China News in Brief
October, 2014

Compiled by Yimin Zhang, University of Shanghai for Science and Technology for the Kiebach Center in International Business Studies, Whitman School of Management
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<table>
<thead>
<tr>
<th>Topic</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>China needs no &quot;big stimulus&quot; despite slowdown</td>
<td></td>
</tr>
<tr>
<td>China's September inflation hits 4-year low</td>
<td></td>
</tr>
<tr>
<td>World News: China Growth Rate Is Slowest in Five Years</td>
<td></td>
</tr>
<tr>
<td>Mixed Signals From China: Business/Financial Desk</td>
<td></td>
</tr>
<tr>
<td>World News -- Analysis: China Faces Tough Choice on Weak Economy</td>
<td></td>
</tr>
<tr>
<td>Asian-Pacific Economies: Findings in Asian-Pacific Economies Reported from State University of New York (Explaining sectoral discrepancies between national and provincial statistics in China)</td>
<td></td>
</tr>
<tr>
<td>Lower exports, realty woes may hit GDP target</td>
<td></td>
</tr>
<tr>
<td>China moves to expand, upgrade consumption</td>
<td></td>
</tr>
<tr>
<td>China targets local gov't debt risks with new rules</td>
<td></td>
</tr>
<tr>
<td>China reduces small business tax bill by 3.7b yuan</td>
<td></td>
</tr>
<tr>
<td>China's Rising Risks: China Cuts Rates for Lenders</td>
<td></td>
</tr>
<tr>
<td>Speculation grows of early interest rate cut</td>
<td></td>
</tr>
<tr>
<td>A Chinese rival to the World Bank</td>
<td></td>
</tr>
<tr>
<td>Xi eyes better global financial governance as AIIB MOU signed</td>
<td></td>
</tr>
<tr>
<td>Chinese finance minister says AIIB a win-win</td>
<td></td>
</tr>
<tr>
<td>China Offers Steps to Reform Legal System --- Under Pressure to Deal With Public Frustrations</td>
<td></td>
</tr>
<tr>
<td>China politics: Judgement day</td>
<td></td>
</tr>
<tr>
<td>China Vows To Improve Legal System</td>
<td></td>
</tr>
<tr>
<td>Rule of law crucial to development of market economy</td>
<td></td>
</tr>
<tr>
<td>New members for think tank council</td>
<td></td>
</tr>
<tr>
<td>Generational shift, Electricity</td>
<td></td>
</tr>
<tr>
<td>FTZ model 'will expand nationwide'</td>
<td></td>
</tr>
<tr>
<td>China's farming, once vital, is an economic drag; Low earnings prompt migration to cities, and rural areas are left barren</td>
<td></td>
</tr>
<tr>
<td>Evaluation of Urban Informal Employment in China: A Survey of Migrant Peasant Workers</td>
<td></td>
</tr>
<tr>
<td>Hong Kong economy: Ten-year growth outlook</td>
<td></td>
</tr>
<tr>
<td>New rail projects to boost growth</td>
<td></td>
</tr>
<tr>
<td>Winners and losers; Cheaper oil</td>
<td></td>
</tr>
<tr>
<td>Private firms have to bring in external ideas</td>
<td></td>
</tr>
<tr>
<td>China's business registrations surge</td>
<td></td>
</tr>
<tr>
<td>Industrial deflation deepens in September</td>
<td></td>
</tr>
<tr>
<td>Flash PMI for Oct brings cheer</td>
<td></td>
</tr>
<tr>
<td>China lowers down payment requirement for second homes</td>
<td></td>
</tr>
<tr>
<td>UNCTAD chief hails China's vital status in global economy</td>
<td></td>
</tr>
<tr>
<td>Germany-China partnership enjoys bright prospects</td>
<td></td>
</tr>
<tr>
<td>China is a driving force for world economic recovery</td>
<td></td>
</tr>
<tr>
<td>China, Russia sign deals on energy, high-speed railways</td>
<td></td>
</tr>
<tr>
<td>Chinese, Italian firms sign $110b in deals</td>
<td></td>
</tr>
<tr>
<td>Finance ministers set APEC stage</td>
<td></td>
</tr>
<tr>
<td>World Watch</td>
<td></td>
</tr>
<tr>
<td>Japan to be 'respected guests' at APEC</td>
<td></td>
</tr>
<tr>
<td>Why the yuan is being welcomed in Canada</td>
<td></td>
</tr>
<tr>
<td>China loses No 1 trade surplus spot to Germany</td>
<td></td>
</tr>
<tr>
<td>China Steel Exports at High --- Cheap Prices Boost Sales to Markets in U.S., Europe as Domestic Demand Slumps</td>
<td></td>
</tr>
<tr>
<td>US-China free trade could generate $400b in gains - study</td>
<td></td>
</tr>
<tr>
<td>ODI 'on track for steady growth'</td>
<td></td>
</tr>
<tr>
<td>Landmark year as ODI set to exceed FDI</td>
<td></td>
</tr>
</tbody>
</table>
China needs no "big stimulus" despite slowdown

China does not need large-scale monetary stimulus in the near future despite a slowdown in the world's second-largest economy, a senior economist with the Chinese central bank said Saturday. "I don't see the reason for big stimulus in the foreseeable future," Ma Jun, chief economist of the Research Bureau of the People's Bank of China (PBOC), said at a panel discussion on the sidelines of the Annual Meetings of the International Monetary Fund (IMF) and the World Bank. Although the economic growth has "slowed a bit," China's job market "looks pretty stable," because China's economy is transforming from a manufacturing-dominated structure to a "more services-based" one, Ma told the session, hosted by the Institute of International Finance (IIF) and focused on China's economic outlook. Services, which are generally labor-intensive than manufacturing, became bigger than the industrial sector last year. According to Ma's recent research, the creation of urban jobs by an increase of one percentage point in the share of the services sector as of China's gross domestic product (GDP) can offset the job losses caused by a decline of 0.4 percentage point in the GDP growth. Given that the share of the services sector in China's GDP is rising about one percentage point per year or even higher, "we're not concerned about labor market conditions," he said. "That's the reason why the government was pretty relaxed about the GDP growth rates slowing down towards 7 percent," said David Dollar, a senior fellow at the Brookings Institution, a think tank, adding that China created about 10 million new jobs in the first eight month of this year, reaching its annual target.

Another reason for ruling out major stimulus is to "avoid further increase in leverages" in real estate, certain state-owned enterprises and local-government financial vehicles, which were already too high, Ma said. While the real estate sector accounts for 20 percent of total investment in China and has become the main downside risk to the Chinese economy, Ma said he believes the chance of a hard landing for China's economy is very low. Ma said the Chinese central bank has used "targeted easing measures" to support agriculture, micro-firms and public housing, and there are also new growth engines in such services sub-sectors as the Internet and heath care. Economic indicators suggest that the Chinese economy will continue to expand at a steady pace, Zhou Xiaochuan, China's central bank governor, said at a meeting of the IMF's policy-setting committee on Saturday. Chinese authorities will maintain consistency and stability of macroeconomic policies in order to maintain growth at a reasonable rate, promote employment and guide inflation expectations, he said.

Source: Xinhua: China needs no "big stimulus" despite slowdown, 2014-10-13

China's September inflation hits 4-year low

Growth in China's consumer inflation slowed than market expectation to 1.6 percent in September, the lowest since January 2010, data showed on Wednesday. This is compared with an increase of 2 percent registered in August, the National Bureau of Statistics said in a statement on its website. On a monthly basis, the consumer price index (CPI) rose 0.5 percent last month, faster than August's 0.2-percent increase. The CPI grew 2.1 percent year on year in the first nine month, well below the 3.5-percent full-year control target set by the government.

Source: Xinhua: China's September inflation hits 4-year low, 2014-10-15

World News: China Growth Rate Is Slowest in Five Years --- Quarterly Result Suggests World's Second Largest Economy Will Struggle to Meet Government Target of 7.5% For The Year

China's economy in the third quarter grew at its slowest pace in five years as it battles a slumping real-estate market and weak domestic demand and industrial production. The results on Tuesday make it increasingly likely China will miss its annual growth target for the first time since 1998, in the midst of the Asian financial crisis. Chinese leaders in recent months have at times emphasized their target is an approximate one, of about 7.5%, and that a level slightly below that figure is acceptable to Beijing. At the same time, the results aren't severe enough to push Beijing to rely on the sort of broad-based stimulus program that could worsen China's debt problems and fuel
overcapacity. Hong Kong and Chinese stock markets were mixed in morning trading after the data were released.

China posted a 7.3% year-over-year quarterly growth rate, according to the National Bureau of Statistics on Tuesday. That marked the lowest level since the first quarter of 2009, when growth fell to 6.6%. The performance could damp demand for China-related equities, commodities and currencies. Value-added industrial output in China rose by a larger-than-expected 8% in September from a year earlier, accelerating from a 6.9% year-over-year rise in August, the statistics bureau said. Industrial production also increased 0.91% in September from August, when it rose 0.2% from the preceding month, it said. Fixed-asset investment in nonrural areas climbed 16.1% in the January-September period compared with the same period a year earlier, slower than the 16.5% increase recorded in the January-August period, while retail sales rose 11.6% in September from a year earlier compared with a 11.9% on-year increase in August. China's property sector, which accounts for half of GDP when related industries, such as steel, appliances and construction are included, has been a major drag on output this year. Housing sales fell 10.8% by value during the first nine months of this year, the statistics agency said.

While 7% plus growth would be the envy of most countries, China has said it needs at least 7.2% growth to create some 10 million jobs annually for its huge population. In the latest move, China's central bank told financial executives late last week it planned to inject 200 billion yuan ($32.6 billion) into the banking system in hopes of pushing the economy into a higher growth trajectory. This follows an earlier move to pump 500 billion yuan into the country's five major state-owned banks. Chinese authorities have eased restrictions in dozens of cities on buying property put in place when the market was at risk of overheating. They have eased down-payment requirements and lowered interest rates for first- and second-home buyers.

Exports, one of China's few economic bright spots, grew faster than expected in September, although some economists believe an unusually sharp increase in shipments to Hong Kong may include transactions designed to circumvent China's strict capital controls. New loans also grew faster than expected in September.


Mixed Signals From China: [Business/Financial Desk]

It is hard to be certain just exactly how the Chinese economy is faring, given mixed signals in the data. Chinese inflation is at its weakest levels in nearly five years. Commodity prices are plunging. New home sales are declining. Foreign investment is contracting. The overall economy, though, continues to chug along at a steady, albeit more modest, pace. China's gross domestic product increased by 7.3 percent in the third quarter, compared with 7.5 percent in the previous quarter. While that was the lowest quarterly growth since the depths of the financial crisis in 2009, the rate remains the envy of major economies. The economy also continues adding jobs at a good clip, and the currency is one of very few that are still rising against the dollar.

Making sense of China's economic health is challenging because the slowdown is partly by design. The Communist leadership has pledged to reduce China's dependence on credit-fueled growth and investment, to instead emphasize domestic consumption. It is a risky proposal, and leaders have signaled a willingness to live with slower growth, provided employment holds up and systemic risks are contained. One figure that Chinese leaders study closely is the number of new jobs. Li Keqiang, China's prime minister, boasted in a speech at a World Economic Forum meeting last month that nearly 10 million urban jobs had been created in the first eight months of the year, up slightly from a year ago. As a result, he said, he would not mind if the growth of the gross domestic product fell short of this year's official target of 7.5 percent. "An important goal of maintaining stable growth is to ensure employment, and the floor of the proper range is to ensure relatively adequate employment," he said at the meeting in Tianjin.

But even in the jobs figures, broad disparities exist across China. Employment has grown solidly in the services sector nearly every month in the last five years, according to the purchasing managers index compiled by
HSBC and Markit. By contrast, manufacturing employment, which generally expanded from 2009 through 2011, has mostly contracted since. Despite the signs of malaise in China's manufacturing and industrial sectors, the government is wary of repeating the significant stimulus measures it undertook after the financial crisis. Leaders are worried that would add to China's ballooning debt, which rose to 250 percent of gross domestic product at the end of June, from 150 percent five years ago, according to estimates by Standard Chartered Bank. Instead, policy makers in recent months have used targeted, behind-the-scenes stimulus measures, including extending limited amounts of short-term credit to large and medium-size banks. The government also has directed more financing to favored projects, like supporting agricultural efforts and redeveloping shantytowns.

Other major indicators offer similarly contradictory perspectives on the progress of China's economic transition. Retail sales are rising at their slowest pace in nearly a decade, seemingly casting doubt on the ability of Chinese consumers to drive economic growth. But with an increase of about 12 percent in value this year, sales are hardly anemic. What is more, official sales figures fail to capture the explosive growth of online shopping in China. The statistics bureau only began including the sales of some unnamed, large Internet retailers in its data this year. But Mark Williams, the chief Asia economist at Capital Economics, estimates that official retail sales figures only capture about one-sixth of the online purchases in China.

Trade figures, too, are somewhat unclear. Reported Chinese exports rose 15.3 percent last month, their biggest increase since 2013. But that was partly because of a 34 percent increase in exports to Hong Kong. The dynamic has prompted some economists to question whether trade figures are again being distorted by so-called over-invoicing. The practice was rampant two years ago, when China's reported exports to Hong Kong surged when companies disguised speculative capital inflows as the proceeds from trade. Hong Kong's separately reported imports from China are much lower, which economists say is evidence of the practice.

The most problematic economic indicator in China may be gross domestic product itself. Though economists say the data broadly are improving, the numbers do not always seem to add up. For example, the combined G.D.P. reported by each of China's provinces still regularly exceeds the official total for the country.


World News -- Analysis: China Faces Tough Choice on Weak Economy --- Reform Pace Expected to Stay Slow as Officials Weigh Right Mix of Measures to Avoid Overheating and Still Boost Activity

China's economic slowdown is widely expected to continue into next year, increasing pressure on Beijing to take more-strenuous growth-spurring measures and to move slowly on plans for fundamental economic reform. On Tuesday, China reported that gross domestic product expanded at 7.3% in the third quarter from a year earlier, the slowest rate of growth in more than five years, as deepening problems in the housing market, sluggish retail sales and expanding debt weighed on the economy. Many analysts were expecting weaker growth and greeted the results as positive news, but few predicted a pickup in the coming quarters. Navigating the present slowdown is the biggest challenge China's leaders face. They must assess how fast and how deeply economic growth will decline and what policies to adopt to make sure the slide doesn't get out of hand. Doing too little could produce bankruptcies and unemployment. Doing too much to boost stimulus could fuel real-estate and credit bubbles.

An annual Communist Party conclave is taking place this week in Beijing to discuss legal reforms and the continuing crackdown on corruption. Last year's session produced a blueprint to give the economy a firmer long-term foundation by letting market forces play a much larger role. But China has been very slow in putting the plan into action, economists say, because of fears it might further undermine short-term growth. The prospect of GDP expansion in the 7% range comes after a report released Monday from the Conference Board, the business-research group, which forecast growth slowing to an average of 5.5% from 2015 to 2019, and an average of 3.9% from 2020 to 2025.

