Beijing struggles to plug capital flight

REUTERS, *Shanghai*

AS a slick slide presentation runs for the well-heeled investors jammed into the banqueting hall of Shanghai's Renaissance Yangtze Hotel, an image flashes up of a grinning Chinese man pushing a wheelbarrow full of cash into Europe.

Another slide features a car bearing a Chinese flag preparing to drive into a pit. For wealthy Chinese, desperate to avoid further falls in a currency that has shed 6 percent against the dollar since August, the message is clear.

"The yuan will keep depreciating as time goes by, so we should swap the money we have in hand into tangible assets," Li Xiaodong, chairman of Canaan Capital, tells his audience, while exhorting them to pull their money out of China while the going is still good and pour it into property in Spain and Portugal.

Canaan Capital is one of a swarm of asset management firms leaping to profit from Beijing's latest policy headache: the swelling crowd of Chinese individuals and firms trying to get their money out of the world's second biggest economy as its growth slows to a quarter-century low.

Weak real estate prices and the gyrations of the stock market, which plunged as much as 40 percent in a summer meltdown last year and has tumbled around 17 percent so far this year, have only encouraged the trend to seek better returns elsewhere.

The risk for policymakers is that so much money will exit China it will undo their efforts to cut the cost of credit domestically and reinvigorate flagging productive investment.

In graphs and numbers, Li's slideshow ran through some of the reasons why many of the 600 or so people who packed into his talk in late December are sceptical that the wobbly economy is turning around soon: an aging society, slowing growth, and the slide of the yuan against the dollar.

"Where was Li Kashing heading? He was heading to Europe," Li quipped, drawing laughs for his reference to the Hong Kong multibillionaire, who has been trimming his exposure at home and buying utilities and telecoms assets in the West.

Thanks to incremental reforms to China's capital account enacted while the yuan was still strong, it is easier than ever for Chinese companies and individuals to get money out legally.

They can buy property, or invest in offshore stocks, bonds or managed hedge funds; they can purchase offshore life insurance that can be used as collateral for further loans, or even buy a foreign company outright.

And their scope is not limited to Europe. One Shanghai-based investment company, Zengda, plans to guide Chinese money into mines, land and gas projects in Africa.

Others use trade and even tourism transactions to get money out of the country - contributing to the $200-$500 billion Chinese tourists are estimated to spend abroad annually.

The trend has grown so rapidly that some international banks are bolstering their wealth management divisions, encouraged by data showing money pouring out of China.

China's central bank and commercial banks sold a net 629 billion yuan ($95.61 billion) worth of foreign exchange in December, nearly triple the figure for the previous month.

One way of investing money overseas is through the Qualified Domestic Institutional Investor (QDII) pilot programme, which allows Chinese mutual funds to buy offshore stocks.

"Clients come to me now, realizing that hedging makes sense," said a private wealth manager at an international investment bank who spoke on condition of anonymity.

"I heard the QDII scheme was so popular that some brokerage firms were charging 6 percent just to use the quota, but people are still paying. They're afraid of depreciation."

A second investment management source in Shanghai confirmed that the costs of borrowing QDII quota had shot up in recent weeks amid surging demand and short supply.

China Asset Management (Hong Kong) Ltd has recently launched a 150 million yuan ($22 million) hedge fund under QDII to invest overseas and is charging mainland investors 1 percent annually as a channel fee, in addition to subscription and management fees, according to sales document seen by Reuters.

Policymakers fret that, instead of putting money into the research and development China wants to move its firms up the value chain, the executive elite will pour it into the elegant condos in downtown Lisbon that Canaan Capital is selling.

Unfortunately for Beijing, it is going to be very difficult to stem the tide, given many of the channels being used are legal and, in some ways, beneficial.

Beijing has, for example, been trying to make it easier for domestic companies to acquire overseas assets, seen as a way to increase Chinese influence and help firms move up the value chain by acquiring foreign competitors.

Any move to slow capital flight being disguised as M&A could impede strategic investments as well.

Beijing has also been trying to increase the international usage of the yuan, a project that could collapse if foreigners saw their money getting trapped in China.

Moreover, many of the funds are using the free trade zones China has rolled out in the last few years as part of a major reform push, which were specifically designed to make it easier for capital to cross the borders.

