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# China News Alert Issue 298

## Capital Markets

### Premier Wen urges for adherence to positive fiscal policies

Chinese Premier Wen Jiabao has commented that the government should adhere to the proactive fiscal policy and monetary policy.

Wen made the remarks at a gathering of economists and business people in Beijing. Two such gatherings were held from 7-9 July to gather their views on the economic situation.

He also urged for structural adjustment and balancing it with efforts to ensure growth.

Wen's comment came after China Banking Regulatory Commission (CBRC) official Wang Huaqing warned of possible risks in the financial system posed by the current rapid loan growth and a concentration of loans in certain industries and businesses.

China's new yuan-denominated loans hit 1.53 trillion yuan (about 223.96 billion U.S. dollars) in June, more than doubling the 664.5 billion yuan in May. It brought the new yuan-denominated loans in the first half to 7.37 trillion yuan, exceeding the full-year target of 5 trillion yuan.

Wen said maintaining steady and relatively fast economic growth remains the foremost task at present, noting the good development momentum of the economy does not mean the difficult period has been over.

It must be noted that the foundation of economic recovery is still unstable, the negative influence from the international financial crisis is not waning, weak external demand still persists, some sectors and businesses still face difficulty in their operations and unemployment pressure could not be fundamentally eased in the near future, said Wen.

He also said overcapacity has become apparent and fiscal deficit has increased.

Wen stressed the need to adjust the economic structure, in order to push forward the coordinated development of urban and rural areas and balance development of various regions, boost scientific and technological innovation, deepen reform and opening up and stimulate domestic consumption.

China's GDP growth slowed to 9 percent in the third quarter of 2008, then slumped to 6.8 percent in the fourth quarter and further to 6.1 percent in the first quarter of 2009.

On July 1, the benchmark Shanghai Composite Index of Chinese stock market for the first time since June 11 last year climbed above 3,000 points, marking a 65-percent rise of the index during the first half.

Late in June, the National Bureau of Statistics said the slowdown in the world's third largest economy had bottomed out and it was expected to grow about 8 percent in the second quarter.

Wen urged solving issues in agriculture to guarantee the supply of grain and other major agricultural products, increasing farmer's income, and improving working and living standards in rural areas.

Urban infrastructure, including inter-city railways should be developed, and a healthy growth of the real estate industry should be promoted, said Wen.

More government investment and bank loans should go to middle and western China, as well as to the agriculture sector, rural areas and farmers, Wen said.

Measures should be taken to stimulate private investment, stabilize exports, and promote the coordinated development of the use of foreign investment and making investment overseas, Wen said.

Wen also called for solid efforts to improve people's well-being and boost employment, and provide jobs, particularly for college graduates and migrant workers.

[Source: China.org](http://www.china.org.cn/2009-07/11/content_18114184.htm) ([see archive](Premier_Wen_urges_adhering_to_positive_fiscal_policies.pdf))

### Rule on wealth management funds tightened

The China Banking Regulatory Commission (CBRC) recently issued a new circular banning banks from investing wealth management funds in secondary-market stocks on 8 July 2009.

It prohibits banks from investing wealth management funds in secondary-market securities-backed funds, equities of unlisted companies and shares in listed companies that are not allowed to be issued or traded publicly, said the statement on the CBRC website.

The circular provides that banks should not spend clients' wealth management funds on investment in high risks or financial products that are too complicated.

The circular urged banks to protect clients with medium or low incomes while providing rational investment services for high-end clients.

It said for those high-end experienced investors who demand for products with high risks, commercial banks could satisfy them through private banking services, which would not be affected by the circular.

[Source: China.org](http://www.china.org.cn/government/central_government/2009-07/09/content_18098530.htm) ([see archive](Rule_on_wealth_management_funds_tightened.pdf))

### China stock regulator approves new IPO

The China Securities Regulatory Commission (CSRC) approved a new initial public offering (IPO) recently. This is the first approval since last September.

The CSRC reviewed the applications for Shanghai Chaori Solar Energy Science and Technology Co and Anhui Xinlong Electrical Co. Anhui Xinlong was approved and Shanghai Chaori was denied, according to a statement on the CSRC Web site. The statement did not give the reason for the denial.

