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China's markets in the red. Every time equity markets in the west plunge, China's woes are cited as a factor

Can China get its rebalancing right?

By Yukon Huang

Headlines about China's economy have been uniformly alarming. Every time equity markets in the west plunge, Beijing's woes are cited as a factor with its plunging equity indices, rising debt ratios and exchange rate under pressure. Even with more sensible interventions, or perhaps none at all, increased volatility in the country's financial markets is becoming the norm as its economy becomes more globalised and subjected to the same market pressures as other nations.

Although a "hard landing" is highly unlikely, the economy is slowly haemorrhaging and this could continue for years unless a sustainable growth path is established. To some extent, however, the pervasive pessimism surrounding China's prospects is overdone. After all, excluding India, its growth rate of about 7 percent is higher than that of any of the other major economies surveyed by the World Bank. And even if it declines to say 5-6 percent by the end of this decade, the "new normal" would still be much better than in the rest of the world.

> **The 'real' gap in the relative share of services and industry will become evident once the current deflationary cycle in producer prices is over**

The concern, therefore, is about the transition to a new growth path. The more optimistic observers see positive signs that the middle kingdom is finally rebalancing from an investment- and manufacturing-led economy to one more dependent on consumption and services. Progress is indicated in the share of consumption relative to gross domestic product having increased by 2-3 percentage points and the share of services by 6 percentage points since 2011.

But this focus on rebalancing is misplaced. The shares are an outcome of the growth process and not objectives in their own right or policy levers to be manipulated. The growth rate of real consumption has remained robust and steady at 8-8.5 percent for more than a decade. With GDP growth slowing to less than 7 percent, the share of consumption will automatically increase. But the growth rate of consumption is not actually increasing and will soon decline as the labour market softens. The pace of rebalancing will then moderate.

The recent surge in the share of services to GDP to 50 percent and commensurate decline in the share of industry to 40 percent overstates the extent to which the structure of production has evolved. As recently as 2012, both shares were 45 percent. The striking shift in just a few years is largely explained by the widening difference in price deflators used to value their respective contributions to GDP.

The more labour-intensive services sector has been buoyed by sustained high wage increases. Meanwhile, sharp declines in commodity and producer prices have reverberated negatively on the valuation of industrial production. The "real" gap in the relative share of services and industry will become evident once the current deflationary cycle in producer prices is over.

Much of the recent negative news coming out of China's financial markets is symptomatic of much earlier misguided policy choices. The collapse of the equity market is the result of a poorly thought-through strategy developed in 2014 to talk up equity prices so state-owned enterprises could float shares to pay off their excessive debts. Once a bubble was created no amount of policy intervention could forestall a collapse.

The risks in its exchange rate markets came from the rush to internationalise the renminbi. This meant it needed to be both strong and more market driven which, given the country's current economic situation, is a contradiction that cannot be resolved through policy interventions.

The resulting firefighting in the financial markets has diverted attention away from addressing significant distortions in its real economy that have impeded the transition to the new normal.

The issue that needs more attention is how to deal with the supply and demand impediments holding back more sustainable growth. But the definition of "supply" is not what Beijing has in mind when it talks about eliminating excess capacity (which does need to be addressed) but rather about taking actions to increase productivity. And "demand" involves reforms to encourage growth in consumption and investment in a less debt-fuelled manner. There is not yet enough evidence to show that the leadership is following through on these concerns.

Most of the current debate has been on the need for more market-based reforms to correct the workings of China's financial markets. But it is equally important to address the distortions in the real economy that have impeded the more efficient use of both labour and capital. Investment returns have fallen significantly in recent years, as has productivity. The depressing effects of the global financial crisis are, of course, partly to blame but the inhibiting effects of longstanding restrictive policies are taking their toll.

China's restrictive "hukou" or residency policies have been a focus of considerable attention. According to research from Peking University, the unique hukou system of China distinguishes China's internal migration from migration in other developing countries".

Beijing has been liberalising these policies gradually, but they limit workers' ability to move to the largest cities where labour productivity is the highest and the potential returns to investments the greatest. Similarly, the country has the most restrictive policies relative to other major economies regarding investment in higher value services such as communications, social services, legal, insurance and financial services.