As a result, fund managers say that so far Beijing moved cautiously in its efforts to close the taps, halting quota issuance for easily controllable channels such as the QDII programme, for instance, and pressing banks to tighten outflows.

Whether regulators will be forced to go further to defend monetary stability remains in question, but few expect the demand to go away.

REUTERS/FILE

US 100-dollar banknotes and Chinese 100-yuan banknotes are seen in the picture illustration.

US blizzard to cause multi-billion dollar losses

REUTERS, *London*

Massive blizzards that paralyzed much of the US East Coast in the past few days are likely to cause "multi-billion" dollar economic losses in one of the worst storms in the region in over a century, reinsurance broker Aon Benfield said on Monday.

The monster weather system unofficially dubbed Winter Storm Jonas left at least 20 dead in several states, with most of the fatalities the result of traffic accidents. "Given the physical damage to homes, businesses and other structures and automobiles, plus the high costs incurred due to business interruption, it is expected that this will end up being a multi-billion-dollar economic cost," Aon Benfield said in a note.

The storm would likely be rated as one of the top 15 winter storms in the Northeast and Mid-Atlantic since 1900, it added.

It was too soon to calculate insured losses, Aon Benfield said, adding a similar storm system in January 1996 caused an estimated economic loss of $4.6 billion and insured loss of $920 million in current dollar terms.

Oil prices extend rise above $32

AFP, *Singapore*

Oil prices extended their rally in Asia Monday buoyed by hopes of extra stimulus measures in the eurozone and Japan that could help boost demand in the face of a global supply glut.

Prices ended on a buoyant note Friday, with the US benchmark West Texas Intermediate (WTI) for March delivery soaring nine percent to $32.19 a barrel, while Brent soared 10 percent to $32.18.

The upward momentum continued in Asia on Monday, with WTI up 46 cents, or 1.43 percent, at $32.65 and Brent 56 cents, or 1.74 percent, higher at $32.74 by 0650 GMT. Michael McCarthy, chief market strategist at CMC Markets Australia, said a report showing that private sector business activity in the eurozone continued to expand in January boosted hopes for oil demand catching up with the oversupply.

Data monitoring company Markit said its closely watched composite Purchasing Managers Index (PMI) fell to 53.5 points in January from 54.3 in December. While the figure was an 11-month low it was still well above the 50-point level that separates growth and contraction in the 19-nation bloc.

Foreign firms eye new Myanmar telecoms licence

REUTERS

A young Burmese monk uses a mobile phone to take a photograph at Shwedagon Paya in Yangon, Myanmar.

REUTERS, *Yangon*

SEVEN foreign firms are interested in bidding for Myanmar's fourth telecoms licence, a government official said on Monday, as the prospects of one of the region's least connected nations outweigh the challenges of a partnership involving obscure local firms with scant industry experience.

Chit Wai, deputy permanent secretary of the Ministry of Communications and Information Technology (MCIT), declined to give any details about the companies he said submitted expressions of interest earlier this month.

But unlike already established operators Telenor and Ooredoo, the foreign firm that wins this 15-year license will be a minority shareholder in a joint venture with a consortium of 11, little-known public companies which are mainly focused on agriculture, as well as a government shareholder.

The obscurity of the companies poses a potential problem in Myanmar, where some entities and businessmen are still targeted by U.S. sanctions, connections to the military are not uncommon and reputational risk remains high.

The companies' lack of experience in telecoms or IT, and the complex partnership structure stipulated by the government, is also likely to complicate matters: Ye Min Aung, the managing director of consortium-member Myanmar Agribusiness Public Corporation said the new operator should focus on providing information that is relevant to farmers.

"Decision making will be very difficult," said Shane Thu Aung, the chairman of internet provider Redlink Communications. He previously ran a firm tipped to partner with Vietnam's Viettel as the fourth operator before that deal fell apart.

Penetration rates, however, are around 63 percent according to the expression of interest documents issued by the MCIT, which his lower than several other Southeast Asian nations.

"It isn't a greenfield business anymore," said Sachin Gupta, the head of telecommunications research for Asia-Pacific at Nomura Securities in Singapore.

"There is still money to be made but you are competing with three entrenched operators."

Myanma Posts and Telecommunications (MPT), which operates in partnership with Japan's KDDI Corp. and Sumitomo Corp. , is the market leader with 18 million subscribers. Telenor has 12 million subscribers while Ooredoo has 5.8 million.

