



China News Brief

July 2, 2009

The Committee of 100 is pleased to provide the China News Brief as a resource for persons interested in news about China and the U.S.-China relationship. This daily service is prepared by Bryan Cave LLP.

### **[1. China requests reserve currency debate at G8](#)**

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### **[2. Hu, Obama to meet at G8 meeting in Italy](#)**

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### **[3. China opposed to tariff plan in US climate bill](#)**

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#### **4. China Allows Yuan Trade Settlement, Offers Tax Breaks**

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#### **5. China vows to further co-op with Indonesia**

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#### **6. Outbound investment unlikely to outstrip FDI**

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#### **7. China's economic recovery to be sustainable: economist**

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#### **8. Muted Recovery Seen in Asia, With a Long Way to Go**

Gradual stabilization in some economies, a muted recovery in others and a long way to go over all — that was the picture painted by a cluster of data from Asia on Wednesday after the remarkable slowdown of the last few months.

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## **9. Beijing to encourage foreign firms to list in China**

China will encourage foreign-funded firms to make share offerings in China, a senior Ministry of Commerce official said on Thursday during a wide-ranging briefing where he also flagged that annual declines in exports and imports began to improve in June.

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## **10. Shanghai hunts for overseas talent**

Business leaders and scientists are among a group of professionals who can extend their residency permits under a new policy designed to attract more talent to the nation's most populous city.

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## **11. State firms urged to do more dividend spread**

State-owned enterprises (SOEs) under the central government level have been urged to give minority shareholders a fair deal through more dividend payouts and thereby set an example for other listed companies.

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## **12. China Said to Plan to Raise \$5 Billion in Railway IPO**

China plans to sell shares in a holding company that will control the rail link between Shanghai and Beijing, raising about \$5 billion to fund railway expansion, two people with knowledge of the matter said.

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### 13. Hong Kong's Pro-Democracy March Draws Thousands

Thousands of people joined a pro-democracy march here on Wednesday, although the turnout fell short of a candlelight vigil held nearly four weeks ago to commemorate the 20th anniversary of the Tiananmen Square crackdown in Beijing.

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### 14. PC makers voluntarily supply Web filter in China

PC makers were including controversial Internet-filtering software with computers shipped in China on Thursday despite a government decision to postpone its plan to make such a step mandatory.

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## **1. China requests reserve currency debate at G8**

Reuters

Jul 01, 2009

China has asked to debate proposals for a new global reserve currency at next week's Group of Eight summit in Italy and the issue could be referred to briefly in the summit statement, G8 sources said on Wednesday.

One G8 source who was involved in the negotiations said China made the request during preparatory talks about a joint statement to be issued on the second day of the summit in L'Aquila by the G8 plus the G5 (Brazil, India, China, Mexico and South Africa) and also Egypt.

This forum, the so-called "G14", meets on July 9 to discuss the financial crisis, trade and climate change and for the first time a G8 summit will also produce a joint G14 statement.

The euro surged around half a cent to session highs above 1.42 against the dollar immediately after the news.

A European source with knowledge of preparations for the summit also said China had raised the subject of a reserve currency debate and that it might be mentioned during the meeting, though the source added: "Any country at the meeting can raise issues they see fit."

"But whether there is a specific mention in the communique remains open," said the European source, adding that sherpas would discuss this further in preparatory talks on Friday.

The debate centres on proposals by some emerging powers that an alternative should be found to the U.S. dollar as

the global reserve currency, to reflect the shifting balance of power in the globalised economy.

China has been particularly vocal. It holds more U.S. Treasury debt than any other country and has expressed fears that Washington's huge spending on economic stimulus programmes could spark inflation, hurting the value of China's dollar-denominated reserves.

China's central bank governor said in March the world should consider using the International Monetary Fund's Special Drawing Rights (SDRs) as a super-sovereign currency. The SDR is an international reserve asset allocated to IMF members and its exchange rate is determined by a basket of dollars, euros, sterling and yen.

Last month, Russian Finance Minister Alexai Kudrin even suggested that China's yuan could become a world reserve currency. Russia is the world's No. 3 biggest holder of foreign exchange reserves and has also expressed unease about the volatility of the dollar.

But China's proposal to use SDRs failed to gain ground after several world leaders, and officials from the IMF, backed the dollar as the global reserve currency.

Reporting by Reuters bureaux

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## **2. Hu, Obama to meet at G8 meeting in Italy**

China Daily News

Jul 02, 2009

President Hu Jintao will meet with his US counterpart, President Barack Obama, at the Group of Eight meeting in L'Aquila, Italy, next week, according to a White House official.

