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# China News Alert Issue 263

## Capital Markets

### China scraps interest tax on stock account balance

China has scrapped the tax levied on the interest income of individual stock account balance, said the Ministry of Finance recently.

The ministry said the decision, effective October 9, aimed at maintaining a stable and healthy development of the capital market.

In another move to boost domestic demand, the country had scrapped the 5 percent individual income tax on savings interest earnings starting on the same day.

The loosening in monetary policy highlighted the government's rising concern over the slowing economy and slumping capital market.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-10/26/content_7141695.htm) ([see archive](China_scraps_interest_tax_on_stock_account_balance.pdf))

### China to strengthen supervision of state-owned assets

China's top legislators recently met for a third time to discuss a newly-revised draft law designed to improve supervision and management of state assets in both financial and non-financial businesses.

It prescribed state-owned assets in both financial and non-financial sectors should be put under supervision. It didn't include state-owned administrative and resource assets.

The draft law of enterprise state-owned assets was submitted to the fifth session of the Standing Committee of the 11th National People's Congress for a third reading.

Li Shuguang, a China University of Political Science and Law professor and a member of the draft team, said it was a big step forward to cover state-owned financial assets in the paper.

Currently, the State-owned Assets Supervision and Administration Commission is responsible for watching over 146 state-owned business giants. State-owned financial institutions such as banks are under the supervision of the Ministry of Finance and the central bank.

It added an article highlighting the role of employee representation in improving the democratic management of business.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-10/23/content_7136559.htm) ([see archive](China_to_strengthen_supervision_of_state-owned_assets.pdf))

### Governments may set up guiding funds

The Chinese State Council has promulgated the Guidance on Establishment and Operation of Venture Investment Guiding Funds, requiring various local governments and ministries under the State Council to strictly abide by the Guidance.

According to the Guidance, the funds are set up by various governments and maintain a business mode. They mainly fund venture capital firms but do not direct participate in venture investment, aiming to guide disposable capital into venture investment area.

The Guidance authorizes local governments above prefecture level to set up guiding funds according to local needs and their financial status. The funds have independent legal personality and are managed by councils whose members are appointed by governmental departments. The money comes from government appropriation, earnings made by the guiding funds, interests from banks or state bonds and donations made by individuals and enterprises.

The Guidance specifies the operation mode, management and risk control of the funds. It is emphasized that the funds are not allowed to be loaned or invested in stocks, futures, real estate, other funds, corporate bonds, financial derivatives, nor can they be used in sponsorship or donations. The disposable money can only be put in banks or buy state bonds.

[Source: CCTV](http://news.cctv.com/financial/20081023/100079.shtml) ([see archive](Governments_may_set_up_guiding_funds.pdf))

### CIRC specified senior manager qualification of insurance companies

Financial and compliance principals and chief actuaries of insurance companies must get approved by the China Insurance Regulatory Commission (CIRC) to take the role as the vice general manager, assistant to the general manager and secretary to the boards of directors.

The aforementioned provisions were made by the Circular on Several Issues Concerning the Implementation of Provisions for Administrating the Qualification of Directors and Senior Managers of Insurance Companies (Circular), released by the China Insurance Regulatory Commission (CIRC) on October 22, 2008.

The Circular also stipulated that positions at the same levels as stated by Article 25 of the Provisions for Administrating the Qualification of Directors and Senior Managers of Insurance Companies shall include: vice general manager and assistant to general manager of a same insurance company's headquarter, vice general manager and assistant to general manager of various subsidiaries and etc.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=4875) ([see archive](CIRC_Specified_Senior_Manager_Qualification_of_Insurance_Companies.pdf))

## Real Estate

### China cuts taxes, rates to boost housing market

The central government recently stepped in to bolster the sagging real estate market by lowering transaction taxes, reducing down payments and lowering mortgage rates.

But analysts said the measures may not hold back price corrections because the current prices have surged far out of reach of many buyers.

Fleshing out a directive by the State Council for lowering the cost of home buying, the Ministry of Finance and the central bank recently announced that property purchase tax would be lowered to 1 percent for people buying their first home if it is smaller than 90 sq m.

The previous rate was 3 percent, with those buying houses smaller than 140 sq m paying 1.5 percent.

The new rate will be effective Nov 1.

For people buying their first home, the down payment ratio will be lowered to 20 percent, and banks will be allowed to charge as low as 70 percent of benchmark lending rates for such mortgages.

The current down payment ratio is 30 percent, or even higher, for those buying large luxury houses or in areas where property prices were deemed to be rising too fast.

The ministry and the central bank said the moves are aimed at increasing consumption to shore up the national economy amid the global and domestic economic slowdown.

The global financial turmoil is expected to further drag down the world economy, which will reduce demand for Chinese exports. China's economic growth eased to 9 percent year-on-year in the third quarter of this year from 10.4 percent for the first six months. Last year, it was nearly 12 percent.

"The central government moves were expected as the housing market is in a downturn," said Wang Lina, economist with the Chinese Academy of Social Sciences. "But to what extent they will work remains unclear."

