), which found that US failure to avoid double remedies in its punitive measures against certain Chinese products is against WTO rules. The MOC's spokesman, Yao Jian, said the ruling was consistent with China's standpoint, according to a statement released Wednesday on the ministry's website. The WTO's Appellate Body's report, issued on Monday, rejected the appeal requested by the United States and upheld most of China's claims. The report found that the United States failed to make duty adjustments to avoid double remedies in 25 countervailing and anti-dumping investigations against China in 2006 and 2012, which was inconsistent with WTO rules. Yao urged the United States to cancel any countervailing measures targeting Chinese products imported to the United States before GPX legislation was enacted in 2012. The GPX legislation authorizes the US Department of Commerce to impose countervailing duties on goods from "non-market economy" countries and allows an application a retroactive period starting from Nov 20, 2006.

Source: Xinhua: China welcomes WTO ruling: MOC, 2014-07-9

China's exports up 7.2% in June

China's exports rose for a third straight month in June as the country's foreign trade continued its warming trend, relieving some pressure on the central government to keep the economic engine running stably and quickly. The exports increased 7.2 percent year on year to $186.8 billion in June, with the growth pace slowing mildly from the previous month, showed data released on Thursday by the General Administration of Customs (GAC). In the same period, imports rebounded to $155.2 billion, up 5.5 percent from a year ago, after the volume tumbled surprisingly in May. Total foreign trade increased 6.4 percent to $342 billion, the data showed. Trade balance realized a surplus of $31.6 billion in June, following $35.9 billion in May and $18.45 billion in April, according to the GAC. The combined foreign trade volume in the Jan-June period saw year-on-year growth of 1.2 percent to $2.02 trillion. Exports increased 0.9 percent and imports went up 1.5 percent during the period, while the trade surplus stood at $102.86 billion. GAC spokesman Zheng Yuesheng attributed the improving export and import figures to rising demand due to global economic recovery and pro-trade measures from the Chinese central government, which together gradually reversed the weak performance in the first quarter.

China's trade with major partners gathered steam during the first half. Trade with the European Union saw the largest year-on-year growth of 9.6 percent, accounting for 14.4 percent of China's total foreign trade. Its trade with
the United States increased by 2.8 percent in the same period, followed by 2.6 percent with the ASEAN and 1.3 percent with Japan. However, trade between the Chinese mainland and Hong Kong dropped 24.1 percent from a year ago due to a high base figure in the corresponding period last year.

Source: Xinhua: China's exports up 7.2% in June, 2014-07-10

Resilient exporters ride the waves as competitors falter

Successful companies have shifted to added-value sectors to weather a stormy foreign trade market. Chinese exporters are sailing into head-winds of sluggish demand overseas and rising costs for domestic manufacturers. According to data released by the General Administration of Customs on Thursday, China's exports dropped by 1.2 percent to 6.5 trillion yuan ($1.04 trillion) in the first half of the year, with the trade surplus declining by 6.5 percent to 630.6 billion yuan. If calculated in dollars, the exports registered a slight increase of 0.9 percent in the first six months.

Source: Wei Tian: Resilient exporters ride the waves as competitors falter, China Daily, 2014-07-11

WTO sides with China on US trade tariff case

China won support from the World Trade Organization in challenging United States trade measures against Chinese products, while experts warned about underlying trade friction between the world's two biggest economies. The WTO on Monday issued a panel report on the US' imposition of countervailing duties on 22 products from China. The WTO backed China "on many aspects ... and found the US measures breach the WTO rules, which is welcomed by China", said the Ministry of Commerce in an online statement. Li Chenggang, director-general of the ministry's Department of Treaty and Law, told reporters in Beijing that the result was "within expectations" in view of the WTO's favorable ruling in a similar case in March 2011. "The ruling marks one more victory for China in challenging discriminatory US countervailing duties on Chinese products. This will further constrain the US misuse of trade remedy measures and benefit Chinese enterprises," Li said. He added that the ruling will "directly shake the legal basis of imposing countervailing duties" while the US classifies China as a nonmarket economy. US countervailing measures on Chinese exports endanger goods of $7.2 billion a year, the ministry said. Countervailing duties are tariffs on imported goods intended to offset subsidies in the exporting country. In May 2012, China requested consultations with the US on the imposition of the countervailing duties. The WTO set up a panel in September 2012 to look into the dispute. Gary Hufbauer, a senior fellow at the Washington-based Peterson Institute of International Economics, said that the panel decision could be a "big win" for China if the US loses its appeal, which he said it definitely will. "At this stage, it's a win for China, pending all the legal details," he said. "China has been both a petitioner and a respondent. They bring a lot of cases, and they get hit with a lot of cases. But this (case) is special in terms of the dollar value. This $7 billion is a lot."