Premier Li Keqiang told a delegation attending an Asia-Pacific Economic Cooperation finance ministers'
meeting in Beijing on Tuesday that growth during the first three quarters remained within a "reasonable range" according to the official Xinhua news service. "It takes time for China's reformative measures to be fully effective," he added. The growth outlook for the world's second-largest economy is one of the biggest question marks hanging over the global economy. China is a major market for commodity producers in Latin America, Asia and Africa and capital-goods makers in the U.S. and Europe, as well as one of the world's largest recipients for foreign investment. By some estimates, China accounts for more than one-fourth of the world's economic growth. The leadership has talked up reform all year but has been wary of rolling out specific measures while growth is weak. Beijing has endorsed the freeing of bank-deposit rates, which are now capped at 3.3%, as a way to put more money in the pockets of consumers and to encourage big banks to funnel funds to private firms.

But the government has yet to even release a plan for how it would insure bank deposits -- a necessary step in liberalization -- despite having debated such a step for 20 years. Instead, the leadership has sought ways to bolster short-term growth. Most prominently, the People's Bank of China has increased low-interest loans to major Chinese commercial banks, and the central government and its local counterparts have picked up spending on railways, subways and information technology, among other sectors, in a strategy known as ministimulus. China economists expect Beijing to continue such measures. Some Chinese ministries are lobbying for more powerful stimulus measures, including a cut in interest rates across the board, Chinese officials say. The central bank has so far blocked those efforts, worrying that fresh loans would wind up in the hands of sectors marked by overcapacity.


**Asian-Pacific Economies; Findings in Asian-Pacific Economies Reported from State University of New York (Explaining sectoral discrepancies between national and provincial statistics in China)**

A new study on Asian-Pacific Economies is now available. According to news reporting out of Syracuse, New York, by VerticalNews editors, research stated, "This paper examines sectoral contributions to discrepancies between China's national aggregate statistical values and the sum of provincial figures. In institutional terms, the paper then explores the sources of principally sectoral discrepancies." Our news journalists obtained a quote from the research from the State University of New York, "We find that the industrial sector has been the major contributor to discrepancies in both gross domestic product (GDP) and total energy consumption in recent years. Technical aspects such as statistical coverage, data collection method, and double-counting cannot explain the discrepancy. For the industrial sector, limited data accessibility undermines external checks and balances from the general public. As the primary bodies in collecting industrial data, the Provincial Bureaus of Statistics (PBSs) are not subject to effective internal checks and balances from other governmental divisions. To out-compete counterparts and get promoted, provincial leaders have explicit incentives to overstate provincial GDP, with industrial added value being the first statistic to be affected." According to the news editors, the research concluded: "This dynamic further extends to industrial energy consumption, which is over-reported as well."


**Lower exports, realty woes may hit GDP target**

China's economic growth will slow to 7.2 percent in the current quarter, down from the previous three months, as domestic demand weakens, according to Song Guoqing, an academic with the People's Bank of China monetary policy advisory committee. The nation's economy will probably expand 7.3 percent next year, Song told a forum in Beijing over the weekend. Song's view was in contrast, however, with a prediction by Fan Jianping, chief economist at the State Information Center under the National Development and Reform Commission, who told an
industry conference that growth is expected to be 7 percent in 2015, unless the central government releases stronger-than-expected stimulus measures. Fan said that a decrease in exports and property development - two "engines" that fueled China's rise to become the world's second-largest economy - will be the main cause of a slowing of growth. Fan's forecast is in line with a median estimate of 51 analysts in a Bloomberg News survey as Chinese leaders have signaled they will tolerate weaker expansion, leaving the economy heading for the slowest full-year growth since 1990. The government will set a gross domestic product growth target of about 7 percent for 2015, according to 13 of 22 analysts polled by Bloomberg. "I don't rule out that we will see year-on-year expansion lower than 7 percent in some single quarters next year," Fan said, adding his forecast was based on his agency's research which uses China's industrial production as a key indicator to the economic growth. Stronger exports in the current quarter will not compensate for the decline in domestic demand, the PBOC's Song said. "In at least six months, economic growth is unlikely to pick up remarkably," Fan said in Shanghai. GDP expansion in the three months from October is seen at 7.2 percent to 7.3 percent, which will lead full-year growth to about 7.3 percent as the fourth-quarter reading has a bigger weighting, he said.

The government is holding off broad stimulus, with Premier Li Keqiang expressing a preference for policy improvements and People's Bank of China Governor Zhou Xiaochuan vowing to stick with a prudent monetary stance. China's premier typically announces the annual growth goal at the National People's Congress in March, after policymakers meet late in the year at the Central Economic Work Conference to hash out policies. China's economic growth remained unchanged at 7.7 percent in 2013 and may ease to 7.3 percent this year, according to the median estimate of 51 analysts in a Bloomberg News survey.

Source: Xinhua: Lower exports, realty woes may hit GDP target, 2014-10-28

China moves to expand, upgrade consumption

The Chinese government announced measures on Wednesday to boost and upgrade domestic consumption in a bid to raise the quality and efficiency of its economy. Consumption is an important "engine" for economic growth and represents great potential for China's development, said a statement on the central government's website following an executive meeting of the State Council presided over by Premier Li Keqiang. "Among the driving forces for growth, consumption demand has the largest scale and the closest bearing on people's livelihood," the statement said. The country must make full use of all market forces to raise effective supply and promote the expansion and upgrading of domestic consumption, which will in turn push forward growth of new industries and raise the economic growth to a higher level. "China needs to raise people's incomes to make them capable of consumption," the statement said.

The country will roll out supporting measures and detailed policies for deepening its income distribution reform, raise farmers' incomes through diversified means and ensure that residential incomes grow at the same pace as the country's economy. It will also improve the social security network to free people from worries during consumption, and also build better consumption environment to make people willing to spend. The statement pinpointed some major fields for boosting consumption, including information-related products (such as mobile Internet), green and energy-saving products, housing, tourism and leisure, education, as well as elderly care.

Source: Xinhua: China moves to expand, upgrade consumption, 2014-10-30

China targets local gov't debt risks with new rules

China's State Council, or the cabinet, on Thursday published rules to strengthen the supervision and management of debts incurred by local governments. It is the first document by the State Council aiming to manage and control risks posed by trillions of yuan in local government debts. Auditing results indicated that risks from government debts are generally controllable, according to a brief statement posted on the official website of the Chinese central government. But there are some risks and problems related to borrowing, management and fund use that need to be addressed, the statement said. The State Council required the establishment of an integrated
management mechanism for local governments' debts, which will cover borrowing, use of funds, and repayment.

Late last year, China disclosed its total government debts. Auditing results showed that debt directly incurred by China's local governments totaled 10.88 trillion yuan ($1.77 trillion) at the end of June 2013. The debt guaranteed by local governments at various levels amounted to 2.66 trillion yuan. Debt governments might have some liability for, or contingent liabilities, stood at 4.34 trillion yuan. Putting the three categories of debt together, Chinese Finance Minister Lou Jiwei put total local government debts at about 12 trillion yuan at the end of last June. Four trillion yuan was borrowed through local government funding vehicles (LGFVs).

The State Council's statement came one month after the National People's Congress (NPC), the Chinese parliament, passed a long-awaited set of amendments to the country's Budget Law on Aug. 31. The revision marked an important milestone in fiscal reforms and paved the way for local governments to formally issue bonds on China's bond market. The old version of the budget law banned local governments from issuing bonds. But in practice they sought back doors to raise funds by taking loans from banks and issuing bonds via their LGFVs. The money has been unsupervised. According to the document, governments of the 32 provincial-level regions on the Chinese mainland will be allowed to borrow within a quota set by the State Council. The quota needs to be approved by the NPC or its standing committee. Prefecture-level and county-level governments can commission the provincial governments to borrow, if necessary.

The document requires that local governments no longer borrow money through LGFVs or corporate channels. Money raised through municipal bonds may only be used to fund public services and pay existing debt, but not government operations. Debts arising from bond issuance must be included in the local government budget, the document said. The State Council will set up a system for assessing local government debt risks and establish mechanisms for early warning, emergency response and accountability, it said.

Over the past two years, the market has been worried by China's rising debt burden and leverage. Local government debt exploded during the investment and construction binge that was part of a stimulus in 2008 to buffer against the global financial crisis. The abolishment of LGFVs and allowing local governments to issue better-regulated municipal bonds will provide them with more transparent, stable and lower-cost sources of financing, analysts said.

Source: Xinhua: China targets local gov't debt risks with new rules, 2014-10-3

China reduces small business tax bill by 3.7b yuan

Tax breaks for small businesses in China amounted to more than 3.7 billion yuan ($600 million) in the first half of the year. Nearly 74 percent of small companies qualify for a 50 percent cut in business income tax until Dec. 31, 2016, according to the State Administration of Taxation (SAT). The value added tax rate for small businesses has also been reduced to 3 percent from previous rates of 6 percent and 4 percent. A stamp tax on bank loans to small companies and administrative charges, including registration and license fees, have been lifted. The State Council decided that from Oct 1, 2014 to Dec 31, 2015, companies reporting monthly sales below 30,000 yuan will be exempt from VAT and turnover tax. China has expanding preferential tax policies for small companies and reduced their tax burden to boost economic growth and employment. Nearly 80 percent of urban jobs are provided by small companies.

Source: Xinhua: China reduces small business tax bill by 3.7b yuan, 2014-10-4

China's Rising Risks: China Cuts Rates for Lenders

China's central bank cut short-term borrowing costs for banks for the second time in less than a month, a sign that Beijing is under increased pressure to ease monetary conditions to combat a slowing economy. In a routine money-market operation, the People's Bank of China cut the interest rate on 14-day repurchase agreements, a kind of short-term loan to commercial lenders, by 0.10 percentage point to 3.40% on Tuesday. This followed a move on Sept. 18 to lower the rate by 0.20 percentage point to 3.50%. "It shows that the central bank is under rather strong
pressure to ease monetary policy as it seems like the government still considers financing costs in the economy too high,” said Gu Ying, interest-rate strategist at J.P. Morgan Chase & Co.

The People's Bank's move came a week before China is scheduled to release major macroeconomic data for the third quarter and September. A survey of 15 economists by The Wall Street Journal indicates they believe China's gross domestic product expanded 7.2% in the latest quarter from a year earlier, slowing from a 7.5% increase in the second quarter, as the pivotal real-estate sector remains depressed. On Wednesday, China is scheduled to release inflation figures for September. Economists expect the figures to show a 1.7% increase in the consumer-price index, slower than the 2.0% rise in August, the poll indicates. Although the latest repo-rate cut has raised hopes of broader monetary easing, the move came after a series of targeted, modest easing measures Beijing has deployed in recent months to help small businesses and public housing, Sue Trinh, a strategist with Royal Bank of Canada, wrote in a research note.

Analysts have said China has so far been reluctant to use more-powerful policy tools because lowering rates more broadly could prompt people and companies to take on more debt, adding to the risks the country's financial institutions already face.


Speculation grows of early interest rate cut

The cost of locking in Chinese borrowing costs is poised to drop below the central bank's savings benchmark for the first time since 2012 as speculation mounts that interest rates will be cut. China's one-year interest-rate swap dropped for a sixth day on Monday in the longest losing streak in six months on speculation the central bank will add more funds to the financial system. The cost of one-year swaps, the fixed payment to receive the floating seven-day repurchase rate, had fallen to 3.025 percent by 4 pm in Shanghai, data compiled by Bloomberg showed. It was the longest run of declines since April, and the rate earlier touched 3.02 percent, the lowest level since September 2012. While the central bank lowered the rate on 14-day repurchase agreements last week, a cut in the benchmark is the most direct way to shrink financing costs, the China Securities Journal said in a commentary on Thursday. Credit Agricole CIB said there's a 40 percent likelihood of a reduction.

China's benchmark one-year lending rate has been 6 percent since July 2012, when it was cut for a second time that year. The central bank allowed commercial lenders the freedom to set their own loan costs last year, while the deposit rate remains capped at 1.1 times the People's Bank of China's 3 percent targeted level. Aggregate financing came in at 1.05 trillion yuan ($171 billion) last month, missing the 1.15 trillion yuan median estimate in a Bloomberg survey and below last year's monthly average of 1.44 trillion yuan. Data last week showed consumer prices climbed 1.6 percent in September, the slowest pace in 4 and a half years. The PBOC cut the interest rate on 14-day repo contracts to 3.4 percent last week, compared with 3.5 percent on Oct 9 and 3.7 percent on Sept 16. The seven-day repurchase rate averaged 3.05 percent this month, the lowest since May 2012.

PBOC Governor Zhou Xiaochuan last weekend reiterated the need for "prudent" monetary policy amid "steady" economic expansion. While total financing fell short of expectations, it was still up from 957 billion yuan from August. Money supply grew 12.9 percent, accelerating from 12.8 percent. The central bank has so far opted for targeted measures to bolster growth, including reserve requirement ratio cuts for smaller banks and a 500 billion yuan provision for the nation's five largest banks. Debt ballooned after the government rolled out a stimulus campaign amid the 2008 financial crisis, while shadow banking, which encompasses off-balance-sheet lending including trusts, also expanded beyond policymakers' direct control. Barclays Plc maintains its forecast for a 25 basis point lowering of the benchmark lending rate this quarter and another in the next three months because this is the only way to meaningfully reduce borrowing costs, economists Jian Chang in Hong Kong and Bill Diviney in Singapore wrote in a note on Wednesday.

Source: Xinhua: Speculation grows of early interest rate cut, 2014-10-21
A Chinese rival to the World Bank

Frustrated with the lack of governance reform, slow pace of project implementation and reluctance to expand lending on the part of the existing development banks, China is starting its own. The bank, which will help meet Asia's rapidly growing infrastructure needs, is likely to operate initially by tapping existing capital markets in Hong Kong, London and New York, and by lending in dollars. The bank could also be important for tapping China's excess savings and putting them to good use in developing Asia.

Those efforts seem destined to fail. Not even Australia, America's warmest ally in Asia, will oppose it, because the economic logic is too strong. Meanwhile the trade pact is struggling. And this should make U.S. policy makers ask a deeper question: Does it make sense to keep trying to compel China to accept a subordinate role as a "responsible stakeholder" in a U.S.-led system?

Or is it time for the United States to accept that China's economic growth is inevitably transforming Asia's political balance, too? Perhaps Washington needs to stop trying to preserve the old Asian order, and try instead to maximize its role, alongside China, in the new one. That would mean supporting China's Asian Infrastructure Investment Bank.


Xi eyes better global financial governance as AIIB MOU signed

Chinese President Xi Jinping looks forward to better global financial governance as 21 countries signed a memorandum of understanding (MOU) Friday on establishing a new multilateral bank to finance infrastructure projects in Asia. Xi made the remark as he met with representatives from the 21 countries involved in setting up the Asian Infrastructure Investment Bank (AIIB) at the Great Hall of the People in downtown Beijing. The representatives were from Bangladesh, Brunei, Cambodia, China, India, Kazakhstan, Kuwait, Laos, Malaysia, Mongolia, Myanmar, Nepal, Oman, Pakistan, the Philippines, Qatar, Singapore, Sri Lanka, Thailand, Uzbekistan and Vietnam. The memorandum specifies that the authorized capital of the AIIB is $100 billion and the initial capital is expected to be around $50 billion. The paid-in ratio will be 20 percent. As agreed, Beijing will be the host city for the AIIB's headquarters.

