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# China News Alert Issue 344

## Capital Markets

### RMB reform to benefit all sides

China's foreign exchange regime reform is not only in the interest of its own economy but can also alleviate global trade and economic imbalances, foreign economists and think tank researchers have said.

But they also suggested that the developed nations that have blamed China for contributing to imbalances should not bet too much on the country's exchange reform and the large-scale appreciation of the yuan. They should instead seek other ways to address global concerns.

Last weekend, China's Central Bank issued a statement announcing it had decided to proceed with reform of the exchange rate regime and to enhance the exchange rate flexibility, ending a fixed peg of 6.83 yuan per dollar adopted in 2008.

The move was welcomed by Thomas A. Bernes, executive director and vice-president of Canada-based think tank The Centre for International Governance Innovation.

"It's really welcome, because it shows there was serious commitment [from China] to move forward. I think it's an important step by China, and it can also help others to make moves jointly," he said. "It's in China's own domestic interest as well as the interest of the multilateral system, and it works to make the adjustments", despite "the huge internal debates by exporters".

China has been criticised, especially by developed countries and overspending nations, as a major source of global imbalances. The country's purchasing power will become stronger as it allows the yuan to rise. This is expected to enable China to consume and import more, narrowing the surplus with trade partners.

"The basic argument is that greater flexibility will be a step toward global rebalancing, and it will also reduce the risk of trade tensions between the United States and China. As such, it is welcome news," a report by Nomura Securities International said.

China's move comes a few days before the G20 Summit opens this weekend in Toronto. The meeting is expected to help alleviate potential pressures from many sides. China's Ministry of Foreign Affairs said it is inappropriate for China's foreign exchange rate to be discussed during the summit.

Rachel Ziemba, senior economist at London-based Roubini Global Economics, said China has its own domestic imbalances that are problematic and limit its growth. The country should gain control over the domestic economy by moving toward a more independent monetary policy and away from the dollar peg, she believed.

But the US has continued to demand more since the announcement. President Barack Obama's top economic advisers called on China to ensure "vigorous implementation" of a more flexible currency.

Many economists don't agree with the argument. "I don't think anyone should be blamed," Bernes said. The challenge for the world and the G20 is "to identify what is a cooperative framework in which we can work―that is the bottom line", Bernes said. In addition, the "biggest pieces of the puzzle are clear, in the sense that the US could sustain growth by showing it has a credible medium plan and seeing its deficits decrease, and that Europe could promote sufficient growth", Bernes said.

Vice-president of China Institute of Contemporary International Relations Wang Zaibang agreed. Although "the appreciation would strengthen China's purchasing power, appreciation by large margins will have a negative impact on both China and the outside", Wang said.

Many American economists pointed out that the US is not good at exporting, which remains a big―perhaps the biggest―obstacle to its goal of doubling exports by 2014.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-06/25/content_10018350.htm) ([see archive](RMB_reform_to_benefit_all_sides_Experts.pdf))

### ABC float raises buzz in market circuit

The Agricultural Bank of China (ABC) is likely to raise HK$80.8 billion from Hong Kong and nearly 61.4 billion yuan from Shanghai through the dual listing of shares next month, sources close to the matter said.

The bank has set a proposed price for the Hong Kong float between HK$2.88 and HK$3.48 per share. The indicative float sizes have been calculated based on the middle price of the proposed range in Hong Kong, said sources.

Contrary to earlier indications, the lender is now likely to price the Shanghai leg on a par with Hong Kong at between 2.5 yuan and 3.02 yuan per share, the sources said.

Industry experts are of the view that the current pricing is more in line with what the market expected.

Analysts, however, feel that the bank's shares may fall below the offer price on listing due to its present low valuation and dull market trends.

There were concerns that the huge bank lending of last year will lead to a surge in delinquent loans this year and the market barometer dropped by 22 percent this year.

Looking at the indicative range of the Hong Kong float, the bank, with total assets of US$1.4 trillion, has a price-to-book value of 1.55 to 1.79, before factoring in the overallotment.

It also puts ABC on a par with Bank of China, the country's third-largest lender by assets, which has a price-to-book ratio of around 1.67 in the A share market.

