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# China News Alert Issue 341

## Capital Markets

### ICBC says to advance globalisation at stable pace

The Industrial and Commercial Bank of China (ICBC) will use the global economic recovery to advance the globalisation process as well as deal with challenges with patience, the ICBC chief announced.

Jiang Jianqing, chairman of ICBC's board of directors made the remarks during a discussion at the eighth World Investment Conference in La Baule, western France.

With the development of China's financial reform, the interaction between China and the foreign financial industry grows much closer, Jiang said. He said Chinese financial institutions are gradually becoming a vital power on the global stage with their prudent and active merger and acquisition activities.

By the end of 2009, China's five major banks had established 84 business institutes overseas, among which ICBC has 24 business institutes and 180 branches in 21 countries and regions outside China, Jiang said.

Taking the past 10 successful merger cases as examples, Jiang laid out the four principles that the ICBC conforms to in doing merger operations: investing with a strategic plan, calculating controllable risk, using reasonable prices as a basis and making determined and prudent decisions.

Noting that a number of foreign investors are opening branches or seeking stock shares in China, Jiang sees this as a situation that not only benefits foreign institutions but also encourages Chinese financial operators to better harness risk, optimise investment structures and accelerate their engagement with the global market.

ICBC is currently the world's largest lender by value. The bank's 2010 first quarter net profit rose 18 percent on year to about 6 billion yuan (US$858 million), and its outstanding yuan-denominated loans grew nearly 6 percent to 6 trillion yuan (US$858 billion).

The conference is a European forum focused on technology, business, investment and policies to stimulate global economic growth. European Council President Herman Van Rompuy and other European financial leaders participated in the conference.

[Source: China Daily](http://www.chinadaily.com.cn/china/2010-06/03/content_9931788.htm) ([see archive](ICBC_says_to_advance_globalization_at_stable_pace.pdf))

### Chinese economy facing downside risk

The Chinese economy is facing a downside risk due to uncertainties brought about by the European debt crisis and the country's recent tightening measures, while an economic hard landing is highly unlikely, a senior analyst at a government think-tank said.

"The economy is expected to decelerate from the strong spurt of growth we saw in the first quarter, but an economic slump is unlikely," Zhang Liqun, a senior research fellow at the macroeconomic research department of the State Council Development Research Center, told China Daily.

"The country secured an 8 percent growth last year despite the devastating global financial crisis and there is no reason for a big economic fluctuation this year as exports recover," he said.

While fears of contagion from the European crisis began to spread across the world and a flurry of stringent measures were introduced to cool the sizzling domestic property market, the market mood in China has quickly been turning from concern over economic overheating to worry about a sharp economic slowdown.

"The current tightening measures are part of a necessary cooling off," Zhang said.

He noted that it is no longer the government's top priority this year to pursue high GDP growth and what it does care about is how to put the economy onto a sustainable growth track. "Gross domestic product growth of 9 or 10 percent this year would be satisfactory [for policymakers]," he said.

"The main downside risk lies in the recovery of the country's external demand, which is clouded by the ongoing European crisis and the weak US economic recovery," Zhang said.

The Chinese economy expanded by 11.9 percent in the first quarter and consumer inflation climbed to 2.8 percent in April, prompting market speculation that an interest rate hike may be around the corner.

However, Zhang said the monetary authority would be very prudent in raising cost of borrowing, as such a move will curb overall demand for capital and restrain private investment and consumption.

"This year, monetary policy is aimed at mopping up excessive market liquidity while maintaining market activities, which can be achieved through open market operations and hikes in banks' reserve requirement ratios," he said.

He expected the country's consumer price index (CPI) to move mildly upward without any major abrupt surge this year, reducing the likelihood of an increase in interest rates.

"Consumer inflation is fundamentally decided by the supply and demand of consumer products, which remains largely balanced," Zhang said.

China has reaped a bumper harvest for six consecutive years and the Ministry of Agriculture said that the prospects for the summer harvest are promising. The recent price increase in some agricultural products, such as garlic and mung beans, did not break the fundamental equilibrium of farm goods, and thus will do little to push up CPI, he said.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-06/03/content_9927737.htm) ([see archive](Chinese_economy_facing_downside_risk.pdf))

### Canada says time to pull back stimulus

Canadian Finance Minister James Flaherty said that the time is right for governments around the world to start withdrawing economic stimulus measures, but admitted that the global recovery remains fragile.

He also urged China to continue to play an increasingly influential role in the global economic recovery.

Flaherty made the remarks during a media briefing in Beijing, before flying to South Korea for the G20 meeting of finance ministers and central bank governors.

"We are coming to a time when exit strategies from stimulus plans can start to be implemented... the global economy is experiencing some recovery, but it's fragile," said Flaherty.

"As we work to ensure a fledgling recovery takes root, China's contribution will become even more important," he added.

Flaherty said Canada is opposed to the introduction of taxes or levies on banks, and has proposed "embedded contingent capital" as an alternative to a bank tax.

