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# China News Alert Issue 318

## Capital Markets

### Foreign investors return to China as economy warms up

China's economic recovery is luring back overseas investors who had withdrawn from the country during the global financial crisis.

In Qingdao, a port city in eastern China, the number of overseas investors entering the Chengyang District has been on the rise since June, said the deputy head of the district government, Li Guixi.

Li said the district has approved 146 foreign-funded projects in the first ten months of this year, involving contracted foreign investment totaling US$280 million, up 2.2 percent year on year.

Li said Swarovski, the world's leading producer of precision-cut crystal, invested more than US$100 million in Chengyang to build its first factory outside Europe in July.

However, just one year ago, foreign investors were busy withdrawing from the district, leaving thousands of workers jobless and their wages unpaid.

Speaking of his ex-employer's withdrawal, Cao Kejun, 59, still broods over his unpaid wage. "If I could find that boss from the Republic of Korea (ROK), I would like my 600 yuan (about US$87.8) back," he spoke with a strong Shandong accent.

His ex-employer, a ROK investor in a suitcase and bag factory in Qianwangtuan Community, Chengyang District, northern Qingdao, made an overnight escape back to his home country ahead of the financial crisis, abandoning DeBest, his factory, with 500 jobless workers.

Two more ROK investors in the community left without notice about 11 months ago, leaving 420 more people jobless, said Qi Xide, who was in charge of the management of enterprises in the community.

Due to the global crisis, the inflow of foreign direct investment (FDI) to China began to slow down in the fourth quarter last year, and as of July this year, the FDI China received had decreased year on year for 10 consecutive months, according to the Ministry of Commerce.

In November last year, the Chinese government adopted a massive economic stimulus package, including raising export tax rebates and other measures, to halt the drastic FDI decline and combat the crisis, which turned out to be effective in boosting the economy.

The country's gross domestic product (GDP) grew 8.9 percent year on year in the third quarter, accelerating from 7.9 percent in the second quarter and 6.1 percent in the first. It increased 9 percent year on year compared to the third quarter of 2008.

With favourable policies and the economy picking up, investors that once had doubts about China's economy and business environment have come to discuss investment with local governments, said Li Guixi.

Nationally, the latest data shows that China saw a third consecutive monthly increase in FDI in October by attracting US$7.1 billion, up 5.7 percent from the same period last year.

Young-Su Park, the China president of a ROK company, expressed great confidence in the further growth of China's economy, which he said means greater demand for infrastructure investment. His company, Leading Solution, which mainly produces air-conditioners and farm machinery, had just invested US$48 million for a new farm machinery factory in Chengyang, the capital of northeastern Liaoning Province. "Investors have reasons to leave, and now they find reasons to come back," said Park.

In Qianwangtuan of Qingdao, DeBest's old building is now taken by a new ROK-funded factory. "With three new foreign-funded factories going into operation this year, workers are starting to work overtime again," said Qi, the administrator.

Cao, just like his ex-colleagues, has found a new job. He is now working as a cleaner in the Qianwangtuan community and earns 600 yuan a month.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90861/6834669.html) ([see archive](Foreign_investors_return_to_China_as_economy_warms_up.pdf))

## Corporate & Commercial

### China to push export recovery and promote trade balance

The Chinese government will push the recovery of its exports and promote balanced international trade as one of its major tasks next year, the country's senior policymakers agreed at the annual key economic conference.

The government will maintain the "continuity" and "stability" of its foreign demand policy, diversify its market strategies, and tap into new markets while maintaining old ones in order to promote export growth, they agreed, according to a statement released from the conference. They will improve the quality and added value of exports, strictly control the export of resource-intensive and highly polluting and energy-consuming products, the statement said. China will also increase imports in order to promote trade balance.

The meeting participants also agreed to facilitate foreign investment by promoting scientific and technological innovation, industrial upgrading, and coordinated development among regions, of which the less-developed central and western regions were expected to see increasing foreign investment.

The government will also encourage domestic companies to invest overseas and expand their business.

The Central Economic Work Conference, which meets annually, comprises policy-making officials from the central government and its departments as well as provincial-level governments.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90862/6834677.html) ([see archive](China_to_push_exports_recovery_promote_trade_balance.pdf))

### China aims high on consumer spending for sustainable growth

The Chinese government reiterated that to spur "sustainable and fast consumer spending" will be a priority next year, as the world's third-largest economy seeks to break from dependence on export and government pump-priming to drive post-crisis growth.

The government will continue to raise the earnings of middle and low income groups to boost consumer spending, said a senior official with the nation's top economic planning body.

The government will step up research on the optimization of the income distribution mechanism in order to increase residents' purchasing power. Zhang Ping, minister in charge of the National Development and Reform Commission (NDRC), made the remarks at a national meeting charting the ministry's work in 2010.

The rare official stance on improving income distribution echoed the unanimous call from experts and the general public to bridge the widening wealth gap between the rich and poor, which underlined the government's resolution to address social conflict and the urgency to rebalance economic growth.

