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August 6th

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So... How is China's Rich Class Doing These Days?

(South China Morning Post) Just six years ago, the mainland did not have a single US-dollar billionaire. That all changed last year when the Hurun Report's annual rich list counted more than 100, putting the mainland second only to the United States in terms of this kind of extreme wealth. The list's publisher, Rupert Hoogewerf, said the wealthy were reaping the benefits of rising property prices and a burgeoning stock market. The new super rich are the tip of an iceberg of 195 million people on the mainland who, according to author and assistant professor of marketing at Fudan University's School of Management Pierre Xiao Lu, can afford luxury goods. In his book, *Elite China - Luxury Consumer Behaviour in China*, Mr Lu says the mainland not only represents a major source of potential customers for all luxury brands; he contends that affluent mainland consumers "will reshape the luxury market like never before" over the next decade. Mr Lu focuses on the shopping habits of the top 50 million wealthy consumers. These are people who have a personal income at least 10 times the national average, are aged between 25 and 45, have a high level of education and hold down critical positions in business. These are also the people who have already helped make the mainland the world's "fourth-largest consumer for Louis Vuitton, the fifth-largest for Gucci [and] third-largest for Mont Blanc". Before surveying the "psychographic" landscape of the

wealthy, Mr Lu looks at the mixed cultural connotations of the idea of luxury and how an Ermenegildo Zegna suit and an Audi A6 can become hallmarks of influence and status, while the Chinese-language translation of the concept is tied to the characters for extravagance and arrogant waste. The heart of Mr Lu's book are the two chapters that segment affluent consumers into four categories - luxury lovers, followers, intellectuals and laggards - and how they differ across the country. Mr Lu's third act examines how three companies have tried to stake a claim on the mainland luxury market and how others can tap the sector. Canada may be known for oil sands and maple syrup, but it is also a parent of Sino-Canadian fashion house Ports Design, which has more than 300 mainland outlets. The example of Alfred and Edward Chan is testament to the power of commercial cross-pollination. *Elite China* contains two books - one is a readable assessment of the mindset of mainland consumers of luxury goods, the other is academic research pitched at a specialist audience. The author is sometimes bogged down in jargon and threatens to baffle the general business reader. There must be a better way to say "the confirmation of the correlation between felt ambivalence and post-purchase guilt shows that inconsistency and dissonance after luxury buying are caused by the consumer's ambivalence".

FDA to Open Up Inspection Offices in China

(Kyodo) - The US FDA has decided to open its first overseas offices in China and station officials there to inspect and improve the safety of food and drug products made in China, a senior US government official said Sunday. As soon as the administration receives final approval from Chinese authorities, the first group of safety inspectors will be sent to the Chinese cities of Beijing, Shanghai and Guangzhou by the end of September. The move has come in the wake of a spate of safety scandals involving Chinese-made products since last year and is aimed at preventing any such problems from developing into a bilateral diplomatic row like the one between Japan and China stemming from the food poisoning outbreak in Japan earlier this year connected to China-made frozen

dumplings tainted with pesticide. The US inspectors are expected to conduct on-site inspections on questionable food and drug production establishments among those that export their products to the US. The senior US official said he believes an inspection without Chinese authorities is possible, but also said that it is yet to be clear if the US side can carry out the inspection without advance notice to China. Since last year, chemical residues and banned substances have been discovered from a spate of Chinese imports ranging from toothpaste to pet food and toys, while patients in the United States died after being administered a blood thinner using ingredients from China, and concerns have been growing over the safety of products from the country.

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UCBC Breakfast (August 6th @ 7:30 am-9:00 am)

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Chinese Company IPO's Come Back To US Capital Markets

(Dow Jones & Company, Inc.) Chinese companies are preparing to test Americans' interest in their initial public offerings after a six-month self-imposed exile from a market that once embraced such deals.

China Distance Education Holdings Ltd., a Beijing company that specializes in online education and test-preparation courses for fields such as accounting and law, is aiming to raise \$96 million by listing on the NYSE Arca Exchange.