Speaking in Shanghai, Flaherty said he expects to see China adopt a more flexible stance on its foreign exchange rate policy. "There was some flexibility in the Chinese currency before the crisis, and we anticipate that will return," he said.

The currency revaluation issue is widely expected to be a key issue at the upcoming G20 meeting in Toronto, Canada, later this month.

Many Chinese economists predict the government will allow the yuan to gain against dollar around the time of the G20.

Li Yining, a well-known economist, said at a recent forum that "China should quickly let the yuan rise by small margins to stem the growing flow of hot money into China as a result of market speculation on possible revaluation".

"The sooner [China conducts exchange policy reform], the better," said Fan Gang, director of National Economic Research Institute of China Reform Foundation.

And "if it happens, it should be implemented at a manageable and controlled pace", he said.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-06/04/content_9934449.htm) ([see archive](Canada_says_time_to_pull_back_stimulus.pdf))

### African Minerals in funding talks with Chinese companies

African Minerals Limited is in talks with several Chinese companies to raise US$5 billion in funding to explore the Tonkolli iron ore project in the West African nation of Sierra Leone, a top company official said.

The London-listed explorer plans to ship the entire 10.5 billion ton iron ore deposits from the project to China.

"The iron ore mine will have an annual production capacity of 75 million tons in the next six years, and we need Chinese partners to finance development work at the mine," said Frank Timis, chairman of African Minerals.

"All iron ore will be shipped to China with big discounts, and at prices which are cheaper than the rates offered by the big three global miners - Vale, BHP Billiton and Rio Tinto. It will also help China become a price setter rather than a passive player," he said.

Timis said he has held talks with several Chinese companies on the financing, but did not reveal their names.

The project will need at least US$1 billion to boost the annual iron ore capacity to 45 million tons in the second stage, and another US$4 billion to raise it to 75 million tons eventually.

African Minerals already has a tie up with China Railway Material (CRM) and is expected to deliver 8 million tons of iron ore next year. In April it secured a deal to sell CRM a 12.5 percent sake for US$280 million, as well as an offtake agreement for future iron ore output.

African Minerals last year said it has defined magnetite iron ore reserves of 10.5 billion tons with 29 percent ore content and 8 million tons of hematite iron ore deposits. Timis said the reserves will increase to 14 billion tons over the next three months.

Vale SA, the world's largest iron ore producer by output, said that iron ore prices for the third quarter will go up according to the formula based on the average market price over the pervious quarter. The increase could be in the range of 33 percent to US$158 per ton, according to Platts index.

"The cost of iron ore is only US$20 to US$25 per ton, but the big three miners are selling it at US$150 per ton. Chinese companies need to invest in the upstream sector to have better cost prices," Timis said.

Many Chinese companies have been stepping up investments in overseas iron ore assets to diversify supplies and cut reliance on the three top miners.

Buoyed by rich resources in Africa, Chinese companies are increasingly investing in projects or financing infrastructure for mining companies in return for mineral resources or offtake agreements.

China International Fund said last week that it had reached a US$2.7 billion financing agreement with Bellzone Mineral for the infrastructure needed to develop its Kalia iron ore project in Guinea.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90861/7012014.html) ([see archive](African_Minerals_in_funding_talks_with_Chinese_companies.pdf))

## Corporate

### China opposes US penalties on steel gratings

China opposes the US decision to set final duties of up to more than 200 percent on imports of steel gratings from China, the Ministry of Commerce (MOC) said in a statement.

This came after the US Commerce Department announced final anti-dumping duties of 136.76 to 145.18 percent on the gratings to "offset below-market pricing." It also set a countervailing duty of 62.46 percent.

MOC said the United States had acted "discriminatorily" in the anti-dumping and anti-subsidy investigation and made the wrong conclusion, and China is dissatisfied and is opposed to this.

Such move could hurt the interests of China, which both Chinese government and enterprises would not accept, the ministry said.

China urged the US to take effective measures to correct the mistake, it said.

According to the US trade remedy procedure, the US International Trade Commission (ITC) will also make its final injury determination about the product soon.

If the ITC makes affirmative final determinations that imports of steel gratings from China materially injure, or threaten material injury to, the domestic industry, the Commerce Department will issue anti-dumping duties and countervailing duties orders.

In 2009, the United States imposed a series of trade remedy measures on Chinese products, and the value involved was eight times more than that in 2008, the MOC statement said.

"Such action not only hurts the interests of China, but also has an adverse impact on bilateral economic and trade ties," it said.

China hoped the United States could show restraint in using trade remedy measures and act to fight trade protectionism, it said.

[Source: China Daily](http://www.chinadaily.com.cn/china/2010-06/03/content_9925784.htm) ([see archive](China_opposes_US_penalties_on_steel_gratings.pdf))

### Australian exports get a lift from surging China shipments

Australian exports excluding farm goods surged by the most in almost three decades in April as shipments of iron ore and coal to China pushed the trade balance to a surplus for the first time in 12 months.

