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Uncertain Sky ahead (经济前景讨论)



外电对中国的经济复苏表示怀疑。

(Guardian) At the end of last week, the politburo of China's Communist party decided to continue the stimulus package launched last November. The world could heave a sigh of relief that Beijing was going to throw its weight behind global economy, and the China bulls could predict that the last major state ruled by a Communist party was going to ride to the rescue of capitalism.

The numbers appear to say it all: growth back to 7.1% after a hiccup around the turn of the year, with forecasts of 7.9% for the year as a whole. The Shanghai stock market index is booming. Property prices are recovering in major cities. There is no sign of the widespread labour unrest forecast at the start of 2009 as tens of millions of migrant workers lost their jobs. All in all, China is the hot investment tip. Though anybody with any sense would have got in months ago; confidence is being pumped up as fast as a weightlifter's muscles.

Well, yes. The summer economic data were bound to be sunny. After all, Beijing has not only pumped the equivalent of \$580bn into a fiscal package concentrated on infrastructure, but has opened the bank lending taps to a degree that is still barely grasped

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– so far this year around \$1tn has poured out in cheap credit, triple the figure for the same period of 2008. Exporting firms, from steel to textiles, have been showered with tax rebates. Huge railway projects have been launched. Subsidies have poured out for farmers and to encourage rural households to buy household appliances.

If all that did not produce an upturn in growth, something very strange would be happening. As a matter of fact, it is, but in a way that the bulls prefer to ignore. Despite the rise in GDP, tax receipts are falling (that can't be all the effect of the rebates). Despite the enormous injection of liquidity from bank loans, deflation has set in. Despite the availability of cheap money, household consumption is not growing much faster. Despite the reported increase in industrial production, imports, which go largely into goods finished on the mainland, are dropping. In other words, this is a peculiar kind of recovery.

It is, in part, a political phenomenon. Having adopted economic expansion and material betterment as its main reasons for legitimacy after Mao was shunted off to the mausoleum, the current leadership of party chief Hu Jintao and prime minister Wen Jiabao has to come up with the goods to show that their movement alone is fitted to run the world's most populous nation. On top of that, as will be evident at the US-China strategic dialogue this week, they are not averse to pointing out that China's system of state controls enabled it to avoid the financial crisis that gripped the west and that its pain is the result of the crash in its external markets (not the whole story but true enough to pass muster).

But it seems that, when it comes to the medium-term outlook, the leaders part company with the bulls who see 11% growth returning in 2010-11. Last week, the politburo took control of economic policy which had previously been left to the government. That is probably a sign of two linked factors – a feeling at the very top of the regime that the short-term measures undertaken by Wen and his ministers will not prove enough, and a realisation of the scale of the longer-term challenge facing China as it seeks to upgrade its industry and rebalance its economy for a more sustainable future.

The politburo decided to continue with the stimulus remedy, a sign that it believes not enough have been done despite the 7.1% growth number. Monetary policy is to be “moderately relaxed”, which means keeping up the lending. Fear of escalating non-performing loans, a wash of liquidity and the build-up of inflationary pressures could count for little when a political leadership is committed to producing an 8% growth figure by the end of 2009.

The snag is that the medicine China is applying, while producing spectacular short-term results, pushes the country in the wrong direction. Nearly 90% of the 7.1% growth came from government investments and guaranteed cheap loans. Spending on railways more than doubled. Expenditure on roads and irrigation were up 50%. Overall, fixed asset investment in everything from power grids to residential property increased by 34% year-on-year.

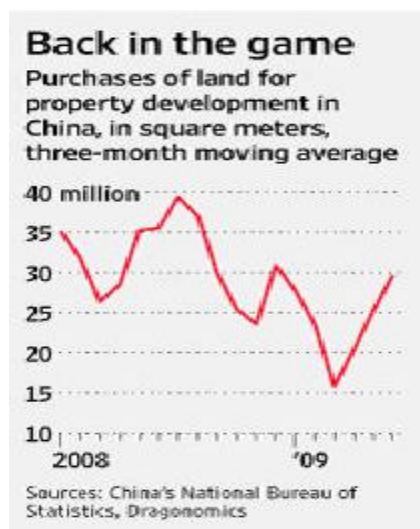
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Some of this is needed – the railways, for instance, were in dire need of new track and rolling stock, the power grid was in a bad way and poor irrigation is a major obstacle to making agriculture more efficient. But much of the money that has splurged out of the state banks this year has gone to state firms and provincial governments which are generally inefficient users of capital for both internal structural and political reasons. The hoped-for effect on employment has not been noticeable while small- and medium-sized firms, particularly in the private sector, complain that they are not getting much of the new cash. The state banking system has proved highly effective at getting money out of the door, but its ability to allocate capital efficiently is questionable, while anecdotal evidence tells of big state companies making a nice profit by lending on their cheap loans to smaller firms at jacked-up rates.

The numbers in the months ahead will undoubtedly remain strong. The top leadership has to perform. But the underlying stability of the recovery remains uncertain. So does the volatility shown by tens of thousands of mass protests each year and episodes like the revolt of steel workers in the north-east who beat a new manager to death after he announced that a take-over he was implementing would lead to big job losses.

China, to beat my old drum, is not going to collapse or implode. But it is at a crossroads in many senses. This includes the economy. The politicians in Beijing are, understandably, taking a short-term route and are being applauded for the inevitable results. But they are using old methods that do not offer the progress towards an economy which can really compete on terms others than those provided by cheap labour and capital. Hu Jintao laid out the road map in that direction 18 months ago, but that was before the knee-jerk reaction to the external events of 2009 and the internal imbalances which compounded their effect. As a result, looking beyond the end of this year, the outlook may not be quite what the bulls of 2009 anticipate. It's not exactly a false dawn, more a matter of sunny intervals in an uncertain sky.

China Land Price under spot light (土地价格抢得眼球)



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WSJ — Land prices are on the rise again in China, as easy credit helps reverse last year's correction but also raises concerns that another bubble could be in the making.

When a property boom in China came crashing to a halt last year, purchases of land by developers for new projects began drying up. But this year, the area of land purchased has risen every month from the previous one. And in recent weeks, as a recovery in housing sales continues to strengthen, property developers are again paying top dollar for empty lots in China's biggest cities.

Last month, Gemdale Corp., a Chinese residential developer based in the southern city of Shenzhen, surprised the market by paying 3.05 billion yuan (\$446.5 million) for a 210,000-square-meter plot in Shanghai's Qingpu suburb, more than tripling the opening bid.

A few weeks earlier, Franshion Property (China) Ltd. paid 4.06 billion yuan at a public auction for a 156,000-square-meter site in Beijing's main business district. The price of 14,500 yuan per square meter, when calculated using the total area that can be developed, was a record on that basis.

