Foreign Capital Inflows Follow China's Continued Strong Growth

Capital infusions into China expanded to $95.9 billion during the first quarter of 2010, according to new official data published by the State of Administration of Foreign Exchange ("SAFE") last week. In April, the central bank reported that the face value of its foreign-exchange reserves increased by only $47.93 billion in the first quarter, to $2.447 trillion. This newly released number indicates that there was about twice that amount actually coming into the country.

China's controls on currency exchange and capital movements stipulate that the central bank holds foreign currency that flows into the country from trade and investment in the form of reserves. SAFE's figures show swings in the value of currencies and the prices of securities trimmed $48 billion off the first quarter's net $95.9 billion increase in reserves, indicating the reason for the discrepancy between current and previous reports. In an effort to provide more transparency of reserve figures by recognizing the relevance these numbers hold for global financial markets, the agency has recently started reporting these valuation changes with greater frequency.

Although the major driver of China's previous reserve accumulation was trade, the current-account surplus, a wide measure of the country's trade balance, came in at less than half the total, $40.9 billion in the first quarter. Officials said that the current-account surplus was representative of 3.5% of China's GDP in Q1 2010, compared to 2009's figures of 8.2% for the same time period.

In its report on the nation's balance of payments, SAFE reported that a net $55 billion came into the country from other capital and financial transactions. China's trade surplus has been shrinking as it increases imports of commodities to supply the increases in construction of infrastructure projects and housing. Only a portion of the $55 billion that came into the capital account was clearly identified by SAFE: $15.3 billion for foreign-currency lending and a net inflow of $17.5 billion of foreign direct investment that will be used by companies to buy or build businesses. The Ministry of Commerce also reported separately that foreign direct investment in April rose 24.7% from a year earlier to $7.35 billion, indicating that this sector of capital inflows is showing no signs of slowing as the year progresses.

The foreign capital inflows come at a time when China's GDP generated year-over-year growth of 11.9 percent and corporate earnings grew 63.5 percent from a year earlier.

The turbulence of world markets in recent weeks has created even more opportunity for foreign capital to secure investment in China at even better multiples and at growth rates that cannot be found in any other major economy. Capital deployed today at these lower multiples will result in even higher returns in the future than could be secured under more stable market conditions.

Adam Roseman,
Founder & CEO
ARC China

China To Invest RMB 7 Trillion For Urban Infrastructure In 2011-2015

China is to accelerate construction of urban public facilities by investing as much as RMB 7 trillion ($1.03 trillion) during its 12th Five-Year Plan from 2011 to 2015, the 21st Century Business Herald reported, citing chief economist from the country's urban planning body.

Municipal facilities lag behind China's urban development, as the rapid urbanization process leads to an explosion of
the urban population, said Li Bingren, chief economist of the Ministry of Housing and Urban-Rural Development (MHURD). Li also expects fixed-asset investment on urban infrastructure to top RMB 1 trillion in 2010.

The MHURD estimates that investment on urban rail transit to surpass RMB 700 billion in the 12th Five-Year Plan period.

Aside from urban infrastructure construction, China will also invest heavily on transportation and rural infrastructure in the next five years.

It needs to invest RMB 3 trillion on railway construction, and RMB 3.05 trillion on rural infrastructure construction, according to the investment institute of the National Development and Planning Commission (NDRC), China’s economic planning agency.

The length of China’s railway in service is to reach 120,000 km by 2010, with lines for passenger transportation reaching 16,000 km at that time, according to An Guodong, vice chief-engineer of the Ministry of Railways.

China's fixed asset investment may grow 16.2 percent during the twelfth five-year plan, down from the 24.7 percent in the previous five years, according to the NDRC's institute of macro-economics. It said government investment will rise to about RMB 9.57 trillion, or 5.2 percent of the total investment.

A United Nation Development Program research report said for a developing country, urban infrastructure should take 10 to 15 percent of the country's total fixed asset investment, or three to five percent of its GDP. As for China, urban infrastructure investment accounted for six percent of the fixed asset investment on average from 1994 to 2006, and averaged 2.6 percent of the GDP during the same period, according to the paper.

Source: China Daily

Major Retailers See Faster Growth In Q1

Retail sales of major categories of goods grew faster in the first quarter of this year compared with the same period of 2009, the Ministry of Information and Industry Technology said in a report.

Sales of home appliances rose 24.2 percent year-on-year, compared with a 6.6 percent decline in the same period of last year.

Sales of jewelry went up 36.1 percent year-on-year, and that of garments climbed 28.7 percent year-on-year. Both saw their growth more than 20 percentage points higher than the first quarter of 2009.

Sales of daily necessities grew 23.1 percent year-on-year, and the cosmetics sector saw its sales up 18.4 percent year-on-year.

The report said that the food, garment and home appliance sectors are the major contributors to the bounce of the retail business, and the first two sectors took up more than half of the total sales.