China Mass Media International Advertising Corp., a television-advertising company, is seeking to raise \$100 million on the New York Stock Exchange. Both stocks are scheduled to price this week.

If they succeed, they will be the first Chinese companies to go public in the U.S. since ATA Inc. in January. ATA, which operates a computer-based testing service for professional licenses and certifications, dropped 8% on its first day of trading, but it has since recovered, and is up more than 50% from its \$9.50 IPO price, a good sign for China Distance Education.

Two of the three Chinese advertising stocks that went public last year, AirMedia Group Inc. and Acorn International Inc., remain below their IPO prices. VisionChina Media Inc. has

more than doubled since it went public at \$8 a share in December. Stocks of companies that specialize in professional training are seen as countercyclical, defensive plays during uncertain economic times in any country, while advertising is considered far more sensitive to slowdowns. In China, where the competition for white-collar jobs is considered quite challenging, anything that prospective job seekers can do to burnish their resumes adds to the demand for test preparation, says Trace Urdan, an analyst at investment bank Signal Hill in the U.S.

GCL Silicon Technology Holdings Inc., which manufactures polysilicon in Jiangsu Province, filed with the U.S. Securities and Exchange Commission recently to raise \$863 million by listing its shares on the NYSE. GCL doesn't have a set time frame for coming public.

The past six months haven't offered a welcoming atmosphere for many IPOs. But the change has been particularly abrupt for Chinese firms because three-quarters of the 29 IPOs from that country that made their debut last year in America were well-received by U.S. investors, with half of them making double-digit percentage gains on their first days of trading.

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China Policies Still Pushing for Continued Growth

(Dow Jones & Company, Inc.) BEIJING -- China's central bank signaled Sunday monetary policy will focus more on maintaining economic growth than on curbing inflation as the global slowdown hurts domestic business.

The central bank's second-quarter monetary policy report omitted reference to the tight policy stance it adopted in December, saying instead it will work to "create a good monetary environment for steady and rapid economic growth." The report suggests Beijing might loosen its credit curbs and slow the yuan's pace of appreciation. The report follows debate about whether Beijing should ease its economic policies, which were intended to curb inflation and prevent economic overheating.

The People's Bank of China echoed but leaned toward stabilizing economic growth, which has slowed to 10.4% in the first half of this year from 11.9% for all of last year. Beijing is worried a slowdown would result in job losses, which could be socially disruptive.

The central bank said it will bolster financial support to sectors that could employ a lot of people and are in great difficulties.

Certain sectors hurt by the global slowdown, such as textiles, are labor-intensive and rely on exports. The central bank will boost financial support for small companies and encourage financial companies to serve them. In another statement, it said it will support the "steady growth of small- and medium-size companies and external trade."

The central bank reiterated it will keep the yuan's exchange rate basically stable around reasonable levels but dropped a reference, made in the previous policy report, to bolstering the role of market forces in setting the exchange rate and increasing exchange-rate flexibility.

The omission suggests Beijing may slow the pace of the yuan's appreciation in the second half of this year.

The central bank said Sunday it will increase the role of interest rates and steadily push forward with increasing the role of market forces in setting interest rates.

Tight Money Making Real Estate Developers' Lives Tough

(South China Morning Post) Mainland property developers say they can see light at the end of the policy tunnel. Foreign investors and analysts are arguing that the worst is yet to come. Credit tightening measures to cool the overheated economy and slowing property sales are expected to make it difficult for developers to raise funds to pay land premiums and repay loans.

Beijing is unlikely to ease tightening measures amid rising inflation and an uncertain global economy. As times goes on, developers will find it more difficult to survive. More developers would be forced to sell off projects or equity stakes to raise funds for survival, creating possible buying opportunities. PowerLong Real Estate was the latest example of how difficult an environment developers were facing, said

sources. The Xiamen-based developer, which delayed a HK\$2 billion share offering in June after a poor response from investors, is now having problems arranging a new loan to replace an existing pre-initial public offering loan facility.

