China News in Brief
May, 2014

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China's April Manufacturing, Property Data Show Signs of Weakness

China's disappointing manufacturing and property data reveal fresh signs of weakness that could pressure Beijing to prop up the economy. Economists have been looking for some indication that China's first-quarter slump is reversing, which could help the government reach its official 7.5% growth rate for this year. But April data released on Tuesday suggest the slowdown in the property market is having a knock-on effect on factory output, retail sales, and investment in machinery, land and other physical assets, all of which posted slower growth rates compared with a year ago. Spending on real estate, including indirect purchases such as furniture and management fees, accounts for about a quarter of China's economy, a proportion large enough to cause a domino effect if the sector hits a wall. Home sales in the first four months of the year fell 9.9% to 1.53 trillion yuan ($245.6 billion), according to China's National Bureau of Statistics, compared with a 7.7% decline for the three months ended March. The statistics agency relies on year-to-date figures and doesn't break out individual months. Property investment in the first four months of 2014 rose 16.4% year-over-year to 2.23 trillion yuan, but that was down from the 16.8% growth seen in the first quarter.

Industrial production by the nation's factories and mines rose 8.7% year-over-year in April, the statistics agency said, a slight decline from 8.8% in March. Fixed-asset investment in machinery, land and buildings, excluding rural areas, meanwhile rose 17.3% in the January to April period, compared with the same period a year earlier, a decline from the 17.6% increase in the January to March period. Retail sales for the month rose by 11.9%, a decline from the 12.2% year-over-year increase in March. In a bid to prop up faltering demand, Chinese leaders in February announced a set of mini-stimulus measures, including tax cuts for smaller companies and increased transportation spending. Such measures are seen as a more targeted approach than a major stimulus program that ultimately could fuel more bad debt. Still, the latest figures suggest this wasn't enough to counteract weaker fundamentals, some analysts said.

Source: Mark Maginer: China's April Manufacturing, Property Data Show Signs ofWeakness, May 14, 2014

China's Alternate Reality of Slipping Growth

As China's downshift continues, investors should worry that the economy is in even worse shape than meets the eye. Government figures for April paint a dreary picture, led by a slowdown in the all-important real estate sector. Housing sales this year through April have fallen 10% from a year earlier. Construction starts were down by almost a quarter. Fixed asset investment growth in April skidded to its slowest pace since 2002. Retail sales, an imperfect proxy for consumer spending, grew by an anemic 11.9%, the slowest pace in three years. That adds up to a second quarter that is decelerating from an already sluggish first quarter, in which gross domestic product growth was 7.4%.

A bigger concern is that those GDP figures underestimate inflation, resulting in an exaggeration of real growth. Citigroup economist Minggao Shen says there is 'consistent evidence' that growth fell to as low as 6% in the first quarter. He points to the government's GDP deflator, the number used to adjust nominal growth to the change in prices. The deflator has recently deviated from other measures of inflation, he says. This is at odds with a broader shift in China's growth makeup from manufacturing to services. The latter tends to experience faster price increases.

Whatever the true rate of growth, the Communist Party sees job creation as the ultimate measure of its ability to stay in power. But employment may not hold up as the property market hits the rocks, given the mass of jobs it supports from construction workers to real-estate agents. Last week, Beijing pledged yet again to speed up construction of affordable housing, a signal the government sees a need to prop up this crucial sector. On Tuesday, the country's central bank urged more lending support for first-time home buyers.

Chinese policy makers have telegraphed for some time that slower growth is an inevitable part of its effort to reform the economy. Investors shouldn't be surprised by that. The question now is, exactly how slow is too slow?

Source: Alex Frangos: China's Alternate Reality of Slipping Growth, May 14, 2014
China's power consumption rises 5.2% in Jan-April

China's power consumption rose 5.2 percent in the first four months from a year earlier, official data showed on Thursday. In April alone, power use, an indicator of economic activity, gained 4.6 percent from a year ago, but much lower than the 7.2 percent in March, according to National Energy Administration. Accordingly, the Jan-April figure was lower than the 5.4-percent rise in the first quarter. In the first four months, electricity use by the primary industry dropped 4.9 percent year on year to 25.4 billion kwh. Power consumption by the secondary industry reached 1.24 trillion kwh in the first four months, up 5.0 percent year on year, while that by the tertiary industry rose 6.5 percent year on year to 211.6 kwh.
Source: Xinhua: China's power consumption rises 5.2% in Jan-April, 2014-05-15

China's growth slowdown to be good over long term: Nobel laureate

China's economic growth slowdown during the current period of transition reflects the need for reforms so that the system may be more adapted to the new growth model, Nobel laureate economics Michael Spence said Wednesday. Speaking at a conference in Singapore, Spence said that China's challenge lies in that it is moving to a system that is more driven by consumption but the system had been largely adapted to the past model which relied heavily on public sector investment.

Spence said that the components of an economy can be separated into the tradable sectors and the non-tradable sectors which include the construction sector and the government services. An examination of historical data showed that the growth of the tradable sectors had been stagnant over the years before the crisis, partly due to the inevitable industry migration in an era of globalization. But the growth in the non-tradable sectors, supported by public investment, had compensated for the lack of growth in the tradable sectors, which also led to asset bubbles and growing income disparity.

China has been trying to promote consumption as a more important growth driver. However, the system had been adapted to the old growth model with public sector investment as a key driver and it takes time to reform it. China has been observing fiscal discipline recently and carrying out financial reforms to make the transition happen. One of the challenges is that a slowdown in China's growth may "scare the wits out of the markets globally, because they won't be able to tell whether it's a trend or transition." Nevertheless, "I am kind of optimistic that it will be done," Spence said.
Source: Xinhua: China's growth slowdown to be good over long term: Nobel laureate, 2014-05-29

'Mini-stimulus' delivers positive news flow

In the past couple of months, the Chinese government has gradually strengthened the so-called "mini-stimulus" - policies supporting growth. While re-iterating its willingness to tolerate slower growth and reluctance to use strong and short-term measures, the government has increased railway investment, accelerated approvals and construction plans on other infrastructure projects, including water and utilities, and quickened construction and fund disbursement for shanty town renovations. We estimate that these measures together would amount to about 0.6 percent of GDP, assuming the increases relative to 2013 are all new. The intensifying of the mini-stimulus measures reflects the authorities' commitment to protecting the "lower bound" of the growth target, believed to be 7-7.5 percent for 2014 so that the target on new job creation (10 million for 2014) can be achieved, and other issues in the economy can be dealt within a stable macro environment.

In line with this general government stance, the central bank has quietly eased liquidity conditions in the past 2-3 months as well. As a result, both short-term interbank rates and long-dated bond yields have remained low relative to the beginning of the year. While the People's Bank of China is reluctant to use RRR cut to send a strong signal, it has quietly used open market operations, on-lending facilities and un-sterilized FX interventions to deliver more liquidity. In addition, the central bank has used moral suation to budge banks speed up mortgage approvals
and keep rates "reasonable". As these measures start to take effect and as export growth recovers in the coming months, we may see growth momentum stabilizing and improving in the summer months. However, ongoing property sector weakness is expected to weigh on construction and heavy industrial production throughout this year, with the negative second round impact increasing later in the year and into 2015.

We think the government is very aware of the downside risk to growth and is prepared to increase policy support if necessary. In his latest field trip, Premier Li Keqiang pointed out that "the economy still faces large downward pressures" and "all levels of governments should place development as the top priority", and promised to "fine tune macro policies in an appropriate and timely way, to ensure a stable growth of money and credit". As such, we expect the government to relax policies further, including policies directly related to property, as property and economic activities weaken further later on. Such policies could include relaxation of HPR and hukou, reduction in down payment requirement, and relaxation in credit. In addition, the government could further speed up the disbursement of fiscal budget expenditure to support the construction of key infrastructure projects. Growth-friendly reforms will also be accelerated, including opening up service and utilities to private investment.


China eyes new tool to liberalize interest rate

China's central bank is looking to negotiable certificates of deposit (NCDs) as calls for a fully liberalized interest rate grow. In its quarterly monetary policy report released this week, the People's Bank of China (PBOC), the country's central bank, said it will gradually offer NCDs for enterprises and individuals to facilitate the country's interest rate liberalization in an orderly way. Currently, the PBOC still controls the interest rates banks can offer to clients, allowing lenders to float a maximum 10 percent upward from the benchmark interest rates. However, the inter-bank interest rates and the lending rates have already been fully liberalized, thus forming a so-called interest rate "dual track" system that many observers say benefits commercial banks with protected interest rate margins and harms depositors.

"If NCDs targeting individuals win the go-ahead, it will be an important step forward for China to remove control over interest rates for deposits and let the market decide interest rates," Lian said. NCDs have proved effective in overcoming hurdles in interest rate liberalization in other countries. For example, the US Federal Reserve began issuing NCDs in 1973, which gradually became the main source of funds for banks in the United States. The same monetary tool was also used by Japan and the Republic of Korea when they liberalized interest rates in 1979 and 1994, respectively.

Source: Xinhua: China eyes new tool to liberalize interest rate, 2014-05-12
(See additional coverage below).

Banks told to act more quickly on home loans

Commercial banks should set mortgage rates at "reasonable" levels and grant housing loans more quickly, especially for first time buyers, the People's Bank of China said in an online statement on Tuesday. During a meeting with executives from 15 commercial banks on Monday, the PBOC emphasized that the banks should improve their housing finance services and give priority to loans for first time homebuyers while keeping a closer eye on the associated risks. "The central bank is aiming to maintain economic stability. Among banks attending the meeting were Agricultural Bank of China Ltd, China Construction Bank Corp, Industrial and Commercial Bank of China Ltd, Bank of China Ltd and Bank of Communications Ltd.

The property market has been cooling down. The latest evidence of the downtrend came on Tuesday from the National Bureau of Statistics, which said that housing investment grew 16.6 percent year on year in the first four months of 2014, a decline of 0.2 percentage points from the growthrate of the first quarter. In the first four months, new housing starts stood at 311.84 million square meters, down 24.5 percent year-on-year, the NBS said. The
slowdown in the housing market has already affected downstream industries such as cement, iron and steel.

Banks have been raising mortgage rates for first time buyers or holding off on approvals amid tighter liquidity. Banks have also been reacting to their rising exposure to the property sector in 2013. The weighted average mortgage interest rate hit 6.7 percent in March, up 0.17 percentage point from December. Nearly 90 percent of mortgages offered to first time buyers were at a premium of 5 to 10 percent above the PBOC's benchmark mortgage rates. For example, the rate is 6.55 percent for five year loans or longer. The rising cost of capital and shrinking margins on mortgages have been discouraging banks from providing housing loans. "The central bank's new policy is targeted at making it easier for first time homebuyers to get loans, rather than stabilizing the property market, although it's good news for developers," Lu said. "Instead of relaxing its policy on property development loans, the central bank chose a safer policy, which will help avoid the problem of building homes that do not sell."

Source: JIANG XUEQING: Banks told to act more quickly on home loans, China Daily, 2014-05-14

**Shanghai's first private bank to land in FTZ**

The nurturing of private lenders in China gained traction on Wednesday as Shanghai's first private bank prepared to open in the free trade zone (FTZ). China's banking regulator approved five private banks in Tianjin, Shanghai, Zhejiang and Guangdong, to bring more private players into a sector dominated by the state. Each private bank has to constitute capital from at least two private firms. The bank to be established in the FTZ will be jointly formed by local private conglomerates Fosun and JuneYao. Sources close to authorities said there are issues surrounding the equity contribution of each firm for the five banks. Some of the firms have equity held by foreigners and regulators want the pilots to be purely Chinese concerns. Regulatory details for banks in the FTZ were also revealed on Wednesday. It is now easier for banks to add or upgrade new branches and make executive appointments in the zone with any changes to be reported to regulators retrospectively. Branches in the zone may also sidestep the 75 percent loan-to-deposit ratio that applies to all banks in China. While the ratio puts a cap on the amount banks can lend, branches may coordinate their lending as long as total loan balances do not exceed 75 percent of total deposits. "Our interest is whether this rule (loan-to-deposit ratio) will also govern the Free Trade Account (FTA) in the future," said economists from ANZ Banking Group in a research note on Wednesday.

Source: Xinhua: Shanghai's first private bank to land in FT, 2014-05-14

**Yellen: China's Financial Woes Manageable**

U.S. Federal Reserve Chairwoman Janet Yellen isn't too worried about the possibility of China's financial system collapsing, but thinks it's enough of a risk that it "bears monitoring closely." At least that was her position late last year, when she answered formal written questions from Senators as part of her confirmation process. (Her comments were sent to the Senate Banking Committee sometime between her nomination hearing on November 14 and her confirmation early in January.) In her formal response, Ms. Yellen acknowledged that China's financial system was facing pressures, pointing to a substantial expansion of bank loans, 'shadow financing' through trust companies, corporate bond issuance, and off-balance sheet bank lending. Rapid and sizable credit expansion has raised concerns about the quality of assets within the financial system.

“A future rise in problem loans could lead to capital shortfalls in the banking sector and potentially large expenses for the government,” she said. Still, the then-Fed vice chairwoman said the Chinese government “has extensive resources to meet potential shortfalls in capital,” and that authorities “appear to recognize the potential
risks of excessive credit growth to their economy and have signaled intentions to curb it.” Although China has nearly $4 trillion in currency reserves, tapping them to stem a financial crisis could cause problems elsewhere in the world. A major sell-off of U.S. or European debt could have major market implications, for example. In April, the International Monetary Fund said China's financial problems are bad enough to warrant more aggressive action by the Chinese to rein in borrowing, even if it meant lower growth.

Ms. Yellen said in her written comments that despite confidence in Chinese authorities to manage the problem, “notable risks remain” and the Fed should keep a sharp eye on the situation. “Although China has a relatively closed financial system with fewer financial links to other countries than many other major economies, a sharp slowdown in the Chinese economy would slow growth in other countries as well,” she said.


**PBOC announces rules for accounts in Shanghai's FTZ**

The People's Bank of China released detailed rules on Thursday for the free trade account system in the China (Shanghai) Pilot Free Trade Zone, a step in the process of financial reform that will make it easier to raise funds and invest across the border. The free trade account system enables full convertibility of the yuan and allows offshore financing in the FTZ. The free trade account system will offer Chinese companies - especially those operating in the foreign trade sector - secure, low-cost yuan-denominated funding from offshore sources where financing costs are usually lower than in the Chinese mainland. Under the free trade account system, the yuan and foreign currencies are managed under unified rules and can be converted automatically for an FTZ-registered enterprise with a single transaction. Previously, conversion required multiple transactions under different rules.

Zhang Xin, head of the PBOC Shanghai Head Office, said the regulations are a key part of the overall reform process in the FTZ, as well as a big step in the process of opening up the nation's financial markets while keeping risks under control. This move will significantly reduce the costs and time required to raise funds or make certain investments and makes the capital allocation process more efficient, said Zhang. The move also provides space for further reforms, as regulators of the securities and insurance markets can adapt the system for their own needs without waiting for the PBOC to announce further details. Regulators have recently relaxed barriers to cross-border capital flows within the FTZ, giving FTZ-registered banks and companies more freedom in raising and using foreign exchange.

Last Friday, the PBOC announced that multinationals can open international and domestic accounts to handle foreign exchange transactions. Foreign capital can be transferred freely between international and offshore accounts. Market insiders and analysts said these moves will help lenders and enterprises to better use funds and expand opportunities beyond the zone.


**Beijing Tightens Lending Rules**

China's financial regulators issued new rules on Friday aimed at limiting banks' off-balance-sheet lending activities, as Beijing moves to rein in runaway debt that many economists say threatens the country's financial stability. The guidelines, which take effect immediately, seek to put a stop to banks using a kind of backdoor transaction that involves disguising corporate loans as less-risky bank-to-bank loans. Analysts at Standard Chartered estimate as much as two trillion yuan ($321 billion) could have been lent under this method as of June 2013, the most recent estimate available.

Such loans are often made through a series of transactions that take place in the country's interbank market, where banks borrow from one another. Like other types of “shadow” credit -- or debt created outside the formal bank-lending channels -- such loans often are made to borrowers considered too risky for banks' on-balance-sheet lending arms. That can include local governments, property developers and big companies burdened by overcapacity. Aggressive growth in this type of lending has led the International Monetary Fund and others to warn
that it makes the Chinese financial system more unstable. The guidelines require banks to count such interbank loans as part of their overall loan quota, which regulators set for each bank. These quotas currently don't cover bank-to-bank loans. In addition, the rules require banks to hold capital and reserves against such interbank loans. The regulations were formalized after months of wrangling among Chinese regulators, including the People's Bank of China and the China Banking Regulatory Commission.


