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# China News Alert Issue 316

## Capital Markets

### Foreign firms may sell bonds

Foreign companies may be able to sell bonds in China within a year as the government expands its domestic capital markets, according to China International Capital Corporation (CICC), the number two underwriter of yuan debt this year.

"The first group of future international issuers is likely to be blue-chip companies," John Cheng, CICC's investment banking managing director, said in an interview. Overseas "firms will increase their presence in China and they'll need to match their growing yuan assets with instruments in yuan, be it debt or equity," he said.

China is urging domestic companies to tap bond and equity markets for funding and reduce reliance on banks after regulators said record loan growth poses risks. Authorities will consider allowing sales of high-yield corporate bonds to provide new sources of funding, People's Bank of China Deputy Governor Hu Xiaolian said on 18th November.

Outstanding corporate debt rose almost threefold to 2.1 trillion yuan at the end of October compared with 2006, Hu said at a forum in Beijing.

The government has encouraged a US$1.3 trillion credit boom this year to complement its monetary and fiscal stimulus plans, propelling the economy last quarter to its fastest pace of expansion in a year.

The government may need to rein in loan growth to "prevent the emergence of inflationary pressures and asset bubbles", the Organisation for Economic Cooperation and Development said.

The five biggest banks―Industrial & Commercial Bank of China Limited, China Construction Bank Corporation, Bank of China Limited, Agricultural Bank of China and Bank of Communications Limited―extended a record 4.7 trillion yuan of loans in the first nine months of this year. They submitted money raising plans to regulators after that record lending eroded their capital, people familiar with the matter said.

Domestic debt sales almost doubled to 1.8 trillion yuan this year, according to data compiled by Bloomberg. Beijing-based CICC underwrote 174 billion yuan of transactions, ranking second after ICBC, the world's biggest bank by market value.

Minor modifications to regulations would be required for foreign companies to be able to tap the market, Cheng said. Some "companies have expressed interest but no formal applications have been made", he said, declining to name any companies.

Coca-Cola Company, the world's largest soft-drink maker, said on 23rd November that it plans to more than double bottling plants in China over the next decade, aiming to triple sales.

Inter IKEA Center Group, a developer of shopping malls that have an IKEA store as an anchor tenant, plans to invest as much as US$1.2 billion in the world's fastest-growing economy over the next five years, it said.

Coca-Cola Hong Kong-based spokesman, Geoff Walsh, wasn't available for immediate comment. Kastrup, Denmark-based Inter IKEA Center, did not respond to e-mails to its Shanghai office.

The Manila-based Asian Development Bank and the World Bank's International Finance Corporation unit are among supra-nationals that have sold so-called panda bonds, or yuan-denominated notes issued by foreign entities in China, Bloomberg data shows.

Domestic sales by overseas companies would probably differ from the panda market in that they would not be coordinated by the Ministry of Finance, Cheng said.

HSBC Holdings Plc's China unit joined a group managing a bond sale for Bank of Shanghai Company, becoming the first foreign lender to participate in the underwriting of a yuan-denominated financial bond in China, it said on 17th November. A unit of the London-based bank sold yuan bonds in Hong Kong in June.

As China's corporate bond market develops, so will its fledgling derivatives market, according to Cheng. "When you buy bonds in China now you cannot lay off different risk components," he said. "In order to do this, domestic derivatives instruments are needed. For a full market to develop, you need these auxiliary tools."

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-11/26/content_9053230.htm) ([see archive](Foreign_firms_may_sell_bonds.pdf))

## Banking And Finance

### Banks given opportunity to invest in insurers

China will allow banks to invest in insurers for the first time in a trial program, although they are limited to investing in one insurance firm to curb risks, the banking regulator has said.

Lenders have to gain approval from the State Council to invest in insurers in the trial, the China Banking Regulatory Commission said on its Website, which posted new rules that took effect on 5th November.

Banks should separate banking and insurance business. Banks are banned from lending to the insurer or its affiliates to curb conflict of interest, the regulator said. Banks are also not allowed to lend to clients recommended by the insurers they hold stakes in, it said.

Analysts said such curbs aim to minimise risks as the regulator wants the trial to operate smoothly.

