China to clean up billions in local government debt

REUTERS, *Beijing*

China's regulators plan to shift 2-3 trillion yuan ($308-463 billion) of debt off local governments, sources said, reducing the risk of a wave of defaults that would threaten the stability of the world's second-biggest economy.

The plan is the first concrete move by the government to tackle the bad debt in local government financing vehicles.

It could boost investor confidence in Chinese banks, which provided many of their loans as part of the massive economic stimulus program launched by Beijing in late 2008 to counter the global financial crisis.

That program resulted in unfettered lending to local government financing vehicles, hybrid government-company bodies that governments used to get around official borrowing restrictions.

As part of the overhaul of the finances of heavily-indebted local governments, the central government will pay off some of their loans and state banks, including some of the "Big Four," will be forced to take some losses on the bad debt, said two sources who have direct knowledge of the plans.

Part of the debt will be shifted to newly created companies, while private investors would be welcomed in projects previously off-limits to them, the sources said.

Beijing will also lift a ban on provincial and municipal governments selling bonds, a step aimed at bolstering their finances with more transparent sources of funding.

AFP

Workers make shoes at a factory in Jinjiang, south China's Fujian province.

Beijing has determined from a months' long investigation that local governments have borrowed around 10 trillion yuan, said one of the sources.

The governments may default on around 2 trillion yuan of loans, the Chinese media have reported.

Many analysts see China's pile of local government bad debt as a major risk to the economy, especially as growth slows.

But few see a widespread banking fallout as they believe cash-rich Beijing can step in to soak up losses. Still, the scale of the plan is much bigger than a government move in 1999 to clear debt from the books of large state-owned banks.

The banking regulator, the Finance Ministry and the state planner declined immediate comment when reached by telephone.

TIMING

One source said that three government bodies -- the bank regulator, the Finance Ministry and the National Development and Reform Commission, China's state economic planner -- plan to start cleaning up the debt in June and finish in September. The second source said the program may take longer.

"It's to rescue local government finances, not banks. It's different in nature from the bailout of the four big (state) banks in the late 1990s before they listed (on stock markets)," the first source told Reuters.

Both sources requested anonymity because they are not authorized to talk to reporters.

In 1999, China set up asset management companies to clear 1.4 trillion yuan in bad loans off the books of the large state-owned banks, which were saddled with piles of debt after decades of politically motivated lending.

The Big Four are Industrial and Commercial Bank of China, Bank of China, China Construction Bank and Agricultural Bank of China.

CLEANING UP

Planners are still ironing out details about how the sour loans would be written off, the source said.

"The central government will swallow some of it," he said, and "some local governments will be allowed to issue bonds."

"The government hopes to resolve this problem before the 18th Congress next year," the second source said, referring to the Communist Party's key conclave where a leadership reshuffle is expected.

Details on the firms that will be created to manage the debt were not immediately known, but the first source said they may receive funds from private investors.

State-owned China Development Bank accounts for about one-third of all local government loans, said one of the sources, with the rest being extended by big state-owned banks and city commercial banks.

Worried these loans could strain China's public finances if they sour, China's cabinet has instructed banks to clamp down on lending to local governments, an order which Chinese banks say they are abiding by.

State media previously reported that as part of Beijing's clean up of the local government debt mess, it will consolidate about 3,800 local government financing vehicles.

Busiest year ever for Australian airspace

AFP, *Sydney*

Australia experienced its busiest ever year in domestic aviation in 2010, Transport Minister Anthony Albanese said Wednesday as he again warned that pressures on Sydney airport were rising.

Speaking at an industry function, the minister said domestic flights had risen seven percent on 2009 while international passenger numbers rose to a record 26.8 million travellers -- an increase of close to 10 percent.

"Domestically, the skies over Australia last year were the busiest they've ever been with just short of 54 million passengers taking almost 600,000 flights," Albanese said.

