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# China News Alert Issue 345

## Capital Markets

### Economic pact ushers in new era of cross-Strait economic ties

The Economic Cooperation Framework Agreement (ECFA) between the Chinese mainland and Taiwan ushered in a new era in cross-Strait economic relations, China's Ministry of Commerce (MOC) said in a statement.

The remarks were made after negotiators from the mainland's Association for Relations Across the Taiwan Straits (ARATS) and Taiwan's Straits Exchange Foundation (SEF), which handle cross-Strait issues on behalf of their respective authorities, signed the long-awaited ECFA in Chongqing on the afternoon of 29th June.

The signing of the ECFA was a result of the special efforts made by both sides across the Strait to bring about all-round and deep economic cooperation, said the statement.

The signing of the economic pact also signified that cross-Strait economic relations had entered a new development stage of institutionalised cooperation.

The ECFA would provide strong support for both sides across the Strait to jointly participate in the new round of international competition, and also provide institutional assurances for the gradual normalisation of the cross-Strait economic ties and for further liberalisation of relations in the future, said the statement.

Describing the signing of the trade pact as being a result of "mutually-beneficial, complementary and mutually-dependent" economic and trade exchanges over the past three decades, the statement said the Chinese mainland and Taiwan had realised that they should not fall behind the global trend of regional cooperation.

The ECFA seeks to gradually reduce the barriers to trade and investment between the two sides and to establish a cooperation regime conducive to common prosperity and development, noted the statement.

The statement said through an "early harvest program" agreed on by both sides, people across the Strait could enjoy the benefits of more liberal trade relations.

Fully taking into consideration the current economic and social conditions of Taiwan, the ECFA did not cover the opening the agricultural goods sector and the industries in Taiwan that were in a weak position, the statement stressed.

The ECFA was an open and gradual economic pact and the two sides would sign more individual agreements concerning goods and service trade and investment, said the statement.

[Source: China Daily](http://www.chinadaily.com.cn/china/2010-06/30/content_10040220.htm) ([see archive](Economic_pact_ushers_in_new_era_of_cross-Strait_economic_ties.pdf))

### China's economy heading in right direction

Chinese Premier Wen Jiabao believes the world's third-largest economy is moving in the "expected direction", the government said on 30th June.

"The domestic economy is developing in the expected direction under the government's macroeconomic controls," Wen said during two days of meetings this week with economists and business executives.

The comments were posted on the central government's website ahead of the release of key economic data next month which is expected to show that economic growth slowed in the second quarter.

They came as the People's Bank of China said the economy was likely to maintain steady and relatively rapid growth in 2010, adding that it would face more "favourable factors" this year, according to a statement on its website.

Wen said policymakers must continue to strike a balance between maintaining stable and reasonably fast economic growth, carrying out economic restructuring and managing inflation expectations. "The domestic and international economic situation is still extremely complex," Wen said.

His comments came after Chinese President Hu Jintao, in a speech to the Group of 20 summit in Canada at the weekend, called for caution in exit strategies from economic stimulus programmes to safeguard the global recovery.

China's economy expanded by a blistering 11.9 percent in the first three months of the year, fanning inflationary pressures and raising fears it was at risk of overheating.

Royal Bank of Scotland economist Ben Simpfendorfer has forecast 11.1 percent growth in the second quarter after government measures aimed at reining in the real estate sector and a slowdown in manufacturing activity.

[Source: China Daily](http://www.chinadaily.com.cn/china/2010-07/01/content_10043083.htm) ([see archive](Chinas_economy_heading_in_right_direction_Wen.pdf))

### Currency reform 'our own affair'

China will not bow to pressure from the outside world on revaluing the renminbi and any changes in the nation's foreign exchange will be made on China's own terms, Chinese officials heading to the G20 summit in Toronto said at a press briefing.

The remarks follows proposals sent by some US senators sending to the Obama administration last week calling for fresh pressure on China to allow more flexibility of its currency and a large-scale appreciation, despite the Chinese government's announcement on its foreign exchange reform last weekend.

"Any changes in the foreign exchange will be decided by China's needs for supporting domestic economic development, rather than foreign pressure. Now the country's key goal is to transform the economic growth model, which will impact how the foreign exchange reform goes," said Ma Xin, director-general of the department of international cooperation of the National Development and Reform Commission, China's top economic planner.