Analysts attribute the turnaround in land prices to the flood of credit that has entered China's economy in recent months.

"Land sales have been going crazy in big cities, particularly in Beijing, and regulators suspect a lot of that money came from banks," said Karen Tang, a partner for law firm White & Case LLP in Shanghai who specializes in banking and real estate.

"The bubble is getting bigger and bigger," said Alan Chiang, head of mainland Chinese residential property in Shenzhen for the property broker DTZ. He said the trend is encouraged by local governments, who earn revenue from land sales and hope an upturn will refill their coffers.

Concerns about real estate focus on a flood of cash that has driven up stock prices as well. The Shanghai stock market's main index is up 91% this year, and two initial public offerings in recent days soared in their debuts.

The speed with which developers are paying peak-level prices for land has fanned concerns among policy makers and analysts about a bubble. Bei Fu, Standard & Poor's Ratings Services' main credit analyst for the Chinese property sector, warns that many developers "continue to have a potentially risky appetite for expansion and land acquisitions, largely supported by an aggressive equity culture." Ms. Fu warns that should the trend continue, a "policy backlash," combined with a broader downturn, could cripple developers' balance sheets.

Still, developers' hunger for more land reflects bullishness on the long-term prospects of China's cities. "Land prices could be even higher in 2010," said David Ng, a Hong Kong property analyst for Royal Bank of Scotland Group. "It's a game of planning ahead."

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Throughout the summer, land purchases by developers and state-owned enterprises have continued at a rapid clip. Ten of China's most prominent developers spent about 10.7 billion yuan on land purchases in June, a 74% jump from the month before, according to data from property broker Centaline Group. Others, including Hong Kong-listed CC Land Holdings Ltd., are raising equity to fund more land purchases.

After falling 1.3% in the first quarter of 2009 from the previous three months, the nationwide land-transaction price index rebounded 2.3% in the second quarter, according to the latest official figures.

The rush to buy land echoes what happened in 2007, when a number of developers focused on expanding land banks to lock up future revenue. A number of big property developers overextended themselves and approached the brink of collapse.

Some of those same developers now are back in the market.

‘It’s remarkable; in a lot of other economies these companies would have gone to the wall and crashed,’ said Ashley Howlett, a property lawyer with Jones Day in Beijing. He said ‘prices are about the same or even higher than they were in 2007.’

Regulators are in a delicate position. They are loath to stifle recovery in a sector that can spur growth in other industries, and which has underpinned a rise in the country’s wealth. On the other hand, the last run-up in property prices pushed many home buyers out of the market and stretched developers’ balance sheets to dangerous levels.

But while home prices have begun to rise, the upside could be constrained in the short term by a glut of inventory. If demand from home buyers doesn’t rise quickly enough, developers will see margins shrink from the 30% or 40% they enjoyed before markets collapsed last year.

China Vanke Co. Ltd., the country’s largest developer by market capitalization, said Monday that high land costs in previous years squeezed its gross margins to 26% in the first half of 2009, down from 30.6% in 2007.

China is Hannibal? (中国经济再讨论)



外电对中国最近的经济反弹表现出**强烈不屑**，并预测西方经济终将战胜东方神话。

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Those among our readership whose Roman history is rusty and who have not, unlike your correspondent, had the good fortune to spend the last couple of weeks reclining under the Umbrian sun, with a glass of Chianti in one hand and a volume of lively classical annals in the other, may possibly question the meaning of our epigraph and its relevance to China today.

Here goes.

Cannae was the great battle in 216 BC in which the Carthaginian commander Hannibal, having brought a motley force and some elephants over the Alps into Italy two years previous, annihilated the entire Roman army. One of his generals urged him immediately to march on Rome and end the war by decapitating the Roman state, which he could easily have done. Inexplicably, Hannibal chose not to, but dithered a while and gave the city time to organize its defense. That delay, the racy if moralizing historian Livy wrote a couple of centuries later, saved the Roman empire – and hence, we may fairly speculate, made possible a couple millennia of Western civilization.

Hannibal instead led his troops into winter quarters in the decadent city of Capua where they became so demoralized by pleasure that they lost their fighting spirit. The Carthaginians spent another decade knocking about the peninsula, engaging in a series of desultory and inconclusive battles, after which they retired back to north Africa where Hannibal was finally defeated and disgraced. According to Livy the moral of the story—and the meaning of the epigram— is that complacency is more destructive than calamity. The Romans bounced back from calamity because they had a resilient set of alliances based on well developed political and economic ties and a constitutional system which, though apparently fractious (two new consuls were elected each year to run the country and the armies, sometimes alternating command on a daily basis; and a host of other equally transient officials wielded substantial authority), had the merit of enabling a broad array of talent to come forward and express itself; no error lasted too long unchecked. The Carthaginians proved unable to recover from their morale-sapping complacency because they relied on a single strongman and had no mechanism to correct his errors.

One of our firmest maxims is that economics is not a morality play. But the widespread tendency now to point to the financial crisis as an omen of the inevitable decline of the West and the inevitable rise of China causes us to suspend the rule for a day and apply Livy's moral point to the current situation. The financial crisis was a calamity, and it will force important changes in how markets in advanced economies are run. But these changes occur within a system which is extremely robust and resilient, precisely because it is open, power is widely dispersed, information flows freely, and talents of many kinds find many avenues to express themselves. The strength and dynamism of that system have not been called into question, any more than during the financial panics of the late 19th century, which the current crisis resembles more strongly than the oft-invoked Great Depression.

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China's ability to maintain economic growth of around 8% despite the global shock took many (not us) by surprise. But this ability has nothing to do with systemic advantages, a distinct "China model" of growth, or skill in macroeconomic management. Still less has it anything to do with the reasons cited by a more than usually nauseating People's Daily editorial on 30 July:

"China's spirit," a "Great Wall" at heart built to ward off global crisis

..In face of its upbeat economic recovery, the international community has enunciated from a variety of angles the boundless vitality of Chinese economy and proceed to explain and analyze the "China road" and "China model."

Nevertheless, no adequate heed has been given to the motive force for the vigorous growth of Chinese economy or to "China's spirit," namely, the "spiritual" connotation of the "China road" and "China model."...

"China's spirit" means precisely a historical initiative with a great foresight;

"China's spirit" means precisely a united, cohesive great power to tide over the hard times;

"China's spirit" means precisely the heroism to forge ahead in the face of difficulty or hardship;

"China's spirit" means precisely the constancy of purpose to take the helm of the future and be keen on making progress and;

"China's spirit" means precisely the broadmindedness, being generous, open-minded and magnanimous, and ready to shoulder responsibilities.