Source: Xinhua: China's power data point to positive signs, pressure, 2014-07-16

China eyes $500b annual trade with Latin America in 10 years

Chinese President Xi Jinping said here Thursday that his country will work with Latin American and Caribbean countries to boost their two-way trade to $500 billion in 10 years. China will also "encourage and support more Chinese companies to invest" in the region so that its stock of investment could reach $250 billion in the coming decade, the president said in a keynote speech at a summit with 11 Latin American and Caribbean leaders. He called on the two sides to expand mutual investment, promote investment diversification, and channel more capital into production sectors.

In his speech, the Chinese leader proposed a "1+3+6" cooperation framework to "promote faster, broader and deeper cooperation between the two sides for real results." "One means one plan," Xi said, referring to the Chinese-Latin American and Caribbean Cooperation Plan (2015-2019), with the aim of achieving inclusive growth and sustainable development. He also suggested that "three engines," namely trade, investment and financial...
cooperation, should propel the practical cooperation between China and Latin America so as to reach comprehensive development. The Chinese president also said cooperation between China and Latin American and Caribbean nations should focus on six areas: energy and resources, infrastructure building, agriculture, manufacturing, scientific and technological innovation, and information technologies. To facilitate cooperation in these areas, Xi announced that "China will formally launch the $10 billion Special Loans for Chinese-Latin American and Caribbean Infrastructure and will, on this basis, further increase the credit line to 20 billion dollars." China, he added, will also provide $10 billion in preferential loans for Latin American and Caribbean countries. China will also launch a Chinese-Latin American and Caribbean cooperation fund and pledge a contribution of $5 billion, which is primarily for cooperation in energy and resources, agriculture, manufacturing, hi-tech, sustainable development and other areas, Xi said. Additionally, China will launch a $50 million special fund for agricultural cooperation with Latin American and Caribbean countries, and introduce an exchange program between young scientists of the two sides. The meeting was held during Xi's state visit to Brazil, the first leg of his four-nation tour to South America.

Source: Xinhua: China eyes $500b annual trade with Latin America in 10 years, 2014-07-18

In China, Engineers Are Hard to Keep

Research by consultancy Mercer LLC, for example, shows wages for automotive engineers and factory workers in Shanghai in 2013 were between 15% and 17.6% higher than the average manufacturing wage in the area. But now auto makers are confronting in China what U.S. auto makers discovered decades ago: Workers' aspirations rise with their pay. China is no longer a low-wage workshop for auto companies. It is increasingly a center for engineering, and research and development initiatives. Foreign car companies are finding it increasingly difficult to attract and keep engineering talent, as more Chinese car companies offer better pay packages and at times broader professional experience. At the same time, all auto makers face competition for skilled Chinese workers from certain other industries where the pay and professional prospects are better.

Engineers with under 10 years' experience in research and development for foreign auto makers in China earn between 180,000 yuan ($29,200) and 300,000 yuan a year including bonuses, according to recruitment consultancy Robert Walters PLC. Chinese auto companies usually offer around 30% more in salary to attract top talent from foreign brands, the consultancy said -- more when employees are asked to relocate cross-country to newly emerging industry centers such as Wuhan, Changsha and Chongqing. Vanessa Moriel, managing director of Human Capital Partners, a recruitment firm specializing in the auto industry, said engineers with specialized knowledge or leadership skills could earn as much as 500,000 yuan. Chinese auto engineers typically want to fast track their careers and seek opportunities that allow them to expand their skills into high-tech, specialist areas, she said. Companies must pay market price salaries, she said, and interpersonal relations are key. "Chinese don't work for a company, they work for a leader," Ms. Moriel said.


Lew Says China Update Of Shanghai FTZ List Contains No Major U.S. Benefits

U.S. Treasury Secretary Jack Lew today (July 1) said a pared-down list of restrictions applicable to foreign investment in the Shanghai free trade zone (FTZ) just issued by China, does not seem to offer significant market access based on his initial assessment. "We haven't fully digested it," he said of the so-called negative list, which lists sectors specifically restricted for foreign investments. "But on first glance, it doesn't appear to be areas of major interest for U.S. market access." He said the list appears to open up a number of areas, but not "a lot of business activity." Lew spoke at a July 1 event hosted by the U.S.-China Business Council (USCBC). Lew said the U.S. has continually told the Chinese government that it must demonstrate its commitment to creating actual market access. He said "any move in that direction" on either the Shanghai FTZ or the bilateral investment treaty (BIT)
will become the basis to move forward on more detailed BIT negotiations. He made clear the BIT negotiations are a long-term effort.

