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# China News Alert Issue 319

## Capital Markets

### Regulator cautions banks on bad loans

China's top banking regulator has warned banks of the potential risk in focusing lending only on certain industries, in an indication that bad loans could return to haunt Chinese banks in the next couple of years.

Far too many loans were extended to the infrastructure, energy, real estate and transportation sectors this year, Wang Huaqing, disciplinary commissioner of the China Banking Regulatory Commission, said at an international seminar on syndicated loans in Beijing.

Loans to large customers, which have credit lines of more than 50 million yuan (US$7.32 million), accounted for 66.9 percent of total advances at the nation's 19 biggest banks as of the end of October, Wang said.

Chinese banks lent a mammoth 9.21 trillion yuan in the first 11 months of 2009, double the lending seen during the same period last year, and the new loans total could touch 9.6 trillion yuan by the end of the year, Wang said.

The banks are likely to maintain a relatively rapid lending pace in the coming year to keep the economy growing at a fast pace. "It is essential to pay attention to banks' aggregated exposure, as Chinese banks tend to have pretty similar profiles and the concentration in their loan portfolio is bigger than people had realised," Charlene Chu, head of China bank ratings at Fitch Ratings (Beijing) Limited said in an interview. For instance, the property sector absorbed 25 to 30 percent of the total loans extended by Chinese banks, but a lot of lending to industries like manufacturing was indirectly channeled into property development, making real lending to the property sector much higher than banks disclosed, he said.

"Even though the disclosed exposure is not that high on an international basis, a big deterioration in lending to that area will definitely hurt Chinese banks," Chu said, adding that there was a disconnect between the seemingly buoyant property market and the empty commercial buildings seen in many cities across the country.

The State Council announced that it would consider policies and measures, including financial means, to cool soaring house prices in some cities, causing speculation that lending related to the property industry, especially mortgage loans, would be scaled back. "The government will ask banks to implement stricter credit rules on second home purchases, but that does not mean banks will tighten lending to property developers, as increasing the supply of homes is still important to ease surging house prices," said Chen Xi, a banking analyst at First Capital Securities.

Analysts agreed that a commensurate rise in banks' bad debts is not likely in 2010, but it could be a big concern for Chinese banks in the medium term. "Even though the bad loan problem will not show itself soon, it has definitely imposed downward pressure on the prospects of Chinese banks," Chen said.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-12/17/content_9191565.htm) ([see archive](Regulator_cautions_banks_on_bad_loans.pdf))

### China's FDI reaches a new high

China's foreign direct investment (FDI) reached its highest total in 16 months during November, sustaining the rising trend since August, a clear signal that the nation's speedy economic recovery is attracting more foreign investors. FDI climbed as high as 32 percent from a year earlier to US$7.02 billion last month, compared with a 5.7 percent bump in October, according to the Ministry of Commerce.

China's FDI rose by 7 percent in August, the first monthly growth since October 2008 when the financial crisis hit. Foreign investment grew by 19 percent in September.

The growth for four consecutive months has saved the total FDI from dropping by double digits during the past 11 months. China's FDI fell by 9.9 percent to US$77.9 billion from January to November, said the Ministry of Commerce.

"China's ongoing economic recovery and the low reference point last year are the reasons behind [November's growth]," said Li Wei, an economist from Standard Chartered China.

While developed economies, including the United States and Europe, are still weak, China's GDP for the third quarter grew by 8.9 percent year-on-year, one percentage point higher than the second quarter.

The World Bank predicted recently that China's GDP will grow by 8.4 percent for the year and 8.7 percent in the upcoming year, much higher than that of developed nations.

"China's amazingly high economic growth has and will keep it the most attractive destination for international investors," said Li Xiaogang, a professor with the foreign investment research center under the Shanghai Academy of Social Sciences.

FDI will grow steadily in the next few months with the monthly figure possibly remaining in the range of US$7 billion to US$8 billion, predicted the Ministry of Commerce.

