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# China News Alert Issue 340

## Capital Markets

### Limits to be relaxed soon for insurers

The China Insurance Regulatory Commission (CIRC) will loosen the limits on investments by insurance companies in stocks and bonds, but may be cautious on permitting property investments, a CIRC official said.

"We are in discussions to allow major insurers to invest 20 percent of their assets into stocks and equity funds, and increase their investments in unsecured bonds to 20 percent from 15 percent," Sun Jianyong, head of the CIRC capital management department told China Daily.

Currently, insurers are allowed to invest 20 percent of their assets into stocks, equity funds and debt funds.

"Since debt funds usually account for a small proportion of the 20 percent investment basket, the relaxing is just a signal. It is hardly expected to boost the stock market and insurers' investment returns," said Wang Xiaogang, a senior analyst with Shanghai-based Orient Securities.

According to CIRC data, the premium income of insurers rose 13.8 percent to 1.1 trillion yuan last year, with total assets touching 4.1 trillion yuan.

Industry insiders said the relaxing may bring around 10 billion yuan of capital into China's stock market.

The Shanghai Composite Index, which tracks the bigger of China's stock exchanges, gained 3.16, or 0.1 percent, to close at 2625.79 on 26th May.

"We are more excited to see the detailed rules governing investments in property and private equities," said a manager at a leading insurance asset management company. But according to Sun, the launch of the detailed rules, especially the one on property investment, may still take some time.

Though the CIRC opened property as a new investment channel after the revised insurance law came into effect from 1st October last year, the detailed rules are yet to come out and thus effectively bars insurers from making such investments.

Wu Dingfu, chairman of the CIRC, said early this year that insurers would not be allowed to invest in residential buildings or be involved during the property development stage. At the same time, the CIRC said insurers would not be allowed to make direct investments in the nation's commercial property sector.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-05/27/content_9898504.htm) ([see archive](Limits_to_be_relaxed_soon_for_insurers.pdf))

### Buy China stocks, Morgan Stanley says

China's stocks are a buying opportunity as the government is unlikely to step up measures to slow the world's third-biggest economy at a time when the European crisis is deepening. This is according to Morgan Stanley.

Europe's slowdown will delay the need for the US to raise interest rates, reducing risks of a "double-dip" recession, Jerry Lou, Morgan Stanley's China strategist, said in a Bloomberg Television interview. He shares the view of investors Martin Currie Limited's Chris Ruffle and Templeton Asset Management Limited's Mark Mobius, who are buying more of China's stocks.

Stocks on the MSCI China, which tracks mostly Hong Kong-traded Chinese companies, trade at 14.8 times reported earnings. That compares with the peak valuation of 30 times profit in October 2007. The Shanghai Composite Index is valued at 19.5 times earnings.

"Despite the fact that a lot of people think that we are entering into a bear market, we don't believe so," Mobius, who oversees about US$34 billion in emerging markets as Templeton Asset Management's Singapore-based executive chairman, said in an interview yesterday in Cairo. "This is a correction in an ongoing bull market."

China's shipping companies will be the "most exposed" to a slowdown in Europe as the region accounts for a third of their container shipping revenue, according to Credit Suisse Group AG.

The fiscal crisis in Greece will probably make the Chinese government more concerned about local government borrowings, Vincent Chan and Peggy Chan, analysts at Credit Suisse, wrote in a note to clients.

Morgan Stanley, on 25th May, upgraded steel and building materials shares in its China portfolio to "overweight" from "underweight," a week after increasing the weighting of banks. Morgan Stanley maintained its end-2010 estimates of 81.7 for the MSCI China Index and 15,399 for the Hang Seng China Enterprises Index.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-05/27/content_9899554.htm) ([see archive](Buy_China_stocks_Morgan_Stanley_says.pdf))

### No more lining up to pay bills?

Forget lining up at banks, the phone company or other retail outlets to pay your bills. In China, the future of paying your bills easily from the comfort of your own home may well have arrived.

Enter the Mini Lakala home payment machine.

This simple device, similar to the credit card swipe machine at your local grocer, requires the swipe of a bank card to make home-based payments to credit cards, utility payments or for recharging a cell phone.

The Mini Lakala uses a basic phone line to connect to Beijing Lakala Billing Service Company Limited (Lakala) and retails for a one-time fee of 399 yuan.

The Mini Lakala is the brainchild of 41-year-old entrepreneur Sun Taoran, founder of Lakala, China's largest offline e-payment service company.

Started in 2005, the company is often referred to as an offline version of Alipay, China's leading online payment service both by user and total transaction volume. Alipay enables individuals and businesses to securely, easily and quickly send and receive payments online.

Lakala's Sun believes his company product is the future. "We are providing a better e-commerce experience," he said.

Many people steer clear of online shopping because they are not used to the complicated process of making payments online, including applying for a bank card, registering an Alipay account and topping up the account with cash. But with Lakala the whole process has been shortened considerably.

For those not keen on having a Mini Lakala at home, Lakala also offers store-based payment terminals, where a simple debit card can be used to pay all types of bills.