Property prices in 70 major cities rose 3.5 percent in September from a year earlier, the slowest pace in at least three years, down from 5.3 percent in August. In month-on-month terms, they fell by 0.1 percent in September, which was the second month that prices dropped.

Official figures show that prices have at least doubled since 2004, making property unaffordable for many and home sale volumes plunged 55.5 percent, 38.5 percent and 32.5 percent year-on-year in Beijing, Shanghai and Zhejiang province in the eight months through August.

"Given the high prices, those who cannot afford them would still be hard pressed to buy," Wang said.

China's property prices may drop by about 20 percent from the 2007 level in the coming months, said a research note of the Standard Chartered Bank (China), an assertion backed by Guo Tianyong, economist with the Central University of Finance Economics.

"We expect 2009 will see a further downturn in the housing market, followed by a healthier 2010," the bank report said.

[Source: Ministry of Commerce](http://ch2.mofcom.gov.cn/article/chinanews/200810/20081005848334.shtml) ([see archive](China_cuts_taxes_rates_to_boost_housing_market.pdf))

### China gives green light for farmers to subcontract farmland

Li Liushu, a farmer-turned-migrant worker in central China's Henan Province, leased two fifths of a hectare of farmland to his neighbor six years ago.

The lease was made without any official contract because subcontracting farmland usage rights was not officially recognized at the time.

However, such leases have been officially encouraged in the Communist Party's latest policy document on rural development released recently, which called for farmers' "entitlement to subcontract, rent, exchange, transfer and swap their land-use rights."

"By leasing the farmland, I got a stable annual rent of 200 yuan ($30) and bade farewell to the farm work," said 33-year-old Li.

He left Henan's Zhangzhuang Village for a construction job in the provincial capital of Zhengzhou. He leased his farmland to save the trouble of going back to the fields during planting and harvesting seasons.

Under the new policy, markets for the lease and transfer of farmland usage rights shall be set up to safeguard the interests of farmers and better document contracts.

In Henan, one of China's major agricultural regions, about 305,000 hectares, or 4.8 percent of the farmland, has been privately leased, according to the Henan Provincial Agricultural Department statistics.

"About two thirds of the land was transferred between relatives, friends or neighbors so the land would not be deserted when farmers went to seek jobs in the city," said senior department official Ding Xinkui.

"The remaining land was transferred as the individual land plots were merged into larger areas to encourage the development of large industrial farms as a way of maximizing the use of the arable land," he said.

Ding predicted that scenario would become more common, when more of the country's 800 million farmers were introduced to the policy.

He pointed out that the policy only allowed farmers to transfer their land usage right rather than the ownership.

According to China's Constitution, all land is owned by the state, while the individual families are permitted to farm their land under 30-year government contracts.

Many farmers who seek work in the cities say they will ultimately return home and want to retain the land rights.

"I would not transfer my land for good," said Li.

He said the household administration system that distinguishes between rural and urban people has long denied farmers access urban rights and benefits, including pensions and medical coverage.

"If I lost my land, I would be neither a farmer nor an urban resident," he said. "When I am old, I would return to my land -- my last and always reliable retreat."

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-10/24/content_7138734.htm) ([see archive](China_gives_green_light_for_farmers_to_subcontract_farmland.pdf))

## Corporate & Commercial

### Govt pledges job support to labor-intensive sector

The government recently pledged to support labor-intensive enterprises and small- and medium-sized enterprises (SMEs) to protect jobs amid the global financial meltdown.

"The current global financial crisis has affected China's employment situation, particularly export-oriented businesses," Yin Chengji, spokesman for the Ministry of Human Resources and Social Security, told a news conference.

"The government will help create jobs by encouraging development of labor-intensive industries, small- and mid-sized businesses, private companies and the service sector."

Yin said the nation has formulated policies to bail out enterprises, including:

Increasing bank loans and raising export tariff rebates;

Working out favorable taxation, financing and other policies to encourage start-ups;

Providing more vocational training for laid-off workers to increase their chances of re-employment;

Establishing a pension system in rural areas and expanding the urban pension system to cover rural migrant workers.

Yin said the registered jobless rate for urban residents stood at 4 percent by the end of September, the same as the end of last year.

Experts said the result was commendable, given the challenging economic situation this year.

"It means that the country's economy is still growing fast enough to generate jobs," said Wang Dewen, an expert with the Institute of Population and Labor Economics affiliated to the Chinese Academy of Social Sciences.

The economy created 9.36 million jobs in the first three quarters, and another 4.09 million laid-off workers were re-employed, figures show.

The efforts include helping more than 1 million laborers from areas hit by a massive earthquake on May 12 in Sichuan province find new jobs.

Yet the registered urban unemployment rate, which excludes the vast majority of more than 200 million migrant workers, "far from reflects the true gravity that China faces in its job market", Wang said.

The global credit crisis has taken a heavy toll on China's export-oriented SMEs, which are magnets for rural migrant workers, he said.

Figures from the National Development and Reform Commission show that 67,000 previously profitable SMEs collapsed during the first half of the year. And two-thirds of the labor-intensive textile enterprises are facing restructuring.

