SOEs undergo new set of reforms

By SHI JING in Shanghai
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POLICY

A new round of shareholding reform is happening among State-owned enterprises at various levels nationwide.

Shanghai-based Dazhong Insurance Co Ltd recently obtained approval from the China Insurance Regulatory Commission for a change in its equity ownership.

The State-owned Assets Supervision and Administration Commission of the Shanghai Municipal Government will transfer 39 percentage points of its stake in the insurer to the United States-based Starr International Co Inc.

The transaction will give Starr, which previously held a 20 percent stake in Dazhong, a majority 59 percent shareholding.

The transaction also will remake Dazhong from a State-owned financial company to a foreign-invested one, the first of its kind in Shanghai.

Zhuhai, in the southern province of Guangdong, is also undertaking reform of its local SOEs.

Zhuhai Gree Group Corp, wholly owned by the Zhuhai State-owned Assets Supervision and Administration Commission, will transfer its asset stake in Gree Real Estate Co Ltd to a newly established company. It will then sell an equity stake of less than 49 percent through a public tender to strategic investors.

The transaction was announced by Gree Electric Appliances Inc, a listed company that's the world's largest air conditioner manufacturer.

Encouraged by the move announced on Wednesday by China Petroleum & Chemical Corp (Sinopec) to open up to 30 percent of its retail business sector to private investment, petroleum and petrochemical stocks rallied on Thursday, even as the benchmark Shanghai Composite Index dropped 0.18 percent to 2,138.78 points. At least 10 stocks in this category rose by the daily limit of 10 percent.

"In our view, we may finally see meaningful progress in allowing private investment in railways, municipal services, finance, energy, telecommunications, education and health," said Jian Chang, chief China economist at Barclays.

Chang said the current wave of SOE reform has started with quality companies and quality assets.

"Local governments, facing rising financing costs, increased regulation of the shadow banking business, pressures to roll over debt and the need to cut overcapacity, will be active in seeking opportunities to restructure local SOEs," she said.

"The reform of SOEs is a huge project. It can be understood that it will be carried out at a slower pace," said Yang Weixiao, a senior analyst specializing in macroeconomics and fixed income with Lianxun Securities Co Ltd in Beijing.

New rules fail to quench home fever

By WANG YING in Shanghai
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REALTY

Just one year ago, the State Council announced new regulatory plans to stabilize property prices in major cities and rein in housing speculation but without success, indicating insufficient supply and robust inelastic demand are still pivotal forces in the market, according to analysts.

The new housing regulations announced a year ago contained five points: improving the accountability system for local officials in implementing home price stabilization work, firmly reining in speculative activity in home purchases, increasing common commercial properties and land supply, accelerating planning and construction of affordable housing projects and, finally, beefing up market supervision and regulation.

Although local officials were told to work out and announce their plans to control new-home prices, and warned that their performance in implementing the task will be evaluated, property prices in most major cities defied these efforts and continued to spiral up.

According to the so-called New Five-point Regulations, the State Council, asked all provincial capitals except Lhasa in the Tibet autonomous region to set a target to control local home prices.

However, in a statistical pool of 70 major Chinese cities, on a yearly basis, all cities apart from Wenzhou reported gains in new-home prices in December 2013, according to the National Bureau of Statistics.

First-tier cities continued to lead the rise in December, with the prices of new homes in Beijing and Shanghai surging more than 20 percent from a year ago.

That means local governments' plans to either keep property prices stable or make sure the surge in new home prices won't exceed that of local disposable income have failed.

According to Gu Yunchang, vice-president of the China Real Estate Research Association, the key to reversing excessive home price rises in the past decade was to increase supplies of land and affordable homes.

"We should let market forces play a more decisive role, with the government focusing on offering more subsidized housing in helping the poor," said Gu.

Gu said only by adding supply could the housing market reach a healthy balance in supply and demand and further cool home price fever.

> **More cities saw price growth ease in December, because a raft of government efforts to stabilize market expectation started to take effect..."**
>
> LIU JIANWEI
> SENIOR STATISTICIAN FROM THE NATIONAL BUREAU OF STATISTICS

But senior NBS official Liu Jianwei said that the regulations are starting to hit and the rising trend in local property markets has lost momentum.

"More cities saw price growth ease in December, because a raft of government efforts to stabilize market expectation started to take effect, which included more control measures and increased supplies of affordable housing," said Liu.