Sun came up with the idea after seeing the quick development of the bank card business, yet the average user did not find it easier to complete related services in banks. Issues include few bank branches and long queues.

Sun, an entrepreneur now running his third company, thought a machine that enabled users to complete different financial services from their home could resolve many of the headaches credit card users face. Lakala terminals are for the most part located in convenience stores and supermarkets. The company has now over 40,000 terminals across 88 cities.

"We hope that people can complete related services within a hundred paces (of their homes) with Lakala," said Sun, adding that the company is going to more than double its terminals by 2012.

The company, which is venture capital-funded, generates its revenues from service fees charged to payment receivers, such as banks, telecom carriers and e-business sellers.

In April, about 6 million transactions were made on the terminals, a month-on-month increase of 10 percent, Sun said. He hopes to break even next quarter.

According to domestic research firm Analysys International, China's offline payment market reached 110 billion yuan (US$16.1 billion) last year, a year-on-year increase of 547 percent. "The market is on a fast track to growth at the moment with more payment terminals quickly spreading to second- and third-tier cities," said Analysys' Cao Yu.

Lakala had a 63.7 percent share of the market in the first quarter of this year, while the remainder was shared by regional rivals, such as different subsidiaries of inter-bank credit card organisation China UnionPay Company Limited, which held 15.4 percent.

UnionPay helps to settle payments among different banks and all payments carried out through Lakala go through the UnionPay system before reaching specific banks.

While Lakala is a leading player in the market, it is not without challengers. Analysts said that UnionPay might grab a larger share of the market with its resources in the financial services sector, even though its subsidiaries are regional and lack the market scale of Lakala.

Sun said the two cooperate more than they compete, but his firm is headed in different directions to further boost its market share. "We have to be more than a simple payment tool, but one that can create business deals."

The company is upgrading its terminals, which have more services, in convenience stores in order to invite more people pay on the spot with a Lakala terminal.

[Source: English People](http://english.people.com.cn/90001/90778/90859/7003027.html) ([see archive](No_more_lining_up_to_pay_bills.pdf))

### China to open overseas travel service sector to foreign capital

The National Tourism Administration (CNTA) said that China will gradually open its citizens' overseas travel business to foreign-funded travel agencies and related regulations are being formulated.

Shao Weiqi, director general of the CNTA, said China has currently signed tourist destination agreements with 140 countries at the 10th international tourism round-table conference yesterday in Beijing.

"China welcomes and encourages foreign capital to invest in the travel outfit manufacturing industry, tourism media, and tourism education and training," Shao said.

Presently, China's tourism is still facing the pressure of a trade deficit. But Shao Weiqi said the entry of foreign capital will benefit China's tourism in the long run though more fierce competition with domestic travel agencies.

[Source: English People](http://english.people.com.cn/90001/90778/90861/7002473.html) ([see archive](Official_China_to_open_overseas_travel_service_sector_to_foreign_capital.pdf))

## Corporate & Commercial

### US to recognise China's market economy status

The United States has agreed to recognise China's market economy status (MES) as soon as possible, according to a statement from the Chinese side upon the conclusion of the second round of the China-US Strategic and Economic Dialogue (S&ED).

According to the statement, "the US will recognise China's MES promptly via the cooperative forum of the Sino-US Joint Commission on Commerce and Trade".

"The wording means there has been no breakthrough at all regarding the recognition of China's MES," said He Weiwen, an executive council member of the China Society for WTO Studies. The US just repeated the wording it used in the first round of the S&ED in Washington and at an ensuing meeting last year, he said.

China's Commerce Minister, Chen Deming, said that the US is yet to recognise China's MES and the two sides would continue discussions on this issue at upcoming meetings.

"The later the US formally accepts China's MES, the less valuable the 'prompt recognition' commitment will be, as China can automatically acquire the status by 2016," said Song Hong, an economist of the international trade department under the Chinese Academy of Social Sciences.

According to WTO rules, China will acquire MES 15 years after entering the organisation. China joined the WTO in 2001, which means it would get that status by 2016 at the latest.

"But at least this shows the US is moving in the right direction", Song said, since the US nevertheless said that, regarding trade remedy investigations, it will carefully consider and offer fair and reasonable treatment to Chinese companies that apply for market-oriented industry status.

"Fair and reasonable" treatment in trade remedy investigations should improve the situation of domestic companies exporting to the US. They now have to make a great effort to prove that they belong to market-oriented industries, Song said.

Due to China's failure to achieve MES, Chinese products are calculated based on the market prices of a substitute country―often with much higher production costs than China―as the benchmark instead of its real costs, making Chinese companies vulnerable to anti-dumping and anti-subsidy investigations.

"The US won't easily accept China's MES; instead, it will be used as a bargaining chip with China on other matters," said He Weiwen. For example, the US has been consistently calling for the full opening up of China's financial market to facilitate US financial giants' entry to the world's largest market.

