Charltons - China News Alerts Newsletter - 20 August 2008

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# China News Alert Issue 254

## Capital Markets

### China doubles ceiling on small mortgage loans for businesses

The People's Bank of China announced recently that the country's financial institutions would raise the ceiling for small-scale mortgage loans from 1 million yuan (US$145,500) to 2 million yuan to help companies better fund their businesses.

The central bank also raised caps for small mortgage loans for individuals from 20,000 yuan to 50,000 yuan, according to a circular on its website, released jointly with the Ministry of Finance and the Ministry of Human Resources and Social Security.

The new policy aims to benefit urban unemployed in a move to help them cope financially.

The government promised to help 10 million urban residents find employment this year.

"Financial institutions are entitled to raise the interest rate on small-scale loans for individuals to the tune of three percentage points on the basis of the current interest rate," said the circular. This is to help commercial lenders control financial risks and boost the sustainable development of this financial service.

Difficulty securing financing has been a hurdle for domestic enterprises since China started providing small mortgage loans in 2002.

In total, 17.5 billion yuan in small mortgage loans have been given out to companies and individuals, as of May 2008.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-08/19/content_6948815.htm) ([see archive](China_doubles_ceiling_for_company_small_mortgage_loans.pdf))

### Central bank to set up foreign exchange department

The People's Bank of China (PBOC), the central bank, plans to establish a foreign exchange department.

With the approval of the State Council, major functions of the new department will include: administering foreign exchange; regulating the domestic foreign exchange market; conducting analysis of the global foreign exchange market and international capital flow; and advising policy makers, the central bank said in a statement recently.

This would increase the total number of departments under the central bank to 19 from 18 after its last institutional reorganisation in 2003.

Differing from the State Administration of Foreign Exchange, the new department is to focus more on policy work rather than detailed management.

It is quiet necessary to set up a special department for foreign exchange issues, said Peng Xingyun, who works at the Institute of Finance and Banking under China Academy of Social Sciences. "The more flexible foreign currency rate and frequent international capital flow have increased uncertainties around the country's macro-economy regulation," Peng said.

The establishment of this new department indicates that foreign exchange will become a more important tool for the central bank's macro control, he said.

This will also be helpful to monitor cross-border capital flow, China Minzu Securities analyst Li Yuan said.

Also as a result of the State Council's decision, PBOC will set up a financial supervision and collaboration mechanism with the China Banking Regulatory Commission, the China Securities Regulatory Commission and the China Insurance Regulatory Commission.

The mechanism aims to share financial information and increase cooperation among the four authorities, in a bid to prevent and resolve financial risks and safeguard financial stability.

[Source: China Securities Journal](http://www.cs.com.cn/english/ei/200808/t20080815_1557064.html) ([see archive](Central_bank_to_set_up_foreign_exchange_department.pdf))

### CSRC to modify the administrative measures for turnovers of listed companies

The China Securities Regulatory Commission (CSRC) is expected to adjust the time limit for dealing with applications for exemption via simple procedures, from 5 to 10 working days.

On 17th August, the CSRC released the 'Decisions on Modifying Article 63 of the Administrative Measures for Turnover of Listed Companies (Draft for Comment)' ("Decisions") for public comment.

The Decisions stipulated that if major shareholders submit their application for exemption in accordance with Item 2, paragraph I of Article 63, they are eligible to submit their application before the event, rather than after the event.

The public-input process is scheduled to conclude on 25th August.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=4545) ([see archive](CSRC_to_Modify_the_Administrative_Measures_for_Turnovers_of_Listed_Companies.pdf))

## Real Estate

### Policy thrust to save arable land

The Chinese government recently announced the long-awaited national land-use policy until 2020, to address the rising conflict between its expanding industrial areas and shrinking arable land.

Approved at a State Council executive meeting, presided by Premier Wen Jiabao, the policy states that China should have 121.2 million hectares of arable land until 2010 and 120.3 million hectares until 2020.

The figures are a little higher than the government's long-held 120-million-hectare "critical mark" to ensure food security for the increasing population.

Last year, arable land area fell to 121.73 million hectares, according to the Ministry of Land and Resources (MLR).

Earlier, Hu Cunzhi, head of the MLR's planning commission, said the policy takes into consideration land use across all sectors and aims to protect arable land and make more efficient use of areas designated for development.

The policy's main aims are to protect farmland and "strictly control the use of arable land for non-agricultural purposes".

The plan also aims to:

* control the expansion of newly approved construction projects, and step up efforts to make infrastructure land use more efficient;
* strengthen control of land use management at a provincial level;
* balance land use and environmental protection;
* strengthen land-use standards and land supply legislation; and
* take steps, such as setting up an accountability system for arable land protection, to ensure policy measures are implemented effectively.

The plan, approved two years after it was submitted to the State Council, has undergone many revisions. It has now become the most significant policy on China's land use.