During the three-day central economic work conference that ended on 7th December, President Hu Jintao said that China will make an effort to expand domestic spending in the coming year as one way to support stable economic growth.

"More global companies will flock into sectors related to domestic consumption, such as the service industry, pharmaceuticals, environmental protection and retailing, to tap business opportunities," said Li.

And there is growing interest in spending-driven sectors from overseas. In the pharmaceutical sector, Novartis International AG, the world's sixth largest pharmaceutical company, said it will inject US$1 billion to strengthen research capabilities in China in five years, to cash in on the nation's rapidly growing medical industry under the healthcare reform. It also signed an agreement with Tianyuan Bio-pharm to invest in and acquire business from the leading vaccine producer in China.

According to the Ministry of Commerce, investment from developed regions, including the US and Europe, declined in November, but investment from neighboring nations represented by ASEAN (Association of Southeast Asian Nations) grew.

This year, China has taken measures to promote FDI. Song Zhe, head of the Chinese mission to the European Union, said that the nation will step up efforts to boost foreign investment, including opening more opportunities in the service, hi-tech and energy-saving industries; and encouraging foreign companies to be listed domestically.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90862/6844595.html) ([see archive](Sign_of_the_new_times_Foreign_money_to_nation_surging.pdf))

### Overseas M&A deals peaking says PwC

Chinese companies may increase overseas mergers and acquisitions (M&As) by 40 percent next year while outbound deal value may hit a record high of US$30 to US$35 billion this year, PricewaterhouseCoopers LLP (PwC) said in a report.

With the global financial crisis making overseas assets more attractive, the value of Chinese companies' announced outbound M&A deals might triple this year over 2008, said the report.

The major risk for Chinese companies in fostering overseas M&A deals is the insufficient risk analysis capabilities, particularly in financial and legal aspects, said Wang Xiaogang, a partner at PwC China. "Integrating the business after an M&A is also a daunting task for Chinese companies," Wang said.

Despite the impressive growth this year, the value of overseas M&A deals is still only a third of the domestic and inbound transaction values. According to PwC, domestic M&A activity may increase by 20 percent next year.

Domestic and inbound M&A deal volumes in China (including Hong Kong and Macao) in the second half of 2009 are also returning to robust 2008 levels, indicating that the impact of the global economic downturn on Chinese M&As seems to be short lived.

More than 1,800 domestic transactions are likely to be recorded in the second half of this year, for a total of about 3,200 deals for the full year. That compares with 2,000 deals for the second half of 2008, and 3,797 deals for 2008, according to the report.

The financial services sector has the highest announced deal value in 2009, followed by the real estate sector. Foreign strategic deal activities, however, continued to decline, with only 400 deals for the whole of this year, representing a 40 percent drop from 2008 levels. Foreign buyers have been sorting out problems in their home markets and this has shifted focus from acquisitions.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90862/6843818.html) ([see archive](Overseas_MA_deals_peaking_says_PwC.pdf))

## Corporate & Commercial

### Chinese company purchases theatre in U.S

China Heaven Creation International Performing Arts Company Limited (CHC) formally took over the ownership of the White House Theatre in Branson, Missouri, completing the first ever successful purchase of an American theatre by a Chinese company.

Cao Xiaoning, CEO of the Chinese performing arts company, signed the documents for the US$3.54 million deal with a representative of the White House Theatre at Hogan Land Title Company in Branson. Mrs. Raeanne Presley, the Mayor of Branson, Mr. Li Dongwen, Cultural Counsellor of the Chinese Embassy, and other officials from the City of Branson were present at the signing ceremony.

In an interview with Xinhua after the signing ceremony, Cao said, this is the first time ever for a Chinese entertainment enterprise to purchase a theatre in the United States. The purpose is to bring Chinese shows into the entertainment business in the United States. "With China's economy growing stronger, Chinese show business has started to step into the international arena," he added.

He said "in the United States, there are many shows involving Chinese performers, like the talented acrobatic performers. But all of these shows are arranged by foreign producers, not Chinese. CHC hopes to change this situation. CHC has produced many high quality shows in China, and has toured internationally with big success. Now, the company is aiming at the American residential entertainment market."

