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# China News Alert Issue 334

## Capital Markets

### China to strive for economic balance

The nation will strive to achieve a trade balance, but there would be other trade deficits during the first-half of the year as domestic growth outpaces the global recovery, Yao Jian, spokesman for the Ministry of Commerce, said.

Yao said external demand is yet to show a clear rebound and that in turn would lead to a slow recovery in China's exports. At the same time the nation would look to achieve the trade balance by increasing imports.

"The trade surplus is expected to narrow by US$100 billion this year," he said. China had a trade surplus of US$196 billion last year.

Allaying concerns over the March figures, Yao said the deficit was well within expectations and part of the government efforts to strike a balance.

The government had said in 2008 that it would look for trade balances from investment, consumption, exports and imports.

Exports hit a rough patch in 2008 after the global financial crisis, as the US and European markets virtually dried up. That in turn forced the government to take more steps to boost domestic consumption.

The major markets have not shown the kind of recovery that we would have expected. But we are confident that things would improve over the next two to three years, Yao said.

The massive stimulus plan launched by the government helped bolster domestic investment and consumption. At the same time it also triggered the need for more imports, said Li Jian, an economist with the research institute under the Ministry of Commerce.

The import appetite grew as most of the stimulus plan projects were for infrastructure and transport, sectors needing power and raw materials like steel in huge quantities, Li said.

But the silver lining for imports came in the form of the steps taken by the government such as tariff cuts for certain categories such as high-tech. At the same time steps to reduce the procedural norms have also helped boost imports, said Li.

Foreign companies who saw China only as a manufacturing base are now realising the vast untapped potential that exists within the country, said Li Xiaogang, a researcher on overseas investment at the Shanghai Academy of Social Sciences.

More and more export-oriented foreign companies are shifting to a "made in China for China" strategy, Li said.

The current trade scenario and soaring raw material prices in global markets also contributed to a shrinking trade surplus, said Yao.

"Imports have increased more sharply than exports as Chinese economy remained on a strong footing," Yao said.

During the first quarter of the year, imports surged 64.6 percent year on year, much higher than the 28.7 percent growth rate for exports. The trade surplus stood at US$14.5 billion, down 76.7 percent over the same period last year.

Referring to currency issues, Yao said, "It is groundless to use economic imbalance and high US job losses to pressure China to change its currency policy. A steady yuan not only helps exports but is also important for curbing hot money inflow."

" Currency is an issue of one nation's sovereignty and China will make appropriate arrangements and choices according to the changing internal and external economic situation," he said.

Yao said the government will strengthen checks on soybean oil imports. The new measures will not affect the normal trade, Yao said, in response to recent reports that China has stopped importing Argentine soybean oil.

"China and Argentina are very important trade partners. The issue would be resolved by both sides through negotiations," he said.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-04/16/content_9739302.htm) ([see archive](China_to_strive_for_economic_balance.pdf))

## Corporate & Commercial

### Rules are tightened for house purchase

The central government has raised the required down payment for a family purchasing a second house from the existing 40 percent to 50 percent, as part of the latest measure to curb soaring property prices and prevent growing financial risks.

The decision was made during a State Council executive meeting presided over by Premier Wen Jiabao, showing the government's resolve to cool the sizzling real estate market.

Property prices in 70 of China's large and medium-sized cities rose 11.7 percent on a yearly basis in March, data from the National Bureau of Statistics (NBS) shows. It was the biggest year-on-year increase for a single month after the NBS expanded its coverage to 70 cities in July 2005.

According to the State Council's decision, the down payment for a family's first home with an area bigger than 90 square meters should be at least 30 percent. And for the second apartment it should be at least 50 percent, with the mortgage rate 1.1 times the benchmark interest rate. Moreover, a much higher down payment and mortgage rate will be adopted for the third home and above.

"Lending policy is the most effective way to curb the excessive property price growth in some cities," said Qin Xiaomei, chief researcher of Jones Lang LaSalle Beijing.

Along with rocketing property prices, the concern over an asset bubble and potential financial risks is also growing.