It is expected that the prospective founding members will complete the signing and ratification of the Articles of Agreement in 2015 and the AIIB will be formally established by the end of 2015. Congratulating the representatives on inking the memorandum, Xi said it reflects all the parties' aspiration, determination and action for unity and cooperation in pursuit of common development. "(The establishment of the AIIB) will help to improve global financial governance, which is very meaningful," Xi said, adding that he hopes all sides concerned will make concerted efforts to make the AIIB a financing platform of infrastructure construction featuring equality, inclusiveness and high efficiency, and multilateral development bank that meets the demand of all countries in the region. "To become rich, you need to build roads first," Xi said during the meeting, quoting a Chinese saying. He said the AIIB should focus on boosting interconnectivity of infrastructure and economic cooperation in the region to inject new driving forces into the economic development in Asia. Xi stressed inclusiveness and multilateralism in the development of the AIIB, saying that all countries with interest are welcome to join the bank and that the AIIB should work together with other multilateral development organizations to promote prosperity in Asia as well as the world at large. Briefing the representatives on China' economic prospect and ongoing overall reform, Xi said China will firmly stick to the opening-up strategy for win-win reciprocity. "The purpose of my proposing a joint push to build the Silk Road Economic Belt and the 21st Century Maritime Silk Road is also to deepen economic cooperation among Asian countries for common development," said the Chinese president. The AIIB was proposed by Xi as he visited southeast Asia last October. "We will make further efforts to make China's development more beneficial for countries in Asia as well as the whole world," he added.

Singapore's Deputy Prime Minister Tharman Shanmugaratnam, on behalf of all the foreign representatives,
expressed appreciation for proposing and leading the establishment of the inter-governmental regional development institution in Asia. Shanmugaratnam said the establishment of the AIIB will be a milestone and strongly improve the infrastructure and long-term development in Asia. Echoing Xi's remarks, Shanmugaratnam said all the participants will adhere to openness and multilateralism, and work together to make preparations for the establishment and operation of the AIIB smoothly and make it a good example for multilateral cooperation in the world.

Source: Xinhua: Xi eyes better global financial governance as AIIB MOU signed, 2014-10-24

**Chinese finance minister says AIIB a win-win**

Chinese Finance Minister Lou Jiwei said the Asian Infrastructure Investment Bank (AIIB) is a win-win choice for each member as 21 Asian countries that are willing to join AIIB as founding members signed the Memorandum of Understanding on Establishing AIIB (MOU) Friday. "It is very necessary to establish AIIB at present and it is a win-win choice for every country," Lou said, noting that in October 2013, President Xi Jinping and Premier Li Keqiang announced the initiative of establishing AIIB during their respective visits to South East Asia countries.

Lou said for developing countries in Asia, AIIB can promote infrastructure development and help maintain steady and fast economic development; for Asia region as a whole, it can promote regional connectivity, strengthen self-development ability of this region and inject continuous momentum to economic development. "For developed countries, it can expand investment demand and promote economic recovery. Moreover, it can help expand the global demand and promote the recovery of global economy," he added. The minister said this initiative has been greeted with enthusiastic response from many countries. Thereafter, following the principle of "regional first and non-regional later" and "open regionalism", China has had extensive consultations with both regional and non-regional countries. "Up to now, we have had five rounds of multilateral consultation meetings and one ministerial working dinner with some Asian countries. We also convened an information sharing meeting to share information with regional countries that are interested in but have not decided to join AIIB," Lou said. As agreed, Beijing will be the host city for the AIIB’s headquarters, according to Lou.


**World News: China Offers Steps to Reform Legal System --- Under Pressure to Deal With Public Frustrations, Party Reiterates That Its Leadership Is Fundamental to Rule of Law**

China's Communist Party vowed to address public frustration with the country's legal system by making it more independent and professional, even as the party reasserted its dominance over the courts. A statement on legal reforms released Thursday by the official Xinhua News Agency offered few details on how the party would improve a legal system dogged by allegations of corruption, weak enforcement and a lack of transparency. The statement came at the conclusion of a four-day plenary session of the party's Central Committee, composed of about 200 of the country's most senior officials. In a country where the notion that the ruling elite should be restrained by law has never held sway, few expect the party to allow a truly independent judiciary. The announcement that the theme of the plenum would be about rule of law nonetheless raised expectations that the party would take concrete steps to transfer at least some of its power to the legal system. "They need a strong judiciary to capture, or to resolve, all the disputes on the streets," said Fu Hualing, a professor of law at Hong Kong University. "Basically, you're creating a sphere of autonomy over which you don't have total control in the end. That's the sacrifice."

In past plenums, the party has often followed up initial statements with more details in a broader policy paper a week or so later. For now, Thursday's communique offered few clues as to the party's seriousness about moving beyond paying lip service to rule of law. While the meeting, focused on "governing the country according to rule of law," took place against the backdrop of a sweeping anticorruption campaign, Thursday's statement also provided no updates about a closely watched investigation into elder statesman Zhou Yongkang. The focus on law
demonstrates Chinese President Xi Jinping's recognition that the old trade-off that previously defined politics in the country -- breakneck economic growth and increasing standards of living in exchange for an unquestioning acceptance of party authority -- no longer holds, some analysts said. As the wealth gap grows and disputes proliferate, the Communist Party is under pressure to show that it can govern cleanly and fairly. The party indirectly acknowledged floundering public confidence in China's courts, but at the same time it described the party's continued leadership of the legal system as a "fundamental requirement" and "basic safeguard" of rule of law.

Even the translation of the term at the heart of the meetings -- fazhi, composed of characters meaning "law" and "to govern" -- has run into ambiguous territory. In official media coverage of the meetings, the phrase in English has been rendered as "rule of law." However, many China scholars argue it should be translated as "rule by law." It is an important distinction in China, where courts, police and prosecutors are controlled by the party and where the constitution -- which guarantees freedom of speech and religion, among other liberties -- has been shunted aside when it conflicts with party interests.

Steps the party said it would take to improve the credibility of the courts included a new mechanism to prevent official interference in court decisions as well as the separation, on an experimental basis, of judicial decision-making from enforcement. It also set an outline for new types of courts that would appear to take some legal authority away from local politicians. The statement sets up a framework to begin "compromise between the party intervention and judicial independence," said Zheng Yongnian, a political scientist at National University of Singapore. The legal blueprint set Thursday broadly slots into an anticorruption strategy set by Mr. Xi almost two years ago when he thundered into office with steps that analysts said were aimed at restoring public confidence in the party. He has instituted new behavioral rules for officials that crimp frivolous public spending, such as on travel and entertainment, and backed them up with a wave of arrests. But the party provided little fresh perspective on corruption on Thursday, and stayed notably silent on the fate of Mr. Zhou, a once-feared Politburo Standing Committee member who was officially put under investigation in July for suspicion of discipline violations, a term that typically refers to corruption. Political analysts say it remains very likely Mr. Zhou, 71 years old, will be ejected from the party. It isn't known where Mr. Zhou is held and he isn't reachable to comment.


China politics: Judgement day

The latest focus of the comprehensive reform agenda being pushed forward by the ruling Chinese Communist Party (CCP) is the creation of a more rules-based approach to governance. The CCP central committee's annual plenary session, held from October 20th-23rd, has sought to put in place more systematic administrative and party processes, while also introducing improvements to the judicial system. These moves could contribute to social stability and facilitate efforts to create a more market-based economy, but much will depend on how they are implemented. The state news agency, Xinhua, issued a communiqué at the conclusion of the plenary session (the fourth plenum under the current central committee). It outlined the major decisions of the meeting, which focused on "comprehensively advancing the rule of law" in China. The new policies will not fundamentally alter China's CCP-dominated political or legal system. Instead, the thrust of proposed reforms is to optimise the current system by making it more professional, efficient and responsive.

The third plenum in November 2013 laid out a set of structural reforms that seek to reduce direct government interference in the economy, with the aim of increasing the economy's productivity. The CCP hopes that ensuring continued economic growth in this fashion will head off potential social unrest, and thus ensure its continued political dominance over the country. For China's president, Xi Jinping, the key to implementing the reforms is securing control of the party. To this end, an ongoing anti-corruption campaign and the recently ended mass line education campaign (training sessions for CCP cadres) have attempted to impose more discipline on the party and
ensure the effective implementation of central directives. The decisions of the fourth plenum are an extension of these efforts to enhance party discipline. The leadership aims to do this by institutionalising a set of procedures in all elements of the party-state, including party units, government bodies and the military. The CCP will improve its internal rules and mechanisms, while also more explicitly enumerating the duties and powers of government officials.

Better rules will have little effect if there is no mechanism to ensure that they are followed. The proposed reforms aim to increase "supervision" in several areas, but are not explicit as to how this will be accomplished. More promising is an effort to increase government transparency, including by publishing a list of government powers-making public what the government can and cannot do could go a long way in curbing official abuses of power. Importantly, violations of duty by government officials will increasingly be subject to the criminal justice system. Another key thrust of the plenum's proposed reforms is to improve the judiciary. China's legal system has long been hamstrung by poorly trained judges (many of whom are retired military officers) and a lack of judicial independence from local officials. Recent trials in Shanghai to centralise judicial appointments and funding at higher tiers of government have so far been successful in reducing the influence of the local government in legal proceedings. The fourth plenum reforms will expand these trials; we expect that they will eventually be implemented nationally. The Supreme People's Court (SPC) will also establish circuit courts.

The reforms laid out at the fourth plenum carry the populist tone that has been a hallmark of Mr Xi's leadership thus far. The president seems acutely aware of the need to regain the trust of a citizenry that has become increasingly critical of the CCP in recent years. Since assuming power in 2012, the new leadership, led by Mr Xi's example, has attempted to show that the CCP is responsive to the people. The anti-corruption campaign has sought to enhance party legitimacy by directly combating one of the public's biggest complaints. The mass line education campaign had the explicit goal of bringing party officials closer to the people. The fourth plenum communiqué placed serving the people at the heart of reforms. In addition to lofty rhetoric about the authority of law springing from the people's hearts, the report also stated that law enforcement will focus more resources on areas that relate to the direct interests of the people. Mechanisms for increasing public input into the legislative process will also be improved. These efforts exhibit a sophisticated approach to governance that understands that co-operation is a much easier strategy than coercion for maintaining power.

On the whole, efforts to create more standardised legislative and regulatory processes should improve the business environment by eliminating the ability of officials to protect local industries and creating a more unified national market. This would enhance competition and increase economic productivity. However, as the government shifts its focus from market management to regulation, companies will face more scrutiny from regulators. We expect that the recent trend of aggressive actions by regulators (typified by the recent anti-monopoly investigations) will only accelerate as officials at every level are incentivised to implement the law.

The fourth plenum's proposed reforms offer a vision for developing the rule of law in China. However, articulating what should happen will be much easier than following through, particularly in a system as large and fragmented as that of China. The current leadership has shown a unity and sense of purpose that was lacking during the administration of Mr Xi's predecessor, Hu Jintao, and its policy agenda demonstrates a welcome focus on the most pressing challenges facing the country. Nonetheless, it has yet to show that it can push through key elements of its plans; progress on the relatively specific goals laid down in November 2013 has been lacklustre. The judicial and regulatory changes outlined at the fourth plenum stand a better chance of being implemented than some other parts of the platform, but the government's record to date suggests that betting on this outcome would be optimistic. Source: EIU ViewsWire: China politics: Judgement day, (Oct 24, 2014).

**China Vows To Improve Legal System**

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transparency. The statement came at the conclusion of a four-day plenary session of the party's Central Committee, composed of about 200 of the country's most senior officials. In a country where the notion that the ruling elite should be restrained by law has never held sway, few expect the party to allow a truly independent judiciary. The announcement that the theme of the plenum would be about rule of law nonetheless raised expectations that the party would take concrete steps to transfer at least some of its power to the legal system.

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**Rule of law crucial to development of market economy**

China's new blueprint to advance the rule of law is crucial to the development of a market economy and is set to have a far-reaching impact on China's economic growth, analysts and financial institutions have said. The ongoing reforms and the anti-corruption drive, which will eventually enable the market to play a "decisive" role in resource allocation, should be guided by and accompany a better rule of law, experts said. Rule of law topped the agenda of the 4-day Fourth Plenary Session of the 18th Central Committee of the Communist Party of China (CPC), which ended on Oct 23. It was the first time that a plenary session of the CPC Central Committee had taken this topic as its central theme.

In the blueprint, the Party declared sweeping judicial reforms while emphasizing the role of the Constitution in China's legal system. It also aims to improve judicial independence, promote procedural justice, professionalize judicial officers, and build a law-abiding government. Any laws and regulations in conflict with reform measures should be revised in a timely manner, so as to guarantee that all reforms should be conducted in accordance with the laws, Ma said. Chinese leadership has been pressing ahead with "revolutionizing the government itself", as Premier Li Keqiang put it, and intensifying efforts to simplify administration and delegate powers to the lower levels, which are parts of broader efforts to promote reforms and stabilize economic growth. Ye Tan, an independent financial commentator, said judicial independence and justice are the foundation for further development of the Chinese market economy. "Judicial corruption is the source of corruption in the Chinese market," she said. "(Improving) judicial independence is the most important reform, as judicial corruption is the most dreadful one." According to a communique following the plenum, China is to pilot a kind of circuit courts set up by the Supreme Court and separate judicial and administrative jurisdictions to ensure the independence of the judicial system. There won't be a real financial sector under a market without rule of law, and risks of the capital market are set to rise if the market is disturbed by unfairness in the rule of law, Ye said. Inadequate implementation of the rule-of-law principle tends to raise systematic risks in the economy, as the efficiency falls and project approval costs rise, she said.

Overall, the communique shows the Chinese leadership is trying to set up a framework, objectives and implementation for a more independent and empowered judiciary and legislative systems in China, the Japan-based
Nomura Securities said in a note.
Source: Xinhua: Rule of law crucial to development of market economy, 2014-10-27

New members for think tank council

The China Center for International Economic Exchanges (CCIEE) elected new members to its council on Saturday as the country steps up efforts to build globally-influential research bodies. Hu Zucai, deputy director of the National Development and Reform Commission (NDRC), was the highest-ranking official elected. Other newly-appointed members include incumbent and retired officials from government agencies, economists and executives of state-owned enterprises. Chinese Premier Li Keqiang said in a written instruction that Chinese think tanks should strengthen innovative and forward-looking research ability with a focus on the country’s reform and sustainable development. China should develop a new type of think tank with Chinese characteristics that produce high-quality and globally-influential opinions, he said.

Founded in 2009, CCIEE has expanded its membership to officials from the ministries of science and agriculture and representatives from enterprises in key industries. New members also include researchers and economists to enhance the study of local economic development, according to Zhang Dawei, secretary-general of the body. Zeng Peiyan, former Chinese vice-premier and chairman of CCIEE, said Chinese think tanks should be committed to making the country’s voice heard on major international issues. Chinese think tanks should also maintain their independent status and make objective observations about China’s ongoing reforms and economic transition, he added.

Source: Li Xiang: New members for think tank council, China Daily, 2014-10-18

Generational shift; Electricity

Much of what China has achieved in the past three decades--its impressive economic growth, the rise of its global stature and the considerable improvement of living standards for hundreds of millions of people--is attributable to one decision: ditching the Maoist model of central-planning that had shackled the economy. Yet some important industries have yet to embrace the market. Power generation is one. As China struggles to reconcile its soaring energy demand with its need to clean up an increasingly toxic environment, reform is becoming more urgent.