The ministry said in a separate report that garment sales at the 100 major retailers across the country went up 28.7 percent year-on-year. The growth rate was 20.5 percentage points higher than that of a year before, and had already surpassed the pre-crisis levels.

Meanwhile, the average price of garment products grew 12.4 percent from a year ago at the retailers, indicating an upward trend in garment consumption, said the report.

Source: China Daily

Auto Sales Blossom In April

April passenger vehicle sales grew 33 percent over last year, the lowest rate during the past 12 months, indicating that China's booming auto-mobile market has returned to healthy and rational development.
China sold 1,064,545 cars, multi-purpose vehicles, sports-utility vehicles and minivans in April, up 32.7 percent from a year earlier, however, down 7.3 percent from March, said China Passenger Car Association.

This compares to a 63 percent year-on-year growth rate in March and 111 percent in January. However, China's passenger vehicle sales in the first four months reported brisk growth of 52 percent over a year earlier. Total automobile sales growth also slowed to 34 percent in April, with 1.56 million vehicles sold, but still much higher than the US figures.

In the US, auto sales continued to recover in April, up 20 percent over a year earlier to 982,302 units, with most major automakers posting double-digit gains. Japanese automaker Toyota also reported 24 percent growth as it launched massive incentives to offset recall costs.

Rao Da, secretary-general of the China Passenger Car Association, said that the sales decrease was expected, denying rumors that China's vehicle market is at a turning point. In 2009, automobile sales surged 46 percent to 13.6 million units helped by a series of government stimulus measures, helping China overtake the United States to be the world's biggest auto market.

As domestic vehicle production continued to grow faster than sales in April, Su Hui, an auto analyst with China Automobile Dealers Association, warned the industry to pay close attention to high vehicle inventory levels.

According to statistics released by the association, in the first four months China produced 4.57 million passenger vehicles, 257,000 units more than sold in the same period.

"The high inventory and weakening consumption enthusiasm amid increasing car usage costs make it difficult to have an optimistic expectation for China's vehicle sales in the second half," said Su. "It will put great pressure on vehicle sales in the coming months."
Source: Xinhua Net

US To Work With China On Green Economy
The United States wants to work with China to expand the global economy and promote the development of the green economy, said a US Commerce Department official.

Cameron Kerry, General Counsel of the US Department of Commerce, said at a news briefing at the US embassy that the two countries faced an important time in their relations.

According to the US Commerce Department, Commerce Secretary Gary Locke will lead the first cabinet-level trade delegation to China next week to promote exports of leading technologies as part of President Barack Obama's state export plan to increase US employment.

The department said the mission was intended to promote exports of leading US technologies related to clean energy, energy efficiency, and electric energy storage, transmission and distribution.

The two sides would also exchange views on issues such as trade and the investment environment, innovation and the protection and enforcement of intellectual property rights, said Kerry.

Twenty-four US companies will join Locke for the China leg of the trade mission. The delegation will stop in Hong Kong, Shanghai, Beijing, and Jakarta.
Source: China Daily

Rural Home Appliance Subsidy Boosts Sales 5 Fold
China's subsidy program for home appliance purchases in rural areas continued to boost sales in the first four months of the year, the Ministry of Commerce (MOC) said.
Sales of subsidized home appliances in China’s rural area surged 510 percent year-on-year to RMB 41.7 billion ($6.13 billion) during the period.

Rural residents bought 20.84 million sets of subsidized household appliances in the January-April period, up 370 percent from a year earlier.

In April alone, 4.8 million sets of subsidized home appliances were sold, up 170 percent from a year earlier, with sales totaling RMB 10 billion, up 260 percent.

Sales of subsidized televisions, refrigerators and computers in the four months totaled RMB 3.2 billion, RMB 3.2 billion and RMB 1.0 billion, respectively.

China launched the subsidy program in February last year to spur rural consumption to buoy the nation’s economic growth amid the global economic downturn.

Farmers have received subsidies equal to 13 percent of the price of designated home appliances. The appliances include refrigerators, TV sets, mobile phones, washing machines, computers, air conditioners, water heaters, microwave ovens and ovens.

In March this year, the government made another six items - electric bikes, smoke exhaust ventilators, gas stoves, pressure cookers, electric cookers and DVD players - eligible for the subsidy.

China, the world's largest producer and exporter of household electric appliances, is home to more than 120,000 household-appliance makers.

Source: China Daily

**Demand For Luxury Drives BMW's China Sales**

BMW on May 5 reported a first-quarter operating profit that exceeded its 2009 full-year earnings as the German carmaker’s sales were lifted by soaring demand for luxury cars in China.

The world's largest premium carmaker said it swung to a profit before interest and tax of €449m ($577m) in the first three months – more than the €289m achieved in the whole of 2009 and following a €55m loss in the first quarter of last year. The higher than expected profit under-scored the rapid rebound in global demand for premium cars, led by emerging markets.