While China isn't a member of the G8, Obama will have a sideline meeting with Hu, US National Security Council spokesman Denis McDonough told reporters in a conference call in Washington. The two presidents had their first and only meeting April 1 in London before the Group of 20 summit.

Talks at the G8 gathering will center on assessing the economic recovery "and what further steps may be necessary to restore the global economy to balance growth," Michael Froman, Obama's deputy national security adviser for international economics, told reporters today.

He said talks also will include "how do we come out of this recovery in a way that doesn't go back to boom-and-bust cycles" and instead chart a course for steady growth.

"This will be more about exchanging views" than making sweeping announcements or "specific deliverables," he said.

The G8 includes the UK, France, Germany, Canada and Russia, in addition to the US and Italy.

Leaders also will confer on climate change, trade and economic security. More than 20 nations will be represented, accounting for about 75 percent of the global economy.

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### **3. China opposed to tariff plan in US climate bill**

The Associated Press

Jul 02, 2009

By Henry Sanderson

China said Thursday it opposed part of a landmark U.S. bill to cut greenhouse gas emissions, saying tariffs should not be imposed on countries that do not cut emissions.

"We are firmly against such attempts to advance trade protectionism under the pretext of climate change," Vice Foreign Minister He Yafei told reporters in Beijing.

The U.S. House of Representatives narrowly passed sweeping legislation Friday that calls for the nation's first limits on pollution linked to global warming. One provision could impose tariffs on imports from countries that do not make similar cuts.

"It is not conducive to world economic recovery and it serves nobody's interest," He said of that proposal.

The U.S. bill must still pass the Senate, and President Barack Obama has expressed reservations about the tariff measure. The Obama administration wants the bill passed by the end of the year, when negotiations for a new international agreement to reduce greenhouse gases get under way in Copenhagen.

Both the U.S. and China next week will attend the Major Economies Forum on Climate and Energy in Italy, a gathering of 19 nations and the European Union that together produce 80 percent of the world's greenhouse gases.

The forum is on the sidelines of a Group of Eight meeting. China attends the G-8 meeting as a member of the five large developing countries.

The meeting will likely be devoted to combating the world economic crisis, with attention on China as one of the key economies driving global growth during the slump.

He said China hopes the exchange rate of the U.S. dollar remains stable, but denied reports that China wants to put proposals for a new global reserve currency on the agenda. He said China would be willing to discuss the issue if it comes up.

The governor of the People's Bank of China called in March for a new global reserve currency to replace the dominant dollar. On Friday, the central bank repeated that call in an annual report on China's financial system but gave no new details about how or when Beijing wants the change to take place.

China's fortunes are deeply intertwined with the dollar. Beijing is the world's largest holder of U.S. debt, which it buys with its vast foreign currency reserves.

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#### **4. China Allows Yuan Trade Settlement, Offers Tax Breaks**

Bloomberg  
Jul 02, 2009

By Bob Chen and David Yong

China's central bank allowed companies to undertake settlement of cross-border trade in the yuan and promised tax breaks, seeking to reduce the reliance of importers and exporters on the U.S. dollar.

The People's Bank of China will encourage banks to offer yuan settlement services from today, the bank said in the regulations published on its Web site. Transactions inside China will take place in Shanghai and four cities in the southern Guangdong province, while those outside of China will occur in Hong Kong, Macau and the Association of Southeast Asian Nations, it said.

"Companies in China and neighboring countries are facing relatively huge risks of exchange-rate fluctuations because of big swings in the U.S. dollar, the euro and other major settlement currencies," the central bank statement said.

China is promoting greater use of the yuan in international trade and finance after Premier Wen Jiabao in March expressed concern that a weakening dollar will cause losses on holdings of U.S. assets. A Chinese Foreign Ministry official said today he hoped the greenback would remain stable, while reiterating a call for diversification of the international monetary system.

"It's China's first step to make the yuan global," said Shi Lei, an analyst in Beijing at Bank of China Ltd., the nation's largest foreign-currency trader. "It will protect exporters from swings in exchange rates and boost the yuan's role in the world currency system."

Hong Kong Monetary Authority Chief Executive Joseph Yam said on June 29 he hopes the first yuan settlement transactions will start this month after signing an agreement with People's Bank Governor Zhou Xiaochuan. Companies currently have to convert yuan into dollars or other currencies to settle international trade.

#### **Tax Breaks**

Tax authorities are working on the proposed rebates for exports settled in yuan, the central bank said. Bank of China Ltd. will be the clearing bank in Hong Kong and Macau.