China knows it must reduce its reliance on dirty coal and increase its use of (more expensive) renewable energy. Of the new power-generating capacity that China built last year, renewables such as wind and solar power for the first time accounted for more than the share made up of fossil fuels and nuclear energy. China wants to satisfy the surging electricity demands of its increasingly urban population and to keep its industries running smoothly. It does both reasonably well and blackouts are rare. But officials fret about how grumpy--and vocal--people are becoming about the poisonous air that envelops so many Chinese cities. (An annual international marathon race, pictured above, took place in Beijing on October 19th in air that was nearly 14 times more polluted than the safety limit recommended by the World Health Organisation.) China is aware that its standing abroad will partly depend on its efforts to limit carbon emissions. This will involve weaning itself off coal, which supplies nearly 80% of its energy. Progress is being hampered by a largely unreformed power industry dominated by large state-owned enterprises (SOEs) which operate under a mix of rigid planning, secrecy and poor regulation. Power suppliers have too little incentive to compete on price, efficiency or greenness. Two international NGOs, the World Wildlife Fund and the Energy Transition Research Institute, describe the SOEs that control all transmission and distribution and most non-renewable generation as "unregulated corporate monopolies". Their bosses are usually appointed by the central government, but they often ally with regional leaders to resist oversight by a variety of largely toothless regulators.

One problem is China's system for "dispatch"; that is, determining which power sources will supply electricity to the grid at any given time. A report by the Regulatory Assistance Project (RAP), an American NGO, notes that in
most countries dispatch decisions are made in order to minimise costs (including environmental ones). In China regulations would appear to encourage a similar approach: grid-operators are supposed to give priority to electricity supplied by more efficient and greener producers. In practice, grid-operators are more inclined to help coal-fired plants recoup the cost of their investments. Both sides are members of a cosy club of energy-related SOEs. Even if the grid-operators were to try to stick to the rules, they would struggle. Coal plants can easily conceal how much they waste and pollute. Generators of wind and solar energy thus find themselves handicapped by more than just the high cost of their technologies. Much of China's most cleanly produced energy is wasted. For wind power, rates of "curtailment", or energy generated but not taken up by the grid, have improved in recent years as grid systems have become better able to cope with the technical challenge of handling such unsteady sources of power. But the rate still stands at about 10% nationwide. In Britain it was less than 2% between 2011 and 2013.

The government launched pilot reforms in five provinces in 2007 to encourage more efficient dispatch, but they achieved little and have not been expanded. Max Dupuy of RAP's Beijing office says the scheme met opposition because of its failure to compensate coal-fired plants for the revenue share lost to clean producers. At the height of China's boom virtually all available power was needed so there were fewer dispatch decisions to be made. Ivan Chung of Moody's, a rating agency, says that, with growth slowing, grid-operators could now seize the chance to get the right dispatch policies. Reforms would help: more competition in management of the grid (State Grid Corporation, the world's largest state distributor of electricity, controls most of it), harsher penalties for producers and transmitters of dirty energy, bigger incentives to use clean sources, and the creation of a powerful regulator. Officials in Beijing mostly favour such changes. But they will struggle to subdue the last bastions of the Maoist economy.


**FTZ model 'will expand nationwide'**

The business model behind the pioneering China (Shanghai) Pilot Free Trade Zone should now be copied at other suitable sites across the country where conditions are right, according to President Xi Jinping. Addressing a meeting of top decision-makers, the president said the experience gained in the Shanghai FTZ "are like seeds cultivated in a test field, and now we will plant them across a greater range of sites, in a hope that they will bear more fruit". Xi acknowledged the progress made in the Shanghai FTZ, praising the efforts in transforming government functions, facilitating investment and trade, and improving the business environment. Some 12,000 firms have been established in the Shanghai FTZ since its launch in late September last year. Foreign trade in the zone reached 747.5 billion yuan ($122.25 billion) in its first year of operation, according to Xinhua. The 29 sq km zone in the Chinese financial hub has promised free trade, greater financial opening and fewer government controls over business activities.

Coastal provinces and regions, including Guangdong, Fujian, and Tianjin are among the most likely sites to host the next FTZs, and their applications are likely to be approved before the end of this year, Reuters reported, citing two unnamed sources with local governments. The negative list system, an innovative approach introduced in Shanghai to provide easier market access for foreign companies, could be improved in a Tianjin FTZ, Xinhua's Economic Information Daily reported. The FTZ expansion plans sparked rises in the share prices of likely new sites, with Tianjin Harbor and Tianjin Marine Shipping Corp increasing by more than 7 percent in Shanghai trading on Tuesday. Prior to news on the zones, the State Council approved the expansion of Tianjin Harbor, with an added 1,120 square kilometers of new water area, and more than 70 new berths. More than 20 provinces and cities prioritized the development of an FTZ in their government work reports this year, and experts suggested the second batch of FTZs could have distinctive differences to the first in Shanghai.

Zhou Hanmin, a senior political adviser to the Shanghai municipal government, said at a recent forum that FTZs in other provinces will have their own particular focuses compared with Shanghai, aimed at pushing forward their own specific economic reforms and policies.
The Shanghai FTZ has summarized a total of 21 innovative administrative measures that could be duplicated elsewhere in the country: six in investment management, the same number in financial innovation, and nine in trade promotion. But the measures must still be approved by the central government before they are introduced elsewhere. Some experts cautioned, however, on the over-development of FTZs. Chen Bingcai, a researcher at the National School of Administration, said reforms in the Shanghai FTZ, especially those in offshore finance, were in line with the city's position as a financial center. But other cities’ attempt to apply for favorable policies might be contrary to the original intention of FTZs.


China's farming, once vital, is an economic drag: Low earnings prompt migration to cities, and rural areas are left barren

From bedrock of traditional culture, and an engine of the post-Mao economic boom in the 1980s, agriculture has become a burden for China. Farm output remains high. But rural living standards have stagnated compared with the cities, and few in the countryside see their future there. The most recent figures show a threefold gap between urban and rural incomes, fueling discontent and helping to make China one of the most unequal societies in the world. The nation's Communist leaders have declared that fixing the countryside is crucial to maintaining social stability. Last year, they unveiled a new blueprint for economic reform with agricultural policy as a centerpiece. But the challenge confronting them resembles a tangled knot.

It begins with the fact that farms in China are too small to generate large profits, about 1.6 acres on average, compared with 400 acres in the United States. Yet it is difficult to consolidate these farms into larger, more efficient operations because Chinese farmers do not own their plots -- they lease them from the government. Privatizing farmland would allow market forces to create bigger farms. But that would be a political minefield for the Communist Party. It would also risk exacerbating inequality, by concentrating land ownership in the hands of a few while leaving many rural families without farms to fall back on if they hit hard times in the cities. "All of these issues are interlocked and require a series of reforms to be solved," said Luo Jianchao, a professor at Northwest A&F University in Yangling, and a government adviser. "There's no magic bullet."

In late September, President Xi Jinping endorsed an experiment underway in Yangling and other parts of China to untangle this knot. The measure, called liuzhuan, stops short of privatization but gives farmers land-use rights that they can transfer to others in exchange for a rental fee. The goal is to simulate a private land market and allow family-run, labor-intensive farms to change hands and be amalgamated into large-scale, industrialized businesses. In theory, liuzhuan lets this to happen without cutting ties between rural families and the land, since they collect rental fees as a safety net.

Mr. Xi has presented the policy as critical to China's next phase of economic reform. Skeptics, however, say it shows the government remains unwilling to consider a bold measure that has worked in many countries: giving farmers full ownership of their land. "Privatization of land is a key issue, but it's completely taboo," said Tao Ran, an agricultural expert at Renmin University in Beijing. The party leadership, he said, "cannot countenance it." More is at stake than the socialist credentials of the Communist Party, which came to power in a peasant revolution in 1949 and immediately collectivized farmland. State ownership of land is also a major source of government revenue. In areas near cities, local officials often rezone agricultural land and flip it to developers at a huge premium, sometimes setting off violent protests by residents who are left out.

Others see the system of political control of the countryside at stake. "The rural system they've had since the 1950s is based on the state ownership of land," said Fred Gale, who writes an influential blog on China's agricultural sector called Dim Sums. "If this unravels, then the bureaucrats would be at a loss as to how to manage the countryside." In Yangling, a district of 155,000 people that has been a center for agricultural sciences since the 1930s, several problems with the government's attempt to sidestep privatization are apparent. Because farmers do not own their land, they cannot sell it and get a large, lump sum payment that could be used to make a new start.
Nor can they mortgage land for funds that could be reinvested in their farms or in other businesses. Yang Tewang, a branch manager of Yangling Rural Commercial Bank, said he has made about $3 million in mortgage-style loans since the liuzhuan experiment began. But he said they were not true mortgages since the banks cannot repossess land if the farmer defaults -- the state owns the land, not the farmer. As a result, Mr. Yang said he minimized risk by lending only to large-scale vegetable and fruit farmers. "The rest don't pay," he said. A grain farmer, for example, could never get a loan, he said.

Another problem has been figuring out how to set the rental fees that rural families collect if they transfer their land-use rights. Yangling set up a land bank that took over land-use rights in an area of 36 square miles, then set an annual rental fee of at least $750 per acre of land. Farmers could choose between giving up their land and collecting that rent, or leasing their land back from the state and continuing to farm. But the fees can distort the market. For example, they have discouraged production of grain, which does not sell for enough of a margin over the cost of renting the land. Grain pays only about $1,250 per acre, for an annual profit of about $500, said one resident, Li Haiwen. "The more grain you plant," he said, "the poorer you get." Mr. Li grows magnolia bushes used in traditional Chinese medicine instead. But he said farming was just a sideline for him. His main source of income is in professional landscaping. "I think our minds are opening up and we realize there are other ways to make money," he said. Exactly why rental prices are so high is open to debate. In some parts of China, rents are even higher than in Yangling, topping $1,200 per acre. By contrast, the average acre of farmland in the United States rented for $136 in 2013, according to the United States Department of Agriculture. Some experts say the rental fees have been driven up by the same sort of speculation that has made apartments so expensive in Chinese cities. Even in a remote area like Yangling, an apartment of 1,000 square feet sells for $50,000.

In recent months, banks like the China International Trust and Investment Corporation have been buying rural land at high prices. Li Ping, an agricultural expert at Landesa, a nongovernmental organization focused on rural issues, said he believed the purchases have been made with an eye toward rezoning land for housing or industrial use. "It's like the housing prices here being higher than in most parts of the U.S.," Mr. Li said. "It's not sustainable."

One of the success stories in Yangling has been the case of Zhang Hongli, who took over 197 acres once farmed by three villages and pays about $150,000 per year in rental fees. Mr. Yang, the banker, described it as a win-win exchange. Mr. Zhang uses the land to grow watermelons, which sell for a nice profit in Xi'an. Meanwhile, the families who gave up their land are collecting about $500 per year on average, and almost all received free apartments from the government. Government planners hope that more farmers will be moved to the cities so the countryside gradually depopulates and ever-larger-scale farming takes over. For farmers with a job already lined up in the city, this system is attractive. But for people still wanting to work the land, like Zhou Yuansheng, 66, it is an example of how little say he has. "The big decisions are made by the government," he said. "No one asked me what I wanted to do with my land."


Evaluation of Urban Informal Employment in China: A Survey of Migrant Peasant Workers

In the past, there were five different theories in the research of urban informal sectors which were modernization theory, dependency theory, neo-liberalism, Marxism and neoMarxism, world systems theory15. The theoretical tendency of this paper mainly strengthens the important function of the informal employment and appeals for legal status of informal employees and underscores the necessity of bettering the condition of informal employees who are mostly migrant peasant workers.

This paper's data were collected by authors through survey interview with migrant peasant workers in Changli County, Qinhuangdao City, Hebei Province from Jan 2010 to Jan 2012 respectively. Some data were collected by authors through visiting Labor Administration Bureau of Qinhuangdao City (Haigang Branch) and Public Security Bureau of Qinhuangdao City (Haigang Branch) in Jan., 2012. Informal employment is the main employment
channel for the migrant peasant workers in China cities.

The employment of urban peasant migrant workers in China was also in increasing trend now (Table 1), especially after agricultural farmland taxes system was abolished in 2006. Because of the limitation of division of Chinese household registration (hukou) system, the migrant peasant workers belong to the scope of informal employment. The so-called informal employment refers to the employment where workers do not obtain the formal job position and job status is not stable. It is often called "part time job". To the migrant peasant workers, it refers to two kinds of situation. One is the above mentioned part job, although the working organization they work in is formal unit, their jobs are temporary part time characteristic. They have many obvious differences from formal employees in salary and income as well as in welfare condition. The other situation is that their working organization itself is informal working unit or in informal sector. Informal Sector is one special concept which means sector which encompasses all jobs which are not recognized as normal income sources and on which taxes are not levied.

However, the informal employment characteristics of China are different. Although there is also phenomenon of small number of employees in one part of informal sectors because China laboring intensity is relatively high, sometimes the number of labor in informal sector such as building site is very big. According to the survey of author conducted in Qinhuaingdao City, Hebei Province, China in Jan, 2012, there were 30.6% working organizations which hired 11-50 migrant peasant workers, 20.9% working organizations which hired over 51 migrant peasant workers. There was about half population of migrant peasant workers working in the organization which hired more than 11 migrant peasant workers. In China, the characteristic of informality is not expressed by the number of working people. Even if the number of working people is very big, migrant workers are rural hukou holders; they are treated separately in their working organizations.

The main characteristic of China informal employment is segmentation of labor market because the migrant peasant workers cannot enter into urban formal employment system. It is similar with Latin American situation3. The informal employment of migrant peasant workers expressed those migrant peasant workers as part time workers stay in completely different employment and wage system from formal employees. According to the survey conducted Qinhuangdao City in Jan, 2012(528,668),(623,693), the average salary of migrant peasant workers was 1,000 RMB Yuan and average salary of urban residents was about 2,000 Yuan. Secondly, except salary, migrant workers do not enjoy any welfare security. Thirdly, the labor contract between migrant peasant workers and employer is very loose which often causes many employment disputes. Refusing wage payment to migrant peasant workers frequently occurs. Finally, employment is very unstable, migrant peasant workers are the group who converts their jobs very frequently.

The function of informal employment in the solution of China plentiful labor force surplus: It was roughly calculated that the population which has laboring capability was about 7 hundred million, among which, only 2 hundred million could enter into formal sector employment. The informal employment population including peasants who undertakes farming activity is about 5 hundred billion. Among them, about 1 hundred million, one seventh of total labors flow into urban area. Most of them belong to informal employment. Informality means that rural labors are not covered into the scopes of any formal social welfare security in employment, medical care, labor security, other welfare and pension for aged.

In 2000, the ratio of Chinese industrial labors and total labors actually increased by 28.2%. According to the discovery of Samuel Preston, the corresponding urban population should increase by 56.4%. But, in fact, in 2000, ratio of China urban population over total population increased by only 18.3% compared with 1978". It is to say, urbanization speed was two times lower than international ordinary cities. In the past decades, rural people much flowed into urban areas and will flow more than before in the next few decades. But in the city, the field where one can accept such huge number of migrant labors is only informal employment sector.

In China, there are three types of employment cost. The first is cost for laid-off workers. For the employment of laid-off workers, China widely established "Reemployment Centre". The money input is paid from state financial
disbursement. Besides this, all walks of society including enterprise walks also pay cost of many aspects for re-allocation of laid-off workers. The second is re-employment of the governmental cut personnel such as, re-allocation and re-employment of many carders. Training of migrant peasant workers basically is not done formally. They did not receive any professional training like laid-off workers. Practices of last decades proved that promotion of informal employment can create very high economical benefit and social benefit. "The sharp rise of informal sectors and informal employment came true under the condition of very limited governmental capital input. The development achievement testified that the economical benefit and social benefit created by big project which used large amount of state resource were rather smaller than the informal sectors which had small input and looked very weak and scattered."1.