Profitability is another area where ABC has to catch up. ABC made a profit of 65 billion yuan in 2009, while BOC had a net profit of 80.8 billion yuan.

ABC, the country's largest lender in terms of retail networks, plans to sell up to 22.24 billion A-shares in Shanghai and up to 25.41 billion shares in Hong Kong, accounting for 15 percent of its enlarged capital base, excluding an over-allotment option.

The mega float could possibly be the world's largest ever, surpassing a previous record of US$21.9 billion set by Industrial & Commercial Bank of China (ICBC) in 2006.

However, analysts said ABC may have to rely on the overallotment option to surpass ICBC figures, based on the current pricing. If the overallotment options are included, it will issue 56.3 billion shares, accounting for nearly 17 percent of its total shares.

The company and its underwriters are marketing the offer to institutional investors, having sold US$5.45 billion of the Hong Kong part of the IPO to corporate investors.

The corporate investors are expected to account for at least 48 percent of the Hong Kong sale before overallotment, much more than any other lender's public offerings.

The Qatar Investment Authority has agreed to invest US$2.8 billion, while the Kuwait Investment Authority will buy US$800 million worth of H shares.

Other investors include Netherlands-based Rabobank, Standard Chartered, Singapore's state sovereign fund Temasek, a couple of Hong Kong tycoons and Australian media and investment company Seven Group Holdings.

The lender will start accepting subscriptions for the float on 1st July and announce the final issue price on 8th July. The A shares are expected to debut on 15th July in Shanghai, while the H shares may debut a day later on 16th July in Hong Kong.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-06/25/content_10018094.htm) ([see archive](ABC_float_raises_buzz_in_market_circuit.pdf))

## Corporate & Commercial

### China wants to double trade with Canada by 2015

China, the world's biggest exporting nation, wants to double its trade with Canada to US$60 billion by 2015, President Hu Jintao has said.

Hu made his remarks during a meeting with Canadian Prime Minister Stephen Harper, whose Conservative government is trying hard to boost ties with Beijing.

"I have agreed with Prime Minister Harper that we should take active measures to make our countries' two-way trade volume reach a target of US$60 billion by 2015," said Hu, who noted that bilateral trade last year totaled US$29 billion.

The Canadian government said later that China had opened its market to Canadian beef in a staged process. Canada is the first country affected by BSE, commonly known as mad cow disease, to regain access to the Chinese market for beef.

In their public comments, neither Harper nor Hu mentioned issues in the trade relationship. China continues to restrict Canadian canola with blackleg disease to a few ports away from its rapeseed growing areas.

Ottawa recently persuaded China to extend those limited provisions but would like Beijing to lift all restrictions. Harper raised the issue on a visit to China in late 2009.

China's restrictions on Canadian beef exports have also been an issue. Under the deal announced, Canada said China would initially open its markets to Canadian boneless beef, derived from animals under 30 months old, as well as beef tallow for industrial use.

Canada, which sends 75 percent of all exports to the United States, is eager to diversify into other markets to offset weak demand from its main customer.

Canadian firms doing big business in China include plane and train maker Bombardier Inc and engineering firm SNC-Lavalin Group Inc.

As China's energy consumption booms, it is looking to Canada as a stable supplier of resources, and Chinese companies over the past year have begun increasing their investment in Canada's oil sands.

In a separate deal announced, Encana Corporation, Canada's largest natural gas producer, and state-owned China National Petroleum Corporation agreed to negotiate a joint venture to develop the Canadian company's shale-gas properties in northern British Columbia.

Canadian miner Cameco Corporation said it had struck a framework agreement that could lead to supplying uranium to plants under construction by China Guangdong Nuclear Power Holding Company.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-06/25/content_10019995.htm) ([see archive](China_wants_to_double_trade_with_Canada_by_2015.pdf))

### Removal of tax rebates not expected to cause export slump

The Ministry of Commerce (MOC) said that the scrapping of export tax rebates on some steel products does not signal any change in China's foreign trade policy and would not cause a sharp fall in China's exports.