The Chinese government recently announced that it will enhance the flexibility of the renminbi exchange rate, which ended a fixed peg to the US dollar in July 2008. But this has not reduced the pressure from some countries, led by the US, which are now considering demanding that China takes an even bigger step in currency flexibility.

The US Senators said they will urge the Obama Administration to punish China and its exporters by imposing countervailing duties, because China has been "subsidising its exporters unfairly by undervaluing its currency".

Some said the US and others will even pressure China to agree to implement big steps at the G20 summit.

However, China denied such pressure. "China's move has been welcomed by the world and we have not felt any difference in the pressure on the currency issue from the group of G20 nations," said Zhang Tao, director general of the international department of the People's Bank of China. "I don't think we will make any changes on the pace, depth and scope of the renminbi exchange rate reform," he added.

Last week, the yuan gained 0.53 percent, the most since December 2008 after China had set the yuan at 6.83 to the US dollar in July 2008.

Nomura Securities International said it expected a moderate pace of appreciation of the yuan in the remainder of 2010 and during 2011.

Nobel laureate Paul Krugman said China's move was an "exercise in bad faith" aimed at fending off international pressure at the G20 summit. He also said he believed China is still undervaluing the yuan to make its exports "artificially cheap" and to keep imports expensive.

Economists at home and abroad said they believed currency revaluation is not the key to global trade imbalances. Appreciation by large margins, or even one-off appreciation, is harmful to Chinese economic growth, some said.

"There is no need for foreign nations to add pressure on China, as appropriate appreciation is not the last resort for solving trade imbalances," said Zuo Chuanchang, professor from the Academy of Macroeconomic Research of the National Development and Reform Commission.

Nobel Prize Laureate Robert A. Mundell, also known as the Father of the Euro, told China Daily on the sidelines of a forum in Beijing: "I don't think it's a good time for China to have a large appreciation," he said, adding that it would not affect China's economy if the yuan is not allowed to appreciate very much, though too much appreciation would hurt the country's economy.

On Sunday, the group of 20 nations released the draft of a communiqué, which welcomed China's initiatives to further proceed with its foreign exchange reform, to allow its currency to become more flexible and to boost domestic demand.

"The foreign exchange reform could help control inflation and avoid asset bubbles," said Zhang at the press briefing.

But sources said some G20 nations argued that China should go a step further in the reform and some also said China opposed the idea of any mention of its currency at the G20.

"China is sensitive to outside pressure and resists that, but I don't think it needs to," said Alan Alexandroff, co-director of the G20 Research Group at the University of Toronto.

"More flexibility is in the interest of Chinese people. It is important, because it adds to value and ensures more powerful domestic consumption."

[Source: China Daily](http://www.chinadaily.com.cn/china/2010g20canada/2010-06/28/content_10025959.htm) ([see archive](Official_Currency_reform_our_own_affair.pdf))

### Ag Bank listing raises market optimism

Analysts are generally optimistic that the Agricultural Bank of China, which kicked of its H-share public offering in Hong Kong on 30th June, will be an engine for stock market recovery in July.

The bank will launch the private placement of its A-shares on 1st July.

Yesterday, 29th June, the Shanghai Composite Index closed at 2427.05 points, falling to a 14-month low. The Shenzhen Composite Index fell below the 10,000-point level on the same day, and its ChiNext Index plunged to a historic low.

29th June happened to be the day when Hong Kong's stock index futures were settled, so some investors took advantage of the A-share slump to offset their positions. As a result, the Hong Kong stock market suffered heavy losses, and the Hang Seng Index dropped over 2 percent.

Although both A-shares and Hong Kong stocks plunged just before the bank's H-share offerings, market-watchers in Hong Kong do not think it will spoil investors' appetite for H-shares.

Analysts believe that the bank can float its H-shares in a favourable market environment since Hong Kong investors are rather keen to invest in yuan-denominated products due to the appreciation expectations of the yuan. Furthermore, only a small proportion of the bank's H-shares will be open to the public, making it a scarce investment product. Given its competitive price range and the current price level on the stock market, the bank's H-shares are likely to be sought after among investors.

Most market analysts are optimistic that the listing of the bank will help speed up the stock market recovery. They believe that if the bank performs well after this largest-ever IPO, it will bring great vitality to the undervalued banking sector and thus put an end to the stock market downturn.