About 50 percent of Hong Kong's trade with China may be settled in yuan after the program starts, Stanley Wong, deputy general manager at Industrial & Commercial Bank of China (Asia) Ltd., the Hong Kong unit of China's biggest bank, said in an interview on May 5. Hong Kong companies want to use yuan in trade because it will

probably appreciate against the U.S. dollar more than 3 percent every year, he said.

### Strengthening Currency

The Chinese yuan has strengthened 21 percent against the U.S. currency since a dollar peg was scrapped in 2005. China has limited the yuan's advance in the past year as a stronger currency makes its goods less competitive overseas at a time when the economy is forecast by the World Bank to expand 7.2 percent in 2009, slowing from 9 percent last year.

The People's Bank of China has agreed to provide 650 billion yuan (\$95 billion) to Argentina, Belarus, Hong Kong, Indonesia, Malaysia and South Korea through so-called currency-swaps to expand its usage. China and Brazil in May began studying a proposal to move away from the dollar to settle trade and use yuan and reais instead. Asean comprises Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

Malaysia's government has been calling for reduced dependence on the dollar for "some years" and now that China is supporting yuan settlement it is worth considering, said Tan King Tai, an executive director at Pensonic Holdings Bhd., a manufacturer of household electrical appliances in the northern Malaysian state of Penang that sources parts from China.

"The dollar has become quite volatile and speculative in some ways," he said. "If the yuan can be stable, it will help companies with their financial budgeting."

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## 5. China vows to further co-op with Indonesia

Xinhua

Jul 01, 2009

China on Wednesday called for more cooperation with Indonesia to push forward bilateral ties.

"China and Indonesia are strategic partners," Vice Premier Li Keqiang said when meeting with visiting Indonesian Foreign Minister Hasan Wirayuda.

Li said that the bilateral ties had stepped into a track of mature, rapid and stable growth, with increasing mutual political trust, effective cooperation in various areas and close coordination in major international and regional affairs.

The two nations, both as major developing countries, shared broad common interests and enjoyed great potentials in making win-win cooperation, according to the vice premier.

Chinese Foreign Minister Yang Jiechi also told Hasan during their talks that the China-Indonesia friendly cooperation had made achievements continuously.

According to Yang, the meeting of the China-Indonesia dialogue mechanism of vice premier level was held successfully. The longest cross-sea bridge in Southeast Asia, the Suramadu Bridge linking East Java province and Madura Island in Indonesia, was completed and opened to the public this June with China's support.

In 2008, the trade value between China and Indonesia reached 31.5 billion dollars -- already above the initial target set for 2010 at 30 billion dollars.

"China attaches great importance to the important and active role Indonesia plays in the regional and international affairs," said Yang.

Hasan agreed that Indonesia-China relationship was experiencing a healthy development.

He reiterated Indonesia's adherence to the one-China policy.

The two foreign ministers signed an agreement on extradition between the two countries after their talks.

Hasan was here on an official visit from July 1 to 2 at the invitation of Yang.

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## **6. Outbound investment unlikely to outstrip FDI**

China Daily News

Jul 02, 2009

Despite a surge in Chinese overseas direct investment (ODI) in recent years, it is unlikely to outpace inbound foreign direct investment (FDI) in 2009, government officials and experts said on July 1.

Responding to recent forecasts by foreign banks and other organizations that ODI may overtake FDI, they said it is not likely to happen soon, at least not this year, partly due to Chinalco's \$19.5 billion failed bid last month to raise its stake in Rio Tinto, the world's third-largest mining company.

Even though Chinese National Petroleum Corp, joining hands with British energy giant BP, won the bid to develop Iraq's biggest oilfield on Tuesday, it may not significantly raise overall ODI this year because most deals signed in the past few months are "of small volume".

The Ministry of Commerce will hold a press conference this morning at the 13th China International Fair for Investment and Trade where it is expected to talk about ODI prospects.

"The truth is the number of ODI cases is rising, but the volume is still going down, as many cases are still small," said Chen Rongkai, a division director at the ministry.

In the first quarter, ODI cases grew by 7 percent to 445, but the volume was down by a big margin, according to Caijing magazine, which quoted ministry officials who did not reveal the figures. The first-half ODI figure is expected to be released soon.

The officials said the government would roll out policies to encourage ODI to leverage the opportunities generated amid the financial crisis.

Last month, the government said it would relax foreign exchange curbs from Aug 1 on firms wanting to invest abroad, with up to \$30 billion dollars expected to flow out.

And in March, the commerce ministry announced local governments had been given increased powers for approving ODI.