The developer hopes to complete an initial public offering before the end of September to provide cash to repay a US\$140 million loan borrowed from Macquarie, sources said. "The property market is like a funeral. Nobody will be interested in property-related share offerings in such a market. I doubt they will complete the deal on time," said a banker who is staying away from the deal.

Analysts said the impact of the property slowdown and the introduction of austerity measures have already been felt by some smaller developers.

Controversial Child-Death Payments to Quake-Hit Families

(The Independent.) Couples who lost an only child in the Sichuan earthquake have been given an exemption from the One Child Policy and pressured to take big cash payments in the latest effort to smooth any social unrest ahead of next week's Olympic Games in Beijing.

The father of one of the children who died in the Juyuan Middle School in Dujiangyan during the quake on 12 May said they had been, in effect, told to sign a deal that gives them a payment of 160,000 yuan (11,800) for each child.

"They asked us to sign a contract to apply for social relief. But this is just a kind of compensation from the government for our loss, for our lost children. The government wrote the contract itself. They just told us to sign it," said the father, whose identity has been protected. His son died in the 7.9-magnitude earthquake, in which more than 87,000 people were killed or are missing. He also said the parents had been told they were allowed to have another child, even though the One Child Policy of population control does not allow that. The standing

committee of the Sichuan provincial People's Congress passed rules on Friday setting out the terms of the deal, saying which couples would be allowed to have more children.

The earthquake in the mountainous province in south-western China was particularly hard on children because it struck at 2.28pm, when many children were at school. Parents were angry at the number of school buildings that fell in the quake and believe official corruption was behind the poor construction standards in many of the schools.

The parents of the children at Juyuan have tried to present petitions to the local government but have faced strong official opposition. Public displays of anger are not tolerated as they are socially destabilising and the official response has been a mixture of stick and carrot - some parents were detained by police after the event and there were offers of major compensation to calm other angry mothers and fathers.

How U.S., Global Slowdown Hurts Chinese Manufacturers

(*International Herald Tribune*) The furniture factories outside this manufacturing hub are eerily quiet, victims of a housing crisis half a world away in the United States that is sapping demand for everything from beds to bookcases.

Wenzhou is the entrepreneurial heart of Zhejiang, a thriving eastern province that was China's biggest exporter of furniture in the first five months of the year.

China sells about 40% of its furniture output overseas, with half its exports shipped to the United States, according to the China National Furniture Association.

"Business is poor this year, especially since May," said Liu Yongcheng, a senior executive at Zhejiang Adwin Furniture, which is running well below capacity.

When order books are full, the company can churn out \$1 million worth of furniture a month.

The difficulties facing Liu and countless other exporters up and down China's coast have grabbed the attention of the leadership in Beijing.

Officials from President Hu Jintao down have carried out a series of high-profile inspection visits, including to Wenzhou, to see for themselves how the global credit crunch is hitting Chinese industry.

Seen from Wenzhou, a major producer of garments, shoes, lighters and even sex toys, the picture is not pretty.

Liu's company was the first to move into an industrial site about 90 minutes from Wenzhou that was set up in 2005 to specialize in furniture manufacturing.

Many companies in the sector have since come and gone, but Liu said the burst of bankruptcies this year was unprecedented.

Apart from the weakening U.S. demand, companies are having to cope with tight credit and reduced tax rebates. Many are shedding staff to survive. Liu said he has reduced his own workforce by one fifth, to around 400.

Furniture companies around the globe have faced challenges in recent times.

Stanley Furniture, based in the United States, posted a surprise second-quarter loss and announced this month that it was cutting 350 jobs. The Italian company Natuzzi is reshuffling under a new business plan as it deals with a strong euro, the slowdown in North America and Europe, and low-cost competitors.

Zhu Changling, vice president of the China National Furniture Association, said U.S. importers were cutting orders as America's housing crisis deepened, while Chinese factories were reluctant to accept the currency risk entailed by long-term orders because of the steadily rising yuan.