Following earlier tightening moves by first-tier cities such as Beijing, Shanghai, Guangzhou and Shenzhen, quite a few second-tier cities also announced curbs as soaring housing markets put their 2013 price-rise targets even further beyond reach at the end of last year.

Monthly price gains in Beijing, Shanghai, Guangzhou and Shenzhen retreated by 0.1 percentage point, 0.1 percentage point, 0.1 percentage point and 0.4 percentage point, respectively, from those seen a month earlier.

Chen Sheng, vice-president of the China Real Estate Data Academy, agrees with the trend, saying this fundamental change, although still yet to see a real effect, will gradually show results this year.

As the home market is going in different directions, the central government is happy to see more and more local governments using tailor-made local policies to deal with their own issues.

"This is much better than the former central government's unified policies, which may not quite fit into the local situation," said Chen.

Chen said apart from the four first-tier cities that saw an average home price surge of more than 20 percent in 2013, quite a few third-tier and fourth-tier cities saw their home prices declining, including Wenzhou in Zhejiang province, Erdos, in the Inner Mongolia autonomous region, and Yingkou in Liaoning province.

INVESTMENT IN CHINA HIGHEST IN ASIA-PACIFIC

Driven by development land sales in China's secondary cities, China recorded the highest volume of investments at $358 billion in 2013, more than 70 percent of the Asia-Pacific region, a report said.

In its latest survey, Investment MarketBeat 2013, Cushman & Wakefield, the world's largest privately held real estate consultancy, said that a record $487 billion has been invested in the real estate sector in the Asia-Pacific region, an increase of about 13 percent over the previous year.

Of the countries surveyed about investments, China remained the hot spot for investments with volumes of more than $358 billion in that market, with the emerging markets of China (all markets excluding Shanghai and Beijing) receiving in excess of $300 billion.

China's core markets, which ranked second, saw a rise in investment volumes of more than 50 percent recorded, at $57 billion.

Sigrid Zialcita, managing director of research, Asia-Pacific, at Cushman & Wakefield, said: "While China's growth is likely to cool from historical levels, investor sentiment has not waned.

"Its growth story — one of urbanization, rising affluence, a growing middle class and, now, a potential population boom because of the easing of China's one-child policy — continues to entice. The relevance of its secondary markets in an investment strategy will also grow with the availability of better, newer quality stock."

Japan came in third with investments of $44.6 billion being deposited in various asset classes, demonstrating a rise of about 26 percent year-on-year.

WANG YING

Guizhou sees sunny future in the cloud

By GAO YUAN
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TECH

Southwest China's Guizhou province is pinning its economic hopes on big data and cloud computing, local officials said on Thursday.

They hope to build Guiyang, the capital, into China's answer to India's high-tech hub of Bangalore.

"Guizhou is one of the least-developed regions in China, but it meets all the conditions to become the largest big data and cloud computing base in the country," said Chen Gang, Party secretary of Guiyang.

Guizhou is one of the lowest ranked provincial administrations in terms of gross domestic product and GDP per capita.

But a temperate climate, sufficient power supply and well-developed transport networks will help the city lure data center and cloud computing projects, said Chen.

"Guiyang edges out other Chinese cities when attracting IT projects because of these advantages. That's a opportunity for us to boost high-tech industries," Chen added.

The nation's Big Three telecom carriers are building cloud computing facilities in Guiyang, with cumulative investment thus far exceeding 15 billion yuan ($2.5 billion).

Industry insiders said cloud computing could be an efficient economic driver for Guiyang and other inland regions.

The turnover of data analytics-related businesses in Guiyang is projected to hit 54 billion yuan by 2016, local data said. That would be equivalent to one-third of the total output of the city's information technology industry.

About 200 big data companies are expected to be operating in the city by then, with more than 5,000 staff, it said.

Late last year, Guiyang teamed up with Zhongguancun, the biggest tech park in China, in a bid to boost the city's IT industry. So far, it's attracted at least 43.7 billion yuan in investment from companies based in Zhongguancun.

Qin Rupei, deputy governor of Guizhou, said the province plans to build a "top tier" cloud computing hub by 2020.

"Cloud computing business will spur the development of other industries such as hardware manufacturing, IT services and financing. All of these activities are critical to Guizhou's economy," said Qin.