The separation of banking and insurance operations seeks to lessen the impact to small and medium insurers, which have long relied on lenders as one channel to sell their insurance products.

The bancassurance business has been a key way for insurers to reach out to more clients. It doesn't come as a surprise to see banks focusing on selling insurers' products through their outlets.

In the trial, banks are not allowed to sell subordinated bonds to insurers they invest in. Insurers are also banned from holding more than 10 per cent in their banking affiliate.

Four banks―the Bank of Communications (BoCom), the Bank of Beijing, China Construction Bank and the Industrial and Commercial Bank of China―are the first to join the trial.

Shanghai-based BoCom won approval to buy 51 per cent of China Life-CMG Life Insurance in September. The Bank of Beijing said in September it won initial approval to buy up to 49 per cent of Pacific Antai Life Insurance Company in Shanghai.

[Source: Shanghai Daily](http://www.shanghaidaily.com/article/print.asp?id=420806) ([see archive](Banks_get_to_invest_in_insurers.pdf))

## Corporate

### China tells enterprises to be prepared for upcoming FTA

China has told its enterprises to be prepared for competition now that the establishment of the Free Trade Area between the country and the Association of Southeast Asian Nations (ASEAN) is only a month away.

"Chinese enterprises should make full preparations for competition brought by zero-tariff product imports from the ASEAN," Xu Ningning, executive secretary general of China-ASEAN Business Council (CABC), said at a symposium for entrepreneurs in the machinery, automobile and steel sectors.

The upcoming FTA, scheduled to be established on 1st January, allows zero-tariff on 90 per cent of products traded between China and the ASEAN.

Xu also urged Chinese enterprises to conduct adequate market research and pay close attention to the latest policies in different ASEAN countries to improve the quality and efficiency of bilateral trade.

"After entering the ASEAN market, companies should abide by local industry regulations and establish sound reputations for quality and service instead of blindly pursuing profit by any possible means," Xu said.

The establishment of the FTA will create massive business opportunities for Chinese enterprises as it will provide an access to the ASEAN market with a 600 million population, according to Xu.

The FTA will boast a combined population of 1.9 billion and a combined gross domestic product (GDP) close to US$6 trillion, making it the third largest free trade area following the North American Free Trade Area and the European Free Trade Area.

CABC is one of the five main cooperation and dialogue organisations between China and the ASEAN, and it consists of the China Council for the Promotion of International Trade, the ASEAN Chambers of Commerce and Industry, national business leaders, and enterprise and expert representatives from the ASEAN countries.

[Source: Eastday](http://english.eastday.com/e/091126/u1a4837246.html) ([see archive](China_tells_enterprises_to_be_prepared_for_upcoming_FTA.pdf))

### China pilots venture capital funds for innovation and restructuring

China's central government announced it is to join local governments and private investors in a pilot program to facilitate venture capital funds for innovative and high-technology industries, and industrial restructuring.

The National Development and Reform Commission, the country's top economic planning body, and Ministry of Finance announced in a joint statement plans to create venture capital funds in accordance with the central government's call to promote the development of innovative businesses with growth potential.

Under the plan, each fund would have a minimum of 250 million yuan (US$37 million), but the statement gave no details on how many funds were expected to be set up.

The statement said the running of the funds would be entrusted to professional management institutions each with at least three experienced venture capital investment managers. The management team is also required to have had experience in at least three venture capital investment undertakings.

The funds would continue as long as they had high investment returns and helped industrial upgrading, the statement said.

The central government would have a maximum 20 per cent share in each fund; local governments would contribute no less than the central government, while public investors would take at least 60 per cent.

Public investment could be from institutional, corporate and foreign investors, and management teams.

The government would not intervene in the operation of the funds, according to the statement.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-11/27/content_9062873.htm) ([see archive](China_pilots_VC_funds_for_innovation_restructuring.pdf))

### China plans to make tourism a pillar industry

China's State Council announced plans to push forward the development of the tourism industry and make it a strategic pillar industry in the national economy.

The government called for improved service and management in the tourism sector, which consumes fewer resources and generates more job opportunities, according to a statement released after a State Council executive meeting, chaired by Premier Wen Jiabao.