CD liberalization 'a step forward'

The People's Bank of China will allow commercial banks to offer large-denomination certificates of deposit to individuals and companies, a further step to free up interest rates, The Wall Street Journal reported. According to sources in the banking industry, the CDs will be available on a trial basis as early as this week to allow a gradual introduction to the market, according to The Wall Street Journal. During a test run involving more than 10 banks, the interest rate will be set at 3.4 percent for one-year CDs with a minimum investment of 100,000 yuan ($16,035), the Journal said. The interest rate is slightly higher than the maximum rate of 3.3 percent for one-year term deposits that has been offered by commercial banks in China since July 6, 2012. For some large depositors, the interest rate of 3.4 percent on one-year CDs is more attractive than the maximum fixed-term deposit rate of 3.3 percent with the same maturity, so the difference will help the banks attract a steady flow of large deposits.

But financial experts said that the rate is still far from competitive in the current domestic money market. "Compared with various wealth management products, the CDs could only attract clients with a very low risk tolerance," said Mu Hua, a banking analyst at GF Securities Co Ltd. The seven-day annualized yield of Yu'ebao, an investment product offered through Alibaba Group Holding Ltd's online payment affiliate Alipay, was 4.83 percent on Sunday. Even commercial banks offer an average annualized return of about 4.3 percent on wealth management products, which offer preservation of capital. "But in the long run, certificates of deposit may attract more clients if China launches a deposit insurance system, as the system will cover CDs, not wealth management products," Mu said. The central bank is trying to reduce the impact of CD issues on commercial banks by targeting the product at high-end clients. The minimum investment will keep a large number of depositors from shifting their money from deposits into CDs, according to Wen.


Reserve ratio cuts to tackle slowdown

The central government will not shift its policy direction amid the economic slowdown, but will intensify targeted financial easing in coming months, the State Council said in a statement on Friday. The statement, which followed an executive meeting of the council, said the government will strengthen the "targeted reduction" of the reserve requirement ratio - the amount of money banks have to set aside as reserves. The statement said banks that have lent "a certain portion" of their total loans to agriculture-related firms, small and micro-sized enterprises and other companies that cater to economic restructuring demand, would enjoy the ratio cut. It did not specify the portion required. In April, China cut the reserve requirement ratio for rural banks by up to 2 percentage points, but did not reduce the ratio across the board. The ratio for large financial institutions is 20 percent and it is 16.5 percent for smaller ones. Many economists believe the ratio is too high to release sufficient liquidity to spur the slowing economy. The statement vowed to deepen financial reform and "adjust the structure" to "unplug" the vein through which the financial system supports the real economy. Weakest link will determine success of muni reform.

Source: Zheng Yangpeng: Reserve ratio cuts to tackle slowdown, China Daily, 2014-05-31

China's April fiscal revenue rises 9.2%

China's fiscal revenue climbed 9.2 percent year on year in April to reach 1.25 trillion yuan ($202.92 billion),
the Ministry of Finance said on Monday. Central government revenue reached 581.2 billion yuan, up 8.5 percent year on year, while local government revenue stood at 666.9 billion yuan, up 9.8 percent from the same period last year. Of the total, revenues from domestic value-added tax gained 4.9 percent year on year to 229.4 billion yuan, while those from domestic consumption tax increased 3.8 percent to 66.9 billion yuan, the ministry said. Revenue from income tax for enterprises and individuals rose 10.5 percent and 12.5 percent year on year to reach 328.6 billion yuan and 55.6 billion yuan respectively.

In the first four months, China's fiscal revenue climbed 9.3 percent year on year to 4.75 trillion yuan. Central government revenue reached 2.14 trillion yuan, up 7 percent and local government revenue stood at 2.62 trillion yuan, up 11.3 percent. The country's fiscal expenditures in the first four months rose 9.6 percent from one year earlier to 3.98 trillion yuan, the ministry said.

Source: Xinhua: China's April fiscal revenue rises 9.2%, 2014-05-12

**Alibaba Files IPO in the U.S.**

Chinese Internet giant Alibaba Group Holding Ltd. officially filed plans to offer its shares in the U.S., confirming the breadth and scale of its vast e-commerce operations ahead of what is expected to be one of the largest stock listings in history. The filing showed the company had 231 million annual active buyers last year. A total of $248 billion was spent on Alibaba's three shopping sites last year, roughly the same as the economy of Finland. That transaction volume, which in the fourth quarter was up 53% from the prior year, was more than twice as much as was spent on Amazon.com Inc., which had roughly $110 billion in transactions, according to Forrester Research.

Alibaba valued itself at roughly $109 billion in April, based on disclosures in the document about the numbers of shares outstanding and its internal estimate of the value of each share. Including some stock-based compensation and the conversion of certain preferred shares, the valuation is $116 billion. However, the company could seek a higher valuation when it sells shares. Analyst estimates have ranged from $136 billion to $245 billion. Alibaba said Monday that it plans to raise $1 billion, although that figure is widely seen as a placeholder. People familiar with the company have said it could raise more than $20 billion in the deal, not expected until at least later in summer.

Overall, the filing shows Alibaba's revenue growth is outpacing its growth in expenses. Alibaba's cost of revenue, which includes various operational expenses and traffic acquisition costs as well as payment processing fees it pays to Alipay and other financial institutions, increased 33% to 9.9 billion yuan ($1.59 billion) in the nine months through December from a year earlier. The company's product development costs rose 34% to 3.89 billion yuan in the same period. For those nine months, Alibaba's revenue jumped 57%, more than making up for the increase in expenses. Alibaba's largest business segment was its three Chinese retail markets, contributing 83% of its $6.5 billion in revenue in the nine months ended in December. The filing also revealed details about Alibaba's cloud-computing business. In the last nine months of 2013, just 1.4% of Alibaba's revenue, or $90 million came from its cloud computing business. It could process 3.6 million transactions a minute as of Dec. 31. It now handles web traffic for third-party companies.

The filing showed that Alibaba's mobile transactions are growing. Mobile transactions accounted for about 20% of all the transactions on its Chinese shopping sites in the fourth quarter of last year, up sharply from 7.4% a year earlier, the company said. In December, Alibaba's shopping sites had 136 million monthly active users on mobile, the company said.

The Chinese company had $7.9 billion in cash, cash equivalents and short term investments, and $4.9 billion in total long-term debt as of the end of last year--important metrics as Alibaba continues an acquisition spree aimed at taking the company into new business areas and bolstering its hand against rivals. The IPO will mark the growing ambitions in China and abroad of Alibaba, which was founded in 1999 in the eastern city of Hangzhou, by a former English teacher named Jack Ma. Alibaba's first business was a site to connect Chinese suppliers with Western buyers. Today, Alibaba's main business are its two consumer marketplaces, Taobao and Tmall. The two
sites together account for roughly 80% of all Chinese online shopping transactions, which stood at 1.84 trillion yuan ($296 billion) last year according to research firm iResearch. The filing showed why it might need to raise more funds for itself. Alibaba noted it has 'incurred substantial indebtedness,' revealing it had drawn down all of the $8 billion credit facility it took out with a group of large banks last year. The company said it drew down $3 billion from that credit line in April.

The filing also revealed more details about Alibaba's controversial corporate structure. Mr. Ma is part of an Alibaba partnership that nominates more than half the company's board directors. An objection to this practice was what torpedoed negotiations between Alibaba and the Hong Kong stock exchange, where the company initially considered listing. On Tuesday, Alibaba described the Alibaba partnership as 28 members, of whom 22 are members of Alibaba Group's management and six are managers at related companies. According to the IPO prospectus, Alibaba's current board directors are Mr. Ma, Executive Vice Chairman Joe Tsai, SoftBank Chief Executive Masayoshi Son, and Yahoo Chief Development Officer Jacqueline Reses.

Alibaba's listing confirmed its lineup of banks it has tapped so far to run its deal: Credit Suisse Group AG, Deutsche Bank AG, Goldman Sachs Group Inc., J.P. Morgan Chase & Co., Morgan Stanley and Citigroup Inc. The five leads are listed alphabetically to reflect Alibaba's desire to give them equal status, people familiar with the company's thinking said, while Citi has somewhat of a lesser role. The banks have competed hard for the right to share in a fee pool that could approach $400 million in a $20 billion offering, according to people familiar with the deal. The fee will include a base of 1% of the proceeds, plus up to 1% more of the proceeds as an incentive component, the people said.


Alibaba and VIEs: A Primer

In the filing with the U.S. Securities and Exchange Commission, Alibaba says the licenses to operate various websites in China are held by variable-interest entities, or VIEs, that are 100% owned by Chinese citizens. Specifically, they are controlled by Alibaba's founder and chairman, Jack Ma, and not owned by the main Alibaba company that's filing for the IPO. The arrangement, it says, is required under Chinese law. The licenses the VIEs hold are critical to its business, the filing says, and its contracts with the vehicles 'give us effective control over each' of the VIEs. That said, Alibaba said it relies on VIE equity holders to perform their contractual obligations to the company. These contractual arrangements may not be as effective as direct ownership in providing us with control over our variable interest entities,' it says.

VIEs are used broadly by the bevy of Internet companies that for years have listed in New York. Buried deep in regulatory filings, the structure long received little notice. That changed in 2011. Alibaba shareholder Yahoo Inc. then said Alibaba used the VIE structure to move valuable assets out of the company and put them under the control of Mr. Ma. Yahoo said it was taken by surprise by the move. Alibaba said the move was discussed openly at board meetings as a move to comply with Chinese regulations.

Beijing has neither endorsed the use of VIEs to circumvent ownership rules or come out against them. China's courts haven't explicitly ruled against them either. The Alibaba-Yahoo spat isn't the only time the VIE structure has led to disputes. In 2011, the founder of an online computer games company successfully dissolved the relationship between the VIE and the U.S. listed company after a Shanghai arbitration panel found in his favor, according to lawyers involved in the case. ‘Online computer games is an area where China’s industrial policy explicitly does not allow foreign investment...so in the end, the arbitrator decided that the VIE arrangement violated Chinese contract law,” said Martin Hu, founder of Chinese law firm Martin Hu & Partners. He represented the company's founder who won the case. Mr. Hu declined to name the client. A person familiar with the matter said the U.S.-listed company was online gaming company GigaMedia Ltd. Mr. Hu said that each arbitration is unique and doesn't have a binding effect on other cases.

Source: Dinny McMahon / Paul Mozur: Alibaba and VIEs: A Primer, Financial Times, May 7, 2014
China issues first capital market guideline

China's cabinet, the State Council, on Friday unveiled the guiding principles of regulations for the capital market in coming years. The first guideline envisions a multi-tier capital market by 2020 with a proper structure, functions and regulations, high efficiency and inclusiveness. To boost the healthy development of the capital market, the guideline laid down nine targets that Chinese authorities will strive to attain in the coming years, including dealing with government-market relations, innovation and mixed ownership. The approval-based stock issuance system will be replaced by a registration-based one and the delisting regime will be improved. The guideline provides for diverse bonds to meet different investment needs and steps up supervision of the bond market. Approval of private equity issuance will be lifted and capital raised through private equity will be encouraged to fund small enterprises. The futures market will be diversified through resource commodity futures. Monitoring of systemic risks will be paramount and authorities will toughen the punishments for breaches of laws and regulations.

Source: Xinhua: China issues first capital market guideline, 2014-05-9

Reforming the capital market

New guideline stresses the market's role in listings and delistings and is expected to smooth out financing and equity incentives In a move to create a more transparent and multilayer capital market and promote its healthy development, the State Council promulgated a guideline detailing an array of capital market reforms on Friday. The guideline, called the "New Nine State Regulations" to differentiate it from the one published 10 years ago, has drawn wide attention from the market, given that it has come at a time when China's stock market has been in a dire recession for years and hopes were high that the authorities would act and make changes.

The country's benchmark Shanghai Composite Index rose from 1,000 in June 2005 to 6,124 in October 2007, after the release of the old guideline in January 2004. But since then China's stock market has been stuck in a bearish state and failed to go up despite the series of policies and measures the authorities have adopted over the past seven years. Under these circumstances, there have long been market anticipations for a top-level policy design from decision-makers to reverse the gloomy capital market trend. The promulgation of the new guideline also came as China is striving to open up its tightly controlled financial sector amid its economic slowdown, and it has thus sparked fresh expectations that economic development will be bolstered through some substantial reforms aimed at rejuvenating China's lackluster capital market.

Compared with previous government documents, the guideline encourages listed companies to set up a market value management system, the first stipulation of its kind in a State Council document, and urges them to improve their equity incentive mechanism and allow their shares to be held by employees in various forms. Different from those in the West, China's stock market has a heavy State-controlled equity structure, in which directors of a majority of listed companies with State holdings are not allowed to hold shares and their chairpersons are usually appointed by the government rather than chosen by shareholders. As a result, what their management personnel most care about is how to retain their positions instead of how to maximize the company's profits. Under such an equity model, ordinary shareholders have no voices in decision-making. The establishment of market value and equity incentive mechanisms will be an effective step toward addressing such malpractices. Only when top management personnel really care about the prices of shares, can they possibly steer the development of their companies in a direction that accords with the interests of ordinary shareholders.

The guideline vows to continue pushing ahead with a registration-based IPO system that stresses accurate and timely information disclosure by public companies, and developing a multilayered equity market with a more complete share transfer system for small and medium-sized enterprises.

A system for local governments to issue bonds directly will also be set up. Currently, local governments cannot directly sell bonds or borrow from banks, and can only seek financing via special vehicles such as urban investment companies, a model that is widely seen as one of the main culprits for the country's mounting local
In a move to curb risks, the document promises to lift the scale of direct financing. Statistics show that direct financing only accounted for 42.3 percent of the country's total financing volume by the end of 2012, much lower than the 87.2 percent in the United States and 74.4 percent in Japan, and even far behind the 66.7 percent in India and 66.3 percent in Indonesia. An imbalanced direct and indirect financing structure has caused a high concentration of China's financial risks in the banking sector and increased the difficulty and the cost of seeking capital to develop the real economy.

At the same time, the new guideline vows to set up a marketized and diversified delisting regime that conforms to China's concrete conditions and helps protect the interests of investors, and work hard for its strict implementation. A delisting and accountability mechanism was also contained in the old guideline, but such a stipulation has not been really implemented. That is because many listed companies suffering losses were allowed to be listed due to historical factors and there are concerns that their forced delisting may cause strong discontent among ordinary shareholders. Compared with the old one, the delisting mechanism promised by the new guideline is more operable, given that it targets new companies. A forced exit will produce strong deterrence to candidates harboring an intention to get listed through financial fraud or other malpractices and will effectively boost the credibility of China's capital market.

The promulgation of the latest guideline, which is mainly aimed at addressing some deep-rooted problems and malpractices underlying China's stock market recession, such as its unreasonable financing structure and the high leverage issue among domestic enterprises, is expected to have far-reaching influence on the country's capital market.

Source: Yin Zhongli: Reforming the capital market, China Daily, 2014-05-14

Nation developing and opening up its securities industry

China will further expand market access of foreign funds into the nation's securities industry and encourage Chinese cross-border businesses, Yao Gang, vice-chairman of China's securities regulator, said on Friday. "By good institutional arrangements, the Chinese securities industry will be comprehensive, comprised of State-owned, private and foreign companies," Yao told a forum in Beijing. Yao said private capital can set up securities firms and market access to foreign funds will grow. State-owned securities companies are encouraged to enter into mixed ownership reform and social security funds. Enterprise annuity managers will be supported in setting up securities firms. Chinese securities firms are encouraged to help domestic companies get listed abroad enter into mergers and acquisitions and issue bonds there, said Yao. "We support securities companies that go abroad to set up subsidiaries and those meeting requirements to help foreign enterprises to issue yuan-denominated bonds at home," said Yao. Yao said companies can join the China (Shanghai) Pilot Free Trade Zone and the pilot program. That will allow cross-border stock investment by investors in the Chinese mainland and Hong Kong. The China Securities Regulatory Commission released a statement on Thursday about the development of Chinese securities firms.

The State Council, China's cabinet, released a wide-ranging statement of policy principles this month aimed at promoting the healthy development of China's capital market. Chinese securities companies can develop businesses in the private capital market as a way of innovation, Wu Xiao-ling, deputy chairwoman of the financial and economic committee of the National People's Congress, said on Friday. Wu said private capital directly offers enterprise services and gives a way to find professional investors. She said regulations should be different for China, so it can establish a multi-level capital market. "Regulation on the issuance, transferring and trading of securities in the public and private markets should be different," Wu said. She said groups of investors ought to be divided by experience and risk resistance and that professionals can have fewer limits in investing.