Good working efficiency of informal employment: The informal employment and informal sectors were considered low working efficiency before. The informal sectors consisted of social weak groups and their employment possessed the mitigation function of poverty. But the case in China was different. Informal employment of Chinese urban migrant peasant workers was highly efficient. The cumbersome and heavy physical work of infrastructure construction in China are mainly undertaken and completed by them. They are the most industrious group who can endure extreme physical work hardship. Many migrant peasant workers made the ultimate sacrifice in the accidents occurred in building sites.

According to the survey conducted in Jan. 2012 in Qinhuangdao City, Hebei Province, China, we saw that in one garment processing factory, workers number was small but they were working very busy, very effectively. The owner of garment factory observed market attentively and tried to discover the consumption tendency of garment market. As soon as he discovered what kind of clothes were in fast sale, he returned to his garment factory to quickly have that fashion of clothes processed immediately. The day after next, he could bring the same fashion of clothes to the clothes shop with half price. The market price of this kind of clothes decreased. According to the experience of the peasant factory owner, the hot sale of one kind of clothes only lasts for two or three days. They tried their best to catch useful market information and shorten production period. This competitive power is much stronger than many other enterprises. All night work is commonly seen in his garment factory.

The big contribution of informally employed migrant peasant workers to urban residents’ daily life: Informally employed migrant peasant workers provide a lot of convenient services in almost every field which has become an important power in the urban services. In Qinhuangdao City, of course, in Beijing, or any metropolis, when China traditional new year festival, Spring Festival comes, many migrant peasant workers go back to their home villages, urban services system almost falls into paralysis. Many restaurants close, many families with old people lose reliable servants. These years, when Spring Festival comes, some problems caused by migrant peasant workers returning back are reported by News media, including China Central Television.

In case of China, in a long term, the informal economy was considered to be non-existent at the period of planned economy when every urban adult was guaranteed to take a job by the State and rural peasant was confined in the countryside land, not allowed to enter into or work in the cities. But with the economic reforms of 1990s, particularly in the restructuring of state-owned enterprises in Jiang Zemin Age which involved large-scale retrenchments and administration simplification, increasing pressure on the labor market and rising unemployment, growing rural labor surplus (caused by progress of agricultural technology and growth of rural population) and massive rural-urban migration Chinese government developed policies actively promoting the informal sector, defined as small-scale economically active units that are outside the category of legal entities. The sector consists of small or microenterprises which are normally private enterprises and household-based workshops involved in simple production and services activities as well as independent service providers.

In China, the basic characteristics of informal sector and informal employment are household registration segmentation, poor welfare security, unstable work etc. The core question is not rule violation and illegality. The characteristics are summarized by one research team of Ministry of Labor and Social Security, China as follows: first is "small", the second is "not fixed", the third is "unstable", the fourth is "movable", the fifth is that many
business activities are at the edge of law and regulation. Regarding the fifth point, it is pointed out that it is rather indeterminate. In China, both formal employment and informal employment are indeterminate. According to the management rule of employment of migrants by public security bureau, urban migrants should have five credentials which are Temporary Residential Permit, Safety Qualification Card of Rent House, Employment Permit, Marriage Certificate and Business License.

According to the interview with migrant peasant workers conducted in Jan. 2010 to Jan. 2012 in Changli, Qinhuangdao, "Five certificates being not complete" is a common phenomenon. "Five credentials being complete" is used by local management personnel. In fact, unmarried people need not marriage certificates, only one employment permit or business license is Okay. The fact is "five or 4 credentials complete. About 60% of migrant peasant workers do not have their 3 or 4 credentials in hand. According to the document provided by Public Security Bureau of Qinhuangdao City Haigang District Branch, among 200,000 migrant peoples in Haigang District, over half of them have their Temporary Residential Permit. Other permits are lacking very much.

Regarding Employment Permit, most of migrant peasant workers do not possess although they are employed by their working units. Whether the employment of migrant peasant workers who do not have all credentials is illegal or rule violation, it is not very much explicit and definite. In normal time, nobody considers they are rule-violated but only informal. Furthermore, it is rather difficult to get all five credentials for them because five credentials are issued by five different authorities, public security bureau, floating population management office, industrial and commercial administration bureau, labor administration bureau, population and family planning commission respectively.

Table 3 shows that 1/3 migrant peasant workers' business property has been confiscated or they have been fined by industrial and commercial administration, taxation administration, urban management administration. Some of them have experienced of being beaten by state administration personnel mentioned above during their working-stay in Qinhuangdao City or other cities. Many migrant peasant workers were punished only because of their informal employment status. As we know, some profession or job is suitable for informal employment in China such as garbage collecting. Waste pickers are often observed everywhere of the city. They search through refuse for recyclables in dumpsites, dustbin, garbage gathering places etc. Most of them are migrant peasant workers.

At present, unemployment insurance system and lowest living line system covered all urban areas in China. The joblessness for urban people whose household registration is urban non-agriculture category is not so significant threat for their survival life. Of course, unemployment insurance does not cover the urban migrant peasant workers. In 2010 and 2012, 62.58% and 44.46% urban migrant peasant workers met joblessness of more than 2 months respectively. Many of them could not find anybody whom they knew. They were stranded in the city. The long term joblessness caused serious social problems. The negligible pilferage was often discovered in this group. The most stringent question is wage behind in payment or default. Many peasant migrant workers cannot get their wage when they go back to their home village at the lunar year end.

Why the migrant peasant workers do not sue their employer through legal way? This question is rather difficult to answer. The most reason is that there is no administration which really represents peasants' profit and rights. In their home village, there are Communist Party Committees and Villagers Management Commission but they are not willing to struggle for their villagers. In another aspect, legal way is quite complicated. Before migrant peasant workers begin their work, the contract between them and their employer is not made. They only have oral promise or contract from their employers. They rely on their employer through trust or personal reputation. Obviously such non-document trust is weak for legal matters.

This time's survey also showed overtime working was common and serious problem for migrant peasant workers. One third of them worked for more than 12 hours everyday, about 60% worked more than 10 hours. No migrant peasant workers worked for only 8 hours.

Normally the migrant peasant workers are young and strong. But their job is mostly hard physical work and
their living condition is very poor, food condition is also poor. They are tending to be ill. According to the survey conducted in 2010 and 2012, 46.52% and 42.14% migrant peasant workers suffered illness respectively. 14.56% and 9.46% of migrant peasant workers suffered illness more than 3 times respectively (Table 6). For such young and strong migrant peasant workers, the proportions were obviously high because the health-weak and aged peasants do not go out for part time work usually.

In one word, labor security and social security are very serious for migrant peasant workers of informal sectors. At present, they are kept away from urban social security system because of their agricultural household registration. In some areas, medical insurance, called New Agricultural Cooperation Medical Insurance was introduced but the insurance level is very low, furthermore, if their working place is not in their household registration place, their medical insurance card cannot be used. (In Japan, medical insurance card is used everywhere in whole country.) When migrant peasant workers are jobless and they are not willing to go back to their home village, illegal activity or crime is their living method which makes imperil to urban society. The number of urban migrant peasant workers in informal sectors is huge; the unstableness of such huge people is possibly the source of threat for whole society. For urban migrant peasant workers, one proper security system should be innovated and established.

Conclusion

In the future several decades, employment in informal sectors will be still main form for hundreds million peasant workers who flow into urban area. Because it is the main channel of majority people, urban administration should consider how to protect the people who are the main body of employment population. The positive social function of informal employment should be recognized fully. It is not only the main channel of Chinese majority people but also the important channel for material wealth creation. China has entered into WTO and is facing with some problems of employment and social resource deployment. The labor contract for formal employment should be more formalized and labor cost would be increased greatly.

In order to keep and develop economic profit, formal employees have to be cut down. However, in order to mitigate the stress of huge surplus of labor, employment must be expanded. How to resolve this contradiction? The only way is to expand informal sections and informal employment. China has total 7 hundred million labors. Only 2 hundred million of them can enter into formal employment system, the rest 5 hundred million labors have to make a living in informal employment system. Thus, informal employment provides big living space for jobless population, flow population, superfluous rural labors.

Therefore, the present management policy to informal employment, mainly to urban migrant peasant workers should be rectified, change the crack-down method to informal employment. The discrimination against migrant peasant workers should be moved away from the concrete policy and regulations. It is also a necessary mechanism to coordinate the profit of all social strata. Radically speaking, profit of all social strata should be protected; no matter it is urban resident with non-agricultural hukou or urban migrant peasant workers with agricultural hukou. China should learn some advanced experience from western developed countries in informal employment management and idea or concept which public administration should reform its bureaucratic and selfish working way to serve the weak group people such as urban migrant peasant workers in informal sectors radically.


**Hong Kong economy: Ten-year growth outlook**

Hong Kong economy: Ten-year growth outlook
Hong Kong is a small but developed economy, and has moved from being a base for manufacturing to become a world-class financial centre. A large number of foreign banks are located in the territory, and many multinational corporations have also chosen to base their regional operations in Hong Kong, attracted by some of the lowest tax rates in the world and by the impressive operating environment. The territory also boasts a strong position in high-value fields such as legal and accounting services, publishing and logistics. Hong Kong has long practised free trade, and its port is one of the busiest in the world, with excellent infrastructure.

Hong Kong will remain China's premier international financial centre. One particular rivalry, between the territory and Shanghai, in financial services, may favour Hong Kong in the longer term. Shanghai's financial markets remain deeply flawed and are unlikely to reach global best standards by 2030, although the city will continue to attract much domestic financial-sector business. Hong Kong's dominance in international financial services within China will thus be unrivalled in the period to 2030. The territory has already begun to develop a range of renminbi-denominated services, and is positioning itself to become the premier offshore renminbi trading centre. Developing Hong Kong's corporate bond market will be another priority for the government, and renminbi-denominated bonds will be an important part of this. In the longer term, China is likely gradually to free up the renminbi and liberalise its capital account, which should offer a range of opportunities to Hong Kong's financial services industry. A possible eventual currency union with the mainland would further strengthen its position in this respect. As the only world-class financial centre in China in the period to 2030, Hong Kong will remain a logical choice for Chinese firms that are seeking to list or issue bonds.

Long-term performance: Hong Kong's GDP growth rates over the next two decades will reflect the fact that it is already a developed economy. Although GDP growth at an average of 2.5% a year in 2013-30 will be less rapid than in the years before the 1997-98 Asian financial crisis, it will still be relatively strong for an advanced economy with a shrinking working population. Hong Kong's GDP per head (on a purchasing power parity basis) is forecast to be around 6% higher than that of the US by 2030. The labour force is expected to contract from around 2020, and economic growth will come to depend on rising labour productivity. This is likely to be assisted by Hong Kong's low-regulation business environment and by improvements in education and training.
New rail projects to boost growth

China's top economic planner on Thursday announced the approval of three new rail projects as part of the ongoing drive to rejuvenate the economy. The National Development and Reform Commission said it approved two rail projects in Yunnan province. One is a line costing 44.5 billion yuan ($7.24 million) linking Yuxi and Mohan and another, costing 25.7 billion yuan, will run between Dali and Ruili. Another 25.6 billion yuan will be spent to expand rail capacity in northern China, linking Jinzhou port in Liaoning province and Baiyinhua, Inner Mongolia, the regulator said on its website on Thursday.

Rail projects in central and western China, along with urban renovation and water conservation projects, are crucial in boosting investment growth, NDRC representative Li Pumin said.

Fixed-asset investment climbed 16.5 percent in the first eight months, less than the 20.3 percent recorded in the same period last year, according to the National Bureau of Statistics. "The declining pace of investment growth is expected to shift in the coming months," said Li at a news conference earlier this week. The government aims to make investment play a critical role in supporting growth, he said. This year's central budget for investment is 457.6 billion yuan, about 20 billion yuan higher than last year. Spending under the central budget will focus on areas where the market cannot play an efficient role, such as agriculture, infrastructure construction, public services, energy conservation and environmental protection. China raised its investment budget for water projects by 7 percent to 76.7 billion yuan in 2014. The country plans to start construction on 172 major water projects by 2020. Total investment on projects currently being built could amount to about 600 billion yuan.

China's economic volatility in recent months has spurred some financial institutions to slash their forecasts for growth. Premier Li Keqiang said during his recent visit to Germany that China can achieve economic growth of around 7.5 percent this year.

Source: Lan Lan: New rail projects to boost growth, China Daily, 2014-10-17

Winners and losers; Cheaper oil

In early October the IMF looked at what might happen to the world economy if conflict in Iraq caused an
oil-price shock. Fighters from Islamic State (IS) were pushing into the country's north and the fund worried about a sharp price rise, of 20% in a year. Global GDP would fall by 0.5-1.5%, it concluded. Equity prices in rich countries would decline by 3-7%, and inflation would be at least half a point higher. IS is still advancing. Russia, the world's third-biggest producer, is embroiled in Ukraine. Iraq, Syria, Nigeria and Libya, oil producers all, are in turmoil. But the price of Brent crude fell over 25% from $115 a barrel in mid-July to under $85 in mid-October, before recovering a little (see chart on next page). Such a shift has global consequences. Who are the winners and losers?

The first winner is the world economy itself. A 10% change in the oil price is associated with around a 0.2% change in global GDP, says Tom Helbling of the IMF. A price fall normally boosts GDP by shifting resources from producers to consumers, who are more likely to spend their gains than wealthy sheikhdoms. If increased supply is the driving force, the effect is likely to be bigger--as in America, where shale gas drove prices down relative to Europe and, says the IMF, boosted manufactured exports by 6% compared with the rest of the world. But if it reflects weak demand, consumers may save the windfall. Today's falling prices are caused by shifts in both supply and demand. The world's slowing economy, and stalled recoveries in Europe and Japan, is reining back the demand for oil. But there has been a big supply shock, too. Thanks largely to America, oil production since early 2013 has been running at 1m-2m barrels per day (b/d) higher than the year before. Other influences are acting as a brake on the world economy (see pages 23-26). But a price cut of 25% for oil, if maintained, should mean that global GDP will be roughly 0.5% higher than it would be otherwise.

Some countries stand to gain a lot more than that average, and others, to lose out. The world produces just over 90m b/d of oil. At $115 a barrel, that is worth roughly $3.8 trillion a year; at $85, just $2.8 trillion. Any country or group that consumes more than it produces gains from the $1 trillion transfer--importers, most of all. China is the world's second-largest net importer of oil. Based on 2013 figures, every $1 drop in the oil price saves it an annual $2.1 billion. The recent fall, if sustained, lowers its import bill by $60 billion, or 3%. Most of its exports are manufactured goods whose prices have not fallen. Unless weak demand changes that, its foreign currency will go further, and living standards should rise. Cheaper oil will also help the government clean up China's filthy air by phasing out dirty vehicle fuels, such as diesel. Lighter fuels are dearer and, under current plans, drivers could pay up to 70% of the extra; lower prices will soften that blow. More generally, says Lin Boqiang of Xiamen University, lower prices should support the government's efforts to reduce subsidies (it has already freed some gas prices, and electricity prices are expected to follow next year).