China's present economic vitality results from a Great Wall all right—a Great Wall of borrowed cash. There is nothing remarkable or spiritual about an economy growing at 8% when credit is allowed to expand by 34%, as it did in the first half of this year. The fact becomes even less remarkable when we recognize that nominal GDP (the appropriate comparator for nominal credit growth) grew just 3.8% in the first half. In other words, ten dollars of new loans were required to generate just one dollar of economic growth.

China's first-half growth shows one thing and one thing only: the existence of a powerful state with the ability to commandeer its citizens' wealth and plow it into more buildings, bridges and roads, with no regard to the return those investments will bring. We were bemused last winter when people convinced themselves that the Chinese state lacked this capacity (and hence that growth was doomed); today we are perturbed when the self-congratulators within China and the Cassandras of global capitalism without proclaim that this desperate binge reflects some kind of systemic strength or coherent economic management approach.

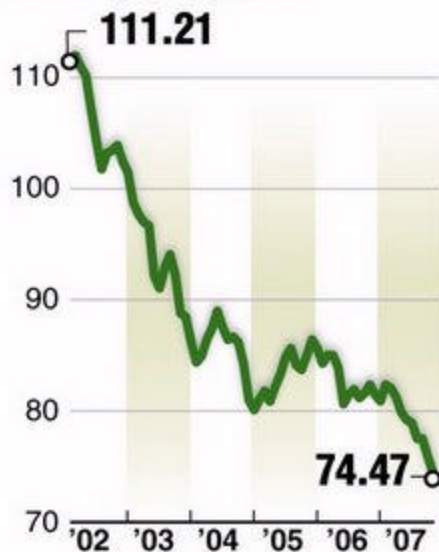
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Our view all along has been that a spending spree was fine as a temporary measure to buy time for serious structural reforms that will increase private consumption and investment, which are the only reliable drivers of long-term growth. But the government's decision last month to leave in place the current let-'er-rip monetary policy suggests a rising risk that Chinese policy makers will make the same mistake as Hannibal in Capua. Addicted to the creature comforts of high growth, they are unwilling to stop the money flow and undergo the tough re-training necessary to ensure that China evolves from the road-building and widget-assembling behemoth it is today into a diversified, vibrant, brainy and genuinely competitive economy. Despite present appearances, it is a better bet that the West will recover from its deservedly humbling financial Cannae than that China will shake off the demoralizing effect of its Capuan complacency.

China Inflation to Come Soon (通胀离我们有多远)

Dollar's decline

Monthly weighted average of the foreign exchange values of the U.S. dollar against major currencies since 2002:



(Beijing) Several economists in China opinion that it is unlikely to see bank loan to slow down in the second half even if the government really wants to. The major reason is that if the government tightens money supply now, a lot of on going projects might be affected, which could seriously jeopardize the banking system. Historically it is never easy to manage an economy with excessive liquidity. For example, the central government noticed the over supply of money in 1993 and started to execute tight control. However, the measure is not effectively successful until 1997.

Mr Liu Yuhui from China Social Science Institute points out four reasons for his expectation that [inflation](#) will appear in China soon: First, USD weakness with

record issuing of T-bond in Q4 and pork price peak cycle in 2010; Second, to tighten the liquidity involves negotiation between central government and local government, which is a game between government entities and could be more complicated than it seems; Third, International money investment mania possibly to continue to pour into China.

紧缩政策忧虑成国内股市下跌的其一原因，银行界人士指出，央行有意收紧信贷增长。但中国经济分析师表示，七月份是传统的信贷增长低位，相信央行难以急速收紧信贷。

中国商业银行在监管层“明松暗紧”的暗示下，下半年将收紧信贷闸门。不过，相对于刚有起色的民间投资，新增信贷自天量回落后仍可满足实体经济所需。某国有银行高管透露，央行已按上半年放贷规模给各家银行排了座次表，并按此顺序约定于九月十六日向各家银行发行不同规模的定向央票。这已经是给商业银行做出收紧暗示。他说，“上半年（新增信贷规模）如果五、六万亿元（人民币，下同），现在就会很舒服；但现在这么多，很怕下半年将出问题。”

中国上半年新增人民币贷款高达七万三千七百亿元，支持保增长同时，也令通胀隐忧显现。时值年中，从中央到各部委纷纷强调，经济回升基础还未稳固，须继续实施适度宽松货币政策。民生银行一位高管表示，“监管层一直在强调适度，到底什么叫适度，要好好解读一下。上半年这种肯定不叫适度了。七月的最后几天不会放多少，不会像往月那样。央行都要求了不要冲时点数——这几天很多行都在控制。”

不过，中金近日的研究报告指出，相信信贷难以大幅收紧。中金首席经济学家哈继铭指出，七月份新增贷款将季节性回落，但未来信贷很难大幅压缩。历史上每年七月的新增贷款都处于全年最低位，上半年银行超额完成额度后往往于七月略为调整，因此，预计本月新增贷款可能创出年初以来新低。

然而，中金认为，今年新增贷款将超过十万亿元；而且由于目前贷款的惯性较强，即便政府政策于四季度开始调整，对于未来的贷款也很难大幅压缩。因为近期贷款结构主要倾斜向政府项目，而众多期限较长的大型基建项目才刚刚动工，这些项目在随后两年还将需要进一步融资。如果得不到后续贷款，很可能成为烂尾工程，对银行资产品质产生巨大压力。这意味着央行明年可能被迫继续执行相对较为宽松的货币政策，以避免大量烂尾工程和出现银行坏账。

历史上，贷款的惯性使得货币供应在几年内都居高不下的情况并不少见，例如一九九三年货币信贷过于宽松、经济过热（当年 M2 增长达百分之三十七，贷款增长百分之二十八），而后中央开始了严厉调控。然而，随后几年的货币供应与贷款增速仍然居高不下，一九九四至九六年 M2 年均增长百分之三十，贷款年均增长百分之二十三，一直到一九九七年后才回落至正常水准。

中国社科院金融重点研究室主任刘煜辉日前指出，目前面临严重的流动性过剩压力，未来一段时间通过传统的公开市场操作、准备金率、利率等手段将无法有效回收流动性。他还认为，宏观政策的拐点其实已经出现。

刘煜辉说，目前的经济增长虽然被强力拉起来，但信贷和货币投放非常快，年底广义货币 M2 的增速将接近 30%，与名义 GDP 之间的缺口达到 20 个百分点，从世界经济史上看，这么大一个缺口后面一定有通货膨胀，中国也逃不出这样的规律。目前通胀首先体现在资产价格膨胀上，但最终会体现在 CPI 和 PPI 上。

而未来触发 CPI 和 PPI 的两个主要因素是“猪周期”和弱美元周期，前者直接推高 CPI，后者带动大宗商品价格上涨，推高 PPI。“猪周期”三年一次，下一个高峰将出现在 2010 年。目前看，弱美元基本上是可能性比较大的，美国 10 月份将进入一个发债的洪峰期，今年最后一个季度要发行 1.8 万亿美元的国债，每个月 6000 亿美元，美元走软的周期基本上已经确定，至少在未来 6 个月之内是比较明确的。两个周期如果在明年上半年叠加，中国的价格指数很有可能又要涨起来。