"There will be more such official measures to stimulate Chinese ODI," Chen said.

Considering that many foreign companies hurt by the economic recession are eager to sell assets and the growing keenness of Chinese companies on expanding overseas, many said this year would herald a wave of ODI flows. They forecast that it could even surpass FDI, which has contracted for eight consecutive months, a trend tipped to continue until early next year.

Standard Chartered Bank said in April that Chinese ODI could reach \$150-180 billion this year, way ahead of the projected \$80-100 billion in FDI.

Last year, Chinese ODI was \$52.1 billion, while FDI was \$92.4 billion, almost double.

Li Jianfeng, macro-economy analyst at Shanghai Securities, said: "It is impossible for FDI to be easily outstripped by ODI even though FDI growth is negative. ODI growth will be gradual."

Also, industry insiders said, Chinese companies planning large-scale overseas investments face protectionist and national security barriers set by governments.

For Li Jianfeng, "ODI is one way to relieve the growing pressure that China is under because of increasing foreign exchange reserves and to promote the internationalization of the yuan".

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## **7. China's economic recovery to be sustainable: economist**

Xinhua

Jul 02, 2009

Fan Gang, China's renowned economist and central bank advisor, said Wednesday that China's economic recovery is poised to make a U-turn.

Fan, director of the National Economic Research Institute, made the comment at a financial forum organized by Globe, a biweekly magazine run by Xinhua News Agency.

"I believe the current recovery has been confirmed and can be sustained," said Fan, also a member of the monetary

policy committee of the People's Bank of China, the country's central bank.

Fan said he was optimistic about China's economic recovery, adding that the recovery would take the shape of a narrow-bottomed "U", instead of an "L", indicating a period of continued slow growth, or a "W", marking fluctuations in the recovery.

Fan said the country's response to the financial crisis, including a 4-trillion-yuan stimulus package and a record budgeted deficit of 950 billion yuan (139 billion U.S. dollars) for 2009, would be sufficient to sustain a certain growth despite the slowdown.

He forecast that investment from the private sector would become active again next year following huge government investment.

Fan also said that China's slowdown reflected its own growth cycle, from showing signs of overheating in 2004 and 2005 to slower growth later on, partly in response to government moves to prevent the economy from overheating.

He added that it was misinterpretation to say China's slowdown was solely a result of a slump in global demand.

China's GDP growth slowed to 9 percent in the third quarter of 2008, then slumped to 6.8 percent in the fourth quarter and further down to 6.1 percent in the first quarter of 2009.

Economists and officials are expecting a higher growth for the second quarter, compared with that of the first quarter. The government is scheduled to release the official figure in mid July.

Latest statistics seemed to suggest a clear recovering trend, as China's Purchasing Managers' Index (PMI), which includes a package of indices that measure economic performance, stood at 53.2 percent in June, according to the China Federation of Logistics and Purchasing.

The figure was up 0.1 percentage points from May. A reading of above 50 suggests expansion, while below 50 indicates contraction.

Premier Wen Jiabao said on June 17 that China's economy was at a critical moment as it had begun to recover "steadily".

A week later, the National Bureau of Statistics said the slowdown in the world's third largest economy had bottomed out and it was expected to grow about 8 percent in the second quarter.

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## **8. Muted Recovery Seen in Asia, With a Long Way to Go**

The New York Times

Jun 30, 2009

By Bettina Wassener

Gradual stabilization in some economies, a muted recovery in others and a long way to go over all — that was the picture painted by a cluster of data from Asia on Wednesday after the remarkable slowdown of the last few months.

In Japan, the closely watched Tankan survey of big manufacturers, conducted quarterly by the Bank of Japan, bounced back in June from a record low in March, coming in at minus 48, the bank announced Wednesday.

In China, an official purchasing managers' index rose for a fourth consecutive month in June.

And South Korea reported that exports in June were 11.3 percent lower than a year earlier, a much smaller decline than the surprisingly poor 28.5 percent fall recorded in May.

“I believe the current recovery has been confirmed and can be sustained,” said Fan Gang, an economist who advises the Chinese central bank, Reuters reported. President Lee Myung-bak of South Korea, however, said that the government remained cautious about the economic outlook.

In Japan, the Tankan business survey rebounded, but to a much lower reading than economists had expected. While the reading was better than the minus 58 registered three months ago, it remained a negative reading indicating that pessimists still outnumbered optimists.

Moreover, the survey also showed that businesses had become even warier about plans to purchase machinery and other items, suggesting that many would make more layoffs and cut costs as they braced for a prolonged downturn in foreign demand for goods.