Manufacturers are also having to absorb rising production costs, especially from high oil and metal prices.

Cheng Zhe, a director at Zhejiang Haozhonghao Rest Health

Product, said raw material and labor costs had risen 20% and 10% respectively so far this year, squeezing the plump 30% profit margin the company used to enjoy.

His companies, which sells a range of orthopaedic chairs, sofas and beds, exports about 80% of its production to the United States, the Middle East and neighboring Asian nations.

"We companies are undertaking bigger risks while our profit margin is shrinking," Cheng said.

The gravity of the sector's ills are hard to judge from official figures.

Furniture exports in the first six months of 2008 were still up 28.5% in dollar terms from a year earlier, almost as strong as the 29.3% gain in all of 2007.

But a report to the cabinet by the Ministry of Commerce said the average profit margin of companies it surveys fell to 1.1% in the first five months from 3.2% in the period a year earlier.

The ministry recommended slowing the yuan's pace of appreciation and increasing rebates of value added tax, or VAT, to exporters to prevent a sharp drop in overseas shipments.

Chinese furniture makers are still very cautious about trying to pass on fast-rising costs to their customers.

"If we raise prices, our clients will leave," said Liu, the Zhejiang Adwin Furniture executive. "But if we don't, we are going to suffer." While his company still hesitates, many others have already increased their prices. Some are losing export orders as a result and are having to focus more on the domestic market.

Hou Xiaojing, a sales executive at Zhejiang Fudebao Furniture, which makes sofas, desks and beds, said one of its big customers had switched business to Vietnam, where prices are lower.

But Wenzhou is nothing if not resilient. The free-wheeling city is a cradle of capitalism, and its traders are often in the vanguard when China carves out new markets in tough parts of the world.

As well as cutting jobs, companies are trying to use energy and raw materials more efficiently and seeking out alternative, lower-cost suppliers.

"We're confident that things will get better in the second half,"

Liu said, adding that he was counting on the Canton Fair in October and other trade shows to win fresh orders.

Cheng at Haozhonghao said he believed that Beijing would raise VAT rebates for selected exporters and keep a lid on production costs for the rest of the year.

"I think the government is ready to make some policy changes," he said. Jun Ma, chief China economist at Deutsche Bank in Hong Kong, said he expected Beijing to increase VAT rebates by two percentage points on textiles and by four percentage points on apparel in coming weeks.

"This policy should help improve profit margin of the beneficiaries by 1 to 2%," he said in a note to clients.

TRADE TALKS ARE OVER - When they began, those seven long years ago, the world was much simpler and the issues appeared clearer. Doha was meant to take the individual improvements made in the previous decade towards a dismantling of tariffs and trade barriers between rich and poor and wrap up a grand new deal that would propel the process of globalisation a great leap forward. Since then, however, the whole map has been altered by the industrial take-off of China and India. While the developed countries, led by the US, have pressed even harder for access to these rapidly-developing markets, they in turn have proved much tougher in their negotiations, arguing that the western nations were able to grow rapidly only with a degree of initial protection of their markets. **SO, WHAT NOW?**

Coal Shortages = Blackouts, Brownouts and Workers Dying

(Times Newspapers) China's sprawling industrial heartland is braced for an electricity crisis as the closure of unsafe coalmines before the Olympic Games and the rising price of coal have left many power stations either without the fuel they need or unable to make a profit.

Energy experts believe that China's coal shortage could trigger its worst spate of blackouts and brownouts in four years, hitting the metals and manufacturing sectors especially hard.

Coal generates 80% of the country's power and has been the predominant fuel of China's economic boom. State energy authorities have given warning of long-term coal deficits at power plants in the world's second-largest energy user. China, also the world's biggest consumer of coal, could continue to face coal-related disruptions into the winter. Transportation issues, typhoons and widespread pit closures have left many power stations without enough coal to fire their generators. Across China, 51 power plant units have been closed because of the lack of coal, removing almost 3% of national capacity and prompting electricity rationing in 14 provinces. Yesterday the State Grid Corporation of China said that 46% of the stations connected to its grid had coal stockpiles below the official "caution line", enough to last only seven days.