Source: Cai Xiao: Nation developing and opening up its securities industry, China Daily, 2014-05-17

China's Volatile Stock Market Stays Faithful to Unofficial Floor
If there's one mystery about China's volatile stock market, it's the legendary and miraculously resilient 2000 points of the benchmark Shanghai Composite Index. It is widely viewed as the limit of Beijing's tolerance of how far a bearish mood can extend in a market dominated by retail investors, and out of fear of any political and social instability that any prolonged selloff could trigger. Whenever there are signs that the market threatens to break or stay under that crucial level for long, there is action by authorities or mysterious trading activity that keeps the index buoyant. On many occasions the government has swiftly rolled out market supportive measures ranging from a mini economic stimulus to easing financing curbs on property developers. On other occasions, state-controlled media has delivered messages that talk up the future of both the economy and equities investment. “At the moment, the 2000 level does appear to be a 'policy bottom' for the market. Since the market fell below that level in late March, the authorities have unveiled a series of policy measures aimed at boosting sentiment,” said Huang Cendong, an analyst at Sinolink Securities.

Back on March 20, the index fell to 1993.48 but the very next day, the market staged a strong comeback as news circulated that the securities regulator would launch a long-awaited pilot project to let major blue chips issue preferred shares, a fresh fundraising channel for cash-hungry companies like banks. In a similar incident on May 9, the Shanghai index fell to an intraday low of 2001.30. After the market's close, the State Council, China's cabinet, unveiled plans to reform the country's financial markets, including overhauling the nation's much-criticized system of initial public offerings, spurring the market up 2.1% the next day. In some way, the 2000 level of the Shanghai index carries the same kind of symbolic significance attached to the minimum economic growth rates, ranging from 7.2% to 7.5%, for a government that needs to rely on a booming economy and stock market to maintain job creation and social stability. “However, it's impossible to protect the 'policy bottom' all the time. There will always be a 'market bottom' below that. In that respect, only when economic fundamentals show signs of improvement can the stock market really turn around.”

Source: Shen Hong: China's Volatile Stock Market Stays Faithful to Unofficial Floor, Wall Street Journal (Asia Edition), 2014-5-21

**Securities regulator targets 100 new listings in A-share market by year-end**

China's securities regulator has confirmed the pace of new share listings in 2014, and about 14 to 15 companies will go public in the A-share market every month starting in June. The China Securities Regulatory Commission released a statement on Monday night saying that it is supporting the IPO process and working to stabilize market expectations. The statement quoted Chairman Xiao Gang as saying that about 100 companies will go public, and in principle, the number will be the same each month.

"This is good news," said Li Daxiao, Beijing-based chief economist with Yingda Securities Co Ltd. "The move is a big step in the Chinese securities market, and the regulator is carrying out its work in a market-oriented way." "This IPO plan can be good for the stock market in the short term, but it's not good news in the long term," said Hong Hao, a managing director and chief strategist at Bocom International Holdings Co Ltd. "Investors can't make good decisions on pricing because the IPO timing for other companies in line for going public is uncertain," said Hong.

The commission is also studying ways to help Internet and high-technology companies that aren't yet profitable to go public on the Nasdaq-style ChiNext board. Such companies must first be listed on the over-the-counter National Equities Exchange and Quotations for a year. NEEQ is China's third national equity exchange regulated by the CSRC. As of Tuesday, 358 companies had unveiled preliminary IPO prospectuses.

After authorities ended a 14-month IPO suspension, 43 companies were listed in January and five in February. No IPOs have taken place since then, leaving about 600 companies on the waiting list. Chinese policymakers are seeking to improve the quality of IPOs as part of broader financial reforms aimed at luring investors amid a prolonged slump in the benchmark index.

The State Council, China's cabinet, said on May 9 that it will deepen reforms to improve the nation's securities
markets. The securities commission's statement on Monday also said that the CSRC will accelerate work on rules covering privately offered funds and the requirements for designated qualified investors. It said the CSRC will further increase the quota under the Qualified Foreign Institutional Investor program, known as QFII, that allows foreign buyers to invest in yuan-denominated A shares. The commission will strive to ensure that crude oil futures are launched by the end of this year.

Source: Cai Xiao: Securities regulator targets 100 new listings in A-share market by year-end, China Daily, 2014-05-21

**China's economic planning agency outlines key reform tasks**

China's National Development and Reform Commission (NDRC) on Saturday vowed to deepen fiscal and market reforms this year to facilitate investment, trade and provide extra momentum for urbanization, environmental protection and social reforms. In a "to-do list"-like report posted on the commission's website following a two-day meeting that focused on China's economic reforms, the NDRC outlined nine major reform priorities the country would undertake this year.

The NDRC will deepen reform in its investment system by simplifying and delegating the approval process, and open more investment projects to social capital. It will also push forward price reform for resource products by letting the market play the major role in price setting, and will deepen reform in the fiscal and financial sector. The latter includes building a fully-regulated and transparent budget system and a government debt financing system, promoting reform in taxation and in the marketization of interest rates and exchange rates, and developing a multi-layer capital market.

Meanwhile, reform of state-owned enterprises should also be promoted, and rules must be laid down to build a just, open and transparent market, the NDRC said, highlighting the establishment of a negative list system on market access, a social credit system and market oversight. The commission also urged for efforts to deepen reforms concerning China's urbanization drive and to facilitate investment and trade by opening the country's service sector to the foreign capital.

Reforms in sectors such as education, health, culture, social insurance, housing security and income distribution should be reinforced to ensure that all Chinese citizens could better share the fruit of the country's development more fairly, the NDRC said, adding that a resource conservation and an environmental protection system should also be set up.

Source: Xinhua: China's economic planning agency outlines key reform tasks, 2014-05-19

**What Beijing Means by 'Reform'**

Among Xi Jinping's first moves following the 2012 leadership transition was to take the new Politburo Standing Committee on a tour of the Museum of National History in Tiananmen Square, which had been closed while its exhibits were changed to reflect a subtle re-crafting of the Party's narrative about Chinese modern history. In the new view, the European Marxist economic philosophy was de-emphasized. Instead, the true bloodline of the Chinese Communist Party was traced to Chinese patriots from the Opium War to the student movement of 1919. Another was to visit Shenzhen, on a southern tour that was widely compared to Deng's in March 1992 re-launching China's march to reform. Xi's campaign is explicitly in pursuit of a strengthened and purified Chinese Communist Party. No longer is the vanguard of an international proletariat, this Party being recast as the true inheritor of an ancient Chinese tradition of infallibility and moral rectitude. This well befits the first core of elites who have ascended to China's top ruling positions based on hereditary rights since the fall of the Qing Dynasty.

This shift has largely eluded observers who have been looking for detailed economic measures that should follow a blueprint for liberalization. Both domestic and international media promoted the 2013 Third Plenum as a watershed event in which the new leadership would announce details of aggressive new economic reforms. Many in business and academia wonder what is holding up the plans. Yet the true and dramatic reforms are already laid
out in plain sight; observers were simply looking for the wrong thing. The most sweeping of changes was a major restructuring of power, the formation of two new super-ministerial committees, one for foreign and domestic security and one for economic reforms, which, in actuality, were designed to override the machinery of government. After a period of lively speculation about who would head these committees, it was announced that Xi Jinping would head them both.

Notable for his absence from an active role in these new organs is Premier Li Keqiang. It might be too early to say that the Premiership itself has been sidelined, but to date we see clear signs of the uprooting of the working arrangement between the civil government and the Party that had prevailed since the major economic reforms of Zhu Rongji in 1994. That arrangement saw the Party apparatus taking upon itself a role to provide high-level, structural frameworks and to allow the civil authorities to work out details of building a modern, institutionalized administration. This separation of authorities worked well through the 1990s to manage the rapid unspooling of the old economic management system. Zhu radically cut the size of the government bureaucracy, and, lacking the manpower to manage the proliferation of economic organizations, the system had to adapt and micromanage less.

Under Hu Jintao, who had weaker command of the government organs below him, bureaucracy grew like a thicket. There is no complaint heard more often in Beijing than that government should interfere less in the economy. The new structures are intended to cut through that bureaucracy. The National Security Commission combines control over the military with control over domestic police organs and breaks the link between provinces and the court system. The Leading Group on Comprehensively Deepening Reforms redefines management of the economy as an aspect of national security, reminding us that employment is a concern principally for stability. China analysts have missed the story by peering at the landscape of reform and trying to find step-by-step progress toward economic liberalization. The disjunction between foreign and domestic understanding of what constitutes 'reform,' in fact, illuminates a fundamental misunderstanding of foreign commercial involvement. In today's post Third Plenum China, 'reform' means to sideline and squash institutionalized bureaucracy and inject personal power into a sclerotic system. It means cutting through the layers of paperwork that invite bribery.


Xi stresses coordinated functions of market, gov't

Chinese President Xi Jinping has called for better coordination between government work and market forces in promoting sustainable economic and social development. Calling the relationship between government and the market the core issue in economic reform, Xi said that the roles of the two are not contradictory and should not be pitted against each other. "China will well use both 'visible' and 'invisible' hands," he said at a collective study of the Political Bureau of the Communist Party of China Central Committee on Monday. Although economic reform has made progress in recent decades, market vitality is still shackled by many institutional flaws. To straighten out the relationship between the two, the president said China will continue its efforts to let market forces play a "decisive" role in allocating resources while making sure the government functions better. The decisive role of the market cannot replace or negate the role of the government, and vice versa, according to Xi. He said China will stick to market-oriented reform and refrain from intervening in microeconomic activities. It will forge a unified and open market, in which economic entities can compete fairly under a set of transparent rules. To that end, it will improve macroeconomic control measures, optimize public services and enhance social justice, according to the president.

Source: Xinhua: Xi stresses coordinated functions of market, gov't, 2014-05-27

Weakest link will determine success of muni reform

China's push for a municipal bond market could raise the pressure on provinces that are already struggling to fund massive debt, effectively creating a two-tier market dominated by the nation's major cities and financially
strong regions. The challenge for investors will be how to assess risks of different provinces in the world's third-largest bond market as the central government tries to withdraw its implicit guarantee of their debts and introduce market discipline. The central government has decided to allow 10 cities and provinces to sell municipal bonds, an expansion of a pilot program with one significant change: The issuers will be responsible for repayments. The bonds would have to be rated and benchmarked against central government bonds. That is something the local ratings industry has not previously had to do. Currently, the Ministry of Finance sells bonds on behalf of local governments, an arrangement that left it responsible for repayments and gives even the weakest provinces an effective sovereign guarantee on their borrowing. “In China, not only do you need to see reform allowing bonds as well as loans, you will also need to find investors other than banks to provide that funding. Those are the true reforms,” said Viktor Hjort, head of the Hong Kong-based Asia fixed-income research at Morgan Stanley.

**Poor Chinese residents see rapid income growth**

Chinese rural residents in poor regions saw their per capita net income surge 13.4 percent year on year to 5,519 yuan (about $897) in 2013, official data showed on Monday. The rate of increase was 4.1 percentage points faster than the income growth of all rural residents, the National Bureau of Statistics (NBS) said in a statement. The bureau attributed the rapid growth mainly to income from wages, which soared 22.7 percent from a year earlier to 2,269 yuan. An increasing number of people in poor areas were employed outside the agricultural sector, and wage levels rose, the NBS said. Poor areas include 592 key counties for poverty relief efforts and 14 extremely poor areas designated in a national plan for poverty alleviation from 2011 to 2020. Last year, per capita net income of rural residents rose 9.3 percent in real terms to 8,896 yuan, while disposable income of urban residents grew 7 percent to 26,955 yuan.
Source: Xinhua: Poor Chinese residents see rapid income growth, 2014-05-06

**Cabinet approves organ for income distribution reform**

The State Council, China's cabinet, said on Wednesday that it has approved the establishment of an inter-ministry joint conference mechanism to coordinate income distribution reform. The mechanism, led by the National Development and Reform Commission (NDRC), the top economic planning body, includes the ministries of education, science and technology, public security, civil affairs, finance, human resources and social security, according to a statement on the website of the central government. Other ministries or departments in charge of land and resources, taxation, housing, state-owned assets supervision and administration are also members of the regime, according to the statement. The joint conference, chaired by head of the NDRC, will be tasked with coordinating all work in deepening income distribution reform, such as in conducting policy studies, making policies and reform plans, and coordinating ministries involved in the reform. The organ is also equipped with the power to monitor, track, assess and review the process of the reform before reporting to the State Council.

The establishment of the organ is widely seen as a boost to the reform which is complicated and involves a wide range of government departments. The statement quoted an unnamed official of the NDRC as saying that the joint conference regime was set up to implement related principles set by party leaders at the Third Plenary Session of the 18th Communist Party of China (CPC) Central Committee in November. China will enhance regulation of income secondary distribution through taxation and focus on increasing the share of work remuneration in primary distribution, according to a key document adopted by the plenary session. The joint conference would also carry out a central government guideline, published in February 2013, to reform income distribution mechanisms amid growing public concern over the widening wealth gap. It has been a key policy objective for the central government to step up reforms in the income distribution system to narrow the wealth gap and achieve common prosperity. The National Bureau of Statistics reported in January 2013 that in 2012 China's Gini coefficient, a widely used measure of income distribution, was 0.474, in which zero equals perfect equality.
China, 'world's factory', lacks skilled workforce, govt think tank says

China's skill gap could derail its economic upgrade, Long Guoqiang, a member of a cabinet-level think tank, said. Filling the gap is strategically important for China as it tries to leave behind its role as the "world's factory" and move up the global value chain, said Long, director-general of the general office of the Development Research Center of the State Council. Long's comments came amid concerns that China is rapidly losing its comparative advantages - such as being a source of low-cost labor - that drove the nation to be the world's second-largest economy and biggest merchandise trader. The advantages have faded. Long cited an international study that showed that 20 years ago, Thailand's average wage was 2.3 times that of China's. By 2012, the situation had reversed. Thailand's average wage was just 70 percent of China's. It's good for workers. Millions of manufacturers in China have seen their international competitiveness erode. They have relocated factories to sites with cheaper costs or produced less labor-intensive goods as a result.

China's problem, Long said, is deepening globalization. It's increasingly difficult for companies to switch output, as Japanese firms did 40 years ago, from labor-intensive industries such as clothing or toy-making, into capital-intensive, more value-added sectors such as chemicals or cars. Different value chains in various industries have been established and are based on cross-country collaboration, Long said. "A firm should focus on enhancing a specific international value chain, moving from manufacturing, usually with the lowest added-value, to research and development, or retail, marketing and branding," Long said. "And to support that task, China needs a qualified labor force." The realities are grim. A survey by the National Bureau of Statistics showed that among the 269 million migrant workers in China - people who leave the village, town or city they are registered in to seek a job - only 32.7 percent have received training in the workplace.

A countrywide manufacturing competitiveness study by Deloitte Touche Tohmatsu Ltd showed that in the eyes of CEOs and senior leaders around the world, China ranked first in manufacturing competitiveness. The country lagged in labor productivity, only scoring 14.2, while the United States scored 68.2 and Germany 43.3. Demand still outstrips supply for low-skilled labor, Long said. It leads people to frequently change jobs. They seldom have time to hone skills and have little incentive to accept employers' offers of vocational training, Long said. The Education Ministry plans to convert half of its higher-education institutions, about 600, to vocational education schools.

Source: Zheng Yangpeng: China, 'world's factory', lacks skilled workforce, govt think tank says, China Daily, 2014-05-16

China to take 5 million old cars off road in 2014

China plans to take more than 5 million ageing vehicles off its roads this year in a bid to improve air quality, with 330,000 cars set to be decommissioned in Beijing alone, the government said in a policy document published on Monday. Pollution has emerged as an urgent priority for China's leaders as they try to reverse the damage done by decades of economic growth and head off public anger about the state of the nation's air, water and soil. In a wide-ranging action plan to cut emissions over the next two years, China's cabinet, the State Council, said the country had already fallen behind in its pollution targets over the 2011-2013 period and was now having to step up its efforts. As many as 5.33 million vehicles that fail to meet Chinese fuel standards will be "eliminated" this year, the document said. As well as the 330,000 cars in Beijing, another 660,000 will also be withdrawn from the surrounding province of Hebei, home to seven of China's smoggiest cities in 2013.

The policy document also set new targets for the closure of coal-fired heating systems as well as the installation of equipment to reduce sulphur dioxide and nitrogen oxide emissions at power stations, steel mills and cement plants. It said China is aiming to cut carbon emissions per unit of economic growth by more than 4 percent this year and more than 3.5 percent in 2015 as it tries to meet a binding 17-percent target set in its 2011-2015
five-year plan. China also seek to reduce energy consumption per unit of growth by 3.9 percent this year and the next in order to meet a 16 percent target for the 2011-2015 period. It will also aim to meet its 2011-2015 targets to cut outdated capacity in sectors like steel, glassmaking and cement by the end of this year, one year ahead of schedule. On top of the original targets, it will also close an additional 15 million tons of steel smelting capacity and 100 million tons of cement making capacity next year.

The document said China would step up efforts to create market mechanisms to reduce pollution, with the aim of establishing nationwide platforms that would allow enterprises to trade energy consumption and emission permits. It also promised to provide more policy support for China's clean-up programme, and would implement a new differential power pricing system aimed at encouraging efficiency and punishing wasteful enterprises, as well as improve financial support for projects designed to reduce emissions.