Big manufacturers surveyed in the June Tankan said they planned to cut capital spending by 24.3 percent in the year that began April 1. In the March survey, the estimate was 13.2 percent.

“The massive fall in capital expenditure plans has dispelled any optimism about the speed of recovery in Japan,” said Glenn Maguire, an economist at Société Générale in Hong Kong.

At a briefing in Paris, Takatoshi Ito, a University of Tokyo economics professor and a former finance ministry official, said, “We are nowhere near declaring that we are past the bottom — that the worst is over.”

Likewise, the recovery in the purchasing managers index in China was muted, while a similar index in India slipped to 55.3 in June, from 55.7 in May.

Unlike the United States and Europe, the indexes have been above the 50 mark that separates expansion from contraction for several months, showing both countries' relative resilience in the face of the global downturn. The June index for the euro zone, also released Wednesday, rose to 42.6, from 40.7 in May.

In China, the June reading moved up only slightly, to 53.2 in June, from 53.1 in May. A separate index compiled by the brokerage firm CLSA rose to 51.8, from 51.2 in June, its highest level since July 2008.

The rises reflect big stimulus expenditures in China, which has more leeway than governments elsewhere to pump money into the economy.

In November, Beijing announced a two-year spending program worth 4 trillion renminbi (\$585 billion) which, combined with rate cuts and soaring lending by banks, have propped up the economy and helped offset the impact of falling exports.

“It was the third straight month in which firms’ order books have improved, following a period of contraction that lasted eight months,” CLSA said in a note accompanying its survey Wednesday, adding that the data also showed that foreign orders had risen for the first time in 11 months.

But CLSA also struck a note of caution, echoing many economists’ warnings that recent global data signaled mere stabilization at this stage, rather than all-out recovery.

Many economists also worry that recent signs of improvement in parts of Asia may be tied to one-time effects like improved credit conditions and the restocking of inventories by companies.

“The unfreezing in credit conditions helped provide a boost in recent months,” said Mr. Maguire of Société Générale. “But we will need a recovery in final demand in Western economies for that to be sustained.”

Cat Contiguglia contributed from Paris.

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## **9. Beijing to encourage foreign firms to list in China**

China Daily News

Jul 02, 2009

China will encourage foreign-funded firms to make share offerings in China, a senior Ministry of Commerce official said on Thursday during a wide-ranging briefing where he also flagged that annual declines in exports and imports began to improve in June.

China has talked for at least a decade about allowing foreign firms to list shares domestically, but has made little progress on the initiative.

"We will continue to work with other departments on policies regarding domestic IPOs of foreign firms to actively guide high-quality foreign firms to make IPOs in China," Chen Jian, a vice-commerce minister, told reporters.

HSBC, Europe's largest bank, could be in the running to be the first to list.

The bank, with a Shanghai branch office that opened some 150 years ago, has gained a lot of goodwill for promising not to sell its strategic investment in Bank of Communications while other foreign banks rushed to the exits.

Chen said Beijing was also looking at ways to encourage inflows of foreign direct investment.

"In order to boost investor confidence and expand the inflow of foreign investment, the Ministry of Commerce is working with other departments to develop measures to stabilise FDI inflows," Chen told a news conference.

Annual foreign direct investment (FDI) inflows have more than doubled in the past 10 years, especially since China joined the World Trade Organization in 2001.

Last year, FDI surged to \$92.4 billion from \$74.8 billion so far in 2009, however, monthly inflows have dropped from year ago levels, due to the financial crisis.

China is facing the first "comprehensive fall" in FDI since the Asia Financial crisis in 1998, said Chen.

Beijing was looking in particular at foreign investments that could help China's economic upgrading, create jobs and improve the environment, he said.

### June Trade Improvement

The country's outbound investment fell in the first half of the year from a year ago, but Chen said he expected overseas investments flows to return to strong growth in the future, without giving any timeline.

China continued to support domestic companies with ambitions to invest overseas, but said many Chinese firms still lacked the experience operating in foreign markets, he said.

Sichuan Tengzhong Heavy Industrial Machinery, a little-known Chinese machinery maker with no experience in the car industry, raised eyebrows in June when it unveiled a tentative plan to take over Hummer from General Motors.

Doubts about whether the deal would get Beijing's approval have been swirling as many believe Tengzhong lacks the experience and expertise to revive money-losing Hummer's operations.

"The Ministry of Commerce's attitude is that it is the company's own business, and we would mainly look at whether you have the ability," said Chen, who emphasized that his ministry had not yet received any application from Tengzhong for the planned acquisition.