Across the car industry, luxury producers are reporting strong growth in new markets and a revival in company car sales in the US and Europe, where the segment did not benefit from last year's scrapping incentives that skewed demand towards smaller cars.

JD Power, the auto consultancy, estimates that global sales of premium and super-premium cars, which fell by 12 percent in 2009 – compared to the market's overall 2.5 percent drop – will rebound by 10 percent this year, more than double the 4 percent growth it projects for the overall market.

BMW’s sales rose 13.8 percent to 315,614 cars in the quarter, mostly driven by more than doubled sales in China.

“Demand in China has influenced our performance significantly,” said Friedrich Eichiner, CFO.

BMW, which now sells one in five of its cars in Asia, became one of several carmakers to announce further expansion in China this year when it unveiled plans to spend €560m on a second plant in Shenyang. BMW said a refreshed model line-up also helped it cut back on incentives for car buyers.

BMW, which also produces Minis and Rolls-Royces, reiterated its target of an operating margin of 8-10 percent in its automotive business by 2012 – a goal described by analysts as ambitious.

Source: Financial Times
More Foreign Banks To Incorporate Locally By 2013
An increase in the ranks of China's newly wealthy and room for product development have made foreign banks willing to accept tight regulations in exchange for more growth opportunities in China, according to a report released by PricewaterhouseCoopers (PwC).
Despite China's economic stimulus and lending spree last year, foreign banks failed to gain market expansion in the country. The overall market share of foreign banks in China currently accounts for around 2 percent, and half of the 42 respondents in PwC's survey predicted that the ratio would remain the same in 2010.

However, about 28 respondents expect growth rates ranging from 8-100 percent over the next three years, in areas including swap products, private equity, and debt capital markets.
The survey participants continue to believe that increasing affluence and a larger number of high-net-worth individuals will spur demand for wealth management services in retail banking and private banking.

Under tight regulations, more foreign banks will choose to incorporate locally either by forming joint ventures with Chinese banks or becoming independent legal entities instead of retaining their branch status, said Raymond Yung, financial services leader for PwC China.

Compared with the surveys conducted in 2008 and 2009, more respondents in this year's survey believe the number of locally incorporated foreign banks will increase by 10-20 by 2013. Over 30 foreign banks are now locally incorporated. If incorporated, foreign banks must comply with the same standards as Chinese banks, such as maintaining a 75 percent loan-deposit ratio and a capital adequacy ratio as high as 11.5 percent for large commercial banks this year. Overseas banks are required to maintain an 8 percent capital adequacy ratio.

Source: Zero2IPO

China Raises Required Reserves As Inflation Stirs
The People's Bank of China said it was lifting lenders' reserve requirement ratio by 50 basis points, effective May 10, its third increase of that magnitude this year.
The move, which will drain about RMB 300 billion ($44 billion) of cash from the banking system, is bound to fuel speculation that officials are preparing for an influx of capital in anticipation of a long-awaited decision to let the yuan resume its climb, stalled since July 2008.

However, the two increases earlier this year were not linked to any change in currency policy and many economists have stressed that the central bank needs to raise reserve requirements regularly purely to keep a cap on liquidity.

"We continue to believe a modest appreciation of the yuan is very likely, though this particular RRR hike does not necessarily add any new information on this front," Yu Song and Helen Qiao, economists at Goldman Sachs said. They said they expected a 5 percent in the yuan against the dollar over the next 12 months, repeated increases in required reserves and an interest rate rise around mid-year.

"Starting since March, quite serious price pressures have been flaring up again," Dong Xian'an, chief economist at Industrial Securities in Shanghai, said.

"But because house prices have been falling in month-on-month terms, we think authorities will push back interest rate increases. Instead, it is very clear that the central bank prefers to use quantitative measures for its monetary controls," he said.
Source: Reuters

China To Step Up Crackdown On Hot Money
China will step up its crack down on capital inflows to prevent the worsening of "asset bubbles," said Wang Xiaoyi, deputy head of the State Administration of Foreign Exchange.
China will increase monitoring and strengthen controls on speculative capital coming into the nation, which is accelerating, Wang said at the FX Week conference in Beijing.

Speculation about an end to yuan’s peg to the dollar prompted speculators to bring money into the country, flooding the financial system with cash and swelling foreign-currency reserves, the world’s largest, to $2.45 trillion.

Yuan forwards slumped for a fifth day, the longest losing streak in almost nine months, as Europe’s credit crisis curbed demand for riskier assets and prompted speculation China will delay ending its currency peg. US Treasury Secretary Timothy Geithner and Secretary of State Hillary Clinton are scheduled to travel to Beijing on May 24-25 to take part in the second US-China Strategic and Economic Dialogue.