Source: Xinhua: China to take 5 million old cars off road in 2014, 2014-05-26

Cross-Straits economic integration win-win: Xi

Economic integration will bring about mutual benefit and win-win results for the Chinese mainland and Taiwan and should not be disturbed, said top leader Xi Jinping. "Based on the concept that both sides of the Taiwan Straits are of one family, there is no difficulty that cannot be overcome as long as each side feels for the other and treats the other with sincerity," Xi said. "We'd like to know more about the practical needs of the Taiwan people, especially those at the grassroots, and take proactive and effective steps to take care of vulnerable groups," he said.

Xi noted that the policy to promote peaceful development of cross-Straits relations will not change, and neither will the pragmatic measures to boost exchanges, cooperation and mutual benefit. "Our sincere enthusiasm to unite Taiwan compatriots for common endeavors will not wane, and the firm will to curb 'Taiwan independence' is unshakable," Xi said. "We sincerely hope for a stable, economically developed Taiwan whose people live a peaceful and happy life," Xi said. Xi called on compatriots from the two sides to enhance mutual trust as there is still much to do to boost peaceful development of cross-Straits relations. "It will be easy to seek solutions to many difficult problems when there is mutual trust between compatriots (from both sides)," Xi said.

He called for extended contacts and communication between people from all walks of life on both sides to enhance understanding and bring them closer psychologically. Both sides should create conditions for more exchanges between young people to help them see the peaceful development of cross-Straits ties and the great rejuvenation of the Chinese nation, enabling them to shoulder the responsibility of realizing the dual tasks, he said.

During Wednesday's meeting, Xi spoke highly of Soong and the PFP's role in promoting development of cross-Straits ties. Xi said he hoped the PFP can uphold the one-China principle and continue to oppose separatist attempts for "Taiwan independence." Soong said the PFP has never wavered in its principle that the two sides belong to one China and its opposition to "Taiwan independence," adding that his party will make efforts to enhance exchanges and political mutual trust across the Straits.

Soong founded the PFP in March 2000 and has acted as chairman of the Party since then. He visited the mainland in 2005 and 2009. Hundreds of students in Taiwan stormed into the legislative chamber on March 18 in protest of what they saw as "undemocratic" tactics used by the ruling Kuomintang to speed up the ratification of the pact between the Chinese mainland and Taiwan.

Source: Xinhua: Cross-Straits economic integration win-win: Xi, 2014-05-08

China drafting Beijing-Tianjin-Hebei development plan

Intensive efforts are being made to draft an integration development plan for Beijing, Tianjin and Hebei province, a senior official of China's top economic planning body said Wednesday. "Drafting of the Beijing-Tianjin-Hebei Coordinated Development Program has advanced as we, together with other ministries, have completed a research report," said Fan Hengshan, deputy secretary general of the National Development and Reform Commission (NDRC) told a press conference. The neighboring areas are faced with problems in coordinating development, Fan said. Beijing is overpopulated and overloaded with functions, and there is no clear
delineation of roles and functions in the three locations, he told reporters. The Beijing urban circle has a combined area of 216,000 square km. and a combined GDP of over 6 trillion yuan (about $1 trillion) and a total population of 100 million. The integration program explores new urbanization models for Beijing as people flood into the capital seeking better education, medical care and jobs. There are also too many cities and townships in the region which is choked by uneven development, a water shortage, and serious air pollution. As for the timetable, Fan said, "We will try to make it as soon as possible while ensuring the quality of the program."

The program will be drafted to solve the problems of integrated development, reassessing and redefining the functions of the three localities in infrastructure, industrial upgrades and coordination, environmental protection, public services, and market system building, Fan said. Another target of the program is efficiency of systems and mechanisms in the region, which should be an example for national transformation and institutional transition, with concrete support in finance, industry, investment, population, social security, environmental protection and land.

Fan's statement came three months after President Xi Jinping called for integrated, coordinated development of the region around Beijing in terms of functions, industrial distribution, urban layout, transportation, and others, with detailed measures in finance, investment and project schedules. The idea of a regional cooperative bloc is not a new one for China. Shanghai's Yangtze River Delta and the Guangzhou's Pearl River Delta have brought economic booms to their cities thanks to coordinated industrial and commercial partnerships.


China's fixed-asset investment up 17.3%

China's urban fixed asset investment surged 17.3 percent year on year to 10.71 trillion yuan ($1.74 trillion) in the first four months, the National Bureau of Statistics said Tuesday. The growth rate was 0.3 percentage points slower than that for the first quarter.

Source: Xinhua: China's fixed-asset investment up 17.3%, 2014-05-13

DJ Huawei Counting on 'Groufies'--Group Selfies--to Boost Market Share

The Chinese telecommunication-equipment company has built new software into its latest smartphone that lets users take pictures of themselves and friends by moving the camera from side to side, the latest twist in the company's efforts to build up market share in the consumer-phone business and become a serious rival to Apple Inc. and Samsung Electronics Co. "It is a group selfie. We call it a 'groufie,'" said Shao Yang, vice president of marketing for Huawei's device division. Huawei has filed for trademark status for the term in recent weeks, after the idea of taking so-called selfies with multiple people grew popular following a publicity stunt by Samsung at this year's Academy Awards. A social-media marketing push--including ads on Facebook Inc.--is part of a high-stakes global product launch for the company's new phone, dubbed the Ascend P7. The company announced the smartphone Wednesday during a splashy presentation in Paris.

Despite the lack of a well-known consumer brand, Huawei has pushed aggressively into consumer devices in recent years, dedicating growing research and marketing spending in an effort to diversify beyond its core telecom-network equipment, such as antennas and base stations. In 2013, Huawei became the third-biggest smartphone player in the world, after Apple and Samsung, shipping 49 million units, up 68% from a year earlier, according to IDC. But Huawei faces growing competition in a cutthroat business where few companies can make money. Chinese computer maker Lenovo recently bought Google Inc.'s Motorola mobile phone business in an effort to ramp up phone sales globally. Others including LG Electronics and Sony Corp. are making similar pushes. Europe, one of Huawei's largest markets outside China, has been a particular focus. Last year, Huawei's smartphone sales in Western Europe rose 22%, but the company's Huawei-branded phone still ranked only No. 8 in the
competitive region, with a 2.4% market share, IDC said.

European product launches, along with growing marketing spending as a percentage of revenue, are part of the plan to make deeper inroads. Wednesday's Paris event is Huawei's second-ever stand-alone global product launch, the previous one having happened last year in London for Huawei's previous flagship phone, the Ascend P6. On Wednesday, Huawei touted some features of the new 4G-enabled phone which it says should help distinguish it for consumers, including a new high-resolution front-facing camera that has 8 megapixels, more than competitors. An ultra-power-saving mode dims the 5-inch screen and activates only basic phone functions to squeeze the last 10% of battery capacity for an extra 24 hours. Huawei acknowledges it still has work to do to build a consumer brand.

'At Huawei, we are always very confident about technology and innovation,' Mr. Shao said. 'But understanding people more, this is the challenge.'


Alibaba: Sili-Khan valley –

US internet companies should pay more attention to what is happening in the east. With Alibaba preparing for a US stock market listing, this would be a mistake. At the margin, Alibaba has already become a competitor for talent and corporate alliances in the heart of Silicon Valley, as shown by recent investments in mobile messaging service Tango and ride-sharing company Lyft. Super-charged with a superior growth stock valuation, it will be in a strong position to beat Silicon Valley at its own games. At the height of his company's dispute with big shareholder Yahoo three years ago, Alibaba founder Jack Ma toyed with the idea of simply buying the US company. In the future, a deal of that size (about $20bn at the time) would barely warrant a second thought.

For now, Mr Ma's attention is mainly focused on things closer home. China’s internet, already the largest in terms of user numbers, is well on its way to supporting an ecommerce market rivalling even that of the US. This will one day provide a powerful launch pad for deeper incursions into other territories. Mr Ma makes much of his plan to build a company that lasts 102 years – a period that would span three centuries, from Alibaba’s founding in 1999. That may sound rash in the fast-changing internet business, but it is a clear declaration of imperial ambition.

It is hard to see investors in US internet companies backing a full-scale invasion of the Chinese market. Homegrown companies such as Yahoo and eBay floundered badly there before, while Google struggled before pulling out. But at the very least, companies such as these should be campaigning hard in Washington against a system that allows Chinese competitors unfettered access to the US internet without full reciprocity for US companies. If not, they may one day wake up to find the hordes are beating at the walls of the internet's capital city.

Source: Lex: Alibaba: Sili-Khan valley-US internet companies should pay more attention to what is happening in the east, Financial Times, May 9, 2014

China grants telecom pricing autonomy

Chinese authorities freed up telecom fees and, from Saturday, all operators in the sector can make pricing decisions on their own. The Ministry of Industry and Information Technology (MIIT) and the National Development and Reform Commission (NDRC) made the announcement in a circular on Friday. Telecom companies can freely design service packages and price them based on consumer needs and market situations as long as the pricing abides by the law and regulations, according to the circular. Companies are asked to make simple and clear descriptions of their service packages, including charges of each service and how subscribers will be charged. They are prohibited from exaggerating their services and misleading consumers, and they are encouraged to provide special offers to low-income subscribers.

China has three major telecom providers: China Mobile, China Unicom, and China Telecom and consumers frequently complain about poor service and high charges. In one typical case, mainland consumers were angered with China Mobile for offering much cheaper packages in Hong Kong, where competition is fierce. Wen Ku,
director of telecom development at the MIIT, said granting telecom companies pricing autonomy would increase competition and improve efficiency.

Source: Xinhua: China grants telecom pricing autonomy, 2014-05-10

China removes price cap for low-cost medicines

The retail price cap of low-cost medicines in China will be scrapped to revive dampened production caused by weak profits and ensure supply of essential drugs, the country's top economic planner and regulator announced Thursday. Restriction on maximum prices of 280 Western medicines and 250 Chinese patent drugs, previously priced low by the government to relieve patients' medical burden, will be lifted, allowing producers to set prices according to their production costs, according to the National Development and Reform Commission (NDRC). Chang Feng, director of the medicine price research department under China Medical University, said that the move, allowing the market to play a bigger role in deciding prices, will help motivate low-price medicine production and guarantee necessary supply. The supply of low-price drugs has decreased as rising costs and shrinking demand made producers shift their attention to more profitable medicines, causing production of some first-aid medication including digoxin to be suspended. The NDRC has asked local authorities to release a list of low-cost medicines to the public by July 1 and strengthen monitoring over unreasonable price lifting.

Source: Xinhua: China removes price cap for low-cost medicines, 2014-05-8

China's April services growth quickens slightly

Growth in China's services sector accelerated slightly in April as new orders held steady, an official survey showed, an encouraging sign of strength in an economy that otherwise faces a cloudy outlook. The purchasing manufacturing index (PMI) for the services industry edged up to 54.8 last month, the National Bureau of Statistics said on Saturday, up marginally from 54.5 in March. The mild improvement in the services sector, which mirrors a marginal gain in the official PMI survey of Chinese factories in April, should be welcomed by investors fretting about the health of the world's second-largest economy. For one thing, the manufacturing PMI, released on Thursday, showed a sizable and worrying drop in export orders in April, suggesting that foreign demand for Chinese goods remains tepid. Saturday's survey showed services firms in China fared better than factories in April, but not by much. Although new orders rose on a monthly basis, the pace of growth did not change from last month, leaving the sub-index flat at 50.8. Business confidence in the services industry also stayed unchanged at 61.5. To prove that China has the mettle to enact painful reforms, Chinese Premier Li Keqiang has repeatedly said that his government would not loosen policy drastically to counter any short-term dips in activity.

Source: Xinhua: Manufacturing produces small increase in April, 2014-05-04

Ministry: Trade in services a key priority this year

China pledged to step up support measures for trade in services as the world's second-largest economy tries to shift its economic growth model toward consumption and away from heavy reliance on investment and exports, senior officials said on Monday. "The near future will be a very important period," said Zhou Liujun, director-general of the department of trade in services and commercial services at the Ministry of Commerce.

While foreign trade in goods refers to shipment of commodities, trade in services points to the export and import of intangible products, such as tourism, financial services and telecommunications services. China was the world's biggest goods trader and third-largest trader in services in 2013, with goods trade accounting for 11 percent of the world's total and that of services 6 percent of the world's total. Trade in services has outstripped goods trade
in recent years. "The economic recovery in developed economies strongly drove up China's trade in services this year. At home, services last year surpassed the manufacturing sector for the first time and accounted for the lion's share of GDP," Zhou said. "Foreign direct investment into services sector keeps outpacing that of manufacturing. This will provide robust momentum for the country's trade in services," he added. In the first quarter of 2014, China's services exports rose 14 percent year-on-year to $53 billion, while the country's services imports increased 16.6 percent to $85.8 billion, leaving a deficit of $32.8 billion. In the same period, combined exports and imports of services gained 15.6 percent to $138.8 billion, about 12.8 percent of the country's total trade in goods and services, according to the Ministry of Commerce. "Expanding services exports is a key task this year, and the ministry will study the drafting of a catalog for guidance. A special fund will be set up, while new financial products will be innovated to support key projects. The release of services data also will be more timely," Zhou said.

The ministry plans to introduce a new round of support measures for services outsourcing, including an industrial plan, from 2016-2020. In addition, it will step up the building of overseas sales networks, export credit will be strengthened, and new income tax policies will soon launched, Zhou said.

Along with encouraging the exports of cultural services, China also will improve regulations on discount interest funds for technology exports as well as pilot supports for the trade of traditional Chinese medicine. "In the near future, China will continue to expand importing of services, which is driven by economic restructuring," said Yao Jian, a spokesman for the ministry. The scope of China's trade in services has been changing. The share of traditional services travel, transport and construction has been declining, while high-value-add services have maintained robust growth. The exports and imports of traditional services accounted for 59.4 percent of the total in the first quarter, down 3.3 percentage points from a year earlier, according to the ministry.

"China is a large goods trader, but not a well-developed one. Trade in services will play a crucial role in the process of the improvement as the share of trade in services accounted for only 12.8 percent of China's total trade in goods and services, much lower than the world's average of 20 percent," Yao said. In the first quarter of 2014, China's goods trade fell 1 percent year-on-year while exports dropped 3.4 percent, mainly due to a large base figure inflated by rampant over-invoicing, through illicit transactions via Hong Kong, in the corresponding period last year.

Source: Li Jiabao: Ministry: Trade in services a key priority this year, China Daily, 2014-05-06

China to boost production-oriented service industries

China will accelerate the development of production-oriented service industries in a bid to step up industrial restructuring and prop up economic growth. Priorities will be given to the development of research and design, commercial services, marketing and after-sales services, and will be driven by the market and innovation, according to an executive meeting of the State Council chaired by Premier Li Keqiang on Wednesday. The move is expected to stimulate domestic demand, boost social employment and improve people's livelihoods, as well as stabilize economic growth, according to the meeting.

China's economic growth continued to shrink in the first quarter, as downward pressure still existed. However, the country's rapidly-growing service industry has been emerging as a new engine for its slowing economy. In the January-March period, China's tertiary sector increased 7.8 percent year on year to 6.29 trillion yuan ($1.02 trillion), making up 49 percent of the country's GDP in the first quarter. Its growth pace was also faster than the 3.5 percent of agriculture and 7.3 percent of the industry sector. According to the meeting, design and application of new materials, products and techniques will be strengthened. Improvements will be made in information technology and energy saving services, as well as logistics services for manufacturers.

Source: Xinhua: China to boost production-oriented service industries, 2014-05-15

China's Construction Cracks Run Deeper for Zoomlion and Sany

The folks facilitating Chinese construction aren't off to a good start this year. Machinery firms around the
world suffer from weak Chinese investment, but the country's own firms bear the brunt. The two biggest locals, Zoomlion and Sany, reported this week a 10% year-over-year drop in first-quarter sales. Their foreign rivals did better. Caterpillar said its sales in China rose during the first quarter, though it didn't offer specifics. At Japan's Komatsu, sales of construction, mining and utility equipment to China rose 34% from a year earlier. These multinationals benefit partly from selling higher-end stuff. They've been entrenched in China longer than the top locals and their customers might be better financed, too.

What also matters is where and how the domestic companies have positioned themselves. Zoomlion and Sany make roughly half their sales selling concrete machinery, which is heavily exposed to the troubled real-estate market. Total sales of concrete pumps in China fell about 15% year-over-year in the first quarter, according to Nomura. Zoomlion expects this segment to stay weak during the current quarter. Foreigners are less exposed to this business. In contrast, both multinationals and locals compete to sell excavators, which are used more widely. The locals gained market share previously through aggressive financing, says Yang Song at Barclays. They built up a large pile of receivables on their balance sheets, as customers didn't pay upfront. Now the likes of Sany and Zoomlion are starting to play down this tactic. Though receivables are at worrisome levels—102% of Zoomlion's sales for the last 12 months—they are at least rising at slower rates. Zoomlion's total receivables as of March 2014 were up 5.4% year-over-year, compared with a 122% increase in the year through March 2013. In the first quarter, local companies sold 3% fewer excavators than they did in the same period a year before, even as the overall market grew 4%, Nomura says.