Zhang said the government will exert more effort to resolve problems that are in the public interest and ensure that all members of the public share the fruits of development and reform, so as to safeguard social harmony and stability.

The government will raise pensions for enterprise retirees and improve treatment for those who enjoy special care. Local education, cultural and health-care facilities will also receive greater subsidies for expansion.

To revive economic growth, which lapsed to a decade low amid the global financial crisis, the Chinese government unveiled a 4-trillion-yuan stimulus package, led by government investment, to counter falling exports, the driving force of the Chinese economy before the global economic crisis.

As a result, GDP growth accelerated to 8.9 percent in the third quarter, investment increased 7.3 percentage points while consumption raised 4 percentage points.

"As the Chinese authorities have recognised that the rapid pace of recovery has exacerbated some of the economy's structural imbalances, the authorities will focus on rebalancing growth, primarily by supporting consumption and private investment, with many consumer incentives to be carried out in 2010," said Jing Ulrich, managing director and chairman of China Equities and Commodities at J.P. Morgan.

The State Council decided to renew the preferential policies introduced early this year to boost car and home appliance sales. "While investment growth should be managed at a reasonable pace, consumer spending should maintain sustainable and relatively fast expansion," Zhang said.

As investment binges and runaway bank lending prompted fears of an asset bubble, Zhang said the government will step up efforts to curb speculative property transactions, and provide more affordable housing to middle and low income families.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90862/6837366.html) ([see archive](China_aims_high_on_consumer_spending_for_sustainable_growth.pdf))

### U.S. companies find an oasis of profit in China

Many U.S. companies hit hard around the world by the global economic downturn have reported profits from their dealings in China, according to a survey by the American Chamber of Commerce in Shanghai.

The chamber's China Business Report 2009 shows most corporate members saw a growth in revenue and profit in China and the report ranked the nation a top investment destination for 2010.

"Many American companies are finding that their performance in China has outshone those in other markets," said J. Norwell Coquillard, chairman of AmCham Shanghai. "This year's report offers businesspeople, policymakers and opinion leaders a valuable resource to better understand the China market, which is sure to play an even larger role in the world economy for years to come," Coquillard said.

More than 40 percent of respondents said the profit margins of their China operations in 2009 were better than their global averages. This was in stark contrast to the situation a decade ago, when 58 percent of U.S. companies surveyed said their margins in China were narrower than in many other countries.

Most respondents were positive about doing business in China. More than 90 percent said they were "optimistic" or "slightly optimistic" about the five-year outlook. That compared to 81 percent in 2008. Eighty-two percent of survey respondents expected even more revenue from China operations in 2010.

Some 74 percent ranked China as one of their top-three investment priorities―among them, 64 percent planned to increase their investments in China in 2010. Fifty-eight percent increased their investment in China this year. Only 5 percent were planning to scale back on their investments in China.

The survey was based on the responses of 369 U.S. companies with operations in China.

"China remains a recommendable investment spot for American companies, the majority of which are focused on competing in China's growing domestic market," said Brenda Foster, president of AmCham Shanghai.

Companies said they faced new challenges in 2009 that were mainly centered on sales and the retention of customers. Competition from Chinese companies was also increasing, said the U.S. firms.

One silver lining from the global financial crisis was the fact that it had become easier to recruit new talented individuals, said the report.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90861/6838010.html) ([see archive](US_companies_find_an_oasis_of_profit_in_China.pdf))

### EU starts anti-dumping investigation on Chinese-made fiberglass

The European Commission (EC) will launch an anti-dumping investigation into Chinese fiberglass manufacturers, according to a Wall Street Journal report citing an EC diplomat.

The European Glass Fiber Producers Association filed a petition to the EC demanding an investigation in November this year.

If the EC accepts the request, Chinese manufacturers may face an anti-dumping tariff as high as 40 percent to 75 percent, according to the report.

After an investigation that is expected to last no more than 15 months, the EC will decide whether to impose a long term tariff on Chinese products. But before the final decision is made, the commission may impose a temporary tariff, according to the report.

The dispute mainly revolves around fiberglass, a material used as a reinforcing agent for many polymer products.

Axel Jorns, from the EC said that this kind of product has an advantage in the regenerative energy market since it is light weight and can be used to replace metals.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90861/6838556.html) ([see archive](EU_starts_anti-dumping_investigation_on_Chinese-made_fiberglass.pdf))

## Other

### BOC to optimise credit lending to avoid credit risks

Bank of China (BOC) announced that it will optimise its credit structure to "avoid credit risks and realise sustainable development".

The bank said in a statement posted on its website that it will continue to financially support key State projects, small businesses, low-income housing projects, major technological research and energy-saving programs, to "avoid credit risks and promote economic structure adjustment."

The bank also said that incremental credit will not be available for projects with low productivity, and those that fail to meet emission reduction standards.