Central Government is expecting an overall power shortfall of about ten gigawatts over the summer, but the combined forecasts of the country's individual provinces suggest that the real shortage could be more than three times as severe.

The underlying coal shortage is partly linked to China's desire for the success of the Olympic Games. Coal mining in China has long been a notoriously dangerous business and the cause of about 4,000 deaths last year. A drive to improve safety began months ago, but with the Olympic Games and

international scrutiny looming, the Government is particularly keen to minimise the risk of a high-profile mining disaster occurring during August.

Dozens of pits, particularly in Shanxi province, have been closed because they have failed to pass more stringent safety regulations. Officials have promised stricter supervision in July and August, even for those pits that have met the new requirements. Other pits have been closed because of the cost of reducing pollution. China has faced power shortages before but Andy Rothman, chief China economist at CLSA, said that the potential crisis this summer was different. Previously, China built power stations as demand outstripped the nation's total generation capacity. This time, plants are shutting down because of a lack of coal and hugely inflated prices.

Runaway coal prices have shattered the business models of many power stations, quickly converting profit to loss because of government caps on what consumers pay for their power. Thermal coal prices have risen by as much as 80% since January. Beijing, meanwhile, allowed power tariffs to rise only 4.5% in June - an increase shared between both the grid and the generators.

Commodities analysts are also factoring in the possibility that China's status as a net exporter of coal could be on the point of reversal. As with other natural resources such as phosphorus, the Government is increasingly keen to keep more of its coal at home and may consider importing coal to protect domestic supplies. Analysts added that the coal shortages would skew their ability to forecast Chinese growth at a critical time for the global economy.

Beijing Office Space Continues Tight and Expensive

(South China Morning Post) Office rents in Beijing's central business district continued their upward march in the second quarter, despite the weight of fresh supply coming onto the market as new office space hit a record high in the capital city. New office supply in Beijing would rise to a record 1.58 million square meters by the end of this year, according to Meggie Qin, a property consultant CBRE in northern China. Nonetheless, rents of prime offices were up 3.6% in the second quarter from the three months to March.

The increase surprised letting agents who were braced for a downturn in rentals as the new supply came onto the market. But the decision by some developers to postpone completion release dates because of tightened property loan conditions, and delays caused by the diversion of resources to deal with construction for the Olympic Games combined to put some checks on the growth in supply, the agents said.

As a result, total supply of office space in the first half was lower than the market was expecting.

Demand remained strong, noted consultant Colliers International, particularly for the limited supply of gradeA office sought by expanding multinational corporations and large-scale domestic enterprises.

Driven by deals such as the expansion by Guangdong Skyworth into 3,100 square meters of space in the Global Trade Centre, the leasing market was active, it said.

As a result, prime office rental deals surveyed by Colliers rose an average 3.6% to US\$38.09 per square meter per month in the second quarter from the end of March - ranging from a 3.81% increase to US\$30.66 per square meter in the Zhongguancun business district outside the CBD, to a 2.37% rise in average CBD rentals to US\$42.24 per square meter. Rival consultancy Savills said its survey of new rental deals for gradeA offices showed that average rents rose 6.61% to 180 yuan (HK\$206) per square meter in the second quarter, representing the fastest pace of growth for the past seven years.

Joan Wang, a senior manager of research and consultancy at Savills Beijing, agreed that the strong growth in office rents arose partly from lower than expected supply as a result of construction delays related to preparations for the Beijing Olympic Games.

However, take-up rates are now expected to slow due to concerns about securing renovation permits during the Olympic Games which start on August 8, since renovation activity will be prohibited in the capital city during the event. Most of the projects will be completed in the fourth quarter. She expected demand for gradeA offices in the capital city would remain strong in the second half and that rents would continue to rise. However, vacancy rates could also start rising, she added.