Manufacturing produces small increase in April

Manufacturing growth experienced a small increase in April while new export orders fell sharply, official data showed on Thursday. The world's second-largest economy still faces heavy downward pressure, although second-quarter growth is showing signs of recovery, analysts warned. The purchasing managers index for the manufacturing sector rose to 50.4 in April, indicating a slight expansion, according to the National Bureau of Statistics and the China Federation of Logistics and Purchasing. The reading was 50.3 a month ago. The index began to climb in March after a three-month decline. "Slowly expanding domestic demand is fueling the increase of the PMI," said Zhao Qinghe, an analyst at the NBS. The raw material procurement index also hit a three-month high. But the contracting new export orders sub-index in the PMI is signaling that Chinese factories face sluggish exports ahead. Its April reading slumped one point to 49.1. Exports from China shrank 3.4 percent year-on-year in the first quarter, data from the General Administration of Customs show. On Wednesday, Premier Li Keqiang pledged to support the trade sector in a bid to stimulate the cooling economy. Li stressed "arduous efforts" will be needed to meet the annual growth target of 7.5 percent for 2014.

The April PMI released by HSBC Holdings less than a week ago was posing an even more pessimistic economic outlook, reporting a fourth straight monthly decline.

Source: Gao Yuan: Manufacturing produces small increase in April, China Daily, 2014-05-02

Jan-April industrial added value up 8.7%

China's industrial added value expanded 8.7 percent year-on-year in the first four months of 2014, official figures revealed on Tuesday. Industrial added value in April alone also rose 8.7 percent year-on-year and rose 0.82 percent from the previous month, the National Bureau of Statistics said.

Source: Xinhua: Jan-April industrial added value up 8.7%,
**Long way to tackling overcapacity**

Long road lies ahead for China to tackle the overcapacity and adjust its industrial structure, according to a conference held by the State Council Information Office on Thursday. A survey by the Development Research Center (DRC) of the State Council showed 67.7 percent of the 3,545 enterprises represented at the conference believed that they need "more than three years" to cope with current overcapacity while 22.7 percent said "over five years".

Steel, cement, electrolytic aluminum, sheet glass and shipbuilding in China all have severe capacity waste rates, much higher than the global average. Emerging sectors like photovoltaic and wind power also struggling with overcapacity, the conference said. Slower economic growth after decades of "full steam ahead" has meant fewer opportunities to ease the trouble through economic stimulus. The central government has implemented measures such as timely monitoring, less administrative approval, a more free market and supportive laws, according to the conference.

Zhang Liqun, an economist with the DRC, said that the former system should be changed to adapt to a market-oriented situation, and local government must abandon the blind pursuit for GDP growth that caused massive waste and irrational expansion. He stressed that tackling overcapacity cannot be delayed amid slowing economic growth because more competitive enterprises will inject fresh vigor in stabilizing China's sustainable development.

Source: Xinhua: Long way to tackling overcapacity, 2014-05-23

**China's PMI at five-month high**

The preliminary Purchasing Managers Index for Chinese manufacturing in May beat expectations with a five-month high, suggesting the world's second-largest economy is stabilizing. The PMI, released by HSBC Holdings Plc and Markit Economics, was 49.7, compared with a 48.3 median estimate from analysts. April's final reading was 48.1. "Tentative signs of stabilization are emerging, partly as a result of the recent mini-stimulus measures and lower borrowing costs," HSBC economist Qu Hongbin said. Output and orders rebounded. The new order sub-index rose to 50.2 from 47.4 in April, the highest reading so far this year. The new export order sub-index rose to 52.7, compared with 48.9 in April, the highest since November 2010. The manufacturing output index rose to a four-month high of 50.3 in May, up from 47.9 in April. Deinflationary pressure eased. Output prices rose for the first time since November.

Source: Zheng Yangpeng: China's PMI at five-month high, China Daily, 2014-05-23

**China pledges growth through innovation**

China will strive to make innovation a driving force of the country's economic upgrading, Chinese Premier Li Keqiang said on Tuesday. Addressing the opening ceremony of the Annual Meeting of the Global Research Council, Li said China will nurture innovative and entrepreneurial energies, and encourage scientific and technological achievements to be used in real practical applications.

China's economic growth dipped to 7.4 percent in the first quarter, the lowest level since the third quarter of 2012. Meanwhile, problems including manufacturing overcapacity, a deteriorating environment and high energy consumption require the country to accelerate upgrades to its growth pattern.

Source: Xinhua: China pledges growth through innovation: Nobel laureate, 2014-05-28

**China is already changing the world**

When Deng Xiaoping said “hide your brightness, cherish obscurity”, he had not counted on the meddling statisticians at the International Comparison Program. This week, the ICP, a statistical collaboration hosted by the World Bank, “outed” China as poised to become the world’s biggest economy this year measured by purchasing
power. In line with the advice of the father of Chinese reform, who thought China’s rise would be best served by downplaying its ambition, Beijing was not happy. In the ICP report, published this week, China’s National Bureau of Statistics expressed reservations about the methodology and said it did “not endorse the results as official statistics”. The tightly controlled media, far from trumpeting the news of China’s sudden elevation to the world’s economic summit, played it down or ignored it altogether. “The Chinese understand that this is an accounting exercise, not a substantive milestone,” says Minxin Pei, director for international studies at Claremont McKenna College in California.

In one sense, China’s modesty reflects a firm grip on reality. China is a middle-income country at best, with per capita income somewhat below that of Peru. Its technological capabilities are far behind the US and other western economies, including historic adversary Japan. Militarily it has nothing like the global clout of the US. Its powers of persuasion are also lacking. China does not have a sufficiently attractive political system to influence global opinion. Its closest allies are the likes of North Korea and Pakistan. Mao Yushi, the 85-year-old economist who is considered one of the intellectual authors of China’s economic modernisation, takes a studiously realistic view of the new numbers. He accepts that China is the world’s biggest economy but considers this to be nothing more than a reflection of the fact that it is home to 1.36bn people, more than any other nation. “It is not a surprise that China’s economy is big but this is just because its population is big,” says Mr Mao. “China is big, but not strong.” A lot of this is below the radar. So when you get a moment like this – a sorpasso – it’s a wake-up call.

Yet, argues Martin Jacques, author of When China Rules the World, it is perpetual predictions of systemic implosion that have prevented us from seeing what should be blindingly obvious: China’s rise will change the world. “There’s still a denial about China, an inability to see the underlying trend,” he says. China has passed various milestones – biggest exporter, biggest manufacturer, biggest carbon emitter – more quickly than almost anyone predicted. There’s a reasonable chance, he predicts, that by 2030, China will account for a third of global output and have an economy larger than that of Europe and the US combined. “A lot of this is below the radar. So when you get a moment like this – a sorpasso – it’s a wake-up call.”

China’s rise has changed the world already. By becoming the globe’s low-cost factory, it has cut the cost of manufactured goods. That has increased consumers’ purchasing power, although competition from hundreds of millions of Chinese workers may have lowered western wages in the process. As a huge importer of raw materials, China has begun to alter the fates of commodity exporters from Brazil to Australia and from Mongolia to Angola. If Africa’s economy is finally stirring that is in no small measure due to Chinese demand.

Latest news and comment on the escalating disputes over islands and territorial waters between an increasingly assertive China and its neighbours. Strategically, too, although China possesses nothing like the military might of the US, it is already having an impact regionally where it is asserting claims over historic spheres of influence. That explains heightened friction with Japan over the Senkaku/Diaoyu islands and with Vietnam, the Philippines and others over the South China Sea. Mr Jacques, who considers America’s “hegemonic” postwar role in Asia as unsustainable, regards these ructions as “the first growing pains of a new China-centric order in the region”. Speak it softly, but China has already arrived.

Source: David Pilling: China is already changing the world, Financial Times, May 2, 2014

**China facing long way from world's No 1 economy**

As the speculation over when China will overtake the United States as the world’s largest economy rumbles on, China is more aware of the quality of its economy, rather than the sheer size. China’s GDP was nearly 87 percent of the United States in 2011 based on so-called purchasing power parity (PPP), said a World Bank report in the past
week, and headlines across the globe duly began trumpeting that more than a century of American economic dominance was all but over. China has dramatically outpaced the US in economic expansion in recent years, with their latest GDP growth rates in the first quarter of 2014 standing at 7.4 percent and 0.1 percent respectively. But in real terms there remains a tremendous gap. Last year, China's GDP was estimated to be $9.3 trillion while the US reached $16.8 trillion. The PPP measurement takes into consideration the purchasing power of a country's currency rather than market exchange rates, but is a hypothetical calculation that assumes one price level across all countries. PPP is widely seen as of secondary relevance for most business and financial market purposes, and it is worth noting that China's National Bureau of Statistics has expressed reservations about the methodology used, refusing to publish the headline results for China, according to the World Bank report.

Per capita GDP is more relevant to the Chinese people, 1.3 billion of them. By that measure, China is still far, far behind the industrialized world in economic output and all other economic indicators. Absolute figures reveal little of the differences between the Main Streets of China and others. This country has come a long way, but it remains undeniably a developing country with too many fish to fry. Some challenges confront China enough, threatening its development sustainability and compelling the country to think less about growth. For example, in the iron and steel industry, once the country's backbone, overcapacity is severe and filthy foundries are eating up energy and polluting the environment. It is simply no longer viable to prop up production in the name of good output numbers. Indeed, China has arrived at the conclusion that it is time to part with GDP obsession - something worth drawing a lesson or two from, for those who have yet to take notice.

Source: Xinhua: China facing long way from world's No 1 economy, 2014-05-05

Key Sino-Nigerian deals signed

China signed a slew of deals with Nigeria on Wednesday, including cooperation on landmark infrastructure projects, on the first full day of Premier Li Keqiang's visit to the African economic powerhouse. Li also vowed strong support for Nigeria in its fight against terrorism. Li and Nigerian President Goodluck Jonathan officiated at the signing ceremony for the deals after talks at the president's residence. They met last year when Jonathan visited Beijing. "We're happy to see a fast developing Nigerian economy. It has become Africa's largest economy and keeps rising. ... I believe we'll become motivators of each other," Li told reporters after the meeting.

The deals signed cover an upgrade for Nigeria's communications network, solar power plant construction, as well as agriculture and investment. Railway communication signals and mining rights were included in the deals but details were not disclosed. China also donated medical equipment and drugs to help Nigeria fight malaria. The deals were signed two days after China Railway Construction Corp inked a $13.1 billion deal to build a high-speed railway in Nigeria, one of the largest foreign railway projects China has signed. Under the contract, the company will build a 1,385-km single-track line for trains that will run at up to 120 km an hour. "The project will be significant for Nigeria's economic development," Li said, adding that Beijing will push for an early start. China Railway Construction Corp said it has hired more than 4,000 local workers for the project, while 5,000 more are expected to help operate the line after work is completed.

The two leaders also agreed to start direct flights between their nations, to set up a bilateral commission and facilitate financing services for small and medium-sized Nigerian enterprises. Chinese enterprises have repaired 4,500 km of rail lines in Nigeria since 1995, Commerce Minister Gao Hucheng said on Wednesday. Nigeria leads the continent in key infrastructure projects involving Chinese enterprises, said Gao, who was accompanying Li on the visit. There was close cooperation between Chinese enterprises and Nigerian telecommunications operators to ensure that Nigeria's mobile phone penetration rate reached 91 percent in 2013, rising from less than 1 percent in 2001. Nigeria has become China's third-largest trade partner and second-largest export market in Africa, while China is Nigeria's third-largest trade partner. Two-way trade reached $13.6 billion in 2013, almost five times the figure in 2005, Gao said.

Source: Zhao Yinan in Abuja, Nigeria and Li Xiaokun in Beijing: Key Sino-Nigerian deals signed, China Daily.
APEC in Qingdao to advance new growth drivers

Trade Ministers, Senior Officials and technical experts from APEC economies, the worlds largest regional economic grouping, are meeting in the port city of Qingdao, China over the next ten days to spur more open, integrated and productive markets needed to capture new growth opportunities and narrow employment and wage gaps across the Pacific Rim. Talks will culminate with the APEC Ministers Responsible for Trade Meeting on 17-18 May, hosted by Minister Gao Hucheng of China's Ministry of Commerce. Advancing the negotiation and implementation of comprehensive, high quality trade agreements, improving coordination between their participants and moving towards the realization of a Free Trade Area of the Asia-Pacific are points of focus. This is consistent with the framework and priorities of cooperation within APEC during China's year as host economy. They include Advancing Regional Economic Integration, Promoting Innovative Development, Economic Reform and Growth, and Strengthening Comprehensive Connectivity and Infrastructure Development.

APEC economies Senior Officials, hosted by Li Baodong, Chair of the APEC Senior Officials Meeting and China's Vice Foreign Minister, will chart the next step for regional economic cooperation and building of technical capacity vital to aligning policy regimes across diverse economies on 14-15 May. Decisions will draw on actions taken by officials and technical experts from working level fora which are addressing issues ranging from preparatory requirements for free trade agreement negotiations, to the harmonization of medical product quality and supply chain regulation, electric vehicle standards development and increasing food security.

Recovery in the Asia-Pacific is progressing but growth remains uneven and its medium term trajectory has dropped a notch due to sluggish trade and factors like reduced productivity, concluded, said Dr Alan Bollard, APEC Secretariat Executive Director. APEC economies recognize that there are no quick fixes and taking a long view in their policy calculations. Our task is to ensure that the policies we put in place and the agreements we negotiate to lower trade barriers and boost domestic consumption-based growth are complementary, inclusive and keep us all moving in a positive direction, Dr Bollard concluded. The discussions taking place between APEC economies in Qingdao are key to driving this process.

Source: APEC in Qingdao to advance new growth drivers, M2 Presswire [Coventry] 08 May 2014.

Turkmenistan president launches book in Chinese

Chinese-language version of a new book written by Turkmenistan's President Gurbanguly Berdymukhamedov was officially published in Beijing on Sunday during his visit to China this week. The book, named "happy bird", is about the president's father's story during the Second World War in Soviet Union. It reveals the long history of Turkmenistan and the nation's strong spirits. Su Rong, vice-chairman of the Chinese People's Political Consultative Conference, launching the book said it will enhance the understanding of the people from the two countries, especially at a time when China and Turkmenistan are witnessing an increasing interaction in economy, trade and energy sectors.

With China making efforts to diversify its energy supply, it has increased its natural gas import from the Central Asia while Turkmenistan, a country rich in oil and gas resources, is playing an important role to boost China's natural gas imports. In September, China and Turkmenistan signed a natural gas deal that allows China to import 30 billion cubic meters of natural gas annually from the latter and increase it to 65 billion cubic meters in the future when infrastructure and other related conditions are met. According to PetroChina, Turkmenistan will export 40 billion cubic meters of natural gas to China in 2015 and by the year 2021, it could grow to 65 billion cubic meters. PetroChina was responsible for translating and publishing the new book.

Prior to this book, Berdymukhamedov has published three Chinese-versions of his books during his visit to Beijing in 2011.

Silk Road economic belt highlights China-EU cooperation

Italian experts say China's initiative of building a Silk Road economic belt and a 21st-century maritime Silk Road highlights its concept of peaceful development and will contribute to the win-win cooperation between China and Europe. "The concepts relate to the idea of seeing China's rise as an opportunity for common development, with China's development contributing to the development of other countries," Simone Dossi, professor of international relations of East Asia at the Catholic University of Milan, told Xinhua in a recent interview. Both the Silk Road economic belt and the 21st-century maritime Silk Road recall a positive historical memory of economic integration among nations, Dossi said, referring to the ancient Silk Road. The ancient Silk Road represented a series of trade and cultural transmission routes that were central to cultural interaction through Asian regions connecting the West and East by linking traders, merchants, pilgrims, monks, soldiers, nomads and urban dwellers from China to the Mediterranean Sea during various periods of time. In his view, the idea of a "maritime Silk Road" is primarily aimed at reassuring nations in Southeast Asia and in the Indian Ocean about China's intention of strengthening economic cooperation in the region. On the other hand, Dossi added, the idea of a "Silk Road economic belt" draws a new picture for China's relations with its neighbors in Eurasia. According to the professor, China's growing interest in Eastern Europe and the Middle East creates new opportunities for its interaction and collaboration with the European countries.