Allowing a freer flow of labour to where the most productive jobs are and liberalising investment entry in higher value services would address both the supply and demand concerns needed to improve productivity and encourage more sustainable growth in consumption and investment.

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PERSON IN THE NEWS

Ren Jianxin: Merger master with staying power

By Tom Mitchell and Ralph Atkins

AP PHOTO

Ren Jianxin, Chairman of ChemChina (China National Chemical Corporation), speaks during the annual press conference of agrochemical company Syngenta in Basel, earlier this month

Ren Jianxin did something remarkable after announcing the biggest ever outbound acquisition by a Chinese company: he answered questions from reporters.

Judging by the opaque standards of Mr Ren’s peers, the men and women who run the country’s largest state-owned enterprises, it was by no means certain he would meet journalists. Not even after ChemChina made an all-cash USD44bn offer for Syngenta, the Swiss agribusiness giant — a planned deal announced [last week] that if completed will vault the chemicals group into the top rank of the sector.

Less than a year earlier, when ChemChina paid €7.3bn for Italian tyremaker Pirelli, it took Mr Ren an entire week to come out of his shell and meet the media at his company’s Beijing headquarters. At that session last March, ChemChina’s founder and chairman came across as calm, confident and reserved. On Wednesday, by contrast, he was positively chummy, slapping journalists on the back as he insisted they help themselves to a buffet laid on at Syngenta’s Basel headquarters.

ChemChina’s purchase would be by a large margin the biggest foreign purchase by a Chinese company. The record is held at present by Cnooc, the country’s leading offshore oil company. Whether he likes it or not, Mr Ren, a married 57-year-old with a son and one grandson, could soon become the face of the state-directed investment drive along Beijing’s vaunted “New Silk Road” and beyond.

For now, however, Syngenta’s shares remain below ChemChina’s offer price. The discount suggests investors fear Mr Ren’s deal could be knocked back by a security review in the US, where Syngenta has extensive operations. It is one thing for America’s amber waves of grain to sprout from Swiss seeds but quite another if the seeds are ultimately owned by a company beholden to the Chinese Communist party. It would certainly have made for an interesting talking point at this week’s Iowa caucuses, held just one day before ChemChina formally revealed its bid for Syngenta.

For a man who grew up in the city of Lanzhou, a former outpost at the eastern end of the old Silk Road, becoming a global dealmaker was an unlikely outcome. Born in 1958, Mr Ren came of age during the madness of Mao Zedong’s Cultural Revolution. Like so many youths of that era, he was “sent down” to the countryside as a teenager — an experience he alluded to on Wednesday. Those formative few years, he said, taught him “what farmers want and how they work the land”.

> Whether he likes it or not, Mr Ren could soon become the face of the state-directed investment drive along Beijing’s vaunted ‘New Silk Road’

Many “sent-down youth” never made it back to home, let alone to university, after Mao’s death in 1976 gave the nation a chance to repair itself. Mr Ren managed both feats, graduating from Lanzhou university and joining the ministry of chemical industry.

In 1984, he borrowed Rmb10,000 from the government to start an industrial cleaning company. Over the next two decades, his Bluestar start-up absorbed or merged with more than 100 other SOEs. Before long, he came to be known in official media as the “king of mergers”.

Mr Ren has run his danwei, a catch-all term for SOEs, for 32 years in a country where bosses of such businesses are transferred between companies like the poorly paid civil servants they are. More recently, some have been brought down by President Xi Jinping’s take-no-prisoners war on corruption. Mr Ren’s longevity is unprecedented.

His experience in building ChemChina from the bottom up also makes him that rarest of creatures in a state sector otherwise populated by long-established monopolies: a real entrepreneur. After the group was formally established in 2004, Mr Ren began another acquisition spree, this time overseas, snapping up agribusiness and chemical companies in Australia, France and Israel.

“Ren is a visionary,” says one industry executive who has watched his rise closely. “He has connections and he knows how to pull strings.”