Based in Beijing, CHC is one of the top cultural companies in China, and was established ten years ago.

Cao said, CHC has produced 9 large-scale shows successfully and has acquired fame domestically. One of the shows it produced was The Legend of Kung Fu. This was successful at home and abroad. It has toured the U.S., Canada, Britain, Russia and Japan and has achieved large audiences everywhere.

CHC has decided to put this show on for the first round of performance at the White House Theatre in Branson. Following this show, more made-in-China entertainment products will arrive in the States.

Commenting on the deal and the prospect of CHC's show business in Branson, Anna Koelling, incoming General Manager of the White House Theatre said, "It is really a good deal and I believe the CHC will bring different type of performances that will be loved by theatre-goers and tourists in Branson.

"As the incoming new General Manager of the White House Theatre, I will make the effort to run the theatre with my Chinese colleagues," she said.

Having more than 50 theatres with about 70 shows daily, Branson is one of the major entertainment centers in the United States, with the White House Theatre being one of the major theatres in Branson.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-12/15/content_12648155.htm) ([see archive](Chinese_company_purchases_theatre_in_US.pdf))

### China to levy low tariffs on more than 600 commodities in 2010

China is to impose temporarily low import tariffs on more than 600 commodities next year, the Ministry of Finance (MOF) announced.

The targeted commodities comprised resource commodities, including coal, granite, and phosphate ore; key components for optic communications; medical products, including plasma and vaccines; and some advanced production machines, the MOF said in a statement. It did not specify the duration and tariff rates.

The move aims to support agriculture and rural development, technologies that will benefit industrial upgrading and equipment manufacturing, energy and environment conservation, according to the statement.

The statement said the government would further lower import tariffs on six commodities, including fresh strawberries, from 1st January, a move to honour the commitment to cutting tariffs it made on joining the World Trade Organisation (WTO) in 2001, said the statement. But it gave neither the names of the other five commodities nor the tariff rates on the six commodities.

The general tariff level would be left unchanged at 9.8 percent next year, the same as the previous three years, said the statement. The limited scope and margin of lower tariffs was the reason the general tariff level was left unchanged. China's general tariff level stood at 15.3 percent in 2002.

The tariff level for farm produce had been reduced from 18.8 percent in 2002 to 15.2 percent, and for industrial products, it had been cut from 14.7 percent to 8.9 percent, said the statement.

China will expand the scope of conventional tariffs and increase the margins of preference in 2010 to boost bilateral and multilateral trade with other countries, said an official with the MOF.

More favourable tariffs would be introduced for imports from 17 countries including the 10 member countries of the Association of Southeast Asian Nations (ASEAN), Chile, Pakistan, New Zealand, Republic of Korea, India, Sri Lanka and Bangladesh in 2010.

The average tariffs on imports from Chile would be trimmed to 1.3 percent in 2010, and that for Pakistan would be lowered to 5.3 percent.

After the launching of the ASEAN-China Free Trade Area (ACFTA), 90 percent of products traded between ASEAN and China would enjoy zero tariffs, said the official.

China also plans to levy preferential duties on 41 least developing countries worldwide including Laos and Ethiopia, granting zero-tariff to most of the imports from the these countries, according to the official.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-12/15/content_12650662.htm) ([see archive](China_to_levy_low_tariffs_on_more_than_600_commodities_in_2010.pdf))

### CISA urges unified opposition to BHP-Rio JV

Every country should unite in opposition to a "monopolistic" production joint venture between the Australian mining giants BHP Billiton and Rio Tinto, China's steel industry association has said.

The China Iron and Steel Association (CISA) said in an announcement published in the China Metallurgical News that the planned US$116 billion joint venture would harm competition and drive up global iron ore prices, and that "customers across the whole world should oppose it as one."

The World Steel Association, the European steel industry lobby Eurofer and the Japanese steel industry association were all firmly opposed to the tie-up, CISA said.