While China looked at ways to increase investment flows, the year-on-year decline in exports and imports began to improve in June from previous months, he said, without providing any specific numbers.

Official June trade figures are expected to be released next week.

In April and May, exports and imports both fell more than 20 percent from year-earlier levels.

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## **10. Shanghai hunts for overseas talent**

China Daily News

Jul 02, 2009

Business leaders and scientists are among a group of professionals who can extend their residency permits under a

new policy designed to attract more talent to the nation's most populous city.

The policy, which took effect Wednesday, allows a greater number of overseas investors and professionals working in the city's Pudong district the opportunity to extend their residency permit to five years - the maximum term allowed in China with exception of the permanent residency pass.

The residency reform was approved by the Ministry of Public Security to help the city of nearly 20 million become more attractive to expatriates and help evolve the city into a larger financial hub by 2020.

Official statistics show more than 100,000 expatriates are currently working and living in Shanghai, the highest among all mainland Chinese cities. In Pudong alone, the number is over 48,000.

The group allowed under the new policy includes high-tech company executives, multinational leaders, scientists and professors employed by China's key institutions of higher learning, and those who have made "a great contribution" to the city, said the municipal public security bureau in a media briefing Wednesday.

Executives from companies in Pudong with a registered capital volume over \$3 million are eligible for the extension, down from the \$30 million threshold under the previous policy.

The plan also applies to eligible applicants' spouses and children under 18.

"(The extension of residency permit) in the past was only enjoyed by people from big name multinational companies with their regional headquarters in Shanghai, but now those from private enterprises investing here can also do that," said Zhang Xinguang, spokesman from the Bureau of Exit-Entry Administration under the public security bureau.

Shanghai has seen an increasing inflow of foreigners coming to work here, said Sun Hande, director of the labor and employment center for foreigners under the municipal labor and social security bureau.

The number has grown by 13 times over the past 13 years, he said.

Myrthe Beulens, a woman in her 30s from Holland who came to the city two years ago with her husband, said the new rule is "very convenient" since they no longer have to renew them every year.

She and her husband, a manager at a foreign company in Shanghai, both received the extended residency permits Wednesday from one to three years.

"I enjoy living in China and especially in Shanghai, to work here and to develop our careers, so we are very happy with this opportunity (to stay longer).

"It's nice to think that the government here wants us to stay longer," she said.

Ge Hua, human resources manager from BASF Auxiliary Chemicals Co Ltd in Shanghai, told China Daily that the new rule could not only help the city attract more talent, but also reduce managing costs for companies.

But Sun said that Shanghai may have "a long way to go" before it lives up to the expectation of an international city,

he was quoted as saying earlier last month by the Oriental Outlook.

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## **11. State firms urged to do more dividend spread**

China Daily News

Jul 02, 2009

By Bi Xiaoning

State-owned enterprises (SOEs) under the central government level have been urged to give minority shareholders a fair deal through more dividend payouts and thereby set an example for other listed companies.

For years, publicly-traded companies, most of which are majority owned by the State, have always been chary about paying dividends, chiefly because the management's major concern was to conserve capital to finance growth.

This has become a hotly debated issue as the Chinese stock market is drawing in more and more funds from institutional investors, especially pension funds that count dividend income as an important source of regular income.

Noting that SOEs have been more generous in payouts, Li Rongrong, minister of State-owned Assets Supervision and Administration Commission (SASAC), however, said that was not enough. "We will try to encourage more listed SOEs to pay cash dividends," said Li.

It is quite common for listed companies to skip dividends, denying minority shareholders a share of the profit.

Only 249 listed companies posted a loss in 2008, yet 726 firms, or nearly 45 percent of the total, did not pay any dividends to shareholders, according to financial data provider Wind Info.

Shenyang Jinbei Automotive Co Ltd, which has not paid any dividend for 15 years, has become the butt of jokes on the Internet. It's nicknamed "the miser" by investors and scoffed at by analysts and bloggers.

According to global risk management consultancy Protiviti, only about one-10th of the listed Chinese companies pay dividends regularly. The ratio of cash dividend to net profit of companies listed on the mainland has remained much lower than those in mature markets.

"The ratio of cash dividend to net profit of Chinese listed companies was 29 percent in recent years, while the ratio was about 50 percent for the mature markets, such as Japan and Britain. There is still much room for Chinese listed companies to improve," said Christopher Low, president, Protiviti Greater China.

The listed companies should take responsibility to offer stable investment returns to shareholders, which will benefit the long-term development of the companies and help build a healthy capital market, Low said.