刘煜辉说，尽管现在从政策口径上仍坚持原有的基调不变，还是双扩张，但实际上政策的拐点已经出现了。下半年流动性还将进一步膨胀，单靠央票发行、加息和准备金等常规手段已经难以压住。理由有四个：首先，尽管 CPI 有各种各样的弊端，但政府仍然将现实的 CPI 作为判断通缩和通胀的依据，在 CPI 没有实现上涨之前想要中央政府下重手或转向的话不太可能。

第二，现在面临的调控局面比 2007 年难很多，因为 2007 年的调控主要是收缩流动性，是向企业部门收钱，特别是向私人企业部门收钱。而这一次主要是向政府收钱，因为大部分投资项目都是政府的或与政府相关的，其中包括政府的融资平台，这个回收的过程就是又回到了中央政府和地方政府的博弈状态。在博弈中间这个钱是很难收的，如果用强力的手段去压，就很有可能出现很多半拉子工程，银行要承受坏账清洗和累积风险的一个过程。

第三，外部热钱开始向中国国内倒灌。现在美联储和发达国家的各个央行往市场里注入了太多的钱，投资者的通胀预期已经起来，大量的钱从美国的国债、美国的货币市场开始抽离，出来的钱又不可能再回到金融消费部门，只能往外面走，一个是进入大宗商品市场，一个是进入到中国等新兴市场。

第四，M1 在 6 月份一下子反弹了六七个百分点，说明货币开始短期化。刘煜辉认为，由于这四个方面的压力，今年下半年流动性和资产泡沫进一步膨胀的趋势恐怕已经难以挽回。

When will the government tighten? (何时收紧)



(Beijing) It is estimated that Central government is unlikely to slow down the quantitative ease until CPI rebounds. However, if there is no tightening on the loose monetary and fiscal policy, a significant portion of the stimulus ends up in equity and property market. The main reason is that there is no clear sign of recovery in OECD therefore companies with access to loans are cautious to expand any of their production capacity, and equity/property market becomes the alternative home.

On the other hand, it seems that the government is happy to see some inflation in property and equity market. For example, an inflated asset market is helpful in boosting people's confidence to spend more, and secondly, an inflated IPO market is capable of sucking in some liquidity. It is also a good way to diversify the risk of banks to public markets, therefore lowering the systemic risks of bad loans and banking industry.

The side effect is that such an outstanding equity market is attractive to international money and encourages even more foreign reserve with pressure to push up RMB exchange rate. Also an inflation of international capital is not helpful on the formation of asset bubble in China. However, it looks unlikely for the government to suddenly slow down or tighten the macro policy. After all, a lot of construction and projects have been started under the 4 trillion stimulus plan. With the policy tightened, banks will face huge problem of a potential big hole. The most likely scenario is that CPI ticks up around Nov/Dec and by then do the government start to consider tightening.

今年上半年，国内金融机构新增贷款规模达到 7.37 万亿元（人民币，下同），让大家都看傻了眼。为了刺激经济，货币当局确实很“疯狂”。由于中央政府对经济增长的过分焦虑，造成了政策过了头，“适度宽松”的货币政策，在实际执行中，变成了“过度宽松”。进入 5 月份以来，实际是走楼市、股市救经济的路，天量信贷和流动性的充裕，率先吹起了资产泡沫和股市急升，紧接而来的，将是通货膨胀。

适当的通胀是好事，当局是怕经济遇冷多于过热。因为经济好的时候，很多改革才能顺利推行。在当前认定第 3 季度仍然是通缩的情况下，货币政策也就不会收紧了。中央政治局强调下半年宏观经济政策不变，即继续实施积极的财政政策和适度宽松的货币政策。因此资金也就放心投入股市和楼市了。

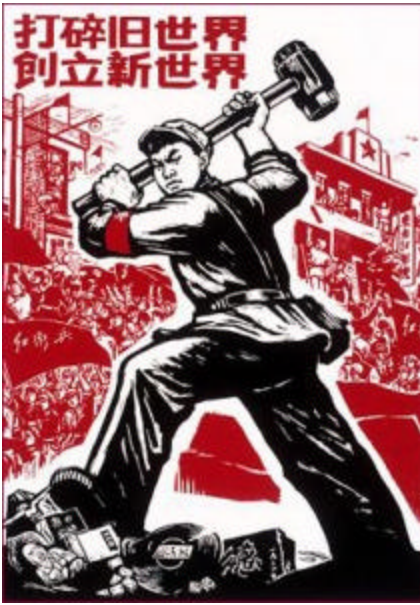
第二季经济强劲反弹，主要就是从楼市和股市带动的。5 月 27 日国务院公布的项目资本金调整方案中，房地产的项目资本金比例从 35% 下调至 30%，而普通商品房的资本金比例从 35% 下调至 20%，政策松绑是楼市迅速反弹的主要原因。从政府对楼市和股市的态度看，政府有意利用楼市股市价格的上扬产生的财富效应，来提振信心和刺激消费；另一方面希望借此加快新股发行 IPO，提高直接融资比例，启动民间投资，同时吸收部分流动性。

加快 IPO 提高直接融资比例，让市场一起承受风险，而非把风险集中到银行体系，以减低银行体系的风险。中国经济全球一枝独秀，其中一个后果是国际短期资本将加快流入中国，这将使外汇储备进一步加快，将对人民币升值造成更大压力，同时加剧流动性过剩，进一步推高资产泡沫。货币政策将面临更复杂的环境。天量信贷似乎是欲罢不能，适度宽松的货币政策短期内无法退出，因为 4 万亿元投资中的不少项目刚刚开工，因此，未来货币政策也不太可能突然紧缩，否则已开工的项目可能变成银行的坏帐。

今年以来，上海综合指数上升逾 80%，这个成绩是依靠天量信贷支撑的，而非在实体经济实质性好转的局面下取得的。当前全球和国内产能严重过剩，实体经济前景不明朗的情况下，谁都就不愿意扩大投资，贷了款也不敢贸然去生产。但是，贷款是有成本的，要付利息的，因此，钱就不能闲着，必须寻找出路赚钱，楼市和股市成为了出路。

如何在保持对实体经济刺激的情况下，逐渐抽走过剩的流动性，抑制资产泡沫化，将成为中央政府面临的挑战。从目前楼市和股市的上涨趋势来看，资产泡沫将会愈吹愈大，甚至可能会超过 07 年出现的泡沫。如果第 4 季确认经济稳定上升，或出现通胀讯号的时候，相信就是政策转向之时。按专家预测，国内可能要到 11 月左右走出通缩，CPI 从负转正。因此，第 4 季将是货币政策调整的时间。此轮刺激经济政策的后果，是经济结构的进一步失衡，未来中国经济的波动性将会加剧，不利于中国经济增长的长期稳定。

Why China is still a Buy (购买中国大有潜力)



Chinatells Editor published an article on [Business Times](#) (31 July, 2009) recently to discuss China Asset.