Even after the US recognises China's MES by 2016, trade remedies against Chinese products will not stop, they will continue or emerge in other forms, said Zhang Yansheng, director of the Institute of Foreign Trade of the National Development and Reform Commission.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-05/27/content_9898758.htm) ([see archive](US_to_recognize_Chinas_market_economy_status.pdf))

### Fortune 500 bosses slam housing for pricing out residents

Soaring housing price in Beijing have drawn the attention of Fortune 500 CEOs, with some claiming it has damaged the capital's economic health and forced university graduates out of the city.

"There is no value in building one of the world's most desirable cities if working people cannot afford to live in it," Hubertus von Gruenberg, chairman of ABB Group, said at the Ninth Meeting of International Business Leaders Advisory Council for the Mayor of Beijing.

He said housing prices in Beijing have soared in recent years. "To put it in perspective, the average price of housing in Beijing is about US$3,700 per square metre, similar to Tokyo, but the average income in Beijing is less than 10 percent of Tokyo's," he said.

While Beijing remains an attractive tourist destination, it is now one of the world's 10 most expensive cities to live in. However, quality of life is far below its competitors―ranked 113 out of 143 cities on a scale of quality of living, Gruenberg pointed out.

In the recent PriceWaterhouseCoopers study, named Cities of Opportunity, the Chinese capital scored near the top in foreign direct investment and Fortune 500 headquarters, a sign of its increasing economic clout.

"However, housing and city livability are pulling down Beijing's score―both of which are significant indicators of any city's overall economic health and momentum into the future," said Dennis M. Nally, global chairman of PriceWaterhouseCoopers.

The study analysed 58 separate data variables from 21 leading world cities, including Beijing.

Gruenberg suggested imposing a property tax could be a good choice to curb investment-led demand. "In Germany, a speculation tax is applied to any property that is owned for fewer than 10 years and sold at a profit. Many countries use some form of this tool to curb property speculation with a stiff, progressive tax on the profits resulting from speculation," Gruenberg said.

He said the amount of tax is usually calculated based on the length of time the property is owned and the percentage of profit realised.

The council is an advisory body of world famous business leaders, invited by the mayor of Beijing, which presents opinions and proposals on Beijing's economic and social development.

There were 15 business leaders attending the meeting this year. They included Jan Hommen, chairman of the executive board of ING and Uichiro Niwa, senior corporate adviser of Itochu.

Beijing Mayor Guo Jinlong did not talk directly about the capital's problems, already pointed out by international company leaders, but expressed his gratitude. "The government will consider these suggestions. They will be of great help when we make the city's development plan for the next five years," Guo said.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-05/27/content_9900053.htm) ([see archive](Fortune_500_bosses_slam_housing_for_pricing_out_residents.pdf))

### Emerging economies' performance boosts OECD's forecast

The Organisation for Economic Cooperation and Development (OECD) raised its growth forecasts for this year and next as emerging economies such as China outpace debt-burdened developed countries to drive the global expansion.

The economy of the OECD's 30 members will grow 2.7 percent this year, more than the 1.9 percent predicted in November, the Paris-based group said in a report. Including non-members such as China, the global economy will expand 4.6 percent this year and 4.5 percent in 2011, compared with an average of 3.7 percent during the decade through 2006.

"A first substantive risk is related to developments in sovereign debt markets," OECD Chief Economist Pier Carlo Padoan wrote in the report. Elsewhere, "a boom-bust scenario cannot be ruled out, requiring a much stronger tightening of monetary policy" in some countries, including China and India, he said.

Europe's sovereign-debt crisis, triggered by Greece, has raised investor concern that the economic recovery will fade and sent equity markets around the world tumbling. The MSCI World Index is down 10 percent this year, while the S&P 500 Index in the US has shed 3.7 percent and the Euro Stoxx 50 Index has dropped 14 percent.

Still, the US economy will grow 3.2 percent in 2010 and next year instead of the 2.5 percent predicted in November, and the euro region will advance 1.2 percent compared with the previous forecast of 0.9 percent, the OECD said. Japan's economy will expand 3 percent instead of 1.8 percent.

Those rates contrast with a far faster pace of growth in emerging economies. China will expand more than 11 percent this year, India 8.3 percent and Brazil 6.5 percent, according to OECD forecasts.

"As activity gathers momentum, global imbalances are beginning to widen again," Padoan said. "Strong, sustainable and more balanced growth can be achieved through a combination of macro-economic, exchange-rate and structural policies."

China's efforts to stoke domestic demand have helped keep its trade surplus from returning to the record levels registered in 2006 and 2007, before the financial crisis, the OECD said.

The relative weakness of the euro region puts the onus on its policymakers to improve their long-term coordination after agreeing earlier this month on a support package worth almost US$1 trillion to help debt-burdened countries such as Greece, Spain and Portugal, the OECD said.

The European effort, culminating in a finance ministers' meeting in Brussels on 9th May, was comparable with that made to shore up banks in Western countries in October 2008.

"The fact that the second set of actions has been taken 18 months after the first is a reminder that the period of significant financial instability that began in August 2007 is not yet over," Padoan said.

[Source: English People](http://english.people.com.cn/90001/90778/90862/7001498.html) ([see archive](Emerging_economies_performance_boosts_OECDs_forecast.pdf))

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