But this opportunity will become reality only if the European governments think and act strategically, Dossi said. "They have to fully understand China's new approach to the region, find out potential areas of common interest, and then interact with Beijing in a coordinated way." In this respect, he added, EU institutions should play a crucial role as a safeguard in case of divergence among individual European countries. Another important aim of this modern Silk Road is to accelerate and deepen the development of China's western areas including Chongqing, Tibet and Xinjiang, while promoting their stability, said Giovanni Andornino, professor of international relations of East Asia with the University of Turin. "Over the past decade, the Chinese central government and richer coastal provinces have supported major investments in western China, which comprises a quarter of the population and almost half of the country's territory," Andornino said. "It is strategic that western provinces can now function as an effective bridge between China's developed eastern coast and Central Asia," he said.

The fundamental enabling factor for China's growth and development in the past 30 years was "the pursuit of a moderate foreign policy in which the maintenance of stability in the international system, starting from the borders of China, was considered an essential interest of Beijing," he said, adding that the idea of the modern Silk Road in Central Asia has been created by the continuity with this approach. "The bundle of infrastructures, flows and relations, both economic and cultural, destined to sprout along this path and flow into the Mediterranean and Eastern Europe, will be a factor in the development of all the actors involved, if interpreted in a shared and responsible way," Andornino said.

Source: Marzia De Giuli (Xinhua): Silk Road economic belt highlights China-EU cooperation, 2014-05-13

TPP can go on without China: ICC

Harold McGraw III, chairman of the International Chamber of Commerce and chairman of the board of McGraw Hill Financial, told reporters on Tuesday in Beijing that the United States-led Trans-Pacific Partnership can go ahead without China. "What we are trying to accomplish now is an agreement on the Trans-Pacific Partnership of 12 countries. By the way, there is a fair bit of enthusiasm that the deal could happen relatively soon. Then you have got three countries outside the 12: South Korea, the Philippines and Indonesia. The plan will be to convince them that there are disadvantages if you don't join. If they take part, then there will be 15. "The big hope will be that China will want to be a part of this. We have to do everything possibly to convince and work with China to make it a part of it. If China is not a part of the TPP, the TPP can go ahead. But if China is a part of it, it will be even that much more successful," said the chairman.
"We want to see the WTO, the rules-based organization, working with the regional trade agreements to make sure that we get some common rules. If people are fragmented, going in the wrong direction, and creating different languages, different kinds of rules, you will get unevenness in terms of growth, jobs, prosperity. So we want to see the WTO rules to be the common platform for all the regional agreements," he added. The trade facilitation agreement alone will add $1 trillion of new growth to the world economy, create 21 million new jobs and 18 million of them will come from the developing world, said McGraw.

Source: Li Jiabao: TPP can go on without China: ICC, China Daily, 2014-05-13

China, US pledge to further deepen economic ties

Chinese Vice Premier Wang Yang on Tuesday held talks with US Treasury Secretary Jacob Lew in Beijing, discussing a full-range of economic issues. In a four-hour meeting, Wang said the world economy has shown momentum of a recovery, but it still has a long way to go to achieve robust, sustained and balanced growth globally. He said China's economy has remained steady since the beginning of the year. China has paid more attention to realizing medium-to-long term healthy development through restructuring the economy and deepening reform, he said. As two major economies, China and the United States have worked closely to maintain the positive momentum of their economic cooperation, he said. This year marks the 35th anniversary of the establishment of the China-US diplomatic relationship, and the two sides will hold the sixth China-US Strategic and Economic Dialogue (SED) in July, said Wang. He voiced hope that the two sides will further implement the important consensus reached by both leaders through the SED and try to achieve more tangible results.

The US welcomes the sound development of China's economy, said Lew, adding that the steady growth of China's economy benefits the US, while the US recovery also benefits China. The US is committed to strengthening economic cooperation with China and is willing to work with China to build a more open, balanced economic relationship, said Lew. He said the US government has made it a policy priority to implement the long-delayed quota reform plan of the International Monetary Fund (IMF), which was agreed in 2010.

Source: Xinhua: China, US pledge to further deepen economic ties, 2014-05-14

Putin's Visit Seen Highlighting China's Strength as Energy Consumer

When Russian President Vladimir Putin touches down in China for a closely watched two-day state visit May 20, he will encounter an unbalanced relationship that has grown in Beijing's favor, tilted by shifts in global energy supplies and Moscow's increasing friction with the West. Beijing's leverage is being tested in negotiations to pipe Siberian gas to China that have dragged on for a decade, but that both sides have said they want to conclude in time for an agreement to be signed during Mr. Putin's visit next week. A Chinese foreign ministry official said Thursday that pricing remains a sticking point. Gazprom, Russia's natural gas company, described the talks as being 'in the final stage' after a meeting between its chief executive and a senior Chinese energy official.

Mr. Putin has already leaned to Beijing in one respect. While he and Chinese President Xi Jinping meet in Shanghai, more than a dozen ships from their navies will hold large-scale joint drills in the East China Sea in what security scholars say is a sign of Russian support for Beijing against what China says is a more militarily assertive Japan. The gesture hasn't been reciprocated in Russia's current standoff with the West over Ukraine. China has remained on the sidelines as the Crimea region seceded from Ukraine to join Russia, out of concern of instability and alienating Western trade partners. The two-day trip is intended to highlight what China and Russia call their strategic partnership. Mr. Putin will participate in a regional leaders' conference while in China. A coal project in Siberia financed by the Export-Import Bank of China is likely to be among the agreements announced, according to Russian officials. Moscow and Beijing have found advantages in working together to diminish U.S. influence and create greater room for them to pursue international economic and strategic interests. Mr. Putin is widely depicted in Chinese official media as a powerful leader unafraid to take on the West.

Beyond that, however, the relationship is fraught with historic mistrust, experts said, worsened by the
gravitational pull of China's enormous economy and Russia's increasing need to sell more energy east to diversify away from its markets in Europe, where demand for Russian natural gas has sagged. China has been seeking more deals to purchase and license sophisticated Russian weaponry. But after selling China billions of dollars in advanced armaments for a decade, Russia has balked in recent years out of concerns China is copying Russian designs. An influx of Chinese across the border into Russia's sparsely populated Far East is a perennial issue in Russian politics.

Heightened global gas supply has put China in a stronger negotiating position. The latest version of the deal is expected to include the construction of a pipeline to ship 38 billion cubic meters a year to China from fields in eastern Siberia. That represents more than one-fifth of China's total natural-gas consumption last year, and Beijing has pledged to increase use of natural gas to lessen its vast dependence on polluting coal. The former Soviet republic of Turkmenistan is now China's largest foreign gas supplier, with further plans to boost supplies. Similarly last year, China started importing piped natural gas from Myanmar. Elsewhere during the past decade, China struck deals with Qatar and Australia, among others, for long-term supplies of LNG. State energy companies such as China Petrochemical Corp. and China National Offshore Oil Corp. have even bought ownership stakes in LNG projects in Canada. Russia has sealed a raft of energy deals with China in the last two years as it seeks to pivot its energy policy eastward, including a $270-billion, 30-year contract for Russian state oil firm OAO Rosneft to sell oil to China. Increased competition and regulatory pressure has dented demand for Russian natural gas in the European gas market, Gazprom's most lucrative market.


**Fund to boost China's maritime Silk Road development**

10 billion yuan ($1.6 billion) will be used to support projects related to China's maritime Silk Road development, according to relevant parties on Monday. The city government of Fuzhou, capital of East China's Fujian province, signed an agreement with the China Africa Development Fund (CAD Fund) and the Fujian branch of the China Development Bank to jointly set up a fund. Yuan Jianliang, governor of the bank's Fujian branch, said the three parties will support projects that will boost Fuzhou's role as a hub of the Silk Road. A 21st century maritime Silk Road was proposed by Chinese President Xi Jinping during his visit to Indonesia last October. Since ancient times, the sea route from ports in Fujian to overseas markets has witnessed China's silk, ceramics and tea traded to the world.

Yang Yimin, mayor of Fuzhou, said the city will facilitate the building of a transport network and step up cooperation with Southeast Asian countries. He said the fund will support such projects as setting up marine aquaculture farms and industrial parks in southeast Asian countries. The CAD Fund is a private equity fund that is committed to bridging and connecting China and Africa, as well as governments and companies. It is specialized in operating funds on cross-country cooperation projects. The fund agreement was signed at the ongoing 16th Cross-Straits Fair for Economy and Trade in Fuzhou. The fair sponsored by the China General Administration of Customs and the Taiwan Affairs Office of the State Council themed this year's event as the maritime Silk Road development.

Source: Xinhua: Fund to boost China's maritime Silk Road development, 2014-05-19

**China and Russia sign gas deal**

China and Russia signed an eleventh hour agreement to import natural gas from Russia’s Gazprom during a state visit by President Vladimir Putin on Wednesday following strenuous Russian efforts to secure what has been portrayed as a key test of closer Sino-Russian ties. As Moscow’s relations with the west have deteriorated over the crisis in Ukraine, Mr Putin has sought to show the world and the Russian people that he has alternative friends to the east.
State-owned China National Petroleum Corp, China’s largest oil company, said on Wednesday it had signed a 30-year deal to buy up to 38bn cubic metres of gas per year, beginning in 2018. The company did not give details on the pricing of the gas, the sticking point in negotiations that have stretched over a decade. Russian media and officials had said the deal would be a highlight of Mr Putin’s visit. The breakthrough came just hours after PetroChina, the listed subsidiary of CNPC, told the Financial Times that the deal would not be completed during Mr Putin’s visit because of the pricing dispute. “At the moment the import price and the domestic price are inverted. We are already losing money on imported gas, and we can’t lose more,” said PetroChina spokesman Mao Zefeng earlier on Wednesday. In the wake of Russia’s aggressive actions in Ukraine, European countries have been rethinking their dependence on Russian gas. The deal is a powerful sign of Russia’s ability to reduce its reliance on Europe, the largest importer of Russian energy. Mr Putin’s visit has been filled with symbolic appearances intended to show the growing strength of the relationship, which both sides have described as the best in their history.

The long-running discussions over the gas deal have involved the price, pipeline route and Chinese stakes in Russian projects. The Chinese side would have driven a harder bargain in light of Gazprom’s weaker position, industry sources in Beijing said. On Tuesday, China formally signed previously agreed LNG supply deals as well as a massive coal co-operation project.

Source: Lucy Hornby and Jamil Anderlini in Beijing: China and Russia sign gas deal, Financial Times, May 21, 2014

Overvaluing the 'Undervalued' View of the Yuan

Since Jan. 1 the yuan has fallen 2.9% against the dollar, reversing the Chinese currency's 2.9% appreciation in 2013. Such a dip would be a small fluctuation for a freely traded currency, but it's a big drop in China. The yuan hasn't fallen so much or for so long since July 2005, when Beijing introduced what it calls 'a managed floating exchange rate based on market supply and demand with reference to a basket of currencies.' The U.S. Treasury Department has taken notice. In an April 15 report to Congress, Treasury called the yuan 'significantly undervalued' and urged Beijing to bring the currency to its 'equilibrium value.' Recent developments, Treasury warned, would 'raise particularly serious concerns, if they presage a retreat from China's announced policy of allowing the exchange rate to reflect market forces.'

Treasury and others see this as part of an attempt to bolster China's recently sluggish GDP growth. Yet this is probably not the PBOC's primary objective. Rather, the central bank is likely laying the groundwork for the deposit-rate liberalization set to take place by the end of 2015. This will remove the current cap on deposit rates and allow commercial banks to set rates based on supply and demand. The reform could cause China's interest rates to spike. State-set benchmark rates now range from 0.35% for current accounts to 4.75% for five-year deposits. Market forces would drive up these rates into the range of yields on wealth-management products sold by Chinese banks, which aren't under PBOC control. Currently those yields average from 4.7% for offerings with maturities of less than a month to 6% for those maturing in more than a year. Lending rates, which have already been liberalized, would also rise as banks passed on higher costs to borrowers. Interest-rate increases of this magnitude would be a severe shock to the Chinese economy. The state sector, which is the main beneficiary of the current regime, would incur heavy losses. Private-sector firms would also suffer as higher rates at state banks pushed up already high rates in the informal lending sector. The residential property market could be especially vulnerable. As rates rose, households might keep wealth in bank accounts instead of investing in, say, new apartments or condominiums.

The PBOC will need to loosen monetary policy to mitigate these contractionary effects. The bank has two main tools to increase the money supply: outright dollar purchases and cuts in the Chinese banks' required reserve rate. Dollar purchases create new money because the central bank issues new yuan to pay for the dollars it buys. Reserve rate cuts free up funds for banks to lend, which expands deposits across the economy. The inevitable result, regardless of which approach the PBOC chooses, will be downward pressure on the yuan as its supply increases relative to the dollar.
In fact, the yuan has no real 'equilibrium value,' even if Treasury wishes it did. As the late-British economist Joan Robinson pointed out in 1947, nearly any exchange rate will be an equilibrium for some set of economic conditions. But economic conditions are always in flux, and so the 'equilibrium exchange rate,' as she famously put it, is a chimera. The yuan is a case in point. A move toward equilibrium may weaken the Chinese currency in the midst of the monetary easing required to smooth deposit-rate liberalization. Treasury should be careful what it wishes for. The adjustment it's advocating might end up causing further yuan depreciation--the precise opposite of what Washington wants.

Source: DeWeaver: Overvaluing the 'Undervalued' View of the Yuan, May 12, 2014

**China mulls 'mega' FTA**

China has proposed studying the feasibility of a mega free-trade agreement in the Asia-Pacific region as the many flourishing FTAs in the area could burden businesses with different standards, a senior official said on Wednesday. "We made a proposal to establish a working group to study the feasibility of a Free Trade Area of the Asia Pacific, and we have received responses from many members of the Asia-Pacific Economic Cooperation forum," Wang Shouwen, assistant commerce minister, told reporters in Beijing. Wang said that the working group will analyze the potential economic benefits of an Asia-Pacific FTA as well as how to use existing regional FTAs to build a broad pact. "We are discussing how the working group will be composed, possibly comprising government officials, businesspeople and academics from different countries. It will be under the APEC framework with engagement of different members. ... But beginning a study does not mean the start of negotiations on an Asia-Pacific FTA. The working group will finalize a proposal for APEC to decide whether to launch the Asia-Pacific FTA talks," he said. "We hold that an Asia-Pacific FTA will not conflict with other developing FTAs in the region as Asia Pacific leaders have decided that the Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership are both possible routes to it," Wang said.

FTAs have flourished in recent years, with more than 200 reported to the World Trade Organization. The Asia-Pacific region is building such trade agreements, such as the TPP, an ambitious 12-nation trade pact led by the United States, and the RCEP, a 16-nation trade bloc advanced by the ASEAN plus China, India, Japan, South Korea, Australia and New Zealand. "Having too many FTAs in the region would set up different standards and create the 'Noodle Bowl Syndrome' — a disorganized tangle of bilateral trade deals — and thus hinder regional businesses. It's necessary to build up a mega FTA," Wang said. The Asia-Pacific FTA was proposed in 2006. In 2010, APEC leaders announced the TPP and RCEP as parallel routes toward a regionwide FTA while promising to make the APEC an incubator for the regional trade agreement with guidance and talent support, Wang said. The APEC Ministers Responsible for Trade Meeting will be held in Qingdao, Shandong province, on May 17 and 18, part of this year's APEC meetings. China hosted the APEC 2001 in Shanghai.

Source: Li Jiabao: China mulls 'mega' FTA, China Daily, 2014-05-01

**Trade deals fall at export fair**

Trade deals signed at the 115th China Import and Export Fair, the nation's largest trade event held in Guangzhou, have fallen 12.64 percent year-on-year to $31.05 billion, the organizers said on Monday. Number of overseas buyers also declined 7.23 percent to about 188,000 compared to the spring session last year, according to Liu Jianjun, the spokesman of the event. "The sluggish performance was due to a slow recovery in traditional market and a low demand in emerging market," Liu said.

Source: Qiu Quanlin in Guangzhou: Trade deals fall at export fair, China Daily, 2014-05-06

**US exports to China total $120b last year: USCBC**

The US exports to China hit $120 billion last year, making China the third largest export market for American goods, said the US-China Business Council (USCBC) Wednesday. In a newly released report, the USCBC, a
private, non-profit organization, noted that US exports to China have grown at an average annual rate of 15.1 percent over the past 10 years, fastest among all major US trading partner. The American exports to China rose by 10.4 percent last year, making it a major export market for US goods only behind Canada and Mexico, the two neighbors with which the United States has a free trade agreement. "Exports play an essential role in the US economy and job growth," claimed the report. US exports to China helped support a wide range of industries, including transportation equipment, crop production, computers and electronics, and chemicals, along with export-related jobs in America's port cities.