CISA has complained that the monopolistic nature of the global iron ore market has made it difficult for China to get a fair deal during annual contract price negotiations. It said the joint venture will make matters worse, despite promises from the two Australian miners that the new joint venture would cover only production and not sales.

China's total iron ore imports this year are expected to reach a total of 600 million tons, making it by far the biggest market for both companies. But Beijing has struggled to win any price concessions from Rio Tinto, BHP Billiton or Brazil's Vale.

Domestic media reports said that a CISA delegation led by Chairman Shan Shanghua visited Brazil last week to discuss joint action against the merger with Vale suggesting that the two sides could make a joint approach to the European Commission's competition regulators.

CISA said in its statement that the Chinese government should also make use of its anti-monopoly legislation to block the deal, but lawyers familiar with China's mostly untested new law said it might be difficult.

"Up to now, the Ministry of Commerce has not yet set up the mechanisms to support proactive legal action against monopoly practices, and for that reason, I don't think they will set the anti-monopoly process going against Rio and BHP," said Dong Zhengwei, a Beijing-based lawyer who has filed civil actions against domestic monopolies.

He suggested China would wait for the European Commission to respond to the merger before taking any action of its own.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-12/17/content_9194823.htm) ([see archive](CISA_urges_unified_opposition_to_BHP-Rio_JV.pdf))

## Other

### Demolition rule may be rebuilt

Ten days after five legal scholars claimed in an open letter that the country's urban housing demolition regulation was "a breach of the Constitution", the State Council Legislative Affairs Office said it is working on fixing the problem.

"We'll speed up revising and issuing a new regulation to improve the current urban housing management system and better safeguard citizens' rights," said Gao Fengtao, deputy director of the office, which issued the regulation.

"The State Council is very concerned about problems caused by the current regulation and has been working on a new regulation ever since the Property Law came out in 2007," he said. "But please, give us a bit more time because there are many issues related to this."

Gao made the remarks after meeting nine law professors at a Beijing hotel to solicit opinions about a possible revision. Four of the nine were among the professors who wrote the open letter to the National People's Congress (NPC) on 7th December urging the country's top legislature to review the legitimacy of the urban housing demolition regulation.

The regulation allows the government to seize homes and land if they are needed for important projects.

In China, the NPC drafts laws and the State Council Legislative Affairs Office issues regulations. Laws have more legal weight than regulations.

In the letter, the professors said the regulation violates the basic principle of the Constitution and Property Law.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-12/17/content_9192215.htm) ([see archive](Demolition_rule_may_be_rebuilt.pdf))

### China urges healthy development of real estate sector

China's State Council said that the government was discussing measures and policies for the healthy development of the country's real estate sector as house prices in some cities are rising too fast.

Housing prices have shown an increase on a month-on-month basis since March this year after record lending and the government's favourable policies to stimulate property consumption, including tax breaks and interest rates cuts. But as the market recovers, housing prices in some cities are rising too fast, which requires "great attention", according to an executive meeting of the State Council, chaired by Premier Wen Jiabao.

In order to maintain the "stable" and "healthy" development of the real estate market, China will increase supply of smaller houses at medium-and-low price levels and continue to support residential consumption for improved housing while curbing speculation.

The country will also expand the construction of housing projects for low-income families, aiming to help 15.4 million more poor households solve their housing problems by 2012, attendees agreed at the meeting.

Meanwhile, more efforts will be made during the next three to five years to improve living conditions for residents living in poor housing in some cities, they agreed. About 10 million households are still living in "shanty towns" in some cities across the country, the meeting revealed. The central government will offer financial support to renovate those "shanty towns" during the next three to five years, they agreed, but did not say how much funding would be put in place.

Local governments should increase concrete spending in rebuilding these poorly-constructed houses. Social investment is welcomed in these projects, according to the meeting.

[Source: People's Daily](http://english.people.com.cn/90001/90776/90785/6841993.html) ([see archive](China_urges_healthy_development_of_real_estate_sector.pdf))

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