Believe or Not: Direct Flights to / from Taiwan Restarted

Historic regular flights between Taiwan and China began this month, in a show of conciliation between the long-time rivals that could bring large numbers of mainland Chinese visitors to the island. The first of the flights, a China Southern plane, landed at Taipei's Taoyuan airport after leaving Guangzhou in southern China early in the morning. It was followed a short time later by a flight from the southern city of Xiamen

that arrived at Taipei's Songshan city airport. Flights from China will be leaving from a number of cities, including Shanghai. No such regular flights, aside from a few charters on select holidays, have flown since 1949, when defeated Nationalist forces fled to Taiwan after the Chinese civil war.

Hot Money Poses Risks for China's Economic Stability

In 2006 China shocked the world by adding \$247bn to what was already the largest hoard of foreign currency reserves. In 2007, if correctly counted, China took in more than twice that amount.

So far this year it is on track to double yet again.

It is increasingly clear that this level of reserve accumulation is not sustainable. Besides the strains it places on the global balance of payments, the biggest problem it causes is within China itself. The People's Bank of China, China's central bank, has to purchase these soaring reserves by issuing a combination of local currency and central bank bills. The ensuing monetary creation is fuelling rising inflation, systematic overinvestment and an overextended banking system.

But while vast and growing reserves have been an issue for China for several years, in the past few months something new and highly destabilizing has been added to the process.

The source of reserve accumulation has become much more volatile and perhaps intensely pro-cyclical (exaggerating the swings of the economic cycle).

For many years China's reserve accumulation was largely powered by its high and rising trade surplus and its status as the favorite destination for foreign direct investment. These are relatively stable sources of inflow and are even likely to be neutral or slightly countercyclical. But in recent months it has been no longer the trade surplus, in combination with FDI, that is powering the increase. The trade surplus is slightly down in 2008 compared with last year, as is the use of foreign-sourced funds for investment, even as the rate of Chinese reserve accumulation has doubled.

During the first halves of 2005 and 2006, the trade surplus, FDI and estimated interest on China's reserves accounted for 80-90 per cent of the country's reserve accumulation. In the first half of 2007, these components accounted for about 70 per cent. This year, however, their share has declined dramatically to 39 per cent from January to May (after we adjust China's headline growth in reserves to account for a number of transactions that have in effect "outsourced" the job of reserve accumulation to other entities within China). Because there are likely to be speculative inflows buried in the trade and FDI accounts, their true share is probably even lower.

So what is powering China's accelerating reserve accumulation? **Probably hot money.** As it becomes increasingly clear that China must revalue its currency sharply or else face surging inflation and the threat of financial instability, more and more investors, business people and ordinary households are bringing money into

China to take advantage of profits associated with the expected appreciation or to protect themselves from the losses they will incur with the rising renminbi.

Consequently a flood of speculative money, amounting possibly to tens of billions of dollars every month, is pouring into China. There is no technical definition of hot money and of course, with much of it entering the country illegally, it is tough to measure, but it is possible to obtain rough proxies for speculative inflows and to track their change over time. In every case the proxy, however it has been derived, shows a startling increase over the past 12 months. The fact that in recent months the authorities have taken increasingly desperate measures to staunch the inflows confirms this interpretation of soaring hot money proxies.

If hot money is indeed increasing as quickly as the various proxies suggest, it indicates that not only is Chinese reserve accumulation going through a large quantitative change as it doubles yet again, it is going through an even more important qualitative change.

Hot money is notoriously unstable and even more notoriously pro-cyclical. When the economy is growing, or even overheating, inflows are likely to increase net investment and add even more fuel to the economic engine. But when conditions change and the economy begins to slow or the country face financial risks, hot money is likely to flee the country, exacerbating the very conditions it is fleeing.

The Asian financial crisis steered Chinese policymakers to create safeguards against capital flight, and China's massive reserves and capital controls are likely to prevent a rapid speculative assault on the renminbi. However, just because China may be less vulnerable to an external financing crisis does not mean that authorities are out of the woods.