He has assembled a team of foreign consiglieres including Michael Koenig, a former Bayer AG director, and Ze’ev Goldberg, a former Israeli military officer and Lehman Brothers banker who advised ChemChina on the Pirelli and Syngenta deals.

Part of Mr Ren’s tried and tested pitch, to foreign politicians and acquisition targets alike, is that the group’s overseas units will retain operational independence. He likes to tell executives at his target companies: “I am your boss but you are my teacher.” He also pledges to protect jobs and brand integrity at companies he buys. “Syngenta will remain Syngenta,” he said on Wednesday.

Political savvy and party connections partly explain his staying power. More important is his proved ability to deliver for his government masters on important policy objectives, such as food security. Syngenta owns a broad portfolio of seeds that has the potential to help China increase crop yields that are well below North American levels.

According to a former European agribusiness executive who knows Mr Ren well, ChemChina is focused on “size and power” as it pursues its de facto government mandate to boost Chinese agricultural productivity. “It seems they want to own the solution [to food security],” the executive says. Mr Ren’s Syngenta purchase is therefore “a huge deal for China”.

The writers are the FT’s Beijing bureau chief, and Switzerland and Austria correspondent, respectively. Additional reporting by Arash Massoudi

AP PHOTO

A bridge near the office building of ChemChina in Beijing

AP PHOTO

CHICAGO STOCK EXCHANGE SALE

Obscure Chinese firm dives into USD22 trillion US market

Fox Hu, Annie Massa and Brian Louis

WHEN Cromwell Coulson heard that an obscure Chinese real estate firm had agreed to buy the Chicago Stock Exchange, he was shocked.

"My first reaction was, 'Wow, that's who they're selling to?'" said Coulson, the chief executive officer of OTC Markets Group Inc. in New York. "These new buyers have no connection to Chicago's existing business. They're completely disconnected from the current business of supporting the Chicago trading community. So wow, that's out of left field."

While the world has gotten used to seeing Chinese companies snap up overseas businesses, the purchase of a 134-year-old U.S. stock market by Chongqing Casin Enterprise Group - a little-known property and investment firm from southwestern China - raises a whole host of questions. For starters, why does a provincial Chinese business with no apparent ties to the securities industry have any interest in buying one of America's smallest equity exchanges? And will U.S. regulators sign off?

So far, Casin Group's intentions are unclear, with calls to the company's Chongqing headquarters going unanswered. If the deal does pass muster with American regulators, it would mark the first-ever Chinese purchase of a U.S. equity exchange, giving Casin Group a foothold in a USD22 trillion market where even the smallest bourses have room to grow if they can provide the best price for a stock at any given moment.

The Chicago Stock Exchange - a subsidiary of CHX Holdings Inc. - is minority-owned by a group including E*Trade Financial Corp., Bank of America Corp., Goldman Sachs Group Inc. and JPMorgan Chase & Co., according to the company. The minority shareholders are also selling their stake, Chicago Stock Exchange Chief Executive Officer John Kerin said in a phone interview.

The deal values the exchange at less than $100 million, according to a person familiar with the matter, who asked to not be identified because the terms weren't disclosed publicly. Mark O'Connor, a spokesman for the exchange, declined to comment on the size of the transaction.

Casin Group's offer, announced last week in a statement from the Chicago exchange, comes amid an unprecedented overseas shopping spree by Chinese companies. Businesses from Asia's largest economy have announced $70 billion of cross-border acquisitions and investments this year, on track to break last year's record of $123 billion, according to data compiled by Bloomberg.

While many of those deals had obvious business rationales, the reasons for Casin Group's bid are less clear. The company, founded in the 1990s through a privatization of state-owned assets, initially focused on developing real estate projects in Chongqing, before expanding into the environmental and financial industries. While the firm owns stakes in banks and insurers, it has no previous experience owning an exchange.

Lu Shengju, the majority owner and chairman of Casin Group, wants to help bring Chinese companies to U.S. markets, according to the statement from Chicago's bourse.

"We have reviewed CHX's plans to improve market share through new growth initiatives and fully support them," Lu, a torch bearer during the Beijing Olympic games in 2008, said in the statement, which didn't disclose terms of the deal. "Together, we have a unique opportunity to help develop financial markets in China over the longer term and to bring exciting Chinese growth companies to U.S. investors."

