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# China News Alert Issue 244

## Capital Markets

### China raises reserve-requirement ratio for commercial banks

China's central bank recently ordered lenders to set aside more money in their reserves, the fifth such move this year. This is the latest effort to improve liquidity management in the banking sector.

The reserve-requirement ratio will be raised by 0.5 per cent on 15th June, and another 0.5 per cent on 25th June, the People's Bank of China (PBOC) said on its website.

This will bring the ratio to a record high of 17.5 per cent.

The PBOC also said that corporate financial institutions in the worst earthquake-hit areas, including Chengdu and Mianyang, can postpone implementation of the regulation. However, it did not say how long the delayed period would be.

"The rise, a further materialisation of China's tight monetary policy, is aimed at strengthening liquidity management in the banking system," the statement said.

"The government has adopted differential monetary policies to support reconstruction in the earthquake-hit areas," said Peng Xingyun, a senior expert with the Chinese Academy of Social Sciences (CASS).

Zhou Xiaochuan, the central bank governor, said earlier that the PBOC was to introduce a flexible monetary policy to aid post earthquake reconstruction.

The 8.0-magnitude earthquake centered on Sichuan's Wenchuan County has so far caused 206.53 billion yuan worth of economic losses to industrial and mining enterprises in the affected regions.

The PBOC has raised the ratio four times already this year. The latest was on 12th May when it lifted the ratio to a new high of 16.5 per cent.

Yin Jianfeng, director of the Institute of Finance and Banking with the CASS, said the latest move will help the country reduce inflationary pressure and control excessive investment. "But the move will not be as effective as the government expects because inflation nationwide is mainly the result of surging production material and food prices," he said. "A simple monetary policy will not help."

The consumer price index (CPI), the main inflation gauge, was up 8.5 per cent in April from a year earlier. This was nearly equal to February's 8.7-per cent rise, the greatest since May 1996.

Some market experts said that post earthquake restoration and reconstruction would increase fixed asset investment, and add more inflation pressure to the nation's economy.

Soaring demand for cement, steel, copper, zinc, and aluminium were expected to push up the prices of basic building materials, according to experts.

Zuo Xiaolei, Galaxy Securities chief economist, said huge foreign exchange reserves and economic unrest in neighbouring countries had caused great pressure on China's economy. This had forced the government to adjust its economic policy before it could reach a balance.

"A great deal of hot money swarmed into China's capital market, and the PBOC aims to hedge excessive monetary liquidity," said Wu Xiaoqiu, head of the Financial and Securities Research Institute of the China Renmin University.

Wu said the government was likely to introduce more monetary policies to curb inflation and liquidity in the near future.

China adopted the tight monetary policy in late 2007 to prevent the economy from overheating. It was also to guard against a shift from structural price rises to evident inflation. The country adhered to the policy despite a global slowdown caused by the international credit crunch.

The country's economic growth slowed in the first quarter but still reported double-digit growth. It expanded 10.6 per cent, compared with 11.7 per cent in the same period of 2007.

[Source: Xinhua](http://news.xinhuanet.com/english/2008-06/07/content_8325923.htm) ([see archive](China_raising_reserve-requirement_ratio_for_commercial_banks.pdf))

### SAFE tightens control over inflow of foreign exchange funds

China's State Administration of Foreign Exchange (SAFE) will continue to tighten control over the inflow of foreign exchange (forex) funds.

SAFE will also work with related authorities to allow offshore institutions to remit forex funds purchased after raising funds by issuing RMB bonds in China. Domestic offerings of RMB shares by offshore enterprises is also under consideration.

According to China's 2007 Balance of Payments Report, released by SAFE on 5th June, SAFE will abolish the examination of forex funds for offshore direct investment and will consider policies governing individual offshore direct investment.

It will also continue to support external investment through domestic qualified institutional investors, expand the scope of investment entities and investment volume and scope, and relax the conditions and scale of offshore fund provision by multinational companies.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=4028) ([see archive](SAFE_Tightens_Control_over_Inflow_of_Foreign_Exchange_Funds.pdf))

## Real Estate

### Violations found in land management and sales

More than 70 per cent of net proceeds from land sales in 11 Chinese cities, or 186.41 billion yuan (US$12.52 billion), were not included, as stipulated, in the budgets of local governments, the country's audit authority said in a report released recently.

The finding was among several violations discovered in an audit campaign launched by the National Audit Office (NAO) in 2007 to look into land sales in 11 cities from 2004 to 2006.

The 11 cities were Beijing, Shanghai, Tianjin, Chongqing, Harbin, Hefei, Jinan, Changsha, Guangzhou, Nanning and Chengdu.

China has stipulated that land users must pay fees for their use of land to local governments, as the country's land is solely state-owned.