The increasing pro-cyclicality of Chinese capital inflows could place the gradualist, consensus-driven Chinese leadership significantly behind the curve when the inflows reverse, when the government should be providing liquidity to the real economy rather than mopping it up. Under these conditions, the risks to the domestic banking system, rather than the currency, are likely to be more significant.

Michael Pettis is a professor of finance at Peking University. Logan Wright is an economic analyst at Stone & McCarthy Research Associates in Beijing

Governance Reputation Hurting China and India

(The Financial Times) The poor reputation of China and India for corporate governance, and recent market volatility, are frightening affluent expatriate and international individuals away from investing there. That is despite their bullish opinion of the two countries' economies, according to the fifth annual survey of such investors by Internaxx, the Luxembourg-based online share dealing service.

Forty-six per cent of 750 people surveyed worldwide thought China would be an economic superpower within five years;

69% said they were "positive" about Chinese equities compared to 42% in 2007. But just 36% said they were invested in Chinese shares.

Similarly 69% were positive about Indian equities but just 24% had exposure to the country's stock market.

The proportion concerned about corporate governance tripled to 27% from last year's survey. "Investors still don't think these markets and their companies are transparent," said Robert Glaesener, managing director at Internaxx.

China Trade Surplus Shrinks in June

China's trade surplus fell by 20 per cent in June over the same month last year in a sign that the weaker global economy is having a serious impact on the country's export sector.

The trade figures, which show export growth slowing sharply, could strengthen the hand of officials in Beijing who are arguing for a slowdown in the rate of appreciation of the Chinese currency to protect exporters.

The deputy head of the Communist party's policy research office, Zheng Xinli, was quoted in state media on Thursday calling for slower renminbi rises.

"We are not the Asian tigers. We need time to upgrade the structure and to handle the pressure," he said.

Government officials maintain they are still committed to a tight monetary policy. The currency has appreciated by more than 6% against the US dollar so far this year, helping to ease some of the

international pressure over China's foreign exchange policy.

Although the Chinese economy continues to show robust growth, policymakers in Beijing face the same delicate balancing act as colleagues in US and Europe, trying to control a surge in inflation without causing too much damage to economic activity.

In a sign of growing official concern about the impact of higher costs on companies in the export sector, Wen Jiabao, prime minister, and Li Keqiang, a vice-premier, have both made publicised visits over the past week to export centres.

State media reported this week that the government was likely to increase tax rebates for certain export industries such as textiles, only a few months after the rebates were cut. Over the past two months, the offshore forward market for the Chinese currency has shown a much slower rate of appreciation.

Higher Imports of Edible Oils Are Reported

(Xinhua News Agency) - China imported more edible vegetable oil at higher cost in the first five months of this year, as demand remained strong at home and prices were buoyed up by short supplies worldwide.

Between January and May, China imported 3.57 million tons of edible vegetable oil, a year-on-year increase of 11.1 percent. The arrivals were valued at 3.98 billion U.S. dollars, up 95 percent, the General Administration of Customs said on Friday. The import price averaged 1,114 U.S. dollars per ton, up 75%.

The total imports included 2.07 million tons of palm oil, up 23%, and 1.13 million tons of soya-bean oil, up 8%. The two combined to make up 90% of the total. Most of the edible vegetable oil imports came from ASEAN members, which

accounted for 2.33 million tons, or 65% of the total.

Customs sources attributed the growing imports to strong demand and limited production at home. Last year China consumed around 22.5 million tons of edible vegetable oil but only produced 9 million tons.

The supply gap was widened by natural disasters.

The severe winter weather in southern China and the May 12 earthquake damaged vast plots of farmland sown to rape seed, thus affecting domestic production of rapeseed oil.

Moreover, the northeastern province of Heilongjiang, which is a major soya-bean production base, suffered droughts last year and hence had its soya-bean yield decline 30%.