The impact on America will be mixed because the country is simultaneously the world's largest consumer, importer and producer of oil. On balance cheaper oil will help, but not as much as it used to. Analysts at Goldman Sachs reckon that cheaper oil and lower interest rates should add about 0.1 percentage points to growth in 2015. But that will be more than offset by a stronger dollar, slower global growth and weaker stockmarkets. Extracting oil from shale is expensive. So when the oil price drops, America is one of the places most likely to pull back (Arctic and Canadian tar-sands producers are even more vulnerable). According to Michael Cohen of Barclays, a bank, a $20 drop in the world oil price reduces American producers' profits by 20%, and only four-fifths of shale reserves are economic to extract using current technology with Brent around $85. How quickly production will fall as a result, though, is unclear, since producers' costs vary and some have locked in prices via hedging. The impact will also vary by region. "If I'm in California, it's pretty clear-cut that this is a good-news story," says Michael Levi of the Council on Foreign Relations, a think-tank. "If I were in North Dakota [the biggest shale-oil state], I would be a lot more nervous." America is a net importer, so lower prices mean Americans get to keep more of their money and spend it at home. But the stimulative impact is less than it used to be, since imports are becoming less important, and oil is shrinking as a share of the economy. The Energy Information Administration, an independent government agency, expects net oil imports to drop to 20% of total consumption next year, the lowest share since 1968. In the early 1980s, when oil accounted for over 4% of GDP, a 1% price drop would boost output by 0.04%, says Stephen Brown of the University of Nevada, Las Vegas. That had fallen to 0.018% by 2008, and he reckons it is now about 0.01%.
Cheaper oil could make more of a difference to monetary policy. Inflation expectations have become more stable since the 1980s, which means that the Fed feels less need to act when oil prices shift. But with inflation below its 2% target, it will fret that falling oil prices could be pushing expectations down, making it harder to keep inflation on target. It could decide to keep interest rates at zero for longer, or even extend its bond-buying programme ("quantitative easing"). Fears of deflation apply with greater force in Europe. Energy imports into the European Union cost $500 billion in 2013, of which 75% was oil. So if oil prices stay at $85, the overall import bill could fall to under $400 billion a year. But the benefits would be muted twice over. First, inflation in the euro zone is even lower than in America. Mario Draghi, the head of the European Central Bank, claims that 80% of its decline between 2011 and September 2014 was caused by lower oil and food prices. Oil at $85 could lead to deflation, provoking consumers to rein in spending further. Second, European energy policy is only partly to do with price and efficiency. Europeans are also trying to reduce dependence on Russia and to cut carbon emissions by turning away from fossil fuels. Cheaper oil makes these aims slightly harder to achieve.

But one group of countries gains unambiguously: those most dependent on agriculture. Agriculture is more energy-intensive than manufacturing. Energy is the main input into fertilisers, and in many countries farmers use huge amounts of electricity to pump water from aquifers far below, or depleted rivers far away. A dollar of farm output takes four or five times as much energy to produce as a dollar of manufactured goods, says John Baffes of the World Bank. Farmers benefit from cheaper oil. And since most of the world's farmers are poor, cheaper oil is, on balance, good for poor countries. The International Energy Agency, an oil consumers' club, reckons that the global cost of subsidising energy consumption (mostly in developing countries) is $550 billion a year. The fall in the oil price should reduce that, all else being equal, to about $400 billion. That means many countries face a choice: seize the moment to dismantle subsidies, or keep on handing out goodies that now cost less? Either way, they will benefit--by ending an economic distortion (though with some risk of a consumer backlash), or by reducing its fiscal cost for a while.

It might seem that the country which is the world's largest exporter must lose out. With oil at $115 a barrel, Saudi Arabia earns $360 billion in net exports a year; at $85, $270 billion. Its budget has almost certainly gone into the red. But Saudi Arabia's long-term interest may in fact be served by a period of cheaper oil. It can afford one, unlike most other exporters. Though public spending has risen in recent years, its foreign reserves have risen more. Net foreign assets were 2.8 trillion riyals ($737 billion) in August--over three years' current spending. It could finance decades of deficits by borrowing from itself even if oil were cheaper than it is now. Over the past year production by non-OPEC countries, such as Russia and America, has risen from 55m b/d to 57m b/d. The Saudis might conclude that the main beneficiaries of dear oil have been non-OPEC members. Some of the new output is high-cost, unlike the Saudis'. A period of cheaper oil could drive some high-cost operators to the wall, discourage investment in others and let the Saudis regain market share. Saudi Arabia can survive low prices because, when oil was $100 a barrel, it saved more of the windfall than it spent. The biggest losers are countries that didn't.

Notable among these are three vitriolic critics of America: Venezuela, Iran and Russia.

Venezuela: By Deutsche Bank's calculation, the government needs oil at $120 a barrel to finance its spending plans--higher than before the recent tumble.

Iran is even more vulnerable than Venezuela. It needs oil at $136 a barrel to finance its spending plans, most of them inherited from the profligate and inefficient government of Mahmoud Ahmadinejad. Last year it spent $100 billion on consumer subsidies, about 25% of GDP. Sanctions mean it cannot borrow its way out of trouble.

For Russia the impact will be less dramatic, at least at first. Its draft budget for 2015 assumes oil at $100 a barrel; below that, it will be harder for Vladimir Putin, the president, to keep his spending promises. But Russia now has reserves of $454 billion to cushion against oil-price fluctuations. More important, the rouble has fallen. Next year's budget assumes a dollar is worth 37 roubles, so it balances with oil at 3,700 roubles. A barrel currently costs 3,600 roubles (a much smaller fall than the dollar price), because the currency has plunged 20% this year. With oil at $80-85 a barrel Russia would probably run a budget deficit of only about 1% of GDP next year.
Private firms have to bring in external ideas

One of the UK's top family-business advisers is suggesting that as some of China's pioneering entrepreneurs of the 1970s reach retirement, they would do well to consider a more modern approach to their succession planning. Martin Graham, chairman of the London-based Oracle Capital Group, says that in the West, the vast majority of family businesses are small or medium-sized enterprises who accept that as they grow larger and more successful, they will have to consider bringing in external talent and fresh ideas. But he says many Chinese entrepreneurs are still rejecting any notion of that, and remain firmly set in their traditional ways of simply passing the business onto the next generation. "There is a stronger sense of family values in China than in the West, because in the West the family has less cohesion and family members are more diverse," Graham says. As the Chinese economy continues to develop, however, he says that the older model of simple family succession is starting to come under a variety of pressures, especially for larger private companies.

Family succession is becoming a growing issue in China, because the founders of many of the country's largest private companies are now nearing retirement. He cites Liu Chuanzhi, Lenovo's chairman, for instance, who is 70; and Ren Zhengfei, the founder and president of telecom solutions provider Huawei Group, who is 69. Zhang Ruimin, founder, chairman and CEO of Haier Group, a consumer electronics producer, meanwhile, is 65, and Zong Qinghou, founder, chairman and CEO of Hangzhou Wahaha Group, a leading beverage maker, is 69. Graham says it is believed that none of the above have convincing succession plans in place, or at least none they can announce. Many other family-owned businesses, much further down the pecking order than those private giants, are faced with another problem—because of the effects of the one-child policy, many of the single heirs are often not interested or qualified to take over.

Graham says the most important consideration for family succession remains education of the next generation—corporate heir-apparents must understand not just how to run a company, but have an understanding of their business and the markets. Oracle's services cover a host of areas—those might extend from creating a simple business succession plan, right down to finding the most appropriate schools and internship opportunities for the younger members of the family, in preparation of them taking control. A crucial component might also be identifying the most tax efficient structure for the succession, to ensure a smooth transition of wealth at the least cost. Graham says that in his experience, Chinese businesses can often be affected by succession, because it can come upon them suddenly. Entrepreneurs have often been so overwhelmed with opportunities to make money, that they simply forget to plan succession, he says. The importance of succession has often been overlooked, too, because many of China's first generation entrepreneurs are the first to actually experience the challenge, after China's reform and opening-up. Many family owners also simply trust handing over the reins of the business to their own, he says. Many of China's next generation of potential entrepreneurs, too, favor a straight transfer of family power, because starting their own businesses is much harder than in the West, Graham says. "I actually think proper governance is what Chinese companies need if they want to grow," Graham says. By governance, he means companies need to bring more transparency to their business, and that could mean a board of external directors handling key decisions. "They'll be lucky if they have enough good members in a single family—bringing in others can supplement their work," he says. "But still, all good family business should identify key staff, who could conceivably take over if an older CEO retires," he says. He advices that a succession plan should ideally be drawn when a CEO is 60 or above, but still everyone has to be thinking at least 10-20 years ahead, "and this may mean bringing in outside help" preferably well before succession. A lack of planning, he says, can create "too big a risk and inevitably could destroy value in a company". His company offers what he calls an "all-encompassing strategy" that can require a lot of work and preparation. For a lot of his emerging market clients, Oracle's services involve looking after all aspects of their welfare to help them preserve wealth, and pass it down to the next generation. For example, his team could help clients who have made money in one market to diversify into another. Or they arrange
for their children to receive Western education, so they are ready to help take the family business to the next level should they wish to go global. "It is important for the children to not just sit in the family business, but go to other companies in the industry or go to a business school, so they can bring fresh ideas into the family business," Graham says. "They need to understand that they are not running an asset that is theirs—they are preserving wealth that can be passed down to future generations."
Source: Cecily Liu: Private firms have to bring in external ideas, China Daily, 2014-10-13

**China's business registrations surge**

China has experienced a boom in new company registrations since streamlining the process for starting business in March. About 2.65 million new companies were registered in the first nine months of 2014, rising 52.44 percent from the same period last year, data from the State Administration for Industry and Commerce showed on Tuesday. The registered capital of these new companies totaled 13.42 trillion yuan ($2.18 trillion), up 99.76 percent year on year. China lifted restrictions on minimum registered capital, payment deadlines, down payment ratios and cash ratios of registered capital on March 1, a move aimed at encouraging start-ups and energizing the economy.

Between January and September, the number of newly registered firms in the primary sector rose 38.4 percent year on year to 112,900, while that for the secondary industry and the tertiary industry reached 453,000 and 2.08 million, up 35.93 percent and 57.47 percent year on year, respectively. By the end of September, the number of all types of registered market entities in China came in at 66.7 million, with registered capital totaling 121.95 trillion yuan.
Source: Xinhua: China's business registrations surge, 2014-10-15

**Industrial deflation deepens in September**

The Producer Price Index dropped 1.8 percent year-on-year, the National Bureau of Statistics said on Wednesday. It is the 31 consecutive month for the index to decline, matching a streak from 1997 to 1999, when a financial crisis roiled Asia. Economists noted that the drop in the PPI was even larger than in the previous two months. The month-on-month contraction for the PPI in September was 0.4 percent, indicating that the cooling of demand in the industrial sector accelerated. Falling prices for crude oil and steel weighed on the PPI, the NBS said, as did the declining prices of other commodities. Weakening demand is not only curbing companies' pricing power and crimping profit margins; it is also putting increasing strains on their ability to repay debt.

The Consumer Price Index rose 1.6 percent year-on-year, below estimates for a 1.7 percent gain, after a 2 percent annual rise in August. The annual gain was the smallest since January 2010. But in contrast to their concerns over the PPI contraction, economists were less worried about the trend in the CPI. So far, consumer inflation remains well below the government's target of about 3.5 percent this year. That has renewed debate over whether monetary policy should be further eased to spur growth. "Easing gains in non-food prices and the worsening PPI provide more evidence of a weakening economy, which means the problems of weak domestic demand and overcapacity are more severe than expected," said Li Huiyong, an economist at Shenyin &Wanguo Securities Co Ltd in Shanghai.
Source: Zheng Yanpeng: Industrial deflation deepens in September, China Daily, 2014-10-16

**Flash PMI for Oct brings cheer**
A Chinese manufacturing gauge rose in October, adding to signs a resilient labor market and export demand are helping the world's second-largest economy weather a housing market downturn. The preliminary Purchasing Managers' Index from HSBC Holdings Plc and Markit Economics was at 50.4, exceeding the median estimate of 50.2 in a Bloomberg News survey, which was also the level of September's final reading.

Chinese policymakers are trying to avoid a deeper slowdown after gross domestic product expanded 7.3 percent in the third quarter from a year earlier, the weakest pace in more than five years. While the government has relaxed home-purchase controls and pumped liquidity to lenders, the economy also got support from a pick-up in exports in September. Output, new orders and new export orders all increased at a slower rate, while output and input prices decreased at a quicker rate, suggesting disinflationary pressure intensified. The producer price index fell 1.8 percent in September from a year earlier, a record-tying 31st monthly decline, data last week showed. Chinese stocks declined and the yuan was little changed. Thursday's report, known as the Flash PMI, is typically based on 85 percent to 90 percent of responses to surveys sent to purchasing managers at more than 420 companies. It showed employment and inventory indexes improved. The government has eschewed across-the-board interest rate cuts and signaled it will tolerate a weaker expansion, leaving the economy headed for the slowest full-year growth since 1990. Premier Li Keqiang and Vice-Premier Zhang Gaoli expressed confidence in the economy after the release of GDP numbers.

Source: Xinhua: Flash PMI for Oct brings cheer, 2014-10-24

**China lowers down payment requirement for second homes**

Chinese home buyers will face lower down payments on second homes as banks and regulators look to boost the sagging property market. Chinese citizens who wish to buy a second home will enjoy the same 30 percent down payment required of first-time home buyers if they have fully repaid their mortgage loans, the People's Bank of China (PBOC), the central bank, and the China Banking Regulatory Commission (CBRC) said in a joint-announcement Tuesday. Prior to the announcement, second home buyers were required to place at least 60 percent down payment. The easing of down payments for second homes marks a turning point in the nation's restrictive home purchasing policies. Several years ago, sky-rocketing home prices forced the government to roll out restrictive measures, such as requiring higher down payments and increasing the lending rate for second home purchases, as well as banning the purchase of a third home.

Tuesday's announcement did not specify when the new rule will take effect, but some cities, including Fuzhou, Hangzhou, and Nanjing have already started launching such measures. The PBOC and the CBRC also said they will require their branches in local regions to outline supportive home loan measures based on local government requirements. The nation's four big state-owned banks, including the Industrial and Commercial Bank of China and China Construction Bank, have all issued statements indicating stronger home loan support for both first home and second home buyers. According to the announcement, first home buyers will have access to a maximum 30 percent discount on home loan rates offered by banks, while the minimum down payment remains at 30 percent.

In cities that have scrapped the ban for the purchase of a third home or those without such restrictive measure in place, for people in possession of at least two homes, without mortgage loans, and wishing to buy more, banks are free in deciding upon the down payment requirement as well as the loan rates based on borrowers' debt repayment capabilities and credit, according to the announcement. A total of 46 Chinese cities had imposed bans on the purchase of a third home in efforts to curb speculation. Currently, only the five cities of Beijing, Shanghai, Guangzhou, Shenzhen and Sanya still keep the ban.

According to the announcement, migrants in the country will also have access to home loans from banks if they plan to settle down in a certain regions, on condition that they meet specific requirements of different regions. Financial institutions will be encouraged to issue mortgage-backed securities and long-term specialized financial bonds to raise the capital that will facilitate home loans granting to both first-time home buyers and those who wish to buy bigger homes in order to improve their lifestyles, according to the announcement.
The new rule is believed to shore up a sluggish real estate market that had extended a cooling trend in August as more cities reported month-on-month price drops. Government data showed out of 70 major Chinese cities, new homes in 68 saw month-on-month price declines in August, compared with 64 in July. Hangzhou, the provincial capital of Zhejiang, saw new home prices drop the most of the 70 cities surveyed, down by 2.1 percent from July. New home prices in Beijing and Shanghai dropped by 1.2 percent and 1.3 percent month on month, respectively, the data showed.