Such proceeds should be paid into a special account held by the local government, and net proceeds, excluding fees such as service charges, are submitted to the exchequer and become part of the local government's budget to exclusively support infrastructure construction and land development.

Land proceeds have been a major source of income for local governments. The NAO report showed net proceeds from land contributed about 26 per cent of the budget to local governments of the 11 cities over the three years.

Total proceeds from land in these 11 cities was 351.04 billion yuan from 2004 to 2006, and net proceeds stood at 261.87 billion yuan, the report showed.

Messy management and misuse

The NAO said 2.46 per cent of the total land proceeds were not paid into the special accounts, while 71.18 per cent of the net proceeds, the above-mentioned 186.41 billion yuan, were not put into local budgets.

Zhai Aicai, deputy head of the Agriculture, Resources, and Environment Audit Department of the NAO, said land proceeds, if not included in special accounts and local budgets, could be easily misused or embezzled.

The NAO found that about 8.37 billion yuan of land proceeds were misused. About 5.23 billion yuan was used to construct office buildings and other facilities for local governments, while about 3.14 billion yuan was used for other loans and investments, according to the report.

Collection failure of land proceeds

There were also cases of unpaid or uncollected land proceeds, although the majority, 94.08 per cent, of land proceeds had been duly collected, the report showed.

About 4.79 billion yuan of land proceeds in nine cities, Tianjin, Changsha, Nanning, Chengdu, Harbin, Shanghai, Hefei, Guangzhou and Jinan, or 2.17 per cent of the total 220.46 billion yuan, were illegally deducted or exempted.

More than half of the illegal deductions and exemptions were attributed to irrationally low land prices, reimbursement of fees for land use, or charging fees for land use to local governments, the report said.

Experts had warned that the improper deduction or exemption of land use charges would enable real estate developers to get large areas of land for relatively small amounts of money, which in effect lowered the cost for developers.

All the cities included in the study, with the exception of Beijing, also saw a combined 17.33 billion yuan in late land proceed payments; some cities had even granted the use of land before land users handed in the required fees, according to the report.

Zhai noted that this would bring more risks to commercial banks, as real estate developers usually received loans from banks on the mortgage of the land use certificates, and later paid back bank loans and land use fees with proceeds from apartment sales.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-06/04/content_6737291.htm) ([see archive](Violations_found_in_land_management_and_sales.pdf))

## IPR

### China outlines national IPR improvement strategy

China plans to dramatically increase its self-directed intellectual property rights (IPR) level and improve IPR protection within five years.

The State Council recently promulgated an outline of the IPR strategy, under which it also plans to raise society's IPR protection awareness over five years. By 2020, it says, China will become a country with a fairly high level of IPR creation, use, protection and management.

The implementation of a national IPR strategy will enhance China's innovation ability, improve the socialist market economy system, increase business and national competitiveness, and achieve a win-win result with the outside world, the outline said.

The key points of the strategy include the perfection of the IPR system, promotion of IPR creation and use, strengthening of IPR protection, avoidance of IPR abuse and nurturing respect for IPR, it said.

[Source: China Securities Journal](http://www.cs.com.cn/english/ei/200806/t20080611_1489054.html) ([see archive](China_outlines_national_IPR_improvement_strategy.pdf))

## Corporate & Commercial

### Insurers pay 233million yuan in earthquake-related claims

China's insurers have paid 233 million yuan ($33.57 million) of indemnities for earthquake losses as of 3rd June, according to the China Insurance Regulatory Commission (CIRC).

Insurance companies nationwide have so far received 220,000 claims. Of the 233 million yuan, 142 million yuan went to life insurance and 91.51 million yuan went to property claims.

The People's Insurance Company (Group) of China (PICC) had received more than 190,000 claims as of 4th June. It has so far paid 96 million yuan to victims in the earthquake-hit regions.

Jiang Caishi, PICC business development manager, said the claims and payments were expected to increase greatly in the next few days. "Claim settlement will be more difficult compared with that of the snow disaster in mid-January."

The Munich Re Group, the world's second largest re-insurer, said in an earlier report that the country's insurance firms would pay out between 300 million euros (US$466.54 million) to 1 billion euros in claims relating to the 12th May earthquake. This was compared to the 150 billion yuan (US$ 21.6 billion) in direct economic losses estimated by economists.

Wu Dingfu, the CIRC chairman, said earlier that insurers should make every effort to ensure payment for losses.

[Source: China.org.cn](http://www.china.org.cn/business/2008-06/05/content_15637744.htm) ([see archive](Insurers_pay_233m_yuan_in_quake-related_claims_so_far.pdf))

### Fuel shortage poses policy dilemma

A renewed fuel shortage has hit many Chinese cities, as independent refiners cut output to narrow their losses caused by the government's cap on fuel prices.