More efforts should be made to improve tourism infrastructure and enhance training of personnel in the industry, according to the statement.

The government would lower the market threshold to encourage social capital and a range of enterprises to invest in the sector on a fair basis, it said. It called for collaborative development between the tourism sector and related industries, including culture, sports, agriculture, industry, forestry, environmental protection and meteorological sectors.

The statement also demanded more effort be made to protect eco-systems, indigenous environments, and historical and cultural heritage.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-11/26/content_9055876.htm) ([see archive](China_plans_to_make_tourism_a_pillar_industry.pdf))

## Foreign Exchange

### China steps up control over cross-border flow of hot money

China has tightened the settlement and sale of foreign exchange by individuals to curb abnormal inflow of cross-border capital, according to a statement by the State Administration of Foreign Exchange (SAFE).

Banks should deny, review or report to foreign exchange regulators, individual purchases or settlements of foreign exchange where they are suspicious that one deal has been split into several smaller ones to dodge limits on the size of exchange transfers by one person. This is understood to be one of the channels for the inflow of hot money, said the statement.

Practices including one overseas individual or institution remitting foreign exchange to five or more individuals within China who settle them respectively; or five or more individuals buying foreign exchange and remitting them to one and the same overseas individual or institution, on a single day, every other day or consecutive days, are considered exchange splitting behaviour, said the SAFE.

In 2007 China set a limit of US$50,000 per year for an individual to exchange between the yuan and foreign currencies

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-11/26/content_9055707.htm) ([see archive](China_steps_up_control_on_cross-border_hot_money_flow.pdf))

## Culture and Publishing

### China to wipe out unlicensed video websites

An official of China's State Administration of Radio, Film and Television has said that it would enforce the eradication of unlicensed websites offering online videos.

Tian Jin, deputy director of the administration, said at a forum on online media that the move would secure the healthy development of the Internet for the country's 200 million or more online video service users.

Tian said online video programs had become a new platform for information transmission in recent years, and he praised the positive roles of major media websites, such as xinhuanet.com and cctv.com. But some videos circulating on the Internet contained obscene or violent content, he said. He did not say when exactly the crackdown would start.

Wang Chen, director of the Information Office of the State Council, said at the same forum that China would step up regulation of online media as Internet safety issues were increasingly "prominent." "Undesirable" content had "severely undermined" the physical and psychological health of minors, Wang said.

Wang urged online media to tighten self-discipline and raise their sense of responsibility to build a healthy, civilised and orderly online environment.

The Chinese government has launched repeated campaigns to crackdown on websites and publications with obscene content.

China has up to 360 million Internet users nationwide and nearly 200 million mobile phone users obtain Internet services from their phones.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-11/24/content_9037853.htm) ([see archive](China_to_wipe_out_unlicensed_video_websites_official.pdf))

## Real Estate

### No plans to release rural land against soaring housing price

A land-planning official of China has denied reports that claimed the country was going to release rural land into the market to ease land shortages and curb the steep climb in housing prices.

"There is a misinterpretation by some media, which has translated a pilot program of a province into the central government's decision to release rural land into the market and tame home prices," Long Bing, an official with the Ministry of Land and Resources, told Xinhua.

The rumour came after eastern China's Zhejiang Province said on its official website that it was going to pilot the circulation of land-using rights of collectively-owned rural land from 1st January next year.

The plan by Zhejiang was still waiting for regulatory approval, Long said. However, if the plan was approved, the rural land would mainly be used to develop township enterprises and cannot be used to develop commercial apartments, he said.

Property prices in China's 70 major cities rose 3.9 per cent in October 2009 from a year earlier and 0.7 per cent from September, according to data from the National Bureau of Statistics.

[Source: China.org.cn](http://www.china.org.cn/business/2009-11/25/content_18949117.htm) ([see archive](No_plans_to_release_rural_land_against_soaring_housing_price.pdf))

## Others

### City expats receive security blanket

Foreigners and overseas Chinese who hold a Shanghai residence card and stay in a work contract with a Shanghai employer can now enjoy the city's social security and benefits, just as their local counterparts do.

The Shanghai Human Resources and Social Security Bureau has put up a notice on its Website, stating that the policy has been in effect since 10th October.