Liu Mingkang, chairman of the China Banking Regulatory Commission, said at the recently concluded Boao Forum for Asia that the banking system has plenty of ways to deal with risks arising from the property sector's downside pressure. He said some banks in Beijing have voluntarily raised down payment ratios for second or multiple home purchases to 60 percent.

Meanwhile, the government also increased the supply of land, low-rent housing and economically affordable homes, aiming to improve the supply and demand imbalance.

The Ministry of Land and Resources announced it would allocate 180,000 hectares of land to build residential housing, more than double last year.

"All these measures, if soundly implemented, will effectively prevent property prices in some cities from rocketing further. A gentle slowing of the real estate market could be expected," said Qi Fan, an analyst with US real estate brokerage firm Century 21.

[Source: China Daily](http://www.chinadaily.com.cn/china/2010-04/16/content_9737103.htm) ([see archive](Rules_are_tightened_for_house_purchase.pdf))

### China's heavy-industry center urged to transform development pattern

China's top legislator Wu Bangguo has urged Jilin province in Northeast China, traditionally a heavy-industry center, to speed up transformation of its development pattern.

Wu, Chairman of the Standing Committee of the National People's Congress (NPC), visited car and train producers and petrochemical factories during his five-day visit to Jilin.

He urged the companies to push forward technical innovation and research on green energy products and energy efficiency and to adopt eco-friendly production methods.

He hopes the companies will transform themselves i0nto corporations of international influence and competitiveness and boost the local economy.

Wu also visited a local research institute and two universities.

To transform the economic growth pattern and restructure its industry, the province needs to improve research and education and train more talent, he said.

In the past few years, farm produce processing has boomed in Jilin. After inspecting a local agricultural firm, Wu said the province can increase the added value of its farm produce to increase farmers' income.

The local government should improve infrastructure and speed up the urbanisation process, Wu added.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-04/17/content_9743267.htm) ([see archive](Chinas_heavy-industry_center_urged_to_transform_development_pattern.pdf))

### Commerce ministry studies foreign anti-monopoly probes

China's Ministry of Commerce said that it is studying whether global miners Vale, BHP and Rio are monopolising iron ore supplies after the three shifted to a quarterly pricing system.

"We also noticed the issue as steel makers elsewhere, including the European Union and Japan, all have raised anti-monopoly concerns," said the ministry's spokesman Yao Jian at a press conference. "The anti-monopoly bureau is currently in charge of it."

The move comes amid reports that global miners have come to a quarterly pricing system for their ore and have already signed price agreements with some Asian mills over US$110 a ton under April-June contracts, more than twice last year's fixed price.

"A long-term system should still be the foundation, because it has provided a stable and predictable cost environment for both buyers and suppliers," Yang said.

He also said China's iron ore market has improved its position this year, with imports dropping to 50-60 percent from 70 percent previously. The iron ore supplying nations increased from 10 countries to 20.

China's steel lobby, China Iron and Steel Association (CISA) also claimed that the big three are monopolising prices.

"The three giant miners have been using their position to control prices at unreasonably high levels, putting global steel mills in a difficult situation," said Luo Bingsheng, vice-chairman of CISA, at an iron ore conference. "Now, it is not price negotiations, it's that they fixed a price and you have to accept, if not, they cut off the supply," said Luo, who regards the move as an "ultimatum".

He also said the unregulated iron ore market has triggered excess imports and large stockpiles.

China, the world's largest iron ore consumer, should have imported 546 million tons of iron ore in 2009, while total imports reached 628 million tons, resulting in a stockpile of more than 80 million tons.

Imported iron ore rose by 18 percent to 155 million tons in the first quarter compared with a year earlier.

China's crude steel output stood at 50.3 million tons in February, up 22.5 percent year-on-year, while the country's steel output this year is expected to surge 10 percent from 2009.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-04/16/content_9739994.htm) ([see archive](Commerce_ministry_studies_foreign_anti-monopoly_probes.pdf))

### China Eastern to become SkyTeam alliance member by 2011

China Eastern Alliance Corporation, one of the three leading Chinese carriers, signed a memorandum of understanding (MOU) with the SkyTeam alliance, a group of global airlines led by Korean Air Lines Company, the South Korean carrier said.