[Source: People's Daily Online](http://english.people.com.cn/90001/6474963.html) ([see archive](Policy_thrust_on_saving_arable_land.pdf))

## Corporate & Commercial

### Xinjiang reports robust foreign trade growth

The import and export value of northwest China's Xinjiang Uygur Autonomous Region doubled in the first seven months of this year to US$11.58 billion, 70 per cent more than the national average growth rate.

The remote Chinese region exported US$9.89 billion worth of commodities from January to July 2008, almost double that for the same period last year, and imported goods were valued at US$1.69 billion, an increase of more than 80 per cent, according to statistics given by Urumqi Customs.

Xinjiang's conventional bulk goods for export included garments, accessories, footwear, machinery, electronic products, textile yarn, fabrics and related products, and farm produce.

In the first seven months of 2008, 77 per cent of the region's foreign trade volume, or US$9 billion, was conducted via barter trade.

Xinjiang has borders with Mongolia, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, Afghanistan, Pakistan and India, with a total of 5,400 kilometres of border.

Kazakhstan remains Xinjiang's biggest trading partner, followed by Kyrgyzstan, Russia, Tajikistan and Uzbekistan.

Nationwide, China gained US$1.48 trillion in foreign trade in the first seven months of 2008, representing a year-on-year rise of 26.4 per cent, according to a report posted on the Ministry of Commerce's website.

Of the total trade, exports totaled US$802.91 billion, up 22.6 per cent, while imports were worth US$679.2 billion, up 31.1 per cent.

[Source: China Securities Journal](http://www.cs.com.cn/english/ei/200808/t20080818_1558394.htm) (Link no longer active)

## Other

### MOF say tax revenue increase not a result of heavier tax burdens

China's Ministry of Finance (MOF) said recently that a sharp rise in the country's tax revenue in the first half of 2008 was a result of steady economic development, not heavier tax burdens.

The tax revenue in the first half of 2008 totaled 3.14 trillion yuan (US$458.1 billion), an increase of 789.09 billion yuan, or 33.5 per cent from a year earlier.

Enterprise income tax revenue rose 41.5 per cent to 791.27 billion yuan in the first half of 2008, and individual income tax totaled 213.67 billion yuan, a year on year increase of 27.2 per cent.

The MOF said rising tax revenue came from steady economic and social development, but it was not a simple calculation of the gross domestic product (GDP) growth.

The country's GDP grew 10.4 per cent in the first half of 2008 over the same period last year.

Instead of adding tax burdens, China has implemented many policies to relieve tax burdens on enterprises and individuals, according to the ministry.

These included cutting the income tax rate on domestic enterprises to 25 per cent from the previous 33 per cent and raising the threshold for individual income tax from 1,600 yuan to 2,000 yuan.

[Source: Xinhua](http://news.xinhuanet.com/english/2008-08/14/content_9320504.htm) ([see archive](MOF_H1_tax_revenue_increase_not_a_result_of_heavier_tax_burdens.pdf))

### Tax on large cars raised to save energy

Taxes in China will be raised on large cars and reduced on smaller ones from 1st September to save energy and reduce pollution.

Owners of cars with engines above 4-liter capacity will have to pay 40 per cent tax, double the existing rate, the Ministry of Finance said recently. The tax for vehicles with engines between 3 and 4 liters will increase from 15 to 25 per cent.

Tax on cars with engines below 1-liter capacity will be reduced from 3 to 1 per cent.

China is one of the biggest and fastest growing car markets, with vehicles accounting for the lion's share of its gasoline consumption.

The proportion of imported oil to total consumption in the country has risen to about 50 per cent, prompting China to adopt policies to improve energy efficiency, analysts said.

The country has pledged to lower energy consumption per unit of GDP by 20 per cent and cut emissions of major pollutants by 10 per cent during the 11th Five-Year Plan (2006-10).

In 2007, however, it could not meet its annual target of a 4 per cent reduction, falling short by 0.34 percentage points.

Cars with engines between 3 and 4 liters were the highest selling in 2007. The increase in their sales was phenomenal: up six-fold to 12,100 units, the China Association of Automobile Manufacturers has said.

In contrast, the sale of cars with engines below 1 liter fell 31 per cent to 251,700 units

In another vital step to reduce the use of energy, the government increased gasoline and diesel prices in late June 2008.

The move was aimed at preventing the country's oil producers and refiners from suffering huge losses because of rising global oil prices.

The tax policy is a good first step towards an energy efficient and environmentally friendly economy, Zhong Shi, a Beijing-based industrial analyst, said.

"It's good to see that the government has started using taxation policies as a tool to achieve its energy efficiency goals." However, the tax increase is not likely to stop the rich from buying large cars as such people are not very sensitive to price changes, he said.

[Source: China Daily](http://www.chinadaily.com.cn/china/2008-08/14/content_6933583.htm) ([see archive](Tax_on_big_cars_raised_to_save_fuel.pdf))

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