The Chinese equity and property market recently have impressed world investors. Shanghai A-share has gone up almost 100% since the beginning of the year, and gained an impressive 17% in the last two weeks. The housing price in some cities such as Shanghai, Beijing and Guangzhou has increased by a significant amount coincidentally. It is reported that more than 1000 people queue overnight to compete for about 300 units from a developer in Nanjing, pushing the selling price up for almost 90% in one day.

There are a few explanations to the asset boom recently in China. One of the most widely discussed is the 'liquidity theory'. China's economy seems to have shown a sign of recovery since the government announced the four trillion RMB stimulus plan. Following the biggest stimulus plan in the world, the growth of M2 and bank loan in China have been increasing at a pace of about 30% year on year, which is more than double the pace of USA, the economy that launched the second biggest stimulus injection. The liquidity provided by the banks is not supposed to go into stock or property market, however, it seems that a certain proportion has been leaked inevitably. Therefore a fair concern is well justified that such a rally in assets is not well supported by good fundamentals. Rather, the current spike is more characteristic of speculative move fueled by liquidity injection.

The question, however, is whether the equity and property market is still a buy. The author is firmly positive about the asset market prospect in China for the rest of the year. There are three good reasons to support the conclusion:

First, the Chinese government is unlikely to slow down the quantitative ease before the end of the year. The four trillion stimulus plan was only initiated in Q1, '09. Any serious economic policy such as this scale shall have a time span of at least four to six quarters to take effect. In fact, the Chinese government has expressed concerns in public for a few times that the current rebound might only be temporary and there are still considerable

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risks ahead for the economy to turn down again. The government has repeatedly confirmed its main target of sustaining a growth rate of 8% in 2009. With such a challenging objective, it is unlikely for the government to risk failing to achieve this goal at any measure.

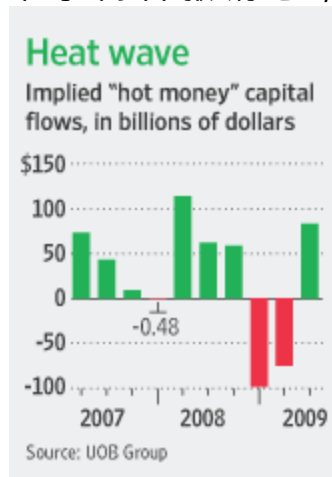
Secondly, the asset market, especially the property market in China, has a tendency to run wild on the back of incentives from local government. The GDP growth plays a critical role in assessing the performance of local government and therefore there is a vested interest from the provincial and city level officials to secure a well supported property market. In fact, in some of the cities, the real estate sector accounts for more than 35% of the local economy, which is too big to fail.

Thirdly, there is a possibility that US economy might recover in the later part of the year. To time the recovery of US economy is a tough call which arouses variation of opinions among the top economists all over the world. If the US economy does improve, however, there is a high chance that China's export will resume, which is very supportive to its asset market. Currently it does not look like a possibility with high chance. However, this is one of the scenarios with high potential of upside on Chinese asset class.

Of course all the above factors do not rule out the fundamental weakness of Chinese economy in the long run. Any asset bubble fueled by liquidity boom, after all, will burst some time, in one way or another. However, if we focus on the outlook of the next six months, the chance is that such a stimulated boom will continue to impress the world with new highs and offer generous investing opportunities.

More Hot money into China (热钱汹涌)

华尔街日报消息，热钱纷纷涌进中国，给北京当局带来困扰。



(WSJ) Hot money is again flowing into China and that could put Beijing in a quandary.

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Should the torrent continue, it could complicate policymakers' efforts to battle inflation. Should it reverse, property and stock prices will be hit hard.

There's no easy solution to this, nor does Beijing have much control over the situation. As it is the hot money — speculative inflows that aren't explained by direct investment or trade — finds its way around China's tight grip on capital flows.

Its return became evident when Beijing reported last month that foreign exchange reserves rose \$178 billion — the most ever — in the second quarter.

Analysts at UOB Group estimate that as much as \$83 billion of this could be hot money — much of that flowing into stock and property markets and contributing to forming bubbles in both.

As a comparison, about \$200 billion of the \$1 trillion lent out by Chinese banks in the first six months of the year is thought to have wound up in stocks. The Shanghai Composite is up 97% so far this year.

Two factors could keep the funds flowing in: Expectations that Beijing will soon begin to raise interest rates, and a sense that, after being halted for a year, the revaluation of the yuan could resume.

The yuan's revaluation in particular has always been a motivation for hot money investors, given the potential for gains as China allows the currency to strengthen — and the very low likelihood that the currency will weaken.

The further China moves away from economic crisis, the greater the anticipation that yuan revaluation will continue. Traders in currency forwards markets are already betting that it'll take 6.78 yuan to buy a dollar a year from now, down from 6.83 currently.

Over the long term, gains could be substantial. The Peterson Institute for International Economics says the yuan is undervalued by between 15% and 25%.

Beijing could discourage the inflows by signaling that it won't live up to these expectations. A change in global sentiment would do the same: As investors retreated around the world in late 2008 and early 2009, some \$173 billion of hot money flowed out of China, UOB estimates.

But in that respect hot money is a double-edged sword, pulling down prices on its way out just as it helps create bubbles on the way in.

Chinese Car Industry (中国汽车工业)

What China Thinks, How China Works



经济学家撰文评论在全球经济不景气环境下—支独秀的中国汽车工业。

(Economist) A Chinese carmaker shrugs off the global downturn

Another show, another concept AT A time when most carmakers are struggling to cope with the worst crisis the industry has experienced in living memory, the ambitions of Geely, China's biggest privately owned car firm, are breathtaking. The company is simultaneously developing six modern platforms—an astonishing number even for a global giant such as Toyota—and is committed to launching nine new cars in the next 18 months and up to 42 new models by 2015. Its technical director, Frank Zhao, claims that Geely will have the capacity to make 2m cars a year by then.

Whether Geely will be able to sell anything like that number of cars is another matter. The firm says its sales for the six months to the end of June reached 138,000, fuelled partly by government tax breaks aimed at boosting demand for the smaller cars made by China's indigenous manufacturers. That implies a rise from a year ago of no less than 52%, nearly three times the rate at which the China Association of Automobile Manufacturers (CAAM) estimates the market grew in the same period. But the numbers are confusing: J.D. Power Asia, an automotive market-research firm, reckons Geely sold more cars than that, but from a higher base, leaving its growth slightly below that of the market as a whole. Geely itself uses different figures in different statements.