The SAFE on April 29 cut the nation’s quota for short-term overseas borrowings this year to $32.4 billion, 1.5 percent less than in 2009, to ease inflows of speculative capital. Consumer prices probably climbed 2.7 percent in April, matching the level in February, which was the fastest pace in 16 months, according to the median estimate in a Bloomberg News survey. The statistics bureau is scheduled to announce the data on May 10.

Source: China Daily

Chinese Media Outlets Look Set To Make IPOs

Ten Chinese websites are to be listed in the domestic A-share stock market, according to media reports, with Shanghai-based eastday.com hoping to become the first to launch initial public offerings (IPO), analysts said.

They include websites of China’s State broadcaster China Central Television, Xinhua News Agency, People’s Daily, Beijing-based qianlong.com, Tianjin-based enorth.com.cn, Shandong-based dzwww.com, Shanghai-based eastday.com and other local online news websites, Shanghai Securities News reported.

“The Publicity Department of the Communist Party of China Central Committee and the China Securities Regulatory Commission (CSRC) are actively pushing the listing of these websites and, at least, one or two websites will make it this year,” the source was quoted as saying.

“As emerging media outlets, websites will create a breakthrough in the cultural development of China,” said Zhang Xiaoming, a researcher with the Chinese Academy of Social Sciences. With accelerated technological change, the new media are gaining increasing influence, he said.

However, analysts pointed out, as some of them belong to government agencies and are not wholly market oriented, they may not be able to receive listing in the capital market like free-market companies.

Fan Feng, a Beijing-based commentator, said invest-or interest could be jeopardized, since the performance of these websites is not sound enough to bring the revenue expected by investors.

Commercial portals, such as sina.com and sohu.com, have been listed in the overseas market. “The upshot is that competitive websites will receive listing overseas, while domestic listing is encouraged for second-class ones. Then how can domestic investors’ interest be protected?” Fang asked.

Source: China Daily

Auto Parts Makers Line Up For Slice Of Electric Vehicle Market

As a promising future market for environmentally friendly vehicles, China has become the battlefield for international auto-mobile parts manufacturers to wrestle for market share in the electric vehicle sector.

“The car of the future will be the electric vehicle - there is no doubt about that. Bosch is devoting substantial research efforts to the electric power train and batteries,” said Uwe Raschke, member of the board of management for the Bosch Group in charge of Asia-Pacific market.

Whilst we expect new and existing drive train technologies to be present in the market in parallel for many years, electric vehicles will continuously gain market share, especially in China.”
In addition to Bosch, an auto parts maker with over 30 years of experience in new energy vehicle technology, US industry newcomer Better Place, an electric vehicle services provider established in 2007, is also focused on the China market.

"With only 2 percent of China's population owning cars and 80 percent of sales in 2009 to first-time car buyers, China has the opportunity to create and lead an entirely new category around clean transportation," said Shai Agassi, founder and CEO of Better Place.

The technology company recently signed an agreement with Chery Automobile Co, the country's largest independent auto producer and exporter, to collaborate on electric vehicle technology in the world's largest auto market.

Under the terms of the agreement, Better Place and Chery will jointly develop switchable-battery, electric vehicle prototypes with the goal of securing regional government electric vehicle pilot projects and provide consumers affordable electric cars.

China has set an objective of becoming the largest electric vehicle developer and manufacturer in the world, enabling the country to leapfrog internal combustion engine technology and go straight to electric transport.

As the world's second-largest consumer of oil behind the United States, which historically has led the combustion-engine-vehicle market, and ahead of Japan, the leader in hybrid technology, by 2020, China is expected to import 65 percent of its oil needs.

According to research by HSBC, China's share of the global electric vehicle market will grow from 2.7 percent this year to 35 percent by 2020. During this period, China will overtake Japan by 2016 and the US by 2019 in dominating the global electric vehicle market.

A recent survey conducted by consulting firm Ernst & Young found that 60 percent of respondents in China expressed interest in purchasing a plug-in hybrid or electric vehicle within three years, a figure nearly five times higher any other country surveyed, including the US, Germany and Japan, indicating that China may have strong electric vehicle sales potential.

Moreover, China's long-expected policy on subsidies for private purchase of new energy vehicles is likely to be announced at the end of this month, which will definitely spur sales of electric cars.

Cheng Qingquan, Chair-man of the World Electric Vehicle Association, said not only automakers but also parts manufacturers should shoulder the responsibility of manufacturing high-performance products at reasonable prices, to help speed up the development of the sector in China.

Seeing the huge potential, "we have taken action by starting cooperation with Chinese customers to develop the components they need for their electric vehicles", Eugenio Razelli, CEO of Italian parts maker Magneti Marelli, told China Daily.

Source: China Daily

China Needs Reasonable Carbon Emission Quotas To Maintain Growth

China needs more reasonable carbon emission quotas to buoy the nation's fast economic development amid the progressing industrialization and urbanization, said an official with the nation's top economic planner.