Under the preliminary deal, China Eastern Airlines will become a formal member of the SkyTeam alliance in mid-2011, allowing the Chinese carrier to share mileage points and airport facilities with other members of the alliance, which include Air France and Delta, Korean Air said in a statement.

The SkyTeam alliance, first established in June 2000 by Aero Mexico, Air France, Delta, and Korean Air, currently has 11 members including the China Southern Airlines Company, who was the first Chinese member to join the alliance in 2007, it added.

China Eastern, founded in 1988, is one of the top three airlines in China that has some 80 international and 330 domestic flight routes, reaching 110 destinations.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90860/6954248.html) ([see archive](China_Eastern_to_become_SkyTeam_alliance_member_by_2011.pdf))

### Google China partners cut ties and traffic plummets

Google China is finally starting to feel the impact of its departure from mainland China after many of its partners ended their relationship with the American search giant. Some of the search engine's research and development (R&D) personnel have jumped ship and its traffic and market share have declined substantially.

Baidu, China's largest search engine, confirmed that Wang Jin, former vice director of Google China Engineering Research Institute, was named Baidu's vice president and will be in charge of the company's technology department.

Zhao Chenglong, chief analyst from Finder Hunter, said Google China's staff has remained relatively stable with little personnel changes in sales and marketing departments, but some competitors from the United States and the domestic market are intent on luring the R&D personnel from Google China to join their companies.

Google currently contributes around 15 percent of traffic for domestic small and medium-sized Web sites. The figure was 35 percent in January and February. By contrast, Baidu's share of the search market soared from 50 percent to 75 percent in the first two months of 2010, said Su Daode, head of VPSite.org.

"In the past two months, revenues from Google China's new customers had dropped by 20 percent year-on-year," an employee of Google China disclosed.

The employee also said that there has been no further information after Google's departure from China. He estimated that Google wanted to minimise its action's impact upon the market.

However, it appears Google can't have its cake and eat it too. Some of its partners severed ties with Google, and still more are planning to do so.

China Mobile, China Unicom, Alibaba.com, Sina, Tianya.com and Tom.com had been important partners for Google. China Unicom ceased its cooperation with Google right away. It is reported that Sina and Tianya.com have decided to terminate their relationship with Google.

Tom Group, Tom.com's parent company, announced that it has removed its search service powered by Google from the portal site after their contract expired.

"Cooperation partners contribute nearly 40 percent of total traffic for Google China." said Li Zhi, an analyst from Analysys International.

He pointed out that Google's recent traffic decline mainly came from its former partners breaking off their business relationships. However, the change in traffic will directly influence Google's revenue in China. Promotion revenue of small and medium sized enterprises should be the most affected.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90860/6954088.html) ([see archive](Google_China_partners_cut_ties_traffic_plummets.pdf))

### 4G network trial to be launched in three Chinese cities

The first high-speed TD-LTE(4G) wireless network in the world, constructed by China Mobile, debuted in Shanghai on 15th April. China will choose three other cities, Qingdao, Xiamen and Zhuhai, for the trial run of TD-LTE system by the end of 2010.

Wan Gang, head of the Chinese Ministry of Science and Technology, said China will support all links of the TD-LTE industry chain and make guideline for its systematic implementation.

Wang Jian Zhou, board chairman of China Mobile said that the TD-LTE (4G) network has received close attention from international wireless operating agencies, many of which have showed strong interest in building TD-LTE (4G) networks and have already cooperated with China Mobile. Those wireless-operating agencies will send delegates to experience TD-LTE system at the forthcoming Shanghai World Expo.

Deputy Secretary of China's Ministry of Industry (MIIT) Lou Gin Jian revealed China's TD-SCDMA users are currently over 6.50 million, which enforces the coverage rate of the TD-SCDMA 3G network into the 2G commercial level.

[Source: China Daily](http://english.people.com.cn/90001/90778/90860/6954133.html) ([see archive](4G_network_trial_run_to_be_launched_in_3_Chinese_cities.pdf))

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