How the tech behind Bitcoin could change the world

BBC News

BLOCKCHAIN - the technology underpinning digital currency Bitcoin - has been in the news lately.

Banks think it could be the future of financial transactions, while diamond miners hope it will help end the trade in conflict diamonds.

And this week the UK's chief scientific adviser encouraged the British government to adopt the technology. But what exactly is it and why is it causing such a stir? Technology of Business (tries) to explain.

Blockchain is a method of recording data - a digital ledger of transactions, agreements, contracts - anything that needs to be independently recorded and verified as having happened.

The big difference is that this ledger isn't stored in one place, it's distributed across several, hundreds or even thousands of computers around the world.

And everyone in the network can have access to an up-to-date version of the ledger, so it's very transparent.

Digital records are lumped together into "blocks" then bound together cryptographically and chronologically into a "chain" using complex mathematical algorithms.

This encryption process, known as "hashing" is carried out by lots of different computers. If they all agree on the answer, each block receives a unique digital signature.

"You don't store details of the transaction, just the fact that it happened and the hash of the transaction," explains Adrian Nish, head of threat intelligence at BAE Systems.

Once updated, the ledger cannot be altered or tampered with, only added to, and it is updated for everyone in the network at the same time.

Well, the distributed nature of a blockchain database means that it's harder for hackers to attack it - they would have to get access to every copy of the database simultaneously to be successful.

It also keeps data secure and private because the hash cannot be converted back into the original data - it's a one-way process.

So if the original document or transaction were subsequently altered, it would produce a different digital signature, alerting the network to the mismatch.

In theory then, the blockchain method makes fraud and error less likely and easier to spot.

The idea has been around for a couple of decades, but came to prominence in 2008 with the invention of Bitcoin, the digital currency.

Bitcoins are created by computers solving complex mathematical puzzles and this requires lots of computing power and electricity.

BBC NEWS

While a growing number of retailers accept Bitcoin, the digital currency remains controversial.

Blockchain is the technology underpinning it.

But there isn't just one program - lots of companies, from Ethereum to Microsoft, are developing their own blockchain services. Some are open to all ("unpermissioned", in the jargon), others restrict access to a select group ("permissioned").

"Banks do very similar things to each other, even though they compete," says Simon Taylor, vice-president of blockchain research and development at Barclays.

"They basically keep our money safe and a big computer keeps track of who has what. But getting these computers to talk to each other is remarkably complex and expensive - the tech is getting a little old," he says.

If banks started sharing data using a tailor-made version of blockchain it could remove the need for middlemen, a lot of manual processing, and speed up transactions, says Taylor, thereby reducing costs.

Having access to an open, transparent ledger of bank transactions would also be useful for regulators, he adds. And it could help governments tackle tax fraud.

Tech company R3 CEV has persuaded more than 40 banks around the world, including Barclays, UBS and Wells Fargo, to join a consortium exploring distributed ledger technology.

Just this week, R3 announced that 11 global financial institutions had taken part in an experiment involving the exchange of tokens across a global private network without the need for a central third party verifying the transactions.

"It's very early days for this technology but the potential is phenomenal," Taylor concludes. If banks and other financial institutions are able to speed up transactions and take costs out of the system, it should mean cheaper, more efficient services for us. For example, sending money abroad could become almost instantaneous.

Last year, investment bank Goldman Sachs and Chinese investment firm IDG Capital Partners invested $50 million in Circle Internet Financial, a start-up aiming to exploit blockchain technology to improve consumer money transfers.

Circle, co-founded by entrepreneur Jeremy Allaire, has created a digital wallet for bitcoins, but users can decide whether they send or receive money in dollars as well. The idea is to make cross-border payments as easy as sending a text or email.

It's not all about banking. Tech company Everledger is using blockchain to develop a system of warranties that enable mining companies to verify that their rough-cut diamonds are not being used by militias to fund conflicts, and that they comply with the Kimberley Process - a government and community-backed certification scheme for diamonds.

The ownership history and value of each diamond is available to anyone who wants it, and you can be confident that the information has not been tampered with or corrupted.

In six months of operation, Everledger has added nearly 850,000 diamonds to its blockchain database so far.