China's policymakers have tried to roll out policies to encourage long-term investment and reduce market volatility.

In October 2008, the China Securities Regulatory Commission (CSRC) required those listed firms that applied for refinancing to pay dividends in cash totaling no less than 30 percent of its distributed profits over the past three years.

The CSRC also tried to abolish the stock dividend tax since February 2004. However, various parties haven't reached a consensus. The current tax rate for dividends remains at 20 percent.

"Once the stock dividend tax is abolished, the key shareholders of listed companies may have less disputes over the cash dividend payout. So, more cash dividend payment plans are likely to get passed at board meetings," said Zhao Xijun, a professor at Renmin University of China.

"The dividend payment status also reflected the growing process of a capital market. The proportion of listed companies that paid cash dividend is increasing year after year," said Li Daxiao, director of the research department at Yingda Securities.

According to statistics, in 2005, about 38 percent of the companies that were listed on the domestic market paid cash dividends. In 2006, this proportion improved to 45 percent. It touched 50 percent in 2007.

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## **12. China Said to Plan to Raise \$5 Billion in Railway IPO**

Bloomberg  
Jul 02, 2009

By Cathy Chan and Bei Hu

China plans to sell shares in a holding company that will control the rail link between Shanghai and Beijing, raising about \$5 billion to fund railway expansion, two people with knowledge of the matter said.

China International Capital Corp., JPMorgan Chase & Co., and Macquarie Group Ltd. have been hired to arrange the initial public offerings in Hong Kong as early as the second quarter of next year, said the people, who declined to be identified before a public announcement. The government also plans a domestic offering, the people said.

China's securities regulator lifted a moratorium last month on public offerings, imposed in September after the stock market plunged 60 percent. The nation's investment in railway expansion more than doubled in the six months to May from a year earlier, after China announced its 4 trillion yuan (\$585 billion) stimulus plan in November.

"The government has been planning the rail IPOs for years, waiting for the right time," said Wang Qingyun, head of infrastructure development at National Development and Reform Commission, in Shanghai on June 25. He declined to give a timetable for the rail IPOs.

Assets

The major assets of the holding company will include the existing Shanghai-Beijing rail line and the Shanghai Rail bureau operations, the people said. The high-speed Shanghai-Beijing rail line, which is under construction, will not be included, one of the people said.

The funds will be used for general expansion of the company's railway network, according to the people.

"It's the government's basic policy to finance railway construction in various ways including non-government sources," said spokesman Wang Yongping. He declined to comment on the timing or amount of any share sale. JPMorgan spokeswoman Marie Cheng and Macquarie spokesman Paul Scanlon declined to comment and CICC spokeswoman Jiang Luyang could not be reached for comment.

As many as 100 companies may be reviving Hong Kong IPO plans after last year's equities rout delayed sales scheduled for 2008, said Jonathan Penkin, Goldman Sachs Group Inc.'s Hong Kong-based head of equity capital markets in Asia outside Japan.

China's locomotives haul about one-fourth of global rail traffic on tracks accounting for about 6 percent of the worldwide train network.

Daqin Rail, operator of China's biggest coal transport line, raised 15 billion yuan in an initial share sale in 2006. The shares rose 27 percent this year, compared with a 61 percent increase in the Shanghai Composite Index.

--Irene Shen. Editors: Bret Okeson, John Liu

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### **13. Hong Kong's Pro-Democracy March Draws Thousands**

The New York Times

Jul 02, 2009

By Keith Bradsher

Thousands of people joined a pro-democracy march here on Wednesday, although the turnout fell short of a candlelight vigil held nearly four weeks ago to commemorate the 20th anniversary of the Tiananmen Square crackdown in Beijing.

An enormous crowd for the annual June 4 candlelight vigil, the largest since 1990, had raised the hopes of Hong Kong democracy advocates that the same enthusiasm might carry over to their movement. The movement has been struggling after several small successes from 2003 to 2005, including winning support for blocking the government's planned introduction of stringent internal security legislation.

The immediacy of democracy demands here has faded somewhat as Beijing officials have ruled out direct elections for the chief executive until 2017 and the legislature until 2020.

The march on Wednesday, on the 12th anniversary of Hong Kong's return to Chinese rule after 156 years of British

control, nonetheless drew a large crowd.

Many marchers said they were dissatisfied with government policies to deal with the economy. Unemployment in Hong Kong rose sharply over the winter and leveled off this spring at 5.3 percent — a little over half the rate in the United States, but a shock for a territory where the rate was 3.2 percent last summer.