This may pressurise the government into reconsidering its fuel price-setting policy, which is designed to calm inflation and protect low-income groups. Short supplies during the peak summer season may also spark social unrest.

In downtown Shanghai, Wang Qiang said he only managed to fill his car's tank after visiting six petrol stations over the weekend. It took him almost the entire afternoon, he said.

"The petrol station attendant told me they had run out of 93-octane gasoline so I had to switch to the pricier 97-octane, although I'm not quite sure whether that's suitable for my engine," said Wang, 29, a sales manager.

"Last year, people would probably have been very unhappy with any fuel price rises. But today, my biggest concern is whether I can get the gasoline."

Fuel shortages have also been reported from Beijing to the southern Guangdong Province, China's main manufacturing hub and major oil consumer.

Crude oil prices, now well above US$120 a barrel in New York, are leaving China's refineries deep in the red, although the government has been handing out subsidies to trim their losses and encourage more processing. China last raised fuel prices in November 2007, when crude oil prices were around US$95 a barrel.

Although top government officials have said fighting inflation, already running near the highest level in almost 12 years, is the top task at present, its tight regulation on fuel prices, as well as utility tariffs, has been criticised.

Policies that maintain both subsidies and price caps are not conducive to energy conservation, and may hurt investment. The fuel subsidy is actually subsidising the whole world, given China's role as a prime manufacturer of exports.

[Source: China.org.cn](http://www.china.org.cn/business/2008-06/05/content_15638613.htm) ([see archive](Fuel_shortage_poses_policy_dilemma.pdf))

### HSBC starts gold trading on exchange

HSBC became the first overseas bank to start gold trading as a member of the Shanghai Gold Exchange after getting approval from the China Banking Regulatory Commission.

"HSBC is pleased to be the first foreign bank to conduct a transaction on the Shanghai Gold Exchange," said Richard Yorke, group general manager, president and chief executive officer of HSBC China. "The opening of the gold market to foreign banks' participation is another exciting development for China's financial markets."

Yorke believes that HSBC's trading at the exchange "will enable us to share our international experience and expand our participation in China's financial markets as well as our services scope."

The bourse is the sole exchange for gold and platinum trading on China's mainland.

HSBC and Standard Chartered were approved as the gold exchange's first two overseas members.

[Source: Shanghai Daily](http://www.shanghaidaily.com/sp/article/2008/200806/20080606/article_362196.htm) (Link no longer active)

## Other

### China's post-earthquake rebuilding regulation focuses on public structures

A regulation on reconstruction in the areas damaged in the 12th May Wenchuan earthquake focuses on the quality of public buildings.

The regulation stipulates that schools, hospitals, stadiums, libraries and other high-occupancy public buildings that were destroyed should be rebuilt to meet higher earthquake-resistance criteria than those of ordinary buildings.

"All the measures that the regulation covers will help ensure the safety and quality of the reconstruction," Cao Kangtai, director of the State Council's Legislative Affairs Office, said recently.

The regulation states that high-occupancy public buildings also include museums, theaters, department stores and large transport stations, which will be rebuilt under more stringent supervision.

An earthquake measuring 8 on the Richter scale hit southwest China's Sichuan Province last month and destroyed thousands of school buildings.

According to the regulation, governments above county level are responsible for carrying out evaluations of public buildings, facilities and infrastructure that were seriously damaged by the earthquake, and for preserving relevant data and samples.

If the evaluations find the projects have quality problems, the projects' sponsors, designers, builders and supervisors will be punished according to the law, it said.

Anyone suspected of giving or taking bribes will face criminal charges, it added.

[Source: Xinhua](http://news.xinhuanet.com/english/2008-06/11/content_8343266.htm) ([see archive](Chinas_post-quake_rebuilding_rule_focuses_on_public_structures.pdf))

### Supervision of supplies tightened in earthquake zone

China's quality watchdog recently called for enhanced efforts nationwide to ensure the quality of relief supplies shipped to earthquake-hit areas.

The General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) said in a circular that local quality agencies should be alert to substandard products, food in particular, entering localities stricken by the 12th May earthquake.

"Companies which use raw materials unsuitable for edible products to increase profits will be severely punished, their business license revoked and they will be banned from applying for a new one within three years, " said the circular. It added that serious offenders will face criminal prosecution.

The AQSIQ urged local agencies to step up quality supervision for drinking water, milk, food and daily necessities.

The quality control authority pointed out that special attention should be given to the disadvantaged by putting greater efforts into quality checks of products for ladies, babies and the disabled.

Recently, China began an investigation into the delivery of 300 quilts padded with substandard used cotton sent to the earthquake-hit Sichuan Province.

[Source: Law Info China](http://www.lawinfochina.com/News/News_Detail.asp?Id=6694) ([see archive](Tightened_supervision_over_product_in_quake_zone.pdf))

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