Economic development is still a priority for China as it has to enable the 1.3 billion people to live decent lives, Su Wei, director of the climate change department of the National Development and Reform Commission (NDRC), said at the International Cooperative Conference on Green Economy and Climate Change.

The "high carbon" characteristic rooted in Chins's energy structure would not be fundamentally changed in a short term
as the development and use of clean energy such as wind and solar power started late in China, he said.

Unreasonable industrial structure and relatively backward industry technology also made China's carbon emission reduction drive difficult, said Su.

But he also said China has stepped up efforts to curb carbon emission since it vowed in last November to reduce the intensity of carbon dioxide emissions per unit of GDP in 2020 by 40 to 45 percent compared with 2005 levels.

Besides setting up an accountability system for energy conservation and emission reduction, and investing more in new energy industries, China has been improving policies related to low carbon development, accelerating research on low carbon and environmental friendly technologies, and expanding international cooperation to contain emissions in some key sectors, according to Su.

Source: Xinhua Net

**Energy-efficient Vehicle Plan To Be Out Before June**

The long-awaited stimulus plan for new energy vehicles is slated to come out by the end of May, which will boost domestic production of energy-efficient vehicles, said analysts.

Details of the final plan are still under study at the Ministry of Finance, said Zhen Zijian, deputy director of 863 Project for energy-saving and new energy vehicles under the Ministry of Science and Technology.

Industry insiders said the incentives for new energy vehicles would be very similar to last year’s pilot project for public sector buyers - all electric car buyers in certain selected cities could obtain incentives of up to 60,000 yuan.

"Conventional vehicles with fuel-saving technologies and hybrid vehicles will provide the short-term solution, while pure electric cars will supply the mid-term solution and fuel-cell vehicles will be the long-term solution," Zhen told China Daily.

Analysts said many hybrid cars have rolled off domestic assembly lines over the past few years, and production will be accelerated after costs are offset by the incentives.

Zhen said small electric cars for short-distance travel may have offer good prospects for incentive qualification.

"Commercialization of eligible mid- and large-sized electric vehicles is not realistic due to battery restrictions and excess costs. However, small, all electric cars weighing less than 1,000 kilos have great growth potential," Ouyang said.

The planned policy change has prompted analyst concerns over the lack of technical standards for new energy vehicles and charging stations.

A host of electric vehicle standards such as the plug used for recharging and other hardware and software systems are being reviewed by relevant research institutions and auto-makers, said a researcher with the National Laboratory of Automotive Safety and Energy.

Source: China Daily

**Clean Energy Sources Powering Ahead**

On the coast of China's Jiangsu province, one of the most prosperous regions in the country, there is a cluster of nuclear power plants and wind farms either in operation or soon to come online. Using technology both developed domestically and overseas, they are changing the energy landscape of the area.

As one of the country's industrial hubs, Jiangsu currently needs to import 80 percent of the energy it consumes from other regions. But with the rapid development of new energy industries, the province is expected to be another energy production base in China, said Mao Weiming, director of Jiangsu Development and Reform Commission, the economic planning body of the province.
The province has set up a development target for its energy industry in the 12th Five-Year Plan (2011-2015), said Mao. "It is without doubt that the development of new energy industries, such as wind power, nuclear power and the smart grid, will be our focus over the next five years."

Jiangsu is one of seven planned wind power bases in the country, each with a minimum potential of 10 gigawatts (gW). So far, power capacity of 1.2 gW generated by wind farms has been connected to the power grid, and 800 megawatts (mW) of wind power plants are under construction, said Mao.

Other clean energy generating sectors such as nuclear and biomass power have also seen a boost in Jiangsu. "At present non-coal power generation accounts for around 15 percent of the total power capacity in our province. We plan to increase the figure by one percentage point a year between 2011 and 2015," said Mao.

Other provinces in China have drawn up ambitious plans to develop new energy in their 12th Five-Year Plans. "New energy has become the most dynamic sector in the country," said Li Junfeng, deputy director-general of the Energy Research Institute (ERI), part of the National Development and Reform Commission (NDRC).

The development of new energy industries will also be highlighted in China's national 12th Five-Year Plan for the energy industry, said Li. "In terms of scale they will be developed in this sequence: nuclear, hydro, wind and solar energy," he said.

The four sectors are also the most developed new energy resources in the country at present. China has already set up two major targets for energy and the environment. They are to increase the use of non-fossil energy to 15 percent of primary energy consumption in 2020, and to reduce carbon intensity by 40 to 45 percent in 2020 from the 2005 levels. Development of new energies is a must to achieve these two targets, said Wang Zhongying, a researcher with ERI.

With such targets in mind, China should take steps to increase the use of non-fossil energies to around 13 percent by the end of 2015, said ERI's Li.