Anhui Xinlong, an electric equipment manufacturer located in east China's Anhui province, plans to issue around 28 million shares and raise 165 million yuan ($24.26 billion).

China resumed its A-share IPO in June after a nine-month suspension. Guilin Sanjin and Zhejiang Wanma became the first batch of enterprises to be listed. Three more companies are preparing for their first show on the A-share market.

As the CSRC suspended IPO approvals for more than nine months. About 400 enterprises are waiting to go public. It will take at least two years for the A-share market to list those companies, according to the CSRC.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-07/16/content_8436218.htm) ([see archive](China_stock_regulator_approves_new_IPO.pdf))

### China tightens control of State-Owned Enterprise's financial derivative transactions

China's State-owned Assets Supervision and Administration Commission of the State Council (SASAC, hereinafter the “Commission”) recently reiterated that centrally-administered state-owned enterprises (SOEs) should strengthen control of its financial derivative transactions, and report quarterly to the Commission.

This move by the SASAC was aimed at reinforcing the government's stated intention of effectively banning speculation by some SOEs.

In March, the SASAC required the reports to include changes in holdings of derivatives, capital usage, settlements, profits and losses, and analysis of hedging results and risk exposure, according to the Commission in a statement released on its website.

The report form of financial derivative transactions covered futures and options, forward contracts, swap contracts and combinations of contracts, and should be sent to the Commission with the financial reports within 10 working days of the end of each quarter, said the statement.

In order to better execute this measure, the Commission designed a new form for SOEs to fill, said the statement.

Several central SOEs have reported huge derivatives losses since last year as the global financial crisis spread.

Three air carriers -- Air China, Shanghai Airlines and China Eastern -- had reported a total of 13.17 billion yuan (USD1.94 billion) of book losses as of the end of January on aviation fuel hedging contracts.

CITIC Pacific, in October, disclosed its potential losses may exceed HKD15 billion (USD1.9 billion) from unauthorized hedging by senior financial managers against changes in foreign exchange transactions, notably the Australian dollar.

[Source: People's Daily](http://english.peopledaily.com.cn/90001/90778/90857/90860/6696379.html) ([see archive](China_tightens_control_of_SOEs_financial_derivative_transactions.pdf))

## Corporate & Commercial

### SAFE issues new regulations to assist domestic companies

China's foreign exchange regulator recently loosened curbs on overseas direct investment in a bid to facilitate qualified local companies to invest and expand abroad.

The State Administration of Foreign Exchange (SAFE) said it would expand the sources of capital Chinese companies can use to finance outbound investment and permit funds to be transferred overseas without prior approval, according to two statements on the regulator's website. The new regulations will take effect from Aug 1.

"The rules are intended to give companies more room to develop overseas and reduce their pain in adjusting growth and models," Liu Guangxi, a top official at SAFE's capital-account department said at a press briefing in Beijing.

"The changes will help China to realize a more balanced management of both capital inflows and outflows," he said.

China's foreign exchange reserves hit $2 trillion for the first time, according to fresh figures released by the central bank on its website. A large bulk of new reserves of $178 billion was added to the foreign exchange reserve in the second quarter, to $2.132 trillion.

The country wants to diversify foreign investments to reduce the impact of any drop in the value of US Treasuries, the supply of which is ballooning as US President Barack Obama borrows record amounts to fund stimulus spending and end a recession in the world's largest economy.

"The SAFE move is an encouraging development and very much in-line with our belief that China's currency policy is aimed toward an eventual balance between inflows and outflows," Patrick Bennett, Asia Foreign Exchange & Rates Strategist with Societe Generale in Hong Kong, told in an email.

"This new initiative will help to create an improved balance of flows over the medium-term," he said.

"The move is focused on foreign direct investment, and will not allow Chinese firms to use the forex reserves to invest in other countries' stock market or other speculative activities," Liu of SAFE said, dismissing concerns that the new move would turn China's huge foreign reserves into other countries' "hot money".