The Chicago Stock Exchange could serve as a venue for Chinese companies to list, said Dale Rosenthal, a clinical assistant professor of finance at the University of Illinois at Chicago.

"Because they're an exchange, they can list stock," Rosenthal said. "It has the potential to raise Chicago's profile in China."

Casin Group is no stranger to investing in outside businesses, including overseas targets. Three years ago, the firm increased its stake in Shenzhen-listed Guoxing Property to 30 percent, becoming the biggest shareholder. Guoxing, now 60 percent owned by Casin Group, has soared 170 percent in the past two months, versus a 19 percent drop in the CSI 300 Index, data compiled by Bloomberg show. Casin Group bought a 25 percent stake in Singapore-based Great Eastern Life Assurance in 2013.

"It's interesting to see the Chinese increase their footprint in the U.S.," said Ramon Camacho, a principal at RSM US LLP, an audit, tax and consulting company based in Chicago. "These investors are looking for a platform to showcase and bring to market Chinese companies."

The company's bid for the Chicago bourse could face political opposition, with American regulators and politicians taking a skeptical approach toward foreign investments in industries deemed important to national interests. When Germany's Deutsche Boerse AG wanted to buy the owner of the New York Stock Exchange in 2011, U.S. Senator Charles Schumer, a Democrat from New York, raised obstacles. The deal was finally scrapped on monopoly concerns.

> While the world has gotten used to seeing Chinese companies snap up overseas businesses, the purchase of a 134-year-old US stock market by Chongqing Casin Group raises a whole host of questions

Some Chinese companies have come under heavy scrutiny as they tried to enter U.S. markets. Huawei Technologies Co., China's largest phone-network equipment maker, was barred by the U.S. in 2011 from participating in building a nationwide emergency network.

The U.S. Securities and Exchange Commission would have to approve the deal, because the exchange is a self-regulatory organization. The new owners will have to show they intend to follow all of the regulations imposed on stock exchanges, whose listing and trading rules also must be approved by the SEC.

Additionally, the takeover would probably be reviewed by the Committee on Foreign Investment in the U.S., said Anne Salladin, a lawyer at Stroock & Stroock & Lavan LLP in Washington. CFIUS, a panel of government officials led by the Treasury Department that examines purchases of American businesses by foreign investors, can recommend the president block transactions it believes compromise national security. It can also impose changes to address any concerns.

"It's a Chinese investment, and it's in a potentially sensitive sector: financial infrastructure," Salladin said.

CFIUS has been closely scrutinizing purchases of American businesses by Chinese buyers. Last month, Royal Philips NV abandoned its plan to sell its lighting-components unit to a Chinese-led investment group following opposition from CFIUS.

"If you have a U.S. stock exchange that's primarily satisfying Chinese companies, the regulators are gonna look very closely at it," Coulson said. "If your core business is listing Chinese companies in the U.S., that's going to pick up a lot of regulatory scrutiny and caution." **Bloomberg**

ZIKA

Brazil considers reforming biosecurity law amid criticism

BRAZILIAN officials will soon decide whether to amend the South American nation's rigid procedures for sharing Zika samples, the Cabinet chief's spokeswoman said, as officials announced that they were sending a set of samples to U.S. researchers amid complaints of hoarding.

The developments came on the heels of an Associated Press report earlier this week that revealed that international health officials were frustrated at Brazil's refusal to share enough viral samples and other information to answer the most worrying question about the outbreak: Whether the disease is truly causing a spike in babies born with abnormally small heads?

Cabinet chief Jaques Wagner planned to meet with the health minister and science and technology minister next Wednesday to craft a presidential decree to reform Brazil's biosecurity law, Sonia Abranches, a spokeswoman for Cabinet chief's office, told the AP.

Abranches said she could not provide more details on what the changes might look like or comment on whether Brazilian President Dilma Rousseff would enact the decree.

In a statement to The AP, the health ministry said it was "at the disposal" of international researchers studying Zika.

In a statement posted to its website Thursday, the ministry said that two-thirds of the material gathered during recent field work with an American team would be shipped to the Centers for Disease Control and Prevention.