According to a July 1 article from the state-run Xinhua news agency, the negative list China released removed 51 items "in a number of sectors," from an original list of 190 restrictions that either banned or limited foreign investment in various sectors. The article did not specify which sectors were affected. Fourteen items were removed to expand foreign investment in certain sectors, 14 were removed to make foreign and domestic investment subject to the same restrictions, and 23 were consolidated into one category with other items, according to Xinhua. Separately, the World Trade Organization's Trade Policy Review of China this week noted progress on the lifting of investment restrictions in the FTZ. The report notes that, as of March, wholly foreign-owned companies are allowed in the FTZ in the telecom sector for domestic multiplayer telecommunications services, storage and forwarding business, call centers, Internet access services and the appstores segment of information services.


S. Korean firms boom in China

Twenty years after China and Republic of Korea established diplomatic ties, enterprises from ROK see their business booming in China, and some even regard China as their second home market, China Business News reported Friday. Statistics show that ROK enterprises’ accumulated direct investment in China has topped $50 billion, compared with China's $480 million direct investment in ROK, according to the report. China exported 107.43 billion worth of machinery and electronic products to ROK in 2013, while its imports from ROK on this subject was worth $211.19 billion, according to China Chamber of Commerce for Import and Export of Machinery and Electronic Products (CCCMB). Hardware companies from China and ROK are competing in this arena, said Gao Shiwang, vice-secretary of CCCMB told the newspaper.

China is the most important market for Samsung. It will surpass the US to be the world's largest consumer electronics market. Boo-keun Yoon, Co-CEO of Samsung Electronics Co Ltd, said at the Samsung Forum 2014. Samsung Electronics ploughed 150 billion yuan in China, up 80 percent year-on-year, the report said. Samsung started to establish joint ventures in China in 1992, the same year when China and ROK established diplomatic ties. As of the end of 2013, Samsung has set up 161 subsidiaries in China, including 38 factories, 45 sales companies, and 10 research institutes, it said. It offers jobs to 124,000 in China while pay 31.9 billion yuan in tax in total, according to the report. A Samsung Electronics Ltd memory chip project that cost $7 billion began operations in Xi'an, Shaanxi province in May 2014. Another ROK business giant, LG, formed its first production entity in China in 1993, and incorporated LG Electronics China Co Ltd in 1995. In an article titled “China, future of ROK enterprises” on LG's China website, LG states to adopt the differential strategy by offering specialized products for the Chinese market.

Chinese President Xi Jinping began his two-day visit to ROK on July 3. More than 250 Chinese business leaders joined the tour, including head of China's tech giants, such as Jack Ma, founder of Alibaba, and Robin Li, founder and CEO of Nasdaq-listed Baidu. It would offer a great opportunity for cooperation among hardware companies in the two countries, Gao said.


U.S. companies feel a chill in China

A slowdown in China's breakneck economic growth, stiffer competition from Chinese companies and rising labor costs have combined to cut into the profit margins of U.S. companies operating here. Many executives say they think the playing field is being tipped against them by a government that favors domestic companies, or they complain about being excluded from key sectors of the economy by laws restricting foreign investment. Meanwhile, hazardous levels of air pollution here make it increasingly hard to recruit executives from other countries. In a
possible sign of the growing disenchantment, U.S. investment in China fell 9.3 percent in the first five months of 2014 compared with the same period last year. Although such numbers are volatile, the decline in investment from Europe was even bigger.


**Beijing promises foreign CEOs better trade climate**

China will further its opening-up and reform policies to provide more opportunities for multinational companies, Premier Li Keqiang told visiting corporate executives of some Fortune Global 500 companies in Beijing on Wednesday. Executives of Volkswagen, IBM, Siemens, Nokia and Standard Chartered Bank, among others, shared their ideas and proposals with Li during their meeting on China's economic growth, innovation, financial cooperation, environmental protection and reforms. They were in Beijing to participate in the second annual Global CEO Council.