"Every way you look at it, 2010 was a record breaker for passenger kilometres travelled, for seat capacity and the number of aircraft trips."

Albanese said the Bureau of Infrastructure, Transport and Regional Economics figures compared favourably with data from the rest of the developed world, thanks in part to Canberra's financial crisis stimulus package.

"The popularity of air travel among Australians during the worst downturn since the Great Depression is testament to the resilience of our aviation industry," he added.

The minister said the aviation sector was, however, facing challenges presented by unprecedented globalisation, fluctuating fuel prices and the damaging impact of the strong Australian dollar on inbound tourism.

Albanese said Sydney airport -- which handles about 40 percent of all international flights and sees about 35 million passengers flow through it each year -- was under increasing pressure.

The Australian government is working with the New South Wales state administration to identify a location for a second airport in the city.

Albanese said Sydney's passenger numbers were expected to double over the next 20 years.

"Something has got to give, or the Australian economy will suffer," he said.

"Business will go elsewhere if they can't get into Sydney. Tourists will choose other destinations. We will see lost productivity as delays build and demand cannot be met."

Global luxury brands flock to Hong Kong bourse

AFP, *Hong Kong*

Some of the world's top luxury brands are set to list on the Hong Kong bourse to tap China's deep capital markets -- and draw more customers -- as demand for premium goods soars in Asia, analysts say.

The city's profile as a luxury magnet was boosted in January when Prada said it would list its shares in Hong Kong, after French cosmetics chain L'Occitane raised more than $700 million in the financial hub last year.

The Italian fashion house, which includes the Prada, Miu Miu, Church's and Car Shoe brands, is expected to raise as much as $2 billion when it debuts on Hong Kong's bourse later this month.

In May, US handbag maker Coach, already listed in New York, announced its shares may start trading in the southern Chinese territory by year-end, saying it hoped to heighten the brand's profile across the Asia Pacific.

Upscale luggage-maker Samsonite's Hong Kong share sale, which kicks off this week, is also expected to raise as much as $1.5 billion.

And Britain's Burberry is also reportedly eyeing a listing in the city as high-end retailers scramble to profit from the region's rising incomes, especially in China, the world's fastest-growing market for luxury goods.

Powered by a red-hot economy, China is forecast to be the world's top buyer of products such as cosmetics, handbags, watches, shoes and clothes by 2015, according to accounting giants PricewaterhouseCoopers.

The rush to list in Hong Kong has seen advertising splashed across street billboards and newspaper pages, to generate interest among the city's legions of retail investors for the luxury brands' stock sales, as much as their handbags and shoes.

"Listing in Asia is a way of increasing your brand awareness," Aaron Fischer, consumer analyst at brokerage CLSA, told AFP.

AFP

People walk past a luxury-brand billboard in Hong Kong yesterday.

"These companies are already getting more than half of their global luxury sales from Asian customers."

China's soaring economic success has produced a staggering 1.11 million households worth a million dollars, according to a Boston Consulting Group report which found only the US and Japan had more millionaires.

That immense wealth has also seen private jet makers and auction houses including Sotheby's and Christie's zero in on the China market. Hong Kong now rivals New York and London in the auction business.

China's deep capital pool helped the territory claim title as the world's biggest IPO market in 2010 -- for the second year in a row.

Firms raised more than $50 billion in Hong Kong IPOs last year, making it the world's biggest market for new listings including two monster sales by Asian insurer AIA and Agricultural Bank of China.

"Listing in Hong Kong will enable Prada and Coach to access a deep capital base in Asia," said Liu Qiao, finance professor at Peking University's Guanghua School of Management.

"Finance should follow where your real activities are. As the market and future growth engines are in Asia, listing in Hong Kong is a very natural step forward for these firms."

A high-profile launch "also turns customers into shareholders which may further improve their brand loyalty," he said.

While big institutional investors provide the bulk of the funds, Hong Kong's retail investors are loathe to miss out on the action, in a place where brands are revered and long queues outside top-end retailers are a common sight.