The Ministry of Finance said China would drop export tax rebates on 406 goods beginning 15th July. The items included some steel products and non-ferrous metals, as well as some plastic, rubber and glass products.

The move aims to discourage exports of high-polluting and high-energy-consuming products and to reduce emissions. It is also part of the country's efforts to accelerate its economic restructuring, the MOC said.

The tax cut might weigh on the profitability of some companies in the short term, but it will not dent the strength of China's export recovery in the long run, as it affects just one percent of the country's total exports.

The removal of the rebate would also contribute to the healthy long-term growth of China's exports, the ministry said.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90862/7039438.html) ([see archive](Removal_of_tax_rebates_not_expected_to_cause_export_slump.pdf))

### Software outsourcers see bumpy road ahead

Chinese software outsourcing companies are facing future challenges from the anticipated appreciation of the yuan, surging labour costs and a slowdown in demand.

According to the Ministry of Commerce, the contract value of China's software outsourcing sector reached US$7.48 billion in the first five months, up 112.6 percent year-on-year, but many challenges exist in the industry.

"The cost advantage of the Chinese software industry is going to disappear due to the stress of yuan appreciation," Yi Xiaozhun, vice-minister of commerce, said at China International Software & Information Service Fair in Dalian. "A slow increase in demand from other nations makes competition tougher for Chinese software companies," he said.

Dalian Hi-Think Computer Technology Corp, a major outsourcing company in China, said that it expected only single-digit growth this year, while in past years it maintained annual growth of between 30 and 50 percent.

"We are caught by a more challenging overseas situation now," said Liu Jun, chief executive of the company, adding that profits will be cut sharply if the yuan appreciates.

He said that it may take six months to a year for the impact of the current economic crisis to subside. Meanwhile, software companies are experiencing rising labour costs, which further decrease profits.

Dalian Hi-Think Computer's Liu said he has increased the salaries of employees by about 10 percent this year, to retain and attract talent.

Zheng Shiyu, chief executive of another leading outsourcing company Yidatec Company Limited, said that the company may have to move to locations with lower labour costs.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90860/7040021.html) ([see archive](Software_outsourcers_see_bumpy_road_ahead.pdf))

## Other

### China Unicom in talks over iPad and iPhone 4

China Unicom, the country's second-largest mobile phone carrier, has entered talks with Apple Inc. about offering the iPhone 4 and the iPad in the world's most populous country, a person familiar with the situation said.

China Unicom already offers older versions of the iPhone in China, but Apple hasn't yet announced plans to offer either the new iPhone 4 or the iPad in the country.

China Unicom, which confirmed local media reports of the discussions, has sold a disappointing number of the iPhone 3, in part because local laws have left it without Wi-Fi connectivity.

The person declined to give any details on the talks. It wasn't clear if any deal would involve offering the iPhone 4 with Wi-Fi connectivity.

The iPad tablet has been enormously popular elsewhere in the world, selling 3 million units at US$499 or more in its first three months. The recently launched iPhone 4 is also shaping up as a success, with customers queuing as the smartphone was launched in five countries.

But Apple has yet to make a serious impact in China, where regulations have kept the Silicon Valley company from penetrating a country that is expected to soon become the top buyer of personal computers.

China Unicom said it hoped the iPhone 4, which has gone on sale in the US and four other countries, would be available through China Unicom with Wi-Fi as well as 3G internet access.

Any 3G models released through the much larger carrier China Mobile, which is also interested in iPhone and iPad deals with Apple, would have to use a Chinese technology standard.

China Unicom has 155 million mobile subscribers, compared with China Mobile's 700 million, but signed up more than 1m new 3G subscribers last month, bringing its 3G customer base to about 6.5 million. That was the fastest monthly pace since it started 3G services in October.

Under government regulations, the China Unicom uses 3GSM, the world's most popular standard, for its 3G services, whereas China Mobile was asked to adopt a domestic standard known as TD-SCDMA.

Beijing also requires Wi-Fi enabled handsets to carry a homegrown standard called WAPI, which is not on the iPhones made available by China Unicom so far.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-06/25/content_10019631.htm) ([see archive](China_Unicom_in_talks_over_iPad_and_iPhone_4.pdf))

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