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business

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ONE U$D EQUALS
SOURCE: REUTERS, 9PM MONDAY

▼RMB	▼HKD	▼JPY	▲EUR	▲GBP	▲AUD	▲INR	▲CAD	▲KRW	▲THB	▲BRL
6.3738	7.7547	78.33	0.8087	0.6423	0.9482	55.46	1.0007	1128.38	31.47	2.0288

Warning issued about high debt

Experts say new stimulus policies could add to firms' financial burden

By **WEI TIAN**
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China's corporate debt ratios have reached "dangerous" levels, according to leading economists.

Li Yang, vice-president of the Chinese Academy of Social Sciences, a top government think tank, has warned that further stimulus policies could add to the already heavy burden of corporate debt that is weighing on the world's second-largest economy.

DEBT

China's corporate debt-to-GDP ratio stood at 107 percent in 2011, the highest in the world, Li said at a forum in Zhejiang province on Friday.

A ratio that exceeds 90 percent is considered "dangerous", he said, citing a standard set by the Organization for Economic Cooperation and Development.

Li Zhenyu, rating director of China Lianhe Credit Rating Co Ltd, said the figure is likely calculated by taking the total debt Chinese banks carry from loans and other methods of borrowing, such as corporate bonds, and dividing it by the country's GDP.

Data from the China Banking Regulatory Commission show China's banking system had 55 trillion yuan ($8.63 trillion) in outstanding loans by the end of 2011. The country's GDP for the same year exceeded 47 trillion yuan.

"The figure doesn't reveal the financial positions of particular companies," said Chen Daofu, policy research chief at the Financial Research Institute of the State Council's Development Research Center.

"But large Chinese companies' debt burden is indeed increasing because of the strong momentum seen in fixed-asset investments after 2008."

Chen said the average debt-to-asset ratio of Chinese companies with more than 20 million yuan in annual revenue was about 40 percent. Some industries, such as civil aviation, are saddled with especially high debt ratios.

Chen said corporate debt is still increasing at a faster rate than revenues and he knows of no evidence suggesting debt ratios are decreasing.

"Many State-owned enterprises have seen their debt ratio lowered in recent years, while they are in the process of getting listed.... " Li said. "But, during the current economic downturn, we may see an increase in the bankruptcy rate."

The average debt ratio among listed SOEs, he said, is above 60 percent, adding that 70 percent is normally the highest acceptable rate.

"A high debt ratio is largely the result of a lack of financing channels," said Wang Yuanjing, a researcher at the National Development and Reform Commission.

Wang said equity investment and private investment could provide financing to companies help lower debt ratios.

"It's hard to say whether corporate debt ratios are under control," Wang was quoted by China National Radio as saying.

"But once these troubles break out in one company, that may cause a chain reaction and lead to a debt crisis."

Fan Junlin, a senior analyst at the Agricultural Bank of China, expressed more optimism.

"Some said China would follow Japan on the path toward two decades of stagnation after debt troubles broke out, noting that the debt ratio among non-financial companies was 59.2 percent in the first quarter, which was up 7 percentage points from five years ago.

"In fact, the Chinese economy was running on one of the highest leverage ratios in the world in early 2000... That was a result of high deposit ratios and underdeveloped financing markets."

Fan said the Chinese government has the financial wherewithal to pay off the debts of companies in the country.

"Meanwhile, another important contributor to Japan's recession, a sharp decline in property prices, will not happen in China at this moment either," he said.

PROVIDED TO CHINA DAILY

A branch of the Industrial and Commercial Bank of China Ltd in Beijing. China's corporate debt-to-GDP ratio stood at 107 percent in 2011, the highest among all countries, raising concern about their financial stability.

Cash-rich Chinese firms urged to take acquisition trail to Japan

By **DING QINGFEN**
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It's been five years since Haier, the giant Chinese home appliance manufacturer, transferred its Asia-Pacific headquarters to Tokyo — and it's one of the best decisions the company has ever made, according to its Vice-President Du Jingguo.

GOING GLOBAL

"There are so many business opportunities in Japan, not only for big Chinese companies like ours, but also for small and medium-sized ones," said Du.

As financial pressures grip so many parts of the globe, Du said that it's a comfort to know that Japan remains in such good shape, despite the natural disaster which it suffered last year.

He said at a time when so many companies in China are being encouraged to look overseas for new business opportunities, as the economy at home slows, Japan is still teeming with opportunities that are too good to ignore.

"Japanese companies are packed with talent and many possess just the kind of qualities that appeals to Chinese business.

"We share high levels of technology, innovation and have the same business culture," added Du.

However, Japan is certainly not immune from the same economic pressures afflicting other parts of the world.

The third-largest economy is still recovering from last year's devastating earthquake and tsunami and nuclear crisis.

Recent data showed that Japan, one of the world's top exporters, is not exporting nearly as much as it used to, hurt too by a strong currency, which is making the country's products expensive to foreign buyers.

The Bank of Japan has forecast the country's economy will grow 2.2 percent this year and 1.7 percent the following year, and many Japanese companies are at the brink of bankruptcy.

"Japan's economic activity has started picking up moderately as domestic demand remains firm, supported mainly by reconstruction-related demand" following last year's natural disasters, the Bank of Japan has said.