Shipments of non-farm goods jumped 18.4 percent from March to AUS$14.8 billion (US$12.5 billion), the biggest increase since May 1982, the Bureau of Statistics said in Sydney. The trade balance unexpectedly swung to a surplus of AUS$134 million from a revised deficit of AUS$2.04 billion. The median estimate in a Bloomberg survey of 19 economists was for a AUS$800 million gap.

Australia's mineral wealth and proximity to China are stoking an economic expansion that is forecast by the central bank to almost double in the next two years. That may prompt Governor Glenn Stevens to resume the Group of 20's most aggressive round of interest-rate increases later this year after pausing this week.

"We are a big beneficiary of what's happening in Asia, led by China which has just become so important to Australia," said Stephen Roberts, a senior economist at Nomura Australia Limited in Sydney, one of only three analysts to forecast a surplus.

"Exports and business investment in the mining sector are going to be mainstays of growth" in coming quarters, he said.

The Australian dollar traded at 84.49 US cents at 12:31 pm in Sydney from 84.56 cents just before the report was released. The two-year government bond yield was unchanged at 4.46 percent. A basis point is 0.01 percentage point.

Exports including farm goods gained 11 percent to AUS$22.7 billion, the report showed. Metal ores including iron ore rose 25 percent and coal shipments surged 40 percent. Imports were unchanged in April at AUS$22.5 billion.

Increasing demand from Asia is fueling an investment boom in Australia's resources industries that is forecast by the central bank to last more than a decade.

Projects valued at AUS$267 billion were committed to or in progress as of 31st March, up AUS$46 billion from a year earlier, Canberra-based research company Access Economics said last month.

Prime Minister Kevin Rudd's government is seeking to benefit from the boom by introducing a 40 percent tax on resource profits, triggering a backlash from miners including Rio Tinto Group who are threatening to cancel new projects.

Xstrata Plc, the world's largest thermal coal exporter, said it has suspended AUS$586 million of spending on coal and copper projects in Australia because of the proposed tax.

The tax "has created significant uncertainty for the future of mining investments into Australia and would impair the value of previously approved projects and exploration to the point that continued investment can no longer be justified", said Mick Davis, chief executive officer of Zug, Switzerland-based Xstrata.

Still, concern that the mining investment boom may worsen a shortage of workers and drive up inflation was among reasons cited by Stevens for increasing the central bank's overnight cash rate target from a half-century low of 3 percent in early October to 4.5 percent last month.

Policymakers kept the benchmark rate unchanged this week for the first time in four months to assess the impact of their most recent moves on consumer and business demand, which show signs of slowing.

Stevens said that monetary policy is "appropriate for the near term", a statement that leaves room for a resumption of interest-rate increases as the economy strengthens.

The number of workers in Australia's mining industry almost doubled to 174,500 in the three months through February from 94,900 in the same period in 2003, according to estimates from the statistics bureau.

"The recovery in the terms of trade which began in late 2009 is accelerating and will deliver a strong boost to income and demand," said Su-Lin Ong, senior economist at RBC Capital Markets Ltd in Sydney.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90861/7011962.html) ([see archive](Australian_exports_get_a_lift_from_surging_China_shipments.pdf))

## Other

### Economic zone receives nod for expansion

The China's first special economic zone (SEZ) of Shenzhen has finally received approval to expand from the central government, Shenzhen's Party chief and acting mayor Wang Rong said.

According to Wang, the central government will soon announce the expansion of the SEZ to include the entire city in a bid to accommodate its rapidly growing economy.

Wang's government work report, which he delivered at the annual plenary meeting of the city legislative body, highlighted plans for investing in areas outside the SEZ to redress existing imbalances in income, opportunity and quality of life.

Historically, the city has been divided into two parts, one of which is the SEZ. In addition to occupying one-fifth, or 400 sq km, of the city's total area, it benefits from preferential policies and has relatively independent legislative rights.

Shenzhen submitted its application to expand the SEZ last October.

Wang views the forthcoming integration of areas outside of the SEZ as a gift from the central government on the 30th anniversary of the founding of Shenzhen SEZ later this year.

He said the desired expansion approval from the government will provide fresh impetus to the local economy, as the government will support its efforts to raise the underdeveloped districts outside the SEZ to the same level.

Research conducted by the Shenzhen branch of the China Zhi Gong Dang, one of the country's eight non-Communist parties, found the industrial value generated by every square kilometer of land outside the SEZ was only one-fifth of that inside the zone.

Wang noted that while receiving expansion approval was a milestone for the city, the project itself will take several years to complete. He said in his report that the municipal government will invest in infrastructure, as well as work toward improving the management and performance of public services in the districts outside the current SEZ.

It will build four satellite towns, including Guangming, Longhua, Dayun and Pingshan, which are expected to take shape by 2015. During the same period, substantial progress is also expected in developing the areas of the Dapeng Peninsular and Qianhai.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90862/7007300.html) ([see archive](Economic_zone_receives_nod_for_expansion.pdf))

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