AP PHOTO

Laurinaldo Alves adjusts the pacifier of his daughter Luana Vitoria, who suffers from microcephaly, during a physical stimulation session at the Altino Ventura foundation, a treatment center that provides free health care, in Recife

The ministry did not answer multiple requests for more details on the sample sharing.

Paulo Gadelha, president Fiocruz, a state-run health research institute in Rio, said that cooperation was important but that it had to be tightly regulated.

"It can't be an out of control sending of material abroad, or vice versa," he said. "This must be protected, regulated by rules that guarantee the greater scientific objective and the equality and the horizontality of the cooperation."

U.S. and U.N. officials have told the AP that Brazil has so far probably shared fewer than 20 samples when experts say hundreds or thousands of samples are needed to track the virus' evolution and develop accurate diagnostics and effective drugs and vaccines. Many countries' national laboratories are relying on older strains from outbreaks in the Pacific and Africa, the AP found.

After the story's publication, the World Health Organization sent out a flurry of messages acknowledging that existence of a "data gap."

"Given the complexity of unanswered questions on Zika & (associated) disease, our goal is to encourage all researchers to share their data ASAP," the WHO said on Twitter. "Rapid data sharing is critical during an unfolding health emergency."

The number and precise nature of the samples was not made explicit. It was also unclear under what conditions the Brazilian viruses were being shared.

"One crucial question is whether the bilateral sharing comes with any strings attached," said Lawrence Gostin, a global health law expert at Georgetown University. In an email, he said countries would likely be reluctant to share samples freely without agreements to ensure they wouldn't be frozen out of any resulting products from their viruses, like drugs and vaccines.

Zika was discovered in a Ugandan forest in 1947; until last year, the virus had never caused serious disease. It has now spread to more than 20 countries. **AP**

ASK THE VET

by Dr Ruan Du Toit Bester

Can Yogurt Treat a Cat with Diarrhea?

BECAUSE cat diarrhea stems from a vast range of causes, it can often be difficult to treat a cat with diarrhea. The difficult task with cat diarrhea is actually trying to nail down the cause from the thousands of possibilities. Because diarrhea in cats is a rather common occurrence, many cat owners may be more likely to turn to home remedies as a convenient solution before consulting veterinary advice.

REASONS FOR CAT DIARRHEA

Diarrhea is the natural response of a cat's body to general digestive upset, infection, foreign elements or a more serious healthy condition. The reasons for which cats can experience diarrhea are vast, with the most common cause for it being general digestive upset and parasitic infection.

A simple switching of food brand or type can throw a cat's digestive system into a quandary and cause problems within the digestive tract. In cases of general stomach upset or food upset, diarrhea and vomiting are two of the main symptoms which indicate that a cat is not adjusting well to his change in food.

Intestinal worms or parasites are one of the more common causes of cat diarrhea. Many parasites, like tapeworms and roundworms, are so easily transmitted between animals that it becomes understandable as to why diarrhea is such a common occurrence. Intestinal worms and parasites are known for causing stomach upset, because they actually take over the intestinal tract and cause a disruption in the ability of food to be digested and eliminated properly.

PROBIOTICS IN YOGURT

Using yogurt to treat diarrhea in a cat is one the home remedies that has been in circulation for many years. It was only recently that more research about the interaction of yogurt and the digestive system became more available. New research indicates that the high level of probiotics contained in yogurt is highly effective at treating minor causes of cat diarrhea.

Probiotics are a good, healthy type of bacteria which is normally found throughout the system of a healthy cat. A cat ingests certain levels of probiotics through the meals that he eats, and that good bacterium circulates throughout his body in an attempt to wipe out any bad bacteria that could be potentially harmful to him.

TREATING CAT DIARRHEA WITH YOGURT

Yogurt is an excellent choice for treating cats with diarrhea at home. Most cats tend to find the taste of yogurt highly agreeable, and do not encounter any side effects or allergies from its usage. Yogurt is packed with substantial amounts of probiotics that are helpful to a cat's digestive system.

So there you go, hope this info helps
Till next week
Dr Ruan

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