"(But) there remains a high degree of uncertainty about the global economy, including the prospects for the European debt problem ... (and) the momentum toward a recovery for the US economy."

"For some companies from China looking to invest, the time could be fantastic to come here," added Du.

"There are so many good assets here, and we want to buy them up — but unfortunately, it's just not as easy as that," he said.

Haier has been highly successful in its Japanese ambitions in recent years.

In 2011, Haier and the Japanese electronics company Sanyo signed a memorandum of understanding about Haier's acquisition of Sanyo's refrigerator, washing machine and other electrical appliance businesses in Japan and some Southeast Asian nations.

Haier has two research centers and four manufacturing bases in Asia, and targets sales revenues worth 50 billion yen ($635 million) in Japan this year, up from last year's 10.8 billion yen.

Overseas drive

A component of the Chinese government's 12th Five-Year Plan (2011-15) is to encourage domestic companies of all types and sizes to invest overseas.

Industries suggested as priorities include the energy, manufacturing, service and infrastructure industries.

As the European debt crisis has spread, European nations with growing numbers of vulnerable companies in need of capital have been widely seen as ideal hunting grounds for acquisitive Chinese companies.

But Zhao Xiaogang, chairman of CSR Corp Ltd — one of China's train makers — added the picture in the troubled eurozone remains blurred in his opinion, and that investment closer to home might be more sensible at this time.

"I would suggest a more cautious 'wait-and-see' approach in Europe, until the time is absolutely right. The price of many deals might look attractive, but that doesn't necessarily mean they are good deals."

Zhao said he, like many investors, is more certain about Japan than he is about Europe, and his organization is planning further cooperation with the counterparts there.

"Amid the downward pressures at home, we cannot perform in a market which is shrinking.

"We want to join hands with Japanese companies, to try and develop our business especially in emerging markets, including Singapore and Hong Kong," said Zhao.

"Chinese and Japanese companies are highly complementary to each other."

His Zhuzhou-based train maker in Hunan province is already cooperating with more than 20 Japanese partners, including with the heavy industrial company, Kawasaki Heavy Industries Ltd.

In 2004, China bought an initial 60 trains from Kawasaki and the further development of that technology has been used by CSR Corp Ltd to eventually develop its CRH2 train in partnership with Kawasaki.

Early in 2009, CSR Sifang Locomotive & Rolling Stock Co Ltd, a subsidiary of CSR, and Kawasaki Heavy Industries Ltd won the contract to supply subway vehicles in Singapore, to be used on the country's north-south and east-west subway lines.

SEE "TIES" PAGE 17

Citigroup launches China share sale venture

By **BLOOMBERG** in shanghai

Citigroup Inc, the third-largest US bank by assets, started an investment-banking joint venture in China that will give it access to the world's second-biggest market for share sales.

Pan Xinjun, chairman of partner Orient Securities Co, will head the venture's six-member board of directors, and Ma Ji will be CEO, the New York-based bank said in an e-mailed statement on Monday. Shanghai-based Citi Orient Securities Co Ltd has registered capital of 800 million yuan ($126 million).

DEALS

The world's third-biggest underwriter of equity sales this year has lagged behind rivals Goldman Sachs Group Inc and UBS AG in forming a venture in China. CEO Vikram Pandit is grappling with a revenue slump in trading and investment banking as the European sovereign debt crisis roils markets and the global economy falters.

"This is the final piece of the jigsaw for the corporate investment bank in China," Stephen Bird, Citigroup's chief executive officer for Asia-Pacific, said at a briefing in Shanghai on Monday. "I don't think we are a latecomer. This is still the beginning for China."

Tying up with a local firm is a prerequisite for arranging equity offerings in China, where companies raised 293 billion yuan from share sales and 2.7 trillion yuan from debt issuance in 2011, according to data compiled by Bloomberg. China had the second-highest value of equity sales last year after the US.

The country in May agreed to raise the ceiling on foreign banks' ownership in investment-banking ventures to 49 percent from 33 percent, the US said after annual talks, without saying when the change would happen.

Citigroup plans to increase its ownership to the maximum when allowed to by the regulator, and Orient Securities agrees, Bird said. The third-largest US bank now owns 33.3 percent in Citi Orient, with the rest held by the Chinese partner.

"We have very high expectations of this joint venture. Our goal is for this to become a leading investment bank in China," Bird said, adding that the venture has about 200 executives and a "very strong" pipeline of deals.

Shengman Zhang, Citigroup's co-chairman of Asia-Pacific operations and Farhan Faruqui, head of corporate and investment banking for the region, will represent the US bank on the board, according to Monday's statement.

Domestic investment banks manage most stock and bond sales in China. UBS' China venture had 3.5 percent of the underwriting market for domestic equities last year, the most of any foreign bank, data compiled by Bloomberg show.

Citigroup, which plans to open its 50th outlet on the mainland on Tuesday, is set to meet its target of 100 outlets in two to three years, and almost doubling its workforce to 12,000 from 6,500, Andrew Au, Citigroup's CEO for China, said on Monday.

WU CHANGQING / FOR CHINA DAILY

Citigroup Inc and the Shanghai-based Orient Securities Co are setting up an investment-banking joint venture to enter the Chinese market for share sales.