China now has 11 nuclear power reactors in operation. These reactors have a total capacity of 9.1 gW and account for around 1 percent of the nation's total power capacity.

According to a recent report by the World Bank, China needs an additional investment of $64 billion annually over the next two decades to implement an energy-smart growth strategy. Such investment should be aimed at making the power and transport sectors more efficient and developing renewable energy, according to the bank. The new energy business has become another growth industry for many companies in China. An increasing number have made plans to enter the lucrative nuclear power market.

Source: China Daily

**Government Wants Private Sector Boost**

The central government released guidelines on further encouraging private investment in a wider range of key industries, a move indicating the authorities are placing more importance in private investment's role in sustaining economic growth.

The State Council published the guidelines stating that the Chinese government will make efforts to create "a fair and transparent environment" for private investment and "enlarge the scope for entry of private investment".

The government will encourage private investment to enter infrastructure sectors including transportation, water, oil, natural gas, power, mining and telecommunications.

And private investment is also encouraged to flow into public utilities, social utilities, financial services, commerce and trade and defense.
“The guidelines signal that the Chinese government is attaching greater importance to private investment as the nation has realized it will have to rely more on the private enterprises to maintain sustainable economic growth, rather than State-owned enterprises,” said Li Xiaogang, director of the Foreign Investment Research Center at Shanghai Academy of Social Sciences.

But "I am more concerned about detailed measures on how to implement the guidelines. I really hope the guidelines are not merely empty words".

Compared with guidelines issued in 2005 which only outlined the sectors that the private enterprises are allowed to enter, the new ones provide more detail, such as how to invest and what projects they can get involved in. And the new edition emphasizes that the government will further encourage them to do so.

Calls for the further development of the private investment have been rising in recent years. Premier Wen Jiabao said late last year: "Prosperous private investment in a nation is a symbol of its economic development, and also a reflection of the nation's energy and confidence."

By the end of 2008, private enterprises had 14, 10, 8, 8 and 7 percent market shares of China's electricity, finance, telecommunications, transport and water industries respectively.

Source: China Daily

Special 'Green' Fund For SMEs

China will set aside RMB 10.6 billion as a special fund to help the country's small- and medium-sized enterprises (SMEs) to cut down their carbon dioxide emissions and energy consumption this year.

The news was announced by an official of the Ministry of Industry and Information Technology during an industrial forum in Beijing.

Because more than 50 percent of industrial emissions are from SMEs in China, the Chinese government said it would step up efforts to close down those that pollute heavily and those with outdated technology. It would help certain manufacturers to embrace environmentally-friendly technology, said Chen Xin, a division director of the ministry.

Chen said the government was striving to reduce the country's carbon intensity by 40 to 45 percent in 2020 from 2005 levels, in line with its commitment at the international environment summit in Copenhagen last year. The special fund reflects part of the government's commitment to have the country marching towards the goal, he added.

The ministry's SME development and promotion center will recommend a group of model SMEs in energy saving and emission reduction to relevant government departments so they can receive strong policy backing.

Source: China Daily

China To Be World's Biggest Luxury Goods Market In Five Years

China will rank as the world's biggest market for luxury goods in five years, a blue paper on China's commercial development from 2009 to 2010 said.

Released by the Chinese Academy of Social Sciences, the blue paper said China's luxury goods market had increased to $9.4 billion by the end of 2009, accounting for 27.5 percent of the world's luxury goods market and supplanting the United States as the world's second largest luxury goods market.

In five years, the market for luxury goods in China will reach $14.6 billion, becoming the largest in the world, the paper predicted.

The paper said most luxury goods makers have opened outlets in Chinese metropolises and provincial capital cities. With increased competition, however, some of the makers have opened outlets in smaller cities, too.
The paper quoted a McKinsey & Company report as saying rich consumers in China are generally younger than those in other countries, although it gave no definition for such a consumer.

The report found 80 percent of China's rich consumers are under the age of 45, while only 30 percent of such consumers in the U.S. and 19 percent in Japan are under 45.

The paper quoted the Hurun Report 2009 as saying the average age of people with personal wealth over RMB 100 million is 43 in China and those with wealth over RMB 10 million is 39. In addition, the paper said young people born in the 1980s, especially those with wealthy parents, have a better awareness of luxury goods and are more likely to buy them.

Source: Xinhua Net

U.S. M&A Expert Optimistic About Chinese Business Environment

A U.S. merger and acquisition expert said China was one of the best places for companies to seek growth through expansion of their own facilities, acquisitions, joint ventures or exports. Ward Wickwire, managing director at Mertz Associates, Inc., said he was optimistic about the Chinese business environment because of the country's size and commitment to strong growth.