"Economic restructuring and upgrading is the key to the Chinese economy if we want to achieve healthy growth over the mid- to long term," Li said. He said that China must move up the value chain and follow a much greener development path to break through the energy and resources bottlenecks the country is currently facing. "We will strengthen the role of financial institutions in supporting development of a real economy, and at the same time guaranteeing financial security," he added. Commenting on optimizing the relationship between government and market, the premier said China will further streamline administrative procedures and broaden market access while continuing to eradicate counterfeit products and violations of intellectual property rights to create fairer competition and stimulate innovation. "China's deepening reform and broadened opening-up will provide multinational companies with more opportunities and room for development in China," he said. Some of the companies at the meeting are among the European firms that have provided essential technological or financial support for China's ongoing economic restructuring. Li underscored the region's significance to China's economic development.

Also on Wednesday afternoon, Li met Maltese Prime Minister Joseph Muscat, who will attend a three-day ecological forum in Guizhou province beginning on Thursday. Li said China would like to deepen its cooperation with the Mediterranean country in the trade, energy, infrastructure, marine economy and tourism sectors. The two governments on Wednesday signed a memorandum of understanding on cooperation from 2014 to 2019.

The Global CEO Council was initiated by the Chinese People's Association for Friendship with Foreign Countries in June 2013, to expand private diplomatic channels. The first council has 14 CEOs as its members.

Source: WEI TIAN: Beijing promises foreign CEOs better trade climate, China Daily, 2014-07-10

**China FDI Barely Grows as Economy Slows; June FDI Up Just 0.2% From a Year Earlier**

China's Ministry of Commerce said Tuesday that China attracted $14.42 billion of foreign direct investment in June, a slight 0.2% increase over June 2013. June's FDI number was up from May's $8.6 billion, which was 6.7% lower than a year earlier. FDI in the first six months rose a tepid 2.2% year on year to $63.33 billion. Higher labor costs remain a key concern for foreign companies operating in China. The average monthly wage for migrant workers at the end of 2013 was 2,609 yuan ($420), a 13.9% increase over 2013, the National Bureau of Statistics said in a recent annual survey. That compares with year-over-year rise of 11.8% in 2012 and a jump of 21.2% in 2011. Slower economic growth after decades of double-digit expansion has also made China less attractive. China's GDP grew by 7.4% year-over-year in the first quarter, its weakest pace in 18 months, down from the 7.7% year-over-year growth seen in the fourth quarter of 2013. Economists expect the second-quarter GDP results due out Wednesday to come in at about the same level as the first quarter.

In a survey released in late May by the European Union Chamber of Commerce in China, just 21% of member companies said China was their first investment choice, compared with 33% two years ago. Intended expansion
plans and planned mergers and acquisition figures were also down sharply, the chamber said, as companies grappled with tighter profit margins, stepped-up competition and market-access problems. A report by the American Chamber of Commerce in China earlier in the year noted a similar trend, although the decline in confidence was less dramatic among U.S. companies. For the first time, those U.S. companies who said they planned to increase their investments in China by 10% or less in 2014 formed the biggest category, while the proportion of companies planning no increased investment in China this year rose to 27% from 16% in 2013.


AmCham China Launches Online Resource To Help Companies Do Business Better In China

The American Chamber of Commerce in China today launched its AmCham China Business Center website, a unique resource for company executives on conducting business in China. Drawing on the vast experience of the chamber's more-than-1,000 member companies, the site aims to provide the most up-to-date information on the business environment in one of the largest and most dynamic economies in the world. "The AmCham China Business Center is an exciting new initiative that harnesses the deep China expertise of the chamber's staff and ecosystem of members to provide an amazing resource on every aspect of doing business in China," said AmCham China President Mark Duval. "For those considering China, or who already have a presence but want to expand, the AmCham China Business Center will be an essential partner in helping you understand, plan and execute the next step."

Key features of the site include:
Sector Snapshots: Discover the potential opportunities in your industry.
News Bureau: The latest news on everything relevant to your business in China.
Research Hub: In-depth analysis of your sector provided by AmCham China members.
Ask John: Ask our resident expert any questions you have about doing business in China.
Under construction are new sections on the basics of building a China presence, where in China to locate your business, corporate social responsibility, and a B2B discount program, with more sections planned.
"This is just the start of a new range of business development offerings from the chamber that will better connect the American business community in China," Duval said. "China is open for business, and we're ready to help you overcome the challenges and make the most of the opportunities."