Source: Xinhua: China lowers down payment requirement for second homes, 2014-10-1

**UNCTAD chief hails China's vital status in global economy**

The chief of the United Nations Conference on Trade and Development (UNCTAD) commended the vital status of China in global economy in a written interview with Xinhua in the advent of China's National Day. Mukhsa Kituyi, Secretary General of UNCTAD, hailed the importance of China in making Asia as the most dynamic region of today's world economy, and commended the crucial role played by China in helping cut world poverty. The senior official said that in addition to transforming its economic structure, China also harnessed foreign investment and capital to integrate into the world economy. "Through this process it has developed its productive capacities, and engaged in continuous technological upgrading to move up the global value chain and diversify its exports," said Kituyi.

He noted that China's demand for inputs has made it a strong market for primary commodities from developing countries, and it has also played a key role assembling manufactured goods of higher technological sophistication using inputs produced in developed countries. "The growing importance of China's domestic demand to its growth -- with some tentative signs of an increasing role for private and public consumption -- reminds us that China continues to transform its economy," Kituyi added. "This opens up further opportunities for other developing countries to try and emulate China's success, which has also led it to become a strong source of outward foreign investment itself." The UN organ head said UNCTAD was making efforts to deepen cooperation with China to enable closer "south-south" exchanges of knowledge and expertise between China and other developing countries, in particular the Least Developed Countries. "In many ways, China's rise can provide valuable lessons for other developing countries, both on how to achieve a successful development strategy, but also on how to confront the challenges that may come along with success," he said.

Kituyi commended the steps that China is taking to ensure that the future global development agenda is economically, socially and environmentally sustainable. "China will play an indispensable role in helping the world economy transition to a more sustainable pattern of low-carbon growth, and in helping end extreme poverty everywhere," said Kituyi.

Source: Xinhua: UNCTAD chief hails China's vital status in global economy, 2014-10-1

**Germany-China partnership enjoys bright prospects**

The partnership between Germany and China has bright prospects given their complementary advantages and cooperation potential, said a German business leader on Wednesday. Bilateral trade has achieved remarkable growth in the past 10 years with the volume more than quadrupled, noted Hubert Lienhard, chairman of the Asia-Pacific Committee of German Business, a lobby group and umbrella organization of several leading business federations in Germany. "That is largely a result of their complementary trade structure and the stable and trustful relationship between the two countries," Lienhard told Xinhua in an interview, adding that the trust is shown by the frequent visits of German and Chinese leaders, as well as various dialogue and exchange mechanisms.

On Thursday, Chinese Premier Li Keqiang will begin his second visit to Germany since he took office in March 2013. The visit follows closely with Chinese President Xi Jinping's visit to Germany in March and German Chancellor Angela Merkel's visit to China in July. During his visit, Li will attend the sixth meeting of the biennial Hamburg Summit, scheduled on Friday and Saturday, to expound China's view on the China-Europe relationship
and its development direction. "The German and Chinese government leaders have showed great vision and determination, and made tremendous efforts to strengthen their bilateral trade relations," said Lienhard. Lienhard said he is looking forward to further exchanges of ideas on cooperation potential between the two countries at the summit. In his view, innovation and vocational training are among the areas where opportunities for collaboration lie.

Germany has advantages in innovation, technology, research and development, while China needs to seek out opportunities to ready itself for the future in those fields, he said. Dubbing Germany's dual education "the most advanced vocational training system in the world," Lienhard said the system could make a contribution to vocational training in China and to the advancement of "Made-in-China." As the Chinese government gradually introduces its package for economic reform, Lienhard said, there are great opportunities for foreign businesses. "The dynamics of the Chinese economy, bolstered by continuing reform and opening-up, will definitely inject vigor into Germany-China cooperation," he said. "I see bright prospects for a stronger Germany-China partnership in the coming years."

Source: Xinhua: Germany-China partnership enjoys bright prospects, 2014-10-9

**China is a driving force for world economic recovery**

Chinese Premier Li Keqiang said here Saturday that China is still an important driving force for world economic recovery, which would also benefit economic and trade cooperation between China and Europe. There will not be a hard landing for the Chinese economy, Li said in a keynote speech at the sixth Hamburg Summit, adding China has the capability to maintain an economic growth at a fairly rapid speed in the future. Economic development is not a sprint, but a long-distance run which requires perseverance and stamina, Li said, noting that China has maintained a stable growth since the beginning of this year despite complicated domestic and international situation. Such performance relies mainly on reform and innovation, Li said, calling reform a stimulus for economic development. The government loosens its control on market regulation and strengthens supervision, in order to create an environment for fair competition in the market, which encourages a new boom of grassroots entrepreneurship and mass innovation, Li said. The government tries to help individuals fulfill their own goals, which transforms the demographic dividend into the talent dividend in China, the premier said.

On China-EU relations, Li said China is the world's biggest emerging market and the European Union (EU) is the biggest developed economy, both of which boast great civilizations. Chinese President Xi Jinping advocated a partnership between China and the EU featuring peace, growth, reform and civilization during his visit to Europe in March, Li said. The China-EU cooperation will boost regional and global economic development, promote human civilizations and contribute more to world peace and stability, Li said, adding that China is willing to join hands with the EU to set an example for global cooperation. Li said China supports the EU to play a greater role in international affairs and hopes the EU to continue understanding and supporting China's choice of the development path which fits in with its own national conditions. Both China and the EU stand at a critical stage of development, Li said, calling on the two sides to work together in the areas of trade, investment, and innovative cooperation, and in dealing with global challenges. China is also ready to enhance cultural and people-to-people exchange with the EU, in order to further cement the bilateral relations, Li said.

Martin Schulz, president of the European Parliament, said the EU and China share extensive common interests and are important cooperative partners. Further developing EU-China relations is a priority of EU's foreign policy, he said, adding the EU is willing to sign an investment agreement with China at an early date, and promote EU-China cooperation in various fields and face challenges jointly with China. Representing Germany, Foreign Minister Frank-Walter Steinmeier lauded China's important contribution to the world's response to global challenges, adding that EU-China cooperation serves the interest of Germany, China as well as the rest of the world. Steinmeier said the cooperation action plan agreed by Germany and China laid a blueprint for their future cooperation and provides more convenience for companies from both countries to carry out cooperation. Germany
is ready to work together with China to build a fairer and more reasonable international political and economic order, he added.

The sixth Hamburg Summit was held on Friday and Saturday in the northern German port city of Hamburg, gathering together more than 600 representatives from China and European countries. Initiated by the Hamburg Chamber of Commerce in 2004, the "China meets Europe" Hamburg Summit now serves as an important platform for discussing China-EU economic cooperation.

Source: Xinhua: China is a driving force for world economic recovery, 2014-10-13

China, Russia sign deals on energy, high-speed railways

China and Russia on Monday inked a host of cooperation deals ranging from finance and investment to energy and high-speed railways. Visiting Chinese Premier Li Keqiang and his Russian counterpart, Dmitry Medvedev, witnessed the signing of the about 40 agreements after holding the 19th China-Russia Prime Ministers' Regular Meeting. The documents, including governmental accords and business contracts, also cover trade, people-to-people exchanges, advanced technology, satellite navigation, currency swap and customs. The frequent meetings between the two countries' leaders fully indicate that the relations between China and Russia are strategic, stable and for the long run, Li said in the talks with Medvedev. Further strengthening bilateral cooperation, he added, will benefit both the two major emerging economies themselves and world peace and development at large.

China stands ready to work with Russia to translate their comprehensive strategic partnership of coordination into more fruits of practical cooperation, said the premier. China, he added, would like to enhance cooperation with Russia on major investment projects in such areas as mining, chemical industry, agriculture and infrastructure construction. On the trade front, China has been Russia's largest partner for the past four consecutive years. Two-way trade reached $89.2 billion last year and plans are afoot to raise the volume to 100 billion dollars by 2015. China is also ready to advance the establishment of a Eurasian high-speed transport corridor linking Beijing and Moscow, Li said, adding that the current priority should be the high-speed railway between Moscow and Kazan.

Regarding energy cooperation, the Chinese premier said Beijing will deepen cooperation with Moscow in nuclear power and energy in an integrated way that covers upstream, midstream and downstream industries.

Since its establishment 65 years ago, the diplomatic relationship between the two neighboring giants has now reached an "all-time high point," with frequent high-level visits, surging trade and investment and an increasing number of large-scale projects. Li also encouraged the two sides to further enhance people-to-people exchanges and jointly mark the 70th anniversary of the end of World War II next year. For his part, Medvedev said Russia is willing to promote two-way large-scale investment and advance cooperation with China in areas including transportation infrastructure and aviation. Russia and China are close friends and partners, he said.

Source: Xinhua: China, Russia sign deals on energy, high-speed railways, 2014-10-14

Chinese, Italian firms sign $10b in deals

Chinese and Italian companies signed deals worth 8 billion euros ($10 billion) here Tuesday, a highlight of Chinese Premier Li Keqiang's visit to Italy. The deals were signed by business leaders from the Chinese-Italian committee of entrepreneurs, which was founded four months ago. Appearing together with his Italian counterpart Matteo Renzi at an event attended by the committee members and other entrepreneurs from the two countries, Li said the deals, mainly covering two-way investment and technological and financial cooperation, have transcended the traditional buy-and-sell model to demonstrate the high-level coordination of the two countries. Li said the business sectors of the two nations are the main force to promote the bilateral cooperation. As the two nations have entered the age of innovative development, he said, it is hoped that entrepreneurs from both countries could seize the opportunity, complement each other and expand cooperation, so as to forge a comprehensive partnership. Renzi said that Italy and China enjoy a traditional friendship and a solid basis for cooperation, adding that Italy is willing to work with China to address the challenges brought by economic globalization.. He said he hopes entrepreneurs
from both sides to develop the spirit of innovation and expand trade, investment and financial cooperation for the mutual benefits of the two peoples. Italy is the last stop of Li's three-nation Europe tour, which has taken him to Germany and Russia.

Source: Xinhua: Chinese, Italian firms sign $10b in deals, 2014-10-15

Finance ministers set APEC stage

The 21st Finance Ministers’ Meeting of the Asia-Pacific Economic Cooperation, or APEC, will be held in Beijing on Tuesday. Finance ministers of 21 APEC economies, leaders of international organizations and high-level representatives of the private sector will attend. China's Finance Minister Lou Jiwei will lead the country's delegation and will serve as the chair of the meeting. Below are excerpts from a China Daily interview with Lou about the gathering.

Question: Against what background is this year's APEC Finance Ministers' Meeting held?

Answer: Established in 1989, APEC is a high-level and most influential official forum for economic cooperation in the Asia Pacific region. It is a forum where issues relating to global and regional economic development are discussed. So it is playing a very important role in the governance of global economy. It is an important platform where economies in the Asia Pacific region conduct dialogue and cooperation on macroeconomic policies, strengthen capacity-building in the financial area and share their experiences. It also sets the stage for the discussion of financial and economic issues at the APEC Economic Leaders' Meeting. Given the weak recovery of the global economy and new challenges, such as the divergent monetary policies of advanced economies, whether the Asia Pacific region - the engine of global economic growth - can be the first to achieve robust economic recovery is attracting the attention of all sides. [The meeting] will have great significance in demonstrating to the international community the determination of the member economies in working together to deal with the various risks and challenges and in boosting the confidence of the market.

Q: What are the topics to be discussed?

A: The theme of this year's meeting is "Shaping the Future Through Asia Pacific Partnerships". ... [W]e have identified four agenda items: "Regional Economic Situation and Outlook", "Cooperation on Infrastructure Investment and Financing", "Fiscal and Taxation Policies and Reform for Economic Restructuring" and "Improving Financial Services for the Regional Real Economy". The macroeconomic discussion will highlight policies and coordination needed to promote a robust economic recovery and sustainable development. Topics on infrastructure will focus on facilitating interconnectivity within the Asia Pacific region and promoting public-private partnerships in infrastructure. Discussions on taxation and fiscal and finance issues will include how economies in the Asia Pacific region can use their policies for mid-and long-term economic restructuring, with emphasis on innovation, job creation, green and sustainable growth, development of SMEs and disaster risk financing, among other things.

Q: In recent years, China has been more deeply involved in international financial and economic exchanges and cooperation, and is playing a significantly bigger role. What does China expect the participating countries to achieve at this year's meeting of finance ministers?

A: After 13 years of rapid development, China is now the biggest economy in Asia and the second-biggest economy in the world, and has emerged as an important engine of global economic growth. Moreover, since it joined the World Trade Organization in 2001, China has opened up significantly to the outside world and become more closely connected with the global economy. At this meeting, we will work toward positive outcomes in three aspects:

First is to maintain economic and financial stability in the Asia Pacific region. Currently, the global economy faces many risks and challenges, and the recovery is still slow and weak. As the Asia Pacific region has the biggest population, the largest proportion of global GDP and the greatest vitality, it needs to recover first and take the lead in economic growth. We will seize the opportunity offered by this meeting to increase dialogue and cooperation in macroeconomic policy [and] make known to the world our determination and confidence in working together to
promote the strong, balanced and sustainable economic development of this region.

Second is to promote pragmatic cooperation in the region. As APEC economies are highly interdependent, closer regional economic cooperation will surely increase their common interests and achieve common prosperity. In light of the needs of the APEC region, this year's meeting prioritizes cooperation on infrastructure investment and financing. It will achieve concrete results in the application of the PPP model to infrastructure development.

We will brief all parties about China's PPP Center established at the Ministry of Finance.

Third is to display China's determination to press ahead with reforms. What China has achieved over the past 30 years of reform and opening-up has impressed the international community, and China's future prospects are of great interest to all sides. Faced with complicated challenges at home and abroad, we will maintain steady and sustainable development by pressing ahead with reform and unleashing the vitality of the market. Last year, the Third Plenary Session of the 18th Central Committee of the Communist Party of China laid out the general objectives and framework for comprehensively deepening reforms. This year's APEC Finance Ministers' Meeting provides us with an important opportunity to show the Chinese government's commitment to reform and to boost the international community's confidence in China's economic outlook.

I believe, through this meeting, that we will create a more harmonious atmosphere for the APEC Economic Leaders' Meeting this November and contribute to the shared prosperity of the Asia Pacific region as a big family.


World News: World Watch

Finance ministers from Pacific Rim nations said the global economy "still faces persistent weakness in demand" and they looked to infrastructure spending to boost growth. Private capital would play an important role in financing infrastructure construction, especially joint ventures between the public sector and private companies, according to a statement issued by finance ministers at a meeting in Beijing of the Asia-Pacific Economic Cooperation forum. China is the APEC host nation this year and has been prodding the 21-nation group to focus on infrastructure construction as a way to boost flagging global growth.

Trade and infrastructure are likely to dominate the talks. One of the biggest challenges facing the global economy is the slowdown in Chinese growth. China gross domestic product grew 7.3% in the third quarter, its slowest rate of growth in more than five years, and may miss its annual GDP target of 7.5% for the first time since 1998.