In Dongguan, Guangdong province, half of the toy makers have closed down.

Those enterprises are major engines fueling employment in China, creating about 70 percent of new jobs every year, said Ding Dajian, an expert at the School of Labor and Human Resources at Renmin University of China.

"The collapse of such enterprises inevitably means grave job prospects for migrant workers," said Ding.

[Source: People.com](http://english.people.com.cn/90001/6522383.html) ([see archive](Govt_pledges_job_support_to_labor-intensive_sector.pdf))

### Strict requirement for delivery service set

China's top legislature recently began reviewing a draft amendment to the post law, in which strict requirements were set for market entry of express delivery.

The draft, which also adds articles on authorizing agencies to check mail for security reasons, was handed over by the State Council, China's Cabinet, to the 5th Session of the 11th National People's Congress (NPC) Standing Committee.

Under the amendment, foreign companies are banned from providing delivery service of domestic mails out of security concerns.

The draft, which puts forward stringent threshold for newcomers, requires intra-provincial express delivery companies to have at least half a million yuan (UD$73,100) in registered capital, and the fees for inter-provincial and international businesses amount to 1 million and 2 million yuan respectively.

It also requires the applicants to have full capacity to handle safety issues during service and asks management personnel to be free of criminal penalty for at least for three years before recruitment.

Newcomers should obtain a licence and approval from post service authorities if they have to run international business, the draft stated.

State and public security bureaus and agencies were entitled to check, keep mail and deliveries when investigating crimes, it read, adding courier services were obliged to offer client information if security bureaus found it necessary.

No individual is allowed to spread information that may threaten national security in mail and deliveries, it notes.

The draft urges post bureaus at both the national and provincial levels to tighten monitoring and management measures over post service in a just, fair and transparent manner.

Local government should take measures to ensure and support a baseline level of postal service, it says.

The draft has also given more power to post companies to decide delivery fees based on market demand and underlined the legal accountability of those who violated post service regulations and rules.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-10/24/content_7136508.htm) ([see archive](Strict_requirement_for_delivery_service_set.pdf))

## Other

### Green law 'must be enforced'

An independent team should be set up to ensure the law on environmental impact assessments is properly enforced, a senior legislator said recently.

Speaking at a legislative session in Beijing, Chen Zhili, vice-chairwoman of the Standing Committee of the 11th National People's Congress, said lawmakers spent June and July field-testing the Law on Environmental Impact Assessment and found several problems with it.

The law, introduced in December 2002 to assess the potential environmental threat of all new construction projects, has been subject to "frequent violations", she said.

"The problem is that some of the intermediary agencies that conduct environmental impact assessments are allied in some way to environment bureaus this sort of nepotism is prohibited under the law," she said.

"If the system is not changed, the justice of the law itself cannot be guaranteed."

The answer is to establish an independent team to undertake the assessments, she said.

"In line with the reform of government agencies, it is suggested the link between the intermediary agencies and the environmental bureaus is cut, so that a truly independent team can be established according to the law."

Between 2003 and last year, environment officials across the country reviewed more than 1 million construction projects, Chen said.

Between 2006 and last year, almost 400 schemes were suspended for pollution violations, yet 10 percent still went ahead without authorization, she said.

Local governments regularly violate the policies issued by the environment ministry, she said.

Last year alone, the ministry discovered 51 local regulations that directly contradicted the law, Chen said.

Some local leaders still put GDP growth ahead of environmental protection, and they are getting away with it, she said.

Huang Xihua, vice-director of the Huizhou environmental protection bureau in Guangdong, agreed.

"The law is weakly implemented at lower levels because it all depends on the awareness of the local leaders," she told.

"If they receive no government funding, they have to resort to dirty industry: putting GDP growth ahead of the environment," she said.

[Source: People.com](http://english.people.com.cn/90001/6522400.html) ([see archive](Green_law_must_be_enforced.pdf))

### Top legislature opens session to deliberate drafts of laws, int'l treaties

The Standing Committee of the 11th National People's Congress (NPC), China's top legislature, held a meeting recently to deliberate a number of drafts of laws or amendments of laws, as well as three international conventions and a bilateral treaty.

Wu Bangguo, NPC Standing Committee chairman and a member of the Standing Committee of the Communist Party of China (CPC) Central Committee Political Bureau, presided over the meeting.

The legislators deliberated the drafts of the Law on the State-owned Assets of Companies, the Amendment to the Law on Fire Control and the Law on Food Safety, the Amendment to the Law on State Compensation, the Amendment to the Law on Earthquake Relief and Disaster Reduction and the Amendment to the Law on Post.

Furthermore, they also deliberated the Convention on the Physical Protection of Nuclear Material, the Convention on International Interests in Mobile Equipment, the Protocol thereto on Matters Specific to Aircraft Equipment and an extradition treaty with Portugal.

The meeting also heard a report on the performance of some NPC deputies and deliberated some removals and appointments.

[Source: Xinhua](http://news.xinhuanet.com/english/2008-10/24/content_10243111.htm) ([see archive](Top_legislature_opens_session_to_deliberate_drafts_of_laws_intl_treaties.pdf))

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