The American Chamber of Commerce in the People's Republic of China (AmCham China) is a non-profit organization which represents US companies and individuals doing business in China. AmCham China's membership comprises more than 3,800 individuals from over 1,000 companies. It has more than 50 industry- and issue-specific forums and committees, offers unique services such as the Business Visa Program, holds a wide range of networking and informational events, and meets with US and Chinese officials to discuss challenges and opportunities facing US firms doing business in China. The Chamber's mission is to help American companies succeed in China through advocacy, information, networking and business support services. Visit: www.amchamchina.org


China Raids Microsoft Offices; Security and Bundling Probe Follows U.S.-China Commercial and Policy Tensions

China confirmed it is investigating whether Microsoft Corp. broke its antimonopoly laws, the latest sign of growing commercial and policy tensions between the U.S. and China that are roiling technology companies in both countries. Roughly 100 investigators on Monday raided Microsoft offices in four Chinese cities including Beijing, China's State Administration for Industry and Commerce said on Tuesday. The agency said that Microsoft had not
disclosed relevant information about some security features and how it ties its software products together. The statement wasn’t more specific. The investigation represents a new friction point between the countries following disclosures about U.S. National Security Agency surveillance and revelations of hacking of U.S. networks by China's military.

In recent weeks, China's state broadcaster claimed Apple Inc.’s iPhone and Microsoft’s latest Windows PC operating software weren't safe to use. In May, the U.S. charged five Chinese military officers with breaking into U.S. companies' computers; days later, Chinese state-owned media said U.S. firms including Google Inc., Microsoft and Yahoo Inc. are "pawns" of the U.S. government and should be punished. "Microsoft complies with the laws and regulations of every market in which we operate around the world," a Microsoft spokesman said on Tuesday. "Our business practices in China are designed to be compliant with Chinese law." China's six-year-old antimonopoly law is a frequent focus of dispute. U.S. companies privately have complained for years that Chinese regulators slow acquisitions by U.S. companies or impose onerous restrictions on mergers to bolster domestic technology companies at the expense of U.S. ones. Now some tech companies say China is using its antimonopoly law to punish U.S. companies for pricing policies or activities beyond mergers. U.S. officials also are scrutinizing Lenovo Group Ltd.’s proposed purchase of International Business Machines Corp.’s computer-server business. Members of a board overseeing acquisitions with potential national-security implications have pressed the Chinese computer maker over whether its servers could be compromised by hackers or spies, The Wall Street Journal has reported.

For Microsoft, the government scrutiny threatens the company's efforts to crack the China market after years of trying. Microsoft Chief Executive Satya Nadella lobbied Chinese officials in 2012 to allow the company to sell cloud-computing services with a Chinese partner. Microsoft is moving slowly to offer Chinese domestic companies a Web-friendly version of its Office software and outsourced computer processing. Amazon.com Inc. and IBM are starting similar services in China. Because of Microsoft's prior efforts to cultivate ties with China's government, some analysts said the company may be able to withstand the antitrust review.


Report: Outbound M&As set to pick up pace in coming months

Outbound mergers and acquisitions by Chinese companies grew at a much smaller pace than the growth in deal volume, which hit a high of $177 billion in China during the first six months of this year, according to figures from global news agency Thomson Reuters. The total value of announced M&A deals involving Chinese companies grew by 47.4 percent on a year-on-year basis, during the first six months.

However, in the same period, the total value of China's outbound mergers and acquisitions dropped by 21.6 percent to $25 billion. The energy and power sector accounted for most of the outbound M&A activities, with an 18.6 percent market share worth $4.7 billion during the first half, a 65.3 percent decline from the corresponding period in 2013. In terms of outbound destinations, Southeast Asia is fast becoming the destination of choice. Compared with a total deal value of $198 million in transactions during the first six months of last year, deal volumes in Southeast Asia jumped to $5.6 billion in the same period this year. Much of that increase was driven by the big-ticket M&A deal involving Singapore-based Noble Group. COFCO Corp, China's largest grain trader, and private-equity firm Hopu Investment Management Co paid $4 billion to buy Noble, according to Thomson Reuters.

"Chinese companies tend to conduct M&As in developed markets and focus on industrial investment in less-developed regions such as Africa," said Jin Bosong, a researcher at the Chinese Academy of International Trade and Economic Cooperation, a government think tank. "State-owned and private companies from China are facing several difficulties in overseas deals," said Jin. He cited the case of Chinese telecom providers Huawei and ZTE being blacklisted by the US government for security reasons in May. However, China's outward investment is likely to surpass foreign direct investment inflows this year, Jin said adding that, "the transaction volume will vary
a lot in different countries and areas."