Guotai Junan Securities said the share prices of China's banking institutions were "overcorrected," and various index funds will open positions due to the listing of the bank, so there is little likelihood that the stock market will continue to worsen. The bank's listing may be a turning point and lead the banking sector―and even the whole stock market―to reverse the current downward trend.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90859/7046839.html) ([see archive](Ag_Bank_listing_raises_market_optimism.pdf))

## Corporate & Commercial

### Li Ning makes the change to catch up

Li Ning Company, the Chinese sportswear maker endorsed by US basketball star Shaquille O'Neal, is undergoing a brand metamorphosis to revitalise and catch up with global peers like Nike in sales.

The company is also stepping up its overseas expansion pace and hopes sales from the global outlets to account for over 20 percent of its total sales by 2018.

For starters, the company intends to take the LI-NING brand global, said Zhang Zhiyong, chief executive of Li Ning. "By 2018, we expect the company to be one of the top five sports goods companies in the world."

According to Zhang, the revitalisation strategy was chalked out in 2007 and the new face of the company has been evolved through a series of steps.

The company has launched its Urban Sports range of products targeting young consumers. The new products are more fashion-orientated, packed with energy and reflect strong personalities as well as having an international flavour.

"Over 50 percent of our existing consumers are in the 35-40 age group. As part of the brand transformation we plan to reach out to more younger customers," said Zhang. The Urban Sports range is ideal for both work and exercise, he said.

Founded by former Chinese gymnastics champion Li Ning in 1990, the Hong Kong-listed company reported sales of about 8.3 billion yuan in 2009. It opened 1,004 new outlets in 2009, taking the total number of stores to 7,249.

Li Ning is also planning to rope in top creative designers to pump up its Crossover range of products. It has already bought in Polish artist Filip Pagowski to make the products trendier and more global in style and feel.

Fang Shiwei, chief marketing officer of Li Ning, said the company will continue to partner with top designers and fashion houses globally.

Fang said LI-NING surpassed Adidas in sales last year to become the second-largest sportswear brand in China after Nike. To catch up with its rivals the company is changing tack and spreading its focus to top tier cities as well as enhancing its strength in second- and third-tier cities.

Li Ning has also come out with a new logo, which is based on its original wavy-line design and displays a resemblance to the Chinese character for "people". The company also changed its slogan to "Make the Change", from "Anything is Possible".

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-07/01/content_10044405.htm) ([see archive](Li_Ning_makes_the_change_to_catch_up.pdf))

## Other

### Government tracks e-commerce operators' real names

The government will implement new policies today to obtain the information of entrepreneurs operating businesses online in an effort to prevent fraud.

The State Administration for Industry and Commerce released a draft regulation to solicit public opinion in April, and publicised the regulations on 1st June on its website, providing its execution date of 1st July.

All personal information―real names, contact numbers, and addresses―of people applying to open online stores is required when registering with the e-commerce agents, said the regulations.

During the two months, Internet users debated via various online polls, with most of them supporting the regulation.

The public has generally welcomed this move, as online moneymaking schemes continue to confuse more and more people.

But some people still worry about the retailers' increasing costs.

"This measure will prevent online trading fraud and supervise online retailers to improve their services," said Li Ming, a 25-year-old editor who does a lot of online shopping. "But what I am concerned about is once the license fees about registering with real names are imposed on the sellers, the price of the goods they sell may go up," she said. "The only reason I go online to buy is cheaper prices."

Over half of Internet users expect that this regulation is a forerunner to taxes on online transactions, according to the data filed with the public opinion research institute with Communications University of China.

"If the taxes are imposed, the operating costs for online retailers on websites like taobao.com will rise," said Chen Shousong, an analyst with Analysys International. "But the taxes imposed on the online transactions will possibly be lighter than those offline deals," he said.

The official regulations, however, make no mention of taxes.

China has nearly 88 million online shoppers, a 38.9 percent increase over the previous year, according to the data filed with China Internet Network Information Center. The online transaction volume in the first half of the year reached 119.50 billion yuan (US$17.50 billion).

[Source: People's Daily](http://english.people.com.cn/90001/90778/90860/7047829.html) ([see archive](Govt_tracks_e-commerce_operators_real_names.pdf))

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