New Antimonopoly Law Comes into Effect

(International Herald Tribune) China's landmark antimonopoly law finally comes into force on Friday, but uncertainty about how it will be implemented is raising concerns about how it will affect Western companies.

Business groups and legal experts generally welcome the long-

awaited law, passed last August after years of debate, saying it is basically in line with international practice and should help promote fair competition.

But authorities have yet to clarify which government body will

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Chinese Parents Prefer a Tough Upbringing for their Children

(Xinhua) - Chinese children need a tough upbringing parents believe, according to an online survey released here Monday. About 56% of the survey's 5,546 respondents believed children should not be spoiled with money, and 53 % believed children should learn how to cope with setbacks, said the Beijing-based China Youth Daily.

The survey, carried out in July, also revealed that about 74% of the surveyed did not believe that they should leave all their wealth to children, while 66% thought parents should train their children to earn their own living and work for their future, according to the paper.

There was nothing wrong with parents who had made a fortune, but they should set a good example in managing money, the paper quoted Xi zhonghua, an expert at China Family Education Trainer's Centre as saying.

Parents should help their children realize that not a single penny was easily got, so the children should learn not to spend money like water and learn how to shape a future for themselves, added Xi.

It is becoming a consensus among Chinese parents that children should taste some pains in the process of growth, as they enjoy a better life than their parents.

Recently, cities like Zhengzhou in Central China's Henan Province have held toughening camps for students on summer holidays. The programs of these camps range from outdoor work like pulling up weeds in the fields and watering vegetable plots, to indoor labor such as washing clothes and making dumplings, the paper reported.

Tough Message Heard from the Street

(Letter to the Financial Times Ltd.)

From Prof Peter Navarro.

Sir, Jack Ma (Alibaba's CEO) gets it every which way but right in his claim that "now is the time to embrace freer trade with China" (Comment, July 25). His most egregious error is to cite a rise in Chinese imports as evidence that chronic trade imbalances between China and most of the rest of the world are getting better. Much of this rise is simply an artifact of higher oil and commodity prices.

He also gets it dead wrong when he credits "bold economic reforms" as a catalyst for China's economic miracle.

My research clearly shows that much of China's "competitive" advantage comes instead from five elements of its mercantilist policies: currency manipulation, illegal export subsidies, theft of intellectual property, and lax environmental and health regulations that have turned China into the most polluted large nation in the world.

Finally, Mr Ma's claim that China is creating jobs abroad is laughable once net impacts are considered. It is time to embrace fairer, not freer, trade with China.

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New Antimonopoly Law (*from previous page*)

be responsible for enforcing the law or to publish the implementing regulations needed to flesh out its relatively broad language, causing some worries about whether it will be fairly and evenly applied.

For one, splitting enforcement duties among the Commerce Ministry, the National Development and Reform Commission and the State Administration for Industry and Commerce, as state media have said will be the case, would complicate matters. "This parceling out of enforcement authority invites serious risks of inconsistency within the interpretation of the law," said Nathan Bush, an antitrust lawyer with O'Melveny & Myers in Beijing. The American Chamber of Commerce People's Republic of China and the European Union Chamber of Commerce in China welcomed the law, noting that China had allowed for input from a range of foreign stakeholders. But the American chamber said it hoped for clarification on rules against anticompetitive conduct, procedures for reviewing deals on competition and national security grounds, enforcement mechanisms and defining abuses of intellectual property rights.

"We sincerely hope China's competition authorities will focus on modern economic principles and prevailing international practices when applying the new law," James Zimmerman, chairman of the American chamber, said. The European chamber urged authorities to publish implementing guidelines soon. It said in a statement that its members were concerned among other things about how provisions related to intellectual property rights would be applied.

"Its current wording leaves room for unfair application of provisions against IP rights holders," it said.

Over all, the law will contribute to the development of the Chinese legal system, in part because it will add to the accumulation of a body of case law, Louvel said.

"It may not be 100 percent satisfactory for foreigners, but they will find a balance between the interests of foreign corporations, the interests of Chinese corporations and of the Chinese government," he said.