Chinese companies will be able to finance overseas investments by purchasing foreign exchange or borrowing it from local banks, as well as using any existing holdings they have, SAFE said. They will also be permitted to reinvest income from their offshore investments abroad.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-07/16/content_8434967.htm) ([see archive](Curbs_on_investing_abroad_loosened.pdf))

### Measures to boost cross-Straits cooperation

Officials from the Chinese Mainland pledged recently to further open its cultural and educational sectors to Taiwan, part of its drive to facilitate cross-Straits exchanges.

Cai Wu, Minister of Culture, said in an interview on the sidelines of the fifth Cross-Straits Economic, Trade and Culture Forum that cultural authorities are making policies to encourage and benefit the development of Taiwan's entertainment business on the mainland.

People in the Taiwan entertainment industry would be allowed to run performance venues through jointly investing in or cooperating with mainland enterprises or they can fund such venues on their own, said Cai.

Entertainment industry brokerage companies will also be allowed to set up branches on the Chinese mainland, he said.

Yuan Guiren, Vice-Minister of Education, said Taiwan students who have outstanding results in Taiwan college entrance examinations can also apply to Mainland universities.

They will be recruited after passing interviews organized by Mainland universities, he said, adding the ministry encourages and supports intercollegiate communications and cooperation between mainland and Taiwan universities such as student exchange programs and acknowledgement of credits.

Tian Jin, deputy director of the State Administration of Radio, Film and Television, said Taiwan cable TV network will be allowed to provide information services in cable TV facilities and related techniques in Fujian Province.

Regulators are also making policies that will allow Taiwan companies and individuals to cooperate with mainland businesses in movie shooting, movie theater construction and renovation, and mainland movies distribution, he said.

Wu Shulin, deputy chief of the General Administration of Press and Publication, said the administration plans to make Beijing, Shanghai and Fujian, Jiangsu and Zhejiang provinces test zones for cross-Straits publishing cooperation.

Publishers in Taiwan will be allowed to cooperate with mainland counterparts in publishing scientific and technological journals through book copyright trade, he added.

According to Cai Wu, cultural exchanges between the Chinese mainland and Taiwan is still faced with many "man-made obstructions and difficulties."

But he said the Chinese mainland will make more favorable policies in the near future to break down the obstruction, and to encourage more Taiwan cultural organizations and enterprises to support cross-Straits cultural exchanges.

Cultural exchanges between the Chinese mainland and Taiwan should be regularized, he added.

Cai's call was echoed by Chang Yui-tan, a special guest to the cross-Straits forum from the Kuomintang.

Chang said the Chinese mainland and Taiwan are planning to hold two cross-Straits culture summit forums in September this year and in next January.

"The goal of cross-Straits cultural exchanges is to lay a solid ground for the development of the peaceful ties across the Taiwan Straits," he said.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-07/11/content_11692555.htm) ([see archive](Chinese_mainland_announces_measures_to_boost_cross-Straits_entertainment_educational_co-op.pdf))

### China to subsidize renewable energy buildings and projects

The Chinese Government will give subsidies to renewable energy buildings and projects in pilot cities and rural areas.

Pilot cities would carry out projects and build buildings with renewable energy technologies and products, said the Ministry of Finance and the Ministry of Housing and Urban-Rural Development in a circular recently.

Every pilot city was expected to get between 50 million yuan (USD7.33 million) and 80 million yuan in subsidies from the central budget.

Meanwhile, renewable energy products and technologies would also be introduced to the country's vast rural areas, said the two ministries in the circular.

The Central Government would channel money to local governments for installing renewable energy facilities to housings, schools and other public buildings. Solar energy water heater and solar radiators were highlighted by the two ministries.

Every pilot county was expected to get a maximum subsidy of 18 million yuan, according to the circular.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-07/10/content_8409012.htm) ([see archive](China_to_subsidize_renewable_energy_buildings_and_projects.pdf))

## Other

### Government to guard against overseas labour disputes

The Ministry of Commerce and the Ministry of Foreign Affairs of China recently issued a circular urging provincial, regional and city-level governments and embassies stationed overseas to take effective measures to guard against overseas labor disputes.

Provinces, regions and cities should build systems to prevent overseas labor disputes and provide channels for Chinese workers laboring overseas to complain or report crimes, the circular said.