Wickwire has more than 30 years of experience in mergers and acquisitions, new ventures, patent licensing and research and development. During his career, he has spearheaded more than 100 acquisition, divestiture or licensing projects. He is also chairman of the Association for Corporate Growth (ACG) Global Expansion Committee, which is currently focusing on India, China and Europe.

In an interview with Xinhua, Wickwire said, "The growth record of the Chinese economy and the commitment of the government to continue to support such growth positions China as one of the most dynamic economies in the world. For most of the developed world, the existing and projected growth does not support the kind of opportunity that many companies, entrepreneurs and investors seek."

"There is great potential in the growth of the middle class and the commitment to increase the consumer sector of the economy. In addition, the commitment to growth requires significant investments in infrastructure, including roads, railroads, airports, power plants and distribution systems, water and sewer systems and so on."

With the rapid development of the Chinese economy, many Chinese companies have been seeking expansion outside China during recent years. Wickwire was involved in two cases in the past.

Source: Xinhua Net

L’Occitane Plans To Double China Network In 5 yrs

Skincare products retailer L’Occitane International SA, the first French company to go public in Hong Kong, said it plans to double its network in China over the next five years.

The company also expected to increase the number of outlets in Japan by 50 percent over five years, said Andre Hoffmann, Asia-Pacific president.

L’Occitane, which sells skincare products and fragrances, raised $708 million after pricing its Hong Kong initial public share offering at top of the indicative range. It plans to use the capital to fund the expansion of its global retail network and improve its manufacturing plants.

Source: Reuters

McDonald’s Aims To Expand Franchise Trial In China

McDonald's Corp, the world's biggest fast-food chain operator, is looking for new franchise partners in China, expanding
a six-year-old trial program in its fastest growing market, a spokeswoman said.

McDonald's relies heavily on franchises in more mature markets such as United States, but has almost exclusively opened self-operated stores in China since entering the market two decades ago.

The company launched a pilot franchise program in China, but has so far limited it to three franchisees running six restaurants.

It moved to expand up the process in April, posting information on its China website inviting new franchise applicants as it accelerates a plan to double its China network to more than 2,000 outlets by 2013.

Planning to boost capital investment in the mainland by about a quarter this year, McDonald's said it expected China to be the engine of growth in Asia-Pacific over the next five years, targeting 1,300 outlets by the end of 2010.

Source: China Daily

Gome's Sporting Goods Chain Takes A Swing At A Home Run
The prospects for a new sporting goods chain backed by Gome Electrical Appliances do not appear promising, despite ambitious plans to open 100 stores within three years, analysts said.

Beijing Gome-Rayspo Investment Co Ltd, founded by Huang Xiuhong, the younger sister of Huang Guangyu -formerly China's richest man and chairman of Gome Electrical Appliances - opened its first store in Beijing, targeting China’s retail sporting goods market.

"Gome Rayspo is going to launch three new stores in Beijing this year and try to set up 100 stores in 20 cities around the country within three years,” Li Yan, general manager of Gome Rayspo said.

Gome Rayspo and Gome Electrical Appliances are controlled by the same parent company, Pengrun Investment Corporation, in which Huang Xiuhong is chairwoman.

According to Li, "80 percent of Gome Rayspo shares are controlled by Huang Xiuhong and the remaining 20 percent is held by Beijing Gome Electrical Appliances Ltd.”

With their previous business focus on home appliances an aggressive attempt by Gome to break into the sporting goods field has raised eyebrows in the industry.

"It's a far-fetched idea to conduct business in both electrical appliances and sporting goods. The only credentials Gome Rayspo has is the parent company's experience is in operating a chain of retails stores," an industry expert said.

Despite the potential risks of investing in a new industry, Li of Gome Rayspo said. "This is not a sudden decision as we have been planning to enter the sporting goods industry since 2007 and are optimistic about this market sector ever since the 2008 Olympics increased Chinese people's interest in different kinds of sports."

Source: China Daily

Guangdong Nuclear Plans $1.2b Wind Farm
China Guangdong Nuclear Power Group plans to build an RMB 8 billion ($1.2 billion) wind farm in Yunnan province as demand for renewable energy rises in the world's fastest-growing major economy.

An agreement with the local government was signed on April 30 to install 800 megawatts of wind turbines in Yuxi city, China Guangdong Nuclear said.

China Guangdong Nuclear, the nation's second-largest builder of atomic reactors, is diversifying into renewable energy to tap growing demand.
Wind power has “tremendous” market potential, and it’s in line with Yunnan’s move into clean-energy projects, Miao Zhimin, deputy director of the provincial industry and information technology commission, said. Source: China Daily

**CNOOC To Focus On Deep Water Resources Exploitation, New Energy**

China National Offshore Oil Corporation (CNOOC), China’s largest offshore oil producer, is to step up deepwater exploration of oil and gas resources, while developing clean and low-carbon energies, company president Fu Chengyu said.