The move comes after repeated calls for expats to be eligible for medical insurance, pension and workplace-injury insurance.

The new policy covers foreigners, overseas Chinese and residents of Hong Kong, Macau and Taiwan who are working in the city.

"It is not compulsory," said Sun Hande, the bureau's director of the employment office for overseas workers. "Qualified people can choose to join the system or not. The new policy provides them with another choice to work under a more secure environment."

According to the notice, foreigners and overseas Chinese can receive the same compensation as Shanghai natives if they fall ill in the city, but medical bills outside China's mainland will not be covered.

In addition, people who have been paying into the city's pension fund for a specific period of time before retirement age―60 for men and 55 for women―can apply for pensions in the city when they retire. The bureau's notice, however, did not specify how many years one must pay into the system to qualify. Those who aren't eligible for a pension or who leave the country before retiring can claim the money back.

Industry-injury insurance, too, has been expanded to include foreign workers.

"The policy shows great equality for the expats," Sun said. "They pay the same and get the same as their Shanghai-native counterparts.”It should be an international routine for foreigners working in one country to enjoy the country's citizens' welfare and benefits."

According to the bureau, Shanghai has about 68,000 expatriates from foreign countries and about 25,000 residents from Hong Kong, Macau and Taiwan working in the city. Previously, they could be covered only by commercial insurance bought by themselves or their employers, Sun said.

Since 2002, the city's social-security system has been open to overseas returnees who still have Chinese citizenship and hold a Shanghai residence card.

Proposals regarding social security for expats have been hot topics at recent legislative and top government advisory-body meetings.

In 2008, social security authorities revealed the draft of this policy in a reply to a Shanghai People's Congress delegate's proposal on benefit equality. And early this year, a member of the Shanghai Committee of the Chinese People's Political Consultative Conference proposed that foreigners holding residence cards be included in the social-insurance system.

Shanghai authorities submitted the policy draft to the city government last year. "It's really good news for me," said Akiko Liu, a Chinese-Japanese woman who works for a Shanghai magazine. "Social security has always been a problem for me since I got my Japanese passport. “The passport excluded me from the city's welfare system."

[Source: Shanghai Daily](http://www.shanghaidaily.com/article/print.asp?id=420345) ([see archive](City_expats_receive_security_blanket.pdf))

### Promotion block for officials whose families live abroad

Government and Party officials in Shenzhen City, Guangdong Province will be denied promotion to leading positions if their spouses and children are living abroad.

The new restrictions drawn by the southern Chinese city government are intended to thwart so-called "naked officials"―a Chinese term for officials who transfer bribes or embezzled public money to their overseas family members so it can't be traced. With family members abroad, it was easier for those officials to flee the country when their corruption was exposed, said Tan Guoxiang, head of the province's discipline authority.

The regulations also require officials to declare all their possessions before they can be appointed to any post. If the declaration is found to be false, the appointments will be waived or the officials sacked.

Leading officials will also be held responsible for subordinate officials' mistakes and they are prohibited from involvement in human resources and financial businesses.

Sacked officials cannot work in their former rank for at least one year, according to the regulations.

More than 4,000 officials have fled China and the money involved totaled more than US$50 billion as of 2004, according to the Ministry of Commerce. Guangdong is the region where the problem is most evident, Tan said. A case in point is Yang Xiuzhu, former vice director of Zhejiang Province's Construction Department, who is living in Canada with an alleged bribe of 253.2 million yuan (US$37.1 million). Yang was implicated in 12 corruption cases and 21 officials involved have been sacked since 2003.

Tan said the release of the city government regulations follows the sacking of former Mayor Xu Zongheng as a result of an investigation that is still ongoing. Three Shenzhen vice mayors are also being investigated. Yu Weiliang and Chen Shengxing, both district officials, were also sacked for "serious breaches of Party discipline."

Xie Chuntao of the Central Party School praised the new regulations as novel and practical. Restrictions on the power of leading officials would prevent corruption, Xie said.

[Source: Shanghai Daily](http://www.shanghaidaily.com/article/print.asp?id=420795) ([see archive](Promotion_block_for_officials_whose_families_live_abroad.pdf))

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