At the Shanghai motor show in April, no exhibitor had a bigger stand. On display were three new sub-brands—Gleagle (affordable saloons and small utility vehicles), Emgrand (sporty and prestige vehicles) and Shanghai Englon (“heritage” designs)—embracing more than 20 models and their variants, including six that were all new. Among them were the outrageous Shanghai Englon GE concept, a mini-me of the Rolls-Royce Phantom with a single throne-like seat in the back; the Emgrand EX825, a blingy SUV scheduled for launch next year; and the Gleagle EK2, a small battery-powered hatchback that is said to be close to production. Also on the stand was Geely's version of the London black cab, the product of a joint venture with Manganese Bronze Holdings, the British company that owns London Taxi International.

Geely appears to have no difficulty funding its expansion. Under Mr Zhao, a former Chrysler executive recruited in 2006, Geely has not only increased the number of

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engineers it employs from 350 to 1,200, but has established an entire university, the Zhejiang Automotive Engineering Institute, to turn out lots more. It has also bought assets abroad.

Yet there is a lurking suspicion that Geely's cars are not developed to the same the standards as Western ones. Geely's chairman and founder, Li Shufu, the self-styled Henry Ford of China, has frequently boasted that his firm would quickly become an export champion, selling 1.3m cars abroad by 2015. To that end, in 2005, the year after its initial public offering in Hong Kong, Geely exhibited its entire range of cars at the Frankfurt motor show, followed up with an appearance at the Detroit show in 2006. Mr Li talked about entering the European market in 2007 and breaking into North America by 2008, but even now those remain fairly distant goals.

Mr Li's world-conquering plans were badly dented when a Russian car magazine crash-tested a Geely CK small saloon at 64kph (40mph). Both driver and passenger were given a survival chance of only 10%. Geely sold about 30,000 units outside China last year and assembles cars from kits in Russia, Ukraine and Indonesia. It also plans to build factories in South Africa and Mexico. Mr Zhao thinks Geely's cars can now pass the strict emissions and safety standards of the rich world. The problem, he argues, is more to do with reputation than the firm's latest products.

There are also persistent rumours that Geely is negotiating to buy a European car company. A few weeks ago, Geely was said to be casting an eye over GM's Swedish unit, Saab, but nothing came of it. Now, Geely is supposed to be preparing to buy Volvo, a much bigger outfit than Saab, from Ford. But Ford would be a very wary seller, fearing that Geely might run off with too much valuable intellectual property. It is, after all, a carmaker in a hurry.

Post Stimulus China (经济复苏计划小议)



(CER) As the weather heats up, the China bears are scurrying into the shade to lick their wounds. Dismal growth forecasts have been abandoned as Beijing floods the economy with an ever-rising tide of cash.

China's economy is now pretty certain to grow at 7-8% this year, and at a similar rate in 2010 as well. Top-down government may have its problems, but it's certainly good at

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turning on the liquidity taps. In the short term, Beijing's stimulus package looks like a roaring success.

But let's not get carried away. The stimulus program is a stop-gap, not a solution to China's economic problems. Wave after wave of bank loans cannot prop up the economy indefinitely.

The concern now is not what happens over the next 18 months, but what happens after that. With export growth likely to remain in the doldrums for several years, Beijing's challenge is to find something to replace it. To put the task in perspective, over the last 20 years Chinese exports grew by nearly 20% annually in dollar terms. Much of this growth derived from debt-turbocharged consumption in the US, which came to an abrupt end last year. That means China faces a prolonged period during which Chinese exports grow far more slowly than at any point in the last 30 years.

It is not the first time the country has undergone market reforms to generate a new source of productivity growth during an export slump. Ten years ago, in the aftermath of the Asian financial crisis, then-Premier Zhu Rongji responded by making sweeping reforms to the state sector and privatizing most of China's housing stock.

So what bold, structural reforms should the government be making today? The obvious place to start is to deregulate domestic service industries, many of which remain state-owned sinks of inefficiency. Dismantling local monopolies in goods distribution and logistics would also create big opportunities for private-sector growth.

But even more important is financial reform to allow more cash to flow from state-owned enterprises to private enterprises and households. Here there are already positive signs, notably the expansion of the domestic bond market.

The National Development and Reform Commission plans to approve state-owned enterprise bonds of nearly US\$88 billion in 2009, nearly triple last year's total, while issuances of medium-term notes are expected to exceed US\$145 billion. And, after years of being banned from borrowing, provincial governments are finally issuing bonds (although officially the Ministry of Finance is doing it on their behalf).

Things are beginning to look up, too, for small private firms, which have consistently been starved of credit under a system that massively favors big state-owned companies. The banking regulator plans to set up dedicated small- and medium-sized enterprise lending units in major banks. In addition, last month saw the launch of the long-awaited Growth Enterprise Board (GEB) on the Shenzhen Stock Exchange, which should create another financing channel for small private firms.

Now that their backs are against the wall, there are growing signs that policymakers have found their cojones. If they don't, China could be in a bit of trouble after the stimulus money runs out in 2011.

京沪深穗等一线城市楼市被曝泡沫加剧 (More property bubble in Shanghai and Beijing)



据中国指数研究院的监测，今年上半年以来，我国主要城市住宅市场强劲反弹，需求表现旺盛，楼市火爆，房价涨幅一再攀升，甚至超过了 2007 年的最高水平。一时间，房产泡沫论甚嚣尘上。我国房地产泡沫究竟有多大？

泡沫程度要区分地区差异

国务院发展研究中心金融研究所副所长巴曙松认为，现在房地产市场的泡沫已经比较大了。一些地区房价在 2007 年的基础上创下新高，“地王”频繁出现。

房地产行业是个很不成熟的行业，从 1999 年住房制度改革以来，到现在还没有经历过一次像样的房地产周期的洗礼。房地产行业在本轮次贷危机中刚刚受到点压力，国家强力的积极财政政策和适度宽松的货币政策，又把它刺激起来了。

现在房地产的亢奋程度已经比 2007 年最亢奋的时候还要亢奋，北京、上海、深圳等几个主要城市的交易量、价格都创新高了。

北京工商大学产业经济研究中心副主任周清杰则表示，判断我国房地产市场的泡沫程度要区分地区差异。一般来说，一线城市的泡沫要比二线城市的大，东部城市比中西部泡沫多。

一线城市（如京、沪、深等地）的房地产市场一直存在泡沫，目前这种情况还在加剧。央行今年 5 月做的民意调查结果显示，超过六成的居民认为房价“高，难以忍受”。

本轮房地产市场的迅速回暖属于带病复苏或畸形繁荣，因为在我国 2007 年的宏观调控中，房地产行业是作为过热行业重点遏制的，但这次调整时间是短暂的。从价格调整的幅度看，一线城市的房价远未回归到普通居民可以承受的水平。