Chinese embassies should work closely with local departments and listen to any complaints from Chinese workers laboring overseas, the circular said.

Overseas labour disputes refer to rights protection cases among workers working overseas. They usually involve employer-employee disputes, economic tangles, contract disputes or even sufferings caused by wars, terrorist attacks and bad social security.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-07/10/content_11682688.htm) ([see archive](China_issues_circular_to_guard_against_overseas_labor_disputes.pdf))

### CPC issues new party rule on corruption

China's ruling Communist Party of China (CPC) recently publicly released three regulations to promote the Party officials' accountability and state-owned enterprise leaders' honesty, as well as strengthen inspection work inside the Party, aiming to curb corruption and improve government competence.

According to the regulation on officials' accountability, officials with the following misconduct should be removed from their posts:

* Making a wrong decision that leads to great losses or has serious negative impact;
* Serious or a spate of accidents or cases occurred in the official's jurisdiction or working unit due to his or her dereliction of duties;
* Serious or a spate of accidents or cases occurred in the official's scope of duty due to lax management or supervision by government;
* Abuse of power, malfeasance, or ordering or encouraging others to commit illegal administrative activities, which lead to group protest or other serious incidents;
* Incorrect handling of group protests or accidents, which exacerbates the situation or has serious negative impact;
* Violating official selection or appointment regulations, which leads to mistakes in appointing officials and have serious negative impact;
* Other conduct that harms national interests, results in great losses to people's lives, personal or public property, or has serious negative impact.

A spate of corrupt misconducts in recent years triggered nationwide investigations into officials' accountability. In one of the latest cases, 14 officials were dismissed in Chaohu City in east Anhui Province for running a jobs-for-money network.

Zhou Guangquan, the former Communist Party secretary of Chaohu city, was accused of accepting bribes worth 5 million yuan (about 735,000 U.S dollars) on June 3. Prosecutors then discovered that among the 36 people who bribed Zhou when he was secretary of the Communist Party of China Chaohu City Committee from 2000 to 2004, 19 were government officials who were promoted after giving Zhou bribes.

According to the new regulation, officials will be given an even more severe punishment if they interfere with the investigation of their misconduct, forge and hide evidences or take revenge on whistleblowers.

Officials with serious misconduct will be transferred to judicial departments for further investigation and punishment if their misconduct is deemed criminal.

Officials have the right to testify for themselves before a accountability decision is made, and "reasonable opinions" will be taken into account, said the regulation.

Also, a decision must be brought to leading officials for group discussion before it becomes final.

Chinese disciplinary organs have punished 2,386 officials at or above prefectural level for their misconduct from July 2003 to December 2008, according to the Communist Party of China (CPC) Central Commission for Discipline Inspection (CCDI).

Another 29,905 officials at county level were also punished during the same period, the CCDI said.

According to the regulation governing State-owned Enterprise Leaders' honesty, company leaders are not allowed violate company principles and procedures to make major policies on production management, appointment and removal for key positions or management in return for large sums of money.

They should not adjust the salaries, bonuses and other benefits of company leaders without the approval of personnel departments.

The regulation also specifies various kinds of company leaders' expenditures disguised as work expenses, including costs of travelling abroad, buying cars and luxurious office decorations among others.

The Party Committee Secretary, Board Chairman and General Manager are the main principals in charge of supervising company leaders in accordance with the regulation. Violators will be punished accordingly - ranging from warning, demotion to removal from their post.

The third regulation on the Party's inspection duties specifies that the missions for an inspection team includes hearing reports, attending regular meetings of local organizations, talking with officials and residents and reporting issues to Party Organizations at higher levels, amongst others.

Also, the team has the right to further investigate problems concerning local organizations or officials on the premise of not interfering with their current work.

Members of an inspection team will be given punishment ranging from name-and-shame, demotion to removal from posts if they seek personal benefits during the inspection period, reveal classified information or fabricate evidence.

[Source: China.org](http://www.china.org.cn/government/central_government/2009-07/13/content_18121483.htm) ([see archive](CPC_issues_new_party_rule_on_corruption.pdf))

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