The move was in response to the directives announced at the annual Central Economic Work Conference, which highlighted advancing economic structure adjustment as well as maintaining the consistency and stability of the economic policy, according to the Xinhua News Agency.

This statement can be seen as BOC's declaration to curb potential credit risks, according to analysts.

In November, Bank of China was said to be studying options to replenish its capital to meet the new guidelines on the capital adequacy ratio issued from the China Banking Regulatory Commission (CBRC) to avoid credit risks.

Credit risks are growing after lenders doled out a record 8.67 trillion yuan (US$1.27 trillion) of loans in the first nine months of the year to help finance a government stimulus package, the CBRC said in October.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90859/6836089.html) ([see archive](BOC_to_optimize_credit_lending_to_avoid_credit_risks.pdf))

### Siemens inks green deals worth 2 billion yuan

Siemens AG, Europe's largest engineering company, said it signed orders worth 2 billion yuan and other agreements with Chinese partners this week, most of which are for environmentally friendly products and solutions.

The orders cover a wide range of the company's portfolio in China, including energy, transportation and healthcare, the company said in a statement.

These orders show that growth of the market for environmental technology is strongest in emerging countries such as China, said Peter Loescher, president and CEO of Siemens.

China now accounts for 6 to 7 percent of Siemens' global business.

In fiscal 2009, Siemens earned revenue of approximately 230 billion yuan from the products and solutions under its environmental portfolio, with emerging countries' share of the green revenue steadily increasing. "Our green products and solutions have stabilised our businesses during this unprecedented global economic recession, and we will continue to base further growth on orders for these technologies," said Loescher.

China has pledged to reduce carbon emissions per unit of GDP by 40 to 45 percent by 2020. This goal requires strong cooperation between the government and innovative enterprises, he said.

Over 50 percent of the future growth of Siemens in China would be related to green technology, said Richard Hausmann, president and CEO of Siemens China.

The company's environmental portfolio in the country includes solutions for sectors like power generation, transmission and consumption, buildings, lighting, transportation and industry, as well as environmental technologies such as water purification and air pollution controls, according to Hausmann.

Siemens entered China's wind power industry in 2009 by constructing a 581-million-yuan wind power equipment plant in Shanghai. The plant is expected to come on line in the second half of 2010, with the first turbine blades and nacelles scheduled to leave the plant during the World Expo 2010 Shanghai.

To meet the rapidly growing demand of China's wind energy market, the company will further invest over 500 million yuan in its two operating companies in Tianjin over the next three to five years. Part of this investment will be used to expand the production capacity of wind turbine gearboxes, the company said.

Siemens earlier announced that it expected to receive orders totaling 20 billion yuan from China's 4-trillion-yuan economic stimulus package. Among these orders, half would go toward energy efficient and environmentally friendly technologies.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90861/6836145.html) ([see archive](Siemens_inks_green_deals_worth_2b_yuan.pdf))

### Auto stimulus retained for 2010

China will extend stimulus measures in the automobile industry for one more year, with small adjustments, to further support the worlds biggest and fastest-growing auto market.

The government announced the decision after an executive meeting of the State Council chaired by Premier Wen Jiabao.

The stimulus package, which was due to expire at the end of this month, includes a 50 percent cut in the 10 percent purchase tax for cars with an engine capacity of, or less than, 1.6 litres and subsidies for trade-in cars. It will now be extended to 31st December 2010.

However, the purchase tax for smaller cars will be lifted from the current 5 percent to 7.5 percent of the total vehicle price.

The government also decided to raise the subsidy for trade-in cars from between 3,000 and 6,000 yuan to between 5,000 yuan and 18,000 yuan per vehicle.

The stimulus package launched by the government in January helped China's automobile sales to exceed an expected 13 million units this year, making the country surpass the US as the world's biggest auto market.

"It's unusual that demand for automobiles in a country increases more than 4.5 million units within 12 months, and sales break the monthly record for seven months in a year," said Rao Da, secretary-general of China Passenger Car Association.

Statistics from the China Association of Automobile Manufacturers (CAAM) show that smaller cars, with engine capacity of, or less than, 1.6 litres, contributed 85 percent of the sales increase in the domestic auto market. Most of the best-selling cars in China are smaller cars.

The association estimated that the stimulus measures boosted the sales of smaller cars by 2.6 million units this year.

Because of the favourable policy, sales of the battery and electric car pioneer BYD in the first 11 months surged 150.2 percent to 388,246 units. About two-thirds of the car sales were of the F3 model, a compact sedan that topped China's best-selling car list for seven months, with monthly sales surpassing 30,000 units, nearly double the figure for last year.

According to CAAM, China's auto production and sales almost doubled from figures a year ago to reach 1.39 million and 1.34 million units respectively in November.

Overall auto sales topped 12.23 million units in the first 11 months, up 42.39 percent from the same period last year.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90862/6837403.html) ([see archive](Auto_stimulus_retained_for_2010.pdf))

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