That enthusiasm helped drive shares in second-hand luxury handbag retailer Milan Station soaring as much as 77 percent on their debut last month.

Milan Station's share sale was Hong Kong's hottest ever with the IPO reportedly oversubscribed by more than 2,100 times.

"Asia is home to a large pool of monetary liquidity and any company that has an Asia-related component to their business would naturally look to listing... in the region," US-based consumer analyst Jonathan Galaviz told AFP.

"Any global retailer needs to take the Asian consumer very seriously."

Maruti Suzuki to open new plant in India

AFP, *Mumbai*

Leading automaker Maruti Suzuki is looking to set up a new factory in India's western Gujarat state as the firm looks to boost production by up to two million units a year, a report said on Wednesday.

The Business Standard said the firm was exploring the possibility of a new plant over 500 acres (202 hectares) in the state, where Tata Motors' low-cost Nano model is already built.

Company chairman R.C. Bhargava and managing director Shinzo Nakanishi met Gujarat's chief minister Narendra Modi on Tuesday to inform him of their interest, the financial daily said.

Bhargava said Modi was positive about the project but while Gujarat "seems to be a high probability state for us", nothing was finalised.

"It is too early to say anything about the location of the proposed plant, as we have not yet decided anything about it," Bhargava was quoted as saying.

"The state government has shown us a few locations and it will take two to three months to finalise."

Maruti Suzuki, which already has a manufacturing unit in the northern state of Harayana, wants to expand its capacity by a million cars a year, the chairman added.

A new plant would accommodate that, plus further expansion for another million units over the next five years, he said. Maruti sold 1,271,005 cars in 2010-11, up 24.8 percent on the previous year.

Promise, drama in Yahoo's Asian assets

REUTERS, *San Francisco*

Yahoo CEO Carol Bartz is known as a strong-willed and straight-talking leader, but some top money managers are betting she can mend fences and compromise with crucial partners in China.

Shares of Yahoo Inc, at around $16, are just over half what they were in 2008 when Microsoft came calling, never mind the Internet bubble highs of a decade ago.

But the stock's potential rebound attracted top hedge fund managers David Einhorn of Greenlight Capital, Philippe Laffont of Coatue Capital, Anand Parekh of Alyeska Investment Group and Ricky Sandler of Eminence Capital in the first quarter. The buying spree made Yahoo one of the biggest additions to portfolios of the Smart Money 30, a group of the largest stock-picking hedge funds, according to Thomson Reuters data.

Analysts say most investors have undervalued the most exciting part Bartz's Yahoo portfolio: its substantial Asian assets, which include a 43 percent stake in China's Alibaba Group and a 35 percent stake in Yahoo Japan.

But Bartz has had a tough time dealing with some of her Asian partners, particularly Alibaba Group founder Jack Ma, as investors discovered in early May.

That's when Yahoo revealed that online payment company Alipay, an important piece of its Chinese investment, had slipped through its fingers as a result of an asset transfer that raised questions about what kind of payout Yahoo's Asia assets will deliver. Yahoo shares tumbled 12 percent in the days that followed.

Bartz got off to a bad start with Ma, a former English schoolteacher, by criticizing his management of Yahoo's brand in China during their first meeting in 2009, according to a person familiar with the matter.

And Ma was subsequently rebuffed in efforts to repurchase some of Yahoo's stake in his company.

The two companies are currently in negotiations over how to compensate Yahoo for Alipay, an Alibaba subsidiary that was transferred to a separate entity controlled by Ma in order to meet Chinese regulations relating to foreign ownership.

AFP

EU agriculture ministers pose on Tuesday for a family photo with members of a Hungarian dance and cultural group before an informal EU Agriculture Council meeting in Debrecen to discuss a deadly bacteria outbreak suspected of stemming from contaminated cucumbers that has already killed 12 people in Germany.