投资、投机行为只能是房地产市场运行的润滑剂，一旦这两股力量成为市场主力，楼市泡沫将不可避免，这是市场经济自发力量使然。

多重原因推动房价走高

中国社会科学院金融研究所研究员易宪容认为，主要原因包括以下几点：一，政府的房地产政策产生累积效应，从2008年年底国家开始采取暂时减免营业税、取消城市房地产税等一系列措施，这在某种程度上推动了楼市的火爆。二，房地产企业的利润预期改变，目前房地产市场的经营模式没有发生改变，仍是暴利型的利润水平没有改变，也没有从买方市场向卖方市场转型，尽管住房销售下降，但房价没有下降。三，地方政府的托市，地方政府考虑财政收入，不愿意看到房地产市场的大幅降温，纷纷出手救市。四，国外大量热钱涌入房地产炒作，增加了购房需求。五，银行信贷超高速增长，致使部分信贷资金违规进入楼市，推高了房价。

巴曙松认为，大量银行信贷资金进入是导致房地产市场疯狂上涨的主要原因。在我国特定的经济结构下，如此大的信贷投放，往往不会被生产贸易吸收，就可能主要是被包括房地产在内的资产领域吸收，所以更容易形成资产泡沫。在经济复苏明朗的大前提下，特别在国内流动性充裕以及热钱涌入的推动下，房地产市场价格将会被继续推高。在适度宽松的货币政策没有转向、物价没有显著上升带来调控压力和资金流向产生显著变动之前，资产市场的热情还将继续。

多方配合遏制泡沫扩大

周清杰认为，在遏制房地产泡沫问题上，政府负有不可推卸的职责。我国政府发展房地产市场的政策基调应该是促进居民的住房消费，而非鼓励住房投资，更不是保护投机，不能把与普通居民生活密切相关的房地产市场变成游资泛滥的大赌场。

目前，我国对房地产市场的调控重点在进入环节，如首付比例、贷款利率等。要防止泡沫积聚，应该在监管环节上要加强，更重要的是实行过程监管和退出监管，目的是加强对投资行为和投机行为的监管。除了社会一直热议的物业税以外，建议政府对持有新商品房不足一定期限（如3年或5年）出售的行为课以重税，并对购房后空置而不居住的行为征税，提高房东出租房屋所获收益的税负，减少投资、投机行为对房价的不当推动，确保房地产市场的健康、可持续发展。

另外，改革税制，让承担较多社会责任的地方政府有更多的优质税源，减少土地财政现象，是控制我国房地产泡沫的治本之策。

易宪容则强调，从短期政策来说：一是要完善现有个人住房按揭贷款信贷政策，严格区分房地产投资需求与消费需求。

二是限制外籍及外资购买中国的普通居民住宅，提高其交易成本，以阻击国际热钱追逐人民币资产，从而避免形成人民币资产泡沫。

三是修改现行的住房预售制度。当前预售制度是一种单边风险承担机制。

四是维护房地产市场秩序，建立房地产市场公开透明的信息披露机制。

从长期政策看，要制定长期稳定的房地产发展政策，包括长期发展规划、保障政策、信贷政策、税收政策及土地政策等。只有在这个基础上，才能保证房地产市场持续稳定发展，让房地产成为改善居民住房条件的基础，成为中国经济增长的动力；否则就会对我国经济增长、社会稳定带来不利影响。

全国房价年底止涨成业内专家共识

虽然任志强仍在质问，中国房价高吗？但中国房价居高不下的事实毋庸置疑。最新的官方数据显示，7月份，全国70个大中城市房屋销售价格环比上涨0.9%，这已经是今年以来全国70个大中城市房价环比连续五个月上涨，且涨幅在逐月扩大。房价这种高涨可以持续多久呢，下半年，房价又将走向何方？业内多位专家表示，年底房价有可能出现止涨，甚至会小幅回落。

中国社科院工经所投资与市场研究室主任曹建海表示，目前楼市已是极度的泡沫，房价将于今年12月份回落。曹建海指出，第一，经济不景气的局面难以改善，房价作为先行指标必将回落下行。第二，房地产供过于求的现象非常严重。高企的房屋空置率，再加上介时投机者大量抛盘，房价极有急剧下降甚至崩溃。

同样，上海易居房地产研究院综合研究部部长杨红旭也表示，今年房价增速、涨幅不可能全面超过2007年。目前部分重点城市成交量已经出现下滑，投资投机需求有所萎缩，未来两三个月，房价依然保持小幅上涨，年底或明年初，有可能出现止涨，甚至小幅回落。

中原地产总经理李文杰认为，由于租售比的扩大、投资回报骤降，将导致房屋出售剧增、价格在短期内出现骤降的局面。

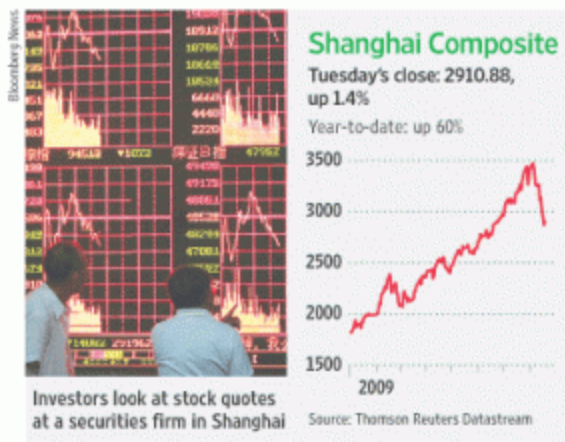
也有业内人士根据日前国家统计局发布的数据分析认为，房价已经出现非理性暴力迹象。除民意反弹之外，越来越多的部委表示不安，银监会也不再是“一个人在战斗”。目前房价已经达到一个新高点，可能重新进入调整期。

实际上，房价的居高不下已经造成楼市成交量的下降。易居中国·克而瑞统计数据显示，上海、南京、北京、天津、武汉本周成交量都有不同程度的下滑，其中一线城市上海、北京成交降幅较大，环比分别下降22.02%和19.36%。而业内人士分析称，回落的原因主要是目前房价涨得过高，抑制了一部分需求。

楼市下跌并不仅仅在北京，上海。据中国指数研究院监测数据显示，楼市已经陷入全国性下跌局面。上周，在楼市成交面积环比下跌的18个城市中，其环比跌幅超

过或接近 10%的有 10 个，与上上周的 15 个相比，有较明显下降。协成机构房地产经纪公司副总经理缪培丹认为，房价的持续高涨造成了市场又一轮的观望。

Beijing and Shanghai stock (中央的意思)



(WSJ) It is the very definition of historical irony. Preparing to celebrate the 60th anniversary of the founding of the People's Republic of China, the Chinese Communist Party won't want a plunging stock market to mar the festivities.