Guizhou's ambitious cloud computing plan will face challenges from other inland provinces, which are also betting on new technologies to lift their economies.

The Big Three telecom giants are investing about 40 billion yuan in the region to build cloud facilities. China Telecom Corp Ltd, one of the Big Three, is setting up its largest cloud computing center in Hohhot, capital of Inner Mongolia.

Wang Xiaochu, chairman of China Telecom, said last year that it's time to install cloud computing facilities nationwide.

Shaanxi, Heilongjiang and Fujian provinces and the municipality of Tianjin have also launched cloud projects.

Chinese policymakers hope the growth of information consumption will give the economy a lift, especially as foreign trade remains weak.

Information consumption is likely to reach 3.2 trillion yuan by the end of 2015, according to the State Council, China's cabinet.

ZENG YI / XINHUA

An employee prints a receipt for a China Unionpay transaction at a shopping mall in London.

RMB clearing bank in London within sight

By EMMA DAI in Hong Kong
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FINANCE

A renminbi clearing bank in London is on the horizon, the UK chancellor of the exchequer said on Thursday. The move is expected to boost the supply of yuan products in Europe and boost the development of the offshore renminbi market.

"The UK and Chinese governments are in active discussions about the appointment of a renminbi clearing bank in London," said George Osborne, UK finance minister, when addressing the British Chamber of Commerce in Hong Kong. He said the first international renminbi conference in London will be hosted this summer.

London is now the only offshore renminbi center without an exclusive channel to obtain yuan liquidity and clearing service. Standard Chartered Bank joined with the Agricultural Bank of China in December to provide the services.

As the first offshore renminbi center, Hong Kong has had Bank of China as its renminbi clearing bank since 2003. BOC also was authorized by the People's Bank of China to be the yuan clearing bank for Taiwan at the end of 2012. Singapore acquired the Industrial and Commercial Bank of China as its clearing bank last February.

"It's very encouraging to hear the news," said Raymond Yeung, greater China senior economist for Australia and New Zealand Banking Group Limited (ANZ). "As the gate to access onshore market renminbi, a yuan clearing bank in London will boost the confidence of corporate clients across the Atlantic and thus encourage the usage of yuan as settlement currency for international trading.

"Besides, as a financial product innovation center, London will be able to contribute more yuan-denominated products," Yeung said.

"Given all the established partnerships, foreign companies will be more comfortable in developing renminbi products with banks they have been familiar with," said Steve Wang, chief China economist for Reorient Financial Markets Ltd.

"Instead of dim sum bonds under Chinese names, overseas investors would prefer companies they know. Even European sovereign wealth funds and pension funds would be interested in yuan products issued by blue chips."

Though starting late, London's yuan business is taking off. Last June, the UK signed a 200 billion yuan ($32.8 billion) currency swap deal with China, becoming the first G7 country to do so.

During Osborne's visit to Beijing in October, London was granted an 80 billion yuan investment quota under the Renminbi Qualified Foreign Institutional Investors program (RQFII). On Jan 9, the first RQFII exchange-traded fund listed on the London Stock Exchange, opening the doors for investments in Chinese stock markets in renminbi.

The latest report from the City of London shows that in the first half of last year, London experienced steady growth in renminbi business in trade-related services. The volume of letters of credit reached a total of 3.3 billion yuan, while a number of major banks saw an increase in requests from UK-based banking customers to make trade payments in renminbi.

"The rise of London as an RMB center is not necessarily harming Hong Kong. Without a clearing bank, there was not much RMB trade settlement there. So the new business means no loss to Hong Kong," said ANZ's Yeung. "On the contrary, we now have one counterparty for transactions."

"Competition between offshore renminbi centers such as Hong Kong, London and Singapore is a matter of fact. As an established international financial center, it's not a surprise to see London bearing bigger ambitions than the others," Wang added.

"However, healthy competition will only bring more variety. That's what investors want to see and will activate the market in a longer term."

According to Standard Chartered Bank, Hong Kong, by far the most buoyant offshore RMB center, is on track to reach the 1 trillion yuan milestone of renminbi deposits this year.

The Hong Kong Monetary Authority reported in January that yuan deposits in the city rose 4 percent to 860.5 billion yuan at the end of last year. The total remittance of renminbi for cross-border trade settlement amounted to 469.6 billion yuan.