Source: Xinhua: US exports to China total $120b last year: USCBC, 2014-05-08

**World News: Beijing Reports Surprise Trade Bump**

China's exports rose unexpectedly in April compared with the same month a year earlier, in a modestly positive sign for the world's No. 2 economy. The increase in exports was small -- up 0.9% -- but it comes amid concerns that China's economic growth is slowing. Growth in exports is positive for China because Chinese-made goods sold abroad make up an important share of the nation's economic growth. The data released Thursday by China's General Administration of Customs ran contrary to expectations for a drop compared with a year ago. The figures look even better because last year's results were inflated by over invoicing by exporters trying to circumvent China's strict currency controls. Over invoicing is a tactic used to inflate the value of exports. April shipments were up 4.1% year-over-year to the US, up 7.8% to the European Union and up 5.9% to Southeast Asia. They fell 9.7% to Taiwan and 31.3% to Hong Kong, where much of the over invoicing took place. Imports rose 0.8% in April, following a drop of 11.3% in March, compared with a year earlier. China's trade surplus widened to $18.46 billion in April, from $7.71 billion in March.


**How China Is Eclipsing Japan in Asia - An IMF Snapshot**

China's latest tangle with Vietnam plays into Japan's bid to ramp up influence in Asia, as Tokyo offers leadership to counter Beijing's saber-rattling. A new International Monetary Fund report offers a sobering reminder of the limits of Japanese clout, highlighting the growing reliance of regional economies on China, and the declining economic importance of Japan, as shown in the accompanying graphs. In the latest Regional Economic Outlook for Asia and Pacific, the IMF compared how much 11 export-dependent Asian economies depended on Japan and China, first in 1995 and then in 2012. In the mid-90s, all 11 relied more on Japan than China as an export market. Less than two decades later, 10 of those countries were more dependent on China, most by wide margins. The one exception: Indonesia, which still sold somewhat more to Japan. The numbers reflect both Japan's dramatic decline in importance over nearly 20 years of stagnation, and China's rapid rise. The IMF doesn't look at raw exports, but a country's 'value added embodied' in exports. That's the portion of an exported product made in a country, stripping out the value of components imported from elsewhere included in that product.
By that measure, Malaysia sent nearly one-quarter of its exports to Japan in 1995 -- and just 6% in 2012. At the same time, its reliance on China doubled, to 10%. Back then, Australia was about six times more dependent on Japan. Now, it's nearly twice as dependent on China. The data was part of a broader study looking at how economies in the region are becoming more integrated. ‘China is at the core of this, both as an assembly hub, and, increasingly, as a source of final demand,’ said Romaine Duval, an IMF economist specializing in Asia, in an interview. ‘By contrast, Japan's role, which was very crucial in the 1990s, is declining very rapidly.’ The data are a reminder of the constraints on U.S.-Japan efforts to contain China's influence, and to build an Asian economic bloc that may exclude China, notably through the Trans-Pacific Partnership trade pact currently under negotiation.

Japanese officials say that regional influence goes beyond the size of a country's economy. They argue that Japan -- in partnership with the U.S. -- offers a model of free-market democracy that other countries in the region aspire to emulate. China offers money, but no model, they assert. And China's territorial ambitions give Japan shared cause with smaller neighbors. And beyond the top-line data, the economic story is a bit more complex. A significant share of trade with China is in parts that ultimately end up getting sold to companies or consumers in industrialized countries. That makes the U.S., Europe and Japan more central than the data might suggest. Mr. Duval notes that Asia's two largest economies perform different functions in the regional production process. Japan still plays a bigger 'upstream' role than China in regional trade -- that is, providing sophisticated components -- while China's role is more 'downstream,' that is, handling final assembly. 'Japan's role is still big as a supplier in the region,' said Mr. Duval. 'But that's more like a footnote.'


China Steel Exports Cause Friction With Trading Partners

China's steel exports are ramping up, exacerbating disputes with the U.S., Europe and other trading partners, who for years have claimed Beijing unfairly subsidizes its steel producers and sells products globally at below market prices. The trade friction isn't new. But a recent increase in China's steel exports—to their highest level in six years in April—has heightened the tensions. Earlier this month, the U.S. imposed preliminary tariffs of 159.2% on Chinese grain-oriented electrical steel, which is used to make transformers.

China's government vowed last year to cut excess capacity in its state-owned steel industry. But production has continued apace as Beijing worries about slowing economic growth. Tuesday, the government said China's crude steel production in April rose 2% to a record daily average of 2.3 million metric tons. The previous record was set in March. China's steel exports rose to 7.54 million tons in April, their highest since August 2008—shortly before the global economy nose-dived in a financial crisis. Last year, steel exports totaled 62.3 million tons, just shy of the record level set in 2007.

The U.S. Department of Commerce recently made a preliminary determination that grain-oriented electrical steel from China is being dumped in the U.S. In March, U.S. trade officials said such Chinese steel was benefiting from unfair government subsidies. Analysts say U.S. steel companies are ramping up efforts to get Washington to increase tariffs on Chinese steel imports. The state-backed China Iron and Steel Association has described the tariffs as protectionist and says Beijing’s policy is to fulfill domestic demand rather than encourage high volume steel exports. Even though output expansion is likely to slow over the year, the government says 2014 could be another bumper year for steel production in China.

In February, European steel lobby Eurofer said it planned to file antidumping complaints this year with the European Commission against Chinese exports of cold-rolled stainless steel. The agency couldn’t immediately be reached for comment Tuesday. Southeast Asian countries, Canada and Australia have also launched antidumping investigations into Chinese steel products in recent years. Low-cost construction steel exports still dominate China's trade with emerging regions such as Southeast Asia, said Suaik Lim, a director at Fitch Ratings. 'It may not lead as much to political friction, but it will lead to trade protection repercussions,' Mr. Lim said. While Southeast Asian nations haven't conducted a full-fledged trade war with China, they often join with the U.S. or other large
jurisdictions as third parties in disputes taken to the World Trade Organization. Third parties are allowed to submit their views and findings to dispute panels.

Chinese steelmakers are still reeling from the domestic slowdown. Construction-steel prices were down 6% in the first quarter, as China's largest steelmakers posted a combined loss of 2.3 billion yuan ($368.6 million) in the period, their worst performance since 2000.

Source: Chuin-Wei Yap: China Steel Exports Cause Friction With Trading Partners, May 14, 2014

**Chinese govt unveils trade support**

The Chinese government on Thursday announced support for stable growth of foreign trade and job creation. Optimizing the foreign trade structure - including encouraging imports of technology and key parts, maintaining stable growth of goods trade and supporting services trade - is the central issues of a policy document issued by China's Cabinet, the State Council. The export tax rebates should be accelerated, and companies are encouraged to merge and acquire foreign brands and production lines to improve their global competitiveness.

Source: Xinhua: Chinese govt unveils trade support, 2014-05-15

**APEC ministers' agreements include completed road map for free trade**

Asia-Pacific region trade ministers made "a series of important agreements" at their two-day meeting, including finalizing a road map for the creation of a free trade area, senior officials said on Sunday. "We recognize the importance of demonstrating the Asia-Pacific Economic Cooperation's leadership and commitment to regional economic integration, and developing a pragmatic guide to advance work toward a free trade area of the Asia-Pacific (FTAAP) in a step-by-step approach," said the Qingdao Statement, released at the conclusion of the meeting. "We agree on the development of the road map for APEC's contribution to the realization of an FTAAP. We instruct officials to finalize the road map in 2014." As China is APEC host this year, the ministers' meeting was held on Saturday and Sunday in Qingdao, Shandong province. The meeting was a precursor to the economic leaders' meeting in November in Beijing.

In addition to the Qingdao Statement, ministers from the 21 economies also adopted a stand-alone statement: Continuing Support for the Multilateral Trading System. Chinese Commerce Minister Gao Hucheng said at the closing ceremony of the meeting that ministers reiterated continuing support for the multilateral trading system. They also agreed to make concrete moves to advance regional economic integration and the FTAAP, including a new Committee on Trade and Investment Friends of the Chair Group, an APEC information-sharing mechanism on regional trade agreements and free trade agreements. The ministers also made progress in formulating an APEC Blueprint on Connectivity, and continue work on advancing APEC cooperation in physical, institutional and people-to-people connectivity.

Alan Bollard, executive director of the APEC Secretariat, told China Daily that the meeting was notable as it included detailed proposals. "This year's meeting was more active than past ones. I am satisfied with the outcomes," he said. "The road map is significant and a big progress as it translates the FTAAP from a vision into actual moves this year. One more highlight is the connectivity blueprint — getting the region together on infrastructure, on different regular trade arrangements."

Source: Li Jiabao in Qingdao: APEC ministers' agreements include completed road map for free trade, China Daily, 2014-05-19

**World economy: China to maintain manufacturing supremacy**

In the past three decades China has revolutionised global manufacturing. In that time 500m people have moved from its fields to its cities, creating an unprecedented mass of factory workers. China's economy is changing, however, as wages rise and labour unrest grows. Does this mean an end to its dominance of global manufacturing? The Economist Intelligence Unit believes that new infrastructure and further productivity growth, allied to a
continued supply of new urban workers, will keep China competitive, despite several new trends in supply chains. China's huge supply of workers—its labour force will peak this year at around 802m—has been a boon for low-cost manufacturers, and has kept wages low. This, along with high levels of public investment in infrastructure, a stable political environment and respectable education, pushed China from the world's seventh-largest manufacturer in 1980 to displace the US as the world's biggest in 2010 when measured by the value of goods produced in US dollar terms. Inevitably, China's rise has been destabilising for existing manufacturing hubs. Some, such as South Korea, have been able to deftly move up the value chain, but others, such as South Africa and several economies in Central America, have seen their bases hollowed out.

This success has brought increasing prosperity to China and with it upward pressure on wages and working conditions. Unrest at factories in China run by a Taiwan electronics manufacturer, Foxconn, from 2010 began to erode confidence in China as the future of global manufacturing, generating speculation that producers of labour-intensive goods would go in search of cheaper destinations. The Economist Intelligence Unit believes that this story is overstated. By plotting our forecasts for labour productivity growth against nominal wage growth in a group of emerging economies in 2013-18, we discovered that there are few destinations that will become more cost-competitive than China, and none that will see their workers have a larger increase in productivity than those in China. Among Asian markets, Bangladesh is most frequently cited as an alternative to China for low-cost export manufacturing. Yet Bangladesh is forecast to make the least progress closing the competitiveness gap with China, with wages rising faster than in China but labour productivity growing only one-half as quickly. Vietnam has a similar rate of wage growth as China, but an appreciably slower rate of productivity growth. Indonesia is much the same, and given that it also scores below China in our business environment rankings (which evaluate the quality of domestic policies for potential investors), firms that move from China to Indonesia in the next several years are likely to do so for sector-specific reasons; for example, because they can make better use of Indonesia's less-skilled workers than other firms. Most countries should see slower nominal wage growth than China in 2013-18. But among them only India can boast a labour force even approaching the size of China's, in an environment in which economies of scale are important. The Philippines, Peru, Poland and Taiwan are all expected to gain in wage-competitiveness vis-à-vis China, with productivity growth relatively fast compared with wage growth. Other emerging markets touted as rivals, such as Mexico, Brazil and Egypt, will experience only very small improvements in productivity.

Our analysis supports our existing view that low-cost manufacturers will not desert China en masse for other emerging markets in the coming years. But this does not mean that the dynamics of supply chains will remain static in 2014-18. We expect proximity to final markets to become an increasingly important factor because of shortening product life-cycles, a trend apparent across consumer goods segments, from clothing to technology. A shorter shelf-life creates a higher marginal benefit for firms that can ship from factory floor to shop shelves more quickly; for China, rising incomes mean that its manufacturers will focus increasingly on the domestic market. Growth in e-commerce will also put pressure on existing supply chains to provide a greater variety of goods to far-flung destinations quickly. These trends will favour economies with manufacturing capacity close to large or rapidly growing consumer markets, such as Mexico in Latin America, Poland on the fringe of Western Europe and China in Asia.

Environmental legislation may also alter the attractiveness of manufacturing destinations. In March 2014 the Chinese premier, Li Keqiang, said his government would “declare war” on pollution, initially by reducing polluting steel and cement production, and later by promoting green technologies. The prospect of a tax on carbon emissions in China is still remote (and is one of several options available to the government), but Mr Li’s comments bring such legislation into view. Given the wide disparities in energy efficiency among emerging markets, such regulations could cause firms to reconsider the locations of their manufacturing hubs.

The most direct challenge to China's dominance of global manufacturing may come not from its many smaller competitors, each stealing a morsel of its market share, but from a behemoth on its doorstep. The Association of
South-East Asian Nations (ASEAN) Economic Community (AEC), which is due to come into effect in 2015, aims to turn its ten South-east Asian member states into a single base for production and manufacturing and, eventually, a single market. On their own, Vietnam, Malaysia and even Thailand lack the economies of scale to compete with China. Collectively, however, the community will comprise more than 625m people, with a GDP of almost US$2.5trn. (Comparable figures for China are 1.3bn people and a GDP of US$10trn.) If the AEC is able to bring intra-country tariffs close to zero, value chains could be established that exploit the resources of its member states, from R&D in Singapore to capital-intensive manufacturing in Thailand to plentiful labour in Myanmar. And as the region will experience some of the world's fastest economic growth in 2014-18, the battle to supply goods to its burgeoning consumer markets will be intense.

Nevertheless, the most striking aspect of China's position at the centre of global manufacturing is its continued comparative advantage. In this respect, China will be strengthened by further improvements to its already impressive high-speed infrastructure and the depth of its industrial capacity in the coming years. And, despite government promises to crack down on the environmental cost of production, continued growth in China's urban population will ensure it remains a highly competitive location for a broad swathe of manufacturers.

Xi Jinping’s Shanghai Free-Trade Zone Remarks Seen as Mild, but Welcome Endorsement

When Deng Xiaoping toured southern China in 1984 to grade capitalist experiments in a special economic zone there, his backing was unmistakable: 'Let some get rich first.' Now, President Xi Jinping has endorsed a would-be successor reform project, the Shanghai free-trade zone, delivering a less ringing support: Risk control is
The decision to build the zone was an important step of China's reform and opening up in modern times,' Xinhua news agency quoted Mr. Xi as saying during his Friday visit. Management of the Shanghai free-trade zone 'should combine structural reform and the exploration of new methods, while controlling risks and gradually making improvements,' Xinhua said in summarizing the president's visit. Mr. Xi's endorsement of the zone—no matter how tepid—could spur bureaucratic action to add definition to a zone that has mostly frustrated business executives. 'Symbolic moments are always to be looked at,' said Stefan Sack, an automotive company executive and the top Shanghai representative of the European Union Chamber of Commerce in China. Even a brief visit by the president, said Mr. Sack, 'gives it additional value.'

State-orchestrated fanfare when the Shanghai zone was inaugurated last September often compared it to an earlier experiment in Shenzhen. Starting around 1980, Shenzhen inaugurated business rules that, with Mr. Deng's later approval, spurred China's break nationally from the planned economic strategy of its communist era. Now, those steps are seen as the birth of an economic system that in about three decades developed the world's second-largest economy. The Shanghai zone opened with few solid policies that might fundamentally recharge the broader economy or unlock its heavily regulated financial system. Even supporters have been frustrated by the policy inaction, leaving many to wonder how serious authorities are about true reform. The fact that no top Chinese leader seemed to have time to schedule a visit to the Shanghai zone was taken by China watchers as a sign of bureaucratic battles in Beijing. Mr. Xi's visit came at the tail-end of a weekend visit to Shanghai, where he also welcomed dozens of Asian leaders to a security summit that groups non-western nations. He signed a deal with Vladimir Putin to import hundreds of billions of dollars' worth of gas from Russia and observed military drills between the two countries. Over the weekend, Mr. Xi also toured Shanghai plane-making facilities operated by Commercial Aircraft Corporation of China and sat in the cockpit model for its C919 passenger jet.

The Shanghai pilot free-trade zone is considered financial-sector-oriented, and a litmus test of the Xi-run government's appetite for reform. Financial analysts say hints of positive change are appearing, in particular ways to move money into and out of China using business entities registered in the zone. The adjustments are highly technical; one set of rules relates to a corporate balance sheet management strategy known as 'cash pooling' not allowed elsewhere in China and another deals with how certain bank accounts can be used. But they do suggest to analysts nascent efforts to introduce a more market-oriented currency-exchange policy that is currently governed by knotty rules. 'The financial reforms for the FTZ are clearly a further step on the road to internationalization and ultimately full liberalization of the' Chinese yuan, said a recent analysis of the experimental rules being introduced there by law firm Hogan Lovells.

Mr. Xi's visit should reduce doubts that he never liked the idea of a Shanghai zone. Moreover, the president's cautionary remarks dovetail with another view of Mr. Deng that helped allow China's economy to develop: his preferred strategy for introducing potentially destabilizing economic reforms, dubbed 'crossing the river by feeling the stones.'