Japan to be 'respected guests' at APEC

Foreign Minister Wang Yi said on Wednesday that China will extend a hospitable welcome to all visiting APEC leaders amid ongoing global media speculation concerning whether the leaders of China and Japan will meet one-on-one at the event next month. Japanese Prime Minister Shinzo Abe will attend the November meeting in Beijing, and Tokyo has frequently stated its desire for an official dialogue to take place between President Xi Jinping and Abe. Xi met on Wednesday with former Japanese prime minister Yasuo Fukuda, viewed by Japanese media as a possible intermediary. Fukuda, also chairman of the board of directors for the Boao Forum for Asia, is part of a visiting delegation. An official release by Xinhua News Agency did not mention whether their talks included Sino-Japanese relations, but did say that Fukuda invited the president to attend the Boao Forum's annual meeting next year, an invitation that Xi accepted.

At a Foreign Ministry briefing on Wednesday about the agenda of the APEC event, Wang did not directly describe the format that will be used when the two leaders greet each other at APEC or meet on its fringes. "China is the host state, and as Chinese custom goes, all visitors will be treated as respected guests. We will exercise necessary hospitality toward all the guests," Wang told reporters. The top diplomat mentioned "the problems and
obstacles that cloud the regular development of the China-Japan relationship", adding that "they are facts and should not be avoided". "I hope that the Japanese leader and the Japanese can face up to the existence of the problems and be sincere in resolving the issues," Wang said.

Officials and observers from both countries have debated for months about the necessity of an official meeting. Abe and his Cabinet have angered Beijing by actions and uttering remarks that have been widely interpreted as provocative regarding both historical and territorial issues. Ruan Zongze, vice-president of the China Institute of International Studies, said a leaders' summit is "unlikely so far", and one of Tokyo's top priorities should be "to exercise restraint rather than delivering more inflammatory remarks or actions". Abe's visit to the controversial Yasukuni war shrine in Tokyo in December saw a deep chill settle over relations. Earlier this month, Japanese Chief Cabinet Secretary Yoshihide Suga said no evidence can be found to prove that "comfort women" - a euphemism for Asian women forced into sexual slavery by Japan's imperial army - were "forcibly recruited".

In his Wednesday speech about APEC, Wang said "Beijing is ready" to host an event that will "herald breakthroughs" regarding regional integration, new economic driving forces and the enhancement of connectivity. He confirmed that the event will reach a consensus in initiating the process of free-trade agreements for the Asia-Pacific region, which will be "a new step forward for boosting regional economic integration". China is advocating further connectivity within the Asia-Pacific region, and a common front in boosting the fight against corruption, Wang noted.


**Why the yuan is being welcomed in Canada**

The Canadian Chamber of Commerce has added its voice to mounting calls for Canada to create North America's first trading hub for China's yuan currency, cementing our relationship with the country that will be the world's largest economy. Canada could generate up to $32-billion more in exports over the next 10 years if it creates a yuan trading hub, the Canadian Chamber of Commerce said in a report released Monday. "In a competitive global environment, every advantage counts," Perrin Beatty, the chamber's president and CEO, said in a statement. "Now is the time for Canada to take this important step in positioning ourselves and our companies with the world's fastest growing economy." The report comes in advance of Prime Minister Stephen Harper's trip to Beijing for the APEC summit in November. Several of Canada's largest financial institutions joined forces this summer to push for a hub. Olivia Chow, the former NDP MP who is running for Toronto mayor, has repeatedly pitched Toronto as a trading hub for the Chinese currency, the Renminbi (RMB) or yuan. "Toronto is the second largest financial services centre in North America and the trading of the RMB is going up," Ms. Chow said in an interview Sunday. "[A hub] would give the signal to all of the other cities in North America that we are a good place to do business and have headquarters." Meanwhile, Christy Clark, B.C.'s Premier, is lobbying on behalf of Vancouver. A spokeswoman for the Department of Finance told the National Post in August that Ottawa supports the plan to establish a yuan trading hub, but that discussions with Chinese officials are at "an early stage."

A hub in Canada, authorized by China's central bank to complete RMB transactions, would allow for the yuan to be traded freely with the Canadian dollar. Cities around the world are racing to establish trading centres and China has approved RMB-clearing banks in places such as London and Seoul. Of 11 countries surveyed by HSBC this spring, Canadian companies were the least likely to use yuan. As Chinese global trade has exploded during the past few years, competition among countries for the right to set up a trading hub has also taken off. "Chinese companies prefer transacting in their own currency," Mr. Beatty said. "We strongly believe that Canadian companies could sell more to China and potentially offer lower prices to Canadian consumers if they were able to do business in RMB." Fifty-five per cent of Chinese businesses said they would offer discounts of up to 5% to tradition partners for RMB denominated transactions, according to the HSBC survey.

China has become Canada's second-largest and fastest growing commercial partner, with exports reaching
$20-billion in 2013 and imports hitting $52-billion. Most Canadian exports to China are in highly competitive commodities with thin profit margins such as wood products, iron ore and coal, and selling these goods in RMB would give Canada the edge, according to the chamber report. British Columbia would see the biggest gain in exports, with an additional $9.37-billion over the next decade, the report noted. The chamber report, entitled “Doing more business with China: Why Canada needs a renminbi hub,” also highlighted key benefits of a hub to the financial sector: Financial institutions could offer a complete suite of RMB products to customers and be able to clear and settle transactions in Canada without using subsidiaries. The ability to convert yuan and Canadian dollars (without going through a conversion into U.S. dollars) could save Canadian companies $6.2-billion over the next decade, the report said.

Canadian capital markets could expand so businesses could raise funds in RMB and investors would have the opportunity to buy Chinese securities. In 2013, B.C. became the first foreign government to issue bonds denominated in RMB and the issue was quickly over-subscribed, raising 2.5-billion RMB or about $428-million Canadian. Almost 60% were bought by Asian investors and 40% by U.S. investors.


China loses No 1 trade surplus spot to Germany

The latest report from the International Monetary Fund shows Germany’s trade surplus last year was $260 billion, which surpassed China’s $195 billion and made Germany replace China as the largest trade-surplus country in the world. Losing the No 1 spot may not be a bad thing for China. It provides China with the opportunity to reflect on how it should gain trade surplus and restructure its economy, rather than only focusing on the increase of figures on paper and blind investment in overcapacity industries.

China has been the country with the largest trade surplus in the world for more than 20 of the past 35 years, thanks to its cheap and plentiful workforce and integration into the world economic system. China’s large trade surplus shows its manufacturing capacity. But the trade surplus also makes China the country facing the most anti-dumping and anti-subsidy investigations. The renminbi has been under constant pressure to appreciate. Even though it has appreciated more than 30 percent since China started reforming its rigid exchange rate system in 2005, many traders still consider the yuan markedly undervalued. External trade friction also makes internal trouble. China’s central bank needs to issue more renminbi to buy the inflowing foreign currencies that come along with the huge trade surplus. The passive issuing of yuan adds to inflation pressure. The excess liquidity bursts bubbles in many sectors of the Chinese economy.

Germany’s overtaking China was inevitable. China’s trade surplus mainly depends on the export of lower-end products, which is an exchange between China’s economic and human resources and the global money of account, not a trade between know-how and the money of account. This kind of exchange is not sustainable. It also hinders economic restructuring and industrial upgrading. A moderate trade surplus remains the main way China accumulates its wealth, promotes its economic growth and creates jobs. China should draw lessons from Germany’s export industries and pay more attention to increasing trade of services. Transportation and tourism are two main deficit makers in China’s service trade. The Chinese government needs to further open up its service sectors to global markets to improve the competency of China’s service industry.

Initiatives proposed by the Chinese government - the 21st century Silk Road economic belt on the Eurasian continent and maritime Silk Road connecting China and Southeast Asia, and the renminbi’s globalization - create new opportunities for China to transform the way it gains its trade surplus. China needs to take advantage of the opportunity to balance its trade. More and more Chinese enterprises developing and investing globally is conducive to rebalancing China’s international trade. The restructuring of the Chinese economy, a key mission of the Chinese government, is another cause for the fall of China’s trade surplus. This is an inevitable painful process deciding whether China can overcome the middle-income gap and evolve into a strong economy from a large economy. The
Chinese government and enterprises should not only study the game rules in international trade more carefully to avoid trade friction, but also actively participate in constructing new and fairer international trade and investment guidelines.


Global Finance: China Steel Exports at High --- Cheap Prices Boost Sales to Markets in U.S., Europe as Domestic Demand Slumps

China's exports of steel products rose to a record last month, up sharply from a year earlier, as steelmakers boosted cheap sales abroad to make up for price cuts at home. Chinese mills typically use exports as a means to bolster sagging domestic sales, a move that has often threatened to swamp global markets and led to trade friction with major importers, such as Europe and the U.S. Chinese steel officials say they are trying to get mills to cut back on such exports. September net exports of steel products reached 7.2 million metric tons, rising 4.5% from the last high posted in May. Steel exports for the first nine months of the year are up 39% to 65.3 million tons. Net exports are exports less imports. By absolute volume, exports reached 8.5 million tons, also a record. September shipments rose 73% from a year earlier.

The U.S. remains a top destination for Chinese steel exports. Weak manufacturing conditions and slack demand for steel spurred price cuts and exports among domestic steelmakers, according to Applied Value, a consulting firm. Cheap Chinese steel prices are boosting exports to record levels. In the U.S., domestic hot-rolled steel prices are $209 higher per ton, the firm said. Hot-rolled steel is used to make products such as cars. Past surges in Chinese steel exports have triggered disputes with the U.S., Europe and other trading partners, who say Beijing unfairly subsidizes its steel producers and sells products globally at below-market prices. In May, Washington imposed preliminary tariffs of 159% on imports of Chinese grain-oriented electrical steel, which is used to make transformers. Last year, U.S. steelmakers filed 38 trade cases, the highest number of such complaints in more than a decade, calling for the government to impose higher tariffs and penalties on what they called unfairly traded steel.

The state-backed China Iron and Steel Association has called such measures protectionist, but at the same time has said it recognizes the problem and has been trying to persuade steelmakers -- a highly fragmented and far-flung quilt of regional producers -- to hold down cheap exports. The association has urged its members to favor higher value-added products over cheap construction steel. "As trade friction with China rises, China's exporters must adjust export policies," it said. Overcapacity continues to plague the Chinese steel industry. Domestic demand for steel is waning, which compounds the problem of excessive production capacity, said Applied Value analyst Jason Yang. China's crude steel production in the first eight months is up 2.6% at 550 million tons. Five-year lows in prices of iron ore, the key raw material for steel, also are spurring Chinese mills to produce. September iron-ore imports rose 14% from a year earlier to 85 million tons. As global miners open new lines of supply, iron ore for delivery to the Chinese port of Tianjin reached $80 a ton last Friday, down 40% from the beginning of the year.


US-China free trade could generate $460b in gains -study

Free trade between the United States and China could generate annual combined economic gains of $460 billion for the two countries, according to new research from the Peterson Institute for International Economics. The study found that if the two countries could agree on a comprehensive deal to free up trade and investment, US exports to China would double over 10 years, with particular gains in services. China stands to gain $330 billion, or 1.9 percent of gross domestic product, while the United States would benefit to the tune of $130 billion, or 0.6 percent of GDP. The world's two biggest economies are negotiating an investment treaty, which China's vice
finance minister said last week could be concluded in two years. Myron Brilliant, head of international affairs at the US Chamber of Commerce, said that a US-China free trade agreement was not a short-term proposition but that it was feasible that talks could start within the next 10 years.

Source: Xinhua: US-China free trade could generate $460b in gains -study, 2014-10-17

**ODI 'on track for steady growth'**

China's outbound direct investment is expected to grow 10 percent annually over the next five years as demand for industrial products and infrastructure surges in developed and developing markets, senior officials said on Wednesday. Assistant Minister of Commerce Zhang Xiangchen said that China will continue to increase the flexibility of ODI procedures to allow domestic companies to assume more control of their overseas business. China's non-financial ODI totaled $74.96 billion in the first three quarters of this year, up 21.6 percent from the same period a year earlier, fresh evidence that China's "going global" strategy is still expanding. "International markets - especially Latin America, Africa, Southeast Asia and East Europe - still need many products such as machinery, power systems, rail and other shipping equipment, construction and household items to diversify and support their economies," Zhang told a news conference in Beijing. "China's ODI, therefore, is essential for them to gain funds, technologies, human resources and development experience," said Zhang.

China's ODI reached a record high of $108 billion in 2013, making it the world's third-largest investor for a second consecutive year. The government is working with other countries to enhance the status of investment protection agreements, as well as simplifying its own ODI approval procedures. For example, as of Oct 6, the ministry scaled back its role in overseas project approvals by ending controls on the number of investment projects. "Only projects in sensitive countries or regions, as well as in sensitive industries, will require approval by the Ministry of Commerce," said Chen Lin, commercial counselor in the ministry's department of outward investment and economic cooperation. "Sensitive" countries or regions are those that have no diplomatic ties with China or those under United Nations sanctions. Other overseas investment projects need only be registered with the ministry. Last year, the ministry approved 6,608 ODI projects. But this year, it will rule on only 100 cases, because it has ceded its control over the number of investment projects under the new rule.

The value of overseas assets and property owned by 25,000 Chinese companies, including 40 percent of private companies, amounts to $3 trillion in 166 countries and regions. The companies have more than 1 million employees at different locations throughout the world. China is expected to attract about $120 billion of foreign direct investment in 2014, and China's ODI may outpace FDI inflows in 2015, as Chinese companies' global competitiveness in machinery, shipbuilding and chemicals rises.


**Landmark year as ODI set to exceed FDI**

China's outbound direct investment will outstrip incoming foreign direct investment for the first time this year, a report on the globalization of Chinese enterprises forecast on Wednesday. Fueled by demand for energy, construction projects and other assets to power its economy, ODI from the world's second-largest economy is likely to rise above $120 billion in 2014, according to the Center for China and Globalization, a top think tank. China has been buying assets abroad, in particular in the energy and resources sector, but that investment model is changing as more money goes into high-technology, innovative and high added-value industries, according to the report. China's ODI in the high-tech sector reached $6.3 billion during the first half of this year, with more than 85 percent going to the United States. Although energy still takes the lion's share of Chinese companies' foreign investment, industries such as construction and culture experienced the fastest growth (129 percent and 102 percent, respectively) from a year earlier, the report showed. The report highlighted another trend: private-sector enterprises have become more active in outbound investment, especially in the US, where their investments account for 76 percent of the total Chinese investment in that nation. But while investment headed to the US grew at the fastest pace among all
destinations, Asia remained the top target for Chinese investment. Long Yongtu, former vice-minister of commerce and chairman of the think tank, said that this year will be a milestone for Chinese companies as their global footprint broadens and they become more competitive on the global stage. "China's sustainable growth and its ability to compete on the world stage hinge upon the speed at which it can foster its own powerful international companies, and 'going out' will provide a platform for Chinese companies to grow through participation in the global economy," said Long, also secretary-general of Boao Forum.

Wang Huiyao, CCG's president and the lead author of the report, said that it is clear that China's ODI can boost international trade and thus stave off trade friction with the country's trading partners. But he warned that Chinese companies going abroad may face financing problems, vulnerability to risks and misunderstanding of different cultures and regulations in the overseas markets. "These are the same obstacles that foreign companies face coming into China," he said, suggesting that Chinese companies should adopt foreign expertise and fully localize their workforces by hiring more local employees.

Source:  Lyu Chang: Landmark year as ODI set to exceed FDI, China Daily, 2014-10-30