On the other hand, overseas companies continued to remain bullish on investments in China. Overseas companies closed China acquisition deals worth $22.4 billion during the first six months, a 29.8 percent growth over the corresponding period in 2013. Most of the inbound acquisitions were in the real estate sector, which in terms of value grew by 84 percent to $9.1 billion, and accounted for a market share of 40.4 percent.

Source:  Yao Jing: Report: Outbound M&As set to pick up pace in coming months, China Daily’ 2014-07-01

China now exporting infrastructure investment to ASEAN

Two-way investment, big-ticket infrastructure projects, the development of e-commerce and cross-border RMB transactions will play a bigger role in China-ASEAN economic ties, officials said on Tuesday. Chen Zhou, director of the department of Asian affairs of the Ministry of Commerce, said commodity, agricultural and low-end products are no longer what dominate China's trade with members of the Association of Southeast Asian Nations.

As prices are high for many goods and infrastructure projects, and market competition is less intense in Southeast Asia, China's business model there has changed from exporting goods to establishing manufacturing facilities, as well as research and development centers and sales networks. It also hopes to sign contracts for highway, port, dam and energy projects in the region, Chen said. "This shift could have great business implications as it comes at a time when both sides are eager to diversify and adjust their industrial structure for exports," he said at a media conference organized by the State Council Information Office. Investment between China and ASEAN countries hit $120 billion by the end of June this year, with $40 billion from China and $80 billion from ASEAN. "Such two-way investment as China's infrastructure projects in ASEAN will not only further the exports of China's electromechanical products and construction materials, but will also promote overall trade cooperation," Chen said.

Trade between China and ASEAN jumped 10.9 percent to $444 billion in 2013, eclipsing the 7.6 percent increase in China's total foreign trade. China is the largest trading partner of ASEAN, and the group has emerged as China's third-largest partner, a major investment destination and an important tourist destination.

To mark the first year of the Diamond Decade of China-ASEAN cooperation and the start of efforts to build the 21st century Maritime Silk Road supported by the governments on both sides, the 11th China-ASEAN Expo will be held in September in Nanning, capital of South China's Guangxi Zhuang autonomous region. Zhang Xiaoqin, Guangxi's vice-chairman, said Australia has confirmed its participation in the expo as a special guest country. This mechanism will expand service coverage of the expo to a regional comprehensive economic partnership. "The Beidou Satellite Navigation System, offshore engineering products, the development of e-commerce, new sources of energy and environment protection will help upgrade bilateral cooperation from traditional sectors to high-end fields, and drive economic growth of all the countries concerned during the expo," Zhang said. Trade between China and ASEAN grew 4.8 percent year-on-year to $220.7 billion in the first half of the year.

Source:  Zhong Nan: China now exporting infrastructure investment to ASEAN, China Daily, 2014-07-23

China's FDI in US set for increase

Economic changes in China have set up the world's second-largest economy for a "structural increase" of foreign direct investment in a broad range of industries in the United States over the next decade, according to a director at a New York-based global research and advisory firm. "China is only at the beginning of a structural catching-up process in global outbound investment," Thilo Hanemann, research director with the Rhodium Group LLC, said in an e-mail to China Daily over the weekend. US will see "strong inflows in the next decade", but the amount of investment from China will depend on a number of factors. Those include "the relative attractiveness of the US economy, the ability of Chinese firms to compete in an advanced market like the US and the progress both countries make in sustaining two-way openness to investment". "Irrespective of annual trends, China is emerging as an increasingly important investor in the US, and this is a natural process given China's economic size and maturing economy. The US is very open to Chinese investment at the moment, but China needs to make faster progress in
leveling the playing field," he said.

China's FDI in the US in the first half of 2014 declined slightly year-on-year, and the focus shifted from acquisitions of assets to real estate, advanced services and manufacturing, according to a report from RHG. Chinese investment in the US doubled to $14 billion in 2013, and investors made deals valued at more than $10 billion in the first half of 2014 alone, according to RHG. Investment in the US high-technology sector formed the core of China's FDI through the first quarter of 2014, with the announcement of more than $6 billion in such deals. An April report from RHG forecast that China's outbound FDI could grow to $1 trillion to $2 trillion by 2020. Although $10 billion in deals have been disclosed so far this year, Hanemann said it is important to note that completed investments for the first half of 2014 totaled just slightly more than $3.5 billion.

Source: Jack Freifelder in New York: China's FDI in US set for increase, China Daily, 2014-07-29