Shanghai FTZ ready to spread its model nationwide

The China (Shanghai) Pilot Free Trade Zone will name the first institutions that can replicate its model nationwide in the fourth quarter, a senior official of the zone said on Monday. The aim is to boost interest and push reforms. It's a top priority for the zone that opened in September, Jian Danian, deputy director of the China (Shanghai) Pilot Free Trade Zone Administration, said. "It is the very first task for the zone to roll out a string of new institutions and policies that can be applied in other parts of the nation," Jian told reporters on the sidelines of the Shanghai Forum at Fudan University. The zone's administration office may turn to some 30 new institutions to facilitate trade and liberalize the financial sector. The project aims to go national, Jian said. An FTZ regulation is expected to be rolled out by the end of this year. The rule, together with the emerging proposals, is still subject to
approval by various departments in the central government. Along with the release of such policies is the modification of a negative list, an administrative approach taken by the zone that only lists restricted and prohibited projects for foreign investment. There are 190 specific bans on the negative list. That will be shortened by a third in 2014. It indicates Shanghai's determination to deepen reform, Shanghai Vice-mayor Tu Guangshao said earlier this month.

Jian said the financial infrastructure of the zone has been properly established in terms of liberalization of interest rates, cross-border transaction of the yuan, and reform of a foreign exchange mechanism. In February, the People's Bank of China fully liberalized interest rates on foreign-currency deposits in the zone, laying the foundation for the deepening of interest-rate liberalization nationwide. In the latest move, the central bank issued regulatory details to monitor cross-border capital flow at the zone by asking financial institutions to establish an accounting system that separate transactions in the zone from those elsewhere in China. Challenges remain in the implementation and integration of rules, including the coordination between policy makers and financial institutions. By the end of April, over 17,000 enterprises, including financial services, international trade and garment companies, have registered in the zone. People have been mulling major changes to happen in the zone, whose progress is largely seen as "quiet" since its grand opening last year, according to a McKinsey & Co report in January.

Source: He Wei in Shanghai: Shanghai FTZ ready to spread its model nationwide, China Daily, 2014-05-27

Canada's trade minister says China trade mission a priority

Moving to strengthen relations with the country's second-largest trading partner, Canada's Minister of International Trade is promoting the Canada-China relationship in a 10-day, five-city China trip. "This is my fifth visit to China since being appointed Trade Minister, and I'm very happy to be here opening doors and supporting our Canadian companies," Ed Fast told China Daily in a Tuesday teleconference call from Nanjing, Jiangsu province. Fast, whose home riding is in Abbotsford, British Columbia, said he began this most recent trade mission by attending an APEC meeting for trade ministers in Qingdao, Shandong province. The visit will include stops in Guangzhou, Hong Kong, Nanjing, Shanghai and Shenzhen, with the objective of fostering a deeper understanding of the international trade dynamic. The trip's primary discussion topics include education initiatives, sustainable technology development and intellectual property rights protection.

Fast said China is Canada's No 1 source of international students, with more than 87,000 Chinese students now studying in Canada. "Under Canada's new international education strategy, we expect the number to double … by 2022," he said. During the trip, the Canadian government announced it would open four new trade offices in China later this year — bringing the total in the country to 15 and increasing the number of Canadian officials there to more than 100. Canadian exports to China have increased 84 percent in five years, Fast said, while trade flows "in other parts of the world have stalled". "Canada's goal was to continue to advance [our] economic interest in the Asia-Pacific region," Fast said. "The trade mission is focused on sustainable technology, with a delegation of Canadian small and medium-sized enterprises (SMEs) looking to export to China." "China is a priority country in Canada's global market action plan and our second-largest trading partner, with two-way trade totaling $73 billion in 2013 — an increase of 4.5 percent from 2012," he said. "Sector-focused trade missions like this allow our SMEs to get personal face time with key decision makers and prospective local partners." Canadian exports to China in 2013 were valued at more than $20 billion, making China Canada's second-largest export market, per Canadian government data.

Fast said the biggest obstacle facing Canadian firms is the "different business environment in China". "There are many companies active in China that are making profits, but it is a very different environment than doing business in Canada," he said. "The protection of intellectual property has been raised many times and we're very cognizant of that concern." The role of trade commissioners is to provide strategic advice," he said. "Our trade commissioners make it clear that Canadian companies need to exercise caution and do their due diligence when
Country eyes more liberalized tertiary industry

China will further open up its services sector to foreign capital this year, while mulling rules and regulations to create a more level playing field, as the value-added industry becomes a powerful engine fueling the world's second-largest economy. "Gearing up for the development of the services sector is a must for China to be able to ensure a stable economy and an expanding job market amid economic restructuring," said the country's Vice-Premier Wang Yang in a written address to the summit of the Third China (Beijing) International Fair for Trade in Services, or CIFTIS, on Wednesday. Wang said China will slowly and steadily open up more fields in its services sector - initially in Shanghai's free trade zone, then expanding to the rest of the country - and take the initiative to be further integrated into global value chains. The government eased restrictions on investment in such industries as shipping, communications, banking, legal and healthcare in the FTZ last September when the pilot zone first opened its office. The services sector has been on the fast track of development since the beginning of the 12th Five-Year Plan (2011-15). Its share of the country's GDP growth reached 46.1 percent last year, outstripping that of manufacturing to become the largest sector for the first time. Meanwhile, trade in services was valued at about $540 billion, up 14.7 percent year on year, accounting for 11.5 percent of total foreign trade in 2013. The country's share of global services trade increased to 6 percent during the same period. "Despite that, the services sector remains a weak link of the economic and social progress in China," Wang said. "We have to step up to transform the sector, raise its share in the national economy and move up the value chain." Opening-up of services is a two-way street and should be mutually beneficial, Wang noted in his address. "China is willing to be proactively engaged in multilateral negotiations in pushing forward services liberalization and a balanced development in the field worldwide," he said.

Source: He Yini: Country eyes more liberalized tertiary industry, China Daily, 2014-05-30

‘Golden age’ for multinationals in China over

Half of European companies believe that the "golden age" for multinational companies in China has ended, according to the 2014 European Business in China Business Confidence Survey, conducted by European Chamber of Commerce in partnership with Roland Berger Strategy Consultants. Of the 552 companies studied, the increased difficulty of doing business in China is felt more strongly by large firms, the ones that have more than 1,000 employees, and those that are veterans, with over 10 years' experience in China, with 68 percent and 61 percent respectively admitting that doing business in China has become more difficult in the past year. Due to the slowdown in 2013, only 57 percent plan to expand their current China operations, which are already down from 86 percent last year. The survey estimated that European Chamber member companies lost $29 billion in revenue due
to market access and regulatory barriers in 2013. However, reforms present an opportunity for European companies with 45 percent believing that the Third Plenum reforms will be good for their firm.

Source: Zheng Yangpeng, Mu Chen: 'Golden age' for multinationals in China over, China Daily, 2014-05-29

**Huawei CEO Courts Europe**

Huawei Technologies Co.’s chief executive on Friday said the Chinese telecommunications-equipment maker plans to increase investment and hiring in Europe as part of an effort to change perceptions of a company he acknowledged has been seen as ‘mysterious.’ In a rare interview with journalists, Ren Zhengfei said the company he founded is investing and opening itself up in an effort to build trust with foreign customers and governments. Huawei has faced allegations in the U.S. that it is a security risk, as well as the threat of an European Union investigation into allegations that China is dumping or subsidizing products pertaining to mobile-telecommunications networks. ‘My reluctance to meet with the media has been used as a reason to label Huawei as a mysterious company,’ Mr. Ren said through a translator during the interview. In a few years, ‘our idea is to make people perceive Huawei as a European company,’ he said.

As part of the push, Huawei will increase investment in European research and development, and will extend an employee incentive plan to all key non-Chinese employees this year in order to attract and keep top talent, Mr. Ren said. Huawei's new openness comes as the company in recent years has faced scrutiny in Europe, where its growth has buffeted competitors, including Sweden's Ericsson and France's Alcatel-Lucent. In the U.S., meanwhile, Huawei has been effectively shut out of the telecom equipment market after a 2012 congressional report saying the company’s gear could be used by Beijing to spy on Americans. Huawei grabbed nearly 22% of mobile-network infrastructure spending in Europe, the Middle East and Africa last year, up from just 12% in 2010, according to market-research firm Infonetics. By contrast, in North America, Huawei had only a 2.8% share of that market in 2013 -- prompting the company to pull back from investments there.

Huawei, founded by Mr. Ren in 1987, has denied it has benefited from government subsidies, and said that allegations it is a conduit for espionage are tantamount to China-bashing. Mr. Ren is a former officer of the People's Liberation Army, but the employee-owned company denies direct links to the Chinese government or military. Key to Huawei's defense against allegations of dumping is its growing investment in research and development to improve its products and raise prices. Mr. Ren said its gear is now being priced at record highs in Europe. He also said the company would continue to increase its research spending, which rose last year to roughly $5 billion, at average 2013 exchange rates, compared with Ericsson's $4.9 billion.

Mr. Ren rejected the idea of taking his company public in the coming years, saying that public shareholders would force Huawei to focus too much on the short term, rather than long-term research and development. Huawei has an unusual private structure in which it is owned by its Chinese employees, including Mr. Ren. He holds roughly a 1.4% stake, but has veto power over important decisions, which has not yet needed to use. 'Shareholders are greedy and they want to squeeze every bit out of the company as soon as possible,' Mr. Ren said. By contrast, Huawei's employee-owned structure, he said, is 'part of the reason Huawei could catch up and overtake some of our peers in our industry.'

Despite efforts to open up, Mr. Ren said he isn't expecting the U.S. -- which he described as a 'great nation' -- to embrace Huawei equipment soon. 'I believe at the end of the day that it might take 10 or 20 years for the U.S. to know that Huawei is a company with integrity and a good face,' Mr. Ren said. 'We may have opportunities then.'


**Time to enhance protection for overseas Chinese firms**

After his arrival in Angola on Thursday, Premier Li Keqiang sat down for a seminar with over 40 members of the local Chinese business community, focusing on how to better protect the legitimate rights of overseas compatriots. The issue is high on the agenda of Li's first Africa tour as premier, underlining Beijing's determination
to provide stronger protection for the legitimate rights of Chinese companies and citizens overseas to match the new reality of China's growing business and people-to-people ties with the rest of the world. With rapid growth in foreign trade, in recent years the Chinese government has been encouraging Chinese enterprises to go abroad for new opportunities. Every year, nearly 100 million Chinese citizens leave their country for business, tourism, study or other purposes. There are more than 20,000 Chinese companies operating abroad. Take Africa as an example. In 2013, China-Africa trade exceeded $210 billion, 2,000 times that of 1960. China has been Africa's biggest trading partner for five years running. More than 2,500 Chinese companies are operating in Africa, creating more than 100,000 jobs for the local communities in which they operate. According to an IMF report, China-Africa cooperation has contributed to more than 20 percent of Africa's development. The expansion of Chinese interests abroad needs a corresponding capability to protect them, an issue Beijing now regards as a priority in its foreign policy.

Source: Chen Shilei (Xinhua): Time to enhance protection for overseas Chinese firms, 2014-05-9

China Inc. Moves Factory Floor to Africa

Each sparkly green television motherboard that rolls off the Hisense Co. factory line here moves China a tiny step toward a new global manufacturing base. The line's eight South African technicians monitor the assembly process by computer and have incentives to work quickly. In less than a year of operation, they are producing at the same clip of 70 seconds per board as their Chinese counterparts. But there's a hitch: Hisense factories in China use half as many workers to make the same product. In South Africa, one technician monitors one machine. In China, the company's technicians monitor two machines apiece. 'Step-by-step,' says Jerry Liu, general manager for the Middle East and Africa unit of the home-appliance maker. 'We'll get there.' Faced with rising labor costs at home and negative perceptions about their employment practices in Africa, Chinese companies are setting up new factories on the continent and hiring more Africans. The companies’ efforts will test whether the masters of low-cost manufacturing can be as productive in Africa as they are in China. Many bet they can be.

Mounting labor costs in China are part of what makes Africa so attractive. The average monthly wage for a low-skilled Ethiopian factory worker, for example, is about 25% of the pay for a comparable Chinese worker, according to the World Bank. As the wage gap widens between unskilled Chinese workers and their counterparts elsewhere in Asia and in Africa, as many as 85 million factory jobs could leave China in the coming years, according to former World Bank chief economist Justin Yifu Lin. In addition to its pool of low-cost labor, Africa represents an enticing market for Chinese products manufactured on the continent. Africa is now home to six of the world's 10 fastest-growing economies, according to the International Monetary Fund, and many African countries are reducing their dependence on extracting resources, such as oil, metals and gems. Africa's poor infrastructure and uneven distribution of skills erode its cost advantages, however. The World Bank study estimated that a Chinese worker making shirts, for example, could produce about twice as many per shift as an Ethiopian worker.

The common Chinese response to such productivity gaps has been to send more Chinese workers. China says it dispatched 214,534 workers to Africa last year, about one-fourth of all workers the country sent abroad. That was 18% more than in 2011, according to China's Commerce Ministry. China's expanding African footprint has caused friction, however. A survey from the Ethics Institute of South Africa, a research and training organization based in Pretoria, reported in February that 46% of respondents in Africa had a negative impression of Chinese employment practices, while 19% were positive. Another 55% agreed with the statement that Chinese companies in Africa use only Chinese employees. Such perceptions are rooted in reality. In Angola and Zimbabwe, Chinese companies bring workers from China for the most basic tasks, such as laying bricks and driving trucks. In Ethiopia, road crews have complained that Chinese supervisors cut their shovels in half so they will use them only for digging, and not for leaning to rest or gossip. In Zambia, Chinese mine bosses have tossed cold water on dozing employees, according to interviews with miners. Chinese officials, eager to erase China's image as what critics call the continent's 'new colonialist,' have urged its biggest companies to put their best foot forward in Africa. Chinese
Premier Li Keqianq visited several African countries this month and promised to ramp up assistance to various projects. Tian Xuejun, China's ambassador to South Africa says he holds regular meetings with Chinese executives to encourage local hiring, partly to help spur the continent's industrial development. 'We have some experience in this area, and we're willing to share it,' Ambassador Tian says. 'We're teaching people how to fish rather than giving them fish.'

Source: Peter Wonacott: China Inc. Moves Factory Floor to Africa, May 15, 2014

**Vietnam riots 'will hurt investment from China'**

Anti-China protests in Vietnam will deter Chinese investment and lead to local job losses. Many Chinese companies and traders have initiated contingency plans and stopped trade activities to safeguard employees and minimize financial losses. Rioters attacked Vietnam's biggest steel plant overnight as violent anti-China protests spread and escalated in the country. Vietnam's Industry and Trade Minister Bui Quang Vinh told local newspaper Tien Phong that if the violence can't be contained, the country's economic development will be damaged because foreign companies will abandon ideas of investing in Vietnam.

Not only Chinese factories have been affected. Manufacturing facilities owned by Japanese, South Korean and European companies have also been damaged by mobs. They may also stop investing in Vietnam as they need a safer environment to carry out production, Bui was quoted as saying by the Vietnamese daily newspaper. The newspaper quoted Tran Van Hang, chairman of the National Assembly's committee for external relations, as saying that the unstable situation in Vietnam has already caused concern among foreign investors and affected their production in the country. “The government's top priority should be how to ensure healthy economic growth in 2014,” said Hang.

Even though the Vietnamese economy has developed faster than neighboring Cambodia and Laos in recent years, the country still needs a large amount of investment and technical support from China to improve communication, power supply and transportation networks. China's investment in Vietnam increased sharply in 2013, with 89 newly licensed projects and capital injections into existing 11 projects, bringing the total investment to more than $2.3 billion. That was up from $371 million in 2012, data from the Beijing-based China Chamber of International Commerce show. Li said companies in China's Pearl River Delta region will no longer consider Vietnam as an ideal destination, and Cambodia and Myanmar are likely to gain at Vietnam's expense.

Source: ZHONG NAN/WANG JIAN: Vietnam riots 'will hurt investment from China', China Daily, 2014-05-16

**China's non-financial ODI slumps in Jan-April**

Chinese companies invested 12.9 percent less overseas than a year ago during the first four months of this year, according to the Ministry of Commerce (MOC) on Friday. China's outbound direct investment (ODI) in non-financial sectors slumped 12.9 percent year on year to $25.7 billion in the January-April period, narrowing from the 16.5 percent decline in the first quarter, MOC spokesman Shen Danyang said at a press conference. The $25.7 billion ODI went to 2,352 overseas enterprises in 139 countries and regions. Hong Kong, the Association of Southeast Asian Nations, the EU, Australia, the US, Russia and Japan received about two-thirds of the ODI, or $17.1 billion. In the period, China's investment in the United States soared 173.3 percent to $1.7 billion, while ODI growth in Russia and Japan jumped 238.5 percent and 204.3 percent from a year ago, mainly due to the small amount of investment last year. As of the end of April, China had an accumulated outbound investment of $551.4 billion in non-financial sectors.

Source: Xinhua: China's non-financial ODI slumps in Jan-April, 2014-05-16