But the largest single issue seemed to be the limits on democracy in Hong Kong. “The majority comes here for democracy, but there are other grievances against government policy,” said Sin Chung Kai, vice chairman of the Democratic Party.

When Britain returned Hong Kong to Chinese rule in 1997, the Chinese government initially held out the possibility of full democracy after 2007, including the concept in the Basic Law, Hong Kong’s miniconstitution, but stopped short of an unequivocal promise of how and when to achieve universal suffrage.

A committee of 800 people, most with connections to Beijing, chooses the chief executive here, who must then be appointed by leaders in Beijing before taking office. Half the legislature is chosen by the public and half by a variety of interest groups, including banks, chambers of commerce, trade unions and lawyers.

The police estimated that 26,000 people had assembled in Victoria Park on Hong Kong Island as the march began. The organizers had said that they expected more to join the march along the way, and they estimated that 76,000 people took part.

The police had estimated the crowd at the June 4 Tiananmen vigil, at the same location in Victoria Park, at 62,800, while organizers put it at 150,000.

The vigil did have some carryover effect on Wednesday’s march. Jupiter Chan, a 24-year-old graduate student, said that the vigil prompted him to come to the annual democracy march this year for the first time since 2003.

“I was touched by the Fourth of June ceremony, and I felt that if I didn’t come this year, I would regret it later,” he said.

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#### **14. PC makers voluntarily supply Web filter in China**

The Associated Press

Jul 02, 2009

By Joe McDonald

PC makers were including controversial Internet-filtering software with computers shipped in China on Thursday despite a government decision to postpone its plan to make such a step mandatory.

Beijing's decision this week to delay the requirement that the filtering software - known as Green Dam - be pre-installed or supplied on disk with all computers sold in China averted a possible trade clash with the United States

and Europe. But the move by some makers to include the software anyway could re-ignite complaints by Chinese Web users.

Also Thursday, a government newspaper said regulators will revive the plan to make Green Dam mandatory at some point, a move that would disappoint opponents who hoped the government would drop the effort.

Taiwan's Acer Inc. - the world's No. 3 PC maker - Sony Corp. and China's Haier Group said they were shipping Green Dam on disks with computers for sale in China. China's Lenovo Group, the No. 4 producer, said it would offer the software pre-installed or on disk. Taiwan's Asus Inc. said it was preparing to supply Green Dam disks with PCs. Taiwanese laptop maker BenQ Inc. said the system was on the hard drives of its computers.

Acer was supplying Green Dam because disks were already packed with PCs before the government postponed the plan, that had been due to take effect Wednesday, said a company spokeswoman, Meng Lei. Lenovo said it also was going ahead with plans made before the Green Dam order was postponed.

Hewlett-Packard Co., the world's top PC manufacturer, said it was working with the U.S. government to get more information and declined to comment further. No. 2 Dell Inc. said it was not including Green Dam with its PCs.

Chinese authorities said the software is needed to shield children from violent and obscene material online. But experts who examined it said Green Dam also would block material the government deemed politically unacceptable.

Sony said it does not know how long it will continue to supply the software.

"What we will do in the future is still undecided because it will depend on the situation," said Sony spokesman Shinichi Tobe.

A Toshiba Corp. spokeswoman, Yuko Sugahara, said the company was deciding how to proceed.

An official of the Ministry of Industry and Information Technology quoted Thursday by the China Daily said regulators will revive the plan to make Green Dam mandatory.

"The government will definitely carry on the directive on Green Dam. It's just a matter of time," the unidentified official was quoted as saying.

Beijing operates extensive Internet filters to block access to material considered obscene or subversive. Still, Chinese Web users were outraged by Green Dam, which would have raised screening to a new level by putting it on each computer.

The controversy was sensitive for global computer makers, for which China is both a major market and the production site for up to 80 percent of the world's PCs.

Washington and the EU have complained that the Green Dam order, imposed abruptly in May, might violate China's free-trade pledges because manufacturers got too little notice and no time to comment. Producers had little time to test the software, made by an obscure Chinese company, and industry groups warned it might cause security problems.

American diplomats have been talking with Chinese officials about the plan. The U.S. Embassy in Beijing said Thursday it had no information on the status of talks. European Union officials have also objected to the plan.

Green Dam already is in use in Chinese Internet cafes and manufacturers say it has been supplied since early this year with PCs sold under a government program to subsidize appliance purchases in the poor countryside.

Associated Press researcher Bonnie Cao in Beijing and AP Business Writer Yuri Kageyama in Tokyo contributed to this report.

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### **About the Committee of 100**

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