This is the latest thinking among traders, who are trying to rationalize an end to the slide in Chinese stocks. It highlights the Shanghai market's defining characteristic: Successful investing there is achieved by sniffing the winds from Beijing.

The selloff — which has the Shanghai Composite down 17% from its Aug. 4 high — is credited to fear that Beijing will begin to tame its massive rate of bank loan expansion.

This isn't about the economic impact of such a move. The selling has come alongside upgrades by many economists on expectations for China's growth.

Rather it's a question of what impact that lending has had on lifting prices. Some 20% of the \$1.1 trillion Chinese banks lent in the first half of the year are estimated to have flowed into stock and property markets.

Beijing has a number of tools at its disposal to turn sentiment around. Quickening the pace of new mutual funds launches will create more avenues for individual Chinese to route their savings into stocks, for example.

Slashing the stamp duty — the tax charged on stock trading — would be another clear signal that policy makers are looking to turn things around.

This won't be just about face saving. China's robust pipeline of initial public offerings, many by state run companies, requires a healthy market.

What China Thinks, How China Works

The government's also looking to launch a new small companies exchange. More recently, plans for major multinationals, such as HSBC, to float in China have emerged. There's also longer-running ambitions to launch stock-futures and margin trading that require a high degree of investor interest.

Still, the Oct. 1 anniversary of the founding of the PRC features high on the list of motives for Beijing to step in if the selling continues.

It doesn't guarantee success, though. In 2008, a similar expectation was framed around the summer Olympics. By the time the games began, the Shanghai composite was down 58% from the start of the year.

But then, the Olympics were only games. Chinese state birthday parties are much more serious.

An astonishing Rebound (惊人复苏)



(Economist) IT NEVER pays to underestimate the bounciness of Asia's emerging economies. After the region's financial crisis of 1997-98, and again after the dotcom bust in 2001, outsiders predicted a lengthy period on the floor—only for the tigers to spring back rapidly. Earlier this year it was argued that such export-dependent economies could not revive until customers in the rich world did. The West still looks weak, with many economies contracting in the second quarter, and even if America begins to grow in the second half of this year, consumer spending looks sickly. Yet Asian economies, increasingly decoupled from Western shopping habits, are growing fast.

The four emerging Asian economies which have reported GDP figures for the second quarter (China, Indonesia, South Korea and Singapore) grew by an average annualised rate of more than 10% (see article). Even richer and more sluggish Japan, which cannot match that figure, seems to be recovering faster than its Western peers. But emerging Asia should grow by more than 5% this year—at a time when the old G7 could contract by 3.5%. Western politicians should brace themselves for more talk of economic power drifting inexorably to the East. How has Asia made such an astonishing rebound?

What China Thinks, How China Works

Out of smoke and mirrors, say some Western sceptics. They claim China's bounceback is yet another fake. The country's numbers are certainly dodgy: the components of GDP do not add up, and the data are always published suspiciously early. China's economy probably slowed more sharply in late 2008 than the official numbers suggest. But other indicators, which are less likely to be massaged, confirm that China's economy is roaring back. Industrial production rose 11% in the year to July; electricity output, which fell sharply last year, is growing again; and car sales are 70% higher than a year ago.

And surely the whole of Asia cannot be engaged in a statistical fraud. South Korea's GDP grew by an annualised 10% in the second quarter. Taiwan's probably increased by even more: its industrial output jumped by an astonishing annualised rate of 89%. India was hit less hard by the global recession than many of its neighbours because it exports less, but its industrial production has also perked up, rising by a seasonally adjusted rate of 14% in the second quarter. Output in most of the smaller Asian economies is still lower than a year ago, because they suffered steep downturns late last year. But at economic turning points, one should track quarterly changes.

Thrift in the boom, stimulus in the slump

Asia's rebound has several causes. First, manufacturing accounts for a big part of several local economies, and industries such as cars and electronics are highly cyclical: output drops sharply in a downturn and then spurts in the upturn. Second, the region's decline in exports in late 2008 was exacerbated by the freezing up of global trade finance, which is now flowing again. Third, and most important, domestic spending has bounced back because the fiscal stimulus in the region was bigger and worked faster than in the West. India aside, the Asians entered this downturn with far healthier government finances than rich countries, allowing them to spend more money. Low private-sector debt made households and firms more likely to spend government handouts; Asian banks were also in better shape than their Western counterparts and able to lend more. Asia's prudence during the past decade did not allow it to escape the global recession, but it made the region's fiscal and monetary weapons more effective.

Western populists will no doubt once again try to blame their own sluggish performance on "unfair" Asia. Ignore them. Emerging Asia's average growth rate of almost 8% over the past two decades—three times the rate in the rich world—has brought huge benefits to the rest of the world. Its rebound now is all the more useful when growth in the West is likely to be slow. Asia cannot replace the American consumer: emerging Asia's total consumption amounts to only two-fifths of America's. But it is the growth in spending that really matters. In dollar terms, the increase in emerging Asia's consumer-spending this year will more than offset the drop in spending in America and the euro area. This shift in spending from the West to the East will help rebalance the world economy.

Beijing, Bangkok and Bangalore: beware boastfulness

It is easy to boost an economy with lots of government spending. But Asian policymakers now face two difficult problems. Their immediate dilemma is how to sustain recovery

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without inflating credit and asset-price bubbles. Local equity and property markets are starting to froth. But policymakers' reluctance to let their currencies rise faster against the dollar means that their monetary policy is, in effect, being set by America's Federal Reserve, and is therefore too lax for these perkier economies. The longer-term challenge is that once the impact of governments' fiscal stimulus fades, growth will slow unless economic reforms are put in place to bolster private spending—something Japan, alas, never did (see article).

Part of the solution to both problems—preventing bubbles and strengthening domestic spending—is to allow exchange rates to rise. If Asian central banks stopped piling up reserves to hold down their currencies, this would help stem domestic liquidity. Stronger currencies would also shift growth from exports to domestic demand and increase households' real spending power—and help ward off protectionists in the West.

Hubris is the big worry. With the gap in growth rates between emerging Asia and the developed world heading towards a record nine percentage points this year, Chinese leaders have taken to warning America about its lax monetary policy (while Washington has stopped lecturing China about the undervalued yuan). But it would be a big mistake if Asia's recovery led its politicians to conclude that there was no need to change their exchange-rate policies or adopt structural reforms to boost consumption. The tigers' faster-than-expected rebound from their 1997-98 financial crisis encouraged complacency and delayed necessary reforms, which left them more vulnerable to the global downturns in 2001 and now. Make sure this new rise is not followed by another fall.



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