"CNOOC aims to transform its economic development mode via technological innovation. Its exploitation of offshore oil resources will shift from shallow waters to waters as deep as 3,000 meters," Fu said.

Oceans are estimated to hold about one third of the world’s petroleum and natural gas resources and they are likely to replace terrestrial and inshore regions as the world’s major depositories of oil and gas resources, according to CNOOC.

CNOOC had invested more than RMB 15 billion ($2.19 billion) in building deep-water drilling vessels, deep-water lifting and pipe-laying barges as well as deep-water geographical survey vessels, Fu said.

Once operational in 2011, such investment would significantly enhance China’s capacity to explore and develop deep-water petroleum and gas resources, he said. Source: China Daily

**Carbon Tax Likely, Expert Forecasts**

China may start levying a carbon tax and further boost prices of fossil fuel for the next five years as a crucial incentive to cut greenhouse gas emissions and help realize green targets, a government-affiliated expert forecast.

“We expect China will start to levy various taxes only if they are helpful in mitigating greenhouse emissions and developing a low-carbon economy,” Jiang Kejun, a senior researcher with the Energy Research Institute under the National Development and Reform Commission, said.

"I think a carbon tax is likely to be levied during the 12th Five-Year plan (2011-15) period," said Jiang. The National Development and Reform Commission is a Cabinet department responsible for the country’s mid- and long-term development plan.

Apart from a carbon tax, Jiang said the government may begin to levy environmental and re-source taxes. Meanwhile, China will greatly boost subsidies to support low-carbon technology research and development.

At a weekend climate change forum organized by the China Center for International Economic Exchanges, Jiang said that the government is serious about realizing its target of cutting carbon intensity by 40-45 percent by 2020 from 2005 levels and the government will implement "tougher measures" in the coming five years to realize the green goal. Jiang said the taxation and fiscal incentives are just part of a portfolio of possible policy changes, which may turn into reality when China implements its low-carbon development pathway.

Source: China Daily

**CNOOC Buys 50% Of Bridas Energy Subsidiary**

China National Offshore Oil Company Limited (CNOOC Ltd) said it has closed a $3.1 billion deal with Argentina-based Bridas Energy Holdings (BEH) to buy a 50 percent stake in Bridas Corporation, a wholly owned subsidiary of BEH before the deal.

Bridas Corporation, with oil and gas exploration and production operations in Argentina, Bolivia and Chile, is now a
50-50 joint venture between CNOOC Ltd and BEH.

The transaction will increase CNOOC Ltd's proven reserves and average daily production by 318 million barrels of oil equivalent (BOE) and 46,000 BOE, respectively, based on 2009 figures.

CNOOC Ltd and BEH will make management decisions jointly.

The transaction is in line with CNOOC Ltd's growth strategy and expands its reach into Latin America and establishes a foundation for future growth in the region and other countries, Fu Chengyu, Chairman and Chief Executive Officer of the CNOOC Ltd, said.

Source: China Daily

Ping An to Purchase TPG's Shenzhen Development Bank Stake

TPG, the US private equity firm, is poised to cash out of one of the most high-profile and controversial private equity investments made in China, after regulators approved its plan to sell a controlling stake in Shenzhen Development Bank to Chinese financial group Ping An Insurance.

The deal was first announced last June and, after waiting for regulatory approval for nearly a year, TPG is poised to make a profit of more than $2.14bn, a return of more than seven times its original investment.

Ping An said it has received all the necessary approvals to buy TPG's 16.76 percent stake in SDB in a deal that will return the bank to full Chinese ownership, nearly six years after TPG became the first foreign investor to take a controlling stake in a Chinese lender.

Ping An already owns about 4.7 percent of SDB and is planning to buy a further $1.57bn in new shares to give it an eventual stake of up to 30 percent, replacing TPG as the single largest shareholder in the mid-sized lender.

Ping An said it was still awaiting various regulatory approvals to buy the new SDB shares and this process would "take quite some time".

Without taking into account any leverage, which would increase the US firm's actual returns, TPG stands to earn seven times its original investment in SDB of about $300m. TPG acquired its stake in several portions at different prices over several years starting in 2004.

Source: Financial Times

China Pension Fund Invests $2.2 Billion in AgriBank

China's national pension fund invested more than RMB 15 billion ($2.2 billion) to become Agricultural Bank of China's third-largest holder, paving the way for what may be the world's biggest initial public offering.

The National Council for Social Security Fund has made a "long-term, strategic investment" and wants the bank to sell shares as soon as possible, Ji Guoqiang, head of the fund's equity investment department, said.

Agricultural Bank, the nation's third-largest lender by assets, may raise $26 billion from the sale of shares in Shanghai and Hong Kong, the Economic Observer reported. That would be more than the record $22 billion raised by Industrial & Commercial Bank of China Ltd. in 2006 and complete a decade-long overhaul of China's state banks.

Source: Shanghai Daily

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